

Market for Industrial Space Continues to Downsize Countywide

Real Estate: Net Absorption Negative in Second Quarter

By CONNIE LEWIS

The outlook is for more gloom on the county's industrial real estate forefront, but not doom, says Dennis Visser, industrial specialist and principal of Grubb & Ellis/BRE Commercial.

According to the company's most recent report, the industrial vacancy rate during the second quarter 2009 stood at 9.4 percent. That does not include subleased space.

In the recent quarter, the county experienced negative absorption 976,090 square feet, meaning that that much space was returned to the industrial real estate market. Year-to-date total absorption amounted to a negative 2.2 million square feet.

A second-quarter report from the San Diego office of Cushman & Wakefield painted a slightly different picture, stating that year-to-date vacancy rate at the end of the second quarter was 9.4 percent while absorption was a negative 2.4 million square feet.

That report attributed the decline to companies downsizing, taking short-term lease renewals versus long-term, and relocating to less expensive space. It also said that the manufacturing/warehouse and multi-tenant sectors were responsible for 70 percent of overall negative absorption.

"Tenants will continue to search the market for value, looking to cut costs by reducing their square footage or renegotiating their existing leases," the report



Dennis Visser

said. "Short-term deals will continue until confidence in the economy is restored and job growth improves."

According to Grubb & Ellis there is a total of 173 million square feet of industrial space within the county. In the second quarter of 2008, the industrial vacancy rate was 7 percent, and in the same quarter of 2007 it was 7.2 percent. In the second quarter of 2006 it was 6 percent, and in the same quarter of 2005 it was 7.3 percent.

Not surprisingly, that firm's report showed that high second-quarter 2009 vacancies were logged in cities where construction completions were also high — namely Carlsbad and Oceanside — where rates were 13.2 percent and 13.7 percent respectively.

Overall, the North County's vacancy rate was 10.1 percent. In 2005 it was a healthy 6 percent then it rose to 7.8 percent in 2006, 8.4 percent in 2007 and to 8.6 percent in 2008.

However, new construction has come to

a halt, marking the first time since the early 1990s that this has happened.

The central portion of the county experienced the lowest vacancy with an overall rate of 8.2 percent. Otay Mesa in the south had vacancy of 21.5 percent.

Countywide, landlords were asking an average 92 cents per square foot per month, including insurance, utilities and maintenance, compared with 97 cents in the first quarter.

Activity Divided

Currently, 155,101 square feet of industrial space is under construction countywide. That amounts to less than 0.5 percent of the total inventory.

The activity is divided between the central part of the county, with 84 percent, and the South County, with 16 percent.

Visser predicted that negative absorption would continue through the first half of 2010.

"But then we'll start to see things improve again," he added. "At that point vacancy will get below 6 percent or so and that will also be when tenants will have absorbed 6

million square feet of space." In a normal cycle absorption occurs at the rate of 3 million square feet per year, he pointed out.

The Grubb & Ellis report forecasted that most tenants favor short-term lease extensions over long-term, despite landlords offering generous concessions to those willing to go the long haul.

The way Cushman & Wakefield sees it: "Landlords will be challenged over the next 18 months as tenants continue to expect low rates and generous incentives. Some tenants are genuinely struggling and landlords will face some loss of income through requests for rent relief, business failures and, in some cases, insolvency."

Speaking at a confab held by the local chapter of NAIOP (North American Association of Industrial & Office Properties) recently Mickey Morera, senior director of Cushman & Wakefield said he expects it will be a "tough slog" to get out of the current commercial real estate downturn.

"But I think there is opportunity out there. San Diego is weathering the storm quite a bit better than other places."

SEC Says Qualcomm Exec Acted on Insider Information

A former executive at **Qualcomm Inc.** was charged by the Securities and Exchange Commission July 20 of insider stock trading, profiting by some \$34,000 from securities trade he did based on information he heard in confidence about the company's new licensing agreement with Nokia, and the settlement of litigation with Nokia last year.

According to the SEC complaint, Andres Leyva, who worked as Qualcomm's

director of strategic marketing analysis, discovered on July 22, 2008 that Qualcomm and Nokia would be settling all litigation, and that Nokia was increasing its upfront payment to Qualcomm for use of its technology from \$500 million to \$2.5 billion.

About two hours after getting the information, Leyva purchased 80 call options contracts that were priced at 39 cents each with a strike price of \$50, the complaint states.

On July 24, 2008, the day after the settlement news was released, Qualcomm shares increased 17 percent, and trading volume rose 394 percent. That same day, Leyva sold the 80 Qualcomm call options for a profit of \$34,740, the SEC alleges in its complaint.

The SEC is seeking disgorgement of Leyva's illegal trading profits, and civil penalties.

— Mike Allen

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