

Transportation Corridors Drive Commercial Real Estate Activity

REAL ESTATE: Proximity To Freeways Important to Development Countywide

By EMMET PIERCE

The commercial real estate market remains weakened by the lingering recession, but analysts and brokers see positive trends along the San Diego region's major transportation corridors.

"The good news is opportunity for tenants, opportunity for buyers," said Charles Adolphe, a director for Cushman & Wakefield Inc. "We are cautiously optimistic about the future."

The nation's economy and the real estate market have been in a down cycle for several years and no one is expecting a rapid return to the boom years.

"In the short run I think there is a lot of concern over the amount of (commercial) space that is out there versus the demand to fill it," said Marney Cox, chief economist for the San Diego Association of Governments.

Tom van Betten, who represents tenants at Cassidy Turley BRE Commercial, said the vacancy rate for offices has been increasing every quarter since the fourth quarter of 2005. Office rents are down countywide 20 percent to 30 percent, he said.

Chris Wood, a managing director for Voit Real Estate Services, has observed a rising confidence that is fueling new interest in office, industrial and retail properties, however. Cox agrees that the office sector eventually will repair itself, but the retail leases will continue to lag as consumers remain wary of spending. Along major freeways, "you will probably see a consolidation of retail," Cox said. "Small strip malls probably will be the most difficult to rent out."

Some Submarkets Shine

In North County, off state Route 78 near Interstate 15, Palomar Pomerado Health is building a large project along Citracado Parkway. The 11-story medical center is expected to be completed next



The Sunroad Centrum building near state Route 163 in Kearny Mesa, shown at right, contains 273,764 square feet of space. Photo courtesy of Voit Real Estate Services

year. Moving south, Bruce Sanders, a senior vice president at Voit Real Estate Services, noted that a freeway oriented office development at I-15 and state Route 56 is nearly 100 percent occupied. Kilroy Sabre Springs' main tenant is Bridgepoint Education Inc. The last of three buildings there was completed in 2008. The development covers 438,992 square feet.

A short distance south near Scripps Poway Parkway is a \$60 million, six-story professional building that recently was built for MedImpact Healthcare Systems Inc. by Sudberry Properties Inc.

It is one of the few local commercial buildings completed during the recession, Sanders said.

Further west, in the Golden Triangle area along Interstate 805, there has been limited construction activity, but positive things happening, said Eric Northbrook of Cushman & Wakefield.

"The only new development in that market is La Jolla Commons, a Class A office project," he said. "At last check it was 55 to 60 percent occupied. As you move up I-805, the other new project is Gateway at Torrey Hills, a development of Prudential Financial Inc. They are about 80 percent occupied."

Further south, just off I-805 at Genesee, the Campus Pointe development was acquired by Veralliance Properties Inc. and fully redeveloped in 2009 to Class A status. The project is a two-story, 450,000-square-foot office and life science campus on a 42-acre site.

The Terraces at Copley Point near the intersection of state Route 52 and I-805 encompass 380,000 square feet. One building has been leased to Cricket Communications Inc./Leap Wireless International Inc. The second, which encompasses 175,000 square feet, recently was sold to Kaiser Permanente.

Vacancy Rate Low in South County

In central San Diego, there has been little commercial development along Interstate 8, noted Brian Mulvaney, a senior vice present with Voit. Sudberry Properties "is doing a big residential project that will have a commercial component," he said. "There will be future office sites in Mission Valley right at Mission Center Road and Friars Road. It's called Quarry Falls, a 230-acre planned community."

There has been no commercial development along Interstate 5, between downtown San Diego and the I-805 merge, for several years, with the exception of institutional development at UC San Diego.

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One of the most visually distinctive of office projects in recent years is the Sunroad Centrum project off state Route 163 near Montgomery Field Airport. Completed in 2008, it covers 273,764 square feet, said Sanders. Located in the same development is a six-story, 230,238-square-foot office building completed last year and now occupied by ResMed Corp., he said.

Although there has been little industrial construction within the county in recent years, the I-5 corridor in South County remains a robust industrial market, said Cushman & Wakefield's Adolphe. "Right now the vacancy rate in Chula Vista for industrial is about 6 percent which is very strong," he said. "National City is hovering around 2 percent."

To the east, South County's state Route 125 corridor has suffered from the steep decline of the local housing market.

"The Eastlake area, which used to be hot for retail and office, fell off the map," Adolphe said. On the bright side, "there is great opportunity for tenants and buyers in markets like that, people looking for quality commercial property at a good lease rate."

Emmet Pierce is a freelance writer for the Business Journal.