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## NEWS | SAN DIEGO

**Industrial vacancies rise in county, but still short of double digits**By **THOR KAMBAN BIBERMAN**, The Daily Transcript  
Tuesday, January 20, 2009 

Although industrial absorption has been poor in San Diego County, vacancies would have to increase significantly before reaching double digits.

"Overall, tenant demand is weaker than in previous years and has been noticeably slower since the second half of 2007," said a **CB Richard Ellis** (NYSE: CBG) report.

"The San Diego County industrial market is facing challenges due to the national recession and 2008's tumultuous financial events," **Voit Commercial** adds. However, the Voit report still retains a note of optimism.

"The growing influence of new industries such as high technology, biotechnology and healthcare should further diversify the local economy and help to rejuvenate the industrial market. These industries will increase employment opportunities and help to ease vacancy rate concerns in the coming quarters," Voit wrote.

A **Grubb & Ellis|BRE Commercial** report said it remains to be seen how deeply San Diego will be affected by a deteriorating economy and uncertainty in the financial markets. But its report also saw reason for hope.

"Opportunity exists to take advantage of near-term softness in San Diego's industrial market which is destined to rebound over time by securing a prime location in this coastal gateway market," **G&E|BRE** said.

By **G&E|BRE's** accounts, the first half of 2008 closed with slightly more than 1.3 million square feet of positive net absorption.

"As market worries and financial woes progressed throughout the second half of the year, the industrial market lost nearly two-thirds of all positive net absorption gains from the first two quarters," **G&E|BRE** wrote.

The San Diego County industrial market recorded 892,000 square feet of negative net absorption in the fourth quarter of 2008, according to **G&E|BRE**.

**CBRE** also showed negative net industrial absorption in the fourth quarter, but at a minus 288,000 square feet.

Voit reported a total of 438,000 square feet of industrial space was given back to the market in the fourth quarter, mostly in the Central Suburban and North City submarkets.

While these absorption differences are substantial, they are subject to a number of variables.

These may include whether a property is a build-to-suit, when a survey is taken, the size of the sample, the lower square footage limit of the buildings being surveyed, and how sublease space is calculated.

**CBRE** reported that only two of the 23 submarkets posted net absorption levels above 50,000 square feet, while 11 registered negative net absorption in the fourth quarter.

The Otay Mesa submarket led all submarkets with 123,000 square feet absorbed in the quarter, followed by Rancho Bernardo with 119,000 square feet.

The submarket with the most negative growth was Miramar with minus 193,000 square feet of absorption.

While Otay Mesa posted 769,183 square feet of positive net absorption last year, according to **G&E|BRE**, Central County submarkets experienced the greatest decline in occupied space with 919,354 square feet of negative net absorption in 2008.

Miramar and Sorrento Mesa reported the highest negative net absorption in the county with 240,260 and 211,547 square feet, respectively last year, **G&E|BRE** reported.

The good news is direct industrial vacancies countywide are still well below double digits, regardless of who is doing the survey.

**CBRE** arrived at a direct industrial vacancy of 7.8 percent as of the end of the fourth quarter -- up from 7.2 percent a year earlier. **G&E|BRE** also showed 7.8 percent, and Voit posted a 6.76 percent vacancy rate at the end of 2008.

The bad news is there are at least a couple of submarkets where the industrial vacancy is easily twice that level or more.

Otay Mesa's industrial vacancy was 17.6 percent at the end of the fourth quarter by **G&E|BRE's** account.

**CBRE** reported the vacancy rates might have been quite a bit worse were it not for substantially curtailed construction deliveries and the ever-shrinking availability of land.

The largest industrial project currently under construction is reportedly an 180,000-square-foot building at Siempra Viva Business Park in Otay Mesa.

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Development on the eastern part of the mesa bordering Mexico has not only been hampered by the economy and double-digit vacancy, but the availability of a sewer connection.

The CBRE survey said industrial construction activity that peaked at 4.5 million square feet at mid-2006, had declined to just 751,000 square feet as of the end of the fourth quarter of last year.

Industrial lease rates generally start around \$1 per-square-foot and go up to about \$1.61 per-square-foot for corporate headquarters industrial space.

G&E|BRE says the highest asking rates for research and development space are in the Torrey Pines and Sports Arena submarkets with \$3.03 and \$2.50 per-square-foot average rates respectively.

Significant lease transactions reported for fourth quarter included **Sony Online Entertainment** with a renewal on 110,308 square feet in Miramar; **R.W Smith Booksellers** with a renewal on 33,864 square foot in Miramar; **Konica Minolta** with a lease on 27,263 square feet in Sorrento Mesa; and **Shaw Mortgage Corp.** with a lease on 23,940 square feet in Miramar.

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