

## Online

The destination for local business news. San Diego's Source [sddt.com](http://sddt.com).

# REAL ESTATE

CONSTRUCTION

## Defaults rise

Commercial mortgage defaults will rise in the next two to three years after the economic slump subsides.

Page 3B

San Diego Source: [www.sddt.com/realestate](http://www.sddt.com/realestate)

The Daily Transcript

Thursday, June 11, 2009 / Section B



### Real Estate Briefs

By Richard Spaulding

#### Apartment in Mission Beach on Kingston sold

The three-unit apartment in Mission Beach at 725 Kingston Court, San Diego 92019, has been sold for \$957,500.



The buyers were Gregg Boone and Barbara Wintz, 19265. Rue Finisterre, San Diego 92131.

The acquisition was financed with a loan of \$495,300 from **First California Mortgage Company** (OTC: FMOR).

The sellers of the property (assessor's parcel 423-642-10) were Daniel B. and Tammy L. Sibley (50 per-

See RE Briefs on 2B

## Office market well into downturn in S.D., with years before recovery

By THOR KAMBAN BIBERMAN  
*The Daily Transcript*

MISSION VALLEY — "We've all been a little shell-shocked this year," said Andy LaDow, a **Grubb & Ellis|BRE Commercial** principal.

LaDow, taking part in a Building Owners & Managers Association (BOMA) meeting at the Mission Valley Marriott Tuesday, noted that not only are commercial sales transactions at a virtual standstill, rental rates are continuing to fall and vacancy rates are climbing in most parts of the county.

Those who purchased office buildings within the past few years may find themselves in an impossible situation with loans priced significantly more than the properties are worth.

"If you bought between 2003 and 2007 (other than all-cash buyers) you almost certainly will be under water," said

Dennis Hearst, a **Cushman & Wakefield** senior director.

As for major sales transactions downtown, LaDow said it could be quite a while before they re-emerge. "None of these buildings are going to be able to trade for anything near the debt that is owed on them."

The commercial mortgage-backed securities (CMBS) market fueled many sales in recent years.

Hearst said CMBS-related transactions represented about 46 percent of the commercial sales in the county in 2007. "And there hasn't been a CMBS sale since June 2008."

The company that could be in a position to sell, **The Irvine Co.**, has a longstanding policy of not parting with its assets.

The Irvine Co. — which LaDow noted owns six downtown San Diego office towers containing some 2.7 million square feet, or 52 percent of the Class A office space downtown — is both challenged and blessed.

On one hand, the Orange County company is faced with every landlord's challenge of filling space without giving away

## Deloitte signs lease in Advanced Equities Plaza



**Deloitte LLP** leased approximately 30,000 square feet of office space at **Advanced Equities Plaza**, 655 West Broadway, San Diego 92101, for a 10-year term. Deloitte will occupy the entire seventh floor and a portion of the sixth floor in the 23-story, 380,000 square foot office tower. Deloitte will occupy in December 2009. Kraig Kristofferson and Stacy Meronoff of **CB Richard Ellis** (NYSE: CBG) along with Ed Muna of **Lankford & Associates** represented the lessor, **Wereldhave USA**. Don Finkelstein of **Finkelstein & Associates** represented Deloitte. **Wereldhave** purchased the office tower in 2007 for approximately \$210 million cash. **CBRE** represented **Wereldhave**.

Other tenants in the office tower include **Bank of America** (NYSE: BAC) with a 10-year, \$2.48 million lease for 5,092 square feet of ground floor retail space in early 2008. Another early 2008 ground floor tenant is **Crescent Heights Kitchen & Lounge** with nearly 7,000 square feet for 10 years at \$2.5 million. **Bruegger's Bagels** took 2,327 square feet of ground level space for 120-months at \$975,944 in late 2007. The building was known as **Broadway 655** when completed in 2005.

## Mortgage applications fall as interest rates jump

Steven Kandarian. "The worst is to come," Kandarian said Wednesday. "Typically there's a lag between when the economy softens and when the defaults actually occur."

The default rate on commercial mortgages held by U.S. banks may rise to 4.1 percent,

said he expects delinquencies for MetLife will be "relatively small."

"Like all firms that hold these kinds of mortgages, we'll have some issues," Kandarian said.

The insurer, which is also a federally regulated bank, underwrote loans "very care-

fully," the lowest level since 2001, helped push the company into its first loss since 2001.

He's drawing down the insurer's cash holdings to buy corporate debt and said in May he was considering adding securities backed by commercial mortgages that were selling below face value.

Source Code: 20090610tdc

November, from 2,953.6 the previous week. The purchase index rose to 270.7 last week from 267.7.

The share of applicants seeking to refinance loans fell to 59.4 percent of total applications last week from 62.4 percent.

The average rate on a 30-year fixed-rate loan surged to 5.57 percent, the highest since November, from 5.25 percent the prior week.

**Borrowing costs**

At the current 30-year rate, monthly borrowing costs for each \$100,000 of a loan would be \$572, or about \$44 less than the same week a year earlier, when the rate was 6.25 percent.

The average rate on a 15-year fixed mortgage rose to 5.10 percent from 4.80 percent the prior week. The rate on a one-year adjustable mortgage increased to 6.75 percent last week from 6.61 percent.

The MBA's loan survey, compiled every week, covers about half of all U.S. retail residential mortgage originations.

Construction companies continue to struggle.

**Toll Brothers Inc.** (NYSE: TOL), the largest luxury homebuilder, and **Hovnanian Enterprises Inc.** (NYSE: HOV), this month reported quarterly losses that exceeded analysts' estimates. Revenue dropped at both businesses.

Among reports indicating an improvement in housing, figures from the National Association of Realtors showed the number of Americans signing contracts to buy previously owned homes climbed 6.7 percent in April, the fourth increase in five months, as lower prices attracted buyers.

The rise in borrowing costs in the face of record low interest rates, Fed purchases and a contracting economy is the opposite of the challenge Bernanke's predecessor, Alan Greenspan, confronted when he led the Fed.

Source Code: 20090610tde

## Office

*Continued from Page 1B*

On the other, Irvine purchased its downtown assets without any debt, it can afford to either take a lower rent or wait to fill spaces until the market improves.

LaDow said the office vacancy rate is about 14.5 percent in downtown San Diego and if sublease and shadow space (leased but unoccupied) is added the total comes to about 18 percent. "Anything over 12 percent is considered a tenant's market," he said.

"Does it make any sense to take \$2 rents on something you paid \$500 a square foot (or more) for? No, but then they are The Irvine Co.," LaDow continued.

Fueled by reductions by Irvine Co., LaDow said he has seen downtown Class A lease rates drop by as much as 25 cents during the last 30 days alone.

While there are substantial discounts and tenant improvement allowances to fill spaces, LaDow said the activity downtown is actually fairly respectable.

"We are seeing a number of law firms and the firms that service law firms," LaDow said. "We are also seeing some activity in the engineering sector, and in education. Bridgepoint Education (which already occupies hundreds of thousands of square feet in Sabre Springs and Kearny Mesa) is looking for 30,000 square feet with signage downtown."

This isn't to say filling spaces will be easy.

"It will still remain a challenge to fill space and I don't think that will change," LaDow said.

Jay Alexander, a **Colliers International** senior vice president, said he expects the commercial office market will worsen, but isn't quite sure whether the rebound will happen six or 18 months from now.

Alexander, who said a countywide office market that absorbed 2.6 million square feet as recently as 2005 saw this drop to a negative 700,000 square feet in 2008.

Some submarkets are worse than others. If sublease space is included, the vacancy rate in Carlsbad approaches 30 percent by some accounts, and the Interstate 15 Corridor ranges from 18 to 20 percent vacant plus or minus sublease space depending on the survey.

"If you are a tenant who needs 5,000 to 10,000 square feet in Carlsbad, you've got something like 50 choices," Alexander said.

"Carlsbad is like 27 percent vacant. Some submarkets are as high as they've ever been," Alexander said adding that the surplus space along the (Interstate) 15 has resulted in a 25 percent rent decline during the past year there.

Some markets, such as Del Mar Heights, which was hit hard by the tech wreck at the beginning of the decade, but rebounded smartly when the markets improved, are having trouble again.

It didn't help that landlords were used to rents that

approached and even pushed past \$4-per-square-foot in some instances.

"People thought Del Mar Heights was bulletproof, but it hasn't been," Alexander said.

Surveys vary, but most put Del Mar Heights' direct office vacancy at more than 18 percent or more than 20 percent if sublease space is included.

Alexander, like LaDow, pointed to at least a couple of positives.

One is the fact that "by the third quarter, we're pretty much going to run out of office construction in the county," allowing time for lease-ups.

Secondly, Alexander cites a recent **Manpower** survey that found that only about 15 percent of area employers said they would be laying off staff.

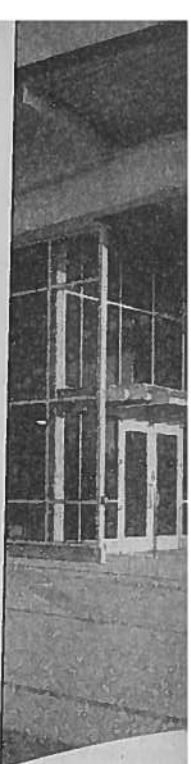
While there may be an improved outlook by some accounts, Hearst warned that the turmoil that hit the retail industry has yet to make itself known on the office side. He said it is coming soon, however.

Hearst, who is actually a tenant's representation broker, said in these times when almost every tenant will be fighting for a rent reduction, the landlord must hold fast rather than giving into unreasonable demands.

"You signed a lease, tough," Hearst said.

For tenants who do believe they may in trouble, Hearst advised them to meet directly with their landlords so an accommodation may be reached if one is possible.

Source Code: 20090610tda



Join The Daily Tran South County Re the region where exclusive supplement driving growth and exciting progress revitalization effort

Scheduled for: June 25 - South August 27 - South

Don't miss the opportunity the county - in print

Call 619.232.4381

Space is limited. Deadlines approaching

Potential Pla Ca

# SAN DIEGO MORTGAGE RATES

## 30 Year Fixed Rate Mortgages

Lender	To \$417,000			To \$697,500		
	Rate	Points	APR	Rate	Points	APR
Bank of America	5.00	100	5.70	5.00	200	5.30
California Bank & Trust	4.875	175	5.06	6.625	5.25	7.20

## Commercial Property Loan

Lender	Type	Rate	Points
Embarcadero Bank	Apt	7	