

*Roundtable Discussion***Commercial real estate experts see prolonged downturn**

By **THOR KAMBAN
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This is a very different commercial real estate market than just three years ago, but there is no clear consensus as to how long the downturn will last.

The present and future of commercial real estate in San Diego County was discussed during a recent roundtable discussion at the *Transcript* offices.

Hanging over everything is the fact that approximately \$1.7 trillion worth of U.S. commercial mortgage-backed securities (CMBS) will reset within the next three years. Furthermore, many of those properties are worth less than their loans.

"There's no new source of financing for this," said Stath Karras, a **Cushman & Wakefield** executive managing director. "So here's a wall of product that is pretty much underwater."

These factors alone might cripple any recovery, and they are just the beginning.

Jim Taylor, a **Sperry Van Ness** senior vice president, said his firm locally went from 65 brokers in December 2008 to just 11 brokers now, due to a plummeting of sale and lease transactions.

Most of the roundtable's participants said they have had to lay off some workers, but there were exceptions. Jim Spain, a **Colliers International** managing director, said he has actually picked up 10 brokers since last year. David Marino, an **Irving Hughes Group** principal, said he hired a couple people as well.

While a few firms may be hiring, both Karras and Advanced Equities Plaza (Broadway 655) developer Robert Lankford said we are probably three to five years

vacancy," Marino said.

"It's not like companies like Qualcomm are going away, but three or four firms are getting smaller for every one that grows," he continued.

Read said whether the asset class is office, industrial or retail, the future is daunting.

"You might have a building where the economic vacancy is 40 percent," Read said. An economic vacancy is defined as one where the book or stated rent isn't being collected on a given space.

Read, who said 2010 will be a year when the commercial markets are kind of "bouncing along the bottom," is hoping for new sales transactions, but added that the difference between bid and ask prices are still very far apart. Avoyer noted that those who purchased within the past three years don't have any equity in their properties.

For those who might wish to buy a significantly sized commercial property, financing has proven to be so elusive as to be nearly nonexistent.

"If it's over nine figures, financing is unavailable," said Grubb & Ellis|BRE Commercial's Frager.

Marino is worried about how the lack of venture capital may impact the biotechnology industries here.

"It looks very bleak for the biotech industry," said Marino. He added that a severe capital shortage has been made worse by a string of unsuccessful clinical trials. That means firms will need less space, rather than the additional space they were expecting.

Companies are not only shrinking their spaces, they are moving around a lot.

"Why stay in substandard space when you can pay \$2.25 to \$2.50 (per-square-foot) to go into good space at UTC?" Marino said.



All photos: J. Kat Woronowicz

John Frager, Grubb & Ellis|BRE Commercial president and CEO, said the recovery will come down to employment.

Lankford — who had to shrink the size of the Broadway 655 building to get financing several years ago — said any new office building here would have to get \$4 rents to pencil. He agreed with Frager that it could be a long time before a new office tower could be justified in downtown San Diego again.

"I think we're looking at six or seven years," Lankford said.

Marino said if one were to be built, a proposed 700,000-square-foot **Irvine Co.** building on West Broadway would likely be first up, but now clearly isn't the time. The Irvine Co. already owns six office complexes downtown including One America Plaza and Symphony Towers.

"I think the Irvine Co. will ride this one out. They have a

until the downturn. Still, millions of square feet of office space still needs to be absorbed around the county, with Carlsbad and the Interstate 15 Corridor being particularly hard hit.

Both Karras and Ankeny said landlords will continue to have trouble keeping spaces filled unless the California business climate is made more favorable.

"Companies don't come and they don't stay here," Ankeny said.

Everyone seemed to agree that the commercial real estate market will be in a rough patch for at least the next couple of years.

"When the dust settles, a lot of people won't survive," Read said.

Roundtable Participants

Donald Ankeny

President & CEO, Westcore

Steve Avoyer

Co-founder & Owner, Flock & Avoyer Commercial Real Estate

John Frager

President & CEO, Grubb & Ellis|BRE Commercial

Stath Karras

Executive Managing Director, Cushman & Wakefield

Robert Lankford

President & CEO, Lankford and Associates

David Marino

Principal, Irving Hughes

Mark Read

Senior Managing Director, CB Richard Ellis

Jim Spain

Managing Director, Colliers International

Jim Taylor

Senior Vice President, Sperry Van Ness

commercial real estate.

John Frager, **Grubb & Ellis|BRE Commercial** president and CEO, said the recovery all comes down to employment. It could be years before the office market in particular sees a full recovery, he said. Other asset classes have been having their own problems.

"It seems every tenant is undergoing some form of CPR," said Steve Avoyer, a **Flock & Avoyer Commercial Real Estate** co-founder who specializes in the retail sector.

Retail tenants such as Linens 'N Things, Mervyn's and Circuit City are no more, a few local automobile dealerships are disappearing, Hollywood Video is closing stores, and chain restaurants such as Stuart Anderson's have closed restaurants here and in other parts of the country.

There have been reasons for optimism. Retailers such as **Kohl's** (NYSE: KSS) and **Best Buy** (NYSE: BBY) have back-filled old Mervyn's and Linens spaces, and **7-Eleven Corp.** expects to add another 11 stores here next year. Still, Avoyer conceded it has been exceedingly difficult to keep tenants in place.

"Can you do a power center right now — especially if you have to compete with Wal-Mart? I think it's going to be three to five years before you see speculative development," Avoyer said.

Donald Ankeny, **Westcore** president and CEO, heads a San Diego-based firm that owns millions of square feet of office, industrial and retail properties around the country. He said, "the fundamentals are horrible."

CB Richard Ellis (NYSE: EGB) Managing Director Mark Read noted that a **General Electric** (NYSE: GE) pension entity recently deeded the Wateridge Plaza development in Sorrento Mesa back to its lender.

Marino said even **Qualcomm Inc.** (Nasdaq: QCOM), which had been in a major expansion mode up until last year, is now shrinking its space in the Sorrento Mesa area.

"Sorrento is in a heap of trouble. It has a 30 percent

willingness to contract for short-term leases that they may have rejected in more lucrative times, he said.

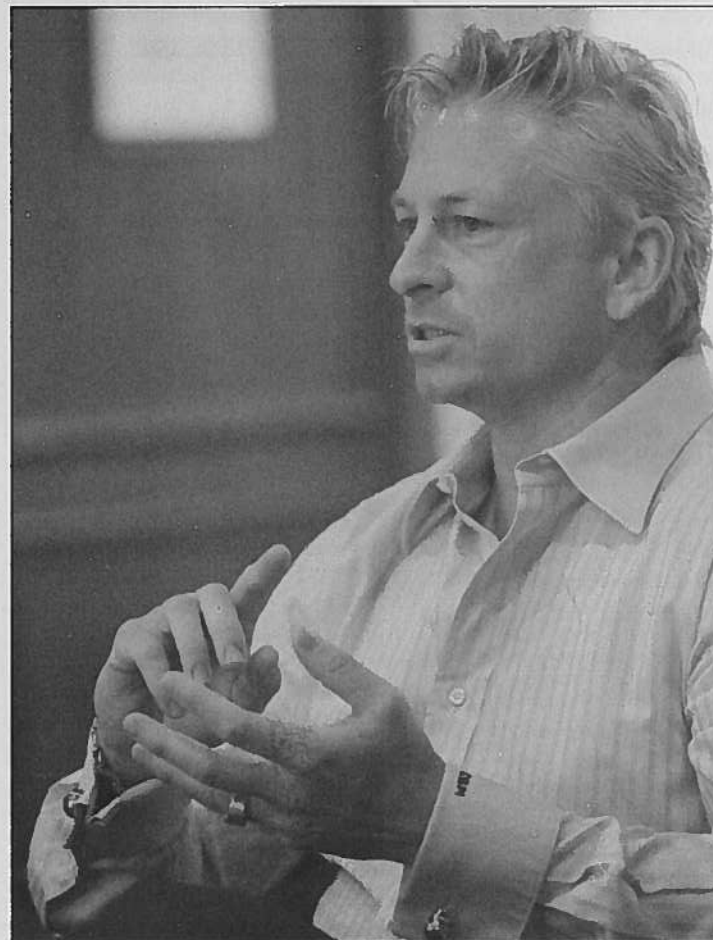
Each submarket in the county has different rates, but

the marketplace," Marino added.

Frager said the good news on the office side is new supply isn't now coming out of the ground the way it was up



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David Marino, an Irving Hughes Group principal, said he worries about how the lack of venture capital may impact the local biotechnology industry.

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