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Industrial market in San Diego County poised to rebound in '11

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SAN DIEGO — While San Diego County's industrial market is far from ideal, reports by Colliers International and Cassidy Turley BRE Commercial say it appears to be on the mend in most areas.

By Collier's accounts, after five consecutive quarters of negative absorption averaging 937,000 square feet, the San Diego County industrial market showed signs of stabilization during the first quarter of 2010.

This isn't to say absorption was strong.

In fact, the county had a mere 578 square feet of net industrial absorption through the first three months of 2010, Colliers writes.

Still, that looks considerably better than the massive givebacks of space experienced in recent quarters.

The Cassidy Turley report, which recorded 77,580 square feet of negative absorption in the first quarter, said many industrial landlords were only too happy to see last year fade into history.

"While 2009 was unprecedented in terms of countywide negative absorption of 4.2 million industrial square feet, there are encouraging signs that the worst seems to be over," Cassidy Turley writes.

Colliers placed last year's negative net absorption at 3.8 million square feet — still a very high number.

Both reports say the recovery will be a gradual one.

"In 2010, the San Diego industrial market will continue to struggle toward recovery and is expected to see glimpses of revitalization in tenant and buyer confidence," Cassidy Turley writes.

"With the market saturated with available inventory, landlords and sellers' pain will continue as the acquisition of the few tenants and buyers in the market will remain very competitive," wrote Cassidy Turley.

"Whether net absorption is positive or negative for 2010, it is very likely that the magnitude will be relatively small either way," Colliers wrote.

The Otay Mesa market continues to suffer from industrial overbuilding, but whether or

not it experienced positive or negative absorption depends on the survey.

While Cassidy Turley reported 87,450 square feet in negative net absorption, Colliers reported 110,000 square feet of net absorption figure and contends the South Bay submarket actually had the largest amount of net absorption of any of those in the county.

So why such a difference? A lot may depend on when a survey is taken, whether or not leased space is considered occupied, whether or not shadow (leased but unoccupied) space is counted and how sublease space is treated.

Cassidy Turley reported that with a 24 percent overall industrial vacancy rate, Otay Mesa had about 3.46 million square feet of vacancy space as of March 31.

Colliers placed the Otay Mesa vacancy at more than 3.61 million square feet.

The Interstate 15 Corridor in central San Diego County, which was in the process of converting old industrial properties into new office campuses when the recession hit, still has a lot of aging space considered

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by many to be functionally obsolete.

With lower lease rates luring tenants to newer buildings, it may be even harder to keep these older complexes filled.

As noted by Colliers, Poway and Rancho Bernardo returned nearly 1 million square feet of industrial space to the market last year, but those submarkets showed modest net gains of 25,745 square feet and 21,881 square feet respectively in the first quarter of 2010.

Industrial absorption activity in the Interstate 15 Corridor will have to be a whole lot more than modest if that market is to recover.

By Collier's accounts, the corridor had about 3.1 million square feet of vacant space and an overall vacancy of 15.43 percent on March 31.

Cassidy Turley didn't combine the I-15 industrial markets in its report but pegged the Rancho Bernardo industrial vacancy rate at about 15.4 percent.

The Oceanside industrial submarket has yet to gobble up

all the new industrial space come online during the middle of the last decade.

Colliers said in its report that Oceanside had an overall vacancy rate of 18.2 percent as of the end of the first quarter, which translates to about 1.45 million square feet of vacant space. Less than 5,000 square feet was absorbed in this market during the quarter according to both surveys.

In Kearny Mesa where Colliers and Cassidy Turley posted a 6.47 percent and 7.1 percent overall vacancy rate respectively, space was given back.

Cassidy Turley reported 152,603 square feet was returned in the quarter and Colliers pegged the giveback at 108,214 square feet.

Cassidy Turley reported the largest leases per-square-foot during the first quarter were Raytheon, 240,692 square feet in the Cabrillo Technology Center in Kearny Mesa; Sea World, 71,619 square feet in the Mission Trails Industrial Park in San Diego near Santee; Competitor Group, 56,796

square feet in the Pacific Technology Park in Sorrento Mesa; and Digirad, 47,000 square feet in the Stowe Corporate Center in Poway.

While Colliers reports less than 25,000 square feet of industrial space was added to the overall market during the quarter, 311,317 square feet is under construction of which 257,004 square feet is concentrated in two buildings on Progress Street in Vista.

Colliers reported Vista had a very healthy overall vacancy rate of 8.51 percent. Cassidy Turley's figure was slightly higher at 8.7 as of the end of March.

Both brokerage firms agreed that rents have continued to drop and that tenants are more likely to move sideways or renew in place rather than expanding or moving into larger digs.

"As the economy continues to improve, new tenant activity should start to increase at a steady pace," Colliers writes. "However, significant activity won't occur until 2011 at the earliest."

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