

Building permit activity to remain sluggish

By THOR KAMBAN BIBERMAN
The Daily Transcript

Building permit activity through April was but a wisp of normal on the commercial and industrial side; and while residential was stronger, it too was much slower than it was just three years ago.

The Construction Industry Research Board found that February was the only of the first four months of 2010 that had any industrial building at all. It was only \$638,000 worth of activity — a figure that looks like it may have been a single project. That compares to \$13.82 million for the like period in 2009.

That there is little to no industrial construction is hardly surprising in submarkets such as Otay Mesa, where an estimated 3.5 million square feet of see-through space exists. In other areas such as Kearny Mesa, where little land is available, the vacancy is closer to 5 percent.

Rob Hixson, a **CB Richard Ellis** senior vice president and chairman

of the Otay Mesa Planning Group, said with all that space and prices around \$68 per foot — for the former 300,000-square-foot **Hitachi Transport** building for example — it will be at least three and a half years until new speculative construction may be justified there.

Both **Colliers International** and **Cassidy Turley BRE Commercial** have suggested a turnaround for the industrial market will start to happen this year, but as evidenced by the Otay Mesa situation, some markets will recover faster than others.

With millions of square feet of vacant office space from downtown San Diego to the Interstate 15 Corridor to Carlsbad, would-be office building developers aren't exactly rushing out to construct more, either.

If there is a consensus by commercial office brokers on the point, it is that new speculative office construction of any magnitude is sever-

See **Permits** on 11

Permits

Continued from Page 1

al years from being justified. Lynn LaChapelle, a managing director of **Jones Lang LaSalle's** capital markets division, said it is simply a matter of when rents are high enough to justify new construction.

LaChapelle noted that office rents have fallen an average of 30 percent within the past three years.

"A new Class A building along the I-15 Corridor would have gotten 90 cents per square foot (per month) more in 2007 than today," LaChapelle said. Even if rates climb at 5 percent per year, she said, it will be six years before rents are back to where they were.

The **Irvine Co.** had hoped to develop a 700,000-square-foot office tower on West Broadway in downtown San Diego, but the project has been placed on indefinite hold. For now, Donald Bren's company will concentrate on keeping six downtown buildings, including One America Plaza and Symphony Towers, occupied. The firm also owns more than 800,000 square feet in the Plaza at La Jolla Village complex in the University Towne Centre area that could use some tenants before the Orange County builder constructs more space.

The CIRB's commercial category also includes retail. San Diego County's retail vacancy, which was typically less than 4 percent, virtually doubled in the downturn. While still less than 10 percent, the closure of Mervyn's, Linens 'N Things, Circuit City, Blockbuster and Hollywood Video (owned by **Movie Gallery**) stores continues to be felt.

In short, for both office and retail construction, a lot more space will need to be filled or refilled before new construction may return to normal. This isn't to say there won't be projects.

Bill Thaxton, a senior vice president with the **Flocke & Avoyer** commercial real estate firm, said one of these is a planned 284,000-square-foot Vons-anchored shopping center being developed by **Property Development Centers**. The development, at the corner of La Costa Boulevard and Rancho Santa Fe Road in Carlsbad, is scheduled to be completed before the end of 2012.

The CIRB tallied \$14.9 million in commercial permit activity in April. While this is more than four times

the \$3.09 million in April 2009, it is still a low figure by historical standards.

The research firm reported permits for about \$46 million worth of commercial work through April — or marginally less than the \$50 million through the first four months of 2009.

Nonresidential alterations and additions look considerably stronger, with \$31.18 million worth of work for April alone and \$118.44 million worth of work for the first four months of the year. That compares to \$39.67 million in April 2009 and

\$134.51 million through the first four months of 2009.

Although there is some sporadic evidence of an improved market, single-family and multifamily construction is a far cry from what was happening in 2006 and 2007.

The CIRB found that 221 single-family and 97 multifamily units received permits in April. That was compared to 227 single-family and 194 multifamily permits pulled during the like month in 2009.

The CIRB counted a total of 1,148 residential units

through April — or about 3 percent more than the comparable period a year earlier. Here again, the four-month figure might be one for a single month in a more typical year.

When asked when residential permits will pick up, Alan Nevin, **MarketPointe Realty Advisors** economic research director, quipped, "Probably sometime before you retire."

Nevin said he is surprised to see that while sales have been picking up, permits haven't followed. Part of the problem, he said, is that even

in a recession there is still relatively little developable land.

"I see virtually no apartment construction at all," Nevin said.

That isn't always going to be the case. **Scripps Mesa Developers LLC**, following on a 1988 development agreement between the city and **Pardee Construction**, is planning a 1,848-unit (mostly multifamily) project in Mira Mesa called Casa Mira View at Mira Mesa Boulevard and Westview Parkway.

biberman@sddt.com
Source Code: 20100624crc