

# SAN DIEGO DAILY TRANSCRIPT

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SAN DIEGO — While **Marcus & Millichap** is projecting industrial properties will stabilize their occupancies by the end of the year and improve modestly in 2011 nationally, what happens in San Diego County will depend on individual submarkets.

San Diego County was ranked as the 15th strongest market in the country in the M&M survey.

As weak as that sounds, it is an improvement of five positions from 20th place in 2009.

Houston gained the top spot for the second year in a row, and is one of the few markets in the country projected to have declining vacancies through 2010 — although at 10.1 percent in 2010 versus 10.2 percent last year, the drop isn't expected to be very large.

Houston may have earned the top industrial market spot due to its size and the fact its vacancy has slightly decreased, but Chicago is expected have absorbed roughly 3.75 million square feet of industrial space by the end of the year and will far outpace its competitors.

In contrast, by M&M's calculations, San Diego County is projected to have a 12.4 percent direct industrial vacancy by the end of 2010 — up from 12.1 percent in 2009.

Other surveys of the San Diego industrial market differ, often because of different methodologies.

**Cassidy Turley BRE Commercial** reported a direct industrial vacancy of 10.6 percent and 12.5 percent overall vacancy rate in San Diego County when all sublet space is added as of the end of the first quarter.

However, industrial construction is essentially at a standstill in San Diego County.

The **Construction Industry Research Board** has reported that in three of the first four

## Marcus & Millichap: Industrial property market stabilizing

### Report

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written with the expectation of extreme rent increases, even at the height of the market," the M&M report continued.

There are positives that could help fill the Otay Mesa buildings.

Alejandra Mier y Teran, Otay Mesa Chamber of Commerce executive director — at a roundtable discussion at the *Transcript* offices this past week — said two new large manufacturers are poised to come to Otay Mesa. She said he could not reveal names yet.

She also noted that plans continue to move ahead for another border crossing to the east of the current Otay Mesa facility, and that the expansion to double the number of gates at the existing crossing is in the works.

It is hoped that with easier access from the maquiladoras in Mexico from Mesa de Otay, El Florido and beyond, the industrial buildings on the U.S. side of the border that have gone begging since the recession started, will be filled by support functions.

months of 2010 there were no permits for industrial construction pulled in San Diego County at all.

A precipitous drop in industrial permits has been seen at the national level as well.

M&M reported industrial builders are projected to deliver 25 million square feet of new space in 2010 — down from nearly 75 million square feet in 2009 and 171 million square feet in 2008.

While there may be very little construction, this may give markets the breather they need to fill the millions of square feet of space still available.

Otay Mesa in San Diego County has about 3.5 million square feet of vacant industrial space.

Even if the Otay Mesa is fortunate enough to absorb 1 million square feet per year, it would be 3-1/2 years before the inventory would be exhausted without any new construction.

As high as the industrial vacancy is in Otay Mesa, the M&M report says there shouldn't be many distressed properties as a rule.

"Distress will remain limited, as few properties were under

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Otay Mesa isn't alone in its surplus of space.

The Riverside-San Bernardino area that saw big job losses and high home foreclosure rates over the past 18 months, has yet to see its industrial market recover.

There still has to be a demand for the products here and jobs need to be generated to fuel demand. The M&M report said the demand is coming back — but not all at once.

“As the impact of government stimulus winds down, future economic expansion will be driven by more traditional sources, including personal and corporate spending, which were the primary drivers of GDP growth during the first quarter,” the report stated.

“Continued private consumption will encourage businesses to slowly replenish depleted inventories in anticipation of further increases in demand.”

While hopefully this will lead to more employment, M&M noted there is a long way to go on this score.

M&M stated that some 8.4 million jobs have been lost during the recession nationally.

Employers will have added 1.3 million jobs in 2010 — meaning a complete recovery is probably several years away, M&M reported.

The report also stated that while there have been positive economic developments, this hasn't translated into increased tenant demand as many of these firms already have a surplus of space.

“Widespread improvement in the industrial market will likely not occur until 2011 and 2012, when more robust economic and employment growth will take hold,” the report continued.

The M&M report had some encouraging words, saying once the employment picture improves and buildings start to fill, demand for attractive and well-located industrial assets will gain momentum here and across the country.

Although finding capital for industrial property acquisitions is expected to be elusive for some time, M&M said cash transactions and owner-user purchases should strengthen investment activity through the remainder of the year nationally.

Many prospective buyers may have been scared off by industrial rents that declined nationally by as much as 12.4 percent last year, but M&M concluded the year-to-year drop from the end of 2009 to the end of 2010 should be a much more comfortable 2.7 percent.

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