

SAN DIEGO DAILY TRANSCRIPT

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Report: Industrial permits way down in 2010

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SAN DIEGO — Nobody wants to build industrial space, commercial construction is slightly better and nonresidential alterations and additions are holding their own, according to a report.

The Burbank-based **Construction Industry Research Board** reports that there was no industrial space

permitted in four of the first five months of the year. February was the only month that had any industrial space permits at all and that was for only \$638,000 worth of work.

Put another way, the amount of industrial permits pulled for the whole five months was less than the \$800,000 David and Lory Lynn Boggeman recently paid for a single 5,292-square-foot industrial build-

ing in Lemon Grove.

"Industrial is a unique category," said Ben Bartolotto, CIRB research director. "Most of the industrial building we're seeing is alterations of existing buildings."

Bartolotto said about the only place he is seeing ground-up industrial construction is in the San

See Permits on 3A

Permits

Continued from Page 1A

Francisco Bay Area.

"There's a huge solar manufacturing plant in Alameda County and a large data center in Silicon Valley," Bartolotto said, adding that industrial construction would be off significantly statewide were it not for the Alameda and Silicon Valley projects.

The problem for industrial in places ranging from Otay Mesa (which has about 3.5 million square feet of vacant space), to Oceanside, is that huge quantities of space were constructed right before the recession hit. The direct industrial vacancy countywide currently ranges from 10 to 12 percent depending on the survey whereas it was comfortably in the single digits as recently as early 2008. The sublease space adds plus or minus 2 percentage points to the vacancy.

By **Cassidy Turley BRE Commercial's** accounts, Otay Mesa had the highest industrial vacancy rate in the first quarter at 24 percent. The Morena area, which tends to have much older space had an industrial vacancy of just 3.6 percent at the end of March.

The level of commercial permits, which includes retail, office and hotel development in the CIRB survey, was \$8.68 million in May of this year — up 72.9 percent from \$5.02 million in the like month a year earlier. Both of these numbers are low in an historical context, however.

The CIRB tallied \$54.73 million worth of commercial permits through May — just a slight drop from the \$55.02 million figure recorded during the like period a year earlier.

With room rates having fallen rapidly and occupancies down, hotel construction here and

elsewhere has been minimal.

The CIRB reported \$19.76 million worth of retail permits were pulled through May — down somewhat from \$21.16 million during the like period a year earlier.

Numerous large and small shopping centers are still recovering from the loss of tenants during the past two years. While the former Mervyn's, Linens 'N Things and Circuit City spaces have been backfilled with such tenants as **Kohl's**, **Best Buy** and **Sprouts Market**, finding tenants for some restaurant outlets and former Hollywood Video and **Blockbuster** (NYSE: BBI) spaces have been proven much more difficult.

With average vacancies having doubled to between 8 and 10 percent depending on the survey, and many landlords scrambling to fill vacant spaces, there is little incentive to build much more retail.

The story is the same for office space construction — only more so — depending on the location. New office construction amounted to just \$7.03 million in the county through May. That was just a fraction of the \$22.56 million figure registered during the first five months of last year.

Cushman & Wakefield reports that San Diego County had a 15.2 percent direct vacancy rate and an overall vacancy rate of 17.6 percent as of the end of the first quarter if sublease space is added.

Chula Vista had a 31 percent directly office vacancy as of the end of the first quarter, Carmel Mountain Ranch had a 27.4 percent level and Carlsbad had a 25 percent vacancy at March 31, according to C&W.

Downtown was better in terms of a percent with a 15.2

percent direct vacancy rate according to C&W but this translates to approximately 1.7 million square feet of direct vacant space. Here too, it won't make sense to build new speculative office space for quite a while.

On another note, new tenant improvements can be a powerful tool for keeping tenants and luring new ones, and the CIRB found that alterations and new additions have kept coming through the downturn.

The CIRB counted \$34.02 million worth of nonresidential alteration and addition work in May — or 54.49 percent more than the \$22.02 million registered during the like month a year earlier.

The research firm tallied \$152.46 million worth of nonresidential alteration and addition permits through May — or slightly less than the \$156.33 million such permitting for the comparable period last year.

“Alterations and additions are down statewide but

they're not down nearly as much as the other categories,” Bartolotto said.

In the category of “other,” which includes everything from outbuildings to pump stations, permits were pulled for \$8.62 million — up 25.65 percent from the \$6.86 million registered in the comparable month a year earlier.

The CIRB counted \$52.72 million in the “other” category through May — down 17.09 percent from \$63.59 million during the like period a year earlier.

Total nonresidential construction amounted to \$51.33 million worth of work in May — up 51.37 percent from \$33.91 million recorded in May 2009.

Nonresidential construction activity amounted to \$260.55 million through the first five months of the year — off 9.83 percent from the \$288.97 million figure recorded during the like period in 2009.

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