

Daily Business Report

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Ask four real estate professionals their prediction about the future of the industry and you will get four different answers -- and none too optimistic. Such was the conversation at a Market Snapshot forum Feb. 26 held by the San Diego chapter of the **National Association of Industrial & Office Properties**. Real estate professionals **Jay Alexander**, senior v.p. of **Colliers International**; **Eric Northbrook**, executive director of **Cushman & Wakefield**; **Rick Reeder**, specialist/owner of **Grubb & Ellis/BRE Commercial**; and **David Marino**, principal of **Irving Hughes**, gave their candid opinions about the current state of affairs of commercial real estate in San Diego and what is in store for the battered industry.

The hour-long program started with moderator **Brittain Cheney**, v.p. of **Irvine Company Office Properties**, asking each panelist where San Diego is in the downward real estate cycle.

Reeder said different markets are in different points of the cycle. "South Bay felt it in 2007 while north mid-city markets are only recently feeling it," he stated, in terms of the real estate leasing slowdown. Reeder predicted that observers will see a "last one in/first one out" situation when it comes to the various markets.

Marino predicted that it will be the first quarter of 2011 before "we see any light" in regard to when the economy will stop delivering bad news and the real estate industry will hit bottom, and then projects it will bump along the bottom for two to three years thereafter.

Alexander expressed his surprise that the downturn actually didn't happen two years ago. He cautioned that real estate professionals "shouldn't overblow this crisis ... it isn't as bad as the '90s and the RTC." Alexander went on to state that the industry will hit bottom in 2009, that 2010 will be "not good" and recovery will begin in 2011. He also reminded the attendees that money is made in a down market.

Northbrook said the industry hasn't hit bottom yet. He predicted that will occur by the end of the current year and that the industry "will be in a 'U' shape recession...we'll be at the bottom for awhile." As for current activity in the market, Northbrook likened it to "musical chairs" with the same tenants moving to new space, with downsizing at the heart of many moves.

Marino said he is encouraging his tenant clients not to rush into the market. Those that don't need to move now should wait, as anticipating future space needs is difficult for many companies at the present time, he said. "The current market will give great deals to tenants able to consider five- to -year leases, but not all clients have that visibility and credit worthiness," said Marino. He also noted that with the market trending down for at least another year, tenants should not rush into the market if they don't have to. Additionally, this is a frustrating time for landlords to have to have so much sublease space on the market as that glut is creating a huge drag on the marketplace.