

## Local Real Estate Markets Slow To Recover, But Show Positive Signs

More Demand For High-End Homes;  
Commercial Sector Begins Stabilizing

■ By **SEAN BELK**  
Staff Writer

**W**ith slight gains in employment, an attractive climate and a diverse mix of industry sectors, Long Beach, like other nearby coastal cities, is well positioned for positive real estate activity this year. However, home prices nationally have plunged to new lows in the first quarter and there continues to be a lot of uncertainty in both residential and commercial markets, leading to mixed feelings in a slow-moving economic recovery.

The overall sentiment remains divided, with brokers and economists either saying market conditions have already hit bottom and are turning around or there's still more declines to come before prices stabilize and distressed properties are flushed out of the market.

"The general public is a little reluctant because of the angst of what we're coming out of and it's hard to feel good about real estate, because the memories are so vivid," said Phil Jones, residential broker and co-owner of Coldwell Banker Coastal Alliance. "But as we move through this year . . . we're seeing a steady increase and we're really optimistic for the second half of the year."

The sweet spot for the residential market is high-end homes that are moving quickly as bullish homebuyers and investors begin to enter the market again and interest rates remain at record-lows. However, available credit remains tight and would-be buyers face a "low inventory" of quality properties. Some discretionary sellers are still holding back in a vulnerable economy.

More tenants able to gain access to loan capital are signing renewals and lease transactions in the South Bay office market. But, at the same time, more vacancies continue to come online. The retail market is experiencing a shift from national retailers to small businesses, and in some instances, rents continue to fall. Industrial buildings, on the other hand, are starting to see more activity in the owner/user market.

Despite the Long Beach unemployment rate remaining at roughly 13 percent, still above Los Angeles County's rate of 12.2 percent, marginal gains in job growth are expected to continue this year. Construction, which has been non-existent throughout the recession, is picking up with major residential and government projects in Long Beach underway this year, expected to bring support for investment and local jobs.

Joe Magaddino, director of the Office of Economic Research at

California State University, Long Beach (CSULB), said employment is anticipated to grow modestly in Long Beach this year by more than 2,300 new jobs. But still, that won't be enough to turn the local economy around quickly, he said. "I think the residential market both within the City of Long Beach and within the region is still sort of in the recovery mode," he said.

### **Residential: Home Prices Relatively 'Flat' Despite National Slump**

While the Standard & Poor's/Case-Schiller National Home Price Index recently reported single-family home prices hit a new low, officially confirming a "double dip" in home prices on a national scale, Robert Kleinhenz, chief economist for the California Association of Realtors, said coastal communities in California, such as Long Beach, are one of the better performing sectors.

The overall median price for single-family homes in Long Beach has stayed relatively stable during the first quarter this year over the same period in 2010, he said, showing a slight increase of 0.2 percent, hovering at about \$350,700. "Essentially, it's flat," he said. However, the quarter was still down 2.6 percent from the prior quarter, mainly due to downward pressure on prices from both the loss of federal tax incentives that artificially boosted values last year and the mix of distressed properties.

But even though there's some softness, a double dip in home prices in Long Beach is "unlikely," he said. Long Beach and Los Angeles Metro market shouldn't see the same kind of drop in median home prices as the nation, primarily due to the local market already being hit much harder and earlier on in the Great Recession, reaching its bottom in early 2009.

"We may not be toying with the possibility of a double dip in the local markets, but it stems in part from the fact that we had a much bigger decline in our median price back in 2008 and through the early part of 2009. I don't want to sugarcoat something. We took our licks early on," Kleinhenz said.

Single-family home sales in Long Beach for the first quarter this year were down 2.7 percent year to year, he said, again, mainly due to the government tax credits last year that helped to boost sales. However, Kleinhenz said sales should turn around in the second half and finish the year either similar or higher than last year's sales.

"We're counting on the market fundamentals to help propel the market forward and that does appear that that's the case," he said. "The market seems to be maintaining a decent level of sales. We still have a high concentration of distressed properties so that's creating downward pressure on prices, but we're getting enough

momentum in the economy and have low mortgage rates even though we still have concerns.”

Lending criteria remains to be tight, but banks have indicated either they are keeping standards the same or easing off, said Lisa Grobar, an economics professor at CSULB. “The financial markets are healing, banks are gradually easing their lending standards, but it’s a slow process,” she said.

High-priced homes are showing the most promise so far, which coincidentally is the majority of listings in coastal communities, and those who can afford to buy are now able to move in on such homes for “bargain” prices.

Scott Hamilton, broker and owner of DOMA Properties, said there’s currently a lot of buyers looking for property in Long Beach, but homes have to be “priced right” in order to sell. The past few months have been up and down, and changing on an almost daily basis, where agents are either flushed with buyers and don’t have any inventory or just the opposite, he added.

“The prices here are very desirable, so if it’s priced within range it will get appraised and it goes very quickly,” Hamilton said. “I don’t know that there’s any macroeconomic effects in Long Beach that are causing that to happen. I think it’s more just our little market here.”

This is in contrast to some areas, such as the Inland Empire, San Bernardino and Riverside counties, which continue to be stricken by an over-supply of distressed properties, and that are much more susceptible to lower median prices. However, Kleinhenz said that lenders aren’t expected to “flood the market” with distressed properties in such a volatile economic climate.

One aspect for buyers to think about, however, is the potential increase in mortgage rates down the road, Kleinhenz said. If home-buyers wait too long for the economy to turn around, they could be facing higher monthly payments. “By waiting for home prices to bottom out, one might miss out on the opportunity to take advantage of rates that are quite low right now and are more likely to go up than they are to go down in the next six months,” he said.

## **Apartments:**

### **Rents Continue To ‘Stabilize’ With Recovering Economy**

While the market for single-family homes remains shaky, the multi-family apartment sector appears to be showing better signs of improvement over last year, said Eric Christopher, a Southern California apartment specialist and agent for INCO Commercial.

Rents are starting to “stabilize” more than they were a year ago, but the market is still expected to remain a tenant’s market for the rest of the year, he said. Rates shouldn’t start rising until 2012.

“There’s still plenty of people out there struggling to keep units full, but there’s plenty of movement in the marketplace and it’s stabilized noticeably from a year ago,” he said. “Landlords are starting to feel a little more stable and don’t have to offer quite as many concessions as they were a year ago, and so it’s kind of an incremental improvement.”

Some cities have been experiencing what’s called a “shadow rental market,” where renters find it more affordable to actually buy a home rather than rent. However, that hasn’t been an issue in Long Beach and the metropolitan county area, where there’s less of a foreclosure market putting pressure on lower home prices, Christopher said.

Apartment vacancy in Long Beach has been more of a victim of the job market and the overall economy, where people have decided to “double up,” or share space with multiple renters. But, over-

all, Long Beach is “typically one of the best performing apartment markets in Los Angeles County,” he said. In the first quarter, the market experienced a 5.5 percent vacancy factor, which is a slight improvement over the last two years.

The market for higher-end condominiums, such as in Downtown Long Beach and in Signal Hill, is experiencing a little higher vacancy than lower product types, but still remains relatively stable, he said. “It’s definitely in a good position stacked up against other cities in the rest of the county,” Christopher said.

Gary Painter, associate professor for USC’s Lusk Center for Real Estate, said the apartment sector should be the first real estate market to turn around, as a “leading indicator” that home sales may start to pick up again.

“Overall I think with the job market starting to improve, what you’re observing is a little more strength in the rental market, but people are not yet in the position that they can accumulate a down payment in order to buy a home,” he said. “I think that will be a signal that demand will eventually spill over into owner-occupied housing where people realize that maybe buying a house is going to be a better deal than it was relative to renting.”

### **Office Market: Some ‘Positive Absorption,’ But Vacancies Persist**

The South Bay commercial office sector, which has seen no new construction and is mostly connected to cutbacks in employment during the recession, has been relatively stagnant over last year, according to Cushman & Wakefield’s first quarter report. Most tenant activity this year is expected to be “lateral,” with renewals and leases dominating transactions.

While there has been more office building sales this year so far, as both institutional and private investors seek higher value for the right price, the rise in vacancy across the South Bay indicates the market may have a ways to go before hitting bottom.

The first quarter did see some good news, with positive absorption in the subsectors of Downtown Long Beach (15,327 direct space) and Suburban Long Beach (44,021). Bob Alperin, Cushman & Wakefield’s regional senior director, said the positive signs are encouraging, but nothing drastic. “It’s not a huge change, but at least it’s going in the right direction,” he said. “Hopefully we can keep that going.”

Transactions include renewals by Leader Enterprises that signed for 8,613 square feet at the Bixby Office Park in Seal Beach and CIE Studios, a social media technology firm, which expanded its footprint to 19,010 square feet at the Landmark Square building downtown. Another major lease included Torres Martinez Tribal Tanf that took one floor of 13,291 square feet at the Circle Business Park on Pacific Coast Highway that is close to 82 percent leased. The Kilroy Airport Center off the 405 remains about 95 percent leased, Alperin said.

Still, the office market has also seen more vacancies, leaving large blocks of empty space, as companies – mostly in aerospace/defense – either consolidate or relocate during tough times. The overall vacancy rate for Long Beach holds steady at 22 percent, a slight increase from the fourth quarter of last year, according to the report. “It’s still going to be a challenging environment, until we get over this slowdown in the economy,” Alperin said.

Boeing has made a decision to either relocate operations to other states, offering less costs, or shrinking its office space footprint in the South Bay region and transferring employees to its own facilities.

Late last year, Boeing vacated more than 120,000 square feet at 4811 Airport Plaza Dr., after moving 800 employees from the C-17 Global Sustainment Program over to its Huntington Beach facility. So far, no leases have been signed to take that space. Boeing is expected to leave more than 160,000 square feet of office space in another eight-story building at 4801 Airport Plaza Dr. by December, Alperin said.

“That’s probably the biggest piece of news that relates to the local market because that’s what has created the bigger vacancies,” he said. “I think Boeing is always going to control costs, and one way to do that is to move into space that they own, and as programs evolve, that evolution allows them to operate in a less expensive environment.”

Jon Sweeney, a broker with ADG Commercial, said he is finalizing a deal to lease 6,273-square-foot of office space at Daugherty Sky Harbor, located at Parcel J at the Long Beach Airport at Spring Street and Redondo. He said there’s a building there that’s more than 90 percent occupied with about 5,800 square feet available for lease. “Activity in the office sector has definitely picked up for here,” he said.

Jeff Coburn, office broker for Lee & Associates, said, while transactions have been choppy, activity is definitely picking up compared with last year, which is a good sign. “There’s more tenants in the market and more buyers in the market, and there’s more transactions being completed,” he said.

The South Bay remains a predominant tenants’ market, with rents expected to continue to decline with landlords offering more concessions, such as free rent, larger improvement allowances and lower rental increases. “It’s a good time to lock in a long term lease and a good time to be a buyer in real estate right now,” Coburn said.

Also, low interest rates and the availability of commercial loans and SBA financing are helping to drive more deals. Although banks have tightened credit standards across the board, W. Henry Walker, CEO of Farmers and Merchants Bank, said there’s still available credit for quality borrowers. “We’re still lending on commercial real estate,” he said. “There’s a lot of good investors that are getting good buys and there’s a lot of money out there still. There are investors that are willing to put money down on purchases.”

Meanwhile, Douglas Park – a mixed-use development with land for office, industrial, retail and hotel space next to the Long Beach Airport and along Lakewood Boulevard – has seen a handful of sales at office buildings developed by landowner RREEF Newcastle Development. New tenants/owners include Arcadis U.S., Inc., a design/engineering consultant, and Interface Security Systems Holdings, Inc.

InSight Examination Services, an auditing/industry analysis firm, is near closing a sale for one half of a building at 7,000 square feet of office space, said Gregg Kirkpatrick, regional senior vice president of CB Richard Ellis. He said having new office buildings for sale is “unique” in the market right now and demand for new product is the driver of activity. “There’s just not a whole lot of other buildings new and for sale that are available,” he said. “We’re kind of the only game in town.”

In addition, a 26-acre retail center parcel is being purchased in a joint venture by Torrance-based developer Mar Ventures, Comstock Crosser & Associates and Continental Development. Orange County-based Nexus Companies is purchasing a 4.5-acre site to build a four-story 155-room Courtyard by Marriott hotel with two 5,000-square-foot retail pads at 3821 Bayer Ave. A site plan review for the development was recently approved

by the Long Beach City Council. Kirkpatrick said once the new retail center is completed more sales and development should open up at the site.

In the downtown area, San Francisco-based The Swig Company, which owns the two, 15-story ARCO Center towers on Ocean Boulevard, continues to search for a buyer after a deal with Molina Healthcare to purchase the high rise fell through last year. When asked if there was a new deal in the works, Chief Financial Officer John Molina had no comment.

Also, the Port of Long Beach has been in talks with property manager Legacy Partners to move its employees from the 50-year-old, six-story administration building on harbor land to One World Trade Center. Art Wong, port spokesperson, said negotiations are still ongoing. The city recently held a closed-door session with the property owner to discuss a possible lease or buy transaction. The port needs to vacate its current building due to seismic concerns. Last year, Mayor Bob Foster used his line-item veto to nix the port’s plans to build a new headquarters building.

Business Journal Publisher George Economides said there are some interesting scenarios that are in play that could significantly impact the downtown office space scene.

“It’s not just the port staff that needs to find a home, and a big one at that,” he said. Remember, the City Hall building needs to be retrofitted to get up to earthquake standards, and that’s pricey. Maybe too expensive. It might be cheaper for the city and port to team up and buy another building, such as the World Trade Center or Arco Towers. There’s also the current courthouse building being razed when the new one is completed. A high-rise office building at that spot would fit well. Then the current City Hall/Main Library buildings could be razed for either office or residential development. Lastly, there’s the huge development on the west end of Ocean Boulevard planned by the Keesal/Molina team that could include a City Hall and/or port complex. There are a lot of pieces to the puzzle that could make financial sense to a variety of parties and result in a very strong and attractive downtown market. City and port staff would be smart to examine all possibilities.”

### **Retail Sector: Vacancies Continue To Rise, Rental Rates On The Decline**

Vacancies have continued to rise in the retail sector across the greater Long Beach/South Bay area, mainly from large national retailers either consolidating or being pushed out of the market. After the recession, shopping centers are now left with only one dominant player where as before there were several competing chains in the same vicinity, such as the scenario with Circuit City being pushed out by Best Buy or Borders bookstores by Barnes & Noble.

Two Border’s bookstores in Long Beach – one at the Los Altos Market Center and one at The Pike at Rainbow Harbor, totaling more than 100,000 square feet of retail space – closed in April. Since then, Piccolo Lewis, owner of The One Dollar Bookstore, quickly moved in to The Pike location at 101 S. Pine Ave., already open for business and receiving weekly shipments of pre-owned books. Borders, which shuttered 200 stores nationwide, had indicated it plans on subleasing the local spaces since contracts don’t expire for a few more years.

Other closures in the downtown area include Z Gallerie, a home décor and furniture store once located on Pine Avenue, and the AMC Pine Square 16 Theater, which is now being converted into a modern apartment complex.

In the meantime, retail rents are dropping as low as \$1 per square foot for short term leases, and tenants are also receiving free rent and build-out allowances, according to an analysis provided by Becky Blair, co-owner of Coldwell Banker Commercial Blair Westmac.

On a positive note, however, new “mom and pop” small businesses, such as Congregation Ale House at the Promenade downtown and Sweet & Saucy Shop on Stearns Street, have been received well. She said ultimately it’s the smaller businesses that are helping to bring back larger businesses to the market, where in the past it was the opposite. “Those first time small businesses bring in the higher retailers because what they do is create traffic and create pedestrian oriented kinds of venues,” she said.

Another plus side for Long Beach is the start of three significant government developments this year, which Blair said is expected to “bring more businesses into Long Beach and reduce our unemployment rate.” Projects include: a \$395 million development of a new Long Beach Courthouse, with 551,000 square feet of space, expected to break ground in coming weeks; the \$950 million replacement of the Gerald Desmond Bridge, scheduled to start in the fourth quarter this year; and the \$146 million modernization of the Long Beach Airport terminal.

But, Blair said the retail sector has been in a “holding pattern,” where buildings are being held back from the market. But once investor trading picks up, prices may shoot down, meaning the market may have some declining left to go. “I think there’s still a lot of hesitation in the marketplace about whether it’s turned around,” she said. “The commercial will still be behind.”

Doug Shea, president of INCO Commercial, said the consensus in the industry is banks appear to be lightening up a bit on regulations, which should help with small business lending. But the economic factors are still impacting small business sales. “I think the mom and pops are still having some troubles just because of the liquidity of everybody, people aren’t spending their money like they used to at the small shops, and the increase in gas prices didn’t help,” he said.

For the most part, landlords have dropped rents, with the exception being 2nd Street in Belmont Shore, which has higher asking rates and has experienced some vacancy over the past year, Shea said. “Some land owners are still trying to get that high dollar, but you’re starting to see a little more vacancy,” he noted.

### **Industrial Market: Owner/User Market Shines, But Activity Still ‘Choppy’**

The South Bay industrial market continues to see lower vacancies and availability in the first quarter due to more market activity from third party logistics providers and companies related to the supply chain of international trade, which makes up about 75 percent of occupancy. Last year, the ports of Long Beach and Los Angeles, saw a near 16 percent increase in import trade, a trend that has continued this year.

According to Lee & Associates’ first quarter industrial market report, the vacancy rate for the overall South Bay market has stayed relatively low at 5.5 percent. There has been positive absorption this year, which has now left a limited supply of inventory. “We’re seeing the recovery in process. The sales end is still not where we would all like it, but leasing activity has picked up,” said Brandon Carrillo, industrial broker for Lee & Associates.

However, he added the market is still “choppy,” and will take more time to fully recover. The market is also vulnerable to

political decisions such as how the economy will react to the Federal Reserve ending its quantitative easing program, expected in June, as the recovery struggles to shift from government support to more private sector growth.

Meanwhile, owner/user sales have now become a prominent trend in the marketplace, due to low property values, lower interest rates and the availability of SBA financing. Carrillo said what’s moving in the market is new product with value added. “It goes back to the age old adage regarding location, location, location, if it’s a good property and it’s not functionally obsolete and serves a purpose in the market, it’s going to be leased up or bought,” he said.

Lary Carlton, a senior vice president for Colliers International’s South Bay office, said Long Beach continues to have a lack of Class A space, which is currently driving the market, but has an oversupply of Class C space on the west side, which isn’t in demand.

“When you look at where there’s positive net absorption being taken, it’s in bigger box industrial, not the kind of property Long Beach holds very much of,” he said.

Most transactions are from major corporations with excess capacity and investors looking for better deals, Carlton said. Overall, landlords must be more aggressive at repositioning their property by adding functionality, such as adding more doors or increasing trucking space, in order to keep tenants. Those that do have been successful, Carlton said. Carson-based Watson Land Company, for instance, had a goal to rehabilitate close to 1 million feet per year.

However, Bruce Choate, president and CEO of Watson Land, said the industrial market continues to strengthen and tenants aren’t asking for as many concessions, such as free rent anymore, which is a good sign the market has hit bottom. “We’re certainly seeing firmness develop in the market,” he said. “Tenants seem to be more willing and prepared to make long term commitments . . . rental rates can only go up and occupancy levels can only go down from here.”

The concept of “blend and extend,” where tenants ask for a break in rent in return for a commitment to longer lease term, has changed over the last year, added Lance Ryan, vice president of marketing and leasing for Watson Land Company. “Customers aren’t looking for that type of arrangement at this time,” he said. In addition, properties are fetching higher rental rates as they move forward this year.

Major development this year includes Watson moving forward with a more than 200,000 square foot industrial “speculative” building in Carson that officially broke ground about a month ago, after demolishing an existing office building. Ryan said the “spec” building is the only such building currently under development in the South Bay, and it’s such new large-size buildings that are seeing the majority of demand right now.

Other major industrial developments this year include two build-to-suits at Douglas Park – a 128,000-square-foot building nearing completion for Rubbercraft, a high-tech engineering firm, and a 110,000-square-foot building for LD Products, an online retailer of inkjet printer supplies – and a 270,000-square-foot building in Carson by Prologis. ■