

# Long Beach

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## Real Estate Markets Adjusting Slowly In Still Frail Economy

Housing Market Sees Modest Comeback; Commercial Activity Weak



The Aubrey at Alamitos Ridge gated community is the only new home development underway in Long Beach. The Lennar development on Redondo Avenue between Hill and 19th Streets has several models available for viewing. (Business Journal photograph by Thomas McConville)

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**L**ocal real estate markets have made some progress this year, indicating the worst may be behind us, but it's still unclear what lies ahead.

While some deals are being carried out, it's still largely a tenant's market in Long Beach and other South Bay cities as landlords continue to push lower rates and struggle to maintain occupancy. The third quarter ending in September saw weak overall activity in the commercial sector with a slight increase in office vacancies. More available space is expected to hit the market next year in a painfully slow economic recovery.

Home sales have begun to improve slightly, largely propped up by federal and state tax incentives and lower interest rates, but foreclosures continue to bombard the housing sector as unemployment still remains relatively unchanged. How a temporary foreclosure moratorium last month by lenders will impact the local housing landscape is yet to be seen. California's unemployment rate holds steady at around 12.4 percent with Long Beach at 13.7 percent.

Real estate agents and brokers who spoke with the Business Journal said companies are taking a "wait and see" approach of standing on the sidelines or renewing leases while others continue

to shrink their footprint to cut costs. Many feel a turnaround in either the residential, office or industrial real estate sectors won't be clear until companies start hiring again, which could be years from now depending on an unforeseen political climate ahead.

### **Commercial: Vacancy Rates Slowly Rise; Deals On The Market**

With job growth weaker than past economic recoveries, demand for office buildings remains flat and "large blocks of space" are yet to hit the market in 2011, expected to further increase in vacancy rates with rental rates softening, according to Cushman & Wakefield's third quarter report of the South Bay office market for Los Angeles County.

"I think the market is going to continue to bounce along at the levels that we have now until at least 2012," said Bob Alperin, Cushman & Wakefield's regional senior director. "No one is forecasting a quick turnaround next year. Office space and vacancies are a function of employment levels. When you see employment levels start to rise, you will see occupancies start to rise."

Some local regions are seeing more activity in a market that offers bargain deals and landlord concessions, but the new deals being done won't be as large and widespread as in the past, and some say aren't truly reflective of a healthy economy.



The Long Beach and Burnett Apartments is a 46-unit, mixed-income, multi-family housing development at 2355 Long Beach Blvd. in Central Long Beach. The Blue Line connecting Downtown Long Beach with Downtown Los Angeles passes by the project. (Photograph by the Business Journal's Thomas McConville)

The office vacancy rate for the overall South Bay, which stretches across Carson, Torrance, Long Beach and parts of Los Angeles, remains at roughly 20 percent, with only a slight increase of about a .5 percent from the first to the second half of the year. "Vacancies are going up, but they're going up very slowly," Alperin said.

Alperin added that sales activity in Long Beach has been particularly slow, with the only substantial sale this year being the Park Tower building at 5150 E. Pacific Coast Hwy., which was sold and now under new ownership.

Meanwhile, the ARCO Center, a downtown high-rise office complex with two 15-story towers, went on the market this quarter, but no official price has been listed yet. The complex has 459,636 total rentable square feet. Leasing agents say that building sales often cause new ownership to reassess values for tenants, which can have a positive or negative effect on leasing space, depending on market conditions.

More businesses are expected to vacate office space, Alperin said, as various manufacturing, aerospace and defense companies are consolidating. Boeing, for instance, has vacated 128,000 square feet of Class B office space at the Long Beach Airport Business Park, in addition to moving out of 298,300 square feet of office space in El Segundo. Many aerospace companies are slowly migrating from the West Coast to places with less operational costs.

Paula Shawa, Boeing spokesperson, said the company has made a business decision to "optimize its footprint," adding that employees were moved to C-17 facilities from the business center. "We had under utilized space at Boeing buildings there," she said. "Any opportunity to move into a building that we own as opposed to a building that we lease the facilities, folks are going to look for opportunities like that because it can help save costs."

Gregg Kirkpatrick, regional senior vice president of CB Richard Ellis, said Newcastle Partners, a developer of Douglas Park at Conant Street and Clark Avenue, has been able to lower prices, which has so far produced four escrows and five offers. As the only new substantial commercial development underway, Douglas Park now has two build-to-suits starting construction, and 168,000 square feet in speculative development office buildings. "The marketplace is seeing the value in these buildings and with the help of

the SBA financing that's coming around, that's kind of a good perfect storm for good deals," he said.

Steve Warshauer, managing broker and director for First Team Commercial in Long Beach, added that a lot of the commercial activity has been from business downgrading in office space. For instance, Colliers International's third quarter office report shows that Class A office space had the most significant increase in vacancies in the region, jumping 200 basis points from last quarter, rising from 15.4 percent to 17.4 percent vacant. Class C, on the other hand, held the lowest vacancy rate of 7.5 percent.

Asking rental rates in the South Bay have averaged at \$1.98 per square foot and have relatively remained flat, according to Colliers, which Warshauer said won't change much until next year. "Rates may go down or stay flat, but I don't see anything that's going to drive them up," he said.

With such low rates and bargain deals, Warshauer said now is a prime opportunity for business owners to get into the market of buying space rather than renting.

"For an investor, I don't think you would see an opportunity like we have right now," Warshauer asserted. "In fact, I'm a little surprised more people aren't taking advantage of it. If you're going to rent a place for your business, you might take a look at buying it today, because you could probably buy a place with these prices and these bargains and it might not cost you more than to lease."

### **Residential: Home Sales Recovering, Median Prices Increasing**

Federal and state tax incentives for first time homebuyers coupled with historically low interest rates came as a needed push this year to help recover the faltering housing market across the nation. But as more people continue to lose their jobs and default on loans, rising foreclosures continue to be an issue.

Last month, Realty Trac released its U.S. Foreclosure Market Report for the third quarter, showing a record total of 102,134 bank repossessions in the nation for September, the first time bank repossessions have surpassed the 100,000 mark in a single month.

California has the nation's fourth highest foreclosure rate, according to the Realty Trac, with one in every 70 housing units receiving a

foreclosure filing, just below Nevada, Arizona and Florida.

Also last month, major lenders from Bank of America to GMAC Mortgage, initiated a temporary foreclosure moratorium or “freeze” which was then lifted shortly thereafter, conceding that documentation of an unknown amount of filings contained erroneous information, from wrong dates to forged signatures.

Michael Simpson, broker and owner of Keller Williams Coastal Properties in Long Beach, said the news of the foreclosure hold has affected consumer confidence due to negative media reports. If California is impacted at all by the short-lived stoppage, he said the outcome could come with positives for the local sector. “Our inventory has doubled but the number of pendings going into escrow every month has stayed the same,” he said. “We don’t want to see a big chunk of listings hit our market in the fourth quarter like we were anticipating. So it might be a good thing.”

Simpson added that in order for borrowers to qualify for loan modifications, they need to be “extremely aggressive,” with only about 20 percent of programs actually being accepted.

However, many don’t anticipate much impact by the foreclosure moratorium locally since it mostly applies to states that carry out default auctions in the courtroom, such as in Florida and Nevada, but not largely in California.

On the flipside, the beginnings of a home sales recovery on a national scale was also indicated last month with the National Association of Realtors showing existing home sales, such as for single-family, townhomes, condos and co-ops, jumping 10 percent from August to September.

While the California Association of Realtors (C.A.R.) also posted its second consecutive monthly gain in home sales, with the state’s activity jumping 3.8 percent in September compared with the previous month, home sales actually fell 12.2 percent from the same month last year. In Long Beach, however, sales in the third quarter rose 13.7 percent compared with last year. Median home prices appear to be creeping upward as well, showing a price of \$225,000, a 21.6 percent increase compared with last year’s third quarter and a 3.2 percent increase from the prior month.

Robert Kleinhenz, C.A.R.’s deputy chief economist, said California had more distressed properties last year, which primarily drives sales, while the Long Beach market isn’t particularly driven by distressed properties and has a smaller inventory than regions like Riverside and San Bernardino. “In Long Beach you have a very mixed bag. You’ve got some parts of Long Beach with higher percentages of distressed properties, but for the city as a whole, the market’s not necessarily dominated by distressed sales,” he added.

Additionally, approximately 47.4 percent of total sales in the Los Angeles market were some type of distressed sale in September, based on multi listing data, as opposed to the previous month’s rate of 56.2 percent, showing a slight improvement, Kleinhenz said.

But Phil Jones, co-owner of Coldwell Banker Coastal Alliance, has a positive outlook for the local residential market. He said the Long Beach housing market has performed better than many regions in California and continues to do so, despite any national or state figures.

“In Long Beach, we see different zip codes having different levels of activity and dynamics,” he said. “Much too often we take a national report and presume it’s true everywhere. Long Beach has been a very strong local market the last couple of years, relative to many parts of the country and certainly in the state . . . Come spring time we’re going to see some pretty strong indicators, and by end of next year we should be in a pretty strong recovery mode.”

## **Industrial: Activity Slows As Demand Falters**

Although international trade activity, predominantly a driving force for the local industrial market, has continued to show sharp growth for the past several months, real estate movement for the third quarter has been somewhat lackluster, according to reports from real estate firms.

The Port of Long Beach experienced a near 30 percent increase in total imports and exports for September compared with the previous month, while year to date the port has seen an increase of 12.4 from last year. But, for the most part, most distribution, trade and warehousing companies are holding out this year to make any large moves.

Colliers International’s report shows that the vacancy rate in the South Bay industrial market remains flat compared with the previous quarter at roughly 5 percent, with net absorption also worse than last quarter due to “lower levels of sales and leasing activity.”

Lance Ryan, the vice president of marketing and leasing for Carson-based Watson Land Company, said there hasn’t been much new development for the Carson/Compton/Rancho Dominguez submarket, but a few speculative developments were completed in the third quarter and conditions have been good enough to move forward with some projects. One notable contract was ProLogis breaking ground on a 270,800-square-foot distribution center in Carson.

In terms of leases, Coby Electronics, a consumer electronics manufacturer based in New York, signed off on a \$2 million three-year lease for a 103,185-square-foot warehousing and distribution facility in the Watson Industrial Center. Just last month, NYK logistics signed a lease with Watson for a 260,000-square-foot building in Carson.

“We benefit, definitely, from being next to the twin ports,” Ryan said. “Import volumes have been increasing year over year so there’s been some improvement there. We still have to wait and see if that’s inventory replenishment entirely or if that’s a recovering economy that’s propping that up.”

Doug Shea, president of INCO Co., which covers Los Angeles and Orange County markets, said more businesses are looking for better rental rates, which have dropped anywhere from 25 to 30 percent. He added that he sees more activity in the third quarter than the first and second quarter of the year, but is still down from last year. Activity is expected to drop off as typical for the slow part of the year. “Everybody’s just trying to get out there to just renew their rent, whether they negotiate with their existing landlord or move into a new building,” Shea said.

Brandon Carrillo, an industrial real estate broker for Lee & Associates, added that some businesses aren’t taking the risk to sublet out space in the weak economy. “A lot of companies are deciding to hold off in marketing space because they say the number of availability in the marketplace and the amount of money they would get from it, didn’t make sense,” he said. “They didn’t want to take the risk.”

In addition, Carrillo said government regulation on businesses, such as Long Beach passing a conditional use permit requirement on new trucking facilities, potentially costing companies \$11,000, continues to drive prospective users away. “You have businesses right now scrambling on how to position themselves for the future,” he said. “One of the conversations with people is, ‘hey, we’re expanding, we need to be somewhere and is it business friendly [and are there] tax incentives?’” ■