Long Beach BUSINESS JOURNAL
March 15-April 11, 2011

‘Mixed Signals’ For Local Real Estate Sectors

Housing Inventory Remains Low; Office Vacancies Bordering On 20 Percent Citywide As Unemployment In City Rises


The Senior Artist Colony is a contemporary affordable senior rental housing mixed-use development, located at 1235 Long Beach Boulevard, close to the city’s major transit hub. Phase 1 includes building 200 senior rental units and Phase 2 includes 156 units for sale or rent. The project, developed by the Meta Housing Corporation and designed by Studio One Eleven, won the “On the Boards” category at the 2010 SAGE Awards. (Renderings provided by Studio One Eleven)

By **Sean Belk**
Staff Writer

While local real estate sectors are hoping to improve from last year, the presence of more foreclosures and sluggish job growth may further depress recovery in coming months, according to experts and economists.

Uncertainties such as inflation and rising gas prices have also become recent topics of discussion. Just as local real estate sectors started to see marginal gains in the later half of 2010, either artificially through leftover stimulus funding or by a true rise in sales activity, residential and commercial markets continue to be impacted by state and national economic uncertainties.

Traditionally, according to experts, real estate activity is slower during the first few months of the year before ramping up in the spring. But as the state’s economic data has reflected “mixed signals,” economists have been readjusting their forecasts made in the fall of last year.

Although, on a national scale, the amount of unemployment filings fell below 9 percent for February, a recent report by the UCLA Anderson School of Management calls for slower growth in California than earlier predicted, anticipating unemployment to be at 10.5 percent until the start of 2013. In Long Beach, the unemployment rate has zigzagged for the past six months, again reaching 14.4 percent in January after dipping to 13.9 percent in December.

“Unfortunately, I think it’s still going to be more of the same for the next couple months,” said Gary Painter, associate professor for USC’s Lusk Center for Real Estate. “I think what we’re going to need is about three months in a row of sustained job growth. That will get people confident to start getting back into the market . . . Right now, we’re in a little bit of a standstill.”

Locally, residential inventory, or the amount of homes for sale, continues to drop, as more sellers are holding back until the economy fully recovers. Home prices have also edged downward as foreclosures continue to be the dominant force of sales and federal and state tax incentives are no longer available. In the commercial arena, the industrial sector has seen a slight rise in activity due to improved port traffic, but more empty space has hit the retail and office sectors this year, and the majority of deals being made continue to be renewals, making for an unrelenting tenant’s market.

Residential

Last year, home sales were partly propped up by the boost from federal and state tax incentives for first-time homebuyers and historically low interest rates. But, while mortgage rates have remained low, tax incentives are no longer available. Most sellers are now leery of the economy and are waiting for a full recovery.

Early 2011 began with a lean supply of homes on the market, primarily due to less consumer confidence and foreclosure moratoriums that were put in place by major lenders last year (due to filings containing erroneous information, known as “robo signing”), which has somewhat delayed the process of ridding the market of a backed up supply of distressed properties.

“There seems to be a lot of uncertainty in the market, of course relating to the economy, as we start this year,” said Robert Kleinhenz, deputy economist for the California Association of Realtors (CAR). “There’s a lot of trepidation both on the part of buyers and sellers, and on the part of the real estate community, of what this year's going to look like, because it's the first full year where the market's going to have to operate on its own power without any help from government tax credits and the like."

Phil Jones, residential broker and co-owner of Coldwell Banker Coastal Alliance, agreed there appeared to be a drop in the local housing inventory. For single-family detached homes in Long Beach, he said the inventory is 2.4 months, a near 50 percent drop from two months ago, when the inventory was 3.2 months. "Right now, the demand outweighs the supply," he said. "Our agents are having difficulty finding homes for their buyers."

The Coronado in Long Beach, seen here under construction, is the latest new residential community that plans to revitalize the Atlantic Avenue corridor with affordable housing. The development includes for-sale townhomes and 2, 3 and 4 bedroom flats, featuring distinctive Spanish architecture. (Photograph by the Business Journal's Thomas McConville)

However, Jones added that having fewer homes on the market could actually be a good thing in the long run, since any dumping of an oversupply of foreclosures would be able to be absorbed and wouldn't have a dramatic effect on the local market. "Even if there was to be a release of a large number of bank owned properties, Long Beach, more than any other community on the coast in California, is really poised to absorb that because of our low inventory," he said.

With foreclosures driving the market, home prices have already begun to drop locally and in states across the country. However, that could turn around. Kleinhenz said the median price of a single-family home in Long Beach during the fourth quarter of last year was $370,000, a 2.4 percent drop from the prior quarter and a 3.7 percent drop from the prior year. But he added that in recent months prices have already begun to edge back up again, and he doesn't expect the market to hit a "double dip" of the bottom price range that occurred in 2009, when prices were 16 percent less than current prices.

Real estate professionals further predict foreclosures to continue to be the leading force for the housing market for the next couple of years, as banks continue to dispose of distressed properties as fallout from the financial crisis. Mark Vitner, senior economist for Wells Fargo, said worries of an oversupply of distressed properties has caused appraisals to be more conservative and loan approvals to be tougher, requiring better credit and larger down payments.

"Basically, our view on housing is that we still have a long protracted recovery ahead of us and it's going to be a few more years before we get back to something that seems like a normal market," he said. "I think the biggest obstacle with us right now is all these foreclosed properties that continue to come to the market."

While forecasts late last year projected the beginnings of a home sales recovery on a national scale, doubts started to arise as to just how strong the recovery had been. The National Association of Realtors (NAR) recently disclosed that home sales may have been "overstated" in the last two years, by a total of about 1 million single-family homes.

The reason for the miscalculations, Vitner estimated, is that much of the sales activity of existing homes has come from foreclosure activity, which has created a new type of investor, leading to more housing turnover than normal. Additionally, he said the rise in foreclosures has likely led to multiple sales of the same home coupled with inaccuracies in census data that could have led to what he called a "structural break" in economic forecasting. "There's things happening in the market that don't usually go on, which is a structural break," he said. "Given the kinds of unemployment rates you wouldn't expect to see that much housing activity as you're seeing."

While nationally home prices could dip further, Vitner said the California market is much more of an "inelastic supply," meaning a small change in demand can have a large impact on the market, in an either positive or negative way. Additionally, Kleinhenz and other real estate experts agreed that the combination of low prices and low mortgage rates made for an opportune time for people to look at buying a home. "It's something that we're looking at carefully and hoping, with improvement in the economy, we'll see households get a sense of confidence about their future outlook and perhaps make a decision to step into the marketplace," he said.

Apartments

With more people unable to afford homes due to job loss and other economic conditions, the apartment sector has been filling up with a transition from homeowners to renters, resulting in fewer vacant properties.

Eric Christopher, a senior associate covering apartments with INCO Commercial Realty, stated in his latest report that the apartment sector has "arguably performed better than any other invest-

The YMCA at 1720 N. Bellflower Blvd. is scheduled to move forward, either this year or next year, on renovations that include entirely redesigning the facility, while keeping its historic structure intact. The project, designed by Studio One Eleven, includes expanding the parking lot to have about 60 spaces, according to Jason Hagensick, chief operating officer for YMCA of Greater Long Beach. (Renderings provided by Studio One Eleven)

Construction is moving along at Douglas Park on a build-to-suit building for Rubbercraft, an engineering solutions and manufacturing firm that specializes in aerospace, launch vehicles and marine industries. (Photograph by the Business Journal's Thomas McConville)

ment during the downturn." However, he added that unemployment has been a factor for the multi-family sector, and managers are still being challenged. Still, he estimates rents and prices have bottomed out and apartment owners anticipate occupancy to eventually stabilize and rents to increase as recovery continues.

While the vacancy factor in Long Beach and surrounding areas is currently about 5.5 percent, which is down slightly from 6 percent last year, apartment managers still have had to reduce rents to maintain occupancy. The average rent concession/reduction is 10 to 15 percent below peak numbers in 2005. A mid-year report last year showed rents in Long Beach ranging from low-end studios at $625 a month to top-tiered two-bedroom apartments costing $1,850 in high-priced areas. "It's still a tenant's market and will be for the balance of this year," Christopher stated.

Also, low prices have caused some renters to move into normally higher-priced areas, which has now left a hole in the bottom end. Christopher said he expected people who moved in with friends or parents to reenter the rental market as more jobs are created.

In terms of sales of multi-family buildings, he estimated the market has reached bottom, but sales volume won't pick up substantially until rents increase again. "If you own an older building in a tough area, you may not be able to sell today," he said. "Now is the time to manage, manage, manage."

Commercial Office Market

Although better off than some areas with a much larger overstock of properties, the South Bay commercial office sector has been hugely affected by high unemployment throughout the region. In addition, experts say recovery in the commercial sector traditionally tends to lag behind the rest of the economy.

While a March report by the Bureau of Labor statistics indicated the labor market added 192,000 jobs nationally in February, unemployment has remained relatively unchanged in California and in Los Angeles County as employers continued to shed jobs to address revenue shortfalls and to become a more efficient lean operation.

Cushman & Wakefield's fourth quarter report for year-end 2010 showed the Long Beach office market continued to weaken, with the downtown area ending the year with 18.5 percent vacancy and the rest of the city around 21 percent. It's the highest level of vacancy since 2003. Most leasing activity has come from renewals, with landlords continuing to provide more concession packages and cheaper rent this year.

However, Bob Alperin, Cushman & Wakefield's regional senior director, said that in recent months the office sector has started to pick up again, albeit slightly. He said the recent loss of space hasn't been that significant and Class A buildings continue to hold most occupancy. "We're holding our own here in Long Beach," he said. "We all are looking for positive information and positive results from the economy, and for companies to start hiring."

The Long Beach Airport area did take a hit as the struggling aerospace industry continued to consolidate or leave for less expensive locations in which to do business. The airport submarket lost a total of 145,000 square feet of office space during the fourth quarter, due mainly to Boeing vacating a 126,270-square-foot building 4811 Airport Plaza Dr.

Boeing last year announced the relocation of its B-1 Bomber and C-130 programs to Oklahoma, in addition to announcing the layoff of 900 C-17 workers in Long Beach over the next two years. Boeing is expected to vacate another 176,000 square feet of office space this year.

But, Alperin added that the Long Beach Airport Business Park (Spring Street at Lakewood Boulevard) is still 95 percent leased. He said the new space can now provide opportunities for investors, but also creates more space that can depreciate values. "At this juncture, we're bumping along just like the rest of the economy," Alperin said. "You have a full vacant building up there at the Long Beach Airport . . . so that spells opportunity for any user to come into the market. But . . . it's also additional space."

Meanwhile, in Downtown Long Beach, the owner of the two, 15-story ARCO Center towers on Ocean Boulevard continued to search for a buyer. A company filling space in that building has the potential of occupying 90,000 square feet of office space that's currently vacant, Alperin said.

Steve Warshauer, commercial manager for First Team Real Estate, said he projects that rents will drop slightly again this year but considerably less than they have in the past. He feels the office market is close to hitting the bottom, but unemployment remains a determining factor. "The amount of pain is becoming less each month," he said. "There's a lot more activity, but still not a lot more transactions . . . If we can't get people back to work, whatever recovery we had is going to be extremely slow and drawn out."

Meanwhile, over at Douglas Park – a large mixed-use area with land for office, industrial, retail and hotel development next to the Long Beach Airport and along Lakewood Boulevard – there's

A two-story 30,000-square-foot Borders bookstore is scheduled to officially close in April after the company announced the closure of 200 stores nationwide. The store is the latest in a wave of retail chains being affected by the recession and technological advancements. (Photograph by the Business Journal's Thomas McConville) some new activity. RREEF Newcastle completed nine office buildings and two other developers are currently under construction with several R&D/Industrial buildings.

Most recently, a company called Insight Examinations, a bank examiner relocating from Cerritos, bought a custom office building, currently under construction at Douglas Park, according to Tina LaMonica, a broker with NAI Capital's Pasadena office. Concurrently, there are two build-to-suits and 168,000 square feet of speculative office buildings.

The Long Beach Airport is ahead of schedule on building a new $49 million parking garage with 1,989 parking spaces expected to be open later this year on Donald Douglas Drive. (Photograph by the Business Journal's Thomas McConville)

Mark Bixby, a broker for Pacific Retail Partners in Long Beach, stated in a release that Torrance-based developer Mar Ventures is partnering with Comstock Crosser & Associates and Continental Development to purchase the 26-acre retail center portion of Douglas Park for development. Orange County-based Nexus Companies is also in the midst of a pending sale to buy a 4.5- acre site to build a 155-room Courtyard by Marriott, along with a 5,000-square-foot restaurant pad available for lease on Lakewood Boulevard.

Retail Sector

The local retail sector has taken another hit with the upcoming closure of two large Borders bookstores – one at the Los Altos MarketCenter (30,000 square feet) and the other at The Pike at Rainbow Harbor (70,000 square feet). The retailer, which is shuttering 200 stores nationwide, indicated it plans on subleasing the local spaces since contracts don't expire for a few more years.

"What I see in our region, is a lot more listings coming available in the retail and the office sectors, so that means more signs going up and more vacancy," said Doug Shea, president of INCO Company. "But, in the same instance, from January forward, you also have seen a large increase in phone calls from potential tenants, which is good."

Brian Russell, vice president of Blair Commercial Real Estate – which just announced it is becoming affiliated with the Coldwell Banker Commercial network – said several firms are interested in taking over the two-story Los Altos Borders building, however, he added it would best be utilized by a single business, preferably with a national name, due to the design of the building. "It's a very distinct and unique niche building to fill," he said.

The departure of Borders, in addition to Blockbuster and Hollywood Video, leaving prime real estate spots, shows the market for delivering such commodities is changing with technological advancements continuing to affect the market for traditional "brick and mortar" establishments, Russell said. "There is a lot of similarity between a video outlet and a book outlet," he said.

On the whole, some places are getting leased, while shop space remains available in Belmont Shore, Los Altos and downtown areas. Shea said "mom and pop" retailers are still struggling, while restaurants appear to be doing better this year. "I think it's a mixed bag, I don't think every sector has reached bottom yet," he said.

Industrial

The South Bay industrial market continued to hold its position with a low vacancy rate of about 5.5 percent compared to other sectors, due mainly to its reliance on distributors and suppliers dependent on taking business from the international trade industry through the San Pedro Bay Ports. According to Lee & Associates Los Angeles-South Bay fourth quarter report, the industrial market saw a drop in vacancy and availability rates for the second straight quarter in a row.

John Eddy, an industrial agent for Blair Commercial, said his firm has experienced a "better than expected" increase in activity in both leases and sales. "In particular it seems as though the increase in the port business over the last two and half months has had a positive effect on the industrial real estate market, certainly in the West Long Beach industrial zone and along the 91 Freeway, which traditionally has port-related businesses," he said. However, Eddy added that the activity hasn't increased nearly as much as Long Beach port volume, which in 2010 came in at 20 percent above the prior year.

Landlords for the most part are still negotiating rents with tenants to keep their buildings leased, and rates aren't expected to go up anytime soon. Some real estate experts and brokers warn that recent circumstances, such as rising gas prices, government unrest and inflation, continue to threaten the progress of industries such as transportation, trucking, warehousing and logistics.

While the federal government is pushing to ramp up exports, which could have a positive impact on the industrial market, financing remains a challenge and non-residential construction is still slow to move forward. In addition, many companies are now using machines instead of workers to cut costs.

Brandon Carrillo, a real estate agent for Lee & Associates, said business has picked up in the industrial sector after hitting bottom around summer of last year and then becoming more pronounced by the year's end. However, nearly all markets still face uncertainties ahead. "It seems like we're all busy," he said. "But it seems like things such as oil, concerns that are happening in the Middle East, uncertainty, inflation, a deficit . . . this background noise is having some businesses just cautiously moving forward on things." ■