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## Retail in South Bay looking healthy, but industrial market still ailing

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While sales and leasing activity in the South Bay is a far cry from what it was three years ago, it is showing some signs of life.

Stewart Keith, a **Flocke & Avoyer** senior vice president, said while the Otay Ranch Town Center mall has continued to suffer through the recession and may keep having trouble until more housing is built around it, the smaller supermarket-oriented centers in and around EastLake are faring very well.

A notable exception is the 103,548-square-foot Shops at San Miguel Ranch, which sold for \$19.8 million earlier this month. The occupancy at the time of the sale was 76.8 percent, or 23.4 percent vacant. The buyer was **MGP IX REIT LLC** of San Francisco. The tenants include **Albertsons**, **Starbucks** (Nasdaq: SBUX) and **First Bank**.

"This area has had some bumps and bruises along the way, but most of these centers are in the 94 to 95 percent range," Keith said.

Keith said while there are vacancies in supermarket-anchored centers in the EastLake area, for the most part, it is the tenants who are looking for a home rather than the other way around.

"Tenants still don't have a lot of options. A lot have simply stayed where they are and some others are even expanding if they can find the room," Keith said.

Keith said in the longer term, the retail picture for Eastern Chula Vista looks even stronger, "because there are 30,000 homes that haven't been built yet."

"This is one of the only areas left in the county for large-scale residential growth ... This is what's going to drive the demand for retail space," Keith added.

As for the Otay Ranch Town Center, which was built by the troubled **General Growth Properties** real estate investment trust, Keith said it will come back.

"It was unfortunate that the project was built 10 years ahead of its time," Keith said. "Horton Plaza struggled when it was first built and so did UTC. It just takes time."

With prospective retail property sellers wishing to hold on until prices climb back up and lenders reluctant to bankroll transactions, there haven't been many retail center sales in recent months. Along with the Shops at San Miguel sale, the *Transcript* announced the sale of the 99,204-square-foot Plaza at Sunbow Shopping Center at 650 E. Palomar St. in Chula Vista in February. An **Investec Commercial Inc.**-controlled partnership was the buyer. The center is anchored by Ralphs and CVS/pharmacy, along with a host of national retailers including Starbucks, McDonald's, KFC and T-Mobile.

If Eastern Chula Vista's retail market favors the landlord, Otay Mesa's industrial market, with about 3.5 million square feet of vacant space, still very much favors the tenant.

While that is a great deal of space, Rob Hixson, a **CB Richard Ellis** senior vice president, and Linda Greenberg, a **Colliers International** senior vice president, agree there are signs of life.

Up until now there haven't been many transactions on the mesa. Hixson, who is also the Otay Mesa Planning Group chairman, said the last sizable transaction he handled was when **FedEx Ground** purchased 19 acres near the junction of Airway and Michael Faraday Roads last year. The area is now home to a \$26 million, 129,000-square-foot package distribution center.

Hixson said he currently has a tenant looking for a 300,000-square-foot space, two more prospective tenants each looking to develop 40-acre truck yards, and two other users each looking for 20 acres as well.

Greenberg said between Jan. 1 and June 30, 2009, there were a mere four industrial sales for 136,525 square feet. Between Jan. 1 and June 28 of this year, there were eight industrial sales totaling 706,341 square feet.

The transactions included the 275,640-square-foot Legacy Ocean View Hills property on Innovative Drive, Progressive Avenue and Corporate Center Drive for \$17 million and two buildings totaling 69,630 square feet at 2450 and 2451 Britannia Blvd., among several others.

On the leasing side, Greenberg noted that **Mor Furniture** moved into its 199,359-square-foot space at 7757 Andrews Ave. at the beginning of this year. It had moved from Poway. The average rent on the Mor deal was just 39 cents a square foot. It might have been closer to double that at the peak of the market.

In recent months, **Emerald Textiles**, a 48,885-square-foot commercial laundry at 1725 Dornoch Court, and **Am-Ex International**, with 32,048 square feet at 8690 Kerns St., have moved into spaces on the mesa. A bit to the north in Chula Vista, the **Gonzalez Sports Academy** at 2390 Boswell Road has signed a lease for 28,754 square feet and **The Furniture Warehouse** recently signed a lease for 41,488 square feet at 2402 Main St.

"Overall interest in the market has increased with more tenants and buyers touring properties," Greenberg said.

The South Bay's office market has been impacted by the wave of residential foreclosures, as well as some aging space.

Steve Malley, a **Lee & Associates** principal, said he handled two formerly bank-owned office property sales during the past six months. One was a roughly 9,000-square-foot building at 135 Civic Center Drive in National City that just sold for \$665,000. The building had sold for \$1.1 million in the summer of 2004.

The other building is 5,300 square feet at 1615 East Plaza in National City. It sold for \$650,000 in February.

"It's tough out there," Malley said. "We have a couple of office condo units in the Venture Commerce Center (in EastLake). They are selling for \$150 a square foot now and were getting \$300 three years ago."

Malley said for those who had the misfortune to buy at the peak of the market, may have already lost their property or are suffering mightily because they have no way of commanding the rents they easily received three years ago.

"Even if a project is fully leased, there is no way to meet the debt service," Malley said.

Many properties in the South Bay aren't close to fully leased. For example, **Cushman & Wakefield** put the South Bay office vacancy at 32.7 percent, with a 31 percent vacancy for Chula Vista alone.