

Daily Business Report – Nov. 26, 2009

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Real Estate Pros Share Strategies for Dealing With Recession

Trying to find the upside of our down economy can be challenging. But during the **Urban Land Institute's** annual trends conference last week, real estate professionals shared their strategies for making it through the current recession and positioning for a successful future. Also at the conference, the "Emerging Trends in 2010" publication was unveiled. The Trends report is co-authored by ULI and **PricewaterhouseCoopers**.

Keynote speaker **Kenneth Rudy** of **Jones Lang LaSalle** kicked off the conference by telling the 200 attendees that "green shoots" (signs of recovery) are starting to appear. Rudy emphasized the importance of green shoots as they give the human spirit "something to grasp onto...signs that things are getting better."

According to **Rick Kalvoda**, a principal in the Real Estate Advisory Practice of PricewaterhouseCoopers, "the good news is there are plenty of opportunities for those with cash." Citing generationally low pricing, Kalvoda predicted unprecedented buying opportunities through 2011.

Kalvoda presented the details of the Trends report, which included a summary of markets to watch in 2010, with San Diego ranking ninth. While the report was not particularly bullish on any market for the coming year, it projected that commercial investors in San Diego will see opportunity "percolate in 2011 and 2012 while new home buyers are currently finding great deals."

The Trends report also noted that the lack of a major commercial harbor and a gateway international airport has contributed to San Diego's economic woes.

Attorney **Lynn Heidel** of **Prairie Schwartz Heidel**, moderating a panel on local segment market trends, asked the panelists their thoughts on the report's observations of San Diego. **Lynn LaChapelle**, of Jones Lang LaSalle's local office, noted that San Diego's close proximity to Ensenada's port, which is used for importing products to the local technology community, should have earned San Diego higher marks. She also noted that commercial real estate tenants are "driving incredible deals" due to a 15 percent vacancy in San Diego, and in some sub markets the rate is as high as 25 percent.

In terms of new home buying, **Lora Heramb** of **Brookfield Homes** agreed that home sales are on the rise and buyers are "looking for deals, though the challenge is getting financed."

According to **Nancy Johnston** of **Epstein & Associates**, nearly 50 percent of retail tenants have approached their landlords for rent relief and that as many as 20 percent of tenants are paying no rent at most shopping centers. She did note that many retail tenants in Class B properties are now moving to Class A properties “that last year they could not afford.”

Conference chair and moderator **Robin Munro**, a land use attorney with Prairie Schwartz Heidel, queried her panel about successful policy implementation by state and local governments. Panelists **Chris McKenzie** of the **League of California Cities**, San Diego Councilman **Ben Hueso** and **Gary Binger** of the **Center for a Sustainable California**, had difficulties citing current positive examples of the government’s involvement in the real estate community. Looking ahead, Binger called upon the state to develop “reward systems” that encourage sustainable practices and compact communities. Hueso expressed hope that the state and federal governments work together to provide more support to the middle class. McKenzie predicted that “voters are going to give local governments more protection from the state in 2010 and 2012.”

The final panel addressed how innovators are thriving in the turbulent atmosphere. Moderator **David Malmuth** of **RCLCO** expressed his belief that “there is no better time to gain entitlements for a smart growth, high-density project.” **Andrew Youngquist** of **MDG Construction** said his company has chosen to partner with the government in projects to rehab distressed properties and put people back to work. **Doug Wilson** of the **Douglas Wilson Companies** made the decision 21 years ago to hedge against the inevitable cycles of real estate by becoming a receiver, and that his receivership business, now nationwide, is what is keeping him busy. Wilson urged the real estate attendees to also look for ways to diversify.

Alex Zikakis of **Capstone Advisors** noted the need to make money in every part of the real estate cycle and to make changes to one’s business model to stay ahead of the trends. He reflected, however, on the dangers of being too opportunistic in a down market and being “too quick to pull the trigger.”

(Reported by Lisa Kovach)

More Companies Reducing Space Demands or Closing Shop

With the jobless rate more than 10 percent and operating incomes falling, more San Diego companies have reduced their space demands or shuttered, driving down occupancy levels and rents, according to a fourth quarter Office Research Report by **Marcus & Millichap**, a real estate investment services firm. Nearly all of the employment sectors have posted a year-to-date loss, with the office-using professional and business services segment accounting for almost 30 percent of all cuts, the report said.

“Currently, we are seeing a lot of buyer and seller activity,” said **Kent Williams**, regional manager of the Diego office of Marcus & Millichap. Following are some of the most significant aspects of the Diego Office Research Report:

- In 2009, head counts are expected to decrease by 52,500 employees, or 4.1 percent; 24,900 workers were cut last year. Office-using employment is forecast to shrink by 16,500 jobs, a 5 percent decline.

- Builders are expected to bring 560,000 square feet of new office space to San Diego this year, after 1.4 million square feet was completed in 2008. Deliveries have averaged 1.3 million square feet annually during the past five years.
- Despite a drop-off in deliveries, receding payrolls and more company closures are forecast to cause vacancy to reach 18.6 percent this year, a 340 basis point spike from 2008, when the average rate increased 230 basis points.
- This year, asking rents are projected to fall 4.8 percent to \$28.91 per square foot, while effective rents will drop 9.8 percent to \$23.54 per square foot. As such, concessions are expected to amount to 18.6 percent of asking rents, up from 14 percent of asking rents at the end of 2008.

The complete Diego Office Research Report as well as reports on other markets nationwide are available at MarcusMillichap.com.

Texas Firm Acquires Retirement Capital Group

Austin, Texas-based NIP Inc. has acquired Retirement Capital Group (RCG), an executive compensation and benefit plan provider headquartered in San Diego. RCG was founded in 2002 by William MacDonald, considered an expert in the executive benefits industry. "RCG's strengths in executive compensation and executive benefits will augment NIP's full-service offerings and expand its potential growth opportunities," said Bill Pollock, chairman and founder of NIP.

Orientation for Adults Seeking New Careers

The **Grossmont College Adult Reentry Program** will host "Your Turning Point is Now," a free informational orientation for new, returning and continuing adult students interested in retraining for new jobs and careers, from 5:30 to 7:30 p.m. on Dec. 10 at the college's Griffin Gate at the Student Center near Parking Lot 7. Reservations are not required. The meeting is designed for students who have had a break in their formal education or need an update of skills or career transition. Speakers will include former students who successfully returned to the classroom, along with information on admission and registration procedures, transfer programs and financial aid. Grossmont College is located at 8800 Grossmont College Drive in El Cajon. For more information, call **Nancy Davis** at (619) 644-7615 or **Susan Esparza** at (619) 644-7697, or visit grossmont.edu/adulttreentry.

Federal Contract Awards

Hamilton Sundstrand Corp., San Diego

Won a \$5,444 federal contract from the **U.S. Air Force Materiel Command, Tinker Air Force Base**, Okla., for refrigeration, air conditioning and air circulating equipment.

The Daily Business Report

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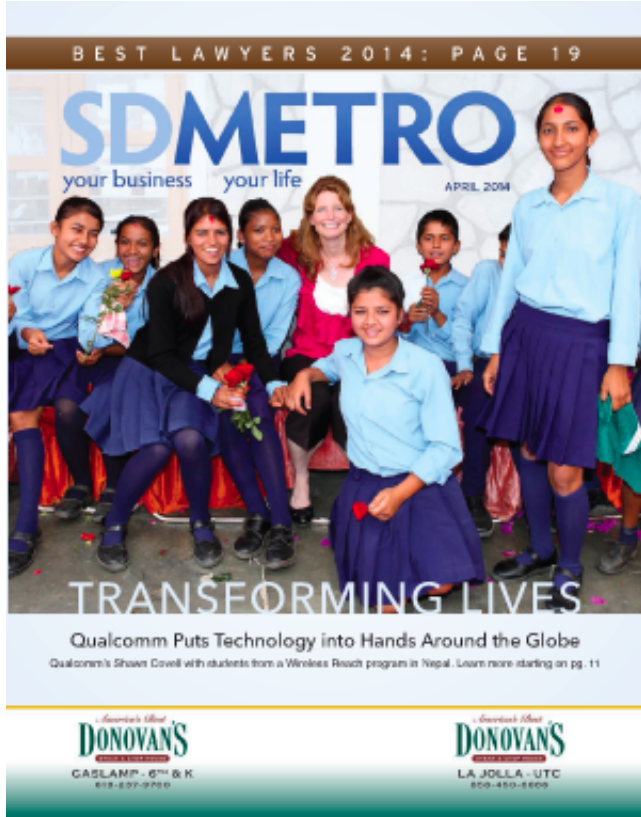
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