

Commercial Real Estate Professionals Agree Market Is on the Mend

PROPERTY: Experts Gather to Discuss the State of the Market

By EMMET PIERCE

San Diego County's commercial real estate industry is showing strong signs of recovery, although the recession isn't over. That's the view expressed by real estate professionals who took part in a recent roundtable discussion hosted by the **San Diego Business Journal**.

With low long-term debt rates driving the market, Class A office space, multi-family dwellings and retail space "are very aggressively priced," said **Alex Zikakis**, president of **Capstone Advisors Inc.**

"The best of the best is trading and trading at really high levels," he said.

There is a new sense of urgency among commercial real estate buyers, **Mickey Maher**, managing partner of the law firm **Hecht Solberg Robinson Goldberg and Bagley LLP**, said during the recent roundtable. The marketplace transitioned to a seller's market in late 2012, he said. Now, property sales are closing faster as sellers give buyers less time to decide.

Joe Perez, a partner at **Squar Milner**, a certified public accountant and financial advising firm, cautioned that the market, while improving, remains on the mend.

"Most people would agree it's recovering," he said. "We still are not back to where we were."

Zikakis recalled how the mortgage market meltdown took the steam out of the local economy as the personal wealth created by rising residential real



Photos by Bob Thompson

Seated: bottom center, clockwise: **Flavio Olivieri** of the **Tijuana Economic Development Corp.**; **Chris Pascale** of **NAIOP** board of directors; **Kevin Hill** of **H.G. Fenton**; **Alex Zikakis** of **Capstone Advisors Inc.**; **Joe Perez** of **Squar Milner**; **Jim Doorn** of **Regus Group Cos.**; **Reo Carr**, **Emmet Pierce** and **Steve Miller** for the **Business Journal**; and **John Galaxidas** of **Synergy Real Estate Group Corporate Advisory** (not pictured), **Mickey Maher** of **HechtSolberg**.

estate prices sharply declined. During the housing boom "people were using their houses as ATMs," he said.

Back From the Bottom

Kevin Hill, vice president of leasing and commercial acquisitions at **H.G. Fenton Co.**, said the toughest recession years for his company were 2011 and 2012, when it received many calls from commercial tenants who were struggling to keep their leases. The company worked to help them weather the downturn, and this year the distress calls stopped.

Christopher Pascale, representing the **National Association for Industrial and Office Parks** board of directors and

senior vice president of **CBRE Inc.**, estimated that commercial real estate prices overall remain about 20 percent below their peak. He added that there is renewed interest in Class B properties.

There has been a flight to value, a common trend during economic recoveries, he explained.

"The Bs for the first time in four years will probably see more net absorption this year than the As," as the leasing rates begin to tick upward, he added.

When asked what was driving the recovery, **John Galaxidas**, president and CEO of **Synergy Real Estate Group Corporate Advisory**, said strong economic drivers include the biotech industry

and San Diego County's large military presence.

The Promises of Technology

Galaxidas predicted that the region's tech industry will achieve breakthroughs in such fields as medicine, biotechnology and nanotechnology. And that, he said, would lead to new commercial real estate developments in **Torrey Pines**, **University Towne Center** and **Sorrento Valley**.

Pascale said defense-related initiatives — such as the **Space and Naval Warfare Systems Command** — have continued to exist in the region, despite Congress's efforts to limit federal spending.

"The department of defense is pour-

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San Diego Commercial Real Estate Market Report - Third Quarter 2013

San Diego's Real Estate Recovery

San Diego's economic recovery continues its positive and steady progress. Aerospace, Navigation and Maritime Technologies are the lead industry sector, however, biomedical companies are, again, the biggest recipients of venture capital and are also the largest sector of growth.

Demand for San Diego office space continues to gain traction, evidenced by positive net absorption. San Diego commercial real estate appears to be on an upswing, and the commercial retail market is growing.

The San Diego Office market closed the third quarter of 2013 with a vacancy rate of 12.0%. This was an increase over the previous quarter's rate, with net absorption totaling negative 80,151 square feet in the third quarter. Rental rates for office space in the county during Q3 ended at \$25.95, an increase over the previous quarter's ending rate.

The industrial space market for San Diego ended the third quarter 2013 with a vacancy rate of 8.8%. The vacancy rate was down compared to the previous quarter, while net absorption totaled a positive 626,874 square feet in the third quarter.

Biotechnology companies are, once again, the biggest recipients of venture capital and intern the driving force behind San Diego's economic recovery, said **John Galaxidas**, President/CEO, **Synergy Real Estate Group, Corporate Advisory**.

Signs of this are the construction of the new **J. Craig Venter Institute** with more than 300 scientists and staff, more than 250,000 square feet which has investors excited for the peripheral business that will be drawn to the new research center.

Illumina has acquired a genome analysis and aggregation as well as the construction of a new building on their **Noble Campus** in San Diego.

Celgene is another biotech firm that has had a massive increase of sales which are expected to double by 2017.

John Galaxidas is President/CEO of **Synergy Real Estate Group, Corporate Advisory** who runs a local tenant representation firm here in San Diego and oversee the largest alliance of tenant representation firms in the Nation.

Synergy is headquartered in San Diego with offices in LA, Orange County, Inland Empire, San Francisco, San Jose and oversees 160 national and international affiliate offices covering the US, Canada, Mexico, Europe and Asia.

References:

CoStar San Diego Third Quarter – 2013 Office Market Report

Submitted by **Synergy Real Estate Group, Corporate Advisory LLC**



Alex Zikakis of Captone Advisors Inc.



Kevin Hill of H.G. Fenton greets Mickey Maher of HechtSolberg.

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 ing more dollars in that space," he said. "Northrop [Grumman Corp.] is growing. General Atomics continues to just explode. San Diego has been in a very lucky position."

Turning to South County, roundtable participants said the Otay Mesa area remains in the early stages of economic recovery. Flavio Olivieri, executive director of the Tijuana Economic Development Corp., said some military-related spending in the San Diego region has spilled across the border.

Tijuana also is benefitting from a "China backlash," as some U.S. businesses scale back operations in Asia and bring them closer to home, he said.

Olivieri predicted that Tijuana will end

the year with 500,000 to 700,000 square feet of net absorption in commercial real estate space.

"It has been a very positive year compared to the last four or five years," he said.

Looking Ahead

Zikakis predicted that the biggest future demand for office space in the years ahead will be in communities near universities, where there is a high quality of life.

Pascale said he anticipated new Class A commercial real estate developments in University Towne Center and Sorrento Valley.

Zikakis said he believes new technologies soon will make self-driven, fully automated cars a reality, and that could relieve the parking shortage that has been a barrier to commercial development in high-density areas, such as downtown San Diego. Such

vehicles would enable cars to drop workers off at job sites and park themselves.

It's also likely that more commuters will be sharing vehicles, which will help ease parking problems, he added.

Jim Doorn, regional vice president for the southeast for Regus Group Cos., which provides flexible workplace solutions, said younger workers who are comfortable using laptops are no longer tied to traditional offices.

In the future, there will be a greater need for commercial properties that provide work stations for highly mobile workers. In some cases, it may make sense for employees from several businesses to share the same office space, he added.

"I work in a different place every day," Doorn said.

Pascale said in coming years suburban Class B office space will be upgraded to attract young companies with nontraditional ideas

about what the workplace should look like. He foresees more offices with exposed walls and ceilings that are decorated with vibrant colors.

"When you've got well-appointed, cool space, people rent it," he said.

The Retail Challenge

Some big challenges lie ahead for retail complexes, Zikakis said. He noted that consumers increasingly are relying on the Internet for their shopping needs. He foresees fewer large "big box" retail stores, as some businesses are forced to downsize.

"Retail is being redefined across the board," he said. "Retailing is going to evolve and change."

Doorn agreed that such changes are coming.

"We're well beyond the tipping point of the Internet changing the way things work," he said.

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