Market Cooling, But Industrial Here Is 'Unyielding'

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San Diego's industrial market is "unyielding," according to the headline of Grubb & Ellis' just-released third-quarter 2005 report.

One of the major driving forces of this good news is "the continued positive economic activity in the national manufacturing sector, which grew for the 28th consecutive month," according to the report.

Some tidbits:

• The sub-markets with the highest demand for space were Kearny Mesa, with nearly 225,000 square feet; Rancho Bernardo, with more than 173,000 square feet; and Oceanside, with 170,000 square feet — all accounting for 82 percent of the total absorption in the third quarter.

• The supply of new industrial space remained steady throughout the quarter, as there were more than 3.5 million square feet of active construction, and nearly 8.5 million square feet in the planning stages.

• The sub-markets with the highest average asking rents this quarter were recorded in Torrey Pines at $1.59 a square foot, Sorrento Valley at $1.42, and Carmel Mountain Ranch at $1.24, due to the falling vacancy rates that decreased in 20 of the 25 sub-markets, compared with the third quarter of 2004. The overall vacancy rate of 6.8 percent reached its lowest level since the fourth quarter of 2001, and North County reached its lowest vacancy rate ever at 6.3 percent.

• San Diego's short-term forecast is one of "positive momentum," but this could be tempered by rising construction costs, the impact on tenant improvements, and new development. It's too soon to tell what sort of impact the Gulf Coast storms will have on the supply of materials, and rising energy costs could drain profits from some industrial tenants, potentially slowing expansion.

Grubb & Ellis' third-quarter report on San Diego's office market is "all positive," highlighted by the high volume of tenant activity resulting in above-average demand.

• Vacancy is 8.6 percent, up from 8.4 percent from the second quarter, and down from 9.4 percent in the third quarter of 2004.

• Asking rents are expected to moderately increase in the short run, and concessions will continue to lessen, while tenant demand for space increases.

• Construction stood at 2.1 million square feet, a decrease of 500,000 square feet from the second quarter.

• The sub-markets with the highest volume of construction were Del Mar, with nearly 400,000 square feet, Rancho Bernardo at 315,000 square feet, and Downtown at 264,000 square feet.

The San Diego office market is expected to remain strong in the next several quarters, according to the report, while the steady rental rate increase is expected to continue into 2006 as the demand for office space remains well above the quarterly average.

"The key thing in the third quarter is a strong demand from tenants," said George Gramm, Grubb & Ellis' market research director.

Despite San Diego's many financial woes, "Investor interest in San Diego is still extremely high, a trend that will continue through the first part of 2006," he added. "Rental rates being as strong as they are, and where the private sector has been so strong, it overshadows any other problems the city is having." The popularity of office condos, in part due to the favorable interest rates, continues.

"There is a high demand from smaller to midsized tenants," said Gramm. "They want ownership as an option."

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Big Deals: The San Diego office of Hines, an international real estate firm, has acquired the Pacific Plaza office complex in the Del Mar Heights-Torrey Hills sub-market of San Diego.

Hines bought the three-building, 220,000-square-foot, Class A office campus on behalf of National Office Partners Limited Partnership, its investment partnership with the California Public Employees' Retirement System. Terms of the sale were not disclosed.

Secured Capital Corp. represented the seller, and Hines represented itself in the transaction, and will assume property management and leasing responsibilities.

The Villages of La Mesa, a luxury 384-unit high-end apartment complex, has been sold for $84.5 million by ITEC Properties, a California general partnership with Terral Investment Co. and Investors Leasing Corp. as the general partners. The buyer was LM Funding Corp., a Delaware corporation.

Tom Olson of Coldwell Banker Commercial Real Estate represented the seller, while the buyer represented itself.

Year-to-date sales figures for Santaluz Realty have topped $49 million, up 94 percent from the same period last year, according to Donald Kent, the president of the real estate agency that specializes in resale properties within the golf course community of Santaluz.

Located east of Carmel Valley, the 3,800-acre Santaluz is a development of DMB Associates, Inc., and Taylor Woodrow Homes, Inc.