REAL ESTATE

South Bay Reels from Commercial Downturn

By Erik Derr

While a steady stream of economic signs have suggested a financial recovery --- albeit a slow one --- is indeed on its way, it seems the South Bay housing market has weathered the downturn with the same relative stability it enjoyed during previous slowdowns, thanks to the area's proximity to many of L.A.'s biggest business hubs. At the same time, commercial real estate --- which typically lags behind the residential housing market in responding to changes in the economy --- is in the middle of its own steep decline that has hit the South Bay hard. "Residential has been in the toilet for two years. They're just coming out of it," said Jesse Laikin, senior vice president and founding principal at the South Bay office of Lee & Associates, the fourth-largest commercial real estate company in the nation.

Usually it takes about nine months for the commercial side to see any effects of any changes in the residential market, Laikin said. But "in this case, it was two years, because it was such a dynamic market for so long."

However, Laikin noted, commercial investors have seen a significant decline in real estate activity over "the last 12 months…the vacancy rate keeps rising," Commercial real estate was still seeing positive growth two years ago, he said, but in the last quarter of 2008, "our market started sliding…we've had negative absorption since and negative absorption is not what we want."

In other words, the South Bay, which claims an estimated 230 million square feet of industrial space and about 62 million square feet in office area overall, has seen virtually no growth over the last year, said Laikin, a veteran of the commercial real estate industry for nearly 30 years.

Yes, there has been recent activity around projects such projects as the 37-acre Plaza El Segundo near the corner of Rosecrans Avenue and El Segundo Boulevard., at the site of a former aerospace facility that now offers a variety of restaurants, commercial retail and other service providers. But such projects, explained Laikin have all been redevelopments. "As far as (new) development and expansion, it's all stopped…that's old news," he said."You're not talking about somewhere like Corona or San Bernardino or Inland Empire. There's not a lot of land for us to develop."

Recent studies suggest the overall office vacancy in Southern California pushed over 17 percent in the third quarter, up from 13 percent a year earlier, while leasing prices over the last 12 months dropped about seven percent. Data from market researcher Foresight Analytics LLC, based in Northern California, shows the national office vacancy rate has jumped 170 points to about 16.2 percent, while commercial rental prices have slipped about 4.4 percent across the country.

"Demand drivers for all asset classes of commercial real estate stink right now," Allen Greer, managing member of Greer Advisors LLC in Los Angeles and a former official with Bank of America Corp., told Bloomberg.com last week. Greer said any recovery in the commercial market would be tied directly to the nation's job market, which earlier this month saw unemployment rates rise in 23 states. "I see no end in sight for the lack of job growth…With no jobs, you have no demand."

According to several different studies, California's unemployment rate was about 12.2 percent last month, above the national average of 9.8 percent. The state actually saw a one percent drop from the unemployment claims counted in August, but a 4.4 percent rise over the jobless numbers in September 2008.

Jobs, agreed Laikin, figure prominently into the health of commercial real estate, as does the level of consumer confidence --- or lack thereof. "Consumers stop spending and stop expanding and buying houses. Eventually it trickles down to the manufacturing and the office space and the retail space," Laikin said.

The lack of commercial credit is another giant reason for the slump. Despite the hints of positive growth in other sectors of the economy, commercial lenders are generally holding on to their money. The numbers from Foresight Analytics also show defaults on commercial real estate loans nationwide totaled an estimated $110 billion in the second quarter, more than 10 times the level in the last quarter of 2006. Researchers expect defaults to reach upwards of $170 billion by the fourth quarter of 2010. A "tsunami" of commercial foreclosures, said Laikin, will likely hit the market sometime "in the middle to the end of next year."

Laikin has so far seen little if any improvements in his market resulting from the government's heralded efforts to stimulate the economy. Yes, he said, there are still some SMA funds available to owner-occupants to buy their own buildings, "but if you're going to try to develop a project or buy an investment, there's no money."

Of course, the tons of money being spent by government officials in the name of saving the economy has resulted in a tripling of the national deficit, which will somehow need to be paid down and will no doubt result in higher prices for everybody, complained Laikin. "I don't know anyone who's positive on our government," he said.

The current slump has prompted companies to look for more ways to cut costs. As a result, Laikin and his other Lee & Associates compatriots have refocused their recent attention on showing clients how to "go green" and become more energy-efficient, re-finance their existing holdings and either find other properties that they can lease or learn how to lease their spaces to other interests.

Commercial investors, asserts Laikin, will have to ride out their troubled market for at least several more months. "We're going to be still in this for another year. It's my guess at least a year," he said. Then, hopefully, the commercial market will once again be able to welcome back interested consumers. And when that happens, said Laikin, "that will come eventually to people who need office space, to the big retailers and the warehouses and manufacturing and importers."

When spending resumes, he said, "that will trickle down to the commercial world." •

Open House Directory

1. Sun 2:00-4:00	**1215 Ashmill St, Carson 4 Bd. 2.5 Ba.**		**$575,000**
Bill Ruane	Re/Max Beach Cities Realty		310-877-2374
2. Sun 2:00-4:00	**1223 Ashmill St, Carson 3 Bd. 2.5 Ba.**		**$550,000**
Bill Ruane	Re/Max Beach Cities Realty		310-877-2374
3. Sun 2:00-4:00	**4321 Crest Dr #A, MB**	**3 Bd. 2.5 Ba.**	**$1,599,000**
Bill Ruane	Re/Max Beach Cities Realty		310-877-2374
4. Sun 2:00-4:00	**4323 Crest Dr #B, MB**	**3 Bd. 2.5 Ba.**	**$1,789,000**
Bill Ruane	Re/Max Beach Cities Realty		310-877-2374
5. Sun 2:00-4:00	**4320 Highland Ave #C, MB**		**3 Bd. 2.5 Ba.**
$1,859,000	Bill Ruane Re/Max Beach Cities Realty		310-877-2374
6. Sun 2:00-4:00	**312 44th St #D, MB 4 Bd. 4.5 Ba.**		**$2,299,000**
Bill Ruane	Re/Max Beach Cities Realty		310-877-2374
7. Sun 2:00-4:00	**312 44th St #E, MB**	**4 Bd. 4.5 Ba.**	**$2,299,000**
Bill Ruane	Re/Max Beach Cities Realty		310-877-2374