

What Helps and What Hurts in Our Recovery

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The notion that higher rents and lower vacancy rates in our region's commercial and office markets are responsible for better economic times locally makes about as much sense as suggesting that \$5-per-gallon gasoline would create a national economic boom.

Yes, soaring gas prices do benefit some parties: big oil and the usual assortment of oil cartel members whose greed and ensuing profits soar in times of political crisis. It is not the case, however, for the everyday consumer and certainly not for businesses, which have little or no ability to absorb the financial pain inflicted at the gas pump.

The same holds true in the commercial and office real estate market where recent reports suggest that higher rents and lower vacancies are pulling our local economy out of the doldrums.

It is not so.

Again, there are those who benefit; principally the institutional investors and other building owners whose direct impact on employment and other local economic indicators pale in comparison to that of their tenants — the employers who hire people and provide goods and services. It would be better to characterize higher rents and lower vacancies as one effect of a recovering economy, not a cause.

That said, let's take a quick survey of the region's office market to see where this so-called recovery is taking place. And, where it's not.

The Real Estate Markets

It's true that the commercial real estate market has "stabilized" in nearly every market, meaning that vacancies are not on the increase. The key exception is downtown San Diego where there is an ever-growing doomsday scenario.

Except for Carlsbad, the recovering suburban markets experienced 1.5 million square feet of net absorption last year. The submarkets already experiencing increased rents include Carmel Valley, Sorrento Mesa and the University Towne Center/Golden Triangle areas. These and other suburban submarkets won't get that much better for tenant leasing. Therefore, now is as good a time as any for tenants to tie up favorable terms and conditions for a long-term occupancy strategy.

Downtown, however, is a different story. It was the only local office market with a significant negative absorption last year — i.e., more space becoming vacant in existing buildings — downtown lost nearly 250,000 square feet of tenancy. As a result, the average time downtown vacant space sits on the market is now more than two years.

That leads me to the other key factor affecting any local economic recovery: politicians. It's no coincidence that the most depressed office market in the region, downtown San Diego, is the market most influenced by government policymakers. Less than two years from now, federal government agencies will vacate tens of thousands of square feet of downtown office space in various high-rise buildings when the federal courthouse annex is completed.

Political Blunders

As if that weren't enough, there appears to be an increasing number of San Diego City Council members who want to build a new City Hall which would result in the city vacating 500,000 square feet of office space it now occupies in other downtown buildings. All this would take place in an already squishy submarket that last year added a quarter of a million square feet of empty office.

However, the City Hall proposal has even more dire consequences than its negative market impacts. Reaching into people's pockets seems to be the only contact council members are willing to make with taxpayers concerning the issue. None of the elected proponents has thought to ask voters whether \$300 million of their tax dollars should be used to build a new tower for the city's bureaucracy.

Meanwhile, a majority of City Council members continue to ignore the city's crumbling infrastructure, a \$56 million deficit and mounting employee costs. Finding solutions to these problems would be the way to bring about economic recovery.

In San Diego and elsewhere in the U.S., we mostly use businesses that rent or own office spaces to enhance our quality of life. When politicians get in the way, we don't use riots to change things. We use general elections and, if necessary, recalls.

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