

A Mix of Half-Full, Half-Empty Markets

By **CAROL LAWRENCE** Staff Reporter

The third quarter saw neighboring markets with sharp differences in vacancy rate, rent and absorption.

Burbank and Glendale office markets are one example of the up-down duality.

The 7 million-square-foot Burbank office market vacancy rate dove 7-plus percent compared to the same period a year ago, landing at 9.7 percent, according to data provided by **Colliers International Inc.** Absorption turned positive and pushed up rents.

"Burbank has achieved single-digit vacancy, which is consistent with Burbank's leadership in the market in regard to lowest vacancy and highest rents, fueled by the entertainment industry and related businesses," said **Bill Boyd**, senior managing director of the Glendale office of **Charles Dunn Co. Inc.**

Glendale, however, is the opposite story. The vacancy rate rose and negative absorption grew from the prior quarter, while a year ago it was positive. But none of the negativity showed up in the 15-cent rent increase.

Boyd says a factor in that may be that **Nestle USA** has put on the market that it is subleasing its space at 800 N. Brand Blvd. as the food and beverage giant continues its relocation to Virginia. Additionally, Boyd said, employers are not moving into the two cities at the pace they did a decade ago.

"In Glendale's case, there are more companies downsizing or vacating, and that is what's causing that negative absorption," he explained.

The San Fernando Valley office market is another example of a glass half empty and



Oversized?: 14501 Princeton Ave. in Moorpark sold for less than \$100 a square foot.

half full.

Rents in the East Valley rose significantly year-over-year by 16 cents to \$2.64 a square foot, despite vacancies increasing to 9.7 percent. The vacancy rate also increased in the Central Valley to 10.4 percent from 8.4 percent in the same year-ago quarter.

Meanwhile, in the West Valley's far bigger 15 million square feet office market, vacancy fell to 12.9 percent from 14.5 percent a year ago.

In the Santa Clarita Valley, the office vacancy rate fell to 13.6 percent from 14.1 percent last quarter, but increased slightly from a year ago. Absorption turned positive over the quarter and the year. Rents rose substantially to \$2.55 from \$2.42 a year ago.

Medical office space has become a coveted commodity in the northern L.A. County region, said **Yair Haimoff** with **NAI Capital Inc.** He just brokered the sale of a more than 25,000-square-foot general office building at

25322 Rye Canyon Road in Valencia to Rye Canyon Medical Center for \$6.2 million so the buyer can convert it to medical space.

"That's because medical space can lease for about a dollar a square foot more, Haimoff explained. He said other medical office condominiums under construction nearby may never sell out before they are finished.

"This shows you how tight the market is," he said.

The Conejo Valley finally saw office vacancies drop a bit to 15.5 percent from 16.4 percent last quarter, and from 17.1 percent a year ago. Absorption of 10,600 square feet turned positive from the prior quarter and the prior year. Rents remained stable from the prior quarter at \$2.32.

Industrial

In the Simi and Conejo valleys, the lack of smaller spaces more in demand and the over-

abundance of larger space that fewer tenants want is playing out in price disparities.

It's also restricting businesses, said **Grant Fulkerson**, managing director at **Lee & Associates - LA North/Ventura Inc.**

"If you have a 20,000-square-foot user looking to expand to 30,000 square feet, there's very little opportunity to do so," Fulkerson said. "They either have to go to a third-party logistics business, or restructure their business."

He said lease rates are rising as a result, and smaller buildings are fetching high sales prices.

"We've been doing industrial sales on condos that have sold for north of \$300 a foot - which is extremely high," Fulkerson said.

There's also a big price gap developing between large and small buildings.

He gave examples of three behemoths that sold recently in Moorpark after being vacant for more than five years: a 153,000-square-foot distribution building at 700 Science Drive; the adjacent 254,000-square-foot building at 709 Science Drive; and the 143,000-square-foot building at 14501 Princeton Ave., which sold in August. All sold for less than \$100 a square foot, Fulkerson said. Compare that to a 5,000-square-foot building in the city that sold for \$300 a square foot.

"Those are older buildings - they are obsolete for today's market," Fulkerson explained, because they don't have enough parking and have a lot more office space than today's users need.

In the historically tight San Fernando Valley, the market saw some relief during the quarter. Vacancy rates grew to 1.4 percent from 0.8 percent and the market gave back 151,900 square feet. That didn't stop rents from jumping 9 cents to 87 cents a square foot.




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