

continuous increase in apartment rental rates," Kleinhenz said of the regional multi-family market. "I would expect to see that the rental rates are going to continue to rise, that vacancy rates are going to continue to be quite low," he added.

Another strong market characterized by low vacancy, rising prices and high demand is the South Bay industrial real estate market. Kleinhenz estimated that the vacancy rate of industrial properties in the South Bay is currently about 2.3 percent, a single-digit vacancy rate that is "among the lowest [rates] in the country," he said.

He noted that there has been year over year job growth in industries supporting the industrial market, such as trade and transportation, a sector that according to the California Employment Development Department (EDD) gained 15,900 jobs in Greater Los Angeles from February of last year to the same month this year. He also noted that the San Pedro Bay Ports are anticipating about a three percent increase in cargo volumes this year, which could also play into demand.

While Los Angeles County gained 27,000 jobs in the professional and business services sector last year, according to EDD statistics, office vacancy rates in L.A. County and Long Beach remain high, Kleinhenz said. The latest figures available indicate the South Bay has a 20.9 percent vacancy rate in the fourth quarter of 2013, he said, explaining that this figure was higher than L.A. County's 16.9 percent vacancy rate.

Long Beach also continues to have a higher unemployment rate than the county – the city's unemployment rate is currently about 9.8 percent, while L.A. County's is 8.9 percent, Kleinhenz said. However, this is an improvement over last year's unemployment rate of about 12 percent.

Despite improving employment figures, Kleinhenz said that because the average amount of space utilized per worker is decreasing and office users are becoming increasingly more reliant on telecommuting employees, "it will be awhile before the office market recovers."

While retail trade employment for the Los Angeles County area dipped by about 5,600 jobs from January to February, that job sector had growth of about 2.7 percent year-over-year. The South Bay retail real estate market has a fairly low vacancy rate of about 4.2 percent, which closely mirrors the rates of Long Beach's downtown and suburban markets, according to a first quarter report from CoStar Group. Local retail real estate agents told the Business Journal that the highest demand continues in highly trafficked areas, such as those along business corridors or adjacent to the waterfront.

Long Beach Office Market Remains Steady

In an otherwise sleepy Long Beach office market, activity spiked in April with the sale of the 383,652-square-foot Shoreline Square building at 301 E. Ocean Blvd. for \$101.7 million.

San Diego-based Parallel Capital Partners, Inc. purchased the 20-story Shoreline Square office building from Guggenheim Real Estate due to its location, according to the company's CEO,

Matt Root. "One of the most desirable coastal markets in the region, Downtown Long Beach is undergoing a significant renaissance and transforming from a maritime-centric economy into one of Southern California's most diversified and dynamic waterfront destinations to live, work and play," Root said in a statement. The building is 90 percent leased.

Root's comments reflect predictions made by local office and multi-family real estate agents in the Business Journal's 1st quarter real estate report. The brokers had anticipated that several multi-family developments underway in the downtown area would attract more commercial investments.

Apart from the sale of Shoreline Square, Long Beach office market activity has

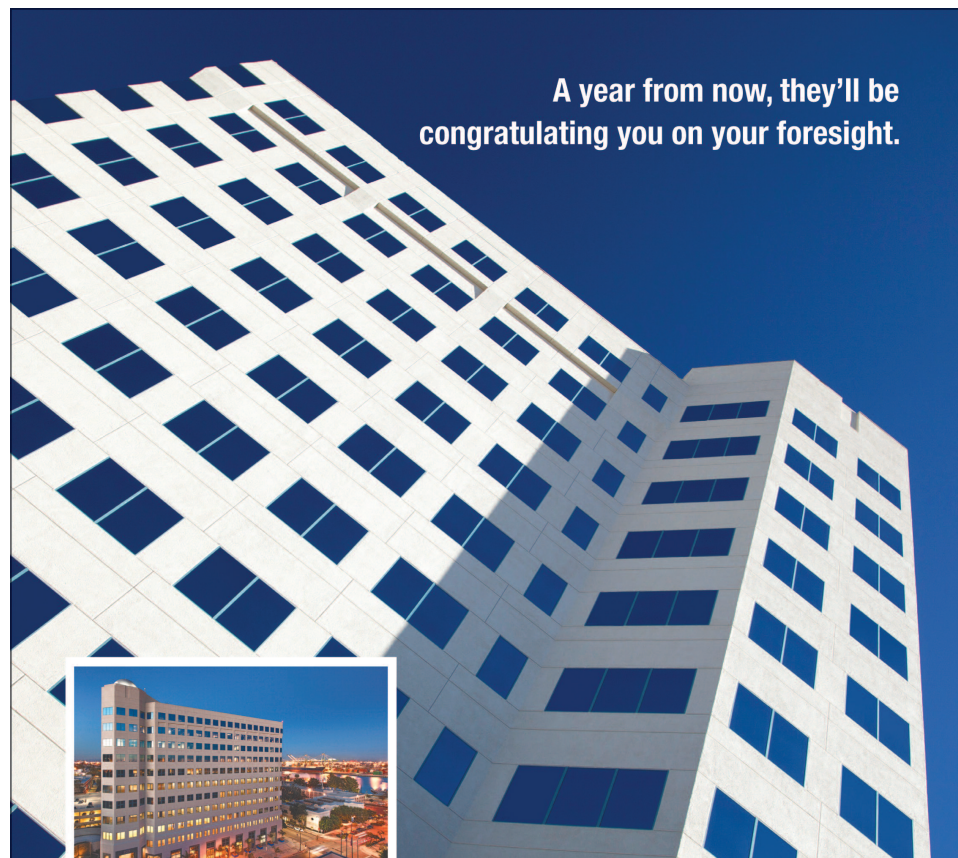
remained relatively flat following some major leases to medical users in late 2013 and early this year, according to Robert Garey, senior director at the commercial real estate firm Cushman & Wakefield. "We had a nice little upsurge in the 4th quarter due to a couple of health care companies that expanded," he said, referring to SCAN Health Plan leasing an additional 50,000 square feet at the Kilroy Airport Center/Long Beach and Molina Healthcare adding 42,000 square feet to its lease at 1500 Hughes Way. "Since then, there has been a little leasing here and there but nothing to really change or move the needle at all," Garey said.

The health care industry continues to be the main force in Long Beach's office market, Jeff Coburn, principal at Lee &

Associates, observed. Coburn and his colleague, Lee & Associates' Principal Shaun McCullough, helped secure the sale of two planned office buildings in Douglas Park last year, which just broke ground last month. Long Beach Gastroenterology, currently located near Long Beach Memorial Medical Center, purchased the smaller, 38,000-square-foot building, while Laser Skin Care, currently located in Bixby Knolls, purchased the 52,000-square-foot building.

Locating in Douglas Park allows the medical groups to create their own Class A (high-quality) office space with easily accessible parking. Richard Lewis, managing member of developer Urbana Development, LLC, told the Business

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Former Charter Communications Building Sold

The former Long Beach offices and studios of Charter Communications was sold earlier this month to TriGate Capital, LLC of Dallas, and Lotus Real Estate Partners, LLC of Irvine for \$6.1 million. The 83,000-square-foot building is located at 4031 Via Oro Ave. in the Freeway Business Center at the junction of the 710 and 405 freeways. The building was sold by Long Beach, LLC. Clyde Stauff of Colliers International's Irvine office represented Lotus/TriGate in the acquisition, with Scott Becket of DTZ's Los Angeles office representing the seller. (Photograph by the Business Journal's Thomas McConville)

Journal. "The location is just so central," he said of Douglas Park's appeal. The new medical buildings are already about 65 percent leased, Coburn said.

While he predicted a slight downtick in occupancy in the coming quarter, Garey said the overall trend is that the office market is getting better. He noted that some companies are expanding their footprints while others are downsizing, so the market is remaining stable. One company soon on its way out of Long Beach is HCP, Inc., a health care properties investment firm that is relocating to Orange County in May and leaving behind 37,000 square feet of office space at Kilroy Airport Center/Long Beach.

Despite the upcoming vacancy, Coburn noted that the airport area submarket in suburban Long Beach is faring better than Downtown Long Beach, with an estimated 11 to 12 percent overall vacancy. He estimated that the downtown office market has a vacancy rate of about 15.5 to 16.5 percent.

Coburn also pointed out that a comparison of the yearly and quarterly office markets shows demand for office space is gradually increasing. "We're in a stronger and better position today than we were last year or the year before," he said. "And because of that, we're starting to see rental rates . . . strengthen. Landlords are slightly

raising asking rates or holding firmer to the rates that they have."

Due to low interest rates, the demand to buy office space has been somewhat stronger than the demand to lease, Coburn observed. However, there isn't enough available office space for companies looking to purchase. "We have a number of clients right now . . . [who] are looking for building sizes between 5,000 to 20,000 square feet . . . and there is not a lot of product out there," Coburn said. Garey said that while there is little inventory, anything in the office market "priced right will sell," thanks to attractive interest rates.

Both Coburn and Garey anticipate the

office market to remain steady and perhaps gradually improve this year and to mirror job growth. "The health of the commercial real estate market is tied to employment," Garey said. "When unemployment is on the uptick, [there] goes the demand."

Low Sales Inventory Causes Increased Leasing Activity For Industrial Properties

Although demand to buy industrial property in Long Beach and the South Bay is strong, a lack of inventory is causing sales activity to slow as buyers struggle to find buildings, according to local industrial real estate professionals.

"The challenge is that we have very little for sale," John Schumacher, executive vice president at CBRE, Inc. told the Business Journal. Schumacher handled the sales of properties at Pacific Pointe at Douglas Park, and recently secured the 1.1 million-square-foot lease of a former Boeing property to Mercedes Benz with his CRBE colleague Brian DeRevere. "If you run a survey of available buildings [that measure] 50,000 square feet and up, 98 percent of those buildings are going to be for lease only," he explained.

Brandon Carrillo, a principal at Lee & Associates who specializes in the industrial market, stated that while there is high demand to buy industrial space in Long Beach, "There is no supply." He added that the current lack of sales activity caused by low inventory is "night and day" to early on



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