Developers Start to Move Tight Industrial Space

Class A in Shortest Supply; Rents Likely to Rise By **MARK MUELLER** Saturday, February 18, 2012

Santa Fe Springs Promenade: Anaheim investor buys for $23 million

A dearth of available high-end industrial space in Orange County is starting to prompt area developers back into the market.

It's also likely to entice owners of the area's better warehouse and distribution buildings to start ratcheting rents up again, according to area brokers.

Recent data from the Newport Beach office of CBRE Group Inc. paints a bleak picture if you're an area business on the lookout for quality industrial space in OC—or just about anywhere in Southern California, for that matter.

Orange County's base of industrial buildings runs about 250 million square feet, compared to an office market that totals about 110 million.

The vacancy rate for industrial buildings here was just 3.6% at the end of 2011, according to CBRE data.

For better industrial buildings—newer facilities with taller ceilings, large docks and excess space for trailers, good sprinkler systems and other high-end amenities—the local market's even tighter, according to the brokerage's data.

CBRE data shows class A industrial space in OC totaling about 15.5 million square feet, or about 6.1% of the county's total industrial base. The vacancy rate for those class A buildings is just 0.6%, according to the report.

Similar occupancy rates are being seen across Southern California.

Central Los Angeles' class A industrial base runs about 6.4 million square feet—about 4% of that area's total market—and counts a vacancy rate of just 0.3%.

The class A industrial market in the Mid-Counties area totals about 9.7 million square feet—about 9.1% of that region's total space—and has a vacancy rate of 0.7%.

And in the sprawling industrial market of the Inland Empire, class A buildings make up about 123.9 million square feet—which is 31% of the area's total market—and only 2.5% of those buildings are vacant.

That miniscule vacancy rate will likely result in changing dynamics for the local industrial market, said Kurt Strasmann, senior managing director for the OC operations of CBRE.

“You’re going to start to see rental growth [for class A industrial buildings], sooner or later,” Strasmann said.

The lack of newer buildings also is drawing more developer interest.

“There’s lots of value in ground-up development right now,” Strasmann said.

Jeff Read, executive vice president at Grubb & Ellis Co.’s Orange office, said development activity “has definitely picked up” since the start of the year.

Read has worked with Newport Beach-based developer Western Realco LLC on several land deals of late, including a deal earlier this month for the purchase of a 10.5-acre site near Anaheim’s Platinum Triangle, where a 210,000-square-foot building is planned.

That building, expected to start construction in a few months, will be the largest industrial buildings to go up in OC on a speculative basis in several years.

Expect to see more developers follow Western Realco’s lead this year, grabbing infill parcels of land across the area, Read said.

“There’s a substantial appetite for land right now,” he said.

Retail Deals

Costa Mesa-based shopping center owner and developer Donahue Schriber has snapped up a pair of new properties.

The company bought the Crossings at Paso Robles in San Luis Obispo County. The 310,161-square-foot center is anchored by Target and includes a Ross, OfficeMax, Orchard Supply Hardware, Michaels and Petco. San Francisco-based Ellis Partners LLC was the seller.

In Port Hueneme, Donahue Schriber bought Mandalay Village Marketplace, a 193,964-square-foot Ralphs and CVS Pharmacy-anchored center that was built in the late 1980s by Los Angeles-based Weston Communities.

Terms of both sales were not disclosed. Donohue Schriber said the deals were financed from the proceeds of a sizeable recapitalization it completed last summer.

Donahue Schriber’s holdings total about 12 million square feet of shopping centers in California, Nevada, Arizona and Oregon.

Center With Pads

Anaheim real estate investor Milan Capital Management has paid a reported $23 million for a 115,000-square-foot grocery-anchored shopping center in Santa Fe Springs.

The center, known as Santa Fe Springs Promenade, was sold by a local developer and was over 90% occupied at the time the property sold, according to Milan Capital.

The center has a core portion, along with stand-alone buildings on the site that house fast food restaurants and a bank branch.

Milan Capital, which also owns offices, apartments and land in addition to retail properties, said it plans to “parcelize” those six buildings for their potential sale as single-tenant net leased investments.

George Prince of Irvine's Prince Commercial Real Estate Services represented both the buyer and seller in the transaction.