

Office Vacancies Rise While Industrial Market Picks Up Steam

By Andrew Edwards

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The numbers for the South Bay's industrial and office markets told different stories on the subject of second quarter performance.

On the industrial side, the numbers show a pretty healthy market with rents increasing and vacancies declining. The office market, however, witnessed an increase in vacancies as asking rents remained flat.

The South Bay's office market had a vacancy rate of 21.9 percent during the second quarter, according to data from Jones Lang LaSalle Inc. That figure was a half-point increase above the prior quarter's vacancy rate. Asking rents of \$2.39 a square foot were unchanged from the previous quarter.

Factors that might have held the South Bay office market back a bit include office consolidations being undertaken by Boeing Co. and several public agencies, said Steve Solomon, a Jones Lang LaSalle managing director. What's more, the Los Angeles International Airport area hasn't been known as a place where amenities come in abundance.

Even amid some signs of sluggishness, the South Bay was the scene of two transactions in which office complexes sold for nine-digit prices. DivcoWest acquired the two-building, 487,000-square-foot Continental Grand Plaza in El Segundo for \$133 million and Parallel Capital Partners paid \$102 million for the 384,000-square-foot, 20-story Shoreline Square Tower in downtown Long Beach, according to CoStar Group Inc.

Michael Provost, DivcoWest acquisitions director, said El Segundo is poised to benefit from the growth seen in pricier nearby Westside markets.

"You've had all the activity you see to the north, Santa Monica, Playa Vista, all the tech and media companies, or companies that are becoming tech and media, like Google," he said.

Mark Mattis, a senior vice president at PM Realty Group, has a similar take. Although the South Bay's office market has been historically a place of no-frills buildings for the aerospace industry, the economic shift to tech means landlords have an interest in repositioning older buildings. He pointed to Bixby Land Co.'s bid to renovate a former Raytheon building at 2101 El Segundo Blvd. into a more modern edifice.

"You're seeing a lot of repositioned assets to be comparable to the Westside and Playa Vista," he said.

On the industrial front, significant recent developments includes Sony Corp. renewing a 500,000-square-foot lease in Carson and St. George Logistics renewing a 400,000-square-foot lease in Compton, JLL Executive Vice President Luke Staubitz said.

"I think we're going to continue to see strength in industrial absorption, probably due to the strength of the economy," he said.