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Bay Area Divided: West Side Thrives, East Side Suffers

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The bay provides more than a geographic divide for the San Francisco Bay Area at the moment. While the real estate markets west of the bay appear to be thriving, those to the east are suffering to various degrees from downturns.

"People are leasing up office and R&D space in Silicon Valley and the Peninsula," said Andy Zigelboim, vice president, investment services group at **Colliers International** in San Jose. "Tenants are a little bit conservative on renewals and expansions, but if you ask them about their business, they say they're doing very well."

Elsewhere in Oakland, the greater office market is stagnant, said William Nork, senior vice president and manager of the Emeryville office of **Cornish & Carey Commercial**.

"Rents are flat, absorptions are down. We seem to be in a lull," he said.

Though investors to the west have become more conservative, there are some very aggressive buyers scouting the market, said Zigelboim,

"I've heard of several deals being in contract, and the pricing I'm hearing is the same pricing as last year," he said.

But in the east, Nork said investments have dried up.

Numerically, the two sides of the bay aren't that different. The first-quarter report from **NAI BT Commercial** shows the overall region with an office vacancy rate of 11.4 percent, with Santa Clara County at 11.6 percent, San Mateo County at 14.2 percent and Alameda County at 13.7 percent. The figures are generally up about 1 percent from a year earlier.

Among recent deals, a subsidiary of Boston's **Eaton Vance Corp.** paid \$53 million, or \$243 per square foot, for a 218,366-square-foot building in Santa Clara that's fully leased to a pharmaceutical research company, while Foster City-based **Legacy Partners** purchased the 500,000-square-foot Ygnacio Center in downtown Walnut Creek for about \$170 million, or \$340 per square foot.

The industrial story is somewhat more mixed. According to **Grubb & Ellis**, Silicon Valley had an upbeat quarter, recording 530,119 square feet of positive net absorption, while the East Bay saw nearly 394,000 square feet of negative net absorption. However, the former's vacancy rate stands at 11.3 percent, while the latter's is a mere 4.2 percent.

Industrial property is still selling, though there's a gap between sellers' and buyers' expectations, said Zigelboim.

"Buyers think it's a high-six market, but what we're seeing in contract are low-six deals," he said. "There's still velocity. As an asset class, industrial is still extremely viable."

On the retail front, Matt Holmes, president of **Retail West** in San Francisco, said business has slowed considerably, and many landlords are worried about falling tenancy levels. Rents have largely stalled and owners are making more concessions.

"I think there are a lot of properties in trouble," he said.

Though the number of sales is down, in Holmes' view, "everything's for sale" even if it's not being officially marketed.

"The days of refinancing are over, and the only solution is going to be to sell or bring

in new equity," he said.

On the residential side, Patrick Conkin, vice president in the Santa Clara office of Cornish & Carey, terms the West Bay rental market strong, with rents and occupancy levels approaching the peaks they reached in 2000. Across the bay, the results are much more mixed, varying by neighborhood, according to Pedram Karbassi, an apartment broker specialist with TRI Commercial.

Both brokers report a decline in the number of sales.

"So far this year, we've seen only 30 or 40 deals close. You see a whole bunch of properties sitting on the market expiring," said Karbassi.

Conkin somewhat attributes the decline to strong market fundamentals. According to RealFacts Inc., the Bay Area experienced a 4.5 percent average rise in rents and 2 percent rise in occupancy levels last year. In Santa Clara County, rent rose 9.5 percent.

But weakness at the lower end of the market is also a factor in declining sales, he said.

"The two- to four-unit range is really, really soft. Values are dropping," said Conkin. "Five to 12 units are doing OK, but the real sweet spot is the 15- to 50-unit range. Anything above that is super hot. That's where all the liquidity is."

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