

OFFICE SPACE TROUBLES RANCHO BERNARDO



DON BOOMER / STAFF PHOTOGRAPHER

Property manager Sandra Barhoum looks out from the fourth-floor window of the 110,000-square-foot Bernardo Terrace office building that is nearing completion in Rancho Bernardo.

## VACANCIES UP, RENTS DOWN

Area has overabundance of buildings, and more are on the way

ZACH FOX  
STAFF WRITER

**RANCHO BERNARDO**  
Even as Rancho Bernardo struggles with one of the highest office vacancy rates in a year, more new, high-end offices are completing construction.

The surplus of supply has depressed rental rates in the commercial real estate market, leading some to believe the sector is headed for a bust similar to the residential market.

However, commercial brokers who represent the landlords leasing out

space said the downturn is a normal symptom of a cyclical market.

"There's definitely a lot of vacancy, and there was a lot of construction that came on line at the same time," said Jeb Bakke, a broker with Grubb & Ellis, a commercial real estate brokerage firm. "So I think vacancy will stay higher than what we consider is normal."

Those higher-than-normal vacancy rates have peaked especially in Rancho Bernardo, where vacancy is 24 percent, and Carlsbad, where vacancy has likewise hit 24 percent. Countywide, the average commercial vacancy rate is 14 percent, according to Grubb & Ellis.

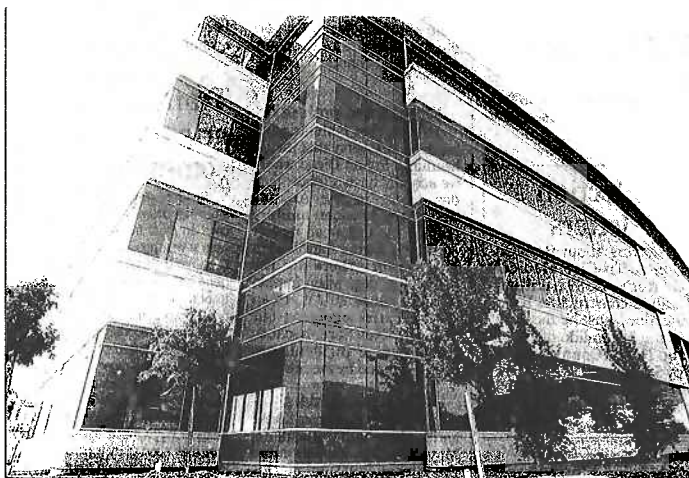
With fewer tenants and a glut of empty offices, landlords are ramping up incentives for companies looking to lease space. Bonuses range from paying for building improvements to free rent for six months, brokers said.

The state of the market puts pressure on companies such as Granum Partners, a Los Gatos developer that will soon complete a 110,000-square-foot office building in Rancho Bernardo. With a gleaming glass-and-white-stone exterior, the building falls under the "Class A" designation, given to the most desirable buildings. The problem is, Class A buildings have been the source of a boom in commercial real estate construction over the last few years.

Rocketing land prices meant developers had to build high-end office space to recoup their investments plus profit, brokers said.

"The reality is, when you pay (a) high price for land, you can't afford to build a single-story warehouse and get

► VACANCIES, D-6



DON BOOMER / STAFF PHOTOGRAPHER

This office building in Rancho Bernardo is the first of three slated for the Bernardo Terrace development. Developers are waiting to lease space in this building before starting construction on the other two.

## ► VACANCIES

Continued from D-1

\$1 a square foot," said Jay Alexander, a broker with Collier's International.

In the boom years, developers typically were able to get up to \$3.35 per square foot per month in rent for Class A office space in North County, Grubb & Ellis said. Now, it's down to \$3.31, and under pressure to go lower.

One month from completion, Granum Partners does not have a tenant for the location. However, that is not unusual for office buildings designed for large, corporate tenants the way this building has been, said Greg Eger, a partner with Granum Partners.

"There's a little bit of a misperception of the market because there's not a lot of space for a large corporate user," he said.

The building, just west of Interstate 15 on Rancho Bernardo Parkway, is the first of three planned for the area. Granum is waiting until the first one is leased before building the other two 110,000-square-foot buildings, Eger said.

Eger's confidence in high-end office space is shared by many brokers, including Alexander.

For one, commercial developers tend to be more established than residential developers and small home builders, several said. Once some builders were stuck with unsold residential inventory, they could not maintain

the costs of operation and were forced to shut down. That dropped the bottom out of some residential prices.

Developers "are not happy it's going to take longer to lease up, but they're not in desperation mode," Alexander said. "We have not seen a flood of buildings where the owners are saying, 'We've got to get rid of this space.'"

Also, brokers point to the cyclical history of commercial real estate and expect a shortage of office space when the economy recovers from the current slowdown and companies snatch up all the available space.

Contact staff writer Zach Fox at (760) 740-5412 or zfox@nctimes.com. Read his blog at [www.nctimes.com/blogs/minding\\_your\\_business](http://www.nctimes.com/blogs/minding_your_business)