

RECESSIONARY REACTION Sustainability, technology and healthcare offer industry opportunities in California

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Many financial experts have pointed to the Golden State as the epicenter of the national foreclosure crisis, and the numbers seem to back them up. For January 2009, 15 of the top 30 metropolitan areas ranked by foreclosure rates were from California, according to data from Realty Trac.

And the news only gets worse from there. Unemployment in California topped 9 percent by the end of 2008, riding a net loss of nearly a quarter million jobs. Meanwhile, home prices are plummeting across the state. Everywhere from Santa Clara to Los Angeles County has seen median home prices fall more than 30 percent.

Rising unemployment is fueling business contraction, and rising vacancies are applying strong downward pressure on rents. According to CB Richard Ellis, AMO®, the Los Angeles office market has transitioned from a landlord market to a tenant market thanks to soaring vacancy rates, low transaction volumes, falling rents and rising tenant concessions.

Things are no better in the retail market. California retail is reeling from the national retail downturn. Consumer spending is tightening, and confidence from owners and developers continues to slip as the list of retail bankruptcies continues to grow.

“Retail and office are the worst two markets now,” said Nancy Sidhu, chief economist for the Los Angeles Economic Development Corporation. “A number of retailers lost financing and went bankrupt. The impact from the credit crunch is we have a lot of empty stores.”

PORT AUTHORITY

But amidst all of the gloom and doom, oppor-

tunities still exist for the enterprising property manager to find pockets of prosperity. While the residential, office and retail markets are indeed feeling real pain, the industrial market is holding its own in some niche areas and offers opportunities for management professionals.

Many people don't think of California as a home for heavy-duty manufacturing, but in 2008, California employed more than 1.4 million people in the manufacturing industry, the most in the United States.

And southern California is home to the nation's largest container-port complex—Los Angeles-Long Beach—and is the largest market for warehouse and distribution centers.

The national recession has no doubt still impacted the California industrial market to some degree. Port activity in Los Angeles and Long Beach has decreased and unemployment in the sector has increased. But while industrial vacancy rates have risen, it is still less than 3 percent in the Los Angeles area. Demand for space near the ports remains high as developers still value the savings involved in avoiding highway traffic between the ports and the distribution centers.

“We have real industry, as well as international trade distribution space,” Sidhu said. “The market has a place for property managers who understand industrial [properties], primarily stemming from port situations.”

NATURALLY RESOURCEFUL

Another bright spot of opportunity for property managers in California comes from the state's lead role in the sustainability movement, through implementation of green technologies



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to reduce the use of natural resources.

“California is the epicenter of green,” said Steven Ring, CPM®, LEED-AP and director at Cushman & Wakefield, AMO. “A property manager here has to know sustainable practices. You can’t get past first base if you don’t.”

The value of property managers well schooled in sustainability technology stems from the ability to bring in more revenues by bringing down energy, waste and water costs.

“As managers, we look at every line item,” Ring said. “That’s the value we add.”

The need for property managers who are well trained in energy-efficiency methods will only grow, as many California municipalities and building departments are starting to require green building and sustainability strategies be built into new development.

As the U.S. economy restructures, professionals who are versed in green technologies such as wind, solar, hybrid batteries and green infrastructure improvements will be at the forefront of cutting-edge real estate managers, according to Delores Conway, a business professor at the University of Southern California.

“This is a big movement in California,” Conway said. “But it soon will be a big movement everywhere.”

MEDICAL ALERT

Conway also believes that property managers in California would do well to concentrate on the healthcare and biotechnology markets.

“Southern California is a biotechnology leader,” Conway said. “Medical office space is doing all right in terms of the office market and senior centers are a niche market that is doing well.”

Senior housing has largely remained untouched because the industry did not become very involved with the complicated financing arrangements that spelled disaster for so many other sectors.

With anticipated government spending from the Obama administration and simple biological necessity, the healthcare industry is seen as close to recession-proof.

Aging Baby Boomers and their growing need for medical services are expected to drive demand for healthcare facilities for the immediate future. Rental rates for medical offices remain strong and demand for medical office space is relatively good in this current market.

Despite the recessionary conditions in California and the nation overall, skilled property managers will still find areas of opportunity as long as they can convince owners of the financial advantages experienced property management provides.

“Property managers always have a job,” Steven Ring said. “At this point, part of the job is showing the value we add.”

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