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L.A. County Tenants Strike Deal

Special Report: REAL ESTATE QUARTERLY

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These days, it seems every piece of good news in the L.A. real estate market is attended by some bad.

Consider the case of Phoenix Aggregate Capital, a car parts distributor. The company signed a $6.6 million lease in May for an 81,250-square-foot building in the City of Industry, which was considered something of a breakthrough for a tough market.

But the signing only happened after Phoenix decided to leave a 100,000-square-foot space nearby – leaving the overall market vacancy rate virtually unchanged.

"We're just rearranging the deck chairs," said Bill Boyd, a senior managing director at Charles Dunn Co. "The activity of the leasing market is primarily in tenant relocations from one building to another, which would not (cause) an increase in building and market occupancy."

After years of turmoil, however, a flat quarter is actual cause for celebration in the Los Angeles County market.

The vacancy rate across the county held steady in the second quarter at 16.6 percent as the market gave back just 135,590 square feet – far less than during the first three months of the year. Class A asking rents, meanwhile, dipped just 2 cents from the previous quarter to $3.01, according to data from Grubb & Ellis Co.

The second quarter was the first in more than two years in which the vacancy rate did not rise – a point not lost on many in the industry. There is now a growing sense that a bottom is near, though it may be difficult to tell because of the halting economic recovery.

"It may be that we've finally reached the bottom of this hemorrhaging," Boyd said. "Only the next six months will really tell us for sure."

One area that may already be headed for a recovery is the premium market of West Los Angeles, which absorbed more than 405,000 square feet during the second quarter.

Brokers said the falling vacancy rate there was due to certain entertainment companies, financial firms and other businesses beginning to grow. For instance, consulting firm Singer Lewak Greenbaum & Goldstein LLP expanded its lease when renewing at 10960 Wilshire Blvd. in a $10 million deal.

The flip side of that coin, though, can be found in weaker areas, which are still performing poorly. Along the Wilshire Corridor, more than 200,000 square feet came back on the market; downtown Los Angeles gave back close to 180,000 square feet; and the Tri-Cities have more than 133,000 additional square feet available.

In downtown in particular, the lingering troubles in the financial markets and uncertainty surrounding the overall economy have left many tenants unwilling to sign long leases, a trend that helped push down Class A asking rents in the second quarter a whopping 13 cents to $3.14.

“We’re seeing people be reticent in expansion,” said Bob Safai, a founding partner of brokerage Madison Partners.

Many that have renewed leases have downsized, including law firms Latham & Watkins and Jones Day. Downtown also was the site of one of the most glaring recent examples of the good news-bad news dichotomy that has gripped the local market of late.

Southern California Gas Co. turned heads this month when it renewed its lease at its eponymous 50-story tower. MPG Office Trust Inc., the debt-laden owner of the building, hailed the signing as a significant milestone for the market that “exemplifies downtown Los Angeles as a premier office environment.”

But in renewing for 350,000 square feet, Southern California Gas actually scaled back by 97,000 square feet – a reduction of about 22 percent.

“What happens is we take two steps forward and one step back,” Safai said.

Perhaps the most promising signs for L.A. real estate can be found in the industrial market, which historically has been strong countywide given a lack of new product.

After giving up nearly 400,000 square feet in the first quarter, the industrial market absorbed 495,329 square feet in the second, dropping the vacancy rate one-tenth of a point to 3.3 percent. With 11.5 million square feet sold or leased, activity was 20 percent higher than the previous quarter.

Still, as is the case in the office market, the good news was tempered. Asking rents continued to slide, falling a penny to 45 cents.

Michael Frankel, managing partner at industrial developer and landlord Rexford Industrial, said rents won’t rebound until unemployment levels come down, a sign that companies are ready to expand.

“Until we start seeing strong job creation, we’re just going to bump along,” he said.