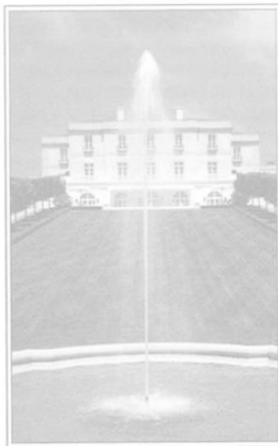


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## Full real estate recovery doubtful in 2011, but possible in 2012

If you expect to see the commercial real estate markets come rushing back in 2011, you'll be holding your breath for quite a while. But this year could set the stage for a bright recovery in 2012.

That's the consensus of the commercial real estate insiders I asked to gaze into the crystal ball for our annual forecast issue. Here are some thoughts from brokers throughout the region:

For retailers, the buzz at the end of 2010 was a successful holiday shopping season. Preliminary estimates pegged spending in November and December at a 4 percent increase over 2009 levels.

"The question that is on our mind as we go into 2011 is whether the recent growth in the retail sales numbers is a true indication that the retail sector is healthy for the long term," Hayes Commercial Real Estate brokers Michael Martz and Kristopher Roth said in an e-mail interview.

"Our prediction is that the local retail sector will be healthier in 2011, but we will continue to see changes as shopping habits have been altered by technology and by the recession," Martz said.

Santa Barbara's retail vacancy is at 2.5 percent, which, while comparatively low, marks its eighth consecutive quarter above 2 percent, according to Hayes. The city's downtown has held pretty steady — with rental rates for retail space on the 600 to 900 blocks of State Street down just 1 percent since 2008 — but rates on the 300 to 500 blocks and 1000 to 1200 blocks have dropped 31 percent.

"Our prediction for 2011 is that vacancy rates will tighten up and rents will stabilize," Martz said. "The bulk of the tenant turnover is behind us, but expect to see a few more notable changes in 2011."

Steve Leider, managing principal at Lee & Associates Central Coast, is less optimistic. "People will continue to make deals at [an] anemic pace [in 2011]," he said via e-mail. Last year was a challenging year for both retailers and landlords, with high vacancy rates, rents struggling to firm up and non-prime properties suffering from lack of activity, he said. And for markets like Santa Maria and San Luis Obispo County, activity has been especially stagnant, with rents in some sub-markets off by as much as 50 percent.

In Ventura County's retail market,

there's light at the end of the tunnel, said Hagelis Group President Bill Hagelis. "We're not expecting a drastic shift, but 2011 should be a slow, gradual increase," he said.

In the Tri-Counties' industrial and office markets, 2010 saw three times as many sales as 2009, said Mark Mattingly, executive vice president at Pacific Commercial Realty. "Financing is still challenging, but cash gets deals done," he said in an e-mail interview.

His prediction for 2011? "There will be a few large office transactions in 2011, but it will be 2012 before we start to flush through the over-supply of Goleta office and R&D space."

To the north, expanding technology companies are driving some growth in San Luis Obispo, brokerage firm Stafford-McCarty noted in a recent quarterly report. The firm pointed to the expansion of firms such as AeroMech Engineering, which took over a 116,500-square-foot complex valued at \$4.2 million, and Mindbody, which absorbed an additional 15,000 square feet for its headquarters, as signs of growth in the city.

"Our own dealings in the last two quarters demonstrate that the business climate, especially in the tech sector, is warming up on the Central Coast and that employment opportunities are likewise growing," Stafford-McCarty principal Steve Davis said in the report.

On the construction front, 2010 was a slow year, said Bob Young, principal at Santa Barbara-based Young Construction. "Most projects seem to be companies undergoing expansion or taking advantage of the 'new market' price structure," he said via e-mail. "Looking forward, it seems as business in general improves and rental/purchase bargains continue, we should see an uptick in 2011 commercial work."

### DEAL OF THE WEEK

• Preston Thomas of The Rossetti Co. represented Poly Performance in the purchase of a 26,000-square-foot building at 870 Industrial Way in San Luis Obispo. The buyer is an online jeep parts retailer and purchased the property for \$2 million.

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