HEAVY HITTERS
in Commercial Real Estate
The world of commercial real estate is a multi-layered industry that is constantly evolving and adapting to new economic and financial demands – from being tasked with creating complex hubs that host research labs and high-tech infrastructure to satisfying an emerging workforce that demands creature comforts and an enriched environment for optimum productivity. This field requires expertise on a vast scale that includes development and capitalization; legal and regulatory issues; long-term investment strategies and short-term speculation. We asked a select group of professionals to give us their perspectives on the region’s current trends in this arena. Their insights into this high-stakes, and sometimes high-risk, realm give a glimpse into where our local growth is currently and the far-reaching plans for its future.

CONTRIBUTORS

Pamela Van Nort
Regional Vice President, Portfolio Operations
Irvine Company

Pamela Van Nort joined the Irvine Company San Diego team in 2003. As Regional Vice President, Portfolio Operations, she oversees a 12.1 million square foot portfolio comprised of 73 office buildings in San Diego and Chicago. Van Nort has a passion for teaching and creating healthy, productive work environments for her customers and employees. Her teams have consistently been recognized for outstanding service, customer loyalty and employee engagement. Van Nort also provides counsel for the Irvine Company’s Office Division, Incentive Programs and Parking Operations.

Todd Davis, CCIM
Senior Vice President
Kidder Mathews

Todd Davis is a senior vice president in San Diego for Kidder Mathews, specializing in the sale and leasing of prominent industrial and office properties throughout San Diego County. He is a senior advisor to many large corporations, including LEGOLAND California, TA Associates, Square One Development, HARSCH Properties, Lost Abbey, and Pizza Port; along with working with many of the larger local craft breweries. In San Diego, Davis handles the marketing for approximately 2 million square feet of property for sale or lease. Over the last 21 years, Davis has transacted more than $1.2 billion in building and land sales. He is active in NAIOP and San Diego North Economic Development Council, where he served as chair, the YMCA, Boys and Girls Clubs and the Baja Challenge.

John Vorsheck
First Vice President / District Manager
Marcus & Millichap

John Vorsheck is first vice president and district manager of Marcus & Millichap located in San Diego. He is responsible for the strategic direction of the firm’s San Diego, Phoenix and Las Vegas offices. Vorsheck and his leadership team support the region’s professionals in serving clients through the delivery of the Marcus & Millichap platform. He is passionate about collaboration amongst Marcus & Millichap professionals and actively promotes the integration of the firm’s research, technology and many other resources to ensure exceptional results for its clients. Vorsheck is a graduate of the University of Arizona with a Bachelor of Arts degree in communications and a minor in business administration.
The San Diego Commercial Real Estate Brokerage landscape has seen major changes in the past few years – mergers, acquisitions, consolidation and new firms; all which have led to unprecedented movement within the market. What opportunities and challenges does this present?

The companies that seem to prosper in this environment are ones that capitalize on a void in the market or organizations that acquire complementary business solutions with minimal existing overlap.

TODD DAVIS

The changes in the San Diego brokerage landscape have been largely driven by mergers and acquisitions fueled by the low cost of capital further stimulated by the robust recovery of the market. All of these conditions have made it a great time for existing companies to grow into new markets and take advantage of the consolidation and repositioning of other companies. This is the same type of trend we are seeing in many industries such as life science, tech sector companies, and even breweries. The companies that seem to prosper in this environment are ones that capitalize on a void in the market or organizations that acquire complementary business solutions with minimal existing overlap.

A lot of multifamily development has come online in the past few years, yet multifamily continues to outpace single-family residential construction. Is this a new paradigm or do you see a return to the more cyclical nature of how we supply additional housing?

The continued declines in the homeownership rate together with millennials’ high propensity to rent will perpetuate the current trend of more multifamily construction vs. single-family building in San Diego for the foreseeable future.

JOHN VORSHECK

The continued declines in the homeownership rate together with millennials’ high propensity to rent will perpetuate the current trend of more multifamily construction vs. single-family building in San Diego for the foreseeable future. New multifamily supply has been concentrated downtown and close-in neighborhoods, which is exactly where renting millennial households want to reside. In addition, given millennials’ strong interest in walkable living, even when they start transitioning to homeownership, the focus will most likely be on closer-in neighborhoods of existing single-family homes and not new construction farther out in suburban locations. These trends will reduce the potential for significantly higher levels of new single-family construction compared with multifamily, but the market will likely begin equalizing over the long term.
Downtown is bustling with construction of housing, hotels and offices. Is retail keeping pace? What gaps exist, and are they closing or widening?

Downtown isn’t the only place in San Diego bustling with new investment. UTC is emerging as the ultimate live, work, play suburban community in the nation. This is largely due to the completion, start or announcement of nearly a dozen multimillion-dollar projects that continue to enhance UTC.

How has technology changed commercial real estate? Is that a factor in how foreign and national investors have shown increased activity in the San Diego market, including in North and South Counties?

There has always been healthy activity in our market from local, national, and international investors given our market dynamics; a well-educated population base, diversity in the local economy, land constrained, and little over building.

Many commercial real estate loans were redone during the Great Recession, which means we currently are in the peak of the maturity of those 10-year commercial mortgage-backed securities (CMBS). Will there be sufficient funding to keep pace with the large number of maturing commercial loans entering the market for refinancing? What does this mean for the San Diego market?

Vacancy rates have fallen below national averages for all product types, which translates into rent growth averaging twice the rate of inflation.

San Diego’s real estate market will have just over $2.0 billion in CMBS loans maturing in 2017 across all sectors. Vacancy rates have fallen below national averages for all product types, which translates into rent growth averaging twice the rate of inflation. With these strong fundamentals driving the market, transaction activity over the past 12 months has tallied close to $9.0 billion. Office leads all sectors at $3.5 billion sold, followed by multifamily at $2.5 billion. Furthermore, all sectors are seeing transaction pricing at or higher than their pre-recession peaks. Given the overall strength of the San Diego real estate market, the volume of maturing CMBS debt will not be an issue due to the fact that projects can either be easily refinanced at low interest rates or sold in a highly active market.

There’s been a lot of discussion around millennials over the last couple years regarding what they want in their office space, office culture (summer Fridays, flexible hours, etc.), technology, amenities, living space, lodging (hotel vs. Airbnb), etc. What is it that they really want? What’s working and what’s not working? Are these truly unique millennial preferences, or can we actually expand these cultural shifts and their impact on various real estate classes to include all generational buckets?

Amenities are not new, but the fit and finish of some of the newer projects raise the bar from what has traditionally been provided.

The changes we are seeing in the work place, in my opinion, are all a part of a cultural shift. The more competitive the sector, the more companies have been evaluating what it takes to attract and retain talent, including work space environments, flexible hours and amenities. Quality of life is what is driving many of these decisions — proximity to housing, transportation, and amenities such as on-site restaurants, cafés/coffee and juice kiosks, exercise trails, and recreation space are all a part of new projects and the story they tell. Amenities are not new, but the fit and finish of some of the newer projects raise the bar from what has traditionally been provided. Additionally, I am seeing companies consider work from home options on a full- or part-time basis, or flexible schedules to accommodate everything from traffic to day-care schedules. San Diego is very much a quality of life area so it is not a surprise to see companies going outside of the box to deliver a better lifestyle to their workers.
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Real Estate Investment Sales ◆ Financing ◆ Research ◆ Advisory Services
The most successful real estate developers and operators deliver comfort, convenience, a sense of community and wellness in addition to the traditional standards of outstanding buildings and service in ideal locations.

Beyond millennials, we are seeing modern professionals blend work and life like never before. The most successful real estate developers and operators deliver comfort, convenience, a sense of community and wellness in addition to the traditional standards of outstanding buildings and service in ideal locations. At Irvine Company, we continue to push innovation. Some new examples include The Commons, a dynamic, open-air gathering area that brings the workplace community together in a collaborative, creative, inspiring and relaxed way; KINETIC, a workplace wellness movement that offers a full array of fitness and wellness services and social events such as Taco Tuesdays designed to foster connections between employees from different companies in different industries. These unique amenities, services and experiential offerings help our customers recruit and retain top talent while providing their employees a vibrant environment in which to innovate and thrive.

A common millennial mantra has been live-work-play. They have truly embraced walkable living, favoring urban locations and the sharing economy and taking daily technology use to a whole new level. In the end, they want total flexibility, and with their smartphone their digital capabilities significantly expand what is possible. While some of these preferences are rubbing off on the older population, older generations have been slower to adapt as they don’t have the same free spirit temperament as the millennials. In addition, for millennials, today’s must-have can quickly turn into yesterday’s old news, which makes catering to them or following a trend much more unpredictable than previous generations. Thus, the question going forward will be which millennial traits will continue into older adulthood and which will be cast aside.
AUGUST 15, 2016

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Q What’s one amenity you’ve seen or been asked about in remaking office space and thought, “Now that’s a great idea!”

One of the best ideas I have heard from developers is bringing craft beer into their projects.

TODD DAVIS

A One of the best ideas I have heard from developers is bringing craft beer into their projects. I get many calls from brokers and developers all over Southern California trying to figure out how to implement a piece of the craft beer business into their projects. Karl Strauss was a pioneer back in 1991 when it opened in The Tech Center Sorrento Mesa and was soon dubbed “Building K” by the workers at Qualcomm, who used it as an offfsite for many meetings and events. Today, I see many companies and organizations using local tasting rooms for everything from meetings to strategy and team-building retreats.

Roof-top decks that include meeting spaces, putting greens and other activities to keep tenants active and engaged.

JOHN VORSHECK

As one of our newest initiatives, we have launched KINETIC, a fitness and wellness movement that emphasizes the importance of a healthy workplace by offering a full array of premium fitness and wellness services at our workplace communities.

PAMELA VAN NORT

A We knew there was quite a bit of interest in health and wellness at the workplace. As one of our newest initiatives, we have launched KINETIC, a fitness and wellness movement that emphasizes the importance of a healthy workplace by offering a full array of premium fitness and wellness services at our workplace communities. At The Plaza in UTC, as an example, we offer an exclusive state-of-the-art fitness center, walking maps, a bike share program and we partnered with Scripps to open the Scripps HealthExpress — the first full-service medical clinic at a multitenant workplace community. The goal: keep the workforce healthy, minimize time away for doctor visits and maximize productivity.

Contents submitted by Irvine Company, Kidder Mathews and Marcus & Millichap.

Let’s talk about heavy hitters...

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