

Vacancy rate is going up

By STEVE PEREZ
Sentinel staff writer

WATSONVILLE — Seagate has sold its 207,000-square-foot property in Watsonville to Watsonville Community Hospital.

Escrow closed on the deal Wednesday, said Howard Allen, one of the real estate agents who brokered the purchase.

It's one of the few bright spots in what has been a "lackluster" commercial real estate market still sluggish from the economy, Allen said.

"Commercial real estate has fallen along with the rest of the real estate market," he said. With the exception of some manufacturing and technology companies, few businesses are expanding, moving, or leasing new space, he said.

Terms of the Watsonville deal were not immediately available. It was originally listed for less than \$20 million. Seagate had spent about that much making the property suitable for disc drive manufacturing.

Hospital officials plan to break ground next week on a multi-million dollar conversion project. The hospital needed a new home after the 1989 earthquake damaged its Green Valley Road building.

The sale was handled by Allen, George Betz Realty, and the San Jose office of J.R. Parrish.

In Scotts Valley, like other parts of the county, values have declined while



Hirsch

More vacant space in SV

One reason vacancy rates have risen so high is the large properties vacated by SCO, Mountain Computer, Borland and Wings. Of all vacant space, 65 percent is the result of just six tenants moving out. Since giant tenants created the bulk of the high vacancy, giant tenants will be required to fill it.

The chart's figures are of November each year.

Year	R&D	Office	Warehouse	Vacant	% vacant
1991	20,400	30,766	42,276	93,442	5%
1992	43,107	53,148	46,924	143,179	7%
1993	118,830	52,800	13,150	184,780	8%
1994	155,241	90,138	20,350	265,739	9%

Source: J.R. Parrish

vacancy rates have increased (see chart).

Rents also are dropping, said Ron Hirsch of Hirsch and Associates in Aptos.

"Rents have come down significantly," he said. "Fifty, 60, 70 percent in some cases. If the owner wants to keep the building full, it's either dropped or they lose them."

Investors who have the confidence can find bargains, he said. Escrow closed Monday on a Freedom Boulevard building in Watsonville at \$33 per square-foot — \$245,000 for the 73,000 square feet.

"That's significant," he said. "It's way, way, way below replacement cost."

In Capitola, the office vacancy rate is around 20 percent, he said.

At one location on 41st Avenue, he said, a tenant who sought to renegotiate was rebuffed by the owner. The tenant

was able to find suitable space at a better price and moved down the street.

Another factor contributing to the sluggish market is the dearth of available land for commercial building, Hirsch said.

In Scotts Valley, the moves of a number of large companies like SCO, Borland and Mountain Computer have left plenty of opportunities for new or expanding firms, said Matt Shelton of J.R. Parrish.

Last month, Santa Cruz network software company TGV leased 20,000 square feet in the Granite Creek Business Center.

The Granite Creek building is now 97 percent leased, said Brad Krouskup, executive vice president of Toeniskoetter & Breeding Inc., developers of the project.

ACS Communications, the headset maker, is expanding, and a number of Silicon Valley companies are reported-

ly interested in moving closer to companies they do business with like Seagate, Novell and Borland.

The overall commercial vacancy rate in Scotts Valley apparently peaked at 10 percent in 1994 and appears to be on its way down.

"People are feeling good," Shelton said. "It looks like they're going to keep their jobs, which is important for what we do."

Still, he said, business remains slow for a core group of residential real estate agents and appraisers, which tends to have a ripple effect on other areas of the real estate trade like title companies, insurers and loan companies.

"I anticipate it picking up," appraiser Bruce McGuire said. "I've been in this business 20 years. This is the third (economic) cycle I've seen and the longest one."

The market has been slow for nearly six years, he said.

"They usually don't stay slow that long," he said.

The Eastside of Santa Cruz should benefit from planned improvements like new crosswalks, signs, and proposed changes in traffic flow on area streets," he said.

"Based on past performance, I'm expecting it to turn around. I'm looking for a property myself to buy, the phone's been ringing, the sun's out. I think it's a great time to pick up something."

"There are some good deals, where commercial property is selling for less than its replacement costs."