

# SIGNS

Economics

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Local numbers point to an economy gone south. The question is: How long will the slump last?

# OF A SLOWDOWN

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Signs of an economic slowdown are evident in Santa Cruz County. The question is how long it will last.

■ Jobs in real estate, construction and food and beverage manufacturing showed double-digit declines in January compared to a year ago. Some 1,300 jobs were lost, with offsets coming from gains in public sector employment.

■ Vacated commercial space exceeded newly occupied space in the fourth quarter of 2007 in all four categories: offices, research and development, manufacturing and warehouse, according to NAI BT Commercial.

■ New business filings in Santa Cruz County stand at 340, compared to 430 at this time last year, according to the Santa Cruz Record. And 115 homes have been sold at foreclosure auctions, four times as many as last year.

"We're going to have a challenging two years in all of the sectors," predicted Ceil Cirillo, Santa Cruz redevelopment director.

Real estate agent Reuben Helick of Wilson Bros. agreed the pace of commercial leasing has softened but he expects the market to improve by July.

"This period is not as scary as previous dips," he said. "The job sector is not eroding like the past downturns."

Some of the local statistics mirror national trends, said Kathy Zwart of the Workforce Investment Board, noting mortgage job losses and restructuring in the food processing industry.

Hundreds of jobs were lost with the shutdown of the Birds Eye plant in Watsonville a year ago.

Fewer homeowners are doing improvements so residential home builders are bidding on all kinds of projects to keep their work force, Cirillo said.

"It's been slow for everybody, but we're busy now," said Tim Whitlow, owner of Whitlow Concrete in Capitola.

During the slowdown, Whitlow rotated his 30-member crew



Bill Lovejoy/Sentinel

Workers are on the job at a housing development near UC Santa Cruz on Wednesday afternoon. The number of construction jobs in the county declined 8 percent in January.

See **ECONOMY** on **PAGE A8**

## Santa Cruz County jobs by the numbers

INDUSTRY	JOBS IN JAN. 08	CHANGE FROM LAST MONTH	CHANGE FROM LAST YEAR	INDUSTRY	JOBS IN JAN. 08	CHANGE FROM LAST MONTH	CHANGE FROM LAST YEAR
Local government	15,500	Down .6%	Up 12.3%	Other services	3,700	Down 2.6%	Up 2.8%
Retail trade	13,000	Down 3.7%	Down .8%	Manufacturing, durable goods	3,600	0%	0%
Education/health services	12,300	Down 1.6%	Up 2.5%	Manufacturing, food/beverage	2,200	Down 8.3%	Down 21.4%
Leisure/hospitality	10,500	Down 2.8%	Up 1%	Finance/insurance	2,200	0%	0%
Professional/business services	10,100	Down 2.9%	Up 2%	Transportation/utilities	1,500	Down 6.3%	0%
State gov. incl. education	9,000	Up 1.1%	Up 9.8%	Information	1,300	0%	8.3%
Mining/construction	4,600	Down 8%	Down 9.8%	Real estate	1,200	0%	Down 14.3%
Wholesale trade	4,300	Down 2.3%	Up 4.9%	Federal	500	0%	0%
Farm	4,000	Down 23.1%	Up 11.1%	<b>Total</b>	<b>99,500</b>	<b>Down 3.3%</b>	<b>Up 2.6%</b>

SOURCE: State Employment Development Department

# Economy

Continued from Page A1

to job sites to keep them working. He hopes the \$600 federal tax rebates will be spent locally.

Santa Cruz retiree Jack Bower, 87, cited stalled wages as a factor stalling the economy.

"A lot of people aren't making enough money to pay their bills," he said.

Paul Robison, a student at Five Branches Institute in Santa Cruz, pointed to overspending.

"People who are living to their means are not concerned, but people who leveraged themselves are in trouble," he said. "People who were buying homes couldn't afford it."

## By the numbers

The Santa Cruz Association of Realtors reported 1,561 members at the end of December and 1,209 at the end of February.

Lomak Property Group, a commercial landlord in Soquel, saw the most turnover among tenants related to residential real estate.

"We lost Ticor Title Co. and First American Title consolidated," said Doug Kaplan. "For the most part, they have been replaced [by other tenants]."

One example: A tenant has signed a lease for a large space in Graham Plaza on Mount Hermon Road that has been empty for awhile.

Kaplan said his overall vacancy rate stands at 4.3 percent, better than the typical 5 percent.

"We can live with that," he said.

Despite substantial activity — 365,000 square feet — in leasing of office space, the county ended the year with 106,000 square feet added to the market. This was unusual. The county had not experienced negative "net absorption" in office space since 2003. When more space becomes available than is leased, the net absorption becomes negative, indicating a slowing economy.

The total space available — 663,000 square feet — represents a 20 percent increase from 2006. Rents rose, with an 8 percent increase in Mid-County, where rates are \$2.29 per square foot

## Santa Cruz Industrial Market

When more space becomes available than is leased, the net absorption becomes negative, indicating a slowing economy. It's unusual for all four sectors to be negative.

Sector	4th qtr Vacancy	Gross absorption	Net absorption
OFFICE	9.8%	364,994 sq. ft.	-105,788 sq.ft.
MANUFACTURING	7.4%	112,955 sq. ft.	-14,335 sq. ft.
RESEARCH	9.8%	69,031 sq. ft.	-8,338 sq. ft.
WAREHOUSE	1.7%	104,684 sq. ft.	-3,218 sq. ft.

Source: NAI BT Commercial

full service.

Scotts Valley accounted for more than half of the available office space, with large spaces available at the Enterprise Tech Center, formerly Borland, and the Green Hills Tech Center. The space includes the former offices of SurfControl, which moved to Southern California.

A quarter of the vacant space is in Santa Cruz, including the former Santa Cruz Sentinel building downtown.

In the manufacturing category, the city of Santa Cruz had the highest vacancy rate, 14.6 percent. The rate in Scotts Valley was 7.5 percent, nearly four times that reported in 2006.

A few large spaces accounted for much for most of the available space.

As for research and development space, NAI BT reported that migration into Santa Cruz County has slowed, with Silicon Valley attracting high-tech and computer-related tenants.

Lease activity was down slightly, with the largest deal a 20,700-square-foot space for Plantronics.

A 17,000-square-foot sublease on Shaffer Road in Santa Cruz has been available since 2006.

Leasing for warehouse space picked up in the latter half of the year but it wasn't enough to offset the losses in the first half. The year ended with 3,000 square feet added to the market, the first negative "net absorption" since 2004.

The retail scene, which was busy, has slowed. The Capitola Mall, the only mall in the county, is advertising several spaces for lease.

## Business blues

In Boulder Creek, Sheree Spangler, who owned Sheree's Fashions for five years, is going out of business Saturday.

"The economy is real bad," she said. "People are hurting. They want quality at Kmart prices."

Restaurateurs are being squeezed by a downturn in dining out and higher prices for commodities for dairy, beef and corn products, said Ted Burke, co-owner of the Shadowbrook restaurant in Capitola.

To compensate, he said, they are looking for products that don't have those ingredients, or turning to specialty drinks that offer higher profit margins.

Despite the current challenges, Cirillo sees the city and county as "well-positioned for the kinds of business we've had grow here."

Examples, she said, include technology and the organic food sector.

"We still see businesses emerging in food and wine," she said.

## Bright lights

Some entrepreneurs remain bullish.

The owners of Taqueria Valarta, for example, have signed a 10-year lease for 1221 Mission St. in Santa Cruz, their fifth location in the county.

They are planning a remodel and hope to open in August, according to Gregg Camp of David Lyng Real Estate, the leasing agent.

Two empty spaces on Pacific

Avenue in downtown Santa Cruz have been leased. Los Gatos resident Larry Schaadt has leased the former Togo's space for a new franchise eatery, Cereal-ity. The cereal bar and cafe is expected to open within three months.

"We had six offers to choose from," said Matt Shelton of JR Parrish, the leasing agent.

A new yogurt shop fashioned after the Pinkberry craze, which started in Los Angeles, is planning to move into 1010 Pacific Ave.

Real estate broker Rod Collins is enthusiastic about being the owner of a new franchise, Bug Realty, and Keith Severson, marketing services manager for Granite Rock Inc., sees construction activity for infrastructure and the commercial sector.

"We think the bottom's been seen and we're going to be climbing back up," Severson said.

A handful of Santa Cruz start-ups made pitches this week to venture capitalists in Monterey.

Alex Nagy talked up BlueTraks, which designs and manufactures telematics, a blending of computer and wireless communication systems for vehicles. Max Gronlund explained Koblo, a Soquel venture that creates Web-based tools to enable musicians to create, share and make money from their music.

Felton resident David Lloyd, who opened a business in Scotts Valley offering music lessons two years ago, plans to expand. He has leased 907 Cedar St. in downtown Santa Cruz vacated by The Secret Drawer and hopes to open by the end of March.

Lloyd has six part-time instructors and hopes to hire more.

"I have an optimistic outlook," he said. "I feel it's very important to keep music and art in our lives."

Kaplan of Lomak Property Group sees the long-term outlook as good.

"People are still investing," he said. "We live on the shores of Monterey Bay. People all over the planet want to live here. How bad can it be?"

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