

## Valley commercial real estate sales soar to record

### SLOWDOWN FOLLOWS 'BLISTERING' 1ST HALF AS CREDIT TIGHTENS

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It's a record: More than \$9 billion worth of Silicon Valley commercial real estate traded hands in 2007, beating the all-time high of 2006 when \$6.8 billion was sold.

Local investors competed with national and international buyers for a piece of the valley at a pace broker Phil Mahoney called "blistering" during the first half of '07.

The second half was another story. Activity came to a halt in August when the disastrous impact of the credit crisis in the residential markets spilled over into the commercial sector. The spigot of easy money used to fuel \$430 billion of commercial real estate investments throughout the country was suddenly turned off.

But first, the Silicon Valley numbers. The amount of money invested rose in three of the four sectors: sales of office property rose 23 percent to \$5 billion; industrial buildings increased 28 percent to 1.7 billion; and sales of apartment buildings rose a whopping 119 percent to \$1.8 billion, according to Real Capital Analytics, a New York real estate research firm that tracks sales above \$5 million across the country. Only sales of retail properties dropped by 8 percent to \$514 million when compared with 2006.

That the valley's record was achieved during a year when investment across the country fell precipitously in the second half is remarkable for two reasons: 2007 competed against the massive \$1.1 billion sale of the Peery/Arrillaga portfolio in 2006 and Carl

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Berg's even-larger Mission West Properties failed to find a buyer last year, a victim of the credit crunch.

"People like the tech story," said Eric Fox, a broker with CPS Corfac International in Santa Clara, "and the fact that this area is prone to periods of high growth."

Not everyone agrees that 2007 broke records. To some, the final number depends on whether New York-based Blackstone Group's \$39 billion buyout last year of Chicago-based Equity Office Properties is included in the tally. Some argue that it shouldn't be counted because Blackstone bought a company that owned real estate across the country, including Silicon Valley, rather than buying real estate for its own merits.

But Dan Fasulo, managing director for Real Capital, argues it was a viable transaction.

"The Blackstone/EOP deal could not happen now because the debt market is locked up," Fasulo said. "That transaction was a huge part of story in '07 and it deserves to be in the statistics."

And many say Blackstone's decision to keep assets located in the South Bay, rather than sell properties as it did in San Francisco, Orange County and Seattle, illustrates that the company wants a stake in the South Bay market.

Blackstone has plenty of company.

"We still like the prospects for growth for Silicon Valley better than any other metro areas" in California, said Bill Halford, whose Bixby Land Co. bought \$286 million worth of South Bay real estate in 2007.

"Having said that, we continue to watch and study how the overall economy will affect the performance of Silicon Valley. The tech industry for the majority of '07 was not affected by the sagging economy," he said. "Now the question is: Is it catching up?"

A rise in South Bay vacancy rates during the fourth quarter of 2007 signals that may be happening. A year ago, investors bought buildings that were all or largely vacant believing they could rent them to expanding companies in need of space. That's no longer a strategy for 2008, Mahoney said.

"Before, vacancy was fine and financeable," Mahoney said. "Now it really depends on the micro market. Mountain View is better than Sunnyvale. In Palo Alto and Menlo Park, rents continue to rise."

Halford agreed. "You're starting to see earnings forecasts either flatten or decline from Intel, Yahoo, Apple and eBay. A lot of people are saying that the ongoing effect of a softening economy is beginning to affect their business. So their desire to absorb space (real estate) or add employees will be mitigated."

CPS Corfac's Fox noted that commercial real estate in the valley still has an ace up its sleeve: The market is not overbuilt, and the cost to buy is still less than the cost to build.

Going forward, buyers and sellers appear ready to wait to see whether the nation's wobbling economy can right itself. Brokers believe that 2008 will start slow and then improve as the credit crunch works its way through the market.

Warren Sattler, head of Colliers Investment Sales Group, agreed.

"The first part of 2008, we'll see less sales than in 2007. By the end of the year, it will come back," Sattler predicted.

Jeanne Myerson, president of the Swig Co. of San Francisco, said much depends on whether the economy slides into a recession and how long it stays there.

"A lot of people are on the sidelines waiting to see where it solidifies," she said. "If I were a seller, I'd be waiting."