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# COMMERCIAL REAL ESTATE PART 1: AIRPORT-WINDSOR AREA: Office escapes big vacancies; new industrial faces hurdles

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Special to the Business Journal

SONOMA COUNTY – The Charles M. Schulz–Sonoma County Airport and the Windsor commercial real estate market remained flat for January 2007 with modest decreases in the overall vacancy rates for both industrial space and office space.

In the north corridor, the office vacancy dropped to 13.1 percent, a decrease of 3.1 percent from fourth quarter 2006, and the industrial vacancy dropped to 4.7 percent, a decrease of 2.8 percent.

These vacancy rates are significantly lower than other markets in Sonoma County that are as high as 31.1 percent to 26.4 percent in the Petaluma and Rohnert Park markets for office vacancy and 17.5 percent to 10.4 percent in the Petaluma and Santa Rosa markets for industrial vacancies. These lower office vacancy rates for the north corridor are due to two factors: no new construction and the fact that the down-turn in the financial/real estate sectors had little effect in the area.

On the negative side, office projects which had completed shell space at the end of 2006 saw little to no activity over the course of the past 12 months due to limited demand.

Office rates have slipped due to increased pressure on owners to complete leases on office space that has been available for longer than anticipated.

One project bucking the slowdown in office was Harvest Business Center, developed by Basin Street Properties, which completed two leases totaling more than 26,000 square feet. This leaves only 6,000 square feet of remaining vacant space in the two-story 45,000-square-foot office building, which is the first of three planned buildings. The second building is planned to be built in the spring of 2008 and totals approximately 41,000 square feet.

With the industrial vacancy at all time lows, developers are under construction on two multi-tenant industrial projects.

One of the projects is Skylane Business Park located at 5491 Skylane Blvd., which consists of three buildings with a total of 34,211 square feet. The project is planned for the sale of

individual condos with pricing yet to be determined. The other project is located at 3466 Brickway Blvd. and totals 18,000 square feet divisible to 1,500 square feet with asking rents starting at \$0.75 per square foot.

The majority of industrial activity was small industrial leases between 1,000 to 5,000 square feet with rents typically in the range of \$0.85 to \$1.05 gross. The most significant individual transaction was the sale of the Mesa Beverage Facility on Concourse Boulevard, a 100,000-square-foot office /industrial distribution facility to Windsor Vineyards.

Mesa is developing a new facility on Laughlin Boulevard with plans to move as soon as the project is completed. Another significant transaction was the sale of 6.92 acres for the new FedEx facility on Caletti Avenue, which has started construction on a 64,398-square-foot industrial building with expansion for an additional 15,000 square feet.

Another significant transaction was the purchase of a 70,000-square-foot industrial building located at 3950 Brickway Blvd. by Thermalsun, which intends to relocate its manufacturing facility once the building is improved to meet its requirements.

Airport Business Center completed another retail center named Vineyard Creek Corner, which consists of a Chevron gas station, carwash and convenience store and a separate retail building with signed leases with Starbucks and Subway.

The developers of the Westwind Business Park sold a significant portion of the development park to an investment group consisting of four buildings and approximately 198,000 square feet to Core Realty Holdings.

Although the industrial market was significantly more active than the office market, it will be harder for new projects to make economic sense due to construction costs and land costs that have risen as a result of environmental mitigation costs and the scarcity of zoned industrial land.

Land development in the north corridor, as well as in the county overall, is challenged by new regulations that have been established for the protection of wetlands, endangered plants and the California tiger salamander. It is becoming evident that the cost of the mitigation is adding such a high cost to the development of land that either the pricing of the finished lot is too high for the industrial market where demand is greater, or it is completely out of reach, even for higher, more valuable office land.

The cost of a single acre of wetlands and salamander mitigation credits combined has been estimated at as much as \$475,000, or \$10.90 per square foot, which is twice the cost of industrial land alone just five years ago and the current value of fully improved office land today.

Companies are still attracted to the area due to the quality of the business parks that have been developed over the years, the new commercial air service, retail amenities and available housing.

Looking forward through 2008 the expectation is for another slow year with little change in the office market, which leaves building owners with vacant space scrambling to differentiate themselves from the rest of the competition, both in the north corridor as well as in the county overall.