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Sand and Surf Help Spur Real-Estate Revival

Sunny Santa Monica, Calif., Stands Out in Luring the Talent That 'Does Not Like to Work in High-Rise Office Buildings'

By JIM CARLTON

SANTA MONICA, Calif.—Office occupancy rates in this seaside city have soared in an otherwise lackluster Los Angeles market, fueled by an entertainment-industry expansion. The move is part of an uneven recovery in the property market benefiting certain pockets of cities and metropolitan areas.

Santa Monica's office-vacancy rate fell to 11.5% in the fourth quarter, from 14.3% in the same period a year earlier, while vacancies for overall Los Angeles County remained at a recessionary peak of 17%, according to estimates by Grubb & Ellis Co., a real-estate-brokerage firm based in Santa Ana, Calif.



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Michal (cq) Czerwonka for The Wall Street Journal

Real-estate prices in Santa Monica, Calif., and other sunny locales, have benefited from firms moving to its laid-back environs. Above, the Yahoo Center in Santa Monica.

Santa Monica's vacancies peaked at 16.2% in the first quarter of 2010. In the fourth quarter, Santa Monica led the way in Los Angeles County, ending 12 consecutive quarters of adding more office space to the market than its net new leases, according to Grubb & Ellis.

The Santa Monica market and adjoining areas of Los Angeles's Westside have benefited from a trend of entertainment firms—many specializing in technical aspects such as film postproduction—flocking there during 2010, in large part because so many Hollywood workers live near the beach. Online game maker Riot Games Inc., for instance, announced in 2010 it would move its headquarters from Culver City, which is farther inland, to Santa Monica this spring in part to be closer to employees and attract new talent.

"In the greater L.A. area, few municipalities are as desirable for living and working," said Brandon Beck, chief executive of Riot Games, which has grown to more than 200 employees from 50 a year ago and has openings for nearly 100 more positions. Mr. Beck said the game maker is relocating to 60,000 square feet in Santa Monica's Yahoo Center campus from 23,000 square feet in Culver City.

Santa Monica Fills Office Space

Santa Monica also is filled with low-rise buildings such as the fully leased Lantana Media Campus that entertainment companies prefer, industry officials say. "That kind of talent does not like to work in high-rise office buildings," said Jeffrey Pion, an executive vice president of CB Richard Ellis, a brokerage firm based in Los Angeles.



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Michal Czerwonka for The Wall Street Journal

Duco Muller, left, and Dan Howell, 180 Los Angeles employees, play pool in the office.

Nationally, the office market began to recover in 2010, with the U.S. vacancy rate dipping to 17.7% in the fourth quarter from the recession's peak of 17.9% in both the first and second quarters, according to Grubb & Ellis. In 2009's fourth quarter, the rate was 17.4%.

The national market has been lifted by a return to job growth, although the nearly one million jobs added in 2010 contrasts with nearly nine million lost in the downturn, said Grubb & Ellis Chief Economist Bob Bach.

A number of other markets outperformed the overall market. In the San Francisco Bay area, Palo Alto's office vacancy rate of 9.9% in the fourth quarter was lower than those of most other cities, including San Francisco's 15.5%, according to CB Richard Ellis. The main reason, brokers say, is that Palo Alto is home to fast-growing tech firms.

Elsewhere, CB Richard Ellis said, the financial-market rebound helped pull New York's vacancy rate to 8.4% in the fourth quarter, while biotechnology growth helped reduce vacancies in the middle area of Cambridge, Mass., to 6%, compared with a Boston metro rate of 13%. In the Pittsburgh suburbs of Beaver and Butler counties, growth in energy and technology reduced vacancies to 4%, compared with a metro rate of 11.2%.

Modest price increases are being reported in some of these markets, including in Santa Monica, where asking rents for the most-expensive spaces rose 0.5% to \$3.26 a square foot in the fourth quarter, from \$3.07 a year earlier, while the most-expensive rents for Los Angeles County fell 1% over the same time, according to Grubb & Ellis. Santa Monica rents had fallen by about one-half since 2007.

"Every week we notice less space" on the market, said Jim Jacobsen, founder of Industry Partners, a real-estate brokerage firm in Santa Monica. Mr. Jacobsen added during a tour of properties last week that the market started coming back early last year in tandem with a recovery in national advertising, which helps support the entertainment industry.

At Equity Office, which manages three million square feet of office space in Santa Monica, officials say a drop in their portfolio from a vacancy rate as high as 15% in 2010 to about 12% has prompted it to start scaling back tenant concessions, such as breaks on parking. But with many surrounding markets still soft, construction on some planned new buildings in the area may take another "two to three years," said Frank Campbell, market managing director for Equity Office, a Chicago-based affiliate of investment company Blackstone Group.



Tribeca West in West Los Angeles, which has also been a strong area.

The market has heated enough to support some big acquisitions. In February, Broadreach Capital Markets sold Tribeca West, a 150,000-square-foot campus in West Los Angeles, to Santa Monica-based Ocean West Capital Partners for \$58 million. Broadreach, based in Los Angeles, had acquired the property in 2005 for \$30 million and added amenities such as wireless connections and increased garden space to appeal to postproduction companies, said David Simon, managing director of Broadreach. "These guys like to sit outside with their laptop computers," Mr. Simon said.

They also like to be near like-minded companies. The main reason London-based Escape Studios announced last month it was opening its first U.S. computer-graphics school, in Santa Monica, was to be closer to the Hollywood postproduction concerns there, said Dom Davenport, Escape's founder and CEO. The firm signed a five-year lease for 7,986 square feet valued at \$1.4 million, Industry Partners said.

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