

2022 Commercial Market Update and Outlook

The industrial market in the San Gabriel Valley has seen the lowest vacancy rates over the last two years. This year has proven just as strong with vacancy falling to 0.8 percent at the end of the second quarter. Asking rents have continued to increase dramatically, estimated at over twenty percent from the first quarter of 2022. The average market asking rent increased to \$1.62 per square foot (PSF) on a triple net lease (NNN) basis. There are currently just over two million square feet under construction, most of which is pre-leased. The San Gabriel Valley has had the strongest activity of all the greater Los Angeles sub-markets in the second quarter of 2022.

Private investors accounted for most of the market sales activity followed by institutional investors. A large lease transaction that will bring many jobs to the San Gabriel Valley was completed by Home Depot. They will move into approximately 500,000 square feet in Irwindale during the third quarter. The San Gabriel and greater Los Angeles markets continue to experience low supply and high demand. It is expected that we will see some changes in the leasing activity and vacancy rates through the next few quarters due to tenants moving to new locations and new construction coming to the market.

The office market in the San Gabriel Valley experienced a slight increase in the vacancy rate in the second quarter due to new construction delivered in Pasadena. The vacancy rate slightly increased to approximately twelve percent. Vacancy was also affected by sublease space coming to the market.

In This Issue

- 2022 Commercial Market Update and Outlook
- Planning for the Future When Leasing Commercial Property
- New Listing for Sale in Covina

The average asking rate for office held firm at \$2.56 PSF. Construction activity for office space in the San Gabriel Valley remains low. Pasadena delivered the first phase of 10 West, which is a large development underway. Dine Brands leased 92,670 square feet in the project. Another large lease was completed in Monrovia with Terry Therapeutics leasing 49,000 square feet at the Monrovia Tech Campus on Royal Oaks Drive. The outlook for office space is a bit uncertain with companies struggling to bring people back to the office and difficulties with employee retention. Changes in the economy also affect the health of the office market looking ahead.

If you have question on your commercial property or the market, please feel free to contact me by phone: 626-358-8287 or email: Linda@TopComRealty.com.

**Effective Rate for SBA 504 For
August 2022 is 4.962-4.99%**

Planning for the Future When Leasing Commercial Property

When leasing a commercial property, many people focus only on the lease rate and how much building owners provide in concessions to tenants, whether in free rent or tenant improvements. However, there are many other factors to consider, especially if you are leasing on a long-term basis. Leases that have terms remaining go with the property upon a sale and are inherited by the new owner. Having adverse terms can deter a buyer from purchasing the property, making it more difficult to sell the property if needed. The structure of the lease is important. The most common types of leases are gross and triple net (NNN).

A gross lease typically structures the regular operating expenses on a property as the responsibility of the landlord, whereas a NNN lease allows the landlord to bill the tenants for operating expenses on the property. This is important if you plan to sell your property soon because it allows the new owner to pass along the expenses, most importantly, of the increased property tax base.

Many tenants may request a right of first refusal on adjacent spaces that become vacant. This requires the landlord to provide the tenant notice if a vacancy occurs, and the tenant has a specific amount of time in which they need to notify the landlord if they want to lease the space. This is

important to consider if you want to sell the property in the future as well. If an owner/user wants to purchase the property, they would still have to honor terms of existing leases. This could limit their ability to occupy a space that would be vacant but has a right of first refusal clause with another tenant. Many leases include options to renew the lease when approaching the end of a lease term. This is a benefit to a tenant, so they have the protection to continue leasing for another period of time. This would limit a landlord to sell the property to a buyer who wanted to occupy the space at the end of the current term or to an investor because the rent is below market and does not provide a CAP rate that is attractive.

New Listing for Sale!



651 S. 2nd Avenue Covina, CA

1,728 square foot free-standing office building situated on 6,496 square feet of land.

Completely renovated in 2015 with new floors, paint, restrooms and kitchenette. New HVAC installed in 2021. Move-in condition!

Ample parking in the front and rear of the building with additional street parking.

Reception area, three private offices, open working area and breakroom. Two restrooms.

Excellent owner/user opportunity. Take advantage of low SBA rates with only 10-15% down payment.

Linda Vidov (CA Broker Lic. #1715788)

Linda specializes in commercial and industrial sales and leasing throughout the San Gabriel Valley. She has extensive knowledge in 1031 exchange transactions, investment opportunities, and market analysis. Feel free to contact Linda with any questions or requests for information.



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