

## Commercial-real-estate market registers positive changes Potential buyers look; 'blind optimism' gone

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The Phoenix-area commercial-real-estate market passed a significant milestone in the fourth quarter, but you won't find evidence of it by looking at statistics. That's because the positive changes were psychological, rather than economic, property investors and brokers said.

About three years after the area's commercial-real-estate market followed housing down the drain, a large number of struggling property owners who had been holding out for a miracle recovery finally began to accept the truth, investor Steven Jaffe and others said.

At the same time, a number of real-estate investment firms that had been hanging onto cash in anticipation of a desperation-fueled commercial-property giveaway finally realized it wasn't going to happen.

"The panic was gone, and the blind optimism that everything was going to turn around was gone," said Jaffe, executive vice president and general counsel for BH Properties LLC, a Los Angeles-based real-estate investment firm. **BH Properties** recently acquired the 320-unit Fiesta Park apartment complex, 1033 S. Longmore, in Mesa, for \$5.5 million. It was the company's first purchase in nearly three years and the first in Phoenix in ten years, he said. "Our last acquisition was in April 2008 - that's when we put the brakes on," he said.

Jaffe said the company is now actively seeking more Phoenix-area apartment buildings to buy and that it also would consider picking up some retail and industrial properties for the right price.

While sales of office, industrial and retail properties remained slow in 2010, the number of interested buyers looking for deals increased dramatically, according to area brokers and investors. They also reported an explosion of leasing activity as businesses made a mad rush to lock in long-term lease rates at market-bottom prices.

"I'm about ready to call the bottom in the office market," said Jim Achen Jr., senior vice president at commercial-real-estate firm Transwestern in Phoenix. Achen and fellow Transwestern broker William Zurek have closed on two huge lease deals within the past month, one for 95,000 square feet at ASU Research Park, in Tempe, to DuPont Air Products NanoMaterials LLC and the other for 135,114 square feet at 2512 W. Dunlap Ave., in Phoenix, to IT-services firm Cognizant.

In all, Phoenix-area businesses in 2010 signed new leases on a net 5.9 million square feet of office space, said Craig Henig, senior managing director of commercial-real-estate firm CB Richard Ellis in Phoenix. All that movement rivals the amount of activity during the local real-estate market's peak years of 2005 and 2006, Henig said, but it didn't cause a significant gain in leased space overall.

The total pickup of about 234,000 square feet made 2010 a turning point after two years of net decreases, he said, but it also shows that the vast majority of activity came from local moves that did not involve any expansion.

Still, there were more announcements about new commercial construction projects during the past month than there had been during the entire previous year.