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CONSTRUCTION UPDATE: Condo projects test depth of market

Is trend of attracting 'low-hanging buyers' coming to an end?

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SANTA ROSA, SONOMA – Two new industrial condominium projects, with a total of 73,000 square feet of space in 70 units, are set to break ground this year. And another 74,000 square feet of condos are proposed.

New industrial space in increments of 1,000 square feet has not been available for sale in years and is in short supply for lease, according to local commercial real estate brokers. However, some commercial real estate experts continue to wonder about the depth of the commercial condo market as other commercial condo projects reach the market.

Skypark Properties LLC purchased property at 5491 Skylane Blvd., located at the southwest corner of Aviation and Skylane boulevards near Charles M. Schulz–Sonoma County Airport north of Santa Rosa.

Before the property sale, the previous owners, Joe Moore and Sid Lewin, received approvals for three buildings totaling 31,000 square feet, according to Colliers International Partnership's Sandy Swallow, who represented them in the March 1 deal. Ralph Cole of Orion Partners represented Skypark.

Skypark plans to seek a condominium map for 29 light-industrial or flex-space units, start construction mid-summer and have the shell complete in nine to 10 months, or by spring 2008, according to managing member Douglas Stricker of DLR Ventures in San Jose.

"There seems to be a niche for these projects," he said.

Some disagree.

Keegan & Coppin partner Mike Flitner has been involved with leasing at the new 64,000-square-foot Shiloh Business Center industrial incubator development in Windsor and has seen the units fill up rapidly. In Santa Rosa, Stempkin Business Park is more than 85 percent leased, and Empire Industrial Court is full.

"The question is how deep of a market it is because many of those first-time commercial space occupiers are coming out of garages or other commercial space," he said. "However, there are not many opportunities to buy."

Rizzo & Associates is developing 175,000 square feet of industrial space at Industry West Commerce Center on Todd Road south of Santa Rosa and has it available for lease or sale. In Petaluma, Delco Builders President Doyle Heaton recently completed 40,000 square feet of condos at Technology Way Commerce Center.

However, the successful sale of the units in Willie McDevitt and Ed Brush's Petaluma flex condo project MMM Condominiums and the sell-out of Keenan/Lovewell Ventures' The Vineyard condo redevelopment in north San Rafael were more about market timing than market depth, according to Steven Leonard of Meridian Commercial.

"When a project comes to market, it attracts the low-hanging buyers," he said, pointing to several units selling at 350 Ygnacio Blvd. in Novato last year but the rest of the units remaining on the market.

The Santa Rosa project isn't DLR's first industrial condo project. The firm is set to break ground soon on a project twice the size in the East Bay city of Concord.

The Santa Rosa units would range in size from 750 to 1,200 square feet and in price from \$350 to \$400 a square foot. The units are targeted to be eligible for U.S. Small Business Administration financing, with financing available through Skypark, Mr. Stricker said.

The SBA offers financing that can cover up to 90 percent of the acquisition cost for the owner of a business to occupy a space. Such financing and low interest rates have been big selling points for the several commercial condo projects completed in the North Bay in the past few years.

The last major wave of commercial condo construction was in the 1980s, with developments in Santa Rosa and Petaluma.

In the city of Sonoma, Carneros Business Park developer Bill Saks and Mr. McDevitt and Mr. Brush of Petaluma-based commercial general contractor McDevitt & McDevitt plan to break ground July 1 on a 41-unit, 42,000-square-foot condo facility in Carneros Business Park.

Called Carneros Business Condominiums, the \$7.5 million T-shaped project is set for completion by the end of this year. The 1,000-square-foot units would range in price from \$205 to \$240 a square foot, delivered in "warm shell" condition. Up to 70 percent of the building can be office space.

It would be the first building built in the 53-acre business park owned by the family of vintner Gary Heck and located on Eighth Street East south of the city.

The park is approved for up to 770,000 square feet of mostly wine warehouse space. One prospective buyer, a local company that manufacturers specialty automobile parts, is considering the purchase of several condos or a site for a 20,000-square-foot building for a major expansion. Another prospect is looking to buy another building site in the park.

In Petaluma, Waldman Management of San Francisco acquired a 73,900-square-foot office-warehouse building at 1129 Industrial Drive just north of Petaluma Auto Mall and has applied for a condo map for 13 units, according to Mr. Leonard, one of the Meridian Commercial brokers marketing the property. The building housed Willitts Designs, which Lennox purchased last year and moved to Minnesota.

Waldman wants to create nine office condos with 946 to 2,400 square feet, priced from \$185 to \$230 a square foot, according to Mr. Leonard. The building would also have four warehouse condos with 7,000 to 17,800 square feet and asking prices of \$125 to \$150 a square foot.

Part of the transformation to condos will be a new lobby for the building and an elevator to reach second-floor office space.