

BUSINESS

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DON KELSEN Los Angeles Times

DEMAND BUILDS: Impac Mortgage signed a 10-year lease for this building under construction in Irvine before it officially hit the market. Analysts say the bulk of growth in office tenants is coming from within Orange County, not from L.A. or other parts of the region.

Orange County's Office Market Tightens as Economy Expands

Vacancy rates fall to lowest level in a decade. The boom reflects the area's strong job growth.

By ROGER VINCENT
Times Staff Writer

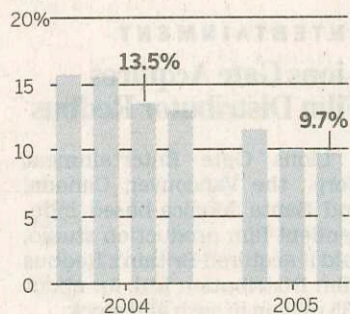
Orange County's solid economic growth continued to boost its commercial office market in the third quarter, pushing vacancy rates to their lowest level in at least a decade, according to data released Tuesday.

The average vacancy rate in Orange County's top-quality offices fell to 9.7% in the third quarter, down from 13.5% a year earlier, brokerage Cushman & Wakefield said. That put Orange County among the five tightest office markets in California.

Annual rents hit an average of \$24.36 per square foot, a boost from \$23.04 in the same quarter a year earlier but still short of the high-water mark of \$27.48 set during the dot-com boom in

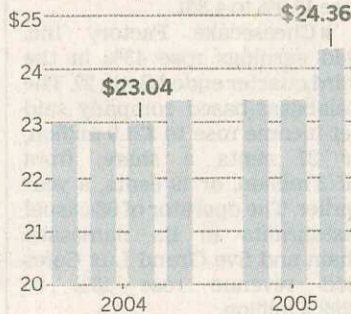
Getting crowded in O.C.

Commercial office vacancy rate in Orange County, quarterly data



Source: Cushman & Wakefield

Asking monthly rent per square foot for commercial property in the county, quarterly data



Los Angeles Times

early 2001.

The booming market reflects the county's strong job growth, particularly from financial services businesses such as mortgage companies and the professional services sector that

includes healthcare, said Esmael Adibi, director of Chapman University's A. Gary Anderson Center for Economic Research.

"The economy has rebounded," Adibi said, noting that Orange County added a net

31,000 jobs last year and is on pace to add 25,000 more this year and 18,000 next year.

The county's office market is expected to tighten further, analysts say, because the addition of new office space is many months away and hurdles to new construction are rising. This could pose problems for tenants, who are finding it increasingly difficult to find space.

"The market will get tighter because very little supply is being added over the next 12 to 18 months," said Joe Vargas, a senior managing director at Cushman. "And as long as the economic environment stays stable, rental rates will continue to increase."

Analysts say the bulk of growth in office tenants is coming from within Orange County, not from Los Angeles or other parts of the region.

"We get the odd tenant from downtown L.A. or Pasadena," said Bill Halford, president of office properties for Irvine Co.,

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Office Rents Expected to Rise

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Orange County's largest landlord. "But most of the expansion is incubated here. This is a self-sustaining economy."

A leader in demand for space has been the mortgage finance industry, which occupies as much as 10% of the county's class A office space and is in a position to move the market.

Area companies include Ditech, Ameriquest Capital Corp. and Impac Mortgage Holdings Inc.

However, if the national housing market stalls and the mortgage industry retrenches, it will dump space and raise vacancies, Cushman's Vargas said. Or, if the mortgage industry continues to thrive, some companies may run out of space in Orange County and be forced to move to larger quarters elsewhere, softening the office market at least temporarily.

Impac is a case in point. The \$1.2-billion real estate investment trust is spilling out of its Newport Beach headquarters into nearby buildings, and about two years ago managers started looking for new offices.

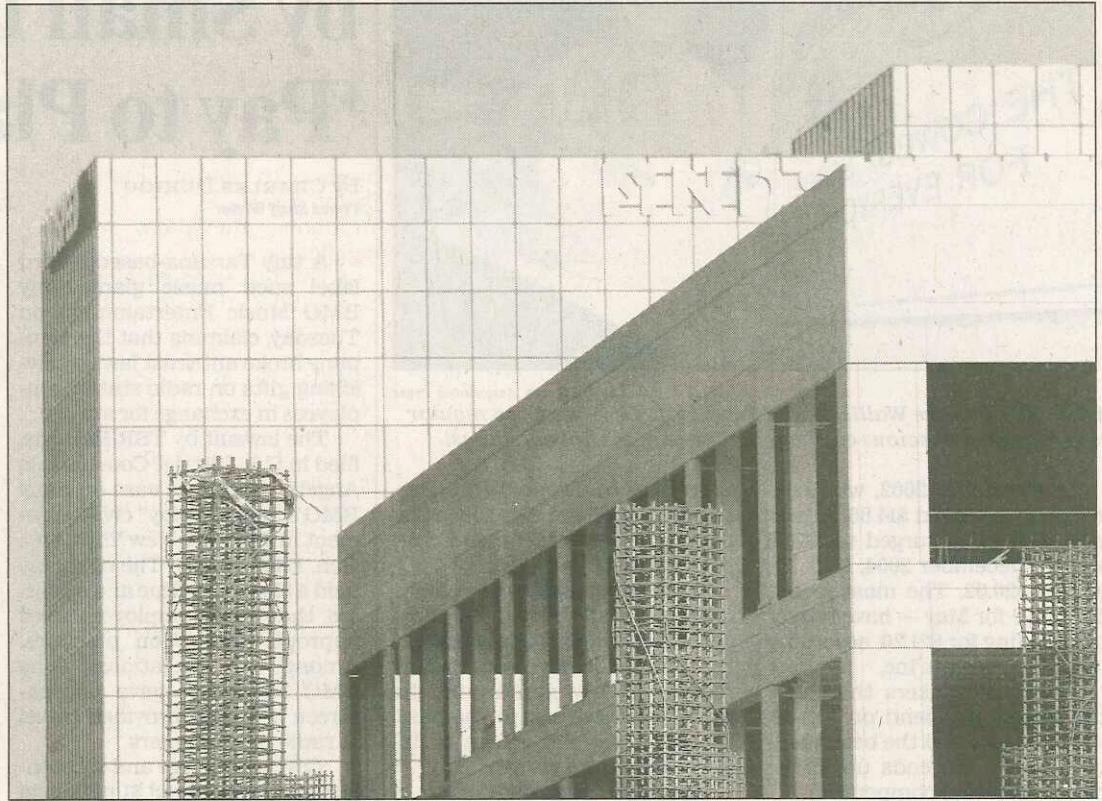
They briefly contemplated a move out of state but decided that Orange County was the most central location for their 800 employees, offering amenities hard to come by in the cheaper office markets of Nevada and Arizona.

"Both my boss and I golf and surf," said President and Chief Executive Bill Ashmore, touching on the lifestyle that has attracted so many to the region. "People make excuses to come visit us from New York."

Impac executives heard about a new seven-story office building being planned at Jambooree and Fairchild roads in Irvine and grabbed a 10-year lease for all 200,000 square feet before it officially hit the market. The building will be completed in March.

"We got it under the radar," said Ashmore, noting that Impac just beat out competitor New Century Mortgage Corp. for the space. Impac also obtained first right of refusal to occupy the next building planned nearby by the Scholle family of Irvine.

Landowners like the Scholles and Irvine Co. are poised to



DON KELSEN Los Angeles Times

GOING UP: Office construction in Irvine. Orange County's office market is expected to tighten further because the addition of new space is months away and hurdles to new construction are rising.

profit from growing office demand. Irvine Co. started three projects last year and will begin construction of two 14-story marble-clad high-rises next month in its Irvine Spectrum project at the junction of Interstates 5 and 405.

Those projects will bring the total space under construction in Orange County to about 1.9 million square feet, said Irvine Co.'s Halford. That is still far short of the more than 3.8 million square feet that Cushman & Wakefield said had been absorbed this year.

Another landlord, Los Angeles-based Maguire Properties Inc., invested heavily in Orange County during the last two years and is building an office tower off the 405 that has already been leased in large part to New Century and law firm Gibson Dunn & Crutcher.

Maguire's Orange County office buildings are more than 95% occupied, said Bill Flaherty, the company's leasing chief. That is slightly better than the rest of its portfolio, most of which is cen-

tered in downtown Los Angeles.

Meanwhile, barriers to further office construction are rising, said Barry Katz of brokerage CB Richard Ellis. Newport Beach passed legislation that requires approval by a public vote of new office buildings exceeding 40,000 square feet.

Desirable land around John Wayne Airport is being taken

over by residential developers attracted by the recent financial success of the Marquee Park Place high-rise condominiums.

"Land value doubles for apartments and triples for condos," said Katz, noting that the price of land for condos is reaching more than \$100 a square foot. "In my 22 years here I have not seen anything like this."