

Orange County Office Highlights Q3 2009

Tenants are taking advantage of favorable rents to trade up their image

Although recent economic indicators point to a possible recovery, the real estate sector continued to face many challenges and Orange County was no exception. The market experienced rising vacancy through consolidations and closures, weakened tenant demand and continuing ownership defaults.

Preliminary Orange County statistics indicate that vacancy rates increased from 13.1 percent from September 30, 2008 to 14.5 percent as of June 30, 2009. If sublease and shadow space (leased, but not occupied) were considered, the overall vacancy rate would be over 25.0 percent.

Much of Orange County's third-quarter leasing activity was centered around renewals with virtually no expansions. Landlords focused aggressively on tenant retention offering significant rent concessions in exchange for term extensions. These transactions often included the take-back of unused tenant space by landlords, achieving immediate rent relief.

Some tenants chose to take advantage of declining rents to upgrade their image by moving to more desirable assets. Psomas relocated from a Class B building to 3 Hutton Centre Drive, a Class A asset. Agility Logistics Corporation relocated from a C Class product in Santa Ana to a B plus asset in Irvine.

Maguire Properties recently gave back six Orange County properties, representing 3.6 million square feet of office and retail in a bid to save cash. Current leasing activity in its former portfolio has essentially come to a halt as special servicers assess their new holdings. Other distressed Orange County assets are likely to find their way into default as additional debt maturity looms and refinancing options remain scarce.

Leasing activity

- Psomas signed a three-year lease of 31,000 square feet at 3 Hutton Centre Drive, Santa Ana.
- Corinthian Colleges executed a lease of 30,524 square feet for seven years at 5 Hutton Centre Drive, Santa Ana.
- The Ensign Group extended their lease of 29,829 square feet for 10 years at 27101 Puerta Real, Mission Viejo.
- Morgan, Lewis & Bockius renewed their lease of 22,677 square feet for eight years at 5 Park Plaza, Irvine.
- Universal Protection Service renewed their lease of 20,284 square feet for seven years at 1551 N. Tustin Avenue, Santa Ana.
- Lincoln National Life Insurance renewed their lease for 20,101 square feet for five years at 18400 Von Karman Avenue, Irvine.

Tenants in the market

- The Gas Company, 300,000 square feet
- CalOptima, 90,000 square feet
- Henkel Corporation, 80,000 square feet
- Mass Mutual, 25,000 square feet
- Northwestern Mutual, 25,000 square feet
- Provision Ministries, 25,000 square feet
- AXA, 25,000 square feet

Sales activity

- LBA Realty acquired eight buildings at 3333 – 3355 Michelson in Irvine (1.7 million square feet, Class A) via a deed in lieu of foreclosure transaction from Maguire Properties for approximately \$50 to \$60 per square foot.
- 901 Civic Center Drive West (105,000 square feet, Class B) in Santa Ana traded for \$11.3 million (\$108 per square foot) from Grubb & Ellis Realty Investors to a private investor.
- 4100 MacArthur Boulevard (45,000 square feet, Class B) was acquired by Craig Realty for \$13.5 million (\$300 per square foot) from Makar Properties.

Construction activity

- 1525 North Tustin Avenue (81,646 square feet), located in Santa Ana.
- 3742 Katella Avenue (13,000 square feet) located in Los Alamitos
- 21522 Plano Trabuco Road (10,728 square feet) located in Trabuco Canyon