

Orange County, Calif. Troubled Lenders May Chill Once-Hot Market

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The subprime-mortgage industry crisis and Orange County's economic tailspin are likely to have a chilling effect on nearly all types of commercial real estate in this formerly go-go market, some analysts say.

A number of shrinking mortgage companies are already dumping office space on the market. The area's weakening job and housing market will also pinch consumer spending while budget-constrained would-be renters may forgo their own homes and apartments in favor of doubling-up with parents or friends, says Kenneth T. Rosen, chairman of Rosen Consulting Group, a Berkeley, Calif., real-estate research firm.



This office tower is one of a number of new buildings coming on line in Orange County.

"Orange County benefited from the boom and now it has to pay some of the price," says Mr. Rosen. He says the region is still a good long-term real-estate investment because it has more open space and the highways are less-congested than other California markets such as Los Angeles. It also offers access to the Pacific coastline, he says.

Orange County, located between San Diego and Los Angeles, is home to about three million residents and strong tourism and technology sectors, as well as a financial-services sector that includes a large concentration of troubled lenders. New Century Financial Corp., Irvine, Calif., filed for Chapter 11 bankruptcy-law protection this year.

The economic good times in Orange County have unraveled fairly quickly. The area's job growth fell to a pace of 0.2% in July from a year earlier, from a 1.7% annual average growth rate in the five previous years, according to the Bureau of Labor Statistics and Moody's Economy.com. Steven Cochrane, senior managing director of

Economy.com, says the county could lose 5,000 more finance and real-estate related jobs in the next 12 months and is at risk of falling into a recession.

The economy's woes are hitting a market in which second-quarter office, retail, warehouse and apartment rents were still above-average based on the major U.S. markets surveyed by Property & Portfolio Research Inc., a Boston real-estate research firm. And at least one landlord has portrayed vacancies as an opportunity to re-lease space at higher rents. But the changing economy is a shift for a metropolitan area where, just two years ago, the shrinking supply of available land was among the primary worries for area real-estate companies.

Now, many office landlords are trying hard to win tenants with deals of free rents and other concessions that have masked the downward pressure and kept asking rents rising, according to Jeff Ingham, a senior vice president in the Orange County offices of Jones Lang LaSalle, a real-estate services firm. Asking rents on

By the Numbers

	Second quarter	
Orange County	2007	2006
Office vacancy	13.8%	11.8%
Avg. annual rent/s.f.	\$28.29	\$26.18
Retail vacancy	3.3%	2.7%
Avg. annual rent/s.f.	\$24.86	\$23.79
Hotel occupancy	76.2%	74.8%
Avg. daily rate/s.f.	\$121.68	\$112.53
Median home price	\$727,000	\$726,200

Sources: Property & Portfolio Research Inc., Natl. Assn. of Realtors; Smith Travel Research

premium space that now average about \$35 a square foot are likely to fall as much as 15% over the next 18 months as building owners face the double whammy of a drop in demand and a surge of new speculative construction coming on line, Mr. Ingham says.

Meanwhile, the year-over-year growth in retail sales per square foot slowed to 1% in the second quarter from 4% in the year-earlier period, Property & Portfolio Research says. And the apartment sector will see rent increases slow from a year-over-year second-quarter growth rate of 5.7% to an annual average rate of 2.4% over the next five years, in part because some units are being forced to compete with condominiums that are being rented instead of sold and because new construction is on the upswing, Property & Portfolio Research says.

Ultimately, many analysts expect Orange County's diverse economy and real-estate market to rebound. "Orange County's part of the Los Angeles Basin, which is a global economic center," says Matthew Mowell, a real-estate economist with Property & Portfolio Research. "At the end of the day, that's where a lot of smart people want to be, and companies that need that labor need to be there, too."

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