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Maguire: Profit Falls, More Empty Offices

By Mark Mueller - 11/12/2007

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The strain of slow leasing and continued fallout from the subprime mortgage meltdown is starting to show in the results of Maguire Properties Inc., Orange County's second-largest office landlord.

The Los Angeles-based company, which trails only The Irvine Company here, said its OC buildings totaling about 8 million square feet were 21% empty at the end of the third quarter. That's a 10% increase in Maguire's local vacancy rates from the prior quarter.

(The increase wasn't spurred by the quarter's opening of the 3161 Michelson tower in Irvine, which Maguire counted as 60% full. A lease at the building with bankrupt subprime mortgage lender New Century Financial Corp. was voided last week, putting the building at about 25% full now).

The company's vacancy rate well above the norm for OC's office market. Most local brokerages showed the county's vacancy rate rising close to 11% or 12% by the end of the third quarter, a 2% to 3% increase from the second quarter.

Companywide, Maguire reported vacancy rates of about 14%, a 4% increase from a quarter earlier. Its biggest market—Los Angeles—saw vacancy rates remaining steady at about 12% last quarter.

The real estate investment trust said funds from operations for the third quarter showed a loss of \$2.7 million, compared to a profit of \$21 million a year ago.

Revenue rose 45% to \$153 million from \$106 million—largely due to the \$3 billion buy earlier this year of 23 office buildings in OC and Los Angeles.

It's still looking to sell three OC offices to pay down debt it took on in that transaction.

Subprime 'Overblown'

Orange County "hasn't fallen off a cliff," Chief Executive Robert Maguire said during his company's quarterly call with analysts last week.

Maguire also said the impact of the subprime industry's collapse was "overblown," even though the local increases in the company's vacancy rates were largely due to its dealings during the third quarter with the county's two largest subprime lenders—Orange-based Ameriquest Mortgage Co. and New Century.

In July, the landlord reached an agreement with Ameriquest to terminate about 612,000 square feet of local space in Central County and Irvine. About 126,000 square feet of that space since has been leased.

The Ameriquest lease termination has left a couple of its most prominent buildings in Central County largely empty. Maguire's 457,000-square-foot City Parkway complex in Orange was only 14% leased at the end of the quarter, while the nearly 327,000-square-foot City Plaza tower was only 57% leased, according to company data.

Company officials said it was close to signing up to 250,000 square feet of leases at these and other office spaces in Central County, which counts about a 10% overall vacancy rate.

Following years of single-digit vacancy rates, "there's pent-up demand for space" in the area, Maguire said.

The landlord thinks it can land Central County tenants at monthly rental rates nearly 40% higher than what Ameriquest was paying—bringing rates closer to \$3 per square foot, if not higher.

In Irvine, the company also says it is seeing signs of tenant interest. At its new 3161 Michelson tower along

the San Diego (I-405) Freeway, there have been lease proposals totaling about 300,000 square feet made in the past quarter. No major deals have been signed from those proposals. **New Century Space**

Much of that space would replace the lease recently passed on by bankrupt New Century, which was originally slated to take up 194,000 square feet of the 531,000-square-foot tower.

Maguire said he hopes to have the building closer to half-full within a few months.

Another big local hole to fill for Maguire this quarter is in Brea.

Los Angeles-based mutual fund manager Capital Group Cos. is moving a major part of its operations from Brea to a campus it is set to open this quarter in Irvine. The company had been renting about 370,000 square feet of space in Brea in five buildings. Most of that space is now owned by Maguire, which hopes to sign one or two leases soon.

Tough leasing in OC isn't the only issue hanging over the real estate investment trust. Last month, reports suggested that Maguire was looking to buy out his namesake company and take it private.

A deal would reportedly have a minimum per share price in the mid-\$30s. Maguire Properties trades around \$27 with a market value of about \$1.3 billion.

In previous conference calls, Maguire suggested that his company was worth \$60 a share, but he declined to speculate what the company was worth last week.

Following turbulence in the credit markets, "the world has totally changed," he said.

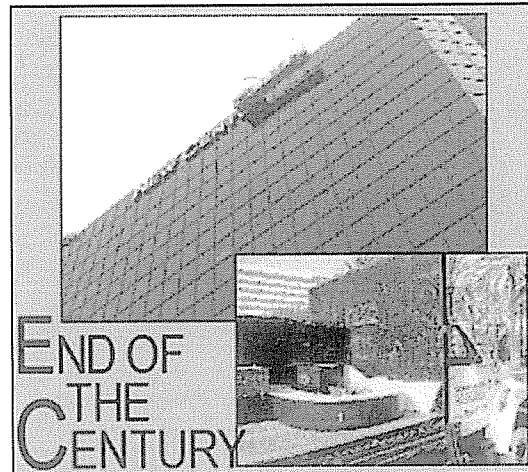
End of the Century

New Century Financial Corp.'s shrinking presence in Orange County took another hit late last month.

On Oct. 31, workers removed the company's name from the top of the black Irvine Towers building that long served as the bankrupt subprime mortgage lender's headquarters.

The move is the latest in a series of knocks for New Century, which was delisted from the New York Stock Exchange in March, declared bankruptcy in April and has sold off what it could of its business for pennies on the dollar.

It took about two hours for the big white letters to come down from two sides of the building, owned by The Irvine Company. There are no immediate plans for another company's name to go up, nor have tenants been announced to take over the vacant New Century space, according to the Irvine Co.



What's left of New Century is set to run from 95,000 square feet of space two blocks away at Maguire Properties Inc.'s Park Place complex, at least through the end of January, pending bankruptcy court approval.

A year ago, the plan was for New Century to move its headquarters to Maguire's new 3161 Michelson Tower, where the subprime lender was set to get top billing.

—Mark Mueller

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