

Orange County Business Journal

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Real Estate Watch: South Orange County

By - 12/3/2007

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The commercial real estate market in South Orange County (Irvine Spectrum down to San Clemente) is steady despite a slowing housing market.

The industrial market remains tight as increasing land values have slowed new construction keeping the inventory low.

The industrial vacancy rate is 1.6% for manufacturing and warehouse space and 7.2% for research and development space.

The office sector is seeing substantial construction and second generation space returning to the market due to the shakeout within the mortgage industry.

The office vacancy rate in South Orange County is currently 10%.

Industrial Strength

The vacancy rate in South Orange County remains low.

The strongest segment of the sector has been warehouse distribution space.

We have seen a spike in both asking rates and sale prices with inventory remaining extremely low.

The average asking lease rate stands at 90 cents, representing a 9 cent increase from the first quarter, while sale prices for this sector continue to rise.

The research and development market and the small-building for-sale market have slowed and the time to lease or sell these properties has increased.

The value of these properties does remain stable, just more patience is required than a year ago.

Office Struggling

The vacancy rate for the third quarter was 10% versus 8.4% in the first quarter, and 5.7% a year ago. Expect the vacancy rate to increase through the end of the year due to the completion of several office buildings.

In addition, a substantial amount of sublease space entering the market is having a negative impact on the leasing activity for direct deals.

In a nutshell, we are experiencing more available space and fewer tenants in the market due to many landlords becoming more aggressive on renewals.

But asking lease rates continue to increase. The average asking lease rate for South Orange County office space is \$2.74 per square foot, which is up almost 30 cents from a year prior.

Investment Opportunities

There are fewer 1031 exchange buyers so there is less competition for available investment properties.

This coupled with rising interest rates are pushing capitalization rates slightly higher. We are seeing cap rates for industrial at 6% to 6.5% and office at 6.5% to 7%.

Larger portfolio sales of quality product have traded as low as 5%. Industrial multitenant buildings remain

the most popular investment property throughout South Orange County.

Bates is a first vice president in the Newport Beach office of CB Richard Ellis. Data and analysis provided by CB Richard Ellis Research.

The Real Estate Watch Chart - Net Absorption, Rates, etc. is provided in a Adobe Reader .pdf print-friendly file.

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