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OC Assets Among Most ‘Sought After’

By **Carrie Rossenfeld** | Orange County

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From left: Kurt Strasmann, Bob Davis, Ray Eldridge and Matt Hammond. Not pictured: Kevin Turner.

COSTA MESA, CA—Orange County is still among the most sought-after real estate markets in the country, according to speakers at last week’s **2014 Southern California Market Forecast Luncheon** here, hosted by the **Institute of Real Estate Management**, **Orange County Chapter**. The event, which drew nearly 200 industry professionals and brought together a panel of brokerage industry leaders representing the **office, retail, multifamily** and **industrial** markets, revealed positive signs across all sectors in Southern California—with Orange County as a bright spot.

“All of the basic fundamentals in Orange County continue to move in the right direction,” said moderator **Kurt Strasmann**, senior managing director of **CBRE**. “Based on all of our panelists, 2014 is expected to be another strong year for the **commercial real estate** industry, especially in the industrial, multifamily and office sectors.”

Bob Davis, SVP of **NAI Capital**, said that Orange County office has seen a broad-based recovery. “We have seen positive factors such as employment growth and increased leasing activity, but one area that is still problematic is time on the market, which is averaging 14 months for office space.”

Regarding the retail market, **Matt Hammond**, director of retail brokerage for **Coreland Cos.**, said that “2013 was a tremendous year for Orange County retail **leasing**. For the first time in years, tenants were aggressively expanding and leasing quality space. Across the county, major big-box vacancies in class-A centers went from 30 down to one over the past 24 months. The question for 2014 is will these retailers now turn to the class-B and –C spaces?”

Orange County still remains a strong market for multifamily, due to increasing barriers-to-entry, said **Ray Eldridge**, SVP for CBRE. “Orange County will never be overbuilt, given the scarcity of remaining vacant land. Driving through Orange County can be misleading as massive land tracks, both east and west of the 405, have been gifted by the **Irvine Co.** for conservation. Last year, we surpassed previous peak rents of 2008. High demand will continue because of our diversified economy, low affordability of homeownership, high quality of life and excellent job opportunities.”

The industrial market, another strong category for Orange County, “has more than stabilized,” added **Kevin Turner**, SVP for **Voit Real Estate Services**. “In fact, we have seen approximately 17% rent growth since the market bottomed out.” Turner did warn that we are not far from the stabilized peak rents of 2006. He said he sees a limit based on a formula of revenue to rents and cautioned that we may once again become victims of our own prosperity whereby tenants will be priced out of the OC market.

Nearly 200 industry professionals gathered to hear insight on the four main asset classes in Southern California.

Strasmann asked the panelists to share some of the more interesting changes they have seen in their markets over the past year. Turner said, “We are racing toward the inflection point where it may no longer make sense to rent in OC as tenants, specifically manufacturers and distributions can only afford to pay a certain percentage for rent, taxes, insurance, maintenance and utilities based on gross revenues. Tenants are scrambling for alternative ways to accommodate growth, and as a result we are seeing a surge in demand for ownership positions to hedge against rising rents.”

Davis said that while **creative office** has been “the buzz,” it still only represents 5% of the inventory in the Orange County market. “Creative-office space is generating higher rents, but it also requires a substantial initial investment. It will be very interesting to see if the payoff is there in the long run.”

Eldridge commented that most new multifamily **developments** will be the result of expensive and time-consuming rezoning of functionally obsolete office, industrial or retail sites. “Some of the best locations are tied to pedestrian-oriented, **transit-oriented** and/or **infill urban** areas. Recent and ongoing multifamily land-value appreciation is directly tied to scarcity, rising rents and a trend toward higher densities—all of which are increasing.”

On the retail front, Hammond noted that successful retailers have embraced omni-channel market to compete with **e-commerce**. “No matter the size of the retailer, those who have seamlessly integrated their online business into everyday brick-and-mortar sales are experiencing positive growth. It’s a holistic shopping experience—if they can’t help you in the store, they go online.”

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About Our Columnist

Carrie Rossenfeld is a reporter for the West Coast region of GlobeSt.com and Real Estate Forum. She was a trade-magazine and newsletter editor in New York City for 11 years before moving to Southern California in 1997 to become a freelance writer and editor for magazines, books and websites. Rossenfeld has written extensively on topics ranging from intellectual-property licensing and giftware to commercial real estate. She recently edited a book about profiting from distressed real estate in a down market and has ghostwritten a book about starting a home-based business.
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