

THE SEARCH FOR SPACE

Investors, Large Tenants Hunt for Big Blocks of Orange County Industrial Space

The Orange County industrial market is quite a different animal from those in California's nearby Los Angeles County and the Inland Empire. The inventory in the latter two is primarily big-box warehouses built as distribution centers for imports from the Far East that flow through the ports of Los Angeles and Long Beach. But a large segment of Orange County's industrial market consists of smaller facilities, often including an office component, that serve entrepreneurial users across an array of businesses.

Until recently, industrial supply and demand in Orange County have been pretty much in equilibrium, according to Jeff Cannon, corporate managing director for Studley Inc. Now, he worries that a significant uptick in demand could severely stress a supply-constrained market.

Last year brought 21 industrial lease deals of at least 100,000 square feet to Orange County, with seven of those at least 200,000 square feet, leaving fewer than 10 large floorplates available by year-end, Cannon reported. Additional demand could shut larger users out of the market, possibly even forcing them to split their locations.

Already, some tenants are expanding their geographic parameters to find choices. "If you're located in Irvine and you're looking at properties in Brea (in Northern Orange County), you might as well loop in Chino and Ontario (both in the Inland Empire)," Cannon said. Owners are showing more flexibility, agreed Douglas Golden, senior vice president at Beitler Commercial Realty Services/TCN Worldwide. "They see slowing demand."

Much of the industrial land in Orange County has been rezoned for residential use during the past few years, a major reason for the space shortage, especially in Anaheim's Platinum Triangle.

Ironically, most of this conversion would not have happened nowadays, given the housing slowdown. "That has come to a grinding halt," said James Camp, senior vice president of development and acquisitions for Voit Development Co. "You couldn't sell those properties today."

Landlords, afraid of losing tenants, are showing some restraint in rent increases, facing Inland Empire rents that are as much as 30 to 40 percent less costly than those in Orange County.

They also face competition from some new supply that is slated to come online. In a joint venture with GE Real Estate, Lowe Enterprises began construction in November on a \$46 million infill industrial park in Northern Orange County: the 285,399-square-foot Kimberly Business Center in Fullerton. The complex is set for a summer completion. And in December, Panattoni Development Co. closed on the purchase of a former Boeing Corp. facility. The developer announced that it would build an office campus, including some industrial space, on

the facility's 60 acres. In addition, The Magellan Group Inc. is close to completing a 246,000-square-foot industrial park in Fullerton.

The small-space market has had its own difficulties. Many small-space users in Orange County acquire industrial facilities to better control their fates. "These businessmen want to (work) in a building near where they live and want to own rather than lease to protect their ability to stay here," said Brian Burke, president of Burke Real Estate Group, an industrial property developer targeted to small and medium-size businesses. "Many of them have seen industrial properties razed and office, retail and residential properties built there instead."

Such small-business owners have acquired properties through loans from the U.S. Small Business Administration and are thus immune to the current tightening of lending standards. But some effects from the single-family housing slowdown are making a mark. "Some of the industries here are related to residential, such as construction-supply firms, and their business has been slowing," said Jack Haley, principal for the Anaheim office of Lee & Associates. "That has hurt a little bit."

The decline in housing values has also had a psychological impact on small-business owners, who will likely restrict their expansion plans. "A lot of them use their house value as a barometer," Camp said. "If they see their home values go up, they're happy and confident. There is a nexus between the residential and industrial product."

"It will be a very interesting time for this market," observed Chris Migliori, executive vice president & principal for Datum Commercial Real Estate. "We may see potential buyers of property become semi-reluctant to do that. They may be more inclined to lease."

At the same time, the number of private buyers has declined as sellers have become increasingly confident that institutional players can more reliably source debt and close a transaction, noted Louis Tomaselli, senior vice president for Voit Commercial Brokerage.

Whatever the space size in question, Orange County's industrial base may continue to grapple with space issues, but many executives believe the diversity of users could soften the effects of an economic slowdown. "Orange County's industrial market used to be thought of as a stepchild of Los Angeles," said **Howard Schwimmer, co-founder & principal for Rexford Industrial L.L.C.** "But this is an established marketplace that is solid and vibrant."