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Q3 Office Market: Few Leases, Falling Rents, Big Landlord Concessions

By Mark Mueller - 10/10/2008

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A handful of high-profile leases couldn't stop the bleeding from Orange County's battered office market, which saw another quarter of rising vacancies and falling rents.

The county's office market, which totals about 100 million square feet, ended the third quarter with a vacancy rate close to 16%, based on a polling of the area's brokerages.

That's up about 1% from three months ago and is an increase of nearly 50% from a year ago. Vacancy rates here now are at their highest point since early 2003.

Rents dropped about 3% during the past quarter and have fallen back to early 2007 levels.

The county's vacancy rate rose with 400,000 to 500,000 square feet of negative absorption in the quarter, as fewer leases were signed and companies cut back on space, brokerages said.

On the bright side, there were more multifloor, big-dollar office leases signed in the third quarter than OC's seen in more than a year.

Hyundai Motor Finance Co. signed the largest lease for any new Irvine office tower in more than two years, with a 100,000-square-foot deal at Maguire Properties Inc.'s 3161 Michelson property.

Sources say Hyundai likely paid in excess of \$4 per square foot for the high-profile lease at Maguire's Park Place campus, although the landlord offered a heavy concession package to land the marquee tenant, which will be moving operations from Fountain Valley.

Maguire also signed Raytheon Co. for a 78,000-square-foot lease in Brea near the start of the quarter. Elsewhere in North County, Beckman Coulter Inc. signed a three-year deal in Fullerton for 89,000 square feet.

For more on this story, see the Oct. 13 edition of the Business Journal.

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