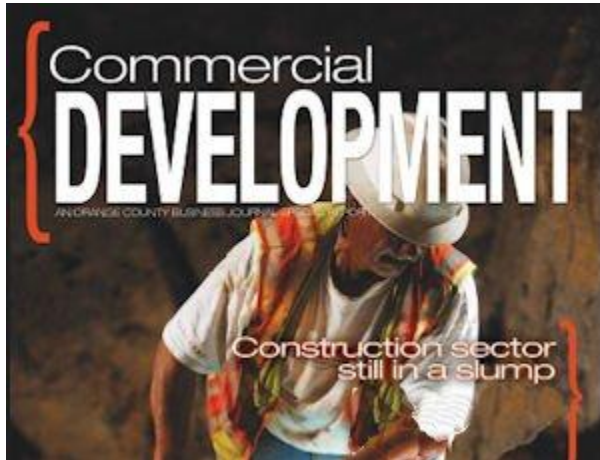


ORANGE COUNTY BUSINESS JOURNAL

Commercial Developers Saw Number of Projects Tumble



By Mark Mueller
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Commercial development was at a standstill in 2009 and looks set to remain in hibernation for the remainder of this year as well.

The county's largest 25 developers finished slightly more than half a million square feet of projects in 2009, according to this week's Business Journal list.

That's an 85% drop from the 3.5 million square feet completed in 2008, and is a drop in the bucket compared to the nearly 7.8 million square feet of commercial projects finished in 2007, topping off the most recent construction boom.

Only eight companies on this year's list actually reported completing a project in Orange County last year, compared to 18 that completed work on the prior year's list.

Next year doesn't look too promising, as developers only reported five OC projects that were started last year and still are in the works.

The rest of the companies on this year's list are those with development plans under way, those that have been active local developers in the past, or companies that have significant projects expected to be built once the market rebounds in earnest.

The Business Journal includes retail, office, industrial and hotel development on the list.

Apartment developers—there were nearly half a dozen larger apartment projects completed in OC last year—were not included in the list. Nor were school and other government projects.

Buildings of any type finishing up construction last year were a rare breed. There wasn't one office larger than 100,000 square feet—or roughly four floors of an average-size office tower—to break ground or complete work last year.

There is only one industrial building totaling more than 100,000 square feet currently under construction—the 375,000-square-foot Anaheim warehouse and distribution building being built for grocer Northgate Gonzalez Markets.

With vacancy rates among all types of commercial space well above healthy levels, market watchers don't expect to see many groundbreaking ceremonies in the near term.

Right now, the OC office market counts about 19% vacancy, while industrial vacancy rates stand at about 6.5%, with availability rates closer to 11%.

For office developers “when you get to 10% to 12% (vacancy rates), that's when the cranes come out,” said Jerry Holdner, vice president of market research for Newport Beach's Voit Real Estate Services.

For industrial developers, the magic mark is about 5% vacancy.

“You're not going to see any construction for a few years,” Holdner predicts.

Build-to-Suit

Build-to-suit projects are the only kind of development going on right now, said Brandon Birtcher, president of Irvine's Birtcher Development & Investment Co.

Birtcher Development is handling the Northgate Gonzalez project, which is estimated to cost close to \$37 million.

The company is No. 10 on this year's list, but likely to be No. 1 next year once the Northgate project is done.

Birtcher Development has seen interest in build-to-suit projects increase fourfold in the past year.

If a company can't find an existing—and affordable—building to acquire, “It's a safe time to step out into the marketplace,” Birtcher said.

Interest is highest for buildings in the 100,000-square-foot to 1.2 million-square-foot range, for warehouse, distribution and research and development projects, Birtcher said.

Largest Office Completed

Build-to-suit projects were responsible for some of the largest office, industrial and retail projects completed locally last year.

A 90,000-square-foot Anaheim office built for CKE Restaurants Inc. was one of the largest office developments of 2009—falling just behind Kaiser Permanente’s 118,500-square-foot medical office building in Anaheim—giving developer Karcher Partners the No. 2 spot on this year’s list.

Corona-based investor and developer Watermarke Properties Inc. bought the fully leased office on the campus of Carpin-teria-based CKE Restaurants’ Carl’s Jr. early this year from the developer for \$20 million.

The largest speculatively built office completed last year was just off the Costa Mesa (55) Freeway in Santa Ana, where Laguna Hills-based Muller Co. opened an 80,000-square-foot office building on North Tustin Road. That was enough to put the developer in the No. 4 spot in this year’s list.

The four-story building is next to an existing 200,000-square-foot office building Muller owns, which serves as the headquarters of real estate brokerage and investor Grubb & Ellis Co.

Regional Center of Orange County Inc., a nonprofit that provides services and support for people with developmental disabilities, recently signed a 10-year lease to move its headquarters and some local operations to the new building.

Industrial, Retail

Among industrial projects, Mitsubishi Materials U.S.A. Corp., a maker of cutting tools and other products for the metalworking industry, had a 52,840-square-foot headquarters and manufacturing building constructed for it in Fountain Valley by Irvine’s Snyder Langston.

That build-to-suit project gave the construction company the No. 5 spot on the list.

At the Brea Marketplace, the mall’s owner, Regency Centers, finished up work on a 158,000-square-foot redevelopment of the 352,000-square-foot shopping center late last year, adding a Target store and Sprouts Market, in what was the largest retail development of the year.

That one project also was enough to give Regency Centers the top spot in this year’s list.

There hasn’t been a totally new shopping center to open its doors in OC since 2008, which might be a good thing. Last year’s No. 2 commercial developer, San Diego-based Excel Realty Holdings LLC saw its Anaheim GardenWalk mall foreclosed on earlier this year.

[Download the 2010 OC's LARGEST COMMERCIAL DEVELOPERS List \(pdf\)](#)