

## [Could O.C. office rents fall by 10% or more?](#)

March 28th, 2009, 1:12 am · [16 Comments](#) · posted by [Jeff Collins](#)



*One need look no further than O.C.'s shopping centers to see how the economic meltdown is affecting commercial real estate. Everywhere you look, you see empty storefronts with "Space Available" signs in the windows.*

*With chains like Circuit City, Select Comfort mattresses and Boater's World closing stores or going out of business, property owners are seeing their NOI (net operating income) sink like a stone. Office vacancies likewise are climbing, credit is tight as loans come due, and local brokers are forecasting a "wave of foreclosures" in the coming year.*

*Enter Asset Management Consultants Inc., a San Fernando Valley firm that owns more than 3 million square feet of income-producing real estate California, Arizona, Nevada and Texas.*

*Their plan? BUY!*

*Rather than run scared, AMC, as the firm calls itself, recently announced plans to seek more "investment opportunities" in Texas and SoCal (including O.C.) using cash from investors and lenders. We asked company President and CEO Jim Hopper to tell us about his plans.*

**Us: Given the forecasts that the commercial sector is on the verge of a big plunge in values, with a corresponding increase in foreclosures, is AMC risking that the value of properties it buys today are going to go down after the deal is inked?**



**Jim:** The way we see it, there is a certainty that prices will go down in the near term. However, we also strongly believe in the long-term benefits of owning real estate, including appreciation, which we are confident will return after the current economic downturn ends. The question is, "how large will the big plunge in value will be?"

Is it a 20% decline? 50%? There is a big difference with significant ramifications related to the higher decline.

**Us: What's the 6-12 month outlook for the Orange County market?**

**Jim:** We are all in the middle of a waiting game and really don't know what will happen in the short-term for Orange County. Of course, we are not immune to the terrible impact our economy is having on real estate owners.

We have vacancies in buildings that have not had an opening in the last 8-9 years. In these cases, we are taking a conservative approach and advising investment partners that there will be (1) no leasing activity through 2009; (2) a 10%, or more, drop in rental rates; and (3) free rent associated with new leases. It is important to note that we use these same assumptions on properties we are buying!

**Us: What types of Orange County properties are appealing investments to AMC?**

**Jim:** In short, we are seeking the best cash flowing real estate available in prime submarkets, regardless of product type. AMC has traditionally gravitated toward product types that best support our need for an 8% cash-on-cash return, primarily office and flex/R&D. However, now that the market is in a state of correction, we expect our selections to expand to industrial, retail and even multifamily, provided they are not broken properties.

**Us: Are there any cities within the county that are more appealing for investment opportunities as opposed to others?**

**Jim:** Not specifically, although we do pay close attention to a property's accessibility to major freeway arteries and potential barriers to entry.

**Us: What does AMC plan to do to mitigate risk?**

**Jim:** AMC's investment strategy is aggressive only in the sense that we expect to close more transactions in 2009 than we did in 2008. This is simply because there will be more opportunities to do so.

Our experience has demonstrated that high-quality assets are less prone to high-visibility meltdowns and are the first to achieve rental growth and capital appreciation when the market returns.

While we are aggressive in our pursuit of quality assets, we are conservative in what is actually acquired. Typically, for every 150 properties that match with AMC's investment criteria, there is one property actually purchased. In 2009, our acquisition program will focus on capital restructuring and joint ventures that produce transactions with mitigated risk and predictable cash flow.

**Us: What does AMC view as the single greatest opportunity within the current market climate?**

**Jim:** We see that investment sale volume is down and the industry is suffering from a large disconnect between buyer and seller expectations.

You could compare the real estate market to a junior high school dance. The girls are on one side of the room, the boys on the other, and only the brave or the foolish venture across the room to ask for a dance. As a result of this fear, not much is going on. AMC is closing non-traditional transaction structures to generate income and to get people to start dancing.

The greatest opportunity we have today is the ability to have brokers, our greatest source of finding transactions, willing to sit down and consider our alternative approach for making more money in 2009. By slightly changing the perspective of a broker's world, most are surprised to find out that there is more of AMC's type of transactions available in today's market than there are traditional buy-sell transactions.