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David Rockefeller to Build Office Project in Anaheim; [Orange County Edition]

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Abstract (Summary)

The firm said it picked Anaheim—a less prestigious business address than Irvine or Newport Beach—because the office markets in those cities are not expected to improve as quickly as Anaheim's.

In Anaheim, at least three major developers have already obtained city permission to build office towers around the stadium, which is home to the California Angels baseball and the Rams football teams. But at least some of those buildings probably will not be constructed, [Timothy B. Good] said, because finding money to build has recently become much harder.

The competition for tenants is a big problem in the Newport Beach and Irvine neighborhoods around John Wayne Airport, where big developers have preferred to build. Add the traffic jams and the high cost of housing in those cities, [Bill Hatch] said, and the Anaheim market begins to look more appealing.

Full Text (1227 words)

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A partnership led by David Rockefeller said Thursday that it will build its first Southern California project here—a \$100-million complex across the street from Anaheim Stadium that will include two 13-story office buildings and a 150-room hotel.

Surrounded by a stone wall and several rings of trees, the 12-acre Central Park Towers project is intended to look like a scaled-down version of New York City's Central Park. It will be more lavishly landscaped than most of the office buildings in the neighborhood.

Instead of the usual tinted glass that most Orange County office buildings sport, the office towers by Rockefeller & Associates Realty will probably have exteriors of precast concrete designed to look like marble.

The Rockefeller partnership is a development and investment company based in San Francisco. Its predecessor developed that city's big Embarcadero Center office and hotel complex. David Rockefeller, one of the wealthy family's more prominent members, is the chairman and major owner. Most of the other investors are his New York business associates.

The project comes at a time when the nation's top banking regulators have warned lenders to be wary of overbuilt real estate markets, Orange County among them. The office vacancy rate in Orange County exceeds 20%.

But the Rockefeller partnership is betting that it can exploit a lull in construction around the stadium and open the complex when that office market gets tighter several years from now.

The firm said it picked Anaheim—a less prestigious business address than Irvine or Newport Beach—because the office markets in those cities are not expected to improve as quickly as Anaheim's.

The partnership has agreed to buy the Anaheim property from several owners for \$12.7 million. The sale is expected to close this summer. Construction of the 578,000-square-foot office development is scheduled to begin next spring and to finish during 1993.

The project has yet to be approved by the city, but Rockefeller & Associates officials said they do not anticipate any major problems when it goes before the City Council in September.

Whether both office towers will be built at the same time depends on the number of tenants that can be signed up before construction, said Timothy B. Good, an Irvine developer and a partner in the project.

Good said the partners are negotiating with four hotel companies to run the small hotel and that a deal is near. Original plans called for the hotel to have 350 rooms, Good said, but it was scaled down when he found that big hotel companies had

saturated the Anaheim market and were not interested in running another big full-service hotel. This hotel is to be an all-suite facility designed for extended stays.

Central Park Towers will also include a big restaurant and several smaller eateries and shops. The stadium area, once an industrial neighborhood, does not have many shops or restaurants, so office developers usually provide them.

The partnership spent a year looking at Southern California before deciding on Orange County, said Bill Hatch, president and managing partner of Rockefeller & Associates. It is still studying other investments, which it will not disclose, in the county. Rockefeller & Associates also bought a business park in La Jolla in San Diego County this spring.

(Rockefeller & Associates is not part of the family's Rockefeller Group, which owns Rockefeller Center in New York City. That company made news last year when it sold 51% of itself and its landmark Manhattan building to Mitsubishi Estate Co. of Japan.)

In Anaheim, at least three major developers have already obtained city permission to build office towers around the stadium, which is home to the California Angels baseball and the Rams football teams. But at least some of those buildings probably will not be constructed, Good said, because finding money to build has recently become much harder.

"The amount of office space coming on the market won't be nearly as great as you might think," he said, "because players in the capital markets are getting hard to find as dinosaurs."

Thrifts are out of the picture after the savings and loan debacle, the banks are leery of real estate, and big investors-pension funds and insurance companies-are also being more cautious. Some, in fact, are trying to sell buildings they already own in Orange County because the market is so soft.

L. William Seidman, chairman of the Federal Deposit Insurance Corp., recently cited Orange County as one of the places bank regulators believe is overbuilt. Local and state officials, however, said federal officials failed to consider the area's continuing population growth and its strong absorption rate (the rate at which new space is leased).

Indeed, there are still plenty of tenants, real estate brokers said. But developers have built so many buildings that they must offer low rents and other incentives to persuade tenants to sign a lease.

"It's still a tenants' market right now, and landlords are giving up quite a lot in the way of concessions, but it's not as bad as it was a year and a half ago," said Mike Martin, a partner in the brokerage Lee & Associates.

The Central Orange County market is already tightening up, brokers say, and office rents are getting higher.

The competition for tenants is a big problem in the Newport Beach and Irvine neighborhoods around John Wayne Airport, where big developers have preferred to build. Add the traffic jams and the high cost of housing in those cities, Hatch said, and the Anaheim market begins to look more appealing.

Until 1986, older cities such as Anaheim and Santa Ana, with their run-down urban neighborhoods, were generally passed over as sites for office towers. Then, until 1988, developers built office towers in those areas. The developers stopped building, though, when most of the offices were not leased quickly.

Among the developers were some of the biggest in the county-Hutton Development, the Koll Co., Hillman Properties. Most of them have city permission to build even more towers near the stadium, although none has announced plans to do so yet.

"I think Rockefeller perceives a window of opportunity here," said John Owen, a vice president at Cushman & Wakefield in Orange County, a commercial real estate brokerage owned by the Rockefeller Group. "A lot of space came on the market in 1988, and there's a hesitancy for the next guy to jump in and build now."

Backed with Rockefeller's financial muscle, loans to build the project will be easy to obtain, Good said.

He and Dave Dawson, another developer, are limited partners in the project. David Rockefeller is putting up all the money from partnership and will own the vast majority of the project. Good, who conceived Central Park Towers in his former job with McKellar Development and Dawson, former chairman of the Stanford Ranch planned community near Sacramento, will receive an unspecified small percentage of the ownership for helping develop and market Central Park Towers.

There is the risk that another wave of construction will dump another large amount of office space and high vacancy rate on the central county market several years from now.

That's OK, Hatch said. "We build and own projects for the long term," he said. "And central Orange County is a lot more valuable than people give it credit for. We see it eventually developing into an extremely important, high-quality location."

[Illustration]

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