MARKETBEAT

Orange County

Office Q2 2019

ORANGE COUNTY OFFICE

Economic Indicators

	Q2 18	Q2 19	12-Month Forecast
Orange County Employment	1.65M	1.67M	▲
Orange County Unemployment*	3.5%	2.4%	▼
U.S. Unemployment*	3.9%	3.6%	▼

*As of May 2019

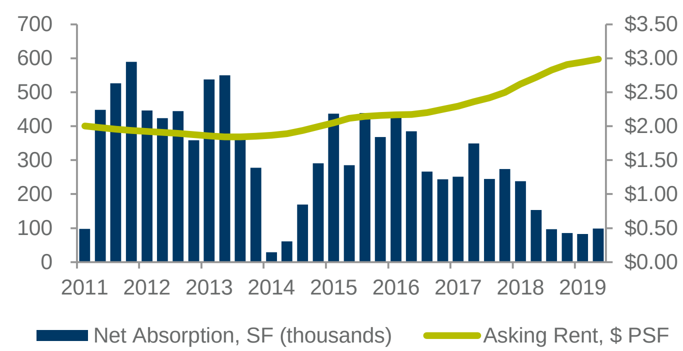
Market Indicators (Overall, All Classes)

	Q2 18	Q2 19	12-Month Forecast
Vacancy	11.3%	11.9%	▼
YTD Net Absorption (sf)	247k	399k	▲
Under Construction (sf)	787k	419k	▼
Average Asking Rent¥	$2.86	$3.02	▲

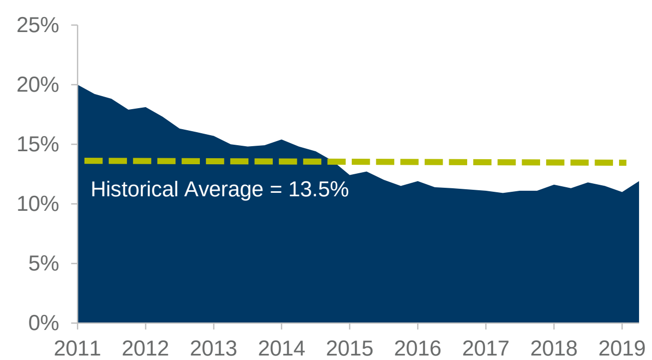
¥-Rental rates reflect gross asking $psf/month

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Orange County employment continues to make positive strides moving into mid-2019 with an unemployment rate of 2.4%. Total non-farm employment increased by 18,600 jobs (1.1%) over the past year with the largest gains coming from professional and business services. Real GDP is projected to grow by 3.3% in 2019 as demand metrics for property have slowed, but remained positive. This economic expansion, as of July, is officially the longest in the history of the U.S. on record.

Market Overview

Orange County finished the mid-year of 2019 with overall asking rates of $3.02 per square foot per month (psf/mo), an increase of $0.03 (1%) since last quarter and an increase of $0.16 psf/mo (5.6%) since the same period last year. New construction completions at Flight @ Tustin Legacy and Discovery Park have helped to push rents in the second quarter. Class A overall rents in Orange County finished the quarter at $3.35 psf/mo, an increase of $0.09 (2.8%) from the year prior.

Overall vacancy increased 90 basis points (bps) from last quarter to 11.9% in Orange County as 747k square feet (sf) of new developments at Flight @ Tustin Legacy and Discovery Park delivered this quarter without tenants in occupancy. The Irvine submarket expanded to include the eight buildings at Flight, which caused an increase in vacancy to 15.6% or a 210 bps swing from last quarter. Although there has been nearly 118k sf of pre-leasing activity at Flight from tenants such as Happy Money, Work Well Win, & Branded Online, these tenants will not occupy until later this year. The largest move-in of the second quarter came from Anduril, who occupied 107k sf at 2722 Michelson.

New leasing activity finished the second quarter of 2019 at 1.9 million square feet (msf) which brings the mid-year total to 3.9 msf. Compared to the same mid-year period last year, Orange County leasing activity increased 18.4%. Many of the top leases this quarter were fueled by new direct leases with six of the top eight transactions, including the largest leased signed by WeWork at Irvine Company's new development Spectrum Terrace for 116k sf. Cushman & Wakefield represented WeWork as well as five of the top eight leasing transactions this quarter.

Orange County overall net absorption posted positive 116k sf of occupancy gains in the second quarter of 2019. With four of the five submarkets posting negative absorption, the Greater Airport Area offset the market with 265k sf of positive absorption. The majority of these gains came from Class B office buildings at UCI Research Park where Skyworks, Covidien, Acorns, Chipotle, & Urovant occupied a combined 330k sf. Additionally, Advantage Sales occupied nearly 63k sf at 1610 Saint Andrew in Santa Ana. The largest Class A move-ins occurred at The Met in Costa Mesa with both Edwards Life Sciences (62k sf) and Synchrony Financial (51k sf).

Sales activity saw a slight uptick in transaction volume by sf with 1.1 msf million square feet (msf) sold to investors, an increase of 32.7% compared the previous quarter. The largest sale occurred at 2 MacArthur Place which sold to Ocean West Capital Partners for $399 psf. The Greater Airport Area had the bulk of sales activity this year with 41% of sales activity in Orange County in the second quarter of 2019.

Outlook

New Class A office developments have provided temporary rises in vacancy rates in the first half of 2019. Over 900k sf of new office space have delivered in 2019, with another 350k sf set to deliver next quarter at Spectrum Terrace. This increase of new vacant space in Class A buildings, coupled with minimal pre-leasing activity, should subside by the end of the year as tenants slowly occupy this new space.

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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	YTD DIRECT NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	**YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	DIRECT AVERAGE ASKING RENT (CLASS A)*
South Santa Ana	1,936,514	11,353	235,193	12.7%	44,638	67,554	15,760	0	$2.79	$2.81
Costa Mesa	5,464,005	127,179	753,837	16.1%	52,909	13,337	157,607	0	$3.03	$3.40
Newport Beach	8,020,306	47,588	551,119	7.5%	-17,223	-30,383	255,318	0	$3.43	$3.48
Irvine	24,218,764	183,485	3,606,738	15.6%	403,764	299,829	1,214,802	0	$3.33	$3.45
GREATER AIRPORT AREA/CBD	**39,639,589**	**369,605**	**5,146,887**	**13.9%**	**484,088**	**350,337**	**1,643,487**	**0**	**$3.26**	**$3.41**
Irvine Spectrum	10,334,757	215,225	1,050,613	12.2%	344,905	314,032	572,003	418,751	$3.85	$3.97
Lake Forest/R.S. Margarita	2,680,958	1,682	169,442	6.4%	-45,256	-45,256	20,381	0	$2.46	$2.70
Laguna Hills/Aliso Viejo	4,296,977	26,278	503,466	12.3%	-60,635	-70,005	208,494	0	$3.12	$3.28
Laguna Niguel/Laguna Beach	574,657	3,000	47,571	8.8%	-6,368	-9,368	6,400	0	$2.91	$3.15
Mission Viejo	1,289,140	11,651	103,956	9.0%	-4,182	-14,833	24,706	0	$2.57	$2.90
S.J. Cap/S. Clemente/Dana Point	1,274,048	0	44,740	3.5%	-13,770	-13,770	875	0	$2.36	N/A
SOUTH COUNTY	**20,450,537**	**257,836**	**1,919,788**	**10.6%**	**214,694**	**160,800**	**832,859**	**418,751**	**$3.31**	**$3.63**
Seal Beach	310,241	0	21,876	7.1%	5,643	9,254	21,654	0	$3.30	$3.30
Westminster	262,284	0	11,129	4.2%	-1,309	-1,309	8,392	0	$2.11	N/A
Huntington Beach	1,303,980	0	106,215	8.1%	-20,460	-20,460	72,505	0	$3.00	$3.14
Fountain Valley	320,225	0	16,247	5.1%	-11,644	-11,644	5,296	0	$1.82	N/A
Garden Grove	541,785	3,126	26,754	5.5%	-919	-919	4,493	0	$1.95	N/A
Los Alamitos/Stanton	435,342	0	163,333	37.5%	-3,880	-3,880	157,146	0	$1.62	N/A
Cypress	1,212,927	0	138,786	11.4%	-11,294	-11,294	150,164	0	$1.98	N/A
WEST COUNTY	**4,386,784**	**3,126**	**484,340**	**11.1%**	**-43,863**	**-40,252**	**419,650**	**0**	**$2.44**	**$3.17**
Parkcenter Area	2,701,253	4,841	255,686	9.6%	-1,127	-5,968	124,670	0	$2.30	$2.85
Stadium Area	3,617,010	40,263	332,844	10.3%	-66,254	-67,682	124,816	0	$2.50	$2.87
The City Area	2,277,180	8,434	317,434	14.3%	-51,651	-60,085	50,015	0	$2.89	$2.96
Main Place Area	2,236,411	18,992	278,511	13.3%	-14,398	-33,390	131,997	0	$2.54	$2.92
Tustin (South of I-5)	783,575	0	158,543	20.2%	-12,710	-12,710	101,397	0	$2.72	N/A
Santa Ana	3,022,412	8,102	356,529	12.1%	46,594	38,492	98,077	0	$2.21	N/A
North/East Anaheim	2,978,550	4,423	259,192	8.9%	31,329	26,906	114,264	0	$2.43	$2.56
East Orange	427,246	0	19,665	4.6%	-1,694	-1,694	3,557	0	$2.49	N/A
Civic Center Area	2,032,872	5,200	247,978	12.5%	6,045	6,045	124,945	0	$1.74	$2.65
CENTRAL COUNTY	**20,076,509**	**90,255**	**2,226,382**	**11.5%**	**-63,866**	**-110,086**	**873,738**	**0**	**$2.43**	**$2.89**
Fullerton	1,283,776	0	7,521	0.6%	3,060	3,060	4,557	0	$1.91	N/A
Brea/La Habra	3,920,786	17,905	123,069	3.6%	21,724	63,151	117,531	0	$2.39	$2.65
Placentia/Yorba Linda	270,646	0	26,671	9.9%	-20,068	-20,068	20,414	0	$2.09	N/A
Buena Park/La Palma	1,172,333	0	164,015	14.0%	-14,903	-7,676	25,332	0	$2.38	$2.88
NORTH COUNTY	**6,647,541**	**17,905**	**321,276**	**5.1%**	**-10,187**	**38,467**	**167,834**	**0**	**$2.35**	**$2.77**
O.C. MARKET TOTALS	**91,200,960**	**738,727**	**10,098,673**	**11.9%**	**580,866**	**399,266**	**3,937,568**	**418,751**	**$3.02**	**$3.38**

*Rental rates reflect gross asking $psf/month **Does not include Renewals

CLASS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	YTD DIRECT NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT*	DIRECT AVERAGE ASKING RENT*
Class A	42,371,365	513,579	6,126,517	15.7%	244,051	191,218	2,027,417	418,751	$3.35	$3.38
Class B	46,773,148	223,428	3,906,399	8.8%	353,123	224,356	1,899,236	0	$2.52	$2.55
Class C	2,056,447	1,720	65,757	3.3%	-16,308	-16,308	10,915	0	$1.89	$1.91

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Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
17300 Laguna Canyon Road	116,261	WeWork	New Lease	Irvine Spectrum
3 Glen Bell Way	89,578	Ford Motor Company	Renewal*	Irvine Spectrum
15771 Red Hill Avenue	76,000	Tricon Homes	New Lease	Tustin
18565-18575 Jamboree Road	75,284	Rutan & Tucker	New Lease	Irvine
1700 Flight Way	72,010	Happy Money	New Lease	Tustin Legacy
500 S Main Street	69,151	County of Orange	New Lease	Santa Ana
1500 S Douglass Road	64,000	Regents of the University of California	Sublease	Anaheim
100 Bayview Circle	53,478	WeWork	New Lease	Newport Beach
3161 Michelson Drive	53,013	Jones Day	Renewal*	Irvine
4041 MacArthur Boulevard	51,716	WeWork	New Lease	Newport Beach

*Renewal – not included in Leasing Activity Statistics

Key Sales Transactions Q2 2019

PROPERTY	SF	SELLER / BUYER	PRICE / $PSF	SUBMARKET
2 MacArthur Place / MacArthur Place	219,008	The Blackstone Group / Ocean West Capital Partners	$83,000,000 / $379	South Santa Ana
1 MacArthur Place / MacArthur Place	210,025	The Blackstone Group / Angelo, Gordon & Co.	$54,000,000 / $257	South Santa Ana
1800 E Imperial Highway / Fairway Center I	145,501	Rockefeller Group / Dollinger Properties	$33,500,000 / $230	Brea
23 Pasteur / Westcorp Plaza	125,315	Wells Fargo / TGS Management	$28,000,000 / $223	Irvine Spectrum
27061-27081 Aliso Creek Road	124,710	Menlo Equities / AACCN	$28,375,266 / $228	Aliso Viejo
15750 Alton Parkway	101,000	Wells Fargo / IRA Capital	$32,000,000 / $317	Irvine Spectrum

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Explanation of Terms

Total Inventory: The total amount of office space (in buildings of a predetermined size by market) that can be rented by a third party.

Overall Vacancy Rate: The amount of unoccupied space (new, relet, and sublet) expressed as a percentage of total inventory.

Direct Vacancy Rate: The amount of unoccupied space available directly through the landlord (excludes sublease space).

Absorption: The net change in occupied space between two points in time. (Total occupied space in the present quarter minus total occupied space from the previous quarter, quoted on a net, not gross, basis.)

Leasing Activity: The sum of all leases over a period of time. This includes pre-leasing activity as well as expansions. It does not include renewals.

Under Construction: Industrial and office square footage that are being built and have not received certificates of occupancy (C of O). Projects which are beyond site preparation (concrete slab poured and construction is actively progressing). For C&W statistical purposes, these buildings will not be complete by the last day of the reporting quarter.

Under renovation: Office and industrial buildings that are undergoing renovation, rehabilitation or conversion and require a certificate of occupancy to be habitable.

Overall Weighted Asking Rents: Gross average asking rents weighted by the amount of available direct and sublease space in Class A, B and C properties.

Class A Asking Rents: Gross average asking rents weighted by the amount of available Class A direct and sublease space.

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