

MARKET TRENDS | OFFICE

ORANGE COUNTY

2ND QUARTER
2019

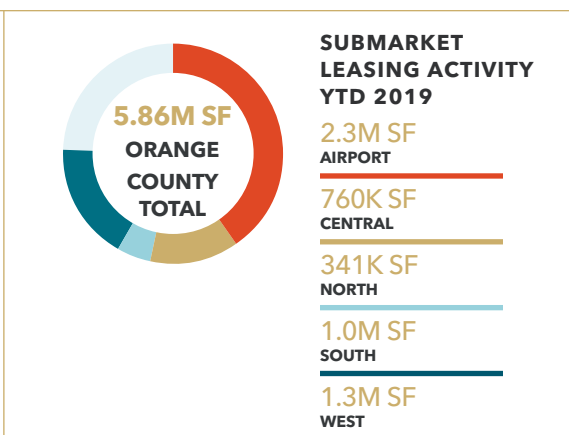
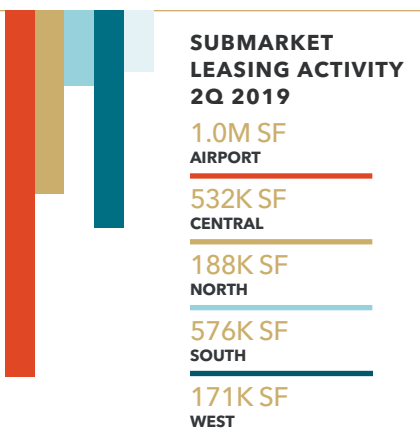
▲ ABSORPTION | ◀ VACANCY | ▲ RENTAL RATE | ▼ CONSTRUCTION DELIVERIES

The Orange County office market remains on firm footing in 2Q19 as office demand continues to increase in lock-step with the steady influx of new supply. Direct net absorption this quarter experienced a rebound from the slow start in 1Q19, asking rental rates continue to record post-recession highs, and vacancies remained relatively stable. In addition, sales transaction volume more than doubled from last quarter, as investors continue to trade trophy properties and office campuses throughout Orange County. Currently the unemployment rate sits at 2.4%, 110 basis points (bps) lower than the state's average of 3.5% and 100 basis points (bps) lower than the national average, respectively. According to the State of California's Employment Development Department, total nonfarm employment increased by 18,600 jobs year over year, or 1.1% growth between May 2018 and May 2019. With healthy demand fundamentals in place, we can expect stable supply and demand growth in the Orange County office market to remain steady throughout 2019.

The office market recovered from a slow start at the beginning of the year, posting a strong positive absorption of approximately 252,000 square feet. Net absorption for Class B office space had the most impact this quarter with approximately 254,267 square feet of positive absorption. While Class B office space may have accounted for the most positive absorption, expect Class A office

space to experience a significant increase as shared space occupiers continue to set their eyes on highly modernized spaces coupled with amenities. Within the past year, shared space occupiers have leased over 825,000 square feet with additional leases currently under negotiations. Leasing activity market-wide slowed this quarter totaling 581 transactions for 2,485,507 square feet in volume, down from the previous quarter's 3,460,158 square feet. One notable lease this quarter was finance company Happy Money signing their 72,010 square foot lease at Tustin Legacy, making it the largest lease thus far in the newly developed office park. Moreover, Rutan & Tucker LLP, the second largest law firm in Orange County in terms of attorney count, has leased the entire top-floor and portion of the 8th floor in The Boardwalk office development, totaling 72,000 square feet. The Boardwalk is now 75% occupied since its completion back in 2017.

Asking lease rates have been relatively flat in recent months, increasing \$0.01 per square foot. In spite of a slowdown in rent growth, average asking lease rates



2Q 2019 MARKET HIGHLIGHTS

VACANCY remained stable in 2Q19 dropping 10 basis points (bps) quarter-over-quarter

RENTAL RATES continue to grow for 29 straight quarters recording an all-time high of \$2.75/sf on a full service gross basis

AVG SALES PRICE for the quarter was \$260/sf with cap rates at 6.16%

UNEMPLOYMENT RATES are at 2.4%, 110 basis points (bps) lower than the state's average of 3.5%

have grown for 29 straight quarters ending at a record-breaking rate of \$2.75 per square foot on a full service basis. In addition, Both Class A and Class B office product averaged a record high of \$3.19 and \$2.61, respectively, per square foot on a full service basis market-wide. The Airport Area continues to boast the highest average asking rates at \$3.08 per square foot, with Newport Beach commanding all submarkets with the highest asking lease rate of \$3.44 per square foot. This is primarily due to the abundance of Class A office space in the area that has continued to apply upward pressures on asking rates. Conversely, West County reported the lowest average asking rates at \$2.24 per square foot due to limited inventory of Class A&B space, and without any new construction in the pipeline, we can anticipate West County to continue to record the lowest rates in the market. Direct vacancies have remained stable in 2Q19 concluding at 9.7%, a decrease of 10 basis points (bps) from last quarter. This is a remarkable feat as the Orange County office market is in midst of a heavy construction pipeline. Although rental rate growth may be slowing, with steady economic fundamentals and robust demand for quality office space, we can expect rates to continue to increase in the following quarters.

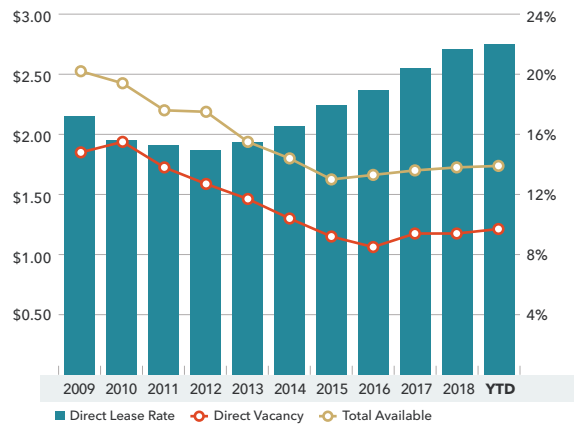
Tight vacancies, healthy demand fundamentals and continual positive rent growth have contributed to the confidence of investors in Orange County, as it is a good time to be a landlord or a seller. Investors have continued to place their capital into best-in-class office properties and campuses as they are traded regularly. The largest transaction of the quarter was the acquisition of MacArthur Place in Santa Ana by Ocean West Capital Partners from The Blackstone Group L.P. for \$83 million (\$398.77/sf). The 208,142 square foot building was 100% occupied at the time of sale. Prior to the sale, The Blackstone Group L.P. had sold the sister building at 1 MacArthur for \$54 million (\$257.11/sf) to Ocean West Capital Partners and Angelo, Gordon, & Co. Sale transactions for the quarter jumped to 1,709,759 square feet in volume, doubling in volume from 874,921 square feet from the quarter prior. Market-wide cap rates in 2Q19 were 6.16%, a 10 basis point (bps) increase from a year prior when cap rates averaged 6.06%.

Source: Costar, State of CA Employment Development Department

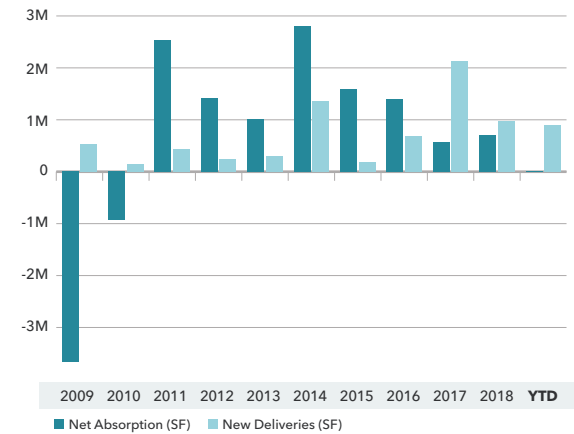
Market Breakdown

	2Q 2019	1Q 2019	2Q 2018	Annual % Change
Vacancy Rate	9.70%	9.80%	9.50%	2.11%
Availability Rate	13.90%	14.00%	13.90%	0.00%
Asking Lease Rate	\$2.75	\$2.74	\$2.67	3.00%
Leased SF	2,485,507	3,460,158	3,122,693	-20.41%
Sold SF	1,709,759	874,921	1,860,989	-8.13%
Net Absorption	252,000	-252,622	19,178	N/A

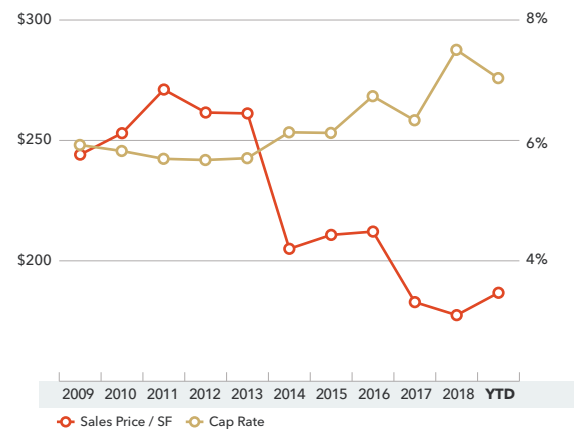
LEASE RATE, VACANCY & AVAILABILITY



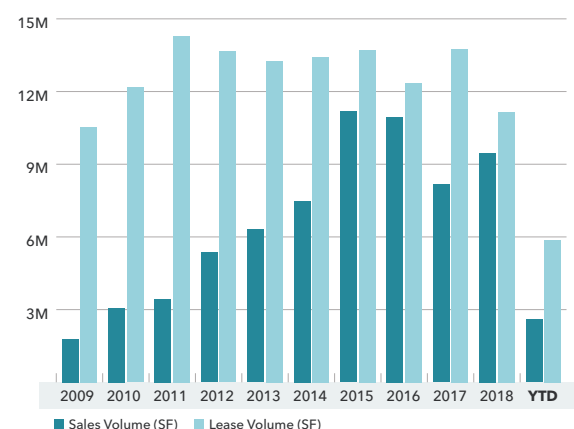
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALE PRICE & CAP RATES

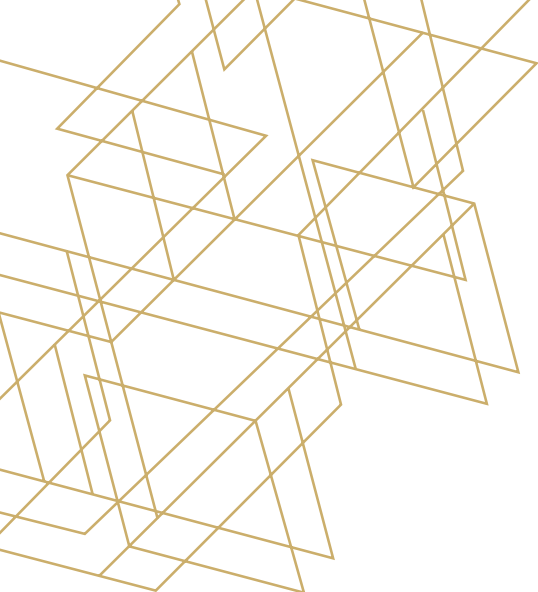


SALES VOLUME VS. LEASE VOLUME



ORANGE COUNTY SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Available Rate	2Q Direct Net Absorption	2019 Direct Net Absorption	2Q Leasing Activity	2019 Leasing Activity	Rental Rate
Costa Mesa	8,801,321	12.8%	2.0%	14.8%	17.2%	-177,950	-108,707	106,865	281,906	\$2.60
Irvine	27,567,290	12.9%	1.0%	13.8%	17.5%	214,340	393,246	706,944	1,620,529	\$3.07
Newport Beach	13,088,664	7.2%	0.9%	8.1%	10.7%	31,775	60,792	197,008	383,067	\$3.44
South Santa Ana	2,447,621	9.5%	1.3%	10.8%	16.4%	11,364	-8,543	5,916	17,820	\$2.70
Class A	26,898,108	13.9%	1.4%	15.3%	18.5%	2,109	118,728	664,842	1,383,498	\$3.31
Class B	22,785,297	8.7%	1.0%	9.7%	13.1%	85,704	228,130	334,209	883,262	\$2.97
Class C	2,221,491	5.3%	0.1%	5.3%	8.6%	-8,284	-10,070	17,682	36,562	\$2.78
Airport	51,904,896	11.3%	1.1%	12.4%	15.7%	79,529	336,788	1,016,733	2,303,322	\$3.08
Civic Center Area	5,658,655	8.5%	0.0%	8.6%	9.2%	113,703	72,757	24,339	91,854	\$1.97
East Orange	2,096,496	2.8%	0.2%	3.0%	5.3%	1,684	14,442	6,805	31,668	\$2.30
Main Place	3,194,031	12.5%	0.6%	13.1%	14.5%	28,515	-24,867	77,602	99,369	\$2.67
Parkcenter	5,076,028	10.5%	0.3%	10.8%	15.1%	-3,305	-33,958	71,811	140,248	\$2.12
Santa Ana	5,215,581	13.0%	0.4%	13.3%	18.0%	-111,386	-238,758	120,224	86,439	\$2.44
Stadium Area	3,524,059	12.5%	0.3%	12.8%	19.5%	-94,684	-101,147	95,464	145,845	\$2.44
The City	2,628,806	12.8%	0.9%	13.7%	21.3%	9,775	-35,986	46,570	65,579	\$3.13
Tustin	1,928,091	9.1%	0.0%	9.1%	5.9%	76,290	81,161	89,869	99,642	\$2.47
Class A	7,249,086	11.8%	0.7%	12.5%	19.1%	77,218	22,332	131,610	231,530	\$2.84
Class B	17,472,884	11.3%	0.2%	11.5%	13.7%	-68,644	-266,934	386,316	451,920	\$2.25
Class C	4,599,777	6.0%	0.1%	6.1%	8.2%	12,018	-21,754	14,758	77,194	\$1.77
Central	29,321,747	10.6%	0.3%	10.9%	14.2%	20,592	-266,356	532,684	760,644	\$2.33
Anaheim Hills	1,402,031	7.0%	0.2%	7.2%	7.2%	-4,177	-7,233	10,003	26,675	\$2.04
Brea/La Habra	4,774,224	5.0%	1.1%	6.1%	11.8%	17,623	-28,829	15,091	59,994	\$2.25
Buena Park/La Palma	2,174,591	8.9%	0.3%	9.2%	10.2%	-16,689	17,177	22,697	36,202	\$2.23
Fullerton	3,057,132	6.2%	0.0%	6.2%	7.7%	21,211	30,815	25,521	70,623	\$2.53
North/East Anaheim	5,888,681	6.4%	0.1%	6.5%	7.6%	-7,077	10,119	79,751	105,123	\$1.98
Placentia/Yorba Linda	837,307	14.2%	0.3%	14.5%	14.6%	9,923	-2,833	34,993	42,457	\$2.42
Class A	3,204,567	6.8%	1.6%	8.5%	9.7%	-14,613	23,555	6,649	27,830	\$2.58
Class B	12,773,839	7.0%	0.1%	7.2%	9.8%	63,188	48,647	174,333	302,319	\$2.20
Class C	2,155,560	4.6%	0.0%	4.6%	5.8%	-27,761	-52,986	7,074	10,925	\$2.01
North	18,133,966	6.7%	0.4%	7.1%	9.3%	20,814	19,216	188,056	341,074	\$2.23
Irvine Spectrum	14,162,913	10.4%	2.0%	12.4%	17.3%	-12,371	17,776	286,256	563,990	\$3.21
Laguna Hills/Aliso Viejo	6,005,817	13.4%	2.0%	15.4%	20.4%	133,131	161,730	176,842	295,939	\$2.99
Laguna Niguel/Laguna Beach	2,281,278	4.1%	0.3%	4.4%	6.2%	-6,329	-1,015	11,188	23,275	\$2.70
Lake Forest/Foothill Ranch	3,844,433	6.3%	0.1%	6.4%	14.0%	46,704	12,201	31,983	63,664	\$2.39
Mission Viejo	2,210,640	7.4%	0.8%	8.2%	15.7%	-23,926	-24,664	25,644	48,010	\$2.61
Dana Point/San Juan/ San Clemente	3,018,143	6.7%	0.1%	6.7%	10.5%	10,405	12,438	44,908	74,150	\$2.43
Class A	10,135,158	14.4%	3.2%	17.6%	21.8%	-16,469	43,103	239,704	378,692	\$3.36
Class B	20,026,439	7.4%	0.6%	8.0%	13.8%	163,818	132,660	326,546	667,713	\$2.78
Class C	1,361,627	2.2%	0.1%	2.3%	3.0%	265	2,703	10,571	22,623	\$2.25
South	31,523,224	9.7%	1.4%	10.8%	15.9%	147,614	178,466	576,821	1,069,028	\$2.96
Cypress	2,005,862	9.7%	0.0%	9.7%	17.0%	-31,804	-30,789	52,692	115,101	\$2.25
Fountain Valley	2,317,439	4.0%	0.1%	4.1%	5.2%	-6,344	-24,045	47,762	55,612	\$1.73
Garden Grove	2,264,274	2.7%	0.0%	2.7%	3.7%	8,440	16,385	2,496	14,890	\$1.82
Huntington Beach	4,069,926	5.2%	0.4%	5.6%	8.0%	-1,124	-245,335	57,106	1,016,773	\$2.29
Los Alamitos/Stanton	1,293,063	15.4%	0.9%	16.3%	5.7%	1,768	-7,762	2,777	162,785	\$2.22
Seal Beach	567,769	5.2%	0.0%	5.2%	10.2%	3,414	10,788	6,705	18,040	\$3.28
Westminster	959,259	1.1%	0.0%	1.1%	2.0%	9,101	12,022	1,675	10,553	\$2.53
Class A	1,941,941	7.4%	0.4%	7.8%	19.8%	-16,466	-275,742	24,227	35,876	\$2.73
Class B	8,671,791	6.7%	0.2%	7.0%	6.4%	10,201	9,806	142,195	424,139	\$2.18
Class C	2,863,860	2.5%	0.2%	2.6%	2.9%	-10,284	-2,800	4,791	933,739	\$1.80
West	13,477,592	5.9%	0.2%	6.2%	7.6%	-16,549	-268,736	171,213	1,393,754	\$2.24
Orange County Total	144,378,425	9.7%	0.9%	10.5%	13.9%	252,000	-622	2,485,507	5,867,822	\$2.75
Class A	49,428,860	13.0%	1.6%	14.6%	18.7%	31,779	-68,024	1,067,032	2,057,426	\$3.19
Class B	81,760,650	8.5%	0.5%	9.0%	12.2%	254,267	152,309	1,363,599	2,729,353	\$2.61
Class C	13,188,915	4.5%	0.1%	4.6%	6.2%	-34,046	-84,907	54,876	1,081,043	\$2.11



Notable Sale Transactions

OCEAN WEST CAPITAL PARTNERS 2 MacArthur Place, Santa Ana
208,142 sf | \$83,000,000 or \$398.77/sf

ANGELO, GORDON & CO./OCEAN WEST CAPITAL PARTNERS
1 MacArthur Place, Santa Ana
210,025 sf | \$54,000,000 or \$257.11/s.f.

DOLLINGER PROPERTIES 1800 E. Imperial Hwy, Brea
145,467 s.f. | \$33,500,000 or \$230.29/s.f.

Notable Lease Transactions

AMBRY GENETICS 1 Enterprise Dr, Aliso Viejo
109,948 s.f.

TRICON AMERICAN HOMES 15771 Red Hill Ave, Tustin
78,000 s.f.

RUTAN & TUCKER 18565 - 18575 Jamboree Rd (The Boardwalk), Irvine
77,084 s.f.



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COMMERCIAL BROKERAGE

20M ANNUAL SALES SF

400+ NO. OF BROKERS

\$9B ANNUAL TRANSACTION VOLUME

40M ANNUAL LEASING SF

VALUATION ADVISORY

1,600+ APPRAISALS ANNUALLY

36/23 TOTAL NO. APPRAISERS/MAI'S

PROPERTY MANAGEMENT

55M+ MANAGEMENT PORTFOLIO SF

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