

MARKET TRENDS | **ORANGE COUNTY**

OFFICE

3RD QUARTER
2019

▲ **ABSORPTION** | ◀▶ **VACANCY** | ▲ **RENTAL RATE** | ▲ **CONSTRUCTION DELIVERIES**

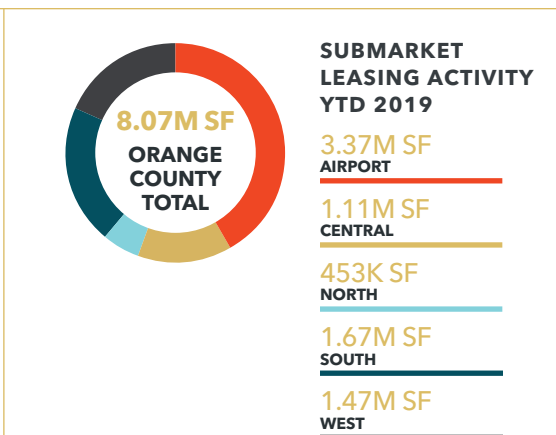
The Orange County office market remained healthy in 3Q 2019 as office demand continued to increase in lock-step with the steady inflow of new supply. Direct net absorption this quarter continued to regain strength from the negative absorption levels in the beginning of the year, asking rental rates remain at post-recession highs, and vacancies are relatively stable.

In addition, sales transactional volume remains robust, nearly doubling the amount from the beginning of the year as investors continue to trade trophy properties and office campuses. Currently the unemployment rate sits at 3.0%, 120 basis points (bps) lower than the state’s average of 4.2% and 80 basis points (bps) lower than the national average, respectively. According to the State of California’s Employment Development Department, total nonfarm employment increased by 12,500 jobs year over year, or 0.8% growth between August 2018 and August 2019. The strongest benefactors were leisure and hospitality and educational and health services industries, adding 7,600 jobs and 3,900 jobs, respectively. As market fundamentals continue to improve, we can expect the Orange County office market to remain healthy moving forward.

the most impact this quarter with approximately 296,267 square feet of positive absorption. While Class B office space may have accounted for the most positive absorption, we can expect Class A office space to experience an increase next quarter. A notable lease this quarter involved WeWork expanding their footprint as they leased 116,261 square feet at Spectrum Terrace in Irvine. The newly developed Class A office campus was completed this quarter and WeWork will look to occupy all four floors early next quarter. In addition, the We Company announced changes in their current business model of rapid office expansion, as they look to recover from net losses. With the resignation of their CEO and constant struggle for revenues, anticipate WeWork to slow down their leasing activities throughout the country.

The office market experienced a cool down in 3Q 2019 in terms of tenant movement, posting 3,264 square feet of positive absorption to end the quarter. Net absorption for Class B office space had

Asking lease rates remained relatively flat this quarter, increasing by \$0.01 per square foot from a year prior. In



3Q 2019 MARKET HIGHLIGHTS

- DIRECT** vacancy rates remained stable in 3Q 2019
- RENTAL RATES** increased 0.37% year-over-year, at \$2.71/sf FSG
- SALES PRICE** for 3Q 2019 was \$266.75/sf with 5.1% cap rates
- UNEMPLOYMENT RATES** are at 3%, 120 bps lower than CA’s average

spite of a slowdown in rental growth, average asking lease rates continue to record post-recession highs, concluding the quarter at \$2.71 per square foot on a full service basis. In addition, both Class A and Class B office product have also remained at record highs, recording \$3.14 and \$2.60, respectively, per square foot on a full service basis. The Airport Area continues to boast the highest average asking rates at \$3.03 per square foot, with Newport beach commanding all submarkets with the highest asking lease rate of \$3.46 per square foot. This is attributed to the abundance of Class A office space in the area that has continued to apply upward pressures on asking rates. Conversely, North County reported the lowest average asking rates for the first time this year at \$2.20 per square foot. Direct vacancies have remained stable in 3Q 2019 concluding at 9.7%, an increase of 20 basis points (bps) from last quarter. This is a remarkable feat as the Orange County office market has encountered a heavy delivery cycle since 1Q 2017. Although rental rate growth may be cooling, with steady economic fundamentals and robust demand for quality office space, we can expect rates to continue to improve in 2019.

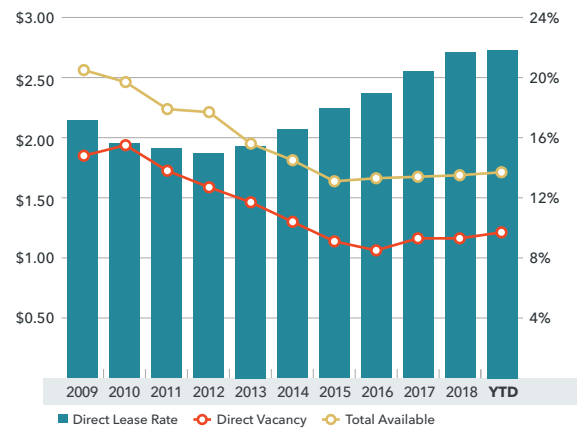
Tight vacancies, healthy demand fundamentals and continuous positive rent growth have contributed to the confidence of investors in Orange County, as it is a good time to be a landlord or a seller. Investors have continued to place their capital into best-in-class office properties and campuses as they are traded regularly. The largest transaction of the quarter was the acquisition of Pacific Center in Santa Ana by Drawbridge Realty for \$97.5 million (\$249.62/sf). The 390,600 square foot, two-building office campus consisted of 1600 & 1610 E. Saint Andrew's Place and was 82% and 87% occupied at the time of sale, respectively. Overall, sale's volume for 3Q 2019 has doubled from the beginning of the year with 1,491,360 square feet and sales equating to over \$383 million. Market wide, buildings are currently trading hands at an average of \$266.75/sf with cap rates settling at 5.1%.

Source: CoStar, EDD, FoxNews, OCBJ

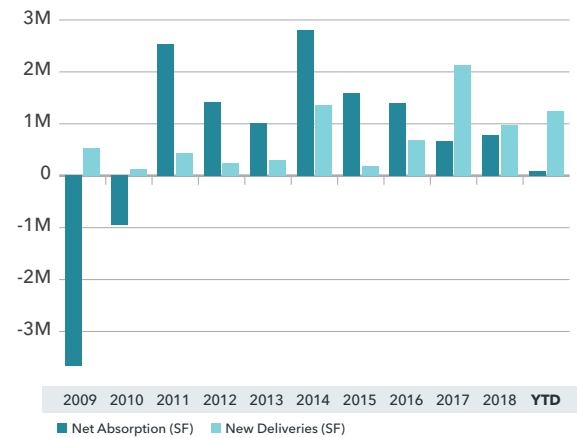
Market Breakdown

	3Q 2019	2Q 2019	3Q 2018	Annual % Change
Direct Vacancy Rate	9.70%	9.50%	9.70%	0.00%
Availability Rate	13.70%	13.30%	13.90%	-1.44%
Asking Lease Rate	\$2.71	\$2.75	\$2.70	0.37%
Leased SF	1,832,866	2,722,391	2,521,267	-27.30%
Sold SF	1,491,360	1,730,032	2,300,984	-35.19%
Net Absorption	3,264	284,725	-99,794	N/A

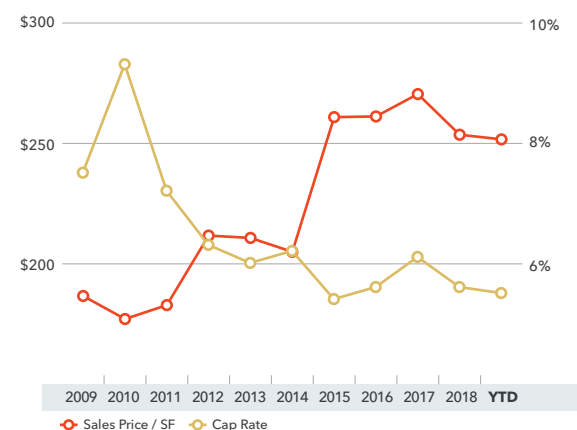
LEASE RATE, VACANCY & AVAILABILITY



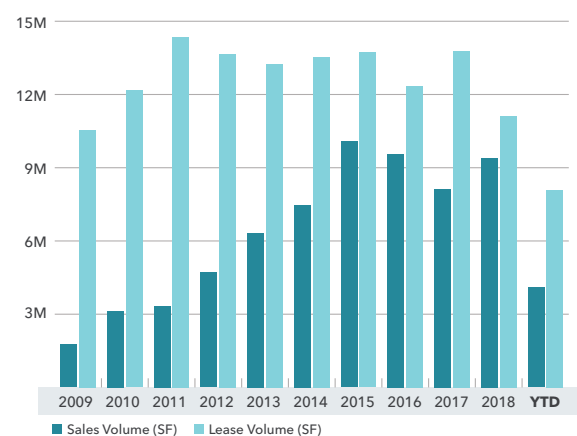
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALE PRICE & CAP RATES

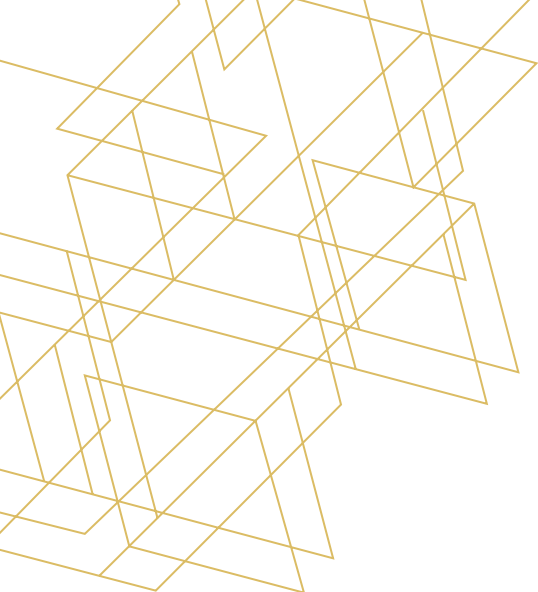


SALES VOLUME VS. LEASE VOLUME



ORANGE COUNTY SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Available Rate	3Q Direct Net Absorption	YTD Direct Net Absorption	3Q Leasing Activity	YTD Leasing Activity	Rental Rate (FS)
Costa Mesa	8,814,515	11.8%	1.1%	12.9%	20.9%	8,672	(96,077)	101,393	399,496	\$2.63
Irvine/Tustin Legacy	28,024,507	13.3%	0.6%	13.9%	15.9%	81,324	538,532	789,832	2,422,685	\$2.98
Newport Beach	13,078,170	7.5%	1.0%	8.5%	11.7%	(34,309)	25,524	127,811	511,878	\$3.46
South Santa Ana	2,460,616	10.8%	2.1%	12.9%	17.1%	(31,744)	(40,287)	20,471	38,291	\$2.65
Class A	27,264,477	14.3%	1.4%	15.6%	18.2%	77,918	196,646	626,242	2,003,760	\$3.25
Class B	22,904,310	8.7%	0.4%	9.1%	13.6%	(41,403)	252,459	406,419	1,325,182	\$2.95
Class C	2,209,021	5.8%	0.2%	6.1%	9.2%	(12,572)	(21,413)	6,846	43,408	\$2.74
Airport	52,377,808	11.5%	0.9%	12.4%	15.8%	23,943	427,692	1,039,507	3,372,350	\$3.03
Civic Center Area	5,651,177	7.2%	0.0%	7.3%	8.9%	26,603	99,360	16,422	109,202	\$1.94
East Orange	2,094,651	2.6%	0.2%	2.8%	5.2%	3,727	18,169	11,029	43,925	\$2.28
Main Place	3,194,031	13.4%	0.6%	14.0%	14.8%	(49,423)	(74,290)	2,845	108,892	\$2.64
Parkcenter	5,076,028	10.1%	0.1%	10.3%	15.0%	15,745	(16,113)	57,911	199,508	\$2.18
Santa Ana	5,434,058	12.5%	1.2%	13.6%	17.6%	(30,540)	(239,813)	46,786	215,557	\$2.45
Stadium Area	3,529,179	13.0%	0.2%	13.2%	18.7%	(18,724)	(119,871)	85,385	252,621	\$2.58
The City	2,622,206	13.2%	0.5%	13.8%	21.0%	(14,487)	(47,116)	13,033	78,612	\$3.20
Tustin	1,928,091	6.4%	2.7%	9.0%	5.0%	52,136	133,297	4,359	104,501	\$2.49
Class A	7,242,442	13.1%	0.5%	13.5%	20.1%	(89,943)	(67,611)	27,711	266,135	\$2.83
Class B	17,723,143	9.9%	0.7%	10.6%	12.9%	117,962	(114,306)	180,247	738,397	\$2.24
Class C	4,563,836	7.0%	0.1%	7.1%	8.0%	(42,982)	(64,460)	29,812	108,286	\$1.74
Central	29,529,421	10.2%	0.6%	10.8%	13.9%	(14,963)	(246,377)	237,770	1,112,818	\$2.35
Anaheim Hills	1,402,031	5.9%	0.2%	6.1%	6.8%	15,388	8,155	200	26,875	\$2.01
Brea/La Habra	4,775,979	5.0%	0.8%	5.8%	9.1%	14,311	(26,176)	37,541	112,854	\$2.23
Buena Park/La Palma	2,174,591	8.6%	0.1%	8.8%	9.7%	6,180	23,357	10,579	46,781	\$2.26
Fullerton	3,075,132	6.5%	0.0%	6.5%	7.6%	(9,816)	20,999	15,137	87,608	\$2.41
North/East Anaheim	5,872,875	6.0%	0.1%	6.1%	7.0%	21,309	31,428	27,668	132,791	\$1.97
Placentia/Yorba Linda	838,596	11.4%	0.0%	11.4%	15.7%	23,610	20,777	1,748	45,627	\$2.51
Class A	3,204,567	5.8%	1.3%	7.1%	8.2%	31,538	55,093	32,782	75,931	\$2.58
Class B	12,760,849	6.8%	0.1%	6.9%	9.0%	40,254	77,243	50,672	345,166	\$2.17
Class C	2,173,788	4.6%	0.0%	4.6%	4.5%	(810)	(53,796)	9,419	31,439	\$1.95
North	18,139,204	6.4%	0.3%	6.6%	8.3%	70,982	78,540	92,873	452,536	\$2.20
Irvine Spectrum	14,148,341	10.6%	2.1%	12.7%	17.0%	(31,500)	(13,724)	177,715	787,742	\$3.23
Laguna Hills/Aliso Viejo	6,025,244	12.5%	1.9%	14.4%	19.6%	54,121	215,851	89,400	533,788	\$2.98
Laguna Niguel/Laguna Beach	2,281,278	4.2%	0.2%	4.4%	6.2%	(1,539)	(2,554)	7,196	30,471	\$2.67
Lake Forest/Foothill Ranch	3,842,862	6.8%	0.1%	6.9%	12.4%	(19,429)	(7,228)	46,145	111,841	\$2.37
Mission Viejo	2,220,522	13.0%	0.8%	13.8%	15.6%	(125,771)	(150,435)	15,371	64,581	\$2.48
Dana Point/San Juan/San Clemente	3,012,932	5.9%	0.4%	6.3%	8.9%	20,721	34,650	61,542	141,422	\$2.31
Class A	10,135,158	14.3%	3.2%	17.5%	21.3%	9,927	53,030	158,410	687,698	\$3.41
Class B	20,034,394	8.0%	0.6%	8.6%	13.0%	(103,614)	30,537	226,901	947,466	\$2.75
Class C	1,361,627	2.9%	0.1%	3.0%	3.2%	(9,710)	(7,007)	12,058	34,681	\$2.36
South	31,531,179	9.8%	1.4%	11.2%	15.3%	(103,397)	76,560	397,369	1,669,845	\$2.94
Cypress	2,009,275	4.1%	0.0%	4.1%	16.4%	112,111	81,322	2,756	117,857	\$2.28
Fountain Valley	2,318,891	5.4%	0.1%	5.5%	6.3%	(32,946)	(56,991)	14,431	72,780	\$1.71
Garden Grove	2,264,274	3.6%	0.0%	3.6%	4.0%	(19,412)	(3,127)	7,425	23,165	\$1.83
Huntington Beach	3,958,785	6.0%	0.4%	6.4%	9.0%	(26,988)	(272,323)	25,938	1,045,515	\$2.30
Los Alamitos/Stanton	1,293,063	16.0%	0.9%	16.9%	6.4%	(7,586)	(15,348)	6,937	169,722	\$2.25
Seal Beach	567,769	5.2%	0.0%	5.2%	9.9%	0	10,788	1,708	19,748	\$3.27
Westminster	935,290	1.0%	0.0%	1.0%	2.7%	1,520	13,542	6,152	16,705	\$2.45
Class A	1,931,531	8.3%	0.0%	8.3%	19.8%	(18,144)	(293,886)	7,682	43,558	\$2.68
Class B	8,657,149	6.3%	0.3%	6.6%	7.3%	40,628	50,334	38,752	469,282	\$2.18
Class C	2,758,667	2.4%	0.2%	2.6%	2.6%	4,215	1,415	18,913	952,652	\$1.86
West	13,347,347	5.8%	0.2%	6.0%	8.2%	26,699	(242,137)	65,347	1,465,492	\$2.24
Class A	49,778,175	13.3%	1.6%	14.9%	18.5%	11,296	(56,728)	852,827	3,077,082	\$3.14
Class B	82,096,845	8.2%	0.4%	8.7%	11.9%	53,827	296,267	902,991	3,825,493	\$2.60
Class C	13,066,939	5.0%	0.1%	5.1%	6.0%	(61,859)	(145,261)	77,048	1,170,466	\$2.10
Orange County Total	144,941,959	9.7%	0.8%	10.5%	13.7%	3,264	94,278	1,832,866	8,073,041	\$2.71



Notable Sale Transactions

DRAWBRIDGE REALTY 1600 & 1610 E St Andrew Pl, Santa Ana
390,000 s.f. | \$97.5M or \$249.62/s.f.

GREENLAW PARTNERS 2040 Main St, Irvine
307,559 s.f. | \$73.3M or \$238.42/s.f.

LASALLE INVESTMENT MGMT 4 Hutton Centre Dr, Santa Ana
216,864 s.f. | \$55.4M or \$255.46/s.f.

Notable Lease Transactions

WEWORK 17300 Laguna Canyon Rd, Irvine
116,261 s.f.

WEWORK 18191 Von Karman Ave, Irvine
74,926 s.f.

SERVICELINK 3220 El Camino Real, Irvine
62,850 s.f.



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COMMERCIAL BROKERAGE

20M	ANNUAL SALES SF	420+	NO. OF BROKERS
\$9B	ANNUAL TRANSACTION VOLUME	40M	ANNUAL LEASING SF

VALUATION ADVISORY

1,600+	APPRAISALS ANNUALLY	39/24	TOTAL NO. APPRAISERS/MAI'S
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PROPERTY MANAGEMENT

70M+	MANAGEMENT PORTFOLIO SF
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