

Tenants See Value In Class A Space

Orange County's office market opened the year with continued healthy demand for Class A space.

The continuing trend is well-timed for developers of 14 buildings totaling more than 1.3 million sq. ft. that are being completed in South County, Central County and in the Airport market.

In the last eight quarters, 13 buildings totaling 2.7 million sq. ft. have been added to the Class A inventory with absorption averaging about 183,000 sq. ft. per quarter.

Some of the demand for Class A buildings has come at the expense of second-tier space, which has averaged 124,101 sq. ft. of negative absorption over the same two-year span.

The shift toward Class A space has been incentivized by favorable lease rates. Year-over-year average asking rents are up 3% for Class A and 5.5% for Class B space. Consequently, after assessing the narrow gap between Class A and Class B rents, currently at \$3 and \$2.64 per sq. ft. respectively, most tenants are finding the value offered by premium space to be irresistible.

This also underscores the most unique economic aspect of the Orange County office market. For decades the market has been under the strong influence of the Irvine Company. Because the pre-eminent landowner's extensive South County property holdings are virtually debt-free, the company easily can afford to develop buildings entirely on spec and negotiate rents as it sees fit. This forces other office developers to price their rental space aggressively in order to compete for the same users.

Compared to an average pre-lease rate of 63.9% among all major U.S. metropolitan office markets, Orange County's rate of pre-leased space in buildings underway is 9.1%, the lowest in the nation. Among California's other five leading office markets the pre-lease rate for new office construction is 55.7% for Los Angeles, 65.5% for East Bay/Oakland, 77% for San Francisco, 96.3% for Sacramento and 96.5% for San Diego.

Although first-quarter demand countywide for premium space was positive, demand for all available space has been uneven.

The Airport market posted 326,877 sq. ft. positive absorption in the first quarter. This follows 499,321 sq. ft. of tenant expansion in the last three months of 2018. Year-over-year rent growth averaged 2.1%.

North County posted 25,838 sq. ft. of Q1 absorption, its third straight quarter of net growth. Asking rents gained 5.6% over the same period last year.

First-quarter demand in the Central County market was 238,321 sq. ft. in the red, the fifth straight quarter of negative absorption. Year-over-year rents gained 8%.

First-quarter demand in South County, which includes the Irvine Spectrum office district, totaled a modest 20,134 sq. ft. But that followed 838,050 sq. ft. of tenant growth in 2018.

West County saw 4,772 sq. ft. of Q1 tenant contraction, its third straight quarter of negative absorption. Rents gained 4.3% year over year.

FORECAST

Employee retention and recruiting should improve in the second quarter as Chapman University economists say the recent drop in mortgage rates has slowed 2019's expected slide in home sales from the projected 10% to 4%.

ORANGE COUNTY OFFICE

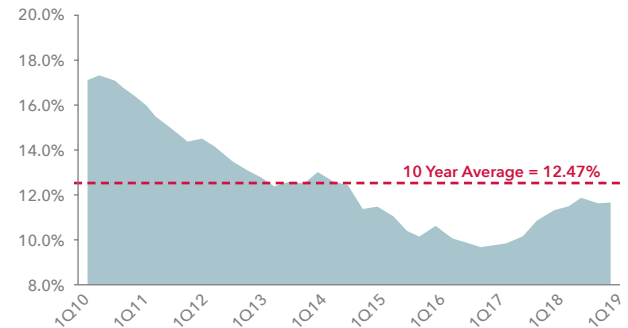
ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	3.0%	2.7%
California Unemployment	4.2%	4.1%
US Unemployment	3.8%	3.9%

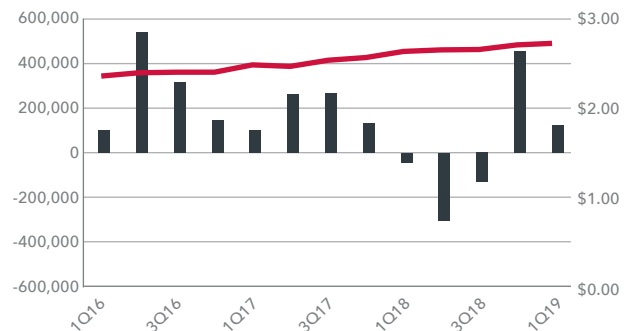
MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	115,164,387	114,824,587
Vacancy Rate (%)	11.58%	11.43%
Net Absorption (SF)	129,756	458,757
Average Asking Rent (\$/SF)	\$2.73	\$2.70
Under Construction (SF)	1,488,194	1,215,531

OVERALL VACANCY



NET ABSORPTION VS ASKING RATES



ORANGE COUNTY

FIRST QUARTER 2019 OFFICE MARKET REPORT

ORANGE COUNTY MARKET STATISTICS - 1Q 2019

BY AREA

	Bldg Count	SF RBA	Total SF Available	Avail. Rate	Total SF Vacant	Total Vac. Rate	Net Absorption	YTD Net Absorption	Avg Asking Lease Rate	SF Under Construction
North Orange County	171	14,193,547	1,476,186	10.4%	1,015,607	7.20%	25,838	25,838	\$2.30	- 0 -
Central Orange County	261	22,377,791	4,146,807	18.2%	2,991,697	13.40%	(238,321)	(238,321)	\$2.27	417,609
West Orange County	129	9,004,488	895,993	10.0%	645,429	7.20%	(4,772)	(4,772)	\$2.39	- 0 -
Greater Airport Area	423	43,359,440	7,635,790	17.3%	5,640,616	13.00%	326,877	326,877	\$3.04	785,017
South Orange County	355	26,229,121	4,348,982	16.4%	3,041,085	11.60%	20,134	20,134	\$2.82	285,568
TOTALS	1,339	115,164,387	18,503,758	16.07%	13,334,434	11.6%	129,756	129,756	\$2.73	1,488,194

ORANGE COUNTY MARKET STATISTICS - 1Q 2019

BY SUBMARKET

	Bldg Count	SF RBA	Total SF Available	Avail. Rate	Total SF Vacant	Total Vac. Rate	Net Absorption	YTD Net Absorption	Avg Asking Lease Rate	SF Under Construction
Class A	305	49,410,218	9,720,545	19.30%	6,917,975	14.00%	163,643	163,643	\$3.00	985,731
Class B	948	61,647,546	8,526,510	13.70%	6,202,326	10.10%	(25,367)	(25,367)	\$2.59	502,463
Class C	86	4,106,623	256,703	6.30%	214,133	5.20%	(8,520)	(8,520)	\$2.08	- 0 -
TOTALS	1,339	115,164,387	18,503,758	16.1%	13,334,434	11.6%	129,756	129,756	\$2.73	1,488,194

LEASE TRANSACTIONS 1Q 2019

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
6261 Katella Ave., Suite 250 Cypress, CA	23,540	KushCo Holdings	Warland Investments Company	Skyler Serrano represented the Tenant.
4 Hutton Centre Dr., Suite 900 Santa Ana, CA	13,658	Hart, King, Coldren, LLP	Lakeside Partners Hutton, LLC	Gary McArdell and John Collins represented the Tenant.
1900 S. State College Blvd. Anaheim, CA	7,409	West Coast EMT	GV Stadium Gateway, LLC	Mark Joens represented the Tenant.

SALE TRANSACTIONS 1Q 2019

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
2495 Campus Dr. Irvine, CA	17,635	Santa Ana Unified School District	Calvin Coatsworth	Greg Diab & Jack Haley represented the Buyer and Gary McArdell & John Collins represented the Seller.
270 E. Baker, Suite 200 Costa Mesa, CA	6,304	Takeya USA Corporation	Baker Red Hill, G.P.	Phil Cohen, Kurt Bruggeman and Ryan Swanson represented the Seller.
1432 Edinger Ave., Suite 220 Tustin, CA	3,302	Yue-Hong Chou	Mansers 1432 Edinger LLC	Gary McArdell represented the Buyer.

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