

### VIRUS THREATENS OFFICE GROWTH

Healthy tenant demand for office space continued through the first half of March when the global coronavirus crisis hit home. For most of last year companies were expanding their office footprints in Orange County and lately finding the effective rents in premium buildings to be irresistible. Virtually overnight, however, and barely a decade after the last recession people are speaking of a “new normal” but without yet knowing exactly what it will be.

At this early stage in the crisis, it's too soon to predict beyond the second quarter how long the health emergency will last or its toll on the economy. The uncertainty has caused most transactions to be delayed or canceled. An early April survey of national economists found on average that the contraction will cause unemployment to spike to as high as 13% before a recovery begins in the second half.

Going into the coronavirus lockdown, demand for Class A space posted nearly 382,000 SF of net absorption in Q1, the most in two years, during which 1.4 million SF of new space has been completed. In the last two quarters, Class A netted 530,726 SF of new tenants but negative absorption in Class B space totaled 476,308 SF. Overall, the last three years have been the weakest of the recovery averaging 548,000 SF of net absorption annually compared to a yearly 1.6-million-SF average from 2011 through 2016.

Economists assert that in contrast to the last contraction, which stemmed from a financial crisis brought on by subprime mortgage recklessness, the coming coronavirus recession will be more akin to a natural disaster that blindsided an economy with healthy fundamentals.

Before the 19-month downturn that began at the end of 2007, the Orange County office market already was softening from the emerging subprime mortgage debacle. Many of the nation's failed lenders had occupied acres of Orange County office space. Office tenants shed 5.9 million SF of space in three years, starting in the second quarter of 2007. The vacancy rate soared from 9.1% to 18.6%. By Q4 2012 average asking rents fell 28% and did not recover until Q1 2018. The recession idled 161,850 Orange County workers or 10.7% of the labor force.

There may be some positive signs. Because of early social distancing policies in California, official reports are stating that the spread of the coronavirus in the state may have been slowed. Additionally, the \$2.2-trillion federal rescue package is clear evidence that congress is committed to stimulus spending. At this time it's vital to work to flatten the curve of new coronavirus cases to reduce stress on the healthcare system and enable a quicker economic recovery.

### FORECAST

Cal State Fullerton said the index in its quarterly business expectation survey “collapsed” from 92.9 to 22.7 when the survey was taken at the end of March. During the last recession the index fell for eight straight quarters from 83.1 to 15.2.

### ORANGE COUNTY OFFICE

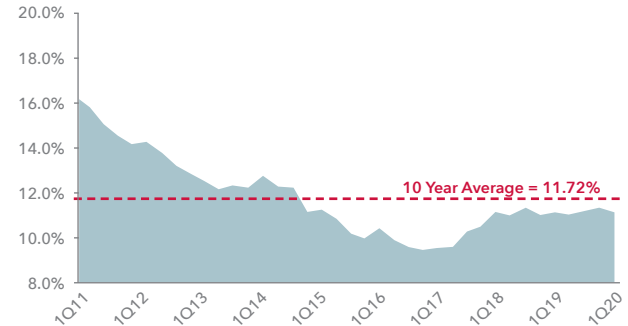
#### ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	2.8%	2.4%
California Unemployment	3.9%	3.7%
US Unemployment	4.4%	3.5%

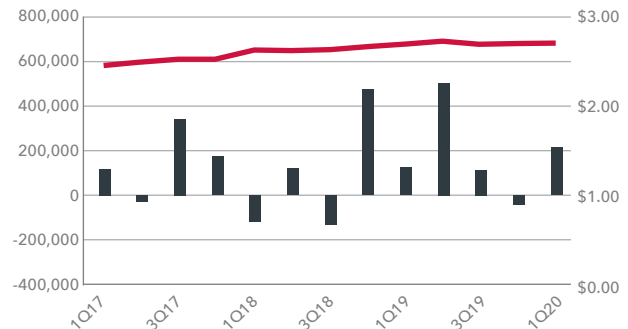
#### MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	116,622,262	116,622,262
Vacancy Rate (%)	11.19%	11.37%
Net Absorption (SF)	209,930	-45,571
Average Asking Rent (\$/SF)	\$2.71	\$2.71
Under Construction (SF)	1,066,209	450,824

#### OVERALL VACANCY



#### NET ABSORPTION VS ASKING RATES



# ORANGE COUNTY

## FIRST QUARTER 2020 OFFICE MARKET REPORT

### ORANGE COUNTY MARKET STATISTICS - 1Q 2020

#### 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	172	14,267,675	1,242,365	8.70%	992,721	7.00%	(1,691)	(1,691)	\$2.38	- 0 -
Central Orange County	265	22,438,891	3,595,541	15.90%	2,865,476	12.80%	38,422	38,422	\$2.46	180,000
West Orange County	128	9,637,298	814,117	8.40%	755,895	7.80%	(33,897)	(33,897)	\$2.31	- 0 -
Greater Airport Area	422	43,719,029	7,302,768	16.50%	5,161,154	11.80%	31,875	31,875	\$2.88	471,888
South Orange County	360	26,559,369	4,619,961	17.10%	3,278,114	12.30%	175,221	175,221	\$2.96	414,321
TOTALS	1,347	116,622,262	17,574,752	15.07%	13,053,360	11.2%	209,930	209,930	\$2.71	1,066,209

### ORANGE COUNTY MARKET STATISTICS - 1Q 2020

#### 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	311	49,898,222	9,246,498	18.40%	6,907,239	13.80%	381,965	381,965	\$2.93	435,385
Class B	951	61,859,767	8,143,373	13.00%	5,998,371	9.70%	(215,347)	(215,347)	\$2.63	630,824
Class C	85	4,864,273	184,881	3.80%	147,750	3.00%	43,312	43,312	\$2.13	- 0 -
TOTALS	1,347	116,622,262	17,574,752	15.1%	13,053,360	11.2%	209,930	209,930	\$2.71	1,066,209

### LEASE TRANSACTIONS 1Q 2020

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
100 Spectrum Center Dr., #200/220 Irvine, CA	37,206	Obsidian Entertainment	The Irvine Company	Phil Cohen, Kurt Bruggeman and Ryan Swanson represented the Tenant.
2441 W. La Palma Ave. Anaheim, CA	25,015	Anaheim Clinical Trials-LLC, a California limited liability company	Living Stream, a California non-profit corporation	John Martin represented the Tenant.
22405 E La Palma Ave. Yorba Linda, CA	9,300	Safe Build Properties	Hayne Commercial Properties	Phil Fridd and Mark Hintergardt represented the Landlord

### SALE TRANSACTIONS 1Q 2020

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
1520 N. El Camino Real San Clemente, CA	28,311	Alliance Development Services	Venetian San Clemente Apartments, LLC	Tim Walker represented the Seller.
180 Avenida La Pata San Clemente, CA	24,591	180 Avenida La Pata 2020, LLC	Sy Corp	Brock Stryker, Kurt Bruggeman and Guy LaFerrara represented the Seller.
2100 S State College Blvd. Anaheim, CA	8,200	Hutton Development	Camarillo Airport	Phil Fridd and Jim Hawkins represented the Buyer.

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