

Healthy Demand Taps The Brakes As New Space Hits The Market

After a string of healthy quarterly absorption gains over the last four years, office demand softened somewhat in the first half just as the latest building boom delivered 2.5 million sq. ft. of premium office space. Nearly 1 million sq. ft. of space is under construction.

Net absorption in Q2 countywide was negative 327,480 sq. ft. and is in the red by 705,807 sq. ft. for the first two quarters. There are 1,325 buildings countywide in the survey, totaling 114.6 million sq. ft.

Since early 2017, 11 buildings have been completed – including seven in South County – adding 2,548,554 sq. ft. to the inventory. Meanwhile, over the same six-quarter period, net absorption totaled 85,441 sq. ft., which includes an increase in sublet space of 655,275 sq. ft. The countywide vacancy rate jumped from 9.7% to 11.58%.

Class A space, which accounts for about 42% of total inventory, posted negative net absorption of 317,366 sq. ft. in the second quarter. It was the third and largest quarterly absorption loss for premium space since Q1 2014.

After gains in 10 of the previous 11 quarters, Class B space absorption was negative by 709,435 sq. ft. in 2018's first three months and down 725,134 sq. ft. through Q2.

The Class B vacancy rate settled at 9.8%, up 110 basis points since the end of last year. Vacancies have stabilized in mid-single digits in some submarkets. But low vacancies also will increase rents and drive tenants into top-tier buildings. Already in record territory, asking lease rates for Class B space jumped 9.5% year over year, the biggest increase since the recession. Conversely, rents for Class A space are up 3.4% year over year, a sharp decline from the 10.5% in mid 2016.

Additionally, tenants moving from Class B buildings to new or remodeled Class A space with open floor plans and added common areas are able to put more employees in up to 30% less space. This and other factors of concern to local building owners have some anxious landlords in the Airport market offering bonuses to procuring brokers for the first time since 2015.

Central County posted 227,162 sq. ft. of negative 2Q absorption and the South County and North County markets were slightly negative. The only second-quarter growth was the Airport market's 12,637 sq. ft., but that followed its 882,424 sq. ft. of negative absorption in the first quarter.

FORECAST

Chapman University economist Jim Doti predicted Orange County will add 38,000 jobs this year, a 2.4% growth rate that outpaces the nation's 1.5% rate and the 2.3% statewide gain. In his recent mid-year forecast, Doti said county housing will appreciate 7% this year compared to 5.5% nationally and national GDP would grow 2.7% in 2018, updating his 2.5% GDP forecast in December.

ORANGE COUNTY OFFICE

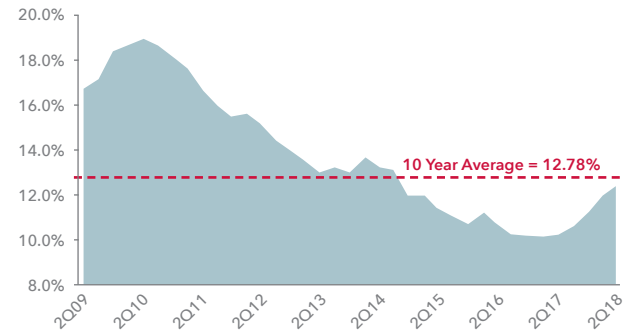
ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	2.6%	2.8%
California Unemployment	3.8%	4.4%
US Unemployment	4.0%	4.1%

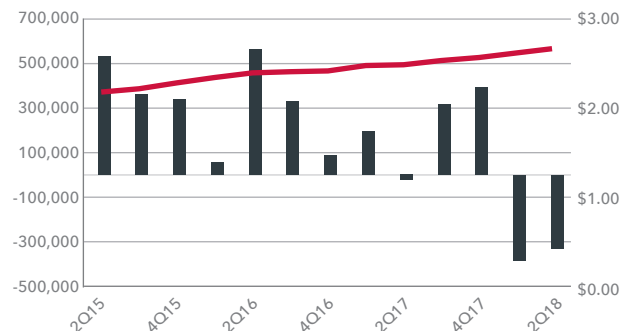
MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	114,598,662	114,598,662
Vacancy Rate (%)	11.58%	11.30%
Net Absorption (SF)	(327,480)	(378,367)
Average Asking Rent (\$/SF)	\$2.65	\$2.63
Under Construction (SF)	975,552	820,552

OVERALL VACANCY



NET ABSORPTION VS ASKING RATES



ORANGE COUNTY

SECOND QUARTER 2018 OFFICE MARKET REPORT

ORANGE COUNTY MARKET STATISTICS - 2Q 2018

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	169	14,131,312	1,576,206	11.1	1,254,317	8.9	(41,488)	(87,963)	\$2.25	38,313
Central Orange County	257	22,597,976	4,123,463	17.9	2,565,269	11.4	(227,162)	(178,917)	\$2.15	417,284
West Orange County	128	8,941,642	878,071	9.8	635,392	7.1	(16,588)	26,540	\$2.32	- 0 -
Greater Airport Area	424	43,422,845	8,346,698	19.2	6,191,607	14.3	(12,637)	(895,061)	\$2.96	155,000
South Orange County	347	25,504,887	3,715,306	14.4	2,629,261	10.3	(29,605)	429,554	\$2.81	364,955
TOTALS	1,325	114,598,662	18,639,744	16.27%	13,275,846	11.6%	(327,480)	(705,847)	\$2.65	975,552

ORANGE COUNTY MARKET STATISTICS - 2Q 2018

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	290	48,205,635	9,953,964	20.3	6,913,977	14.3	(317,366)	1,568	\$2.91	782,239
Class B	944	61,719,293	8,289,694	13.4	6,041,181	9.8	(15,699)	(725,134)	\$2.51	193,313
Class C	91	4,673,734	396,086	8.5	320,688	6.9	5,585	17,719	\$1.93	- 0 -
TOTALS	1,325	114,598,662	18,639,744	16.3%	13,275,846	11.6%	(327,480)	(705,847)	\$2.65	975,552

LEASE TRANSACTIONS 2Q 2018

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
5515 E. La Palma Ave, Ste 150 Anaheim, CA	28,445	Western Service Contract Corp.	Canyon Corporate Acquisition Partners LLC	Frank Adler and Jeff Hirsch represented the Tenant.
222 S. Harbor Blvd., Ste 500/510/515 Anaheim, CA	11,468	Branded Group Inc.	BRE CA Office Owner LLC	Allen Basso represented the Tenant.
222 S. Harbor Blvd. Anaheim, CA	7,406	Dongbu Insurance Co.	Equity Office	Marshal Vogt & Jaimeson Hearne represented the Tenant.

SALE TRANSACTIONS 2Q 2018

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
330 E. Lambert Rd. Brea, CA	43,800	Miller Brothers	Metro Commercial Realty Copr.	Steve Heimuli and Tim Walker represented the Seller.
20377 SW Acacia St. Newport Beach, CA	25,117	Wang Family Exchange	Sera Bakery, SD, LLC	Brian Garbutt represented both the Buyer and Seller.
11423 187th St. Artesia, CA	12,525	Alternative Options Counseling	Dr. Ken Sall	Marshal Vogt, Matt Orville & Jaimeson Hearne represented the Buyer.

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