

STRONG FIRST-HALF DEMAND; AIRPORT MARKET LEADS TENANT GROWTH

Demand for Orange County office space posted the strongest first half in four years, led by solid tenant growth that lately is trending in the direction of Airport-area buildings.

The overall market is in its ninth straight year of steady tenant expansion, during which occupancy gained 12.4 million SF. Net absorption has been positive for 30 of 36 quarters. At the same time 46 buildings have been completed, adding 6.8 million SF to the inventory that now includes 1,340 buildings totaling more than 116 million SF across the county's five markets.

Despite four buildings landing on the market in Q2, the countywide vacancy rate fell 15 basis points from the first quarter, settling at 11.4%. Eight buildings totaling 863,009 SF were delivered in the first half, the most new space completed in any two-quarter period since 2011. Five buildings totaling 528,751 SF were under construction at the end of Q2.

First-half tenant demand was greatest in the 44.7-million SF Airport market, which accounts for about 38% of the county inventory. Airport net absorption year to date totals 650,428 SF compared to 572,397 SF countywide. That is a turnaround from the previous three years in which Airport-area tenants shed 855,178 SF of space even as developers were underway on eight buildings totaling 921,000 SF.

The headline lease deal in Q2 also was in the Airport market. Law firm Rutan & Tucker signed a 12-year, 72,000-SF agreement for the top floor and other space at Boardwalk, two new buildings by Trammell Crow totaling 545,000 SF on Jamboree Road. Rutan becomes Boardwalk's largest tenant and vacates Irvine Company-owned space at 611 Anton Blvd., Costa Mesa, in Pacific Arts Plaza, its home of nearly 40 years.

After posting 839,350 SF of net absorption in 2018, demand for South County space has been nearly flat this year. The Irvine Company is completing construction on Spectrum Terrace, a 350,000-SF office development, and announced plans for a 500,000 SF development, Innovation Park, also in Irvine.

Demand for space was positive 127,622 SF in the 22-million SF Central County market in the first quarter, snapping a streak of four quarters of negative net absorption totaling 488,523 SF. In the second quarter Equity Office Management, a major national investor, sold One & Two MacArthur Place, two nine-story premium buildings totaling 440,000 SF. The buildings traded for \$137 million and are the county's top sales this year. Equity purchased the buildings in Santa Ana's South Coast Metro submarket 2013 for \$82.5 million.

Central County led in rent growth at 16.2% over the last 10 quarters followed by 13% in North County, 12.6% in South County, 10.4% in West County and 7.8% in the Airport market.

FORECAST

Professional and business services employment in Orange County will increase 2.9% this year, the most of any job category, said Chapman University economists in their recent mid-year update. The county's housing prices also should experience a modest recovery this year, Chapman researchers said.

ORANGE COUNTY OFFICE

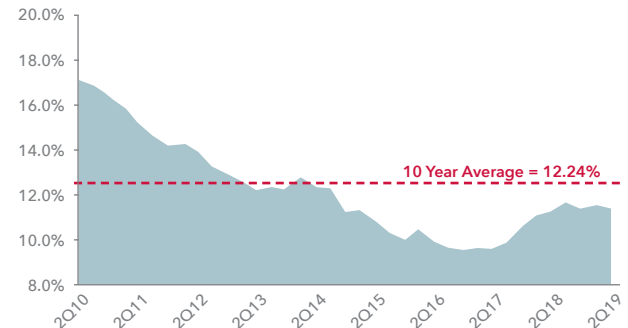
ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	2.4%	3.2%
California Unemployment	3.5%	4.6%
US Unemployment	3.6%	3.8%

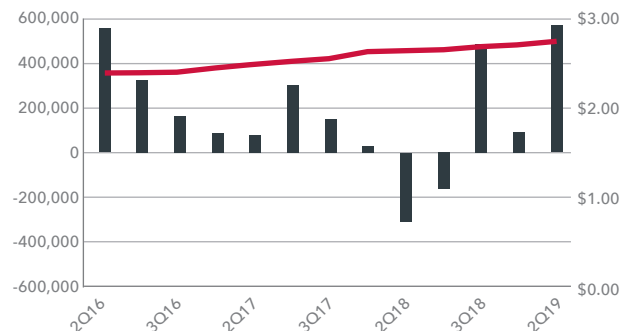
MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	116,046,991	115,629,382
Vacancy Rate (%)	11.39%	11.56%
Net Absorption (SF)	572,397	95,949
Average Asking Rent (\$/SF)	\$2.74	\$2.71
Under Construction (SF)	528,751	946,360

OVERALL VACANCY



NET ABSORPTION VS ASKING RATES



ORANGE COUNTY

SECOND QUARTER 2019 OFFICE MARKET REPORT

ORANGE COUNTY MARKET STATISTICS - 2Q 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	14,207,639	1,300,704	9.20%	1,011,978	7.10%	3,629	29,467	\$2.37	- 0 -
Central Orange County	260	22,307,447	3,500,432	15.70%	2,721,325	12.20%	127,622	(36,512)	\$2.27	- 0 -
West Orange County	129	9,727,267	844,603	8.70%	676,708	7.00%	(16,279)	(20,351)	\$2.38	- 0 -
Greater Airport Area	425	43,730,449	7,156,094	16.20%	5,734,854	13.10%	383,665	650,248	\$3.02	348,783
South Orange County	355	26,074,189	4,330,543	16.50%	3,067,468	11.80%	73,760	45,494	\$2.88	179,968
TOTALS	1,340	116,046,991	17,132,376	14.76%	13,212,333	11.4%	572,397	668,346	\$2.74	528,751

ORANGE COUNTY MARKET STATISTICS - 2Q 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	49,229,004	9,239,292	18.60%	7,201,404	14.60%	57,790	217,434	\$3.00	458,783
Class B	949	61,761,102	7,642,197	12.40%	5,811,627	9.40%	490,689	432,672	\$2.64	69,968
Class C	86	5,056,885	250,887	5.00%	199,302	3.90%	23,918	18,240	\$2.15	- 0 -
TOTALS	1,340	116,046,991	17,132,376	14.8%	13,212,333	11.4%	572,397	668,346	\$2.74	528,751

LEASE TRANSACTIONS 2Q 2019

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
2520 Red Hill Avenue, Ste 100 Costa Mesa, CA	21,522	Foundation Building Materials, LLC	2510 Redhill, LLC	Frank Adler and Jeff Hirsch represented the Tenant.
3185 Pullman Costa Mesa, CA	6,595	World Gym, LLC	RDM Pullman, LLC	Phil Cohen, Kurt Bruggeman and Ryan Swanson represented the Landlord.
10055 Slater Avenue, #216 Fountain Valley, CA	5,296	Gemini	Fountain Valley School District	Marshal Vogt, Matt Orville & Jaimeson Hearne represented the Landlord.

SALE TRANSACTIONS 2Q 2019

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
51 Columbia Aliso Viejo, CA	33,527	Newport Tie Up, LLC	Freeway Industrial Park	David Romero and Mike Long represented the Seller.
2569 McCabe Way Irvine, CA	23,021	32 Rancho Circle, LLC	Bernards Irvine, LLC	Allen Basso and Brian Garbutt represented the Seller. Craig Fitterer and Mark Jerue represented the Buyer.
10931 Cherry Street Los Alamitos, CA	5,300	Cherry Street M.O.B., LLC	Cherry Street Partners, LP	Matt Orville represented the Buyer.

LEE & ASSOCIATES - IRVINE

9838 Research Drive
Irvine, California 92618
(949) 727-1200

LEE & ASSOCIATES - NEWPORT BEACH

100 Bayview Circle, Suite 600
Newport Beach, California 92660
(949) 724-1000

LEE & ASSOCIATES - ORANGE

1004 West Taft Avenue, Suite 150
Orange, California 92865
(714) 647-9100

About Lee & Associates

Celebrating more than 40 years of leadership excellence in commercial real estate, Lee & Associates is the largest broker-owned firm in North America with locations across the U.S. and Canada including Arizona, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Maryland, Michigan, Minnesota, Missouri, Nevada, New Jersey, New York, Ohio, Pennsylvania, South Carolina, Texas, Vancouver BC, Washington and Wisconsin.

With a broad array of regional, national and international clients - ranging from individual investors and small businesses to large corporations and institutions - Lee & Associates has successfully completed transactions with a total value of more than \$11 billion in 2018.

Copyright © 2019 Lee & Associates. All rights reserved. The information contained within this report is gathered from multiple sources considered to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.