

APPETITE FOR CLASS B SPACE FUELS 2019 ABSORPTION

Demand for office space through the third quarter has surpassed annual net absorption totals for each of the last two years with Class B space around John Wayne Airport capturing the lion's share of the recent overall tenant growth.

Countywide net absorption in the third quarter hit 144,508 SF, bringing the total for the year to 849,431 SF. That exceeds the 756,460 SF of absorption posted in 2017 and the lackluster 107,482 SF of growth last year.

Meanwhile, the momentum pushing rent growth throughout the recovery lost some steam as average rents failed to notch a quarterly gain for the first time in six years. Direct asking lease rates for Class A space averaged \$3.19 per SF, a decline of five cents per SF from Q2. Direct Class B rents averaged \$2.64 per SF, down five cents from the first quarter.

There were 1,343 buildings totaling 116,677,887 SF in the third-quarter Lee & Associates survey. That includes an increase of three buildings totaling 348,743 SF that were delivered in the Airport market. Three buildings totaling 560,824 SF in the Airport and South County markets remained under construction.

Countywide, Class B space, which totals 62.1 million SF, represents 53.2% of the office inventory. Third-quarter Class B absorption totaled 134,124 SF. So far this year, second-tier space accounts for 602,028 SF or 71% of net absorption overall. The vacancy rate for Class B space settled at 9%, down a full percentage point from Q1.

Third-quarter demand for Class A space totaled 23,799 SF. Year-to-date absorption of Class A space, which totals 49.6 million SF, has totaled 241,922 SF. At the end of Q3, vacant premium space hit 14.9%, an increase of 30 basis points from Q2.

Third-quarter net absorption in the Airport market - which includes 44.2 million SF of inventory and accounts for about 36% of the total office base - totaled 169,514 SF. The Airport market also has the county's highest vacancy rate, 13%.

The lowest vacancy rate, 6.5%, is in the 9.6-million-SF West County market that posted 51,898 SF of tenant growth.

The most negative absorption in Q3 occurred in the 22.6-million-SF Central County market, where tenants shed 79,755 SF of space. Net absorption in Central County has been in the red for seven of the last nine quarters and is negative 116,267 SF for the year. Central County's vacancy rate was 12.2% at the end of Q3.

Demand for space in South County also sputtered in Q3 as 51,129 SF of space went back on the market. The 26-million-SF market extends from the Irvine Spectrum to San Clemente. The vacancy rate ticked up 20 basis points to 12%.

FORECAST

"While it may be too early to make a recessionary forecast, it's getting close," said Chapman University economist Jim Doti, reacting to slowing national job growth. "Given the storm clouds that are forming," he told the Orange County Business Journal, "I think it's time to batten down the hatches."

ORANGE COUNTY OFFICE

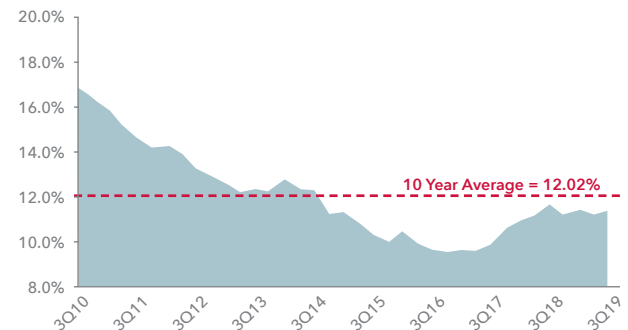
ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	3.1%	2.4%
California Unemployment	4.1%	3.5%
US Unemployment	3.7%	3.6%

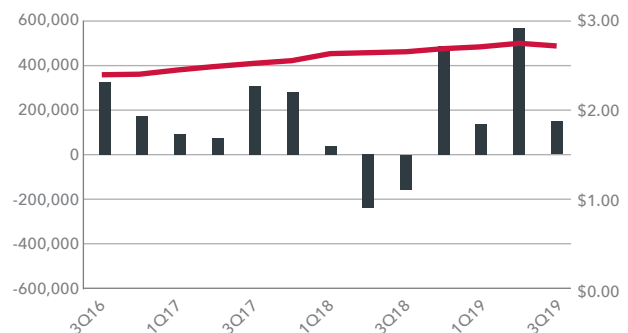
MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	116,677,887	116,329,104
Vacancy Rate (%)	11.31%	11.17%
Net Absorption (SF)	144,508	569,786
Average Asking Rent (\$/SF)	\$2.71	\$2.74
Under Construction (SF)	560,824	909,607

OVERALL VACANCY



NET ABSORPTION VS ASKING RATES



ORANGE COUNTY

THIRD QUARTER 2019 OFFICE MARKET REPORT

ORANGE COUNTY MARKET STATISTICS - 3Q 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	172	14,243,951	1,202,027	8.40%	957,998	6.70%	53,980	83,447	\$2.37	- 0 -
Central Orange County	261	22,587,774	3,373,292	14.90%	2,753,222	12.20%	(79,755)	(116,267)	\$2.30	- 0 -
West Orange County	128	9,624,031	910,442	9.50%	624,810	6.50%	51,898	31,547	\$2.39	- 0 -
Greater Airport Area	428	44,164,419	7,270,867	16.30%	5,741,658	13.00%	169,514	857,107	\$3.01	380,856
South Orange County	354	26,057,712	4,195,710	16.00%	3,118,597	12.00%	(51,129)	(6,403)	\$3.00	179,968
TOTALS	1,343	116,677,887	16,952,338	14.53%	13,196,285	11.3%	144,508	849,431	\$2.71	560,824

ORANGE COUNTY MARKET STATISTICS - 3Q 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	308	49,584,322	9,129,613	18.40%	7,388,997	14.90%	23,532	241,922	\$3.05	110,000
Class B	950	62,149,576	7,583,876	12.10%	5,593,645	9.00%	134,124	602,028	\$2.63	450,824
Class C	85	4,943,989	238,849	4.80%	213,643	4.30%	(13,148)	5,481	\$2.20	- 0 -
TOTALS	1,343	116,677,887	16,952,338	14.5%	13,196,285	11.3%	144,508	849,431	\$2.71	560,824

LEASE TRANSACTIONS 3Q 2019

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
16842 Von Karman Ave. Irvine, CA	23,500	Rescue1Financial, LLC	LNH Inc.	Brian Garbutt represented the Tenant.
3020 Saturn St. Brea, CA	7,926	Paratus, LLC	Brea Corporate Park	Bob Sattler & Jon Fabiano represented the Landlord.
300 Spectrum Center Dr., Ste 825 & 845, Irvine, CA	6,704	Mark Delp	The Irvine Company - Office Properties	Gary McArdell represented the Tenant.

SALE TRANSACTIONS 3Q 2019

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
17400 Irvine Blvd. Tustin, CA	17,612	TKL Westminster, LLC	Santa Ana-Tustin Medical Pavillion, LLC	Mia Pham represented the Buyer.
6800 Lincoln Ave. Buena Park, CA	14,355	Premier MSO	Sim Hoffman Family Trust	Jeff Gahagan represented the Buyer.
5510 Trabuco Rd. Irvine, CA	6,933	King Familial, LLC	The Kippy Wroten Trust dated, Dec. 4, 2010	David Romero represented the Seller.

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