

COVID HITS THE AIRPORT MARKET

Companies in the Airport market shed a near-record volume of space in the third quarter, forcing the countywide office vacancy rate up 73 basis points to 11.6%, as the economic shock of the Covid pandemic rippled through the county.

The Airport market, which has 37% of the county's 117- million-SF inventory, was 724,151 SF in the red in the third quarter, the most negative absorption since Q4 2007. It drove up the countywide negative absorption total to 790,568 SF for the quarter and negative 657,817 SF year to date. Countywide, net absorption gains averaged 670,696 SF annually over the previous three years.

Overall rent growth was weak prior to Covid, gaining 3% since 2017, and year-over-year growth was nil. Nevertheless, despite continued uncertainty and sharply reduced leasing activity, Lee & Associates office specialists are not yet seeing Covid discounts amid questions on whether and how much eviction moratoriums are propping up the market.

Only two of the county's five markets reported Q3 growth.

There was 45,374 SF of net absorption in South County, whose year-to-date total of 262,657 SF is the most in the county. There was 1,317 SF of net growth reported in North County, which has 14.6 million SF of office space and a 6.2% vacancy rate, the county's lowest.

With 101,968 SF of negative absorption in Q3, the 22-million-SF Central County market has contracted in nine of the last 11 quarters, putting 474,820 SF back on the market. Nevertheless, there was 5.2% year-over-year rent growth.

Negative Q3 absorption totaled 11,139 SF in the small 9.6-million-SF West County market. Tenants in West County buildings have expanded 56,811 SF this year. Despite its 6.9% vacancy rate, average rent growth has been virtually flat the last two years.

The five largest blocks of space to come back on the market at the Airport in the third quarter totaled more than 260,000 SF and ranged from 22,000 SF to 75,000SF. There has been virtually no growth in average rents since 2017 in the Airport market, and the Q3 total of sublet space available, 357,356 SF, is the most since 2006.

The county's biggest lease of the year was signed in August. Panasonic Avionics leased 260,000 SF for 1,600 headquarters employees at Park Place at Michelson Drive and Jamboree Road in Irvine. The company - which makes in-flight passenger video and communications gear - is moving from about 300,000 SF across several low-rise buildings in Lake Forest into as many as five of Park Place's 13 buildings.

The largest sale of the quarter was the \$54.8-million purchase of the 10-story 4 Hutton Centre by LaSalle Investment Management. The 10-story building traded for \$252.57 per SF. The building last sold in 2011 for \$37 million.

FORECAST

The outlook for relief from Covid 19 restrictions darkened for Orange County's leisure and hospitality companies and workers as Gov. Gavin Newsom said he is in "no hurry" to allow the state's theme parks to reopen. The county's leisure and hospitality sector was down 79,000 jobs in the second quarter, more than the losses in all other job categories combined.

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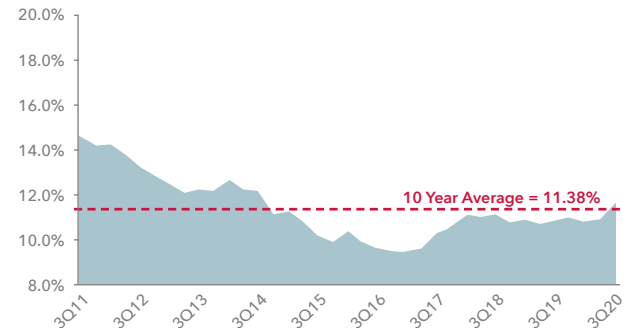
ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	9.9%	13.6%
California Unemployment	11.6%	15.1%
US Unemployment	7.9%	11.1%

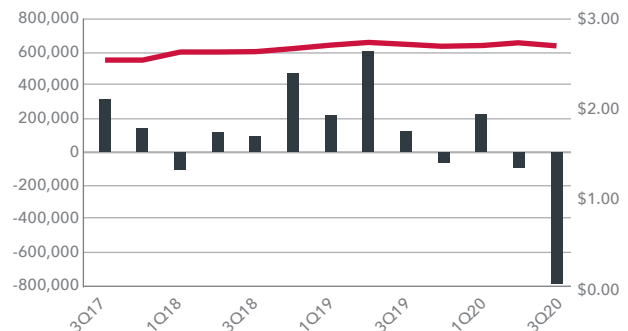
MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	117,007,352	116,937,705
Vacancy Rate (%)	11.58%	10.85%
Net Absorption (SF)	-790,568	-92,172
Average Asking Rent (\$/SF)	\$2.71	\$2.74
Under Construction (SF)	1,263,752	1,283,399

OVERALL VACANCY



NET ABSORPTION VS ASKING RATES



ORANGE COUNTY

THIRD QUARTER 2020 OFFICE MARKET REPORT

ORANGE COUNTY MARKET STATISTICS - 3Q 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	170	14,631,687	1,318,660	9.00%	977,505	6.70%	1,317	(48,264)	\$2.44	- 0 -
Central Orange County	263	22,398,229	3,834,880	16.90%	2,916,086	13.00%	(101,968)	(135,367)	\$2.49	230,000
West Orange County	128	9,605,935	831,716	8.70%	660,077	6.90%	(11,130)	56,811	\$2.33	- 0 -
Greater Airport Area	423	43,761,261	8,524,010	19.30%	6,021,533	13.80%	(724,151)	(793,654)	\$2.91	471,888
South Orange County	361	26,610,240	5,072,511	18.70%	2,974,398	11.20%	45,364	262,657	\$2.97	561,864
TOTALS	1,345	117,007,352	19,581,777	16.74%	13,549,599	11.6%	(790,568)	(657,817)	\$2.71	1,263,752

ORANGE COUNTY MARKET STATISTICS - 3Q 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	310	49,437,359	10,802,852	21.50%	7,241,055	14.60%	(521,867)	(201,763)	\$2.96	866,242
Class B	950	62,686,753	8,555,839	13.60%	6,143,672	9.80%	(251,734)	(455,183)	\$2.67	397,510
Class C	85	4,883,240	223,086	4.60%	164,872	3.40%	(16,967)	(871)	\$2.16	- 0 -
TOTALS	1,345	117,007,352	19,581,777	16.7%	13,549,599	11.6%	(790,568)	(657,817)	\$2.71	1,263,752

LEASE TRANSACTIONS 3Q 2020

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
300 S. Harbor Boulevard Anaheim, CA	28,981	HisChannel	300 South Harbor	Marshal Vogt, Jonmark Fabiano, Mat Orville, Erik Thompson & Jaimeson Hearne represented the Landlord.
275-A McCormick Avenue, Suite 200 Costa Mesa, CA	14,303	Mission Bible Church USA	TAVP Properties, LLC	Phil Cohen represented the Landlord.
300 Spectrum Center Dr., Ste 1170 Irvine, CA	3,416	Invensure Insurance Brokers, Inc.	300 Spectrum Center Drive LLC	John Collins represented the Tenant.

SALE TRANSACTIONS 3Q 2020

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
10054 Old Grove San Diego, CA	85,824	Padma Laxmi, LLC	Nicholas Ilagan	Jim deRegt and Tom West represented the Buyer.
618 - 624 N. Main Street Santa Ana, CA	8,455	Oxford Construction	World Travel	Marshal Vogt, Jaimeson Hearne, Matt Orville and David Romero represented the Seller.
9900 Research Drive Irvine, CA	4,950	X-1 Holdings, LLC	Meltzer Family Revocable Living Trust	BJ Fell, Craig Fitterer & Mark Jerue represented the Seller.

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