

## HEALTHY DEMAND GREETES NEW BUILDINGS

Orange County's expanding inventory of premium office space was met in 2019 with the most tenant demand in three years as 12 buildings totaling 1.3 million SF were completed in the South County and Airport submarkets. Rent growth countywide flattened out in 2019 compared to the 6% average annual gain for the previous six years.

Net absorption in the Airport market totaled 855,231 SF in 2019, a turnaround from the 693,808 SF of negative absorption for the previous three years. The vacancy rate settled at 12.3% at the end of 2019. Since 2013, 11 buildings totaling 2.2 million SF have been added to the Airport inventory, which accounts for about 38% of the 116.9-million-SF countywide base.

Net absorption totaled 71,197 SF in 2019 in South County, whose inventory grew 749,183 SF with the completion of seven buildings. The added space pushed up South County's vacancy rate to 13.1% at the end of 2019 compared to 10.9% a year earlier.

The overall market closes out the ninth straight year of steady tenant growth. Net absorption has gained in 29 of the last 36 quarters. At the same time, 46 buildings have been completed, adding 6.8 million SF to the inventory that now totals 1,340 buildings across the county's five submarkets. Two buildings totaling 450,824 SF are under construction.

There was 40,277 SF of tenant growth in 2019 in 14.2-million-SF North County. Four straight years of positive net absorption has reduced the vacancy rate 250 basis points to 7%, making North County the tightest submarket.

The year-end vacancy rate in 22.8-million SF Central County closed at 12.5%, up 40 basis points from a year ago as tenants shed 95,980 SF space in 2019. That follows 342,235 SF of negative absorption in 2018. Nevertheless, rents were up 9% in 2019 and increases averaged 8.5% over the last three years.

After three years of positive absorption in the 9.6-million-SF West County submarket, 65,014 SF of space went back on the market in 2019. Asking rents declined 1.8% in 2019.

One of the largest leases of 2019 was signed by co-working space operator WeWork, which leased an 116,000-SF new building in the Irvine Spectrum. It was one of three Orange County leases WeWork signed last year for more than 255,000 SF.

Demand for Class A space totaled 406,557 SF in 2019. It was the tenth straight year of positive absorption. Class A rents declined 0.6% in 2019 compared to 4.8% growth in 2018.

Despite 205,079 SF of negative net absorption of Class B space in the fourth quarter, there was 354,019 SF of tenant demand for the year. Rent growth for second-tier space averaged 1.57% in 2019.

## FORECAST

Orange County was projected to add 25,000 jobs in 2019 for an increase of 1.5% but employment gains will slow to 0.9% or 16,000 new positions in 2020, according Cal State Fullerton's Woods Center for Economic Analysis and Forecasting.

## ORANGE COUNTY OFFICE

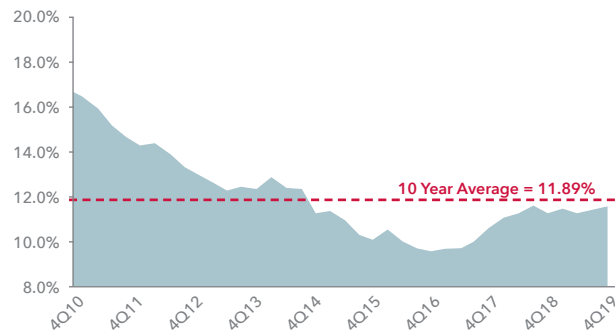
### ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	2.5%	2.4%
California Unemployment	3.7%	3.5%
US Unemployment	3.5%	3.5%

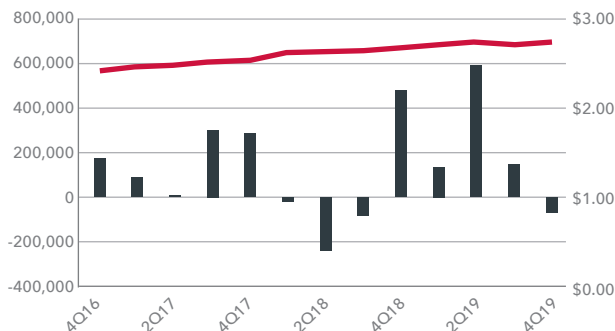
### MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	116,980,628	116,870,628
Vacancy Rate (%)	11.47%	11.33%
Net Absorption (SF)	(68,702)	146,940
Average Asking Rent (\$/SF)	\$2.73	\$2.71
Under Construction (SF)	450,824	560,824

### OVERALL VACANCY



### NET ABSORPTION VS ASKING RATES



# ORANGE COUNTY

## FOURTH QUARTER 2019 OFFICE MARKET REPORT

### ORANGE COUNTY MARKET STATISTICS - 4Q 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	14,243,786	1,231,911	8.60%	1,001,168	7.00%	(43,170)	40,277	\$2.33	- 0 -
Central Orange County	264	22,820,345	3,585,912	15.70%	2,854,670	12.50%	(4,355)	(95,980)	\$2.39	- 0 -
West Orange County	128	9,628,830	847,863	8.80%	721,371	7.50%	(96,561)	(65,014)	\$2.31	- 0 -
Greater Airport Area	423	43,746,294	7,010,611	15.90%	5,364,012	12.30%	26,844	855,231	\$2.93	380,856
South Orange County	359	26,541,373	4,241,998	15.90%	3,479,385	13.10%	48,540	71,197	\$2.99	69,968
<b>TOTALS</b>	<b>1,346</b>	<b>116,980,628</b>	<b>16,918,295</b>	<b>14.46%</b>	<b>13,420,606</b>	<b>11.5%</b>	<b>(68,702)</b>	<b>805,711</b>	<b>\$2.73</b>	<b>450,824</b>

### ORANGE COUNTY MARKET STATISTICS - 4Q 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	311	49,861,085	8,900,739	17.90%	7,415,052	14.90%	160,258	406,557	\$2.98	- 0 -
Class B	950	62,151,040	7,838,011	12.50%	5,828,947	9.40%	(270,714)	354,019	\$2.60	450,824
Class C	85	4,968,503	179,545	3.60%	176,607	3.60%	41,754	45,135	\$2.15	- 0 -
<b>TOTALS</b>	<b>1,346</b>	<b>116,980,628</b>	<b>16,918,295</b>	<b>14.5%</b>	<b>13,420,606</b>	<b>11.5%</b>	<b>(68,702)</b>	<b>805,711</b>	<b>\$2.73</b>	<b>450,824</b>

### LEASE TRANSACTIONS 4Q 2019

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
1475 S. State College Boulevard Anaheim	26,354	1475 Realty	Avalon Pacific	Erik Thompson, Scott Seal, Luke Hudson & Ryan Magarian represented the Landlord.
433 S. Spring St., Ste 750 Los Angeles	15,730	Lore Lac Spring Street, L.P.	KTGY Group	Gary McArdell represented the Tenant.
26672 Towne Centre Drive, Suite 360 Foothill Ranch	14,286	Rolling Frito-Lay Sales LP	Pinnacle Asset Management Group, LLC	Kurt Bruggeman, Phil Cohen & Ryan Swanson represented the Landlord.

### SALE TRANSACTIONS 4Q 2019

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
2751 W. Coast Hwy, W. 2801 Coast Hwy, 2620 Avon St., Newport Beach	33,083	1813 East Bay, LLC	Khoshbin's Landing, LLC	Travis Haining represented the Seller.
20341 SW Birch Street Newport Beach	21,668	Birch Street Holdings, LLC	James Par	Jaimeson Hearne, Marshal Vogt & Matthew Orville represented the Buyer.
5010 Campus Drive Newport Beach	12,254	ACS Development Group	JL Capital Investment, LLC	Allen Basso & Kurt Bruggeman represented the Buyer.

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