

## New Office Buildings Meet Softer Demand; Rents Up Countywide

Although net absorption closed the year on the plus side, demand for office space slowed again in 2017 with the tenant market posting its weakest annual growth in seven years. Nevertheless, overall rent increases averaged 5.8% year over year.

The overall vacancy rate ended the year at nearly 11% on a base of 113.6 million sq. ft.

Total net absorption, 816,155 sq. ft., failed to crack 1 million sq. ft. for the second straight year as nine new Class A buildings totaling 2 million sq. ft. landed on the market. Ten buildings with more than 1.2 million sq. ft. are under construction. The added Class A inventory pushed up the vacancy rate for premium space 240 basis points to 14.3% from a year earlier.

The vacancy rate in the 61-million-sq.-ft. Class B market dipped to a record low in the second quarter and finished the year at 8.8%. Rents increased 6.5% year over year and are up 35% in the last five years.

Demand across the county's five submarkets was mixed.

Most expansion occurred in the 25-million-sq.-ft. South County submarket, which posted 480,984 sq. ft. of net absorption in 2017. Completion of six buildings during the year added 1.4 million sq. ft. to the base and pushed up the vacancy rate from 7.3% to 10.7% at year end. Six more buildings totaling 842,181 sq. ft. are due for delivery. Lease rates were up 3.9% year over year, down from increases averaging 9% over the previous three years.

The 22.3-million-sq.-ft. Central County submarket with I-5 corridor cities Anaheim, Santa Ana, Garden Grove, Orange and Tustin posted 461,611 sq. ft. of net absorption last year. Four straight quarterly absorption gains - the first since 2011 - drove the vacancy rate down from 11.7% to 10.2%. Rents jumped 8.2% year over year.

The 43.2-million-sq.-ft. Airport submarket - the county's largest - posted 369,372 sq. ft. of negative absorption in 2017 while adding three buildings totaling 537,258 sq. ft. to its inventory. The added space drove up the year-over-year vacancy rate from 10.5% to 12.6%. Lease rates increased an average of 5.8% for the year.

The 8.9-million-sq.-ft. West County market delivered 238,147 sq. ft. of positive absorption with gains in all four quarters, driving down the vacancy rate to 6.6%. Rental rates rose an average 6.1%.

North County's 8.8% vacancy rate was unchanged as the 14.2-million-sq.-ft. submarket has remained relatively stable throughout the recession and recovery.

### FORECAST

Chapman University economists predict 38,000 jobs will be added in Orange County in 2017 and 42,000 in 2018. They also see new positions in information services as more than offsetting job losses in manufacturing. Nationally, their forecast predicts the economy will grow 2.5% in 2018, including 0.3% from the tax cut.

## ORANGE COUNTY OFFICE

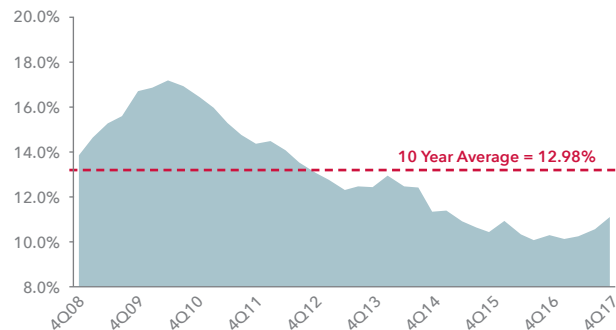
### ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	3.2%	4.1%
California Unemployment	4.3%	5.2%
US Unemployment	4.0%	4.5%

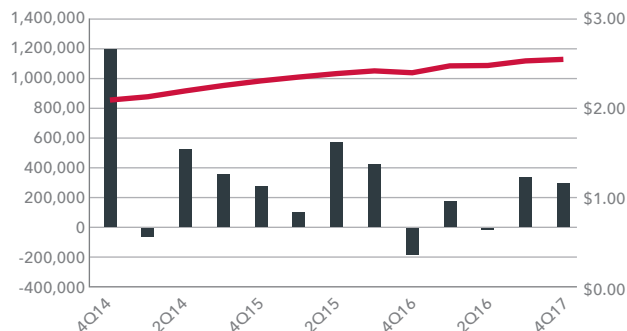
### MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	15.7%	15.8%
Vacancy Rate (%)	11.0%	10.4%
Net Absorption (SF)	298,058	278,991
Average Asking Rent (\$/SF)	\$2.61	\$2.61
Under Construction (SF)	1,452,778	2,397,703

### OVERALL VACANCY



### NET ABSORPTION VS ASKING RATES



# ORANGE COUNTY

## FOURTH QUARTER 2017 OFFICE MARKET REPORT

### ORANGE COUNTY MARKET STATISTICS - 4Q 2017

#### 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	14,233,397	1,765,632	13.1%	1,254,739	8.8	31,159	4,785	\$2.22	38,313
Central Orange County	256	22,317,778	3,530,592	15.1%	2,514,718	11.3	195,401	461,611	\$2.08	417,284
West Orange County	126	8,905,482	777,643	9.9%	589,898	6.6	56,509	238,147	\$2.26	- 0 -
Greater Airport Area	422	43,199,638	8,160,028	18.6%	5,445,971	12.6	(64,581)	(369,372)	\$2.84	155,000
South Orange County	344	24,971,382	3,656,402	13.8%	2,664,302	10.7	79,570	480,984	\$2.73	842,181
<b>TOTALS</b>	<b>1,320</b>	<b>113,627,677</b>	<b>17,890,297</b>	<b>15.7%</b>	<b>12,469,628</b>	<b>11.0%</b>	<b>298,058</b>	<b>816,155</b>	<b>\$2.61</b>	<b>1,452,778</b>

### ORANGE COUNTY MARKET STATISTICS - 4Q 2017

#### 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	289	47,707,316	9,680,256	1980.0%	6,803,826	14.3	147,977	664,009	\$2.85	1,259,465
Class B	934	61,015,999	7,858,794	1280.0%	5,410,898	8.9	121,585	65,054	\$2.36	193,313
Class C	97	4,904,362	351,247	720.0%	254,904	5.2	28,496	87,092	\$1.78	- 0 -
<b>TOTALS</b>	<b>1,320</b>	<b>113,627,677</b>	<b>17,890,297</b>	<b>15.7%</b>	<b>12,469,628</b>	<b>11.0%</b>	<b>298,058</b>	<b>816,155</b>	<b>\$2.61</b>	<b>1,452,778</b>

### LEASE TRANSACTIONS 4Q 17

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
801 W Civic Center Dr., Suite 200 Santa Ana, CA	19,321	City of Santa Ana	CF Santana, LLC	John Collins represented the Tenant.
29 Parker, Suite 200 Irvine, CA	15,124	Blockade Medical, LLC	The Irvine Company	BJ Fell, Craig Fitterer & Mark Jerue represented the Tenant.
9 Spectrum Pointe Dr. Lake Forest, CA	9,242	ImageNet, LLC	Olen Commercial Realty Group	Jaimeson Hearne represented the Tenant.

### SALE TRANSACTIONS 4Q 17

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
17891 Cartwright Rd. Irvine, CA	28,193	Six Scents, LLC	Burke Real Estate Group	John Collins represented the Seller.
215 N. State College Blvd. Anaheim, CA	14,000	215 State College Development, LLC	The Paub Enterprise, LLC	Mia Pham represented the Buyer.
633 Brea Blvd. Brea, CA	8,474	MMN Investments	George & Elsie Delanoy	E. Thompson & B. Sattler Represented the Seller and D. Williams represented the buyer.

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