

# MARKETBEAT

# Orange County

Office Q3 2018



## ORANGE COUNTY OFFICE

### Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
Orange County Employment	1.62M	1.63M	▲
Orange County Unemployment*	3.4%	2.9%	▼
U.S. Unemployment*	4.4%	3.9%	▼

\*Average of first two months of Q3 2018

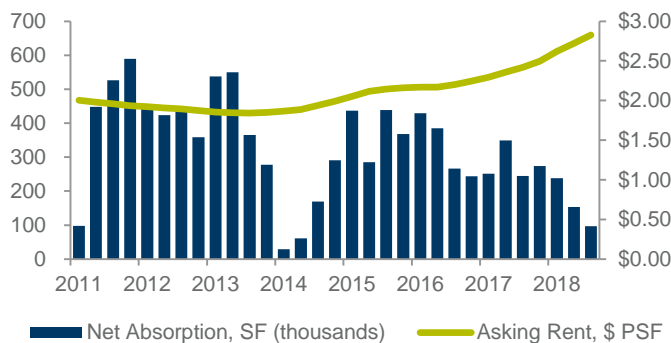
### Market Indicators (Overall, All Classes)

	Q3 17	Q3 18	12-Month Forecast
Vacancy	11.1%	11.8%	▲
YTD Net Absorption (sf)	687k	210k	▼
Under Construction (sf)	2.2M	766k	▼
Average Asking Rent*	\$2.54	\$2.96	▲

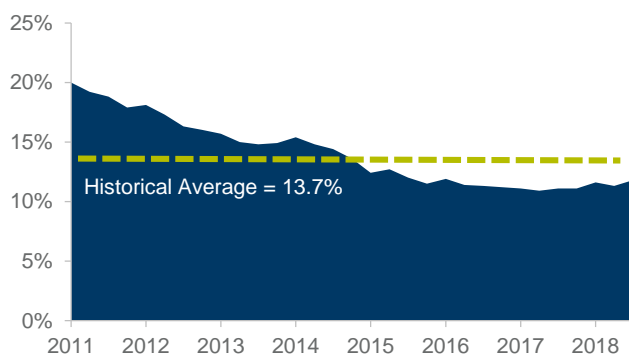
\*Rental rates reflect gross asking \$psf/month

### Overall Net Absorption/Overall Asking Rent

#### 4-QTR TRAILING AVERAGE



### Overall Vacancy



### Economy

Orange County holds one of the nation's lowest unemployment rates at 2.9% through August. This rate is 100 basis points (bps) lower than the national unemployment rate of 3.9% and 140 bps lower than the unemployment rate of 4.3% in California. Over the past year, Orange County has added 11,000 jobs of which professional and business services gained 5,300 jobs. The largest year-over-year decline was in manufacturing, which posted a loss of 4,300 jobs.

### Market Overview

The Orange County office market finished the third quarter 2018 with overall vacancy increasing 50 bps to 11.8%, while direct vacancy increased 40 bps to 11.1% quarter-over-quarter. The increase in vacancy is largely due to a number of pure move-outs from Conifer, Yard House, Gateway One Lending and RSI Communities. Additionally, the completion of The Quad in the Irvine Spectrum submarket introduced more vacant space into the market.

Countywide, overall asking rents increased to \$2.96 per square foot per month (psf/mo), a \$0.10 increase quarter-over-quarter. Over the last year, Orange County rents have risen \$0.43 overall, an increase of 17% year-over-year. Irvine Spectrum remains the highest grossing submarket countywide at \$3.71 psf/mo largely due to eight new Class A buildings that have completed in 2018 consisting of 1.4 million square feet (msf). Over the past two years, Irvine Spectrum overall rents have risen nearly 39%. This trend will continue in Irvine Spectrum as more development is in the pipeline. Spectrum Terrace will deliver nine buildings totaling just over 1.0 msf by mid-2020, three of which are scheduled to complete by early 2019. As these buildings deliver in phases, rates will continue to rise in Irvine Spectrum.

Leasing activity saw a moderate decline in the third quarter with 1.1 msf. Although this was similar activity to the first quarter 2018, it is still below the quarterly average of 1.5 msf and a 24.6% decline. Key lease transactions were heavily fueled by renewals, capturing four of the top eight deals of the quarter, including OptumRx for 133,745 sf. Cushman & Wakefield represented five of the top eight largest lease transactions of the third quarter. Sales activity saw a healthy increase in the third quarter with 1.9 msf trading to investors, a 23% increase from the previous quarter. The largest sale came from the purchase of the Blackstone Portfolio in the Greater Airport Area (GAA) by Lincoln Property Company consisting of eight office properties in Irvine totaling 533,118 sf.

Year-to-date (ytd), Orange County has experienced positive net absorption of 210,434 sf. The largest move-in of the quarter was Behr Paint occupying 225,279 sf in Santa Ana. Although overall net absorption for the quarter was negative at -133,847 sf, there is little indication that the market will be slowing down. The majority of the negative net absorption came from a handful of pure move-outs in the market. Expect for positive net absorption to ramp up next quarter in the Irvine Spectrum as major tenants occupy their new space at The Quad, as it is over 70% pre-leased. The GAA experienced relatively flat absorption at -12,709 sf in the third quarter. The largest occupier was Pathway Capital absorbing 65,286 sf at The Boardwalk in Irvine and Hoag Memorial occupying 40,299 sf in Costa Mesa.

### Outlook

Orange County overall asking rates have risen almost 29.3% over the past two years and will continue to rise as new Class A development delivers in the next year. Vacancy will continue to climb as the remainder of completions deliver, especially as activity in the market slows. Coupled with a steadily rising economy and great market fundamentals, Orange County should continue to thrive going into 2019.

MARKETBEAT

Orange County

Office Q3 2018



SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	YTD DIRECT NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	**YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	DIRECT AVERAGE ASKING RENT (CLASS A)*
South Santa Ana	1,936,514	61,730	403,643	24.0%	-60,217	-46,980	232,779	0	\$2.43	\$2.80
Costa Mesa	5,280,016	139,930	763,405	17.1%	-98,665	-107,173	389,990	0	\$3.33	\$3.55
Newport Beach	8,020,306	53,566	645,455	8.7%	-8,451	-36,992	346,616	0	\$3.42	\$3.47
Irvine	23,453,071	88,134	3,288,673	14.4%	-451,151	-447,984	1,358,840	0	\$3.28	\$3.44
<b>GREATER AIRPORT AREA/CBD</b>	<b>38,689,907</b>	<b>343,360</b>	<b>5,101,176</b>	<b>14.1%</b>	<b>-618,484</b>	<b>-639,129</b>	<b>2,328,225</b>	<b>0</b>	<b>\$3.25</b>	<b>\$3.43</b>
Irvine Spectrum	10,044,357	96,763	1,207,673	13.0%	848,455	767,219	443,592	348,783	\$3.71	\$3.86
Lake Forest/R.S. Margarita	2,634,428	29,788	133,700	6.2%	22,129	-389	90,628	0	\$2.33	\$2.50
Laguna Hills/Aliso Viejo	4,296,977	11,900	396,560	9.5%	-60,006	-69,129	162,496	0	\$2.93	\$3.29
Laguna Niguel/Laguna Beach	574,657	0	40,546	7.1%	-25,463	-25,463	29,532	0	\$2.30	N/A
Mission Viejo	1,289,140	1,000	93,707	7.3%	21,503	24,706	64,902	0	\$2.60	\$2.86
S.J. Cap/S. Clemente/Dana Point	1,274,048	0	30,761	2.4%	-6,619	-6,619	19,388	0	\$2.48	N/A
<b>SOUTH COUNTY</b>	<b>20,113,607</b>	<b>139,451</b>	<b>1,902,947</b>	<b>10.2%</b>	<b>799,999</b>	<b>690,325</b>	<b>810,538</b>	<b>348,783</b>	<b>\$3.20</b>	<b>\$3.67</b>
Seal Beach	310,241	3,611	17,219	6.7%	-3,293	-6,904	7,327	0	\$3.21	\$3.25
Westminster	262,284	0	14,453	5.5%	52,881	52,881	50,589	0	\$2.25	N/A
Huntington Beach	1,303,980	0	105,917	8.1%	-13,471	-6,613	40,012	0	\$2.53	\$2.45
Fountain Valley	320,225	0	4,603	1.4%	-3,014	-3,014	4,737	0	\$1.65	N/A
Garden Grove	541,785	0	27,886	5.1%	-14,436	-14,436	22,856	0	\$1.97	N/A
Los Alamitos/Stanton	285,137	0	3,719	1.3%	10,833	10,833	18,323	0	\$1.44	N/A
Cypress	1,212,927	0	132,251	10.9%	41,674	48,717	60,932	0	\$2.15	N/A
<b>WEST COUNTY</b>	<b>4,236,579</b>	<b>3,611</b>	<b>306,048</b>	<b>7.3%</b>	<b>71,174</b>	<b>81,464</b>	<b>204,776</b>	<b>0</b>	<b>\$2.40</b>	<b>\$2.65</b>
Parkcenter Area	2,820,093	1,130	350,351	12.5%	-86,244	-81,356	106,591	0	\$2.25	\$2.73
Stadium Area	3,617,010	73,303	255,363	9.1%	25,903	-36,168	87,756	0	\$2.31	\$2.76
The City Area	2,277,180	0	279,924	12.3%	-80,591	-80,591	84,098	0	\$2.61	\$2.62
Main Place Area	2,262,734	0	301,539	13.3%	-46,040	-27,048	29,948	0	\$2.36	\$2.67
Tustin (South of I-5)	783,575	0	140,426	17.9%	-59,418	-59,418	109,551	417,000	\$2.40	N/A
Santa Ana	3,411,691	0	438,094	12.8%	242,711	242,711	173,327	0	\$2.25	N/A
North/East Anaheim	2,978,550	31,761	286,678	10.7%	12,355	2,355	210,817	0	\$2.44	\$2.55
East Orange	427,246	0	31,811	7.4%	-8,894	-8,894	1,120	0	\$2.22	N/A
Civic Center Area	2,032,872	5,200	260,220	13.1%	34,096	34,096	44,291	0	\$1.78	\$1.95
<b>CENTRAL COUNTY</b>	<b>20,610,951</b>	<b>111,394</b>	<b>2,344,406</b>	<b>11.9%</b>	<b>33,878</b>	<b>-14,313</b>	<b>847,499</b>	<b>417,000</b>	<b>\$2.25</b>	<b>\$2.59</b>
Fullerton	1,283,776	0	13,732	1.1%	-1,648	-1,648	5,530	0	\$1.85	N/A
Brea/La Habra	3,920,786	59,332	146,826	5.3%	36,191	34,641	132,734	0	\$2.25	\$2.64
Placentia/Yorba Linda	270,646	0	12,062	4.5%	-1,197	-1,197	10,300	0	\$1.89	N/A
Buena Park/La Palma	1,172,333	7,227	150,991	13.5%	60,291	60,291	64,791	0	\$2.37	\$3.00
<b>NORTH COUNTY</b>	<b>6,647,541</b>	<b>66,559</b>	<b>323,611</b>	<b>5.9%</b>	<b>93,637</b>	<b>92,087</b>	<b>213,355</b>	<b>0</b>	<b>\$2.28</b>	<b>\$2.82</b>
<b>O.C. MARKET TOTALS</b>	<b>90,298,585</b>	<b>664,375</b>	<b>9,978,188</b>	<b>11.8%</b>	<b>380,204</b>	<b>210,434</b>	<b>4,404,393</b>	<b>765,783</b>	<b>\$2.96</b>	<b>\$3.37</b>

\*Rental rates reflect gross asking \$psf/month \*\*Does not include Renewals

CLASS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	YTD DIRECT NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT*	DIRECT AVERAGE ASKING RENT*
Class A	41,541,585	407,685	6,070,138	15.6%	547,607	473,091	2,096,862	765,783	\$3.29	\$3.37
Class B	46,700,553	254,970	3,851,745	8.8%	-160,593	-254,127	2,096,862	0	\$2.49	\$2.52
Class C	2,056,447	1,720	56,305	2.8%	-6,810	-8,530	49,029	0	\$1.92	\$1.89

## Key Lease Transactions Q3 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
2300 Main St	133,745	OptumRX Inc.	Renewal*	Irvine
3121 Michelson Dr	104,546	US Bank	Renewal*	Irvine
25 Enterprise	90,877	Carrington Mortgage	Renewal/Expansion	Aliso Viejo
18565-18575 Jamboree	63,816	WeWork	New Lease	Irvine
1610 E Saint Andrew	62,876	Advantage Sales & Marketing	New Lease	Santa Ana
5301 California	55,450	LPA Design Studios	New Lease	Irvine
3353 Michelson	51,882	Kareo Inc.	Renewal*	Irvine
555 Anton Blvd	51,055	Synchrony Financial	New Lease	Costa Mesa

\*Renewal – not included in Leasing Activity Statistics

## Key Sales Transactions Q3 2018

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
Blackstone Portfolio - GAA	533,118	Blackstone / Lincoln Property Company	\$161,000,000 / \$302	Irvine
100 Bayview Cir	346,500	AEW Capital Management / Granite Properties Inc.	\$125,650,000 / \$362	Newport Beach
19100-19200 Von Karman Ave	292,949	Mass. Mutual Life Insurance Co. / Keleman Company	\$106,800,416 / \$365	Irvine
1 Glenn Bell Way	271,060	TransPacific / LBA Realty	\$104,000,300 / \$383	Irvine
2020 E First St	118,840	Colton Company / Harbor Associates	\$13,756,918 / \$116	Santa Ana
19762 MacArthur Blvd	106,110	Keleman Caamano / Circle Vision	\$33,000,210 / \$311	Irvine



**Explanation of Terms**

**Total Inventory:** The total amount of office space (in buildings of a predetermined size by market) that can be rented by a third party.

**Overall Vacancy Rate:** The amount of unoccupied space (new, relet, and sublet) expressed as a percentage of total inventory.

**Direct Vacancy Rate:** The amount of unoccupied space available directly through the landlord (excludes sublease space).

**Absorption:** The net change in occupied space between two points in time. (Total occupied space in the present quarter minus total occupied space from the previous quarter, quoted on a net, not gross, basis.)

**Leasing Activity:** The sum of all leases over a period of time. This includes pre-leasing activity as well as expansions. It does not include renewals.

**Under Construction:** Industrial and office square footage that are being built and have not received certificates of occupancy (C of O). Projects which are beyond site preparation (concrete slab poured and construction is actively progressing). For C&W statistical purposes, these buildings will not be complete by the last day of the reporting quarter.

**Under renovation:** Office and industrial buildings that are undergoing renovation, rehabilitation or conversion and require a certificate of occupancy to be habitable.

**Overall Weighted Asking Rents:** Gross average asking rents weighted by the amount of available direct and sublease space in Class A, B and C properties.

**Class A Asking Rents:** Gross average asking rents weighted by the amount of available Class A direct and sublease space.

Cushman & Wakefield  
18111 Von Karman  
Suite 1000  
Irvine, CA 92614  
[cushmanwakefield.com](http://cushmanwakefield.com)

For more information, contact:  
Eric A. Kenas, Market Director  
Tel: +1 213 955 6446  
[eric.kenas@cushwake.com](mailto:eric.kenas@cushwake.com)

Mark Williams, Research Analyst  
Tel: +1 949 930 9237  
[mark.j.williams@cushwake.com](mailto:mark.j.williams@cushwake.com)

**About Cushman & Wakefield**

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value by putting ideas into action for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with 48,000 employees in approximately 400 offices and 70 countries. In 2017, the firm had revenue of \$6.9 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit [www.cushmanwakefield.com](http://www.cushmanwakefield.com) or follow @CushWake on Twitter.

©2018 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.