

# MARKETBEAT

# Orange County

Office Q1 2019



## ORANGE COUNTY OFFICE

### Economic Indicators

	Q1 18	Q1 19	12-Month Forecast
Orange County Employment	1.63M	1.64M	▲
Orange County Unemployment*	3.2%	3.0%	▼
U.S. Unemployment*	4.1%	3.8%	▼

\*As of February 2019

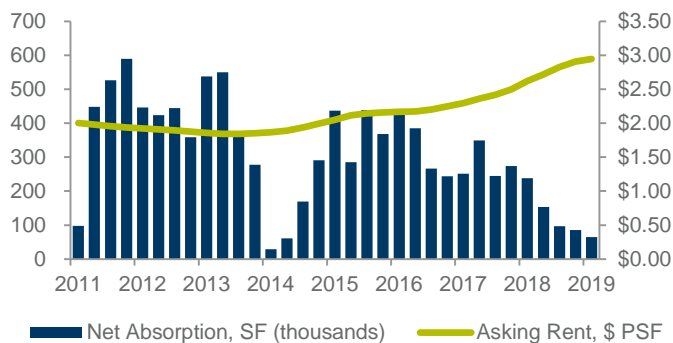
### Market Indicators (Overall, All Classes)

	Q1 18	Q1 19	12-Month Forecast
Vacancy	11.6%	11.0%	▼
YTD Net Absorption (sf)	47k	213k	▲
Under Construction (sf)	787k	1.1M	▼
Average Asking Rent*	\$2.84	\$2.99	▲

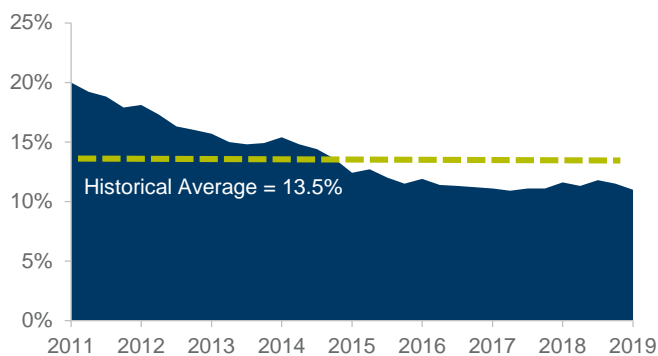
\*Rental rates reflect gross asking \$psf/month

### Overall Net Absorption/Overall Asking Rent

#### 4-QTR TRAILING AVERAGE



### Overall Vacancy



### Economy

As of February 2019, Orange County's unemployment rate was 3.0%. Total nonfarm employment increased by 7,600 jobs over the month and 11,400 over the year. Professional and business services had the largest gains over the past 12 months with an increase of 9,400 jobs with approximately half of these gains coming from administrative and support services. The largest decline reported came from the construction sector, which reported a loss of 3,300 jobs over the past 12 months.

### Market Overview

Orange County began the year with overall asking rental rates increasing to \$2.99 per square foot per month (psf/mo), an increase of \$0.15 or 5.3% since the same period last year. Rental rate increases have seen a mild slow down through the last three quarters, but should realize more growth as there is 1.1 million square feet (msf) of new Class A development in the pipeline to deliver in the coming quarters. The Irvine Spectrum micro-market holds the highest rents in Orange County at \$3.82 psf/mo. Landlords have capitalized on tenants being priced out of Class A space and Class B rents have increased 23% over the past two years to \$2.46 psf/mo, also in part due to a surge of upgrades to existing space and repositioning low-rise space as creative office.

Overall vacancy decreased to 11.0% in the first quarter, a decline of 50 basis points (bps) from the prior quarter. The decrease in vacancy can be attributed to tenants occupying larger blocks of space in the Greater Airport Area and Irvine Spectrum markets. The largest move-in came from Acorns, taking 91k sf at UCI Research Park. Vacancy rates should rise next quarter due to new developments completing with minimal preleasing activity and with vacant space at Flight @ Tustin Legacy and Spectrum Terrace.

Countywide gross leasing activity, which includes renewals, finished the first quarter at 2.3 msf, an increase of 38.6% in leasing activity compared to a year ago. Seven out of the eight largest leases were new deals, bucking a two-year trend of renewals outnumbering new leases among top transactions. The largest lease of the quarter was completed in the City of Los Alamitos by Epson America who took 150,205 sf at 3131 Katella Avenue. The second largest lease completed was the 97,587 sf renewal at 3161 Michelson by Hyundai Capital, represented by Cushman & Wakefield.

Orange County overall net absorption finished the first quarter with positive 213k sf of occupancy gains. South County had 195k sf of positive absorption with Lennar (90,000 sf) and FivePoints Group (44,400 sf) totaling 134k sf of move-ins at FivePoint Gateway. The Greater Airport Area experienced positive absorption for the first time in four quarters with 55k sf in occupancy gains. The largest space occupied in the Greater Airport Area was Acorns (90,900 sf) and LPA (55,450 sf) at UCI Research Park.

Sales activity saw a slowdown in the first quarter 2019 with 852k sf of office product transacting, a 27.7% decline from a year ago. Office investment on a price per square foot (psf) has seen a steady rise over the past two years to \$292 psf, an increase of 6.3%. The largest sale of the quarter occurred at Canyon Corporate Center in Anaheim where 5515 E La Palma sold to Klein Investments for \$40,648,000 or \$259 psf, previously owned by Hines.

### Outlook

Orange County's office market saw zero construction completions in the first quarter 2019, with a large portion of the 1.1 msf pushed into the later part of the year. The Flight @ Tustin Legacy is the next project set to deliver, adding more new amenity rich space to the market and provides a competitive landscape for landlords. With a growing demand for workplace uniqueness and brand identity, tenants will continue to have more options for new-age space.

MARKETBEAT

Orange County

Office Q1 2019



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	19,703	252,913	14.1%	28,197	42,763	8,164	0	\$2.74	\$2.84
Costa Mesa	5,464,005	113,049	762,942	16.0%	24,756	-686	71,533	0	\$3.10	\$3.45
Newport Beach	8,020,306	46,229	633,431	8.5%	-24,640	-33,913	101,787	0	\$3.34	\$3.34
Irvine	23,609,518	121,018	3,068,077	13.5%	87,774	46,306	672,058	0	\$3.26	\$3.43
<b>GREATER AIRPORT AREA/CBD</b>	<b>39,030,343</b>	<b>299,999</b>	<b>4,717,363</b>	<b>12.9%</b>	<b>116,087</b>	<b>54,470</b>	<b>853,542</b>	<b>0</b>	<b>\$3.22</b>	<b>\$3.38</b>
Irvine Spectrum	10,044,357	186,496	801,490	9.8%	310,662	308,518	235,212	709,151	\$3.82	\$3.94
Lake Forest/R.S. Margarita	2,680,958	1,682	167,923	6.3%	-43,737	-43,737	4,530	0	\$2.37	\$2.50
Laguna Hills/Aliso Viejo	4,296,977	20,756	503,303	12.2%	-60,250	-64,098	68,420	0	\$3.12	\$3.28
Laguna Niguel/Laguna Beach	574,657	3,000	37,866	7.1%	3,337	337	4,412	0	\$2.75	\$3.15
Mission Viejo	1,289,140	1,000	102,349	8.0%	-2,575	-2,575	12,043	0	\$2.59	\$2.88
S.J. Cap/S. Clemente/Dana Point	1,274,048	0	35,160	2.8%	-3,642	-3,642	0	0	\$2.30	N/A
<b>SOUTH COUNTY</b>	<b>20,160,137</b>	<b>212,934</b>	<b>1,648,091</b>	<b>9.2%</b>	<b>203,795</b>	<b>194,803</b>	<b>324,617</b>	<b>709,151</b>	<b>\$3.32</b>	<b>\$3.62</b>
Seal Beach	310,241	0	24,504	7.9%	3,015	6,626	14,949	0	\$3.29	\$3.29
Westminster	262,284	0	11,129	4.2%	-1,309	-1,309	8,392	0	\$2.23	N/A
Huntington Beach	1,303,980	0	101,779	7.8%	-5,015	-5,015	26,271	0	\$2.95	\$3.19
Fountain Valley	320,225	0	4,603	1.4%	0	0	5,296	0	\$1.65	N/A
Garden Grove	541,785	3,126	27,881	5.7%	-2,046	-2,046	2,052	0	\$1.96	N/A
Los Alamitos/Stanton	435,342	0	160,036	36.8%	-583	-583	157,146	0	\$1.72	N/A
Cypress	1,212,927	0	153,034	12.6%	-25,542	-25,542	71,087	0	\$1.91	N/A
<b>WEST COUNTY</b>	<b>4,386,784</b>	<b>3,126</b>	<b>482,966</b>	<b>11.1%</b>	<b>-31,480</b>	<b>-27,869</b>	<b>285,193</b>	<b>0</b>	<b>\$2.39</b>	<b>\$3.22</b>
Parkcenter Area	2,701,253	0	275,504	10.2%	-22,181	-22,181	41,537	0	\$2.22	\$2.85
Stadium Area	3,617,010	38,955	253,956	8.1%	-3,372	-3,372	49,614	0	\$2.65	\$2.78
The City Area	2,277,180	8,434	302,296	13.6%	-23,554	-31,988	17,526	0	\$2.76	\$2.83
Main Place Area	2,262,734	0	291,239	12.9%	-28,896	-28,896	40,529	0	\$2.58	\$2.78
Tustin (South of I-5)	783,575	0	145,823	18.6%	0	0	51,177	417,000	\$2.78	N/A
Santa Ana	3,223,816	8,102	392,200	12.4%	22,289	14,187	35,776	0	\$2.22	N/A
North/East Anaheim	2,978,550	4,423	274,788	9.4%	14,235	9,812	19,921	0	\$2.50	\$2.51
East Orange	427,246	0	19,529	4.6%	-1,558	-1,558	1,736	0	\$2.48	N/A
Civic Center Area	2,032,872	5,200	248,190	12.5%	5,833	5,833	109,752	0	\$1.75	\$2.15
<b>CENTRAL COUNTY</b>	<b>20,304,236</b>	<b>64,994</b>	<b>2,203,525</b>	<b>11.2%</b>	<b>-37,204</b>	<b>-58,163</b>	<b>367,568</b>	<b>417,000</b>	<b>\$2.40</b>	<b>\$2.74</b>
Fullerton	1,283,776	0	10,586	0.8%	-5	-5	1,492	0	\$1.93	N/A
Brea/La Habra	3,920,786	4,764	150,891	4.0%	-6,098	48,470	83,747	0	\$2.37	\$2.61
Placentia/Yorba Linda	270,646	0	7,310	2.7%	-707	-707	4,254	0	\$1.85	N/A
Buena Park/La Palma	1,172,333	0	170,433	14.5%	-5,632	1,595	9,171	0	\$2.37	\$2.86
<b>NORTH COUNTY</b>	<b>6,647,541</b>	<b>4,764</b>	<b>339,220</b>	<b>5.2%</b>	<b>-12,442</b>	<b>49,353</b>	<b>98,664</b>	<b>0</b>	<b>\$2.34</b>	<b>\$2.72</b>
<b>O.C. MARKET TOTALS</b>	<b>90,529,041</b>	<b>585,817</b>	<b>9,391,165</b>	<b>11.0%</b>	<b>238,756</b>	<b>212,594</b>	<b>1,929,584</b>	<b>1,126,151</b>	<b>\$2.99</b>	<b>\$3.35</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	41,781,418	439,706	5,547,852	14.3%	157,183	180,751	922,221	1,126,151	\$3.34	\$3.35
Class B	46,691,176	144,391	3,777,009	8.4%	98,428	48,698	1,005,327	0	\$2.46	\$2.49
Class C	2,056,447	1,720	66,304	3.3%	-16,855	-16,855	2,036	0	\$1.87	\$1.85

## Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
3131 Katella Avenue	150,205	Epson America	New Lease	Los Alamitos
3161 Michelson Drive	97,587	Hyundai Capital	Renewal*	Irvine
5270 California Drive	84,380	UCI Applied Innovation	New Lease	Irvine
200 W Santa Ana Blvd	78,609	County of Orange	Renewal/Expansion*	Santa Ana
2211 Michelson Blvd	71,076	WeWork	New Lease	Irvine
3349 Michelson Blvd	60,400	Hana	New Lease	Irvine
42 Discovery	53,840	SSB Realty	New Lease	Irvine Spectrum
50 Pointe Drive	53,335	Union Bank	Sublease	Brea

\*Renewal – not included in Leasing Activity Statistics

## Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
5515 E La Palma / Canyon Corporate Center	157,069	Hines / Klein Investments LP	\$40,648,000 / \$259	Anaheim
1665 – 1675 Scenic & 3535 Hyland / Scenic Business Park	109,958	The Blackstone Group / Tim Nguyen	\$24,300,718 / \$221	Costa Mesa
765 The City Dr / City Centre II	98,471	Colton Company / Lincoln Property Company	\$18,890,676 / \$192	Orange
3350 E Birch St / Birch Corporate Center	70,590	Glenborough Corp. / Alamos Associates	\$14,000,000 / \$198	Brea
2300 E Katella Ave / Stadium Towers	68,534	Colton Company / Lincoln Property Company	\$14,106,353 / \$206	Anaheim
23041 Avenida De La Carlota / Plaza Pointe	63,418	Colton Company / Lincoln Property Company	\$12,924,588 / \$204	Laguna Hills



**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.

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