

MARKETBEAT

Orange County

Office Q4 2018



ORANGE COUNTY OFFICE

Economic Indicators

	Q4 17	Q4 18	12-Month Forecast
Orange County Employment	1.63M	1.64M	▲
Orange County Unemployment*	3.3%	2.9%	▼
U.S. Unemployment*	4.1%	3.7%	▼

*Average of first two months of Q4 2018

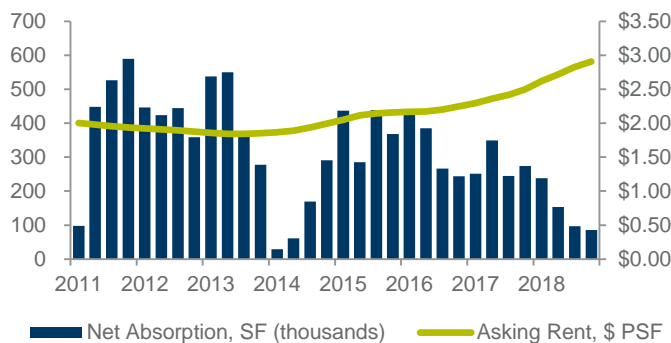
Market Indicators (Overall, All Classes)

	Q4 17	Q4 18	12-Month Forecast
Vacancy	11.1%	11.5%	▼
YTD Net Absorption (sf)	1.1M	297K	▲
Under Construction (sf)	1.5M	1.1M	▼
Average Asking Rent*	\$2.65	\$2.97	▲

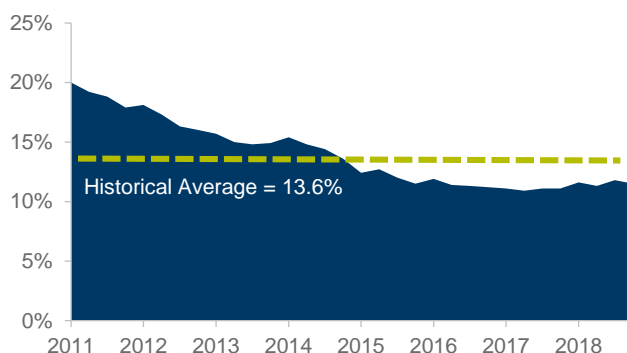
*Rental rates reflect gross asking \$psf/month

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Over the past year, Orange County has added 7,700 jobs for an increase of 0.4%. As of November, the Orange County unemployment rate has decreased to 2.9%. This compares with unemployment rates of 3.9% for California and 3.7% for the Nation during the same period. Industries reporting the largest gains in 2018 were professional and business services adding 7,100 jobs. Government reported the largest year-over-year decline losing 5,600 jobs.

Market Overview

Countywide, overall asking rents increased to \$2.97 per square foot per month (psf/mo), a \$0.32 increase year-over-year or 12.1%. The addition of 1.4 million square feet (msf) of new class A office buildings have helped push rents in Orange County in 2018. Irvine Spectrum remains the highest grossing submarket countywide at \$3.73 psf/mo. Over the past two years, Irvine Spectrum overall rents have risen nearly 38%. This trend will continue in Irvine Spectrum as more development is in the pipeline. The second most expensive submarket is Newport Beach with overall rates at \$3.39 psf/mo.

Overall vacancy finished at 11.5% for 2018, an increase of 40 basis points (bps) year-over-year. This increase is largely due to a number of newly completed office buildings which haven't filled available space with new tenants, rather than tenants leaving the market. The Orange County office market ended the year with a flurry of large leasing transactions which helped overall market fundamentals entering the new year. Renewals continue to dominate large leasing activity with two of the top three leasing transactions of the fourth quarter by SkyWorks and Taco Bell.

Gross leasing activity, which includes renewals, totaled 8.2 million square feet (msf) to finish 2018, a 7% decrease year-over-year. With over 1.9 msf of renewal activity in 2018, Orange County's renewal activity increased nearly 18% year-over-year. This increase can be contributed to the higher costs of relocation and increasing rents from new product. The Greater Airport Area (GAA) had the highest amount of activity with 3.4 msf representing 54% of all new leasing activity in Orange County. Sales activity saw a healthy increase in the fourth quarter with 2.0 msf trading to investors making it the best quarter of 2018. Total investor sale activity for 2018 ended with 6.8 msf, a 2% decrease year-over-year. The largest sale of the fourth quarter came from the purchase of One Pacific Plaza in Huntington Beach by Ares Management consisting of three office properties totaling 384,303 sf.

Orange County ended the year posting 296,587 sf of positive net absorption with four of the five submarkets posting positive absorption. The largest move-ins of the fourth quarter came from The State of California in Santa Ana and GSA in Tustin. South County led the market with 770,725 sf of positive absorption in 2018 with major move-ins from Broadcom, Cylance and Metagenics. South County's occupancy gains were offset by the negative -644,422 sf in the Greater Airport Area and many large move-ins that have delayed occupying space in newly constructed buildings across the market. Over 1.1 msf of new construction is expected to complete in 2019. Irvine Spectrum will see 640k sf of new product from three new buildings at Spectrum Terrance and three buildings at Discovery Park. The Flight @ Tustin Legacy is expected to complete in early 2019 and deliver 417k sf of new creative workspace to the Greater Airport Area market.

Outlook

Orange County overall asking rates rose almost 26.9% over the past two years. Expect rent growth to slow down from this pace as existing landlords compete against newly constructed buildings. Absorption is projected to regain momentum in 2019 with multiple tenants occupying new space in the first half of 2019.

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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	34,269	281,186	16.3%	62,240	93,536	398,176	0	\$2.64	\$2.83
Costa Mesa	5,464,005	87,607	868,612	17.5%	-207,989	-164,174	726,759	0	\$3.27	\$3.50
Newport Beach	8,020,306	36,956	630,979	8.3%	-30,937	-49,835	427,722	0	\$3.39	\$3.43
Irvine	23,508,915	86,918	3,230,667	14.1%	-495,631	-523,949	1,870,189	0	\$3.27	\$3.44
GREATER AIRPORT AREA/CBD	38,929,740	245,750	5,011,444	13.5%	-672,317	-644,422	3,422,846	0	\$3.24	\$3.41
Irvine Spectrum	10,044,357	83,527	1,172,760	12.5%	883,368	815,368	595,648	639,183	\$3.73	\$3.83
Lake Forest/R.S. Margarita	2,634,428	1,500	126,683	4.9%	29,146	30,146	112,327	0	\$2.35	\$2.50
Laguna Hills/Aliso Viejo	4,296,977	16,908	373,975	9.1%	-41,464	-55,595	362,398	0	\$3.08	\$3.27
Laguna Niguel/Laguna Beach	574,657	0	41,203	7.2%	-26,120	-26,120	33,453	0	\$2.74	\$3.15
Mission Viejo	1,289,140	1,000	94,471	7.4%	20,739	23,942	80,553	0	\$2.62	\$2.87
S.J. Cap/S. Clemente/Dana Point	1,274,048	0	41,158	3.2%	-17,016	-17,016	20,936	0	\$2.55	N/A
SOUTH COUNTY	20,113,607	102,935	1,850,250	9.7%	848,653	770,725	1,205,315	639,183	\$3.27	\$3.59
Seal Beach	310,241	3,611	27,519	10.0%	-13,593	-17,204	7,327	0	\$3.22	\$3.25
Westminster	262,284	0	9,820	3.7%	57,514	57,514	55,222	0	\$2.25	N/A
Huntington Beach	1,303,980	0	96,764	7.4%	-4,318	2,540	71,608	0	\$2.54	\$2.45
Fountain Valley	320,225	0	4,603	1.4%	-3,014	-3,014	52,337	0	\$1.65	N/A
Garden Grove	541,785	3,126	25,835	5.3%	-13,849	-16,975	22,856	0	\$1.94	N/A
Los Alamitos/Stanton	435,342	0	159,453	36.6%	5,304	5,304	18,630	0	\$2.46	N/A
Cypress	1,212,927	0	127,581	10.5%	44,246	51,289	65,398	0	\$2.17	N/A
WEST COUNTY	4,386,784	3,611	451,575	10.4%	72,290	79,454	293,378	0	\$2.45	\$2.77
Parkcenter Area	2,820,093	0	340,846	12.1%	-76,739	-70,721	144,242	0	\$2.26	\$2.75
Stadium Area	3,617,010	38,955	245,384	7.9%	7,750	-24,422	139,767	0	\$2.52	\$2.74
The City Area	2,277,180	0	278,831	12.2%	-79,498	-79,498	89,626	0	\$2.80	\$2.82
Main Place Area	2,262,734	0	270,721	12.0%	-38,218	-19,226	50,596	0	\$2.58	\$2.81
Tustin (South of I-5)	783,575	0	145,823	18.6%	-64,815	-64,815	160,616	417,000	\$2.75	N/A
Santa Ana	3,223,816	0	423,709	13.1%	217,898	217,898	175,827	0	\$2.27	N/A
North/East Anaheim	2,978,550	0	289,181	9.7%	9,961	29,961	343,796	0	\$2.48	\$2.57
East Orange	427,246	0	20,321	4.8%	-7,745	-7,745	2,269	0	\$2.21	N/A
Civic Center Area	2,032,872	5,200	254,823	12.8%	29,340	29,340	55,897	0	\$1.76	\$1.95
CENTRAL COUNTY	20,423,076	44,155	2,269,639	11.3%	-2,066	10,772	1,162,636	417,000	\$2.38	\$2.70
Fullerton	1,283,776	0	10,581	0.8%	1,503	1,503	10,562	0	\$1.93	N/A
Brea/La Habra	3,920,786	59,332	145,756	5.2%	37,261	35,711	134,898	0	\$2.28	\$2.59
Placentia/Yorba Linda	270,646	0	6,603	2.4%	4,262	4,262	17,159	0	\$1.90	N/A
Buena Park/La Palma	1,172,333	7,227	172,700	15.3%	38,582	38,582	76,070	0	\$2.41	\$3.00
NORTH COUNTY	6,647,541	66,559	335,640	6.1%	81,608	80,058	238,689	0	\$2.32	\$2.76
O.C. MARKET TOTALS	90,500,748	466,136	9,918,548	11.5%	328,168	296,587	6,322,864	1,056,183	\$2.97	\$3.34

*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	363,549	5,921,313	15.0%	670,953	610,416	3,096,392	1,056,183	\$3.29	\$3.34
Class B	46,662,883	100,867	3,947,786	8.7%	-342,831	-312,155	3,162,998	0	\$2.52	\$2.53
Class C	2,056,447	1,720	49,449	2.5%	46	-1,674	63,474	0	\$1.86	\$1.83

Key Lease Transactions Q4 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
5211, 5221 & 5260 California Ave	217,780	SkyWorks	Renewal/Expansion*	Irvine
1 Glen Bell Way	181,482	Taco Bell	Renewal*	Irvine Spectrum
26600 – 26700 Aliso Viejo Pkwy	165,028	Glaukos	New Lease	Aliso Viejo
1325 N Anaheim Blvd	90,533	AltaMed	Sublease	Anaheim
999 Town & Country Rd	73,908	AECOM	Renewal*	Orange
535 Anton Blvd	62,216	Edwards Life Sciences	New Lease	Costa Mesa
4000 MacArthur Blvd	57,412	MACOM	Renewal*	Newport Beach
15101 Red Hill Ave	51,065	Best Choice Products	New Lease	Tustin

*Renewal – not included in Leasing Activity Statistics

Key Sales Transactions Q4 2018

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
7711 Center Ave / One Pacific Plaza	384,303	Prudential Financial / Ares Management LP	\$124,500,000 / \$324	Huntington Beach
1400 – 1600 Douglas Rd / Arena Corporate Center	383,250	Arena Corporate Management / Miramar Ventures Partners	\$125,500,000 / \$327	Anaheim
AXIS Anaheim	301,292	The Seligman Group / Goldman Sachs	\$83,100,000 / \$276	Anaheim
3333 – 3337 Susan St / The Hive	189,989	SteelWave / Invesco	\$84,000,000 / \$457	Costa Mesa
2300 Main St / Main Corporate Center	133,745	Hines / GLL Real Estate Partners	\$46,600,000 / \$348	Irvine
7000 – 7001 Village Dr / The Village Business Park	118,840	Westcore Properties / Stanton Road Capital LLC	\$22,330,000 / \$158	Buena Park



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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