

# MARKETBEAT

## Orange County

Office Q3 2019



### ORANGE COUNTY OFFICE

#### Economic Indicators

	Q3 18	Q3 19	12-Month Forecast
Orange County Employment	1.65M	1.67M	▲
Orange County Unemployment*	2.8%	2.9%	▼
U.S. Unemployment*	3.8%	3.7%	▲

\*As of August 2019

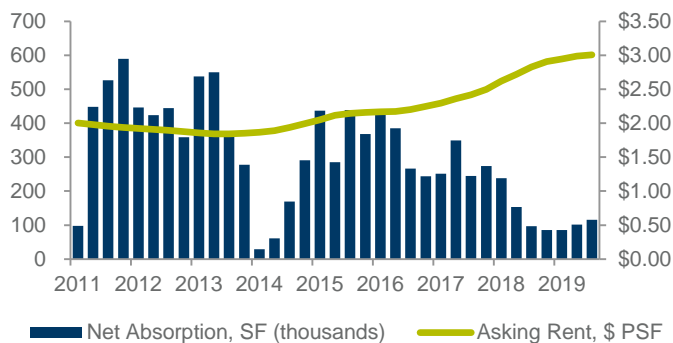
#### Market Indicators (Overall, All Classes)

	Q3 18	Q3 19	12-Month Forecast
Vacancy	11.8%	12.2%	▼
YTD Net Absorption (sf)	165k	330k	▲
Under Construction (sf)	766k	70k	▲
Average Asking Rent*	\$2.96	\$3.04	▲

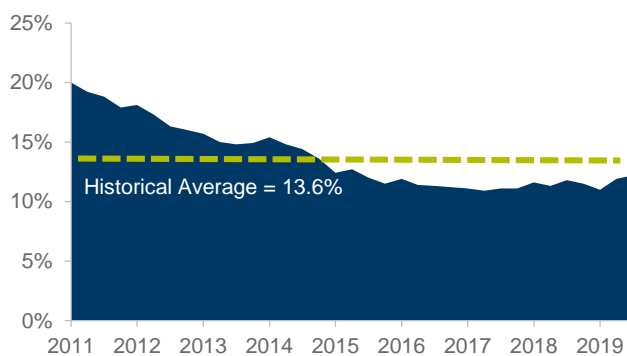
\*Rental rates reflect gross asking \$psf/month

#### 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 80 basis points (bps) lower than the national unemployment rate of 3.7% and 130 bps lower than the unemployment rate of 4.2% in California. Over the past year, Orange County added 12,500 jobs with the leisure and hospitality sector leading the way, gaining 7,600 jobs during that time frame. The U.S. set a new longevity record for economic expansion in July 2019, exceeding ten years for the first time since records have been kept.

#### Market Overview

Orange County finished third quarter 2019 with overall asking rates at \$3.04 per square foot per month (psf/mo), an increase of \$0.02 (0.7%) since last quarter and an increase of \$0.16 psf/mo (2.7%) since the same period last year. Class A direct rents in Orange County finished the quarter at \$3.38 psf/mo, an increase of \$0.01 (0.3%) from the year prior, however, an increase of \$0.33 (10.8%) from two years ago.

Overall vacancy increased 30 basis points (bps) from last quarter to 12.2% in Orange County as several tenants like Verizon, Kinder Morgan and the Ensign Group vacated, and others relocated or downsized like Viant, Advantage Solutions and the ABS Group. Additionally, 348,783 square feet (sf) of new product at Spectrum Terrace (Phase I) delivered, introducing more vacant space into the market. However, the Greater Airport Area remained strong with a 30-bp decline in vacancy from the previous quarter, now at 13.6%. WeWork continued to migrate into Orange County, occupying 44,520 sf at 400 Spectrum, one of the largest move-ins of the quarter.

New leasing activity finished third quarter 2019 at 1.5 million square feet (msf) which brings the year-to-date total to 5.5 msf. Compared to the same period last year, Orange County leasing activity increased 25.2%. Many of the top leases this quarter were fueled by new direct leases, including seven of the top ten transactions. However, the largest lease this quarter was a renewal signed by Zillow, currently occupying 80,312 sf at 2600 Michelson Drive. WeWork signed the largest new lease this quarter taking 74,926 sf at 18191 Von Karman Avenue in Irvine.

Year-to-date, Orange County has experienced positive net absorption of 330,195 sf. Although overall net absorption for the quarter was at -79,510 sf, there is little indication that the market will be slowing down. With leasing activity ahead of last year's pace, the Orange County office market will experience positive gains as those tenants move in through mid-year 2020.

Sales activity saw a healthy increase in the third quarter with 1.3 msf trading to investors, a 28.4% increase from the previous quarter. The largest individual sale came from the purchase of 4 Hutton Center in the Greater Airport Area by LaSalle Investment Management totaling 216,864 sf at \$255 psf. Not far behind, Stanton Road Capital purchased 211,916 sf at 333 South Anita Drive in the Stadium Area submarket at \$209 psf.

#### Outlook

New Class A office developments caused temporary rises in vacancy rates in 2019. Over 1.2 msf of new office space delivered through third quarter, leaving just 69,968 sf under construction county-wide. With construction deliveries slowing down, coupled with a solid economy that includes some of the lowest unemployment rates in the nation, the Orange County office market is poised to continue healthy market fundamentals for the foreseeable future.

MARKETBEAT

Orange County

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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	13,586	268,417	14.6%	11,414	32,097	15,760	0	\$2.88	\$2.93
Costa Mesa	5,504,797	85,996	746,433	15.1%	42,975	44,586	255,153	0	\$3.09	\$3.47
Newport Beach	8,020,306	76,056	597,460	8.4%	-68,743	-110,371	366,136	0	\$3.43	\$3.50
Irvine	24,218,764	140,378	3,486,290	15.0%	490,735	389,261	1,835,308	0	\$3.30	\$3.42
<b>GREATER AIRPORT AREA/CBD</b>	<b>39,680,381</b>	<b>316,016</b>	<b>5,098,600</b>	<b>13.6%</b>	<b>476,381</b>	<b>398,932</b>	<b>2,442,357</b>	<b>0</b>	<b>\$3.26</b>	<b>\$3.41</b>
Irvine Spectrum	10,683,540	208,709	1,323,339	14.3%	413,618	432,620	775,969	69,968	\$3.73	\$3.90
Lake Forest/R.S. Margarita	2,680,958	0	183,176	6.8%	-58,990	-58,808	53,522	0	\$2.51	\$2.70
Laguna Hills/Aliso Viejo	4,296,977	13,497	600,270	14.3%	-157,439	-161,086	312,743	0	\$3.13	\$3.29
Laguna Niguel/Laguna Beach	574,657	3,000	52,092	9.6%	-10,889	-13,889	9,747	0	\$2.91	\$3.15
Mission Viejo	1,289,140	29,602	151,040	14.0%	-51,266	-79,868	48,117	0	\$2.75	\$3.01
S.J. Cap/S. Clemente/Dana Point	1,274,048	0	33,888	2.7%	-2,918	-2,918	30,144	0	\$2.48	\$2.38
<b>SOUTH COUNTY</b>	<b>20,799,320</b>	<b>254,808</b>	<b>2,343,805</b>	<b>12.5%</b>	<b>132,116</b>	<b>72,692</b>	<b>1,230,242</b>	<b>69,968</b>	<b>\$3.33</b>	<b>\$3.61</b>
Seal Beach	310,241	0	19,352	6.2%	8,167	11,778	21,654	0	\$3.35	\$3.35
Westminster	262,284	0	792	0.3%	9,028	9,028	19,521	0	\$2.25	N/A
Huntington Beach	1,303,980	0	104,759	8.0%	-19,004	-19,004	89,977	0	\$3.14	\$3.23
Fountain Valley	320,225	0	30,932	9.7%	-26,329	-26,329	7,676	0	\$1.84	N/A
Garden Grove	541,785	0	30,765	5.7%	-4,930	-1,804	4,493	0	\$1.95	N/A
Los Alamitos/Stanton	435,342	0	164,015	37.7%	-4,562	-4,562	159,583	0	\$1.60	N/A
Cypress	1,212,927	0	114,375	9.4%	13,117	13,117	161,552	0	\$2.11	N/A
<b>WEST COUNTY</b>	<b>4,386,784</b>	<b>0</b>	<b>464,990</b>	<b>10.6%</b>	<b>-24,513</b>	<b>-17,776</b>	<b>464,456</b>	<b>0</b>	<b>\$2.54</b>	<b>\$3.25</b>
Parkcenter Area	2,701,253	4,841	210,943	8.0%	40,467	35,626	210,314	0	\$2.34	\$2.80
Stadium Area	3,617,010	41,586	327,123	10.2%	-70,636	-71,355	189,527	0	\$2.77	\$2.87
The City Area	2,277,180	8,434	303,516	13.7%	-37,733	-46,167	68,331	0	\$2.90	\$2.97
Main Place Area	2,051,411	18,992	327,125	16.9%	-71,766	-90,758	134,263	0	\$2.68	\$2.98
Tustin (South of I-5)	783,575	0	165,582	21.1%	-19,749	-19,749	101,397	0	\$2.39	N/A
Santa Ana	3,022,412	8,102	430,298	14.5%	-28,953	-37,055	134,140	0	\$2.34	N/A
North/East Anaheim	2,978,550	0	301,864	10.1%	-10,721	-10,721	150,381	0	\$2.39	\$2.55
East Orange	427,246	0	12,691	3.0%	5,280	5,280	11,451	0	\$2.46	N/A
Civic Center Area	2,032,872	0	197,868	9.7%	56,155	56,155	155,972	0	\$1.87	\$2.65
<b>CENTRAL COUNTY</b>	<b>19,891,509</b>	<b>81,955</b>	<b>2,277,010</b>	<b>11.9%</b>	<b>-137,656</b>	<b>-178,744</b>	<b>1,155,776</b>	<b>0</b>	<b>\$2.49</b>	<b>\$2.90</b>
Fullerton	1,398,121	0	40,093	2.9%	-19,795	-19,795	6,910	0	\$2.40	N/A
Brea/La Habra	3,920,786	5,859	107,887	2.9%	36,889	90,362	160,292	0	\$2.45	\$2.65
Placentia/Yorba Linda	270,646	0	20,105	7.4%	-13,502	-13,502	31,507	0	\$1.98	N/A
Buena Park/La Palma	1,172,333	2,676	155,637	13.5%	-6,525	-1,974	45,704	0	\$2.41	\$2.88
<b>NORTH COUNTY</b>	<b>6,761,886</b>	<b>8,535</b>	<b>323,722</b>	<b>4.9%</b>	<b>-2,933</b>	<b>55,091</b>	<b>244,413</b>	<b>0</b>	<b>\$2.39</b>	<b>\$2.78</b>
<b>O.C. MARKET TOTALS</b>	<b>91,519,880</b>	<b>661,314</b>	<b>10,508,127</b>	<b>12.2%</b>	<b>443,395</b>	<b>330,195</b>	<b>5,537,244</b>	<b>69,968</b>	<b>\$3.04</b>	<b>\$3.38</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	42,720,148	576,110	6,371,308	16.3%	304,842	185,133	2,819,831	69,968	\$3.35	\$3.38
Class B	46,743,285	83,484	4,067,321	8.9%	156,215	162,724	2,678,154	0	\$2.57	\$2.58
Class C	2,056,447	1,720	69,498	3.5%	-17,662	-17,662	39,259	0	\$2.00	\$1.98

## Key Lease Transactions Q3 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
2600 Michelson Drive	80,312	Zillow	Renewal*	Irvine
18191 Von Karman Avenue	74,926	WeWork	New Lease	Irvine
17100 Laguna Canyon Road	43,789	Kajabi	New Lease	Irvine Spectrum
801 East Katella Avenue	43,286	Planned Parenthood	New Lease	Stadium Area
100 Bayview Circle	35,246	Green Street Advisors	New Lease	Newport Beach
15326 Alton Parkway	36,621	Axonics Modulation Technologies	New Lease	Irvine Spectrum
15 Enterprise	30,703	MicroVention	New Lease	Laguna Hills/Aliso Viejo
17838 Gillette Avenue	28,250	Conduent	Renewal*	Irvine
888 San Clemente Drive	24,954	UBS Financial Services	Renewal*	Newport Beach
18100 Von Karman Avenue	24,234	The TJX Companies	New Lease	Irvine

\*Renewal – not included in Leasing Activity Statistics

## Key Sales Transactions Q3 2019

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
1600 & 1610 East Saint Andrew Place	390,600	The Brookhollow Group / Drawbridge Realty	\$97,500,000 / \$250	Santa Ana
4 Hutton Centre Drive	216,864	Lakeside Partners, LLC / LaSalle Investment Management	\$55,400,000 / \$255	South Santa Ana
333 South Anita Drive	211,946	PRES Companies / Stanton Road Capital, LLC	\$44,300,000 / \$209	Stadium Area
17011 Beach Boulevard	208,836	Decron Properties / Onni Group	\$41,593,255 / \$199	Huntington Beach
2742 Dow Avenue	51,588	Bristol Park Health / Cress Capital Partners	\$15,900,500 / \$308	Tustin (South of I-5)
22800 Savi Ranch Parkway	48,895	Savi Ranch Parkway, LLC / Dollinger Properties	\$8,150,000 / \$167	Placentia/Yorba Linda
2183 Fairview Road	36,907	Newport Victoria / George Urban Propeties	\$6,860,000 / \$186	Costa Mesa
18012 Cowan	26,481	Howard Matthews / Mark Thompson	\$7,066,250 / \$267	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.

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