

ORANGE COUNTY

Office Q4 2019

	YoY Chg	12-Mo. Forecast
12.2% Vacancy Rate	▲	▼
396K YTD Net Absorption, SF	▲	▲
\$3.04 Asking Rent, PSF	▲	▲

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2019

	YoY Chg	12-Mo. Forecast
1.7M Orange County Employment	▲	▲
2.7% Orange County Unemployment Rate	▼	▲
3.6% U.S. Unemployment Rate	▼	▲

Source: BLS

ECONOMIC OVERVIEW

Orange County holds one of the nation's lowest unemployment rates at 2.7% through November. This rate is 90 basis points (bps) lower than the national unemployment rate of 3.6% and 120 bps lower than the unemployment rate of 3.9% in California. Orange County added 2,500 jobs over the month and 14,100 jobs over the year, or 0.8% growth. The leisure and hospitality sector led the way, gaining 7,100 jobs during that time frame. Financial activities increased by adding 3,200 jobs in the last year and the construction sector added 2,300 jobs.

SUPPLY: Leasing Outpaces Prior Year

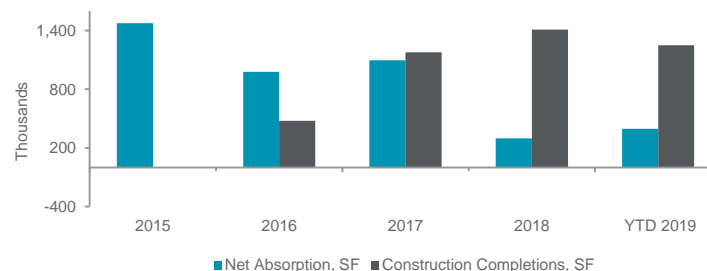
The Orange County office market at year-end 2019 closed with overall vacancy increasing 30 basis points (bps) to 12.2% from a year ago, while direct vacancy increased 50 bps to 11.5%. The slight increase in vacancy was mainly due to the completions of Flight @ Tustin Legacy and Discovery Park in Irvine as well as Spectrum Terrace in the Irvine Spectrum submarkets, respectively, as they introduced more vacant space into the market.

New leasing activity finished the fourth quarter of 2019 at 1.7 million square feet (msf) bringing the year-to-date total to 7.4 msf. Compared to year-end 2018, Orange County leasing activity increased 16.4%. Six of the top ten leases for the year were new deals surpassing 100,000 square feet (sf), including deals signed by Epson America, Ambry Genetics, WeWork, Avani Pharmaceuticals, TGS and Alteryx. As new product delivered throughout 2019, larger blocks of contiguous space became available, but decreased by year-end to 22 spaces available with 100,000 sf or more. Across Orange County there are 50 blocks of contiguous space available at 50,000 sf or more providing tenants with growth options and companies to expand their footprint. The Irvine (12) and Irvine Spectrum (19) submarkets account for 62.0% or 31 of the total blocks available.

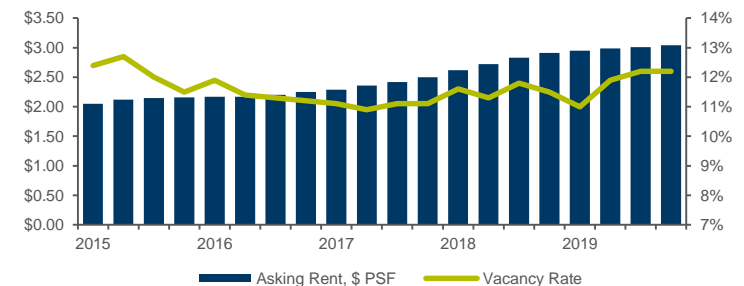
PRICING: Asking Rents Pause at Year-end

Orange County overall asking rates increased to \$3.04 per square foot per month (psf/mo), an increase of \$0.07 (2.3%) since the same period last year. Class A direct rents in Orange County finished the year at \$3.35 psf/mo, a decrease of \$0.03 (0.9%) from the prior quarter and a mere \$0.01 (0.3%) increase from this time last year. With 639,183 sf of new product completed this year, the Irvine Spectrum submarket had the highest asking rental rates in the county for direct Class A space at \$3.96 psf/mo.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



ORANGE COUNTY

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DEMAND: New Office Product is an Influencer

At year-end 2019, Orange County experienced positive net absorption of 396,008 sf, a 33.5% increase from the 2018 totals. The largest move-in of the quarter went to UCI Applied Innovation, occupying 84,380 sf in Irvine. Although, overall net absorption for the quarter was relatively flat at 30,383 sf, there is little indication that the market will be slowing down in 2020. With leasing activity outpacing last year's totals, the Orange County office market will experience those tenants moving into their space in 2020, with a large amount anticipated in the first quarter 2020 through midyear.

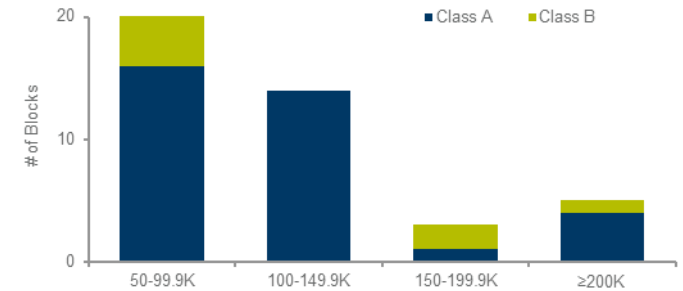
Sales activity saw another strong performance in the fourth quarter with 2.4 msf trading to investors, an 85.4% increase from the previous quarter and brought year-end 2019 to 5.7 msf. In contrast, that is an 16.3% decrease from the 2018 figure of 6.8 msf. The largest sale in the fourth quarter came from the purchase of 2211 Michelson by Greenlaw Partners from Kilroy totaling 271,556 sf, at \$116 million or \$427 price/sf. However, Central County closed with 2.2 msf of transactions or 38.1% of all deals in Orange County.

Construction completions tempered in the fourth quarter with no new deliveries, but four developments in 2019 delivered more than 1.2 msf to the market. Flight @ Tustin Legacy left the largest mark with 457,000 sf of new product hitting the Irvine market, with another 349,000 sf coming from the completion of Spectrum Terrace – Phase I and 2722 Michelson topping it off with 155,000 sf. The remaining balance came from the 290,000 sf project by The Irvine Company at Discovery Place. At the end of the third quarter, The Source H2O remained the only project under construction with 70,000 sf. However, that was short-lived as the fourth quarter realized an increase of 718,000 sf as the next phase of Spectrum Terrace broke ground with six more buildings.

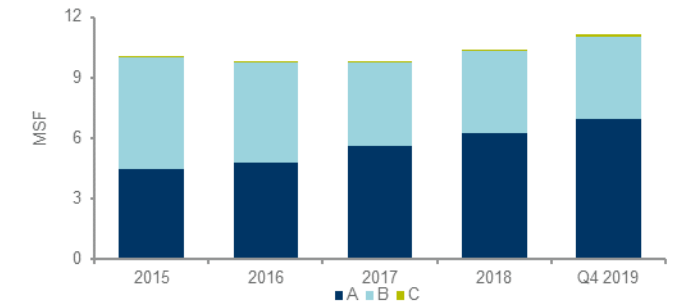
Outlook

- Large move-ins by Alteryx and Tricon alone account for 260,000 sf of occupancy gains in second quarter 2020. With less construction project in the pipeline vacancy rates should trend down.
- Rental rate growth should taper across Orange County as some submarkets move from expansion mode to more of a slowdown period. As high-quality speculative projects approach construction completion, sustained rent growth should continue both in the GAA and South County areas of Orange County, though likely at a slower pace.
- With less construction projects in the pipeline, large blocks of contiguous space will become limited.

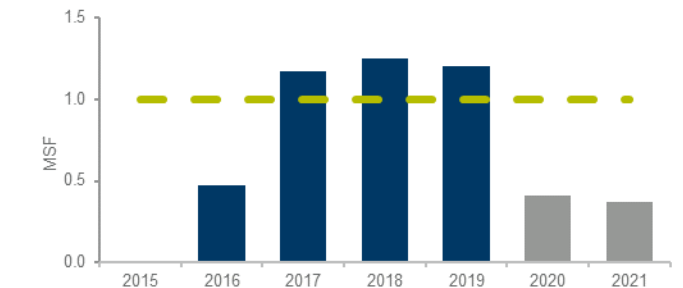
BLOCKS OF CONTIGUOUS SPACE



VACANT SPACE BY CLASS



NEW SUPPLY



ORANGE COUNTY

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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
South Santa Ana	1,936,514	13,586	318,748	17.2%	-50,331	-18,234	55,591	0	\$2.87	\$2.89
Costa Mesa	5,504,797	86,761	780,436	15.8%	-34,768	9,818	318,056	0	\$3.16	\$3.39
Newport Beach	8,020,306	83,170	594,707	8.5%	-4,361	-114,732	487,757	0	\$3.44	\$3.51
Irvine	24,218,764	145,922	3,241,875	14.0%	241,791	671,491	2,238,954	0	\$3.28	\$3.35
GREATER AIRPORT AREA	39,680,381	329,439	4,935,766	13.3%	152,331	548,343	3,100,358	0	\$3.26	\$3.36
Irvine Spectrum	10,683,540	209,636	1,323,166	14.3%	-3,404	388,507	1,270,053	787,744	\$3.74	\$3.93
Lake Forest/R.S. Margarita	2,680,958	0	196,708	7.3%	-13,532	-72,340	77,273	0	\$2.42	\$2.67
Laguna Hills/Aliso Viejo	4,296,977	15,500	561,512	13.4%	37,308	-124,331	460,651	0	\$3.11	\$3.29
Laguna Niguel/Laguna Beach	574,657	0	39,704	6.9%	14,295	2,546	25,944	0	\$3.07	\$3.15
Mission Viejo	1,289,140	14,767	148,893	12.7%	5,928	-62,886	63,549	0	\$2.81	\$3.00
S.J. Cap/S. Clemente/Dana Point	1,274,048	0	34,649	2.7%	-761	-3,679	46,158	0	\$2.48	\$2.40
SOUTH COUNTY	20,799,320	239,903	2,304,632	12.2%	39,834	127,817	1,943,628	787,744	\$3.35	\$3.65
Seal Beach	310,241	2,218	20,880	7.4%	-3,746	8,032	28,529	0	\$3.21	\$3.21
Westminster	262,284	0	12,449	4.7%	-11,657	-2,629	19,521	0	\$2.65	N/A
Huntington Beach	1,303,980	0	135,353	10.4%	-30,594	-49,598	95,097	0	\$3.11	\$3.22
Fountain Valley	320,225	0	31,397	9.8%	1,780	-26,918	21,223	0	\$1.96	N/A
Garden Grove	541,785	0	42,780	7.9%	-12,015	-13,819	5,863	0	\$1.94	N/A
Los Alamitos/Stanton	435,342	0	166,284	38.2%	-2,269	-6,831	159,787	0	\$1.57	N/A
Cypress	1,212,927	0	89,544	7.4%	24,831	37,948	161,552	0	\$2.10	N/A
WEST COUNTY	4,386,784	2,218	498,687	11.4%	-33,670	-53,815	491,572	0	\$2.55	\$3.22
Parkcenter Area	2,701,253	4,841	208,814	7.9%	1,438	37,755	297,913	0	\$2.37	\$2.81
Stadium Area	3,577,777	4,985	388,325	11.0%	-24,601	-96,764	206,252	0	\$2.78	\$2.89
The City Area	2,277,180	2,238	406,706	18.0%	-96,994	-143,161	129,971	0	\$2.91	\$2.93
Main Place Area	2,051,411	18,992	274,932	14.3%	52,193	-38,565	155,518	0	\$2.68	\$2.89
Tustin (South of I-5)	783,575	0	165,582	21.1%	0	-19,749	101,397	0	\$2.39	N/A
Santa Ana	3,022,412	8,102	421,140	14.2%	8,253	-27,897	261,532	0	\$2.35	N/A
North/East Anaheim	2,978,550	0	316,661	10.6%	-14,797	-25,518	170,599	0	\$2.37	\$2.56
East Orange	427,246	0	15,749	3.7%	-3,058	2,222	12,371	0	\$2.48	N/A
Civic Center Area	2,033,998	0	232,136	11.4%	-36,862	19,293	163,958	0	\$1.86	\$2.65
CENTRAL COUNTY	19,853,402	39,158	2,430,045	12.4%	-114,428	-292,384	1,499,511	0	\$2.51	\$2.87
Fullerton	1,398,121	0	37,555	2.7%	2,538	7,382	34,087	0	\$2.40	N/A
Brea/La Habra	3,920,786	5,859	97,703	2.6%	10,183	100,546	195,615	0	\$2.47	\$2.61
Placentia/Yorba Linda	270,646	2,832	27,554	11.2%	-10,281	-23,783	37,138	0	\$2.05	N/A
Buena Park/La Palma	1,172,333	2,676	171,761	14.9%	-16,124	-18,098	54,909	0	\$2.39	\$2.84
NORTH COUNTY	6,761,886	11,367	334,573	5.1%	-13,684	66,047	321,749	0	\$2.38	\$2.76
ORANGE COUNTY TOTALS	91,481,773	622,085	10,503,703	12.2%	30,383	396,008	7,356,818**	787,744	\$3.04	\$3.33

*Rental rates reflect full service asking **Leasing Total is not reflective of the U.S. Overview Tables

KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
17100 & 17200 Laguna Canyon	Irvine Spectrum	Alteryx	174,993	Direct
17500 Laguna Canyon	Irvine Spectrum	TGS	114,875	Direct
15370 Barranca Parkway	Irvine Spectrum	Johnson Controls	47,039	Renewal*
27 Technology Drive Bldg 20	Irvine Spectrum	Biosense Webster	45,362	Direct
17877 Von Karman Avenue	Irvine	Westcliff University	34,840	Direct
601 South Lewis Street	The City Area	Department of Education	33,483	Direct
1231 East Dyer Road	Santa Ana	Mobile Medical Examination	32,467	Direct
17838 Gillette Avenue	Irvine	Conduent	28,454	Renewal*
15 Cushing	Irvine Spectrum	OncoCyte Corporation	26,799	Direct
18565 - 18575 Jamboree Road	Irvine	Pathway Capital Management	24,876	Expansion
3090 Bristol Street	Costa Mesa	Metro Home Mortgage	19,926	Sublease
2850 South Red Hill Avenue	Santa Ana	BrandRep	19,073	Sublease
5270 California Avenue	Irvine	Regents of University of California	17,584	Direct
120 Vantis	Laguna Hills/ Aliso Viejo	Covenant Care	17,199	Direct
3161 Michelson Drive	Irvine	CoStar Inc	17,089	Renewal*

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$PSF
1801 East Saint Andrew Place	Santa Ana	Angelo, Gordon & Company / Fortress Investment Group	367,045	\$84M/\$228
2040 Main Street	Irvine	Knobbe Martens / Greenlaw Partners	307,559	\$73M/\$238
2211 Michelson	Irvine	Kilroy Realty / Greenlaw Partners	271,556	\$116M/\$427
2955, 2975 & 2995 Red Hills Avenue	Costa Mesa	The Blackstone Group / SteelWave, Inc.	229,093	\$72M/\$314
222 South Harbor Boulevard	North/East Anaheim	The Blackstone Group / Harbor Associates	194,892	\$33M/\$168
28202 Cabot Road	Laguna Niguel/Laguna Beach	The Blackstone Group / Harbor Associates	175,268	\$47M/\$268

KEY CONSTRUCTION COMPLETIONS YTD 2019

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
Flight @ Tustin Legacy	Irvine	Happy Money	456,608	Lincoln Property Company
Spectrum Terrace – Phase I	Irvine Spectrum	Alteryx	348,783	The Irvine Company
Discovery Park	Irvine Spectrum	Pacific Rim Capital	290,400	The Irvine Company
2722 Michelson Drive	Irvine	Anduril Industries	155,000	LBA Realty

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OFFICE SUBMARKETS



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