

MARKET OVERVIEW. Companies are drawn to Orange County because of its highly educated employment base, which is a contributing factor for the strong office demand. Consistent demand has resulted in vacancies being reduced 30% since 2010. We are currently in the longest economic expansion in United States history, with a solid economy and job growth on the rise, as well as business expansion. Most Orange County businesses and economists remain optimistic that the expansion will continue into next year. With the second quarter vacancy rate registering at 11.49%, we should see upward pressure on pricing in Orange County for both lease and sale properties over the next few quarters. This is evidenced by the new all-time high of \$2.81 per square foot average asking full-service gross (FSG) rent for Orange County office space.

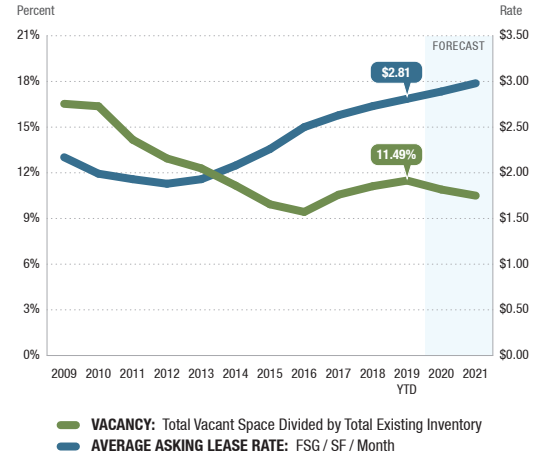
VACANCY. Office absorption in Orange County strengthened steadily as the labor market expanded. Annual net absorption for the year thus far has been positive in Orange County. Direct/sublease space (unoccupied) finished the quarter at 11.49%, 6 basis points lower than the second quarter of 2018. West County posted the lowest vacancy rate of any major submarket at 6.90%, while the Airport Area and Central County had vacancy rates greater than 12% at the end of this last quarter.

LEASE RATES. The average asking FSG lease rate per month per square foot in the Orange County office market was \$2.81 at the end of the second quarter, a 5.24% increase from this time last year and a six-cent increase from the first quarter. The average quoted rental rate for Class A space was \$3.19 per square foot. Class B rental rates came in at \$2.39 per square foot. The overall Orange County office market average asking rate is now at an all-time high, surpassing the previous peak of \$2.77 from 2007.

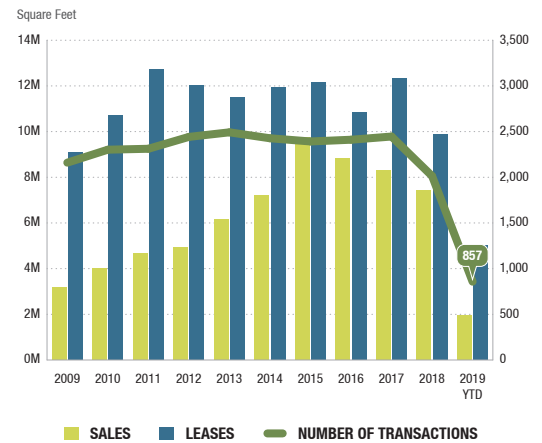
TRANSACTION ACTIVITY. In the second quarter of 2019, 3.48 million square feet in total transactions (sale and lease) were recorded, up from 3.30 million square feet the previous quarter. Positive indicators include the low vacancy rate, which has driven a fair amount of new construction, and the abundant supply of quality office space which is expected to accommodate demand.

ECONOMY. The unemployment rate in Orange County was 2.4% in May of 2019, down from a revised 2.6% in April 2019, and below the year-ago estimate of 2.5%. Between May 2018 and May 2019, professional and business services posted the largest year-over-year expansion with a gain of 7,800 jobs. The growth was evident across all subsectors with more than half of the job expansion in administrative and support and waste services (up 4,100 jobs), followed by professional scientific and technical services (up 3,200 jobs), and management of companies and enterprises (up 500 jobs).

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	2Q 2019	1Q 2019	2Q 2018	% Change Over Last Year
Vacancy Rate	▲ UP	11.49%	11.36%	11.55%	(0.52%)
Availability Rate	▼ DOWN	14.62%	14.92%	15.09%	(3.11%)
Average Asking Lease Rate	▲ UP	\$2.81	\$2.75	\$2.67	5.24%
Sale & Lease Transactions	▲ UP	3,481,411	3,301,561	4,336,632	(19.72%)
Gross Absorption	▲ UP	2,728,246	2,423,515	2,317,419	17.73%
Net Absorption	▲ POSITIVE	395,053	294,525	(272,332)	N/A

OVERALL. Economic growth throughout Orange County is one of the main drivers of the continued low vacancy rates and rent growth. Furthermore, some of this region’s leading businesses are growing at an even faster rate than the economy. High levels of leasing and increasing lease rates have made investment sales more attractive. We are continuing to see a decrease in the amount of available space on the market and increases in occupancy costs. Positive absorption should continue through 2019, and with few new deliveries in the pipeline to alleviate the pressure on vacancy, the market should continue to tighten.

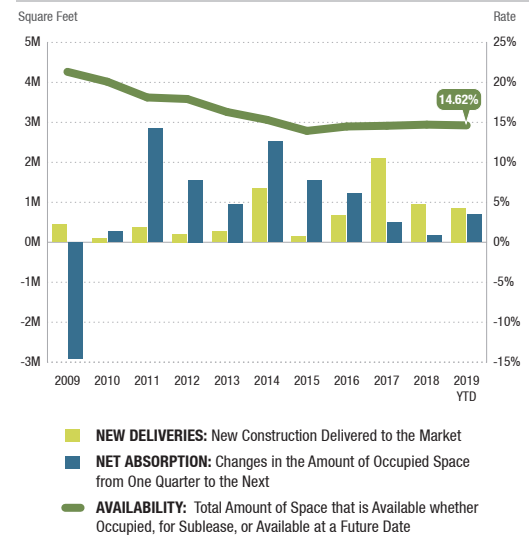
LEASE RATES. Despite slightly elevated vacancies due to new supply, rent growth continues its upward trend. Expect lease rates to continue to climb 2–3% annualized growth in the coming year.

VACANCY. Demand is solid, lease rates have increased, and unemployment is down. This foundation of strong economic fundamentals has contributed to the strengthening of the Orange County economy. We expect more of the same through the balance of 2019, with anticipated vacancy rates in the 10–12% range over the next three quarters.

CONSTRUCTION. Total space under construction came in at 422,490 square feet for the second quarter. The only project is Spectrum Terrace phase 1, a 422,490 square foot project consisting of three four-story office buildings, part of a 1.1 million square foot ultra-modern office campus nestled on 73 acres of open space in the heart of SoCal’s innovation hub.

ABSORPTION. The Orange County office market posted 395,053 square feet of positive net absorption during the second quarter, giving the market its third consecutive quarter of positive net absorption. Strong market fundamentals and leasing momentum carried from the end of last year into the second quarter. Class B office contributed the highest positive net absorption, with 390,377 square feet absorbed in the second quarter. Class A had a positive net absorption of 11,589 square feet, and Class C finished the second quarter with 6,913 square feet of negative net absorption.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
2 MacArthur Pl.	Santa Ana	A	208,142	\$83,000,000	Ocean West Capital Partners	The Blackstone Group GP
1 MacArthur Pl.	Santa Ana	A	210,025	\$54,000,000	Ocean West Capital Partners	The Blackstone Group GP
4 Hutton Center Dr.	Santa Ana	A	216,864	\$54,800,000	LaSalle Income & Growth Fund VII REIT, LLC	Lakeside Partners Hutton, LLC*
2100–2134 Main St.	Huntington Beach	B	148,455	\$40,875,000	South Bay Partners	The Colton Company
1800 E. Imperial Hwy.	Brea	B	145,467	\$33,500,000	Fairway Center, LLC	TA Realty

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
15771 Red Hill Ave.	Tustin	B	78,000	May-2019	Tricon American Homes	GVI-SW Red Hill Owner LLC1700
1700 Flight Way	Tustin	A	72,010	Jun-2019	Happy Money	Lincoln Property Company
18565–18575 Jamboree Rd.	Irvine	A	72,000	May-2019	Rutan & Tucker	Trammell Crow Company
500 S. Main St.	Orange	A	69,151	Apr-2019	County of Orange (Assessor)	Orange County Realty Investment
1500 Douglass Rd.– sublease	Anaheim	B	64,000	May-2019	Regents of the University of CA	Sun Life Institutional Investment



What's your bias?

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Let's face it, even the most objective of us is slightly biased. This makes us human, after all. With regard to the Orange County office market, information can be interpreted differently depending on these personal biases. For instance, there is plenty to support the argument for continued growth, and there is evidence that a slowdown is around the corner.

Our industry has coined certain catchphrases to signify different cycles for the market. Terms such as "headwinds", "slowing increases" and "lower growth" can be found in articles that will fuel a bias or belief that a market slowdown is looming. At the same time, you can find articles that report "steady expansion", "Bulls outnumber Bears" or "more jobs than workers" which would support that the market is sturdy and still growing. The facts are: capital costs remain low, purchase prices continue to rise, speculative development remains steady, and rents are being raised.

However, the office market, like most things in life, can allow varied interpretations of the facts. By my own observation, I would suggest that the market is accelerating but at a slower rate, thus maintaining steady growth. While it may not be the fast-paced market we've been experiencing for the past few years, this state of the market presents other, different opportunities.

For office property owners, now might be a good time to take advantage of the healthy market by performing a sale / leaseback. In turn, it's a great time for an owner-user to take advantage of the very affordable SBA programs that are currently available. Or, if you are a tenant, there are numerous opportunities to upgrade to one of the many creative office environments with flexible workspaces and abundant amenities.

Whatever side of the fence you're on, whether you think we're headed for a downturn or expect the market trajectory to continue, there is no denying that the OC office market will continue to march onward and upward for at least the balance of 2019. We will see higher rents and sales prices; however, if the slowing continues, this will cause a shift from a seller's market towards a buyer's market. Sellers will not get away with overpricing, just as buyers will be unable to make lowball offers. Sellers will need to exercise patience as the end of the year approaches.

**Please Contact Us
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Product Type

CLASS A: Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

CLASS B: Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

CLASS C: Buildings competing for tenants requiring functional space at rents below the area average.

Submarkets

AIRPORT AREA
Costa Mesa, Irvine, Newport Beach

CENTRAL COUNTY
Anaheim, Orange, Santa Ana, Tustin

NORTH COUNTY
Anaheim Hills, Brea, Buena Park, Fullerton, La Habra, La Palma, Placentia, Yorba Linda

SOUTH COUNTY
Aliso Viejo, Dana Point, Foothill Ranch, Irvine Spectrum, Laguna Beach, Laguna Hills, Laguna Niguel, Lake Forest, Mission Viejo, Rancho Santa Margarita, San Clemente, San Juan Capistrano

WEST COUNTY
Cypress, Fountain Valley, Garden Grove, Huntington Beach, Los Alamitos, Seal Beach, Stanton, Westminster