# SECOND QUARTER 2017 MARKET REPORT ORANGE COUNTY OFFICE



**SOUND FUNDAMENTALS.** Orange County's diverse economy continues to thrive as businesses both large and small target expansion opportunities in the second quarter. While firms in the legal, real estate, financial services, technology, medical, automotive and software sectors are aiming to become more efficient in the way they use their real estate, new hires continue to drive demand. Tenant demand for quality space is high as firms look for new and innovative ways to attract and retain talent. Average asking rents (\$2.58 per square foot) have been pushed to their highest level in years. Business owners are maintaining an elevated level of optimism and are now willing to make significant investments in their real estate as illustrated by the Orange County's 400,000 square feet of positive net absorption in 2017. The Orange County office market has now posted 2.5 million square feet of positive absorption over the past 10 quarters.

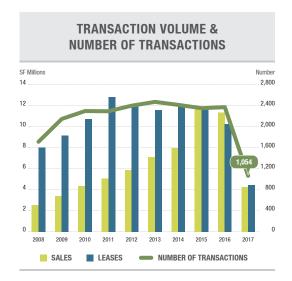
**VACANCY.** With technology, healthcare, and services leading the charge, the local economy continues to grow, driving the overall vacancy rate down to 10.14% in the second quarter of 2017, a slight decrease from the first quarter's 10.22%.

**LEASE RATES.** The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was \$2.58 at the end of the second quarter, a 5.74% increase from this time last year and a 3.2% change from the first quarter (\$2.50).

**TRANSACTION ACTIVITY.** Investors and developers of office product throughout Orange County continue to provide creative and innovative solutions for office tenants by repositioning older buildings into creative work environments and keeping pace with the latest design trends. In the second quarter of 2017, 4.4 million square feet of total transactions (sale and lease) were recorded, up from 4.1 million in the first quarter. Notable leases include:

- Cylance lease of 133,324 square feet at 400 Spectrum Center Drive in Irvine Spectrum
- Mercedes Benz lease of 45,000 square feet at 15495 Sand Canyon Avenue in Irvine Spectrum
- Burns & McDonnell Engineering Co. lease of 38,277 square feet at 140 S. State College Boulevard in Brea





## Market Statistics

	Change Over Last Quarter		2Q 2017	1Q 2017	20 2016	% Change Over Last Year	
Vacancy Rate		DOWN	10.14%	10.22%	10.45%	(2.97%)	
Availability Rate		UP	14.54%	14.08%	14.56%	(0.14%)	
Average Asking Lease Rate		UP	\$2.58	\$2.50	\$2.44	5.74%	
Sale & Lease Transactions		UP	4,431,135	4,185,820	4,479,899	(1.09%)	
Gross Absorption		UP	2,577,827	2,373,160	2,258,620	14.13%	
Net Absorption		POSITIVE	111,622	301,202	608,549	N/A	

**LEASE RATES.** As consumer confidence increases along with continued job growth in the region, rents are continuing to grow. We expect the average asking lease rates to increase by 2–4% over the coming year in both Class A and Class B buildings.

**VACANCY.** We are continuing to see a decrease in the amount of vacant and available space on the market, even as new product is being delivered. As we enter the latter half of 2017, new deliveries in the Airport and South County may temporarily apply upward pressure on the overall vacancy rate.

**OVERALL.** We anticipate positive absorption to continue as owners will continue to invest in their assets to provide attractive, creative, collaborative work environments for today's rapidly evolving tenant base. Buildings that provide unique amenities such as cafes, gyms, outdoor meeting spaces and concierge services will attract quality tenants. The focus will be more on cost per employee vs. price per square foot as companies aim to get the most out of their people and enhance their overall work experience.

**CONSTRUCTION.** The total space under construction is roughly 2.4 million square feet, the highest level since 2007. The most noteworthy projects are the 1.1 million square foot owner-occupied office campus for Broadcom in Irvine, Trammell Crow's 545,000 square foot project ("The Boardwalk"), and a 369,768 square foot spec project (The Quad at Discovery Business Center) in Irvine Spectrum. In addition, a 400,000 square foot office component at the mixed-use Flight at Tustin Legacy development in Tustin is just about to get underway. The first phase is scheduled to break ground this year, and will include eight office buildings with a standalone food hall and conference center.

**ABSORPTION.** Net absorption posted 111,622 square feet of positive absorption this quarter, giving the market a total of 2.5 million square of positive absorption since the third quarter of 2010. The fundamentals are strong, marked by an increase in tenant demand and steady rent growth. In terms of absorption, Class A product was the biggest gainer in the quarter with 72,520 square feet of positive absorption.

## 

## Significant Transactions

Sales						
Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
1920-2010 Main St 3 Properties	Irvine	Α	723,994	\$200,000,000	Emmes Realty Services of CA, LLC	Shorenstein Properties, LLC
18301 Von Karman Ave.	Irvine	Α	224,729	\$85,800,000	18301 Von Karman Property Holdings	CIGNA
200 W. Center St.	Anaheim	Α	191,556	\$58,900,000	Greenlaw Partners	Mariner Real Estate Management
200–201 E. Sandpointe Ave.	Santa Ana	Α	303,924	\$52,675,000	Cress Capital, LLC	TA Realty
18831 Von Karman Ave.	Irvine	Α	65,274	\$24,500,000	Kirin Hopkins	Great Far East
Leases						* Voit Real Estate Services Deal
Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner

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Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
400 Spectrum Center	Irvine Spectrum	Α	133,324	May-2017	Cylance	The Irvine Company
140 S. State College Blvd.	Brea	Α	38,277	Apr-2017	Burns & McDonnell Engineering Co.	BPAP East 140, LLC
18872 MacArthur Blvd.	Irvine	В	32,759	Apr-2017	AutoBytel, Inc.	Great Far East
2850 S. Red Hill Ave.	Santa Ana	В	24,948	Apr-2017	William Hezmalhalch Architects	Voit Placentia Partners, LLC*
1100 W. Town & Country Rd.	Orange	Α	24,157	May-2017	Alignment Healthcare	Mullrock Executive Tower Fee

	INVENTORY				VAC	VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 202017	Square Feet Available	Availability Rate 202017	Average Asking Lease Rate	Net Absorption 2Q2017	Net Absorption 2017	Gross Absorption 202017	Gross Absorption 2017	
Airport Area	Diagoi	oquaro root	0,0	Hamiou	ruount	LQLUII	Availabio	LqLoii	Loudo Hato	Equali	2017	Eqeoii	2011	
Costa Mesa	72	7,312,848	0	377,476	982,316	13.43%	1,467,357	20.07%	\$2.85	31,405	819	147,822	238,304	
Irvine	257	24,046,388	537,258	566,000	2,544,137	10.58%	4,728,231	19.66%	\$2.96	(30,533)	(115,602)	702,101	1,250,504	
Newport Beach	122	9,992,604	0	42,646	944,687	9.45%	1,131,430	11.32%	\$3.39	(113,138)	(102,175)	173,698	385,275	
Santa Ana	15	2,451,993	0	0	485,179	19.79%	517,636	21.11%	\$2.40	(95,077)	(38,360)	39,314	164,407	
Airport Area Total	466	43,803,833	537,258	986,122	4,956,319	11.31%	7,844,654	17.91%	\$3.04	(207,343)	(255,318)	1,062,935	2,038,490	
Central County														
Anaheim	17	1,949,215	0	300,000	255,443	13.10%	323,683	16.61%	\$2.23	3,165	103,185	133,916	179,081	
Orange	82	7,132,913	0	386,000	616,703	8.65%	924,991	12.97%	\$1.95	51,824	(18,996)	129,610	190,041	
Santa Ana	164	12,318,385	0	702,325	1,561,572	12.68%	1,692,241	13.74%	\$1.92	58,984	225,417	196,912	518,799	
Tustin	42	2,223,713	0	1,244,127	388,451	17.47%	421,129	18.94%	\$2.17	9,415	73,091	57,674	147,891	
Central County Total	305	23,624,226	0	2,632,452	2,822,169	11.95%	3,362,044	14.23%	\$1.97	123,388	382,697	518,112	1,035,812	
North County														
Anaheim Hills	81	5,838,283	0	20,000	418,515	7.17%	645,865	11.06%	\$1.99	8,178	18,525	45,715	139,111	
Brea	42	4,060,933	0	120,000	497,668	12.26%	454,054	11.18%	\$2.20	(74,325)	(75,876)	67,794	116,757	
Buena Park	17	1,115,193	0	0	201,289	18.05%	293,079	26.28%	\$1.73	(32,949)	(42,004)	5,310	10,945	
Fullerton	30	2,430,331	0	0	187,187	7.70%	385,636	15.87%	\$1.77	(25,218)	(23,721)	17,664	43,094	
La Habra	4	142,069	0	0	0	0.00%	4,665	3.28%	\$1.37	0	0	0	0	
La Palma	10	712,038	0	0	55,833	7.84%	54,901	7.71%	\$2.17	(6,785)	6,148	10,032	28,275	
Placentia	8	267,589	0	0	20,872	7.80%	22,638	8.46%	\$1.73	3,750	14,628	3,750	18,084	
Yorba Linda	5	288,094	0	0	35,697	12.39%	35,697	12.39%	\$2.08	(4,098)	(7,050)	0	10,004	
North County Total	197	14,854,530	0	140,000	1,417,061	9.54%	1,896,535	12.77%	\$2.00	(131,447)	(109,350)	150,265	356,266	
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South County	40	0 405 470	005 000	_	000 001	10 740	004.050	04.0407	<b>ሰ</b> ር ዕር	(07.000)	(FC 000)	00.054	100 500	
Aliso Viejo	43	3,135,479	205,000	0	336,621	10.74%	684,652	21.84%	\$3.25	(27,003)	(56,269)	63,854	126,566	
Dana Point	2	91,876	0	0	0	0.00%	150.070	0.00%	\$0.00	(10.005)	(00, 400)	0 05 040	0 04 000	
Foothill Ranch	10	798,721	0	0	124,605	15.60%	150,679	18.87%	\$2.52	(18,095)	(36,486)	25,049	34,236	
Irvine Spectrum	160	11,040,345	1,716,464	71,000	494,014	4.47%	995,046	9.01%	\$3.21	253,313	399,534	412,352	734,389	
Laguna Beach	5	192,434	0	0	19,179	9.97%	19,179	9.97%	\$0.00	702	1,655	1,890	2,843	
Laguna Hills	33	1,804,417	0	0	253,204	14.03%	312,056	17.29%	\$2.61	31,486	28,711	60,268	87,014	
Laguna Niguel	10	1,749,768	0	0	59,337	3.39%	54,890	3.14%	\$3.33	6,738	(6,656)	6,738	10,526	
Lake Forest	40	2,105,495	0	0	200,205	9.51%	211,739	10.06%	\$2.00	2,726	(64,372)	28,542	40,125	
Mission Viejo	36	2,029,821	0	0	222,465	10.96%	250,116	12.32%	\$2.44	36,498	(17,232)	62,494	98,724	
Rancho Santa Margarita	6	262,769	0	0	6,618	2.52%	11,175	4.25%	\$2.15	3,824	7,596	7,330	14,866	
San Clemente	12	502,157	0	0	36,669	7.30%	55,596	11.07%	\$2.30	(3,400)	(1,480)	14,440	16,360	
San Juan Capistrano	17 374	876,712 24,589,994	1,921,464	71,000	136,635 1,889,552	15.58% 7.68%	153,134	17.47% 11.79%	\$2.55 \$2.82	2,139	2,221	4,167 687,124	6,795	
South County Total	3/4	24,569,994	1,921,404	71,000	1,009,002	7.00%	2,898,262	11.7970	φ2.02	288,928	257,222	007,124	1,172,444	
West County				_										
Cypress	28	1,947,554	0	0	285,542	14.66%	358,328	18.40%	\$1.92	(2,913)	62,600	17,803	110,417	
Fountain Valley	33	1,995,993	0	0	70,543	3.53%	73,815	3.70%	\$1.54	6,824	8,305	12,707	17,033	
Garden Grove	19	1,522,437	0	0	45,461	2.99%	42,000	2.76%	\$1.86	12,527	20,165	15,684	26,655	
Huntington Beach	43	2,487,406	0	0	174,862	7.03%	299,883	12.06%	\$2.32	38,768	45,193	87,229	131,677	
Los Alamitos	11	674,372	0	0	39,967	5.93%	36,015	5.34%	\$2.39	(2,515)	(2,233)	1,270	12,227	
Seal Beach	7	473,787	0	0	38,049	8.03%	38,628	8.15%	\$3.06	(7,094)	3,985	3,798	14,877	
Stanton	4	143,361	0	0	19,092	13.32%	22,701	15.83%	\$0.99	(5,685)	(10,290)	779	3,304	
Westminster	12	484,540	0	0	64,178	13.25%	77,494	15.99%	\$2.12	(1,816)	9,848	20,121	31,785	
West County Total	157	9,729,450	0	0	737,694	7.58%	948,864	9.75%	\$2.16	38,096	137,573	159,391	347,975	
Orange County Total	1,499	116,602,033	2,458,722	3,829,574	11,822,795	10.14%	16,950,359	14.54%	\$2.58	111,622	412,824	2,577,827	4,950,987	
Airport Area														
Class A	129	25,456,006	537,258	566,000	3,570,748	14.03%	5,249,658	20.62%	\$3.17	(108,441)	(145,942)	727,598	1,305,303	
Class B	311	17,077,779	0	420,122	1,318,723	7.72%	2,486,189	14.56%	\$2.62	(105,199)	(146,722)	316,818	675,606	
Class C	26	1,270,048	0	0	66,848	5.26%	108,807	8.57%	\$1.90	6,297	37,346	18,519	57,581	
Central County														
Class A	43	7,265,329	0	2,330,452	817,281	11.25%	880,756	12.12%	\$2.95	46,000	59,312	141,541	232,122	
Class B	207	13,943,877	0	302,000	1,769,427	12.69%	2,161,419	15.50%	\$2.62	54,712	332,966	294,343	709,946	
Class C	55	2,415,020	0	0	235,461	9.75%	319,869	13.24%	\$1.67	22,676	(9,581)	82,228	93,744	
	00	2,110,020	0	J	200,701	0.1070	010,000	10.27/0	ψ1.01	22,010	(0,001)	52,220	30,174	
North County	07	0.404.405	_	100.000	F. 0 F. 1 **	10.000/	F 40 000	47.040/	Φ0.40	(00.105)	(40,000)	00 500	07 770	
Class A	27	3,191,188	0	120,000	519,510	16.28%	549,300	17.21%	\$2.19	(69,405)	(49,628)	23,592	87,770	
Class B	146	10,734,010	0	20,000	849,197	7.91%	1,296,529	12.08%	\$1.94	(64,003)	(63,758)	122,449	258,116	
Class C	24	929,332	0	0	48,354	5.20%	50,706	5.46%	\$1.65	1,961	4,036	4,224	10,380	
South County														
Class A	63	7,714,606	1,921,464	0	626,983	8.13%	945,312	12.25%	\$3.20	231,651	288,759	372,816	599,328	
Class B	300	16,356,235	0	71,000	1,246,547	7.62%	1,936,928	11.84%	\$2.50	57,277	(31,220)	314,308	571,739	
Class C	11	519,153	0	0	16,022	3.09%	16,022	3.09%	\$2.00	0	(317)	0	1,377	
West County														
Class A	23	2,465,352	0	0	279,183	11.32%	340,633	13.82%	\$2.60	(27,285)	5,537	27,240	93,525	
Class B	116	6,512,333	0	0	437,258	6.71%	585,418	8.99%	\$1.95	60,115	132,365	122,831	240,480	
Class C	18	751,765	0	0	21,253	2.83%	22,813	3.03%	\$1.12	5,266	(329)	9,320	13,970	
	10	751,705		<u> </u>	21,200	2.00 /0	22,010	0.0070	Ψ1.12	5,200	(023)	3,020	10,510	
Orange County		10.000 10:	0.450.70-	0.046 :==	E 040 70-	40.0101	7.00= 0==	47	00.00	70	450.000	1 000 707	0.040.045	
Class A	285	46,092,481	2,458,722	3,016,452	5,813,705	12.61%	7,965,659	17.28%	\$2.97	72,520	158,038	1,292,787	2,318,048	
Class B	1,080	64,624,234	0	813,122	5,621,152	8.70%	8,466,483	13.10%	\$2.17	2,902	223,631	1,170,749	2,455,887	
Class C	134	5,885,318	0	0	387,938	6.59%	518,217	8.81%	\$1.73	36,200	31,155	114,291	177,052	
Orange County Total	1,499	116,602,033	2,458,722	3,829,574	11,822,795	10.14%	16,950,359	14.54%	\$2.58	111,622	412,824	2,577,827	4,950,987	

This survey consists of office properties 25,000 square feet and larger in size, representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis.

## **SECOND QUARTER 2017 MARKET REPORT** OC2Q17 ORANGE COUNTY OFFICE





### Market Continues To Display Sound Fundamentals by Stefan Rogers SENIOR VICE PRESIDENT/PARTNER. IRVINE

The Orange County office market continued to display sound fundamentals in the second quarter of 2017, supported by an almost 3% drop in the overall vacancy rate, a 6% increase in average asking lease rates and a surge in both transaction volume and velocity. Orange County is now a "landlord's market" across asset classes and we expect this environment to continue for the foreseeable future, given the health and diversity of the local economy.

Rumors of a "correction" in the real estate markets and the greater economy have persisted for some time now, but this prophecy has yet to be fulfilled or even truly defined. While it would be reasonable to expect a downturn in the near future based on the length of the current recovery/expansion when compared with previous cycles, we now find ourselves in unchartered territory defined by a historically slow and steady economic recovery. Traditional indicators of a downturn seem muted at best from our perspective as businesses both large and small are hiring and contemplating expansions/consolidations.

With the election behind us and federal monetary policy generally stable, business and real estate owners seem to have a relatively clear view of the future and the confidence to make well informed, long-term commitments. A fair amount of uncertainty still exists when it comes to inflationary pressures and the local implementation of government policy (trade, regulation, etc.), but this concern has yet to impact tenant and buyer activity as space continues to be absorbed at an aggressive pace.

The current landscape presents opportunities for developers/investors, landlords, tenants, buyers and sellers alike. Developers have an extended window to identify tenant demand and workplace trends and to deliver innovative solutions. These solutions will likely take the form "value-add" and adaptive reuse opportunities where older, functionally obsolete product is being transformed into higher and better uses. Landlords have an opportunity to continue to push rents and improve tenant retention by enhancing onsite amenities/services while providing flexibility for their tenants. Tenants are now looking at longer leases, allowing them to extract maximum economic concessions and control their overall occupancy costs. They are focused on efficiency and intelligent workspace design to maximize recruitment, retention and productivity, much more than in previous cycles. Flexibility to expand and contract over time is expected to remain a key driver for tenants as technological advancement continues to change the overall business environment.

Buyers, both investors and users, have been taking advantage of the low cost of capital and more lenient underwriting criteria to acquire stabilized long-term investments, and we anticipate this trend to continue. Business owners will also look to purchase their own properties in an effort to stabilize their occupancy costs and invest in their own specific improvements during this attractive interest rate environment.

### Please Contact Us for Further Information

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Represented in 150 Markets

## 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

This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a full-

Los Angeles, CA