

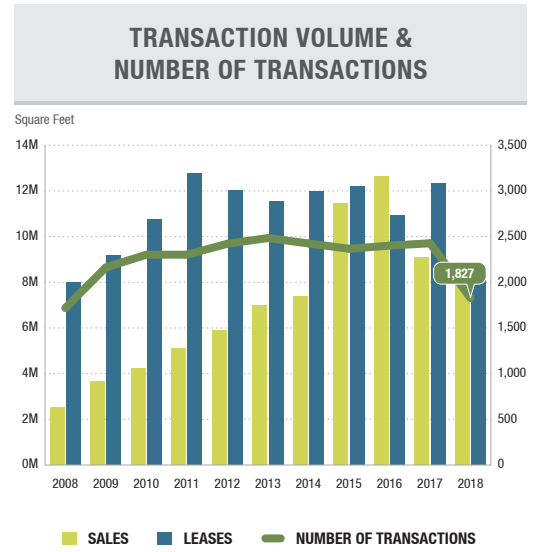
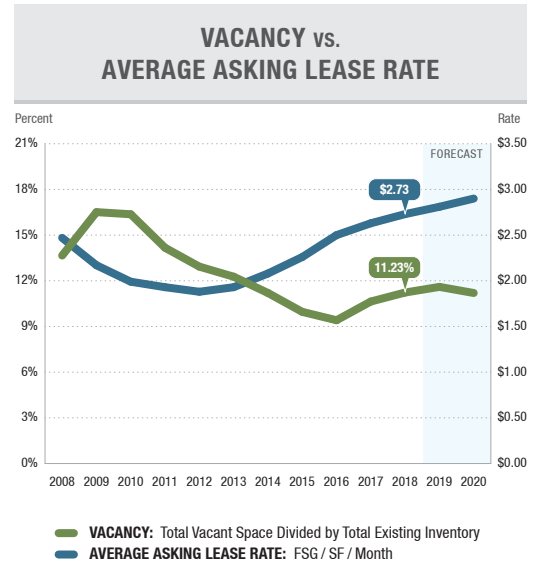
**MARKET OVERVIEW.** While our national economy continues to trend positively as we roll into 2019, the Orange County economy is leading the way with impressive growth trends across the board. As we approach the second longest expansion, there continue to be no signs of an imminent downturn; however, many are speculating one solely based on the length of prior cycles. Orange County’s labor market has been extremely tight since mid-2016, with the unemployment rate currently standing at 2.8% — creating challenges for many firms trying to expand. The Orange County office market continues to be healthy. Occupiers continue to seek onsite amenities and attractive workspace so they can attract/retain talent. Another office trend is the coworking environment, attractive to large and small firms, which incorporates a collaborative work space and is an entirely different model than the historically traditional office environment. Landlords can continue to push rents and improve tenant retention by enhancing onsite amenities and services, while providing flexibility for their tenants.

**VACANCY.** The vacancy rate has largely held stable as construction accelerates above Orange County’s historical average. Net absorption has picked up after a sluggish start to the year, helping to mitigate supply pressures. Vacancy in the Orange County office market was 11.23% at the end of the fourth quarter of 2018, down 40 basis points compared with the prior quarter, and up 5.55% compared to the previous year. Expect vacancy to trend downward in 2019, based on steady job growth and consumer confidence, coupled with many tenants in the market currently shopping for space.

**LEASE RATES.** The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was \$2.73 at the end of the fourth quarter, a 3.80% increase from this time last year and a \$0.01 increase from the third quarter. The highest rates were in the Airport Area Class A buildings where rental rates averaged \$3.11. Anticipate asking rental rates in Orange County to continue to modestly rise throughout 2019 based on the strong level of current demand from a variety of industries.

**TRANSACTION ACTIVITY.** The fundamental demand driver is the healthy economy. The strong employment base maintained by a diverse tech field and financial and business services provides stability that was not present during the recent past. In the fourth quarter 2018, 4.77 million square feet of total transactions (sale and lease) were recorded, up from just over 3.88 million in the third quarter. The healthy level of activity during the fourth quarter offers a reminder that the Orange County office market remains on solid footing.

**ECONOMY.** The unemployment rate in Orange County was 2.8% in November of 2018, down from a revised 2.9% in October 2018, and below the year-ago estimate of 3.1%. This compares with an unadjusted unemployment rate of 3.9% for California and 3.5% for the nation during the same period. The professional and business services sectors propel the economy. Orange County is also the third-most diverse high-tech sector in the nation, behind only San Jose and San Diego. Almost 200 Fortune 500 companies have space in one of the Irvine submarkets, and innovation firms including Blizzard Entertainment, Broadcom, Edwards Lifesciences, and Google have a significant footprint in Orange County.



Market Statistics

	Change Over Last Quarter	4Q 2018	3Q 2018	4Q 2017	% Change Over Last Year
Vacancy Rate	▼ DOWN	11.23%	11.63%	10.64%	5.55%
Availability Rate	▼ DOWN	14.97%	15.48%	14.67%	2.04%
Average Asking Lease Rate	▲ UP	\$2.73	\$2.72	\$2.63	3.80%
Sale & Lease Transactions	▲ UP	4,773,658	3,888,326	4,969,822	(3.95%)
Gross Absorption	▲ UP	2,871,868	2,500,888	3,011,356	(4.63%)
Net Absorption	▲ POSITIVE	240,267	(114,003)	196,452	N/A

**LEASE RATES.** Expect an overall modest increase in pricing in the coming quarters. We expect the average asking lease rates to increase by 3% over the next year. Steady demand for office space is pushing up rents in Class A buildings in all Orange County cities. Rents for Class A office space in Orange County are forecasted to rise 3% this year, to \$3.21 per square foot.

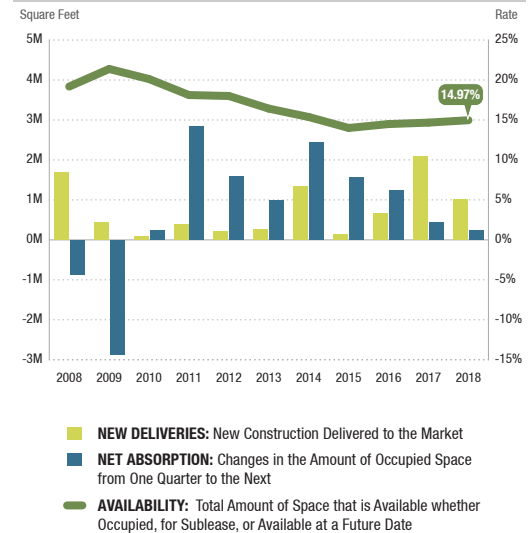
**VACANCY.** Across the Orange County market, net absorption was negative in the fourth quarter, increasing the overall vacancy rate. Tenants continued to downsize their space, while other industries like business services, nonprofits, and coworking companies have increased demand for space. With the availability of existing office space declining, we expect the vacancy rate to drop to 11% by year end.

**OVERALL.** The Orange County economy remains strong and poised to continue its momentum through 2019. According to the Chapman University forecast, California continues to generate more job growth than the rest of the country, 2.0% versus 1.6% for the United States. That trend will be slightly stronger in Orange County. Chapman predicts Orange County's job growth will be 2.2% this year, a net increase of 35,000 jobs. Between job growth and a low unemployment rate, the Orange County office market looks healthy and prepared to continue thriving.

**CONSTRUCTION.** Since 2014, more than 4.7 million square feet has been delivered in Orange County. More than 57% of that, or 2.7 million square feet of space, is within South Orange County. Some of South Orange County's most notable speculative projects have delivered in Irvine Spectrum. Total space under construction checked in at 1,215,520 square feet at the end of the fourth quarter 2018 with the most notable from Lincoln Property's Flight @ Tustin Legacy, a spec project that is expected to start delivering at the beginning of 2019. In Irvine, the redevelopment of the former warehouse at 2722 Michelson should wrap up by the second quarter of 2019, with 155,000 square feet of new space, already committed to from Anduril, and Spectrum Terrace, 352,511 square feet, an ultra-modern campus nestled on 73 acres of open space in the heart of SoCal's innovation hub.

**ABSORPTION.** A growing number of successful companies are strategically downsizing to save money, improve collaboration, and boost productivity. During 2019, expect demand for office space to remain steady due to new hiring demands offset by implementation of more efficient layouts. Orange County is a hub for a diverse base of employers, including those in tech, healthcare, and finance. With one quarter of negative absorption during 2018, the office market prospers, having experienced 240,267 square feet of positive absorption for the year, while vacancy decreased slightly and asking rents increased.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
7711-7777 Center Ave.	Huntington Beach	A	729,732	\$124,500,000	Prudential Financial, Inc.	Ares Management, LP
1400-1600 S. Douglass Rd.	Anaheim	B	383,250	\$125,500,000	NewTower Trust Company	Miramar Venture Partners
2121-2190 Towne Centre Pl.	Anaheim	B	302,630	\$83,100,000	Goldman, Sachs & Company	The Seligman Group
3333-3337 Susan St.	Costa Mesa	A	183,989	\$84,000,000	SteelWave, Inc.	Invesco
7000-7001 Village Dr.	Buena Park	B	141,387	\$22,330,000	Stanton Road Capital, LLC	Westcore Properties

Leases

\* Voit Real Estate Services Deal

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
5260 California Ave.	Irvine	B	90,900	Oct-2018	Skyworks	The Irvine Company
1325 N. Anaheim Blvd.	Anaheim	B	90,533	Oct-2018	AltaMed	CKE Holdings
5 Hutton Centre Dr.	Santa Ana	A	62,711	Oct-2018	Michael Baker International	BRE/OC Griffin, LLC
15101 Red Hill Ave.	Tustin	B	51,065	Oct-2018	Best Choice Products Global	Fortland, Inc.
2850 S. Red Hill Ave.	Santa Ana	B	24,350	Nov-2018	NLM Group, LLC	Voit Placentia Partners, LLC*

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2018	Square Feet Available	Availability Rate 4Q2018	Average Asking Lease Rate	Net Absorption 4Q2018	Net Absorption 2018	Gross Absorption 4Q2018	Gross Absorption 2018
<b>Airport Area</b>													
Costa Mesa	73	7,376,629	0	442,476	1,122,072	15.21%	1,404,386	19.04%	\$2.89	13,290	(193,425)	316,478	813,806
Irvine	264	25,012,811	507,511	1,007,305	3,678,273	14.71%	4,755,408	19.01%	\$3.04	213,740	(289,424)	867,162	3,000,126
Newport Beach	123	10,047,949	0	42,646	922,401	9.18%	1,234,108	12.28%	\$3.34	71,969	(115,050)	267,155	1,010,815
Santa Ana	15	2,452,325	0	0	247,799	10.10%	390,666	15.93%	\$2.60	88,461	63,921	196,176	408,048
<b>Airport Area Total</b>	<b>475</b>	<b>44,889,714</b>	<b>507,511</b>	<b>1,492,427</b>	<b>5,970,545</b>	<b>13.30%</b>	<b>7,784,568</b>	<b>17.34%</b>	<b>\$3.11</b>	<b>387,460</b>	<b>(533,978)</b>	<b>1,646,971</b>	<b>5,232,795</b>
<b>Central County</b>													
Anaheim	21	1,946,308	0	0	310,824	15.97%	562,993	28.93%	\$2.64	(41,979)	(89,701)	25,457	94,444
Orange	80	7,128,909	0	386,000	764,321	10.72%	1,119,029	15.70%	\$2.50	(61,209)	(243,085)	91,901	438,262
Santa Ana	166	12,636,626	0	911,765	1,346,509	10.66%	1,643,864	13.01%	\$2.14	90,692	(25,295)	222,980	653,488
Tustin	42	2,235,183	417,609	287,000	341,206	15.27%	319,229	14.28%	\$2.34	16,547	38,730	35,227	155,894
<b>Central County Total</b>	<b>309</b>	<b>23,947,026</b>	<b>417,609</b>	<b>1,584,765</b>	<b>2,762,860</b>	<b>11.54%</b>	<b>3,645,115</b>	<b>15.22%</b>	<b>\$2.27</b>	<b>4,051</b>	<b>(319,351)</b>	<b>375,565</b>	<b>1,342,088</b>
<b>North County</b>													
Anaheim Hills	83	5,944,200	0	0	458,954	7.72%	591,178	9.95%	\$2.18	(41,975)	(123,156)	151,594	331,874
Brea	42	4,078,469	0	0	219,995	5.39%	391,790	9.61%	\$2.48	16,806	122,521	96,200	343,851
Buena Park	17	1,114,233	0	0	138,356	12.42%	160,787	14.43%	\$2.21	(6,112)	(42,115)	432	141,324
Fullerton	29	2,356,737	0	0	168,512	7.15%	208,196	8.83%	\$2.08	6,160	(2,527)	23,341	66,402
La Habra	4	142,069	0	0	8,462	5.96%	9,932	6.99%	\$1.53	(275)	(6,595)	124	12,292
La Palma	10	712,038	0	0	70,101	9.85%	73,912	10.38%	\$0.00	513	(23,371)	513	19,926
Placentia	8	267,581	0	0	25,591	9.56%	27,348	10.22%	\$1.83	(3,755)	(5,656)	6,007	20,802
Yorba Linda	5	288,094	0	80,000	54,020	18.75%	54,020	18.75%	\$2.07	1,980	5,427	1,980	21,283
<b>North County Total</b>	<b>198</b>	<b>14,903,421</b>	<b>0</b>	<b>80,000</b>	<b>1,143,991</b>	<b>7.68%</b>	<b>1,517,163</b>	<b>10.18%</b>	<b>\$2.23</b>	<b>(26,658)</b>	<b>(75,472)</b>	<b>280,191</b>	<b>957,754</b>
<b>South County</b>													
Aliso Viejo	44	3,349,461	0	0	705,839	21.07%	770,521	23.00%	\$3.20	(36,875)	(162,441)	58,337	238,651
Dana Point	2	91,876	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Foothill Ranch	10	798,721	0	0	60,466	7.57%	115,601	14.47%	\$2.54	441	6,415	441	56,075
Irvine Spectrum	169	12,896,049	290,400	69,968	1,458,610	11.31%	1,881,412	14.59%	\$3.17	(150,934)	937,285	179,762	2,089,403
Laguna Beach	5	192,434	0	0	10,002	5.20%	10,002	5.20%	\$0.00	9,834	11,057	11,863	13,886
Laguna Hills	33	1,820,718	0	0	251,444	13.81%	375,924	20.65%	\$2.80	13,247	29,892	36,476	147,442
Laguna Niguel	10	1,749,768	0	0	67,431	3.85%	80,763	4.62%	\$0.00	(7,622)	(2,502)	13,112	46,686
Lake Forest	40	2,108,641	0	0	120,745	5.73%	327,945	15.55%	\$2.14	11,556	44,929	48,538	160,974
Mission Viejo	36	1,917,148	0	0	150,859	7.87%	222,148	11.59%	\$2.43	44,908	63,303	71,828	148,901
Rancho Santa Margarita	6	252,716	0	0	14,528	5.75%	24,675	9.76%	\$2.17	(1,655)	(1,974)	1,745	13,541
San Clemente	11	468,606	0	0	81,272	17.34%	91,656	19.56%	\$2.27	(2,518)	(57,475)	2,800	7,668
San Juan Capistrano	19	950,679	0	0	3,882	0.41%	53,136	5.59%	\$2.35	7,163	25,512	8,021	30,796
<b>South County Total</b>	<b>385</b>	<b>26,596,817</b>	<b>290,400</b>	<b>69,968</b>	<b>2,925,078</b>	<b>11.00%</b>	<b>3,953,783</b>	<b>14.87%</b>	<b>\$2.86</b>	<b>(112,455)</b>	<b>894,001</b>	<b>432,923</b>	<b>2,954,023</b>
<b>West County</b>													
Cypress	28	1,952,232	0	0	163,056	8.35%	337,855	17.31%	\$2.22	(27,791)	4,771	20,409	98,801
Fountain Valley	34	2,033,552	0	0	44,542	2.19%	119,079	5.86%	\$0.00	1,960	11,792	6,106	41,386
Garden Grove	20	1,567,219	0	0	38,630	2.46%	82,090	5.24%	\$1.98	(2,841)	(3,190)	0	34,444
Huntington Beach	43	2,512,419	0	0	184,625	7.35%	287,732	11.45%	\$2.67	21,164	(28,930)	91,470	181,897
Los Alamitos	12	661,516	0	0	180,669	27.31%	182,974	27.66%	\$2.65	(750)	8,901	0	24,711
Seal Beach	7	473,787	0	0	43,957	9.28%	48,138	10.16%	\$3.19	(6,343)	(18,882)	1,329	26,449
Stanton	4	143,361	0	0	15,806	11.03%	12,506	8.72%	\$1.41	(9,711)	1,481	2,874	23,847
Westminster	11	445,584	0	0	12,383	2.78%	14,025	3.15%	\$1.79	12,181	44,442	14,030	71,855
<b>West County Total</b>	<b>159</b>	<b>9,789,670</b>	<b>0</b>	<b>0</b>	<b>683,668</b>	<b>6.98%</b>	<b>1,084,399</b>	<b>11.08%</b>	<b>\$2.44</b>	<b>(12,131)</b>	<b>20,385</b>	<b>136,218</b>	<b>503,390</b>
<b>Orange County Total</b>	<b>1,526</b>	<b>120,126,648</b>	<b>1,215,520</b>	<b>3,227,160</b>	<b>13,486,142</b>	<b>11.23%</b>	<b>17,985,028</b>	<b>14.97%</b>	<b>\$2.73</b>	<b>240,267</b>	<b>(14,415)</b>	<b>2,871,868</b>	<b>10,990,050</b>
<b>Airport Area</b>													
Class A	139	26,663,679	352,511	1,007,305	4,020,197	15.08%	4,987,445	18.71%	\$3.31	243,992	163,079	949,526	3,271,673
Class B	313	17,281,499	155,000	485,122	1,888,230	10.93%	2,665,121	15.42%	\$2.65	141,863	(689,950)	652,026	1,890,153
Class C	23	944,536	0	0	62,118	6.58%	132,002	13.98%	\$2.12	1,605	(7,107)	45,419	70,969
<b>Central County</b>													
Class A	43	7,246,714	417,609	1,282,765	956,902	13.20%	1,362,220	18.80%	\$2.75	(65,043)	(321,063)	91,893	327,030
Class B	214	14,138,502	0	302,000	1,652,536	11.69%	2,085,933	14.75%	\$2.03	97,635	18,330	262,374	907,078
Class C	52	2,561,810	0	0	153,422	5.99%	196,962	7.69%	\$1.71	(28,541)	(16,618)	21,298	107,980
<b>North County</b>													
Class A	27	3,196,381	0	0	276,990	8.67%	335,928	10.51%	\$2.63	(14,471)	46,275	60,288	276,799
Class B	148	10,813,708	0	80,000	855,875	7.91%	1,162,972	10.75%	\$2.07	(12,747)	(118,122)	216,630	666,856
Class C	23	893,332	0	0	11,126	1.25%	18,263	2.04%	\$1.65	560	(3,625)	3,273	14,099
<b>South County</b>													
Class A	75	9,839,953	290,400	0	1,483,975	15.08%	1,901,561	19.32%	\$3.10	(89,897)	977,794	154,131	1,816,146
Class B	299	16,237,711	0	69,968	1,430,599	8.81%	2,041,478	12.57%	\$2.57	(21,908)	(108,413)	276,044	1,099,683
Class C	11	519,153	0	0	10,504	2.02%	10,744	2.07%	\$1.80	(650)	24,620	2,748	38,194
<b>West County</b>													
Class A	19	2,181,615	0	0	120,135	5.51%	343,291	15.74%	\$2.85	20,891	9,635	58,147	121,576
Class B	123	7,010,616	0	0	559,012	7.97%	735,407	10.49%	\$2.31	(35,774)	(661)	74,262	361,545
Class C	17	597,439	0	0	4,521	0.76%	5,701	0.95%	\$1.25	2,752	11,411	3,809	20,269
<b>Orange County</b>													
Class A	303	49,128,342	1,060,520	2,290,070	6,858,199	13.96%	8,930,445	18.18%	\$3.12	95,472	875,720	1,313,985	5,813,224
Class B	1,097	65,482,036	155,000	937,090	6,386,252	9.75%	8,690,911	13.27%	\$2.34	169,069	(898,816)	1,481,336	4,925,315
Class C	126	5,516,270	0	0	241,691	4.38%	363,672	6.59%	\$1.73	(24,274)	8,681	76,547	251,511
<b>Orange County Total</b>	<b>1,526</b>	<b>120,126,648</b>	<b>1,215,520</b>	<b>3,227,160</b>	<b>13,486,142</b>	<b>11.23%</b>	<b>17,985,028</b>	<b>14.97%</b>	<b>\$2.73</b>	<b>240,267</b>	<b>(14,415)</b>	<b>2,871,868</b>	<b>10,990,050</b>

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.



## Steady As She Goes

by **Barry Walshe**

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Although not quite as robust as the previous year, the Orange County office market continues in a positive direction. As we are in the tenth year of expansion, some say the writing's on the wall. That may be true, but Orange County has a unique set of fundamentals that have helped the area over-achieve when compared with the state and the rest of the country. Among the key factors that contribute to the county's performance are a strong employee base (including a highly educated work force), a diverse business sector, an abundant amount of modern top-tier office product and a prime coastal Southern California location. These factors, among others, are why multiple Fortune 500 companies have a presence in Orange County. Almost 200 of them have offices located within the greater Irvine/Irvine Spectrum submarket. Companies such as Allergan, Western Digital, Pacific Life, Ingram Micro, Broadcom, and Spectrum Group International all call Orange County home.

### Go "Figure"

The county's continued positive direction is evident within the key fourth quarter statistics. We have 12-month deliveries of 1.0 million square feet with 200,000 square feet of net absorption. OC's office vacancy rate at 11.23% still bodes better than our 10-year average of 12.47%. The rental growth, though below 2017, is still positive at 3.8% for the year. As you'd anticipate, Newport Beach still tops the "High Rent District" averaging \$3.34 PSF (some "Top Shelf" properties are fetching north of \$5.80 PSF). Unlike the single-business-sector bubbles of the past like the dot.com or mortgage waves, the vast business diversity in Orange County, including education, health services, life sciences, technology and professional services, ensures we won't see a catastrophic market drop due to any single sector interruption. The conservative office development environment is also reassuring. Compared with previous years, a prudent 1.21 million square feet of office is under construction and this should help mitigate large vacancy/absorption swings we've seen from previous years. All said, if we are indeed nearing the end of an expansionary cycle, then at least the market fundamentals of Orange County make it strategically poised for a "soft landing" if not a modest continuation of the growth of the last 10 years.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services. ©2019 Voit Real Estate Services, Inc. DRE License #01991785.

Represented in 150 Markets  
Nationally & Internationally.



### 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