# OC2Q19 SECOND QUARTER 2019 MARKET REPORT ORANGE COUNTY OFFICE



**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).



# TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Markat Statistic

	Change Over Last Quarter	20 2019	1Q 2019	20 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 UP	\$2.81	\$2.75	\$2.67	5.24%	
Sale & Lease Transactions	UP 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	

# OC2Q19 OFFICE

Forecast

**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.



AVAILABILITY: Total Amount of Space that is Available whether Occupied, for Sublease, or Available at a Future Date

from One Quarter to the Next

## NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE

t Transactions
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Sales * Voit Real Estate Services Deal										
Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller				
2 MacArthur Pl.	Santa Ana	А	208,142	\$83,000,000	Ocean West Capital Partners	The Blackstone Group GP				
1 MacArthur Pl.	Santa Ana	А	210,025	\$54,000,000	Ocean West Capital Partners	The Blackstone Group GP				
4 Hutton Center Dr.	Santa Ana	А	216,864	\$54,800,000	LaSalle Income & Growth Fund VII REIT, LLC	Lakeside Partners Hutton, LLC*				
2100–2134 Main St.	Huntington Beach	В	148,455	\$40,875,000	South Bay Partners	The Colton Company				
1800 E. Imperial Hwy.	Brea	В	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	В	78,000	May-2019	Tricon American Homes	GVI-SW Red Hill Owner LLC1700				
1700 Flight Way	Tustin	А	72,010	Jun-2019	Happy Money	Lincoln Property Company				
18565–18575 Jamboree Rd.	Irvine	А	72,000	May-2019	Rutan & Tucker	Trammell Crow Company				
500 S. Main St.	Orange	А	69,151	Apr-2019	County of Orange (Assessor)	Orange County Realty Investmen				
1500 Douglass Rd sublease	Anaheim	В	64,000	May-2019	Regents of the University of CA	Sun Life Institutional Investment				

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		INVEN	ITORY		VAC	CANCY	& LEA	SE RAT	ES	ABSORPTION				
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2019	Square Feet Available	Availability Rate 2Q2019	Average Asking Lease Rate	Net Absorption 2Q2019	Net Absorption 2019	Gross Absorption 2Q2019	Gross Absorption 2019	
Airport Area	3	-1												
Costa Mesa	71	7,313,611	0	459,971	1,162,074	15.89%	1,395,375	19.08%	\$2.86	(56,922)	(12,941)	236,559	394,597	
Irvine	263	24,849,557	0	426,000	3,330,324	13.40%	4,107,605	16.53%	\$3.06	258,712	395,957	780,342	1,743,948	
Newport Beach	122	10,010,363	0	0	887,160	8.86%	1,076,934	10.76%	\$3.27	14,756	(204)	182,225	364,677	
Santa Ana	15	2,458,487	0	0	310,937	12.65%	448,609	18.25%	\$2.74	(2,792)	(44,046)	80,076	128,341	
Tustin	4	417,609	0	0	371,696	89.01%	362,782	86.87%	\$3.45	45,913	45,913	20,565	20,565	
Airport Area Total	475	45,049,627	0	885,971	6,062,191	13.46%	7,391,305	16.41%	\$3.08	259,667	384,679	1,299,767	2,652,128	
Central County														
Anaheim	21	1,947,937	0	0	318,341	16.34%	467,091	23.98%	\$2.78	(34,192)	(11,381)	91,907	147,877	
Orange	80	7,134,400	0	0	758,877	10.64%	1,066,367	14.95%	\$2.71	39,319	10,182	83,991	149,317	
Santa Ana Tustin	162 44	12,064,602 2,394,960	0	850,325 0	1,534,757 248,429	12.72% 10.37%	1,854,011 255,176	15.37% 10.65%	\$2.07 \$2.21	57,346 14,002	(133,913) 14,668	172,213 115,857	325,667 140,123	
Central County Total	307	2,394,900	0	850,325	2,860,404	12.15%	3,642,645	15.47%	\$2.29	76,475	(120,444)	463,968	762,984	
,	307	23,341,099	0	030,323	2,000,404	12.1370	3,042,043	13.4770	φ2.29	70,475	(120,444)	403,900	102,904	
North County	00	F 050 000	0	0	400 504	7 100/	501.040	0.400/	<b>\$0.0</b> 5	(0, 00, 4)	105 000	41.000	170 104	
Anaheim Hills	83	5,952,896	0	0	422,594	7.10%	501,943	8.43%	\$2.25	(2,684)	105,993	41,303	170,164	
Brea Buene Derk	42	4,086,591	0		226,698	5.55%	478,237	11.70%	\$2.46	(20,121)	(11,707)	55,234	95,002	
Buena Park	17	1,114,233 2,356,737	0	0	109,283	9.81%	121,120	10.87%	\$2.24	1,967	1,686	12,708	33,747	
Fullerton La Habra	29	2,356,737	0	0	141,552 7,809	6.01% 4.04%	177,450 9,044	7.53%	\$1.95 \$1.59	22,942 4,320	25,251 653	35,655 5,507	50,434 5,957	
La Palma	10	712,038	0	0	7,809	10.11%	76,998	4.66%	\$1.59	(17,528)	(3,268)	3,006	27,192	
Placentia	8	267,581	0	0	21,523	8.04%	22,681	8.48%	\$1.95	1,673	4,068	12,363	16,181	
Yorba Linda	5	288,094	0	0	64,724	22.47%	64,724	22.47%	\$2.25	3,970	(33,504)	5,175	9,170	
North County Total	199	14,971,356	0	0	1,066,146	7.12%	1,452,197	9.70%	\$2.25	(5,461)	89,172	170,951	407,847	
South County	155	14,371,330	0	Ū	1,000,140	1.1270	1,452,151	5.1070	ψ2.21	(0,401)	03,172	170,551	107,007	
Aliso Viejo	44	3,345,424	0	0	672,827	20.11%	830,954	24.84%	\$3.02	(260)	66,931	223,095	337,366	
Dana Point	2	91,876	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0	
Foothill Ranch	10	806,438	0	0	92,105	11.42%	108,100	13.40%	\$2.70	(3,109)	(34,454)	9,336	14,328	
Irvine Spectrum	172	13,191,765	422,490	581,305	1,677,847	12.72%	2,091,424	15.85%	\$3.62	132,614	384,416	319,018	558,127	
Laguna Beach	5	192,434	0	0	10,119	5.26%	20,092	10.44%	\$0.00	0	(117)	0	1,383	
Laguna Hills	33	1,826,881	0	0	253,001	13.85%	346,459	18.96%	\$2.23	19,512	(4,720)	47,125	83,881	
Laguna Niguel	10	1,749,768	0	0	75,553	4.32%	83,326	4.76%	\$2.21	(2,708)	(5,231)	8,462	17,419	
Lake Forest	40	2,109,123	0	0	122,157	5.79%	323,034	15.32%	\$2.21	(4,719)	(5,867)	27,363	48,538	
Mission Viejo	36	1,911,894	0	0	163,051	8.53%	320,921	16.79%	\$2.55	(34,095)	(37,340)	27,951	50,458	
Rancho Santa Margarita	6	252,716	0	0	21,801	8.63%	29,882	11.82%	\$2.17	(1,144)	(7,273)	3,388	3,388	
San Clemente	12	496,782	0	0	85,328	17.18%	99,087	19.95%	\$2.42	(7,696)	(8,878)	3,352	8,787	
San Juan Capistrano	19	950,608	0	0	10,464	1.10%	58,750	6.18%	\$2.55	(2,907)	(6,582)	3,020	3,020	
South County Total	389	26,925,709	422,490	581,305	3,184,253	11.83%	4,312,029	16.01%	\$3.10	95,488	340,885	672,110	1,126,695	
West County														
Cypress	28	1,952,355	0	0	203,008	10.40%	337,897	17.31%	\$2.26	(40,967)	(7,602)	23,691	27,374	
Fountain Valley	34	2,032,527	0	0	69,799	3.43%	98,581	4.85%	\$1.73	(7,556)	(19,004)	11,670	12,809	
Garden Grove	20	1,567,219	0	0	37,158	2.37%	56,736	3.62%	\$1.96	(2,164)	1,922	400	6,143	
Huntington Beach	43	3,265,664	0	0	193,357	5.92%	280,952	8.60%	\$2.74	3,438	(16,464)	50,683	89,155	
Los Alamitos	12	661,970	0	0	180,199	27.22%	42,381	6.40%	\$2.65	11,912	10,421	12,662	14,726	
Seal Beach	7	473,787	0	0	25,865	5.46%	54,082	11.41%	\$3.33	3,414	17,358	12,400	28,052	
Stanton	4	143,361	0	0	17,547	12.24%	17,547	12.24%	\$0.00	(8,894)	(2,877)	243	10,674	
Westminster	11	445,312	0	0	851	0.19%	5,318	1.19%	\$2.29	9,701	11,532	9,701	13,174	
West County Total	159	10,542,195	0	0	727,784	6.90%	893,494	8.48%	\$2.44	(31,116)	(4,714)	121,450	202,107	
Orange County Total	1,529	121,030,786	422,490	2,317,601	13,900,778	11.49%	17,691,670	14.62%	\$2.81	395,053	689,578	2,728,246	5,151,761	
Airport Area														
Class A	141	26,853,678	0	426,000	4,237,918	15.78%	4,886,019	18.19%	\$3.28	93,395	192,218	724,136	1,434,592	
Class B	312	17,278,413	0	459,971	1,762,736	10.20%	2,412,969	13.97%	\$2.73	181,068	192,367	561,837	1,188,852	
Class C	22	917,536	0	0	61,537	6.71%	92,317	10.06%	\$2.41	(14,796)	94	13,794	28,684	
Central County														
Class A	42	7,125,409	0	850,325	934,749	13.12%	1,280,870	17.98%	\$3.08	64,252	(26,216)	122,518	190,016	
Class B	215	14,228,555	0	0	1,759,545	12.37%	2,188,847	15.38%	\$2.78	941	(85,910)	316,563	514,119	
Class C	50	2,187,935	0	0	166,110	7.59%	172,928	7.90%	\$1.38	11,282	(8,318)	24,887	58,849	
North County														
Class A	27	3,204,567	0	0	268,138	8.37%	306,598	9.57%	\$2.62	(51,995)	(24,945)	15,994	78,574	
Class B	149	10,873,457	0	0	779,876	7.17%	1,109,818	10.21%	\$2.17	53,278	120,492	153,382	326,203	
Class C	23	893,332	0	0	18,132	2.03%	35,781	4.01%	\$1.95	(6,744)	(6,375)	1,575	3,070	
South County														
Class A	78	10,135,158	352,522	581,305	1,815,026	17.91%	2,248,018	22.18%	\$3.44	(79,005)	10	190,227	379,720	
Class B	300	16,271,398	69,968	0	1,358,485	8.35%	2,052,665	12.62%	\$2.54	175,322	341,113	478,922	741,020	
Class C	11	519,153	03,300	0	10,742	2.07%	11,346	2.19%	\$1.80	(829)	(238)	2,961	5,955	
		0,.00					,		÷	(020)	(200)	2,001	0,000	
West County Class A	18	1,941,941	0	0	150,641	7.76%	384,700	19.81%	¢0 71	(15 050)	(22 072)	0.052	30,876	
Class A Class B	18	7,058,900	0	0	150,641 565,067	8.01%	384,700 496,718	7.04%	\$2.71 \$2.23	(15,058)	(32,073) 25,827	9,052 97,398	30,876	
Class C	124	1,541,354	0	0	12,076	0.78%	496,718	0.78%	\$2.23	(20,232) 4,174	1,532	97,398	155,481	
	17	1,041,004	U	U	12,070	0.70%	12,070	0.70%	φ0.00	4,1/4	1,032	10,000	10,700	
Orange County	000	40.000.750	050 500	1 057 000	7 400 470	15.0400	0 100 005	10.40%	¢0.40	11 500	100.004	1 001 007	0 110 770	
Class A	306	49,260,753	352,522	1,857,630	7,406,472	15.04%	9,106,205	18.49%	\$3.19	11,589	108,994	1,061,927	2,113,778	
Class B	1,100	65,710,723	69,968	459,971	6,225,709	9.47%	8,261,017	12.57%	\$2.39	390,377	593,889	1,608,102	2,925,675	
Class C	123	6,059,310	0	0	268,597	4.43%	324,448	5.35%	\$1.98	(6,913)	(13,305)	58,217	112,308	

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.

# OC2Q19 SECOND QUARTER 2019 MARKET REPORT ORANGE COUNTY OFFICE





# What's your bias?

by Mark Sigler VICE PRESIDENT / PARTNER, IRVINE 949.735.4863 · msigler@voitco.com · Lic. #00898206

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.

# 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

### Please Contact Us for Further Information

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

