

# Orange County

## Office Market Outlook 2Q 2019

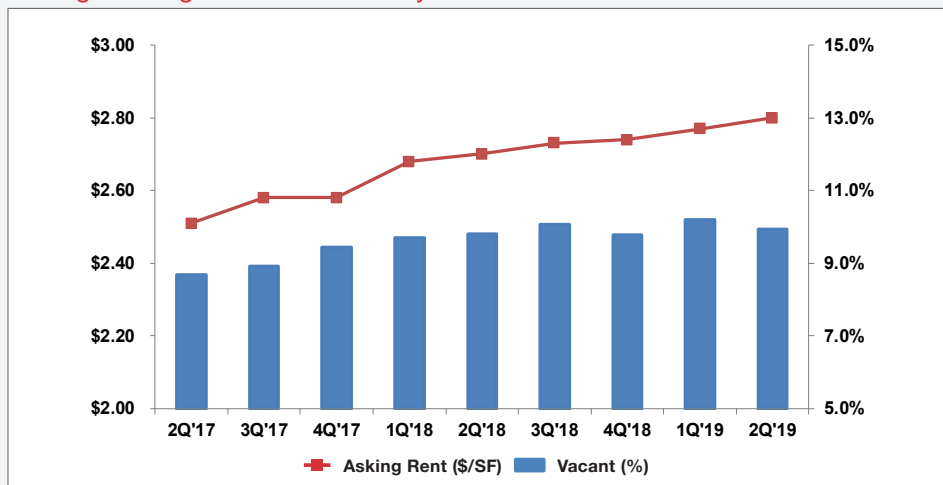
### MARKET OVERVIEW

The Orange County office market vacancy rate remained in single digits while the average asking rent continued to break records. The average asking rent hit \$2.80/SF, the highest level on record, up 1.1% over the prior quarter and 3.7% year over year. The average rent is now 2.6% higher than the prior peak in 3Q 2007. Vacancy registered 9.9%, down 30 bps over the prior quarter, up 10 bps year over year. The rise in vacancy over the past year is a direct result of a large volume of new construction. Since 1Q 2018, nearly 1.9M SF of new construction was delivered to the market in several major projects, including Discovery Park (655,000 SF), the Five Points Gateway (480,000 SF), and the Flight at Tustin Legacy (460,000 SF). As of the end of 2Q 2019, nearly 58% of this space remains vacant. Still, overall occupancy remains at 90.1%, just 320 bps below the pre-recession peak in 2006. The occupancy rate is inching up as the County reaches the end of its construction pipeline, with deliveries outpacing new construction starts over the past year. By 2020 the 630,000 SF under construction are expected to be completed. The Press at Costa Mesa, a 433,000 SF mixed-use redevelopment of a former LA Times printing facility, is the largest project under construction. It is expected to deliver in 1Q 2020 and will add 381,000 SF of creative office space.

### TRENDS TO WATCH

The Orange County office market is expected to continue to see sustained growth in occupancy. With the construction pipeline nearing the end, new developments that have been built on spec are expected to be leased over the coming quarters. Growth in the tenant base will be driven by employment. According to the Los Angeles Economic Development Corporation (LAEDC), Orange County will add 46,100 new jobs by 2020, including 33,400 in office-occupying sectors. This cycle has witnessed co-working companies, such as WeWork, Work Well Win, Spaces and TechSpace, emerge as some of the most active tenants for premium creative office space, signing some of the largest spaces at new projects such as The Boardwalk and 400 Spectrum.

Average Asking Rent\* and Vacancy Rate



### MARKET OUTLOOK

#### Asking Rental Rates



#### Sale Prices



#### Availability/Vacancy Rates



#### Landlord Concessions



#### Sales/Leasing Volume



#### New Construction



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### Market Statistics\*

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANT (%)	2Q19 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	2Q19 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT (\$/SF FSG)	AVERAGE SALE PRICE (\$/SF)
Airport	72,797,370	424,185	14.3%	11.6%	1,322,951	2,840,743	695,115	967,521	\$2.88	\$310
Central	15,234,838	0	11.1%	8.5%	177,002	305,285	110,506	201,777	\$2.40	\$162
North	19,285,973	0	10.2%	7.5%	266,334	428,597	404,121	1,060,811	\$2.38	\$175
South	34,723,244	205,968	15.1%	10.2%	738,742	1,250,922	623,853	876,814	\$3.00	\$263
West	15,164,283	0	7.0%	5.7%	176,091	1,402,118	293,415	686,340	\$2.33	\$192
<b>Orange County</b>	<b>157,205,708</b>	<b>630,153</b>	<b>12.9%</b>	<b>9.9%</b>	<b>2,681,120</b>	<b>6,227,665</b>	<b>2,127,010</b>	<b>3,793,263</b>	<b>\$2.80</b>	<b>\$259</b>

### Leasing

This quarter, leasing activity totaled more than 2.6M SF, which was down 24.4% over the prior quarter, and 18.0% over 2Q 2018. However, year to date leasing activity has remained strong, totaling over 6.2M SF, up 5.8% over last year at this time. While leasing activity remained strong throughout the County, the Airport Submarket around Irvine saw activity slow to 1.3M SF, down 36.1% from the previous year. This is partly the result of the concentration of available space in newly delivered buildings with high asking rents built on spec, which have been slow to lease. Existing space in the Airport submarket built prior to 2016 has seen vacancy fall to the moderately low level of 11.0% with asking rent averaging \$2.83/SF. By comparison, buildings built after 2016 are witnessing vacancy of 49.1% with average asking rent at \$4.90/SF.

### Sales

Quarterly sales volume totaled 2.1M SF, up 44.0% over the prior quarter and 4.7% year over year. However, year to date sales activity totaled just 3.8M SF, down 17.8% over last year at this time. Last quarter saw a pause in sales activity with the dollar volume in 1Q 2019 dropping to the lowest level since 2Q 2013, likely due to uncertainty about interest rates. The Federal Reserve's announcement to hold interest rates steady appears to have restored investor confidence. Sales prices averaged \$259/SF, down 4.1% over the prior year, while the average cap rate fell 20 bps to 5.9% over the same time. Meanwhile, the dollar volume rebounded 16.8% over the quarter to \$474.1M, but this was down 9.3% year over year.

### Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RATE \$/SF**	SQUARE FEET
Ambry Genetics	1 Enterprise Dr	South	Withheld	109,948
Tricon American Homes	15771 Red Hill Ave	Central	\$2.10 NNN	78,000
Rutan & Tucker	18565-18575 Jamboree Rd	Airport	Withheld	77,084
Happy Money	1700 Flight Way	Central	Withheld	72,010
University of California, Irvine	1500 S Douglass Rd	North	\$1.50 NNN	64,000

### Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Angelo, Gordon & Co.	1 MacArthur PI	Central	\$257	210,025
Ocean West Capital Partners	2 MacArthur PI	Central	\$398	208,142
South Bay Partners	2100-2120 Main St	West	\$275	148,455
Dollinger Properties	1800 E Imperial Hwy	North	\$230	145,467
IRA Capital	15750 Alton Pky	Airport	\$317	101,000

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- **North**
  - Anaheim
  - Brea
  - Fullerton
  - La Habra
  - Orange
  - Villa Park
  - Yorba Linda

- **Central**
  - Tustin
  - Tustin Foothills
  - Santa Ana

- **West**
  - Buena Park
  - Cypress
  - Fountain Valley
  - Garden Grove
  - Huntington Beach
  - Seal Beach
  - Stanton

- **Airport**
  - Costa Mesa
  - Irvine
  - Newport Beach
- **South**
  - Aliso Viejo
  - Dana Point
  - Foothill Ranch
  - Laguna Hills
  - Laguna Niguel
  - Lake Forest
  - Mission Viejo
  - Rancho Santa Margarita
  - San Clemente
  - San Juan Capistrano

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### NAI Capital Southern California Office Locations

#### Headquarters

15821 Ventura Blvd., Ste. 320  
Los Angeles, CA 91436  
818.905.2400

#### Property Management

120<sup>1/2</sup> South El Camino Real, Ste. 210  
San Clemente, CA 92674  
949.874.0415

#### Los Angeles County

##### Downtown LA

601 S. Figueroa St., Ste 3825  
Los Angeles, CA 90017  
213.632.7700

##### West Los Angeles

11835 Olympic Blvd., Ste. 700E  
Los Angeles, CA 90064  
310.440.8500

##### Torrance

970 W. 190th St., Ste. 100  
Torrance, CA 90502  
310.532.9080

##### Pasadena

225 S. Lake Ave., Ste. 1170  
Pasadena, CA 91101  
626.564.4800

##### Valencia

25060 Avenue Stanford, Ste. 165  
Valencia, CA 91355  
661.705.3550

##### Diamond Bar

21660 E. Copley Dr., Ste. 320  
Diamond Bar, CA 91765  
909.348.0600

#### Ventura County

##### Oxnard

300 Esplanade Dr., Ste. 1660  
Oxnard, CA 93036  
805.278.1400

##### Westlake Village

2555 Townsgate Rd., Ste. 320  
Westlake Village, CA 91361  
805.446.2400

#### Inland Empire

##### Ontario

800 N. Haven Dr., Ste. 400  
Ontario, CA 91764  
909.945.2339

##### Temecula

27720 Jefferson Ave., Ste. 330  
Temecula, CA 92590  
951.491.7590

##### Victorville

13911 Park Ave., Ste. 206  
Victorville, CA 92392  
760.780.4200

#### Orange County

##### Irvine

1920 Main St., Ste. 100  
Irvine, CA 92614  
949.854.6600

#### Coachella Valley

##### Palm Desert

75-410 Gerald Ford Dr., Ste. 200  
Palm Desert, CA 92211  
760.346.1566