

Growth Heads South; Tale Of Two Markets

Demand for office space countywide posted its third straight quarterly gain but leasing activity has been uneven, ranging from strong expansion in South County to weakness in the large Airport office market, where net absorption has been negative for five of the last six quarters.

Rent increases also have been mixed as asking rates for Class B space, which accounts for slightly more than half the county inventory, were up 12.6% year-over-year through the first quarter. Rent growth for premium space, however, managed 4.3% for the same period.

Although the 25.5 million sq. ft. South County inventory accounts for 22% of total county base, since 2016 it has been the hot market, particularly in and around the Irvine Spectrum. Seventy-two percent of space leased countywide has been in South County in the last nine quarters, but new supply has stayed ahead of demand. Since 2016, 12 buildings totaling 2.5 million sq. ft. have been delivered. During the same period, tenant expansion has totaled more than 1.8 million sq. ft. with 496,398 sq. ft. of space coming off the market in Q1.

Meanwhile, fortunes have turned for owners of some buildings in the Airport market, which represents 38% of the county's total. Following the crash, the 43.4 million sq. ft. Airport market staged a steady recovery with nearly 5 million sq. ft. of space absorbed from 2010 through 2015. Since then, demand has softened and more than 780,000 sq. ft. has come available. First-quarter absorption finished in the red by 253,297 sq. ft. Some landlords are offering leasing bonuses to procuring brokers - enticements usually deployed during downturns. The Boardwalk, an Airport-close 545,000 sq. ft. project on Jamboree Road Irvine, opened in Q1 with signed and pending tenants for 40% of its space, says developer Trammel Crow.

Throughout the county, landlords are reacting to tenant demand for creative space. The nationwide trend is a requirement companies increasingly say is needed to attract and retain workers. Private offices, cube farms and ranks of lateral file cabinets are giving way to hot desks. It's an unwelcome reality for many building owners to stay competitive. In addition to the cost of a makeover, the modern office with an array of common-area amenities can efficiently support a 30% larger workforce in the same space.

Net absorption totaled 357,343 sq. ft. over the last four quarters in Central County. In Q1 the 21-story City Tower in Orange was sold for a reported \$344 per sq. ft. - the highest price in Central County in a decade. The 28-year-old, 428,627 sq. ft. building was recently renovated and 76% leased.

The 278,949 sq. ft. absorbed in West County since 2016 has driven the vacancy rate down to 6.9%, a record low.

FORECAST

Under federal tax reform, which cuts home ownership tax benefits by reducing the cap on state and local tax deductions, the present value of tax savings on a \$1-million home in California is reduced a half percent annually over an eight-year period from \$63,000 to \$22,000, say Chapman University economists, adding that the \$41,000 loss means the home's perceived value will be reduced potentially by 4% from lost tax savings.

ORANGE COUNTY OFFICE

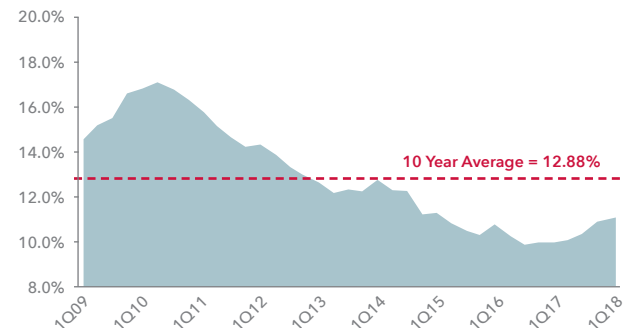
ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	3.2%	3.1%
California Unemployment	4.5%	4.2%
US Unemployment	4.1%	4.1%

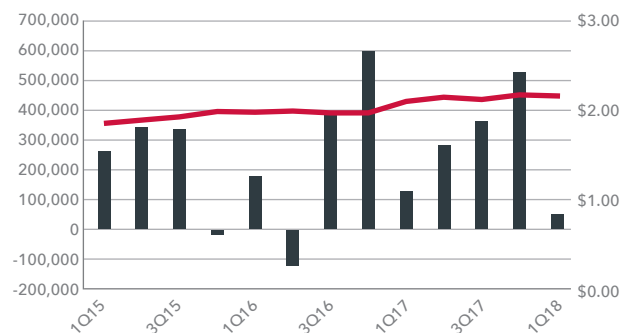
MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	114,562,625	114,085,399
Vacancy Rate (%)	10.0%	11.0%
Net Absorption (SF)	265,352	298,058
Average Asking Rent (\$/SF)	\$2.44	\$2.61
Under Construction (SF)	975,552	1,452,778

OVERALL VACANCY



NET ABSORPTION VS ASKING RATES



ORANGE COUNTY

FIRST QUARTER 2018 OFFICE MARKET REPORT

ORANGE COUNTY MARKET STATISTICS - 1Q 2018

BY AREA

	Bldg Count	SF RBA	Total SF Available	Avail. Rate	Total SF Vacant	Total Vac. Rate	Net Absorption	YTD Net Absorption	Avg Asking Lease Rate	SF Under Construction
North Orange County	171	14,205,099	1,729,498	12.1%	1,242,879	8.7%	(46,475)	(46,475)	\$2.21	38,313
Central Orange County	257	22,583,930	3,666,856	15.9%	2,505,230	11.1%	26,088	26,088	\$2.08	417,284
West Orange County	127	8,908,902	743,616	8.3%	617,444	6.9%	42,638	42,638	\$2.30	- 0 -
Greater Airport Area	423	43,377,951	8,664,700	19.9%	5,650,210	13.0%	(253,297)	(253,297)	\$2.88	155,000
South Orange County	347	25,486,743	3,554,751	13.8%	2,613,723	10.3%	496,398	496,398	\$2.71	364,955
TOTALS	1,325	114,562,625	18,359,421	14.0%	12,629,486	10.0%	265,352	265,352	\$2.44	975,552

ORANGE COUNTY MARKET STATISTICS - 1Q 2018

BY SUBMARKET

	Bldg Count	SF RBA	Total SF Available	Avail. Rate	Total SF Vacant	Total Vac. Rate	Net Absorption	YTD Net Absorption	Avg Asking Lease Rate	SF Under Construction
Class A	291	48,206,152	9,780,232	20.0%	6,821,930	14.2%	306,058	306,058	\$2.86	782,239
Class B	939	61,327,227	8,172,401	13.3%	5,481,283	8.9%	(54,090)	(54,090)	\$2.37	193,313
Class C	95	5,029,246	406,788	8.1%	326,273	6.5%	13,384	13,384	\$1.83	- 0 -
TOTALS	1,325	114,562,625	18,359,421	14.0%	12,629,486	10.0%	265,352	265,352	\$2.44	975,552

LEASE TRANSACTIONS 1Q 18

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
1610 E. St. Andrew Place Santa Ana, CA	62,444	Collector's Universe	Pacific Center Owner, LLC	Craig DeMiranda represented the Tenant.
1701 E. Saint Andrew Pl., Ste 200 Santa Ana, CA	20,000	Orange County's Credit Union	Elks Building Association of Santa Ana	Gary McArdell and Jim Snyder represented the Tenant.
275-B McCormick Ave. Costa Mesa, CA	10,450	BB Dakota, Inc.	TAVP Properties, LLC	Phil Cohen and Kurt Bruggeman represented the Landlord.

SALE TRANSACTIONS 1Q 18

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
2485 McCabe Way Irvine, CA	20,772	Bassman-Blaine Holdings, LLC	SFI McCabe, LLC	Allen Basso and Eric Darnell represented the Buyer.
22840 Savi Ranch Yorba Linda, CA	20,437	Buena Vista Springs, LLC	Betty L. Davies Family Partnership	Jim Hawkins and Phil Fridd represented the Seller.
3587-3589 Harbor Blvd. Costa Mesa, CA	19,271	VAM Realty Pacific, LLC	Treichler Irrevocable Childrens Trust	Gary McArdell and John Collins represented the Buyer.

LEE & ASSOCIATES - IRVINE

9838 Research Drive
Irvine, California 92618
(949) 727-1200

LEE & ASSOCIATES - NEWPORT BEACH

100 Bayview Circle, Suite 600
Newport Beach, California 92660
(949) 724-1000

LEE & ASSOCIATES - ORANGE

1004 West Taft Avenue, Suite 150
Orange, California 92865
(714) 647-9100

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