

South County Gains Continue, But Class B Weakness Hobbles Growth

Demand for premium office space returned in the third quarter with four buildings opening their doors near the Irvine Spectrum at least 63% pre-leased. But the modest growth in the Class A market was overcome by another quarterly absorption loss in Class B space, which has led the overall market to its worst three quarters since the recession.

Countywide, net absorption was down 211,737 sq. ft. in the third quarter and is off 914,115 sq. ft. year to date. Demand for Class A space grew 160,702 sq. ft. in the third quarter but has gained only 249,081 sq. ft. in positive absorption for the year.

Class B space makes up slightly more than half the county's 115 million sq. ft. total inventory. Absorption of second-tier space in Q3 was negative 369,356 sq. ft. and year to date is down nearly 1.2 million sq. ft.

Some Class B tenants have migrated to the Class A market, finding value as landlords of premium buildings compete against recently added supply. Also, most tenants have been choosing South County, where eight buildings totaling nearly 1.4 million sq. ft. were completed in the last 12 months.

Nine Class A buildings totaling about 1.9 million sq. ft. countywide were finished in the past four quarters, pushing up the Class A vacancy rate a point to 14.3% while the overall vacancy rate settled at 11.9%.

With supply running ahead of demand, rent growth has slowed in Class B buildings, averaging 2.3% this year, and average asking lease rates for Class A space have been flat.

The Airport's 43.5-million-sq.-ft. inventory, the county's largest market, reported 271,827 sq. ft. of negative absorption in Q3 and a net loss of 1.4 million sq. ft. in the last seven quarters.

Two new office developments are reflective of the recent market momentum favoring South County.

Boardwalk, the Airport market's largest new building in about a decade, signed the largest lease in Q3, a 63,816-sq.-ft. deal with co-working space operator WeWork, and now is 40% leased. Boardwalk's two nine-story towers at a key Airport-area intersection total 545,000 sq. ft. and were delivered late last year. It's the second full-floor deal announced by project developer Trammel Crow Co.

Meanwhile, the South County posted 555,319 sq. ft. of positive absorption in Q3. In the last 11 quarters there have been 16 buildings completed totaling 2.85 million sq. ft. and 1.9 million sq. ft. of absorption. Also in Q3, the Irvine Co. completed The Quad at Discovery Park, four mid-rise buildings totaling about 365,000 sq. ft. Almost three buildings were leased up prior to delivery.

FORECAST

Orange County business executives are slightly less optimistic going into the fourth quarter with the index in California State Fullerton's periodic survey slipping from a mid-year 98.1 rating, a record high, to 96.2 in Q3.

ORANGE COUNTY OFFICE

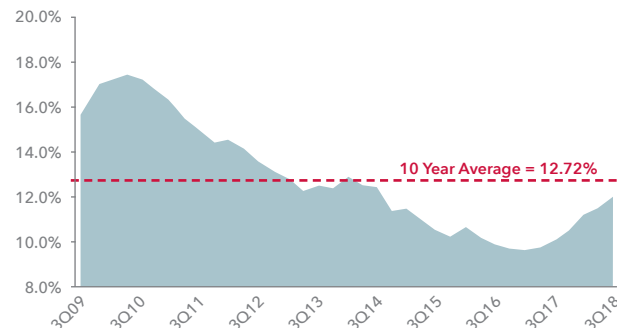
ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	3.2%	2.6%
California Unemployment	4.2%	3.8%
US Unemployment	3.9%	4.0%

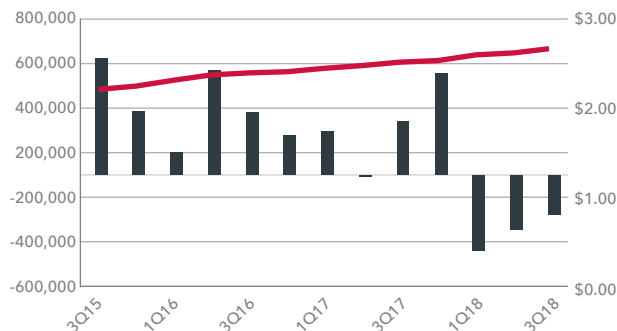
MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	115,021,139	114,656,184
Vacancy Rate (%)	11.9%	11.4%
Net Absorption (SF)	(211,737)	(292,950)
Average Asking Rent (\$/SF)	\$2.66	\$2.65
Under Construction (SF)	726,858	1,091,813

OVERALL VACANCY



NET ABSORPTION VS ASKING RATES



ORANGE COUNTY

THIRD QUARTER 2018 OFFICE MARKET REPORT

ORANGE COUNTY MARKET STATISTICS - 3Q 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	169	14,103,714	1,572,589	11.1	1,177,778	8.4	95,692	(37,252)	\$2.27	38,313
Central Orange County	262	22,656,691	3,779,793	16.4	2,595,449	11.5	(109,348)	(356,882)	\$2.20	417,284
West Orange County	129	8,983,008	850,110	9.5	620,525	6.9	(14,826)	30,265	\$2.35	0
Greater Airport Area	425	43,529,963	8,432,652	19.3	6,375,474	14.6	(271,287)	(1,105,565)	\$2.98	271,261
South Orange County	351	25,747,763	4,003,193	15.5	2,873,139	11.2	88,032	555,319	\$2.80	0
TOTALS	1,336	115,021,139	18,638,337	16.20%	13,642,365	11.9%	(211,737)	(914,115)	\$2.66	726,858

ORANGE COUNTY MARKET STATISTICS - 3Q 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	298	48,762,338	9,779,427	19.8	6,985,069	14.3	160,702	249,081	\$2.92	533,545
Class B	948	61,655,322	8,502,815	13.7	6,392,998	10.4	(369,356)	(1,177,057)	\$2.53	193,313
Class C	90	4,603,479	356,095	7.7	264,298	5.7	(3,083)	13,861	\$1.84	0
TOTALS	1,336	115,021,139	18,638,337	16.2%	13,642,365	11.9%	(211,737)	(914,115)	\$2.66	726,858

LEASE TRANSACTIONS 3Q 2018

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
6 Executive Cir., Suite 100 Irvine, CA	21,083	CIG Financial	The Irvine Company - Office Properties	Don Nourse represented the Tenant.
571 N Poplar, Unit D&G Orange, CA	8,010	BLD Family Partnership	MB Coating, Inc.	Jim Hawkins & Phil Fridd, represented the Tenant.
3055 W. Orange Ave., Suite 104-107 Anaheim, CA	6,415	Orange County Association for Mental Health	Jamison Properties	Allen Basso, Eric Darnell & Mallory Moore represented the Landlord.

SALE TRANSACTIONS 3Q 2018

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
17771 Cowan Irvine, CA	63,203	Encore 5C, LLC	17771 Cowan, LLC	Brian Garbutt & Sean Ahern represented the Seller. Brian Garbutt, Jason Helmick & Dale Camera represented the Buyer.
15 Corporate Park Irvine, CA	14,920	Pacific Medical Laboratory	Adams Streeter Civil Engineers	Gary McArdell & John Collins represented the Seller.
18093 Prairie Ave. Torrance, CA	8,900	Brain Diamond & Robert Badgley	Grace Hand, Trustee	Allen Buchanan & Joshua Harper represented the Seller.

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