

# Orange County

## Office Market Outlook 3Q 2018

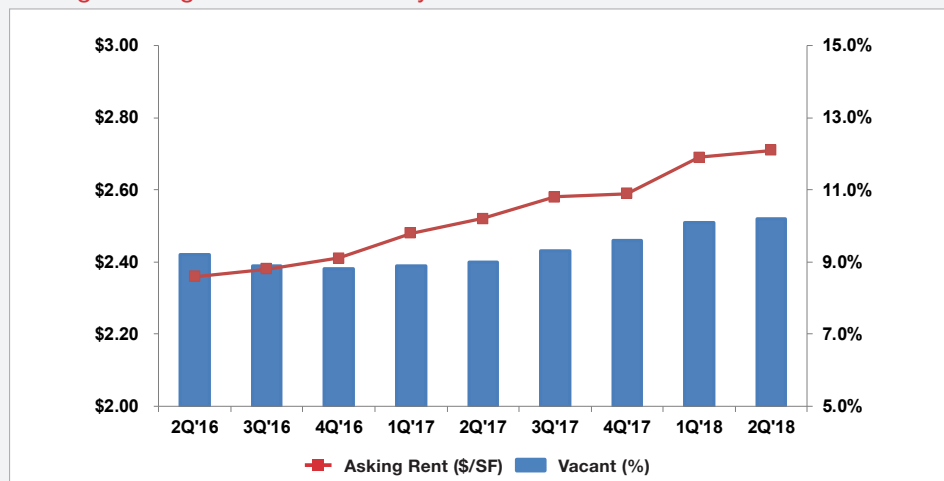
### MARKET OVERVIEW

In 3Q 2018, the Orange County office market saw asking rents continue to increase, while vacancy remained low. The vacancy rate was 10.2% this quarter, up 30 basis points over the prior quarter and 120 basis points over last year at this time. While part of this increase has been the result of the 881,998 SF of new inventory completed year to date, a significant portion of vacant space is due to major moveouts. Several major Orange County office tenants vacated their spaces in 2018, including First American Title Insurance Company, which vacated 178,334 SF; Ingram Micro Inc., which vacated 176,072 SF; and Western Digital Technologies Inc., which vacated 162,704 SF. The average asking rent increased 1.1% over the prior quarter and 6.2% over 3Q 2017 to \$2.74/SF. This is the highest on record in Orange County, exceeding the previous peak of \$2.73/SF reached in 3Q 2007. This steady increase in asking rents is being driven by tight market conditions, new construction, the strong economy, and landlord's continued confidence in the market. Between August 2017 and August 2018, the unemployment rate fell from 3.8% to 3.1%, while employment in the office occupying sectors grew by 1.74%, adding 11,200 new jobs over the same time.

### TRENDS TO WATCH

Going forward, four major projects totaling nearly one million square feet are expected to complete by 2019. As of 3Q 2018, only 29% of the construction has preleased. This could raise the vacancy rate slightly as some recently completed construction has been slow to lease. Co-working spaces are rapidly expanding their footprint in Orange County. This quarter, WeWork leased over 63,000 SF at The Boardwalk in Irvine. Last quarter, Spaces, a co-working brand owned by Regus, leased 41,000 SF at The Quad, and aims to have over 1.0M SF of office space in Southern California by the end of 2018. Similar co-working tenants, such as TechSpace, PeopleSpace, Regus, Batch, CrashLabs, and Wayfare Coworking, are active in Orange County. Co-working tenants occupy an estimated 680,000 SF of office space combined. While still a comparatively small sector of the Orange County office market, co-working is expanding and leasing large amounts of office space.

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 VACANCY (%)	3Q18 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	3Q18 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/SF FSG	AVERAGE SALE PRICE \$/SF
Airport	72,275,834	638,512	16.5%	12.2%	1,338,409	4,653,845	1,401,540	2,986,415	\$2.87	\$296
Central	15,189,103	10,000	10.8%	8.1%	212,485	443,175	404,169	1,782,150	\$2.28	\$115
North	19,189,510	38,313	11.9%	8.2%	183,927	563,642	42,396	541,419	\$2.28	\$425
South	34,380,337	211,200	14.2%	9.9%	438,402	1,591,437	667,021	2,027,024	\$2.83	\$365
West	14,491,064	0	7.4%	5.7%	115,136	434,823	396,994	909,522	\$2.28	\$171
<b>Orange County</b>	<b>155,525,848</b>	<b>898,025</b>	<b>14.0%</b>	<b>10.2%</b>	<b>2,288,359</b>	<b>7,686,922</b>	<b>2,912,120</b>	<b>8,246,530</b>	<b>\$2.74</b>	<b>\$301</b>

### Leasing

Leasing activity totaled 2.3M SF this quarter, which represented a 25% drop over the prior quarter, and a 39% drop over 3Q 2017. The average asking rent registered at \$2.74/SF, which is currently the highest asking rent on record. This quarter saw 58.5% of all leasing activity occur in the Airport submarket, which is based around Irvine and Newport Beach, where there is a concentration of new, high quality office space. In the largest lease transaction this quarter, WeWork leased 63,816 SF at The Boardwalk in Irvine. Other major transactions in Irvine included architectural firm LPA, which leased 55,450 SF, and the Intel Corporation, which leased 26,897 SF at the UCI Research Park. In Aliso Viejo, Carrington Mortgage Services leased 61,588 SF at the Summit Office Campus.

### Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/SF**	SQUARE FEET
WeWork	18565-18575 Jamboree Rd	Airport	Withheld	63,816
Carrington Mortgage Services	25 Enterprise	South	\$3.30	61,588
County of Orange	4000 W Metropolitan Dr	North	Withheld	59,927
LPA	5301 California Ave	Airport	\$2.75	55,450
Intel Corporation	111 Theory Dr	Airport	Withheld	26,897

### Sales

Sales volume totaled over 2.9M SF this quarter, which represented an increase of 11.7% over the prior quarter but remained 25.6% below 3Q 2017. The average sale price remained steady over the year at \$301/SF, an increase of 11.6% over the prior quarter. In the largest sale transaction this quarter, Granite Properties, Inc. purchased the 346,500 SF Bayview Corporate Center in Newport Beach for \$363/SF. This property last sold in July 2005 for \$338/SF. In another significant transaction, Kelemen Company purchased The Atrium, a 302,877 SF campus in Irvine, for \$352/SF, which last sold in August 2000 for \$198/SF.

### Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Granite Properties, Inc.	100 Bayview Cir	Airport	\$363	346,500
Kelemen Company	19100-19200 Von Karman Ave	Airport	\$352	302,877
LBA Realty	1-3 Glen Bell Way	Airport	\$384	271,060
Glidewell Laboratories	2201-2301 Dupont Dr	Airport	\$350	251,108
Harbor Associates, LLC	2020 E 1st St	Central	\$118	112,000

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### NAI Capital Southern California Office Locations

#### Headquarters

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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. Dr., Ste. 100  
Torrance, CA 90502  
310.532.9080

##### Pasadena

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

##### Valencia

27451 Tournay Rd., Ste. 200  
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 Avenue, 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