



Office Demand, Rent Growth Slows; Investors Unfazed

After opening 2017 with healthy absorption, the office market leveled off in the 2nd Quarter as demand for space struggled to keep up with newly completed buildings being added to the Class A inventory.

New data shows that net absorption in all office buildings for four quarters ending June 30, 2017 totaled 530,276 square feet; the lowest net absorption figure of any four consecutive quarters since 2010. Moreover, after the vacancy rate steadily declined from 17% through the post-recession period, the vacancy rate has remained between 10.2% - 11% for the last nine quarters.

Much of the reason for weak demand is recent softness in the 42.6 million square foot Airport Area submarket, which is 38% of the total office inventory in Orange County. In the last six quarters, 872,351 square feet of space became available, increasing the vacancy rate to 11.5%.

About 1.1 million square feet of new space have been added in the last eight quarters. Later this year, 545,000 square feet of premium space is due for completion near the airport. The Irvine Company recently began marketing 836,000 square feet of soon-to-be-vacated space in the University Research Park. Developers are planning to break ground on roughly 1.25 million square feet in the next 18 months on projects in the Airport and Central County submarkets and at the Irvine Spectrum.

Investors remained enthusiastic about office assets as buildings are trading for increasingly higher prices. A 43,247 square foot building in Corporate Park was recently listed for \$375/SF by owners who paid \$237/SF three years ago. Last fall, an investor paid roughly \$260 million, or \$440/SF, for the five-building Google complex on MacArthur Boulevard in Newport Beach. Two towers opposite the Google reportedly are being acquired by Goldman Sachs for \$475/SF, a 50% increase over their sale price in 2014.

Rents continued to rise, but at a dramatically slower rate. Between July 2014 and June 2016 asking rents jumped 16.4%, but in the last four quarters rent growth averaged 3.3%.

The Central County submarket posted its fifth straight quarterly absorption gain and is up 415,839 square feet for the first half of 2017. The 2nd Quarter vacancy rate fell to 11.9% in the 22 million square feet submarket that includes the Civic Center in Santa Ana and Angel Stadium in Anaheim, where investors reportedly paid \$77 million for a 12-story office tower that last traded in 2014 for \$60 million.

MARKET OVERVIEW

(Change from last quarter)

AVAILABILITY - 15.60%
Up from 15.20% last quarter



VACANCY - 10.30%
Same as last quarter



ABSORPTION - (3,320) SQ. FT.
Down from 250,890 SF last quarter

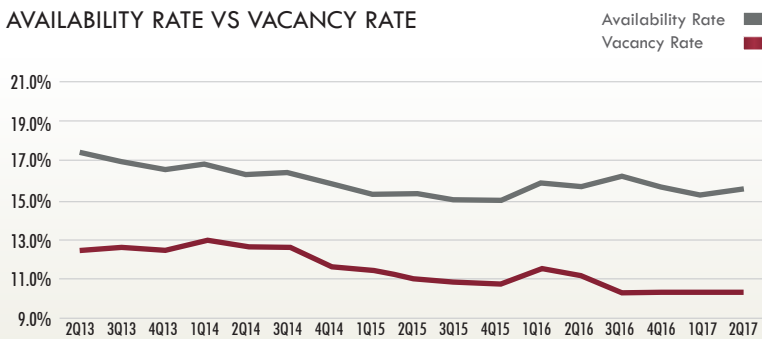


AVERAGE LEASE RATE - \$2.49 FSG
Up from \$2.47 PSF last quarter

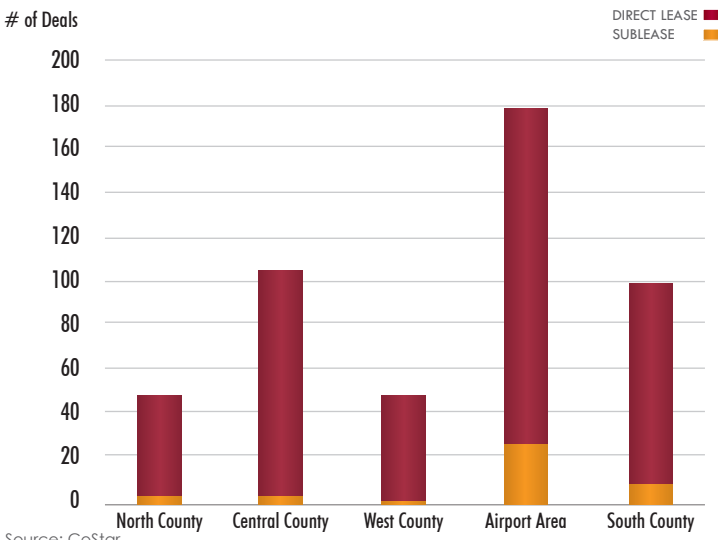


*All numbers are based on office space in buildings 30,000 sq. ft. and larger.

AVAILABILITY RATE VS VACANCY RATE

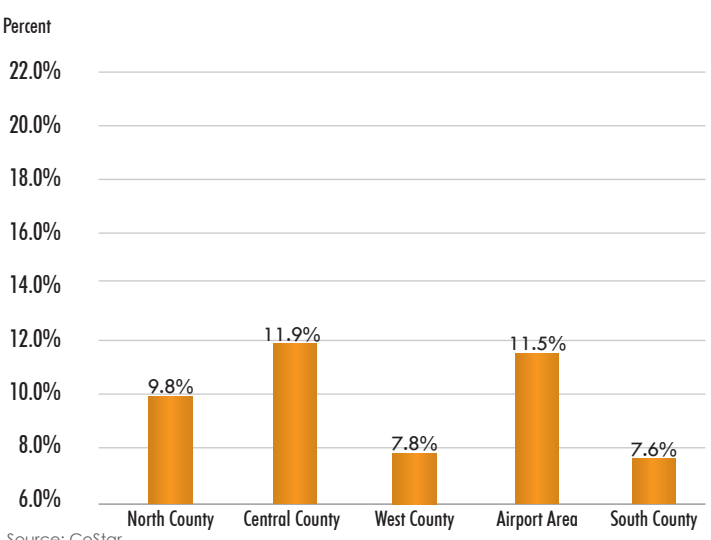


NUMBER OF LEASES EXECUTED FOR THE QUARTER BY SUBMARKET



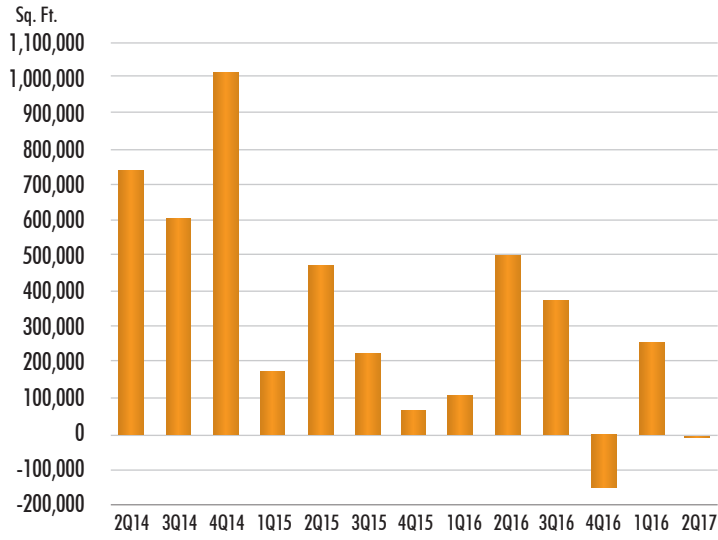
Source: CoStar

VACANCY RATE BY SUBMARKET - INCLUDING SUBLET SPACE



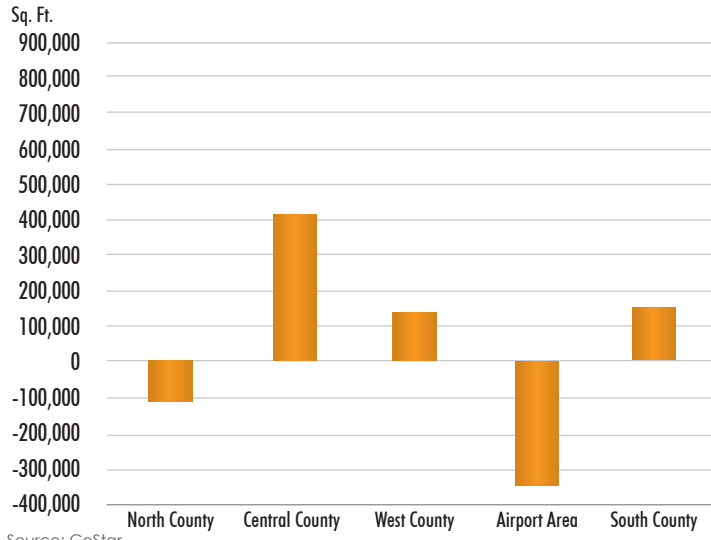
Source: CoStar

COUNTY WIDE NET ABSORPTION INCLUDING SUBLET SPACE



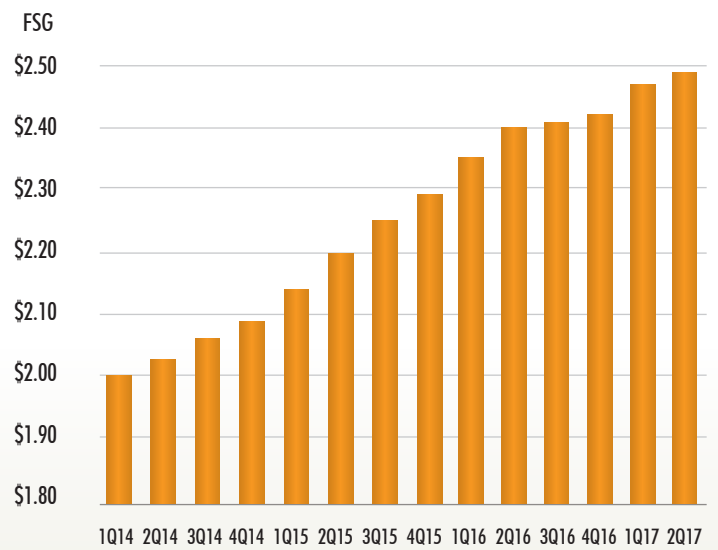
Source: CoStar

YTD NET ABSORPTION BY SUBMARKET, INCLUDING SUBLET SPACE



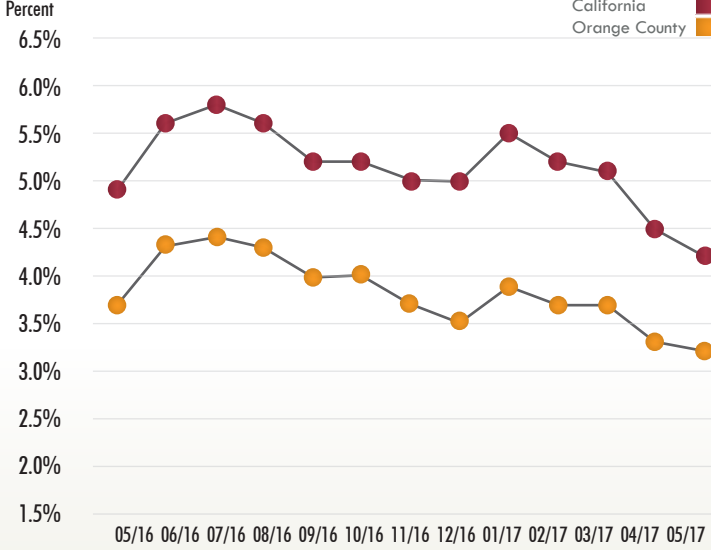
Source: CoStar

AVERAGE FSG LEASE RATES BY QUARTER



Source: CoStar

UNEMPLOYMENT RATE NOT SEASONALLY ADJUSTED



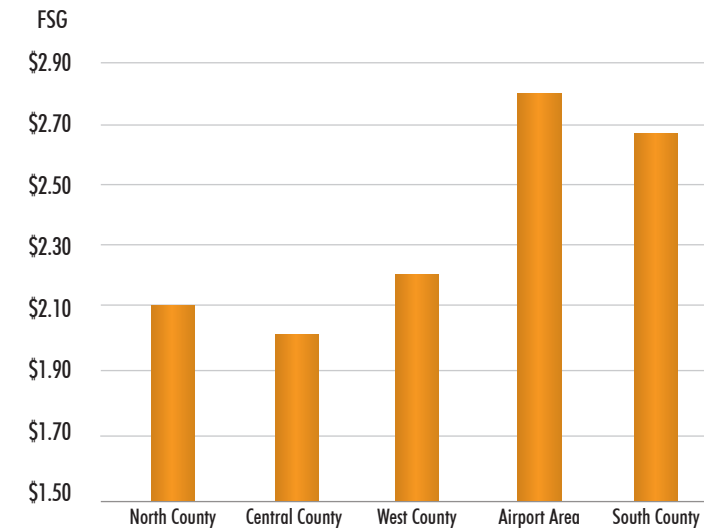
Source: EDD

AVERAGE FSG LEASE RATE

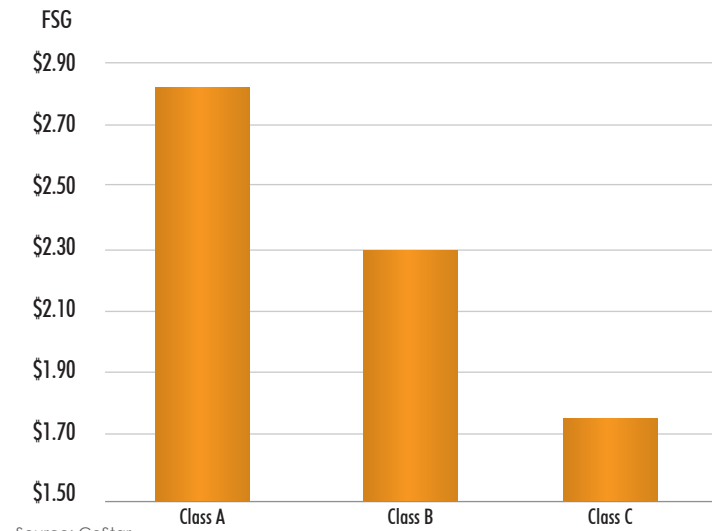
BY SUBMARKET

AVERAGE FSG LEASE RATE

BY CLASS

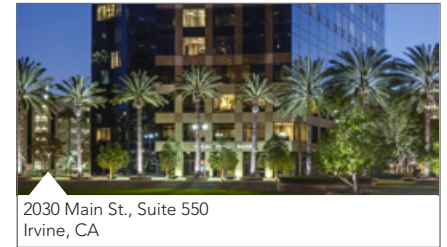
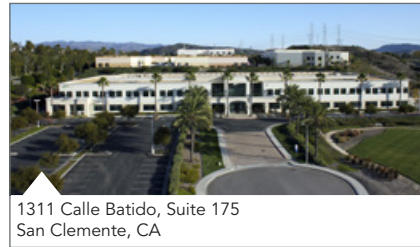
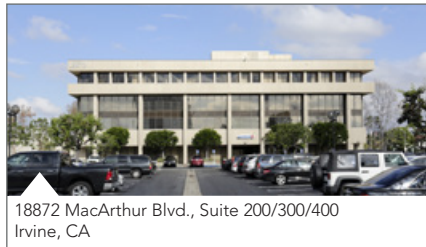


Source: CoStar



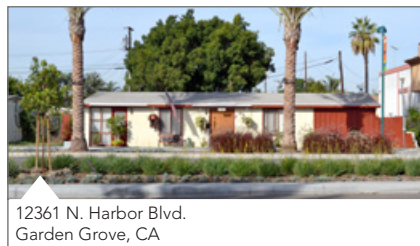
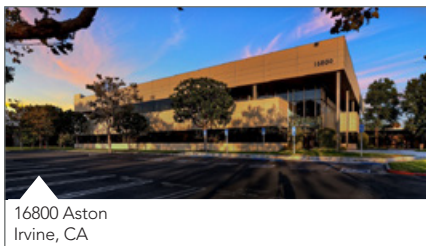
Source: CoStar

COMPLETED LEE & ASSOCIATES TRANSACTIONS



Lease Transactions Q2 17

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
18872 MacArthur Blvd., Suite 200/300/400, Irvine, CA	32,759	Autobytel, Inc.	GFE MacArthur Investments, LLC	Adam Wicker, Dave Smith, Matt Fryer & Travis Watts represented the Landlord.
1311 Calle Batido, Suite 175 San Clemente, CA	19,999	Quest Diagnostic Nichols Institute	Batido 1 LLC	Tim Walker represented the Landlord.
2030 Main St., Suite 550 Irvine, CA	6,282	Fenton, Grant, Mayfield, Kaneda & Litt.	Third Avenue Investments	Marshal Vogt represented the Tenant.



Sale Transactions Q2 17

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
16800 Aston Irvine, CA	48,951	16800 Aston Irvine, LLC	BTC Acquisitions Partners, LLC	Brian Garbutt & Sammy Cemo represented the Buyer.
12361 N. Harbor Blvd. Garden Grove, CA	24,600	Massood Nikaein	Anthony Andreatta	James Hawkins represented the Seller.
17802 Sky Park Cir. Irvine, CA	20,750	Maude-Corona LLC	Kira Investments LLC	Tim Arguello represented the Seller.

	Bldg Count	SF RBA	Total SF Available	Avail. Rate	Total SF Vacant	Total Vac. Rate	Direct SF Vacant	Direct Vac. Rate	Net Absorption	YTD Net Absorption	SF Avail Sublease	SF Vacant Sublease	Avg Asking Lease Rate	SF Under Construction
BY CITY														
Aliso Viejo	39	3,027,086	660,430	20.40%	315,861	10.40%	301,751	10.00%	(12,461)	(41,727)	92,267	14,110	\$2.92	205,000
Anaheim	79	7,274,704	893,241	12.30%	651,647	9.00%	642,530	8.80%	78,790	126,859	47,147	9,117	\$2.12	- 0 -
Brea	39	3,982,217	449,906	11.30%	495,955	12.50%	425,058	10.70%	(73,955)	(75,506)	85,648	70,897	\$2.14	- 0 -
Buena Park	14	1,031,337	291,784	28.30%	199,994	19.40%	199,994	19.40%	(32,949)	(40,709)	- 0 -	- 0 -	\$1.78	- 0 -
Corona del Mar	1	49,308	- 0 -	0.00%	0	0.00%	0	0.00%	- 0 -	- 0 -	- 0 -	- 0 -	#VALUE!	- 0 -
Costa Mesa	64	7,099,888	1,427,614	20.10%	1,016,088	14.30%	957,117	13.50%	(10,038)	(50,584)	238,759	58,971	\$2.49	- 0 -
Cypress	25	1,865,771	358,874	19.20%	286,088	15.30%	286,088	15.30%	(3,459)	62,054	54,326	- 0 -	\$2.07	- 0 -
Dana Point	3	135,296	- 0 -	0.00%	0	0.00%	0	0.00%	- 0 -	- 0 -	0	- 0 -	-	- 0 -
Foothill Ranch	10	798,721	150,679	18.90%	124,605	15.60%	118,701	14.90%	(18,095)	(36,486)	18,847	5,904	\$2.47	- 0 -
Fountain Valley	27	1,838,765	57,318	3.10%	54,046	2.90%	54,046	2.90%	7,539	7,539	- 0 -	- 0 -	\$1.51	- 0 -
Fullerton	30	2,430,331	385,636	15.90%	187,187	7.70%	182,887	7.50%	(25,218)	(23,721)	5,323	4,300	\$2.38	- 0 -
Garden Grove	16	1,443,755	43,057	3.00%	44,861	3.10%	44,861	3.10%	12,477	20,115	3,126	- 0 -	\$1.82	- 0 -
Huntington Beach	31	2,163,645	266,094	12.30%	155,183	7.20%	147,076	6.80%	41,187	45,554	26,331	8,107	\$2.49	- 0 -
Irvine	388	34,291,744	6,748,570	18.50%	2,967,790	8.70%	2,677,449	7.80%	48,255	119,771	967,539	290,341	\$2.75	2,253,722
La Habra	4	142,069	4,665	3.30%	0	0.00%	0	0.00%	- 0 -	- 0 -	- 0 -	- 0 -	\$1.38	- 0 -
La Palma	10	712,038	52,601	7.40%	53,533	7.50%	53,533	7.50%	(4,575)	8,448	7,227	- 0 -	\$2.17	- 0 -
Ladera Ranch	3	127,065	8,814	6.90%	6,736	5.30%	6,736	5.30%	5,906	5,906	- 0 -	- 0 -	\$2.51	- 0 -
Laguna Beach	5	192,434	19,179	10.00%	19,179	10.00%	19,179	10.00%	702	1,655	- 0 -	- 0 -	\$2.53	- 0 -
Laguna Hills	25	1,585,749	283,015	17.80%	237,861	15.00%	227,251	14.30%	30,109	28,841	16,614	10,610	\$2.66	- 0 -
Laguna Niguel	8	1,690,809	48,782	2.90%	55,900	3.30%	55,900	3.30%	6,738	(6,656)	- 0 -	- 0 -	\$3.22	- 0 -
Laguna Woods	- 0 -	- 0 -	- 0 -	0.00%	0	0.00%	0	0.00%	- 0 -	- 0 -	- 0 -	- 0 -	\$0.00	- 0 -
Lake Forest	32	1,891,655	203,288	10.70%	187,486	9.90%	182,716	9.70%	(13,034)	(78,644)	31,634	4,770	\$2.17	- 0 -
Los Alamitos	9	623,423	36,015	5.80%	39,967	6.40%	39,967	6.40%	(3,765)	(3,483)	10,300	0	\$2.73	- 0 -
Mission Viejo	32	1,919,170	224,028	11.70%	213,192	11.10%	211,847	11.00%	31,507	(19,280)	28,756	1,345	\$2.45	- 0 -
Newport Beach	101	9,433,057	1,083,218	11.50%	913,774	9.70%	865,554	9.20%	(97,324)	(81,505)	129,427	48,220	\$3.39	- 0 -
Orange	63	6,630,732	849,374	12.80%	573,455	8.60%	543,138	8.20%	47,009	(21,806)	151,244	30,317	\$2.18	- 0 -
Placentia	5	185,164	17,124	9.20%	15,358	8.30%	15,358	8.30%	3,750	11,012	- 0 -	- 0 -	\$1.88	- 0 -
Rancho Santa Margarita	5	237,769	8,881	3.70%	4,324	1.80%	4,324	1.80%	3,824	7,596	1,127	- 0 -	\$2.60	- 0 -
San Clemente	9	423,171	48,600	11.50%	31,113	7.40%	31,113	7.40%	(798)	1,122	- 0 -	- 0 -	\$2.39	- 0 -
San Juan Capistrano	17	876,712	151,932	17.30%	137,043	15.60%	136,903	15.60%	(2,547)	(2,629)	2,384	140	\$2.33	- 0 -
Santa Ana	159	14,215,260	2,115,165	14.90%	1,953,941	13.70%	1,853,245	13.00%	(19,665)	214,928	103,170	100,696	\$1.95	- 0 -
Seal Beach	6	445,365	37,306	8.40%	36,727	8.20%	33,858	7.60%	(7,094)	3,985	7,925	2,869	\$3.03	- 0 -
Stanton	2	85,917	17,399	20.30%	13,790	16.10%	13,790	16.10%	(2,857)	(7,462)	- 0 -	- 0 -	\$1.23	- 0 -
Tustin	33	1,971,632	405,876	20.60%	375,516	19.00%	366,516	18.60%	10,160	71,241	9,000	9,000	\$2.23	- 0 -
Westminster	10	431,291	73,674	17.10%	60,358	14.00%	60,358	14.00%	(2,941)	8,723	- 0 -	- 0 -	\$2.03	- 0 -
Yorba Linda	5	288,094	35,697	12.40%	35,697	12.40%	33,213	11.50%	(4,098)	(7,050)	2,484	2,484	\$1.87	- 0 -
Orange County Totals	1,310	111,571,144	17,457,836	15.6%	11,464,255	10.3%	10,792,057	9.7%	(3,320)	251,701	2,040,605	672,198	\$2.49	2,458,722
BY AREA														
North Orange County	171	14,153,093	1,849,278	13.10%	1,392,580	9.80%	1,310,231	9.3%	(130,347)	(108,904)	135,350	82,349	\$2.10	- 0 -
Central Orange County	256	22,288,492	3,132,876	14.10%	2,663,245	11.90%	2,600,470	11.7%	209,552	415,839	199,361	62,775	\$2.01	- 0 -
West Orange County	126	8,897,932	889,737	10.00%	691,020	7.80%	680,044	7.6%	41,087	137,025	102,008	10,976	\$2.20	- 0 -
Greater Airport Area	419	42,558,566	8,243,158	19.10%	4,908,876	11.50%	4,531,501	10.6%	(303,172)	(345,887)	1,266,172	377,375	\$2.80	537,258
South Orange County	338	23,673,061	3,342,787	13.10%	1,808,534	7.60%	1,669,811	7.1%	179,560	153,628	337,714	138,723	\$2.67	1,921,464
Orange County Totals	1,310	111,571,144	17,457,836	15.6%	11,464,255	10.3%	10,792,057	9.7%	(3,320)	251,701	2,040,605	672,198	\$2.49	2,458,722
BY BUILDING CLASS														
Class A	285	46,092,481	9,135,942	18.80%	5,822,655	12.60%	5,446,212	11.8%	(110,271)	(27,013)	1,303,317	376,443	\$2.82	2,458,722
Class B	929	60,621,559	7,888,589	13.00%	5,352,746	8.80%	5,056,991	8.3%	60,196	225,572	737,288	295,755	\$2.30	- 0 -
Class C	96	4,857,104	433,305	8.90%	288,854	5.90%	288,854	5.9%	46,755	53,142	- 0 -	- 0 -	\$1.75	- 0 -
Orange County Totals	1,310	111,571,144	17,457,836	15.6%	11,464,255	10.3%	10,792,057	9.7%	(3,320)	251,701	2,040,605	672,198	\$2.49	2,458,722

ABOUT LEE & ASSOCIATES



Celebrating more than 37 years of leadership excellence in commercial real estate, Lee & Associates is the largest broker-owned firm in North America with locations across the U.S. and Canada including Arizona, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Maryland, Michigan, Minnesota, Missouri, Nevada, New Jersey, New York, Ohio, Pennsylvania, South Carolina, Texas, Vancouver BC, Washington and Wisconsin.

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The firm's office brokers negotiate various transactions, including mid- and high-rise properties, business and office parks, mixed-used projects, office land for development, multi-tenant buildings and commercial investments. Our brokers analyze the financial arrangements to streamline transactions, and use innovative marketing efforts and unique transaction structuring to provide creative solutions to meet the clients' needs.

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SUBMARKETS:

NORTH

Anaheim Hills, Brea/La Habra, Buena Park/La Palma, Fullerton, North/East Anaheim, Placentia/Yorba Linda

CENTRAL

Civic Center Area, East Orange, Main Place Area, Parkcenter Area, Santa Ana, Stadium Area, The City Area, Tustin (South of I-5)

WEST

Cypress, Fountain Valley, Garden Grove, Huntington Beach, Los Alamitos/Stanton, Seal Beach, Westminster

AIRPORT

Costa Mesa, Irvine, Newport Beach, South Santa Ana

SOUTH

Irvine Spectrum, Laguna Hills/Aliso Viejo, Laguna Niguel/Laguna Beach, Lake Forest/Foothill Ranch/Rancho Santa Margarita, Mission Viejo, San Juan Capistrano/San Clemente/Dana Point/Capistrano Beach

OUTLYING

Outlying Orange County

FORECAST:

The latest OC Business Expectations Survey conducted by Cal State University-Fullerton economist Anil Puri found general optimism among OC executives in their outlook for business and the economy, the third highest reading since 2002. For the first time, the 63 executives surveyed rated government regulation as their No. 1 concern.

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