



**QUICK STATS**

Current Quarter

Direct Vacancy	12.5%
Overall Vacancy	13.7%
Lease Rate FSG	\$2.77
Gross Absorption	1,995,726 SF
Under Construction	0 SF

**MARKET TRENDS**

Change from Last	Quarter	Year
Overall Vacancy	↑	↑
Rental Rates	↑	↑
Gross Absorption	↓	↓
Under Construction	↔	↓

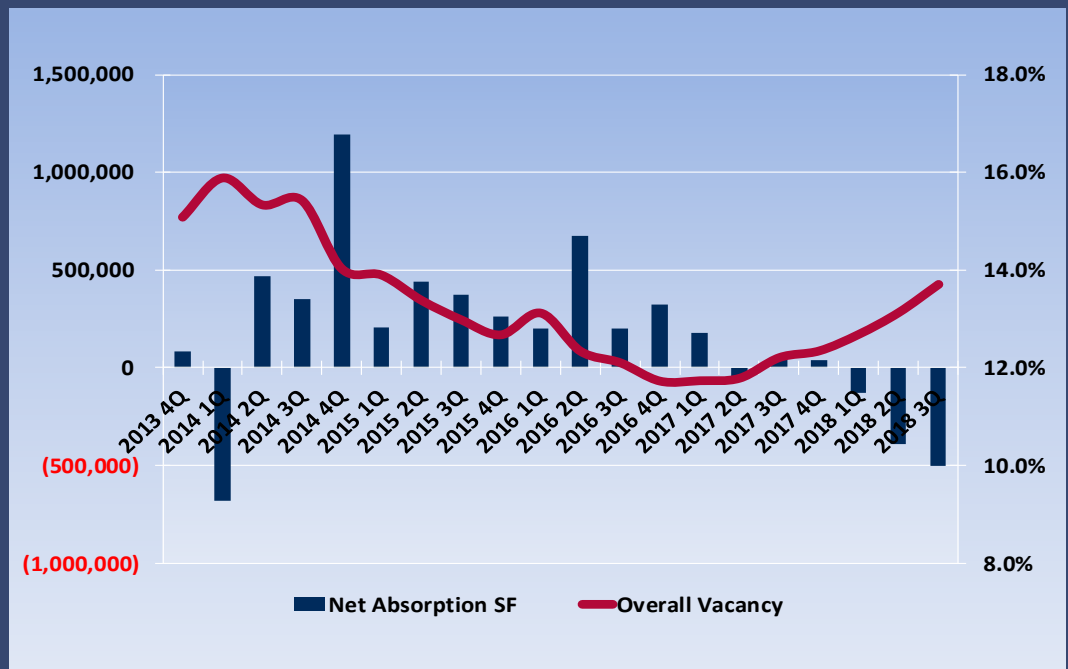
**ECONOMIC STATS**

	Current Month	Previous Year
	Sep. '18	Sep. '17
Unemployment Rate (MSA)	2.8%	3.3%
Change in # Of Jobs (MSA)	+6,700	+9,600
% Change for Jobs (MSA)	+0.4%	+0.6%

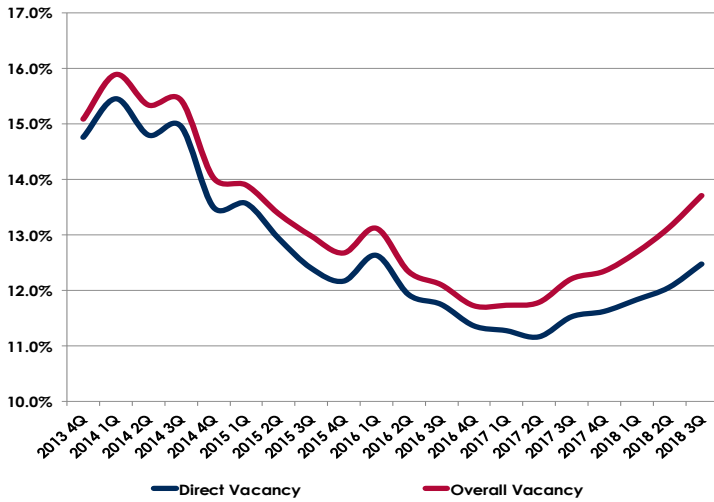
**SUMMARY & OUTLOOK**

The Orange County office market witnessed overall vacancy rates increase from 13.1% to 13.7%, during the quarter. Average asking rents increased 6.1%, year over year, moving from \$2.61 FSG to \$2.77 FSG. Gross absorption totaled 2.0 million square feet of activity during the quarter, while net absorption posted a loss of 502,000 square feet of occupied space. New construction activity was unchanged during the quarter with no new projects currently underway, as the market has delivered 189,500 square feet of new space for the year. Unemployment rates have declined from 3.3% to 2.8%, year over year, and are well below California (3.9%) and the U.S. average of 3.6%. The market has seen three consecutive quarters of negative net absorption, and overall demand for office space has definitely weakened in the past 18-months. Job creation will remain the key to increased office demand. In June, non-farm employment grew by 0.6%, year over year, adding 9,600 new jobs. The investment and sale market for office buildings in Orange County continues to see total transaction volume trend lower after reaching its peak in 2015 at \$2.76 billion. Median sale prices continue to rise, up 7.9% for the year and have reached an all-time high of \$312 PSF to-date in 2018. The capital markets remain solid, but with the Fed continuing to raise interest rates at a measured pace, we do expect overall price growth and demand to cool in the coming year. We expect vacancy levels to begin to flatten out in the coming quarters, with rents expected to increase 3% to 4% for most submarkets in the coming year.

**VACANCY & NET ABSORPTION**

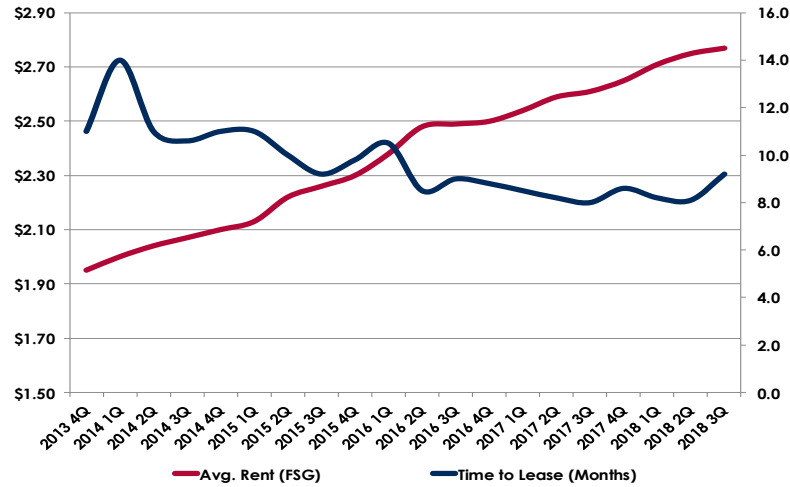


### VACANCY



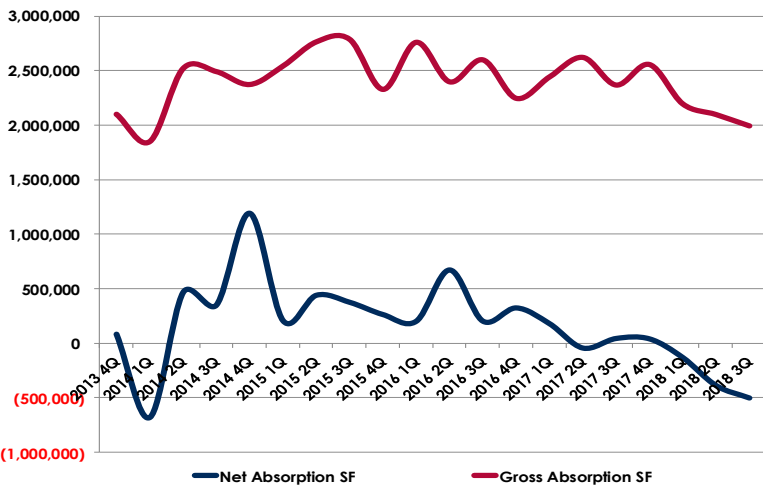
Overall vacancy rates (including sublease space) increased from the previous quarter, moving from 13.1% to 13.7%. Among the five submarkets within the Orange County office market, the West County submarket ended the quarter with the lowest total vacancy of 9.5%, followed by South County at 12.4%, North County at 13.4%, Central County at 14.3%, and the Airport Area submarket finishing the quarter at 14.9%. Since the third quarter of 2017, overall vacancy rates have increased from 12.2% to 13.7%, and is now above its 5-year average of 13.3%.

### RENTAL RATES & TIME



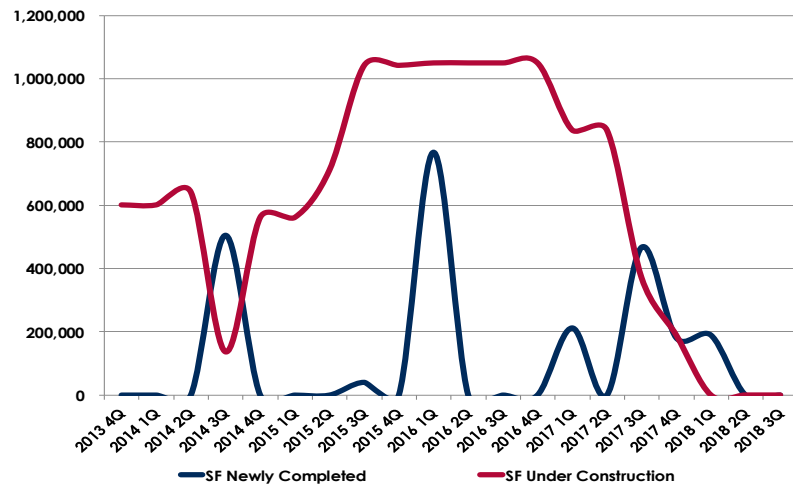
Average asking rates increased 6.1%, year over year, moving from \$2.61 FSG to \$2.77 FSG. Of the five submarkets within the Orange County market, the Airport submarket ended the quarter with the highest average asking rate of \$3.11 FSG, followed by the South County (\$2.97 FSG), West County (\$2.40 FSG), North County (\$2.32 FSG), and Central County at \$2.20 FSG. Average asking rents increased 0.7% during the quarter, moving from \$2.75 FSG to \$2.77 FSG. The median time to lease increased from 8.1 months to 9.2 months during the quarter.

### ABSORPTION



Gross absorption totaled 2.0 million square feet during the quarter, down 5% compared to the previous quarter, and lower by 16% compared to a year ago. Net absorption finished the quarter with a loss of 502,000 square feet of occupied space, and has lost 1.0 million square feet for the year. During 2017, the market gained 220,000 square feet, after gaining 1.4 million square feet during 2016, +1.3 million square feet during 2015, and +1.3 million square feet in 2014. Overall demand has weakened during the past 18-months and the market has now recorded three negative quarters in a row, while activity levels have slowed as well. We expect the slowdown in demand to begin to slow rent and sale price growth as we move into the final quarter of 2018.

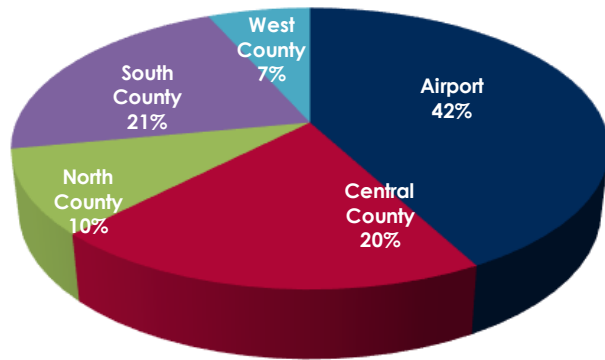
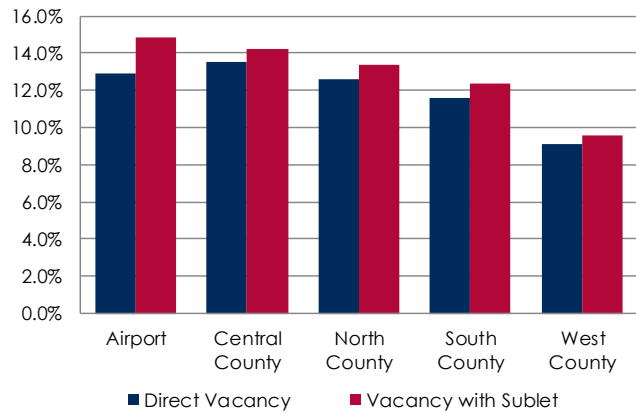
### CONSTRUCTION ACTIVITY



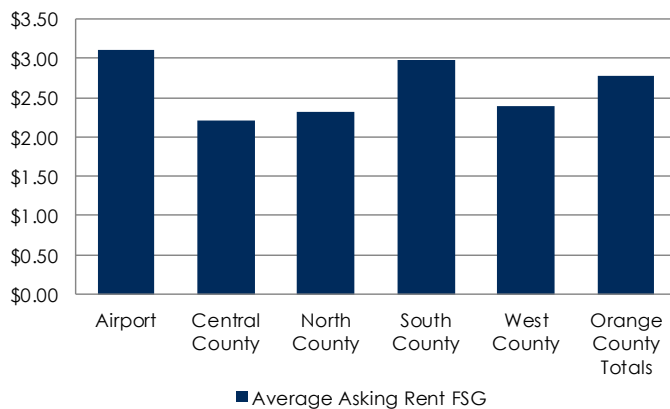
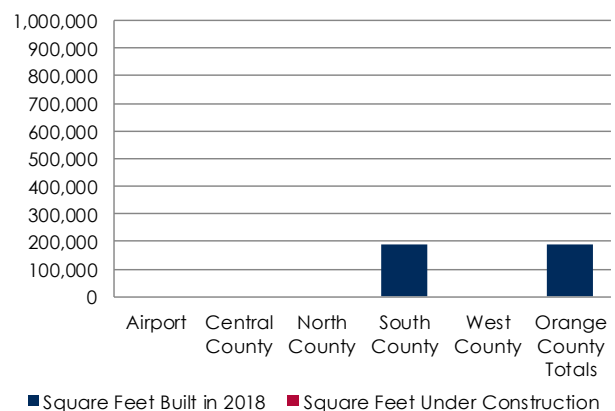
Under construction activity was unchanged during the quarter, with no new projects currently underway, as the market has delivered 189,500 square feet of new space for the year. In 2017, the market added 860,000 square feet of new space, after delivering 767,000 square feet in 2016, 40,000 square feet during 2015, and 505,000 square feet during 2014. During the past five years, new construction deliveries have averaged 472,000 square feet, annually. Construction levels are expected remain at lower levels in the coming quarters with vacancy on the rise and overall demand at weaker levels.

**MARKET SNAPSHOT**

SUBMARKETS	Total Inventory Square Footage	Direct Vacant Square Footage	Direct Vacancy Rate	Total Vacant Including Sublet Square Footage	Vacancy with Sublet Rate
Airport	36,642,383	4,741,949	12.9%	5,446,752	14.9%
Central County	17,599,411	2,375,816	13.5%	2,509,198	14.3%
North County	8,396,681	1,056,258	12.6%	1,120,985	13.4%
South County	18,549,140	2,144,382	11.6%	2,297,011	12.4%
West County	5,775,116	527,145	9.1%	551,467	9.5%
<b>Orange County Totals</b>	<b>86,962,731</b>	<b>10,845,550</b>	<b>12.5%</b>	<b>11,925,413</b>	<b>13.7%</b>

**Office Market Inventory**

**Office Vacancy Rates**


SUBMARKETS	Average Asking Rent FSG	Low-High Asking Rent Range FSG	Square Feet Built in 2018	Square Feet Under Construction	Gross Absorption Square Feet Current Quarter
Airport	\$3.11	\$1.65-\$5.50	0	0	894,224
Central County	\$2.20	\$1.00-\$2.95	0	0	348,177
North County	\$2.32	\$1.30-\$4.20	0	0	237,745
South County	\$2.97	\$1.50-\$5.50	189,500	0	428,890
West County	\$2.40	\$1.25-\$3.25	0	0	86,690
<b>Orange County Totals</b>	<b>\$2.77</b>	<b>\$1.00-\$5.50</b>	<b>189,500</b>	<b>0</b>	<b>1,995,726</b>

**Office Rental Rates**

**New Construction Activity**


**SOUTHERN CALIFORNIA OFFICE BUILDING SALE TREND ANALYSIS**

TOTAL SALES TRANSACTIONS										
Market	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018-3Q
LA County	351	357	550	752	779	895	1,059	987	1,158	734
Orange County	102	150	205	294	348	334	421	390	410	336
Inland Empire	168	156	249	266	328	370	430	401	507	332
Ventura County	24	29	54	59	58	107	86	110	109	99
<b>Totals</b>	<b>645</b>	<b>692</b>	<b>1,058</b>	<b>1,371</b>	<b>1,513</b>	<b>1,706</b>	<b>1,996</b>	<b>1,888</b>	<b>2,184</b>	<b>1,501</b>

TOTAL TRANSACTION DOLLAR VALUE (MILLIONS)										
Bldg. SF	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018-3Q
LA County	\$755.3	\$1,163.2	\$2,050.9	\$3,251.5	\$5,974.4	\$7,343.7	\$4,808.9	\$9,596.4	\$7,868.2	\$4,881.2
Orange County	\$362.4	\$501.6	\$629.2	\$783.3	\$1,386.4	\$1,596.8	\$2,762.5	\$2,503.9	\$2,291.3	\$1,697.3
Inland Empire	\$85.6	\$98.8	\$130.6	\$166.8	\$236.1	\$331.5	\$637.5	\$463.1	\$472.8	\$427.2
Ventura County	\$29.6	\$81.3	\$56.4	\$43.2	\$57.1	\$246.9	\$164.5	\$169.8	\$150.1	\$217.2
<b>Totals</b>	<b>\$1,232.9</b>	<b>\$1,844.9</b>	<b>\$2,867.1</b>	<b>\$4,244.7</b>	<b>\$7,653.9</b>	<b>\$9,519.0</b>	<b>\$8,373.5</b>	<b>\$12,733.1</b>	<b>\$10,782.3</b>	<b>\$7,223.0</b>

TOTAL SQUARE FEET SOLD										
Bldg. SF	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018-3Q
LA County	5,586,548	6,264,038	9,680,756	15,191,009	23,822,433	23,625,749	17,446,723	25,101,191	26,196,580	15,872,832
Orange County	2,006,822	3,404,048	3,896,963	6,081,582	7,190,681	8,132,668	12,114,535	11,818,719	9,101,010	7,488,049
Inland Empire	958,664	1,103,908	1,731,566	2,323,023	2,422,231	2,867,846	5,264,416	3,458,114	5,066,634	3,936,833
Ventura County	141,646	307,079	397,973	517,872	679,367	1,551,821	1,066,791	1,187,820	1,038,975	1,612,890
<b>Totals</b>	<b>8,693,680</b>	<b>11,079,073</b>	<b>15,707,258</b>	<b>24,113,486</b>	<b>34,114,712</b>	<b>36,178,084</b>	<b>35,892,465</b>	<b>41,565,844</b>	<b>41,403,199</b>	<b>28,910,604</b>

AVERAGE PRICE / SF										
Bldg. SF	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018-3Q
LA County	\$227.26	\$234.56	\$255.72	\$264.93	\$280.24	\$343.93	\$305.40	\$428.33	\$356.50	\$355.75
Orange County	\$195.73	\$181.97	\$191.81	\$211.44	\$212.11	\$208.88	\$259.38	\$263.93	\$273.67	\$258.79
Inland Empire	\$181.23	\$128.47	\$122.12	\$135.31	\$132.79	\$144.35	\$140.64	\$170.34	\$157.73	\$173.07
Ventura County	\$248.34	\$328.13	\$182.62	\$130.87	\$104.53	\$208.57	\$189.67	\$179.75	\$190.44	\$166.63
<b>Averages</b>	<b>\$215.25</b>	<b>\$210.43</b>	<b>\$223.28</b>	<b>\$236.07</b>	<b>\$251.91</b>	<b>\$291.94</b>	<b>\$262.26</b>	<b>\$353.02</b>	<b>\$309.80</b>	<b>\$295.21</b>

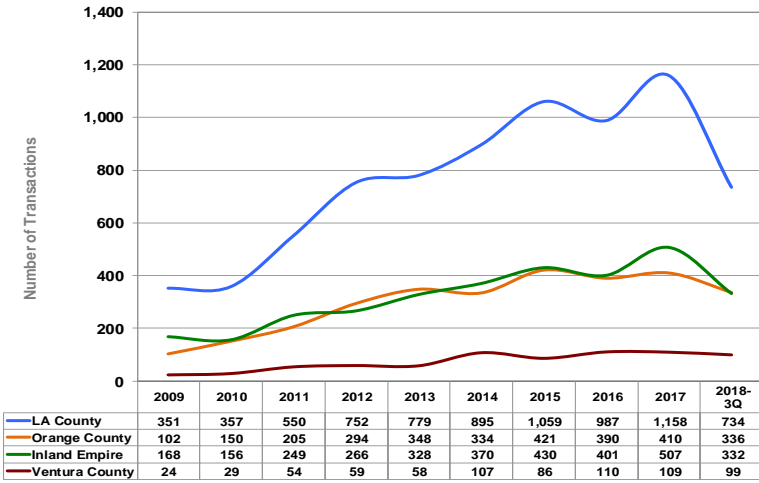
MEDIAN PRICE / SQUARE FOOT										
Bldg. SF	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018-3Q
LA County	\$259.65	\$211.87	\$204.57	\$245.12	\$233.03	\$265.09	\$284.48	\$297.75	\$302.50	\$326.06
Orange County	\$226.25	\$195.05	\$216.15	\$190.00	\$204.61	\$224.24	\$246.57	\$279.36	\$289.58	\$312.40
Inland Empire	\$187.29	\$165.00	\$135.00	\$119.49	\$126.81	\$135.05	\$133.10	\$159.99	\$166.99	\$167.35
Ventura County	\$297.09	\$202.17	\$215.19	\$183.47	\$175.15	\$180.41	\$213.19	\$187.17	\$202.82	\$247.24
<b>Median Average</b>	<b>\$244.57</b>	<b>\$201.76</b>	<b>\$200.04</b>	<b>\$217.79</b>	<b>\$218.35</b>	<b>\$241.97</b>	<b>\$247.36</b>	<b>\$277.90</b>	<b>\$280.58</b>	<b>\$296.51</b>

MEDIAN \$ PSF INCREASE										
Bldg. SF	2010	2011	2012	2013	2014	2015	2016	2017	2018-3Q	
LA County	-18.4%	-3.4%	19.8%	-4.9%	13.8%	7.3%	4.7%	1.6%	7.8%	
Orange County	-13.8%	10.8%	-12.1%	7.7%	9.6%	10.0%	13.3%	3.7%	7.9%	
Inland Empire	-11.9%	-18.2%	-11.5%	6.1%	6.5%	-1.4%	20.2%	4.4%	0.2%	
Ventura County	-31.9%	6.4%	-14.7%	-4.5%	3.0%	18.2%	-12.2%	8.4%	21.9%	
<b>Totals</b>	<b>-17.5%</b>	<b>-0.9%</b>	<b>8.9%</b>	<b>0.3%</b>	<b>10.8%</b>	<b>2.2%</b>	<b>12.3%</b>	<b>1.0%</b>	<b>5.7%</b>	

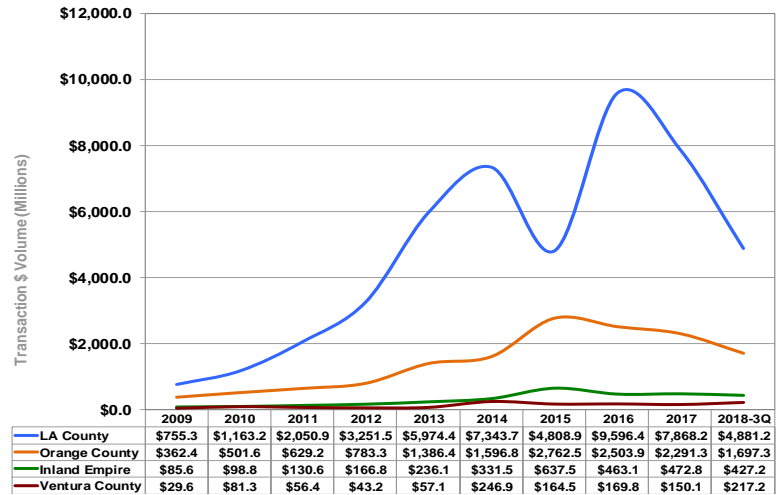


**SOUTHERN CALIFORNIA OFFICE BUILDING SALE TREND ANALYSIS**

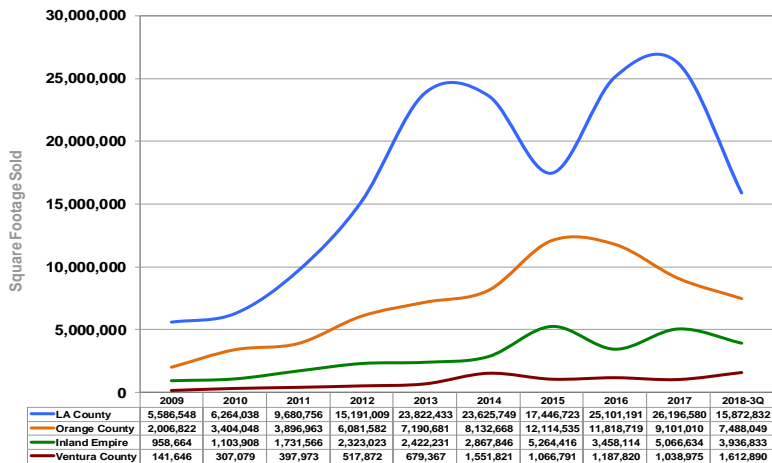
**Number of Transactions**



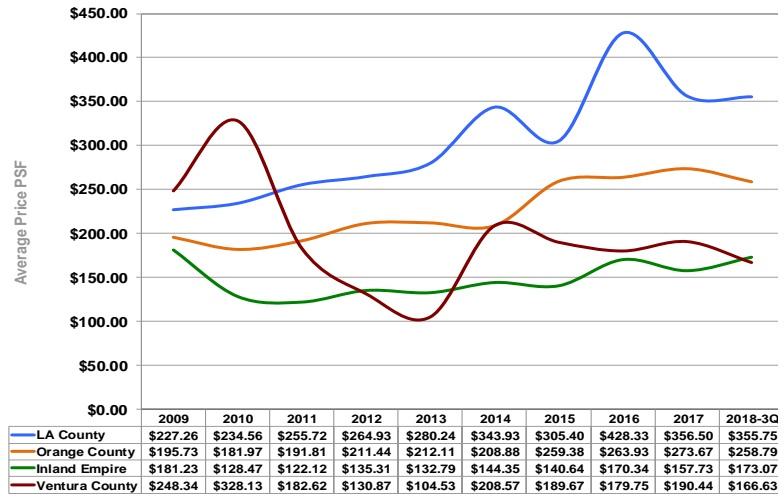
**Transaction Volume \$**



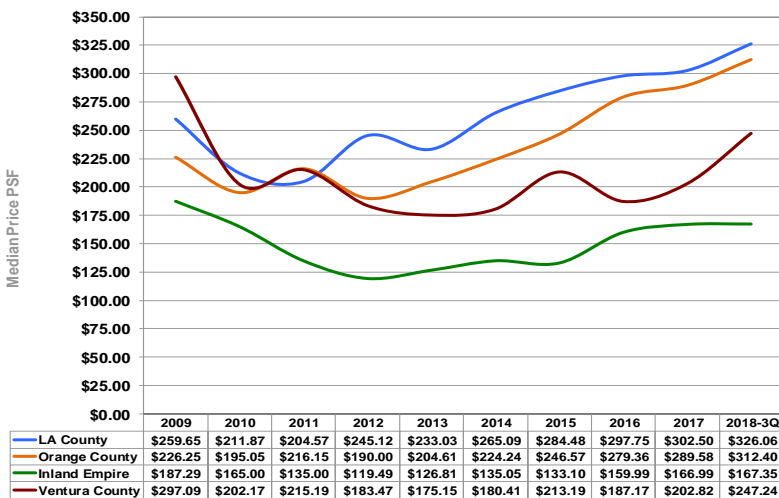
**Square Footage Sold**



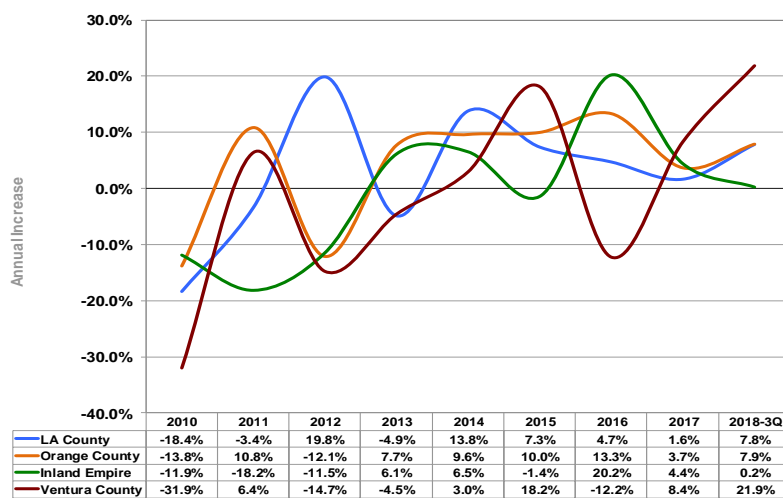
**Average Price PSF**



**Median Price PSF**

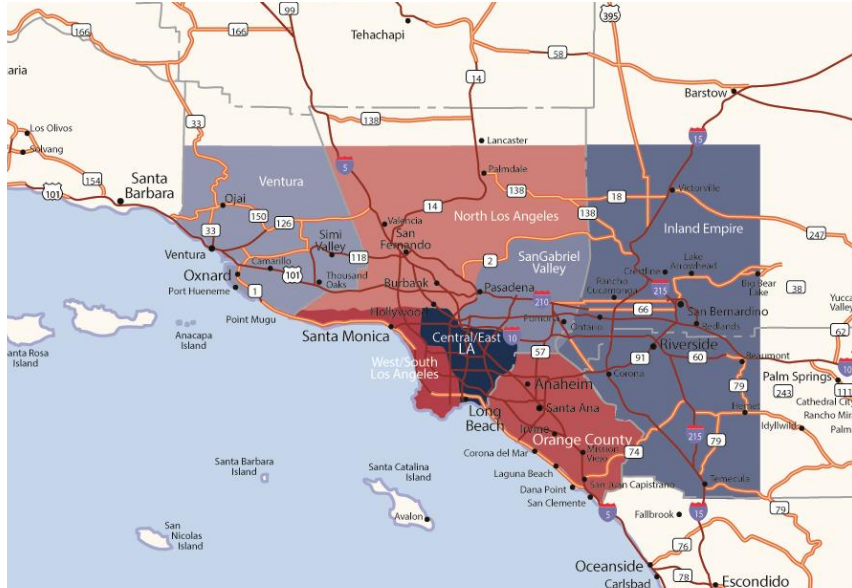


**% Change Median Price PSF**



**MARKET REPORT OVERVIEW**

**SOUTHERN CALIFORNIA MARKET MAP**



**DAUM OFFICES**

**LOS ANGELES, CALIFORNIA**

801 S. Figueroa Street, Suite 600  
Los Angeles, CA 90017  
213-626-9101

**LOS ANGELES NORTH, CALIFORNIA**

21820 Burbank Boulevard, Suite 201  
Woodland Hills, CA 91367  
818-887-3600

**SANTA CLARITA VALLEY, CALIFORNIA**

28494 Westinghouse Place, Suite 312  
Valencia, CA 91355  
661-705-2299

**SAN GABRIEL VALLEY, CALIFORNIA**

13181 Crossroads Pkwy. N, Suite 100  
City of Industry, CA 91746  
562-695-7244

**SOUTH BAY, CALIFORNIA**

1025 W. 190th Street, Suite 420  
Gardena, CA 90248  
310-538-6700

**MID-COUNTIES, CALIFORNIA**

13810 Cerritos Corporate Drive, Suite C  
Cerritos, CA 90703  
562-207-3300

**ORANGE COUNTY, CALIFORNIA**

4400 MacArthur Boulevard, Suite 950  
Newport Beach, CA 92660  
949-724-1900

**VENTURA & SANTA BARBARA, CALIFORNIA**

751 Daily Drive, Suite 105  
Camarillo, CA 93010  
805-987-8866

**INLAND EMPIRE, CALIFORNIA**

3595 E. Inland Empire Boulevard, Bldg. 5  
Ontario, CA 91764  
909-980-1234

**PHOENIX ARIZONA**

1702 E. Highland Avenue, Suite 120  
Phoenix, AZ 85016  
602-957-7300

*The information contained in this report has been obtained from sources deemed reliable and has incorporated fourth-party data which has not been independently verified by DAUM. While we do not doubt its accuracy, DAUM makes no guarantee or warranty as to its completeness or accuracy. Due to the dynamic (constantly changing) database which DAUM uses to compile and analyze markets contained in this report, previously published statistics may vary from the data published in this report. Statistics and data have been revised to reflect changes in the following categories: existing buildings being verified and added to the database, new or revised occupancy information gathered, new construction being added to the inventory, building demolitions and renovations, as well as other factors that would necessitate revisions to the data and the properties surveyed. This methodology allows us to present the most current and up-to-date information, trend analysis and comparative statistics for this report.*

**METHODOLOGY & TERMINOLOGY**

**Methodology**

Non-owner occupied, multi-tenant, office buildings that are 30,000 square feet and greater.

**Direct Vacant SF**

Space that is vacant and ready for occupancy by a user. The space is being offered for lease or sale directly from the landlord.

**Total Vacant W/ Sublet SF**

Space that is vacant and ready for occupancy by a user. The space is being offered for lease or sale by the landlord or for sublease by the current tenant.

**Direct Vacancy Rate**

Total vacant direct space (vacant space for lease or sale from the landlord or owner) divided by the total rentable square footage for existing buildings only.

**Vacancy W/ Sublet Rate**

Total vacant direct space and sublease space divided by the total rentable square footage for existing buildings only.

**Gross Absorption**

The total change in occupied space over a given period of time, counting space that is occupied but not space that is vacated by tenants. Gross absorption differs from leasing activity, which is the sum of all space leased over a certain period of time.

**Net Absorption**

The net change in occupied space over a given period of time, calculated by summing all the positive changes in occupancy (move ins) and subtracting all the negative changes in occupancy (move outs).

**Under Construction**

Planned buildings for which construction has started but have not yet been granted a Certificate of Occupancy. Planned buildings are not included.

**Completed in 2018**

New buildings with original construction completed in the year 2018 and granted a Certificate of Occupancy. Renovated buildings are not included.