ORANGE COUNTY

AVISON YOUNG

EXECUTIVE SUMMARY

- Competition between office building owners is increasing as they renovate to attract quality tenants, and position their properties to remain relevant to investors.
- Increasing focus will be aimed at preparing the workforce, and the CRE landscape in which it performs, for a future with artificial intelligence and robotics touching every sector.
- Retail will shift further beyond experiential and services; transcending to more lifestyle focused gathering hubs and merging with concepts of live-work-play models.
- More than 7.6 msf of new residential inventory is expected to deliver in the coming year; efforts will grow to expand retail in rapidly expanding residential developments that have extended beyond the current retail infrastructure.

Orange County, in Southern California, is a desirable secondary market, in a solid position to adapt to macroeconomic changes. The county's ideal geography, high quality of life, vibrant tourism and retail industry all drive the economy. The extremely low unemployment rate of 2.5%, as 2020 begins, is expected to persist and may pose challenges for growing companies in the area. The market's high cost of living has encouraged out-migration of the middle-class to other states, yet there is no shortage of demand for premium rental units from a modest influx of highly educated and skilled transplants. Upward pressure on wage expectations, in addition to climbing rents across all major sectors, mean the most qualified CRE tenants will endure.

Orange County has one of the lowest home-ownership rates in the nation, according to the U.S. Census Bureau, and multifamily inventory has seen exuberant investor interest. Robust construction activity and record-high rental rates are expected to persist through 2020. Rental rate growth may be tempered as more than 7.6 msf of new residential inventory delivers in the coming year, with the majority centralized in Irvine, Irvine Spectrum, Santa Ana, and Anaheim.

The local workforce is experiencing growth in sectors that will aid in the market's resilience through economic shifts that will be guided by increased automation and demand for services. The fastest growing jobs are found in health care, and STEM fields, meanwhile heavy momentum remains in the tourism and entertainment industries. Increasing focus will be aimed at preparing the workforce, and the CRE landscape in which it performs, for a future with artificial intelligence and robotics touching every sector.

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑	↑	↑
Vacant Space	↑	→	↑↑
Construction Levels	↓↓↓	↑	↑↑↑
Leasing Volume	↓↓	↓	↓
Investment Volume	↓	↑	↑↑↑

While labor disruption is expected to grow exponentially, the need for flexible space in CRE will also grow.

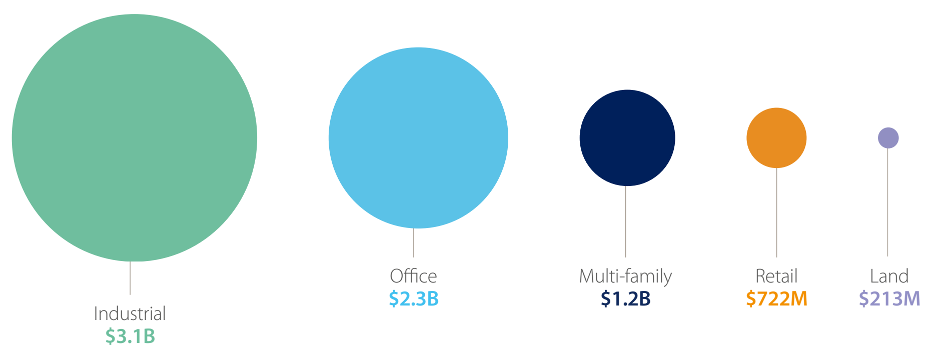
Office developers continue to innovate with collaborative space and high-end amenities to retain top tenants. Fostering the tech industry will be vital to retain a highly educated workforce. Office construction is dominated by speculative space as vacancy edges upward. Competition between building owners is increasing as they renovate to attract quality tenants, and position their properties to remain relevant to investors. Sale transaction volume for office has slowed in the past year, however support for increases in pricing per square foot is expected to remain constant in 2020.

Retail centers are embracing new strategies to capture foot traffic and captivate potential customers for longer stretches of time. Retail will shift further beyond experiential and services; transcending to more lifestyle focused gathering hubs and merging with concepts of live-work-play models. A focus for 2020 will be to harness existing success in the county's retail sector and help it to flourish in rapidly expanding residential developments that have surged beyond the current retail infrastructure. Grocers and fitness centers are filling the larger footprints available, while small to mid-size spaces are signing to restaurants, medical, and service-oriented vendors, driven by high-income households and baby boomers. Vendors specializing in goods that are also available online, have nearly vanished from new lease deals in the past year in the county, with the exception of renewals from existing, successful clothing retailers. While the retail landscape reinvents itself, and rebounds from losses of larger department stores, rent growth is expected to decelerate during 2020. Retail infrastructure is expected to emerge from redevelopment investments in more agile, flexible forms, prepared to adapt to less traditional space uses from new sectors, ensuring more stability for CRE owners in the future.

Last-mile warehousing needs, and articulated logistics management, are vital to cater to consumers in Orange County. Industrial supply constraints continue to limit options for new and growing tenants, leading to the redevelopment of existing space for more efficient use. This hasn't slowed recent demand from substantial companies like Amazon, Albertsons Distribution, and Cubework. As investors seize increasingly rare opportunities, demand for industrial product has begun to surpass that of office, which had previously exceeded all sectors for most of the recovery.

Investor demand for industrial product is now surpassing that of office. While office sale transactions decelerate, pricing per square foot continues to climb.

2019 TOTAL SALES VOLUME



Source: Real Capital Analytics