

# Orange County Office

## Market Summary

	4Q 2016	FORECAST
Absorption	↑	↑
Vacancy	↓	↔
Rental Rate	↑	↑
New Construction	↑	↑

## Notable 2016 Lease Transactions

**Volt Information Sciences, Inc.**  
2401 N Glassell St, Orange  
1691,127 s.f.

**Nationstar Mortgage**  
1600 E Saint Andrew Pl, Santa Ana  
152,828 s.f.

**CalTrans**  
1750 E 4th St, Santa Ana  
116,548 s.f.

**Mazda**  
200 Spectrum Center Dr, Irvine Spectrum  
110,587 s.f.

## Notable Construction

**The Boardwalk**  
Irvine  
537,220 s.f. | Delivering 7/2017

**400 Spectrum Center Drive**  
Irvine Spectrum  
427,551 s.f. | Delivering 9/2017

**Broadcom Corporate Campus**  
Irvine Spectrum  
1.1 Million s.f. | Delivering 1/2018

**Sand Canyon Business Center**  
Irvine Spectrum  
212,100 s.f. | Delivering 4/2017

The Orange County office market continued to improve in 2016, as pricing continued to increase, vacancy was stable, but we are seeing an increase in the amount of available space on the market. Further into 2017, positive absorption should progress, occupancy costs will continue to increase but new deliveries in the southern half of the county may apply more upward pressure on vacancy. We foresee 2017 being another year of growth.

Net absorption, a measure of market strength, was positive 756,997 s.f. in 2016. This gives Orange County a total of over 11 million s.f. of positive absorption since the third quarter of 2010, five million of that coming in the last ten quarters. The Class B space accounted for most of the positive absorption in the county for the year. This is a result of higher lease rates in the Class A space, as tenants coming up for renewal are migrating back to the more affordable Class B space. The Airport and South County submarkets added just over 790,000 s.f. of occupancy in 2016, 189,758 and 603,727 respectively.

Construction activity in the office sector is increasing. In 2015, most of the construction activity was in the Irvine Spectrum submarket. Currently, there's 1,763,795 s.f. under construction in the Irvine Spectrum market and another 602,258 s.f. in the Airport market, for a total of almost 2.4 million s.f. We anticipate the level of construction to increase in the coming quarters, as more projects are slated to break ground in the Airport market, stay tuned.

Leasing activity was down in 2016, with just over 9.7 million s.f. coming off the market. This represents a drop in leasing activity when compared to 2015 when 12.5 million s.f. was leased. Even with construction picking up, vacancies should remain at current levels for the near future.

The Orange County office market vacancy rate ticked down from 10.1% in 2015 to 10% during 2016, which equates to 12.54 million s.f. of vacant office space county wide. This is about the same as the 12.53 million s.f. that was vacant a year ago, a decrease of

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# Area Review

## Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Availability Rate	4Q Direct Net Absorption	YTD Direct Net Absorption	4Q Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate
Costa Mesa	7,703,140	12.1%	12.2%	16.7%	(18,300)	128,595	66,695	556,887	\$2.34
Irvine	25,086,606	9.4%	9.9%	19.7%	(222,863)	(481,058)	387,781	2,317,193	\$2.52
Newport Beach	10,913,783	7.4%	8.2%	11.3%	19,143	223,423	141,507	864,115	\$3.29
South Santa Ana	2,448,402	18.3%	18.4%	15.6%	(19,479)	9,989	194,241	404,483	\$2.30
Class A	25,417,505	12.9%	13.4%	19.2%	(268,094)	(218,412)	476,649	2,497,016	\$2.89
Class B	19,108,765	6.0%	6.5%	14.5%	53,967	142,975	293,220	1,530,898	\$2.41
Class C	1,625,661	8.3%	8.3%	10.2%	(27,372)	(43,614)	20,355	114,764	\$2.10
<b>Airport</b>	<b>46,151,931</b>	<b>9.9%</b>	<b>10.4%</b>	<b>17.0%</b>	<b>(241,499)</b>	<b>(119,051)</b>	<b>790,224</b>	<b>4,142,678</b>	<b>\$2.65</b>
Civic Center Area	5,017,439	8.8%	8.8%	10.3%	(3,732)	(8,645)	25,178	98,731	\$1.55
East Orange	1,905,113	5.3%	5.3%	7.9%	11,386	(11,744)	6,208	282,059	\$2.11
Main Place	2,693,984	12.7%	12.7%	14.1%	(28,849)	(148,901)	32,394	146,524	\$2.19
Parkcenter	4,082,992	11.8%	12.3%	17.2%	2,669	135,458	53,696	466,301	\$1.82
Santa Ana	4,619,446	19.5%	19.6%	19.3%	28,232	57,886	24,668	494,338	\$1.99
Stadium Area	3,375,010	12.2%	12.8%	14.0%	22,275	82,284	89,377	297,248	\$2.07
The City	2,621,469	8.1%	8.3%	11.8%	(22,744)	(17,243)	9,287	130,088	\$2.51
Tustin	1,648,809	22.4%	22.4%	23.4%	(645)	(78,835)	29,141	136,150	\$2.20
Class A	7,335,977	12.0%	12.5%	14.3%	15,756	21,403	60,864	636,171	\$2.15
Class B	15,310,506	13.8%	13.9%	15.1%	19,685	47,836	182,462	1,286,065	\$1.94
Class C	3,317,779	8.4%	8.4%	13.4%	(26,849)	(58,982)	26,623	129,203	\$1.50
<b>Central</b>	<b>25,964,262</b>	<b>12.6%</b>	<b>12.8%</b>	<b>14.7%</b>	<b>8,592</b>	<b>10,257</b>	<b>269,949</b>	<b>2,051,439</b>	<b>\$1.92</b>
Anaheim Hills	1,137,271	14.0%	14.2%	16.6%	(2,808)	1,191	33,106	71,976	\$2.02
Brea/La Habra	4,404,023	8.0%	9.6%	13.0%	(10,548)	38,456	31,633	213,174	\$2.00
Buena Park/La Palma	1,956,192	13.3%	13.3%	18.0%	(27,744)	35,979	29,513	121,216	\$2.13
Fullerton	2,628,239	6.8%	6.8%	13.6%	11,752	55,139	31,135	127,187	\$2.68
North/East Anaheim	5,178,097	5.7%	6.1%	10.3%	(1,619)	61,442	28,296	202,778	\$2.09
Placentia/Yorba Linda	622,164	12.5%	12.5%	13.8%	1,832	(2,449)	3,401	16,995	\$1.71
Class A	3,185,191	13.4%	15.4%	21.1%	(29,174)	(13,421)	37,018	246,385	\$2.26
Class B	11,457,302	7.3%	7.5%	11.7%	(327)	191,269	106,846	479,132	\$2.08
Class C	1,283,493	5.2%	5.2%	5.8%	366	11,910	13,220	27,809	\$1.54
<b>North</b>	<b>15,925,986</b>	<b>8.3%</b>	<b>8.9%</b>	<b>13.1%</b>	<b>(29,135)</b>	<b>189,758</b>	<b>157,084</b>	<b>753,326</b>	<b>\$2.10</b>
Irvine Spectrum	11,157,321	5.6%	6.7%	4.5%	(32,908)	525,634	142,893	1,256,559	\$2.58
Laguna Hills/Aliso Viejo	5,352,040	10.2%	10.4%	10.2%	14,019	(12,294)	50,705	334,322	\$2.78
Laguna Niguel/Laguna Beach	2,054,800	3.9%	3.9%	3.7%	(3,766)	21,357	2,810	51,828	\$2.72
Lake Forest/Foothill Ranch	3,399,249	8.9%	9.6%	9.1%	(56,287)	26,174	21,903	279,600	\$2.32
Mission Viejo	2,059,900	11.0%	11.3%	10.7%	(4,544)	5,516	30,706	134,451	\$2.27
Dana Point/San Juan/ San Clemente	2,231,176	10.0%	10.1%	9.8%	1,470	37,340	26,253	141,344	\$2.40
Class A	7,382,191	9.0%	9.3%	12.8%	(12,514)	230,580	73,763	801,259	\$2.97
Class B	18,182,302	7.3%	8.1%	12.6%	(76,119)	365,199	191,629	1,365,940	\$2.41
Class C	689,993	1.3%	1.3%	1.2%	6,617	7,948	9,878	30,905	\$1.75
<b>South</b>	<b>26,254,486</b>	<b>7.6%</b>	<b>8.2%</b>	<b>12.4%</b>	<b>(82,016)</b>	<b>603,727</b>	<b>275,270</b>	<b>2,198,104</b>	<b>\$2.55</b>
Cypress	1,969,797	18.1%	18.1%	21.1%	(641)	(25,324)	27,520	129,690	\$2.07
Fountain Valley	2,084,873	3.7%	3.7%	3.9%	(835)	11,940	12,192	44,251	\$1.71
Garden Grove	1,695,483	4.6%	4.6%	4.7%	(613)	1,053	1,822	54,383	\$1.85
Huntington Beach	2,719,630	6.8%	6.8%	10.6%	(24,694)	96,936	40,334	271,028	\$2.27
Los Alamitos/Stanton	982,740	7.2%	7.2%	7.6%	(5,463)	(29,012)	3,560	29,433	\$1.98
Seal Beach	499,187	8.4%	8.4%	11.0%	6,360	10,435	0	13,863	\$2.83
Westminster	642,173	12.2%	12.2%	15.6%	3,296	6,278	0	26,318	\$2.03
Class A	2,465,352	11.5%	11.5%	13.5%	(31,002)	(7,751)	53,883	196,525	\$2.53
Class B	6,967,007	8.0%	8.0%	10.2%	4,581	67,473	28,766	333,655	\$1.94
Class C	1,161,524	3.9%	3.9%	4.5%	3,831	12,584	2,779	38,786	\$1.99
<b>West</b>	<b>10,593,883</b>	<b>8.4%</b>	<b>8.4%</b>	<b>10.3%</b>	<b>(22,590)</b>	<b>72,306</b>	<b>85,428</b>	<b>568,966</b>	<b>\$2.11</b>
<b>Orange County Total</b>	<b>124,890,548</b>	<b>9.6%</b>	<b>10.0%</b>	<b>14.5%</b>	<b>(366,648)</b>	<b>756,997</b>	<b>1,577,955</b>	<b>9,714,513</b>	<b>\$2.36</b>
Class A	45,786,216	11.1%	11.6%	17.5%	(325,028)	12,399	702,177	4,377,356	\$2.71
Class B	71,025,882	9.0%	9.2%	13.7%	1,787	814,752	802,923	4,995,690	\$2.17
Class C	8,078,450	6.4%	6.4%	9.3%	(43,407)	(70,154)	72,855	341,467	\$1.69
<b>Class Total</b>	<b>124,890,548</b>	<b>9.6%</b>	<b>10.0%</b>	<b>14.5%</b>	<b>(366,648)</b>	<b>756,997</b>	<b>1,577,955</b>	<b>9,714,513</b>	<b>\$2.36</b>

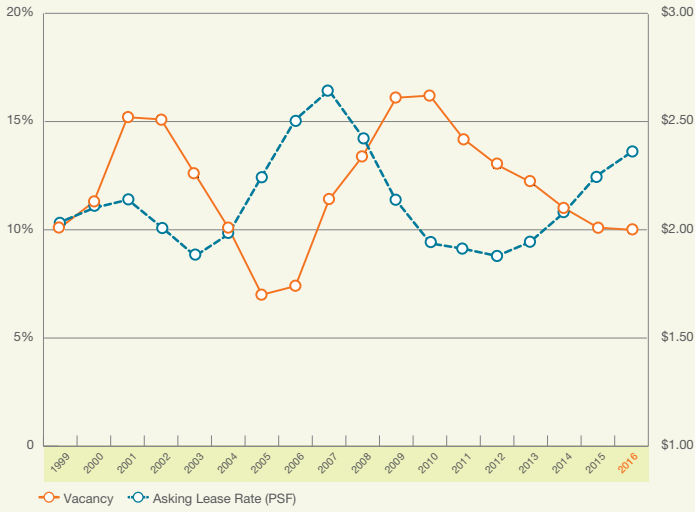
0.99%. We foresee the vacancy rate remaining at this 10% level for the near future, even with the new space that's being added to the market.

The average asking lease rate in the fourth quarter was \$2.36/s.f. on a full service gross basis per month. These asking rates are up \$.12 from a year ago, a 5.36% year-over-year increase. Peak lease rates were established in the third quarter of 2007, when they were \$2.70/s.f. Nonetheless, the asking rate for quality office space in Orange County should continue to increase.

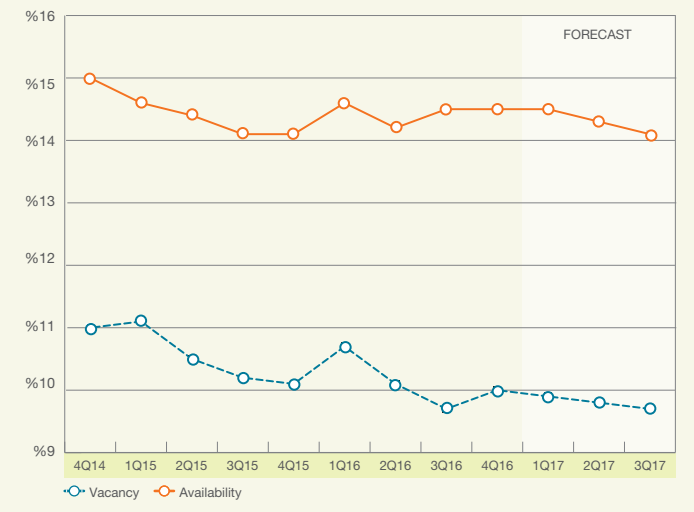
The Orange County office investment market remains relatively stable, mostly because much of the high quality office product that sellers were looking to move has sold, and there isn't much high quality office product available for sale in Orange County. It's a great time to be a landlord or seller, as the Orange County office market continues to improve.

Data Source: CoStar

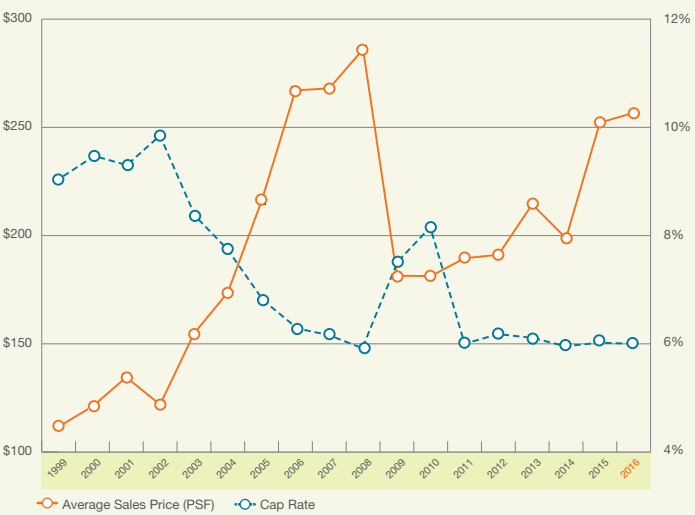
### VACANCY VS ASKING LEASE RATE



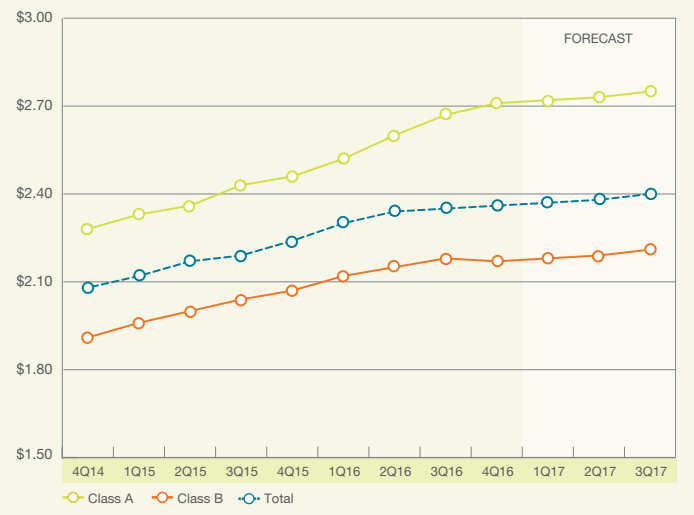
### VACANCY VS AVAILABILITY



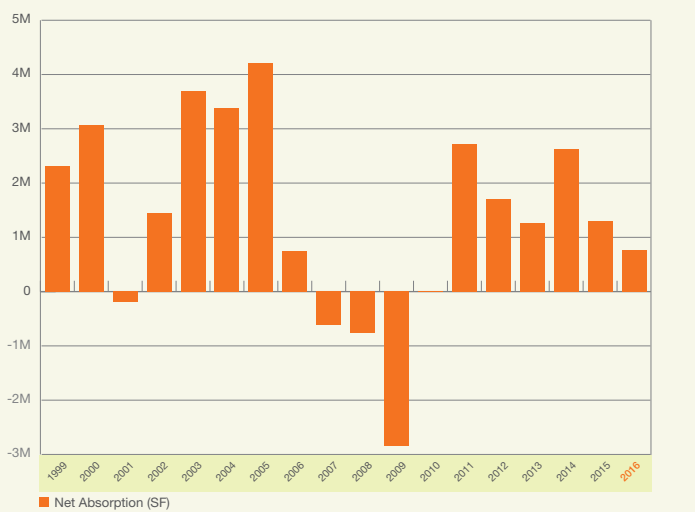
### AVERAGE SALES PRICE & CAPITALIZATION RATES



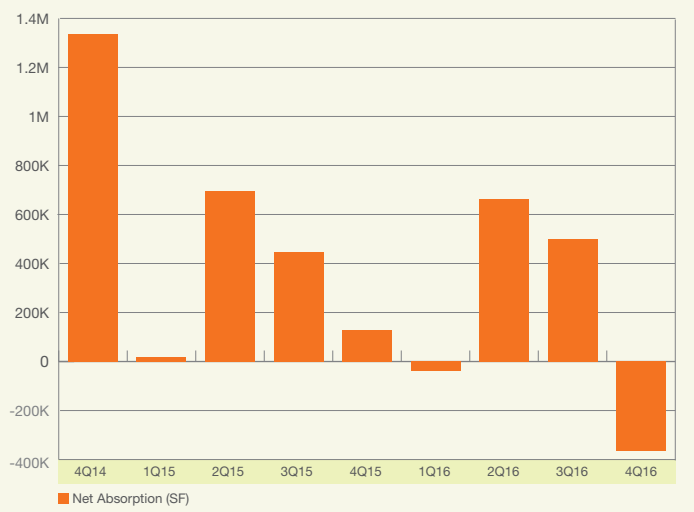
### ASKING LEASE RATE



### NET ABSORPTION - HISTORICAL



### NET ABSORPTION - QUARTERLY



**Offices**

Seattle  
206.296.9600

Bellevue  
425.454.7040

South Seattle  
206.248.7300

Tacoma  
253.722.1400

Olympia  
360.705.2800

Portland  
503.221.9900

San Francisco  
415.229.8888

Redwood Shores  
650.769.3600

Silicon Valley  
408.970.9400

Sacramento  
916.970.9700

Roseville  
916.751.3600

Orange County  
949.557.5000

Inland Empire  
916.751.3600

San Diego  
858.509.1200

Carlsbad  
760.430.1000

Reno  
775.301.1300

Phoenix  
602.513.5200

**Contact**

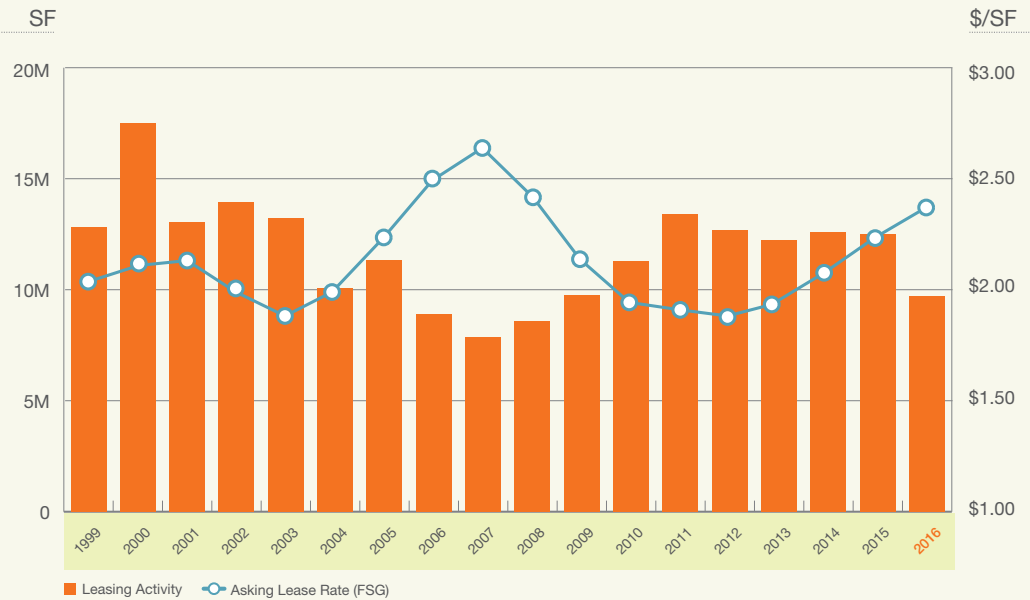
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Designated Broker  
Mark Read | LIC #00572743

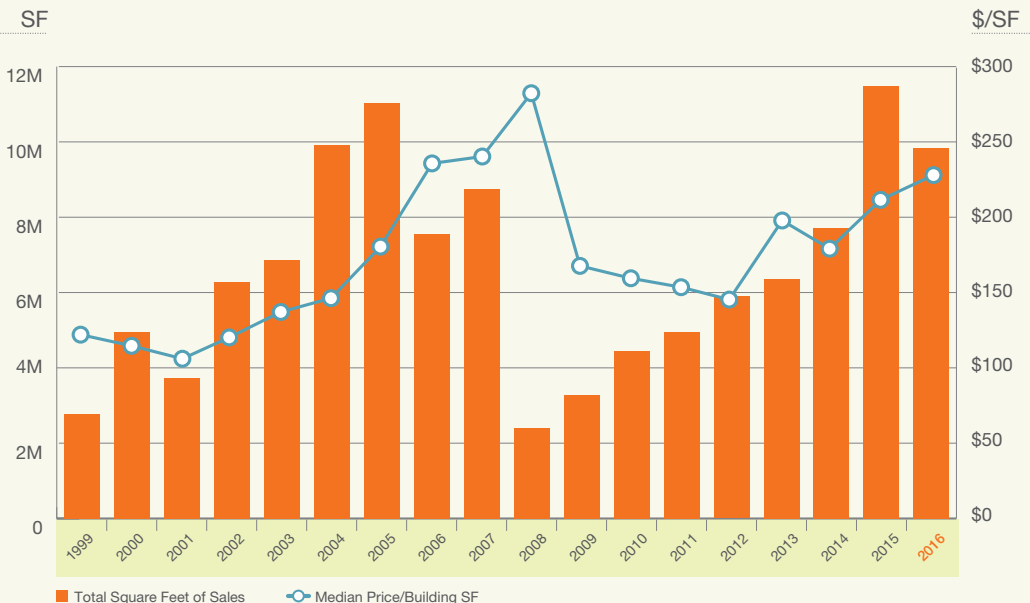
**Market Breakdown**

	2016	2015	2014	Annual % Change
Vacancy Rate	10.00%	10.10%	11.00%	-0.99%
Availability Rate	14.50%	14.10%	15.00%	2.84%
Asking Lease Rate	\$2.36	\$2.24	\$2.08	5.36%
Leased SF	9,714,513	12,521,249	12,607,988	-22.42%
Sold SF	9,847,272	11,483,222	7,704,967	-14.25%
Net Absorption	756,997	1,289,806	2,620,740	N/A

**HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES**



**HISTORICAL SALES SF & MEDIAN SALE PRICE**



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