

Orange County Office

Market Summary

	2Q 2017	FORECAST
Absorption	↑	↑
Vacancy	↔	↔
Rental Rate	↑	↑
New Construction	↑	↑

Notable Lease Transactions

Cylance
400 Spectrum Center Drive, Irvine
133,324 s.f.

Zillow
2600 Michelson Drive, Irvine
60,099 s.f.

Accurate Background
7555 Irvine Center Drive, Irvine
34,612 s.f.

Agilon Health
2121-2190 S. Towne Centre Place, Anaheim
27,648 s.f.

Notable Construction

The Boardwalk
Irvine
537,258 s.f. | Delivering 8/2017

400 Spectrum Center Drive
Irvine Spectrum
466,696 s.f. | Delivering 9/2017

Broadcom Corporate Campus (4 Bldgs)
Irvine Spectrum
880,000 s.f. | Delivering 1/2018

The Quad at Discovery Business Center (4 Bldgs)
Irvine Spectrum
369,768 s.f. | Delivering 6/2018

The Orange County office market continued to improve in Q2 2017, as prices continued to increase, vacancy remained stable, and the amount of available space in the market rose. We expect the ongoing trend of positive absorption in the market to continue, along with consistent increases in occupancy costs. With larger building deliveries on the way in the Orange County market, the bump in inventory may apply some upward pressure on vacancy in the short run. Nonetheless, with strong demand in the market, we expect further growth in the second half of 2017.

Net absorption, a measure of market strength, was positive 37,613 square feet in Q2. This gives Orange County a total of over two million square feet of positive absorption since the second quarter of 2015. Class A buildings saw 39,467 square feet of positive net absorption during the second quarter, while Class B spaces were negative at 14,554 square feet. South Orange County submarkets led the way with 203,514 square feet of positive net absorption, while the Airport area reported negative 201,853 square feet.

Construction activity in the office market will be increasing in the coming quarters. While only 65,000 square feet was delivered in the second quarter, larger deliveries are on the way later this year. Notable construction projects include 400 Spectrum Center Drive, where 466,696 square feet is set to be delivered by July, and the Boardwalk, which will be the largest delivery at 537,258 square feet when it comes on line in August. The level of construction is anticipated to increase in the coming quarters, as more projects are slated to break ground in the Orange County market.

Compared to last quarter, leasing activity was down in Q2, with just under 2 million square feet coming off the market. Class B properties saw nearly 1.1 million square feet of leasing activity over the past three months, as some Class A tenants migrated to Class B product to avoid rental rate increases on their renewals. With new construction picking up and new deliveries on the way, the increase in availabilities should yield more leasing activity in the coming quarters.

The Orange County office market vacancy rate has hovered around 10% since Q4 2016, and resulted in 17.7 million square feet in vacant space in Q2. This is a slight decrease

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Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Availability Rate	2Q Direct Net Absorption	YTD Direct Net Absorption	2Q Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate
Costa Mesa	7,698,510	12.2%	0.8%	13.0%	19.2%	33,158	11,581	109,464	338,904	\$2.50
Irvine	25,045,631	9.5%	0.8%	10.3%	19.0%	(37,401)	(126,514)	541,605	1,353,093	\$2.70
Newport Beach	10,966,080	9.1%	0.5%	9.6%	11.2%	(102,533)	(109,338)	212,748	457,160	\$3.36
South Santa Ana	2,451,993	16.5%	3.3%	19.8%	21.1%	(95,077)	(38,360)	8,316	13,118	\$2.29
Class A	25,477,006	13.1%	1.0%	14.1%	20.6%	(107,197)	(147,202)	464,395	1,264,163	\$3.02
Class B	19,122,433	6.8%	0.7%	7.5%	13.7%	(105,389)	(163,585)	371,869	851,069	\$2.57
Class C	1,562,775	5.2%	0.0%	5.2%	8.0%	10,733	48,156	35,869	47,043	\$2.07
Airport	46,162,214	10.2%	0.9%	11.1%	17.3%	(201,853)	(262,631)	872,133	2,162,275	\$2.80
Civic Center Area	5,029,101	7.3%	0.1%	7.4%	8.8%	27,210	64,302	46,540	68,845	\$1.56
East Orange	1,880,113	5.7%	0.2%	5.9%	8.4%	(1,404)	(10,482)	16,969	38,847	\$2.11
Main Place	2,695,313	12.7%	0.3%	13.0%	18.6%	(21,083)	(7,725)	42,748	57,032	\$2.21
Parkcenter	4,067,868	11.8%	0.3%	12.1%	13.7%	4,643	(3,087)	71,518	148,465	\$1.92
Santa Ana	4,619,755	16.2%	0.3%	16.5%	15.5%	10,400	146,743	41,452	283,905	\$2.03
Stadium Area	3,267,473	10.7%	0.1%	10.9%	14.4%	97,298	110,072	45,008	150,920	\$2.08
The City	2,629,548	8.4%	0.8%	9.2%	16.1%	29,144	(28,010)	0	40,593	\$2.43
Tustin	1,647,944	17.7%	0.0%	17.7%	18.1%	13,619	77,704	13,992	61,127	\$2.83
Class A	7,264,207	11.2%	0.2%	11.4%	12.1%	32,595	45,907	71,259	236,060	\$2.28
Class B	15,278,129	11.6%	0.4%	12.0%	14.9%	124,495	333,972	156,489	501,596	\$2.05
Class C	3,294,779	9.5%	0.0%	9.5%	12.6%	2,737	(30,362)	50,479	112,078	\$1.51
Central	25,837,115	11.2%	0.3%	11.5%	13.8%	159,827	349,517	278,227	849,734	\$2.01
Anaheim Hills	1,139,621	15.0%	0.4%	15.4%	13.4%	(1,289)	(14,449)	31,668	45,524	\$2.10
Brea/La Habra	4,436,187	10.2%	1.9%	12.1%	11.2%	(107,428)	(108,979)	114,848	238,738	\$2.06
Buena Park/La Palma	1,956,192	14.3%	0.0%	14.3%	19.2%	(30,288)	(26,320)	44,515	55,285	\$2.06
Fullerton	2,625,862	7.5%	0.2%	7.6%	15.2%	(24,689)	(19,059)	8,428	28,191	\$2.47
North/East Anaheim	5,184,094	5.2%	0.0%	5.2%	9.9%	4,043	27,575	20,623	36,851	\$2.01
Placentia/Yorba Linda	622,164	11.0%	0.0%	11.0%	12.1%	436	9,484	0	12,305	\$1.76
Class A	3,191,188	14.2%	2.1%	16.3%	17.2%	(69,405)	(49,628)	105,420	177,643	\$2.26
Class B	11,459,439	8.0%	0.2%	8.2%	12.1%	(90,054)	(84,842)	114,312	230,002	\$2.03
Class C	1,313,493	5.1%	0.0%	5.1%	5.8%	244	2,722	350	9,249	\$1.58
North	15,964,120	9.0%	0.6%	9.6%	12.6%	(159,215)	(131,748)	220,082	416,894	\$2.08
Irvine Spectrum	11,395,905	3.9%	0.9%	4.8%	9.1%	222,735	357,817	227,890	537,838	\$2.73
Laguna Hills/Aliso Viejo	5,322,204	11.1%	0.7%	11.8%	19.5%	(16,388)	(48,814)	59,196	213,636	\$2.78
Laguna Niguel/Laguna Beach	2,054,140	4.1%	0.0%	4.1%	4.0%	5,457	(6,669)	28,409	42,712	\$2.74
Lake Forest/Foothill Ranch	3,417,172	10.2%	0.9%	11.1%	12.7%	(39,109)	(119,284)	50,905	103,931	\$2.24
Mission Viejo	2,184,307	12.0%	0.1%	12.1%	13.3%	33,769	(21,657)	47,313	94,534	\$2.44
Dana Point/San Juan/ San Clemente	2,231,976	10.5%	0.1%	10.6%	13.1%	(2,950)	(14,893)	28,576	37,577	\$2.53
Class A	7,714,606	8.1%	0.3%	8.3%	12.2%	210,759	268,111	72,615	221,079	\$3.03
Class B	18,175,820	7.3%	0.9%	8.1%	12.1%	(5,262)	(119,311)	368,997	807,095	\$2.50
Class C	715,278	3.2%	0.0%	3.2%	3.4%	(1,983)	(2,300)	677	2,054	\$1.88
South	26,605,704	7.4%	0.7%	8.1%	11.9%	203,514	146,500	442,289	1,030,228	\$2.62
Cypress	1,967,956	14.5%	0.0%	14.5%	18.2%	(2,913)	62,600	17,180	33,123	\$2.07
Fountain Valley	2,084,873	3.5%	0.0%	3.5%	3.7%	6,824	8,305	6,906	15,178	\$1.64
Garden Grove	1,655,850	3.4%	0.2%	3.6%	3.4%	9,937	17,575	9,592	33,717	\$1.80
Huntington Beach	2,722,128	6.8%	0.3%	7.1%	11.9%	36,680	38,377	41,186	66,750	\$2.38
Los Alamitos/Stanton	969,270	8.4%	0.0%	8.4%	8.3%	(8,158)	(12,380)	16,980	31,262	\$2.19
Seal Beach	499,187	7.0%	0.6%	7.6%	7.7%	(7,094)	3,985	4,477	19,354	\$3.01
Westminster	642,173	10.9%	0.0%	10.9%	13.0%	64	8,412	17,906	22,001	\$2.03
Class A	2,465,352	10.9%	0.4%	11.3%	13.8%	(27,285)	5,337	24,015	44,903	\$2.56
Class B	7,070,232	6.8%	0.0%	6.8%	9.0%	61,656	129,279	80,492	162,112	\$2.02
Class C	1,005,853	3.9%	0.0%	3.9%	4.0%	969	(7,942)	9,720	14,370	\$2.01
West	10,541,437	7.4%	0.1%	7.5%	9.7%	35,340	126,874	114,227	221,385	\$2.16
Orange County Total	125,110,590	9.4%	0.6%	10.0%	14.2%	37,613	228,512	1,926,958	4,680,516	\$2.46
Class A	46,112,359	11.9%	0.8%	12.7%	17.3%	39,467	122,725	737,704	1,943,848	\$2.84
Class B	71,106,053	8.1%	0.5%	8.7%	12.8%	(14,554)	95,513	1,092,159	2,551,874	\$2.31
Class C	7,892,178	6.6%	0.0%	6.6%	8.6%	12,700	10,274	97,095	184,794	\$1.72
Class Total	125,110,590	9.4%	0.6%	10.0%	14.2%	37,613	228,512	1,926,958	4,680,516	\$2.46

from the vacancy a year prior. We foresee the vacancy rate increasing from the 10% level for the near term, with the additions of several large buildings being added to the market.

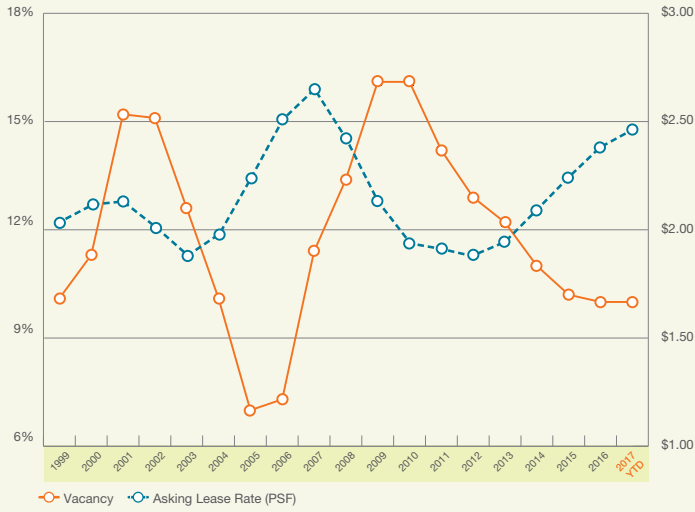
The average asking lease rate in the second quarter was \$2.46 per square foot on a full service gross basis per month. These asking rates are up \$0.11 from a year ago, a 4.68% increase. With quality office space in high demand, rental rates are likely to be robust

against the uptick in supply. We anticipate a continued increase in rental rates over the second half of 2017.

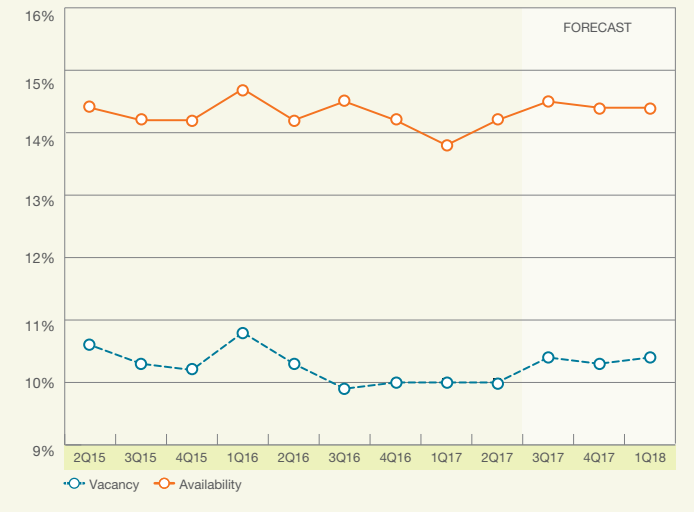
The Orange County office investment market will begin to see increases in the price per square foot, due to strong demand in the market and the high quality office product that will become available in the near future. It's a great time to be a landlord or seller, as the Orange County office market will continue to improve.

Data Source: CoStar

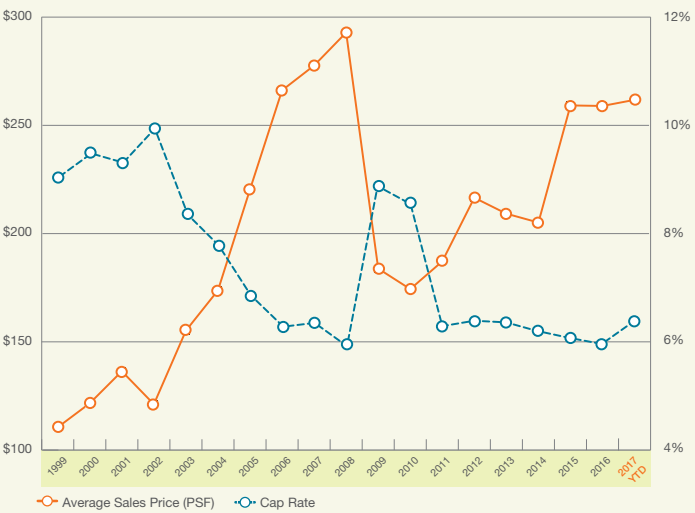
VACANCY VS ASKING LEASE RATE



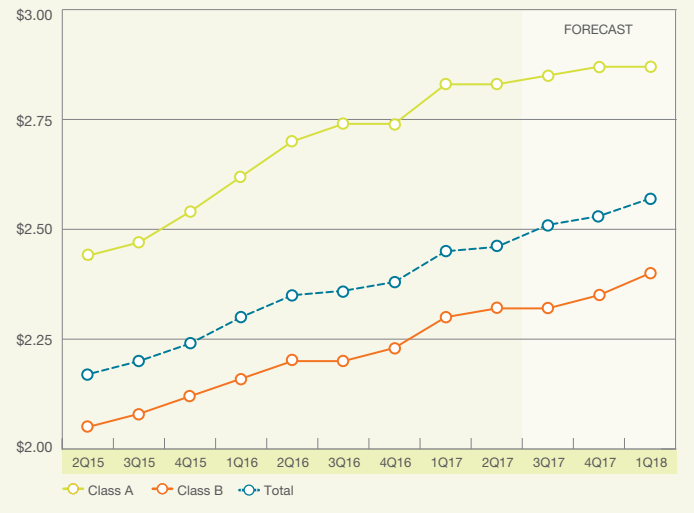
VACANCY VS AVAILABILITY



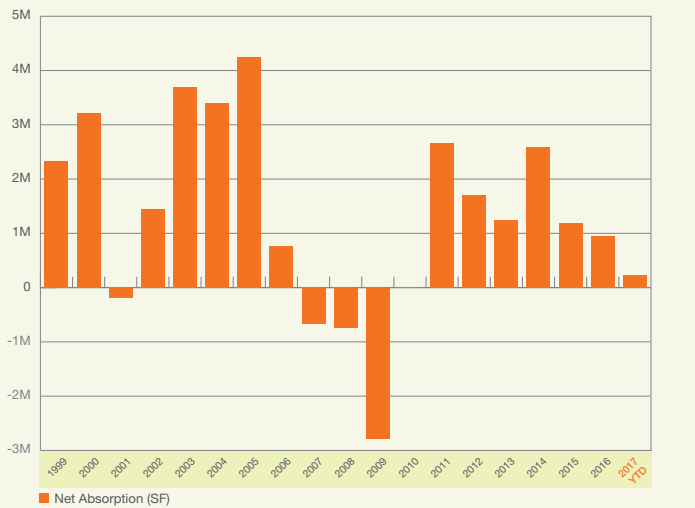
AVERAGE SALES PRICE & CAPITALIZATION RATES



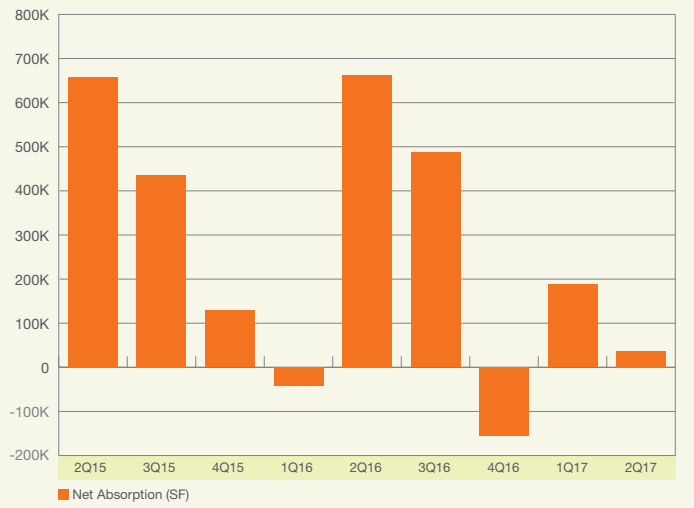
ASKING LEASE RATE



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

Los Angeles
213.880.5250

Long Beach
562.472.0071

Commerce
323.727.1144

Orange County
949.557.5000

Inland Empire
909.764.6500

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

Contact

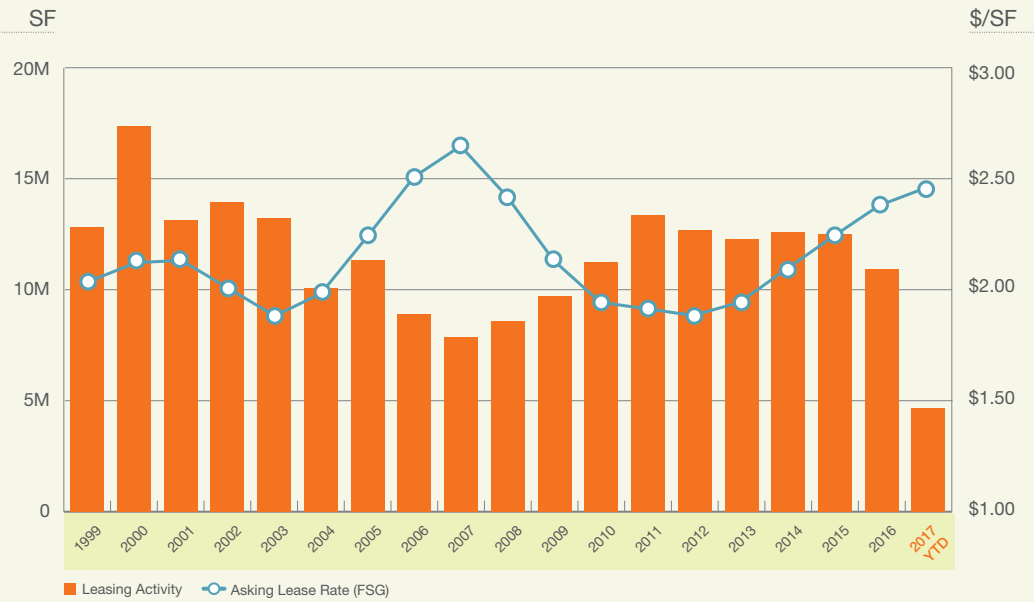
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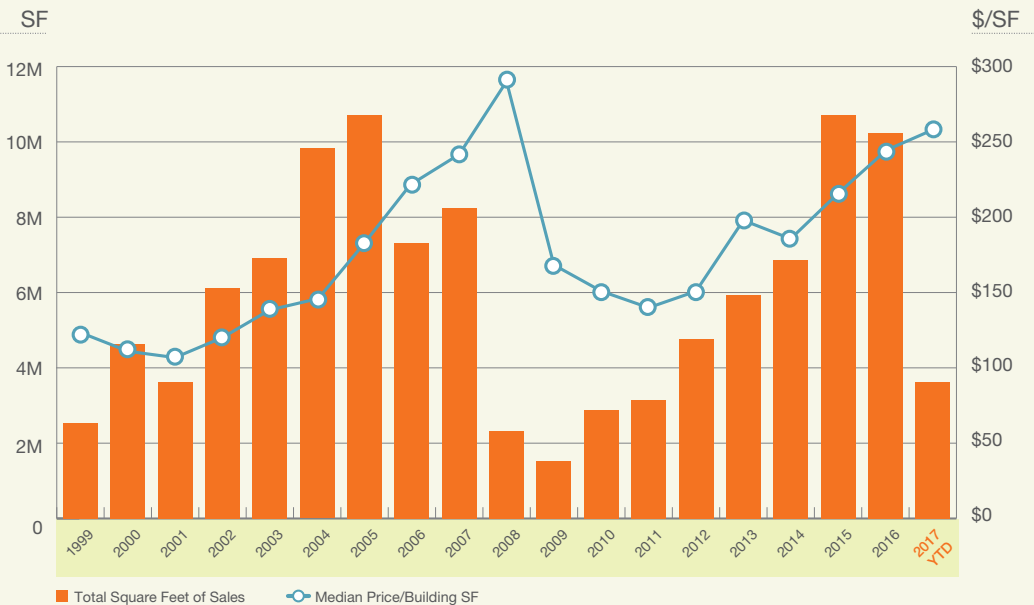
Market Breakdown

	2Q17	1Q17	2Q16	Annual % Change
Vacancy Rate	10.00%	10.00%	10.30%	-2.91%
Availability Rate	14.20%	13.90%	14.20%	0.00%
Asking Lease Rate	\$2.46	\$2.45	\$2.35	4.68%
Leased SF	1,926,958	2,512,075	2,819,712	-31.66%
Sold SF	1,220,854	1,464,940	1,313,383	-7.05%
Net Absorption	37,613	324,729	662,275	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES



HISTORICAL SALES SF & MEDIAN SALE PRICE



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