

# Orange County Office

## Market Summary

	Q1 2016	FORECAST
Absorption	↑	↑
Vacancy	↑	↓
Rental Rate	↑	↑
New Construction	↑	↑

## Notable Lease Transactions

Volt Information Sciences, Inc.  
2401 N Glassell Street, Orange  
190,000 s.f.

Travismathew  
15202 Graham Street, Anaheim  
121,120 s.f.

Mazda  
200 Spectrum Center Drive, Irvine  
110,628 s.f.

## Transaction Activity

	SF Sold	SF Leased
1Q14	1,316,226	2,451,130
2Q14	2,656,790	2,906,665
3Q14	2,197,476	3,727,911
4Q14	1,942,092	3,592,128
1Q15	1,829,538	3,159,459
2Q15	4,645,009	4,180,376
3Q15	2,289,009	3,155,542
4Q15	3,438,486	3,170,595
<b>1Q16</b>	1,710,775	3,025,688

The Orange County office market improved in the first quarter of 2016, as pricing continued to increase, and vacant and available space on the market decreased. Moving into 2016, positive absorption should progress and occupancy costs will continue to increase, but new deliveries in the southern half of the county may apply more upward pressure on vacancy. Overall, we foresee 2016 being another year of growth.

Net absorption, a measure of market strength, was positive 128,618 square feet in the first quarter of 2016, giving Orange County a total of just over 10.4 million square feet of positive absorption since the third quarter of 2010, 4.5 million of that coming in the last eight quarters. The Class B space accounted for all the positive absorption in the county this quarter. This is a result of higher lease rates in Class A space, as tenants coming up for renewal are migrating back to the more affordable Class B space. The South County submarket added 312,161 square feet of occupancy this quarter, in both Class A and Class B space.

Construction activity in the office sector is increasing. Last year most of the construction activity was in the Irvine Spectrum submarket. Currently, there is 1.7 million square feet under construction in the Irvine Spectrum submarket and another 1.3 million square feet in the Airport submarket, for a total of three million square feet. We anticipate the level of construction to increase in the coming quarters, as more projects are slated to break ground in the Airport submarket.

Leasing activity remained stable in the first quarter, with just over three million square feet coming off the market, representing a constant level of leasing

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activity over the last seven quarters. Even with construction picking up, vacancies should remain at current levels for the near future.

The Orange County office market vacancy rate ticked up a bit from the single digit rate of 9.9% to 10.3% during the first quarter, which equates to 14.4 million square feet of vacant office space countywide. This is down from the 14.8 million square feet that was vacant a year ago, a decrease of 2.7%. We foresee the vacancy rate remaining at this 10% level for the near future, even with the new space that is being added to the market.

The average asking lease rate in the first quarter was \$2.30 per square foot on a full service gross basis per month. These asking rates are up 2.7% from the fourth quarter and 9.0% year-over-year. Peak lease rates were established in the third quarter of 2007, when they were \$2.70 per square foot. Nonetheless, the asking rate for quality office space in Orange County should continue to increase.

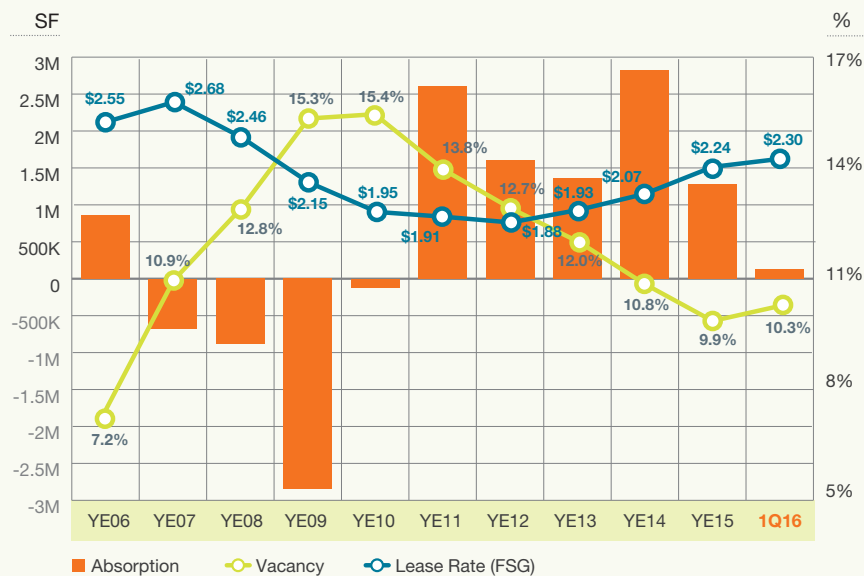
The Orange County office investment market remains relatively stable, mostly because much of the high quality office product that sellers were looking to move has sold, and high quality office product available for sale in Orange County is scarce. It is a great time to be a seller, as the Orange County office market continues to improve.

Data Source: CoStar

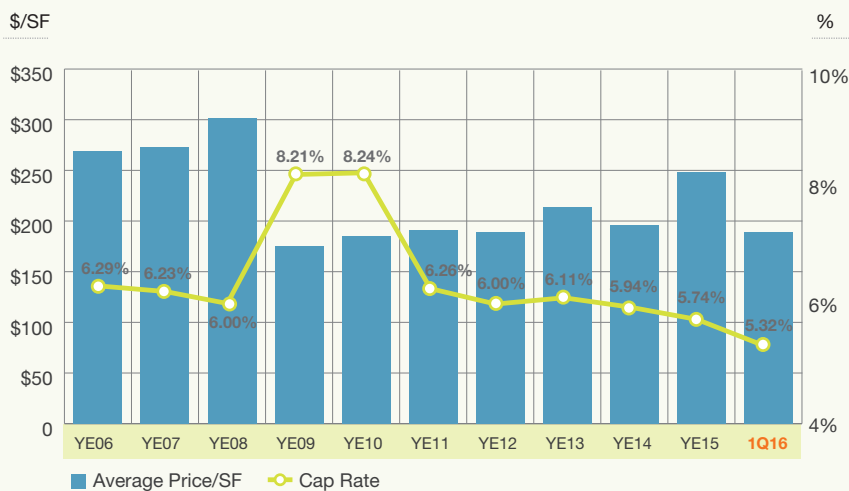
## Market Breakdown

	Current Qtr	Previous Qtr	Year Ago	Annual % Change
Vacancy Rate	10.3%	9.9%	10.7%	-3.74%
Availability Rate	13.7%	13.6%	14.2%	-3.52%
Asking Lease Rate	\$2.30	\$2.24	\$2.11	9.00%
Lease Transactions	3,025,688	3,170,595	3,159,459	-4.23%
Sale Transactions	1,710,775	3,438,486	1,829,538	-6.49%
Net Absorption	128,618	122,177	164,682	N/A

### Net Absorption, Vacancy & Lease Rates



### Average Sales Price / Cap Rates



## Contact

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## Offices

Orange County 949.557.5000	Redwood City 650.769.3600	Sacramento 916.751.3600	Seattle 206.296.9600	Phoenix 602.513.5200
San Francisco 415.229.8888	Silicon Valley 408.970.9400	San Diego 858.509.1200	Portland 503.221.9900	Reno 775.301.1300

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# 1st Quarter 2016 Orange County Office Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Availability Rate	QTR Direct Net Absorption	YTD Direct Net Absorption	SF Under Construction	YTD Construction Completions	QTR Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate
Costa Mesa	8,800,323	10.8%	0.1%	10.9%	15.2%	140,689	140,689	700,000	0	103,196	103,196	\$2.41
Irvine	25,978,549	6.8%	0.5%	7.3%	13.9%	(223,012)	(223,012)	537,224	0	440,479	440,479	\$2.55
Newport Beach	13,017,733	8.1%	0.7%	8.9%	11.5%	124,941	124,941	44,000	0	221,785	221,785	\$3.08
South Santa Ana	2,444,523	27.2%	0.0%	27.2%	23.2%	(83,071)	(83,071)	0	0	25,740	25,740	\$2.11
Class A	24,892,417	11.0%	0.8%	11.8%	17.6%	(47,280)	(47,280)	581,224	0	447,433	447,433	\$2.89
Class B	22,710,167	6.9%	0.2%	7.0%	10.8%	7,507	7,507	700,000	0	329,043	329,043	\$2.47
Class C	2,638,544	5.3%	0.0%	5.3%	6.7%	(680)	(680)	0	0	14,724	14,724	\$2.10
<b>Airport</b>	<b>50,241,128</b>	<b>8.8%</b>	<b>0.5%</b>	<b>9.3%</b>	<b>13.9%</b>	<b>(40,453)</b>	<b>(40,453)</b>	<b>1,281,224</b>	<b>0</b>	<b>791,200</b>	<b>791,200</b>	<b>\$2.66</b>
Civic Center Area	5,711,403	9.4%	0.0%	9.4%	11.0%	(29,397)	(29,397)	0	0	36,301	36,301	\$1.44
East Orange	2,468,126	4.8%	0.0%	4.8%	6.9%	3,555	3,555	0	0	197,203	197,203	\$2.06
Main Place	2,897,882	10.7%	0.2%	10.9%	13.5%	(114,788)	(114,788)	0	0	52,523	52,523	\$2.21
Parkcenter	5,031,958	14.4%	0.3%	14.7%	18.0%	(31,431)	(31,431)	0	0	108,581	108,581	\$1.86
Santa Ana	5,186,095	18.4%	0.0%	18.4%	22.6%	54,146	54,146	0	0	81,129	81,129	\$1.93
Stadium Area	3,629,942	13.1%	0.0%	14.4%	16.6%	(17,818)	(17,818)	0	0	58,347	58,347	\$2.12
The City	2,635,833	7.8%	0.1%	7.9%	9.1%	(7,385)	(7,385)	0	0	67,718	67,718	\$2.43
Tustin	1,758,585	21.3%	0.0%	21.3%	26.8%	(26,327)	(26,327)	0	96,865	21,309	21,309	\$1.99
Class A	7,449,499	14.0%	0.9%	14.9%	18.3%	(127,282)	(127,282)	0	0	145,757	145,757	\$2.18
Class B	16,878,741	13.5%	0.0%	13.5%	16.2%	(1,396)	(1,396)	0	96,865	443,445	443,445	\$1.88
Class C	4,991,584	7.5%	0.0%	7.5%	9.6%	(40,767)	(40,767)	0	0	33,909	33,909	\$1.58
<b>Central</b>	<b>29,319,824</b>	<b>12.6%</b>	<b>0.3%</b>	<b>12.9%</b>	<b>15.6%</b>	<b>(169,445)</b>	<b>(169,445)</b>	<b>0</b>	<b>96,865</b>	<b>623,111</b>	<b>623,111</b>	<b>\$1.90</b>
Anaheim Hills	1,267,654	13.9%	0.1%	14.0%	16.3%	(8,427)	(8,427)	0	0	11,499	11,499	\$2.12
Brea/La Habra	4,791,574	8.2%	1.7%	9.9%	14.0%	33,936	33,936	0	0	65,528	65,528	\$1.99
Buena Park/La Palma	2,148,193	10.5%	0.0%	10.5%	16.6%	48,655	48,655	0	73,035	26,678	26,678	\$2.08
Fullerton	3,161,066	8.9%	0.0%	8.9%	13.0%	14,330	14,330	0	0	44,923	44,923	\$2.21
North/East Anaheim	5,944,346	10.3%	0.4%	10.7%	12.7%	(14,186)	(14,186)	0	0	39,749	39,749	\$1.96
Placentia/Yorba Linda	821,158	11.9%	0.0%	11.9%	15.2%	1,011	1,011	0	0	5,861	5,861	\$1.65
Class A	3,082,759	10.8%	2.4%	13.2%	19.3%	(14,865)	(14,865)	0	73,035	65,265	65,265	\$2.31
Class B	12,817,969	10.2%	0.3%	10.5%	13.8%	83,312	83,312	0	0	120,632	120,632	\$2.00
Class C	2,233,263	6.1%	0.0%	6.1%	7.2%	6,872	6,872	0	0	8,341	8,341	\$1.49
<b>North</b>	<b>18,133,991</b>	<b>9.8%</b>	<b>0.6%</b>	<b>10.4%</b>	<b>13.9%</b>	<b>75,319</b>	<b>75,319</b>	<b>0</b>	<b>73,035</b>	<b>194,238</b>	<b>194,238</b>	<b>\$2.02</b>
Irvine Spectrum	11,631,113	8.8%	0.8%	9.6%	10.2%	194,392	194,392	1,738,100	575,044	361,561	361,561	\$2.61
Laguna Hills/Aliso Viejo	5,796,855	10.1%	0.8%	10.9%	14.4%	18,621	18,621	0	0	97,407	97,407	\$2.65
Laguna Niguel/Laguna Beach	2,321,240	4.1%	0.0%	4.1%	5.4%	18,379	18,379	0	0	33,157	33,157	\$2.43
Lake Forest/Foothill Ranch	3,808,749	9.7%	0.2%	9.9%	16.3%	97,459	97,459	0	0	34,224	34,224	\$2.16
Mission Viejo	2,284,950	10.8%	0.0%	10.8%	13.3%	13,588	13,588	0	0	40,434	40,434	\$2.43
Dana Point/San Juan/ San Clemente	3,043,620	11.5%	0.0%	11.5%	13.0%	(30,278)	(30,278)	0	0	38,797	38,797	\$2.26
Class A	7,375,796	12.5%	0.3%	12.8%	13.1%	118,462	118,462	1,738,100	425,044	267,870	267,870	\$2.91
Class B	20,104,968	8.5%	0.6%	9.1%	12.1%	196,166	196,166	0	150,000	331,141	331,141	\$2.36
Class C	1,405,763	3.1%	0.6%	3.7%	5.3%	(2,467)	(2,467)	0	0	6,569	6,569	\$1.96
<b>South</b>	<b>28,886,527</b>	<b>9.2%</b>	<b>6.0%</b>	<b>9.8%</b>	<b>12.0%</b>	<b>312,161</b>	<b>312,161</b>	<b>1,738,100</b>	<b>575,044</b>	<b>605,580</b>	<b>605,580</b>	<b>\$2.46</b>
Cypress	2,051,842	18.3%	0.0%	18.3%	28.3%	(8,249)	(8,249)	0	0	16,617	16,617	\$2.06
Fountain Valley	2,315,063	4.4%	0.0%	4.4%	4.9%	6,575	6,575	0	0	15,378	15,378	\$1.56
Garden Grove	2,223,078	6.9%	0.0%	6.9%	8.9%	(22,670)	(22,670)	0	0	15,527	15,527	\$1.61
Huntington Beach	3,424,803	10.0%	0.0%	10.0%	10.2%	(1,487)	(1,487)	0	0	173,647	173,647	\$2.02
Los Alamitos/Stanton	1,274,355	5.2%	0.0%	5.2%	18.3%	(13,637)	(13,637)	0	0	626	626	\$1.88
Seal Beach	567,769	9.1%	0.4%	9.5%	9.7%	(1,550)	(1,550)	0	0	7,160	7,160	\$2.88
Westminster	1,032,314	11.4%	0.0%	11.4%	11.9%	(7,946)	(7,946)	0	0	8,046	8,046	\$1.99
Class A	2,461,544	11.1%	0.1%	11.2%	18.4%	490	490	0	0	39,594	39,594	\$2.57
Class B	8,202,886	10.1%	0.0%	10.1%	11.5%	(41,671)	(41,671)	0	0	184,881	184,881	\$1.86
Class C	2,224,794	4.9%	0.0%	4.9%	11.6%	(7,783)	(7,783)	0	0	12,526	12,526	\$1.74
<b>West</b>	<b>12,889,224</b>	<b>9.4%</b>	<b>0.0%</b>	<b>9.4%</b>	<b>12.8%</b>	<b>(48,964)</b>	<b>(48,964)</b>	<b>0</b>	<b>0</b>	<b>237,001</b>	<b>237,001</b>	<b>\$1.97</b>
<b>Orange County Total</b>	<b>139,470,694</b>	<b>9.9%</b>	<b>0.4%</b>	<b>10.3%</b>	<b>13.8%</b>	<b>128,618</b>	<b>128,618</b>	<b>3,019,324</b>	<b>744,944</b>	<b>2,451,130</b>	<b>2,451,130</b>	<b>\$2.30</b>
Class A	45,262,015	11.7%	0.8%	12.6%	17.1%	(70,475)	(70,475)	2,319,324	498,079	965,919	965,919	\$2.69
Class B	80,714,731	9.5%	0.2%	9.7%	12.8%	243,918	243,918	700,000	246,865	1,409,142	1,409,142	\$2.16
Class C	13,493,948	5.9%	0.1%	6.0%	8.5%	(44,825)	(44,825)	0	0	76,069	76,069	\$1.70
<b>Class Total</b>	<b>139,470,694</b>	<b>9.9%</b>	<b>0.4%</b>	<b>10.3%</b>	<b>13.8%</b>	<b>128,618</b>	<b>128,618</b>	<b>3,019,324</b>	<b>744,944</b>	<b>2,451,130</b>	<b>2,451,130</b>	<b>\$2.30</b>