

Orange County Office

Market Summary

	Q2 2016	FORECAST
Absorption	↑	↑
Vacancy	↓	↔
Rental Rate	↑	↑
New Construction	↑	↑

Notable Lease Transactions

Apria Healthcare Group
26220 Enterprise Court, Lake Forest
50,006 s.f.

The Regents of the University of California
120 Theory Drive, Irvine
44,240 s.f.

Nationstar Mortgage
18200 Von Karman Avenue, Irvine
42,988 s.f.

Notable Construction

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

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

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

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

The Orange County office market improved in the second quarter of 2016, as pricing continues to increase, while the amount of vacant and available space on the market also increases. Moving into the second half of 2016, 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 2016 being another year of growth.

Net absorption, a measure of market strength, was positive 131,038 square feet in the second quarter of 2016. This gives Orange County a total of just over ten million square feet of positive absorption since the third quarter of 2010, four million of that coming in the last nine quarters. Class B space accounted for all the positive absorption in the county this quarter. 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 South County submarket added 501,511 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 1,778,796 million square feet under construction in the Irvine Spectrum market and another 602,224 square feet in the Airport market, for a total of 2.4 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 market.

Leasing activity was down in the second quarter, with just over 1.9 million square feet coming off the market. This represents a drop in leasing activity when compared to the second quarter of 2015, when 3.3 million square feet was leased. Even with construction picking up, vacancies should remain at current levels for the near future.

The Orange County office market vacancy rate slightly dropped from 10.5% to 10.4% during the second quarter, which equates to 13 million square feet of vacant office space

→ Continued, page 2

Area Review

Submarket Statistics

Submarket	Total Inventory	Direct 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	7,758,744	12.5%	12.6%	16.4%	11,052	114,293	119,554	263,617	\$2.44
Irvine	25,027,432	8.7%	9.5%	16.5%	(190,024)	(408,452)	434,577	1,030,332	\$2.56
Newport Beach	10,881,628	8.0%	8.7%	11.5%	5,903	136,810	204,355	435,359	\$3.17
South Santa Ana	2,448,402	26.4%	26.4%	20.1%	19,178	(65,460)	82,779	123,924	\$2.23
Class A	25,355,326	13.0%	14.0%	19.5%	(192,829)	(271,100)	470,371	1,043,256	\$2.88
Class B	19,170,719	6.7%	7.0%	10.6%	38,625	51,143	356,320	785,947	\$2.47
Class C	1,590,161	6.0%	6.0%	12.5%	313	(2,852)	14,574	24,029	\$2.10
Airport	46,116,206	10.1%	10.7%	15.5%	(153,891)	(222,809)	841,265	1,853,232	\$2.67
Civic Center Area	5,087,069	9.1%	9.1%	10.2%	12,287	(7,010)	11,090	50,538	\$1.39
East Orange	1,905,113	4.7%	4.7%	5.8%	(1,003)	4,042	18,583	223,226	\$2.11
Main Place	2,678,580	11.0%	11.1%	14.3%	(5,424)	(118,617)	11,174	62,857	\$2.31
Parkcenter	4,081,529	15.9%	16.4%	15.6%	201	(33,301)	117,187	347,583	\$1.82
Santa Ana	4,639,446	20.3%	20.3%	24.1%	(36,715)	20,496	92,022	186,605	\$1.93
Stadium Area	3,273,045	14.0%	14.0%	18.1%	50,416	39,127	20,960	99,955	\$2.16
The City	2,621,469	6.4%	6.5%	10.4%	35,814	28,429	14,519	82,237	\$2.47
Tustin	1,692,933	27.3%	27.3%	29.6%	(36,241)	(128,754)	24,781	41,629	\$2.13
Class A	7,450,621	14.3%	14.6%	16.3%	34,942	(98,411)	104,065	367,663	\$2.16
Class B	15,248,990	14.6%	14.7%	16.9%	(11,377)	(66,138)	170,871	664,163	\$1.87
Class C	3,279,573	7.3%	7.3%	10.2%	(4,230)	(31,039)	35,380	62,804	\$1.55
Central	25,979,184	13.6%	13.7%	15.9%	19,335	(195,588)	310,316	1,094,630	\$1.90
Anaheim Hills	1,137,271	15.4%	15.4%	18.8%	(2,280)	(12,857)	9,074	21,099	\$2.04
Brea/La Habra	4,396,923	7.4%	9.1%	14.6%	23,376	64,586	31,558	94,584	\$1.94
Buena Park/La Palma	1,933,066	15.5%	15.5%	13.5%	(43,918)	(45,269)	42,783	69,461	\$2.09
Fullerton	2,626,611	7.8%	7.8%	14.2%	15,463	30,504	22,927	59,050	\$2.61
North/East Anaheim	5,268,421	9.6%	10.0%	13.6%	34,672	23,186	38,006	77,118	\$2.04
Placentia/Yorba Linda	622,164	11.4%	11.4%	15.5%	(73)	4,246	6,659	12,520	\$1.72
Class A	3,082,759	10.8%	13.2%	19.3%	1,297	(13,568)	43,870	109,135	\$2.25
Class B	11,618,204	10.1%	10.3%	13.9%	25,734	71,043	101,046	214,025	\$2.03
Class C	1,283,493	5.6%	5.6%	7.0%	209	6,921	6,091	10,672	\$1.52
North	15,984,456	9.9%	10.5%	14.4%	27,240	64,396	151,007	333,832	\$2.07
Irvine Spectrum	11,113,857	6.7%	7.3%	9.2%	262,291	485,807	269,359	661,343	\$2.56
Laguna Hills/Aliso Viejo	5,340,912	11.7%	12.7%	15.9%	(87,139)	(131,820)	62,063	171,332	\$2.65
Laguna Niguel/Laguna Beach	2,056,816	4.0%	4.0%	5.4%	1,418	17,613	7,029	36,641	\$2.55
Lake Forest/Foothill Ranch	3,422,755	9.5%	9.5%	15.2%	(8,386)	98,025	104,318	134,146	\$2.22
Mission Viejo	2,059,900	9.6%	9.8%	14.1%	10,687	36,090	27,580	72,839	\$2.30
Dana Point/San Juan/ San Clemente	2,231,176	11.9%	12.0%	13.7%	19,038	(4,204)	35,331	72,291	\$2.40
Class A	7,373,497	12.2%	12.6%	12.4%	(9,387)	58,381	141,331	406,463	\$2.79
Class B	18,161,926	7.3%	7.8%	11.9%	202,641	440,137	358,741	730,777	\$2.39
Class C	689,993	2.1%	2.1%	2.9%	4,655	2,993	5,608	11,352	\$1.75
South	26,225,416	8.6%	9.1%	11.8%	197,909	501,511	505,680	1,148,592	\$2.49
Cypress	2,022,039	19.2%	19.2%	27.9%	(7,818)	(21,957)	10,777	33,270	\$2.04
Fountain Valley	2,084,873	4.2%	4.2%	4.4%	(6,891)	2,730	10,225	24,612	\$1.73
Garden Grove	1,695,483	4.2%	4.2%	5.1%	27,786	7,213	16,439	29,866	\$1.77
Huntington Beach	2,737,659	9.3%	9.3%	10.3%	26,947	27,842	46,726	183,980	\$2.04
Los Alamitos/Stanton	982,740	6.9%	6.9%	8.5%	(12,870)	(26,733)	6,159	6,159	\$2.05
Seal Beach	499,187	9.6%	10.1%	11.2%	3,801	2,251	1,417	11,446	\$2.88
Westminster	639,913	13.5%	13.5%	14.7%	9,490	(1,823)	8,693	22,871	\$2.09
Class A	2,464,991	10.4%	10.5%	18.2%	12,554	18,768	25,087	71,622	\$2.55
Class B	7,037,350	9.9%	9.9%	10.7%	18,826	(31,853)	63,095	215,376	\$1.90
Class C	1,159,553	4.7%	4.7%	5.1%	9,065	2,608	12,254	25,206	\$1.74
West	10,661,894	9.4%	9.4%	11.8%	40,445	(10,477)	100,436	312,204	\$2.04
Orange County Total	124,967,156	10.4%	10.9%	14.2%	131,038	137,033	1,908,704	4,742,490	\$2.32
Class A	45,727,194	12.8%	13.6%	17.7%	(153,423)	(305,930)	784,724	1,998,139	\$2.67
Class B	71,237,189	9.4%	9.6%	12.8%	274,449	464,332	1,050,073	2,610,288	\$2.18
Class C	8,002,773	6.0%	6.0%	8.8%	10,012	(21,369)	73,907	134,063	\$1.74
Class Total	124,967,156	10.4%	10.9%	14.2%	131,038	137,033	1,908,704	4,742,490	\$2.32

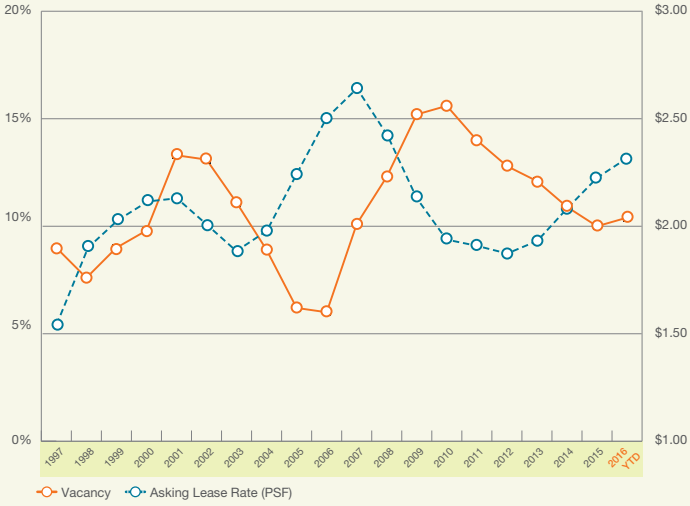
countywide. This is up from the 12.8 million square feet that was vacant a year ago, an increase of 0.97%. We foresee the vacancy rate remaining at this 10% level for the near future, even with the new space that is being added to the market.

The average asking lease rate in the second quarter was \$2.32 per square foot on a full service gross basis per month. These asking rates are up \$0.03 from the first quarter and 7.4% 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.

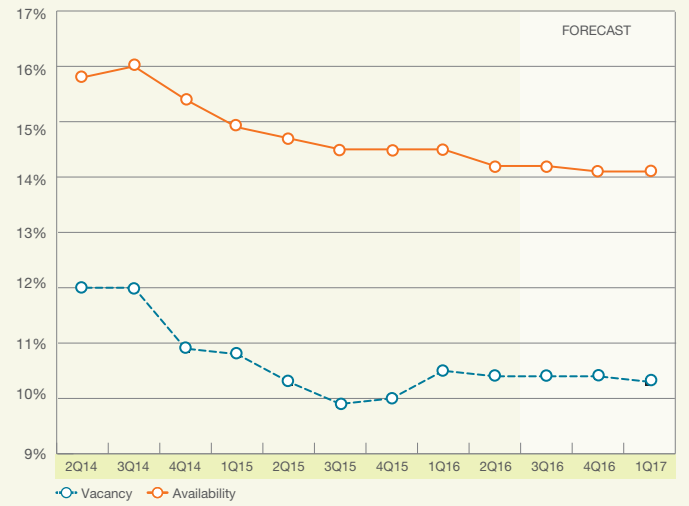
The Orange County office investment market remains relatively stable, mostly because much of the high quality office product that sellers were looking to move has sold, leaving little high quality office product available for sale in Orange County. It is a great time to be a landlord or seller, as the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

Data Source: CoStar

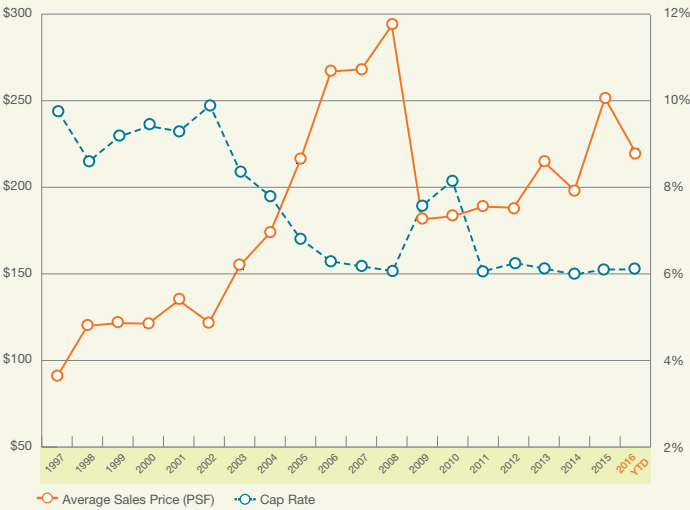
VACANCY VS ASKING LEASE RATE



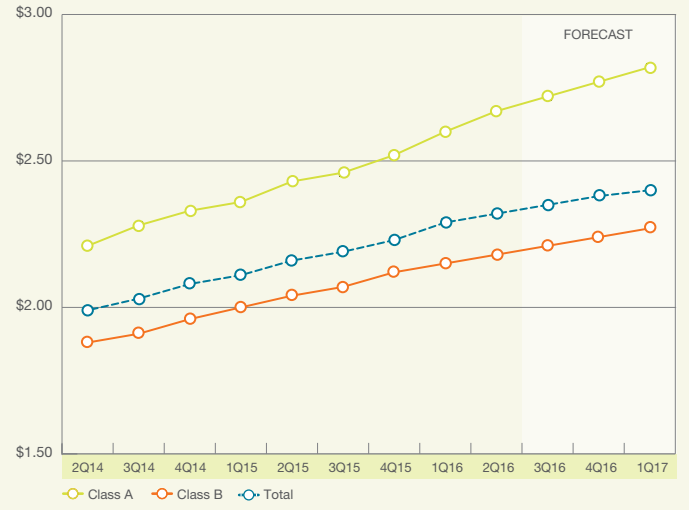
VACANCY VS AVAILABILITY



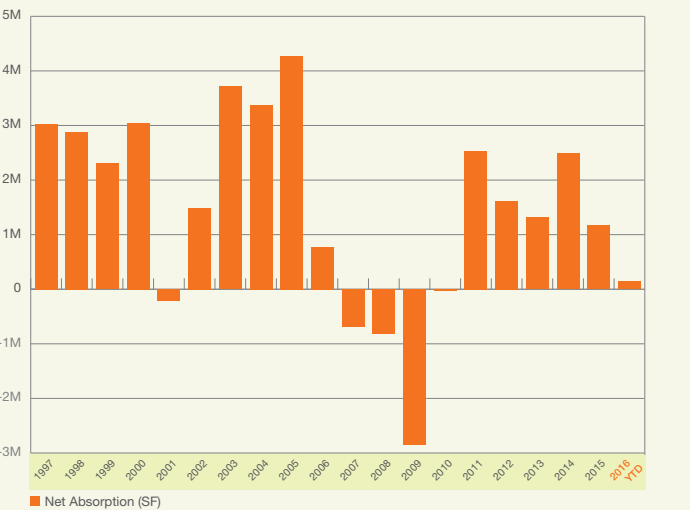
AVERAGE SALES PRICE & CAPITALIZATION RATES



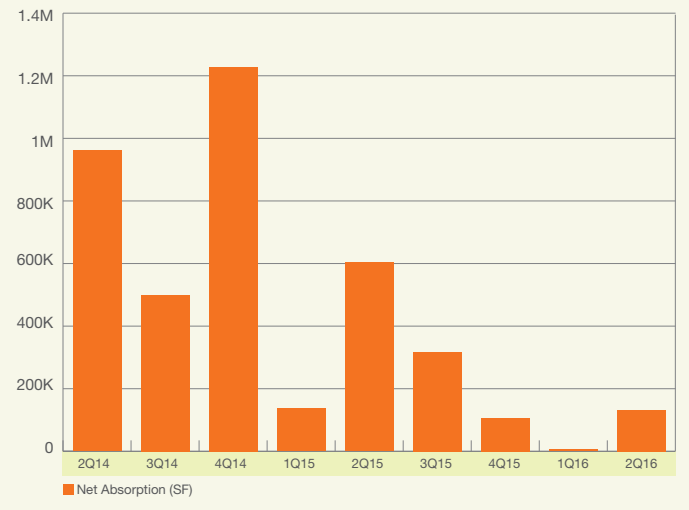
ASKING LEASE RATE



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
916.751.3600

San Diego
858.509.1200

Orange County
949.557.5000

Phoenix
602.513.5200

Reno
775.301.1300

Contact

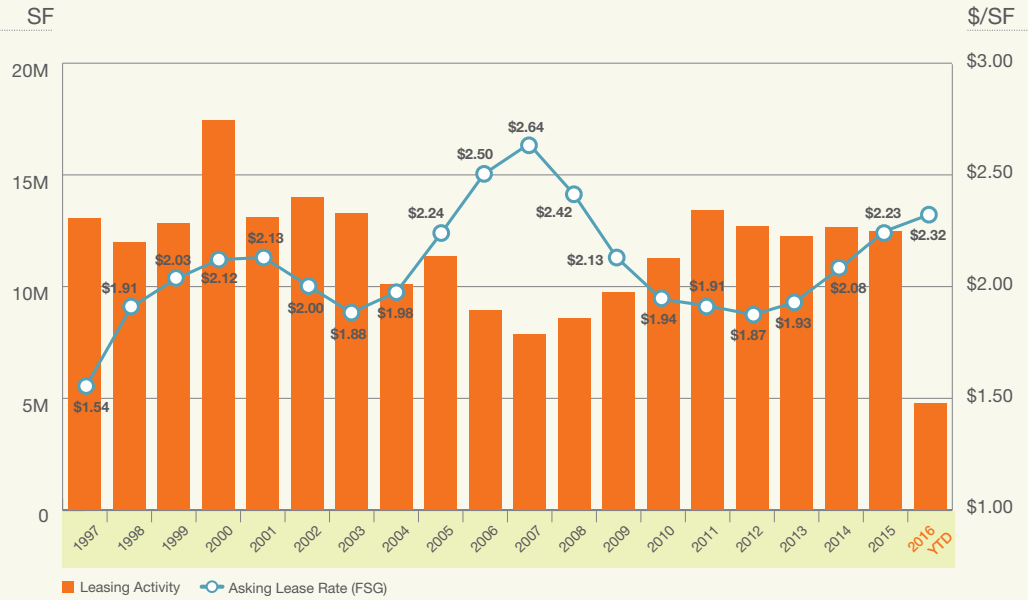
Mark Read
Executive VP, Brokerage
Southwest
949.557.5000
mread@kiddermathews.com

Designated Broker
Mark Read | LIC #00572743

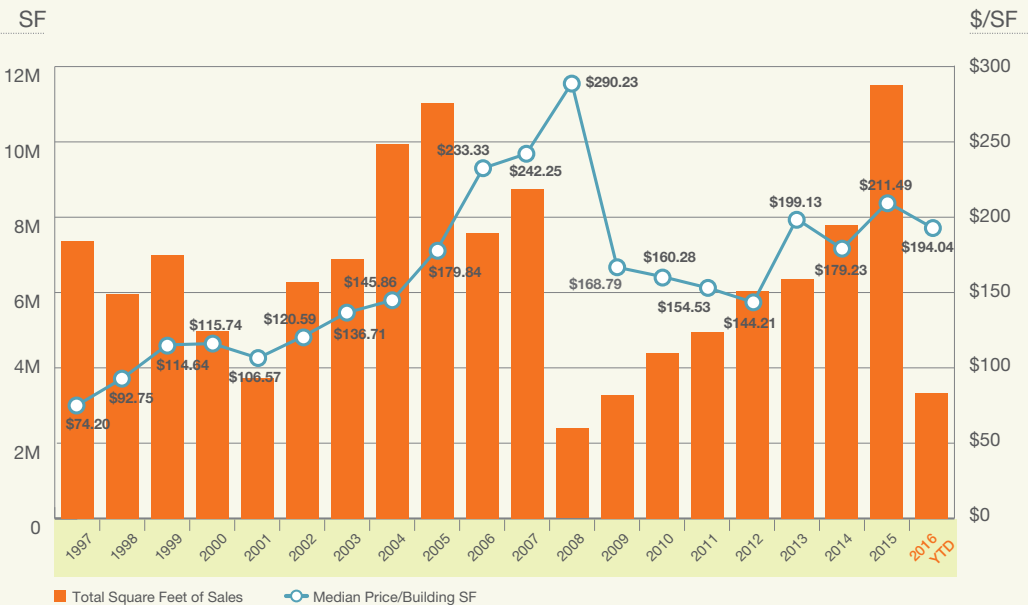
Market Breakdown

	2Q 2016	1Q 2016	2Q 2015	Annual % Change
Vacancy Rate	10.4%	10.5%	10.3%	0.97%
Availability Rate	14.2%	14.5%	14.7%	-3.40%
Asking Lease Rate	\$2.32	\$2.29	\$2.16	7.41%
Leased SF	1,920,317	2,833,786	3,309,818	-41.98%
Sold SF	1,416,038	1,910,009	4,217,797	-66.43%
Net Absorption	131,038	5,995	603,344	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES



HISTORICAL SALES SF & MEDIAN SALE PRICE



This information supplied herein is from sources we deem reliable. It is provided without any representation, warranty or guarantee, expressed or implied as to its accuracy. Prospective Buyer or Tenant should conduct an independent investigation and verification of all matters deemed to be material, including, but not limited to, statements of income and expenses. CONSULT YOUR ATTORNEY, ACCOUNTANT, OR OTHER PROFESSIONAL ADVISOR.