

Orange County Office

Market Summary

	3Q 2016	FORECAST
Absorption	↑	↑
Vacancy	↓	↔
Rental Rate	↑	↑
New Construction	↑	↑

Notable Lease Transactions

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

John F. Kennedy
3390 Harbor Blvd, Costa Mesa
40,091 s.f. Renewal

University California Irvine
141 Innovation Dr, Irvine
31,720 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 improved in the third quarter of 2016, as pricing continued to increase, vacancy decreased, but there was an increase in the amount of available space on the market. Further into the fourth quarter 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. 2016 is foreseen to be another year of growth.

Net absorption, a measure of market strength, was a positive 509,280 square feet in the third quarter of 2016. This gives Orange County a total of 11.2 million square feet of positive absorption since the third quarter of 2010, 5.2 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 first three quarters of this 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 440,000 square feet of occupancy this quarter.

Construction activity in the office sector is increasing. Last year, most of the construction activity was in the Irvine Spectrum submarket. Currently, there is 1,558,796 square feet under construction in the Irvine Spectrum market and another 602,224 square feet in the Airport market, for a total of 2.2 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 third quarter, with just over 1.7 million square feet coming off the market, representing a drop in leasing activity when compared to the third quarter of 2015 when 3.4 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 ticked down from 10.3% to 9.9% during the third quarter, which equates to 12.4 million square feet of vacant office space countywide.

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Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Availability Rate	3Q Direct Net Absorption	YTD Direct Net Absorption	3Q Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate
Costa Mesa	7,703,140	11.9%	12.0%	17.6%	43,889	147,281	137,689	439,223	\$2.31
Irvine	24,998,581	8.5%	8.8%	19.4%	82,137	(226,649)	380,755	1,633,833	\$2.51
Newport Beach	10,918,346	7.6%	8.3%	11.6%	(28,345)	193,836	160,632	648,247	\$3.26
South Santa Ana	2,448,402	16.7%	16.7%	20.0%	81,564	51,661	52,399	176,323	\$2.29
Class A	25,363,713	11.6%	12.1%	19.5%	136,825	51,438	458,091	1,664,906	\$2.90
Class B	19,114,595	6.5%	6.6%	14.9%	42,830	117,953	227,917	1,160,091	\$2.37
Class C	1,590,161	6.0%	6.0%	10.0%	(410)	(3,262)	45,467	72,629	\$2.10
Airport	46,068,469	9.3%	9.6%	17.3%	179,245	166,129	731,475	2,897,626	\$2.64
Civic Center Area	5,095,537	9.5%	9.5%	10.8%	(29,203)	(28,413)	21,872	73,553	\$1.44
East Orange	1,905,113	6.2%	6.2%	8.4%	(29,584)	(23,818)	7,693	232,046	\$2.08
Main Place	2,696,254	12.6%	12.6%	14.2%	(36,935)	(147,997)	22,815	128,130	\$2.19
Parkcenter	4,082,831	12.0%	12.5%	17.2%	163,967	128,166	56,288	405,231	\$1.81
Santa Ana	4,639,446	20.0%	20.6%	18.7%	(10,486)	5,382	228,162	456,071	\$1.98
Stadium Area	3,274,215	13.8%	14.1%	16.3%	(5,350)	54,743	78,184	175,135	\$2.11
The City	2,621,469	7.2%	7.4%	10.8%	(23,520)	4,909	31,628	113,865	\$2.68
Tustin	1,692,933	24.8%	24.8%	28.9%	18,131	(137,504)	36,265	77,894	\$2.16
Class A	7,335,977	12.4%	12.7%	14.3%	86,960	854	114,298	527,845	\$2.14
Class B	15,373,272	14.5%	14.7%	16.2%	(23,189)	(81,253)	323,696	1,019,600	\$1.91
Class C	3,298,549	8.7%	8.7%	12.8%	(16,751)	(64,133)	44,913	114,480	\$1.52
Central	26,007,798	13.2%	13.4%	15.3%	47,020	(144,532)	482,907	1,661,925	\$1.91
Anaheim Hills	1,137,271	13.9%	13.9%	17.9%	16,647	3,999	12,623	36,753	\$2.04
Brea/La Habra	4,396,923	7.7%	9.4%	13.7%	(20,214)	48,004	17,930	181,541	\$1.94
Buena Park/La Palma	1,956,031	11.0%	11.0%	17.2%	21,020	62,258	2,594	80,743	\$2.05
Fullerton	2,626,611	7.3%	7.3%	13.9%	10,314	42,313	22,563	91,613	\$2.61
North/East Anaheim	5,271,429	9.1%	9.5%	13.5%	24,713	49,899	28,368	166,213	\$2.06
Placentia/Yorba Linda	622,164	12.8%	12.8%	16.4%	(11,425)	(4,281)	1,074	13,594	\$1.64
Class A	3,181,283	12.2%	14.5%	20.4%	6,360	15,753	19,328	209,702	\$2.25
Class B	11,545,653	8.7%	8.9%	13.7%	30,334	175,157	61,907	346,166	\$2.04
Class C	1,283,493	5.3%	5.3%	6.7%	4,361	11,282	3,917	14,589	\$1.49
North	16,010,429	9.1%	9.7%	14.5%	41,055	202,192	85,152	570,457	\$2.06
Irvine Spectrum	11,148,852	5.2%	5.7%	9.4%	145,860	663,150	191,358	1,024,645	\$2.60
Laguna Hills/Aliso Viejo	5,343,394	10.6%	10.8%	16.3%	(755)	(29,917)	74,029	270,680	\$2.73
Laguna Niguel/Laguna Beach	2,054,800	3.7%	3.7%	4.6%	8,831	25,123	6,873	49,018	\$2.66
Lake Forest/Foothill Ranch	3,400,020	7.5%	7.7%	15.3%	(6,421)	92,461	44,147	181,516	\$2.31
Mission Viejo	2,059,900	10.8%	11.1%	14.5%	(26,584)	10,060	22,405	103,745	\$2.26
Dana Point/San Juan/ San Clemente	2,231,176	10.1%	10.2%	11.7%	41,652	35,013	26,012	112,161	\$2.39
Class A	7,373,497	7.9%	8.1%	12.8%	174,906	320,367	113,079	653,663	\$2.92
Class B	18,174,652	7.3%	7.7%	11.7%	(11,083)	474,192	247,092	1,071,538	\$2.42
Class C	689,993	2.3%	2.3%	3.0%	(1,240)	1,331	4,653	16,564	\$1.71
South	26,238,142	7.3%	7.6%	11.8%	162,583	795,890	364,824	1,741,765	\$2.55
Cypress	2,022,039	19.3%	19.3%	27.3%	(2,726)	(24,683)	17,719	55,487	\$2.07
Fountain Valley	2,084,873	3.7%	3.7%	4.0%	11,044	12,775	7,447	32,059	\$1.72
Garden Grove	1,695,483	5.1%	5.1%	4.7%	(15,240)	(8,027)	10,277	52,561	\$1.83
Huntington Beach	2,717,659	6.2%	6.3%	10.5%	84,623	112,877	19,065	214,879	\$2.07
Los Alamitos/Stanton	982,740	6.7%	6.7%	8.2%	2,217	(24,516)	6,300	17,334	\$2.03
Seal Beach	499,187	10.2%	10.2%	10.7%	(2,863)	1,648	2,417	13,863	\$2.82
Westminster	639,913	12.8%	12.8%	13.4%	2,322	2,982	2,421	26,318	\$2.11
Class A	2,464,991	10.4%	10.4%	17.3%	(2,687)	20,824	26,495	98,117	\$2.50
Class B	7,017,350	8.8%	8.8%	10.5%	77,327	44,862	31,964	281,411	\$1.94
Class C	1,159,553	4.3%	4.3%	5.0%	4,737	7,370	7,187	32,973	\$1.93
West	10,641,894	8.7%	8.7%	11.5%	79,377	73,056	65,646	412,501	\$2.07
Orange County Total	124,966,732	9.6%	9.9%	14.8%	509,280	1,092,735	1,730,004	7,284,274	\$2.32
Class A	45,719,461	11.1%	11.6%	17.5%	402,364	409,236	731,291	3,154,233	\$2.71
Class B	71,225,522	9.0%	9.2%	13.7%	116,219	730,911	892,576	3,878,806	\$2.17
Class C	8,021,749	6.4%	6.4%	9.3%	(9,303)	(47,412)	106,137	251,235	\$1.69
Class Total	124,966,732	9.6%	9.9%	14.8%	509,280	1,092,735	1,730,004	7,284,274	\$2.32

This is down from the 12.9 million square feet that was vacant a year ago, a decrease of 4.8%. 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.

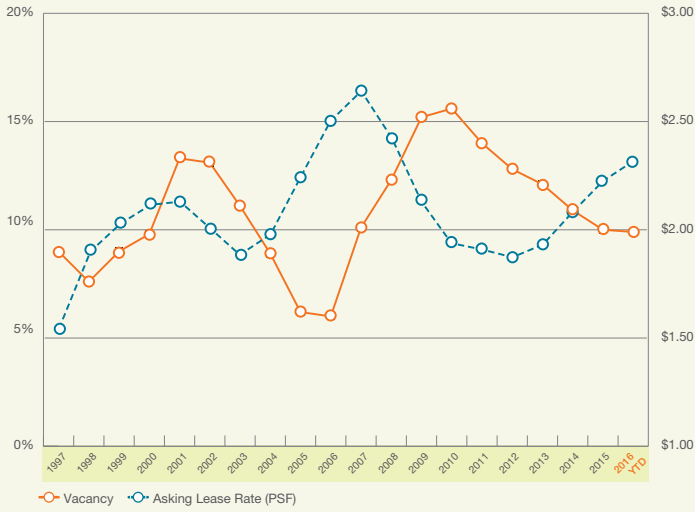
The average asking lease rate in the first quarter was \$2.32 per square foot on a full service gross basis per month. These asking rates are up \$.01 from the second quarter and 1.79% year-over-year. Peak lease rates were established in the third quarter of 2007, when

they were \$2.70 per square feet. Nonetheless, the asking rate for quality office space in Orange County should continue to increase.

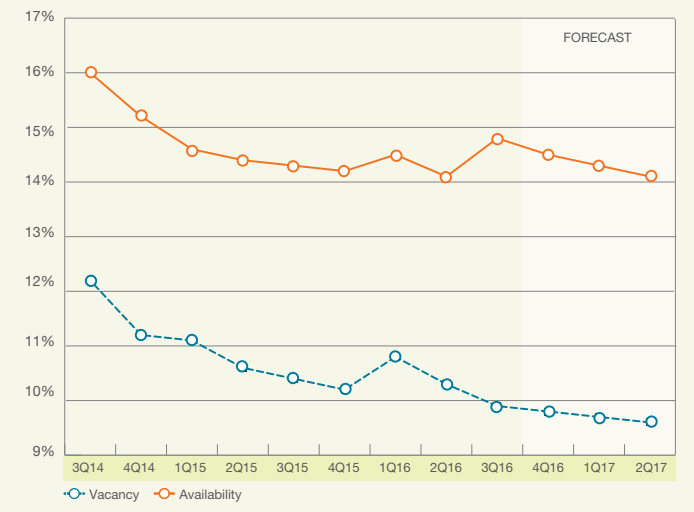
The Orange County office investment market remains relatively stable, mostly because much of the high quality office product that sellers were looking to move has sold, and there isn't much high quality office product available for sale in Orange County. It's a great time to be a landlord or seller,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

Data Source: CoStar

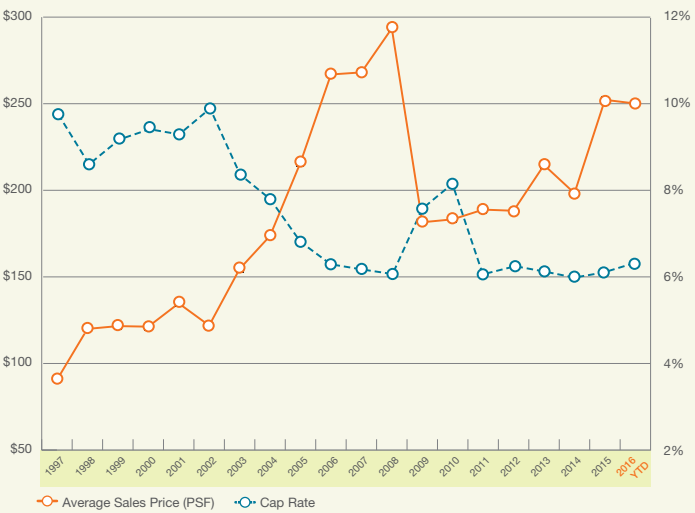
VACANCY VS ASKING LEASE RATE



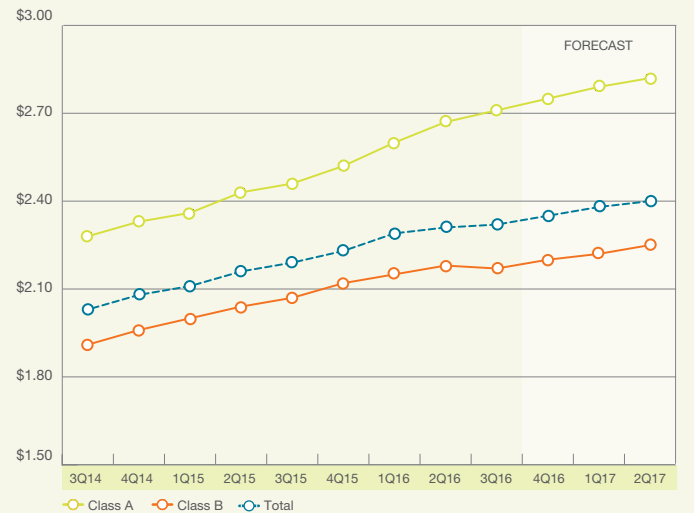
VACANCY VS AVAILABILITY



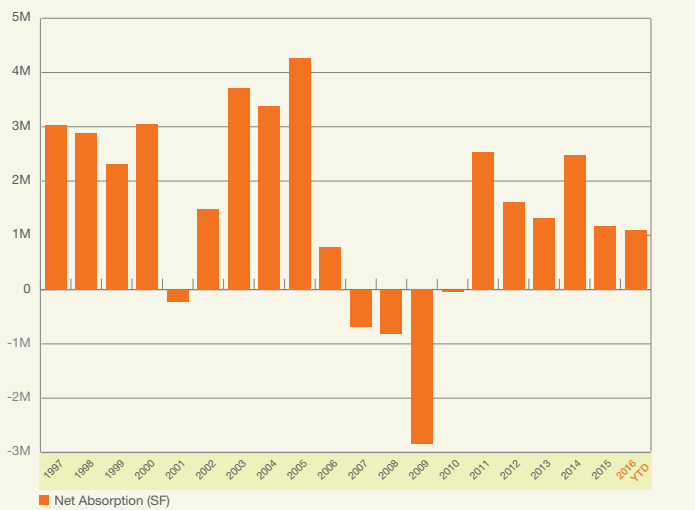
AVERAGE SALES PRICE & CAPITALIZATION RATES



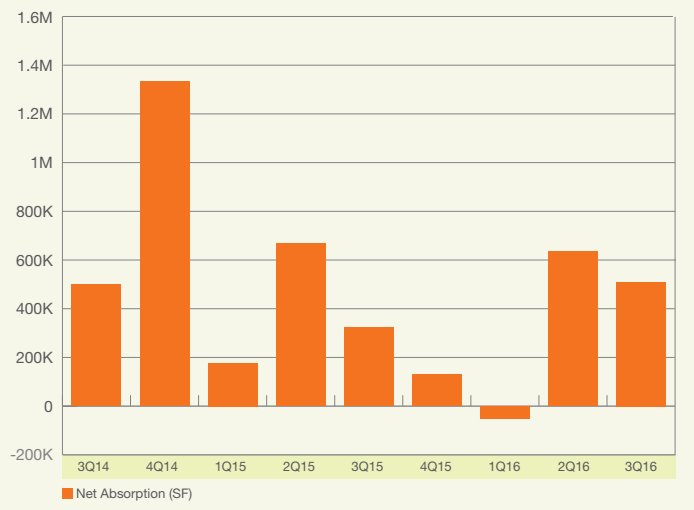
ASKING LEASE RATE



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

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

Contact

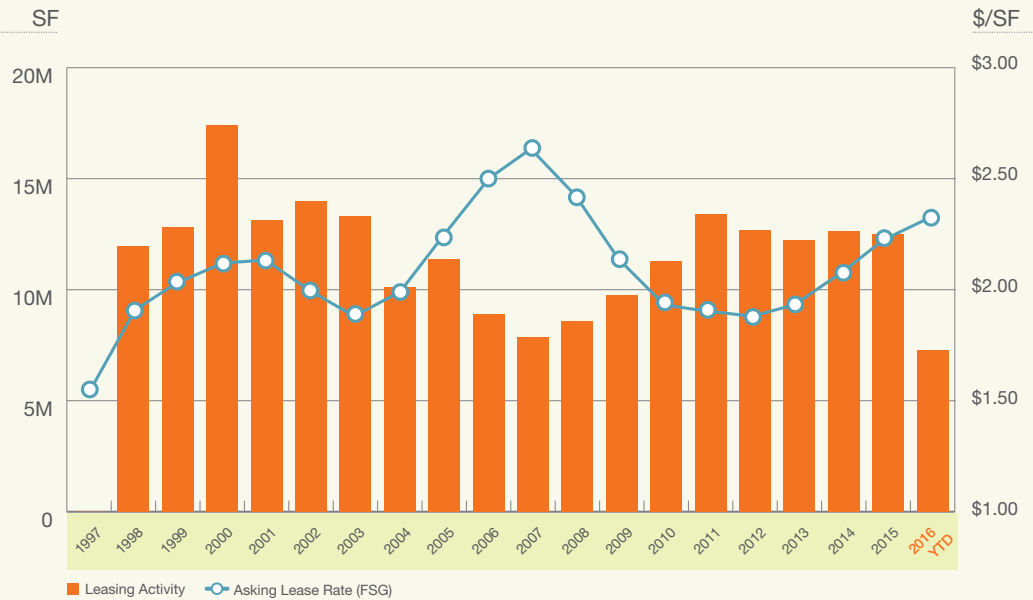
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Mark Read | LIC #00572743

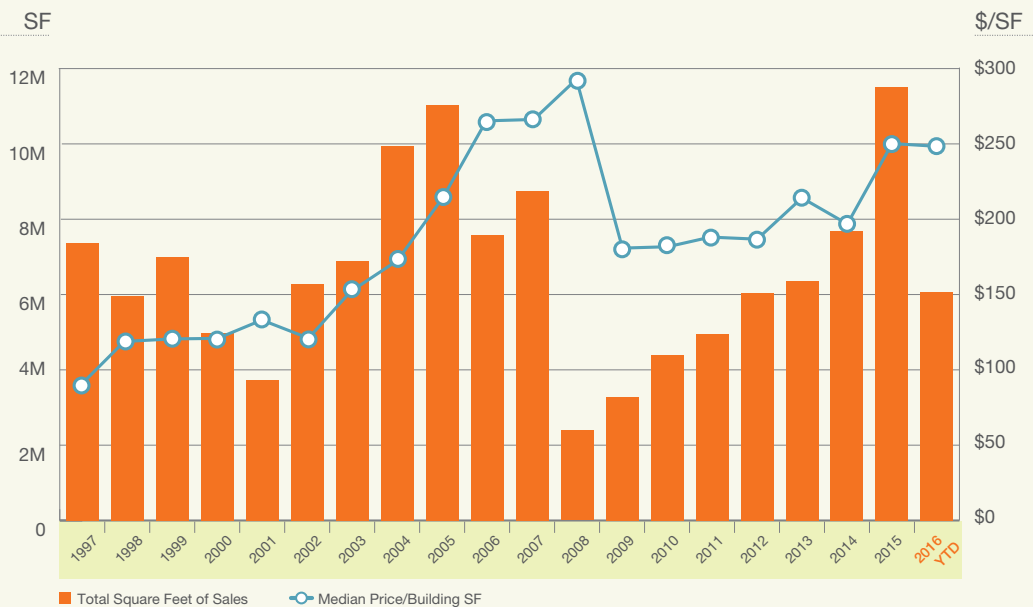
Market Breakdown

	3Q 2016	2Q 2016	3Q 2015	Annual % Change
Vacancy Rate	9.90%	10.30%	10.40%	-4.81%
Availability Rate	14.80%	14.10%	14.30%	3.50%
Asking Lease Rate	\$2.32	\$2.31	\$2.28	1.79%
Leased SF	1,730,004	2,723,552	3,437,249	-49.67%
Sold SF	2,495,677	1,649,569	2,330,676	7.08%
Net Absorption	509,280	634,783	322,398	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES



HISTORICAL SALES SF & MEDIAN SALE PRICE



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