

Real Estate Market Review

Orange County Office

A diverse employment base combined with a well-educated workforce has set the Orange County office market on firm footing, with strong employment sustained by the tech, financial, and business services sectors providing stability for talented job-seekers. This quarter, the delivery of The Boardwalk, 400 Spectrum Center, and Sand Canyon Business Center put upward pressure on vacancy rates by adding over 1.2 million s.f. of new office space to the market’s supply. We expect the ongoing trend of positive absorption and higher occupancy costs to continue, as new high-image buildings are set to be completed in the coming quarters. With strong demand and consistent employment growth, the Orange County office market should remain healthy in 2018.

Net absorption, a measure of market strength, was positive 364,867 s.f. in the fourth quarter, giving Orange County a total of 1,066,109 s.f. of direct positive net absorption in 2017. Class A office space received the most positive net absorption for the year with 873,172 s.f., as new developments made room for larger move-ins. The Central submarket led the way this quarter, reporting 199,486 s.f. of positive net absorption. Tenants migrating out of the Airport area submarket due to higher occupancy costs resulted in 18,454 s.f. of negative net absorption there.

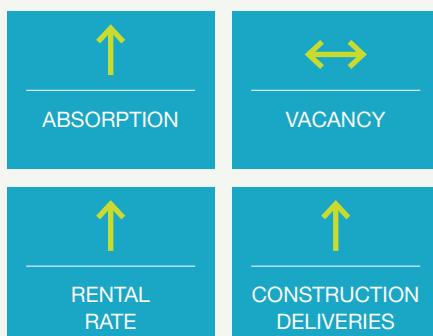
Construction activity in the office sector continued to increase. In 2018, most of the deliveries will be located in the Irvine submarket, with the Broadcom Corporate Campus scheduled to add 477,226 s.f. of office space. The much anticipated Quad at Discovery Business Center, totaling 364,955 s.f., is set for delivery in the second quarter. We anticipate that

construction activity will increase in the coming quarters, as more projects are scheduled to break ground.

Leasing activity was down modestly in 2017, with just over 10.4 million s.f. coming off the market, representing a decrease of 4.47% year over year. For the second straight quarter, Class A space saw the most activity, as 1.2 million s.f. came off the market. The Irvine submarket contributed the most leasing activity in the fourth quarter with 616,468 s.f., as Vyaire Medical Inc. took 184,886 s.f. of space at the Discovery Business Center. An uptick in availabilities in 2018, stemming from the new construction deliveries, will make way for increased leasing activity in the Orange County office market.

Vacancies in the Orange County office market increased 100 basis points year over year, to 10.6%, which reflects 16.4 million s.f. of available space

Market Forecast Trends



Notable Lease Transactions

- Vyaire Medical Inc**
The Quad (2 spaces) - 520 Technology Drive, Irvine
184,886 s.f. leased
- Pacific Sunwear of California**
3450 E Miraloma Avenue, Anaheim
180,000 s.f. leased
- Pathway Capital**
The Boardwalk - 18565 Jamboree Road, Irvine
63,879 s.f. leased
- American Advisors**
Irvine Towers - 18200 Von Karman Avenue, Irvine
54,408 s.f. leased

Notable Construction

- Broadcom Corporate Campus**
Irvine Spectrum (2 buildings)
477,226 s.f. | Delivering 01/2018
- Tustin Legacy**
Tustin (4 buildings)
417,284 | Delivering 07/2018
- The Quad**
Discover Business Center (4 buildings)
364,955 s.f. | Delivering 06/2018
- 2722 Michelson Drive**
Irvine
155,000 s.f. | Delivering 12/2018

Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublet 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	7,714,561	11.5%	2.1%	13.6%	18.8%	66,346	139,683	118,840	659,071	\$2.48
Irvine	25,643,871	11.7%	0.8%	12.5%	22.7%	(139,708)	(238,085)	616,468	2,828,887	\$2.81
Newport Beach	11,024,872	8.0%	0.5%	8.5%	11.5%	45,574	11,915	195,591	843,732	\$3.41
South Santa Ana	2,451,993	16.1%	2.9%	19.0%	20.8%	9,334	47,382	61,111	165,623	\$2.17
Class A	26,173,482	15.1%	1.2%	16.3%	21.2%	(126,499)	(162,783)	711,681	2,847,541	\$3.02
Class B	19,069,040	6.0%	1.0%	7.0%	17.6%	102,662	58,546	265,911	1,571,216	\$2.66
Class C	1,592,775	4.0%	0.0%	4.0%	8.7%	5,383	65,132	14,418	78,556	\$2.30
Airport	46,835,297	11.0%	1.1%	12.1%	19.4%	(18,454)	(39,105)	992,010	4,497,313	\$2.86
Civic Center Area	5,068,559	9.3%	0.0%	9.3%	9.5%	38,666	(35,767)	48,829	136,381	\$1.72
East Orange	1,562,356	5.0%	0.0%	5.0%	9.9%	(23,228)	(2,775)	2,973	58,903	\$2.22
Main Place	2,977,640	10.9%	0.3%	11.2%	15.1%	15,101	27,331	35,244	140,669	\$2.33
Parkcenter	4,090,794	10.5%	0.6%	11.1%	14.5%	9,052	43,428	42,710	304,239	\$2.02
Santa Ana	4,617,811	11.1%	0.2%	11.3%	11.7%	162,915	318,555	20,478	622,940	\$2.09
Stadium Area	3,263,669	11.0%	0.1%	11.2%	14.8%	(35,166)	86,612	22,635	283,532	\$2.03
The City	2,637,796	8.3%	0.2%	8.5%	16.3%	233	(12,300)	59,758	126,784	\$2.47
Tustin	1,650,237	17.3%	0.2%	17.5%	21.7%	31,913	44,061	23,961	92,850	\$2.27
Class A	7,260,403	9.3%	0.2%	9.5%	13.3%	12,017	171,598	85,170	379,869	\$2.38
Class B	15,298,422	11.7%	0.3%	12.0%	14.5%	145,060	243,342	148,704	1,181,411	\$2.08
Class C	3,310,037	6.5%	0.0%	6.5%	9.2%	42,409	54,205	22,714	205,018	\$1.51
Central	25,868,862	10.4%	0.2%	10.6%	13.5%	199,486	469,145	256,588	1,766,298	\$2.07
Anaheim Hills	1,232,935	12.9%	0.1%	13.0%	18.4%	(3,929)	(523)	34,885	82,528	\$2.11
Brea/La Habra	4,434,474	7.5%	1.7%	9.2%	12.1%	(25,451)	(2,121)	32,085	414,712	\$2.11
Buena Park/La Palma	1,957,920	14.1%	0.4%	14.4%	16.6%	(6,428)	(21,699)	62,490	135,701	\$2.09
Fullerton	2,627,554	7.8%	0.0%	7.8%	10.5%	12,186	(6,660)	27,871	76,126	\$2.46
North/East Anaheim	5,194,104	5.0%	0.0%	5.0%	9.7%	51,438	(13,545)	197,160	315,696	\$2.14
Placentia/Yorba Linda	622,156	14.7%	0.4%	15.1%	16.3%	(19,578)	(13,329)	3,733	26,095	\$1.77
Class A	3,188,794	11.4%	2.0%	13.4%	19.2%	(46,931)	14,508	212,466	436,064	\$2.29
Class B	11,566,856	7.7%	0.2%	7.9%	11.1%	65,933	(74,844)	142,275	587,833	\$2.09
Class C	1,313,493	5.1%	0.0%	5.1%	5.4%	(10,764)	2,459	3,483	26,961	\$1.70
North	16,069,143	8.2%	0.5%	8.8%	12.3%	8,238	(57,877)	358,224	1,050,858	\$2.14
Irvine Spectrum	12,412,619	9.3%	0.8%	10.1%	12.1%	219,684	589,756	191,916	1,587,595	\$2.77
Laguna Hills/Aliso Viejo	5,575,076	14.8%	0.3%	15.1%	23.1%	(219,662)	(92,337)	125,041	472,851	\$2.79
Laguna Niguel/Laguna Beach	2,054,140	4.3%	0.0%	4.3%	5.5%	(16,201)	(11,478)	22,603	76,583	\$2.77
Lake Forest/Foothill Ranch	3,409,937	7.7%	1.3%	8.9%	10.9%	117,279	(11,043)	76,716	239,711	\$2.29
Mission Viejo	2,170,279	10.0%	0.3%	10.3%	11.2%	(6,413)	(825)	21,495	166,011	\$2.49
Dana Point/San Juan/ San Clemente	2,265,615	11.3%	0.4%	11.7%	13.2%	(15,073)	(35,771)	28,328	108,810	\$2.40
Class A	8,932,296	13.1%	0.5%	13.7%	17.2%	345,618	826,789	139,789	1,056,893	\$3.15
Class B	18,240,092	8.7%	0.7%	9.4%	12.3%	(261,719)	(369,059)	323,670	1,581,583	\$2.50
Class C	715,278	5.6%	0.0%	5.6%	5.7%	(4,285)	(19,428)	2,640	13,085	\$2.08
South	27,887,666	10.0%	0.6%	10.7%	13.7%	79,614	438,302	466,099	2,651,561	\$2.66
Cypress	1,972,277	12.6%	0.0%	12.6%	13.8%	5,130	100,157	13,041	92,759	\$2.13
Fountain Valley	2,084,873	2.7%	0.0%	2.7%	3.5%	8,986	23,954	4,730	41,111	\$1.47
Garden Grove	1,655,850	2.8%	0.1%	2.9%	3.2%	15,045	31,258	29,322	67,345	\$1.81
Huntington Beach	2,737,985	6.4%	0.3%	6.7%	11.9%	35,025	54,013	72,055	174,577	\$2.40
Los Alamitos/Stanton	956,277	6.3%	1.9%	8.2%	6.5%	4,851	8,216	8,964	69,213	\$2.08
Seal Beach	499,187	4.4%	0.6%	5.0%	8.0%	8,497	19,828	8,023	27,377	\$3.11
Westminster	642,538	9.4%	0.0%	9.4%	7.3%	18,449	18,218	29,877	57,340	\$2.13
Class A	2,173,341	10.2%	0.2%	10.3%	13.9%	25,307	23,060	41,483	89,789	\$2.48
Class B	7,369,793	5.7%	0.4%	6.0%	7.3%	68,673	231,849	124,529	416,634	\$2.13
Class C	1,005,853	3.0%	0.0%	3.0%	3.5%	2,003	735	0	23,299	\$2.04
West	10,548,987	6.3%	0.3%	6.6%	8.3%	95,983	255,644	166,012	529,722	\$2.21
Orange County Total	127,209,955	9.9%	0.7%	10.6%	15.1%	364,867	1,066,109	2,238,933	10,495,752	\$2.52
Class A	47,728,316	13.4%	0.9%	14.3%	18.8%	209,512	873,172	1,190,589	4,810,156	\$2.88
Class B	71,544,203	8.2%	0.6%	8.7%	13.5%	120,609	89,834	1,005,089	5,338,677	\$2.34
Class C	7,937,436	5.2%	0.0%	5.2%	7.5%	34,746	103,103	43,255	346,919	\$1.79
Class Total	127,209,955	9.9%	0.7%	10.6%	15.1%	364,867	1,066,109	2,238,933	10,495,752	\$2.52

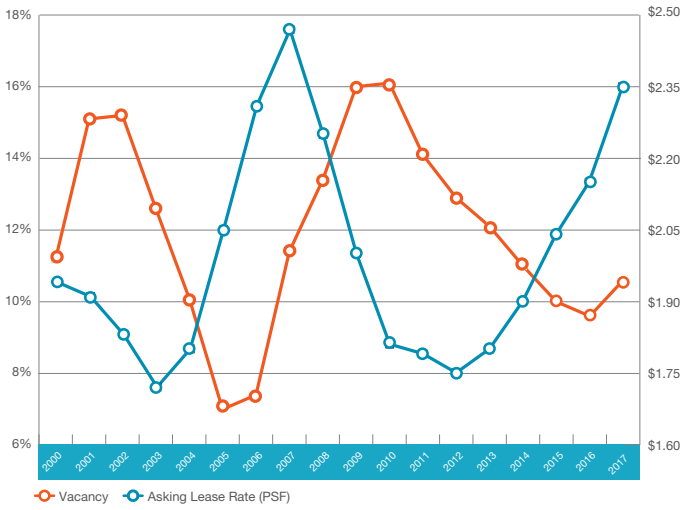
county wide. Availabilities are highest in the Irvine submarket, at 22.7%, due to the new developments brought to the market in the fourth quarter. As larger buildings are delivered and leasing activity climbs in lockstep with construction, we foresee vacancy holding steady around 10.6%.

The average asking lease rate was \$2.35/s.f. on a full service gross basis per month in 2017. This is a 20 basis point increase from 2016, when rates averaged \$2.15/s.f. Class A inventory achieved the highest price increase, jumping \$0.14 to \$2.88/s.f. in the fourth quarter, a 5% hike. With quality office space in high demand and new additions of Class A inventory, we expect rental rates to hold firm in the near term.

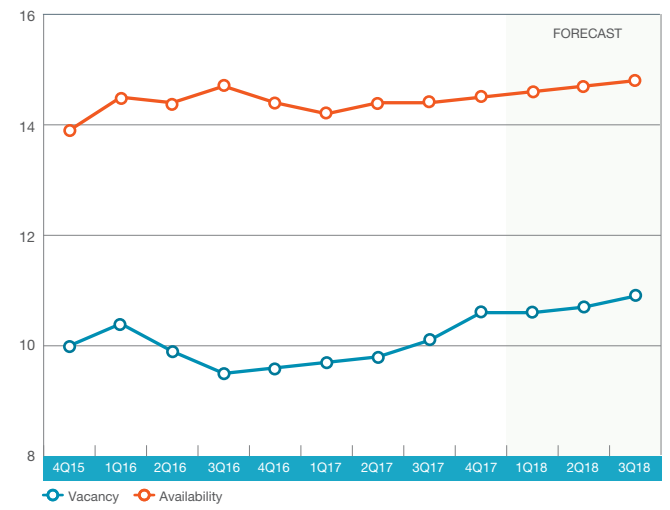
Heading into 2018, it's a great time to be a landlord or seller in Orange County. As new high-end inventory comes to the market, we will continue to see increases in rental rates for quality product and higher prices per square foot achieved in investment sales. While vigorous construction activity may apply upward pressure on vacancy in the short term, the Orange County office market is healthy and continues to improve into the new year.

Data Source: CoStar

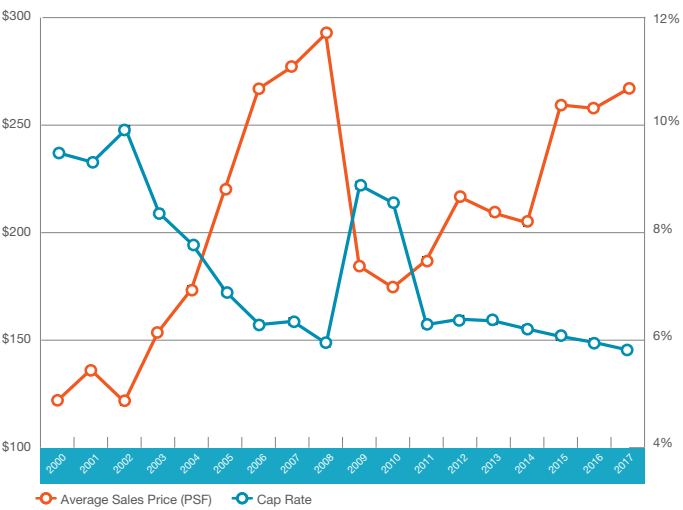
VACANCY VS ASKING LEASE RATE



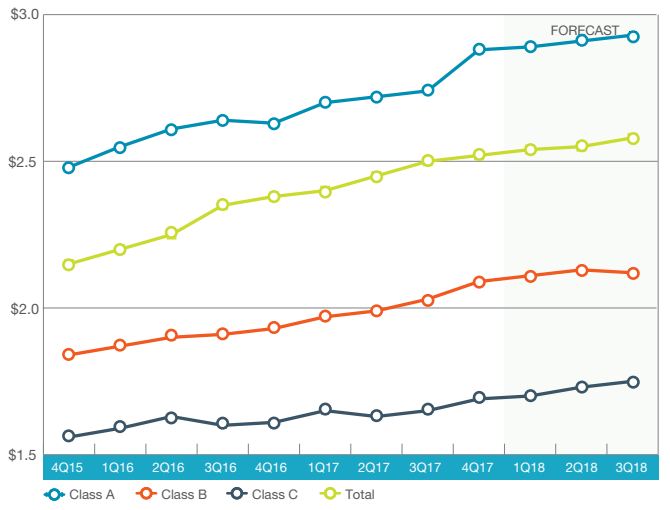
VACANCY VS AVAILABILITY



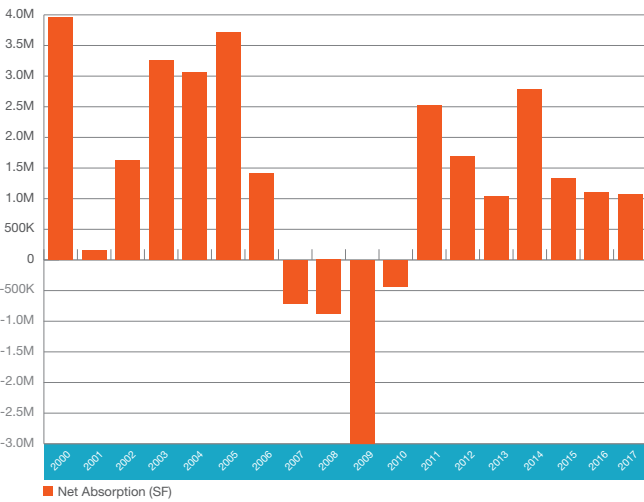
AVERAGE SALES PRICE & CAPITALIZATION RATES



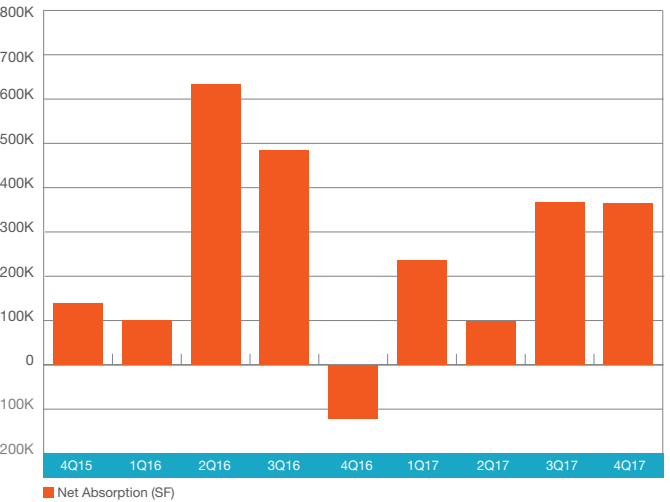
ASKING LEASE RATE



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

Commerce
323.727.1144

Long Beach
562.472.0071

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

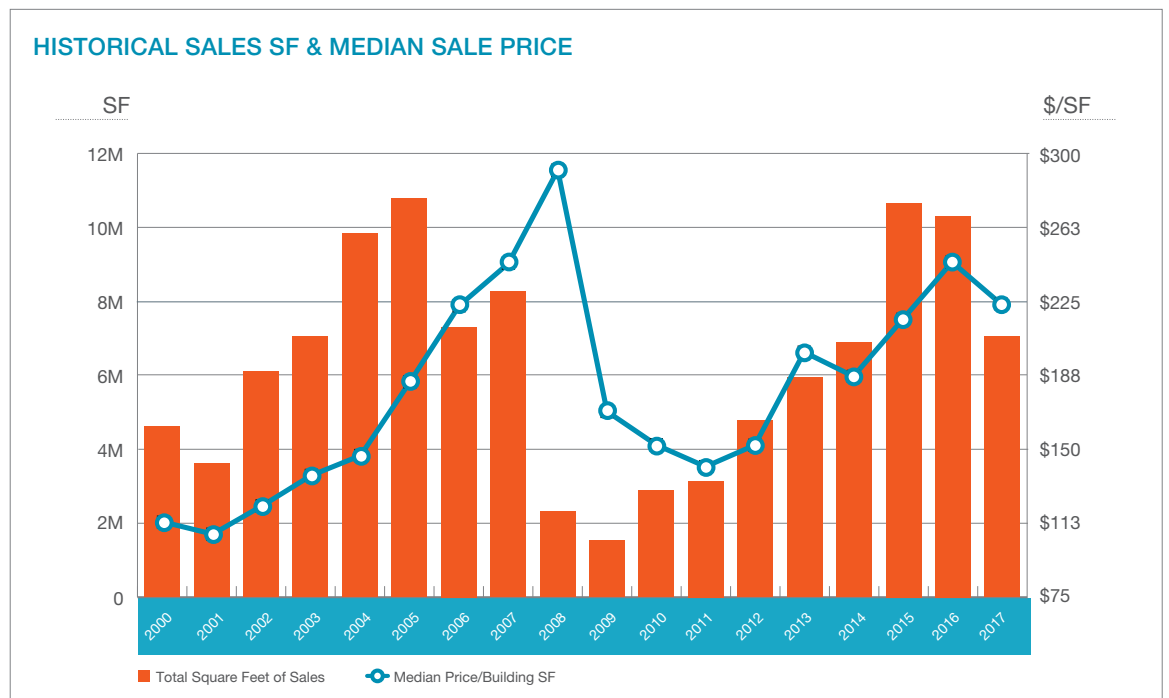
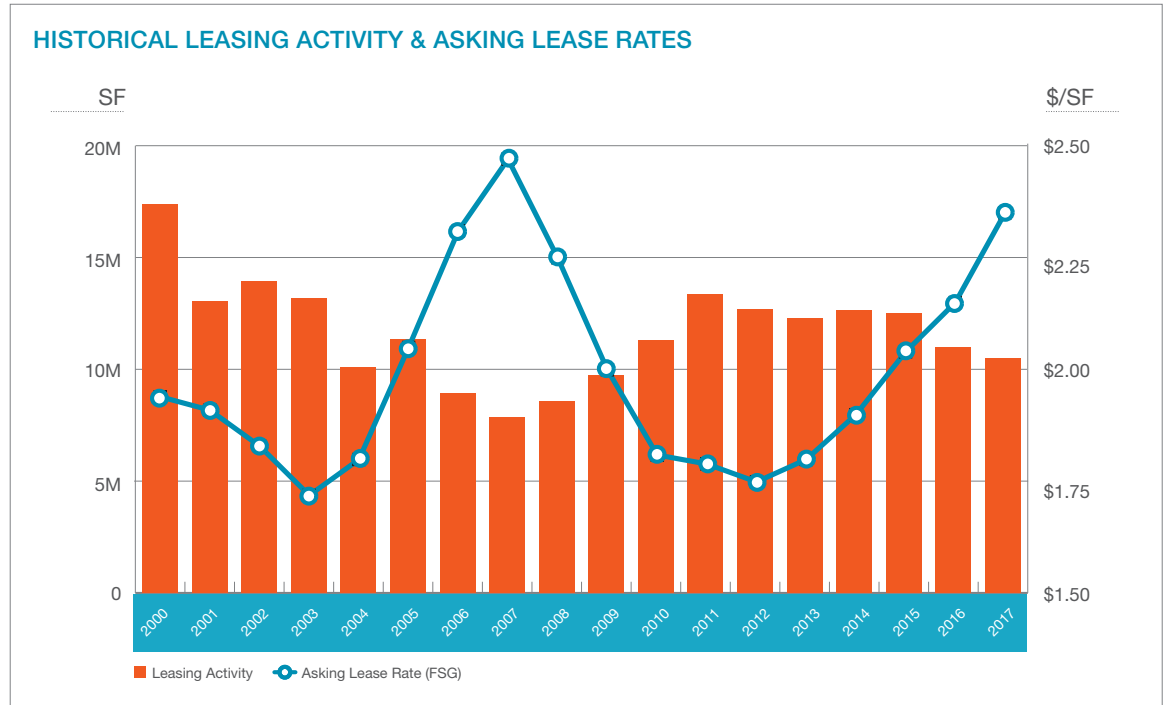
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Market Breakdown

	2017	2016	2015	Annual % Change
Vacancy Rate	10.60%	9.60%	10.00%	10.41%
Availability Rate	14.50%	14.40%	13.90%	0.69%
Asking Lease Rate	\$2.35	\$2.15	\$2.04	9.30%
Leased SF	10,495,752	10,987,555	12,482,482	-4.47%
Sold SF	7,054,842	10,312,976	10,665,165	-31.59%
Net Absorption	1,066,109	1,098,031	1,331,540	N/A



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