

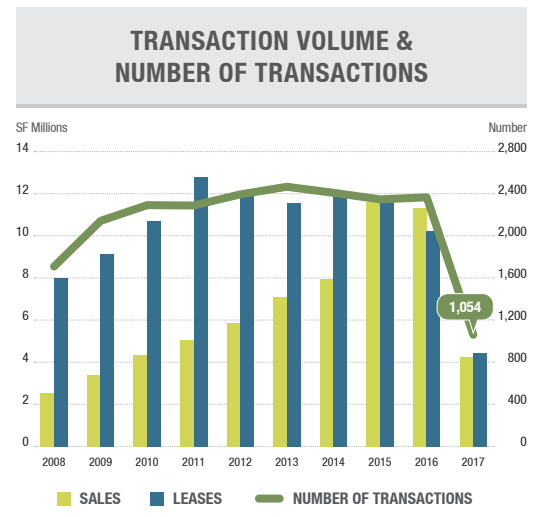
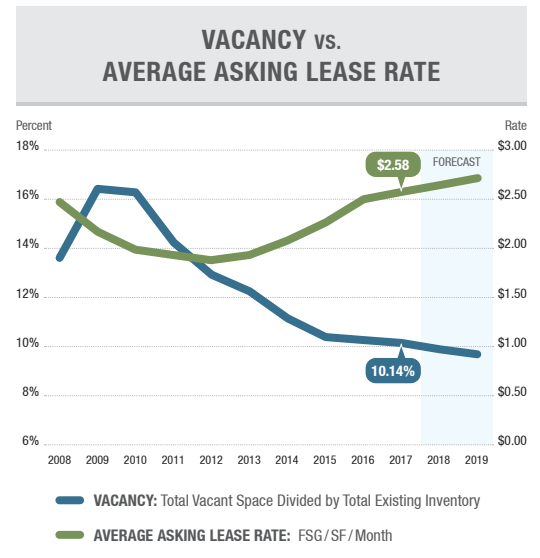
SOUND FUNDAMENTALS. Orange County’s diverse economy continues to thrive as businesses both large and small target expansion opportunities in the second quarter. While firms in the legal, real estate, financial services, technology, medical, automotive and software sectors are aiming to become more efficient in the way they use their real estate, new hires continue to drive demand. Tenant demand for quality space is high as firms look for new and innovative ways to attract and retain talent. Average asking rents (\$2.58 per square foot) have been pushed to their highest level in years. Business owners are maintaining an elevated level of optimism and are now willing to make significant investments in their real estate as illustrated by the Orange County’s 400,000 square feet of positive net absorption in 2017. The Orange County office market has now posted 2.5 million square feet of positive absorption over the past 10 quarters.

VACANCY. With technology, healthcare, and services leading the charge, the local economy continues to grow, driving the overall vacancy rate down to 10.14% in the second quarter of 2017, a slight decrease from the first quarter’s 10.22%.

LEASE RATES. The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was \$2.58 at the end of the second quarter, a 5.74% increase from this time last year and a 3.2% change from the first quarter (\$2.50).

TRANSACTION ACTIVITY. Investors and developers of office product throughout Orange County continue to provide creative and innovative solutions for office tenants by repositioning older buildings into creative work environments and keeping pace with the latest design trends. In the second quarter of 2017, 4.4 million square feet of total transactions (sale and lease) were recorded, up from 4.1 million in the first quarter. Notable leases include:

- Cylance lease of 133,324 square feet at 400 Spectrum Center Drive in Irvine Spectrum
- Mercedes Benz lease of 45,000 square feet at 15495 Sand Canyon Avenue in Irvine Spectrum
- Burns & McDonnell Engineering Co. lease of 38,277 square feet at 140 S. State College Boulevard in Brea



Market Statistics

	Change Over Last Quarter	2Q 2017	1Q 2017	2Q 2016	% Change Over Last Year
Vacancy Rate	▼ DOWN	10.14%	10.22%	10.45%	(2.97%)
Availability Rate	▲ UP	14.54%	14.08%	14.56%	(0.14%)
Average Asking Lease Rate	▲ UP	\$2.58	\$2.50	\$2.44	5.74%
Sale & Lease Transactions	▲ UP	4,431,135	4,185,820	4,479,899	(1.09%)
Gross Absorption	▲ UP	2,577,827	2,373,160	2,258,620	14.13%
Net Absorption	▲ POSITIVE	111,622	301,202	608,549	N/A

LEASE RATES. As consumer confidence increases along with continued job growth in the region, rents are continuing to grow. We expect the average asking lease rates to increase by 2–4% over the coming year in both Class A and Class B buildings.

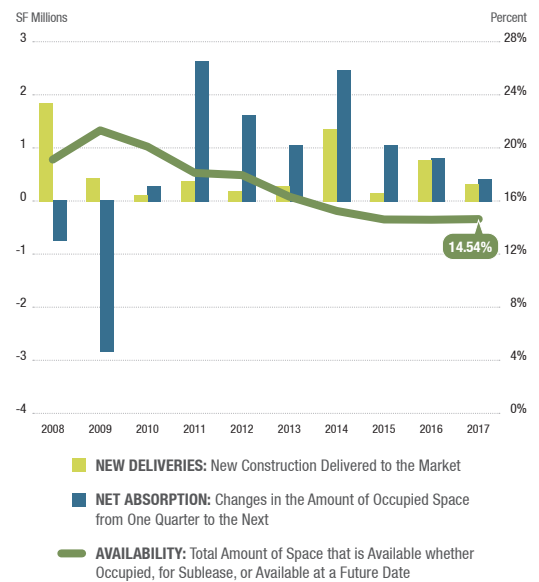
VACANCY. We are continuing to see a decrease in the amount of vacant and available space on the market, even as new product is being delivered. As we enter the latter half of 2017, new deliveries in the Airport and South County may temporarily apply upward pressure on the overall vacancy rate.

OVERALL. We anticipate positive absorption to continue as owners will continue to invest in their assets to provide attractive, creative, collaborative work environments for today’s rapidly evolving tenant base. Buildings that provide unique amenities such as cafes, gyms, outdoor meeting spaces and concierge services will attract quality tenants. The focus will be more on cost per employee vs. price per square foot as companies aim to get the most out of their people and enhance their overall work experience.

CONSTRUCTION. The total space under construction is roughly 2.4 million square feet, the highest level since 2007. The most noteworthy projects are the 1.1 million square foot owner-occupied office campus for Broadcom in Irvine, Trammell Crow’s 545,000 square foot project (“The Boardwalk”), and a 369,768 square foot spec project (The Quad at Discovery Business Center) in Irvine Spectrum. In addition, a 400,000 square foot office component at the mixed-use Flight at Tustin Legacy development in Tustin is just about to get underway. The first phase is scheduled to break ground this year, and will include eight office buildings with a standalone food hall and conference center.

ABSORPTION. Net absorption posted 111,622 square feet of positive absorption this quarter, giving the market a total of 2.5 million square of positive absorption since the third quarter of 2010. The fundamentals are strong, marked by an increase in tenant demand and steady rent growth. In terms of absorption, Class A product was the biggest gainer in the quarter with 72,520 square feet of positive absorption.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
1920–2010 Main St. – 3 Properties	Irvine	A	723,994	\$200,000,000	Emmes Realty Services of CA, LLC	Shorenstein Properties, LLC
18301 Von Karman Ave.	Irvine	A	224,729	\$85,800,000	18301 Von Karman Property Holdings	CIGNA
200 W. Center St.	Anaheim	A	191,556	\$58,900,000	Greenlaw Partners	Mariner Real Estate Management
200–201 E. Sandpointe Ave.	Santa Ana	A	303,924	\$52,675,000	Cress Capital, LLC	TA Realty
18831 Von Karman Ave.	Irvine	A	65,274	\$24,500,000	Kirin Hopkins	Great Far East

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
400 Spectrum Center	Irvine Spectrum	A	133,324	May-2017	Cylance	The Irvine Company
140 S. State College Blvd.	Brea	A	38,277	Apr-2017	Burns & McDonnell Engineering Co.	BPAP East 140, LLC
18872 MacArthur Blvd.	Irvine	B	32,759	Apr-2017	AutoBytel, Inc.	Great Far East
2850 S. Red Hill Ave.	Santa Ana	B	24,948	Apr-2017	William Hezmalhalch Architects	Voit Placentia Partners, LLC*
1100 W. Town & Country Rd.	Orange	A	24,157	May-2017	Alignment Healthcare	Mullrock Executive Tower Fee



Market Continues To Display Sound Fundamentals

by **Stefan Rogers**

SENIOR VICE PRESIDENT / PARTNER, IRVINE

The Orange County office market continued to display sound fundamentals in the second quarter of 2017, supported by an almost 3% drop in the overall vacancy rate, a 6% increase in average asking lease rates and a surge in both transaction volume and velocity. Orange County is now a “landlord’s market” across asset classes and we expect this environment to continue for the foreseeable future, given the health and diversity of the local economy.

Rumors of a “correction” in the real estate markets and the greater economy have persisted for some time now, but this prophecy has yet to be fulfilled or even truly defined. While it would be reasonable to expect a downturn in the near future based on the length of the current recovery/expansion when compared with previous cycles, we now find ourselves in uncharted territory defined by a historically slow and steady economic recovery. Traditional indicators of a downturn seem muted at best from our perspective as businesses both large and small are hiring and contemplating expansions/consolidations.

With the election behind us and federal monetary policy generally stable, business and real estate owners seem to have a relatively clear view of the future and the confidence to make well informed, long-term commitments. A fair amount of uncertainty still exists when it comes to inflationary pressures and the local implementation of government policy (trade, regulation, etc.), but this concern has yet to impact tenant and buyer activity as space continues to be absorbed at an aggressive pace.

The current landscape presents opportunities for developers/investors, landlords, tenants, buyers and sellers alike. Developers have an extended window to identify tenant demand and workplace trends and to deliver innovative solutions. These solutions will likely take the form “value-add” and adaptive reuse opportunities where older, functionally obsolete product is being transformed into higher and better uses. Landlords have an opportunity to continue to push rents and improve tenant retention by enhancing onsite amenities/services while providing flexibility for their tenants. Tenants are now looking at longer leases, allowing them to extract maximum economic concessions and control their overall occupancy costs. They are focused on efficiency and intelligent workspace design to maximize recruitment, retention and productivity, much more than in previous cycles. Flexibility to expand and contract over time is expected to remain a key driver for tenants as technological advancement continues to change the overall business environment.

Buyers, both investors and users, have been taking advantage of the low cost of capital and more lenient underwriting criteria to acquire stabilized long-term investments, and we anticipate this trend to continue. Business owners will also look to purchase their own properties in an effort to stabilize their occupancy costs and invest in their own specific improvements during this attractive interest rate environment.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services’ use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services. ©2017 Voit Real Estate Services, Inc. License #01991785.

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Nationally & Internationally.

CORFAC
International

Product Type

CLASS A: Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

CLASS B: Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

CLASS C: Buildings competing for tenants requiring functional space at rents below the area average.

Submarkets

AIRPORT AREA

Costa Mesa, Irvine, Newport Beach

CENTRAL COUNTY

Anaheim, Orange, Santa Ana, Tustin

NORTH COUNTY

Anaheim Hills, Brea, Buena Park, Fullerton, La Habra, La Palma, Placentia, Yorba Linda

SOUTH COUNTY

Aliso Viejo, Dana Point, Foothill Ranch, Irvine Spectrum, Laguna Beach, Laguna Hills, Laguna Niguel, Lake Forest, Mission Viejo, Rancho Santa Margarita, San Clemente, San Juan Capistrano

WEST COUNTY

Cypress, Fountain Valley, Garden Grove, Huntington Beach, Los Alamitos, Seal Beach, Stanton, Westminster