THIRD QUARTER 2018 MARKET REPORT
ORANGE COUNTY OFFICE

Voit REAL ESTATE SERVICES

MARKET OVERVIEW. The Orange County office market grew at a healthy pace in the third quarter, responding to strength in the economy as employers continue to expand. While the growth is stronger than it has been in nearly a decade, the office market is by no means — the pace of expansion is still considerably slower than in past times of economic growth. One factor holding the office sector back is that employers have been packing more employees into less space, doing away with private offices and designing smaller cubicles. With that said, Orange County continues to be among the most dynamic submarkets in the country. Business sectors including finance, technology and consulting services should help maintain stability in the market.

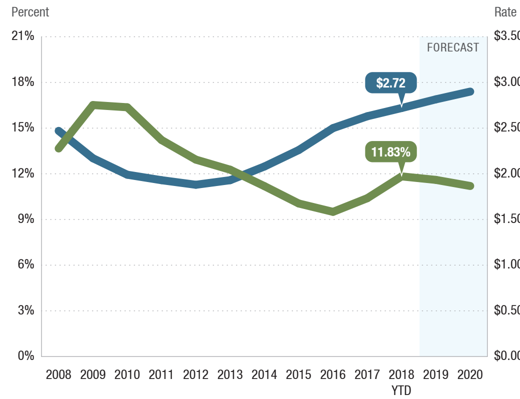
VACANCY. The vacancy rate for Orange County office buildings slightly rose in 3Q 2018, as newly completed space came onto the market. The vacancy rate in the Orange County office market sits at 11.83%. This is up from 11.34% in 2Q, and up from 9.97% last year. The large amount of new supply that came online coincided with many tenants desiring to reduce their footprint. Expect vacancy to trend downward in 2019, based on steady job growth and consumer confidence, coupled with many tenants currently in the market shopping for space.

LEASE RATES. The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was $2.72 at the end of 3Q, a 3.82% increase from this time last year and a $0.05 increase from 2Q. The highest rates were in the Airport Area Class A buildings, where rental rates averaged $3.08. Anticipate asking rental rates in Orange County to continue to modestly rise throughout 2018 based on the strong level of current demand from a variety of industries.

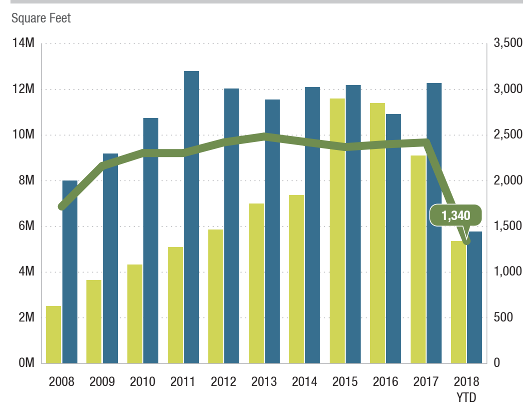
TRANSACTION ACTIVITY. The fundamental demand driver is a strong local and regional economy. The employment base has been buoyed by various financial and business services, legal, and healthcare firms. This provides stability that was not present during the recent past. In 3Q 2018, 1.92 MSF of total transactions (sale and lease) were recorded, up from just over 1.62 MSF in 2Q. The healthy level of activity during the first two quarters of 2018 offers a reminder that the Orange County office market remains on solid footing. Demand is healthy for Class A product and major employers continue to strategically grow.

ECONOMY. The unemployment rate in Orange County was 3.1% in August 2018, down slightly from a revised 3.2% in July 2018, and below the year-ago estimate of 3.8%. This compares with an unadjusted unemployment rate of 4.3% for California and 3.9% for the nation during the same period. Educational and health services reported the largest overall increase with a gain of 3,100 jobs. Healthcare and social assistance added 1,800 jobs while educational services expanded by 1,300 jobs. Professional and business services gained 5,300 payroll jobs over the year. Sixty percent of the gain occurred in administrative and support services, which includes temporary help firms.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	3Q 2018	2Q 2018	3Q 2017	% Change Over Last Year
Vacancy Rate	UP	11.83%	11.34%	9.97%	18.66%
Availability Rate	UP	15.75%	15.55%	14.71%	7.07%
Average Asking Lease Rate	UP	$2.72	$2.67	$2.62	3.82%
Sale & Lease Transactions	UP	1,921,521	1,627,971	2,863,142	(32.89%)
Gross Absorption	UP	2,555,486	2,256,744	2,893,695	(11.69%)
Net Absorption	NEGATIVE	(375,816)	(263,392)	179,688	N/A

Forecast

LEASE RATES. Expect an overall modest increase in pricing in the coming quarters. We expect the average asking lease rates to increase by 3% over the next year. Steady demand for office space is pushing up rents at class A buildings in all Orange County cities. Rents for Class A office space in Orange County are forecast to rise 3% this year, to $3.20 square feet.

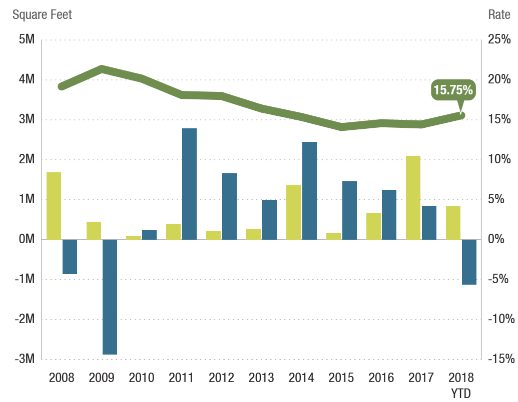
VACANCY. Across the Orange County market, net absorption was negative in 3Q, increasing the overall vacancy rate. Tenants continued to downsize their space, while other industries like business services, nonprofits, and coworking companies have increased demand for space. With the availability of existing office space declining, we expect the vacancy rate to drop to 11% by year end.

OVERALL. While new construction tends to be a top choice for tenants, many are leaving behind more space than they are taking. Office space availability, combined with new construction which recently came to market, has left some tenants with multiple options while others have struggled to find the right space. Availability is expected to slightly increase throughout the remainder of the year as the ongoing trend toward right-sizing continues to put a damper on net growth.

CONSTRUCTION. Total space under construction checked in at 688,545 square feet at the end of 3Q 2018 with the most notable being Lincoln Property's Flight @ Tustin Legacy, a spec project that is expected to start delivering at the beginning of 2019. In Irvine, the redevelopment of the former warehouse at 2722 Michelson should wrap up by the start of next year, with 155,000 square feet of new space, already committed to by Anduril, and Spectrum Terrace Phase 1, 116,261 square feet, an ultra-modern campus nestled on 73 acres of open space in the heart of SoCal's innovation hub.

ABSORPTION. A growing number of successful companies are strategically downsizing to save money, improve collaboration, and boost productivity. During the balance of 2018, expect demand for office space to remain steady due to new hiring demands offset by implementation of more efficient layouts. Today's tenants are more concerned with efficiency, so businesses attempt to put more people into less space. Net absorption was negative 375,816 square feet in 3Q, bringing the 2018 annual total to a negative 1,122,991 square feet.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



NEW DELIVERIES: New Construction Delivered to the Market
NET ABSORPTION: Changes in the Amount of Occupied Space from One Quarter to the Next
AVAILABILITY: Total Amount of Space that is Available whether Occupied, for Sublease, or Available at a Future Date

Significant Transactions

Sales

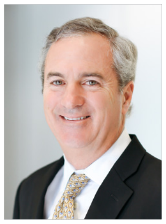
Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
19100–19200 Von Karman Ave. (2 Prop.)	Irvine	A	302,877	$106,750,000	Centerpointe Atrium, LLC	Atrium Irvine, LLC
1–3 Glen Bell Way (2 Prop.)	Irvine Spectrum	A	271,060	$104,000,000	LBA Realty	Transpacific Development Co.
14900 Bolsa Chica St.	Huntington Beach	A	235,000	$56,994,848	Sares-Regis Group	The Boeing Company
1500 Quail St.	Newport Beach	B	90,715	$32,200,000	Lincoln Property Company	New York Life Real Estate Investor
2020 E. 1st S.	Santa Ana	A	114,517	$13,256,500	Harbor Associates, LLC	The Colton Company

Leases

Property Address						
25 Enterprise	Aliso Viejo	A	90,877	Jul-2018	Carrington Mortgage	Invesco
18565–18575 Jamboree Rd.	Irvine	A	63,816	Sep-2018	WeWork	Trammell Crow Company
4000 W. Metropolitan Dr.	Orange	B	59,927	Aug-2018	County of Orange	Boyd Waterson Asset Mgmt
5301 California Ave.	Irvine	B	55,450	Jul-2018	LPA	The Irvine Company
1 MacArthur Pl.	Santa Ana	A	21,109	Jul-2018	TCPP, LLC	BRE/OC MacArthur (Equity)

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2018	Square Feet Available	Availability Rate 3Q2018	Average Asking Lease Rate	Net Absorption 3Q2018	Net Absorption 2018	Gross Absorption 3Q2018	Gross Absorption 2018
Airport Area													
Costa Mesa	73	7,366,265	0	442,476	1,174,386	15.94%	1,475,577	20.03%	$2.82	24,792	(202,978)	162,936	498,392
Irvine	266	25,101,121	155,000	426,000	3,945,256	15.72%	5,214,998	20.78%	$2.99	(33,251)	(675,888)	701,471	2,177,640
Newport Beach	123	10,027,584	0	42,646	1,002,071	9.99%	1,270,048	12.67%	$3.47	(64,225)	(133,980)	292,470	740,705
Santa Ana	15	2,451,684	0	0	350,654	14.30%	572,305	23.34%	$2.66	(65,276)	(38,868)	9,735	210,629
Airport Area Total	477	44,946,654	155,000	911,122	6,472,367	14.40%	8,532,928	18.98%	$3.08	(137,960)	(1,051,714)	1,166,612	3,627,366
Central County													
Anaheim	21	1,946,308	0	0	236,948	12.17%	542,358	27.87%	$2.51	(23,638)	(51,701)	23,760	64,208
Orange	80	7,120,909	0	386,000	715,280	10.04%	1,002,486	14.08%	$2.49	22,851	(173,601)	215,398	373,419
Santa Ana	166	12,638,147	0	911,765	1,359,811	10.76%	1,654,258	13.09%	$2.22	(14,851)	(87,575)	140,265	428,107
Tustin	42	2,235,183	417,284	287,000	362,304	16.21%	391,216	17.50%	$2.30	(34,411)	17,632	23,585	119,712
Central County Total	309	23,940,547	417,284	1,584,765	2,674,343	11.17%	3,590,318	15.00%	$2.28	(50,049)	(295,245)	403,008	985,446
North County													
Anaheim Hills	83	5,944,199	0	0	441,742	7.43%	641,994	10.80%	$2.21	(36,626)	(155,211)	66,216	181,502
Brea	41	4,038,790	0	0	281,909	6.98%	292,214	7.24%	$2.48	33,781	75,629	116,697	246,726
Buena Park	17	1,114,233	0	0	132,244	11.87%	154,675	13.88%	$2.16	13,837	(36,003)	16,433	140,892
Fullerton	29	2,356,737	0	0	172,947	7.34%	345,087	14.64%	$1.97	8,653	(6,962)	10,873	43,061
La Habra	4	142,069	0	0	9,582	6.74%	9,697	6.83%	$1.55	1,192	(7,715)	9,099	12,168
La Palma	10	712,038	0	0	66,613	9.36%	83,433	11.72%	$1.95	(21,611)	(19,883)	2,696	19,413
Placentia	8	267,581	0	0	28,643	10.70%	28,461	10.64%	$1.87	(4,878)	(8,708)	8,979	13,479
Yorba Linda	5	288,094	0	0	56,000	19.44%	56,000	19.44%	$2.05	2,854	3,447	2,854	19,303
North County Total	197	14,863,741	0	0	1,189,680	8.00%	1,611,561	10.84%	$2.23	(2,798)	(155,406)	233,847	676,544
South County													
Aliso Viejo	44	3,348,128	0	0	664,851	19.86%	958,063	28.61%	$3.18	(93,281)	(121,453)	74,974	168,212
Dana Point	2	91,876	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Foothill Ranch	10	798,721	0	0	66,111	8.28%	109,519	13.71%	$2.50	(2,934)	770	15,582	50,429
Irvine Spectrum	169	12,899,065	116,261	872,415	1,597,108	12.38%	1,951,640	15.13%	$3.25	(54,187)	409,852	462,713	1,456,579
Laguna Beach	5	192,434	0	0	19,836	10.31%	19,836	10.31%	$0.00	0	1,223	0	2,023
Laguna Hills	33	1,826,428	0	0	262,852	14.39%	348,905	19.10%	$2.74	5,693	16,789	32,949	110,966
Laguna Niguel	10	1,749,768	0	0	59,601	3.41%	61,135	3.49%	$0.00	12,339	5,328	15,105	33,574
Lake Forest	40	2,108,641	0	0	114,223	5.42%	313,754	14.88%	$2.07	(2,065)	45,648	22,507	111,475
Mission Viejo	36	1,917,148	0	0	190,227	9.92%	251,937	13.14%	$2.41	(301)	23,935	24,455	76,226
Rancho Santa Margarita	6	252,716	0	0	14,873	5.89%	18,157	7.18%	$2.15	(2,865)	(2,319)	3,335	11,026
San Clemente	11	468,606	0	0	77,654	16.57%	88,038	18.79%	$2.39	(40,755)	(53,857)	0	4,868
San Juan Capistrano	18	912,583	0	0	136,507	14.96%	143,929	15.77%	$2.34	939	17,239	939	21,665
South County Total	384	26,566,114	116,261	872,415	3,203,843	12.06%	4,264,913	16.05%	$2.93	(177,417)	343,155	652,559	2,047,043
West County													
Cypress	28	1,951,875	0	0	135,265	6.93%	197,787	10.13%	$2.20	(421)	32,562	6,461	78,392
Fountain Valley	34	2,029,560	0	0	46,286	2.28%	61,464	3.03%	$0.00	11,542	10,048	14,572	30,964
Garden Grove	20	1,567,219	0	0	35,789	2.28%	80,099	5.11%	$1.98	(5,339)	(349)	8,858	34,444
Huntington Beach	43	2,506,226	0	0	204,729	8.17%	319,338	12.74%	$2.44	(13,013)	(52,287)	30,598	89,864
Los Alamitos	12	661,516	0	0	179,919	27.20%	182,224	27.55%	$2.60	0	9,651	1,331	24,711
Seal Beach	7	473,787	0	0	37,554	7.93%	45,226	9.55%	$3.18	(13,339)	(12,479)	7,421	25,120
Stanton	4	143,361	0	0	2,324	1.62%	8,347	5.82%	$1.38	3,832	14,963	4,222	20,973
Westminster	11	445,584	0	0	22,715	5.10%	24,357	5.47%	$2.00	9,146	34,110	25,997	57,825
West County Total	159	9,779,128	0	0	664,581	6.80%	918,842	9.40%	$2.42	(7,592)	36,219	99,460	362,293
Orange County Total	**1,526**	**120,096,184**	**688,545**	**3,368,302**	**14,204,814**	**11.83%**	**18,918,562**	**15.75%**	**$2.72**	**(375,816)**	**(1,122,991)**	**2,555,486**	**7,698,692**
Airport Area													
Class A	136	26,400,346	0	426,000	4,272,902	16.19%	5,705,453	21.61%	$3.30	29,519	(164,207)	817,706	2,354,534
Class B	317	17,571,772	155,000	485,122	2,140,027	12.18%	2,706,707	15.40%	$2.62	(163,001)	(883,080)	342,122	1,243,462
Class C	24	974,536	0	0	59,438	6.10%	120,768	12.39%	$2.20	(4,478)	(4,427)	6,784	29,370
Central County													
Class A	43	7,248,835	417,284	1,282,765	908,501	12.53%	1,232,034	17.00%	$2.71	24,891	(256,157)	108,459	253,645
Class B	213	14,103,113	0	302,000	1,624,859	11.52%	2,171,727	15.40%	$2.14	(82,344)	(41,165)	252,353	646,278
Class C	53	2,588,599	0	0	140,983	5.45%	186,557	7.21%	$1.75	7,404	2,077	42,196	85,523
North County													
Class A	27	3,196,381	0	0	352,463	11.03%	388,433	12.15%	$2.63	24,394	24,137	89,025	203,804
Class B	147	10,774,028	0	0	824,956	7.66%	1,205,490	11.19%	$2.07	(31,900)	(174,783)	138,383	462,839
Class C	23	893,332	0	0	12,261	1.37%	17,638	1.97%	$1.97	4,708	(4,760)	6,439	9,901
South County													
Class A	74	9,728,676	116,261	701,294	1,623,653	16.69%	1,949,355	20.04%	$3.15	(64,752)	423,988	433,504	1,190,282
Class B	299	16,318,285	0	171,121	1,569,857	9.62%	2,305,704	14.13%	$2.61	(109,823)	(105,624)	217,965	821,315
Class C	11	519,153	0	0	10,333	1.99%	9,854	1.90%	$1.90	(2,842)	24,791	1,090	35,446
West County													
Class A	19	2,175,065	0	0	139,177	6.40%	242,576	11.15%	$2.54	(1,080)	(9,407)	28,038	63,429
Class B	122	6,919,990	0	0	435,268	6.29%	583,600	8.43%	$2.36	(10,362)	33,196	66,002	282,404
Class C	18	684,073	0	0	90,136	13.18%	92,666	13.55%	$1.25	3,850	12,430	5,420	16,460
Orange County													
Class A	299	48,749,303	533,545	2,410,059	7,296,696	14.97%	9,517,851	19.52%	$3.11	12,972	18,354	1,476,732	4,065,694
Class B	1,098	65,687,188	155,000	958,243	6,594,967	10.04%	8,973,228	13.66%	$2.35	(397,430)	(1,171,456)	1,016,825	3,456,298
Class C	129	5,659,693	0	0	313,151	5.53%	427,483	7.55%	$1.81	8,642	30,111	61,929	176,700
Orange County Total	**1,526**	**120,096,184**	**688,545**	**3,368,302**	**14,204,814**	**11.83%**	**18,918,562**	**15.75%**	**$2.72**	**(375,816)**	**(1,122,991)**	**2,555,486**	**7,698,692**

This survey consists of office properties 25,000 square feet and larger in size, representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis.



Beyond the Sale

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It is safe to say if you want to buy or rent office space in Orange County you will be facing higher rents and sale prices at the end of 2018. The Orange County economy is continuing to be one of the fastest growing in the nation and the Orange County office market continues to improve. Asking rental rates and sale prices have increased over the past two to three years. Although hard to find, good investment opportunities still exist if one knows where to look. 2018 has been a strong year for office property investments, with solid property fundamentals, low interest rates, and ample supply of capital. Most investors that are buying properties are also investing a lot of capital into the properties after they close escrow.

Although Orange County vacancy rate statistics themselves may not suggest supply shortages, a growing scarcity of available large blocks of quality office space and continued rent increases makes for more speculative development in certain parts of Orange County. There are fewer than 20 properties (existing or under construction) with a block of 100,000 square feet for lease. Tenants looking for 50,000 square feet have 48 different buildings from which to choose. Between now and year-end 2019, developers are expected to deliver a total of 1.0 million square feet. The market vacancy rate should finish 2018 at 11.40% and will fall 4 percentage points to 10.90% by year end 2019. On an annualized basis through 2017 and 2018, asking rents are anticipated to increase by 4%, to finish 3Q 2019 at $2.83.

Institutional investors continue to target Orange County, regularly trading properties and office campuses. However, assets with Class B or higher are the most commonly sold inventory, often among private investors and institutions. Average cap rates have settled in to the 5–6% range, more than 150 basis points higher than in the apartment sector.

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

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