

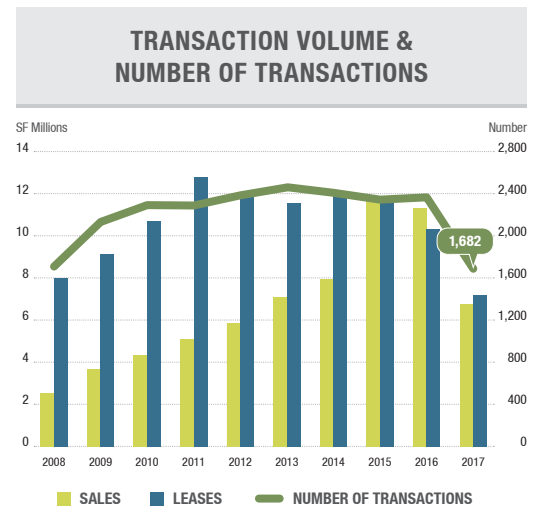
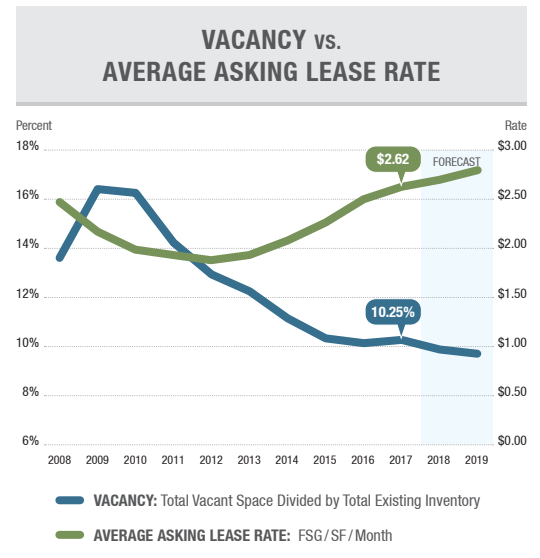
MARKET CAPABLE OF ABSORBING SPACE. The Orange County office market recorded a 10.25% vacancy rate and positive net absorption of approximately 262,751 square feet during the third quarter of 2017. Average asking rental rates for all classes of office space ended the second quarter at \$2.62 per square foot, a 5.22% increase year-over-year. Year-to-date building deliveries for 2017 were just under 1.0 million square feet with 2.3 million square feet remaining under construction expected to come online in 2018.

VACANCY. Direct vacancy rates in the office market rose slightly from 10.20% in the second quarter to 10.25% in the third quarter of 2017. Class A vacancy increased slightly from 12.61% in the second quarter to 12.76% in the third quarter 2017. Class A office market saw a continued leveling out of both activity and rates in the third quarter, fueled in part by new construction delivering with vacancy.

LEASE RATES. The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was \$2.62 at the end of the third quarter, a 5.22% increase from this time last year and a 1.55% change from the second quarter (\$2.58). The highest rates were in the Airport Area Class A buildings, where rental rates average \$3.07. We anticipate asking rental rates in Orange County to continue to rise throughout the remainder of 2017 based on the strong level of current demand from a variety of industries.

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 third quarter of 2017, 4.5 million square feet of total transactions (sale and lease) were recorded, down from 5.1 million in the second quarter. Notable leases include:

- Behr Process Corporation lease of 225,279 square feet at 1801 E. Saint Andrew Place in Santa Ana
- Holthouse Carlin & Van Trigt lease of 30,299 square feet at The Boardwalk in Irvine
- SendGrid, Inc. lease of 22,000 square feet at 400 Spectrum Centre Drive in Irvine Spectrum



Market Statistics

	Change Over Last Quarter	3Q 2017	2Q 2017	3Q 2016	% Change Over Last Year
Vacancy Rate	▲ UP	10.25%	10.20%	9.94%	3.12%
Availability Rate	▲ UP	15.04%	14.66%	15.11%	(0.46%)
Average Asking Lease Rate	▲ UP	\$2.62	\$2.58	\$2.49	5.22%
Sale & Lease Transactions	▼ DOWN	4,574,357	5,193,043	4,852,708	(5.74%)
Gross Absorption	▲ UP	2,961,098	2,609,853	2,832,803	4.53%
Net Absorption	▲ POSITIVE	262,751	62,631	383,835	N/A

LEASE RATES. As consumer confidence and demand increases along with continued job growth in the region, rents are continuing to rise. We expect the average asking lease rates to increase by 2–3% over the coming year in both Class A and Class B buildings.

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

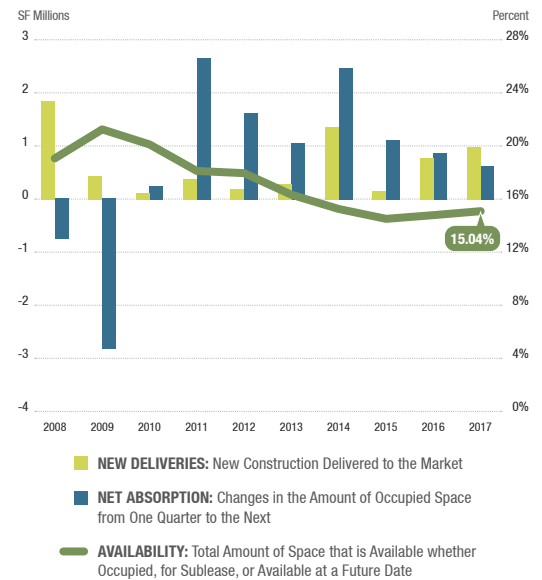
OVERALL. Flat trends will continue through the fourth quarter as buildings in the construction pipeline deliver to relatively strong demand. Despite no change in the unemployment rate, the past year has seen the addition of 900 jobs and market fundamentals seems robust in spite of a slowdown in growth. Many of the construction projects set to deliver in 2018 have yet to be pre-leased. This may cause a slight increase in vacancy rates in ensuing quarters and negative absorption seems probable, but not enough to move us out of our positive and bullish cycle quite yet.

CONSTRUCTION. The total space under construction is roughly 2.3 million square feet, the highest level since 2007. The most noteworthy projects are the 1.1 million square foot 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 underway. Only one notable delivery in the third quarter: The Irvine Company 466,696 square feet at 400 Spectrum Centre Drive in Irvine Spectrum.

AVAILABILITY. Direct/sublease space being marketed in the third quarter is now at 15.04%, up from 14.66% in the second quarter. We expect availability to continue to compress with a possible uptick in later quarters when new, speculative projects are delivered to the market.

ABSORPTION. Net absorption for the Orange County office market recorded 262,751 in the third quarter of 2017. Class A space contributed 539,967 of positive absorption and Class B recorded a negative (256,948 square feet). Contributors to the third quarter’s positive absorption include MicroVention’s headquarters (205,000 square feet), Agilon Health at AXIS Anaheim (35,849 square feet) and American First Credit Union at Olen Point (27,106 square feet).

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
15101–15191 Alton Pkwy.	Irvine Spectrum	A	1,039,893	\$443,000,000	FivePoint	Broadcom
1100 W Town & Country Rd.	Orange	A	396,680	\$115,000,000	The Mueller Company	Rockwood Capital, LLC
1–30 Centerpointe Dr.	La Palma	A	530,470	\$106,100,000	Westbrook Partners	TA Realty
4100 Newport Place Dr.	Newport Beach	A	190,405	\$75,600,000	Olen Properties	American Realty Advisors
4400 MacArthur Blvd.	Newport Beach	A	156,310	\$59,800,000	Hilrod Holdings	TA Realty

Leases

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
15101–15191 Alton Pkwy.	Irvine Spectrum	A	660,888	Jul-2017	Broadcom	FivePoint
1801 E. Saint Andrew Pl.	Santa Ana	B	225,279	Jul-2017	Behr Process Corpation	Angelo, Gordon & Co.
15131 Alton Pkwy.	Irvine Spectrum	A	90,000	Jul-2017	Lennar Corpation	FivePoint
19000 MacArthur Blvd.	Irvine	A	38,807	Sep-2017	Home Franchise Concepts	C M Stratplan, Inc.
12661 Hoovers St.	Garden Grove	B	21,303	Jul-2017	Alkemists Pharmaceuticals *	ICON Owner Pool 1 LA Bus Park *

INVENTORY

VACANCY & LEASE RATES

ABSORPTION

	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2017	Square Feet Available	Availability Rate 3Q2017	Average Asking Lease Rate	Net Absorption 3Q2017	Net Absorption 2017	Gross Absorption 3Q2017	Gross Absorption 2017
Airport Area													
Costa Mesa	72	7,328,899	0	377,476	1,032,705	14.09%	1,490,747	20.34%	\$2.79	(110,417)	(49,570)	216,349	454,653
Irvine	258	24,032,899	537,258	566,000	2,487,408	10.35%	5,255,431	21.87%	\$2.99	44,455	(182,267)	799,510	2,093,598
Newport Beach	122	9,996,574	0	42,646	889,188	8.89%	1,096,414	10.97%	\$3.41	48,848	(47,676)	221,547	610,837
Santa Ana	15	2,451,993	0	0	479,590	19.56%	519,652	21.19%	\$2.40	(53,593)	(93,232)	22,869	187,276
Airport Area Total	467	43,810,365	537,258	986,122	4,888,891	11.16%	8,362,244	19.09%	\$3.07	(70,707)	(372,745)	1,260,275	3,346,364
Central County													
Anaheim	17	1,943,524	0	300,000	215,853	11.11%	204,712	10.53%	\$2.20	39,666	142,775	52,451	231,532
Orange	82	7,141,161	0	386,000	599,489	8.39%	950,694	13.31%	\$2.22	14,521	(1,782)	93,739	284,247
Santa Ana	164	12,319,397	0	702,325	1,408,562	11.43%	1,457,530	11.83%	\$1.96	113,546	364,427	272,687	803,658
Tustin	42	2,231,674	417,284	827,262	400,087	17.93%	501,270	22.46%	\$2.22	(12,234)	61,455	54,480	202,911
Central County Total	305	23,635,756	417,284	2,215,587	2,623,991	11.10%	3,114,206	13.18%	\$2.06	155,499	566,875	473,357	1,522,348
North County													
Anaheim Hills	82	5,910,747	0	20,000	486,409	8.23%	664,304	11.24%	\$1.93	(65,786)	(49,369)	48,438	187,549
Brea	42	4,061,614	0	120,000	379,647	9.35%	455,599	11.22%	\$2.25	85,652	42,145	186,956	305,519
Buena Park	17	1,115,193	0	0	196,963	17.66%	279,696	25.08%	\$1.74	4,326	(37,678)	20,532	31,477
Fullerton	30	2,430,962	0	0	211,893	8.72%	381,228	15.68%	\$1.76	6,146	(17,575)	22,837	65,931
La Habra	4	142,069	0	0	0	0.00%	7,707	5.42%	\$1.42	0	0	0	0
La Palma	10	712,038	0	0	51,971	7.30%	51,971	7.30%	\$0.00	1,562	10,010	22,941	53,516
Placentia	8	267,581	0	0	28,786	10.76%	32,443	12.12%	\$1.77	(7,914)	6,714	468	18,552
Yorba Linda	5	288,094	0	0	35,697	12.39%	35,697	12.39%	\$2.08	0	(7,050)	0	0
North County Total	198	14,928,298	0	140,000	1,391,366	9.32%	1,908,645	12.79%	\$2.00	23,986	(52,803)	302,172	662,544
South County													
Aliso Viejo	44	3,344,515	0	0	414,732	12.40%	825,310	24.68%	\$3.21	112,347	70,620	225,740	354,944
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	121,664	15.23%	113,496	14.21%	\$2.50	2,941	(33,545)	8,079	42,315
Irvine Spectrum	162	11,539,064	1,404,848	71,000	883,395	7.66%	1,321,852	11.46%	\$3.08	77,315	402,993	392,198	1,273,905
Laguna Beach	5	192,434	0	0	22,009	11.44%	22,009	11.44%	\$0.00	(2,830)	(1,175)	0	2,843
Laguna Hills	33	1,804,417	0	0	267,840	14.84%	324,180	17.97%	\$2.65	(14,636)	14,075	47,165	134,179
Laguna Niguel	10	1,749,768	0	0	43,872	2.51%	53,717	3.07%	\$2.95	15,465	8,809	29,167	39,693
Lake Forest	40	2,105,495	0	0	242,664	11.53%	185,923	8.83%	\$2.14	(41,958)	(106,831)	10,798	52,952
Mission Viejo	36	2,031,106	0	0	215,812	10.63%	239,487	11.79%	\$2.35	8,117	(10,579)	67,597	166,321
Rancho Santa Margarita	6	262,769	0	0	20,949	7.97%	27,642	10.52%	\$2.13	(14,331)	(6,735)	2,154	17,020
San Clemente	13	528,257	0	0	38,537	7.30%	64,664	12.24%	\$2.32	4,261	2,781	4,910	21,270
San Juan Capistrano	17	876,712	0	0	144,641	16.50%	150,168	17.13%	\$2.55	(7,598)	(10,227)	4,037	11,083
South County Total	378	25,325,134	1,404,848	71,000	2,416,115	9.54%	3,328,448	13.14%	\$2.83	139,093	330,186	791,845	2,116,525
West County													
Cypress	28	1,947,554	0	0	253,115	13.00%	301,269	15.47%	\$1.97	32,973	95,027	48,888	159,305
Fountain Valley	33	1,995,993	0	0	63,094	3.16%	77,025	3.86%	\$1.54	8,405	15,754	21,330	38,363
Garden Grove	19	1,522,437	0	0	39,357	2.59%	44,265	2.91%	\$1.89	6,104	26,269	10,759	37,414
Huntington Beach	43	2,503,263	0	0	202,470	8.09%	352,205	14.07%	\$2.37	(27,608)	17,585	26,606	158,283
Los Alamitos	11	674,372	0	0	35,866	5.32%	43,618	6.47%	\$2.65	4,101	1,868	19,498	31,725
Seal Beach	7	473,787	0	0	33,572	7.09%	38,628	8.15%	\$3.06	4,477	8,462	4,477	19,354
Stanton	4	143,361	0	0	17,748	12.38%	19,869	13.86%	\$0.00	1,344	(8,946)	1,891	5,195
Westminster	12	484,540	0	0	75,274	15.54%	73,674	15.20%	\$2.14	(14,916)	(1,248)	0	35,605
West County Total	157	9,745,307	0	0	720,496	7.39%	950,553	9.75%	\$2.22	14,880	154,771	133,449	485,244
Orange County Total	1,505	117,444,860	2,359,390	3,412,709	12,040,859	10.25%	17,664,096	15.04%	\$2.62	262,751	626,284	2,961,098	8,133,025
Airport Area													
Class A	130	25,486,812	537,258	566,000	3,557,733	13.96%	5,103,323	20.02%	\$3.19	87,905	(193,999)	693,363	2,054,375
Class B	311	17,053,505	0	420,122	1,268,216	7.44%	3,158,390	18.52%	\$2.73	(162,518)	(219,998)	546,885	1,214,381
Class C	26	1,270,048	0	0	62,942	4.96%	100,531	7.92%	\$1.84	3,906	41,252	20,027	77,608
Central County													
Class A	43	7,259,638	417,284	1,913,587	725,926	10.00%	933,238	12.86%	\$2.34	91,355	150,667	127,365	359,487
Class B	207	13,958,662	0	302,000	1,684,444	12.07%	1,905,837	13.65%	\$1.99	79,865	417,949	310,396	1,027,440
Class C	55	2,417,456	0	0	213,621	8.84%	275,131	11.38%	\$1.65	(15,721)	(1,741)	35,596	135,421
North County													
Class A	27	3,191,188	0	120,000	421,527	13.21%	522,400	16.37%	\$2.23	66,167	48,355	164,362	252,132
Class B	147	10,807,778	0	20,000	925,988	8.57%	1,339,354	12.39%	\$1.90	(46,684)	(109,697)	126,785	389,007
Class C	24	929,332	0	0	43,851	4.72%	46,891	5.05%	\$1.65	4,503	8,539	11,025	21,405
South County													
Class A	65	8,390,937	1,404,848	0	982,168	11.71%	1,250,097	14.90%	\$3.10	301,969	490,241	453,201	1,165,754
Class B	302	16,415,044	0	71,000	1,402,596	8.54%	2,047,000	12.47%	\$2.61	(146,168)	(144,409)	338,644	948,015
Class C	11	519,153	0	0	31,351	6.04%	31,351	6.04%	\$2.04	(16,708)	(15,646)	0	2,756
West County													
Class A	23	2,481,209	0	0	286,612	11.55%	386,336	15.57%	\$2.62	(7,429)	(1,892)	30,918	124,443
Class B	116	6,512,333	0	0	416,383	6.39%	546,747	8.40%	\$1.98	18,557	153,240	97,694	341,994
Class C	18	751,765	0	0	17,501	2.33%	17,470	2.32%	\$0.00	3,752	3,423	4,837	18,807
Orange County													
Class A	288	46,809,784	2,359,390	2,599,587	5,973,966	12.76%	8,195,394	17.51%	\$2.97	539,967	493,372	1,469,209	3,956,191
Class B	1,083	64,747,322	0	813,122	5,697,627	8.80%	8,997,328	13.90%	\$2.26	(256,948)	97,085	1,420,404	3,920,837
Class C	134	5,887,754	0	0	369,266	6.27%	471,374	8.01%	\$1.74	(20,268)	35,827	71,485	255,997
Orange County Total	1,505	117,444,860	2,359,390	3,412,709	12,040,859	10.25%	17,664,096	15.04%	\$2.62	262,751	626,284	2,961,098	8,133,025

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.



The Economy and Real Estate Market Continue to Grow

by **Stefan Rogers, MRICS**

SENIOR VICE PRESIDENT / PARTNER, IRVINE

While our national economy continues to trend positively as we roll into fourth quarter of 2017, the Orange County economy, along with much of Southern California, is leading the way with impressive growth trends across the board. As we approach the second longest expansion since World War II, there continue to be no obvious signs of an imminent downturn, however, many are speculating one solely based on the length of prior cycles. With a lot of disruption in the economy, specifically related to the business and consumer landscape, our path may not follow what has historically been true of market cycles and, in turn, our outlook must focus on what's ahead rather than the past.

The Orange County office market has continued to expand throughout the third quarter; however, the stats are not all positive in the short term. The vacancy rate bumped up to 10.25%, from 9.94% in the third quarter of 2016, and the availability of product increased marginally. Sale and lease transactions were down approximately 5.75% in the same period, however gross absorption increased approximately 4.53% and net absorption stayed positive. These short term trends are generally a result of new construction deliveries hitting the market, a lack of sales activity due to uncertainty over monetary policy, and a lack of tenant activity as the economy reaches full employment and businesses continue to search for technological efficiencies and smaller footprints. Orange County remains a "landlord's market" across all asset classes and we expect this environment to continue for the foreseeable future, albeit with rental and sale values potentially starting to lose some upward velocity.

Today's environment presents opportunities for developers/investors, landlords, tenants, buyers and sellers alike. Developers still have an extended window to focus on adding amenities and other facilities for tenants to add value to their projects. Adaptive reuse opportunities are also advantageous where available, transforming functionally obsolete product into the highest and best use product type.

Landlords are able to continue to push rents and improve tenant retention by enhancing onsite amenities and services, while providing flexibility for their tenants. However, rising tenant improvement costs and tenant expectations put increasing pressure on landlords with regard to build-outs.

While the market currently favors the landlord, Class A tenants in Orange County may choose to move to Class B space for cost savings and to secure significant concessions and increased TIs. Many of the space improvements that tenants are seeking include technology 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.

And finally, buyers, both investors and users alike, have been taking advantage of the low cost of capital and more lenient underwriting criteria to acquire stabilized long-term investments. This trend is anticipated to continue. Business owners will also look to purchase their own properties in an effort to stabilize occupancy costs and invest in 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.

Represented in 150 Markets
Nationally & Internationally.
CORFAC
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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