

STABLE MARKET WITH CONTINUED RENT GROWTH. Vacancy rates in Orange County’s office market reached 11.11% in the fourth quarter of 2017, an increase from the record low of 9.89% in the fourth quarter of 2016. The increase is a result of mainly new construction. The region’s strong local economy and high quality of life continue to make Orange County a desirable location for business. In 2017, Orange County added more than 2.1 million square feet of new development, the majority of which was in the Airport and South County submarkets. It is estimated that another 500,000 to 1 million square feet of new construction will be completed in 2018. As a reference, the record year for new development in Orange County was 1988, when 5.7 million square feet of new space was added and vacancy rates soared to approximately 24%. Growth in industries such as high technology, biotechnology and healthcare have created a nice diversify within the local economy.

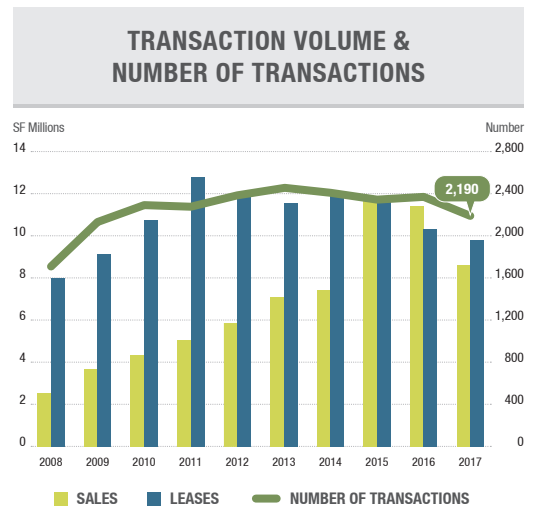
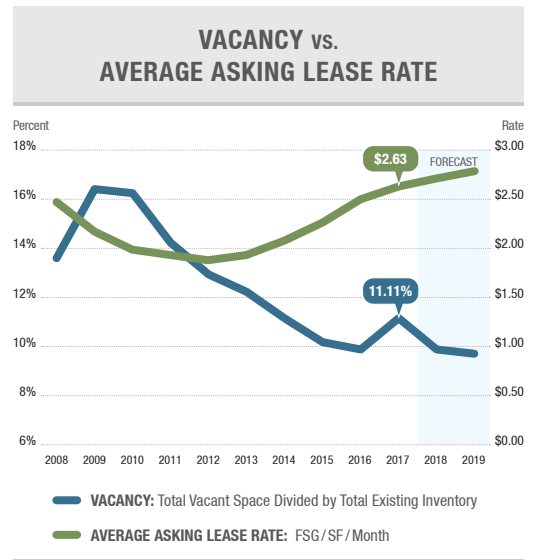
VACANCY. Direct vacancy rates in the office market rose slightly from 10.35% in the third quarter to 11.11% in the fourth quarter of 2017. Class A vacancy increased slightly from 12.60% in the third quarter to 14.52% in the fourth quarter of 2017. The Class A office market saw a leveling out of rates in the fourth quarter, fueled in part by new construction deliveries and many existing tenants opting for newer buildings. We are forecasting that vacancy will trend downward in 2018 based on steady job growth and consumer confidence.

LEASE RATES. The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was \$2.63 at the end of the fourth quarter, a 5.2% increase from this time last year and a 0.38% increase from the third quarter. 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 modestly rise throughout 2018 based on the strong level of current demand from a variety of industries.

TRANSACTION ACTIVITY. Leasing activity checked in at nearly 9.77 million square feet for 2017, a slight decrease over the previous year’s total of 10.3 million square feet. Sales activity showed a decrease, posting 8.59 million square feet of activity compared to the 11.3 million square feet we saw in 2016. 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. Notable leases include:

- Vyair Medical lease of 184,886 square feet at 510–520 Technology Drive in Irvine Spectrum
- Pacific Sunwear California lease of 180,000 square feet at 3450 E. Miraloma Avenue in Anaheim
- Club Pilates lease of 31,187 square feet at 17877 Von Karman Avenue in Irvine

ECONOMY. The unemployment rate in the Orange County was 2.8% in November 2017, down from a revised 3.3% in October 2017, and below the year-ago estimate of 3.7%. This compares with an unadjusted unemployment rate of 4% for California and 3.9% for the nation during the same period. The professional and business services sectors have propelled the economy. Orange County is also the third-most diverse high tech sector in the nation, behind only San Jose and San Diego. As 2017 ends, overall hiring slowed to its weakest pace since the first year of the recovery — mainly due to fewer people looking for jobs. One cause for concern is that even as the unemployment rate has held near 4%, the labor force participation rate continues to fall, reflecting a national trend as baby boomers leave the job market.



Market Statistics

	Change Over Last Quarter	4Q 2017	3Q 2017	4Q 2016	% Change Over Last Year
Vacancy Rate	▲ UP	11.11%	10.35%	9.89%	12.34%
Availability Rate	▲ UP	15.54%	14.92%	14.97%	3.81%
Average Asking Lease Rate	▲ UP	\$2.63	\$2.62	\$2.50	5.20%
Sale & Lease Transactions	▼ DOWN	3,598,479	5,413,494	7,577,949	(52.51%)
Gross Absorption	▲ UP	3,243,014	2,823,575	1,982,202	63.61%
Net Absorption	▲ POSITIVE	244,455	238,288	(180,037)	N/A

LEASE RATES. Lease rates have shown stability with modest gains. We expect rates to increase in 2018, by 2% in both Class A and Class B buildings.

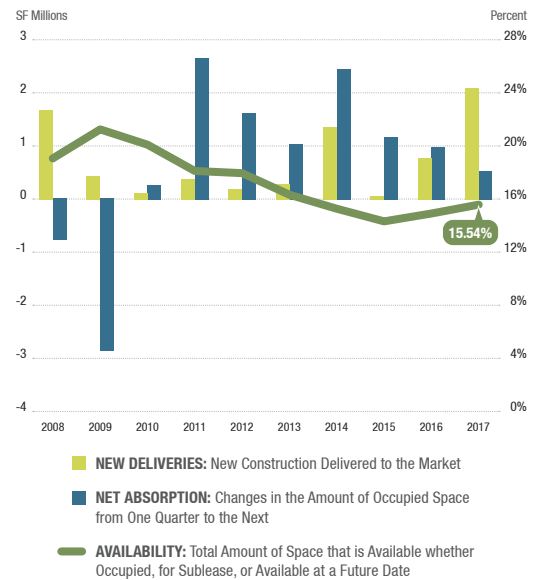
VACANCY. We are beginning to see an increase in the amount of vacant and available space. As we enter into 2018, positive absorption should continue, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market will continue its stable course.

OVERALL. We should also see an increase in leasing activity as many short-term deals come up for renewal. As job creation continues and consumer confidence remaining high, the office market will continue to flourish. The growing influence of new industries such as high technology, biotechnology and healthcare should further diversify the local economy and help to rejuvenate the office market. If there is one concern relating to the office sector it is that most industries are doing their best to reduce their footprint and take less (more efficient) space. This is offset though by the continued job growth within Orange County. Many of the construction projects set to deliver in 2018 have yet to be preleased, but there is a lot of activity around these projects.

CONSTRUCTION. During 2017, Orange County added a total of 2.1 million square feet of new office space. Total space under construction checked in at 937,239 square feet at the end of 2017. The completion in construction has and will continue to ease the pressure on vacancy and the upward pressure on lease rates going forward. The most noteworthy projects completed 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 466,696 square foot spec project (The Quad at Discovery Business Center) in Irvine Spectrum, and 466,696 square feet at 400 Spectrum Centre Drive in Irvine Spectrum.

ABSORPTION. Net absorption for the county posted a positive 244,455 square feet for the fourth quarter of 2017, giving the office market a total of 530,494 square feet of positive absorption for the year. Look for businesses in defense, medical, information technology and alternative energy companies to lead the charge of positive absorption over the next few years. Class A space contributed 194,043 of positive absorption and Class B recorded a positive 31,986 square feet. Contributors to the fourth quarter's positive absorption include Cylance's (133,324 square feet), Toshiba at 5231 California Avenue (53,840 square feet) and Rusmore Loan Management Services at 15480 Laguna Canyon Road (44,820 square feet).

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
4000 MacArthur Blvd. – 2 Properties	Newport Beach	A	376,242	\$176,500,000	Goldman Sach & Co.	Hines
500 N. State College Blvd.	Orange	A	281,699	\$78,402,040	Lincoln Property Company	Starwood Capital Group
3450 E. Miraloma Ave.	Anaheim	A	180,000	\$27,000,000	Hines	Pacific Sunwear of California, Inc.
24022 Calle de la Plata	Laguna Hills	B	57,000	\$19,930,000	Meridian Property Company	Birtcher Anderson Realty, LLC
17744–17752 Sky Park Cir. – 3 Properties	Irvine	B	81,651	\$17,900,000	The Koll Company	The Irvine Company

Leases

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
510–520 Technology Dr.	Irvine Spectrum	A	184,886	Oct-2017	Vyair Medical	The Irvine Company
3450 E. Miraloma Ave	Anaheim	A	180,000	Oct-2017	Pacific Sunwear of California, Inc.	Hines
18565 Jamboree Rd.	Irvine	A	63,879	Nov-2017	Pathway Capital	Trammell Crow Company
18500 Von Karman Ave.	Irvine	A	43,068	Nov-2017	Squar Milner *	The Irvine Company
3200 Park Center Dr.	Costa Mesa	A	39,053	Dec-2017	WeWork	The Irvine Company

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2017	Square Feet Available	Availability Rate 4Q2017	Average Asking Lease Rate	Net Absorption 4Q2017	Net Absorption 2017	Gross Absorption 4Q2017	Gross Absorption 2017
Airport Area													
Costa Mesa	72	7,328,899	0	442,476	1,075,017	14.67%	1,423,318	19.42%	\$2.67	19,061	(65,882)	147,323	598,916
Irvine	261	24,669,201	155,000	566,000	3,213,091	13.02%	5,772,606	23.40%	\$2.95	(129,734)	(363,139)	790,802	2,893,154
Newport Beach	123	10,013,906	0	42,646	886,191	8.85%	1,190,696	11.89%	\$3.44	45,456	29,008	223,822	880,034
Santa Ana	15	2,451,993	0	0	456,691	18.63%	502,245	20.48%	\$2.54	22,899	(9,872)	87,090	274,366
Airport Area Total	471	44,463,999	155,000	1,051,122	5,630,990	12.66%	8,888,865	19.99%	\$3.06	(42,318)	(409,885)	1,249,037	4,646,470
Central County													
Anaheim	17	1,944,289	0	300,000	253,252	13.03%	324,797	16.71%	\$2.47	(36,860)	105,376	77,084	308,108
Orange	82	7,141,161	0	386,000	589,428	8.25%	991,957	13.89%	\$2.29	(31,871)	8,279	81,442	382,025
Santa Ana	165	12,371,677	0	911,765	1,469,795	11.88%	1,540,250	12.45%	\$1.97	167,532	240,439	361,620	1,104,878
Tustin	42	2,231,674	417,284	827,262	381,964	17.12%	480,021	21.51%	\$2.25	52,307	39,578	78,957	242,168
Central County Total	306	23,688,801	417,284	2,425,027	2,694,439	11.37%	3,337,025	14.09%	\$2.09	151,108	393,672	599,103	2,037,179
North County													
Anaheim Hills	82	5,920,217	0	0	428,607	7.24%	717,145	12.11%	\$1.90	56,944	8,433	98,801	286,350
Brea	42	4,059,220	0	0	363,137	8.95%	470,967	11.60%	\$2.33	5,552	58,515	96,557	363,100
Buena Park	17	1,115,193	0	0	203,857	18.28%	239,839	21.51%	\$1.73	(6,894)	(15,846)	12,812	44,289
Fullerton	30	2,430,962	0	0	233,366	9.60%	269,260	11.08%	\$1.86	(23,035)	(39,048)	37,239	103,170
La Habra	4	142,069	0	0	636	0.45%	7,376	5.19%	\$0.00	(636)	(636)	2,741	2,741
La Palma	10	712,038	0	0	48,793	6.85%	50,731	7.12%	\$0.00	2,647	13,188	23,085	76,601
Placentia	8	267,581	0	0	19,935	7.45%	28,013	10.47%	\$1.82	4,172	15,565	4,172	22,724
Yorba Linda	4	210,594	0	0	34,447	16.36%	34,447	16.36%	\$2.08	1,250	(5,800)	1,250	1,250
North County Total	197	14,857,874	0	0	1,332,778	8.97%	1,817,778	12.23%	\$2.08	40,000	34,371	276,657	900,225
South County													
Aliso Viejo	44	3,343,361	0	0	539,411	16.13%	946,787	28.32%	\$3.21	(184,951)	(97,482)	45,230	396,897
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	92,369	11.56%	115,120	14.41%	\$2.50	29,295	(4,250)	42,426	84,741
Irvine Spectrum	163	12,057,059	364,955	69,968	1,250,605	10.37%	1,452,378	12.05%	\$3.07	198,700	552,755	617,418	1,858,140
Laguna Beach	5	192,434	0	0	21,059	10.94%	21,059	10.94%	\$0.00	950	(225)	950	3,793
Laguna Hills	33	1,804,417	0	0	292,073	16.19%	320,185	17.74%	\$2.57	(25,591)	(10,158)	50,321	184,500
Laguna Niguel	10	1,749,768	0	0	62,690	3.58%	74,098	4.23%	\$0.00	(18,131)	(10,009)	12,905	52,598
Lake Forest	40	2,108,313	0	0	160,995	7.64%	169,754	8.05%	\$2.18	81,669	(25,162)	104,297	157,249
Mission Viejo	36	2,036,265	0	110,000	214,162	10.52%	224,708	11.04%	\$2.37	(18,797)	(14,233)	14,507	183,358
Rancho Santa Margarita	6	252,716	0	0	12,554	4.97%	18,678	7.39%	\$2.17	8,395	1,660	15,759	32,779
San Clemente	13	523,256	0	0	46,629	8.91%	48,857	9.34%	\$2.30	(8,092)	(5,311)	31,289	52,559
San Juan Capistrano	18	912,583	0	0	159,374	17.46%	157,264	17.23%	\$2.10	(12,233)	(23,160)	5,794	16,977
South County Total	380	25,870,769	364,955	179,968	2,851,921	11.02%	3,548,888	13.72%	\$2.84	51,214	364,425	940,896	3,023,591
West County													
Cypress	28	1,951,061	0	0	247,985	12.71%	271,342	13.91%	\$2.04	5,130	42,561	25,383	184,688
Fountain Valley	33	1,995,993	0	0	53,128	2.66%	68,976	3.46%	\$0.00	8,732	25,720	16,576	54,939
Garden Grove	19	1,522,437	0	0	37,511	2.46%	43,470	2.86%	\$1.87	795	28,115	20,314	57,728
Huntington Beach	43	2,503,263	0	0	183,275	7.32%	302,133	12.07%	\$2.39	15,195	36,780	73,108	231,391
Los Alamitos	11	661,379	0	0	41,678	6.30%	42,242	6.39%	\$2.36	(5,812)	(3,944)	7,393	39,118
Seal Beach	7	473,787	0	0	33,098	6.99%	39,904	8.42%	\$1.99	474	8,936	12,987	32,341
Stanton	4	143,361	0	0	16,260	11.34%	19,869	13.86%	\$0.00	1,488	(7,458)	1,488	6,683
Westminster	12	484,905	0	0	56,825	11.72%	48,033	9.91%	\$2.15	18,449	17,201	20,072	55,677
West County Total	157	9,736,186	0	0	669,760	6.88%	835,969	8.59%	\$2.11	44,451	147,911	177,321	662,565
Orange County Total	1,511	118,617,629	937,239	3,656,117	13,179,888	11.11%	18,428,525	15.54%	\$2.63	244,455	530,494	3,243,014	11,270,030
Airport Area													
Class A	133	26,118,258	0	566,000	4,290,360	16.43%	5,575,646	21.35%	\$3.18	(118,029)	(327,093)	774,683	2,912,050
Class B	311	17,045,693	155,000	485,122	1,283,069	7.53%	3,211,656	18.84%	\$2.69	70,330	(129,425)	450,483	1,632,941
Class C	27	1,300,048	0	0	57,561	4.43%	101,563	7.81%	\$1.83	5,381	46,633	23,871	101,479
Central County													
Class A	43	7,260,403	417,284	2,123,027	713,063	9.82%	959,552	13.22%	\$2.38	(7,331)	163,530	81,130	456,445
Class B	208	13,998,120	0	302,000	1,769,283	12.64%	2,116,273	15.12%	\$2.00	144,911	230,355	473,561	1,400,101
Class C	55	2,430,278	0	0	212,093	8.73%	261,200	10.75%	\$1.95	13,528	(213)	44,412	180,633
North County													
Class A	27	3,188,794	0	0	420,747	13.19%	601,412	18.86%	\$2.37	(12,772)	48,995	60,134	273,290
Class B	146	10,739,748	0	0	868,530	8.09%	1,168,858	10.88%	\$1.92	52,422	(23,513)	216,173	605,180
Class C	24	929,332	0	0	43,501	4.68%	47,508	5.11%	\$1.65	350	8,889	350	21,755
South County													
Class A	67	8,932,296	364,955	110,000	1,257,284	14.08%	1,531,687	17.15%	\$3.16	317,881	760,722	536,135	1,697,692
Class B	302	16,419,320	0	69,968	1,559,513	9.50%	1,982,077	12.07%	\$2.52	(262,894)	(376,878)	403,621	1,322,003
Class C	11	519,153	0	0	35,124	6.77%	35,124	6.77%	\$2.01	(3,773)	(19,419)	1,140	3,896
West County													
Class A	19	2,173,341	0	0	240,068	11.05%	305,827	14.07%	\$2.45	14,294	3,940	56,516	161,605
Class B	120	6,811,080	0	0	415,132	6.09%	512,592	7.53%	\$1.95	27,216	137,607	117,864	479,212
Class C	18	751,765	0	0	14,560	1.94%	17,550	2.33%	\$0.00	2,941	6,364	2,941	21,748
Orange County													
Class A	289	47,673,092	782,239	2,799,027	6,921,522	14.52%	8,974,124	18.82%	\$2.99	194,043	650,094	1,508,598	5,501,082
Class B	1,087	65,013,961	155,000	857,090	5,895,527	9.07%	8,991,456	13.83%	\$2.24	31,985	(161,854)	1,661,702	5,439,437
Class C	135	5,930,576	0	0	362,839	6.12%	462,945	7.81%	\$1.77	18,427	42,254	72,714	329,511
Orange County Total	1,511	118,617,629	937,239	3,656,117	13,179,888	11.11%	18,428,525	15.54%	\$2.63	244,455	530,494	3,243,014	11,270,030

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.



Strong Market Fundamentals Lead to Positive Outlook in 2018

by **Spencer Thomas**
ASSOCIATE, IRVINE

Despite a slight slowdown from the growth we experienced in 2016, the Orange County office market continued to see strong fundamentals in 2017. With an attractive combination of universities, millennial talent, and a diverse makeup of industries in the local economy, Orange County is still one of the most desired locations for businesses and investors alike.

In 2017, vacancy rates remained relatively stable, only increasing 1.22% year over year, which is impressive considering the 2.1 million square feet of new development that was introduced during the year (mostly in the Airport Area and the Spectrum submarkets). As vacancy remained relatively stable, the average asking lease rate rose to \$2.63 and absorption increased by 1,260,812 square feet year over year. Transaction activity did take a slight dip from 2016 to 2017; however developers and landlords continue to provide creative and innovative solutions for office tenants by designing flexible work environments to keep pace with the demand in the market.

The overall economy in Orange County also experienced growth in 2017, once again beating California and national averages. This has attracted growing industries, such as healthcare/healthcare tech and e-sports to the local economy. The combination of a low unemployment rate with world-class universities has contributed to the diversity of industry in the local economy, as well as the growth of the tech sector here in Orange County. Universities like Chapman, Cal State Fullerton and UCI continue to rise up the national ranks and provide valuable millennial talent for companies like Google, Amazon and NextVR.

As we look ahead to 2018, I believe there is a strong basis for optimism in both the local economy and the local office market. With the completion of projects like 400 Spectrum Center Drive, The Quad at Discovery Business Center and The Boardwalk, we can expect further growth in absorption from a wide variety of industries looking to capitalize on all that Orange County has to offer. I believe the e-sports industry will continue to experience significant growth, as well as the healthcare/healthcare tech sectors as Baby Boomers continue to migrate out of the workforce. It will be interesting to see how cryptocurrency companies, with their blockchain technology being so tied to e-sports and other online applications, grow in Orange County. My anticipation is that these innovative tech firms will continue to gravitate toward Orange County as a major headquarter location.

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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. ©2018 Voit Real Estate Services, Inc. License #01991785.

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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