



MARKET CHANGE

Compared to Previous Quarter:

Vacancy



UP

Net Absorption



POSITIVE

Lease Rates



UP

Transactions



DOWN

Deliveries



UP

HIGHLIGHTS

- **Steady Growth** - The Orange County office market is continuing its strong recovery brought about by a substantial increase in demand from an increasingly diverse tenant base. With so few alternatives, particularly in large blocks of space, expect to see the most substantial rental rate increase since 2007. Occupancy rates have increased to the point where some of OC's more prominent landlords are unable to accommodate the expansion needs of their existing tenants. Orange County's wealthy and highly educated population has contributed to rapid expansion in industries tied to technology, biotech, healthcare, professional/financial services and lending. These industries will continue to add jobs and help to increase demand in the coming quarters.
- **Construction** - Office vacancies will increase as the next wave of construction hits the market. Total space under construction checked in at 3.01 million square feet for the first quarter of 2016, which is 80% higher than the amount that was under construction this same time last year. Many of the projects currently under construction offer tenants an alternative to traditional office space. For example, Trammell Crow's new 545,000 SF project near John Wayne Airport, known as The Boardwalk, features larger floor plates, increased parking, high ceilings, indoor bridges and outdoor walkways as part of a comprehensive amenities package aimed to help businesses attract talent.
- **Vacancy** - The Orange County office submarket saw its vacancy increase in the first quarter to 10.78%, up from 10.39% in the fourth quarter, due in part to an uptick in new construction. There was 744,944 square feet of new construction completed in the first quarter.
- **Availability** - Direct/sublease space being marketed came in at 14.46% at the end of first quarter 2016, a decrease of 2.89% when compared to 2015's first quarter rate of 14.89%, and a slight increase from Q4 2015's rate of 14.33%.
- **Lease Rates** - Average asking lease rates in Orange County for the first quarter came in at \$2.37 per square foot per month, up 4.9% from the \$2.26 asking in the previous quarter. A year ago, asking rates were approximately \$2.12, an increase of nearly 12%, excluding concessions such as free rent and

above standard tenant improvement allowances provided by the owner. Class A asking rates for the county averaged \$2.76 FSG, the highest being in the Airport submarket, where Class A rates averaged \$3.12 FSG due to more modern construction and access to amenities.

- **Absorption** - The Orange County office market posted 207,095 square feet of positive absorption at the end of the first quarter, giving the market a net total of over 1.2 million square feet of positive absorption since the first quarter of 2015. Orange County's sound market fundamentals will fuel a healthy office market in the coming quarter with continued job growth and an overall increase in tenant demand.
- **Transaction Activity** - Leasing activity checked in at just over 2.1 million square feet this quarter, a decrease when compared to last year's figure (Q1, 2015) of 2.8 million square feet. The investment market is maintaining a solid pace, but overall sale activity was down slightly from the previous year--1.6 million square feet of activity in first quarter of 2016 compared to 2015's figure of 1.8 million square feet--as the capital markets are becoming a bit more cautious. Details of the largest transactions for the quarter can be found at the end of this report.
- **Employment** - The unemployment rate in Orange County was 4.0% in February 2016, unchanged from a revised 4.0 percent in January 2016, and below the previous year's estimate of 4.7%. This compares with an unadjusted unemployment rate of 5.7% for California and 5.2% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 42,300 payroll jobs from February 2015 to February 2016. Professional and business services grew by 5,000 jobs overall, led by an increase of 4,300 jobs in administrative and support services, which includes temporary help firms.
- **Overall** - While Orange County's fundamentals remain strong, there seems to be a bit of caution from the capital markets as it relates to pricing. The first wave of new supply was matched with enough demand to result in vacancy compression and rent growth. The fundamental drivers of tenant demand appear strong and absorption should retain its positive momentum over the next three quarters.

FORECAST

- **Employment** - According to the LAEDC, the Orange County economy has been one of the standout performers in California. During the current economic cycle, its unemployment rate peaked in 2010 at 9.7%, falling to an average annual rate of 4.4% in 2015. Orange County has a strong high-tech manufacturing sector that includes computer and related electronic products, aerospace related products, and medical devices.
- **Lease Rates** - Expect the average asking lease rate to increase by 4% to 6% over the next three quarters.
- **Vacancy** - We anticipate vacancy continuing to descend slightly in coming quarters, dropping by only 58 basis points to 10.2% by the end of the fourth quarter of 2016.

OVERVIEW

	1Q16	4Q15	1Q15	% of Change vs. 1Q15
Total Vacancy Rate	10.78%	10.39%	11.11%	(2.97%)
Availability Rate	14.46%	14.41%	14.89%	(2.89%)
Average Asking Lease Rate	\$2.37	\$2.26	\$2.12	11.79%
Sale & Lease Transactions	3,878,479	5,987,816	4,664,592	(16.85%)
Gross Absorption	2,617,913	2,485,287	2,729,235	(4.08%)
Net Absorption	207,095	71,312	147,960	N/A

To view available properties or electronic versions of current or past market reports, please visit:

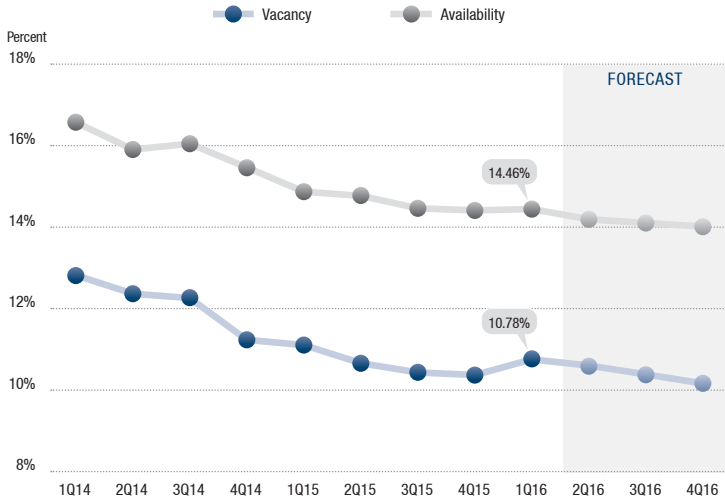
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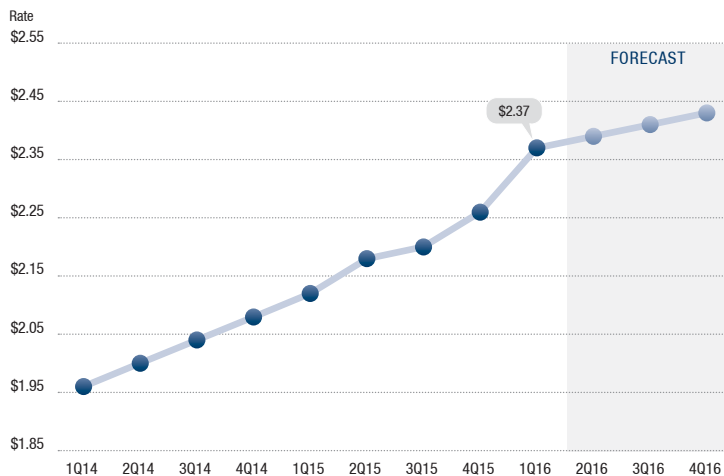
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



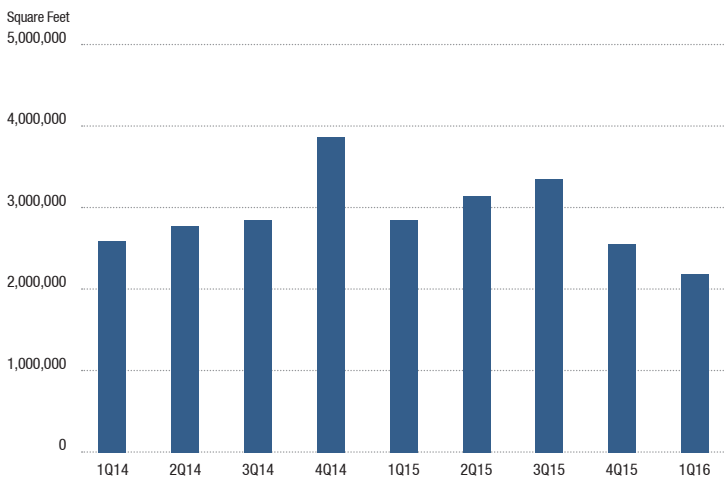
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



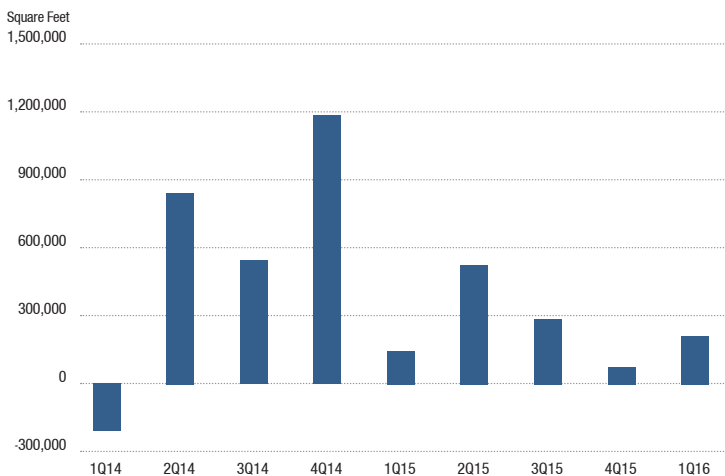
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



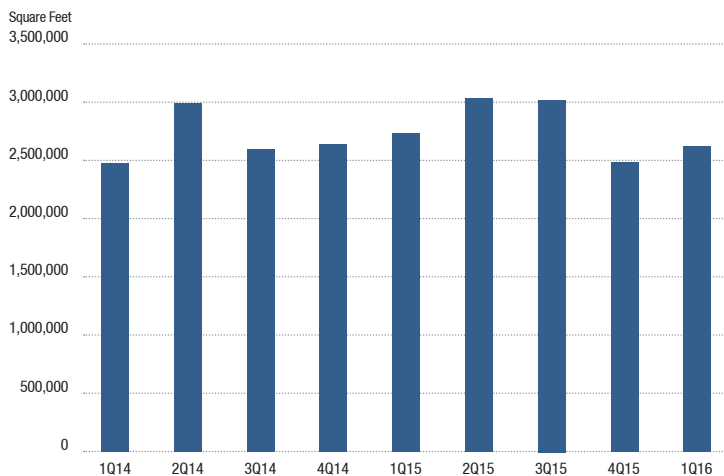
NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



GROSS ABSORPTION

TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2016	Square Feet Available	Availability Rate 1Q2016	Average Asking Lease Rate	Net Absorption 1Q2016	Net Absorption 2015	Gross Absorption 1Q2016	Gross Absorption 2015
Airport Area													
Costa Mesa	72	7,329,991	700,000	27,476	844,213	11.52%	1,196,946	16.33%	\$2.57	136,296	115,606	202,787	726,027
Irvine	253	23,610,732	537,224	969,817	1,783,152	7.55%	3,358,754	14.23%	\$2.71	(217,588)	464,019	401,144	2,893,953
Newport Beach	121	9,998,689	44,000	42,646	845,591	8.46%	1,111,636	11.12%	\$3.37	122,858	154,165	339,390	1,025,372
Airport Area Total	446	40,939,412	1,281,224	1,039,939	3,472,956	8.48%	5,667,336	13.84%	\$2.88	41,566	733,790	943,321	4,645,352
Central County													
Anaheim	83	6,948,818	0	300,000	914,153	13.16%	1,062,844	15.30%	\$2.04	(31,996)	235,264	54,674	818,810
Orange	83	7,154,500	0	0	587,592	8.21%	740,068	10.34%	\$2.07	(61,756)	258,220	67,799	645,389
Santa Ana	181	14,764,057	0	702,325	2,661,689	18.03%	2,987,031	20.23%	\$1.84	(125,761)	(376,038)	268,040	1,047,192
Tustin	42	2,207,919	0	1,179,124	433,146	19.62%	535,411	24.25%	\$2.01	(22,623)	(60,328)	34,254	113,626
Central County Total	389	31,075,294	0	2,181,449	4,596,580	14.79%	5,325,354	17.14%	\$1.92	(242,136)	57,118	424,767	2,625,017
North County													
Anaheim Hills	17	1,026,106	0	0	158,712	15.47%	180,165	17.56%	\$1.77	(9,653)	173,668	10,380	243,616
Brea	43	4,111,350	0	120,000	406,141	9.88%	595,401	14.48%	\$2.10	39,210	(9,514)	126,688	272,076
Buena Park	17	1,092,228	0	0	91,405	8.37%	181,540	16.62%	\$2.36	22,293	19,696	26,668	27,539
Fullerton	30	2,427,234	0	0	210,846	8.69%	347,512	14.32%	\$1.73	24,332	2,504	59,505	111,350
La Habra	4	142,069	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
La Palma	10	712,038	0	0	91,549	12.86%	125,913	17.68%	\$1.85	28,137	26,575	36,238	41,199
Placentia	8	267,589	0	0	33,649	12.57%	36,489	13.64%	\$1.64	2,488	4,015	4,030	16,579
Yorba Linda	5	288,094	0	0	45,856	15.92%	45,856	15.92%	\$1.86	0	(2,462)	0	18,799
North County Total	134	10,066,708	0	120,000	1,038,158	10.31%	1,512,876	15.03%	\$2.03	106,807	214,482	263,509	731,158
South County													
Aliso Viejo	43	3,118,301	0	205,000	268,780	8.62%	482,350	15.47%	\$3.13	40,079	(87,800)	121,126	342,914
Dana Point	3	135,296	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Foothill Ranch	10	798,721	0	0	145,347	18.20%	114,768	14.37%	\$2.50	(4,545)	(12,056)	8,055	154,956
Irvine Spectrum	156	10,758,556	1,738,100	388,000	1,084,378	10.08%	1,094,681	10.17%	\$2.82	177,078	(105,755)	394,991	1,062,183
Laguna Beach	5	194,434	0	0	27,591	14.19%	29,171	15.00%	\$0.00	1,304	2,817	9,196	2,817
Laguna Hills	32	1,816,327	0	0	310,251	17.08%	287,165	15.81%	\$2.33	(14,409)	42,148	61,938	225,373
Laguna Niguel	11	1,791,724	0	0	54,186	3.02%	67,569	3.77%	\$3.05	4,761	16,476	9,000	82,607
Lake Forest	39	2,060,148	0	0	112,372	5.45%	320,232	15.54%	\$1.99	119,441	65,651	154,459	201,024
Mission Viejo	36	1,925,414	0	110,000	194,265	10.09%	255,867	13.29%	\$2.13	25,403	30,626	50,813	180,644
Rancho Santa Margarita	6	250,472	0	0	22,481	8.98%	24,875	9.93%	\$2.11	(1,748)	27,024	1,115	36,845
San Clemente	12	502,157	0	0	32,159	6.40%	41,799	8.32%	\$2.25	(13,787)	9,686	12,077	52,275
San Juan Capistrano	17	879,011	0	0	155,529	17.69%	155,289	17.67%	\$2.27	(979)	57,592	8,758	95,976
South County Total	370	24,230,561	1,738,100	703,000	2,407,339	9.94%	2,873,766	11.86%	\$2.57	332,598	46,409	831,528	2,437,614
West County													
Cypress	29	1,998,190	0	0	374,699	18.75%	580,207	29.04%	\$1.99	(8,249)	(110,505)	11,779	79,707
Fountain Valley	33	1,995,993	0	0	78,236	3.92%	90,457	4.53%	\$1.47	9,621	6,059	29,911	36,894
Garden Grove	20	1,565,437	0	0	89,329	5.71%	129,663	8.28%	\$1.63	(37,088)	17,505	7,569	43,750
Huntington Beach	44	2,512,335	0	44,500	301,025	11.98%	283,600	11.29%	\$2.05	3,958	(107,224)	87,121	288,645
Los Alamitos	12	687,842	0	0	24,736	3.60%	185,289	26.94%	\$0.00	7,440	62,052	11,850	71,019
Seal Beach	7	473,787	0	0	54,019	11.40%	55,058	11.62%	\$2.89	(1,550)	(20,623)	6,558	114,030
Stanton	4	143,361	0	0	8,439	5.89%	13,961	9.74%	\$0.00	0	503	0	3,002
Westminster	12	482,280	0	0	77,694	16.11%	83,042	17.22%	\$2.15	(5,872)	(39,806)	0	10,260
West County Total	161	9,859,225	0	44,500	1,008,177	10.23%	1,421,277	14.42%	\$2.07	(31,740)	(192,039)	154,788	647,307
Orange County Total	1,500	116,171,200	3,019,324	4,088,888	12,523,210	10.78%	16,800,609	14.46%	\$2.37	207,095	859,760	2,617,913	11,086,448
Airport Area													
Class A	114	22,819,894	581,224	782,000	2,277,484	9.98%	3,800,714	16.66%	\$3.12	31,175	432,628	581,997	2,502,932
Class B	306	16,829,227	700,000	257,939	1,127,996	6.70%	1,773,759	10.54%	\$2.36	5,139	329,001	347,328	2,092,381
Class C	26	1,290,291	0	0	67,476	5.23%	92,863	7.20%	\$1.82	5,252	(27,839)	13,996	50,039
Central County													
Class A	62	10,598,001	0	1,879,449	1,891,061	17.84%	2,084,691	19.67%	\$2.16	(213,695)	387,014	118,073	1,239,058
Class B	257	17,441,301	0	302,000	2,475,795	14.20%	2,929,971	16.80%	\$1.81	(11,978)	(356,056)	282,478	1,235,909
Class C	70	3,035,992	0	0	229,724	7.57%	310,692	10.23%	\$1.48	(16,463)	26,160	24,216	150,050
North County													
Class A	19	2,006,780	0	120,000	294,056	14.65%	438,165	21.83%	\$2.48	(11,523)	(27,951)	49,971	150,064
Class B	105	7,723,489	0	0	700,995	9.08%	1,031,604	13.36%	\$1.83	119,841	234,662	212,147	568,782
Class C	10	336,439	0	0	43,107	12.81%	43,107	12.81%	\$0.00	(1,511)	7,771	1,391	12,312
South County													
Class A	61	7,375,796	1,738,100	632,000	943,112	12.79%	966,140	13.10%	\$2.90	119,833	(2,866)	216,791	756,629
Class B	299	16,360,897	0	71,000	1,463,507	8.95%	1,904,816	11.64%	\$2.30	212,954	40,230	614,625	1,667,590
Class C	10	493,868	0	0	720	0.15%	2,810	0.57%	\$1.58	(189)	9,045	112	13,395
West County													
Class A	23	2,461,544	0	0	276,479	11.23%	451,750	18.35%	\$2.53	490	(67,218)	84,164	241,501
Class B	116	6,488,849	0	44,500	689,578	10.63%	777,702	11.99%	\$1.94	(28,452)	(116,709)	65,111	392,158
Class C	22	908,832	0	0	42,120	4.63%	191,825	21.11%	\$1.65	(3,778)	(8,112)	5,513	13,648
Orange County													
Class A	279	45,262,015	2,319,324	3,413,449	5,682,192	12.55%	7,741,460	17.10%	\$2.76	(73,720)	721,607	1,050,996	4,890,184
Class B	1,083	64,843,763	700,000	675,439	6,457,871	9.96%	8,417,852	12.98%	\$2.01	297,504	131,128	1,521,689	5,956,820
Class C	138	6,065,422	0	0	383,147	6.32%	641,297	10.57%	\$1.57	(16,689)	7,025	45,228	239,444
Orange County Total	1,500	116,171,200	3,019,324	4,088,888	12,523,210	10.78%	16,800,609	14.46%	\$2.37	207,095	859,760	2,617,913	11,086,448

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.

MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
1120 W. La Veta Ave.	Central County	A	179,279	\$245.15	CRC Real Estate Corporation	Hankey Investment Company
2401–2421 N. Glassell St.	Central County	B	191,127	\$187.57	Hines	Volt Information Sciences, Inc.
23961 Calle de la Magdalena	South County	A	135,904	\$253.86	Greenlaw Partners	Lillibridge Healthcare Services
5515 E. La Palma Ave.	North County	B	155,351	\$168.10	Hines	Greenlaw Partners
7000 Village Dr. (2 Properties)	North County	B	142,347	\$151.07	Westcore Properties	LBA Realty

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
2401–2421 N. Glassell St.	Central County	B	190,000	Mar-2016	Volt Information Sciences, Inc.	Oaktree Capital Management, LP
15202 Graham St.	West County	B	121,120	Mar-2016	TravisMathew	West County Commerce Realty Holding
200 Spectrum Center Dr.	South County	A	110,628	Jan-2016	Mazda	The Irvine Company
15525 Sand Canyon Ave.	South County	B	80,888	Jan-2016	Western Grower Association	The Irvine Company
3330 Harbor Blvd.	Airport Area	B	53,908	Mar-2016	California Southern University	3330 Harbor Blvd. Associates

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.

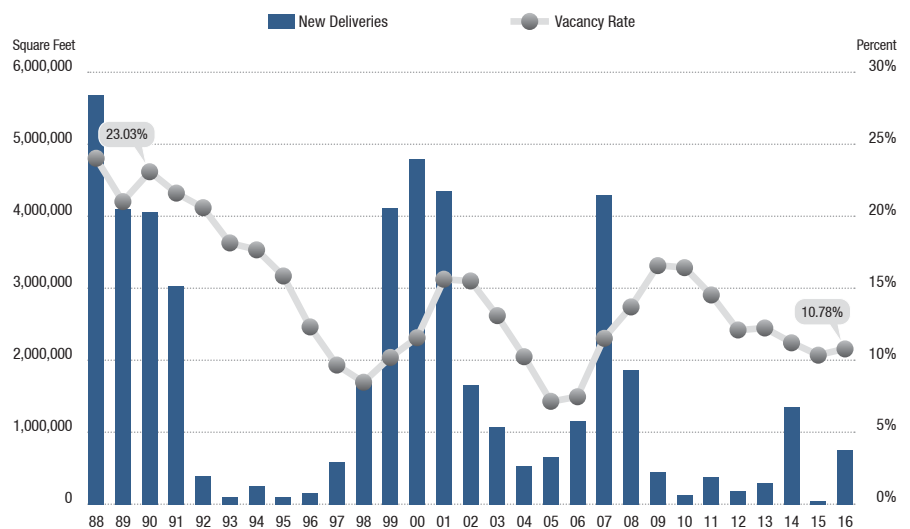
CLASS B

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.

ANNUAL NEW DELIVERIES VS. VACANCY RATE



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