

SECOND QUARTER 2016 ORANGE COUNTY



MARKET CHANGE

Compared to Previous Quarter:



Net Absorption



Lease Rates



Transactions DOWN



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HIGHLIGHTS

- Steady Growth The Orange County office market showed improvement as job growth is relatively positive — jobs were up 53,500 year over year. Companies continue to seek top talent and Orange County remains a source for highly skilled professionals. Prominent areas of Orange County continue to show increased demand for office space resulting in low vacancy rates and much higher rental rates. Technology and mortgage companies remain as the driving force behind much of the office building occupancy, Overall, the Orange County market outlook appears extremely positive and will continue to show low vacancy rates, assuming economic conditions for the area and geopolitical situations stay positive. Additional supply introduced into the market should not be enough to disrupt the low vacancy rates near term.
- Construction As the next wave of construction hits the market in the second quarter of 2017, office vacancies will certainly increase. Total space under construction was roughly 2.4 million square feet for the current quarter, which was more than triple the 785,196 square feet under construction this 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 square feet project near John Wayne Airport, known as The Boardwalk, features larger floor plates, increased parking, higher than normal ceilings, indoor bridges and outdoor walkways as part of a comprehensive package aimed to help businesses attract and retain top talent. One of the larger projects in the market, Irvine's Great Park development is expected to open either late 2017 or early 2018 and is a 1.1 million square foot office complex which will also become the corporate headquarters of Broadcom.
- Vacancy The Orange County office submarket shows nearly 12.8 million square feet total vacant space, representing an 11.01% vacancy rate in the second quarter, an increase of 1.29% from 2015's second quarter rate of 10.87%. The increase is owed in part to a large amount of available space returning to the market from vacating tenants in the Airport Area including Aon at 100 Bayview, Allergan at 2600 Michelson Drive, and Edward Lifesciences at 19520 Jamboree Road.
- Availability Available direct/sublease space came in at 14.54% at the close of the second quarter, which was a decrease of 3.07% from 2015's second quarter rate of 15.00%, and a slight decrease from 2016's first quarter rate of 14.81%. Major retrofits and the repurposing of older industrial buildings have become a more prevalent trend as urbanism and millennials drive transformative change. For example, the repositioning of the former Los Angeles Times property in Costa Mesa will turn the former facility at 1375 Sunflower Avenue and adjacent property, (about 25 acres in total) into 340,000 to 700,000 square feet of trendy, open office space.

- Lease Rates Orange County average asking rental rates continue to rise at a double digit clip year over year. The Orange County office average asking rent of \$2.44 per square foot was up 2.95% from first quarter 2016 rate of \$2.37, and 11.93% from second quarter rate of \$2.18. Annual rents are expected to continue to increase in the second half of the year by approximately 3% to 4%.
- **Absorption -** The Orange County office market posted 163,036 square feet of positive net absorption in the second quarter, totaling over 185,000 square feet of absorption year to date. The positive absorption is partially due to the consistency in positive job growth throughout the county over the past year.
- Transaction Activity Leasing activity for the second quarter totaled 1.78 million square feet in 539 separate transactions, which was only half the lease activity from the second guarter of 2015, (total leasing activity in the second quarter of 2015 was 3.12 million square feet). Notable activity this quarter included Apria Healthcare Group's renewal of 50,006 square feet in Lake Forest, Secureauth's newly leased 27,000 square foot deal in Irvine Spectrum, and Greenwave System's new 22,150 square foot lease in Irvine Spectrum.
- Employment The unemployment rate in Orange County was 3.6% at the end of May 2016, slightly down from 3.9% in April 2016, and below the year-ago number of 4.3%. The unadjusted unemployment rate for California was 4.7% and for the nation was 4.5% during the same period. In Orange County, professional and business services added 2,200 jobs overall. The administrative and support services sector, which includes temp firms, noted the highest growth with the addition of 1,900 jobs in the County.
- Overall With Orange County's economy continuing its upswing, demand remains high enough to keep vacancy rates fairly stable. Rental rates continue to grow to close to pre-recession highs. There is concern with regard to Britain's exit from the European Union, China's economy slowing measurably and how the Fed feels about the US and Global economy pertaining to moving on interest rates. Initially, the Fed had planned on increasing rates four times this year, a signal that we were recovered from the recession; however, to date they have only raised rates once in 2016, signaling real concern. The situation with Britain will also likely impede / delay further interest rate increases. With all of this said, Tenants should look to pursue opportunities sooner rather than later in order to avoid uncertainty and have options on space needs... especially in the near term future.

FORFCAST

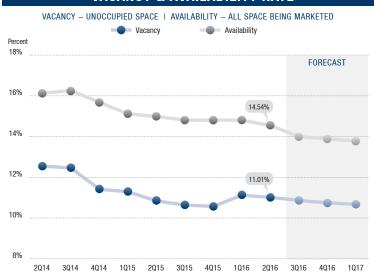
- Lease Rates Expect the average asking lease rate to increase by 2% to 4% over the next three quarters.
- Vacancy We anticipate vacancy will continue to decrease slightly in the coming quarters, dropping 31 basis points to 10.70% by the end of the first quarter of 2017 and then slightly popping up with some of the new developments coming on line.
- Overall While it remains to be seen how the recently announced "BREXIT" will impact our local office market, we expect US commercial real estate to continue to be a "safe haven" for investors. With this added level of uncertainty to an already unpredictable global economy, the risk of any interest rate hikes in the near term seems very low which bodes well for both investors and occupiers of office space.

OVFRVIFW

	2016	1016	2015	% of Change vs. 2Q15
Total Vacancy Rate	11.01%	11.16%	10.87%	1.29%
Availability Rate	14.54%	14.81%	15.00%	(3.07%)
Average Asking Lease Rate	\$2.44	\$2.37	\$2.18	11.93%
Sale & Lease Transactions	3,499,364	4,459,839	6,263,861	(44.13%)
Gross Absorption	2,184,383	2,521,610	3,012,692	(27.49%)
Net Absorption	163,036	18,312	553,198	N/A

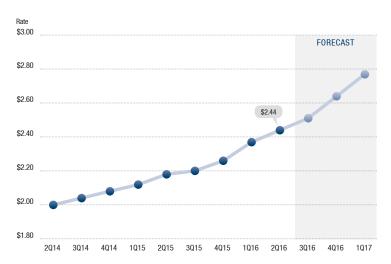
FFICE

VACANCY & AVAILABILITY RATE



AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY BASE RENT ON A PER SQ. FT. BASIS

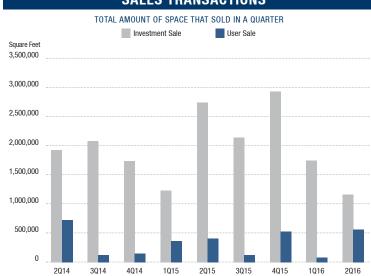


LEASE TRANSACTIONS



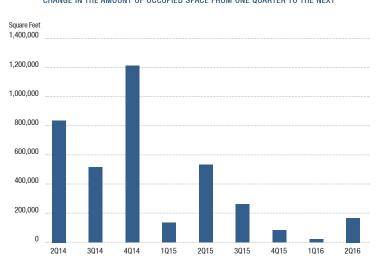


SALES TRANSACTIONS



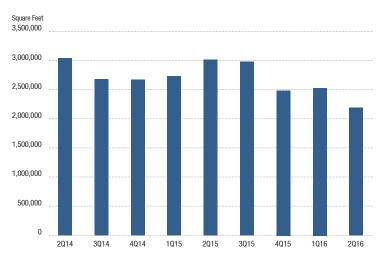
NET ABSORPTION

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			VAC	CANCY	& LEASE RATES			ABSORPTION				
	Number of	Net Rentable	Square Feet	Square Feet	Square Feet	Vacancy Rate	Square Feet	Availability Rate	Average Asking	Net Absorption	Net Absorption	Gross Absorption	Gross Absorptio
	Bldgs.	Square Feet	U/C	Planned	Vacant	202016	Available	202016	Lease Rate	202016	2016	202016	2016
Airport Area													
Costa Mesa	72	7,350,232	0	92,476	947,874	12.90%	1,246,855	16.96%	\$2.66	17,971	128,095	140,433	336,50
Irvine	257	24,025,441	537,224	969,817	2,346,412	9.77%	4,025,458	16.75%	\$2.76	(171,854)	(388,761)	428,968	830,11
Newport Beach	121	9,998,689	44,000	68,346	820,594	8.21%	1,146,800	11.47%	\$3.40	11,750	141,308	222,887	561,14
Airport Area Total	450	41,374,362	581,224	1,130,639	4,114,880	9.95%	6,419,113	15.51%	\$2.95	(142,133)	(119,358)	792,288	1,727,7
Central County													
Anaheim	82	6,842,150	0	300,000	825,945	12.07%	1,129,594	16.51%	\$2.05	91,629	56,212	130,720	188,04
Orange	83	7,154,500	0	0	534,596	7.47%	720,141	10.07%	\$2.12	45,036	(12,210)	151,735	222,5
Santa Ana	181	14,846,010	0	702,325	2,621,783	17.66%	2,572,223	17.33%	\$1.81	5,340	(119,555)	225,751	504,4
Tustin	43	2,268,702	0	1,179,124	537,995	23.71%	604,919	26.66%	\$2.12	(38,756)	(127,472)	53,309	88,2
Central County Total	389	31,111,362	0	2,181,449	4,520,319	14.53%	5,026,877	16.16%	\$1.94	103,249	(203,025)	561,515	1,003,30
North County													
Anaheim Hills	17	1,026,155	0	0	165,733	16.15%	204,660	19.94%	\$1.99	(7,021)	(16,674)	5,195	15,5
Brea	42	4,053,071	0	120,000	391,102	9.65%	634,006	15.64%	\$1.95	15,039	54,249	27,853	154,5
Buena Park	17	1,092,228	0	0	152,518	13.96%	180,877	16.56%	\$2.38	(61,113)	(38,820)	8,615	35,2
Fullerton	30	2,431,080	0	0	186,720	7.68%	355,705	14.63%	\$1.74	15,138	26,949	27,203	66,7
La Habra	4	142,069	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	
La Palma	10	712,038	0	0	125,913	17.68%	58,508	8.22%	\$0.00	17,417	(6,227)	51,781	51,7
Placentia	8	267,589	0	0	30,251	11.31%	30,259	11.31%	\$1.65	3,398	5,886	3,398	7,4
Yorba Linda	5	288,094	0	0	34,552	11.99%	46,429	16.12%	\$1.86	(573)	(573)	929	9
North County Total	133	10,012,324	0	120,000	1,086,789	10.85%	1,510,444	15.09%	\$2.08	(17,715)	24,790	124,974	332,2
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South County									A	40		. =	
Aliso Viejo	43	3,117,871	0	205,000	350,282	11.23%	491,600	15.77%	\$3.15	(81,625)	(120,125)	12,092	54,5
Dana Point	3	135,296	0	0	1,200	0.89%	1,200	0.89%	\$0.00	(1,200)	(1,200)	0	
Foothill Ranch	10	798,721	0	0	145,809	18.26%	138,024	17.28%	\$2.51	(462)	(5,007)	4,180	12,2
Irvine Spectrum	156	10,758,161	1,778,796	388,000	785,950	7.31%	947,638	8.81%	\$2.86	262,483	475,506	406,153	827,7
Laguna Beach	5	194,434	0	0	24,668	12.69%	25,060	12.89%	\$0.00	2,923	4,227	2,923	12,1
Laguna Hills	32	1,816,327	0	0	297,101	16.36%	324,871	17.89%	\$2.49	2,923	(1,259)	77,668	139,6
Laguna Niguel	10	1,750,444	0	0	53,045	3.03%	68,131	3.89%	\$3.05	(3,238)	1,523	5,688	14,6
Lake Forest	40	2,100,640	0	0	123,634	5.89%	328,465	15.64%	\$2.10	(11,906)	108,179	16,113	171,2
Mission Viejo	36	1,925,414	0	110,000	180,903	9.40%	265,324	13.78%	\$2.22	13,362	38,765	28,619	79,9
Rancho Santa Margarita	6	250,472	0	0	18,419	7.35%	24,972	9.97%	\$2.11	2,947	2,314	2,947	4,0
San Clemente	12	502,157	0	0	37,863	7.54%	48,188	9.60%	\$2.27	(5,704)	(19,491)	3,367	15,4
San Juan Capistrano	17	876,712	0	0	150,978	17.22%	148,185	16.90%	\$2.42	6,152	3,572	13,282	22,0
South County Total	370	24,226,649	1,778,796	703,000	2,169,852	8.96%	2,811,658	11.61%	\$2.62	186,655	487,004	573,032	1,353,60
West County													
Cypress	29	2,001,637	0	0	388,407	19.40%	560,079	27.98%	\$1.98	(7,818)	(21,957)	19,923	31,7
Fountain Valley	33	1,995,993	0	0	81,357	4.08%	87,323	4.37%	\$1.40	(3,121)	6,500	12,220	42,1
Garden Grove	20	1,562,070	0	0	59,028	3.78%	73,584	4.71%	\$1.64	27,144	(6,787)	44,301	51,8
Huntington Beach	43	2,482,937	44,500	0	245,532	9.89%	263,412	10.61%	\$2.19	23,370	24,451	39,506	126,6
Los Alamitos	12	687,842	0	0	35,047	5.10%	45,047	6.55%	\$0.00	(10,311)	(2,871)	3,152	15,0
Seal Beach	7	473,787	0	0	50,218	10.60%	55,778	11.77%	\$2.89	3,801	2,251	4,363	10,9
Stanton	4	143,361	0	0	10,998	7.67%	17,504	12.21%	\$0.00	(2,559)	(2,559)	1,947	1,9
Westminster	12	482,280	0	0	75,220	15.60%	79,037	16.39%	\$2.16	2,474	(3,398)	7,162	7,10
West County Total	160	9,829,907	44,500	0	945,807	9.62%	1,181,764	12.02%	\$2.11	32,980	(4,370)	132,574	287,3
Orange County Total	1,502	116.554.604	2,404,520	4,135,088			16,949,856	14.54%	\$2.44		185,041		4,704,3
	1,502	110,554,604	2,404,520	4,130,066	12,837,647	11.01%	10,949,600	14.54%	\$2.44	163,036	165,041	2,184,383	4,704,3
Airport Area													
Class A	118	23,278,924	581,224	847,000	2,845,900	12.23%	4,430,415	19.03%	\$3.18	(175,521)	(169,154)	509,950	1,088,1
Class B	306	16,800,104	0	283,639	1,205,869	7.18%	1,820,338	10.84%	\$2.46	29,023	40,179	273,441	616,7
Class C	26	1,295,334	0	0	63,111	4.87%	168,360	13.00%	\$1.92	4,365	9,617	8,897	22,8
Central County													
Class A	62	10.603.002	0	1,879,449	1,819,728	17.16%	1,844,531	17.40%	\$2.19	78,971	(142,362)	278,478	396,5
Class B	257	17,472,147	0	302,000	2,510,414	14.37%	2,891,429	16.55%	\$1.85	9,703	(59,747)	248,587	547,1
Class C	70	3,036,213	0	302,000	190,177	6.26%	290,917	9.58%	\$1.48	14,575	(916)	34,450	59,6
	70	0,000,210	U	U	190,177	0.2070	230,317	J.JU/0	ψ1.40	14,070	(910)	54,450	J8,0
North County													
Class A	19	2,006,780	0	120,000	310,055	15.45%	434,965	21.67%	\$2.46	(15,999)	(27,522)	13,969	63,9
Class B	104	7,669,105	0	0	733,627	9.57%	1,032,372	13.46%	\$1.97	(1,716)	53,823	107,103	263,0
Class C	10	336,439	0	0	43,107	12.81%	43,107	12.81%	\$0.00	0	(1,511)	3,902	5,2
South County													
Class A	61	7,373,497	1,778,796	632,000	917,484	12.44%	914,198	12.40%	\$2.93	(1,009)	66,759	181,401	346,12
Class B	299	16,359,284	1,770,790	71,000	1,250,987	7.65%	1,896,079	11.59%	\$2.37	188,325	421,095	389,138	1,004,9
Class C	10	493,868	0	71,000	1,230,987	0.28%	1,381	0.28%	\$1.60	(661)	(850)	2,493	2,6
	10	493,000	U	U	1,301	0.2070	1,301	0.2070	ψ1.00	(001)	(030)	2,490	۷,0
West County													
Class A	23	2,464,991	0	0	255,718	10.37%	449,652	18.24%	\$2.55	15,037	21,251	27,915	112,0
Class B	115	6,459,451	44,500	0	654,639	10.13%	693,591	10.74%	\$1.87	11,273	(28,513)	93,121	158,2
Class C	22	905,465	0	0	35,450	3.92%	38,521	4.25%	\$0.00	6,670	2,892	11,538	17,0
Orange County													
Class A	283	45,727,194	2,360,020	3,478,449	6,148,885	13.45%	8,073,761	17.66%	\$2.84	(98,521)	(251,028)	1,011,713	2,006,8
Class B	1,081	64,760,091	44,500	656,639	6,355,536	9.81%	8,333,809	12.87%	\$2.04	236,608	426,837	1,111,390	2,590,0
Class C	138	6,067,319	44,500	000,009	333,226	5.49%	542,286	8.94%	\$1.61	24,949	9,232	61,280	2,590,0
UIUUU U	100	0,001,319	U	U	JJJ,ZZ0	5.45/0	J4Z,ZUD	0.34 /0	ψι.ΟΙ	۲4,343	3,232	01,200	101,4

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	Buyer	Seller
1901 Main St.	Irvine	Α	172,767	\$66,000,000	J+R Group, LLC	Piedmont Office Realty Trust, Inc.
4000 Metropolitan Dr.	Orange	В	188,739	\$61,000,000	Boyd Watterson Asset Management	Spaulding & Slye Investments
1700 E. Saint Andrew Pl.	Santa Ana	Α	171,330	\$37,000,000	Drawbridge Realty Trust	Del Mar Partnership, Inc.
675 Placentia Ave.	Brea	Α	133,943	\$33,800,000	TIAA	Piedmont Office Realty Trust, Inc.
31001 Rancho Viejo Rd.	San Juan Capistrano	Α	40,252	\$26,390,000	JLL Income Property Trust, Inc.	Accretive Realty Advisor, Inc.

Lease Transactions						
Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
26220 Enterprise Ct. – Renewal	Lake Forest	В	50,006	May-2016	Apria Healthcare Group, Inc.	PRES Companies
23 Corporate Plaza Dr.	Newport Beach	В	41,932	May-2016	Real Office Center	The Irvine Company
145 S. State College Blvd. – Renewal	Brea	Α	41,452	May-2016	Chevron U.S.A., Inc.	BPAP West 135 & 135, LLC
15495 Sand Canyon Ave.	Irvine Spectrum	Α	40,443	Jun-2016	Autogravity	The Irvine Company
200 Spectrum Center Dr.	Irvine Spectrum	Α	22,150	Apr-2016	Greenwave Systems	The Irvine Company

PRODUCT TYPE

CLASS A

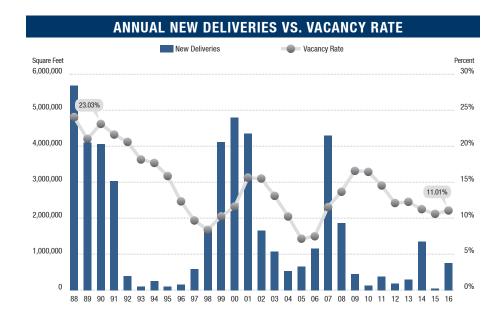
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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.



Please Contact Us for Further Information

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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.

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