

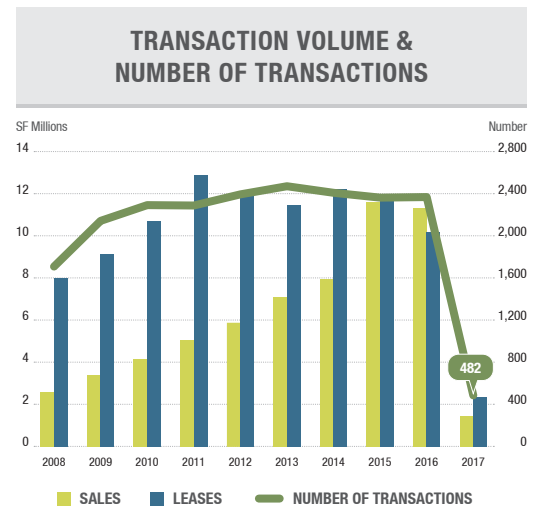
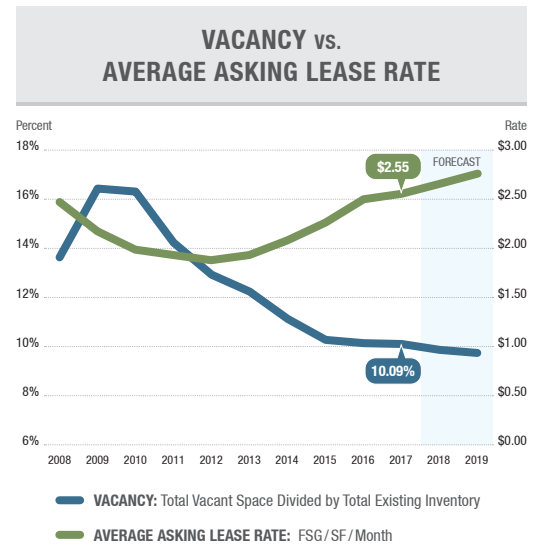
STRONG FUNDAMENTALS. Orange County has recorded four years of consecutive positive net absorption with a healthy 2.3 million square feet leased in the past 12 months. Moderate and steady job growth indicates that demand for office space shall continue strong in the foreseeable future. Countywide average asking rents for both Class A and Class B office property continue to rise, with the biggest increases in Class A over the last year. The Orange County office market has experienced a decrease in availability, and it continues to exhibit a diversity of tenants that make the market much more resilient than in years past. Office vacancy rates countywide are currently at 10.09%. The last time they were this low was back in 2007.

VACANCY. With technology and financial industries leading the charge, the local economy continues to grow and has created a meaningful number of amount of office-using jobs. The vacancy rate of 10.09% in the first quarter of 2017 is down a bit from the fourth quarter of 2016's 10.12%, but down substantially from last year's first quarter's rate of 10.87%. Local company expansion accounts for most of the positive absorption. Vacancy is decreasing across the board, including the Central Orange County market which has typically lagged behind most of the other areas.

LEASE RATES. The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was \$2.55 at the end of the first quarter, a 7.59% increase from the previous year's rate of \$2.37 and five cents higher than last quarter's rate. Asking rents have now risen for twelve consecutive quarters. During 2016, the average asking rent increased by 10.62%. 2015's performance was also strong where asking rents grew by 8.65%.

TRANSACTION ACTIVITY. The Orange County office market finds itself in a unique position at the start of 2017. Positive indicators include the low vacancy rate, which has driven a fair amount of new construction, and the abundant supply of quality office space which is expected to accommodate demand. Local economic indicators are solid, absorption has been positive year-over-year, and vacancies across the board are declining. However, in the first quarter of 2017, only 3.6 million square feet of total transactions (sale and lease) were recorded, down from just over 7.5 million in the fourth quarter. The most notable leases include:

- Toshiba lease of 96,000 square feet at 5231-5241 California Avenue in Irvine
- AON Financial lease of 34,000 square feet at 17875 Von Karman Avenue in Irvine
- Qualcomm lease of 25,016 square feet at 3347 Michelson Drive in Irvine



Market Statistics

	Change Over Last Quarter	1Q 2017	4Q 2016	1Q 2016	% Change Over Last Year
Vacancy Rate	▼ DOWN	10.09%	10.12%	10.87%	-7.18%
Availability Rate	▼ DOWN	14.07%	14.47%	14.91%	-5.63%
Average Asking Lease Rate	▲ UP	\$2.55	\$2.50	\$2.37	7.59%
Sale & Lease Transactions	▼ DOWN	3,668,807	7,514,333	4,707,667	-22.07%
Gross Absorption	▲ UP	2,158,505	1,867,151	2,577,682	-16.26%
Net Absorption	▲ POSITIVE	242,830	(146,303)	(19,753)	N/A

LEASE RATES. With the market thriving, rents are continuing to grow. We expect the average asking lease rates to increase by 3–4% over the coming year in both Class A and Class B buildings.

VACANCY. A leading consideration in analyzing any potential real estate opportunity is the economy. With the lowest unemployment rate in the Southern California region, and job growth spurring demand as companies expand their payrolls, we anticipate vacancy will continue to decrease slightly in the second half of the year. Vacancy most likely will level off in the latter part of the year as new development product is delivered.

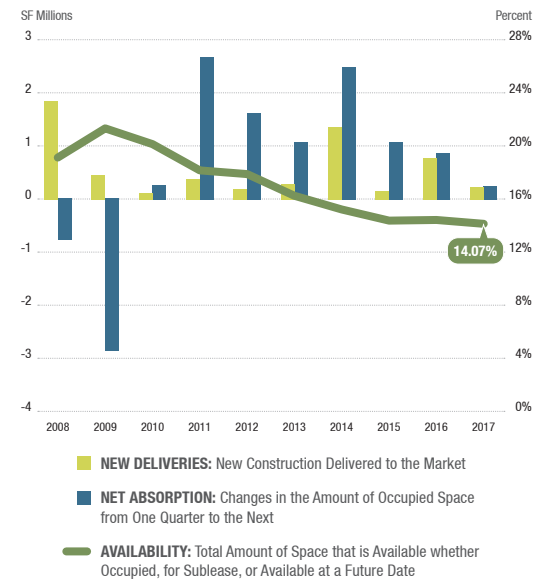
OVERALL. The Orange County market landscape in 2017 will be characterized by continued strong fundamentals, increased investor activity and consistent transaction volume. The employment gains continue to be strong – unemployment dropped below 4% – and demand for office space will continue. The office market sector has been posting strong gains, with higher rents and lower vacancies helping to fuel the construction of many new office buildings.

CONSTRUCTION. The total space under construction is roughly 2.2 million square feet, which is at its highest level since 2007. The most noteworthy projects are the 1.1 million square foot owner-occupied office campus for Broadcom in Irvine, Trammell Crow's 545,000 square foot project ("The Boardwalk"), and a 205,000 square foot owner-occupied project for Microvention in Aliso Viejo. In addition, a 400,000 square foot office component at the mixed-use Flight at Tustin Legacy development in Tustin is just about to get started. The first phase is scheduled to break ground this year, and will include eight office buildings with a stand-alone food hall and conference center.

ABSORPTION. The Orange County market saw positive net absorption for the quarter after registering negative net absorption in the first quarter of 2016. With strong fundamentals in place, healthy leasing, and rising rent growth, demand has continued to exceed supply. Net absorption for the Orange County office market was positive 242,830 square feet in the first quarter of 2017 compared to a negative 146,303 square feet in the fourth quarter of 2016. In terms of absorption, the Class B submarket was the biggest gainer in the quarter with 182,000 square feet of positive absorption.

AVAILABILITY. Available direct/sublease space came in at 14.07% at the close of the first quarter, which was slightly down from 2016's fourth quarter rate of 14.47% and down from 2016's first quarter rate of 14.91%. We believe that given the consistent job growth, the diversity of the tenant base in Orange County and an influx of residents, that availability is projected to drop through at least the next quarter.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
1920–2010 Main St. – 2 Properties	Irvine	A	656,000	\$200,000,000	Emmes Group of Cos	Shorenstein
7755 Irvine Center Dr.	Irvine	A	126,326	\$42,000,000	MerchSource	Menlo Equities
5 Peters Canyon Rd.	Irvine	A	156,305	\$41,700,000	GEM Realty JV Pendulum Property	TA Realty
26632 Towne Centre Dr. – 3 Properties	Foothill Ranch	B	205,077	\$40,000,000	Pelican Asset Management	Blackstone
4 Polaris Way	Aliso Viejo	A	90,611	\$34,750,000	Invesco Real Estate	Quest Software, Inc.

Leases

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
3333 Susan St.	Costa Mesa	A	101,831	Feb-2017	The Los Angeles Chargers	Steelware
15253 Bake Pkwy.	Irvine Spectrum	B	65,006	Feb-2017	Blizzard Entertainment	CTA, LP
3100 Lake Center Dr.	Santa Ana	A	60,461	Feb-2017	OC 405 Partners	CJ Segerstrom & Son
2600 Michelson Dr.	Irvine	A	60,000	Feb-2017	Jacobs Engineering	Dune Real Estate Partners, LP
5231 California Ave.	Irvine	B	53,840	Feb-2017	Toshiba	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 1Q2017	Square Feet Available	Availability Rate 1Q2017	Average Asking Lease Rate	Net Absorption 1Q2017	Net Absorption 2017	Gross Absorption 1Q2017	Gross Absorption 2017
Airport Area													
Costa Mesa	72	7,312,814	101,831	377,476	950,163	12.99%	1,241,410	16.98%	\$2.66	(32,680)	(32,680)	89,892	89,892
Irvine	258	24,119,789	537,258	782,000	2,550,624	10.57%	4,535,399	18.80%	\$3.75	(171,820)	(171,820)	482,373	482,373
Newport Beach	121	9,948,876	44,000	69,146	813,841	8.18%	1,083,400	10.89%	\$3.34	(2,881)	(2,881)	213,847	213,847
Santa Ana	15	2,449,434	0	0	362,403	14.80%	362,431	14.80%	\$2.41	84,416	84,416	125,093	125,093
Airport Area Total	466	43,830,913	683,089	1,228,622	4,677,031	10.67%	7,222,640	16.48%	\$2.98	(122,965)	(122,965)	911,205	911,205
Central County													
Anaheim	17	1,949,215	0	300,000	231,057	11.85%	288,363	14.79%	\$2.58	100,020	100,020	45,165	45,165
Orange	83	7,156,959	0	0	624,913	8.73%	799,137	11.17%	\$2.12	(26,766)	(26,766)	60,431	60,431
Santa Ana	164	12,317,701	0	702,325	1,621,731	13.17%	1,784,263	14.49%	\$1.92	165,258	165,258	317,563	317,563
Tustin	42	2,224,578	0	1,244,127	402,127	18.08%	437,298	19.66%	\$2.15	60,280	60,280	89,974	89,974
Central County Total	306	23,648,453	0	2,246,452	2,879,828	12.18%	3,309,061	13.99%	\$2.01	298,792	298,792	513,133	513,133
North County													
Anaheim Hills	81	5,838,283	0	0	428,464	7.34%	663,485	11.36%	\$2.06	8,576	8,576	93,396	93,396
Brea	42	4,060,732	0	120,000	428,063	10.54%	525,944	12.95%	\$2.22	(6,271)	(6,271)	32,600	32,600
Buena Park	17	1,115,193	0	0	169,187	15.17%	258,164	23.15%	\$1.75	(9,902)	(9,902)	4,788	4,788
Fullerton	30	2,433,803	0	0	161,832	6.65%	371,453	15.26%	\$1.76	1,634	1,634	24,867	24,867
La Habra	4	142,069	0	0	0	0.00%	3,031	2.13%	\$1.39	0	0	0	0
La Palma	10	712,038	0	0	48,958	6.88%	63,974	8.98%	\$0.00	13,023	13,023	18,243	18,243
Placentia	8	267,589	0	0	23,161	8.66%	22,638	8.46%	\$1.68	12,339	12,339	18,084	18,084
Yorba Linda	5	288,094	0	0	31,599	10.97%	31,599	10.97%	\$2.08	(2,952)	(2,952)	0	0
North County Total	197	14,857,801	0	120,000	1,291,264	8.69%	1,940,288	13.06%	\$2.05	16,447	16,447	191,978	191,978
South County													
Aliso Viejo	43	3,124,371	205,000	0	299,949	9.60%	636,292	20.37%	\$3.23	(19,597)	(19,597)	65,953	65,953
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	98,811	12.37%	160,224	20.06%	\$2.49	(10,692)	(10,692)	9,187	9,187
Irvine Spectrum	159	11,014,872	1,346,696	388,000	770,209	6.99%	1,018,430	9.25%	\$3.29	133,902	133,902	257,030	257,030
Laguna Beach	5	192,434	0	0	19,881	10.33%	21,461	11.15%	\$0.00	953	953	953	953
Laguna Hills	33	1,804,417	0	0	286,662	15.89%	319,902	17.73%	\$2.55	(27,247)	(27,247)	26,746	26,746
Laguna Niguel	10	1,749,768	0	0	66,075	3.78%	69,708	3.98%	\$0.00	(13,394)	(13,394)	3,788	3,788
Lake Forest	39	2,055,413	0	0	135,984	6.62%	177,044	8.61%	\$2.20	(151)	(151)	11,583	11,583
Mission Viejo	36	2,041,881	0	110,000	257,618	12.62%	289,012	14.15%	\$2.42	(52,385)	(52,385)	36,230	36,230
Rancho Santa Margarita	6	262,769	0	0	12,112	4.61%	12,112	4.61%	\$2.12	2,102	2,102	5,866	5,866
San Clemente	12	502,157	0	0	33,269	6.63%	57,880	11.53%	\$2.30	1,920	1,920	1,920	1,920
San Juan Capistrano	17	876,712	0	0	133,557	15.23%	141,537	16.14%	\$0.00	857	857	2,628	2,628
South County Total	372	24,515,391	1,551,696	498,000	2,114,127	8.62%	2,903,602	11.84%	\$2.86	16,268	16,268	421,884	421,884
West County													
Cypress	28	1,949,395	0	0	352,066	18.06%	411,544	21.11%	\$1.94	(2,083)	(2,083)	25,018	25,018
Fountain Valley	33	1,995,993	0	0	77,367	3.88%	80,928	4.05%	\$1.53	1,481	1,481	4,326	4,326
Garden Grove	19	1,522,437	0	0	58,671	3.85%	54,611	3.59%	\$1.84	6,955	6,955	10,288	10,288
Huntington Beach	42	2,442,906	44,500	0	168,076	6.88%	279,486	11.44%	\$2.28	7,479	7,479	44,448	44,448
Los Alamitos	12	700,842	0	0	40,207	5.74%	50,507	7.21%	\$0.00	282	282	10,957	10,957
Seal Beach	7	473,787	0	0	30,955	6.53%	40,236	8.49%	\$2.82	11,079	11,079	11,079	11,079
Stanton	4	143,361	0	0	11,371	7.93%	14,991	10.46%	\$0.00	(2,569)	(2,569)	2,525	2,525
Westminster	12	484,540	0	0	62,362	12.87%	90,653	18.71%	\$2.01	11,664	11,664	11,664	11,664
West County Total	157	9,713,261	44,500	0	801,075	8.25%	1,022,956	10.53%	\$2.11	34,288	34,288	120,305	120,305
Orange County Total	1,498	116,565,819	2,279,285	4,093,074	11,763,325	10.09%	16,398,547	14.07%	\$2.55	242,830	242,830	2,158,505	2,158,505
Airport Area													
Class A	128	25,419,783	683,089	782,000	3,403,116	13.39%	4,623,021	18.19%	\$3.16	(23,310)	(23,310)	577,705	577,705
Class B	311	17,109,332	0	446,622	1,200,180	7.01%	2,449,232	14.32%	\$2.55	(130,114)	(130,114)	295,028	295,028
Class C	27	1,301,798	0	0	73,735	5.66%	150,387	11.55%	\$1.96	30,459	30,459	38,472	38,472
Central County													
Class A	44	7,358,932	0	1,944,452	892,451	12.13%	878,965	11.94%	\$2.24	17,688	17,688	93,546	93,546
Class B	206	13,849,501	0	302,000	1,731,156	12.50%	2,060,428	14.88%	\$1.99	311,005	311,005	408,314	408,314
Class C	56	2,440,020	0	0	256,221	10.50%	369,668	15.15%	\$1.56	(29,901)	(29,901)	11,273	11,273
North County													
Class A	27	3,191,188	0	120,000	450,096	14.10%	641,115	20.09%	\$2.19	19,786	19,786	64,178	64,178
Class B	146	10,737,281	0	0	790,390	7.36%	1,251,176	11.65%	\$1.98	(4,951)	(4,951)	121,644	121,644
Class C	24	929,332	0	0	50,778	5.46%	47,997	5.16%	\$1.88	1,612	1,612	6,156	6,156
South County													
Class A	63	7,714,606	1,551,696	427,000	873,784	11.33%	881,176	11.42%	\$3.20	15,016	15,016	226,511	226,511
Class B	299	16,306,917	0	71,000	1,238,652	7.60%	2,020,735	12.39%	\$2.53	1,035	1,035	193,996	193,996
Class C	10	493,868	0	0	1,691	0.34%	1,691	0.34%	\$1.60	217	217	1,377	1,377
West County													
Class A	23	2,465,352	0	0	251,898	10.22%	340,272	13.80%	\$2.52	32,822	32,822	66,285	66,285
Class B	115	6,469,674	44,500	0	521,939	8.07%	652,486	10.09%	\$1.89	5,025	5,025	49,370	49,370
Class C	19	778,235	0	0	27,238	3.50%	30,198	3.88%	\$0.00	(3,559)	(3,559)	4,650	4,650
Orange County													
Class A	285	46,149,861	2,234,785	3,273,452	5,871,345	12.72%	7,364,549	15.96%	\$2.91	62,002	62,002	1,028,225	1,028,225
Class B	1,077	64,472,705	44,500	819,622	5,482,317	8.50%	8,434,057	13.08%	\$2.22	182,000	182,000	1,068,352	1,068,352
Class C	136	5,943,253	0	0	409,663	6.89%	599,941	10.09%	\$1.63	(1,172)	(1,172)	61,928	61,928
Orange County Total	1,498	116,565,819	2,279,285	4,093,074	11,763,325	10.09%	16,398,547	14.07%	\$2.55	242,830	242,830	2,158,505	2,158,505

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.

Fundamentals Remain Strong in Orange County



by Liz Hurley
SENIOR VICE PRESIDENT, IRVINE
Patrick McCredie
ASSOCIATE, IRVINE

The Orange County office market continues to demonstrate strength, with positive fundamentals underpinning the first quarter of 2017. The blend of Orange County lifestyle, world class amenities and educated professionals remains attractive for corporate users. Orange County is enjoying its seventh consecutive year of job growth. Furthermore, adding creative elements to traditional office product has proven to be a durable model for attracting and retaining millennial talent countywide.

Recent examples include The Irvine Company's repositioning effort at University Research Park, McCarthy Cook's at The Met and Cigna's Lakeshore Towers complex. Outdoor office spaces are the latest trend in a string of innovative and ever-evolving solutions for the changing workforce. By reinventing outdoor space and common areas, landlords are meeting the demands of technology, medical and start-up tenants seeking a collaborative workplace with an outdoor component. Other institutional landlords are following suit with a number of high rise office towers catering to corporate America's need to attract the best and brightest talent.

These new developments, along with healthy regional employment, are illustrated in Orange County's positive office metrics. For the first quarter of 2017, office vacancy rates stand at 10.09% (down from 10.87% last year) while average asking lease rates have increased by 7.59% year over year to \$2.55 Full Service Gross. Gross absorption remains strong as well, up from 1,867,151 square feet last year to 2,158,505 square feet in first quarter. Employment numbers also remain healthy. As of February 2017, the unemployment rate was 3.7% (down from 4.1% a year ago) and 17,000 new jobs have been added since the beginning of the year countywide.

The Orange County economic landscape continues to show strength and, as evidenced by our most recent quarter, the office market is responding accordingly. Positive employment indicators and continued demand will support market trajectories into late 2017.

Please Contact Us for Further Information

Tony Tran
Market Research Analyst
ttran@voitco.com

Anaheim, CA
714.978.7880

Carlsbad, CA
760.517.4000

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Los Angeles, CA
424.329.7500

San Diego, CA
858.453.0505

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
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