

ORANGE COUNTY OFFICE

Economic Indicators

| | Q1 16 | Q1 17 | 12-Month Forecast |
|----------------------------|-------|-------|-------------------|
| Orange County Employment | 1.57M | 1.59M | ▲ |
| Orange County Unemployment | 4.3% | 3.8% | ▼ |
| U.S. Unemployment | 4.9% | 4.8% | ▼ |

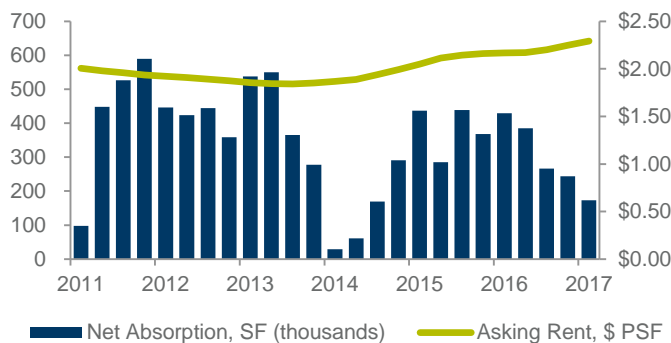
Market Indicators (Overall, All Classes)

| | Q1 16 | Q1 17 | 12-Month Forecast |
|-------------------------|-----------|-----------|-------------------|
| Vacancy | 11.9% | 11.1% | ▼ |
| YTD Net Absorption (sf) | 238,658 | 126,049 | ▲ |
| Under Construction (sf) | 1,658,424 | 2,187,903 | ■ |
| Average Asking Rent* | \$2.16 | \$2.34 | ▲ |

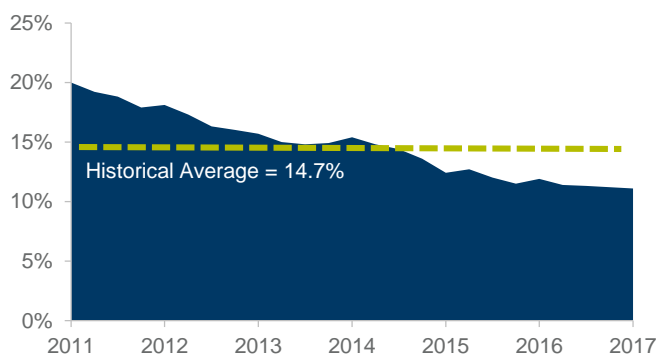
*Rental rates reflect gross asking \$psf/month
 †Totals are not reflective of U.S. Overview

Overall Net Absorption/Overall Asking Rent

4Q TRAILING AVERAGE



Overall Vacancy



Economy

U.S. job growth trend remains firmly in place and nonfarm payroll employment has now increased for 78 consecutive months. Employment growth in the first quarter of 2017 was solid—averaging 178,000 jobs per month. Orange County posted an unemployment rate of 3.8% at the beginning of 2017, down from 4.1% a year ago. In the last 12 months, total nonfarm employment increased by 17,000 jobs, or an annual rate of 1.1%. With an addition of 6,100 jobs, the professional and business services sector reported the largest gain. The labor market will experience additional improvements over the next two years with an anticipated annual increase in nonfarm jobs of 2.0% this year before slowing slightly to 1.9% in 2018 as the county nears full employment. Meanwhile, Orange County’s GDP is expected to accelerate to 3.2% in 2017 and maintain that rate in 2018.

Market Overview

At the beginning of 2017, the Orange County (OC) office market finished with healthy and strong fundamentals. Overall and direct vacancy rates remained steady at 11.1% and 10.7%, respectively. Year-over-year, overall vacancy is down 80 basis points (BPs) while direct vacancy saw a 70 BP decline in the same time period. These are the lowest vacancy rates seen in over a decade.

Current overall asking rents stand at \$2.34 FSG* countywide, reflecting a slower incline of asking prices across the county, yet second only to the year-end, pre-recessionary asking rate of \$2.37 FSG in 2006. Compared to year-over-year, overall asking rents continued to increase, and all indications are such that this trend will continue throughout 2017. Class B rents are rising as well since many tenants have been priced out of Class A space. At \$2.00 FSG, overall Class B rents are at an all-time high. Class B leasing activity made up 49% of the 1.8 MSF posted with 866,877 square feet (SF) this quarter.

Net absorption continues to show positive, but at a more subdued level to start 2017. With over 126,000 SF of positive absorption, there are still indications of healthy market conditions. Central County had the most net absorption at 227,000 SF, fueled by activity in Santa Ana. Although the Greater Airport area, West County and North Orange County showed marginal levels of negative absorption, one could state these levels were an indication of settling and the cautious optimism carrying over from the close of 2016.

The approximately 2.2 MSF of development projects remain on schedule and all could deliver before the close of 2017. With 537,000 SF or 35% of the tracked projects, the Greater Airport Area is comprised of all speculative product. South County has more SF under construction at 1.7 MSF, a blend of Build-To-Suit and speculative product types making up 77% of development projects.

Outlook

Expect rents to continue to rise at a slower pace and overall vacancy to decline till mid to late-2017. Vacancy may see a slight uptick as new construction will come online, however, new high-end product will likely push rates up in these markets. Sale rates are holding in large part because sentiment from private and institutional investors is more positive and stronger than anticipated post-election. Therefore, expect to see a rise in office building sale availabilities by Q3 2017.

MARKETBEAT

Orange County

Office Q1 2017



| SUBMARKET | INVENTORY (SF) | SUBLET VACANT (SF) | DIRECT VACANT (SF) | OVERALL VACANCY RATE | YTD DIRECT NET ABSORPTION (SF) | YTD OVERALL NET ABSORPTION (SF) | YTD LEASING ACTIVITY (SF) | UNDER CNSTR (SF) | OVERALL AVERAGE ASKING RENT (ALL CLASSES)* | OVERALL AVERAGE ASKING RENT (CLASS A)* |
|---------------------------------|-------------------|--------------------|--------------------|----------------------|--------------------------------|---------------------------------|---------------------------|------------------------------|--|--|
| South Santa Ana | 1,689,207 | 0 | 360,886 | 21.4% | 71,733 | 71,733 | 101,665 | 0 | \$2.66 | \$2.77 |
| Costa Mesa | 5,280,016 | 24,253 | 728,104 | 14.2% | -6,394 | -20,173 | 224,793 | 0 | \$2.97 | \$3.23 |
| Newport Beach | 8,016,346 | 23,191 | 729,903 | 9.4% | 3,087 | 6,586 | 149,742 | 0 | \$3.32 | \$3.44 |
| Irvine | 23,037,761 | 111,796 | 2,303,826 | 10.5% | -78,522 | -98,504 | 482,349 | 537,224 | \$2.55 | \$2.86 |
| GREATER AIRPORT AREA/CBD | 38,023,330 | 159,240 | 4,122,719 | 11.3% | -10,096 | -40,358 | 958,549 | 537,224 | \$2.82 | \$3.08 |
| Irvine Spectrum | 8,084,619 | 64,252 | 276,346 | 3.7% | 48,496 | 44,350 | 225,524 | 1,445,679 | \$2.85 | \$3.18 |
| Lake Forest/R.S. Margarita | 2,634,428 | 2,500 | 198,434 | 7.6% | -10,287 | -10,287 | 5,595 | 0 | \$2.23 | \$2.50 |
| Laguna Hills/Aliso Viejo | 4,296,968 | 1,859 | 301,117 | 7.1% | -32,551 | -7,941 | 30,597 | 205,000 | \$2.80 | \$3.29 |
| Laguna Niguel/Laguna Beach | 574,657 | 0 | 18,863 | 3.3% | -990 | -990 | 0 | 0 | \$2.43 | \$2.75 |
| Mission Viejo | 1,289,140 | 7,897 | 180,261 | 14.6% | -20,452 | -23,533 | 22,631 | 0 | \$2.40 | \$2.57 |
| S.J. Cap/S. Clemente/Dana Point | 1,274,048 | 0 | 30,716 | 2.4% | 5,800 | 5,800 | 8,794 | 0 | \$2.14 | \$0.00 |
| SOUTH COUNTY | 18,153,860 | 31,042 | 1,005,737 | 5.7% | -9,984 | 7,399 | 293,141 | 1,650,679 | \$2.59 | \$3.07 |
| Seal Beach | 310,241 | 2,260 | 12,064 | 4.6% | 13,789 | 13,789 | 14,151 | 0 | \$2.93 | \$2.93 |
| Westminster | 262,284 | 0 | 75,683 | 28.9% | 326 | 326 | 5,005 | 0 | \$2.13 | \$0.00 |
| Huntington Beach | 1,303,980 | 12,989 | 91,146 | 8.0% | -1,152 | -9,155 | 5,865 | 0 | \$2.26 | \$2.20 |
| Fountain Valley | 320,225 | 0 | 3,936 | 1.2% | 1,714 | 1,714 | 1,714 | 0 | \$1.65 | \$0.00 |
| Garden Grove | 541,785 | 0 | 68,615 | 12.7% | 2,738 | 2,738 | 2,738 | 0 | \$1.83 | \$0.00 |
| Los Alamitos/Stanton | 435,342 | 2,500 | 11,178 | 3.1% | -1,997 | -4,497 | 1,032 | 0 | \$1.41 | \$0.00 |
| Cypress | 1,324,921 | 15,603 | 287,034 | 22.8% | -35,015 | -35,015 | 0 | 0 | \$1.79 | \$0.00 |
| WEST COUNTY | 4,498,778 | 33,352 | 549,656 | 13.0% | -19,597 | -30,100 | 30,505 | 0 | \$1.93 | \$2.37 |
| Parkcenter Area | 2,820,093 | 0 | 324,131 | 11.5% | -26,082 | -26,082 | 21,717 | 0 | \$1.86 | \$1.98 |
| Stadium Area | 3,652,993 | 0 | 346,763 | 9.5% | 4,700 | 4,700 | 53,176 | 0 | \$2.06 | \$2.52 |
| The City Area | 2,306,689 | 0 | 242,605 | 10.5% | -20,973 | -20,973 | 29,840 | 0 | \$2.47 | \$2.67 |
| Main Place Area | 2,262,734 | 2,349 | 279,770 | 12.5% | -15,874 | -18,223 | 12,818 | 0 | \$2.28 | \$2.52 |
| Tustin (South of I-5) | 687,575 | 0 | 112,631 | 16.4% | 59,802 | 73,256 | 99,957 | 0 | \$2.23 | \$0.00 |
| Santa Ana | 3,411,691 | 0 | 862,283 | 25.3% | 269,284 | 269,284 | 137,158 | 0 | \$1.88 | \$0.00 |
| North/East Stadium | 2,995,050 | 35,228 | 577,747 | 20.5% | -57,991 | -56,869 | 22,063 | 0 | \$1.59 | \$2.12 |
| East Orange | 427,246 | 0 | 37,996 | 8.9% | -13,567 | -13,567 | 0 | 0 | \$1.95 | \$0.00 |
| Civic Center Area | 2,032,872 | 0 | 285,749 | 14.1% | 15,018 | 15,018 | 8,130 | 0 | \$1.59 | \$1.95 |
| CENTRAL COUNTY | 20,596,966 | 37,577 | 3,069,675 | 15.1% | 214,317 | 226,544 | 384,859 | 0 | \$1.89 | \$2.30 |
| Fullerton | 1,283,776 | 0 | 114,013 | 8.9% | -37,604 | -37,604 | 8,718 | 0 | \$1.89 | \$0.00 |
| Brea/La Habra | 3,920,170 | 68,007 | 275,394 | 8.8% | -10,525 | -8,363 | 75,353 | 0 | \$2.12 | \$2.10 |
| Placentia/Yorba Linda | 270,646 | 0 | 20,336 | 7.5% | 7,545 | 7,545 | 11,668 | 0 | \$1.52 | \$0.00 |
| Buena Park/La Palma | 1,109,616 | 0 | 221,539 | 20.0% | 986 | 986 | 5,459 | 0 | \$1.95 | \$3.00 |
| NORTH COUNTY | 6,584,824 | 68,007 | 631,282 | 10.6% | -39,598 | -37,436 | 101,198 | 0 | \$2.00 | \$2.26 |
| O.C. MARKET TOTALS | 87,857,758 | 329,218 | 9,379,069 | 11.1% | 135,042 | 126,049 | 1,768,252 | 2,187,903^α | \$2.34 | \$2.87 |

*Rental rates reflect gross asking \$psf/month
^αTotals are not reflective of U.S. Overview

| CLASS | INVENTORY (SF) | SUBLET VACANT (SF) | DIRECT VACANT (SF) | DIRECT VACANCY RATE | YTD DIRECT NET ABSORPTION (SF) | YTD OVERALL NET ABSORPTION (SF) | YTD LEASING ACTIVITY (SF) | UNDER CNSTR (SF) | DIRECT AVERAGE ASKING RENT* | OVERALL AVERAGE ASKING RENT* |
|---------|----------------|--------------------|--------------------|---------------------|--------------------------------|---------------------------------|---------------------------|------------------|-----------------------------|------------------------------|
| Class A | 37,415,279 | 223,886 | 4,428,395 | 11.8% | 163,201 | 133,390 | 884,632 | 2,187,903 | \$2.90 | \$2.87 |
| Class B | 48,186,504 | 105,332 | 4,879,052 | 10.1% | -34,375 | -13,557 | 866,877 | 0 | \$2.01 | \$2.00 |
| Class C | 1,958,425 | 0 | 71,622 | 3.7% | 6,216 | 6,216 | 16,743 | 0 | \$1.92 | \$1.92 |

MARKETBEAT

Orange County

Office Q1 2017



Key Lease Transactions Q1 2017

| PROPERTY | SF | TENANT | TRANSACTION TYPE | SUBMARKET |
|---------------------------|---------|----------------------------|------------------|----------------------|
| 3333 Susan Street | 101,831 | The Los Angeles Chargers | New Lease | Greater Airport Area |
| 15253 Bake Pkwy | 65,006 | Blizzard Entertainment | New Lease | South County |
| 1500 S Douglass Road | 63,839 | Carrington Mortgage | Expansion | Central County |
| 1610 E Saint Andrew Place | 62,755 | Collectors Universe, Inc. | New Lease | Central County |
| 3100 Lake Center Drive | 60,462 | OC 405 Partners | New Lease | Greater Airport Area |
| 2600 Michelson Drive | 60,013 | Jacobs Engineering | New Lease | Greater Airport Area |
| 217 Technology Drive | 55,527 | Kelley Blue Book Co., Inc. | Renewal | South County |
| 5231 California | 53,840 | Toshiba | New Lease | Greater Airport Area |
| 14201 Franklin Avenue | 39,762 | ABM Industries Inc. | New Lease | Central County |

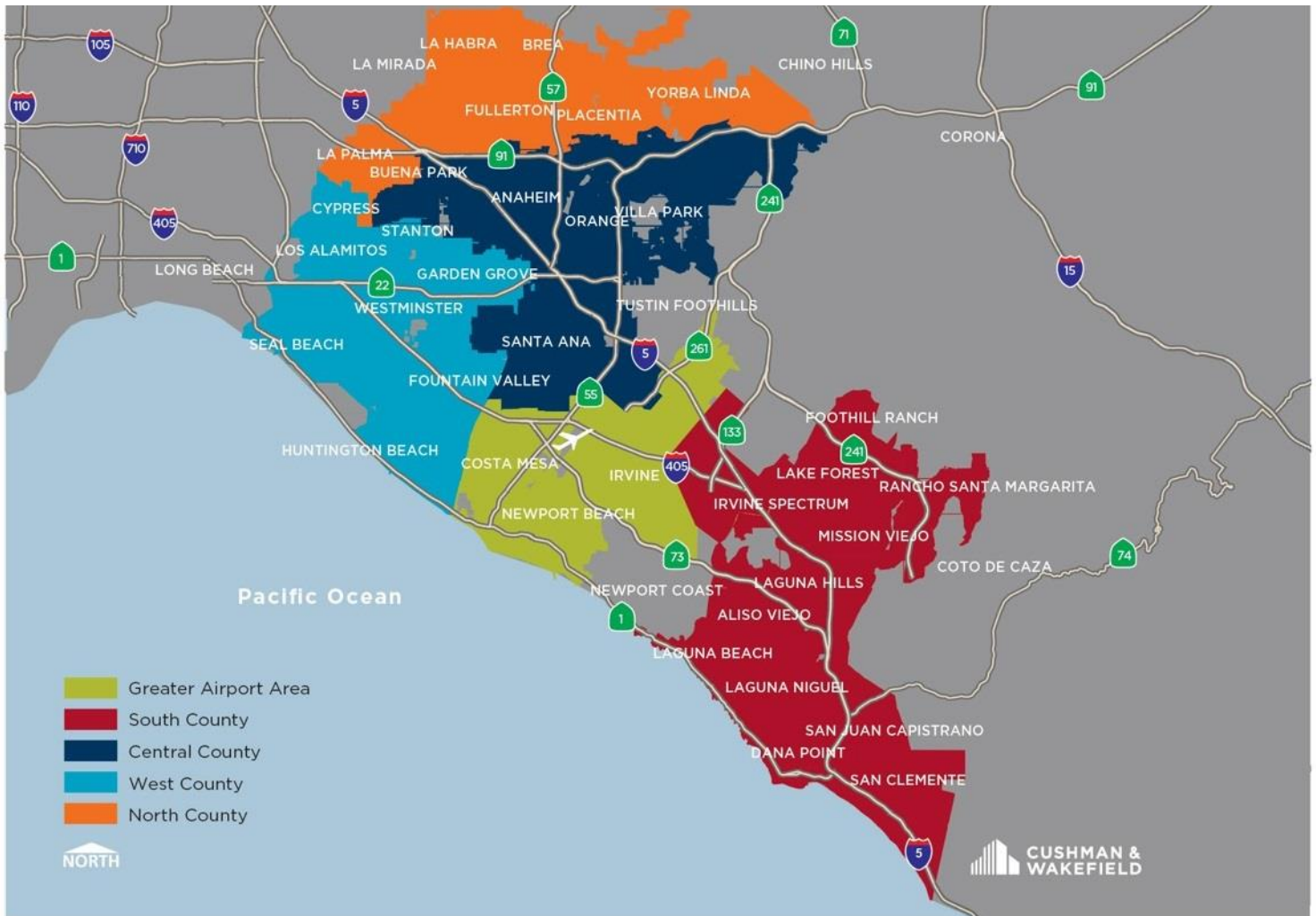
Key Sales Transactions Q1 2017

| PROPERTY | SF | SELLER/BUYER | PRICE / \$PSF | SUBMARKET |
|---|---------|--|--------------------|----------------------|
| 7755 Irvine Center Drive | 118,370 | Menlo Equities/MerchSource | \$42,000,000/\$355 | South County |
| 5 Peters Canyon Road | 156,451 | TA Realty/GEM Realty | \$41,675,000/\$266 | Greater Airport Area |
| Towne Centre Plaza | 205,626 | The Blackstone Group/Pinnacle Asset Mgmt Group Llc | \$40,000,000/\$195 | South County |
| 4 Polaris Way | 90,610 | Quest Software/Invesco | \$34,800,000/\$384 | South County |
| 19712-19762 MacArthur Blvd (Portfolio Sale) | 105,401 | CIP Real Estate/Kelemen Caamano Investments | \$27,028,000/\$256 | Greater Airport Area |
| 17900 Von Karman Ave | 65,086 | Gerson Bakar/Wilshire Capital | \$16,000,000/\$246 | Greater Airport Area |

MARKETBEAT

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Office Q1 2017



Explanation of Terms

Total Inventory: The total amount of office space (in buildings of a predetermined size by market) that can be rented by a third party.

Overall Vacancy Rate: The amount of unoccupied space (new, relet, and sublet) expressed as a percentage of total inventory.

Direct Vacancy Rate: The amount of unoccupied space available directly through the landlord (excludes sublease space).

Absorption: The net change in occupied space between two points in time. (Total occupied space in the present quarter minus total occupied space from the previous quarter, quoted on a net, not gross, basis.)

Leasing Activity: The sum of all leases over a period of time. This includes pre-leasing activity as well as expansions. It does not include renewals.

Under Construction: Industrial and office square footage that are being built and have not received certificates of occupancy (C of O). Projects which are beyond site preparation (concrete slab poured and construction is actively progressing). For C&W statistical purposes, these buildings will not be complete by the last day of the reporting quarter.

Under renovation: Office and industrial buildings that are undergoing renovation, rehabilitation or conversion and require a certificate of occupancy to be habitable.

Overall Weighted Asking Rents: Gross average asking rents weighted by the amount of available direct and sublease space in Class A, B and C properties.

Class A Asking Rents: Gross average asking rents weighted by the amount of available Class A direct and sublease space.

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About Cushman & Wakefield

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