MARKETBEAT

Office Snapshot 2Q 2016

Orange County

ORANGE COUNTY OFFICE

Economic Indicators

	2Q 15	2Q 16	12-Month Forecast
Orange County Employment	1.5M	1.5M	▲
Orange County Unemployment	4.3%	3.6%	▼
U.S. Unemployment	5.4%	4.9%	▼

Market Indicators (Overall, All Classes)

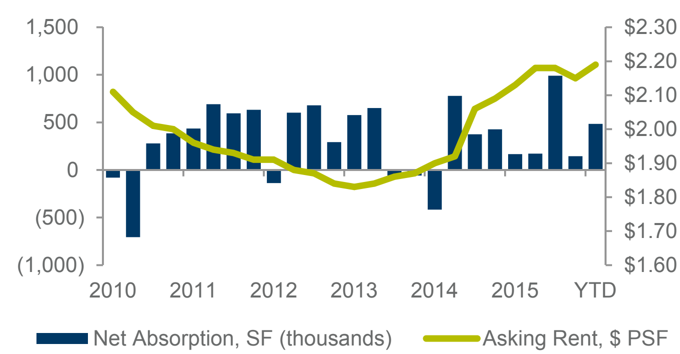
	2Q 15	2Q 16	12-Month Forecast
Vacancy	12.7%	11.4%	▼
YTD Net Absorption (sf)	446,897	484,180	▲
Under Construction (sf)	425,044	1,216,020Ω	▲
Average Asking Rent¥	$2.18	$2.19	▲

¥-Rental rates reflect gross asking $psf/month

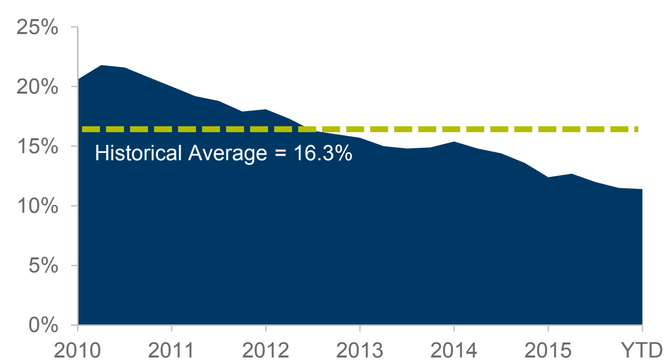
Ω-Under Construction entry is not reflective of U.S. Overview.

Overall Net Absorption/Overall Asking Rent

4Q TRAILING AVERAGE



Overall Vacancy



Economy

The economic milieu of Orange County is strong. According to the Employment Development Department of California, 53,500 jobs were added in Orange County in the last 12 months, an increase of 3.5%. Although this time last year it was estimated that the county would be facing a 4.3% unemployment rate, the unemployment rate for the county actually stood at 3.6% in May. This compares with an unadjusted unemployment rate of 4.7% for California and 4.9% for the U.S. during the same period. The construction sector posted the largest gain over the year with the addition of 14,700 jobs. Meanwhile, professional and business services added 2,200 jobs overall. And with the addition of 1,900 jobs, the administrative and support services sector—which includes temporary help firms–grew the most.

Market Overview

Cautious optimism about the Orange County (OC) office sector is warranted even as the market encountered some headwinds with slows in leasing activity this quarter. Overall vacancy as of 2Q 2016 was 11.4%. Although only a 50-basis-point decline from the first quarter of this year, a year-over-year decline of 130-BPs, i.e., 12.7% in 2Q15 to 11.4% in 2Q16.Overall asking rental rates increased to $2.19 per square foot per month(PSF/MO) for all product types, and Class A direct rents finished the quarter at $2.61 PSF/MO. Leasing volume for all classes was a little over half of the amount registered this time last year at just over 2.67 million square feet (MSF). However, overall net absorption year-to-date was not only positive at 484,180 square feet (sf), it exceeded what was recorded this time last year by 37,000 sf.

Demand, particularly in the Greater Airport Area and South County, has spurred development activity. Comprised of three projects in the Irvine Spectrum and Irvine submarkets, over 1.2 MSF of office space is under construction in the county. Representing about 1.4% of the OC office base, these construction projects are slated to be completed by mid-2017. For perspective, the current amount of new development is not even half of the amount of office space constructed at the peak of the market in 2006. Moreover, in terms of office-sale demand, there are more office sale availabilities with valuations of $20M or greater in the county than any time since 2007. With over $750-$800 million under sale, expect an increased volume of sales in the later half of the year.

Outlook

Anticipate a bevy of office sales over the next two quarters as well as moderate declines in overall vacancy. However, given the amount of space coming online next year, vacancy is forecast to increase in 2017.

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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	444,650	26.3%	28,545	30,324	48,645	-	$2.22	$2.22
Costa Mesa	5,280,016	8,754	740,155	14.2%	7,683	18,509	206,987	-	$2.32	$2.41
Newport Beach	8,016,346	21,515	641,813	8.3%	201,263	220,321	243,735	-	$3.36	$3.51
Irvine	22,768,846	101,744	1,942,681	9.0%	(132,512)	(160,412)	589,674	537,224	$2.48	$2.65
GREATER AIRPORT AREA	37,754,415	132,013	3,769,299	10.3%	104,979	108,742	1,089,041	537,224	$2.64	$2.76
Irvine Spectrum	8,084,619	59,846	426,420	6.0%	360,870	206,265	348,556	678,796	$2.67	$2.80
Lake Forest/R.S. Margarita	2,680,958	0	153,685	5.7%	118,256	100,226	51,647	-	$2.11	$2.40
Laguna Hills/Aliso Viejo	4,294,557	18,134	306,520	7.6%	27,058	(6,735)	124,296	-	$2.56	$2.95
Laguna Niguel/Laguna Beach	574,657	0	27,087	4.7%	2,407	3,599	11,522	-	$2.25	$2.75
Mission Viejo	1,289,140	8,214	150,081	12.3%	24,261	20,438	53,112	-	$2.23	$2.41
S.J. Cap/S. Clemente/Dana Point	1,274,048	0	34,972	2.7%	9,810	(2,136)	30,707	-	$2.06	$2.31
SOUTH COUNTY	18,197,979	86,914	1,098,765	6.5%	542,662	522,409	619,840	678,796	$2.44	$2.81
Seal Beach	310,241	2,260	25,506	8.9%	8272	6012	10,029	-	$2.93	$2.93
Westminster	262,284	0	74,780	28.5%	(21,777)	(21,777)	14,706	-	$2.18	-
Huntington Beach	1,343,980	4,986	127,849	9.9%	(20,356)	(23,632)	55,981	-	$2.11	$2.21
Fountain Valley	320,225	0	6,771	2.1%	1,612	1,612	1,612	-	$1.65	-
Garden Grove	541,785	0	72,388	13.4%	(17,306)	(17,306)	630	-	$1.66	-
Los Alamitos/Stanton	435,342	0	10,014	2.3%	1,180	1,180	2,107	-	$1.34	-
Cypress	1,324,921	0	295,513	22.3%	(9,360)	(9,360)	112,840	-	$1.79	-
WEST COUNTY	4,538,778	7,246	612,821	13.7%	(57,735)	(63,271)	197,905	-	$1.93	$2.50
Parkcenter Area	2,820,371	0	438,362	15.5%	(13,971)	(42,415)	168,937	-	$1.88	$2.02
Stadium Area	3,652,993	10,137	449,684	12.6%	58,304	53,167	109,454	-	$2.05	$2.30
The City Area	2,309,389	0	194,977	8.4%	12,566	12,566	62,881	-	$2.12	$2.36
Main Place Area	2,262,734	2,680	235,502	10.5%	(64,354)	(64,354)	56,962	-	$2.18	-
Tustin (South of I-5)	577,575	13,454	120,516	23.2%	(15,219)	1,765	27,412	-	$2.01	-
Santa Ana	3,223,816	0	1,085,485	33.7%	(58,131)	(58,131)	39,611	-	$1.80	-
North/East Stadium	2,995,050	25,873	539,082	18.9%	15,623	18,371	60,517	-	$1.54	$2.06
East Orange	427,246	0	27,816	6.5%	(11,754)	(11,754)	6,373	-	$1.95	-
Civic Center Area	2,032,872	0	306,920	15.1%	48,366	48,366	66,216	-	$1.49	$1.75
CENTRAL COUNTY	20,301,768	52,144	3,398,344	17.0%	1,868	(10,640)	598,363	-	$1.79	$2.14
Fullerton	1,283,776	0	115,833	9.0%	11,281	11,281	36,722	-	$1.77	-
Brea/La Habra	3,920,170	89,045	341,863	11.0%	(49,490)	(57,045)	81,540	-	$2.09	$2.17
Placentia/Yorba Linda	270,646	0	32,565	12.0%	8,169	8,169	12,141	-	$1.51	-
Buena Park/La Palma	1,109,616	0	229,984	20.7%	(35,465)	(35,465)	40,120	-	$2.08	-
NORTH COUNTY	6,584,824	89,045	681,806	12.3%	(65,505)	(73,060)	170,523	-	$2.00	$2.37
CBD	37,725,415	132,013	3,769,299	10.3%	104,979	108,742	1,089,041	537,224	$2.63	$2.76
SUBURBAN	49,623,349	234,629	5,830,175	12.2%	421,290	375,438	1,586,631	678,796	$1.94	$2.39
O.C. MARKET TOTALS	87,377,764	436,176	9,599,474	11.4%	526,269	484,180	2,675,672	1,216,020[Ω]	$2.19	$2.61

*Rental rates reflect gross asking $psf/month

[Ω]Under Construction is not reflective of U.S. Overview

CLASS	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)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	37,193,979	270,878	270,878	12.6%	245,037	178,135	1,074,088	1,216,020	$2.61	$2.61
Class B	48,225,360	95,764	5,127,212	10.8%	314,477	339,290	1,558,554	0	$1.94	$1.94
Class C	1,958,425	0	73,946	3.8%	(33,245)	(33,245)	43,030	0	$2.23	$2.23

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CUSHMAN & WAKEFIELD

Key Lease Transactions 2Q 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
5665 Plaza	45,949	Toyo Tires	Renewal	West County
18200 Von Karman Ave.	42,998	Nationstar Mortgage	New Lease	Greater Airport Area
23 Corporate Plaza Dr.	41,932	Real Office Center	New Lease	Greater Airport Area
145 S. State College Blvd.	41,452	Chevron USA Inc.,	Renewal	North County
15495 Sand Canyon Ave.	40,443	Autogravity	New Lease	South County

Key Sales Transactions 2Q 2016

PROPERTY	SF	SELLER/BUYER	PRICE / $PSF	SUBMARKET
4000 Metropolitan Dr.	188,739	Spaulding & Style Investments/Boyd Watterson Asset Management	$61,000,000 / $323	Central County
1901 Main St.	172,767	Piedmont Office Realty Trust, Inc./ J+R Group, LLC	$66,000,000/ $382	Greater Airport Area
1700 E. Saint Andrew Pl.	171,330	Del Mar Partnership, Inc./Drawbridge Realty Trust	$37,000,000/ $215	Greater Airport Area
675 Placentia Ave.	133,943	Piedmont Office Realty Trust, Inc./TIAA	$33,800,000 / $252	North County
26210 Enterprise	100,012	Lexington Realty Trust/PRES Companies	$19,000,000 / $189	South County

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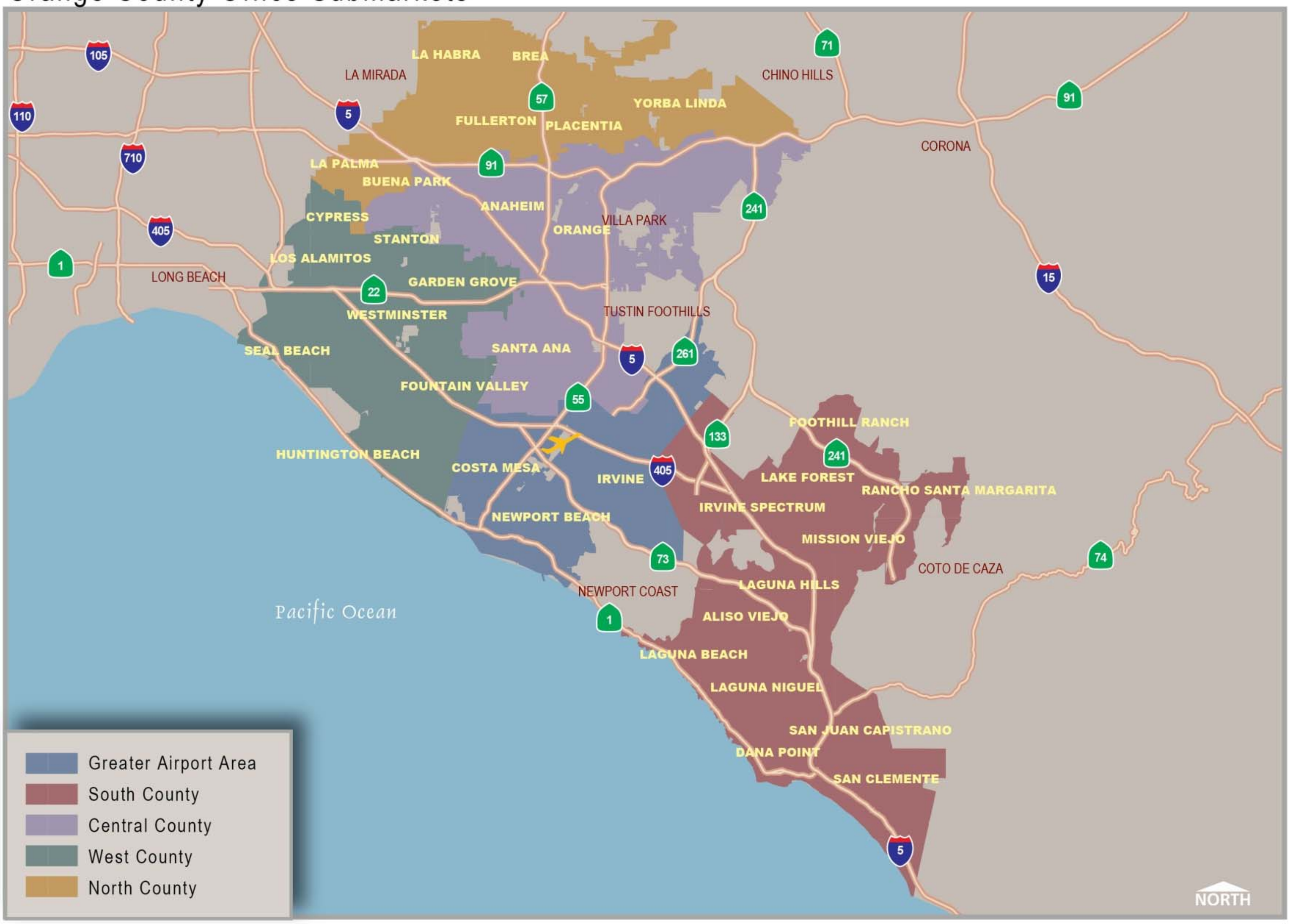
Orange County Office Submarkets



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