

ORANGE COUNTY OFFICE

Economic Indicators

	Q3 15	Q3 16	12-Month Forecast
Orange County Employment*	1.6M	1.6M	▲
Orange County Unemployment*	4.3%	4.1%	▼
U.S. Unemployment	5.2%	4.9%	▼

* July-August average. Not Seasonally adjusted

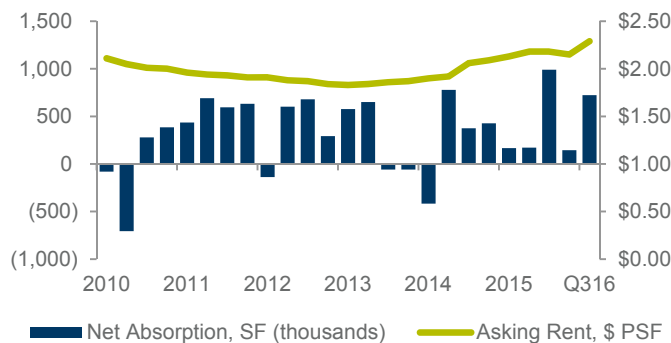
Market Indicators (Overall, All Classes)

	Q3 15	Q3 16	12-Month Forecast
Vacancy	12.0%	11.2%	▼
YTD Net Absorption (sf)	1,073,995	722,938	▲
Under Construction (sf)	477,387	1,175,975	▲
Average Asking Rent*	\$2.18	\$2.29	▲

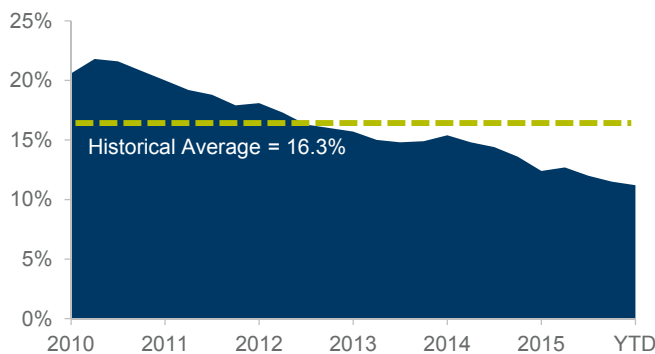
* Rental rates reflect gross asking \$psf/month

Overall Net Absorption/Overall Asking Rent

4Q TRAILING AVERAGE



Overall Vacancy



Economy

The economy of Orange County is strong and thriving. With a strong, diversified labor force, and employment growth not concentrated in just one sector, Orange County is quickly approaching full employment. In the last 12 months 39,000 jobs were created in the county. Not only is the county's unemployment rate of 4.1% lower than that of both California's (5.6%), and the US's (4.9%), it has surpassed expectations by coming in 50 basis points (bps) below the estimated unemployment rate (4.6%) the county was forecast to envisage this time last year. Adding 11,400 jobs over the past year, professional and business services, the segment of the labor force most tied to the office market, reported the largest increase. Meanwhile, construction recorded growth of 10,200 jobs with almost 90% of the gains in specialty trade contract work.

Market Overview

Orange County's office sector demonstrated continued signs of health and vitality in Q3. Even as asking rates rose countywide, with rates rising to above \$3.00 per square foot (PSF) in Class A product in the CBD, there is not a wide divergence between the asking rates and the strike price at which deals are transacting. Such a divergence, as a rule of thumb, is a forward looking indicator of softening within the market. No such disparity currently exists in the OC Office market. Moreover, even though leasing activity has slackened from last year, demand for office space has not significantly diminished. Net absorption for the quarter was positive and vacancy rates, both overall and direct, continued to decline this quarter with direct rates falling below 11%—something not seen since Q3 of '07.

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, nearly 1.2 million square feet (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, current new development activity is at less than half the level of the 2006 market peak.

As a consequence of the atypically high number of office sale availabilities that came on line last quarter, the pattern of a post-Labor Day spike in office sale availabilities did not materialize in Q3. Nonetheless, the number of these availabilities with valuations of \$20 million (M) or more in Orange County is greater than any time since 2007. With between \$750M and \$800M under sale, expect increased sales volume in the coming quarters, although at a slower pace due to institutional investor psychology shifting to reserved optimism with regard to office space.

Outlook

There are no signs that the trend of increasing asking rates is going to wane any time soon. Although aggressively pushing lease rates higher and higher is not sustainable in the long term, but given that asking rents are still about 17.5% below the peak (i.e., \$2.69 in Q4 of '07—the countywide overall asking rate) of the previous cycle, and that Orange County is a relative bargain compared to other markets, there is reason to believe that there is room for rates to grow.

MARKETBEAT

Orange County

Office Q3 2016



SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	YTD DIRECT NET ABSORPTION (SF)	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	389,063	23.0%	89,405	91,184	184,545	0	\$2.64	\$2.78
Costa Mesa	5,280,016	13,924	731,681	14.1%	33,285	38,941	377,773	0	\$3.03	\$3.24
Newport Beach	8,016,346	21,198	712,593	9.2%	149,515	192,315	441,634	0	\$3.30	\$3.45
Irvine	22,768,846	101,320	2,016,557	9.3%	-193,506	-217,573	929,722	537,224	\$2.51	\$2.70
GREATER AIRPORT AREA/CBD	37,754,415	136,442	3,849,894	10.6%	101,853	104,867	1,933,674	537,224	\$2.81	\$3.02
Irvine Spectrum	8,084,619	64,252	433,179	6.2%	363,518	336,540	494,819	638,751	\$2.67	\$2.85
Lake Forest/R.S. Margarita	2,680,958	0	151,439	5.6%	110,485	110,485	70,895	0	\$2.15	\$2.50
Laguna Hills/Aliso Viejo	4,296,968	22,853	330,480	8.2%	695	-1,704	203,525	0	\$2.65	\$3.10
Laguna Niguel/Laguna Beach	574,657	0	28,672	5.0%	822	822	13,069	0	\$2.25	\$2.75
Mission Viejo	1,289,140	9,483	156,524	12.9%	17,818	16,549	96,496	0	\$2.34	\$2.40
S.J. Cap/S. Clemente/Dana Point	1,274,048	0	31,301	2.5%	11,098	11,098	37,071	0	\$2.06	\$2.31
SOUTH COUNTY	18,200,390	96,588	1,131,595	6.7%	504,437	473,790	915,875	638,751	\$2.51	\$2.92
Seal Beach	310,241	2,260	25,506	8.9%	8272	6012	10,029	0	\$2.93	\$2.93
Westminster	262,284	0	79,785	30.4%	-26,782	-26,782	14,706	0	\$2.12	\$0.00
Huntington Beach	1,303,980	4,986	124,550	9.9%	-14,661	-17,937	67,800	0	\$2.14	\$2.21
Fountain Valley	320,225	0	6,771	2.1%	1,612	1,612	4,123	0	\$1.65	\$0.00
Garden Grove	541,785	0	63,152	11.7%	-8,070	-8,070	17,731	0	\$1.73	\$0.00
Los Alamitos/Stanton	435,342	0	10,986	2.5%	208	208	12,080	0	\$1.32	\$0.00
Cypress	1,324,921	0	298,552	22.5%	-12,399	-12,399	83,311	0	\$1.81	\$0.00
WEST COUNTY	4,498,778	7,246	609,302	13.7%	-51,820	-57,356	203,525	0	\$1.93	\$2.50
Parkcenter Area	2,820,093	0	299,877	10.6%	126,075	129,410	383,993	0	\$1.85	\$1.99
Stadium Area	3,652,993	3,500	435,164	12.0%	78,774	80,274	156,007	0	\$2.05	\$2.44
The City Area	2,306,689	0	192,186	8.3%	20,880	20,880	62,881	0	\$2.51	\$2.66
Main Place Area	2,262,734	2,680	223,320	10.0%	-52,172	-52,172	110,118	0	\$2.23	\$2.53
Tustin (South of I-5)	577,575	13,454	103,688	20.3%	32,047	18,593	57,177	0	\$2.11	\$0.00
Santa Ana	3,223,816	0	961,446	29.8%	8,443	8,443	284,619	0	\$1.84	\$0.00
North/East Stadium	2,995,050	45,474	586,638	21.1%	-31,085	-46,816	60,517	0	\$1.47	\$2.10
East Orange	427,246	0	27,816	6.5%	-11,754	-11,754	134,761	0	\$1.95	\$0.00
Civic Center Area	2,032,872	0	291,903	14.4%	63,383	63,383	94,658	0	\$1.48	\$1.75
CENTRAL COUNTY	20,299,068	65,108	3,122,038	15.7%	234,591	210,241	1,319,786	0	\$1.83	\$2.28
Fullerton	1,283,776	0	673,229	7.7%	27,890	27,890	59,848	0	\$1.76	\$0.00
Brea/La Habra	3,920,170	79,964	99,224	10.1%	-13,683	-12,157	131,291	0	\$2.08	\$2.17
Placentia/Yorba Linda	270,646	0	314,415	10.7%	11,713	11,713	17,754	0	\$1.48	\$0.00
Buena Park/La Palma	1,109,616	0	29,021	20.8%	-36,050	-36,050	53,693	0	\$2.08	\$3.00
NORTH COUNTY	6,584,824	79,964	673,229	11.4%	-10,130	-8,604	262,586	0	\$2.00	\$2.37
O.C. MARKET TOTALS^o	87,337,475	436,176	9,599,474	11.2%	778,931	722,938	4,641,701	1,175,975	\$2.29	\$2.82

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

CLASS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	DIRECT VACANCY RATE	YTD DIRECT NET ABSORPTION (SF)	OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	37,191,279	263,066	4,320,971	11.6%	397,100	341,690	1,949,264	1,175,975	\$2.84	\$2.82
Class B	48,187,771	122,282	5,000,539	10.4%	407,754	407,171	2,600,983	0	\$1.96	\$1.96
Class C	1,958,425	0	64,548	3.3%	-25,923	-25,923	91,454	0	\$2.24	\$2.24

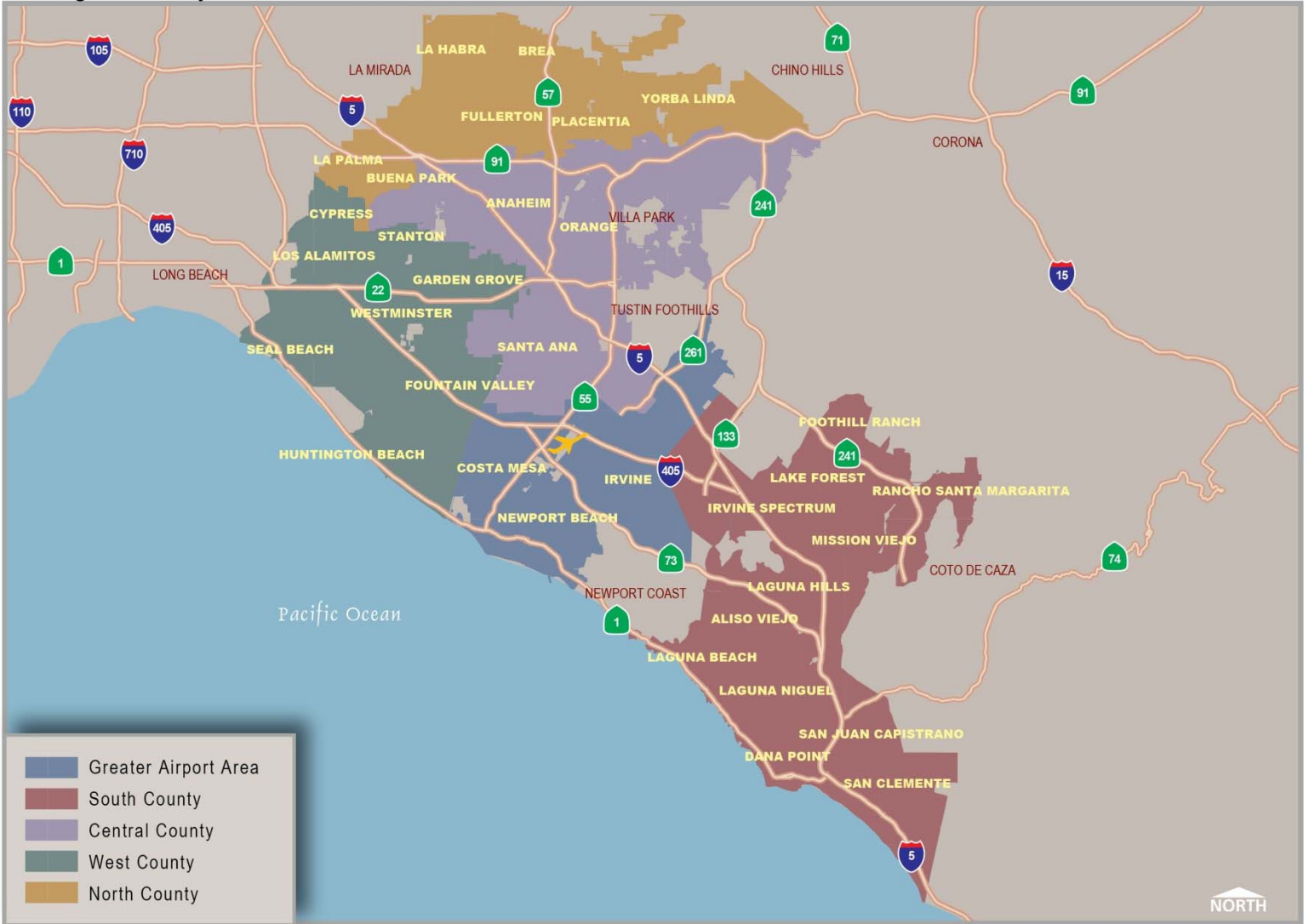
Key Lease Transactions Q3 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1600 E. Saint Andrew Pl.	152,828	Nationstar Mortgage Holdings	New Lease	Greater Airport Area
200 Spectrum Center Dr.	44,239	Crown Castle	New Lease	South County
3390 Harbor Blvd.	40,091	John F. Kennedy University	Renewal	Greater Airport Area
701 S. Parker Center Dr.	38,641	Sedgwick Claims Management Services	Renewal	Central County
17875 Von Karman Ave.	35,228	AON Services Corporation	New Lease	Greater Airport Area

Key Sales Transactions Q3 2016

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
26732 Crown Valley Pky. – 4 Properties	262,631	St. Joseph Health System/Healthcare Trust of America, Inc	\$150,001,000 /\$571.15	South County
600 City Pky. W. – 3 Properties	442,521	Walton Street Capital, LLC/Greenlaw Partners, LLC	\$107,365,000/\$242.62	Central County
1833 Alton Pky. – 2 Properties	209,351	Hines/GI Partners	\$64,000,000/\$305.71	Greater Airport Area
23807-23811 Aliso Creek Rd.	233,996	The Colton Company/Dunhill Partners, Inc.	\$53,693,000/\$229.46	South County
24422 Avenida de la Carlota	119,559	Lincoln Property Company/Angelo, Gordon & Co.	\$30,000,000 /\$250.92	South County

Orange County Office Submarkets



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