

ORANGE COUNTY OFFICE

Economic Indicators

	Q4 15	Q4 16	12-Month Forecast
Orange County Employment	1.6M	1.6M	▲
Orange County Unemployment	4.3%	4.1%	▼
U.S. Unemployment	5.0%	4.8%	▼

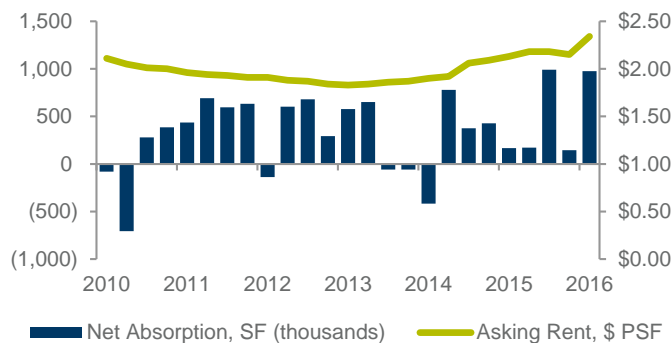
Market Indicators (Overall, All Classes)

	Q4 15	Q4 16	12-Month Forecast
Vacancy	11.5%	11.2%	▼
YTD Net Absorption (sf)	1,473,883	976,150	▲
Under Construction (sf)	477,387	2,055,975 ^Ω	▲
Average Asking Rent*	\$2.15	\$2.34	▲

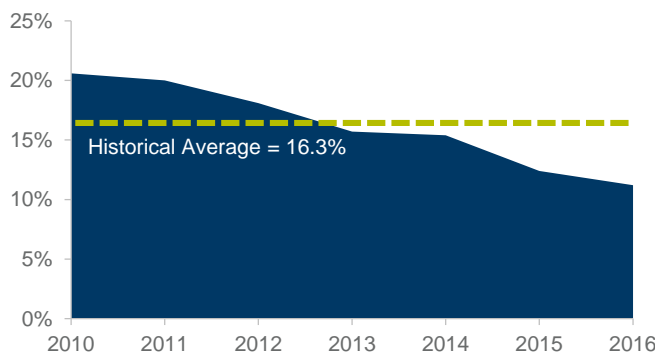
*-Rental rates reflect gross asking \$psf/month
 Ω-Total is unreflective of US Overview

Overall Net Absorption/Overall Asking Rent

4Q TRAILING AVERAGE



Overall Vacancy



Economy

With a strong, diversified labor force, and employment growth not concentrated in just one sector, Orange County posted an unemployment rate of 4.1% at the end of 2016. In the last 12 months, 38,300 jobs were created in the county. Surpassing expectations, not only did the county's unemployment rate outperform both the state (5.6%), and the nation (5.0%), it was 20 basis points (bps) below the unemployment rate (4.3%) the county was projected to face by year end. Adding 10,400 jobs over the past year, professional and business services, the segment of the labor force most tied to the office market, reported the largest year-over-year increase. Meanwhile, educational and health services recorded the second highest gains, gaining 9,100 jobs year-over-year.

Market Overview

At the end of 2016, the Orange County (OC) office market finished with healthy and strong fundamentals. Overall and direct vacancy rates remained steady at 11.2% and 10.7%, respectively. Year-over-year, both overall and direct vacancy is down 30 basis points. These are the lowest year-end vacancy rates since Q4 2006.

Current overall asking rents stand at \$2.34 FSG[¥] countywide, second only to the year-end, pre-recessionary asking rate of \$2.37 in Q4 2006. Compared to last quarter and year-over-year, overall asking rents continued to increase, and all indications are such that this trend will continue in 2017. Class B rents are rising as well since many tenants have been priced out of class A space. At \$1.98, overall class B rents have now surpassed the \$1.93 achieved in Q4 2009.

Despite the reticence of many institutional investors to acquire suburban office buildings in the latter half of 2016, capital market deal volume actually increased in Q4 due to the significant appetite of private high net worth investors for class A office product in Orange County. The hesitation on the part of institutional investors, however, did not stem from a conviction that the fundamentals of the OC office market were askew; rather, it partially stemmed from a fear of being unable to secure tenants at necessary lease rates to justify investments in what is now the seventh year of a long recovery. However, in the wake of the election results, institutional investors appear to be more bullish, perhaps anticipating lawmakers and policymakers to legislate a more pro-business tax/regulatory environment. Moreover, in contrast to the OC industrial market, where buildings are transacting above replacement cost, the OC office market has not yet hit that benchmark. And, at an average cap rate in the range of 5% in Class A space, the OC office market has a 100 basis point spread over the returns that can be achieved in the industrial sector of Orange County.

Outlook

2016 was a good year for OC office, and 2017 promises to be the same. Expect a slight uptick in vacancy rates in mid-2017 as about 1.2MSF of new space--much of it still unreleased--will deliver to the market. And, since asking rents are still about 15% 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 asking rates will continue to increase in 2017.

MARKETBEAT

Orange County

Office Q4 2016



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	369,163	21.9%	116,388	118,167	425,980	0	\$2.67	\$2.77
Costa Mesa	5,280,016	10,474	749,815	14.4%	-4,827	1,979	586,728	0	\$3.04	\$3.28
Newport Beach	8,016,346	26,690	774,045	10.0%	143,421	160,401	624,336	0	\$3.36	\$3.49
Irvine	22,767,579	115,814	2,016,557	9.6%	-131,261	-143,606	1,645,541	537,224	\$2.60	\$2.81
GREATER AIRPORT AREA/CBD	37,753,148	152,978	3,971,980	10.9%	123,721	136,941	3,282,585	537,224	\$2.88	\$3.08
Irvine Spectrum	8,084,619	64,252	392,845	5.7%	436,929	409,951	949,487	1,518,751	\$2.71	\$2.89
Lake Forest/R.S. Margarita	2,680,958	2,500	133,922	5.1%	128,002	125,502	137,943	0	\$2.19	\$2.50
Laguna Hills/Aliso Viejo	4,296,968	32,128	287,008	7.6%	46,753	46,753	295,974	0	\$2.67	\$3.06
Laguna Niguel/Laguna Beach	574,657	0	19,104	3.3%	10,390	10,390	31,503	0	\$2.34	\$2.75
Mission Viejo	1,289,140	19,886	177,415	15.3%	-4,661	-15,253	139,942	0	\$2.36	\$2.41
S.J. Cap/S. Clemente/Dana Point	1,274,048	0	48,466	3.8%	-6,067	-6,067	37,071	0	\$2.17	\$2.31
SOUTH COUNTY	18,200,390	96,588	1,058,760	6.5%	618,586	571,276	1,591,920	1,518,751	\$2.53	\$2.92
Seal Beach	310,241	2,260	29,687	10.3%	1,831	6012	10,029	0	\$2.95	\$2.95
Westminster	262,284	0	76,009	29.0%	-23,005	-26,782	18,482	0	\$2.11	\$0.00
Huntington Beach	1,303,980	4,986	127,425	10.2%	-18,722	-17,937	110,774	0	\$2.20	\$2.22
Fountain Valley	320,225	0	9,118	2.8%	1,612	1,612	4,123	0	\$1.65	\$0.00
Garden Grove	541,785	0	71,209	13.1%	-18,944	-8,070	22,552	0	\$1.79	\$0.00
Los Alamitos/Stanton	435,342	0	10,768	2.5%	2,774	208	16,994	0	\$1.33	\$0.00
Cypress	1,324,921	15,603	281,492	22.4%	-5,875	-12,399	143,131	0	\$1.79	\$0.00
WEST COUNTY	4,498,778	22,849	605,708	14.0%	-39,191	-60,330	326,085	0	\$1.94	\$2.53
Parkcenter Area	2,820,093	0	303,099	10.7%	126,188	129,410	461,830	0	\$1.85	\$1.98
Stadium Area	3,652,993	0	391,808	10.7%	125,193	80,274	268,690	0	\$2.06	\$2.38
The City Area	2,306,689	5,427	179,751	8.3%	52,918	20,880	151,443	0	\$2.49	\$2.63
Main Place Area	2,262,734	0	252,418	11.2%	-51,037	-52,172	141,952	0	\$2.28	\$2.55
Tustin (South of I-5)	577,575	13,454	102,801	20.1%	19,480	18,593	83,483	0	\$2.13	\$0.00
Santa Ana	3,223,816	0	943,173	29.3%	26,716	26,716	343,846	0	\$1.85	\$0.00
North/East Stadium	2,995,050	60,702	533,323	19.8%	22,960	-7,999	211,810	0	\$1.52	\$2.10
East Orange	427,246	0	27,816	6.5%	-11,754	-11,754	6,373	0	\$1.95	\$0.00
Civic Center Area	2,032,872	0	299,953	14.8%	61,033	61,033	104,435	0	\$1.54	\$1.75
CENTRAL COUNTY	20,299,068	79,583	3,034,142	15.3%	379,136	340,738	1,773,862	0	\$1.85	\$2.25
Fullerton	1,283,776	0	83,029	6.5%	43,211	43,211	86,009	0	\$1.81	\$0.00
Brea/La Habra	3,920,170	82,634	313,205	10.1%	-12,473	-13,617	176,633	0	\$2.13	\$2.17
Placentia/Yorba Linda	270,646	0	27,881	10.3%	12,853	12,853	18,894	0	\$1.47	\$0.00
Buena Park/La Palma	1,109,616	0	249,441	22.5%	-54,922	-54,922	77,840	0	\$2.05	\$3.00
NORTH COUNTY	6,584,824	82,634	673,556	11.5%	-11,331	-12,475	359,376	0	\$2.03	\$2.37
O.C. MARKET TOTALS	87,336,208	462,810	9,344,146	11.2%	1,070,921	976,150	7,333,828	2,055,975^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	37,191,279	293,463	4,497,133	12.1%	433,024	389,821	3,357,274	2,055,975	\$2.90	\$2.87
Class B	48,186,504	169,347	4,772,453	9.9%	673,524	621,956	3,852,439	0	\$1.99	\$1.98
Class C	1,958,425	0	74,560	3.8%	-35,627	-35,627	124,115	0	\$2.15	\$2.15

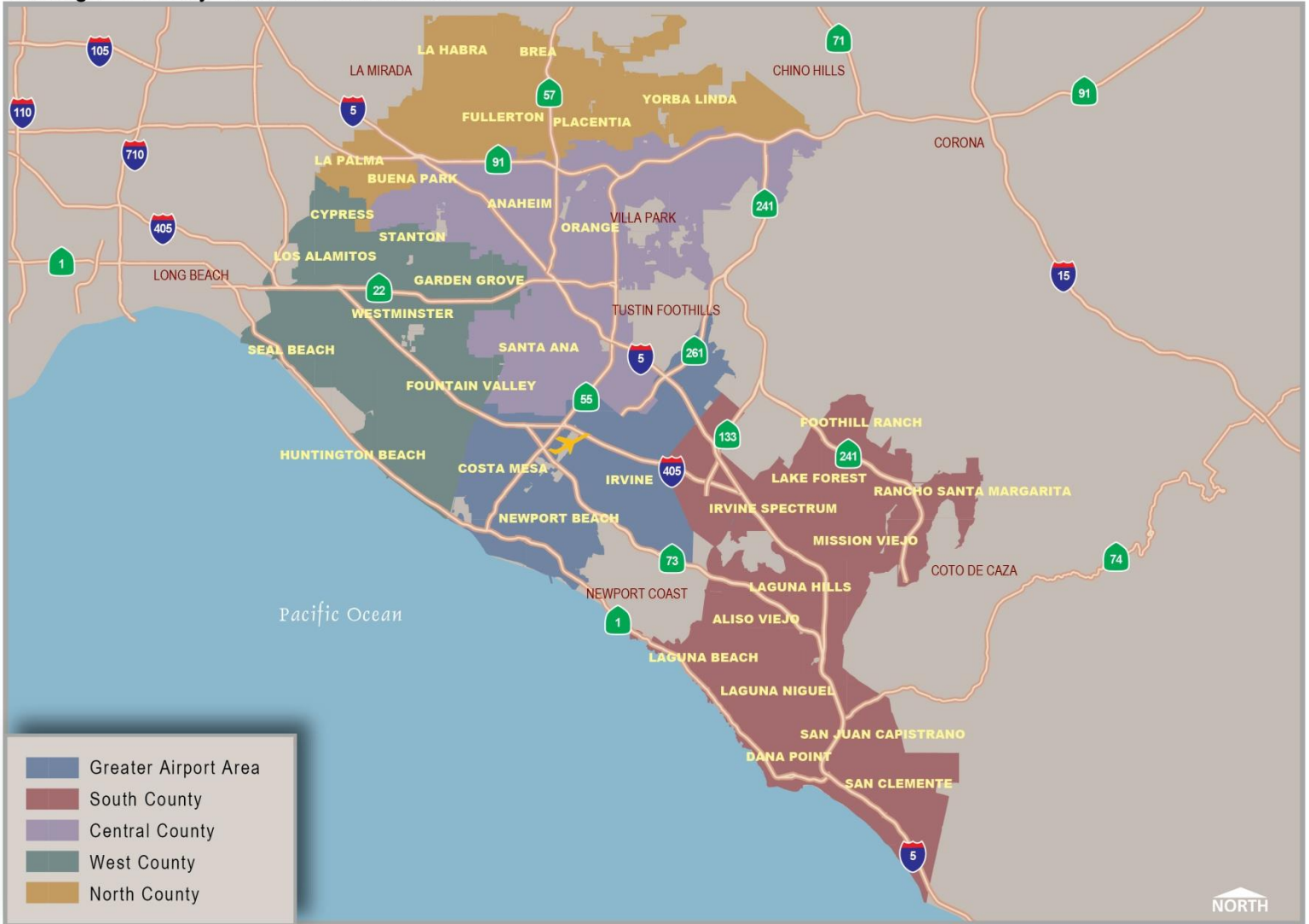
Key Lease Transactions Q4 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
15485 Sand Canyon Ave.	105,600	Cavium, Inc (Qlogic)	New Lease	South County
1500 S. Douglas Rd.	63,875	Carrington Mortgage	New Lease	Central County
210 Commerce Dr.	62,850	TriMark	New Lease	Greater Airport Area
5 Hutton Centre Dr.	57,491	Michael Baker International	New Lease	Greater Airport Area
65 Enterprise	57,002	Enfrastructure (Techspace)	Renewal	South County
3230 El Camino Real	42,188	HDR	Renewal	Greater Airport Area
2190 Town Centre Pl.	31,066	Orange County Register	New Lease	North County

Key Sales Transactions Q4 2016

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
3333 Michelson Dr. – 13 Properties	2,185,875	LBA Realty/Allianz Real Estate America	\$387,000,000 /\$393.44	Greater Airport Area
19500 Jamboree Rd. – 6 Properties	585,147	Scholle Corporation/ESRI	\$260,000,000/\$444.33	Greater Airport Area
1551 N. Tustin Ave. – 2 Properties	280,308	CBRE Global Investors/Greenlaw Partners	\$80,260,000/\$286.33	Greater Airport Area
5757 Plaza Dr. – 2 Properties	481,925	RREEF Management, LLC/DRA Advisors, LLC	\$73,400,000/\$152.31	West County
9740 Irvine Blvd. – 2 Properties	452,159	Toshiba American Information Systems, Inc/LBA Realty	\$65,000,000/\$143.75	Greater Airport Area

Orange County Office Submarkets



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