

MARKETBEAT

Orange County

Office Q4 2017



ORANGE COUNTY OFFICE

Economic Indicators

	Q4 16	Q4 17	12-Month Forecast
Orange County Employment	1.6M	1.6M	▲
Orange County Unemployment	4.1%	3.1%	▼
U.S. Unemployment	4.6%	4.1%	▼

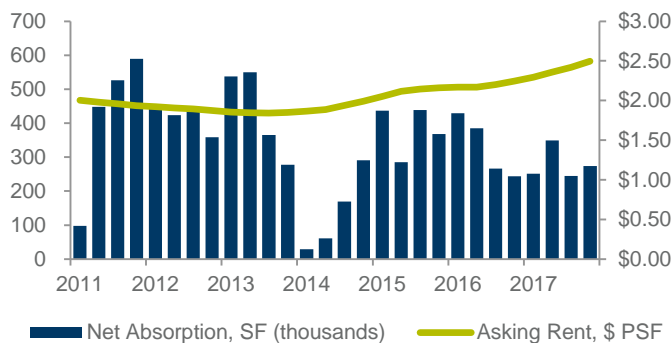
Market Indicators (Overall, All Classes)

	Q4 16	Q4 17	12-Month Forecast
Vacancy	11.2%	11.1%	▲
YTD Net Absorption (sf)	976K	1.1M	▲
Under Construction (sf)	2.1M	1.5M	▼
Average Asking Rent*	\$2.34	\$2.65	▲

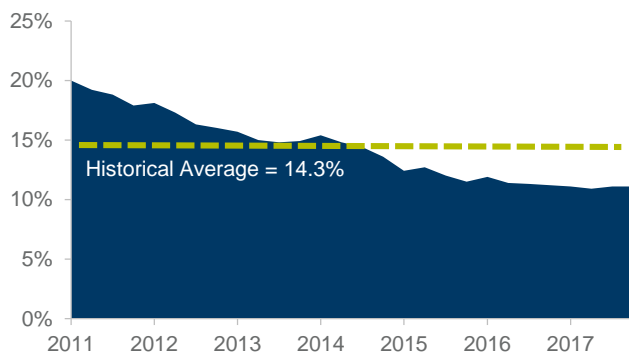
*Rental rates reflect gross asking \$psf/month

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Over the past year, Orange County added 13,800 jobs for a 0.9% increase, lowering the unemployment rate to 3.1%. Orange County outperformed the national unemployment rate of 4.1% by 100 bps or 1%. Industries reporting the largest gains included retail trade adding 5,500 jobs and professional and business services adding 2,600 jobs. Contrastingly, construction reported the largest loss for the quarter, declining by 900 jobs. Year-over-year, manufacturing, government, and financial activities experienced the highest declines among the county.

Market Overview

Orange County closed the year with healthy and strong fundamentals. Overall vacancy held steady at 11.1%, while direct vacancy increased 10 bps to 10.5% quarter-over-quarter. Leasing activity paralleled the year prior, with over 7.2 million square feet (msf) leased throughout 2017. Vyaire Medical reigned as the top lease for the quarter, occupying two of the four buildings at the Quad at Discovery Business Center, an Irvine Company workplace campus scheduled to deliver in the summer of 2018. Vyaire's move marks the third major medical tenant to assert a presence among Orange County in 2017. Earlier this year, Alignment Health and Edwards Life Sciences expanded their offices to 48k sf collectively.

Countywide, overall asking rents jumped to \$2.65 per square foot per month (psf/mo), a \$0.12 increase quarter-over-quarter. Averaging \$3.59 psf/mo, Irvine Spectrum remains the highest grossing submarket countywide, \$0.33 greater than Newport Beach, the next highest submarket. Irvine Spectrum accounts for much of the elevation in rates throughout the second half of the year, having delivered 400 Spectrum and Sand Canyon Business Center, both class A office space. This trend of increasing rates will continue into 2018, as development in the pipeline delivers throughout the next year.

Although overall absorption was rather flat for the quarter at 176,348 sf, three of the five submarkets posted positive absorption, with South County leading the charge at 102,520 sf. Year-to-date, Central County posted the highest positive absorption at 538,921 sf, while the Greater Airport Area experienced negative absorption for the second consecutive quarter, posting -26,560 sf by quarter close. By year end, Orange County absorbed 1.1 msf, 121k sf greater than the year prior.

Fourth quarter brought The Boardwalk, a 537k sf Trammell Crow Company development, to completion. Year-to-date, Orange County experienced 1.2 msf in deliveries. Cranes will remain in the air, as 1.5 msf resides under construction countywide. FivePoint, the Quad, and Flight at Tustin Legacy are among the projects scheduled to complete throughout next year. As such, expect positive absorption to push into 2018 as tenants begin to occupy completed space.

Outlook

Moving into the new year, rental rates will increase, particularly in South County's Irvine Spectrum. Vacancy may experience a slight increase as new construction comes online, but will be counteracted once tenants move into their respective locations. At the close of 2017, it was illustrated that the desire for high-end, creative, amenity-rich space has never proved stronger. Present day, tenants are taking into consideration not only how the quality of a space aligns with their needs, but how the space speaks to their identity as a brand. As such, the chase to occupy such space will remain strong and developers among Orange County will expectedly continue to fulfill this demand.

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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)*	DIRECT AVERAGE ASKING RENT (CLASS A)*
South Santa Ana	1,689,751	61,730	356,203	24.7%	86,915	25,185	115,912	0	\$2.58	\$2.83
Costa Mesa	5,280,016	146,933	647,653	15.0%	52,979	(83,480)	475,777	0	\$3.01	\$3.46
Newport Beach	8,020,306	20,452	658,161	8.5%	68,873	54,596	577,737	0	\$3.26	\$3.29
Irvine	23,453,071	100,714	2,900,875	12.8%	180,396	125,183	1,911,450	0	\$3.18	\$3.52
GREATER AIRPORT AREA/CBD	38,443,144	329,829	4,562,892	12.7%	389,163	121,484	3,080,876	0	\$3.09	\$3.38
Irvine Spectrum	8,754,696	26,250	625,835	7.4%	347,831	336,221	1,692,024	1,409,661	\$3.59	\$3.96
Lake Forest/R.S. Margarita	2,634,428	7,270	155,970	6.2%	32,177	27,407	79,268	0	\$2.29	\$2.50
Laguna Hills/Aliso Viejo	4,296,977	6,992	330,374	7.9%	(32,422)	(11,237)	256,775	0	\$2.98	\$3.27
Laguna Niguel/Laguna Beach	574,657	0	17,385	3.0%	(3,979)	(3,979)	4,943	0	\$2.13	N/A
Mission Viejo	1,289,140	5,472	115,890	9.4%	35,219	33,945	139,601	0	\$2.45	\$2.65
S.J. Cap/S. Clemente/Dana Point	1,274,048	0	24,142	1.9%	12,374	12,374	41,087	0	\$2.53	N/A
SOUTH COUNTY	18,823,946	45,984	1,269,596	7.0%	391,200	394,731	2,213,698	1,409,661	\$3.05	\$3.58
Seal Beach	310,241	5,129	13,926	6.1%	11,927	9,058	14,151	0	\$3.00	\$3.00
Westminster	262,284	0	72,674	27.7%	3,335	3,335	47,895	0	\$2.15	N/A
Huntington Beach	1,303,980	6,858	89,077	7.4%	(3,628)	(5,500)	53,965	0	\$2.49	\$2.52
Fountain Valley	320,225	0	1,589	0.5%	4,061	4,061	4,061	0	\$1.65	N/A
Garden Grove	541,785	0	37,550	6.9%	33,823	33,823	39,286	0	\$1.74	N/A
Los Alamitos/Stanton	435,342	2,500	14,457	3.9%	(4,096)	(6,596)	7,136	0	\$1.31	N/A
Cypress	1,212,927	6,277	194,704	16.6%	21,037	30,636	51,345	0	\$1.86	N/A
WEST COUNTY	4,386,784	20,764	423,977	10.1%	66,459	68,544	217,839	0	\$2.04	\$2.64
Parkcenter Area	2,820,093	6,018	271,276	9.8%	19,228	13,210	167,037	0	\$1.98	\$2.10
Stadium Area	3,653,016	19,305	279,620	8.2%	84,431	65,126	230,978	0	\$2.23	\$2.51
The City Area	2,306,689	0	199,542	8.7%	1,260	1,260	97,413	0	\$2.59	\$2.72
Main Place Area	2,262,734	18,992	250,508	11.9%	12,182	(6,810)	82,163	0	\$2.26	\$2.43
Tustin (South of I-5)	687,575	0	81,008	11.8%	107,050	120,504	141,375	89,500	\$2.42	N/A
Santa Ana	3,411,691	0	681,794	20.0%	411,636	413,880	470,381	0	\$1.98	N/A
North/East Stadium	2,798,550	21,761	319,824	12.2%	(32,773)	(31,651)	75,570	0	\$1.99	\$2.24
East Orange	427,246	0	22,309	5.2%	2,120	2,120	15,687	0	\$2.05	N/A
Civic Center Area	2,032,872	5,200	318,389	15.9%	(33,518)	(38,718)	77,951	0	\$1.53	\$1.95
CENTRAL COUNTY	20,400,466	71,276	2,424,270	12.2%	571,616	538,921	1,358,555	89,500	\$2.02	\$2.34
Fullerton	1,283,776	0	97,008	7.6%	(20,569)	(20,569)	30,181	0	\$1.54	N/A
Brea/La Habra	3,920,786	57,782	221,714	7.1%	26,731	31,563	245,658	0	\$2.18	\$2.32
Placentia/Yorba Linda	270,646	0	15,365	5.7%	12,516	12,516	14,987	0	\$1.74	N/A
Buena Park/La Palma	1,147,046	7,227	269,258	24.1%	(42,807)	(50,034)	81,406	0	\$2.24	\$3.00
NORTH COUNTY	6,622,254	65,009	603,345	10.1%	(24,129)	(26,524)	372,232	0	\$2.05	\$2.60
O.C. MARKET TOTALS	88,676,594	532,862	9,284,080	11.1%	1,394,309	1,097,156	7,243,200	1,499,161	\$2.65	\$3.23

*Rental rates reflect gross asking \$psf/month

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)	OVERALL AVERAGE ASKING RENT*	DIRECT AVERAGE ASKING RENT*
Class A	38,577,584	358,089	5,282,573	14.6%	703,548	482,552	4,290,198	1,499,161	\$3.15	\$3.23
Class B	48,140,585	174,773	3,942,657	8.6%	670,593	594,436	2,885,661	0	\$2.11	\$2.12
Class C	1,958,425	0	58,850	3.0%	20,168	20,168	67,341	0	\$2.05	\$2.05

Key Lease Transactions Q4 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
510-520 Technology Drive	184,886	Vyaire Medical	Direct	Irvine
3450 E Miraloma Avenue	180,000	Pacific Sunwear	Direct	Anaheim
18200 Von Karman Avenue	64,405	AAG	Direct	Irvine
18565-18575 Jamboree Road (The Boardwalk)	63,880	Pathway Capital	Direct	Irvine
18500 Von Karman Avenue	43,068	Squar Milner	Direct	Irvine
3200 Park Center Drive	39,053	WeWork	Direct	Costa Mesa
85 Enterprise	28,719	Undisclosed	Direct	Aliso Viejo
17877 Von Karman Avenue	26,273	Club Pilates	Direct	Irvine

Key Sales Transactions Q4 2017

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
4000 MacArthur Boulevard (Portfolio)	373,447	Oaktree / Goldman Sachs	\$176,500,000 / \$472	Newport Beach
1340-1360 S. Coast Drive	361,483	Kearny Real Estate / Steelwave	\$64,750,000 / \$179	Costa Mesa
500 N State College Boulevard	324,000	Starwood Capital / Lincoln Property Company	\$92,500,000 / \$285	Orange
3450 E Miraloma Avenue	180,000	Pacific Sunwear / Hines	\$27,000,000 / \$150	Anaheim
2125 E Katella Avenue	164,000	CW Capital Asset Mgmt / Pendulum Property Partners	\$46,000,000 / \$280	Anaheim
17744 -17752 Sky Park Circle (Portfolio)	82,748	The Irvine Company / Koll Company	\$17,900,000 / \$216	Irvine



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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