

ORANGE COUNTY OFFICE

Economic Indicators

	Q1 17	Q1 18	12-Month Forecast
Orange County Employment	1.60M	1.63M	▲
Orange County Unemployment	3.7%	3.2%	▼
U.S. Unemployment	4.7%	4.1%	▼

*Average of first two months of Q1 2018

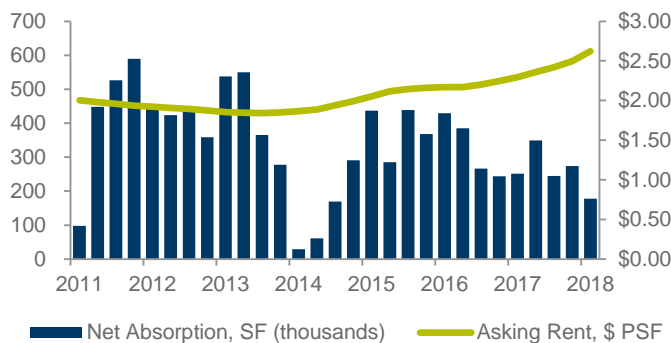
Market Indicators (Overall, All Classes)

	Q1 17	Q1 18	12-Month Forecast
Vacancy	11.1%	11.6%	▲
YTD Net Absorption (sf)	439,264	53,386	▼
Under Construction (sf)	2,187,903	786,768	▼
Average Asking Rent*	\$2.34	\$2.84	▲

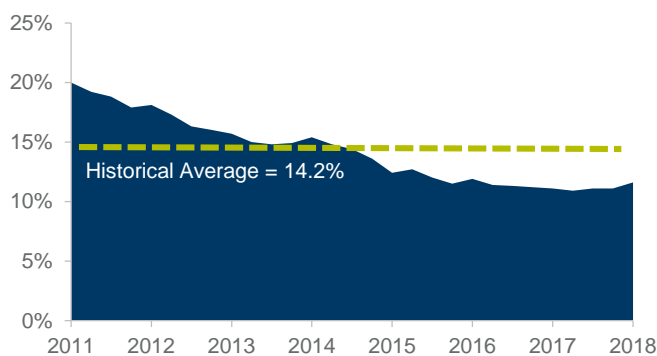
*Rental rates reflect gross asking \$psf/month

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Over the past month, Orange County added 6,300 jobs, settling the unemployment rate to 3.2%, 90 basis points (bps) lower than the national unemployment rate of 4.1%. Industries reporting the largest gains throughout the first two months of the year include the government sector gaining 4,500 jobs while education and health services gained 2,200 jobs. Trade, transportation and utilities experienced the largest decline, reporting a loss of 3,800 jobs, in part due to the loss of temporary employees utilized during the holiday season.

Market Overview

Orange County began the first quarter with overall vacancy increasing 50 basis points (bps) to 11.6%, while direct vacancy increased 40 bps to 10.9% quarter-over-quarter. The rise in vacancy is largely accredited to the major blocks of space that have yet to occupy from the new construction completions in 2017 to present. Despite the uptick in vacancy, overall asking rents have increased \$0.50 year-over-year, averaging \$2.84 per square foot per month (psf/mo). Rental rates continue their steady elevation as high-end class A development is scheduled to deliver throughout the remainder of 2018.

South County reigned as the highest grossing class A submarket, averaging \$3.55 psf/mo. Across the market, class A overall rents averaged \$3.20 psf/mo, a \$0.05 increase from the quarter prior, while class B rents averaged \$2.43 psf/mo. Landlords in class B space have capitalized on tenants priced out of class A space, recording a 21.5% increase in rents over the past year. In the Greater Airport Area's Newport Beach, class B rents average as high as \$3.29 psf/mo, just \$0.10 below the class A rate.

Leasing activity reached 1.3 million square feet (msf), similar to the fourth quarter 2017, but below the quarterly average of 1.8 msf last year. Key lease transactions were fueled heavily by renewals, capturing six of the quarter's 10 largest leases, including the top lease signed by computer manufacturer IBM for 70,640 sf. By quarter-end, 1.2 msf transacted in sale activity, nearly on stride with the 1.4 msf transacted year-over-year.

Overall net absorption was flat for the quarter at 53,386 sf. South County led the market with 740,332 sf in positive absorption, while the Greater Airport Area, for the third consecutive quarter, posted negative absorption, closing at negative 701,180 sf. The migration in absorption between the two submarkets is accredited to Broadcom's move-out from their previous location at University Research Park in Irvine to the company's newly delivered build-to-suit campus in Irvine Spectrum. The 1.04 msf campus, a FivePoint Holdings LLC development, was the first completion of the year. Two major developments remain under construction county-wide, both scheduled to deliver throughout 2018. Once complete, the Quad at Discovery Business Center and Flight at Tustin Legacy will bring 787,000 sf online.

Outlook

Over the past 27 months, Orange County has experienced heavy development, completing 2.7 msf countywide. Of such completions, 2.1 msf of class A space delivered into Irvine Spectrum exclusively, consuming 78% of new office product. As a result, Irvine Spectrum resides as Orange County's most expensive class A submarket, boasting a vacancy rate of 8.2% coupled with deals inked over \$4.00 psf/mo. However, 2018 signals the close to future development, as no further construction is scheduled within the county's pipeline. Vacancy will expectedly climb as the remainder of completions deliver, however positive absorption will push into the latter half of the year as tenants occupy newly finished space.

MARKETBEAT

Orange County

Office Q1 2018



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	341,205	23.8%	14,998	14,998	36,991	0	\$2.57	\$2.59
Costa Mesa	5,280,016	186,770	646,155	15.8%	14,188	-29,532	96,181	0	\$3.05	\$3.29
Newport Beach	8,020,306	37,186	627,050	8.3%	14,782	2,621	120,422	0	\$3.37	\$3.39
Irvine	23,453,071	98,447	3,378,928	14.8%	-680,167	-689,267	317,622	0	\$3.28	\$3.48
GREATER AIRPORT AREA/CBD	38,443,144	384,133	4,993,338	14.0%	-636,199	-701,180	571,216	0	\$3.17	\$3.31
Irvine Spectrum	9,674,589	79,550	854,410	9.7%	806,331	742,308	144,917	369,768	\$3.74	\$3.89
Lake Forest/R.S. Margarita	2,634,428	22,852	133,893	5.9%	22,148	6,566	25,206	0	\$2.30	\$2.50
Laguna Hills/Aliso Viejo	4,296,977	2,777	335,275	7.9%	13,790	18,005	49,485	0	\$2.95	\$3.24
Laguna Niguel/Laguna Beach	574,657	0	38,892	6.8%	-23,809	-23,809	10,503	0	\$4.98	N/A
Mission Viejo	1,289,140	1,870	121,943	9.6%	-5,564	-3,231	14,078	0	\$2.51	\$2.87
S.J. Cap/S. Clemente/Dana Point	1,274,048	0	23,649	1.9%	493	493	4,449	0	\$2.47	N/A
SOUTH COUNTY	19,743,839	107,049	1,508,062	8.2%	813,389	740,332	248,638	369,768	\$3.05	\$3.55
Seal Beach	310,241	2,260	12,252	4.7%	1,674	1,674	2,702	0	\$3.18	\$3.18
Westminster	262,284	0	42,214	16.1%	25,120	25,120	28,602	0	\$2.15	N/A
Huntington Beach	1,303,980	3,276	92,625	7.4%	-3,549	33	12,601	0	\$2.47	\$2.52
Fountain Valley	320,225	0	6,326	2.0%	-4,737	-4,737	0	0	\$1.65	N/A
Garden Grove	541,785	0	42,489	7.8%	-4,939	-4,939	7,915	0	\$1.77	N/A
Los Alamitos/Stanton	435,342	0	8,044	1.8%	6,413	6,413	7,593	0	\$1.53	N/A
Cypress	1,212,927	7,043	157,567	13.6%	16,358	16,358	34,202	0	\$2.05	N/A
WEST COUNTY	4,386,784	12,579	361,517	8.5%	36,340	39,922	93,615	0	\$2.20	\$2.64
Parkcenter Area	2,820,093	2,648	305,796	10.9%	-30,344	-26,974	39,256	0	\$2.24	\$2.74
Stadium Area	3,653,016	9,303	307,218	8.7%	-20,082	-18,153	39,938	0	\$2.30	\$2.61
The City Area	2,306,689	0	190,394	8.3%	10,327	10,327	15,861	0	\$2.47	\$2.47
Main Place Area	2,262,734	0	268,421	11.9%	-17,913	1,079	11,771	0	\$2.39	\$2.58
Tustin (South of I-5)	687,575	0	73,241	10.7%	7,767	7,767	74,585	417,000	\$2.41	N/A
Santa Ana	3,411,691	0	673,149	19.7%	-718	-718	5,471	0	\$2.04	N/A
North/East Stadium	2,978,550	21,761	354,216	12.6%	-47,453	-47,453	74,320	0	\$2.31	\$2.21
East Orange	427,246	0	32,310	7.6%	-10,001	-10,001	1,120	0	\$2.14	N/A
Civic Center Area	2,032,872	5,200	281,994	14.1%	12,961	12,961	7,926	0	\$1.73	\$1.95
CENTRAL COUNTY	20,580,466	38,912	2,486,739	12.3%	-95,456	-71,165	270,248	417,000	\$2.19	\$2.47
Fullerton	1,283,776	0	9,588	0.7%	2,600	2,600	2,600	0	\$1.85	N/A
Brea/La Habra	3,920,786	53,335	216,782	6.9%	-15,459	-11,012	12,447	0	\$2.11	\$2.16
Placentia/Yorba Linda	270,646	0	15,980	5.9%	-5,115	-5,115	803	0	\$1.71	N/A
Buena Park/La Palma	1,147,046	7,227	209,408	18.9%	59,004	59,004	59,004	0	\$2.37	\$2.86
NORTH COUNTY	6,622,254	60,562	451,758	7.7%	41,030	45,477	74,854	0	\$2.19	\$2.29
O.C. MARKET TOTALS	89,776,487	603,235	9,801,414	11.6%	159,104	53,386	1,258,571	786,768	\$2.84	\$3.20

*Rental rates reflect gross asking \$psf/month **Does not include Renewals

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	40,948,488	436,829	5,514,602	14.5%	806,646	703,637	571,977	786,768	\$3.20	\$3.27
Class B	46,771,552	164,686	4,243,703	9.4%	-653,928	-654,917	672,432	0	\$2.43	\$2.45
Class C	2,056,447	1,720	43,109	2.2%	6,386	4,666	14,162	0	\$1.86	\$1.83

Key Lease Transactions Q1 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
600 Anton	70,640	IBM	Renewal*	Costa Mesa
14101 Myford Rd	66,818	General Services Administration	New Lease	Tustin
12912 Brookhurst St	61,002	County of Orange – Social Services	Renewal*	Garden Grove
7755 Center Ave	57,100	BJ's Restaurants	Renewal*	Huntington Beach
41 Discovery	44,820	Ghost Media	Renewal*	Irvine Spectrum
5291 California Ave	42,000	Paciolan	New Lease	Irvine
43 Discovery	31,407	Ghost Media	Expansion	Irvine Spectrum
840 Newport Center	28,596	Irell & Mandella LLP	Renewal*	Newport Beach

*Renewal – not included in Leasing Activity Statistics

Key Sales Transactions Q1 2018

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
333 City Blvd	435,000	Torchlight Investors / KBS Strategic Opportunity REIT Inc.	\$147,300,000 / \$339	Orange
3100 S. Harbor Blvd	192,341	Colton Family Trust / Kearny Real Estate Company	34,800,000 / \$181	Santa Ana
1-9 Corporate Park	162,776	PS Business Parks, Inc. / Kelemen Caamano Investments	\$42,000,000 / \$258	Irvine
3611 S Harbor Blvd	151,415	The Blackstone Group / PacShore Partners	\$32,100,000 / \$212	Santa Ana
625 The City Dr.	139,806	The Blackstone Group / TA Realty	\$33,000,000 / \$236	Orange
18350 Mount Langley St	44,974	K&A Investments / Orange County Sanitation District	\$9,750,000 / \$217	Fountain Valley

MARKETBEAT

Orange County

Office Q1 2018



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.

Cushman & Wakefield
18111 Von Karman
Suite 1000
Irvine, CA 92614
cushmanwakefield.com

For more information, contact:
Eric A. Kenas, Market Director
Tel: +1 213 955 6446
eric.kenas@cushwake.com

Melissa Bastanipour, Research Analyst
Tel: +1 949 930 9227
melissa.bastanipour@cushwake.com

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