

ORANGE COUNTY OFFICE

Economic Indicators

	Q2 17	Q2 18	12-Month Forecast
Orange County Employment	1.62M	1.63M	▲
Orange County Unemployment	3.2%	2.6%	▼
U.S. Unemployment	4.3%	3.8%	▼

*Average of first two months of Q2 2018

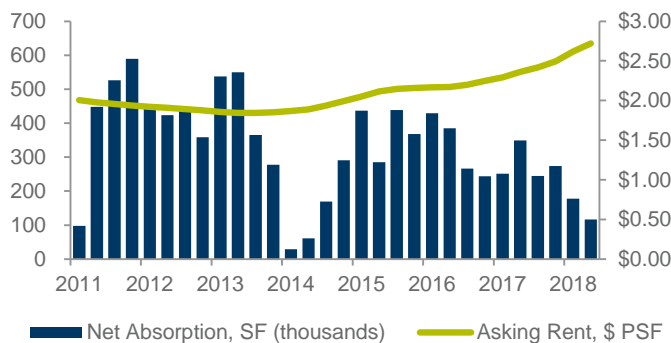
Market Indicators (Overall, All Classes)

	Q2 17	Q2 18	12-Month Forecast
Vacancy	10.9%	11.3%	▲
YTD Net Absorption (sf)	827k	272k	▼
Under Construction (sf)	2.6M	786k	▼
Average Asking Rent*	\$2.46	\$2.86	▲

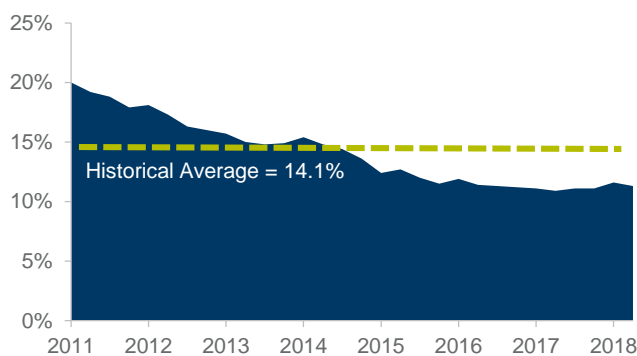
*Rental rates reflect gross asking \$psf/month

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Orange County economy continues its dominance in Southern California with unemployment dropping to an unprecedented 2.6%, 120 basis points (bps) lower than the national unemployment rate of 3.8%. Throughout the last year, the business and financial service industries gained 8,900 jobs in Orange County. The largest declines over the year were in manufacturing which declined 3,100 jobs.

Market Overview

The Orange County office market ended the second quarter 2018 with overall vacancy decreasing 30 bps to 11.3%. Accordingly, direct vacancy dropped 20 bps from last quarter to 10.7%. The decrease in vacancy was largely accredited to move-ins from AAG and Mavenlink & Spaces in the Greater Airport Area submarket. As the Orange County market continues to thrive, overall asking rents steadily increased to \$2.86 per square foot per month (psf/mo). Year-over-year overall asking rates have increased \$0.40 psf/mo. As high-end Class A developments deliver at The Quad and Flight at Tustin Legacy, rental rates will push and continue to rise in the foreseeable future.

Class A direct asking rates in Orange County are at \$3.34 psf/mo, an increase of \$0.07 from the previous quarter and \$0.38 over the last year. South Orange County holds the highest Class A rents at \$3.65 psf/mo. South Orange County rents have risen substantially with a year-over-year increase of \$0.47 psf/mo. Orange County Class B overall rental rates have also seen a \$0.32 increase year-over-year. These rates have been pushed up as Class B space becomes more attractive to cost-constrained businesses as landlords continue to add trendy building amenities.

New leasing activity saw an uptick with just over 2.0 million square feet (msf) transacting in the second quarter 2018. Leasing activity increased 8% from the same time a year ago and 12% above the quarterly average in 2017. Contrary to the previous quarter where over half the top leases were renewals (310k), many of the top leases this quarter were fueled by new deals with six of the top eight transactions. Cushman & Wakefield represented four of the top eight deals this quarter, including the largest lease signed by Anduril Industries for 155,000 sf. By quarter-end, 1.6 msf transacted in sale activity, a 23% decrease in square feet year-over-year, although the number of transactions were nearly the same at 16 sales, with South County leading the way with eight and averaging \$295 psf.

Overall net absorption was positive for the quarter at 143,072 sf. For the second consecutive quarter, South County led Orange County with 63,265 sf of positive absorption. The majority of the absorption was accounted by multiple tenants moving into 400 Spectrum and Mavenlink moving into 32,003 sf at 6501 Irvine Center. The Greater Airport Area experienced positive absorption for the first time in a year with 41,906 sf. Costa Mesa and Irvine contain the largest blocks of vacant space at The Met and University Research Park. The Met provides over 100,000 sf of vacant space while University Research Park provides over 680,000 sf of which 75% is already pre-leased. Two major developments, totaling 786,768 sf, are scheduled to deliver throughout 2018. The Quad, scheduled to complete early in the third quarter 2018, is over 70% preleased and will provide 369,768 sf of quality office space to the Irvine Spectrum market.

Outlook

Orange County asking rents have risen significantly over the last 2 years as a result of the delivery of multiple Class A developments and positive market conditions. Spectrum Terrace, a planned 1.1 msf Irvine Company office park, is scheduled to begin Phase I construction later this year with 360,000 sf. This development could put more upward pressure on office rents going into 2019, specifically in Irvine Spectrum.

MARKETBEAT

Orange County

Office Q2 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	330,734	23.2%	12,692	25,929	207,140	0	\$2.42	\$2.81
Costa Mesa	5,280,016	162,788	797,839	18.2%	-133,906	-153,644	327,192	0	\$3.16	\$3.37
Newport Beach	8,020,306	26,172	575,089	7.5%	64,422	63,275	233,985	0	\$3.32	\$3.40
Irvine	23,453,071	44,323	3,298,543	14.3%	-594,985	-594,961	1,051,356	0	\$3.37	\$3.52
GREATER AIRPORT AREA/CBD	38,443,144	295,013	5,002,205	13.8%	-651,777	-614,401	1,819,673	0	\$3.25	\$3.42
Irvine Spectrum	9,674,589	88,601	830,350	9.5%	838,993	765,919	398,165	369,768	\$3.85	\$4.11
Lake Forest/R.S. Margarita	2,634,428	21,852	140,462	6.2%	15,579	997	68,070	0	\$2.29	\$2.50
Laguna Hills/Aliso Viejo	4,296,977	0	303,633	7.1%	43,363	50,355	97,878	0	\$2.99	\$3.27
Laguna Niguel/Laguna Beach	574,657	0	42,559	7.4%	-27,476	-27,476	25,590	0	\$2.40	N/A
Mission Viejo	1,289,140	2,236	103,871	8.2%	11,339	13,306	39,680	0	\$2.53	\$2.85
S.J. Cap/S. Clemente/Dana Point	1,274,048	0	21,052	1.7%	3,090	3,090	13,982	0	\$2.53	N/A
SOUTH COUNTY	19,743,839	112,689	1,441,927	7.9%	884,888	806,191	643,365	369,768	\$3.14	\$3.69
Seal Beach	310,241	0	19,320	6.2%	-5,394	-5,394	7,327	0	\$3.25	\$3.25
Westminster	262,284	0	22,659	8.6%	44,675	44,675	42,383	0	\$2.20	N/A
Huntington Beach	1,303,980	0	104,016	8.0%	-11,570	-4,712	29,843	0	\$2.49	\$2.52
Fountain Valley	320,225	0	4,603	1.4%	-3,014	-3,014	4,737	0	\$1.65	N/A
Garden Grove	541,785	0	33,147	6.1%	-3,124	-3,124	10,317	0	\$1.80	N/A
Los Alamitos/Stanton	285,137	0	12,465	4.4%	2,087	2,087	7,038	0	\$1.40	N/A
Cypress	1,212,927	0	133,295	11.0%	40,630	47,673	52,553	0	\$2.16	N/A
WEST COUNTY	4,236,579	0	329,505	7.8%	64,290	78,191	154,198	0	\$2.28	\$2.68
Parkcenter Area	2,820,093	1,130	295,065	10.5%	-30,958	-26,070	105,709	0	\$2.19	\$2.72
Stadium Area	3,653,016	9,303	272,106	7.7%	9,160	11,089	53,194	0	\$2.36	\$2.70
The City Area	2,306,689	0	263,545	11.4%	-64,212	-64,212	19,850	0	\$2.62	\$2.67
Main Place Area	2,262,734	0	283,256	12.5%	-21,620	-2,628	14,845	0	\$2.41	\$2.67
Tustin (South of I-5)	687,575	0	77,771	11.3%	7,767	7,767	74,585	417,000	\$2.46	N/A
Santa Ana	3,411,691	0	643,612	18.9%	3,237	3,237	73,600	0	\$2.17	N/A
North/East Anaheim	2,978,550	31,761	336,614	12.4%	37,193	37,193	137,581	0	\$2.35	\$2.55
East Orange	427,246	0	30,377	7.1%	-7,460	-7,460	1,120	0	\$2.15	N/A
Civic Center Area	2,032,872	5,200	280,325	14.0%	14,366	14,366	14,761	0	\$1.74	\$1.95
CENTRAL COUNTY	20,580,466	47,394	2,482,671	12.3%	-90,087	-74,278	495,305	417,000	\$2.23	\$2.59
Fullerton	1,283,776	0	11,027	0.9%	1,057	1,057	2,600	0	\$1.85	N/A
Brea/La Habra	3,920,786	53,335	176,980	5.9%	-1,492	2,955	108,747	0	\$2.24	\$2.33
Placentia/Yorba Linda	270,646	0	17,746	6.6%	-6,881	-6,881	803	0	\$1.74	N/A
Buena Park/La Palma	1,147,046	7,227	161,998	14.8%	79,567	79,567	64,079	0	\$2.23	\$3.00
NORTH COUNTY	6,622,254	60,562	367,751	6.5%	72,248	76,695	176,229	0	\$2.20	\$2.76
O.C. MARKET TOTALS	89,626,282	515,658	9,624,059	11.3%	279,562	272,398	3,288,770	786,768	\$2.86	\$3.34

*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	360,800	5,490,026	14.3%	761,045	745,042	1,593,074	786,768	\$3.26	\$3.34
Class B	46,621,347	153,138	4,093,440	9.1%	-490,385	-479,826	1,664,065	0	\$2.43	\$2.44
Class C	2,056,447	1,720	40,593	2.1%	8,902	7,182	31,631	0	\$1.86	\$1.82

Key Lease Transactions Q2 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
2722 Michelson	155,000	Anduril Industries	New Lease	Irvine
2 MacArthur Pl	118,830	State of California	New Lease	Santa Ana
5290 California Ave	101,964	Covidien	New Lease	Irvine
5300 California Ave	90,900	Acorns	New Lease	Irvine
650 Town Center Dr	58,376	Sheppard, Mullin, Richter & Hampton LLP	Renewal*	Costa Mesa
1610 E Saint Andrew	52,100	CNI College	New Lease	Santa Ana
2030 Main St	45,684	Wells Fargo	Expansion	Irvine
2975 Red Hill Ave	40,299	Hoag Memorial Presbyterian	New Lease	Costa Mesa

*Renewal – not included in Leasing Activity Statistics

Key Sales Transactions Q2 2018

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
65, 75, 85, 95,101 Enterprise	479,451	RREEF Management LLC / RockPointe Group LLC	\$150,000,000 / \$312	Aliso Viejo
1221-1261 E Dyer Rd	437,000	PS Business Park Inc. / Greenlaw Partners	\$74,000,000 / \$169	Santa Ana
29122-29222 Rancho Viejo Rd	115,517	Greenlaw Partners / Ensign Group	\$31,500,000 / \$273	San Juan Capistrano
2100-2200 W Orangewood Ave	108,000	PS Business Parks / Scientific Botanical Leasing LLC	\$22,032,000 / \$204	Orange
500 S Kramer Blvd	94,492	PRES Companies / Alamitos Associates	\$20,125,000 / \$213	Brea
27401 Los Altos	71,000	Bixby Land Company / Bolour Associates	\$21,442,000 / \$302	Mission Viejo



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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