

Orange County

Office Market Outlook 1Q 2017

MARKET OVERVIEW

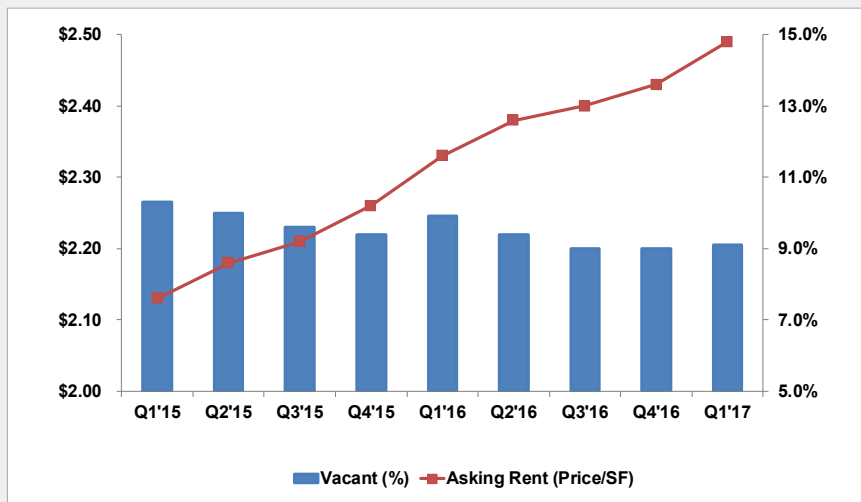
In the first quarter of 2017 the Orange County office market continued to see historically low vacancy rates. The vacancy rate virtually held steady and ended the quarter at 9.1%, up 10 basis points over the quarter and 80 basis points below this time last year. The vacancy rate is one of the lowest seen since 2007, and remains 660 basis points below the 2010 peak. Asking rental rates averaged \$2.49/SF this quarter, representing an increase of 2.5% over the prior quarter and 6.9% over last year. Office space under construction is at one of the County's highest levels since 2007. More than 2.2 million square feet is under construction, of which 53% is preleased. This quarter, the 212,100 square foot Sand Canyon Business Center was delivered to the market 70% preleased. Demand for office space is driven by job growth. Total nonfarm employment has grown by 1.6% from February 2016 to February 2017, while employment in office occupying sectors has increased by 2.3%, adding 41,500 jobs.

TRENDS TO WATCH

Almost all existing construction projects are expected to be delivered by this summer. Construction continues on the Broadcom Corporate Center in Irvine. When completed, in July, the project will deliver 1.1 million square feet of office space that will be occupied by the Broadcom Corporation, which will vacate their existing 836,000 square feet in the University Research Park in Irvine. While much of that space remains vacant, Toshiba has leased 70,558 square feet of the space. The Boardwalk, The Summit, and 400 Spectrum Center Drive are expected to be completed this summer will add over a million square feet of class A office space to the market. With 21% of the space prelease and new space hitting the market this summer, the average asking rent is expected to rise as higher priced space is placed on the market, while the vacancy rate will rise with increased supply.

Average Asking Rent and Vacancy Rate

All Unit Sizes



Rents reflect buildings of 20,000+ SF

MARKET OUTLOOK

Asking Rental Rates



Sale Prices



Availability/Vacancy Rates



Landlord Concessions



Sales/Leasing Volume



New Construction



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Market Statistics

| SUBMARKET | EXISTING TOTAL RBA (SF) | UNDER CONSTRUCTION (SF) | TOTAL AVAILABLE (%) | TOTAL VACANCY (%) | 1Q17 LEASING VOLUME (SF) | YTD LEASING VOLUME (SF) | 1Q17 SALES VOLUME (SF) | YTD SALES VOLUME (SF) | AVERAGE ASKING RENT \$/PSF FSG | AVERAGE SALE PRICE \$/PSF |
|--------------|-------------------------|-------------------------|---------------------|-------------------|--------------------------|-------------------------|------------------------|-----------------------|--------------------------------|---------------------------|
| North | 19,189,624 | 0 | 11.8% | 8.7% | 298,181 | 298,181 | 202,032 | 202,032 | \$2.17 | \$193 |
| West | 14,411,709 | 53,111 | 8.3% | 6.3% | 116,629 | 116,629 | 324,752 | 324,752 | \$2.17 | \$189 |
| Airport | 71,434,188 | 614,004 | 15.8% | 10.4% | 1,738,516 | 1,738,516 | 837,595 | 837,595 | \$2.59 | \$200 |
| Central | 15,195,649 | 7,891 | 10.4% | 8.1% | 138,554 | 138,554 | 107,668 | 107,668 | \$2.06 | \$221 |
| South | 32,479,909 | 1,551,696 | 6.6% | 8.3% | 620,557 | 620,557 | 1,244,868 | 1,244,868 | \$2.65 | \$288 |
| Total | 152,711,079 | 2,226,702 | 12.1% | 9.1% | 2,912,437 | 2,912,437 | 2,716,915 | 2,716,915 | \$2.49 | \$232 |

RBA includes office buildings of all sizes and classes. Rents reflect buildings of at least 20,000 square feet.

Leasing

Occupancy rates remain at their highest level since 2007, with over 91% of total office space occupied in Orange County. Leasing activity finished the quarter at 2.9 million square feet, about 10% higher than the prior quarter. Strong underlying market fundamentals have propelled growth in leasing activity, while new construction is underway to deliver new space. In one of the largest transactions this quarter, the Los Angeles Chargers finalized their lease to take down 101,831 square feet at The Hive in Costa Mesa. Toshiba leased 70,558 square feet of the former Broadcom office in Irvine, while Blizzard Entertainment took down 65,006 square feet of office space in another building in Irvine.

Sales

Sales activity topped 2.7 million square feet at the end of this quarter. This is about 46% below last quarter's sales activity, but represents a gain of 27% over last year at this time. Sale prices this quarter averaged \$233/SF, which represents a 17% increase over last year at this time. The bulk of sales activity was concentrated in Irvine, with Principle Asset Management Group acquiring 205,626 square feet of office space from The Blackstone Group LP for \$195/SF. Outside of Irvine, Bitro Corp purchased 152,703 square feet of office space in Anaheim for \$111/SF.

Select Lease Transactions

| TENANT | ADDRESS | SUBMARKET | ASKING RENT \$/PSF* | SQUARE FEET |
|---------------------------|-----------------------|-----------|---------------------|-------------|
| The Los Angeles Chargers | 3333 Susan St | Airport | N/A | 101,831 |
| Toshiba | 25530 Commercentre Dr | South | \$1.65 NNN | 70,558 |
| Blizzard Entertainment | 15253 Bake Pky | Airport | N/A | 65,006 |
| Collectors Universe, Inc. | 1921 E Alton Ave | Central | \$1.65 | 62,444 |
| OC 405 Partners | 3100 W Lake Center Dr | Central | \$1.60 NNN | 60,462 |

*All rents are FSG unless otherwise noted

Select Sales Transactions

| BUYER | ADDRESS | SUBMARKET | SALE PRICE \$/PSF | SQUARE FEET |
|-------------------------------------|-----------------------------|-----------|-------------------|-------------|
| Pinnacle Asset Management Group LLC | 26632-26672 Towne Center Dr | Airport | \$195 | 205,626 |
| Gre-Pendulum JBC LLC | 5 Peters Canyon Rd | Airport | \$268 | 155,484 |
| Bitro Corp | 1200 N Main St | Central | \$111 | 152,703 |
| Doppler Ventures LLC | 7755 Irvine Center Dr | Airport | \$332 | 126,326 |
| Keleman Caamano Investments | 19712-19762 MacArthur Blvd | Airport | \$256 | 105,295 |

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- **North**
 - Anaheim
 - Brea
 - Fullerton
 - La Habra
 - Orange
 - Villa Park
 - Yorba Linda

- **Central**
 - Tustin
 - Tustin Foothills
 - Santa Ana

- **West**
 - Buena Park
 - Cypress
 - Fountain Valley
 - Garden Grove
 - Huntington Beach
 - Seal Beach
 - Stanton

- **South**
 - Aliso Viejo
 - Dana Point
 - Foothill Ranch
 - Laguna Hills
 - Laguna Niguel
 - Lake Forest
 - Mission Viejo
 - Rancho Santa Margarita
 - San Clemente
 - San Juan Capistrano

- **Airport**
 - Costa Mesa
 - Irvine
 - Newport Beach

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Diamond Bar, CA 91765
(909) 348-0600

Pasadena
225 S. Lake Ave., Ste. 1170
Pasadena, CA 91101
(626) 564-4800

Torrance
970 W. 190th St. Dr., Ste. 100
Torrance, CA 90502
(310) 532-9080

Valencia
27451 Tourney Rd., Ste. 200
Valencia, CA 91355
(661) 705-3550

West Los Angeles
11835 Olympic Blvd., Ste. 700E
Los Angeles, CA 90064
(310) 440-8500

Ventura County

Oxnard
300 Esplanade Dr., Ste. 1660
Oxnard, CA 93036
(805) 278-1400

Westlake Village
2555 Townsgate Rd., Ste. 320
Westlake Village, CA 91361
(805) 446-2400

Simi Valley
2655 First St., Ste. 250
Simi Valley, CA 93065
(805) 522-7132

Orange County

Irvine
1920 Main St., Ste. 100
Irvine, CA 92614
(949) 854-6600

San Clemente
120 1/2 South El Camino Real,
Ste. 210
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Inland Empire

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