MARKET OVERVIEW

In the second quarter of 2017, the Orange County office market has continued to remain strong, as it witnessed both some of the lowest vacancy rates and highest rents since 2007. The vacancy rate edged up 20 basis points over the quarter to 9.2%, but remains 650 basis points below the peak in 2010. Asking rental rates averaged $2.52/SF this quarter, representing an increase of 1.6% over the prior quarter and 6.3% over last year. There are more than 2.4 million square feet under construction, of which 54% is preleased. Demand for office space is driven by job growth in the office occupying sectors. The unemployment rate has fallen from 3.7% in May 2016 to 3.2% in May 2017, giving Orange County the lowest unemployment rate in Southern California. Employment in office occupying sectors has risen by 0.55% over the same period, adding 3,500 jobs. One of the largest growing sectors is the Accounting, Tax Preparation, & Bookkeeping services sector, which saw 1,100 new jobs added this quarter.

TRENDS TO WATCH

With unemployment rates at historic lows, the Orange County office market is expected to see significant growth throughout 2017. Nearly half of the square footage under construction is scheduled for delivery by the end of the year, but more than half the space is preleased, which will keep vacancy from spiking. Next quarter, several projects, including The Boardwalk, The Summit, and 400 Spectrum Center Drive are expected to deliver, adding over one million square feet of class A office space to the market. Construction continues on the 1.1 million square foot Broadcom Corporate Campus in Irvine, which is scheduled to deliver in January of 2018. As one of the county’s largest employment sectors, Education & Health Services will likely continue to be an important driver of demand for office space.

Average Asking Rent and Vacancy Rate

Source: NAI Capital Research, CoStar
**Orange County Office Market Outlook 2Q 2017**

**Market Statistics**

<table>
<thead>
<tr>
<th>SUBMARKET</th>
<th>EXISTING TOTAL RBA (SF)</th>
<th>UNDER CONSTRUCTION (SF)</th>
<th>TOTAL AVAILABLE (%)</th>
<th>TOTAL VACANCY (%)</th>
<th>2017 LEASING VOLUME (SF)</th>
<th>YTD LEASING VOLUME (SF)</th>
<th>2017 SALES VOLUME (SF)</th>
<th>YTD SALES VOLUME (SF)</th>
<th>AVERAGE ASKING RENT $/PSF FSG</th>
<th>AVERAGE SALE PRICE $/PSF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airport</td>
<td>71,462,089</td>
<td>549,004</td>
<td>16.2%</td>
<td>10.8%</td>
<td>1,392,287</td>
<td>3,156,936</td>
<td>1,838,393</td>
<td>2,699,964</td>
<td>$2.64</td>
<td>$262</td>
</tr>
<tr>
<td>Central</td>
<td>15,201,948</td>
<td>0</td>
<td>11.1%</td>
<td>8.0%</td>
<td>145,420</td>
<td>292,481</td>
<td>228,443</td>
<td>373,672</td>
<td>$2.05</td>
<td>$312</td>
</tr>
<tr>
<td>North</td>
<td>19,239,579</td>
<td>0</td>
<td>11.7%</td>
<td>9.2%</td>
<td>308,131</td>
<td>608,092</td>
<td>426,614</td>
<td>545,418</td>
<td>$2.13</td>
<td>$295</td>
</tr>
<tr>
<td>South</td>
<td>32,467,091</td>
<td>1,921,464</td>
<td>13.1%</td>
<td>7.5%</td>
<td>729,024</td>
<td>1,360,312</td>
<td>252,118</td>
<td>1,750,988</td>
<td>$2.71</td>
<td>$300</td>
</tr>
<tr>
<td>West</td>
<td>14,408,961</td>
<td>16,550</td>
<td>8.2%</td>
<td>6.5%</td>
<td>146,173</td>
<td>276,220</td>
<td>172,292</td>
<td>439,948</td>
<td>$2.18</td>
<td>$182</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>152,779,668</strong></td>
<td><strong>2,487,018</strong></td>
<td><strong>13.7%</strong></td>
<td><strong>9.2%</strong></td>
<td><strong>2,721,035</strong></td>
<td><strong>5,694,041</strong></td>
<td><strong>2,917,860</strong></td>
<td><strong>5,809,990</strong></td>
<td><strong>$2.52</strong></td>
<td><strong>$271</strong></td>
</tr>
</tbody>
</table>

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

**Leasing**

While the vacancy rate made slight gains over the quarter, it remains at one of the lowest rates seen since 2007, as nearly 91% of all office space is occupied. Leasing activity totaled 2,721,035 square feet, representing a decline of about 15.5% over this time last year as average asking rents have increased 6.3% to $2.52/SF, and available office space remains scarce due to heightened demand. New construction is on schedule to deliver new supply, with over 2.4 million square feet under construction.

In one of the largest transactions this quarter, Cylance, a cybersecurity firm, leased 133,324 square feet at 400 Spectrum Center Drive, which is expected to be delivered in July 2017. Also in Irvine, Zillow, an online real estate database company, leased 60,099 square feet at 2600 Michelson.

**Sales**

This quarter, total sales volume topped 2.9 million square feet. This represents a gain of 64% over the quarter and 34% over the year, as investors continue to see value in the Orange County office market. Sale prices this quarter increased 12% over last quarter to $271/SF, which was similar to the average price of $273/SF last year at this time. In one of the largest sales transactions this quarter, the Emmes Realty Services of California LLC purchased the 637,718 square foot Centerview East & West portfolio in Irvine from Shorenstein Properties, LLC for $276/SF. Similarly, Cress Capital, LLC purchased the 303,924 square foot Sandpointe at MacArthur Place office park in Santa Ana for $173/SF from TA Realty.
Orange County Office Market Outlook 2Q 2017

North
Anaheim
Brea
Fullerton
La Habra
Orange
Villa Park
Yorba Linda

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

Airport
Costa Mesa
Irvine
Newport Beach

Central
Tustin
Tustin Foothills
Santa Ana

South
Aliso Viejo
Dana Point
Foothill Ranch
Laguna Hills
Laguna Niguel
Lake Forest
Mission Viejo
Rancho Santa Margarita
San Clemente
San Juan Capistrano
Orange County
Office Market Outlook 2Q 2017

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949.874.0415

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Los Angeles, CA 90017
213.632.7700

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Los Angeles, CA 90064
310.440.8500

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970 W. 190th St. Dr., Ste. 100
Torrance, CA 90502
310.532.9080

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225 S. Lake Ave., Ste. 1170
Pasadena, CA 91101
626.564.4800

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27451 Tourney Rd., Ste. 200
Valencia, CA 91355
661.705.3550

**Diamond Bar**
21660 E. Copley Dr., Ste. 320
Diamond Bar, CA 91765
909.348.0600

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805.446.2400

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Simi Valley, CA 93065
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**Orange County**

**Irvine**
1920 Main St., Ste. 100
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**Ontario**
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Ontario, CA 91764
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Temecula, CA 92590
951.491.7590

**Victorville**
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Victorville, CA 92392
760.780.4200

**Coachella Valley**

**Palm Desert**
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Palm Desert, CA 92211
760.346.1566

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