

Orange County

Office Market Outlook 4Q 2017

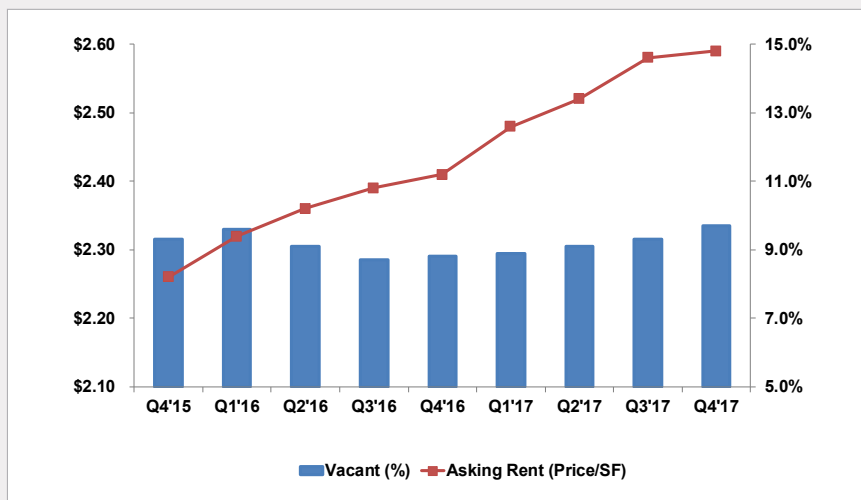
MARKET OVERVIEW

The Orange County office market continued to strengthen in the fourth quarter of 2017 as asking rents increased significantly over the year and the vacancy rate remained low. The average asking rent grew by 7.5% over the year to \$2.59/SF, which was the largest annual increase in average asking rents in the Southern California region. The vacancy rate edged up 40 basis points to 9.7% as 1.1 million square feet of new office space was delivered this quarter. Deliveries from 2017 had an occupancy rate of 47.8% at the end of the year. More than 1.5 million square feet of office space was under construction at yearend, with about 38.4% of the space pre-leased or planned to be occupied upon delivery. Between November 2016 and November 2017, total employment in Orange County grew by 13,800 jobs, or 0.9%. For office occupying sectors, employment grew by 4,700 new jobs, or 0.7%, with the highest growth in the Education & Health Services Sector. The California Economic Development Department saw that over the same time period, the unemployment rate for Orange County fell from 4.4% to 3.9%.

TRENDS TO WATCH

Going into 2018, vacancy is expected to rise as new deliveries outpace net absorption. Additionally, with Orange County near full employment, demand for new office space is expected to remain steady as firms take a measured approach toward taking down new space or expanding. Over the next year, virtually all of the 1.5 million square feet under construction will be delivered, with about 950,000 square feet available for lease. However, based on the two-year quarterly average of net absorption, only about 200,000 square feet are expected to be absorbed over 2018. This could push the vacancy rate to approximately 10.5% by the end of the year as the market works to absorb this new space. The largest project scheduled to deliver in 2018 is the Five Point Gateway in Irvine, which is expected to be occupied by Broadcom for its corporate headquarters.

Average Asking Rent and Vacancy Rate



Source: NAI Capital Research, CoStar

MARKET OUTLOOK

Asking Rental Rates



Sale Prices



Availability/Vacancy Rates



Landlord Concessions



Sales/Leasing Volume



New Construction



NAI Capital Research
www.naicapital.com

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Market Statistics

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	4Q17 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	4Q17 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/PSF FSG	AVERAGE SALE PRICE \$/PSF
Airport	72,294,327	650,258	16.5%	11.1%	1,217,788	6,135,168	906,518	4,115,940	\$2.72	\$353
Central	15,192,537	0	11.0%	7.2%	123,785	542,599	417,197	968,360	\$2.12	\$262
North	19,300,945	38,313	11.9%	8.6%	414,698	1,363,373	407,566	1,545,174	\$2.24	\$181
South	33,713,368	842,181	13.5%	9.8%	760,660	3,821,413	327,099	4,208,596	\$2.75	\$288
West	14,446,647	16,550	7.2%	5.9%	226,437	692,807	295,141	1,306,600	\$2.22	\$214
Total	154,947,824	1,547,302	13.9%	9.7%	2,743,368	12,555,360	2,353,521	12,144,670	\$2.59	\$289

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

Leasing

Leasing activity this quarter totaled more than 2.7 million square feet, while lease volume for the year topped 12.5 million square feet, which was 2.0% below last year's total of 12.8 million square feet. Decline in leasing volume is primarily due to a slow in job growth as Orange County reaches full employment. In the largest lease transaction this quarter, clothing brand Pacific Sunwear of California, Inc., also known as PacSun, leased 180,000 square feet in Anaheim for their Corporate Headquarters at \$1.25/SF NNN. PacSun previously owned the building, but sold it this quarter following their chapter 11 bankruptcy. In another major transaction, Vyair Medical has leased 177,886 square feet of office space at Discovery Business Center in Irvine, which will deliver in June 2018.

Sales

Sales activity topped 2.3 million square feet this quarter and annual sale volume topped 12.1 million square feet, which represented a 2.0% increase over last year's total of 11.9 million square feet. Sale prices averaged \$289/SF this quarter, while cap rates have remained relatively low at 5.65%. This is likely because investors are looking for undervalued properties outside of the Irvine area and feel confident in the Orange County office market. In one of the largest sales transactions this quarter, Goldman Sachs & Co. Real Estate Management purchased the 376,242 square foot Koll Center Newport in Newport Beach for \$469/SF. Lincoln Property Company purchased the 324,384 square foot Orange Town Center in Orange for \$285/SF at a 5.75% cap rate.

Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/PSF*	SQUARE FEET
Pacific Sunwear of California, Inc.	3450 E Miraloma Ave	North	\$1.25 NNN	180,000
Vyair Medical, Inc.	520 Technology Dr	Airport	Withheld	177,886
Pathway Capital	18565-18575 Jamboree Rd	Airport	Withheld	63,879
Tenant Not Listed	2603 Main St	Airport	\$2.60	59,149
American Advisors	18200 Von Karman Ave	Airport	\$3.40	54,408

*All rents are FSG unless otherwise noted

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/PSF	SQUARE FEET
Goldman Sachs & Co. Real Estate Management	4000 MacArthur	Airport	\$469	376,242
Lincoln Property Company	Orange Tower Center	North	\$285	324,384
Hines	3450 E Miraloma Ave	North	\$150	180,000
Laurus Corporation	24012 Calle de la Plata	South	\$218	72,928
Meridian Property Company	24022 Calle de la Plata	South	\$350	57,000

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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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NAI Capital Southern California Office Locations

Headquarters

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818.905.2400

Property Management

120^{1/2} South El Camino Real, Ste. 210
San Clemente, CA 92674
949.874.0415

Los Angeles County

Downtown LA

601 S. Figueroa St., Ste 3825
Los Angeles, CA 90017
213.632.7700

West Los Angeles

11835 Olympic Blvd., Ste. 700E
Los Angeles, CA 90064
310.440.8500

Torrance

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

Pasadena

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

Valencia

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

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

Inland Empire

Ontario

800 N. Haven Dr., Ste. 400
Ontario, CA 91764
909.945.2339

Temecula

27720 Jefferson Ave., Ste. 330
Temecula, CA 92590
951.491.7590

Victorville

13911 Park Avenue, Ste. 206
Victorville, CA 92392
760.780.4200

Coachella Valley

Palm Desert

75-410 Gerald Ford Dr., Ste. 200
Palm Desert, CA 92211
760.346.1566