LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

QUARTER IN REVIEW
2ND QUARTER 2016

LEE & ASSOCIATES - IRVINE / NEWPORT BEACH / ORANGE OFFICE MARKET REPORT

Q2 Absorption Gain; Companies Flock to South County

After a sluggish start early this year, demand for Orange County office space surged in the second quarter, posting the biggest gain in six quarters. Lease rates continued to climb in the largest submarkets, keeping the countywide average on pace next year to equal its all-time high.

Demand intensified in the South County submarket, which is anticipating completion next year of nearly 1.8 million sq. ft. of Class A high-rise and campus-style buildings.

Countywide, 11 buildings totaling 2.4 million sq. ft. are under construction and ground-up development costs are reaching $600 per square foot. Ignoring low capitalization rates, however, investors are piling into well-located office assets, favoring Class B low-rise campus-style buildings they believe will command upwards of 25% more in rents when updated as modern "creative" space.

Eight of the new buildings underway are in the South County submarket, which checked in with 338,364 sq. ft. of positive absorption in the second quarter, driving the vacancy rate down to 9%. It was the third consecutive quarterly gain totaling 713,176 sq. ft. in South County, which totals 23.3 million sq. ft. and includes Irvine Spectrum. The Irvine Company is under construction on six mid-rise buildings totaling 528,000 sq. ft and a 21-story high-rise.

MARKET OVERVIEW

(Change from last quarter)

AVAILABILITY - 15.70%
Down from 15.78% last quarter

VACANCY - 11.10%
Down from 11.50% last quarter

ABSORPTION - 386,591 SQ. FT.
Up from -108,883 SF last quarter

AVERAGE LEASE RATE - $2.40 FSG
Up from $2.35 PSF last quarter

*All numbers are based on office space in buildings 30,000 sq. ft. and larger.

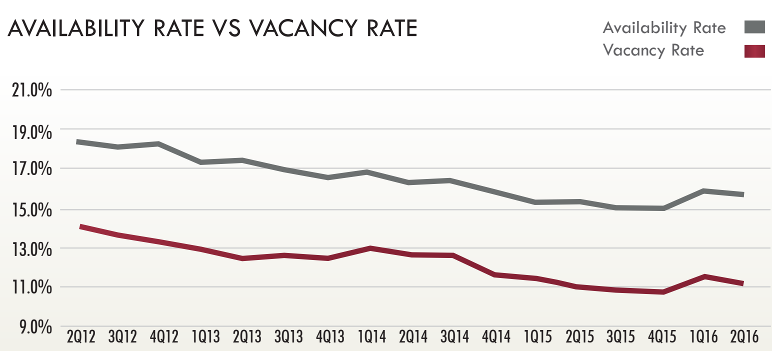
The Airport submarket, the county's largest with 42.5 million sq. ft., has seen companies shed nearly 200,000 sq. ft. in the last three quarters. Its vacancy rate was unchanged at 10.8% in Q2, and asking rents gained 10.4% year-over-year. The availability rate jumped to 17% due, in large part, to the planned move by Broadcom out of Irvine's University Research Park, which put about 900,000 sq. ft. on the market. The submarket includes Newport Beach, Costa Mesa, Fountain Valley and south Santa Ana.

With 14.1 million sq. ft. in total inventory, the North County submarket rebounded in Q2 with 126,606 sq. ft. coming off the market, dropping its vacancy rate to 10.5%. Year-over-year net absorption in North County totaled 276,231 sq. ft. but the submarket, which includes Fullerton, Buena Park, Yorba Linda and Placentia, has yet to post more than two straight quarters of positive absorption since the recession.

Absorption in West County settled on the plus side in Q2, but over the last six quarters is 172,319 sq. ft. in the red. Average rents virtually are unchanged from a year ago. Despite about 95,000 sq. ft. of negative absorption in Cypress, the vacancy rate in the small 8.9 million sq. ft. submarket that includes Los Alamitos and Huntington Beach was unchanged at 10%.

The 14.4% vacancy rate in the 22.4 million sq. ft. Central County submarket is greatly influenced by the 18% vacancy in Santa Ana's 14.3 million sq. ft. Other cities in the submarket include Orange, where 7% of its 6.6 million sq. ft. are empty, and Anaheim with 7.4 million sq. ft. at 13.1% vacancy.

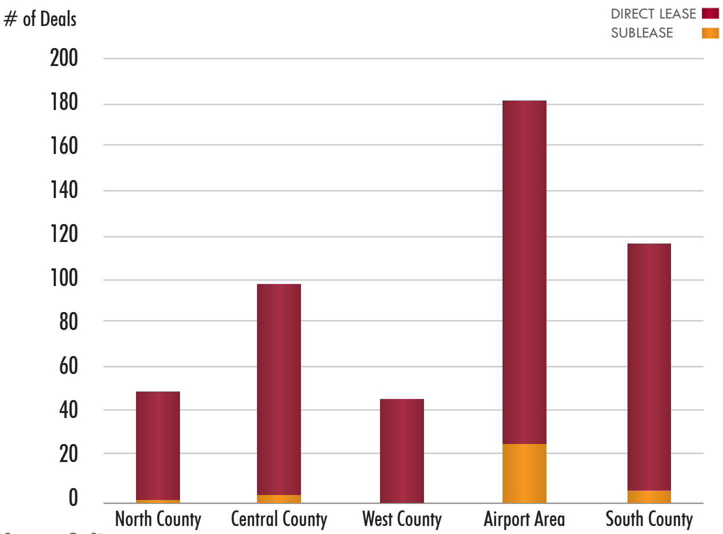
AVAILABILITY RATE VS VACANCY RATE



Source: CoStar

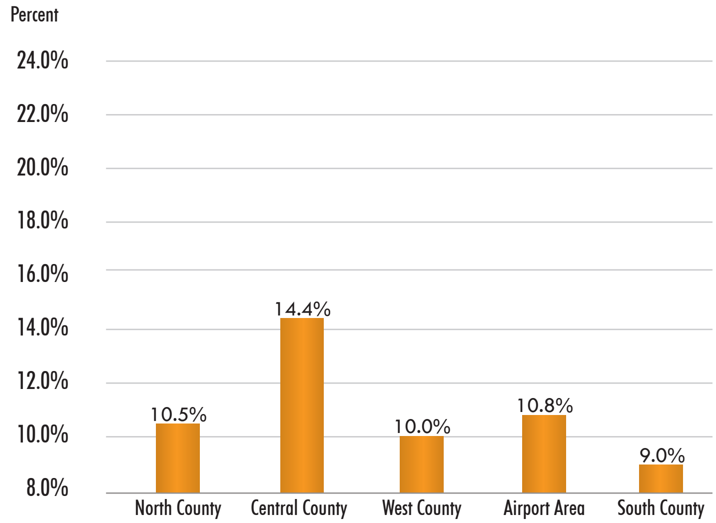
The Orange County Office Market Report is published quarterly by the Lee & Associates' Irvine, Newport Beach and Orange offices.

NUMBER OF LEASES EXECUTED FOR THE QUARTER BY SUBMARKET



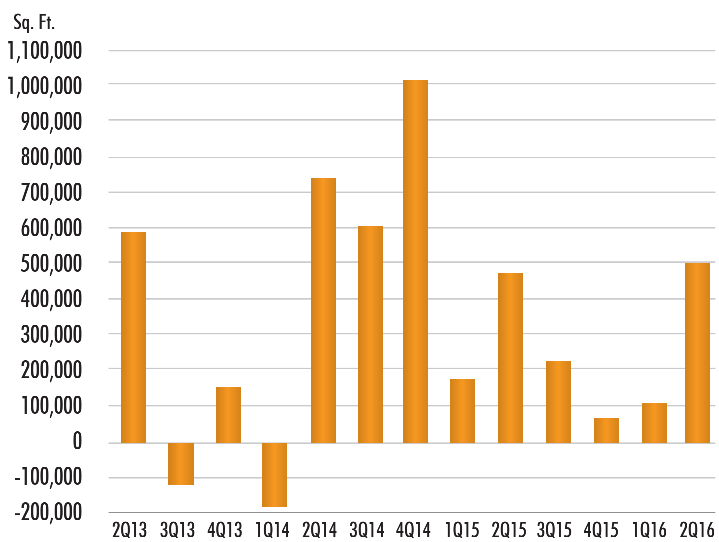
Source: CoStar

VACANCY RATE BY SUBMARKET - INCLUDING SUBLET SPACE



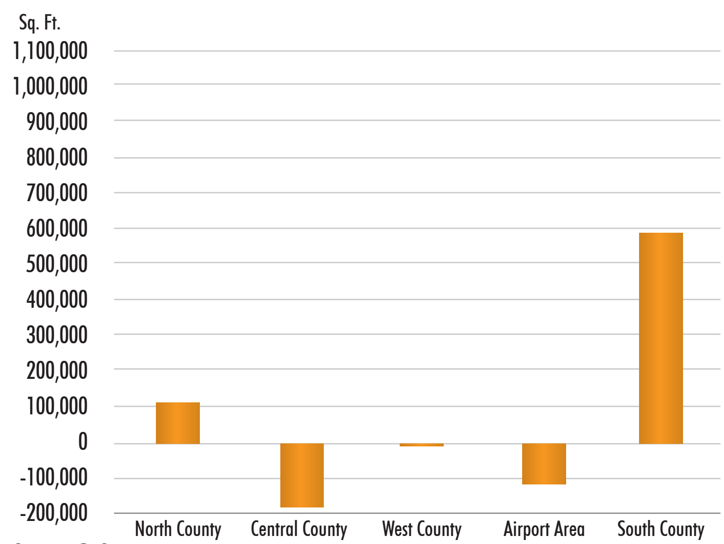
Source: CoStar

COUNTY WIDE NET ABSORPTION INCLUDING SUBLET SPACE



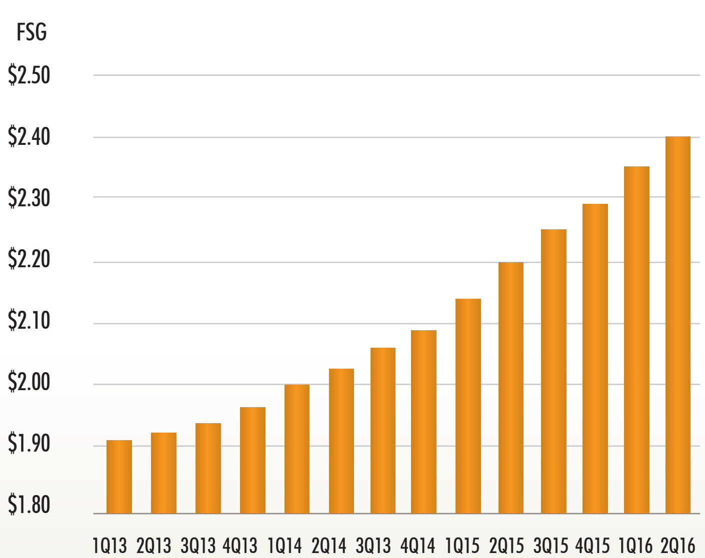
Source: CoStar

YTD NET ABSORPTION BY SUBMARKET, INCLUDING SUBLET SPACE



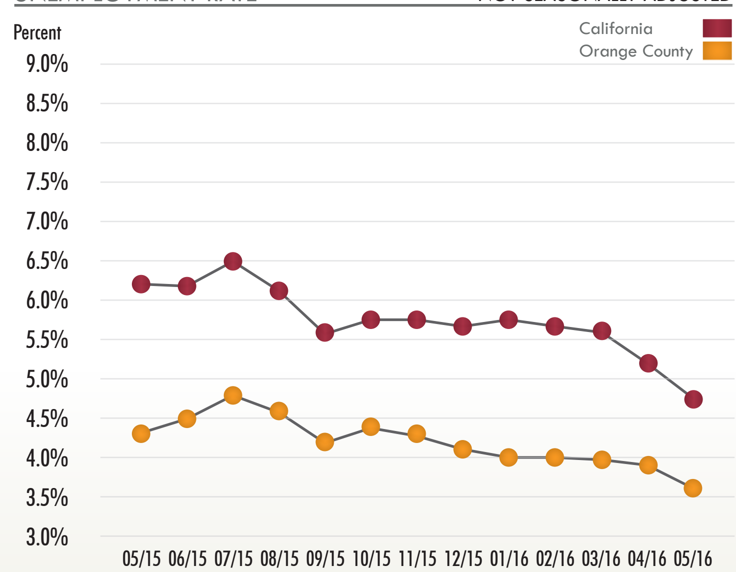
Source: CoStar

AVERAGE FSG LEASE RATES BY QUARTER



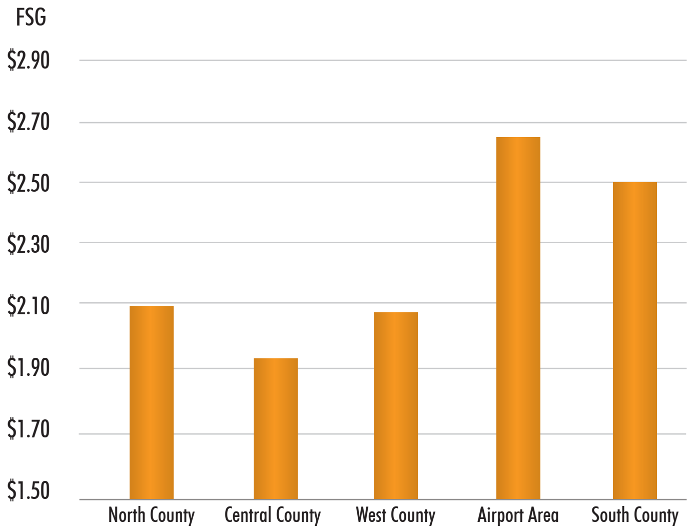
Source: CoStar

UNEMPLOYMENT RATE NOT SEASONALLY ADJUSTED



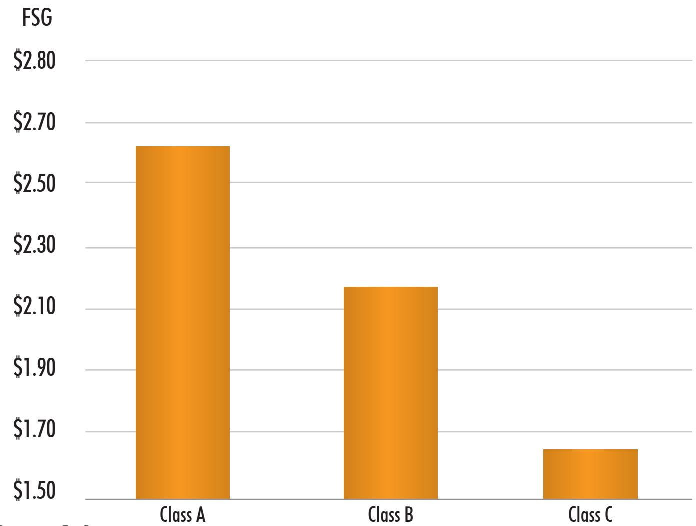
Source: EDD

AVERAGE FSG LEASE RATE BY SUBMARKET



Source: CoStar

AVERAGE FSG LEASE RATE BY CLASS



Source: CoStar

COMPLETED LEE & ASSOCIATES TRANSACTIONS

2642 Michelle Avenue
Tustin, CA

3040 Saturn Street
Brea, CA

62 Corporate Park, Suite 215 & 225
Irvine, CA

Lease Transactions 2Q 16

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
2642 Michelle Avenue Tustin, CA	25,703	Peregrine Pharmaceuticals, Inc.	American Funds US Investments	Gary McArdell and John Collins represented the Landlord.
3040 Saturn Street Brea, CA	7,359	Base 2 Solutions	Brea Corporate Park	Bob Sattler and Jon Fabiano represented the Landlord.
62 Corporate Park, Suite 215 & 225 Irvine, CA	1,967	Aaron D. Aguilar, DDS	Stanford Irvine LLC	Allen Basso and Eric Darnell represented the Tenant.

9700 Toledo Way
Irvine, CA

3 Burroughs Street
Irvine, CA

7861 Garden Grove Boulevard
Garden Grove, CA

Sale Transactions 2Q 16

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
9700 Toledo Way Irvine, CA	73,069	Berdan Holdings, LLC	Cordia, LLC	Ryan Swanson and Kurt Bruggeman represented the Buyer.
3 Burroughs Street Irvine, CA	35,743	Harbor Associates	3 Burroughs, LLC	John Collins and Matt McKinlay represented the Buyer.
7861 Garden Grove Boulevard Garden Grove, CA	26,682	Chino Hills Mall, LLC	Ardell Investment Company	David Romero and John Martin represented the Buyer.

	Bldg Count	SF RBA	Total SF Available	Avail. Rate	Total SF Vacant	Total Vac. Rate	Direct SF Vacant	Direct Vac. Rate	Net Absorption	YTD Net Absorption	SF Avail Sublease	SF Vacant Sublease	Avg Asking Lease Rate	SF Under Construction
BY CITY														
Aliso Viejo	39	3,015,949	470,057	15.6%	343,359	11.4%	298,512	9.9%	(2,218)	(43,858)	163,312	44,847	$2.69	- 0 -
Anaheim	80	7,359,689	1,307,936	17.8%	964,381	13.1%	944,381	12.8%	90,010	43,758	73,235	20,000	$2.18	- 0 -
Brea	39	3,974,355	605,246	15.2%	386,477	9.7%	313,122	7.9%	18,671	56,962	97,959	73,355	$2.01	- 0 -
Buena Park	14	1,008,372	180,877	17.9%	88,976	8.8%	88,976	8.8%	60,029	24,722	- 0 -	- 0 -	$2.20	- 0 -
Corona del Mar	2	90,054	4,000	4.4%	4,000	4.4%	4,000	4.4%	7,659	(741)	- 0 -	- 0 -	$3.95	- 0 -
Costa Mesa	64	7,103,847	1,177,881	16.6%	923,996	13.0%	920,297	13.0%	4,800	114,924	120,855	3,699	$2.44	- 0 -
Cypress	26	1,919,854	560,079	29.2%	388,407	20.2%	388,407	20.2%	(12,425)	(26,564)	143,701	- 0 -	$2.04	- 0 -
Dana Point	3	135,296	1,200	0.9%	1,200	0.9%	- 0 -	0.0%	(1,200)	(1,200)	1,200	1,200	$0.00	- 0 -
Foothill Ranch	10	798,721	135,103	16.9%	145,809	18.3%	145,809	18.3%	(462)	(5,007)	14,926	- 0 -	$2.49	- 0 -
Fountain Valley	27	1,838,765	70,263	3.8%	64,297	3.5%	64,297	3.5%	(301)	6,144	- 0 -	- 0 -	$1.57	- 0 -
Fullerton	30	2,431,080	355,705	14.6%	186,720	7.7%	186,720	7.7%	1,221	26,949	326	- 0 -	$2.50	- 0 -
Garden Grove	17	1,483,388	72,484	4.9%	58,828	4.0%	58,828	4.0%	(38)	(7,287)	11,980	- 0 -	$1.71	- 0 -
Huntington Beach	31	2,159,176	240,132	10.9%	223,303	10.3%	223,303	10.3%	21,742	22,695	15,103	- 0 -	$2.10	44,500
Irvine	386	34,038,423	6,004,017	16.5%	3,040,335	8.9%	2,805,368	8.2%	231,328	151,099	972,145	234,967	$2.59	2,316,020
La Habra	4	142,069	- 0 -	0.0%	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	$0.00	- 0 -
La Palma	10	712,038	58,508	8.2%	125,913	17.7%	125,913	17.7%	17,417	(6,227)	- 0 -	- 0 -	$1.97	- 0 -
Ladera Ranch	3	127,065	48,173	37.9%	19,745	15.5%	19,745	15.5%	- 0 -	(3,693)	13,220	- 0 -	$2.14	- 0 -
Laguna Beach	5	192,434	22,414	11.6%	24,597	12.8%	24,597	12.8%	2,994	4,298	1,580	- 0 -	$2.57	- 0 -
Laguna Hills	25	1,626,353	305,907	18.8%	280,689	17.3%	271,979	16.7%	3,229	391	19,535	8,710	$2.68	- 0 -
Laguna Niguel	8	1,691,485	53,359	3.2%	48,483	2.9%	48,483	2.9%	6,085	6,085	2,671	- 0 -	$2.61	- 0 -
Laguna Woods	- 0 -	- 0 -	- 0 -	0.0%	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	$0.00	- 0 -
Lake Forest	32	1,886,029	222,752	11.8%	99,003	5.2%	99,003	5.2%	5,842	104,323	68,534	- 0 -	$2.24	- 0 -
Los Alamitos	9	610,423	40,567	6.6%	30,567	5.0%	30,567	5.0%	(9,006)	(2,816)	10,000	- 0 -	$2.55	- 0 -
Mission Viejo	32	1,813,478	243,963	13.5%	166,643	9.2%	162,696	9.0%	10,021	35,424	39,228	3,947	$2.36	- 0 -
Newport Beach	99	9,372,710	1,166,243	12.4%	747,450	8.0%	665,940	7.1%	49,809	189,432	116,501	81,510	$3.32	44,000
Orange	63	6,627,319	649,655	9.8%	465,315	7.0%	458,840	6.9%	58,257	(4,940)	25,137	6,475	$2.24	- 0 -
Placentia	5	185,164	20,055	10.8%	21,121	11.4%	21,121	11.4%	3,398	5,886	0	0	$2.00	- 0 -
Rancho Santa Margarita	5	225,472	22,678	10.1%	16,125	7.2%	16,125	7.2%	2,947	2,314	0	0	$2.29	- 0 -
San Clemente	9	423,171	46,571	11.0%	36,246	8.6%	36,246	8.6%	(5,704)	(19,491)	0	0	$2.31	- 0 -
San Juan Capistrano	17	876,712	148,185	16.9%	150,978	17.2%	150,978	17.2%	6,152	3,572	2,244	0	$2.11	- 0 -
Santa Ana	162	14,319,053	2,487,806	17.4%	2,577,215	18.0%	2,564,953	17.9%	4,314	(109,200)	138,141	12,262	$1.81	- 0 -
Seal Beach	6	445,365	54,456	12.2%	48,896	11.0%	46,636	10.5%	4,352	2,418	5,056	2,260	$2.89	- 0 -
Stanton	2	85,917	8,158	9.5%	9,491	11.0%	9,491	11.0%	(2,559)	(2,559)	- 0 -	- 0 -	$1.71	- 0 -
Tustin	34	2,016,621	585,863	29.1%	523,890	26.0%	514,690	25.5%	(74,189)	(178,554)	22,654	9,200	$2.13	- 0 -
Westminster	10	429,031	75,217	17.5%	71,400	16.6%	71,400	16.6%	2,474	422	- 0 -	- 0 -	$2.11	- 0 -
Yorba Linda	5	288,094	46,429	16.1%	34,552	12.0%	34,552	12.0%	(573)	(2,878)	- 0 -	- 0 -	$1.75	- 0 -
Orange County Totals	1,313	111,453,181	17,497,480	15.7%	12,320,924	11.1%	11,818,492	10.6%	495,474	386,591	2,080,233	502,432	$2.40	2,404,520
BY AREA														
North Orange County	171	14,178,000	2,146,150	15.1%	1,492,548	10.5%	1,399,193	9.9%	126,606	108,535	153,626	93,355	$2.09	- 0 -
Central Orange County	260	22,437,452	3,653,142	16.3%	3,235,135	14.4%	3,207,198	14.3%	32,771	(184,292)	196,844	27,937	$1.93	- 0 -
West Orange County	128	8,971,919	1,121,356	12.4%	895,189	10.0%	892,929	10.0%	4,239	(7,547)	185,840	2,260	$2.07	44,500
Greater Airport Area	419	42,542,932	7,328,416	17.0%	4,606,879	10.8%	4,348,119	10.2%	(6,457)	(116,423)	975,336	258,760	$2.65	581,224
South Orange County	335	23,322,878	3,248,416	12.9%	2,091,173	9.0%	1,971,053	8.5%	338,315	586,318	568,587	120,120	$2.50	1,778,796
Orange County Totals	1,313	111,453,181	17,497,480	15.7%	12,320,924	11.1%	11,818,492	10.6%	495,474	386,591	2,080,233	502,432	$2.40	2,404,520
BY BUILDING CLASS														
Class A	282	45,617,194	9,119,123	19.0%	5,959,551	13.1%	5,625,248	12.3%	160,527	(51,992)	1,370,964	334,303	$2.62	2,360,020
Class B	931	60,797,858	7,886,255	13.0%	6,059,911	10.0%	5,891,782	9.7%	322,009	445,052	708,069	168,129	$2.17	44,500
Class C	100	5,037,920	492,102	9.8%	301,462	6.0%	301,462	6.0%	12,938	(6,469)	1,200	- 0 -	$1.65	- 0 -
Orange County Totals	1,313	111,452,972	17,497,480	15.7%	12,320,924	11.1%	11,818,492	10.6%	495,474	386,591	2,080,233	502,432	$2.40	2,404,520

ABOUT LEE & ASSOCIATES

Celebrating more than 37 years of leadership excellence in commercial real estate, Lee & Associates is the largest broker-owned firm in North America with locations across the U.S. and Canada including Arizona, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Maryland, Michigan, Minnesota, Missouri, Nevada, New Jersey, New York, Ohio, Pennsylvania, South Carolina, Texas, Vancouver BC and Wisconsin.

With a broad array of regional, national and international clients - ranging from individual investors and small businesses to large corporations and institutions - Lee & Associates has successfully completed transactions with a total value of more than $9 billion last year, alone.

OFFICE SERVICES

The firm's office brokers negotiate various transactions, including mid–and high-rise properties, business and office parks, mixed-used projects, office land for development, multi-tenant buildings and commercial investments. Our brokers analyze the financial arrangements to streamline transactions, and use innovative marketing efforts and unique transaction structuring to provide creative solutions to meet the clients' needs.

Our comprehensive service line includes owner and tenant leasing, acquisition and sales, along with marketing and consulting capabilities. We focus on strategic counseling rather than merely the transaction in order to execute the best possible real estate strategies for our clients. This includes building strong relationships within the brokerage community overall. As a result, our clients are assured of the broadest exposure possible.

SUBMARKETS:

NORTH
Anaheim Hills, Brea/La Habra, Buena Park/La Palma, Fullerton, North/East Anaheim, Placentia/Yorba Linda

CENTRAL
Civic Center Area, East Orange, Main Place Area, Parkcenter Area, Santa Ana, Stadium Area, The City Area, Tustin (South of I-5)

WEST
Cypress, Fountain Valley, Garden Grove, Huntington Beach, Los Alamitos/Stanton, Seal Beach, Westminster

AIRPORT
Costa Mesa, Irvine, Newport Beach, South Santa Ana

SOUTH
Irvine Spectrum, Laguna Hills/Aliso Viejo, Laguna Niguel/Laguna Beach, Lake Forest/Foothill Ranch/Rancho Santa Margarita, Mission Viejo, San Juan Capistrano/San Clemente/Dana Point/Capistrano Beach

OUTLYING
Outlying Orange County

FORECAST:

Orange County employment is expected to increase by 2.6%, down from last year's 3.2% rate, according to a mid-year forecast by economist Jim Doti of Chapman University. Doti cautioned that Orange County's inability to grow its high-tech economy is leaving the county with more lower-paid workers who are increasingly finding housing unaffordable.

LEE & ASSOCIATES®
COMMERCIAL REAL ESTATE SERVICES
Office Members of the Lee & Associates Group of Companies-Orange County

LEE & ASSOCIATES - IRVINE
9838 Research Drive
Irvine, California 92618
(949) 727-1200

Allen Basso
Jeff Bischofberger
Kurt Bruggeman
Sammy Cemo
Phil Cohen
Chris Conway
Eric Darnell
BJ Fell
Craig Fitterer
Matt Fryer
Brian Garbutt
Ryan Harman
Mark Jerue
David LaFosse
Mia Pham
Brad Rawlins
Ted Rommel
Dave Smith
Justin Smith
Ryan Swanson
Todd Swanson
Nathan Tupman
Travis Watts
Adam Wicker

LEE & ASSOCIATES - NEWPORT BEACH
100 Bayview Circle, Suite 600
Newport Beach, California 92660
(949) 724-1000

Frank Adler
Sean Ahern
Kimberly Ahlberg
Tim Arguello
David Bolt
Alton Burgess
John Collins
Matt Durkin
Travis Haining
Ryan Lawler
Gary McArdell
Matt McKinlay
Don Nourse
Jim Nourse
Bob Rieden
David Romero
Kevitt Sale
Dick Silva
Tom West
Tim Walker

LEE & ASSOCIATES - ORANGE
1004 West Taft Avenue, Suite 150
Orange, California 92865
(714) 647-9100

Craig Demiranda
Jonmark Fabiano
Phil Fridd
John Hatzis
James Hawkins
Jaimeson Hearne
David Newton
Matt Orville
Bob Sattler
John Son
Erik Thompson
Marshal Vogt