



OC Office Market Remains Healthy But Rent Growth Cools

Orange County office demand in 2016 generally remained healthy despite weakened rent growth. The year-end vacancy rate settled at 10.3%.

The most activity was in the South County submarket, which saw 649,457 sq. ft. of space come off the market in 2016 along with the completion of four buildings totaling 575,000 sq. ft.

In the large Airport submarket, which accounts for 38% of the county's inventory and much of the county's Class A space, annual net absorption was negative for the first time since 2010.

Demand was strongest for Class B space – which accounts for roughly half of the county's total 111.3-million-sq.-ft inventory. That kept net absorption in the overall office market from nearly slipping into the red for the year. Class B space posted a gain of 799,003 sq. ft. for 2016 with positive absorption in all four quarters.

Growth in average asking direct lease rates also slowed in 2016, increasing 3.7% for the year compared to 7.3% in 2015. Gains in direct asking rates on Class A space averaged 6.6% in 2016 versus 7.5% in 2015. For Class B space, increases in asking lease rates averaged 2.8% in 2016 compared to 5.8% in 2015.

Among the county's cities with the largest inventories of office buildings – Irvine, Newport Beach, Santa Ana, Anaheim and Costa Mesa – there was 710,932 sq. ft. of positive absorption. The five cities combine for about 65% of the county's total space.

The 34.1-million-sq.-ft. Irvine office market, which includes 387 of the county's 1,309 buildings and about 31% of the county's total space, reported 158,193 sq. ft. of net absorption in 2016. Irvine ended 2016 with an 8.8% vacancy rate, which was up a full percentage point from 2015 because 754,736 sq. ft. of new space was added to the market in the last 12 months. Average asking rents climbed 4% year over year.

Newport Beach, which includes most of the county's premium buildings in its 9.4-million square foot inventory, posted a year-end vacancy rate of 8.4%, down from 10.27% at the end of 2015. Asking rents jumped an average of nearly 17% year over year.

In Santa Ana, with 14.2 million sq. ft. in 159 buildings, the year-end vacancy rate fell from 17.5% at the end of 2015 to 15.3% in 2016 on 147,968 sq. ft. of positive absorption.

Anaheim's vacancy rate fell from 13.5% in 2015 to 10.3% on 102,579 sq. ft. of positive absorption and average asking rents increased 3.9%.

Costa Mesa's vacancy rate ended the year at 12.7% on 139,068 sq. ft. of positive absorption but average rents declined 1.6%.

MARKET OVERVIEW

(Change from last quarter)

AVAILABILITY - 15.70%
Up from 15.20% last quarter



VACANCY - 10.30%
Same as last quarter



ABSORPTION - (146,728) SQ. FT.
Down from 271,650 SF last quarter

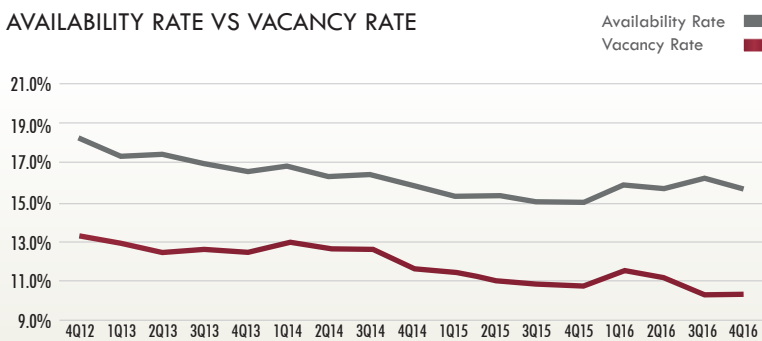


AVERAGE LEASE RATE - \$2.42 FSG
Up from \$2.41 PSF last quarter

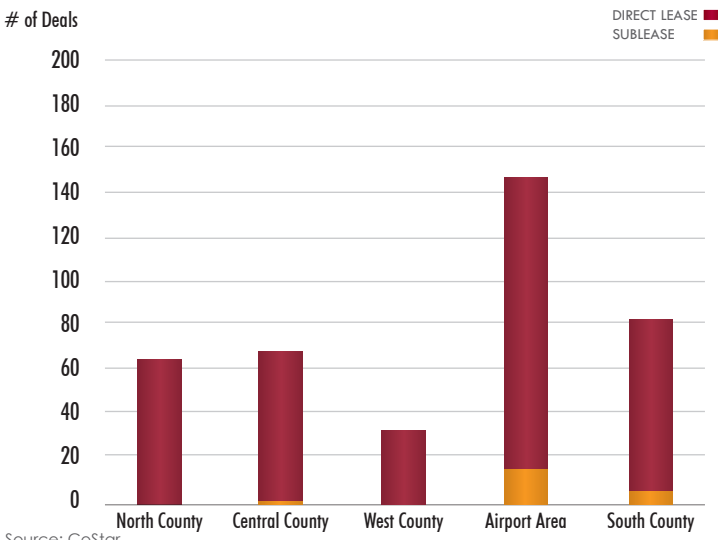


*All numbers are based on office space in buildings 30,000 sq. ft. and larger.

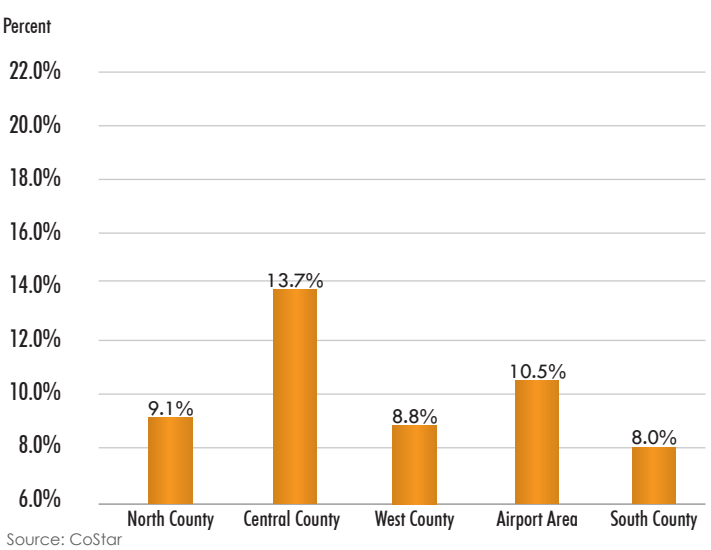
AVAILABILITY RATE VS VACANCY RATE



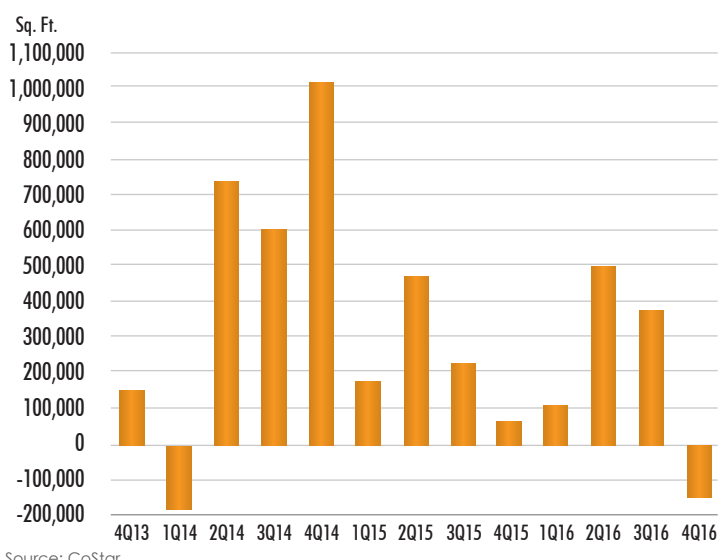
NUMBER OF LEASES EXECUTED FOR THE QUARTER BY SUBMARKET



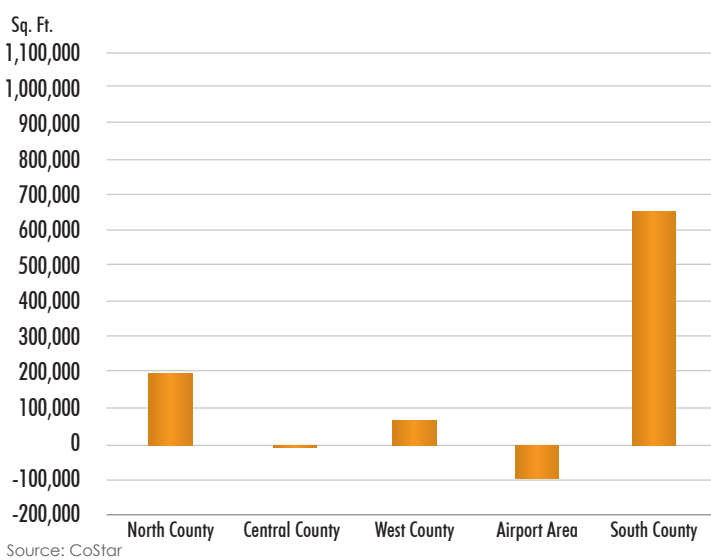
VACANCY RATE BY SUBMARKET - INCLUDING SUBLET SPACE



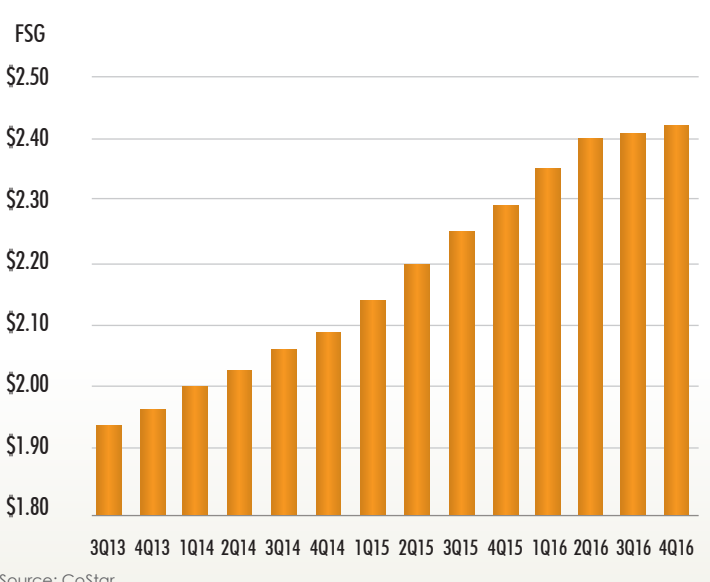
COUNTY WIDE NET ABSORPTION INCLUDING SUBLET SPACE



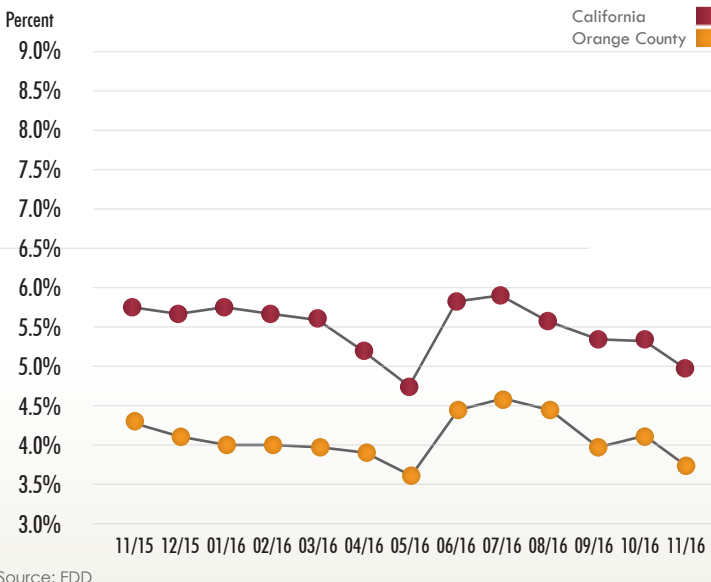
YTD NET ABSORPTION BY SUBMARKET, INCLUDING SUBLET SPACE



AVERAGE FSG LEASE RATES BY QUARTER



UNEMPLOYMENT RATE NOT SEASONALLY ADJUSTED

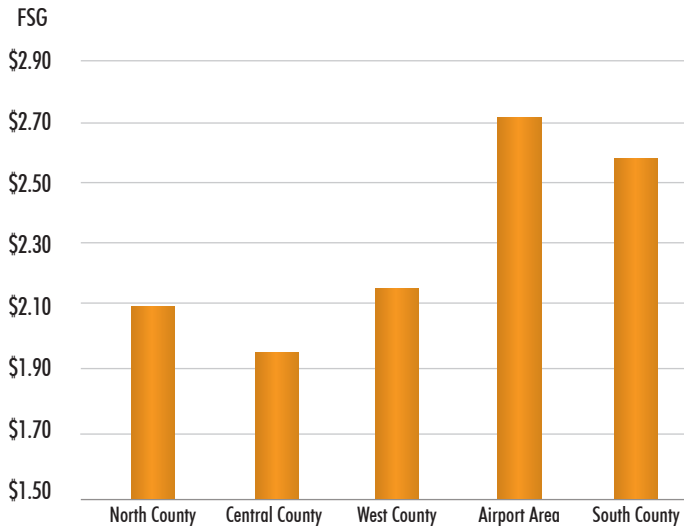


AVERAGE FSG LEASE RATE

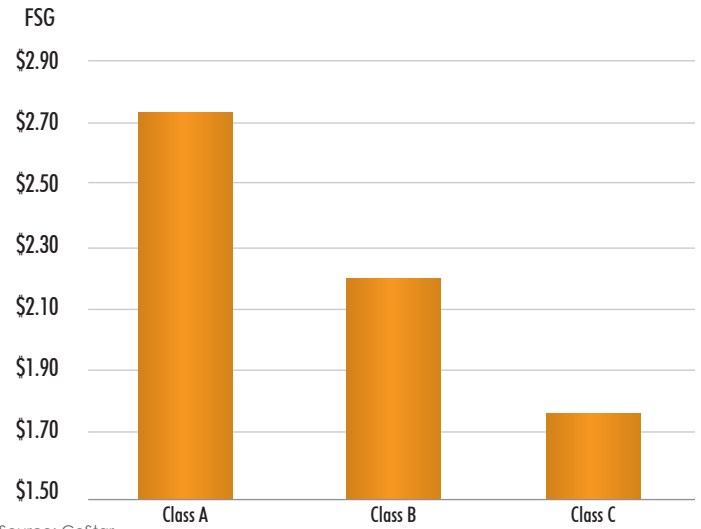
BY SUBMARKET

AVERAGE FSG LEASE RATE

BY CLASS

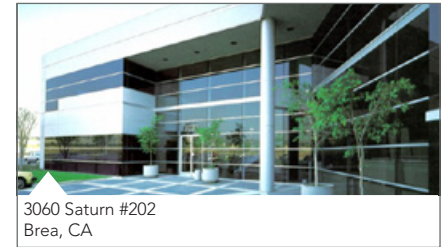
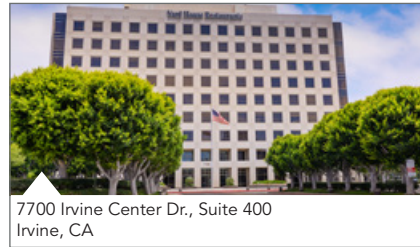
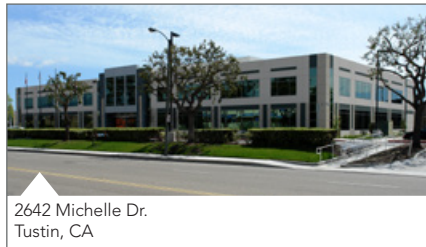


Source: CoStar



Source: CoStar

COMPLETED LEE & ASSOCIATES TRANSACTIONS



Lease Transactions 4Q 16

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
2642 Michelle Dr. Tustin, CA	20,574	Advantage Sales and Marketing, LLC	American Fund US Investments, LP	John Collins and Gary McArdell represented the Landlord.
7700 Irvine Center Dr., Suite 400 Irvine, CA	20,251	CML Media Corp. dba MoPro	PPC Irvine Center Investment, LLC c/o Great Far East	Dave Smith, Matt Fryer, Adam Wicker & Travis Watts represented the Landlord.
3060 Saturn #202 Brea, CA	9,823	Infrastructure Engineers	Brea Corporate Park	Bob Sattler & Jon Fabiano represented the Landlord.



Sale Transactions 4Q 16

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
2642 Michelle Dr., 14101 Myford Rd. & 14192 Franklin, Tustin, CA	213,406	HQ Capital	Harbor Associates	Gary McArdell and John Collins represented the Seller and the Buyer.
1475 S. State College Anaheim, CA	26,354	Avalon Pacific – Santa Ana, LP	The William Griffith Revocable	Erik Thompson & Scott Seal represented the Seller.
22952 Alcalde Dr. Laguna Hills, CA	12,815	LH Alcalde Properties, Inc.	22952 Alcalde LP	Dave Smith, Matt Fryer & Adam Wicker represented the Seller.

	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	3,015,950	527,222	16.4%	274,134	9.1%	263,449	8.7%	(5,258)	97,321	93,010	10,685	\$2.91	205,000
Anaheim	79	7,266,357	979,524	13.5%	750,955	10.3%	709,826	9.8%	20,695	102,579	98,943	41,129	\$2.11	- 0 -
Brea	39	3,981,455	567,522	14.3%	420,449	10.6%	349,937	8.8%	(15,043)	22,990	93,954	70,512	\$2.01	- 0 -
Buena Park	14	1,031,337	253,796	24.6%	159,285	15.4%	159,285	15.4%	(54,147)	(22,622)	- 0 -	- 0 -	\$2.16	- 0 -
Corona del Mar	2	90,054	8,177	9.1%	8,177	9.1%	8,177	9.1%	- 0 -	(4,918)	- 0 -	- 0 -	\$4.24	- 0 -
Costa Mesa	64	7,108,668	1,200,116	16.9%	899,852	12.7%	891,932	12.5%	(33,083)	139,068	109,102	7,920	\$2.36	- 0 -
Cypress	25	1,867,612	415,186	22.2%	349,983	18.7%	349,983	18.7%	6,042	(23,248)	54,326	- 0 -	\$2.07	- 0 -
Dana Point	3	135,296	- 0 -	0.0%	- 0 -	0.0%	- 0 -	0.0%	1,200	- 0 -	- 0 -	- 0 -	-	- 0 -
Foothill Ranch	10	798,721	152,439	19.1%	88,119	11.0%	82,215	10.3%	(1,339)	(15,011)	18,741	5,904	\$2.47	- 0 -
Fountain Valley	27	1,838,765	65,970	3.6%	61,585	3.3%	61,585	3.3%	(835)	8,856	- 0 -	- 0 -	\$1.84	- 0 -
Fullerton	30	2,432,708	336,148	13.8%	163,466	6.7%	163,466	6.7%	11,933	50,203	- 0 -	- 0 -	\$2.59	- 0 -
Garden Grove	17	1,483,388	67,387	4.5%	64,976	4.4%	64,976	4.4%	(163)	(13,435)	- 0 -	- 0 -	\$1.81	- 0 -
Huntington Beach	31	2,161,147	239,701	10.9%	156,237	7.2%	156,237	7.2%	(22,653)	89,761	15,103	- 0 -	\$2.38	44,500
Irvine	387	34,139,762	6,757,172	18.6%	2,994,005	8.8%	2,843,762	8.3%	(149,727)	158,193	1,215,950	150,243	\$2.58	2,096,054
La Habra	4	142,069	850	0.6%	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	\$1.25	- 0 -
La Palma	10	712,038	59,079	8.3%	61,981	8.7%	61,981	8.7%	51,652	78,072	- 0 -	- 0 -	\$2.05	- 0 -
Ladera Ranch	3	127,065	17,168	13.5%	12,642	9.9%	12,642	9.9%	9,596	3,410	6,456	- 0 -	\$2.11	- 0 -
Laguna Beach	5	192,434	22,414	11.6%	20,834	10.8%	20,834	10.8%	0	8,061	1,580	- 0 -	\$2.53	- 0 -
Laguna Hills	25	1,626,721	281,951	17.3%	244,202	15.0%	242,343	14.9%	20,206	35,098	9,767	1,859	\$2.67	- 0 -
Laguna Niguel	8	1,691,469	58,503	3.5%	49,244	2.9%	49,244	2.9%	(3,766)	5,324	2,671	- 0 -	\$3.07	- 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	257,261	13.6%	144,480	7.7%	139,710	7.4%	1,092	82,466	18,634	4,770	\$2.30	- 0 -
Los Alamitos	9	610,423	36,484	6.0%	36,484	6.0%	36,484	6.0%	(6,834)	(8,733)	- 0 -	- 0 -	\$2.84	- 0 -
Mission Viejo	32	1,813,478	245,355	13.5%	193,912	10.7%	188,164	10.4%	4,634	8,155	46,891	5,748	\$2.34	- 0 -
Newport Beach	100	9,404,619	1,165,735	12.3%	793,540	8.4%	705,357	7.5%	6,162	163,124	122,507	88,183	\$3.51	44,000
Orange	63	6,620,324	709,628	10.7%	551,649	8.3%	545,120	8.2%	(17,820)	(91,274)	54,456	6,529	\$2.22	- 0 -
Placentia	5	185,164	28,569	15.4%	26,370	14.2%	26,370	14.2%	(2,081)	637	- 0 -	- 0 -	\$1.69	- 0 -
Rancho Santa Margarita	5	225,472	15,387	6.8%	11,920	5.3%	11,920	5.3%	3,709	6,519	- 0 -	- 0 -	\$2.32	- 0 -
San Clemente	9	423,171	47,409	11.2%	32,235	7.6%	32,235	7.6%	(3,723)	(15,480)	- 0 -	- 0 -	\$2.39	- 0 -
San Juan Capistrano	17	876,712	140,888	16.1%	134,414	15.3%	134,414	15.3%	3,600	20,136	2,244	- 0 -	\$2.11	- 0 -
Santa Ana	159	14,194,109	2,131,032	15.0%	2,174,838	15.3%	2,157,089	15.2%	21,935	147,968	124,215	17,749	\$1.89	- 0 -
Seal Beach	6	445,365	53,791	12.1%	40,712	9.1%	40,712	9.1%	6,360	10,602	5,056	- 0 -	\$2.83	- 0 -
Stanton	2	85,917	10,747	12.5%	6,328	7.4%	6,328	7.4%	1,371	604	- 0 -	- 0 -	\$1.01	- 0 -
Tustin	33	1,972,497	485,968	24.6%	447,622	22.7%	438,422	22.2%	(14,605)	(94,209)	9,200	9,200	\$2.15	- 0 -
Westminster	10	431,291	91,018	21.1%	69,081	16.0%	69,081	16.0%	- 0 -	2,741	- 0 -	- 0 -	\$2.04	- 0 -
Yorba Linda	5	288,094	28,647	9.9%	28,647	9.9%	28,647	9.9%	14,162	5,332	- 0 -	- 0 -	\$1.97	- 0 -
Orange County Totals	1,309	111,305,681	17,458,244	15.7%	11,472,358	10.3%	11,051,927	9.9%	(146,728)	807,634	2,102,806	420,431	\$2.42	2,389,554
BY AREA														
North Orange County	170	14,116,361	1,930,772	13.7%	1,280,076	9.1%	1,187,485	8.4%	22,693	192,339	162,192	92,591	\$2.09	- 0 -
Central Orange County	256	22,261,389	3,268,421	14.7%	3,058,367	13.7%	3,010,615	13.5%	10,567	(5,552)	216,312	47,752	\$1.95	- 0 -
West Orange County	127	8,923,908	980,284	10.9%	785,386	8.8%	785,386	8.8%	(16,712)	67,148	74,485	- 0 -	\$2.15	44,500
Greater Airport Area	420	42,637,329	7,895,547	18.3%	4,474,742	10.5%	4,302,719	10.1%	(213,143)	(95,758)	1,148,425	172,023	\$2.72	581,258
South Orange County	336	23,366,694	3,383,220	13.5%	1,873,787	8.0%	1,765,722	7.6%	49,867	649,457	501,392	108,065	\$2.58	1,763,796
Orange County Totals	1,309	111,305,681	17,458,244	15.7%	11,472,358	10.3%	11,051,927	9.9%	(146,728)	807,634	2,102,806	420,431	\$2.42	2,389,554
BY BUILDING CLASS														
Class A	283	45,786,216	8,841,378	18.4%	5,721,247	12.5%	5,480,574	12.0%	(277,584)	59,843	1,195,298	240,673	\$2.74	2,345,054
Class B	926	60,477,374	8,118,677	13.4%	5,404,906	8.9%	5,225,148	8.6%	155,084	799,003	875,758	179,758	\$2.20	44,500
Class C	100	5,042,091	498,189	9.9%	346,205	6.9%	346,205	6.9%	(24,228)	(51,212)	31,750	- 0 -	\$1.76	- 0 -
Orange County Totals	1,309	111,305,681	17,458,244	15.7%	11,472,358	10.3%	11,051,927	9.9%	(146,728)	807,634	2,102,806	420,431	\$2.42	2,389,554

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.

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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:

Local business executives expressed the most confidence in 15 years in a post-election survey by Cal State Fullerton economists. Forty-three percent of the 37 companies surveyed have more than 100 employees. Ninety-nine percent of executives expected activity to remain unchanged or improve compared to 91% in the third quarter and 89% one year ago.



COMMERCIAL REAL ESTATE SERVICES

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