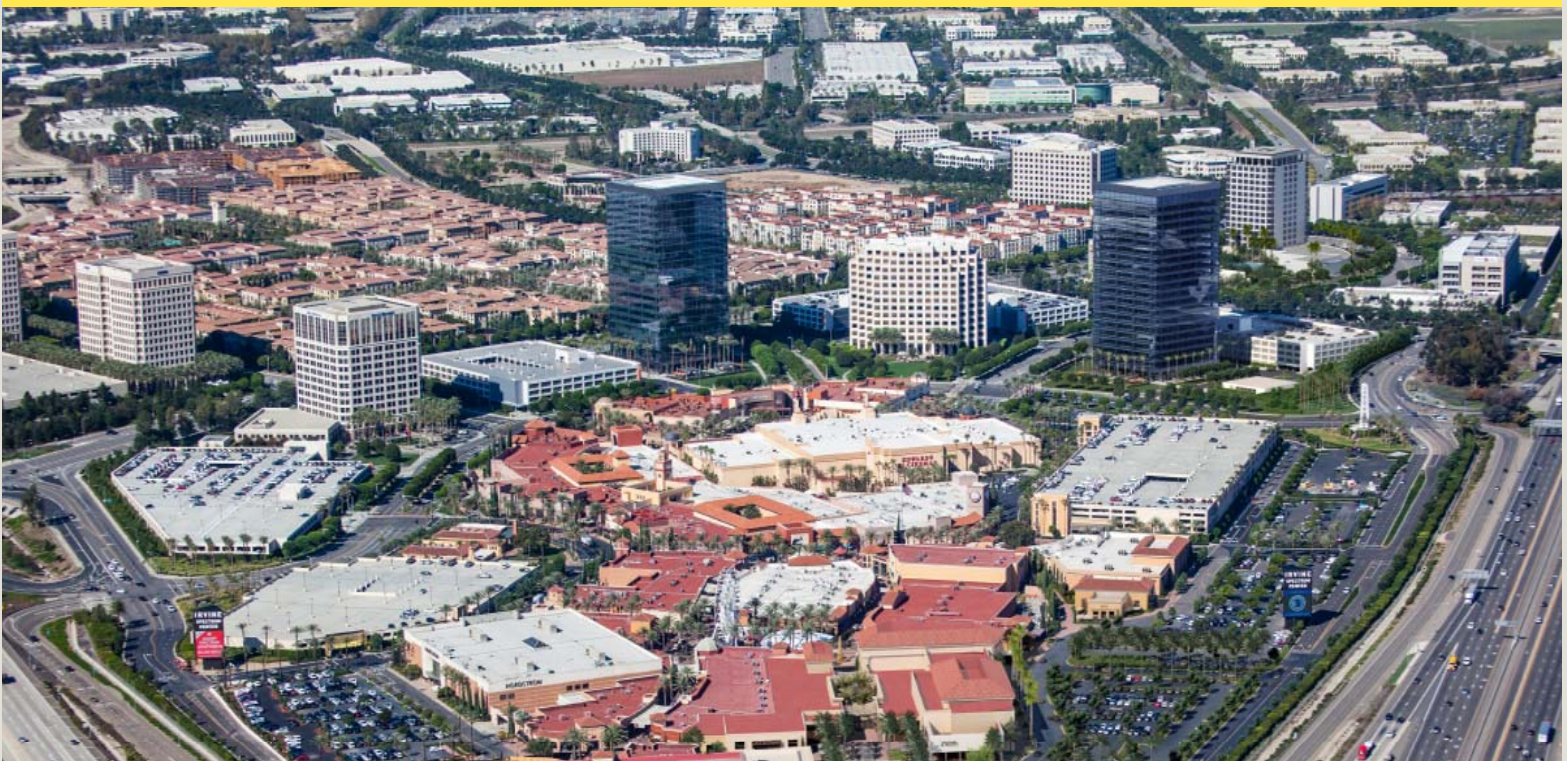


# Savills Studley Report Orange County Office Sector

Q3 2017



## SUMMARY

### Market Highlights

#### RISE IN LEASING

Overall quarterly leasing activity for the third quarter totaled 2.5 msf and surpassed the long-term historical average of 2.1 msf leased per quarter. Tenants have leased 8 msf in the four most recent quarters, nearly 10% below the historical pace.

#### AVAILABILITY DROPS

Orange County's overall availability rate decreased by 40 basis points to 17.0%. The Class A rate fell by 30 basis points to 19.2%, but has jumped by 110 basis points compared to the third quarter of 2016.

#### SLIGHT INCREASE IN ASKING RENT

The average asking rent for Orange County rose by 0.4% to \$30.57 in the third quarter, due primarily to a 0.9% jump in Class A rent to \$34.31.

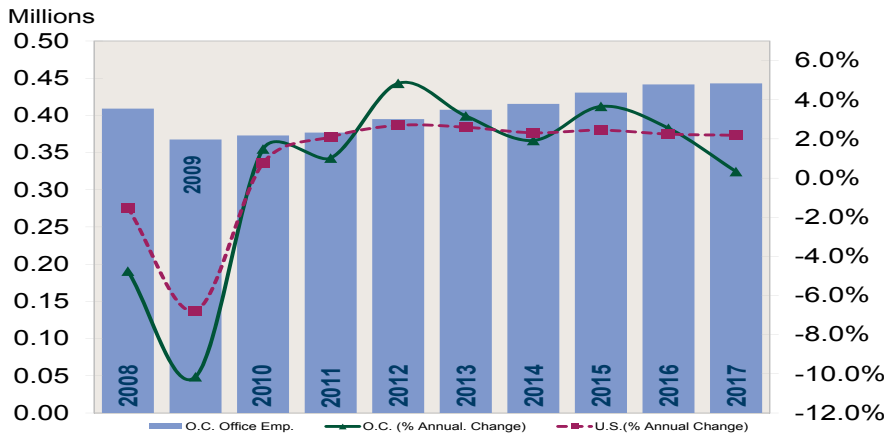
#### SALES DOWN FROM A YEAR AGO

Year-to-date office property sales (through July) totaled \$1.1 billion, a 8% decrease from the \$1.2 billion sold during the first seven months of 2016.

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*"On the surface, the Orange County office market shows no signs of slowing. Demand for high-quality, amenity-laden space remains steady. A recent spike in sublet space has provided a bit of relief to firms looking for value-play options, though."*

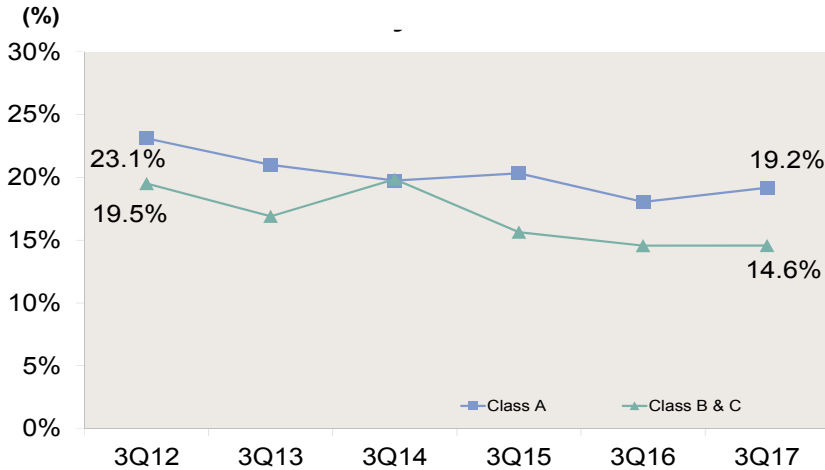
Taylor Wood,  
Corporate Managing Director  
 .....

## Office-Using Employment Trends

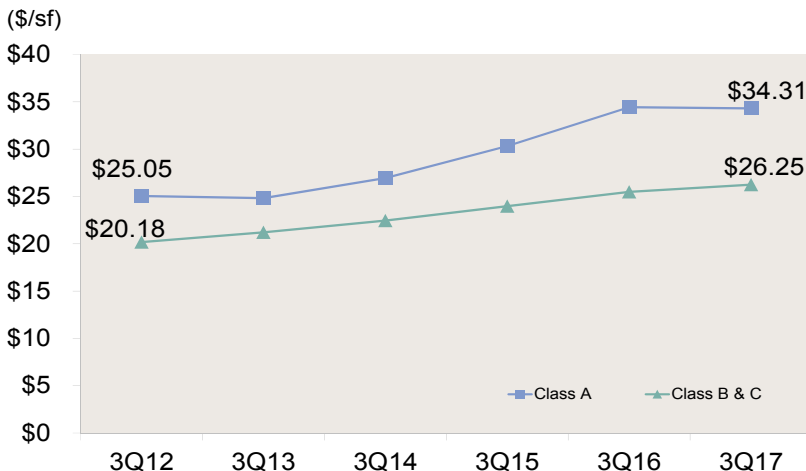


Source: Bureau of Labor Statistics

## Availability Rate Trends



## Asking Rent Trends



## Slow to Slow

On the surface, Orange County's office market is displaying little evidence of a slowdown. It took a long time for the recovery to get started locally but it has taken a strong hold on the market over the last few years. Leasing activity in the Greater Airport Area, South County, and Central County remains steady.

Competition for a limited quantity of big blocks remains brisk. Following trends in many major U.S. metro areas, the TAMI (Technology, Advertising, Media and Info) sector continues to provide Orange County with its most dynamic and aggressive hiring and leasing patterns. Orange County's economy is also benefitting from a rebound in its construction and real estate sectors, including recent leases by Home Franchise Concepts and Lennar Corp.

## Sublet Supply Nearly Doubled

There are some subtle shifts popping up here and there, though – chief among them a recent spike in sublet space due to the addition of space at Broadcom's former site at University Research Park. Sublet space has almost doubled from 420,137 sf available a year ago, to 793,499 sf as of mid-September.

Although sublet supply is on the increase, conditions are still very challenging for larger tenants and any firms requiring space in Orange County's highest-caliber buildings. The market has come a long way from 2012, when there was 16.6 msf of space available for lease. As of mid-September, total available space had fallen to 13.1 msf of available space.

Conditions remain tight, despite the recent increase in the availability of sublet space. This is particularly true for larger tenants requiring bigger blocks of space. Given these current conditions, many landlords are in the position to be much more stringent and selective as they lease space. Multiple firms are sometimes bidding for the same space giving landlords the ability to place even more emphasis on creditworthiness. Additionally, incentives are down and owners continue to push rents up across Orange County.

## Demand Strong from Tenants and Investors

The Orange County market has lagged in this cycle. The recovery did not really get rolling until 2013 and it will likely be one of

the last markets nationally to show signs of a slowdown. The market may be benefitting from a push by companies in many of the highest-cost metros to find more reasonably priced areas to base or expand operations. During this latest recovery Orange County has added just over 76,000 office-using jobs. Orange County is considered a value market compared to neighboring areas such as West Los Angeles. In addition to strong expansion among local firms, Orange County is getting a modest boost from out-of-market businesses either setting up operations locally for the first time, or those deepening their commitment.

The same is true to a more limited extent for investors searching for higher yields and more reasonable pricing. Given the limited number of premium Class A properties held by a handful of owners, it has been a challenge for buyers to expand their portfolio much in Orange County. Nevertheless, investors are also attracted to a market that appears to have some upside remaining in terms of rental rate growth.

**New Investors Still Limited**

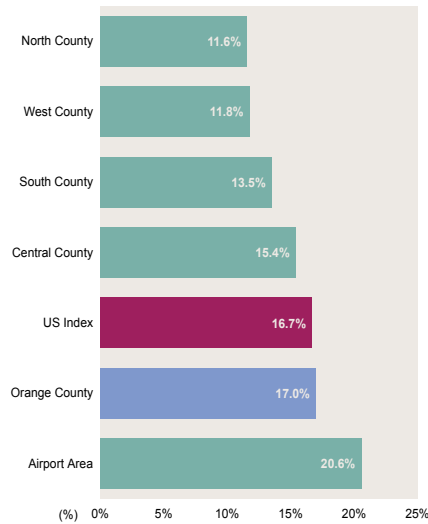
Demand will only go so far, though. The majority of new investors entering the market continue to be regional private firms. A handful of new players have emerged in the marketplace with a long-term appetite for Orange County real estate, but they so far still account for a very small fraction of the marketplace. Examples include Swift Real Estate Partners, Hilrod, and Monday Properties.

Property sales were inflated a bit during the summer with FivePoint Communities' \$443-million purchase of Broadcom's four-building, 73-acre campus being built at Great Park Neighborhoods. Broadcom will lease back the two largest buildings at the complex under a 20-year lease while Lennar Corp will lease 90,000 sf at one building and FivePoint itself will lease 44,400 sf. Even with the FivePoint sale, investment sales were down by nearly 10% year-on-year.

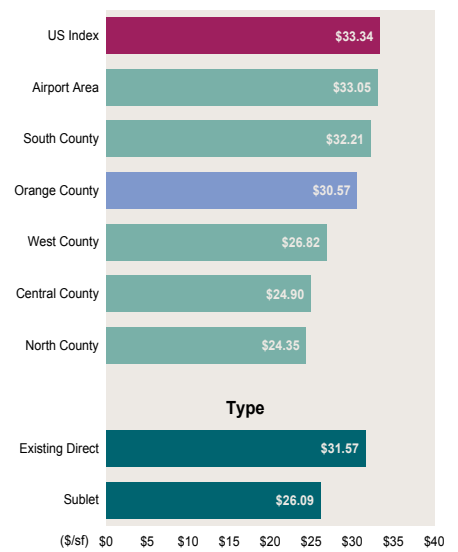
**Rent Far From a Bargain**

While companies from gateway markets may consider the region's real estate a bargain, the Orange County market is far from a value-play for local tenants. Companies can find small pockets with elevated availability in North County submarkets - including the north county island submarkets of La Palma and Brea and heading west to Cypress.

**Availability Rate Comparison**



**Overall Rental Rate Comparison**



**Major Transactions**

Tenant	Sq Feet	Address	Market Area
Broadcom*	660,900	15101 - 15191 Alton Parkway	South County
Lennar Corp	90,000	15131 Alton Pky	South County
Zillow	60,100	2600 Michelson Dr	Airport Area
Fivepoint LLC	44,400	15131 Alton Pky	South County
Home Franchise Concepts	38,800	19000 MacArthur Blvd	South County
Veritone	37,900	575 Anton Blvd	Airport Area
CMRE Financial Services	35,400	3075 E Imperial Hwy	North County
Callahan & Blaine	32,000	3 Hutton Centre Dr 32000	Airport Area
TRC Environmental Corporation	21,700	17911 Von Karman Ave	Airport Area
Freeman	20,200	2121-2190 S Towne Centre Pl	Central County
<b>Sum of Top 10 Transactions</b>	<b>1,041,400</b>	<b>Sum of 3rd Qtr Leasing Activity</b>	<b>2.5 MSF</b>

\*Sale Leaseback

A lot of firms clearly prefer to be at the heart of the action, even if it costs them top dollar. Overall asking rent for Orange County has jumped 7.6% year-on-year, to \$2.55 but ranges from \$4.25 to well over \$5/sf at 400 Spectrum. Face rent at 400 Spectrum is at a premium of nearly 10% compared to 200 Spectrum Center, which delivered last year. The Irvine Company has been rewarded for being the first to market. In less than a year after its delivery, 200 Spectrum Center Tower is 99% leased and 400 Spectrum Center (a mirror image of 200 Spectrum) just delivered to the marketplace with a 44% pre-leased rate.

In addition to professional/business services companies (law firms, banks and equity firms) Irvine's newest tower – 400 Spectrum – has secured major leases with tech firms such as Cylance and SendGrid. Already a draw because of its amenity-rich setting, the list of stores and restaurants will expand even more once Irvine Company

completes its repositioning of retail at Spectrum Center. Upon full build-out the complex will have 3,800 apartments within walking distance. Office tenants at 400 Spectrum Center will have access to a café, gym and outdoor Wi-Fi enabled area called the Commons.



Map	Submarket	Total Inventory	Leasing Activity	Available SF			Availability Rate			Asking Rents Per SF		
		SF (1000's)	Last 12 Months	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. <sup>(1)</sup>	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
1	<b>North County</b>	7,318	489	847	-5.7%	927	11.6%	-1.0%	12.7%	\$24.35	0.6%	\$25.22
	North County - Class A	2,275	198	329	-2.6%	379	14.5%	-2.6%	16.9%	\$26.23	-0.6%	\$28.34
2	<b>West County</b>	3,814	223	449	-2.4%	592	11.8%	-0.3%	15.3%	\$26.82	2.9%	\$24.84
	West County - Class A	1,414	75	230	20.6%	261	16.2%	3.3%	18.4%	\$31.42	2.2%	\$29.23
3	<b>Central County</b>	13,266	830	2,044	-3.9%	2,108	15.4%	-0.6%	15.9%	\$24.90	6.0%	\$24.27
	Central County - Class A	6,862	282	951	4.5%	913	13.9%	0.4%	13.3%	\$27.42	6.8%	\$27.46
4	<b>Airport Area</b>	39,155	3,878	8,054	-0.8%	7,075	20.6%	3.2%	18.1%	\$33.05	-0.9%	\$33.00
	Airport Area - Class A	24,483	2,424	5,442	-3.4%	4,787	22.2%	1.6%	19.6%	\$36.17	0.4%	\$36.27
5	<b>South County</b>	16,968	2,522	2,294	-5.8%	2,442	13.5%	-1.4%	14.6%	\$32.21	0.1%	\$32.67
	South County - Class A	7,437	1,631	1,193	0.2%	1,267	16.0%	-2.3%	17.5%	\$36.31	1.3%	\$38.05
1-5	<b>Orange County Total</b>	<b>80,520</b>	<b>7,943</b>	<b>13,688</b>	<b>-2.5%</b>	<b>13,144</b>	<b>17.0%</b>	<b>-0.4%</b>	<b>16.4%</b>	<b>\$30.57</b>	<b>0.4%</b>	<b>\$30.23</b>
	<b>Orange County Total - Class A</b>	<b>42,470</b>	<b>4,610</b>	<b>8,145</b>	<b>-1.4%</b>	<b>7,607</b>	<b>19.2%</b>	<b>-0.3%</b>	<b>18.0%</b>	<b>\$34.31</b>	<b>0.9%</b>	<b>\$34.44</b>

## Please contact us for further information

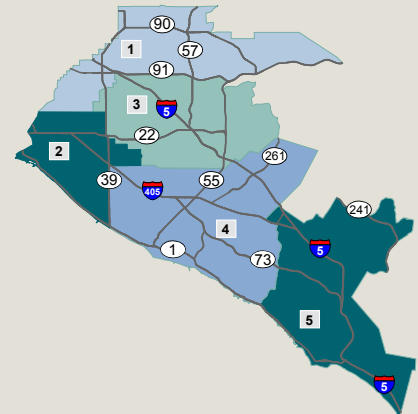
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(1) Percentage point change for availability rates.  
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.  
Statistics are calculated using both direct and sublease information.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.

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