Market Review & Outlook

Review: Moderate Increase in Effective Rent

Traditional sectors such as financial services and real estate expanded, and healthcare and technology continued to grow locally during 2015. Tenants have leased 10.1 msf in the last two years, with 20 deals exceeding 100,000 sf in this period. Orange County has a limited subset of premier Class A properties and landlords in these buildings gained confidence as the number of big blocks of quality space dwindled. In turn, rent for high-caliber Class A space spiked.

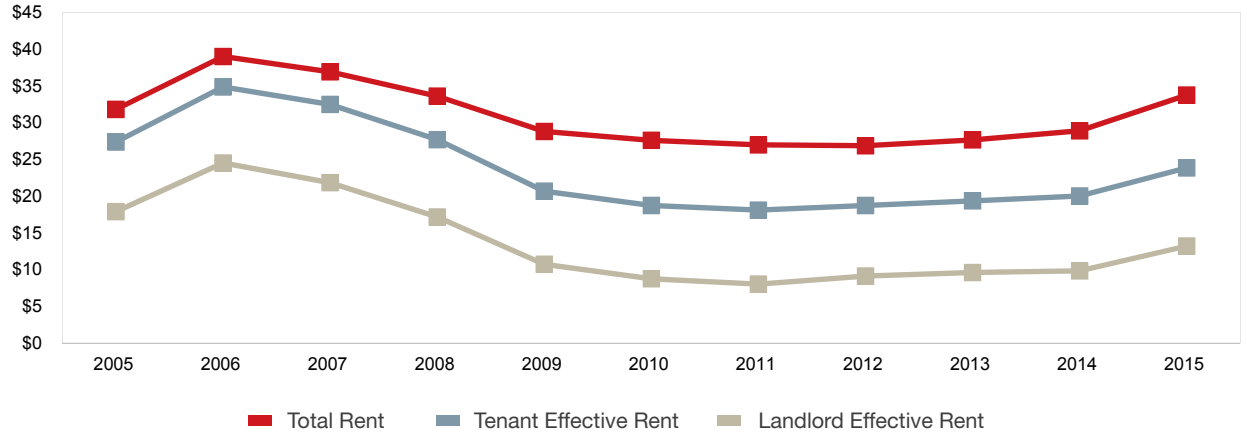
	2015	% Change
Net Rent	$22.32	25.0
Operating Expenses	7.25	2.3
Real Estate Taxes	1.98	4.2
Tenant Electricity	2.20	7.3
Total Rent	33.75	16.8
Amortized Concessions	-9.91	11.7
Tenant Effective Rent	**23.84**	**19.1**
Landlord Effective Rent	**13.19**	**34.4**

Outlook: Another Year of Rising Rents

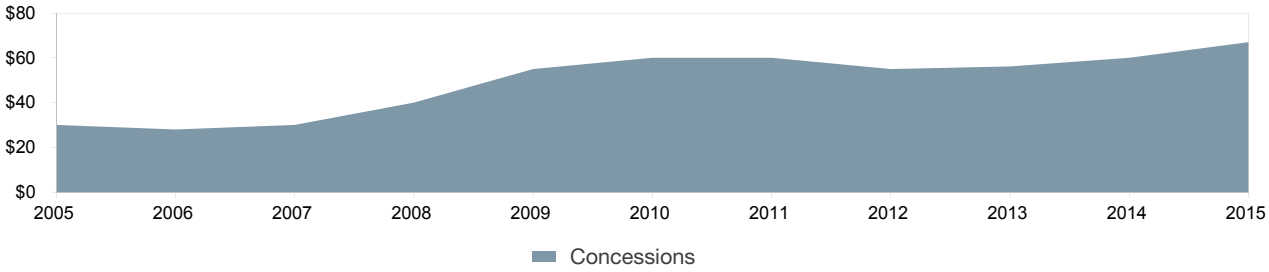
Tenants can anticipate further rental rate increases during 2016 as new construction is just starting to heat up and the regional economy appears poised for steady growth in the next several quarters.

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Rent Trends



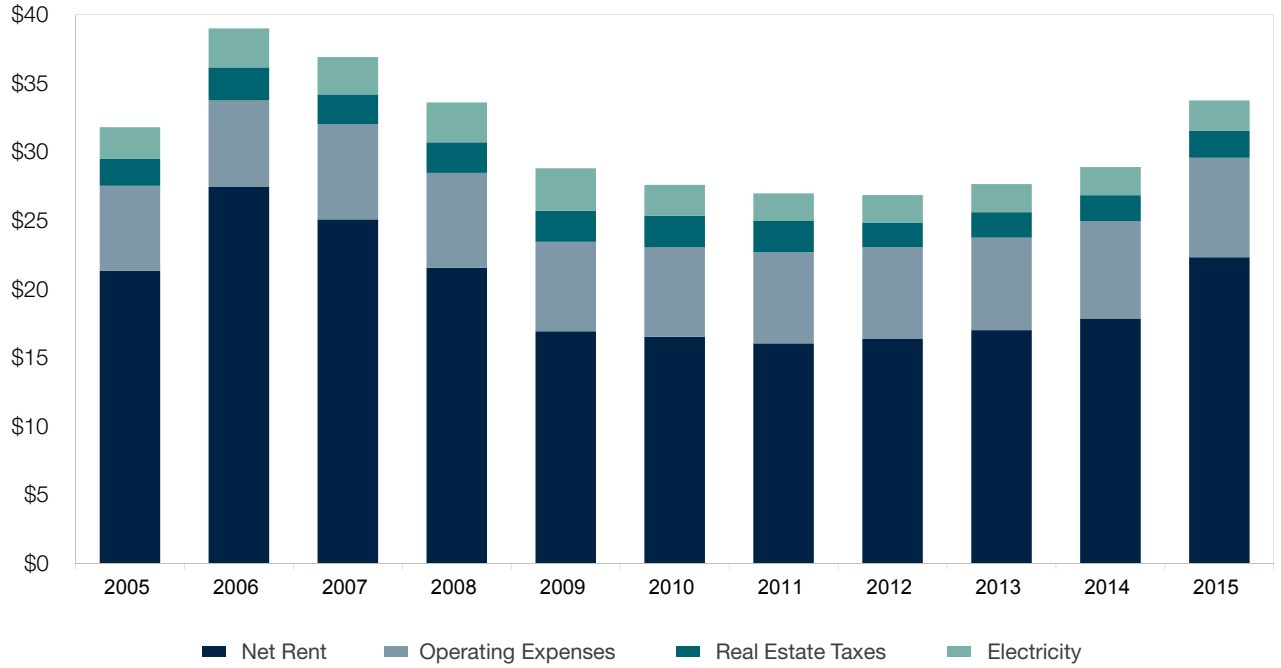
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average Annual Change 2014-2015	2010-2015	2005-2015
Total Rent	$31.80	$39.00	$36.91	$33.60	$28.80	$27.59	$26.97	$26.85	$27.65	$28.89	$33.75	16.8%	4.1%	0.6%
Tenant Effective Rent	$27.36	$34.86	$32.47	$27.68	$20.66	$18.71	$18.09	$18.71	$19.35	$20.01	$23.84	19.1%	5.0%	-1.4%
Landlord Effective Rent	$17.88	$24.51	$21.82	$17.15	$10.72	$8.74	$8.01	$9.10	$9.59	$9.82	$13.19	34.4%	8.6%	-3.0%



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average Annual Change 2014-2015	2010-2015	2005-2015
Concessions	$30.00	$28.00	$30.00	$40.00	$55.00	$60.00	$60.00	$55.00	$56.13	$60.00	$67.00	11.7%	2.2%	8.4%
Concessions/Rent Ratio*	14.0%	10.6%	12.0%	17.6%	28.3%	32.2%	32.9%	30.3%	30.0%	30.7%	29.4%	-1.3		

* Equals amortized concessions as a percentage of total rent.

Total rent grew for the third consecutive year and registered its largest increase since 2006, rising by 16.8% to $33.75. Net rent jumped by 25.0% from $17.85 to $22.32. Operating expenses (+2.3%) and real estate taxes (+4.2%) rose. Electricity rate hikes continued to impact the region and tenant electric jumped by 7.3% to $2.20. The nominal value of a typical concession package rose to $67.00, but declined as a percentage of total rent. Tenant effective rent spiked by 19.1% to $23.84. Landlord effective jumped by 34.4% to $13.19, but remained well below the 2006 peak of $24.51.



												Average Annual Change		
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2014-2015	2010-2015	2005-2015
Net Rent	$21.34	$27.44	$25.08	$21.55	$16.92	$16.52	$16.04	$16.36	$17.00	$17.85	$22.32	25.0%	6.2%	0.5%
Operating Expenses	$6.19	$6.31	$6.92	$6.92	$6.53	$6.52	$6.65	$6.69	$6.75	$7.09	$7.25	2.3%	2.1%	1.6%
Real Estate Taxes	$1.96	$2.41	$2.19	$2.23	$2.26	$2.31	$2.31	$1.80	$1.85	$1.90	$1.98	4.2%	-3.0%	0.1%
Electricity	$2.31	$2.84	$2.72	$2.90	$3.09	$2.24	$1.97	$2.00	$2.05	$2.05	$2.20	7.3%	-0.4%	-0.5%
Total Rent	**$31.80**	**$39.00**	**$36.91**	**$33.60**	**$28.80**	**$27.59**	**$26.97**	**$26.85**	**$27.65**	**$28.89**	**$33.75**	**16.8%**	**4.1%**	**0.6%**

Lease Terms/Concessions

Review: Concessions Fall Relative to Rents

Landlords pulled back on concessions, particularly in the highest-caliber properties, as demand for quality product continued to outstrip limited availability. Free rent periods declined slightly. A few of the first tenants to sign leases at new buildings underway secured improvement allowances that were well above market norms.

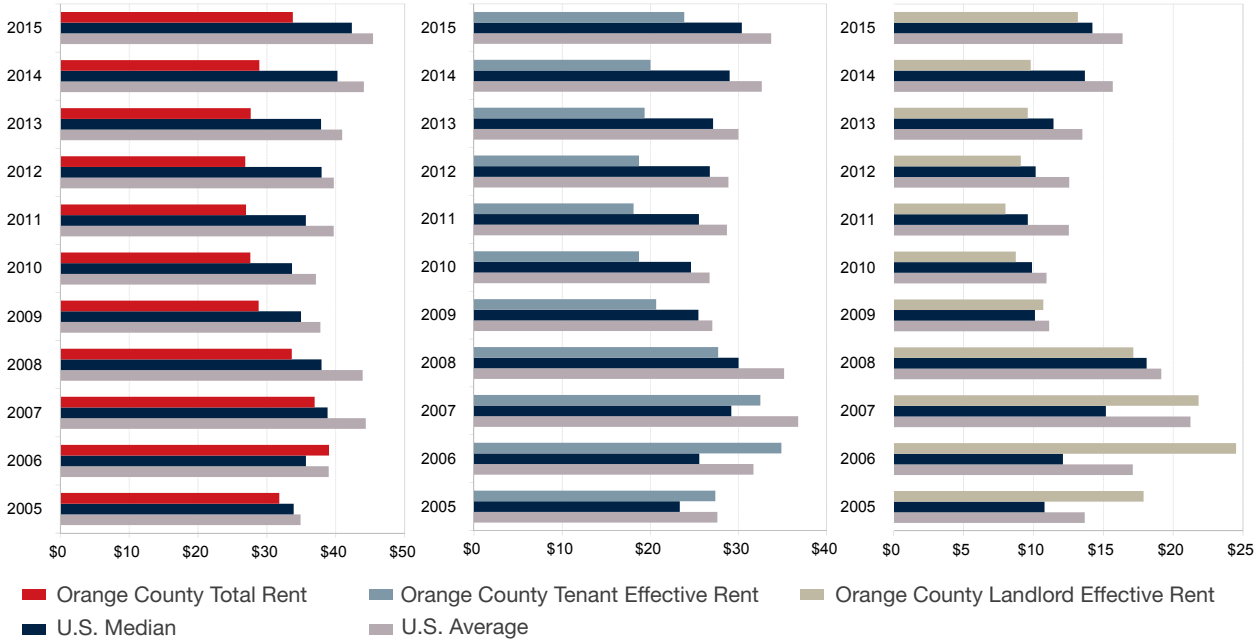
Leases Under 50,000 sf	
Average Term:	5 years
Free Rent:	5 months
Tenant Improvements:	$35.00/sf
Parking:	4 spaces/1,000 sf
Moving Allowance:	$1.00/sf

Leases Over 50,000 sf	
Average Term:	10 years
Free Rent:	8 months
Tenant Improvements:	$55.00/sf
Parking:	4 spaces/1,000 sf
Moving Allowance:	$2.00/sf

Outlook: Tougher Stance to Carry into 2016

Although the development and conversion of creative office space has intensified across the region, speculative construction remains limited. Landlords will be particularly inflexible in terms of base rents, and may pull some options such as cancellation rights off the table.

Local & U.S. Historical Rent Trends



Total Rent^

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Orange County	$31.80	$39.00	$36.91	$33.60	$28.80	$27.59	$26.97	$26.85	$27.65	$28.89	$33.75
U.S Median	$33.88	$35.66	$38.79	$37.92	$34.95	$33.63	$35.65	$37.93	$37.85	$40.24	$42.32
U.S Average	$34.87	$38.96	$44.33	$43.88	$37.75	$37.11	$39.68	$39.70	$40.92	$44.07	$45.38

Tenant Effective Rent

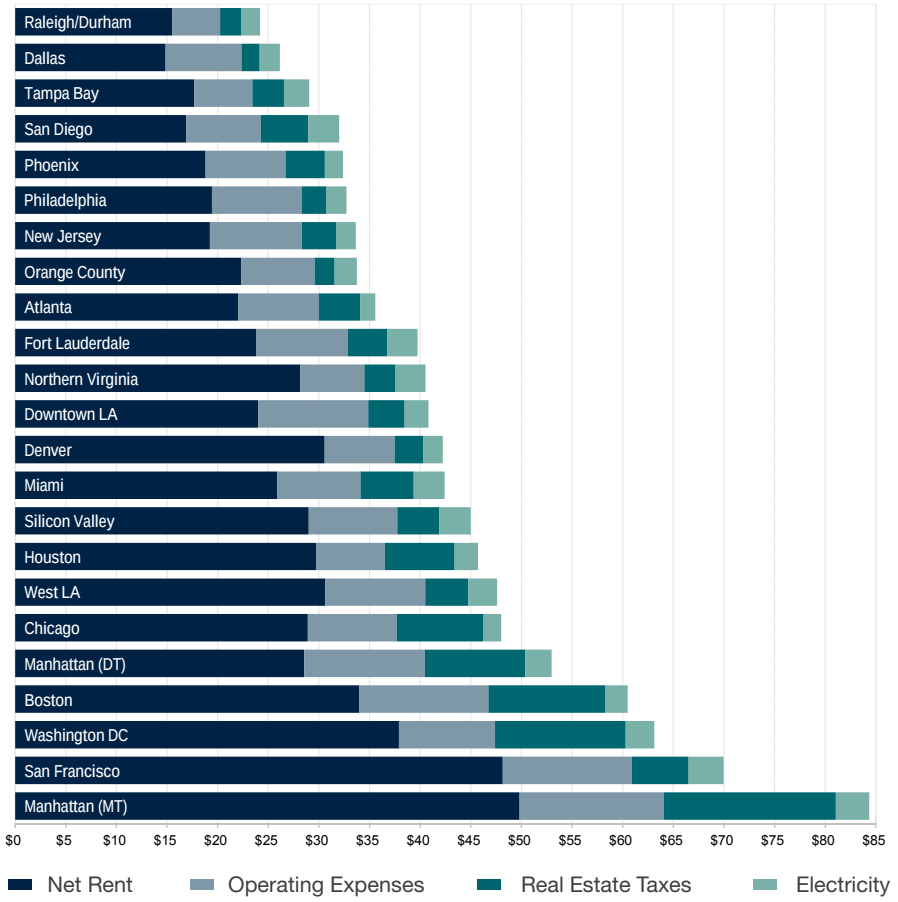
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Orange County	$27.36	$34.86	$32.47	$27.68	$20.66	$18.71	$18.09	$18.71	$19.35	$20.01	$23.84
U.S Median	$23.34	$25.55	$29.18	$30.01	$25.45	$24.61	$25.51	$26.75	$27.11	$28.99	$30.36
U.S Average	$27.60	$31.70	$36.76	$35.16	$27.02	$26.72	$28.68	$28.85	$29.98	$32.63	$33.70

Landlord Effective Rent

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Orange County	$17.88	$24.51	$21.82	$17.15	$10.72	$8.74	$8.01	$9.10	$9.59	$9.82	$13.19
U.S Median	$10.80	$12.11	$15.19	$18.10	$10.12	$9.90	$9.60	$10.16	$11.44	$13.69	$14.23
U.S Average	$13.68	$17.11	$21.24	$19.15	$11.13	$10.94	$12.54	$12.57	$13.51	$15.68	$16.39

^ All rents are unweighted. See National SERI for weighted averages.

Rent Components



Since 1995, the Savills Effective Rent Index (SERI) has been providing the real estate industry's only comprehensive, in-depth study of effective rental rate trends for prime Class A office properties in the nation's major Central Business Districts (CBDs) and selected suburban markets. Using actual completed transaction data as its source, the SERI report offers "real world" numbers that reflect negotiated terms, including lease concessions and operating expense information. All numbers in this report are based on larger long-term direct leases signed during 2015 in higher-caliber Class A properties located in Orange County.

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Glossary

Concessions: Includes the tenant improvement allowance plus the value of the rental rate abatement. Amortized concessions are amortized over the average market lease term, using beginning-of-period payments.

Landlord Effective Rent: An estimate of rent received from a tenant less related expenses.

Net Rent: The gross rental rate exclusive of the tenant's proportionate share of real estate taxes, operating expenses and tenant electricity.

Operating Expenses: Includes (1) heating, ventilation and air conditioning (HVAC); (2) maintenance; (3) common area utilities and electricity; (4) cleaning; and (5) all other non-capital costs associated with the operation of a building.

Real Estate Taxes: Local real estate taxes exclusive of special assessments and other one-time charges.

Tenant Effective Rent: An estimate of the actual cost of occupancy for the tenant. The calculation is the total rent minus amortized lease concessions.

Tenant Electricity: Payments made by the tenant, whether to the landlord or public utility, or by the landlord as a general building expense, for the electrical power utilized within a tenant's premises, exclusive of building HVAC.

Total Rent: The sum of the four rental rate components: net rent, operating expenses, real estate taxes and electricity.

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