

MICHELSON

3161 Michelson Drive, Irvine, California



Property Description

Michelson is a 19-storey, 533,581 sq ft, Trophy high-rise office building developed in 2007. The Property is strategically located in the heart of Park Place Campus, a 105 acre mixed-use office campus in the City of Irvine, within the Orange County suburban office market, between Los Angeles and San Diego. Michelson boasts a 2,744 parking stall garage, with an attractive parking ratio of 5.1 parking stalls per 1,000 sq ft, as well as, a variety of onsite and nearby retail and restaurant amenities. The Property is LEED Gold certified and institutionally managed. The Property Manager has recently entered into an agreement with Tesla Motors, Inc., which will install a stationary energy storage system (batteries) at Michelson. The energy storage system is intended to reduce energy costs by charging the batteries at night, when electricity costs are low, and using the batteries as a supplemental power source during the daytime, when electricity costs are higher.

Michelson is 95.7% leased to a diverse group tenants, including legal, financial services, automotive and fitness firms, the majority of which have leases expiring beyond 2019. Michelson has outperformed the broader Orange County Office market in recent years with occupancy figures well above market.

The Property was awarded the Energy Star Label by the U.S. Environmental Protection Agency for each of the years from 2010 to 2014.

Surrounding Infrastructure

Michelson is located at the intersection of Jamboree Road, Michelson Drive, and the 405 Freeway within the Greater Airport Area submarket of Orange County. The area is the heart of Orange County's transportation infrastructure with ease of access to major thoroughfares including freeways I-405 and SH-55 along with the SR-73 and SR-241 toll roads. Three major freeways serve the area including Santa Ana Freeway (I-5), San Diego Freeway (I-405), and the Costa Mesa Freeway (SH-55). The confluence of two of these freeways, I-5 and I-405, is the busiest freeway interchange in the United States. Known as the El Toro Y, this interchange has undergone an extensive widening to ease traffic congestion into the Airport District employment centre.

Access to air transport is an important aspect of the area's development. The Thomas F. Riley Terminal at John Wayne Airport is approximately 4 km from Michelson.

Michelson is surrounded by a host of amenities including hotel developments, high-end condominiums, luxury apartments, open green spaces, numerous restaurants ranging from high-end to casual and a wide range of retail and personal service boutique shops making it one of the most desired office buildings in all of Orange County.

City Description

Located within Orange County, California, Irvine is a planned suburban city with an estimated 2015 population of 238,073. Directly north of Newport Beach, Irvine sits along the Santa Ana Mountains approximately 35 miles south of Los Angeles. Irvine consistently ranks in the top 10 of America’s best cities, and this is attributable to its high education rates and low levels of crime.

Irvine’s economy is multi-faceted, with a burgeoning technology sector with strong representation from computer software, semiconductors and bio-tech. Video game developer Blizzard Entertainment, med-tech maker Edwards Life Sciences, and semi-conductor manufacturer Broadcom Corporation are all headquartered in Irvine and act as the city’s three largest private employers. International firms Kia Motors, Toshiba Corporation, and Asics all have their North American headquarters in Irvine.

Irvine is also a popular filming destination with dozens of major movie productions taking place in the city. Irvine’s largest university is the University of California, Irvine (UC Irvine), which sits on 1,526 acres in the south of the city.

City Infrastructure

The City of Irvine is served by the Southern California freeway system. The San Diego (I-405) Freeway extends in a northwest-southeast direction through the central portion of the city. The Costa Mesa (SH-55) Freeway runs in a northeast-southeast direction along the western edge of the city. The Santa Ana (I-5) Freeway, situated approximately five miles north of the subject, runs in a northwest-southeast direction. Additionally, the SH-73, San Joaquin Hills Transportation Corridor, extends along the southerly portions of the city. Irvine offers specific transportation advantages for servicing the industrial and commercial markets with direct freeway links with Downtown Los Angeles, Long Beach, San Diego and Orange County.

Irvine is serviced by three major railroads: Santa Fe, Southern Pacific, and Union Pacific. The closest of these lines to the subject are the Southern Pacific and the Santa Fe Railroads. The railroads provide daily scheduled service to all transcontinental points with 24-hour switching service, reciprocal switching agreements and passenger service. The area is also served by AMTRAK and Metrolink. There are 14 local and long distance trucking lines serving the region. Greyhound Lines provides transcontinental service and Orange County Transportation provides hourly service throughout the Irvine-Santa Ana-Orange metropolitan area. Airport facilities are available at the John Wayne International Airport.

The table below sets out a summary of selected information on Michelson.

Address	3161 Michelson Drive, Irvine, CA
Land Tenure	Freehold
Completion Date	2007
Occupancy as at 31 December 2015	95.7%
Parking Stalls	2,744
Number of Floors	19
NLA (sq ft)	533,581
Land Area (sq ft)	201,160

Gross Revenue for FY2015 (US\$ million)	26.7
Net Property Income for FY2015 (US\$ million)	18.4
Annualised Average Rent per sq ft (US\$) based on the month of December 2015	47.5
Valuation by RERC as at 15 December 2015 (US\$ million)	310.0
Valuation by Colliers as at 15 December 2015 (US\$ million)	324.0
Number of Tenants as at 31 December 2015	16
WALE by NLA as at 31 December 2015 (years)	4.6
WALE by Cash Rental Income for the month of December 2015 (years)	4.4

Top 10 Tenants

The top 10 tenants of Michelson in aggregate contributed 97.8% of Michelson's Cash Rental Income for the month of December 2015.

The table below sets out selected information on the top 10 tenants of Michelson by percentage of Cash Rental Income for the month of December 2015.

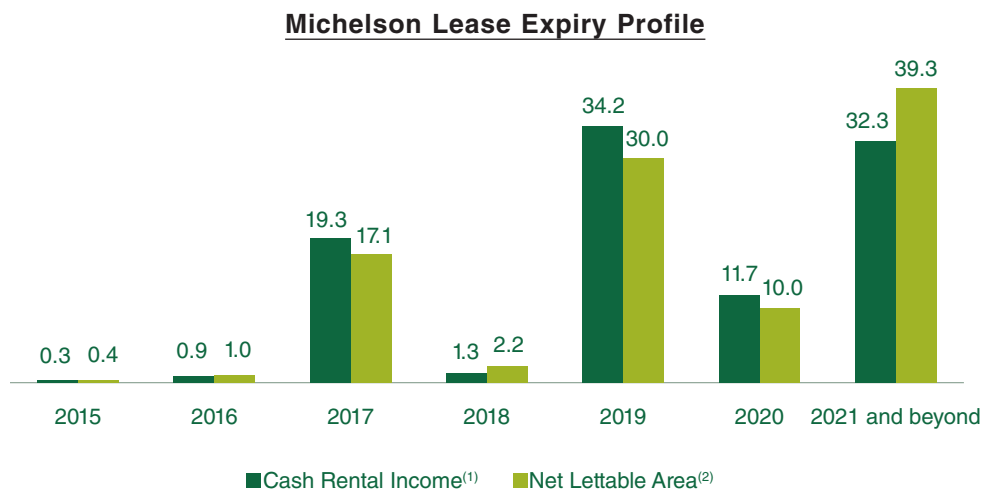
Tenant	Trade Sector	Lease Expiry	% of Cash Rental Income
Hyundai Capital America	Financial Institutions	31 October 2019	24.9%
Gibson Dunn ⁽¹⁾	Law Firms	31 August 2017	18.3%
LA Fitness	Personal Services	31 May 2022	13.0%
Bryan Cave	Law Firms	31 August 2020	11.4%
Jones Day	Law Firms	31 December 2019	9.8%
Greenberg Traurig	Law Firms	30 September 2022	9.5%
Jacobs	Engineers/Architects	28 February 2023	6.8%
Costar Group	Real Estate	31 July 2024	1.8%
System Source	Retailers/Wholesalers	31 March 2018	1.3%
Eastdil Secured ⁽²⁾	Real Estate	30 June 2016	1.0%
Top 10 Tenants			97.8%
Other Tenants			2.2%
Total			100.0%

Notes:

- (1) The Property Manager has recently executed a lease renewal with Gibson Dunn, which extends their current lease term to 2028.
- (2) The Property Manager is in the process of negotiating a lease renewal with Eastdil Secured. There can be no assurance that the Property Manager will be successful.

Lease Expiry Profile

The graph below illustrates the committed lease expiry profile of Michelson by Cash Rental Income for the month of December 2015 and Net Lettable Area as at 31 December 2015.



Notes:

(1) Cash Rental Income for the month of December 2015.

(2) Net Lettable Area as at 31 December 2015.

The WALE by Net Lettable Area as at 31 December 2015 is 4.6 years¹. The table below sets out the number of leases expiring at Michelson for FY2015, FY2016, FY2017, FY2018, FY2019, FY2020 and FY2021 and beyond (based on the leases as at 31 December 2015).

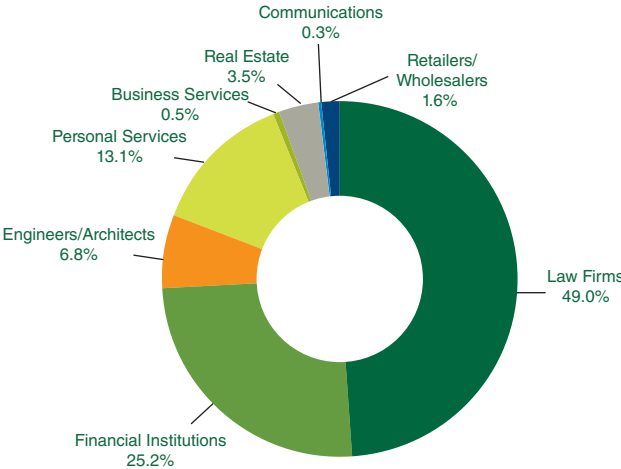
	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021 and beyond
No. of leases expiring as at 31 December 2015	1	1	1	1	3	3	6

¹ The WALE by Cash Rental Income for the month of December 2015 is 4.4 years.

Trade Sector Analysis

The chart below provides a breakdown by Cash Rental Income of Michelson by trade sector for the month of December 2015.

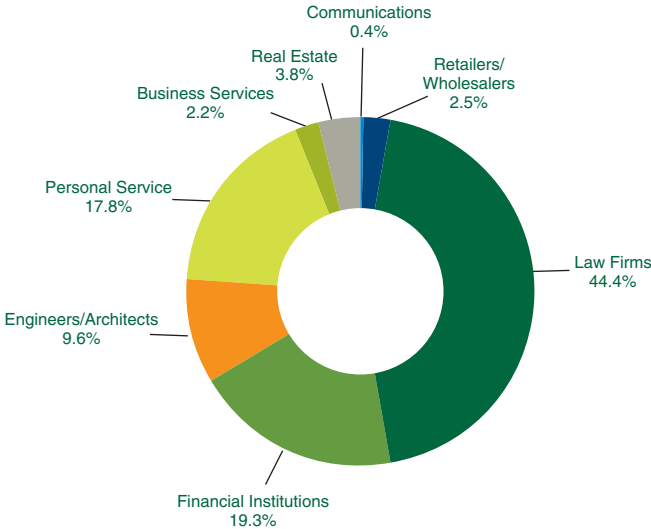
Michelson Cash Rental Income by Trade Sector



Note: "Personal Services" refers to services for personal needs like laundry, dry cleaning, barber/hairdresser, etc.

The chart below provides a breakdown by Net Lettable Area of Michelson by trade sector as at 31 December 2015.

Michelson Net Lettable Area by Trade Sector



Note: "Personal Services" refers to services for personal needs like laundry, dry cleaning, barber/hairdresser, etc.

Competition

The following properties listed are all Class A properties in the Orange County Airport Area market. All of the properties are between 12 and 21 stories. In terms of proximity, 3 Park Plaza is the closest to Michelson at two blocks away. 520 Newport Center Drive in Newport Beach is furthest away from Michelson at 13.5 km. All of the comparable properties are located in the Airport Area submarket. 3 Park Plaza and 18101 Von Karman Ave were both built in 1990, while the remaining properties were built during or after 2007. 2050 Main St asking rental rates starts at US\$34.2 per sq ft and 520 Newport Center Dr. is quoted at US\$96.0 per sq ft asking for the penthouse top floor. All properties are over 90% occupied except 520 Newport Centre Dr. as it was delivered to the market in 2014.

The table below sets out the details of the existing competitors of Michelson in office space.

Development	Completion Year	Size (sq ft)	Occupancy (%)	Rent (US\$/sq ft)
2211 Michelson Dr., Irvine	2007	271,556	94.9	36.0 – 39.6
520 Newport Center Dr, Newport Beach	2014	326,065	66.8	60.0 – 96.0
3 Park Plaza, Irvine	1990	399,574	96.5	37.2 – 42.0
18101 Von Karman Ave, Irvine	1990	407,789	93.4	36.0 – 38.0
2050 Main St, Irvine	2007	312,585	90.3	34.2 – 36.0

Source: Colliers International