

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy



UP

Net Absorption

NEGATIVE



Lease Rates



UP

Transactions

DOWN



Deliveries



UP

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HIGHLIGHTS

- **Steady Growth** - The Orange County office market got off to a slow start in 2014, posting 135,000 square feet of negative net absorption in the first quarter, giving the market a total of almost 2.7 million square feet of positive absorption for the last nine quarters. Vacancy increased, while availability continued its downward trend and lease rates continued to increase.
- **Construction** - The record year for new development was 1988, when 5.7 million square feet of new space was added and vacancy rates were approximately 24%. Total space under construction came in at just over 900,000 square feet for the first quarter of 2014; the most notable project was a build-to-suit project for PIMCO at Fashion Island in Newport Beach (479,800 square feet).
- **Vacancy** - Up 47 basis points from the previous quarter, direct/sublease space (unoccupied) finished the first quarter at 13.01%, only a slight increase from the previous year's rate of 12.95% and significantly down from both the Great-Recession peak of nearly 18% in the second quarter of 2010 and the market high of 23% recorded in 1990.
- **Availability** - Direct/sublease space being marketed came in at 16.49% at the end of the first quarter of 2014 - a decrease of 6.68% when compared to 2013's first quarter rate of 17.67% and 10 basis points lower than 2013's fourth quarter rate of 16.59%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was \$1.96 at the end of the quarter — a 4.26% increase from the previous year's rate of \$1.88 and three cents higher than 2013's fourth quarter rate. The record-high rate of \$2.77 was established in the fourth quarter of 2008. Class A asking rates for the county averaged \$2.17 FSG — the highest being in the South County submarket, where Class A rates averaged \$2.41 FSG.
- **Absorption** - The Orange County office market posted just over 135,000 square feet of negative absorption in the first quarter of the year, most of which was in class A buildings, giving the market a net total of almost 5.8 million square feet of positive absorption since the third quarter of 2010. Look for research-oriented businesses — IT, defense, medical and alternative energy companies — to lead the charge of positive absorption over the next few years.
- **Transaction Activity** - Leasing activity checked in at 1.83 million square feet in the first quarter, producing a total of 13.2 million square feet leased over the last five quarters. Sales activity was down a bit from the previous quarter, posting almost 1.2 million square feet of activity in the first quarter compared to 2013's fourth quarter figure of over 2.9 million square feet. This statistic can have some lag time in being reported, so look for first quarter figures to end up somewhat higher. Details of the largest transactions for the quarter can be found on the back page of this report.
- **Employment** - The unemployment rate in Orange County was 5.8% in February 2014 — unchanged from a revised 5.8% in January 2014 and below the previous year's estimate of 6.6%. This compares with an unadjusted unemployment rate of 8.5% for California and 7.0% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 31,000 payroll jobs from February 2013 to February 2014. Most sectors showed gains in employment; the largest gains were 8,600 in construction and 8,100 in professional and business services during that same period. Financial activities posted the largest year-over-year loss, dropping by 1,700 jobs.
- **Overall** - We are continuing to see a decrease in the amount available space on the market. As we progress into 2014, positive absorption should continue, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market will further improve.

FORECAST

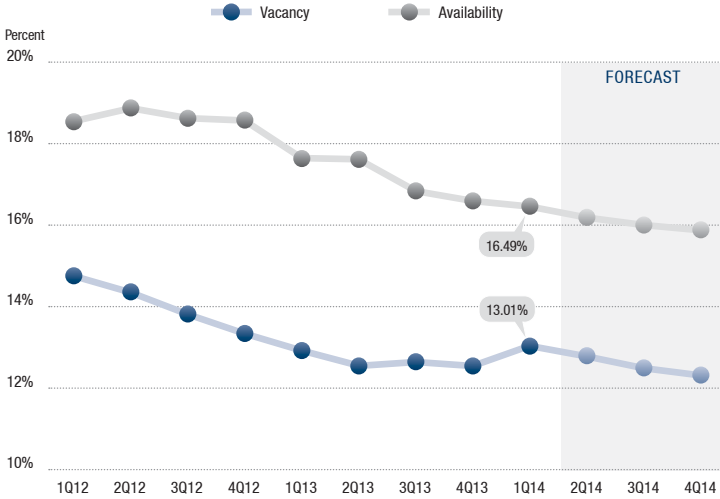
- **Employment** - We anticipate job growth of around 1.5%, or 30,000 jobs, in the Orange County area over the year. Look for professional and business services and research-oriented businesses — IT, defense, medical and alternative energy companies to lead the way for employment gains in the coming years.
- **Lease Rates** - Expect average asking lease rates to increase by another 5%–6% percent by 2015.
- **Vacancy** - We anticipate vacancy continuing to descend in coming quarters, dropping by 70 basis points, to around 12.3%, by 2015.

OVERVIEW

	1Q14	4Q13	1Q13	% of Change vs. 1Q13
Vacancy Rate	13.01%	12.54%	12.95%	0.46%
Availability Rate	16.49%	16.59%	17.67%	(6.68%)
Average Asking Lease Rate	\$1.96	\$1.93	\$1.88	4.26%
Sale & Lease Transactions	2,986,897	5,381,218	4,429,079	(32.56%)
Gross Absorption	2,462,614	2,285,400	2,649,986	(7.07%)
Net Absorption	(135,612)	128,023	512,970	N/A

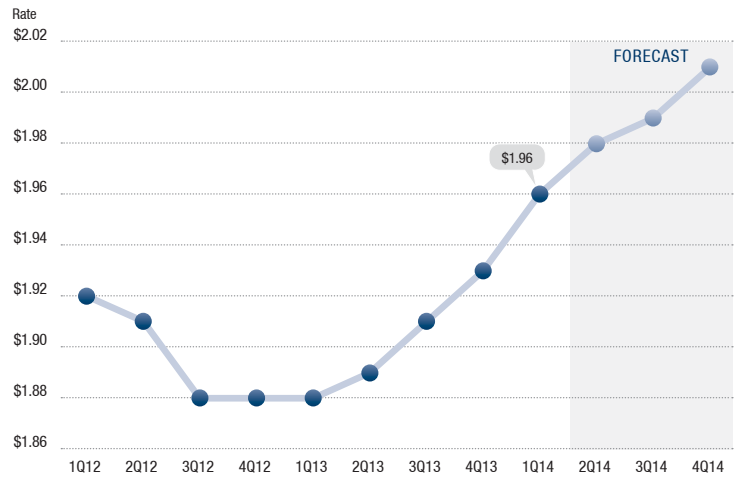
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



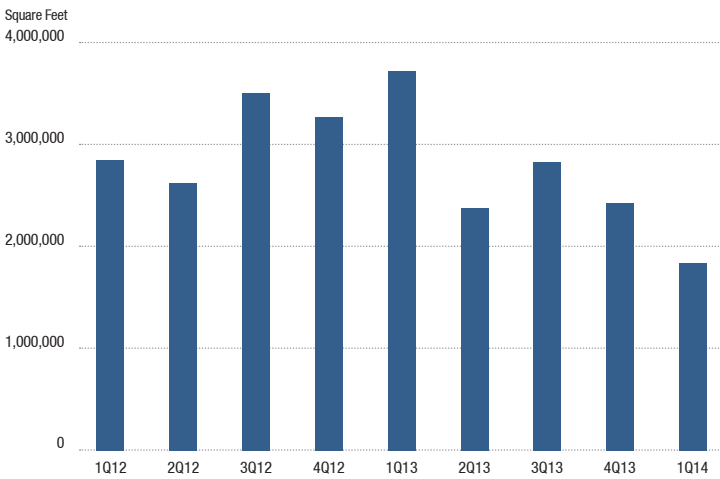
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



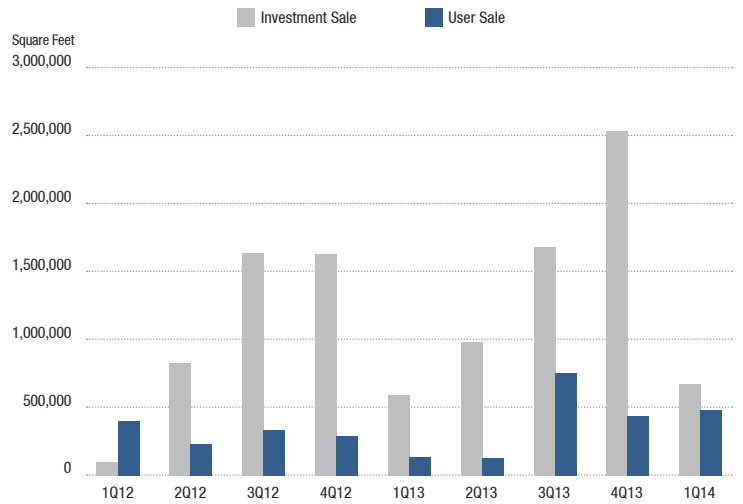
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



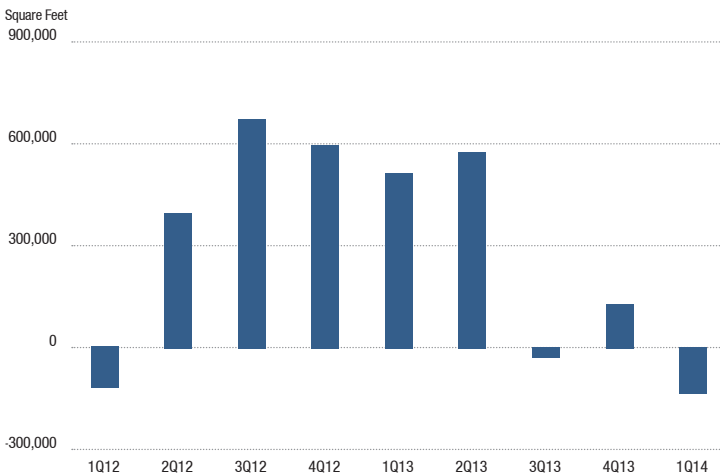
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



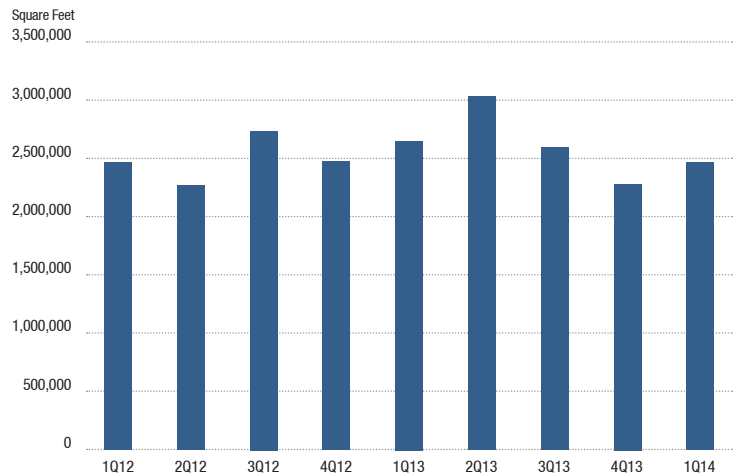
NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



GROSS ABSORPTION

TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2014	Square Feet Available	Availability Rate 1Q2014	Average Asking Lease Rate	Net Absorption 1Q2014	Net Absorption 2013	Gross Absorption 1Q2014	Gross Absorption 2013
Airport Area													
Costa Mesa	72	7,301,743	0	0	1,176,319	16.11%	1,229,534	16.84%	\$1.93	(58,877)	33,979	85,229	586,698
Irvine	256	23,792,605	108,696	932,000	3,188,430	13.40%	4,068,792	17.10%	\$2.11	(76,662)	668,129	520,553	2,605,309
Newport Beach	125	9,497,378	734,845	42,646	893,408	9.41%	1,056,993	11.13%	\$2.19	(1,881)	189,242	193,968	1,105,781
Airport Area Total	453	40,591,726	843,541	974,646	5,258,157	12.95%	6,355,319	15.66%	\$2.10	(137,420)	891,350	799,750	4,297,788
Central County													
Anaheim	85	6,752,678	0	175,500	1,161,275	17.20%	1,584,319	23.46%	\$1.82	(204,139)	(19,768)	66,100	331,330
Orange	79	7,044,319	0	200,000	1,006,360	14.29%	1,116,830	15.85%	\$1.95	(100,495)	30,590	99,676	637,876
Santa Ana	186	14,851,825	0	1,012,000	2,291,071	15.43%	2,920,079	19.66%	\$1.71	(19,088)	(436,609)	156,554	1,172,044
Tustin	40	1,978,305	0	737,000	154,758	7.82%	201,996	10.21%	\$1.77	13,142	108,548	22,178	193,399
Central County Total	390	30,627,127	0	2,124,500	4,613,464	15.06%	5,823,224	19.01%	\$1.79	(310,580)	(317,239)	344,508	2,334,649
North County													
Anaheim Hills	17	1,030,437	0	40,000	328,401	31.87%	343,663	33.35%	\$1.76	(138,531)	(130,830)	41,357	24,029
Brea	43	4,114,528	0	120,000	467,404	11.36%	805,202	19.57%	\$2.04	(5,982)	(13,477)	19,189	260,359
Buena Park	15	943,494	0	34,000	95,177	10.09%	101,562	10.76%	\$1.83	24,670	77,898	40,012	177,897
Fullerton	31	2,508,107	0	0	312,132	12.44%	418,158	16.67%	\$1.56	(30,219)	8,103	15,195	72,358
La Habra	4	142,069	0	0	2,156	1.52%	2,156	1.52%	\$0.00	0	(1,429)	0	727
La Palma	10	712,038	0	0	183,469	25.77%	201,321	28.27%	\$2.08	(1,039)	(39,327)	7,006	137,133
Placentia	8	267,589	0	0	38,993	14.57%	37,898	14.16%	\$1.58	11,766	3,005	11,766	13,044
Yorba Linda	7	423,502	0	0	35,771	8.45%	40,143	9.48%	\$1.75	4,467	(14,149)	5,739	13,271
North County Total	135	10,141,764	0	194,000	1,463,503	14.43%	1,950,103	19.23%	\$1.96	(134,868)	(110,206)	140,264	698,818
South County													
Aliso Viejo	43	3,114,681	0	210,000	299,160	9.60%	416,644	13.38%	\$2.23	(39,526)	33,769	41,134	221,476
Dana Point	3	135,296	0	35,000	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Foothill Ranch	10	799,893	0	0	139,048	17.38%	177,929	22.24%	\$1.91	6,992	73,348	19,297	78,851
Irvine Spectrum	150	9,962,946	0	221,000	808,267	8.11%	1,147,208	11.51%	\$2.57	(17,749)	382,056	297,656	1,423,224
Laguna Beach	5	194,434	0	0	25,403	13.07%	25,403	13.07%	\$0.00	3,058	(3,058)	3,058	3,532
Laguna Hills	33	1,823,624	0	0	366,400	20.09%	423,661	23.23%	\$1.82	1,168	(44,916)	77,044	154,723
Laguna Niguel	12	1,814,761	0	0	187,470	10.33%	217,921	12.01%	\$2.04	13,065	17,369	20,592	108,022
Lake Forest	40	2,098,204	0	0	326,500	15.56%	451,462	21.52%	\$1.75	(15,062)	204,922	63,673	358,696
Mission Viejo	36	1,914,358	0	0	261,394	13.65%	310,724	16.23%	\$1.92	332	(71,054)	46,230	117,378
Rancho Santa Margarita	6	249,472	0	0	40,649	16.29%	61,157	24.51%	\$1.44	(262)	22,684	2,857	42,149
San Clemente	11	474,872	0	0	40,677	8.57%	84,477	17.79%	\$1.80	(258)	8,546	4,587	61,979
San Juan Capistrano	16	836,321	0	42,551	180,066	21.53%	188,246	22.51%	\$2.05	1,639	(103,484)	17,848	51,654
South County Total	365	23,418,862	0	508,551	2,675,034	11.42%	3,504,832	14.97%	\$2.06	(46,603)	520,182	593,976	2,621,684
West County													
Cypress	30	2,091,330	0	0	341,613	16.33%	481,349	23.02%	\$1.84	(4,885)	91,485	31,441	142,137
Fountain Valley	32	1,947,142	0	0	101,783	5.23%	117,086	6.01%	\$1.52	477,313	83,395	480,794	131,384
Garden Grove	20	1,562,160	0	0	65,377	4.19%	107,757	6.90%	\$1.46	2,233	(9,980)	6,692	25,096
Huntington Beach	44	2,425,556	0	0	287,172	11.84%	378,024	15.59%	\$2.06	22,334	16,597	43,633	194,395
Los Alamitos	11	616,963	70,000	0	23,153	3.75%	35,526	5.76%	\$1.75	1,996	4,551	6,396	28,082
Seal Beach	7	473,787	0	0	21,421	4.52%	71,074	15.00%	\$2.87	3,087	(16,701)	7,459	45,791
Stanton	4	143,361	0	0	18,888	13.18%	24,410	17.03%	\$0.80	(8,980)	1,785	1,282	14,310
Westminster	14	554,280	0	0	42,492	7.67%	46,563	8.40%	\$1.94	761	20,080	6,419	33,758
West County Total	162	9,814,579	70,000	0	901,899	9.19%	1,261,789	12.86%	\$1.89	493,859	191,212	584,116	614,953
Orange County Total	1,505	114,594,058	913,541	3,801,697	14,912,057	13.01%	18,895,267	16.49%	\$1.96	(135,612)	1,175,299	2,462,614	10,567,892
Airport Area													
Class A	114	22,254,325	843,541	932,000	3,327,931	14.95%	4,063,334	18.26%	\$2.26	(12,468)	675,529	443,795	2,544,944
Class B	311	16,987,616	0	42,646	1,874,387	11.03%	2,152,074	12.67%	\$1.89	(159,639)	221,320	312,840	1,662,397
Class C	28	1,349,785	0	0	55,839	4.14%	139,911	10.37%	\$1.85	34,687	(5,499)	43,115	90,447
Central County													
Class A	60	10,322,149	0	1,822,500	2,230,055	21.60%	2,541,733	24.62%	\$1.98	(358,413)	(116,861)	127,135	1,210,162
Class B	261	17,340,651	0	302,000	2,084,911	12.02%	2,896,417	16.70%	\$1.63	1,390	(143,300)	155,710	1,016,083
Class C	69	2,964,327	0	0	298,498	10.07%	385,074	12.99%	\$1.44	46,443	(57,078)	61,663	108,404
North County													
Class A	19	2,054,774	0	120,000	242,471	11.80%	484,833	23.60%	\$2.20	703	(21,971)	10,197	220,061
Class B	105	7,709,713	0	74,000	1,160,352	15.05%	1,398,488	18.14%	\$1.82	(130,104)	(89,663)	121,808	467,677
Class C	11	377,277	0	0	60,680	16.08%	66,782	17.70%	\$1.87	(5,467)	1,428	8,259	11,080
South County													
Class A	59	6,903,423	0	252,551	653,124	9.46%	908,976	13.17%	\$2.41	(84,191)	121,539	81,541	831,421
Class B	295	15,995,171	0	256,000	2,006,284	12.54%	2,577,796	16.12%	\$1.82	47,585	390,359	509,839	1,771,159
Class C	11	520,268	0	0	15,626	3.00%	18,060	3.47%	\$0.00	(9,997)	8,284	2,596	19,104
West County													
Class A	23	2,462,651	0	0	329,137	13.37%	399,869	16.24%	\$2.18	(11,894)	52,223	21,444	190,459
Class B	117	6,446,572	70,000	0	534,239	8.29%	821,370	12.74%	\$1.63	503,885	139,612	558,986	406,810
Class C	22	905,356	0	0	38,523	4.26%	40,550	4.48%	\$1.45	1,868	(623)	3,686	17,684
Orange County													
Class A	275	43,997,322	843,541	3,127,051	6,782,718	15.42%	8,398,745	19.09%	\$2.17	(466,263)	710,459	684,112	4,997,047
Class B	1,089	64,479,723	70,000	674,646	7,660,173	11.88%	9,846,145	15.27%	\$1.76	263,117	518,328	1,659,183	5,324,126
Class C	141	6,117,013	0	0	469,166	7.67%	650,377	10.63%	\$1.57	67,534	(53,488)	119,319	246,719
Orange County Total	1,505	114,594,058	913,541	3,801,697	14,912,057	13.01%	18,895,267	16.49%	\$1.96	(135,612)	1,175,299	2,462,614	10,567,892

This survey consists of office properties 25,000 square feet and larger in size, representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis.

MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
18301 Von Karman Ave.	Airport Area	A	226,352	\$300.00	CGGL 18301, LLC	WW VKO Owner, LLC
500 N. State College Blvd.	Central County	A	281,699	\$127.00	Starwood Capital Group	CWCapital Asset Management
26076-26106 Getty Dr. – 4 Properties	South County	C	93,069	\$259.06	Broadstone Laguna Niguel, LLC	Forbes Investment Partners, LLC
200 E. Center St.	North County	A	198,967	\$90.47	200 Center Street, LLC	Pacific Bell Telephone Company
1501 Quail St.	Airport Area	B	45,343	\$203.00	Bixby SPE Finance 2, LLC	The Realty Associates Fund VIII, LP

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
600 S. Main St. – Renewal	Central County	A	137,737	Feb-14	OCTA	WCB Properties
15261-15271 Laguna Canyon Rd.	South County	A	76,602	Jan-14	DaVita HealthCare Partners	The Irvine Company
800 Newport Center Dr.	Airport Area	A	41,744	Feb-14	Aviation Capital	The Irvine Company
18191 Von Karman Ave.	Airport Area	A	38,476	Mar-14	Alphaeon	Lakeshore Towers, LP
25511 Commercentre Dr.	South County	A	34,268	Feb-14	Interval	Massachusetts Mutual Life

PRODUCT TYPE

CLASS A

Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

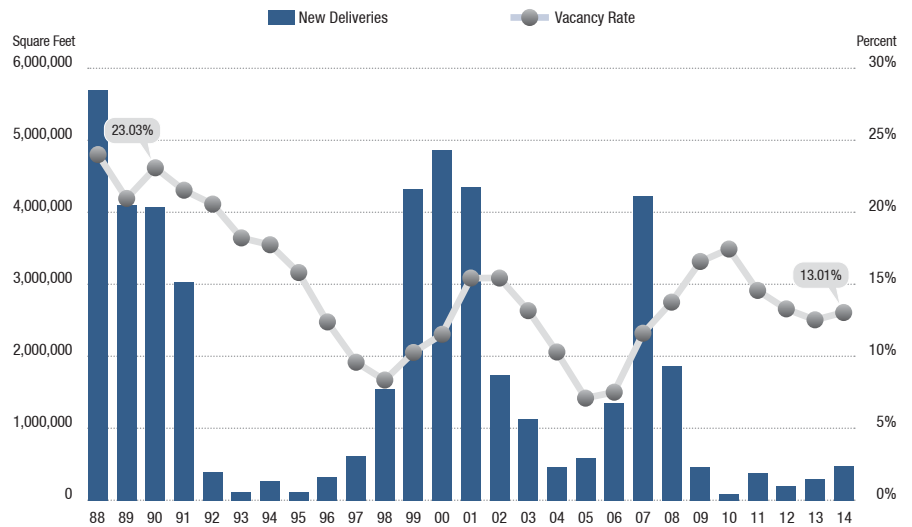
CLASS B

Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

CLASS C

Buildings competing for tenants requiring functional space at rents below the area average.

ANNUAL NEW DELIVERIES VS. VACANCY RATE



Please Contact Us for Further Information

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Phoenix, AZ
602.952.8648

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