



MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

FLAT



To view available properties or electronic versions of current or past market reports, please visit:

www.voitco.com

Prepared by:

Jerry J. Holdner, Jr.
Vice President of Market Research
e-mail: jholdner@voitco.com

Tony Tran
Market Research Analyst
e-mail: ttran@voitco.com
VOIT Real Estate Services

HIGHLIGHTS

- **Steady Growth** - The Orange County office market continued to improve during the first quarter of 2015, posting almost 140,000 square feet of positive net absorption. This gives the market a total of over 5.2 million square feet of positive absorption for the last three years. Vacancy and availability continued their downward trends 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 540,000 square feet for the first quarter of 2015. The most notable project delivered last year was the Irvine Company project at Fashion Island in Newport Beach (354,541 square feet). We should see an increase in construction in the coming quarters, as typically the cranes come out when vacancy dips below 12%.
- **Vacancy** - Down 14 basis points from the previous quarter, direct/sublease space (unoccupied) finished the quarter at 11.44%, a decrease from the previous year's rate of 13.06% and significantly down from both the Great Recession peak of nearly 18% in the third quarter of 2010 and the market high of 23% recorded in 1990.
- **Availability** - Direct/sublease space being marketed came in at 14.95% at the end of the first quarter of 2015, a decrease of 10.16% when compared to 2014's first quarter rate of 16.64%, and 72 basis points lower than last quarter's rate of 15.67%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was \$2.12 at the end of the quarter, a 8.16% increase from the previous year's rate of \$1.96 and four cents higher than last quarter's rate. The record-high rate of \$2.77 was established in the fourth quarter of 2008. Class A asking rates for the county averaged \$2.41 FSG, the highest being in the South County submarket, where Class A rates averaged \$2.67 FSG.
- **Absorption** - The Orange County office market posted 137,850 square feet of positive absorption in the first quarter of the year, giving the market a net total of over 8.4 million square feet of positive absorption since the third quarter of 2010. Look for entrepreneurial and 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 just over two million square feet this quarter, a decrease when compared to 2014's first quarter figure of 2.6 million square feet. Sales activity was up from the previous year, posting 1.4 million square feet of activity this quarter compared to 2014's first quarter figure of 1.3 million square feet. This statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher in the next report. 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 4.6% in February 2015, down from a revised 5.0% in January 2015 and below the previous year's estimate of 6.0%. This compares with an unadjusted unemployment rate of 6.8% for California and 5.8% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 51,300 payroll jobs from February 2014 to February 2015. Most sectors showed gains in employment; the largest gains were 13,000 in professional and business services and 8,800 in educational and health services during that same period. Information posted the only year-over-year loss, dropping by 600 jobs.
- **Overall** - We are continuing to see a decrease in the amount of vacant and available space on the market, even with new product being delivered. As we progress into 2015, positive absorption and higher occupancy costs should continue, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market will further improve.

FORECAST

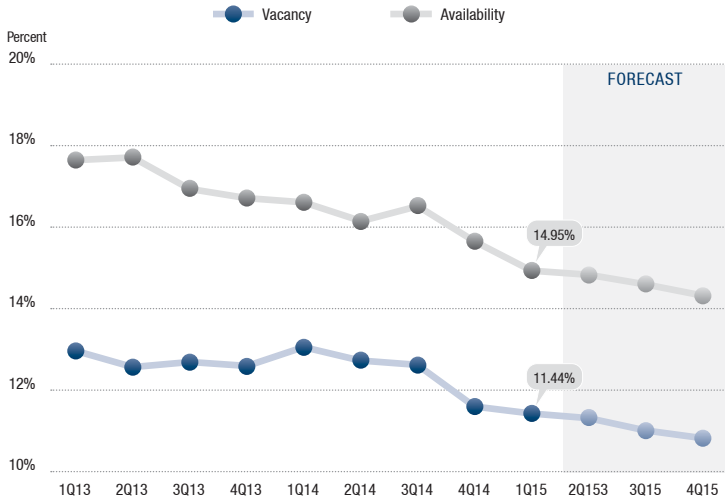
- **Employment** - We anticipate job growth of around 2.6%, or 38,000 jobs, in the Orange County area during 2015 according to Chapman University. The most rapid growth should take place in the construction, education & health, professional & business services, and leisure & hospitality sectors.
- **Lease Rates** - Expect the average asking lease rate to increase by 5% to 8% percent over the next four quarters.
- **Vacancy** - We anticipate vacancy continuing to descend in coming quarters, dropping by 60 basis points to around 10.8% by the end of the fourth quarter of 2015.

OVERVIEW

	1Q15	4Q14	1Q14	% of Change vs. 1Q14
Total Vacancy Rate	11.44%	11.58%	13.06%	(12.40%)
Availability Rate	14.95%	15.67%	16.64%	(10.16%)
Average Asking Lease Rate	\$2.12	\$2.08	\$1.96	8.16%
Sale & Lease Transactions	3,451,685	5,498,358	3,896,545	(11.42%)
Gross Absorption	2,528,534	2,667,765	2,389,289	5.83%
Net Absorption	137,850	1,220,696	(131,412)	N/A

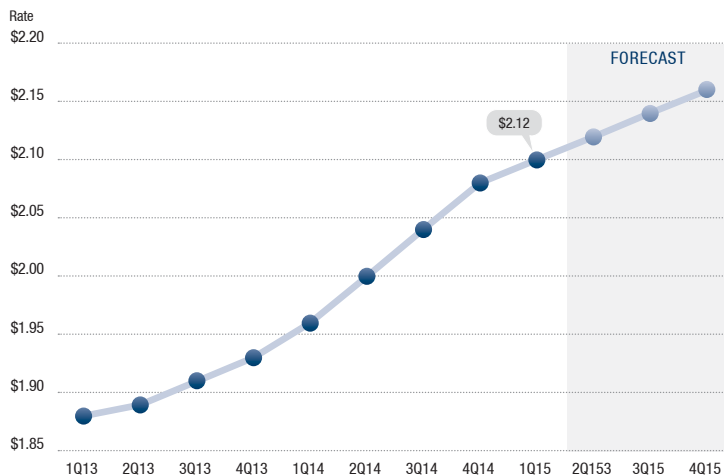
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



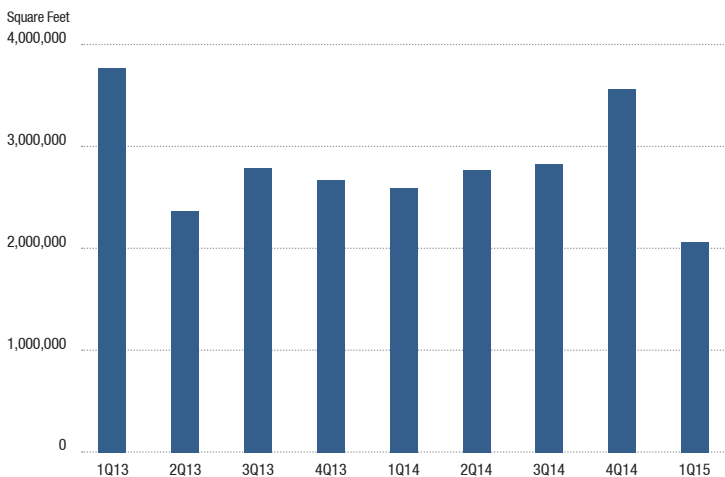
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



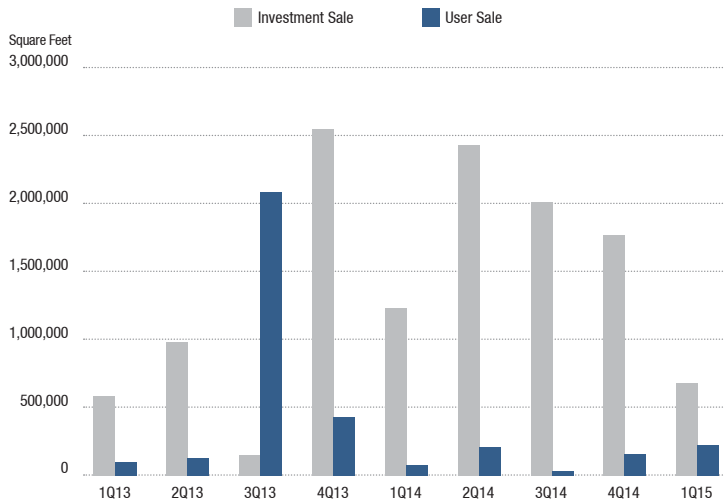
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



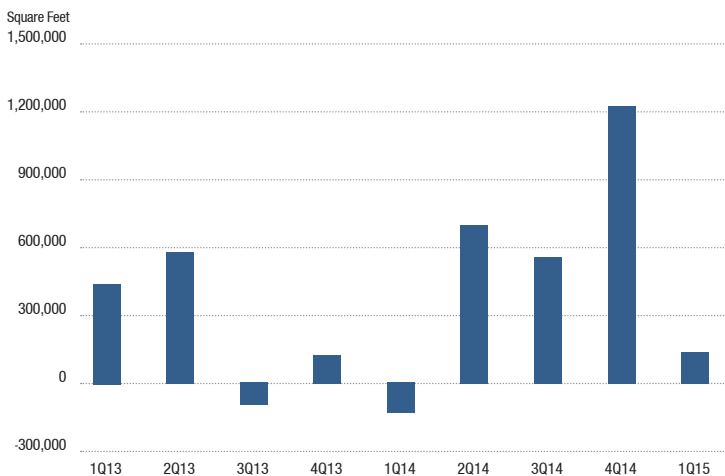
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



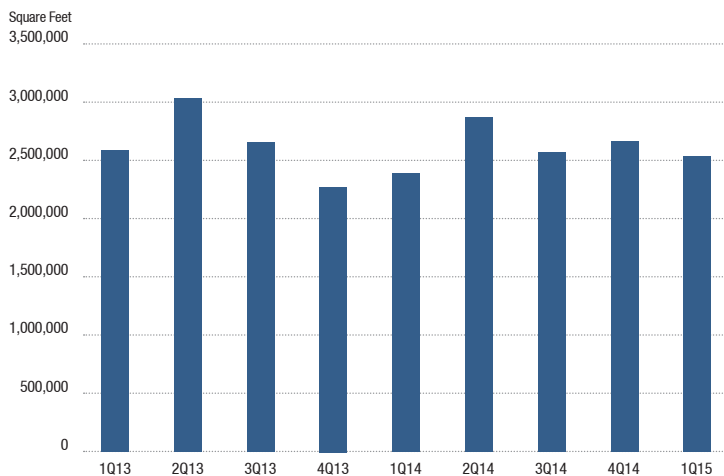
NET ABSORPTION

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 1Q2015	Square Feet Available	Availability Rate 1Q2015	Average Asking Lease Rate	Net Absorption 1Q2015	Net Absorption 2014	Gross Absorption 1Q2015	Gross Absorption 2014
Airport Area													
Costa Mesa	73	7,334,269	0	0	1,130,105	15.41%	1,229,787	16.77%	\$2.32	(9,889)	2,368	114,443	469,645
Irvine	257	23,858,923	0	2,291,000	2,261,793	9.48%	3,332,509	13.97%	\$2.29	176,829	704,039	785,984	3,112,650
Newport Beach	122	9,997,235	0	42,646	1,194,218	11.95%	1,374,015	13.74%	\$2.63	(66,832)	470,717	175,812	1,183,441
Airport Area Total	452	41,190,427	0	2,333,646	4,586,116	11.13%	5,936,311	14.41%	\$2.39	100,108	1,177,124	1,076,239	4,765,736
Central County													
Anaheim	85	6,787,852	0	0	1,117,412	16.46%	1,032,576	15.21%	\$1.77	(22,480)	(163,748)	192,277	362,898
Orange	81	7,074,255	0	0	855,812	12.10%	858,970	12.14%	\$1.95	27,141	65,839	104,048	475,443
Santa Ana	183	14,793,074	0	702,325	2,033,397	13.75%	2,897,519	19.59%	\$1.77	135,566	111,153	287,349	868,246
Tustin	39	1,948,660	0	816,756	71,681	3.68%	240,349	12.33%	\$1.87	26,664	52,434	26,664	122,591
Central County Total	388	30,603,841	0	1,519,081	4,078,302	13.33%	5,029,414	16.43%	\$1.81	166,891	65,678	610,338	1,829,178
North County													
Anaheim Hills	17	1,027,824	0	50,000	329,954	32.10%	168,685	16.41%	\$1.78	(7,227)	(132,857)	0	76,479
Brea	43	4,110,724	0	120,000	470,990	11.46%	594,418	14.46%	\$1.95	(35,153)	19,679	37,449	202,485
Buena Park	16	1,017,169	75,000	0	69,215	6.80%	66,423	6.53%	\$1.86	10,395	40,237	21,813	75,652
Fullerton	31	2,515,898	0	34,000	362,194	14.40%	450,110	17.89%	\$1.75	(32,477)	(47,804)	10,655	39,972
La Habra	4	142,069	0	0	0	0.00%	0	0.00%	\$0.00	0	2,156	0	2,156
La Palma	10	712,038	0	0	141,405	19.86%	155,744	21.87%	\$1.85	4,856	36,169	7,840	79,389
Placentia	8	267,589	0	0	42,461	15.87%	42,461	15.87%	\$1.54	0	8,298	0	25,519
Yorba Linda	7	423,502	0	0	40,496	9.56%	54,801	12.94%	\$1.88	3,258	(3,516)	3,258	10,540
North County Total	136	10,216,813	75,000	204,000	1,456,715	14.26%	1,532,642	15.00%	\$1.85	(56,348)	(77,638)	81,015	512,192
South County													
Aliso Viejo	43	3,117,975	0	210,000	234,562	7.52%	456,882	14.65%	\$2.58	(13,503)	29,398	84,651	280,144
Dana Point	3	135,296	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Foothill Ranch	10	798,721	0	0	115,345	14.44%	149,955	18.77%	\$2.11	13,401	17,294	13,401	60,831
Irvine Spectrum	152	10,165,464	425,044	221,000	663,678	6.53%	1,132,113	11.14%	\$2.76	(78,716)	197,431	268,637	1,269,197
Laguna Beach	5	194,434	0	0	28,895	14.86%	28,895	14.86%	\$0.00	2,817	(3,251)	2,817	6,468
Laguna Hills	32	1,831,350	0	0	359,325	19.62%	418,777	22.87%	\$1.93	(10,659)	15,241	31,961	233,357
Laguna Niguel	12	1,818,124	0	0	56,171	3.09%	93,824	5.16%	\$2.75	19,252	40,282	29,271	141,981
Lake Forest	40	2,098,165	0	0	263,093	12.54%	315,748	15.05%	\$1.71	81,437	6,147	115,242	171,781
Mission Viejo	36	1,916,398	0	110,000	246,484	12.86%	311,936	16.28%	\$1.93	3,810	11,432	11,377	122,983
Rancho Santa Margarita	6	250,472	0	0	43,422	17.34%	46,157	18.43%	\$1.78	4,335	(7,370)	6,049	25,433
San Clemente	12	503,048	0	0	33,420	6.64%	70,449	14.00%	\$2.01	(5,362)	12,361	19,860	52,433
San Juan Capistrano	16	836,460	42,551	0	163,109	19.50%	166,579	19.91%	\$2.24	6,482	12,114	17,889	43,751
South County Total	367	23,665,907	467,595	541,000	2,207,504	9.33%	3,191,315	13.48%	\$2.23	23,294	331,079	601,155	2,408,359
West County													
Cypress	29	1,994,867	0	0	252,119	12.64%	563,729	28.26%	\$1.94	3,826	55,783	15,001	135,698
Fountain Valley	32	1,948,887	0	0	98,518	5.06%	106,938	5.49%	\$1.07	(7,002)	483,217	7,479	528,210
Garden Grove	20	1,564,055	0	0	53,247	3.40%	70,683	4.52%	\$1.55	16,499	(2,136)	17,129	44,729
Huntington Beach	44	2,509,739	0	0	334,647	13.33%	469,078	18.69%	\$2.13	(128,148)	88,522	23,294	195,189
Los Alamitos	12	687,842	0	0	45,589	6.63%	201,624	29.31%	\$1.86	48,639	921	50,544	26,927
Seal Beach	7	473,787	0	0	68,109	14.38%	89,234	18.83%	\$2.89	(36,263)	(7,338)	39,986	29,589
Stanton	4	143,361	0	0	8,942	6.24%	14,464	10.09%	\$0.00	0	966	0	11,228
Westminster	12	482,280	0	0	25,662	5.32%	56,131	11.64%	\$2.01	6,354	(3,844)	6,354	5,940
West County Total	160	9,804,818	0	0	886,833	9.04%	1,571,881	16.03%	\$2.07	(96,095)	616,091	159,787	977,510
Orange County Total	1,503	115,481,806	542,595	4,597,727	13,215,470	11.44%	17,261,563	14.95%	\$2.12	137,850	2,112,334	2,528,534	10,492,975
Airport Area													
Class A	117	23,086,595	0	995,000	3,038,417	13.16%	3,840,253	16.63%	\$2.56	126,170	908,611	692,763	2,895,237
Class B	307	16,754,047	0	1,338,646	1,508,725	9.01%	2,002,002	11.95%	\$2.17	(32,344)	223,243	372,544	1,765,009
Class C	28	1,349,785	0	0	38,974	2.89%	94,056	6.97%	\$1.76	6,282	45,270	10,932	105,490
Central County													
Class A	61	10,421,447	0	1,137,325	1,918,703	18.41%	2,257,844	21.67%	\$2.05	91,453	(88,027)	269,244	889,334
Class B	257	17,159,843	0	381,756	1,913,180	11.15%	2,431,826	14.17%	\$1.62	71,048	61,087	309,477	750,242
Class C	70	3,022,551	0	0	246,419	8.15%	339,744	11.24%	\$1.44	4,390	92,618	31,617	189,602
North County													
Class A	19	2,074,925	75,000	120,000	256,400	12.36%	335,392	16.16%	\$2.18	(48,103)	34,877	18,621	132,783
Class B	107	7,805,449	0	84,000	1,149,733	14.73%	1,146,668	14.69%	\$1.79	(7,030)	(107,457)	61,613	369,493
Class C	10	336,439	0	0	50,582	15.03%	50,582	15.03%	\$1.41	(1,215)	(5,058)	781	9,916
South County													
Class A	59	6,908,757	467,595	320,000	585,239	8.47%	952,840	13.79%	\$2.67	2,985	(28,468)	161,417	558,983
Class B	297	16,236,882	0	221,000	1,616,332	9.95%	2,229,140	13.73%	\$1.89	16,666	363,494	435,651	1,826,224
Class C	11	520,268	0	0	5,933	1.14%	9,335	1.79%	\$0.00	3,643	(3,947)	4,087	23,152
West County													
Class A	23	2,465,714	0	0	249,602	10.12%	457,776	18.57%	\$2.44	(31,111)	84,267	66,243	190,943
Class B	115	6,432,869	0	0	604,391	9.40%	924,022	14.36%	\$1.74	(62,374)	521,663	93,544	763,612
Class C	22	906,235	0	0	32,840	3.62%	190,083	20.98%	\$1.47	(2,610)	10,161	0	22,955
Orange County													
Class A	279	44,957,438	542,595	2,572,325	6,048,361	13.45%	7,844,105	17.45%	\$2.41	141,394	911,260	1,208,288	4,667,280
Class B	1,083	64,389,090	0	2,025,402	6,792,361	10.55%	8,733,658	13.56%	\$1.99	(14,034)	1,062,030	1,272,829	5,474,580
Class C	141	6,135,278	0	0	374,748	6.11%	683,800	11.15%	\$1.53	10,490	139,044	47,417	351,115
Orange County Total	1,503	115,481,806	542,595	4,597,727	13,215,470	11.44%	17,261,563	14.95%	\$2.12	137,850	2,112,334	2,528,534	10,492,975

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
4000 MacArthur Blvd. – 2 Properties	Airport Area	A	397,566	\$301.84	Hines	Emmes Group of Companies
18842 Teller Ave. – 7 Properties	Airport Area	B	179,597	\$360.47	Garden Homes	Guggenheim Real Estate, LLC
27051 Towne Centre Dr. – 3 Properties	South County	B	288,348	\$169.93	Menlo Equities	MetLife, Inc.
2850 S. Red Hill Ave.	Airport Area	A	94,557	\$208.34	VOIT Placentia Partners, LLC	Kinco Red Hill, LLC
1921 E. Alton Ave.	Airport Area	B	67,846	\$214.21	Wind Water Realty, Inc.	Equity Commonwealth Management, LLC

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
4000 MacArthur Blvd.	Airport Area	A	177,012	Feb-2015	Hyundai Capital America	Oaktree Capital Mangement, LP
5515 E. La Palma Ave.	North County	B	85,943	Feb-2015	Safran	WWG Canyon Corporate Owner, LLC
9701 Jeronimo Rd. – Renewal	South County	B	83,075	Jan-2015	Chapman University	Unisys
101 Enterprise	South County	A	54,250	Jan-2015	Elipse Technologies	RREEF America REIT II Corp.
15505 Sand Canyon Ave.	South County	B	53,870	Mar-2015	iHerb Healthcare	The Irvine Company

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.

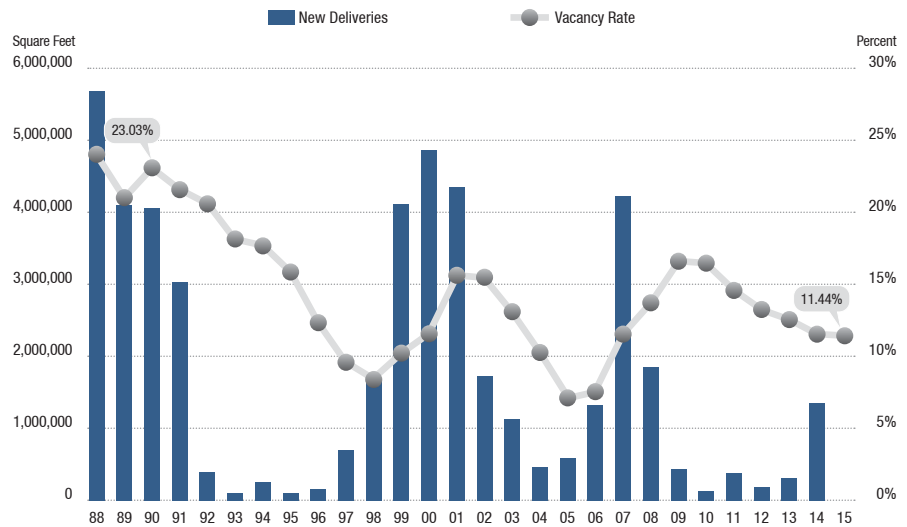
CLASS B

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

101 Shipyard Way, Newport Beach, CA 92663 949.644.8648 Lic.#01333376 www.voitco.com



Anaheim, CA 714.978.7880	Las Vegas, NV 702.734.4500	Phoenix, AZ 602.952.8648	San Diego, CA 858.453.0505
Inland Empire, CA 909.545.8000	Los Angeles, CA 424.329.7500	Reno, NV 775.771.9955	San Jose, CA 408.885.9110
Irvine, CA 949.851.5100	Newport Beach, CA 949.644.8648	Sacramento, CA 916.772.8648	

**Real People.
Real Solutions.®**

This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.

©2015 Voit Real Estate Services, Inc. Real People. Real Solutions.® is a registered trademark of Voit Real Estate Services.

Represented in 150 Markets
Nationally & Internationally.

