

## MARKET CHANGE

*Compared to the Previous Quarter:*

**Vacancy**

**DOWN**



**Net Absorption**

**POSITIVE**



**Lease Rates**

**UP**



**Transactions**

**UP**



**Deliveries**

**UP**



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VOIT Real Estate Services

## HIGHLIGHTS

- **Steady Growth** - The Orange County office market had a great second quarter, posting over 740,000 square feet of positive net absorption. This gives the market a total of almost 3.5 million square feet of positive absorption for the last nine quarters. 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 576,000 square feet for the second quarter of 2014; the most notable project 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 35 basis points from the previous quarter, direct/sublease space (unoccupied) finished the second quarter at 12.69%, a decrease from the previous quarter's rate of 13.04% 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 16.14% at the end of the second quarter of 2014, a decrease of 8.92% when compared to 2013's second quarter rate of 17.72% and 50 basis points lower than last quarter's rate of 16.64%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was \$2.00 at the end of the quarter, a 5.82% increase from the previous year's rate of \$1.89 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 \$2.24 FSG, the highest being in the South County submarket, where Class A rates averaged \$2.48 FSG.
- **Absorption** - The Orange County office market posted 740,601 square feet of positive absorption in the second quarter of the year, giving the market a net total of over 6.5 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 2.1 million square feet in the second quarter, producing a total of 12.1 million square feet leased over the last five quarters. Sales activity was up a bit from the previous quarter, posting 1.72 million square feet of activity in the second quarter compared to last quarter's figure of 1.3 million square feet. This statistic can have some lag time in being reported, so look for second quarter 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 4.9% in May 2014, down from a revised 5.0% in April 2014 and below the previous year's estimate of 5.9%. This compares with an unadjusted unemployment rate of 7.1% for California and 6.1% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 22,600 payroll jobs from May 2013 to May 2014. Most sectors showed gains in employment; the largest gains were 7,800 in professional and business services and 7,200 in construction during that same period. Financial activities posted the largest year-over-year loss, dropping by 4,900 jobs.
- **Overall** - We are continuing to see a decrease in the amount of vacant and available space on the market. As we progress into the second half of 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

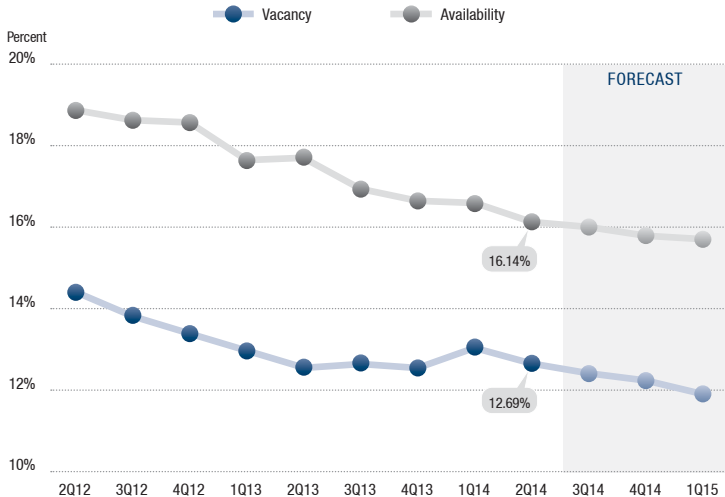
- **Employment** - We anticipate job growth of around 2.6%, or 37,000 jobs, in the Orange County area over the year. The most rapid growth is forecasted to take place in the construction, education & health, professional & business services, and leisure & hospitality sectors.
- **Lease Rates** - Expect the average asking lease rate to increase by 5%–7% percent over the next four quarters.
- **Vacancy** - We anticipate vacancy continuing to descend in coming quarters, dropping by around 50 basis points to 12.1%, by the end of the first quarter of 2015.

## OVERVIEW

	2Q14	1Q14	2Q13	% of Change vs. 2Q13
Vacancy Rate	12.69%	13.04%	12.57%	0.95%
Availability Rate	16.14%	16.64%	17.72%	(8.92%)
Average Asking Lease Rate	\$2.00	\$1.96	\$1.89	5.82%
Sale & Lease Transactions	3,787,694	3,666,074	3,477,340	8.93%
Gross Absorption	3,133,261	2,374,666	3,019,491	3.77%
Net Absorption	740,601	(156,629)	577,523	N/A

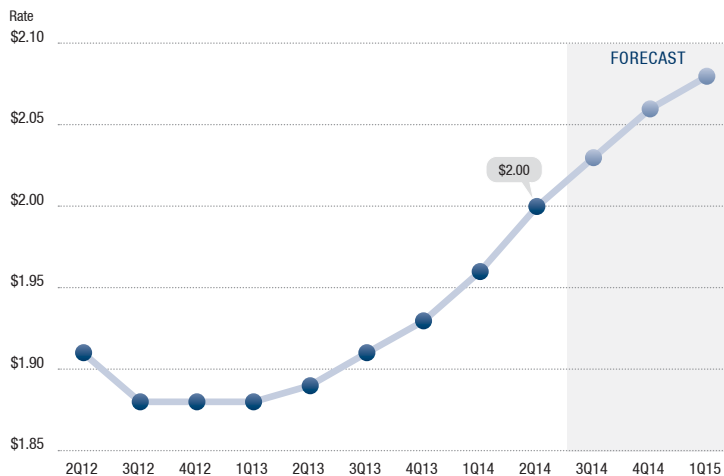
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



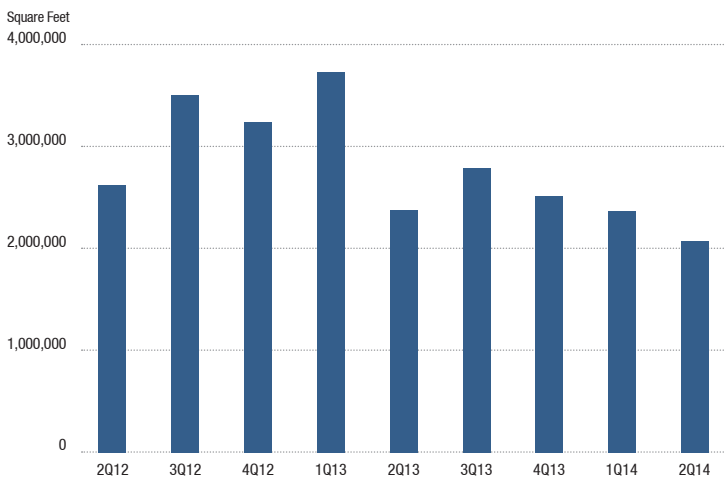
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



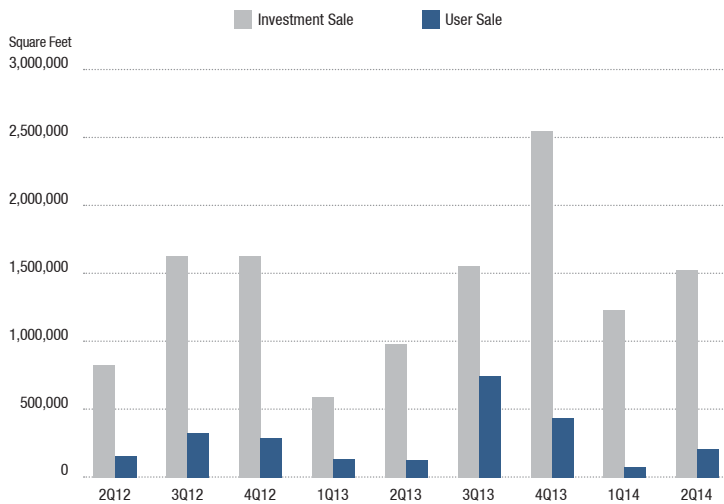
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



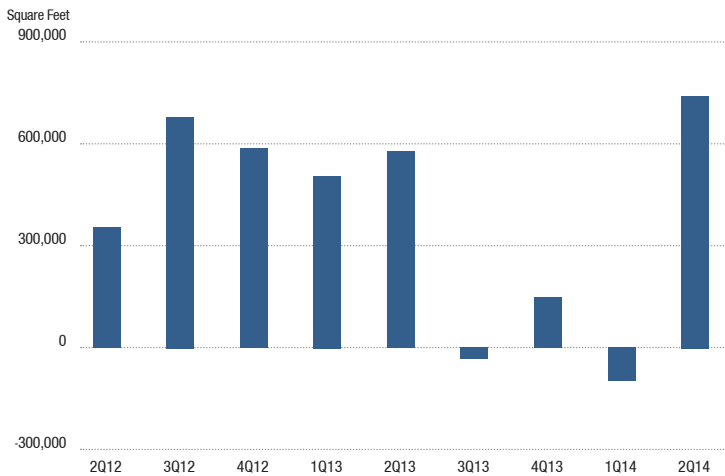
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



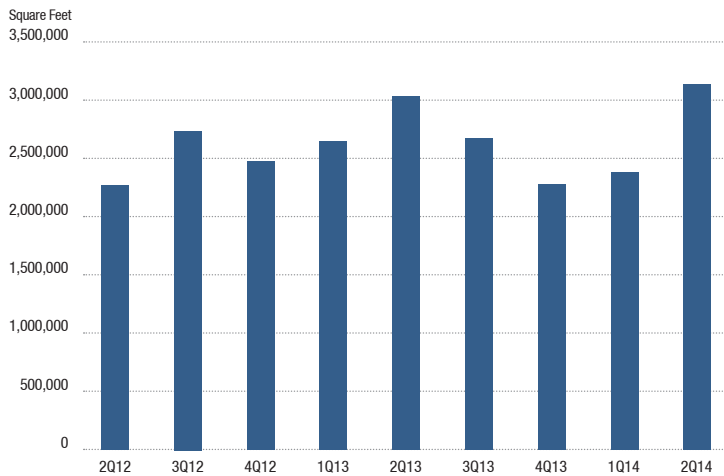
NET ABSORPTION

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





**MAJOR TRANSACTIONS**

**Sales Transactions**

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
7755 Center Ave. – 3 Properties	West County	A	395,150	\$236.87	Prudential Real Estate Investors	Lincoln Property Company
4910 Campus Dr. – 13 Properties	Airport Area	B	135,968	\$305.22	Kearny Real Estate Company	Beachwood Properties, Inc.
1750 E. 4th St.	Central County	A	229,989	\$174.31	Hines	State Compensation Insurance Fund
16001 Gothard St. – 3 Properties	West County	B	117,750	\$286.20	Behringer Harvard Multifamily REIT I, Inc.	Pedigo Products, Inc.
17542 E. 17th St.	Central County	B	90,932	\$224.34	Deutsche Asset & Wealth Management	Illinois State Board Investments

**Lease Transactions**

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
16802 Aston St.	Airport Area	B	65,108	Apr-14	Spireon GPS	Hines/Oaktree Capital
3349 Michelson Dr.	Airport Area	A	40,000	Apr-14	HireRight, Inc.	LBA Realty
3060 Saturn St.	North County	B	23,919	May-14	International Code Council	Brea Corporate Park II, LLC
600 Anton Blvd.	Airport Area	A	22,466	Jun-14	Haynes & Boone, LLP	600 Anton Blvd. Associates
30211 Avenida De Las Bandera	South County	B	20,508	Apr-14	Regus	Dolphin Partners, Inc.

**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.

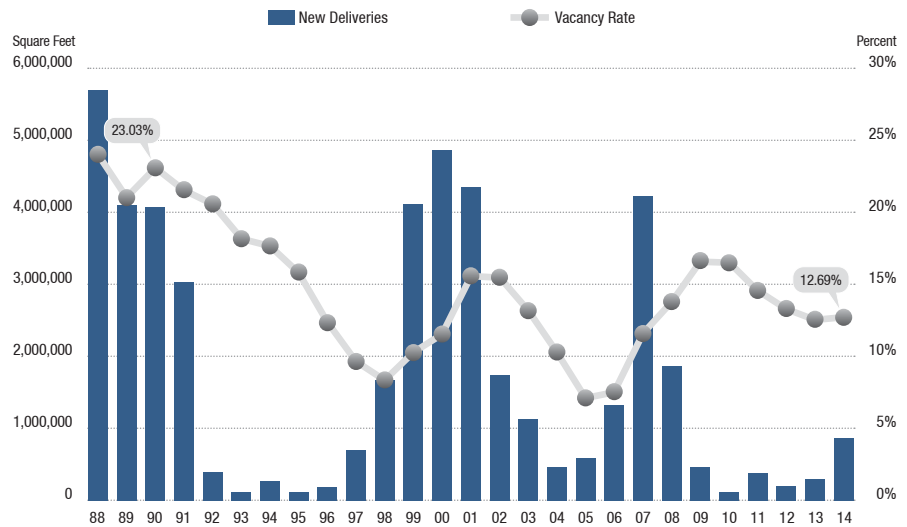
**CLASS B**

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**



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