SECOND QUARTER 2015
ORANGE COUNTY
OFFICE

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to Previous Quarter:

Vacancy
DOWN

Net Absorption
POSITIVE

Lease Rates
UP

Transactions
DOWN

Deliveries
UP

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VOIT Real Estate Services

HIGHLIGHTS

- **Steady Growth -** The Orange County office market continued to improve during the second quarter of 2015, posting almost 450,000 square feet of positive net absorption. This gives the market a total of over 5.7 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 under 650,000 square feet for the second 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 36 basis points from the previous quarter, direct / sublease space (unoccupied) finished the quarter at 11.07%, a decrease from the previous year's rate of 12.71% 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 15.01% at the end of the second quarter of 2015, a decrease of 6.83% when compared to 2014's second quarter rate of 16.11%, but a 4 basis point increase over last quarter's rate of 14.97%.
- **Lease Rates -** The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was $2.18 at the end of the quarter, a 9.00% increase from the previous year's rate of $2.00 and six 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 $2.50 FSG, the highest being in the South County submarket, where Class A rates averaged $2.77 FSG.
- **Absorption -** The Orange County office market posted 442,651 square feet of positive absorption in the second quarter of the year, giving the market a net total of over 8.9 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 2.6 million square feet this quarter, an increase when compared to last quarter's figure of 2.5 million square feet. Sales activity was down from the previous quarter, posting 1.4 million square feet of activity this quarter compared to last quarter's figure of 1.6 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 4.2% in May 2015, up from a revised 4.1% in April 2015 and below the previous year's estimate of 5.2%. This compares with an unadjusted unemployment rate of 6.2% for California and 5.3% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 50,700 payroll jobs from May 2014 to May 2015. Most sectors showed gains in employment; the largest gains were 12,100 in educational and health services and 9,900 in professional and business services during that same period. Information posted the only year-over-year loss, dropping by 400 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 the second half of 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

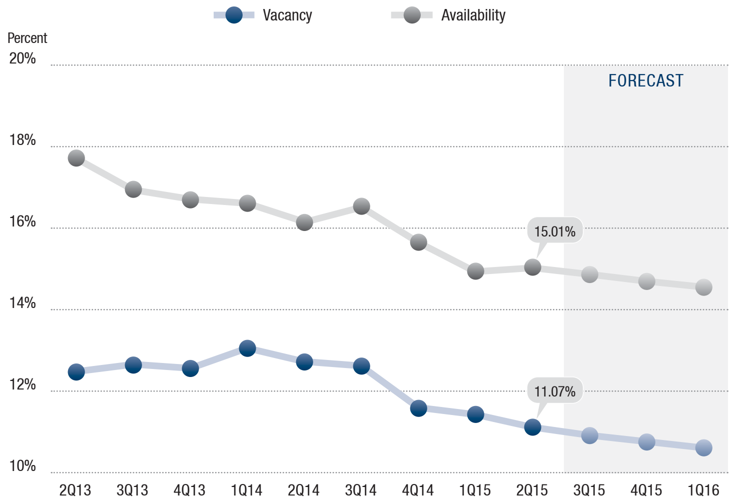
- **Employment -** We anticipate job growth of around 3.1%, or 47,000 jobs, in the Orange County area during the year according to Chapman University. The most rapid growth should take place in the professional & business services, education & health, leisure & hospitality, and construction sectors.
- **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 10.6% by the end of the first quarter of 2016.

OVERVIEW

	2Q15	1Q15	2Q14	% of Change vs. 2Q14
Total Vacancy Rate	11.07%	11.43%	12.71%	(12.90%)
Availability Rate	15.01%	14.97%	16.11%	(6.83%)
Average Asking Lease Rate	$2.18	$2.12	$2.00	9.00%
Sale & Lease Transactions	4,028,249	4,194,777	5,401,654	(25.43%)
Gross Absorption	3,028,589	2,608,467	2,881,930	5.09%
Net Absorption	442,651	138,738	690,045	N/A

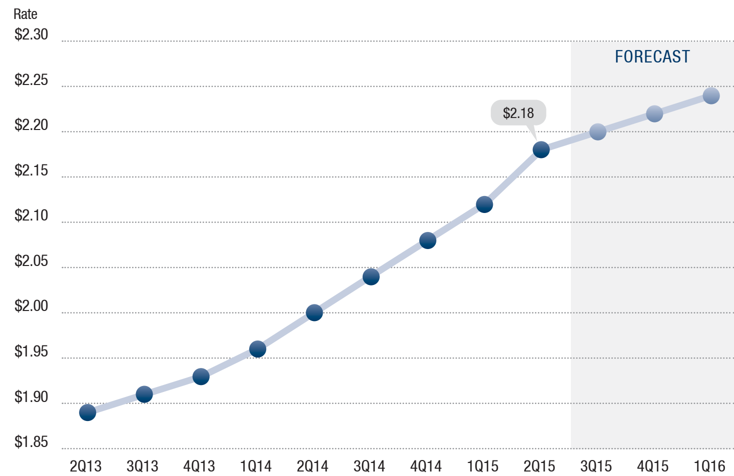
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



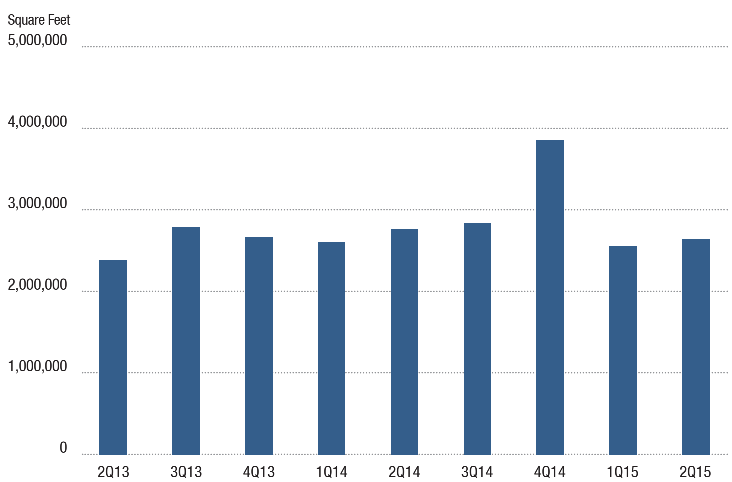
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



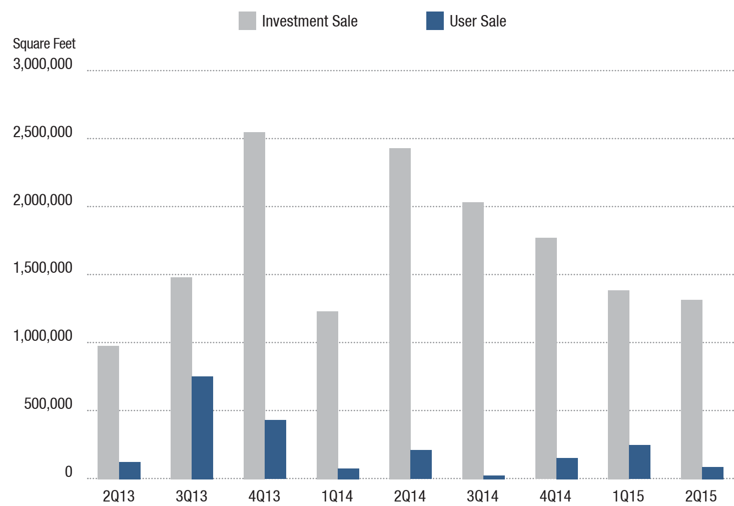
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



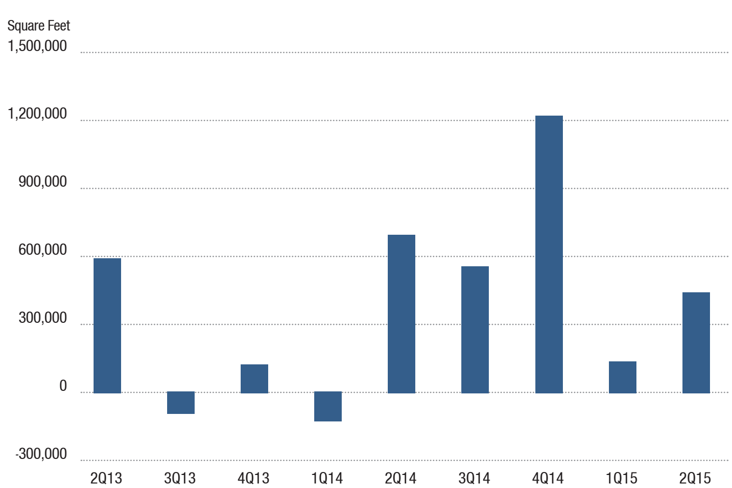
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



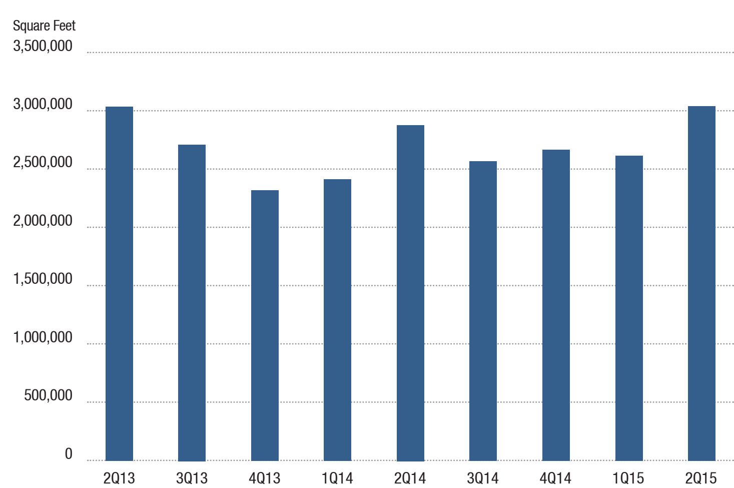
NET ABSORPTION

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 2Q2015	Square Feet Available	Availability Rate 2Q2015	Average Asking Lease Rate	Net Absorption 2Q2015	Net Absorption 2015	Gross Absorption 2Q2015	Gross Absorption 2015
Airport Area													
Costa Mesa	72	7,313,179	0	0	1,073,974	14.69%	1,265,998	17.31%	$2.39	31,600	27,650	150,117	281,356
Irvine	257	23,857,923	0	2,841,000	2,210,215	9.26%	3,212,334	13.46%	$2.43	48,390	228,407	813,837	1,583,608
Newport Beach	121	9,969,316	0	112,346	1,259,296	12.63%	1,243,949	12.48%	$2.86	(65,078)	(131,910)	174,154	350,606
Airport Area Total	450	41,140,418	0	2,953,346	4,543,485	11.04%	5,722,281	13.91%	$2.52	14,912	124,147	1,138,108	2,215,570
Central County													
Anaheim	85	6,801,705	0	0	749,535	11.02%	1,135,885	16.70%	$1.97	366,164	345,397	422,724	633,553
Orange	82	7,111,523	0	0	648,840	9.12%	816,287	11.48%	$2.00	213,547	239,530	275,321	379,369
Santa Ana	182	14,771,215	0	702,325	2,063,766	13.97%	3,370,737	22.82%	$1.80	(40,144)	95,422	246,031	590,950
Tustin	39	1,948,382	0	737,000	98,748	5.07%	308,886	15.85%	$1.90	(27,067)	(403)	29,040	55,704
Central County Total	388	30,632,825	0	1,439,325	3,560,889	11.62%	5,631,795	18.38%	$1.87	512,500	679,946	973,116	1,659,576
North County													
Anaheim Hills	17	1,027,824	0	50,000	251,048	24.43%	162,525	15.81%	$1.78	89,996	71,679	100,713	100,713
Brea	43	4,111,340	0	120,000	529,942	12.89%	706,487	17.18%	$1.95	(55,562)	(94,105)	80,831	118,280
Buena Park	16	1,017,169	72,343	0	60,481	5.95%	66,423	6.53%	$1.86	724	19,129	1,525	23,338
Fullerton	31	2,515,898	0	0	377,792	15.02%	467,202	18.57%	$1.71	(14,603)	(48,075)	25,758	38,841
La Habra	4	142,069	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
La Palma	10	712,038	0	0	126,093	17.71%	152,297	21.39%	$1.85	15,312	20,168	17,056	24,896
Placentia	8	267,589	0	0	42,291	15.80%	44,057	16.46%	$1.56	170	170	6,011	6,011
Yorba Linda	7	359,206	0	0	36,259	10.09%	27,907	7.77%	$1.87	4,237	7,495	7,189	10,447
North County Total	136	10,153,133	72,343	170,000	1,423,906	14.02%	1,626,898	16.02%	$1.84	40,274	(23,539)	239,083	322,526
South County													
Aliso Viejo	43	3,118,557	0	205,000	229,883	7.37%	463,531	14.86%	$2.81	4,679	(8,824)	88,923	173,574
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	152,442	19.09%	123,868	15.51%	$2.50	(37,097)	(23,696)	17,948	31,349
Irvine Spectrum	152	10,166,502	575,044	1,621,000	693,959	6.83%	1,023,615	10.07%	$2.78	(30,281)	(108,997)	257,966	526,603
Laguna Beach	5	194,434	0	110,000	28,895	14.86%	28,895	14.86%	$0.00	0	2,817	0	2,817
Laguna Hills	32	1,831,350	0	0	352,453	19.25%	375,488	20.50%	$1.98	7,922	(3,787)	62,066	94,793
Laguna Niguel	12	1,818,124	0	0	72,418	3.98%	73,429	4.04%	$2.75	(16,247)	3,005	18,981	48,252
Lake Forest	39	2,060,148	0	0	259,443	12.59%	201,182	9.77%	$1.91	(6,843)	74,594	22,968	137,604
Mission Viejo	36	1,916,398	0	0	229,329	11.97%	279,432	14.58%	$2.05	17,155	20,965	56,814	68,191
Rancho Santa Margarita	6	250,472	0	0	40,480	16.16%	39,876	15.92%	$1.76	2,942	7,277	7,842	13,891
San Clemente	12	503,048	0	0	27,610	5.49%	60,285	11.98%	$2.05	5,810	448	11,137	30,997
San Juan Capistrano	17	879,011	0	0	170,093	19.35%	173,985	19.79%	$2.20	35,567	42,049	44,701	62,590
South County Total	367	23,672,061	575,044	1,936,000	2,257,005	9.53%	2,843,586	12.01%	$2.34	(16,393)	5,851	589,346	1,190,661
West County													
Cypress	29	1,993,770	0	0	323,855	16.24%	462,206	23.18%	$1.96	(71,736)	(67,910)	7,529	22,530
Fountain Valley	32	1,948,887	0	0	86,533	4.44%	106,310	5.45%	$1.07	12,652	4,983	12,652	20,131
Garden Grove	20	1,564,530	0	0	71,119	4.55%	118,806	7.59%	$1.58	(17,872)	(1,373)	565	17,694
Huntington Beach	44	2,509,739	0	0	347,641	13.85%	451,745	18.00%	$1.90	(14,568)	(141,142)	24,231	47,525
Los Alamitos	12	687,842	0	0	39,966	5.81%	191,616	27.86%	$1.80	5,623	54,262	6,200	56,744
Seal Beach	7	473,787	0	0	63,173	13.33%	77,243	16.30%	$2.87	4,936	(31,327)	34,853	74,839
Stanton	4	143,361	0	0	8,942	6.24%	14,464	10.09%	$0.00	0	0	0	0
Westminster	12	482,280	0	0	53,339	11.06%	69,383	14.39%	$2.06	(27,677)	(21,323)	2,906	9,260
West County Total	160	9,804,196	0	0	994,568	10.14%	1,491,773	15.22%	$2.01	(108,642)	(203,830)	88,936	248,723
Orange County Total	**1,501**	**115,402,633**	**647,387**	**6,498,671**	**12,779,853**	**11.07%**	**17,316,333**	**15.01%**	**$2.18**	**442,651**	**582,575**	**3,028,589**	**5,637,056**
Airport Area													
Class A	117	23,094,458	0	1,589,000	3,033,935	13.14%	3,702,215	16.03%	$2.72	(25,523)	113,856	515,411	1,209,397
Class B	307	16,755,669	0	1,364,346	1,481,042	8.84%	1,933,064	11.54%	$2.23	31,765	(4,661)	606,054	978,598
Class C	26	1,290,291	0	0	28,508	2.21%	87,002	6.74%	$1.77	8,670	14,952	16,643	27,575
Central County													
Class A	61	10,439,326	0	1,137,325	1,577,120	15.11%	2,390,215	22.90%	$2.53	339,870	433,036	541,014	810,258
Class B	257	17,161,794	0	302,000	1,746,378	10.18%	2,918,953	17.01%	$1.70	162,769	232,659	404,090	789,689
Class C	70	3,031,705	0	0	237,391	7.83%	322,627	10.64%	$1.47	9,861	14,251	28,012	59,629
North County													
Class A	18	1,933,745	72,343	120,000	321,161	16.61%	391,414	20.24%	$2.24	(84,863)	(139,614)	22,590	37,953
Class B	108	7,882,949	0	50,000	1,056,121	13.40%	1,187,289	15.06%	$1.79	123,607	113,332	214,963	279,834
Class C	10	336,439	0	0	46,624	13.86%	48,195	14.33%	$1.22	1,530	2,743	1,530	4,739
South County													
Class A	60	6,951,890	425,044	1,865,000	568,772	8.18%	872,562	12.55%	$2.77	59,018	62,003	229,004	390,421
Class B	296	16,199,903	150,000	71,000	1,684,559	10.40%	1,965,182	12.13%	$2.01	(77,670)	(62,054)	356,442	791,487
Class C	11	520,268	0	0	3,674	0.71%	5,842	1.12%	$0.00	2,259	5,902	3,900	8,753
West County													
Class A	23	2,461,544	0	0	243,512	9.89%	409,336	16.63%	$2.41	6,090	(25,021)	54,677	120,920
Class B	115	6,436,417	0	0	714,877	11.11%	892,060	13.86%	$1.75	(111,393)	(172,860)	27,640	121,184
Class C	22	906,235	0	0	36,179	3.99%	190,377	21.01%	$2.18	(3,339)	(5,949)	6,619	6,619
Orange County													
Class A	279	44,880,963	497,387	4,711,325	5,744,500	12.80%	7,765,742	17.30%	$2.50	294,592	444,260	1,362,696	2,568,949
Class B	1,083	64,436,732	150,000	1,787,346	6,682,977	10.37%	8,896,548	13.81%	$1.91	129,078	106,416	1,609,189	2,960,792
Class C	139	6,084,938	0	0	352,376	5.79%	654,043	10.75%	$1.55	18,981	31,899	56,704	107,315
Orange County Total	**1,501**	**115,402,633**	**647,387**	**6,498,671**	**12,779,853**	**11.07%**	**17,316,333**	**15.01%**	**$2.18**	**442,651**	**582,575**	**3,028,589**	**5,637,056**

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
1610 E. Saint Andrew Pl. – 2 Properties	Airport Area	B	392,879	$111.74	The Brookhollow Group	Eaton Vance Corp.
25531 Commercentre Dr. – 3 Properties	South County	B	155,795	$192.88	CT Realty Investors	LaSalle Investment Management
6281 Beach Blvd. – 2 Properties	North County	B	159,021	$182.99	Royal BP, LLC	Lincoln Property Company
2100 SE. Main St.	Airport Area	B	89,041	$308.00	NorAm Properties, LLC	E&L Properties
1700 E. Carnegie Ave. – 2 Properties	Airport Area	B	128,266	$187.11	TA Realty	Rialto Capital Management, LLC

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
25500 Commercentre Dr.	South County	B	89,510	May-2015	loanDepot	Massachusetts Mutual Life Ins.
26642-26672 Town Center Dr.	South County	A	67,694	May-2015	loanDepot	Arden Realty, Inc.
15211 Laguna Canyon Rd. – Renewal	South County	B	64,006	May-2015	Kofax, Inc.	The Irvine Company
2401 E. Katella Ave.	Central County	A	38,238	Apr-2015	Wildan Group, Inc.	Peregrine Realty Partners
2995 Red Hill Ave. – Renewal	Airport Area	B	37,659	Apr-2015	Profit Recovery	BRE of OC Red Hill, LLC

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.

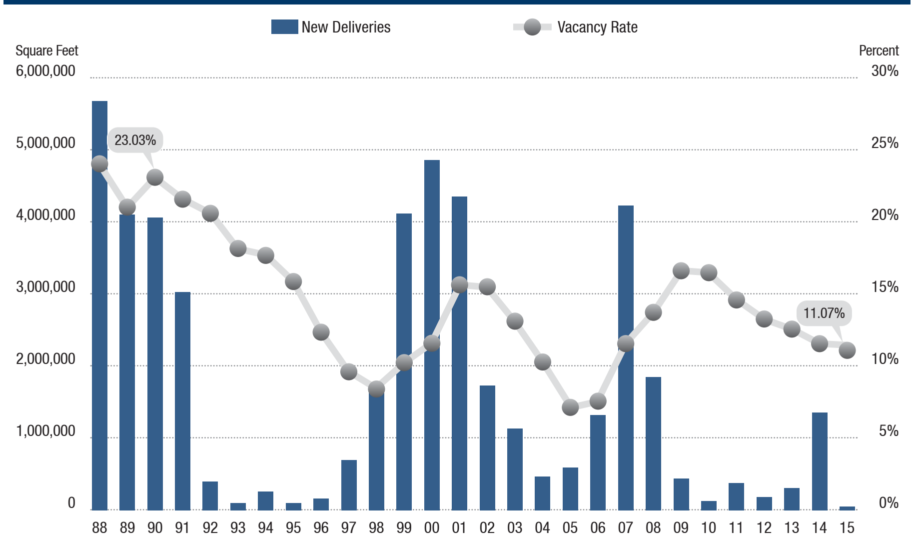
CLASS B

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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