THIRD QUARTER 2014
ORANGE COUNTY
OFFICE

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to the 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 had a great third quarter, posting almost 600,000 square feet of positive net absorption. This gives the market a total of 4 million square feet of positive absorption for the last ten 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 120,000 square feet for the third quarter of 2014. The most notable project delivered this 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 third quarter at 12.55%, a decrease from the previous year's rate of 12.67% 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 16.34% at the end of the third quarter of 2014, a decrease of 3.48% when compared to 2013's third quarter rate of 16.93%, but 21 basis points higher than last quarter's rate of 16.13%.
- **Lease Rates -** The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was $2.04 at the end of the quarter, a 6.81% increase from the previous year's rate of $1.91 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 $2.31 FSG, the highest being in the South County submarket, where Class A rates averaged $2.56 FSG.
- **Absorption -** The Orange County office market posted 593,892 square feet of positive absorption in the third quarter of the year, giving the market a net total of over 7.2 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 2.2 million square feet in the third quarter, producing a total of 12.6 million square feet leased over the last five quarters. Sales activity was down a bit from the previous quarter, posting 1.82 million square feet of activity in the third quarter compared to last quarter's figure of 2.5 million square feet. This statistic can have some lag time in being reported, so look for third 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 5.4% in August 2014, down from a revised 5.8% in July 2014 and below the previous year's estimate of 6.4%. This compares with an unadjusted unemployment rate of 7.4% for California and 6.3% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 17,900 payroll jobs from August 2013 to August 2014. Most sectors showed gains in employment; the largest gains were 5,500 in educational and health services and 5,300 in leisure and hospitality during that same period. Financial activities posted the largest year-over-year loss, dropping by 4,200 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 last quarter of 2014, 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

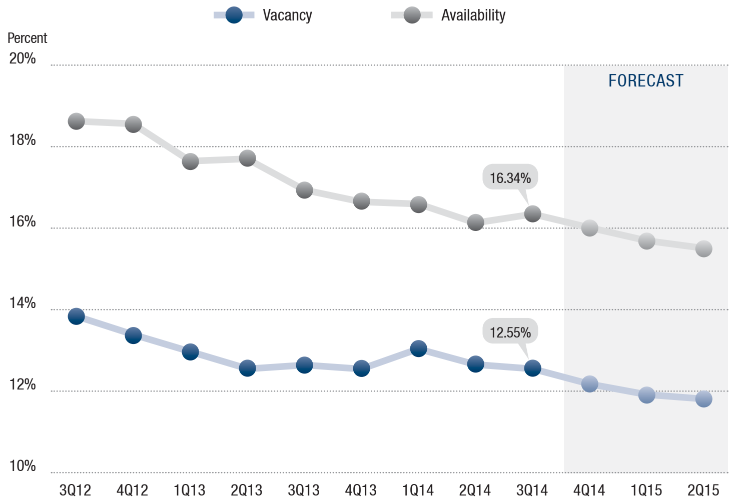
- **Employment -** We anticipate job growth of around 2.6%, or 37,000 jobs, in the Orange County area over the year. The most rapid growth is forecasted to take place in the construction, education & health, professional & business services, and leisure & hospitality sectors.
- **Lease Rates -** Expect the average asking lease rate to increase by 5% to 8% percent over the next four quarters.
- **Vacancy -** We anticipate vacancy continuing to descend in coming quarters, dropping by around 60 basis points to below 12%, by the end of the second quarter of 2015.

OVERVIEW

	3Q14	2Q14	3Q13	% of Change vs. 3Q13
Vacancy Rate	12.55%	12.69%	12.67%	(0.95%)
Availability Rate	16.34%	16.13%	16.93%	(3.48%)
Average Asking Lease Rate	$2.04	$2.00	$1.91	6.81%
Sale & Lease Transactions	4,088,363	5,121,524	5,056,373	(19.14%)
Gross Absorption	2,637,897	2,874,792	2,655,931	(0.68%)
Net Absorption	593,892	698,458	(46,382)	N/A

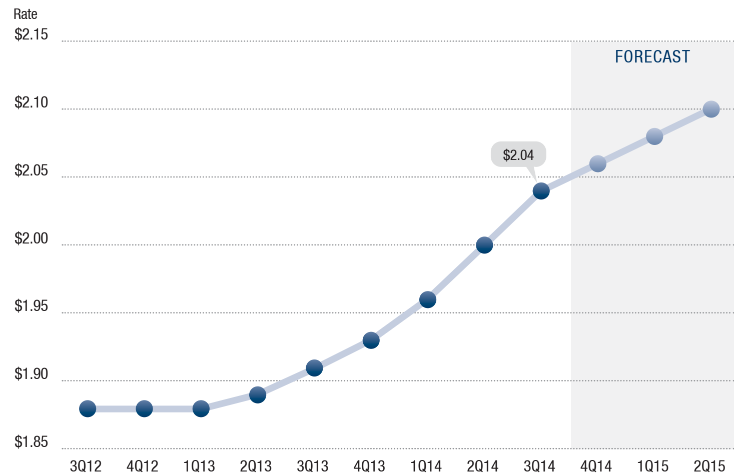
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



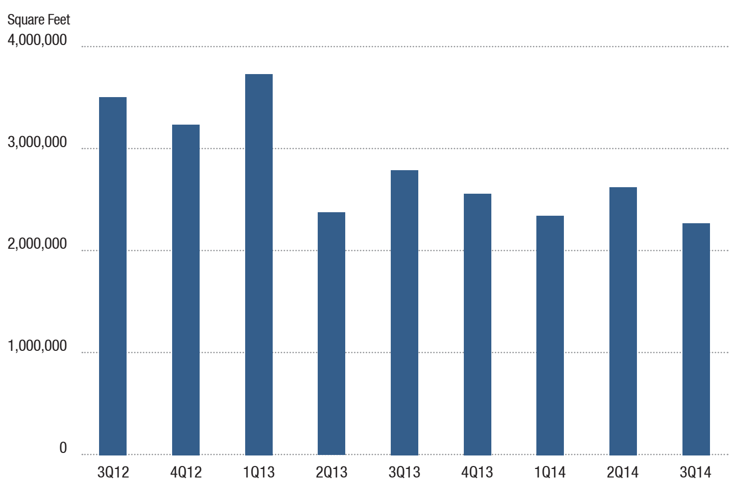
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



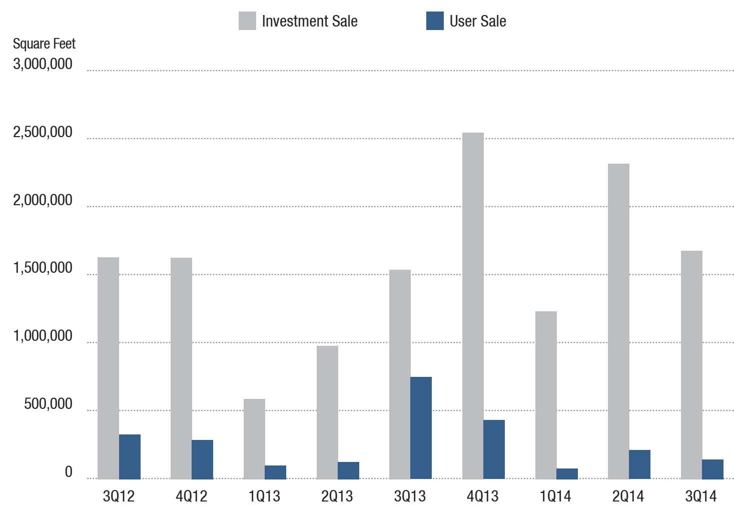
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



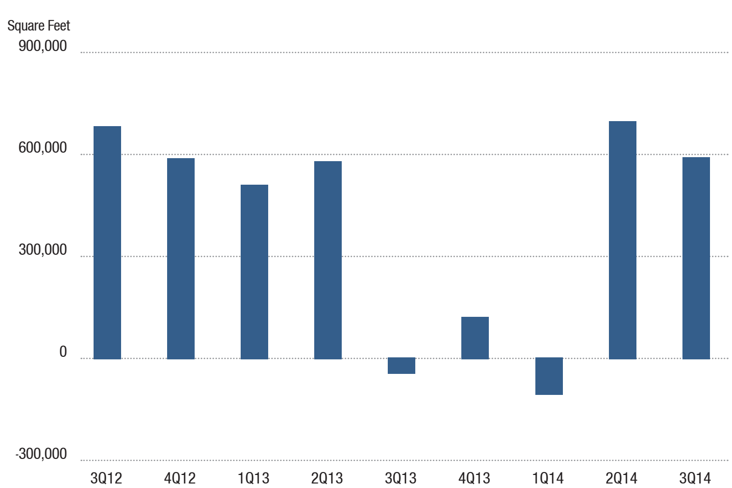
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



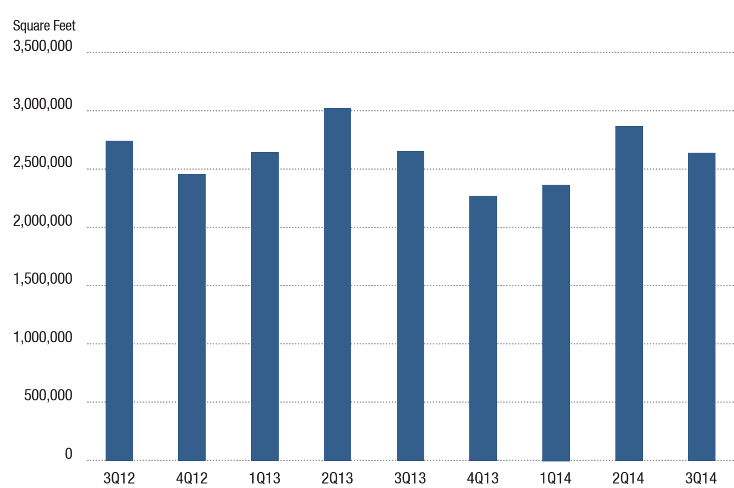
NET ABSORPTION

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 3Q2014	Square Feet Available	Availability Rate 3Q2014	Average Asking Lease Rate	Net Absorption 3Q2014	Net Absorption 2014	Gross Absorption 3Q2014	Gross Absorption 2014
Airport Area													
Costa Mesa	73	7,334,269	0	0	1,165,723	15.89%	1,129,007	15.39%	$2.17	59,455	(39,934)	184,952	346,478
Irvine	256	23,823,344	0	2,291,000	2,811,987	11.80%	3,835,831	16.10%	$2.21	183,481	410,101	907,020	2,284,908
Newport Beach	127	10,223,463	0	42,646	1,138,333	11.13%	1,563,419	15.29%	$2.48	80,346	465,259	206,131	1,049,599
Airport Area Total	456	41,381,076	0	2,333,646	5,116,043	12.36%	6,528,257	15.78%	$2.27	323,282	835,426	1,298,103	3,680,985
Central County													
Anaheim	85	6,786,597	0	0	1,211,294	17.85%	1,525,166	22.47%	$1.83	57,668	(254,158)	108,773	238,400
Orange	80	7,070,791	0	0	1,029,436	14.56%	1,088,634	15.40%	$1.95	(33,476)	(82,091)	57,407	258,872
Santa Ana	183	14,790,720	0	702,325	2,297,077	15.53%	2,929,465	19.81%	$1.74	(50,388)	(49,887)	204,678	616,619
Tustin	39	1,948,660	0	737,000	119,494	6.13%	202,946	10.41%	$1.81	16,905	48,406	41,657	87,808
Central County Total	387	30,596,768	0	1,439,325	4,657,301	15.22%	5,746,211	18.78%	$1.80	(9,291)	(337,730)	412,515	1,201,699
North County													
Anaheim Hills	17	1,027,824	0	0	310,247	30.18%	321,525	31.28%	$1.79	15,034	(120,377)	21,791	68,085
Brea	43	4,135,787	0	120,000	451,046	10.91%	725,528	17.54%	$1.93	48,294	8,929	94,949	138,536
Buena Park	15	956,434	77,000	0	90,781	9.49%	97,664	10.21%	$1.59	8,253	29,066	20,853	62,984
Fullerton	31	2,507,794	0	34,000	309,847	12.36%	424,814	16.94%	$1.59	(635)	(27,934)	9,921	32,976
La Habra	4	142,069	0	0	2,156	1.52%	2,156	1.52%	$0.00	0	0	0	0
La Palma	10	712,038	0	0	172,147	24.18%	156,639	22.00%	$2.09	1,830	10,283	24,156	40,654
Placentia	8	267,589	0	0	39,911	14.92%	39,911	14.92%	$1.58	(3,700)	10,848	3,047	17,595
Yorba Linda	7	423,502	0	0	44,184	10.43%	57,328	13.54%	$1.86	1,015	(3,946)	1,015	10,110
North County Total	135	10,173,037	77,000	154,000	1,420,319	13.96%	1,825,565	17.95%	$1.83	70,091	(93,131)	175,732	370,940
South County													
Aliso Viejo	43	3,117,975	0	210,000	250,941	8.05%	384,668	12.34%	$2.26	14,863	8,693	55,438	210,518
Dana Point	2	91,876	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Foothill Ranch	10	799,893	0	0	144,465	18.06%	159,331	19.92%	$1.96	(24,914)	1,575	6,318	45,112
Irvine Spectrum	151	10,093,745	0	677,000	634,854	6.29%	1,300,246	12.88%	$2.68	107,638	155,664	350,331	908,681
Laguna Beach	5	194,434	0	0	31,712	16.31%	31,712	16.31%	$0.00	(3,492)	(3,251)	2,410	5,468
Laguna Hills	33	1,874,770	0	0	354,065	18.89%	430,520	22.96%	$1.81	3,437	13,503	48,349	197,081
Laguna Niguel	12	1,818,124	0	0	170,961	9.40%	117,903	6.48%	$2.46	2,403	19,744	15,190	42,790
Lake Forest	40	2,098,204	0	0	333,208	15.88%	450,857	21.49%	$1.73	28,207	5,513	53,710	162,950
Mission Viejo	36	1,914,358	0	0	253,432	13.24%	339,302	17.72%	$1.92	4,861	8,294	26,861	95,315
Rancho Santa Margarita	6	250,472	0	0	41,947	16.75%	42,895	17.13%	$1.78	(1,075)	(1,560)	100	24,485
San Clemente	12	503,048	0	0	39,491	7.85%	74,101	14.73%	$1.79	15,426	928	18,513	34,376
San Juan Capistrano	16	836,321	42,551	0	172,271	20.60%	173,867	20.79%	$2.19	(24)	9,434	5,125	40,325
South County Total	366	23,593,220	42,551	887,000	2,427,347	10.29%	3,505,402	14.86%	$2.14	147,330	218,537	582,345	1,767,101
West County													
Cypress	30	2,090,767	0	0	289,738	13.86%	520,070	24.87%	$1.85	54,537	46,990	78,965	126,418
Fountain Valley	32	1,948,887	0	0	102,449	5.26%	106,907	5.49%	$0.99	5,822	476,647	30,753	522,445
Garden Grove	20	1,562,575	0	0	68,479	4.38%	64,729	4.14%	$1.50	4,636	(869)	26,212	38,384
Huntington Beach	43	2,389,863	0	0	248,131	10.38%	345,880	14.47%	$2.13	3,182	61,375	25,200	137,835
Los Alamitos	12	686,963	0	0	101,754	14.81%	93,131	13.56%	$1.92	(3,343)	(6,605)	0	10,696
Seal Beach	7	473,787	0	0	24,381	5.15%	94,563	19.96%	$2.86	(2,960)	127	3,340	10,929
Stanton	4	143,361	0	0	8,942	6.24%	14,464	10.09%	$0.00	2,348	966	2,348	11,228
Westminster	12	482,280	0	0	32,016	6.64%	35,173	7.29%	$1.91	(1,742)	(3,844)	2,384	5,940
West County Total	160	9,778,483	0	0	875,890	8.96%	1,274,917	13.04%	$1.99	62,480	574,787	169,202	863,875
Orange County Total	**1,504**	**115,522,584**	**119,551**	**4,813,971**	**14,496,900**	**12.55%**	**18,880,352**	**16.34%**	**$2.04**	**593,892**	**1,197,889**	**2,637,897**	**7,884,600**
Airport Area													
Class A	117	23,073,060	0	995,000	3,298,642	14.30%	4,166,709	18.06%	$2.42	360,817	831,638	830,074	2,385,455
Class B	311	16,958,231	0	1,338,646	1,765,404	10.41%	2,240,827	13.21%	$2.03	(21,012)	(34,741)	452,044	1,208,449
Class C	28	1,349,785	0	0	51,997	3.85%	120,721	8.94%	$1.73	(16,523)	38,529	15,985	87,081
Central County													
Class A	61	10,444,777	0	1,137,325	2,316,314	22.18%	2,395,972	22.94%	$2.02	(10,871)	(385,793)	191,591	492,923
Class B	256	17,130,695	0	302,000	2,062,550	12.04%	2,979,343	17.39%	$1.66	6,802	(18,441)	190,571	561,143
Class C	70	3,021,296	0	0	278,437	9.22%	370,896	12.28%	$1.43	(5,222)	66,504	30,353	147,633
North County													
Class A	19	2,074,925	77,000	120,000	240,236	11.58%	433,515	20.89%	$2.19	12,713	2,938	48,658	82,672
Class B	106	7,761,673	0	34,000	1,131,240	14.57%	1,343,207	17.31%	$1.73	55,708	(91,535)	121,195	280,680
Class C	10	336,439	0	0	48,843	14.52%	48,843	14.52%	$1.88	1,670	(4,534)	5,879	7,588
South County													
Class A	59	6,906,717	42,551	666,000	578,640	8.38%	901,737	13.06%	$2.56	(5,914)	(9,707)	123,898	435,925
Class B	296	16,166,235	0	221,000	1,828,150	11.31%	2,590,195	16.02%	$1.99	153,303	243,172	455,096	1,322,699
Class C	11	520,268	0	0	20,557	3.95%	13,470	2.59%	$0.00	(59)	(14,928)	3,351	8,477
West County													
Class A	23	2,466,958	0	0	238,454	9.67%	359,332	14.57%	$2.35	49,023	78,789	63,247	129,478
Class B	115	6,406,169	0	0	602,362	9.40%	876,161	13.68%	$1.69	11,716	490,681	100,532	720,637
Class C	22	905,356	0	0	35,074	3.87%	39,424	4.35%	$1.45	1,741	5,317	5,423	13,760
Orange County													
Class A	279	44,966,437	119,551	2,918,325	6,672,286	14.84%	8,257,265	18.36%	$2.31	405,768	517,865	1,257,468	3,526,453
Class B	1,084	64,423,003	0	1,895,646	7,389,706	11.47%	10,029,733	15.57%	$1.80	206,517	589,136	1,319,438	4,093,608
Class C	141	6,133,144	0	0	434,908	7.09%	593,354	9.67%	$1.52	(18,393)	90,888	60,991	264,539
Orange County Total	**1,504**	**115,522,584**	**119,551**	**4,813,971**	**14,496,900**	**12.55%**	**18,880,352**	**16.34%**	**$2.04**	**593,892**	**1,197,889**	**2,637,897**	**7,884,600**

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
600 City Pky. W. – 2 Properties	Central County	A	273,221	$166.53	Greenlaw Partners	The Abbey Company
3230 E. Imperial Hwy. – 4 Properties	North County	B	290,179	$143.88	PRES Companies	The Abbey Company
2525 Main St. – 2 Properties	Airport Area	A	143,695	$250.53	J & R Group, LLC	Menlo Equities
625 N. Grand Ave.	Central County	B	173,000	$156.07	Caribou Industries	Freedom Communication, Inc.
29222 Rancho Viejo Rd. – 2 Properties	South County	B	115,517	$205.60	Greenlaw Partners	Westcore Properties

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
25 Enterprises – Renewal	South County	A	70,251	Jul-14	Lennar	Summit Office Partners Holding Co.
1301 Dove St. – Renewal/Expansion	Airport Area	A	55,282	Jul-14	Alliant Insurance Services	Met Life Insurance Company
2126 E. Katella Ave.	Central County	A	53,392	Jul-14	County of Orange	2126 East Katella Avenue Holding, LLC
5 Park Plaza	Airport Area	A	45,000	Aug-14	Wells Fargo	The Irvine Company
801 Civic Center Dr. W.	Central County	A	31,083	Jul-14	District Attorney	801 Civic Center Drive W Holdings

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.

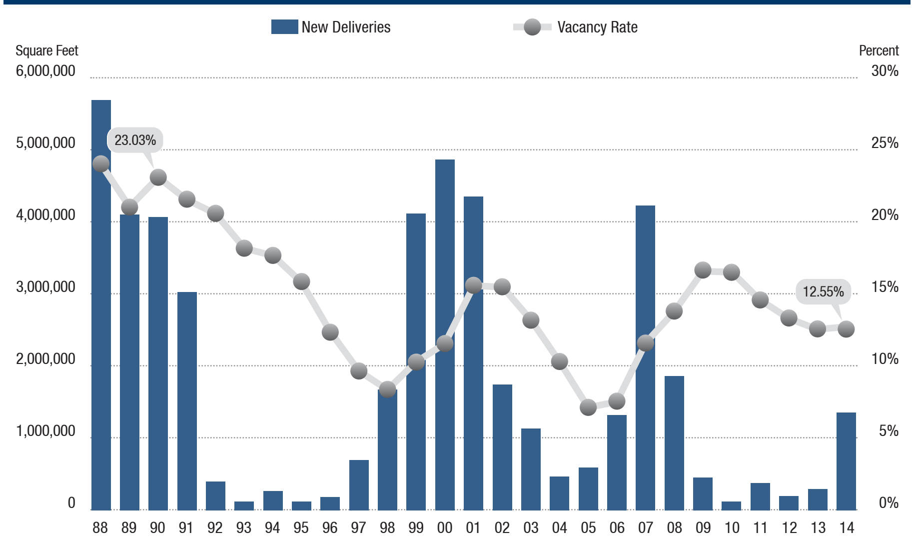
CLASS B

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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949.644.8648

Phoenix, AZ
602.952.8648

Reno, NV
775.771.9955

Sacramento, CA
916.772.8648

San Diego, CA
858.453.0505

San Jose, CA
408.885.9110

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.

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