

## MARKET CHANGE

*Compared to 2013:*

**Vacancy**

**DOWN**



**Net Absorption**

**POSITIVE**



**Lease Rates**

**UP**



**Transactions**

**DOWN**



**Deliveries**

**UP**



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## HIGHLIGHTS

- **Steady Growth** - The Orange County office market had a great 2014, posting over 2.1 million square feet of positive net absorption. This gives the market a total of almost 5 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 fourth 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 86 basis points from the previous quarter, direct/sublease space (unoccupied) finished the fourth quarter at 11.78%, a decrease from the previous year's rate of 12.59% 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 15.81% at the end of the fourth quarter of 2014, a decrease of 5.33% when compared to 2013's fourth quarter rate of 16.70%, and 59 basis points lower than last quarter's rate of 16.40%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was \$2.08 at the end of the quarter, a 7.77% increase from the previous year's rate of \$1.93 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 \$2.34 FSG, the highest being in the South County submarket, where Class A rates averaged \$2.53 FSG.
- **Absorption** - The Orange County office market posted 974,469 square feet of positive absorption in the fourth quarter of the year, giving the market a net total of over 8 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 10.4 million square feet in 2014, a decrease when compared to 2013's figure of 11.5 million square feet. Sales activity was up from the previous year, posting 7.6 million square feet of activity in 2014 compared to 2013's figure of 7.0 million square feet. This statistic can have some lag time in being reported, so look for fourth quarter figures to end up somewhat higher in the next report. Details of the largest transactions for 2014 can be found on the back page of this report.
- **Employment** - The unemployment rate in Orange County was 5.0% in November 2014, unchanged from a revised 5.0% in October 2014 and below the previous year's estimate of 5.8%. This compares with an unadjusted unemployment rate of 7.1% for California and 5.5% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 32,200 payroll jobs from November 2013 to November 2014. Most sectors showed gains in employment; the largest gains were 10,900 in educational and health services and 7,700 in construction during that same period. Manufacturing posted the largest year-over-year loss, dropping by 2,300 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

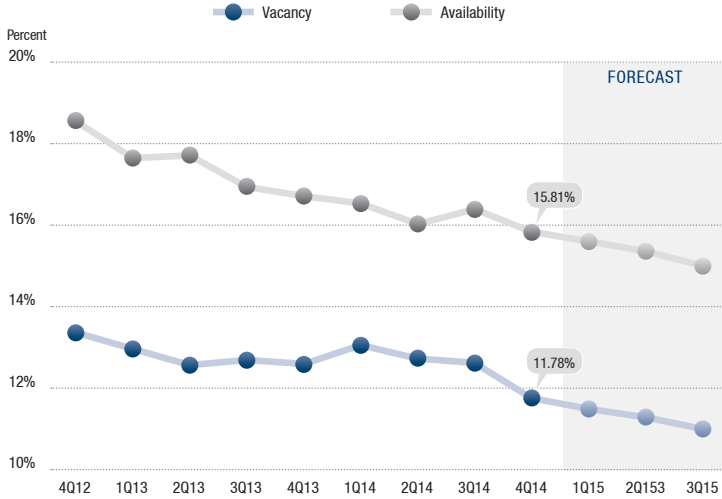
- **Employment** - We anticipate job growth of around 2.6%, or 38,000 jobs, in the Orange County area over the next four quarters according to Chapman University. The most rapid growth should take place in the construction, education & health, professional & business services, and leisure & hospitality 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 80 basis points to around 11% by the end of the third quarter of 2015.

## OVERVIEW

	2014	2013	2012	% of Change vs. 2013
Total Vacancy Rate	11.78%	12.59%	13.35%	(6.43%)
Availability Rate	15.81%	16.70%	18.56%	(5.33%)
Average Asking Lease Rate	\$2.08	\$1.93	\$1.88	7.77%
Sale & Lease Transactions	17,976,663	18,574,668	18,418,378	(3.22%)
Gross Absorption	10,492,975	10,627,806	9,994,647	(1.27%)
Net Absorption	2,112,334	1,127,660	1,599,598	N/A

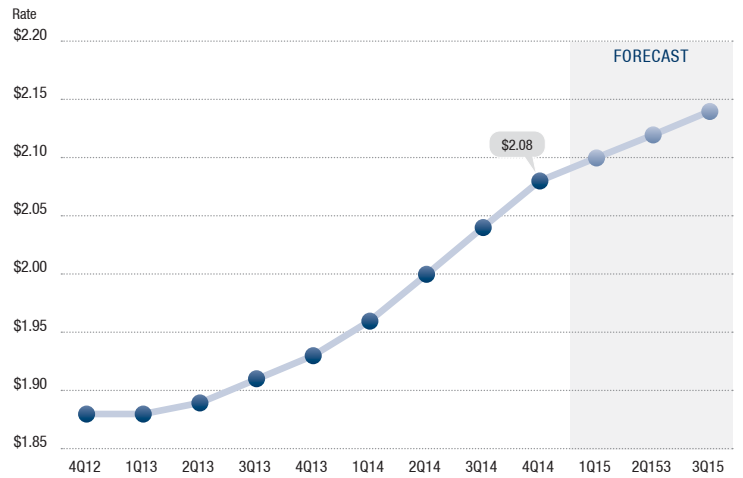
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



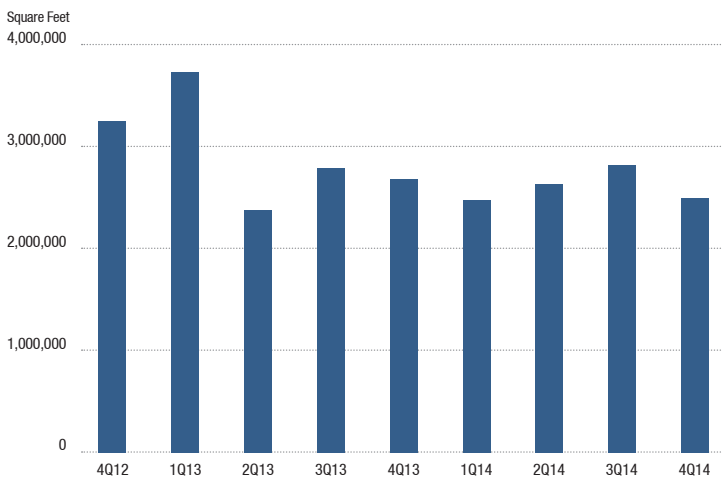
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



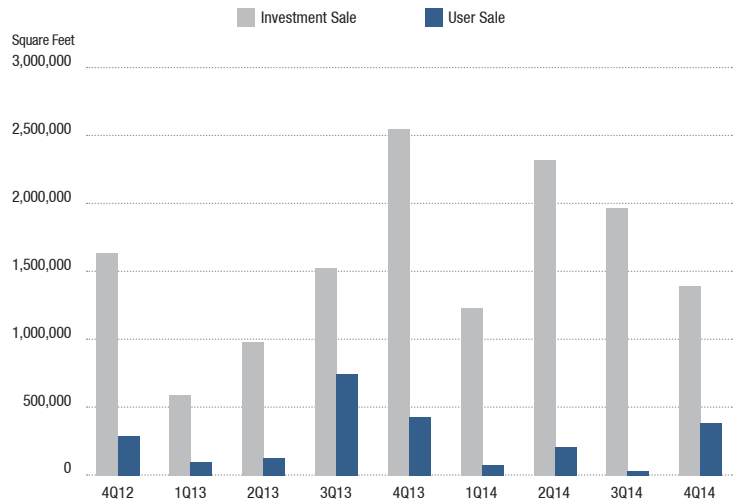
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



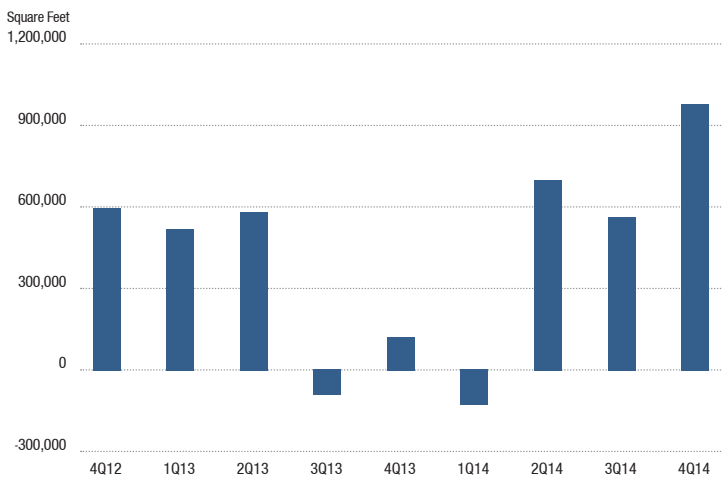
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



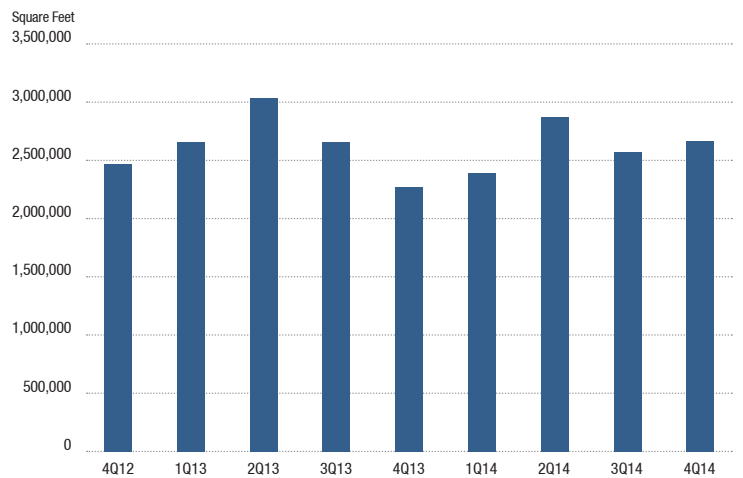
NET ABSORPTION

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 Q42014	Square Feet Available	Availability Rate Q42014	Average Asking Lease Rate	Net Absorption Q42014	Net Absorption 2014	Gross Absorption Q42014	Gross Absorption 2014
<b>Airport Area</b>													
Costa Mesa	73	7,334,269	0	0	1,123,421	15.32%	1,302,935	17.77%	\$2.27	45,755	2,368	123,167	469,645
Irvine	257	23,876,708	0	2,291,000	2,518,049	10.55%	3,415,682	14.31%	\$2.23	300,138	704,039	827,131	3,112,650
Newport Beach	127	10,235,661	0	42,646	1,132,819	11.07%	1,519,937	14.85%	\$2.57	54,624	470,717	185,879	1,183,441
<b>Airport Area Total</b>	<b>457</b>	<b>41,446,638</b>	<b>0</b>	<b>2,333,646</b>	<b>4,774,289</b>	<b>11.52%</b>	<b>6,238,554</b>	<b>15.05%</b>	<b>\$2.29</b>	<b>400,517</b>	<b>1,177,124</b>	<b>1,136,177</b>	<b>4,765,736</b>
<b>Central County</b>													
Anaheim	85	6,786,597	0	0	1,120,884	16.52%	1,313,501	19.35%	\$1.72	90,410	(163,748)	124,498	362,898
Orange	81	7,100,651	0	0	881,506	12.41%	1,062,563	14.96%	\$1.90	154,097	65,839	214,603	475,443
Santa Ana	183	14,792,495	0	702,325	2,182,017	14.75%	2,777,925	18.78%	\$1.80	177,527	111,153	269,526	868,246
Tustin	39	1,948,660	0	816,756	115,466	5.93%	178,832	9.18%	\$1.84	4,028	52,434	34,783	122,591
<b>Central County Total</b>	<b>388</b>	<b>30,628,403</b>	<b>0</b>	<b>1,519,081</b>	<b>4,299,873</b>	<b>14.04%</b>	<b>5,332,821</b>	<b>17.41%</b>	<b>\$1.81</b>	<b>426,062</b>	<b>65,678</b>	<b>643,410</b>	<b>1,829,178</b>
<b>North County</b>													
Anaheim Hills	17	1,027,824	0	0	322,727	31.40%	328,787	31.99%	\$1.75	(12,480)	(132,857)	8,394	76,479
Brea	43	4,110,724	0	120,000	440,296	10.71%	666,908	16.22%	\$1.95	14,826	19,679	65,520	202,485
Buena Park	15	951,676	75,000	0	79,610	8.37%	81,956	8.61%	\$1.88	11,171	40,237	12,668	75,652
Fullerton	31	2,507,794	0	34,000	329,717	13.15%	427,622	17.05%	\$1.58	(19,870)	(47,804)	6,996	39,972
La Habra	4	142,069	0	0	0	0.00%	0	0.00%	\$0.00	2,156	2,156	2,156	2,156
La Palma	10	712,038	0	0	146,261	20.54%	175,197	24.61%	\$2.08	25,886	36,169	38,735	79,389
Placentia	8	267,589	0	0	42,461	15.87%	42,461	15.87%	\$1.58	(2,550)	8,298	7,924	25,519
Yorba Linda	7	423,502	0	0	43,754	10.33%	56,898	13.44%	\$1.85	430	(3,516)	430	10,540
<b>North County Total</b>	<b>135</b>	<b>10,143,216</b>	<b>75,000</b>	<b>154,000</b>	<b>1,404,826</b>	<b>13.85%</b>	<b>1,779,829</b>	<b>17.55%</b>	<b>\$1.87</b>	<b>19,569</b>	<b>(77,638)</b>	<b>142,823</b>	<b>512,192</b>
<b>South County</b>													
Aliso Viejo	43	3,117,975	0	210,000	230,236	7.38%	501,774	16.09%	\$2.32	20,705	29,398	69,626	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	128,746	16.12%	163,356	20.45%	\$1.99	15,719	17,294	15,719	60,831
Irvine Spectrum	151	10,158,722	425,044	221,000	608,987	5.99%	1,318,565	12.98%	\$2.68	29,827	197,431	356,716	1,269,197
Laguna Beach	5	194,434	0	0	31,712	16.31%	28,895	14.86%	\$0.00	0	(3,251)	1,000	6,468
Laguna Hills	33	1,872,630	0	0	352,327	18.81%	415,691	22.20%	\$1.89	2,123	15,241	36,276	233,357
Laguna Niguel	11	1,776,844	0	0	150,423	8.47%	102,420	5.76%	\$2.45	20,538	40,282	99,191	141,981
Lake Forest	40	2,098,175	0	0	332,574	15.85%	368,072	17.54%	\$1.65	634	6,147	8,831	171,781
Mission Viejo	36	1,916,398	0	110,000	250,294	13.06%	340,103	17.75%	\$1.96	3,138	11,432	27,668	122,983
Rancho Santa Margarita	6	250,472	0	0	47,757	19.07%	49,471	19.75%	\$1.78	(5,810)	(7,370)	948	25,433
San Clemente	12	503,048	0	0	28,058	5.58%	62,670	12.46%	\$1.84	11,433	12,361	18,057	52,433
San Juan Capistrano	16	836,321	42,551	0	169,591	20.28%	171,187	20.47%	\$2.21	2,680	12,114	3,426	43,751
<b>South County Total</b>	<b>366</b>	<b>23,659,036</b>	<b>467,595</b>	<b>541,000</b>	<b>2,330,705</b>	<b>9.85%</b>	<b>3,522,204</b>	<b>14.89%</b>	<b>\$2.14</b>	<b>100,987</b>	<b>331,079</b>	<b>637,458</b>	<b>2,408,359</b>
<b>West County</b>													
Cypress	30	2,090,767	0	0	280,945	13.44%	627,650	30.02%	\$1.85	8,793	55,783	9,280	135,698
Fountain Valley	32	1,948,887	0	0	95,879	4.92%	116,922	6.00%	\$0.99	(7,400)	483,217	5,765	528,210
Garden Grove	20	1,564,055	0	0	69,746	4.46%	67,365	4.31%	\$1.65	(1,267)	(2,136)	6,345	44,729
Huntington Beach	43	2,389,863	0	0	206,499	8.64%	324,981	13.60%	\$2.12	27,147	88,522	44,704	195,189
Los Alamitos	12	686,963	0	0	94,228	13.72%	100,058	14.57%	\$1.80	7,526	921	16,231	26,927
Seal Beach	7	473,787	0	0	31,846	6.72%	124,611	26.30%	\$2.87	(7,465)	(7,338)	18,660	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	32,016	6.64%	34,053	7.06%	\$1.96	0	(3,844)	0	5,940
<b>West County Total</b>	<b>160</b>	<b>9,779,963</b>	<b>0</b>	<b>0</b>	<b>820,101</b>	<b>8.39%</b>	<b>1,410,104</b>	<b>14.42%</b>	<b>\$2.03</b>	<b>27,334</b>	<b>616,091</b>	<b>100,985</b>	<b>977,510</b>
<b>Orange County Total</b>	<b>1,506</b>	<b>115,657,256</b>	<b>542,595</b>	<b>4,547,727</b>	<b>13,629,794</b>	<b>11.78%</b>	<b>18,283,512</b>	<b>15.81%</b>	<b>\$2.08</b>	<b>974,469</b>	<b>2,112,334</b>	<b>2,660,853</b>	<b>10,492,975</b>
<b>Airport Area</b>													
Class A	117	23,085,258	0	995,000	3,221,613	13.96%	4,072,109	17.64%	\$2.48	105,410	908,611	561,819	2,895,237
Class B	312	17,011,595	0	1,338,646	1,507,420	8.86%	2,064,757	12.14%	\$2.09	288,366	223,243	555,949	1,765,009
Class C	28	1,349,785	0	0	45,256	3.35%	101,688	7.53%	\$1.74	6,741	45,270	18,409	105,490
<b>Central County</b>													
Class A	61	10,448,520	0	1,137,325	2,018,548	19.32%	2,291,239	21.93%	\$2.04	316,454	(88,027)	394,654	889,334
Class B	257	17,158,587	0	381,756	2,029,002	11.82%	2,697,658	15.72%	\$1.60	85,209	61,087	208,502	750,242
Class C	70	3,021,296	0	0	252,323	8.35%	343,924	11.38%	\$1.44	24,399	92,618	40,254	189,602
<b>North County</b>													
Class A	19	2,074,925	75,000	120,000	208,297	10.04%	426,795	20.57%	\$2.19	31,939	34,877	50,111	132,783
Class B	106	7,731,852	0	34,000	1,147,162	14.84%	1,303,667	16.86%	\$1.77	(11,846)	(107,457)	90,384	369,493
Class C	10	336,439	0	0	49,367	14.67%	49,367	14.67%	\$1.55	(524)	(5,058)	2,328	9,916
<b>South County</b>													
Class A	59	6,908,757	467,595	320,000	597,401	8.65%	996,980	14.43%	\$2.53	(26,901)	(28,468)	123,058	558,983
Class B	296	16,230,011	0	221,000	1,723,728	10.62%	2,515,063	15.50%	\$1.84	116,907	363,494	499,725	1,826,224
Class C	11	520,268	0	0	9,576	1.84%	10,161	1.95%	\$0.00	10,981	(3,947)	14,675	23,152
<b>West County</b>													
Class A	23	2,466,958	0	0	218,491	8.86%	491,786	19.93%	\$2.42	5,478	84,267	48,815	190,943
Class B	115	6,407,649	0	0	571,380	8.92%	883,738	13.79%	\$1.70	17,012	521,663	42,975	763,612
Class C	22	905,356	0	0	30,230	3.34%	34,580	3.82%	\$1.48	4,844	10,161	9,195	22,955
<b>Orange County</b>													
Class A	279	44,984,418	542,595	2,572,325	6,264,350	13.93%	8,278,909	18.40%	\$2.34	432,380	911,260	1,178,457	4,667,280
Class B	1,086	64,539,694	0	1,975,402	6,978,692	10.81%	9,464,883	14.67%	\$1.82	495,648	1,062,030	1,397,535	5,474,580
Class C	141	6,133,144	0	0	386,752	6.31%	539,720	8.80%	\$1.53	46,441	139,044	84,861	351,115
<b>Orange County Total</b>	<b>1,506</b>	<b>115,657,256</b>	<b>542,595</b>	<b>4,547,727</b>	<b>13,629,794</b>	<b>11.78%</b>	<b>18,283,512</b>	<b>15.81%</b>	<b>\$2.08</b>	<b>974,469</b>	<b>2,112,334</b>	<b>2,660,853</b>	<b>10,492,975</b>

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 OF 2014

Sales Transactions

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
5 Hutton Centre Dr. – 2 Properties	Airport Area	A	553,683	\$232.99	BRE/OC Griffin, LLC	AG/LPC Griffin Towers, LP
17901 Von Karman Ave.	Airport Area	A	272,887	\$414.00	John Hancock Life Insurance Co.	LBA Realty
275 Valencia Ave.	North County	B	637,500	\$172.55	Greenlaw Partners	Lexington Realty Trust
7755 Center Ave. – 3 Properties	West County	A	395,150	\$237.13	PR One Pacific Plaza, LLC	Bella Office Owner, LLC
145 S. State College Blvd. – 5 Properties	North County	A	514,705	\$137.17	Hines	RBS Global Securities

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
199 E. Center St.	North County	A	191,555	Oct-14	St. Joseph Heritage Medical Center	199 Center Street, LLC
625 N. Grand Ave.	Central County	B	173,000	Sep-14	Freedom Communication	Caribou Industries
550 S. Main St. – Renewal	Central County	B	150,000	Jan-14	OCTA	WCB Properties
1600 S. Douglass Rd. **	Central County	B	127,750	Dec-14	Undisclosed	New Tower Trust Company Multi-Emp
131 Theory Dr.	Airport Area	B	126,880	Apr-14	Belkin International	The Irvine Company

\*\* VRES Deal \*\*

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.

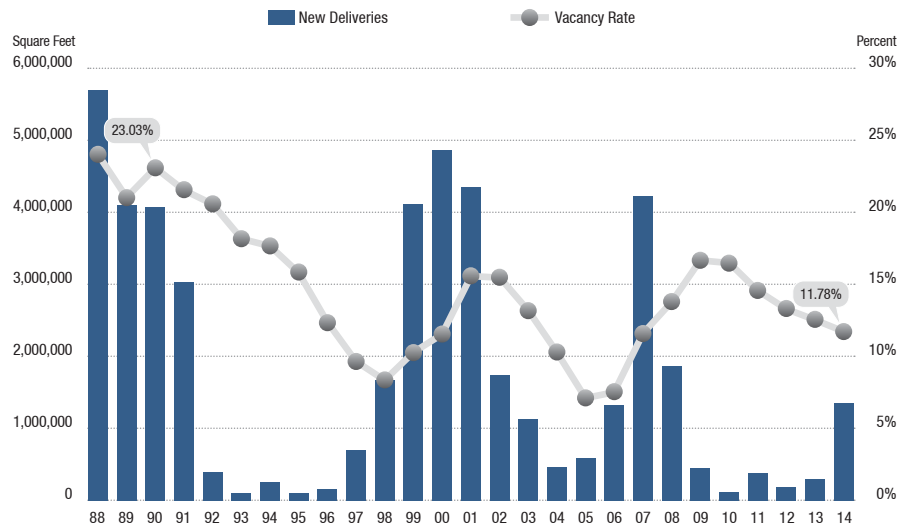
CLASS B

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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Inland Empire, CA  
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Las Vegas, NV  
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Los Angeles, CA  
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Newport Beach, CA  
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Phoenix, AZ  
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Sacramento, CA  
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