



Recovery Scorecard: Office Getting Its Groove Back

The second quarter marked five years since the Orange County office market hit bottom and began its rebound from the financial meltdown and recession. The recovery has been mixed but with some predictive signs that bode well for landlords for the rest of this year and next.

The vacancy rate has fallen from 17.3% to 11.1% since mid-2010, an impressive overall performance especially since Orange County was ground zero for subprime lenders. When other important measurements such as "total rentable space," "total occupancy" and "rate of vacant available space" are factored in, the market's performance looks even better.

For example, since mid-2010 vacant space has declined by 6.4 million sq. ft. to 12.2 million sq. ft. During the same time, total occupancy actually has grown by 8.8 million sq. ft. due to absorption of new space and empty sublet space that is not regarded as vacant.

Additionally, at the end of Q2 there was 4.4 million sq. ft. more occupied space than prior to the collapse. Moreover, pre-recession peak occupancy in 2007 totaled 94.7 million sq. ft. for a 91.9% occupancy rate versus Q2's occupancy total of 98 million sq. ft. and a rate of 88.9%.

Big blocks of available space are disappearing. Rents, on the other hand, have lagged. Although average full-service asking rates are up 8.3% year over year, rents remain 17% below their 2007 peak.

The recovery also has been uneven geographically, with the Airport, Central and South County submarkets attracting and retaining the most tenants often at the expense of the North and West County submarkets.

In past recessions, tenants predictably migrated from Class B to Class A buildings and to the more prestigious Airport, Central and South County submarkets where space becomes made more affordable. In the last recession, after 18 subprime lenders shut their doors, shift was tectonic. Since then, the economy and job growth have improved gradually with gains spread broadly among office users: i.e., health care, technology and financial services.

The big three submarkets, however, may be losing some of their advantage as the gravitational pull of lower rents in the sputtering North, Central and West county submarkets proves irresistible to value-minded tenants. Average asking Central County lease rates, for example, remain about 26% off their peak and 24% less than Airport rents.

MARKET OVERVIEW

(Change from last quarter)

AVAILABILITY - 15.0%
Down from 15.1% last quarter



VACANCY - 11.1%
Down from 11.5% last quarter



ABSORPTION - 473,631 SQ. FT.
Up from 201,160 SF last quarter

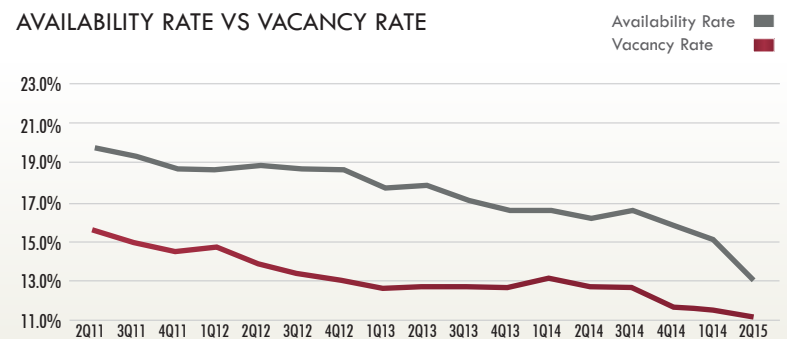


AVERAGE LEASE RATE - \$2.20 FSG
Up from \$2.14 last quarter



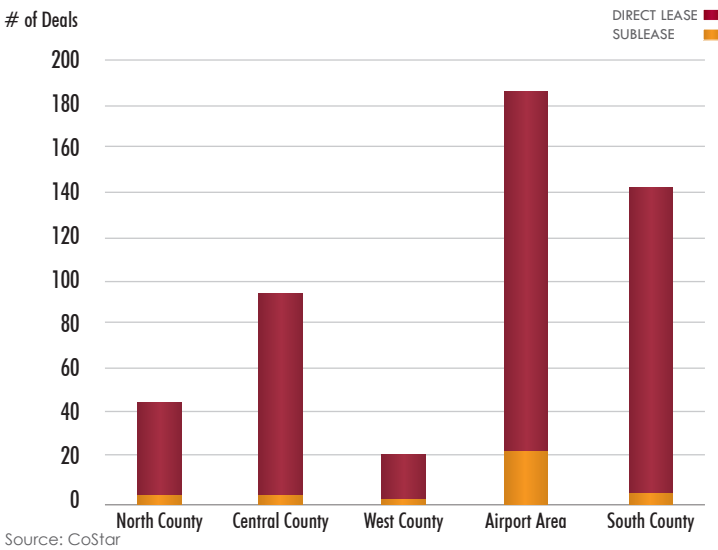
*All numbers are based on office space in buildings 30,000 sq. ft. and larger.

AVAILABILITY RATE VS VACANCY RATE

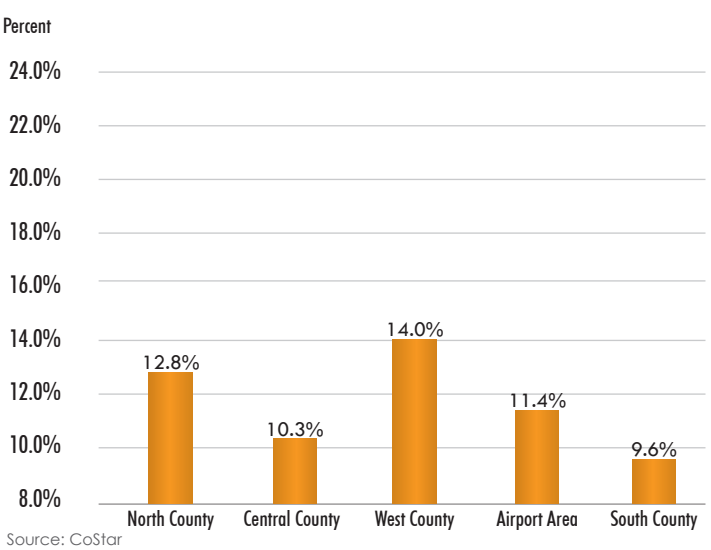


Source: CoStar

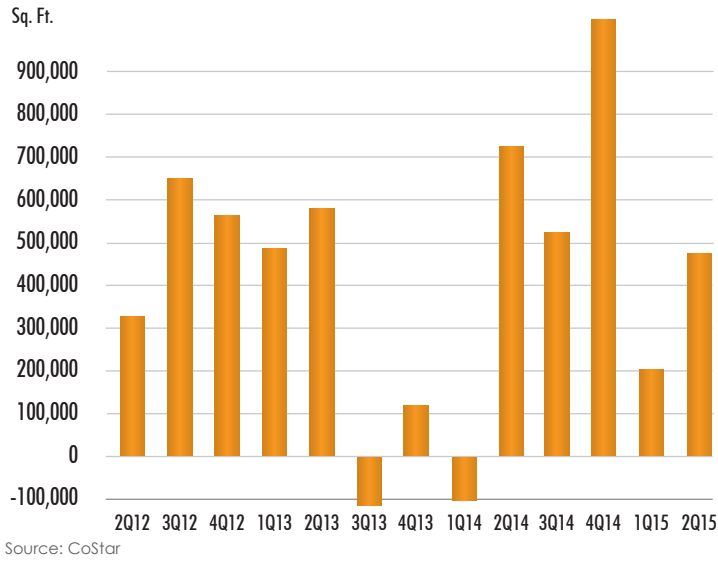
NUMBER OF LEASES EXECUTED FOR THE QUARTER BY SUBMARKET



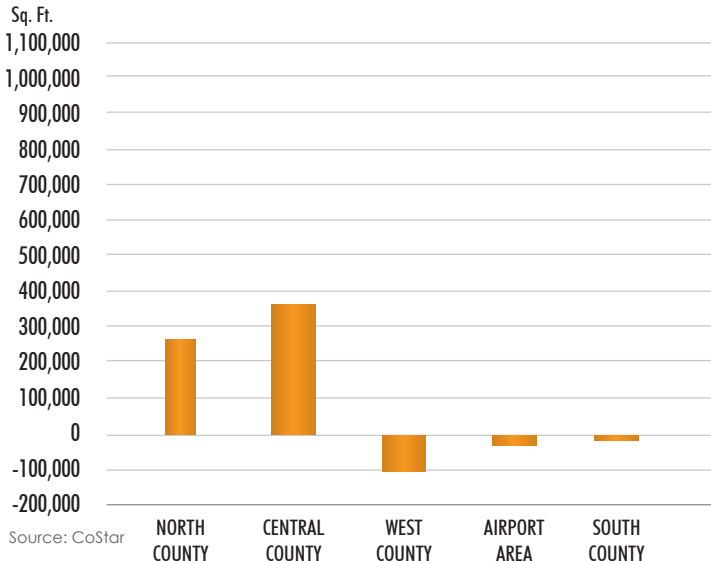
VACANCY RATE BY SUBMARKET - INCLUDING SUBLET SPACE



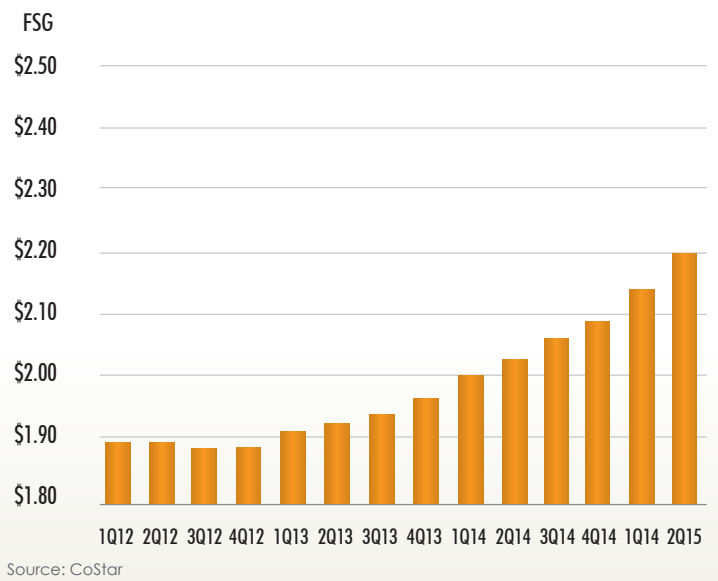
COUNTY WIDE NET ABSORPTION INCLUDING SUBLET SPACE



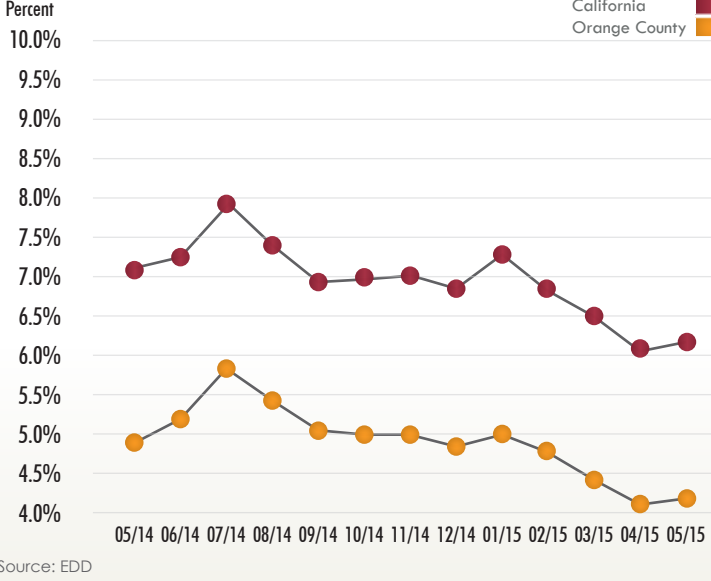
YTD NET ABSORPTION BY SUBMARKET, INCLUDING SUBLET SPACE



AVERAGE FSG LEASE RATES BY QUARTER

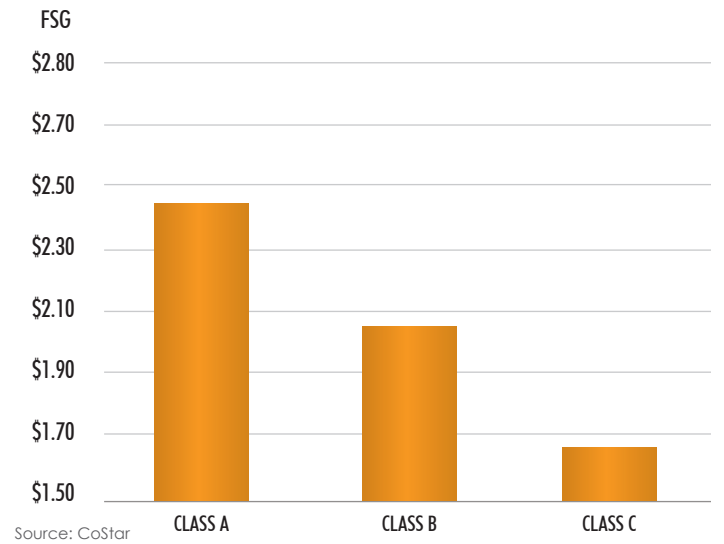
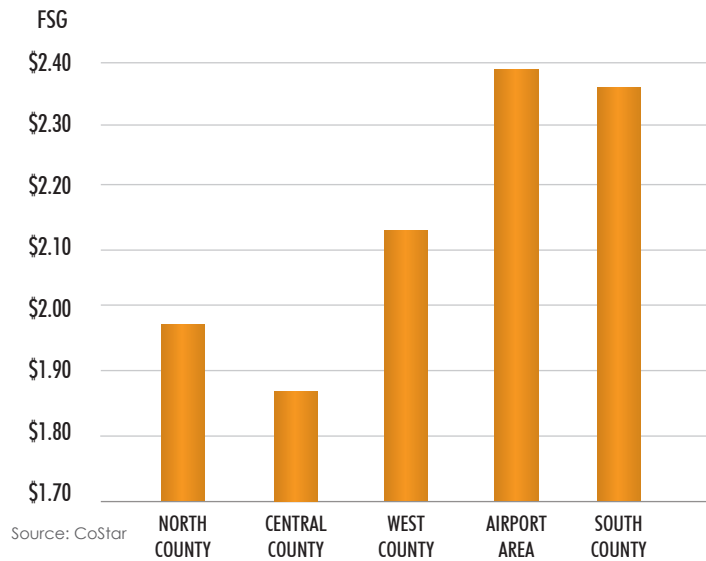


UNEMPLOYMENT RATE

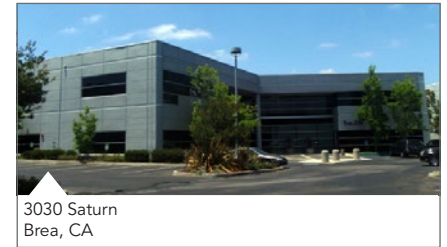
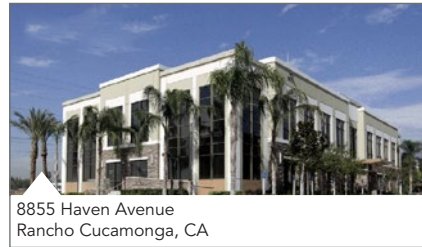
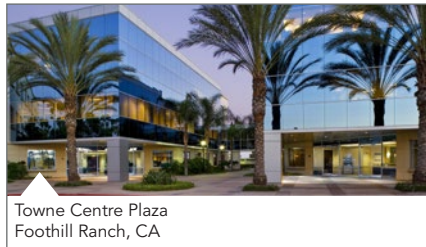


AVERAGE FSG LEASE RATE BY SUBMARKET

AVERAGE FSG LEASE RATE BY CLASS

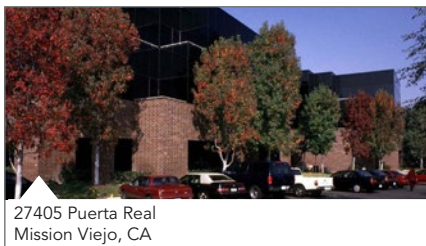


COMPLETED LEE & ASSOCIATES TRANSACTIONS



Lease Transactions 2Q 15

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
Towne Centre Plaza Foothill Ranch, CA	131,267	Loan Depot	Arden Realty	Don Nourse and Jim Nourse represented the Landlord.
8855 Haven Avenue Rancho Cucamonga, CA	25,631	York Risk Services	Chronoblu Investments, LLC	Jeff Bischofberger represented the Landlord.
3030 Saturn Brea, CA	14,249	Schneider Electric	Brea Corporate Park	Bob Sattler & Jon Fabiano represented the Landlord.



Sale Transactions 2Q 15

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
27405 Puerta Real Mission Viejo, CA	40,592	Rivendell Land Company	The Colton Company	Adam Wicker, Dave Smith and Matt Fryer represented the Buyer.
34 Tesla Irvine, CA	20,424	WCC Energy, Inc.	Unication USA, Inc.	Alton Burgess, Jim Snyder, Travis Haining and Ryan Lawler represented the Buyer.
501 Parkcenter Drive Santa Ana, CA	8,132	Moritzky Family Trust	Tri Venure, LLC	John Hatzis & Matt Orville Presented the Seller. Kevitt Sale represented the Buyer.

	Bldg Count	SF RBA	Total SF Available	Avail. Rate	Total SF Vacant	Total Vac. Rate	Direct SF Vacant	Direct Vac. Rate	Net Absorption	YTD Net Absorption	SF Avail Sublease	SF Vacant Sublease	Avg Asking Lease Rate	SF Under Construction
BY CITY														
Aliso Viejo	38	2,980,635	488,948	16.4%	213,861	7.2%	187,694	6.3%	879	498,298	91,605	26,167	\$2.61	-0-
Anaheim	83	7,316,960	1,272,102	17.4%	974,147	13.3%	967,020	13.2%	454,763	497,419	130,125	7,127	\$1.99	-0-
Brea	40	4,032,624	650,343	16.1%	497,696	12.3%	417,317	10.3%	(29,053)	(45,166)	128,230	80,379	\$1.92	-0-
Buena Park	13	933,313	66,423	7.1%	60,481	6.5%	60,481	6.5%	724	28,837	-0-	-0-	\$1.87	72,343
Corona del Mar	2	90,054	12,653	14.1%	9,806	10.9%	6,547	7.3%	-0-	(4,605)	6,106	3,259	\$4.25	-0-
Costa Mesa	65	7,127,219	1,215,507	17.1%	1,020,885	14.3%	977,439	13.7%	52,806	116,080	112,923	43,446	\$2.31	-0-
Cypress	26	1,911,987	457,299	23.9%	318,948	16.7%	318,948	16.7%	(71,736)	(58,630)	119,978	-0-	\$1.97	-0-
Dana Point	3	135,296	-0-	0.0%	-0-	0.0%	-0-	0.0%	-0-	-0-	-0-	-0-	-	-0-
Foothill Ranch	10	798,721	123,868	15.5%	152,442	19.1%	137,867	17.3%	(37,097)	(7,977)	42,910	14,575	\$2.34	-0-
Fountain Valley	26	1,791,659	86,575	4.8%	67,803	3.8%	67,803	3.8%	9,775	(3,237)	6,838	0	\$1.77	-0-
Fullerton	31	2,515,898	467,202	18.6%	377,792	15.0%	377,792	15.0%	(14,603)	(67,945)	2,969	0	\$2.15	-0-
Garden Grove	17	1,485,848	117,206	7.9%	70,419	4.7%	70,419	4.7%	(17,872)	(2,640)	0	0	\$1.63	-0-
Huntington Beach	31	2,156,579	410,948	19.1%	311,598	14.4%	190,478	8.8%	(14,257)	(105,259)	126,803	121,120	\$2.20	-0-
Irvine	382	33,284,410	3,996,827	12.0%	2,806,197	8.4%	2,586,976	7.8%	11,213	502,548	640,476	219,221	\$2.37	575,044
La Habra	4	142,069	-0-	0.0%	-0-	0.0%	-0-	0.0%	-0-	2,156	-0-	-0-	\$1.50	-0-
La Palma	10	712,038	152,297	21.4%	126,093	17.7%	126,093	17.7%	15,312	46,054	3,573	-0-	\$1.93	-0-
Ladera Ranch	3	127,065	29,226	23.0%	22,770	17.9%	22,770	17.9%	(928)	4,739	6,456	-0-	\$2.14	-0-
Laguna Beach	5	194,434	28,895	14.9%	28,895	14.9%	28,895	14.9%	-0-	2,817	-0-	-0-	\$2.63	-0-
Laguna Hills	25	1,641,376	353,015	21.5%	329,980	20.1%	329,980	20.1%	3,055	(6,112)	5,621	-0-	\$2.29	-0-
Laguna Niguel	8	1,691,485	62,017	3.7%	65,819	3.9%	65,819	3.9%	(11,868)	102,922	2,671	-0-	\$2.62	-0-
Laguna Woods	1	41,280	4,379	10.6%	4,379	10.6%	4,379	10.6%	(4,379)	(4,379)	-0-	-0-	\$42.00	-0-
Lake Forest	31	1,845,537	128,690	7.0%	232,940	12.6%	232,940	12.6%	6,811	71,370	-0-	-0-	\$2.01	-0-
Los Alamitos	9	610,423	188,040	30.8%	37,240	6.1%	37,240	6.1%	6,148	62,014	-0-	-0-	\$2.39	-0-
Mission Viejo	32	1,804,462	267,611	14.8%	222,788	12.3%	222,788	12.3%	18,022	24,970	3,164	-0-	\$2.23	-0-
Newport Beach	100	9,368,791	1,164,798	12.4%	1,196,197	12.8%	1,173,612	12.5%	(66,427)	(102,506)	81,076	22,585	\$2.72	-0-
Orange	63	6,609,842	739,434	11.2%	572,070	8.7%	559,949	8.5%	216,202	414,180	33,982	12,121	\$2.12	-0-
Placentia	5	185,164	32,795	17.7%	31,029	16.8%	31,029	16.8%	170	(814)	-0-	-0-	\$1.73	-0-
Rancho Santa Margarita	5	225,472	37,582	16.7%	38,186	16.9%	37,238	16.5%	2,942	1,467	948	948	\$2.07	-0-
San Clemente	9	424,062	58,668	13.8%	27,610	6.5%	26,021	6.1%	5,810	11,881	1,589	1,589	\$2.13	-0-
San Juan Capistrano	17	879,011	173,985	19.8%	170,093	19.4%	168,587	19.2%	35,567	44,729	6,141	1,506	\$2.36	-0-
Santa Ana	162	14,217,363	3,323,072	23.4%	2,013,561	14.2%	1,979,293	13.9%	(46,630)	278,165	227,047	34,268	\$1.82	-0-
Seal Beach	6	445,365	75,770	17.0%	61,700	13.9%	61,700	13.9%	4,816	(37,439)	10,669	-0-	\$2.88	-0-
Stanton	2	85,917	10,142	11.8%	7,435	8.7%	7,435	8.7%	-0-	-0-	-0-	-0-	\$0.97	-0-
Tustin	30	1,696,301	296,191	17.5%	88,855	5.2%	88,855	5.2%	(30,188)	21,027	15,147	-0-	\$1.93	-0-
Westminster	10	429,031	67,346	15.7%	53,339	12.4%	53,339	12.4%	(30,583)	(24,229)	-0-	-0-	\$2.08	-0-
Yorba Linda	7	359,206	27,907	7.8%	36,259	10.1%	36,259	10.1%	4,237	7,925	-0-	-0-	\$1.74	-0-
Orange County Totals	1,311	110,296,897	16,587,761	15.0%	12,249,313	11.1%	11,661,002	10.6%	473,631	1,132,673	1,807,047	588,311	\$2.20	647,387

BY AREA														
North Orange County	173	14,272,772	2,194,888	15.4%	1,826,886	12.8%	1,739,380	12.2%	261,154	236,957	182,268	87,506	\$1.97	72,343
Central Orange County	277	23,515,734	4,107,743	17.5%	2,418,285	10.3%	2,383,717	10.1%	361,574	926,723	265,551	34,568	\$1.87	-0-
West Orange County	84	5,639,302	1,209,545	21.4%	790,260	14.0%	669,140	11.9%	(105,612)	(163,543)	257,450	121,120	\$2.13	-0-
Greater Airport Area	447	44,161,199	6,387,256	14.5%	5,036,863	11.4%	4,835,530	10.9%	(30,947)	129,378	798,645	201,333	\$2.39	-0-
South Orange County	330	22,707,890	2,688,329	11.8%	2,177,019	9.6%	2,033,235	9.0%	(12,538)	3,158	303,133	143,784	\$2.36	575,044
Orange County Totals	1,311	110,296,897	16,587,761	15.0%	12,249,313	11.1%	11,661,002	10.6%	473,631	1,132,673	1,807,047	588,311	\$2.20	647,387

BY BUILDING CLASS														
Class A	279	44,880,963	7,703,213	17.2%	5,684,014	12.7%	5,332,264	11.9%	355,078	1,011,721	1,228,910	351,750	\$2.44	497,387
Class B	932	60,386,795	8,301,907	13.7%	6,282,818	10.4%	6,046,257	10.0%	105,378	709,544	573,305	236,561	\$2.05	150,000
Class C	100	5,029,139	582,641	11.6%	282,481	5.6%	282,481	5.6%	13,175	63,266	4,832	-0-	\$1.62	-0-
Orange County Totals	1,311	110,296,897	16,587,761	15.0%	12,249,313	11.1%	11,661,002	10.6%	473,631	1,784,531	1,807,047	588,311	\$2.20	647,387

ABOUT LEE & ASSOCIATES



As a group of independently owned and operated companies, Lee & Associates currently has more than 52 offices in Arizona, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Kansas, Maryland, Michigan, Missouri, Nevada, Ohio, New Jersey, New York, South Carolina, Texas and Wisconsin.

With a broad array of regional, national and international clients—ranging from individual investors and small businesses, to large corporations and institutions—Lee & Associates has successfully completed transactions with a total value of more than \$9 billion last year, alone.

OFFICE SERVICES

The firm's office brokers negotiate various transactions, including mid- and high-rise properties, business and office parks, mixed-used projects, office land for development, multi-tenant buildings and commercial investments. Our brokers analyze the financial arrangements to streamline transactions, and use innovative marketing efforts and unique transaction structuring to provide creative solutions to meet the client's needs.

Our comprehensive service line includes owner and tenant leasing, acquisition and sales, along with marketing and consulting capabilities. We focus on strategic counseling, rather than merely the transaction, in order to execute the best possible real estate strategies for our clients. This includes building strong relationships within the brokerage community overall. As a result, our clients are assured of the broadest exposure possible.

SUBMARKETS:

NORTH

Brea/La Habra, Buena Park/La Palma, Fullerton, North/East Anaheim and Placentia/Yorba Linda

CENTRAL

Civic Center Area, East Orange, Garden Grove, Main Place Area, Parkcenter Area, Santa Ana, Stadium Area, The City Area and Tustin (South of I-5)

WEST

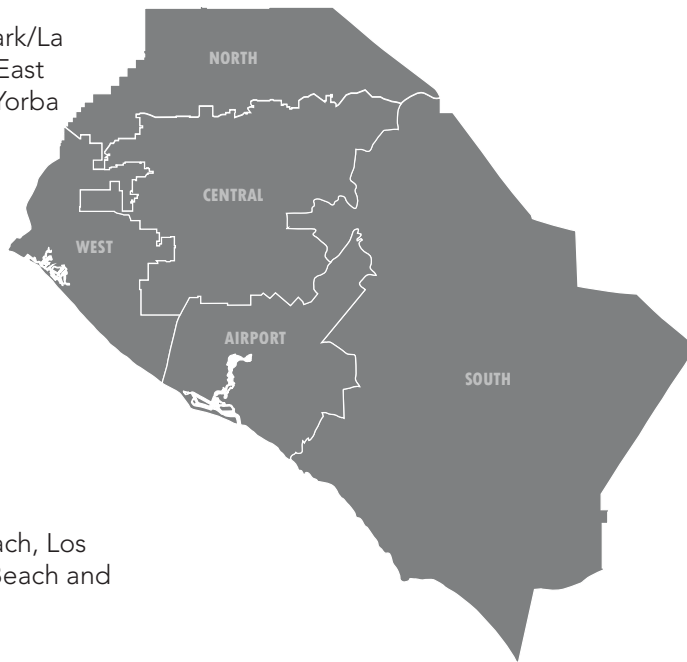
Cypress, Huntington Beach, Los Alamitos/Stanton, Seal Beach and Westminster

AIRPORT

Costa Mesa, Fountain Valley, Irvine, Newport Beach and South Santa Ana

SOUTH

Irvine Spectrum, Laguna Hills/Aliso Viejo, Laguna Niguel/Laguna Beach, Lake Forest/Foothill Ranch, Mission Viejo, Outlying Orange County and San Clemente



FORECAST:

On June 24, Chapman University's Anderson Center for Economic Research revised its job gain forecast for Orange County upward by nearly 24% from 38,000 new positions to 47,000 for this year. The predicted job increase is 3.1%, more than the 2.5% increase in jobs it forecasts statewide. The Chapman forecasters also said that gains expected in wage growth, positive wealth effects, lower debt services and cheaper gas prices will improve purchasing power, producing 5.2% gains in the county's taxable sales this year and 5.6% in 2016.



COMMERCIAL REAL ESTATE SERVICES

Office Members of the Lee & Associates Group of Companies-Orange County

LEE & ASSOCIATES - IRVINE

111 Pacifica, Suite 300
Irvine, California 92618
(949) 727-1200

Allen Basso	Alex Lyon
Jeff Bischofberger	Mia Pham
Kurt Bruggeman	Brad Rawlins
Sammy Cemo	Ted Rommel
Phil Cohen	Dave Smith
Chris Conway	Justin Smith
Eric Darnell	Ryan Swanson
BJ Fell	Todd Swanson
Craig Fitterer	Nathan Tupman
Matt Fryer	Travis Watts
Brian Garbutt	Adam Wicker
Ryan Harman	
Mark Jerue	
David LaFosse	

LEE & ASSOCIATES - NEWPORT BEACH

100 Bayview Circle, Suite 600
Newport Beach, California 92660
(949) 724-1000

Frank Adler	Bob Rieden
Sean Ahern	David Romero
Kimberly Ahlberg	Kevitt Sale
Tim Arguello	Dick Silva
David Bolt	Tom West
Alton Burgess	Tim Walker
John Collins	
Matt Durkin	
Travis Haining	
Ryan Lawler	
Gary McArdell	
Matt McKinlay	
Don Nourse	
Jim Nourse	

LEE & ASSOCIATES - ORANGE

1004 West Taft Avenue, Suite 150
Orange, California 92865
(714) 647-9100

Craig Demiranda
Jonmark Fabiano
Phil Fridd
John Hatzis
James Hawkins
Jaimeson Hearne
David Newton
Matt Orville
Bob Sattler
John Son
Erik Thompson
Marshal Vogt

No warranty or representation is made to the accuracy of the foregoing information. Terms of sale or lease and availability are subject to change or withdrawal without notice.