



Vacancy Ticks Down To 11.5% As Lease Rates Gain

Moderate to healthy demand for office space in the Airport and Central County submarkets pushed down the countywide vacancy rate in the first quarter 20 basis points to 11.5%. Lease rates generally increased overall from a year ago but, as with net absorption, the gains were uneven.

Year-over-year asking lease rates are up 8.2% across 44.9 million sq. ft. of Class A buildings and 6.6% for 60.3 million sq. ft. of Class B space. The biggest average annual rent increases were in Costa Mesa, 19.2%, Newport Beach, 17%, and Irvine, 9.6%. Santa Ana and Anaheim – also among cities with large volumes of office space – posted lease rate gains of 4.8% and 4.9% respectively in the last four quarters.

Angling for value-add opportunities, investors are increasingly turning their attention to the suburban office sector and wide pricing spreads between high-occupancy buildings and well-leased properties. Nationwide, in suburban buildings with occupancies ranging from 50% to 90%, this spread has fallen from 144% in 2011 to 97% last year, still twice the level of 2006.

In 2014 the values of 10 largest sales of Orange County office buildings totaled \$720 million, a 12% increase from 2013. Orange County's comparatively low vacancy and 4.5% unemployment are seen as potent fundamentals for economic and rent growth. Vacancy in Class A buildings, which make up 40.7% of the office inventory, is 13.4% and asking lease rates remain 26% below their 2007 peak.

The Irvine Company is a year from completing 200 Spectrum Center, a 21-story tower with 450,000 sq. ft., and has begun processing plans at the city for a similar building, being called 400 Spectrum Center.

Countywide, first-quarter net absorption totaled 187,669 sq. ft. for one of the weakest three-month periods since the recovery began and it follows a substantial Q4 gain of 1.1 million sq. ft. and 2.27 million sq. ft. for 2014. Net absorption has been positive in 16 of 19 quarters since mid-2010.

Absorption in the Airport submarket, which has 44 million sq. ft. of the county's 110.3 million sq. ft. total, reported a Q1 gain of 160,325 sq. ft. Central County, which contains 20.7 million sq. ft. of space, reported a 176,737-sq.-ft. net absorption increase. South County with 20.6 million sq. ft. was barely on the plus side with 15,696 sq. ft. Net absorption fell by 70,069 sq. ft. in the 14.3-million-sq.-ft. North County, whose vacancy rate rose to 14.6%. It was off 95,020 sq. ft. in the small West County submarket, driving up its vacancy rate to 12.1%.

MARKET OVERVIEW

(Change from last quarter)

AVAILABILITY - 15.1%

Down from 15.9% last quarter



VACANCY - 11.5%

Down from 11.7% last quarter



ABSORPTION - 187,669 SQ. FT.

Down from 1,110,070 SF last quarter



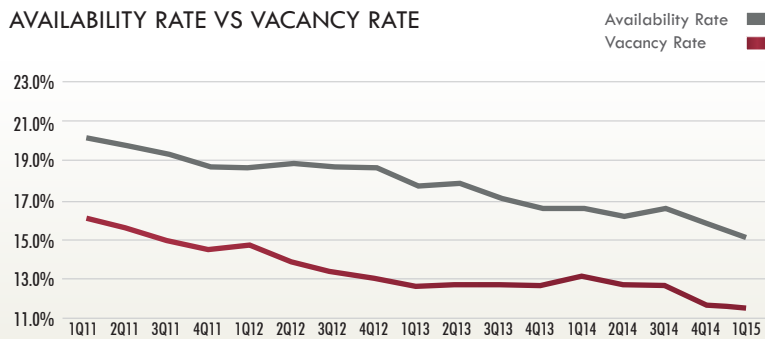
AVERAGE LEASE RATE - \$2.14 FSG

Up from \$2.09 last quarter

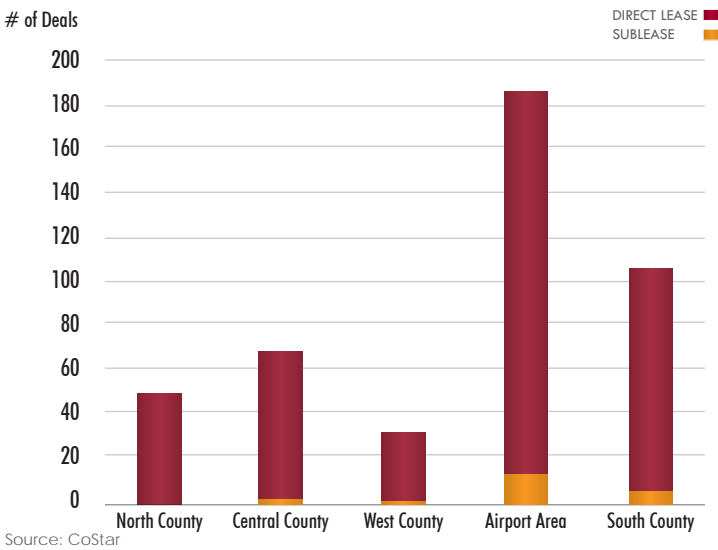


*All numbers are based on office space in buildings 30,000 sq. ft. and larger.

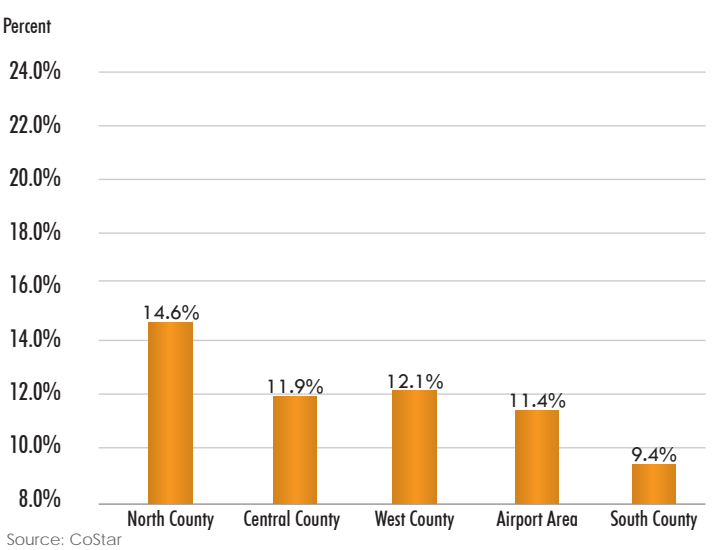
AVAILABILITY RATE VS VACANCY RATE



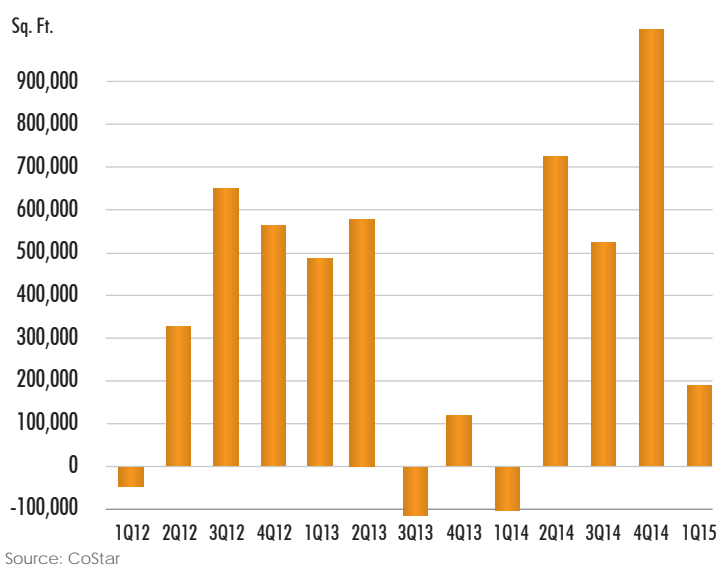
NUMBER OF LEASES EXECUTED FOR THE QUARTER BY SUBMARKET



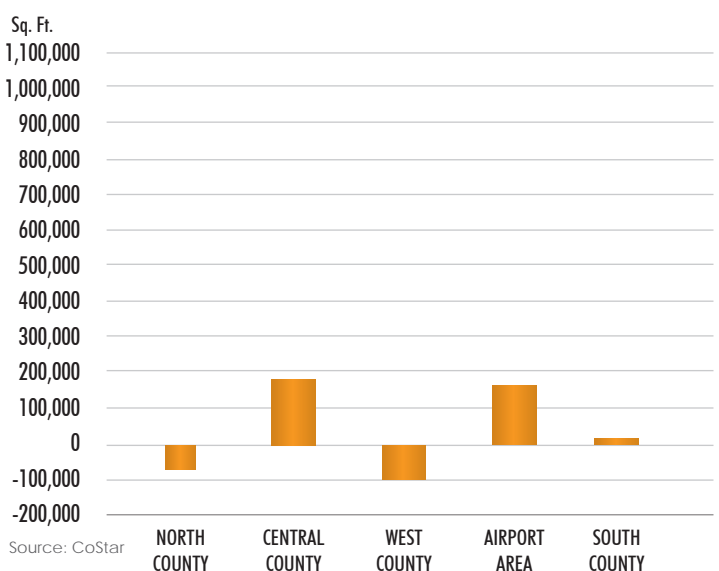
VACANCY RATE BY SUBMARKET - INCLUDING SUBLET SPACE



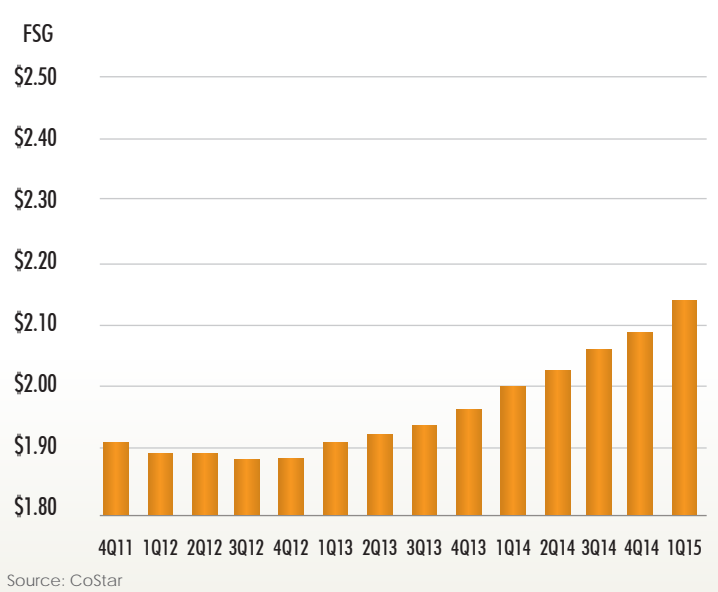
COUNTY WIDE NET ABSORPTION INCLUDING SUBLET SPACE



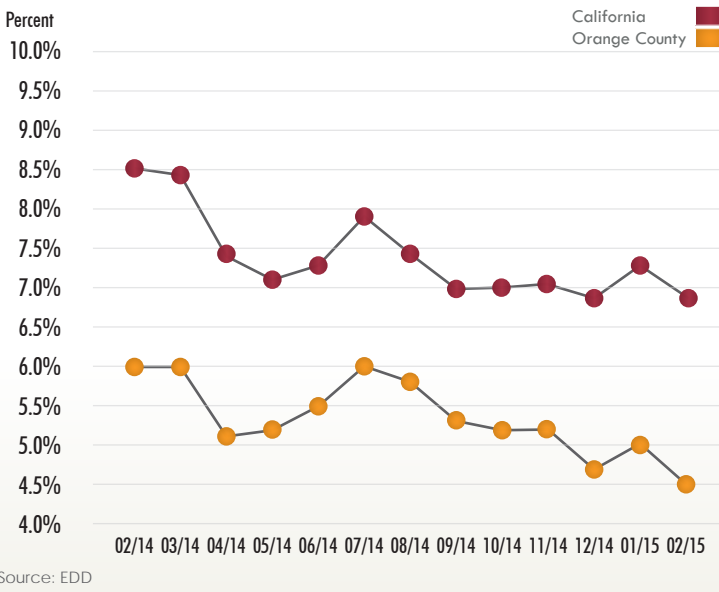
YTD NET ABSORPTION BY SUBMARKET, INCLUDING SUBLET SPACE



AVERAGE FSG LEASE RATES BY QUARTER



UNEMPLOYMENT RATE

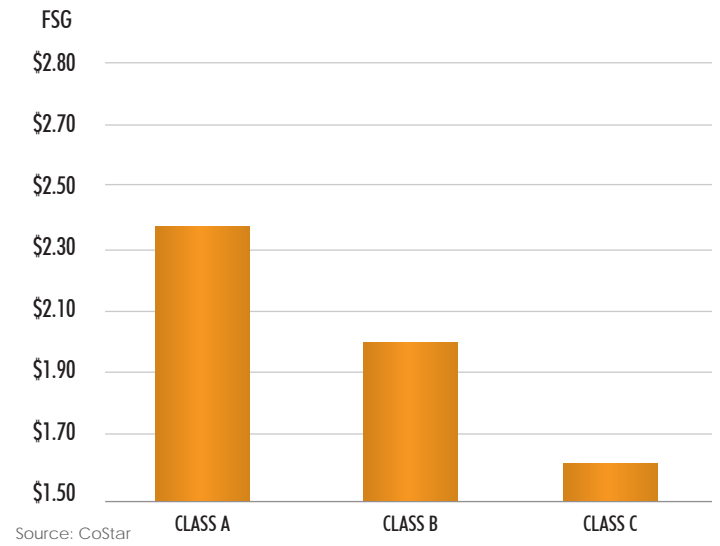
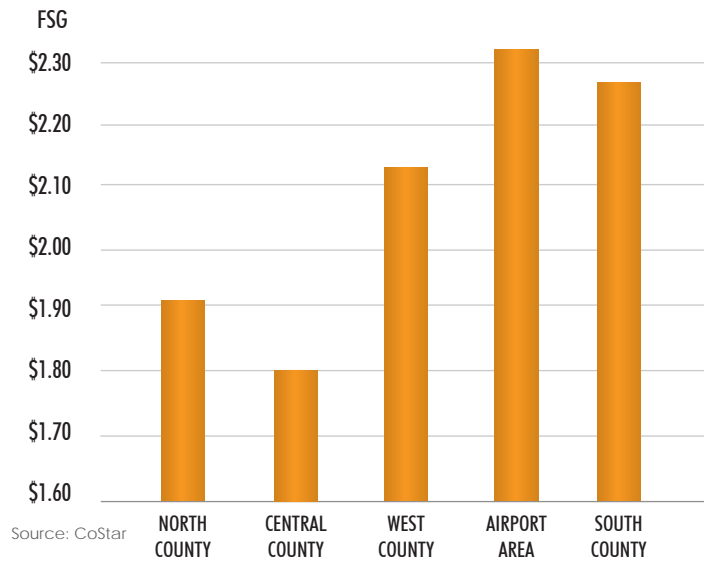


AVERAGE FSG LEASE RATE

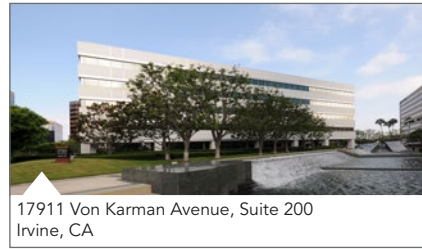
BY SUBMARKET

AVERAGE FSG LEASE RATE

BY CLASS

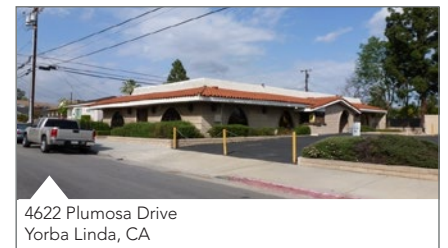
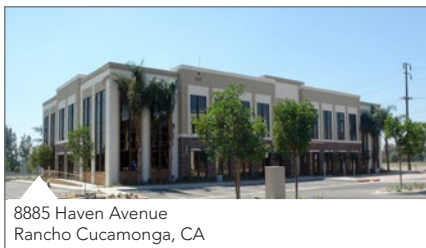


COMPLETED LEE & ASSOCIATES TRANSACTIONS



Lease Transactions 4Q 14

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
955 W. Imperial Highway Brea, CA	41,816	St. Jude Hospital of Yorba Linda	ECCU	Bob Sattler represented the Landlord
17911 Von Karman Avenue, Suite 200 Irvine, CA	31,588	KTGY Group Inc.	Arden Realty	Gary McArdell represented the Tenant.
2 Journey, #103/105 Aliso Viejo, CA	2,186	Aliso Optometry	Journey Medical Partners, LLC	Allen Basso & Kurt Bruggeman represented the Landlord.



Sale Transactions 4Q 14

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
8885 Haven Avenue Rancho Cucamonga, CA	29,572	Birdie Asfoura, LLC	Rock-Jersey, LLC	Jeff Bischofberger represented the Buyer.
1122 Bristol Street Costa Mesa, CA	14,183	Bristol Real Estate 1122, LLC	1122 Bristol Street Properties, LLC	Brian Garbutt & Mia Pham represented the Buyer.
4622 Plumosa Drive Yorba Linda, CA	4,000	Michael & Kathryn Mimmick	Stephen Patrick Rawls Separate	Erik Thompson 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	2,980,053	437,060	14.7%	214,740	7.2%	214,740	7.2%	(16,592)	(16,592)	43,447	- 0 -	\$2.46	- 0 -
Anaheim	83	7,303,107	1,192,998	16.3%	1,428,910	19.6%	1,397,554	19.1%	(35,274)	(35,274)	150,054	31,356	\$1.92	- 0 -
Brea	40	4,032,008	588,328	14.6%	468,643	11.6%	405,496	10.1%	(38,543)	(38,543)	111,002	63,147	\$1.90	- 0 -
Buena Park	13	933,313	66,423	7.1%	61,205	6.6%	61,205	6.6%	16,942	16,942	- 0 -	- 0 -	\$1.89	75,000
Corona del Mar	2	90,054	12,153	13.5%	9,806	10.9%	6,547	7.3%	(4,605)	(4,605)	5,606	3,259	\$4.13	- 0 -
Costa Mesa	65	7,123,309	1,164,997	16.4%	1,090,487	15.3%	1,058,856	14.9%	13,778	13,778	85,068	31,631	\$2.36	- 0 -
Cypress	26	1,913,084	558,822	29.2%	247,212	12.9%	247,212	12.9%	3,826	3,826	188,793	- 0 -	\$1.91	- 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	149,955	18.8%	115,345	14.4%	111,845	14.0%	13,401	13,401	3,500	3,500	\$2.11	- 0 -
Fountain Valley	26	1,791,659	84,993	4.7%	77,578	4.3%	77,578	4.3%	(9,975)	(9,975)	- 0 -	- 0 -	\$1.89	- 0 -
Fullerton	31	2,515,898	454,888	18.1%	363,189	14.4%	363,189	14.4%	(33,472)	(33,472)	2,643	- 0 -	\$2.08	- 0 -
Garden Grove	31	2,156,579	421,016	19.5%	297,341	13.8%	176,221	8.2%	(119,049)	(119,049)	127,388	121,120	\$2.19	- 0 -
Huntington Beach	31	2,156,579	421,016	19.5%	297,341	13.8%	176,221	8.2%	(119,049)	(119,049)	127,388	121,120	\$2.19	- 0 -
Irvine	382	33,283,372	4,304,364	12.9%	2,817,410	8.5%	2,665,935	8.0%	143,262	143,262	728,511	151,475	\$2.29	425,044
La Habra	4	142,069	- 0 -	0.0%	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	\$1.50	- 0 -
La Palma	10	712,038	155,744	21.9%	141,405	19.9%	138,644	19.5%	4,856	4,856	6,334	2,761	\$1.93	- 0 -
Ladera Ranch	3	127,065	28,298	22.3%	21,842	17.2%	21,842	17.2%	(1,186)	(1,186)	6,456	- 0 -	\$2.14	- 0 -
Laguna Beach	5	194,434	28,895	14.9%	28,895	14.9%	28,895	14.9%	2,817	2,817	0	- 0 -	\$2.63	- 0 -
Laguna Hills	25	1,641,376	391,284	23.8%	333,035	20.3%	333,035	20.3%	(15,969)	(15,969)	5,621	- 0 -	\$2.30	- 0 -
Laguna Niguel	8	1,691,485	83,277	4.9%	53,951	3.2%	53,951	3.2%	19,252	19,252	6,452	- 0 -	\$2.66	- 0 -
Laguna Woods	1	41,280	4,379	10.6%	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	\$42.00	- 0 -
Lake Forest	32	1,883,564	268,227	14.2%	250,244	13.3%	250,244	13.3%	77,854	77,854	3,757	- 0 -	\$1.93	- 0 -
Los Alamitos	9	610,423	199,423	32.7%	43,388	7.1%	43,388	7.1%	48,639	48,639	- 0 -	- 0 -	\$2.63	- 0 -
Mission Viejo	32	1,804,462	299,105	16.6%	240,810	13.3%	240,810	13.3%	2,760	2,760	21,615	- 0 -	\$2.16	- 0 -
Newport Beach	101	9,399,332	1,311,685	14.0%	1,129,770	12.0%	1,115,064	11.9%	(64,150)	(64,150)	113,176	14,706	\$2.61	- 0 -
Orange	62	6,572,574	801,457	12.2%	796,346	12.1%	760,767	11.6%	24,967	24,967	44,837	35,579	\$2.06	- 0 -
Placentia	5	185,164	31,199	16.8%	31,199	16.8%	31,199	16.8%	- 0 -	- 0 -	- 0 -	- 0 -	\$1.57	- 0 -
Rancho Santa Margarita	5	225,472	43,863	19.5%	41,128	18.2%	41,128	18.2%	4,335	4,335	- 0 -	- 0 -	\$2.05	- 0 -
San Clemente	9	424,062	66,583	15.7%	33,420	7.9%	31,831	7.5%	(5,362)	(5,362)	1,589	1,589	\$1.95	- 0 -
San Juan Capistrano	16	836,460	166,579	19.9%	163,109	19.5%	161,603	19.3%	6,482	6,482	1,506	1,506	\$2.35	42,551
Santa Ana	162	14,217,368	2,805,203	19.7%	1,972,122	13.9%	1,944,306	13.7%	132,832	132,832	174,840	27,816	\$1.76	- 0 -
Seal Beach	6	445,365	87,641	19.7%	66,516	14.9%	66,516	14.9%	(34,790)	(34,790)	13,067	- 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	1,696,579	221,558	13.1%	58,667	3.5%	58,667	3.5%	24,522	24,522	17,331	- 0 -	\$1.87	- 0 -
Westminster	10	429,031	51,188	11.9%	22,756	5.3%	22,756	5.3%	6,354	6,354	- 0 -	- 0 -	\$2.06	- 0 -
Yorba Linda	7	423,502	54,801	12.9%	40,496	9.6%	40,496	9.6%	3,258	3,258	- 0 -	- 0 -	\$1.81	- 0 -
Orange County Totals	1,311	110,330,848	16,615,611	15.1%	12,720,947	11.5%	12,231,502	11.1%	187,669	187,669	1,862,593	489,445	\$2.14	542,595
BY AREA														
North Orange County	173	14,322,599	2,037,023	14.2%	2,088,040	14.6%	2,014,441	14.1%	(70,069)	(70,069)	168,039	73,599	\$1.91	75,000
Central Orange County	276	23,478,274	3,661,850	15.6%	2,793,124	11.9%	2,707,673	11.5%	176,737	176,737	297,179	85,451	\$1.80	0
West Orange County	84	5,640,399	1,328,232	23.5%	684,648	12.1%	563,528	10.0%	(95,020)	(95,020)	329,248	121,120	\$2.13	0
Greater Airport Area	448	44,187,830	6,524,048	14.8%	5,022,712	11.4%	4,899,457	11.1%	160,325	160,325	737,888	123,255	\$2.32	0
South Orange County	330	22,701,746	3,064,458	13.5%	2,132,423	9.4%	2,046,403	9.0%	15,696	15,696	330,239	86,020	\$2.27	467,595
Orange County Totals	1,311	110,330,848	16,615,611	15.1%	12,720,947	11.5%	12,231,502	11.1%	187,669	187,669	1,862,593	489,445	\$2.14	542,595
BY BUILDING CLASS														
Class A	279	44,957,438	7,843,478	17.4%	6,036,829	13.4%	5,806,779	12.9%	152,926	152,926	1,180,613	230,050	\$2.37	542,595
Class B	932	60,346,631	8,181,925	13.6%	6,393,879	10.6%	6,134,484	10.2%	24,232	24,232	680,080	259,395	\$2.00	- 0 -
Class C	100	5,026,779	590,208	11.7%	290,239	5.8%	290,239	5.8%	10,511	10,511	1,900	- 0 -	\$1.61	- 0 -
Orange County Totals	1,311	110,330,848	16,615,611	15.1%	12,720,947	11.5%	12,231,502	11.1%	187,669	187,669	1,862,593	489,445	\$2.14	542,595

ABOUT LEE & ASSOCIATES



As a group of independently owned and operated companies, Lee & Associates currently has more than 51 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.

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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:

Orange County company executives continue to express optimism in their outlook for growth, according to the latest periodic survey of company executives by California State University-Fullerton. Also, a report from the Orange County Business Council said at least 50,000 new homes are needed to prevent an outflow of skilled workers. Demand could grow to 100,000 by 2040, the report said.



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