

# MARKETBEAT OFFICE SNAPSHOT



## ORANGE COUNTY, CA

A Cushman & Wakefield Research Publication

Q4 2014



### ECONOMIC OVERVIEW

According to the California Employment Development Department, 32,200 jobs were added in Orange County the past 12 months, an increase of 2.2%. The largest annual increase was in the educational and health services

sector with 10,900 jobs added, followed by construction, which added 7,700 jobs. The unemployment rate in Orange County was 5.0% in November 2014, unchanged from a revised 5.0% in October, and below the year-ago 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.

### ROBUST DEMAND IN 2014

With occupancy gains of 427,905 square feet (sf) in fourth quarter, the Orange County office market finished the year with positive overall absorption of 1.16 million square feet (msf), on par with 1.14 msf in 2013. With help from a 60-basis point (bp) decline in fourth quarter, overall vacancy rates dropped an impressive 130 bps for the year to 13.6%. Companies from the healthcare, technology and county government sectors were active in 2014, driving the positive office trends. New leasing activity for the year increased 185 bps compared with 2013 to 8.7 msf. The positive demand pushed average asking rents up 11.8% from last year to \$2.09 per square foot per month (psf/mo).

Fundamentals of the Greater Airport Area class A market significantly improved with overall vacancy rates declining 160 bps to 15.1%, 70 bps lower than the previous quarter. Current vacancy represents a substantial decline from the market peak of 27.3% in Q2 2010. Strong occupancy gains in the Greater Airport Area prompted a year-over-year increase in direct average asking class A rents \$0.68 per psf/mo to \$2.94 psf/mo. Leasing activity for the year totaled 2.6 msf, 22.4% higher than 2.1 msf from 2013.

### INVESTMENT ACTIVITY RISES

Total investment activity increased in 2014 to 5.4 msf from 3.9 msf in 2013. While the Greater Airport Area submarket continued to command the highest sales prices, both the Central County and North County submarkets were primarily responsible for the increase of investment activity in 2014, which demonstrates that investors are active throughout the market. As vacancy rates decline and asking rents rise, competition to purchase office properties is expected to increase as more investors enter the market.

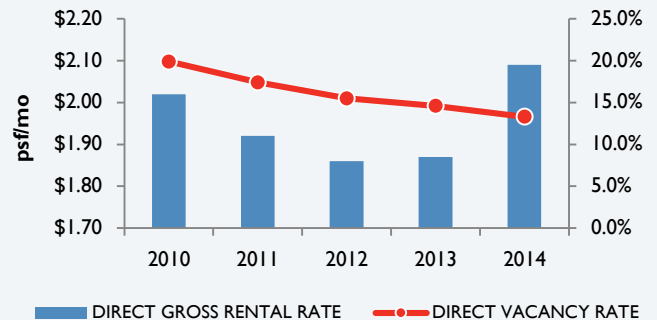
### OUTLOOK

The Orange County office market turned a corner in 2014 marking the fourth consecutive year of positive demand following four years of occupancy losses. This was also the first year since 2007 the market recorded solid asking rental rate growth. With market fundamentals in positive growth mode and encouraging projections on the economy, the Orange County office market will continue to trend upward in 2015.

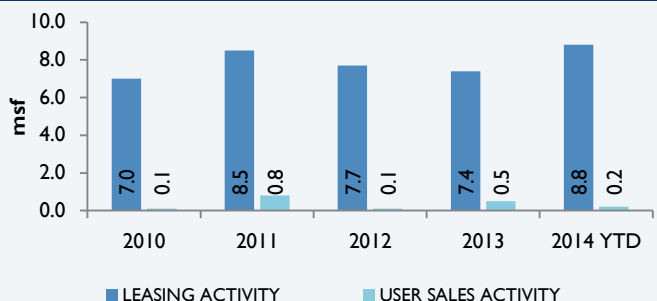
### STATS ON THE GO

	Q4 2013	Q4 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	14.9%	13.6%	-1.3pp	▼
Direct Asking Rents (psf/mo)	\$1.87	\$2.09	11.8%	▲
YTD Leasing Activity (sf)	7,371,491	8,776,782	19.1%	◀▶

### DIRECT RENTAL VS. VACANCY RATES



### OVERALL OCCUPIER ACTIVITY



# ORANGE COUNTY, CA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT NET ABSORPTION	YTD OVERALL NET ABSORPTION	OVERALL WTD. AVG ALL CLASSES GROSS RENTAL RATE*	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
South Santa Ana	1,934,883	29.2%	29.2%	196,913	0	0	45,883	44,274	\$2.06	\$2.16
Costa Mesa	5,244,428	17.6%	17.2%	474,563	0	0	11,212	(6,967)	\$2.22	\$2.39
Newport Beach	8,135,647	12.5%	12.3%	652,258	0	706,121	509,252	507,586	\$3.68	\$4.25
Irvine (No Spectrum)	22,697,730	10.2%	10.0%	3,115,803	0	108,696	699,300	728,066	\$2.21	\$2.43
<b>GREATER AIRPORT AREA</b>	<b>38,012,688</b>	<b>12.7%</b>	<b>12.5%</b>	<b>4,439,537</b>	<b>0</b>	<b>814,817</b>	<b>1,265,647</b>	<b>1,272,959</b>	<b>\$2.59</b>	<b>\$2.94</b>
Irvine Spectrum	7,695,270	5.0%	4.2%	921,506	425,000	0	339,742	301,203	\$2.30	\$2.71
Lake Forest/R.S. Marg.	2,682,903	18.6%	18.0%	290,402	0	0	(53,234)	(66,635)	\$1.82	\$1.95
Laguna Hills/Aliso Viejo	4,073,365	11.2%	10.5%	399,111	0	0	69,842	37,756	\$1.92	\$2.31
Laguna Niguel/Laguna B.	574,657	12.0%	11.2%	34,831	0	0	(12,177)	(11,031)	\$2.22	\$2.45
Mission Viejo	1,285,070	20.5%	20.0%	104,785	0	0	(29,505)	(36,174)	\$1.96	\$2.13
S.J. Cap./S. Clemente/D.P	1,272,188	8.3%	8.0%	96,244	0	0	14,665	9,691	\$1.79	\$2.10
<b>SOUTH COUNTY</b>	<b>17,583,453</b>	<b>10.1%</b>	<b>9.4%</b>	<b>1,846,879</b>	<b>425,000</b>	<b>0</b>	<b>329,333</b>	<b>234,810</b>	<b>\$1.98</b>	<b>\$2.44</b>
Seal Beach	315,944	10.0%	10.0%	34,437	0	0	(14,854)	(14,854)	\$2.86	\$2.90
Westminster	248,564	11.7%	11.7%	4,720	0	0	(2,332)	(2,332)	\$2.03	N/A
Huntington Beach	1,191,245	14.0%	14.0%	105,621	0	0	41,642	41,642	\$2.09	\$2.23
Fountain Valley	321,632	5.6%	5.6%	18,388	0	0	4,934	4,934	\$1.85	N/A
Garden Grove	534,777	20.6%	20.6%	47,587	0	0	(11,408)	(11,408)	\$1.62	N/A
Los Alamitos/Stanton	284,373	9.2%	9.2%	29,130	0	0	(13,803)	(13,803)	\$1.63	N/A
Cypress	1,321,595	20.5%	20.5%	39,846	0	0	(23,682)	(23,682)	\$1.81	\$2.10
<b>WEST COUNTY</b>	<b>4,218,130</b>	<b>15.5%</b>	<b>15.5%</b>	<b>279,729</b>	<b>0</b>	<b>0</b>	<b>(19,503)</b>	<b>(19,503)</b>	<b>\$1.90</b>	<b>\$2.34</b>
Parkcenter Area	2,748,590	14.2%	14.2%	173,606	0	0	17,561	17,561	\$1.82	\$2.13
Stadium Area	3,653,530	17.4%	16.8%	413,398	0	0	(1,831)	10,952	\$1.86	\$2.15
The City Area	2,284,773	13.8%	12.7%	180,562	0	0	38,038	38,115	\$1.92	\$1.97
Main Place Area	2,309,494	12.5%	12.2%	160,937	0	0	15,600	10,261	\$1.94	\$2.03
Tustin (South of I-5)	561,796	12.7%	12.7%	67,975	0	0	(3,760)	(3,760)	\$1.76	N/A
Santa Ana	3,075,681	25.2%	24.9%	257,901	0	0	(69,937)	(74,855)	\$1.68	N/A
North/East Anaheim	3,059,300	30.0%	29.7%	334,794	0	0	(322,345)	(321,516)	\$1.41	\$1.82
East Orange	227,246	7.1%	7.1%	14,191	0	0	(4,850)	(4,850)	\$1.77	N/A
Civic Center Area	2,029,777	18.2%	18.2%	242,903	0	0	(34,526)	(34,526)	\$1.48	\$1.75
<b>CENTRAL COUNTY</b>	<b>19,950,187</b>	<b>18.9%</b>	<b>18.6%</b>	<b>1,846,267</b>	<b>0</b>	<b>0</b>	<b>(366,050)</b>	<b>(362,618)</b>	<b>\$1.67</b>	<b>\$2.00</b>
Fullerton	1,283,776	10.8%	10.8%	67,510	0	0	(84,139)	(84,139)	\$1.71	N/A
Brea/La Habra	3,913,292	9.1%	9.0%	182,286	0	0	114,735	112,135	\$2.00	\$2.23
Placentia/Yorba Linda	335,485	21.1%	21.1%	10,242	0	0	(21,204)	(21,204)	\$1.64	N/A
Buena Park/La Palma	1,055,115	15.8%	15.0%	104,332	50,000	0	40,493	31,790	\$1.90	\$2.20
<b>NORTH COUNTY</b>	<b>6,587,668</b>	<b>11.1%</b>	<b>10.9%</b>	<b>364,370</b>	<b>50,000</b>	<b>0</b>	<b>49,885</b>	<b>38,582</b>	<b>\$1.87</b>	<b>\$2.22</b>
<b>CBD</b>	<b>38,012,688</b>	<b>12.7%</b>	<b>12.5%</b>	<b>4,439,537</b>	<b>0</b>	<b>814,817</b>	<b>1,265,647</b>	<b>1,272,959</b>	<b>\$2.59</b>	<b>\$2.94</b>
<b>SUBURBAN</b>	<b>48,339,438</b>	<b>14.4%</b>	<b>13.9%</b>	<b>4,337,245</b>	<b>475,000</b>	<b>0</b>	<b>(6,335)</b>	<b>(108,729)</b>	<b>\$1.81</b>	<b>\$2.17</b>
<b>TOTALS</b>	<b>86,352,126</b>	<b>13.6%</b>	<b>13.3%</b>	<b>8,776,782</b>	<b>475,000</b>	<b>814,817</b>	<b>1,259,312</b>	<b>1,164,230</b>	<b>\$2.09</b>	<b>\$2.64</b>

\* RENTAL RATES REFLECT ASKING \$PSF/MONTH

## MARKET HIGHLIGHTS

SIGNIFICANT 2014 LEASE TRANSACTIONS	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
200 Center Street Promenade, Anaheim	North/East Anaheim	St. Joseph Heritage Medical Group	A	191,647
3351 Michelson Drive, Irvine	Irvine (No Spectrum)	Ingram Micro	A	176,072
1733 & 1833 Alton Parkway, Irvine	Irvine (No Spectrum)	Rockwell Collins	B	175,000
625 North Grand Avenue, Santa Ana	Civic Center Area	Freedom Communications	B	173,000
600 South Main Street, Orange*	Main Place Area	Orange County Transportation Authority	A	137,737
500 North State College Boulevard, Orange	Stadium Area	County of Orange	A	111,690
15261 & 15271 Laguna Canyon Road, Irvine	Irvine Spectrum	DaVita Healthcare Partners	B	76,602
610 Newport Center Drive, Newport Beach*	Newport Beach	O'Melveny & Myers, LLP	A	70,608
25 Enterprise, Aliso Viejo*	Laguna Hills/Aliso Viejo	Lennar Corp.	A	70,251
16802 Aston Street, Irvine	Irvine (No Spectrum)	Spireon	B	65,108

SIGNIFICANT 2014 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
275 Valencia Avenue, Brea	Brea/La Habra	Greenlaw Partners/Cerberus Capital Management	\$110,000,000 / \$173	637,503
100-145 South State College Boulevard, Brea	Brea/La Habra	Hines/Oaktree Capital Management	\$70,600,000 / \$127	557,589
5 & 6 Hutton Centre Drive, Santa Ana	South Santa Ana	Blackstone/Equity Office	\$129,000,000 / \$233	553,683
7711, 7755, 7777 Center Avenue, Huntington Beach	Huntington Beach	Prudential Real Estate Investors	\$93,600,000 / \$237	395,150
2650 & 3230 East Imperial Highway/500 South Kraemer Boulevard/2601 Saturn Street, Brea	Brea/La Habra	PRES Companies	\$41,750,000 / \$144	290,179
500 North State College Boulevard, Orange	Stadium Area	Starwood Capital	\$65,300,000 / \$232	281,699
500 & 600 City Parkway West, Orange	The City Area	Greenlaw Partners	\$45,500,000 / \$167	273,221
17901 Von Karman Avenue, Irvine	Irvine (No Spectrum)	John Hancock Life Insurance	\$95,000,000 / \$348	272,887
2400 East Katella Avenue, Anaheim	Stadium Area	CIM Group	\$65,300,000 / \$250	260,817
18301 Von Karman Avenue, Irvine	Irvine (No Spectrum)	Greenlaw Partners/Cigna	\$67,905,600 / \$300	226,354

SIGNIFICANT 2014 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
650 Newport Center Drive, Newport Beach	Newport Beach	PIMCO	Q2 2014	380,000 (100%)
520 Newport Center Drive, Newport Beach	Newport Beach	N/A	Q3 2014	326,121 (15%)
19510 Jamboree Road, Irvine	Irvine (No Spectrum)	Google	Q2 2014	108,696 (100%)

SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
200 Spectrum Center Drive, Irvine	Irvine Spectrum)	N/A	Q1 2016	425,000 (0%)
6940 Beach Boulevard, Buena Park	Buena Park/La Palma	N/A	Q2 2015	50,000 (0%)

\* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS