

Orange County Office Market | Q1 2015



ANNUAL JOB GROWTH

OC created 55,400 net jobs in the 12 months ending February 2015, led by gains in Professional & Business Services (13,000 jobs), Education & Health Services (8,800 jobs), and Leisure & Hospitality (7,300 jobs).



12-MO DIRECT NET ABSORPTION

After ending last year with its largest quarterly gain since 2003, the OC experienced only 134,492 sq. ft. of occupancy gains in 1Q15. Airport Area comprised the bulk of the quarterly gains and accounted for 69% of OC's annual absorption growth.



DIRECT VACANCY RATE

Market fundamentals continue to improve as direct vacancy rates have steadily declined to a six-year low. The Class B market is largely responsible for the progress with vacancy falling to 11.5% – its lowest level since 2008.



OVERALL RENTS

Asking rents have risen over the past two years to reach their highest level since late 2009. Strong leasing demand will drive rents even higher, creating a landlord favorable setting in the most desirable submarkets.



UNDER CONSTRUCTION

200 Spectrum Center is the most notable project underway. Anticipated to deliver in early 2016, this 425,000 sq. ft. speculative building will likely land a tenant looking for a large block of space in South County.



*Arrows represent change from previous 12 months





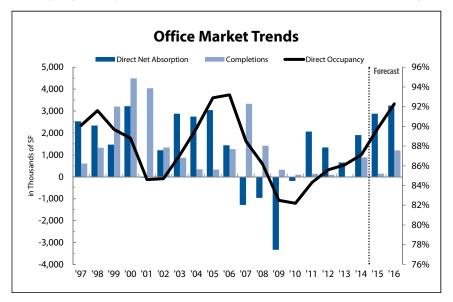
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AIRPORT AREA REMAINS TOP PERFORMER

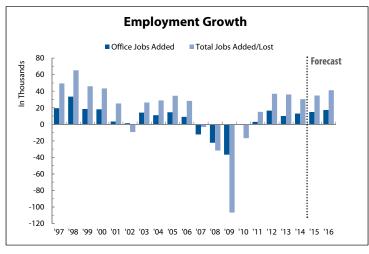
Orange County's economy continues to advance briskly and is demonstrating signs of picking up steam as the employment base has expanded above the 3% mark for five consecutive months. Although OC has remarkably created 179,400 jobs since its trough in early 2010, current employment levels still remain 21,400 jobs below their prerecessionary peak at year-end 2006. During this period, office-using categories such as the professional & business services sector have accounted for nearly 28% of this growth, with the remainder going to manufacturing, retail, hospitality, education, and healthcare. As a result of the steady job growth, the county's unemployment rate has dropped by 120 basis points to 4.6% within the past year and remains one of the lowest in the state. Looking ahead, employment payrolls are projected to increase by 36,500 jobs in 2015, followed by a strong addition of 41,300 jobs in 2016, according to Moody's Analytics.

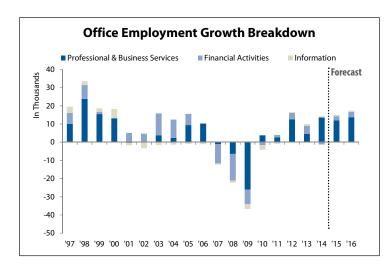
Orange County's office leasing market fundamentals continued to improve with its fourth consecutive quarter of positive absorption growth, which totaled nearly 2.6 million sq. ft. The Class A market posted modest occupancy gains totaling 45,635 sq. ft. during the quarter but has recorded just over 1.5 million sq. ft. of direct net absorption in the trailing 12 months. As a result, Class A direct vacancy rates have fallen by 180 basis points to 14.4% over the past 12 months, reaching its lowest level since 2007. Class B properties also benefited from 88,857 sq. ft. of quarterly absorption gains and nearly 1.1 million sq. ft. absorbed in the past year, which has helped drive vacancy rates down 190 basis points to 11.5%. Countywide, Class A full-service gross asking rents increased on average by 9.5% to \$2.41 since last year, with the largest annual rent hikes occurring in the Airport Area (11.5%), South (9.0%) and West (7.4%) submarkets. Class B rents also appreciated on average nearly 7.0% to \$1.99 per sq. ft. within the past 12 months. With quality space options diminishing, asking rents are expected to substantially increase which will likely usher in additional speculative construction.

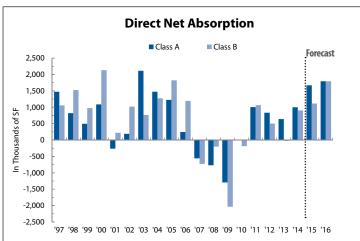
Orange County has recently experienced some notable transactions such as Hyundai Capital America securing a 177,000 sq. ft. lease at 4000 MacArthur Blvd with an anticipated move-in slated for 3Q15. Also, Safran recently signed for 86,000 sq. ft. at the Canyon Corporate Center with plans to take the space in July. With large space options becoming limited, large office space users are beginning to enter the market sooner than in the past. Tenants seeking large blocks of Class A space still have options, but will likely begin to pay a premium in the near future as the market continues to tighten.

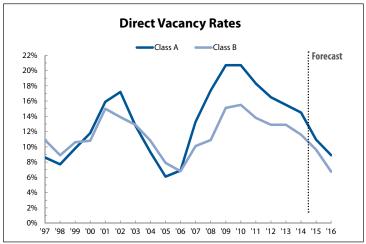


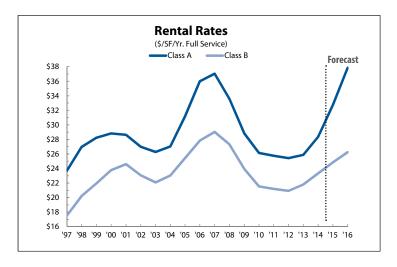
HISTORICAL TRENDS & FORECAST

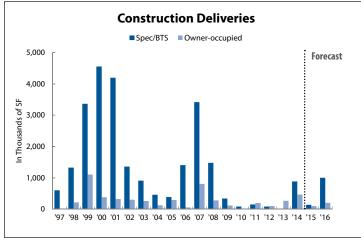












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SUBMARKET STATISTICS

		TOTAL SPACE AVAILABLE		DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
Submarket	Total Inventory SF	Direct Available	Sublease Available	Direct Vacancy	Y-O-Y Change	Current Qtr.	Rolling 12- Month	Avg Rents PSF/Yr	Avg Rents PSF/Mo.	Y-O-Y % Change
Airport Area	45,120,054	6,823,456	809,133	12.5%	-2.4%	207,995	1,771,665	\$27.42	\$2.29	12.19%
Class A	25,638,724	4,275,935	516,021	14.8%	-2.1%	112,396	1,211,332	\$29.78	\$2.48	11.49%
Class B	19,481,330	2,547,521	293,112	9.5%	-2.9%	95,599	560,333	\$24.93	\$2.08	12.20%
Central County	15,958,901	2,627,119	263,895	13.8%	-1.8%	(58,180)	290,105	\$22.03	\$1.84	-0.18%
Class A	7,425,794	1,207,648	253,978	15.5%	-3.2%	(26,582)	234,277	\$25.48	\$2.12	3.62%
Class B	8,533,107	1,419,471	9,917	12.4%	-0.7%	(31,598)	55,828	\$19.56	\$1.63	2.35%
North County	9,551,928	1,656,548	141,705	19.3%	-0.6%	(21,907)	55,226	\$23.08	\$1.92	-0.17%
Class A	2,752,411	298,251	88,607	17.5%	1.5%	(7,180)	(41,600)	\$24.69	\$2.06	-1.32%
Class B	6,799,517	1,358,297	53,098	20.1%	-1.4%	(14,727)	96,826	\$22.72	\$1.89	0.71%
South County	20,120,118	2,759,668	330,239	10.4%	-1.2%	(27,975)	232,469	\$2.27	\$0.19	8.09%
Class A	6,361,519	834,918	179,682	10.0%	0.4%	(17,540)	(22,951)	\$31.67	\$2.64	8.98%
Class B	13,758,599	1,924,750	150,557	10.5%	-1.9%	(10,435)	255,420	\$25.59	\$2.13	7.43%
West County	8,092,239	1,308,364	358,230	10.2%	-2.2%	34,559	224,920	\$25.13	\$2.09	4.80%
Class A	1,517,408	244,011	128,104	12.6%	-7.9%	(15,459)	119,605	\$27.66	\$2.30	7.42%
Class B	6,574,831	1,064,353	230,126	9.6%	-0.8%	50,018	105,315	\$24.40	\$2.03	5.13%

		TOTAL SPACE AVAILABLE		DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
Orange County Totals	Total Inventory SF	Direct Available	Sublease Available	Direct Vacancy	Y-O-Y Change	Current Qtr.	Rolling 12- Month	Avg Rents PSF/Yr	Avg Rents PSF/Mo.	Y-O-Y % Change
Class A	43,695,856	6,860,763	1,166,392	14.4%	-1.8%	45,635	1,500,663	\$28.96	\$2.41	9.85%
Class B	55,147,384	8,314,392	736,810	11.5%	-1.9%	88,857	1,073,722	\$23.91	\$1.99	6.95%
Overall	98,843,240	15,175,155	1,903,202	12.8%	-1.8%	134,492	2,574,385	\$25.81	\$2.15	7.60%



METHODOLOGY

Total Inventory: The total inventory includes all single and multitenant leased office buildings with at least 25,000 square feet of gross rentable square footage.

Total Space Available: Available space currently being marketed which is either physically vacant or occupied.

Direct Space Available: Space that is being offered for lease directly from the landlord or owner of a building. Under construction space is not included in space available figures.

Sublease Space Available: Space that has been leased by a tenant and is being offered for lease back to the market by the tenant with the lease obligation.

Direct Vacancy Rate: Direct space physically vacant divided by the total rentable inventory.

Direct Net Absorption: The net change in occupied direct space over a given period of time.

Under Construction: Office buildings which have commenced construction as evidenced by site excavation or foundation work.

Direct Asking Rents: The quoted full-service asking rent for available space expressed in dollars per sq. ft.

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ABOUT PMRG

Headquartered in Houston, Texas, PM Realty Group (PMRG) is one of the nation's leading real estate companies focusing on comprehensive property services, development and acquisitions. With a strategic presence in 30 markets, PMRG provides the highest quality services to its clients and investors. PMRG's clients and investors include large financial institutions, advisors and high net worth individuals. By capitalizing on the team's experience and expertise, PMRG has the ability to undertake large and challenging management, leasing, development and acquisition projects.

PMRG's portfolio, including projects managed for third parties, includes commercial office buildings, mixed-use centers, corporate headquarters, industrial buildings, medical facilities, high-rise multifamily buildings and re-appropriated military facilities.

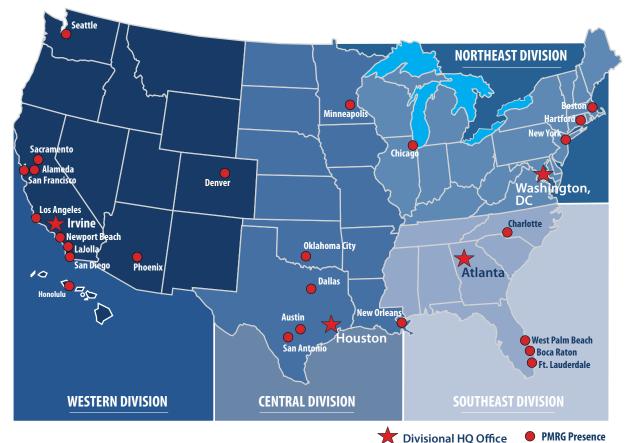
Our goal is to generate exceptional returns for our clients and investors by focusing on real estate fundamentals. For additional information, visit www.pmrg.com.

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