

The background of the entire page is a composite image. The top half shows a clear blue sky with a city skyline in the distance, featuring several tall, modern office buildings. The bottom half shows a waterfront scene with a row of multi-story residential buildings, likely condominiums, and several boats docked at a marina. The water is a deep blue.

**PMRG**  
Market DATA Glance

ORANGE COUNTY  
OFFICE MARKET REPORT  
THIRD QUARTER 2015

**PMRG** | PM Realty Group







#### ANNUAL JOB GROWTH

OC created 48,500 net jobs in the 12 months ending August 2015, led by gains in Education & Health Services (9,500 jobs), Leisure & Hospitality (8,400 jobs), and Professional & Business Services (7,700 jobs).



#### 12-MO DIRECT NET ABSORPTION

The office market posted 857,208 sq. ft. of quarterly gains, pushing the trailing 12-month total to just under 2.9 million sq. ft. Airport Area accounted for 76.3% of the OC's quarterly growth.



#### DIRECT VACANCY RATE

Market fundamentals continue to improve as direct vacancy rates have declined to an 8-year low. Class A properties are largely responsible for the progress with vacancy falling 400 bps to 11.6% within the past year.



#### OVERALL RENTS

Asking rents have dramatically increased over the past two years to nearly reach a 6-year high. Strong leasing demand will drive rental rates even higher, creating a landlord favorable market, especially in the Airport area and South County.



#### UNDER CONSTRUCTION

With five projects currently under construction, 200 Spectrum Center is the most notable project 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*

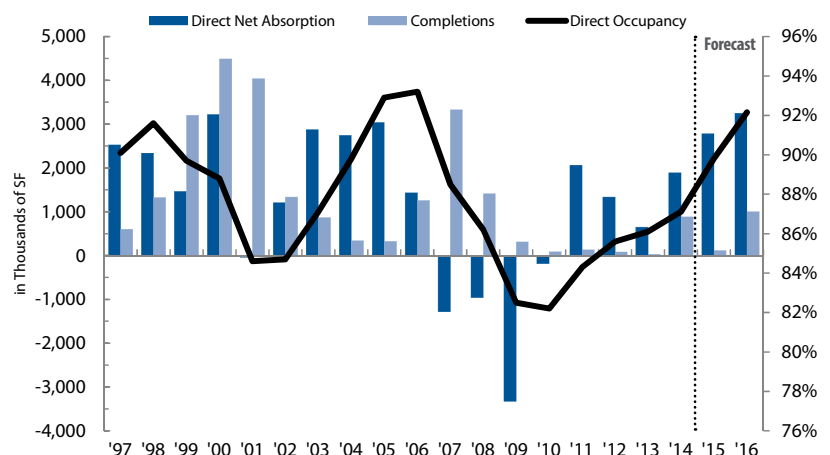
## OFFICE VACANCY RATES DROP TO 8-YEAR LOW

Orange County's economy has accelerated into high gear with nearly all cylinders firing as strong job growth has exceeded the 3.0% annual mark since the beginning of 2015. The Professional & Business Services sector has accounted for nearly 16% of the employment gains, which has benefitted the office market. Although Orange County's total non-farm employment levels have dipped 7,100 jobs below its peak recorded earlier this year due to seasonal variations, the overall employment picture remains robust. As a result of the solid job growth, the county's unemployment rate has dropped by 130 basis points to 4.5% within the past year. According to Moody's Analytics, employment payrolls are projected to increase by 46,800 jobs in 2015, followed by a strong addition of 38,000 jobs in 2016.

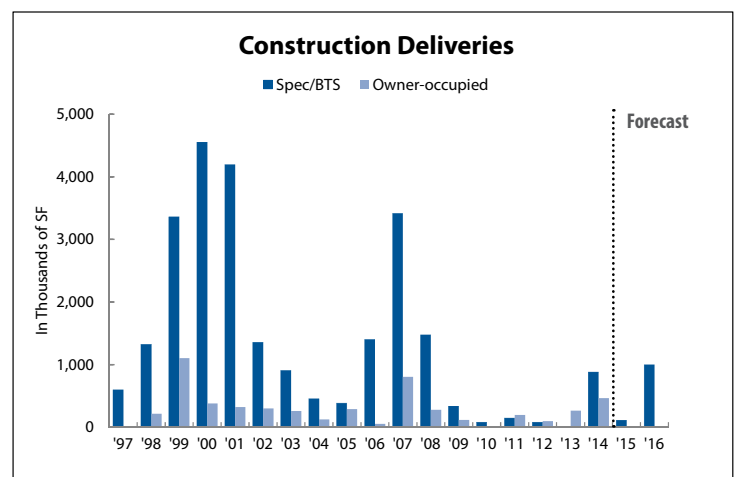
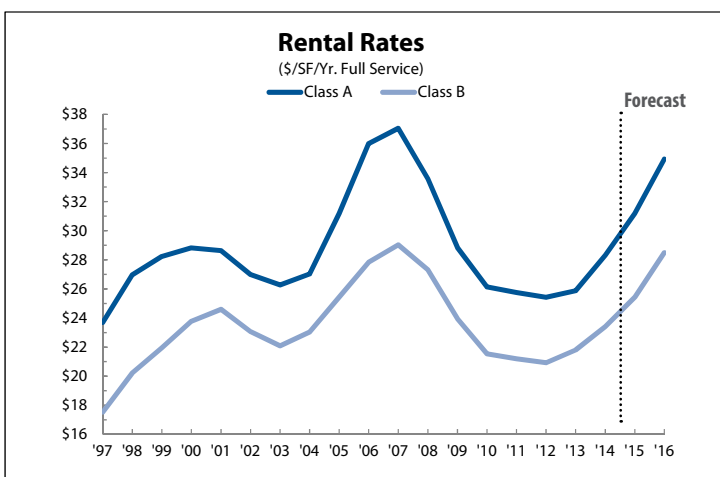
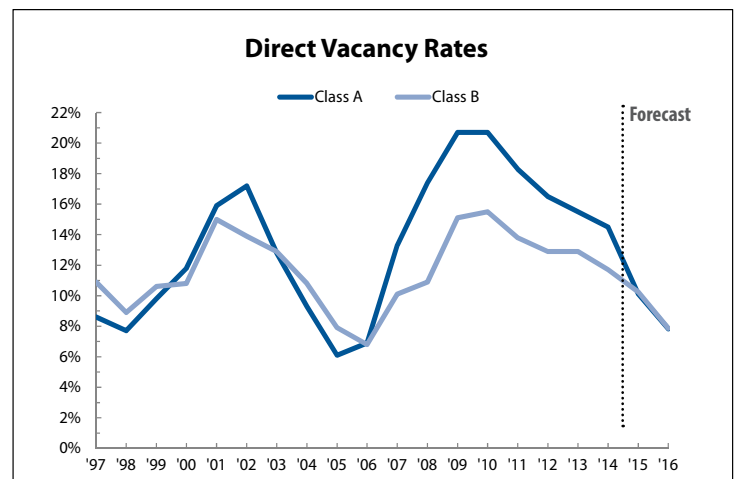
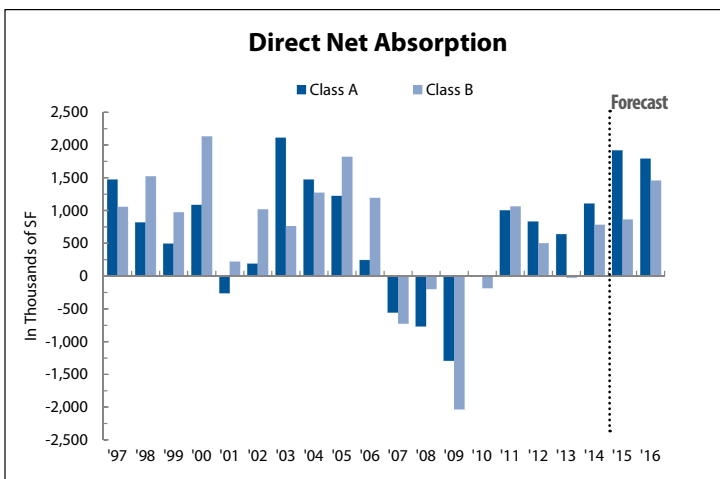
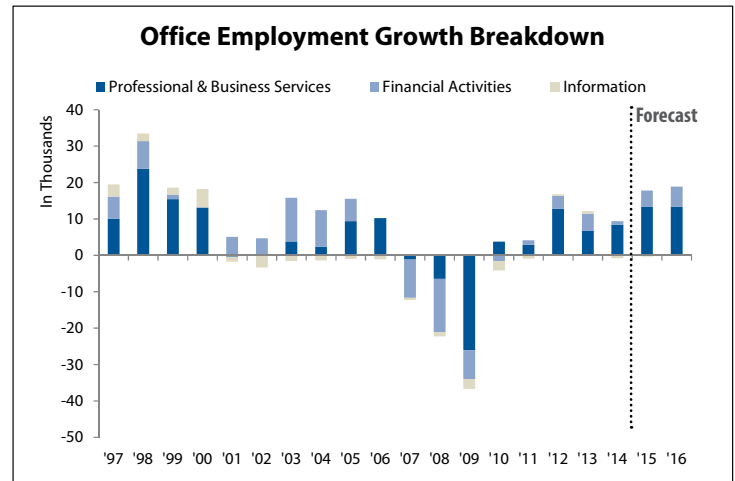
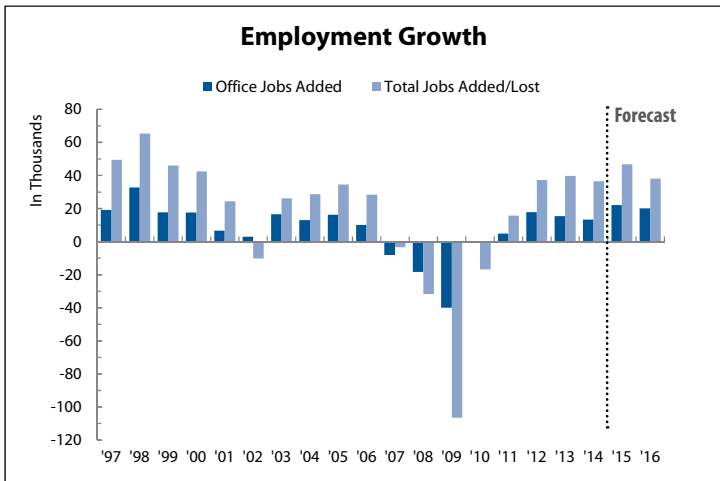
Orange County's office market fundamentals have remarkably improved with nearly 2.9 million sq. ft. of direct net absorption in the trailing 12 months and over 7.9 million sq. ft. absorbed since the end of the Great Recession. The Class A market posted strong occupancy gains totaling 551,026 sq. ft. during the third quarter and has recorded nearly 1.9 million sq. ft. of direct net absorption in the trailing 12 months. Class A direct vacancy rates have fallen by 400 basis points to 11.6% over the past 12 months, reaching its lowest level since 2007. The Class B sector also improved with 306,182 sq. ft. of quarterly gains and 976,888 sq. ft. of positive absorption in the trailing 12 months, pushing vacancy rates down 180 basis points to 11.1%. Countywide, Class A full-service gross asking rents increased on average by 8.2% to \$2.50 per sq. ft. since the third quarter of 2014, with the largest annual rent hikes occurring in the Airport Area (8.9%), South (8.3%) and North (7.4%) submarkets. Class B rents also appreciated on average nearly 9.0% to \$2.07 per sq. ft. within the past 12 months. As the Class A market continues to tighten and the scarcity of large blocks becomes increasingly evident, asking rents are expected to substantially increase which will likely entice developers to move forward with additional speculative construction.

Orange County recently experienced some notable lease transactions such as Speedo USA committing to 68,815 sq. ft. of space at 6251 Katella Avenue, with plans to occupy by year-end. Also, Edwards Lifesciences inked a 34,229 sq. ft. deal at Alton Corporate Center and plans to move into their space in early 2016. Office space users in expansion mode are beginning to enter the market sooner to secure quality space in short supply. Tenants seeking large blocks of Class A space will have limited options, and will likely have to pay a premium in the near future as the market continues to tighten.

### Office Market Trends



## HISTORICAL TRENDS & FORECAST





## SUBMARKET STATISTICS

Submarket	Total Inventory SF	TOTAL SPACE AVAILABLE		DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
		Direct Available	Sublease Available	Direct Vacancy	Y-O-Y Change	Current Qtr.	Rolling 12-Month	Avg Rents PSF/Mo.	Avg Rents PSF/Yr.	Y-O-Y % Change
<b>Airport Area</b>	45,315,534	6,268,981	905,728	11.1%	-3.5%	653,758	1,613,358	\$2.38	\$28.56	10.70%
Class A	25,702,749	3,923,949	717,654	12.2%	-4.2%	552,926	1,065,031	\$2.58	\$30.96	8.86%
Class B	19,612,785	2,345,032	188,074	9.5%	-2.9%	100,832	548,327	\$2.17	\$26.04	13.61%
<b>Central County</b>	16,279,011	2,749,605	207,134	12.2%	-2.4%	(154,477)	526,592	\$1.92	\$23.04	2.67%
Class A	7,446,818	1,262,104	202,022	12.7%	-5.1%	(82,523)	510,001	\$2.18	\$26.16	3.81%
Class B	8,832,193	1,487,501	5,112	11.8%	-0.2%	(71,954)	16,591	\$1.68	\$20.16	3.70%
<b>North County</b>	9,488,195	1,771,183	180,791	14.6%	-5.2%	191,678	488,544	\$2.04	\$24.48	6.81%
Class A	2,752,974	433,601	102,131	8.0%	-9.9%	74,892	272,369	\$2.19	\$26.28	7.35%
Class B	6,735,221	1,337,582	78,660	17.3%	-3.2%	116,786	216,175	\$1.99	\$23.88	6.42%
<b>South County</b>	20,170,636	2,391,928	512,034	9.7%	-1.0%	162,439	211,003	\$2.42	\$29.04	11.52%
Class A	6,483,097	724,529	295,876	9.8%	1.0%	(8,349)	(25,604)	\$2.75	\$33.00	8.27%
Class B	13,687,539	1,667,399	216,158	9.7%	-1.9%	170,788	236,607	\$2.28	\$27.36	12.32%
<b>West County</b>	8,119,794	1,313,529	290,023	11.3%	-0.2%	3,810	11,130	\$2.05	\$24.60	0.00%
Class A	1,516,473	238,344	140,768	11.3%	-3.4%	14,080	51,942	\$2.41	\$28.92	6.17%
Class B	6,603,321	1,075,185	149,255	11.3%	0.6%	(10,270)	(40,812)	\$1.95	\$23.40	-0.51%

Orange County Totals	Total Inventory SF	TOTAL SPACE AVAILABLE		DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
		Direct Available	Sublease Available	Direct Vacancy	Y-O-Y Change	Current Qtr.	Rolling 12-Month	Avg Rents PSF/Mo.	Avg Rents PSF/Yr.	Y-O-Y % Change
Class A	43,902,111	6,582,527	1,458,451	11.6%	-4.0%	551,026	1,873,739	\$2.50	\$30.00	8.23%
Class B	55,471,059	7,912,699	637,259	11.1%	-1.8%	306,182	976,888	\$2.07	\$24.84	8.95%
Overall	99,373,170	14,495,226	2,095,710	11.3%	-2.8%	857,208	2,850,627	\$2.24	\$26.88	8.21%



## METHODOLOGY

**Total Inventory:** The total inventory includes all single and multi-tenant 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.

## 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.pmr.com](http://www.pmr.com).

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- National Market Research











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