

The background of the entire page is a photograph of an Orange County waterfront. In the foreground, there's a marina with several boats docked at a pier. Behind the pier are multi-story residential buildings, likely condominiums or townhouses. In the background, the Orange County skyline is visible, featuring several tall office buildings. The sky is clear and blue, and mountains are visible in the far distance.

PMRG
Market DATA Glance

ORANGE COUNTY
OFFICE MARKET REPORT
SECOND QUARTER 2015

PMRG | PM Realty Group



ANNUAL JOB GROWTH

OC created 50,700 net jobs in the 12 months ending May 2015, led by gains in Education & Health Services (12,100 jobs), Professional & Business Services (9,900 jobs), and Construction (7,200 jobs).



12-MO DIRECT NET ABSORPTION

The office market posted 543,514 sq. ft. of quarterly gains, pushing the trailing 12-month total to just under 2.3 million sq. ft. Central County accounted for 57.9% of the OC's quarterly growth.



DIRECT VACANCY RATE

Market fundamentals continue to improve as direct vacancy rates have declined to a 7-year low. Class A properties are largely responsible for the progress with vacancy falling 270 bps to 12.9% 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 Central County.



UNDER CONSTRUCTION

With seven 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.



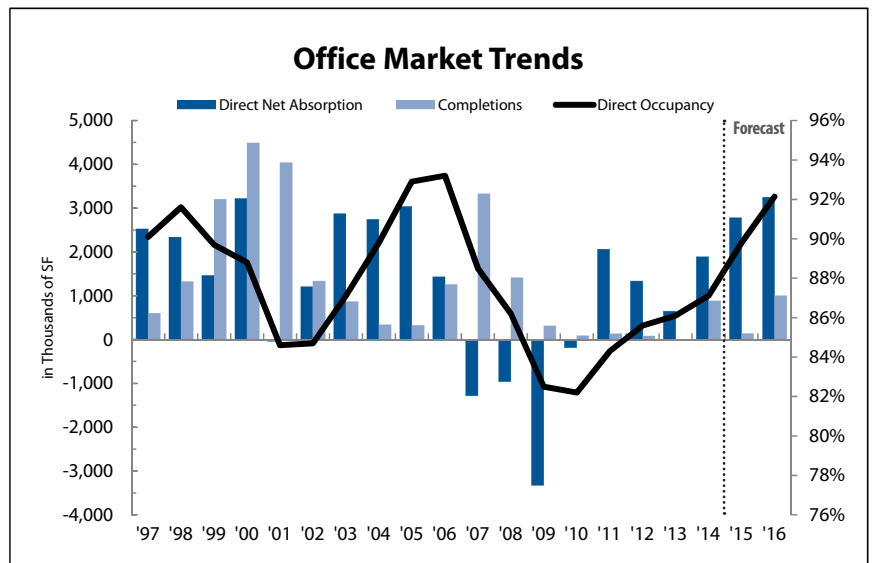
*Arrows represent change from previous 12 months

ASKING RENTS CLIMB TO 6-YEAR HIGH

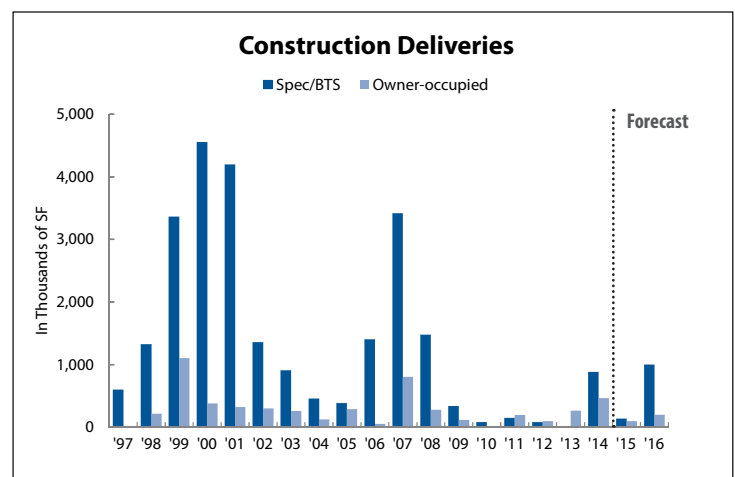
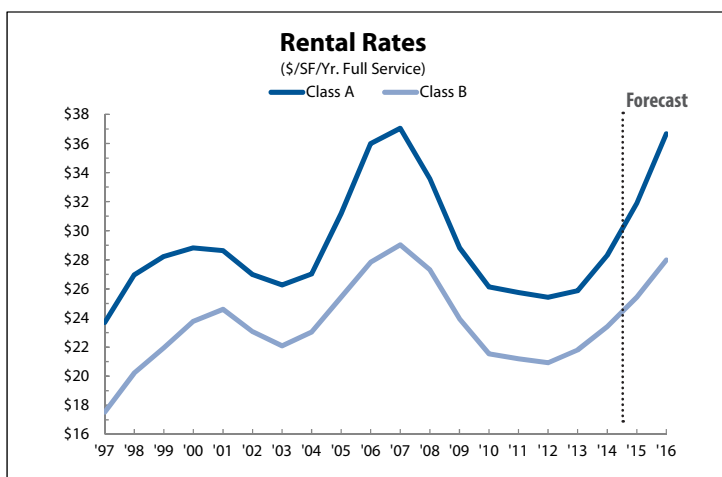
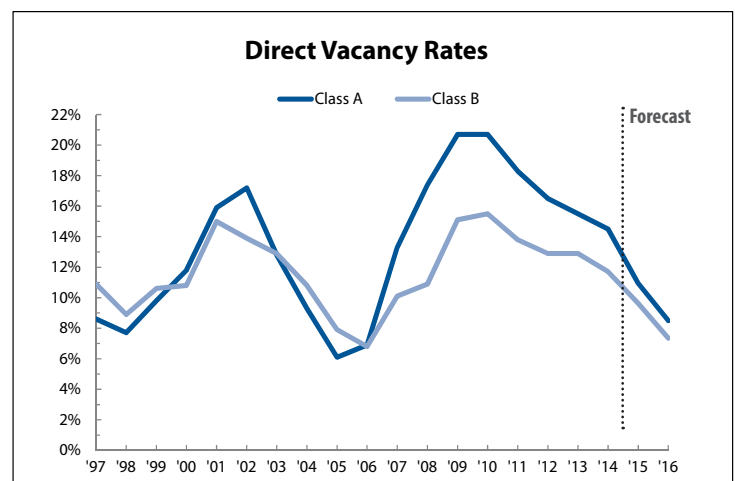
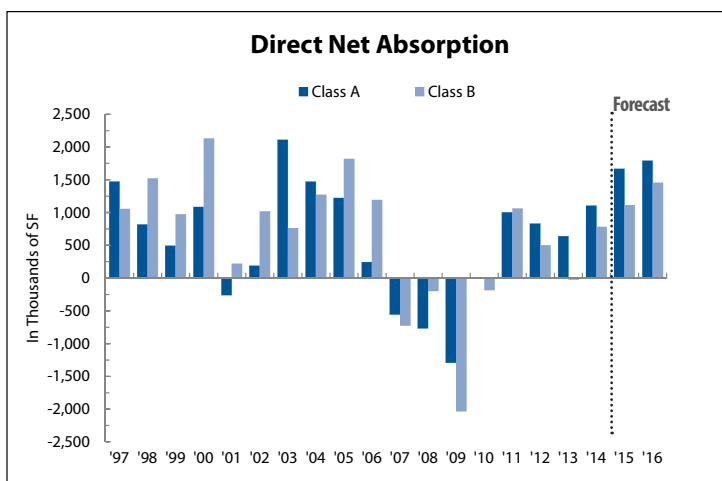
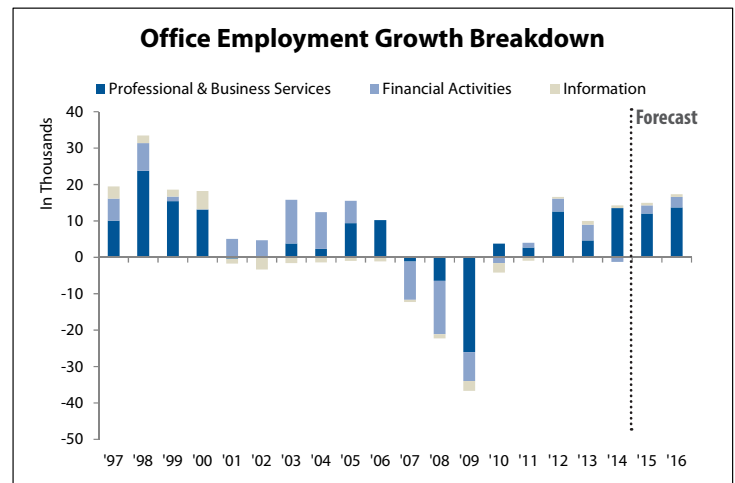
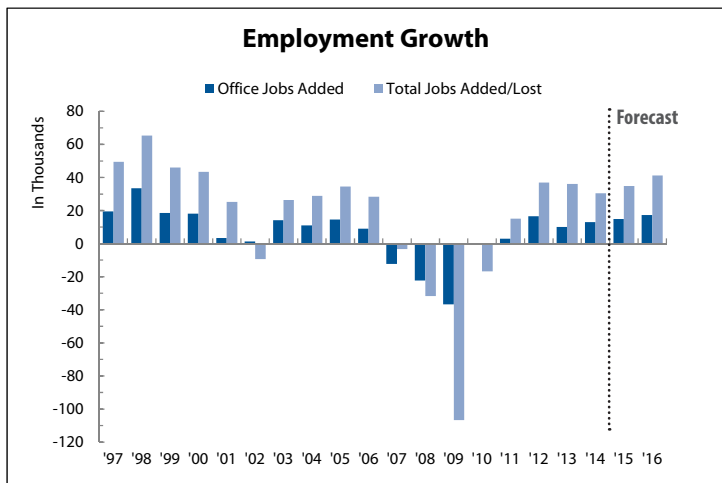
Orange County's economy has accelerated into high gear with strong annual job growth rates exceeding the 3.4% mark since the beginning of 2015. As of May 2015, Orange County has fully recovered all jobs lost during the 2008 to 2010 economic downturn, with 204,300 jobs created since early 2010. The professional & business services sector has accounted for nearly 22% of this growth, which has benefitted the office market. As a result of the solid job growth, the county's unemployment rate has dropped by 100 basis points to 4.2% within the past year and remains one of the lowest in the state. According to Moody's Analytics, employment payrolls are projected to increase by 36,500 jobs in 2015, followed by an even stronger addition of 41,300 jobs in 2016.

Orange County's office market fundamentals have remarkably improved with nearly 2.3 million sq. ft. of direct net absorption in the trailing 12 months and over 6.9 million sq. ft. absorbed since the end of the Great Recession. The Class A market posted occupancy gains totaling 596,240 sq. ft. during the quarter and 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 270 basis points to 12.9% over the past 12 months, reaching its lowest level since 2007. Although Class B properties countered these gains with 52,726 sq. ft. of quarterly losses, the sector has recorded 750,887 sq. ft. of positive absorption in the trailing 12 months, pushing vacancy rates down 130 basis points to 11.6%. Countywide, Class A full-service gross asking rents increased on average by 9.9% to \$2.47 since mid-year 2014, with the largest annual rent hikes occurring in the Airport Area (12.4%), South (8.1%) and West (4.8%) submarkets. Class B rents also appreciated on average nearly 8.6% to \$2.04 per sq. ft. within the past 12 months. With quality space options diminishing, asking rents are expected to substantially increase in the year ahead which will likely entice developers to move forward with additional speculative construction.

Orange County has recently experienced some notable transactions such as LoanDepot doubling their space to accommodate its growing direct-lender center. The loan company renewed multiple leases at Towne Centre Plaza totaling 121,402 sq. ft. and signed two new leases at Pacific Vista totaling 89,510 sq. ft. Kofax Inc. also renewed their lease at Discovery Business Center for 64,006 sq. ft. Office space users in expansion mode are beginning to enter the market sooner to secure quality space that is in short supply. Tenants seeking large blocks of Class A space still have several options, but will likely begin to pay a premium in the near future as the market continues to tighten.



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/Yr	Avg Rents PSF/Mo.	Y-O-Y % Change
Airport Area	45,004,731	6,880,353	871,494	12.4%	-1.7%	67,320	1,123,315	\$27.96	\$2.33	11.00%
Class A	25,647,774	4,286,615	594,060	14.5%	-1.6%	64,114	764,591	\$30.25	\$2.52	10.04%
Class B	19,356,957	2,593,738	277,434	9.6%	-1.9%	3,206	358,724	\$25.53	\$2.13	12.91%
Central County	15,986,035	2,714,038	226,263	11.7%	-3.5%	314,776	563,839	\$22.66	\$1.89	1.98%
Class A	7,443,673	1,263,512	219,458	11.6%	-6.4%	291,249	476,492	\$26.18	\$2.18	5.27%
Class B	8,542,362	1,450,526	6,805	11.8%	-1.0%	23,527	87,347	\$19.87	\$1.66	3.76%
North County	9,502,101	1,783,989	158,695	16.6%	-4.0%	269,266	381,639	\$24.03	\$2.00	5.07%
Class A	2,766,880	428,596	102,131	10.7%	-6.7%	186,532	184,303	\$25.54	\$2.13	3.91%
Class B	6,735,221	1,355,393	56,564	19.0%	-2.9%	82,734	197,336	\$23.62	\$1.97	5.68%
South County	20,083,721	2,417,778	306,218	10.4%	-0.5%	(1,621)	110,338	\$28.39	\$2.37	11.03%
Class A	6,362,100	645,049	217,205	9.2%	0.1%	53,296	(7,338)	\$32.95	\$2.75	9.91%
Class B	13,721,621	1,772,729	89,013	10.9%	-0.9%	(54,917)	117,676	\$26.55	\$2.21	10.81%
West County	8,091,142	1,289,500	283,671	11.5%	-0.2%	(106,227)	76,541	\$24.62	\$2.05	1.95%
Class A	1,516,473	221,300	124,758	12.6%	-5.7%	1,049	86,737	\$28.69	\$2.39	9.76%
Class B	6,574,669	1,068,200	158,913	11.2%	1.1%	(107,276)	(10,196)	\$23.59	\$1.97	1.24%

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/Yr	Avg Rents PSF/Mo.	Y-O-Y % Change
Class A	43,736,900	6,845,072	1,257,612	12.9%	-2.7%	596,240	1,504,785	\$29.64	\$2.47	9.92%
Class B	54,930,830	8,240,586	588,729	11.6%	-1.3%	-52,726	750,887	\$24.46	\$2.04	8.60%
Overall	98,667,730	15,085,658	1,846,341	12.2%	-1.8%	543,514	2,255,672	\$26.46	\$2.20	8.51%



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.

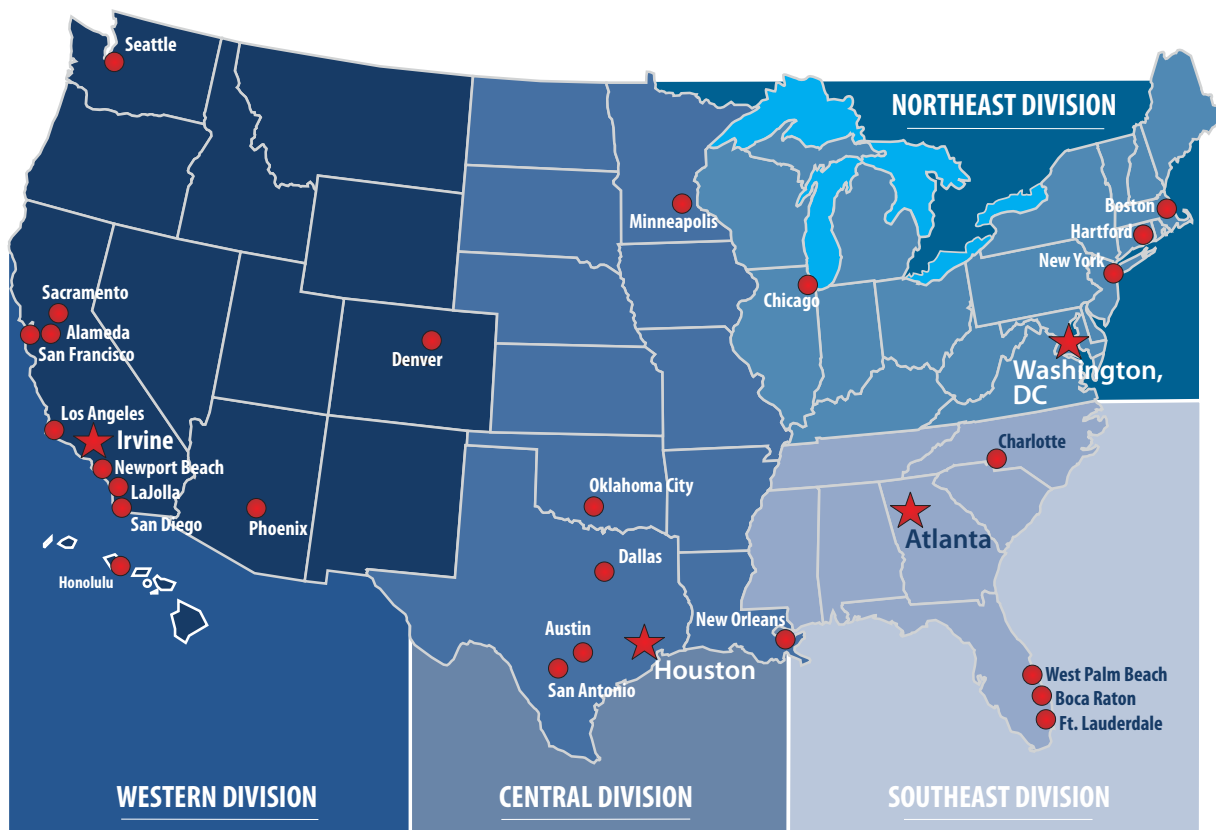
PMRG's portfolio, including projects managed for third parties, includes commercial office buildings, mixed-use centers, corporate headquarters, industrial buildings, medical facilities, high-rise multifamily buildings and re-appropriated military facilities.

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.

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★ Divisional HQ Office ● PMRG Presence



Jim Proehl
Executive Vice President
Managing Director
949.390.5555
jproehl@pmrg.com
CA Real Estate License
#01835739



Oliver Fleener
Senior Vice President,
Brokerage Services
949.390.5526
ofleener@pmrg.com
CA Real Estate License
#01245596



Scott Kuklish
Senior Vice President
949.390.5519
skuklish@pmrg.com
CA Real Estate License
#00689233



Ken Arimitsu
Vice President,
Brokerage Services
949.390.5512
karimistsu@pmrg.com
CA Real Estate License
#01162590



Eileen Doody
Senior Vice President,
Brokerage Services
949.390.5506
edoody@pmrg.com
CA Real Estate License
#00965140



Tim Joyce
Senior Vice President,
Director of Capital
Markets
949.390.5525
tjoyce@pmrg.com
CA Real Estate License
#00830238



Mark Mattis
Senior Vice President
310.215.8500
mmattis@pmrg.com
CA Real Estate License
#009343378