



Rent Growth Slows, Vacancy Hovers Near 10 Percent

Demand returned to the overall Orange County office market in the first quarter and rents continued their slow ascent.

Countywide, the Q1 vacancy rate hovered just above 10 percent for the fourth consecutive quarter on 249,201 sq. ft. of positive net absorption. Demand was greatest in Santa Ana, Tustin, Anaheim, Cypress and Irvine, where two buildings totaling 212,000 sq. ft. came on the market. Cities with the most new vacancies were Costa Mesa, Foothill Ranch, Lake Forest, Mission Viejo and Orange.

While average rents are a whisker shy of matching the overall market's pre-crash peak 10 years ago, in other ways the office market has more than fully recovered. Since the bottom, 40 new buildings, totaling more than 4.7 million sq. ft., have been completed. Occupied space has increased 7.1 million sq. ft. and is only 60,000 sq. ft. from reaching the 100 million sq. ft. mark.

The market is healthy enough for a few developers to take some measured risks. Trammel Crow will complete 545,000 sq. ft. of speculative office at the airport this year and asking rents are expected to top \$4 per sq. ft. LBA is planning a six-story 180,000-sq.-ft. building at Park Place on Jamboree Road. Also set to get underway this year: an 870,000-sq.-ft. creative campus in Tustin by Lincoln Property and 242,000-sq.-ft. office project on Von Karman Avenue by Hines Interest L.P.

Asking lease rates increased in the last four quarters an average 5 percent and 3.7 percent respectively for Class A and Class B office space – gains that were half that of the previous four quarters.

Among the popular features of creative space are low-rise buildings, highly designed common areas and higher parking ratios that are valued by employers. These projects have attracted a number of 10,000-sq.-ft. tenants but few large tenants have materialized for the open floor plans of 40,000 sq. ft. and up. This is why there was added importance to the 100,000-sq.-ft. Q1 lease of creative space at The Hive in Costa Mesa by the Los Angeles Chargers football team. The team's ability to build a practice field on an adjacent 3.2-acre parcel cinched the deal.

Also, late in the first quarter a unique office property appeared on the market – the 65,000-sq.-ft. campus of Trinity Broadcasting Network just off the 405 Freeway in Costa Mesa. Lee & Associates agents, who toured about 20 prospective buyers and tenants in two weeks, say the six-acre property is drawing strong interest for the building's low profile and nearly 6:1 parking.

MARKET OVERVIEW

(Change from last quarter)

AVAILABILITY - 15.20%
Down from 15.70% last quarter



VACANCY - 10.30%
Same as last quarter



ABSORPTION - 250,890 SQ. FT.
Up from (146,728) SF last quarter

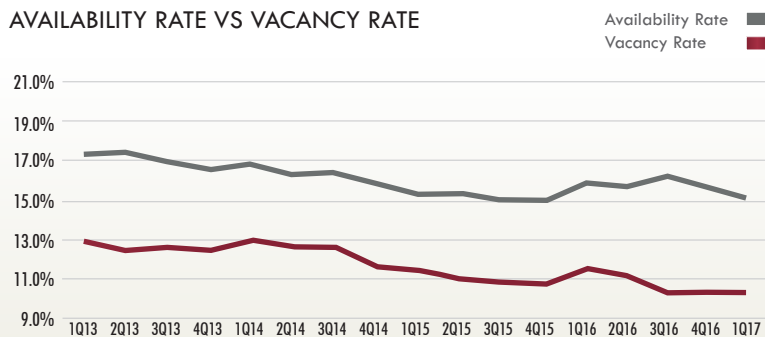


AVERAGE LEASE RATE - \$2.47 FSG
Up from \$2.42 PSF last quarter



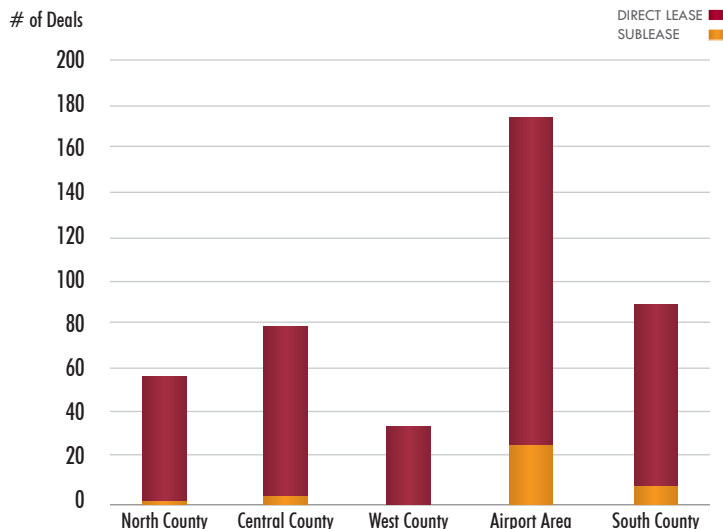
*All numbers are based on office space in buildings 30,000 sq. ft. and larger.

AVAILABILITY RATE VS VACANCY RATE



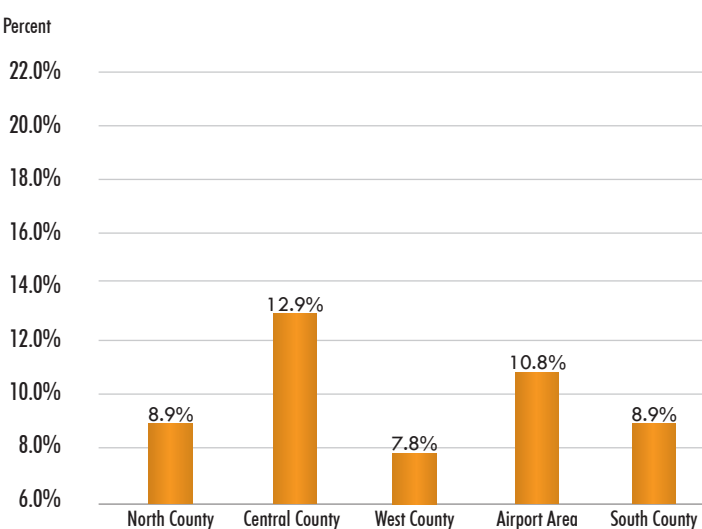
Source: CoStar

NUMBER OF LEASES EXECUTED FOR THE QUARTER BY SUBMARKET



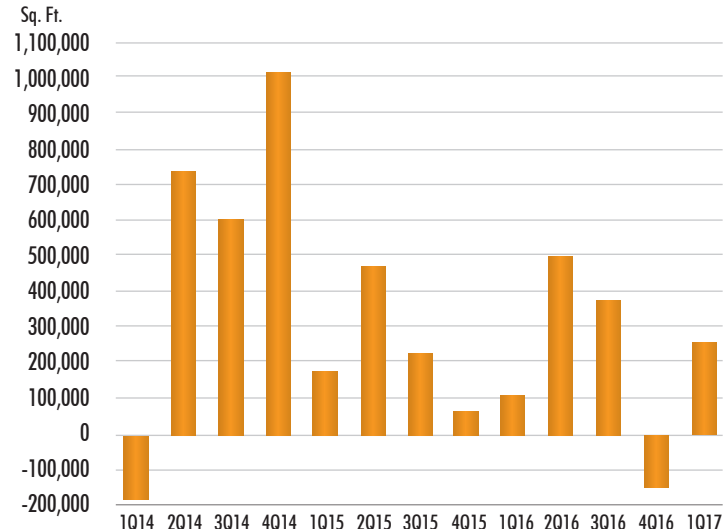
Source: CoStar

VACANCY RATE BY SUBMARKET - INCLUDING SUBLET SPACE



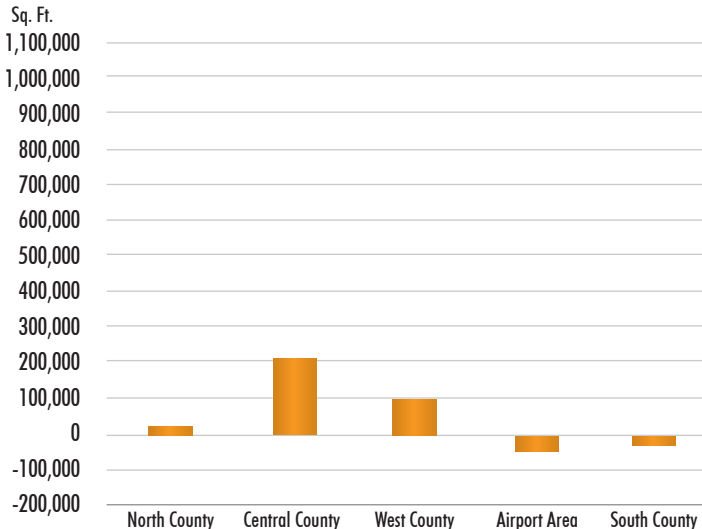
Source: CoStar

COUNTY WIDE NET ABSORPTION INCLUDING SUBLET SPACE



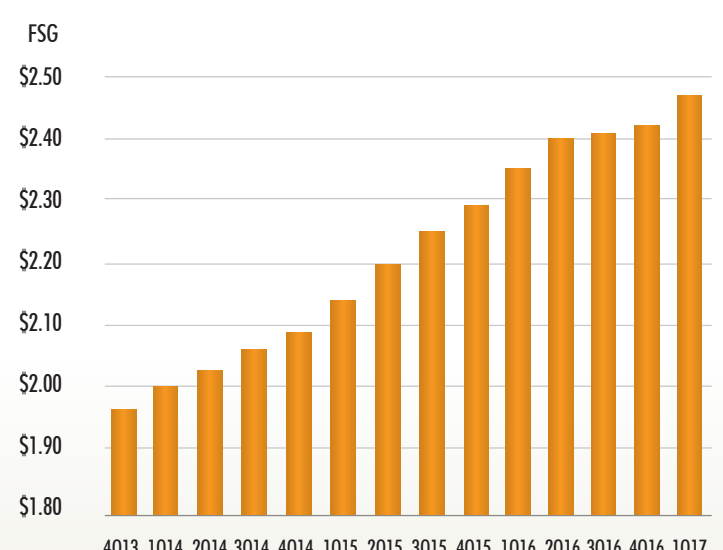
Source: CoStar

YTD NET ABSORPTION BY SUBMARKET, INCLUDING SUBLET SPACE



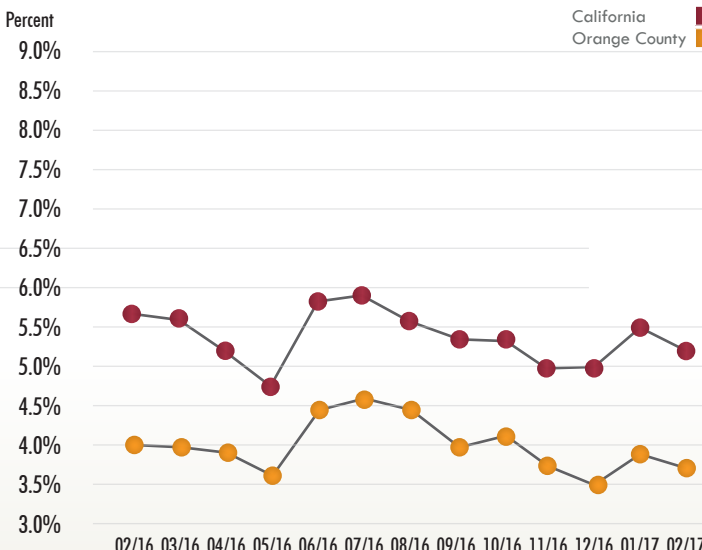
Source: CoStar

AVERAGE FSG LEASE RATES BY QUARTER



Source: CoStar

UNEMPLOYMENT RATE NOT SEASONALLY ADJUSTED



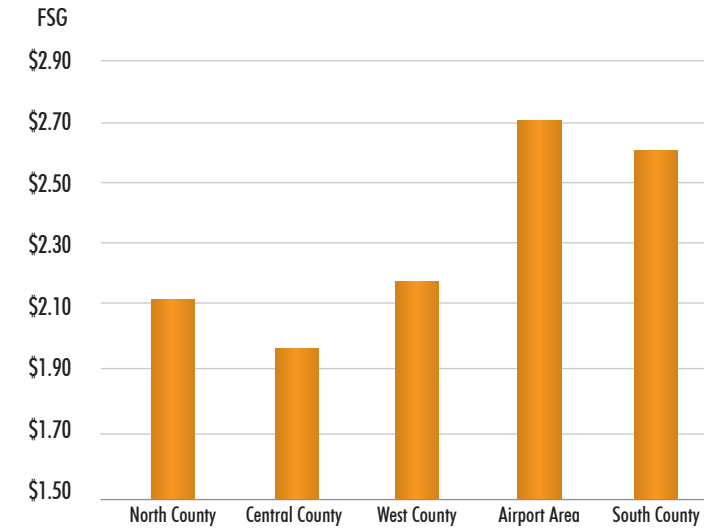
Source: EDD

AVERAGE FSG LEASE RATE

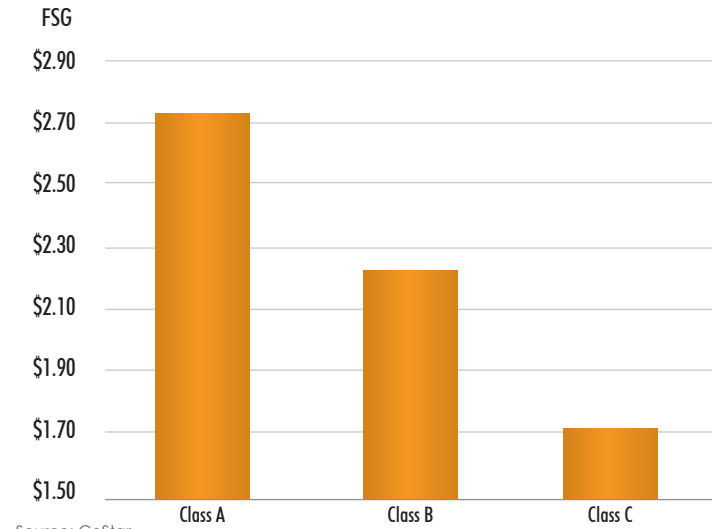
BY SUBMARKET

AVERAGE FSG LEASE RATE

BY CLASS



Source: CoStar

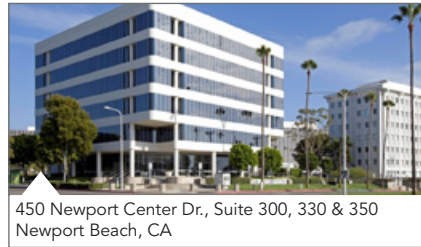


Source: CoStar

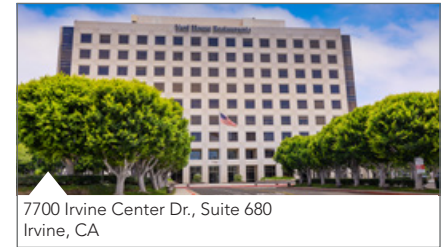
COMPLETED LEE & ASSOCIATES TRANSACTIONS



1610 E. St Andrews Place
Santa Ana, CA



450 Newport Center Dr., Suite 300, 330 & 350
Newport Beach, CA



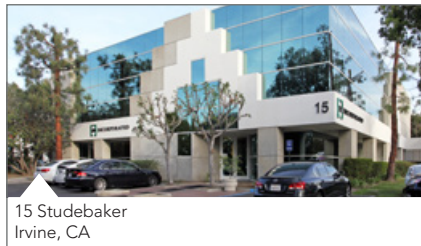
7700 Irvine Center Dr., Suite 680
Irvine, CA

Lease Transactions IQ 17

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
1610 E. St Andrews Place Santa Ana, CA	62,444	Collections Universe, Inc.	Pacific Center Owner, LLC	Craig DeMiranda represented the Tenant.
450 Newport Center Dr., Suite 300, 330 & 350, Newport Beach, CA	8,826	Trumark Companies, LLC	The Irvine Company - Office Properties	John Martin represented the Tenant.
7700 Irvine Center Dr., Suite 680 Irvine, CA	6,004	Essent Guaranty, Inc.	PPC Irvine Center Investment, LLC c/o Great Far East	Dave Smith, Adam Wicker, Matt Fryer & Travis Watts represented the Landlord.



26632, 26642 & 26672 Towne Centre
Foothill Ranch, CA



15 Studebaker
Irvine, CA



510-512 Harbor Boulevard
Fullerton, CA

Sale Transactions IQ 17

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
26632, 26642 & 26672 Towne Centre Foothill Ranch, CA	203,749	Pinnacle Asset Management Group, LLC	BRE CA Office Owner LLC	Kurt Bruggeman, Phil Cohen & Ryan Swanson represented the Buyer.
15 Studebaker Irvine, CA	16,000	15 Studebaker LLC	LKN Properties	Gary McArdell represented the Buyer.
510-512 Harbor Boulevard Fullerton, CA	2,750	George Maleka	Little Eagle Free, Inc.	Erik Thompson & Bob Sattler represented the Seller.

	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	39	3,015,978	667,687	20.7%	303,400	10.1%	276,994	9.2%	(29,266)	(29,266)	104,563	26,406	\$2.93	205,000
Anaheim	79	7,274,704	935,890	12.9%	730,437	10.0%	711,440	9.8%	48,069	48,069	64,957	18,997	\$2.12	- 0 -
Brea	39	3,982,016	525,453	13.2%	422,000	10.6%	338,279	8.5%	(1,551)	(1,551)	79,725	83,721	\$2.05	- 0 -
Buena Park	14	1,031,337	256,829	24.9%	167,045	16.2%	167,045	16.2%	(7,760)	(7,760)	- 0 -	- 0 -	\$2.14	- 0 -
Corona del Mar	1	49,308	- 0 -	0.0%	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Costa Mesa	64	7,099,854	1,208,058	17.0%	940,398	13.2%	902,224	12.7%	(40,546)	(40,546)	166,144	38,174	\$2.36	- 0 -
Cypress	25	1,865,771	342,107	18.3%	282,629	15.1%	282,629	15.1%	65,513	65,513	54,326	- 0 -	\$2.07	- 0 -
Dana Point	3	135,296	- 0 -	0.0%	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Foothill Ranch	10	798,721	152,525	19.1%	106,510	13.3%	92,907	11.6%	(18,391)	(18,391)	11,042	13,603	\$2.42	- 0 -
Fountain Valley	27	1,838,765	65,146	3.5%	61,585	3.3%	61,585	3.3%	- 0 -	- 0 -	- 0 -	- 0 -	\$1.80	- 0 -
Fullerton	30	2,433,803	370,804	15.2%	161,969	6.7%	161,969	6.7%	1,497	1,497	- 0 -	- 0 -	\$2.37	- 0 -
Garden Grove	16	1,443,755	49,545	3.4%	57,338	4.0%	57,338	4.0%	7,638	7,638	6,283	- 0 -	\$1.84	- 0 -
Huntington Beach	30	2,119,145	264,141	12.2%	151,870	7.2%	142,157	6.7%	4,367	4,367	23,329	9,713	\$2.46	44,500
Irvine	390	34,350,865	6,404,922	17.7%	3,205,845	9.3%	2,995,911	8.7%	71,516	71,516	1,074,997	209,934	\$2.70	1,883,954
La Habra	4	142,069	3,031	2.1%	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	\$1.39	- 0 -
La Palma	10	712,038	63,974	9.0%	48,958	6.9%	48,958	6.9%	13,023	13,023	- 0 -	- 0 -	\$2.03	- 0 -
Ladera Ranch	4	162,936	10,200	6.3%	13,581	8.3%	13,581	8.3%	1,689	1,689	- 0 -	- 0 -	\$2.52	- 0 -
Laguna Beach	5	192,434	21,461	11.2%	19,881	10.3%	19,881	10.3%	953	953	1,580	- 0 -	\$2.53	- 0 -
Laguna Hills	25	1,585,749	289,177	18.2%	267,970	16.9%	253,516	16.0%	(1,268)	(1,268)	13,972	14,454	\$2.66	- 0 -
Laguna Niguel	8	1,690,809	64,540	3.8%	62,638	3.7%	62,638	3.7%	(13,394)	(13,394)	2,671	- 0 -	\$3.13	- 0 -
Laguna Woods	0	- 0 -	- 0 -	0.0%	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	\$0.00	- 0 -
Lake Forest	31	1,841,573	141,274	7.7%	174,452	9.5%	169,682	9.2%	(65,610)	(65,610)	31,634	4,770	\$2.29	- 0 -
Los Alamitos	9	623,423	46,502	7.5%	36,202	5.8%	36,202	5.8%	282	282	10,300	0	\$2.73	- 0 -
Mission Viejo	32	1,929,945	269,667	14.0%	244,699	12.7%	239,125	12.4%	(50,787)	(50,787)	37,137	5,574	\$2.43	- 0 -
Newport Beach	100	9,389,329	1,129,126	12.0%	790,029	8.4%	724,322	7.7%	11,688	11,688	97,185	65,707	\$3.44	44,000
Orange	63	6,629,778	751,474	11.3%	620,464	9.4%	588,884	8.9%	(68,815)	(68,815)	90,738	31,580	\$2.23	- 0 -
Placentia	5	185,164	20,874	11.3%	19,108	10.3%	19,108	10.3%	7,262	7,262	- 0 -	- 0 -	\$1.74	- 0 -
Rancho Santa Margarita	5	237,769	9,988	4.2%	8,148	3.4%	8,148	3.4%	3,772	3,772	- 0 -	- 0 -	\$2.63	- 0 -
San Clemente	9	423,171	47,083	11.1%	30,315	7.2%	30,315	7.2%	1,920	1,920	- 0 -	- 0 -	\$2.41	- 0 -
San Juan Capistrano	16	840,841	141,537	16.8%	133,557	15.9%	133,282	15.9%	(1,771)	(1,771)	2,519	275	\$2.53	- 0 -
Santa Ana	159	14,212,017	2,106,280	14.8%	1,934,276	13.6%	1,923,279	13.5%	234,593	234,593	70,389	10,997	\$1.94	- 0 -
Seal Beach	6	445,365	38,914	8.7%	29,633	6.7%	29,633	6.7%	11,079	11,079	5,056	- 0 -	\$2.82	- 0 -
Stanton	2	85,917	14,553	16.9%	10,933	12.7%	10,933	12.7%	(4,605)	(4,605)	- 0 -	- 0 -	\$0.98	- 0 -
Tustin	33	1,972,497	420,617	21.3%	386,541	19.6%	377,341	19.1%	61,081	61,081	9,200	9,200	\$2.15	- 0 -
Westminster	10	431,291	85,708	19.9%	57,417	13.3%	57,417	13.3%	11,664	11,664	- 0 -	- 0 -	\$2.04	- 0 -
Yorba Linda	5	288,094	31,599	11.0%	31,599	11.0%	31,599	11.0%	(2,952)	(2,952)	- 0 -	- 0 -	\$1.88	- 0 -
Orange County Totals	1,309	111,491,527	16,950,686	15.2%	11,515,027	10.3%	10,971,922	9.8%	250,890	250,890	1,957,747	543,105	\$2.47	2,177,454
BY AREA														
North Orange County	171	14,156,364	1,920,091	13.6%	1,262,233	8.9%	1,174,856	8.3%	21,443	21,443	127,948	87,377	\$2.11	- 0 -
Central Orange County	256	22,287,719	3,151,857	14.1%	2,873,662	12.9%	2,812,257	12.6%	206,287	206,287	168,497	61,405	\$1.96	- 0 -
West Orange County	125	8,853,432	906,616	10.2%	687,607	7.8%	677,894	7.7%	95,938	95,938	99,294	9,713	\$2.17	44,500
Greater Airport Area	420	42,571,365	7,750,461	18.0%	4,592,844	10.8%	4,352,073	10.2%	(46,846)	(46,846)	1,084,098	240,771	\$2.71	581,258
South Orange County	336	23,586,776	3,220,722	12.8%	2,097,742	8.9%	1,953,903	8.3%	(27,621)	(27,621)	477,910	143,839	\$2.61	1,551,696
Orange County Totals	1,309	111,491,527	16,950,686	15.2%	11,515,027	10.3%	10,971,922	9.8%	250,890	250,890	1,957,747	543,105	\$2.47	2,177,454
BY BUILDING CLASS														
Class A	285	46,111,243	8,435,165	17.5%	5,870,876	12.7%	5,564,006	12.1%	84,971	84,971	1,082,423	306,870	\$2.73	2,132,954
Class B	927	60,491,430	7,999,123	13.2%	5,308,542	8.8%	5,072,307	8.4%	159,532	159,532	843,574	236,235	\$2.23	44,500
Class C	97	4,888,854	516,398	10.6%	335,609	6.9%	335,609	6.9%	6,387	6,387	31,750	- 0 -	\$1.71	- 0 -
Orange County Totals	1,309	111,491,527	16,950,686	15.2%	11,515,027	10.3%	10,971,922	9.8%	250,890	250,890	1,957,747	543,105	\$2.47	2,177,454

ABOUT LEE & ASSOCIATES



Celebrating more than 37 years of leadership excellence in commercial real estate, Lee & Associates is the largest broker-owned firm in North America with locations across the U.S. and Canada including Arizona, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Maryland, Michigan, Minnesota, Missouri, Nevada, New Jersey, New York, Ohio, Pennsylvania, South Carolina, Texas, Vancouver BC 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 \$11 billion last year, alone.

OFFICE SERVICES

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 clients' 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

Anaheim Hills, Brea/La Habra, Buena Park/La Palma, Fullerton, North/East Anaheim, Placentia/Yorba Linda

CENTRAL

Civic Center Area, East Orange, Main Place Area, Parkcenter Area, Santa Ana, Stadium Area, The City Area, Tustin (South of I-5)

WEST

Cypress, Fountain Valley, Garden Grove, Huntington Beach, Los Alamitos/Stanton, Seal Beach, Westminster

AIRPORT

Costa Mesa, Irvine, Newport Beach, South Santa Ana

SOUTH

Irvine Spectrum, Laguna Hills/Aliso Viejo, Laguna Niguel/Laguna Beach, Lake Forest/Foothill Ranch/Rancho Santa Margarita, Mission Viejo, San Juan Capistrano/San Clemente/Dana Point/Capistrano Beach

OUTLYING

Outlying Orange County

FORECAST:

First the Los Angeles Economic Development County and now two Chapman University researchers have issued reports warning that Orange County's prospects for growth are constrained by high-housing costs and an over-reliance on the tourism and information services sectors.



COMMERCIAL REAL ESTATE SERVICES

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