FIRST QUARTER 2014
ORANGE COUNTY
FLEX

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy
UP

Net Absorption
NEGATIVE

Lease Rates
UP

Transactions
DOWN

Deliveries
FLAT

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VOIT Real Estate Services

HIGHLIGHTS

- **Steady Growth -** The Orange County flex market got off to a slow start for 2014, posting 210,000 square feet of negative net absorption in the first quarter, giving the market a total of almost 1.36 million square feet of positive absorption for the last fourteen quarters. Vacancy increased, while availability continued its downward trend and lease rates continued to increase.
- **Construction -** At the end of the quarter, there was nothing under construction in Orange County's flex market and only 143,000 square feet planned. The slowdown in construction has eased and will continue to ease the upward pressure on vacancy and the downward pressure on lease rates. The shrinking availability of land, scarce financing and rising construction costs have led to few projects being developed.
- **Vacancy -** Up 113 basis points from the previous quarter, direct / sublease space (unoccupied) finished the first quarter at 12.45%, a decrease from the previous year's rate of 13.25% and significantly down from the record-high rate of 25.85% recorded in the second quarter of 2002.
- **Availability -** High-end space captured recent gains in occupancy. Direct / sublease space being marketed was 15.78% at the end of the first quarter of 2014, down significantly from the previous quarter and 2013's first quarter rate of 18.60%, an annual decrease of 15.16%.
- **Lease Rates -** The average asking full-service gross (FSG) lease rate per square foot per month in Orange County's flex market was $1.69 in the first quarter — one cent higher than the previous quarter and two cents higher than 2013's first quarter rate. The record high rate of $2.66 was established in the third quarter of 2007.
- **Absorption -** The Orange County flex market posted 211,872 square feet of negative absorption in the first quarter of the year, giving the market a total of 1,357,797 square feet of positive absorption since the fourth quarter of 2010. This positive absorption can be attributed to the recent employment gains.
- **Transaction Activity -** Leasing activity checked in at just under 580,000 square feet at the end of the first quarter, an increase over 2013's fourth quarter total of 568,000 square feet leased. Sales activity came in above the previous year's rate, checking in at just above 400,000 square feet for the quarter compared to 2013's 355,000 square feet of sales transactions. This statistic can have some lag time in being reported, so look for first quarter figures to end up somewhat higher.
- **Employment -** The unemployment rate in Orange County was 5.8% in February 2014 — unchanged from a revised 5.8% in January 2014 and below the previous year's estimate of 6.6%. This compares with an unadjusted unemployment rate of 8.5% for California and 7.0% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 31,000 payroll jobs from February 2013 to February 2014. Most sectors showed gains in employment; the largest gains were 8,600 in construction and 8,100 in professional and business services during that same period. Financial activities posted the largest year-over-year loss, dropping by 1,700 jobs.
- **Overall -** We are continuing to see increases in the asking lease rates in the Orange County flex market, aided by the lack of construction. Although 2014 is off to a slow start, 2013 brought the most positive absorption seen in the market in eight years. With no new deliveries in the pipeline to apply upward pressure on vacancy, we foresee 2014 being another year of stabilization and growth.

FORECAST

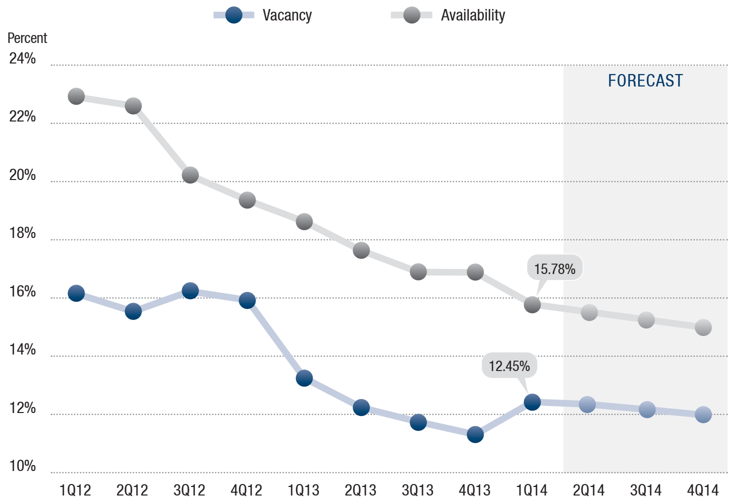
- **Employment -** We anticipate job growth of around 1.5%, or 30,000 jobs, in the Orange County area over the year. Look for professional and business services and research-oriented businesses — IT, defense, medical and alternative energy companies to lead the way for employment gains in the coming years.
- **Lease Rates -** Expect average asking lease rates to increase by 2% — 3% by 2015.
- **Vacancy -** We anticipate vacancy to continue to descend in coming quarters, dropping by 50 basis points, to around 12%, by 2015.

OVERVIEW

	1Q14	4Q13	1Q13	% of Change vs. 1Q13
Vacancy Rate	12.45%	11.32%	13.25%	(6.04%)
Availability Rate	15.78%	16.90%	18.60%	(15.16%)
Average Asking Lease Rate	$1.69	$1.68	$1.67	1.20%
Sale & Lease Transactions	980,740	1,546,221	955,543	2.64%
Gross Absorption	481,687	560,719	863,181	(44.20%)
Net Absorption	(211,872)	75,404	502,973	N/A

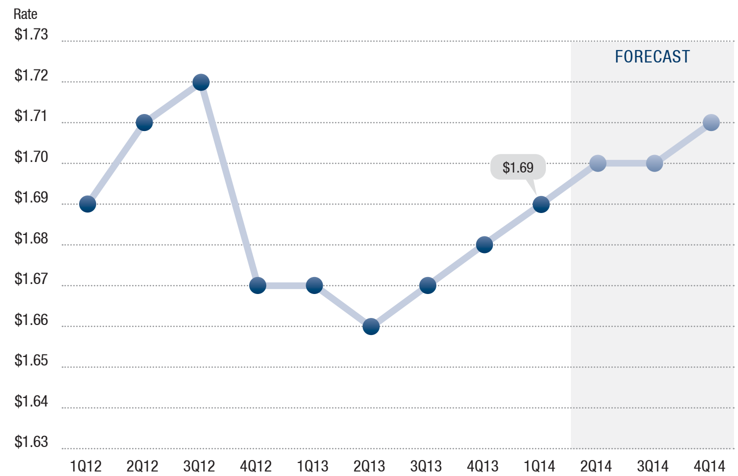
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



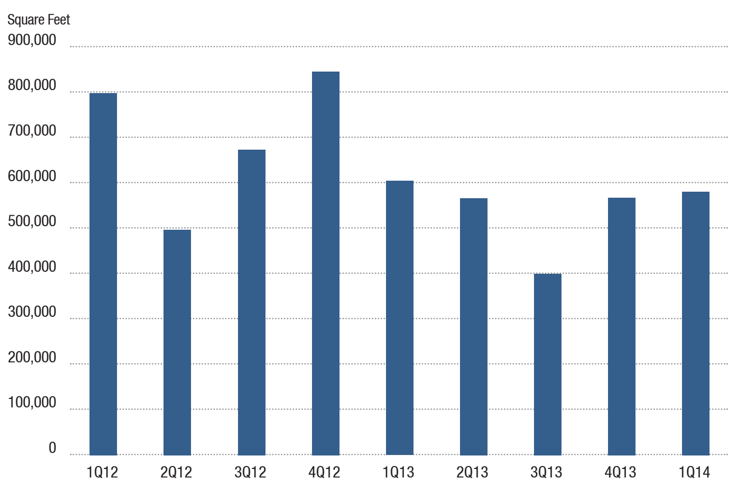
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



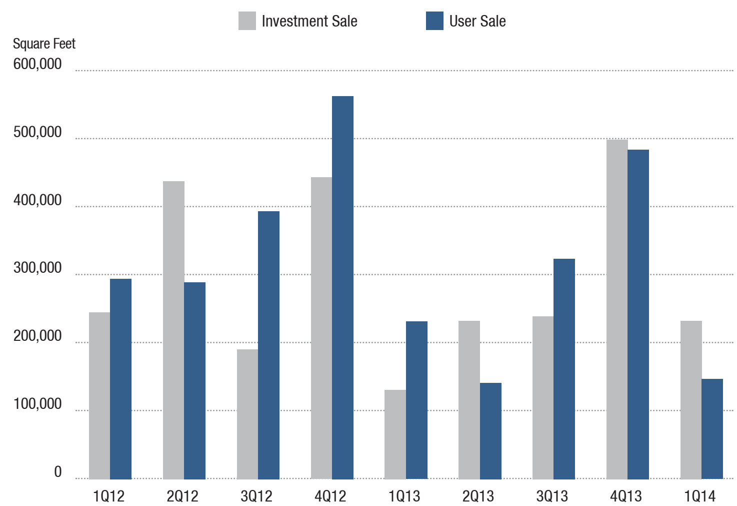
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



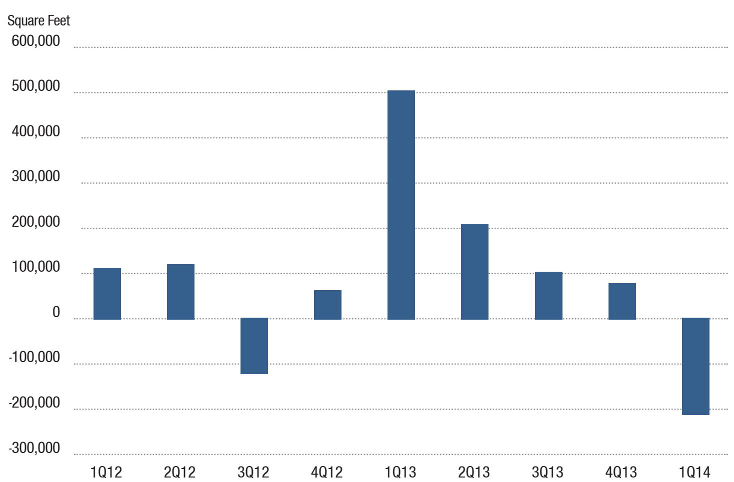
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

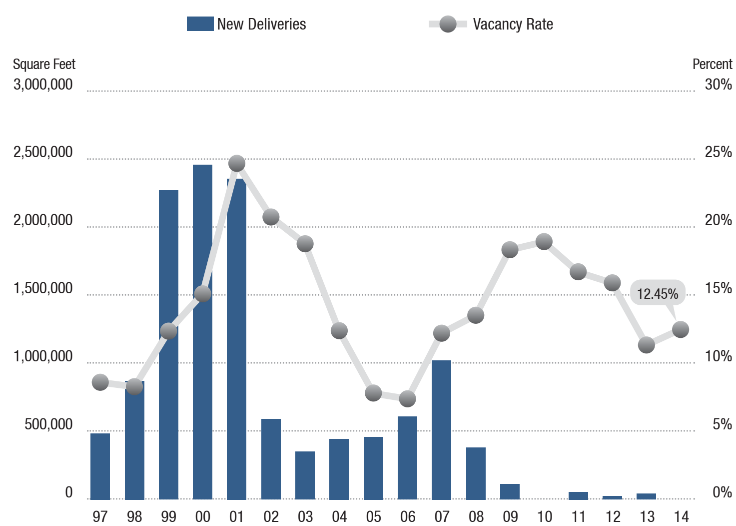


NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT

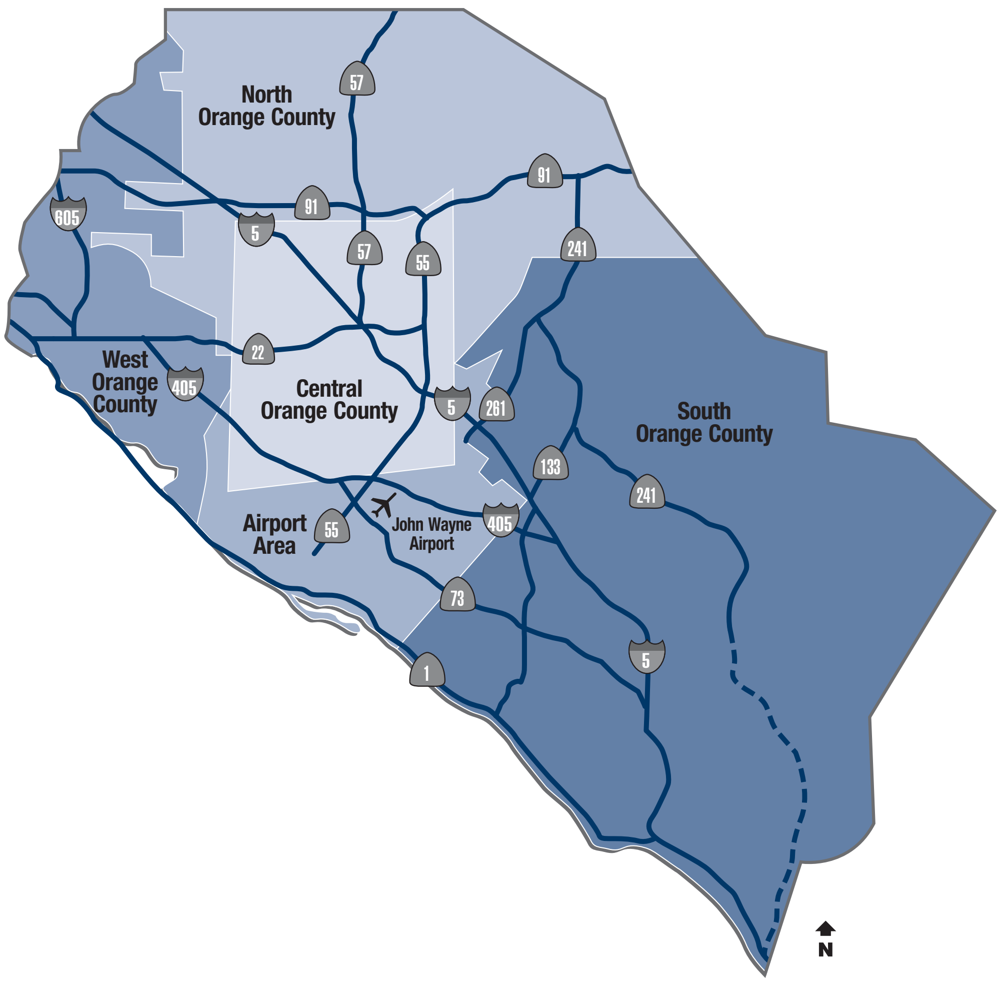


ANNUAL NEW DELIVERIES VS. VACANCY RATE



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2014	Square Feet Available	Availability Rate 1Q2014	Average Asking Lease Rate	Net Absorption 1Q2014	Net Absorption 2013	Gross Absorption 1Q2014	Gross Absorption 2013
North County													
Anaheim	31	654,653	0	0	50,415	7.70%	65,414	9.99%	$1.38	3,834	(5,541)	11,798	47,901
Brea	14	414,115	0	0	62,251	15.03%	101,152	24.43%	$1.38	(9,674)	(2,318)	3,327	66,658
Buena Park	6	112,122	0	0	5,163	4.60%	7,405	6.60%	$1.35	5,000	1,478	6,463	1,478
Fullerton	9	105,926	0	0	12,587	0.00%	13,952	13.17%	$0.00	(2,768)	(1,594)	0	1,950
Placentia	7	158,589	0	0	8,246	5.20%	5,464	3.45%	$1.65	10,000	1,197	10,000	1,955
North County Total	67	1,445,405	0	0	138,662	9.59%	193,387	13.38%	$1.41	6,392	(6,778)	31,588	119,942
West County													
Cypress	10	375,042	0	0	117,610	31.36%	172,786	46.07%	$1.85	(10,810)	3,316	0	19,766
Huntington Beach	3	49,145	0	0	9,721	19.78%	9,721	19.78%	$1.28	(4,134)	(10,868)	1,654	1,172
Seal Beach	5	70,000	0	0	7,151	10.22%	9,205	13.15%	$2.35	2,857	616	7,229	1,843
West County Total	18	494,187	0	0	134,482	27.21%	191,712	38.79%	$1.52	(12,087)	(6,936)	8,883	22,781
Central County													
Garden Grove	5	74,082	0	0	21,600	29.16%	21,600	29.16%	$1.87	(5,140)	2,050	3,550	3,800
Orange	9	150,215	0	0	16,466	10.96%	28,660	19.08%	$0.00	(755)	4,800	8,400	18,149
Santa Ana	21	605,916	0	0	116,137	19.17%	101,519	16.75%	$1.49	(18,862)	(30,695)	4,401	43,922
Tustin	8	239,182	0	0	0	0.00%	8,685	3.63%	$0.00	3,000	47,469	3,000	54,219
Central County Total	43	1,069,395	0	0	154,203	14.42%	160,464	15.01%	$1.55	(21,757)	23,624	19,351	120,090
Airport Area													
Costa Mesa	11	241,856	0	0	24,378	10.08%	24,378	10.08%	$1.55	0	(5,767)	0	8,625
Fountain Valley	1	15,000	0	0	0	0.00%	1,827	12.18%	$0.00	0	0	0	0
Irvine	112	3,381,541	0	0	420,642	12.44%	535,585	15.84%	$1.93	(121,404)	63,941	37,656	486,779
Newport Beach	32	664,735	0	0	41,656	6.27%	70,081	10.54%	$2.06	(14,766)	667	13,953	32,411
Santa Ana	2	58,895	0	0	0	0.00%	0	0.00%	$0.00	0	32,000	0	32,000
Tustin	2	81,116	0	0	0	0.00%	0	0.00%	$0.00	0	4,850	0	9,487
Airport Area Total	160	4,443,143	0	0	486,676	10.95%	631,871	14.22%	$1.91	(136,170)	95,691	51,609	569,302
South County													
Aliso Viejo	47	1,444,048	0	0	200,375	13.88%	257,484	17.83%	$1.76	4,335	(8,535)	29,309	65,058
Dana Point	7	88,605	0	0	14,071	15.88%	14,071	15.88%	$1.54	0	(2,556)	0	3,047
Foothill Ranch	5	105,447	0	0	20,266	19.22%	22,476	21.31%	$0.00	8,235	6,564	8,235	20,870
Irvine Spectrum	240	5,761,990	0	100,000	641,437	11.13%	775,304	13.46%	$1.84	3,369	484,550	259,115	1,147,247
Ladera Ranch	8	227,862	0	0	45,408	19.93%	43,048	18.89%	$0.00	3,093	23,851	3,093	36,340
Laguna Beach	5	74,016	0	0	700	0.95%	1,847	2.50%	$0.00	3,058	1,194	3,058	6,784
Laguna Hills	15	495,271	0	0	122,894	24.81%	126,182	25.48%	$1.67	(3,697)	(15,432)	17,121	41,711
Laguna Niguel	3	53,282	0	0	2,220	4.17%	2,220	4.17%	$0.00	0	(2,220)	0	1,194
Lake Forest	45	1,530,527	0	0	201,015	13.13%	313,704	20.50%	$1.77	(66,651)	265,647	14,232	303,883
Mission Viejo	29	405,223	0	0	52,047	12.84%	70,895	17.50%	$1.79	(4,708)	(12,304)	1,487	14,720
Rancho Santa Margarita	11	303,880	0	0	18,390	6.05%	44,390	14.61%	$1.40	4,485	21,355	7,833	35,567
San Clemente	12	256,124	0	0	25,787	10.07%	35,237	13.76%	$1.25	9,536	17,557	10,534	64,884
San Juan Capistrano	30	614,488	0	42,551	82,643	13.45%	83,566	13.60%	$2.11	(9,305)	(7,930)	16,239	54,265
South County Total	457	11,360,763	0	142,551	1,427,253	12.56%	1,790,424	15.76%	$1.70	(48,250)	771,741	370,256	1,795,570
Orange County Total	**745**	**18,812,893**	**0**	**142,551**	**2,341,276**	**12.45%**	**2,967,858**	**15.78%**	**$1.69**	**(211,872)**	**877,342**	**481,687**	**2,627,685**
North County													
0-29,999	54	866,935	0	0	78,243	9.03%	104,578	12.06%	$1.34	9,059	10,004	14,154	84,463
30,000-49,999	9	348,491	0	0	40,192	11.53%	38,461	11.04%	$1.38	(5,886)	(14,606)	14,215	7,060
50,000 Plus	4	229,979	0	0	20,227	8.80%	50,348	21.89%	$2.20	3,219	(2,176)	3,219	28,419
West County													
0-29,999	11	126,132	0	0	16,872	13.38%	16,872	13.38%	$1.28	(2,504)	(10,868)	3,284	15,672
30,000-49,999	4	167,585	0	0	12,760	7.61%	14,814	8.84%	$2.11	(9,583)	3,932	5,599	7,109
50,000 Plus	3	200,470	0	0	104,850	52.30%	160,026	79.83%	$1.70	0	0	0	0
Central County													
0-29,999	29	391,157	0	0	44,929	11.49%	66,162	16.91%	$1.33	(11,439)	17,295	7,036	31,187
30,000-49,999	7	265,400	0	0	26,350	9.93%	21,959	8.27%	$1.24	(3,838)	36,662	3,000	58,961
50,000 Plus	7	412,838	0	0	82,924	20.09%	72,343	17.52%	$1.62	(6,480)	(30,333)	9,315	29,942
Airport Area													
0-29,999	93	1,064,174	0	0	94,395	8.87%	157,470	14.80%	$1.88	1,464	(18,457)	30,183	91,956
30,000-49,999	30	1,224,341	0	0	113,497	9.27%	104,354	8.52%	$2.45	(38,055)	27,628	10,020	120,985
50,000 Plus	37	2,154,628	0	0	278,784	12.94%	370,047	17.17%	$1.75	(99,579)	86,520	11,406	356,361
South County													
0-29,999	299	3,968,770	0	0	448,365	11.30%	724,298	18.25%	$1.63	(31,939)	144,793	119,260	519,324
30,000-49,999	102	4,092,752	0	42,551	578,312	14.13%	622,747	15.22%	$1.76	14,959	(1,968)	130,069	388,053
50,000 Plus	56	3,299,241	0	100,000	400,576	12.14%	443,379	13.44%	$1.76	(31,270)	628,916	120,927	888,193
Orange County													
0-29,999	486	6,417,168	0	0	682,804	10.64%	1,069,380	16.66%	$1.66	(35,359)	142,767	173,917	742,602
30,000-49,999	152	6,098,569	0	42,551	771,111	12.64%	802,335	13.16%	$1.71	(42,403)	51,648	162,903	582,168
50,000 Plus	107	6,297,156	0	100,000	887,361	14.09%	1,096,143	17.41%		(134,110)	682,927	144,867	1,302,915
Orange County Total	**745**	**18,812,893**	**0**	**142,551**	**2,341,276**	**12.45%**	**2,967,858**	**15.78%**	**$1.69**	**(211,872)**	**877,342**	**481,687**	**2,627,685**

This survey consists of buildings up to 74,999 square feet. The lease rates are based on a full-service gross basis.



SUBMARKETS

NORTH
Anaheim, Brea, Buena Park, Fullerton and Placentia

WEST
Cypress, Huntington Beach and Seal Beach

CENTRAL
Garden Grove, Orange, Santa Ana and Tustin

AIRPORT
Costa Mesa, Fountain Valley, Irvine, Newport Beach, Santa Ana and Tustin

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

PRODUCT TYPE

FLEX–TECH OR CORPORATE HEADQUARTERS
Minimum 75% improved with drop ceiling, minimum parking ratio of 3.5 to 1, with ground level loading possible.

Please Contact Us for Further Information

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