FIRST QUARTER 2015

ORANGE COUNTY

FLEX

Voit

REAL ESTATE SERVICES

MARKET CHANGE

Compared to 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 had a slow first quarter, posting 18,000 square feet of negative net absorption, giving the market a total of over 1.36 million square feet of positive absorption for the last ten quarters. Both vacancy and availability continued their downward trends and lease rates continued to increase when compared to the same quarter last year.
- **Construction -** At the end of the quarter, there was 63,862 square feet under construction in Orange County's flex market and only 126,811 square feet on the books as planned. The slowdown in construction has eased and will continue to relieve the upward pressure on vacancy, enhancing upward pressure on lease rates. The shrinking availability of land, scarce financing and rising construction costs have led to few projects being developed.
- **Vacancy -** Up 57 basis points from the previous quarter, direct / sublease space (unoccupied) finished the first quarter at 9.61%, a decrease from the previous year's rate of 12.05%, an annual decrease of 20.25%, and significantly down from the record-high rate of 25.85% recorded in the third quarter of 2001.
- **Availability -** High-end space captured recent gains in occupancy. Direct / sublease space being marketed was 13.61% at the end of the first quarter of 2015, up a bit from the previous quarter but down from 2014's first quarter rate of 15.67%, showing an annual decrease of 13.15%.
- **Lease Rates -** The average asking full-service gross (FSG) lease rate per square foot per month in Orange County's flex market was $1.89 in the first quarter, nine cents higher than the previous quarter and twenty cents higher than 2014'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 18,323 square feet of negative absorption in the first quarter of the year, giving the market a total of over 1.36 million square feet of positive absorption for the last ten quarters. This positive absorption can be attributed to the recent employment gains.
- **Transaction Activity -** Leasing activity checked in at 473,535 square feet for the first quarter of 2015, a decrease from 2014's first quarter total of 662,491 square feet leased. Sales activity came in just above the previous year's rate, recording 584,027 square feet for the first quarter of 2015 compared to 2014's 502,578 square feet of sales transactions. This statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher on the next report.
- **Employment -** The unemployment rate in Orange County was 4.6% in February 2015, down from a revised 5.0% in January 2015 and below the previous year's estimate of 6.0%. This compares with an unadjusted unemployment rate of 6.8% for California and 5.8% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 51,300 payroll jobs from February 2014 to February 2015. Most sectors showed gains in employment; the largest gains were 13,000 in professional and business services and 8,800 in educational and health services during that same period. Information posted the only year-over-year loss, dropping by 600 jobs.
- **Overall -** We are continuing to see increases in the asking lease rates in the Orange County flex market, as vacancy and availability continue trending downward. As we move into the second quarter of 2015, positive absorption should continue, occupancy costs will continue to increase and with very few deliveries in the pipeline to apply upward pressure on vacancy. We foresee 2015 being another year of growth as the market enters into single digit vacancy for the first time since 2007.

FORECAST

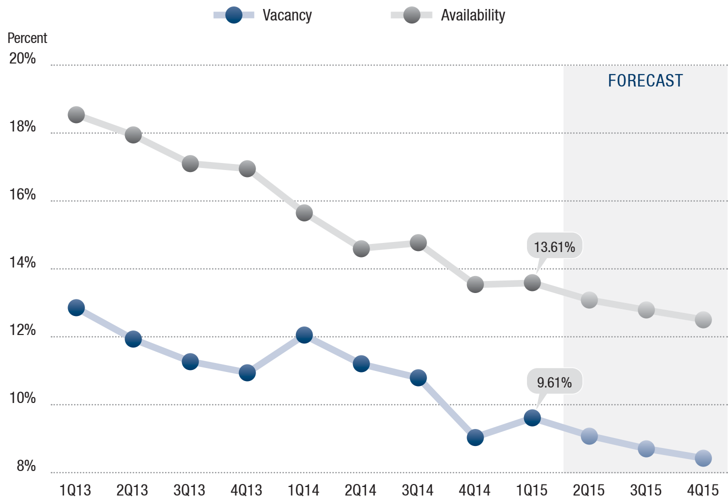
- **Employment -** We anticipate job growth of around 2.6%, or 38,000 jobs, in the Orange County area during the year according to Chapman University. The most rapid growth should take place in the construction, education & health, professional & business services, and leisure & hospitality sectors.
- **Lease Rates -** Expect average asking lease rates to increase by 4% to 6% by the fourth quarter of 2015.
- **Vacancy -** We anticipate vacancy to continue to descend in coming quarters, dropping by 80 basis points to around 8.5% by the fourth quarter of 2015.

OVERVIEW

	1Q15	4Q14	1Q14	% of Change vs. 1Q14
Total Vacancy Rate	9.61%	9.03%	12.05%	(20.25%)
Availability Rate	13.61%	13.52%	15.67%	(13.15%)
Average Asking Lease Rate	$1.89	$1.80	$1.69	11.83%
Sale & Lease Transactions	1,057,562	1,338,378	1,165,069	(9.23%)
Gross Absorption	521,481	640,784	441,581	18.09%
Net Absorption	(18,323)	337,325	(209,501)	N/A

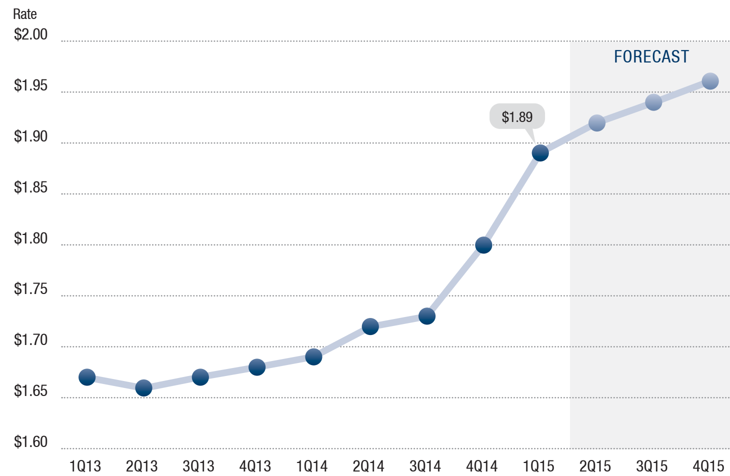
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



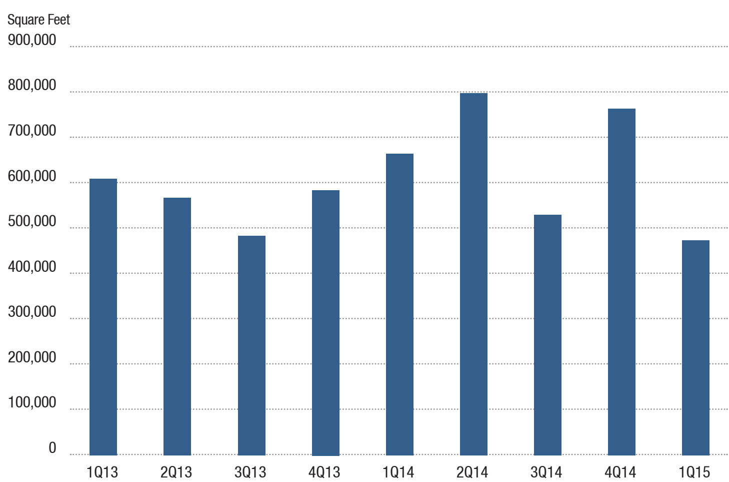
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



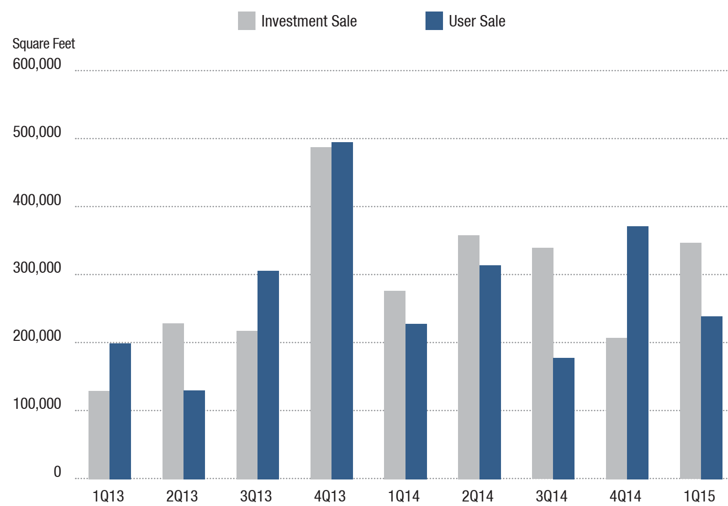
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



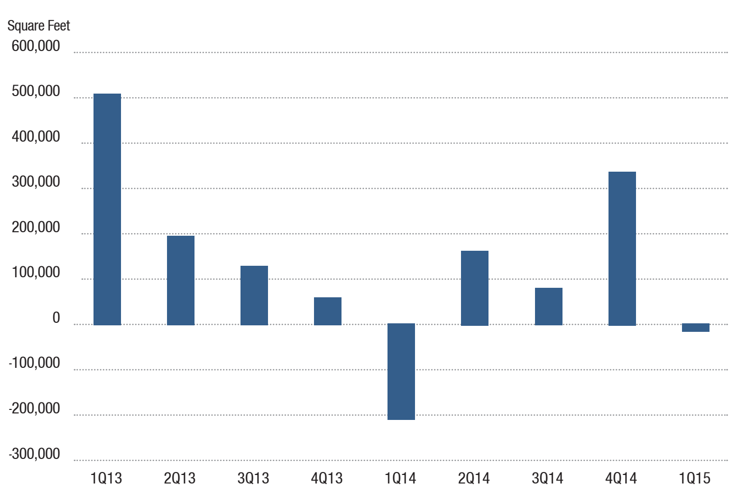
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

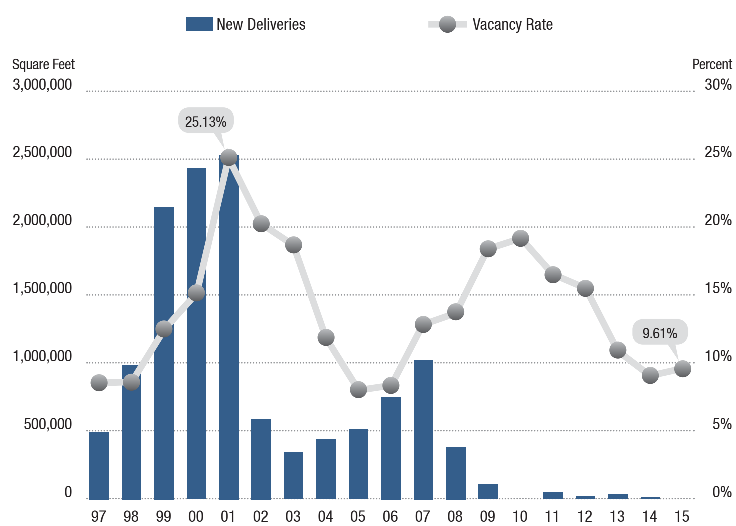


NET ABSORPTION

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

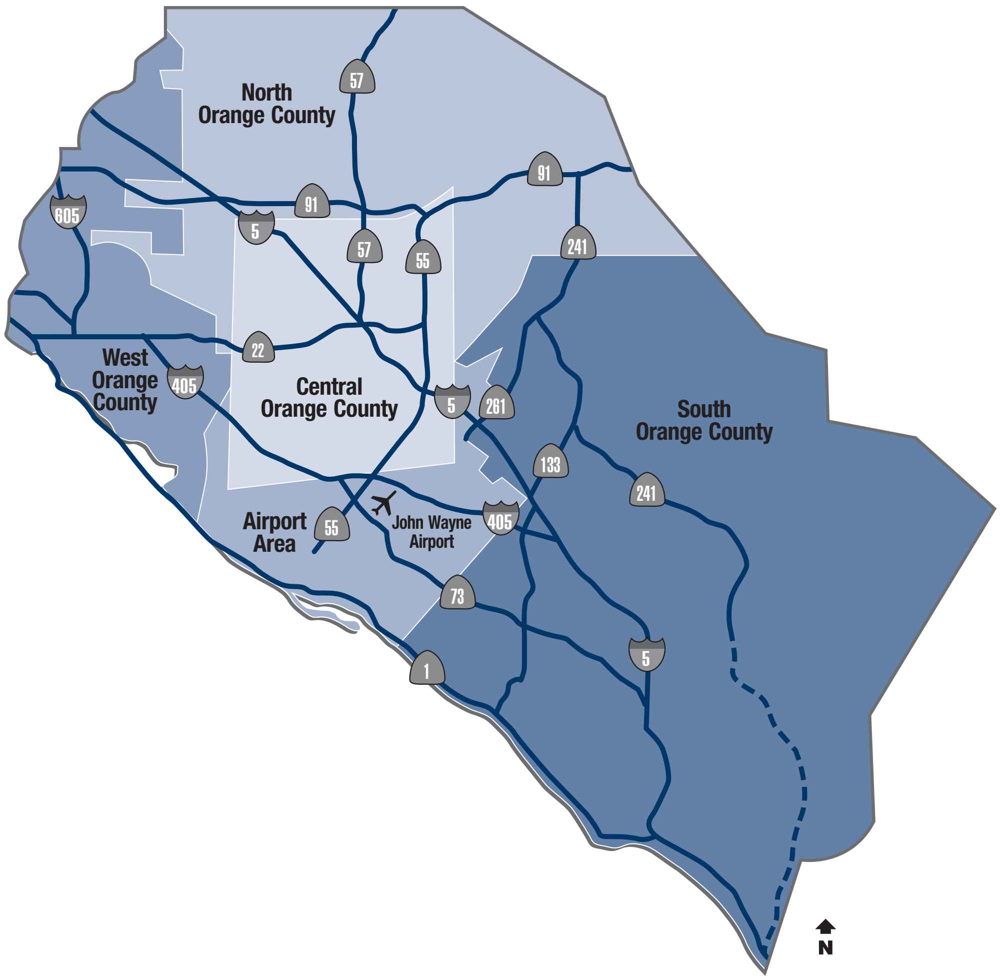


ANNUAL NEW DELIVERIES VS. VACANCY RATE



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2015	Square Feet Available	Availability Rate 1Q2015	Average Asking Lease Rate	Net Absorption 1Q2015	Net Absorption 2014	Gross Absorption 1Q2015	Gross Absorption 2014
North County													
Anaheim	30	642,137	0	0	75,323	11.73%	83,877	13.06%	$1.75	(562)	(20,512)	3,094	27,083
Brea	14	414,115	0	0	63,776	15.40%	109,863	26.53%	$1.19	4,083	(15,282)	14,244	49,847
Buena Park	6	112,122	0	0	5,422	4.84%	5,422	4.84%	$0.00	1,463	3,278	1,463	7,183
Fullerton	9	105,926	0	0	18,500	0.00%	20,743	19.58%	$0.00	(9,987)	1,306	0	4,268
Placentia	5	129,375	0	0	11,262	8.70%	11,262	8.70%	$0.00	0	6,984	0	17,135
Yorba Linda	2	29,214	0	0	1,200	4.11%	1,200	4.11%	$0.00	0	(1,200)	0	0
North County Total	66	1,432,889	0	0	175,483	12.25%	232,367	16.22%	$1.50	(5,003)	(25,426)	18,801	105,516
West County													
Cypress	11	378,142	0	0	136,140	36.00%	159,117	42.08%	$1.75	3,100	(26,275)	3,100	28,338
Huntington Beach	3	49,145	0	0	5,148	10.48%	3,419	6.96%	$1.45	0	439	0	5,145
Seal Beach	4	43,000	0	0	966	2.25%	966	2.25%	$2.50	(966)	4,727	0	9,099
West County Total	18	470,287	0	0	142,254	30.25%	163,502	34.77%	$1.74	2,134	(21,109)	3,100	42,582
Central County													
Garden Grove	6	78,582	0	0	19,392	24.68%	19,392	24.68%	$1.40	3,960	(6,892)	3,960	7,800
Orange	9	150,215	0	7,891	11,341	7.55%	13,535	9.01%	$1.95	0	4,370	0	15,206
Santa Ana	21	606,037	0	0	80,215	13.24%	102,265	16.87%	$1.96	11,751	5,309	31,022	65,922
Tustin	8	239,182	0	0	6,611	2.76%	12,813	5.36%	$0.00	3,533	(3,611)	3,533	3,000
Central County Total	44	1,074,016	0	7,891	117,559	10.95%	148,005	13.78%	$1.93	19,244	(824)	38,515	91,928
Airport Area													
Costa Mesa	9	151,399	0	0	34,148	22.55%	34,148	22.55%	$1.80	(19,993)	0	0	0
Fountain Valley	1	15,000	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Irvine	120	3,800,275	0	0	257,269	6.77%	377,170	9.92%	$2.16	6,043	67,705	140,589	439,552
Newport Beach	30	625,138	21,311	0	55,170	8.83%	67,622	10.82%	$3.37	(5,643)	(22,637)	10,110	46,430
Santa Ana	3	92,639	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	33,744
Tustin	2	81,116	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Airport Area Total	165	4,765,567	21,311	0	346,587	7.27%	478,940	10.05%	$2.30	(19,593)	45,068	150,699	519,726
South County													
Aliso Viejo	47	1,444,048	0	0	124,064	8.59%	228,709	15.84%	$1.78	(2,037)	43,892	40,215	129,143
Dana Point	6	77,940	0	0	4,767	6.12%	4,767	6.12%	$0.00	0	1,900	0	1,900
Foothill Ranch	5	105,447	0	0	21,787	20.66%	29,996	28.45%	$0.00	(1,000)	7,714	0	15,434
Irvine Spectrum	237	5,715,213	0	118,920	396,805	6.94%	689,330	12.06%	$2.19	(61,757)	322,912	170,107	1,174,477
Ladera Ranch	8	227,862	0	0	55,422	24.32%	63,697	27.95%	$0.00	(1,186)	(5,735)	0	18,489
Laguna Beach	5	74,016	0	0	700	0.95%	700	0.95%	$0.00	0	3,058	0	4,205
Laguna Hills	15	503,340	0	0	107,212	21.30%	104,544	20.77%	$1.94	2,526	5,742	8,086	75,722
Laguna Niguel	3	53,282	0	0	2,220	4.17%	2,220	4.17%	$0.00	0	0	0	0
Lake Forest	46	1,539,768	0	0	190,837	12.39%	245,850	15.97%	$1.68	45,421	(41,742)	65,014	116,134
Mission Viejo	29	405,223	0	0	38,255	9.44%	56,987	14.06%	$0.00	2,146	6,938	8,076	18,881
Rancho Santa Margarita	12	327,160	0	0	33,609	10.27%	43,181	13.20%	$1.74	(557)	(4,863)	3,817	44,697
San Clemente	13	276,942	0	0	21,400	7.73%	26,885	9.71%	$1.00	2,345	19,177	4,985	20,975
San Juan Capistrano	29	589,988	42,551	0	54,737	9.28%	76,957	13.04%	$2.20	(1,006)	(348)	10,066	51,675
South County Total	455	11,340,229	42,551	118,920	1,051,815	9.28%	1,573,823	13.88%	$1.77	(15,105)	358,645	310,366	1,671,732
Orange County Total	**748**	**19,082,988**	**63,862**	**126,811**	**1,833,698**	**9.61%**	**2,596,637**	**13.61%**	**$1.89**	**(18,323)**	**356,354**	**521,481**	**2,431,484**
North County													
0-29,999	53	854,419	0	0	118,135	13.83%	135,911	15.91%	$1.55	(11,918)	(18,915)	10,047	46,490
30,000-49,999	9	348,491	0	0	26,531	7.61%	29,147	8.36%	$1.19	6,915	860	8,754	22,446
50,000 Plus	4	229,979	0	0	30,817	13.40%	67,309	29.27%	$1.95	0	(7,371)	0	36,580
West County													
0-29,999	11	102,232	0	0	8,213	8.03%	6,484	6.34%	$1.45	35	3,939	3,100	11,745
30,000-49,999	4	167,585	0	0	11,776	7.03%	20,280	12.10%	$1.75	2,099	(7,633)	0	7,549
50,000 Plus	3	200,470	0	0	122,265	60.99%	136,738	68.21%	$0.00	0	(17,415)	0	23,288
Central County													
0-29,999	30	395,657	0	7,891	33,960	8.58%	48,284	12.20%	$1.40	5,589	(6,049)	5,589	16,927
30,000-49,999	7	265,400	0	0	16,135	6.08%	37,558	14.15%	$1.94	(333)	6,710	5,364	21,990
50,000 Plus	7	412,959	0	0	67,464	16.34%	62,163	15.05%	$2.02	13,988	(1,485)	27,562	53,011
Airport Area													
0-29,999	91	1,024,860	21,311	0	120,459	11.75%	173,956	16.97%	$1.83	(26,868)	2,268	13,933	85,981
30,000-49,999	33	1,350,445	0	0	63,748	4.72%	118,930	8.81%	$2.94	(2,290)	16,846	34,400	154,824
50,000 Plus	41	2,390,262	0	0	162,380	6.79%	186,054	7.78%	$2.63	9,565	25,954	102,366	278,921
South County													
0-29,999	297	3,960,595	0	18,920	426,000	10.76%	660,758	16.68%	$1.63	21,631	13,698	125,817	471,040
30,000-49,999	102	4,087,200	0	0	358,109	8.76%	577,986	14.14%	$1.84	(34,219)	258,059	108,501	713,778
50,000 Plus	56	3,292,434	42,551	100,000	267,706	8.13%	335,079	10.18%	$1.93	(2,517)	86,888	76,048	486,914
Orange County													
0-29,999	482	6,337,763	21,311	26,811	706,767	11.15%	1,025,393	16.18%	$1.68	(11,531)	(5,059)	158,486	632,183
30,000-49,999	155	6,219,121	0	0	476,299	7.66%	783,901	12.60%	$1.94	(27,828)	274,842	157,019	920,587
50,000 Plus	111	6,526,104	42,551	100,000	650,632	9.97%	787,343	12.06%	$2.09	21,036	86,571	205,976	878,714
Orange County Total	**748**	**19,082,988**	**63,862**	**126,811**	**1,833,698**	**9.61%**	**2,596,637**	**13.61%**	**$1.89**	**(18,323)**	**356,354**	**521,481**	**2,431,484**

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, Placentia and Yorba Linda

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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