

## MARKET CHANGE

*Compared to Previous Quarter:*

**Vacancy**

**DOWN**



**Net Absorption**

**POSITIVE**



**Lease Rates**

**UP**



**Transactions**

**DOWN**



**Deliveries**

**UP**



## HIGHLIGHTS

- **Steady Growth** - High land and construction costs in Orange County and shortages of land make for small development volumes consisting typically of small and infrequent projects—at high lease rates. First quarter average asking rents were \$2.14 per square feet up 13.23% higher than 2015's first quarter rate of \$1.89. Vacancy remained in single digits and availability will continued it's downward trend. With development so severely constrained, the county flex market is perennially tight.
- **Construction** - Following a lengthy period with minimal construction completions, the first quarter of 2016 delivered 194,620 square feet of Flex space in first quarter of 2016 met with fully 150,000 square feet of net absorption. Total space was under construction in the market with two project totaling 51,891 square feet, due to Developers opting for residential development rather than Flex space.
- **Vacancy** - Down sixty-one basis points from the previous quarter, direct/sublease space (unoccupied) finished the quarter at 8.55%, a decrease from the previous quarter rate of 9.16%, an annual decrease of 4.89%, and significantly down from the high rate of 19.07% recorded in the third quarter of 2010.
- **Availability** - With construction completion volumes expected to decline in the period ahead, additional declines in availability are anticipated. Direct/sublease space being marketed was 13.50% at the end of first quarter 2016, up 89 basis points from the previous quarter and down from 2014's fourth quarter rate of 13.57%, showing an annual decrease of 0.52%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per month in Orange County's flex market was \$2.14 in the first quarter, one cents higher than the previous quarter and twenty-five cents higher than 2014's first quarter rate. The record high rate of \$2.66 was established in the third quarter of 2007.
- **Absorption** - Positive absorption along with no new supply is anticipated for the flex market for 2016. The Orange County flex market posted 297,341 square feet of positive absorption for first quarter 2016, giving the market a total of nearly 660,548 million square feet of positive absorption for the last nine quarters.
- **Transaction Activity** - Major first quarter deals include Fisher & Paykel Healthcare's lease for 31,700 square feet of flex space at 173 Technology, Irvine Spectrum & Healthcare Success, leased for 6,342 square feet at 2860 Michelle Drive, Irvine. Leasing activity checked in at 294,062 square feet for first quarter 2016, a decrease from 2014's first quarter total of 747,531 square feet leased. Sales activity came in lower than the previous year's rate, recording 454,301 square feet for first quarter 2016 compared to 2015's first quarter 747,531 square feet of sales transactions.
- **Employment** - The unemployment rate in Orange County was 4.0% in February 2016, unchanged from a revised 4.0 percent in January 2016, and below the previous year's estimate of 4.7%. This compares with an unadjusted unemployment rate of 5.7% for California and 5.2% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 42,300 payroll jobs from February 2015 and February 2016. Most sectors showed gains in employment; the largest gains were in construction and leisure & hospitality each adding 12,500 jobs during that same period.
- **Overall** - A summary of key real estate supply and demand market indicators shows that during the first quarter the Orange County flex market experienced positive net absorption, progressing rents, and downward movement in the market's vacancy rate. As we move forward, positive absorption should continue, occupancy costs will continue to increase, with very few deliveries in the pipeline to apply upward pressure on vacancy.

## FORECAST

- **Employment** - Health care is a large and integral part of the Orange County economy. Over eleven percent of the county's wage and salary jobs are in the health care sector. Employment in 2015 rose by 4.2% to 171,600 jobs, making it the largest private sector employer in the county according to Los Angeles County Economic Development Corporation.
- **Lease Rates** - Expect average asking lease rates to increase by 3% to 5% over the next four quarters.
- **Vacancy** - We anticipate vacancy to continue to descend in coming quarters, dropping by 30 basis points to around 8.25% by the fourth quarter of 2016.

## OVERVIEW

|                           | 1Q16    | 4Q15      | 1Q15      | % of Change vs. 1Q15 |
|---------------------------|---------|-----------|-----------|----------------------|
| Total Vacancy Rate        | 8.55%   | 9.16%     | 8.99%     | (4.89%)              |
| Availability Rate         | 13.50%  | 12.61%    | 13.57%    | (0.52%)              |
| Average Asking Lease Rate | \$2.14  | \$2.13    | \$1.89    | 13.23%               |
| Sale & Lease Transactions | 748,363 | 1,233,058 | 1,348,418 | (44.50%)             |
| Gross Absorption          | 849,762 | 488,456   | 521,481   | 62.95%               |
| Net Absorption            | 297,341 | (142,557) | (63,909)  | N/A                  |

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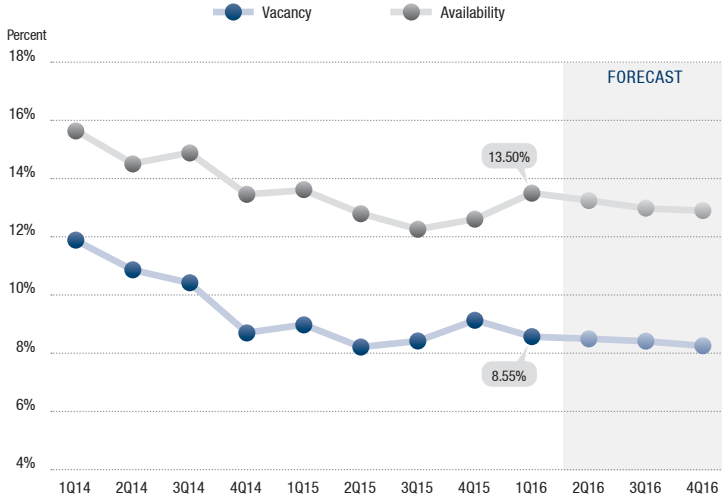
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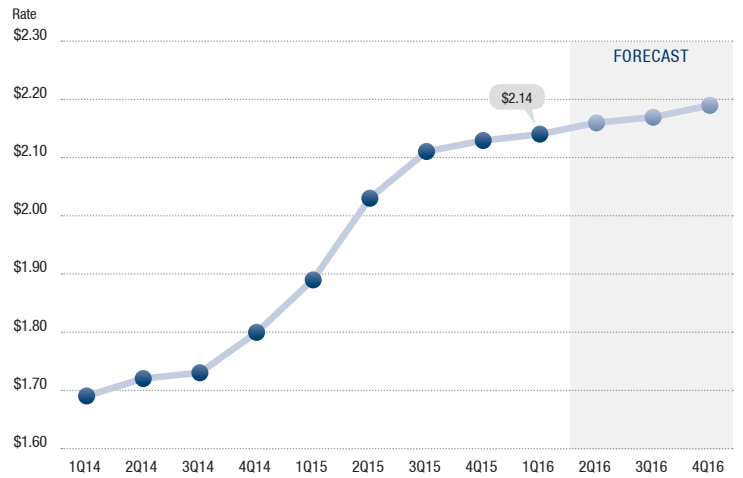
### VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



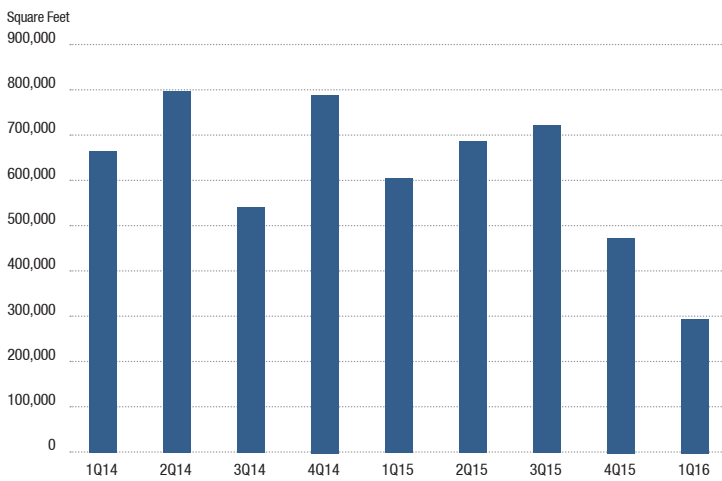
### AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



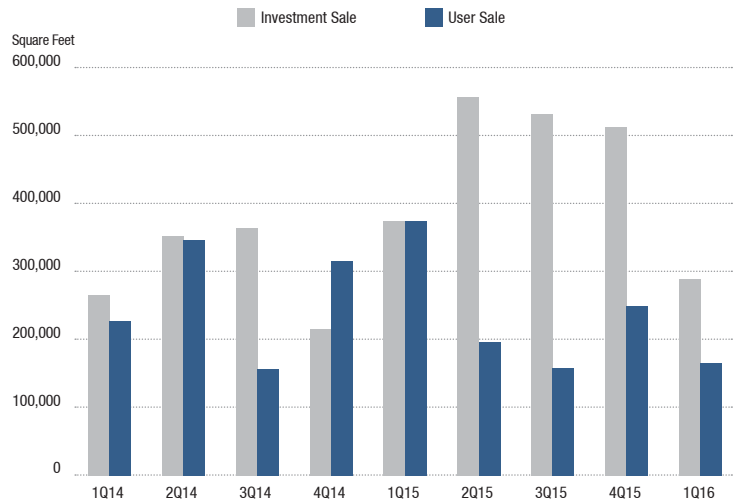
### LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



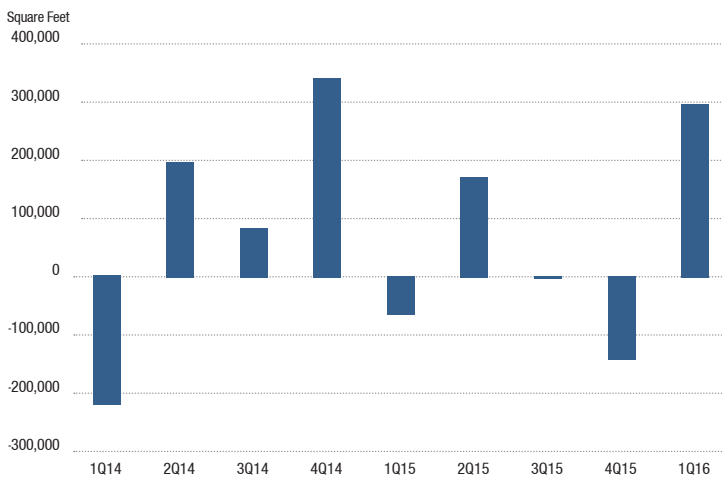
### SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

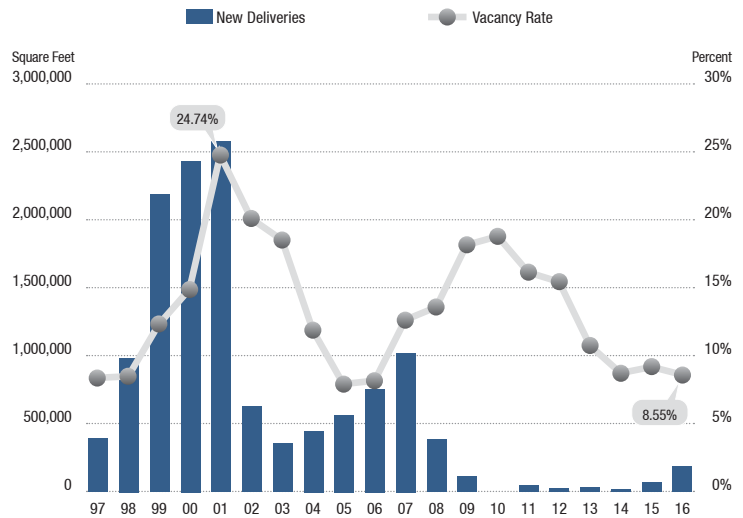


### NET ABSORPTION

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

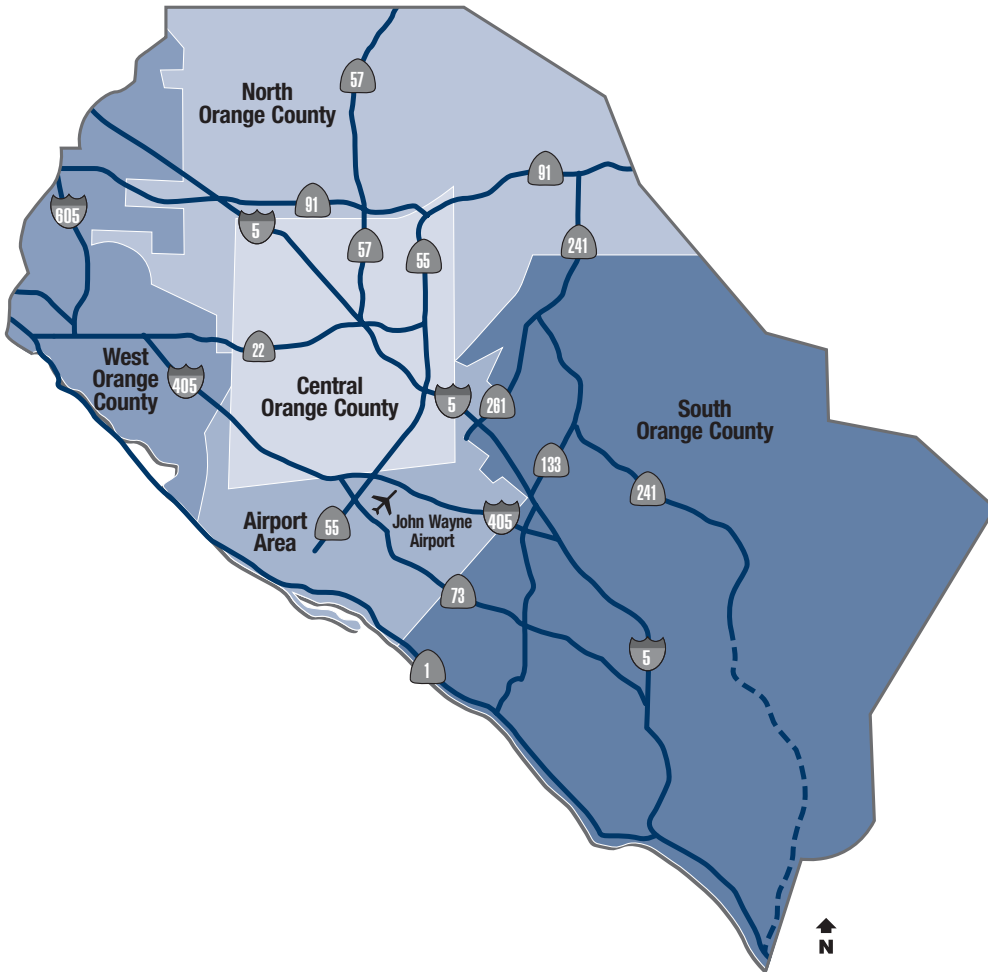


### ANNUAL NEW DELIVERIES VS. VACANCY RATE



|                             | INVENTORY        |                          |                   |                     | VACANCY & LEASE RATES |                     |                       |                          |                           | ABSORPTION            |                     |                         |                       |
|-----------------------------|------------------|--------------------------|-------------------|---------------------|-----------------------|---------------------|-----------------------|--------------------------|---------------------------|-----------------------|---------------------|-------------------------|-----------------------|
|                             | Number of Bldgs. | Net Rentable Square Feet | Square Feet U / C | Square Feet Planned | Square Feet Vacant    | Vacancy Rate 1Q2016 | Square Feet Available | Availability Rate 1Q2016 | Average Asking Lease Rate | Net Absorption 1Q2016 | Net Absorption 2015 | Gross Absorption 1Q2016 | Gross Absorption 2015 |
| <b>North County</b>         |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Anaheim                     | 29               | 631,246                  | 0                 | 0                   | 58,503                | 9.27%               | 103,948               | 16.47%                   | \$2.15                    | 4,139                 | 17,251              | 29,420                  | 55,049                |
| Brea                        | 14               | 414,115                  | 0                 | 0                   | 52,892                | 12.77%              | 103,032               | 24.88%                   | \$1.65                    | 45,820                | (30,853)            | 64,946                  | 60,202                |
| Buena Park                  | 6                | 112,122                  | 0                 | 0                   | 1,775                 | 1.58%               | 4,025                 | 3.59%                    | \$0.00                    | 1,225                 | 2,401               | 3,000                   | 4,643                 |
| Fullerton                   | 9                | 105,926                  | 0                 | 0                   | 18,836                | 0.00%               | 18,836                | 17.78%                   | \$0.00                    | 0                     | (10,323)            | 0                       | 15,764                |
| Placentia                   | 6                | 162,445                  | 0                 | 0                   | 13,570                | 8.35%               | 14,644                | 9.01%                    | \$1.67                    | (1,542)               | (766)               | 0                       | 3,452                 |
| Yorba Linda                 | 3                | 69,315                   | 0                 | 0                   | 41,301                | 59.58%              | 41,301                | 59.58%                   | \$1.25                    | 0                     | (40,101)            | 0                       | 0                     |
| <b>North County Total</b>   | <b>67</b>        | <b>1,495,169</b>         | <b>0</b>          | <b>0</b>            | <b>186,877</b>        | <b>12.50%</b>       | <b>285,786</b>        | <b>19.11%</b>            | <b>\$1.75</b>             | <b>49,642</b>         | <b>(62,391)</b>     | <b>97,366</b>           | <b>139,110</b>        |
| <b>West County</b>          |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Cypress                     | 11               | 381,715                  | 0                 | 0                   | 113,697               | 29.79%              | 130,434               | 34.17%                   | \$1.83                    | (3,003)               | (3,003)             | 5,900                   | 36,332                |
| Garden Grove                | 6                | 78,582                   | 0                 | 0                   | 42,327                | 53.86%              | 42,327                | 53.86%                   | \$0.00                    | (20,782)              | (2,153)             | 0                       | (2,153)               |
| Huntington Beach            | 5                | 75,670                   | 0                 | 0                   | 15,680                | 20.72%              | 29,205                | 38.60%                   | \$1.65                    | (15,680)              | 5,148               | 0                       | 7,856                 |
| Seal Beach                  | 5                | 52,000                   | 0                 | 0                   | 1,757                 | 3.38%               | 0                     | 0.00%                    | \$0.00                    | (1,757)               | 0                   | 0                       | 966                   |
| <b>West County Total</b>    | <b>27</b>        | <b>587,967</b>           | <b>0</b>          | <b>0</b>            | <b>173,461</b>        | <b>29.50%</b>       | <b>201,966</b>        | <b>34.35%</b>            | <b>\$1.81</b>             | <b>(41,222)</b>       | <b>(8)</b>          | <b>5,900</b>            | <b>43,001</b>         |
| <b>Central County</b>       |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Orange                      | 10               | 189,232                  | 7,891             | 0                   | 10,847                | 5.73%               | 26,277                | 13.89%                   | \$1.95                    | (417)                 | 911                 | 4,083                   | 6,922                 |
| Santa Ana                   | 21               | 606,037                  | 0                 | 0                   | 45,773                | 7.55%               | 56,800                | 9.37%                    | \$1.82                    | 34,956                | 867                 | 44,738                  | 65,505                |
| Tustin                      | 8                | 239,810                  | 0                 | 0                   | 14,177                | 5.91%               | 14,177                | 5.91%                    | \$1.85                    | (146)                 | (10,498)            | 3,840                   | 6,979                 |
| <b>Central County Total</b> | <b>39</b>        | <b>1,035,079</b>         | <b>7,891</b>      | <b>0</b>            | <b>70,797</b>         | <b>6.84%</b>        | <b>97,254</b>         | <b>9.40%</b>             | <b>\$1.97</b>             | <b>34,393</b>         | <b>(8,720)</b>      | <b>52,661</b>           | <b>79,406</b>         |
| <b>Airport Area</b>         |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Costa Mesa                  | 10               | 197,440                  | 0                 | 0                   | 67,838                | 34.36%              | 67,838                | 34.36%                   | \$2.35                    | 10,646                | (24,499)            | 15,518                  | 13,538                |
| Fountain Valley             | 0                | 0                        | 0                 | 0                   | 0                     | #DIV/0!             | 0                     | #DIV/0!                  | \$0.00                    | 0                     | 0                   | 0                       | 0                     |
| Irvine                      | 121              | 3,852,027                | 0                 | 0                   | 235,337               | 6.11%               | 443,495               | 11.51%                   | \$2.38                    | (11,650)              | 11,690              | 95,770                  | 577,188               |
| Newport Beach               | 31               | 660,193                  | 44,000            | 21,000              | 56,289                | 8.53%               | 60,024                | 9.09%                    | \$3.27                    | (700)                 | 30,921              | 12,864                  | 64,609                |
| Santa Ana                   | 4                | 177,744                  | 0                 | 0                   | 0                     | 0.00%               | 0                     | 0.00%                    | \$0.00                    | 0                     | 0                   | 0                       | 0                     |
| Tustin                      | 2                | 80,802                   | 0                 | 0                   | 0                     | 0.00%               | 0                     | 0.00%                    | \$0.00                    | 0                     | 0                   | 0                       | 0                     |
| <b>Airport Area Total</b>   | <b>168</b>       | <b>4,968,206</b>         | <b>44,000</b>     | <b>21,000</b>       | <b>359,464</b>        | <b>7.24%</b>        | <b>571,357</b>        | <b>11.50%</b>            | <b>\$2.82</b>             | <b>(1,704)</b>        | <b>18,112</b>       | <b>124,152</b>          | <b>655,335</b>        |
| <b>South County</b>         |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Aliso Viejo                 | 47               | 1,448,425                | 0                 | 0                   | 111,815               | 7.72%               | 195,740               | 13.51%                   | \$2.32                    | (22,468)              | 21,471              | 19,330                  | 208,482               |
| Dana Point                  | 6                | 77,940                   | 0                 | 0                   | 3,347                 | 4.29%               | 3,347                 | 4.29%                    | \$0.00                    | 0                     | 1,420               | 0                       | 1,420                 |
| Foothill Ranch              | 5                | 105,447                  | 0                 | 0                   | 16,606                | 15.75%              | 22,474                | 21.31%                   | \$0.00                    | (418)                 | 4,599               | 1,650                   | 8,395                 |
| Irvine Spectrum             | 243              | 5,911,215                | 0                 | 0                   | 396,507               | 6.71%               | 653,844               | 11.06%                   | \$2.67                    | 198,729               | (132,699)           | 354,720                 | 682,501               |
| Ladera Ranch                | 8                | 227,862                  | 0                 | 0                   | 53,325                | 23.40%              | 70,284                | 30.84%                   | \$0.00                    | (3,693)               | 4,604               | 1,597                   | 15,362                |
| Laguna Beach                | 5                | 74,016                   | 0                 | 0                   | 0                     | 0.00%               | 4,726                 | 6.39%                    | \$0.00                    | 0                     | 700                 | 1,700                   | 3,000                 |
| Laguna Hills                | 15               | 495,271                  | 0                 | 0                   | 89,873                | 18.15%              | 85,187                | 17.20%                   | \$2.62                    | (5,562)               | 24,066              | 38,312                  | 60,970                |
| Laguna Niguel               | 3                | 53,282                   | 0                 | 0                   | 1,324                 | 2.48%               | 5,883                 | 11.04%                   | \$0.00                    | (1,324)               | 2,220               | 0                       | 2,220                 |
| Lake Forest                 | 47               | 1,589,478                | 0                 | 0                   | 138,398               | 8.71%               | 342,190               | 21.53%                   | \$2.04                    | 87,391                | (56,532)            | 118,931                 | 106,357               |
| Mission Viejo               | 29               | 405,223                  | 0                 | 0                   | 16,997                | 4.19%               | 22,422                | 5.53%                    | \$0.00                    | 9,940                 | 13,464              | 24,130                  | 38,694                |
| Rancho Santa Margarita      | 12               | 327,160                  | 0                 | 0                   | 11,374                | 3.48%               | 24,852                | 7.60%                    | \$1.76                    | 531                   | 20,272              | 531                     | 33,457                |
| San Clemente                | 13               | 276,984                  | 0                 | 0                   | 19,685                | 7.11%               | 30,767                | 11.11%                   | \$1.85                    | (2,332)               | 6,392               | 0                       | 30,724                |
| San Juan Capistrano         | 30               | 633,559                  | 0                 | 0                   | 35,542                | 5.61%               | 42,610                | 6.73%                    | \$2.27                    | (4,562)               | 68,966              | 8,782                   | 121,772               |
| <b>South County Total</b>   | <b>463</b>       | <b>11,625,862</b>        | <b>0</b>          | <b>0</b>            | <b>894,793</b>        | <b>7.70%</b>        | <b>1,504,326</b>      | <b>12.94%</b>            | <b>\$2.28</b>             | <b>256,232</b>        | <b>(21,057)</b>     | <b>569,683</b>          | <b>1,313,354</b>      |
| <b>Orange County Total</b>  | <b>764</b>       | <b>19,712,283</b>        | <b>51,891</b>     | <b>21,000</b>       | <b>1,685,392</b>      | <b>8.55%</b>        | <b>2,660,689</b>      | <b>13.50%</b>            | <b>\$2.14</b>             | <b>297,341</b>        | <b>(74,064)</b>     | <b>849,762</b>          | <b>2,230,206</b>      |
| <b>North County</b>         |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| 0-29,999                    | 52               | 840,619                  | 0                 | 0                   | 77,383                | 9.21%               | 105,673               | 12.57%                   | \$1.90                    | 11,150                | 14,476              | 28,612                  | 91,596                |
| 30,000-49,999               | 11               | 424,571                  | 0                 | 0                   | 69,443                | 16.36%              | 108,038               | 25.45%                   | \$1.08                    | (5,255)               | (23,886)            | 8,731                   | 28,902                |
| 50,000 Plus                 | 4                | 229,979                  | 0                 | 0                   | 40,051                | 17.42%              | 72,075                | 31.34%                   | \$1.77                    | 43,747                | (52,981)            | 60,023                  | 18,622                |
| <b>West County</b>          |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| 0-29,999                    | 20               | 216,839                  | 0                 | 0                   | 58,007                | 26.75%              | 73,796                | 34.03%                   | \$1.89                    | (36,462)              | 10,055              | 5,900                   | 14,916                |
| 30,000-49,999               | 4                | 167,585                  | 0                 | 0                   | 24,074                | 14.37%              | 22,317                | 13.32%                   | \$1.78                    | (4,760)               | (8,504)             | 0                       | 966                   |
| 50,000 Plus                 | 3                | 203,543                  | 0                 | 0                   | 91,380                | 44.89%              | 105,853               | 52.01%                   | \$0.00                    | 0                     | (1,559)             | 0                       | 27,119                |
| <b>Central County</b>       |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| 0-29,999                    | 24               | 317,663                  | 7,891             | 0                   | 8,695                 | 2.74%               | 19,722                | 6.21%                    | \$0.00                    | 3,840                 | 5,469               | 3,840                   | 11,075                |
| 30,000-49,999               | 8                | 304,457                  | 0                 | 0                   | 43,014                | 14.13%              | 43,014                | 14.13%                   | \$1.95                    | (7,546)               | (22,744)            | 2,151                   | 10,127                |
| 50,000 Plus                 | 7                | 412,959                  | 0                 | 0                   | 19,088                | 4.62%               | 34,518                | 8.36%                    | \$1.82                    | 38,099                | 8,555               | 46,670                  | 58,204                |
| <b>Airport Area</b>         |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| 0-29,999                    | 90               | 1,019,085                | 0                 | 0                   | 90,898                | 8.92%               | 118,176               | 11.60%                   | \$2.37                    | 27,085                | 11,651              | 55,415                  | 129,596               |
| 30,000-49,999               | 35               | 1,439,387                | 44,000            | 21,000              | 145,092               | 10.08%              | 242,233               | 16.83%                   | \$2.91                    | (6,333)               | (33,041)            | 37,117                  | 127,888               |
| 50,000 Plus                 | 43               | 2,509,734                | 0                 | 0                   | 123,474               | 4.92%               | 210,948               | 8.41%                    | \$3.95                    | (22,456)              | 39,502              | 31,620                  | 397,851               |
| <b>South County</b>         |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| 0-29,999                    | 300              | 3,990,224                | 0                 | 0                   | 347,352               | 8.71%               | 587,392               | 14.72%                   | \$2.10                    | 25,898                | 20,226              | 101,609                 | 527,035               |
| 30,000-49,999               | 103              | 4,129,919                | 0                 | 0                   | 299,140               | 7.24%               | 505,060               | 12.23%                   | \$2.47                    | (5,135)               | 43,391              | 133,184                 | 528,904               |
| 50,000 Plus                 | 60               | 3,505,719                | 0                 | 0                   | 248,301               | 7.08%               | 411,874               | 11.75%                   | \$2.51                    | 235,469               | (84,674)            | 334,890                 | 257,445               |
| <b>Orange County</b>        |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| 0-29,999                    | 486              | 6,384,430                | 7,891             | 0                   | 582,335               | 9.12%               | 904,759               | 14.17%                   | \$2.04                    | 31,511                | 61,877              | 195,376                 | 774,218               |
| 30,000-49,999               | 161              | 6,465,919                | 44,000            | 21,000              | 580,763               | 8.98%               | 920,662               | 14.24%                   | \$2.17                    | (29,029)              | (44,784)            | 181,183                 | 696,787               |
| 50,000 Plus                 | 117              | 6,861,934                | 0                 | 0                   | 522,294               | 7.61%               | 835,268               | 12.17%                   | \$0.00                    | 294,859               | (91,157)            | 473,203                 | 759,241               |
| <b>Orange County Total</b>  | <b>764</b>       | <b>19,712,283</b>        | <b>51,891</b>     | <b>21,000</b>       | <b>1,685,392</b>      | <b>8.55%</b>        | <b>2,660,689</b>      | <b>13.50%</b>            | <b>\$2.14</b>             | <b>297,341</b>        | <b>(74,064)</b>     | <b>849,762</b>          | <b>2,230,206</b>      |

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, Garden Grove, Huntington Beach and Seal Beach

**CENTRAL**

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**

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