



MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



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 good second quarter, posting almost 270,000 square feet of positive net absorption in the quarter, giving the market a total of over 1.6 million square feet of positive absorption for the last fifteen quarters. Both vacancy and availability continued their downward trends and lease rates continued to increase.
- **Construction** - At the end of the quarter, there was 63,551 square feet under construction in Orange County's flex market and 100,000 square feet planned. The slowdown in construction has eased and will continue to ease the upward pressure on vacancy, and will put upward pressure on lease rates. The shrinking availability of land, scarce financing and rising construction costs have led to few projects being developed.
- **Vacancy** - Down 143 basis points from the previous quarter, direct/sublease space (unoccupied) finished the second quarter at 11.03%, a decrease from the previous year's rate of 12.27%, and significantly down from the record-high rate of 25.04% recorded in the second quarter of 2002.
- **Availability** - High-end space captured recent gains in occupancy. Direct/sublease space being marketed was 14.69% at the end of the second quarter of 2014, down significantly from the previous quarter and 2013's second quarter rate of 17.64%, an annual decrease of 16.72%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per month in Orange County's flex market was \$1.72 in the second quarter – three cents higher than the previous quarter and six cents higher than 2013's second quarter rate. The record high rate of \$2.66 was established in the third quarter of 2007.
- **Absorption** - The Orange County flex market posted 267,667 square feet of positive absorption in the second quarter of the year, giving the market a total of 1,588,799 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 500,000 square feet at the end of the second quarter, a decrease over 2013's second quarter total of 563,000 square feet leased. Sales activity came in above the previous year's rate, recording almost 645,000 square feet for the quarter compared to 2013's 357,000 square feet of sales transactions. This statistic can have some lag time in being reported, so look for second quarter figures to end up somewhat higher in the next report.
- **Employment** - The unemployment rate in Orange County was 4.9% in May 2014, down from a revised 5.0% in April 2014 and below the previous year's estimate of 5.9%. This compares with an unadjusted unemployment rate of 7.1% for California and 6.1% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 22,600 payroll jobs from May 2013 to May 2014. Most sectors showed gains in employment; the largest gains were 7,800 in professional and business services and 7,200 in construction during that same period. Financial activities posted the largest year-over-year loss, dropping by 4,900 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. The second quarter of 2014 has recaptured all of the losses incurred during the first quarter, and then some. With very few new deliveries in the pipeline to apply upward pressure on vacancy, we foresee 2014 being another year of growth as the market nears single digit vacancy.

FORECAST

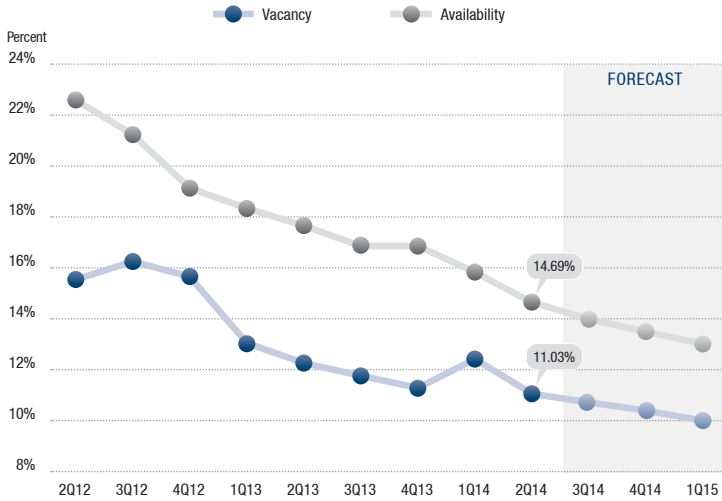
- **Employment** - We anticipate job growth of around 2.6%, or 37,000 jobs, in the Orange County area over 2014. The most rapid growth should take place in the construction, education & health, professional & business services, and leisure & hospitality sectors.
- **Lease Rates** - Expect average asking lease rates to increase by 3%–5% by 2015.
- **Vacancy** - We anticipate vacancy to continue to descend in coming quarters, dropping by 100 basis points to around 10% by the beginning of 2015.

OVERVIEW

	2Q14	1Q14	2Q13	% of Change vs. 2Q13
Vacancy Rate	11.03%	12.46%	12.27%	(10.11%)
Availability Rate	14.69%	15.82%	17.64%	(16.72%)
Average Asking Lease Rate	\$1.72	\$1.69	\$1.66	3.61%
Sale & Lease Transactions	1,054,685	1,123,958	920,124	14.62%
Gross Absorption	783,555	443,211	692,376	13.17%
Net Absorption	267,667	(219,191)	162,013	N/A

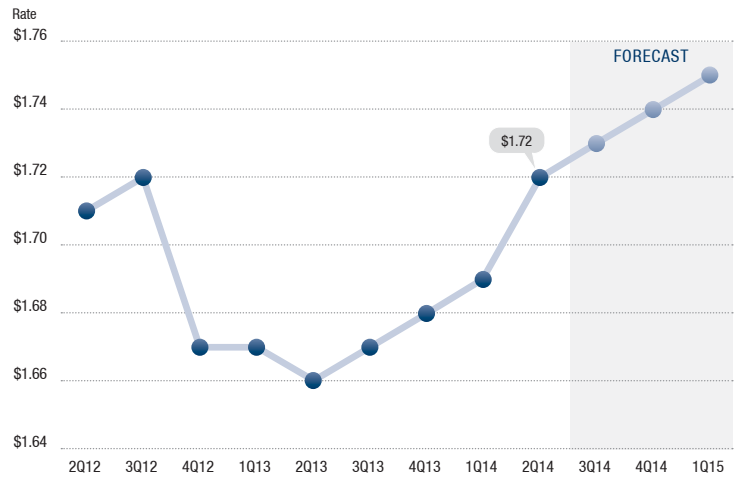
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



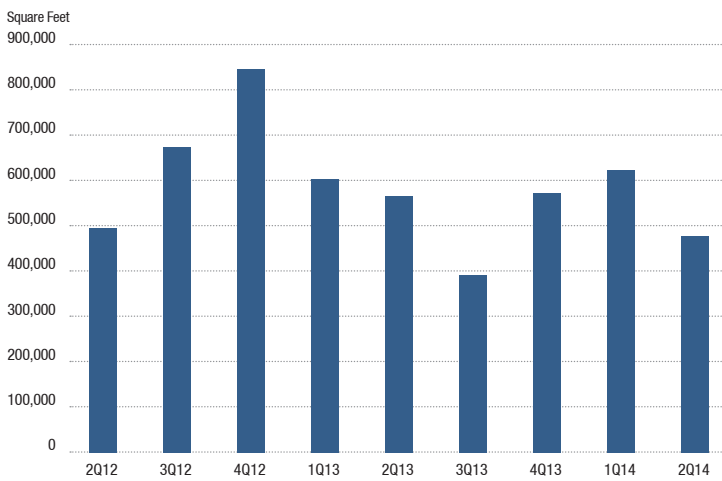
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



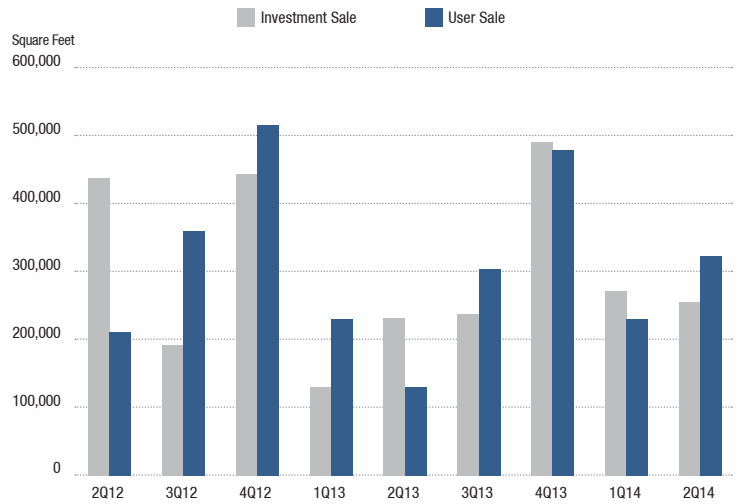
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



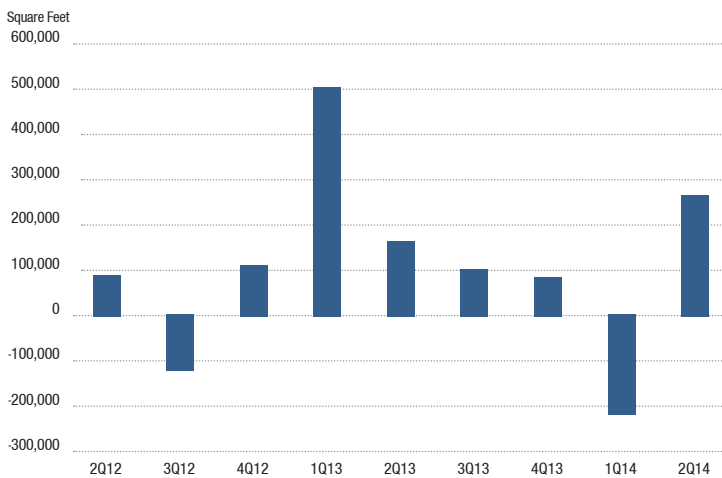
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

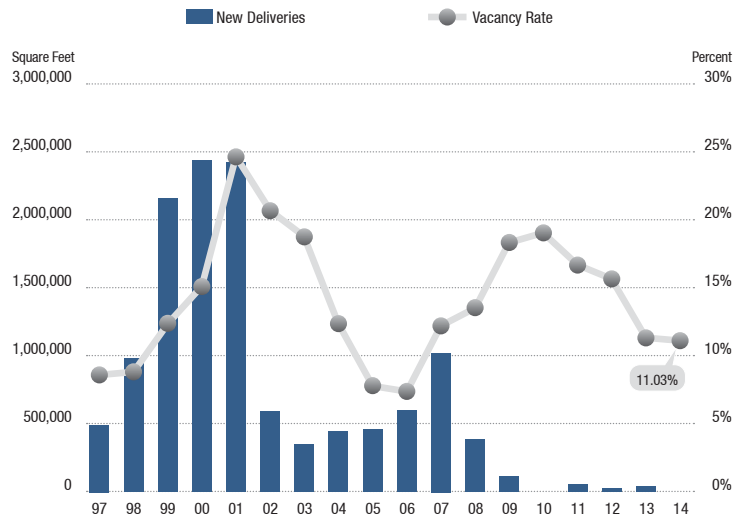


NET ABSORPTION

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

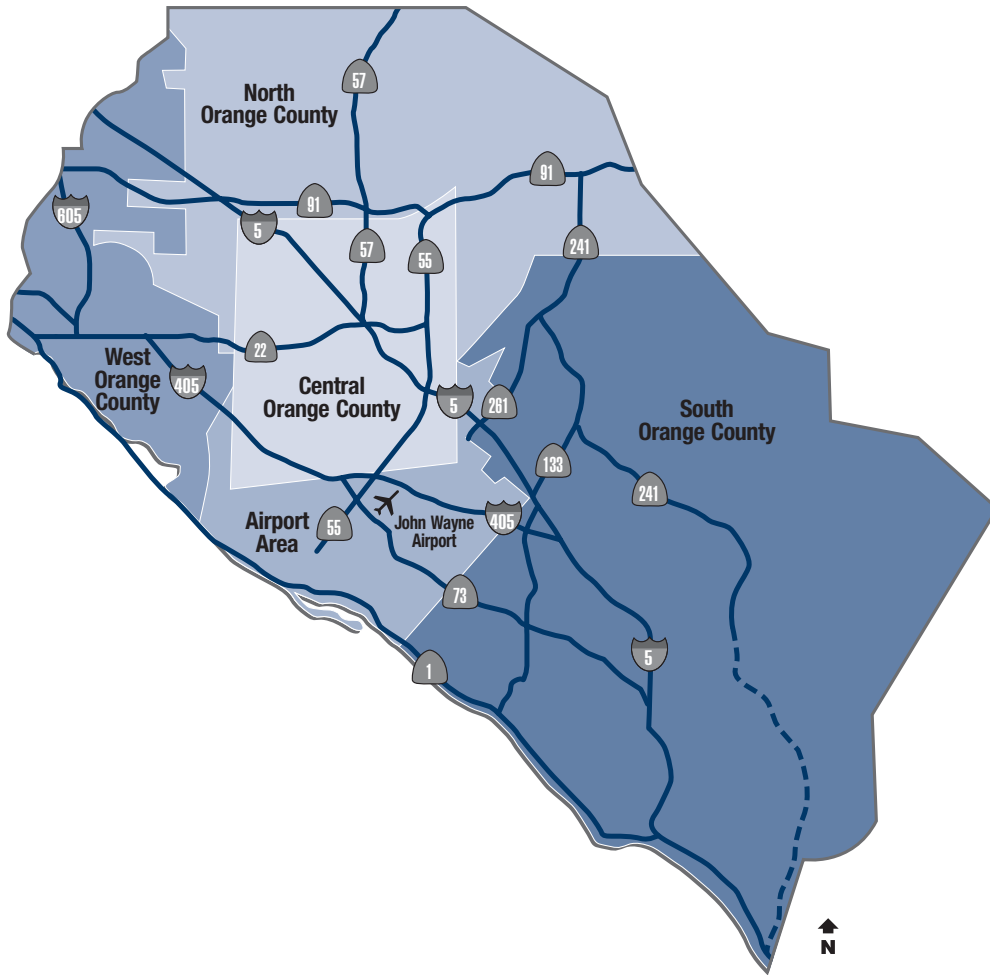


ANNUAL NEW DELIVERIES VS. VACANCY RATE



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 202014	Square Feet Available	Availability Rate 202014	Average Asking Lease Rate	Net Absorption 202014	Net Absorption 2014	Gross Absorption 202014	Gross Absorption 2014
North County													
Anaheim	30	621,583	0	0	62,287	10.02%	74,296	11.95%	\$1.44	(2,538)	(8,038)	2,025	15,323
Brea	14	414,115	0	0	63,400	15.31%	77,067	18.61%	\$1.38	(1,149)	(10,823)	9,222	12,549
Buena Park	6	112,122	0	0	6,685	5.96%	6,685	5.96%	\$1.35	(2,242)	3,478	0	7,183
Fullerton	10	138,996	0	0	12,587	0.00%	25,074	18.04%	\$0.00	0	(2,768)	0	0
Placentia	7	158,589	0	0	6,664	4.20%	6,664	4.20%	\$1.65	1,582	11,582	2,782	12,782
North County Total	67	1,445,405	0	0	151,623	10.49%	189,786	13.13%	\$1.43	(4,347)	(6,569)	14,029	47,837
West County													
Cypress	10	375,042	0	0	135,025	36.00%	172,786	46.07%	\$1.85	(17,415)	(28,225)	0	0
Huntington Beach	3	49,145	0	0	3,346	6.81%	6,398	13.02%	\$1.42	2,241	2,241	2,241	3,895
Seal Beach	5	70,000	0	0	7,151	10.22%	5,705	8.15%	\$2.35	0	2,857	0	7,229
West County Total	18	494,187	0	0	145,522	29.45%	184,889	37.41%	\$1.69	(15,174)	(23,127)	2,241	11,124
Central County													
Garden Grove	5	74,082	0	0	22,100	29.83%	18,550	25.04%	\$0.00	(500)	(5,640)	4,250	7,800
Orange	9	150,215	0	0	16,151	10.75%	28,345	18.87%	\$1.87	315	(440)	865	9,265
Santa Ana	21	605,916	0	0	90,319	14.91%	109,826	18.13%	\$1.63	21,417	6,956	21,417	25,818
Tustin	8	239,182	0	0	0	0.00%	6,685	3.63%	\$0.00	0	3,000	0	3,000
Central County Total	43	1,069,395	0	0	128,570	12.02%	165,406	15.47%	\$1.67	21,232	3,876	26,532	45,883
Airport Area													
Costa Mesa	9	151,399	0	0	14,155	9.35%	28,348	18.72%	\$1.55	0	0	0	0
Fountain Valley	1	15,000	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Irvine	114	3,472,222	0	0	284,084	8.18%	475,756	13.70%	\$1.93	144,658	25,377	169,996	207,652
Newport Beach	32	664,735	21,000	0	43,576	6.56%	68,324	10.28%	\$1.89	130	(16,686)	24,708	38,661
Santa Ana	2	58,895	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Tustin	2	81,116	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Airport Area Total	160	4,443,367	21,000	0	341,815	7.69%	572,428	12.88%	\$1.89	144,788	8,691	194,704	246,313
South County													
Aliso Viejo	47	1,444,844	0	0	120,952	8.37%	194,290	13.45%	\$1.76	84,056	83,758	102,962	132,271
Dana Point	6	77,940	0	0	5,767	7.40%	5,767	7.40%	\$0.00	900	900	900	900
Foothill Ranch	5	105,447	0	0	19,167	18.18%	22,113	20.97%	\$0.00	1,099	9,334	3,309	11,544
Irvine Spectrum	238	5,758,195	0	100,000	549,892	9.55%	729,874	12.68%	\$1.92	87,444	94,914	314,420	530,744
Ladera Ranch	8	227,862	0	0	62,298	27.34%	62,927	27.62%	\$0.00	(16,890)	(13,797)	3,360	6,453
Laguna Beach	5	74,016	0	0	700	0.95%	1,847	2.50%	\$0.00	0	3,058	0	3,058
Laguna Hills	15	495,271	0	0	123,622	24.96%	117,277	23.68%	\$1.64	(728)	(4,425)	20,898	38,019
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	247,463	16.07%	299,132	19.43%	\$1.71	(45,611)	(113,099)	46,258	60,490
Mission Viejo	29	405,223	0	0	49,175	12.14%	68,023	16.79%	\$1.68	2,872	(1,836)	3,372	4,859
Rancho Santa Margarita	12	327,160	0	0	27,022	8.26%	31,787	9.72%	\$1.72	1,962	292	31,583	41,105
San Clemente	12	256,124	0	0	20,558	8.03%	34,384	13.42%	\$1.25	5,229	14,765	6,029	16,563
San Juan Capistrano	30	614,488	42,551	0	81,597	13.28%	83,676	13.62%	\$2.14	835	(8,259)	12,958	29,603
South County Total	456	11,379,620	42,551	100,000	1,310,433	11.52%	1,653,317	14.53%	\$1.71	121,168	65,605	546,049	875,609
Orange County Total	744	18,831,974	63,551	100,000	2,077,963	11.03%	2,765,826	14.69%	\$1.72	267,667	48,476	783,555	1,226,766
North County													
0-29,999	54	866,935	0	0	89,495	10.32%	121,456	14.01%	\$1.50	(2,638)	(2,193)	7,551	23,925
30,000-49,999	9	348,491	0	0	38,461	11.04%	38,461	11.04%	\$1.38	1,731	(4,155)	1,731	15,946
50,000 Plus	4	229,979	0	0	23,667	10.29%	29,869	12.99%	\$1.65	(3,440)	(221)	4,747	7,966
West County													
0-29,999	11	126,132	0	0	10,497	8.32%	10,049	7.97%	\$1.42	2,241	3,871	2,241	5,525
30,000-49,999	4	167,585	0	0	12,760	7.61%	14,814	8.84%	\$2.11	0	(9,583)	0	5,599
50,000 Plus	3	200,470	0	0	122,265	60.99%	160,026	79.83%	\$0.00	(17,415)	(17,415)	0	0
Central County													
0-29,999	29	391,157	0	0	43,073	11.01%	62,797	16.05%	\$1.33	(185)	(9,573)	5,115	12,151
30,000-49,999	7	265,400	0	0	15,348	5.78%	21,959	8.27%	\$1.45	11,002	7,164	11,002	14,002
50,000 Plus	7	412,838	0	0	70,149	16.99%	80,650	19.54%	\$1.95	10,415	6,285	10,415	19,730
Airport Area													
0-29,999	93	1,064,398	21,000	0	102,096	9.59%	173,855	16.33%	\$1.92	(4,295)	(6,237)	22,921	53,104
30,000-49,999	30	1,224,341	0	0	79,291	6.48%	100,579	8.21%	\$1.92	37,227	(3,849)	40,370	50,390
50,000 Plus	37	2,154,628	0	0	160,428	7.45%	297,994	13.83%	\$1.75	111,856	18,777	131,413	142,819
South County													
0-29,999	298	3,987,601	0	0	469,420	11.77%	719,029	18.03%	\$1.65	(105)	(55,959)	152,145	257,862
30,000-49,999	102	4,092,752	42,551	0	558,571	13.65%	469,147	11.46%	\$1.78	(24,014)	34,700	208,896	338,965
50,000 Plus	56	3,299,267	0	100,000	282,442	8.56%	465,141	14.10%	\$1.74	145,287	86,864	185,008	278,782
Orange County													
0-29,999	485	6,436,223	21,000	0	714,581	11.10%	1,087,186	16.89%	\$1.71	(4,982)	(70,091)	189,973	352,567
30,000-49,999	152	6,098,569	42,551	0	704,431	11.55%	644,960	10.58%	\$1.72	25,946	24,277	261,999	424,902
50,000 Plus	107	6,297,182	0	100,000	658,951	10.46%	1,033,680	16.41%	\$1.72	246,703	94,290	331,583	449,297
Orange County Total	744	18,831,974	63,551	100,000	2,077,963	11.03%	2,765,826	14.69%	\$1.72	267,667	48,476	783,555	1,226,766

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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Las Vegas, NV
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424.329.7500

Newport Beach, CA
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Phoenix, AZ
602.952.8648

Reno, NV
775.771.9955

Sacramento, CA
916.772.8648

San Diego, CA
858.453.0505

San Jose, CA
408.885.9110

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