

# ORANGE COUNTY



# MARKET CHANGE

Compared to the Previous Quarter:



## **Net Absorption**



#### **Lease Rates**



## **Transactions**



#### **Deliveries**



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# HIGHLIGHTS

- Steady Growth The Orange County office market had a
  great second quarter, posting over 740,000 square feet
  of positive net absorption. This gives the market a total of
  almost 3.5 million square feet of positive absorption for the
  last nine quarters. Vacancy and availability continued their
  downward trends and lease rates continued to increase.
- Construction The record year for new development was 1988, when 5.7 million square feet of new space was added and vacancy rates were approximately 24%. Total space under construction came in at just over 576,000 square feet for the second quarter of 2014; the most notable project was the Irvine Company project at Fashion Island in Newport Beach (354,541 square feet). We should see an increase in construction in the coming quarters, as typically the cranes come out when vacancy dips below 12%.
- Vacancy Down 35 basis points from the previous quarter, direct/sublease space (unoccupied) finished the second quarter at 12.69%, a decrease from the previous quarter's rate of 13.04% and significantly down from both the Great-Recession peak of nearly 18% in the second quarter of 2010 and the market high of 23% recorded in 1990.
- Availability Direct/sublease space being marketed came in at 16.14% at the end of the second quarter of 2014, a decrease of 8.92% when compared to 2013's second quarter rate of 17.72% and 50 basis points lower than last quarter's rate of 16.64%.
- Lease Rates The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was \$2.00 at the end of the quarter, a 5.82% increase from the previous year's rate of \$1.89 and four cents higher than last quarter's rate. The record-high rate of \$2.77 was established in the fourth quarter of 2008. Class A asking rates for the county averaged \$2.24 FSG, the highest being in the South County submarket, where Class A rates averaged \$2.48 FSG.

- Absorption The Orange County office market posted 740,601 square feet of positive absorption in the second quarter of the year, giving the market a net total of over 6.5 million square feet of positive absorption since the third quarter of 2010. Look for research-oriented businesses IT, defense, medical and alternative energy companies to lead the charge of positive absorption over the next few years.
- Transaction Activity Leasing activity checked in at 2.1 million square feet in the second quarter, producing a total of 12.1 million square feet leased over the last five quarters. Sales activity was up a bit from the previous quarter, posting 1.72 million square feet of activity in the second quarter compared to last quarter's figure of 1.3 million square feet. 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. Details of the largest transactions for the quarter can be found on the back page of this report.
- 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 a decrease in the amount
  of vacant and available space on the market. As we progress
  into the second half of 2014, positive absorption should
  continue, and with few new deliveries in the pipeline to apply
  upward pressure on vacancy, the market will further improve.

# **FORECAST**

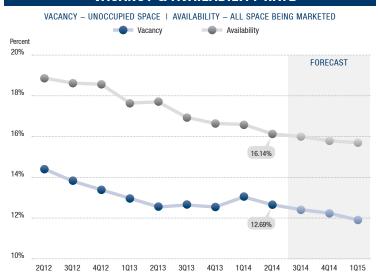
- **Employment** We anticipate job growth of around 2.6%, or 37,000 jobs, in the Orange County area over the year. The most rapid growth is forecasted to take place in the construction, education & health, professional & business services, and leisure & hospitality sectors.
- Lease Rates Expect the average asking lease rate to increase by 5%-7% percent over the next four quarters.
- Vacancy We anticipate vacancy continuing to descend in coming quarters, dropping by around 50 basis points to 12.1%, by
  the end of the first quarter of 2015.

# **OVERVIEW**

	2014	1014	2013	% of Change vs. 2Q13
Vacancy Rate	12.69%	13.04%	12.57%	0.95%
Availability Rate	16.14%	16.64%	17.72%	(8.92%)
Average Asking Lease Rate	\$2.00	\$1.96	\$1.89	5.82%
Sale & Lease Transactions	3,787,694	3,666,074	3,477,340	8.93%
Gross Absorption	3,133,261	2,374,666	3,019,491	3.77%
Net Absorption	740,601	(156,629)	577,523	N/A

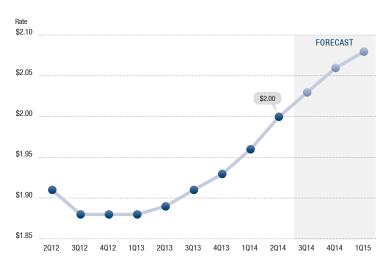
**OFFICE** 

## **VACANCY & AVAILABILITY RATE**



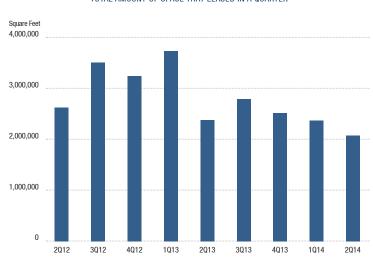
# **AVERAGE ASKING FULL-SERVICE LEASE RATE**

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS

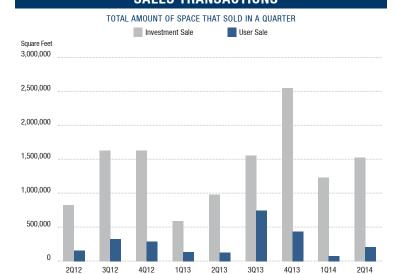


#### **LEASE TRANSACTIONS**



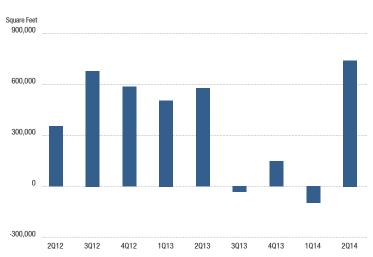


### **SALES TRANSACTIONS**



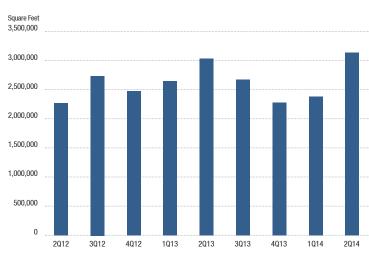
## **NET ABSORPTION**

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



## **GROSS ABSORPTION**

TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER





		INVENTORY			VAC	CANCY	& LEASE RATES			ABSORPTION			
	Number of	Net Rentable	Square Feet	Square Feet	Square Feet	Vacancy Rate	Square Feet	Availability Rate	Average Asking	Net Absorption	Net Absorption	Gross Absorption	Gross Absorptio
	Bldgs.	Square Feet	U/C	Planned	Vacant	202014	Available	202014	Lease Rate	202014	2014	202014	2014
Airport Area													
Costa Mesa	73	7,333,889	0	0	1,225,178	16.71%	1,155,324	15.75%	\$2.19	(42,253)	(99,389)	254,267	341,23
Irvine	255	23,729,470	108,696	2,291,000	2,894,498	12.20%	3,885,120	16.37%	\$2.15	287,667	218,894	858,304	1,378,85 843,17
Newport Beach Airport Area Total	127 455	9,912,478 40,975,837	354,845 463,541	42,646 2,333,646	895,858 5,015,534	9.04% 12.24%	1,086,408 6,126,852	10.96% 14.95%	\$2.29 \$2.19	392,533 637,947	384,913 504,418	651,979 1,764,550	2,563,26
•	400	40,973,037	403,341	2,333,040	3,013,334	12.24 /0	0,120,032	14.9570	φ2.19	037,947	304,410	1,704,330	2,303,21
Central County													
Anaheim	85	6,780,475	0	0	1,268,962	18.71%	1,631,634	24.06%	\$1.83	(119,367)	(311,826)	61,343	129,6
Orange	80	7,070,791	0	200,000	995,960	14.09%	1,141,643	16.15%	\$1.95	50,414	(48,615)	113,089	201,4
Santa Ana	183	14,798,890	0	702,325	2,246,689	15.18%	2,852,610	19.28%	\$1.74	31,025	501	253,697	406,5
Tustin	40	1,978,305	0	737,000	136,399	6.89%	167,703	8.48%	\$1.79	18,359	31,501	23,973	46,1
Central County Total	388	30,628,461	0	1,639,325	4,648,010	15.18%	5,793,590	18.92%	\$1.85	(19,569)	(328,439)	452,102	783,8
North County													
Anaheim Hills	17	1,027,810	0	0	325,281	31.65%	330,480	32.15%	\$1.77	3,120	(135,411)	4,937	46,2
Brea	43	4,135,787	0	120,000	499,340	12.07%	723,968	17.50%	\$1.96	(31,936)	(39,365)	24,398	43,5
Buena Park	15	948,382	0	0	99,034	10.44%	101,898	10.74%	\$1.61	(3,857)	20,813	2,228	42,2
Fullerton	31	2,508,107	0	34,000	309,212	12.33%	412,662	16.45%	\$1.54	2,920	(27,299)	7,860	23,0
La Habra	4	142,069	0	0	2,156	1.52%	2,156	1.52%	\$0.00	0	0	0	
La Palma	10	712,038	0	0	173,977	24.43%	179,140	25.16%	\$2.06	9,492	8,453	9,492	16,4
Placentia	8	267,589	0	0	36,211	13.53%	37,898	14.16%	\$1.58	2,782	14,548	2,782	14,5
Yorba Linda	7	423,502	0	0	45,199	10.67%	57,328	13.54%	\$1.86	(9,428)	(4,961)	3,356	9,0
North County Total	135	10,165,284	0	154,000	1,490,410	14.66%	1,845,530	18.16%	\$1.86	(26,907)	(163,222)	55,053	195,3
South County													
Aliso Viejo	43	3,117,975	0	210,000	265,804	8.52%	432,349	13.87%	\$2.22	34,343	(6,170)	113,945	155,0
Dana Point	3	135,296	0	35,000	0	0.00%	0	0.00%	\$0.00	0	0	0	
Foothill Ranch	10	799,893	0	0	119,551	14.95%	145,796	18.23%	\$1.88	19,497	26,489	19,497	38,7
Irvine Spectrum	151	10,093,745	0	696,000	742,492	7.36%	1,218,930	12.08%	\$2.62	71,508	48,026	366,736	612,6
Laguna Beach	5	194,434	0	0	28,220	14.51%	28,220	14.51%	\$0.00	(2,817)	241	0	3,0
Laguna Hills	32	1,782,344	0	0	357,502	20.06%	439,665	24.67%	\$1.84	10,810	10,066	71,668	148,7
Laguna Niguel	13	1,856,041	0	0	185,974	10.02%	230,080	12.40%	\$2.06	506	14,561	6,018	27,6
Lake Forest	40	2,098,204	0	0	361,415	17.22%	440,132	20.98%	\$1.74	(34,078)	(22,694)	45,567	109,2
Mission Viejo	36	1,914,358	0	0	258,293	13.49%	317,864	16.60%	\$1.91	(6,577)	3,433	22,283	68,5
Rancho Santa Margarita	6	249,472	0	0	40,872	16.38%	42,640	17.09%	\$1.78	(223)	(485)	21,528	24,3
San Clemente	12	503,048	0	0	54,917	10.92%	88,717	17.64%	\$1.79	(11,228)	(14,498)	11,276	15,8
San Juan Capistrano	16	836,321	42,551	0	172,247	20.60%	178,193	21.31%	\$2.17	7,819	9,458	17,352	35,2
South County Total	367	23,581,131	42,551	941,000	2,587,287	10.97%	3,562,586	15.11%	\$2.09	89,560	68,427	695,870	1,239,10
West County													
Cypress	30	2,090,767	0	0	347,176	16.61%	491,475	23.51%	\$1.80	20,606	(10,448)	62,829	68,10
Fountain Valley	32	1,947,142	0	0	99,235	5.10%	117,804	6.05%	\$1.52	2,548	479,861	10,898	491,6
Garden Grove	20	1,562,160	0	0	73,115	4.68%	87,863	5.62%	\$1.50	(7,738)	(5,505)	5,480	12,1
Huntington Beach	43	2,389,863	0	0	248,639	10.40%	364,228	15.24%	\$2.09	37,615	60,867	68,084	112,6
Los Alamitos	11	616,963	70,000	0	30,579	4.96%	37,056	6.01%	\$1.75	(7,426)	(5,430)	4,300	10,69
Seal Beach	7	473,787	0	0	21,421	4.52%	94,443	19.93%	\$2.86	0	3,087	130	7,58
Stanton	4	143,361	0	0	11,290	7.88%	16,812	11.73%	\$0.00	7,598	(1,382)	7,598	8,8
Westminster	14	554,280	0	0	36,125	6.52%	40,196	7.25%	\$1.94	6,367	7,128	6,367	12,7
West County Total	161	9,778,323	70,000	0	867,580	8.87%	1,249,877	12.78%	\$1.94	59,570	528,178	165,686	724,5
Orange County Total	1,506	115,129,036	576,092	5,067,971	14,608,821	12.69%	18,578,435	16.14%	\$2.00	740,601	609,362	3,133,261	5,506,0
Airport Area	•		•	• •					•	•			
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Class A	115	22,634,607	463,541	995,000	3,232,368	14.28%	3,915,238	17.30%	\$2.35	479,047	463,095	1,115,330	1,556,3
Class B Class C	312 28	16,991,445 1,349,785	0	1,338,646 0	1,747,692 35,474	10.29% 2.63%	2,090,942 120,672	12.31% 8.94%	\$1.95 \$1.73	138,535 20,365	(13,729) 55,052	621,239 27,981	935,8 71,0
	20	1,048,100	U	U	33,414	2.00/0	120,012	0.34 /0	ψ1./3	۷۷,۵۵۵	JJ,UJZ	۱ ۱ ،۵۵۱	11,0
Central County													
Class A	61	10,441,186	0	1,337,325	2,305,443	22.08%	2,623,831	25.13%	\$2.00	(8,122)	(374,922)	176,653	295,9
Class B	257	17,165,979	0	302,000	2,069,352	12.05%	2,815,618	16.40%	\$1.64	(36,730)	(25,243)	219,832	370,5
Class C	70	3,021,296	0	0	273,215	9.04%	354,141	11.72%	\$1.52	25,283	71,726	55,617	117,2
North County													
Class A	19	2,074,925	0	0	252,949	12.19%	434,870	20.96%	\$2.18	(10,478)	(9,775)	23,817	34,0
Class B	105	7,713,082	0	154,000	1,176,512	15.25%	1,342,230	17.40%	\$1.75	(16,160)	(147,711)	29,877	151,6
Class C	11	377,277	0	0	60,949	16.15%	68,430	18.14%	\$1.88	(269)	(5,736)	1,359	9,6
South County			***************************************										
Class A	59	6,906,717	40 EE1	660,000	570 70C	8.29%	893,352	12.93%	\$2.48	86,482	(2.702)	230,486	312,0
Class B	297	16,154,146	42,551 0	281,000	572,726	12.34%	2,646,302	16.38%	\$2.48 \$1.82	7,950	(3,793) 87,089	462,854	921,9
	297		0		1,994,063	3.94%							***************************************
Class C	11	520,268	U	0	20,498	3.94%	22,932	4.41%	\$0.00	(4,872)	(14,869)	2,530	5,1
West County													
Class A	23	2,466,958	0	0	290,378	11.77%	363,497	14.73%	\$2.30	38,759	26,865	65,435	86,8
Class B	116	6,406,009	70,000	0	540,387	8.44%	849,595	13.26%	\$1.65	20,021	497,737	96,518	629,3
Class C	22	905,356	0	0	36,815	4.07%	36,785	4.06%	\$1.45	790	3,576	3,733	8,3
Orange County													
Class A	277	44,524,393	506,092	2,992,325	6,653,864	14.94%	8,230,788	18.49%	\$2.24	585,688	101,470	1,611,721	2,285,2
Class B	1,087	64,430,661	70,000	2,992,323	7,528,006	11.68%	9,744,687	15.12%	\$1.77	113,616	398,143	1,430,320	3,009,3
Class C	1,007	6,173,982	70,000	2,073,040	426,951	6.92%	602,960	9.77%	\$1.60	41,297	109,749	91,220	211,4
J.400 0	1,506	115,129,036	576,092	5,067,971	14,608,821	12.69%	18,578,435	16.14%	\$2.00	740,601	609,362	3,133,261	5,506,0

This survey consists of office properties 25,000 square feet and larger in size, representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis.

# MAJOR TRANSACTIONS

Sales Transactions						
<b>Property Address</b>	Submarket	Class	<b>Square Feet</b>	Sale Price Per SF	Buyer	Seller
7755 Center Ave. – 3 Properties	West County	Α	395,150	\$236.87	Prudential Real Estate Investors	Lincoln Property Company
4910 Campus Dr. – 13 Properties	Airport Area	В	135,968	\$305.22	Kearny Real Estate Company	Beachwood Properties, Inc.
1750 E. 4th St.	Central County	Α	229,989	\$174.31	Hines	State Compensation Insurance Fund
16001 Gothard St 3 Properties	West County	В	117,750	\$286.20	Behringer Harvard Multifamily REIT I, Inc.	Pedigo Products, Inc.
17542 E. 17th St.	Central County	В	90,932	\$224.34	Deutsche Asset & Wealth Management	Illinois State Board Investments

Lease Transactions						
<b>Property Address</b>	Submarket	Class	Square Feet	<b>Transaction Date</b>	Tenant	Owner
16802 Aston St.	Airport Area	В	65,108	Apr-14	Spireon GPS	Hines/Oaktree Capital
3349 Michelson Dr.	Airport Area	Α	40,000	Apr-14	HireRight, Inc.	LBA Realty
3060 Saturn St.	North County	В	23,919	May-14	International Code Council	Brea Corporate Park II, LLC
600 Anton Blvd.	Airport Area	Α	22,466	Jun-14	Haynes & Boone, LLP	600 Anton Blvd. Associates
30211 Avenida De Las Bandera	South County	В	20,508	Apr-14	Regus	Dolphin Partners, Inc.

# PRODUCT TYPE

#### **CLASS A**

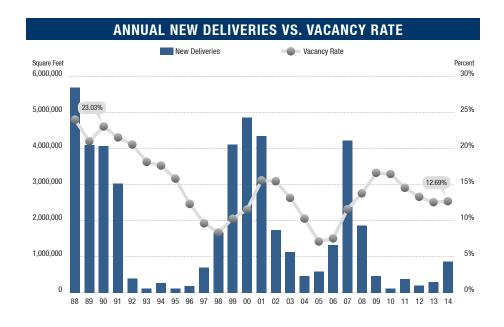
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

#### **CLASS B**

Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

#### **CLASS C**

Buildings competing for tenants requiring functional space at rents below the area average.



#### Please Contact Us for Further Information

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Newport Beach, CA 949.644.8648

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

This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.

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