SECOND QUARTER 2015

ORANGE COUNTY

FLEX

Voit REAL ESTATE SERVICES

MARKET CHANGE

Compared to Previous Quarter:

Vacancy
DOWN

Net Absorption
POSITIVE

Lease Rates
UP

Transactions
DOWN

Deliveries
UP

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VOIT Real Estate Services

HIGHLIGHTS

- **Steady Growth -** The Orange County flex market had a great second quarter, posting almost 200,000 square feet of positive 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 first quarter and the same quarter last year.
- **Construction -** At the end of the quarter, there was only 18,920 square feet under construction in Orange County's flex market and 189,700 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 -** Down 73 basis points from the previous quarter, direct / sublease space (unoccupied) finished the second quarter at 8.44%, a decrease from the previous year's rate of 11.22%, an annual decrease of 24.78%, and significantly down from the record-high rate of 25.85% recorded in the third quarter of 2002.
- **Availability -** High-end space captured recent gains in occupancy. Direct / sublease space being marketed was 12.85% at the end of the second quarter of 2015, down 74 basis points from the previous quarter and down from 2014's second quarter rate of 14.60%, showing an annual decrease of 11.99%.
- **Lease Rates -** The average asking full-service gross (FSG) lease rate per square foot per month in Orange County's flex market was $2.03 in the second quarter, fourteen cents higher than the previous quarter and thirty one cents higher than 2014'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 198,826 square feet of positive absorption in the second quarter of the year, giving the market a total of over 1.55 million square feet of positive absorption for the last eleven quarters. This positive absorption can be attributed to the recent employment gains.
- **Transaction Activity -** Leasing activity checked in at 542,216 square feet for the second quarter of 2015, a decrease from 2014's second quarter total of 797,094 square feet leased. Sales activity came in just below the previous year's rate, recording 646,850 square feet for the second quarter of 2015 compared to 2014's 670,994 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 4.2% in May 2015, up from a revised 4.1% in April 2015 and below the previous year's estimate of 5.2%. This compares with an unadjusted unemployment rate of 6.2% for California and 5.3% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 50,700 payroll jobs from May 2014 to May 2015. Most sectors showed gains in employment; the largest gains were 12,100 in educational and health services and 9,900 in professional and business services during that same period. Information posted the only year-over-year loss, dropping by 400 jobs.
- **Overall -** We are continuing to see large increases in asking lease rates in the Orange County flex market, as vacancy and availability continue trending downward. As we move into the second half of 2015, positive absorption should continue, occupancy costs will continue to increase, 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

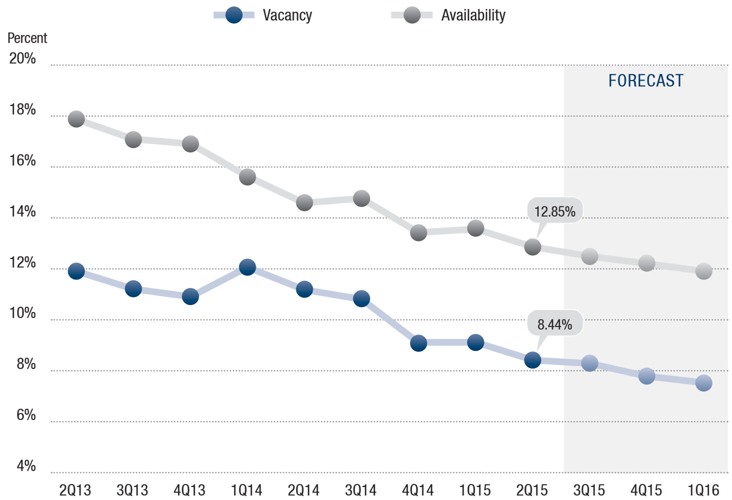
- **Employment -** We anticipate job growth of around 3.1%, or 47,000 jobs, in the Orange County area during the year according to Chapman University. The most rapid growth should take place in the professional & business services, education & health, leisure & hospitality, and construction sectors.
- **Lease Rates -** Expect average asking lease rates to increase by 4% to 6% over the next four quarters.
- **Vacancy -** We anticipate vacancy to continue to descend in coming quarters, dropping by 100 basis points to around 7.5% by the first quarter of 2016.

OVERVIEW

	2Q15	1Q15	2Q14	% of Change vs. 2Q14
Total Vacancy Rate	8.44%	9.17%	11.22%	(24.78%)
Availability Rate	12.85%	13.59%	14.60%	(11.99%)
Average Asking Lease Rate	$2.03	$1.89	$1.72	18.02%
Sale & Lease Transactions	1,189,066	1,377,414	1,468,088	(19.01%)
Gross Absorption	648,295	521,481	695,073	(6.73%)
Net Absorption	198,826	(25,925)	161,766	N/A

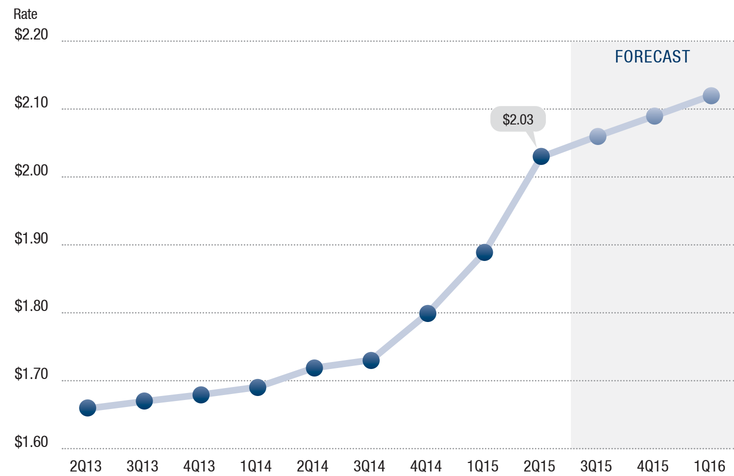
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



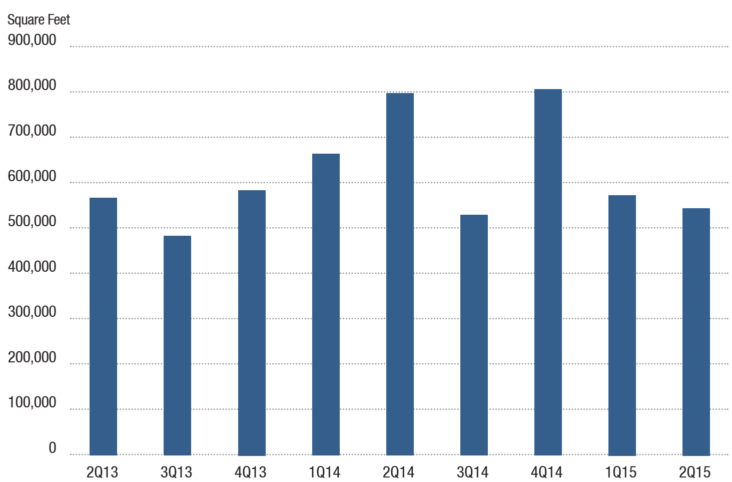
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



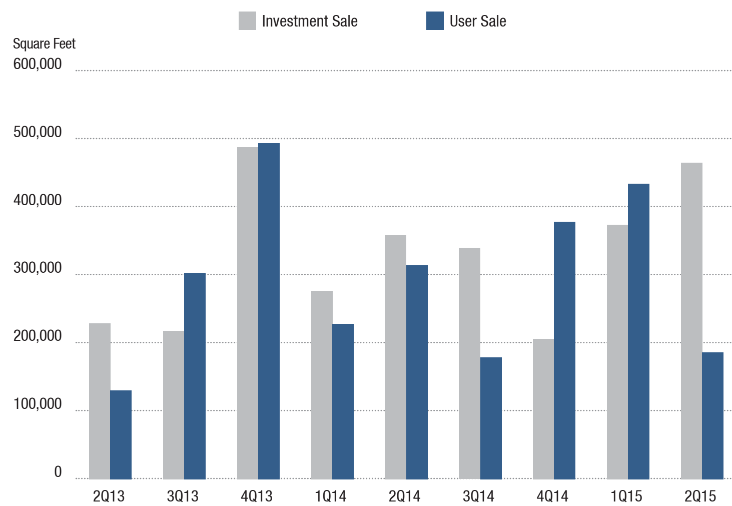
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



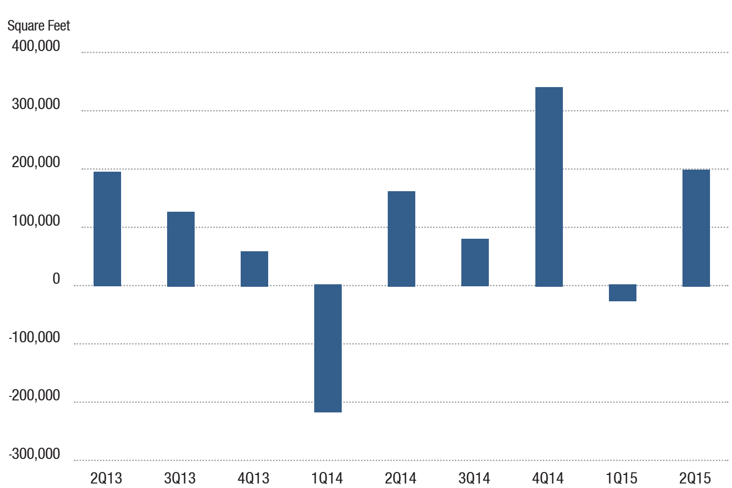
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

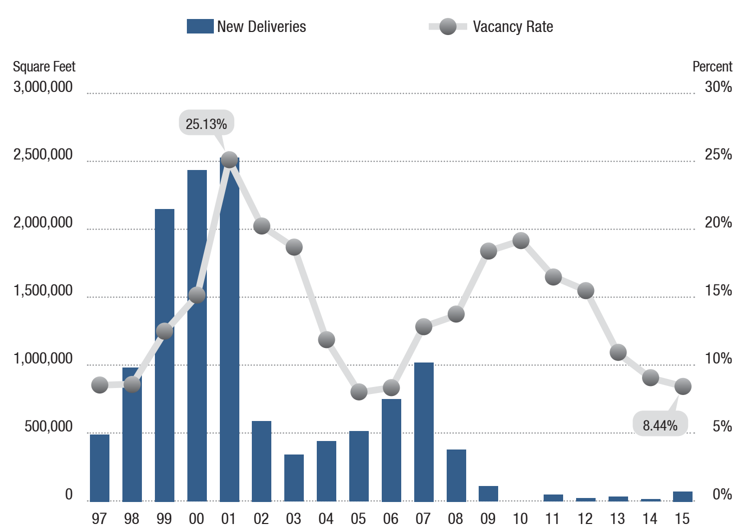


NET ABSORPTION

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

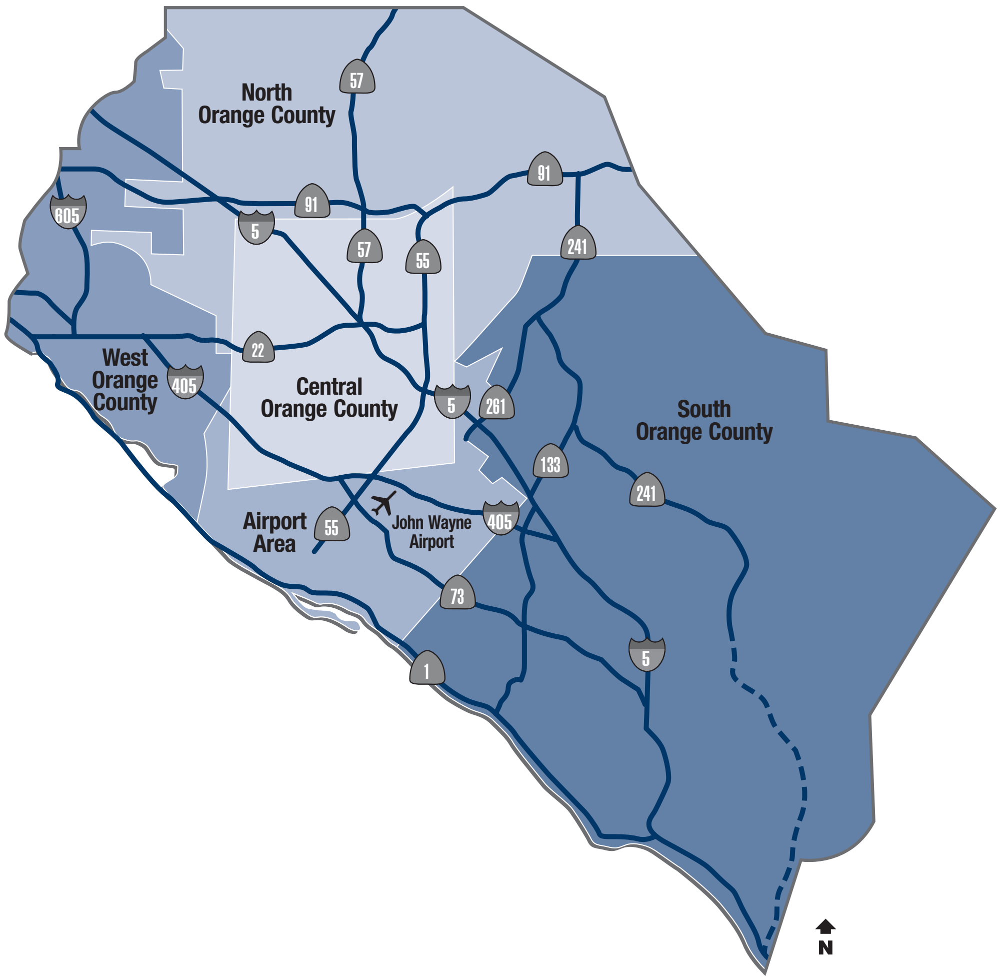


ANNUAL NEW DELIVERIES VS. VACANCY RATE



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2015	Square Feet Available	Availability Rate 2Q2015	Average Asking Lease Rate	Net Absorption 2Q2015	Net Absorption 2015	Gross Absorption 2Q2015	Gross Absorption 2015
North County													
Anaheim	31	678,116	0	0	57,425	8.47%	114,601	16.90%	$1.92	24,754	24,192	28,508	31,602
Brea	14	414,115	0	0	59,484	14.36%	96,870	23.39%	$1.27	4,292	8,375	13,131	27,375
Buena Park	6	113,606	0	0	2,242	1.97%	2,242	1.97%	$0.00	3,180	4,643	3,180	4,643
Fullerton	9	105,926	0	0	16,906	0.00%	20,029	18.91%	$0.00	1,594	(8,393)	15,594	15,594
Placentia	5	129,375	0	0	14,160	10.94%	14,160	10.94%	$0.00	(2,898)	(2,898)	0	0
Yorba Linda	2	29,214	0	0	1,200	4.11%	1,200	4.11%	$1.25	0	0	0	0
North County Total	67	1,470,352	0	0	151,417	10.30%	249,102	16.94%	$1.55	30,922	25,919	60,413	79,214
West County													
Cypress	11	381,715	0	0	143,926	37.71%	142,164	37.24%	$1.75	(10,851)	(7,751)	0	3,100
Huntington Beach	3	49,145	0	0	2,974	6.05%	2,974	6.05%	$1.33	2,174	2,174	4,052	4,052
Seal Beach	4	43,000	0	0	966	2.25%	966	2.25%	$2.25	0	(966)	0	0
West County Total	18	473,860	0	0	147,866	31.20%	146,104	30.83%	$1.69	(8,677)	(6,543)	4,052	7,152
Central County													
Garden Grove	6	78,582	0	0	19,392	24.68%	19,392	24.68%	$1.40	0	3,960	0	3,960
Orange	9	150,215	0	0	11,341	7.55%	15,356	10.22%	$1.95	0	0	0	0
Santa Ana	21	606,037	0	0	78,472	12.95%	110,892	18.30%	$1.99	1,743	13,494	15,113	46,135
Tustin	8	239,770	0	0	8,970	3.74%	22,285	9.29%	$1.93	(1,000)	(2,359)	0	3,533
Central County Total	44	1,074,604	0	0	118,175	11.00%	167,925	15.63%	$1.95	743	15,095	15,113	53,628
Airport Area													
Costa Mesa	9	151,399	0	0	31,767	20.98%	24,896	16.44%	$1.99	2,381	(17,612)	2,381	2,381
Fountain Valley	1	15,000	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Irvine	120	3,799,275	0	0	203,597	5.36%	428,612	11.28%	$2.27	22,247	28,290	151,214	291,803
Newport Beach	31	647,815	0	89,700	37,001	5.71%	76,465	11.80%	$3.63	39,480	33,837	42,745	52,855
Santa Ana	3	92,639	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	166	4,787,244	0	89,700	272,365	5.69%	529,973	11.07%	$2.48	64,108	44,515	196,340	347,039
South County													
Aliso Viejo	47	1,444,057	0	0	126,358	8.75%	186,839	12.94%	$1.96	(13,503)	(15,540)	66,764	106,979
Dana Point	6	77,940	0	0	4,767	6.12%	4,767	6.12%	$0.00	0	0	0	0
Foothill Ranch	5	105,447	0	0	20,077	19.04%	28,286	26.82%	$0.00	1,710	710	1,710	1,710
Irvine Spectrum	238	5,726,213	18,920	100,000	311,250	5.44%	627,759	10.96%	$2.20	64,189	(278)	170,381	340,488
Ladera Ranch	8	227,862	0	0	56,014	24.58%	65,943	28.94%	$1.99	(592)	(1,778)	4,309	4,309
Laguna Beach	5	74,016	0	0	0	0.00%	0	0.00%	$0.00	700	700	700	700
Laguna Hills	15	503,340	0	0	98,301	19.53%	108,203	21.50%	$1.97	7,550	10,076	18,119	26,205
Laguna Niguel	3	53,282	0	0	2,220	4.17%	3,085	5.79%	$0.00	0	0	0	0
Lake Forest	46	1,539,767	0	0	190,079	12.34%	167,067	10.85%	$1.92	(20,155)	25,266	13,038	78,052
Mission Viejo	29	405,223	0	0	29,132	7.19%	60,706	14.98%	$2.20	9,123	11,269	11,585	19,661
Rancho Santa Margarita	12	327,160	0	0	28,874	8.83%	34,456	10.53%	$1.73	3,860	3,303	6,477	10,294
San Clemente	13	276,942	0	0	7,394	2.67%	19,934	7.20%	$1.85	14,006	16,351	24,659	29,644
San Juan Capistrano	30	632,678	0	0	56,110	8.87%	66,951	10.58%	$2.20	44,842	43,836	54,635	64,701
South County Total	457	11,393,927	18,920	100,000	930,576	8.17%	1,373,996	12.06%	$1.95	111,730	93,915	372,377	682,743
Orange County Total	**752**	**19,199,987**	**18,920**	**189,700**	**1,620,399**	**8.44%**	**2,467,100**	**12.85%**	**$2.03**	**198,826**	**172,901**	**648,295**	**1,169,776**
North County													
0-29,999	53	855,903	0	0	95,271	11.13%	120,040	14.02%	$1.75	22,864	10,946	47,290	57,337
30,000-49,999	10	384,470	0	0	25,329	6.59%	63,924	16.63%	$1.27	8,058	14,973	10,956	19,710
50,000 Plus	4	229,979	0	0	30,817	13.40%	65,138	28.32%		0	0	2,167	2,167
West County													
0-29,999	11	102,732	0	0	2,974	2.89%	17,974	17.50%	$1.33	2,174	5,274	4,052	7,152
30,000-49,999	4	167,585	0	0	20,280	12.10%	20,280	12.10%	$1.80	(8,504)	(9,470)	0	0
50,000 Plus	3	203,543	0	0	124,612	61.22%	107,850	52.99%		(2,347)	(2,347)	0	0
Central County													
0-29,999	30	396,245	0	0	39,852	10.06%	54,176	13.67%	$1.64	(1,000)	(303)	0	5,589
30,000-49,999	7	265,400	0	0	7,859	2.96%	36,395	13.71%	$1.95	4,743	7,943	4,743	10,107
50,000 Plus	7	412,959	0	0	70,464	17.06%	77,354	18.73%		(3,000)	7,455	10,370	37,932
Airport Area													
0-29,999	92	1,047,537	0	45,700	101,188	9.66%	171,830	16.40%	$1.96	40,582	13,714	57,552	71,485
30,000-49,999	33	1,350,445	0	44,000	89,289	6.61%	141,249	10.46%	$3.37	(25,541)	(27,831)	36,215	70,615
50,000 Plus	41	2,389,262	0	0	81,888	3.43%	216,894	9.08%		49,067	58,632	102,573	204,939
South County													
0-29,999	298	3,971,604	18,920	0	388,671	9.79%	577,379	14.54%	$1.89	26,594	4,190	130,593	251,987
30,000-49,999	103	4,129,890	0	0	312,504	7.57%	521,324	12.62%	$2.02	66,484	59,265	141,840	254,764
50,000 Plus	56	3,292,433	0	100,000	229,401	6.97%	275,293	8.36%		18,652	30,460	99,944	175,992
Orange County													
0-29,999	484	6,374,021	18,920	45,700	627,956	9.85%	941,399	14.77%	$1.87	91,214	33,821	239,487	393,550
30,000-49,999	157	6,297,790	0	44,000	455,261	7.23%	783,172	12.44%	$2.11	45,240	39,552	193,754	355,196
50,000 Plus	111	6,528,176	0	100,000	537,182	8.23%	742,529	11.37%		62,372	94,200	215,054	421,030
Orange County Total	**752**	**19,199,987**	**18,920**	**189,700**	**1,620,399**	**8.44%**	**2,467,100**	**12.85%**	**$2.03**	**198,826**	**172,901**	**648,295**	**1,169,776**

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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