



## MARKET CHANGE

Compared to Previous Quarter:

**Vacancy**

**DOWN**



**Net Absorption**

**POSITIVE**



**Lease Rates**

**UP**



**Transactions**

**DOWN**



**Deliveries**

**DOWN**



## HIGHLIGHTS

- **Steady Growth** - The Orange County office market showed improvement as job growth is relatively positive — jobs were up 53,500 year over year. Companies continue to seek top talent and Orange County remains a source for highly skilled professionals. Prominent areas of Orange County continue to show increased demand for office space resulting in low vacancy rates and much higher rental rates. Technology and mortgage companies remain as the driving force behind much of the office building occupancy. Overall, the Orange County market outlook appears extremely positive and will continue to show low vacancy rates, assuming economic conditions for the area and geopolitical situations stay positive. Additional supply introduced into the market should not be enough to disrupt the low vacancy rates near term.
- **Construction** - As the next wave of construction hits the market in the second quarter of 2017, office vacancies will certainly increase. Total space under construction was roughly 2.4 million square feet for the current quarter, which was more than triple the 785,196 square feet under construction this time last year. Many of the projects currently under construction offer tenants an alternative to traditional office space. For example, Trammell Crow's new 545,000 square foot project near John Wayne Airport, known as The Boardwalk, features larger floor plates, increased parking, higher than normal ceilings, indoor bridges and outdoor walkways as part of a comprehensive package aimed to help businesses attract and retain top talent. One of the larger projects in the market, Irvine's Great Park development is expected to open either late 2017 or early 2018 and is a 1.1 million square foot office complex which will also become the corporate headquarters of Broadcom.
- **Vacancy** - The Orange County office submarket shows nearly 12.8 million square feet total vacant space, representing an 11.01% vacancy rate in the second quarter, an increase of 1.29% from 2015's second quarter rate of 10.87%. The increase is owed in part to a large amount of available space returning to the market from vacating tenants in the Airport Area including Aon at 100 Bayview, Allergan at 2600 Michelson Drive, and Edward Lifesciences at 19520 Jamboree Road.
- **Availability** - Available direct/sublease space came in at 14.54% at the close of the second quarter, which was a decrease of 3.07% from 2015's second quarter rate of 15.00%, and a slight decrease from 2016's first quarter rate of 14.81%. Major retrofits and the repurposing of older industrial buildings have become a more prevalent trend as urbanism and millennials drive transformative change. For example, the repositioning of the former Los Angeles Times property in Costa Mesa will turn the former facility at 1375 Sunflower Avenue and adjacent property, (about 25 acres in total) into 340,000 to 700,000 square feet of trendy, open office space.
- **Lease Rates** - Orange County average asking rental rates continue to rise at a double digit clip year over year. The Orange County office average asking rent of \$2.44 per square foot was up 2.95% from first quarter 2016 rate of \$2.37, and 11.93% from second quarter rate of \$2.18. Annual rents are expected to continue to increase in the second half of the year by approximately 3% to 4%.
- **Absorption** - The Orange County office market posted 163,036 square feet of positive net absorption in the second quarter, totaling over 185,000 square feet of absorption year to date. The positive absorption is partially due to the consistency in positive job growth throughout the county over the past year.
- **Transaction Activity** - Leasing activity for the second quarter totaled 1.78 million square feet in 539 separate transactions, which was only half the lease activity from the second quarter of 2015, (total leasing activity in the second quarter of 2015 was 3.12 million square feet). Notable activity this quarter included Apria Healthcare Group's renewal of 50,006 square feet in Lake Forest, Secureauth's newly leased 27,000 square foot deal in Irvine Spectrum, and Greenwave System's new 22,150 square foot lease in Irvine Spectrum.
- **Employment** - The unemployment rate in Orange County was 3.6% at the end of May 2016, slightly down from 3.9% in April 2016, and below the year-ago number of 4.3%. The unadjusted unemployment rate for California was 4.7% and for the nation was 4.5% during the same period. In Orange County, professional and business services added 2,200 jobs overall. The administrative and support services sector, which includes temp firms, noted the highest growth with the addition of 1,900 jobs in the County.
- **Overall** - With Orange County's economy continuing its upswing, demand remains high enough to keep vacancy rates fairly stable. Rental rates continue to grow to close to pre-recession highs. There is concern with regard to Britain's exit from the European Union, China's economy slowing measurably and how the Fed feels about the US and Global economy pertaining to moving on interest rates. Initially, the Fed had planned on increasing rates four times this year, a signal that we were recovered from the recession; however, to date they have only raised rates once in 2016, signaling real concern. The situation with Britain will also likely impede/delay further interest rate increases. With all of this said, Tenants should look to pursue opportunities sooner rather than later in order to avoid uncertainty and have options on space needs... especially in the near term future.

## FORECAST

- **Lease Rates** - Expect the average asking lease rate to increase by 2% to 4% over the next three quarters.
- **Vacancy** - We anticipate vacancy will continue to decrease slightly in the coming quarters, dropping 31 basis points to 10.70% by the end of the first quarter of 2017 and then slightly popping up with some of the new developments coming on line.
- **Overall** - While it remains to be seen how the recently announced "BREXIT" will impact our local office market, we expect US commercial real estate to continue to be a "safe haven" for investors. With this added level of uncertainty to an already unpredictable global economy, the risk of any interest rate hikes in the near term seems very low which bodes well for both investors and occupiers of office space.

## OVERVIEW

	2Q16	1Q16	2Q15	% of Change vs. 2Q15
Total Vacancy Rate	11.01%	11.16%	10.87%	1.29%
Availability Rate	14.54%	14.81%	15.00%	(3.07%)
Average Asking Lease Rate	\$2.44	\$2.37	\$2.18	11.93%
Sale & Lease Transactions	3,499,364	4,459,839	6,263,861	(44.13%)
Gross Absorption	2,184,383	2,521,610	3,012,692	(27.49%)
Net Absorption	163,036	18,312	553,198	N/A

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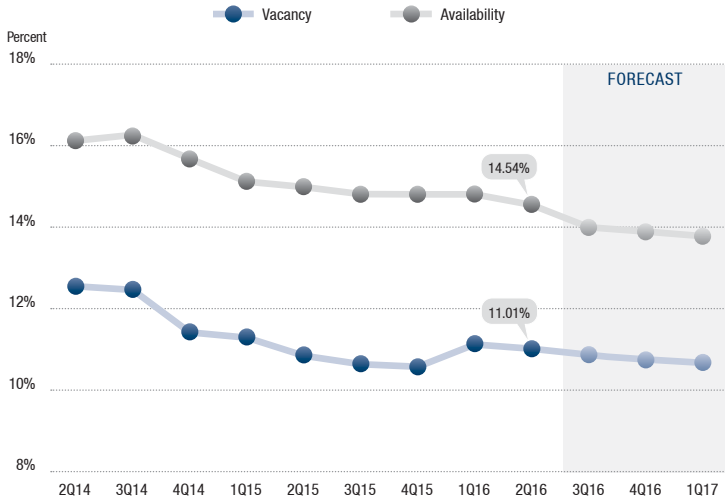
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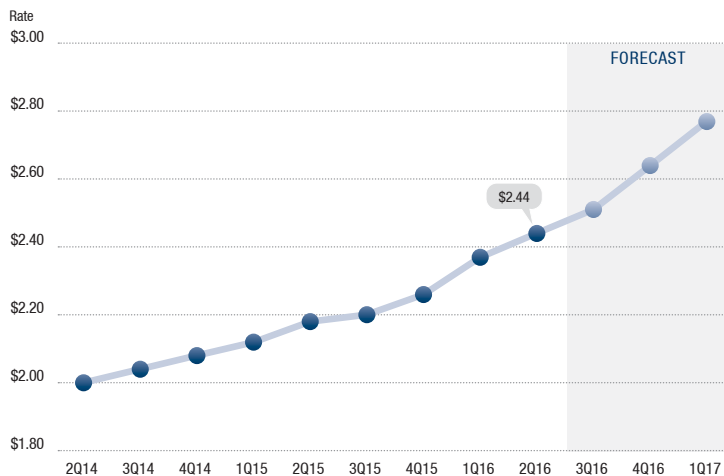
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



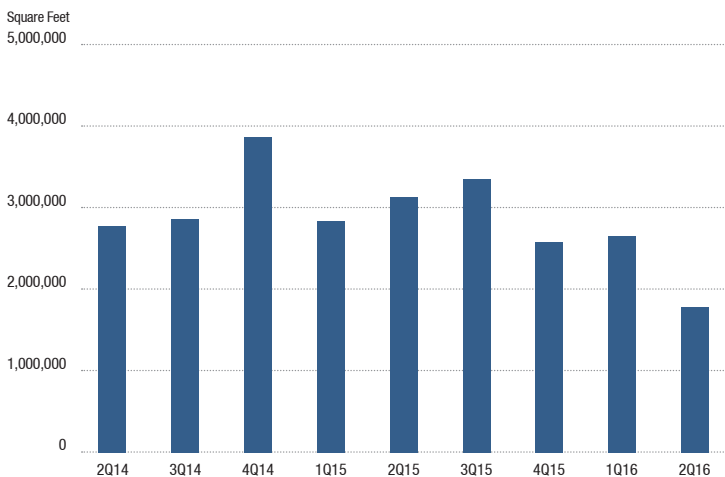
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY BASE RENT ON A PER SQ. FT. BASIS



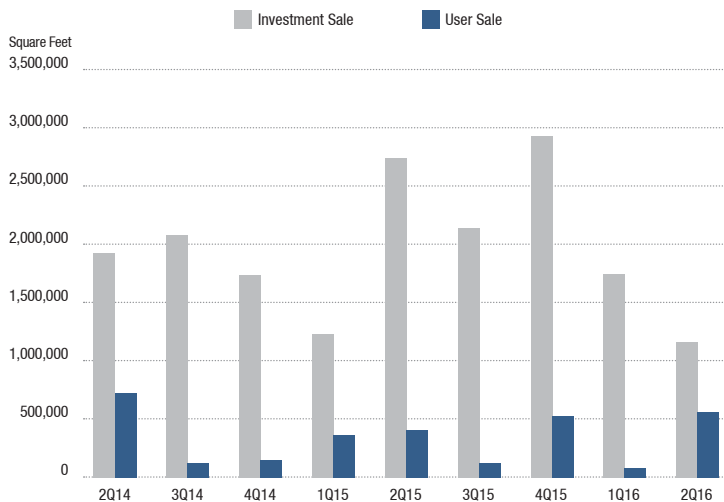
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



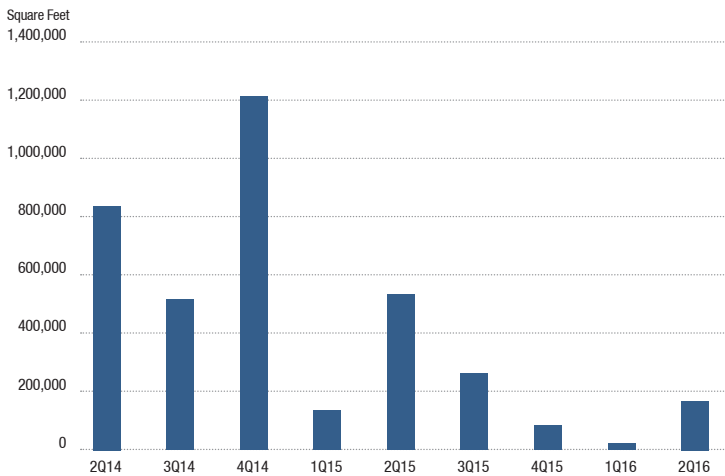
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



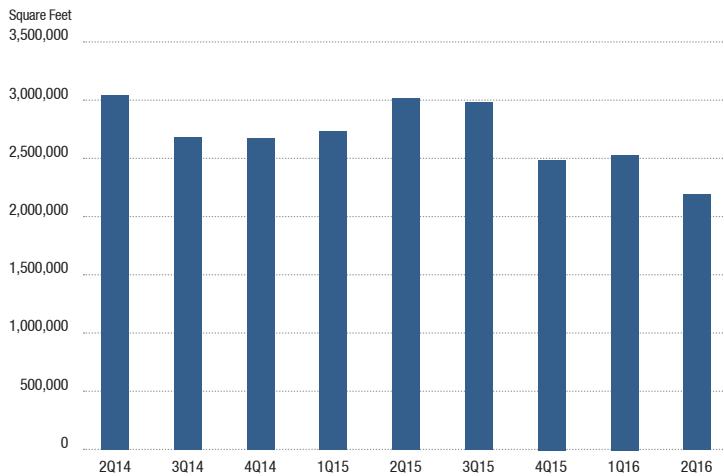
NET ABSORPTION

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



GROSS ABSORPTION

TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER





**MAJOR TRANSACTIONS**

**Sales Transactions**

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
1901 Main St.	Irvine	A	172,767	\$66,000,000	J+R Group, LLC	Piedmont Office Realty Trust, Inc.
4000 Metropolitan Dr.	Orange	B	188,739	\$61,000,000	Boyd Watterson Asset Management	Spaulding & Slye Investments
1700 E. Saint Andrew Pl.	Santa Ana	A	171,330	\$37,000,000	Drawbridge Realty Trust	Del Mar Partnership, Inc.
675 Placentia Ave.	Brea	A	133,943	\$33,800,000	TIAA	Piedmont Office Realty Trust, Inc.
31001 Rancho Viejo Rd.	San Juan Capistrano	A	40,252	\$26,390,000	JLL Income Property Trust, Inc.	Accretive Realty Advisor, Inc.

**Lease Transactions**

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
26220 Enterprise Ct. – Renewal	Lake Forest	B	50,006	May-2016	Apria Healthcare Group, Inc.	PRES Companies
23 Corporate Plaza Dr.	Newport Beach	B	41,932	May-2016	Real Office Center	The Irvine Company
145 S. State College Blvd. – Renewal	Brea	A	41,452	May-2016	Chevron U.S.A., Inc.	BPAP West 135 & 135, LLC
15495 Sand Canyon Ave.	Irvine Spectrum	A	40,443	Jun-2016	Autogravity	The Irvine Company
200 Spectrum Center Dr.	Irvine Spectrum	A	22,150	Apr-2016	Greenwave Systems	The Irvine Company

**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.

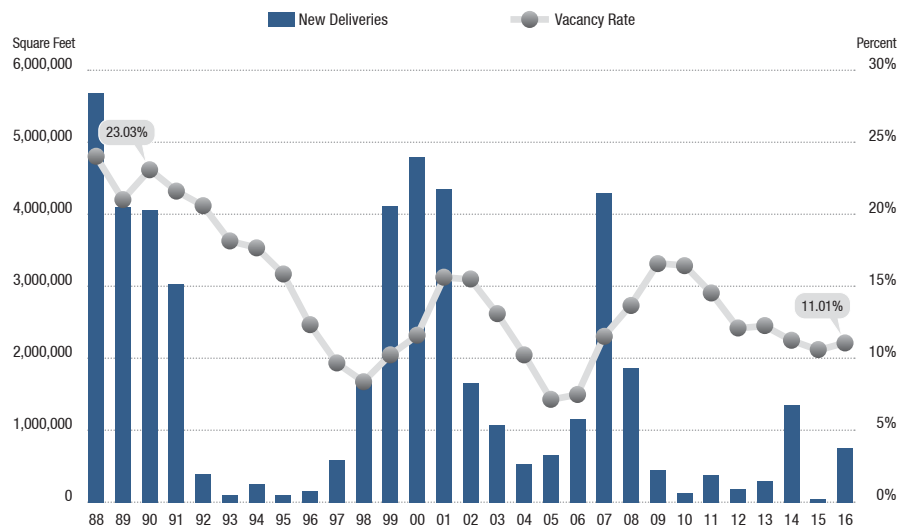
**CLASS B**

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.

**ANNUAL NEW DELIVERIES VS. VACANCY RATE**



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