THIRD QUARTER 2014
ORANGE COUNTY
FLEX

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy
DOWN

Net Absorption
POSITIVE

Lease Rates
UP

Transactions
DOWN

Deliveries
UP

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Prepared by:

Jerry J. Holdner, Jr.
Vice President of Market Research
e-mail: jholdner@voitco.com

Tony Tran
Market Research Analyst
e-mail: ttran@voitco.com

VOIT Real Estate Services

HIGHLIGHTS

- **Steady Growth -** The Orange County flex market had a decent third quarter, posting almost 67,000 square feet of positive net absorption, giving the market a total of over one million square feet of positive absorption for the last eight quarters. Both vacancy and availability continued their downward trend and lease rates continued to increase.
- **Construction -** At the end of the quarter, there was 63,862 under construction in Orange County's flex market and only 100,000 square feet planned. The slowdown in construction has eased and will continue to relieve the upward pressure on vacancy, and will enhance 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 32 basis points from the previous quarter, direct/sublease space (unoccupied) finished the third quarter at 11.01%, a decrease from the previous year's rate of 11.41%, 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 14.57% at the end of the third quarter of 2014, down from the previous quarter and 2013's third quarter rate of 17.05%, showing an annual decrease of 14.55%.
- **Lease Rates -** The average asking full-service gross (FSG) lease rate per square foot per month in Orange County's flex market was $1.73 in the third quarter; one cent higher than the previous quarter and six cents higher than 2013's third quarter rate. The record high rate of $2.66 was established in the third quarter of 2007.
- **Absorption -** The Orange County flex market posted 66,805 square feet of positive absorption in the third quarter of the year, giving the market a total of 33,583 square feet of positive absorption for the first three quarters of 2014. This positive absorption can be attributed to the recent employment gains.
- **Transaction Activity -** Leasing activity checked in at just under 445,000 square feet at the end of the third quarter, an increase over 2013's third quarter total of 385,000 square feet leased. Sales activity came in just below the previous year's rate, recording almost 460,000 square feet for the quarter compared to 2013's 518,000 square feet of sales transactions. This statistic can have some lag time in being reported, so look for third quarter figures to end up somewhat higher.
- **Employment -** The unemployment rate in Orange County was 5.4% in August 2014, down from a revised 5.8% in July 2014 and below the previous year's estimate of 6.4%. This compares with an unadjusted unemployment rate of 7.4% for California and 6.3% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 17,900 payroll jobs from August 2013 to August 2014. Most sectors showed gains in employment; the largest gains were 5,500 in educational and health services and 5,300 in leisure and hospitality during that same period. Financial activities posted the largest year-over-year loss, dropping by 4,200 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 and third quarter of 2014 has recaptured all of the losses incurred during the first quarter, and then some. With no 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

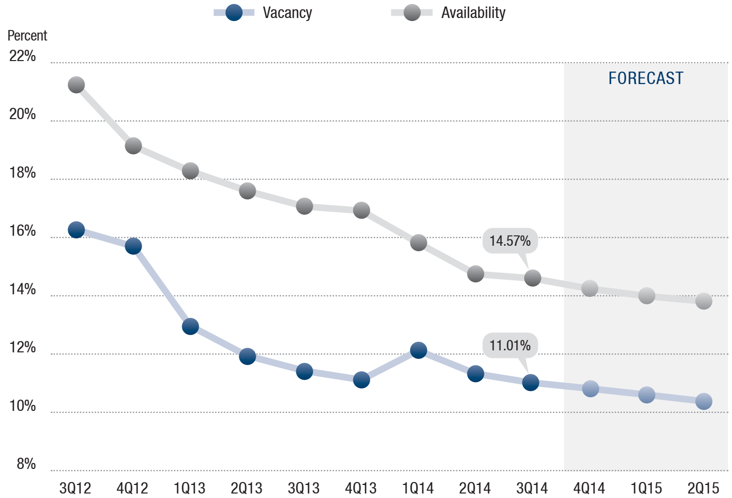
- **Employment -** We anticipate job growth of around 2.6%, or 37,000 jobs, in the Orange County area over 2014. The most rapid growth should take place in the construction, education & health, professional & business services, and leisure & hospitality sectors.
- **Lease Rates -** Expect average asking lease rates to increase by 5% to 7% by 2015.
- **Vacancy -** We anticipate vacancy to continue to descend in coming quarters, dropping by 100 basis points to around 10% by the second quarter of 2015.

OVERVIEW

	3Q14	2Q14	3Q13	% of Change vs. 3Q13
Vacancy Rate	11.01%	11.33%	11.41%	(3.51%)
Availability Rate	14.57%	14.75%	17.05%	(14.55%)
Average Asking Lease Rate	$1.73	$1.72	$1.67	3.59%
Sale & Lease Transactions	902,633	1,326,533	903,445	(0.09%)
Gross Absorption	674,218	679,565	566,298	19.06%
Net Absorption	66,805	149,599	107,542	N/A

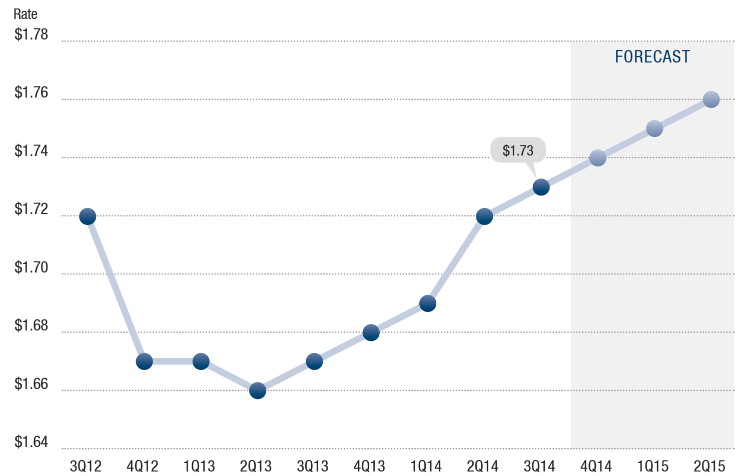
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



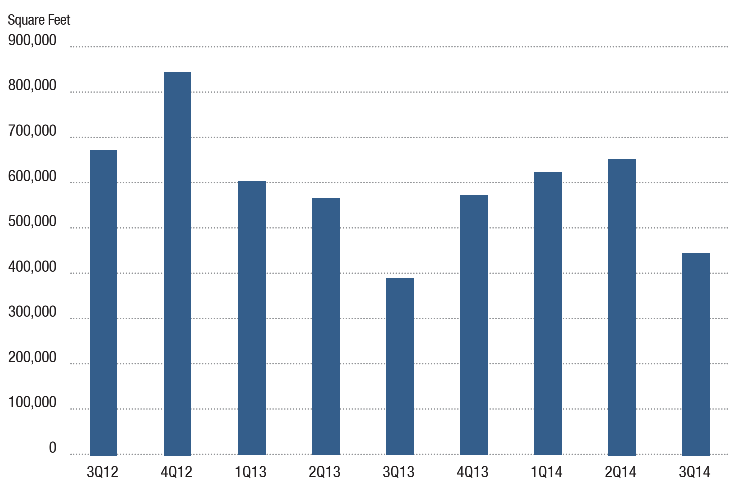
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



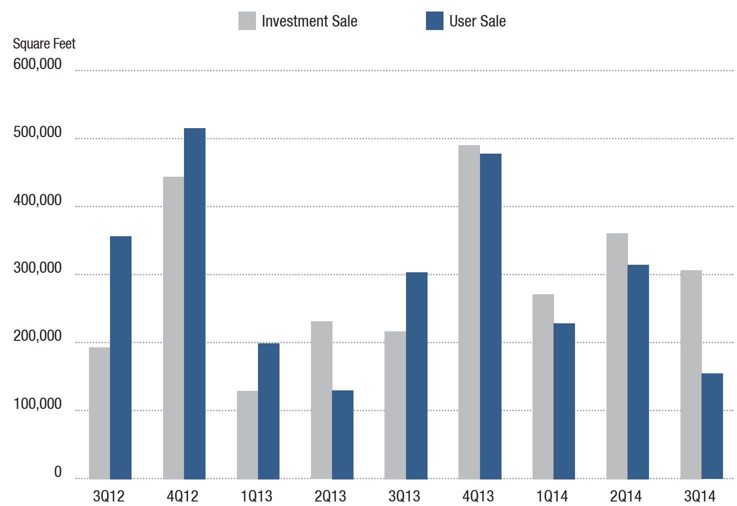
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



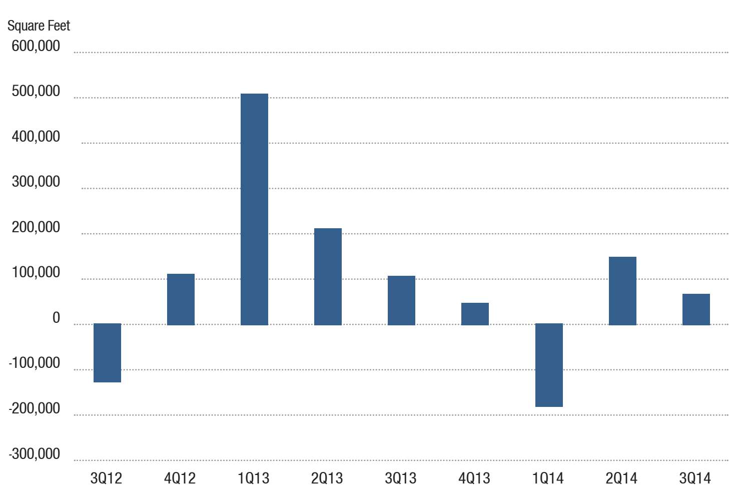
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

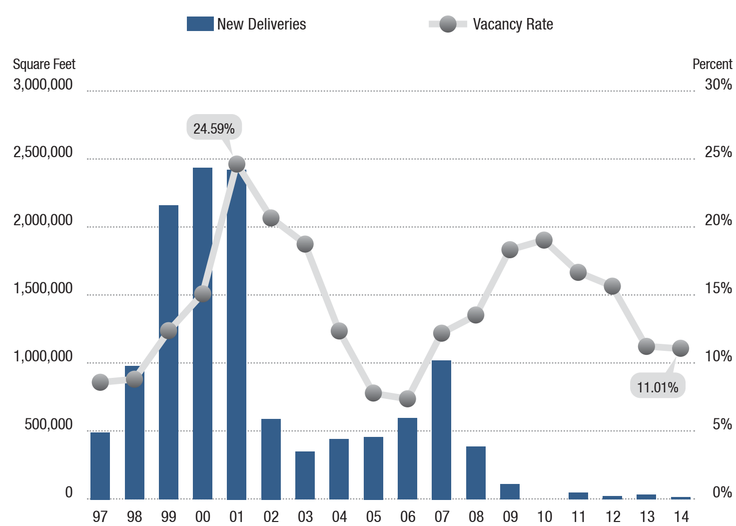


NET ABSORPTION

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

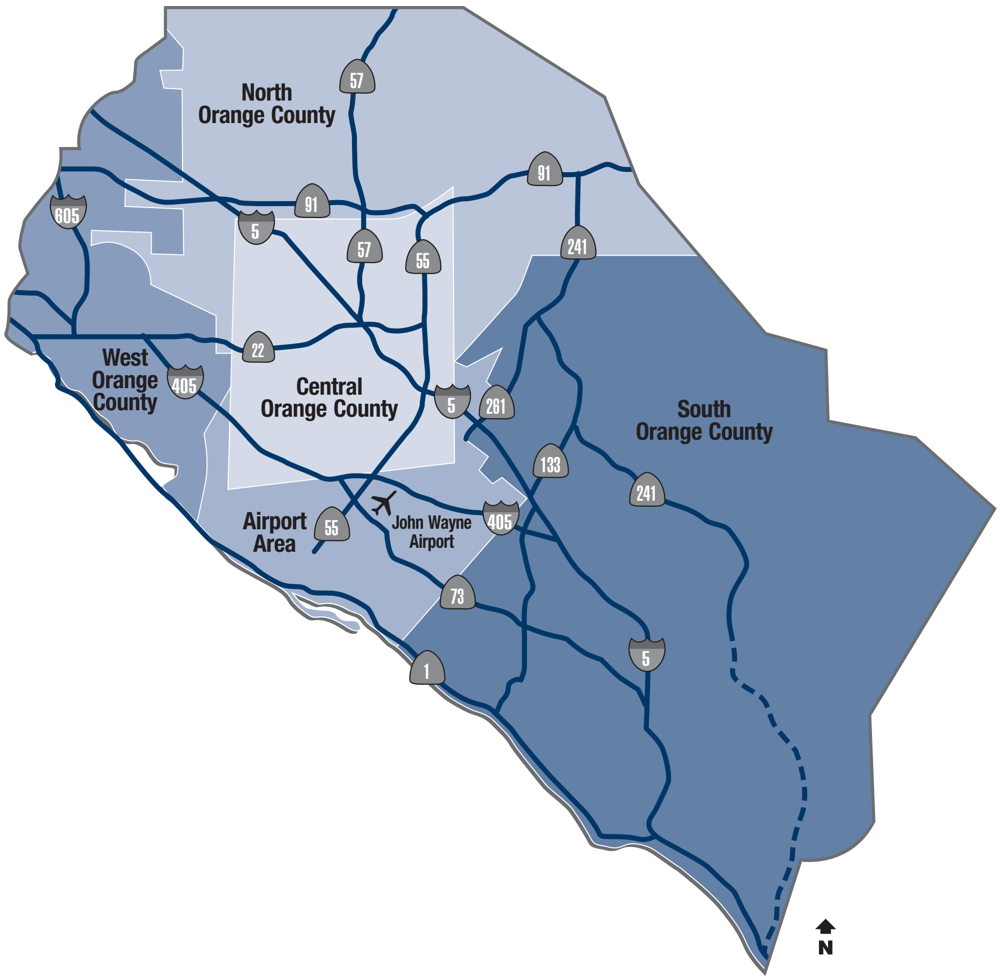


ANNUAL NEW DELIVERIES VS. VACANCY RATE



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2014	Square Feet Available	Availability Rate 3Q2014	Average Asking Lease Rate	Net Absorption 3Q2014	Net Absorption 2014	Gross Absorption 3Q2014	Gross Absorption 2014
North County													
Anaheim	31	652,653	0	0	66,271	10.15%	74,854	11.47%	$1.75	(3,984)	(12,022)	9,971	25,294
Brea	14	414,115	0	0	61,216	14.78%	84,154	20.32%	$1.38	2,184	(8,639)	5,594	18,143
Buena Park	6	112,122	0	0	6,685	5.96%	6,685	5.96%	$0.00	0	3,478	0	7,183
Fullerton	10	121,940	0	0	11,019	0.00%	36,006	29.53%	$0.00	2,768	0	2,768	2,768
Placentia	6	142,575	0	0	9,696	6.80%	9,696	6.80%	$1.65	(4,232)	7,350	0	12,782
North County Total	67	1,443,405	0	0	154,887	10.73%	211,395	14.65%	$1.52	(3,264)	(9,833)	18,333	66,170
West County													
Cypress	11	384,042	0	0	138,125	35.97%	161,102	41.95%	$1.77	5,900	(22,325)	29,188	29,188
Huntington Beach	3	49,145	0	0	5,148	10.48%	5,148	10.48%	$1.42	(1,802)	439	1,250	5,145
Seal Beach	4	43,000	0	0	0	0.00%	2,054	4.78%	$2.35	3,500	4,727	3,500	9,099
West County Total	18	476,187	0	0	143,273	30.09%	168,304	35.34%	$1.73	7,598	(17,159)	33,938	43,432
Central County													
Garden Grove	5	74,082	0	0	18,550	25.04%	18,550	25.04%	$1.50	0	(2,090)	0	7,800
Orange	9	150,215	0	0	14,491	9.65%	16,685	11.11%	$1.95	1,660	1,220	1,660	10,925
Santa Ana	21	605,916	0	0	129,046	21.30%	130,885	21.60%	$1.69	(38,727)	(31,771)	1,193	27,011
Tustin	8	239,182	0	0	6,611	2.76%	15,296	6.40%	$0.00	(6,611)	(3,611)	0	3,000
Central County Total	43	1,069,395	0	0	168,698	15.78%	181,416	16.96%	$1.71	(43,678)	(36,252)	2,853	48,736
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	3,472,462	0	0	344,401	9.92%	506,538	14.59%	$1.97	(64,000)	(34,940)	102,236	309,888
Newport Beach	30	625,138	21,311	0	56,357	9.02%	69,120	11.06%	$1.90	(13,990)	(29,467)	6,651	34,595
Santa Ana	3	92,639	0	0	33,744	36.43%	33,744	36.43%	$0.00	0	(33,744)	0	0
Tustin	2	81,116	0	0		0.00%		0.00%	$0.00	0	0	0	0
Airport Area Total	159	4,437,754	21,311	0	448,657	10.11%	637,750	14.37%	$1.89	(77,990)	(98,151)	108,887	344,483
South County													
Aliso Viejo	47	1,444,844	0	0	129,480	8.96%	185,179	12.82%	$1.74	(13,768)	25,230	17,283	99,555
Dana Point	6	77,940	0	0	5,767	7.40%	5,767	7.40%	$0.00	0	900	0	900
Foothill Ranch	5	105,447	0	0	18,577	17.62%	21,523	20.41%	$0.00	(1,090)	9,924	2,210	15,434
Irvine Spectrum	238	5,772,916	0	100,000	477,744	8.28%	638,450	11.06%	$1.99	131,071	167,062	384,566	861,984
Ladera Ranch	8	227,862	0	0	65,082	28.56%	66,901	29.36%	$0.00	(2,784)	(16,581)	1,190	7,643
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	503,340	0	0	102,846	20.43%	110,434	21.94%	$1.78	12,892	16,351	27,907	65,926
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	195,789	12.72%	298,506	19.39%	$1.75	47,976	(34,142)	53,164	113,654
Mission Viejo	29	405,223	0	0	40,159	9.91%	68,782	16.97%	$1.52	644	7,180	5,650	18,881
Rancho Santa Margarita	12	327,160	0	0	26,672	8.15%	28,754	8.79%	$1.72	350	642	2,352	43,457
San Clemente	12	256,124	0	0	20,558	8.03%	35,384	13.82%	$1.25	0	14,765	0	16,563
San Juan Capistrano	30	614,488	42,551	0	72,749	11.84%	80,476	13.10%	$2.17	8,848	589	15,885	45,488
South County Total	456	11,402,410	42,551	100,000	1,158,343	10.16%	1,544,223	13.54%	$1.73	184,139	194,978	510,207	1,292,543
Orange County Total	**743**	**18,829,151**	**63,862**	**100,000**	**2,073,858**	**11.01%**	**2,743,088**	**14.57%**	**$1.73**	**66,805**	**33,583**	**674,218**	**1,795,364**
North County													
0-29,999	54	864,935	0	0	87,259	10.09%	132,782	15.35%	$1.57	2,236	43	14,923	38,848
30,000-49,999	9	348,491	0	0	38,461	11.04%	41,077	11.79%	$1.38	0	(4,155)	0	15,946
50,000 Plus	4	229,979	0	0	29,167	12.68%	37,536	16.32%	$1.77	(5,500)	(5,721)	3,410	11,376
West County													
0-29,999	11	108,132	0	0	8,248	7.63%	8,248	7.63%	$1.42	7,598	9,839	10,650	14,545
30,000-49,999	4	167,585	0	0	12,760	7.61%	23,318	13.91%	$1.86	0	(9,583)	0	5,599
50,000 Plus	3	200,470	0	0	122,265	60.99%	136,738	68.21%	$0.00	0	(17,415)	23,288	23,288
Central County													
0-29,999	29	391,157	0	0	37,797	9.66%	48,571	12.42%	$1.50	1,726	(4,297)	1,726	13,877
30,000-49,999	7	265,400	0	0	20,832	7.85%	20,582	7.76%	$1.61	(5,484)	1,680	1,127	15,129
50,000 Plus	7	412,838	0	0	110,069	26.66%	112,263	27.19%	$1.72	(39,920)	(33,635)	0	19,730
Airport Area													
0-29,999	91	1,025,039	21,311	0	109,861	10.72%	169,318	16.52%	$1.84	(8,974)	(14,002)	22,319	64,706
30,000-49,999	31	1,258,085	0	0	104,501	8.31%	153,680	12.22%	$2.10	8,534	(29,059)	44,241	94,631
50,000 Plus	37	2,154,630	0	0	234,295	10.87%	314,752	14.61%	$1.95	(77,550)	(55,090)	42,327	185,146
South County													
0-29,999	297	3,972,322	0	0	467,562	11.77%	633,823	15.96%	$1.63	(40,311)	(54,101)	67,350	335,983
30,000-49,999	102	4,080,821	42,551	0	416,494	10.21%	464,233	11.38%	$1.84	138,316	169,116	215,022	547,850
50,000 Plus	57	3,349,267	0	100,000	274,287	8.19%	446,167	13.32%	$1.77	86,134	79,963	227,835	408,710
Orange County													
0-29,999	482	6,361,585	21,311	0	710,727	11.17%	992,742	15.61%	$1.68	(37,725)	(62,518)	116,968	467,959
30,000-49,999	153	6,120,382	42,551	0	593,048	9.69%	702,890	11.48%	$1.75	141,366	127,999	260,390	679,155
50,000 Plus	108	6,347,184	0	100,000	770,083	12.13%	1,047,456	16.50%	$1.77	(36,836)	(31,898)	296,860	648,250
Orange County Total	**743**	**18,829,151**	**63,862**	**100,000**	**2,073,858**	**11.01%**	**2,743,088**	**14.57%**	**$1.73**	**66,805**	**33,583**	**674,218**	**1,795,364**

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.

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