



MARKET CHANGE

Compared to Previous Quarter:

Vacancy



Net Absorption



Lease Rates



Transactions



Deliveries



HIGHLIGHTS

- **Steady Growth** - The Orange County flex market had a good third quarter, posting over 32,000 square feet of positive net absorption, giving the market a total of over 1.56 million square feet of positive absorption for the last twelve quarters. Both vacancy and availability continued their downward trend and lease rates continued to increase when compared to the second quarter and the same quarter last year.
- **Construction** - At the end of the quarter, there was 168,920 square feet under construction in Orange County's flex market and 90,700 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** - Up only three basis points from the previous quarter, direct/sublease space (unoccupied) finished the third quarter at 8.57%, a decrease from the previous year's rate of 10.73%, an annual decrease of 20.13%, and significantly down from the record-high rate of 25.13% recorded in the fourth quarter of 2001.
- **Availability** - High-end space captured recent gains in occupancy. Direct/sublease space being marketed was 12.60% at the end of the third quarter of 2015, down 50 basis points from the previous quarter and down from 2014's third quarter rate of 15.26%, showing an annual decrease of 17.43%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per month in Orange County's flex market was \$2.11 in the third quarter, eight cents higher than the previous quarter and thirty-eight cents higher than 2014'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 32,582 square feet of positive absorption in the third quarter of the

year, giving the market a total of over 1.56 million square feet of positive absorption for the last twelve quarters. This positive absorption can be attributed to the recent employment gains.

- **Transaction Activity** - Leasing activity checked in at 486,649 square feet for the third quarter of 2015, a decrease from 2014's third quarter total of 606,004 square feet leased. Sales activity came in higher than the previous year's rate, recording 695,091 square feet for the third quarter of 2015 compared to 2014's 519,438 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 4.5% in August 2015, down from a revised 4.7% in July 2015 and below the previous year's estimate of 5.8%. This compares with an unadjusted unemployment rate of 6.1% for California and 5.2% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 48,500 payroll jobs from August 2014 to August 2015. Most sectors showed gains in employment; the largest gains were 9,500 in educational and 8,400 in leisure and hospitality during that same period. Information posted the only year-over-year loss, dropping by 200 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 last quarter 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 60 basis points to around 8.0% by the second quarter of 2016.

OVERVIEW

	3Q15	2Q15	3Q14	% of Change vs. 3Q14
Total Vacancy Rate	8.57%	8.54%	10.73%	(20.13%)
Availability Rate	12.60%	13.10%	15.26%	(17.43%)
Average Asking Lease Rate	\$2.11	\$2.03	\$1.73	21.97%
Sale & Lease Transactions	1,181,740	1,403,559	1,054,924	12.02%
Gross Absorption	652,140	616,750	703,029	(7.24%)
Net Absorption	32,582	164,084	79,958	N/A

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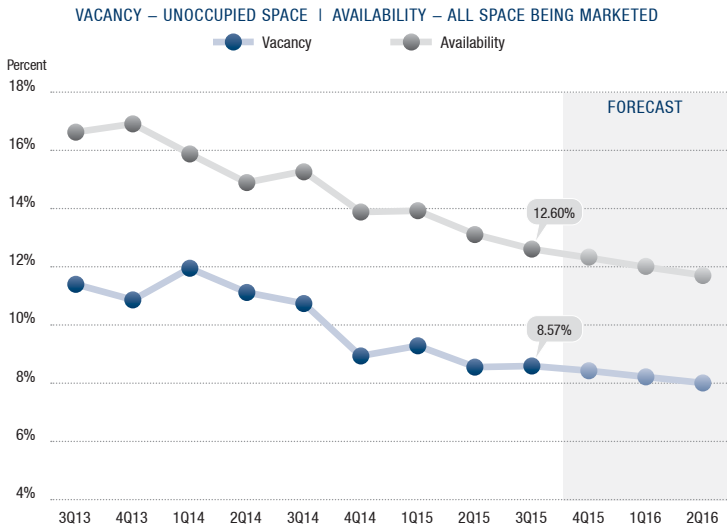
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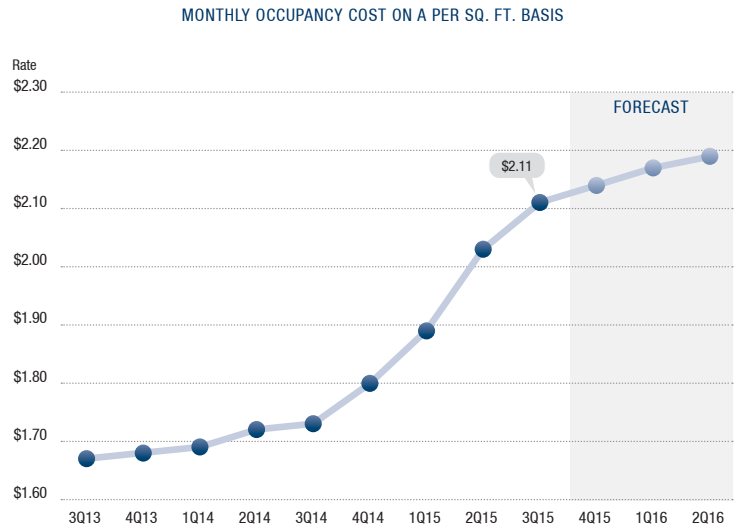
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VACANCY & AVAILABILITY RATE

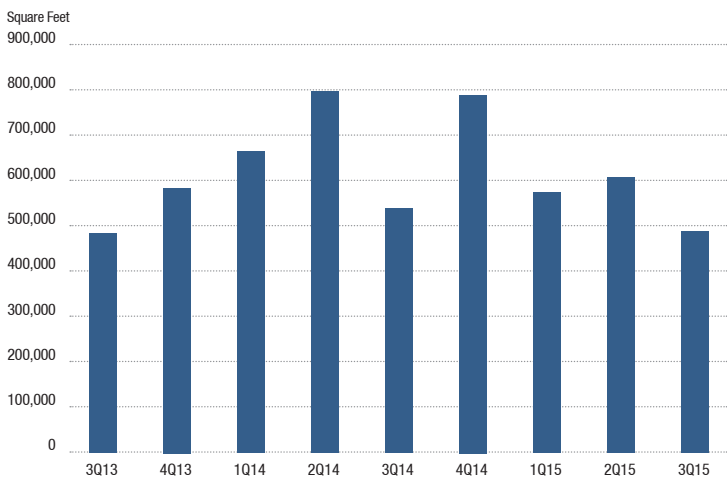


AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE



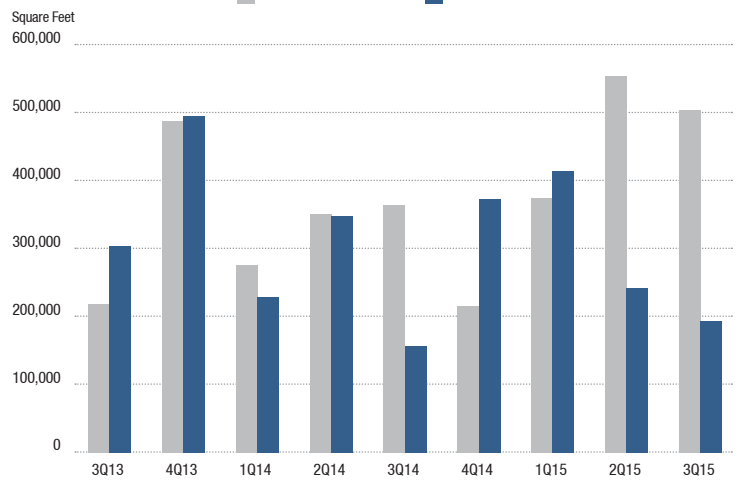
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



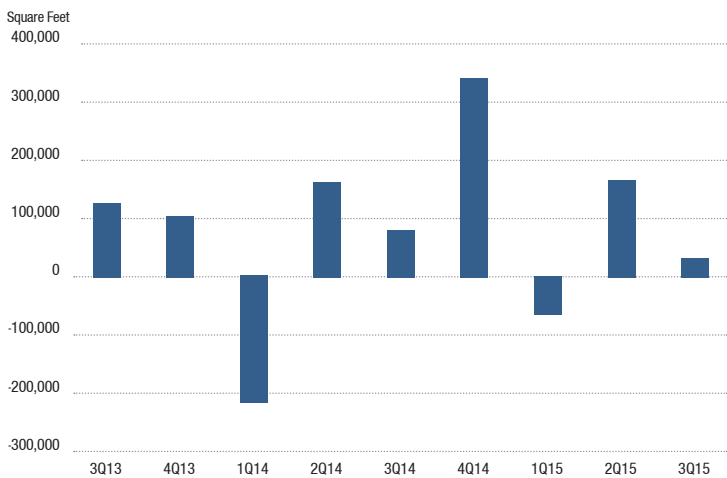
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

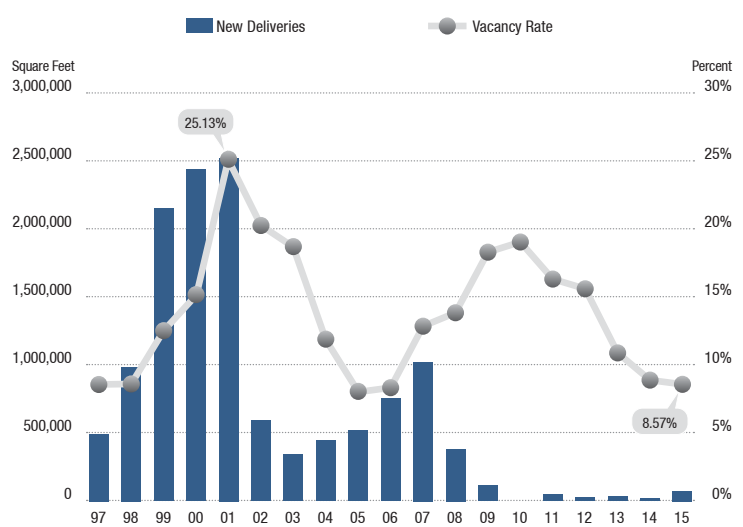


NET ABSORPTION

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 3Q2015	Square Feet Available	Availability Rate 3Q2015	Average Asking Lease Rate	Net Absorption 3Q2015	Net Absorption 2015	Gross Absorption 3Q2015	Gross Absorption 2015
North County													
Anaheim	31	678,116	0	0	59,320	8.75%	123,115	18.16%	\$1.92	(1,895)	22,297	7,169	38,771
Brea	14	414,115	0	0	81,931	19.78%	118,861	28.70%	\$1.88	(24,631)	(14,072)	5,895	33,270
Buena Park	6	113,606	0	0	4,484	3.95%	4,484	3.95%	\$0.00	(2,242)	2,401	0	4,643
Fullerton	9	105,926	0	0	17,786	0.00%	19,859	18.75%	\$0.00	(880)	(9,273)	170	15,764
Placentia	5	129,375	0	0	14,160	10.94%	14,160	10.94%	\$0.00	0	(2,898)	0	0
Yorba Linda	3	69,315	0	0	41,301	59.58%	41,301	59.58%	\$1.25	0	(40,101)	0	0
North County Total	68	1,510,453	0	0	218,982	14.50%	321,780	21.30%	\$1.80	(29,648)	(41,646)	13,234	92,448
West County													
Cypress	11	381,715	0	0	110,694	29.00%	140,167	36.72%	\$1.75	33,232	25,481	33,232	36,332
Huntington Beach	3	49,145	0	0	0	0.00%	0	0.00%	\$0.00	2,974	5,148	3,804	7,856
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	111,660	23.56%	141,133	29.78%	\$1.66	36,206	29,663	37,036	44,188
Central County													
Garden Grove	6	78,582	0	0	19,392	24.68%	19,392	24.68%	\$0.95	0	3,960	0	3,960
Orange	9	150,215	0	0	10,430	6.94%	12,251	8.16%	\$1.95	911	911	0	5,101
Santa Ana	21	606,037	0	0	89,968	14.85%	69,641	11.49%	\$1.92	(19,164)	1,998	0	55,135
Tustin	8	239,770	0	0	8,970	3.74%	22,285	9.29%	\$1.93	0	(2,359)	0	3,533
Central County Total	44	1,074,604	0	0	128,760	11.98%	123,569	11.50%	\$1.93	(18,253)	4,510	0	67,729
Airport Area													
Costa Mesa	9	151,399	0	0	20,610	13.61%	20,610	13.61%	\$2.09	11,157	(6,455)	11,157	13,538
Fountain Valley	1	15,000	0	0	0	0.00%	0	0.00%	\$3.09	0	0	0	0
Irvine	121	3,843,515	0	0	202,103	5.26%	357,727	9.31%	\$2.24	1,494	29,784	184,700	476,503
Newport Beach	30	634,902	0	90,700	28,891	4.55%	60,382	9.51%	\$3.43	(4,035)	31,919	10,559	63,414
Santa Ana	2	65,744	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	165	4,791,676	0	90,700	251,604	5.25%	438,719	9.16%	\$2.50	8,616	55,248	206,416	553,455
South County													
Aliso Viejo	47	1,444,057	0	0	80,706	5.59%	133,038	9.21%	\$2.02	53,167	30,112	66,287	173,266
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	18,342	17.39%	27,697	26.27%	\$0.00	1,735	2,445	3,385	5,095
Irvine Spectrum	238	5,742,173	168,920	0	429,997	7.49%	582,721	10.15%	\$2.56	(118,747)	(119,025)	136,571	477,059
Ladera Ranch	8	227,862	0	0	50,030	21.96%	59,959	26.31%	\$0.00	7,020	4,206	8,471	12,780
Laguna Beach	5	74,016	0	0	0	0.00%	0	0.00%	\$0.00	0	700	0	700
Laguna Hills	15	495,271	0	0	90,778	18.33%	92,071	18.59%	\$2.43	7,523	17,599	27,461	53,666
Laguna Niguel	3	53,282	0	0	0	0.00%	3,085	5.79%	\$0.00	2,220	2,220	2,220	2,220
Lake Forest	46	1,539,767	0	0	175,788	11.42%	337,179	21.90%	\$1.90	9,521	39,557	58,339	136,391
Mission Viejo	29	405,223	0	0	28,578	7.05%	56,049	13.83%	\$2.20	554	11,823	5,930	25,591
Rancho Santa Margarita	12	327,160	0	0	20,996	6.42%	27,027	8.26%	\$1.68	9,478	11,181	9,478	19,772
San Clemente	13	276,942	0	0	6,314	2.28%	28,151	10.16%	\$1.85	1,080	17,431	1,080	30,724
San Juan Capistrano	30	633,425	0	0	33,213	5.24%	48,194	7.61%	\$2.21	62,110	66,733	76,232	101,720
South County Total	457	11,402,565	168,920	0	939,509	8.24%	1,399,938	12.28%	\$2.12	35,661	84,982	395,454	1,038,984
Orange County Total	752	19,253,158	168,920	90,700	1,650,515	8.57%	2,425,139	12.60%	\$2.11	32,582	132,757	652,140	1,796,804
North County													
0-29,999	53	855,903	0	0	93,342	10.91%	123,224	14.40%	\$1.75	(255)	12,875	12,373	69,710
30,000-49,999	11	424,571	0	0	66,280	15.61%	104,875	24.70%	\$1.27	(850)	(25,978)	0	19,710
50,000 Plus	4	229,979	0	0	59,360	25.81%	93,681	40.73%	\$2.03	(28,543)	(28,543)	861	3,028
West County													
0-29,999	11	102,732	0	0	19,392	18.88%	34,392	33.48%	\$1.40	2,974	8,248	3,804	14,916
30,000-49,999	4	167,585	0	0	20,280	12.10%	20,280	12.10%	\$1.80	0	(9,470)	0	0
50,000 Plus	3	203,543	0	0	71,988	35.37%	86,461	42.48%	\$0.00	33,232	30,885	33,232	29,272
Central County													
0-29,999	30	396,245	0	0	32,848	8.29%	46,999	11.86%	\$1.88	(664)	6,701	1,332	10,629
30,000-49,999	7	265,400	0	0	28,355	10.68%	38,546	14.52%	\$2.02	(20,496)	(12,553)	0	10,107
50,000 Plus	7	412,959	0	0	67,557	16.36%	38,024	9.21%	\$1.80	2,907	10,362	(1,332)	46,993
Airport Area													
0-29,999	90	1,007,729	0	46,700	79,070	7.85%	141,231	14.01%	\$2.13	9,973	25,804	46,087	117,572
30,000-49,999	34	1,394,685	0	44,000	121,039	8.68%	159,887	11.46%	\$2.70	(31,750)	(59,581)	24,966	95,581
50,000 Plus	41	2,389,262	0	0	51,495	2.16%	137,601	5.76%	\$2.70	30,393	89,025	135,363	340,302
South County													
0-29,999	298	3,971,061	18,920	0	355,088	8.94%	590,410	14.87%	\$1.99	41,098	37,773	166,821	418,808
30,000-49,999	103	4,125,791	0	0	348,543	8.45%	365,405	8.86%	\$2.26	15,293	33,991	151,729	375,152
50,000 Plus	56	3,305,713	150,000	0	235,878	7.14%	444,123	13.44%	\$2.36	(20,730)	13,218	76,904	245,024
Orange County													
0-29,999	482	6,333,670	18,920	46,700	579,740	9.15%	936,256	14.78%	\$1.96	53,126	91,401	230,417	631,635
30,000-49,999	159	6,378,032	0	44,000	584,497	9.16%	688,993	10.80%	\$2.17	(37,803)	(73,591)	176,695	500,550
50,000 Plus	111	6,541,456	150,000	0	486,278	7.43%	799,890	12.23%	\$2.27	17,259	114,947	245,028	664,619
Orange County Total	752	19,253,158	168,920	90,700	1,650,515	8.57%	2,425,139	12.60%	\$2.11	32,582	132,757	652,140	1,796,804

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.

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