



## MARKET CHANGE

*Compared to Previous Quarter:*

**Vacancy**

**DOWN**



**Net Absorption**

**POSITIVE**



**Lease Rates**

**UP**



**Transactions**

**DOWN**



**Deliveries**

**UP**



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## HIGHLIGHTS

- **Steady Growth** - The Orange County office market continued to improve during the third quarter of 2015, posting almost 700,000 square feet of positive net absorption. This gives the market a total of 6.4 million square feet of positive absorption for the last three and a half years. 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 almost 1.75 million square feet for the third quarter of 2015. The most notable project delivered last year 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 57 basis points from the previous quarter, direct/sublease space (unoccupied) finished the quarter at 10.45%, a decrease of 17.59% from the previous year's rate of 12.68% and significantly down from both the Great Recession peak of nearly 18% in the third quarter of 2010 and the market high of 23% recorded in 1990.
- **Availability** - Direct/sublease space being marketed came in at 14.55% at the end of the third quarter of 2015, a decrease of 11.39% when compared to 2014's third quarter rate of 16.42%, and a 29 basis point decrease over last quarter's rate of 14.84%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was \$2.20 at the end of the quarter, a 7.84% increase from the previous year's rate of \$2.04 and two 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 \$2.56 FSG, the highest being in the Airport and South County submarkets, where Class A rates averaged \$2.85 FSG.
- **Absorption** - The Orange County office market posted 684,636 square feet of positive absorption in the third quarter of the year, giving the market a net total of over 9.5 million square feet of positive absorption since the third quarter of 2010. Look for entrepreneurial and 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 just over 2.1 million square feet this quarter, a decrease when compared to last quarter's figure of 2.8 million square feet. Sales activity was down from the previous quarter, posting 2.2 million square feet of activity this quarter compared to last quarter's figure of 3.5 million square feet. This statistic can have some lag time in being reported, so look for this quarter's 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.
- **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 a decrease in the amount of vacant and available space on the market, even with new product being delivered. As we progress into the last quarter of 2015, positive absorption and higher occupancy costs should continue, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market will further improve.

## FORECAST

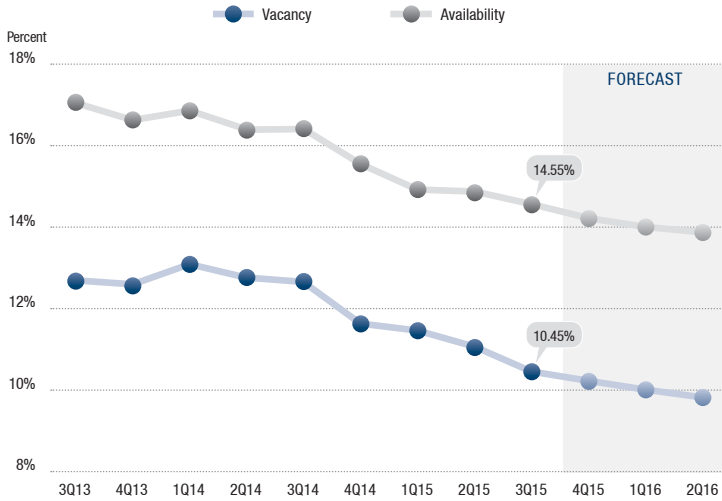
- **Employment** - We anticipate job growth of around 3.1%, or 47,000 jobs, in the Orange County area during the year according to Chapman University. The most rapid growth should take place in the professional & business services, education & health, leisure & hospitality, and construction sectors.
- **Lease Rates** - Expect the average asking lease rate to increase by 5% to 8% percent over the next four quarters.
- **Vacancy** - We anticipate vacancy continuing to descend in coming quarters, dropping by 55 basis points to around 9.9% by the end of the second quarter of 2016.

## OVERVIEW

	3Q15	2Q15	3Q14	% of Change vs. 3Q14
Total Vacancy Rate	10.45%	11.02%	12.68%	(17.59%)
Availability Rate	14.55%	14.84%	16.42%	(11.39%)
Average Asking Lease Rate	\$2.20	\$2.18	\$2.04	7.84%
Sale & Lease Transactions	4,280,544	6,278,842	5,017,334	(14.68%)
Gross Absorption	3,026,437	3,066,223	2,582,253	17.20%
Net Absorption	684,636	511,953	558,591	N/A

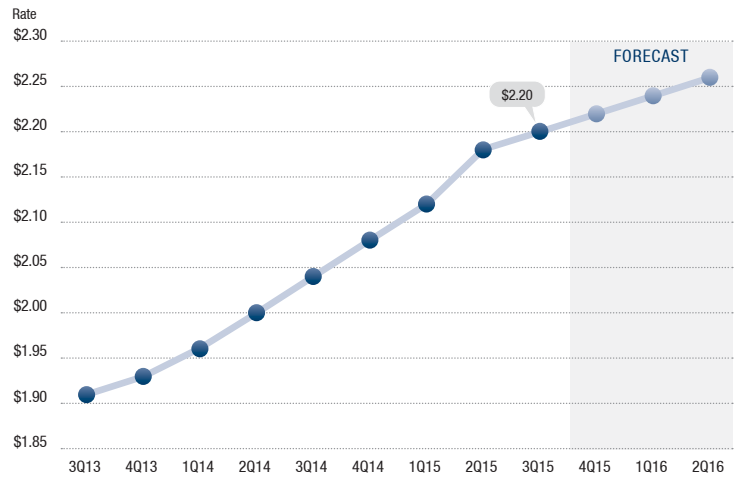
## VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



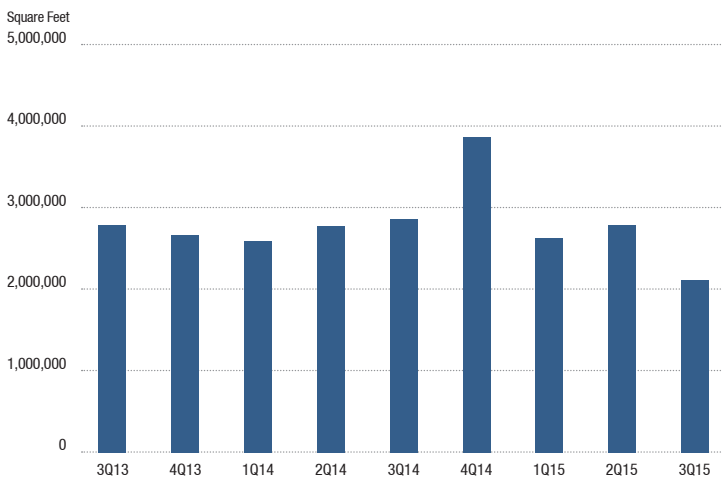
## AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



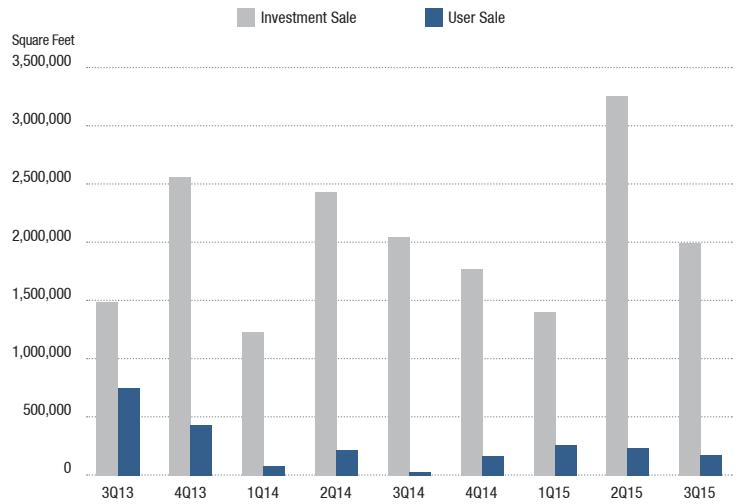
## LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



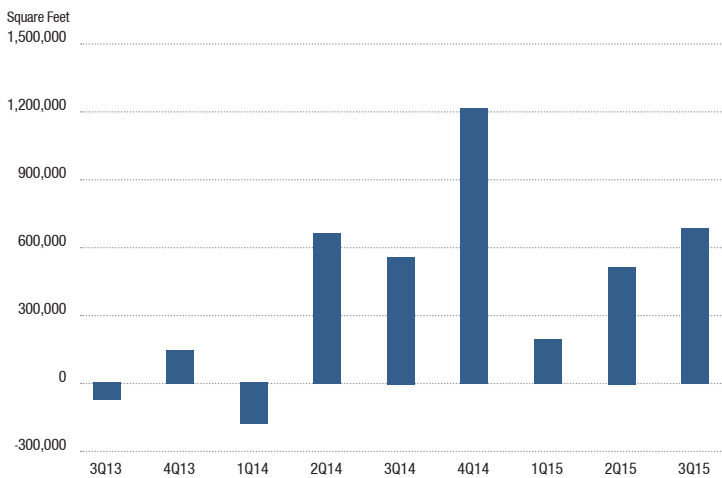
## SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



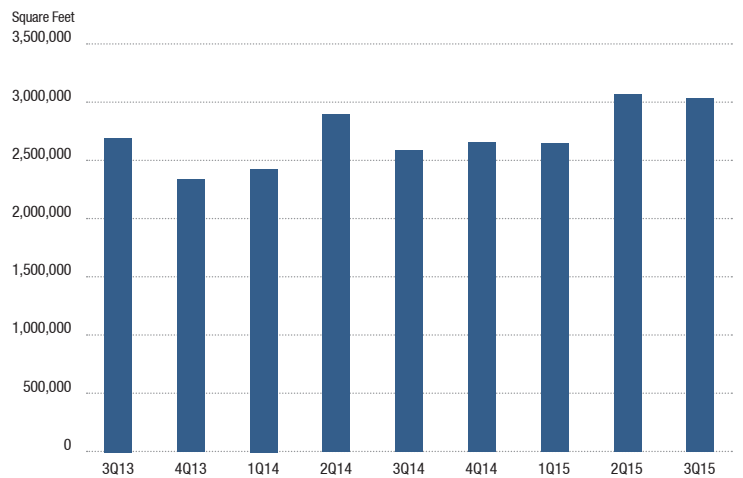
## NET ABSORPTION

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



## GROSS ABSORPTION

TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	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
<b>Airport Area</b>													
Costa Mesa	72	7,319,587	0	0	803,644	10.98%	1,017,119	13.90%	\$2.41	250,493	297,980	342,353	623,709
Irvine	256	23,877,677	0	1,519,817	2,054,895	8.61%	3,055,423	12.80%	\$2.48	123,811	361,817	776,557	2,382,075
Newport Beach	120	9,941,865	0	112,346	992,541	9.98%	1,213,737	12.21%	\$3.01	261,689	146,423	461,492	813,171
<b>Airport Area Total</b>	<b>448</b>	<b>41,139,129</b>	<b>0</b>	<b>1,632,163</b>	<b>3,851,080</b>	<b>9.36%</b>	<b>5,286,279</b>	<b>12.85%</b>	<b>\$2.59</b>	<b>635,993</b>	<b>806,220</b>	<b>1,580,402</b>	<b>3,818,955</b>
<b>Central County</b>													
Anaheim	83	6,951,644	0	0	859,588	12.37%	1,139,464	16.39%	\$1.95	(151,246)	230,077	64,298	728,966
Orange	82	7,129,701	0	0	622,104	8.73%	863,468	12.11%	\$2.08	13,475	266,266	152,177	553,081
Santa Ana	181	14,744,321	0	702,325	2,184,728	14.82%	3,147,699	21.35%	\$1.77	(123,404)	(28,874)	181,890	769,506
Tustin	41	2,111,769	0	737,000	231,187	10.95%	434,995	20.60%	\$1.94	(19,316)	21,281	4,341	101,045
<b>Central County Total</b>	<b>387</b>	<b>30,937,435</b>	<b>0</b>	<b>1,439,325</b>	<b>3,897,607</b>	<b>12.60%</b>	<b>5,585,626</b>	<b>18.05%</b>	<b>\$1.87</b>	<b>(280,491)</b>	<b>488,750</b>	<b>402,706</b>	<b>2,152,598</b>
<b>North County</b>													
Anaheim Hills	17	1,027,824	0	0	162,387	15.80%	181,296	17.64%	\$1.78	88,661	160,340	106,367	207,080
Brea	43	4,111,340	0	170,000	453,180	11.02%	708,313	17.23%	\$2.02	50,253	(17,343)	86,315	204,595
Buena Park	16	1,017,169	72,343	0	58,881	5.79%	94,017	9.24%	\$1.84	1,600	20,729	1,600	24,938
Fullerton	31	2,515,898	0	0	322,661	12.82%	447,700	17.79%	\$1.71	55,131	7,056	59,525	98,366
La Habra	4	142,069	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
La Palma	10	712,038	0	0	122,092	17.15%	112,058	15.74%	\$1.86	4,001	24,169	4,001	28,897
Placentia	8	2,617,589	0	0	42,291	15.80%	44,057	16.46%	\$1.56	0	170	0	6,011
Yorba Linda	7	359,206	0	0	43,551	12.12%	43,551	12.12%	\$1.86	(7,292)	203	8,352	18,799
<b>North County Total</b>	<b>136</b>	<b>10,153,133</b>	<b>72,343</b>	<b>170,000</b>	<b>1,205,043</b>	<b>11.87%</b>	<b>1,630,992</b>	<b>16.06%</b>	<b>\$1.89</b>	<b>192,354</b>	<b>195,324</b>	<b>266,160</b>	<b>588,686</b>
<b>South County</b>													
Aliso Viejo	43	3,118,301	0	205,000	240,199	7.70%	391,172	12.54%	\$2.98	(10,316)	(19,140)	88,442	262,016
Dana Point	3	135,296	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Foothill Ranch	10	798,721	0	0	141,392	17.70%	154,730	19.37%	\$2.50	11,050	(12,646)	23,727	55,076
Irvine Spectrum	152	10,183,452	1,675,044	1,050,000	766,796	7.53%	1,037,871	10.19%	\$2.88	(78,386)	(181,834)	203,198	729,801
Laguna Beach	5	194,434	0	0	28,895	14.86%	28,895	14.86%	\$0.00	0	2,817	0	2,817
Laguna Hills	33	1,864,561	0	0	363,890	19.52%	379,933	20.38%	\$2.14	(7,058)	(15,224)	61,861	156,654
Laguna Niguel	11	1,776,844	0	0	65,570	3.69%	65,274	3.67%	\$2.75	2,469	9,853	20,811	69,063
Lake Forest	39	2,060,148	0	0	188,979	9.17%	334,936	16.26%	\$1.91	70,464	145,058	84,587	222,191
Mission Viejo	36	1,916,398	0	110,000	202,900	10.59%	279,137	14.57%	\$1.99	26,429	47,394	62,075	130,266
Rancho Santa Margarita	6	250,472	0	0	33,034	13.19%	29,174	11.65%	\$1.77	7,446	14,723	7,446	21,337
San Clemente	12	503,048	0	0	17,999	3.58%	45,875	9.12%	\$1.91	9,611	10,059	17,628	48,625
San Juan Capistrano	17	879,011	0	0	161,314	18.35%	163,875	18.64%	\$2.22	47,992	50,828	59,708	83,085
<b>South County Total</b>	<b>367</b>	<b>23,680,686</b>	<b>1,675,044</b>	<b>1,365,000</b>	<b>2,210,968</b>	<b>9.34%</b>	<b>2,910,872</b>	<b>12.29%</b>	<b>\$2.45</b>	<b>79,701</b>	<b>51,888</b>	<b>629,483</b>	<b>1,780,931</b>
<b>West County</b>													
Cypress	29	1,993,770	0	0	298,378	14.97%	466,675	23.41%	\$1.98	25,477	(42,433)	41,810	64,340
Fountain Valley	32	1,948,887	0	0	85,686	4.40%	94,362	4.84%	\$1.39	847	5,830	5,541	25,672
Garden Grove	20	1,564,530	0	0	54,864	3.51%	112,323	7.18%	\$1.56	16,255	14,882	18,076	35,770
Huntington Beach	44	2,512,336	0	44,500	311,374	12.39%	397,777	15.83%	\$1.91	30,460	(110,682)	71,264	118,789
Los Alamitos	12	687,842	0	0	39,460	5.74%	195,145	28.37%	\$1.91	506	54,768	2,856	59,600
Seal Beach	7	473,787	0	0	80,451	16.98%	62,396	13.17%	\$2.87	(17,278)	(48,605)	6,100	80,939
Stanton	4	143,361	0	0	7,966	5.56%	13,488	9.41%	\$0.00	976	976	1,039	1,039
Westminster	12	482,280	0	0	53,503	11.09%	82,216	17.05%	\$2.01	(164)	(21,487)	1,000	10,260
<b>West County Total</b>	<b>160</b>	<b>9,806,793</b>	<b>0</b>	<b>44,500</b>	<b>931,682</b>	<b>9.50%</b>	<b>1,424,382</b>	<b>14.52%</b>	<b>\$2.01</b>	<b>57,079</b>	<b>(146,751)</b>	<b>147,686</b>	<b>396,409</b>
<b>Orange County Total</b>	<b>1,498</b>	<b>115,717,176</b>	<b>1,747,387</b>	<b>4,650,988</b>	<b>12,096,380</b>	<b>10.45%</b>	<b>16,838,151</b>	<b>14.55%</b>	<b>\$2.20</b>	<b>684,636</b>	<b>1,395,431</b>	<b>3,026,437</b>	<b>8,737,579</b>
<b>Airport Area</b>													
Class A	117	23,140,164	0	1,444,346	2,647,712	11.44%	3,731,301	16.12%	\$2.85	330,336	478,169	827,058	2,058,365
Class B	305	16,708,674	0	187,817	1,153,562	6.90%	1,470,137	8.80%	\$2.24	326,955	334,397	739,571	1,719,242
Class C	26	1,290,291	0	0	49,806	3.86%	84,841	6.58%	\$1.78	(21,298)	(6,346)	13,773	41,348
<b>Central County</b>													
Class A	62	10,582,471	0	1,209,325	1,759,380	16.63%	2,398,136	22.66%	\$2.13	(113,260)	360,776	159,554	1,010,812
Class B	255	17,318,972	0	230,000	1,905,768	11.00%	2,853,510	16.48%	\$1.73	(170,663)	112,125	199,050	1,041,389
Class C	70	3,035,992	0	0	232,459	7.66%	333,980	11.00%	\$1.47	3,432	15,849	44,102	100,397
<b>North County</b>													
Class A	18	1,933,745	0	170,000	215,883	11.16%	389,205	20.13%	\$2.25	78,769	(34,336)	85,531	123,484
Class B	108	7,882,949	0	0	944,136	11.98%	1,196,036	15.17%	\$1.80	111,985	225,317	177,328	457,162
Class C	10	336,439	0	0	45,024	13.38%	45,751	13.60%	\$1.35	1,600	4,343	3,301	8,040
<b>South County</b>													
Class A	60	6,951,634	0	1,294,000	633,387	9.11%	814,605	11.72%	\$2.85	(25,402)	(2,612)	192,216	543,424
Class B	296	16,208,784	0	71,000	1,574,743	9.72%	2,094,639	12.92%	\$2.14	104,267	47,762	435,463	1,226,950
Class C	11	520,268	0	0	2,838	0.55%	1,628	0.31%	\$1.47	836	6,738	1,804	10,557
<b>West County</b>													
Class A	23	2,461,544	0	44,500	248,235	10.08%	434,875	17.67%	\$2.42	(10,530)	(35,551)	49,021	169,941
Class B	115	6,436,417	0	0	650,908	10.11%	799,675	12.42%	\$1.78	63,969	(108,891)	94,175	215,359
Class C	22	908,832	0	0	32,539	3.58%	189,832	20.89%	\$2.18	3,640	(2,309)	4,490	11,109
<b>Orange County</b>													
Class A	280	45,069,558	1,597,387	4,162,171	5,504,597	12.21%	7,768,122	17.24%	\$2.56	259,913	766,446	1,313,380	3,906,026
Class B	1,079	64,555,796	150,000	488,817	6,229,117	9.65%	8,413,997	13.03%	\$1.93	436,513	610,710	1,645,587	4,660,102
Class C	139	6,091,822	0	0	362,666	5.95%	656,032	10.77%	\$1.55	(11,790)	18,275	67,470	171,451
<b>Orange County Total</b>	<b>1,498</b>	<b>115,717,176</b>	<b>1,747,387</b>	<b>4,650,988</b>	<b>12,096,380</b>	<b>10.45%</b>	<b>16,838,151</b>	<b>14.55%</b>	<b>\$2.20</b>	<b>684,636</b>	<b>1,395,431</b>	<b>3,026,437</b>	<b>8,737,579</b>

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

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
17877 Von Karman Ave. (4 Properties)	Airport Area	A	427,746	\$284.05	Hines	Menlo Equities
1301 Dove St.	Airport Area	A	202,178	\$357.48	Prudential Real Estate Investors	Metlife
1900 S. State College Blvd.	Central County	A	273,632	\$259.84	GEM Realty Capital, Inc.	Kennedy-Wilson Properties, Ltd.
27442 Portola Pkwy. (2 Properties)	South County	A	208,747	\$236.65	Cornerstone Real Estate Advisers	CBRE Global Investors, Ltd.
23382 Mill Creek Dr. (5 Properties)	South County	B	223,467	\$205.85	CM Management Services, Inc.	AEW Capital Management

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
16241-16271 Laguna Canyon Rd. – Renewal	South County	B	425,395	Aug-2015	Blizzard Entertainment	The Irvine Company / Olen Properties
5 Polaris Way	South County	A	78,702	Jul-2015	UST Global	LBA Realty
6251 Katella Ave.	West County	B	68,815	Aug-2015	Speedo USA	Warland Investments Company
18100 Von Karman Ave. – Renewal	Airport Area	A	48,468	Aug-2015	Advantage Sales & Marketing, LLC	The Irvine Company
1901 E. Alton Pky.	Airport Area	B	34,229	Aug-2015	Edwards Lifesciences	Cusamano & IBC Partners, LLC

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.

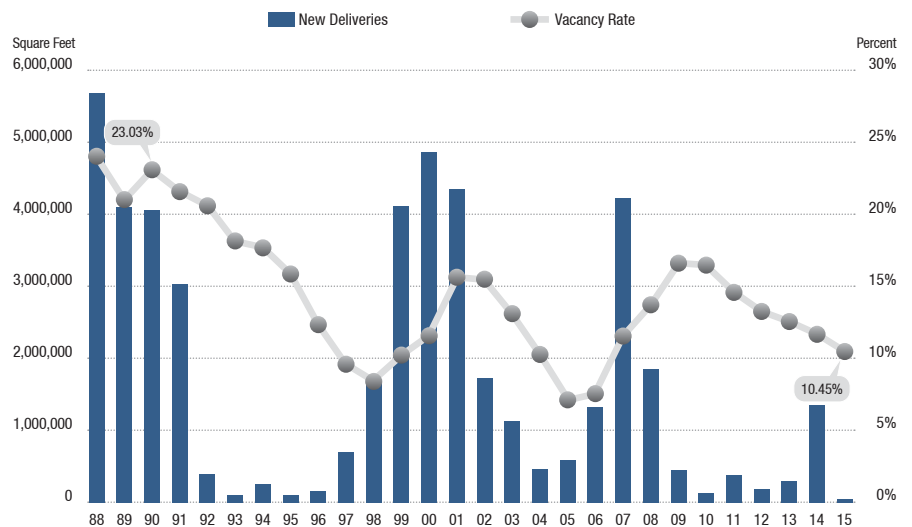
CLASS B

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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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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