FOURTH QUARTER 2015
ORANGE COUNTY
FLEX

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to Previous Year:

Vacancy
UP

Net Absorption
NEGATIVE

Lease Rates
UP

Transactions
FLAT

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 2015, vacancy remained in single digits. Availability continued its downward trend and lease rates continued to increase when compared to 2014. Net absorption posted a negative number of 41,620 square feet for 2015, giving the market a total of nearly 1.3 million square feet of positive absorption for the last three years.
- **Construction -** At the end of the year, 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 sixty-nine basis points from the previous quarter, direct/sublease space (unoccupied) finished the year at 9.21%, an increase from the previous year's rate of 8.70%, an annual increase of 5.86%, and significantly down from the record-high rate of 24.74% recorded in the third quarter of 2001.
- **Availability -** High-end space captured recent gains in occupancy. Direct/sublease space being marketed was 12.85% at the end of 2015, up 67 basis points from the previous quarter and down from 2014's fourth quarter rate of 13.53%, showing an annual decrease of 5.03%.
- **Lease Rates -** The average asking full-service gross (FSG) lease rate per square foot per month in Orange County's flex market was $2.13 in the fourth quarter, two cents higher than the previous quarter and thirty-three cents higher than 2014's fourth quarter rate. The record high rate of $2.66 was established in the third quarter of 2007.
- **Absorption -** The Orange County flex market posted 41,620 square feet of negative absorption for 2015, giving the market a total of nearly 1.3 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 2.2 million square feet for 2015, a decrease from 2014's total of 2.8 million square feet leased. Sales activity came in higher than the previous year's rate, recording 2.8 million square feet for 2015 compared to 2014's 2.2 million square feet of sales transactions. This statistic can have some lag time in being reported, so look for this year's figures to end up somewhat higher on the next report.
- **Employment -** The unemployment rate in Orange County was 4.2% in November 2015, down from a revised 4.3% in October 2015 and below the previous year's estimate of 5.2%. This compares with an unadjusted unemployment rate of 5.7% for California and 4.8% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 39,000 payroll jobs from November 2014 to November 2015. Most sectors showed gains in employment; the largest gains were in construction and leisure & hospitality each adding 8,200 jobs during that same period. Financial activities posted the largest year-over-year loss, dropping by 1,100 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 2016, 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 2016 being another year of growth as the market remains in single digit vacancy for the first time since 2007.

FORECAST

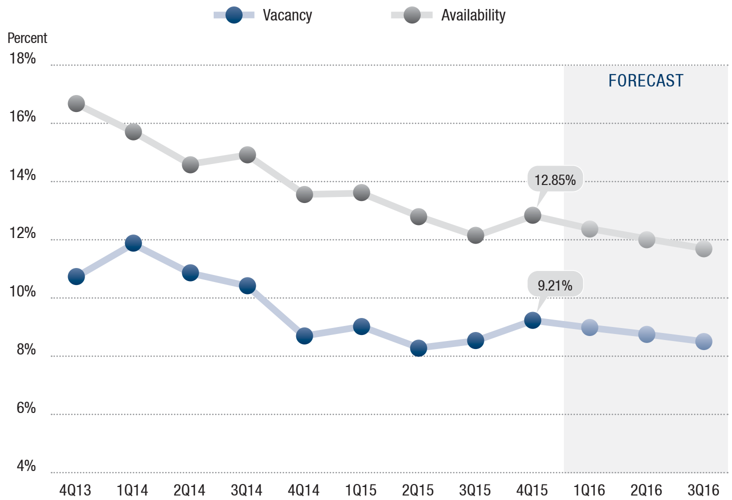
- **Employment -** We anticipate job growth of around 2.5%, or 39,000 jobs, in the Orange County area during the year according to Chapman University. The most rapid growth should take place in the professional & business services, education & health, leisure & hospitality, and construction sectors.
- **Lease Rates -** Expect average asking lease rates to increase by 5% to 7% over the next four quarters.
- **Vacancy -** We anticipate vacancy to continue to descend in coming quarters, dropping by 70 basis points to around 8.5% by the third quarter of 2016.

OVERVIEW

	2015	2014	2013	% of Change vs. 2014
Total Vacancy Rate	9.21%	8.70%	10.74%	5.86%
Availability Rate	12.85%	13.53%	16.71%	(5.03%)
Average Asking Lease Rate	$2.13	$1.80	$1.68	18.33%
Sale & Lease Transactions	5,018,869	5,027,275	4,517,443	(0.17%)
Gross Absorption	2,236,359	2,481,092	2,816,196	(9.86%)
Net Absorption	(41,620)	399,691	930,980	N/A

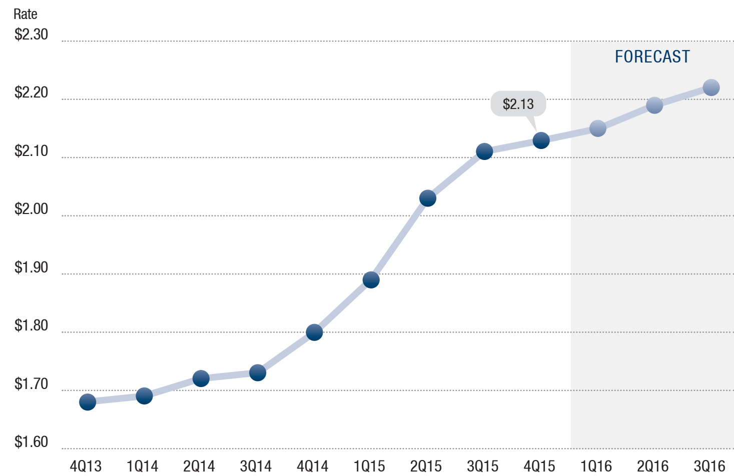
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



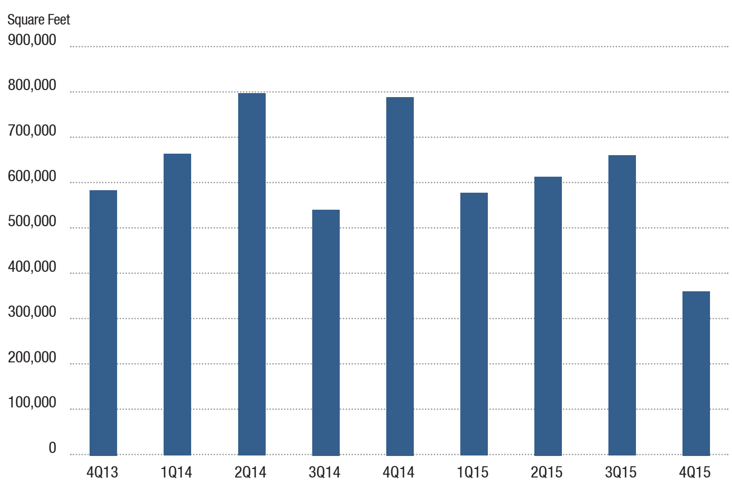
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



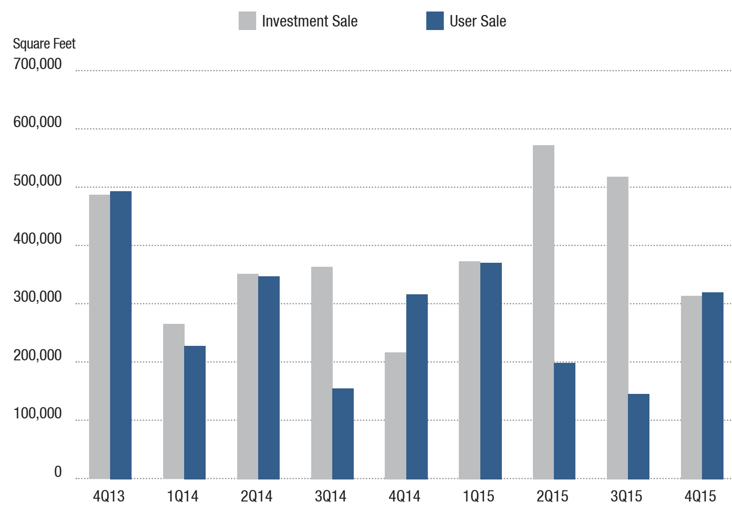
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



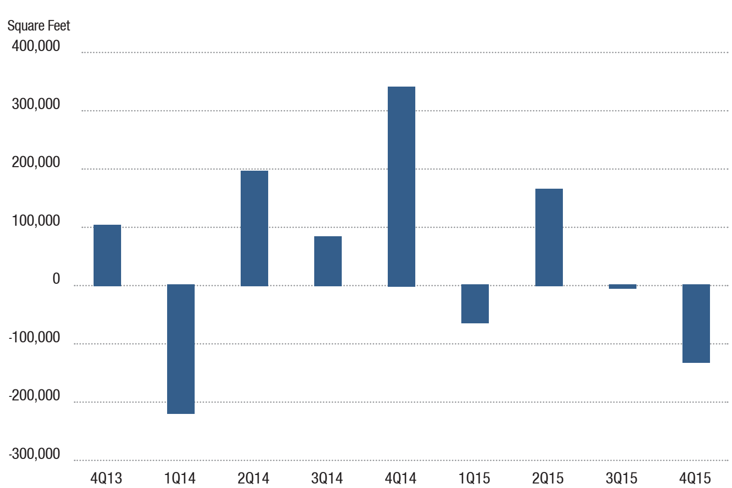
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

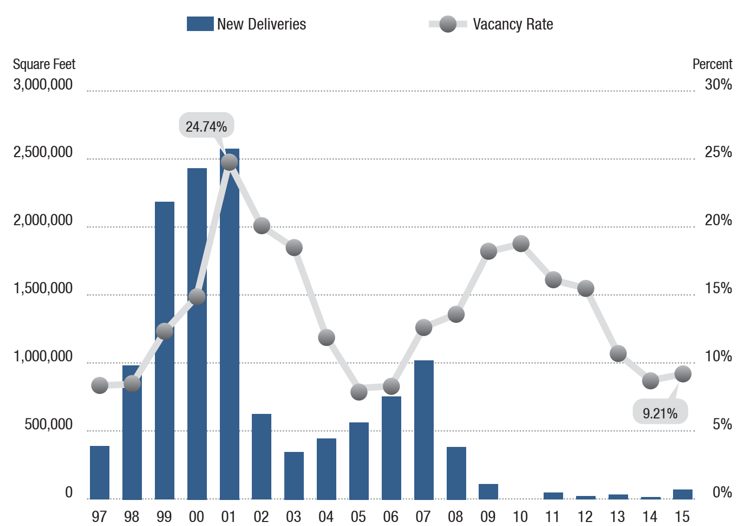


NET ABSORPTION

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

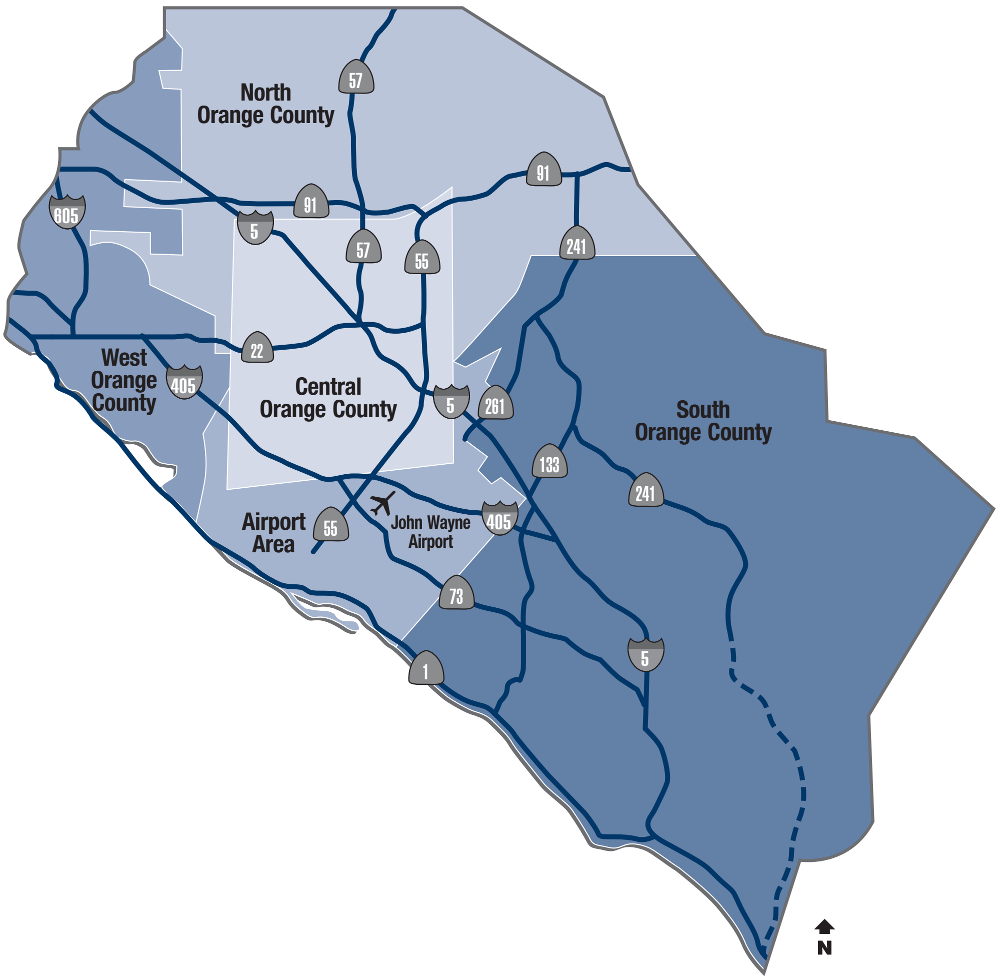


ANNUAL NEW DELIVERIES VS. VACANCY RATE



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2015	Square Feet Available	Availability Rate 4Q2015	Average Asking Lease Rate	Net Absorption 4Q2015	Net Absorption 2015	Gross Absorption 4Q2015	Gross Absorption 2015
North County													
Anaheim	31	678,116	0	0	64,366	9.49%	119,666	17.65%	$2.16	(5,046)	17,251	16,278	55,049
Brea	13	402,455	0	0	98,712	24.53%	77,683	19.30%	$1.90	(16,781)	(30,853)	26,932	60,202
Buena Park	6	113,606	0	0	4,484	3.95%	4,484	3.95%	$1.25	0	2,401	0	4,643
Fullerton	9	105,926	0	0	18,836	0.00%	18,836	17.78%	$1.36	(1,050)	(10,323)	0	15,764
Placentia	5	129,375	0	0	12,028	9.30%	14,644	11.32%	$1.67	2,132	(766)	3,452	3,452
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	67	1,498,793	0	0	239,727	15.99%	276,614	18.46%	$1.92	(20,745)	(62,391)	46,662	139,110
West County													
Cypress	11	375,715	0	0	110,694	29.46%	127,431	33.92%	$1.82	0	25,481	0	36,332
Huntington Beach	5	75,670	0	0	0	0.00%	26,525	35.05%	$0.00	0	5,148	0	7,856
Seal Beach	4	43,000	0	0	0	0.00%	1,757	4.09%	$2.50	966	0	966	966
West County Total	20	494,385	0	0	110,694	22.39%	155,713	31.50%	$1.84	966	30,629	966	45,154
Central County													
Garden Grove	6	78,582	0	0	21,545	27.42%	49,990	63.62%	$1.25	(2,153)	1,807	0	3,960
Orange	10	189,232	0	0	10,430	5.51%	10,430	5.51%	$1.95	0	911	1,821	6,922
Santa Ana	21	606,037	0	0	91,099	15.03%	61,018	10.07%	$1.86	(1,131)	867	10,370	65,505
Tustin	8	239,810	0	0	17,109	7.13%	14,663	6.11%	$1.85	(8,139)	(10,498)	3,446	6,979
Central County Total	45	1,113,661	0	0	140,183	12.59%	136,101	12.22%	$1.86	(11,423)	(6,913)	15,637	83,366
Airport Area													
Costa Mesa	9	152,738	0	0	38,654	25.31%	38,654	25.31%	$2.35	(18,044)	(24,499)	0	13,538
Fountain Valley	1	15,000	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Irvine	121	3,852,027	0	0	224,627	5.83%	441,818	11.47%	$2.19	(19,845)	11,690	103,419	577,188
Newport Beach	30	634,902	0	90,700	29,889	4.71%	51,139	8.05%	$3.61	2	30,921	1,195	64,609
Santa Ana	4	177,744	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	167	4,913,527	0	90,700	293,170	5.97%	531,611	10.82%	$2.91	(37,887)	18,112	104,614	655,335
South County													
Aliso Viejo	47	1,444,057	0	0	89,347	6.19%	187,141	12.96%	$2.13	(8,641)	21,471	35,216	208,482
Dana Point	6	77,940	0	0	3,347	4.29%	3,347	4.29%	$0.00	1,420	1,420	1,420	1,420
Foothill Ranch	5	105,477	0	0	16,188	15.35%	22,096	20.95%	$0.00	2,154	4,599	3,300	8,395
Irvine Spectrum	239	5,742,193	168,920	0	444,171	7.74%	567,435	9.88%	$2.58	(9,030)	(132,699)	205,442	682,501
Ladera Ranch	8	227,862	0	0	49,632	21.78%	63,763	27.98%	$0.00	398	4,604	2,582	15,362
Laguna Beach	5	74,016	0	0	0	0.00%	0	0.00%	$0.00	0	700	2,300	3,000
Laguna Hills	15	495,271	0	0	84,311	17.02%	92,626	18.70%	$2.53	6,467	24,066	7,304	60,970
Laguna Niguel	3	53,282	0	0	0	0.00%	3,085	5.79%	$0.00	0	2,220	0	2,220
Lake Forest	47	1,589,478	0	0	235,304	14.80%	323,119	20.33%	$2.00	(59,429)	(56,532)	6,626	106,357
Mission Viejo	29	405,223	0	0	26,937	6.65%	42,322	10.44%	$1.94	1,641	13,464	13,103	38,694
Rancho Santa Margarita	12	327,160	0	0	11,905	3.64%	23,544	7.20%	$1.70	9,091	20,272	13,685	33,457
San Clemente	13	276,942	0	0	17,353	6.27%	30,017	10.84%	$1.85	(11,039)	6,392	0	30,724
San Juan Capistrano	30	633,559	0	0	30,980	4.89%	42,905	6.77%	$2.27	2,233	68,966	20,052	121,772
South County Total	459	11,452,460	168,920	0	1,009,475	8.81%	1,401,400	12.24%	$2.22	(64,735)	(21,057)	311,030	1,313,354
Orange County Total	**758**	**19,472,826**	**168,920**	**90,700**	**1,793,249**	**9.21%**	**2,501,439**	**12.85%**	**$2.13**	**(133,824)**	**(41,620)**	**478,909**	**2,236,359**
North County													
0-29,999	52	844,243	0	0	91,741	10.87%	115,533	13.68%	$1.95	1,601	14,476	21,876	91,596
30,000-49,999	11	424,571	0	0	64,188	15.12%	105,306	24.80%	$1.05	2,092	(23,886)	9,192	28,902
50,000 Plus	4	229,979	0	0	83,798	36.44%	55,775	24.25%	$2.06	(24,438)	(52,981)	15,594	18,622
West County													
0-29,999	12	216,839	0	0	21,545	9.94%	78,779	36.33%	$1.73	(2,153)	10,055	0	14,916
30,000-49,999	4	167,585	0	0	19,314	11.52%	21,071	12.57%	$1.88	966	(8,504)	966	966
50,000 Plus	4	109,961	0	0	69,835	63.51%	55,863	50.80%	$0.00	2,153	29,078	0	29,272
Central County													
0-29,999	30	396,245	0	0	34,080	8.60%	71,106	17.94%	$0.00	(1,232)	5,469	3,446	11,075
30,000-49,999	8	304,457	0	0	38,546	12.66%	42,037	13.81%	$1.95	(10,191)	(22,744)	0	10,127
50,000 Plus	7	412,959	0	0	67,557	16.36%	22,958	5.56%	$1.79	0	10,362	12,191	62,164
Airport Area													
0-29,999	89	1,009,108	0	46,700	93,223	9.24%	135,800	13.46%	$2.35	(13,153)	11,651	12,024	129,596
30,000-49,999	34	1,394,685	0	44,000	98,929	7.09%	212,186	15.21%	$3.24	24,789	(33,041)	35,041	127,888
50,000 Plus	44	2,509,734	0	0	101,018	4.03%	183,625	7.32%	$4.20	(49,523)	39,502	57,549	397,851
South County													
0-29,999	299	3,971,220	18,920	0	373,135	9.40%	504,465	12.70%	$2.08	(17,547)	20,226	108,227	527,035
30,000-49,999	103	4,125,491	0	0	302,570	7.33%	451,143	10.94%	$2.38	14,044	43,391	153,722	528,904
50,000 Plus	57	3,355,749	150,000	0	333,770	9.95%	445,792	13.28%	$2.43	(61,232)	(84,674)	49,081	257,445
Orange County													
0-29,999	482	6,437,655	18,920	46,700	613,724	9.53%	905,683	14.07%	$2.02	(32,484)	61,877	145,573	774,218
30,000-49,999	160	6,416,789	0	44,000	523,547	8.16%	831,743	12.96%	$2.17	31,700	(44,784)	198,921	696,787
50,000 Plus	116	6,618,382	150,000	0	655,978	9.91%	764,013	11.54%	$2.28	(133,040)	(58,713)	134,415	765,354
Orange County Total	**758**	**19,472,826**	**168,920**	**90,700**	**1,793,249**	**9.21%**	**2,501,439**	**12.85%**	**$2.13**	**(133,824)**	**(41,620)**	**478,909**	**2,236,359**

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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