# FOURTH QUARTER 2015
# ORANGE COUNTY
# OFFICE

Voit
REAL ESTATE SERVICES

## MARKET CHANGE

*Compared to Previous Year:*

**Vacancy**
DOWN

**Net Absorption**
POSITIVE

**Lease Rates**
UP

**Transactions**
DOWN

**Deliveries**
DOWN

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VOIT Real Estate Services


## HIGHLIGHTS

- **Steady Growth -** The Orange County office market continued to improve in 2015, posting over 850,000 square feet of positive net absorption. This gives the market a total of 8.4 million square feet of positive absorption since the first quarter of 2011. 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 just over 1.84 million square feet for the fourth quarter of 2015, most of which is in the Irvine Spectrum submarket. We should see an increase in construction in the coming quarters, as a few new projects are scheduled to break ground in the Airport market, stay tuned.
- **Vacancy -** Up 10 basis points from the previous quarter, direct/sublease space (unoccupied) finished the year at 10.78%, a decrease of 6.26% from the previous year's rate of 11.5% 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 14.44% at the end of 2015, a decrease of 6.17% when compared to 2014's fourth quarter rate of 15.39%, and an 11 basis point increase over last quarter's rate of 14.33%.
- **Lease Rates -** The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was $2.26 at the end of the year, a 8.65% increase from the previous year's rate of $2.08 and six 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 $2.65 FSG, the highest being in the Airport submarket, where Class A rates averaged $3.03 FSG.
- **Absorption -** The Orange County office market posted 859,760 square feet of positive absorption in the year, giving the market a net total of over 4.3 million square feet of positive absorption since the first quarter of 2013. 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 10.35 million square feet this year, a decrease when compared to last year's figure of 12.08 million square feet. Sales activity was up from the previous year, posting 9.3 million square feet of activity in 2015 compared to 2014's figure of 8.9 million square feet. This statistic can have some lag time in being reported, so look for this year'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 4.2% 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 a decrease in the amount of vacant and available space on the market, even with new product being delivered. As we progress into 2016, positive absorption and higher occupancy costs should continue, new deliveries in the southern half of the county may apply upward pressure on vacancy, and the market will further improve.

## FORECAST

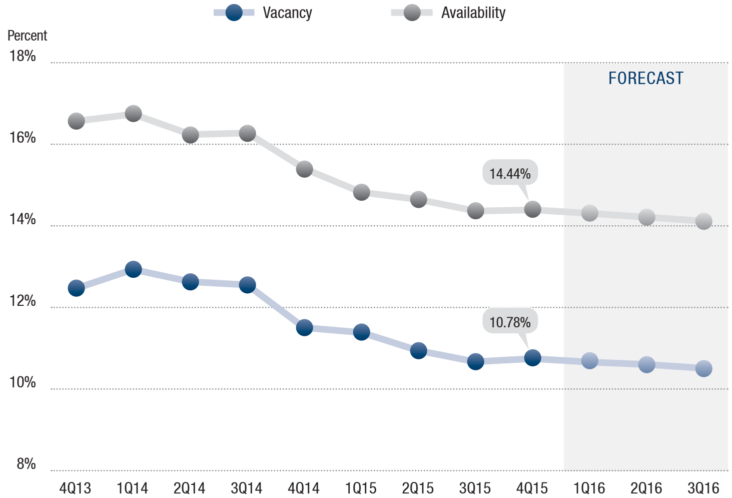
- **Employment -** We anticipate job growth of around 2.5%, or 39,000 jobs, in the Orange County area during the year according to Chapman University. The most rapid growth should take place in the professional & business services, education & health, leisure & hospitality, and construction sectors..
- **Lease Rates -** Expect 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 only 30 basis points to 10.5% by the end of the third quarter of 2016, due to some new delivers in the Irvine Spectrum submarket.

## OVERVIEW

| | 2015 | 2014 | 2013 | % of Change vs. 2014 |
|---|---|---|---|---|
| Total Vacancy Rate | 10.78% | 11.50% | 12.49% | (6.26%) |
| Availability Rate | 14.44% | 15.39% | 16.56% | (6.17%) |
| Average Asking Lease Rate | $2.26 | $2.08 | $1.93 | 8.65% |
| Sale & Lease Transactions | 19,612,598 | 20,979,434 | 18,532,660 | (6.52%) |
| Gross Absorption | 11,086,448 | 10,601,792 | 10,672,685 | 4.57% |
| Net Absorption | 859,760 | 2,328,378 | 1,128,814 | N/A |

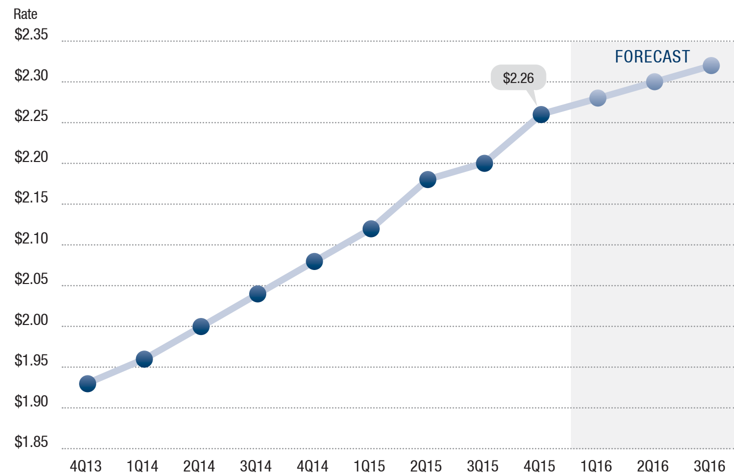
## VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



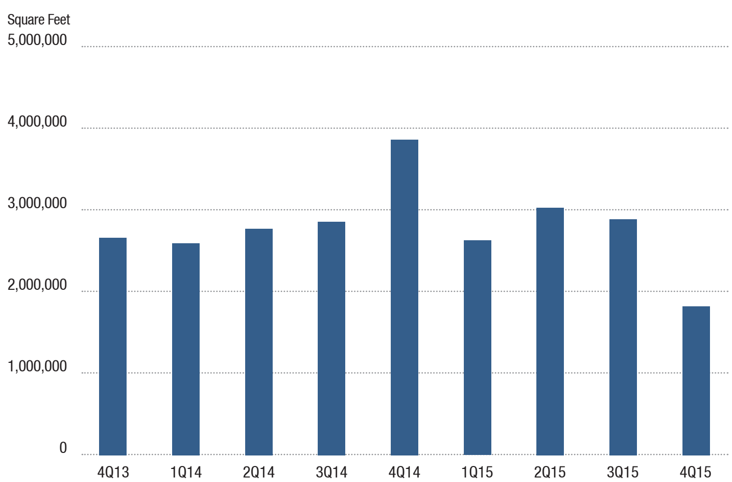

## AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



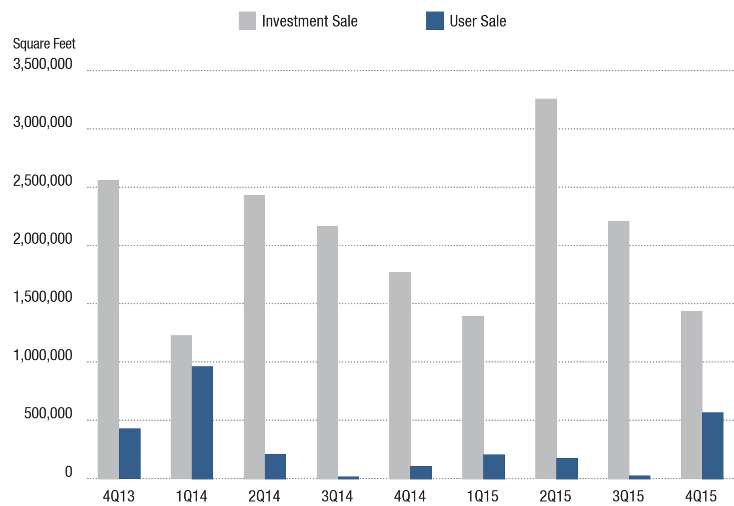

## LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



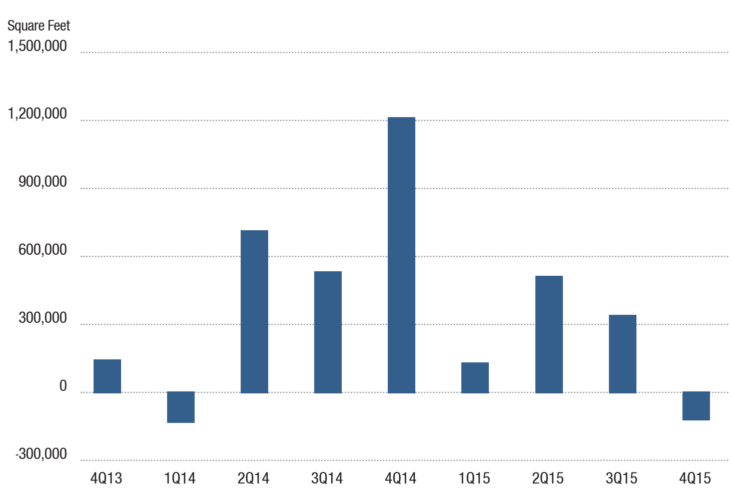

## SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



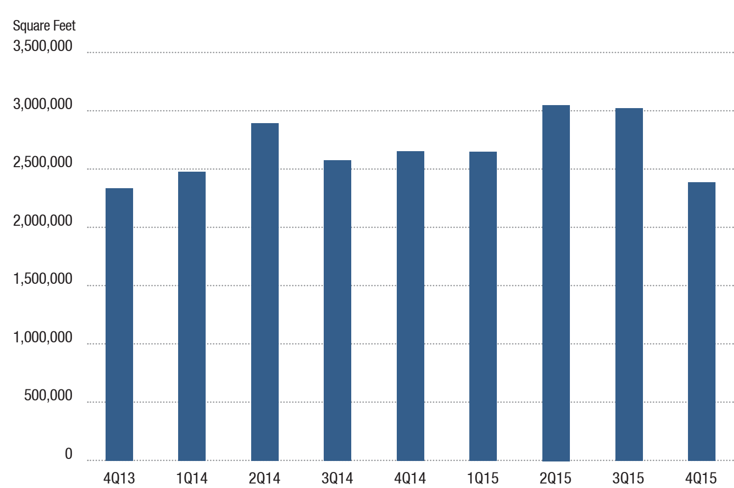

## NET ABSORPTION

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 4Q2015 | Square Feet Available | Availability Rate 4Q2015 | Average Asking Lease Rate | Net Absorption 4Q2015 | Net Absorption 2015 | Gross Absorption 4Q2015 | Gross Absorption 2015 |
| **Airport Area** | | | | | | | | | | | | | |
| Costa Mesa | 72 | 7,324,471 | 0 | 27,476 | 986,018 | 13.46% | 1,130,863 | 15.44% | $2.47 | (135,484) | 115,606 | 102,318 | 726,027 |
| Irvine | 256 | 23,947,287 | 0 | 1,519,817 | 1,957,123 | 8.17% | 3,297,266 | 13.77% | $2.56 | 69,996 | 464,019 | 513,259 | 2,893,953 |
| Newport Beach | 120 | 9,973,004 | 0 | 112,346 | 984,799 | 9.87% | 1,150,521 | 11.54% | $3.16 | 8,199 | 154,165 | 212,201 | 1,025,372 |
| Airport Area Total | 448 | 41,244,762 | 0 | 1,659,639 | 3,927,940 | 9.52% | 5,578,650 | 13.53% | $2.98 | (57,289) | 733,790 | 827,778 | 4,645,352 |
| **Central County** | | | | | | | | | | | | | |
| Anaheim | 83 | 6,951,579 | 0 | 300,000 | 854,401 | 12.29% | 1,074,679 | 15.46% | $1.97 | 3,228 | 235,264 | 89,261 | 818,810 |
| Orange | 82 | 7,130,159 | 0 | 0 | 609,260 | 8.54% | 855,245 | 11.99% | $2.14 | (13,870) | 258,220 | 112,738 | 645,389 |
| Santa Ana | 181 | 14,743,947 | 0 | 702,325 | 2,531,892 | 17.17% | 3,114,163 | 21.12% | $1.80 | 46,797 | (376,038) | 276,691 | 1,047,192 |
| Tustin | 41 | 2,111,053 | 96,865 | 1,224,028 | 312,796 | 14.82% | 483,410 | 22.90% | $1.98 | (81,609) | (60,328) | 12,581 | 113,626 |
| Central County Total | 387 | 30,936,738 | 96,865 | 2,226,353 | 4,308,349 | 13.93% | 5,527,497 | 17.87% | $1.91 | (45,454) | 57,118 | 491,271 | 2,625,017 |
| **North County** | | | | | | | | | | | | | |
| Anaheim Hills | 17 | 1,027,824 | 0 | 0 | 149,059 | 14.50% | 174,638 | 16.99% | $1.85 | 13,328 | 173,668 | 36,536 | 243,616 |
| Brea | 43 | 4,111,350 | 0 | 120,000 | 445,351 | 10.83% | 607,435 | 14.77% | $2.09 | 7,829 | (9,514) | 67,481 | 272,076 |
| Buena Park | 16 | 1,017,169 | 72,343 | 0 | 40,663 | 4.00% | 73,198 | 7.20% | $1.89 | (1,033) | 19,696 | 2,601 | 27,539 |
| Fullerton | 30 | 2,427,234 | 0 | 0 | 238,549 | 9.83% | 380,435 | 15.67% | $2.24 | (4,552) | 2,504 | 12,984 | 111,350 |
| 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 | 119,686 | 16.81% | 127,975 | 17.97% | $1.86 | 2,406 | 26,575 | 12,302 | 41,199 |
| Placentia | 8 | 267,589 | 0 | 0 | 38,446 | 14.37% | 40,519 | 15.14% | $1.65 | 3,845 | 4,015 | 10,568 | 16,579 |
| Yorba Linda | 5 | 288,094 | 0 | 0 | 46,216 | 16.04% | 46,216 | 16.04% | $1.86 | (2,665) | (2,462) | 0 | 18,799 |
| North County Total | 133 | 9,993,367 | 72,343 | 120,000 | 1,077,970 | 10.79% | 1,450,416 | 14.51% | $1.93 | 19,158 | 214,482 | 142,472 | 731,158 |
| **South County** | | | | | | | | | | | | | |
| Aliso Viejo | 43 | 3,118,301 | 0 | 205,000 | 308,859 | 9.90% | 445,847 | 14.30% | $3.03 | (107,184) | (87,800) | 80,898 | 342,914 |
| 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 | 140,802 | 17.63% | 132,100 | 16.54% | $2.50 | 21,590 | (12,056) | 99,880 | 154,956 |
| Irvine Spectrum | 152 | 10,183,452 | 1,675,044 | 1,050,000 | 690,717 | 6.78% | 820,618 | 8.06% | $2.80 | 83,782 | (105,755) | 332,382 | 1,062,183 |
| 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 | 32 | 1,817,209 | 0 | 0 | 306,518 | 16.87% | 342,283 | 18.84% | $1.65 | 37,737 | 42,148 | 53,463 | 225,373 |
| Laguna Niguel | 11 | 1,791,724 | 0 | 0 | 58,947 | 3.29% | 68,651 | 3.83% | $3.05 | 11,002 | 16,476 | 13,544 | 82,607 |
| Lake Forest | 39 | 2,060,148 | 0 | 0 | 231,813 | 11.25% | 318,734 | 15.47% | $1.98 | (42,747) | 65,651 | 15,493 | 201,024 |
| Mission Viejo | 36 | 1,922,302 | 0 | 110,000 | 219,668 | 11.43% | 254,023 | 13.21% | $2.06 | (16,768) | 30,626 | 50,378 | 180,644 |
| Rancho Santa Margarita | 6 | 250,472 | 0 | 0 | 20,733 | 8.28% | 22,481 | 8.98% | $2.00 | 12,301 | 27,024 | 15,508 | 36,845 |
| San Clemente | 12 | 502,157 | 0 | 0 | 18,372 | 3.66% | 45,431 | 9.05% | $2.25 | (373) | 9,686 | 3,650 | 52,275 |
| San Juan Capistrano | 17 | 879,011 | 0 | 0 | 154,550 | 17.58% | 157,111 | 17.87% | $2.28 | 6,764 | 57,592 | 12,891 | 95,976 |
| South County Total | 366 | 23,653,227 | 1,675,044 | 1,365,000 | 2,179,874 | 9.22% | 2,636,174 | 11.15% | $2.51 | 6,104 | 46,409 | 678,087 | 2,437,614 |
| **West County** | | | | | | | | | | | | | |
| Cypress | 29 | 1,993,770 | 0 | 0 | 366,450 | 18.38% | 547,321 | 27.45% | $1.98 | (68,072) | (110,505) | 15,367 | 79,707 |
| Fountain Valley | 32 | 1,948,887 | 0 | 0 | 85,457 | 4.38% | 94,389 | 4.84% | $1.38 | 229 | 6,059 | 11,222 | 36,894 |
| Garden Grove | 20 | 1,565,982 | 0 | 0 | 52,241 | 3.34% | 135,921 | 8.68% | $1.56 | 2,623 | 17,505 | 7,980 | 43,750 |
| Huntington Beach | 44 | 2,512,335 | 0 | 44,500 | 307,916 | 12.26% | 389,675 | 15.51% | $1.89 | 3,458 | (107,224) | 169,856 | 288,645 |
| Los Alamitos | 12 | 687,842 | 0 | 0 | 32,176 | 4.68% | 178,479 | 25.95% | $2.20 | 7,284 | 62,052 | 11,419 | 71,019 |
| Seal Beach | 7 | 473,787 | 0 | 0 | 52,469 | 11.07% | 59,187 | 12.49% | $2.93 | 27,982 | (20,623) | 33,091 | 114,030 |
| Stanton | 4 | 143,361 | 0 | 0 | 8,439 | 5.89% | 13,961 | 9.74% | $0.00 | (473) | 503 | 1,963 | 3,002 |
| Westminster | 12 | 482,280 | 0 | 0 | 71,822 | 14.89% | 81,849 | 16.97% | $2.08 | (18,319) | (39,806) | 0 | 10,260 |
| West County Total | 160 | 9,808,244 | 0 | 44,500 | 976,970 | 9.96% | 1,500,782 | 15.30% | $2.04 | (45,288) | (192,039) | 250,898 | 647,307 |
| **Orange County Total** | **1,494** | **115,636,338** | **1,844,252** | **5,415,492** | **12,471,103** | **10.78%** | **16,693,519** | **14.44%** | **$2.26** | **(122,769)** | **859,760** | **2,390,506** | **11,086,448** |
| **Airport Area** | | | | | | | | | | | | | |
| Class A | 117 | 23,192,372 | 0 | 1,376,000 | 2,693,253 | 11.61% | 3,824,558 | 16.49% | $3.03 | (5,806) | 432,628 | 443,214 | 2,502,932 |
| Class B | 305 | 16,762,099 | 0 | 283,639 | 1,163,388 | 6.94% | 1,656,810 | 9.88% | $2.33 | (29,990) | 329,001 | 375,873 | 2,092,381 |
| Class C | 26 | 1,290,291 | 0 | 0 | 71,299 | 5.53% | 97,282 | 7.54% | $1.79 | (21,493) | (27,839) | 8,691 | 50,039 |
| **Central County** | | | | | | | | | | | | | |
| Class A | 62 | 10,575,518 | 0 | 1,924,353 | 1,712,252 | 16.19% | 2,387,410 | 22.57% | $2.17 | 35,145 | 387,014 | 248,676 | 1,239,058 |
| Class B | 255 | 17,325,228 | 96,865 | 302,000 | 2,373,949 | 13.70% | 2,839,697 | 16.39% | $1.77 | (88,951) | (356,056) | 193,525 | 1,235,909 |
| Class C | 70 | 3,035,992 | 0 | 0 | 222,148 | 7.32% | 300,390 | 9.89% | $1.48 | 8,352 | 26,160 | 49,070 | 150,050 |
| **North County** | | | | | | | | | | | | | |
| Class A | 18 | 1,933,745 | 72,343 | 120,000 | 209,498 | 10.83% | 398,193 | 20.59% | $2.27 | 6,385 | (27,951) | 26,580 | 150,064 |
| Class B | 105 | 7,723,183 | 0 | 0 | 826,876 | 10.71% | 1,010,627 | 13.09% | $1.83 | 9,345 | 234,662 | 111,620 | 568,782 |
| Class C | 10 | 336,439 | 0 | 0 | 41,596 | 12.36% | 41,596 | 12.36% | $2.10 | 3,428 | 7,771 | 4,272 | 12,312 |
| **South County** | | | | | | | | | | | | | |
| Class A | 60 | 6,951,634 | 1,525,044 | 1,294,000 | 633,641 | 9.11% | 718,242 | 10.33% | $2.86 | (31,075) | (2,866) | 213,205 | 756,629 |
| Class B | 296 | 16,207,725 | 150,000 | 71,000 | 1,545,702 | 9.54% | 1,916,055 | 11.82% | $2.23 | 35,532 | 40,230 | 462,704 | 1,667,590 |
| Class C | 10 | 493,868 | 0 | 0 | 531 | 0.11% | 1,877 | 0.38% | $1.50 | 1,647 | 9,045 | 2,178 | 13,395 |
| **West County** | | | | | | | | | | | | | |
| Class A | 23 | 2,461,544 | 0 | 0 | 279,902 | 11.37% | 465,850 | 18.93% | $2.48 | (31,667) | (67,218) | 71,560 | 241,501 |
| Class B | 115 | 6,437,868 | 0 | 44,500 | 658,726 | 10.23% | 847,922 | 13.17% | $1.80 | (7,818) | (116,709) | 176,799 | 392,158 |
| Class C | 22 | 908,832 | 0 | 0 | 38,342 | 4.22% | 187,010 | 20.58% | $2.16 | (5,803) | (8,112) | 2,539 | 13,648 |
| **Orange County** | | | | | | | | | | | | | |
| Class A | 280 | 45,114,813 | 1,597,387 | 4,714,353 | 5,528,546 | 12.25% | 7,794,253 | 17.28% | $2.65 | (27,018) | 721,607 | 1,003,235 | 4,890,184 |
| Class B | 1,076 | 64,456,103 | 246,865 | 701,139 | 6,568,641 | 10.19% | 8,271,111 | 12.83% | $1.98 | (81,882) | 131,128 | 1,320,521 | 5,956,820 |
| Class C | 138 | 6,065,422 | 0 | 0 | 373,916 | 6.16% | 628,155 | 10.36% | $1.57 | (13,869) | 7,025 | 66,750 | 239,444 |
| **Orange County Total** | **1,494** | **115,636,338** | **1,844,252** | **5,415,492** | **12,471,103** | **10.78%** | **16,693,519** | **14.44%** | **$2.26** | **(122,769)** | **859,760** | **2,390,506** | **11,086,448** |

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 OF 2015

## Sales Transactions

| Property Address | Submarket | Class | Square Feet | Sale Price Per SF | Buyer | Seller |
|---|---|---|---|---|---|---|
| 3333 Michelson Dr. (13 Properties) | Airport Area | A | 2,185,210 | $169.69 | Principal Real Estate Investors, LLC | LBA Realty |
| 17877 Von Karman Ave. (4 Properties) | Airport Area | A | 427,746 | $284.05 | Hines | Menlo Equities |
| 4000 MacArthur Blvd. (2 Properties) | Airport Area | A | 397,566 | $301.84 | Hines REIT, Inc. | Emmes Group of Companies |
| 10 Enterprise Dr. (3 Properties) | South County | A | 595,245 | $181.61 | Invesco Advisors, Inc. | Menlo Equities |
| 5000 Birch St. (2 Properties) | Airport Area | A | 296,616 | $352.31 | John Hancock Real Estate | Cornerstone Real Estate Advisers, Inc. |

## Lease Transactions

| Property Address | Submarket | Class | Square Feet | Transaction Date | Tenant | Owner |
|---|---|---|---|---|---|---|
| 16205-16025 Anton & 16241 Anton – Renewal | South County | B | 334,677 | Aug-2015 | Blizzard Entertainment | The Irvine Company & Olen Commercial |
| 4000 MacArthur Blvd. | Airport Area | A | 177,012 | Feb-2015 | Hyundai Capital America | Hines |
| 40 Pointe Dr. – Renewal | North County | A | 129,924 | Apr-2015 | Ventura Foods, LLC | Olen Commercial |
| 1600 S. Douglass Rd. | Central County | B | 127,750 | Jan-2015 | Carrington Mortgage Services, LLC | MultiEmployer Property Trust |
| 25500 Commercentre Dr. | South County | B | 89,510 | May-2015 | loanDepot | Cornerstone RE Advisers, Inc. |

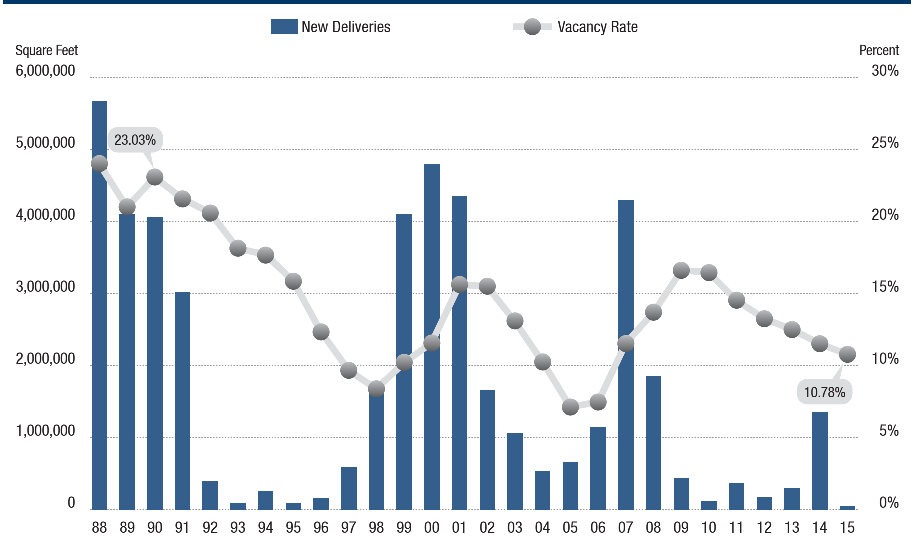
# PRODUCT TYPE

### 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




**Please Contact Us for Further Information**

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