



Vacancies Fall Again In Strong Q3; Rents Up Sharply

Employers took on more than 674,894 sq. ft. of Orange County office space in the third quarter. It was the sixth straight quarterly net absorption gain, totaling 3.7 million sq. ft., and includes a 2.5-million-sq.-ft. gain in the last year.

The third-quarter countywide vacancy rate fell 50 basis points from the previous period to settle at 10.6%, but geographically the gains were uneven. The Airport submarket – the county’s largest – accounted for the lion’s share of Q3’s net absorption. However, countywide vacancies are trending down in most submarkets as leasing activity continues on a slow boil.

Some Orange County building owners also are seeing some of the nation’s highest rent growth. Year-over-year asking lease rates are up 12.5% in South County, 11.5% at the Airport and an average of 9.2% countywide.

Much of the market’s improvement is due to conversions of traditional office suites into creative space – open floorplans that business owners believe boost productivity and appeal to the younger workers they need to attract. Additionally, the open environments accommodate more employees in less space. Ten years ago, 250 sq. ft. per employee was the norm but today some modern configurations have reduced that to as low as 175 sq. ft., once standard only in the aerospace industry.

A major concern in updating space for landlords is the stress that increased clear heights put on a building’s mechanical equipment. In some cases the added volume exceeds system capacities, making it prohibitive for some buildings. Nevertheless, creative space conversions are helping the absorption trend and tenants have shown a willingness to pay some added costs.

In the 44-million-sq.-ft. Airport submarket that includes Newport Beach, Costa Mesa, South Santa Ana and parts of Irvine, the vacancy rate was 10.2% for Q3, which was down from 11.7%. Net absorption for the quarter was 659,600 sq. ft., up sharply from 137,998 sq. ft. in the first half of 2015. In the last 12 months about 1.3 million sq. ft. of vacancies have been filled.

North County with 14.2 million sq. ft. of space posted positive net absorption of 162,432 sq. ft., and has gained 399,389 sq. ft. in the last four quarters. The vacancy rate fell to 11.6% from 12.8% in Q2, and average asking rents are up 3.9% year over year.

Net absorption in South County totaled 39,400 sq. ft. in Q3. But its vacancy rate was unchanged at 9.6% from the previous quarter and is up 20 basis points in the last year.

West County’s Q3 vacancy rate fell to 9.9% from 10.3% in the mid-year survey on net absorption of 38,596 sq. ft., following consecutive quarters in which 202,205 sq. ft. went back on the market. Rents have been flat.

After three strong quarters, absorption went south in Central County with 225,134 sq. ft. of space put back on the market in Q3. Average asking rents in the second largest submarket up 6.5% for the last 12 months.

The Orange County Office Market Report is published quarterly by the Lee & Associates’ Irvine, Newport Beach and Orange offices.

MARKET OVERVIEW

(Change from last quarter)

AVAILABILITY - 15.0%

Down from 15.4% last quarter



VACANCY - 10.6%

Down from 11.1% last quarter



ABSORPTION - 674,894 SQ. FT.

Up from 447,479 SF last quarter



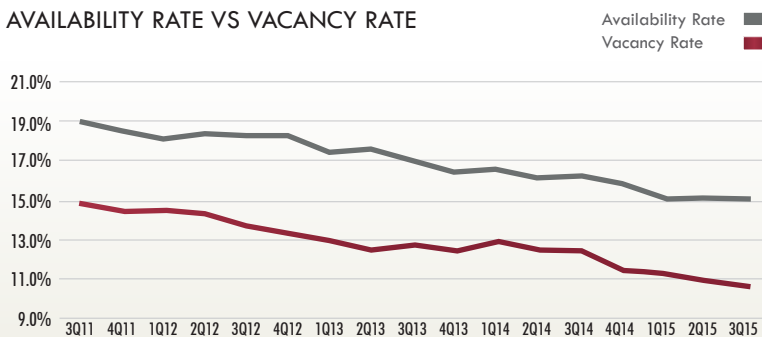
AVERAGE LEASE RATE - \$2.25 FSG

Up from \$2.20 last quarter

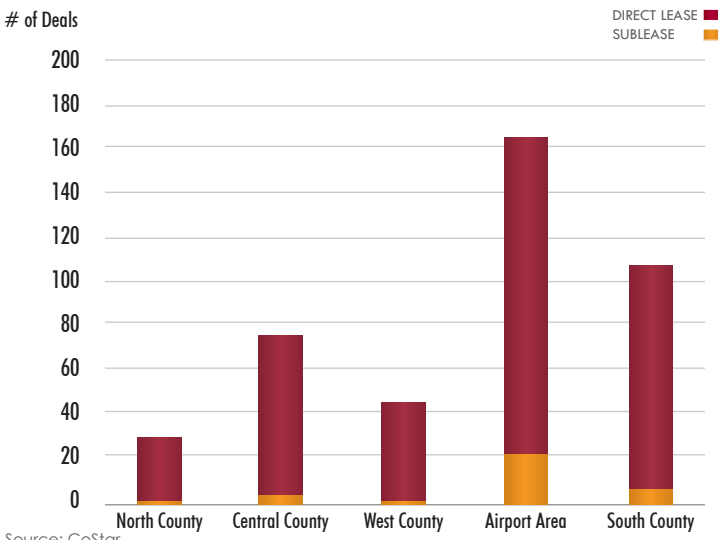


*All numbers are based on office space in buildings 30,000 sq. ft. and larger.

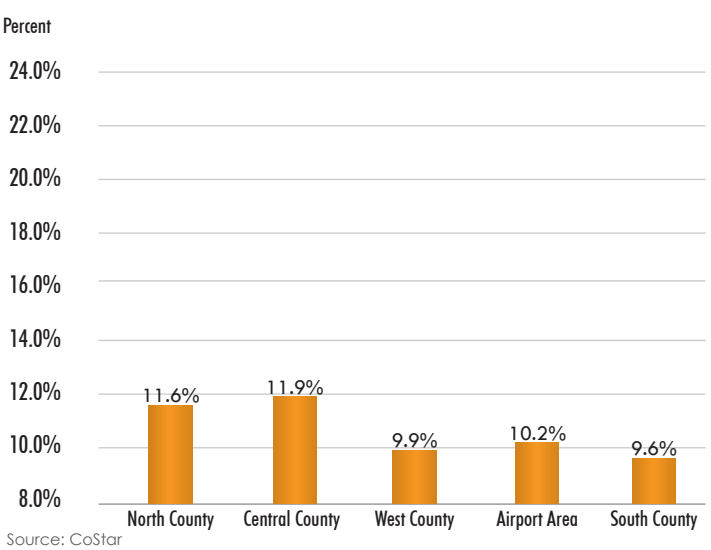
AVAILABILITY RATE VS VACANCY RATE



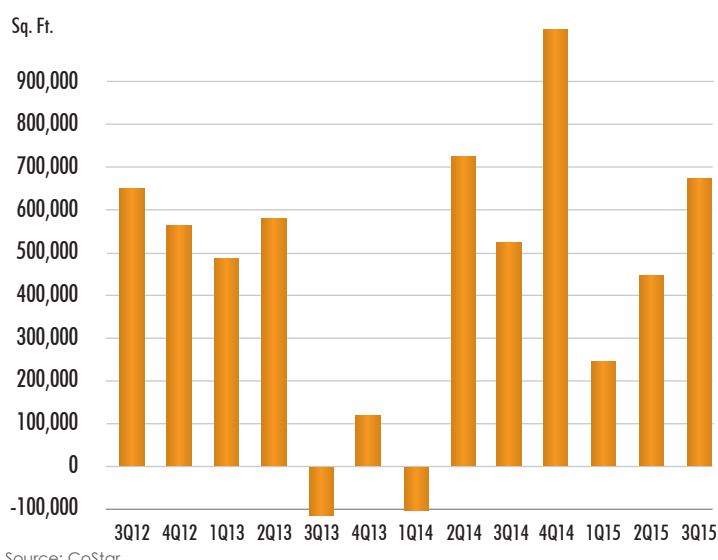
NUMBER OF LEASES EXECUTED FOR THE QUARTER BY SUBMARKET



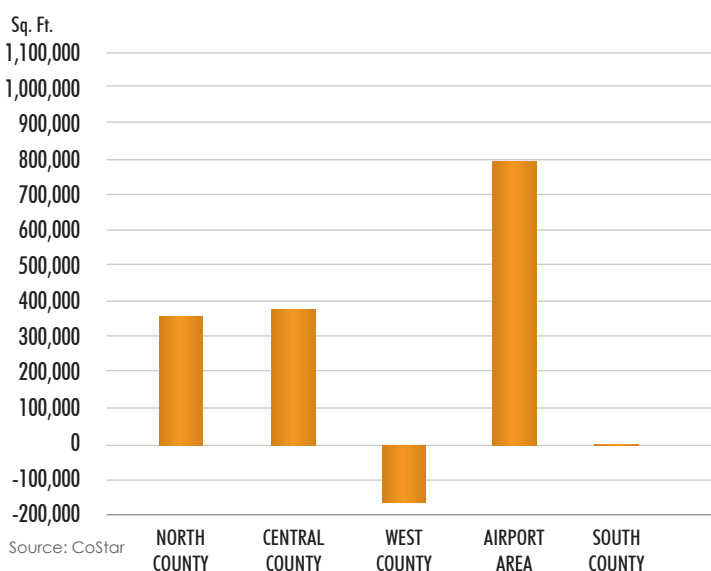
VACANCY RATE BY SUBMARKET - INCLUDING SUBLET SPACE



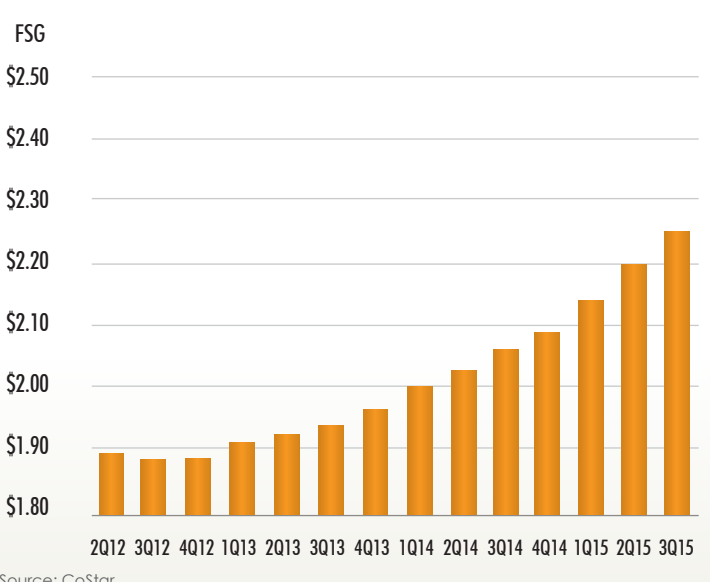
COUNTY WIDE NET ABSORPTION INCLUDING SUBLET SPACE



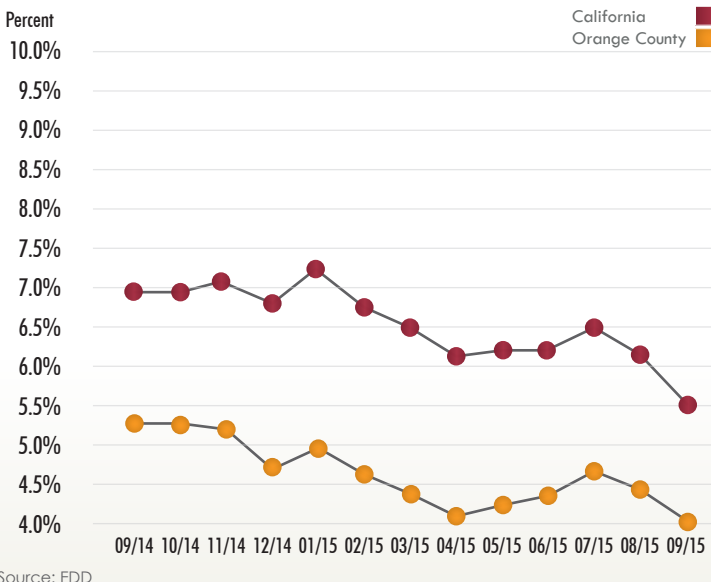
YTD NET ABSORPTION BY SUBMARKET, INCLUDING SUBLET SPACE



AVERAGE FSG LEASE RATES BY QUARTER

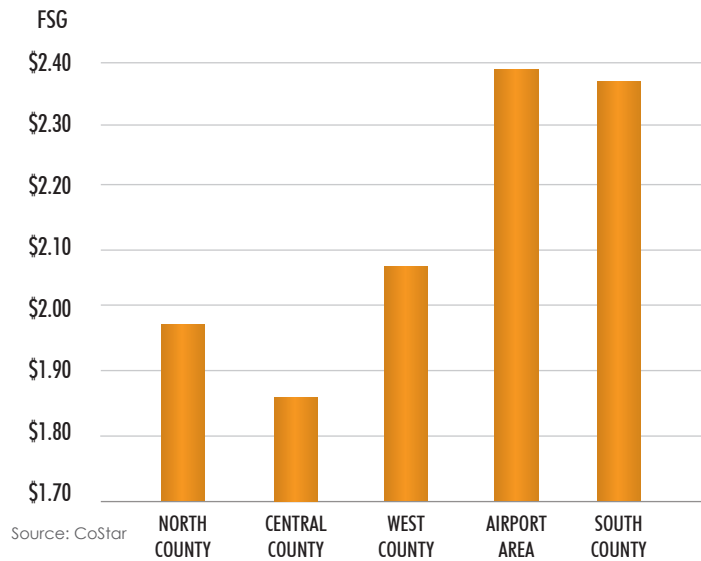


UNEMPLOYMENT RATE NOT SEASONALLY ADJUSTED



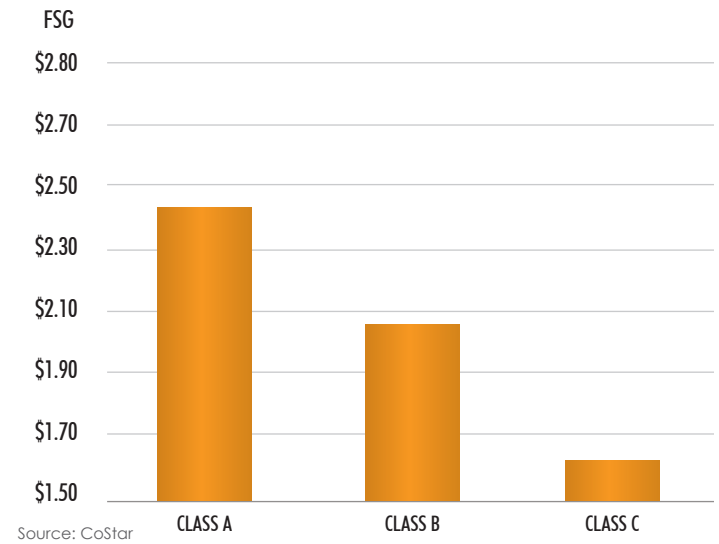
AVERAGE FSG LEASE RATE

BY SUBMARKET



AVERAGE FSG LEASE RATE

BY CLASS



COMPLETED LEE & ASSOCIATES TRANSACTIONS



2 South Orange County Campuses

1901 E. Alton Parkway, Suite 200
Santa Ana, CA400 N. Tustin Ave #301
Santa Ana, CA

Lease Transactions 3Q 15

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
2 South Orange County Campuses	425,317	Blizzard	Irvine Company & Olen Properties	Phil Cohen represented the Tenant.
1901 E. Alton Parkway, Suite 200 Santa Ana, CA	34,229	Cusumano – IBC Partners, LLC	Edward Lifesciences	Don Nourse and Jim Nourse represented the Landlord.
400 N. Tustin Ave #301 Santa Ana, CA	9,077	Hutchings Court Reporters	Parkcenter 400	John Hatzis represented the Landlord.

13340 183rd Street
Cerritos, CA1520 N. El Camino Real
San Clemente, CA180 S. Anita Drive
Orange, CA

Sale Transactions 3Q 15

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
13340 183rd Street Cerritos, CA	68,779	Zareen Faiz	Cohen Asset Management	Ryan Swanson and Chris Conway represented the Buyer.
1520 N. El Camino Real San Clemente, CA	28,176	RRV-1520, LLC	Providence 1520 E. Camino San Clemente, LLC	Tim Walker represented the Seller.
180 S. Anita Drive Orange, CA	13,646	Fred Bagatourian	Orange County National Electrical Contractors Association	James Hawkins & Phil Fridd Represented the Seller.

	Bldg Count	SF RBA	Total SF Available	Avail. Rate	Total SF Vacant	Total Vac. Rate	Direct SF Vacant	Direct Vac. Rate	Net Absorption	YTD Net Absorption	SF Avail Sublease	SF Vacant Sublease	Avg Asking Lease Rate	SF Under Construction
BY CITY														
Aliso Viejo	38	2,980,379	371,933	12.5%	186,230	6.2%	151,627	5.1%	27,631	11,918	99,539	34,603	\$2.61	- 0 -
Anaheim	80	7,440,844	1,278,224	17.2%	980,159	13.2%	955,637	12.8%	(47,205)	401,314	113,083	24,522	\$2.03	- 0 -
Brea	40	4,032,634	702,576	17.4%	447,443	11.1%	367,064	9.1%	50,253	(17,343)	129,973	80,379	\$1.94	- 0 -
Buena Park	13	933,313	166,360	16.5%	58,881	6.3%	58,881	6.3%	1,600	19,266	1,010	- 0 -	\$1.85	72,343
Corona del Mar	2	90,054	9,806	10.9%	9,806	10.9%	6,547	7.3%	- 0 -	(4,605)	3,259	3,259	\$4.25	- 0 -
Costa Mesa	65	7,133,627	941,968	13.2%	771,877	10.8%	725,972	10.2%	249,008	315,592	138,736	45,905	\$2.36	- 0 -
Cypress	26	1,911,987	461,768	24.2%	293,471	15.3%	293,471	15.3%	25,477	(33,153)	135,988	- 0 -	\$1.97	- 0 -
Dana Point	3	135,296	- 0 -	0.0%	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	-	- 0 -
Foothill Ranch	10	798,721	152,227	19.1%	162,392	20.3%	147,817	18.5%	(9,950)	(33,646)	50,137	14,575	\$2.31	- 0 -
Fountain Valley	26	1,791,659	74,627	4.2%	66,956	3.7%	66,956	3.7%	847	647	- 0 -	- 0 -	\$1.94	- 0 -
Fullerton	31	2,515,898	447,700	17.8%	322,661	12.8%	322,661	12.8%	55,131	7,056	2,969	- 0 -	\$2.17	- 0 -
Garden Grove	17	1,485,848	110,723	7.5%	54,164	3.6%	54,164	3.6%	16,255	14,882	11,980	- 0 -	\$1.65	- 0 -
Huntington Beach	31	2,159,176	376,537	17.4%	293,395	13.6%	172,275	8.0%	12,396	(120,910)	126,803	121,120	\$2.21	- 0 -
Irvine	382	33,352,324	4,383,413	12.5%	2,718,990	8.2%	2,417,023	7.2%	56,877	219,772	766,842	301,967	\$2.45	1,675,044
La Habra	4	142,069	- 0 -	0.0%	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	\$0.00	- 0 -
La Palma	10	712,038	112,058	15.7%	122,092	17.1%	122,092	17.1%	4,001	24,169	3,573	- 0 -	\$1.91	- 0 -
Ladera Ranch	3	127,065	22,906	18.0%	16,450	12.9%	16,450	12.9%	6,320	4,206	6,456	- 0 -	\$2.13	- 0 -
Laguna Beach	5	194,434	28,895	14.9%	28,895	14.9%	28,895	14.9%	- 0 -	2,817	- 0 -	- 0 -	\$2.63	- 0 -
Laguna Hills	25	1,627,235	357,567	22.0%	337,942	20.8%	335,556	20.6%	(7,962)	(20,876)	5,718	2,386	\$2.44	- 0 -
Laguna Niguel	8	1,691,485	54,697	3.2%	65,570	3.9%	65,570	3.9%	249	7,633	2,671	- 0 -	\$2.68	- 0 -
Laguna Woods	1	41,280	4,379	10.6%	4,379	10.6%	4,379	10.6%	- 0 -	(4,379)	- 0 -	- 0 -	\$3.50	- 0 -
Lake Forest	31	1,845,537	201,419	10.9%	210,179	11.4%	210,179	11.4%	22,761	107,426	68,534	- 0 -	\$2.10	- 0 -
Los Alamitos	9	610,423	183,366	30.0%	36,835	6.0%	36,835	6.0%	405	4,029	- 0 -	- 0 -	\$2.41	- 0 -
Mission Viejo	32	1,804,462	257,394	14.3%	196,014	10.9%	196,014	10.9%	26,774	47,556	6,060	- 0 -	\$2.22	- 0 -
Newport Beach	99	9,343,137	1,159,203	12.4%	966,410	10.3%	949,351	10.2%	264,363	133,786	151,364	17,059	\$2.92	- 0 -
Orange	63	6,627,350	795,572	12.0%	544,414	8.2%	535,946	8.1%	27,656	261,426	31,532	8,468	\$2.15	- 0 -
Placentia	5	185,164	32,795	17.7%	31,029	16.8%	31,029	16.8%	170	(814)	- 0 -	- 0 -	\$1.73	- 0 -
Rancho Santa Margarita	5	225,472	26,880	11.9%	30,740	13.6%	30,740	13.6%	7,446	14,723	- 0 -	- 0 -	\$2.03	- 0 -
San Clemente	9	423,171	44,258	10.5%	16,382	3.9%	14,793	3.5%	11,228	11,676	1,589	1,589	\$2.14	- 0 -
San Juan Capistrano	17	879,011	163,875	18.6%	161,314	18.4%	159,808	18.2%	47,992	50,828	1,506	1,506	\$2.36	- 0 -
Santa Ana	162	14,217,365	3,100,355	21.8%	2,148,390	15.1%	2,082,714	14.6%	(134,829)	(48,627)	182,771	65,676	\$1.84	- 0 -
Seal Beach	6	445,365	61,241	13.8%	79,296	17.8%	71,423	16.0%	(17,596)	(47,570)	10,669	7,873	\$2.87	- 0 -
Stanton	2	85,917	8,239	9.6%	6,459	7.5%	6,459	7.5%	976	976	- 0 -	- 0 -	\$0.97	- 0 -
Tustin	32	1,859,701	415,082	22.3%	217,732	11.7%	217,732	11.7%	(15,754)	19,580	13,454	- 0 -	\$1.93	- 0 -
Westminster	10	429,031	82,216	19.2%	53,503	12.5%	53,503	12.5%	(164)	(24,393)	- 0 -	- 0 -	\$2.01	- 0 -
Yorba Linda	7	359,206	43,551	12.1%	43,551	12.1%	43,551	12.1%	(7,292)	203	- 0 -	- 0 -	\$1.75	- 0 -
Orange County Totals	1,309	110,637,678	16,633,810	15.0%	11,684,001	10.6%	10,953,114	9.9%	674,894	1,368,032	2,066,216	730,887	\$2.25	1,747,387
BY AREA														
North Orange County	173	14,288,876	2,342,148	16.3%	1,664,454	11.6%	1,576,948	17.7%	162,432	353,517	185,374	87,506	\$1.97	72,343
Central Orange County	259	22,318,586	3,989,962	17.9%	2,644,930	11.9%	2,567,289	28.8%	(225,134)	377,181	199,111	77,641	\$1.86	- 0 -
West Orange County	127	8,919,406	1,358,717	15.2%	884,079	9.9%	755,086	8.5%	38,596	(163,609)	285,440	128,993	\$2.07	- 0 -
Greater Airport Area	420	42,401,258	5,787,343	13.6%	4,313,706	10.2%	4,121,754	46.2%	659,600	797,598	887,342	191,952	\$2.39	- 0 -
South Orange County	330	22,709,552	3,155,640	12.9%	2,176,832	9.6%	1,932,037	21.7%	39,400	3,345	508,949	244,795	\$2.37	1,675,044
Orange County Totals	1,309	110,637,678	16,633,810	15.0%	11,684,001	10.6%	10,953,114	9.9%	674,894	1,368,032	2,066,216	730,887	\$2.25	1,747,387
BY BUILDING CLASS														
Class A	280	45,075,098	8,196,840	17.6%	5,456,852	12.1%	5,081,727	11.3%	307,658	793,301	1,391,496	375,125	\$2.43	1,597,387
Class B	929	60,526,557	7,842,202	12.9%	5,924,239	9.8%	5,572,689	9.2%	387,665	571,474	668,688	351,550	\$2.06	150,000
Class C	100	5,036,023	594,768	11.8%	302,910	6.0%	298,698	5.9%	(20,429)	3,257	6,032	4,212	\$1.62	- 0 -
Orange County Totals	1,309	110,637,678	16,633,810	15.0%	11,684,001	10.6%	10,953,114	9.9%	674,894	1,368,032	2,066,216	730,887	\$2.25	1,747,387

ABOUT LEE & ASSOCIATES



As a group of independently owned and operated companies, Lee & Associates currently has more than 54 offices in Arizona, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Kansas, Maryland, Michigan, Missouri, Nevada, New Jersey, New York, Ohio, Pennsylvania, South Carolina, Texas and Wisconsin.

With a broad array of regional, national and international clients—ranging from individual investors and small businesses, to large corporations and institutions—Lee & Associates has successfully completed transactions with a total value of more than \$9 billion last year, alone.

OFFICE SERVICES

The firm's office brokers negotiate various transactions, including mid- and high-rise properties, business and office parks, mixed-used projects, office land for development, multi-tenant buildings and commercial investments. Our brokers analyze the financial arrangements to streamline transactions, and use innovative marketing efforts and unique transaction structuring to provide creative solutions to meet the client's needs.

Our comprehensive service line includes owner and tenant leasing, acquisition and sales, along with marketing and consulting capabilities. We focus on strategic counseling, rather than merely the transaction, in order to execute the best possible real estate strategies for our clients. This includes building strong relationships within the brokerage community overall. As a result, our clients are assured of the broadest exposure possible.

SUBMARKETS:

NORTH

Anaheim Hills, Brea/La Habra, Buena Park/La Palma, Fullerton, North/East Anaheim, Placentia/Yorba Linda

CENTRAL

Civic Center Area, East Orange, Main Place Area, Parkcenter Area, Santa Ana, Stadium Area, The City Area, Tustin (South of I-5)

WEST

Cypress, Fountain Valley, Garden Grove, Huntington Beach, Los Alamitos/Stanton, Seal Beach, Westminster

AIRPORT

Costa Mesa, Irvine, Newport Beach, South Santa Ana

SOUTH

Irvine Spectrum, Laguna Hills/Aliso Viejo, Laguna Niguel/Laguna Beach, Lake Forrest/Foothill Ranch/Rancho Santa Margarita, Mission Viejo, San Juan Capistrano/San Clemente/Dana Point/Capistrano Beach

OUTLYING

Outlying Orange County

FORECAST:

The latest economic forecasts by local economists for Orange County occurred before this summer's meltdown in the Asian stock markets but UCLA Anderson economist William Yu predicted in September that while China's economic turmoil could hamper local exports and tourism, smart money from China will continue to invest in local real estate as long as more capital controls are not imposed.



COMMERCIAL REAL ESTATE SERVICES

Office Members of the Lee & Associates Group of Companies-Orange County

LEE & ASSOCIATES - IRVINE

9838 Research Drive
Irvine, California 92618
(949) 727-1200

Allen Basso	Alex Lyon
Jeff Bischofberger	Mia Pham
Kurt Bruggeman	Brad Rawlins
Sammy Cemo	Ted Rommel
Phil Cohen	Dave Smith
Chris Conway	Justin Smith
Eric Darnell	Ryan Swanson
BJ Fell	Todd Swanson
Craig Fitterer	Nathan Tupman
Matt Fryer	Travis Watts
Brian Garbutt	Adam Wicker
Ryan Harman	
Mark Jerue	
David LaFosse	

LEE & ASSOCIATES - NEWPORT BEACH

100 Bayview Circle, Suite 600
Newport Beach, California 92660
(949) 724-1000

Frank Adler	Bob Rieden
Sean Ahern	David Romero
Kimberly Ahlberg	Kevitt Sale
Tim Arguello	Dick Silva
David Bolt	Tom West
Alton Burgess	Tim Walker
John Collins	
Matt Durkin	
Travis Haining	
Ryan Lawler	
Gary McArdell	
Matt McKinlay	
Don Nourse	
Jim Nourse	

LEE & ASSOCIATES - ORANGE

1004 West Taft Avenue, Suite 150
Orange, California 92865
(714) 647-9100

Craig Demiranda
Jonmark Fabiano
Phil Fridd
John Hatzis
James Hawkins
Jaimeson Hearne
David Newton
Matt Orville
Bob Sattler
John Son
Erik Thompson
Marshal Vogt

No warranty or representation is made to the accuracy of the foregoing information. Terms of sale or lease and availability are subject to change or withdrawal without notice.