



Q3 Vacancies Fall; 'Creative Space' Lands First Big Lease

Strong demand for Orange County office space continued in the third quarter as the vacancy rate settled at 10.3%. There was positive net absorption across all five of the county's submarkets.

The rate of absorption could be healthier for much of the highly touted "creative space," featuring open floorplans and highly designed common areas aimed at companies with younger workforces. In the last two years developers have spent millions of dollars to enhance more than 1 million sq. ft. of existing buildings in hopes of commanding premium rents. But of the largest projects only one, The Habitat in Irvine by Bixby Land Company, is leased up. Bixby signed Karma Automotive for the 242,462 sq. ft. project in August.

There has been a handful of 10,000-sq.-ft to 12,000-sq.-ft. leases, but none yet for the many available 40,000-sq.-ft. to 50,000-sq.-ft. blocks of space. One reason could be pricing. A project at the Airport is asking \$4 per sq. ft. – more than for some nearby high-rise space. Another project in Anaheim is asking \$2.85 per sq. ft., nearly equal to asking rates for Class A buildings at the Stadium.

It was the 10th consecutive quarter of positive absorption in the 1,313 office buildings in Lee & Associates' quarterly survey and for the first time total occupancy surpassed 100 million sq. ft. Year-over-year average asking rents are up 11% in Class A buildings and 4.8% in Class B buildings.

The Airport submarket, which has 45.8 million sq. ft. of space and the bulk of the county's Class A office buildings, posted 167,833 sq. ft. of net absorption and its vacancy rate fell from 10.2% to 9.9%.

South County with 23.4 million sq. ft. of office space leads in overall demand with an 8.2% vacancy rate. Third-quarter net absorption was 9,370 sq. ft. and totals 768,634 sq. ft. over the last four quarters. Average rents are up 7.5% year over year.

The vacancy rate fell to 9% in West County, a submarket with 8.9 million sq. ft. in Los Alamitos, Huntington Beach, Seal Beach and Cypress, Seal Beach and Westminster.

The Central County submarket posted its second straight quarter of positive net absorption but has put 52,938 sq. ft. of space back on the market over the last four quarters. Its vacancy rate at the end of Q3 was 13.9%, down only slightly from the 15% at the bottom of the recession, and average rents have increased 12.1% in the last three years.

Third-quarter net absorption in North County was 38,146 sq. ft. and totals 169,646 year to date. The vacancy rate fell from 10.5% to 10.2% and average asking rents are up 5% year over year.

With about 34 million sq. ft. throughout 386 buildings, Irvine has the most office space of any city in Orange County. The overall vacancy rate is 8.3%, virtually unchanged from a year ago, and average asking rents are up 6% year over year.

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

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MARKET OVERVIEW

(Change from last quarter)

AVAILABILITY - 16.20%

Up from 15.80% last quarter



VACANCY - 10.30%

Down from 10.60% last quarter



ABSORPTION - 371,650 SQ. FT.

Down from 577,845 SF last quarter



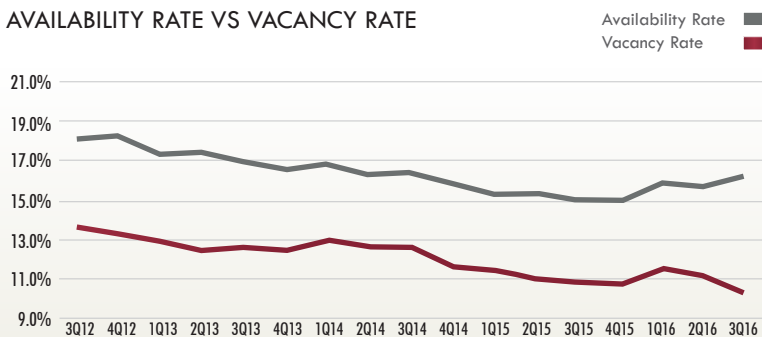
AVERAGE LEASE RATE - \$2.41 FSG

Up from \$2.40 PSF last quarter



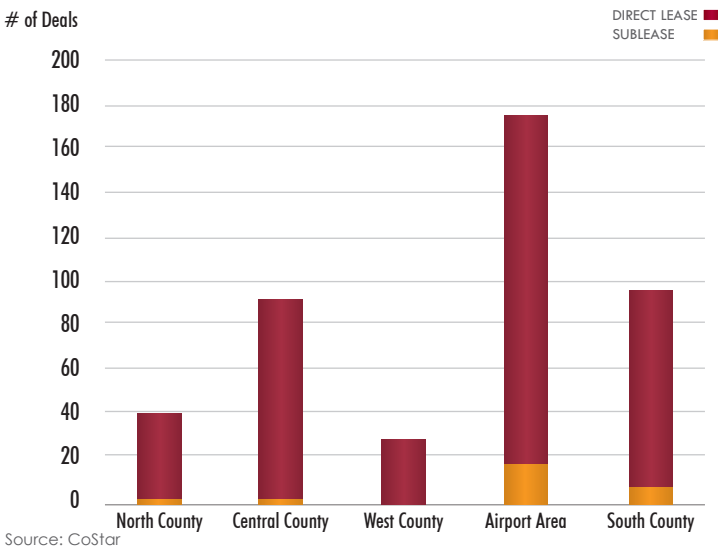
*All numbers are based on office space in buildings 30,000 sq. ft. and larger.

AVAILABILITY RATE VS VACANCY RATE

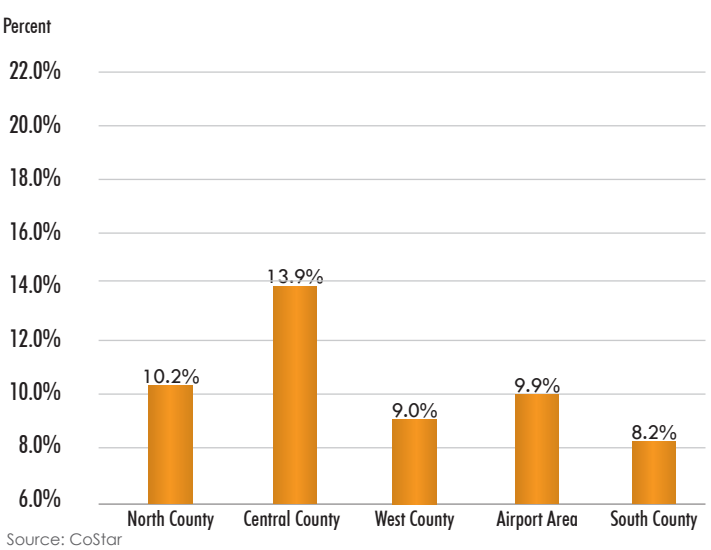


Source: CoStar

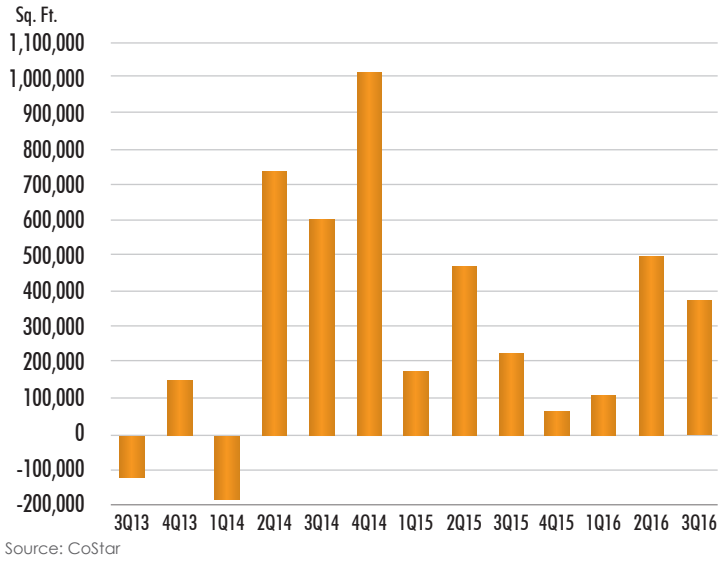
NUMBER OF LEASES EXECUTED FOR THE QUARTER BY SUBMARKET



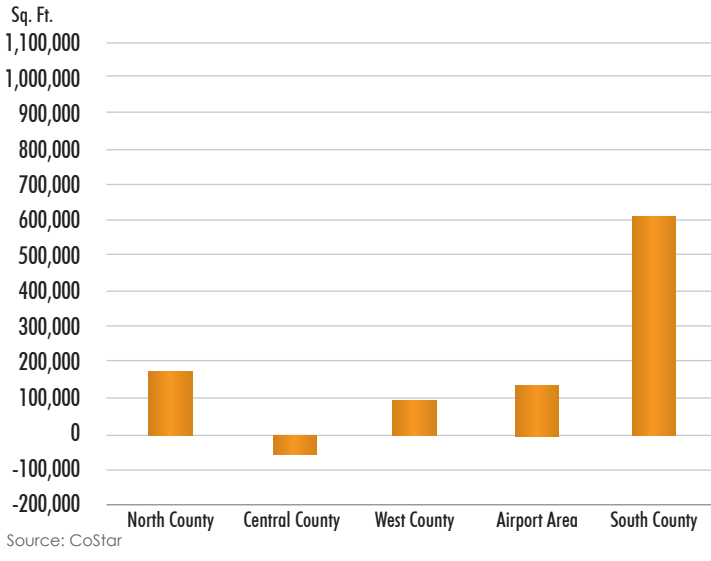
VACANCY RATE BY SUBMARKET - INCLUDING SUBLET SPACE



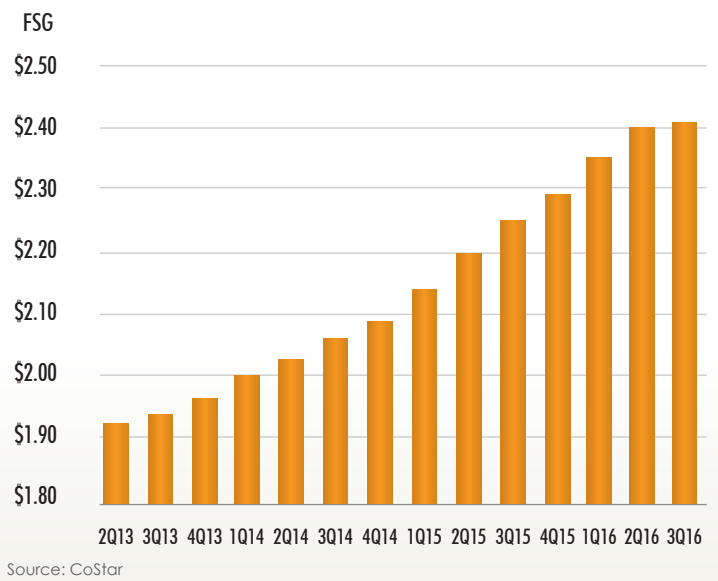
COUNTY WIDE NET ABSORPTION INCLUDING SUBLET SPACE



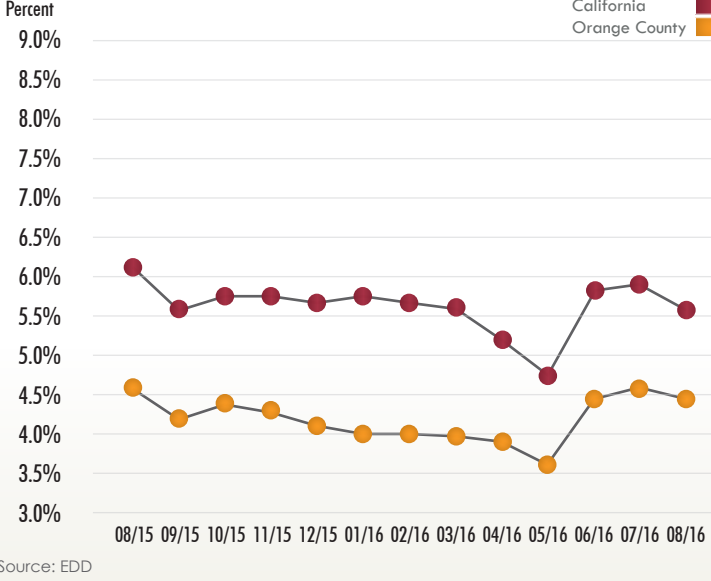
YTD NET ABSORPTION BY SUBMARKET, INCLUDING SUBLET SPACE



AVERAGE FSG LEASE RATES BY QUARTER

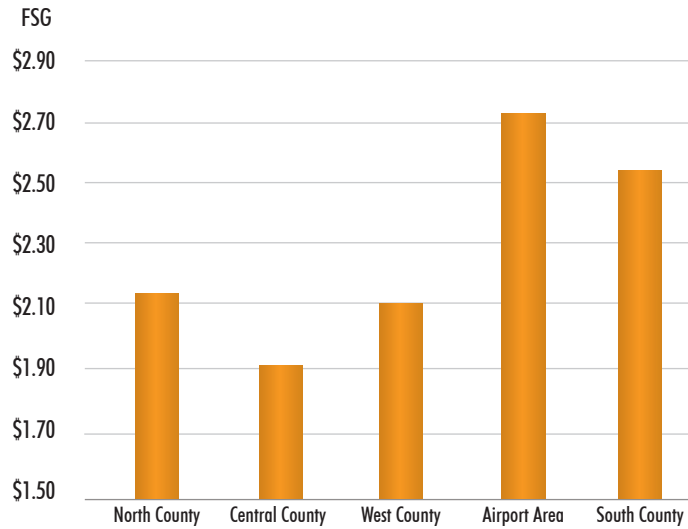


UNEMPLOYMENT RATE NOT SEASONALLY ADJUSTED



AVERAGE FSG LEASE RATE

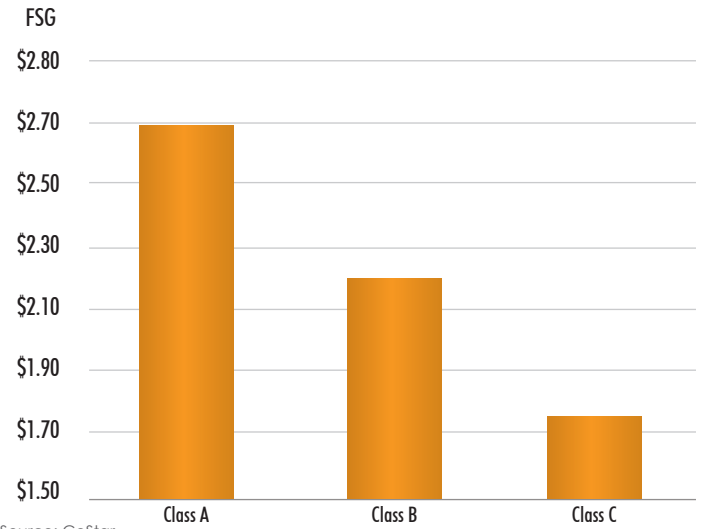
BY SUBMARKET



Source: CoStar

AVERAGE FSG LEASE RATE

BY CLASS



Source: CoStar

COMPLETED LEE & ASSOCIATES TRANSACTIONS



300 Spectrum Center Drive #300
Irvine, CA



209 Avenida Fabricante, Suite 200
San Clemente, CA



24331 El Toro Road
Laguna Hills, CA

Lease Transactions 3Q 16

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
300 Spectrum Center Drive #300	24,304	Haskell & White	The Irvine Company	Gary McArdell represented the Tenant.
209 Avenida Fabricante, Suite 200 San Clemente, CA	11,540	Sambazon	Carol Ann Crocker Trust	Kurt Bruggeman and Ryan Harman represented the Tenant.
24331 El Toro Road Laguna Hills, CA	4,379	Mark IV Town Centre, LLC	Saddleback Medical Group	Matt Orville represented the Landlord.



4150 Concours Street
Ontario, CA



17891 Cartwright
Irvine, CA



24902 Moulton Parkway
Laguna Hills, CA

Sale Transactions 3Q 16

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
4150 Concours Street Ontario, CA	40,000	Star Property LB Investment	Premed Properties	Jeff Bischofberger and Ryan Swanson represented the Buyer.
17891 Cartwright Irvine, CA	29,081	Burke Cartwright Partners	Kai Lang Liang	John Collins represented the Buyer and the Seller.
24902 Moulton Parkway Laguna Hills, CA	9,244	Adrian Gonzalez	24902 Moulton, LLC	Marshal Vogt & Jaimeson Hearne 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	39	3,015,950	508,618	15.8%	268,876	8.9%	258,191	8.6%	(20,497)	(48,077)	105,947	10,685	\$2.85	205,000
Anaheim	80	7,359,689	1,263,541	17.2%	943,650	12.8%	914,946	12.4%	38,126	81,884	104,153	28,704	\$2.15	- 0 -
Brea	39	3,974,355	594,702	15.0%	405,406	10.2%	329,224	8.3%	(18,929)	38,033	96,526	76,182	\$1.98	- 0 -
Buena Park	14	1,031,337	254,123	24.6%	105,138	10.2%	105,138	10.2%	(16,162)	31,525	- 0 -	- 0 -	\$2.09	- 0 -
Corona del Mar	2	90,054	8,177	9.1%	8,177	9.1%	8,177	9.1%	(4,177)	(4,918)	- 0 -	- 0 -	\$4.24	- 0 -
Costa Mesa	64	7,108,668	1,226,741	17.3%	866,769	12.2%	855,321	12.0%	57,227	172,151	126,806	11,448	\$2.32	- 0 -
Cypress	26	1,919,854	552,483	28.8%	391,133	20.4%	391,133	20.4%	(2,726)	(29,290)	143,701	0	\$2.07	- 0 -
Dana Point	3	135,296	1,200	0.9%	1,200	0.9%	- 0 -	0.0%	- 0 -	(1,200)	1,200	1,200	\$0.00	- 0 -
Foothill Ranch	10	798,721	146,475	18.3%	86,780	10.9%	80,876	10.1%	(8,665)	(13,672)	18,741	5,904	\$2.48	- 0 -
Fountain Valley	27	1,838,765	67,816	3.7%	60,750	3.3%	60,750	3.3%	3,547	9,691	- 0 -	- 0 -	\$1.90	- 0 -
Fullerton	30	2,432,708	369,286	15.2%	175,399	7.2%	175,399	7.2%	11,321	38,270	326	- 0 -	\$2.53	- 0 -
Garden Grove	17	1,483,388	66,489	4.5%	64,813	4.4%	64,813	4.4%	(5,985)	(13,272)	- 0 -	- 0 -	\$1.80	- 0 -
Huntington Beach	31	2,161,147	241,632	11.0%	133,584	6.2%	133,584	6.2%	89,719	112,414	15,103	- 0 -	\$2.14	44,500
Irvine	386	34,097,060	6,631,035	18.3%	2,825,422	8.3%	2,684,353	7.9%	136,836	333,276	1,160,940	141,069	\$2.60	2,096,020
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	59,679	8.4%	93,266	13.1%	93,266	13.1%	32,647	26,420	- 0 -	- 0 -	\$1.96	- 0 -
Ladera Ranch	3	127,065	28,694	22.6%	22,238	17.5%	22,238	17.5%	(2,493)	(6,186)	6,456	- 0 -	\$2.14	- 0 -
Laguna Beach	5	192,434	22,414	11.6%	20,834	10.8%	20,834	10.8%	3,763	8,061	1,580	- 0 -	\$2.53	- 0 -
Laguna Hills	25	1,626,353	314,946	19.4%	264,408	16.3%	262,549	16.1%	14,501	14,892	18,997	1,859	\$2.70	- 0 -
Laguna Niguel	8	1,691,469	53,565	3.2%	45,478	2.7%	45,478	2.7%	5,522	20,092	2,671	- 0 -	\$3.06	- 0 -
Laguna Woods	- 0 -	- 0 -	- 0 -	0.0%	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	\$0.00	- 0 -
Lake Forest	32	1,886,029	250,937	13.3%	121,952	6.5%	121,952	6.5%	(22,949)	81,374	72,891	- 0 -	\$2.24	- 0 -
Los Alamitos	9	610,423	36,435	6.0%	29,650	4.9%	29,650	4.9%	917	(1,899)	10,000	- 0 -	\$2.74	- 0 -
Mission Viejo	32	1,813,478	261,674	14.4%	198,546	10.9%	192,798	10.6%	(31,903)	3,521	46,891	5,748	\$2.30	- 0 -
Newport Beach	99	9,381,831	1,181,794	12.5%	770,570	8.2%	692,712	7.4%	(30,527)	158,905	118,274	77,858	\$3.46	44,000
Orange	63	6,627,319	685,468	10.3%	533,829	8.1%	527,300	8.0%	(68,514)	(73,454)	44,956	6,529	\$2.23	- 0 -
Placentia	5	185,164	30,178	16.3%	24,289	13.1%	24,289	13.1%	(3,168)	2,718	- 0 -	- 0 -	\$1.67	- 0 -
Rancho Santa Margarita	5	225,472	19,702	8.7%	15,629	6.9%	15,629	6.9%	496	2,810	- 0 -	- 0 -	\$2.31	- 0 -
San Clemente	9	423,171	35,414	8.4%	28,512	6.7%	28,512	6.7%	7,734	(11,757)	- 0 -	- 0 -	\$2.32	- 0 -
San Juan Capistrano	17	876,712	146,084	16.7%	138,014	15.7%	138,014	15.7%	12,964	16,536	2,244	- 0 -	\$2.10	- 0 -
Santa Ana	162	14,316,083	2,279,842	15.9%	2,211,875	15.5%	2,173,260	15.2%	176,176	149,533	152,110	38,615	\$1.85	- 0 -
Seal Beach	6	445,365	52,128	11.7%	47,072	10.6%	47,072	10.6%	(436)	4,242	5,056	- 0 -	\$2.82	- 0 -
Stanton	2	85,917	11,374	13.2%	7,699	9.0%	7,699	9.0%	1,792	(767)	- 0 -	- 0 -	\$1.25	- 0 -
Tustin	34	2,016,621	577,707	28.6%	477,140	23.7%	467,940	23.2%	21,431	(131,804)	22,654	9,200	\$2.14	- 0 -
Westminster	10	429,031	83,598	19.5%	69,081	16.1%	69,081	16.1%	2,319	2,741	- 0 -	- 0 -	\$2.17	- 0 -
Yorba Linda	5	288,094	42,809	14.9%	42,809	14.9%	42,809	14.9%	(8,257)	(8,830)	- 0 -	- 0 -	\$1.75	- 0 -
Orange County Totals	1,313	111,549,130	18,106,760	16.2%	11,499,988	10.3%	11,084,987	9.9%	371,650	952,961	2,278,223	415,001	\$2.41	2,389,520
BY AREA														
North Orange County	171	14,202,593	2,221,679	15.6%	1,454,402	10.2%	1,358,220	9.6%	38,146	169,646	182,458	96,182	\$2.13	- 0 -
Central Orange County	260	22,434,482	3,446,170	15.4%	3,128,159	13.9%	3,065,111	13.7%	67,154	(44,819)	225,750	63,048	\$1.91	- 0 -
West Orange County	128	8,973,890	1,111,955	12.3%	803,782	9.0%	803,782	9.0%	89,147	83,860	173,860	- 0 -	\$2.10	44,500
Greater Airport Area	418	42,580,308	8,001,568	18.5%	4,194,347	9.9%	4,023,336	9.4%	167,833	132,308	1,122,600	171,011	\$2.73	581,224
South Orange County	336	23,357,857	3,325,388	13.2%	1,919,298	8.2%	1,834,538	7.9%	9,370	611,966	573,555	84,760	\$2.54	1,763,796
Orange County Totals	1,313	111,549,130	18,106,760	16.2%	11,499,988	10.3%	11,084,987	9.9%	371,650	952,961	2,278,223	415,001	\$2.41	2,389,520
BY BUILDING CLASS														
Class A	283	45,773,253	9,135,388	19.0%	5,414,538	11.8%	5,175,989	11.3%	322,962	318,163	1,336,470	238,549	\$2.69	2,345,020
Class B	931	60,769,286	8,512,453	14.0%	5,776,453	9.5%	5,600,001	9.2%	56,223	648,802	941,753	176,452	\$2.20	44,500
Class C	99	5,006,591	458,919	9.2%	308,997	6.2%	308,997	6.2%	(7,535)	(14,004)	- 0 -	- 0 -	\$1.75	- 0 -
Orange County Totals	1,313	111,549,130	18,106,760	16.2%	11,499,988	10.3%	11,084,987	9.9%	371,650	952,961	2,278,223	415,001	\$2.41	2,389,520

ABOUT LEE & ASSOCIATES



Celebrating more than 37 years of leadership excellence in commercial real estate, Lee & Associates is the largest broker-owned firm in North America with locations across the U.S. and Canada including Arizona, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Maryland, Michigan, Minnesota, Missouri, Nevada, New Jersey, New York, Ohio, Pennsylvania, South Carolina, Texas, Vancouver BC 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 clients' 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 Forest/Foothill Ranch/Rancho Santa Margarita, Mission Viejo, San Juan Capistrano/San Clemente/Dana Point/Capistrano Beach

OUTLYING

Outlying Orange County

FORECAST:

A repeat of the Q3 absorption total of 371,650 sq. ft. would drive down Orange County's office vacancy rate at the end of 2016 to 9.98%.



COMMERCIAL REAL ESTATE SERVICES

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

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BJ Fell	Ryan Swanson
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