Rents Up Sharply In 2015 As Employers Add Space

Positive overall demand for office space continued in 2015 for the fifth straight year as the vacancy rate fell to 10.9%, down 81 basis points year over year. More importantly for landlords and tenants, overall asking rents jumped 9% in 2015, their biggest annual increase since the recovery began.

Net absorption in 2015 countywide was 926,485 sq. ft. It was the weakest annual gain since 2010. Absorption was fueled by healthy demand for Class A space while demand for Class B buildings went flat after posting positive absorption of 1.1 million sq. ft. in 2014.

Three of the county's five submarkets showed net absorption gains in 2015. Cities where employers added the most space in 2015 were Anaheim, Irvine, Orange and Newport Beach respectively and totaling more than 1.1 million sq. ft.

Among the nation's hardest-hit office markets in the recession with vacancy topping 17%, Orange County is among the nation's best performers since. More than 8 million sq. ft. have come off available inventory.

Despite the sharp rise in lease rates, which are up 21% since 2012, average asking rents remain 14.5% less than at their bubble-fueled peak in 2007. Nevertheless, developers emboldened by an improving economy are underway on 1.7 million sq. ft. of space, mostly in the Irvine Spectrum, and plans have been announced for more than 1 million sq. ft. of space at the Airport.

MARKET OVERVIEW

(Change from last quarter)

AVAILABILITY - 15.02%
Down from 15.07%% last quarter

VACANCY - 10.96%
Down from 11.02% last quarter

ABSORPTION - 64,574 SQ. FT.
Down from 220,404 SF last quarter

AVERAGE LEASE RATE - $2.29 FSG
Up from $2.25 last quarter

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

Space in the 42.5-million-sq.-ft. Airport submarket was in greatest demand in 2015 with 703,250 sq. ft. coming off available inventory. This pushed the vacancy rate down to 10.4% -- a drop of 160 basis points from 2014.

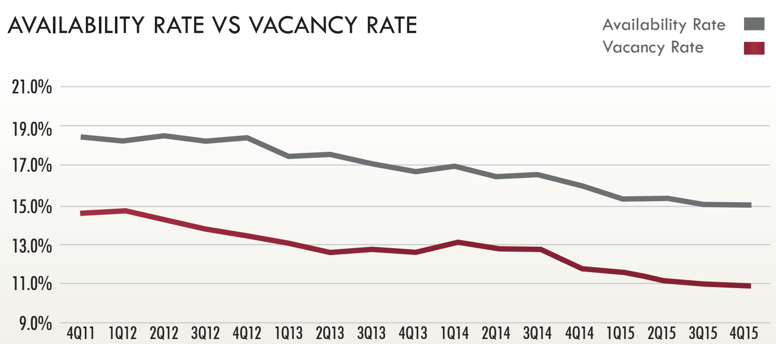
Vacant space in the smaller North County submarket also declined in 2015 by 250 basis points. The submarket totals 14.1 million sq. ft. of space and includes Brea, La Habra, Buena Park, Fullerton, Placentia and Yorba Linda.

South County posted 174,609 sq. ft. of net absorption in 2015 with its vacancy rate settling at 9.3%, a year-over-year drop of 60 basis points.

More than 300,000 sq. ft. of space was added to the available rolls last year in the West County and Central County submarkets.

Central County, which includes Anaheim, Santa Ana, Orange and Garden Grove and totals 22.3 million sq. ft., saw its vacancy rate increase 50 basis points to 14%. Nevertheless, asking lease rates increased 7.5% during the same period.

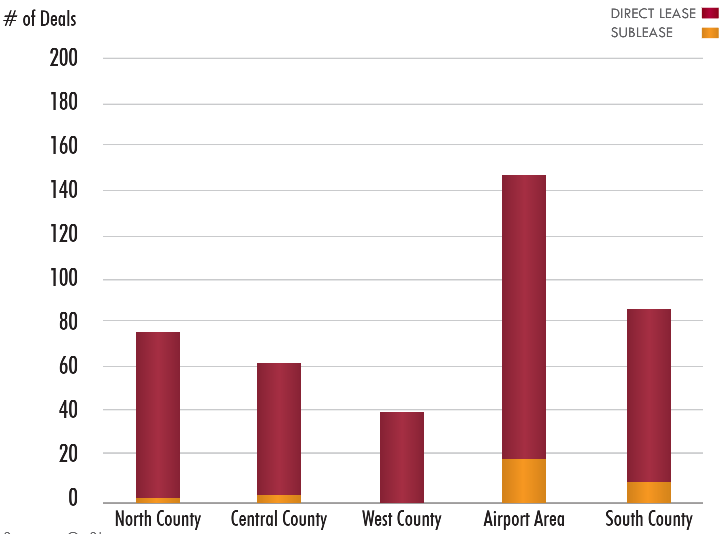
The small 9-million-sq.-ft. West County submarket – which includes Cypress, Huntington Beach, Los Alamitos, Seal Beach and Westminster – added about 200,000 sq. ft. to the vacancy column in 2015, pushing up its vacancy rate 220 basis points to 10.3%.



Source: CoStar

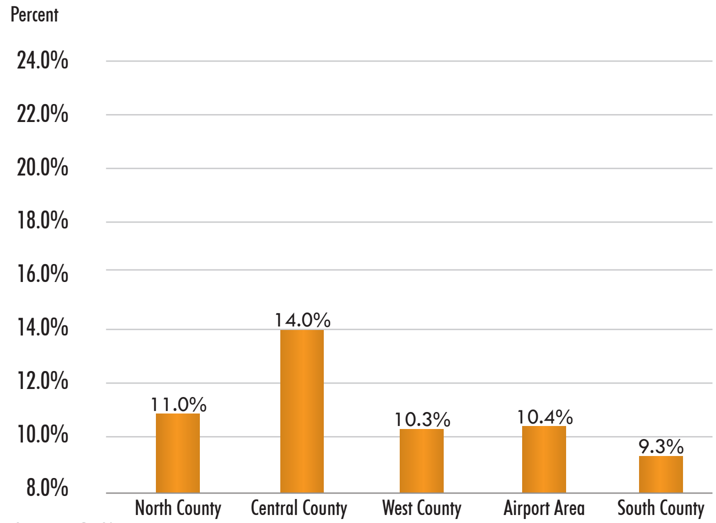
The Orange County Office Market Report is published quarterly by the Lee & Associates' Irvine, Newport Beach and Orange offices.

NUMBER OF LEASES EXECUTED FOR THE QUARTER — BY SUBMARKET



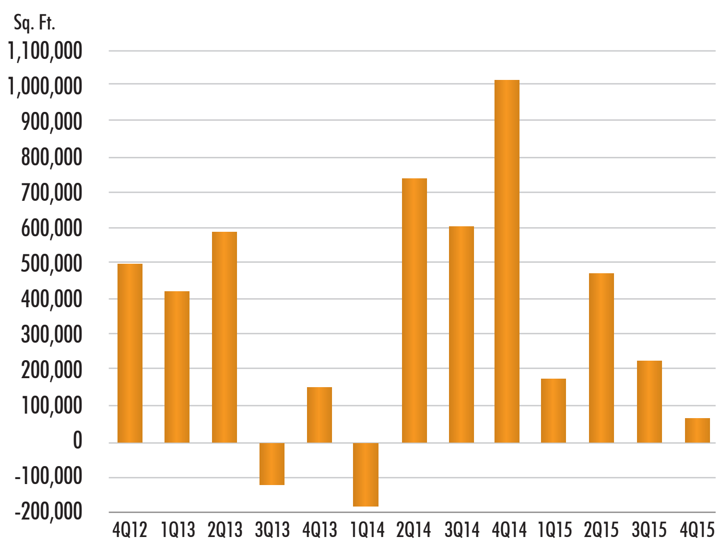
Source: CoStar

VACANCY RATE — BY SUBMARKET - INCLUDING SUBLET SPACE



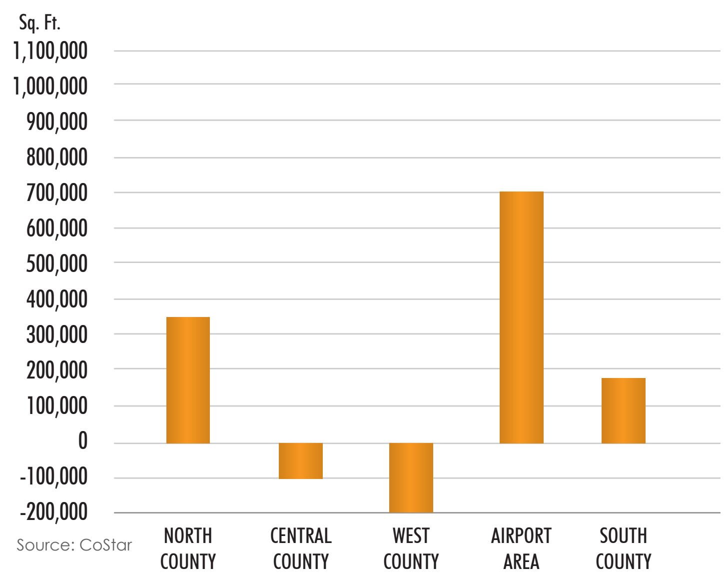
Source: CoStar

COUNTY WIDE NET ABSORPTION — INCLUDING SUBLET SPACE



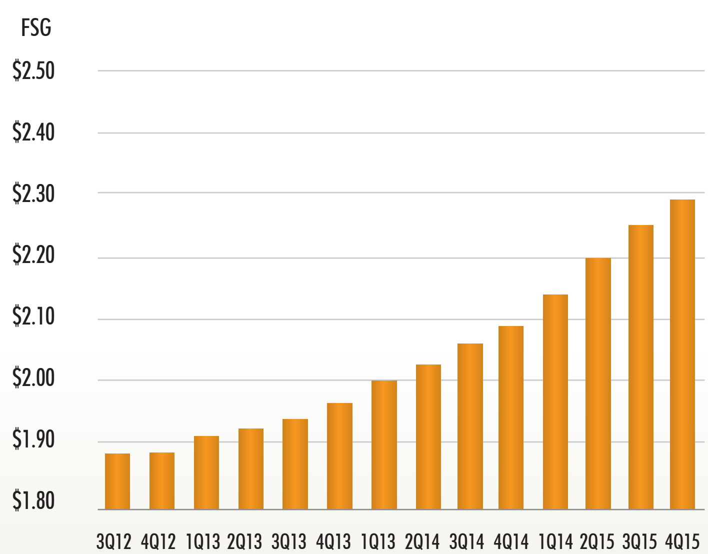
Source: CoStar

YTD NET ABSORPTION — BY SUBMARKET, INCLUDING SUBLET SPACE



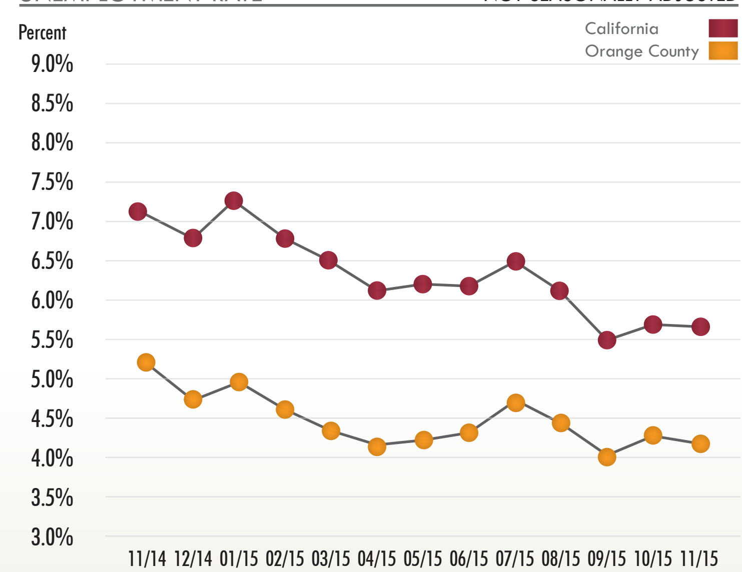
Source: CoStar

AVERAGE FSG LEASE RATES BY QUARTER



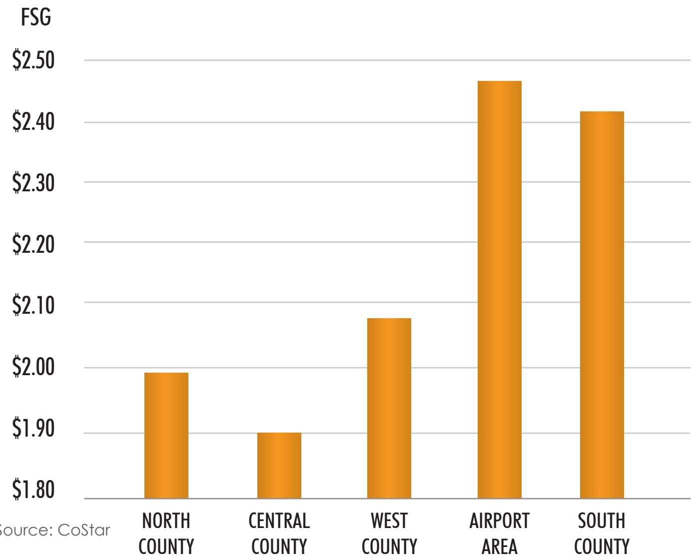
Source: CoStar

UNEMPLOYMENT RATE — NOT SEASONALLY ADJUSTED



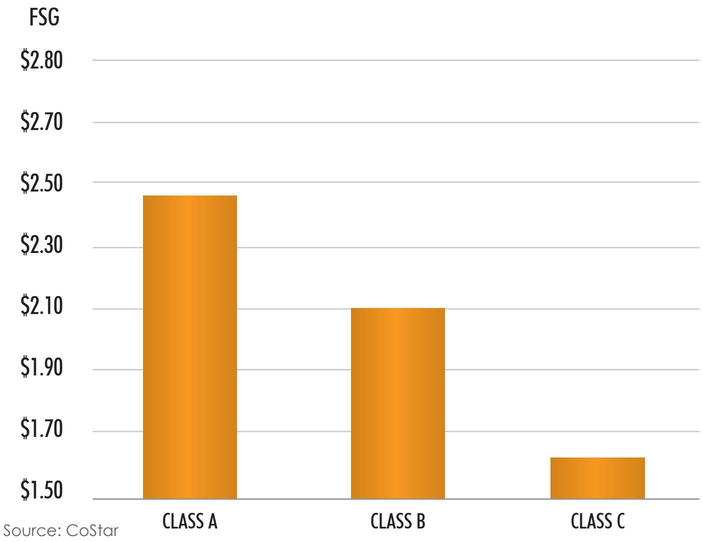
Source: EDD

AVERAGE FSG LEASE RATE BY SUBMARKET



Source: CoStar

AVERAGE FSG LEASE RATE BY CLASS



Source: CoStar

COMPLETED LEE & ASSOCIATES TRANSACTIONS

955 W. Imperial Highway
Brea, CA

26632 Towne Centre Drive, Suite 100
Foothill Ranch, CA

23046 Avenida De La Carlota, Suite 700
Laguna Hills, CA

Lease Transactions 4Q 15

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
955 W. Imperial Highway Brea, CA	30,401	St. Jude Hospital of Yorba Linda	Evangelical Christian Credit Union	Bob Sattler represented the Landlord.
26632 Towne Centre Drive, Suite 100, Foothill Ranch, CA	13,941	Arrow Electronics	Equity Office	Don Nourse and Jim Nourse represented the Landlord.
23046 Avenida De La Carlota, Suite 700 Laguna Hills, CA	13,303	Accell Property Management	The Realty Associates Fund VIII	Adam Wicker and Dave Smith represented this Landlord.

12062 Valley View Street
Garden Grove, CA

2751 Coast Hwy., 2801 Coast Hwy. and 2620 Avon
Newport Beach, CA

22485 La Palma Avenue
Yorba Linda, CA

Sale Transactions 4Q 15

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
12062 Valley View Street Garden Grove, CA	67,660	Super HK, LLC	Valley View Office Park, LLC	Brian Garbutt represented this Seller.
2751 Coast Highway, 2801 Coast Highway and 2620 Avon Newport Beach, CA	25,260	The Khoshbin Company	GP's Landing, LLC	Brian Barson represented the Seller and Alton Burgess & Travis Haining represented the Buyer.
22485 La Palma Avenue Yorba Linda, CA	9,300	22485 East La Palma, LLC	Haynie Commercial Properties	Mark Hintergardt & Phil Fridd represented the Seller and Erik Thompson represented the Buyer

	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	420,211	14.1%	299,501	10.0%	254,614	8.5%	(34,569)	(22,651)	140,424	44,887	$2.68	- 0 -
Anaheim	81	7,467,779	1,203,500	16.1%	1,008,139	13.5%	955,891	12.8%	(27,980)	373,334	78,412	52,248	$2.03	- 0 -
Brea	40	4,032,634	605,523	15.0%	443,439	11.0%	339,759	8.4%	4,004	(13,339)	115,164	103,680	$1.95	- 0 -
Buena Park	13	933,313	145,541	14.5%	40,663	4.4%	40,663	4.4%	(1,033)	18,233	- 0 -	- 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	7,138,511	1,087,736	15.2%	965,531	13.5%	940,187	13.2%	(128,492)	121,938	124,639	25,344	$2.40	- 0 -
Cypress	26	1,911,987	542,714	28.4%	361,843	18.9%	361,843	18.9%	(68,372)	(110,805)	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	129,597	16.2%	140,802	17.6%	140,802	17.6%	89,284	55,638	35,562	- 0 -	$2.27	- 0 -
Fountain Valley	26	1,791,659	75,968	4.2%	68,041	3.8%	68,041	3.8%	(1,085)	(438)	- 0 -	- 0 -	$1.87	- 0 -
Fullerton	30	2,427,234	380,435	15.7%	235,178	9.7%	231,240	9.5%	(1,181)	5,875	6,907	3,938	$2.39	- 0 -
Garden Grove	17	1,487,300	107,639	7.2%	51,541	3.5%	51,541	3.5%	2,623	17,505	11,980	- 0 -	$1.64	- 0 -
Huntington Beach	31	2,159,176	357,980	16.6%	280,998	13.0%	280,998	13.0%	12,397	(108,513)	19,579	- 0 -	$2.23	- 0 -
Irvine	381	33,386,026	4,430,689	12.6%	2,590,604	7.8%	2,385,744	7.1%	110,659	343,962	670,196	204,860	$2.48	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	127,975	18.0%	119,686	16.8%	119,686	16.8%	2,406	26,575	3,573	- 0 -	$1.92	- 0 -
Ladera Ranch	3	127,065	26,710	21.0%	16,052	12.6%	16,052	12.6%	398	4,604	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 -	$2.76	- 0 -
Laguna Hills	25	1,627,235	322,539	19.8%	281,080	17.3%	281,080	17.3%	42,266	35,986	4,648	- 0 -	$2.49	- 0 -
Laguna Niguel	8	1,691,485	57,239	3.4%	54,568	3.2%	54,568	3.2%	11,002	18,635	2,671	- 0 -	$3.12	- 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	221,344	12.0%	203,326	11.0%	203,326	11.0%	(29,720)	77,706	68,534	- 0 -	$2.18	- 0 -
Los Alamitos	9	610,423	175,304	28.7%	27,751	4.5%	27,751	4.5%	9,084	64,276	- 0 -	- 0 -	$2.46	- 0 -
Mission Viejo	32	1,810,366	236,422	13.1%	202,067	11.2%	201,081	11.1%	(6,053)	41,503	14,621	986	$2.31	- 0 -
Newport Beach	99	9,372,710	1,085,069	11.6%	951,477	10.2%	883,520	9.4%	14,933	148,719	128,155	67,957	$3.00	- 0 -
Orange	63	6,628,478	788,323	11.9%	543,832	8.2%	537,681	8.1%	582	262,008	12,085	6,151	$2.21	- 0 -
Placentia	5	185,164	30,315	16.4%	27,007	14.6%	27,007	14.6%	4,022	4,192	- 0 -	- 0 -	$1.89	- 0 -
Rancho Santa Margarita	5	225,472	20,187	9.0%	18,439	8.2%	18,439	8.2%	12,301	27,024	- 0 -	- 0 -	$2.17	- 0 -
San Clemente	9	423,171	43,814	10.4%	16,755	4.0%	15,166	3.6%	(373)	11,303	1,589	1,589	$2.15	- 0 -
San Juan Capistrano	17	879,011	157,111	17.9%	154,550	17.6%	153,044	17.4%	6,764	57,592	1,506	1,506	$2.38	- 0 -
Santa Ana	162	14,216,990	3,030,047	21.3%	2,501,715	17.6%	2,491,593	17.5%	115,761	(401,952)	169,205	10,122	$1.79	- 0 -
Seal Beach	6	445,365	59,187	13.3%	51,314	11.5%	51,314	11.5%	27,982	(19,588)	2,796	- 0 -	$2.92	- 0 -
Stanton	2	85,917	9,639	11.2%	6,932	8.1%	6,932	8.1%	(473)	503	- 0 -	- 0 -	$0.00	- 0 -
Tustin	32	1,858,972	561,400	28.7%	299,671	16.1%	299,671	16.1%	(81,939)	(62,359)	18,631	- 0 -	$1.99	96,865
Westminster	10	429,031	81,849	19.1%	71,822	16.7%	71,822	16.7%	(18,319)	(42,712)	- 0 -	- 0 -	$2.08	- 0 -
Yorba Linda	5	288,094	45,856	15.9%	45,856	15.9%	45,856	15.9%	(2,305)	(2,102)	- 0 -	- 0 -	$1.86	- 0 -
Orange County Totals	1,306	110,580,376	16,610,943	15.0%	12,123,260	11.0%	11,596,733	10.5%	64,574	926,485	1,776,580	526,527	$2.29	1,844,252
BY AREA														
North Orange County	171	14,156,035	2,150,703	15.1%	1,561,434	11.0%	1,446,689	16.2%	(4,895)	348,622	188,085	114,745	$1.99	72,343
Central Orange County	259	22,318,610	4,005,419	17.9%	3,122,335	14.0%	3,060,941	34.3%	(8,319)	(100,224)	129,368	61,394	$1.90	96,865
West Orange County	127	8,920,858	1,410,280	15.8%	920,242	10.3%	920,242	10.3%	(36,163)	(199,772)	170,343	- 0 -	$2.08	- 0 -
Greater Airport Area	419	42,469,417	6,142,306	14.5%	4,403,858	10.4%	4,222,500	47.3%	(42,717)	703,250	825,321	181,358	$2.47	- 0 -
South Orange County	330	22,715,456	2,902,235	11.9%	2,115,391	9.3%	1,946,361	21.8%	156,668	174,609	463,463	169,030	$2.42	1,675,044
Orange County Totals	1,306	110,580,376	16,610,943	15.0%	12,123,260	11.0%	11,596,733	10.5%	64,574	926,485	1,776,580	526,527	$2.29	1,844,252
BY BUILDING CLASS														
Class A	280	45,114,813	8,230,251	17.6%	5,566,145	12.3%	5,232,981	103.9%	157,986	830,404	1,213,622	333,164	$2.46	1,597,387
Class B	926	60,429,540	7,807,013	12.9%	6,238,122	10.3%	6,044,759	120.0%	(77,329)	108,907	553,138	193,363	$2.10	246,865
Class C	100	5,036,023	573,679	11.4%	318,993	6.3%	318,993	6.3%	(16,083)	(12,826)	9,820	- 0 -	$1.62	- 0 -
Orange County Totals	1,306	110,580,376	16,610,943	15.0%	12,123,260	11.0%	11,596,733	10.5%	64,574	926,485	1,776,580	526,527	$2.29	1,844,252

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:

There are expectations that more investor cash will be flowing into commercial real estate securities when the purveyor of the S&P 500-stock index, McGraw Hill Financial Inc., begins breaking out real estate into a distinct sector this summer. Although the share of property held by REITS has been growing in the last two decades, ownership of about 90% of U.S. commercial property is in private hands.

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