



## Weakening Demand Is Ill-Timed, But Rents Continue To Rise

The five-year boom in office absorption is losing steam, and the slowing comes as the first in a wave of new Class A buildings recently landed on the market. Meanwhile, countywide lease rates continued their steady rise in the first quarter and are on track next year to equal the rent levels of the bubble-infused peak in 2007.

Continued weakness in net absorption has resulted in only 137,000 sq. ft. coming off the market in the last two quarters. That is down from the quarterly average of 432,025 sq. ft. in net absorption since 2011 and off of the 560,490-sq.-ft.-average in quarterly absorption since Q2 2014. The latest three-month period's performance was hobbled by 161,715 sq. ft. of negative absorption in Class A space.

There are 111.7 million sq. ft. of space in 1,312 buildings that are counted in Lee & Associates' quarterly survey. The survey includes 200 Spectrum Center Drive, a 425,044-sq.-ft., 21-story tower that was delivered in the first quarter by the Irvine Company. When the giant landowner completes a second tower it will join seven other major Class A and Class B office developments totaling more than 2 million sq. ft. also slated for 2017 delivery. Consequently, without a renewed surge in office expansion the current overall vacancy rates – 12.7% for Class A and 11.0% overall – may represent a low water mark in this economic cycle.

So far the softening in office expansion has not dampened overall rent growth which has been averaging about 10% per year. Rents remain about 12% below their overall record high. Speaking of record highs, the Irvine Company recently leased the top floor of its new 21-story tower at 520 Newport Center Drive for a reported \$8.50 per sq. ft. The new building across from Fashion Island is the first multi-tenant tower added to the posh office and shopping district in nearly 30 years.

Net absorption in the 42-million-sq.-ft. Airport submarket dipped into the red for the second straight quarter with the vacancy rate settling at 9.6%. Asking rents increased 13.6% in the last four quarters.

South County with 23 million sq. ft. of space posted 257,413 sq. ft. of net absorption in Q1. With the Irvine Company's new Spectrum building swelling the inventory, the submarket's vacancy rate rose from 9.30% to 10.4%.

The struggles of the 22.4-million-sq.-ft. Central County submarket continued for a third straight quarter with 842,684 sq. ft. of negative net absorption since last summer and a 14.6% vacancy rate. Asking rents are up only 13% since 2012.

Absorption was up slightly in Q1 in the 14.2-million-sq.-ft. North County submarket whose vacancy rate was 11.2%. Average asking rents are up 9.6% year over year.

Other than small fluctuations, West County's vacancy and rental rates largely are unchanged since the recession.

### MARKET OVERVIEW

(Change from last quarter)

**AVAILABILITY - 15.90%**

Up from 15.02% last quarter



**VACANCY - 11.0%**

Up from 10.96% last quarter



**ABSORPTION - 107,763 SQ. FT.**

Up from 64,574 SF last quarter



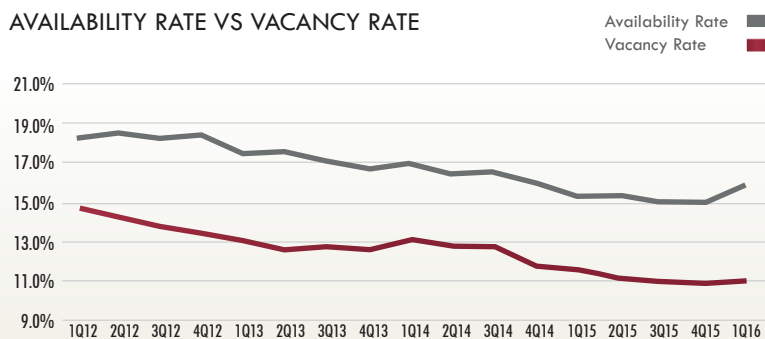
**AVERAGE LEASE RATE - \$2.35 FSG**

Up from \$2.29 last quarter



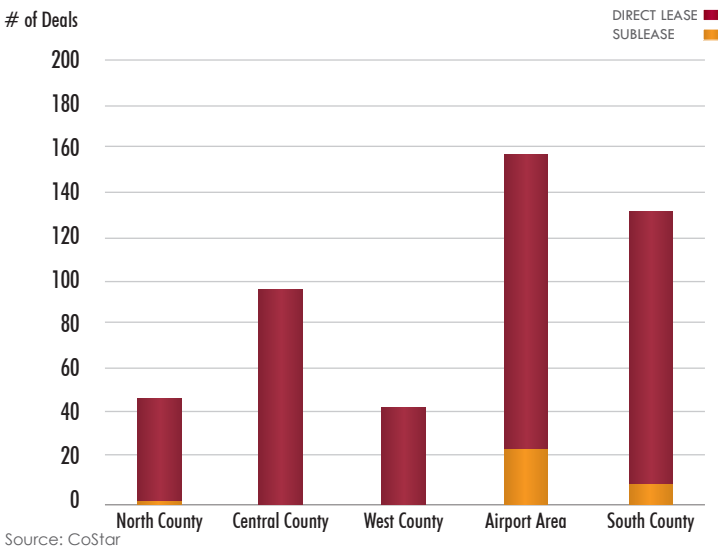
\*All numbers are based on office space in buildings 30,000 sq. ft. and larger.

### AVAILABILITY RATE VS VACANCY RATE

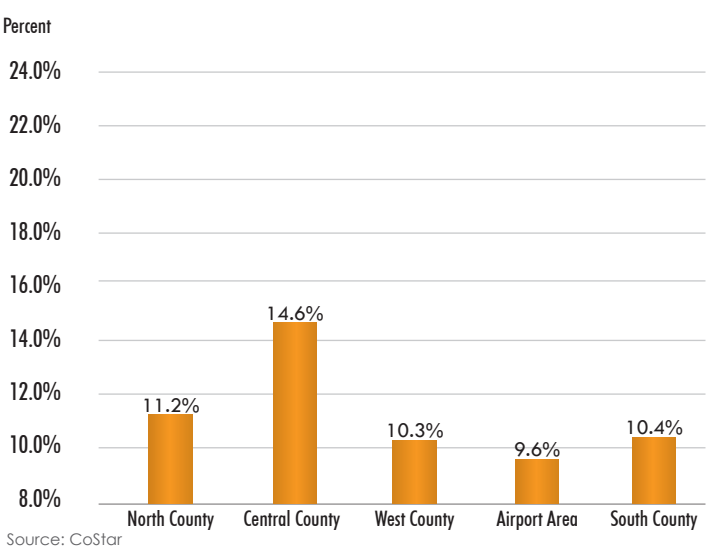


Source: CoStar

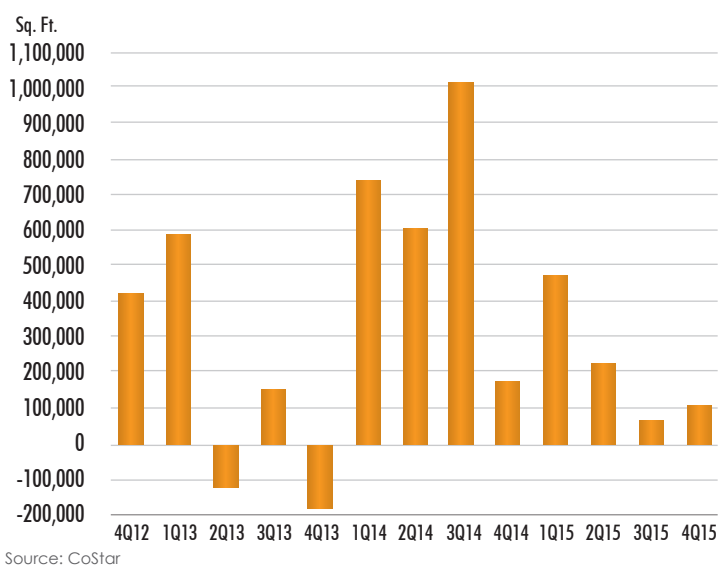
NUMBER OF LEASES EXECUTED FOR THE QUARTER BY SUBMARKET



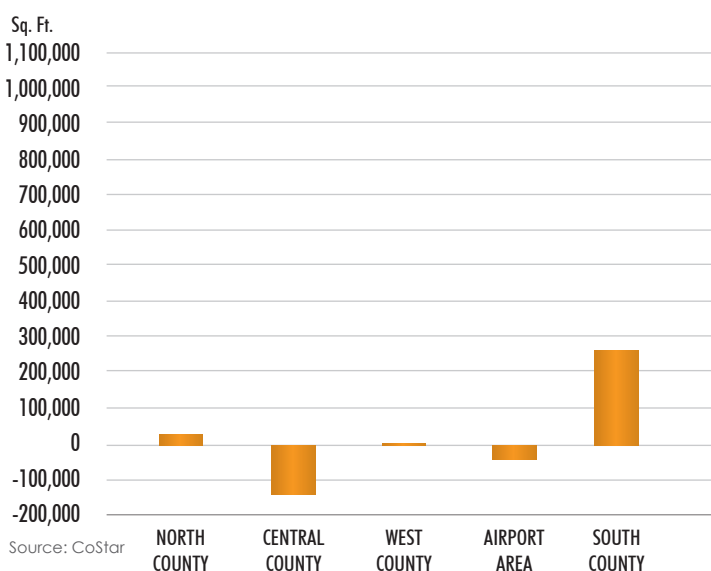
VACANCY RATE BY SUBMARKET - INCLUDING SUBLET SPACE



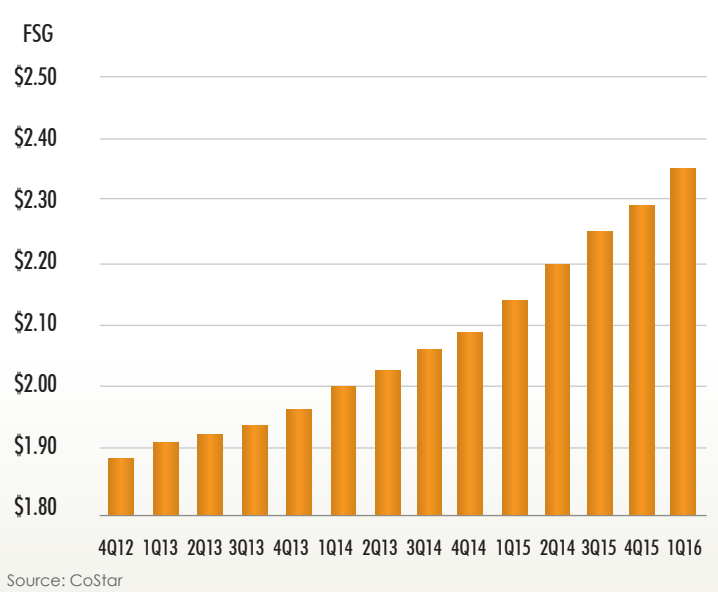
COUNTY WIDE NET ABSORPTION INCLUDING SUBLET SPACE



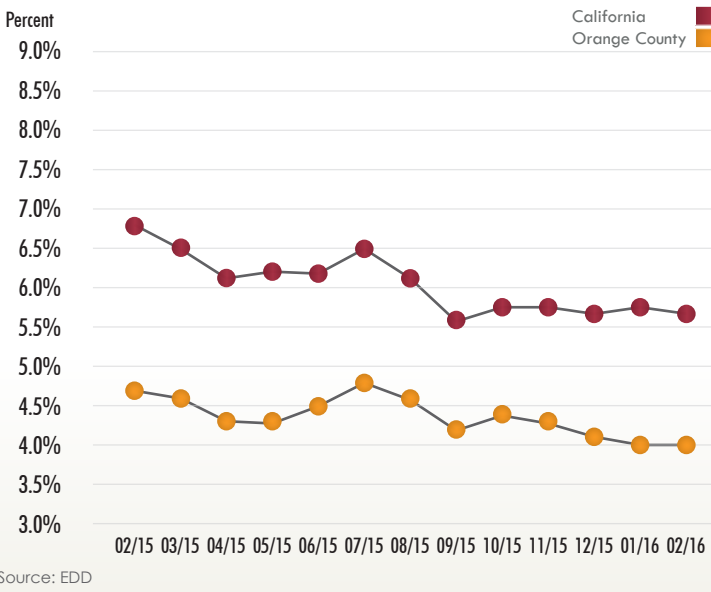
YTD NET ABSORPTION BY SUBMARKET, INCLUDING SUBLET SPACE



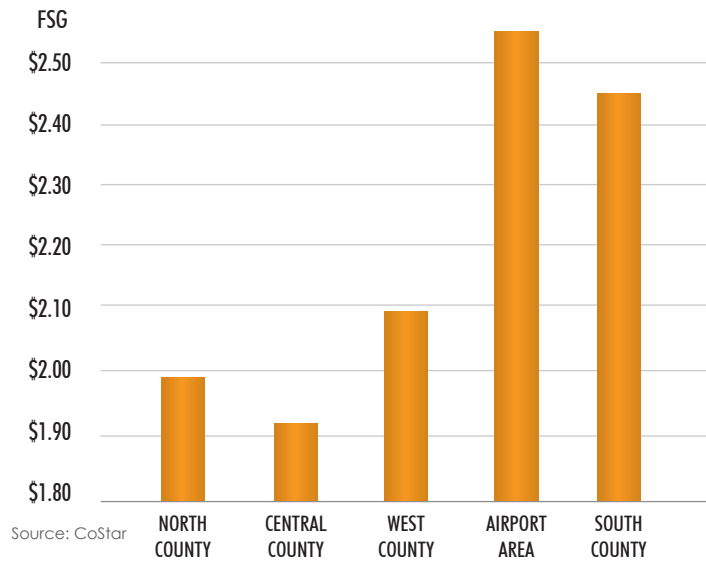
AVERAGE FSG LEASE RATES BY QUARTER



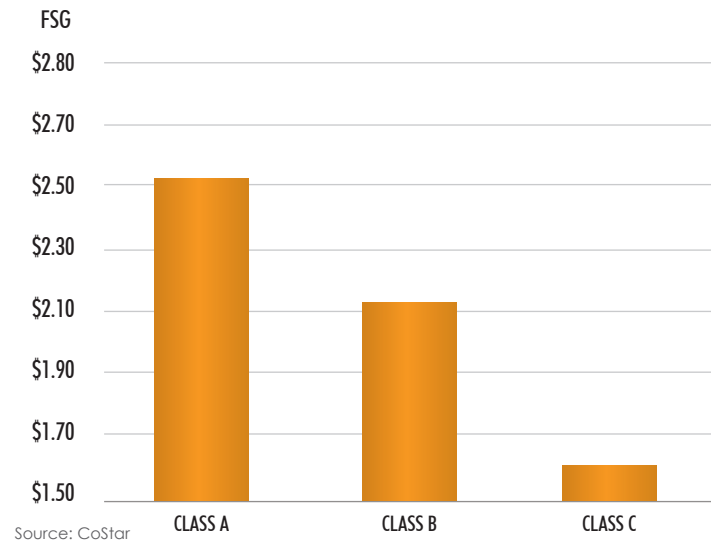
UNEMPLOYMENT RATE NOT SEASONALLY ADJUSTED



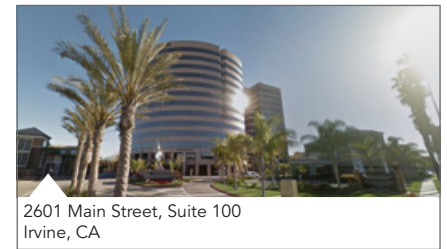
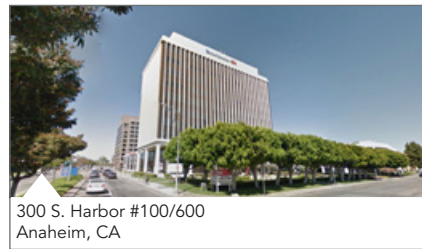
AVERAGE FSG LEASE RATE BY SUBMARKET



AVERAGE FSG LEASE RATE BY CLASS

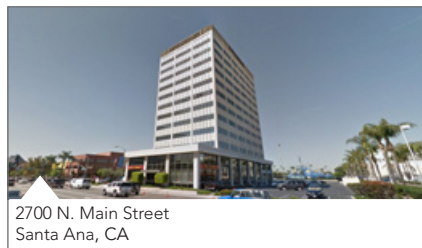


COMPLETED LEE & ASSOCIATES TRANSACTIONS



Lease Transactions 1Q 16

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
16275 Laguna Canyon Road Irvine, CA	44,450	Private	Olen Properties	Philip Cohen represented the Tenant.
300 S. Harbor #100/600 Anaheim, CA	15,146	Wokcare	KF Properites	Jon Fabiano, Erik Thompson, Marshal Vogt & Jaimeson Hearne represented the Landlord.
2601 Main Street, Suite 100 Irvine, CA	12,200	Rezai & Assoc.	Century Centre, LLC	Gary McArdell represented the Tenant.



Sale Transactions 1Q 16

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
2401, 2411, 2421 N. Glassell Street Orange, CA	191,127	Glassell Grand Avenue Partners LLC	Volt Orangeca Real Estate Corp	Kurt Bruggeman and Ryan Swanson represented the Buyer.
2700 N. Main Street Santa Ana, CA	111,268	PRES Realty Advisors, LLC	The House of Sportsmen, Inc.	Marshal Vogt & Jaimeson Hearne represented the Buyer.
2241, 2101, 2200 W. Coast Highway Newport Beach, CA	15,657	Chino Hills Mall, LLC	Ardell Investment Company	David Romero and John Martin 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
<b>BY CITY</b>														
Aliso Viejo	38	2,980,379	446,416	15.0%	341,141	11.4%	306,729	10.3%	(41,640)	(41,640)	176,654	34,412	\$2.61	- 0 -
Anaheim	81	7,463,300	1,223,815	16.4%	1,054,391	14.1%	984,591	13.2%	(46,252)	(46,252)	75,259	69,800	\$2.14	- 0 -
Brea	40	4,032,634	594,408	14.7%	405,148	10.0%	331,793	8.2%	38,291	38,291	105,577	73,355	\$1.96	- 0 -
Buena Park	14	1,008,372	181,540	18.0%	91,405	9.1%	91,405	9.1%	22,293	22,293	- 0 -	- 0 -	\$2.22	- 0 -
Corona del Mar	2	90,054	20,359	22.6%	20,359	22.6%	17,100	19.0%	(10,553)	(10,553)	3,259	3,259	\$3.95	- 0 -
Costa Mesa	65	7,144,031	1,873,174	23.9%	851,715	11.9%	842,600	11.8%	111,467	111,467	140,478	9,115	\$2.49	700,000
Cypress	26	1,916,407	573,420	29.9%	361,491	18.9%	361,491	18.9%	352	352	143,701	- 0 -	\$2.04	- 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	114,768	14.4%	145,347	18.2%	145,347	18.2%	(4,545)	(4,545)	7,227	- 0 -	\$2.50	- 0 -
Fountain Valley	27	1,838,765	73,000	4.0%	63,996	3.5%	63,996	3.5%	6,445	6,445	0	- 0 -	\$1.85	- 0 -
Fullerton	30	2,427,234	347,512	14.3%	201,858	8.3%	201,858	8.3%	11,811	11,811	326	- 0 -	\$2.38	- 0 -
Garden Grove	17	1,486,755	101,381	6.8%	58,790	4.0%	58,790	4.0%	(7,249)	(7,249)	11,980	- 0 -	\$1.69	- 0 -
Huntington Beach	31	2,159,176	253,383	11.7%	280,045	13.0%	280,045	13.0%	953	953	15,103	- 0 -	\$2.07	- 0 -
Irvine	383	33,650,347	5,135,234	14.3%	2,791,212	8.3%	2,578,860	7.7%	2,135	2,135	873,780	212,352	\$2.54	2,275,324
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	125,913	17.7%	156,925	22.0%	156,925	22.0%	(13,595)	(13,595)	- 0 -	- 0 -	\$1.97	- 0 -
Ladera Ranch	3	127,065	32,657	25.7%	19,745	15.5%	19,745	15.5%	(3,693)	(3,693)	6,456	- 0 -	\$2.15	- 0 -
Laguna Beach	5	194,434	29,171	15.0%	27,591	14.2%	27,591	14.2%	1,304	1,304	1,580	- 0 -	\$2.70	- 0 -
Laguna Hills	25	1,626,353	270,041	16.6%	283,918	17.5%	275,208	16.9%	(2,838)	(2,838)	8,710	8,710	\$2.58	- 0 -
Laguna Niguel	8	1,691,485	53,359	3.2%	48,483	2.9%	48,483	2.9%	6,085	6,085	2,671	- 0 -	\$2.61	- 0 -
Laguna Woods	1	41,280	4,379	10.6%	4,379	10.6%	4,379	10.6%	- 0 -	- 0 -	- 0 -	- 0 -	\$3.50	- 0 -
Lake Forest	32	1,886,029	218,040	11.6%	104,845	5.6%	104,845	5.6%	98,481	98,481	68,534	- 0 -	\$2.21	- 0 -
Los Alamitos	9	610,423	182,114	29.8%	21,561	3.5%	21,561	3.5%	6,190	6,190	- 0 -	- 0 -	\$2.39	- 0 -
Mission Viejo	32	1,813,478	239,936	13.2%	176,664	9.7%	176,664	9.7%	25,403	25,403	37,482	- 0 -	\$2.31	- 0 -
Newport Beach	99	9,372,710	1,105,074	11.7%	797,259	8.5%	710,363	7.6%	139,623	139,623	128,832	86,896	\$3.23	44,000
Orange	63	6,627,319	648,618	9.8%	527,022	8.0%	517,076	7.8%	(63,197)	(63,197)	12,681	9,946	\$2.18	- 0 -
Placentia	5	185,164	26,285	14.2%	24,519	13.2%	24,519	13.2%	2,488	2,488	- 0 -	- 0 -	\$1.95	- 0 -
Rancho Santa Margarita	5	225,472	22,581	10.0%	19,072	8.5%	19,072	8.5%	(633)	(633)	- 0 -	- 0 -	\$2.19	- 0 -
San Clemente	9	423,171	40,182	9.5%	30,542	7.2%	30,542	7.2%	(13,787)	(13,787)	- 0 -	- 0 -	\$2.32	- 0 -
San Juan Capistrano	17	879,011	153,300	17.4%	157,130	17.9%	155,624	17.7%	(2,580)	(2,580)	1,506	1,506	\$2.42	- 0 -
Santa Ana	162	14,237,100	2,867,649	20.1%	2,615,229	18.4%	2,602,967	18.3%	(113,514)	(113,514)	149,867	12,262	\$1.83	- 0 -
Seal Beach	6	445,365	54,287	12.2%	53,248	12.0%	50,988	11.4%	(1,934)	(1,934)	5,056	2,260	\$2.89	- 0 -
Stanton	2	85,917	9,639	11.2%	6,932	8.1%	6,932	8.1%	- 0 -	- 0 -	- 0 -	- 0 -	\$1.06	- 0 -
Tustin	33	1,955,838	517,378	26.5%	423,983	21.7%	418,806	21.4%	(27,447)	(27,447)	21,396	5,177	\$2.00	- 0 -
Westminster	10	429,031	79,222	18.5%	73,874	17.2%	73,874	17.2%	(2,052)	(2,052)	- 0 -	- 0 -	\$2.11	- 0 -
Yorba Linda	5	288,094	45,856	15.9%	45,856	15.9%	45,856	15.9%	- 0 -	- 0 -	- 0 -	- 0 -	\$1.75	- 0 -
<b>Orange County Totals</b>	<b>1,312</b>	<b>111,130,317</b>	<b>17,664,091</b>	<b>15.9%</b>	<b>12,272,080</b>	<b>11.0%</b>	<b>11,743,030</b>	<b>10.6%</b>	<b>107,763</b>	<b>107,763</b>	<b>1,998,115</b>	<b>529,050</b>	<b>\$2.35</b>	<b>3,019,324</b>
<b>BY AREA</b>														
North Orange County	172	14,229,376	2,130,361	15.0%	1,587,348	11.2%	1,489,314	10.5%	25,612	25,612	165,502	98,034	\$1.99	- 0 -
Central Orange County	260	22,405,263	3,897,673	17.4%	3,279,338	14.6%	3,206,832	14.3%	(140,145)	(140,145)	180,154	72,506	\$1.92	- 0 -
West Orange County	128	8,971,839	1,326,446	14.8%	919,937	10.3%	917,677	10.2%	2,705	2,705	175,840	2,260	\$2.09	- 0 -
Greater Airport Area	417	42,190,557	7,418,127	17.1%	4,061,000	9.6%	3,829,821	9.1%	(37,822)	(37,822)	943,342	231,179	\$2.55	1,281,224
South Orange County	335	23,333,282	2,891,484	11.5%	2,424,457	10.4%	2,299,386	9.9%	257,413	257,413	533,277	125,071	\$2.45	1,738,100
<b>Orange County Totals</b>	<b>1,312</b>	<b>111,130,317</b>	<b>17,664,091</b>	<b>15.9%</b>	<b>12,272,080</b>	<b>11.0%</b>	<b>11,743,030</b>	<b>10.6%</b>	<b>107,763</b>	<b>107,763</b>	<b>1,998,115</b>	<b>529,050</b>	<b>\$2.35</b>	<b>3,019,324</b>
<b>BY BUILDING CLASS</b>														
Class A	279	45,262,015	8,547,805	18.0%	5,770,187	12.7%	5,396,096	11.9%	(161,715)	(161,715)	1,319,572	374,091	\$2.52	2,319,324
Class B	933	60,832,279	8,526,360	13.9%	6,163,493	10.1%	6,008,534	9.9%	288,885	288,885	668,723	154,959	\$2.13	700,000
Class C	100	5,036,023	589,926	11.7%	338,400	6.7%	338,400	6.7%	(19,407)	(19,407)	9,820	- 0 -	\$1.61	- 0 -
<b>Orange County Totals</b>	<b>1,312</b>	<b>111,130,317</b>	<b>17,664,091</b>	<b>15.9%</b>	<b>12,272,080</b>	<b>11.0%</b>	<b>11,743,030</b>	<b>10.6%</b>	<b>107,763</b>	<b>107,763</b>	<b>1,998,115</b>	<b>529,050</b>	<b>\$2.35</b>	<b>3,019,324</b>

## 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:

Broader market volatility triggered by oil patch woes and China's sluggish growth has raised concerns among lenders who sell off their loans as mortgage backed securities. That business made about \$100 billion in loans last year but has skidded to a virtual halt, which could prove problematic to property owners needing to refinance 10-year loans made in 2006.



COMMERCIAL REAL ESTATE SERVICES

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