

**CONTINUING MOMENTUM.** The vacancy rate in Orange County’s R&D/Flex market posted 2.99% in the fourth quarter of 2017, a slight increase compared to the record low of 2.95% in the fourth quarter of 2016. The region’s strong local economy and high quality of life continue to make it a desirable location for business. The growing influence of newer industries such as biotechnology and the automotive technologies (electrification of powertrains and clean diesel fuel) further diversify the local economy. Repurposing of buildings combined with advances in technology have helped the R&D market. These industries should increase employment opportunities and help to ease vacancy rate concerns in the coming quarters.

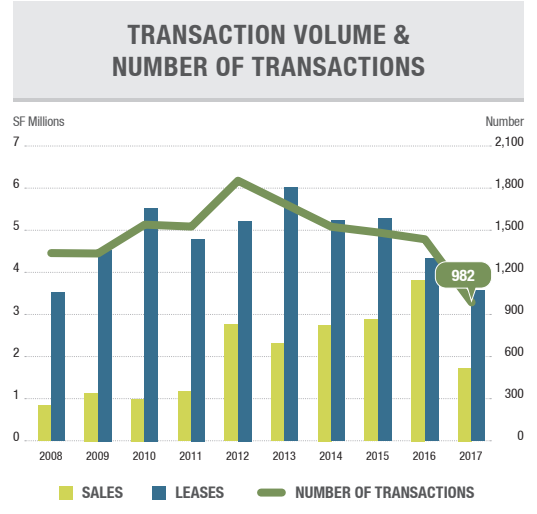
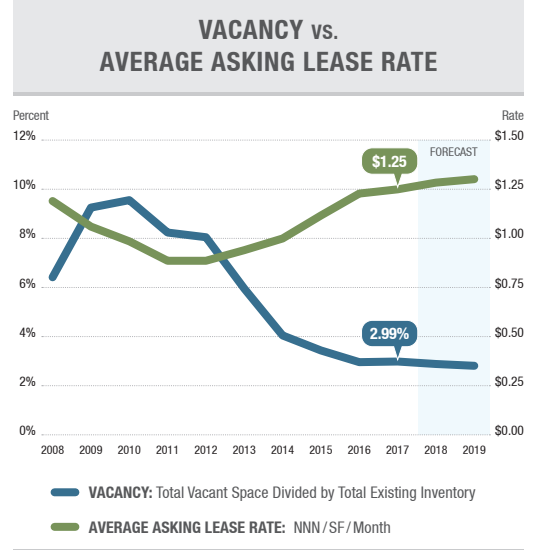
**VACANCY.** Direct/sublease space finished the year at 2.99%, a decrease from the prior quarter’s 3.01% rate but an increase over 2017’s fourth quarter rate of 2.95%. The Orange County R&D/Flex market displayed more signs of stability this quarter. Both vacancy and availability decreased compared to the previous quarter. Although demand was relatively weak by historical standards, the rates remained constant. We are forecasting that vacancy will trend downward in 2018.

**LEASE RATES.** The average asking triple net (NNN) lease rate per month per square foot in the Orange County office market was \$1.25 at the end of the fourth quarter, a 1.63% increase from this time last year and a 0.81% change from the third quarter (\$1.24). We anticipate asking rental rates in Orange County to continue to moderately rise based on the consistent level of demand from a variety of industries and lack of new product.

**TRANSACTION ACTIVITY.** Leasing activity checked in at nearly 3.5 million square feet for 2017, a decrease over the previous year’s total of 4.3 million square feet. Sales activity showed a decrease, posting 1.7 million square feet of activity compared to the 3.8 million square feet we saw in 2016. Investors and developers of office product throughout Orange County continue to provide creative and innovative solutions for office tenants by repositioning older buildings into creative work environments and keeping pace with the latest design trends. Notable leases include:

- RED.com renewal of 126,497 square feet at 34 Parker in Irvine Spectrum
- Schaeerer USA lease of 25,884 square feet at 15501 Red Hill Avenue in Tustin
- YT Industries USA, Inc. lease of 17,633 square feet at 211 Calle Pintesresco in San Clemente

**ECONOMY.** The unemployment rate in Orange County was 2.8% in November 2017, down from a revised 3.3% in October 2017, and below the year-ago estimate of 3.7%. This compares with an unadjusted unemployment rate of 4.0% for California and 3.9% for the nation during the same period. The professional and business services sectors propelled the economy. Orange County is also the third-most diverse high tech sector in the nation, behind only San Jose and San Diego. As 2017 ended, overall hiring has slowed to its weakest pace since the first year of the recovery — mainly due to fewer people looking for jobs. One cause for concern is that even as the unemployment rate has held near 4%, the labor force participation rate continues to fall, reflecting a national trend as baby boomers leave the job market.



Market Statistics

	Change Over Last Quarter	4Q 2017	3Q 2017	4Q 2016	% Change Over Last Year
Vacancy Rate	▼ DOWN	2.99%	3.01%	2.95%	1.36%
Availability Rate	▼ DOWN	4.45%	4.68%	5.03%	(11.53%)
Average Asking Lease Rate	▲ UP	\$1.25	\$1.24	\$1.24	1.63%
Sale & Lease Transactions	▼ DOWN	862,760	1,306,718	2,537,368	(66.00%)
Gross Absorption	▼ DOWN	1,154,871	1,368,698	837,989	37.81%
Net Absorption	▲ POSITIVE	10,707	149,980	(57,828)	N/A

**LEASE RATES.** We foresee an overall modest increase in pricing in the coming quarters. Lease rates will continue to firm up, and we expect them to slightly increase in 2018. We expect the average asking lease rates to increase by 2% to 3%.

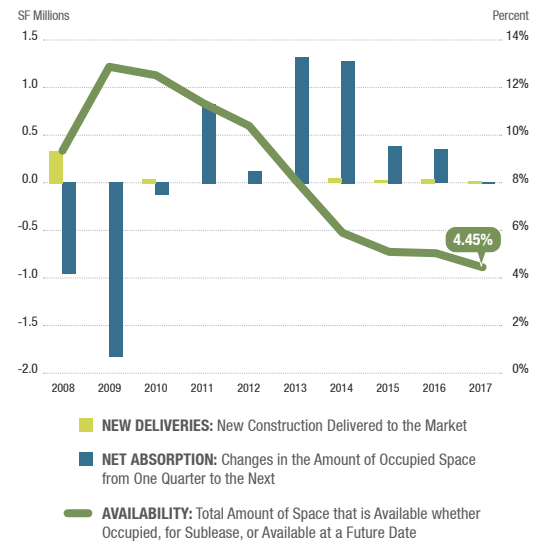
**VACANCY.** We are beginning to see a slight increase in the amount of vacant and available space. As we enter into 2018, positive absorption should continue, and with no new deliveries in the pipeline to apply downward pressure on vacancy, the market will continue to chug along.

**OVERALL.** We should also see an increase in leasing activity as many short-term deals come up for renewal. As job growth continues and consumer confidence remains positive, the R&D/Flex market will continue to move forward. The growing influence of new industries such as high technology, biotechnology, and software development should further diversify the local economy and help to push the R&D/Flex market. These industries will increase employment opportunities and should offset any vacancy rate concerns in the coming quarters. As we head into 2018, the R&D/Flex market will exhibit many similar characteristics of 2017. Multi-tenant, manufacturing and distribution buildings will not see much development. R&D/Flex buildings both for sale and lease will remain viable options for those looking to enter the Orange County R&D/Flex market.

**CONSTRUCTION.** With the price of land now above previous record highs in most markets, expect developers to be conservative and to build more alternative (lucrative) uses in the short term. There was no R&D/Flex space under construction in Orange County in the fourth quarter of 2017. The shrinking availability of land, limited opportunities for financing and rising construction costs have led to a lack of projects being developed. With (limited) infill parcels now approaching \$50 per square foot in some cases, we do not expect any significant R&D/Flex construction in the coming quarters.

**ABSORPTION.** Orange County R&D/Flex market stayed on course with limited supply creating limited absorption and vacancy. Although the market posted negative net absorption for 2017, availability displayed a decrease from the previous year, and asking lease rates increased from the previous quarter. Net absorption for the county posted a positive 10,707 square feet for the fourth quarter of 2017, giving the R&D/Flex market a total of 2,955 square feet of negative absorption for the year. Buildings that range from 10,000–24,999 square foot space contributed 175,876 of positive absorption. Look for businesses in defense, medical, information technology and alternative energy companies to lead the way over the next couple of years.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales \* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2970 Airway Ave.	Costa Mesa	42,053	\$9,200,000	2970 Airway, LLC	Lakeshore Ents
1690 Scenic Ave.	Costa Mesa	34,685	\$7,120,000	1690 Scenic Ave., LLC	Klein Investments Family, LP
7 Studebaker	Irvine Spectrum	16,111	\$4,108,305	Mad Engine	White Ohana, LLC
2872–2880 Fairview St.	Santa Ana	15,667	\$3,086,399	Bemus Landscape, Inc.	Hull Farms, Inc.
501 W. Dyer Rd.	Santa Ana	7,518	\$1,766,730	Paul Krause*	Jeff & Lee Ann Theders*

Leases \* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
34 Parker – Renewal	Irvine Spectrum	126,497	Nov-2017	RED.com	Northwestern Mutual Life *
212 Avenida Fabricante	San Clemente	43,240	Oct-2017	Pacific Medical Group	Clipper Melvin Tr
1240 N. Fee Ana St.	Anaheim	30,123	Nov-2017	Cabinets R Us	DSA Anaheim Business Park, LLC
1800 E. Wilshire Ave.	Santa Ana	26,762	Nov-2017	Orangemed, Inc.	TLF Logistics II 1720–1800
1637 N. O'Donnell Way – Renewal	Orange	11,980	Oct-2017	Mike's Restaurant Supply, Inc.*	Don Wilson*

	INVENTORY				VACANCY & LEASE RATES				ABSORPTION				
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2017	Square Feet Available	Availability Rate 4Q2017	Average Asking Lease Rate	Net Absorption 4Q2017	Net Absorption 2017	Gross Absorption 4Q2017	Gross Absorption 2017
<b>Airport Area</b>													
Costa Mesa	176	4,255,453	0	0	84,648	1.99%	231,821	5.45%	\$1.29	13,203	38,866	62,483	290,657
Fountain Valley	50	1,426,073	0	0	17,838	1.25%	18,048	1.27%	\$0.00	1,688	(9,159)	19,026	50,765
Irvine	246	6,204,123	0	0	224,049	3.61%	284,690	4.59%	\$1.33	(52,090)	(95,249)	114,967	488,137
Newport Beach	24	618,916	0	0	10,578	1.71%	8,078	1.31%	\$0.00	6,600	4,995	9,100	27,011
Santa Ana	192	4,989,564	0	0	195,147	3.91%	297,371	5.96%	\$1.05	59,875	(68,487)	132,229	333,528
Tustin	91	3,120,066	0	0	237,120	7.60%	251,020	8.05%	\$0.95	53,922	(14,878)	112,517	258,108
<b>Airport Area Total</b>	<b>779</b>	<b>20,614,195</b>	<b>0</b>	<b>0</b>	<b>769,380</b>	<b>3.73%</b>	<b>1,091,028</b>	<b>5.29%</b>	<b>\$1.17</b>	<b>83,198</b>	<b>(143,912)</b>	<b>450,322</b>	<b>1,448,206</b>
<b>North County</b>													
Anaheim	189	5,363,137	0	0	114,434	2.13%	186,126	3.47%	\$1.94	11,122	73,797	89,870	379,034
Brea	52	1,506,419	0	0	24,671	1.64%	71,811	4.77%	\$1.05	(3,110)	106,442	15,063	174,859
Buena Park	31	983,704	0	0	13,242	1.35%	13,242	1.35%	\$0.00	(1,236)	24,716	6,855	38,893
Fullerton	48	1,992,702	0	0	24,231	1.22%	22,097	1.11%	\$0.95	(10,247)	(877)	13,995	69,292
La Habra	10	187,013	0	0	1,108	0.59%	1,108	0.59%	\$0.00	1,000	0	1,000	2,108
Orange	101	2,254,566	0	0	29,800	1.32%	54,343	2.41%	\$1.23	(21,694)	(12,654)	8,633	67,918
Placentia	27	693,354	0	0	12,135	1.75%	10,101	1.46%	\$0.80	(9,246)	1,913	20,390	71,817
Yorba Linda	53	1,400,544	0	0	44,918	3.21%	46,458	3.32%	\$0.88	7,983	4,674	18,635	116,980
<b>North County Total</b>	<b>511</b>	<b>14,381,439</b>	<b>0</b>	<b>0</b>	<b>264,539</b>	<b>1.84%</b>	<b>405,286</b>	<b>2.82%</b>	<b>\$1.67</b>	<b>(25,428)</b>	<b>198,011</b>	<b>174,441</b>	<b>920,901</b>
<b>South County</b>													
Aliso Viejo	45	1,105,198	0	0	10,994	0.99%	11,928	1.08%	\$1.17	12,117	12,958	17,130	38,704
Foothill Ranch	7	162,895	0	0	0	0.00%	1,718	1.05%	\$0.00	0	0	0	0
Irvine Spectrum	301	10,365,968	0	0	370,599	3.58%	579,216	5.59%	\$1.39	(88,899)	20,099	181,502	762,953
Laguna Hills	56	1,317,500	0	0	48,152	3.65%	49,866	3.78%	\$1.27	(17,304)	(33,347)	25,413	95,687
Laguna Niguel	21	498,678	0	0	11,445	2.30%	12,196	2.45%	\$0.00	(5,346)	2,612	0	13,242
Lake Forest	62	1,398,213	0	0	48,291	3.45%	70,848	5.07%	\$1.11	(19,195)	(8,045)	18,694	119,714
Mission Viejo	36	919,041	0	0	17,605	1.92%	29,558	3.22%	\$1.10	23,909	(2,564)	38,039	102,112
Rancho Santa Margarita	44	1,500,921	0	0	8,058	0.54%	17,438	1.16%	\$1.48	(2,805)	4,168	3,136	38,391
San Clemente	57	1,359,693	0	0	16,786	1.23%	36,827	2.71%	\$1.17	15,893	40,794	40,555	167,331
San Juan Capistrano	44	901,665	0	0	32,395	3.59%	42,126	4.67%	\$1.29	5,289	(6,113)	20,601	56,269
<b>South County Total</b>	<b>673</b>	<b>19,529,772</b>	<b>0</b>	<b>0</b>	<b>564,325</b>	<b>2.89%</b>	<b>851,721</b>	<b>4.36%</b>	<b>\$1.32</b>	<b>(76,341)</b>	<b>30,562</b>	<b>345,070</b>	<b>1,394,403</b>
<b>West County</b>													
Cypress	56	2,643,806	0	0	159,206	6.02%	179,758	6.80%	\$0.95	(23,292)	(74,455)	15,943	76,560
Garden Grove	72	1,833,602	0	0	79,261	4.32%	77,872	4.25%	\$1.14	(23,379)	(39,651)	29,095	121,680
Huntington Beach	130	2,730,133	0	0	44,158	1.62%	107,993	3.96%	\$0.77	62,771	9,444	109,344	226,012
La Palma	1	78,980	0	0	0	0.00%	78,980	100.00%	\$0.00	0	0	0	0
Los Alamitos	41	913,587	0	0	10,664	1.17%	20,766	2.27%	\$0.00	2,998	9,804	4,466	53,377
Stanton	5	104,129	0	0	1,440	1.38%	1,440	1.38%	\$0.00	(1,440)	(1,440)	1,750	1,750
Westminster	19	502,745	0	0	1,820	0.36%	3,420	0.68%	\$0.00	11,620	8,682	24,440	31,740
<b>West County Total</b>	<b>324</b>	<b>8,806,982</b>	<b>0</b>	<b>0</b>	<b>296,549</b>	<b>3.37%</b>	<b>470,229</b>	<b>5.34%</b>	<b>\$0.87</b>	<b>29,278</b>	<b>(87,616)</b>	<b>185,038</b>	<b>511,119</b>
<b>Orange County Total</b>	<b>2,287</b>	<b>63,332,388</b>	<b>0</b>	<b>0</b>	<b>1,894,793</b>	<b>2.99%</b>	<b>2,818,264</b>	<b>4.45%</b>	<b>\$1.25</b>	<b>10,707</b>	<b>(2,955)</b>	<b>1,154,871</b>	<b>4,274,629</b>
<b>Airport Area</b>													
10,000-24,999	524	8,432,892	0	0	245,857	2.92%	342,939	4.07%	\$1.42	90,521	4,511	277,826	883,497
25,000-49,999	187	6,287,364	0	0	206,320	3.28%	246,069	3.91%	\$1.24	69,084	50,370	149,676	475,600
50,000-99,999	52	3,482,836	0	0	317,203	9.11%	443,218	12.73%	\$0.96	(76,407)	(198,793)	22,820	89,109
100,000 Plus	16	2,411,103	0	0	0	0.00%	58,802	2.44%	\$0.00	0	0	0	0
<b>North County</b>													
10,000-24,999	330	5,274,309	0	0	100,850	1.91%	150,092	2.85%	\$1.27	16,343	43,139	116,680	390,967
25,000-49,999	134	4,441,975	0	0	139,081	3.13%	232,720	5.24%	\$1.87	(36,601)	(31,516)	47,280	238,843
50,000-99,999	31	2,028,591	0	0	17,242	0.85%	17,242	0.85%	\$0.00	2,196	92,334	8,241	169,040
100,000 Plus	16	2,636,564	0	0	7,366	0.28%	5,232	0.20%	\$0.95	(7,366)	94,054	2,240	122,051
<b>South County</b>													
10,000-24,999	413	6,907,452	0	0	222,095	3.22%	378,845	5.48%	\$1.30	47,054	(20,874)	236,481	703,428
25,000-49,999	191	6,399,095	0	0	255,849	4.00%	336,220	5.25%	\$1.33	(78,531)	15,682	83,693	527,626
50,000-99,999	56	3,723,590	0	0	86,381	2.32%	136,656	3.67%	\$1.50	(44,864)	35,754	24,896	163,349
100,000 Plus	13	2,499,635	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
<b>West County</b>													
10,000-24,999	223	3,557,407	0	0	99,959	2.81%	129,012	3.63%	\$1.10	21,958	11,667	92,102	261,536
25,000-49,999	67	2,278,903	0	0	162,527	7.13%	167,126	7.33%	\$0.96	(53,728)	(96,164)	29,013	170,166
50,000-99,999	30	2,062,296	0	0	7,063	0.34%	147,091	7.13%	\$0.72	61,048	(3,119)	63,923	79,417
100,000 Plus	4	908,376	0	0	27,000	2.97%	27,000	2.97%	\$0.00	0	0	0	0
<b>Orange County</b>													
10,000-24,999	1,490	24,172,060	0	0	668,761	2.77%	1,000,888	4.14%	\$1.31	175,876	38,443	723,089	2,239,428
25,000-49,999	579	19,407,337	0	0	763,777	3.94%	982,135	5.06%	\$1.36	(99,776)	(61,628)	309,662	1,412,235
50,000-99,999	169	11,297,313	0	0	427,889	3.79%	744,207	6.59%	\$0.90	(58,027)	(73,824)	119,880	500,915
100,000 Plus	49	8,455,678	0	0	34,366	0.41%	91,034	1.08%	\$0.95	(7,366)	94,054	2,240	122,051
<b>Orange County Total</b>	<b>2,287</b>	<b>63,332,388</b>	<b>0</b>	<b>0</b>	<b>1,894,793</b>	<b>2.99%</b>	<b>2,818,264</b>	<b>4.45%</b>	<b>\$1.25</b>	<b>10,707</b>	<b>(2,955)</b>	<b>1,154,871</b>	<b>4,274,629</b>

This survey consists of buildings greater than 10,000 square feet. Lease rates are on a triple-net basis.



Vibrant Conditions in 2017  
Provide Optimism for 2018

**by Seth Davenport**  
EXECUTIVE VICE PRESIDENT, ANAHEIM

2017 was another year for the record books. Rents and sale prices climbed throughout the year, driven by scant vacancy and low interest rate mortgages. Strong demand from growing businesses continued to outpace the available supply of functional industrial space, which kept the playing field tipped in favor of landlords and sellers. These tight market conditions caused further declines in leasing and sales activity, which was down 22.30% in 2017. Often, there is just no place to go, forcing many business owners to forgo new acquisitions or renew existing leases.

The average asking lease rate hit \$0.84 NNN by year end, up 12% year-over-year, but quality space in prime submarkets is even more expensive. Landlords are also in position to offer little in the way tenant improvements and rent abatement that would otherwise mitigate overall occupancy costs for tenants in a more balanced market. Clearly, it is still a good time to be the owner of functional industrial space anywhere in Orange County.

The average asking sale price for industrial space also grew by 12% in 2017, finishing the year at a record-high \$265 per square foot. That marks the 4th straight year of double-digit price appreciation. Mortgage rates on 25-year loans are still under 5%, despite multiple short term rate hikes by the US Federal Reserve Bank. That kept owner/user demand running well ahead of supply all year, as potential sellers remained averse to the huge tax hit that would come with the disposition of their assets.

**A Look Ahead**

Absent a “black swan” event, market dynamics are not expected to change much in 2018. The availability of industrial product is so thin that demand could fall by half and still be running well ahead of supply. Land is scarce and expensive, which will keep the addition of new inventory flowing at a trickle. Currently only one major project, the Beckman Business Park, is under construction countywide. The 8-building project in Fullerton offers state-of-the-art buildings for sale or lease from 41,000 to 300,000 square feet, but provides little relief for the vast majority of Orange County businesses that occupy less space. We expect overall vacancy to remain near its current level of 2.3% throughout the year, but some submarkets and size ranges will move even lower.

Overall economic conditions have been good and may be getting better soon. US GDP growth is back on the rise, registering annualized gains of more than 3% in the final half of the year, in part due to anticipation of tax reform legislation, which became reality in December. The new legislation offers much lower tax rates for C-corporations and pass-through entities, as well as generous new expensing and depreciation rules that are designed to encourage capital investment and new job creation. How it all plays out, no one can know at this point, but one thing is for sure—corporate executives and private business owners will keep more of their hard-earned income in 2018. That points to more demand for industrial property that will drive lease rates and sales prices even higher throughout the year.

**Please Contact Us  
for Further Information**

**Tony Tran**  
Regional Director of Research  
ttran@voitco.com

Anaheim, CA 714.978.7880	Carlsbad, CA 760.517.4000	Inland Empire, CA 909.545.8000	Irvine, CA 949.851.5100	Los Angeles, CA 424.329.7500	San Diego, CA 858.453.0505
-----------------------------	------------------------------	-----------------------------------	----------------------------	---------------------------------	-------------------------------

This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a triple-net basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services. ©2018 Voit Real Estate Services, Inc. License #01991785.

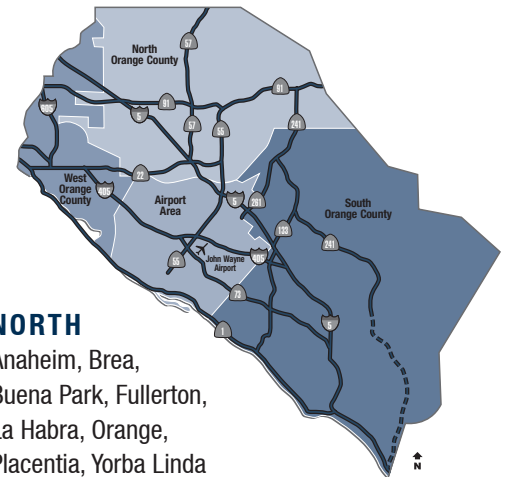
Represented in 150 Markets  
Nationally & Internationally.  
**CORFAC**  
International

Product Type

**R&D OR MID-TECH**

30% to 74.9% improved with drop ceiling, minimum parking ratio of 3 to 1, minimum 50% of exterior glassline, dock and/or ground level loading.

Submarkets



**NORTH**

Anaheim, Brea, Buena Park, Fullerton, La Habra, Orange, Placentia, Yorba Linda

**WEST**

Cypress, Garden Grove, Huntington Beach, La Palma, Los Alamitos, Stanton, Westminster

**AIRPORT**

Costa Mesa, Fountain Valley, Irvine, Newport Beach, Santa Ana, Tustin

**SOUTH**

Aliso Viejo, Foothill Ranch, Irvine Spectrum, Laguna Hills, Laguna Niguel, Lake Forest, Mission Viejo, Rancho Santa Margarita, San Clemente, San Juan Capistrano