



MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

FLAT



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HIGHLIGHTS

- **Encouraging Numbers** - The Orange County research and development market continued to improve as we entered 2014. Vacancy and availability dropped around 20% in a year, while net absorption posted a positive 152,000 square feet for first quarter of 2014. While these are certainly indications that the Orange County R&D market has gained traction, stability will need to be sustained in coming quarters and years for the market to return to a pre-recession state.
- **Construction** - At the end of the first quarter there was one project, 13,530 square feet, under construction- the first building to begin construction in over five years. The slow down in construction has eased the upward pressure on vacancy and allowed lease rates to stabilize and increase.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 6.11%, a decrease from the prior quarter's 6.35% and 2013's first quarter rate of 7.86%.
- **Availability** - Direct/sublease space being marketed was 8.39% in the first quarter, down from the 8.89% we saw in the fourth quarter and an impressive decrease of over 19% when compared to the same quarter last year.
- **Lease Rates** - The average asking triple-net lease rate per square foot per month in Orange County's R&D market was \$0.95 at the end of the quarter — four cents higher than the previous quarter's rate and up eight cents from the first quarter of 2013. The record high rate of \$1.22 was established in the second quarter of 2007.
- **Absorption** - The Orange County R&D market posted 152,015 square feet of positive net absorption in the first quarter of 2014 — giving the R&D market a total of nearly 1.7 million square feet of positive absorption over the last six quarters.
- **Transaction Activity** - Leasing activity checked in at just over 1.3 million square feet in the first quarter of 2014, creating a total of 7 million square feet leased in the market during the last five quarters. Sales activity posted just over 720,000 square feet in the first quarter of the year, up from the 396,000 square feet seen in the same quarter of last year. The Orange County research and development market averaged nearly 625,000 square feet of sales activity per quarter over the last nine quarters. This statistic can have some lag time in being reported, so look for first quarter figures to end up somewhat higher.
- **Employment** - The unemployment rate in Orange County was 5.8% in February 2014 — unchanged from a revised 5.8% in January 2014 and below the previous year's estimate of 6.6%. This compares with an unadjusted unemployment rate of 8.5% for California and 7.0% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 31,000 payroll jobs from February 2013 to February 2014. Most sectors showed gains in employment; the largest gains were 8,600 in construction and 8,100 in professional and business services during that same period. Financial activities posted the largest year-over-year loss, dropping by 1,700 jobs.
- **Overall** - Notwithstanding any hiccups the local and national economy may have, the Orange County R&D market is poised for growth in 2014. Both vacancy and availability have been rapidly descending over the past few years from recession highs. As we progress into 2014, positive absorption should continue, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market will further improve.

FORECAST

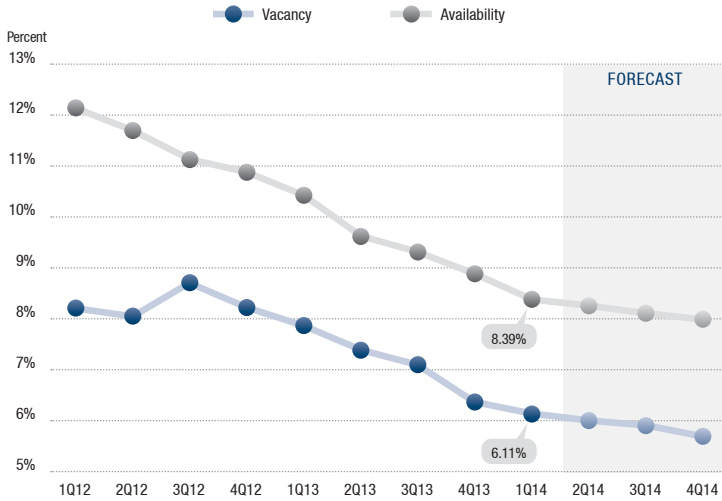
- **Employment** - We anticipate job growth of around 1.5%, or 30,000 jobs, in the Orange County area over the year. Look for professional and business services and research-oriented businesses — IT, defense, medical and alternative energy companies to lead the way for employment gains in the coming years.
- **Lease Rates** - Expect average asking lease rates to increase by 4%–6% percent by 2015.
- **Vacancy** - We anticipate vacancy to continuing to descend in coming quarters, dropping by 40 basis points, to around 5.7%, by 2015.

OVERVIEW

	1Q14	4Q13	1Q13	% of Change vs. 1Q13
Vacancy Rate	6.11%	6.35%	7.86%	(22.26%)
Availability Rate	8.39%	8.89%	10.41%	(19.40%)
Average Asking Lease Rate	\$0.95	\$0.91	\$0.87	9.20%
Sale & Lease Transactions	2,031,013	2,238,774	2,280,993	(10.96%)
Gross Absorption	1,151,149	1,484,902	1,411,658	(18.45%)
Net Absorption	152,015	470,841	245,300	N/A

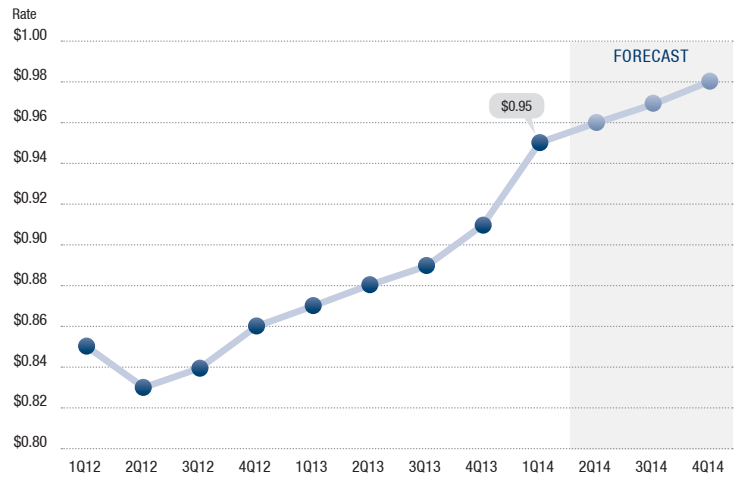
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



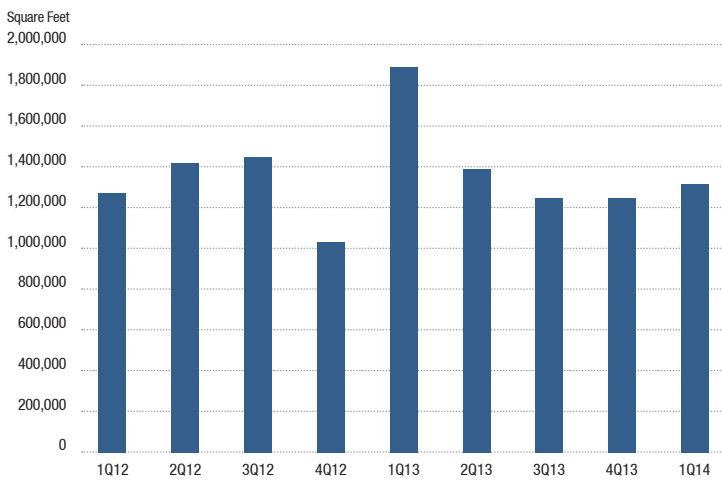
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



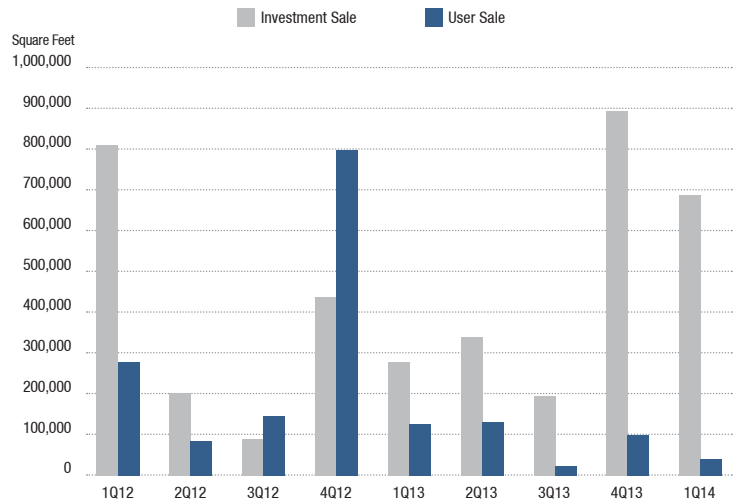
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



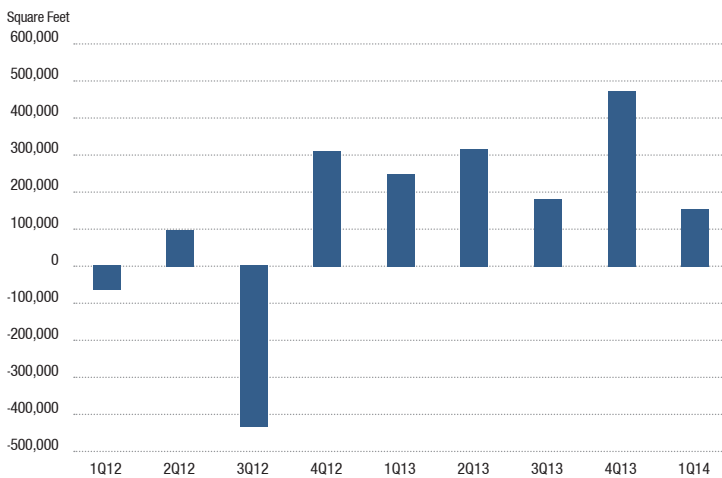
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

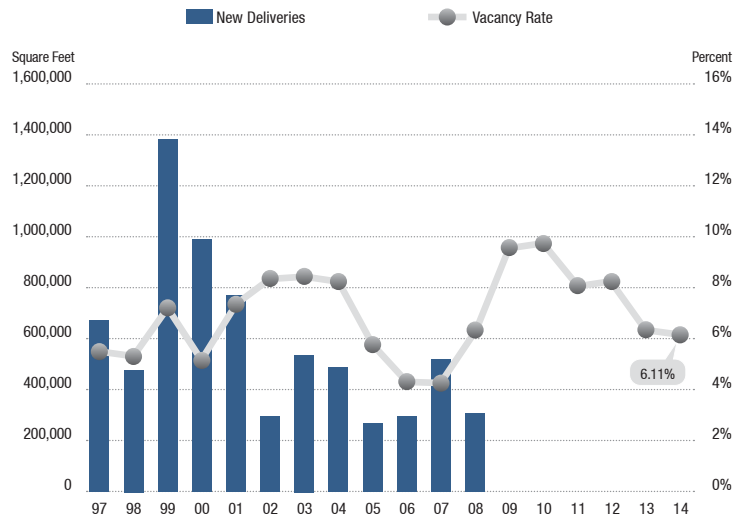


NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



ANNUAL NEW DELIVERIES VS. VACANCY RATE



	INVENTORY					VACANCY & LEASE RATES				ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2014	Square Feet Available	Availability Rate 1Q2014	Average Asking Lease Rate	Net Absorption 1Q2014	Net Absorption 2013	Gross Absorption 1Q2014	Gross Absorption 2013
Airport Area													
Costa Mesa	166	4,028,142	0	0	241,130	5.99%	267,747	6.65%	\$1.04	(3,334)	(4,407)	154,038	307,472
Fountain Valley	50	1,464,813	0	0	21,824	1.49%	18,264	1.25%	\$0.00	(1,736)	12,663	12,832	116,778
Irvine	260	7,095,524	13,530	0	571,462	8.05%	924,734	13.03%	\$0.91	(46,754)	208,894	78,442	687,737
Newport Beach	21	502,846	0	0	40,264	8.01%	40,264	8.01%	\$0.00	(9,545)	(1,850)	1,520	26,320
Santa Ana	189	4,730,369	0	0	257,183	5.44%	228,173	4.82%	\$1.31	3,440	116,508	97,224	409,008
Tustin	95	3,348,809	0	0	335,819	10.03%	499,979	14.93%	\$0.92	(62,222)	(17,213)	51,196	285,671
Airport Area Total	781	21,170,503	13,530	0	1,467,682	6.93%	1,979,161	9.35%	\$0.95	(120,151)	314,595	395,252	1,832,986
North County													
Anaheim	190	5,328,617	0	0	157,618	2.96%	269,944	5.07%	\$0.85	54,241	71,042	100,196	366,267
Brea	50	1,467,888	0	0	39,650	2.70%	174,317	11.88%	\$0.90	5,012	(14,986)	11,704	51,618
Buena Park	32	1,082,698	0	0	50,863	4.70%	79,748	7.37%	\$0.00	6,610	24,694	17,686	47,018
Fullerton	44	1,611,938	0	0	73,255	4.54%	69,815	4.33%	\$0.69	33,888	(58,085)	36,368	56,548
La Habra	8	164,694	0	0	8,362	5.08%	7,183	4.36%	\$0.76	(7,183)	6,732	0	6,724
Orange	104	2,329,878	0	0	89,303	3.83%	104,213	4.47%	\$0.69	8,715	13,466	22,197	159,064
Placentia	24	612,708	0	0	13,761	2.25%	23,111	3.77%	\$0.83	(3,190)	4,309	4,920	33,922
Yorba Linda	54	1,407,754	0	0	85,170	6.05%	173,247	12.31%	\$1.02	18,181	9,291	36,848	156,969
North County Total	506	14,006,175	0	0	517,982	3.70%	901,578	6.44%	\$0.85	116,274	56,463	229,919	878,130
South County													
Aliso Viejo	44	1,107,085	0	0	106,281	9.60%	153,735	13.89%	\$0.85	(1,496)	(2,741)	29,163	40,236
Foothill Ranch	7	162,895	0	0	0	0.00%	10,250	6.29%	\$0.79	0	0	0	0
Irvine Spectrum	305	10,480,043	0	18,124	589,363	5.62%	864,372	8.25%	\$1.14	201,776	103,708	286,335	1,028,012
Laguna Hills	59	1,384,596	0	0	77,849	5.62%	89,777	6.48%	\$1.34	(43,052)	47,043	18,373	166,826
Laguna Niguel	22	510,858	0	0	26,747	5.24%	27,095	5.30%	\$0.00	(9,286)	16,467	2,935	39,053
Lake Forest	56	1,318,608	0	0	43,956	3.33%	54,782	4.15%	\$0.87	(3,158)	79,649	24,784	188,350
Mission Viejo	34	879,801	0	0	328,589	37.35%	355,794	40.44%	\$0.98	(1,981)	8,077	17,408	79,307
Rancho Santa Margarita	44	1,495,021	0	0	17,050	1.14%	30,987	2.07%	\$1.05	(4,951)	14,972	8,820	43,480
San Clemente	51	1,253,756	0	0	74,886	5.97%	116,287	9.28%	\$0.95	3,064	77,613	17,540	346,367
San Juan Capistrano	45	917,038	0	187,639	89,534	9.76%	91,369	9.96%	\$0.00	4,817	(53,759)	20,908	54,905
South County Total	667	19,509,701	0	205,763	1,354,255	6.94%	1,794,448	9.20%	\$1.02	145,733	291,029	426,266	1,986,536
West County													
Cypress	56	2,819,123	0	0	237,568	8.43%	160,091	5.68%	\$0.99	(7,313)	263,876	12,784	329,018
Garden Grove	68	1,758,592	0	0	75,016	4.27%	310,290	17.64%	\$0.55	26,592	(3,095)	40,318	108,971
Huntington Beach	126	2,937,311	0	0	169,135	5.76%	152,712	5.20%	\$0.80	(6,655)	117,508	26,945	216,061
La Palma	1	85,000	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Los Alamitos	39	860,297	0	0	38,549	4.48%	29,211	3.40%	\$0.00	(4,630)	50,644	9,180	95,343
Stanton	5	122,025	0	0	0	0.00%	2,100	1.72%	\$0.00	4,980	(1,440)	4,980	0
Westminster	19	485,623	0	0	32,833	6.76%	21,188	4.36%	\$1.00	(2,815)	(11,108)	5,505	23,740
West County Total	314	9,067,971	0	0	553,101	6.10%	675,592	7.45%	\$0.79	10,159	416,385	99,712	773,133
Orange County Total	2,268	63,754,350	13,530	205,763	3,893,020	6.11%	5,350,779	8.39%	\$0.95	152,015	1,078,472	1,151,149	5,470,785
Airport Area													
10,000-24,999	522	8,425,048	13,530	0	536,861	6.37%	615,620	7.31%	\$1.07	(36,931)	121,198	151,134	857,879
25,000-49,999	185	6,232,597	0	0	359,666	5.77%	426,992	6.85%	\$1.09	12,320	64,223	87,808	605,026
50,000-99,999	55	3,648,627	0	0	299,203	8.20%	357,910	9.81%	\$0.84	(96,800)	(56,307)	155,050	183,340
100,000 Plus	19	2,864,231	0	0	271,952	9.49%	578,639	20.20%	\$0.91	1,260	185,481	1,260	186,741
North County													
10,000-24,999	328	5,219,021	0	0	223,367	4.28%	267,781	5.13%	\$0.76	63,140	59,855	116,769	487,770
25,000-49,999	132	4,384,987	0	0	223,092	5.09%	428,112	9.76%	\$0.87	53,351	13,547	108,867	339,865
50,000-99,999	32	2,092,735	0	0	42,938	2.05%	133,553	6.38%	\$0.00	(217)	11,646	4,283	50,495
100,000 Plus	14	2,309,432	0	0	28,585	1.24%	72,132	3.12%	\$0.00	0	(28,585)	0	0
South County													
10,000-24,999	404	6,725,551	0	147,671	419,087	6.23%	662,281	9.85%	\$1.02	(34,684)	43,282	132,366	793,804
25,000-49,999	192	6,463,882	0	58,092	224,567	3.47%	499,656	7.73%	\$1.10	83,867	205,770	168,318	721,259
50,000-99,999	56	3,720,615	0	0	400,305	10.76%	193,545	5.20%	\$0.95	102,586	42,697	124,862	460,590
100,000 Plus	15	2,599,653	0	0	310,296	11.94%	438,966	16.89%	\$1.00	(6,036)	(720)	720	10,883
West County													
10,000-24,999	212	3,346,802	0	0	164,598	4.92%	183,305	5.48%	\$0.93	(14,937)	126,489	54,597	359,276
25,000-49,999	66	2,255,693	0	0	136,226	6.04%	120,064	5.32%	\$0.88	24,796	18,728	44,815	126,626
50,000-99,999	29	1,972,786	0	0	252,277	12.79%	272,581	13.82%	\$0.76	300	61,624	300	77,687
100,000 Plus	7	1,492,690	0	0	0	0.00%	99,642	6.68%	\$0.00	0	209,544	0	209,544
Orange County													
10,000-24,999	1,466	23,716,422	13,530	147,671	1,343,913	5.67%	1,728,987	7.29%	\$1.01	(23,412)	350,824	454,866	2,498,729
25,000-49,999	575	19,337,159	0	58,092	943,551	4.88%	1,474,824	7.63%	\$1.01	174,334	302,268	409,808	1,792,776
50,000-99,999	172	11,434,763	0	0	994,723	8.70%	957,589	8.37%	\$0.81	5,869	59,660	284,495	772,112
100,000 Plus	55	9,266,006	0	0	610,833	6.59%	1,189,379	12.84%	\$0.98	(4,776)	365,720	1,980	407,168
Orange County Total	2,268	63,754,350	13,530	205,763	3,893,020	6.11%	5,350,779	8.39%	\$0.95	152,015	1,078,472	1,151,149	5,470,785

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



SUBMARKETS

NORTH

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

WEST

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

AIRPORT

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

SOUTH

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

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.

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Phoenix, AZ
602.952.8648

Reno, NV
775.771.9955

Sacramento, CA
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San Diego, CA
858.453.0505

San Jose, CA
408.885.9110

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.

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