

MARKET CHANGE

Compared to Previous Quarter:

Vacancy



UP

Net Absorption

NEGATIVE



Lease Rates



UP

Transactions

DOWN



Deliveries

FLAT



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Prepared by:

Jerry J. Holdner, Jr.
Vice President of Market Research
e-mail: jholdner@voitco.com

Tony Tran
Market Research Analyst
e-mail: ttran@voitco.com
VOIT Real Estate Services

HIGHLIGHTS

- **Encouraging Numbers** - The Orange County research and development market continued to improve entering the second quarter of 2015. Vacancy has dropped by over 10% in a year, although net absorption posted a negative 260,000 square feet for the first quarter of 2015. This marks the first quarter of negative absorption since 2012, while lease rates continue their upward trend. These are certainly indications that the Orange County R&D market has gained traction.
- **Construction** - There was nothing under construction at the end of the first quarter, and two buildings for a total of 44,628 square feet were delivered in 2014. These buildings were the first completions in over five years. The decrease in construction has eased the upward pressure on vacancy and allowed lease rates to increase.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 5.28%, an increase from the prior quarter's 4.88% but a decrease of over 10% when compared to 2014's first quarter rate of 5.87%.
- **Availability** - Direct/sublease space being marketed was 7.89% in the first quarter, up from the 6.95% we saw in the fourth quarter of 2014 but a decrease of 1.74% 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 \$0.98 at the end of the quarter, up two cents from the previous quarter's rate, and up three cents from the first quarter of 2014. The record high rate of \$1.22 was established in the third quarter of 2007.
- **Absorption** - The Orange County R&D market posted 260,525 square feet of negative net absorption in the first quarter of 2015, giving the R&D market a total of over 2.2 million square feet of positive absorption over the last ten quarters.
- **Transaction Activity** - Leasing activity checked in at 677,380 square feet for the first quarter of 2015, down from the 1.25 million square feet of leasing activity we saw in fourth quarter of 2014. Sales activity posted 294,321 square feet of activity this quarter, down from the 814,697 square feet seen in 2014. The Orange County R&D market averaged nearly 650,000 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 this quarter's figures to end up somewhat higher.
- **Employment** - The unemployment rate in Orange County was 4.6% in February 2015, down from a revised 5.0% in January 2015 and below the previous year's estimate of 6.0%. This compares with an unadjusted unemployment rate of 6.8% for California and 5.8% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 51,300 payroll jobs from February 2014 to February 2015. Most sectors showed gains in employment; the largest gains were 13,000 in professional and business services and 8,800 in educational and health services during that same period. Information posted the only year-over-year loss, dropping by 600 jobs.
- **Overall** - Notwithstanding any hiccups the local and national economy may have, the Orange County R&D market is poised for growth in 2015. Both vacancy and availability have been rapidly descending over the past few years from recession highs. As we move into the second quarter of 2015, positive absorption should continue, occupancy costs will continue to increase and with no new deliveries in the pipeline to apply upward pressure on vacancy, the market will further improve.

FORECAST

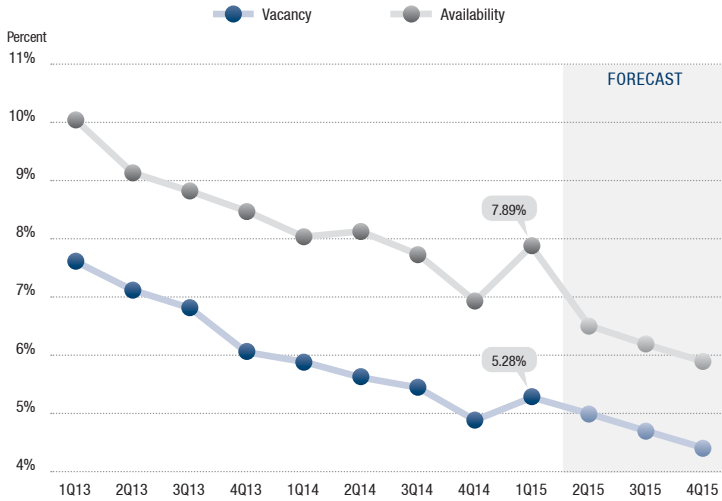
- **Employment** - We anticipate job growth of around 2.6%, or 38,000 jobs, in the Orange County area during the year according to Chapman University. The most rapid growth should take place in the construction, education & health, professional & business services, and leisure & hospitality sectors.
- **Lease Rates** - Expect average asking lease rates to increase by 4% to 6% percent by the fourth quarter of 2015.
- **Vacancy** - We anticipate vacancy to continue to descend in coming quarters, dropping by 70 basis points, to below 4.50% by the end of the fourth quarter of 2015.

OVERVIEW

	1Q15	4Q14	1Q14	% of Change vs. 1Q14
Total Vacancy Rate	5.28%	4.88%	5.87%	(10.05%)
Availability Rate	7.89%	6.95%	8.03%	(1.74%)
Average Asking Lease Rate	\$0.98	\$0.96	\$0.95	3.16%
Sale & Lease Transactions	971,701	1,805,199	2,371,386	(59.02%)
Gross Absorption	780,162	1,145,703	1,064,201	(26.69%)
Net Absorption	(260,525)	364,355	161,536	N/A

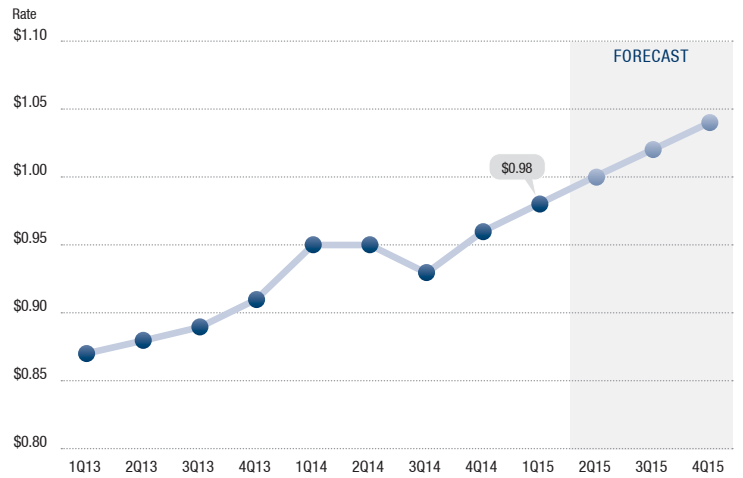
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



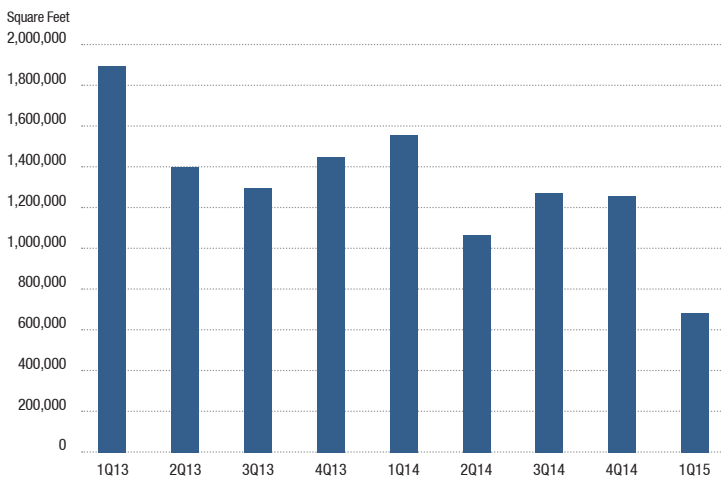
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



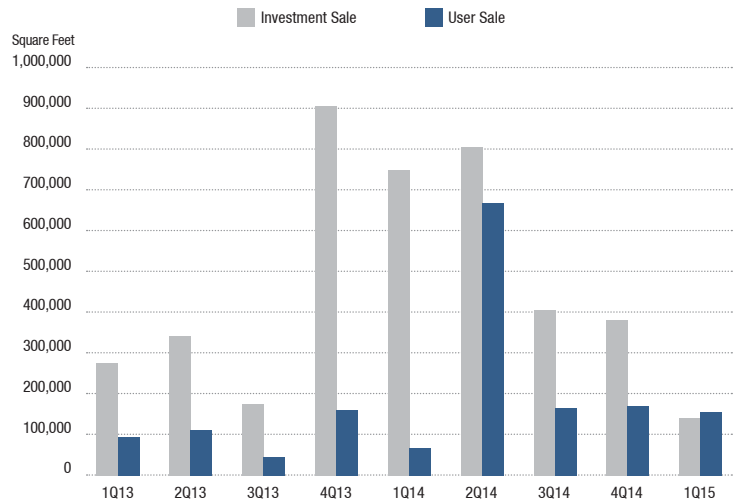
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



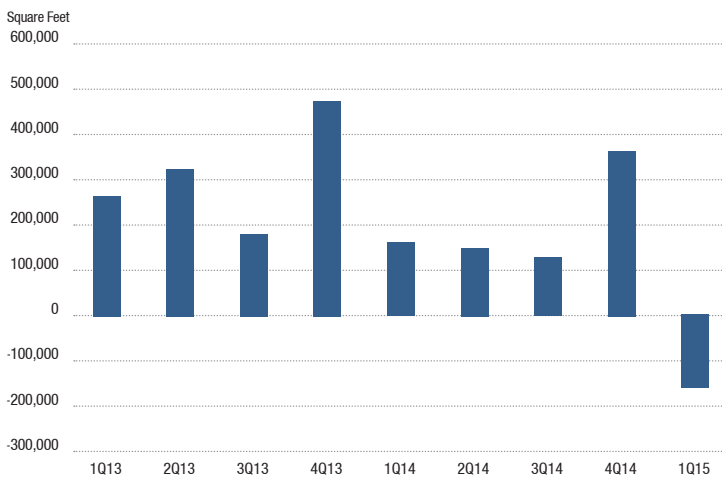
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

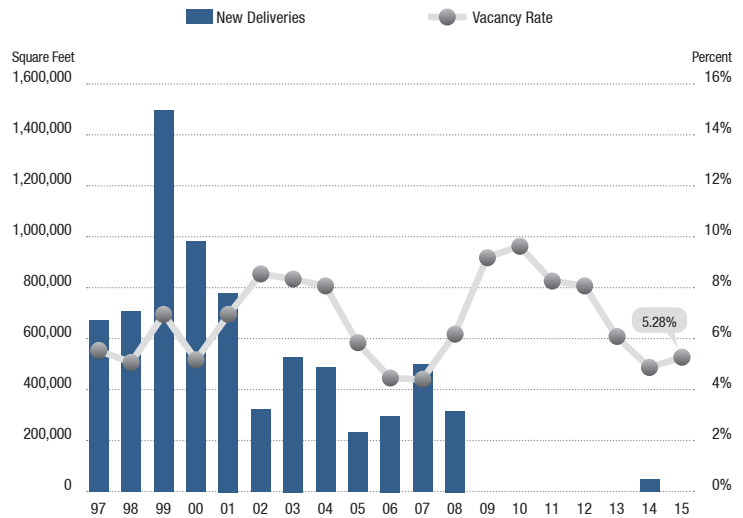


NET ABSORPTION

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

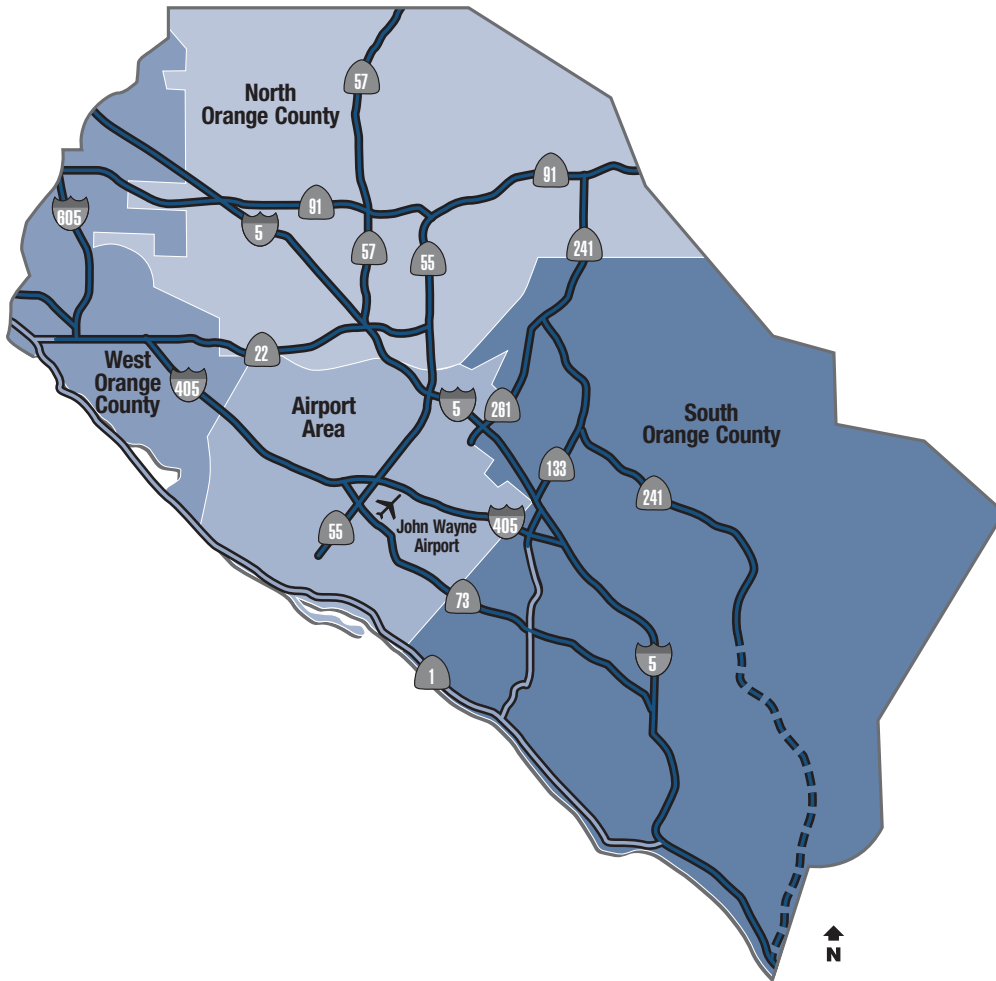


ANNUAL NEW DELIVERIES VS. VACANCY RATE



	INVENTORY					VACANCY & LEASE RATES				ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2015	Square Feet Available	Availability Rate 1Q2015	Average Asking Lease Rate	Net Absorption 1Q2015	Net Absorption 2014	Gross Absorption 1Q2015	Gross Absorption 2014
Airport Area													
Costa Mesa	171	4,094,924	0	0	162,290	3.96%	178,946	4.37%	\$0.84	(3,823)	102,640	50,177	413,294
Fountain Valley	50	1,464,813	0	0	22,262	1.52%	29,279	2.00%	\$0.00	(2,754)	580	4,698	47,010
Irvine	260	6,605,206	0	0	355,468	5.38%	513,651	7.78%	\$0.83	(37,981)	109,266	64,762	602,916
Newport Beach	21	465,715	0	0	29,285	6.29%	29,285	6.29%	\$0.00	(19,777)	(2,988)	14,508	36,116
Santa Ana	191	4,816,942	0	0	179,252	3.72%	216,510	4.49%	\$0.99	(12,586)	99,275	62,061	352,471
Tustin	92	3,169,916	0	0	343,777	10.84%	413,492	13.04%	\$0.73	41,846	(191,782)	65,004	177,694
Airport Area Total	785	20,617,516	0	0	1,092,334	5.30%	1,381,163	6.70%	\$0.80	(35,075)	116,991	261,210	1,629,501
North County													
Anaheim	196	5,537,918	0	0	209,501	3.78%	484,433	8.75%	\$1.00	(37,741)	45,549	50,163	351,557
Brea	52	1,542,250	0	0	40,441	2.62%	119,042	7.72%	\$1.01	(7,793)	12,014	6,995	63,388
Buena Park	30	959,923	0	0	25,062	2.61%	57,807	6.02%	\$0.00	789	31,622	7,600	53,837
Fullerton	45	1,636,736	0	0	61,242	3.74%	79,450	4.85%	\$0.73	(8,736)	54,637	3,700	110,614
La Habra	9	176,339	0	0	5,386	3.05%	13,886	7.87%	\$0.00	1,583	(5,790)	1,583	2,976
Orange	103	2,312,334	0	0	49,604	2.15%	52,773	2.28%	\$0.84	5,858	42,556	33,372	143,989
Placentia	24	612,708	0	0	3,462	0.57%	7,977	1.30%	\$0.00	0	(1,166)	3,880	43,179
Yorba Linda	53	1,397,488	0	0	146,299	10.47%	141,592	10.13%	\$0.80	(80,260)	35,056	18,764	135,160
North County Total	512	14,175,696	0	0	540,997	3.82%	956,960	6.75%	\$0.95	(126,300)	214,478	126,057	904,700
South County													
Aliso Viejo	44	1,084,721	0	0	52,328	4.82%	111,645	10.29%	\$1.11	1,820	637	29,153	103,596
Foothill Ranch	8	265,194	0	0	102,299	38.58%	102,299	38.58%	\$0.00	0	(102,299)	0	10,250
Irvine Spectrum	300	10,462,965	0	18,920	537,689	5.14%	930,924	8.90%	\$1.25	(50,887)	233,055	120,482	1,105,223
Laguna Hills	52	1,209,931	0	0	60,417	4.99%	63,809	5.27%	\$2.25	(28,459)	239	11,196	104,473
Laguna Niguel	21	494,347	0	0	7,141	1.44%	8,391	1.70%	\$0.00	12,512	(2,192)	12,512	12,352
Lake Forest	59	1,365,726	0	53,264	58,303	4.27%	103,510	7.58%	\$1.14	1,351	4,201	15,676	97,220
Mission Viejo	34	879,801	0	0	315,228	35.83%	353,242	40.15%	\$0.98	3,548	4,696	7,040	56,778
Rancho Santa Margarita	44	1,495,816	0	0	7,010	0.47%	57,012	3.81%	\$0.00	(1,205)	6,294	2,660	29,018
San Clemente	52	1,269,085	0	0	69,889	5.51%	124,383	9.80%	\$1.05	8,128	(542)	23,359	103,403
San Juan Capistrano	45	917,038	0	0	53,788	5.87%	56,906	6.21%	\$0.00	17,382	23,881	23,120	68,553
South County Total	659	19,444,624	0	72,184	1,264,092	6.50%	1,912,121	9.83%	\$1.13	(35,810)	167,970	245,198	1,690,866
West County													
Cypress	56	2,815,071	0	0	233,697	8.30%	328,323	11.66%	\$0.98	(71,026)	67,584	73,391	284,380
Garden Grove	69	1,796,973	0	0	66,028	3.67%	266,934	14.85%	\$0.62	9,786	27,930	27,511	120,052
Huntington Beach	129	3,013,496	0	0	109,657	3.64%	120,289	3.99%	\$0.80	(4,129)	53,705	37,392	200,065
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	26,655	3.10%	21,127	2.46%	\$0.00	2,769	4,495	7,143	60,970
Stanton	5	122,025	0	0	3,700	3.03%	3,700	3.03%	\$0.00	0	1,280	0	4,980
Westminster	18	486,743	0	0	12,700	2.61%	12,700	2.61%	\$0.00	(740)	18,058	2,260	56,184
West County Total	317	9,179,605	0	0	452,437	4.93%	753,073	8.20%	\$0.80	(63,340)	173,052	147,697	726,631
Orange County Total	2,273	63,417,441	0	72,184	3,349,860	5.28%	5,003,317	7.89%	\$0.98	(260,525)	672,491	780,162	4,951,698
Airport Area													
10,000-24,999	528	8,494,091	0	0	372,612	4.39%	416,290	4.90%	\$1.01	(71,839)	212,336	135,269	817,745
25,000-49,999	185	6,217,600	0	0	351,634	5.66%	404,798	6.51%	\$1.10	13,559	41,509	65,031	502,919
50,000-99,999	56	3,699,269	0	0	145,048	3.92%	337,035	9.11%	\$0.74	(17,795)	(5,827)	19,910	285,824
100,000 Plus	16	2,206,556	0	0	223,040	10.11%	223,040	10.11%	\$0.69	41,000	(131,027)	41,000	23,013
North County													
10,000-24,999	332	5,309,173	0	0	189,166	3.56%	271,105	5.11%	\$0.85	(20,658)	117,418	67,161	479,994
25,000-49,999	134	4,447,646	0	0	295,293	6.64%	477,603	10.74%	\$0.81	(96,268)	72,918	54,275	366,854
50,000-99,999	32	2,109,445	0	0	56,538	2.68%	171,443	8.13%	\$1.10	(9,374)	(4,443)	4,621	29,267
100,000 Plus	14	2,309,432	0	0	0	0.00%	36,809	1.59%	\$0.00	0	28,585	0	28,585
South County													
10,000-24,999	400	6,693,570	0	18,920	339,666	5.07%	569,238	8.50%	\$1.18	23,775	23,729	138,247	626,024
25,000-49,999	189	6,352,531	0	0	290,004	4.57%	506,909	7.98%	\$1.30	(11,623)	27,105	80,268	607,794
50,000-99,999	55	3,663,590	0	53,264	228,583	6.24%	167,672	4.58%	\$1.17	(47,962)	219,435	26,683	457,048
100,000 Plus	15	2,734,933	0	0	405,839	14.84%	668,302	24.44%	\$1.00	0	(102,299)	0	0
West County													
10,000-24,999	213	3,394,582	0	0	157,895	4.65%	170,418	5.02%	\$0.89	3,129	(7,599)	37,759	239,336
25,000-49,999	68	2,323,957	0	0	119,097	5.12%	117,471	5.05%	\$0.90	2,957	38,968	34,947	156,413
50,000-99,999	30	2,068,376	0	0	175,445	8.48%	301,055	14.56%	\$0.74	(69,426)	141,683	74,991	330,882
100,000 Plus	6	1,392,690	0	0	0	0.00%	164,129	11.79%	\$0.00	0	0	0	0
Orange County													
10,000-24,999	1,473	23,891,416	0	18,920	1,059,339	4.43%	1,427,051	5.97%	\$1.08	(65,593)	345,884	378,436	2,163,099
25,000-49,999	576	19,341,734	0	0	1,056,028	5.46%	1,506,781	7.79%	\$1.10	(91,375)	180,500	234,521	1,633,980
50,000-99,999	173	11,540,680	0	53,264	605,614	5.25%	977,205	8.47%	\$0.91	(144,557)	350,848	126,205	1,103,021
100,000 Plus	51	8,643,611	0	0	628,879	7.28%	1,092,280	12.64%	\$0.90	41,000	(204,741)	41,000	51,598
Orange County Total	2,273	63,417,441	0	72,184	3,349,860	5.28%	5,003,317	7.89%	\$0.98	(260,525)	672,491	780,162	4,951,698

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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101 Shipyard Way, Newport Beach, CA 92663 949.644.8648 Lic.#01333376 www.voitco.com



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San Diego, CA
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San Jose, CA
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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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