

MARKET CHANGE

Compared to Previous Quarter:

Vacancy



UP

Net Absorption

NEGATIVE



Lease Rates



UP

Transactions

DOWN



Deliveries



UP

HIGHLIGHTS

- **Encouraging Numbers** - The Orange County research and development market shows sign of improvement in 2016. Availability has dropped by over 6.52% in a year, lease rates continue to trend upward, and total transaction posted over 1.2 million square feet for the quarter. The growing influence of new industries such as high technology, biotechnology and healthcare should further diversify the local economy and help to strengthen the R&D market.
- **Construction** - Following a lengthy period with no construction, the first quarter of 2016 added 43,920 square feet of R&D space. No new supply is anticipated for the R&D market for 2016. The decrease in construction continues to allow lease rates to increase.
- **Vacancy** - First quarter vacancy in the county R&D market, also low by national norms, was just 4.05%, up 62 basis points from a quarter earlier and unchanged from the same quarter last year.
- **Availability** - Direct/sublease space being marketed was 5.45% in the first quarter, down from the 5.70% we saw in the fourth quarter of 2015 and a decrease of 6.52% when compared to the same quarter last year.
- **Lease Rates** - The average asking triple net lease rate per month per foot in Orange County is currently \$1.13, which is 10.78% higher than it was this time last year. This is a record high for lease rates in the R&D market.
- **Absorption** - Net absorption year-to-date in 2016, with the 43,920 square feet of new supply partially to blame, was negative 353,172 square feet. The West County posted the largest share of the loss of occupied space in the market, with a negative 267,876 square feet.
- **Transaction Activity** - Leasing activity posted 983,332 square feet of activity this year, down from the 1.23 million square feet seen in the fourth quarter of 2015. Total sale and leasing activity registered at just over 1.2 million square feet for the first quarter of 2016. The Orange County R&D market has averaged 2 million square feet of sale and leasing activity per quarter for the past nine quarters.
- **Employment** - The unemployment rate in Orange County was 4.0% in February 2016, unchanged from a revised 4.0 percent in January 2016, and below the previous year's estimate of 4.7%. This compares with an unadjusted unemployment rate of 5.7% for California and 5.2% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 42,300 payroll jobs from February 2015 to February 2016. Professional and business services grew by 5,000 jobs overall, led by an increase of 4,300 jobs in administrative and support services, which includes temporary help firms.
- **Overall** - As we head into 2016, the R&D market begins to see a decrease in the amount of available space being added per quarter. Despite a negative figure in absorption for the first quarter, there are signs of improvement over a longer term, with the last four quarters showing nearly 250,000 square feet of positive absorption. The Orange County economy shows no sign of slowing down, spurring demand for the county's R&D market. No new construction in the near term should allow vacancy compression to continue in the next three quarters.

FORECAST

- **Employment** - According to the LAEDC, the Orange County economy has been one of the standout performers in California. During the current economic cycle, its unemployment rate peaked in 2010 at 9.7%, falling to an average annual rate of 4.4% in 2015. Orange County has a strong high-tech manufacturing sector that includes computer and related electronic products, aerospace parts and products and medical devices.
- **Lease Rates** - Expect average asking lease rates to increase by 3% to 5% over the next four quarters.
- **Vacancy** - We anticipate vacancy to continue to descend in coming quarters, dropping by 35 basis points, to approximately 3.70% by the end of the fourth quarter of 2016.

OVERVIEW

	1Q16	4Q15	1Q15	% of Change vs. 1Q15
Total Vacancy Rate	4.05%	3.43%	4.06%	(0.25%)
Availability Rate	5.45%	5.70%	5.83%	(6.52%)
Average Asking Lease Rate	\$1.13	\$1.10	\$1.02	10.78%
Sale & Lease Transactions	1,205,892	2,152,565	1,102,006	9.43%
Gross Absorption	1,217,247	1,228,540	815,007	49.35%
Net Absorption	(353,172)	243,493	(205,441)	N/A

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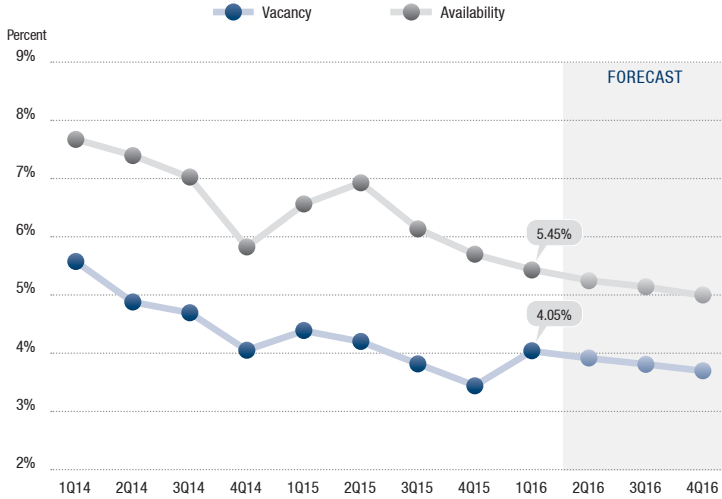
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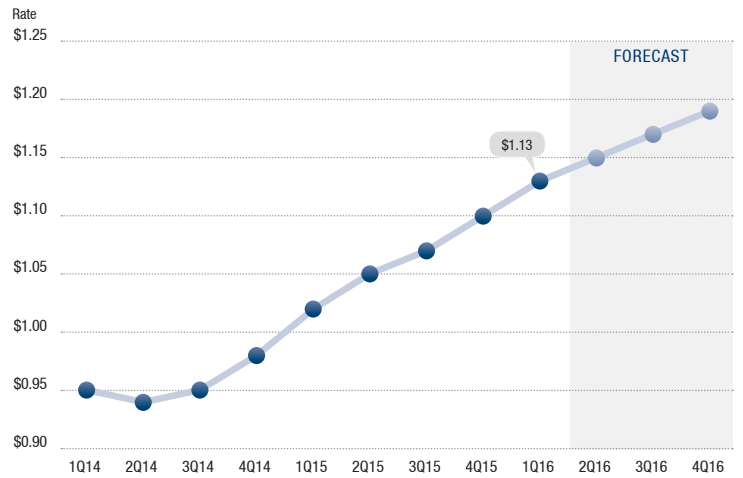
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



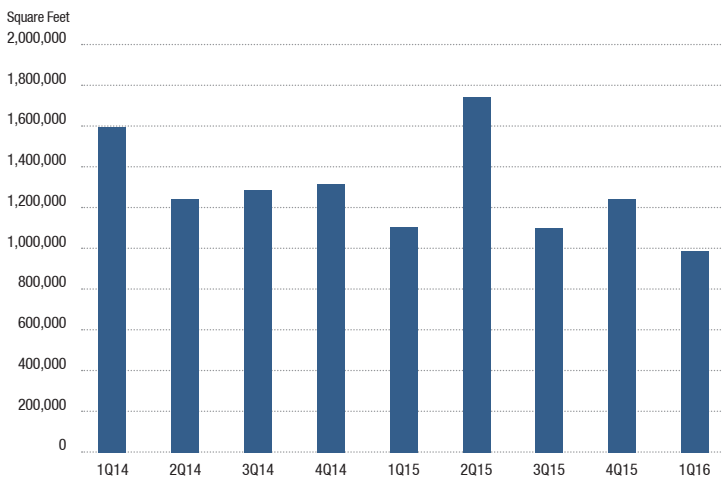
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



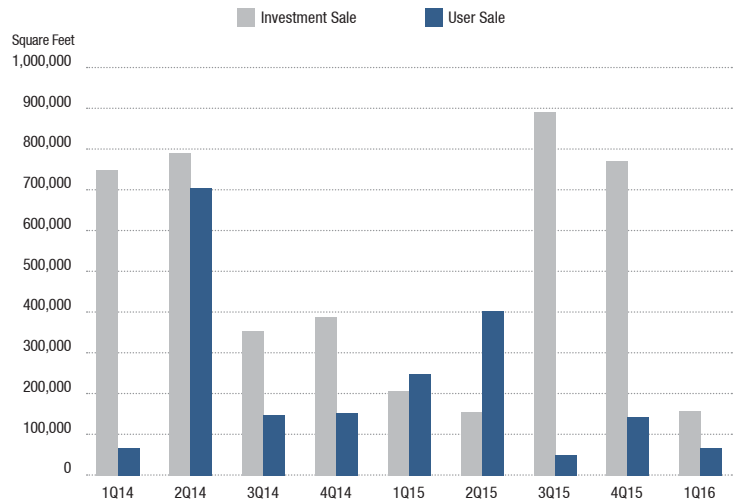
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



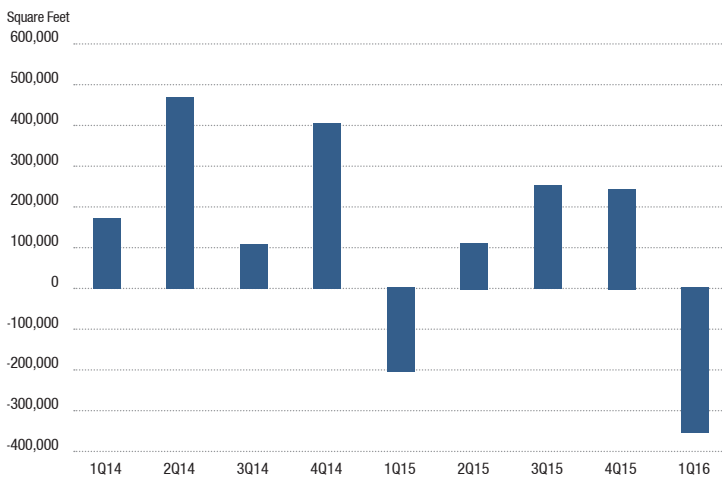
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

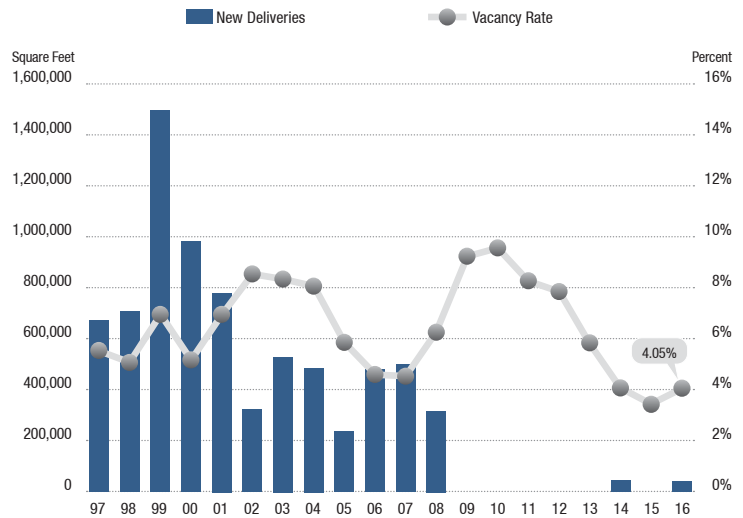


NET ABSORPTION

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

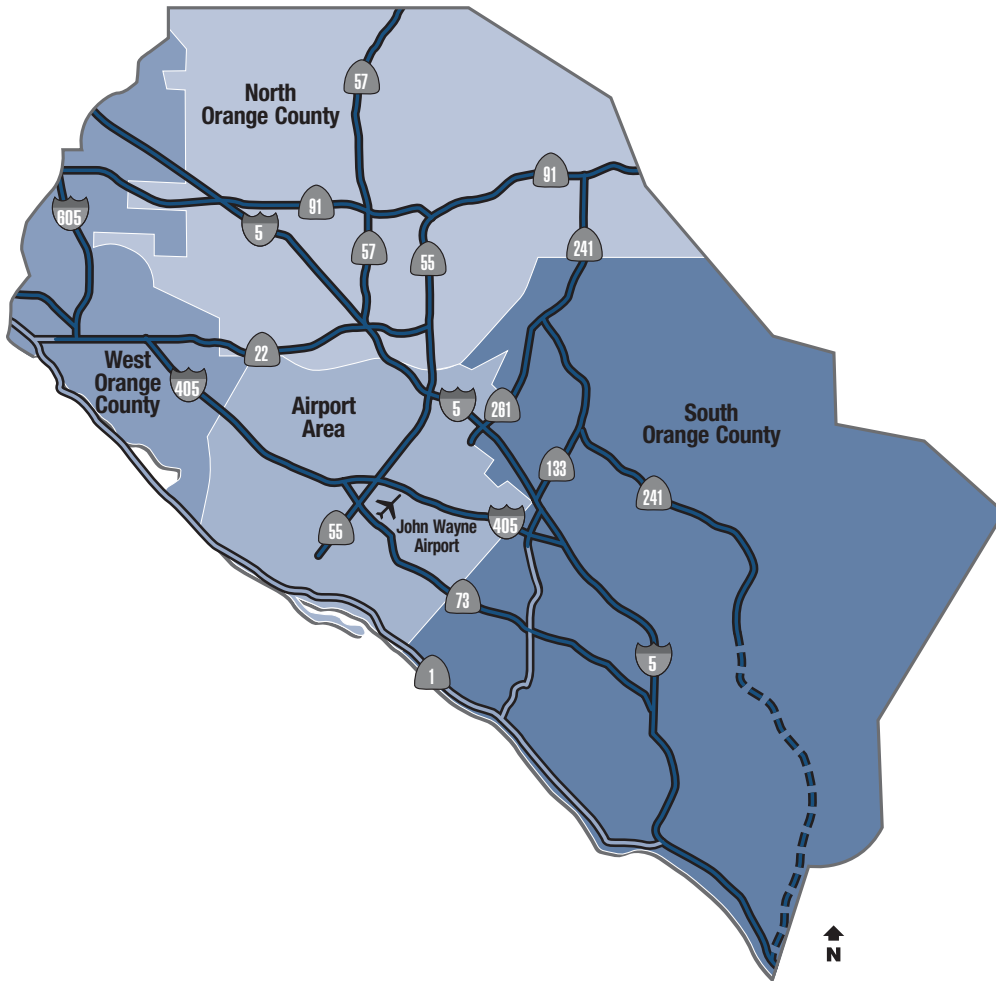


ANNUAL NEW DELIVERIES VS. VACANCY RATE



	INVENTORY					VACANCY & LEASE RATES				ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2016	Square Feet Available	Availability Rate 1Q2016	Average Asking Lease Rate	Net Absorption 1Q2016	Net Absorption 2015	Gross Absorption 1Q2016	Gross Absorption 2015
Airport Area													
Costa Mesa	174	4,169,548	0	0	100,249	2.40%	184,080	4.41%	\$1.24	33,431	37,873	88,315	273,400
Fountain Valley	50	1,464,813	0	0	13,686	0.93%	19,772	1.35%	\$0.00	8,360	(2,538)	12,870	44,849
Irvine	251	6,276,206	0	0	132,080	2.10%	263,870	4.20%	\$1.36	32,795	18,678	96,027	480,116
Newport Beach	25	708,265	0	0	54,144	7.64%	65,085	9.19%	\$0.00	(7,677)	(24,772)	16,271	16,285
Santa Ana	193	5,068,885	0	0	226,163	4.46%	144,942	2.86%	\$1.12	(122,342)	65,981	93,328	334,641
Tustin	91	3,052,312	0	0	136,016	4.46%	157,114	5.15%	\$1.05	(75,469)	164,756	23,806	327,332
Airport Area Total	784	20,740,029	0	0	662,338	3.19%	834,863	4.03%	\$1.23	(130,902)	259,978	330,617	1,476,623
North County													
Anaheim	190	5,384,209	0	0	253,448	4.71%	404,701	7.52%	\$0.98	46,092	(136,380)	115,375	256,403
Brea	52	1,496,960	0	0	165,289	11.04%	213,246	14.25%	\$1.06	(93,542)	(37,899)	10,728	63,962
Buena Park	30	959,923	0	0	29,092	3.03%	25,325	2.64%	\$0.00	4,582	(9,683)	17,542	42,610
Fullerton	45	1,635,006	0	0	44,993	2.75%	53,078	3.25%	\$0.69	16,363	(8,850)	27,425	48,138
La Habra	10	187,013	0	0	1,108	0.59%	11,782	6.30%	\$0.00	0	1,097	0	14,273
Orange	104	2,324,161	0	0	27,716	1.19%	38,664	1.66%	\$0.94	(15,423)	44,619	18,020	146,338
Placentia	26	654,665	0	0	13,071	2.00%	13,071	2.00%	\$0.99	(6,659)	(2,950)	8,038	18,312
Yorba Linda	53	1,392,563	0	0	104,787	7.52%	119,729	8.60%	\$1.22	(40,482)	726	16,260	189,434
North County Total	510	14,034,500	0	0	639,504	4.56%	879,596	6.27%	\$1.01	(89,069)	(149,320)	213,388	779,470
South County													
Aliso Viejo	45	1,102,980	0	0	22,002	1.99%	45,696	4.14%	\$1.37	44,292	(12,866)	56,302	97,209
Foothill Ranch	8	265,194	0	0	0	0.00%	0	0.00%	\$0.00	0	102,299	0	102,299
Irvine Spectrum	304	10,236,033	0	0	430,298	4.20%	751,563	7.34%	\$1.24	108,710	(9,220)	315,425	706,640
Laguna Hills	55	1,260,807	0	0	46,157	3.66%	61,643	4.89%	\$1.15	(22,209)	10,935	23,170	111,342
Laguna Niguel	20	474,072	0	0	9,517	2.01%	12,273	2.59%	\$0.00	5,592	4,544	12,678	19,243
Lake Forest	63	1,442,455	0	0	88,318	6.12%	102,824	7.13%	\$1.25	29,719	(59,817)	46,241	144,471
Mission Viejo	36	916,339	0	0	44,030	4.80%	48,870	5.33%	\$0.82	(22,264)	(6,836)	6,352	50,684
Rancho Santa Margarita	44	1,497,686	0	0	3,290	0.22%	20,497	1.37%	\$1.22	(537)	3,052	1,293	25,434
San Clemente	55	1,341,747	0	0	75,956	5.66%	103,163	7.69%	\$1.05	(18,780)	11,148	30,366	138,551
San Juan Capistrano	45	917,038	0	0	20,430	2.23%	22,021	2.40%	\$0.00	10,152	40,588	13,657	71,470
South County Total	675	19,454,351	0	0	739,998	3.80%	1,168,550	6.01%	\$1.19	134,675	83,827	505,484	1,467,343
West County													
Cypress	57	2,849,632	0	0	48,167	1.69%	62,360	2.19%	\$1.01	(9,532)	124,036	42,687	393,216
Garden Grove	69	1,796,943	0	0	59,472	3.31%	63,152	3.51%	\$0.85	(3,874)	20,216	18,893	202,084
Huntington Beach	130	3,034,881	0	0	385,282	12.70%	400,671	13.20%	\$0.00	(240,808)	(31,880)	92,067	186,921
La Palma	1	85,000	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Los Alamitos	41	897,146	0	0	25,485	2.84%	23,632	2.63%	\$0.00	(15,270)	19,209	7,043	62,869
Stanton	6	122,189	0	0	0	0.00%	0	0.00%	\$0.00	2,880	3,360	2,880	5,815
Westminster	18	486,743	0	0	14,450	2.97%	28,334	5.82%	\$0.00	(1,272)	(1,218)	4,188	7,510
West County Total	322	9,272,534	0	0	532,856	5.75%	578,149	6.24%	\$0.92	(267,876)	133,723	167,758	858,415
Orange County Total	2,291	63,501,414	0	0	2,574,696	4.05%	3,461,158	5.45%	\$1.13	(353,172)	328,208	1,217,247	4,581,851
Airport Area													
10,000-24,999	528	8,471,636	0	0	217,113	2.56%	407,233	4.81%	\$1.24	75,779	7,604	220,685	699,145
25,000-49,999	186	6,241,188	0	0	197,172	3.16%	286,223	4.59%	\$1.23	(14,741)	81,377	87,299	431,099
50,000-99,999	53	3,506,478	0	0	103,261	2.94%	141,407	4.03%	\$1.20	(47,148)	16,957	22,633	192,339
100,000 Plus	17	2,520,727	0	0	144,792	5.74%	0	0.00%	\$0.00	(144,792)	154,040	0	154,040
North County													
10,000-24,999	331	5,302,752	0	0	119,178	2.25%	177,800	3.35%	\$0.95	(4,232)	41,840	84,621	383,078
25,000-49,999	135	4,471,326	0	0	236,299	5.28%	426,174	9.53%	\$0.96	36,413	(75,547)	120,274	337,349
50,000-99,999	30	1,967,503	0	0	145,798	7.41%	137,393	6.98%	\$1.10	(19,830)	(78,804)	8,493	29,291
100,000 Plus	14	2,292,919	0	0	138,229	6.03%	138,229	6.03%	\$0.00	(101,420)	(36,809)	0	29,752
South County													
10,000-24,999	412	6,890,749	0	0	287,627	4.17%	493,980	7.17%	\$1.18	40,932	44,941	211,497	705,331
25,000-49,999	195	6,560,541	0	0	273,423	4.17%	491,957	7.50%	\$1.21	66,354	(37,697)	229,118	452,014
50,000-99,999	55	3,663,590	0	0	178,948	4.88%	182,613	4.98%	\$1.21	27,389	(25,716)	64,869	207,699
100,000 Plus	13	2,339,471	0	0	0	0.00%	0	0.00%	\$0.00	0	102,299	0	102,299
West County													
10,000-24,999	218	3,488,476	0	0	139,717	4.01%	159,577	4.57%	\$0.92	(14,466)	47,479	62,589	259,548
25,000-49,999	68	2,322,532	0	0	112,679	4.85%	138,112	5.95%	\$0.00	(8,590)	15,865	62,585	150,407
50,000-99,999	30	2,068,376	0	0	0	0.00%	0	0.00%	\$0.00	35,640	70,379	42,584	284,331
100,000 Plus	6	1,393,150	0	0	280,460	20.13%	280,460	20.13%	\$0.73	(280,460)	0	0	164,129
Orange County													
10,000-24,999	1,489	24,153,613	0	0	763,635	3.16%	1,238,590	5.13%	\$1.13	98,013	141,864	579,392	2,047,102
25,000-49,999	584	19,595,587	0	0	819,573	4.18%	1,342,466	6.85%	\$1.13	79,436	(16,002)	499,276	1,370,869
50,000-99,999	168	11,205,947	0	0	428,007	3.82%	461,413	4.12%	\$1.15	(3,949)	(17,184)	138,579	713,660
100,000 Plus	50	8,546,267	0	0	563,481	6.59%	418,689	4.90%	\$0.00	(526,672)	219,530	0	450,220
Orange County Total	2,291	63,501,414	0	0	2,574,696	4.05%	3,461,158	5.45%	\$1.13	(353,172)	328,208	1,217,247	4,581,851

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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