

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

FLAT



Transactions

DOWN



Deliveries

UP



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VOIT Real Estate Services

HIGHLIGHTS

- **Encouraging Numbers** - The Orange County research and development market continued to improve entering the third quarter of 2014. Vacancy has dropped by 18.5% in a year, while net absorption posted a positive 155,000 square feet for the second quarter of 2014, marking seven straight quarters of positive absorption. These are certainly indications that the Orange County R&D market has gained traction.
- **Construction** - At the end of the second quarter there was nothing under construction, although two buildings for a total of 44,628 square feet have been delivered this year. These buildings are 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 5.97%, a decrease from the prior quarter's 6.19% and 2013's second quarter rate of 7.33%.
- **Availability** - Direct/sublease space being marketed was 8.62% in the second quarter, up from the 8.34% we saw in the first quarter but a decrease of 8.3% 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, the same as the previous quarter's rate and up seven cents from the second 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 154,523 square feet of positive net absorption in the second quarter of 2014, giving the R&D market a total of nearly 1.8 million square feet of positive absorption over the last seven quarters.
- **Transaction Activity** - Leasing activity checked in at just over 800,000 square feet in the second quarter of 2014, creating a total of 6.4 million square feet leased in the market during the last five quarters. Sales activity posted just over 940,000 square feet in the second quarter of the year, up from the 447,000 square feet seen in the same quarter of last year. The Orange County R&D market averaged nearly 620,000 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 second quarter figures to end up somewhat higher.
- **Employment** - The unemployment rate in Orange County was 4.9% in May 2014, down from a revised 5.0% in April 2014 and below the previous year's estimate of 5.9%. This compares with an unadjusted unemployment rate of 7.1% for California and 6.1% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 22,600 payroll jobs from May 2013 to May 2014. Most sectors showed gains in employment; the largest gains were 7,800 in professional and business services and 7,200 in construction during that same period. Financial activities posted the largest year-over-year loss, dropping by 4,900 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 move into the second half of 2014, positive absorption should continue, and with no new deliveries in the pipeline to apply upward pressure on vacancy, the market will further improve.

FORECAST

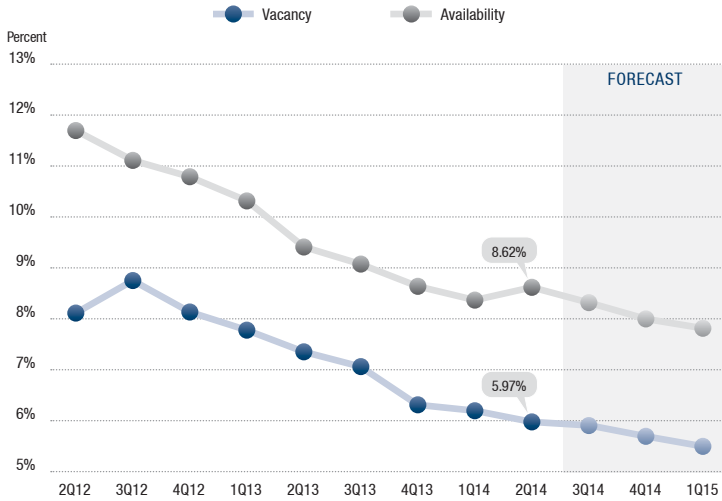
- **Employment** - We anticipate job growth of around 2.6%, or 37,000 jobs, in the Orange County area over the year. The most rapid growth should take place in the construction, education & health, professional & business services, and leisure & hospitality sectors.
- **Lease Rates** - Expect average asking lease rates to increase by 4%–6% percent by 2015.
- **Vacancy** - We anticipate vacancy to continue to descend in coming quarters, dropping by 50 basis points, to around 5.50% by the end of the first quarter of 2015.

OVERVIEW

	2Q14	1Q14	2Q13	% of Change vs. 2Q13
Vacancy Rate	5.97%	6.19%	7.33%	(18.55%)
Availability Rate	8.62%	8.34%	9.40%	(8.30%)
Average Asking Lease Rate	\$0.95	\$0.95	\$0.88	7.95%
Sale & Lease Transactions	1,742,630	2,280,633	1,846,183	(5.61%)
Gross Absorption	1,358,956	1,062,701	1,359,314	(0.03%)
Net Absorption	154,523	103,971	268,965	N/A

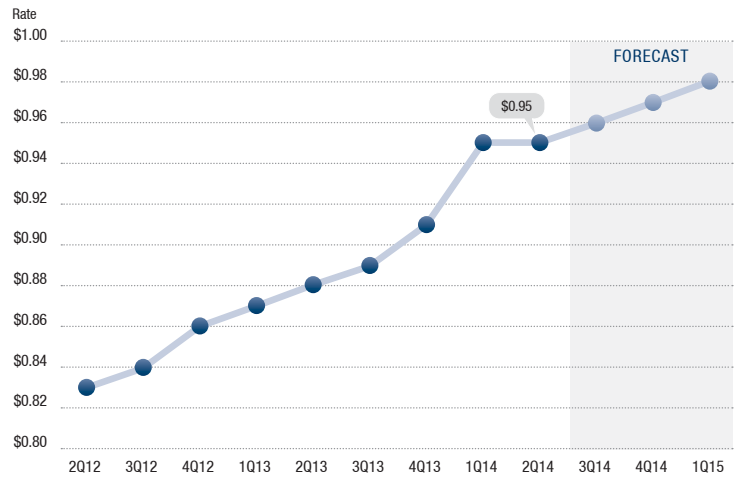
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



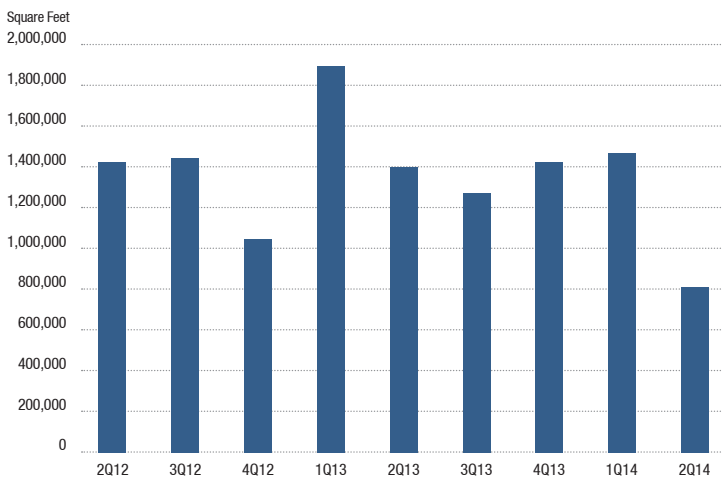
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



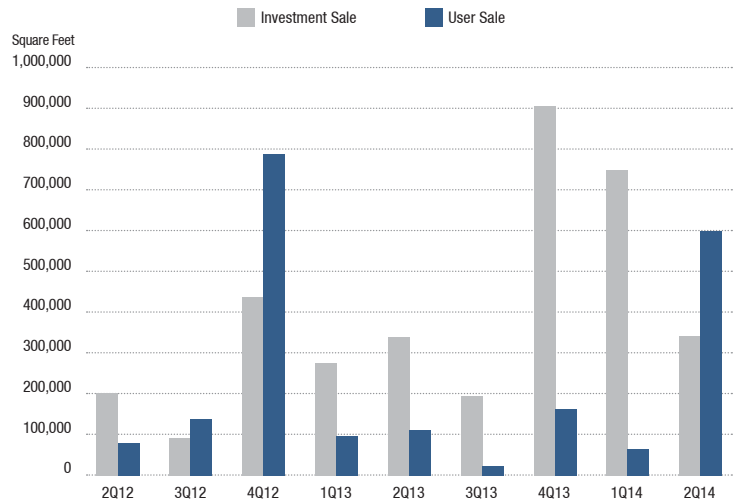
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



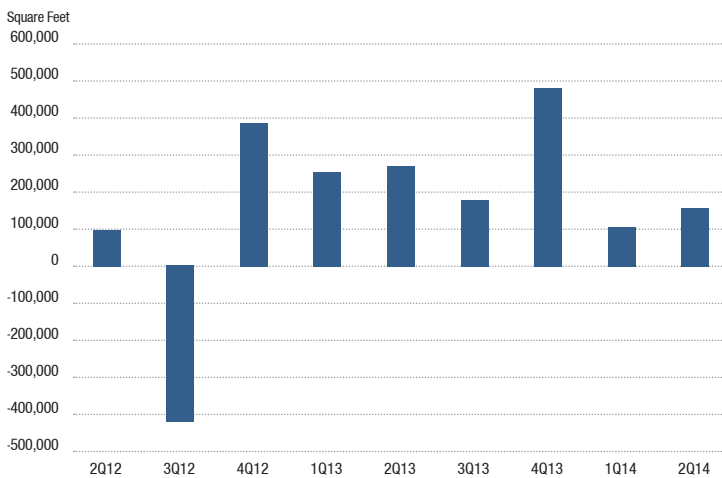
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

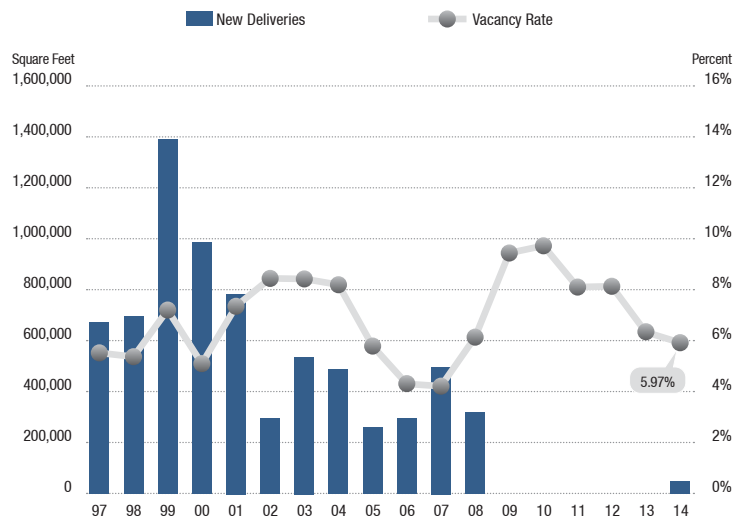


NET ABSORPTION

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

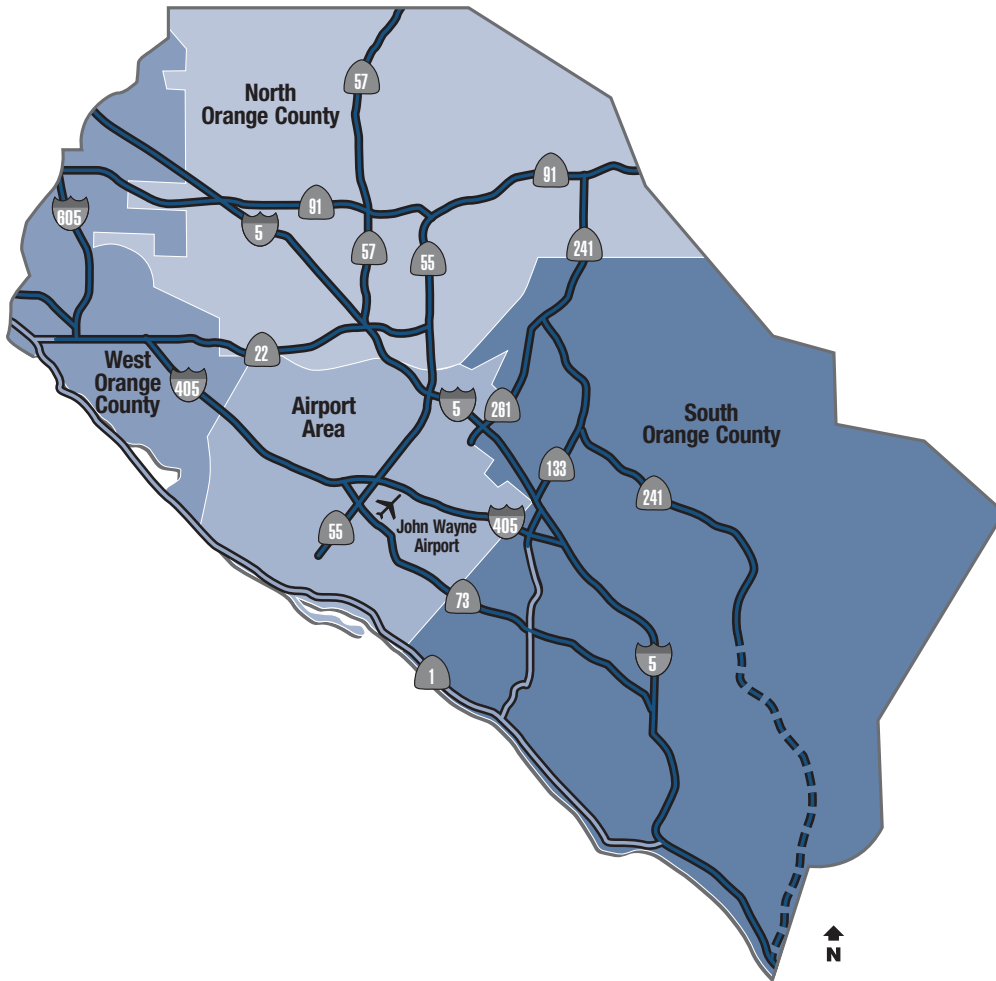


ANNUAL NEW DELIVERIES VS. VACANCY RATE



	INVENTORY					VACANCY & LEASE RATES				ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2014	Square Feet Available	Availability Rate 2Q2014	Average Asking Lease Rate	Net Absorption 2Q2014	Net Absorption 2014	Gross Absorption 2Q2014	Gross Absorption 2014
Airport Area													
Costa Mesa	170	4,092,946	0	0	193,666	4.73%	245,906	6.01%	\$1.06	39,792	75,228	88,996	274,132
Fountain Valley	50	1,464,813	0	0	19,479	1.33%	23,350	1.59%	\$0.00	2,345	609	10,216	23,048
Irvine	263	7,181,744	0	0	593,627	8.27%	952,122	13.26%	\$0.93	5,062	(49,174)	164,511	243,819
Newport Beach	20	376,171	0	0	20,965	5.57%	7,491	1.99%	\$0.00	(4,900)	(14,445)	2,500	4,020
Santa Ana	190	4,769,327	0	0	171,858	3.60%	297,291	6.23%	\$1.07	29,560	94,083	73,438	174,356
Tustin	95	3,364,648	0	0	458,032	13.61%	527,954	15.69%	\$0.86	(119,877)	(184,435)	59,329	110,525
Airport Area Total	788	21,249,649	0	0	1,457,627	6.86%	2,054,114	9.67%	\$0.92	(48,018)	(78,134)	398,990	829,900
North County													
Anaheim	191	5,363,584	0	0	169,755	3.16%	386,212	7.20%	\$0.85	(3,803)	46,054	64,867	169,013
Brea	52	1,540,924	0	0	32,065	2.08%	167,575	10.87%	\$0.90	9,265	12,597	24,488	36,192
Buena Park	32	1,082,698	0	0	27,103	2.50%	71,511	6.60%	\$1.00	23,836	30,370	29,481	47,167
Fullerton	44	1,611,938	0	0	68,437	4.25%	68,198	4.23%	\$0.69	6,557	38,706	14,977	51,345
La Habra	8	164,694	0	0	6,969	4.23%	6,969	4.23%	\$0.00	1,393	(5,790)	2,976	2,976
Orange	104	2,329,878	0	0	111,461	4.78%	108,943	4.68%	\$0.69	(20,958)	(13,443)	26,062	48,259
Placentia	24	612,708	0	0	10,791	1.76%	31,386	5.12%	\$0.83	0	(220)	1,940	6,860
Yorba Linda	54	1,407,754	0	0	65,233	4.63%	184,983	13.14%	\$0.59	19,937	38,118	46,635	83,483
North County Total	509	14,114,178	0	0	491,814	3.48%	1,025,777	7.27%	\$0.67	36,227	146,392	211,426	445,295
South County													
Aliso Viejo	44	1,109,285	0	0	48,709	4.39%	103,832	9.36%	\$1.35	62,205	56,076	72,373	101,536
Foothill Ranch	7	162,895	0	0	10,250	6.29%	0	0.00%	\$0.00	(10,250)	(10,250)	0	0
Irvine Spectrum	301	10,300,291	0	18,124	773,698	7.51%	865,246	8.40%	\$1.24	(73,805)	(979)	217,129	374,042
Laguna Hills	59	1,307,452	0	0	52,811	4.04%	67,968	5.20%	\$1.18	25,767	(18,014)	45,846	64,890
Laguna Niguel	21	492,229	0	0	25,774	5.24%	25,774	5.24%	\$0.00	(768)	(8,313)	1,392	4,327
Lake Forest	56	1,318,608	0	0	77,061	5.84%	73,542	5.58%	\$0.88	(33,105)	(36,263)	18,258	43,042
Mission Viejo	34	879,801	0	0	339,044	38.54%	336,542	38.25%	\$0.99	(13,375)	(12,436)	11,154	28,562
Rancho Santa Margarita	44	1,494,816	0	0	17,205	1.15%	41,169	2.75%	\$1.05	(155)	(5,106)	4,636	13,456
San Clemente	52	1,271,389	0	0	63,716	5.01%	145,886	11.47%	\$0.87	6,871	14,234	16,424	33,964
San Juan Capistrano	45	917,038	0	187,639	83,735	9.13%	87,234	9.51%	\$1.65	5,299	10,616	18,366	39,969
South County Total	663	19,253,804	0	205,763	1,492,003	7.75%	1,747,193	9.07%	\$1.06	(31,316)	(10,435)	405,578	703,788
West County													
Cypress	56	2,819,106	0	0	147,832	5.24%	193,699	6.87%	\$1.00	89,736	82,423	121,819	134,603
Garden Grove	68	1,758,249	0	0	67,256	3.83%	298,381	16.97%	\$0.55	9,680	34,352	39,217	79,535
Huntington Beach	129	3,013,496	0	0	102,943	3.42%	114,560	3.80%	\$0.80	72,826	61,165	128,614	155,559
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	31,996	3.72%	38,598	4.49%	\$0.00	8,185	1,923	28,409	37,589
Stanton	5	122,025	0	0	3,700	3.03%	3,700	3.03%	\$0.00	(3,700)	1,280	0	4,980
Westminster	19	485,623	0	0	10,490	2.16%	22,690	4.67%	\$0.00	20,903	19,528	24,903	30,408
West County Total	317	9,143,796	0	0	364,217	3.98%	671,628	7.35%	\$0.82	197,630	200,671	342,962	442,674
Orange County Total	2,277	63,761,427	0	205,763	3,805,661	5.97%	5,498,712	8.62%	\$0.95	154,523	258,494	1,358,956	2,421,657
Airport Area													
10,000-24,999	527	8,482,092	0	0	422,840	4.99%	589,363	6.95%	\$1.07	121,252	92,859	252,769	404,769
25,000-49,999	186	6,260,753	0	0	371,275	5.93%	451,900	7.22%	\$1.12	3,699	37,127	94,202	216,802
50,000-99,999	57	3,769,248	0	0	283,472	7.52%	430,311	11.42%	\$0.86	(40,682)	(77,093)	30,266	185,316
100,000 Plus	18	2,737,556	0	0	380,040	13.88%	582,540	21.28%	\$0.82	(132,287)	(131,027)	21,753	23,013
North County													
10,000-24,999	329	5,237,757	0	0	224,374	4.28%	295,261	5.64%	\$0.76	3,612	66,083	97,892	218,611
25,000-49,999	133	4,418,954	0	0	235,163	5.32%	523,218	11.84%	\$0.65	(6,707)	41,280	60,628	169,495
50,000-99,999	33	2,148,035	0	0	32,277	1.50%	135,166	6.29%	\$0.00	10,737	10,444	24,321	28,604
100,000 Plus	14	2,309,432	0	0	0	0.00%	72,132	3.12%	\$0.00	28,585	28,585	28,585	28,585
South County													
10,000-24,999	402	6,701,804	0	147,671	444,815	6.64%	673,787	10.05%	\$1.11	(39,145)	(78,112)	142,687	277,139
25,000-49,999	192	6,461,179	0	58,092	315,706	4.89%	521,049	8.06%	\$1.14	(56,235)	(7,272)	158,129	293,025
50,000-99,999	56	3,720,650	0	0	427,942	11.50%	248,817	6.69%	\$1.08	64,064	74,949	104,762	133,624
100,000 Plus	13	2,370,171	0	0	303,540	12.81%	303,540	12.81%	\$1.00	0	0	0	0
West County													
10,000-24,999	214	3,383,002	0	0	132,820	3.93%	171,473	5.07%	\$0.92	40,332	18,469	99,129	153,726
25,000-49,999	67	2,295,693	0	0	121,574	5.30%	144,877	6.31%	\$0.87	14,844	39,448	67,296	112,111
50,000-99,999	30	2,072,411	0	0	109,823	5.30%	355,278	17.14%	\$0.81	142,454	142,754	176,537	176,837
100,000 Plus	6	1,392,690	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Orange County													
10,000-24,999	1,472	23,804,655	0	147,671	1,224,849	5.15%	1,729,884	7.27%	\$1.06	126,051	99,299	592,477	1,054,245
25,000-49,999	578	19,436,579	0	58,092	1,043,718	5.37%	1,641,044	8.44%	\$0.99	(44,399)	110,583	380,255	791,433
50,000-99,999	176	11,710,344	0	0	853,514	7.29%	1,169,572	9.99%	\$0.84	176,573	151,054	335,886	524,381
100,000 Plus	51	8,809,849	0	0	683,580	7.76%	958,212	10.88%	\$0.92	(103,702)	(102,442)	50,338	51,598
Orange County Total	2,277	63,761,427	0	205,763	3,805,661	5.97%	5,498,712	8.62%	\$0.95	154,523	258,494	1,358,956	2,421,657

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.

Please Contact Us for Further Information

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Newport Beach, CA
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Phoenix, AZ
602.952.8648

Reno, NV
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Sacramento, CA
916.772.8648

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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