

MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



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 half of 2015. Vacancy has dropped by over 10% in a year, lease rates continue to trend upward, and net absorption posted a positive figure of almost 80,000 square feet for the second quarter of 2015. These are certainly indications that the Orange County R&D market has gained traction.
- **Construction** - There was 18,920 square feet of space under construction at the end of the second 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 4.99%, a decrease of 14 basis points from the prior quarter's 5.13% and a decrease of 11.21% when compared to 2014's second quarter rate of 5.62%.
- **Availability** - Direct/sublease space being marketed was 7.62% in the second quarter, up from the 7.38% we saw in the first quarter of 2015 but a decrease of 6.27% 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 \$1.03 at the end of the quarter, up five cents from the previous quarter's rate, and up eight cents from the second 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 78,551 square feet of positive net absorption in the second quarter of 2015, giving the R&D market a total of over 2.2 million square feet of positive absorption over the last eleven quarters.
- **Transaction Activity** - Leasing activity checked in at 1,347,759 square feet for the second quarter of 2015, up from the one million square feet of leasing activity we saw in first quarter of 2015. Sales activity posted 189,315 square feet of activity this quarter, down from the 715,832 square feet seen in the previous quarter. The Orange County R&D market averaged nearly 670,000 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 4.2% in May 2015, up from a revised 4.1% in April 2015 and below the previous year's estimate of 5.2%. This compares with an unadjusted unemployment rate of 6.2% for California and 5.3% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 50,700 payroll jobs from May 2014 to May 2015. Most sectors showed gains in employment; the largest gains were 12,100 in educational and health services and 9,900 in professional and business services during that same period. Information posted the only year-over-year loss, dropping by 400 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 half 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

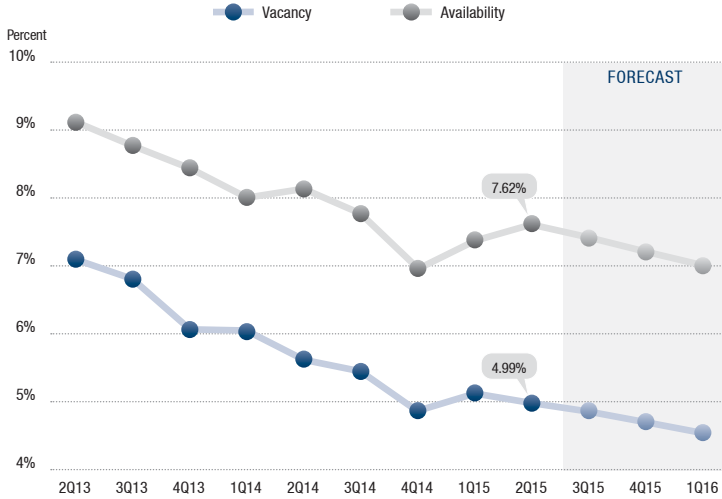
- **Employment** - We anticipate job growth of around 3.1%, or 47,000 jobs, in the Orange County area during the year according to Chapman University. The most rapid growth should take place in the professional & business services, education & health, leisure & hospitality, and construction sectors.
- **Lease Rates** - Expect average asking lease rates to increase by 4% to 6% over the next four quarters.
- **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 first quarter of 2016.

OVERVIEW

	2Q15	1Q15	2Q14	% of Change vs. 2Q14
Total Vacancy Rate	4.99%	5.13%	5.62%	(11.21%)
Availability Rate	7.62%	7.38%	8.13%	(6.27%)
Average Asking Lease Rate	\$1.03	\$0.98	\$0.95	8.42%
Sale & Lease Transactions	1,537,074	1,713,960	2,702,742	(43.13%)
Gross Absorption	1,523,815	821,602	1,350,863	12.80%
Net Absorption	78,551	(176,392)	152,863	N/A

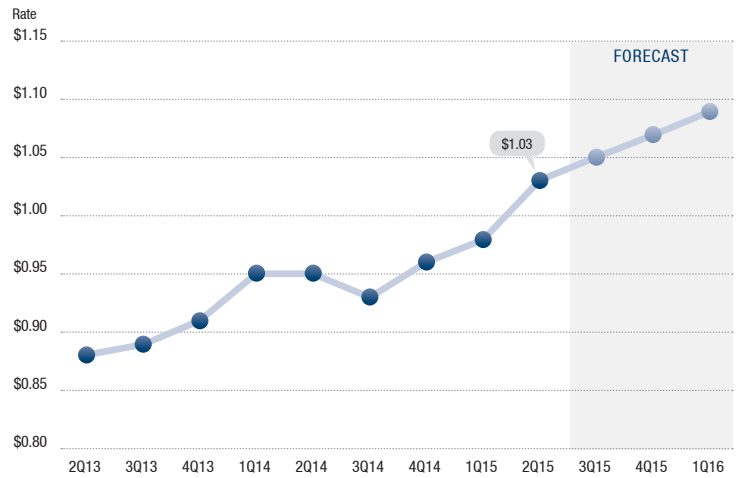
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



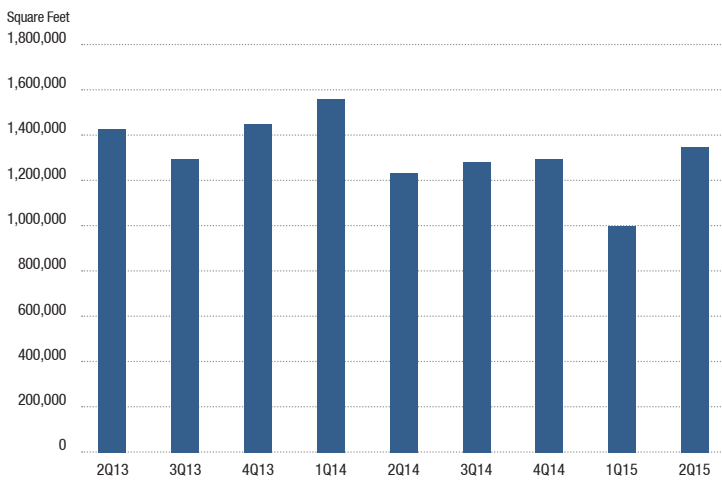
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



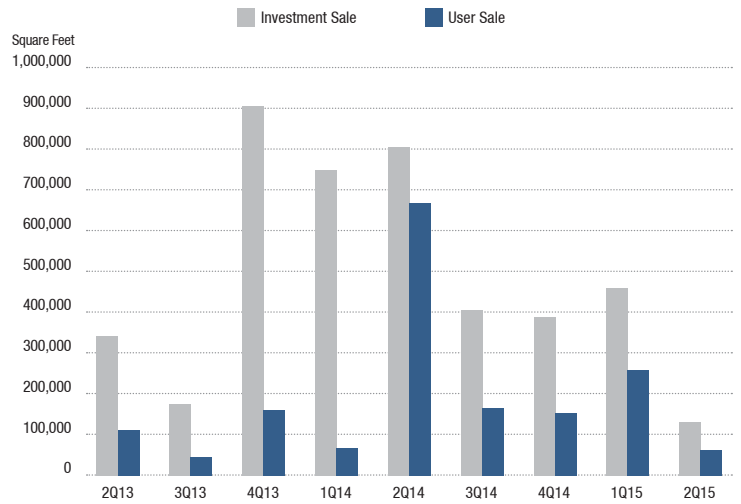
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



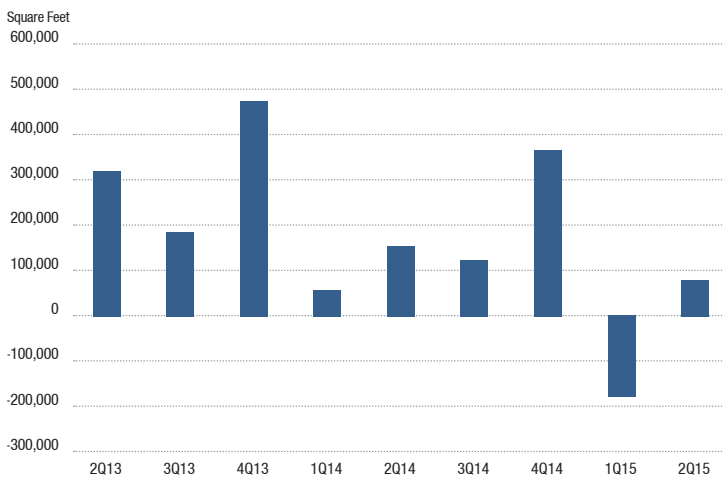
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

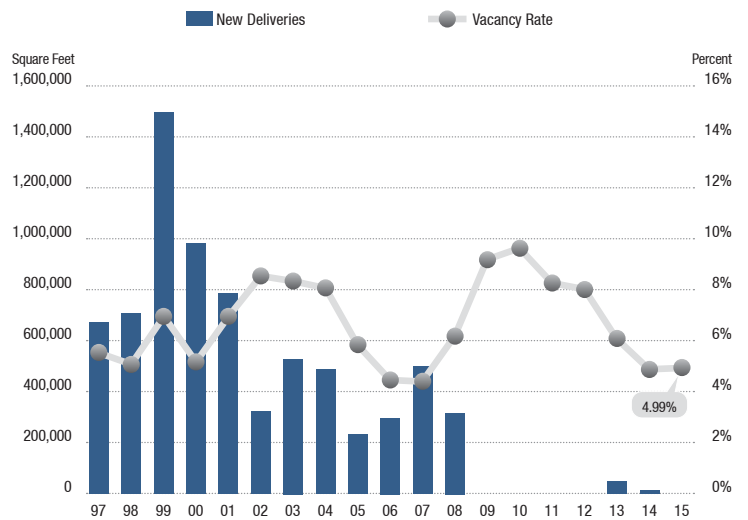


NET ABSORPTION

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

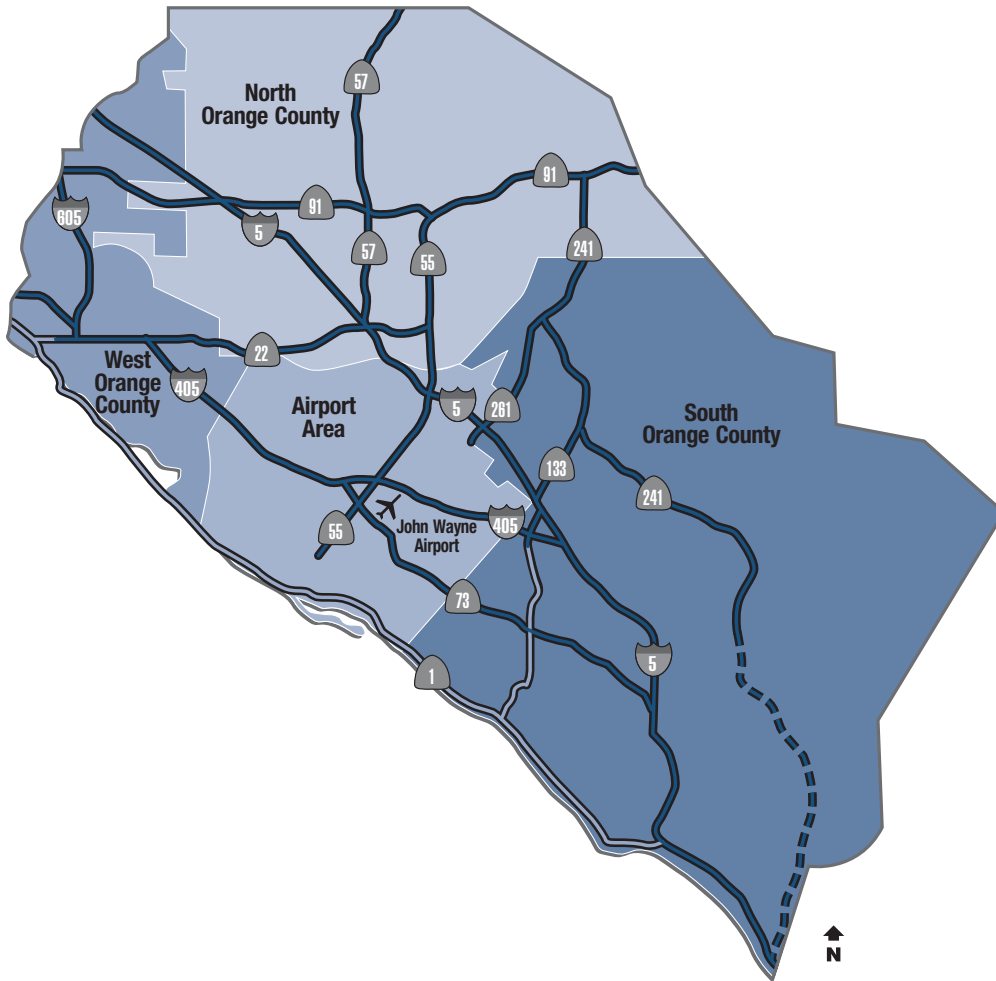


ANNUAL NEW DELIVERIES VS. VACANCY RATE



	INVENTORY					VACANCY & LEASE RATES				ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2015	Square Feet Available	Availability Rate 2Q2015	Average Asking Lease Rate	Net Absorption 2Q2015	Net Absorption 2015	Gross Absorption 2Q2015	Gross Absorption 2015
Airport Area													
Costa Mesa	170	4,073,324	0	0	116,237	2.85%	165,746	4.07%	\$1.02	50,757	42,230	108,942	159,919
Fountain Valley	50	1,464,813	0	0	21,260	1.45%	17,963	1.23%	\$0.00	1,002	(1,752)	17,833	22,531
Irvine	260	6,605,135	0	0	354,486	5.37%	435,108	6.59%	\$1.05	(526)	(36,999)	211,897	279,151
Newport Beach	22	665,094	0	0	29,852	4.49%	29,852	4.49%	\$0.00	(567)	(20,344)	5	14,513
Santa Ana	193	5,068,885	0	0	156,931	3.10%	429,648	8.48%	\$1.11	18,521	9,735	102,529	164,590
Tustin	93	3,203,724	0	0	327,133	10.21%	437,434	13.65%	\$0.75	14,724	58,490	43,250	110,174
Airport Area Total	788	21,080,975	0	0	1,005,899	4.77%	1,515,751	7.19%	\$0.89	83,911	51,360	484,456	750,878
North County													
Anaheim	194	5,511,196	0	0	198,291	3.60%	503,622	9.14%	\$1.00	14,936	(26,531)	82,395	132,558
Brea	52	1,542,251	0	0	83,431	5.41%	86,564	5.61%	\$1.10	(42,990)	(50,783)	28,701	35,696
Buena Park	30	959,923	0	0	34,120	3.55%	30,620	3.19%	\$0.00	(10,858)	(8,269)	4,073	11,673
Fullerton	45	1,636,736	0	0	54,866	3.35%	71,270	4.35%	\$0.86	8,904	(2,360)	26,353	30,053
La Habra	9	176,339	0	0	6,534	3.71%	15,034	8.53%	\$0.00	(1,148)	435	852	2,435
Orange	103	2,311,181	0	0	61,306	2.65%	56,629	2.45%	\$0.00	(21,894)	(5,844)	42,079	81,765
Placentia	25	628,165	0	0	10,866	1.73%	7,404	1.18%	\$0.00	(7,404)	(7,404)	4,515	8,395
Yorba Linda	53	1,397,488	0	0	90,913	6.51%	81,805	5.85%	\$0.80	53,466	(24,874)	129,746	148,510
North County Total	511	14,163,279	0	0	540,327	3.81%	852,948	6.02%	\$0.97	(6,988)	(125,630)	318,714	451,085
South County													
Aliso Viejo	44	1,084,721	0	0	71,998	6.64%	106,303	9.80%	\$1.15	(19,670)	(17,850)	8,226	37,379
Foothill Ranch	8	265,194	0	0	102,299	38.58%	0	0.00%	\$0.00	0	0	0	0
Irvine Spectrum	304	10,612,648	18,920	0	522,141	4.92%	842,204	7.94%	\$1.26	22,285	(26,471)	252,201	395,534
Laguna Hills	53	1,226,381	0	0	48,079	3.92%	57,706	4.71%	\$0.99	7,538	(16,121)	20,110	38,731
Laguna Niguel	21	499,372	0	0	7,515	1.50%	8,765	1.76%	\$0.00	0	12,138	0	12,150
Lake Forest	61	1,398,726	0	0	73,499	5.25%	109,626	7.84%	\$1.27	(14,107)	(11,109)	38,337	54,013
Mission Viejo	34	879,801	0	0	330,878	37.61%	345,522	39.27%	\$1.00	(15,650)	(12,102)	14,169	21,209
Rancho Santa Margarita	44	1,495,816	0	0	1,460	0.10%	53,964	3.61%	\$0.00	5,550	4,345	8,173	10,833
San Clemente	53	1,287,455	0	0	76,534	5.94%	70,749	5.50%	\$1.15	(6,645)	1,483	45,921	69,280
San Juan Capistrano	45	917,038	0	0	52,362	5.71%	55,480	6.05%	\$0.00	1,426	18,808	10,625	33,745
South County Total	667	19,667,152	18,920	0	1,286,765	6.54%	1,650,319	8.39%	\$1.15	(19,273)	(46,879)	397,762	672,874
West County													
Cypress	57	2,849,632	0	0	131,125	4.60%	79,952	2.81%	\$1.04	36,825	31,546	226,085	299,476
Garden Grove	69	1,796,973	0	0	61,249	3.41%	268,857	14.96%	\$0.62	4,779	14,565	23,725	51,236
Huntington Beach	129	3,013,956	0	0	126,622	4.20%	450,720	14.95%	\$0.00	(16,965)	(21,094)	56,699	94,091
La Palma	1	85,000	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Los Alamitos	39	860,797	0	0	33,993	3.95%	50,570	5.87%	\$0.00	(7,338)	(4,569)	11,774	18,917
Stanton	5	122,025	0	0	2,100	1.72%	2,100	1.72%	\$0.00	1,600	1,600	1,600	1,600
Westminster	18	486,743	0	0	10,700	2.20%	15,428	3.17%	\$0.00	2,000	1,260	3,000	5,260
West County Total	318	9,215,126	0	0	365,789	3.97%	867,627	9.42%	\$0.79	20,901	23,308	322,883	470,580
Orange County Total	2,284	64,126,532	18,920	0	3,198,780	4.99%	4,886,645	7.62%	\$1.03	78,551	(97,841)	1,523,815	2,345,417
Airport Area													
10,000-24,999	527	8,473,111	0	0	347,028	4.10%	390,814	4.61%	\$1.06	26,622	(46,255)	201,878	342,359
25,000-49,999	187	6,277,868	0	0	313,901	5.00%	423,156	6.74%	\$1.19	34,171	51,292	162,698	227,729
50,000-99,999	56	3,699,269	0	0	121,930	3.30%	253,949	6.86%	\$0.81	23,118	5,323	119,880	139,790
100,000 Plus	18	2,630,727	0	0	223,040	8.48%	447,832	17.02%	\$0.69	0	41,000	0	41,000
North County													
10,000-24,999	331	5,296,755	0	0	191,882	3.62%	278,799	5.26%	\$0.90	(8,305)	(23,374)	116,301	189,501
25,000-49,999	134	4,447,646	0	0	258,441	5.81%	407,353	9.16%	\$0.80	34,783	(59,416)	168,655	223,205
50,000-99,999	32	2,109,446	0	0	53,195	2.52%	129,987	6.16%	\$1.10	3,343	(6,031)	4,006	8,627
100,000 Plus	14	2,309,432	0	0	36,809	1.59%	36,809	1.59%	\$0.00	(36,809)	(36,809)	29,752	29,752
South County													
10,000-24,999	404	6,763,255	18,920	0	396,137	5.86%	574,312	8.49%	\$1.24	(52,326)	(28,193)	138,080	293,357
25,000-49,999	193	6,505,374	0	0	320,301	4.92%	520,894	8.01%	\$1.24	(31,042)	(34,819)	113,555	206,707
50,000-99,999	55	3,663,590	0	0	164,488	4.49%	251,573	6.87%	\$1.23	64,095	16,133	146,127	172,810
100,000 Plus	15	2,734,933	0	0	405,839	14.84%	303,540	11.10%	\$1.00	0	0	0	0
West County													
10,000-24,999	213	3,395,082	0	0	146,425	4.31%	161,460	4.76%	\$0.89	11,470	14,599	85,613	123,372
25,000-49,999	69	2,358,518	0	0	152,094	6.45%	196,189	8.32%	\$1.10	(32,997)	(30,040)	30,713	65,660
50,000-99,999	30	2,068,376	0	0	67,270	3.25%	229,518	11.10%	\$0.56	42,428	38,749	42,428	117,419
100,000 Plus	6	1,393,150	0	0	0	0.00%	280,460	20.13%	\$0.00	0	0	164,129	164,129
Orange County													
10,000-24,999	1,475	23,928,203	18,920	0	1,081,472	4.52%	1,405,385	5.87%	\$1.14	(22,539)	(83,223)	541,872	948,589
25,000-49,999	583	19,589,406	0	0	1,044,737	5.33%	1,547,592	7.90%	\$1.15	4,915	(72,983)	475,621	723,301
50,000-99,999	173	11,540,681	0	0	406,883	3.53%	865,027	7.50%	\$0.98	132,984	54,174	312,441	438,646
100,000 Plus	53	9,068,242	0	0	665,688	7.34%	1,068,641	11.78%	\$0.98	(36,809)	4,191	193,881	234,881
Orange County Total	2,284	64,126,532	18,920	0	3,198,780	4.99%	4,886,645	7.62%	\$1.03	78,551	(97,841)	1,523,815	2,345,417

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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Phoenix, AZ
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Sacramento, CA
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San Diego, CA
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San Jose, CA
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