

MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

DOWN



HIGHLIGHTS

- **Encouraging Numbers** - The Orange County research and development market continued its positive momentum as transaction volume increased over the first quarter (1.7 million square feet total) driving lease rates up and vacancy down (3.31%). The growing influence of new industries in technology, communications, apparel, biotechnology and healthcare should further diversify the local economy and help to strengthen the R&D market.
- **Construction** - With the price of land now past previous record highs, expect supply-constrained conditions to remain in the short term. No new supply is anticipated for the R&D market for 2016. The decrease in construction coupled with consistent demand will continue to push lease rates up. We have already witnessed rent growth of 10.5% since this time last year.
- **Vacancy** - Second quarter vacancy in the Orange County R&D market was just 3.31%, surprisingly low when compared to national averages. With a strong local economy, Orange County continued to be a desirable location for R&D given its young, educated workforce and proximity to several top tier colleges including Chapman, UCI and Cal State Fullerton.
- **Availability** - Direct / sublease space being marketed was 4.73% this quarter down 29.93% from this time last year. As demand increases for space in this area, expect these rates to remain low.
- **Lease Rates** - The average asking triple net lease rate in Orange County for R&D space is currently \$1.16 per square foot per month, 10.48% higher than it was this time last year and the highest level reported market-wide since first quarter 2007.
- **Absorption** - The Orange County R&D industrial market posted 303,403 million square feet of positive net absorption

in the second quarter, bouncing back from first quarter negative absorption. A majority of the positive net absorption in the second quarter can be attributed to the West County submarket which witnessed 295,989 square feet of positive net absorption.

- **Transaction Activity** - Total lease and sale transaction activity reached 1,435,347 square feet, down 34.6% from this time last year. As Orange County R&D remains a critical component in expansion of our overall economy, expect lease and sales volume to increase further as we enter the second half of 2016. Major transactions this quarter included a new lease for LTP Machines at 10900 Walker Street in Cypress and Masimo at 15776 Laguna Canyon Road in Irvine Spectrum.
- **Employment** - The unemployment rate in Orange County was 3.6% in May 2016, down from a revised 3.9% in April 2016, and below the year-ago estimate of 4.3%. This compares with an unadjusted unemployment rate of 4.7% for California and 4.5% for the nation during the same period. As the employment picture remains healthy on a local level aided by a strong local economy, businesses are expected to expand and make continued investment in R&D. Industrial and engineering jobs in particular are showing some of the strongest forecasts for expansion in the coming quarters.
- **Overall** - Orange County's R&D market is expected to maintain its positive fundamentals in the coming quarters. The trend of established companies like Kawasaki monetizing older assets in exchange for more modern, efficient and flexible space is expected to continue. High demand for quality space should keep vacancy rates low for the foreseeable future. Much like the core industrial market, the balance of power has shifted to landlords resulting in higher rents and limited concessions for tenants.

FORECAST

- **Employment** - Management, scientific and technical consulting services, at 5.4% average annual growth, are expected to have the fastest growth in the professional and business sector, according to the state Employment Development Department.
- **Lease Rates** - Expect average asking lease rates to increase by 2% to 4% over the next four quarters as tenant demand continues.
- **Vacancy** - We anticipate vacancy to continue to descend in coming quarters, dropping by 21 basis points, to approximately 3.10% by the end of the first quarter of 2016.

OVERVIEW

	2Q16	1Q16	2Q15	% of Change vs. 2Q15
Total Vacancy Rate	3.31%	3.78%	4.07%	(18.67%)
Availability Rate	4.73%	4.92%	6.75%	(29.93%)
Average Asking Lease Rate	\$1.16	\$1.13	\$1.05	10.48%
Sale & Lease Transactions	1,435,347	1,795,941	2,194,574	(34.60%)
Gross Absorption	1,347,983	1,318,857	1,388,123	(2.89%)
Net Absorption	303,403	(191,540)	112,310	N/A

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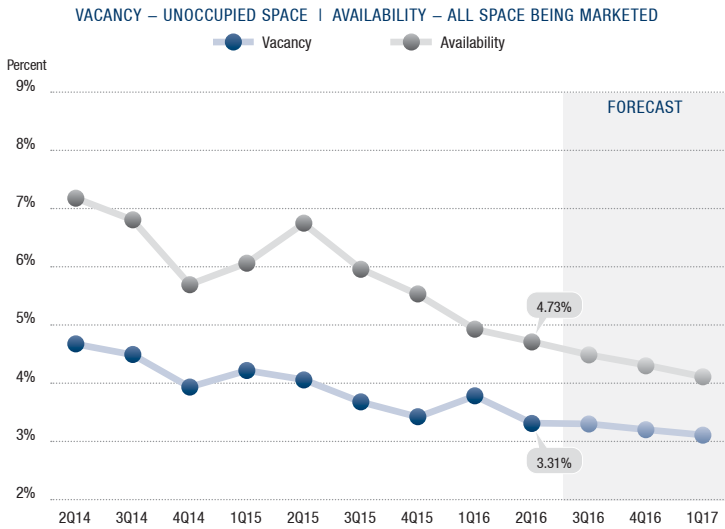
Tony Tran

Market Research Analyst

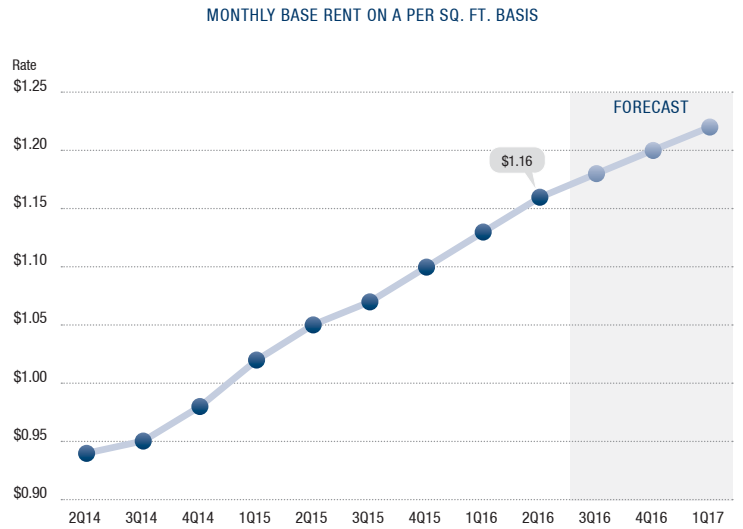
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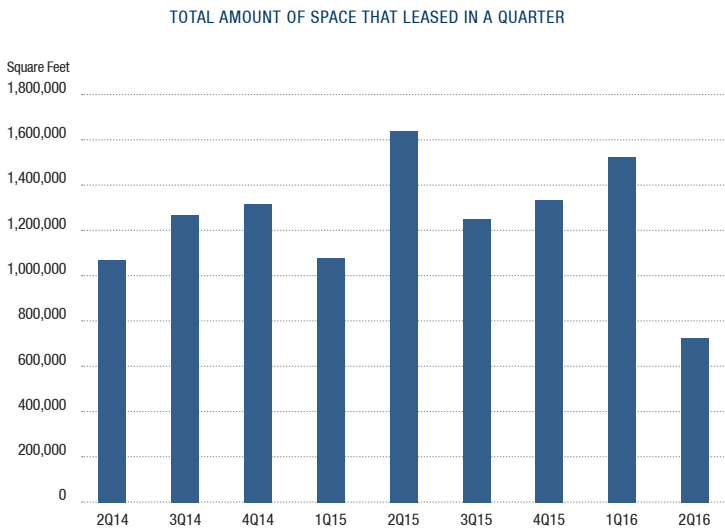
VACANCY & AVAILABILITY RATE



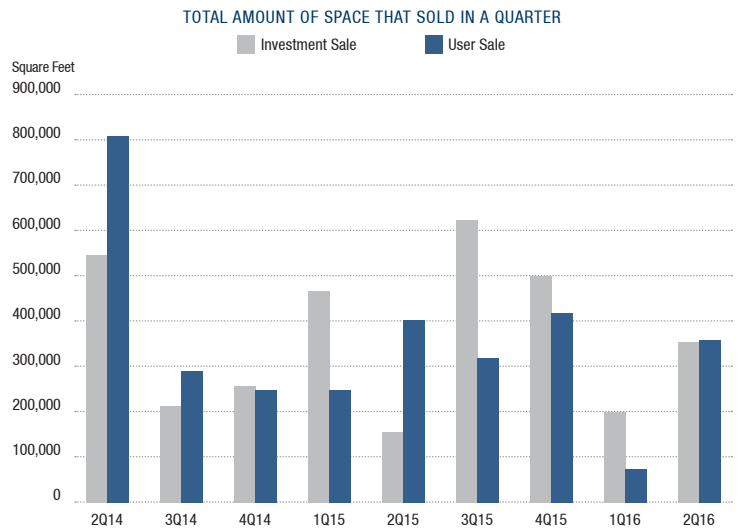
AVERAGE ASKING TRIPLE-NET LEASE RATE



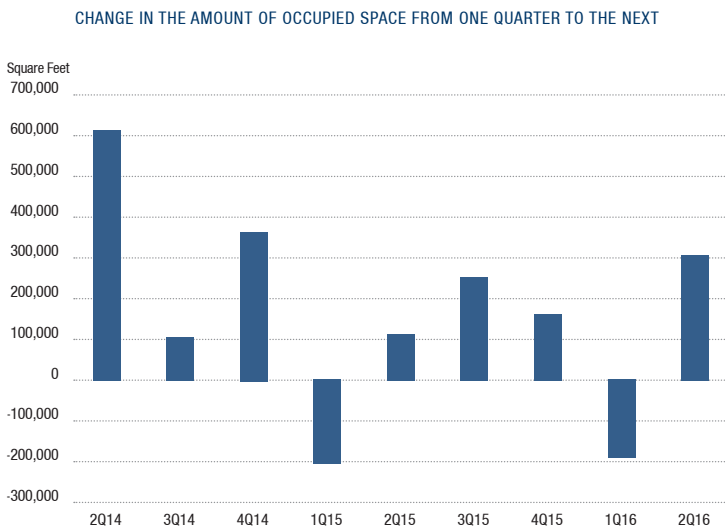
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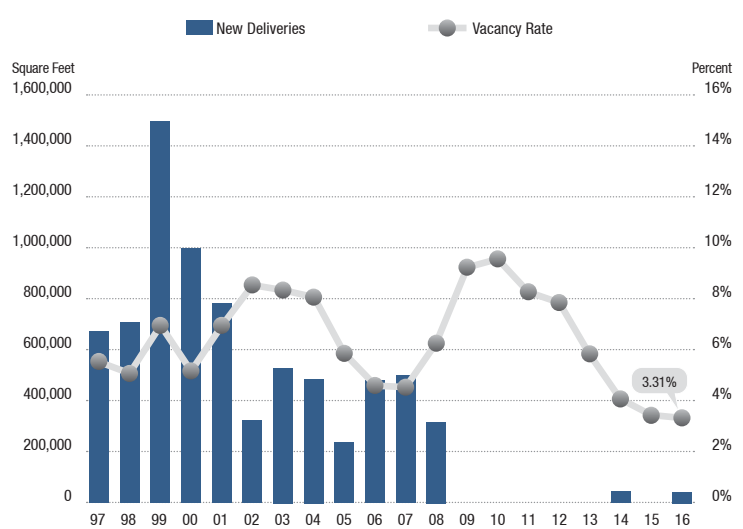
SALES TRANSACTIONS



NET ABSORPTION

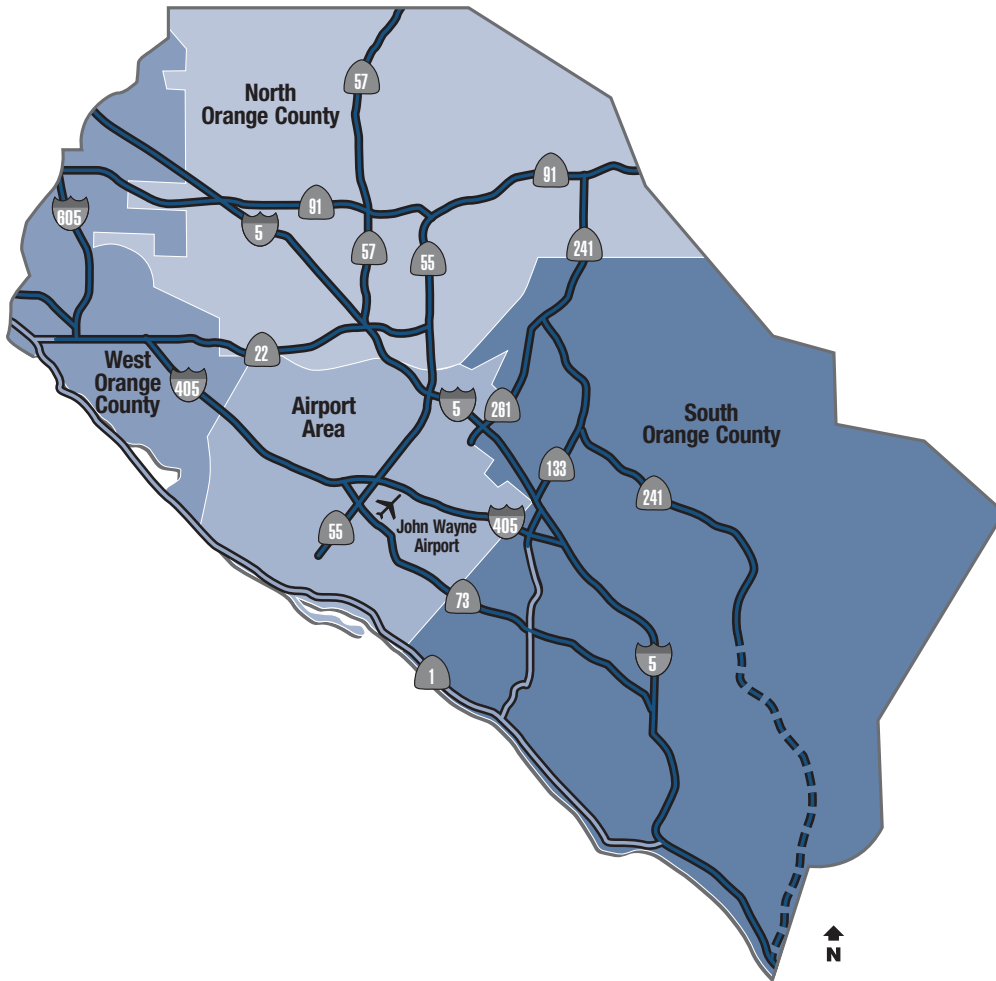


ANNUAL NEW DELIVERIES VS. VACANCY RATE



	INVENTORY					VACANCY & LEASE RATES				ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2016	Square Feet Available	Availability Rate 2Q2016	Average Asking Lease Rate	Net Absorption 2Q2016	Net Absorption 2016	Gross Absorption 2Q2016	Gross Absorption 2016
Airport Area													
Costa Mesa	174	4,246,125	0	0	144,090	3.39%	167,377	3.94%	\$1.23	(31,359)	7,670	57,564	145,879
Fountain Valley	50	1,464,813	0	0	14,409	0.98%	58,559	4.00%	\$1.20	(723)	7,637	6,885	19,755
Irvine	249	6,230,850	0	0	159,430	2.56%	332,690	5.34%	\$1.26	(19,631)	5,445	66,449	162,476
Newport Beach	24	614,441	0	0	12,420	2.02%	7,420	1.21%	\$0.00	10,985	4,767	11,985	28,256
Santa Ana	192	5,035,141	0	0	102,950	2.04%	148,443	2.95%	\$0.99	(20,179)	871	46,705	285,985
Tustin	90	2,985,494	0	0	70,150	2.35%	145,757	4.88%	\$1.18	249	(9,603)	42,804	66,610
Airport Area Total	779	20,576,864	0	0	503,449	2.45%	860,246	4.18%	\$1.21	(60,658)	16,787	232,392	708,961
North County													
Anaheim	192	5,432,818	0	0	227,284	4.18%	367,301	6.76%	\$0.99	19,637	65,440	87,605	199,055
Brea	52	1,496,960	0	0	177,954	11.89%	176,688	11.80%	\$1.05	(12,665)	(106,207)	15,465	26,193
Buena Park	30	959,923	0	0	28,682	2.99%	32,882	3.43%	\$0.00	410	4,992	23,502	41,044
Fullerton	45	1,771,123	0	0	44,512	2.51%	51,238	2.89%	\$0.69	481	17,544	14,626	42,051
La Habra	10	187,013	0	0	1,108	0.59%	1,108	0.59%	\$0.00	0	0	0	0
Orange	104	2,324,161	0	0	28,140	1.21%	25,832	1.11%	\$0.00	(424)	(15,847)	26,550	44,570
Placentia	26	654,665	0	0	8,408	1.28%	16,168	2.47%	\$0.75	4,663	(1,996)	4,663	12,701
Yorba Linda	53	1,397,044	0	0	61,592	4.41%	83,383	5.97%	\$0.00	39,199	2,713	71,717	87,977
North County Total	512	14,223,707	0	0	577,680	4.06%	754,600	5.31%	\$0.96	51,301	(33,361)	244,128	453,591
South County													
Aliso Viejo	45	1,104,232	0	0	39,430	3.57%	44,506	4.03%	\$1.37	(17,428)	26,864	23,358	79,660
Foothill Ranch	7	162,895	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Irvine Spectrum	303	10,445,067	0	0	454,855	4.35%	684,688	6.56%	\$1.27	26,058	88,853	276,487	542,699
Laguna Hills	55	1,260,807	0	0	35,769	2.84%	64,153	5.09%	\$1.22	6,406	(11,821)	15,294	44,912
Laguna Niguel	21	498,678	0	0	9,395	1.88%	17,062	3.42%	\$1.55	122	5,714	862	13,540
Lake Forest	63	1,442,639	0	0	49,057	3.40%	65,289	4.53%	\$1.10	50,877	68,980	106,753	152,994
Mission Viejo	36	916,339	0	0	44,030	4.80%	44,168	4.82%	\$0.81	0	(22,264)	2,112	8,464
Rancho Santa Margarita	44	1,497,686	0	0	3,290	0.22%	13,107	0.88%	\$1.30	0	(537)	4,364	5,657
San Clemente	55	1,335,360	0	0	116,575	8.73%	122,892	9.20%	\$1.06	(43,565)	(59,399)	28,303	58,669
San Juan Capistrano	45	917,038	0	0	26,129	2.85%	23,229	2.53%	\$1.25	(5,699)	4,453	9,019	22,676
South County Total	674	19,580,741	0	0	778,530	3.98%	1,079,094	5.51%	\$1.21	16,771	100,843	466,552	929,271
West County													
Cypress	56	2,645,943	0	0	63,290	2.39%	96,680	3.65%	\$1.01	(16,816)	(24,655)	22,546	65,233
Garden Grove	70	1,810,787	0	0	42,782	2.36%	61,396	3.39%	\$0.00	16,690	12,816	32,048	50,941
Huntington Beach	131	3,059,444	0	0	104,107	3.40%	112,952	3.69%	\$0.00	284,535	40,367	317,584	409,651
La Palma	1	85,000	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Los Alamitos	42	928,587	0	0	26,305	2.83%	32,518	3.50%	\$0.00	(820)	(13,742)	8,065	17,456
Stanton	6	122,189	0	0	1,200	0.98%	6,064	4.96%	\$0.00	0	1,680	3,264	6,144
Westminster	18	486,743	0	0	2,050	0.42%	3,050	0.63%	\$0.00	12,400	11,128	21,404	25,592
West County Total	324	9,138,693	0	0	239,734	2.62%	312,660	3.42%	\$1.01	295,989	27,594	404,911	575,017
Orange County Total	2,289	63,520,005	0	0	2,099,393	3.31%	3,006,600	4.73%	\$1.16	303,403	111,863	1,347,983	2,666,840
Airport Area													
10,000-24,999	525	8,440,982	0	0	253,895	3.01%	364,170	4.31%	\$1.24	(39,462)	27,797	132,863	354,708
25,000-49,999	186	6,255,644	0	0	194,549	3.11%	347,428	5.55%	\$1.19	(2,634)	(12,118)	77,132	164,431
50,000-99,999	51	3,359,511	0	0	55,005	1.64%	148,648	4.42%	\$1.20	(18,562)	1,108	22,397	45,030
100,000 Plus	17	2,520,727	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	144,792
North County													
10,000-24,999	333	5,337,486	0	0	130,249	2.44%	148,524	2.78%	\$1.03	(11,706)	(15,563)	96,820	181,100
25,000-49,999	134	4,454,420	0	0	168,724	3.79%	354,462	7.96%	\$0.82	57,687	100,404	136,183	252,873
50,000-99,999	30	1,976,256	0	0	140,478	7.11%	144,218	7.30%	\$1.10	5,320	(16,782)	11,125	19,618
100,000 Plus	15	2,455,545	0	0	138,229	5.63%	107,396	4.37%	\$0.00	0	(101,420)	0	0
South County													
10,000-24,999	412	6,897,254	0	0	294,059	4.26%	451,067	6.54%	\$1.11	(6,697)	39,200	171,787	386,733
25,000-49,999	194	6,522,725	0	0	305,233	4.68%	435,264	6.67%	\$1.25	(28,774)	34,544	148,213	384,717
50,000-99,999	55	3,663,590	0	0	179,238	4.89%	192,763	5.26%	\$1.24	52,242	27,099	146,552	157,821
100,000 Plus	13	2,497,172	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
West County													
10,000-24,999	220	3,526,883	0	0	82,570	2.34%	154,739	4.39%	\$1.01	56,654	42,681	89,829	152,418
25,000-49,999	69	2,354,598	0	0	157,164	6.67%	157,921	6.71%	\$0.00	(44,485)	(50,727)	31,262	96,195
50,000-99,999	30	2,068,376	0	0	0	0.00%	0	0.00%	\$0.00	3,360	35,640	3,360	45,944
100,000 Plus	5	1,188,836	0	0	0	0.00%	0	0.00%	\$0.00	280,460	0	280,460	280,460
Orange County													
10,000-24,999	1,490	24,202,605	0	0	760,773	3.14%	1,118,500	4.62%	\$1.13	(1,211)	94,115	491,299	1,074,959
25,000-49,999	583	19,587,387	0	0	825,670	4.22%	1,295,075	6.61%	\$1.15	(18,206)	72,103	392,790	898,216
50,000-99,999	166	11,067,733	0	0	374,721	3.39%	485,629	4.39%	\$1.18	42,360	47,065	183,434	268,413
100,000 Plus	50	8,662,280	0	0	138,229	1.60%	107,396	1.24%	\$0.00	280,460	(101,420)	280,460	425,252
Orange County Total	2,289	63,520,005	0	0	2,099,393	3.31%	3,006,600	4.73%	\$1.16	303,403	111,863	1,347,983	2,666,840

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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424.329.7500

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858.453.0505

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