

THIRD QUARTER 2014 ORANGE COUNTY R & D



MARKET CHANGE

Compared to the Previous Quarter:



Net Absorption



Lease Rates



Deliveries



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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 fourth quarter of 2014. Vacancy has dropped by over 20% in a year, while net absorption posted a positive 116,000 square feet for the third quarter of 2014, marking eight 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 third 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 5.45%, a decrease from the prior quarter's 5.65% and 2013's third quarter rate of 6.88%.
- Availability Direct/sublease space being marketed was 7.98% in the third quarter, down from the 8.20% we saw in the second quarter and a decrease of 11.33% 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 \$0.93 at the end of the quarter, down two cents from the previous quarter's rate, but up four cents from the third quarter of 2013. The record high rate of \$1.22 was established in the third quarter of 2007.
- **Absorption** The Orange County R&D market posted 116,047 square feet of positive net absorption in the third quarter of 2014, giving the R&D market a total of over two million square feet of positive absorption over the last eight quarters.

• Transaction Activity - Leasing activity checked in at just over one million square feet in the third quarter of 2014, creating a total of 6.2 million square feet leased in the market during the last five quarters. Sales activity posted just over 445,000 square feet in the third quarter of the year, up from the 198,000 square feet seen in the same quarter of last year. The Orange County R&D market averaged nearly 700,000 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 third quarter figures to end up somewhat higher.

- Employment The unemployment rate in Orange County was 5.4% in August 2014, down from a revised 5.8% in July 2014 and below the previous year's estimate of 6.4%. This compares with an unadjusted unemployment rate of 7.4% for California and 6.3% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 17,900 payroll jobs from August 2013 to August 2014. Most sectors showed gains in employment; the largest gains were 5,500 in educational and health services and 5,300 in leisure and hospitality during that same period. Financial activities posted the largest year-over-year loss, dropping by 4,200 jobs.
- Overall Notwithstanding any hiccups the local and national economy may have, the Orange County R&D market is poised for growth going into 2015. Both vacancy and availability have been rapidly descending over the past few years from recession highs. As we move into the fourth quarter of 2014, 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 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% to 6% percent by the third quarter of 2015.
- **Vacancy** We anticipate vacancy to continue to descend in coming quarters, dropping by 50 basis points, to below 5.00% by the end of the second quarter of 2015.

OVERVIEW

	3Q14	2014	3Q13	% of Change vs. 3Q13		
Vacancy Rate	5.45%	5.65%	6.88%	(20.78%)		
Availability Rate	7.98%	8.20%	9.00%	(11.33%)		
Average Asking Lease Rate	\$0.93	\$0.95	\$0.89	4.49%		
Sale & Lease Transactions	1,477,509	2,515,472	1,495,826	(1.22%)		
Gross Absorption	1,361,138	1,331,136	1,282,282	6.15%		
Net Absorption	116,047	263,809	176,830	N/A		

VACANCY & AVAILABILITY RATE



LEASE TRANSACTIONS



NET ABSORPTION

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



AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



SALES TRANSACTIONS



ANNUAL NEW DELIVERIES VS. VACANCY RATE



R&D

Voit REAL ESTATE SERVICES

			ENTO	TRY		VACA	NCY &	LEASE	RATES		ABSO	RPTION	
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2014	Square Feet Available	Availability Rate 3Q2014	Average Asking Lease Rate	Net Absorption 3Q2014	Net Absorption 2014	Gross Absorption 3Q2014	Gross Absorptior 2014
Airport Area													
Costa Mesa	170	4,096,290	0	0	178,596	4.36%	219,493	5.36%	\$0.93	4,263	90,298	84,821	359,291
Fountain Valley	50	1,464,813	0	0	34,937	2.39%	36,424	2.49%	\$0.00	(17,386)	(14,849)	7,659	30,707
Irvine	261	6,721,206	0	0	513,828	7.64%	708,383	10.54%	\$0.88	82,857	30,625	192,961	436,780
Newport Beach	21	386,171	0	0	5,495	1.42%	7,995	2.07%	\$0.00	15,470	1,025	22,096	26,116
Santa Ana	190	4,791,311	0	0	196,541	4.10%	275,653	5.75%	\$0.99	13,741	69,400	62,709	237,065
Tustin	93	3,162,494	0	0	361,619	11.43%	374,729	11.85%	\$0.80	(159,243)	(198,022)	48,036	158,561
Airport Area Total	785	20,622,285	0	0	1,291,016	6.26%	1,622,677	7.87%	\$0.84	(60,298)	(21,523)	418,282	1,248,520
North County													
Anaheim	191	5,363,584	0	0	189,712	3.54%	413,694	7.71%	\$0.81	(16,100)	26,097	70,370	240,590
Brea	52	1,542,250	0	0	29,452	1.91%	170,038	11.03%	\$0.99	2,613	15,210	12,604	48,796
Buena Park	32	1,082,698	0	0	28,476	2.63%	63,021	5.82%	\$0.00	(1,373)	28,997	3,452	50,619
Fullerton	44	1,611,538	0	0	83,427	5.18%	75,250	4.67%	\$0.69	(10,690)	23,716	11,339	62,684
La Habra	9	176,339	0	0	6,969	3.95%	15,469	8.77%	\$0.00	0	(5,790)	0	2,976
Orange	104	2,329,878	0	0	101,640	4.36%	78,092	3.35%	\$0.84	8,821	(3,622)	25,853	75,112
Placentia	24	612,708	0	0	11,737	1.92%	19,497	3.18%	\$0.79	(946)	(1,166)	7,329	14,189
Yorba Linda	53	1,397,488	0	0	67,004	4.79%	188,347	13.48%	\$0.66	(12,891)	36,347	21,010	113,693
North County Total	509	14,116,483	0	0	518,417	3.67%	1,023,408	7.25%	\$0.73	(30,566)	119,789	151,957	608,659
South County										,			
Aliso Viejo	44	1,104,921	0	0	92,599	8.38%	131,851	11.93%	\$1.02	(43,890)	(37,814)	10,513	62,049
Foothill Ranch	7	162,895	0	0	02,000	0.00%	0	0.00%	\$0.00	10,250	(07,011)	10,250	10,250
Irvine Spectrum	301	10,298,797	0	18,124	578,209	5.61%	789,194	7.66%	\$1.14	198,681	194,510	429,683	804,705
Laguna Hills	52	1,209,931	0	0	51,748	4.28%	55,679	4.60%	\$1.20		(16,951)	14,203	82,712
Laguna Niguel	21	494,347	0	0	23,125	4.68%	24,375	4.93%	\$0.00	2,410	(5,664)	2,410	7,630
Lake Forest	58	1,344,937	0	0	41,963	3.12%	67,966	5.05%	\$0.84	7,731	1,498	27,866	73,571
Mission Viejo	34	879,801	0	0	318,776	36.23%	336,914	38.29%	\$0.99	20,268	7,832	24,120	52,682
Rancho Santa Margarita	44	1,495,816	0	0	6,940	0.46%	59,695	3.99%	\$0.00	10,265	5,159	13,000	26,456
San Clemente	52	1,271,389	0	0	97,255	7.65%	140,535	11.05%	\$0.85	(35,482)	(19,305)	31,770	65,734
San Juan Capistrano	45	917,038	0	187,639	77,814	8.49%	77,770	8.48%	\$1.65	4,607	16,537	7,269	47,238
South County Total	658	19,179,872	0	205,763	1,288,429	6.72%	1,683,979	8.78%	\$1.05	174,930	145,802	571,084	1,233,027
West County													
Cypress	56	2,815,071	0	0	94,892	3.37%	239,164	8.50%	\$0.98	52,940	135,363	145,833	280,436
Garden Grove	68	1,768,709	0	0	72,665	4.11%	283,860	16.05%	\$0.55	(2,409)	28,943	27,747	107,282
Huntington Beach	129	3,013,496	0	0	112,000	3.72%	133,379	4.43%	\$0.83	(11,207)	52,038	21,857	179,696
La Palma	1	85,000	0	0	0	0.00%	0	0.00%	\$0.00	0	02,000	0	0
Los Alamitos		860,297	0	0	34,023	3.95%	22,158	2.58%	\$0.00	(2,027)	(104)	8,468	46,057
Stanton	5	122,025	0	0	3,700	3.03%	3,700	3.03%	\$0.00		1,280	0	4,980
Westminster	19	485,623	0	0	21,006	4.33%	19,566	4.03%	\$0.00	(5,316)	9,012	15,910	46,318
West County Total	317	9,150,221	0	0	338,356	3.70%	701,827	7.67%	\$0.79	31,981	226,532	219,815	664,769
Orange County Total	2,269	63,068,861	0	205,763	3,436,218	5.45%	5,031,891	7.98%	\$0.93	116,047	470,600	1,361,138	3,754,975
Airport Area													
	527	9 472 725	0	0	205 524	4 67%	542 909	6.41%	\$1.01	45 914	120,165	220 150	625 226
10,000-24,999 25,000-49,999	527 186	8,473,725 6,250,803	0	0	395,534 412,380	4.67%	542,808 461,138	7.38%	\$1.13	45,814 (13,858)	(3,978)	220,159	625,226 329,961
50,000-99,999	56	3,685,201	0	0	213,062	5.78%	348,691	9.46%	\$0.85	61,786	(6,683)	85,004	270,320
100,000 Plus	16	2,212,556	0	0	270,040	12.20%	270,040	12.20%	\$0.64	(154,040)	(131,027)	00,004	23,013
		2,212,000			210,010	1212070	21 0,0 10	1212070	Ç 010 1	(101,010)	(101,021)		20,010
North County													
10,000-24,999	330	5,265,062	0	0	236,653	4.49%	293,910	5.58%	\$0.94	(12,106)	58,304	84,130	309,448
25,000-49,999	132	4,393,954	0	0	240,580	5.48%	516,656	11.76%	\$0.72	(14,617)	31,363	67,827	242,022
50,000-99,999	33	2,148,035	0	0	41,184	1.92%	140,710	6.55%	\$0.00	(3,843)	1,537	0	28,604
100,000 Plus	14	2,309,432	0	0	0	0.00%	72,132	3.12%	\$0.00	0	28,585	0	28,585
South County													
10,000-24,999	398	6,653,413	0	147,671	401,290	6.03%	562,614	8.46%	\$1.14	43,411	(31,924)	160,014	439,816
25,000-49,999	191	6,436,659	0	58,092	364,637	5.67%	549,216	8.53%	\$1.01	(74,673)	(56,203)	114,481	411,310
50,000-99,999	56	3,719,629	0	0	218,962	5.89%	268,609	7.22%	\$1.06	206,192	233,929	296,589	381,901
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	3,393,462	0	0	154,562	4.55%	167,212	4.93%	\$0.91	(18,622)	(3,273)	55,945	211,951
25,000-49,999	67	2,295,693	0	0	138,647	6.04%	152,115	6.63%	\$0.87	(17,073)	22,375	13,769	125,880
50,000-99,999	30	2,068,376	0	0	45,147	2.18%	382,500	18.49%	\$0.74	67,676	207,430	150,101	326,938
100,000 Plus	6	1,392,690	0	0	0	0.00%	0	0.00%	· · · · · · · · · · · · · · · · · · ·	0	0	0	0
Orange County													
	1 400	00 705 000	0	147 071	1 100 000	4.000/	1 500 577	0 500/	¢1.00	E0 407	140.070	500.040	1 500 444
10,000-24,999	1,469	23,785,662	0	147,671	1,188,039	4.99%	1,566,544	6.59%	\$1.08	58,497	143,272	520,248	1,586,441
25,000-49,999	576	19,377,109	0	58,092	1,156,244	5.97%	1,679,125	8.67%	\$0.89	(120,221)	(6,443)	309,196	1,109,173
50,000-99,999	175	11,621,241	0	0	518,355	4.46%	1,140,510	9.81%	\$0.88	331,811	436,213	531,694	1,007,763
100,000 Plus	49	8,284,849	0	0	573,580	6.92%	645,712	7.79%	\$0.90	(154,040)	(102,442)	0	51,598

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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