

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

DOWN



Transactions

DOWN



Deliveries

FLAT



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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

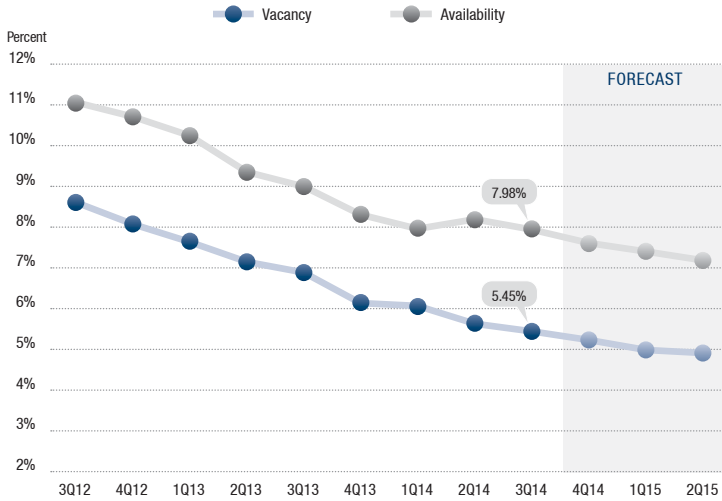
- **Employment** - We anticipate job growth of around 2.6%, or 37,000 jobs, in the Orange County area over the year. The most rapid growth should take place in the construction, education & health, professional & business services, and leisure & hospitality sectors.
- **Lease Rates** - Expect average 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	2Q14	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

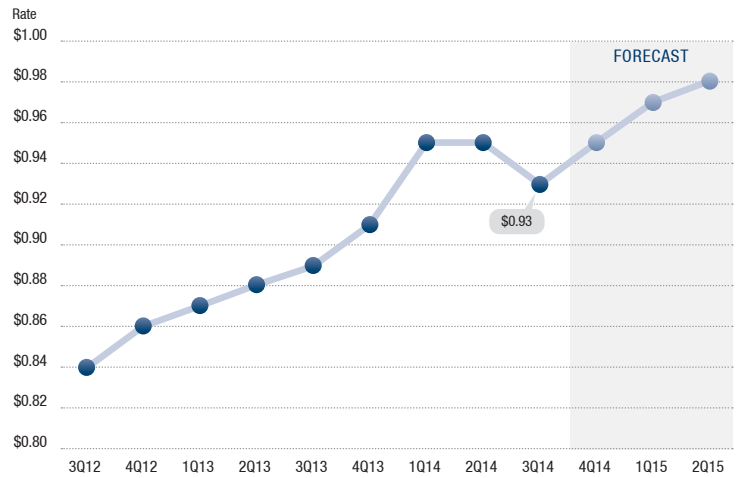
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



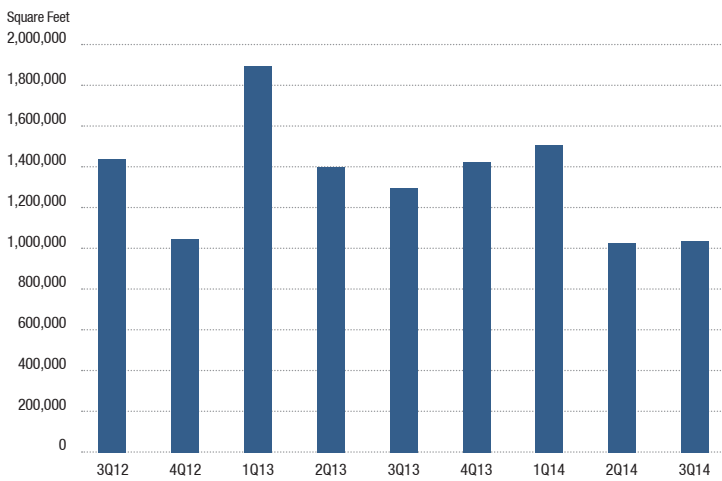
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



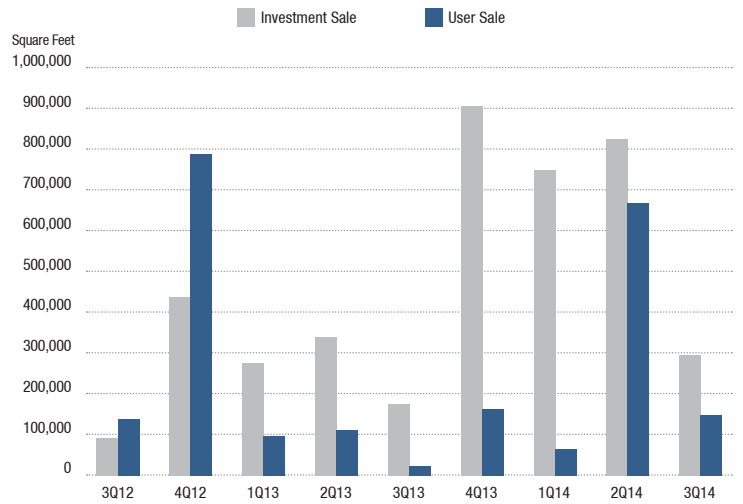
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



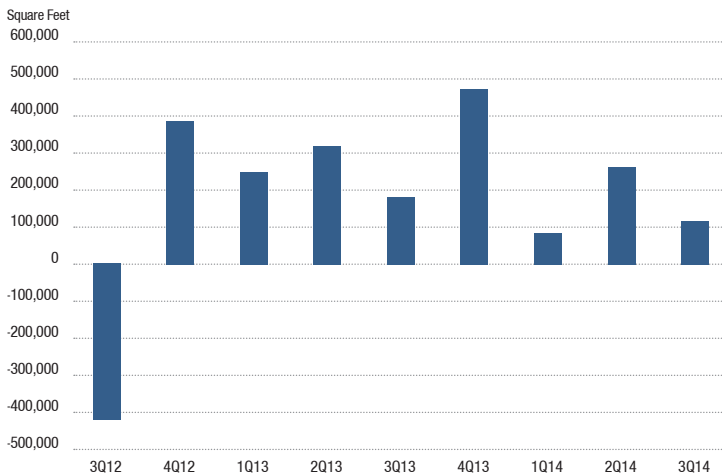
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

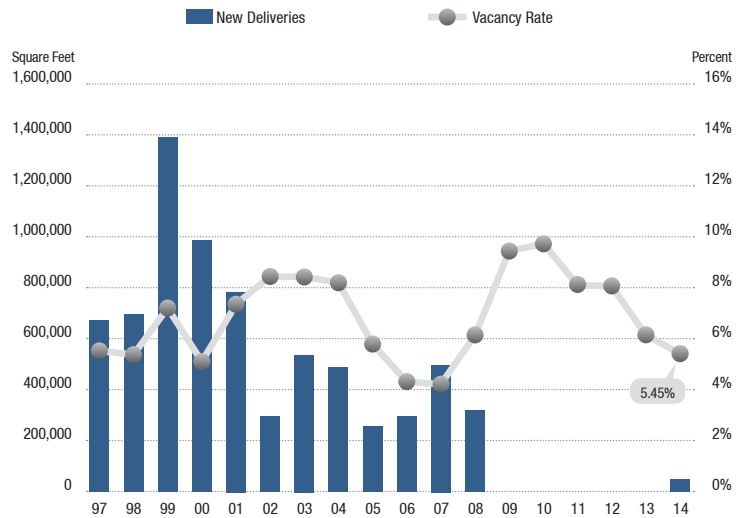


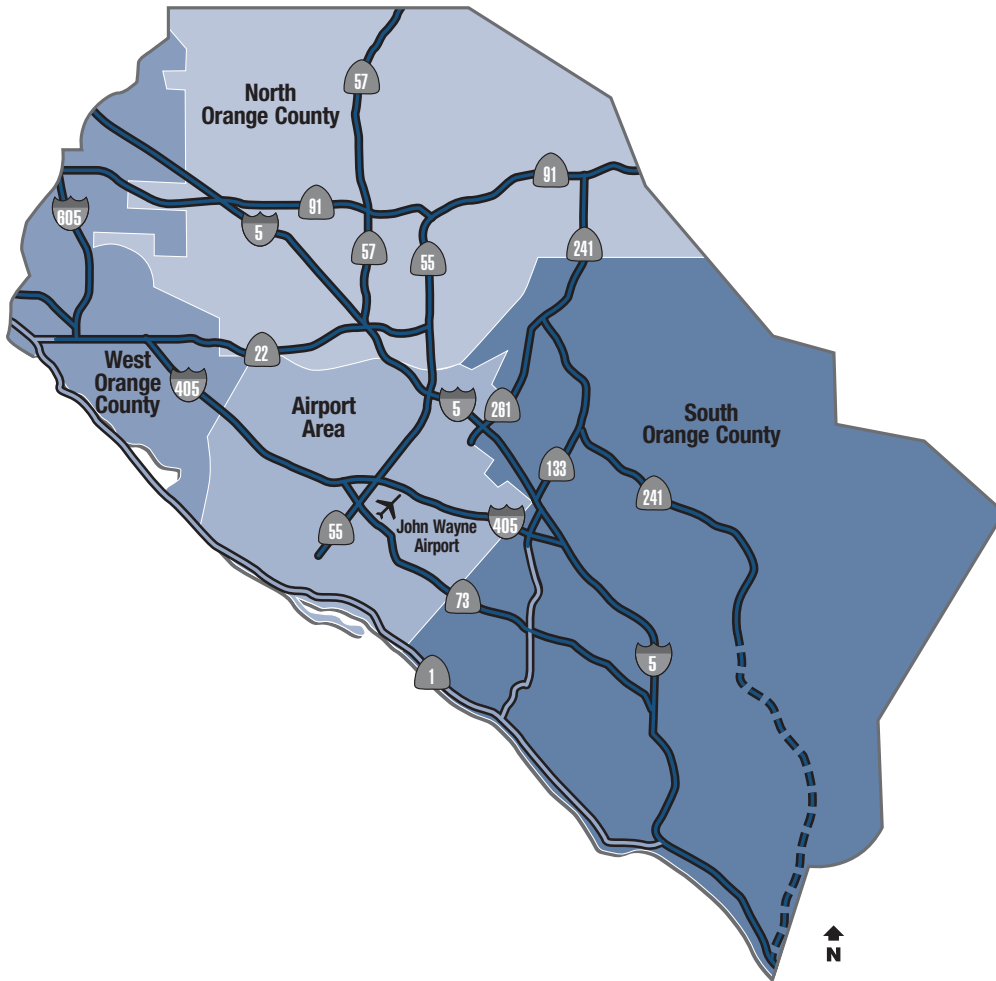
NET ABSORPTION

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



ANNUAL NEW DELIVERIES VS. VACANCY RATE





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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