

MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

FLAT



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VOIT Real Estate Services

HIGHLIGHTS

- **Encouraging Numbers** - The Orange County research and development market continued to improve in the third quarter of 2015. Vacancy has dropped by over 13% in a year, lease rates continue to trend upward, and net absorption posted a positive figure of almost 250,000 square feet for the third 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 third 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 rapidly.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 4.46%, a decrease of 39 basis points from the prior quarter's 4.85% and a decrease of 13.73% when compared to 2014's third quarter rate of 5.17%.
- **Availability** - Direct/sublease space being marketed was 7.08% in the third quarter, down from the 7.50% we saw in the second quarter of 2015 and a decrease of 5.85% 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 \$1.09 at the end of the quarter, up six cents from the previous quarter's rate, and up sixteen cents from the third quarter of 2014, an increase of 17.2%. The record high rate of \$1.22 was established in the third quarter of 2007.
- **Absorption** - The Orange County R&D market posted 247,344 square feet of positive net absorption in the third quarter of 2015, giving the R&D market a total of over 2.6 million square feet of positive absorption over the last twelve 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 4.5% in August 2015, down from a revised 4.7% in July 2015 and below the previous year's estimate of 5.8%. This compares with an unadjusted unemployment rate of 6.1% for California and 5.2% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 48,500 payroll jobs from August 2014 to August 2015. Most sectors showed gains in employment; the largest gains were 9,500 in educational and 8,400 in leisure and hospitality during that same period. Information posted the only year-over-year loss, dropping by 200 jobs.
- **Overall** - Notwithstanding any hiccups the local and national economy may have, the Orange County R&D market is poised for more growth going into the last quarter of 2015 and beyond. Both vacancy and availability have been rapidly descending from recession highs over the past few years, and lease rates have increased dramatically. As we move into the last quarter 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

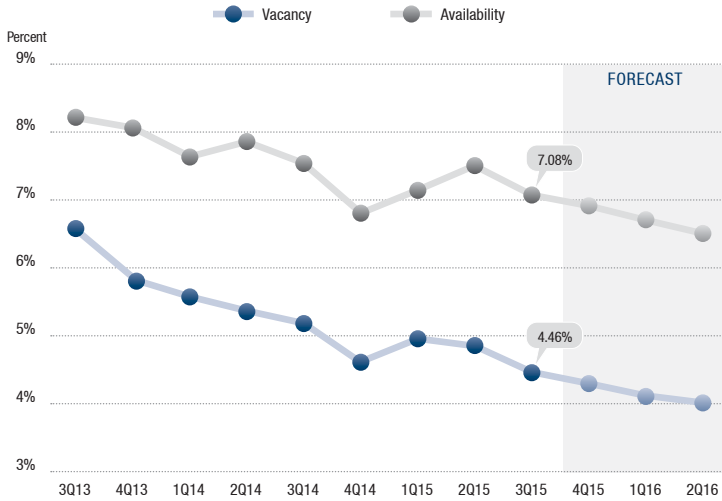
- **Employment** - We anticipate job growth of around 3.1%, or 47,000 jobs, in the Orange County area during the year according to Chapman University. The most rapid growth should take place in the professional & business services, education & health, leisure & hospitality, and construction sectors.
- **Lease Rates** - Expect average asking lease rates to increase by 7% to 10% over the next four quarters.
- **Vacancy** - We anticipate vacancy to continue to descend in coming quarters, dropping by 45 basis points, to approximately 4.00% by the end of the second quarter of 2016.

OVERVIEW

	3Q15	2Q15	3Q14	% of Change vs. 3Q14
Total Vacancy Rate	4.46%	4.85%	5.17%	(13.73%)
Availability Rate	7.08%	7.50%	7.52%	(5.85%)
Average Asking Lease Rate	\$1.09	\$1.03	\$0.93	17.20%
Sale & Lease Transactions	1,403,144	2,099,755	1,711,159	(8.00%)
Gross Absorption	1,070,294	1,534,361	1,377,575	(22.31%)
Net Absorption	247,344	57,457	108,402	N/A

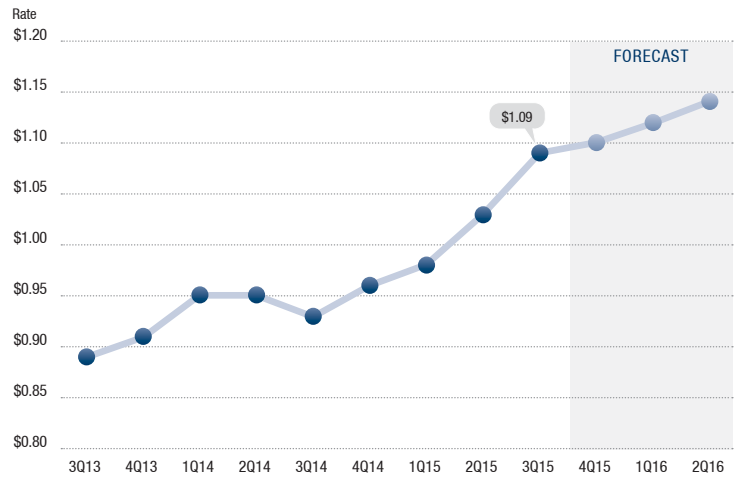
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



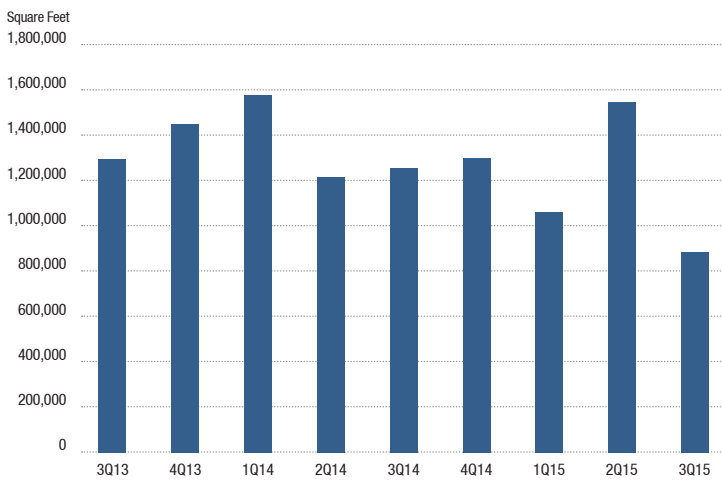
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



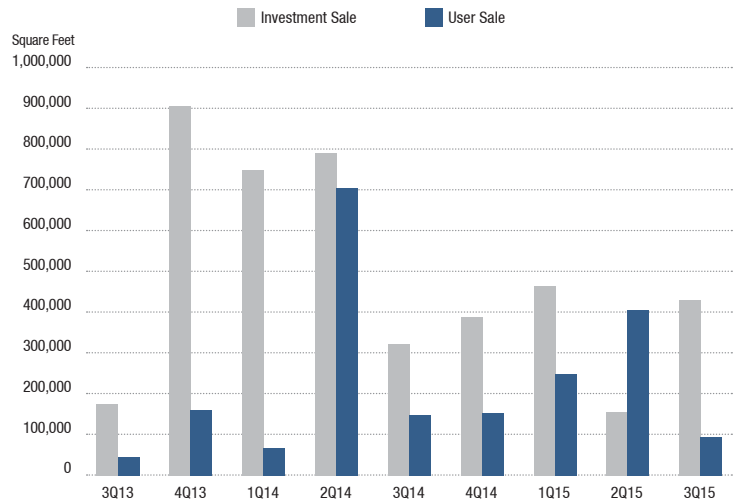
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



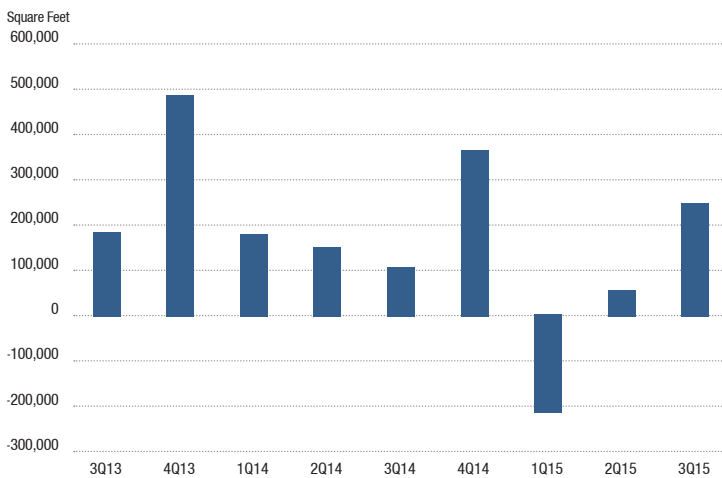
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

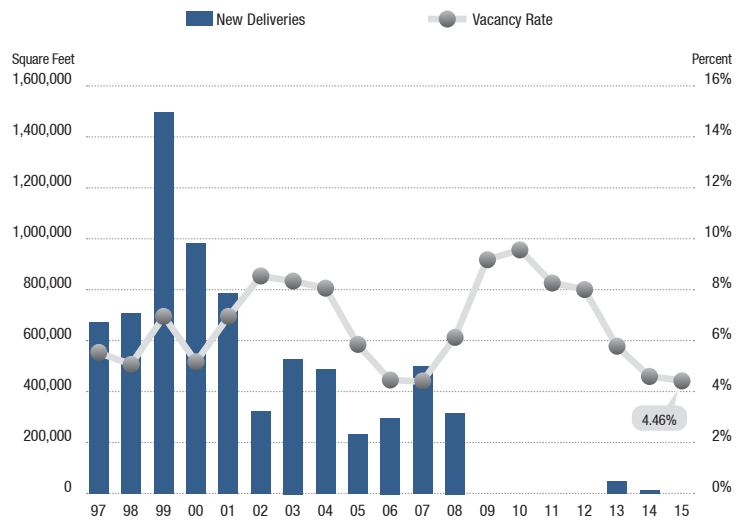


NET ABSORPTION

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

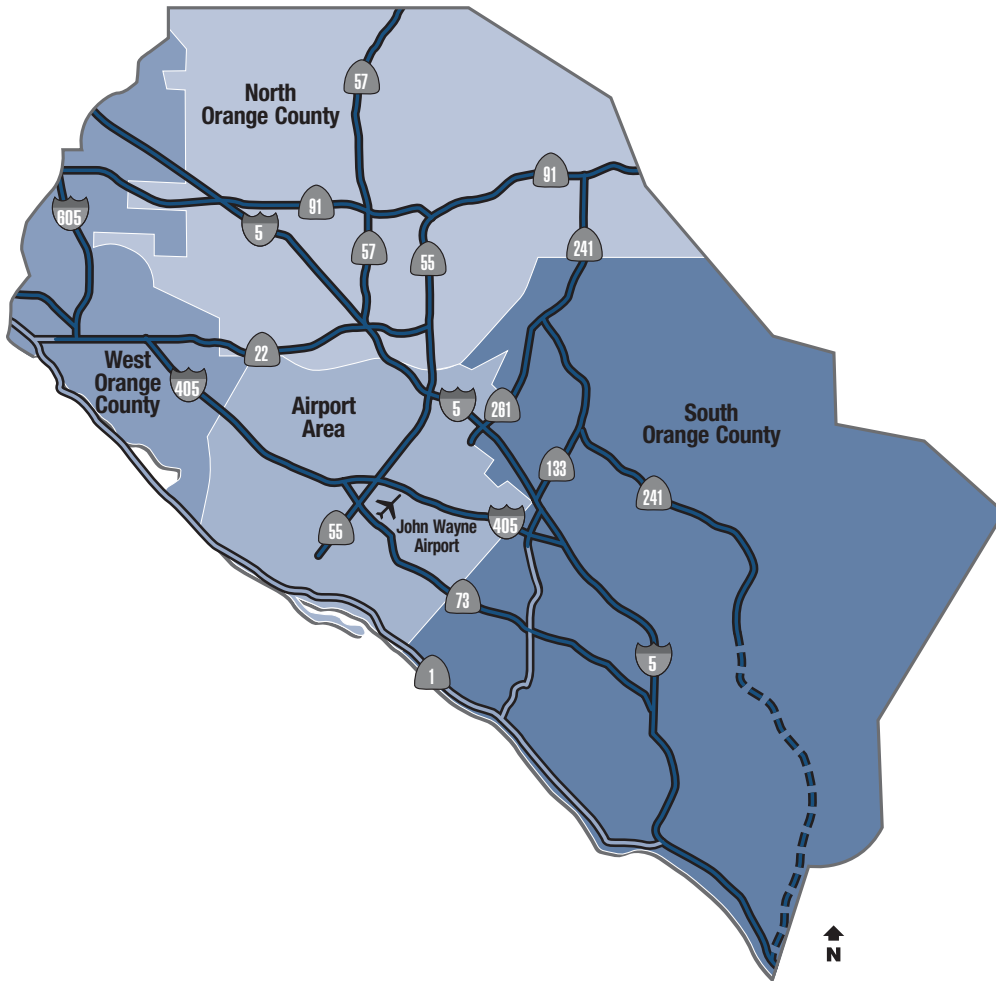


ANNUAL NEW DELIVERIES VS. VACANCY RATE



	INVENTORY					VACANCY & LEASE RATES				ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2015	Square Feet Available	Availability Rate 3Q2015	Average Asking Lease Rate	Net Absorption 3Q2015	Net Absorption 2015	Gross Absorption 3Q2015	Gross Absorption 2015
Airport Area													
Costa Mesa	170	4,085,229	0	0	103,506	2.53%	140,575	3.44%	\$1.44	12,731	54,961	73,025	232,944
Fountain Valley	50	1,464,813	0	0	18,150	1.24%	21,136	1.44%	\$0.00	(2,746)	1,358	16,436	38,967
Irvine	253	6,387,588	0	0	281,766	4.41%	399,208	6.25%	\$1.05	64,684	19,771	121,358	400,292
Newport Beach	22	665,094	0	0	31,780	4.78%	35,480	5.33%	\$0.00	(1,928)	(22,272)	572	15,085
Santa Ana	193	5,068,885	0	0	125,131	2.47%	378,092	7.46%	\$1.11	31,804	41,535	112,410	277,000
Tustin	91	3,049,601	0	0	222,493	7.30%	159,232	5.22%	\$1.05	(8,483)	9,007	35,776	104,950
Airport Area Total	779	20,721,210	0	0	782,826	3.78%	1,133,723	5.47%	\$1.10	96,062	104,360	359,577	1,069,238
North County													
Anaheim	190	5,438,176	0	0	196,503	3.61%	470,318	8.65%	\$0.99	(9,290)	(33,343)	53,178	185,736
Brea	51	1,473,444	0	0	70,553	4.79%	75,628	5.13%	\$1.10	10,466	(37,905)	13,418	51,526
Buena Park	30	959,923	0	0	19,917	2.07%	30,863	3.22%	\$0.00	14,203	5,934	26,057	37,730
Fullerton	45	1,636,736	0	0	40,224	2.46%	67,415	4.12%	\$0.86	7,725	12,282	7,725	39,463
La Habra	9	176,339	0	0	16,372	9.28%	7,872	4.46%	\$0.00	(9,838)	(9,403)	0	2,435
Orange	104	2,328,441	0	0	38,800	1.67%	35,786	1.54%	\$0.00	23,156	18,112	29,097	111,662
Placentia	25	628,165	0	0	4,829	0.77%	4,829	0.77%	\$0.80	6,037	(1,367)	7,977	16,372
Yorba Linda	53	1,397,488	0	0	61,616	4.41%	73,344	5.25%	\$1.25	18,065	4,423	24,817	175,343
North County Total	507	14,038,712	0	0	448,814	3.20%	766,055	5.46%	\$1.02	60,524	(41,267)	162,269	620,267
South County													
Aliso Viejo	44	1,084,721	0	0	50,808	4.68%	83,208	7.67%	\$1.12	21,190	3,340	49,139	86,518
Foothill Ranch	8	265,194	0	0	102,299	38.58%	0	0.00%	\$0.00	0	0	0	0
Irvine Spectrum	304	10,609,185	18,920	0	548,390	5.17%	1,137,498	10.72%	\$1.22	22,023	(52,720)	161,616	557,150
Laguna Hills	54	1,241,238	0	0	44,419	3.58%	68,802	5.54%	\$0.00	6,018	(10,936)	31,580	71,836
Laguna Niguel	21	499,372	0	0	13,591	2.72%	19,862	3.98%	\$0.00	(6,076)	6,062	2,211	14,361
Lake Forest	62	1,410,026	0	0	121,389	8.61%	131,051	9.29%	\$1.24	(49,242)	(58,999)	32,969	87,982
Mission Viejo	34	879,801	0	0	338,399	38.46%	328,062	37.29%	\$1.00	(7,817)	(19,623)	11,996	33,205
Rancho Santa Margarita	44	1,495,816	0	0	2,753	0.18%	61,584	4.12%	\$1.15	(1,293)	3,052	0	10,833
San Clemente	55	1,334,865	0	0	73,167	5.48%	54,246	4.06%	\$1.25	3,367	6,620	36,761	108,891
San Juan Capistrano	45	917,038	0	0	39,790	4.34%	42,908	4.68%	\$0.00	12,572	31,380	23,967	57,712
South County Total	671	19,737,256	18,920	0	1,335,005	6.76%	1,927,221	9.76%	\$1.12	742	(91,824)	350,239	1,028,488
West County													
Cypress	57	2,849,632	0	0	42,250	1.48%	82,332	2.89%	\$1.04	88,875	120,421	90,125	389,601
Garden Grove	69	1,796,973	0	0	60,050	3.34%	158,252	8.81%	\$0.85	109	15,764	26,144	77,380
Huntington Beach	129	3,013,956	0	0	132,302	4.39%	389,753	12.93%	\$0.00	(8,676)	(26,774)	60,758	154,849
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	25,735	2.99%	34,270	3.98%	\$0.00	8,258	3,689	19,732	38,649
Stanton	5	104,129	0	0	2,100	2.02%	2,100	2.02%	\$0.00	0	1,600	0	1,600
Westminster	18	486,743	0	0	9,250	1.90%	15,706	3.23%	\$0.00	1,450	2,710	1,450	6,710
West County Total	318	9,197,230	0	0	271,687	2.95%	682,413	7.42%	\$0.99	90,016	117,410	198,209	668,789
Orange County Total	2,275	63,694,408	18,920	0	2,838,332	4.46%	4,509,412	7.08%	\$1.09	247,344	88,679	1,070,294	3,386,782
Airport Area													
10,000-24,999	522	8,376,072	0	0	250,715	2.99%	382,463	4.57%	\$1.06	86,717	34,108	241,733	583,875
25,000-49,999	185	6,201,396	0	0	262,480	4.23%	379,303	6.12%	\$1.34	7,302	58,590	97,393	325,122
50,000-99,999	55	3,623,015	0	0	115,591	3.19%	227,165	6.27%	\$0.79	2,043	11,662	20,451	160,241
100,000 Plus	17	2,520,727	0	0	154,040	6.11%	144,792	5.74%	\$0.00	0	0	0	0
North County													
10,000-24,999	328	5,256,372	0	0	154,424	2.94%	239,727	4.56%	\$0.89	25,092	6,934	72,965	265,282
25,000-49,999	134	4,447,646	0	0	222,830	5.01%	367,863	8.27%	\$0.99	16,988	(23,805)	70,860	298,162
50,000-99,999	31	2,041,775	0	0	34,751	1.70%	121,656	5.96%	\$1.10	18,444	12,413	18,444	27,071
100,000 Plus	14	2,292,919	0	0	36,809	1.61%	36,809	1.61%	\$0.00	0	(36,809)	0	29,752
South County													
10,000-24,999	407	6,810,433	18,920	0	384,667	5.65%	526,902	7.74%	\$1.25	6,852	(13,428)	208,260	506,992
25,000-49,999	194	6,530,763	0	0	336,131	5.15%	472,781	7.24%	\$1.14	(15,830)	(50,649)	123,201	329,908
50,000-99,999	55	3,663,590	0	0	208,368	5.69%	363,998	9.94%	\$1.23	9,720	(27,747)	18,778	191,588
100,000 Plus	15	2,732,470	0	0	405,839	14.85%	563,540	20.62%	\$1.00	0	0	0	0
West County													
10,000-24,999	214	3,413,142	0	0	131,144	3.84%	144,699	4.24%	\$0.89	13,295	31,980	63,831	187,203
25,000-49,999	68	2,322,562	0	0	106,138	4.57%	155,247	6.68%	\$1.10	43,856	13,816	69,473	135,133
50,000-99,999	30	2,068,376	0	0	34,405	1.66%	102,007	4.93%	\$0.95	32,865	71,614	64,905	182,324
100,000 Plus	6	1,393,150	0	0	0	0.00%	280,460	20.13%	\$0.00	0	0	0	164,129
Orange County													
10,000-24,999	1,471	23,856,019	18,920	0	920,950	3.86%	1,293,791	5.42%	\$1.13	131,956	59,594	586,789	1,543,352
25,000-49,999	581	19,502,367	0	0	927,579	4.76%	1,375,194	7.05%	\$1.14	52,316	(2,048)	360,927	1,088,325
50,000-99,999	171	11,396,756	0	0	393,115	3.45%	814,826	7.15%	\$1.09	63,072	67,942	122,578	561,224
100,000 Plus	52	8,939,266	0	0	596,688	6.67%	1,025,601	11.47%	\$1.00	0	(36,809)	0	193,881
Orange County Total	2,275	63,694,408	18,920	0	2,838,332	4.46%	4,509,412	7.08%	\$1.09	247,344	88,679	1,070,294	3,386,782

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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