

CONTINUED GROWTH. Space in the Orange County research and development market was getting harder to find in the third quarter, as the vacancy rate fell to its lowest level in more than a decade. A strong job market and high wages have helped spur a rise in asking rents. Orange County has historically been home to tenants in technology, communications, apparel, biotechnology and healthcare, industries that drive demand in the R&D market.

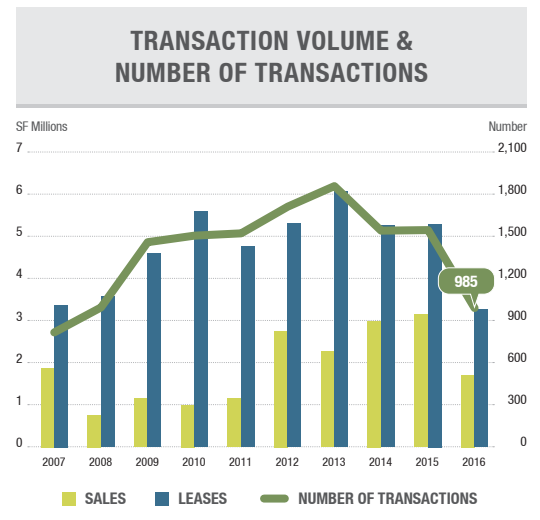
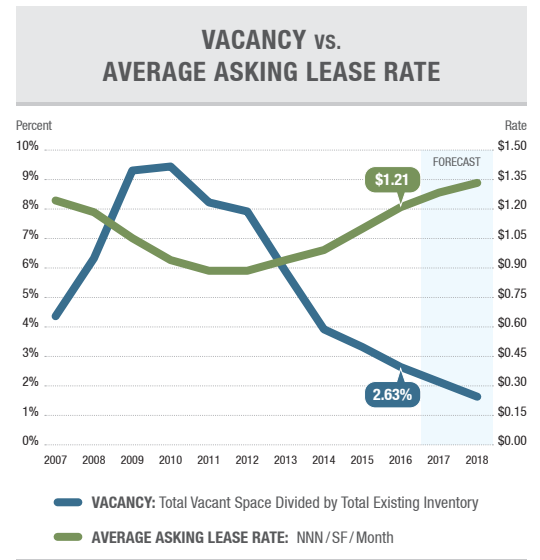
VACANCY. Third quarter vacancy in the Orange County R&D market vacancy rate declined 69 basis points to 2.63%. The vacancy rate has not shown an increase in 7 years, due to steady absorption and very little supply. With a strong local economy, Orange County continued to be a desirable location for R&D given its young, educated workforce and proximity to several top tier colleges including Chapman, UCI and Cal State Fullerton.

LEASE RATES. The average asking lease rate at the end of third quarter of 2016 was \$1.21 per square foot, up \$0.13 since the third quarter of 2015—a trend that will continue given high competition among tenants over a limited amount of available supply.

TRANSACTION ACTIVITY. Total lease and sale transaction activity reached 1,340,565 square feet, down 38.54% from this time last year. Major transactions this quarter included a new lease for Karma Automotive at 9950 Jeronimo Road and Impressions Vanity at 1402 Morgan Circle in Tustin. Other major technology companies including Epic Network, Nordson Corporation, and Delphi Display Systems signed significant leases for R&D space in the third quarter.

EMPLOYMENT. The unemployment rate in Orange County was 4.4% in August 2016, down from a revised 4.6% in July 2016, and below the year-ago estimate of 4.6%. This compares with an unadjusted unemployment rate of 5.6% for California and 5.0% 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.

OVERALL. The Orange County R&D market with its extremely low (and shrinking) supply is expected to continue to be highly stable, with dropping vacancy rates, strong absorption and steady rental growth. Orange County has a strong high tech manufacturing sector that includes computer and other related electronic products, aerospace parts and products and medical devices. These capital-intensive sectors rely on Orange County's highly skilled and productive workforce to remain competitive. High demand for quality space should keep vacancy rates low for the foreseeable future. Much like the core industrial market, the balance of power is with landlords resulting in higher rents and limited concessions for tenants.



Market Statistics

	Change Over Last Quarter	3Q 2016	2Q 2016	3Q 2015	% Change Over Last Year
Vacancy Rate	▼ DOWN	2.63%	3.14%	3.57%	-26.33%
Availability Rate	▲ UP	4.35%	4.33%	5.90%	-26.27%
Average Asking Lease Rate	▲ UP	\$1.21	\$1.16	\$1.08	12.04%
Sale & Lease Transactions	▼ DOWN	1,340,565	1,814,399	2,181,279	-38.54%
Gross Absorption	▼ DOWN	1,125,008	1,421,743	1,084,057	3.78%
Net Absorption	▲ POSITIVE	325,652	380,416	252,406	N/A

EMPLOYMENT. Management, scientific and technical consulting services, projected at 5.4% average annual growth, are expected to have the fastest growth in the professional and business sector in the near future, according to the state Employment Development Department.

LEASE RATES. Expect average asking lease rates to increase by 2% to 4% over the next three to four quarters as tenant demand continues.

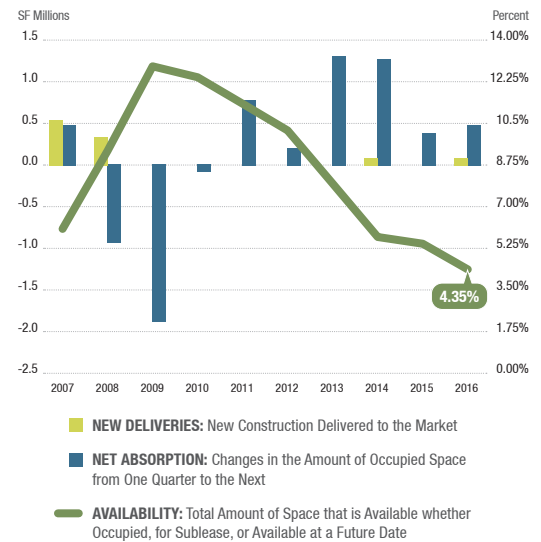
VACANCY. We anticipate vacancy to continue its strength in coming quarters, dropping by 21 basis points, to approximately 3.10% by the end of the first quarter of 2017.

CONSTRUCTION. With the price of land now above previous record highs, expect supply to be constrained in the short term. No new supply is anticipated for the R&D market for the rest of 2016. The lack of construction coupled with consistent demand will continue to push lease rates up. We have already witnessed rent growth of 12.04% since this time last year.

AVAILABILITY. Direct/sublease space being marketed was 4.35% this quarter, down substantially from this time last year. As demand continues for space in this area, expect vacancy and availability rates to remain low.

ABSORPTION. After a robust first half of 2016 in which rates grew significantly and activity levels were strong, the Orange County R&D market continued to build upon those positive trends in the third quarter. Despite a lack of available product, the Orange County R&D market the quarter with positive net absorption of 325,652 square feet. The R&D market favored landlords and sellers—rents increased and concession packages dwindled.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
22705-22745 Savi Ranch Pkwy. 4 Properties	Yorba Linda	376,808	\$95,000,000	Savi Ranch Property Holdings, LLC	Oaktree Capital Management, LP
3 Hughes	Irvine Spectrum	26,800	\$7,425,000	Chapman University	Hunsaker Family Trust
17891 Cartwright Rd.	Irvine	29,058	\$7,200,000	Burke Real Estate Group, Inc.	TC Communications, Inc.
22961 Arroyo Vista	Rancho Santa Margarita	41,000	\$6,350,000	Alexander Real Estate Investments, LLC	Paolone Holdings, LLC
1 Hughes	Irvine Spectrum	28,324	\$6,075,000	Chapman University	Hunsaker Family Trust

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
9950 Jeronimo Rd.	Irvine Spectrum	262,000	Sept-2016	Karma Automotive, LLC	Bixby Land Co.
1402 Morgan Cir.	Tustin	41,290	Aug-2016	Impressions Vanity	Schiffman Enterprises
11 Studebaker	Irvine Spectrum	30,220	Sept-2016	Intellian Technologies	Emanson Investments
30281 Esperanza	Rancho Santa Margarita	21,842	Aug-2016	Epic Network	Applied Medical Resources Corp.
7612 Woodwind Dr.	Huntington Beach	20,941	Aug-2016	Nordson Corporation	Woodwin Commerce Park, LLC

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2016	Square Feet Available	Availability Rate 3Q2016	Average Asking Lease Rate	Net Absorption 3Q2016	Net Absorption 2016	Gross Absorption 3Q2016	Gross Absorption 2016
Airport Area													
Costa Mesa	175	4,258,565	0	0	105,184	2.47%	159,338	3.74%	\$1.23	40,946	57,776	107,781	253,858
Fountain Valley	49	1,412,813	0	0	13,168	0.93%	17,274	1.22%	\$0.95	5,230	8,878	14,037	33,792
Irvine	249	6,244,672	0	0	133,521	2.14%	412,776	6.61%	\$1.21	18,242	21,854	81,226	243,702
Newport Beach	24	614,441	0	0	14,295	2.33%	16,795	2.73%	\$0.00	(1,875)	2,892	9,900	38,156
Santa Ana	194	5,116,386	0	0	143,796	2.81%	197,174	3.85%	\$1.35	(39,186)	(39,975)	63,359	349,344
Tustin	90	2,988,660	0	0	57,135	1.91%	119,933	4.01%	\$1.12	5,868	3,412	20,338	158,564
Airport Area Total	781	20,635,537	0	0	467,099	2.26%	923,290	4.47%	\$1.20	29,225	54,837	296,641	1,077,416
North County													
Anaheim	192	5,432,818	0	0	178,277	3.28%	240,440	4.43%	\$1.10	50,345	114,447	130,488	330,043
Brea	52	1,506,420	0	0	120,581	8.00%	173,968	11.55%	\$1.01	50,605	(48,834)	64,423	93,016
Buena Park	30	959,923	0	0	21,280	2.22%	34,558	3.60%	\$0.00	7,402	12,394	11,218	52,262
Fullerton	46	1,783,123	0	0	16,052	0.90%	38,330	2.15%	\$0.00	27,260	46,004	41,903	83,954
La Habra	10	187,013	0	0	1,108	0.59%	1,108	0.59%	\$0.00	0	0	0	0
Orange	104	2,324,246	0	0	16,616	0.71%	21,472	0.92%	\$1.75	11,524	(4,323)	23,614	68,184
Placentia	26	654,665	0	0	2,889	0.44%	2,889	0.44%	\$0.00	5,519	3,523	11,339	24,040
Yorba Linda	53	1,397,044	0	0	56,491	4.04%	78,991	5.65%	\$0.70	17,080	7,814	43,480	131,457
North County Total	513	14,245,252	0	0	413,294	2.90%	591,756	4.15%	\$1.09	169,735	131,025	326,465	782,956
South County													
Aliso Viejo	45	1,104,232	0	0	43,233	3.92%	41,390	3.75%	\$1.36	(12,563)	23,061	4,881	101,741
Foothill Ranch	7	162,895	0	0	0	0.00%	0	0.00%	\$0.00	0	0	49,415	49,415
Irvine Spectrum	304	10,453,701	0	0	331,006	3.17%	686,108	6.56%	\$1.29	128,644	214,957	228,986	773,991
Laguna Hills	54	1,248,759	0	0	38,022	3.04%	21,306	1.71%	\$1.81	(2,253)	(14,074)	25,433	70,345
Laguna Niguel	21	498,678	0	0	14,457	2.90%	22,814	4.57%	\$1.55	(5,062)	652	6,938	20,478
Lake Forest	62	1,401,705	0	0	19,014	1.36%	45,503	3.25%	\$1.20	18,516	98,023	35,056	188,050
Mission Viejo	35	898,618	0	0	46,278	5.15%	49,782	5.54%	\$1.10	(4,360)	(24,512)	9,676	18,140
Rancho Santa Margarita	45	1,515,798	0	0	9,145	0.60%	20,651	1.36%	\$1.10	(4,805)	(5,342)	3,290	8,947
San Clemente	55	1,335,369	0	0	72,635	5.44%	75,910	5.68%	\$1.20	32,291	(15,459)	39,700	98,369
San Juan Capistrano	45	917,038	0	0	17,078	1.86%	23,328	2.54%	\$1.25	9,051	13,504	11,351	34,027
South County Total	673	19,536,793	0	0	590,868	3.02%	986,792	5.05%	\$1.60	159,459	290,810	414,726	1,363,503
West County													
Cypress	56	2,645,943	0	0	55,781	2.11%	71,338	2.70%	\$1.00	(29,332)	(17,146)	1,632	66,865
Garden Grove	70	1,810,787	0	0	48,958	2.70%	68,705	3.79%	\$0.85	(6,176)	(13,820)	24,328	54,809
Huntington Beach	131	3,059,444	0	0	54,707	1.79%	82,395	2.69%	\$0.91	12,372	44,452	43,142	452,793
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	37,136	4.00%	41,953	4.52%	\$0.00	(10,831)	(24,573)	7,970	25,426
Stanton	6	122,189	0	0	0	0.00%	0	0.00%	\$0.00	1,200	2,880	4,464	10,608
Westminster	18	486,743	0	0	2,050	0.42%	0	0.00%	\$0.00	0	11,128	5,640	31,232
West County Total	324	9,138,693	0	0	198,632	2.17%	264,391	2.89%	\$0.92	(32,767)	2,921	87,176	641,733
Orange County Total	2,291	63,556,275	0	0	1,669,893	2.63%	2,766,229	4.35%	\$1.21	325,652	479,593	1,125,008	3,865,608
Airport Area													
10,000-24,999	525	8,429,681	0	0	221,215	2.62%	451,904	5.36%	\$1.16	19,581	56,439	187,355	534,619
25,000-49,999	189	6,349,542	0	0	212,036	3.34%	415,017	6.54%	\$1.22	(15,502)	(23,867)	70,253	242,326
50,000-99,999	50	3,335,587	0	0	33,848	1.01%	56,369	1.69%	\$1.17	25,146	22,265	39,033	155,679
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	334	5,359,507	0	0	75,945	1.42%	138,188	2.58%	\$1.32	61,840	38,741	144,437	326,037
25,000-49,999	134	4,454,575	0	0	113,499	2.55%	207,200	4.65%	\$0.90	53,038	155,629	126,151	381,424
50,000-99,999	30	1,975,624	0	0	122,430	6.20%	138,972	7.03%	\$1.10	18,048	1,266	19,068	38,686
100,000 Plus	15	2,455,546	0	0	101,420	4.13%	107,396	4.37%	\$0.00	36,809	(64,611)	36,809	36,809
South County													
10,000-24,999	412	6,901,440	0	0	247,901	3.59%	398,444	5.77%	\$1.25	22,440	88,664	160,410	566,649
25,000-49,999	193	6,472,591	0	0	212,058	3.28%	400,067	6.18%	\$1.41	86,050	127,718	191,960	576,677
50,000-99,999	55	3,663,590	0	0	130,909	3.57%	188,281	5.14%	\$1.11	50,969	75,428	62,356	220,177
100,000 Plus	13	2,499,172	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	120,122	3.41%	174,335	4.94%	\$0.92	(29,265)	(15,331)	58,575	190,533
25,000-49,999	69	2,354,598	0	0	67,011	2.85%	78,557	3.34%	\$0.91	7,997	(5,889)	28,601	124,796
50,000-99,999	30	2,068,376	0	0	11,499	0.56%	11,499	0.56%	\$0.98	(11,499)	24,141	0	45,944
100,000 Plus	5	1,188,836	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	280,460
Orange County													
10,000-24,999	1,491	24,217,511	0	0	665,183	2.75%	1,162,871	4.80%	\$1.17	74,596	168,513	550,777	1,617,838
25,000-49,999	585	19,631,306	0	0	604,604	3.08%	1,100,841	5.61%	\$1.32	131,583	253,591	416,965	1,325,223
50,000-99,999	165	11,043,177	0	0	298,686	2.70%	395,121	3.58%	\$1.11	82,664	123,100	120,457	460,486
100,000 Plus	50	8,664,281	0	0	101,420	1.17%	107,396	1.24%	\$0.00	36,809	(64,611)	36,809	462,061
Orange County Total	2,291	63,556,275	0	0	1,669,893	2.63%	2,766,229	4.35%	\$1.21	325,652	480,593	1,125,008	3,865,608

This survey consists of buildings greater than 10,000 square feet. Lease rates are on a triple-net basis.



Diversity Keeping O.C. Industrial Market on Track

by **Michael C. Vernick, CCIM, SIOR**
SENIOR VICE PRESIDENT, ANAHEIM

The Orange County industrial market continues to thrive, casting new sale price and cap rate records while lease rates continue to rise. Although pricing high watermarks have caused some buyers and tenants to rethink their expansion strategies, enough demand exists such that the vast majority of available properties are enjoying steady interest, with many leasing or selling with multiple offers in the queue. Although future increases for sale prices and lease rates may not be as pronounced as witnessed over the past twenty-four months, the combination of historically low vacancy, minimal new construction and steady demand from a diverse user base will keep upward pressure on lease rates and sale prices.

Orange County has experienced growth from a wide variety of industrial segments, all focused on direct access to Orange County's affluent consumer base. A variety of building classes being utilized for unique purposes were absorbed in the third quarter by third party logistics providers, manufacturers and even showroom users. This balanced demand is a further testament to the strength and stability of the Orange County industrial market.

The capital markets are also in a temporary state of imbalance, as we are seeing a tremendous amount of capital from a multitude of investor groups (seeking core & value add assets) who are competing with one another to secure a dwindling number of available alternatives. This frenzy is driving cap rates down and values up across all asset classes from Class A to older, multitenant properties. Developers continue to aggressively pursue underutilized or vacant land sites for redevelopment, pushing land pricing past previous record highs (\$40/SF) in infill Orange County locations.

All trends are positive and predicted to remain positive, while we keep a cautious eye on future interest rate increases.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a triple-net basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services. ©2016 Voit Real Estate Services, Inc. License #01333376.

Represented in 150 Markets
Nationally & Internationally.
CORFAC
International

Product Type

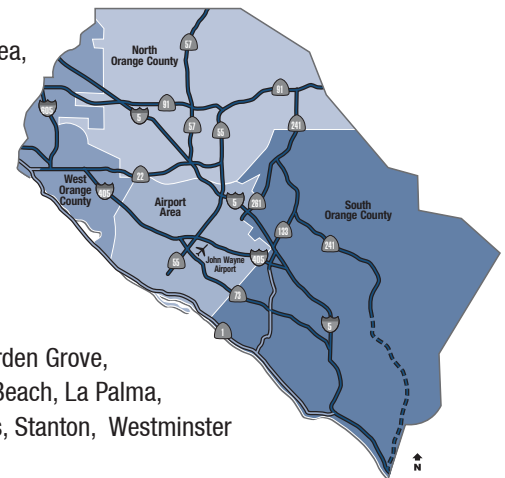
R&D OR MID-TECH

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.

Submarkets

NORTH

Anaheim, Brea,
Buena Park,
Fullerton,
La Habra,
Orange,
Placentia,
Yorba Linda



WEST

Cypress, Garden Grove,
Huntington Beach, La Palma,
Los Alamitos, Stanton, Westminster

AIRPORT

Costa Mesa, Fountain Valley, Irvine, Newport
Beach, Santa Ana, Tustin

SOUTH

Aliso Viejo, Foothill Ranch, Irvine Spectrum, Laguna Hills,
Laguna Niguel, Lake Forest, Mission Viejo, Rancho Santa
Margarita, San Clemente, San Juan Capistrano