

MARKET CHANGE

Compared to 2013:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

UP



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HIGHLIGHTS

- **Encouraging Numbers** - The Orange County research and development market continued to improve entering the first quarter of 2015. Vacancy has dropped by over 16% in a year, while net absorption posted a positive 307,000 square feet for the fourth quarter of 2014, marking nine 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 fourth quarter there was 266,406 square feet under construction, 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.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 5.10%, a decrease from the prior quarter's 5.58% and 2013's fourth quarter rate of 6.09%.
- **Availability** - Direct/sublease space being marketed was 7.51% in the fourth quarter, down from the 7.98% we saw in the third quarter and a decrease of 11.75% 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 \$0.96 at the end of the year, up three cents from the previous quarter's rate, and up five cents from the fourth 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 306,894 square feet of positive net absorption in the fourth quarter of 2014, giving the R&D market a total of over 2.3 million square feet of positive absorption over the last nine quarters.
- **Transaction Activity** - Leasing activity checked in at 4.6 million square feet for 2014, down from the 6 million square feet of leasing activity we saw in 2013. Sales activity posted 3.4 million square feet of activity in 2014, up from the 2.1 million square feet seen in 2013. The Orange County R&D market averaged nearly 725,000 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 fourth quarter figures to end up somewhat higher.
- **Employment** - The unemployment rate in Orange County was 5.0% in November 2014, unchanged from a revised 5.0% in October 2014 and below the previous year's estimate of 5.8%. This compares with an unadjusted unemployment rate of 7.1% for California and 5.5% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 32,200 payroll jobs from November 2013 to November 2014. Most sectors showed gains in employment; the largest gains were 10,900 in educational and health services and 7,700 in construction during that same period. Manufacturing posted the largest year-over-year loss, dropping by 2,300 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 first 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.

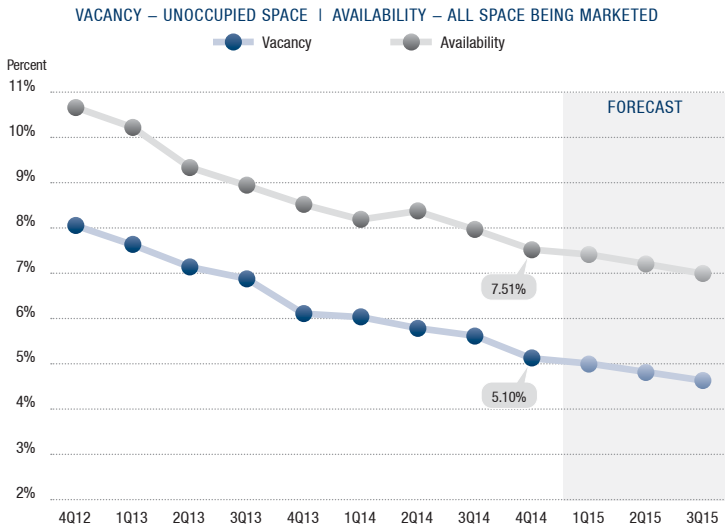
FORECAST

- **Employment** - We anticipate job growth of around 2.6%, or 38,000 jobs, in the Orange County area over the next four quarters according to Chapman University. 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 fourth quarter of 2015.
- **Vacancy** - We anticipate vacancy to continue to descend in coming quarters, dropping by 50 basis points, to below 4.60% by the end of the third quarter of 2015.

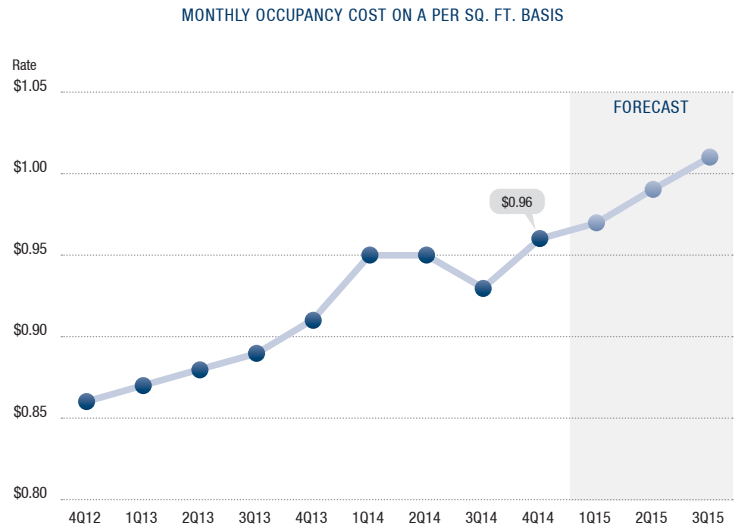
OVERVIEW

	2014	2013	2012	% of Change vs. 2013
Total Vacancy Rate	5.10%	6.09%	8.04%	(16.26%)
Availability Rate	7.51%	8.51%	10.66%	(11.75%)
Average Asking Lease Rate	\$0.96	\$0.91	\$0.86	5.49%
Sale & Lease Transactions	7,955,475	8,124,722	7,985,188	(2.08%)
Gross Absorption	4,951,698	5,585,729	4,879,407	(11.35%)
Net Absorption	672,491	1,234,952	155,954	N/A

VACANCY & AVAILABILITY RATE

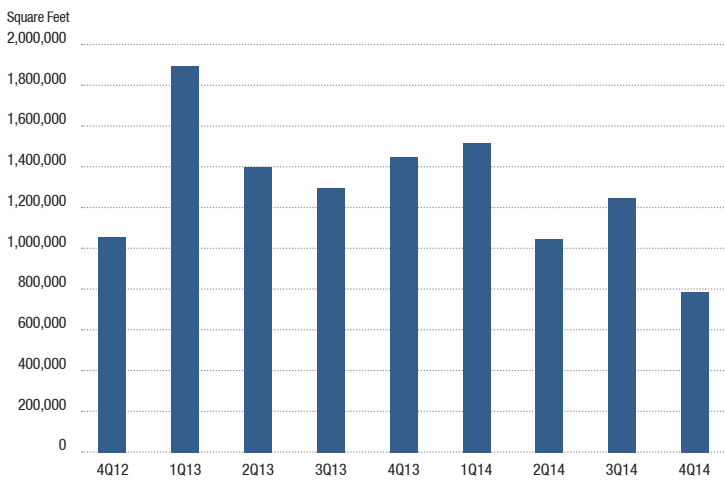


AVERAGE ASKING TRIPLE-NET LEASE RATE



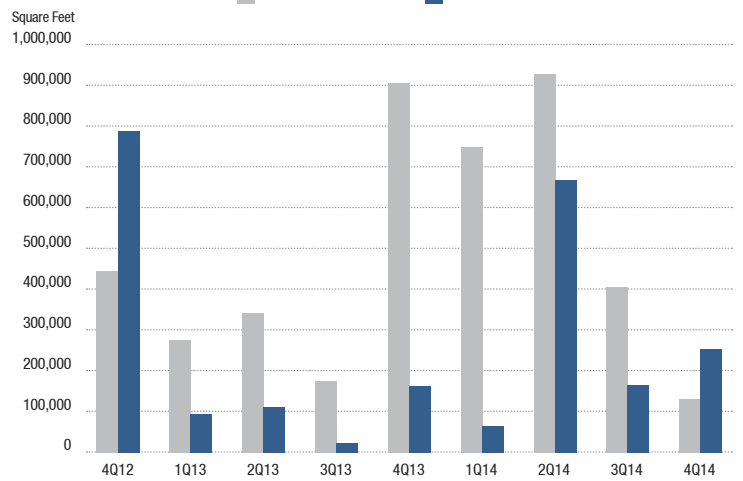
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



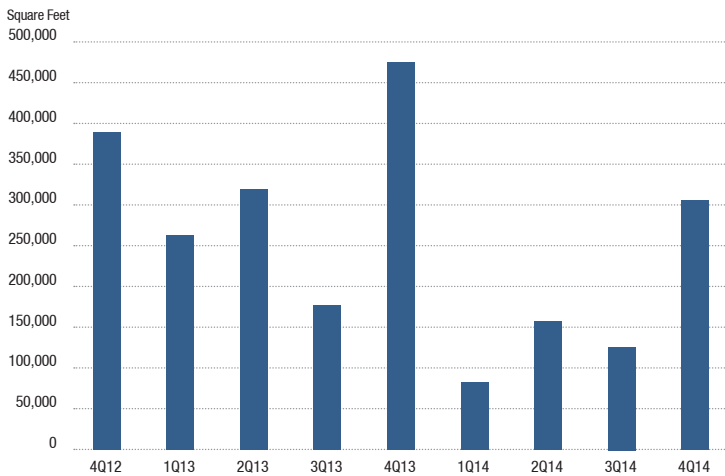
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

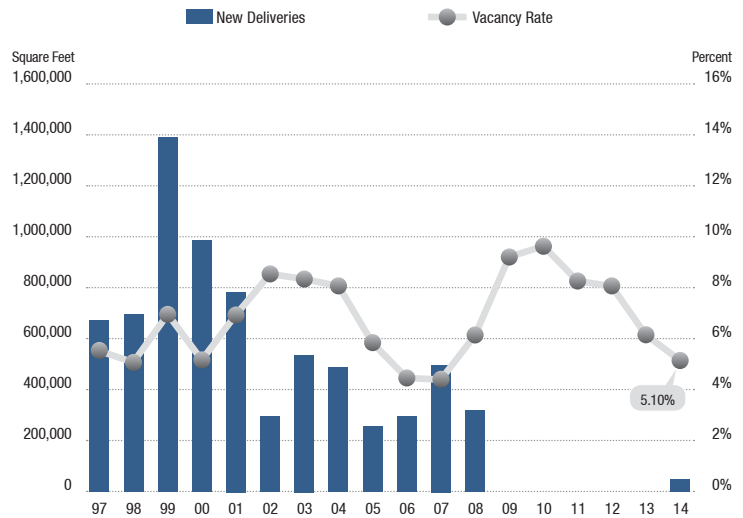


NET ABSORPTION

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

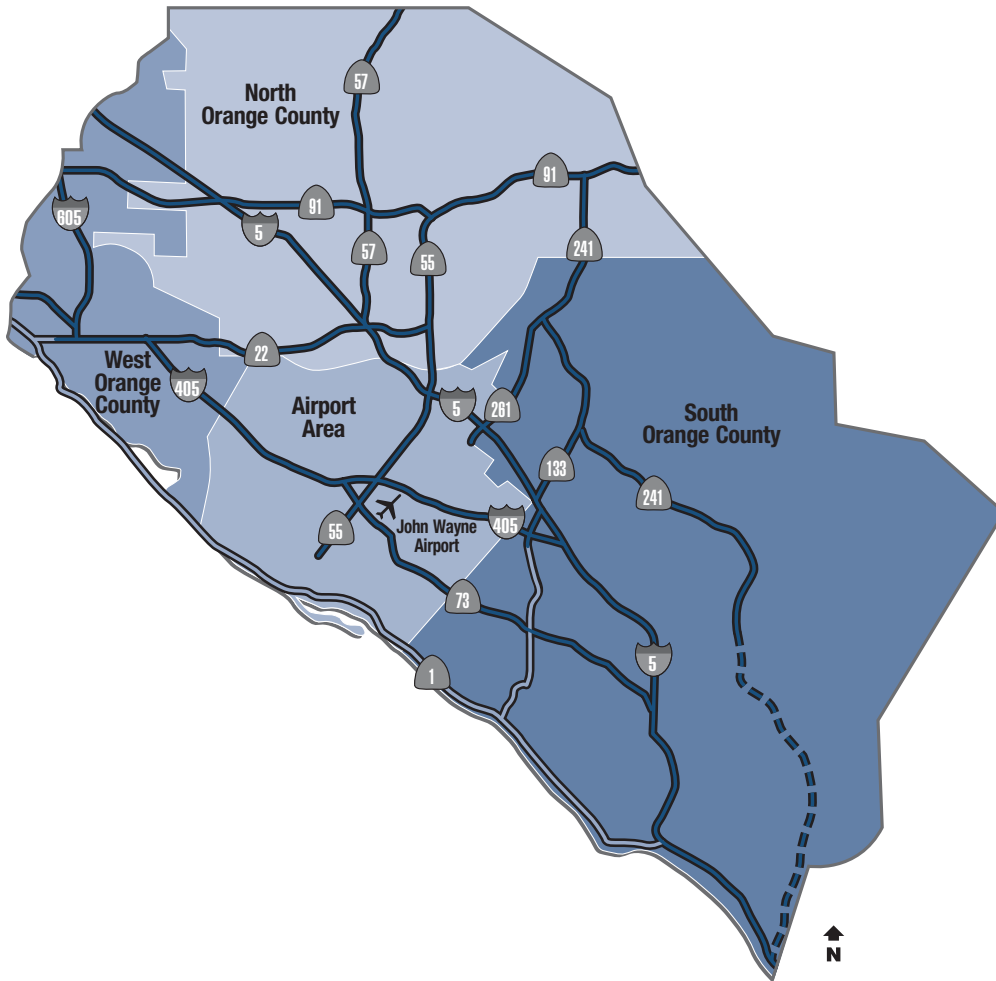


ANNUAL NEW DELIVERIES VS. VACANCY RATE



	INVENTORY					VACANCY & LEASE RATES				ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2014	Square Feet Available	Availability Rate 4Q2014	Average Asking Lease Rate	Net Absorption 4Q2014	Net Absorption 2014	Gross Absorption 4Q2014	Gross Absorption 2014
Airport Area													
Costa Mesa	171	4,094,924	0	0	166,254	4.06%	208,277	5.09%	\$0.88	19,912	102,640	50,356	413,294
Fountain Valley	50	1,464,813	0	0	19,508	1.33%	34,784	2.37%	\$0.00	13,485	580	16,303	47,010
Irvine	260	6,605,206	0	0	319,187	4.83%	535,310	8.10%	\$0.88	78,641	109,266	166,136	602,916
Newport Beach	21	386,171	0	0	9,508	2.46%	7,008	1.81%	\$0.00	(4,013)	(2,988)	10,000	36,116
Santa Ana	190	4,792,576	0	0	166,666	3.48%	241,706	5.04%	\$0.99	29,875	99,275	115,406	352,471
Tustin	93	3,249,672	0	0	465,379	14.32%	445,662	13.71%	\$0.80	6,240	(191,782)	19,133	177,694
Airport Area Total	785	20,593,362	0	0	1,146,502	5.57%	1,472,747	7.15%	\$0.84	144,140	116,991	377,334	1,629,501
North County													
Anaheim	194	5,436,198	0	0	171,760	3.16%	387,970	7.14%	\$0.81	24,597	45,549	97,909	351,557
Brea	52	1,542,250	95,270	0	32,648	2.12%	178,564	11.58%	\$0.97	(3,196)	12,014	14,592	63,388
Buena Park	32	1,082,698	0	0	25,851	2.39%	61,876	5.71%	\$0.00	2,625	31,622	3,218	53,837
Fullerton	45	1,636,538	0	0	52,506	3.21%	71,639	4.38%	\$0.71	30,921	54,637	47,930	110,614
La Habra	9	176,339	0	0	6,969	3.95%	13,896	7.88%	\$0.00	0	(5,790)	0	2,976
Orange	103	2,312,334	0	0	55,462	2.40%	58,566	2.53%	\$0.84	46,178	42,556	68,877	143,989
Placentia	24	612,708	0	0	11,737	1.92%	7,342	1.20%	\$0.79	0	(1,166)	28,990	43,179
Yorba Linda	53	1,397,488	0	0	68,295	4.89%	157,430	11.27%	\$0.62	(5,791)	35,056	21,467	135,160
North County Total	512	14,196,553	95,270	0	425,228	3.00%	937,283	6.60%	\$0.73	95,334	214,478	282,983	904,700
South County													
Aliso Viejo	44	1,084,721	0	0	54,148	4.99%	117,918	10.87%	\$1.26	38,451	637	41,547	103,596
Foothill Ranch	8	265,194	0	0	102,299	38.58%	102,299	38.58%	\$0.00	0	(102,299)	0	10,250
Irvine Spectrum	302	10,483,201	26,382	18,124	541,364	5.16%	852,322	8.13%	\$1.21	27,759	233,055	269,549	1,105,223
Laguna Hills	52	1,209,931	0	0	34,558	2.86%	57,760	4.77%	\$2.25	17,190	239	21,761	104,473
Laguna Niguel	21	494,347	0	0	19,653	3.98%	8,403	1.70%	\$0.00	3,472	(2,192)	4,722	12,352
Lake Forest	58	1,345,332	0	0	39,260	2.92%	58,599	4.36%	\$0.78	2,703	4,201	23,649	97,220
Mission Viejo	34	879,801	0	0	321,912	5805.00%	339,207	38.55%	\$0.99	(2,176)	4,696	4,096	56,778
Rancho Santa Margarita	44	1,495,816	0	0	5,805	0.39%	58,255	3.89%	\$0.00	1,135	6,294	2,562	29,018
San Clemente	53	1,286,328	0	0	78,017	6.07%	152,856	11.88%	\$1.05	25,022	(542)	37,669	103,403
San Juan Capistrano	45	917,038	0	53,264	70,470	7.68%	74,446	8.12%	\$1.65	7,344	23,881	21,315	68,553
South County Total	661	19,461,709	26,382	71,388	1,267,486	6.51%	1,822,065	9.36%	\$1.11	120,900	167,970	426,870	1,690,866
West County													
Cypress	56	2,815,071	0	0	162,671	5.78%	169,473	6.02%	\$0.98	(67,779)	67,584	3,944	284,380
Garden Grove	68	1,768,709	0	0	73,678	4.17%	186,671	10.55%	\$0.55	(1,013)	27,930	12,770	120,052
Huntington Beach	129	3,013,496	144,754	0	110,403	3.66%	125,726	4.17%	\$0.81	1,667	53,705	20,369	200,065
La Palma	1	85,000	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Los Alamitos	39	860,297	0	0	29,424	3.42%	29,424	3.42%	\$0.00	4,599	4,495	14,913	60,970
Stanton	5	122,025	0	0	3,700	3.03%	3,700	3.03%	\$0.00	0	1,280	0	4,980
Westminster	19	485,623	0	0	11,960	2.46%	11,960	2.46%	\$0.00	9,046	18,058	9,866	56,184
West County Total	317	9,150,221	144,754	0	391,836	4.28%	526,954	5.76%	\$0.79	(53,480)	173,052	61,862	726,631
Orange County Total	2,275	63,401,845	266,406	71,388	3,231,052	5.10%	4,759,049	7.51%	\$0.96	306,894	672,491	1,149,049	4,951,698
Airport Area													
10,000-24,999	528	8,484,005	0	0	303,363	3.58%	452,526	5.33%	\$1.01	90,227	212,336	192,519	817,745
25,000-49,999	185	6,217,600	0	0	366,893	5.90%	456,234	7.34%	\$1.07	55,751	41,509	172,958	502,919
50,000-99,999	56	3,685,201	0	0	212,206	5.76%	340,947	9.25%	\$0.85	(1,838)	(5,827)	11,857	285,824
100,000 Plus	16	2,206,556	0	0	264,040	11.97%	223,040	10.11%	\$0.69	0	(131,027)	0	23,013
North County													
10,000-24,999	331	5,290,137	0	0	179,039	3.38%	212,310	4.01%	\$0.95	57,581	117,418	168,488	479,994
25,000-49,999	134	4,448,949	0	0	199,025	4.47%	507,872	11.42%	\$0.71	41,813	72,918	113,832	366,854
50,000-99,999	33	2,148,035	95,270	0	47,164	2.20%	150,530	7.01%	\$0.00	(4,060)	(4,443)	663	29,267
100,000 Plus	14	2,309,432	0	0	0	0.00%	66,571	2.88%	\$0.00	0	28,585	0	28,585
South County													
10,000-24,999	401	6,710,347	0	18,124	346,862	5.17%	560,281	8.35%	\$1.23	58,784	23,729	184,308	626,024
25,000-49,999	190	6,380,223	26,382	0	281,329	4.41%	422,211	6.62%	\$1.23	76,610	27,105	196,481	607,794
50,000-99,999	55	3,636,206	0	53,264	233,456	6.42%	171,271	4.71%	\$1.13	(14,494)	219,435	46,081	457,048
100,000 Plus	15	2,734,933	0	0	405,839	14.84%	668,302	24.44%	\$1.00	0	(102,299)	0	0
West County													
10,000-24,999	214	3,393,462	0	0	158,888	4.68%	173,792	5.12%	\$0.92	(4,326)	(7,599)	27,385	239,336
25,000-49,999	67	2,295,693	0	0	122,054	5.32%	139,995	6.10%	\$0.87	16,593	38,968	30,533	156,413
50,000-99,999	30	2,068,376	144,754	0	110,894	5.36%	213,167	10.31%	\$0.74	(65,747)	141,683	3,944	330,882
100,000 Plus	6	1,392,690	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Orange County													
10,000-24,999	1,474	23,877,951	0	18,124	988,152	4.14%	1,398,909	5.86%	\$1.14	202,266	345,884	572,700	2,163,099
25,000-49,999	576	19,342,465	26,382	0	969,301	5.01%	1,526,312	7.89%	\$0.98	190,767	180,500	513,804	1,633,980
50,000-99,999	174	11,537,818	240,024	53,264	603,720	5.23%	875,915	7.59%	\$0.90	(86,139)	350,848	62,545	1,103,021
100,000 Plus	51	8,643,611	0	0	669,879	7.75%	957,913	11.08%	\$0.90	0	(204,741)	0	51,598
Orange County Total	2,275	63,401,845	266,406	71,388	3,231,052	5.10%	4,759,049	7.51%	\$0.96	306,894	672,491	1,149,049	4,951,698

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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Newport Beach, CA
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Phoenix, AZ
602.952.8648

Reno, NV
775.771.9955

Sacramento, CA
916.772.8648

San Diego, CA
858.453.0505

San Jose, CA
408.885.9110

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.

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