

## MARKET CHANGE

*Compared to Previous Year:*

**Vacancy**

**DOWN**



**Net Absorption**

**POSITIVE**



**Lease Rates**

**UP**



**Transactions**

**DOWN**



**Deliveries**

**DOWN**



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Prepared by:

**Jerry J. Holdner, Jr.**

Vice President of Market Research  
e-mail: [jholdner@voitco.com](mailto:jholdner@voitco.com)

**Tony Tran**

Market Research Analyst  
e-mail: [ttran@voitco.com](mailto:ttran@voitco.com)

VOIT Real Estate Services

## HIGHLIGHTS

- **Encouraging Numbers** - The Orange County research and development market continued to improve in 2015. Vacancy has dropped by over 12.84% in a year, lease rates continue to trend upward, and net absorption posted a positive figure of over 325,000 square feet for 2015. These are certainly indications that the Orange County R&D market has gained traction.
- **Construction** - There was 43,920 square feet of space under construction at the end of the year, 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 3.53%, a decrease of 35 basis points from the prior quarter's 3.88% and a decrease of 12.84% when compared to 2014's fourth quarter rate of 4.05%.
- **Availability** - Direct/sublease space being marketed was 6.18% in the fourth quarter, down from the 6.58% we saw in the third quarter of 2015 and a decrease of 1.44% 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 \$1.10 at the end of the quarter, up one cent from the previous quarter's rate, and up twelve cents from the fourth quarter of 2014, an increase of 12.24%. The record high rate of \$1.22 was established in the third quarter of 2007.
- **Absorption** - The Orange County R&D market posted 328,208 square feet of positive net absorption in 2015, giving the R&D market a total of over 2.7 million square feet of positive absorption over the last three years.
- **Transaction Activity** - Leasing activity checked in at 4.7 million square feet for 2015, down from the 5.4 million square feet of leasing activity we saw in 2014. Sales activity posted 2.8 million square feet of activity this year, down from the 3.3 million square feet seen in 2014. The Orange County R&D market averaged nearly 800,000 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 4.2% in November 2015, down from a revised 4.3% in October 2015 and below the previous year's estimate of 5.2%. This compares with an unadjusted unemployment rate of 5.7% for California and 4.8% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 39,000 payroll jobs from November 2014 to November 2015. Most sectors showed gains in employment; the largest gains were in construction and leisure & hospitality each adding 8,200 jobs during that same period. Financial activities posted the largest year-over-year loss, dropping by 1,100 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 2016 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 2016, positive absorption should continue, occupancy costs will continue to increase and, with very few new deliveries in the pipeline to apply upward pressure on vacancy, the market will further improve.

## FORECAST

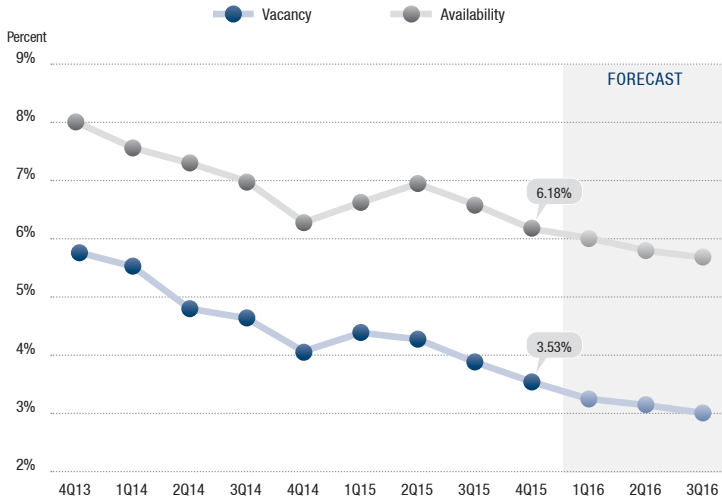
- **Employment** - We anticipate job growth of around 2.5%, or 39,000 jobs, in the Orange County area during the year according to Chapman University. The most rapid growth should take place in the professional & business services, education & health, leisure & hospitality, and construction sectors.
- **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 50 basis points, to approximately 3.00% by the end of the third quarter of 2016.

## OVERVIEW

	2015	2014	2013	% of Change vs. 2014
Total Vacancy Rate	3.53%	4.05%	5.75%	(12.84%)
Availability Rate	6.18%	6.27%	8.00%	(1.44%)
Average Asking Lease Rate	\$1.10	\$0.98	\$0.93	12.24%
Sale & Lease Transactions	7,467,122	8,736,104	8,176,990	(14.53%)
Gross Absorption	4,581,851	5,287,236	5,623,417	(13.34%)
Net Absorption	328,208	1,123,671	1,327,254	N/A

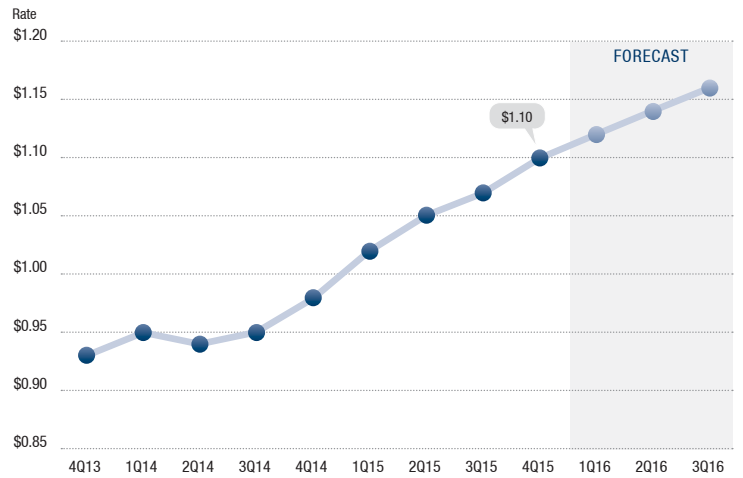
### VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



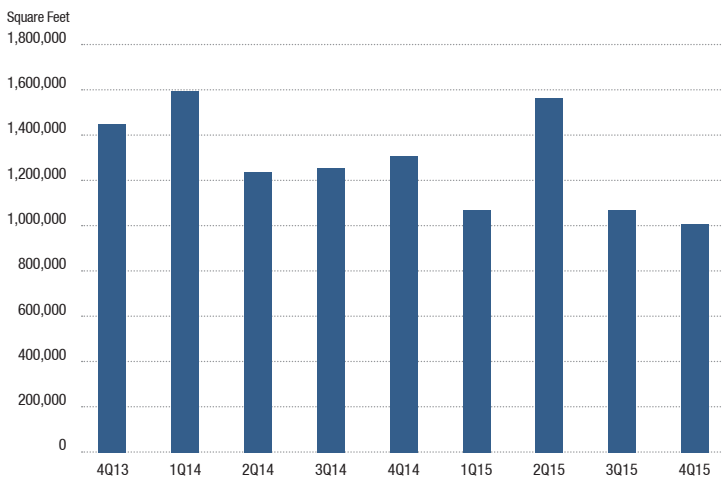
### AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



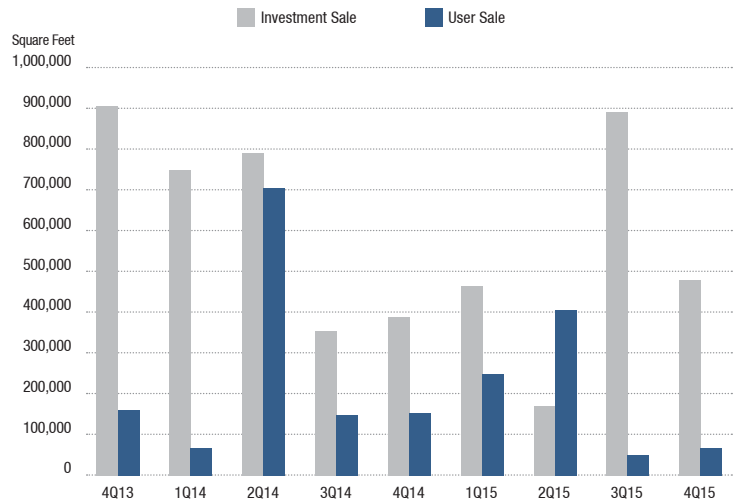
### LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



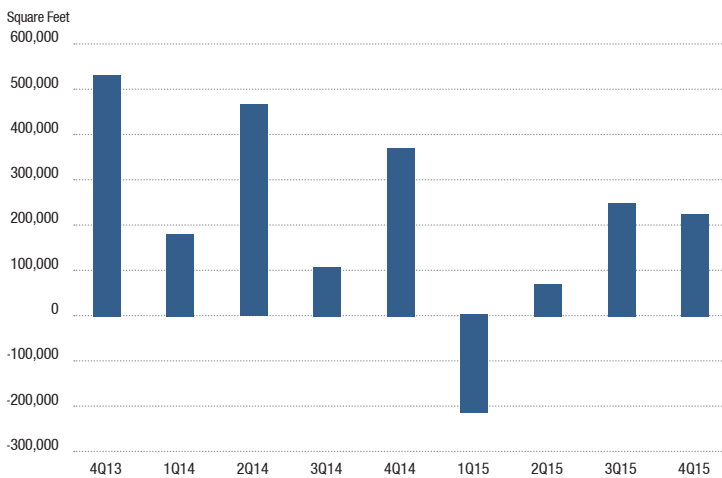
### SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

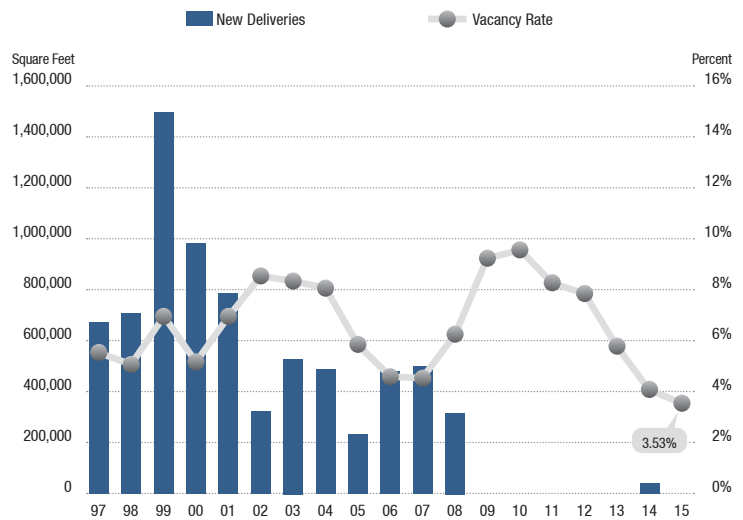


### NET ABSORPTION

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

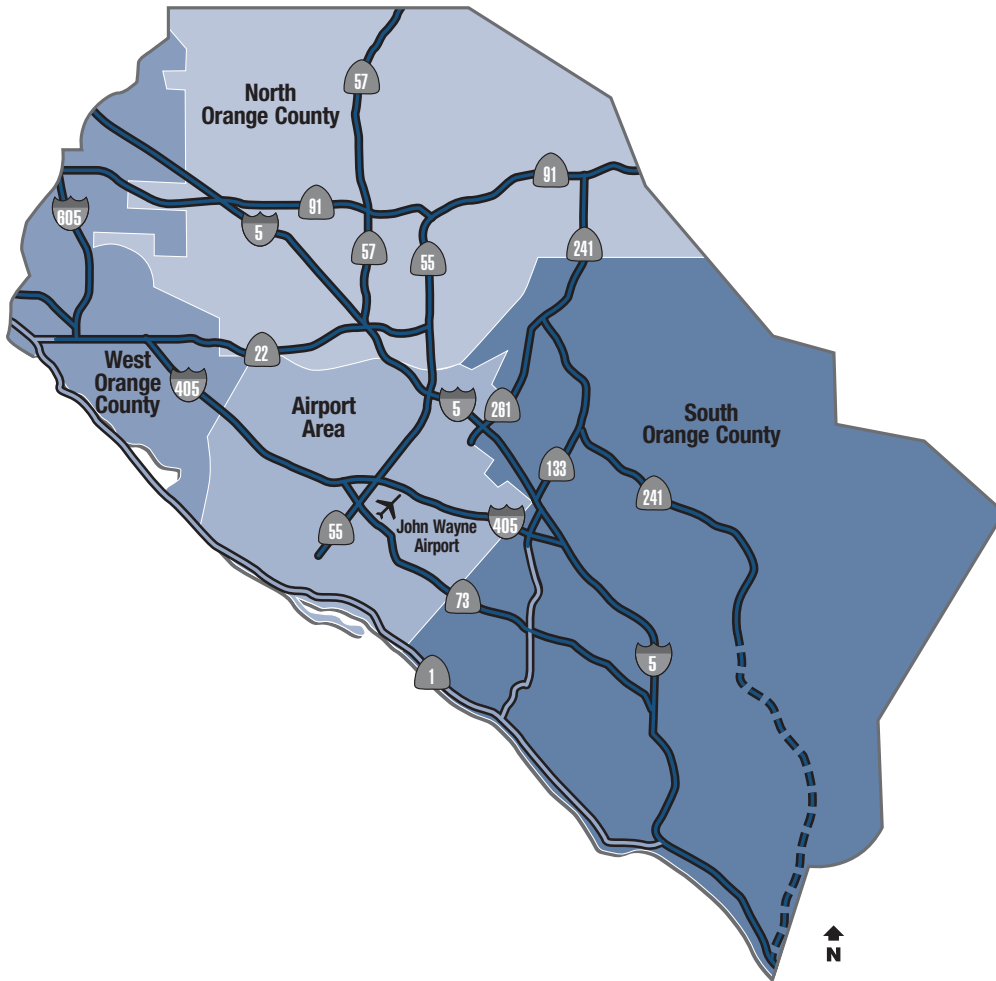


### ANNUAL NEW DELIVERIES VS. VACANCY RATE



	INVENTORY					VACANCY & LEASE RATES				ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2015	Square Feet Available	Availability Rate 4Q2015	Average Asking Lease Rate	Net Absorption 4Q2015	Net Absorption 2015	Gross Absorption 4Q2015	Gross Absorption 2015
<b>Airport Area</b>													
Costa Mesa	173	4,157,080	0	0	127,059	3.06%	171,514	4.13%	\$1.27	(16,535)	37,873	40,456	273,400
Fountain Valley	50	1,464,813	0	0	22,046	1.51%	23,796	1.62%	\$0.00	(3,896)	(2,538)	5,882	44,849
Irvine	253	6,354,778	0	0	234,019	3.68%	367,526	5.78%	\$1.40	8,407	18,678	79,824	480,116
Newport Beach	23	675,094	0	0	34,280	5.08%	37,980	5.63%	\$0.00	(2,500)	(24,772)	1,200	16,285
Santa Ana	193	5,068,885	0	0	100,685	1.99%	309,608	6.11%	\$1.12	24,446	65,981	57,641	334,641
Tustin	91	3,047,419	0	0	66,744	2.19%	149,443	4.90%	\$1.03	148,629	164,756	222,382	327,332
<b>Airport Area Total</b>	<b>783</b>	<b>20,768,069</b>	<b>0</b>	<b>0</b>	<b>584,833</b>	<b>2.82%</b>	<b>1,059,867</b>	<b>5.10%</b>	<b>\$1.26</b>	<b>158,551</b>	<b>259,978</b>	<b>407,385</b>	<b>1,476,623</b>
<b>North County</b>													
Anaheim	190	5,386,481	0	0	299,540	5.56%	424,914	7.89%	\$1.02	(103,037)	(136,380)	70,667	256,403
Brea	51	1,473,444	0	0	70,547	4.79%	68,225	4.63%	\$1.12	6	(37,899)	12,436	63,962
Buena Park	30	959,923	0	0	35,534	3.70%	46,544	4.85%	\$1.20	(15,617)	(9,683)	4,880	42,610
Fullerton	45	1,636,736	0	0	61,356	3.75%	66,630	4.07%	\$0.85	(21,132)	(8,850)	8,675	48,138
La Habra	9	176,339	0	0	5,872	3.33%	4,534	2.57%	\$0.00	10,500	1,097	11,838	14,273
Orange	104	2,325,041	0	0	12,293	0.53%	40,589	1.75%	\$0.00	26,507	44,619	34,676	146,338
Placentia	25	628,165	0	0	6,412	1.02%	10,927	1.74%	\$0.99	(1,583)	(2,950)	1,940	18,312
Yorba Linda	53	1,392,563	0	0	65,313	4.69%	85,629	6.15%	\$1.25	(4,925)	726	11,871	189,434
<b>North County Total</b>	<b>507</b>	<b>13,978,692</b>	<b>0</b>	<b>0</b>	<b>556,867</b>	<b>3.98%</b>	<b>747,992</b>	<b>5.35%</b>	<b>\$1.04</b>	<b>(109,281)</b>	<b>(149,320)</b>	<b>156,983</b>	<b>779,470</b>
<b>South County</b>													
Aliso Viejo	44	1,084,721	0	0	67,014	6.18%	66,867	6.16%	\$1.15	(16,206)	(12,866)	10,691	97,209
Foothill Ranch	8	265,194	0	0	0	0.00%	0	0.00%	\$0.00	102,299	102,299	102,299	102,299
Irvine Spectrum	303	10,477,011	43,920	0	504,890	4.82%	1,033,941	9.87%	\$1.32	24,512	(9,220)	143,602	706,640
Laguna Hills	55	1,259,951	0	0	22,548	1.79%	70,813	5.62%	\$1.24	21,871	10,935	39,506	111,342
Laguna Niguel	20	474,072	0	0	15,109	3.19%	26,689	5.63%	\$0.00	(1,518)	4,544	4,882	19,243
Lake Forest	63	1,442,455	0	0	122,207	8.47%	123,272	8.55%	\$1.20	8,574	(59,817)	55,913	144,471
Mission Viejo	36	916,339	0	0	23,432	2.56%	44,334	4.84%	\$0.74	11,427	(6,836)	16,119	50,684
Rancho Santa Margarita	44	1,497,686	0	0	2,753	0.18%	59,751	3.99%	\$1.25	0	3,052	14,601	25,434
San Clemente	55	1,341,747	0	0	57,176	4.26%	93,053	6.94%	\$1.25	4,342	11,148	29,660	138,551
San Juan Capistrano	45	917,038	0	0	30,582	3.33%	32,325	3.52%	\$0.00	9,208	40,588	13,758	71,470
<b>South County Total</b>	<b>673</b>	<b>19,676,214</b>	<b>43,920</b>	<b>0</b>	<b>845,711</b>	<b>4.30%</b>	<b>1,551,045</b>	<b>7.88%</b>	<b>\$1.25</b>	<b>164,509</b>	<b>83,827</b>	<b>431,031</b>	<b>1,467,343</b>
<b>West County</b>													
Cypress	57	2,849,632	0	0	38,635	1.36%	55,076	1.93%	\$0.93	3,615	124,036	3,615	393,216
Garden Grove	69	1,796,973	0	0	55,598	3.09%	62,845	3.50%	\$0.85	4,452	20,216	124,704	202,084
Huntington Beach	129	3,013,956	0	0	137,408	4.56%	409,503	13.59%	\$0.00	(11,426)	(31,880)	24,688	186,921
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	10,215	1.19%	22,960	2.67%	\$0.00	15,520	19,209	24,220	62,869
Stanton	6	122,189	0	0	2,880	2.36%	2,880	2.36%	\$0.00	2,775	3,360	2,775	5,815
Westminster	18	486,743	0	0	13,178	2.71%	17,906	3.68%	\$0.00	(3,928)	(1,218)	800	7,510
<b>West County Total</b>	<b>319</b>	<b>9,215,290</b>	<b>0</b>	<b>0</b>	<b>257,914</b>	<b>2.80%</b>	<b>571,170</b>	<b>6.20%</b>	<b>\$0.89</b>	<b>11,008</b>	<b>133,723</b>	<b>180,802</b>	<b>858,415</b>
<b>Orange County Total</b>	<b>2,282</b>	<b>63,638,265</b>	<b>43,920</b>	<b>0</b>	<b>2,245,325</b>	<b>3.53%</b>	<b>3,930,074</b>	<b>6.18%</b>	<b>\$1.10</b>	<b>224,787</b>	<b>328,208</b>	<b>1,176,201</b>	<b>4,581,851</b>
<b>Airport Area</b>													
10,000-24,999	526	8,438,804	0	0	283,684	3.36%	391,779	4.64%	\$1.16	(24,124)	7,604	115,270	699,145
25,000-49,999	186	6,240,545	0	0	239,693	3.84%	341,086	5.47%	\$1.32	23,340	81,377	105,977	431,099
50,000-99,999	54	3,567,993	0	0	61,456	1.72%	182,210	5.11%	\$1.09	5,295	16,957	32,098	192,339
100,000 Plus	17	2,520,727	0	0	0	0.00%	144,792	5.74%	\$0.00	154,040	154,040	154,040	154,040
<b>North County</b>													
10,000-24,999	329	5,271,172	0	0	119,518	2.27%	178,655	3.39%	\$0.99	34,906	41,840	117,796	383,078
25,000-49,999	134	4,444,826	0	0	274,572	6.18%	403,840	9.09%	\$1.00	(51,742)	(75,547)	39,187	337,349
50,000-99,999	30	1,969,775	0	0	125,968	6.40%	128,688	6.53%	\$1.10	(92,445)	(78,804)	0	29,291
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
<b>South County</b>													
10,000-24,999	409	6,846,067	43,920	0	316,195	4.62%	475,138	6.94%	\$1.18	42,583	44,941	190,515	705,331
25,000-49,999	195	6,567,086	0	0	323,179	4.92%	542,502	8.26%	\$1.24	17,596	(37,697)	122,106	452,014
50,000-99,999	55	3,663,590	0	0	206,337	5.63%	273,405	7.46%	\$1.39	2,031	(25,716)	16,111	207,699
100,000 Plus	14	2,599,471	0	0	0	0.00%	260,000	10.00%	\$0.00	102,299	102,299	102,299	102,299
<b>West County</b>													
10,000-24,999	215	3,431,202	0	0	118,185	3.44%	136,398	3.98%	\$0.89	14,894	47,479	68,221	259,548
25,000-49,999	68	2,322,562	0	0	104,089	4.48%	142,824	6.15%	\$0.00	(2,651)	15,865	10,574	150,407
50,000-99,999	30	2,068,376	0	0	35,640	1.72%	11,488	0.56%	\$0.95	(1,235)	70,379	102,007	284,331
100,000 Plus	6	1,393,150	0	0	0	0.00%	280,460	20.13%	\$0.00	0	0	0	164,129
<b>Orange County</b>													
10,000-24,999	1,479	23,987,245	43,920	0	837,582	3.49%	1,181,970	4.93%	\$1.11	68,259	141,864	491,802	2,047,102
25,000-49,999	583	19,575,019	0	0	941,533	4.81%	1,430,252	7.31%	\$1.19	(13,457)	(16,002)	277,844	1,370,869
50,000-99,999	169	11,269,734	0	0	429,401	3.81%	595,791	5.29%	\$1.24	(86,354)	(17,184)	150,216	713,660
100,000 Plus	51	8,806,267	0	0	36,809	0.42%	722,061	8.20%	\$0.73	256,339	219,530	256,339	450,220
<b>Orange County Total</b>	<b>2,282</b>	<b>63,638,265</b>	<b>43,920</b>	<b>0</b>	<b>2,245,325</b>	<b>3.53%</b>	<b>3,930,074</b>	<b>6.18%</b>	<b>\$1.10</b>	<b>224,787</b>	<b>328,208</b>	<b>1,176,201</b>	<b>4,581,851</b>

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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