

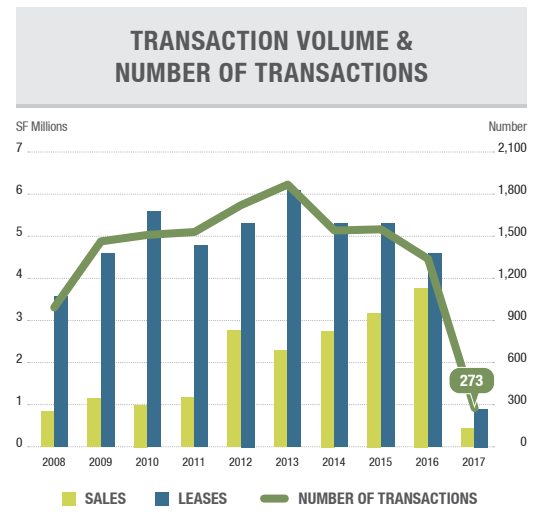
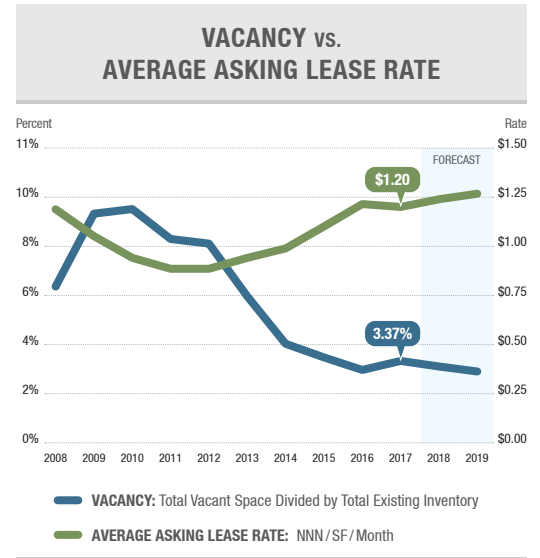
STUCK IN GEAR. Indicators suggest that the R&D/Flex market in Orange County continues to chug along without much change from 2016. Local unemployment dropped to 3.7% in February, and the Bureau of Labor Statistics reports a 2.6% annual growth rate in Professional & Business Service jobs. The Orange County R&D/Flex market witnessed availability rates slightly decreasing this quarter. Average asking rents also had a very slight dip and leasing activity is down slightly from a year ago. The supply of R&D/Flex buildings in Orange County remained unchanged as there were no new construction deliveries.

VACANCY. Vacancy in Orange County has slightly increased compared with the fourth quarter of 2016, but is down from the same time last year. The vacancy rate was 3.37% in the first quarter of 2017, up from the fourth quarter of 2016's 2.99%, but down from last year's first quarter rate of 3.81%. There is a limited and shrinking inventory of quality buildings, which could be a significant hurdle for tenants in 2017. Reaction time to limited opportunities will be critical.

LEASE RATES. The average asking lease rate came in at \$1.20 per square foot per month, a two cent per square foot decrease from last quarter and a one cent per square foot decrease when compared with the \$1.21 from a year ago. Rental growth is expected in 2017, mainly due to the increased cost of tenant improvements required. The R&D/Flex market is expected to see an increase in asking rates of approximately 2% due to the lack of new product and cost of improvements.

TRANSACTION ACTIVITY. Orange County users of traditional industrial space, facing extremely low supply, have occasionally been competing in the R&D/Flex market. However, with the severely constrained supply of this product type as well, leasing activity will continue to diminish. Overall transaction activity (sales and leasing) was down for the first quarter as a result of the tight supply. In the first quarter, only 1.3 million square feet of total transactions (sale and lease) were recorded, down from just over 2.33 million square feet in the fourth quarter of 2016. Notable transactions include:

- Ethika Inc. lease of 46,178 square feet at 20531 Crescent Bay Drive in Lake Forest
- FXC lease of 42,400 square feet at 3050 Red Hill Avenue in Costa Mesa
- Glaukos Corporation lease of 39,350 square feet at 236 Avenida Fabricante in San Clemente



Market Statistics

	Change Over Last Quarter	1Q 2017	4Q 2016	1Q 2016	% Change Over Last Year
Vacancy Rate	▲ UP	3.37%	2.99%	3.81%	-11.55%
Availability Rate	▼ DOWN	4.93%	5.03%	4.37%	12.81%
Average Asking Lease Rate	▼ DOWN	\$1.20	\$1.22	\$1.21	-0.83%
Sale & Lease Transactions	▼ DOWN	1,316,937	2,325,961	1,833,039	-28.16%
Gross Absorption	▼ DOWN	731,286	835,366	1,349,177	-45.80%
Net Absorption	▼ NEGATIVE	(246,236)	(178,157)	(181,356)	N/A

LEASE RATES. Anticipate asking rents to increase moderately to reach a level of \$1.24 per square foot by the end of the 2017.

VACANCY. With limited new product coming online and tenants electing to recommit or to renew in larger blocks of space where possible, expect vacancy rates to remain below 3.10% well into 2018.

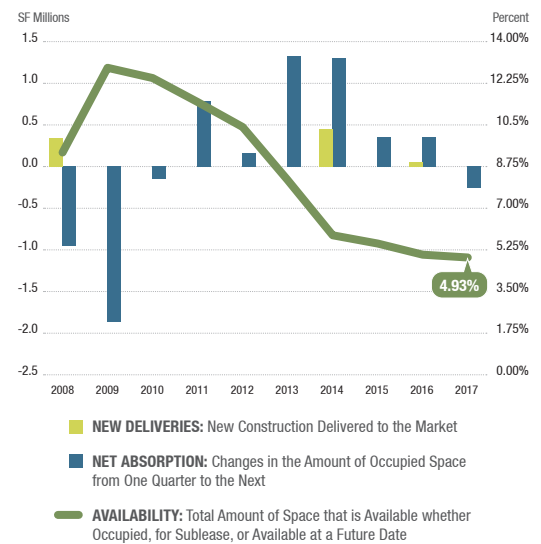
OVERALL. The Orange County market landscape in 2017 will be characterized by continued strong fundamentals, increased investor activity and high transaction volume for both Office and Industrial. Orange County continues to grow moderately and add jobs. The employment gains continue to be strong and it is with a diversity of industries. The R&D/Flex product has remained in neutral through the first quarter, but there are signs of movement currently in the market which is a sign for cautious optimism.

CONSTRUCTION. With the price of land now above previous record highs in most markets, expect developers to be conservative in the short term. 2016 registered the start of one build-to-suit project, Sivax North American, Inc. This project is expected to be completed next quarter and will deliver roughly 51,450 square feet of future net absorption. With limited infill parcels now approaching \$50 per square feet in some cases, do not expect any significant construction in the coming quarters.

ABSORPTION. The Orange County R&D/Flex market experienced a slowdown in the first quarter, as deal velocity was stagnant relative to recent quarters. The Orange County submarket reported negative absorption of approximately 246,000 square feet. It hit hardest in the Airport Area (negative 70,336 square feet) and North County (negative 72,560 square feet). The big hurdle in the market is a lack of viable choices to fuel growth, so many companies are opting for traditional industrial space or “making do” with what they have.

AVAILABILITY. Direct/sublease space being marketed came in at 4.93% for the first quarter of 2017, a 10 basis point decrease from the previous quarter and an increase of 12.81% from the first quarter of 2016’s rate of 4.37%. Quality available space is difficult to find in some size ranges creating a flight to alternative type space for many tenants.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales * Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2660 Barranca Pkwy.	Irvine	57,131	\$14,025,257	JC Orange County, LLC	RDCL, Inc.
22600 Savi Ranch Pkwy.	Yorba Linda	84,396	\$11,250,000	Euroline Steel Windows	Image Properties, LLC
10855 Business Center Dr.	Cypress	68,760	\$11,000,000	Telfair Corporation	Comref So Ca Ind Sub F, LLC
895 Beacon St.	Brea	58,220	\$8,765,000	SoCal Investment Partners *	LBA Realty *
32801-32803 Calle Perfecto	San Juan Capistrano	19,206	\$4,900,000	The Seegel Trust	Calle Perfecto Business Park *

Leases * Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1250 N. Tustin Ave.	Anaheim	84,928	Feb-2017	Econolite	The Blackstone Group, LP
1301 N. Kellogg Dr.	Anaheim	32,600	Jan-2017	Jump OC, LLC *	YKK (USA), Inc.
60 Parker	Irvine Spectrum	32,103	Feb-2017	Quest International *	Northwestern Mutual Life *
1 Vanderbilt	Irvine Spectrum	25,665	Feb-2017	Parcel Pending	Western State Technologies *
1000 E. Howell Ave.	Anaheim	6,039	Feb-2017	BioPhotas, Inc.	Jack R. Sweeney*

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2017	Square Feet Available	Availability Rate 1Q2017	Average Asking Lease Rate	Net Absorption 1Q2017	Net Absorption 2017	Gross Absorption 1Q2017	Gross Absorption 2017
Airport Area													
Costa Mesa	176	4,262,350	0	0	130,647	3.07%	312,311	7.33%	\$1.17	26,428	26,428	89,639	89,639
Fountain Valley	50	1,426,073	0	0	17,341	1.22%	21,744	1.52%	\$0.95	(684)	(684)	11,552	11,552
Irvine	247	6,178,504	0	0	174,360	2.82%	249,710	4.04%	\$1.23	(35,908)	(35,908)	77,484	77,484
Newport Beach	24	618,441	0	0	10,430	1.69%	10,430	1.69%	\$1.00	5,143	5,143	11,743	11,743
Santa Ana	194	5,070,502	51,450	0	197,964	3.90%	357,980	7.06%	\$1.14	(39,804)	(39,804)	48,604	48,604
Tustin	91	3,033,120	0	0	149,419	4.93%	253,420	8.36%	\$1.00	(25,511)	(25,511)	37,801	37,801
Airport Area Total	782	20,588,990	51,450	0	680,161	3.30%	1,205,595	5.86%	\$1.11	(70,336)	(70,336)	276,823	276,823
North County													
Anaheim	192	5,443,683	0	0	232,128	4.26%	193,390	3.55%	\$0.85	(44,647)	(44,647)	44,192	44,192
Brea	52	1,506,420	0	0	134,591	8.93%	165,006	10.95%	\$1.39	(3,478)	(3,478)	19,795	19,795
Buena Park	30	960,513	0	0	27,769	2.89%	22,189	2.31%	\$0.00	(13,002)	(13,002)	14,199	14,199
Fullerton	47	1,811,683	0	0	35,205	1.94%	45,364	2.50%	\$0.00	(11,851)	(11,851)	8,560	8,560
La Habra	10	187,013	0	0	1,108	0.59%	1,108	0.59%	\$0.00	0	0	0	0
Orange	104	2,332,462	0	0	23,621	1.01%	45,239	1.94%	\$1.50	(194)	(194)	19,854	19,854
Placentia	27	676,219	0	0	29,950	4.43%	40,362	5.97%	\$0.75	(265)	(265)	5,640	5,640
Yorba Linda	53	1,397,044	0	0	48,715	3.49%	73,441	5.26%	\$0.81	877	877	38,968	38,968
North County Total	515	14,315,037	0	0	533,087	3.72%	586,099	4.09%	\$0.95	(72,560)	(72,560)	151,208	151,208
South County													
Aliso Viejo	45	1,104,753	0	0	20,210	1.83%	33,726	3.05%	\$1.31	3,742	3,742	7,885	7,885
Foothill Ranch	7	162,895	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Irvine Spectrum	303	10,425,704	0	0	482,813	4.63%	654,296	6.28%	\$1.34	(71,657)	(71,657)	84,510	84,510
Laguna Hills	54	1,248,159	0	0	27,168	2.18%	66,280	5.31%	\$1.30	(13,803)	(13,803)	12,672	12,672
Laguna Niguel	21	498,678	0	0	13,717	2.75%	3,706	0.74%	\$0.00	340	340	340	340
Lake Forest	62	1,401,310	0	0	69,344	4.95%	64,939	4.63%	\$1.23	(29,098)	(29,098)	19,079	19,079
Mission Viejo	36	919,124	0	0	25,018	2.72%	29,182	3.17%	\$1.17	(1,279)	(1,279)	7,780	7,780
Rancho Santa Margarita	44	1,495,300	0	0	9,304	0.62%	22,667	1.52%	\$1.40	2,922	2,922	13,511	13,511
San Clemente	56	1,350,669	0	0	21,792	1.61%	107,348	7.95%	\$1.26	35,788	35,788	59,328	59,328
San Juan Capistrano	45	913,665	0	0	25,836	2.83%	32,081	3.51%	\$1.27	446	446	4,481	4,481
South County Total	673	19,520,257	0	0	695,202	3.56%	1,014,225	5.20%	\$1.32	(72,599)	(72,599)	209,586	209,586
West County													
Cypress	56	2,646,845	0	0	120,199	4.54%	129,165	4.88%	\$1.00	(35,448)	(35,448)	9,525	9,525
Garden Grove	71	1,824,285	0	0	49,500	2.71%	57,541	3.15%	\$0.85	(13,730)	(13,730)	23,240	23,240
Huntington Beach	132	3,055,908	0	0	34,681	1.13%	110,841	3.63%	\$0.78	18,921	18,921	39,589	39,589
La Palma	1	85,000	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Los Alamitos	41	913,587	0	0	18,033	1.97%	20,370	2.23%	\$0.00	2,435	2,435	21,315	21,315
Stanton	6	122,189	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Westminster	19	502,745	0	0	13,420	2.67%	13,420	2.67%	\$0.00	(2,919)	(2,919)	0	0
West County Total	326	9,150,559	0	0	235,833	2.58%	331,337	3.62%	\$0.84	(30,741)	(30,741)	93,669	93,669
Orange County Total	2,296	63,574,843	51,450	0	2,144,283	3.37%	3,137,256	4.93%	\$1.20	(246,236)	(246,236)	731,286	731,286
Airport Area													
10,000-24,999	527	8,469,243	0	0	274,290	3.24%	379,921	4.49%	\$1.28	(3,804)	(3,804)	198,067	198,067
25,000-49,999	189	6,373,057	0	0	348,338	5.47%	429,448	6.74%	\$1.13	(50,587)	(50,587)	60,908	60,908
50,000-99,999	50	3,335,587	51,450	0	57,533	1.72%	291,822	8.75%	\$1.02	(15,945)	(15,945)	17,848	17,848
100,000 Plus	16	2,411,103	0	0	0	0.00%	104,404	4.33%	\$0.00	0	0	0	0
North County													
10,000-24,999	333	5,342,117	0	0	141,595	2.65%	197,974	3.71%	\$1.29	(1,574)	(1,574)	95,531	95,531
25,000-49,999	137	4,541,160	0	0	144,640	3.19%	262,315	5.78%	\$0.77	(33,630)	(33,630)	27,945	27,945
50,000-99,999	30	1,976,214	0	0	127,041	6.43%	11,975	0.61%	\$0.00	(18,965)	(18,965)	27,732	27,732
100,000 Plus	15	2,455,546	0	0	119,811	4.88%	113,835	4.64%	\$0.00	(18,391)	(18,391)	0	0
South County													
10,000-24,999	413	6,911,654	0	0	336,813	4.87%	453,752	6.57%	\$1.32	(102,707)	(102,707)	80,027	80,027
25,000-49,999	192	6,445,841	0	0	229,573	3.56%	430,645	6.68%	\$1.37	36,789	36,789	121,044	121,044
50,000-99,999	55	3,663,590	0	0	128,816	3.52%	129,828	3.54%	\$1.11	(6,681)	(6,681)	8,515	8,515
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	223	3,568,149	0	0	99,193	2.78%	121,588	3.41%	\$0.90	8,593	8,593	63,016	63,016
25,000-49,999	68	2,325,198	0	0	100,506	4.32%	109,407	4.71%	\$1.06	(34,143)	(34,143)	29,053	29,053
50,000-99,999	30	2,068,376	0	0	9,134	0.44%	73,342	3.55%	\$0.80	(5,190)	(5,190)	1,600	1,600
100,000 Plus	5	1,188,836	0	0	27,000	2.27%	27,000	2.27%	\$0.00	0	0	0	0
Orange County													
10,000-24,999	1,496	24,291,163	0	0	851,891	3.51%	1,153,235	4.75%	\$1.27	(99,492)	(99,492)	436,641	436,641
25,000-49,999	586	19,685,256	0	0	823,057	4.18%	1,231,815	6.26%	\$1.27	(81,571)	(81,571)	238,950	238,950
50,000-99,999	165	11,043,767	51,450	0	322,524	2.92%	506,967	4.59%	\$0.98	(46,781)	(46,781)	55,695	55,695
100,000 Plus	49	8,554,657	0	0	146,811	1.72%	245,239	2.87%	\$0.00	(18,391)	(18,391)	0	0
Orange County Total	2,296	63,574,843	51,450	0	2,144,283	3.37%	3,137,256	4.93%	\$1.20	(246,235)	(246,235)	731,286	731,286

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



It's No Longer a "Deal" – It's About Being Prepared and Securing the Opportunity

by **Jason G. Di Rocco**
VICE PRESIDENT, ANAHEIM

We are in uncharted waters in terms of the supply and demand imbalance in the world of industrial real estate in Orange County. "Off market" transactions put together by informed real estate professionals are now the norm and seem to be the only way tenants or buyers can avoid a very competitive environment. The landscape has drastically changed as we enter the eighth year of economic recovery and expansion. In today's market, the first question a tenant or buyer's broker asks a listing broker on a new listing (within 24 hours) after it formally hits the market is: "Is the property still available or is it tied up already?" They are just hoping that the building is not committed (in escrow or with a lease contract out for execution) so the broker at least has an "opportunity" to deliver to their tenant or buyer. With continued user/tenant demand from a myriad of industries, coupled with a severely limited pipeline of new buildings under construction (given the shortage of industrial land for development), the current inventory is all but accounted for. Even new projects, still in the planning stages, are receiving multiple offers from motivated tenants and buyers.

Occupiers are also having to expand their geographic parameters as the ideal building may not be deliverable in their preferred submarket. This adds considerable time and potentially other hurdles to the relocation/expansion process. Traditionally, deals completed in the most recent six months (comps) offer valuable data points for both tenants and investors to help them make informed decisions about market pricing. Lease rates and sale prices are now increasing so quickly that looking back as far as six months no longer offers an accurate portrayal of the market. We have seen fewer published "asking rates" on properties over the past several months as owners do not want to limit themselves in a market that is changing so rapidly. "Record comps" seem to be occurring on a weekly basis and the market is certainly more difficult to pin down when demand is still hot and the overall vacancy rate is close to 2% (and a majority of the vacancy is functionally obsolete).

The demand to own industrial property is still very high even though interest rates have increased modestly in recent months. Purchasing requires more up-front capital than leasing, but many business owners are seeing the writing on the wall and don't want to be in a position of paying 30-40% more in rent when their lease comes up for renewal. This dramatic experience has further fueled the desire to be an owner, where one's real estate expenses can be controlled and are not subject to such increases.

Sellers and landlords of functional properties are receiving numerous offers, in some cases with as many as ten potential suitors. In this environment, landlords are getting their desired price or lease rate and clearly have the leverage. Concessions are severely limited and buyers/tenants are now having to show proof of funds, have solid financials, provide increased deposits and in some cases be willing to perform in a compressed window of time just to be awarded the deal. Preparation, thorough research and the ability to perform quickly on the right opportunity will continue to be critical for both tenants and buyers in this competitive market.

**Please Contact Us
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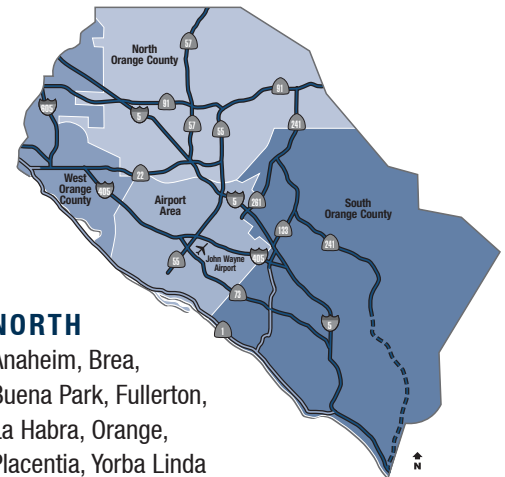
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Product Type

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