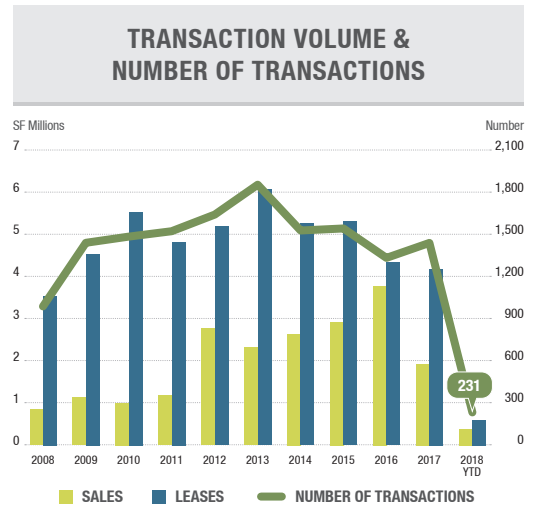
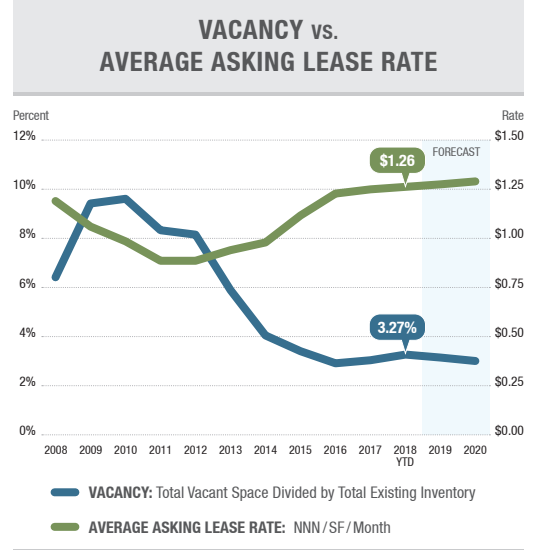


MARKET OVERVIEW. Vacancies are hitting cyclical lows and demand has been relatively consistent. Supply in the Orange County R&D/Flex product has been virtually nonexistent over the past two years. In fact, negative supply growth due to conversions and demolitions has made way for properties of higher and better use. As the Orange County economy continues to expand, vacancies will compress. The vacancy rate in Orange County’s R&D/Flex market posted 3.27% in the first quarter of 2018, a slight increase compared to the 3.01% in the fourth quarter of 2017. The region’s strong local economy and high quality of life continue to make it a desirable location for businesses. As job growth continues and consumer confidence remains positive, the R&D/Flex market will stay the course. As we head into the second quarter of 2018, the R&D/Flex market will exhibit many similar characteristics of 2017.

VACANCY. Direct/sublease space finished the quarter at 3.27%, an increase over the first quarter of 2017 rate of 2.95%. The Orange County R&D/Flex market displayed more signs of volatility this quarter. Both vacancy and availability increased compared to the previous quarter. Although demand was relatively weak by historical standards, the rates remained constant. We expect vacancy will trend downward in 2018. The growing influence of new industries such as high technology, biotechnology, and software development should further diversify the local economy and help to push the R&D/Flex market. These industries will increase employment opportunities and should offset any vacancy rate concerns in the coming quarters.

LEASE RATES. The average asking triple net (NNN) lease rate per month per square foot in the Orange County R&D/Flex market was \$1.26 at the end of the first quarter, a 4.13% increase from this time last year and a 0.81% change from the fourth quarter (\$1.25). We anticipate asking rental rates in Orange County to continue to moderately rise based on the consistent level of demand from a variety of industries and lack of new product.

TRANSACTION ACTIVITY. Even though transaction volume is down based on the lack of product, interest rates are still attractive, and demand remains intact for sales across all size ranges. Users and investors will continue to compete in this multiple-offer environment and will need to be both aggressive and creative to win out. As interest rates move up we expect to see more modest levels of appreciation in 2018. Sale and leasing activity checked in at nearly 978,621 million square feet for the first quarter of 2018, an increase over the first quarter of 2017 total of 696,480 square feet. Investors and developers of R&D/Flex product throughout Orange County continue to provide creative and innovative solutions for R&D tenants by repositioning older buildings into creative work environments and keeping pace with the latest design trends. R&D/Flex buildings both for sale and lease will remain viable options for those looking to enter the market.



Market Statistics

	Change Over Last Quarter	1Q 2018	4Q 2017	1Q 2017	% Change Over Last Year
Vacancy Rate	▲ UP	3.27%	3.01%	3.31%	(1.21%)
Availability Rate	▲ UP	4.74%	4.33%	4.76%	(0.42%)
Average Asking Lease Rate	▲ UP	\$1.26	\$1.25	\$1.21	4.13%
Sale & Lease Transactions	▼ DOWN	978,621	1,372,285	1,919,433	(49.02%)
Gross Absorption	▼ DOWN	828,985	1,158,251	696,480	19.02%
Net Absorption	▼ NEGATIVE	(175,592)	(51,787)	(250,983)	N/A

LEASE RATES. We foresee an overall modest increase in pricing in the coming quarters. Lease rates will continue to firm up, and we expect them to slightly increase in 2018. We expect the average asking lease rates to increase by 1%.

VACANCY. We are beginning to see a slight increase in the amount of vacant and available space. As we enter into the second quarter of 2018, positive absorption should rebound, and there are no new deliveries in the pipeline to apply downward pressure on vacancy.

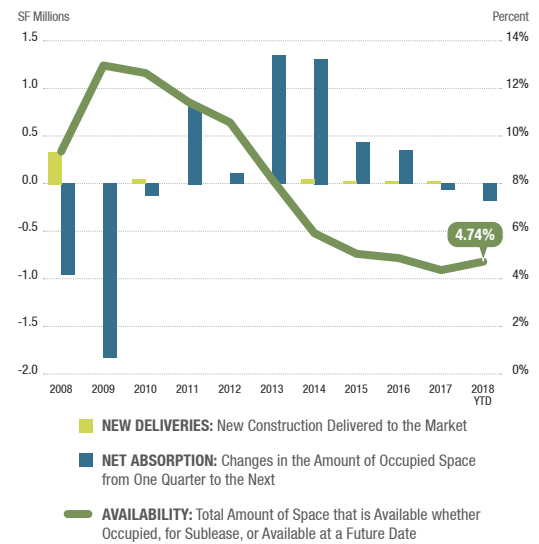
OVERALL. We should also see an increase in leasing activity as many short-term deals come up for renewal. As job growth continues and consumer confidence remains positive, the R&D/Flex market will stay the course. The growing influence of new industries such as high technology, biotechnology, and software development should further diversify the local economy and help to push the R&D/Flex market. These industries will increase employment opportunities and should offset any vacancy rate concerns in the coming quarters.

CONSTRUCTION. With the price of land now above previous record highs in most markets, expect developers to be conservative and to build more alternative (lucrative) uses in the short term. There was no R&D/Flex space under construction in Orange County in the first quarter of 2018. The shrinking availability of land, limited opportunities for financing and rising construction costs have led to a lack of projects being developed. With limited infill parcels now approaching \$50 per square foot in some cases, we do not expect any significant R&D/Flex construction in the coming quarters.

ABSORPTION. Orange County R&D/Flex market stayed on course with limited supply creating limited absorption and vacancy. Net absorption for the county dropped off a bit posting a negative number of 175,592 square feet for the first quarter 2018. We are seeing an increase in the amount of available space in the Orange County R&D market. Market fundamentals in the region have steadily improved since the recession and those gradual improvements seem almost certain to continue in the near term. Net absorption has been continually negative and vacancy rates have risen since the first quarter of 2017. Look for businesses in defense, medical, information technology and alternative energy companies to lead the way over the next couple of years.

ECONOMY. The unemployment rate in Orange County was 3.1% in February 2018, down from a revised 3.2% in January 2018, and below the year-ago estimate of 3.8%. This compares with an unadjusted unemployment rate of 4.5% for California and 4.4% for the nation during the same period. Between February 2017 and February 2018, total nonfarm employment increased by 31,900 jobs, or 2%. The major movers were: professional and business services (up 8,900), construction (up 6,300), leisure and hospitality (up 5,600), government (up 2,100), and financial activities (up 600).

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
4200 Bonita Pl.	Fullerton	67,950	\$12,550,000	Samaritan's Purse	Guthrie Development
1085 N. Main St.	Orange	39,390	\$4,450,000	826 Property, LLC	Ball Road Corporation
3020 Pullman St.	Costa Mesa	39,149	\$16,650,000	JWM Pullman, LLC	3020 Pullman St., LLC
101 E. Orangethorpe Ave.	Anaheim	19,423	\$6,400,000	Iceberg Properties, LLC	Valentine Orangethorpe, LLC
1990 S. Santa Cruz St.	Anaheim	8,969	\$2,510,000	WTW, Inc.*	Watson Industrial Properties*

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
10775 Business Center Dr.	Cypress	26,322	Mar-2018	AVI-SPI	NDR Reynolds
14150 Myford Rd.	Irvine	15,325	Mar-2018	Beta Bionics, Inc.	The Irvine Company
22687 Old Canal Rd.	Yorba Linda	11,566	Jan-2018	Lucky88 Enterprises, LLC	ICON Owner Pool 1 LA Business Park*
19571 Pauling – Sublease	Foothill Ranch	11,346	Mar-2018	Tank System Design*	Rapid Comm Inc.*
12 Chrysler	Irvine Spectrum	10,973	Jan-2018	SkyTran, Inc.	Dzyne Technologies, Inc.

	INVENTORY				VACANCY & LEASE RATES				ABSORPTION				
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2018	Square Feet Available	Availability Rate 1Q2018	Average Asking Lease Rate	Net Absorption 1Q2018	Net Absorption 2018	Gross Absorption 1Q2018	Gross Absorption 2018
Airport Area													
Costa Mesa	176	4,255,453	0	0	187,494	4.41%	282,039	6.63%	\$1.10	(47,977)	(47,977)	29,493	29,493
Fountain Valley	50	1,426,073	0	0	8,532	0.60%	4,692	0.33%	\$0.00	9,306	9,306	16,186	16,186
Irvine	246	6,204,123	0	0	216,890	3.50%	320,407	5.16%	\$1.52	10,208	10,208	106,784	106,784
Newport Beach	24	618,916	0	0	11,038	1.78%	16,538	2.67%	\$0.00	(2,043)	(2,043)	2,500	2,500
Santa Ana	192	4,989,564	0	0	203,584	4.08%	224,308	4.50%	\$1.15	2,775	2,775	88,896	88,896
Tustin	91	3,120,066	0	0	215,588	6.91%	250,210	8.02%	\$0.96	21,532	21,532	50,525	50,525
Airport Area Total	779	20,614,195	0	0	843,126	4.09%	1,098,194	5.33%	\$1.30	(6,199)	(6,199)	294,384	294,384
North County													
Anaheim	189	5,363,137	0	0	212,529	3.96%	261,363	4.87%	\$1.34	(104,045)	(104,045)	39,301	39,301
Brea	52	1,506,419	0	0	14,185	0.94%	78,400	5.20%	\$1.13	3,322	3,322	23,289	23,289
Buena Park	31	983,704	0	0	20,666	2.10%	20,666	2.10%	\$0.00	(15,483)	(15,483)	2,841	2,841
Fullerton	48	1,992,702	0	0	26,057	1.31%	146,289	7.34%	\$0.95	(2,993)	(2,993)	3,598	3,598
La Habra	10	187,013	0	0	1,108	0.59%	3,088	1.65%	\$0.00	0	0	0	0
Orange	101	2,254,566	0	0	34,041	1.51%	37,124	1.65%	\$1.10	(3,429)	(3,429)	37,695	37,695
Placentia	27	693,354	0	0	9,030	1.30%	19,812	2.86%	\$0.75	8,817	8,817	13,332	13,332
Yorba Linda	53	1,400,544	0	0	47,312	3.38%	30,408	2.17%	\$0.90	(8,301)	(8,301)	7,174	7,174
North County Total	511	14,381,439	0	0	364,928	2.54%	597,150	4.15%	\$1.27	(122,112)	(122,112)	127,230	127,230
South County													
Aliso Viejo	45	1,105,198	0	0	3,175	0.29%	3,175	0.29%	\$0.00	5,981	5,981	5,981	5,981
Foothill Ranch	7	162,895	0	0	0	0.00%	1,718	1.05%	\$0.00	0	0	0	0
Irvine Spectrum	301	10,365,968	0	0	340,061	3.28%	553,945	5.34%	\$1.50	6,587	6,587	133,772	133,772
Laguna Hills	56	1,317,500	0	0	39,978	3.03%	41,096	3.12%	\$1.25	8,174	8,174	36,846	36,846
Laguna Niguel	21	498,678	0	0	10,025	2.01%	17,531	3.52%	\$0.00	1,420	1,420	2,617	2,617
Lake Forest	62	1,398,213	0	0	44,729	3.20%	126,303	9.03%	\$1.11	(1,142)	(1,142)	35,493	35,493
Mission Viejo	36	919,041	0	0	5,449	0.59%	36,492	3.97%	\$1.39	3,156	3,156	4,596	4,596
Rancho Santa Margarita	44	1,500,921	0	0	12,159	0.81%	15,955	1.06%	\$1.51	(4,101)	(4,101)	2,744	2,744
San Clemente	57	1,359,693	0	0	19,741	1.45%	54,674	4.02%	\$1.16	(7,956)	(7,956)	20,548	20,548
San Juan Capistrano	44	901,665	0	0	36,910	4.09%	32,417	3.60%	\$1.29	(4,515)	(4,515)	19,405	19,405
South County Total	673	19,529,772	0	0	512,227	2.62%	883,306	4.52%	\$1.42	7,604	7,604	262,002	262,002
West County													
Cypress	56	2,643,806	0	0	106,296	4.02%	124,185	4.70%	\$0.95	52,910	52,910	67,419	67,419
Garden Grove	72	1,833,602	0	0	61,647	3.36%	60,798	3.32%	\$1.14	17,879	17,879	31,556	31,556
Huntington Beach	130	2,730,133	0	0	75,997	2.78%	129,705	4.75%	\$0.78	(30,978)	(30,978)	24,539	24,539
La Palma	1	78,980	0	0	78,980	100.00%	78,980	100.00%	\$0.85	(78,980)	(78,980)	0	0
Los Alamitos	41	913,587	0	0	25,440	2.78%	26,594	2.91%	\$0.00	(14,776)	(14,776)	4,978	4,978
Stanton	5	104,129	0	0	0	0.00%	0	0.00%	\$0.00	1,440	1,440	1,440	1,440
Westminster	19	502,745	0	0	4,200	0.84%	4,040	0.80%	\$0.00	(2,380)	(2,380)	15,437	15,437
West County Total	324	8,806,982	0	0	352,560	4.00%	424,302	4.82%	\$0.85	(54,885)	(54,885)	145,369	145,369
Orange County Total	2,287	63,332,388	0	0	2,072,841	3.27%	3,002,952	4.74%	\$1.26	(175,592)	(175,592)	828,985	828,985
Airport Area													
10,000-24,999	524	8,432,892	0	0	241,008	2.86%	318,379	3.78%	\$1.33	(9,138)	(9,138)	168,962	168,962
25,000-49,999	187	6,287,364	0	0	177,567	2.82%	274,574	4.37%	\$1.52	31,549	31,549	118,133	118,133
50,000-99,999	52	3,482,836	0	0	424,551	12.19%	495,241	14.22%	\$0.98	(28,610)	(28,610)	7,289	7,289
100,000 Plus	16	2,411,103	0	0	0	0.00%	10,000	0.41%	\$0.00	0	0	0	0
North County													
10,000-24,999	330	5,274,309	0	0	116,488	2.21%	140,832	2.67%	\$0.86	(21,289)	(21,289)	78,661	78,661
25,000-49,999	134	4,441,975	0	0	146,303	3.29%	225,249	5.07%	\$1.06	(23,294)	(23,294)	45,315	45,315
50,000-99,999	31	2,028,591	0	0	20,572	1.01%	12,272	0.60%	\$0.00	(3,330)	(3,330)	1,120	1,120
100,000 Plus	16	2,636,564	0	0	81,565	3.09%	218,797	8.30%	\$0.85	(74,199)	(74,199)	2,134	2,134
South County													
10,000-24,999	413	6,907,452	0	0	231,236	3.35%	478,159	6.92%	\$1.38	(30,236)	(30,236)	132,583	132,583
25,000-49,999	191	6,399,095	0	0	213,346	3.33%	272,546	4.26%	\$1.36	19,104	19,104	84,944	84,944
50,000-99,999	56	3,723,590	0	0	67,645	1.82%	132,601	3.56%	\$2.21	18,736	18,736	44,475	44,475
100,000 Plus	13	2,499,635	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
West County													
10,000-24,999	223	3,557,407	0	0	120,214	3.38%	137,206	3.86%	\$1.17	(20,117)	(20,117)	47,735	47,735
25,000-49,999	67	2,278,903	0	0	153,366	6.73%	121,078	5.31%	\$0.96	10,149	10,149	62,011	62,011
50,000-99,999	30	2,062,296	0	0	78,980	3.83%	166,018	8.05%	\$0.79	(71,917)	(71,917)	8,623	8,623
100,000 Plus	4	908,376	0	0	0	0.00%	0	0.00%	\$0.00	27,000	27,000	27,000	27,000
Orange County													
10,000-24,999	1,490	24,172,060	0	0	708,946	2.93%	1,074,576	4.45%	\$1.33	(80,780)	(80,780)	427,941	427,941
25,000-49,999	579	19,407,337	0	0	690,582	3.56%	893,447	4.60%	\$1.49	37,508	37,508	310,403	310,403
50,000-99,999	169	11,297,313	0	0	591,748	5.24%	806,132	7.14%	\$0.99	(85,121)	(85,121)	61,507	61,507
100,000 Plus	49	8,455,678	0	0	81,565	0.96%	228,797	2.71%	\$0.85	(47,199)	(47,199)	29,134	29,134
Orange County Total	2,287	63,332,388	0	0	2,072,841	3.27%	3,002,952	4.74%	\$1.26	(175,592)	(175,592)	828,985	828,985

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



OC Industrial Market Remains
Top Investor Choice

by **John Viscounty**

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The New Year continued to break records in the industrial investment market. Industrial real estate was and is the hottest asset class in the region. Cap rates reached all-time lows for highly desirable buildings. Evidenced by low cap rates, the combination of short supply and constantly increasing demand has led investors to pay top dollar for these investments. E-commerce and other distribution-related users continue to buy and lease more space giving investors the confidence to stretch their budgets. Cap rates have remained low and steady due to several economic factors.

First, investors are chasing returns in an asset class they are confident is stable. Bond yields remain too low and stock returns, although high, possess risk as they continue their unprecedented run. This has left real estate as the asset class of choice. Low vacancy and high rental rates have given investors the reassurance to load their portfolios with more real estate. Interest rates, although rising, remain low enough to keep lending momentum moving forward.

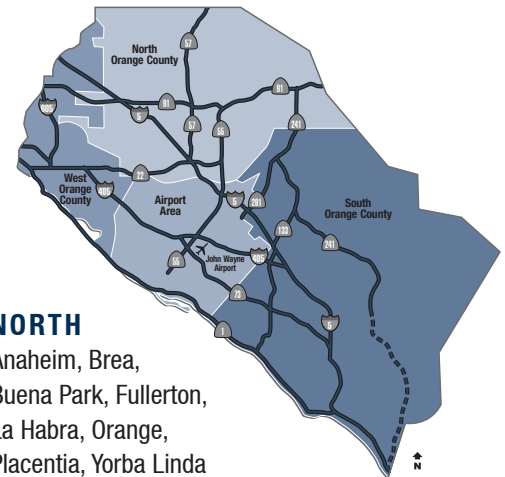
Over the next few months we predict more of the same. However, as interest rates start to creep up, cap rates will naturally begin their slow rise. Further, as markets continue to set records, look for warning signs of investors believing it may be too good to be true. Any rattle in the stock or bond market may have ramifications to the real estate market. For now, with low cap rates, investors looking to sell should take advantage of these exceptional times.

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

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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. ©2018 Voit Real Estate Services, Inc. License #01991785.

Represented in 150 Markets
Nationally & Internationally.