

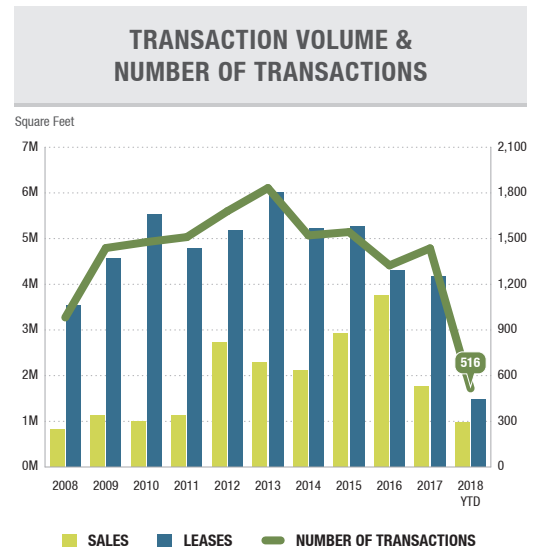
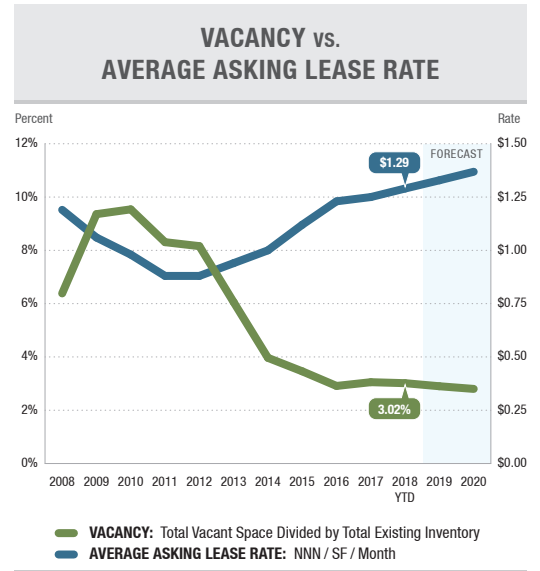
MARKET OVERVIEW. The Orange County economy is expected to stay the course with its upward climb in 2018, with R&D/Flex supply constraints playing a key role in tightening Orange County’s real estate fundamentals. Vacancies are low, demand is consistent and it’s still a landlord’s market. Tenants looking for R&D/Flex space face a very tight market, as growth in traditional engineering, medical devices, and biopharmaceuticals are creating strong demand in Orange County. Steadily increasing demand and a lack of quality space have continued to push asking rents higher. 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 half of 2018, the R&D/Flex market will exhibit many similar characteristics we saw in 2017.

VACANCY. Direct/sublease space finished the quarter at 3.02%, a decrease from the 1Q rate of 3.23%. The Orange County R&D/Flex market displayed continued signs of steadiness this quarter. Both vacancy and availability decreased a bit compared with the previous quarter. We expect vacancy will continue to trend downward through the remainder of 2018. The growing influence of new industries such as high technology, biotechnology, and software development should further diversify the local economy and help to expand the R&D/Flex market demand. 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 feet in the Orange County R&D/Flex market was \$1.29 at the end of 2Q, a 3.20% increase from this time last year and a 2.38% change from 1Q (\$1.26). 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. Users and investors will continue to compete in this multiple-offer environment and will need to be both aggressive and creative to win. Sale and leasing activity increased from the previous quarter by 28.74% as more than 1.3 million square feet were recorded. 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.

ECONOMY. The unemployment rate in Orange County was 2.6% in May 2018, unchanged from a revised 2.6% in April 2018, and below the year-ago estimate of 3.2%. This compares with an unadjusted unemployment rate of 3.7% for California and 3.6% for the nation during the same period. Year-over-year declines were reported in manufacturing (down 3,100 jobs), financial activities (down 1,200 jobs), trade, transportation and utilities (down 1,100 jobs), and in other services (down 800 jobs). Local government posted the largest month-over-month increase, expanding by 1,400 jobs, with most of the gain in local government education. Other sectors reporting employment increases included: leisure and hospitality (up 700 jobs), professional and business services (up 600 jobs), educational and health services (up 400 jobs), and information services (up 100 jobs).



Market Statistics

	Change Over Last Quarter	2Q 2018	1Q 2018	2Q 2017	% Change Over Last Year
Vacancy Rate	▼ DOWN	3.02%	3.23%	3.22%	(6.21%)
Availability Rate	▼ DOWN	4.84%	4.96%	4.80%	0.83%
Average Asking Lease Rate	▲ UP	\$1.29	\$1.26	\$1.25	3.20%
Sale & Lease Transactions	▲ UP	1,378,195	1,070,509	1,443,990	(4.56%)
Gross Absorption	▲ UP	873,777	692,718	1,051,275	(16.88%)
Net Absorption	▲ POSITIVE	124,999	(109,016)	82,728	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 throughout 2018. We expect the average asking lease rates to increase by 2%.

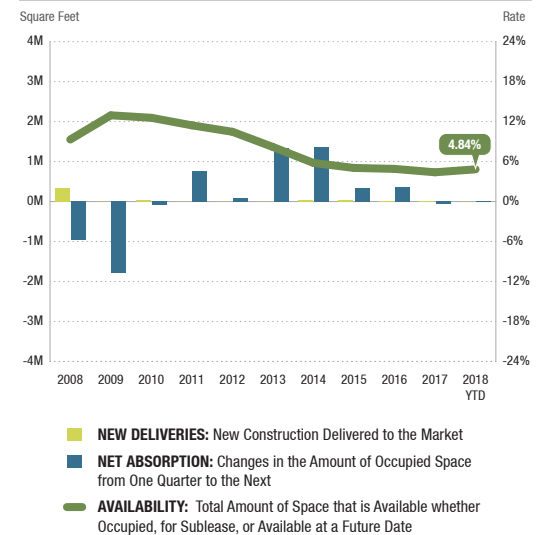
VACANCY. We are beginning to see a slight increase in the amount of vacant and available space. As we enter the second half of 2018, positive absorption should rebound, and there are no new deliveries in the pipeline to apply upward pressure on vacancy.

OVERALL. The Orange County R&D/Flex market continues to see growth with traditional engineering, medical devices, and biopharmaceuticals absorbing space in Orange County. We should also see an increase in leasing activity as many short-term deals come up for renewal. As job creation continues and consumer confidence stabilizes, the R&D/Flex market will continue to recover. The overall Orange County market has continued to strengthen, despite uncertainty, providing a great deal of optimism for 2018 and beyond. The fundamentals for the OC R&D/Flex market continue to look strong during this period of prolonged expansion. With no new deliveries, expect the supply and demand imbalance to remain, ultimately benefiting landlords.

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 2Q 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. The Orange County R&D/Flex market continued its strong performance in 2Q, as economic indicators and market fundamentals remained positive. Positive momentum continued, albeit at a slower pace. The market recorded positive net absorption of 124,999 square feet during 2Q. This brings the year-to-date total to just under 16,000 square feet through the first half of 2018, a bounce back from the prior quarter's negative occupancy statistics. New arrivals or expansions in 2Q include: AVI-SPI moving into 26,322 square feet at 10775 Business Center Drive in Cypress, Vector Launch moving into 21,172 square feet at 15261 Connector in Huntington Beach and RCMC RV moving into 17,000 square feet at 2830 W. Orbiter Street in Brea.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
58 Discovery	Irvine Spectrum	127,030	\$35,000,000	The Irvine Company	BBH Discovery, LLC
229 Avenida Fabricante	San Clemente	40,728	\$10,000,000	Marcus Adams Properties, LLC	Tri-Millennium Properties
23182 Arroyo Vista	Rancho Santa Margarita	47,000	\$8,976,000	Warren Family Ministry	Toastmasters International, Inc.
15391 Springdale St.	Huntington Beach	61,048	\$8,850,000	15391 Springdale Partners, LLC	Aranda Tooling
1421-1481 Edinger Ave - 3 Properties	Tustin	70,494	\$8,500,000	Compressed Air Supercharging	Alyce Caskey

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
14 Centerpointe Dr.	La Palma	78,980	Apr-2018	Dynsity Technology, Inc.	Shamrock (La Palma) Properties*
15091 Bake Parkway	Irvine Spectrum	47,842	Jun-2018	Breathe Technologies	Buckhead Industrial Properties
140 Technology Dr.	Irvine Spectrum	26,370	Jun-2018	Joimax, Inc.	The Irvine Company
15261 Connector	Huntington Beach	21,172	May-2018	Vector Launch	Freeway Industrial Park
1940 W. Corporate Way	Anaheim	16,984	May-2018	Go Energistics	Kimm A Richardson Trust

	INVENTORY				VACANCY & LEASE RATES				ABSORPTION				
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2018	Square Feet Available	Availability Rate 2Q2018	Average Asking Lease Rate	Net Absorption 2Q2018	Net Absorption 2018	Gross Absorption 2Q2018	Gross Absorption 2018
Airport Area													
Costa Mesa	172	4,165,588	0	0	136,544	3.28%	249,611	5.99%	\$1.13	15,388	(189)	57,904	87,397
Fountain Valley	50	1,427,880	0	0	48,779	3.42%	48,187	3.37%	\$0.95	(40,247)	(30,941)	5,160	21,346
Irvine	246	6,227,441	0	0	217,103	3.49%	312,148	5.01%	\$1.47	12,533	9,995	72,387	179,171
Newport Beach	24	618,916	0	0	13,049	2.11%	17,344	2.80%	\$0.00	(4,711)	(4,054)	2,800	5,300
Santa Ana	189	4,791,257	0	0	145,427	3.04%	220,747	4.61%	\$1.18	29,291	60,932	77,132	166,028
Tustin	88	3,062,592	0	0	225,355	7.36%	262,580	8.57%	\$1.12	(16,409)	10,273	27,096	77,621
Airport Area Total	769	20,293,674	0	0	786,257	3.87%	1,110,617	5.47%	\$1.25	(4,155)	46,016	242,479	536,863
North County													
Anaheim	187	5,294,121	0	0	179,064	3.38%	237,535	4.49%	\$1.32	31,097	(70,580)	73,965	116,301
Brea	51	1,489,052	0	0	2,322	0.16%	50,594	3.40%	\$1.12	11,863	15,185	16,597	39,886
Buena Park	30	947,608	0	0	25,496	2.69%	26,022	2.75%	\$1.59	(4,830)	(20,313)	5,964	8,805
Fullerton	49	2,007,876	0	0	45,538	2.27%	114,172	5.69%	\$0.95	(16,241)	(22,474)	14,222	17,820
La Habra	10	187,013	0	0	3,088	1.65%	10,028	5.36%	\$0.00	(1,980)	(1,980)	0	0
Orange	103	2,293,956	0	0	25,340	1.10%	33,289	1.45%	\$1.16	15,138	5,272	32,695	71,762
Placentia	27	693,354	0	0	0	0.00%	9,931	1.43%	\$0.77	9,030	17,847	9,030	22,362
Yorba Linda	53	1,400,544	0	0	32,314	2.31%	76,301	5.45%	\$0.90	17,425	6,697	29,704	36,878
North County Total	510	14,313,524	0	0	313,162	2.19%	557,872	3.90%	\$1.20	61,502	(70,346)	182,177	313,814
South County													
Aliso Viejo	45	1,103,827	0	0	3,175	0.29%	5,411	0.49%	\$1.45	1,655	5,981	1,655	7,636
Foothill Ranch	7	162,895	0	0	0	0.00%	1,718	1.05%	\$0.00	0	0	0	0
Irvine Spectrum	305	10,525,361	0	0	385,276	3.66%	763,919	7.26%	\$1.54	(27,883)	(12,246)	116,264	245,864
Laguna Hills	56	1,297,842	0	0	24,483	1.89%	34,993	2.70%	\$1.38	9,360	23,669	38,809	75,655
Laguna Niguel	19	464,743	0	0	5,867	1.26%	15,986	3.44%	\$0.00	4,158	5,578	6,329	8,946
Lake Forest	61	1,385,936	0	0	43,643	3.15%	44,744	3.23%	\$1.14	(4,155)	(56)	46,694	82,187
Mission Viejo	36	919,169	0	0	10,054	1.09%	21,416	2.33%	\$1.34	11,868	(1,449)	18,225	22,821
Rancho Santa Margarita	44	1,519,275	0	0	7,957	0.52%	19,143	1.26%	\$1.30	4,202	101	8,292	11,036
San Clemente	56	1,348,039	0	0	35,069	2.60%	71,196	5.28%	\$1.20	(15,328)	(23,284)	7,716	28,264
San Juan Capistrano	43	888,818	0	0	26,707	3.00%	28,416	3.20%	\$1.28	(5,626)	1,947	1,860	22,165
South County Total	672	19,615,905	0	0	542,231	2.76%	1,006,942	5.13%	\$1.48	(21,749)	241	245,844	504,574
West County													
Cypress	56	2,622,770	0	0	95,253	3.63%	217,301	8.29%	\$0.95	9,803	63,953	40,895	108,314
Garden Grove	70	1,778,574	0	0	72,025	4.05%	68,516	3.85%	\$1.14	(5,809)	7,501	35,762	67,318
Huntington Beach	130	2,730,133	0	0	49,027	1.80%	53,358	1.95%	\$0.80	19,535	(4,008)	31,364	55,903
La Palma	1	78,980	0	0	0	0.00%	0	0.00%	\$0.85	78,980	0	78,980	157,960
Los Alamitos	43	951,707	0	0	26,758	2.81%	18,270	1.92%	\$0.00	(1,168)	(16,094)	13,836	18,814
Stanton	5	104,129	0	0	0	0.00%	0	0.00%	\$0.00	0	1,440	0	1,440
Westminster	19	502,745	0	0	14,540	2.89%	13,100	2.61%	\$1.88	(11,940)	(12,720)	2,440	17,877
West County Total	324	8,769,038	0	0	257,603	2.94%	370,545	4.23%	\$0.93	89,401	40,072	203,277	427,626
Orange County Total	2,275	62,992,141	0	0	1,899,253	3.02%	3,045,976	4.84%	\$1.29	124,999	15,983	873,777	1,782,877
Airport Area													
10,000-24,999	523	8,452,880	0	0	217,611	2.57%	324,944	3.84%	\$1.33	15,098	18,925	152,630	321,592
25,000-49,999	178	5,991,307	0	0	158,411	2.64%	242,445	4.05%	\$1.47	(15,593)	42,877	67,580	185,713
50,000-99,999	53	3,555,759	0	0	410,235	11.54%	533,228	15.00%	\$0.98	(3,660)	(15,786)	22,269	29,558
100,000 Plus	15	2,293,728	0	0	0	0.00%	10,000	0.44%	\$0.00	0	0	0	0
North County													
10,000-24,999	332	5,316,460	0	0	105,696	1.99%	142,661	2.68%	\$1.03	14,260	(10,497)	82,010	166,043
25,000-49,999	131	4,331,909	0	0	115,394	2.66%	221,288	5.11%	\$1.61	35,377	7,615	76,730	121,080
50,000-99,999	31	2,028,591	0	0	16,259	0.80%	19,683	0.97%	\$0.00	4,313	983	11,140	12,260
100,000 Plus	16	2,636,564	0	0	75,813	2.88%	174,240	6.61%	\$0.84	7,552	(68,447)	12,297	14,431
South County													
10,000-24,999	411	6,895,885	0	0	187,742	2.72%	415,355	6.02%	\$1.40	39,082	9,517	155,915	291,083
25,000-49,999	191	6,416,201	0	0	228,791	3.57%	367,191	5.72%	\$1.50	(2,778)	30,041	79,863	158,950
50,000-99,999	57	3,804,184	0	0	114,225	3.00%	212,923	5.60%	\$1.74	(46,580)	(27,844)	10,066	54,541
100,000 Plus	13	2,499,635	0	0	11,473	0.46%	11,473	0.46%	\$0.00	(11,473)	(11,473)	0	0
West County													
10,000-24,999	224	3,581,683	0	0	156,423	4.37%	150,526	4.20%	\$1.17	(38,614)	(56,326)	56,876	104,611
25,000-49,999	66	2,237,719	0	0	101,180	4.52%	100,913	4.51%	\$0.99	49,035	62,335	67,421	129,432
50,000-99,999	30	2,062,296	0	0	0	0.00%	91,737	4.45%	\$0.81	78,980	7,063	78,980	166,583
100,000 Plus	4	887,340	0	0	0	0.00%	27,369	3.08%	\$0.00	0	27,000	0	27,000
Orange County													
10,000-24,999	1,490	24,246,908	0	0	667,472	2.75%	1,033,486	4.26%	\$1.40	29,826	(38,381)	447,431	883,329
25,000-49,999	566	18,977,136	0	0	603,776	3.18%	931,837	4.91%	\$1.66	66,041	142,868	291,594	595,175
50,000-99,999	171	11,450,830	0	0	540,719	4.72%	857,571	7.49%	\$1.36	33,053	(35,584)	122,455	262,942
100,000 Plus	48	8,317,267	0	0	87,286	1.05%	223,082	2.68%	\$0.00	(3,921)	(52,920)	12,297	41,431
Orange County Total	2,275	62,992,141	0	0	1,899,253	3.02%	3,045,976	4.84%	\$1.29	124,999	15,983	873,777	1,782,877

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

Rent Growth Continues to Climb

by Stan Kwak and Seldon McKnight



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Heading into 3Q, rent growth in Orange County continues to be steady; however, the growth rate has slowed down compared with previous quarters. At the end of 1Q this year, annual rent growth sat above 5% for every submarket in the metro area. During 2Q, industrial rent grew 0.68% compared with 1.47% for 1Q 2018, and 1.95% at this time last year.

Tenants continue to seek properties in North County submarkets due to the affordability and proximity to the Los Angeles and Long Beach ports. Tenants in the North Orange County industrial market can expect to pay less than \$8 per square foot per year net, compared to \$20 per square foot per year net in the Coastal and South County submarkets. Tenants in the South Orange County industrial market are typically seeking R&D/Flex spaces, due to the large volume of tech companies and biotech firms in the Irvine area.

Many industrial properties are being repurposed to other uses including office and multi-family, which is eating away at the already scarce supply of industrial space. One example is the recent sale of 901 E. South Street in Anaheim, a 350,000 square foot facility which is proposed to be repurposed into a multi-family apartment building beginning January 2019.

While there is a shortage of supply of larger industrial buildings, Western Realco is working on a nearly one million square foot campus in Fullerton that is expected to be delivered by the end of this summer. The infill business park development will consist of 8 buildings totaling approximate 976,754 square feet, situated on roughly 44 acres of land. Seven of the eight buildings will be industrial uses, while the last building is projected to provide 42,000 square feet of office space.

While vacancy rates are lower than they have been in years, and demand continues to outweigh the tight supply in the North County submarket, interest rates are on the rise, indicating there may be a shift in the velocity of property movement in the market.

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for Further Information

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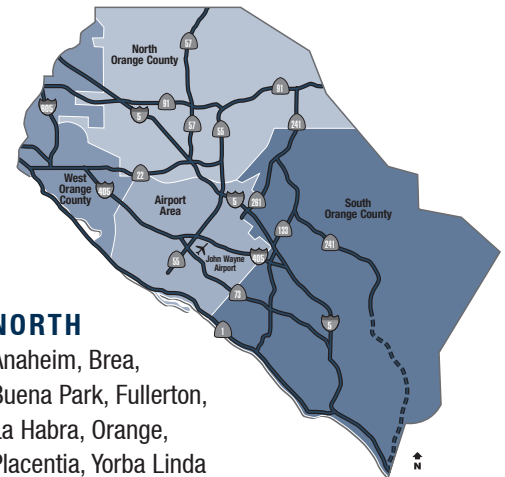
Anaheim, CA 714.978.7880	Carlsbad, CA 760.517.4000	Inland Empire, CA 909.545.8000	Irvine, CA 949.851.5100	Los Angeles, CA 424.329.7500	San Diego, CA 858.453.0505
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Product Type

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