

MARKET OVERVIEW. Although the Orange County R&D/Flex vacancy rate increased and the net absorption is negative, rents remain strong for the market. The \$1.36 PSF average asking R&D/Flex rent is the highest it has been in the past two years. After a great second half of 2016 for the R&D/Flex market where net absorption was 232,823 square feet, the beginning to 2018 saw an adjustment and as a result showed negative absorption. Activity in the Orange County R&D/Flex market was unstable and it has not experienced the boost of new construction projects that the warehouse sector has benefitted from over the year. Moving further into 2019, the expectation is that more leasing activity will occur which, in turn, will lower vacancy.

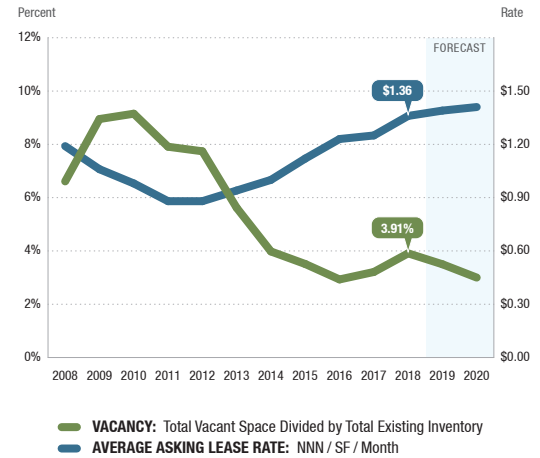
VACANCY. The vacancy rate for Orange County R&D/Flex buildings continued to rise in the fourth quarter, mainly due to a lack of functional space and tenants opting for alternative space. The vacancy rate in the market continues its upward trend and currently sits at 3.91%. The amount of new supply that came online coincided with weak net absorption. Expect vacancy to trend downward in 2019 based on steady job growth and consumer confidence, coupled with many tenants in the market currently shopping for space.

LEASE RATES. Landlords have been aggressive with rent hikes, pushing annual rent growth to an all-time high in 2017. Though the 2018 growth number has fluctuated, it remains positive and well above the long-term market average. Overall rental rates have been trending upward at an average of 1.28% per quarter since the first quarter of 2017. At the end of the fourth quarter, Orange County R&D/Flex rates averaged \$1.36 per square foot, up 8.80% year over year. Orange County has witnessed impressive rental rate growth over the last year due to a lack of inventory.

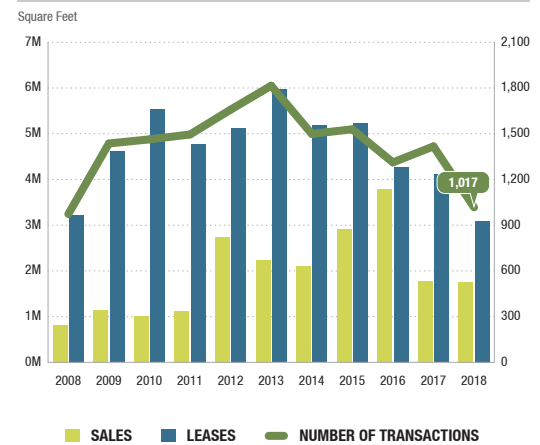
TRANSACTION ACTIVITY. The fundamental demand driver is a strong local economy. A strong employment base buoyed by various tech companies, business services providers, and companies assembling products, has provided stability to this sector. However, in the fourth quarter 881,626 square feet of total transactions (sale and lease) were recorded, down from just over 1.08 million in the third quarter.

ECONOMY. The unemployment rate in Orange County was 2.8% in November of 2018, down from a revised 2.9% in October 2018, and below the year-ago estimate of 3.1%. This compares with an unadjusted unemployment rate of 3.9% for California and 3.5% for the nation during the same period. The professional and business services sectors propel the economy. Orange County is also the third-most diverse high-tech sector in the nation, behind only San Jose and San Diego. Almost 200 Fortune 500 companies have space in one of the Irvine submarkets, and innovation firms including Blizzard Entertainment, Broadcom, Edwards Lifesciences, and Google have a significant footprint in Orange County.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	4Q 2018	3Q 2018	4Q 2017	% Change Over Last Year
Vacancy Rate	▲ UP	3.91%	3.55%	3.21%	21.81%
Availability Rate	▲ UP	5.47%	5.26%	4.59%	19.17%
Average Asking Lease Rate	▲ UP	\$1.36	\$1.33	\$1.25	8.80%
Sale & Lease Transactions	▼ DOWN	881,626	1,081,030	1,173,216	(24.85%)
Gross Absorption	▼ DOWN	754,241	809,137	1,126,302	(33.03%)
Net Absorption	▼ NEGATIVE	(258,212)	(85,974)	(115,111)	N/A

OVERALL. Expect healthy economic conditions to continue through 2019, buoyed by consumer and business confidence. Jobs in the health care/social assistance, government, and professional/scientific/technical sectors are expected to fuel job growth. Market conditions are expected to improve at a steady pace in the near term and the overall vacancy rate (inclusive of sublease space) should decline. Leasing activity will likely continue at a similar pace to that achieved in 2018. Growth will remain muted compared to past recovery cycles due in part to tenant densification and consolidations. As a result, the Orange County R&D/Flex market will remain in the tenant’s favor in the near term, but we are on the road to stronger market conditions for owners. Select submarkets with a relatively low vacancy rate, limited pipeline and no significant move-outs on the horizon have either turned to landlord favor or are on the way.

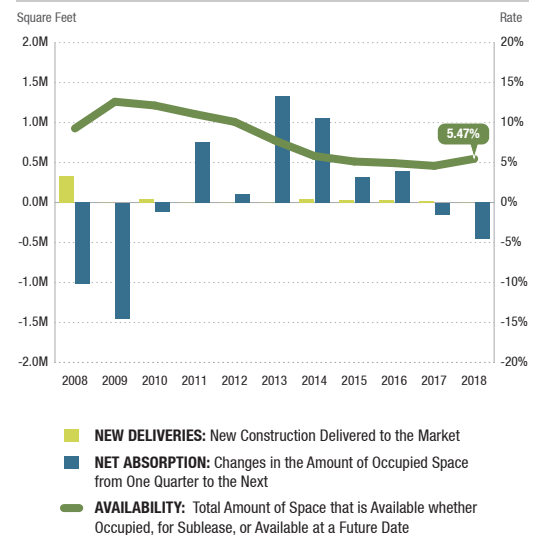
LEASE RATES. Asking rents are expected to rise 2–3% during 2019. The vacancy rate will remain elevated, which will keep rent growth conservative and concession packages elevated. The exception is creative space, for which there is rising demand and limited availability. Expect an overall modest increase in pricing in the coming quarters, due to no new product coming to market coupled with a continued strong local economy.

VACANCY. The R&D/Flex market was certainly lackluster with negative absorption and lower leasing volume at the end of 2018. We anticipate that activity will improve for 2019 and that vacancy will decrease slightly, with rates to decrease approximately 3.25% in the first quarter of 2019.

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 fourth 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. The bottom line for 2018 is that less space was moved into and more space was vacated. As a result of this slowdown in demand, the Orange County R&D/Flex market continued to experience negative absorption in the fourth quarter, reporting negative absorption of 258,212 square feet. It was hit hardest in the Airport Area (negative 125,933 square feet) and North County (negative 73,922 square feet). Based on job growth trends, and keeping in mind national variables, we expect to see a small rebound in demand in the latter half of 2019, with steadily improving conditions in 2020 and 2021.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2020–2120 Howell Ave.	Anaheim	188,738	\$22,650,500	Pacific Industrial, LLC	The Seligman Group
2152 Alton Pkwy.	Irvine	121,650	\$28,620,000	KB Home Coastal, Inc.*	Dynasty Real Prop Group, LLC
3050–3080 Enterprise St.	Brea	64,640	\$12,039,200	Kirkhill Aircraft Part Co.	The Realty Associates Fund X
1641 E. Saint Andrew Pl.	Santa Ana	41,722	\$9,637,782	Victor Medical	Cramer-Decker Industries
30162 Tomas	Rancho Santa Margarita	25,038	\$7,162,200	First Church of the Nazarene of Santa Ana	Bridge Facilities Corporation

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
5790 Katella Ave.	Cypress	65,747	Oct-2018	LP Foods America	Cypress Land Company
9801–9807 Research Dr.	Irvine Spectrum	29,252	Oct-2018	MedTerra	Avant Garde Properties, LLC
11075 Knott Ave.	Cypress	17,833	Oct-2018	Numotion	Warland Investment Company
1641 McGaw Ave.	Irvine	14,040	Nov-2018	Health Care Equipment & Services	McGaw, LLC
2552 White Rd.	Irvine	9,867	Oct-2018	Midas Technology, Inc.	2552 White Road, LLC

	INVENTORY				VACANCY & LEASE RATES				ABSORPTION				
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2018	Square Feet Available	Availability Rate 4Q2018	Average Asking Lease Rate	Net Absorption 4Q2018	Net Absorption 2018	Gross Absorption 4Q2018	Gross Absorption 2018
Airport Area													
Costa Mesa	175	4,161,835	0	0	258,228	6.20%	294,631	7.08%	\$1.14	(35,124)	(75,744)	32,708	155,433
Fountain Valley	50	1,428,209	0	0	60,486	4.24%	27,935	1.96%	\$1.05	(6,753)	(42,648)	13,116	42,698
Irvine	247	6,254,879	0	0	306,084	4.89%	442,783	7.08%	\$1.58	(32,391)	(102,782)	67,229	368,115
Newport Beach	24	618,916	0	0	11,676	1.89%	14,176	2.29%	\$0.00	2,791	(2,681)	10,291	18,808
Santa Ana	188	4,739,974	0	0	196,678	4.15%	241,390	5.09%	\$1.59	(21,081)	58,831	28,171	242,584
Tustin	89	3,079,693	0	0	229,787	7.46%	375,347	12.19%	\$1.13	(33,375)	1,902	34,894	138,493
Airport Area Total	773	20,283,506	0	0	1,062,939	5.24%	1,396,262	6.88%	\$1.36	(125,933)	(163,122)	186,409	966,131
North County													
Anaheim	187	5,278,719	0	0	139,104	2.64%	153,491	2.91%	\$1.32	300	(29,920)	115,033	327,775
Brea	50	1,472,162	0	0	44,677	3.03%	55,186	3.75%	\$1.17	(25,638)	(28,370)	1,505	64,755
Buena Park	30	947,608	0	0	29,264	3.09%	32,343	3.41%	\$0.00	(8,555)	(24,081)	2,330	20,290
Fullerton	49	2,021,551	0	0	132,461	6.55%	68,909	3.41%	\$1.03	(12,105)	(108,397)	12,377	56,258
La Habra	10	187,013	0	0	10,215	5.46%	6,675	3.57%	\$0.00	(2,210)	(9,107)	3,357	3,357
Orange	102	2,291,756	0	0	53,572	2.34%	60,552	2.64%	\$1.04	4,100	(22,960)	17,863	112,426
Placentia	27	693,354	0	0	6,938	1.00%	6,432	0.93%	\$0.81	910	10,909	2,449	24,811
Yorba Linda	52	1,382,534	0	0	82,471	5.97%	126,050	9.12%	\$0.95	(30,724)	(43,460)	18,478	73,224
North County Total	507	14,274,697	0	0	498,702	3.49%	509,638	3.57%	\$1.22	(73,922)	(255,386)	173,392	682,896
South County													
Aliso Viejo	44	1,089,187	0	0	32,489	2.98%	42,742	3.92%	\$1.40	(27,078)	(23,333)	835	8,471
Foothill Ranch	7	162,895	0	0	10,250	6.29%	10,250	6.29%	\$0.00	(10,250)	(10,250)	0	0
Irvine Spectrum	301	10,454,948	0	0	347,003	3.32%	620,837	5.94%	\$1.56	(383)	23,927	190,713	634,280
Laguna Hills	54	1,269,937	0	0	18,979	1.49%	36,266	2.86%	\$1.34	1,564	17,981	13,240	92,863
Laguna Niguel	19	463,751	0	0	7,260	1.57%	9,431	2.03%	\$0.00	3,331	4,185	3,731	14,848
Lake Forest	62	1,398,320	0	0	34,751	2.49%	52,606	3.76%	\$1.22	1,705	8,836	27,343	121,042
Mission Viejo	35	615,629	0	0	22,601	3.67%	29,699	4.82%	\$1.42	(4,191)	(13,996)	7,637	30,458
Rancho Santa Margarita	43	1,476,769	0	0	1,460	0.10%	21,542	1.46%	\$1.33	0	2,597	0	8,638
San Clemente	56	1,348,747	0	0	34,592	2.56%	41,445	3.07%	\$1.24	(6,489)	(22,807)	18,003	72,361
San Juan Capistrano	41	663,817	0	0	34,612	5.21%	34,321	5.17%	\$1.25	(8,521)	(5,958)	18,385	52,697
South County Total	662	18,944,000	0	0	543,997	2.87%	899,139	4.75%	\$1.50	(50,312)	(18,818)	279,887	1,035,658
West County													
Cypress	55	2,555,770	0	0	99,317	3.89%	354,827	13.88%	\$0.94	(13,294)	59,889	20,736	141,183
Garden Grove	70	1,798,078	0	0	71,344	3.97%	71,225	3.96%	\$1.11	(13,617)	7,101	21,358	109,620
Huntington Beach	132	2,724,695	0	0	47,323	1.74%	51,532	1.89%	\$0.78	13,942	(844)	50,339	172,817
La Palma	1	78,980	0	0	78,980	100.00%	78,980	100.00%	\$0.86	0	(78,980)	0	0
Los Alamitos	42	932,682	0	0	24,014	2.57%	37,359	4.01%	\$0.00	(230)	(13,350)	9,860	38,658
Stanton	5	104,129	0	0	0	0.00%	0	0.00%	\$0.00	1,980	1,440	1,980	3,420
Westminster	18	486,743	0	0	4,506	0.93%	4,506	0.93%	\$0.00	3,174	(2,686)	10,280	29,757
West County Total	323	8,681,077	0	0	325,484	3.75%	598,429	6.89%	\$0.89	(8,045)	(27,430)	114,553	495,455
Orange County Total	2,265	62,183,280	0	0	2,431,122	3.91%	3,403,468	5.47%	\$1.36	(258,212)	(464,756)	754,241	3,180,140
Airport Area													
10,000-24,999	531	8,606,320	0	0	336,752	3.91%	435,925	5.07%	\$1.42	(86,013)	(95,247)	131,656	639,688
25,000-49,999	174	5,859,988	0	0	200,907	3.43%	269,114	4.59%	\$1.46	(28,181)	(12,094)	29,088	239,013
50,000-99,999	53	3,537,825	0	0	474,280	13.41%	503,383	14.23%	\$1.24	5,101	(38,941)	25,665	87,430
100,000 Plus	15	2,279,373	0	0	51,000	2.24%	187,840	8.24%	\$0.00	(16,840)	(16,840)	0	0
North County													
10,000-24,999	330	5,281,003	0	0	166,384	3.15%	185,387	3.51%	\$1.07	(41,024)	(70,685)	56,382	305,214
25,000-49,999	131	4,390,733	0	0	214,452	4.88%	246,482	5.61%	\$1.67	(72,657)	(85,363)	37,283	247,559
50,000-99,999	30	1,966,397	0	0	46,434	2.36%	49,274	2.51%	\$0.00	(34,554)	(35,272)	5,414	21,264
100,000 Plus	16	2,636,564	0	0	71,432	2.71%	28,495	1.08%	\$0.84	74,313	(64,066)	74,313	108,859
South County													
10,000-24,999	404	6,771,240	0	0	263,793	3.90%	394,397	5.82%	\$1.44	(68,803)	(79,826)	104,209	500,191
25,000-49,999	190	6,359,386	0	0	195,931	3.08%	374,405	5.89%	\$1.51	19,848	58,900	166,082	421,656
50,000-99,999	57	3,804,184	0	0	72,800	1.91%	118,864	3.12%	\$1.68	(1,357)	13,581	9,596	113,811
100,000 Plus	11	2,009,190	0	0	11,473	0.57%	11,473	0.57%	\$0.00	0	(11,473)	0	0
West County													
10,000-24,999	224	3,579,782	0	0	159,660	4.46%	132,127	3.69%	\$1.08	(5,006)	(58,103)	82,869	257,583
25,000-49,999	66	2,257,147	0	0	74,626	3.31%	91,351	4.05%	\$0.98	9,179	87,808	29,984	200,549
50,000-99,999	29	1,956,808	0	0	78,980	4.04%	173,592	8.87%	\$0.82	0	(71,917)	1,700	10,323
100,000 Plus	4	887,340	0	0	12,218	1.38%	201,359	22.69%	\$0.00	(12,218)	14,782	0	27,000
Orange County													
10,000-24,999	1,489	24,238,345	0	0	926,589	3.82%	1,147,836	4.74%	\$1.37	(200,846)	(303,861)	375,116	1,702,676
25,000-49,999	561	18,867,254	0	0	685,916	3.64%	981,352	5.20%	\$1.45	(71,811)	49,251	262,437	1,108,777
50,000-99,999	169	11,265,214	0	0	672,494	5.97%	845,113	7.50%	\$1.03	(30,810)	(132,549)	42,375	232,828
100,000 Plus	46	7,812,467	0	0	146,123	1.87%	429,167	5.49%	\$0.84	45,255	(77,597)	74,313	135,859
Orange County Total	2,265	62,183,280	0	0	2,431,122	3.91%	3,403,468	5.47%	\$1.36	(258,212)	(464,756)	754,241	3,180,140

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



Strong Market Fundamentals Persist

by **Eric Hinkelman**

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As we say goodbye to 2018, the industrial real estate market has proven one thing: strong market fundamentals persist despite recent stock market fears and rising interest rates. The trends that headlined previous quarters should continue into the new year. The major themes in South Orange County are: limited space, strong demand, record-setting rents, little to no construction and increasing interest rates. Whether it's a tenant needing more space or an investor in a 1031 exchange, there is an ongoing competition to find a replacement property.

After several months of political mailers and television commercials, the midterms are finally in the rear-view mirror and we can focus on the year ahead. The consensus is that growth in the U.S. economy is likely to remain healthy. Given the correlation, demand for CRE space should also remain very strong. Orange County continues to have one of the lowest unemployment rates in the nation at 2.9%. Regarding the international trade war, the economy will feel the effects as imports increase in price and tariffs impact American exporters, but despite these challenges, there is confidence that business will remain stable. The Fed has given the public soft explanations on their future policies; however, it is expected they will continue to gradually raise interest rates through 2019 to temper inflation and maintain a stable economy. I believe this will be the biggest factor to drive decision making in the next few years as interest rates affect everyone who owns and occupies real estate. I suggest staying in tune with the spread between the 10-year and the 2-year yield as economists believe an inversion can signal a correction.

Since there has been some flight from equity markets, there is a possibility more investors will seek shelter in real estate investments. Overall, it's safe to say that we can expect more of the same trends in commercial real estate heading into 2019. Pay attention to overall transaction activity within your particular market. Each submarket can differ greatly in terms of availability and price. Also, if you'd like a creative way to find space, consider off-market opportunities when they arise.

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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. ©2019 Voit Real Estate Services, Inc. DRE License #01991785.

Represented in 150 Markets
Nationally & Internationally.

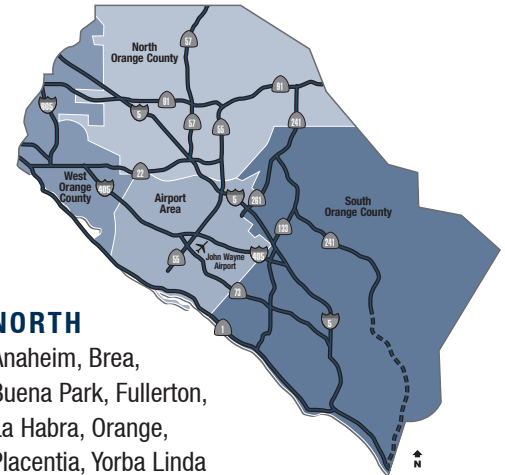


Product Type

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