

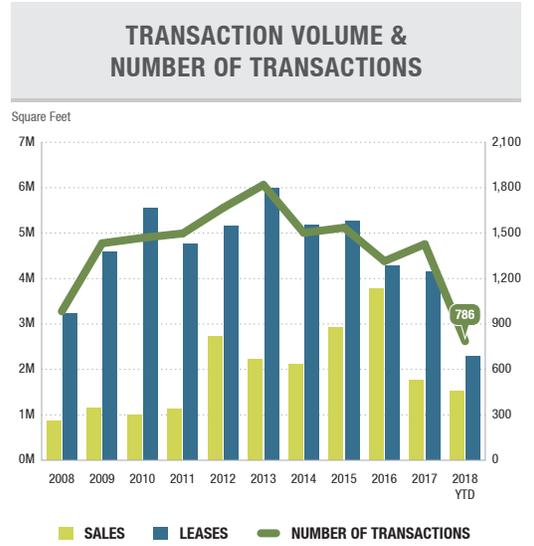
MARKET OVERVIEW. Through the first nine months of 2018, market conditions for R&D Flex properties in the Orange County market have remained relatively stable. Orange County’s R&D/Flex market finished 3Q with a 3.48% vacancy rate. The two biggest submarkets, North and South County, represent a vacancy rate of 2.50% and 2.64% respectively. The average rental rate increased to \$1.33 per square foot. Although the vacancy rate modestly increased, and the net absorption has been negative, rents remain strong for the Orange County R&D Flex market. This is a result of robust job and population growth, all contributing to ongoing tenant demand.

VACANCY. The vacancy rate for Orange County R&D Flex buildings continued to rise in 3Q, mainly due to a lack of functional space and tenants opting for alternative type space. The vacancy rate in the market continues its upward trend and currently sits at 3.48%. 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 currently in the market shopping for space.

LEASE RATES. The R&D Flex average rental rate remained relatively stable through the quarter, but is still considerably higher than just nine months ago. Overall rental rates have been trending upward at an average of 1.59% per quarter since 1Q 2016. At the end of 3Q, Orange County R&D Flex rates averaged \$1.33 per square foot, up 7.26% 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 that was not present a few short years ago. However, in 3Q activity dropped — 1.06 MSF of total transactions (sale and lease) were recorded, down from just over 1.60 million in 2Q. The largest new lease involved Source Holding Corporation leasing the 50,240 square foot building at 4225 N. Palm Street in Fullerton.

ECONOMY. The unemployment rate in Orange County was down slightly to 3.1% in August 2018. This compares with an unadjusted unemployment rate of 4.3% for California and 3.9% for the nation during the same period. Educational and health services reported the largest overall increase with a gain of 3,100 jobs. Healthcare and social assistance added 1,800 jobs while educational services expanded by 1,300 jobs. Professional and business services gained 5,300 payroll jobs over the year. 60% of the gain occurred in administrative and support services, which includes temporary help firms.



Market Statistics

	Change Over Last Quarter	3Q 2018	2Q 2018	3Q 2017	% Change Over Last Year
Vacancy Rate	▲ UP	3.48%	3.36%	3.00%	16.00%
Availability Rate	▲ UP	5.40%	5.12%	4.65%	16.13%
Average Asking Lease Rate	▲ UP	\$1.33	\$1.29	\$1.24	7.26%
Sale & Lease Transactions	▼ DOWN	1,063,312	1,606,445	1,360,946	(21.87%)
Gross Absorption	▼ DOWN	794,936	823,581	1,374,217	(42.15%)
Net Absorption	▼ NEGATIVE	(15,970)	23,439	(143,281)	N/A

LEASE RATES. Expect an overall modest increase in pricing in the coming quarters. The main reason for a slight increase is due to no new product coming to market coupled with a continued strong local economy.

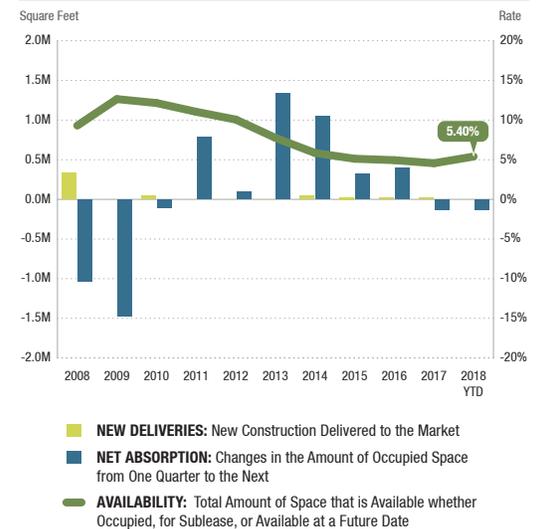
VACANCY. The R&D Flex market was certainly lackluster this quarter, with negative absorption and lower leasing volume. However, we anticipate that activity will continue to improve for the remainder of 2018 and that vacancy will decrease slightly. Expect vacancy rates to decrease to approximately 3.2% in 4Q 2018.

OVERALL. The Orange County R&D Flex market will more than likely continue to trend upward. Overall vacancy rates are maintaining a very healthy level while rental rates continue to rise. As population growth continues and more and more businesses flock to Orange County and expand their business footprints, we can expect to see demand for flex space increase as we move into 4Q 2018 and continue this trend well into 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 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 to experience flat absorption in 3Q. The Orange County submarket reported negative absorption of 15,970 square feet. It was hit hardest in the Airport Area (negative 52,719 square feet) and North County (negative 30,394 square feet).

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales * Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
1361 Valencia Ave.	Tustin	76,870	\$12,000,000	KWT Valencia, LLC	Freeway Industrial Park
340 Fischer Ave.	Costa Mesa	31,424	\$6,820,000	IFT Properties, LLC	Klaus D. Vogel
2921 Daimler St.	Santa Ana	23,525	\$5,881,250	Gary Line Capital II, LLC	Gremik Group LLC*
2442-2450 Dupont Dr.	Irvine	16,429	\$12,124,000	DuPont Falese, LLC	Allergan, Inc.
10 Mauchly	Irvine Spectrum	16,122	\$5,562,090	TP Link	Vivrette Family Trust

Leases * Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Lease Term	Buyer	Seller
4225-4275 N. Palm St.	Fullerton	50,240	Aug-2018	Source Holding Corporation	Bonita Puente, LLC
26845 Vista Terrace	Lake Forest	35,277	Jul-2018	TMS Print Systems	RBAA, Inc.
17500 Gillette Ave.	Irvine	33,534	Sep-2018	Dyer Commercial Property*	17500 Gillette, LLC*
152 Technology Dr.	Irvine Spectrum	29,192	Jul-2018	Sena Technologies	The Irvine Company
8 Studebaker	Irvine Spectrum	14,753	Jul-2018	BioEssence Herbal Essentials	8.S.T.D., 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 3Q2018	Square Feet Available	Availability Rate 3Q2018	Average Asking Lease Rate	Net Absorption 3Q2018	Net Absorption 2018	Gross Absorption 3Q2018	Gross Absorption 2018
Airport Area													
Costa Mesa	173	4,177,404	0	0	154,570	3.70%	247,549	5.93%	\$1.30	(22,755)	(18,215)	39,130	129,956
Fountain Valley	50	1,428,209	0	0	53,733	3.76%	67,696	4.74%	\$1.05	(4,954)	(35,895)	8,236	29,582
Irvine	248	6,264,863	0	0	295,625	4.72%	403,941	6.45%	\$1.58	(47,433)	(68,527)	121,928	301,099
Newport Beach	24	618,916	0	0	14,127	2.28%	17,284	2.79%	\$0.00	(1,078)	(5,132)	3,217	8,517
Santa Ana	189	4,768,386	0	0	239,003	5.01%	286,764	6.01%	\$1.24	11,773	80,356	49,228	216,263
Tustin	88	3,062,397	0	0	210,155	6.86%	257,603	8.41%	\$1.31	11,728	34,534	24,711	102,332
Airport Area Total	772	20,320,175	0	0	967,213	4.76%	1,280,837	6.30%	\$1.42	(52,719)	(12,879)	246,450	787,749
North County													
Anaheim	186	5,284,009	0	0	140,626	2.66%	152,038	2.88%	\$1.50	45,318	(32,142)	93,235	210,236
Brea	52	1,504,721	0	0	21,569	1.43%	60,483	4.02%	\$0.59	(14,787)	(4,062)	25,842	66,850
Buena Park	30	947,608	0	0	23,989	2.53%	20,709	2.19%	\$0.00	(4,270)	(18,806)	9,155	17,960
Fullerton	48	1,997,539	0	0	48,881	2.45%	60,636	3.04%	\$0.00	(14,273)	(25,817)	25,526	45,046
La Habra	10	187,013	0	0	10,605	5.67%	9,228	4.93%	\$0.00	(7,517)	(9,497)	0	0
Orange	104	2,319,156	0	0	58,582	2.53%	69,069	2.98%	\$0.90	(9,114)	(27,970)	21,161	94,563
Placentia	27	693,354	0	0	3,880	0.56%	11,310	1.63%	\$0.91	(3,880)	13,967	0	22,362
Yorba Linda	53	1,400,544	0	0	49,772	3.55%	113,377	8.10%	\$0.96	(21,871)	(10,761)	14,870	54,021
North County Total	510	14,333,944	0	0	357,904	2.50%	496,850	3.47%	\$1.19	(30,394)	(115,088)	189,789	511,038
South County													
Aliso Viejo	44	1,089,187	0	0	5,411	0.50%	5,411	0.50%	\$1.15	(2,236)	3,745	0	7,636
Foothill Ranch	7	162,895	0	0	0	0.00%	10,250	6.29%	\$1.20	0	0	0	0
Irvine Spectrum	302	10,470,450	0	0	348,475	3.33%	683,330	6.53%	\$2.25	87,020	24,555	199,939	443,567
Laguna Hills	54	1,269,937	0	0	23,610	1.86%	24,528	1.93%	\$1.45	2,785	13,350	21,792	79,623
Laguna Niguel	19	464,743	0	0	10,591	2.28%	15,375	3.31%	\$0.00	(4,724)	854	0	11,117
Lake Forest	61	1,385,936	0	0	34,104	2.46%	55,447	4.00%	\$1.24	(10,205)	9,483	6,821	90,810
Mission Viejo	35	615,629	0	0	19,850	3.22%	21,130	3.43%	\$1.40	(9,796)	(11,245)	0	22,821
Rancho Santa Margarita	43	1,476,769	0	0	1,460	0.10%	36,412	2.47%	\$1.10	(1,460)	2,597	1,603	8,638
San Clemente	56	1,348,039	0	0	29,973	2.22%	55,397	4.11%	\$1.21	5,096	(18,188)	26,749	55,013
San Juan Capistrano	42	701,913	0	0	27,551	3.93%	62,917	8.96%	\$1.25	7,741	1,103	12,147	34,312
South County Total	663	18,985,498	0	0	501,025	2.64%	970,197	5.11%	\$1.53	74,221	26,254	269,051	753,537
West County													
Cypress	56	2,622,770	0	0	89,609	3.42%	369,843	14.10%	\$0.87	5,644	69,597	12,133	120,447
Garden Grove	69	1,750,340	0	0	63,891	3.65%	60,810	3.47%	\$1.04	(1,526)	15,635	20,944	88,262
Huntington Beach	131	2,743,183	0	0	72,265	2.63%	61,414	2.24%	\$1.30	(8,560)	(27,246)	44,985	113,938
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	18,784	2.01%	27,433	2.94%	\$0.00	5,424	(8,120)	9,984	28,798
Stanton	5	104,129	0	0	1,980	1.90%	1,980	1.90%	\$0.00	(1,980)	(540)	0	1,440
Westminster	19	502,745	0	0	19,180	3.82%	20,000	3.98%	\$0.00	(6,080)	(5,860)	1,600	19,477
West County Total	323	8,734,829	0	0	344,689	3.95%	620,460	7.10%	\$0.93	(7,078)	(35,514)	89,646	372,362
Orange County Total	2,268	62,374,446	0	0	2,170,831	3.48%	3,368,344	5.40%	\$1.33	(15,970)	(137,227)	794,936	2,424,686
Airport Area													
10,000-24,999	527	8,517,111	0	0	252,599	2.97%	347,578	4.08%	\$1.36	(13,689)	(5,438)	172,354	505,578
25,000-49,999	176	5,917,235	0	0	166,035	2.81%	277,339	4.69%	\$1.54	(14,668)	24,628	33,258	211,775
50,000-99,999	54	3,606,456	0	0	435,579	12.08%	532,920	14.78%	\$1.22	(24,362)	(32,069)	40,838	70,396
100,000 Plus	15	2,279,373	0	0	113,000	4.96%	123,000	5.40%	\$0.00	0	0	0	0
North County													
10,000-24,999	331	5,311,680	0	0	128,186	2.41%	149,444	2.81%	\$0.95	(28,423)	(32,987)	79,253	251,091
25,000-49,999	132	4,357,109	0	0	133,000	3.05%	222,528	5.11%	\$0.97	2,675	(9,991)	83,716	206,436
50,000-99,999	31	2,028,591	0	0	14,845	0.73%	14,845	0.73%	\$0.00	1,414	2,397	6,705	18,965
100,000 Plus	16	2,636,564	0	0	81,873	3.11%	110,033	4.17%	\$0.00	(6,060)	(74,507)	20,115	34,546
South County													
10,000-24,999	404	6,774,642	0	0	203,240	3.00%	383,505	5.66%	\$1.50	(16,629)	(17,173)	120,268	393,093
25,000-49,999	191	6,397,482	0	0	213,141	3.33%	427,500	6.68%	\$1.71	49,796	41,690	99,109	256,229
50,000-99,999	57	3,804,184	0	0	73,171	1.92%	147,719	3.88%	\$1.82	41,054	13,210	49,674	104,215
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	3,575,708	0	0	173,150	4.84%	160,523	4.49%	\$1.08	(28,971)	(61,553)	55,273	172,934
25,000-49,999	65	2,209,485	0	0	92,559	4.19%	100,079	4.53%	\$0.95	21,893	70,956	34,373	163,805
50,000-99,999	30	2,062,296	0	0	78,980	3.83%	170,717	8.28%	\$0.86	0	(71,917)	0	8,623
100,000 Plus	4	887,340	0	0	0	0.00%	189,141	21.32%	\$0.00	0	27,000	0	27,000
Orange County													
10,000-24,999	1,486	24,179,141	0	0	757,175	3.13%	1,041,050	4.31%	\$1.42	(87,712)	(117,151)	427,148	1,322,696
25,000-49,999	564	18,881,311	0	0	604,735	3.20%	1,027,446	5.44%	\$1.52	59,696	127,283	250,456	838,245
50,000-99,999	172	11,501,527	0	0	602,575	5.24%	866,201	7.53%	\$1.25	18,106	(88,379)	97,217	202,199
100,000 Plus	46	7,812,467	0	0	206,346	2.64%	433,647	5.55%	\$0.84	(6,060)	(58,980)	20,115	61,546
Orange County Total	2,268	62,374,446	0	0	2,170,831	3.48%	3,368,344	5.40%	\$1.33	(15,970)	(137,227)	794,936	2,424,686

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



Property Owners Maintain the Upper Hand

by **Michael Zehner**

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Overall, the industrial business community remains optimistic about the local and national economies. We are hearing from many business owners, who are planning facility moves, that they will be taking advantage of key provisions of the recently enacted Tax Cuts and Jobs Act. They are particularly focused on new bonus depreciation and expensing rules that allow the immediate write-down of capital equipment and interior improvements, which will help offset the cost of expansion and accelerate revenue growth.

For the last several years, the county's industrial market has been characterized by historically low vacancy, rising rental rates and soaring property values. The short supply of quality space has forced many businesses to either move into space that doesn't fit their needs or renew their existing leases for lack of a more efficient alternative. Good functional space has been snapped up in short order, much of it without even reaching the open market. Competition among tenants and buyers remains fierce, which has helped drive lease rates and sales prices to record levels. As a result, landlords and sellers maintain the upper hand in negotiations.

While lease rates are still moving up, not every deal is setting a new record and overly optimistic landlords are resetting their expectations to reflect a more cautious pool of tenants. Business owners, faced with the prospect of paying record-high rents with substantial annual increases, are focusing on value and efficiency, and many of the buildings offered for lease have elements of functional obsolescence and/or deferred maintenance issues. As a result, some space is taking a bit longer to lease up, especially in the smaller size ranges. So, we emphasize the importance of understanding the market at the submarket level to ensure informed decision making.

The lack of construction activity and the expectation of ongoing strong demand will both serve to keep the lid on rising vacancy overall. If anything, some property owners with less-than-prime space will have to exercise a little more patience to get their buildings leased, relying on the fact that the vacancy rate could triple and still be at 6%.

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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.



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