

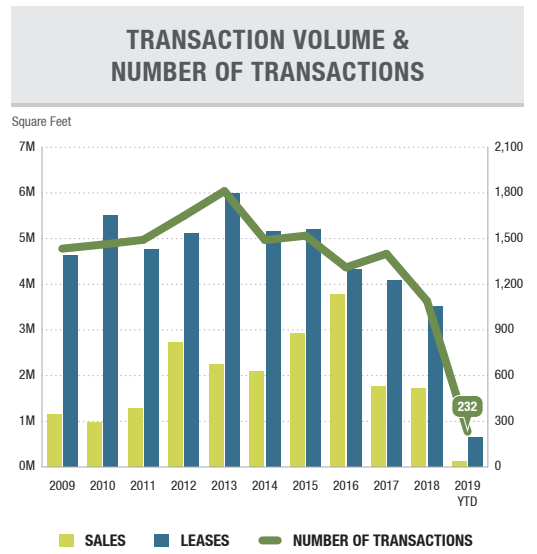
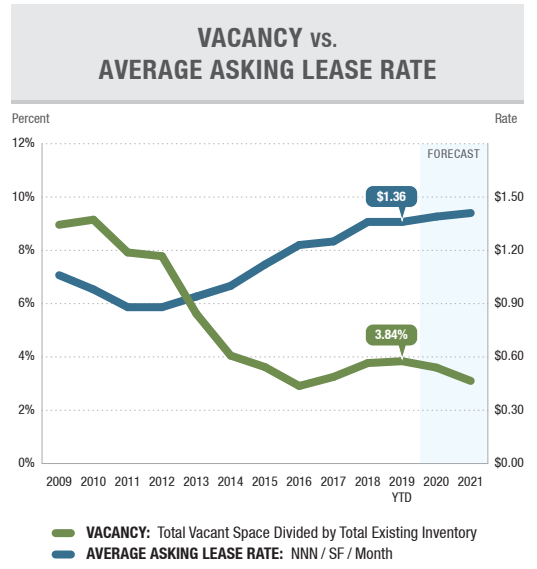
**MARKET OVERVIEW.** The Orange County R&D/Flex market experienced sluggish conditions during the first three months of 2019, as absorption was negative and overall vacancy edged up 7 basis points from year-end 2018. Although a handful of notable lease deals occurred during the past three months, it was not enough to keep pace with the tenants vacating space. Most tenants vacating space are leaving older space and relocating to newer buildings, however, which has little impact on net absorption. Rent growth in Orange County R&D/Flex decelerated in the first quarter of 2019 and is currently flat. This is a considerable slowdown in comparison with the unprecedented rent growth of 2018. Overall, Orange County is poised to experience long-term steady growth due to its tenant composition, particularly its focus on medical device and booming tech industries.

**VACANCY.** The vacancy rate for Orange County R&D/Flex buildings continued to rise in the first quarter, mainly due to a lack of functional space and tenants opting for alternative space. Direct/sublease space (unoccupied) finished the quarter at 3.84%, an increase of more than 10 percentage points when compared with the prior year, and a decrease of more than 50% from 2010's recession high of 9.15%. Expect vacancy to trend downward based on steady job growth and consumer confidence, coupled with a number of 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 at the end of 2018. The average rent is currently \$1.36 per month per square foot. As of the first quarter of 2019, R&D/Flex rates were approximately 43% less than those of Class B low-rise office buildings, with a few companies opting for R&D/Flex space over Class B low-rise office space due to a lower cost. Orange County has witnessed impressive rental rate growth over the last year, mainly 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 first quarter, 761,959 square feet in total transactions (sale and lease) was recorded, down from just over 1.05 million square feet in the fourth quarter of 2018.

**ECONOMY.** The unemployment rate in Orange County was 3.0% in February of 2019, down from a revised 3.3% in January of 2019, and below the year-ago estimate of 3.1%. This compares with an unadjusted unemployment rate of 4.4% for California and 4.1% for the nation during the same period. Between February 2018 and February 2019, total nonfarm employment increased by 11,400 jobs, or 0.7%. Professional and business services posted the largest year-over-year payroll employment growth with an increase of 9,400 jobs. Approximately half the gain occurred in administrative and support and waste services (up 4,900 jobs).



Market Statistics

	Change Over Last Quarter	1Q 2019	4Q 2018	1Q 2018	% Change Over Last Year
Vacancy Rate	▲ UP	3.84%	3.77%	3.49%	10.03%
Availability Rate	▲ UP	5.67%	5.48%	5.23%	8.41%
Average Asking Lease Rate	▬ FLAT	\$1.36	\$1.36	\$1.26	7.94%
Sale & Lease Transactions	▼ DOWN	761,959	1,053,545	1,244,851	(38.79%)
Gross Absorption	▲ UP	1,089,310	736,746	802,621	35.72%
Net Absorption	▼ NEGATIVE	(126,763)	(197,315)	(144,727)	N/A

**OVERALL.** Our outlook for Orange County in 2019 is optimistic, as employment growth has outpaced that of the nation since 2012. Investors and owner-users are capitalizing on the industrial, and to a lesser extent, R&D Flex market’s momentum. Investment sales focused on industrial R&D/Flex product can expect higher prices. Market signals show us this trend should continue well into 2019. With a limited amount of construction for R&D/Flex space, landlords should see a rise in rent and occupancy rates. Additionally, expect renewal transactions to continue to dominate most large transactions as tenants have limited options for modern fulfillment space.

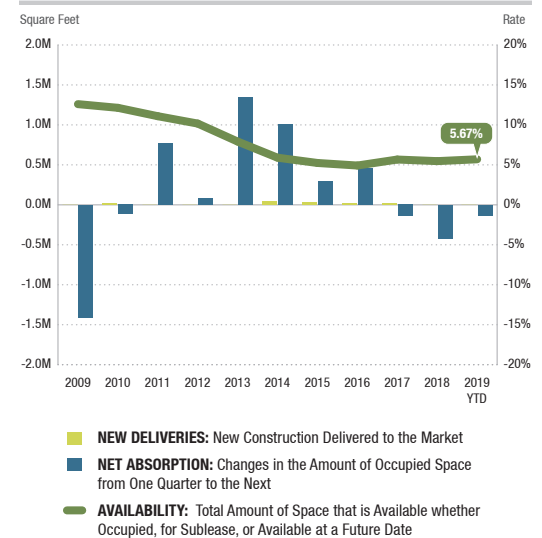
**LEASE RATES.** Despite slightly elevated vacancies, rent growth is expected to bounce back to its upward trend. Expect lease rates to continue to climb. We expect 1–2% annualized growth in the coming year.

**VACANCY.** Industrial R&D/Flex real estate demand continues to soar to new heights, and we expect more of the same in 2019, with anticipated vacancy rates in the 3–4% range over the next three quarters.

**CONSTRUCTION.** There was no R&D/Flex space under construction in Orange County in the first quarter of 2019. 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 plus per square foot in some cases, we do not expect any significant R&D/Flex construction in the coming quarters; however, we do expect developers to be conservative and build more alternative (lucrative) uses in the short term.

**ABSORPTION.** The West Orange County submarket record negative absorption of 239,188 square foot due to a couple of apparel companies vacating their space. As a result of this slowdown in demand, the Orange County R&D/Flex market overall continued to experience negative absorption in the first quarter, reporting negative absorption of 126,763 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.

**NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE**



Significant Transactions

Sales

\* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
7048–7352 Slater Ave.	Huntington Beach	47,812	\$33,866,500	UBS Financial Services	Overton Moore Properties
2229 S. Yale St.	Santa Ana	62,244	\$12,250,000	County of Orange	NEWPORT Electronics, Inc.
3001 Daimler St.	Santa Ana	24,999	\$6,312,248	AT Gen	M & S Moshayedi Trust
1927 N. Glassell St.	Orange	25,200	\$6,030,000	Meyer Properties, LLC*	AVC Properties, LLC*
2610–2612 S. Croddey Way	Santa Ana	33,940	\$5,800,000	S&D Associates	Chance & Chase Hunt

Leases

\* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
4225 E. La Palma Ave. – Renewal	Anaheim	74,240	Mar-2019	Sechrist Industries, Inc.*	Rexco LLC
53 Discovery – Renewal	Irvine Spectrum	61,761	Mar-2019	Thales USA, Inc.	The Irvine Company
9 Parker	Irvine Spectrum	32,000	Mar-2019	Inari Medical, Inc.	The Irvine Company
209 Technology Dr.	Irvine Spectrum	30,884	Jan-2019	Lexus, a division of Toyota Motor Sales	Cypress Land Company
11150 Dana Cir.	Cypress	25,721	Mar-2019	Capmatic Manufacturing	Cypress Land Company

	INVENTORY				VACANCY & LEASE RATES				ABSORPTION				
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2019	Square Feet Available	Availability Rate 1Q2019	Average Asking Lease Rate	Net Absorption 1Q2019	Net Absorption 2019	Gross Absorption 1Q2019	Gross Absorption 2019
<b>Airport Area</b>													
Costa Mesa	175	4,162,875	0	0	193,813	4.66%	281,256	6.76%	\$1.28	46,082	46,082	107,302	107,302
Fountain Valley	50	1,428,209	0	0	19,809	1.39%	16,026	1.12%	\$1.05	(130)	(130)	54,968	54,968
Irvine	248	6,366,102	0	0	293,286	4.61%	549,825	8.64%	\$1.25	52,264	52,264	146,849	146,849
Newport Beach	22	579,305	0	0	17,738	3.06%	17,738	3.06%	\$0.00	(6,557)	(6,557)	0	0
Santa Ana	189	4,888,660	0	0	232,288	4.75%	343,929	7.04%	\$1.44	(37,010)	(37,010)	73,946	73,946
Tustin	88	2,976,018	0	0	199,033	6.69%	361,761	12.16%	\$1.32	9,775	9,775	45,483	45,483
<b>Airport Area Total</b>	<b>772</b>	<b>20,401,169</b>	<b>0</b>	<b>0</b>	<b>955,967</b>	<b>4.69%</b>	<b>1,570,535</b>	<b>7.70%</b>	<b>\$1.36</b>	<b>64,424</b>	<b>64,424</b>	<b>428,548</b>	<b>428,548</b>
<b>North County</b>													
Anaheim	186	5,199,307	0	0	119,492	2.30%	157,429	3.03%	\$1.13	(13,994)	(13,994)	107,932	107,932
Brea	50	1,472,162	0	0	45,701	3.10%	52,253	3.55%	\$1.10	(1,024)	(1,024)	25,300	25,300
Buena Park	30	947,608	0	0	10,881	1.15%	10,701	1.13%	\$0.00	19,437	19,437	22,565	22,565
Fullerton	49	1,844,047	0	0	45,649	2.48%	60,148	3.26%	\$1.05	15,380	15,380	95,076	95,076
La Habra	10	187,013	0	0	10,483	5.61%	8,291	4.43%	\$0.00	(268)	(268)	4,540	4,540
Orange	103	2,310,808	0	0	43,216	1.87%	40,310	1.74%	\$0.00	10,356	10,356	36,589	36,589
Placentia	27	693,354	0	0	8,125	1.17%	16,614	2.40%	\$0.86	(1,187)	(1,187)	3,968	3,968
Yorba Linda	52	1,382,534	0	0	74,306	5.37%	104,789	7.58%	\$0.89	8,165	8,165	20,592	20,592
<b>North County Total</b>	<b>507</b>	<b>14,036,833</b>	<b>0</b>	<b>0</b>	<b>357,853</b>	<b>2.55%</b>	<b>450,535</b>	<b>3.21%</b>	<b>\$0.96</b>	<b>36,865</b>	<b>36,865</b>	<b>316,562</b>	<b>316,562</b>
<b>South County</b>													
Aliso Viejo	44	1,088,447	0	0	21,447	1.97%	40,165	3.69%	\$1.56	9,641	9,641	26,038	26,038
Foothill Ranch	7	162,895	0	0	10,250	6.29%	0	0.00%	\$0.00	0	0	0	0
Irvine Spectrum	301	10,449,721	0	0	352,165	3.37%	662,022	6.34%	\$1.66	(4,852)	(4,852)	119,116	119,116
Laguna Hills	55	1,274,896	0	0	22,898	1.80%	42,662	3.35%	\$1.36	(3,919)	(3,919)	14,298	14,298
Laguna Niguel	19	463,751	0	0	6,940	1.50%	10,708	2.31%	\$0.00	320	320	320	320
Lake Forest	62	1,427,597	0	0	46,725	3.27%	66,149	4.63%	\$1.25	(7,312)	(7,312)	17,419	17,419
Mission Viejo	35	615,629	0	0	14,973	2.43%	23,823	3.87%	\$1.42	6,268	6,268	8,843	8,843
Rancho Santa Margarita	43	1,476,769	0	0	13,171	0.89%	32,445	2.20%	\$1.58	(11,711)	(11,711)	1,227	1,227
San Clemente	56	1,348,747	0	0	26,088	1.93%	22,519	1.67%	\$1.35	4,368	4,368	24,494	24,494
San Juan Capistrano	40	653,522	0	0	24,270	3.71%	29,002	4.44%	\$1.28	6,752	6,752	6,752	6,752
<b>South County Total</b>	<b>662</b>	<b>18,961,974</b>	<b>0</b>	<b>0</b>	<b>538,927</b>	<b>2.84%</b>	<b>929,495</b>	<b>4.90%</b>	<b>\$1.61</b>	<b>(445)</b>	<b>(445)</b>	<b>218,507</b>	<b>218,507</b>
<b>West County</b>													
Cypress	56	2,563,259	0	0	307,421	11.99%	340,399	13.28%	\$0.94	(224,137)	(224,137)	16,537	16,537
Garden Grove	69	1,785,283	0	0	57,297	3.21%	64,349	3.60%	\$1.25	328	328	50,383	50,383
Huntington Beach	131	2,674,939	0	0	40,545	1.52%	46,793	1.75%	\$1.25	681	681	40,776	40,776
La Palma	1	78,980	0	0	78,980	100.00%	78,980	100.00%	\$0.86	0	0	0	0
Los Alamitos	42	932,682	0	0	32,074	3.44%	27,693	2.97%	\$0.00	(8,060)	(8,060)	19,670	19,670
Stanton	5	104,129	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Westminster	18	486,743	0	0	12,506	2.57%	9,231	1.90%	\$0.00	(8,000)	(8,000)	1,000	1,000
<b>West County Total</b>	<b>322</b>	<b>8,626,015</b>	<b>0</b>	<b>0</b>	<b>528,823</b>	<b>6.13%</b>	<b>567,445</b>	<b>6.58%</b>	<b>\$0.93</b>	<b>(239,188)</b>	<b>(239,188)</b>	<b>128,366</b>	<b>128,366</b>
<b>Orange County Total</b>	<b>2,263</b>	<b>62,025,991</b>	<b>0</b>	<b>0</b>	<b>2,381,570</b>	<b>3.84%</b>	<b>3,518,010</b>	<b>5.67%</b>	<b>\$1.36</b>	<b>(138,344)</b>	<b>(138,344)</b>	<b>1,091,983</b>	<b>1,091,983</b>
<b>Airport Area</b>													
10,000-24,999	532	8,567,926	0	0	319,063	3.72%	394,868	4.61%	\$1.38	9,838	9,838	242,779	242,779
25,000-49,999	175	5,872,958	0	0	123,419	2.10%	299,048	5.09%	\$1.47	10,281	10,281	125,625	125,625
50,000-99,999	51	3,339,560	0	0	429,975	12.88%	486,368	14.56%	\$1.24	44,305	44,305	60,144	60,144
100,000 Plus	14	2,620,725	0	0	83,510	3.19%	390,251	14.89%	\$0.00	0	0	0	0
<b>North County</b>													
10,000-24,999	330	5,251,341	0	0	134,483	2.56%	162,410	3.09%	\$1.05	27,401	27,401	104,510	104,510
25,000-49,999	132	4,343,658	0	0	208,886	4.81%	248,278	5.72%	\$1.44	8,853	8,853	104,540	104,540
50,000-99,999	30	1,966,397	0	0	14,484	0.74%	11,352	0.58%	\$0.00	611	611	34,665	34,665
100,000 Plus	15	2,475,437	0	0	0	0.00%	28,495	1.15%	\$0.00	0	0	72,847	72,847
<b>South County</b>													
10,000-24,999	403	6,743,763	0	0	277,361	4.11%	386,746	5.73%	\$1.51	(18,604)	(18,604)	125,909	125,909
25,000-49,999	190	6,329,773	0	0	166,829	2.64%	378,371	5.98%	\$1.63	28,623	28,623	86,655	86,655
50,000-99,999	58	3,879,248	0	0	83,264	2.15%	152,905	3.94%	\$1.78	(10,464)	(10,464)	5,943	5,943
100,000 Plus	11	2,009,190	0	0	11,473	0.57%	11,473	0.57%	\$0.00	0	0	0	0
<b>West County</b>													
10,000-24,999	224	3,574,987	0	0	130,172	3.64%	123,159	3.45%	\$1.09	(3,274)	(3,274)	85,960	85,960
25,000-49,999	65	2,206,880	0	0	110,473	5.01%	130,118	5.90%	\$0.97	(38,934)	(38,934)	39,531	39,531
50,000-99,999	29	1,956,808	0	0	151,785	7.76%	177,775	9.08%	\$0.86	(72,805)	(72,805)	2,875	2,875
100,000 Plus	4	887,340	0	0	136,393	15.37%	136,393	15.37%	\$0.00	(124,175)	(124,175)	0	0
<b>Orange County</b>													
10,000-24,999	1,489	24,138,017	0	0	861,079	3.57%	1,067,183	4.42%	\$1.39	15,361	15,361	559,158	559,158
25,000-49,999	562	18,753,269	0	0	609,607	3.25%	1,055,815	5.63%	\$1.55	8,823	8,823	356,351	356,351
50,000-99,999	168	11,142,013	0	0	679,508	6.10%	828,400	7.43%	\$1.28	(38,353)	(38,353)	103,627	103,627
100,000 Plus	44	7,992,692	0	0	231,376	2.89%	566,612	7.09%	\$0.00	(124,175)	(124,175)	72,847	72,847
<b>Orange County Total</b>	<b>2,263</b>	<b>62,025,991</b>	<b>0</b>	<b>0</b>	<b>2,381,570</b>	<b>3.84%</b>	<b>3,518,010</b>	<b>5.67%</b>	<b>\$1.36</b>	<b>(138,344)</b>	<b>(138,344)</b>	<b>1,091,983</b>	<b>1,091,983</b>

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



Are You Looking for a Building to Buy or Lease?  
Good Luck. There Aren't Many.

**by Jack Faris**

SENIOR VICE PRESIDENT / PARTNER, IRVINE  
714.935.2318 · jfaris@voitco.com · Lic. #00912766

The vacancy rates for industrial buildings in North Orange County are all under 5% in every city, with some cities having vacancy rates that are approaching 1%. The North Orange County industrial market is arguably one of the strongest markets in the country with very little developable land that is zoned for industrial. This means little or no new buildings coming online.

The only opportunity for new industrial building development occurs when obsolete industrial buildings are sold to developers, who then scrape the existing properties and build new state of the art industrial/distribution centers. For the past 30 years, developers' target market was local owner/users. Not so much anymore. For example, the 55-acre Beckman site in Fullerton was recently redeveloped by Western Realco and the 650,000 square feet of new buildings were then sold to investors. Users didn't stand a chance. Investors will now pay full retail price for new industrial buildings that have no tenants making it tough for the smaller outfits to compete.

Surprisingly, however, the smaller end users are competing and getting deals done. Here are a few things you can do as a local owner/user to compete for high-quality industrial buildings when they become available:

1. Educate yourself about market conditions. Know the values of buildings in the size range in which you are interested. Keep up with the most recent sale and lease comps. Be ahead of the game so when you get the call from your broker informing you that the perfect building is coming available you won't have to scramble to figure out if it is priced right or not. You will already know.
2. Get your financing lined up. Pre-approval letters are not that hard to get and will give you credibility when you make an offer to purchase.
3. Be mobile. Keep your existing lease short-term if possible or get an early termination provision in your existing lease. The lease rate you currently pay may be under market and your landlord may want you out of the building so he can raise the lease rate to market value.
4. Be accessible. If your broker is not able to reach you quickly and when needed, you may miss an amazing opportunity. Develop a relationship with your broker so they know your ideal property, objectives, etc. and maintain open lines of communication. It costs you nothing.
5. Be patient. It may take a year or two before the right building comes to market.

Navigating market conditions can be difficult, so in order to be successful, you must be prepared. For smaller end users, often times, the best way to go about finding your ideal property is by working closely with your broker and learning about the specific industrial niche in which you are interested. Be available to receive "The Call" and you will end up in your perfect space despite the many potential barriers.

**Please Contact Us  
for Further Information**

<b>Tony Tran</b> Regional Director of Research ttran@voitco.com	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
---	-----------------------------	------------------------------	-----------------------------------	----------------------------	---------------------------------	-------------------------------

**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