

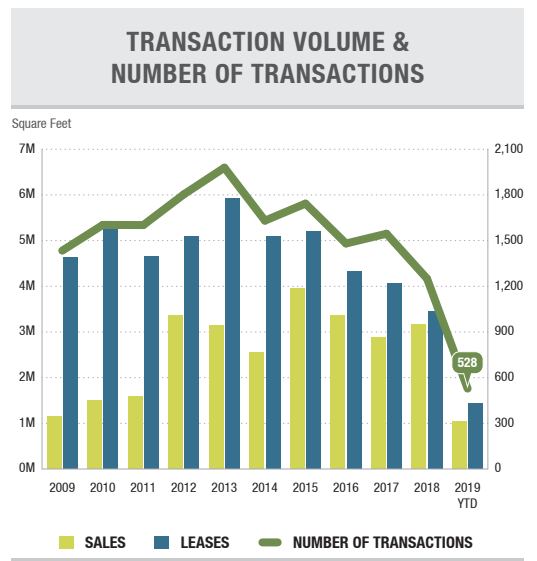
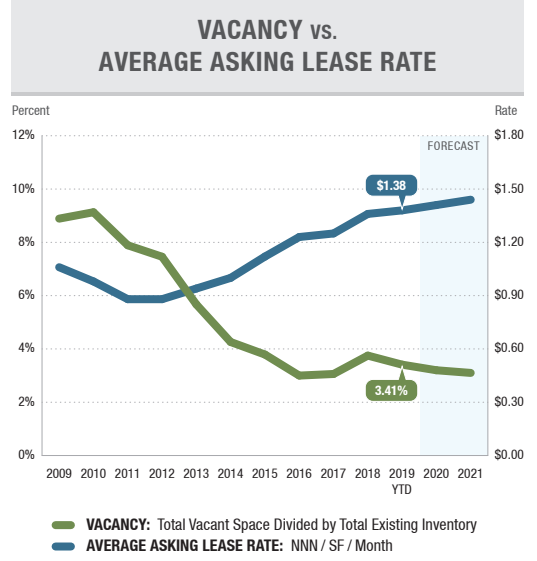
**MARKET OVERVIEW.** The Orange County R&D/Flex market exhibited signs of stabilization at the end of the second quarter of 2019, with positive net absorption, an increase in asking rental rates, and decreases in vacancy. In contrast to the steady improvements in the office and industrial property types, the improvements in the R&D market were choppy at first. However, over the last six quarters, stabilization and improvement in the major indicators of market health have been steady. Orange County R&D/Flex vacancies remain in the low single-digits due to years of leasing and no construction in the market. Rent growth has slowed in recent quarters after peaking at more than 3% in 2018 to 1.4% this quarter.

**VACANCY.** The Orange County R&D/Flex market lacks potential for strong, long-term demand increases, due to severe supply constraints. Nonetheless, these constraints keep vacancies low and fundamentals steady. Low vacancy rates generally mean that the market performance of an area is good and that there is strong demand. However, with higher demand for R&D/Flex space comes higher rental rates. Direct/sublease space (unoccupied) finished the second quarter at 3.41%, a decrease from the previous quarter's vacancy rate of 3.62%, and 10 basis points lower than the vacancy rate of a year ago. The vacancy rate remains far less than half of the 2010 recession low of 9.13%.

**LEASE RATES.** The average asking triple-net lease rate per square foot per month in Orange County was \$1.38 at the end of the second quarter, an increase from both the previous quarter's rate of \$1.36 and 2018's rate of \$1.29. Average asking lease rates have risen \$0.50 since the recession lows seen in the first and second quarters of 2011. The previous record-high rate of \$1.24 was established in the first and second quarters of 2007.

**TRANSACTION ACTIVITY.** There have been few signs of absorption slowing down in the coming months. Tenants continue to need space, and construction continues to lag. The overall lack of product might be the only factor that slows down transaction activity moving into the second half of 2019. Demand for R&D/Flex space in Orange County has slowed down, with 820,898 square feet in total transactions (sale and lease) in the second quarter, down from just over 1.09 million square feet last quarter. With such a limited number of available options, the supply and demand imbalance continues to limit overall activity.

**ECONOMY.** The unemployment rate in Orange County was 2.4% in May of 2019, down from a revised 2.6% in April of 2019, and below the year-ago estimate of 2.5%. Between May 2018 and May 2019, professional and business services posted the largest year-over-year expansion with a gain of 7,800 jobs. The growth was evident across all subsectors with more than half of the job expansion in administrative and support and waste services (up 4,100 jobs), followed by professional scientific and technical services (up 3,200 jobs), and management of companies and enterprises (up 500 jobs).



Market Statistics

	Change Over Last Quarter	2Q 2019	1Q 2019	2Q 2018	% Change Over Last Year
Vacancy Rate	▼ DOWN	3.41%	3.62%	3.31%	3.02%
Availability Rate	▲ UP	5.73%	5.50%	5.13%	11.70%
Average Asking Lease Rate	▲ UP	\$1.38	\$1.36	\$1.29	6.98%
Sale & Lease Transactions	▲ UP	1,265,423	1,209,995	2,063,193	(38.67%)
Gross Absorption	▼ DOWN	820,898	1,091,983	815,140	0.71%
Net Absorption	▲ POSITIVE	66,139	(138,344)	15,495	N/A

**OVERALL.** Economic growth throughout Orange County is one of the drivers of the continued low vacancy rates and rent growth. Furthermore, some of this region’s leading businesses are growing at an even faster rate than the economy. High levels of leasing and increasing lease rates have made investment sales more attractive. Orange County’s economic strength continues to be driven by a more diverse technology sector than many U.S. states with well-known high-tech centers.

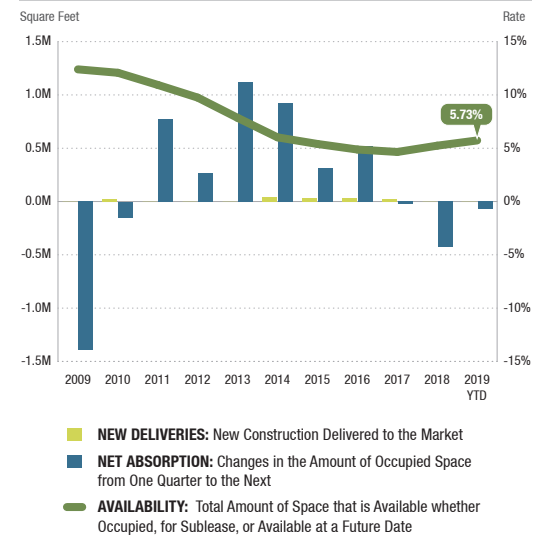
**LEASE RATES.** Rent growth continues to be steady. With few attractive alternatives in the market, expect lease rates to continue to climb as a result. We expect 2–3% annualized growth in the coming year.

**VACANCY.** R&D/Flex real estate demand continues to achieve new heights, and we expect more of the same through 2019, anticipating vacancy rates in the 3.0–3.5% range over the next three quarters.

**CONSTRUCTION.** There was no R&D/Flex space under construction in Orange County in the second 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. In 2019, developers are tending to be conservative and build alternative (more lucrative) uses in the short term.

**ABSORPTION.** The Orange County R&D/Flex market posted 66,139 square feet of positive net absorption in the second quarter, bouncing back from 138,344 square feet of negative net absorption in the first quarter. Tenants that moved into large blocks of space in the second quarter included: Norovoc Inc. (30,495 square feet in Irvine Spectrum), Capmatic Manufacturing (25,721 square feet in Cypress) and TAE Technologies, Inc. (25,138 square feet in Foothill Ranch).

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



Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
15771 Red Hill Ave.	Tustin	79,756	\$23,500,000	GEM Realty	Bixby Land Company
1382 Bell Ave.	Tustin	120,000	\$23,100,000	SteelWave-GEM Partnership	C2H2 Ltd.
15501 Red Hill Ave.	Tustin	44,123	\$15,550,000	Stein Holdings, LLC	Kelemen Caamano Investments
1620 Sunflower Ave.	Costa Mesa	37,455	\$9,400,000	SFHY Enterprise, LLC	Meridian Link Inc.
2909 Tech Center Dr.	Santa Ana	10,500	\$4,300,000	Daleo Enterprises	Wojciech Smolenski

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
22895 Eastpack	Yorba Linda	34,972	Jun-2019	Luce Communication, LLC	22895 Eastpark Dr, LLC
15221 Barranca Pkwy.	Irvine Spectrum	30,495	May-2019	Norovoc Inc.*	Northwestern Mutual Life Insurance*
19571 Pauling – Sublease	Foothill Ranch	25,138	Jun-2019	TAE Technologies, Inc.	Rapic Conn, Inc.
3000 Airway Ave.	Costa Mesa	20,903	Jun-2019	Irvine Sensors Corporation	CPF Airway Associates
1101–1107 S. Placentia Ave.	Fullerton	16,220	May-2019	Nomad Footwear, Inc.*	B&W Realty, 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 2Q2019	Square Feet Available	Availability Rate 2Q2019	Average Asking Lease Rate	Net Absorption 2Q2019	Net Absorption 2019	Gross Absorption 2Q2019	Gross Absorption 2019
<b>Airport Area</b>													
Costa Mesa	175	4,162,875	0	0	82,162	1.97%	144,466	3.47%	\$1.32	12,840	58,922	52,531	159,833
Fountain Valley	50	1,428,209	0	0	5,663	0.40%	10,377	0.73%	\$1.05	6,233	6,103	13,016	67,984
Irvine	248	6,366,102	0	0	307,330	4.83%	660,117	10.37%	\$1.28	45,667	97,931	124,455	271,304
Newport Beach	22	579,305	0	0	21,738	3.75%	31,738	5.48%	\$0.00	(4,000)	(10,557)	5,000	5,000
Santa Ana	189	4,888,660	0	0	193,115	3.95%	303,269	6.20%	\$1.11	(13,827)	(50,837)	44,014	117,960
Tustin	88	2,976,018	0	0	210,146	7.06%	333,950	11.22%	\$1.36	(11,113)	(1,338)	29,444	74,927
<b>Airport Area Total</b>	<b>772</b>	<b>20,401,169</b>	<b>0</b>	<b>0</b>	<b>820,154</b>	<b>4.02%</b>	<b>1,483,917</b>	<b>7.27%</b>	<b>\$1.25</b>	<b>35,800</b>	<b>100,224</b>	<b>268,460</b>	<b>697,008</b>
<b>North County</b>													
Anaheim	186	5,199,307	0	0	127,353	2.45%	178,915	3.44%	\$1.65	(12,051)	(26,045)	29,758	137,690
Brea	50	1,472,162	0	0	31,509	2.14%	36,980	2.51%	\$0.98	12,346	11,322	16,714	42,014
Buena Park	30	947,608	0	0	32,240	3.40%	32,240	3.40%	\$1.00	(23,384)	(3,947)	2,358	24,923
Fullerton	49	1,844,047	0	0	56,559	3.07%	64,046	3.47%	\$0.00	(10,910)	4,470	24,416	119,492
La Habra	10	187,013	0	0	2,905	1.55%	2,905	1.55%	\$0.00	2,808	2,540	3,488	8,028
Orange	103	2,310,808	0	0	48,609	2.10%	56,818	2.46%	\$0.00	(15,853)	(5,497)	23,564	60,153
Placentia	27	693,354	0	0	10,087	1.45%	13,967	2.01%	\$0.93	(1,962)	(3,149)	4,663	8,631
Yorba Linda	52	1,382,534	0	0	74,003	5.35%	261,421	18.91%	\$0.89	303	8,468	13,738	34,330
<b>North County Total</b>	<b>507</b>	<b>14,036,833</b>	<b>0</b>	<b>0</b>	<b>383,265</b>	<b>2.73%</b>	<b>647,292</b>	<b>4.61%</b>	<b>\$1.17</b>	<b>(48,703)</b>	<b>(11,838)</b>	<b>118,699</b>	<b>435,261</b>
<b>South County</b>													
Aliso Viejo	44	1,088,447	0	0	24,229	2.23%	56,019	5.15%	\$1.33	(2,782)	6,859	2,984	29,022
Foothill Ranch	7	162,895	0	0	0	0.00%	0	0.00%	\$0.00	10,250	10,250	10,250	10,250
Irvine Spectrum	301	10,449,721	0	0	323,266	3.09%	643,459	6.16%	\$1.63	59,970	55,118	213,582	332,698
Laguna Hills	55	1,274,896	0	0	43,620	3.42%	46,749	3.67%	\$1.39	(21,812)	(25,731)	19,553	33,851
Laguna Niguel	19	463,751	0	0	4,620	1.00%	6,180	1.33%	\$0.00	1,384	1,704	3,592	3,912
Lake Forest	62	1,427,597	0	0	49,207	3.45%	53,345	3.74%	\$1.23	3,018	(4,294)	27,713	45,132
Mission Viejo	35	615,629	0	0	17,983	2.92%	29,396	4.77%	\$1.40	(3,010)	3,258	2,916	11,759
Rancho Santa Margarita	43	1,476,769	0	0	14,856	1.01%	52,553	3.56%	\$0.00	(1,685)	(13,396)	1,460	2,687
San Clemente	56	1,348,747	0	0	56,944	4.22%	105,862	7.85%	\$1.37	(7,256)	(2,888)	13,011	37,505
San Juan Capistrano	40	653,522	0	0	29,146	4.46%	23,867	3.65%	\$1.35	(4,876)	1,876	9,433	16,185
<b>South County Total</b>	<b>662</b>	<b>18,961,974</b>	<b>0</b>	<b>0</b>	<b>563,871</b>	<b>2.97%</b>	<b>1,017,430</b>	<b>5.37%</b>	<b>\$1.53</b>	<b>33,201</b>	<b>32,756</b>	<b>304,494</b>	<b>523,001</b>
<b>West County</b>													
Cypress	56	2,563,259	0	0	140,985	5.50%	112,992	4.41%	\$1.00	31,390	(192,747)	50,223	66,760
Garden Grove	69	1,785,283	0	0	51,424	2.88%	92,399	5.18%	\$0.98	3,660	3,988	24,670	75,053
Huntington Beach	131	2,674,939	0	0	53,340	1.99%	95,971	3.59%	\$1.05	(11,949)	(11,268)	20,861	61,637
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	17,840	1.91%	19,840	2.13%	\$0.00	14,234	6,174	19,260	38,930
Stanton	5	104,129	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Westminster	18	486,743	0	0	4,000	0.82%	4,000	0.82%	\$0.00	8,506	506	14,231	15,231
<b>West County Total</b>	<b>322</b>	<b>8,626,015</b>	<b>0</b>	<b>0</b>	<b>346,569</b>	<b>4.02%</b>	<b>404,182</b>	<b>4.69%</b>	<b>\$0.95</b>	<b>45,841</b>	<b>(193,347)</b>	<b>129,245</b>	<b>257,611</b>
<b>Orange County Total</b>	<b>2,263</b>	<b>62,025,991</b>	<b>0</b>	<b>0</b>	<b>2,113,859</b>	<b>3.41%</b>	<b>3,552,821</b>	<b>5.73%</b>	<b>\$1.38</b>	<b>66,139</b>	<b>(72,205)</b>	<b>820,898</b>	<b>1,912,881</b>
<b>Airport Area</b>													
10,000-24,999	532	8,567,926	0	0	262,385	3.06%	441,058	5.15%	\$1.29	34,112	43,950	188,713	431,492
25,000-49,999	175	5,872,958	0	0	186,534	3.18%	309,514	5.27%	\$1.22	15,139	25,420	66,097	191,722
50,000-99,999	51	3,339,560	0	0	338,725	10.14%	514,094	15.39%	\$1.20	(13,451)	30,854	13,650	73,794
100,000 Plus	14	2,620,725	0	0	32,510	1.24%	219,251	8.37%	\$0.00	0	0	0	0
<b>North County</b>													
10,000-24,999	330	5,251,341	0	0	141,152	2.69%	219,270	4.18%	\$1.68	(18,622)	8,779	66,931	171,441
25,000-49,999	132	4,343,658	0	0	233,098	5.37%	245,994	5.66%	\$0.96	(35,550)	(26,697)	44,079	148,619
50,000-99,999	30	1,966,397	0	0	7,615	0.39%	10,455	0.53%	\$0.00	6,869	7,480	6,869	41,534
100,000 Plus	15	2,475,437	0	0	1,400	0.06%	171,573	6.93%	\$0.00	(1,400)	(1,400)	820	73,667
<b>South County</b>													
10,000-24,999	403	6,743,763	0	0	333,621	4.95%	461,572	6.84%	\$1.48	(26,163)	(44,767)	118,518	244,427
25,000-49,999	190	6,329,773	0	0	186,630	2.95%	335,009	5.29%	\$1.44	(21,005)	7,618	94,461	181,116
50,000-99,999	58	3,879,248	0	0	43,620	1.12%	220,849	5.69%	\$1.83	68,896	58,432	80,042	85,985
100,000 Plus	11	2,009,190	0	0	0	0.00%	0	0.00%	\$0.00	11,473	11,473	11,473	11,473
<b>West County</b>													
10,000-24,999	224	3,574,987	0	0	92,259	2.58%	171,398	4.79%	\$1.01	43,141	39,867	84,353	170,313
25,000-49,999	65	2,206,880	0	0	107,983	4.89%	123,046	5.58%	\$1.00	(2,758)	(41,692)	37,834	77,365
50,000-99,999	29	1,956,808	0	0	146,327	7.48%	109,738	5.61%	\$0.86	5,458	(67,347)	7,058	9,933
100,000 Plus	4	887,340	0	0	0	0.00%	0	0.00%	\$0.00	0	(124,175)	0	0
<b>Orange County</b>													
10,000-24,999	1,489	24,138,017	0	0	829,417	3.44%	1,293,298	5.36%	\$1.43	32,468	47,829	458,515	1,017,673
25,000-49,999	562	18,753,269	0	0	714,245	3.81%	1,013,563	5.40%	\$1.22	(44,174)	(35,351)	242,471	598,822
50,000-99,999	168	11,142,013	0	0	536,287	4.81%	855,136	7.67%	\$1.27	67,772	29,419	107,619	211,246
100,000 Plus	44	7,992,692	0	0	33,910	0.42%	390,824	4.89%	\$0.00	10,073	(114,102)	12,293	85,140
<b>Orange County Total</b>	<b>2,263</b>	<b>62,025,991</b>	<b>0</b>	<b>0</b>	<b>2,113,859</b>	<b>3.41%</b>	<b>3,552,821</b>	<b>5.73%</b>	<b>\$1.38</b>	<b>66,139</b>	<b>(72,205)</b>	<b>820,898</b>	<b>1,912,881</b>

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



## Can I Buy in a Hot Market?

by **Eric Smith**

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This past spring, we officially entered the geriatric stage, economically speaking of course. We are in what many have believed to be the longest bull market in recent U.S. history. In the geriatric analogy that would put us, or this up-ticking market rather, in the nursing home. But the question remains, can you still buy in this market? And is that wise?

The answer is **yes**. You can still buy owner/user occupant and even investment real estate in this insanely white-hot market. Here's why:

For the owner/user, you must first look your primary alternative, **leasing**. Sure, sales prices are at record highs but so are lease rates. Moreover, the aggressive (I prefer the term "market savvy") landlord is offering fewer concessions, demanding long-term leases and passing more maintenance and capital improvement responsibilities off to the tenant. So, if a market correction does occur you may be locked into a long-term lease with difficulty in subleasing to get out. The realization that the alternative is less desirable may convince you to purchase instead of leasing.

**Historically low interest rates, still!** The gravy train keeps rolling. The days of double-digit borrowing costs we saw in the early 1980s have been usurped by rates in the low 4% range. If you can buy today and lock in financing at record low rates for 25 years, the question then becomes "why wouldn't you?" And does price matter? Perhaps not when your mortgage is similar or even less than a lease rate.

The United States has and always will support the **ownership of real estate as it is a pillar of wealth creation**. The ability to own, finance, refinance and enjoy appreciation is incredible, especially over long periods of time. Looking at historical trends, industrial buildings in the 1980s were priced roughly \$50 per square foot. Many of those similar buildings are now trading for \$200 per square foot. I suspect that investors in the market at that time who opted not to buy over a few dollars a square foot are feeling some regret today, especially when considering that real estate offers the ability to refinance and provide a cash influx for business and personal wealth expansion.

**After-Tax Benefit** — Owners of commercial real estate are afforded many ways to reduce their taxable income, depreciation being one of the most valuable. Each year, as a property owner, you're able to deduct a percentage of the structure's value. Certain expenses related to the operation of the real estate are also deductible. Don't forget mortgage interest, that's also deductible along with property tax. In many cases, when you realize the after-tax benefits **owning is still cheaper than leasing**.

### Please Contact Us for Further Information

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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