

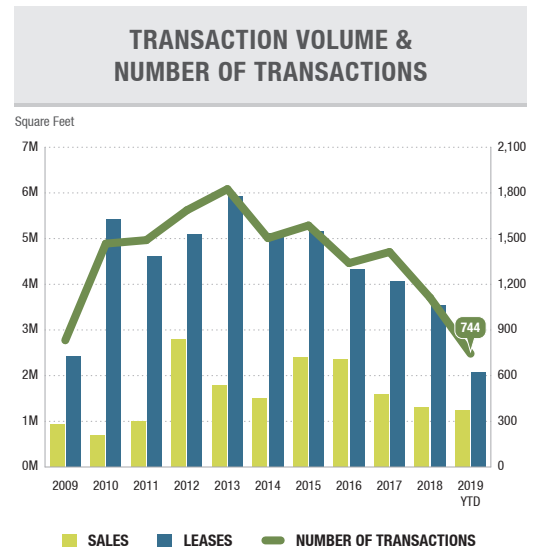
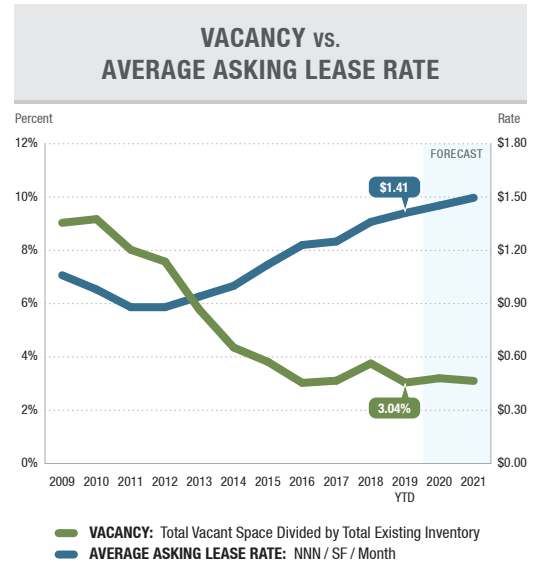
MARKET OVERVIEW. The Orange County R&D / Flex market continues to flourish, casting new sale price and cap rate records while lease rates continue to rise. Although pricing at or near the high watermark has caused some buyers and tenants to rethink their expansion strategies, enough demand exists such that most available properties are enjoying steady interest, and many have multiple offers in the queue. Although future increases for sale prices and lease rates may not be as pronounced as witnessed over the past 24 months, the combination of historically low vacancy, minimal new construction and steady demand from a diverse user base will keep upward pressure on lease rates and sale prices. Fundamentals are well positioned in the Orange County R&D / Flex market, as strong leasing demand has compressed vacancies.

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 3.04%, a decrease from the previous quarter’s vacancy rate of 3.33%, and 35 basis points lower than the vacancy rate of a year ago. The vacancy rate remains well below the 2010 recession high of 9.13%.

LEASE RATES. The average asking triple-net lease rate per square foot per month in Orange County was \$1.41 at the end of the third quarter, an increase from both the previous quarter’s rate of \$1.38 and 2018’s rate of \$1.34. Average asking lease rates have risen \$0.53 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. Tenants continue to need space, and construction continues to lag. After an active second quarter in 2019, transaction activity got off to a slower start in the third quarter of 2019. Demand for R&D / Flex space in Orange County has slowed down, with 1,194,157 square feet in total transactions (sale and lease) in the third quarter, down from just over 1.22 MSF 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 the Orange County market was 3.0% in August 2019, down from a revised 3.2% in July 2019, and below the year-ago estimate of 3.1%. This compares with an unadjusted unemployment rate of 4.2% for California and 3.8% for the nation during the same period. The growth was evident across all subsectors with four sectors reporting month-over gains: financial activities (up 500 jobs), construction (up 400 jobs) and professional and business services (up 100 jobs each).



Market Statistics

	Change Over Last Quarter	3Q 2019	2Q 2019	3Q 2018	% Change Over Last Year
Vacancy Rate	▼ DOWN	3.04%	3.33%	3.39%	(10.32%)
Availability Rate	▲ UP	6.05%	5.53%	4.94%	22.47%
Average Asking Lease Rate	▬ FLAT	\$1.41	\$1.38	\$1.34	5.22%
Sale & Lease Transactions	▼ DOWN	1,194,157	1,223,919	1,007,724	18.50%
Gross Absorption	▲ UP	868,531	820,898	861,938	0.76%
Net Absorption	▲ POSITIVE	126,321	66,139	(23,107)	N/A

OVERALL. Economic growth throughout Orange County is one of the drivers of the continued low vacancy rates and rent growth. The Orange County R&D/Flex market continues its path of positive net absorption, posting almost 200,000 square feet in the past six months. Orange County’s economic strength continues to be driven by a more diverse technology sector than many U.S. counties with well-known high-tech centers.

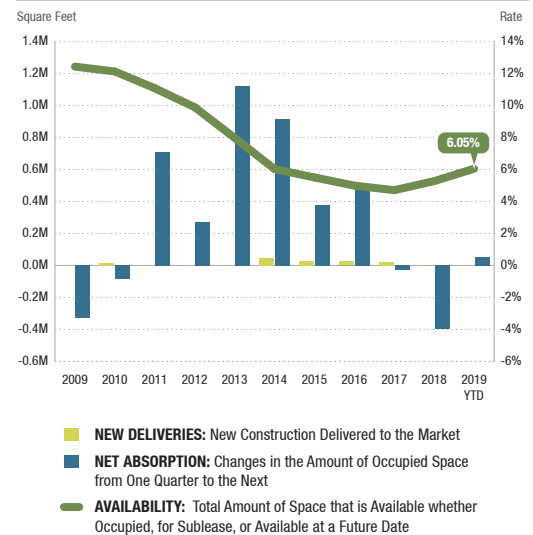
LEASE RATES. Rent growth continues to be steady. With few attractive alternatives in the market, expect lease rates to continue to climb as a result. We expect 2–3% annualized growth in the coming year.

VACANCY. R&D/Flex real estate demand continues to achieve new heights, and we expect more of the same closing out 2019, anticipating vacancy rates in the 2.75–3.15% range over the next three quarters.

CONSTRUCTION. There was absolutely no R&D/Flex space under construction in Orange County in the third 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 recorded 126,321 square feet of positive net absorption in the third quarter. The market is now in the positive for the year to date, with 54,116 square feet of net absorption, overcoming a level of negative net absorption from the first quarter. Tenants that moved into large blocks of space in the third quarter included: Bisco Industries (81,836 square feet in Anaheim), Luce Communications, LLC (34,972 square feet in Yorba Linda) and Irvine Sensors Corporation (20,903 square feet in Costa Mesa).

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
26211 Enterprise Way	Lake Forest	58,760	\$16,500,000	NP Enterprise, LLC	Corsair Management, LP
1 Doppler	Irvine Spectrum	39,564	\$11,850,000	Greenfield Investment Group, LLC	Bake Irvine Center, LLC
7151 Patterson Dr.	Garden Grove	20,680	\$4,508,240	Yensen	Dexter Corporation
1213 S. Claudina St.	Anaheim	10,430	\$4,075,000	Anaheim Housing Authority	B & Ainv 1, LLC
26981 Vista Terrace	Lake Forest	10,447	\$3,238,570	Jinrong Xie	Fadi Cheikha

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
5037–5065 E. Hunter Ave.	Anaheim	81,836	Jul-2019	Bisco Industries	Glen & Barbara Ceiley Revocable Trust
1430 Village Way	Santa Ana	24,220	Aug-2019	Sears Outlet	Northern McFadden
925 W. Lambert Rd.	Brea	22,590	Sept-2019	Life Bloom	TIAA-CREF
100 Avenida La Pata	San Clemente	20,324	Jul-2019	Dealersocket	Metro Commercial Realty Corporation
2995 Airway Ave.	Costa Mesa	19,552	Jul-2019	EcoSense Lighting	St James Church of NB

	INVENTORY					VACANCY & LEASE RATES				ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2019	Square Feet Available	Availability Rate 3Q2019	Average Asking Lease Rate	Net Absorption 3Q2019	Net Absorption 2019	Gross Absorption 3Q2019	Gross Absorption 2019
Airport Area													
Costa Mesa	171	3,975,612	0	0	65,780	1.65%	118,982	2.99%	\$1.33	31,070	89,992	(59,086)	218,919
Fountain Valley	49	1,406,978	0	0	11,114	0.79%	11,894	0.85%	\$1.05	(5,451)	652	(5,862)	73,846
Irvine	247	6,317,173	0	0	286,104	4.53%	744,821	11.79%	\$1.60	(17,533)	80,398	(82,269)	353,573
Newport Beach	22	609,320	0	0	25,073	4.11%	27,573	4.53%	\$1.95	(3,335)	(13,892)	(3,412)	8,412
Santa Ana	187	4,824,560	0	0	143,545	2.98%	274,928	5.70%	\$1.33	32,292	(18,545)	(35,497)	153,457
Tustin	89	3,095,759	0	0	222,975	7.20%	297,276	9.60%	\$1.29	(14,749)	(16,087)	(27,560)	102,487
Airport Area Total	765	20,229,402	0	0	754,591	3.73%	1,475,474	7.29%	\$1.44	22,294	122,518	(213,686)	910,694
North County													
Anaheim	186	5,229,724	0	0	122,191	2.34%	212,022	4.05%	\$1.48	80,768	54,723	(46,979)	184,669
Brea	53	1,517,489	0	0	32,899	2.17%	49,701	3.28%	\$1.08	(1,314)	10,008	(11,326)	53,340
Buena Park	30	948,548	0	0	15,239	1.61%	21,563	2.27%	\$1.04	(4,199)	(8,146)	(4,529)	29,452
Fullerton	47	1,852,262	0	0	42,834	2.31%	70,524	3.81%	\$1.05	13,725	18,195	(38,483)	157,975
La Habra	10	187,013	0	0	2,905	1.55%	2,905	1.55%	\$0.00	0	2,540	0	8,028
Orange	104	2,340,777	0	0	44,711	1.91%	78,537	3.36%	\$1.05	5,073	(424)	(20,693)	80,846
Placentia	27	693,354	0	0	11,502	1.66%	11,502	1.66%	\$0.90	(1,415)	(4,564)	(12,005)	20,636
Yorba Linda	52	1,508,383	0	0	49,245	3.26%	241,616	16.02%	\$1.01	31,758	40,226	(32,436)	66,766
North County Total	509	14,277,550	0	0	321,526	2.25%	688,370	4.82%	\$1.16	124,396	112,558	(166,451)	601,712
South County													
Aliso Viejo	44	1,088,447	0	0	29,857	2.74%	29,372	2.70%	\$1.46	(5,628)	1,231	(28,372)	57,394
Foothill Ranch	7	162,895	0	0	0	0.00%	0	0.00%	\$0.00	0	10,250	0	10,250
Irvine Spectrum	302	10,491,822	0	0	291,004	2.77%	783,419	7.47%	\$1.64	21,977	77,095	(183,993)	516,691
Laguna Hills	56	1,286,079	0	0	40,509	3.15%	64,100	4.98%	\$1.37	424	(25,307)	(35,998)	69,849
Laguna Niguel	19	467,336	0	0	5,082	1.09%	6,642	1.42%	\$0.00	(462)	1,242	(400)	4,312
Lake Forest	62	1,427,597	0	0	37,926	2.66%	63,957	4.48%	\$1.28	12,901	8,607	(43,401)	88,533
Mission Viejo	35	615,629	0	0	18,238	2.96%	35,788	5.81%	\$1.40	(1,921)	1,337	(3,671)	15,430
Rancho Santa Margarita	40	1,427,688	0	0	0	0.00%	37,697	2.64%	\$1.28	3,145	(10,251)	(3,145)	5,832
San Clemente	58	1,382,842	0	0	54,716	3.96%	114,353	8.27%	\$1.43	(15,119)	(18,007)	(1,800)	39,305
San Juan Capistrano	40	661,727	0	0	33,108	5.00%	33,374	5.04%	\$1.58	(10,426)	(8,550)	(16,722)	32,907
South County Total	663	19,012,062	0	0	510,440	2.68%	1,168,702	6.15%	\$1.56	4,891	37,647	(317,502)	840,503
West County													
Cypress	55	2,232,929	0	0	65,255	2.92%	132,288	5.92%	\$0.95	(5,654)	(198,401)	(74,980)	141,740
Garden Grove	68	1,772,783	0	0	56,496	3.19%	89,705	5.06%	\$0.92	(7,196)	(3,208)	(26,657)	101,710
Huntington Beach	131	2,669,014	0	0	52,745	1.98%	62,456	2.34%	\$1.23	(705)	(11,973)	(46,532)	108,169
La Palma	1	78,980	0	0	78,980	100.00%	78,980	100.00%	\$0.86	0	0	0	0
Los Alamitos	42	883,255	0	0	31,945	3.62%	37,675	4.27%	\$0.00	(14,105)	(7,931)	(16,723)	55,653
Stanton	5	104,129	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Westminster	17	465,668	0	0	1,600	0.34%	2,600	0.56%	\$0.00	2,400	2,906	(6,000)	21,231
West County Total	319	8,206,758	0	0	287,021	3.50%	403,704	4.92%	\$0.92	(25,260)	(218,607)	(170,892)	428,503
Orange County Total	2,256	61,725,772	0	0	1,873,578	3.04%	3,736,250	6.05%	\$1.41	126,321	54,116	868,531	2,781,412
Airport Area													
10,000-24,999	527	8,563,776	0	0	290,005	3.39%	404,444	4.72%	\$1.39	(36,061)	7,889	(107,858)	539,350
25,000-49,999	172	5,796,204	0	0	162,401	2.80%	323,898	5.59%	\$1.56	17,581	43,001	(40,990)	232,712
50,000-99,999	49	3,248,697	0	0	285,345	8.78%	543,551	16.73%	\$1.23	40,774	71,628	(49,168)	122,962
100,000 Plus	17	2,620,725	0	0	16,840	0.64%	203,581	7.77%	\$0.00	0	0	(15,670)	15,670
North County													
10,000-24,999	330	5,320,994	0	0	135,672	2.55%	279,467	5.25%	\$1.31	(12,201)	(3,422)	(90,191)	261,632
25,000-49,999	133	4,385,411	0	0	173,024	3.95%	220,901	5.04%	\$0.98	58,576	31,879	(72,795)	221,414
50,000-99,999	30	1,953,845	0	0	12,830	0.66%	16,364	0.84%	\$0.00	76,621	84,101	(1,450)	42,984
100,000 Plus	16	2,617,300	0	0	0	0.00%	171,638	6.56%	\$0.00	1,400	0	(2,015)	75,682
South County													
10,000-24,999	403	6,733,388	0	0	313,078	4.65%	467,256	6.94%	\$1.47	(17,996)	(62,763)	(161,903)	406,330
25,000-49,999	190	6,337,903	0	0	189,361	2.99%	328,311	5.18%	\$1.57	(14,947)	(7,329)	(54,638)	235,754
50,000-99,999	59	3,931,581	0	0	8,001	0.20%	246,638	6.27%	\$1.68	37,834	96,266	(100,961)	186,946
100,000 Plus	11	2,009,190	0	0	0	0.00%	126,497	6.30%	\$1.10	0	11,473	0	11,473
West County													
10,000-24,999	226	3,609,660	0	0	120,099	3.33%	147,391	4.08%	\$1.07	(22,799)	17,068	(66,976)	237,289
25,000-49,999	61	2,069,586	0	0	81,342	3.93%	88,237	4.26%	\$1.02	(2,461)	(44,153)	(31,111)	108,476
50,000-99,999	29	1,971,548	0	0	85,580	4.34%	168,076	8.53%	\$0.86	0	(67,347)	(72,805)	82,738
100,000 Plus	3	555,964	0	0	0	0.00%	0	0.00%	\$0.00	0	(124,175)	0	0
Orange County													
10,000-24,999	1,486	24,227,818	0	0	858,854	3.54%	1,298,558	5.36%	\$1.38	(89,057)	(41,228)	(426,928)	1,444,601
25,000-49,999	556	18,589,104	0	0	606,128	3.26%	961,347	5.17%	\$1.48	58,749	23,398	(199,534)	798,356
50,000-99,999	167	11,105,671	0	0	391,756	3.53%	974,629	8.78%	\$1.34	155,229	184,648	(224,384)	435,630
100,000 Plus	47	7,803,179	0	0	16,840	0.22%	501,716	6.43%	\$1.10	1,400	(112,702)	(17,685)	102,825
Orange County Total	2,256	61,725,772	0	0	1,873,578	3.04%	3,736,250	6.05%	\$1.41	126,321	54,116	868,531	2,781,412

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



Tight Market Makes for Tough Decisions

by **Tom Terry**

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Orange County businesses large and small continue to thrive, and demand for industrial space from owner/users and tenants continues to strengthen. One huge reason for this is the logistics sector which is expanding rapidly as more consumer purchases move online and away from traditional brick and mortar stores. This so-called “Amazon Effect” has caused a spike in industrial property demand for “last mile” warehouse locations that shorten delivery times for everything from electronics to groceries.

Business owners who lease their space have seen rates climb to record levels. That has many of them focusing on purchasing their own property, with down payments as low as 10%, to take advantage of some of the lowest interest rates in history. Even at today’s high price points, monthly mortgage debt service is nearly equivalent to a market lease payment for most buildings. The thought is that it’s better to build equity for themselves than it is to write a rent check every month to a third party.

Those who choose to continue leasing must face the difficult decision either to renew in place or to risk trying to find a new building before their lease expires. Vacancy overall is low, and in the under 15,000 square-foot range there are very few options, if any at all. Small industrial buildings are becoming irreplaceable assets, as there may never be another one built under 15,000 square feet in Orange County. The high cost of land does not support construction in that size range. Instead, developers are repurposing industrial land to high-density residential and mixed-use projects to justify the risks of ground-up development.

We are seeing more long-term property owners decide to dispose of their assets to capitalize on record high property values. Even some of the most tax-averse owners are beginning to realize that their properties have appreciated to a point where cashing out and paying their taxes will still leave them with a windfall profit. If you knew a market correction was on the horizon, what would you do? Hold, sell or buy?

Property owners who have weathered multiple recessions and have plans to retire soon are in the perfect position to exit their investments at or near the peak of the current market up-cycle. Buyers are more concerned about reducing their risk by fixing their occupancy cost and securing a facility that will suit their operational needs over the long term. If the right seller is matched to the right buyer, then everybody wins.

Unfortunately, the ratio of sellers to buyers is still skewed, and many buyers are losing out on competing offers. By the time a new listing officially hits the market, it is either already in escrow, or there are several competing offers. With such limited inventory, sourcing off-market opportunities is where your real estate professional can add real value.

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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.

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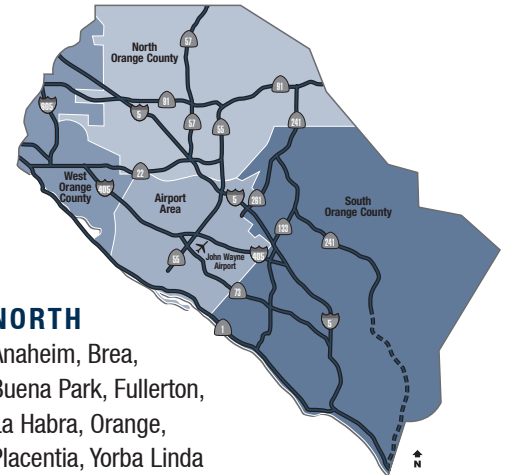


Product Type

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