

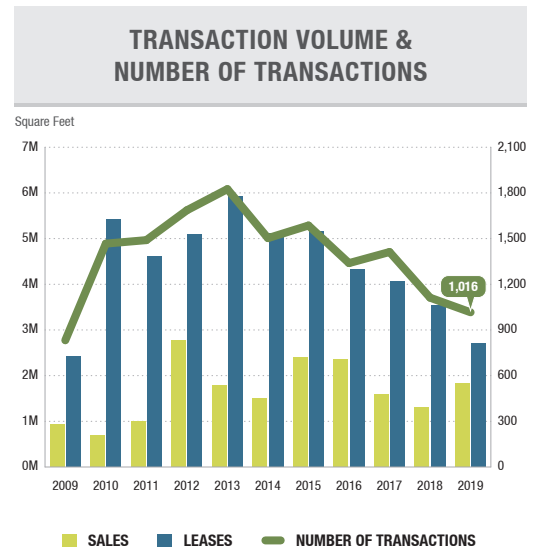
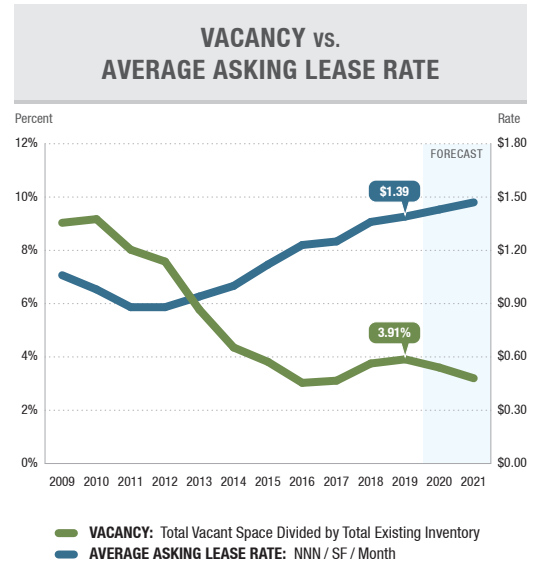
MARKET OVERVIEW. Orange County’s R&D/Flex market remains tight, driven by expanding tech, health services and biotech firms. Agendia, STARC, and Spigen Inc. are just three of the major companies that have recently made fresh lease commitments. Leasing activity is concentrated in the South County and Airport Area submarkets, with some warning signs of sluggish activity beginning to emerge elsewhere. Countywide net absorption fell in 2019, turning negative in the fourth quarter due to several major move-outs that were not offset by new lease activity. Positive absorption is expected to return in the first half of the year, but the year-end (2019) slowdown is still reason for concern. Overall rent growth was tepid in 2019, but due to a lack of supply in the Airport and South County submarkets, rent growth in those areas should continue going forward. Orange County still supports strong tech and health services sectors, two of the biggest job generators, which bodes well for further growth in the R&D/Flex market over the long term.

VACANCY. Supply constraints have kept R&D/flex vacancy low and fundamentals steady. Direct/sublease space (unoccupied) finished the fourth quarter at just 3.91%, an increase from the previous quarter’s vacancy rate of 3.04% (due to several major move-outs in the same period) and 16 basis points higher than a year ago. Vacancy remains well below the 2010 recession low of 9.13%.

LEASE RATES. The average asking triple-net lease rate ended the year at \$1.39, up just \$0.03 year-over-year. However, since the bottom of the last recession back in 2011, that rate has risen by \$0.51, and is now well above the previous peak rate of \$1.24 set in the second quarter of 2007.

TRANSACTION ACTIVITY. The combined amount of square feet leased or sold in the fourth quarter totaled 1.25 MSF, a 250,000 square foot increase compared with the same period last year. Sales transaction volume in 2019 was at its highest level in three years, while leasing activity fell to its lowest level since 2013. With such a limited number of available lease options, the supply/demand imbalance continues to limit overall activity.

EMPLOYMENT. The unemployment rate in the Orange County market was 2.5% in November 2019, unchanged from a revised 2.5% in October, and below the year-ago estimate of 2.7%. This compares with an unadjusted unemployment rate of 3.7% for California and 3.3% for the nation during the same period. Local job growth was evident across all subsectors but financial services (up 1,200 jobs) and Government (up 2,200 jobs) led the way as the year ended.



Market Statistics

	Change Over Last Quarter	4Q 2019	3Q 2019	4Q 2018	% Change Over Last Year
Vacancy Rate	▲ UP	3.91%	3.04%	3.75%	4.27%
Availability Rate	▼ DOWN	5.69%	6.05%	5.28%	7.77%
Average Asking Lease Rate	▼ DOWN	\$1.39	\$1.41	\$1.36	2.21%
Sale & Lease Transactions	▼ DOWN	1,251,331	1,271,055	1,001,498	24.95%
Gross Absorption	▲ UP	956,016	868,531	753,442	26.89%
Net Absorption	▼ NEGATIVE	(289,607)	126,321	(224,306)	N/A

OVERALL. Signs of a global economic slowdown, concerns over US-China trade relations and a decline in the US GDP growth rate motivated the Fed to cut its benchmark Federal Funds Rate 3 times in 2019. That effort to stimulate consumer spending and business investment seems to be working. Equity markets responded by rising to new highs and the spread between short- and long-term US Treasuries widened again after a dangerous inversion earlier in the year. The latest estimates for domestic GDP growth for 2020 are running in the low 2% range, which should be enough to keep the current economic recovery on track.

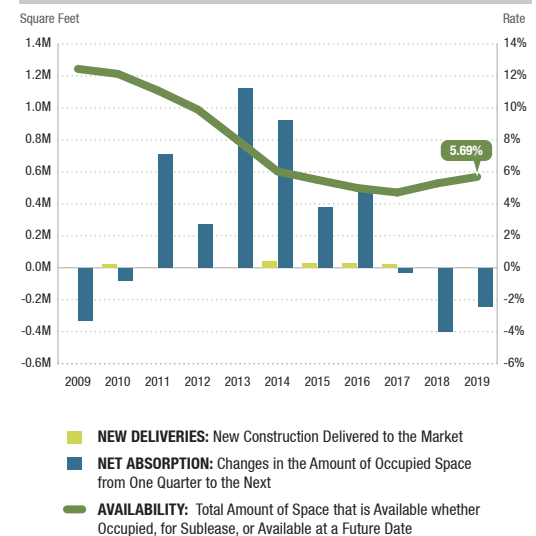
LEASE RATES. Rent growth continues to be steady. With severely constrained supply, we expect lease rates to climb another 2-3% in the coming year.

VACANCY. R&D/Flex real estate demand should remain active going forward and we anticipate a decline in vacancy into the 3.0–3.5% range over the next three quarters.

CONSTRUCTION. At the end of the fourth quarter of 2019, there was only one building under construction in the Orange County R&D/Flex market, totaling 239,000 square feet. The project is part of Edwards Life Sciences’ plan to nearly double the size of its Irvine headquarters. According to city records, the project will eventually total approximately 471,000 square feet once all three phases are completed over the next several years. The new facilities will include office, lab, manufacturing, warehouse and other space and bring the company’s total footprint up to 660,475 square feet on 26 acres.

ABSORPTION. The Orange County R&D/Flex market recorded 289,607 square feet of negative net absorption in the fourth quarter due to several large move-outs including: Meggit PLC (186,741 square feet in Irvine) and ASICS American Corporation (53,392 square feet in Irvine Spectrum). Despite that hit, Orange County’s R&D/Flex vacancy rate of 5.6% is still well below the market’s historical average.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
14401–14471 Myford Rd.	Tustin	93,180	\$32,360,000	Panattoni Development Company	AT&T, Inc.
5100–5150 E. La Palma Ave.	Anaheim	154,627	\$21,300,000	Anaheim Business Campus, LLC*	Anaheim Hill Enterprises, LLC
17151–17233 Newhope St.	Fountain Valley	102,569	\$20,756,000	Dunbar Real Estate Investment Management	The Seligman Group
2841 Dow Ave.	Tustin	84,176	\$16,000,000	Eurofins	Patel & King Properties, LLC*
18250 Euclid St.	Fountain Valley	62,838	\$14,000,000	Rexford	PPM Investments LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1800 E. Saint Andrew Pl.	Santa Ana	118,224	Oct-2019	Fabcon	1800 Saint Andrew, LLC
4 Studebaker	Irvine Spectrum	34,902	Nov-2019	Agendia	Alcone Marketing Group
4 Hubble Dr.	Irvine Spectrum	29,940	Oct-2019	Spigen Inc.	Ellsworth Adhesive
1041 Calle Trepadora	San Clemente	25,992	Nov-2019	STARC	Western State Technology
4 Jenner St.	Irvine Spectrum	19,713	Oct-2019	Medalliance, LLC	Blizzard Entertainment, Inc.

	INVENTORY					VACANCY & LEASE RATES				ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2019	Square Feet Available	Availability Rate 4Q2019	Average Asking Lease Rate	Net Absorption 4Q2019	Net Absorption 2019	Gross Absorption 4Q2019	Gross Absorption 2019
Airport Area													
Costa Mesa	173	3,981,685	0	78,738	83,489	2.10%	162,886	4.09%	\$1.87	4,275	94,267	49,184	268,103
Fountain Valley	48	1,403,964	0	0	27,513	1.96%	27,901	1.99%	\$1.05	(16,399)	(15,747)	9,854	83,700
Irvine	246	6,331,158	239,000	0	508,469	8.03%	583,527	9.22%	\$1.35	(203,245)	(122,847)	81,823	435,396
Newport Beach	22	607,189	0	0	21,073	3.47%	25,573	4.21%	\$0.00	4,000	(9,892)	16,500	24,912
Santa Ana	186	4,793,410	0	0	130,732	2.73%	258,464	5.39%	\$0.90	29,673	11,128	117,076	270,533
Tustin	88	3,088,381	0	0	346,838	11.23%	276,303	8.95%	\$1.31	66,706	50,619	109,032	211,519
Airport Area Total	763	20,205,787	239,000	78,738	1,118,114	5.53%	1,334,654	6.61%	\$1.27	(114,990)	7,528	383,469	1,294,163
North County													
Anaheim	186	5,222,621	0	0	136,268	2.61%	193,427	3.70%	\$1.47	(30,614)	24,109	75,553	260,222
Brea	53	1,517,746	0	0	27,865	1.84%	19,625	1.29%	\$1.32	2,284	12,292	9,822	63,162
Buena Park	30	948,548	0	0	24,073	2.54%	23,118	2.44%	\$0.00	(8,834)	(16,980)	13,479	42,931
Fullerton	47	1,832,552	0	0	44,599	2.43%	131,456	7.17%	\$0.00	(1,765)	16,430	27,977	185,952
La Habra	10	187,013	0	0	2,108	1.13%	2,108	1.13%	\$0.00	797	3,337	1,797	9,825
Orange	102	2,299,127	0	0	62,374	2.71%	55,572	2.42%	\$0.00	(17,663)	(18,087)	14,966	95,812
Placentia	27	695,850	0	0	15,048	2.16%	15,048	2.16%	\$0.98	(3,546)	(8,110)	2,400	23,036
Yorba Linda	52	1,508,383	0	0	46,684	3.09%	219,082	14.52%	\$1.15	26,399	66,625	49,960	116,726
North County Total	507	14,211,840	0	0	359,019	2.53%	659,436	4.64%	\$1.35	(32,942)	79,616	195,954	797,666
South County													
Aliso Viejo	45	1,118,648	0	0	12,349	1.10%	77,249	6.91%	\$1.42	0	1,231	0	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	10,499,597	0	0	352,125	3.35%	712,363	6.78%	\$1.64	(49,786)	27,309	142,358	659,049
Laguna Hills	55	1,281,779	0	0	37,099	2.89%	67,013	5.23%	\$1.34	6,403	(18,904)	21,748	91,597
Laguna Niguel	19	467,336	0	0	4,434	0.95%	5,336	1.14%	\$0.00	648	1,890	2,208	6,520
Lake Forest	62	1,427,597	0	0	41,017	2.87%	52,233	3.66%	\$1.30	(3,091)	5,516	17,355	105,888
Mission Viejo	35	615,629	0	0	21,465	3.49%	34,611	5.62%	\$1.40	(3,227)	(1,890)	7,345	22,775
Rancho Santa Margarita	40	1,424,506	0	0	25,238	1.77%	22,627	1.59%	\$0.00	(25,238)	(35,489)	0	5,832
San Clemente	58	1,382,842	0	0	90,815	6.57%	98,325	7.11%	\$1.35	(36,099)	(54,106)	43,108	82,413
San Juan Capistrano	40	661,727	0	0	13,618	2.06%	9,423	1.42%	\$2.50	19,490	10,940	22,806	55,713
South County Total	663	19,042,556	0	0	598,160	3.14%	1,079,180	5.67%	\$1.53	(90,900)	(53,253)	256,928	1,097,431
West County													
Cypress	53	2,203,831	0	0	54,038	2.45%	133,920	6.08%	\$1.07	9,042	(189,359)	18,567	160,307
Garden Grove	68	1,772,783	0	0	78,735	4.44%	84,181	4.75%	\$0.00	(23,776)	(26,984)	42,830	144,540
Huntington Beach	130	2,650,797	0	0	72,162	2.72%	73,003	2.75%	\$0.00	(22,000)	(33,973)	38,007	146,176
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	44,467	5.03%	55,871	6.33%	\$0.00	(10,422)	(18,353)	17,661	73,314
Stanton	5	104,129	0	0	4,219	4.05%	4,219	4.05%	\$0.00	(4,219)	(4,219)	0	0
Westminster	16	435,668	0	0	1,000	0.23%	1,000	0.23%	\$0.00	600	3,506	2,600	23,831
West County Total	315	8,129,443	0	0	333,601	4.10%	431,174	5.30%	\$0.89	(50,775)	(269,382)	119,665	548,168
Orange County Total	2,248	61,589,626	239,000	78,738	2,408,894	3.91%	3,504,444	5.69%	\$1.39	(289,607)	(235,491)	956,016	3,737,428
Airport Area													
10,000-24,999	525	8,551,211	0	0	300,764	3.52%	406,763	4.76%	\$1.30	(8,082)	(193)	122,124	661,474
25,000-49,999	172	5,805,994	0	0	200,428	3.45%	296,720	5.11%	\$1.51	(22,747)	20,254	66,181	298,893
50,000-99,999	49	3,245,133	0	78,738	286,341	8.82%	300,590	9.26%	\$1.30	58,580	130,208	128,164	251,126
100,000 Plus	17	2,603,449	239,000	0	330,581	12.70%	330,581	12.70%	\$0.00	(142,741)	(142,741)	67,000	82,670
North County													
10,000-24,999	329	5,289,969	0	0	170,514	3.22%	201,434	3.81%	\$1.72	(49,822)	(53,244)	95,995	357,627
25,000-49,999	132	4,350,726	0	0	170,417	3.92%	196,040	4.51%	\$1.05	22,138	54,017	95,125	316,539
50,000-99,999	30	1,953,845	0	0	18,088	0.93%	21,622	1.11%	\$0.00	(5,258)	78,843	2,954	45,938
100,000 Plus	16	2,617,300	0	0	0	0.00%	240,340	9.18%	\$0.00	0	0	1,880	77,562
South County													
10,000-24,999	401	6,696,776	0	0	273,762	4.09%	401,114	5.99%	\$1.51	5,866	(56,897)	120,962	527,292
25,000-49,999	191	6,352,802	0	0	241,127	3.80%	334,567	5.27%	\$1.53	(21,496)	(28,825)	77,867	313,621
50,000-99,999	60	3,983,788	0	0	83,271	2.09%	217,002	5.45%	\$1.67	(75,270)	20,996	58,099	245,045
100,000 Plus	11	2,009,190	0	0	0	0.00%	126,497	6.30%	\$0.00	0	11,473	0	11,473
West County													
10,000-24,999	223	3,563,808	0	0	147,891	4.15%	166,022	4.66%	\$1.07	(35,236)	(18,168)	87,610	324,899
25,000-49,999	60	2,038,123	0	0	92,942	4.56%	99,951	4.90%	\$0.00	(8,351)	(52,504)	32,055	140,531
50,000-99,999	29	1,971,548	0	0	92,768	4.71%	165,201	8.38%	\$0.86	(7,188)	(74,535)	0	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	1,478	24,101,764	0	0	892,931	3.70%	1,175,333	4.88%	\$1.42	(87,274)	(128,502)	426,691	1,871,292
25,000-49,999	555	18,547,645	0	0	704,914	3.80%	927,278	5.00%	\$1.43	(30,456)	(7,058)	271,228	1,069,584
50,000-99,999	168	11,154,314	0	78,738	480,468	4.31%	704,415	6.32%	\$1.33	(29,136)	155,512	189,217	624,847
100,000 Plus	47	7,785,903	239,000	0	330,581	4.25%	697,418	8.96%	\$0.00	(142,741)	(255,443)	68,880	171,705
Orange County Total	2,248	61,589,626	239,000	78,738	2,408,894	3.91%	3,504,444	5.69%	\$1.39	(289,607)	(235,491)	956,016	3,737,428

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



Proposition 13

by **Morgan Hill**

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A proposition that could split the property tax rolls is headed for the 2020 General Election ballot. If it passes, the *California Schools and Local Communities Funding Act* would be the first significant change to the state's property tax assessment process since 1978. Currently, proponents of the ballot initiative are collecting the necessary signatures to qualify a revised version they believe will have a newly improved chance of passage in November.

Since Proposition 13 became law more than 40 years ago, the base property tax levy for any type of real property in California has been pegged at 1% of the value at the time of sale. That base levy is subject to a maximum increase of 2% per year and is net of existing or future municipal assessments. Fiscal conservatives have heralded the law since its inception, while opponents have maligned it as a threat to education and local governments, the primary beneficiaries of property tax revenue. Numerous attempts to change the law have failed in the California State Legislature through the years, but this is the first serious attempt to circumvent Sacramento and go straight to the voters.

The proposal leaves the Prop 13 rules in place for all residential property and agricultural land, but targets properties designated for commercial use. Industrial properties are specifically named in the proposed law. These properties would be reassessed to current market value every three years, whether they change hands or not, for the express purpose of adjusting the base levy to 1% of current market value. Roughly 60% of an estimated \$11 billion per year in new property tax revenue would go to local governments, with the balance heading to public schools and community colleges.

Whom will this new law hurt most in the short run? Owners whose properties have appreciated significantly since they were purchased. Tax bills on some assets could double or even triple after their properties are reassessed to full market value beginning with the 2021–2022 fiscal tax year. In the long run, all property owners will be hurt as their properties are periodically reassessed.

Tenants would also take a hit. Since most industrial leases require tenants to pay either all real property taxes or any increases in taxes over the initial year of their leases, local space occupiers would be sharing the pain with their landlords under the new law. Owner/users who are both landlord and tenant would have no escape.

If it becomes law, it will be a true game changer for any commercial property owner or occupier now and in the future. Real property tax is an operating expense that impacts Net Operating Income, which is capitalized at a market rate to determine a property's value. So, every dollar in additional property tax paid by an owner (rather than his or her tenants) at today's capitalization rate of approximately 5%, would reduce a property's value by \$20 (\$1/.05=\$20).

Sponsors of the proposition include several powerful public employee unions who have pledged to fund a major campaign to win voters over before they head to the polls. With so much potential revenue in play, we can expect significant backing of the proposition from city and county governments, as well.

**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