

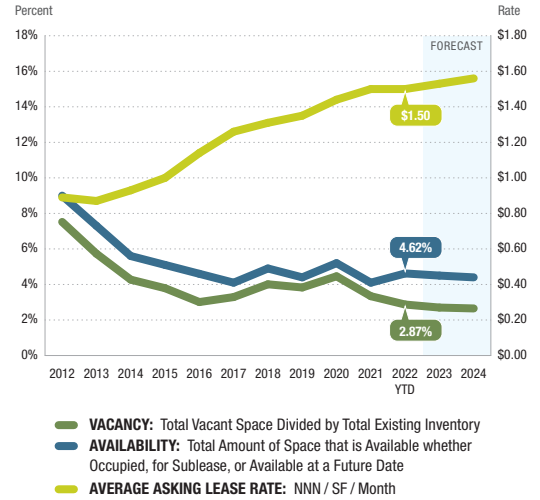
OVERVIEW. Orange County R&D/Flex market conditions tightened further in Q1. Positive net absorption tripled and vacancy fell. Average asking rents were unchanged. Construction of new R&D/Flex space remained at zero where it has been for several years. Transaction activity posted a modest decline in terms of square footage, but the number of transactions completed was up slightly. Gross absorption fell. Overall, the R&D/flex market seems to have stabilized as the impact of the pandemic has waned. R&D/Flex space attracts users with higher employee density, which made the pandemic lockdown rules more problematic, though less so than its pure office counterpart. Market metrics point to general good health for the remainder of 2022.

VACANCY / AVAILABILITY. The overall vacancy rate fell 47 basis points in Q1 to 2.87%, following a decline of 27 basis points in Q4. In the past year, the countywide vacancy rate declined by 128 basis point, a good performance considering the pandemic. The Greater Airport area, the largest submarket, saw another significant dip in vacancy in Q1, falling another 98 basis points to just 2.55%. After an increase in vacancy in Q4, South County vacancy fell in Q1, shedding 28 basis points to finish the period at 3.72%. North County, which still maintains the lowest vacancy rate of 1.86%, saw another slight rise in Q1, adding 10 basis points during the period. The overall availability rate, which includes sublease space and direct lease space that is still occupied, fell also, declining by 11 basis points to 4.62%, down by 119 basis points year-over-year.

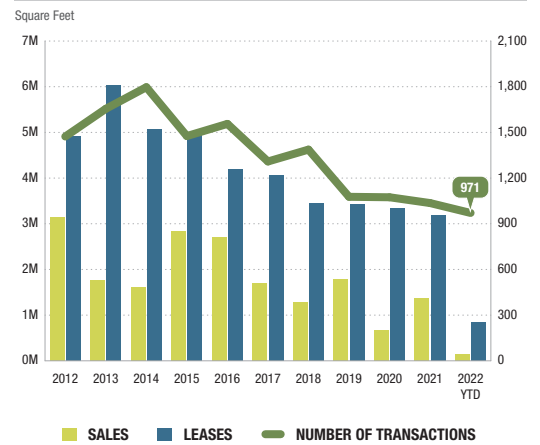
LEASE RATES. The average asking lease rate countywide was unchanged in Q1 at \$1.50. Year-over-year, that rate is \$0.06 higher. South County's average rate, usually the highest of the OC submarkets, came in second again to the Airport Area, up a penny during the period. This submarket includes Irvine Spectrum's 10.5 MSF of generally newer inventory. West County still has the lowest average rate at \$1.00, also up a penny in Q1. West County is the smallest of the major submarkets with total inventory of just over 8 MSF. The Airport Area, the largest of the R&D/Flex submarkets, saw lease rates unchanged at \$1.64 in Q1, while North County average rose \$0.08 cents to \$1.31.

TRANSACTION ACTIVITY. The square footage leased and sold fell slightly to 980,642 SF in Q1, down from 1,068,283 SF in the final quarter of 2021. That decline may, in part, be due to the fact that lower vacancy is limiting choices for tenants looking to move. In Q1, just over 835,000 SF of lease space went under contract in 183 transactions, and another 145,000 SF of space was sold in 7 separate transactions. Year-over-year sale and lease activity was up by 16%. The largest transaction in Q1 was a 146,482 SF lease renewal by Arbonne International LLC from The Irvine Company at 9400 Jeronimo Road in the Irvine Spectrum submarket. The largest sale of the quarter was a 37,237 SF property purchased by LongPoint Realty at 2929 White Star Avenue in Anaheim.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



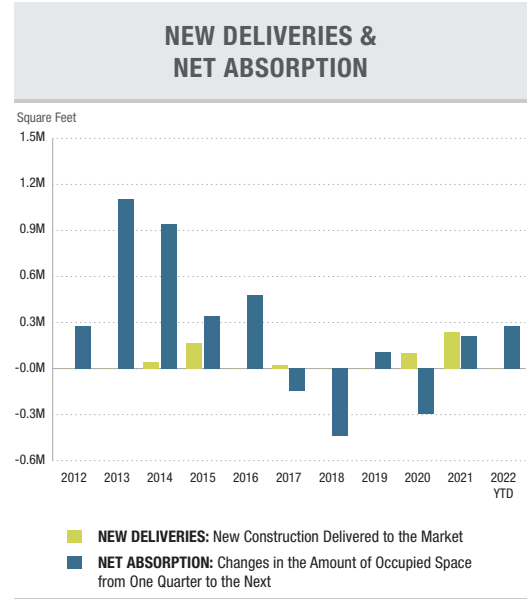
Market Statistics

	Change Over Last Quarter	1Q 2022	4Q 2021	1Q 2021	% Change Over Last Year
Vacancy Rate	▼ DOWN	2.87%	3.34%	4.15%	(30.88%)
Availability Rate	▼ DOWN	4.62%	4.73%	5.81%	(20.50%)
Average Asking Lease Rate	▬ FLAT	\$1.50	\$1.50	\$1.44	4.17%
Sale & Lease Transactions	▼ DOWN	980,642	1,068,283	845,493	15.98%
Gross Absorption	▼ DOWN	733,418	1,043,786	919,038	(20.20%)
Net Absorption	▲ POSITIVE	277,277	97,411	3,831	N/A

CONSTRUCTION. No new R&D/Flex space is in the construction queue or in the planning stages in the first quarter of 2022. That will keep vacancy moving lower as long as lease and sale activity remains near current levels. If that occurs, asking lease rates should move higher in the coming quarters. It is unlikely that the county will see a significant level of R&D/Flex space anytime soon. Land is scarce and more valuable to multifamily and mixed-use developers. Also, with the intense demand for and short supply of traditional industrial space, lease rates for industrial have almost caught up to those of R&D/Flex space and should narrow the gap by the end of the year.

ABSORPTION. Net absorption for R&D/Flex space was up sharply in Q1, ending the first period with a net gain in occupied space of over 277,277 SF, up from 93,000 SF in Q4 of 2021. South County led the way by posting a net gain of 209,321 SF. The Airport area added a gain of 67,167 SF, while West County added 14,457 SF, offsetting a similar loss in North County. Gross absorption, fell to 733,418 SF in Q1, down from 1,043,786 SF in Q4. The largest move-in of the period was 120,000 SF, a lease to the Orange County Sherriff’s Department at 1380 Bell Avenue in Tustin. Rivian Automotive also moved into 70,205 SF at 40 Parker in Irvine Spectrum.

EMPLOYMENT. The unemployment rate in Orange County was 3.7% in February 2022, down from a revised 4.2% in January 2022, and below the year-ago estimate of 7.4%. Employment increased in six sectors: Construction (up 5,200 jobs), professional and business services (up 3,000 jobs), government (up 2,900 jobs), educational and health services (up 2,800 jobs), other services (up 1,300), and manufacturing (up 600 jobs).



Forecast

The R&D/Flex market should tighten further throughout the year. Leasing activity, lease rates and absorption should stabilize near current levels and no new inventory will be added. Vacancy should see declines in small increments each quarter and lease rates may move slightly higher.

However, as we reported last quarter, there are areas of concern. Inflation spiked again in Q1 to the highest level in 40 years. That has prompted the Fed to end its bond-buying program and implement the first of several expected hikes in its benchmark Fed Funds Rate. Further increases are expected and that will drive up interest rates on commercial property mortgages. How much the Fed’s actions will have on the overall economy is still an unknown at this point, but it will certainly be more expensive to do business in 2022.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2929–2931 E. White Star Ave.	Anaheim	37,237	\$11,635,000	LongPoint Realty	Phaarmachem Laboratories
17942 Cowan	Irvine	22,380	\$7,850,000	East Sunrise Investment LLC	Ingold Family Investments LLC
8191 E. Kaiser Ave.	Anaheim	22,102	\$6,100,000	Influence Church	Specialty Restaurant Co.
18392 Enterprise Ln.	Huntington Beach	18,414	\$5,850,000	Troxell Family Trust	Lepak Family Living Trust
32 Tesla Way	Irvine Spectrum	16,897	\$7,250,000	Silver Music LLC	Bruce & Rebecca Whiteleather Living Trust

Leases * Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
9400 Jeronimo Rd. – Renewal	Irvine Spectrum	146,482	Feb-2022	Arbonne International LLC	The Irvine Company
34 Parker	Irvine Spectrum	126,497	Feb-2022	Enevale	Northwestern Mutual Life*
80 Technology Dr.	Irvine Spectrum	67,940	Feb-2022	Planet Innovation	The Irvine Company
51 Discovery – Renewal	Irvine Spectrum	61,761	Feb-2022	Thales USA, Inc.	The Irvine Company
50 Technology Dr.	Irvine Spectrum	60,547	Feb-2022	Terran Orbital	The Irvine 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 1Q2022	Square Feet Available	Availability Rate 1Q2022	Average Asking Lease Rate	Net Absorption 1Q2022	Net Absorption 2022	Gross Absorption 1Q2022	Gross Absorption 2022
Airport Area													
Costa Mesa	171	4,020,410	0	0	203,776	5.07%	288,554	7.18%	\$1.66	(21,957)	(21,957)	82,032	82,032
Fountain Valley	49	1,426,272	0	40,000	30,414	2.13%	26,966	1.89%	\$1.20	(14,203)	(14,203)	12,465	12,465
Irvine	240	6,388,912	0	0	111,357	1.74%	235,060	3.68%	\$1.57	16,556	16,556	111,057	111,057
Newport Beach	21	582,303	0	0	34,987	6.01%	34,987	6.01%	\$1.75	(7,831)	(7,831)	2,592	2,592
Santa Ana	180	4,580,660	0	0	68,119	1.49%	67,492	1.47%	\$1.59	(5,174)	(5,174)	38,296	38,296
Tustin	87	3,038,213	0	0	61,525	2.03%	187,491	6.17%	\$1.69	99,776	99,776	23,262	23,262
Airport Area Total	748	20,036,770	0	40,000	510,178	2.55%	840,550	4.20%	\$1.64	67,167	67,167	269,704	269,704
North County													
Anaheim	178	5,154,403	0	0	140,860	2.73%	163,189	3.17%	\$1.60	(23,432)	(23,432)	93,961	93,961
Brea	56	1,561,466	0	0	2,930	0.19%	16,323	1.05%	\$1.35	2,625	2,625	7,365	7,365
Buena Park	29	906,910	0	0	11,094	1.22%	0	0.00%	\$1.05	(1,224)	(1,224)	10,770	10,770
Fullerton	43	1,739,290	0	0	11,339	0.65%	18,329	1.05%	\$1.09	(718)	(718)	12,965	12,965
La Habra	10	187,013	0	0	0	0.00%	0	0.00%	\$0.00	2,600	2,600	2,600	2,600
Orange	98	2,220,537	0	0	58,489	2.63%	71,076	3.20%	\$1.46	(7,778)	(7,778)	26,779	26,779
Placentia	26	677,575	0	0	9,376	1.38%	9,376	1.38%	\$1.19	0	0	1,200	1,200
Yorba Linda	51	1,488,411	0	0	25,514	1.71%	205,323	13.79%	\$1.27	14,259	14,259	41,226	41,226
North County Total	491	13,935,605	0	0	259,602	1.86%	483,616	3.47%	\$1.31	(13,668)	(13,668)	196,866	196,866
South County													
Aliso Viejo	44	1,117,776	0	0	10,076	0.90%	93,374	8.35%	\$1.41	24,680	24,680	7,085	7,085
Foothill Ranch	8	273,620	0	0	17,789	6.50%	17,789	6.50%	\$1.45	(17,789)	(17,789)	0	0
Irvine Spectrum	294	10,519,447	0	0	484,215	4.60%	411,741	3.91%	\$1.70	197,524	197,524	113,444	113,444
Laguna Hills	53	1,267,929	0	0	19,508	1.54%	27,830	2.19%	\$1.45	(299)	(299)	15,365	15,365
Laguna Niguel	18	882,685	0	0	9,386	1.06%	13,938	1.58%	\$0.00	0	0	0	0
Lake Forest	63	1,407,596	0	0	32,472	2.31%	51,452	3.66%	\$1.48	10,613	10,613	13,305	13,305
Mission Viejo	35	653,821	0	0	26,464	4.05%	26,725	4.09%	\$1.49	(5,478)	(5,478)	3,344	3,344
Rancho Mission Viejo	3	99,200	0	0	0	0.00%	0	0.00%	\$0.00	22,297	22,297	22,297	22,297
Rancho Santa Margarita	39	1,438,168	0	0	700	0.05%	5,400	0.38%	\$1.42	3,660	3,660	3,660	3,660
San Clemente	60	1,433,443	0	0	95,287	6.65%	132,390	9.24%	\$1.57	(19,075)	(19,075)	11,582	11,582
San Juan Capistrano	42	739,899	0	0	42,904	5.80%	44,647	6.03%	\$1.84	(6,812)	(6,812)	7,163	7,163
South County Total	659	19,833,584	0	0	738,801	3.72%	825,286	4.16%	\$1.61	209,321	209,321	197,245	197,245
West County													
Cypress	52	2,404,255	0	0	120,066	4.99%	527,516	21.94%	\$1.17	(8,545)	(8,545)	7,692	7,692
Garden Grove	67	1,789,637	0	0	54,678	3.06%	83,521	4.67%	\$1.00	17,831	17,831	29,988	29,988
Huntington Beach	126	2,594,757	0	0	10,560	0.41%	19,207	0.74%	\$1.31	1,339	1,339	19,442	19,442
La Palma	1	78,980	0	0	78,980	100.00%	78,980	100.00%	\$0.76	0	0	0	0
Los Alamitos	42	889,337	0	0	9,902	1.11%	9,556	1.07%	\$0.00	3,832	3,832	11,269	11,269
Stanton	4	88,490	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Westminster	17	464,238	0	0	0	0.00%	0	0.00%	\$0.00	0	0	1,212	1,212
West County Total	309	8,309,694	0	0	274,186	3.30%	718,780	8.65%	\$1.00	14,457	14,457	69,603	69,603
Orange County Total	2,207	62,115,653	0	40,000	1,782,767	2.87%	2,868,232	4.62%	\$1.50	277,277	277,277	733,418	733,418
Airport Area													
10,000-24,999	518	8,444,848	0	0	271,416	3.21%	309,166	3.66%	\$1.59	(9,008)	(9,008)	104,218	104,218
25,000-49,999	161	5,397,136	0	40,000	164,420	3.05%	382,537	7.09%	\$1.50	(23,240)	(23,240)	95,786	95,786
50,000-99,999	51	3,392,342	0	0	74,342	2.19%	148,847	4.39%	\$1.77	(20,585)	(20,585)	69,700	69,700
100,000 Plus	18	2,802,444	0	0	0	0.00%	0	0.00%	\$0.00	120,000	120,000	0	0
North County													
10,000-24,999	323	5,179,968	0	0	127,964	2.47%	163,951	3.17%	\$1.43	(25,852)	(25,852)	84,564	84,564
25,000-49,999	121	4,012,190	0	0	104,647	2.61%	133,544	3.33%	\$1.30	18,660	18,660	107,560	107,560
50,000-99,999	31	2,014,159	0	0	26,991	1.34%	39,703	1.97%	\$1.05	(6,476)	(6,476)	4,742	4,742
100,000 Plus	16	2,729,288	0	0	0	0.00%	146,418	5.36%	\$1.15	0	0	0	0
South County													
10,000-24,999	388	6,459,167	0	0	216,570	3.35%	308,120	4.77%	\$1.52	(61,473)	(61,473)	55,449	55,449
25,000-49,999	197	6,565,811	0	0	291,794	4.44%	359,346	5.47%	\$1.67	84,928	84,928	127,233	127,233
50,000-99,999	61	4,032,748	0	0	230,437	5.71%	157,820	3.91%	\$1.62	59,369	59,369	14,563	14,563
100,000 Plus	13	2,775,858	0	0	0	0.00%	0	0.00%	\$0.00	126,497	126,497	0	0
West County													
10,000-24,999	217	3,481,358	0	0	59,709	1.72%	76,495	2.20%	\$1.13	(8,669)	(8,669)	26,219	26,219
25,000-49,999	61	2,077,910	0	0	75,658	3.64%	187,957	9.05%	\$1.14	29,757	29,757	43,384	43,384
50,000-99,999	27	1,878,953	0	0	138,819	7.39%	138,819	7.39%	\$0.79	(6,631)	(6,631)	0	0
100,000 Plus	4	871,473	0	0	0	0.00%	315,509	36.20%	\$0.00	0	0	0	0
Orange County													
10,000-24,999	1,446	23,565,341	0	0	675,659	2.87%	857,732	3.64%	\$1.50	(105,002)	(105,002)	270,450	270,450
25,000-49,999	540	18,053,047	0	40,000	636,519	3.53%	1,063,384	5.89%	\$1.50	110,105	110,105	373,963	373,963
50,000-99,999	170	11,318,202	0	0	470,589	4.16%	485,189	4.29%	\$1.56	25,677	25,677	89,005	89,005
100,000 Plus	51	9,179,063	0	0	0	0.00%	461,927	5.03%	\$1.31	246,497	246,497	0	0
Orange County Total	2,207	62,115,653	0	40,000	1,782,767	2.87%	2,868,232	4.62%	\$1.50	277,277	277,277	733,418	733,418

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



The Times Are Changing

Do the changing market dynamics in Orange County impact the future value of your real estate?

by Sebastian Lozano

ASSOCIATE, ANAHEIM

714.935.2303 . slozano@voitco.com . Lic. #02143474

Since the summer of 2020, the Orange County industrial market has experienced a turbo-charged momentum. Sales prices, lease rates, and property values have soared to levels that no one thought possible, and as we close the first quarter of 2022, another year of strong performance is on its way. Nevertheless, the factors that provided strong economic fundamentals for the Orange County industrial market for the past 21 months are starting to change. The following events have started to raise questions:

1. The U.S. inflation rate is now running at its highest level in four decades, as the Consumer-Price Index rose to 7.9% in February 2022. While Americans are still spending, the U.S. Commerce Department stated that consumers spent more on gasoline and vehicles during the first quarter of the year while cutting back on online spending and purchases of discretionary items such as furniture, apparel, and electronics.
2. In an effort to tame inflation, the Federal Reserve's monetary policy has drastically changed from what we have experienced since the start of the pandemic. The federal-funds rate was increased by a quarter percentage point in March, and half-point increases have been signaled for the near future. Fewer dollars circulating in the economy, at a higher borrowing cost, will eventually slow down economic activity in the U.S.
3. The pandemic has highlighted how vulnerable the global supply chain is to disruption. Consumers find themselves adapting to the frustration of intermittent shortages and persistent price increases. Economists are fearful that the new pandemic lockdowns in the Eastern hemisphere, the recent international conflicts in Europe, and the resulting economic sanctions will further exacerbate supply-chain constraints.

While the short-term forecast for the Orange Country industrial market portends low vacancy, increasing lease rates and sales prices, the above-referenced factors present a significant threat to the overall U.S. economy and ultimately the future demand for industrial space. Every economic cycle has peaks and valleys, and history has shown us that big shifts in monetary policy can only do so much. If you are considering making changes to your real estate plan, now more than ever "time is of the essence" to take advantage of the historical high values and affordable long-term borrowing costs. Economic forecasts and opinions are mixed, but there is some consensus for an economic downturn in the short run. We should ask ourselves how well positioned we are to weather a potential downturn in the U.S. economy, and what decisions we can make today to minimize the exposure of our real estate.

Please Contact Us for Further Information

Tony Tran
Regional Director of Research
ttran@voitco.com

Anaheim, CA
714.978.7880

Carlsbad, CA
760.472.5620

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Los Angeles, CA
424.329.7500

San Diego, CA
858.453.0505

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.

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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