

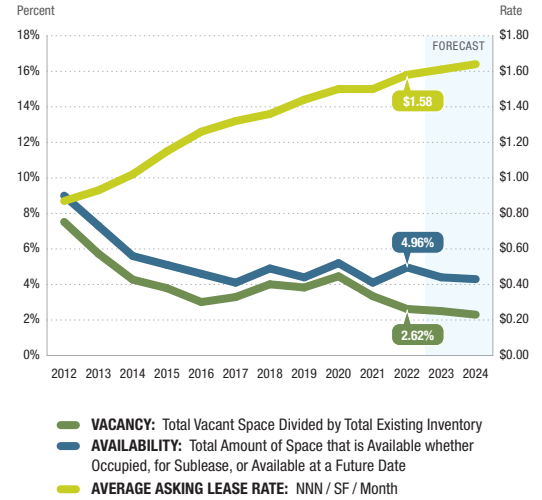
OVERVIEW. Tightening conditions in the Orange County R&D/Flex market eased in the final quarter. Net absorption fell back into negative territory. Average asking rents dipped slightly and transaction activity posted another decline on light sales activity. Gross absorption was also down. Construction remained at zero. Overall, the R&D/flex market remains relatively healthy and market statistics don't indicate any significant change in market direction for the time being.

VACANCY / AVAILABILITY. The overall vacancy rate rose by 46 basis points in 4Q, settling at 2.62% after setting a record low of 2.16% in 3Q. But, the countywide vacancy rate ended the year 72 basis points lower than it was this time last year. The Greater Airport area, the largest submarket, experienced a 43-basis-point rise, most of which was concentrated in Irvine. South County vacancy rose by 55 basis points in 4Q, mainly due to a full percentage point spike to 3.79% in the Irvine Spectrum. North County vacancy also spiked in 4Q after falling sharply in the previous two periods. Vacancy there now stands at a scant 2.08%, up 97 basis points in just three months. The overall availability rate, which includes sublease space and direct lease space that is still occupied, rose 36 basis points to end the period at 4.96%.

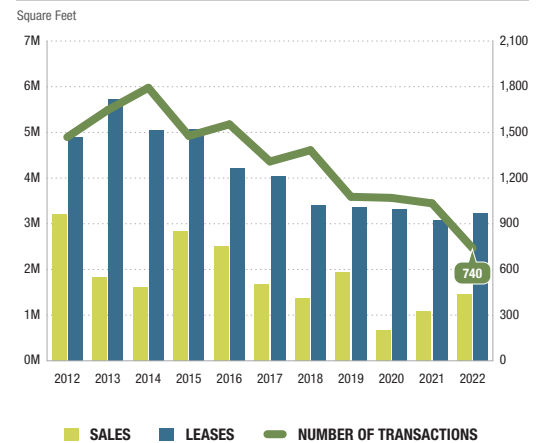
LEASE RATES. The average asking lease rate countywide fell by just \$0.02 to \$1.58 after a \$0.02 increase in 3Q and a \$0.08 increase in 2Q. Year-over-year, that rate is \$0.08 higher. South County's average rate, usually the highest of the submarkets, came in second to the Airport Area for the fourth consecutive period, up a penny to \$1.60. This submarket includes Irvine Spectrum's 10.5 MSF of generally newer inventory. West County, the smallest of the four major submarkets, still has the lowest average rate at \$1.25, unchanged for the period. The average asking lease rate for the Airport Area, the largest of the R&D/Flex submarkets, fell \$0.04 during the period to finish the year at \$1.73. North County's average asking rate fell by \$0.06 to \$1.33 in 4Q.

TRANSACTION ACTIVITY. The square footage leased and sold fell sharply again in 4Q, finishing the quarter with just 479,000 SF of inked leases and sales compared to 866,000 SF in 3Q. That decline is reflected in 4Q negative absorption metrics, but as previously reported, it may be due in part to the fact that low vacancy is beginning to force more lease renewals that may not be included in quarterly metrics. In 4Q, just 453,000 SF of leased space went under contract in 126 transactions, and only 26,000 SF of space was sold in just two transactions. Year-over-year sale and lease activity was down by more than half. The largest lease transaction in 4Q was a 35,665 SF lease to Performance Contracting

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

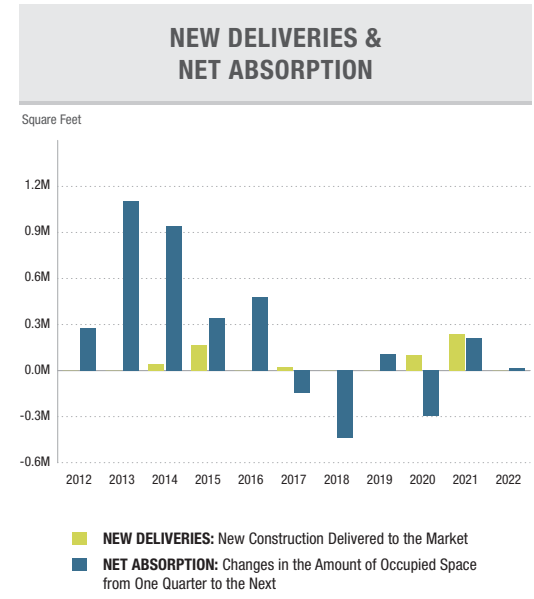
	Change Over Last Quarter	4Q 2022	3Q 2022	4Q 2021	% Change Over Last Year
Vacancy Rate	▲ UP	2.62%	2.16%	3.34%	(21.53%)
Availability Rate	▲ UP	4.96%	4.60%	4.73%	4.87%
Average Asking Lease Rate	▼ DOWN	\$1.58	\$1.60	\$1.50	5.33%
Sale & Lease Transactions	▼ DOWN	479,533	866,313	1,036,825	(53.75%)
Gross Absorption	▼ DOWN	720,307	985,171	1,043,786	(30.99%)
Net Absorption	▼ NEGATIVE	(244,750)	5,895	93,969	N/A

by Caprock Partners at 4155–4165 E. La Palma Avenue in Anaheim. The largest sale of the quarter was a 15,933 SF property purchased by AV International Investments, Inc. at 1924–1932 W. 17th Street in Santa Ana.

ABSORPTION. Net absorption for R&D/Flex space fell into negative territory in 4Q, after posting a modest gain of 5,895 SF in 3Q. All four submarkets posted net losses in occupied space that totaled 244,750 SF countywide. The Airport area recorded a decline of 116,982 SF, while South County lost 81,003 SF. West County fared best with a nominal loss of just 402 SF. The largest move-in of the period was 60,547 SF, a lease to Terran Orbital at 50 Technology Drive in Irvine Spectrum. Performance Contractors also moved into 35,665 SF at 4155 E. La Palma Avenue in Anaheim.

CONSTRUCTION. As has been the case now for several quarters, no new space is in the construction queue nor in the planning stages. That has helped to keep vacancy moving lower. It is unlikely that the county will see a significant level of R&D/Flex space delivered any time soon. Land is scarce and more valuable to multi-family, mixed-use and industrial developers, who can achieve higher rents by building those product types.

EMPLOYMENT. The unemployment rate in Orange County was 3.0% in November 2022, up from a revised 2.8% in October 2022, and below the year-ago estimate of 4.1%. Sixty-four percent of the growth was in retail trade (up 2,800 jobs). The remaining job gains were in transportation, warehousing, and utilities (up 900 jobs) and wholesale trade (up 700 jobs).



Forecast

Given current trend lines in transaction volume, lack of construction and historically low vacancy, the R&D/Flex market should remain in its present condition for the next several periods. Though, the recent decrease in leasing activity in the second half of the year is worth keeping an eye on. Lease rates and absorption are unlikely to see significant change unless general economic conditions deteriorate. Inflation is still enough of a problem for the Fed to keep bumping up its benchmark Fed Funds Rate. Further increases are expected in the first quarter of 2023, and that will continue to drive up interest rates on commercial property mortgages, which explains the falloff in sales activity we saw in Q4. The SBA 504 mortgage rate, the most commonly used in owner/user transactions, has risen to over 6%, up from just over 3% in 9 months. So, owner/user sales are likely to remain slow over the next several quarters. Hopefully, leasing activity will remain strong enough to pick up that slack until mortgage rates soften again.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
1924–1932 W. 17th St.	Santa Ana	15,933	\$4,000,000	Av International Investments, Inc.	K O C Investment Partnership No 1
30336 Esperanza	Rancho Santa Margarita	10,071	\$4,381,000	Gsatmm Properties LLC	Grace J & Joe R Gonzales Living Trust

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
4155–4165 E. La Palma Ave.	Anaheim	35,665	Nov-2022	Performance Contracting*	Caprock Partners
1900 E. Carnegie Ave. - Renewal	Santa Ana	34,599	Oct-2022	Identiv	One Morgan LLC
11800 Monarch St.	Garden Grove	30,915	Dec-2022	Structural Preservation Systems	Donald Investment Company
1540 Scenic Ave.	Costa Mesa	28,053	Nov-2022	OptoSigma Corporation	CJ Segerstrom & Son
35 Parker - Sublease	Irvine Spectrum	23,632	Oct-2022	TAE Technologies, Inc.	Control Systems International



Year-End OC Industrial Market Overview

by **Mike Vernick, CCIM, SIOR**

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The Orange County industrial market has experienced a historic recovery from the “Great Recession” era of 2008, not only in length of the recovery, but also in value appreciation, as the latter was supercharged by skyrocketing demand during the pandemic. The (multi) million dollar question now begs, is this historic ride over?

The answer is perhaps not as clear as the doomsday media would have us believe. Let us consider the market fundamentals. There has been a pullback of buyer demand due to rapidly rising interest rates, causing sale prices to soften, but the lease rates have held at their historic high levels and in some cases have continued to increase. The result is a critical mass of owner users who are still pursuing purchases as an alternative to high leasing costs. Furthermore, an intrinsic desire to own property in Orange County still prevails. The repatriating of manufacturing, less reliance on just-in-time inventory deliveries, and access to over 27 million people in the greater OC, LA and IE metros have continued to bolster the demand for, and confidence in, OC industrial space.

Although net absorption has tapered off slightly, the vacancy rates are still historically low — frustratingly low for occupants searching for quality space. There are several new projects coming on line in 2023, but the new deliveries in OC should not make a significant impact to the airtight vacancy. We could start to see vacancies in older buildings tick up as tenants transition to newly developed, higher-quality buildings.

The capital markets uncertainty continues as the gap between interest rates and seller cap rate expectations widen. The impact of negative leverage on investor demand has been significant and buyer / seller expectations are often misaligned. Rising construction costs have also slowed the appetite for new development. Many institutional investors are in a holding pattern for new acquisitions unless irreplaceable opportunities become available.

Some economists are saying that a recession is highly likely, if not certain, during 2023 as inflation concerns persist, but the silver lining lies in the solid OC market fundamentals. With an extremely diverse industry base, strong local economy, nearly 1.0% vacancy, limited infill land and high barriers to development, the Orange County industrial market is poised to withstand some slight economic headwinds or even more significant turbulence, as the case might be in 2023.

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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.

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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