

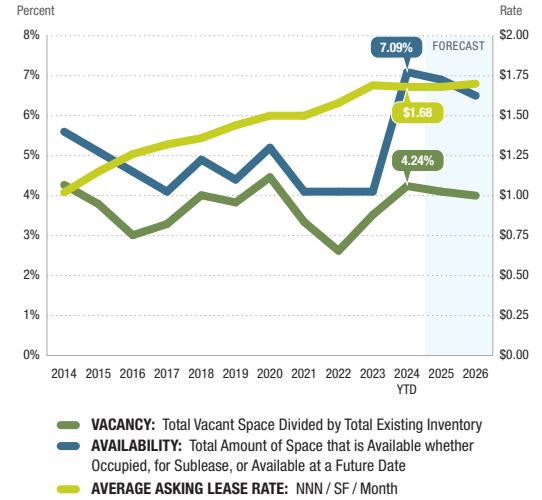
OVERVIEW. The Orange County R&D/Flex market maintained its consistency throughout Q3. While vacancy rates edged higher, availability decreased slightly. Average asking rents remained steady. Lease and sale activity increased in both square footage and transaction count. Gross absorption dipped slightly, and net absorption fell further into negative territory, mainly due to a significant move-out from a space that has since been released. Consistent with previous years, no new R&D/Flex properties were under construction in Q3. Planned space remains focused within the City of Irvine in the Airport Area submarket.

VACANCY & AVAILABILITY. The overall vacancy rate in Orange County’s R&D/Flex market rose by 30 basis points to 4.24% in Q3, following a 23-basis-point increase in Q2. Year over year, vacancy has risen by just 74 basis points or 21%, well below the rate of increase for the industrial and office sectors. Of significant note, most of the increase in vacancy was attributed to just one space in Yorba Linda that has already been released and scheduled for occupancy in January. Vacancy there jumped from 1.45% to more than 11% in the period due to that one move-out. Vacancy in all of the other four submarkets was little changed. Availability, which includes occupied space offered for sale or lease, moved down by 9 basis points to 7.09%, which may be indicative of less space offered for sublease.

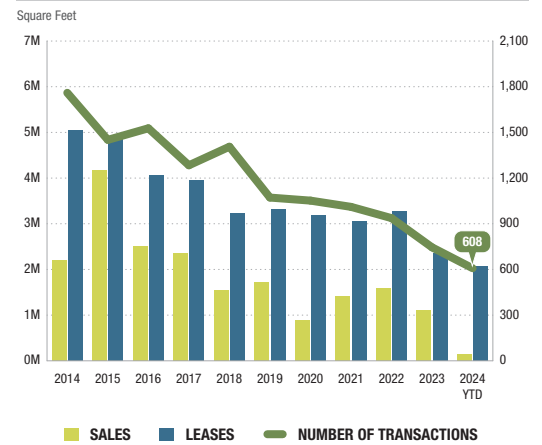
LEASE RATES. The average asking lease rate countywide rose a penny to \$1.68 in Q3. That is also just a penny lower than it was in Q3 of 2023. The Airport Area submarket moved up \$0.04 to \$1.77 after a sharp decline in Q2. The average lease rate in the South County submarket, which includes the Irvine Spectrum with its higher concentration of quality space, was unchanged at \$1.77. North County was also unchanged at \$1.35. The West County rate fell \$0.07 to \$1.50.

TRANSACTION ACTIVITY. In Q3, the square footage leased and sold moved up again after a sharp increase in Q2. The quarter ended with 838,050 SF in transaction activity, up from 766,078 SF in Q2. Total transaction count was also up to 208 from 182 in Q2. Four buildings were sold in Q3 and 204 leases were completed. The largest lease transaction was in Yorba Linda where L3 Technology leased 141,863 SF from Savi Ranch Property Holdings at 22745 Savi Ranch Parkway. The biggest of the sale transactions was 41,658 SF, two-building project on Bolsa Avenue in Huntington Beach. The buyer was Bolsa Hn Ft LC and the seller was the Licata Family Exemption Trust.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



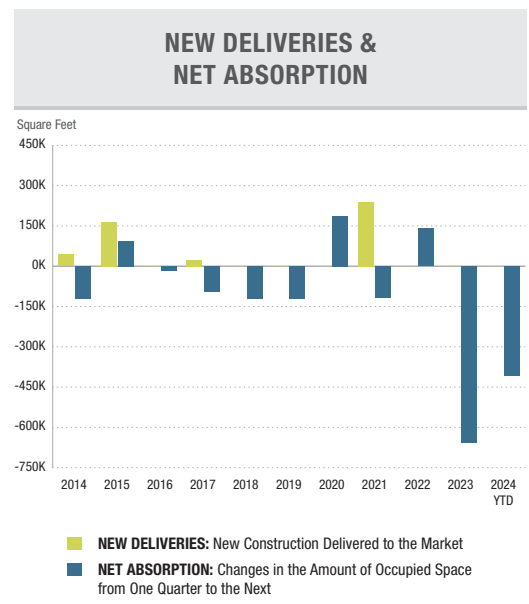
Market Statistics

	Change Over Last Quarter	Q3 2024	Q2 2024	Q3 2023	% Change Over Last Year
Vacancy Rate	▲ UP	4.24%	3.94%	3.50%	21.22%
Availability Rate	▼ DOWN	7.09%	7.18%	5.18%	36.72%
Average Asking Lease Rate	▲ UP	\$1.68	\$1.67	\$1.69	(0.59%)
Sale & Lease Transactions	▲ UP	838,050	766,078	916,310	(8.54%)
Gross Absorption	▼ DOWN	738,231	825,607	628,025	17.55%
Net Absorption	▼ NEGATIVE	(190,691)	(22,075)	(88,396)	N/A

CONSTRUCTION. Nothing has changed in terms of new development of R&D/Flex product for many years. Currently, there is no space in the construction queue and planned space is limited to 225,579 SF, all of which is in the Airport Area submarket. Elevated interest rates, land scarcity and uncertain economic conditions make ground-up R&D/Flex development difficult to justify. Also, as we have been reporting, land zoned for R&D/Flex product makes more economic sense for multi-family, mixed-use or industrial projects that offer greater opportunities for rent growth. Current and projected lease rates for R&D/Flex product are inadequate to cover the high cost of bringing first-generation space to the market.

ABSORPTION. Net absorption (the change in occupied space between periods) moved further into negative territory in Q3. The County suffered a net loss of 190,691 SF after a decline of just 22,075 SF in Q2. However, 141,863 SF of that total was the one space vacated by Care Fusion in Yorba Linda. That space has already been released to L3 Technology, who will move into the space in January of 2025 after renovations are completed. The South County submarket actually posted a respectable gain in occupied space of 56,152 SF on top of a 97,322 SF net gain in Q2.

EMPLOYMENT. Orange County’s unemployment rate rose to 4.5% in August 2024, up from 4.4% in July and 4.0% year over year. Private education and health services led the job growth statistics, adding 12,200 positions, over half the total nonfarm increase.



Forecast

The Orange County R&D/Flex market has maintained its current posture for the past several years. Supply and demand has been in good balance and the lack of new development has insulated this asset class from sudden spikes in vacancy. Rent growth has been tepid, but that has served to maintain affordability for tenants in need of quality space, unlike the industrial market that experienced double-digit rent growth for several consecutive years. Leasing activity has been robust enough to keep net absorption near zero, and it is consistent across all major submarkets and size ranges. We expect these trends to continue for the final quarter and into 2025. Loan maturity, however, is becoming a concern, as many loans originated at much lower interest rates are due to reset in the next two years, while lenders are tightening their underwriting on new financing. This could result in additional sale activity next year as some owners decide to sell rather than raise additional equity if they are unable to fully refinance existing debt.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
5212-5232 Bolsa Ave. - 2 Properties	Huntington Beach	41,658	\$7,000,000	Bolsa Hn Ft LC	Licata Family Exemption Trust
32801-32803 Calle Perfecto	San Juan Capistrano	19,206	\$6,300,000	Perfecto Partners LLC	The Seagel Trust
17961 Cowan	Irvine	13,643	\$4,450,000	NEC Bldg LLC	Jedco, Inc.
1404 E. Saint Gertrude Pl.	Santa Ana	10,597	\$3,200,000	Sacred Heart Holdings LLC	Canillas Mariano

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
22745 Savi Ranch Pkwy.	Yorba Linda	141,863	Jul-2024	L3 Technologies, LLC	Savi Rancho Property Holdings LLC
17032 Armstrong Ave. - Sublease	Irvine	35,023	Jul-2024	TFS Global	Chromatic Production
1800 E. Wilshire Ave. - Renewal	Santa Ana	26,762	Sep-2024	Nihon Kohden OrangeMed, Inc.*	TLF Logistics II 1720-1800
15340 Barranca Pkwy.	Irvine Spectrum	20,533	Jul-2024	Janteq Corp	The Irvine Company
1360 Reynolds Ave	Irvine	19,891	Aug-2024	Bridge Tronics	Creekside Metro 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 Q3 2024	Square Feet Available	Availability Rate Q3 2024	Average Asking Lease Rate	Net Absorption Q3 2024	Net Absorption 2024	Gross Absorption Q3 2024	Gross Absorption 2024
Airport Area													
Costa Mesa	166	3,930,294	0	0	238,411	6.07%	324,233	8.25%	\$1.69	(32,279)	(79,229)	27,062	94,844
Fountain Valley	49	1,445,173	0	37,800	27,833	1.93%	50,465	3.49%	\$0.00	(1,059)	(2,559)	8,265	32,140
Irvine	237	6,276,544	0	187,779	163,279	2.60%	380,750	6.07%	\$1.92	(5,926)	19,907	123,880	299,222
Newport Beach	21	582,730	0	0	11,952	2.05%	32,010	5.49%	\$0.00	6,938	(375)	6,938	10,338
Santa Ana	173	4,300,047	0	0	133,036	3.09%	221,808	5.16%	\$1.66	9,305	6,058	74,892	156,686
Tustin	84	2,796,427	0	0	67,171	2.40%	140,035	5.01%	\$1.66	19,561	(8,998)	38,836	85,423
Airport Area Total	730	19,331,215	0	225,579	641,682	3.32%	1,149,301	5.95%	\$1.77	(3,460)	(65,196)	279,873	678,653
North County													
Anaheim	172	5,190,454	0	0	159,565	3.07%	179,309	3.45%	\$1.62	(27,226)	12,655	22,062	110,563
Brea	55	1,640,164	0	0	86,725	5.29%	102,920	6.27%	\$1.51	(782)	(4,426)	17,081	46,970
Buena Park	28	860,850	0	0	12,925	1.50%	25,780	2.99%	\$0.00	(5,629)	8,253	9,100	31,891
Fullerton	42	1,730,579	0	0	19,233	1.11%	28,267	1.63%	\$0.00	3,173	(7,895)	21,430	47,558
La Habra	12	247,791	0	0	6,052	2.44%	10,852	4.38%	\$0.00	936	94	936	12,535
Orange	96	2,098,960	0	0	57,654	2.75%	54,202	2.58%	\$1.79	(2,645)	(21,129)	13,995	64,716
Placentia	24	647,243	0	0	24,243	3.75%	24,243	3.75%	\$1.46	2,186	(6,499)	12,900	33,800
Yorba Linda	50	1,453,486	0	0	160,724	11.06%	26,778	1.84%	\$1.17	(139,714)	(141,891)	11,143	41,717
North County Total	479	13,869,527	0	0	527,121	3.80%	452,351	3.26%	\$1.35	(169,701)	(160,838)	108,647	389,750
South County													
Aliso Viejo	42	1,144,777	0	0	73,671	6.44%	86,320	7.54%	\$1.80	318	10,875	14,746	71,199
Foothill Ranch	8	273,620	0	0	0	0.00%	49,415	18.06%	\$0.00	0	0	0	0
Irvine Spectrum	291	10,511,874	0	0	539,185	5.13%	1,517,048	14.43%	\$1.78	66,215	3,130	182,330	482,496
Laguna Hills	52	1,203,794	0	0	11,104	0.92%	63,189	5.25%	\$1.62	(10,049)	1,630	17,332	47,260
Laguna Niguel	18	882,718	0	0	6,745	0.76%	12,305	1.39%	\$0.00	1,600	5,918	1,600	5,918
Lake Forest	60	1,417,499	0	0	42,543	3.00%	57,523	4.06%	\$1.72	9,417	17,211	26,152	72,526
Mission Viejo	36	691,400	0	0	24,862	3.60%	23,942	3.46%	\$1.78	(100)	2,844	13,036	40,162
Rancho Santa Margarita	38	1,429,909	0	0	47,301	3.31%	68,316	4.78%	\$1.66	10,826	(13,508)	4,045	5,338
San Clemente	59	1,419,688	0	0	64,414	4.54%	60,760	4.28%	\$1.78	(24,477)	9,349	13,374	96,904
San Juan Capistrano	42	739,899	0	0	29,201	3.95%	58,227	7.87%	\$2.15	2,382	20,404	9,970	33,599
South County Total	646	19,715,178	0	0	839,026	4.26%	1,997,045	10.13%	\$1.77	56,132	57,853	282,585	855,402
West County													
Cypress	49	2,007,618	0	0	349,224	17.39%	451,281	22.48%	\$1.49	(49,850)	(153,006)	10,308	61,787
Garden Grove	60	1,634,116	0	0	13,335	0.82%	15,015	0.92%	\$0.00	10,233	26,020	22,070	57,776
Huntington Beach	124	2,650,642	0	0	71,961	2.71%	64,839	2.45%	\$1.60	(32,334)	(48,540)	10,653	59,423
La Palma	1	78,980	0	0	78,980	100.00%	78,980	100.00%	\$0.00	0	0	0	157,960
Los Alamitos	40	862,087	0	0	39,785	4.61%	56,008	6.50%	\$1.85	6,890	(3,978)	21,616	46,985
Stanton	3	68,350	0	0	5,200	7.61%	3,760	5.50%	\$0.00	(3,721)	360	1,479	9,266
Westminster	16	440,455	0	0	5,880	1.33%	29,840	6.77%	\$0.00	(4,880)	(61,053)	1,000	9,386
West County Total	293	7,742,248	0	0	564,365	7.29%	699,723	9.04%	\$1.50	(73,662)	(240,197)	67,126	402,583
Orange County Total	2,148	60,658,168	0	225,579	2,572,194	4.24%	4,298,420	7.09%	\$1.68	(190,691)	(408,378)	738,231	2,326,388
Airport Area													
10,000-24,999	507	8,226,425	0	0	268,364	3.26%	448,104	5.45%	\$1.84	(43,515)	(53,678)	91,126	334,340
25,000-49,999	156	5,196,706	0	37,800	212,381	4.09%	308,281	5.93%	\$1.79	109,292	51,328	177,777	281,030
50,000-99,999	52	3,468,969	0	78,837	160,937	4.64%	392,916	11.33%	\$1.58	(69,237)	(62,846)	10,970	63,283
100,000 Plus	15	2,439,115	0	108,942	0	0.00%	0	0.00%	\$0.00	0	0	0	0
North County													
10,000-24,999	314	5,025,584	0	0	164,100	3.27%	190,358	3.79%	\$1.64	(16,030)	(68)	52,135	237,261
25,000-49,999	116	3,830,791	0	0	75,074	1.96%	97,229	2.54%	\$1.54	(6,369)	(5,870)	45,551	100,003
50,000-99,999	31	1,981,774	0	0	92,080	4.65%	105,589	5.33%	\$1.50	(4,105)	(13,278)	7,311	36,391
100,000 Plus	18	3,031,378	0	0	195,867	6.46%	59,175	1.95%	\$0.00	(143,197)	(141,622)	3,650	16,095
South County													
10,000-24,999	376	6,279,974	0	0	331,421	5.28%	498,633	7.94%	\$1.77	(34,660)	(46,892)	73,450	296,576
25,000-49,999	193	6,460,271	0	0	415,695	6.43%	557,011	8.62%	\$1.77	39,766	7,517	146,259	402,936
50,000-99,999	62	4,157,527	0	0	32,538	0.78%	640,737	15.41%	\$1.78	51,026	97,228	62,876	155,890
100,000 Plus	15	2,817,406	0	0	59,372	2.11%	300,664	10.67%	\$0.00	0	0	0	0
West County													
10,000-24,999	204	3,263,636	0	0	90,266	2.77%	131,427	4.03%	\$1.43	(1,444)	30,327	46,324	184,966
25,000-49,999	59	2,025,009	0	0	108,556	5.36%	171,985	8.49%	\$1.44	(48,661)	(52,506)	20,802	59,657
50,000-99,999	27	1,899,405	0	0	219,319	11.55%	268,087	14.11%	\$1.45	(23,557)	(218,018)	0	157,960
100,000 Plus	3	554,198	0	0	146,224	26.38%	128,224	23.14%	\$0.00	0	0	0	0
Orange County													
10,000-24,999	1,401	22,795,619	0	0	854,151	3.75%	1,268,522	5.56%	\$1.76	68,899	(70,311)	394,903	1,053,143
25,000-49,999	524	17,512,777	0	37,800	811,706	4.63%	1,134,506	6.48%	\$1.74	(55,892)	469	219,629	843,626
50,000-99,999	172	11,507,675	0	78,837	504,874	4.39%	1,407,329	12.23%	\$1.66	(131,282)	(196,914)	208,260	413,524
100,000 Plus	51	8,842,097	0	108,942	401,463	4.54%	488,063	5.52%	\$0.00	(800)	(141,622)	2,815	16,095
Orange County Total	2,148	60,658,168	0	225,579	2,572,194	4.24%	4,298,420	7.09%	\$1.68	(190,691)	(408,378)	738,231	2,326,388

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

Will Rate Cuts Fuel a Rise in Industrial Prices?

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As we head into the final quarter of 2024, it is worth considering the possibility of a spike in sale prices for Orange County industrial real estate, heading into 2025. The Federal Reserve’s recent 50-basis-point rate cut may be the catalyst for a resurgence in buyer demand, especially considering other relevant market dynamics such as extremely low sale inventory and historically high lease rates. While current economic uncertainties and the political climate have led many potential buyers to adopt a cautious approach, the window of opportunity presented by cheaper financing may be too enticing for some owner/users to ignore. The rate on the popular SBA 504 loan program has already dropped to 5.76% from over 7% in recent months and is expected to go even lower if the Fed follows through on future rate cuts.

Once inflation fears abate and election uncertainty is behind us, those who have been on the sidelines may rush into the market. They will be eager to secure properties while interest rates remain lower, and the resulting surge in demand could intensify competition, particularly for prime industrial assets in Orange County where supply is already limited.

However, the timing of this potential price spike is uncertain and depends on a variety of factors. In addition to the concerns over inflation, clarity on tax policies after the election could either unlock investment potential or further deter investors, as critical components of the Tax Cuts & Jobs Act of 2017 are set to expire at end of next year. Those who are positioned to act quickly, either by disposing of or acquiring strategically located properties, may find themselves in an advantageous position as market conditions shift. Thus, it is critically important to get and stay informed, as market dynamics can change quickly, which many of us have experienced first-hand over the past few years.

If you’d like to explore opportunities in this evolving market, give us a call. We have the experience, tools and resources to help you decide what is best for you based on your unique circumstances.

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

Please Contact Us for Further Information

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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.