

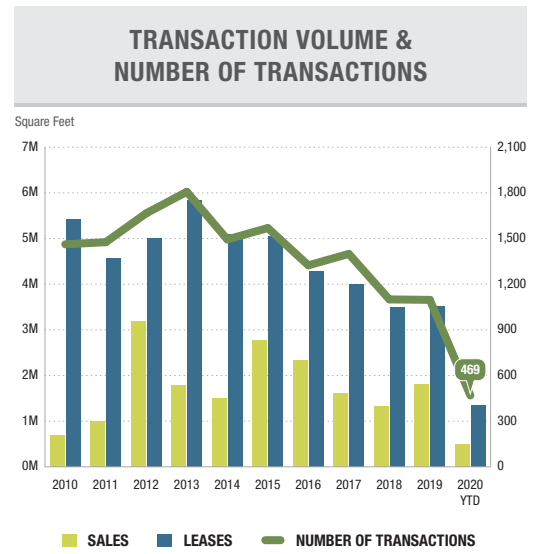
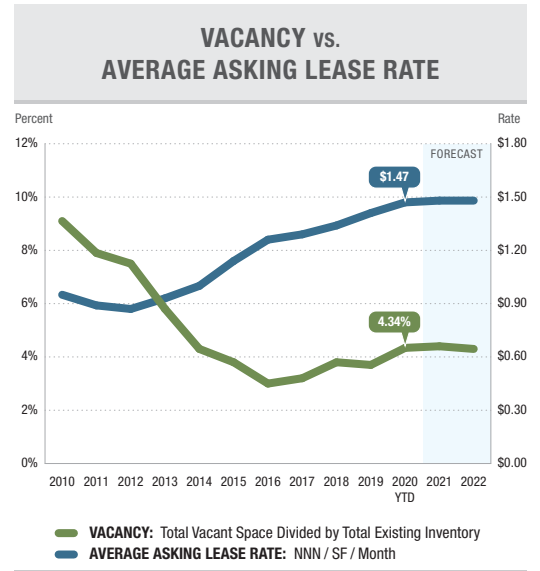
OVERVIEW. The R&D/Flex market took a step back in the second quarter, but the decline in key market metrics was not unexpected. The response to COVID-19 added additional pressure to a product type that was already showing signs of softening. Vacancy moved higher again in the second quarter, and net absorption stayed in negative territory, but rents did manage to move slightly higher. Transaction velocity was half of the total for the first quarter, not a surprise given the difficulty in transacting real estate deals under such burdensome conditions. The Airport and South County submarkets continued to see the bulk of the activity. New construction remains light, which will help mitigate further softening of market conditions.

VACANCY. The overall vacancy rate moved sharply higher in the second quarter, adding 24 basis points to finish the period at 4.34%, after a modest decline in the first quarter. The Airport Area posted the highest vacancy rate at 5.42%, but still led all submarkets in terms of transaction volume. An increase in the vacancy rate, when it is at such low levels, is not a clear cause for alarm. But with leasing activity also declining, the R&D/Flex market is expected to experience a further increase in empty space over the coming quarters.

LEASE RATES. The average asking lease rate managed to move up another \$0.03 in the second quarter, ending the period at \$1.47. However, lease rates vary widely by submarket, ranging from a high of \$2.14 in Anaheim to a low of just \$0.86 in nearby La Palma. Irvine Spectrum is a good gauge of typical rates—its 926,589 square feet of generally higher quality offerings carry an average asking lease rate of \$1.69.

TRANSACTION ACTIVITY. Transaction activity, the total square footage of sale and lease transactions going under contract, fell by half to just 516,624 square feet in the second quarter, after two consecutive quarters above the 1-MSF level. The steep falloff was to be expected given that the governor's lockdown order was in full force for most of the quarter, making it difficult to conduct property tours and negotiate deal terms. Transaction activity was mainly in the smaller size ranges during the second quarter, which may be due to the fact that larger companies are holding off on facilities decisions until the economic situation becomes more stable.

CONSTRUCTION. At the end of the second quarter of 2020, there are still only two projects under construction in Orange County, totaling 335,942 square feet. The first is the initial phase of the Los Patrones Business Park located in unincorporated Rancho Mission Viejo featuring three multi-tenant buildings, totaling 96,942 square feet with suites ranging from 1,800 to 3,000 square feet. Flexible zoning and building design, along



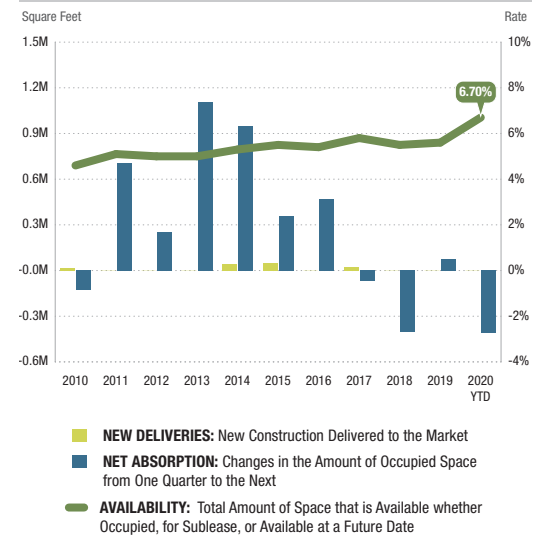
Market Statistics

	Change Over Last Quarter	2Q 2020	1Q 2020	2Q 2019	% Change Over Last Year
Vacancy Rate	▲ UP	4.34%	4.10%	3.30%	31.51%
Availability Rate	▲ UP	6.70%	5.60%	5.40%	24.03%
Average Asking Lease Rate	▲ UP	\$1.47	\$1.44	\$1.38	6.52%
Sale & Lease Transactions	▼ DOWN	516,624	1,242,701	1,276,172	(59.52%)
Gross Absorption	▼ DOWN	598,021	844,094	731,359	(18.23%)
Net Absorption	▼ NEGATIVE	(291,717)	(118,184)	248,543	N/A

with a generous 4/1000 parking ratio, allow for a wide variety of uses in the project. The second project under construction is a 239,000-square-foot expansion space for Edwards Life Sciences. The new facility is part of the company’s multi-phase master plan that will eventually increase Edwards’ footprint in the City of Irvine to more than 600,000 square feet.

ABSORPTION. Gross and net absorption fell again in the second quarter, not a surprise under the economic circumstances. Gross absorption, the total amount of move-ins, fell to 598,021 square feet in the period, down from over 800,000 square feet in the first quarter. With lease and sale activity (which shows up as absorption in subsequent quarters) also down, the R&D/Flex market is likely to see modest absorption through at least the end of the year. Net absorption fell further into negative territory with a net loss in occupied space of 291,717 square feet, bringing the year-to-date loss up to nearly 410,000 square feet. The biggest move-in for the period was Portview Prep, a charter school occupying 76,675 square feet in the Airport submarket.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Forecast

Net reductions in occupied space, if they persist long enough, would likely lead to a decline in lease rates, ending nearly a decade of strong rent growth. Fortunately, the R&D/Flex market went into the economic slowdown with very low vacancy and limited new construction. That will soften the effects of a protracted slowdown, as vacancy could rise by 50% and still be in the 6% range.

In terms of sale activity, it is still too soon to say how the COVID-19 crisis will impact pricing and transaction volume. The second quarter was the first full quarter under crisis conditions and decision makers are more focused on getting their businesses back up and running again than on purchasing property. However, interest rates for SBA 504 loans to owner/users have fallen again to a historic low — 2.59% fixed on a 25-year amortization. For investors it’s a different story. Conventional lenders have tightened up on underwriting, and the resulting lower loan-to-value commitments may lead buyers to demand higher cap rates to maintain their leveraged returns.

Significant Transactions

Sales					
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
3009 Daimler St.	Santa Ana	54,693	\$12,100,000	Edwards Lifesciences, LLC	Daimler 1 SA, LLC
22895 Eastpark Dr.	Yorba Linda	34,972	\$6,800,000	Rexford Industrial Realty, Inc.	Ruby Group Companies
1213 S. Claudina St.	Anaheim	10,430	\$7,405,000	ATN Asset Holdings Co, LLC	Anaheim Housing Authority
23211 La Palma Ave.	Yorba Linda	10,274	\$2,425,000	SKH Enterprises, LLC	JFR Properties, LLC
17155 Gillette Ave.	Irvine	5,446	\$2,050,000	Kara LH, LLC	Lofter & Lofter, LLC

Leases					
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
5757 Plaza Dr. - Renewal	Cypress	93,536	May-2020	United Healthcare	DRA Advisors, LLC
2722 Fairview St.	Santa Ana	58,802	Jun-2020	MaxCare Products, LLC	Rexford Industrial
17110 Armstrong Ave. - Sublease	Irvine	31,000	May-2020	American Lighting	S P Technologies
175 Technology Dr.	Irvine Spectrum	19,580	Apr-2020	KG Financial	The Irvine Company
429 W. Levers Pl.	Orange	15,558	May-2020	Retrolock Corporation*	M&M Properties 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 2Q2020	Square Feet Available	Availability Rate 2Q2020	Average Asking Lease Rate	Net Absorption 2Q2020	Net Absorption 2020	Gross Absorption 2Q2020	Gross Absorption 2020
Airport Area													
Costa Mesa	172	3,979,077	0	78,738	224,027	5.63%	318,475	8.00%	\$1.61	(89,167)	(145,989)	20,518	37,585
Fountain Valley	50	1,467,666	0	0	33,708	2.30%	63,120	4.30%	\$1.61	2,756	9,332	21,393	64,407
Irvine	243	6,270,422	239,000	0	364,788	5.82%	537,924	8.58%	\$1.40	(72,648)	123,982	100,697	146,658
Newport Beach	21	581,664	0	0	26,326	4.53%	28,826	4.96%	\$1.95	2,500	(4,500)	2,500	7,500
Santa Ana	183	4,703,587	0	0	155,412	3.30%	258,759	5.50%	\$1.31	(16,776)	(36,842)	38,556	87,291
Tustin	87	3,067,208	0	0	284,037	9.26%	338,907	11.05%	\$1.34	62,903	55,898	13,474	111,205
Airport Area Total	756	20,069,624	239,000	78,738	1,088,298	5.42%	1,546,011	7.70%	\$1.45	(110,432)	1,881	197,138	454,646
North County													
Anaheim	184	5,137,065	0	0	237,057	4.61%	269,201	5.24%	\$2.14	(38,599)	(108,379)	54,591	110,320
Brea	52	1,502,109	0	0	16,496	1.10%	20,591	1.37%	\$1.18	(2,228)	10,251	1,730	21,184
Buena Park	29	914,012	0	0	18,326	2.01%	1,208	0.13%	\$0.00	(8,079)	(8,851)	7,181	23,131
Fullerton	46	1,819,054	0	0	109,803	6.04%	112,133	6.16%	\$1.03	(1,544)	(66,723)	10,251	44,138
La Habra	10	187,013	0	0	5,450	2.91%	5,300	2.83%	\$0.00	(4,342)	(3,342)	8,241	12,741
Orange	101	2,283,927	0	0	48,955	2.14%	59,620	2.61%	\$1.65	(12,802)	7,610	13,489	50,452
Placentia	26	673,935	0	0	9,361	1.39%	9,906	1.47%	\$0.95	(5,899)	5,687	3,462	15,048
Yorba Linda	51	1,497,207	0	0	25,942	1.73%	201,086	13.43%	\$1.15	11,005	17,031	17,750	36,033
North County Total	499	14,014,322	0	0	471,390	3.36%	679,045	4.85%	\$1.42	(62,488)	(146,716)	116,695	313,047
South County													
Aliso Viejo	45	1,118,648	0	0	20,171	1.80%	127,685	11.41%	\$1.40	992	(7,828)	4,522	9,262
Foothill Ranch	8	273,620	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Irvine Spectrum	299	10,393,971	0	0	491,987	4.73%	926,589	8.91%	\$1.69	(40,094)	(121,294)	125,322	271,843
Laguna Hills	54	1,269,595	0	0	52,673	4.15%	62,177	4.90%	\$1.24	(19,198)	(15,878)	13,188	41,495
Laguna Niguel	19	870,336	0	0	3,776	0.43%	3,776	0.43%	\$0.00	1,560	658	1,560	3,120
Lake Forest	62	1,394,005	0	0	38,911	2.79%	72,797	5.22%	\$1.29	(629)	(1,654)	23,756	46,266
Mission Viejo	35	626,251	0	0	20,221	3.23%	26,199	4.18%	\$1.32	(1,276)	44	3,484	18,166
Rancho Santa Margarita	40	1,432,620	0	0	33,008	2.30%	32,949	2.30%	\$1.28	(22,840)	(7,770)	0	15,070
San Clemente	58	1,382,963	0	0	88,706	6.41%	106,057	7.67%	\$1.41	(6,497)	(27,079)	30,513	35,690
San Juan Capistrano	41	717,151	96,942	0	45,290	6.32%	47,359	6.60%	\$1.66	(12,752)	(22,199)	3,752	12,675
South County Total	661	19,479,160	96,942	0	794,743	4.08%	1,405,588	7.22%	\$1.58	(100,734)	(203,000)	206,097	453,587
West County													
Cypress	53	2,203,831	0	0	56,467	2.56%	198,202	8.99%	\$0.97	1,632	(36,503)	1,632	38,624
Garden Grove	68	1,778,313	0	0	77,298	4.35%	73,193	4.12%	\$1.25	3,335	(8,506)	19,970	48,607
Huntington Beach	130	2,667,192	0	0	51,491	1.93%	85,794	3.22%	\$1.42	(5,075)	4,255	44,832	96,219
La Palma	1	78,980	0	0	78,980	100.00%	78,980	100.00%	\$0.86	0	0	0	0
Los Alamitos	41	871,855	0	0	45,512	5.22%	46,340	5.32%	\$0.00	(6,779)	(11,915)	8,577	28,486
Stanton	5	104,129	0	0	0	0.00%	2,730	2.62%	\$0.00	0	4,219	0	4,219
Westminster	16	435,668	0	0	13,616	3.13%	16,886	3.88%	\$0.00	(11,176)	(13,616)	3,080	4,680
West County Total	314	8,139,968	0	0	323,364	3.97%	502,125	6.17%	\$0.92	(18,063)	(62,066)	78,091	220,835
Orange County Total	2,230	61,703,074	335,942	78,738	2,677,795	4.34%	4,132,769	6.70%	\$1.47	(291,717)	(409,901)	598,021	1,442,115
Airport Area													
10,000-24,999	519	8,455,336	0	0	371,385	4.39%	599,803	7.09%	\$1.43	(15,372)	(70,089)	117,472	219,026
25,000-49,999	172	5,817,706	0	0	358,188	6.16%	484,677	8.33%	\$1.51	(172,713)	(181,235)	60,464	104,186
50,000-99,999	48	3,193,133	0	78,738	214,885	6.73%	317,691	9.95%	\$1.39	77,653	66,464	19,202	131,434
100,000 Plus	17	2,603,449	239,000	0	143,840	5.52%	143,840	5.52%	\$1.40	0	186,741	0	0
North County													
10,000-24,999	324	5,192,701	0	0	170,974	3.29%	197,220	3.80%	\$1.60	(27,220)	(2,730)	51,510	151,570
25,000-49,999	129	4,249,492	0	0	177,548	4.18%	186,931	4.40%	\$1.76	(26,806)	(31,080)	50,471	135,160
50,000-99,999	30	1,954,829	0	0	53,016	2.71%	54,684	2.80%	\$1.35	(8,462)	(43,054)	12,949	22,787
100,000 Plus	16	2,617,300	0	0	69,852	2.67%	240,210	9.18%	\$1.15	0	(69,852)	1,765	3,530
South County													
10,000-24,999	397	7,052,063	0	0	367,661	5.21%	497,772	7.06%	\$1.49	(55,203)	(123,336)	61,977	198,150
25,000-49,999	194	6,447,825	96,942	0	270,401	4.19%	417,174	6.47%	\$1.56	(38,144)	(52,734)	138,946	236,587
50,000-99,999	58	3,844,857	0	0	156,681	4.08%	364,145	9.47%	\$1.70	(7,387)	(26,930)	5,174	18,850
100,000 Plus	12	2,134,415	0	0	0	0.00%	126,497	5.93%	\$0.95	0	0	0	0
West County													
10,000-24,999	221	3,543,557	0	0	131,292	3.71%	156,850	4.43%	\$1.15	(12,111)	(18,361)	65,137	135,276
25,000-49,999	61	2,068,899	0	0	108,092	5.22%	92,752	4.48%	\$0.92	(7,552)	(52,493)	11,354	73,896
50,000-99,999	29	1,971,548	0	0	83,980	4.26%	252,523	12.81%	\$0.86	1,600	8,788	1,600	11,663
100,000 Plus	3	555,964	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Orange County													
10,000-24,999	1,461	24,243,657	0	0	1,041,312	4.30%	1,451,645	5.99%	\$1.47	(109,906)	(214,516)	296,096	704,022
25,000-49,999	556	18,583,922	96,942	0	914,229	4.92%	1,181,534	6.36%	\$1.53	(245,215)	(317,542)	261,235	549,829
50,000-99,999	165	10,964,367	0	78,738	508,562	4.64%	989,043	9.02%	\$1.49	63,404	5,268	38,925	184,734
100,000 Plus	48	7,911,128	239,000	0	213,692	2.70%	510,547	6.45%	\$0.00	0	116,889	1,765	3,530
Orange County Total	2,230	61,703,074	335,942	78,738	2,677,795	4.34%	4,132,769	6.70%	\$1.47	(291,717)	(409,901)	598,021	1,442,115

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



OC Industrial Market Weathers the Storm in Q2

by **Matt Peters**

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Now that business activity is beginning to increase somewhat, many business owners are asking how COVID-19 has changed the industrial real estate market in Orange County. They're wondering if lease rates and sales prices have fallen and if now is a good time to find new space to lease or buy. While we cannot guarantee what the long-term implications of the virus-induced economic shock will be, preliminary indications are that market dynamics are largely unchanged.

What we can say with some confidence is that the industrial market will be less impacted than its office and retail counterparts because of the latter's higher employee and customer densities. Many industrial sectors were deemed essential and managed to keep their doors open throughout the quarter, though many are still operating at less than full capacity.

Landlords, initially fearing that tenants would not be able to pay rent during the shutdown, have been pleasantly surprised, and that has emboldened them to hold the line on lease rates for vacant space. If anything, they are showing a willingness to accept shorter lease terms and offer slightly more in terms of other concessions to get new deals over the finish line.

Sellers are likewise reluctant to lower sales prices, as their properties are still attracting a lot of interest from buyers looking to take advantage of the lowest SBA mortgage rates in history. May's SBA 504 rate fell to 2.59%, and those buyers who get funded by September 27th will see their first six mortgage payments forgiven by the SBA. Pricing for properties going into escrow in the second quarter reflected pre-crisis levels.

It's not "full steam ahead" across the board. Some industrial sectors have been hit hard, especially those that serve the food & beverage, entertainment and performing arts industries. Many businesses owners I have spoken with recently are still optimistic about the long term, but are adopting a wait-and-see attitude towards making big-ticket decisions like leasing or buying real estate. My own view is that as long as unemployment keeps coming back down and the stock markets continue to reflect economic optimism, the industrial sector will get through the pandemic crisis without a major correction.

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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. ©2020 Voit Real Estate Services, Inc. DRE License #01991785.

Represented in 150 Markets
Nationally & Internationally.



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