

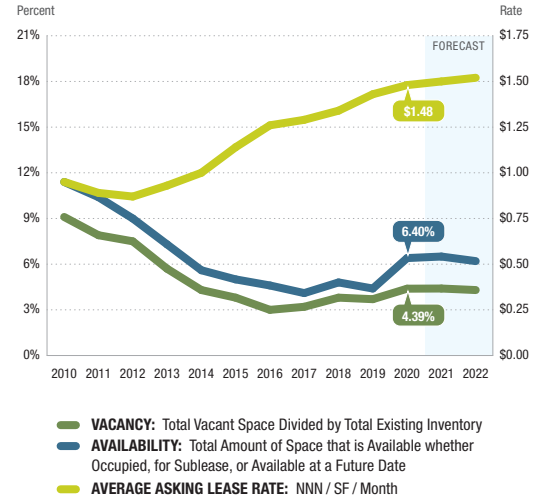
OVERVIEW. After gaining some ground in Q3 following a slow start to the year, the Orange County R&D/Flex market experienced significant improvement in the final quarter. The market had been showing signs of softening even before the pandemic crisis, but in Q4 average asking rents ticked up and net absorption turned positive. Gross absorption even moved slightly higher to help the product type go into the new year with a little momentum. Since the R&D/Flex market was already softening before the virus shut the economy down last March, a measurable correction was looking likely. That turned out not to be the case. This product type is a hybrid of industrial and office, making it more vulnerable to the impact of the pandemic protocols due to higher employee density. However, Q4 metrics indicate that the damage may have been minimal, and the soft landing we called for in Q3 may be coming to fruition.

VACANCY / AVAILABILITY. The overall vacancy rate actually declined by 23 basis points in Q4, ending the period at 4.39%. However, that rate is 66 basis points higher than it was a year ago. The Greater Airport area, the largest of the R&D/Flex submarkets, reversed course and saw a dip in vacancy of 52 basis points, while South County, with slightly smaller inventory, was relatively flat, shedding 2 basis points to finish the year with a healthy vacancy rate of just 4.34%. North County saw a drop of another 23 basis points to just 2.88%, the lowest of all five major submarkets. West County's vacancy fell sharply to 3.42% from 3.97%. Overall availability, which includes sublease space, decreased by 34 basis points to 6.4% and was up on a year-over-year basis, not surprising since the market was already softening before the pandemic hit.

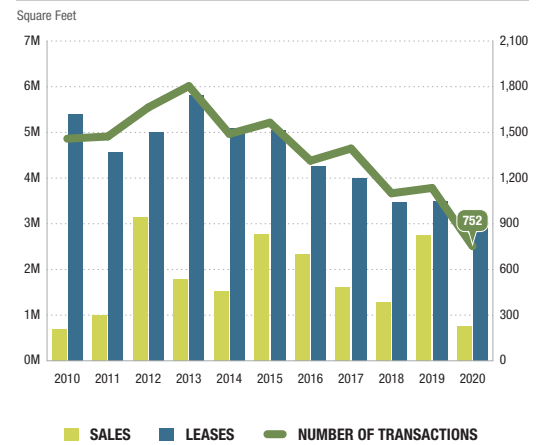
LEASE RATES. The average asking lease rate across all major submarkets was down \$0.02 in Q4 to \$1.48, a good indication that rental rates are stabilizing. Last year at this time, the average rate was \$1.42. South County's average rate is still the highest at \$1.58, mainly because this submarket includes Irvine Spectrum, with its 10.4 MSF of newer inventory. West County has the lowest average rate, currently at \$0.97. Fears of rents slipping into correction territory have abated, as the R&D/Flex product type is still seeing enough leasing activity to keep rates from falling dramatically.

TRANSACTION ACTIVITY. The square footage leased and sold during Q4 did fall to 613,000 SF, down from 1,117,000 SF in Q3, but that drop was not enough to impact other key metrics during the period. In all, 189 leases and 3 sales were signed during the fourth quarter, which will show up in gross and net absorption performance in the next two quarters. The largest transaction in Q4 was a 30,887 SF lease to Calvary Chapel on Red Hill Avenue in Costa Mesa. Another 27,000 SF in Irvine Spectrum was leased to electric vehicle startup Lordstown Motor Corporation. In San Clemente, a 23,000 SF lease was signed by San Clemente Christian School on Calle Recodo.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



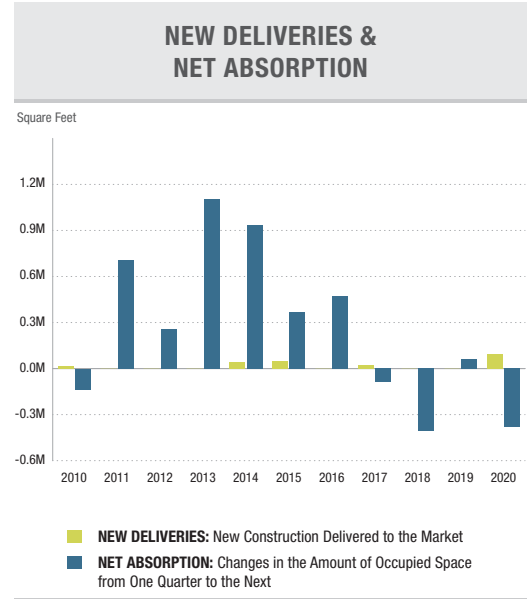
Market Statistics

	Change Over Last Quarter	4Q 2020	3Q 2020	4Q 2019	% Change Over Last Year
Vacancy Rate	▼ DOWN	4.39%	4.62%	3.73%	17.85%
Availability Rate	▼ DOWN	6.40%	6.41%	5.51%	16.12%
Average Asking Lease Rate	▼ DOWN	\$1.48	\$1.50	\$1.42	4.23%
Sale & Lease Transactions	▼ DOWN	613,328	1,174,321	1,464,491	(58.12%)
Gross Absorption	▲ UP	971,851	952,921	812,377	19.63%
Net Absorption	▲ POSITIVE	111,706	(291,717)	(243,860)	N/A

CONSTRUCTION. Construction activity is still limited to a single 239,000 SF build-to-suit for Edwards Life Sciences, scheduled for completion in Q1. As we reported last quarter, just one building, 78,000 SF in Costa Mesa, is in the planning stages. The Costa Mesa building is being built by TR Funding Company and should commence construction by Q4 2021. Delivering new product going forward will be difficult, as the price of suitable land is prohibitively high and developers are not inclined to press forward with speculative development until the current economic recession is behind us.

ABSORPTION . Net absorption for R&D/Flex space is the big news for Q4. Net absorption, which reflects the change in total occupied space in a given period, returned to positive territory after several consecutive quarters of decline. Q2 saw a loss of 291,717 SF. Q3 improved, but still suffered a net loss of more than 40,000 SF. Q4 posted a net gain of 111,706 SF, mitigating the net loss of the year to 380,313 SF on a 61 MSF base inventory. Considering the circumstances, especially in Q2 when the pandemic first hit, it's clear that things could have been much worse. Fortunately, speculative construction is at a standstill, so the chance of a spike in vacancy or falling rents is low heading into 2021.

EMPLOYMENT. The unemployment rate in Orange County was 6.4% in November 2020, down from a revised 7.3% in October 2020, and above the year-ago estimate of 2.6%. This compares with an unadjusted unemployment rate of 7.9% for California and 6.4% for the nation during the same period. Other sectors with year-over-year declines included: professional and business services (down 13,800 jobs); government (down 13,300 jobs); educational and health services (down 11,300 jobs); other services (down 8,800 jobs); financial activities (down 5,400 jobs); and information (down 4,200 jobs).



Forecast

We remain optimistic about the R&D/Flex market heading into 2021. The bump in net absorption was a welcome sign of better market performance to come. As several vaccines get into wider distribution, pandemic restrictions should begin to ease and market activity should rise. The national election and a challenging year for the economy is mostly behind us. Proposition 15, a real threat to real estate values, was rejected by voters. A new president will be inaugurated on January 20th, but that brings its own level of uncertainty as Joe Biden ran on a platform of tax increases, several of which, if passed, could negatively impact all commercial real estate asset classes. His proposals include the elimination of 1031 exchanges and the step-up rule, along with lowering the estate tax threshold and taxing capital gains at ordinary rates. It remains to be seen if he pushes that agenda in his early days in office, as he may be more focused on the pandemic and additional federal economic stimulus measures.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
800 E. Dyer Rd.	Santa Ana	17,668	\$4,150,000	SkillSet Group	Jeffrey A Parris Living Trust
17671 Fitch	Irvine	14,768	\$3,900,000	Tab Investments LLC	Taffee Trust
1367 S. Lewis St.	Anaheim	11,615	\$3,500,000	Ben Hakes*	Arno Olbricht

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
6001 Oak Canyon	Irvine Spectrum	120,604	Oct-2020	Inari Medical Inc.	The Irvine Company
10 Holland	Irvine Spectrum	41,000	Nov-2020	Meggitt	Western State Technologies
9451 Toledo Way	Irvine Spectrum	27,200	Nov-2020	Lordstown Motor Corp	The Irvine Company
15261-15262 Connector	Huntington Beach	21,172	Dec-2020	Vector Launch, Inc.	Freeway Industrial Park
3587-3589 Harbor Blvd.	Costa Mesa	19,271	Oct-2020	Harobr SOCAL Distribution LLC	Xiuzhen Ziao

	INVENTORY					VACANCY & LEASE RATES				ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2020	Square Feet Available	Availability Rate 4Q2020	Average Asking Lease Rate	Net Absorption 4Q2020	Net Absorption 2020	Gross Absorption 4Q2020	Gross Absorption 2020
Airport Area													
Costa Mesa	172	4,006,284	0	78,738	335,204	8.37%	301,538	7.53%	\$1.69	19,719	(181,762)	83,602	166,988
Fountain Valley	50	1,467,666	0	0	28,467	1.94%	18,730	1.28%	\$1.05	(9,422)	(1,277)	12,070	92,100
Irvine	241	6,195,480	239,000	0	453,702	7.32%	582,501	9.40%	\$1.38	(51,537)	55,473	72,607	491,698
Newport Beach	21	582,303	0	0	23,784	4.08%	23,784	4.08%	\$0.00	3,042	(4,458)	5,000	21,458
Santa Ana	182	4,691,652	0	0	141,940	3.03%	220,264	4.69%	\$1.15	(11,238)	(44,482)	61,416	217,361
Tustin	87	3,067,208	0	0	197,171	6.43%	203,855	6.65%	\$1.34	88,759	136,242	120,825	265,654
Airport Area Total	753	20,010,593	239,000	78,738	1,180,268	5.90%	1,350,672	6.75%	\$1.47	39,323	(40,264)	355,520	1,255,259
North County													
Anaheim	184	5,144,976	0	0	163,451	3.18%	248,503	4.83%	\$1.92	43,040	(74,045)	94,414	234,528
Brea	51	1,490,362	0	0	21,052	1.41%	31,994	2.15%	\$1.16	(7,522)	6,827	6,271	35,692
Buena Park	29	914,012	0	0	24,723	2.70%	25,968	2.84%	\$0.00	0	3,200	7,175	47,410
Fullerton	46	1,819,054	0	0	96,852	5.32%	96,252	5.29%	\$1.03	(8,007)	(74,335)	13,972	82,712
La Habra	10	187,013	0	0	1,800	0.96%	1,800	0.96%	\$0.00	0	(692)	0	18,891
Orange	100	2,267,551	0	0	34,594	1.53%	31,366	1.38%	\$1.81	21,300	28,952	19,870	90,436
Placentia	26	673,935	0	0	9,719	1.44%	13,721	2.04%	\$1.11	(1,381)	10,527	8,390	34,958
Yorba Linda	51	1,497,185	0	0	51,312	3.43%	228,684	15.27%	\$1.13	(24,678)	(7,850)	7,858	52,662
North County Total	497	13,994,088	0	0	403,503	2.88%	678,288	4.85%	\$1.38	22,752	(107,416)	157,950	597,289
South County													
Aliso Viejo	45	1,118,648	0	0	21,458	1.92%	122,138	10.92%	\$1.40	16,410	13,173	20,450	34,303
Foothill Ranch	8	273,620	0	0	0	0.00%	17,789	6.50%	\$1.29	0	0	0	0
Irvine Spectrum	295	10,343,993	0	0	489,452	4.73%	876,909	8.48%	\$1.67	(20,888)	(150,816)	158,426	575,563
Laguna Hills	54	1,269,595	0	0	32,101	2.53%	62,304	4.91%	\$1.35	(815)	(2,382)	33,248	103,815
Laguna Niguel	18	856,360	0	0	5,601	0.65%	5,601	0.65%	\$0.00	(1,825)	(1,167)	0	3,120
Lake Forest	62	1,394,005	0	0	40,885	2.93%	76,872	5.51%	\$1.29	(4,407)	(2,499)	31,341	95,061
Mission Viejo	35	640,707	0	0	23,861	3.72%	25,900	4.04%	\$1.28	3,805	(3,941)	11,389	31,875
Rancho Mission Viejo	3	96,942	0	0	57,045	58.84%	57,045	58.84%	\$1.75	39,723	39,723	39,723	39,723
Rancho Santa Margarita	40	1,432,620	0	0	11,624	0.81%	13,894	0.97%	\$1.40	(29)	13,830	3,534	51,612
San Clemente	59	1,432,899	0	0	90,916	6.34%	89,611	6.25%	\$1.44	47,918	(32,787)	49,590	92,061
San Juan Capistrano	41	717,151	0	0	77,218	10.77%	90,080	12.56%	\$1.70	(24,933)	(50,368)	808	21,997
South County Total	660	19,576,540	0	0	850,161	4.34%	1,438,143	7.35%	\$1.58	54,959	(177,234)	348,509	1,049,130
West County													
Cypress	53	2,203,831	0	0	20,085	0.91%	251,261	11.40%	\$1.02	279	(5,121)	5,439	78,113
Garden Grove	68	1,782,919	0	0	55,932	3.14%	60,392	3.39%	\$1.15	1,549	(8,391)	31,656	121,984
Huntington Beach	129	2,632,371	0	0	79,506	3.02%	48,214	1.83%	\$1.69	(11,355)	(27,559)	37,349	180,565
La Palma	1	78,980	0	0	78,980	100.00%	78,980	100.00%	\$0.86	0	0	0	0
Los Alamitos	41	871,797	0	0	40,437	4.64%	41,877	4.80%	\$0.00	3,239	(11,357)	31,108	86,568
Stanton	5	104,129	0	0	0	0.00%	0	0.00%	\$0.00	1,400	5,619	1,400	5,619
Westminster	16	435,668	0	0	2,440	0.56%	2,440	0.56%	\$0.00	(440)	(8,590)	2,920	25,291
West County Total	313	8,109,695	0	0	277,380	3.42%	483,164	5.96%	\$0.97	(5,328)	(55,399)	109,872	498,140
Orange County Total	2,223	61,690,916	239,000	78,738	2,711,312	4.39%	3,950,267	6.40%	\$1.48	111,706	(380,313)	971,851	3,399,818
Airport Area													
10,000-24,999	516	8,427,024	0	0	477,115	5.66%	568,287	6.74%	\$1.42	(25,310)	(177,585)	127,076	508,044
25,000-49,999	172	5,782,712	0	0	386,367	6.68%	452,923	7.83%	\$1.53	(32,368)	(210,690)	102,067	289,239
50,000-99,999	48	3,197,408	0	78,738	179,946	5.63%	192,622	6.02%	\$1.49	97,001	161,270	126,377	271,235
100,000 Plus	17	2,603,449	239,000	0	136,840	5.26%	136,840	5.26%	\$0.00	0	186,741	0	186,741
North County													
10,000-24,999	322	5,164,578	0	0	131,681	2.55%	178,682	3.46%	\$1.62	53,586	50,241	91,757	318,946
25,000-49,999	129	4,257,381	0	0	187,695	4.41%	228,313	5.36%	\$1.48	(36,188)	(52,642)	58,219	238,937
50,000-99,999	30	1,954,829	0	0	14,495	0.74%	31,903	1.63%	\$0.00	5,954	(35,383)	5,954	33,036
100,000 Plus	16	2,617,300	0	0	69,632	2.66%	239,390	9.15%	\$1.15	(600)	(69,632)	2,020	6,370
South County													
10,000-24,999	390	6,504,575	0	0	246,287	3.79%	341,336	5.25%	\$1.50	90,855	(1,264)	171,002	509,357
25,000-49,999	198	6,568,396	0	0	463,207	7.05%	613,980	9.35%	\$1.54	(16,102)	(166,523)	110,265	394,537
50,000-99,999	59	3,921,675	0	0	140,667	3.59%	356,330	9.09%	\$1.71	(19,794)	(9,447)	67,242	145,236
100,000 Plus	13	2,581,894	0	0	0	0.00%	126,497	4.90%	\$0.00	0	0	0	0
West County													
10,000-24,999	220	3,519,260	0	0	94,061	2.67%	109,223	3.10%	\$1.35	(19,192)	(52,238)	47,002	260,946
25,000-49,999	61	2,062,923	0	0	70,739	3.43%	84,293	4.09%	\$0.99	15,424	(10,389)	62,870	222,656
50,000-99,999	29	1,971,548	0	0	112,580	5.71%	289,648	14.69%	\$0.86	(1,560)	7,228	0	14,538
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	1,448	23,615,437	0	0	949,144	4.02%	1,197,528	5.07%	\$1.48	99,939	(180,846)	436,837	1,597,293
25,000-49,999	560	18,671,412	0	0	1,108,008	5.93%	1,379,509	7.39%	\$1.51	(69,234)	(440,244)	333,421	1,145,369
50,000-99,999	166	11,045,460	0	78,738	447,688	4.05%	870,503	7.88%	\$1.51	81,601	123,668	199,573	464,045
100,000 Plus	49	8,358,607	239,000	0	206,472	2.47%	502,727	6.01%	\$1.15	(600)	117,109	2,020	193,111
Orange County Total	2,223	61,690,916	239,000	78,738	2,711,312	4.39%	3,950,267	6.40%	\$1.48	111,706	(380,313)	971,851	3,399,818

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

