

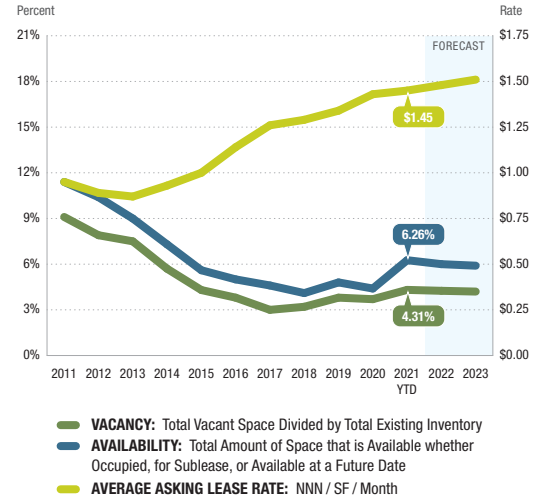
OVERVIEW. After finishing the year with a strong performance, Orange County R&D/Flex market conditions leveled off in Q1 while heading in a positive direction. Net absorption remained in positive territory, vacancy ticked slightly lower as did average asking rents, and construction activity was flat. Given the fact that the flex market had already been starting to soften before the pandemic, current market performance has exceeded the expectations of those active in the sector who were bracing for a pullback. Now that three vaccines are in wide circulation and pandemic protocols are easing, it will be easier for R&D/Flex users to get their employees back to work and start focusing on growth again. R&D/Flex product is a hybrid of industrial and office. As such, it has outperformed the office market, which has pulled back, and underperformed the industrial market which has soared to record levels despite the pandemic.

VACANCY / AVAILABILITY. The overall vacancy rate fell another 19 basis points in Q1, ending the period at 4.31%, exactly where it was in Q1 of 2020. The Greater Airport area, the biggest submarket, saw the biggest dip in vacancy, shedding 81 basis points to 5.09%, while South County vacancy rose by 53 basis points to 4.88%. North County saw a slight increase to finish the period at 2.96%, still the lowest of all five major submarkets. West County's vacancy was flat at 3.42%. Overall availability, which includes sublease space, decreased again in Q1, down 14 basis points to 6.26%, but is up on a year-over-year basis. The spread between vacancy and availability was unchanged, which indicates that an expected increase in sublease activity has not materialized.

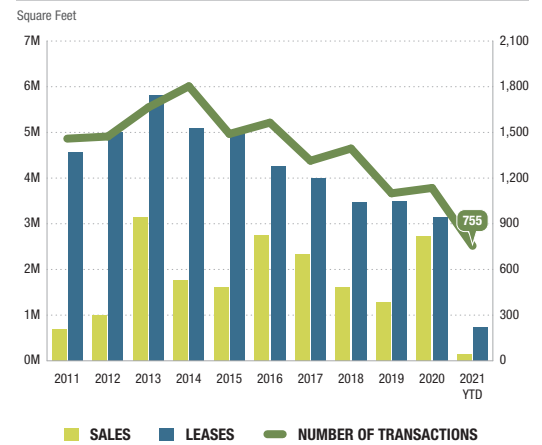
LEASE RATES. The average asking lease rate across all major submarkets was down \$0.05 in Q1 to \$1.45, but still \$0.03 higher than it was a year ago. South County's average rate is still highest at \$1.58, unchanged during the period. This submarket includes Irvine Spectrum's 10.4 MSF of newer inventory. West County has the lowest average rate, currently at \$0.98, up a penny in Q1. Only North County saw a decline in average asking rents, losing \$0.08 to end the period at \$1.30. The fact that rent levels held the line through the worst of the pandemic bodes well for the R&D/Flex market and has eased concerns over a possible correction.

TRANSACTION ACTIVITY. The square footage leased and sold increased by 153,537 SF to 892,575 in Q1, which will produce higher Q2 and Q3 net and gross absorption numbers. In all, 233 leases and 9 sales were inked during the first quarter. That's 5 higher than the Q4 total, indicating smaller average deal size in Q1. The largest transaction in Q1 was a 120,000 SF lease to Interconnect Solutions on Mount Hermann Way in Fountain Valley. Another 102,000 SF was a lease renewal by Rexford Industrial to Cox Communications at 20 Icon in Foothill Ranch. Parpro Technology, Inc. also leased a 57,000 SF building from MaxCare Products, LLC at 2700 Fairview Street in Santa Ana. The bulk of the remaining activity was in transactions under 10,000 SF.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



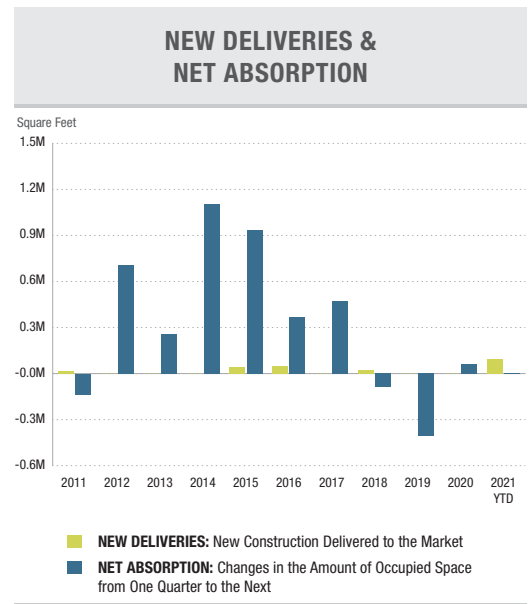
Market Statistics

	Change Over Last Quarter	1Q 2021	4Q 2020	1Q 2020	% Change Over Last Year
Vacancy Rate	▼ DOWN	4.31%	4.50%	4.30%	0.24%
Availability Rate	▼ DOWN	6.26%	6.30%	5.60%	11.84%
Average Asking Lease Rate	▼ DOWN	\$1.45	\$1.50	\$1.42	2.11%
Sale & Lease Transactions	▼ UP	892,575	739,038	1,357,973	(34.27%)
Gross Absorption	▲ UP	919,038	839,216	662,387	38.75%
Net Absorption	▲ POSITIVE	3,831	142,801	(305,204)	N/A

CONSTRUCTION. Construction activity remains limited to a single 239,000 SF build-to-suit for Edwards Life Sciences, which is scheduled for completion in Q2. Not a single project is in the planning stage. That should help increase absorption of existing inventory and keep the market on its current trajectory. The price of suitable land is prohibitively high and developers are not inclined to build speculative projects until the current economic uncertainty is completely behind us.

ABSORPTION. Net absorption for R&D/Flex space softened in Q1, but stayed in positive territory. Net absorption, which reflects the change in total occupied space in a given period, returned to positive territory in Q4 of 2020 with a total of nearly 112,000 SF, but the Q1 total fell to just 3,800 SF despite gross absorption (total move-ins) of 919,000 SF. This indicates that many R&D users are downsizing to save on occupancy costs as the economy grows out of the recession. The largest move-in of the quarter was 41,000 SF in the building at 10 Holland in the Irvine Spectrum. Another 34,000 SF in Cypress was occupied by ANA at 11100 Hope Street in Cypress.

EMPLOYMENT. The unemployment rate in Orange County was 6.8% in February 2021, down from a revised 7.3% in January 2021, and above the year-ago estimate of 2.8%. Employment increased in six sectors: professional and business services (up 7,900 jobs), educational and health services (up 3,500 jobs), other services and government (up 3,100 jobs each), manufacturing (up 500 jobs), and information (up 100 jobs).



Forecast

Orange County's R&D / Flex market conditions should remain near current levels for the rest of the year. Net absorption will be light, but lease and sale activity should be fairly strong, as more companies look to right-size their operations for maximum efficiency. Orange County is benefitting from an aggressive vaccine rollout, which has helped to ease pandemic restrictions and get more people back to work, on the roads and into retail businesses, which will give an even further boost to the recovering economy.

However, the federal infrastructure bill being considered by Congress contains several tax hikes that are sure to be hotly debated during the second quarter. The initial bill will likely contain an increase in corporate and personal income tax rates, along with the elimination of the 20% exemption of Qualified Business Income earned by pass-through entities. Also under discussion are provisions to tax capital gains at ordinary rates, eliminate the step-up rule, lower the threshold for estate taxes, and eliminate or restrict 1031 exchanges, all of which could be disruptive to the commercial real estate sector.

Significant Transactions

Sales						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller	
2001-2007 Raymer Ave.*	Fullerton	80,032	\$17,675,000	Guthrie Development Company*	The Daniel & Francine Scinto Foundation, LLC	
27412 Aliso Viejo Pkwy.*	Aliso Viejo	14,912	\$5,100,000	David Nat*	Miscione Family LLC	
17771 Mitchell	Irvine	10,653	\$3,999,000	17771 Mitchell North LLC	Jeffrey Schulein	
1160 Calle Cordillera	San Clemente	10,495	\$2,335,000	Pal Resources LLC	Richardson Family Trust	
1238 Puerta Del Sol	San Clemente	10,429	\$24,000,000	Ace Novelty LLC	RW Talega Comf Prop LLC	

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
17595 Mount Hermann Way - Sublease	Fountain Valley	120,000	Mar-2021	Interconnect Solutions	Sakioka
20 Icon - Renewal	Foothill Ranch	102,299	Feb-2021	Cox Communications	Rexford Industrial
2700-2722 Fairview St.	Santa Ana	57,773	Mar-2021	Parpro Technology, Inc.	MaxCare Products LLC
60 Post	Irvine Spectrum	10,449	Feb-2021	Shoot 360	The Reyes Living Trust
3396 Sunland Way	Costa Mesa	9,207	Feb-2021	Ice Bear	RREEF

INVENTORY

VACANCY & LEASE RATES

ABSORPTION

	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2021	Square Feet Available	Availability Rate 1Q2021	Average Asking Lease Rate	Net Absorption 1Q2021	Net Absorption 2021	Gross Absorption 1Q2021	Gross Absorption 2021
Airport Area													
Costa Mesa	172	4,006,284	0	0	317,529	7.93%	328,715	8.20%	\$1.65	47,081	47,081	135,813	135,813
Fountain Valley	50	1,467,666	0	0	3,100	0.21%	17,181	1.17%	\$1.05	23,567	23,567	30,801	30,801
Irvine	241	6,195,480	239,000	0	430,923	6.96%	483,964	7.81%	\$1.39	21,620	21,620	94,322	94,322
Newport Beach	21	582,303	0	0	24,570	4.22%	22,646	3.89%	\$0.00	(786)	(786)	4,350	4,350
Santa Ana	182	4,691,652	0	0	76,847	1.64%	167,731	3.58%	\$1.17	11,045	11,045	99,738	99,738
Tustin	87	3,067,208	0	0	164,821	5.37%	198,597	6.47%	\$1.14	29,363	29,363	55,974	55,974
Airport Area Total	753	20,010,593	239,000	0	1,017,790	5.09%	1,218,834	6.09%	\$1.47	131,890	131,890	420,998	420,998
North County													
Anaheim	184	5,144,976	0	0	156,333	3.04%	217,794	4.23%	\$1.78	(18,910)	(18,910)	41,339	41,339
Brea	51	1,490,362	0	0	34,358	2.31%	34,254	2.30%	\$1.14	(13,306)	(13,306)	9,404	9,404
Buena Park	29	914,012	0	0	29,575	3.24%	33,226	3.64%	\$0.00	(5,752)	(5,752)	2,468	2,468
Fullerton	46	1,819,054	0	0	99,368	5.46%	97,797	5.38%	\$1.19	(3,116)	(3,116)	15,442	15,442
La Habra	10	187,013	0	0	0	0.00%	0	0.00%	\$0.00	1,800	1,800	1,800	1,800
Orange	100	2,267,551	0	0	35,677	1.57%	36,044	1.59%	\$1.78	11,189	11,189	34,747	34,747
Placentia	26	673,935	0	0	5,791	0.86%	15,037	2.23%	\$1.13	3,928	3,928	7,219	7,219
Yorba Linda	51	1,497,185	0	0	52,898	3.53%	232,073	15.50%	\$1.12	(1,586)	(1,586)	6,670	6,670
North County Total	497	13,994,088	0	0	414,000	2.96%	666,225	4.76%	\$1.30	(25,753)	(25,753)	119,089	119,089
South County													
Aliso Viejo	45	1,118,648	0	0	44,563	3.98%	103,282	9.23%	\$1.38	(23,105)	(23,105)	9,547	9,547
Foothill Ranch	8	273,620	0	0	17,789	6.50%	17,789	6.50%	\$1.29	(17,789)	(17,789)	0	0
Irvine Spectrum	295	10,343,993	0	0	543,561	5.25%	1,001,909	9.69%	\$1.67	(88,307)	(88,307)	131,506	131,506
Laguna Hills	54	1,269,595	0	0	44,952	3.54%	69,861	5.50%	\$1.38	(1,523)	(1,523)	37,545	37,545
Laguna Niguel	18	856,360	0	0	4,786	0.56%	4,786	0.56%	\$0.00	815	815	815	815
Lake Forest	62	1,394,005	0	0	45,290	3.25%	55,557	3.99%	\$1.29	(6,354)	(6,354)	28,244	28,244
Mission Viejo	35	640,707	0	0	16,988	2.65%	23,660	3.69%	\$1.28	(3,423)	(3,423)	1,297	1,297
Rancho Mission Viejo	3	96,942	0	0	55,125	56.86%	55,125	56.86%	\$1.75	1,920	1,920	1,920	1,920
Rancho Santa Margarita	40	1,432,620	0	0	9,194	0.64%	16,438	1.15%	\$1.40	2,430	2,430	9,135	9,135
San Clemente	59	1,432,899	0	0	89,504	6.25%	82,370	5.75%	\$1.45	1,412	1,412	19,029	19,029
San Juan Capistrano	41	717,151	0	0	84,144	11.73%	99,792	13.92%	\$1.62	(6,926)	(6,926)	13,963	13,963
South County Total	660	19,576,540	0	0	955,896	4.88%	1,530,569	7.82%	\$1.58	(140,850)	(140,850)	253,001	253,001
West County													
Cypress	53	2,203,831	0	0	30,331	1.38%	201,209	9.13%	\$1.06	23,804	23,804	5,160	5,160
Garden Grove	68	1,782,919	0	0	63,833	3.58%	96,933	5.44%	\$1.00	(7,402)	(7,402)	8,682	8,682
Huntington Beach	129	2,632,371	0	0	62,184	2.36%	37,817	1.44%	\$1.57	15,378	15,378	90,177	90,177
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	34,673	3.98%	31,673	3.63%	\$0.00	5,764	5,764	20,931	20,931
Stanton	5	104,129	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Westminster	16	435,668	0	0	1,440	0.33%	1,440	0.33%	\$0.00	1,000	1,000	1,000	1,000
West County Total	313	8,109,695	0	0	271,441	3.35%	448,052	5.52%	\$0.98	38,544	38,544	125,950	125,950
Orange County Total	2,223	61,690,916	239,000	0	2,659,127	4.31%	3,863,680	6.26%	\$1.45	3,831	3,831	919,038	919,038
Airport Area													
10,000-24,999	516	8,427,024	0	0	371,589	4.41%	503,263	5.97%	\$1.42	85,727	85,727	200,657	200,657
25,000-49,999	172	5,782,712	0	0	286,215	4.95%	339,548	5.87%	\$1.45	27,087	27,087	159,318	159,318
50,000-99,999	48	3,197,408	0	0	223,146	6.98%	239,183	7.48%	\$1.51	19,076	19,076	61,023	61,023
100,000 Plus	17	2,603,449	239,000	0	136,840	5.26%	136,840	5.26%	\$0.00	0	0	0	0
North County													
10,000-24,999	322	5,164,578	0	0	165,479	3.20%	201,481	3.90%	\$1.53	(17,531)	(17,531)	69,495	69,495
25,000-49,999	129	4,257,381	0	0	164,994	3.88%	192,631	4.52%	\$1.29	(8,222)	(8,222)	48,979	48,979
50,000-99,999	30	1,954,829	0	0	14,495	0.74%	31,903	1.63%	\$0.00	0	0	0	0
100,000 Plus	16	2,617,300	0	0	69,032	2.64%	240,210	9.18%	\$1.15	0	0	615	615
South County													
10,000-24,999	390	6,504,575	0	0	256,481	3.94%	382,984	5.89%	\$1.44	(18,872)	(18,872)	96,754	96,754
25,000-49,999	198	6,568,396	0	0	496,172	7.55%	618,035	9.41%	\$1.62	(57,639)	(57,639)	114,854	114,854
50,000-99,999	59	3,921,675	0	0	203,243	5.18%	276,023	7.04%	\$1.69	(64,339)	(64,339)	41,393	41,393
100,000 Plus	13	2,581,894	0	0	0	0.00%	253,527	9.82%	\$0.00	0	0	0	0
West County													
10,000-24,999	220	3,519,260	0	0	107,155	3.04%	110,131	3.13%	\$1.30	(12,808)	(12,808)	73,089	73,089
25,000-49,999	61	2,062,923	0	0	85,306	4.14%	104,195	5.05%	\$1.02	17,752	17,752	16,386	16,386
50,000-99,999	29	1,971,548	0	0	78,980	4.01%	233,726	11.85%	\$0.86	33,600	33,600	36,475	36,475
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	900,704	3.81%	1,197,859	5.07%	\$1.44	36,516	36,516	439,995	439,995
25,000-49,999	560	18,671,412	0	0	1,032,687	5.53%	1,254,409	6.72%	\$1.49	(21,022)	(21,022)	339,537	339,537
50,000-99,999	166	11,045,460	0	0	519,864	4.71%	780,835	7.07%	\$1.49	(11,663)	(11,663)	138,891	138,891
100,000 Plus	49	8,358,607	239,000	0	205,872	2.46%	630,577	7.54%	\$1.15	0	0	615	615
Orange County Total	2,223	61,690,916	239,000	0	2,659,127	4.31%	3,863,680	6.26%	\$1.45	3,831	3,831	919,038	919,038

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



Owner-User Demand Flourishes in Industrial Market

by **Erik Sikes**

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A year ago, many industrial business sectors were left in a state of panic and disarray due to the coronavirus pandemic. It is not unusual for markets to be thrown an occasional curveball, but the severity of the global pandemic that essentially shut down the world in March instilled a new sense of vulnerability and uncertainty. Today some business sectors are still struggling. However, others are back to business as usual and some even managed to have record-breaking years in 2020. Overall, the industrial market flourished in 2020 and we expect it to be even stronger this year.

Although Covid-19 remains a major issue, the largest source of uncertainty is a series of tax hikes proposed by the new administration. President Biden campaigned on eliminating 1031 exchanges, raising marginal income tax rates, taxing capital gains at ordinary income tax rates, lowering the estate tax threshold, erasing the step-up rule, and raising corporate income tax rates. A question we constantly hear from clients is, "Which proposal will affect me the most?" The reality is, to varying degrees, they all would have an adverse effect on the commercial real estate market. It is too early to know which of President Biden's proposals will be formally pursued, and he will face a tough legislative challenge, given the even split of Democrat and Republican Senators.

Even with the reality of Covid-19 and the threat of higher taxes, the owner-user market has exploded. With vacancy rates on leased buildings dropping to a historic low, sale prices for free-standing buildings have moved higher and higher. Potential buyers are enticed by fixed-rate SBA loans in the 3% range, as well as three months of free mortgage payments of up to \$9,000. For many, it just makes sense to amortize their own mortgage rather than write a check to their landlord each month so he can do the same.

While there are undoubtedly reasons to exercise caution about near-term economic challenges, many of our clients remain willing to take on the risk of owning industrial property in Southern California. For them, the desire to grow their businesses and build wealth through property ownership at the same time is a prudent decision.

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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. ©2021 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