

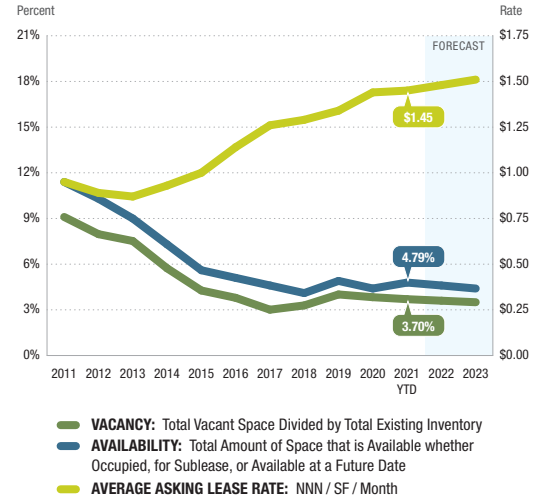
**OVERVIEW.** Orange County R&D/Flex market conditions tightened up in 2Q. Supply is not running as short as it is in the traditional industrial sector, but things look to be heading in that direction. Net absorption was firmly in positive territory and vacancy fell sharply. Average asking rents held steady, and not a single square foot of R&D/Flex space was in the construction queue. The sector had softened during the pandemic but is now on the rebound, as work rules regarding masks and social distancing have been lifted for vaccinated workers. As a hybrid of office and industrial, R&D/Flex product attracts users with higher employee density and that made the pandemic lockdown rules more difficult to work through than it was for pure industrial space.

**VACANCY / AVAILABILITY.** The overall vacancy rate fell by 45 basis points in 2Q to 3.70%, which helped to bring year-over-year vacancy down by over 21%. The Greater Airport area, the largest submarket, saw the biggest dip in vacancy again in 2Q, falling another 90 basis points to just 4.19%. South County vacancy also saw a big decline, down 50 basis points to 4.38%. North County also fell by 50 basis points to 2.46%, still the lowest of all five major submarkets. West County vacancy, which was flat in 1Q, dropped another 37 basis points to 2.97%. The across-the-board decline in vacancy makes clear that R&D/Flex users are ramping back up as the COVID-19 pandemic challenges wane. The overall availability rate, which includes sublease space and direct lease space that is still occupied, also fell sharply during 2Q, shedding 147 basis points in just three months to 4.79%. This is further indication that the market is returning to good health.

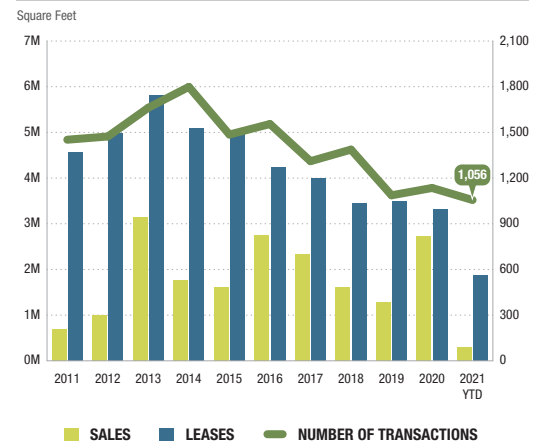
**LEASE RATES.** The average asking lease rate across all major submarkets was relatively flat during 2Q, gaining a penny to \$1.45, but was down \$0.05 year-over-year. That small decline, given the challenges of the past year, is remarkable given the soft market conditions that were in place even before the pandemic began. South County's average rate is still highest at \$1.56, but was down \$0.02 during the period. This submarket includes Irvine Spectrum's nearly 10.5 MSF of newer inventory. West County still has the lowest average rate at \$1.05, but that was after a \$0.07 gain in 2Q. The Airport Area, the largest of the R&D / Flex submarkets, saw asking rents move up \$0.05 to \$1.52 in 2Q while North County was flat at \$1.30.

**TRANSACTION ACTIVITY.** The square footage leased and sold took a big jump up in 2Q. Just over 1.1 MSF of space went under lease or sale contract in the quarter, up from 775,000 SF in 1Q. That big increase will show up soon as positive net absorption. In all, 265 leases and 3 sales were inked during the period. The largest transaction in 2Q was a 210,000 SF lease renewal by The Irvine Company to Alcon Laboratories at 3 Burroughs in Irvine Spectrum. While leasing activity was up in terms of transactions, the number of sales fell to 3 from 12 in 1Q. The largest of those transactions was a 39,500 SF building purchased by the Zheng Company LLC from the Boy Scouts of America at 1211 East Dyer Road in Santa

**VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES**



**TRANSACTION VOLUME & NUMBER OF TRANSACTIONS**



Market Statistics

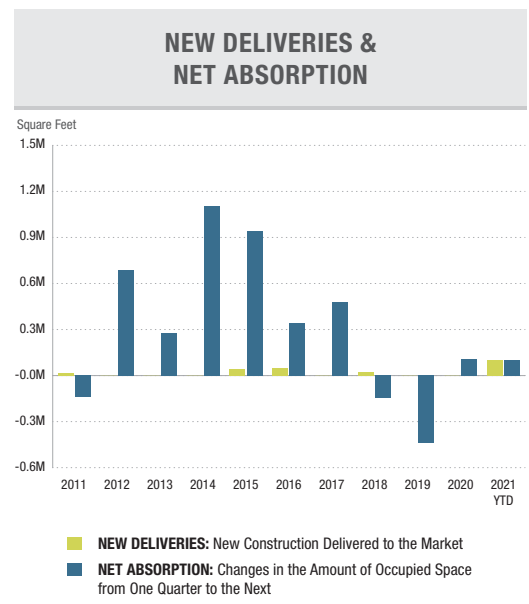
	Change Over Last Quarter	2Q 2021	1Q 2021	2Q 2020	% Change Over Last Year
Vacancy Rate	▼ DOWN	3.70%	4.15%	4.70%	(21.27%)
Availability Rate	▼ DOWN	4.79%	5.81%	6.48%	(26.06%)
Average Asking Lease Rate	▲ UP	\$1.45	\$1.44	\$1.50	(3.33%)
Sale & Lease Transactions	▲ UP	1,198,776	981,345	713,767	67.95%
Gross Absorption	▼ DOWN	1,037,503	1,113,465	537,494	93.03%
Net Absorption	▲ POSITIVE	97,411	3,831	(236,854)	N/A

Ana. Buyer demand for well located product continues to exceed the short supply, which is limiting sales activity.

**CONSTRUCTION.** Construction activity for R&D/Flex product fell to zero in 2Q after Edwards Life Science’s 239,000 SF building, the only project under construction, was delivered during the quarter. As we reported in 1Q, not a single project is in the planning stages. So, if sale and lease activity remain near current levels as expected, vacancy will continue to move lower in the coming quarters. Land sites suitable for R&D flex projects are scarce and expensive, and would likely be repurposed to multi-family or mixed-use developments if they become available.

**ABSORPTION.** Net absorption for R&D/Flex space rebounded firmly into positive territory in 2Q. Net absorption, which reflects the change in total occupied space in a given period, totaled over 97,000 SF in the period, up from just 3,800 SF in 1Q. On a year-over-year basis things look even better. This period last year net absorption was a negative 236,854 SF, which reflected the first shock from the COVID-19 pandemic. Gross absorption, which measures total moves in and out, was relatively flat in the second period at 1,037,000 SF. The largest move-in of the period was just 35,657 SF, a lease to National Benefits in Costa Mesa. The biggest move-out for the quarter was 60,547 SF in Costa Mesa by Valeant Pharmaceuticals.

**EMPLOYMENT.** The unemployment rate in Orange County was 5.9% in May 2021, down from a revised 6.2% in April 2021, and below the year-ago estimate of 14.9%. Employment increased in professional and business services (up 2,700 jobs), manufacturing (up 1,500 jobs), and trade, transportation, and utilities (up 1,300 jobs).



Forecast

With several larger deals going under contract in 2Q, net and gross absorption should both improve over the balance of the year. Employers are getting their people back to work now that pandemic protocols have eased. The lack of construction will limit tenant and buyer choices to existing inventory and that should send vacancy lower and lease rates even higher.

While the general economy is making a strong recovery, buyers and sellers of R&D/Flex properties are becoming more concerned for the potential of substantial tax hikes on capital gains and severe limitations on 1031 exchanges, both of which are part of the new administration’s American Families Plan now making its way through Congress. It is too early to tell at this point which components of the plan will become law, but there is a potential for a significant impact on property values that would diminish the attractiveness of real estate investment.

Significant Transactions

Sales \* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
1211 E. Dyer Rd.		39,500	\$8,700,000	Zheng Company LLC	Boy Scouts of America
3 Burroughs		36,952	\$8,691,250	ASG Real Estate, Inc.	Harbor Associates, LLC
17660 Cowan		16,554	\$5,000,000	Newport Mesa Church	Saunders Property Company

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
15600 Alton Pkwy. - Renewal		210,000	Jun-2021	Alcon Laboratories	The Irvine Company
58 Discovery - Renewal		127,030	May-2021	Masimo	Thales USA Inc.
1382 Bell Ave.		120,000	May-2021	County of Orange	GEM Realty Capital Inc.
1540 Scenic Ave		40,744	May-2021	NationsBenefits	CJ Segerstrom & Son
1740-1760 E. Wilshire Ave. - Renewal		36,927	Jun-2021	Secure Communication Systems, Inc.	TLF Logistics II 1720-1800 Wilshire, 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 2Q2021	Square Feet Available	Availability Rate 2Q2021	Average Asking Lease Rate	Net Absorption 2Q2021	Net Absorption 2021	Gross Absorption 2Q2021	Gross Absorption 2021
<b>Airport Area</b>													
Costa Mesa	172	4,041,635	0	0	263,826	6.53%	246,620	6.10%	\$1.59	37,944	85,025	84,322	220,135
Fountain Valley	49	1,426,272	0	0	10,517	0.74%	17,755	1.24%	\$1.05	(5,417)	18,150	10,468	41,269
Irvine	240	6,400,669	0	0	264,473	4.13%	379,259	5.93%	\$1.49	110,690	132,310	223,353	317,675
Newport Beach	21	582,303	0	0	22,264	3.82%	22,264	3.82%	\$1.65	1,530	744	1,530	5,880
Santa Ana	181	4,617,694	0	0	102,478	2.22%	143,258	3.10%	\$1.40	(39,874)	(28,829)	50,372	150,110
Tustin	86	2,918,793	0	0	173,092	5.93%	69,179	2.37%	\$1.35	(10,570)	18,793	31,064	87,038
<b>Airport Area Total</b>	<b>749</b>	<b>19,987,366</b>	<b>0</b>	<b>0</b>	<b>836,650</b>	<b>4.19%</b>	<b>878,335</b>	<b>4.39%</b>	<b>\$1.52</b>	<b>94,303</b>	<b>226,193</b>	<b>401,109</b>	<b>822,107</b>
<b>North County</b>													
Anaheim	179	5,164,596	0	0	135,614	2.63%	199,300	3.86%	\$1.75	9,312	(9,598)	73,661	115,000
Brea	53	1,517,172	0	0	25,514	1.68%	25,314	1.67%	\$1.19	9,529	(3,777)	36,743	46,147
Buena Park	29	915,580	0	0	25,291	2.76%	23,500	2.57%	\$0.00	2,259	(3,493)	6,095	8,563
Fullerton	46	1,819,054	0	0	99,961	5.50%	69,459	3.82%	\$1.09	(3,184)	(6,300)	15,898	31,340
La Habra	10	187,013	0	0	0	0.00%	0	0.00%	\$0.00	0	1,800	0	1,800
Orange	99	2,244,537	0	0	19,040	0.85%	23,432	1.04%	\$1.73	(3,897)	7,292	20,586	55,333
Placentia	26	673,935	0	0	15,037	2.23%	15,037	2.23%	\$1.18	(10,782)	(6,854)	0	7,219
Yorba Linda	51	1,500,910	0	0	24,350	1.62%	202,419	13.49%	\$1.15	6,154	4,568	47,064	53,734
<b>North County Total</b>	<b>493</b>	<b>14,022,797</b>	<b>0</b>	<b>0</b>	<b>344,807</b>	<b>2.46%</b>	<b>558,461</b>	<b>3.98%</b>	<b>\$1.30</b>	<b>9,391</b>	<b>(16,362)</b>	<b>200,047</b>	<b>319,136</b>
<b>South County</b>													
Aliso Viejo	44	1,087,963	0	0	7,530	0.69%	66,527	6.11%	\$1.10	6,348	(16,757)	6,348	15,895
Foothill Ranch	8	273,620	0	0	17,789	6.50%	17,789	6.50%	\$1.29	0	(17,789)	0	0
Irvine Spectrum	294	10,493,614	0	0	558,868	5.33%	782,035	7.45%	\$1.66	(67,553)	(155,860)	191,394	322,900
Laguna Hills	54	1,282,546	0	0	31,034	2.42%	59,895	4.67%	\$1.34	12,868	11,345	19,435	56,980
Laguna Niguel	18	856,360	0	0	4,786	0.56%	4,786	0.56%	\$0.00	0	815	0	815
Lake Forest	64	1,433,948	0	0	33,141	2.31%	59,057	4.12%	\$1.31	12,130	5,776	33,067	61,311
Mission Viejo	35	653,821	0	0	10,988	1.68%	13,285	2.03%	\$1.28	3,760	337	5,200	6,497
Rancho Mission Viejo	3	99,200	0	0	32,565	32.83%	25,945	26.15%	\$1.75	22,560	24,480	33,625	35,545
Rancho Santa Margarita	39	1,434,758	0	0	4,252	0.30%	9,707	0.68%	\$1.40	3,878	6,308	8,465	17,600
San Clemente	59	1,422,348	0	0	96,490	6.78%	76,419	5.37%	\$1.45	(14,120)	(12,708)	14,103	33,132
San Juan Capistrano	42	738,718	0	0	68,487	9.27%	57,954	7.85%	\$1.62	11,916	4,990	39,652	53,615
<b>South County Total</b>	<b>660</b>	<b>19,776,896</b>	<b>0</b>	<b>0</b>	<b>865,930</b>	<b>4.38%</b>	<b>1,173,399</b>	<b>5.93%</b>	<b>\$1.56</b>	<b>(8,213)</b>	<b>(149,063)</b>	<b>351,289</b>	<b>604,290</b>
<b>West County</b>													
Cypress	51	2,088,611	0	0	52,309	2.50%	109,088	5.22%	\$1.09	(32,137)	(8,333)	4,085	9,245
Garden Grove	68	1,800,350	0	0	52,461	2.91%	77,992	4.33%	\$1.00	9,303	1,901	22,973	31,655
Huntington Beach	127	2,607,002	0	0	25,152	0.96%	47,892	1.84%	\$1.56	17,421	32,799	37,407	127,584
La Palma	1	78,980	0	0	78,980	100.00%	78,980	100.00%	\$0.86	0	0	0	0
Los Alamitos	42	888,559	0	0	27,199	3.06%	34,513	3.88%	\$0.00	7,343	13,107	17,943	38,874
Stanton	5	104,129	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Westminster	15	420,455	0	0	1,440	0.34%	0	0.00%	\$0.00	0	1,000	2,650	3,650
<b>West County Total</b>	<b>309</b>	<b>7,988,086</b>	<b>0</b>	<b>0</b>	<b>237,541</b>	<b>2.97%</b>	<b>348,465</b>	<b>4.36%</b>	<b>\$1.05</b>	<b>1,930</b>	<b>40,474</b>	<b>85,058</b>	<b>211,008</b>
<b>Orange County Total</b>	<b>2,211</b>	<b>61,775,145</b>	<b>0</b>	<b>0</b>	<b>2,284,928</b>	<b>3.70%</b>	<b>2,958,660</b>	<b>4.79%</b>	<b>\$1.45</b>	<b>97,411</b>	<b>101,242</b>	<b>1,037,503</b>	<b>1,956,541</b>
<b>Airport Area</b>													
10,000-24,999	518	8,469,405	0	0	356,639	4.21%	464,818	5.49%	\$1.51	46,328	132,055	199,320	399,977
25,000-49,999	165	5,565,982	0	0	215,049	3.86%	248,274	4.46%	\$1.41	(6,611)	20,476	137,507	296,825
50,000-99,999	49	3,257,945	0	0	128,122	3.93%	148,403	4.56%	\$1.50	54,586	73,662	64,282	125,305
100,000 Plus	17	2,694,034	0	0	136,840	5.08%	16,840	0.63%	\$0.00	0	0	0	0
<b>North County</b>													
10,000-24,999	318	5,077,574	0	0	123,556	2.43%	165,332	3.26%	\$1.46	6,394	(11,137)	101,507	171,002
25,000-49,999	129	4,261,106	0	0	137,724	3.23%	187,394	4.40%	\$1.03	2,997	(5,225)	93,805	142,784
50,000-99,999	30	1,954,829	0	0	14,495	0.74%	31,903	1.63%	\$1.40	0	0	1,295	1,295
100,000 Plus	16	2,729,288	0	0	69,032	2.53%	173,832	6.37%	\$0.00	0	0	3,440	4,055
<b>South County</b>													
10,000-24,999	389	6,485,072	0	0	175,718	2.71%	217,423	3.35%	\$1.20	68,013	49,141	175,291	272,045
25,000-49,999	199	6,608,134	0	0	400,085	6.05%	511,672	7.74%	\$1.54	27,458	(30,181)	160,397	275,251
50,000-99,999	59	3,907,832	0	0	290,127	7.42%	317,807	8.13%	\$1.70	(103,684)	(168,023)	15,601	56,994
100,000 Plus	13	2,775,858	0	0	0	0.00%	126,497	4.56%	\$0.00	0	0	0	0
<b>West County</b>													
10,000-24,999	217	3,471,125	0	0	69,735	2.01%	99,998	2.88%	\$1.10	22,770	9,962	58,755	131,844
25,000-49,999	62	2,104,669	0	0	81,868	3.89%	108,389	5.15%	\$1.03	(13,882)	3,870	26,303	42,689
50,000-99,999	27	1,856,328	0	0	85,938	4.63%	140,078	7.55%	\$0.88	(6,958)	26,642	0	36,475
100,000 Plus	3	555,964	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
<b>Orange County</b>													
10,000-24,999	1,442	23,503,176	0	0	725,648	3.09%	947,571	4.03%	\$1.36	143,505	180,021	534,873	974,868
25,000-49,999	555	18,539,891	0	0	834,726	4.50%	1,055,729	5.69%	\$1.42	9,962	(11,060)	418,012	757,549
50,000-99,999	165	10,976,934	0	0	518,682	4.73%	638,191	5.81%	\$1.49	(56,056)	(67,719)	81,178	220,069
100,000 Plus	49	8,755,144	0	0	205,872	2.35%	317,169	3.62%	\$0.00	0	0	3,440	4,055
<b>Orange County Total</b>	<b>2,211</b>	<b>61,775,145</b>	<b>0</b>	<b>0</b>	<b>2,284,928</b>	<b>3.70%</b>	<b>2,958,660</b>	<b>4.79%</b>	<b>\$1.45</b>	<b>97,411</b>	<b>101,242</b>	<b>1,037,503</b>	<b>1,956,541</b>

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



## Battling with Supply Constraints

by **Seth Davenport**

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The general economy, despite the challenges of the past year, is back in growth mode and businesses throughout Southern California are feeling the wind at their backs again. But the spike in business activity has shed new light on an ongoing problem: short supply of quality industrial space. Surprisingly, vacancy generally fell throughout the pandemic and pricing for both sale and lease product has risen to new record highs.

Barring major changes to the tax code, which are now on the negotiating table in Washington, things should keep moving in the same direction for the foreseeable future. Landlords are demanding even more in terms of price and creditworthiness from prospective tenants and sellers maintain the upper hand on prospective buyers. Final pricing is often well above the asking price for both owner-user buildings and investment properties.

So, what does this mean to you if your company needs a building to lease?

Most importantly, be prepared to act immediately. If you are looking to lease, have complete financial documentation ready to submit and make sure your current facility is ship-shape, as many landlords will want to see your existing operation before they accept you as a tenant. If possible, offer to take space "As-Is." The less complex your negotiations are, the better chance you will have to secure the space. We've seen too many tenants push hard for landlord concessions and end up back in the hunt for another building. If you find the right building, do what it takes to secure it, as your other options may be even more problematic.

If you are a prospective buyer, it's just as important to be ready to strike when you find what you are looking for. If you will be financing the acquisition, get prequalified before your search begins in earnest and be prepared to show proof of funds for your down payment. Also, check with the site's city to make sure the zoning of the property is appropriate for your use and there are no other impediments to your being able to complete the sale. Offer a short due diligence period and a quick close after standard contingencies are waived, and be willing to extend the escrow if the seller needs extra time to find a suitable 1031 exchange property.

Constraints on supply have tipped the balance of power in real estate negotiations. Tenants and buyers who accept that as reality are the ones who end up with the best possible outcome. Those who don't are in for a long and difficult search process and they may end up paying even more to get less down the road.

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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