

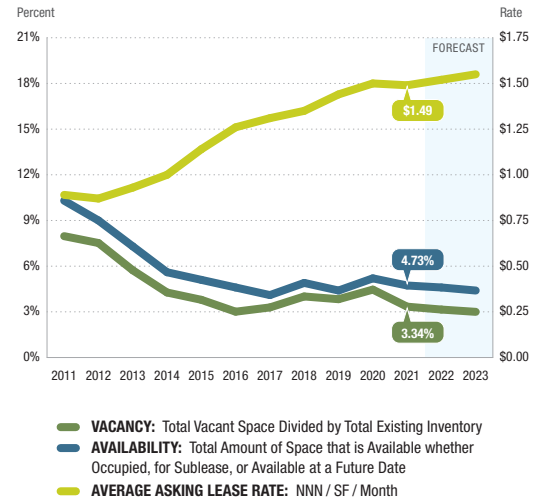
**OVERVIEW.** Orange County R&D/Flex market conditions tightened up in Q4. Net absorption mirrored the gain in Q3, ending the year on a good note. Vacancy posted a moderate decline, and average asking rents moved up. Construction of new R&D/Flex space remained at zero where it had been throughout 2021. Transaction activity was down, but that was the case across all product types in Q4. Gross absorption moved up slightly. The R&D/flex market had been lethargic going into the pandemic and was pretty quiet until the last two quarters. A hybrid of office and industrial, R&D/Flex space attracts users with moderate employee density, making the pandemic lockdown rules somewhat problematic, but less so than for its pure office counterpart. All in all, the year for the R&D/Flex market turned out better than many expected, and all market metrics point to general good health in 2022.

**VACANCY / AVAILABILITY.** The overall vacancy rate fell 27 basis points in Q4 to 3.34% after a more modest decline in Q3. In 2021, the countywide vacancy rate declined by over 25%. The Greater Airport area, the largest submarket, saw another significant dip in vacancy again in Q4, falling another 29 basis points to just 3.53% after an even larger decline in Q3. After an increase in vacancy in Q3, South County vacancy fell sharply in the final quarter, shedding 63 basis points to finish the period at 3.98%. North County, which still maintains the lowest vacancy rate of 1.76%, saw a slight rise in Q4 after a massive 88-basis-point decline in Q3. The overall availability rate, which includes sublease space and direct lease space that is still occupied, fell also, declining by 18 basis points to 4.73%, down by over 24% for the full year.

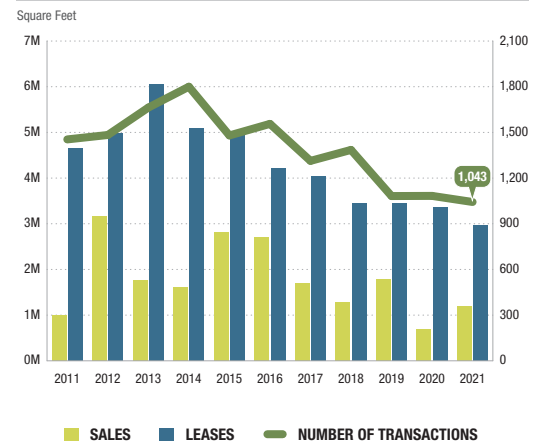
**LEASE RATES.** The average asking lease rate countywide rose by \$0.03 in the final quarter to \$1.49. For the full year, it was down a penny, a better-than-expected result given the impact of the pandemic. South County's average rate, usually the highest of the submarkets, came in second in Q4, up \$0.03 to \$1.60 during the period. This submarket includes Irvine Spectrum's 10.5 MSF of generally newer inventory. The Airport Area, the largest of the R&D/Flex submarkets, saw asking rents jump by \$0.17 to \$1.64 in Q4 while North County fell another \$0.05 to \$1.23.

**TRANSACTION ACTIVITY.** The square footage leased and sold fell to 610,684 SF in Q4, a significant drop from 1,198,133 in Q3. That decline may, in part, be due to the fact that lower vacancy is limiting choices for tenants looking to move. In Q4, 481,974 SF of lease space went under contract in 153 transactions, and another 128,710 SF of space was sold in 7 separate transactions. Year-over-year sale and lease activity is down 18.2%, not surprising due to the impact of the pandemic on the higher employee density associated with R&D/Flex users. The largest transaction in Q4 was a 50,235 SF lease renewal by Northwestern Mutual Life Insurance to MaxLinear, Inc. at 50 Parker in Irvine Spectrum. The largest sale of the quarter was a 35,654 SF property purchased by Bach Diagnostics at 17672 Cowan in Irvine.

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



**TRANSACTION VOLUME & NUMBER OF TRANSACTIONS**



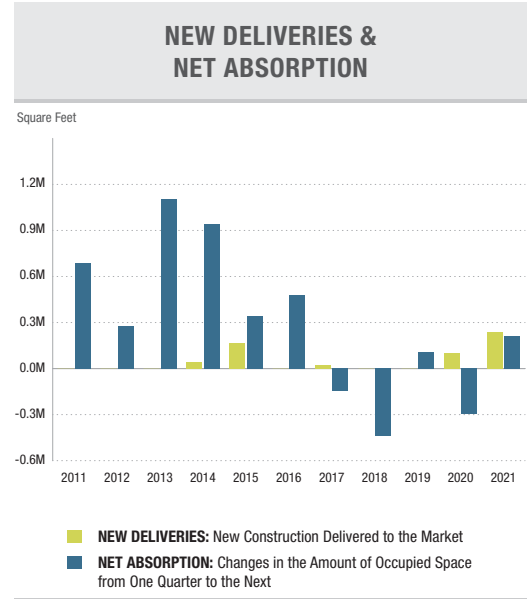
Market Statistics

	Change Over Last Quarter	4Q 2021	3Q 2021	4Q 2020	% Change Over Last Year
Vacancy Rate	▼ DOWN	3.34%	3.61%	4.46%	(25.16%)
Availability Rate	▼ DOWN	4.73%	4.91%	6.25%	(24.31%)
Average Asking Lease Rate	▲ UP	\$1.49	\$1.46	\$1.50	(0.67%)
Sale & Lease Transactions	▼ DOWN	610,684	1,198,133	746,733	(18.22%)
Gross Absorption	▲ UP	1,043,786	941,559	839,216	24.38%
Net Absorption	▲ POSITIVE	93,969	97,411	142,801	N/A

**CONSTRUCTION.** No new R&D/Flex space is in the construction queue nor in the planning stages at year’s end. That will keep vacancy moving lower as long as lease and sale demand remains near current levels. If that occurs, asking lease rates should move higher in 2022. It is unlikely that the county will see a significant level of R&D/Flex space development any time soon. Land is scarce and more valuable to multifamily and mixed-use developers.

**ABSORPTION.** Net absorption for R&D/Flex space was slightly lower than in Q3, ending the final period with a net gain in occupied space of 93,969 SF. The Airport Area was the primary contributor, posting a positive 114,630 SF, and essentially all of that came from activity in the city of Irvine. South County added a gain of 40,171 SF, while West County and North County posted losses for the period. Gross absorption, which measures total move-ins, was up slightly again in the fourth quarter at 1,043,786 SF as compared to 941,559 SF in Q3. The largest move-in of the period was 35,654 SF, a sale to an owner/user, at 17672 Cowan in Irvine. Another owner/user sale was closed on a 17,789 SF building at 19781 Pauling in Foothill Ranch.

**EMPLOYMENT.** The unemployment rate in Orange County was 4.1% in November 2021, down from a revised 4.7% in October 2021, and well below the year-ago estimate of 6.6%. Trade, transportation, and utilities added 4,500 jobs, the largest increase of any sector. This accounted for nearly half of the total increase in nonfarm employment, and was almost all in retail trade. The remaining job gains were in warehousing and utilities (up 1,200 jobs) while wholesale trade declined by 800 jobs.



## Forecast

The R&D/Flex market will get tighter in 2022. Leasing activity, lease rates and absorption should remain at current levels and not a single square foot is in the construction queue. Vacancy should see modest declines each quarter and lease rates could move slightly higher. However, high inflation has prompted the Fed to announce the phase-out of its bond-buying program and interest rate increases in 2022 are likely. That would put upward pressure on mortgage rates, which in turn would apply slight downward pressure on asset prices. That will be more than offset, however, by the magnitude by which demand is outpacing supply. Another positive development for property values is the fact that the Build Back Better Act and its associated tax increases appear to be on shaky ground.

## Significant Transactions

### Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
1311 Valencia Ave.	Tustin	71,616	\$19,200,000	Stos Partners	Hang Up Moon
17672 Cowan	Irvine	35,654	\$9,050,000	Bach Diagnostics	17672 Cowan L.P.
1927 N. Glassell St.	Orange	25,200	\$8,500,000	Cirks Properties II, LLC	Meyer Properties, LLC
19781 Pauling	Foothill Ranch	17,789	\$4,536,500	Abdul & Naheed Salam Revocable Trust	Milton E Naylor Trust
22725 Old Canal Rd.	Yorba Linda	16,485	\$4,975,000	Geminis Property Dev LLC	John Foster LLC

### Leases

\* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
40 Parker	Irvine Spectrum	70,205	Dec-2021	Rivian Automotive, LLC	Northwestern Mutual Life Ins.*
50 Parker – Renewal	Irvine Spectrum	50,235	Oct-2021	Maxlinear, Inc.	Northwestern Mutual Life Ins.*
20531 Crescent Bay Dr. – Renewal	Lake Forest	46,178	Nov-2021	Ethika, Inc.	Rexford Industrial
9801 Research Dr.	Irvine Spectrum	29,252	Oct-2021	Apex Events, Inc.	Avant Garde Properties, LLC
7391 Lincoln Way	Garden Grove	27,988	Oct-2021	Video Voice Data Communication	LTCGG, 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 4Q2021	Square Feet Available	Availability Rate 4Q2021	Average Asking Lease Rate	Net Absorption 4Q2021	Net Absorption 2021	Gross Absorption 4Q2021	Gross Absorption 2021
<b>Airport Area</b>													
Costa Mesa	171	4,016,969	0	0	242,611	6.04%	293,516	7.31%	\$1.73	13,032	137,254	64,950	351,918
Fountain Valley	49	1,426,272	0	40,000	16,211	1.14%	24,847	1.74%	\$0.00	(11,061)	10,997	2,350	52,710
Irvine	240	6,417,723	0	0	188,653	2.94%	250,522	3.90%	\$1.60	113,719	200,089	180,369	602,163
Newport Beach	21	582,303	0	0	29,656	5.09%	29,656	5.09%	\$1.65	(12,392)	(8,395)	0	10,880
Santa Ana	182	4,631,134	0	0	66,320	1.43%	58,383	1.26%	\$1.50	20,707	16,837	48,219	260,297
Tustin	86	2,925,801	0	0	161,765	5.53%	109,640	3.75%	\$1.57	(9,375)	20,527	140,464	265,270
<b>Airport Area Total</b>	<b>749</b>	<b>20,000,202</b>	<b>0</b>	<b>40,000</b>	<b>705,216</b>	<b>3.53%</b>	<b>766,564</b>	<b>3.83%</b>	<b>\$1.64</b>	<b>114,630</b>	<b>377,309</b>	<b>436,352</b>	<b>1,543,238</b>
<b>North County</b>													
Anaheim	178	5,142,831	0	0	93,153	1.81%	215,429	4.19%	\$1.60	10,586	23,672	47,171	224,958
Brea	52	1,502,172	0	0	5,159	0.34%	8,719	0.58%	\$1.17	9,186	7,967	23,200	91,634
Buena Park	29	915,580	0	0	18,130	1.98%	10,770	1.18%	\$1.05	(18,130)	(19,832)	9,160	19,682
Fullerton	46	1,819,054	0	0	28,121	1.55%	44,382	2.44%	\$1.12	(12,999)	52,891	32,289	154,955
La Habra	10	187,013	0	0	2,610	1.39%	0	0.00%	\$0.00	(2,600)	(800)	0	1,800
Orange	99	2,244,537	0	0	50,319	2.24%	70,258	3.13%	\$1.35	(35,426)	(20,080)	11,413	82,853
Placentia	26	673,935	0	0	9,376	1.39%	9,376	1.39%	\$1.13	11,714	4,326	11,714	27,775
Yorba Linda	51	1,500,910	0	0	39,773	2.65%	185,792	12.38%	\$1.16	(9,668)	(9,455)	21,921	87,973
<b>North County Total</b>	<b>491</b>	<b>13,986,032</b>	<b>0</b>	<b>0</b>	<b>246,631</b>	<b>1.76%</b>	<b>544,726</b>	<b>3.89%</b>	<b>\$1.23</b>	<b>(47,337)</b>	<b>38,689</b>	<b>156,868</b>	<b>691,630</b>
<b>South County</b>													
Aliso Viejo	44	1,117,776	0	0	10,248	0.92%	61,320	5.49%	\$1.35	(5,666)	(44,099)	31,515	60,396
Foothill Ranch	8	273,620	0	0	0	0.00%	0	0.00%	\$0.00	17,789	0	17,789	17,789
Irvine Spectrum	295	10,570,561	0	0	552,444	5.23%	676,794	6.40%	\$1.68	26,886	(122,331)	173,701	752,890
Laguna Hills	53	1,252,546	0	0	23,394	1.87%	27,878	2.23%	\$1.41	3,444	11,314	9,294	98,753
Laguna Niguel	18	882,685	0	0	9,386	1.06%	9,386	1.06%	\$0.00	2,400	(3,785)	2,400	3,215
Lake Forest	64	1,433,690	0	0	32,054	2.23%	68,749	4.79%	\$1.39	(3,186)	(4,052)	12,367	92,688
Mission Viejo	35	653,821	0	0	20,986	3.21%	28,971	4.43%	\$1.43	24	(18,141)	3,279	18,327
Rancho Mission Viejo	3	99,200	0	0	25,945	26.15%	25,945	26.15%	\$1.75	0	31,100	0	42,165
Rancho Santa Margarita	39	1,438,168	0	0	4,360	0.30%	7,230	0.50%	\$1.42	(3,660)	3,305	3,263	25,420
San Clemente	60	1,432,949	0	0	76,212	5.32%	114,011	7.96%	\$1.56	0	1,812	4,428	55,853
San Juan Capistrano	42	738,718	0	0	35,955	4.87%	34,556	4.68%	\$1.60	2,140	10,855	6,470	71,779
<b>South County Total</b>	<b>661</b>	<b>19,895,734</b>	<b>0</b>	<b>0</b>	<b>790,984</b>	<b>3.98%</b>	<b>1,054,840</b>	<b>5.30%</b>	<b>\$1.60</b>	<b>40,171</b>	<b>(134,022)</b>	<b>264,506</b>	<b>1,239,275</b>
<b>West County</b>													
Cypress	51	2,088,611	0	0	125,773	6.02%	387,826	18.57%	\$1.17	(3,483)	(89,084)	145,705	166,054
Garden Grove	68	1,822,975	0	0	73,008	4.00%	50,783	2.79%	\$1.00	4,765	(11,295)	15,973	67,075
Huntington Beach	127	2,607,002	0	0	21,670	0.83%	30,842	1.18%	\$1.31	(6,788)	25,670	13,782	155,047
La Palma	1	78,980	0	0	78,980	100.00%	78,980	100.00%	\$0.76	0	0	0	0
Los Alamitos	42	889,337	0	0	24,334	2.74%	15,202	1.71%	\$0.00	(6,489)	3,272	10,600	74,477
Stanton	5	104,129	0	0	1,500	1.44%	1,500	1.44%	\$0.00	(1,500)	(1,500)	0	0
Westminster	17	464,238	0	0	0	0.00%	0	0.00%	\$0.00	0	2,440	0	5,090
<b>West County Total</b>	<b>311</b>	<b>8,055,272</b>	<b>0</b>	<b>0</b>	<b>325,265</b>	<b>4.04%</b>	<b>565,133</b>	<b>7.02%</b>	<b>\$0.99</b>	<b>(13,495)</b>	<b>(70,497)</b>	<b>186,060</b>	<b>467,743</b>
<b>Orange County Total</b>	<b>2,212</b>	<b>61,937,240</b>	<b>0</b>	<b>40,000</b>	<b>2,068,096</b>	<b>3.34%</b>	<b>2,931,263</b>	<b>4.73%</b>	<b>\$1.49</b>	<b>93,969</b>	<b>211,479</b>	<b>1,043,786</b>	<b>3,941,886</b>
<b>Airport Area</b>													
10,000-24,999	518	8,449,319	0	0	292,642	3.46%	319,560	3.78%	\$1.67	31,457	151,984	136,697	671,939
25,000-49,999	164	5,522,756	0	40,000	186,742	3.38%	334,447	6.06%	\$1.48	89,290	107,294	114,064	501,765
50,000-99,999	50	3,338,095	0	0	105,832	3.17%	112,557	3.37%	\$0.00	(6,117)	118,031	48,751	232,694
100,000 Plus	17	2,690,032	0	0	120,000	4.46%	0	0.00%	\$0.00	0	0	136,840	136,840
<b>North County</b>													
10,000-24,999	317	5,073,689	0	0	89,714	1.77%	161,663	3.19%	\$1.43	(20,135)	(19,360)	69,436	313,173
25,000-49,999	128	4,223,106	0	0	128,142	3.03%	204,737	4.85%	\$1.19	(14,191)	5,571	77,903	287,170
50,000-99,999	30	1,959,949	0	0	28,775	1.47%	36,463	1.86%	\$0.00	(13,011)	(14,280)	9,529	13,906
100,000 Plus	16	2,729,288	0	0	0	0.00%	141,863	5.20%	\$0.00	0	66,758	0	77,381
<b>South County</b>													
10,000-24,999	389	6,467,450	0	0	152,150	2.35%	220,494	3.41%	\$1.44	2,869	17,837	76,487	444,408
25,000-49,999	198	6,581,182	0	0	347,268	5.28%	373,247	5.67%	\$1.68	36,697	15,346	181,034	592,818
50,000-99,999	61	4,071,244	0	0	291,566	7.16%	334,602	8.22%	\$1.70	605	(167,205)	6,985	75,019
100,000 Plus	13	2,775,858	0	0	0	0.00%	126,497	4.56%	\$0.00	0	0	0	127,030
<b>West County</b>													
10,000-24,999	219	3,515,686	0	0	84,513	2.40%	92,906	2.64%	\$1.12	(27,106)	(34,798)	39,584	218,876
25,000-49,999	62	2,104,669	0	0	108,564	5.16%	129,195	6.14%	\$1.66	13,611	(12,133)	17,941	80,857
50,000-99,999	27	1,878,953	0	0	132,188	7.04%	132,188	7.04%	\$0.00	0	(23,566)	0	39,475
100,000 Plus	3	555,964	0	0	0	0.00%	210,844	37.92%	\$0.00	0	0	128,535	128,535
<b>Orange County</b>													
10,000-24,999	1,443	23,506,144	0	0	619,019	2.63%	794,623	3.38%	\$1.49	(12,915)	115,663	322,204	1,648,396
25,000-49,999	552	18,431,713	0	40,000	770,716	4.18%	1,041,626	5.65%	\$1.49	125,407	116,078	390,942	1,462,610
50,000-99,999	168	11,248,241	0	0	558,361	4.96%	615,810	5.47%	\$1.75	(18,523)	(87,020)	65,265	361,094
100,000 Plus	49	8,751,142	0	0	120,000	1.37%	479,204	5.48%	\$0.00	0	66,758	265,375	469,786
<b>Orange County Total</b>	<b>2,212</b>	<b>61,937,240</b>	<b>0</b>	<b>40,000</b>	<b>2,068,096</b>	<b>3.34%</b>	<b>2,931,263</b>	<b>4.73%</b>	<b>\$1.49</b>	<b>93,969</b>	<b>211,479</b>	<b>1,043,786</b>	<b>3,941,886</b>

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

## Fourth Quarter Industrial Market Overview

by **Mike Hefner** and **Mike Vernick**



**Mike Hefner**  
EXECUTIVE VICE PRESIDENT  
PARTNER  
ANAHEIM  
714.935.2331  
mhefner@voitco.com  
Lic. #00857352



**Mike Vernick, CCIM, SIOR**  
SENIOR VICE PRESIDENT  
PARTNER  
ANAHEIM  
714.935.2354  
dolson@voitco.com  
Lic. #01420885

The Orange County industrial market, along with the rest of Southern California, continues to experience unprecedented demand driven by a number of factors which have positively impacted the market. Most notably, the pandemic has accelerated the consumer shift to e-commerce and bolstered the demand for warehouse space. Manufacturing companies are aggressively increasing production capacity in order to build inventories and mitigate supply chain disruption, creating demand for additional space. The strong housing and construction sectors have also added to the competition for space to store building material. In combination these components have created an insatiable appetite for industrial product, driving county-wide vacancy rates to a historic low of 1.35% and generating record sale pricing and lease rates, with each new transaction eclipsing the last. Across the county over the past 12 months, industrial asking lease rates have increased by 14.5% and asking sale prices have increased by 20.2%.

Institutional investment activity in the county is still incredibly strong with intense bidding for limited investment offerings. A byproduct of this demand in a supply-constrained market is a rapid spike in land values, and sales prices are now approaching \$150 per square foot, nearly double the land prices from just two years ago. In spite of escalating land and construction costs, the economics of new development have been supported by the rapid appreciation in lease rates and aggressive assumptions about continued rent growth. Infill development sites are in such high demand that industrial developers are acquiring existing corporate campuses and office complexes intending to redevelop these sites into state-of-the-art warehouse facilities. Rexford Industrial, Black Creek Group, Duke Realty and Western Realco, among others, have all been successful in recent infill land acquisitions.

While attempting to meet the unprecedented demand, the supply side of the industrial market faces potential headwinds as labor shortages and the supply chain crisis impact both construction costs and lead times for new development. However, these same cost factors also impact the industrial user which could result in diminished demand. For example, the Producer Price Index increased by 9.65% in November of this year, the highest level in the past ten years. Inflation now presents one of the most significant threats to the overall economy and ultimately the demand for industrial space. The Consumer Price Index has already increased by 6.8% since November 2020 and as the costs of necessities and energy continue to escalate, the discretionary spending ability of the consumer will be impaired, which will eventually impact the demand for warehouse space. Despite these concerns and the surge in Covid cases, the Orange County industrial market should continue to see low vacancy and increasing lease rates and sale prices through 2022 as lack of inventory will continue to present the biggest challenge to the end-user of industrial real estate.

### Please Contact Us for Further Information

**Tony Tran**  
Regional Director of Research  
ttran@voitco.com

Anaheim, CA  
714.978.7880

Carlsbad, CA  
760.472.5620

Inland Empire, CA  
909.545.8000

Irvine, CA  
949.851.5100

Los Angeles, CA  
424.329.7500

San Diego, CA  
858.453.0505

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.

©2022 Voit Real Estate Services, Inc. DRE License #01991785.

### 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