

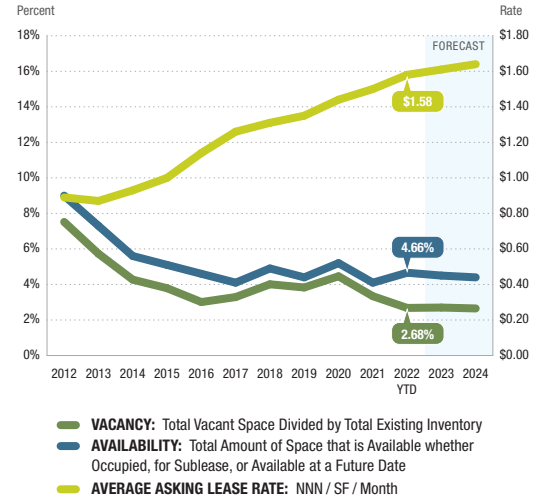
**OVERVIEW.** Orange County R&D/Flex market conditions held steady overall, but market metrics were a bit uneven during the period. Net absorption turned slightly negative. Average asking rents moved higher. Construction of new R&D/Flex space remained at zero. Transaction activity posted a decline in terms of both square footage and transaction count. However, gross absorption moved up. Overall, the R&D/flex market remains in stable condition as the impact of the pandemic falls further behind us, and market metrics point to general good health for the remainder of 2022.

**VACANCY / AVAILABILITY.** The overall vacancy rate fell another 19 basis points in Q2 to 2.68%, following a decline of 47 basis points in Q1. In the past year, the countywide vacancy rate has declined by 102 basis points, which is indicative of the general health of the R&D/Flex business sector. The Greater Airport area, the largest submarket, saw another significant dip in vacancy in Q2, falling another 30 basis points to just 2.25%. South County vacancy fell sharply in Q2, shedding another 66 basis points after a 28-basis-point decline in Q1. South County's vacancy is now down to just 3.04%. North County saw a 66-basis-point drop in vacancy in the period to a new low of just 1.2%, the lowest of all four major submarkets. The overall availability rate, which includes sublease space and direct lease space that is still occupied, fell also, declining by 14 basis points to 4.66%.

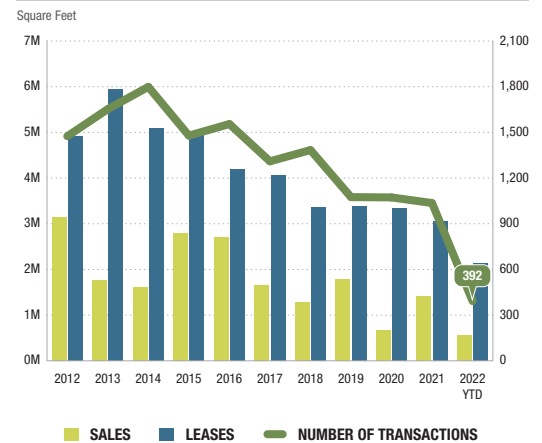
**LEASE RATES.** The average asking lease rate countywide jumped up by \$0.08 to \$1.58 in Q2. Year over year, that rate is \$0.23 higher. South County's average rate, usually the highest of the submarkets, came in second again to the Airport Area, up \$0.04 during the period. This submarket includes Irvine Spectrum's 10.5 MSF of generally newer inventory. West County, the smallest of the four major submarkets, still has the lowest average rate at \$1.31. The Airport Area, the largest of the R&D/Flex submarkets, saw lease rates spike by \$0.13 during the period to \$1.77 after remaining flat in Q1. North County's average asking rate on its nearly 14 MSF base gained another \$0.06 to \$1.37.

**TRANSACTION ACTIVITY.** The square footage leased and sold fell to 1,098,908 SF in Q2, down from 1,587,302 SF in the first quarter. As previously reported, that decline may be due to the fact that lower vacancy is beginning to limit choices for tenants looking to move. In Q2, just under 800,000 SF of lease space went under contract in 168 transactions, and another 301,000 SF of space was sold in seven separate transactions. Year-over-year sale and lease activity was down by 200,000 SF. The largest lease transaction in Q2 was a 76,980 SF lease to Fisker Automotive at 14 Centerpointe Drive in La Palma. The largest sale of the quarter was a 94,078 SF property purchased by Black Creek Capital at 4 Studebaker in the Irvine Spectrum.

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



**TRANSACTION VOLUME & NUMBER OF TRANSACTIONS**



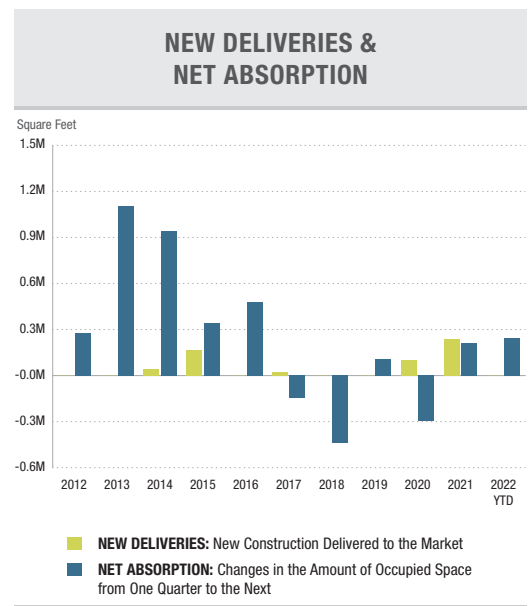
Market Statistics

	Change Over Last Quarter	2Q 2022	1Q 2022	2Q 2021	% Change Over Last Year
Vacancy Rate	▼ DOWN	2.68%	2.87%	3.70%	(27.58%)
Availability Rate	▲ UP	4.66%	4.60%	4.79%	(2.72%)
Average Asking Lease Rate	▲ UP	\$1.58	\$1.50	\$1.35	17.04%
Sale & Lease Transactions	▼ DOWN	1,098,908	1,587,302	1,298,071	(15.34%)
Gross Absorption	▲ UP	1,032,401	733,418	1,037,503	(0.49%)
Net Absorption	▼ NEGATIVE	(31,238)	209,321	97,411	N/A

**CONSTRUCTION.** As has been the case now for several quarters, not a single square foot of new space is in the construction queue or in the planning stages. That has helped to keep vacancy moving lower. It is unlikely that the county will see a significant level of R&D/Flex space construction any time soon. Land is scarce and more valuable to multifamily and mixed-use developers. Also, with the intense demand for and short supply of traditional industrial space, lease rates for industrial have surpassed those of R&D/Flex space in West County with other submarkets about to follow suit.

**ABSORPTION.** Net absorption for R&D/Flex space fell sharply in Q2, falling slightly into negative territory at -31,238 SF. However, all the net loss was confined to West County due to one major move-out during the period. All other submarkets posted net gains in occupied space for the period. The Airport area added 7,801 SF, while North County added just under 44,758 SF. South County posted a 92,699 SF gain, which helped to offset the decline of 176,496 feet in West County. The largest move-in of the period was 67,940 SF, a lease to Planet Innovation at 80 Technology in the Irvine Spectrum. Astronics Test Systems also moved into 43,476 SF at 2652 McGaw Avenue in the Irvine Business Center.

**EMPLOYMENT.** The unemployment rate in Orange County was 2.4 % in May 2022, down from a revised 2.7% in April 2022, and below the year-ago estimate of 6.2%. Between May 2021 and May 2022, total nonfarm employment increased by 76,100 jobs, or 4.8%.



Forecast

Given current lease and sale volume, the R&D/Flex market should remain tight since no new space is expected to be added to the base inventory in the foreseeable future. Leasing activity, lease rates and absorption should track on their current path unless and until the economy falls into recession, which has become a possibility. High inflation prompted the Fed to bump its benchmark Fed Funds Rate twice during the period, and future increases are expected, affecting commercial property mortgage rates. The SBA 504 mortgage rate, the most commonly used in owner/user transactions, has risen by over 62% in just five months to 5.19%. How much the Fed’s actions will have on the overall economy is still an unknown at this point, but it will certainly be more expensive to do business in 2022. That could dampen lease and sale activity heading into 2023.

Significant Transactions

Sales						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller	
4 Studebaker	Irvine Spectrum	94,078	\$33,150,000	Black Creek Capital	Alcone Marketing Group Inc.	
1361 Valencia Ave.	Tustin	76,675	\$24,719,000	Port View Preparatory	The Koll Company	
3000 Airway Ave.	Costa Mesa	71,905	\$25,605,371	Aeroterm, Inc.	Crown Realty and Development	
1690 Scenic Ave.	Costa Mesa	34,886	\$10,605,040	WLM Showcase LLC*	1690 Scenic Ave LLC	
17791 Fitch	Irvine	15,275	\$5,925,000	17791 Fitch LLC	Wamco, Inc.	
Leases						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner	
14 Centerpointe Dr.	La Palma	78,980	Apr-2022	Fisker Automotive	Virginia P Croudace	
15091 Bake Pkwy.	Irvine Spectrum	47,842	May-2022	Motion Solutions	Buckhead Industrial Properties	
2652 McGaw Ave.	Irvine	43,476	May-2022	Astronics Test Systems	Mirion Technologies	
8 Whatney	Irvine Spectrum	40,820	May-2022	Sunrun - Solar Panel Co	Prince Taft Plaza Property, LLC*	
909 E. Stanford Ct.	Anaheim	36,288	Jun-2022	New Marble	JAS Partnership	

	INVENTORY				VACANCY & LEASE RATES				ABSORPTION				
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2022	Square Feet Available	Availability Rate 2Q2022	Average Asking Lease Rate	Net Absorption 2Q2022	Net Absorption 2022	Gross Absorption 2Q2022	Gross Absorption 2022
<b>Airport Area</b>													
Costa Mesa	169	3,961,674	0	0	151,644	3.83%	299,291	7.55%	\$1.90	(8,760)	(30,717)	81,390	163,422
Fountain Valley	49	1,426,272	0	40,000	20,518	1.44%	9,978	0.70%	\$1.75	16,866	2,663	22,948	35,413
Irvine	240	6,388,912	0	0	117,619	1.84%	159,939	2.50%	\$1.62	22,340	38,896	59,662	170,719
Newport Beach	21	582,303	0	0	14,364	2.47%	8,875	1.52%	\$1.75	5,043	(2,788)	15,243	17,835
Santa Ana	180	4,580,660	0	0	101,233	2.21%	128,146	2.80%	\$1.66	(29,711)	(34,885)	21,555	59,851
Tustin	87	3,038,213	0	0	43,146	1.42%	204,598	6.73%	\$1.83	2,023	101,799	73,270	96,532
<b>Airport Area Total</b>	<b>746</b>	<b>19,978,034</b>	<b>0</b>	<b>40,000</b>	<b>448,524</b>	<b>2.25%</b>	<b>810,827</b>	<b>4.06%</b>	<b>\$1.77</b>	<b>7,801</b>	<b>74,968</b>	<b>274,068</b>	<b>543,772</b>
<b>North County</b>													
Anaheim	178	5,154,403	0	0	56,950	1.10%	148,129	2.87%	\$1.91	47,796	24,364	93,306	187,267
Brea	56	1,561,466	0	0	57,275	3.67%	58,041	3.72%	\$1.50	(54,345)	(51,720)	11,028	18,393
Buena Park	29	906,910	0	0	0	0.00%	2,660	0.29%	\$1.05	1,224	0	5,304	16,074
Fullerton	43	1,739,290	0	0	11,388	0.65%	7,345	0.42%	\$1.13	(2,094)	(2,812)	14,679	27,644
La Habra	10	187,013	0	0	2,680	1.43%	2,000	1.07%	\$0.00	(2,680)	(80)	3,320	5,920
Orange	98	2,220,537	0	0	33,923	1.53%	50,002	2.25%	\$1.64	27,908	20,130	45,350	72,129
Placentia	26	677,575	0	0	0	0.00%	0	0.00%	\$1.52	9,376	9,376	16,835	18,035
Yorba Linda	51	1,488,411	0	0	5,203	0.35%	178,415	11.99%	\$1.17	17,573	31,832	22,866	64,092
<b>North County Total</b>	<b>491</b>	<b>13,935,605</b>	<b>0</b>	<b>0</b>	<b>167,419</b>	<b>1.20%</b>	<b>446,592</b>	<b>3.20%</b>	<b>\$1.37</b>	<b>44,758</b>	<b>31,090</b>	<b>212,688</b>	<b>409,554</b>
<b>South County</b>													
Aliso Viejo	44	1,117,776	0	0	46,304	4.14%	39,108	3.50%	\$1.40	(13,718)	10,962	27,938	35,023
Foothill Ranch	8	273,620	0	0	9,044	3.31%	9,044	3.31%	\$1.45	0	(17,789)	0	0
Irvine Spectrum	294	10,519,447	0	0	310,413	2.95%	518,739	4.93%	\$1.74	107,326	304,850	283,186	396,630
Laguna Hills	53	1,267,929	0	0	22,675	1.79%	39,085	3.08%	\$1.52	(4,047)	(4,346)	21,353	36,718
Laguna Niguel	18	882,685	0	0	9,386	1.06%	13,938	1.58%	\$0.00	0	0	0	0
Lake Forest	63	1,407,596	0	0	57,975	4.12%	44,640	3.17%	\$1.56	(24,324)	(13,711)	20,725	34,030
Mission Viejo	35	653,821	0	0	4,392	0.67%	4,392	0.67%	\$1.51	23,352	17,874	26,268	29,612
Rancho Mission Viejo	3	99,200	0	0	0	0.00%	4,700	4.74%	\$1.45	0	22,297	5,568	27,865
Rancho Santa Margarita	39	1,438,168	0	0	0	0.00%	0	0.00%	\$0.00	5,568	9,228	0	3,660
San Clemente	60	1,433,443	0	0	100,617	7.02%	118,307	8.25%	\$1.58	0	(19,075)	29,885	41,467
San Juan Capistrano	42	739,899	0	0	41,483	5.61%	42,428	5.73%	\$1.99	(1,458)	(8,270)	9,415	16,578
<b>South County Total</b>	<b>659</b>	<b>19,833,584</b>	<b>0</b>	<b>0</b>	<b>602,289</b>	<b>3.04%</b>	<b>834,381</b>	<b>4.21%</b>	<b>\$1.65</b>	<b>92,699</b>	<b>302,020</b>	<b>424,338</b>	<b>621,583</b>
<b>West County</b>													
Cypress	52	2,404,255	0	0	372,211	15.48%	642,251	26.71%	\$1.31	(252,145)	(260,690)	15,173	22,865
Garden Grove	67	1,789,637	0	0	43,725	2.44%	70,943	3.96%	\$0.00	10,953	28,784	16,281	46,269
Huntington Beach	126	2,594,757	0	0	8,360	0.32%	37,629	1.45%	\$1.22	(1,764)	(425)	4,540	23,982
La Palma	1	78,980	0	0	0	0.00%	0	0.00%	\$0.00	78,980	78,980	78,980	78,980
Los Alamitos	42	889,337	0	0	15,208	1.71%	42,568	4.79%	\$0.00	(9,520)	(5,688)	6,333	17,602
Stanton	4	88,490	0	0	1,500	1.70%	0	0.00%	\$0.00	0	0	0	0
Westminster	17	464,238	0	0	3,000	0.65%	5,985	1.29%	\$0.00	(3,000)	(3,000)	0	1,212
<b>West County Total</b>	<b>309</b>	<b>8,309,694</b>	<b>0</b>	<b>0</b>	<b>444,004</b>	<b>5.34%</b>	<b>799,376</b>	<b>9.62%</b>	<b>\$1.31</b>	<b>(176,496)</b>	<b>(162,039)</b>	<b>121,307</b>	<b>190,910</b>
<b>Orange County Total</b>	<b>2,205</b>	<b>62,056,917</b>	<b>0</b>	<b>40,000</b>	<b>1,662,236</b>	<b>2.68%</b>	<b>2,891,176</b>	<b>4.66%</b>	<b>\$1.58</b>	<b>(31,238)</b>	<b>246,039</b>	<b>1,032,401</b>	<b>1,765,819</b>
<b>Airport Area</b>													
10,000-24,999	517	8,420,998	0	0	182,407	2.17%	269,802	3.20%	\$1.71	48,544	39,536	176,490	280,708
25,000-49,999	160	5,362,250	0	40,000	239,342	4.46%	262,376	4.89%	\$1.71	(44,528)	(67,768)	50,336	146,122
50,000-99,999	51	3,392,342	0	0	26,775	0.79%	278,649	8.21%	\$1.85	3,785	(16,800)	47,242	116,942
100,000 Plus	18	2,802,444	0	0	0	0.00%	0	0.00%	\$0.00	0	120,000	0	0
<b>North County</b>													
10,000-24,999	323	5,179,968	0	0	63,003	1.22%	88,149	1.70%	\$1.56	22,692	(3,160)	76,461	161,025
25,000-49,999	121	4,012,190	0	0	47,639	1.19%	80,691	2.01%	\$1.62	69,085	87,745	105,778	213,338
50,000-99,999	31	2,014,159	0	0	3,707	0.18%	79,464	3.95%	\$1.05	6,051	(425)	27,614	32,356
100,000 Plus	16	2,729,288	0	0	53,070	1.94%	198,288	7.27%	\$1.15	(53,070)	(53,070)	2,835	2,835
<b>South County</b>													
10,000-24,999	388	6,459,167	0	0	198,858	3.08%	332,541	5.15%	\$1.57	13,452	(48,021)	115,456	170,905
25,000-49,999	197	6,565,811	0	0	264,198	4.02%	386,270	5.88%	\$1.71	20,994	105,922	169,528	296,761
50,000-99,999	61	4,032,748	0	0	139,233	3.45%	115,570	2.87%	\$1.62	58,253	117,622	139,354	153,917
100,000 Plus	13	2,775,858	0	0	0	0.00%	0	0.00%	\$0.00	0	126,497	0	0
<b>West County</b>													
10,000-24,999	217	3,481,358	0	0	68,072	1.96%	136,425	3.92%	\$1.26	(12,166)	(20,835)	31,223	57,442
25,000-49,999	61	2,077,910	0	0	92,215	4.44%	135,242	6.51%	\$1.15	(16,557)	13,200	7,348	50,732
50,000-99,999	27	1,878,953	0	0	53,208	2.83%	83,976	4.47%	\$0.77	82,736	76,105	3,756	3,756
100,000 Plus	4	871,473	0	0	230,509	26.45%	443,733	50.92%	\$0.00	(230,509)	(230,509)	0	0
<b>Orange County</b>													
10,000-24,999	1,445	23,541,491	0	0	512,340	2.18%	826,917	3.51%	\$1.58	72,522	(32,480)	399,630	670,080
25,000-49,999	539	18,018,161	0	40,000	643,394	3.57%	864,579	4.80%	\$1.65	28,994	139,099	332,990	706,953
50,000-99,999	170	11,318,202	0	0	222,923	1.97%	557,659	4.93%	\$1.57	150,825	176,502	217,966	306,971
100,000 Plus	51	9,179,063	0	0	283,579	3.09%	642,021	6.99%	\$0.00	(283,579)	(37,082)	2,835	2,835
<b>Orange County Total</b>	<b>2,205</b>	<b>62,056,917</b>	<b>0</b>	<b>40,000</b>	<b>1,662,236</b>	<b>2.68%</b>	<b>2,891,176</b>	<b>4.66%</b>	<b>\$1.58</b>	<b>(31,238)</b>	<b>246,039</b>	<b>953,421</b>	<b>1,686,839</b>

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

Where do we stand?

by Michael Zehner and Reed Rutter



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As the second quarter of 2022 comes to a close, we are starting to see the country as a whole react to the measures being taken to combat uncomfortably high inflation. The United States economy is grappling with a four-decade-high inflation rate of 8.6%, the Federal Reserve's aggressive interest rate hikes, supply constraints, an energy crisis, a bearish stock market, and even a war overseas. Despite all these factors, demand for industrial buildings in Orange County is still running ahead of supply, but that may be about to change.

Sale demand is still running well ahead of limited supply throughout Orange County, but that balance is being threatened by higher interest rates. The SBA 504 mortgage rate has increased by more than 60% since January, to 5.19%. As the Federal Reserve continues its push to curb runaway inflation, history tells us we will see rates move high enough to tip the scales in the other direction. Signs of a slowdown in sales have yet to manifest in our quarterly statistics, but we are seeing potential owner/users and institutional investors exercising more caution. The sale market is of course quite interest-rate sensitive, so it is hard to imagine that demand won't be affected by higher rates.

The inflationary environment we are currently experiencing has had a direct influence on all of us, including every Orange County business owner who is facing sky-high rents, record-breaking fuel costs and a big increase in wages, among other things. To what degree the recent spike in rents will impact demand for space going forward is still a big unknown. But, we are already seeing a falloff in active requirements, an increase in time-on-market and a decrease in competition for space. That could be good news for those in the market for space in the coming months. Finally, they may have some viable quality options to consider.

So, if you are making a real estate decision in the near future, it is important to consider the foregoing carefully. The market is showing signs of reaching its peak, yet we do not know if or when the market will correct, and how severe a correction would be should one occur. Sale and lease comps still show the market on the same trajectory it has been on for years. However, comps look backward. They tell us where we've been. It's the psychology of the market that we see changing, and that tells us more about where we are going because thoughts and feelings precede action. There's never been a better time to be fully informed than now.

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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.

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