

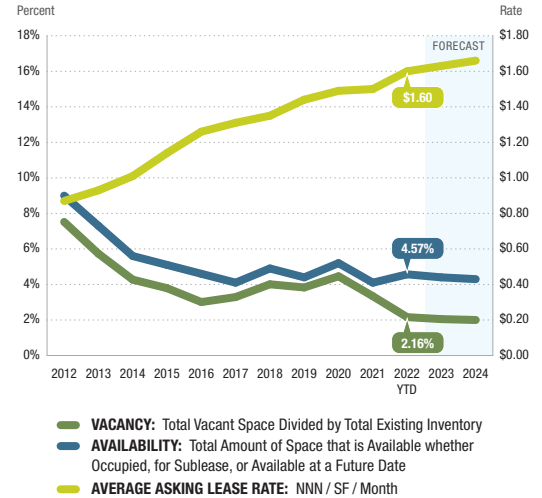
OVERVIEW. Orange County Flex/R&D market conditions tightened up in Q3 after several quarters of steady activity. Net absorption returned to positive territory and vacancy fell. Average asking rents were relatively unchanged. Construction of new Flex/R&D space remained at zero. Transaction activity posted a moderate decline of both square footage and transaction count. Overall, the Flex/R&D market remains in stable condition and market statistics don't portend any significant change in market trends in Q4.

VACANCY & AVAILABILITY. The overall vacancy rate fell 51 basis points in Q3 to a new low of 2.16%. In the past year, the countywide vacancy rate has declined by 145 basis points. The Greater Airport area, the largest submarket, saw another significant dip in vacancy in Q3, falling 23 basis points to just 2.02% following a 37-basis point-decline last quarter. South County vacancy fell again in Q3, shedding another 21 basis points after an even sharper decline in Q2. South County's vacancy is now down to just 2.83%. North County vacancy fell slightly in Q3 after a huge drop of 66 basis points in Q2. Vacancy there now stands at a scant 1.17%, well below the other major submarkets. The overall availability rate, which includes sublease space and direct lease space that is still occupied, fell 3 basis points to end the period at 4.57%.

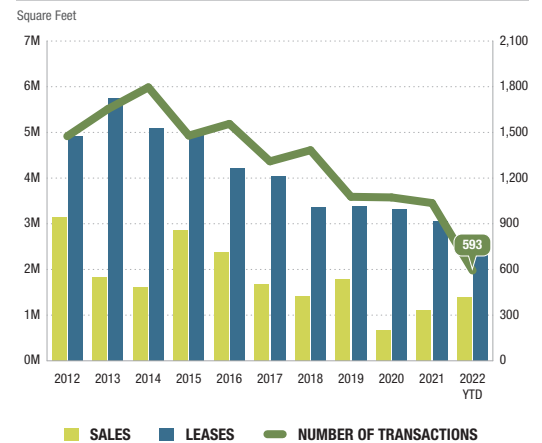
LEASE RATES. The average asking lease rate countywide was relatively flat in Q3, gaining just \$0.02 to \$1.60 after a \$0.08 increase in Q2. Year over year, the rate is \$0.14 higher. South County's average rate, usually the highest of the submarkets, came in second to the Airport Area for the third consecutive period, falling \$0.06 to \$1.59. South County includes Irvine Spectrum's 10.5 MSF of generally newer inventory. West County, by far the smallest of the four major submarkets, still has the lowest average rate at \$1.25. The average asking lease rate for the Airport Area, the largest of the Flex/R&D submarkets, was unchanged during the period at \$1.77. North County's average asking rate, on its nearly 14 MSF base, gained another \$0.02 to \$1.39.

TRANSACTION ACTIVITY. The total square footage leased and sold fell sharply from above 1.25 MSF in Q2 to just under 796,000 SF in Q3. That decline will be reflected in lower Q4 absorption metrics, but as previously reported, it may be due to the fact that low vacancy is beginning to force tenants to renew in place, with some of those transactions not reflected in quarterly statistics. In Q3, only 467,000 SF of leased space went under contract in 169 transactions, and another 329,000 SF of space was sold in 10 separate transactions. Year over year, sale and lease activity was down by 124,000 SF. The largest lease transaction in Q3 was a 31,750 SF lease renewal to Dynalloy Inc. by Olen Properties at 2801 McGaw Avenue in Irvine. The largest sale of the quarter was a 120,000 SF property purchased by the County of Orange at 1382 Bell Avenue in Tustin.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



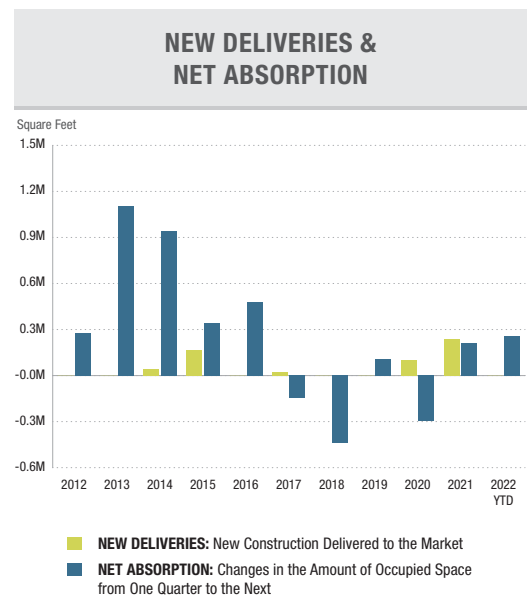
Market Statistics

	Change Over Last Quarter	3Q 2022	2Q 2022	3Q 2021	% Change Over Last Year
Vacancy Rate	▼ DOWN	2.16%	2.67%	3.61%	(40.26%)
Availability Rate	▼ DOWN	4.57%	4.60%	4.91%	(6.92%)
Average Asking Lease Rate	▲ UP	\$1.60	\$1.58	\$1.46	9.59%
Sale & Lease Transactions	▼ DOWN	795,824	1,256,912	919,212	(13.42%)
Gross Absorption	▼ DOWN	985,171	1,032,401	941,559	4.63%
Net Absorption	▲ POSITIVE	13,505	(31,238)	16,268	N/A

CONSTRUCTION. As has been the case now for several quarters, no new space is in the construction queue nor in the planning stages. That has helped to keep vacancy moving lower. It is unlikely that the county will see a significant level of Flex/R&D construction any time soon. Land is scarce and more valuable to multifamily, mixed-use and industrial developers, who can achieve higher returns by building in those product types.

ABSORPTION. Net absorption for Flex/R&D space returned to positive territory in Q3, after posting a decline of 31,238 SF in Q2. Three of the four submarkets posted modest net absorption, totaling 13,505 SF. Only North County, which has the lowest overall vacancy, fell into negative territory with a net loss of 21,515 SF. The Airport area added 27,061 SF, while West County added just over 2,000 SF. South County, usually a more active submarket, added a lower-than-expected 5,895 SF to occupied space. The largest move-in of the period was only 33,463 SF, a lease to Chartwell Real Estate Developers at 345 Baker Street in Costa Mesa. Also, Top Greeners moved into 30,125 SF at 1772 Reynolds Avenue in Irvine.

EMPLOYMENT. The unemployment rate in Orange County was 3.0% in August 2022, up from a revised 2.8% in July 2022, and below the year-ago estimate of 6.0%. Three sectors grew over the month: construction (up 1,500 jobs), trade, transportation, and utilities (up 1,300 jobs), and manufacturing (up 100 jobs).



Forecast

Given current trend lines in transaction volume, lack of construction and historically low vacancy, the Flex/R&D market should tighten further heading into next year. Leasing activity, lease rates and absorption should stay on their current trajectory unless and until general economic conditions deteriorate further. Inflation is still at a 40-year high and the Fed bumped its benchmark Fed Funds Rate by 75 basis points twice in Q3, something it hasn't done since the late 1970's. Further increases are expected through the end of the year, and that will continue to drive up interest rates on commercial property mortgages. The SBA 504 mortgage rate, the most commonly used in owner/user transactions, has risen to more than 6%, up from just over 3% in 9 months. How much damage the Fed's actions will have on GDP and other key indicators remains unknown at this point, but owner/user and investor sales are likely to slow over the next several quarters. Hopefully, leasing activity will remain strong enough to pick up that slack.

Significant Transactions

Sales						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller	
1382 Bell Ave.	Tustin	120,000	\$91,000,000	County of Orange	SteelWare, Inc.	
701-741 E. Ball Rd.	Anaheim	116,376	\$29,000,000	Angelo, Gordon & Co.	Muir-Chase Plumbing Co.	
1421-1481 Edinger Ave.	Tustin	70,494	\$9,700,000	Guthrie Development Company	Lakeshore Enterprises	
345 Baker St. *	Costa Mesa	33,463	\$11,042,790	Chartwell Real Estate Development*	SEM Baker Street Properties LLC	
6 Thomas	Irvine Spectrum	28,835	\$11,000,000	MP Biomedicals LLC	Alexandria Real Estate Equities, Inc.	

Leases						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner	
2801 McGaw Ave. - Renewal	Irvine	31,750	Jul-2022	Dynalloy Inc.	Olen Properties	
1010 Calle Sombra	San Clemente	27,936	Jul-2022	The Togethership	Advanced MP Technology, Inc.	
19571 Pauling	Foothill Ranch	25,138	Aug-2022	All Leasing Services Inc.	FFP, LLC	
15271 Barranca Pkwy. *	Irvine Spectrum	23,148	Sep-2022	Alpine Products, Inc.	The Northwestern Mutual Life Insurance*	
17475 Gillette Ave.	Irvine	17,939	Aug-2022	Hillsong LA LLC	1562 Reynolds 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 3Q2022	Square Feet Available	Availability Rate 3Q2022	Average Asking Lease Rate	Net Absorption 3Q2022	Net Absorption 2022	Gross Absorption 3Q2022	Gross Absorption 2022
Airport Area													
Costa Mesa	169	3,961,674	0	0	178,427	4.50%	237,749	6.00%	\$1.71	(35,250)	(65,967)	86,995	250,417
Fountain Valley	49	1,426,272	0	40,000	12,590	0.88%	15,235	1.07%	\$1.70	7,928	10,591	9,446	44,859
Irvine	240	6,388,912	0	0	59,743	0.94%	241,073	3.77%	\$1.71	49,521	88,417	97,345	268,064
Newport Beach	21	582,303	0	0	12,675	2.18%	12,675	2.18%	\$1.75	1,689	(1,099)	6,689	24,524
Santa Ana	180	4,580,660	0	0	79,012	1.72%	160,096	3.50%	\$1.65	23,415	(11,470)	68,911	128,762
Tustin	87	3,038,213	0	0	60,546	1.99%	166,162	5.47%	\$1.79	(20,242)	81,557	792	97,324
Airport Area Total	746	19,978,034	0	40,000	402,993	2.02%	832,990	4.17%	\$1.77	27,061	102,029	270,178	813,950
North County													
Anaheim	178	5,154,403	0	0	56,127	1.09%	185,026	3.59%	\$1.89	(9,086)	15,278	22,334	209,601
Brea	56	1,561,466	0	0	62,171	3.98%	62,659	4.01%	\$1.50	(6,396)	(58,116)	10	18,403
Buena Park	29	906,910	0	0	3,099	0.34%	3,099	0.34%	\$1.05	(3,099)	(3,099)	6,457	22,531
Fullerton	43	1,739,290	0	0	7,276	0.42%	11,972	0.69%	\$1.22	(1,931)	(4,743)	17,475	45,119
La Habra	10	187,013	0	0	0	0.00%	0	0.00%	\$0.00	2,000	1,920	2,000	7,920
Orange	98	2,220,537	0	0	20,035	0.90%	60,143	2.71%	\$1.68	6,269	26,399	30,595	102,724
Placentia	26	677,575	0	0	4,875	0.72%	4,875	0.72%	\$1.53	(4,875)	4,501	1,940	19,975
Yorba Linda	51	1,488,411	0	0	9,876	0.66%	171,458	11.52%	\$1.17	(4,397)	27,435	31,924	96,016
North County Total	491	13,935,605	0	0	163,459	1.17%	499,232	3.58%	\$1.39	(21,515)	9,575	112,735	522,289
South County													
Aliso Viejo	44	1,117,776	0	0	74,282	6.65%	108,346	9.69%	\$0.68	(48,892)	(37,930)	16,533	51,556
Foothill Ranch	8	273,620	0	0	4,591	1.68%	4,591	1.68%	\$0.00	4,453	(13,336)	0	0
Irvine Spectrum	294	10,519,447	0	0	293,652	2.79%	672,005	6.39%	\$1.73	30,090	334,940	322,982	719,612
Laguna Hills	53	1,267,929	0	0	23,254	1.83%	32,014	2.52%	\$1.59	(4,647)	(8,993)	15,059	51,777
Laguna Niguel	18	882,685	0	0	8,186	0.93%	8,186	0.93%	\$0.00	1,200	1,200	5,752	5,752
Lake Forest	63	1,407,596	0	0	49,605	3.52%	84,064	5.97%	\$1.83	3,728	(9,983)	37,460	71,490
Mission Viejo	35	653,821	0	0	3,007	0.46%	11,927	1.82%	\$0.00	2,021	19,895	6,283	35,895
Rancho Mission Viejo	3	99,200	0	0	0	0.00%	0	0.00%	\$0.00	0	22,297	0	27,865
Rancho Santa Margarita	39	1,438,168	0	0	0	0.00%	5,993	0.42%	\$0.00	0	9,228	0	3,660
San Clemente	60	1,433,443	0	0	54,356	3.79%	67,886	4.74%	\$1.59	26,856	7,781	47,241	88,708
San Juan Capistrano	42	739,899	0	0	50,418	6.81%	51,990	7.03%	\$2.22	(8,914)	(17,184)	8,672	25,250
South County Total	659	19,833,584	0	0	561,351	2.83%	1,047,002	5.28%	\$1.59	5,895	307,915	459,982	1,081,565
West County													
Cypress	52	2,404,255	0	0	136,864	5.69%	347,314	14.45%	\$1.31	3,598	(257,092)	76,741	99,606
Garden Grove	67	1,789,637	0	0	21,358	1.19%	23,878	1.33%	\$0.99	21,275	50,595	31,325	77,594
Huntington Beach	126	2,594,757	0	0	23,839	0.92%	57,108	2.20%	\$1.22	(15,097)	(15,522)	19,268	43,250
La Palma	1	78,980	0	0	0	0.00%	0	0.00%	\$0.00	0	78,980	0	78,980
Los Alamitos	42	889,337	0	0	21,633	2.43%	19,864	2.23%	\$0.00	(6,547)	(12,235)	13,122	30,724
Stanton	4	88,490	0	0	3,609	4.08%	2,109	2.38%	\$0.00	0	0	0	0
Westminster	17	464,238	0	0	4,165	0.90%	7,192	1.55%	\$0.00	(1,165)	(4,165)	1,820	3,032
West County Total	309	8,309,694	0	0	211,468	2.54%	457,465	5.51%	\$1.25	2,064	(159,975)	142,276	333,186
Orange County Total	2,205	62,056,917	0	40,000	1,339,271	2.16%	2,836,689	4.57%	\$1.60	13,505	259,544	985,171	2,750,990
Airport Area													
10,000-24,999	517	8,420,998	0	0	122,719	1.46%	241,579	2.87%	\$1.71	35,695	75,231	125,752	406,460
25,000-49,999	160	5,362,250	0	40,000	173,877	3.24%	326,889	6.10%	\$1.77	70,848	3,080	137,747	283,869
50,000-99,999	51	3,392,342	0	0	106,397	3.14%	264,522	7.80%	\$1.81	(79,482)	(96,282)	6,679	123,621
100,000 Plus	18	2,802,444	0	0	0	0.00%	0	0.00%	\$0.00	0	120,000	0	0
North County													
10,000-24,999	323	5,179,968	0	0	59,234	1.14%	99,904	1.93%	\$1.56	(9,467)	(12,627)	57,909	218,934
25,000-49,999	121	4,012,190	0	0	50,733	1.26%	107,082	2.67%	\$1.77	(10,771)	76,974	47,947	261,285
50,000-99,999	31	2,014,159	0	0	1,622	0.08%	93,958	4.66%	\$1.05	(1,277)	(1,702)	3,729	36,085
100,000 Plus	16	2,729,288	0	0	51,870	1.90%	198,288	7.27%	\$1.15	0	(53,070)	3,150	5,985
South County													
10,000-24,999	388	6,459,167	0	0	137,829	2.13%	267,416	4.14%	\$1.65	56,895	8,874	139,590	310,495
25,000-49,999	197	6,565,811	0	0	282,411	4.30%	545,171	8.30%	\$1.56	(60,461)	45,461	164,594	461,355
50,000-99,999	61	4,032,748	0	0	141,111	3.50%	234,415	5.81%	\$1.63	9,461	127,083	155,798	309,715
100,000 Plus	13	2,775,858	0	0	0	0.00%	0	0.00%	\$0.00	0	126,497	0	0
West County													
10,000-24,999	217	3,481,358	0	0	101,002	2.90%	148,231	4.26%	\$1.28	(31,653)	(52,488)	31,761	89,203
25,000-49,999	61	2,077,910	0	0	57,258	2.76%	97,034	4.67%	\$1.24	33,717	46,917	110,515	161,247
50,000-99,999	27	1,878,953	0	0	53,208	2.83%	83,976	4.47%	\$1.35	0	76,105	0	3,756
100,000 Plus	4	871,473	0	0	0	0.00%	128,224	14.71%	\$0.00	0	(230,509)	0	78,980
Orange County													
10,000-24,999	1,445	23,541,491	0	0	420,784	1.79%	757,130	3.22%	\$1.61	51,470	18,990	355,012	1,025,092
25,000-49,999	539	18,018,161	0	40,000	564,279	3.13%	1,076,176	5.97%	\$1.60	33,333	172,432	460,803	1,167,756
50,000-99,999	170	11,318,202	0	0	302,338	2.67%	676,871	5.98%	\$1.75	(71,298)	105,204	166,206	473,177
100,000 Plus	51	9,179,063	0	0	51,870	0.57%	326,512	3.56%	\$0.00	0	(37,082)	3,150	84,965
Orange County Total	2,205	62,056,917	0	40,000	1,339,271	2.16%	2,836,689	4.57%	\$1.60	13,505	259,544	985,171	2,750,990

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

How Would a Significant Recession Impact the Industrial Property Market?

by Seth Davenport and Chris Drzyzga



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How would a significant recession impact the industrial property market?

Sale transaction velocity would decrease. Cheap mortgages have been a primary driver in both owner/user and investor activity since the current upcycle began in earnest back in 2011. Prices have quadrupled since then—staggering, to say the least. The SBA 504 rate bottomed out at 2.26% not much more than a year ago. It now stands above 5% and is expected to move higher. That means it costs more than twice as much to service debt than it did last year, and the Fed has made clear its intent to stomp on inflation with further Federal Funds Rate increases, at least into next year. Owner/user buyer appetite has already slowed substantially, and more rate hikes will only exacerbate that trend. Buyers just don't feel bold enough to offer a record price and pay more than twice as much in interest for the privilege. Increasingly, we are seeing buyers adopt a wait-and-see mentality and head to the sidelines.

For investors using leverage, the same is true. They are loathe to borrow capital at a higher rate of interest than the going-in cap rate. Negative leverage is one of the basic no-no's in real property investing. As the demand from leveraged buyers decreases substantially, the remaining cash buyers will take advantage of that shift and negotiate lower prices. The long-anticipated cap rate decompression could be substantial. We are seeing a 50-to-70 basis point increase on deals we are facilitating now, and that's before accounting for any impact of a general economic recession.

Given the scarcity of supply over the past several years, property values for even the most functionally obsolete buildings have risen sharply. Buyers have been willing to accept lower quality product because the alternative has been no product at all. As the old saying goes, a rising tide lifts all boats, and that has certainly been the case here in Southern California. But older and less functional buildings will be the first to get hurt as demand sags and available inventory rises. Obsolete buildings will be the first to see big price decreases as buyers look to more available quality product. And, with more quality buildings coming to the market just as demand falls off, qualified buyers will naturally become more discerning after years of begging for anything with a roof on it. The best buildings will have more competition and the functionally obsolete buildings will languish on the market. A flight to quality is on the horizon.

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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