

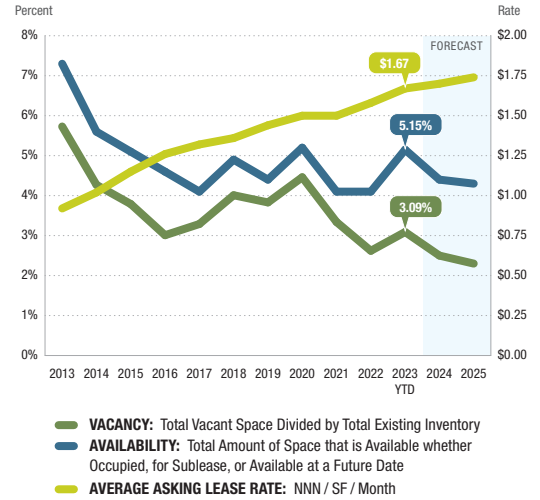
OVERVIEW. Overall market conditions for Orange County's R&D/Flex market remained relatively stable in the first quarter of 2023, showing resilience despite deteriorating conditions in the general economy. Average asking rents actually moved up slightly, transaction activity was up both in transaction count and square footage, and sale activity and gross absorption were little changed. Net absorption was in negative territory, but the bulk of the loss came from just one major move-out. Construction remained at zero with only a single building in the planning queue. Overall, the R&D/Flex market is probably the most stable of all product types we track across most major market areas.

VACANCY & AVAILABILITY. The overall vacancy rate rose by another 47 basis points to 3.09% after a 46-basis-point increase in Q4. Year-over-year, the countywide vacancy rate ended the year just 22 basis points higher, which is remarkable given all the economic shocks of the past year. The Greater Airport area, the largest submarket, experienced a 26-basis-point decline. South County vacancy also rose by 59 basis points after a 55-basis-point increase in Q4, mainly attributed to the Irvine Spectrum, which has the largest concentration of the county's R&D/Flex product. North County vacancy also moved up by another 57 basis points to 2.57%. The overall availability rate, which includes sublease space and direct lease space that is still occupied, rose 19 basis points to end the period at 5.15%. Availability rates were highest in South County at 7.21%, followed by West County at 4.48%.

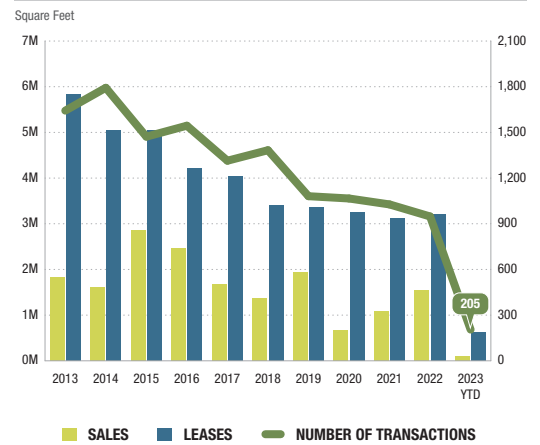
LEASE RATES. The average asking lease rate countywide increased by \$0.09 to \$1.67, following a \$0.02 decline in Q4 and a \$0.10 increase in Q3. Year-over-year, the rate is \$0.15 higher. South County's average rate, which is typically the highest among the submarkets, came in second to the Airport Area, but the difference was marginal, as only a penny separated the two areas. South County encompasses Irvine Spectrum's 10.5 MSF of predominantly newer inventory. West County, the smallest of the four major submarkets, maintained the lowest average rate at \$1.32, rising \$0.10 from the previous quarter. Meanwhile, North County's average asking rate increased by a penny to \$1.34.

TRANSACTION ACTIVITY. The square footage leased and sold increased significantly in Q1, finishing the quarter with 714,886 SF of combined leases and sales compared to 551,626 SF in Q4. In Q1, 622,259 SF of lease space went under contract in 199 transactions, compared with 137 leases totaling 441,116 SF in Q4 of last year. Sale activity was light again with just three transactions totaling 92,627 SF. Year-over-year sale and lease activity was down by 65%, but with such low vacancy and much higher mortgage rates, the falloff in activity was not unexpected. The largest lease transaction in Q1 was a 44,937 SF lease to TTE Technology, Inc. by The Irvine Company at 189 Technology Drive in the Irvine Spectrum. The largest sale of the quarter was a 55,022 SF property purchased by Trademark Circle LLC at 2692-2696 Dow Avenue in Tustin. The sales price was \$23,109,500.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



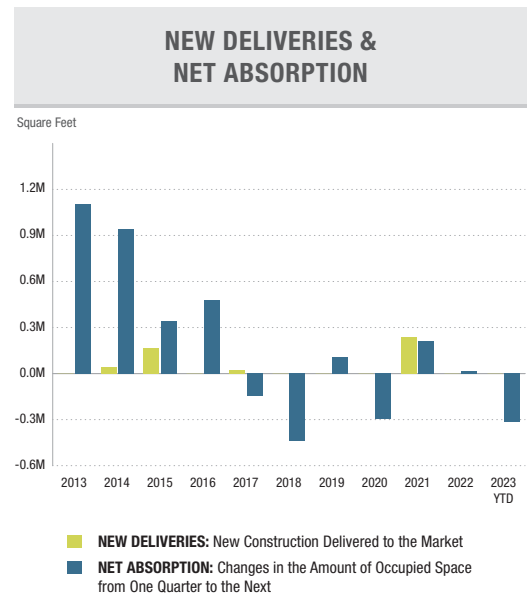
Market Statistics

	Change Over Last Quarter	Q1 2023	Q4 2022	Q1 2022	% Change Over Last Year
Vacancy Rate	▲ UP	3.09%	2.62%	2.87%	7.62%
Availability Rate	▲ UP	5.15%	4.96%	4.62%	11.48%
Average Asking Lease Rate	▲ UP	\$1.67	\$1.58	\$1.52	9.87%
Sale & Lease Transactions	▲ UP	714,886	551,626	2,080,435	(65.64%)
Gross Absorption	▼ DOWN	698,418	720,307	733,418	(4.77%)
Net Absorption	▼ NEGATIVE	(316,565)	(81,003)	277,277	N/A

ABSORPTION. Net absorption, which measures the change in occupied space between periods, continued to decline in Q1. However, a substantial portion of the 316,565 SF decrease can be attributed to two major move-outs: a 128,227 SF building in Cypress, formerly occupied by Siemens, and a 62,086 SF space in Irvine Spectrum, previously used by Teva Pharmaceutical. Other move-outs ranged from 11,000 SF to 31,000 SF. All four submarkets experienced net losses in occupied space during this quarter, with the Airport Area, the second largest of the major submarkets, witnessing a relatively modest decline of 27,000 SF. North County’s net occupied space decreased by 48,510 SF. The most notable move-in during this period involved TTE Technology Inc., which occupied 44,937 SF at 189 Technology Drive in Irvine Spectrum.

CONSTRUCTION. As has been the case for years now, no new space is in the construction queue and just a single 37,800 SF building in Fountain Valley is in the planning stages. It is unlikely that the county will see a significant addition of R&D / Flex space any time soon. Land available for that kind of ground-up development is often repurposed for the construction of multifamily, mixed-use and industrial projects. This is good news for the owners of R&D / Flex space, as they do not have to compete with first-generation space for a market that is not as active as it once was.

EMPLOYMENT. The unemployment rate in Orange County remained at 3.4% in February 2023, unchanged from a revised 3.4% in January 2023 and lower than the 3.7% rate a year ago. Employment increased in six sectors: government (adding 2,800 jobs), private education and health services (1,900 jobs), construction (1,800 jobs), other services (1,500 jobs), professional and business services (1,100 jobs), and financial activities (600 jobs).



Forecast

Unless we see a further deterioration of general economic conditions, the Orange County R&D / Flex market should remain steady through the end of the year. Leasing activity should remain strong enough to keep vacancy in check. Since most of the activity is on the leasing side of the equation, higher mortgage interest rates have not yet had a significant impact on the overall R&D / Flex market. However, maturing debt on major R&D / Flex business parks could cause a problem on the investment side looking ahead. Loans at the low rates that have been in play for the last several years are coming due, and a substantial number of those loans were made by regional commercial banks, which have come under increased scrutiny of late. With rates more than double where they were just a year ago, some borrowers may not be able to refinance existing debt based on current net operating income and stricter underwriting criteria.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2692–2696 Dow Ave.	Tustin	55,022	\$23,109,500	Trademark Circle LLC	2692 Dow Building LLC
3589 Harbor Blvd.	Costa Mesa	19,271	\$6,080,000	Zero Impact Energy	Vam Realty Pacific LLC
17691 Mitchell N.	Irvine	18,334	\$10,047,272	McGuff Company, Inc.	FutureProofing, LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
189 Technology Dr.	Irvine Spectrum	44,937	Jan-2023	TTE Technology, Inc.	The Irvine Company
1 Oldfield	Irvine Spectrum	25,803	Feb-2023	Mariners Church	Western State Technologies
1540 Scenic Ave.	Costa Mesa	12,691	Feb-2023	Stack’s Bowers	C.J. Segerstrom & Sons
15251 Barranca Pkwy.	Irvine Spectrum	11,656	Jan-2023	Aoto Electrics (US) LLC	Northwestern Mutual Life Insurance*
11205 Knott Ave.	Cypress	10,159	Jan-2023	Bravo Tech	Warland Investment Company

	INVENTORY					VACANCY & LEASE RATES				ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q1 2023	Square Feet Available	Availability Rate Q1 2023	Average Asking Lease Rate	Net Absorption Q1 2023	Net Absorption 2023	Gross Absorption Q1 2023	Gross Absorption 2023
Airport Area													
Costa Mesa	166	3,906,450	0	0	144,619	3.70%	204,296	5.23%	\$1.72	14,156	14,156	74,373	74,373
Fountain Valley	50	1,462,697	0	37,800	18,709	1.28%	15,962	1.09%	\$1.84	(1,973)	(1,973)	4,122	4,122
Irvine	242	6,436,734	0	0	107,528	1.67%	257,347	4.00%	\$1.96	(29,601)	(29,601)	44,866	44,866
Newport Beach	21	582,303	0	0	11,276	1.94%	12,476	2.14%	\$0.00	1,700	1,700	5,000	5,000
Santa Ana	180	4,466,635	0	0	76,392	1.71%	118,812	2.66%	\$1.67	5,345	5,345	43,907	43,907
Tustin	84	2,796,427	0	0	72,304	2.59%	133,668	4.78%	\$1.80	(16,521)	(16,521)	15,737	15,737
Airport Area Total	743	19,651,246	0	37,800	430,828	2.19%	742,561	3.78%	\$1.80	(26,894)	(26,894)	188,005	188,005
North County													
Anaheim	178	5,304,951	0	0	204,045	3.85%	297,664	5.61%	\$1.48	(3,971)	(3,971)	100,318	100,318
Brea	57	1,680,720	0	0	69,820	4.15%	65,989	3.93%	\$1.50	(394)	(394)	22,185	22,185
Buena Park	28	860,850	0	0	14,938	1.74%	7,634	0.89%	\$0.00	(13,935)	(13,935)	9,306	9,306
Fullerton	42	1,729,290	0	0	11,458	0.66%	8,120	0.47%	\$1.35	(5,800)	(5,800)	12,210	12,210
La Habra	12	208,111	0	0	2,300	1.11%	2,333	1.12%	\$0.00	(2,300)	(2,300)	4,172	4,172
Orange	98	2,220,537	0	0	42,978	1.94%	79,682	3.59%	\$1.58	(12,578)	(12,578)	38,667	38,667
Placentia	25	662,118	0	0	8,320	1.26%	11,782	1.78%	\$1.45	(5,820)	(5,820)	0	0
Yorba Linda	50	1,453,486	0	0	9,515	0.65%	167,666	11.54%	\$1.17	(3,712)	(3,712)	26,404	26,404
North County Total	490	14,120,063	0	0	363,374	2.57%	640,870	4.54%	\$1.34	(48,510)	(48,510)	213,262	213,262
South County													
Aliso Viejo	43	1,109,813	0	0	83,137	7.49%	92,856	8.37%	\$1.80	(5,881)	(5,881)	5,064	5,064
Foothill Ranch	8	273,620	0	0	4,591	1.68%	4,591	1.68%	\$0.00	0	0	0	0
Irvine Spectrum	292	10,464,026	0	0	523,319	5.00%	1,045,636	9.99%	\$1.80	(69,537)	(69,537)	89,183	89,183
Laguna Hills	53	1,246,601	0	0	15,928	1.28%	36,313	2.91%	\$1.55	4,834	4,834	10,894	10,894
Laguna Niguel	18	882,718	0	0	6,806	0.77%	6,806	0.77%	\$0.00	0	0	1,560	1,560
Lake Forest	63	1,455,535	0	0	66,448	4.57%	96,363	6.62%	\$1.75	(9,092)	(9,092)	31,603	31,603
Mission Viejo	35	653,821	0	0	5,000	0.76%	5,000	0.76%	\$1.70	4,732	4,732	10,202	10,202
Rancho Santa Margarita	39	1,438,168	0	0	1,704	0.12%	19,124	1.33%	\$1.44	(1,704)	(1,704)	0	0
San Clemente	60	1,437,028	0	0	22,116	1.54%	65,492	4.56%	\$1.72	(7,462)	(7,462)	40,638	40,638
San Juan Capistrano	42	739,899	0	0	53,542	7.24%	48,783	6.59%	\$2.12	(5,419)	(5,419)	11,735	11,735
South County Total	653	19,701,229	0	0	782,591	3.97%	1,420,964	7.21%	\$1.79	(89,529)	(89,529)	200,879	200,879
West County													
Cypress	50	2,067,586	0	0	203,276	9.83%	238,902	11.55%	\$1.29	(123,650)	(123,650)	16,202	16,202
Garden Grove	65	1,765,757	0	0	34,624	1.96%	31,917	1.81%	\$0.00	(11,778)	(11,778)	39,618	39,618
Huntington Beach	127	2,655,324	0	0	45,943	1.73%	42,169	1.59%	\$1.60	(16,993)	(16,993)	24,541	24,541
La Palma	1	78,980	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Los Alamitos	41	878,509	0	0	28,743	3.27%	37,621	4.28%	\$0.00	(3,944)	(3,944)	7,579	7,579
Stanton	3	68,350	0	0	4,888	7.15%	4,160	6.09%	\$0.00	(2,779)	(2,779)	0	0
Westminster	17	464,238	0	0	3,000	0.65%	3,000	0.65%	\$1.62	7,512	7,512	8,332	8,332
West County Total	304	7,978,744	0	0	320,474	4.02%	357,769	4.48%	\$1.32	(151,632)	(151,632)	96,272	96,272
Orange County Total	2,190	61,451,282	0	37,800	1,897,267	3.09%	3,162,164	5.15%	\$1.67	(316,565)	(316,565)	698,418	698,418
Airport Area													
10,000-24,999	515	8,384,578	0	0	156,917	1.87%	252,397	3.01%	\$1.80	12,400	12,400	91,626	91,626
25,000-49,999	161	5,359,774	0	37,800	161,828	3.02%	299,307	5.58%	\$1.87	(65,727)	(65,727)	44,002	44,002
50,000-99,999	51	3,362,779	0	0	112,083	3.33%	174,822	5.20%	\$1.70	26,433	26,433	52,377	52,377
100,000 Plus	16	2,544,115	0	0	0	0.00%	16,035	0.63%	\$0.00	0	0	0	0
North County													
10,000-24,999	322	5,159,314	0	0	113,392	2.20%	145,855	2.83%	\$1.55	(27,127)	(27,127)	86,446	86,446
25,000-49,999	120	3,964,197	0	0	80,111	2.02%	115,229	2.91%	\$1.82	(26,236)	(26,236)	50,569	50,569
50,000-99,999	30	1,940,650	0	0	55,862	2.88%	80,302	4.14%	\$1.50	11,344	11,344	32,709	32,709
100,000 Plus	18	3,055,902	0	0	114,009	3.73%	299,484	9.80%	\$0.00	(6,491)	(6,491)	43,538	43,538
South County													
10,000-24,999	384	6,402,794	0	0	208,260	3.25%	320,139	5.00%	\$1.73	(50,229)	(50,229)	53,491	53,491
25,000-49,999	194	6,457,816	0	0	414,855	6.42%	532,985	8.25%	\$1.83	30,634	30,634	104,636	104,636
50,000-99,999	62	4,130,558	0	0	100,104	2.42%	235,489	5.70%	\$1.69	(69,934)	(69,934)	42,752	42,752
100,000 Plus	13	2,710,061	0	0	59,372	2.19%	332,351	12.26%	\$0.00	0	0	0	0
West County													
10,000-24,999	212	3,393,904	0	0	123,823	3.65%	123,998	3.65%	\$1.33	(19,294)	(19,294)	44,136	44,136
25,000-49,999	61	2,085,729	0	0	68,427	3.28%	74,779	3.59%	\$1.30	(5,714)	(5,714)	47,661	47,661
50,000-99,999	28	1,941,923	0	0	0	0.00%	30,768	1.58%	\$1.35	1,600	1,600	4,475	4,475
100,000 Plus	3	557,188	0	0	128,224	23.01%	128,224	23.01%	\$0.00	(128,224)	(128,224)	0	0
Orange County													
10,000-24,999	1,433	23,340,590	0	0	602,392	2.58%	842,389	3.61%	\$1.69	(84,250)	(84,250)	275,699	275,699
25,000-49,999	536	17,867,516	0	37,800	725,221	4.06%	1,022,300	5.72%	\$1.69	(67,043)	(67,043)	246,868	246,868
50,000-99,999	171	11,375,910	0	0	268,049	2.36%	521,381	4.58%	\$1.38	(30,557)	(30,557)	132,313	132,313
100,000 Plus	50	8,867,266	0	0	301,605	3.40%	776,094	8.75%	\$1.15	(134,715)	(134,715)	43,538	43,538
Orange County Total	2,190	61,451,282	0	37,800	1,897,267	3.09%	3,162,164	5.15%	\$1.67	(316,565)	(316,565)	698,418	698,418

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

Market Cools but Cautious Optimism Continues

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Orange County's industrial market has been running hot for more than a decade, but buyer demand cooled further in the first quarter due to persistently high prices and the recent spike in mortgage interest rates. The leasing side of the equation is under pressure as well, as increasing economic uncertainty has businesses owners taking a more cautious approach to making long-term commitments for expansion space.

Hopeful sellers, still looking to achieve last year's peak pricing, are seeing their properties sit on the market for months rather than days or weeks. As a result, there has been a trend towards price reductions, especially for older, less functional owner/user buildings. Even the institutional players, still flush with cash, have become more cautious. Those who have not moved to the sidelines altogether are focusing on quality product leased to strong credit tenants.

While leasing demand has fallen off last year's peak, it is still strong enough to absorb the limited supply of quality space that does come to market. Vacancy is still at a historic low point and there is adequate demand from various user types, including the e-commerce sector, to keep demand from stalling out. Fortunately, Orange County has a central location, good transportation infrastructure and proximity to the Ports of Long Beach and Los Angeles, all of which have helped insulate the region's industrial product from severe economic challenges in the past.

Talk of a general recession later this year persists, but the current balance of industrial supply and demand should insulate the market from a wild swing in property values and lease rates in the near term. Orange County's local economy remains well balanced in terms of the business sectors driving economic activity, unlike the Silicon Valley economy, which is primarily driven by the struggling tech sector. As a result, although we are seeing some uncertainty and hesitation from investors, owner/users and tenants of late, the strong underlying fundamentals of the Orange County economy should help to mitigate a significant falloff in industrial property sales prices and lease rates through the balance of the year.

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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