

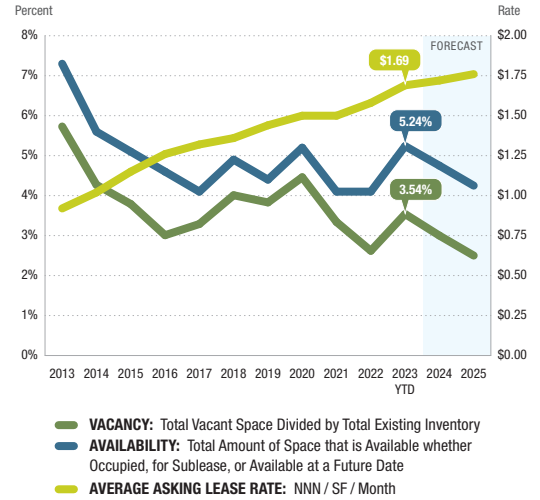
OVERVIEW. The Orange County R&D/Flex market showed resilience in Q2 despite stagnant conditions in the general economy. Overall market metrics were mixed. Vacancy and availability increased, but average asking rents edged higher for the second consecutive quarter. Transaction activity and gross absorption experienced a slowdown, and negative net absorption rose across all submarkets. However, due to most transactions occurring in smaller size ranges, the sector did not experience significant swings in direction from quarter to quarter.

VACANCY / AVAILABILITY. During the second quarter, the overall vacancy rate in Orange County’s R&D / Flex market rose by 49 basis points to reach 3.54%, following a similar increase in Q1. Comparing year-over-year data, the countywide vacancy rate increased by 87 basis points, with a majority of the rise occurring in the last two periods. The Greater Airport area recorded a 40-basis-point increase in vacant space, while South County, the largest submarket, notched a 23-basis-point rise in vacancy, following a 59-basis-point increase in Q1. North County also experienced an increase of 56 basis points, reaching 3.13%. The overall availability rate, which includes sublease and occupied direct lease space, increased by 9 basis points to end the period at 5.24%. South County reported the highest availability rate at 7.27%, followed by North County at 4.74%.

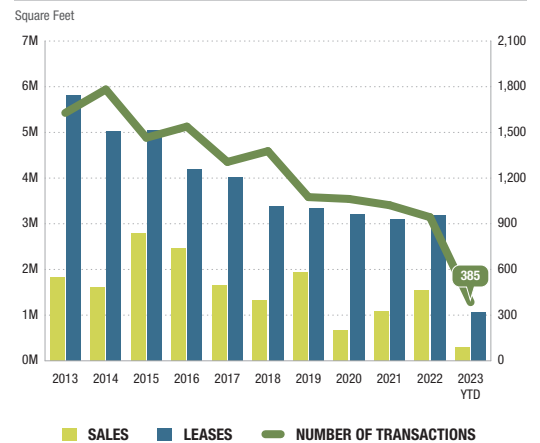
LEASE RATES. The average asking lease rate countywide increased by \$0.02 to \$1.69, continuing the upward trend from Q1. On a year-over-year basis, the rate has risen by \$0.10. South County saw a one-cent increase to \$1.78, while the Airport Area submarket experienced an increase of \$0.08 to \$1.88. West County, the smallest major submarket, observed a \$0.03 increase to \$1.35. North County’s rate was lower, falling by \$0.06 to \$1.28.

TRANSACTION ACTIVITY. In Q2, the square footage leased and sold declined to 632,371 SF from 720,082 SF in Q1. Lease space under contract decreased to 439,828 SF across 178 transactions, compared with 200 leases totaling 627,455 SF in the first quarter. However, the sale activity by square footage increased to 192,543 SF from 92,627 SF in Q1, with only four sales recorded. Year over year, sale and lease activity has dropped by just under 49%, which was expected given the prevailing economic conditions. The largest lease transaction in Q2 was a 25,665 SF sublease to TAE Power Solutions by Savage Enterprises at 1 Vanderbilt in the Irvine Spectrum. The largest sale of the quarter was a 117,805 SF property purchased by PSIP EBS Michelle Drive, LLC at 2441 Michelle Drive in Tustin, with a sales price of \$32,040,000.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



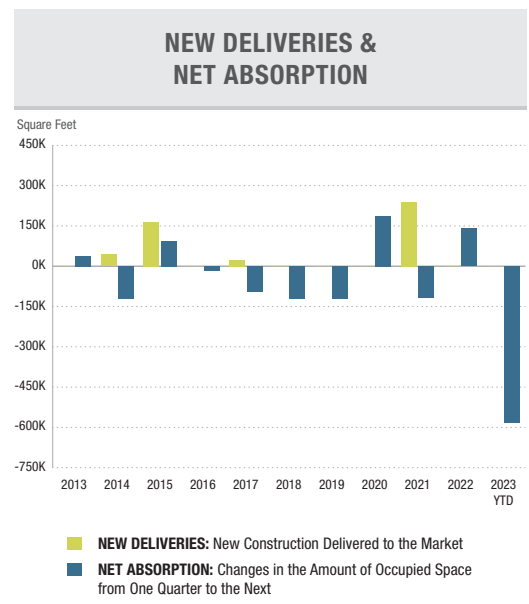
Market Statistics

	Change Over Last Quarter	Q2 2023	Q1 2023	Q2 2022	% Change Over Last Year
Vacancy Rate	▲ UP	3.54%	3.05%	2.67%	32.25%
Availability Rate	▲ UP	5.24%	5.09%	4.55%	15.12%
Average Asking Lease Rate	▲ UP	\$1.69	\$1.67	\$1.59	6.29%
Sale & Lease Transactions	▼ DOWN	632,371	720,082	1,235,680	(48.82%)
Gross Absorption	▬ FLAT	628,025	698,418	1,032,401	(39.17%)
Net Absorption	▼ NEGATIVE	(267,904)	(316,565)	(31,238)	N/A

CONSTRUCTION. Currently, no new space is under construction, with only a single 37,800 SF building in Fountain Valley remaining in the planning stages. As we have previously reported, inventory is expected to remain at current levels for the foreseeable future. The availability of land sites suitable for R&D/Flex products is limited, as developers prefer to build multi-family, mixed-use, and industrial properties on these sites for better yields. However, there is enough existing inventory to accommodate a significant resurgence in tenant and buyer demand should it occur.

ABSORPTION. Net absorption, which measures the change in occupied space between periods, decreased again in Q2. Orange County experienced a net loss of 267,904 SF of occupied space following an 316,565 SF loss in the first quarter. Move-outs ranged from 11,000 to 31,000 SF. South County saw the largest decline at 88,386 SF, closely followed by North County and Airport Area, with 85,053 SF and 72,026 SF, respectively. The largest move-in for Q2 was a 25,905 SF owner/user sale at 81-91 Columbia in Aliso Viejo.

EMPLOYMENT. The unemployment rate in Orange County was 3.2% in May 2023, up from a revised 3.0% in April 2023 and above the year-ago estimate of 2.7%. Eight sectors contributed an additional 33,600 jobs, accounting for 74% of the total nonfarm year-over-year increase. Private education and health services experienced an increase of 10,300 jobs, followed by trade, transportation, and utilities (up 6,800), professional and business services (up 4,600), government (up 4,200), construction (up 3,000), manufacturing (up 2,800), other services (up 1,200), and information (up 700).



Forecast

The Orange County R&D/Flex market is expected to remain stable in the near term. There is sufficient demand to prevent vacancy rates from rising to a point where average asking rents would be significantly impacted. With no construction activity, landlords are competing only with existing inventory, but there is still an adequate selection of properties available for tenants in search of space. However, higher mortgage interest rates may pose challenges for owners with debt maturing soon. As rates have doubled in the last 18 months and lenders have tightened underwriting, and significant growth in rental rates is not anticipated, owners seeking substantial refinancing will be squeezed. Consequently, an increase in investor sale activity might occur, as some owners may opt to sell their properties if suitable financing cannot be secured.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2441 Michelle Dr.	Tustin	117,805	\$32,040,000	PSIP EBS Michelle Drive, LLC	Jwm Tustin LLC
81-91 Columbia	Aliso Viejo	40,792	\$14,073,500	Sunland Nutrition	JDH Pacific, Inc.
2301 E. Winston Rd.	Anaheim	23,119	\$8,850,000	Beach Cities Holdings, LLC	Etherwan Systems, Inc.
1150 N. Richfield Rd.	Anaheim	10,827	\$3,495,000	WS Property Holdings LLC	Makarehch Revocable Family Trust

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1 Vanderbilt - Sublease	Irvine Spectrum	25,665	Jun-2023	TAE Power Solutions	Savage Enterprises
26181 Avenida Aeropuerto - Renewal	San Clemente	18,000	Apr-2023	Fischer	Andy Henry
1001 Calle Amanecer	San Clemente	14,479	Jun-2023	Dana Innovations Inc.	San Clemente Holdings
17842 Cowan	Irvine	8,292	Jun-2023	Santa Jamboree Investments	Cowan Properties, LLC
1585 N Harmony Cir.	Anaheim	4,630	Apr-2203	TEK Medical Systems, LLC	Design Services*



Cost Crunch & Competition: The Fight for Industrial Real Estate Continues

by **Chris Drzyzga**

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Despite a barrage of negative headlines, the scarcity of desirable properties in Orange County creates a competitive local environment, maintaining elevated prices as businesses vie for limited space. There are currently thirteen buildings under construction, representing 2.1 MSF of new product. In a market with a total inventory of 234 MSF, this represents less than 1% of the base and is not enough to satisfy the ongoing demand for first-generation space that supports maximum operating efficiency.

The region's economy is expected to continue its growth, albeit at a slower pace compared with previous years. Positive economic indicators, such as low unemployment rates and rising wages, will support the demand for industrial space from both e-commerce and logistics tenants. These trends have caught the attention of investors, who recognize the potential for sustained growth and income generation in the industrial sector.

Real estate investors, big and small, are reallocating capital away from office, retail and multi-family to industrial real estate. This transition reflects a growing recognition of the sector's resilience and its demonstrated importance in the evolving economy. Investor interest extends beyond your typical warehouse space into more niche sub-sectors such as cold storage, outdoor storage & data centers.

On the other hand, as if limited inventory and higher borrowing costs were not enough, businesses are grappling with higher operating costs, which have increased by 25% year over year in some cases. The primary contributors to these cost increases are utilities, insurance, and labor. While businesses have been able to pass these cost increases along to customers thus far, there is a growing concern about the sustainability of this approach. They may need to explore alternative strategies to mitigate the impact. This could include efficiency improvements, cost-cutting measures, or renegotiating contracts with suppliers.

Barring another black swan event, I do not expect any major changes to the basic dynamics of the Orange County industrial market. Rather, I expect things to move in the same general direction, at a somewhat slower pace.

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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