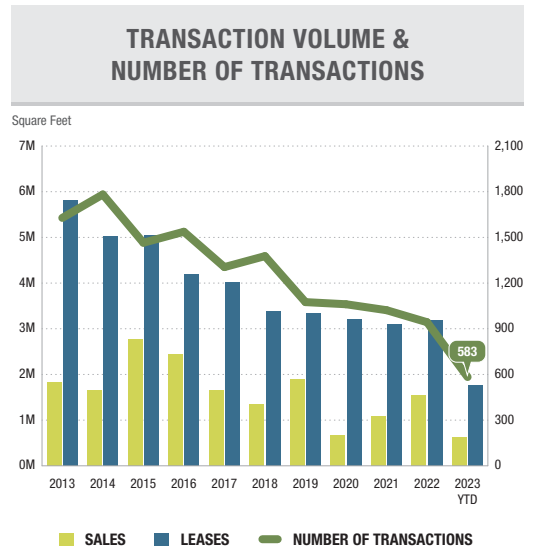
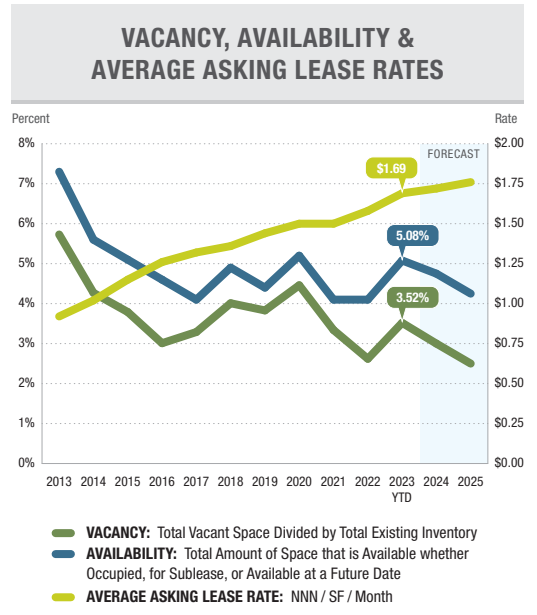


OVERVIEW. The Orange County R&D/Flex market continued to show remarkable consistency despite uncertain conditions in the overall economy. Major market metrics were barely changed from the previous period. Vacancy moved slightly higher but availability decreased. Average asking rents were unchanged. Transaction activity ticked lower but gross absorption rose. Net absorption was slightly negative, but improved over the Q2 result. Construction activity is still at zero where it will remain for the foreseeable future.

VACANCY / AVAILABILITY. During the third quarter, the overall vacancy rate in Orange County’s R&D / Flex market rose by just 2 basis points to 3.52%. This time last year the vacancy rate was 2.16%, with the majority of the rise occurring in Q1. On a base of just 61 MSF countywide, it only takes one or two large vacancies to move the needle, so some volatility is not uncommon. The Greater Airport area recorded a 16-basis-point increase in vacant space, while South County, the largest submarket, notched a 52-basis-point rise in vacancy, and the North and West County submarkets experienced significant declines. The overall availability rate, which includes sublease and occupied direct lease space, decreased by 10 basis points to end the period at 5.08%. South County reported the highest availability rate at 6.46%, but that was down from 7.27% in Q2.

LEASE RATES. The average asking lease rate countywide was unchanged at \$1.69. On a year-over-year basis, the rate has risen by \$0.09 or 5.62%. South County and the Airport Area, the two largest submarkets, were also unchanged at \$1.78 and \$1.88, respectively. West County, the smallest and least expensive major submarket, held steady at \$1.35. When vacancy in the mid-3% range is combined with light lease and sale activity, relatively flat rent growth is not unexpected. Supply and demand are more closely balanced in the R&D / Flex sector compared to its office and industrial counterparts.

TRANSACTION ACTIVITY. In Q3, the square footage leased and sold dipped to 811,475 SF from 857,512 SF in Q2. Lease space under contract decreased to 522,689 SF across 173 transactions, compared to 196 leases totaling 620,151 SF in Q2. Sale activity by square footage rose for the second straight period to 288,786 SF from 237,361 SF in Q2 on five transactions. Year over year, sale and lease activity has dropped by just 7.37% despite the steep rise in mortgage interest rates over the past year. The largest lease transaction in Q3 was a 146,462 SF lease to Bio-Rad Laboratories, LLC from Arbonne International, LLC at 9400 Jeronimo Road in Irvine Spectrum. The largest sale of the quarter was a 71,616 SF property purchased by Valencia OC, LLC at 1300 Valencia Avenue in Tustin from Stos Partners. The purchase price was \$26,500,000.



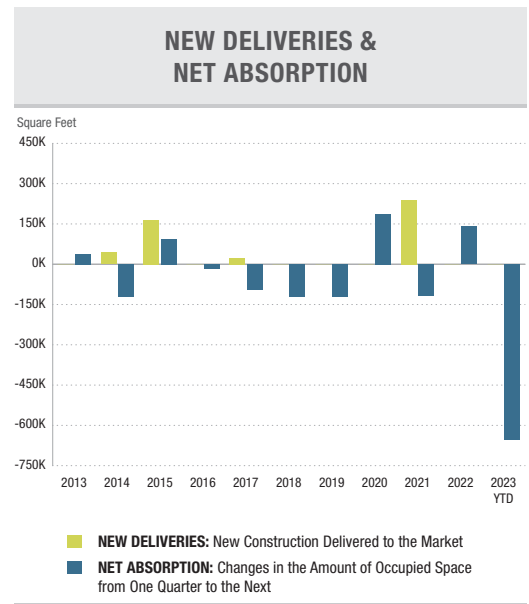
Market Statistics

	Change Over Last Quarter	Q3 2023	Q2 2023	Q3 2022	% Change Over Last Year
Vacancy Rate	▲ UP	3.52%	3.50%	2.16%	63.40%
Availability Rate	▼ DOWN	5.08%	5.18%	4.55%	11.56%
Average Asking Lease Rate	▬ FLAT	\$1.69	\$1.69	\$1.60	5.62%
Sale & Lease Transactions	▼ DOWN	811,475	857,512	876,061	(7.37%)
Gross Absorption	▲ UP	807,162	628,025	985,171	(18.07%)
Net Absorption	▼ NEGATIVE	(68,197)	(88,396)	5,895	N/A

CONSTRUCTION. Currently, no new space is under construction, with only a single 37,000 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 multifamily, 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, came in slightly negative in Q3, but improved over Q2 results. Orange County experienced a net loss of 68,197 SF of occupied space following a net loss of 88,396 SF loss in Q2. South County saw the largest decline at 52,614 SF, closely followed by North County at 48,921 SF. North and West County both posted modest gains for the period. The largest move-in for Q3 was a 34,899 SF lease to the Catholic Diocese at 743 N. Eckhoff Street in Orange. The largest move-out (23,452 SF) was recorded at 16 Hammond in Irvine Spectrum. That property had been occupied by Smart Levels Printing.

EMPLOYMENT. In August 2023, the unemployment rate in Orange County rose to 3.9%, marking an increase from the revised rate of 3.6% in July 2023 and exceeding the year-ago estimate of 3.2%. The government sector added 1,700 jobs, while manufacturing saw an increase of 1,000 jobs. Trade, transportation, and utilities also showed growth, adding 300 jobs, and professional and business services expanded with an additional 200 jobs.



Forecast

The Orange County R&D / Flex market should remain stable into next year. As we have been reporting, there is enough demand to prevent vacancy rates from spiking to a point that would put significant downward pressure on lease rates. With construction activity at a standstill, landlords with space to lease are only competing with existing inventory and there is still an adequate selection of properties available for tenants in search of space. The spike in mortgage interest rates presents a challenge for owners with debt maturing soon, as lenders have tightened underwriting criteria. With rates up and rents flat, some property owners will have trouble refinancing debt that exceeds 50% of current value and the debt service on new loans will definitely reduce pre-tax cash flows moving forward. Some owners may opt to sell rather than face the refinancing challenge, which could increase sale activity next year.

Significant Transactions

Sales					
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
1311 Valencia Ave.	Tustin	71,616	\$26,500,000	Valencia OC, LLC	Stos Partners
14650 Hoover St.	Westminster	59,679	\$22,300,000	Rexford Industrial Realty LP	Five Point Properties LLC
5630 Cerritos Ave.	Cypress	76,032	\$21,400,000	Rexford Industrial Realty LP	PSIP Cerritos Avenue, LP
5450-5480 Katella Ave.	Los Alamitos	46,560	\$11,850,000	Western Realco	Luban Living Trust
743 N. Eckhoff St.	Orange	34,899	\$7,000,000	St Thomas Syro-malabar Catholic Diocese	743 Eckhoff Owner LLC

Leases					
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
9400 Jeronimo Rd.	Irvine Spectrum	146,482	Jul-2023	Bio-Rad Laboratories, LLC	Arbonne International, LLC
3545 Harbor Gateway – Renewal	Costa Mesa	69,398	Sep-2023	Phillips-Medisize	CJ Segerstrom & Son
1601 Alton Pkwy.	Irvine	35,786	Sep-2023	Skylab Logistics & Fulfillment	Rexford Industrial
15 Morgan – Renewal	Irvine Spectrum	35,427	Aug-2023	EAG Labs Inc.	Morgan Bay Partners LLC
60 Parker	Irvine Spectrum	32,103	Sep-2023	Quest International*	Northwestern Mutual Life*

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q3 2023	Square Feet Available	Availability Rate Q3 2023	Average Asking Lease Rate	Net Absorption Q3 2023	Net Absorption 2023	Gross Absorption Q3 2023	Gross Absorption 2023
Airport Area													
Costa Mesa	166	3,906,450	0	0	104,636	2.68%	234,182	5.99%	\$1.68	(1,803)	37,522	31,588	154,527
Fountain Valley	50	1,462,697	0	37,800	22,157	1.51%	44,612	3.05%	\$1.44	(4,074)	(11,845)	5,732	13,399
Irvine	242	6,436,734	0	0	235,845	3.66%	333,349	5.18%	\$2.27	(24,496)	(99,474)	29,581	98,869
Newport Beach	21	582,303	0	0	12,078	2.07%	12,078	2.07%	\$0.00	(1,903)	98	2,298	8,399
Santa Ana	180	4,466,635	0	0	108,993	2.44%	150,226	3.36%	\$1.53	(5,751)	(32,216)	34,240	118,629
Tustin	84	2,796,427	0	0	53,921	1.93%	56,413	2.02%	\$1.86	(10,894)	(41,926)	20,499	101,491
Airport Area Total	743	19,651,246	0	37,800	537,630	2.74%	830,860	4.23%	\$1.88	(48,921)	(147,841)	123,938	495,314
North County													
Anaheim	178	5,304,951	0	0	195,920	3.69%	271,341	5.11%	\$1.38	(105)	(30,220)	39,523	173,768
Brea	57	1,680,720	0	0	64,309	3.83%	81,837	4.87%	\$1.47	4,941	3,365	12,532	40,924
Buena Park	28	860,850	0	0	22,957	2.67%	22,957	2.67%	\$0.00	(8,616)	(28,301)	2,585	19,891
Fullerton	42	1,729,290	0	0	26,052	1.51%	26,872	1.55%	\$1.48	4,979	(25,542)	10,987	43,629
La Habra	12	208,111	0	0	1,179	0.57%	7,659	3.68%	\$0.00	(1,179)	(3,479)	680	8,152
Orange	98	2,220,537	0	0	60,440	2.72%	83,184	3.75%	\$1.50	18,971	(1,223)	65,881	121,310
Placentia	25	662,118	0	0	14,267	2.15%	30,333	4.58%	\$1.42	(4,425)	(11,767)	1,940	1,940
Yorba Linda	50	1,453,486	0	0	29,425	2.02%	170,677	11.74%	\$1.16	(6,097)	(27,957)	12,611	46,112
North County Total	490	14,120,063	0	0	414,549	2.94%	694,860	4.92%	\$1.28	8,469	(125,124)	146,739	455,726
South County													
Aliso Viejo	43	1,109,813	0	0	47,605	4.29%	69,882	6.30%	\$1.75	3,548	28,563	8,276	45,197
Foothill Ranch	8	273,620	0	0	0	0.00%	0	0.00%	\$0.00	0	4,591	0	4,591
Irvine Spectrum	292	10,464,026	0	0	603,762	5.77%	824,180	7.88%	\$1.81	(47,166)	(182,005)	338,901	600,455
Laguna Hills	53	1,246,601	0	0	42,508	3.41%	44,588	3.58%	\$1.52	(7,294)	(14,329)	14,719	33,367
Laguna Niguel	18	882,718	0	0	7,903	0.90%	7,903	0.90%	\$0.00	(740)	(1,097)	460	4,421
Lake Forest	63	1,455,535	0	0	72,098	4.95%	108,978	7.49%	\$1.63	(13,208)	(29,318)	27,720	90,104
Mission Viejo	35	653,821	0	0	27,822	4.26%	33,701	5.15%	\$1.70	8,864	14,036	11,427	26,629
Rancho Santa Margarita	39	1,438,168	0	0	35,570	2.47%	44,660	3.11%	\$1.60	0	(15,070)	1,559	3,263
San Clemente	60	1,437,028	0	0	44,989	3.13%	72,607	5.05%	\$1.74	(249)	(30,335)	34,455	85,727
San Juan Capistrano	42	739,899	0	0	47,418	6.41%	66,032	8.92%	\$2.15	3,631	(5,575)	15,773	34,397
South County Total	653	19,701,229	0	0	929,675	4.72%	1,272,531	6.46%	\$1.78	(52,614)	(230,539)	453,290	928,151
West County													
Cypress	50	2,067,586	0	0	209,136	10.11%	233,320	11.28%	\$1.31	(360)	(129,510)	5,500	26,560
Garden Grove	65	1,765,757	0	0	27,074	1.53%	33,587	1.90%	\$0.00	11,338	(11,523)	19,345	78,384
Huntington Beach	127	2,655,324	0	0	14,897	0.56%	6,466	0.24%	\$1.56	18,963	(11,747)	42,502	92,183
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	19,813	2.26%	38,252	4.35%	\$0.00	(3,066)	2,008	14,848	44,227
Stanton	3	68,350	0	0	4,160	6.09%	4,160	6.09%	\$0.00	0	(2,051)	0	728
Westminster	17	464,238	0	0	7,165	1.54%	7,165	1.54%	\$1.62	(2,006)	3,661	1,000	12,332
West County Total	304	7,978,744	0	0	282,245	3.54%	322,950	4.05%	\$1.35	24,869	(149,162)	83,195	254,414
Orange County Total	2,190	61,451,282	0	37,800	2,164,099	3.52%	3,121,201	5.08%	\$1.69	(68,197)	(652,666)	807,162	2,133,605
Airport Area													
10,000-24,999	515	8,384,578	0	0	199,576	2.38%	272,347	3.25%	\$1.86	(20,130)	(77,525)	67,463	243,476
25,000-49,999	161	5,359,774	0	37,800	238,921	4.46%	362,613	6.77%	\$2.01	(25,270)	(110,228)	45,108	150,779
50,000-99,999	51	3,362,779	0	0	83,098	2.47%	195,900	5.83%	\$1.74	(3,521)	55,947	11,367	101,059
100,000 Plus	16	2,544,115	0	0	16,035	0.63%	0	0.00%	\$0.00	0	(16,035)	0	0
North County													
10,000-24,999	322	5,159,314	0	0	162,717	3.15%	224,141	4.34%	\$1.54	(24,323)	(115,215)	59,532	214,231
25,000-49,999	120	3,964,197	0	0	61,909	1.56%	83,423	2.10%	\$1.50	36,020	(68)	70,386	143,224
50,000-99,999	30	1,940,650	0	0	82,330	4.24%	100,582	5.18%	\$1.50	(10,464)	(9,766)	8,765	45,877
100,000 Plus	18	3,055,902	0	0	107,593	3.52%	286,714	9.38%	\$0.00	7,236	(75)	8,056	52,394
South County													
10,000-24,999	384	6,402,794	0	0	317,702	4.96%	428,248	6.69%	\$1.71	(87,441)	(157,541)	85,997	222,498
25,000-49,999	194	6,457,816	0	0	417,976	6.47%	535,348	8.29%	\$1.79	39,627	(930)	205,251	486,060
50,000-99,999	62	4,130,558	0	0	134,625	3.26%	249,563	6.04%	\$1.74	(4,800)	(72,068)	15,560	73,111
100,000 Plus	13	2,710,061	0	0	59,372	2.19%	59,372	2.19%	\$0.00	0	0	146,482	146,482
West County													
10,000-24,999	212	3,393,904	0	0	101,374	2.99%	114,111	3.36%	\$1.33	9,259	(31,126)	58,673	165,495
25,000-49,999	61	2,085,729	0	0	52,647	2.52%	49,847	2.39%	\$1.34	11,742	8,588	20,654	80,576
50,000-99,999	28	1,941,923	0	0	0	0.00%	30,768	1.58%	\$1.40	3,868	1,600	3,868	8,343
100,000 Plus	3	557,188	0	0	128,224	23.01%	128,224	23.01%	\$0.00	0	(128,224)	0	0
Orange County													
10,000-24,999	1,433	23,340,590	0	0	781,369	3.35%	1,038,847	4.45%	\$1.68	(122,635)	(381,407)	271,665	845,700
25,000-49,999	536	17,867,516	0	37,800	771,453	4.32%	1,031,231	5.77%	\$1.87	62,119	(102,638)	341,399	860,639
50,000-99,999	171	11,375,910	0	0	300,053	2.64%	576,813	5.07%	\$1.70	(14,917)	(24,287)	39,560	228,390
100,000 Plus	50	8,867,266	0	0	311,224	3.51%	474,310	5.35%	\$0.00	7,236	(144,334)	154,538	198,876
Orange County Total	2,190	61,451,282	0	37,800	2,164,099	3.52%	3,121,201	5.08%	\$1.69	(68,197)	(652,666)	807,162	2,133,605

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



Low Inventory Stabilizes North Orange County Pricing

by **Erik Sikes**

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Orange County’s industrial market has been fairly stable in 2023. The same hurdles present in Q2 have overflowed to Q3. The common themes were high interest rates, high sale and lease prices, and low transaction volume. Most pundits believe the market in general will experience a significant drop in pricing and see more inventory, but nine months into 2023 the numbers portray a different story for North Orange County.

Despite the persistent macroeconomic uncertainty, average lease rates and sale prices increased last quarter. This is contrary to the expectation that buyers would be discouraged by high interest rates and that tenants would be forced to renew after seeing the high cost of relocating. While this is true to some extent, there continues to be a large number of industries who are very active in this market and have immediate requirements. To clarify, we have told our clients to think of it this way: In 2022, a listing may have had ten offers within the first week and would likely have been under contract at the asking price or above. In 2023, a listing may have only two offers within the first three weeks, but the comps support that it will be under contract at the asking price or slightly lower. Essentially, demand has decreased significantly from last year but there is still demand. In addition, there is just a 2%–3% vacancy rate in the North Orange County market, so there is limited product availability. Most predicted a flurry of availabilities this fall, but the reality is that the supply has not overcome the demand to own or lease industrial real estate in North Orange County.

All sellers and landlords are probably thrilled to read the last paragraph, but I suggest a dose of caution. This is not a market where any quality of building can just put up a sign with a sale price of \$400+ PSF or a lease rate of \$1.80 PSF and expect to achieve the targeted number. This is a more competitive market and buyers/tenants are more selective with the properties they pursue. Functionally obsolete buildings are sitting on the market for months and the principals are offering price reductions and open houses, often scratching their heads because the building next door was immediately under contract while their listing has garnered little interest. For example, it is not uncommon to see two buildings within the same size range sell with closing prices differing by \$100 PSF.

Make no mistake, the combination of rising interest rates and macroeconomic angst has taken a toll on the market. Once-active buyers and tenants are staying put and waving the white flag. Sellers and landlords are still coming to grips with the fact that they may have missed the boat with regard to peak pricing. Many signs point to a slowdown in the Southern California industrial real estate market. However, there is still substantial demand in North Orange County and unless we see more inventory, I am cautiously optimistic that this specific region will come out unscathed.

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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