

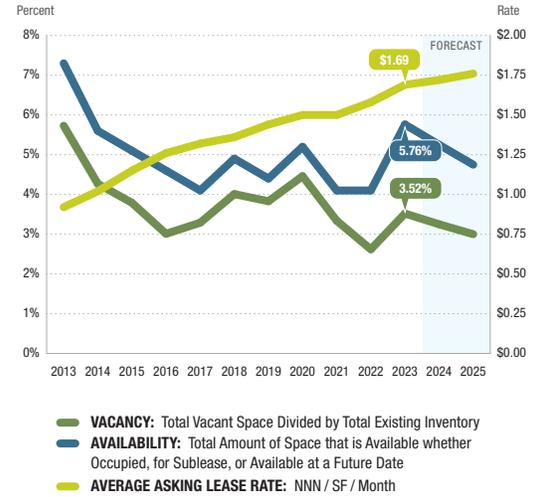
OVERVIEW. Like its industrial counterpart, the Orange County R&D/Flex market stayed on its recent course in the final quarter of 2023. Vacancy moved slightly higher and availability moved higher still. Average asking rents were little changed. Transaction activity, in terms of square footage leased and sold, was down in Q4, and the transaction count was well off of recent quarterly performances. Gross absorption saw a slight decline, while net absorption, though still negative, showed improvement over Q3. There remain no R&D/Flex properties under construction. The R&D/Flex market is a hybrid of the office and industrial product types, but is fortunate not to have suffered from the office market slowdown that is entering its sixth year in 2024. However, it has underperformed the industrial market, which has, until recently, experienced dramatic rent growth and historically low vacancy.

VACANCY & AVAILABILITY. The overall vacancy rate in Orange County's R&D/Flex market rose by 4 basis points to 3.52%. This time last year the vacancy rate was 2.62%. The Greater Airport area recorded a 5-basis-point increase in vacant space, while South County, the largest submarket, fell by 9 basis points to just 4.61%. North County saw a 6-basis-point rise, while West County, by far the smallest of the major submarkets, experienced a vacancy increase of 31 basis points. The overall availability rate, which includes sublease and occupied direct lease space, increased sharply in Q4, rising by 74 basis points. This widened the gap between the vacancy and availability metrics, which is likely attributable to an increase in space offered for sublease. A single quarter does not make a trend, but this gap is worth keeping an eye on going forward.

LEASE RATES. The average asking lease rate countywide was up by just a penny to \$1.69 in Q4. On a year-over-year basis, average asking rates have risen by \$0.11, or 6.96%, well below its industrial counterpart's annual rent growth of 13.29%. The Airport Area had a modest decline of \$0.02 during the final quarter, while the South County submarket, including the Irvine Spectrum with its high concentration of quality space, was unchanged at \$1.78. West and North County also recorded minor changes for the period. These mild quarter-to-quarter changes indicate the better balance there is between supply and demand in the R&D/Flex sector than in the office and industrial sectors.

TRANSACTION ACTIVITY. In Q4, the square footage leased and sold fell to 685,331 SF from 768,621 SF in Q3. Leasing activity declined to 396,545 SF in 122 transactions, compared to 177 leases totaling 531,154 SF in Q3. Sale activity by square footage rose again in Q4, this time from 237,467 SF in Q3 on seven transactions to 288,786 SF in Q4 on just five transactions. Year over year, sale and lease activity has dropped by a little more than 24%, mainly due to higher mortgage rates and overall economic conditions. The largest lease transaction in Q4 was an 85,193 SF lease to St. John Knits from Klein Investments at 5515 East La Palma in Anaheim. The largest sale of the quarter was a 292,000 SF property at 3305-3311 Hyland Avenue in Costa Mesa, which was acquired by Continental Realty Corporation. The purchase price was \$110,000,000.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



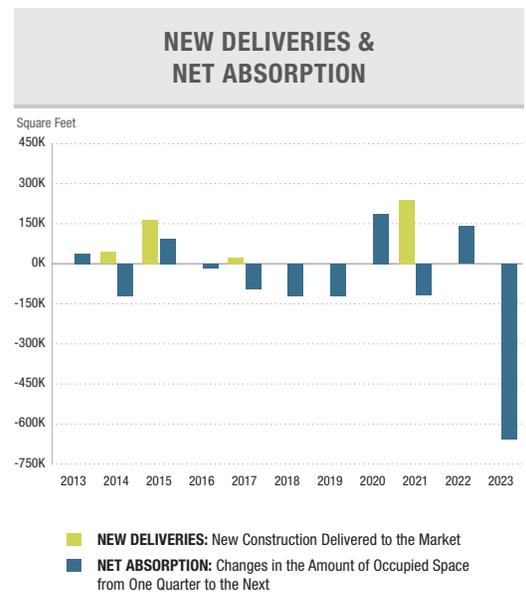
Market Statistics

	Change Over Last Quarter	Q4 2023	Q3 2023	Q4 2022	% Change Over Last Year
Vacancy Rate	▲ UP	3.52%	3.48%	2.62%	34.69%
Availability Rate	▲ UP	5.76%	5.02%	4.96%	16.20%
Average Asking Lease Rate	▲ UP	\$1.69	\$1.68	\$1.58	6.96%
Sale & Lease Transactions	▼ DOWN	685,331	768,621	905,442	(24.31%)
Gross Absorption	▼ DOWN	711,454	807,162	720,307	(1.23%)
Net Absorption	▼ NEGATIVE	(4,627)	(52,614)	(81,003)	N/A

CONSTRUCTION. No R&D/Flex space is currently under construction and just one 37,800 SF building in Fountain Valley is in the planning stages. Barriers to entry, including the high cost of capital, make ground-up R&D/Flex development nearly impossible. Extended time-on-market for leasing and tepid rent growth simply do not justify the risk. Plus, the land sites that are suitable for R&D/Flex product make more economic sense as multi-family, mixed-use and industrial projects.

ABSORPTION. Net absorption, which measures the change in occupied space between periods, showed improvement over the previous several quarters. The County experienced a minor loss of 4,627 SF after losses of 52,614 SF in Q3 and 81,003 SF in Q2. On an inventory base of over 61 MSF, these numbers are not significant, but they are heading in the right direction, as net absorption is the preferred metric to determine market expansion or contraction. In Q4, the North and West County submarkets tallied declines in occupied space, while the South County and Airport Markets posted modest gains. The largest move-in for Q4 was a 126,497 SF lease to Dzyne, Inc. at 34 Parker in the Irvine Spectrum.

EMPLOYMENT. In November 2023, the unemployment rate in Orange County rose to 3.8%, marking an increase from the revised rate of 3.7% in October 2023 and exceeding the year-ago estimate of 3.0%. The retail trade sector added 4,000 jobs, while warehousing, transportation, and utilities also showed growth, adding 500 jobs. Professional and business services saw the largest decline, with a loss of 3,800 jobs.



Forecast

The Orange County R&D/Flex market is maintaining a good balance between supply and demand. Lease and sale activity in terms of square footage and total transactions has slowed, but supply and demand have fallen together at a pace that has allowed the sector to avoid a significant correction. Owners with long-term mortgages at low rates, or no debt at all, are in the best position to ride out any market uncertainty. Those with maturing debt may not be able to refinance existing loans at today’s higher rates without filling possible funding gaps by securing new equity sources. So, the risk of an increase in distressed asset sales is increasing, but not to the degree we are seeing in the office sector. Some owners may opt to sell rather than face the refinancing challenge, which could increase sale activity in the coming year, but we expect leasing activity and rent growth to continue at their current pace in 2024.

Significant Transactions

Sales					
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
3305–3311 Hyland Ave.	Costa Mesa	292,000	\$110,000,000	Continental Realty Corporation	Rockwood Capital
7050–7051 Village Dr.	Buena Park	133,482	\$32,033,010	Buchanan Street Partners	TA Realty
7373–7391 Lincoln Way	Garden Grove	45,048	\$12,561,070	JYJ Logistics, LLC	HK Ventures
229 Avenida Fabricante	San Clemente	40,728	\$13,700,000	BlackHawk Property Holdings LLC	Marcus Adams Properties, LLC
234 Victoria St.	Costa Mesa	7,795	\$2,266,126	Outsource Utility Contractor Corp	Steven Craig Nicholson

Leases					
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
5515 E. La Palma Ave.	Anaheim	85,193	Nov-2023	St. John Knits	Klein Investments Family LP
18011 Mitchell S.	Irvine	35,500	Nov-2023	Tesla Collision	Bayport Mitchell Associates
25111 Arctic Ocean Dr. – Renewal	Lake Forest	26,232	Dec-2023	AVL California Technology Center	Whittle Investors - State Coll
16 Hammond	Irvine Spectrum	23,452	Oct-2023	Surfire	16 Hammond Property Co LP
11165 Knott Ave., A/B	Cypress	17,022	Oct-2023	HID Global Corp	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 Q4 2023	Square Feet Available	Availability Rate Q4 2023	Average Asking Lease Rate	Net Absorption Q4 2023	Net Absorption 2023	Gross Absorption Q4 2023	Gross Absorption 2023
Airport Area													
Costa Mesa	166	3,906,450	0	0	112,509	2.88%	172,694	4.42%	\$1.64	11,489	49,011	97,715	252,242
Fountain Valley	50	1,462,697	0	37,800	26,616	1.82%	40,419	2.76%	\$1.44	(4,459)	(16,304)	6,712	20,111
Irvine	242	6,436,734	0	0	220,422	3.42%	392,770	6.10%	\$2.17	4,113	(95,361)	114,165	213,034
Newport Beach	21	582,303	0	0	11,577	1.99%	11,577	1.99%	\$0.00	501	599	501	8,900
Santa Ana	180	4,466,635	0	0	120,561	2.70%	179,786	4.03%	\$1.46	(10,427)	(42,643)	23,885	142,514
Tustin	84	2,796,427	0	0	55,922	2.00%	86,941	3.11%	\$1.86	14,110	(27,816)	23,223	124,714
Airport Area Total	743	19,651,246	0	37,800	547,607	2.79%	884,187	4.50%	\$1.86	15,327	(132,514)	266,201	761,515
North County													
Anaheim	178	5,304,951	0	0	206,306	3.89%	234,904	4.43%	\$1.42	(60,317)	(90,537)	71,863	245,631
Brea	57	1,680,720	0	0	74,813	4.45%	88,329	5.26%	\$1.51	(10,612)	(7,247)	5,750	46,674
Buena Park	28	860,850	0	0	21,178	2.46%	22,703	2.64%	\$1.40	1,964	(26,337)	11,278	31,169
Fullerton	42	1,729,290	0	0	10,816	0.63%	16,516	0.96%	\$1.47	13,780	(11,762)	17,000	60,629
La Habra	12	208,111	0	0	7,766	3.73%	9,686	4.65%	\$0.00	(4,160)	(7,639)	6,480	14,632
Orange	98	2,220,537	0	0	37,197	1.68%	68,511	3.09%	\$1.79	8,302	7,079	23,026	144,336
Placentia	25	662,118	0	0	18,627	2.81%	17,264	2.61%	\$1.45	(6,860)	(18,627)	11,685	13,625
Yorba Linda	50	1,453,486	0	0	18,833	1.30%	171,380	11.79%	\$1.19	886	(27,071)	17,632	63,744
North County Total	490	14,120,063	0	0	395,536	2.80%	629,293	4.46%	\$1.34	(57,017)	(182,141)	164,714	620,440
South County													
Aliso Viejo	43	1,109,813	0	0	55,192	4.97%	97,622	8.80%	\$1.76	(7,587)	20,976	0	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	571,610	5.46%	1,107,181	10.58%	\$1.78	125,879	(56,126)	152,777	753,232
Laguna Hills	53	1,246,601	0	0	33,267	2.67%	43,570	3.50%	\$1.56	9,241	(5,088)	19,369	52,736
Laguna Niguel	18	882,718	0	0	11,063	1.25%	11,063	1.25%	\$0.00	(3,160)	(4,257)	0	4,421
Lake Forest	63	1,455,535	0	0	67,073	4.61%	76,312	5.24%	\$1.68	(15,448)	(44,766)	16,371	106,475
Mission Viejo	35	653,821	0	0	21,468	3.28%	40,566	6.20%	\$1.79	(11,670)	2,366	19,224	45,853
Rancho Santa Margarita	39	1,438,168	0	0	21,793	1.52%	45,953	3.20%	\$1.60	13,777	(1,293)	15,070	18,333
San Clemente	60	1,437,028	0	0	76,753	5.34%	67,382	4.69%	\$1.77	(26,457)	(56,792)	10,275	96,002
San Juan Capistrano	42	739,899	0	0	49,605	6.70%	67,567	9.13%	\$2.15	(7,044)	(12,619)	0	34,397
South County Total	653	19,701,229	0	0	907,824	4.61%	1,557,216	7.90%	\$1.78	77,531	(153,008)	233,086	1,161,237
West County													
Cypress	50	2,067,586	0	0	196,218	9.49%	194,754	9.42%	\$1.32	12,918	(116,592)	12,918	39,478
Garden Grove	65	1,765,757	0	0	45,919	2.60%	47,855	2.71%	\$0.00	(19,689)	(31,212)	8,271	86,655
Huntington Beach	127	2,655,324	0	0	29,956	1.13%	175,026	6.59%	\$1.53	(23,665)	(35,412)	13,843	106,026
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	32,604	3.71%	32,718	3.72%	\$0.00	(12,791)	(10,783)	8,262	52,489
Stanton	3	68,350	0	0	5,560	8.13%	1,381	2.02%	\$0.00	(1,400)	(3,451)	0	728
Westminster	17	464,238	0	0	4,506	0.97%	16,813	3.62%	\$1.65	4,159	7,820	4,159	16,491
West County Total	304	7,978,744	0	0	314,763	3.95%	468,547	5.87%	\$1.33	(40,468)	(189,630)	47,453	301,867
Orange County Total	2,190	61,451,282	0	37,800	2,165,730	3.52%	3,539,243	5.76%	\$1.69	(4,627)	(657,293)	711,454	2,845,059
Airport Area													
10,000-24,999	515	8,384,578	0	0	201,501	2.40%	255,079	3.04%	\$1.82	(6,917)	(84,442)	79,651	323,127
25,000-49,999	161	5,359,774	0	37,800	229,301	4.28%	386,223	7.21%	\$1.99	35,023	(75,205)	75,355	226,134
50,000-99,999	51	3,362,779	0	0	116,805	3.47%	242,885	7.22%	\$1.72	(28,814)	27,133	75,409	176,468
100,000 Plus	16	2,544,115	0	0	0	0.00%	0	0.00%	\$0.00	16,035	0	35,786	35,786
North County													
10,000-24,999	322	5,159,314	0	0	168,606	3.27%	224,482	4.35%	\$1.62	(34,538)	(149,753)	57,125	271,356
25,000-49,999	120	3,964,197	0	0	65,171	1.64%	72,149	1.82%	\$1.54	(4,387)	(4,455)	37,296	180,520
50,000-99,999	30	1,940,650	0	0	80,422	4.14%	105,807	5.45%	\$1.46	1,908	(7,858)	23,217	69,094
100,000 Plus	18	3,055,902	0	0	81,337	2.66%	226,855	7.42%	\$0.00	(20,000)	(20,075)	47,076	99,470
South County													
10,000-24,999	384	6,402,794	0	0	311,946	4.87%	483,301	7.55%	\$1.72	(16,179)	(173,720)	89,188	311,686
25,000-49,999	194	6,457,816	0	0	402,272	6.23%	563,195	8.72%	\$1.78	(33,178)	(34,108)	141,947	628,007
50,000-99,999	62	4,130,558	0	0	134,234	3.25%	451,348	10.93%	\$1.72	391	(71,677)	1,951	75,062
100,000 Plus	13	2,710,061	0	0	59,372	2.19%	59,372	2.19%	\$0.00	126,497	126,497	0	146,482
West County													
10,000-24,999	212	3,393,904	0	0	132,457	3.90%	124,245	3.66%	\$1.34	(39,689)	(70,815)	29,973	195,468
25,000-49,999	61	2,085,729	0	0	54,082	2.59%	38,300	1.84%	\$1.32	(779)	7,809	17,480	98,056
50,000-99,999	28	1,941,923	0	0	0	0.00%	30,768	1.58%	\$1.40	0	1,600	0	8,343
100,000 Plus	3	557,188	0	0	128,224	23.01%	275,234	49.40%	\$0.00	0	(128,224)	0	0
Orange County													
10,000-24,999	1,433	23,340,590	0	0	814,510	3.49%	1,087,107	4.66%	\$1.70	(97,323)	(478,730)	255,937	1,101,637
25,000-49,999	536	17,867,516	0	37,800	750,826	4.20%	1,059,867	5.93%	\$1.82	(3,321)	(105,959)	272,078	1,132,717
50,000-99,999	171	11,375,910	0	0	331,461	2.91%	830,808	7.30%	\$1.70	(26,515)	(50,802)	100,577	328,967
100,000 Plus	50	8,867,266	0	0	268,933	3.03%	561,461	6.33%	\$0.00	122,532	(21,802)	82,862	281,738
Orange County Total	2,190	61,451,282	0	37,800	2,165,730	3.52%	3,539,243	5.76%	\$1.69	(4,627)	(657,293)	711,454	2,845,059

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



Off the Peak, But Not Over the Edge

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As we begin 2024, signs of an industrial market changing from only a year ago are ever so apparent. The frothy market conditions of recent years have been steadily pulling back. The decline in the unprecedented high values has been caused by various factors including rising inflation, the uncertain economy, the pressures of the first fed rate hike, then the second, then more hikes. Couple this with reduced consumer confidence, and something had to give—in this case more of an industrial slowdown than a complete crash.

Orange County’s industrial market still remains tight with a 2.6% vacancy rate, but we’ve seen demand begin to lessen, creating a market that is now softer than at the start of 2023. The pack leaders of the industrial run-up were predominantly e-commerce and logistics companies. It’s no wonder this segment of the market took off when consumers had money to spend and time to waste during the pandemic. With a steady stream of packages arriving at doorsteps countywide, it’s felt more like an extended Christmas than business as usual over the last few years. To satisfy this robust demand, new industrial developments sprang up throughout Orange County to the tune of more than 1.5 million square feet in 2022 and 3.5 million square feet in 2023. As Orange County is primarily a small-building market, these new developments between 100,000–250,000 square feet significantly raised the availability rate to 4.7%. However, in the range under 50,000 SF the market has remained fairly tight, with less rent movement but also less velocity. Renewals made up the majority of deal transactions as tenants preferred to “wait and see” what the market would bear in the months to follow.

In 2024, landlords, now facing less activity, are becoming more creative with tenant incentives, broker bonuses, and open houses to generate increased interest. New availabilities are sitting unoccupied for longer than three months on average, a big change from the zero to two months we were accustomed to over the last couple of years. Nevertheless, an infill market like Orange County, with a sustained imbalance between limited supply and new demand, will remain strong as we fight economic headwinds.

Orange County rent growth still outperformed the national average this quarter, and although pricing has softened and availability has increased, we don’t expect a sharp decline in transactions in 2024. Sales volume was significantly down this quarter--unsurprisingly a direct consequence of higher interest rates, tighter lending practices and wider bid-ask spreads. Investors have pumped the breaks on risky new developments but have actively been targeting well positioned assets with income in place to mitigate risk.

I’m optimistic for 2024. Lower interest rates and a narrowing of the bid-ask gap will help fuel additional deal volume for both lease and sale transactions.

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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