

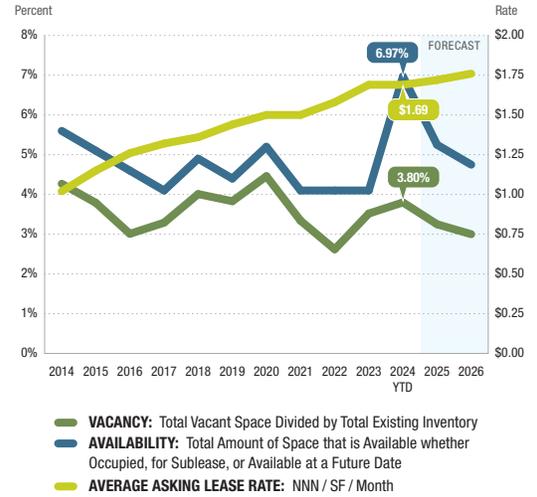
OVERVIEW. The Orange County R&D/Flex market remained remarkably stable in the first period. Vacancy and availability ticked up but remain under control. Average asking rents were flat. By square footage, lease and sale activity was down again, but transaction count moved up. Gross absorption was steady, but net absorption remained in negative territory. No R&D/Flex properties are in the construction queue and just a single small building is in the planning stages. The R&D/Flex market is a hybrid of the office and industrial product types and is currently outperforming both in terms stability. It should be noted that 42 buildings totaling 793,114 SF were reclassified to the office sector by our data aggregator in Q1. The new base inventory now stands at 60,658,168 SF.

VACANCY & AVAILABILITY. The overall vacancy rate in Orange County’s R&D/Flex market rose by 32 basis points to 3.80% in Q1, following a modest four-basis-point increase in the final quarter of 2023. This time last year the vacancy rate was 2.62%. The Greater Airport area experienced a significant, but unexpected 91-basis-point increase to 3.6% during the period, but we believe it was more of an anomaly than an indicator of a trend. Vacancy in South County, the largest submarket, fell by 22 basis points to just 4.39%. North County saw a four-basis-point rise, while West County, by far the smallest of the major submarkets, saw vacancy increase by 57 basis points, partly due to the reclassification of inventory as noted above. The overall availability rate, which includes sublease and occupied direct lease space, increased in Q1 to finish the period at 6.97%. Most of the increase in availability occurred in the West County submarket.

LEASE RATES. The average asking lease rate countywide was up by another penny to \$1.69 in Q1. Year over year, average asking rates have risen by \$0.11 or 6.96%. The Airport Area was unchanged at \$1.86, while the South County submarket, which includes the Irvine Spectrum with its higher concentration of quality space, declined by \$0.05 to \$1.73. West and North County rates were flat. As we noted last quarter, subtle quarter-to-quarter changes like these indicate a better balance between supply and demand in the R&D/Flex sector than in the office and industrial sectors.

TRANSACTION ACTIVITY. In Q1, the square footage leased and sold fell to 617,833 SF from 1,098,793 SF in Q4 of last year. However, leasing activity actually increased slightly to 582,483 SF from 551,140 SF in the previous quarter. In all, 214 lease transactions were completed, compared to 154 leases in Q4. Sale activity, however, came to a near halt. Only two buildings sold in the quarter compared to 16 in Q4. Those deals totaled just 35,350 SF as compared to 547,583 SF in the previous quarter. However, the first quarter often reflects a seasonal component in the decline of transaction count, as many buyers and sellers are motivated to close by the end of a tax year. The largest lease transaction in Q1 was a

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

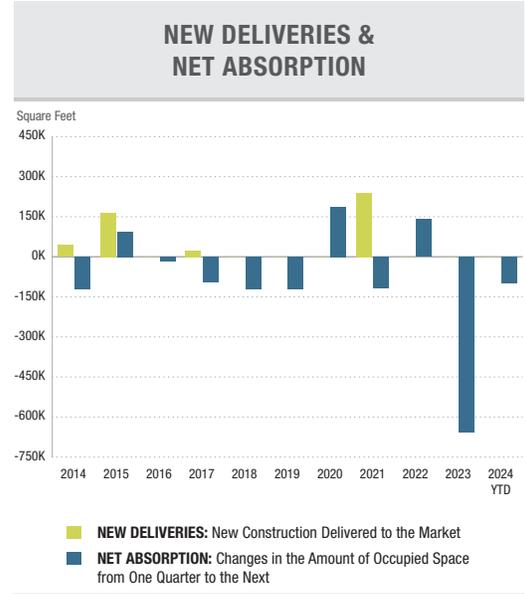
	Change Over Last Quarter	Q1 2024	Q4 2023	Q1 2023	% Change Over Last Year
Vacancy Rate	▲ UP	3.80%	3.48%	2.62%	45.28%
Availability Rate	▲ UP	6.97%	5.02%	4.96%	40.57%
Average Asking Lease Rate	▲ UP	\$1.69	\$1.68	\$1.58	6.96%
Sale & Lease Transactions	▼ DOWN	617,833	1,098,723	715,234	(13.62%)
Gross Absorption	▼ DOWN	762,550	807,162	720,307	5.86%
Net Absorption	▼ NEGATIVE	(98,612)	(52,614)	(81,003)	N/A

118,224 SF renewal to Fabcon Concepts from 1800 Saint Andrew LLC in Santa Ana. The largest sale of the quarter was a 19,800 SF property at 22481 Aspan Street in Lake Forest to Camino Health Center by Mission Hospital Regional Medical. The purchase price was \$7,800,000.

CONSTRUCTION. No R&D/Flex space is currently under construction and only one 37,000 SF building in Fountain Valley is in the planning stages. Current economic conditions are just not conducive to ground-up development and there is insufficient tenant demand for the product type to justify new deliveries. Also, land sites zoned for R&D/Flex product usually make more economic sense as multi-family, mixed-use or industrial product.

ABSORPTION. Net absorption, which measures the change in occupied space between periods, remains in slightly negative territory. The County experienced another decline of 98,612 SF in Q1 after a loss of 52,614 SF in Q4. On an inventory base of almost 61 MSF, these numbers are not significant, but net absorption has been in slightly negative territory for several consecutive quarters, which has contributed to a moderate increase in vacancy over the past year. In Q1, the entire decline in occupancy occurred in the Airport Area submarket (-159,058 SF). The West, North and South County markets all posted modest increases. While the transaction count was up in Q1, transaction size was unusually low.

EMPLOYMENT. Orange County’s unemployment rate held steady at 4.2% in February 2024, unchanged from January but higher than 3.4% a year earlier. Information (-1,500 jobs), manufacturing (-1,000), and professional services (-200) were the few sectors contracting year-over-year.



Forecast

The Orange County R&D/Flex market is still in good health. Supply and demand remain in balance, allowing modest rent growth for landlords and adequate choices for tenants in search of space. Lease activity in terms of square footage and total transactions is enough to keep negative net absorption from accelerating. However, sales activity has been heavily impacted by the rise in mortgage interest rates, which first hit in the second half of 2022. Without a significant decline in rates, sale activity will continue to languish, as investors needing leverage to acquire property will be squeezed out. Owners with long-term mortgages originated when rates were low are in a position to hold their assets, but those with maturing debt may not be able to refinance existing loans. So far, we have not seen a significant rise in distressed R&D/Flex assets, but that could change if rates remain at elevated levels over the next year or more. Some owners may opt to sell rather than face the refinancing challenge, which could boost sale activity. Leasing activity and rent growth should remain stable throughout the year. Vacancy will move up slowly and net absorption will hover near zero.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
22481 Aspan St.	Lake Forest	19,800	\$7,800,000	Camino Health Center	Mission Hospital Regional Medical
1940 Glassell St.	Orange	15,550	\$620,000	Eduardo Olivares & Reyna Vazquez	Kanne Real Estate Holdings LLC

Leases * Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1800 E. Saint Andrew Pl - Renewal	Santa Ana	118,224	Jan-2024	Fabcon Concepts	1800 Saint Andrew, LLC
704 W. Southern Ave.	Orange	17,151	Mar-2024	AC Pro Inc.	Castingstream, LLC*
2805 Barranca Pkwy.	Irvine	15,110	Mar-2024	Matrix Services	Thrifty Oil
15 Chrysler - Sublease	Irvine Spectrum	10,973	Jan-2024	Bio Essence Pharmaceutical	Dzyne Technology
721 N. Eckhoff St. - Renewal	Orange	10,000	Feb-2024	Nexus Brands Group	Turbo Data Systems

	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 2024	Square Feet Available	Availability Rate Q1 2024	Average Asking Lease Rate	Net Absorption Q1 2024	Net Absorption 2024	Gross Absorption Q1 2024	Gross Absorption 2024
Airport Area													
Costa Mesa	166	3,930,294	0	0	186,305	4.74%	240,453	6.12%	\$1.68	(61,854)	(61,854)	25,531	25,531
Fountain Valley	49	1,445,173	0	37,800	26,449	1.83%	32,762	2.27%	\$2.25	(1,175)	(1,175)	2,700	2,700
Irvine	237	6,276,544	0	0	262,102	4.18%	415,029	6.61%	\$2.10	(71,763)	(71,763)	44,054	44,054
Newport Beach	21	582,730	0	0	11,577	1.99%	16,015	2.75%	\$0.00	0	0	900	900
Santa Ana	173	4,300,047	0	0	125,318	2.91%	192,118	4.47%	\$1.61	532	532	49,726	49,726
Tustin	84	2,796,427	0	0	83,570	2.99%	103,417	3.70%	\$1.79	(24,798)	(24,798)	20,804	20,804
Airport Area Total	730	19,331,215	0	37,800	695,321	3.60%	999,794	5.17%	\$1.86	(159,058)	(159,058)	143,715	143,715
North County													
Anaheim	172	5,190,454	0	0	188,202	3.63%	188,991	3.64%	\$1.62	14,842	14,842	41,133	41,133
Brea	55	1,640,164	0	0	84,645	5.16%	96,018	5.85%	\$1.50	(10,034)	(10,034)	11,303	11,303
Buena Park	28	860,850	0	0	6,803	0.79%	11,506	1.34%	\$1.40	14,375	14,375	18,045	18,045
Fullerton	42	1,730,579	0	0	18,961	1.10%	25,123	1.45%	\$1.50	(4,378)	(4,378)	17,167	17,167
La Habra	12	247,791	0	0	7,947	3.21%	3,363	1.36%	\$0.00	1,739	1,739	9,619	9,619
Orange	96	2,098,960	0	0	49,728	2.37%	52,433	2.50%	\$1.79	(13,575)	(13,575)	33,894	33,894
Placentia	24	647,243	0	0	17,244	2.66%	17,984	2.78%	\$1.46	500	500	2,900	2,900
Yorba Linda	50	1,453,486	0	0	21,003	1.45%	164,345	11.31%	\$1.17	(2,170)	(2,170)	18,063	18,063
North County Total	479	13,869,527	0	0	394,533	2.84%	559,763	4.04%	\$1.35	1,299	1,299	152,124	152,124
South County													
Aliso Viejo	42	1,144,777	0	0	30,355	2.65%	58,944	5.15%	\$1.76	22,850	22,850	46,288	46,288
Foothill Ranch	8	273,620	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Irvine Spectrum	291	10,511,874	0	0	588,728	5.60%	1,396,755	13.29%	\$1.73	(30,954)	(30,954)	123,956	123,956
Laguna Hills	52	1,203,794	0	0	33,464	2.78%	31,243	2.60%	\$1.57	1,616	1,616	14,123	14,123
Laguna Niguel	18	882,718	0	0	6,745	0.76%	6,745	0.76%	\$0.00	4,318	4,318	4,318	4,318
Lake Forest	60	1,417,499	0	0	67,813	4.78%	89,729	6.33%	\$1.70	(9,920)	(9,920)	14,512	14,512
Mission Viejo	36	691,400	0	0	24,825	3.59%	25,847	3.74%	\$1.78	2,881	2,881	22,514	22,514
Rancho Santa Margarita	38	1,429,909	0	0	20,500	1.43%	56,558	3.96%	\$1.60	1,293	1,293	1,293	1,293
San Clemente	59	1,419,688	0	0	52,462	3.70%	72,455	5.10%	\$1.77	23,045	23,045	52,500	52,500
San Juan Capistrano	42	739,899	0	0	40,938	5.53%	45,473	6.15%	\$2.15	8,667	8,667	9,056	9,056
South County Total	646	19,715,178	0	0	865,830	4.39%	1,783,749	9.05%	\$1.73	23,796	23,796	288,560	288,560
West County													
Cypress	49	2,007,618	0	0	157,751	7.86%	375,130	18.69%	\$1.34	38,467	38,467	42,627	42,627
Garden Grove	60	1,634,116	0	0	28,024	1.71%	27,027	1.65%	\$1.53	11,331	11,331	23,800	23,800
Huntington Beach	124	2,650,642	0	0	37,644	1.42%	182,109	6.87%	\$1.55	(12,559)	(12,559)	15,777	15,777
La Palma	1	78,980	0	0	78,980	100.00%	78,980	100.00%	\$0.00	0	0	78,980	78,980
Los Alamitos	40	862,087	0	0	37,994	4.41%	127,458	14.78%	\$1.85	(2,187)	(2,187)	12,788	12,788
Stanton	3	68,350	0	0	4,261	6.23%	4,261	6.23%	\$0.00	1,299	1,299	4,179	4,179
Westminster	16	440,455	0	0	5,506	1.25%	88,025	19.99%	\$0.00	(1,000)	(1,000)	0	0
West County Total	293	7,742,248	0	0	350,160	4.52%	882,990	11.40%	\$1.33	35,351	35,351	178,151	178,151
Orange County Total	2,148	60,658,168	0	37,800	2,305,844	3.80%	4,226,296	6.97%	\$1.69	(98,612)	(98,612)	762,550	762,550
Airport Area													
10,000-24,999	507	8,226,425	0	0	275,696	3.35%	317,821	3.86%	\$1.91	(62,900)	(62,900)	103,182	103,182
25,000-49,999	156	5,196,706	0	37,800	307,767	5.92%	451,154	8.68%	\$1.94	(93,134)	(93,134)	33,874	33,874
50,000-99,999	52	3,468,969	0	0	111,858	3.22%	230,819	6.65%	\$1.72	(3,024)	(3,024)	6,659	6,659
100,000 Plus	15	2,439,115	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
North County													
10,000-24,999	314	5,025,584	0	0	168,486	3.35%	177,704	3.54%	\$1.59	(4,031)	(4,031)	86,793	86,793
25,000-49,999	116	3,830,791	0	0	67,922	1.77%	72,180	1.88%	\$1.55	(398)	(398)	28,601	28,601
50,000-99,999	31	1,981,774	0	0	78,989	3.99%	86,465	4.36%	\$1.48	3,353	3,353	27,100	27,100
100,000 Plus	18	3,031,378	0	0	79,136	2.61%	223,414	7.37%	\$0.00	2,375	2,375	9,630	9,630
South County													
10,000-24,999	376	6,279,974	0	0	279,050	4.44%	471,991	7.52%	\$1.74	(8,238)	(8,238)	130,823	130,823
25,000-49,999	193	6,460,271	0	0	373,086	5.78%	585,835	9.07%	\$1.73	52,122	52,122	146,369	146,369
50,000-99,999	62	4,157,527	0	0	154,322	3.71%	370,259	8.91%	\$1.69	(20,088)	(20,088)	11,368	11,368
100,000 Plus	15	2,817,406	0	0	59,372	2.11%	355,664	12.62%	\$0.00	0	0	0	0
West County													
10,000-24,999	204	3,263,636	0	0	90,649	2.78%	130,857	4.01%	\$1.42	31,608	31,608	74,407	74,407
25,000-49,999	59	2,025,009	0	0	52,307	2.58%	90,385	4.46%	\$1.32	3,743	3,743	24,764	24,764
50,000-99,999	27	1,899,405	0	0	78,980	4.16%	386,514	20.35%	\$1.40	0	0	78,980	78,980
100,000 Plus	3	554,198	0	0	128,224	23.14%	275,234	49.66%	\$0.00	0	0	0	0
Orange County													
10,000-24,999	1,401	22,795,619	0	0	813,881	3.57%	1,098,373	4.82%	\$1.73	(43,561)	(43,561)	395,205	395,205
25,000-49,999	524	17,512,777	0	37,800	801,082	4.57%	1,199,554	6.85%	\$1.77	(37,667)	(37,667)	233,608	233,608
50,000-99,999	172	11,507,675	0	0	424,149	3.69%	1,074,057	9.33%	\$1.70	(19,759)	(19,759)	124,107	124,107
100,000 Plus	51	8,842,097	0	0	266,732	3.02%	854,312	9.66%	\$0.00	2,375	2,375	9,630	9,630
Orange County Total	2,148	60,658,168	0	37,800	2,305,844	3.80%	4,226,296	6.97%	\$1.69	(98,612)	(98,612)	762,550	762,550

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



Riding Waves of Stability in the Shadow of Uncertainty

by **Ryan Osterkamp**

ASSOCIATE, IRVINE

949.263.5324 · rosterkamp@voitco.com · Lic. #02194839

We began 2024 with high hopes of lower interest rates and increased economic activity. But the first quarter of the year has challenged these aspirations and revived the thoughts and feelings from late 2023. Rent stability is evident in Orange County’s industrial market, however, with average asking lease rates remaining virtually unchanged quarter to quarter. Landlords and tenants alike are taking notice of the reality of increasing vacancy, resulting in landlords granting concessions of free rent and tenant improvement allowances.

Orange County has continued to add supply in the 50,000 to 200,000 square foot range, bringing heavy competition among landlords and revealing the waning demand in this size range. Landlords are being forced to get creative when it comes to marketing and lease structure as tenants have almost three times as many options to choose from as vacancy closes in on 5%. Operating expenses are beginning to play a pivotal role in the decision-making process for tenants as the county average moves closer to \$0.20–0.25 per square foot. Landlords who have held onto their properties through the last bull run are being rewarded with lower operating expenses to offer the prospective tenant pool.

Functionally obsolete buildings have taken, and will continue to take, the biggest hit when vacancy approaches today’s levels, with very few tenants willing to sacrifice their wants and needs for a reduced lease rate they can get elsewhere. Landlords, completely aware of this, have continued to hold firm on their asking lease rates in most cases and are only making reductions when tenant activity has completely dissipated. Concessions are becoming much more common in this area of the market.

Many planned buildings have completed construction in Q1 which will affect this quarter’s vacancy and availability numbers accordingly. Most of these projects stand between 50,000 and 150,000 square feet. Vacancy and availability will seem to have increased on paper, but the market remains tight below 50,000 square feet in Orange County. Time on market steadily climbed throughout 2023, and as vacancy continues its upward trend towards 5%.

Coming into 2024 many were ready to hit their optimistic red buttons to send interest rates falling. But as we round out Q1 of 2024, cautious optimism is at the forefront of decision-making for the second year in a row.

Please Contact Us for Further Information

Tony Tran
Regional Director of Research
ttran@voitco.com

Anaheim, CA
714.978.7880

Carlsbad, CA
760.472.5620

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Los Angeles, CA
424.329.7500

San Diego, CA
858.453.0505

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.

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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