

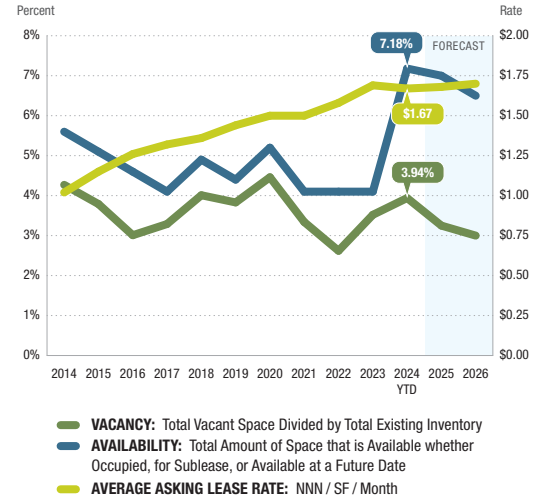
OVERVIEW. The Orange County R&D/Flex market has shown remarkable consistency for several years and its Q2 performance followed suit. Vacancy and availability inched higher. Average asking rents fell by two cents. By square footage, lease and sale activity moved up, but transaction count posted a slight decline. Gross absorption was up, but net absorption fell just below the zero line. No R&D/Flex properties are in the construction queue. What little there is in the planning phase is still confined to the Airport Area submarket. As we reported last period, the hybrid R&D/Flex market is outperforming the office and industrial product types in terms of consistency.

VACANCY & AVAILABILITY. The overall vacancy rate in Orange County's R&D/Flex market rose by 23 basis points to 3.94% in Q2, following a 35-basis-point increase in the first quarter. Year-over-year vacancy has risen by just 89 basis points. North County saw a 32-basis-point drop, while West County endured an increase of 261 basis points to end the period with a vacancy rate of 7.13%. This was mainly due to two major move-outs in the city of Cypress. The Social Security Administration moved out of 81,504 square feet on Chip Avenue and Faurecia vacated a 53,288 SF space on Gateway Drive. We see this as an anomaly rather than a trend. The overall availability rate increased 21 basis points in Q2 to finish the quarter at 7.18%.

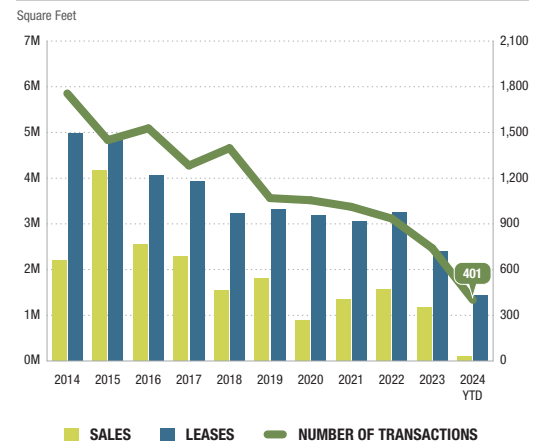
LEASE RATES. The average asking lease rate countywide fell by \$0.02 to \$1.67 in Q2, which is exactly where it was a year ago. The Airport Area submarket notched a decline of \$0.16 to finish the period at \$1.73, while the South County submarket, which includes the Irvine Spectrum with its higher concentration of quality space, rose by \$0.04 to \$1.77. North County fell \$0.03 to \$1.35. West County rates were up \$0.24 to \$1.57. Significant swings in submarkets with smaller base inventories like West County are not uncommon, as buildings coming vacant vary in quality and a single vacancy can have an outsized impact on the overall asking rate.

TRANSACTION ACTIVITY. In Q2, the square footage leased and sold moved sharply higher after a decline in Q1. The quarter ended with 912,510 SF leased and sold, up from 602,125 SF in the first quarter. However, total transaction count fell from 218 in Q1 to 183 in Q2. Four buildings were sold in Q2, up from just a single sale in the first period. Two major lease transactions helped boost the square footage gain: Cryogenic Industries, Inc. leased 147,010 SF on Bolsa Avenue in Huntington Beach, and Eaton Aerospace renewed 140,630 SF from the Irvine Company on Jeronimo Road in the Irvine Spectrum. The largest sale of the quarter was a 29,659 SF property at 7602 Talbert Avenue in Huntington Beach. The purchase price was \$5,783,500.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



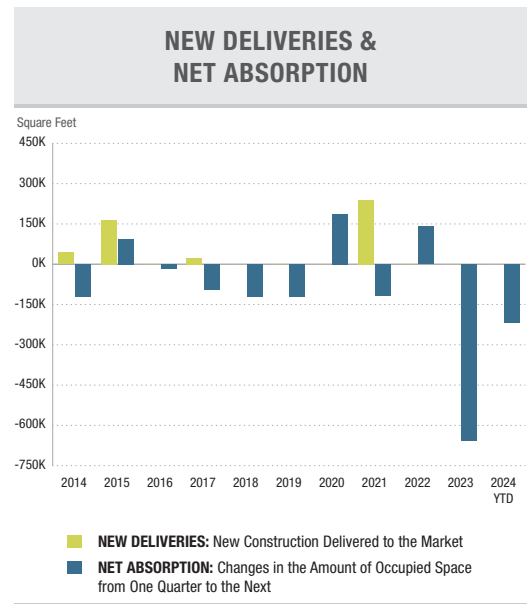
Market Statistics

	Change Over Last Quarter	Q2 2024	Q1 2024	Q2 2023	% Change Over Last Year
Vacancy Rate	▲ UP	3.94%	3.71%	3.05%	29.07%
Availability Rate	▲ UP	7.18%	6.97%	5.09%	41.11%
Average Asking Lease Rate	▼ DOWN	\$1.67	\$1.69	\$1.67	0.00%
Sale & Lease Transactions	▲ UP	912,510	602,125	850,940	7.24%
Gross Absorption	▲ UP	825,607	762,550	698,418	18.21%
Net Absorption	▼ NEGATIVE	(119,075)	23,796	(316,565)	N/A

ABSORPTION. Net absorption (the change in occupied space between periods) remained negative in Q2. The County had a net loss of 119,075 SF after a decline of 98,612 SF in Q1. On an inventory base of almost 61 MSF, these numbers do not present a significant threat. The loss in Q2 was concentrated in West County with two significant move-outs in Cypress occurring at the same time. The Airport Area submarket actually posted a modest 97,322 SF net gain. North County recorded a small gain of 7,564 SF, while South County, the largest of the county’s submarkets, posted a slight decline of 22,075 SF.

CONSTRUCTION. No R&D/Flex space is currently under construction, but 225,579 SF of space is in the planning queue, all of it in the Airport Area submarket. High interest rates, land scarcity and uncertain economic conditions make ground-up development difficult to justify. Also, as we have previously reported, land sites zoned for R&D/Flex product make greater economic sense as multi-family, mixed-use or industrial product because of opportunities for rent growth.

EMPLOYMENT. Orange County’s unemployment rate decreased to 3.2% in May 2024, down from 3.7% in April 2024. The construction sector showed promise, adding 1,200 jobs. Other sectors contributing to the employment increase included trade, transportation, and utilities (1,000 jobs).



Forecast

The Orange County R&D/Flex market is the steadiest of all product types and we expect that to remain the case for the foreseeable future. Supply and demand remain in relative balance, which will continue to moderate rent growth. Tenants in need of quality space are not being priced out of the market like their industrial counterparts have been for over a decade. Lease activity is adequate to keep net absorption bouncing back and forth across the zero line. Sales activity will continue to suffer from elevated mortgage interest rates, which are expected to remain in their current range at least through the end of the year. There is some additional risk for property owners who are facing loan maturity under current conditions, as bank underwriting is getting tougher. Some owners may opt to sell rather than face the refinancing challenge, which could boost sale activity going forward.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
7602 Talbert Ave. - 2 Bldgs.	Huntington Beach	29,659	\$5,783,500	Lat20 LLC	David A Johnson & Geri A Johnson
18071 Fitch Ave.	Irvine	26,434	\$7,700,000	Goodwood LLC	Manuchehr Khoshbin Revocable

* Voit Real Estate Services Deal

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
5701 Bolsa Ave.	Huntington Beach	147,010	Jun-2024	Cryogenic Industries, Inc.	Citation II LLC
9650 Jeronimo Rd.	Irvine Spectrum	140,630	Apr-2024	Eaton Aerospace, LLC	The Irvine Company
26776 Simpatica Cir.	Lake Forest	61,622	Jun-2024	PVP Advanced EO Systems Inc.	Simpatica Holdings
9201 Jeronimo Rd.	Irvine Spectrum	60,086	May-2024	Imes Vision LLC	Battaglia Inc.
17595 Cartwright Rd.	Irvine	25,841	May-2024	FAAC*	Link Industrial

	INVENTORY				VACANCY & LEASE RATES				ABSORPTION				
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q2 2024	Square Feet Available	Availability Rate Q2 2024	Average Asking Lease Rate	Net Absorption Q2 2024	Net Absorption 2024	Gross Absorption Q2 2024	Gross Absorption 2024
Airport Area													
Costa Mesa	166	3,930,294	0	0	206,591	5.26%	316,836	8.06%	\$1.70	14,904	(46,950)	42,251	67,782
Fountain Valley	49	1,445,173	0	37,800	26,774	1.85%	46,562	3.22%	\$0.00	(325)	(1,500)	21,175	23,875
Irvine	237	6,276,544	0	187,779	155,807	2.48%	342,969	5.46%	\$1.89	97,596	25,833	131,288	175,342
Newport Beach	21	582,730	0	0	18,890	3.24%	18,890	3.24%	\$0.00	(7,313)	(7,313)	2,500	3,400
Santa Ana	173	4,300,047	0	0	165,322	3.84%	179,619	4.18%	\$1.63	(3,779)	(3,247)	32,068	81,794
Tustin	84	2,796,427	0	0	85,003	3.04%	120,723	4.32%	\$1.57	(3,761)	(28,559)	25,783	46,587
Airport Area Total	730	19,331,215	0	225,579	658,387	3.41%	1,025,599	5.31%	\$1.73	97,322	(61,736)	255,065	398,780
North County													
Anaheim	172	5,190,454	0	0	135,747	2.62%	175,491	3.38%	\$1.62	25,039	39,881	47,368	88,501
Brea	55	1,640,164	0	0	78,255	4.77%	88,285	5.38%	\$1.50	6,390	(3,644)	18,586	29,889
Buena Park	28	860,850	0	0	7,296	0.85%	13,877	1.61%	\$0.00	(493)	13,882	4,746	22,791
Fullerton	42	1,730,579	0	0	20,971	1.21%	19,120	1.10%	\$1.50	(6,690)	(11,068)	8,961	26,128
La Habra	12	247,791	0	0	6,988	2.82%	6,988	2.82%	\$0.00	(2,581)	(842)	1,980	11,599
Orange	96	2,098,960	0	0	53,329	2.54%	55,700	2.65%	\$1.76	(4,909)	(18,484)	16,827	50,721
Placentia	24	647,243	0	0	26,429	4.08%	28,369	4.38%	\$1.47	(9,185)	(8,685)	18,000	20,900
Yorba Linda	50	1,453,486	0	0	21,010	1.45%	167,397	11.52%	\$1.16	(7)	(2,177)	12,511	30,574
North County Total	479	13,869,527	0	0	350,025	2.52%	555,227	4.00%	\$1.35	7,564	8,863	128,979	281,103
South County													
Aliso Viejo	42	1,144,777	0	0	41,244	3.60%	105,932	9.25%	\$1.78	(12,293)	10,557	10,165	56,453
Foothill Ranch	8	273,620	0	0	0	0.00%	49,415	18.06%	\$0.00	0	0	0	0
Irvine Spectrum	291	10,511,874	0	0	564,188	5.37%	1,516,623	14.43%	\$1.77	(32,131)	(63,085)	176,210	300,166
Laguna Hills	52	1,203,794	0	0	21,588	1.79%	32,836	2.73%	\$1.67	10,063	11,679	15,805	29,928
Laguna Niguel	18	882,718	0	0	6,745	0.76%	6,745	0.76%	\$0.00	0	4,318	0	4,318
Lake Forest	60	1,417,499	0	0	51,960	3.67%	48,859	3.45%	\$1.69	17,714	7,794	31,862	46,374
Mission Viejo	36	691,400	0	0	24,762	3.58%	27,443	3.97%	\$1.78	63	2,944	4,612	27,126
Rancho Santa Margarita	38	1,429,909	0	0	46,127	3.23%	94,432	6.60%	\$1.66	(25,627)	(24,334)	0	1,293
San Clemente	59	1,419,688	0	0	41,681	2.94%	80,048	5.64%	\$1.77	10,781	33,826	31,030	83,530
San Juan Capistrano	42	739,899	0	0	31,583	4.27%	50,640	6.84%	\$2.15	9,355	18,022	14,573	23,629
South County Total	646	19,715,178	0	0	829,878	4.21%	2,012,973	10.21%	\$1.77	(22,075)	1,721	284,257	572,817
West County													
Cypress	49	2,007,618	0	0	299,374	14.91%	383,721	19.11%	\$1.56	(141,623)	(103,156)	8,852	51,479
Garden Grove	60	1,634,116	0	0	23,568	1.44%	18,163	1.11%	\$0.00	4,456	15,787	11,906	35,706
Huntington Beach	124	2,650,642	0	0	41,291	1.56%	57,430	2.17%	\$1.60	(3,647)	(16,206)	32,993	48,770
La Palma	1	78,980	0	0	78,980	100.00%	78,980	100.00%	\$0.00	0	0	78,980	157,960
Los Alamitos	40	862,087	0	0	46,675	5.41%	133,869	15.53%	\$1.85	(8,681)	(10,868)	12,581	25,369
Stanton	3	68,350	0	0	1,479	2.16%	6,679	9.77%	\$0.00	2,782	4,081	3,608	7,787
Westminster	16	440,455	0	0	60,679	13.78%	83,079	18.86%	\$0.00	(55,173)	(56,173)	8,386	8,386
West County Total	293	7,742,248	0	0	552,046	7.13%	761,921	9.84%	\$1.57	(201,886)	(166,535)	157,306	335,457
Orange County Total	2,148	60,658,168	0	225,579	2,390,336	3.94%	4,355,720	7.18%	\$1.67	(119,075)	(217,687)	825,607	1,588,157
Airport Area													
10,000-24,999	507	8,226,425	0	0	225,308	2.74%	365,187	4.44%	\$1.79	52,737	(10,163)	140,032	243,214
25,000-49,999	156	5,196,706	0	37,800	341,379	6.57%	390,546	7.52%	\$1.75	35,170	(57,964)	69,379	103,253
50,000-99,999	52	3,468,969	0	78,837	91,700	2.64%	269,866	7.78%	\$1.50	9,415	6,391	45,654	52,313
100,000 Plus	15	2,439,115	0	108,942	0	0.00%	0	0.00%	\$0.00	0	0	0	0
North County													
10,000-24,999	314	5,025,584	0	0	143,790	2.86%	190,979	3.80%	\$1.61	19,993	15,962	98,333	185,126
25,000-49,999	116	3,830,791	0	0	65,590	1.71%	73,111	1.91%	\$1.54	897	499	25,851	54,452
50,000-99,999	31	1,981,774	0	0	87,975	4.44%	92,220	4.65%	\$0.00	(12,526)	(9,173)	1,980	29,080
100,000 Plus	18	3,031,378	0	0	52,670	1.74%	198,917	6.56%	\$0.00	(800)	1,575	2,815	12,445
South County													
10,000-24,999	376	6,279,974	0	0	284,905	4.54%	494,487	7.87%	\$1.75	(3,994)	(12,232)	92,303	223,126
25,000-49,999	193	6,460,271	0	0	402,037	6.22%	598,497	9.26%	\$1.78	(84,371)	(32,249)	110,308	256,677
50,000-99,999	62	4,157,527	0	0	83,564	2.01%	619,325	14.90%	\$0.00	66,290	46,202	81,646	93,014
100,000 Plus	15	2,817,406	0	0	59,372	2.11%	300,664	10.67%	\$0.00	0	0	0	0
West County													
10,000-24,999	204	3,263,636	0	0	90,486	2.77%	115,985	3.55%	\$1.43	163	31,771	64,235	138,642
25,000-49,999	59	2,025,009	0	0	59,895	2.96%	131,198	6.48%	\$1.32	(7,588)	(3,845)	14,091	38,855
50,000-99,999	27	1,899,405	0	0	273,441	14.40%	386,514	20.35%	\$0.00	(194,461)	(194,461)	78,980	157,960
100,000 Plus	3	554,198	0	0	128,224	23.14%	128,224	23.14%	\$0.00	0	0	0	0
Orange County													
10,000-24,999	1,401	22,795,619	0	0	744,489	3.27%	1,166,638	5.12%	\$1.72	68,899	25,338	394,903	790,108
25,000-49,999	524	17,512,777	0	37,800	868,901	4.96%	1,193,352	6.81%	\$1.74	(55,892)	(93,559)	219,629	453,237
50,000-99,999	172	11,507,675	0	78,837	536,680	4.66%	1,367,925	11.89%	\$1.70	(131,282)	(151,041)	208,260	332,367
100,000 Plus	51	8,842,097	0	108,942	240,266	2.72%	627,805	7.10%	\$0.00	(800)	1,575	2,815	12,445
Orange County Total	2,148	60,658,168	0	225,579	2,390,336	3.94%	4,355,720	7.18%	\$1.67	(119,075)	(217,687)	825,607	1,588,157

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

Midpoint OC Industrial Rundown
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As we reach the halfway point of 2024, we continue to see various economic factors apply pressure on the Orange County industrial market, even though it remains one of the tightest and most competitive markets in the nation. Economic analysts led us to believe that interest rates were going to drop in the latter part of the year, but the Federal Reserve has not conformed to the prognostications. As a result, the stagnant and high interest rates have sent demand lower than in recent years and buildings are sitting on the market longer than they have in the past.

Additionally, average asking lease rates and market competition among lessees are trending downward, only increasing negotiability and landlord concessions for tenants across the board, including rent abatement and tenant improvement allowances. Both institutional and private investors see opportunity through a lens colored by inflation and as a result are more cautious in their underwriting. However, we are still seeing highly functional and reasonably priced buildings moving relatively quickly with the right marketing approach.

Developers are constantly looking for less risky opportunities to expand their portfolio within Orange County, as they remain confident in the long-term growth of the industrial sector and the population's reliance on warehouse space. Proximity to the ports and access to millions of people in Southern California support future progress.

One potential factor to consider looking forward is that owners of businesses and/or commercial property are wary of the potential for tax hikes after the November elections, whether on the corporate, capital gains, or estate tax fronts. As the government's deficit increases, many politicians see tax increases as a potential source of additional revenue, which could have material effects on institutional investors and owner/users looking to dispose of or trade their assets.

Optimism is still in the air when it comes to market stability in the industrial sector in Orange County. Buildings are trading at near peak levels and activity may be picking up. Long-term strategic planning is more important right now than ever, so please give us a call to further discuss the Orange County Industrial Market.

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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