

**1.2%**  
Vacancy Rate



**630.1K**  
Net Absorption, SF



**\$1.61**  
Asking Rent, PSF



Overall, Net Asking Rent

### ECONOMIC INDICATORS Q4 2022

**1.7M**  
Orange County Employment



**2.8%**  
Orange County Unemployment Rate



**3.7%**  
U.S. Unemployment Rate



Source: BLS

### ECONOMIC OVERVIEW

Total nonfarm employment in Orange County (OC) grew by 73,100 or +4.5% year-over-year (YOY) between November 2021 through November 2022, with the leisure and hospitality sector accounting for the most significant gains or 24,800 jobs added (+12.3% YOY). Employment sectors driving demand for industrial space, such as the manufacturing sector added 6,400 jobs (+4.3% YOY), followed by wholesale trade up 2,900 jobs (+3.9% YOY). The transportation and warehousing sector added 900 jobs (+2.8% YOY). During the same time, the monthly unemployment rate decreased from 4.1% to 3.0% and is currently 20 basis points (bps) above the quarterly average of 2.8%.<sup>1</sup> All employment sectors are expected to grow at a combined rate of 1.0% in 2023 and 1.3% in 2024. The annual unemployment rate is forecasted to decrease from 4.8% in 2022 to 4.6% in 2023 and 4.5% in 2024.<sup>2</sup>

After handling a record-breaking amount of cargo in 2021, port activity dropped off in 2022, especially during the second half of the year. Through November 2022, the Port of Los Angeles and the Port of Long Beach handled 8.7 million Twenty-Foot Equivalent Units (TEUs) combined of imports, a 6.5% drop YOY.<sup>3</sup> Part of the decline in imports can be attributed to the continuing ILWU-PMA labor contract negotiations. Fears of a strike by the ILWU had led many shippers to divert their cargo to ports along the Gulf and East Coasts. In turn, this led to the Port of Los Angeles being overtaken as the busiest port in North America, a title the port had held for the past 22 years.

### SUPPLY AND DEMAND

The Orange County (OC) industrial market continued to add to its previous successes in 2022. The OC industrial vacancy rate dropped 10 bps QOQ and 10 bps YOY to 1.2%, matching its low point back in Q3 2021. The vacancy rate has remained steady throughout the past five years, briefly touching a high of 2.5% in Q1 2019 but has been sub-2.0% for the past nine quarters. The market registered 630,100 sf of net absorption throughout the fourth quarter. The largest quarterly occupancy gains came from Cambro Manufacturing moving into their brand-new 433,000-sf building in Huntington Beach. Cambro Manufacturing pre-leased this building over a year ago, and the building was delivered this quarter. Other large occupancy gains in the fourth quarter came from Knight-Swift taking 126,681 sf in Brea and Woodbridge Glass moving into 124,948 sf in Santa Ana.

Over the past three years, OC has only yielded three-quarters of negative net absorption leading to a historically tight market. Meanwhile, the total availability rate currently stands at 2.0%, down 10 bps YOY and 110 bps lower than the five-year average of 3.1%. Available sublease space remained scarce with only 0.2% of the market available for sublease at the end of the year.

### SPACE DEMAND / DELIVERIES



### OVERALL VACANCY / ASKING RENT



The tight vacancy rate and lack of available space in OC have hampered leasing activity throughout 2022. In the fourth quarter, new leasing activity totaled 1.4 million square feet (msf) (69 deals) a 57.0% drop from the third quarter's 3.2 msf (147 deals). Looking at 2022 as a whole shows a better picture as new leasing activity totaled 9.4 msf across 522 deals in 2022, only a 17.1% drop YOY from 2021's 11.4 msf (794 deals). Throughout 2022, Fullerton was the most active submarket, accounting for 18.9% or 1.8 msf of all new leasing activity, followed by Anaheim accounting for 15.7% or 1.5 msf. As new leasing activity was down due to a lack of supply, tenants with expiring leases were more likely to renew, and as such renewal activity has been robust. At 4.8 msf, total renewals in 2022 have increased 47.9% YOY.

### PRICING

The continued lack of available space on the market has encouraged landlords to keep pushing rents higher. The overall average asking rent in OC has grown for nine consecutive quarters ending the year at \$1.61 per square foot (psf) per month on a triple net basis, a 16.0% increase annually. As the main driver of rental growth in this business cycle, warehouse and distribution product is the most expensive industrial space type, recording an increase of 39.0% YOY with an average rate of \$1.77 psf per month.

### FUTURE INVENTORY

At the end of 2022, there were 17 buildings under construction in OC for a total of 3.3 msf. Every building is being built on a speculative basis. However, the risk of OC becoming flooded with newly built vacant facilities is quite low. This much-needed supply is getting snatched up as 51.0% of the square footage under construction has already been pre-leased and of the product expected to deliver in the first quarter of 2023, 74.5% has tenant commitments in place. If this trend continues, OC will continue to be in desperate need of a new supply to placate its red-hot demand. North Orange County is the most active market with 62.4% of all OC industrial square footage under construction, due in large part to the 1.5 msf Goodman Logistics Center in Fullerton.

### SALES ACTIVITY

The OC industrial market seemed to be greatly affected by the rise in interest rates in the fourth quarter. OC recorded \$518.2 million in sales activity in Q4 2022 compared to \$1.1 billion from Q3 2022 and \$1.0 billion in Q4 2021. In total, sales activity for the year was down 17.1% to \$2.5 billion. Although sales volume slowed, the average price psf continued to rise to \$374 psf, up 6.9% QOQ and 21.2% YOY. As the rate hikes implemented by the Federal Reserve work their way through the economy and potentially more hikes follow suit, it is reasonable that sales activity would dampen further over the coming quarters.<sup>4</sup>

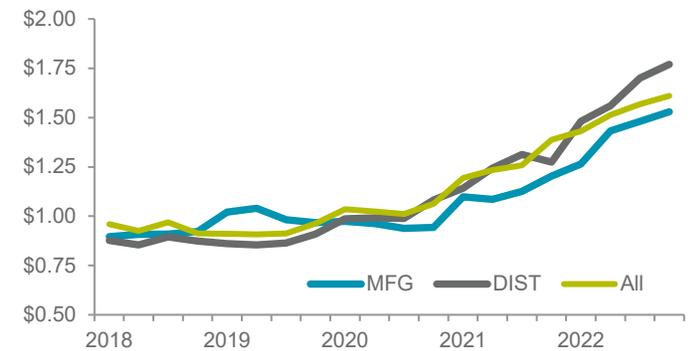
### OUTLOOK

- Import volumes at the San Pedro Complex have slowed in 2022 but remain near all-time highs. As a large driver of demand in the OC industrial market, a large drop in port activity could cool the overall market.
- The fundamentals of OC's industrial market remain strong and while there is chatter about a potential recession in the coming year, the biggest impact right now is coming from OC's own supply constraints leading to sky-high rents that may end up pricing many tenants out of the market.

### NEW LEASING ACTIVITY



### AVERAGE MONTHLY ASKING RENT \$PSF MONTHLY NNN



### UNDER CONSTRUCTION BY SF



### MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	YTD CNSTR COMPLETIONS (SF)	AVERAGE ASKING OVERALL RENT (MFG)	AVERAGE ASKING OVERALL RENT (W/D)	AVERAGE ASKING OVERALL RENT (ALL TYPES)*
North County	109,350,818	29,107	1,019,051	1.0%	-2,133	-183,758	2,074,356	177,160	\$1.53	\$2.04	\$1.59
West County	39,668,574	1,755	772,886	2.0%	530,530	636,496	580,351	433,865	\$1.54	\$1.74	\$1.55
Greater Airport Area	74,129,053	4,283	801,324	1.1%	201,505	770,989	570,135	219,827	\$1.52	\$1.58	\$1.67
South County	36,445,238	219,275	343,594	1.5%	-99,802	346,397	99,638	145,000	\$1.62	\$1.59	\$1.65
R&D	24,174,125	176,804	596,004	3.2%	-197,901	26,693	0	0			\$1.59
MFG	88,423,399	30,872	815,029	1.0%	125,878	-6,939	0	0			\$1.53
FLEX	18,596,095	16,844	593,067	3.3%	12,986	108,041	0	0			\$1.52
W/D	128,400,064	29,900	932,755	0.8%	689,137	1,442,329	3,324,480	975,852			\$1.77
<b>OC TOTALS</b>	<b>259,593,683</b>	<b>254,420</b>	<b>2,936,855</b>	<b>1.2%</b>	<b>630,100</b>	<b>1,570,124</b>	<b>3,324,480</b>	<b>975,852</b>	<b>\$1.53</b>	<b>\$1.77</b>	<b>\$1.61</b>

\*Rental rates reflect weighted triple net asking \$psf/month. \*\*Renewals not included in leasing statistics.

Flex/R&D, MFG = Manufacturing, W/D = Warehouse/Distribution

### KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
14350 Myford Rd.	Greater Airport Area	La Jolla Group, Inc	147,136	Renewal**
601-605 W. Dyer Rd.	Greater Airport Area	Shinoda Design Center	135,371	Renewal**
1225 W. Imperial Hwy.	North County	Hayes Company (Knight-Swift)	126,681	Direct
230 W. Blueridge Ave.	Greater Airport Area	Terra Universal Inc	108,222	Direct
3300 E. Birch St.	North County	Whynter	106,969	Renewal**

### KEY SALES TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
14451 Myford Rd.	Greater Airport Area	Panattoni / Principal Global Investors	219,827	\$142.0M / \$646
350 Ranger Ave.	North County	350 Ranger Associates / 350 Ranger LP	137,132	\$17.5M / \$128
6259 Descanso Ave.	North County	Boarsk Leasing LLC / Fortress Investment Group	54,000	\$20.0M / \$370
32705 Via Del Rio	North County	Via Del Rio LLC / Tumon Bay Resort & Spa LLC	34,925	\$14.0M / \$401
4012 W. Garry Ave.	Greater Airport Area	Strausser Commercial Holdings LLC / Blower-Dempsey Corp.	34,384	\$12.5M / \$364

### KEY PROJECTS UNDER CONSTRUCTION 2022

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER
Goodman Logistics Center Fullerton	North County	Sprouts, Confidential Tenant	1,536,055	Goodman
Huntington Gateway – Ph. II	West County	Epson America	580,351	Sares Regis
2872 E. La Palma Ave.	North County	N/A	187,520	Duke Realty

