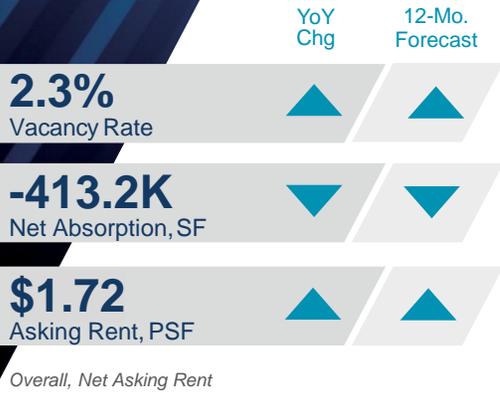


# ORANGE COUNTY

## Industrial Q3 2023



### ECONOMIC OVERVIEW

Total nonfarm employment in Orange County (OC) grew by 42,700 or +2.6% year-over-year (YOY) between August 2022 and August 2023. The trade, transportation and utilities sector fueled job growth, adding 5,200 jobs (+2.0% YOY), followed by the manufacturing sector with a gain of 1,900 jobs (+1.2% YOY). During the same time, the monthly unemployment rate increased from 3.2% last year to 3.9% and is currently 60 basis points (bps) above the quarterly average of 3.3%.<sup>1</sup> The recovery from the 272,300 nonfarm job losses experienced between March and May 2020 has been completed, with 296,300 jobs fully recovered between June 2020 and August 2023. All employment sectors are forecasted to grow at a combined growth rate of 1.9% in 2023 and 1.5% in 2024 compared to the 5-year historical average of 0.5%.<sup>2</sup>

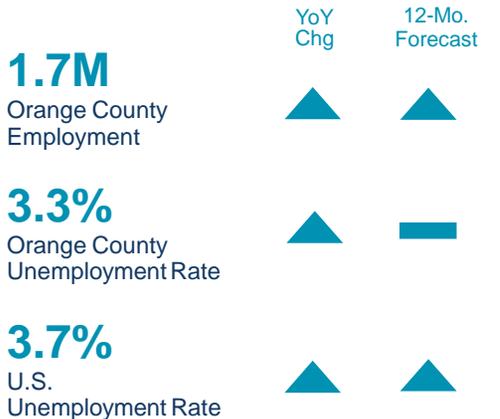
Through August 2023, the Port of Los Angeles and the Port of Long Beach accounted for 5.3 million Twenty-Foot Equivalent Units (TEUs) combined of loaded imports, a 23.1% drop YOY.<sup>3</sup> Advanced estimates of U.S. retail and food services sales for August 2023 were \$697.6 billion, up 0.6% from the previous month and up 2.5% YOY. E-commerce sales totaled \$277.6 billion, an increase of 2.1% quarter-over-quarter (QOQ) and 7.5% YOY, with the e-commerce share of total retail sales declining from its peak of 16.5% in Q2 2020 to 15.4% in Q2 2023.<sup>4</sup> Consumer spending habits may shift downward as economic uncertainty impacts the broader region and nation.

### SUPPLY AND DEMAND

The overall vacancy rate in the OC industrial market increased for the third consecutive quarter, rising by 30 bps QOQ and 110 bps YOY to 2.3%, the highest rate since Q2 2019. Overall net absorption was negative for the second quarter in a row, with tenants returning a net 413,200 square feet (sf) in Q3. Combined with Q2 2023, occupancy losses totaled 891,000 sf over these past two quarters. So far, throughout 2023, the Greater Airport Area has led the market in occupancy losses with 714,300 sf for the year. Conversely, North County was the only submarket to post a drop in vacancy QOQ, down 10 bps due in part to the largest move-in of the quarter, Taomore Supply Chain Services taking 110,696 sf in Buena Park.

The rise in the vacancy rate was also propelled by new construction completions delivering vacant. Pre-leasing of under-construction buildings has slowed down considerably. The OC industrial market registered 347,310 sf of construction completions in Q3 2023, all delivered vacant. Of the 748,701 sf that is scheduled to be completed by the end of 2023, all have yet to be pre-leased. Only one building currently under construction and expected to deliver in Q1 2024 has been pre-leased, leaving 94.7% of all the new inventory without tenant commitments. If this trend continues, the delivery of new, vacant inventory will continue to add upward pressure on the vacancy rate.

### ECONOMIC INDICATORS Q3 2023



Source: BLS

### SPACE DEMAND / DELIVERIES



### OVERALL VACANCY / ASKING RENT



The amount of available space continued to climb in OC. In Q3 2023, 1.1 million square feet (msf) of available space was added to the market from the previous quarter, bringing the total available space to 9.2 msf, which is the most space on the market since Q2 2020. Direct available space continued to increase, but available sublease space dropped for the first time in five quarters. New sublease space decreased by nearly 55,000 sf to 1.9 msf but is still up 221.0% from 589,000 sf a year ago. New leasing activity slowed in Q3 2023, with just under 1.6 msf leased during the quarter. This represents a 7.0% decrease QOQ and a significant drop of 51.6% YOY. Over the first three quarters, leasing totaled 4.8 msf, the lowest year-to-date total on record. The decline in leasing activity affected both new leases as well as renewals. Although the three largest leases of the quarter were renewals, renewal activity still dropped 19.7% QOQ.

### PRICING

The rapid growth in asking rents slowed down in the third quarter. The overall average asking rate in OC increased to \$1.72 per square foot (psf) per month on a triple net basis. This represented a QOQ rise of \$0.01 psf (+0.6%) and a YOY increase of \$0.15 psf (+9.6%). For warehouse and distribution buildings, which comprise the majority (50.8%) of industrial inventory in OC, the average asking rate decreased by \$0.02 psf (-1.1%) QOQ to \$1.81 psf. This is also a \$0.10 surge (+5.8%) from a year ago.

### FUTURE INVENTORY

At the end of Q3 2023, there were 17 buildings under construction in OC, totaling just under 1.8 msf. All these buildings are being constructed on a speculative basis, with only one building pre-leased so far. However, as the completion of these buildings draws nearer, it is expected that more pre-leasing activity will occur. Some developers are waiting for a tenant-in-tow before breaking ground on future projects. So far through 2023, 2.7 msf of new construction was added to the market – the highest amount in at least the past five years.

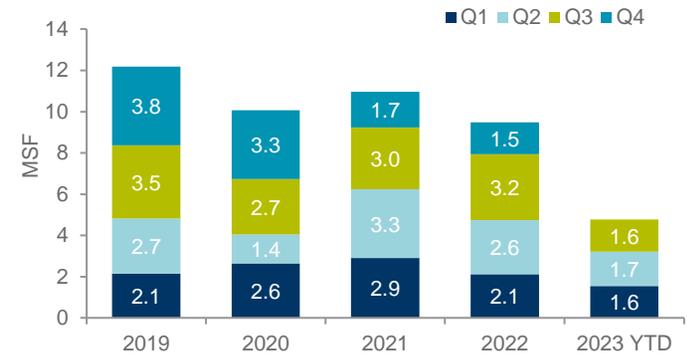
### SALES ACTIVITY

Sales activity decreased in Q3 2023, dropping 16.6% QOQ and 72.0% YOY to \$285.7 million. Consequently, the average price psf fell by 5.1% QOQ and is down 10.9% YOY, from \$337 to \$300 psf in Q3 2023. The average capitalization rate increased by 60 bps QOQ and 180 bps YOY to 5.4%.<sup>5</sup> As inflation remains sticky, the Federal Reserve is expected to keep rates higher for longer. It may continue to hike the federal funds rate, which would continue to affect sales activity negatively.

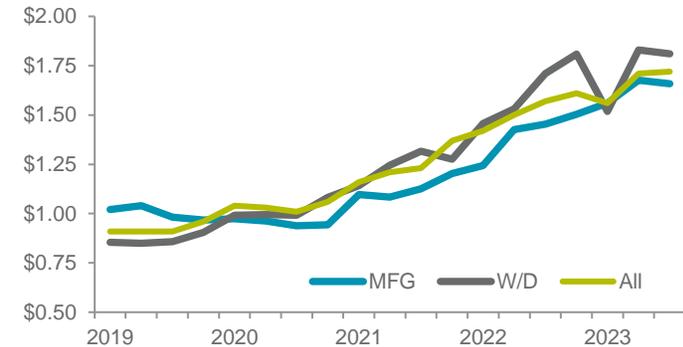
### OUTLOOK

- The labor agreement between the ILWU and PMA has been ratified, bringing stability to the Ports of Los Angeles and Long Beach. This may have had an immediate effect as imports in August 2023 showed a slight bump over July numbers. West coast ports may benefit from the ongoing drought at the Panama Canal as the number of vessels that can pass daily has dwindled to 31 from 36. If the drought persists long-term and the number of vessels declines further, shippers may shift some cargo back to the western ports, boosting the local industrial markets.
- As additional space enters the market and newer properties remain unoccupied, the vacancy rate is expected to rise. After three years of the market strongly favoring landlords, the pendulum is starting to swing in favor of occupiers.

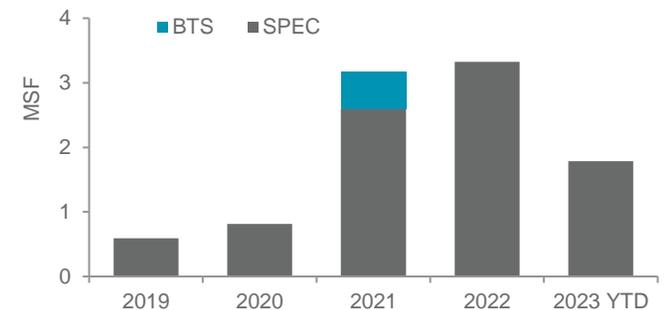
### NEW LEASING ACTIVITY



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



### UNDER CONSTRUCTION BY SF



## Industrial Q3 2023

### 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	109,564,843	821,729	1,802,210	2.4%	79,570	242,529	529,744	1,949,678	\$1.62	\$1.90	\$1.79
West County	38,863,731	72,564	996,388	2.8%	-74,316	285,438	237,499	678,911	\$1.73	\$2.03	\$1.84
Greater Airport Area	70,363,905	85,072	1,252,438	1.9%	-279,915	-714,300	788,456	0	\$1.60	\$1.40	\$1.50
South County	35,437,488	155,185	555,450	2.0%	-138,530	-126,233	230,503	99,638	\$1.71	\$1.51	\$1.62
R&D	22,147,811	166,415	636,310	3.6%	59,287	-112,410	0	0	N/A	N/A	\$1.50
MFG	85,034,267	108,309	1,384,157	1.8%	-246,351	-733,911	0	0	N/A	N/A	\$1.66
FLEX	17,873,327	0	254,860	1.4%	-3,491	121,074	0	0	N/A	N/A	\$1.54
W/D	129,174,562	859,826	2,331,159	2.5%	-222,636	412,681	1,786,202	2,728,227	N/A	N/A	\$1.81
<b>OC TOTALS</b>	<b>254,229,967</b>	<b>1,134,550</b>	<b>4,606,486</b>	<b>2.3%</b>	<b>-413,191</b>	<b>-312,566</b>	<b>1,786,202</b>	<b>2,728,227</b>	<b>\$1.66</b>	<b>\$1.81</b>	<b>\$1.72</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 Q3 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
7300 Chapman Ave.	West County	OfficeMax	307,734	Renewal**
3300 S. Fairview St.	Greater Airport Area	Financial Statement Services Inc.	197,613	Renewal**
675-679 Placentia Ave.	North County	Engineered Floors	127,375	Renewal**
34 Parker	South County	Supernal	126,497	Direct
17311 Nichols Ln.	West County	Pyramid Logistics	114,912	Direct

### KEY SALES TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
331-333 Cliffwood Park St.	North County	Staley Point Capital / Walton Street Capital	99,952	\$31.7M / \$317
1900 Carnegie Ave.	Greater Airport Area	15111382 Canada Limited / EMC Property Holdings Inc	94,500	\$35.5M / \$376
5650 Cerritos Ave.	West County	Penwood Real Estate Investment Management / Rexford Industrial	76,032	\$21.4M / \$281
14650 Hoover	West County	Pyramid Logistics / Rexford Industrial	56,700	\$22.3M / \$393
1609 E. Edinger Ave.	Greater Airport Area	Edinger Properties LLC / 1609 Edinger LLC	46,478	\$9.8M / \$211

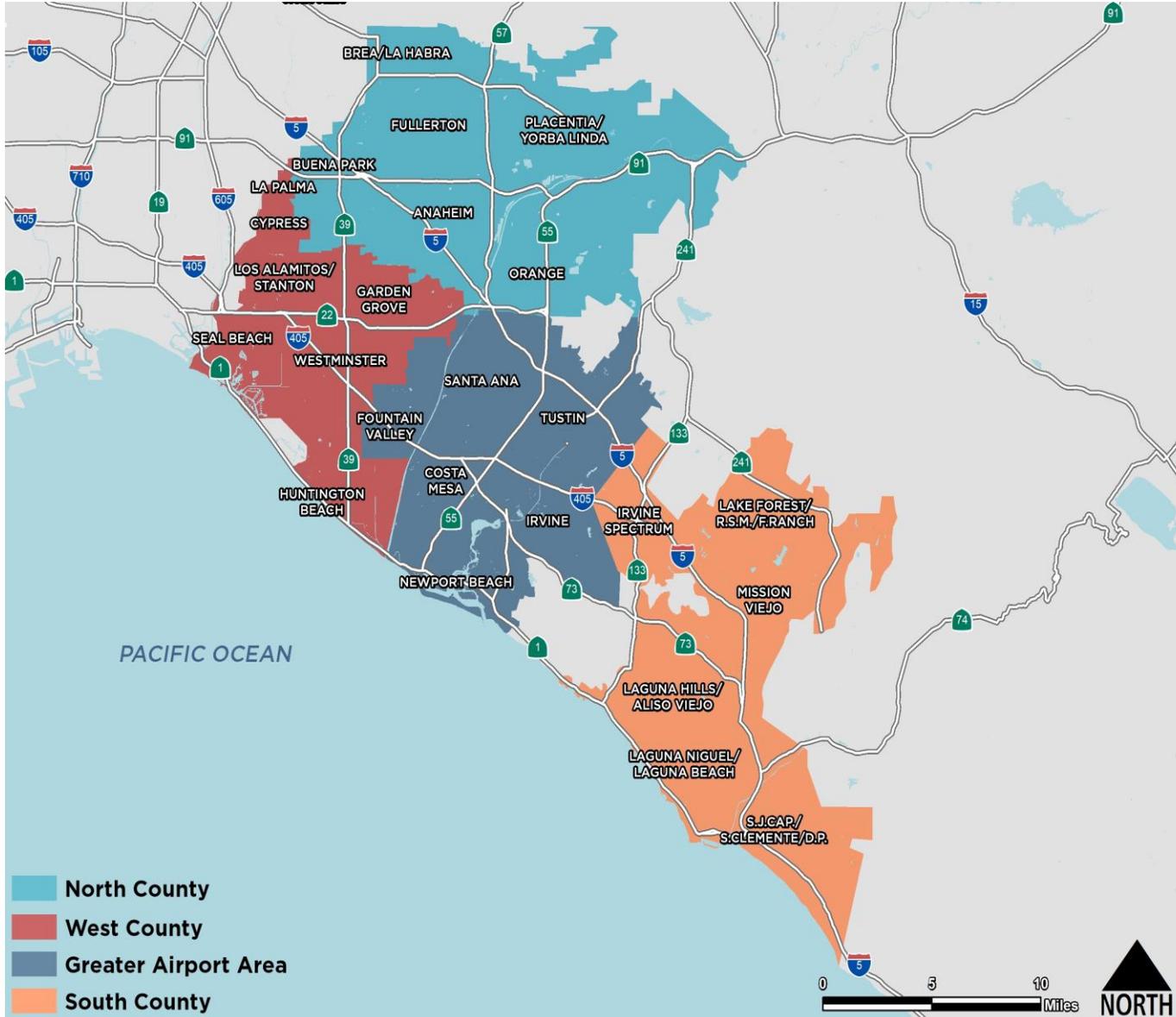
### KEY PROJECTS UNDER CONSTRUCTION Q3 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER
LogistiCenter at 55	Greater Airport Area	N/A	311,770	Dermody Properties
LBA Logistics Center	North County	N/A	165,850	LBA Realty
Prologis West Orange Counter Logistics Center	West County	N/A	149,335	Prologis, Inc.

# ORANGE COUNTY

Industrial Q3 2023

INDUSTRIAL SUBMARKETS



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