

Industrial Q4 2023

	YoY Chg	12-Mo. Forecast
2.7% Vacancy Rate	▲	▲
-752.1K Net Absorption, SF	▼	▲
\$1.74 Asking Rent, PSF	▲	▲

Overall, Net Asking Rent

ECONOMIC INDICATORS Q4 2023

	YoY Chg	12-Mo. Forecast
1.7M Orange County Employment	▲	▲
3.5% Orange County Unemployment Rate	▲	▼
3.7% U.S. Unemployment Rate	▲	▲

Source: BLS

ECONOMIC OVERVIEW

Total nonfarm employment in Orange County (OC) grew by 29,300 or 1.7% year-over-year (YOY) from November 2022 to November 2023. The private education and health services sector accounted for the most gains, with 8,900 jobs added (+3.5% YOY), followed by the leisure and hospitality sector, adding 8,700 jobs (+3.9% YOY). The trade, transportation and utilities sector added 5,400 jobs (+2.0% YOY), with wholesale accounting for 1,100 jobs, followed by retail (+ 3,300 jobs) and the transportation and warehousing sector (+1,000 jobs). The manufacturing sector recorded losses of 2,300 jobs (-1.5% YOY). During the same time, the monthly unemployment rate increased from 3.0% last year to 3.8% and is currently 30 basis points (bps) above the quarterly average of 3.5%.¹ The recovery from the 272,300 nonfarm job losses experienced between March and May 2020 has been completed, with 326,000 jobs fully recovered between June 2020 and November 2023. All employment sectors are projected to grow at a combined growth rate of 1.4% in 2024 and 1.2% in 2025 compared to the five-year historical average of 0.4%.²

Through November 2023, the Port of Los Angeles and the Port of Long Beach accounted for 7.5 million Twenty-Foot Equivalent Units (TEUs) combined of loaded imports, a 13.7% drop YOY.³ Advanced estimates of U.S. retail and food services sales for November 2023 were \$705.7 billion, up 0.3% from the previous month and up 4.1% YOY. E-commerce sales totaled \$284.1 billion, an increase of 2.3% quarter-over-quarter (QOQ) and 7.6% YOY, with the e-commerce share of total retail sales declining from its peak of 16.5% in Q2 2020 to 15.6% in Q3 2023.⁴ Consumer spending habits may soften as economic uncertainty impacts the broader region and nation.

SUPPLY AND DEMAND

The overall vacancy rate in the OC market increased for the fourth consecutive quarter, rising 50 bps QOQ and 160 bps YOY to 2.7%. Overall net absorption was negative for the third consecutive quarter, with tenants returning a net 752,050 square feet (sf) in Q4 2023. On an annual basis, occupancy losses totaled 871,996 sf, with the Greater Airport Area again recording the highest occupancy losses (-849,859 sf). Although all four submarkets posted losses in the fourth quarter, North and West Counties still finished 2023 in the black with a combined 525,255 sf of positive absorption.

Adding to the continued rise of OC's vacancy rate was speculative construction delivering to the market without previous tenant commitments. Pre-leasing of under-construction buildings was nonexistent this quarter. The OC industrial market recorded 474,391 sf of construction completions in Q4 2023, all delivered vacant. Of the 1.5 million square feet (msf) scheduled to be completed by the end of 2024, 1.4 msf has yet to be pre-leased. Only one building is still under construction, scheduled for completion in Q1 2024, and has secured a lease in advance. As a result, 93.7% of the upcoming new properties still need to be committed to any tenants.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT



Should this pattern persist, the increasing volume of unoccupied new properties will likely exert further upward pressure on the overall rate of unleased industrial space. In Q4 2023, available space for lease dipped marginally by just under 9,000 sf, and now sits at 9.0 msf, the second highest total since mid-2020. Differences arose between direct and sublease space on the market. Direct available space rose for the third quarter, while sublease space fell for the second quarter in a row. Meanwhile, new leasing activity picked up in the fourth quarter, with just over 1.7 msf leased. This reflects a 9.6% increase QOQ and is 51.6% higher than one year ago. However, leasing activity for the year was down compared to 2022. New leasing for 2023 totaled 6.7 msf, a 29.9% drop from 2022's total of 9.5 msf. The slowdown in tenant demand affected both new leases and renewals, with renewals recording a 74.2% decrease QOQ.

PRICING

The growth in asking rents halted in the fourth quarter. The overall average asking rate in OC stayed flat at \$1.74 per square foot (psf) per month on a triple net basis. This represented an increase of \$0.13 psf (+8.1%) YOY. For warehouse and distribution buildings, which comprise (51.1%) of industrial inventory in OC, the average asking rate decreased by \$0.02 psf (-1.1%) QOQ to \$1.83 psf, although still \$0.02 higher (+1.1%) YOY.

FUTURE INVENTORY

At the end of 2023, OC still had 15 industrial buildings under construction for a total of just under 1.5 msf. Every project is being developed on a speculative basis, with only one property having secured a lease prior to completion. Typically, as projects near completion, pre-leasing activity tends to tick up. With pre-leasing activity muted, some developers have opted to delay ground breakings on new projects until securing a tenant for the space. Throughout 2023, the industrial market saw an addition of 3.2 msf of new construction, with Q4 2023 contributing 474,391 sf to that total. Overall, 2023 recorded the most construction completions over the past five years.

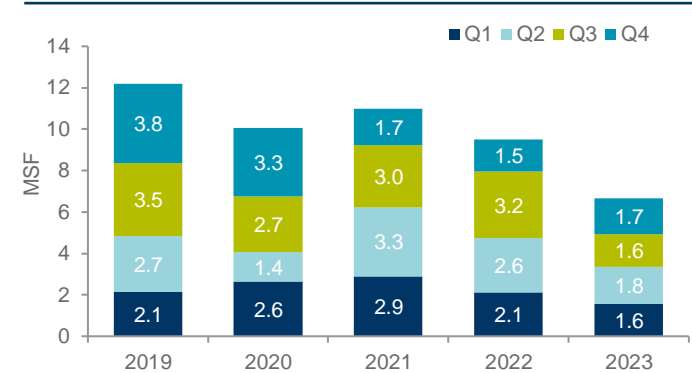
SALES ACTIVITY

Sales activity decreased in Q4 2023, falling 13.7% QOQ and 35.4% YOY to \$357.5 million. Consequently, the average price psf fell by 2.5% QOQ and is down 16.4% YOY, from \$341 to \$285 psf in Q4 2023. The average capitalization rate stayed flat QOQ but is 130 bps higher YOY at 5.3%.⁵ In 2024, the Federal Reserve may implement a reduction in interest rates. Should this occur, it would lower the cost of capital, potentially leading to an increase in sale transactions. An adjustment in rates by the Federal Reserve often directly impacts economic dynamics, including the level of sales.

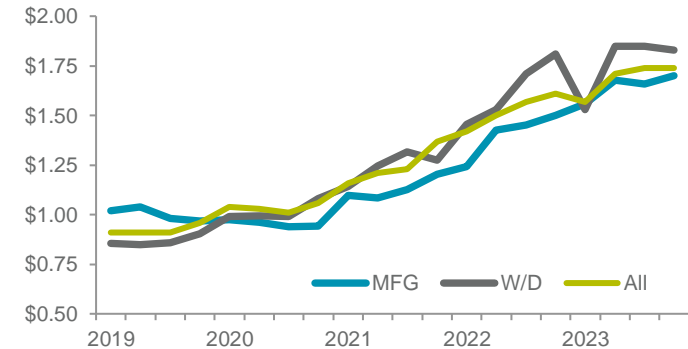
OUTLOOK

- With developers more cautious to break ground on new speculative facilities due to the slowing demand, the development pipeline will likely decelerate in the coming quarters.
- The Federal Reserve's decision to maintain its benchmark interest rates within the 5.25% to 5.5% range, and its projection of three rate reductions in 2024, could play out favorably for the OC industrial market. This move, which reflects a less aggressive monetary policy by the Fed, is anticipated to stimulate earlier transaction activities in the real estate market for 2024.

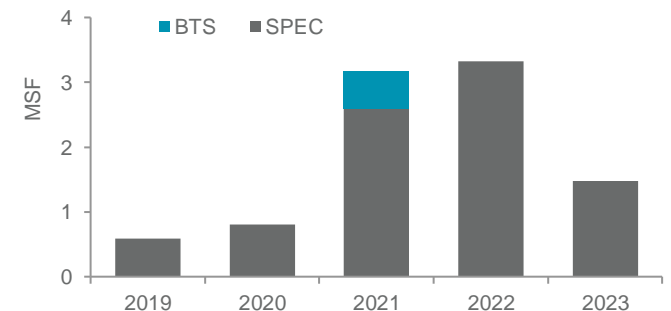
NEW LEASING ACTIVITY



AVERAGE MONTHLY ASKING RENT \$PSF MONTHLY NNN



UNDER CONSTRUCTION BY BUILDING TYPE



Industrial Q4 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	108,631,947	578,644	2,026,853	2.4%	-13,913	398,592	538,720	2,112,299	\$1.74	\$1.92	\$1.80
West County	38,927,085	11,673	1,216,054	3.2%	-158,775	126,663	237,499	678,911	\$1.73	\$2.05	\$1.88
Greater Airport Area	69,690,343	211,467	1,556,322	2.5%	-156,643	-849,859	476,686	311,770	\$1.65	\$1.47	\$1.55
South County	35,325,261	72,421	1,059,373	3.2%	-422,719	-547,392	230,503	99,638	\$1.70	\$1.52	\$1.66
R&D	21,624,315	73,393	552,826	2.9%	192,268	64,096	0	0	N/A	N/A	\$1.55
MFG	83,986,317	133,741	1,327,794	1.7%	-37,134	-730,030	0	0	N/A	N/A	\$1.70
FLEX	17,972,091	0	222,899	1.2%	28,267	153,035	0	0	N/A	N/A	\$1.62
W/D	128,991,913	667,071	3,755,083	3.4%	-935,451	-359,097	1,483,408	3,202,618	N/A	N/A	\$1.83
OC TOTALS	252,574,636	874,205	5,858,602	2.7%	-752,050	-871,996	1,483,408	3,202,618	\$1.70	\$1.83	\$1.74

*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 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
2501 E. Orangethorpe Ave.	North County	Undisclosed	229,422	Sublease
5800 Skylab Rd.	West County	Home & Body Company	167,778	Renewal**
1225 W. Imperial Hwy.	North County	Logistics Plus	126,681	Sublease
285 N. Berry St.	North County	Flexfit	124,678	Direct
2009-2011 Raymer Ave.	North County	James Worldwide Inc	123,972	Sublease

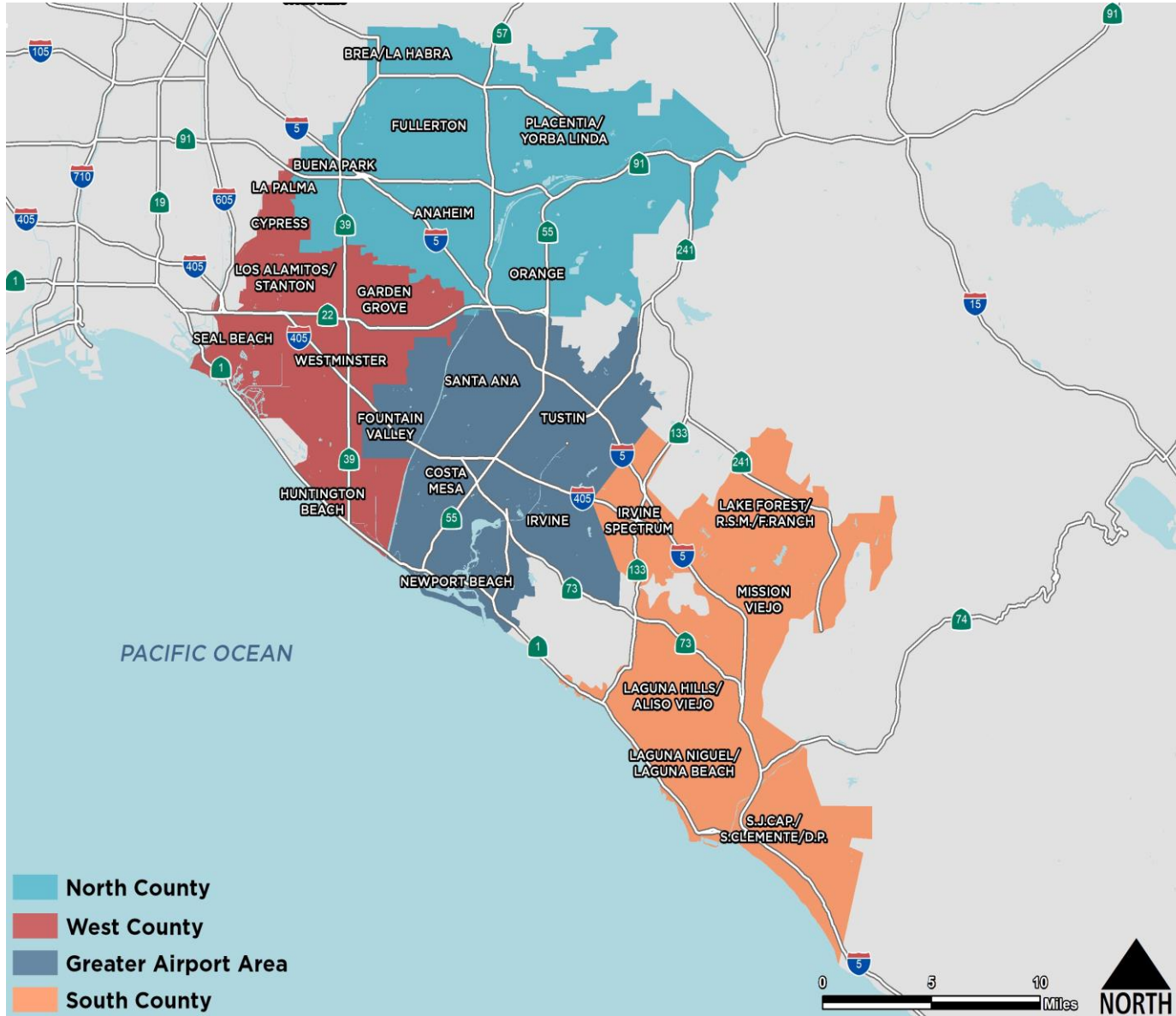
KEY SALES TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
1683 Sunflower Ave.	Greater Airport Area	International Asset Management / Garden Communities	345,410	\$72M / \$208
7050-7150 Village Dr.	North County	TA Realty / Buchanan Street Partners	300,738	\$71M / \$236
23811-23891 Via Fabricante	South County	DWS / MIG Real Estate	103,114	\$33.3M / \$322
5037-5065 E. Hunter Ave.	North County	Glen F Ceiley / Bisco Industries Inc	81,836	\$31M / \$379
550 W. Crowther Ave.	North County	Cornell LLC / 550 W Crowther Ave LLC	58,394	\$14.8M / \$253

KEY PROJECTS UNDER CONSTRUCTION Q4 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER
LBA Logistics Center	North County	N/A	165,850	LBA Realty
Prologis West Orange County Logistics Center	West County	N/A	149,335	Prologis, Inc.
Swallows Creek	South County	N/A	136,308	Integral Communities, Inc.

INDUSTRIAL SUBMARKETS



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