

ORANGE COUNTY

FOURTH QUARTER 2022 INDUSTRIAL MARKET REPORT

RECORDS FALL: STRONG DEMAND PUSHES RENTS, OCCUPANCY

A fourth-quarter surge in demand for space drove the county's overall vacancy rate to a record low 1.6% in 2022 and lease rates continued their rise to unprecedented levels. CoStar's year-end national survey shows Orange County with the lowest vacancy rate of any metro west of Florida.

Net absorption totaled 817,228 SF in the fourth quarter and 892,331 SF for the year. After the 1.9 million SF of net growth in 2021, it was the second highest volume of annual growth since 2015. In three of the county's four submarkets there was positive growth for the year.

There were 8,239 buildings totaling 273.8 million SF in Lee & Associates' fourth-quarter survey. Available space totaled 10.1 million SF. Occupancy hit 269.4 million SF, a record. It was the first quarter in which vacant space totaled less than 5 million SF.

At the close of 2022, asking rental rates averaged \$1.56 per SF triple net countywide, a record 18% year-over-year increase that follows a 13.7% jump in 2021 and 7.5% average annual rent growth the previous five years. Average asking rents were lowest in West County at \$1.50 per SF and highest in South County averaging \$1.64 per SF.

Some frustrated users will get relief from the 18 buildings totaling 3.1 million SF that are under construction countywide. But supplies of space have tightened steadily since vacancy peaked at 7.6% in 2010. In addition to sustained tenant demand there has been a 6.4-million-SF reduction of inventory as well-located industrial buildings are razed to make way for higher-intensity uses.

Demand for space has been greatest in the 115.7-million-SF North County submarket, the county's largest, where the vacancy rate settled at 1.1% at the end of 2022 on 1 million SF of fourth-quarter net absorption. It was the most quarterly growth of any Orange County submarket in 18 years. Average asking rents were \$1.45 per SF at the end of 2022, a 29.5% year-over-year increase.

In the 72.2-million-SF Airport submarket, healthy quarterly tenant growth over nine of 10 quarters starting in 2019 has given way to three straight quarters of negative net absorption totaling 684,387 SF. Meanwhile, total inventory was reduced with the loss of nine buildings in 2022 totaling 822,386 SF.

There was 142,093 SF of fourth-quarter tenant expansion in the 42.8-million-SF West County submarket and 513,858 SF of net absorption for the year, the most since 2014. Average asking triple-net rent hit \$1.50 per SF.

Tenant growth in the 42.8-million-SF South County was 197,809 SF in the red in Q4 but was up 302,995 SF for the year. Rent growth in 2022 averaged 11.4%.

The largest lease of the quarter was the five-year renewal of a 135,371-SF building on Dyer Road in Santa Ana for \$1.55 triple net.

San Francisco-based investment trust ProLogis acquired a 1.2-million-SF portfolio of 14 buildings in Q4 in North County for \$297 million. It was part of a \$23-billion acquisition of properties from Duke Realty Corp. of Indianapolis.

MARKET FORECAST

In their recent annual forecast for 2023, Cal State Fullerton economists said high inflation will be stickier than expected, forcing the Fed to keep interest rates elevated and making a recession difficult to avoid within the next 12 months.

ORANGE COUNTY

ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	3.0%	2.7%
California Unemployment	4.0%	3.7%
US Unemployment	3.5%	3.5%

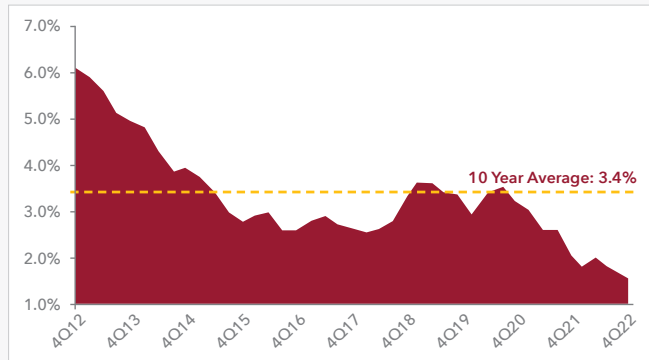
Source: EDD

INDUSTRIAL MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	273,826,508	273,892,048
Vacancy Rate (%)	1.6%	1.9%
Net Absorption (SF)	817,228	271,213
Average Asking Rent (NNN)	\$1.56	\$1.53
Under Construction (SF)	3,094,052	2,684,386

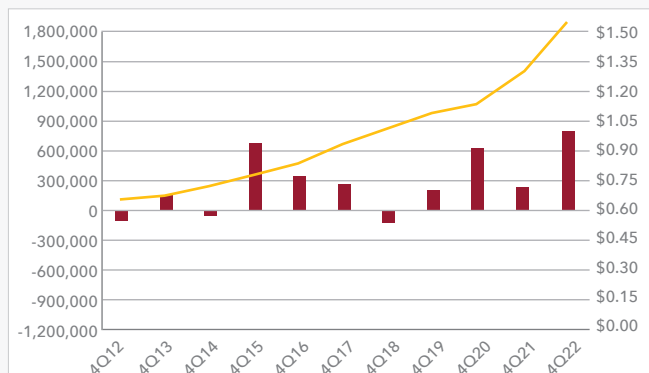
Source: CoStar

OVERALL VACANCY



Source: CoStar

NET ABSORPTION VS ASKING RATES



Source: CoStar

*All numbers are based on industrial buildings 10,000 sq. ft. and larger.

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ORANGE COUNTY INDUSTRIAL MARKET STATISTICS - 4Q 2022




Submarket	Bldg Count	Total SF Inventory	Total SF Available	Availability Rate	Total SF Vacant	Vacancy Rate	Net SF Absorption	YTD Net SF Absorption	Avg Asking Lease Rate	SF Under Construction
North	3,209	115,735,408	3,561,461	3.0%	1,255,282	1.1%	1,010,383	749,390	\$1.45	1,649,570
West	1,323	42,811,999	2,128,413	4.9%	806,332	1.9%	142,093	513,858	\$1.50	668,247
Greater Airport	2,466	72,161,824	2,767,324	3.8%	1,365,309	1.9%	(137,439)	(587,304)	\$1.61	531,597
South	1,236	42,816,922	1,684,776	3.9%	1,013,631	2.4%	(197,809)	190,442	\$1.64	244,638
Outlying	5	300,355	3,840	1.3%	- 0 -	- 0 -	- 0 -	25,945	\$2.25	- 0 -
TOTALS	8,239	273,826,508	10,145,814	3.7%	4,440,554	1.6%	817,228	892,331	\$1.56	3,094,052

Source: CoStar

LEASE TRANSACTIONS 4Q 2022

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
 353 Meyer Circle Corona, CA	201,380	Core-Mark International, Inc.	Buckhead Corona Industrial, L.P.	David Newton represented the Tenant.
 1400 S Manhattan Ave. Fullerton, CA	91,116	Berger Transfer & Storage, Inc.	1400 Manhattan Properties LLC	Justin Smith & Grant La Bounty represented the Tenant.
 11800 Monarch St. Garden Grove, CA	30,915	Structural Preservation Systems	Donald Investment Co.	Brad Schneider & Nick Krakower represented the Landlord.

SALE TRANSACTIONS 4Q 2022

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
 9340-9410 Owensmouth Chatsworth, CA	197,640	Bocks Canyon Holdings, LLC	Owensmouth C2B, LP	Allen Buchanan & Joshua Harper represented the Seller.
 1523 & 1547 W Struck Ave. Orange, CA	42,750	Struck Properties LLC	MCA IGF Struck, LLC	Alejandro Sherratt & Carter Harrington represented the Buyer.
 12272-12282 Monarch Garden Grove, CA	22,074	Trust Agreement of Yan Qui UAD 10-01-06	Blackhawk Manufacturing Group	Kylee King, Allen Basso & Eric Darnell represented the Buyer.

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ABOUT LEE & ASSOCIATES

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With a broad array of regional, national and international clients - ranging from individual investors and small businesses to large corporations and institutions - Lee & Associates has successfully completed transactions with a total value of more than \$11 billion in 2018.

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