

ORANGE COUNTY

FIRST QUARTER 2023 INDUSTRIAL MARKET REPORT

RECORD-BREAKING RENT GROWTH CONTINUED IN Q1

Overall demand for historically tight levels of rental space eased slightly in the first quarter, pushing up the vacancy rate from the all-time low reached in the final three months of last year. Nevertheless, rents continued to climb at a record pace as Orange County ranks statistically among the nation's most desirable industrial property markets.

Countywide, net absorption was negative 818,335 SF in the first quarter, driving up the vacancy rate 40 basis points to 2.1% on a total base of 274.3 million SF. It was the largest of five quarterly contractions over the last four years. There were 8,237 buildings larger than 10,000 SF in Lee & Associates' Q1 survey.

Orange County's average asking triple-net rents hit \$1.62 per SF in Q1, an 18.2% year-over-year increase. OC is the nation's sixth costliest rental market, ranking just after Ft. Lauderdale, Florida. San Francisco with rents averaging \$2.26 per SF tops the list. Countywide lease rates increased 13.7% in 2021 and gains averaged 7.5% annually over the previous five years.

Sixteen buildings totaling 2.6 million SF are under construction.

Three of the county's four primary submarkets posted negative net absorption in Q1.

In the 115.7-million-SF North County submarket, tenants shed 513,288 SF of space in the first quarter. The county's largest submarket with 42% of total inventory, North County also is the county's tightest with a Q1 vacancy rate of 1.6%, up 40 basis points from the close of 2022. Triple-net asking rents were \$1.44 at the end of Q1, and up 11% year over year. The North County submarket consists of: Anaheim, Brea, La Habra, Buena Park, Fullerton, La Palma, Placentia and Yorba Linda. Six buildings totaling 1,462,642 SF are under construction.

First-quarter net absorption in the 72.4-million-SF Airport area, the county's second largest submarket, totaled 87,305 SF. The vacancy rate settled at 2.1%. The positive tenant growth halted the negative 714,214-SF skid of the previous three quarters. Despite recent weak demand, average rents increased to \$1.68 per SF, a 20% increase from Q1 a year ago. Construction on five buildings totaling 606,080 SF is underway.

Tenant demand in Q1 was 108,519 SF in the red in the 43-million-SF South County market, which stretches from the Irvine Spectrum to San Clemente. South County space is the costliest, averaging \$1.75 per SF, a year-over-year gain of 15%. One 99,638 SF building is under construction.

In West County, negative net absorption in Q1 totaled 288,833 SF. It was the first contraction in the last 10 quarters and drove up the vacancy rate to 3% from 1.9% at the end of 2022. Year-over-year average rents climbed 40% to \$1.53. West County includes Huntington Beach, Westminster, Cypress, Los Alamitos, Stanton and Seal Beach.

Among OC's top leases in Q1 was \$1.90 per SF triple net for a recently renovated 53,066-SF building on Gillette Avenue, Irvine.

The largest sale in Q1 was a Class B building totaling 117,502 SF on Lewis Street in Anaheim that traded between investors for \$33.7 million, or \$292 per SF.

MARKET FORECAST

Orange County business executives who believe business activity will remain unchanged in the second quarter increased to 42.4% from 31.3%, according to the OC Business Expectations Survey by the Cal State Fullerton economist Anil Puri.

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ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	3.4%	3.0%
California Unemployment	4.4%	4.0%
US Unemployment	3.5%	3.7%

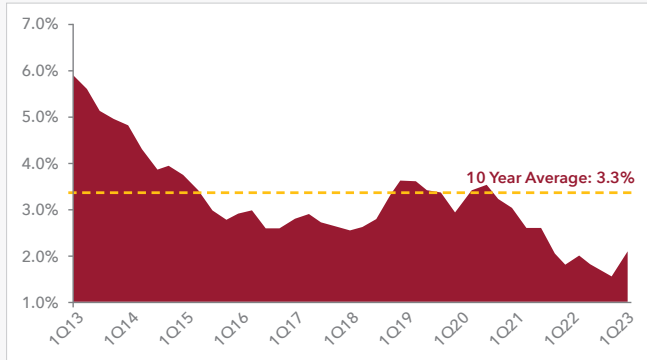
Source: EDD

INDUSTRIAL MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	274,302,188	274,103,204
Vacancy Rate (%)	2.1%	1.7%
Net Absorption (SF)	-818,335	938,742
Average Asking Rent (NNN)	\$1.62	\$1.57
Under Construction (SF)	2,613,566	2,251,191

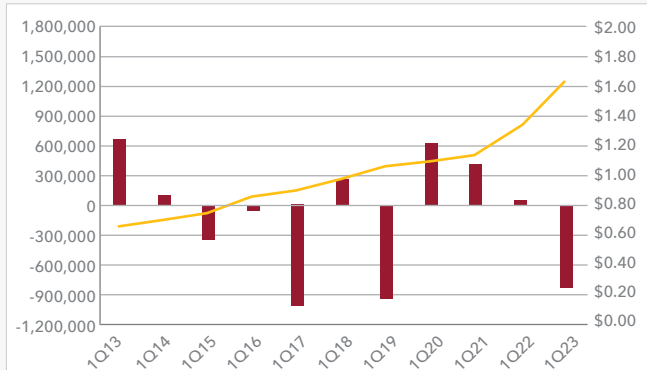
Source: CoStar

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	3,207	115,633,697	3,879,573	3.3%	1,886,072	1.6%	(513,288)	(513,288)	\$1.44	1,462,642
West	1,321	42,922,861	2,622,426	6.0%	1,303,435	3.0%	(283,833)	(283,833)	\$1.53	445,206
Greater Airport	2,468	72,412,788	3,315,060	4.5%	1,484,595	2.1%	87,305	87,305	\$1.68	606,080
South	1,236	43,032,487	2,012,820	4.7%	1,122,150	2.6%	(108,519)	(108,519)	\$1.75	99,638
Outlying	5	300,355	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	\$2.25	- 0 -
TOTALS	8,237	274,302,188	11,829,879	4.3%	5,796,252	2.1%	(818,335)	(818,335)	\$1.62	2,613,566

Source: CoStar

LEASE TRANSACTIONS 1Q 2023

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
 3539 Howard Way Costa Mesa, CA	135,472	Huntington Beach Hyundai, LLC	BLT Howard, LLC	Scott Seal & Ryan Magarian represented the Tenant.
 2980 Red Hill Ave. Costa Mesa, CA	31,331	Ferrari & Maserati of Newport	Adler Family Trust	Frank Adler represented the Landlord.
 15501 Red Hill Ave Suite 150 Tustin, CA	24,798	Biophotas, Inc.	15501 Redhill RHM, LLC	Eric Darnell & Allen Basso represented the Tenant.

SALE TRANSACTIONS 1Q 2023

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
 7272 Lampson Ave. Garden Grove, CA	65,243	Dornin Investment Group	7272-7274 Lampson, LLC	Guy LaFerrara & Brock Stryker represented the Buyer.
 2199 N Batavia St. Orange, CA	27,033	2199 N Batavia Street, LLC	Daleo Enterprises	Chuck Noble & Dave Hunsaker represented the Seller.
 5831 Research Dr. Huntington Beach, CA	22,400	B&C Properties, Inc.	LMK SoCal Realty LLC	Brad Schneider & Nick Krakower represented the Seller.

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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 \$32 billion in 2022.

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