

ORANGE COUNTY

SECOND QUARTER 2023 INDUSTRIAL MARKET REPORT

DEMAND EASES, RENT GROWTH SEES SIGNIFICANT SLOWING

Demand for Orange County industrial space eased in the first half, and there was significant slowing of the recent double-digit rent growth, which is up 52% overall since the lockdown.

Countywide net absorption was negative 562,416 SF in the second quarter and was off 995,957 SF in the first half. It was the weakest quarterly demand since early 2019. Although the vacancy rate gained 60 basis points in the second quarter to settle at 2.6%, the rate remains less than a percentage point from the all-time low.

The county's four submarkets total 275.9 million SF. North County, the largest, posted the most negative net absorption - 726,092 SF for the first half with 335,076 SF in the second quarter. The contraction is due, in part, to a jump of more than 1 million SF of vacant sublease space added to the submarket in the first half.

At the end of Q2 available second-hand space countywide reached its highest point since 2010, totaling 3.64 million SF, or 1.3% of the total inventory.

The Airport was the only submarket to post net growth in each of the last two quarters, totaling 209,400 SF since January. The 72.3-million-SF submarket is the tightest in Orange County with a 1.9% vacancy rate.

There was a sudden spike in rental rates during 2021 and 2022, in which rent growth averaged 14.2%. At the end of the second quarter the average asking lease rate was \$1.67 per SF triple net - roughly double the average rate since 2015. Annual rent growth over the previous eight years averaged 4.5%. But with lease rates beginning to slow late last year and up only 3% through the first half of 2023, rent growth lately is reverting to the mean.

Orange County ranks as the nation's sixth costliest market behind Miami, Fort Lauderdale, San Diego, San Jose and San Francisco, where rents are highest, averaging \$2.28 per SF.

The largest lease of the quarter was a 165,171-SF Class A building with 32-feet of clear height on Knott Street in Garden Grove to a start-up electric vehicle maker with rent starting at \$1.85 per SF.

The largest sale in the second quarter was the \$28,150,000 full-price investor purchase of a 121,225-SF leased-up distribution building in Anaheim from Bixby Land Co. The deal for the 43-year-old building on South Allec Street translates into \$232 per SF. A 40-year-old, 117,805-SF R&D building on Michelle Drive in Tustin with a tenant was acquired by local investors for \$32 million, or \$271.97 per SF. A 102,800-SF showroom building on Anaheim's State College Boulevard, also known as the mile of tile, was purchased for \$37.3 million, or \$363.07 per SF, by a group of Dallas, Texas, investors.

MARKET FORECAST

Orange County job growth will be flat this year and consumer spending will be up 3% -- far less than the annual double-digit spending during the pandemic, said Chapman University's Jim Doti in his mid-year economic forecast. Cal State Fullerton economist Anil Puri recently predicted a "garden-variety recession."

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ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	3.2%	3.4%
California Unemployment	4.5%	4.4%
US Unemployment	3.7%	3.5%

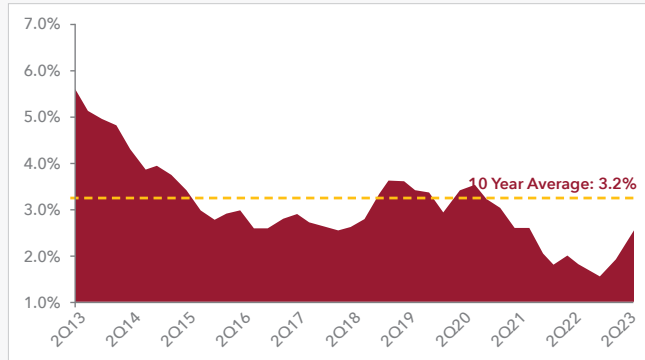
Source: EDD

INDUSTRIAL MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	275,963,779	274,914,034
Vacancy Rate (%)	2.6%	2.0%
Net Absorption (SF)	-562,416	-432,541
Average Asking Rent (NNN)	\$1.67	\$1.62
Under Construction (SF)	1,699,118	2,598,341

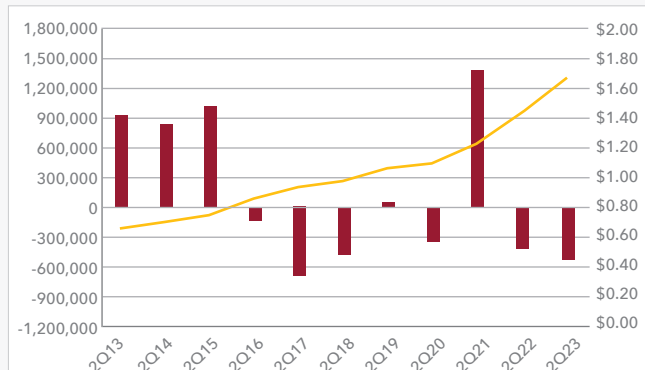
Source: CoStar

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 - 2Q 2023


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	3,213	117,160,140	5,478,220	4.7%	3,049,167	2.6%	(335,076)	(726,092)	\$1.61	499,589
West	1,322	43,079,524	2,146,019	4.9%	1,549,093	3.6%	(154,600)	(274,362)	\$1.63	347,311
Greater Airport	2,464	72,318,785	3,471,030	4.8%	1,360,499	1.9%	23,683	209,220	\$1.71	726,736
South	1,235	43,104,975	2,369,295	5.5%	1,207,672	2.8%	(92,583)	(199,883)	\$1.72	99,638
Outlying	5	300,355	31,508	9.7%	3,840	1.3%	(3,840)	(3,840)	\$2.32	25,844
TOTALS	8,239	275,963,779	13,496,072	4.9%	7,170,271	2.6%	-562,416	-994,957	\$1.67	1,699,118

Source: CoStar

LEASE TRANSACTIONS 2Q 2023

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
 3300 E. Birch Street Brea, CA	111,679	AmorePacific US, Inc.	Brea Industrial III, LLC	Chris Destino represented the Tenant.
 23501 Commerce Center Drive, Suite A Laguna Hills, CA	8,739	Sandpiper Imports	G&I XI Sequoia LP	Justin Smith, Grant La Bounty & Chris Vassilian represented the Tenant.

SALE TRANSACTIONS 2Q 2023

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
 1859 N. Glassell Street Orange, CA	69,587	1859 N. Glassell, LLC	Jensen/Robinson	Jeff Gahagan represented the Buyer.
 1200 E Glenwood Place Santa Ana, CA	7,423	Golden City Holding, LLC	Kenneth Corman	Dale Camera, Jason Helmick & Zach Schwaner represented both the Buyer and the Seller.

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