

ORANGE COUNTY

THIRD QUARTER 2023 INDUSTRIAL MARKET REPORT

DEMAND FOR SPACE CONTINUED EASING IN Q3

Tenant demand for industrial space continued easing in the third quarter as all four of the county's submarkets posted a combined 848,736 SF of negative net absorption, the most since Q1 2019. It also was the third straight quarterly contraction, bringing the negative total to 1.8 million SF this year.

Countywide, the vacancy rate ticked up 40 basis points to 3% since June, the highest in 10 quarters. And although average rent is up 11% year over year, Lee & Associates' agents report that concessions on new leases and renewals increasingly are offered by landlords who sense weakening market interest.

In the North County submarket that straddles nine cities from Buena Park to Placentia, for example, there are 45 buildings from 9,000 SF to 20,000 SF available for lease or sale, a significant increase from a year ago. Medium-size buildings are in shorter supply with eight buildings from 30,000 SF to 40,000 SF for sale or lease. Although North County tenants have shed nearly 1.1 million SF of space so far this year, asking rents in Q3 are up 16% year on year.

Countywide, there are 8,233 buildings totaling 276.5 million SF in Lee & Associates' third-quarter survey. North County is the largest submarket with 117.5 million SF.

The 72.3-million-SF Airport submarket posted the largest net absorption decline in the third quarter at 353,301 SF, pushing up the vacancy rate 50 basis points to 2.4%. Growth in asking rents has softened over the last four quarters, totaling 8.7%. It is a significant decline compared to annual rent gains in 2021 and 2022 of 23% and 14% respectively and closer to the 9.3% average gain for the five years prior to Covid.

In the 43.1-million-SF West County submarket net absorption was negative 156,388 SF in Q3 and down 311,938 SF over three straight quarters since January.

Net absorption was down 82,092 SF for Q3 in the 43.3-million-SF South County submarket and is off 381,909 SF year on year while rents have gained an average 10.3%.

Although leasing activity may be easing, the market is crowded with prospective buyer-users that still are undeterred by rising interest rates.

The \$31.7-million full-price sale of a 101,292-SF manufacturing building at 331 Cliffwood Park St. in Brea, was the largest trade of the quarter. The building has 24 feet of clear height and was renovated in 2012. The listed principals were buyer-user Artisan Ventures of Santa Monica and a partnership of Bain Capital and Staley Point Capital as seller.

A six-year sublease at \$1.87 per SF for a 215,000-SF building at 5560 Katella Ave. in Cypress was the county's largest lease in Q3.

MARKET FORECAST

Cal State Fullerton's Q3 survey of OC business executives found that their overall outlook on the economy rose from 66.9 in Q2 to 68.4 in Q3, the highest level in more than a year.

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ORANGE COUNTY

ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	3.9%	3.7%
California Unemployment	5.1%	4.9%
US Unemployment	3.8%	3.6%

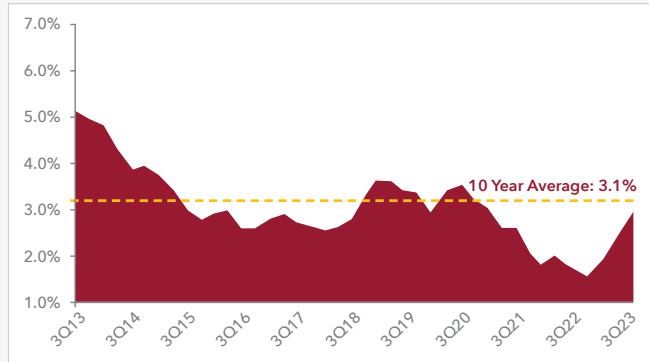
Source: EDD

INDUSTRIAL MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	276,532,818	276,097,486
Vacancy Rate (%)	3.0%	2.6%
Net Absorption (SF)	-848,736	-635,792
Average Asking Rent (NNN)	\$1.70	\$1.67
Under Construction (SF)	2,038,815	1,939,407

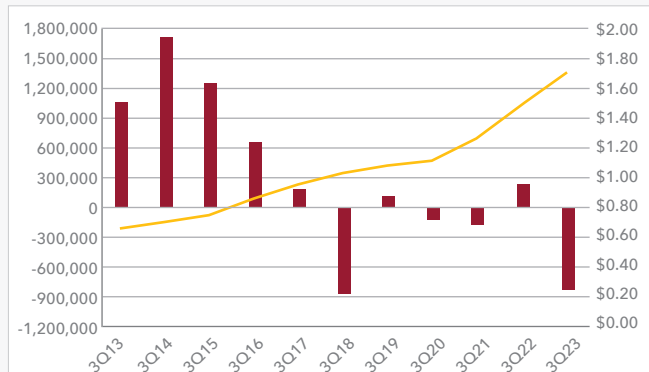
Source: CoStar

OVERALL VACANCY



Source: CoStar

NET ABSORPTION VS ASKING RATES



Source: CoStar

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

ORANGE COUNTY

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ORANGE COUNTY INDUSTRIAL MARKET STATISTICS - 3Q 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	3,204	117,462,151	6,373,137	5.4%	3,646,930	3.1%	(260,795)	(1,050,371)	\$1.64	707,676
West	1,323	43,115,988	2,529,258	5.8%	1,590,669	3.7%	(156,388)	(315,938)	\$1.74	496,646
Greater Airport	2,465	72,346,763	3,861,749	5.3%	1,715,479	2.4%	(353,301)	(145,130)	\$1.74	808,649
South	1,236	43,307,561	2,388,534	5.5%	1,479,921	3.4%	(82,092)	(305,979)	\$1.71	0
Outlying	5	300,355	27,764	8.5%	0	0.0%	3,840	0	\$2.33	25,844
TOTALS	8,233	276,532,818	15,180,442	5.4%	8,432,999	3.0%	-848,736	-1,817,418	\$1.70	2,038,815

Source: CoStar

LEASE TRANSACTIONS 3Q 2023

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
 34 Parker Irvine, CA	126,497	DZYNE Technologies, LLC	The Northwestern Mutual Life Insurance Company	BJ Fell, Mark Jerue & Craig Fitterer represented the Tenant.
 19301-19321 Walnut City of Industry, CA	117,805	Diamond W. Supply Co.	Industrial Park, LLC	Mark Hintergardt & Phil Fridd represented the Tenant.

SALE TRANSACTIONS 3Q 2023

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
 17969 Railroad Street City of Industry, CA	75,000	17969 Railroad Street Owner	Reuland Electric	Brad Gilmer & Tom Grant represented both the Seller and the Buyer.
 41 Columbia Aliso Viejo, CA	32,657	Peter Spenuzza	JRC Real Estate	Ryan Swanson represented the Seller.

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ABOUT LEE & ASSOCIATES

Celebrating more than 45 years of leadership excellence in commercial real estate, Lee & Associates is the largest broker-owned firm in North America with locations across the U.S. and Canada.

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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