

ORANGE COUNTY

FOURTH QUARTER 2023 INDUSTRIAL MARKET REPORT

DEMAND AND RENT GROWTH SLOW; CONCESSIONS RETURN

Tenant demand eased in 2023 and the pace of rent growth slowed. Nevertheless, more new industrial space was delivered than in any year since 2001, as the countywide vacancy rate remains near its all-time low.

Despite 450,825 SF of fourth-quarter tenant expansion, there was nearly 1.6-million-SF of negative net absorption in 2023, the most in 14 years. But quality available space remains well below historical averages as vacancy rates range from 2.6% at the Airport and in North County to 4.5% in West County. Countywide, the vacancy rate closed out the year at 3.2%, up from the 1.8% record low at the end of 2022.

Vacant space increased by 3.8 million SF year over year and now totals more than 8.8 million SF. But available space gained 6.3 million SF in 2023, swelling that total to nearly 15.9 million SF, the most since 2015.

Countywide rent growth fell to 9.6% year over year from 18.2% in 2022 and 14.8% in 2021. Rents gained 6.8% and 4.5% in 2020 and 2019 respectively. Some anxious landlords resumed offering rent concessions to credit tenants in 2023.

Despite posting a gain of 586,213 SF in the fourth quarter, tenants in the 117.3-million-SF North County submarket, the county's largest, shed 693,362 SF of space in 2023 after expanding by 618,336 SF in 2022.

Tenants in the 43.5-million-SF South County submarket contracted by 685,850 SF over all four quarters, pushing up the vacancy rate from 2.4% to 4.4%.

The 72.5-million-SF Airport submarket reported net absorption for the year of negative 278,173 SF. That represents an improvement for landlords from the 571,664 SF of contraction in 2022.

Countywide, 15 new buildings were delivered in 2023, including five in the fourth quarter. In a clear illustration of a recent demand trend for larger, premium buildings, the buildings delivered in 2023 average 54,000 SF. This is considerably greater than the average 33,707 SF size of the 8,235 buildings in the Lee & Associates quarterly survey.

The 43.9-million-SF West County submarket posted 386,018 SF of Q4 net absorption. More than 663,000 SF are complete in the six-building, 1-million-SF Huntington Gateway project by SARES REGIS Group. The vacancy rate settled at 4.5%, up from 2.2% in 2022.

The largest direct lease in the quarter was for a 167,778-SF building at 5800 Skylab Road., Huntington Beach. The tenant, a soap and detergent manufacturer, signed a five-year lease.

The largest property trade in the quarter was a 21-acre site at 1683 Sunflower Ave., Costa Mesa, purchased for \$72 million by Garden Homes of New Jersey. Buildings on the property have four tenants. But the site has been approved as a mixed-use project called One Metro West that will include 1,057 residences plus retail and office space.

MARKET FORECAST

In their forecast for 2024 Chapman University economists said the job outlook looked to show "slow but slightly positive growth of 0.6%" for Orange County for 2024 and roughly the same for all of California.

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ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	3.8%	3.7%
California Unemployment	4.9%	4.9%
US Unemployment	3.7%	3.8%

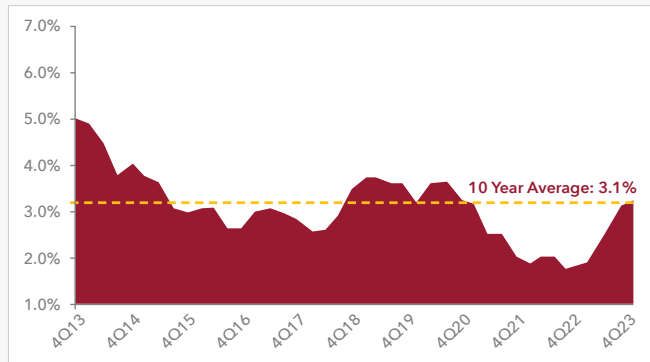
Source: EDD

INDUSTRIAL MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	277,576,415	276,765,498
Vacancy Rate (%)	3.2%	3.1%
Net Absorption (SF)	450,825	-935,498
Average Asking Rent (NNN)	\$1.71	\$1.70
Under Construction (SF)	1,691,092	2,506,345

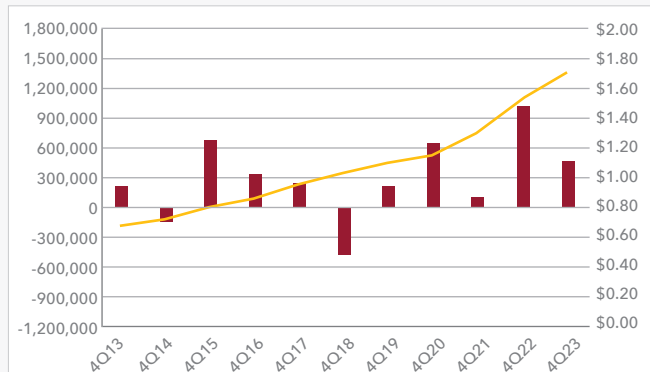
Source: CoStar

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 - 4Q 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	3,198	117,316,941	6,009,629	5.1%	3,036,691	2.6%	586,213	(693,362)	\$1.68	701,341
West	1,327	43,905,327	2,593,162	5.9%	1,985,827	4.5%	386,018	70,080	\$1.74	237,499
Greater Airport	2,466	72,513,982	4,154,942	5.7%	1,932,213	2.7%	(134,524)	(278,173)	\$1.79	726,408
South	1,239	43,539,810	2,803,570	6.4%	1,899,792	4.4%	(384,962)	(685,850)	\$1.66	0
Outlying	5	300,355	26,844	8.2%	1,920	0.6%	(1,920)	(1,920)	\$2.33	25,844
TOTALS	8,235	277,576,415	15,588,147	5.6%	8,856,443	3.2%	450,825	-1,589,225	\$1.71	1,691,092

Source: CoStar

LEASE TRANSACTIONS 4Q 2023

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
 12828 Carmenita Rd. Santa Fe Springs, CA	268,536	Montage Fulfillment, LLC	FDC Associates, LLC	Frank Adler & Jeff Hirsch represented the Tenant.
 425 Turnbull Canyon Road City of Industry, CA	52,745	FAE Solutions Inc.	Hunsaker Family Trust	Dave Hunsaker & Chuck Noble represented the Landlord.
 3011 S Croddy Way Santa Ana, CA	29,000	Nelk USA	Ronald J Arakelian	Dale Camera, Jason Helmick & Zach Schwaner represented both the Landlord and the Tenant

SALE TRANSACTIONS 4Q 2023

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
 3215 & 3225 Executive Ridge Vista, CA	106,572	Old Grove, LLC	DXW LLC	Jim DeRegt represented the Buyer.
 1051 N. Patt Street, Anaheim, CA	62,000	ETA Tran, Inc.	On Target Properties, LLC	Jeff Gahagan represented the Seller.
 7920 Lindbergh Drive Riverside, CA	51,665	NKL & D, LLC	JRC Real Estate Investment, LLC	Ryan Swanson & Todd Swanson 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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