

ORANGE COUNTY

FIRST QUARTER 2024 INDUSTRIAL MARKET REPORT

VACANCY RATE NEARS LONG-TERM COUNTYWIDE AVERAGE

The effects of a central bank raising interest rates to tame inflation and tenants battling supply-chain issues are showing up nationwide and in Orange County, where easing tenant demand for the county's 278-million-SF inventory has nearly doubled available space to 18 million SF in the last six quarters.

Increases in available direct space and sublet space - which also nearly doubled to 3.3 million SF - along with 2.6 million SF of new construction last year combined to push up the countywide vacancy rate from a record low 1.8% in Q4 2022 to 4.1% at the end Q1. The county's overall average vacancy rate since 2000 is 4.2%, far below the nation's 20-year vacancy rate average of 7.1%. Nationally, the vacancy rate increased from a historic low 3.9% in 2022 to the current 6.2%.

In addition to higher interest rates, which the Federal Reserve began raising in early 2022, industrial tenants everywhere have wrestled with a host of post-pandemic issues, including surplus inventories and slumping receipts for furniture, appliances and building materials.

Much of the county's tenant base is reliant on the transit of goods and materials through the twin ports of Long Beach and Los Angeles. Volumes through the San Pedro Bay port complex had been falling from their 2021 peak. But container traffic through the ports bounced back in early 2024 following ratification of a new labor agreement by dockworkers in September. The executive director of the Port of Los Angeles said he was expecting that first-quarter totals to show a 25% jump in cargo traffic compared to last year.

Orange County tenants have been getting some relief lately with rent gains slowing to 2.5% year over year. The current triple-net county average is \$1.66 per SF and represents rent growth of 126% over the last 10 years.

Negative net absorption in Q1 was up in three of the county's four major submarkets. Tenants shed 1.4 million SF in North County, the largest submarket with 117 million SF or 42% of the county's total. There was 531,424 SF of tenant contraction in the Airport submarket and 260,528 SF of negative growth in West County. South County tenant growth was up a net 396,872 SF.

The largest new lease in Q1 was in Foothill Ranch for 307,781 SF by Hampton Products. Otherwise, seven of the 10 largest Q1 leases were in the North County submarket.

The largest Q1 sale was \$15.1 million for a 41,000-SF building in the Irvine Spectrum to GF Properties of Sherman Oaks, Calif. The 34-year-old building with 24-feet of clear height has four tenants.

A pair of parcels totaling 38 acres and planned for 700,000 SF of new buildings in Irvine's Great Park were sold by Five Point Holdings LLC for \$174.2 million to developers Tishman Speyer and Dermody Properties.

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%" in Orange County for 2024 and roughly the same for all of California.

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ORANGE COUNTY

ECONOMIC INDICATORS

| | Current Quarter | Prior Quarter |
|-------------------------|-----------------|---------------|
| OC Unemployment | 3.8% | 3.8% |
| California Unemployment | 5.1% | 4.9% |
| US Unemployment | 3.7% | 3.8% |

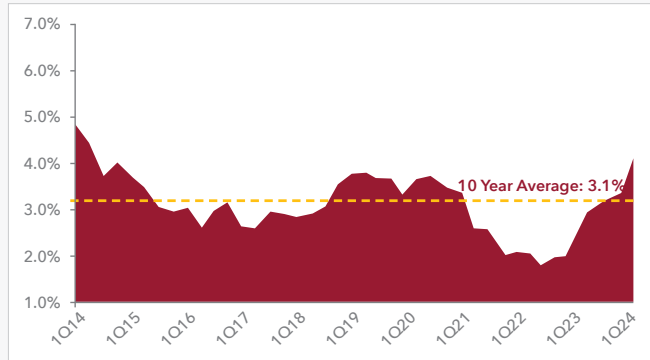
Source: EDD

INDUSTRIAL MARKET INDICATORS

| | Current Quarter | Prior Quarter |
|---------------------------|-----------------|---------------|
| Total Inventory (SF) | 277,751,101 | 277,298,113 |
| Vacancy Rate (%) | 4.1% | 3.2% |
| Net Absorption (SF) | -1,786,989 | 301,084 |
| Average Asking Rent (NNN) | \$1.66 | \$1.71 |
| Under Construction (SF) | 1,352,906 | 1,867,856 |

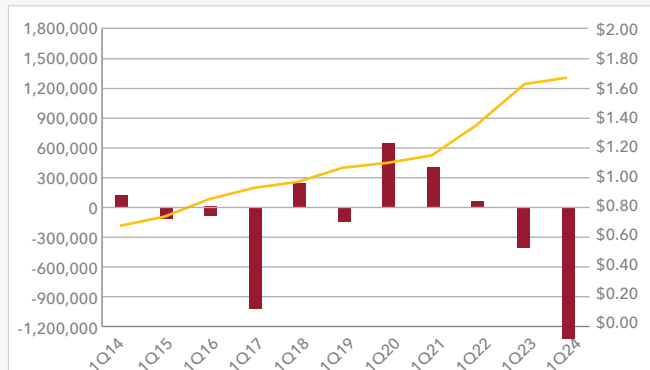
Source: CoStar

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 - 1Q 2024

| 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 | 3,203 | 117,364,685 | 6,992,602 | 5.9% | 4,497,271 | 3.8% | (1,393,729) | (1,393,729) | \$1.59 | 701,341 |
| West | 1,327 | 44,091,327 | 3,258,809 | 7.4% | 2,246,355 | 5.1% | (260,528) | (260,528) | \$1.73 | 237,499 |
| Greater Airport | 2,468 | 72,989,303 | 4,651,661 | 6.3% | 2,948,632 | 4.0% | (531,524) | (531,524) | \$1.75 | 294,027 |
| South | 1,236 | 43,005,431 | 3,054,266 | 7.1% | 1,558,968 | 3.6% | 396,872 | 396,872 | \$1.65 | 94,195 |
| Outlying | 5 | 300,355 | 27,764 | 8.5% | - 0 - | 0.0% | 1,920 | 1,920 | \$2.46 | 25,844 |
| TOTALS | 8,239 | 277,751,101 | 17,985,102 | 6.4% | 11,251,226 | 4.1% | -1,786,989 | -1,786,989 | \$1.66 | 1,352,906 |

Source: CoStar

LEASE TRANSACTIONS 1Q 2024

| PROPERTY | SF | TENANT | LANDLORD | REPRESENTING BROKERS |
|---------------------------------------------------------------------------------------------------------------------|---------|-------------------|-----------------------------|--------------------------------------------------------------------------------------------------|
|  5560 Katella Avenue Cypress, CA | 215,000 | Raymond West | Warland Investments Company | Allen Buchanan & Joshua Harper represented the Tenant. |
|  270 East Palais Anaheim, CA | 95,178 | Little Buddy Toys | 270 Palais LLC | Brad Schneider represented the Tenant and Ben Seybold/Jeff Pion (CBRE) represented the Landlord. |
|  29 Parker Irvine, CA | 59,199 | Balt USA | The Irvine Company | BJ Fell, Mark Jerue, Craig Fitterer & GianCarlo Spinosi represented the Tenant. |

SALE TRANSACTIONS 1Q 2024

| PROPERTY | SF | BUYER | SELLER | REPRESENTING BROKERS |
|----------------------------------------------------------------------------------------------------------------------------------------------|--------|-----------------------------|-----------------------------------------|----------------------------------------------------------------------------------------------------|
|  9640 Santa Fe Springs Road Santa Fe Springs, CA | 58,148 | T3 SFS, LLC | Mersits Equipment Rentals | Phillip DeRousse & Joel Hutak represented the Seller. |
|  23172, 23182 & 23192 Alcalde Drive Laguna Hills, CA | 56,045 | C3 Development Partners LLC | Alcalde/Park Laguna Limited Partnership | John Collins & Mike Kane represented the Buyer & Seller |
|  26845 Vista Terrace Lake Forest, CA | 35,277 | NKL & D, LLC | Sunningdale Properties, LLC | Mark Jerue, Craig Fitterer, BJ Fell & GianCarlo Spinosi represented both the Seller and the Buyer. |

LEE & ASSOCIATES - IRVINE

9838 Research Drive
Irvine, California 92618
(949) 727-1200

LEE & ASSOCIATES - NEWPORT BEACH

100 Bayview Circle, Suite 600
Newport Beach, California 92660
(949) 724-1000

LEE & ASSOCIATES - ORANGE

1004 West Taft Avenue, Suite 150
Orange, California 92865
(714) 647-9100

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