

	YoY Chg	12-Mo. Forecast
1.4% Vacancy Rate	▲	▼
664.6K Net Absorption, SF	▼	▲
\$1.57 Asking Rent, PSF	▲	▲

Overall, Net Asking Rent

ECONOMIC INDICATORS Q3 2022

	YoY Chg	12-Mo. Forecast
1.7M Orange County Employment	▲	▲
2.8% Orange County Unemployment Rate	▼	▲
3.5% U.S. Unemployment Rate	▼	▲

Source: BLS

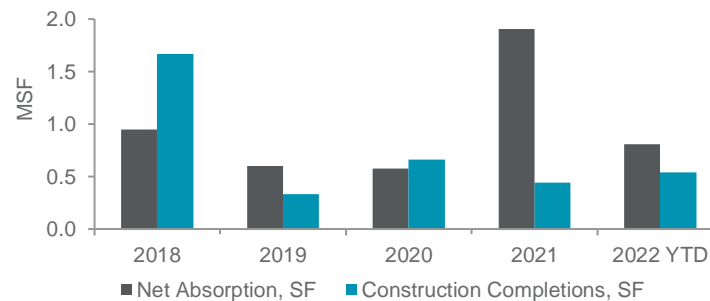
ECONOMIC OVERVIEW

Total nonfarm employment in Orange County (OC) grew by 57,900 or +3.6% year-over-year (YOY) between August 2021 and August 2022, with the trade, transportation and utility sector adding 1,900 jobs (+0.8% YOY) and manufacturing adding 7,600 jobs (+5.1% YOY). During the same time, the monthly unemployment rate decreased from 6.0% last year to 3.0% and is currently 20 basis points (bps) above the quarterly average of 2.8%.¹ All employment sectors are expected to grow at a combined rate of 5.1% in 2022 and 1.7% in 2023.² Diminishing consumer demand, full warehouses and inflation concerns led to a decline in cargo containers moved through the Port of Long Beach in September. Dockworkers and terminal operators moved 741,823 twenty-foot equivalent units (TEUs) of cargo containers last month (-0.9% YOY). Imports decreased 7.4% to 342,671 TEUs, while exports increased 1.9% to 112,940 TEUs. Empty containers moved through the Port rose 7.0% to 286,212 TEUs. The Port of Long Beach has moved 7,342,383 TEUs during the first nine months of 2022 (+3.5% YOY). Additionally, the Port processed 2,334,605 TEUs during Q3 2022 (-0.3% YOY). Consumers are growing more cautious with spending as the economy faces persistent inflation and aggressive tightening by the Federal Reserve, leading to warehouses filled with inventory and fewer product orders from Asia.³

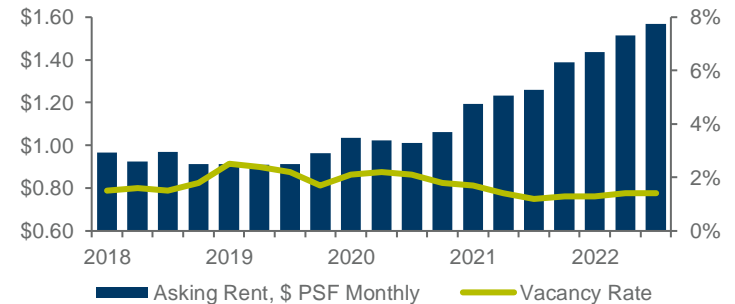
SUPPLY AND DEMAND

At the end of Q3 2022, OC's overall industrial vacancy rate remained flat at 1.4% quarter-over-quarter (QOQ) and increased 20 bps YOY. The current OC vacancy ranks as the third lowest in the U.S. after the neighboring Inland Empire market at 0.7% and Los Angeles at 1.1% vacancy. Comparing Q3 2022 vacancy by product type, warehouse/distribution (W/D) space recorded the lowest vacancy rate at 1.0%, a 20 bps decrease QOQ, but 30 bps higher than the historic low of 0.7% recorded a year ago. Overall vacancy for manufacturing space increased 20 bps QOQ to 1.2%, while overall vacancy for flex and research and development (R&D) space was 2.9%, flat from last quarter and 30 bps lower than a year ago. Available space on the market dropped for the second consecutive quarter to 5.1 million square feet (msf) or 2.0% overall availability rate which is 120 bps lower than the five-year rolling average of 3.2% (average of 8.1 msf). That difference translates to 3.0 msf less on the market available for lease. Sublease available space has remained unchanged for the last four quarters at 0.2%, totaling 576,887 sf available for sublease as of Q3 2022. Overall, occupancy increased by 664,631 square feet (sf) in Q3 2022. The submarkets were split this quarter with two posting occupancy gains while two posted occupancy losses. The Greater Airport Area (GAA) saw the biggest gain with 648,195-sf absorbed, due to Bedrosians moving into their 500,625-sf building in Tustin that was previously vacated by Ricoh. Other notable move-ins came from Planet Innovation occupying 67,940 sf in the Irvine Spectrum area as well as Vatech America taking 57,784 sf in Cypress. Some notable move-outs were Safran Electronics & Defense vacating 55,693 sf in Costa Mesa and Span-O-Matic leaving 50,331 sf in Brea. Overall, year-to-date absorption was measured at 806,822 sf through the first three quarters of the year.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT



New leasing activity, excluding renewals, continued to increase in Q3 2022 with a total of 3.1 msf, up 18.6% QOQ and up 0.9% YOY. North County saw the most leasing activity in OC thanks to a confidential tenant taking two full buildings at the new Goodman Logistics Center in Fullerton, totaling 1,025,262 sf. Other large leases signed in Q3 2022 included Crane Worldwide Logistics leasing 377,834 sf in Anaheim as well as Epson America pre-leasing 233,705 sf at the new Huntington Gateway Phase II project in Huntington Beach. By product type, W/D space took the lion's share with 2.4 msf (78%) of all new leasing activity, followed by manufacturing with 511,039 sf (16%).

PRICING

The countywide overall average asking rent for all product types combined was \$1.57 per square foot (psf) per month on a triple net basis, up \$0.06 (+3.6% QOQ) and up \$0.31 (+24.6% YOY). The average asking rent for W/D space increased by \$0.14 to \$1.69 psf (+9.0% QOQ). The overall asking rent for Flex and R&D space combined was \$1.53 psf, an increase of \$0.03 (+2.0% QOQ) and \$0.21 (+15.9% YOY). The average rent for manufacturing space increased by \$0.34 (+30.1% YOY) to \$1.47 psf in Q3 2022 compared to \$1.13 recorded in Q3 2021.

FUTURE INVENTORY

During Q3 2022, three new buildings finished construction, delivering 486,442 sf of new supply to the market. However, of the three buildings completed, only one was delivered vacant. This is indicative of the increasing pace of pre-leasing in OC. Of the 14 buildings currently under construction, 67% have been pre-leased, with only 1.1 msf left available. The strong fundamentals of the OC industrial market have led developers to build without a tenant in tow, and it appears to be working out for them. The majority, 86%, of all industrial under-construction projects in OC are being built on a speculative (SPEC) basis, with the remaining 14% as build-to-suit (BTS). To the point of OC market strength, the 1.5-msf SPEC Goodman Logistics Center in Fullerton is projected to be completed by the end of 2022. As of Q3 2022, three of the four buildings at Goodman Fullerton have already been pre-leased. In Huntington Beach, Epson America pre-leased 233,705 sf at Huntington Gateway Phase II, leaving only three of the five buildings left with the project not expected to finish until mid-2023.

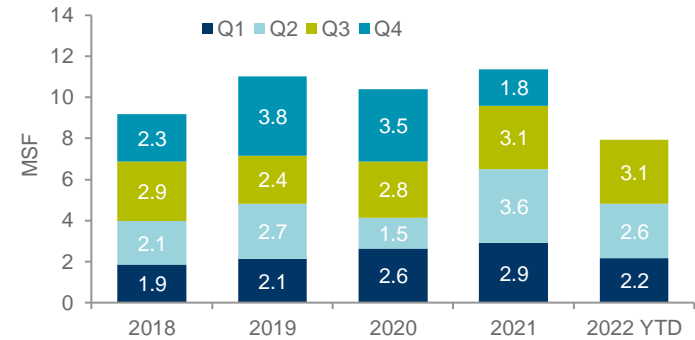
SALES ACTIVITY

The OC industrial market recorded \$1.0 billion in sales activity in Q3 2022 compared to \$541 million in Q2 2022 and \$746 million in Q3 2021. The average price psf was \$366 in Q3 2022, up 11% QOQ and 31% YOY. The average capitalization (cap) rate was unchanged QOQ at 3.6% and is 80 bps lower than Q3 2021's cap rate of 4.4%. The leading buyers so far in 2022 are private investors, accounting for 45% of buying activity (vs. 61% in 2021), followed by institutional buyers at 39% (vs. 32% in 2021).⁴

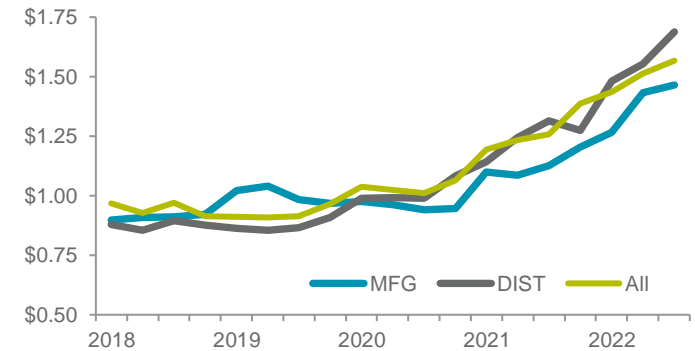
OUTLOOK

- Orange County remains a land-scarce, in-fill market located near the busiest port complex in North America, and as such landlords will continue to benefit from owning property in this tight, expensive market.
- The fundamentals of Orange County's industrial market remain strong, but the exuberance of the pandemic era may be cooling off. New leasing activity has dropped from the 2021 highs but is more in line with pre-pandemic activity. Rental rates continue to climb but with the economic headwinds of inflation, Federal Reserve rate hikes and a possible recession on the horizon, how much further they can go is in question.

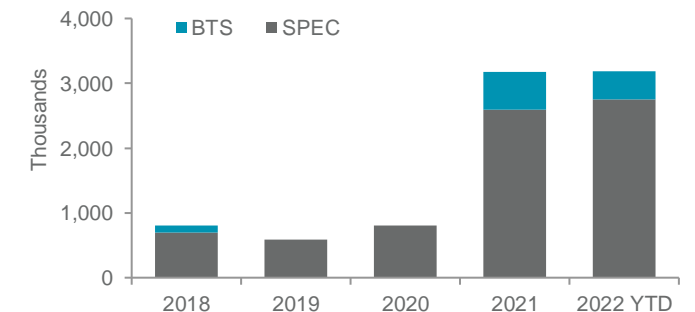
NEW LEASING ACTIVITY



AVERAGE MONTHLY ASKING RENT \$PSF MONTHLY NNN



UNDER CONSTRUCTION BY SF



Industrial Q3 2022

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD CONSTR COMPLETIONS (SF)	UNDER CNSTR (SF)	AVERAGE ASKING OVERALL RENT (ALL TYPES)*	AVERAGE ASKING OVERALL RENT (R&D)	AVERAGE ASKING OVERALL RENT (W/D)
South County	36,442,915	122,074	352,425	1.3%	112,952	434,767	145,000	99,638	\$1.58	\$1.59	\$1.55
Greater Airport Area	74,227,623	12,000	1,073,755	1.5%	648,195	491,841	219,827	0	\$1.65	\$1.81	\$1.54
West County	39,223,699	59,638	832,928	2.3%	-25,719	84,706	0	1,014,216	\$1.51	\$1.43	\$1.73
North County	109,386,876	31,787	1,037,105	1.0%	-70,797	-204,492	177,160	2,074,356	\$1.56	\$1.33	\$1.73
R&D	42,753,193	98,410	1,154,522	2.9%	5,547	265,521	0	0	\$1.53		
MFG	88,527,504	27,210	995,104	1.2%	-169,711	-183,352	0	0	\$1.47		
W/D	128,000,416	99,879	1,146,587	1.0%	828,795	724,653	541,987	3,188,210	\$1.69		
OC TOTALS	259,281,113	225,499	3,296,213	1.4%	664,631	806,822	541,987	3,188,210	\$1.57		

*Rental rates reflect weighted triple net asking \$psf/month. **Renewals not included in leasing statistics.

Flex/R&D, MFG = Manufacturing, W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
2099 E. Orangethorpe Ave.	North County	Confidential	538,226	Direct
2289 E. Orangethorpe Ave.	North County	Confidential	487,036	Direct
1515-1715 E. Winston Rd.	North County	Crane Worldwide Logistics	377,834	Direct
1801-1995 S. Standard Ave.	Greater Airport Area	Behr	296,991	Renewal*
5383 Bolsa Ave.	West County	Epson America	233,705	Direct

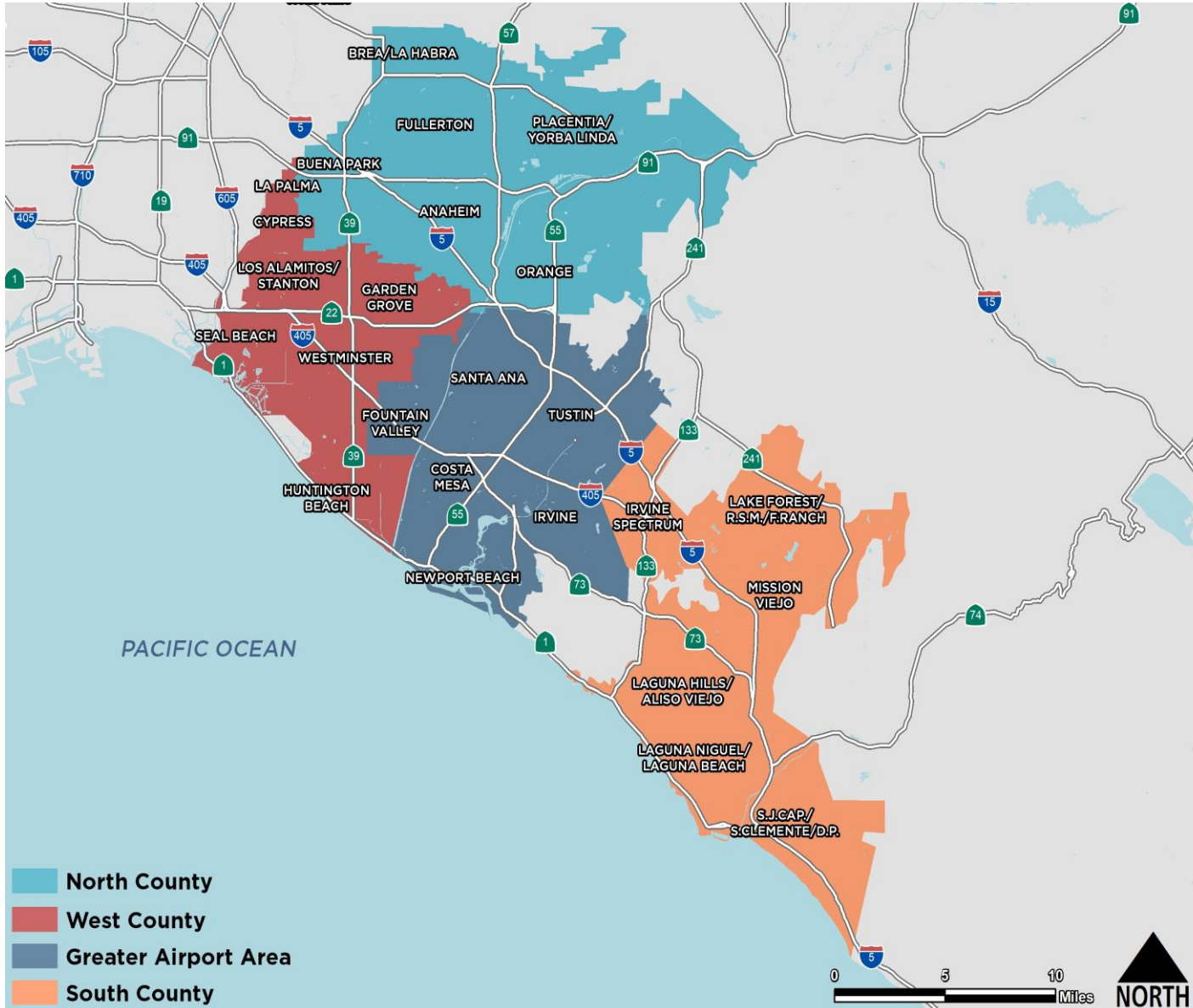
KEY SALES TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
458-486 Lambert Rd.	North County	AEW Capital / Global Logistic Properties	406,260	\$156.0M / \$384
1382 Bell Ave.	Greater Airport Area	SteelWave / County of Orange	127,000	\$91.0M / \$717
14321 Myford Rd.	Greater Airport Area	Siciliani Brothers LLC / Panattoni Development	53,865	\$21.3M / \$396
9701 Research Dr.	South County	All Leasing Services / Cohen Asset Management	52,207	\$25.0M / \$479
2652 White Rd.	Greater Airport Area	Azalea LP / Nurealty LLC	33,942	\$15.8M / \$466

KEY PROJECTS UNDER CONSTRUCTION 2022 YTD

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER
Goodman Logistics Center Fullerton	North County	Sprouts, Confidential Tenant	1,536,055	Goodman
Huntington Gateway – Ph. II	West County	Cambro Manufacturing, Epson America	1,015,000	Sares Regis
2872 E. La Palma Ave.	North County	N/A	187,520	Duke Realty
2929 E. Imperial Hwy.	North County	N/A	130,925	AEW Capital

INDUSTRIAL SUBMARKETS



JOSEPH ROSENA

Research Manager
Tel: +1 949 930 9226
joseph.rosena@cushwake.com

JOLANTA CAMPION

Senior Research Director, Southern California
Tel: +1 858 625 5235
jolanta.campion@cushwake.com

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 50,000 employees in over 400 offices and 60 countries. In 2021, the firm had revenue of \$9.4 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

©2022 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.