

1.6%
Vacancy Rate



708.9K
Net Absorption, SF



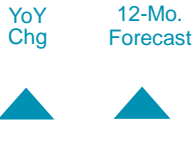
\$1.57
Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS Q1 2023

1.7M
Orange County Employment



3.2%
Orange County Unemployment Rate



3.5%
U.S. Unemployment Rate



Source: BLS

ECONOMIC OVERVIEW

Total nonfarm employment in Orange County (OC) grew by 44,600 or 2.7% year-over-year (YOY) with the trade, transportation and utilities sector adding 6,100 jobs (+2.4% YOY) and the manufacturing sector gaining 2,600 jobs (+1.7 YOY). During the same time, the monthly unemployment rate decreased from 3.7% last year to 3.4% and is currently 20 basis points (bps) higher than the quarterly average of 3.2%.¹ All employment sectors are expected to grow at a combined rate of 2.1% in 2023 and 0.8% in 2024.

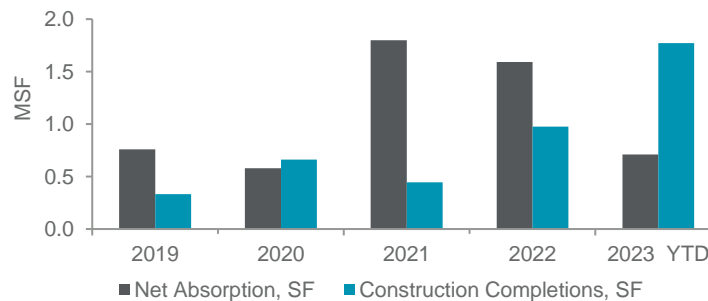
Port activity continued its slowdown from 2022 into the new year. Through February 2023, the Port of Los Angeles and the Port of Long Beach accounted for 1.1 million Twenty-Foot Equivalent Units (TEUs) combined of loaded imports, a 30.1% drop YOY.³ Part of the decline in imports can be attributed to the continuing ILWU-PMA labor contract negotiations. As negotiations between the two groups continue with no end in sight, fears of a strike by the ILWU continue to grow leading many shippers to divert their cargo to ports along the Gulf and East Coasts.

Advance estimates of U.S. retail and food services sales for February 2023 were \$697.9 billion, down 0.4% from the previous month, but up 5.4% YOY. Furthermore, the e-commerce share of total retail sales has declined from its peak of 16.4% recorded in Q2 2020 at the start of the COVID-19 pandemic to 14.7% in Q4 2022. E-Commerce sales totaled \$262.0 billion, a decrease of 0.1% quarter-over-quarter (QOQ) and a 6.5% increase YOY.⁴ Consumer spending habits will no doubt shift further as economic uncertainty impacts the broader region and nation.

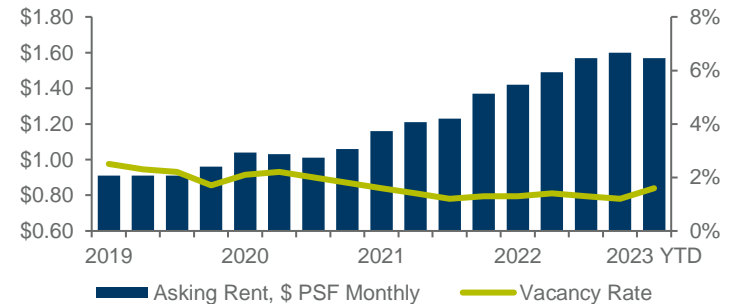
SUPPLY AND DEMAND

The OC industrial market softened in Q1 2023. The OC industrial vacancy rate recorded its largest quarterly increase since the first quarter 2020, jumping 40 bps QOQ and 30 bps YOY to 1.6%. However, the vacancy rate remained very tight as it has been under 2.0% for the last 10 quarters. The market recorded 708,921 square feet (sf) of positive net absorption through the first quarter largely due to the fully leased Goodman Logistics Center Fullerton delivering this quarter and adding over 1.5 million square feet (msf) of positive absorption. Four of the five largest move-ins during the first quarter came from pre-leased new construction deliveries. If we exclude the absorption derived from new buildings delivered, the OC industrial market posted just under 1.1 msf of negative net absorption, leading to the 40 bps increase in the vacancy rate. The largest vacancy came from Siemens PLM Software vacating 128,224 sf in the city of Cypress in West Orange County. Most tenants vacating were on the smaller side as most spaces and nearly half of all square footage vacated in the first quarter came from spaces below 50,000 sf. More space was added to the market as the total availability rate increased by 20 bps QOQ to 2.2%. Nearly 525,000 sf of available sublease space was added to the market, resulting in a 20 bps increase in sublease availability rate QOQ to 0.4%.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT



New leasing activity continued its decline from the previous quarters with the lowest total for quarterly leasing recorded in the past five years. In Q1 2023 new leasing totaled just under 1.4 msf, down 12.2% QOQ and a drop of 35.4% from a year ago. In comparison, the five-year historical quarterly new leasing average stands at 2.5msf. The most active submarkets were Fullerton in North Orange County with 21.3% of all activity and Irvine Spectrum in South Orange County with 13.8% of new leasing for the quarter. Although the largest lease transaction this quarter was a renewal; 3PL Global renewing their 229,422-sf space in Fullerton, this quarter's renewal activity of 451,364 sf was down 56.6% QOQ and 73.4% YOY. In comparison, the five-year historical quarterly renewal average measured 890,000 sf.

PRICING

After nine consecutive quarters of rent growth, the overall average asking rate in OC dropped to \$1.57 per square foot (psf) per month on a triple net basis, a \$0.03 psf decline (-1.9% QOQ) from last quarter, however a \$0.15 increase from a year ago (+10.6% YOY). The average asking rate for warehouse and distribution buildings, which constitutes the bulk of industrial inventory in OC, recorded a \$0.16 dip (-8.9% QOQ) dropping from \$1.79 psf to \$1.63, although \$0.17 higher than one year ago (+11.6% YOY). The drop in average asking rates isn't too surprising as multiple factors such as smaller, older buildings coming on the market, slowing leasing activity and an uncertain economic future may all be contributing to this decline.

FUTURE INVENTORY

At the end of Q1 2023 there were 19 buildings under construction in OC for just under 2.1 msf. Every building currently under construction is being built on a speculative basis. Of the total, just 193,833 sf (9.4%) has been preleased by tenants already. As these new projects get closer to delivering some more pre-leasing is expected to happen, however the market may see many new projects deliver vacant throughout the year contributing to the market's rising vacancy rate. This may be an indication that companies are hesitant to commit to leases too far in the future due to economic uncertainty.

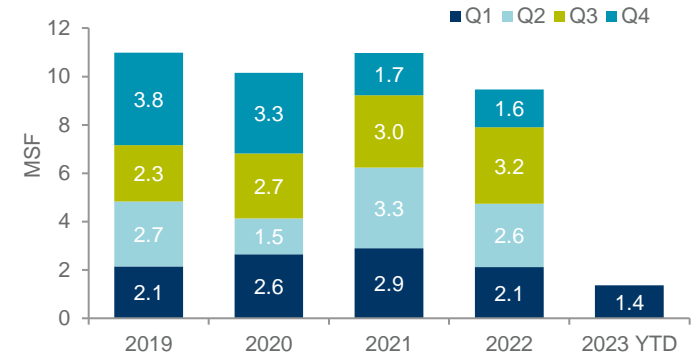
SALES ACTIVITY

Sales activity slowed down dramatically in Q1 2023, dropping 48% QOQ and 42% YOY to \$233 million. Consequently, the average price per square foot decreased 1.2% QOQ yet increased 11% YOY to \$349 psf. The average capitalization rate of 4.2% stayed flat QOQ and increased 30 bps YOY. ⁴ The interest rate hikes the Federal Reserve has been pushing through for the past year may finally be taking its toll on the sales market as the increase in the cost of capital may be pushing out more rate sensitive buyers and they are instead replaced with fewer but deeper pocketed cash buyers.

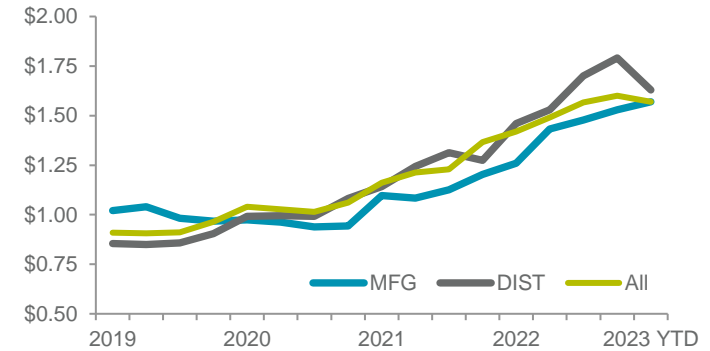
OUTLOOK

- The longer the contract negotiations between the ILWU and PMA go on, the likely hood of a strike increases. Shippers know this and are taking preventative measures by rerouting cargo to other ports, impacting the TEU volumes at the San Pedro ports. Once a contract is agreed upon, much of that lost cargo is expected to return.
- Although market conditions softened modestly in the first quarter, the OC industrial market is still incredibly strong. The overall vacancy rate is still one of the lowest in the nation while the average asking rent is one of the highest. OC is well positioned to weather the potential looming recession.

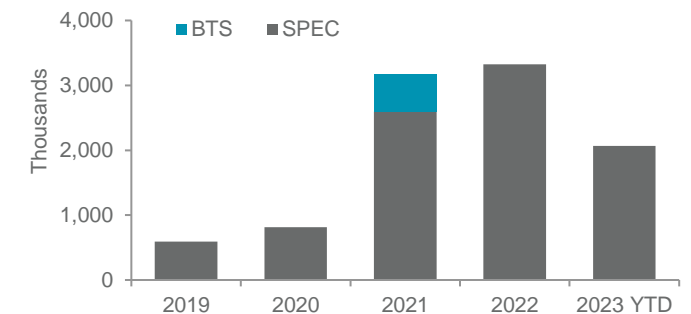
NEW LEASING ACTIVITY



AVERAGE MONTHLY ASKING RENT \$PSF MONTHLY NNN



UNDER CONSTRUCTION BY SF



Industrial Q1 2023

MARKET STATISTICS

| SUBMARKET | INVENTORY (SF) | SUBLET VACANT (SF) | DIRECT VACANT (SF) | OVERALL VACANCY RATE | CURRENT OVERALL NET ABSORPTION (SF) | YTD OVERALL NET ABSORPTION (SF) | UNDER CNSTR (SF) | YTD CNSTR COMPLETIONS (SF) | AVERAGE ASKING OVERALL RENT (MFG) | AVERAGE ASKING OVERALL RENT (W/D) | AVERAGE ASKING OVERALL RENT (ALL TYPES)* |
|----------------------|--------------------|--------------------|--------------------|----------------------|-------------------------------------|---------------------------------|------------------|----------------------------|-----------------------------------|-----------------------------------|--|
| North County | 110,637,526 | 248,973 | 1,302,766 | 1.4% | 982,086 | 982,086 | 576,244 | 1,536,055 | \$1.67 | \$1.55 | \$1.50 |
| West County | 39,355,722 | 62,385 | 956,042 | 2.6% | -34,756 | -34,756 | 594,541 | 233,705 | \$1.40 | \$1.74 | \$1.54 |
| Greater Airport Area | 73,097,640 | 18,710 | 924,799 | 1.3% | -166,432 | -166,432 | 568,517 | 0 | \$1.52 | \$1.67 | \$1.58 |
| South County | 35,160,934 | 203,027 | 404,107 | 1.7% | -71,977 | -71,977 | 330,141 | 0 | \$1.75 | \$1.52 | \$1.71 |
| R&D | 22,717,399 | 184,081 | 743,553 | 4.1% | -174,988 | -174,988 | 97,896 | 0 | | | \$1.60 |
| MFG | 88,009,881 | 70,166 | 1,163,809 | 1.4% | -366,252 | -366,252 | 0 | 0 | | | \$1.57 |
| FLEX | 18,149,512 | 5,777 | 600,553 | 3.3% | -100,784 | -100,784 | 0 | 0 | | | \$1.47 |
| W/D | 129,375,030 | 273,071 | 1,079,799 | 1.0% | 1,350,945 | 1,350,945 | 1,971,547 | 1,769,760 | | | \$1.63 |
| OC TOTALS | 258,251,822 | 533,095 | 3,587,714 | 1.6% | 708,921 | 708,921 | 2,069,443 | 1,769,760 | \$1.57 | \$1.63 | \$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 Q1 2023

| PROPERTY | SUBMARKET | TENANT | SF | TYPE |
|---------------------------|----------------------|---------------------------|---------|-----------|
| 2501 E. Orangethorpe Ave. | North County | 3PL Global | 229,422 | Renewal** |
| 2362 Kimberly Ave. | North County | Bandai Logipal America | 173,825 | Direct |
| 4 Goodyear | Greater Airport Area | Terran Orbital | 94,195 | Direct |
| 2701 S. Harbor Blvd. | Greater Airport Area | Robinson Pharma | 71,583 | Sublease |
| 2337 Commonwealth Ave. | North County | True Steel & Cutting, Inc | 64,292 | Direct |

KEY SALES TRANSACTIONS Q1 2023

| PROPERTY | SUBMARKET | SELLER / BUYER | SF | PRICE / \$ PSF |
|---------------------------------------|----------------------|--|---------|-----------------|
| 17701 & 1771 S. Lewis St. | North County | Raymab LLC / Greenlaw Partners | 198,807 | \$58.0M / \$292 |
| 7272-7274 Lampson Ave. | West County | Commercial Custom Seating & Upholstery / Dornin Investment Group | 65,234 | \$16.4M / \$251 |
| 515 S. Rose St. | North County | Anaheim Plastic Inc. / Associated Group | 23,625 | \$7.6M / \$320 |
| 15682 Product Ln. & 5831 Research Dr. | West County | IVS International / Cooper & Brain Oil Inc | 22,400 | \$10.0M / \$446 |
| 3587-3989 Harbor Blvd. | Greater Airport Area | VAM Realty Pacific, LLC / Zero Impact Properties | 19,271 | \$6.1M / \$316 |

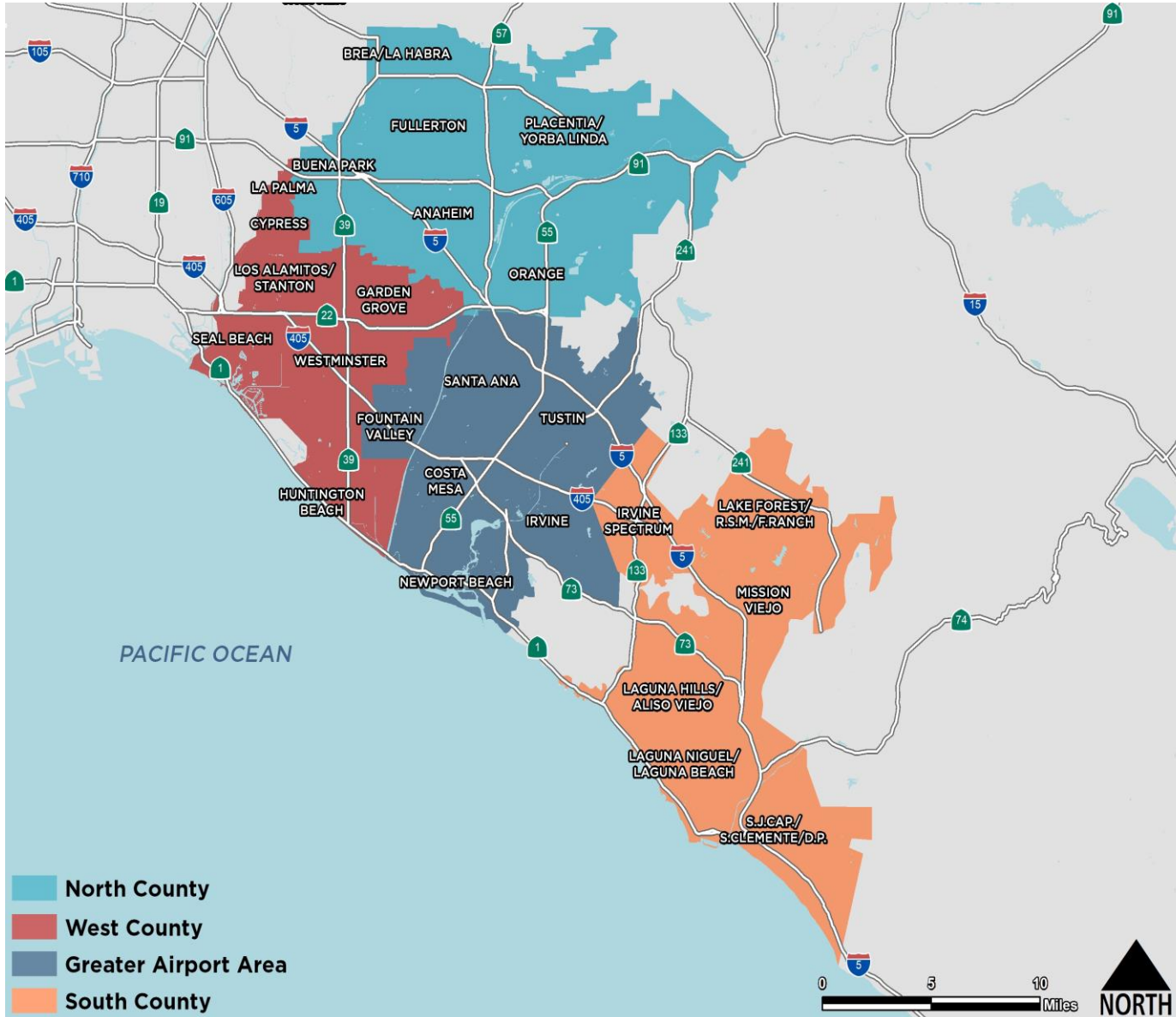
KEY PROJECTS UNDER CONSTRUCTION 2023

| PROPERTY | SUBMARKET | MAJOR TENANT | SF | OWNER |
|---|----------------------|--------------|---------|--------------------|
| 2872 E. La Palma Ave. | North County | N/A | 187,520 | Prologis |
| LogistiCenter at 55 | Greater Airport Area | N/A | 178,094 | Dermody Properties |
| Prologis West Orange Counter Logistics Center | West County | N/A | 149,335 | Prologis |

ORANGE COUNTY

Industrial Q1 2023

INDUSTRIAL SUBMARKETS



SEBASTIAN WELLS

Research Analyst
Tel: +1 949 629 7886
sebastian.wells@cushwake.com

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

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