

ORANGE COUNTY

Industrial Q1 2024

	YoY Chg	12-Mo. Forecast
2.8% Vacancy Rate	▲	▲
-404.6K Net Absorption, SF	▼	▲
\$1.66 Asking Rent, PSF	▲	▲

Overall, Net Asking Rent

ECONOMIC INDICATORS Q1 2024

	YoY Chg	12-Mo. Forecast
1.7M Orange County Employment	▲	▲
4.0% Orange County Unemployment Rate	▲	▼
3.8% U.S. Unemployment Rate	▲	▲

Source: BLS

ECONOMIC OVERVIEW

From February 2023 to February 2024, total nonfarm employment in Orange County (OC) increased by 24,100 jobs, an increase of 1.4% year-over-year (YOY). The trade, transportation and utilities sector gained 700 jobs (+0.3%) over the past year, while manufacturing lost 1,000 jobs (-0.6%) in the same timeframe. During the same time, the monthly unemployment rate increased from 3.4% last year to 4.2% and is currently 20 basis points (bps) above the quarterly average of 4.0%.¹ The recovery from the 272,500 nonfarm job losses experienced between March and May 2020 has been completed, with 275,700 jobs gained from June 2020 through February 2024. All employment sectors are projected to grow at a combined growth rate of 1.5% in 2024 and 1.2% in 2025 compared to the five-year historical average of 0.2%.²

Through February 2024, the Port of Los Angeles and the Port of Long Beach accounted for 1.5 million Twenty-Foot Equivalent Units (TEUs) combined of loaded imports, a 32.1% increase YOY.³ Advanced estimates of U.S. retail and food services sales for February 2024 were \$700.7 billion, up 0.6% from the previous month and up 1.5% YOY. E-commerce sales totaled \$285.2 billion, an increase of 0.8% quarter-over-quarter (QOQ) and 7.5% YOY, with the e-commerce share of total retail sales declining from its peak of 16.5% in Q2 2020 to 15.6% in Q4 2023.⁴ So far, consumer spending habits have remained strong. Depending on how consumer spending performs will impact the broader region and nation.

SUPPLY AND DEMAND

In OC, the overall vacancy rate rose for the fifth consecutive quarter, increasing by 30 bps QOQ and 130 bps YOY, culminating at 2.8%. Overall net absorption remained negative for the fourth consecutive quarter, with the total square footage returned by tenants reaching 404,601 square feet (sf) in Q1 2024. Every submarket except for the Greater Airport Area (GAA) recorded negative net absorption for the quarter. The GAA was helped by Northgate Gonzalez moving into 106,862 sf in Irvine. The largest vacancy of the quarter came from Freeman Expositions placing 165,000 sf of their space in Anaheim within North County on the market for sublease.

In addition to tenants vacating space throughout the county, the rise in the vacancy rate can also be attributed to speculative (SPEC) construction projects delivering without prior tenant commitments. Of the 422,597 sf of new inventory that came online in Q1 2024, only one building, totaling 165,850 sf, was pre-leased. Of the 1.3 million square feet (msf) projected for completion by year-end 2024, 93.0% remains available for lease. If the remaining projects that are expected to be completed in 2024 are all delivered vacant, that would push the vacancy rate upwards by 50 bps to 3.3%.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT



Available space on the market continues to climb in OC. At the end of Q1 2024, there were over 10.2 msf on the market available for lease, a 23.6% increase from the end of 2023 and nearly double the amount of space on the market from one year ago. The surge was completely due to direct space, rather than on a sublease basis. Sublease space has declined for the past three quarters, ending Q1 2024 with just over 1.3 msf. But even with the decline in sublease space, the amount of space on the market is expected to grow as new leasing remains muted. Leasing activity in Q1 2024 totaled just under 1.4 msf, a 43.1% decline QOQ and down 10.6% from a year ago. The dip in leasing volume has also impacted renewals, with renewal activity falling by 7.0% from the previous quarter.

PRICING

Overall asking rents in OC have peaked as the average asking rent dropped for the second consecutive quarter, falling \$0.07 to \$1.66 per square foot (psf) per month on a triple net basis. Although higher than the \$1.57 psf from a year ago, asking rent reductions on available space is still commonplace. For warehouse and distribution buildings, which comprise the majority of industrial inventory in OC, the average asking rate decreased even further, dropping \$0.09 (-5.0%) QOQ to \$1.72 psf.

FUTURE INVENTORY

At the end of Q1 2024, OC recorded 14 I buildings currently under construction, slightly under 1.5 msf. Every project currently under construction in OC is being developed on a SPEC basis, with only one building pre-leased as of the end of the quarter. While it is common for the pace of pre-leasing to accelerate as a project approaches its completion, with the subdued leasing activity, several developers have decided to postpone initiating new projects until they can ensure a tenant for their space.

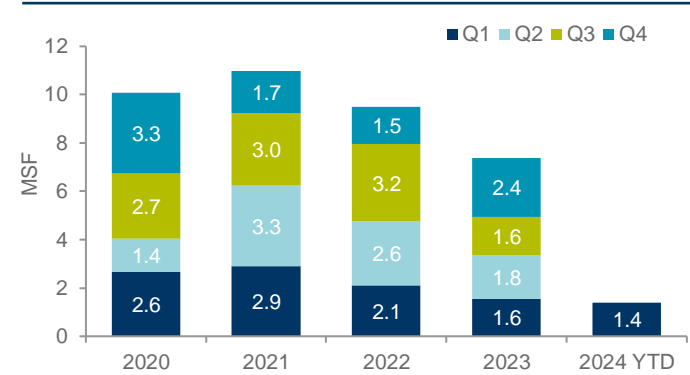
SALES ACTIVITY

In Q1 2024, sales activity fell, plummeting 80.5% QOQ and 81.1% YOY, to \$83.8 million.⁵ This resulted in the average price psf dipping by 2.4% QOQ and down 17.0% YOY from \$341 to \$283 psf. Concurrently, although the average capitalization rate observed a minor reduction of 10 basis points QOQ, it stands 90 bps higher YOY at 5.2%. In response to economic conditions, as of March 2024, the Federal Reserve is holding the federal funds rate steady with a cautious stance on rate adjustments, focusing on a sustainable approach towards their 2% inflation goal. This stance maintains a higher cost of capital, which could influence sale transaction volumes and overall economic momentum.

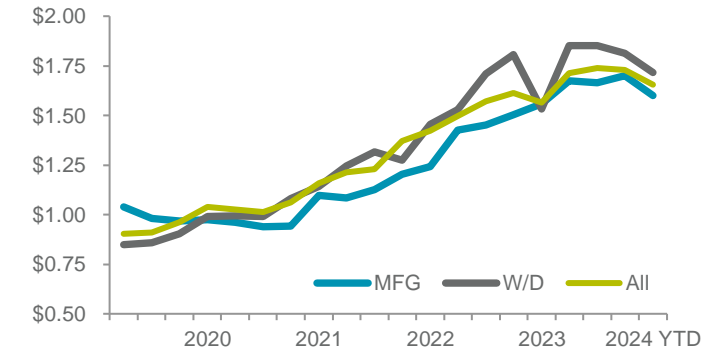
OUTLOOK

- As developers exercise caution due to reduced demand, there's an expectation that the pace of new SPEC construction projects will slow in the upcoming quarters. Despite this slowdown, a considerable amount of new construction is still anticipated in the next year, which suggests a sustained, though cautious, inventory growth.
- The Federal Reserve's stance to keep its benchmark interest rates steady at 5.25% to 5.5% may continue to impact the OC industrial market. Initially, projections indicated potential rate reductions; however, given the latest policy to maintain rates, developers and investors might remain in a holding pattern, awaiting more precise signals of monetary easing before escalating transaction activities in the real estate market.

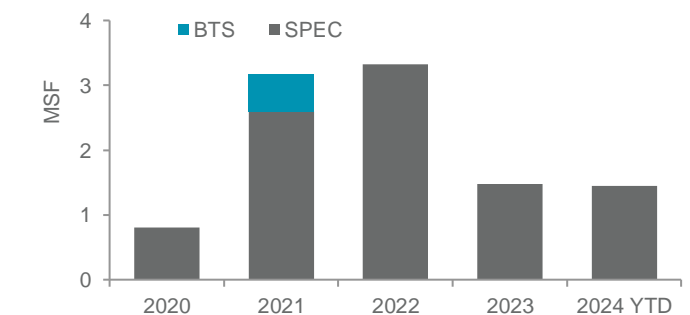
NEW LEASING ACTIVITY



AVERAGE MONTHLY ASKING RENT \$PSF MONTHLY NNN



UNDER CONSTRUCTION BY BUILDING TYPE



Industrial Q1 2024

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	109,178,097	985,354	1,838,863	2.6%	-112,658	-112,658	372,870	165,850	\$1.52	\$1.78	\$1.67
West County	38,935,663	23,199	1,418,140	3.7%	-344,142	-344,142	627,767	0	\$1.64	\$1.80	\$1.72
Greater Airport Area	69,950,588	112,798	1,800,494	2.7%	94,897	94,897	219,939	256,747	\$1.63	\$1.48	\$1.55
South County	35,347,311	74,262	789,252	2.4%	-42,698	-42,698	230,503	0	\$1.66	\$1.72	\$1.66
R&D	21,652,111	78,300	645,466	3.3%	-101,545	-101,545	0	0	N/A	N/A	\$1.55
MFG	84,390,208	75,997	1,335,897	1.7%	-7,186	-7,186	0	0	N/A	N/A	\$1.60
FLEX	17,972,091	51,098	162,501	1.2%	-3,564	-3,564	0	0	N/A	N/A	\$1.50
W/D	129,397,249	990,218	3,702,885	3.6%	-292,306	-292,306	1,451,079	422,597	N/A	N/A	\$1.72
OC TOTALS	253,411,659	1,195,613	5,846,749	2.8%	-404,601	-404,601	1,451,079	422,597	\$1.60	\$1.72	\$1.66

*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 2024

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1226 N. Olive St.	North County	MBV-CA, LLC	364,586	Direct
50 Icon	South County	Hampton Products	307,781	Renewal**
1800-1880 E. Saint Andrew	Greater Airport Area	Fabrication Concepts (Fabcon Inc.)	118,224	Renewal**
5473 Bolsa Ave.	West County	Mach Industries	110,592	Direct
2450 White Rd.	Greater Airport Area	Northgate Gonzalez	106,862	Sublease

KEY SALES TRANSACTIONS Q1 2024

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
1450-1456 S. Manhattan Ave.	North County	Omni Metal Finishing Inc. / Highland Lumber Sales	48,235	\$13.4M / \$277
170 Technology Dr.	South County	TA Realty / GF Properties	41,905	\$15.1M / \$360
1000 Walnut Ave.	North County	PWE Inc. / Ralin Enterprises	35,495	\$6.3M / \$177
26845 Vista Terrace	South County	Sunningdale Properties LLC / NKL & D LLC	35,277	\$13.6M / \$385
7571 Santa Rita Cir.	West County	Melvin McGaughtry / Ronald Berg	20,955	\$6.8M / \$325

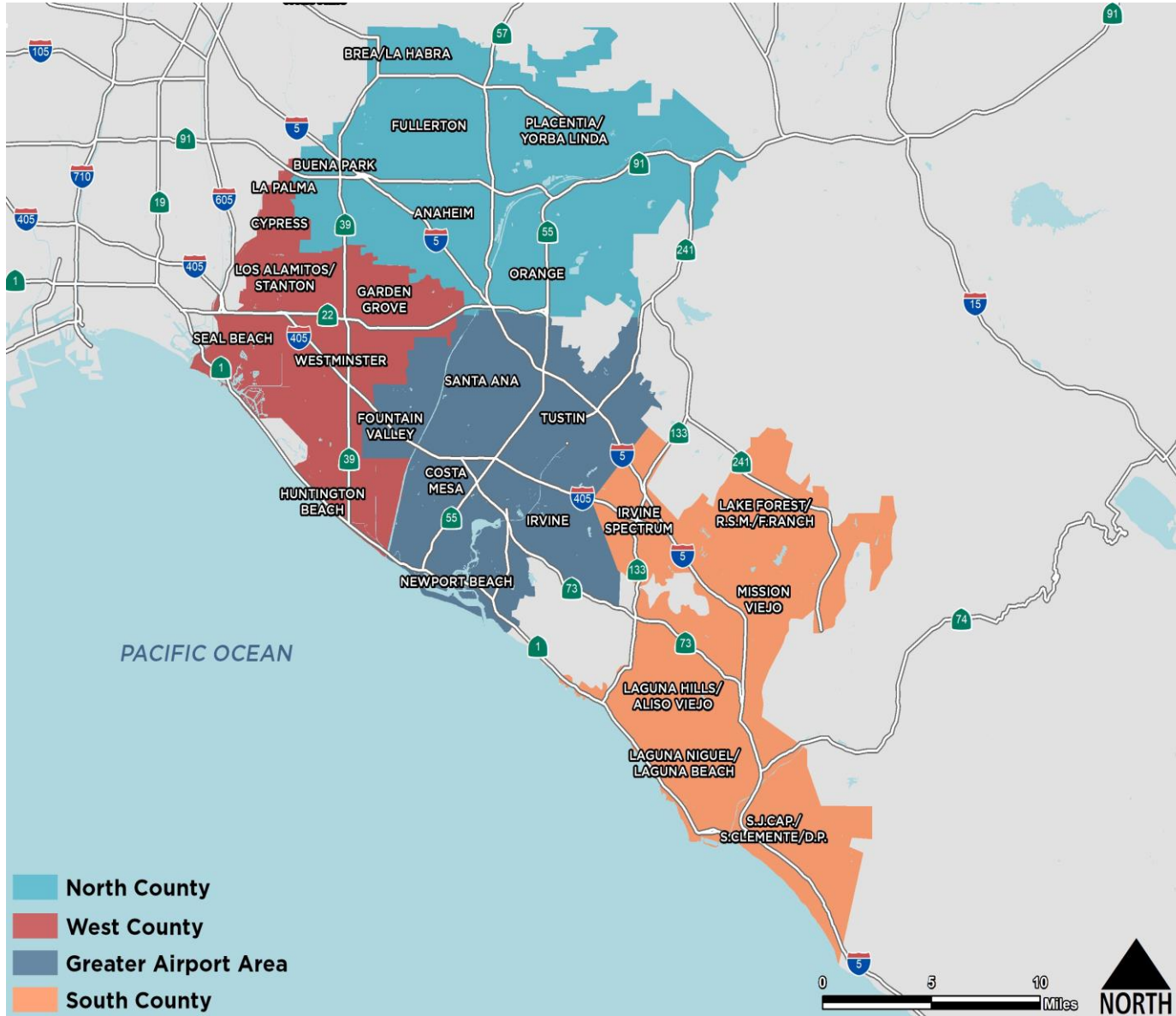
KEY PROJECTS UNDER CONSTRUCTION 2024 YTD

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER
Cypress Technology Center	West County	N/A	390,268	Goodman Group
Prologis West Orange County Logistics Center	West County	N/A	149,335	Prologis, Inc.
Swallows Creek	South County	N/A	136,308	Integral Communities, Inc.

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INDUSTRIAL SUBMARKETS



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