

ORANGE COUNTY

SECOND QUARTER 2024 INDUSTRIAL MARKET REPORT

DEMAND SLUGGISH, VACANCY UP IN MARKET DOG DAYS

Orange County tenant demand continued to downshift in the first half, fueling a rise in the overall vacancy rate to 4.4% from the record low of 1.9% at the end of 2022. Leasing activity is down and rent growth has gone flat after more than a decade of steady double-digit annual growth.

The 799,275 SF of negative net absorption in the second quarter and Q1's negative 2.1 million SF brings the total decline in the last six quarters to more than 5 million SF. Available space at the end of Q2 totaled 21.2 million SF, up by 12 million SF since 2022. Sublet space availability of 4.3 million SF, including 1 million SF added in Q2, is the most since 2009.

The recent contraction coincides with a series of 11 interest rate hikes in 2022-23 by the Federal Reserve that were aimed at slowing the economy to bring inflation under control. Since the Fed began increasing rates, the countywide leasing quarterly average of 3.9 million SF has fallen 17% to the lowest volume on record.

Orange County's 277-million-SF industrial property market has been at virtual build-out and largely unchanged for 20 years. There are 8,228 buildings occupied by a diverse tenant mix which helps blunt economic shocks. Following the 2008 financial crisis, for example, the countywide vacancy rate peaked at 7.5%. Otherwise, the long-term average has been 4.5% since 2000.

Nevertheless, since 2022 the time has grown to land a prospective tenant who increasingly enjoys more choices and less competition. Landlords are offering concessions.

Owners of some of the county's largest buildings, averaging near 100,000 SF, are among the most exposed. At the peak of the pandemic, when consumers had turned en masse to online shopping, there were far too few large distribution buildings in Orange County to satisfy the heightened demand. Naturally, Class A logistics buildings became prime investment-grade commercial property and developers rushed to create added supply.

Today there are nine new premium distribution buildings available ranging from 91,600 SF in Irvine to 128,794 SF in Anaheim. Seven of the nine buildings are in North County. Three of the buildings are subleases. Two landlords are offering five months free on five-year leases.

Among the largest net leases in Q2 was a five-year term for a 90,336-SF building in Fullerton at \$1.43 per SF by tenant McKenna Labs. Vintage Design Inc. leased an 88,188-SF building in Lake Forest for five years at \$1.63 per SF. Toyota signed a two-year lease for 73,218 SF in Irvine at \$1.76 per SF.

The largest sale in Q2 was for a 278,572-SF Fullerton building for \$338 per SF sold by American Realty Advisors to Rexford Industrial Realty of Los Angeles. Penwood Real Estate Management sold a 104,767-SF building in Anaheim for \$616 per SF to H & S Ventures of Corona del Mar.

MARKET FORECAST

CalState Fullerton's quarterly survey of local business executives shows some overall weakening of outlook in the second quarter. But 35% percent said they expected an increase in 2Q sales compared to 28% in Q1.

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ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	3.2%	3.8%
California Unemployment	5.2%	4.9%
US Unemployment	4.1%	3.7%

Source: EDD

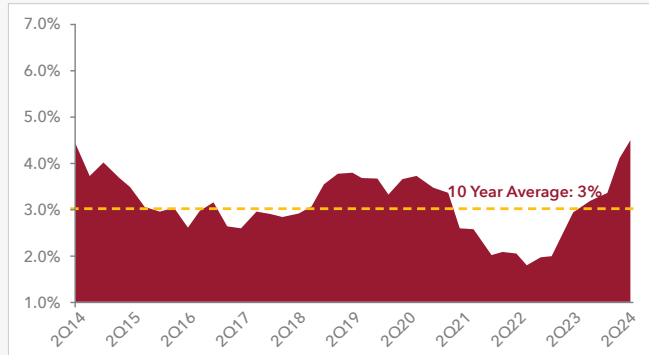
INDUSTRIAL MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	276,920,037	276,865,044
Vacancy Rate (%)	4.4%	4.1%
Net Absorption (SF)	(799,275)	(2,099,522)
Average Asking Rent (NNN)	\$1.63	\$1.66
Under Construction (SF)	1,936,270	1,310,654

Source: CoStar

*All numbers are based on industrial & flex buildings 10,000 sq. ft. and larger.

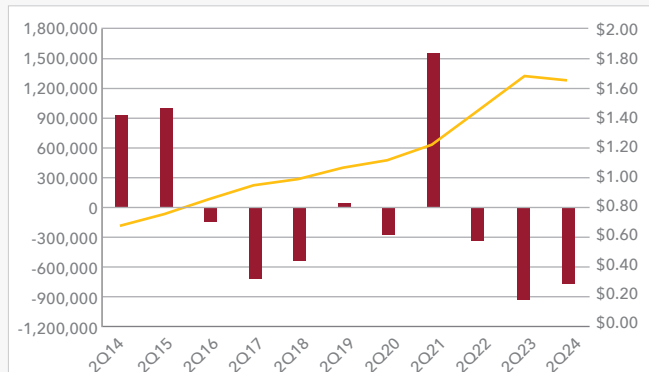
OVERALL VACANCY



Source: CoStar

*All numbers are based on industrial & flex buildings 10,000 sq. ft. and larger.

NET ABSORPTION VS ASKING RATES



Source: CoStar

*All numbers are based on industrial & flex buildings 10,000 sq. ft. and larger.

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ORANGE COUNTY INDUSTRIAL MARKET STATISTICS - 2Q 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	3,198	117,296,508	8,739,691	7.4%	5,082,680	4.3%	(351,137)	(2,058,296)	\$1.58	794,266
West	1,324	43,680,551	3,762,614	8.5%	2,295,256	5.3%	(218,282)	(478,590)	\$1.60	539,603
Greater Airport	2,465	72,897,395	5,005,167	6.8%	3,145,491	4.3%	(86,738)	(620,675)	\$1.66	283,286
South	1,234	42,719,384	3,681,417	8.6%	1,699,436	4.0%	(146,618)	253,344	\$1.68	319,115
Outlying	7	326,199	22,344	6.8%	22,344	6.8%	3,500	5,420	\$2.45	- 0-
TOTALS	8,228	276,920,037	21,211,233	7.6%	12,245,207	4.4%	(799,275)	(2,898,797)	\$1.63	1,936,270




Source: CoStar

*All numbers are based on industrial & flex buildings 10,000 sq. ft. and larger.

LEASE TRANSACTIONS 2Q 2024

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
 12681-12691 Pala Drive Garden Grove, CA	149,335	Daisy Nail Products, Inc.	Liberty Property Limited Partnership	Brad Schneider represented the Landlord.
 2321 Pullman Avenue Santa Ana, CA	52,500	ACD, LLC	CREF3Pullman 2 Owner, LLC	Chuck Noble, Dave Hunsaker & Phil Fridd represented the Tenant.
 125 Columbia Aliso Viejo	26,825	RxSight, Inc.	BML Management	Guy LaFerrara & Brock Stryker represented the Tenant.

SALE TRANSACTIONS 2Q 2024

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
 9575 Aero Drive San Diego, CA	48,635	Rady Children's Hospital - San Diego	JRC 3, LLC	Ryan Swanson & Todd Swanson represented the Seller.
 1345 N. Brasher Street Anaheim, CA	10,688	1345 Brasher, LLC	SLS Partners, LLC	Ryan Magarian & Nick Magarian represented the Buyer and Scott Seal represented the Seller.
 519-521 W 17th Street Long Beach, CA	4,968	Daren G Fields	KDG Investments LLC	Nick Krakower & Jim deRegt represented the Seller.

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