

Orange County

Industrial Market Outlook Q4 2022

MARKET OVERVIEW

The industrial market in the Orange County saw vacant space drop to a record low in Q4 2022 as supply chain issues began to get sorted out together with warehouse demand for cargo coming from the ports of Los Angeles and Long Beach. The vacancy rate for industrial space decreased 50 basis points year over year to 1.9 percent as close to 1 million square feet of completed construction was added to the market since the start of the year. Completed construction more than doubled from last year while vacant industrial space decreased 24.1 percent and the average asking rent increased 27.9 percent to \$1.56 per square foot triple net. With demand for warehouses still robust and rents rising, developers continued building new projects to meet demand. More than to 3.5 million square feet of industrial space remained under construction at year end.

The industrial market leased close to 10 million square feet in 2022 while sales volume represented 4.4 million square feet, a decrease of 6.4 percent in leasing and 30.3 percent in sale volume. Demand for last mile warehouse/distribution buildings continued to be driven by ecommerce, pushing construction. Additionally, warehouses getting leased before completion prodded construction in 2022. The largest projects under construction represented 1.6 million square feet of preleased industrial space, indicating only about half of the industrial space under construction as of Q4 2022 remained available.

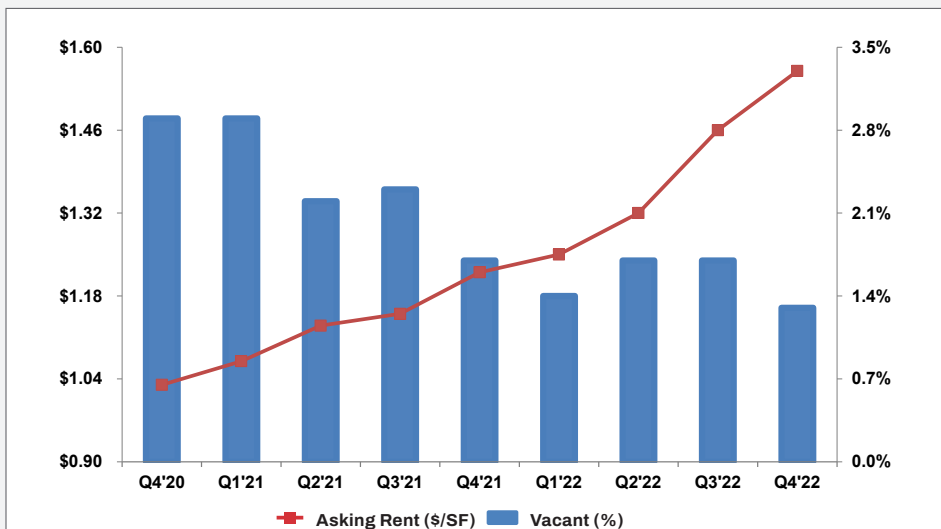
TRENDS TO WATCH

In Orange County demand for industrial space outpaced supply for years as strong rent and sale price growth rates finally drove development in 2022. With construction improving the availability of industrial space, the added supply will elevate the challenge for tenants looking to occupy industrial space in the region and provide more opportunity.

Industrial space under construction jumped 73.9 percent year over year. With 1,131,187 square feet of net absorption year to date and completed construction totaling 956,231 square feet, the supply of new construction almost caught up with demand in 2022. Demand for well-located state of the art warehouse distribution space is expected to continue, with North Orange County remaining a draw for its largest, newest, big-box industrial buildings. Vacancy in the North plummeted to a low 0.9 percent in Q4 2022, making it the tightest submarket in the region. The average rent there shot up 28.8 percent year over year to \$1.52 per square foot, making the case for new construction. Close to half of the space under construction was in North Orange County as of Q4. In the West, industrial space under construction increased 324 percent and rent 38.7 percent above last year. Airport with virtually no space under construction last year now has more than half-million square feet, a 1.7 percent vacancy rate, and rent 25.8 percent higher than last year.

Orange County's industrial market is seeing a welcomed increase in the availability of industrial space –albeit priced significantly higher. With cheap financing no longer a market reality in 2023, higher interest rates will slow the economy and impact real estate values by increasing borrowing costs.

Average Asking Rent and Vacancy Rate



MARKET OUTLOOK

Asking Rental Rates



Sale Prices



Availability/Vacancy Rates



Landlord Concessions



Sales/Leasing Volume



New Construction



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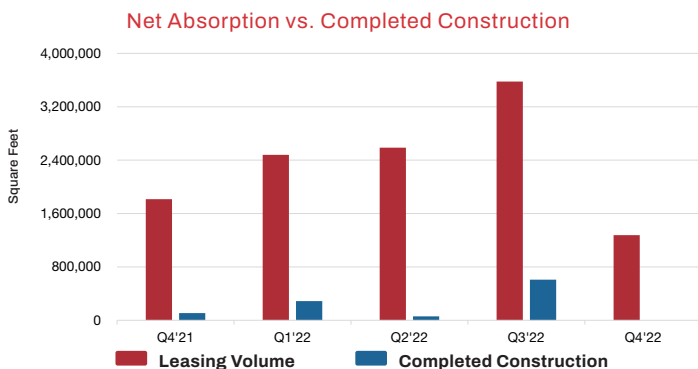
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Market Statistics*

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT (\$/SF NNN)	AVERAGE SALE PRICE (\$/SF)
Airport	54,075,188	531,597	3.6%	1.7%	560,084	2,120,674	191,221	1,021,578	\$1.56	\$424
North	96,784,705	1,649,570	2.7%	0.9%	410,413	4,823,844	560,606	2,208,069	\$1.52	\$252
South	25,303,792	244,638	2.1%	1.4%	154,369	1,043,070	144,383	307,240	\$1.64	\$208
West	40,758,573	1,102,112	4.6%	1.3%	151,060	1,932,661	399,391	861,785	\$1.54	\$173
Orange County	216,922,258	3,527,917	3.2%	1.3%	1,275,926	9,920,249	1,295,601	4,398,672	\$1.56	\$250

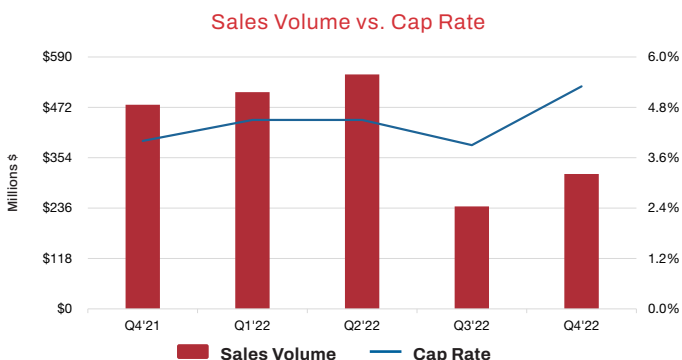
Leasing Trends

The last five quarters underscore leasing volume trends. Leasing volume totaled 9,920,249 square feet year to date in Q4 2022, while completed construction added to the market totaled 956,231 square feet. The supply of completed construction remained well below leasing volume in Orange County.



Sales Trends

The total sales volume in 2022 persisted at a brisk pace, rising 16.4 percent from 2021 to more than \$316 million, despite the rise in interest rates. The average cap rate on investment sales moved up 130 basis points from the fourth quarter of 2021 to 5.3 percent.



Select Lease Transactions

ADDRESS	CITY	SUBMARKET	SIZE SF
601-605 W Dyer Rd*	Santa Ana	Airport	135,371
1225 W Imperial Hwy	Brea	North	126,681
19531 Pauling*	Foothill Ranch	South	117,246
1661 Palm St	Santa Ana	Airport	50,000
1690 Scenic Ave	Costa Mesa	Airport	34,885

*Renewal

Select Sales Transactions

ADDRESS	CITY	SUBMARKET	SIZE SF
Nichols Ln/Warner Ave (Portfolio of 7 Industrial Properties)	Huntington Beach	West	249,783
23-25 Hughes (Part of a Portfolio)	Irvine	Airport	185,734
23705 Via Del Rio	Yorba Linda	North	34,925
1550-1560 W Lambert Rd	Brea	North	34,582
4012 W Garry Ave	Santa Ana	Airport	34,384

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● **North**

- Anaheim
- Brea
- Fullerton
- La Habra
- Orange
- Villa Park
- Yorba Linda

● **West**

- Buena Park
- Cypress
- Fountain Valley
- Garden Grove
- Huntington Beach
- Seal Beach
- Stanton

● **Airport**

- Costa Mesa
- Irvine
- Newport Beach
- Santa Ana
- Tustin
- Tustin Foothills

● **South**

- Aliso Viejo
- Dana Point
- Foothill Ranch
- Laguna Hills
- Laguna Niguel
- Lake Forest
- Mission Viejo
- Rancho Santa Margarita
- San Clemente
- San Juan Capistrano

NAI Capital Commercial Southern California Office Locations

Headquarters

15821 Ventura Blvd., Ste. 320
Los Angeles, CA 91436
818.905.2400

Los Angeles County

Downtown LA

707 Wilshire Blvd., Ste. 5125
Los Angeles, CA 90017
213.632.7700

West Los Angeles

11835 Olympic Blvd., Ste. 700E
Los Angeles, CA 90064
310.440.8500

Torrance

970 W. 190th St., Ste. 100
Torrance, CA 90502
310.532.9080

Pasadena

225 S. Lake Ave., Ste. 1170
Pasadena, CA 91101
626.564.4800

Valencia

25060 Avenue Stanford., Ste. 165
Valencia, CA 91355
661.705.3550

Diamond Bar

21660 E. Copley Dr., Ste. 320
Diamond Bar, CA 91765
909.348.0600

Ventura County

Oxnard

300 Esplanade Dr., Ste. 470
Oxnard, CA 93036
805.278.1400

Westlake Village

2555 Townsgate Rd., Ste. 320
Westlake Village, CA 91361
805.446.2400

Inland Empire

Ontario

800 N. Haven Dr., Ste. 400
Ontario, CA 91764
909.945.2339

Victorville

13911 Park Ave., Ste. 206
Victorville, CA 92392
760.780.4200

Orange County

Irvine

1920 Main St., Ste. 100
Irvine, CA 92614
949.854.6600

Coachella Valley

Palm Desert

75-410 Gerald Ford Dr., Ste. 200
Palm Desert, CA 92211
760.346.1566