

Orange County

Industrial Market Outlook Q2 2023

MARKET OVERVIEW

The Orange County's industrial market is undergoing a shift as it moves away from the previously high demand for warehouse space. This shift has resulted in an increasing amount of vacant excess space entering the market for sublease. The market has experienced a surge in the rate of sublease space being marketed, witnessing an 236% increase compared to the previous quarter and a significant 535% increase compared to a year ago. As of midyear 2023, the total vacant sublease space amounts to 1.5 million square feet, which is 48.1% higher than the level observed during the Great Recession in Q2 2008.

Leasing volume year to date has declined by 22.4% compared to the previous year, totaling 4.1 million square feet. While 2.7 million square feet have been added to the industrial market over the past five quarters, 46.5% of completed construction was added in 2023. Additionally, as the demand undergoes a change in pace, the vacancy rate has risen from 60 bps a year ago, reaching a still low 2.3%.

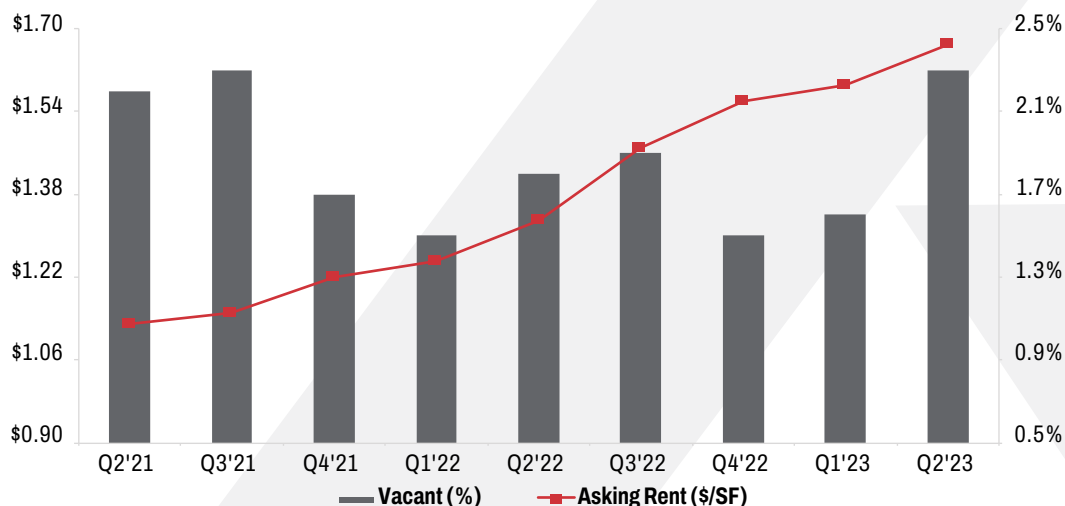
Rising rents have been the primary driving force behind new construction. The average asking rent has reached a new high of \$1.67/SF, marking a 5.0% increase from the previous quarter and a substantial 25.6% increase from Q2 2022. Since the depths of the pandemic shutdown in Q2 2020, the average rent has climbed by 63.7%. However, development has begun to change as industrial space under construction shows a 29.5% decrease compared to the previous quarter, while experiencing a year-over-year decline of 31.4%.

TRENDS TO WATCH

Companies that expanded their warehouse/distribution space during the pandemic to meet the surge in e-commerce have continued to reduce excess space. In Q2, the industrial market reached an all-time high in the amount of available space for sublease, indicating that companies exceeded their space requirements. This has resulted in an oversupply of space coming on the market. During the second quarter, approximately 1.9 million square feet of additional vacant sublease space was listed, representing the largest quarter-over-quarter increase on record. Additionally, 1.1 million square feet of vacant space was added to the market directly, including 1 million square feet of completed construction.

Despite lower economic growth on the horizon, the industrial market has shown resilience. However, companies are eager to dispose of unwanted space. The increase in available industrial space provides more options for tenants, but high prices and rising interest rates are expected to weaken sales of industrial buildings. Sales volume has declined by 23.5% quarter over quarter and is down 47.5% from a year ago, amounting to approximately \$336.7 million year to date. The average sale price per square foot stands at \$325, reflecting an 0.6% increase quarter over quarter but a 7.7% decrease year over year. The combination of increasing interest rates, a slowing economy, and weakening demand is likely to have a dampening effect on pricing heading into the second half of the year.

VACANCY RATE AND AVERAGE ASKING RENT



MARKET OUTLOOK

**Asking
Rental Rates**



**Sale
Prices**



**Availability
Vacancy Rates**



**Landlord
Concessions**



**Leasing/Sales
Volume**



**New
Construction**



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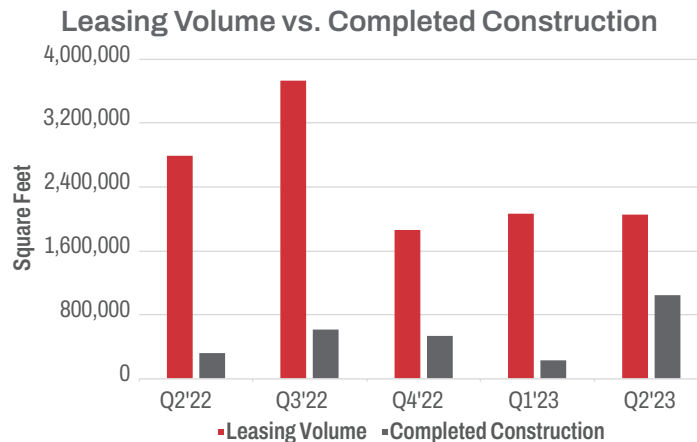
MARKET STATISTICS*

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	54,337,302	726,736	5.2%	1.7%	588,882	869,259	28,326	66,989	\$1.60	\$328
North	98,043,263	509,089	4.3%	2.7%	661,777	1,827,384	387,802	740,989	\$1.64	\$321
South	25,757,337	130,482	4.6%	1.7%	222,203	441,369	8,124	49,014	\$1.73	\$473
West	41,141,155	781,176	4.8%	2.8%	576,712	982,432	26,432	184,887	\$1.72	\$325
Orange County	219,279,057	2,147,483	4.7%	2.3%	2,049,574	4,120,444	450,684	1,041,879	\$1.67	\$325

* RBA includes industrial buildings of all sizes. Rents reflect buildings of at least 10,000 square feet.

LEASING TRENDS

In the last five quarters, the market has highlighted its resilience in leasing volume. As of Q2, completed construction added a total of 1,273,450 square feet to the market in 2023. However, leasing volume surpassed that, totaling 4,120,444 square feet year to date.



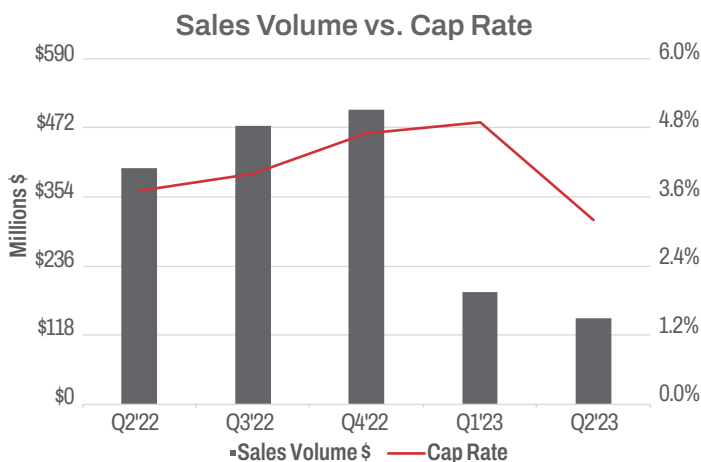
Select Lease Transactions

Address	City	Submarket	Square Feet
3310-3320 E Miraloma Av	Anaheim	North	319,174 *
560-566 N Gilbert St	Fullerton	North	301,470*
3454 E Miraloma Av	Anaheim	North	300,000*
1683 Sunflower Ave	Costa Mesa	Airport	197,000*
12821 Knott St	Garden Grove	West	94,195

*Renewal

SALES TRENDS

The last two quarters highlight the downward trend in sales volume as the impact of rising interest rates was felt. By midyear 2023, the sales volume ended approximately 47.6% below Q2 2022. Additionally, the average cap rate on investment sales decreased by 50 basis points from the second quarter of 2022, reaching 3.2 percent, demonstrating the low cap rate and low sales environment.



Select Sales Transactions

Address	City	Submarket	Square Feet
The Mart on State College (2 Industrial Properties)	Anaheim	North	182,800
1230 N Tustin Ave (Part of a Portfolio)	Anaheim	North	160,000
1400 S Allec St	Anaheim	North	121,225
650 W Freedom Ave	Orange	North	30,863
11751 Westminster Ave	Garden Grove	West	20,762