

Orange County

Industrial Market Outlook Q2 2020

MARKET OVERVIEW

After spending the entire second quarter of 2020 under a COVID-19 shutdown, Orange County's industrial market was left with lower transaction volume, an uptick in vacancy and the highest asking rent on record. Leasing volume declined 20.3% over the previous quarter, down 16.8% from Q2 2019 to nearly 2.5M SF. Over the same periods, sales volume fell 70.5% and 71.4%, respectively, to under 450K SF in Q2. Tenants and landlords are negotiating lease renewals, rent abatement or deferments. Year-to-date total sales and leasing volume is 59.7% of what it was for all of 2009 at the depths of the last recession, indicating that 2020 transaction volume could look about the same as the last recession if the current pace continues.

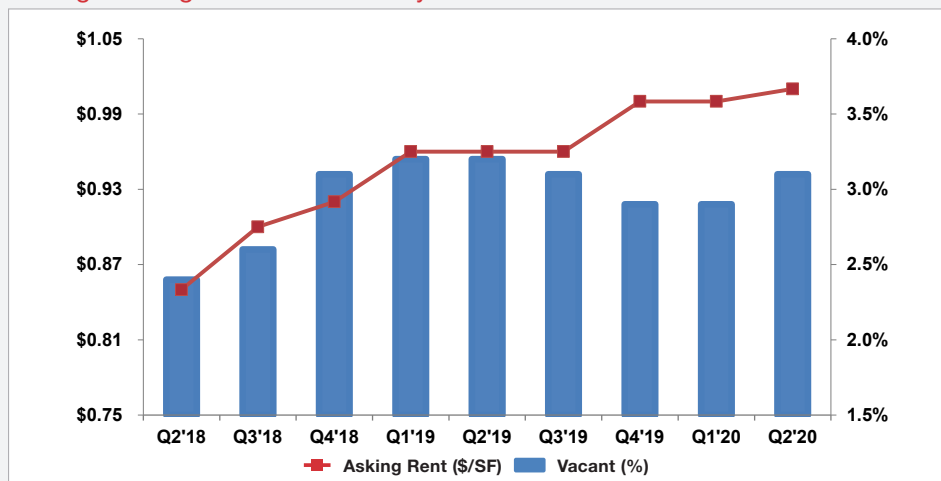
The Paycheck Protection Program, which provides small businesses with funds to pay up to 8 weeks of payroll costs including benefits, interest on mortgages, rent, and utilities, appears to be maintaining occupancy. Vacancy increased just 20 bps from Q1 2020 to 3.1%, due to nearly 500K SF of completed construction that came online mostly vacant. The average asking rent, up one cent from Q1 2020 to \$1.01/SF, remains the highest on record due constrained market conditions.

TRENDS TO WATCH

The pandemic continues to shape the industrial market. Following record losses across all sectors in April, Orange County added 1,300 jobs in Manufacturing, and Trade, Transportation & Utilities added another 8,000 jobs between May and June. While online shopping has been a bright spot for the warehouse distribution market, goods imported year-to-date declined 11.4% from June 2019. To get a pulse of where the industrial market could be headed, NAI Capital conducted a COVID-19 Impact Survey of its industrial market professionals.

All industrial brokers surveyed expect lower leasing volume, a rise vacancy and a reduction in the average asking rent as a result of the restrained demand. Brokers unanimously anticipate landlords offering more concessions, including rent abatement or deferment to attract and retain tenants. With sellers and buyers taking a wait-and-see approach, most industrial brokers see prices and sales volume remaining unchanged as the market adjusts heading into the second half of 2020.

Average Asking Rent* and Vacancy Rate



MARKET OUTLOOK

Asking Rental Rates



Sale Prices



Availability/Vacancy Rates



Landlord Concessions



Sales/Leasing Volume



New Construction



NAI Capital Research
www.naicapital.com

Market Statistics*

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	Q2 2020 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	Q2 2020 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT (\$/SF NNN)	AVERAGE SALE PRICE (\$/SF)
Airport	54,477,234	51,939	6.1%	3.3%	734,184	1,210,149	207,646	419,894	\$1.02	\$238
North	97,743,657	9,500	3.4%	2.4%	1,301,992	2,857,574	114,776	529,349	\$0.95	\$235
South	24,672,818	0	6.9%	4.8%	98,602	304,087	49,550	457,382	\$1.15	\$305
West	40,501,786	0	4.6%	3.3%	343,397	1,217,543	76,477	559,882	\$0.87	\$246
Orange County	217,395,495	61,439	4.7%	3.1%	2,478,175	5,589,353	448,449	1,966,507	\$1.01	\$247

Leasing

Leasing activity slowed significantly in Orange County in Q2 2020. Just under 2.5M SF were leased, 20.3% lower than the prior quarter and 16.8% lower than Q2 2019. Pricing remained elevated at \$1.01/SF—the highest on record— though it is unlikely to sustain further growth as the market readjusts to the impact of the pandemic shutdown.

The North and Airport submarkets saw the bulk of the leasing activity in Q2 combining for 82% of the total. Overair, Inc. leased a 93,955 SF warehouse in Santa Ana with move in scheduled for November. Anduril Industries, an Orange County-headquartered technology company, leased a 72,232 SF building in Santa Ana that was completed in June.

Sales

Sales volume plummeted in Q2 2020 down to less than 500K SF from more than 1.5M SF in Q1 2020. Thirty completed transactions totaled \$110.7M in dollar volume. Sales peaked in 2019 totaling more than 10.6M SF and \$2B in volume. At mid-year in 2020, transaction volume totaled just under 2M SF or 18.4% of square footage sold in 2019. At this pace, Orange County is unlikely to come close to the record-setting performance of 2019.

The average building sold in Q2 2020 was 15K SF compared to the 25.5K SF average over the last two years. The sale of smaller buildings kept the sales price strong despite the slowdown in sales volume. Buildings sold for an average of \$247/SF this quarter while cap rates on investment sales averaged 4.7%, up 30 bps year over year.

Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/SF**	SQUARE FEET
Overair, Inc.	3001 S. Susan St.	Airport	TBD	93,955
Anduril	709 Alton Ave.	Airport	\$1.05	72,232
Brentwood Home	2337 W. Commonwealth Ave.	North	\$0.62 MG	64,292
MaxCare Products	2700-2722 S. Fairview St.	Airport	\$0.85	58,802
QYK Brands	3373 E. La Palma Ave.	North	TBD	48,331

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Edwards Life Sciences Corporation	17401 Eastman St.	Airport	\$240	43,109
Lotus Labels	655 Tamarack Ave.	North	\$240	38,439
B. Braun Medical Inc.	2206 Alton Pky.	Airport	\$258	30,600
Reimagine Network	1601 E. Saint Andrew Pl.	Airport	\$233	28,502
S & D Associates	951 S. Cypress St.	North	\$190	19,200

Orange County

Industrial Market Outlook Q2 2020



● **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

Orange County

Industrial Market Outlook Q2 2020



COMMERCIAL REAL ESTATE SERVICES, WORLDWIDE

NAI Capital Research

J.C. Casillas

Vice President

Research, Marketing and Communications

jasillas@naicapital.com

Jillian Olivas

Research and Communications

jolivas@naicapital.com

Katherine Tattersfield

Marketing Research Writer

ktattersfield@naicapital.com

NAI Capital Southern California Office Locations

Headquarters

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

Property Management

120^{1/2} South El Camino Real, Ste. 210
San Clemente, CA 92674
949.874.0415

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. 1660
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

Temecula

27720 Jefferson Ave., Ste. 330
Temecula, CA 92590
951.491.7590

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

No warranty, express or implied, is made as to the accuracy of the information contained herein. This information is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and is subject to any special listing conditions imposed by our principals. Cooperating brokers, buyers, tenants and other parties who receive this document should not rely on it, but should use it as a starting point of analysis, and should independently confirm the accuracy of the information contained herein through a due diligence review of the books, records, files and documents that constitute reliable sources of the information described herein. NAI Capital Cal DRE Lic #01990696

Realizing Potential.
Delivering Results.