
3Q23

Orange County Industrial Market Overview



NEWMARK

Market Observations

Economy

- The drop-off in ocean container spot rates from Asia to the U.S. West Coast since the second half of 2022, along with “return-to-normal” import volumes at Southern California’s ports, speak to more conservative retail spending outlooks.
- West Coast port operators and dockworkers signed a new six-year contract; this will help to restore a sense of operational stability at Los Angeles-Long Beach.
- Loaded import volume at the twin-port system totaled 5.3 million containers in the first eight months of 2023. This figure is on par with the same period in 2016.
- Local unemployment increased for the fourth consecutive month, reaching 3.9% in August. This is slightly higher than the U.S. average of 3.8%.
- Industrial-using employment will fluctuate in the coming months.

Major Transactions

- Bio-Rad Laboratories helped to lower the market’s sublease availability after it committed to Arbonne International’s 146,482-SF lease in Irvine.
- Class A warehouse leasing activity was subdued this quarter. While demand for modern-gen space remains high, many tenants are waiting for rents to soften.
- Five leases over 100,000 SF were signed this quarter. Only one was in a facility built within the last decade.
- K.T.I. Hydraulics; Inc. acquired 71,616 SF of R&D/flex space at 1311 Valencia Avenue in Tustin in what became the quarter’s largest sale transaction (\$26.5 million). The company will own-occupy.

Leasing Market Fundamentals

- Total vacancy increased for the third consecutive quarter, going from 1.6% in year-end 2022 to 2.8% in the third quarter of 2023. Net absorption over this period totaled 4.0 MSF in losses against 1.7 MSF in new construction deliveries.
- Available sublease space was 2.1 MSF this quarter, down 23.4% from three months ago. Sublet availability will likely fluctuate in the quarters ahead.
- Most occupiers are focused on cutting costs amid still-high inflation and more-restrained retail spending. Shedding extra space is one way to reduce overhead.
- Lease term lengths are trending down as tenants adopt a more cautionary stance. Some may be biding their time as they wait for rents to further decrease.
- Under-construction activity totals 1.7 MSF; less than 10% is pre-leased.

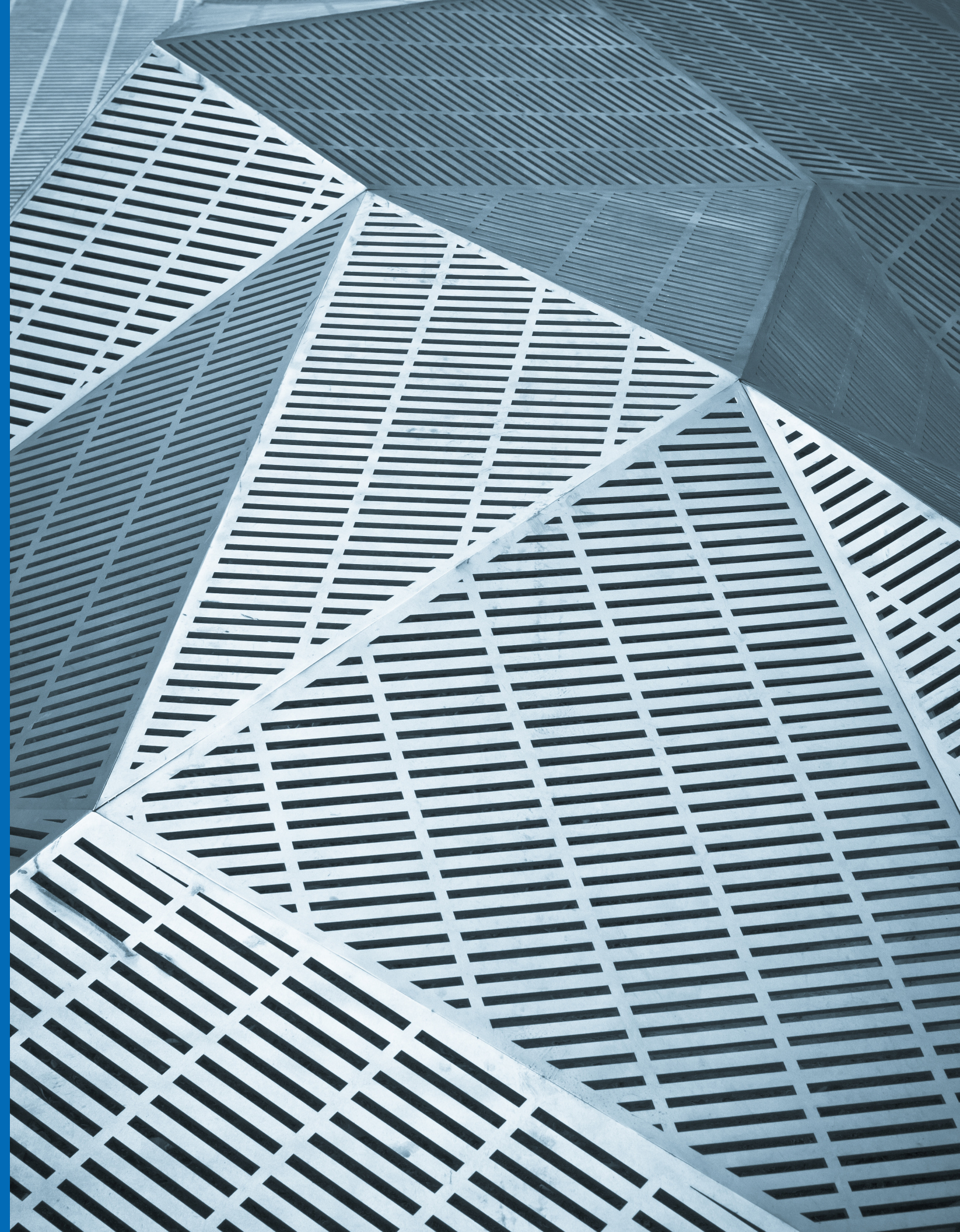
Outlook

- Landlords will become more competitive to secure tenants through concession packages and lower rents.
- Vacancy is quickly rising in the Inland Empire and sublet availability totals 10.1 MSF. A few Orange County tenants may consider relocation-consolidation moves to the market.
- The SCAQMD (the same organization that successfully implemented the [WAIRE Program](#)) has proposed legislation to reduce emissions at Southern California’s ports. Cargo volumes could be capped if the group’s initiative passes

1. Economy
2. Leasing Market Fundamentals
3. Sales Activity
4. Appendix

3Q23

Economy



Lower Ocean Container Spot Rates Are Indicative of Cooling Import Activity

Please reach out to your
Newmark business contact for this information

Loaded Imports in the First Eight Months of 2023 Were on Par with the Same Period in 2016

Please reach out to your
Newmark business contact for this information

The ILWU and PMA Reached a Tentative Labor Agreement in June 2023

Their contract was ratified in early September, restoring a sense of much-needed stability at U.S. West Coast seaports for the next six years. Longshoremen at East and Gulf Coast ports will soon negotiate their contract that is set to expire in late 2024; will conflict that potentially disrupts operations be avoided?

West Coast Ports Agreement Reached...Finally!

- The International Longshore Warehouse Union (ILWU) represents dockworkers at 29 ports from Washington State to California. The Pacific Maritime Association (PMA) represents ocean carriers and terminal operators.
- The prior contract expired on July 1, 2022.
- The ILWU has a history of work disruptions in prior negotiation periods, ranging from strikes, to deliberate work slowdowns to under-staffing shifts.
- These disruptions have cost major retailers billions of dollars in the past.
- In March, for instance, the ILWU did not stagger shifts during meal period.
- A tentative agreement was reached on June 15, 2023 for what became a new six-year contract. Longshore workers secured a 32% salary increase.
- Many Asian importers pushed inbound goods to East and Gulf Coast ports as talks dragged on. Some of this traffic will return since stability is now less of a concern.



Source: Newmark Research, City of Los Angeles, The Real Deal

East and Gulf Coast Ports Are Up Next

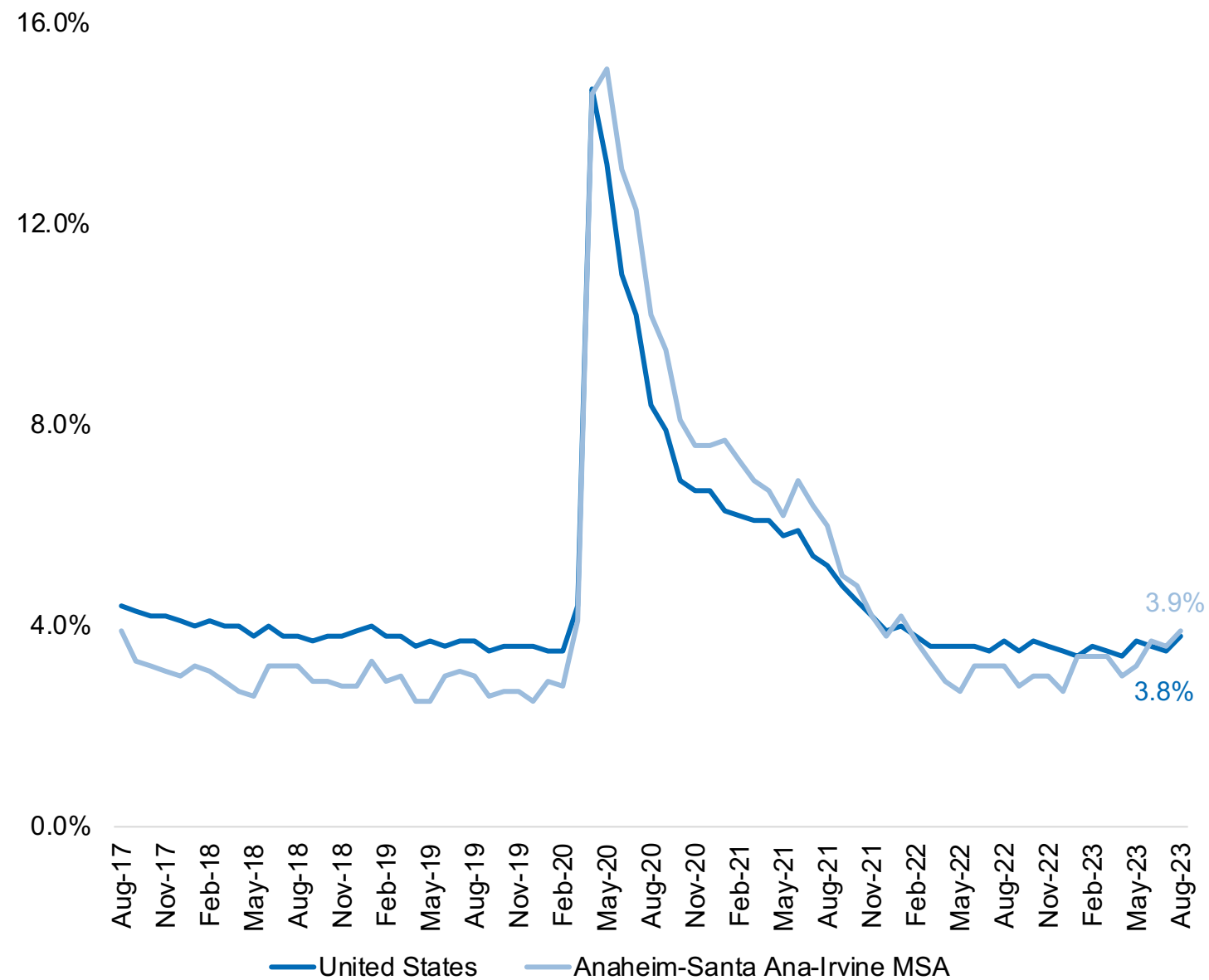
- The International Longshoremen (ILA) represents dockworkers at 36 ports from Maine to Texas. The United States Maritime Alliance (USMA) represents ocean carriers and terminal operators.
- Their contract will expire on September 30, 2024.
- Both parties will start discussions early in hopes of avoiding disruptions.
- West Coast ports will be seen as more stable until an agreement is reached.
- Higher pay and job security as it pertains to automating port operations were primary issues for the ILA in 2018/the last negotiation period.



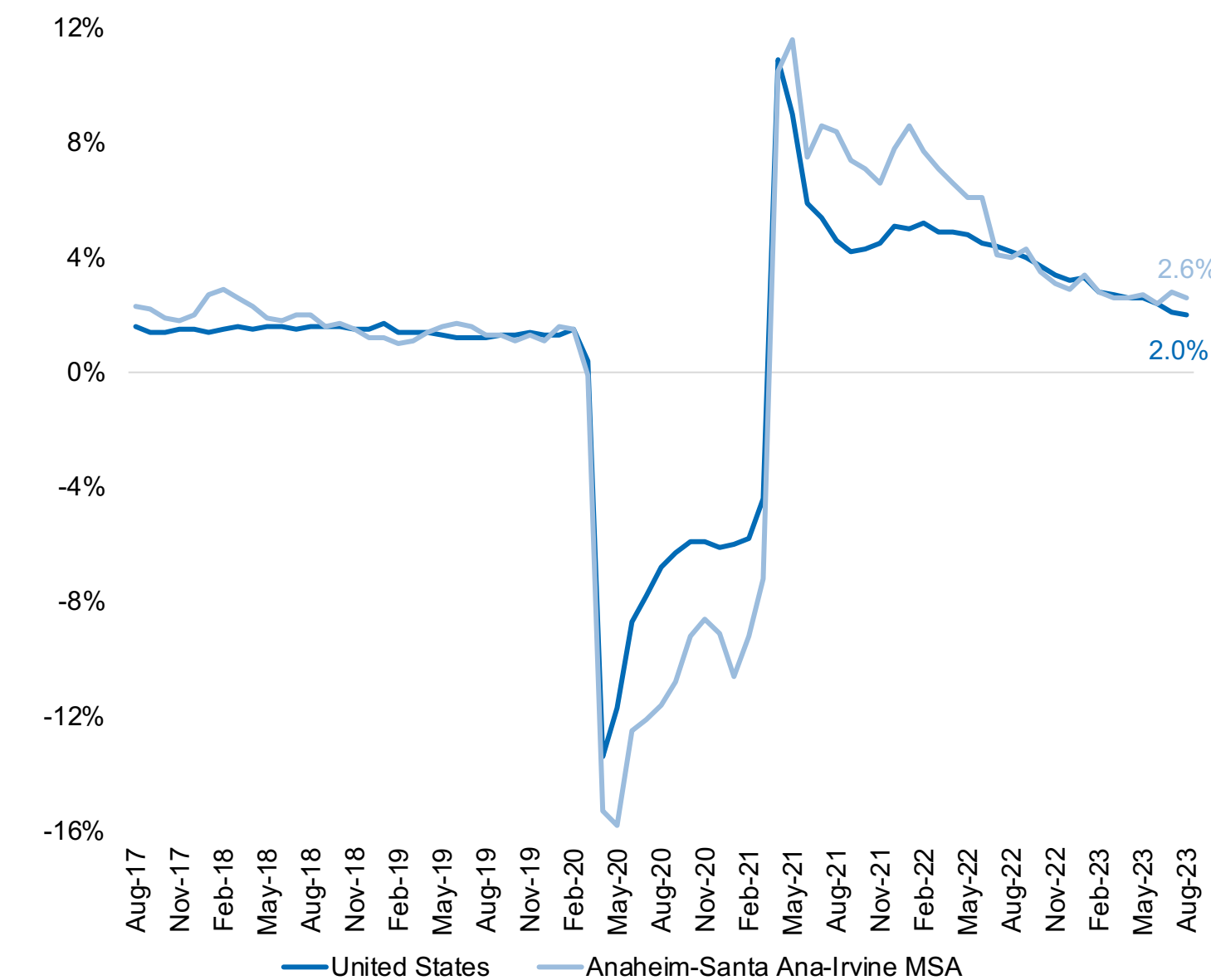
Local Unemployment Overtakes National Average

Orange County unemployment has been steadily increasing over the last four months, going from 3.0% in April to 3.9% in August. The growth can be attributed to cooling in the economy and cost-cutting measures, such as hiring freezes, enacted by companies in a still-high interest rate environment.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

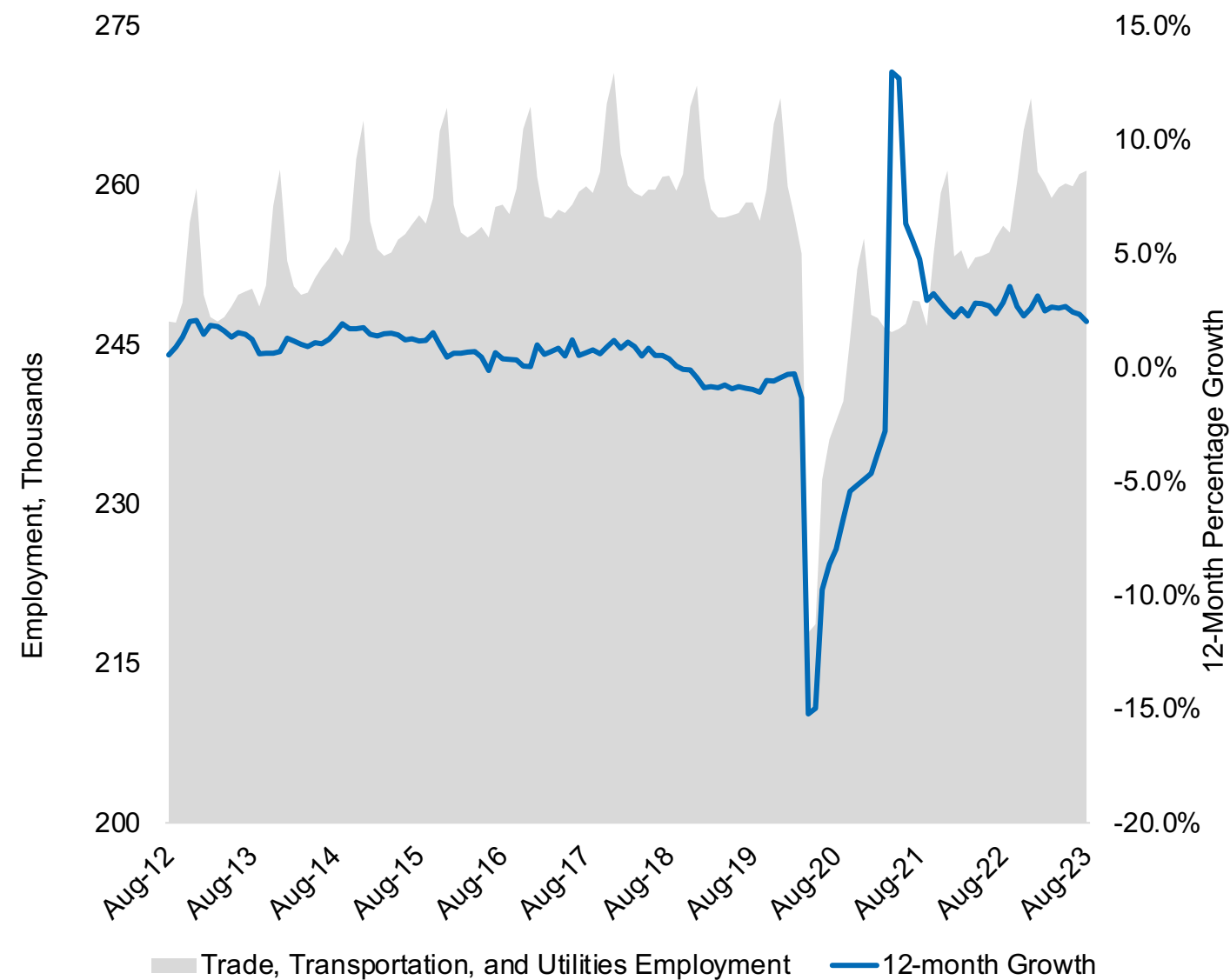


Source: U.S. Bureau of Labor Statistics, Anaheim-Santa Ana-Irvine, CA
 Note: August 2023 data is preliminary

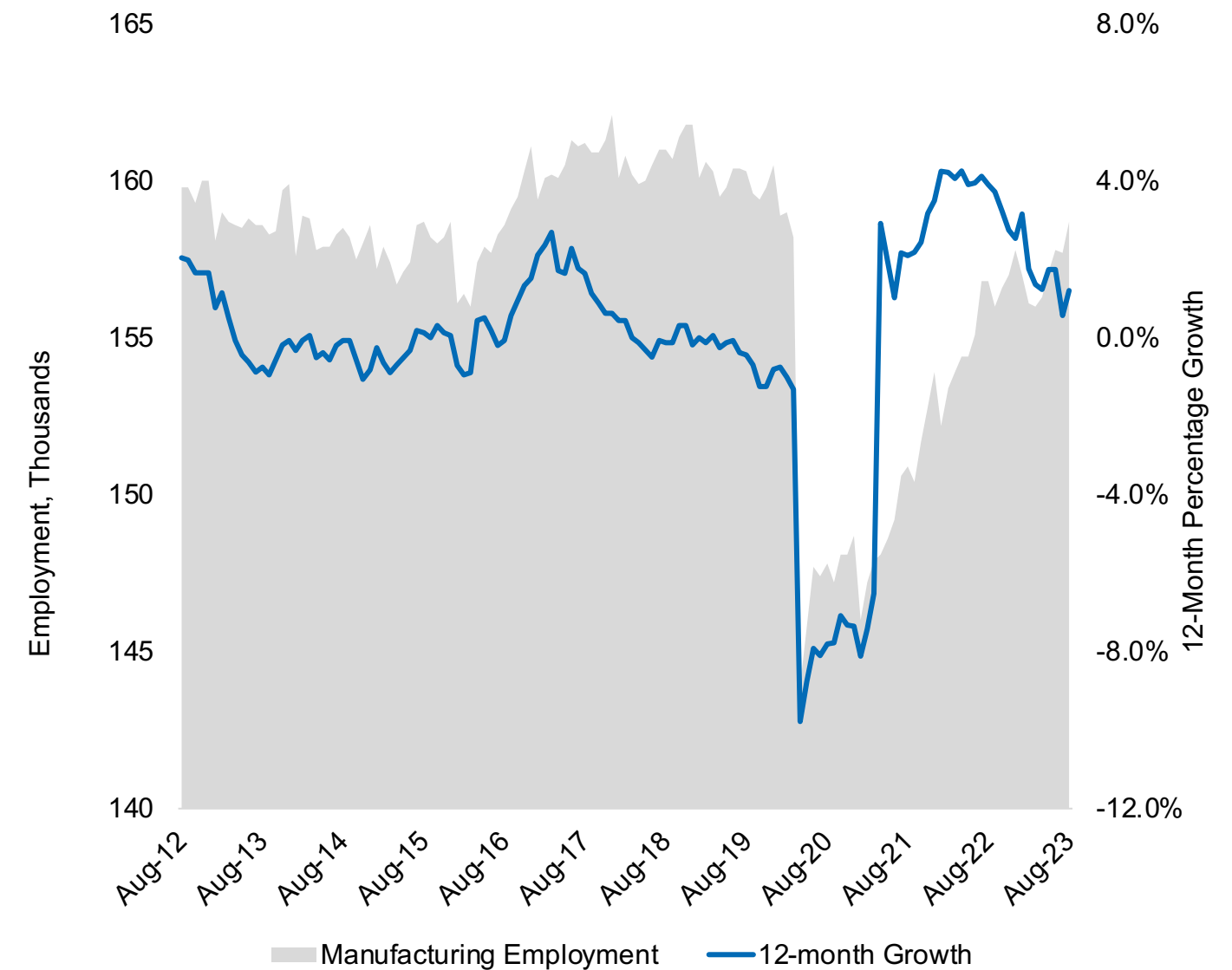
Holiday Season Expected to Revitalize Growth of Industrial Employment

Employment growth in the trade, transportation and utilities sector slowed in August after posting the lowest year-over-year growth rate since March 2021. With the holiday season around the corner, employment will spike before declining again as select warehouse tenants shed excess space. Manufacturing remains challenged, based on the current economic climate and the ever-rising costs of doing business in California.

Trade/Transportation/Utilities Employment and 12-Month Growth Rate



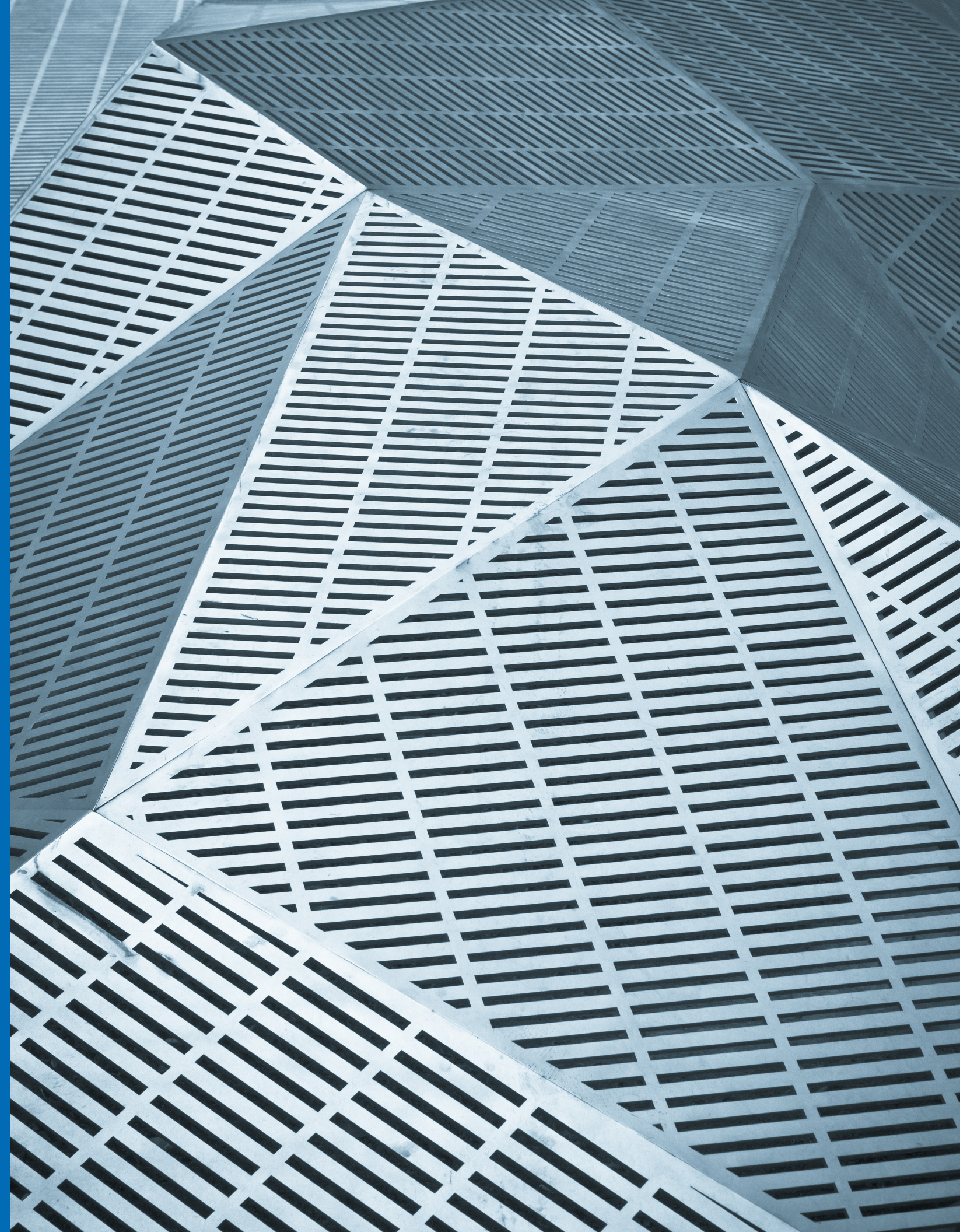
Manufacturing Employment and 12-Month Growth Rate



Source: U.S. Bureau of Labor Statistics, Anaheim-Santa Ana-Irvine MSA
 Note: August 2023 data is preliminary

3Q23

Leasing Market Fundamentals



Unprecedented Rent Growth Decelerating After Two Years

Please reach out to your
Newmark business contact for this information

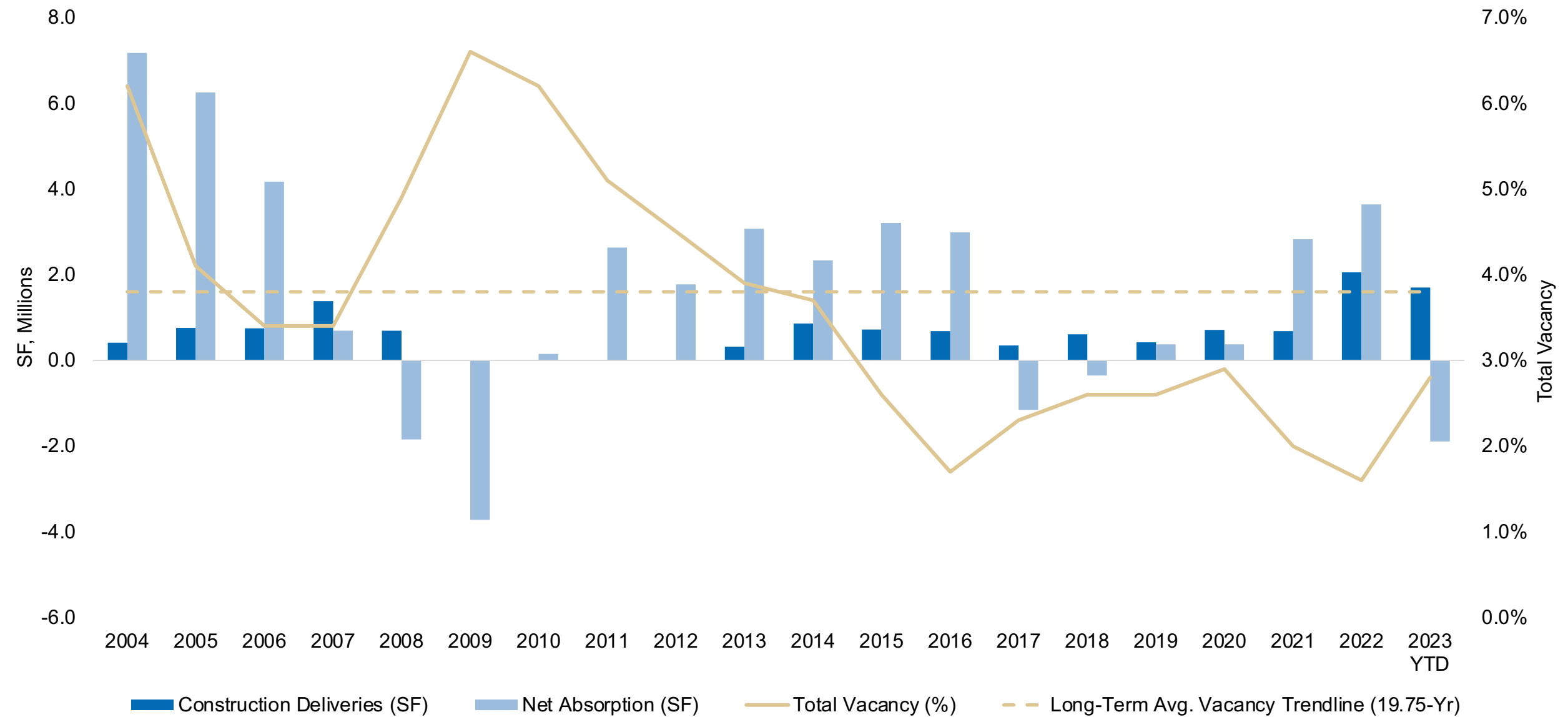
Tenants Opting for Short-Term Leases as They Wait for Rents to Moderate

Please reach out to your
Newmark business contact for this information

Rising Vacancy Still Below Long-Term Average

Several large, newly-vacant spaces that are up for sublease contributed to rising vacancy from year-end 2022 to the third quarter of 2023. These include Samsung, with 487,036 SF of newly-leased space at the Goodman Logistics development in Fullerton, Romeo Power with 215,000 SF at 5560 Katella Avenue in Cypress and Brentwood Home LLC putting up 123,972 SF of at 2009-2011 Raymer Avenue in Fullerton.

Historical Construction Deliveries, Net Absorption, and Vacancy

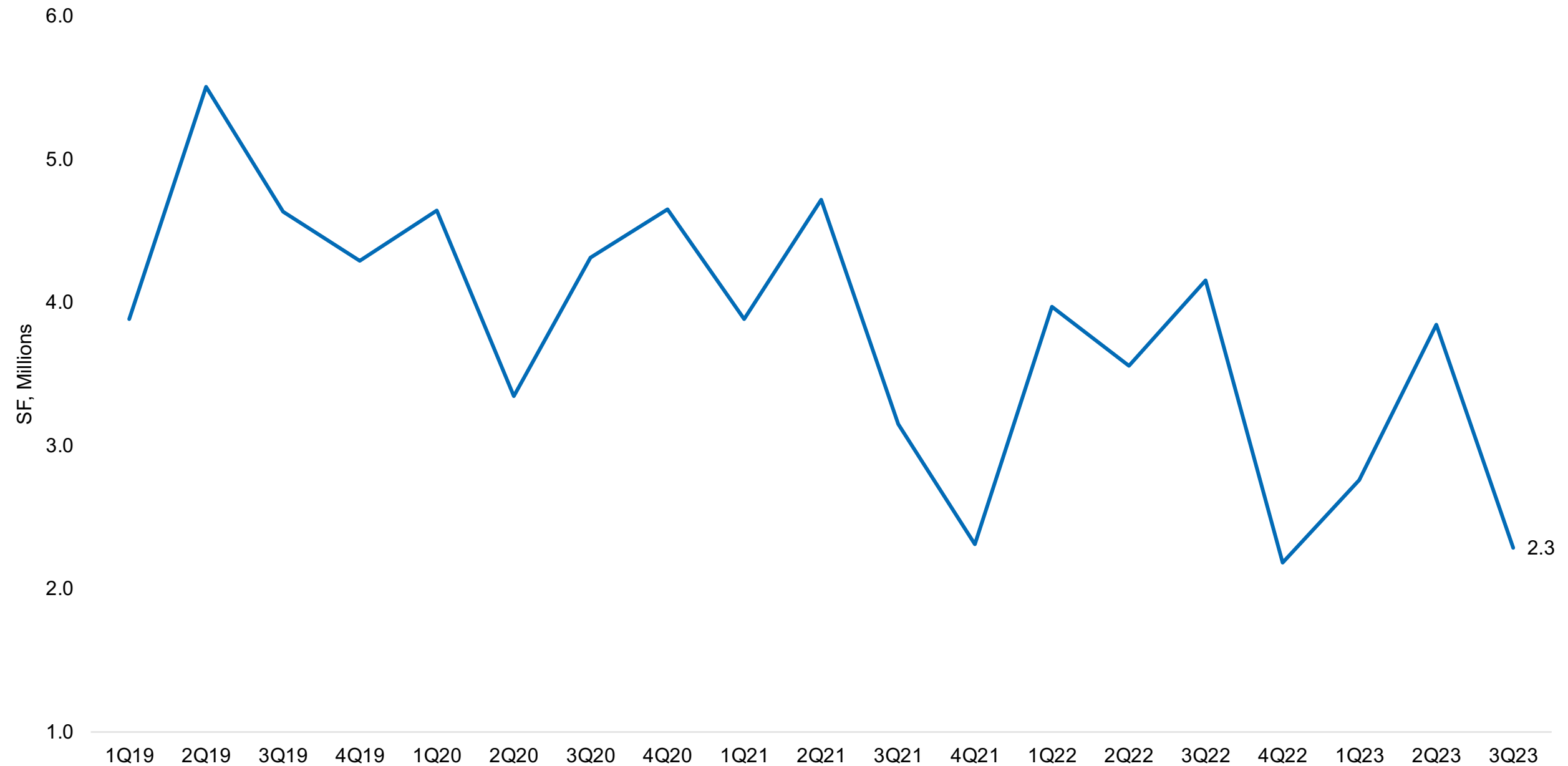


Source: Newmark Research

Overall Leasing Activity Healthy, on Par with 4Q21 and 4Q22

Landlords are beginning to lose the upper-hand in leasing negotiations amid cooling demand, which will lead to lower leasing figures in the quarters ahead. A slowing economy is keeping retail sales in check, while most occupiers are trying to shed overcapacity in their networks to reduce costs. Both have implications for future leasing activity.

Total Leasing Activity (SF)

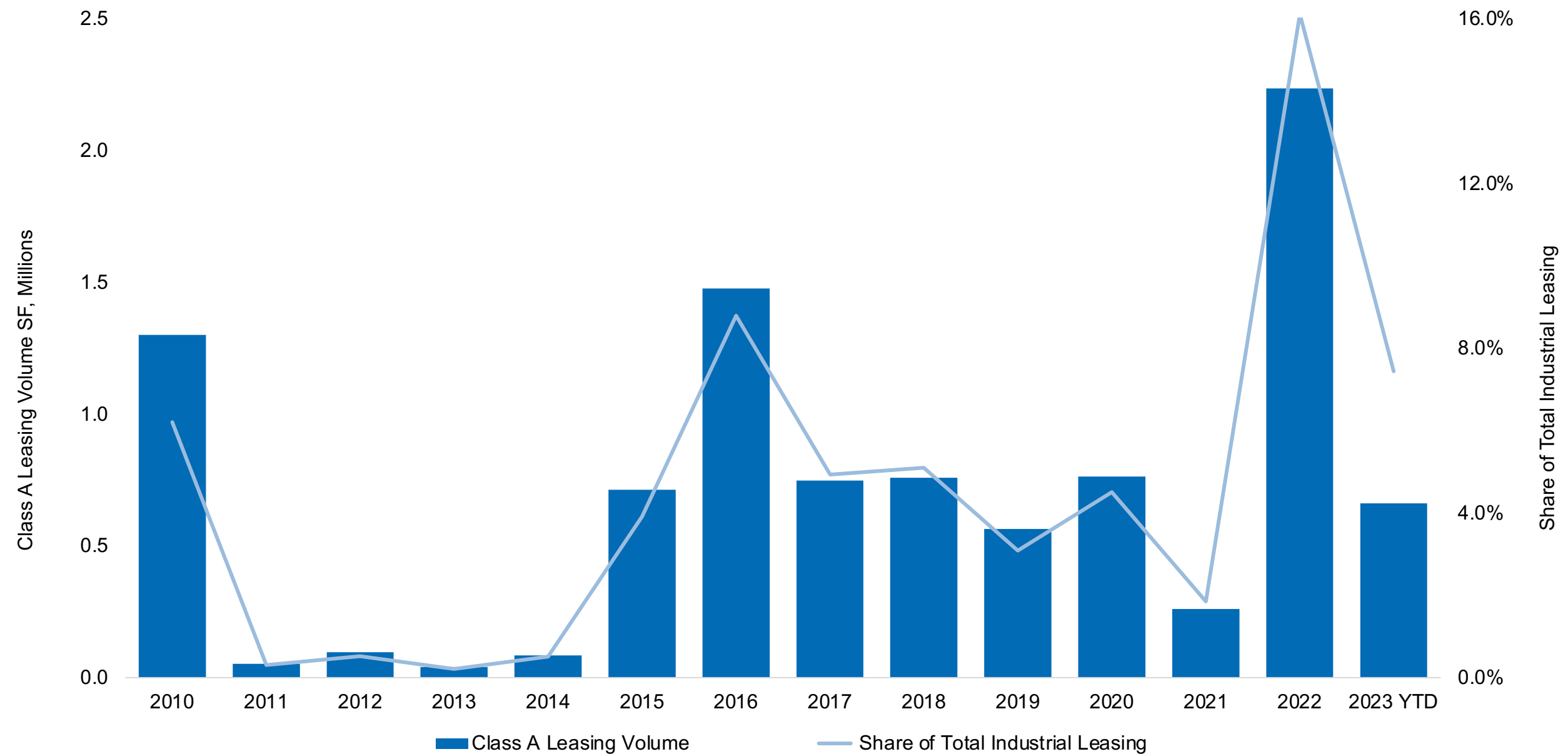


Source: Newmark Research, CoStar

Class A Warehouse Leasing Activity Trends Down

High rents and a cost-cutting focus among most occupiers explain the decrease.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

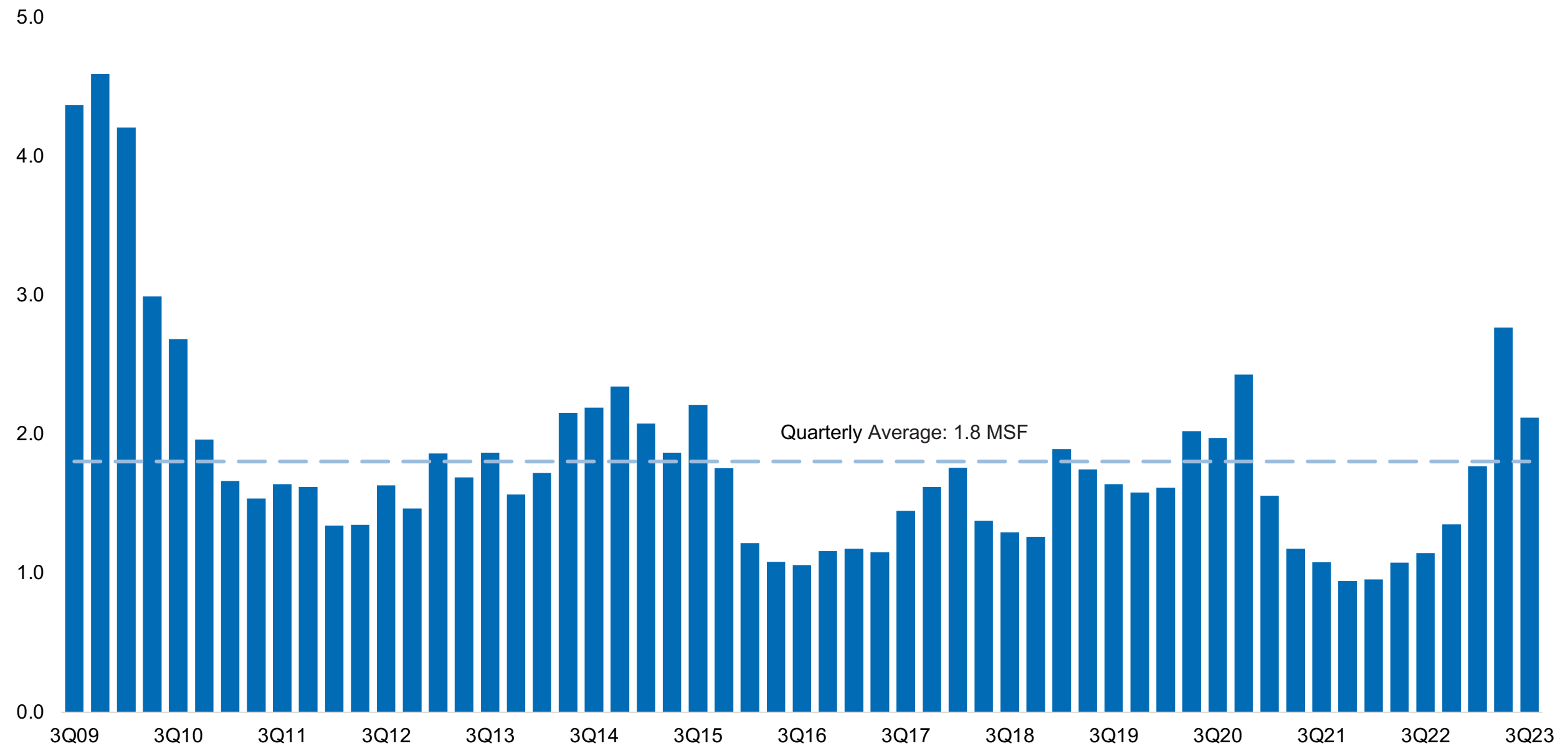


Source: Newmark Research, CoStar

Reduction of Sublease Availability by 23.4% From Last Quarter

Businesses seeking short-term and cost-effective leases helped bring last quarter's sublease total down. This quarter's top sublease deals included Bio-Rad Laboratories at 9400 Jeronimo Road in Irvine Spectrum (146,482 SF), Tesla at 15301 Springdale Street in Huntington Beach (60,891 SF) and Virgin Galactic at 27 Hubble in Irvine Spectrum (25,136 SF).

Available Industrial Sublease Volume (MSF)



Source: Newmark Research

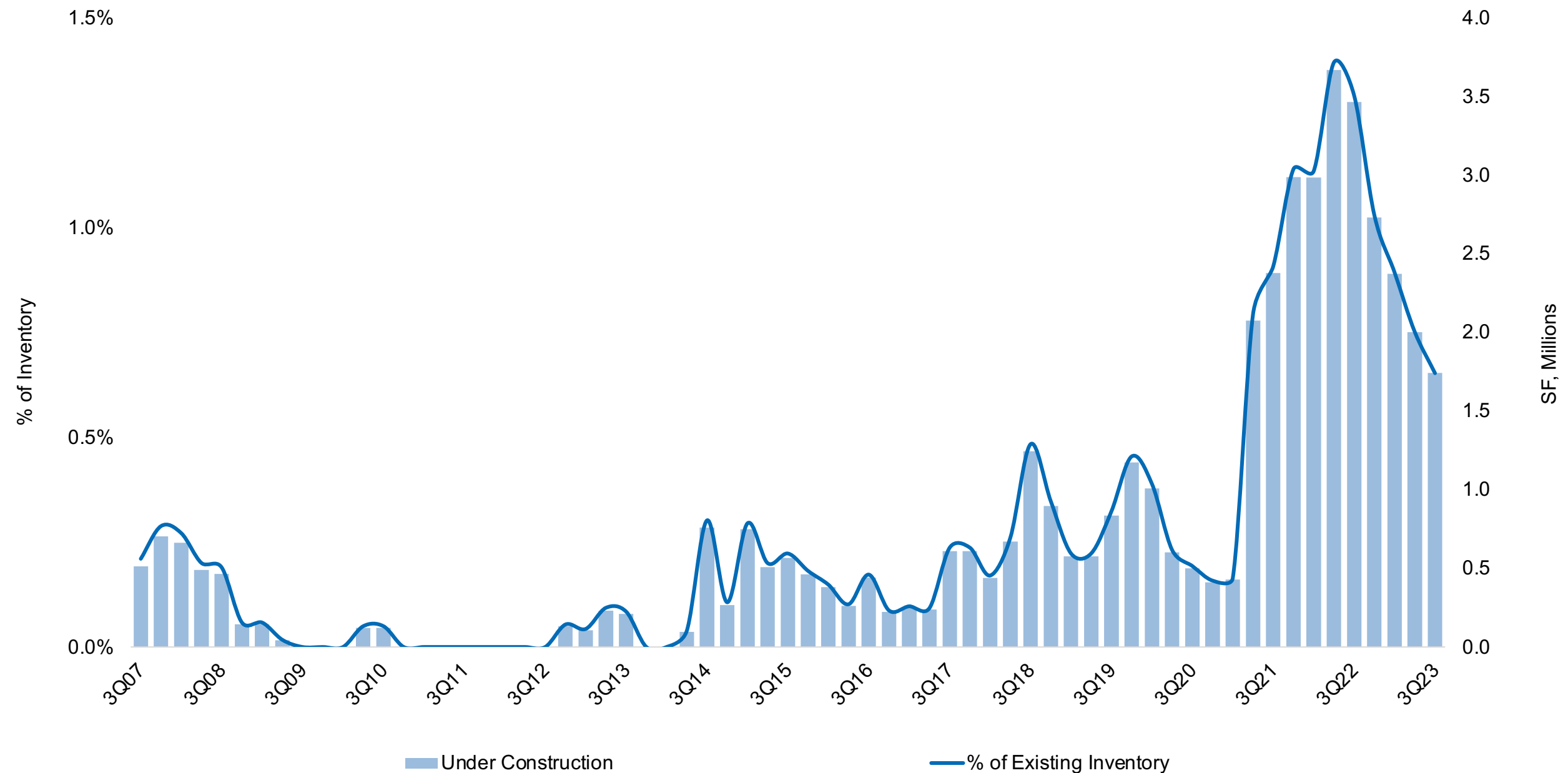
North County Comprises the Bulk of Today's Sublease Availability

Please reach out to your
Newmark business contact for this information

Slowdown in New Construction Starts

The construction pipeline trended downward for the fifth consecutive quarter after reaching a historic high of 3.7 MSF in the second quarter of 2022. Developers are growing cautious amid a slowdown in once-fervent tenant demand, rising sublet availability and slowing pre-leasing activity of underway speculative construction.

Industrial Under Construction and % of Existing Inventory



Source: Newmark Research

Over 90% of Underway Construction is Presently Available

Please reach out to your
Newmark business contact for this information

Healthy Leasing Activity Still Ongoing

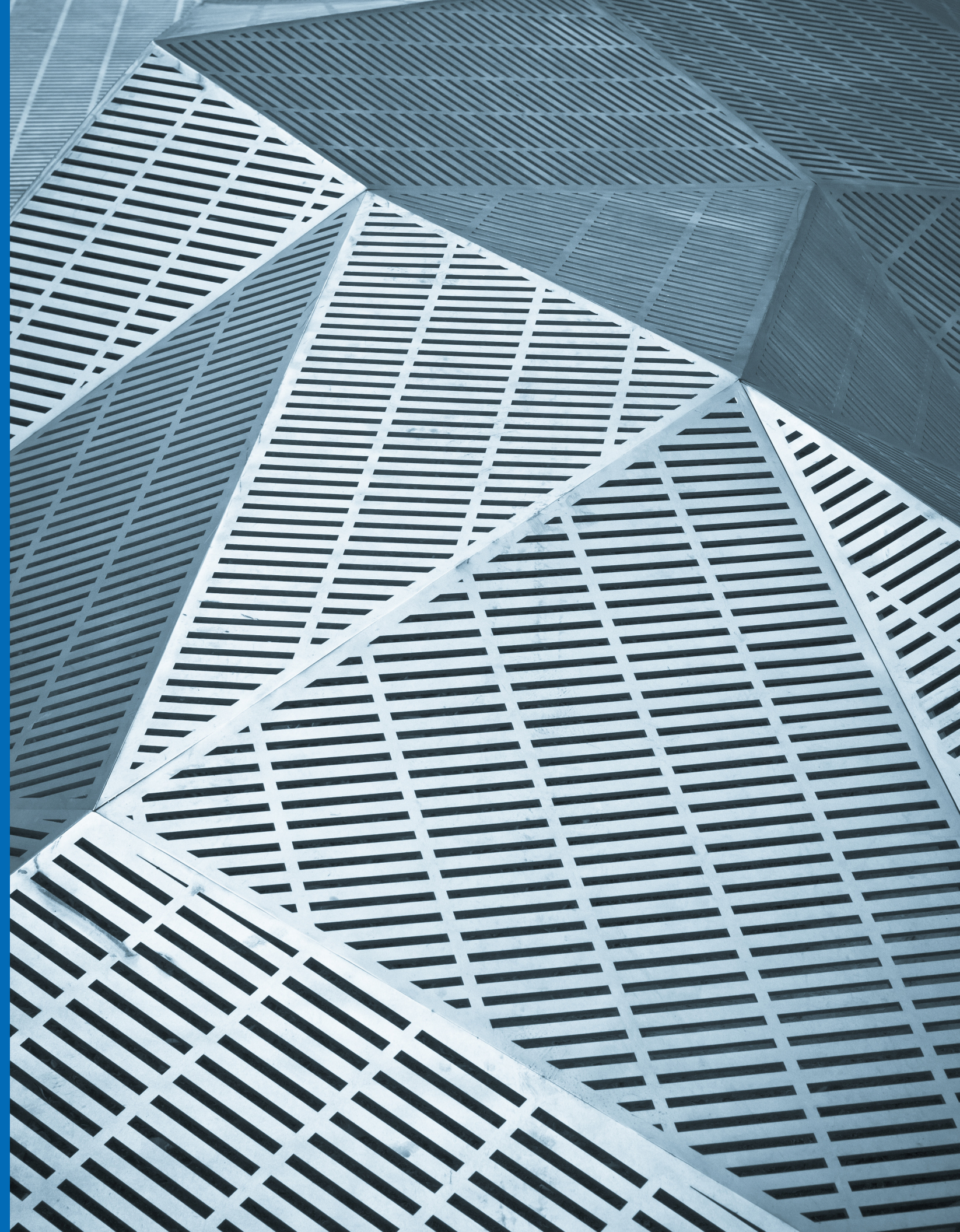
Landlords will become increasingly competitive to secure occupancy in their buildings by offering more in way of concessions and/or lowering rents. Open houses are more common today than one year ago, which is a telling sign.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
OfficeMax	7300 Chapman Avenue	West County	Lease Renewal	307,734
<i>The office supplies provider will continue to operate out of the Garden Grove warehouse.</i>				
Bio-Rad Laboratories	9400 Jeronimo Road	South County	Sublease	146,482
<i>The life science company took over Arbonne International's lease, which expires late 2025.</i>				
Builders Surplus LLC	500 West Warner Avenue	Airport	Direct Lease	133,123
<i>A new five-year lease.</i>				
Pyramid Logistics	17311 Nichols Lane	West County	Lease Expansion	114,912
<i>The new location is an expansion to its Westminster location, which is four miles away.</i>				
Spotter Global	1204 North Miller Street	North County	Direct Lease	106,067
<i>This is a start-up warehouse location for the tenant, previously selling furniture product off the Amazon platform.</i>				

3Q23

Sales Activity

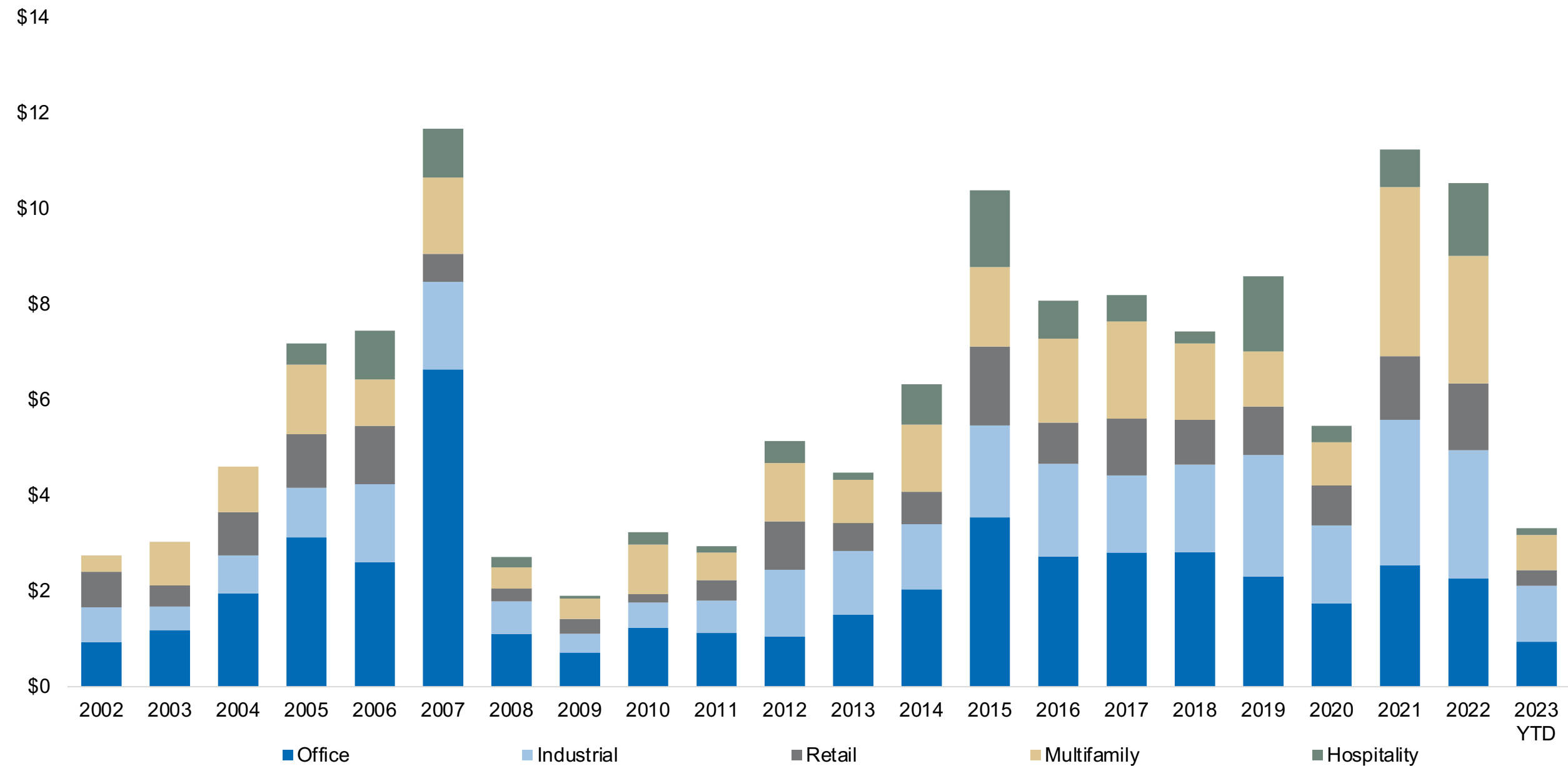


Industrial Comprised 25.5% of Total Sales Volume in 2022

This figure is slightly above the 21-year average (2002 to 2022) of 22.6%. Low vacancy and heated rent growth in recent years favor the segment, with many investors targeting desirable buildings with credit tenants whose leases are up for renewal. What the tenant was paying (\$\$) is different than today's rent averages (\$\$\$\$).

Industrial sales volume is currently leading other commercial property segments by a wide margin year-to-date.

Orange County: Sales Volume Across Commercial Property Segments (\$ in Billions)

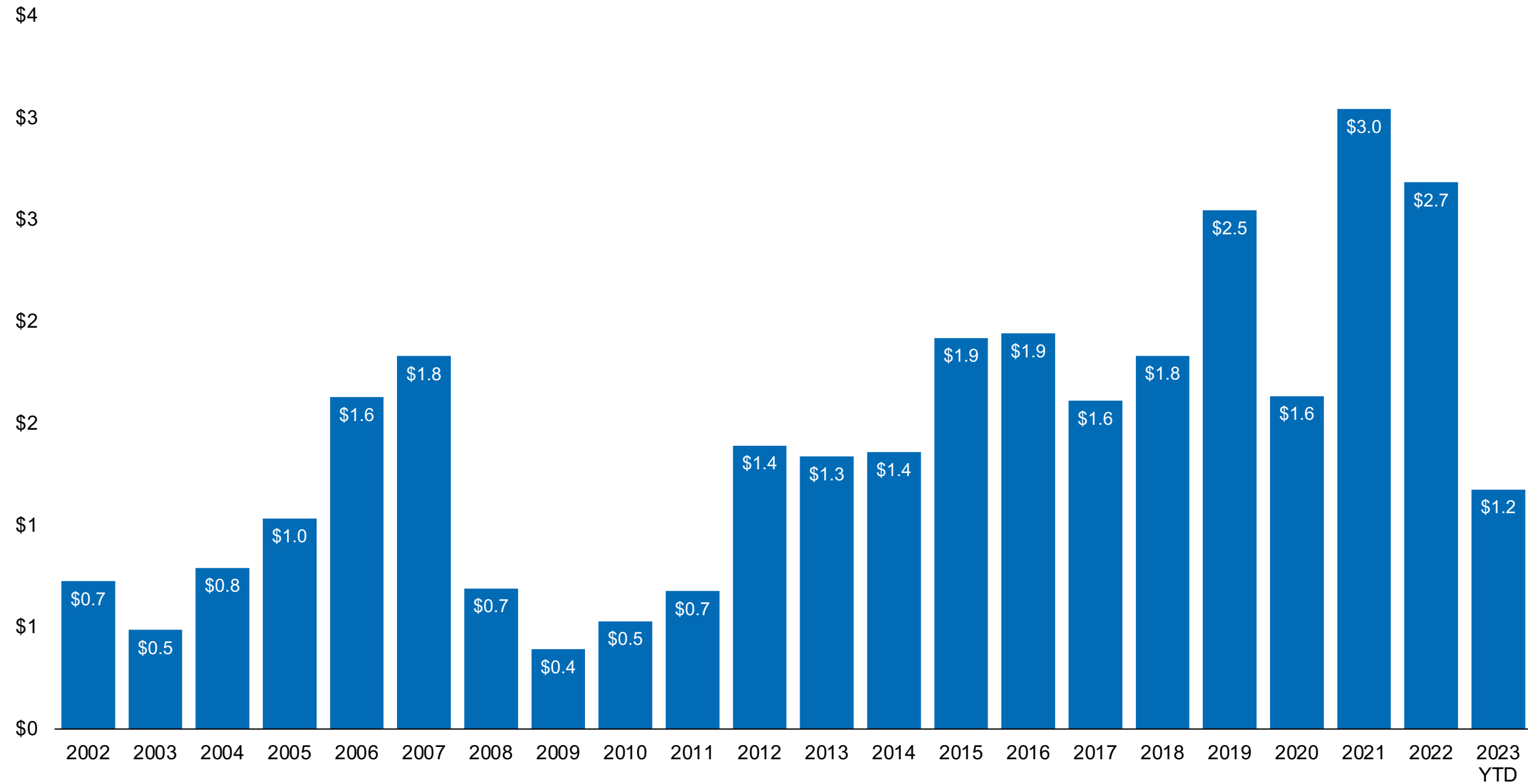


Source: MSCI Real Capital Analytics, Newmark Research
 Note: Preliminary data is cited for the third quarter of 2023

Industrial Sales Volume: Up Close

Industrial sales volume totaled \$1.2 billion in the first nine months of 2023, and will fall short of 2022's total when the year is done. The higher cost of capital following multiple interest rate hikes is crimping momentum in addition to cooling but still healthy leasing fundamentals. Both will add downward pressure to pricing.

Orange County: Industrial Sales Volume (\$ in Billions)



Source: Newmark Research, MSCI Real Capital Analytics
Note: Preliminary data is cited for the third quarter of 2023

Pricing has Started to Fall, While Cap Rates Are Rising

Please reach out to your
Newmark business contact for this information

Private Buyers Are Active

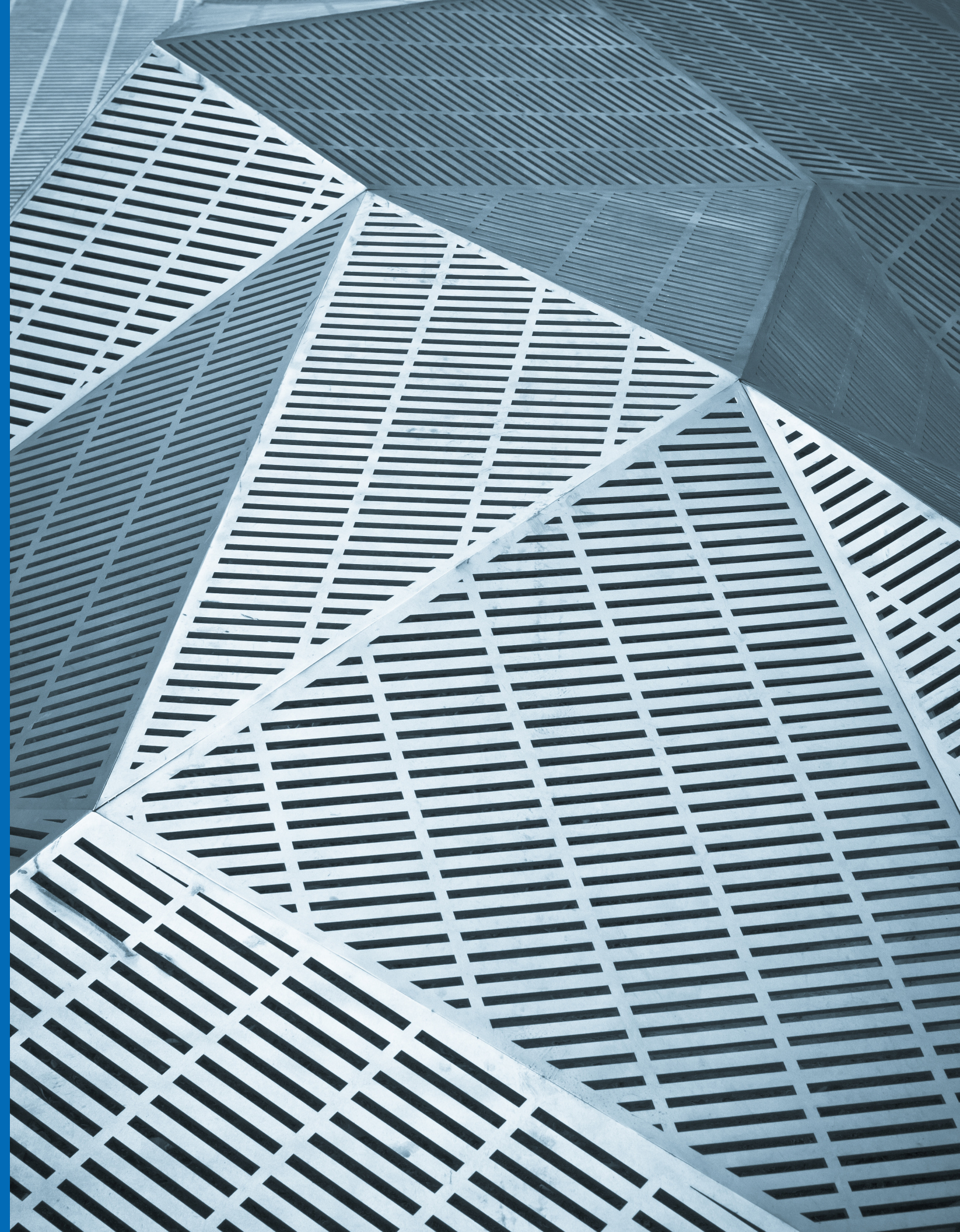
Please reach out to your
Newmark business contact for this information

Some Underperforming Office Properties Will Find New Life

Please reach out to your
Newmark business contact for this information

3Q23

Appendix



Orange County Submarket Map and High-Level Statistics | 3Q23

Please reach out to your
Newmark business contact for this information

Please reach out to your
Newmark business contact for this information

Please reach out to your
Newmark business contact for this information

Please reach out to your
Newmark business contact for this information

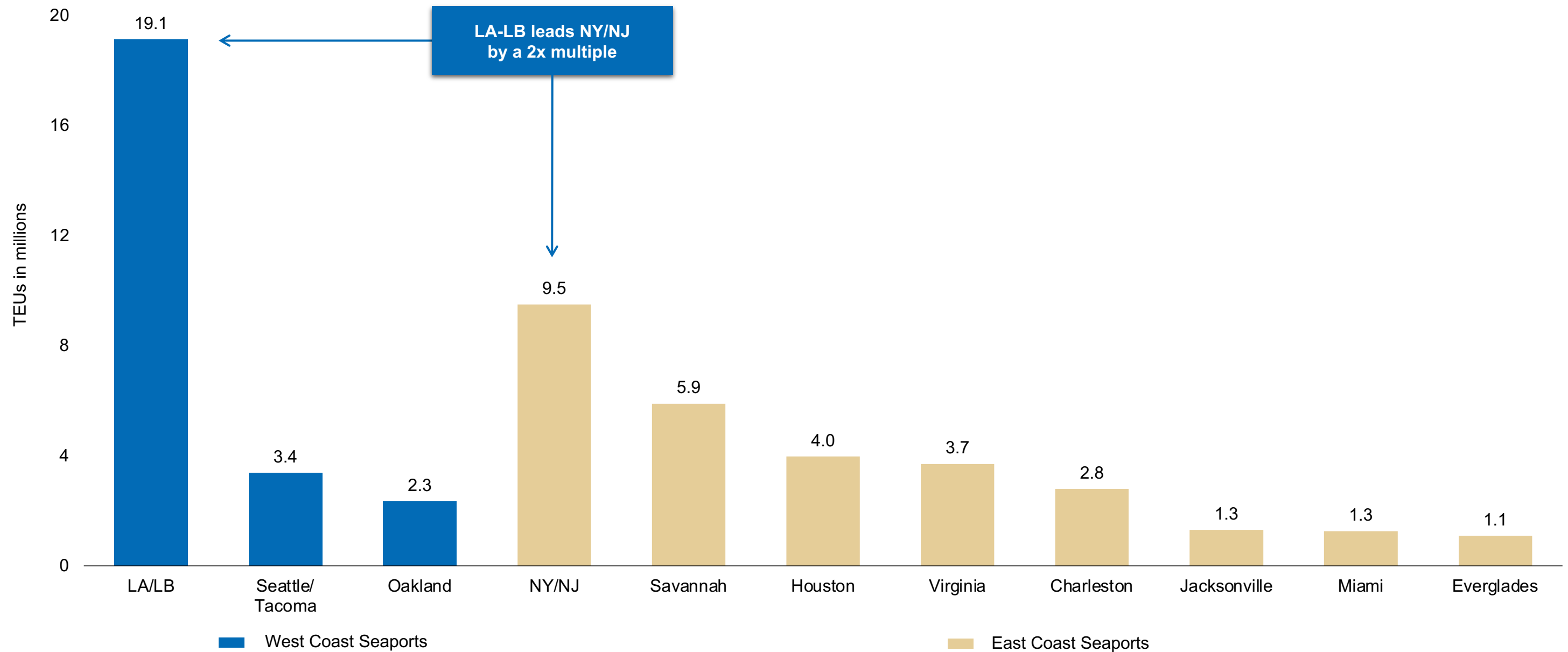
WAIRE: Program Summary and Implications for Industrial

Please reach out to your
Newmark business contact for this information

Los Angeles-Long Beach Is the Nation's Dominant Port System

Los Angeles-Long Beach can accommodate 18,000 TEU vessels, which are too wide to traverse the new Panama Canal. Additionally, both ports have Class 1 freight rail connectivity to the nation's major population centers.

Major U.S. Seaports: 2022 TEU Volume (All Containers: Loaded and Empty)



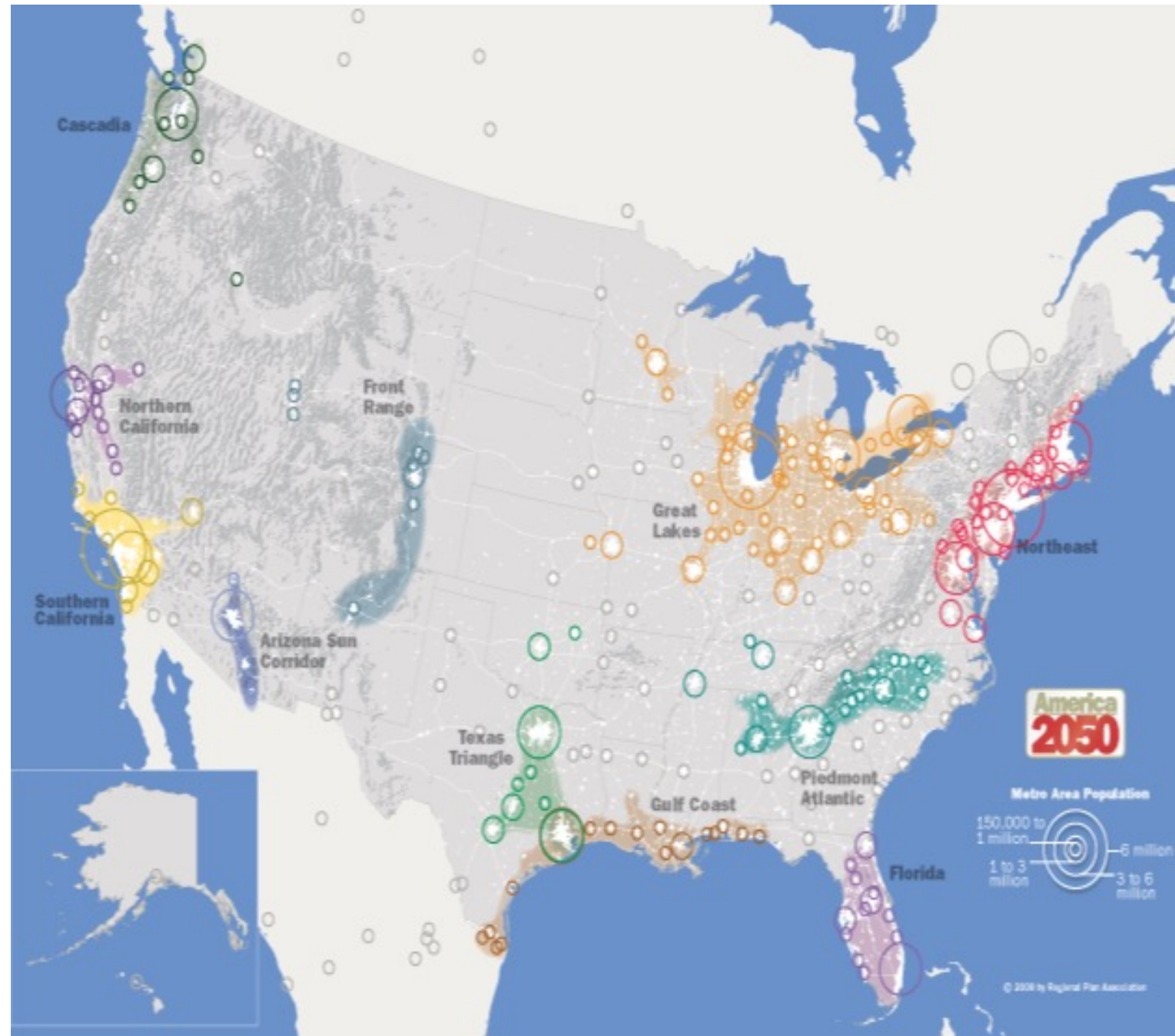
Source: Newmark Research, Individual Seaports
Note: Data is through February 2023 and is not adjusted for seasonality. Shaded areas indicate U.S. recessions

Why Los Angeles-Long Beach?

Please reach out to your
Newmark business contact for this information

Population of Megaregions: Past and Projected

Southern California benefits from its consumer base, ports and rail connectivity.



Megaregion	2010 Population	2025 Pop. Est.
Arizona Sun Corridor	5.7M	7.8M
Cascadia	8.4M	8.8M
Florida	17.3M	21.5M
Front Range	5.5M	7.0M
Great Lakes	55.6M	60.7M
Gulf Coast	13.4M	16.3M
Northeast	52.3M	58.4M
Northern California	14.0M	16.4M
Piedmont Atlantic	17.6M	21.7M
Greater Southern California	24.4M	29.0M
Texas Triangle	19.8M	24.8M

Source: U.S. Census Bureau

Transport Costs Are the Biggest Expenditure for Most Warehouse Occupiers

Please reach out to your
Newmark business contact for this information

Transport Costs per TEU Container

Please reach out to your
Newmark business contact for this information

For more information:

Dain Fedora

*Head of Research
Southwest*

dain.fedora@nmrk.com

Fahima Dawd

*Research Analyst
Orange County*

fahima.dawd@nmrk.com

Orange County

18401 Von Karman Ave., Suite 150
Irvine, CA 92612
t 949-608-2000

New York Headquarters

125 Park Ave.
New York, NY 10017
t 212-372-2000

nmrk.com

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

All information contained in this publication (other than that published by Newmark) is derived from third party sources. Newmark (i) has not independently verified the accuracy or completeness of any such information, (ii) does not make any warranties or representations, express or implied, concerning the same and (iii) does not assume any liability or responsibility for errors, mistakes or inaccuracies of any such information. Further, the information set forth in this publication (i) may include certain forward-looking statements, and there can be no guarantee that they will come to pass, (ii) is not intended to, nor does it contain sufficient information, to make any recommendations or decisions in relation to the information set forth therein and (iii) does not constitute or form part of, and should not be construed as, an offer to sell, or a solicitation of any offer to buy, or any recommendation with respect to, any securities. Any decisions made by recipient should be based on recipient's own independent verification of any information set forth in this publication and in consultation with recipient's own professional advisors. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download, or in any other way reproduce this publication or any of the information it contains with any third party. This publication is for informational purposes only and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter. If you received this publication by mistake, please reply to this message and follow with its deletion, so that Newmark can ensure such a mistake does not occur in the future.

NEWMARK

NEWMARK