

Orange County

Developers pressed to find opportunities as logistics users drive unprecedented demand

- The market ended 2021 with new records in yearly absorption as move-ins outpaced deliveries 5:1 this year.
- The development pipeline doubled quarter-over-quarter as developers shifted focus to industrial conversions headed into 2022
- Record low vacancy across the surrounding Southern California markets boosted activity in Orange County.
- Industrial assets in Orange County traded 32% higher than year ago on a price per square foot basis, reflecting strong investor demand.

The Orange County industrial market continued a solid run to round out the year with low vacancy and high rent growth. E-commerce continued to drive demand for logistics space; coupled with supply chain constraints, the region saw elevated activity throughout the year. The increases in leasing elevated rental rates, which increased 10% from the same period last year. Additionally, the effects of low vacancy and increased rents in the Inland Empire and Los Angeles markets were also reflected in Orange County. A lack of available space and few opportunities for development could lead to greater competition for space in 2022. With overwhelming positive demand fundamentals, industrial assets traded 32% higher than a year ago on a price per square foot basis.

Developers got creative as they repositioned alternative product types for warehouse use. Highlighting this point, nine conversion projects entered the development pipeline this year in Orange County. Record high returns and a lack of quality space further increased new construction in the market. However, the boost to construction activity drove up land and building prices to record rates. Duke Realty recently purchased a mostly vacant 100k+ s.f. office building on 5.8 acres that will be converted to a modern warehouse facility.

As the pandemic continued, so did the strains on the supply chain. Logistics tenants continued to scour the market for leasing opportunities. Additionally, apparel and biotech companies were significant contributors to positive absorption.

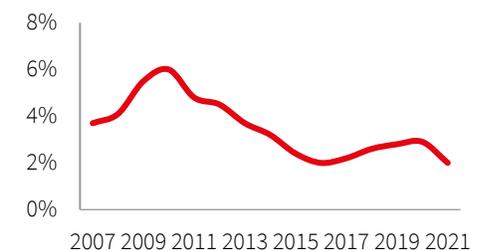
Outlook

Construction data suggests that available inventory may be on the way in 2022. Still, tenants, especially those focused on logistics, should be prepared to secure leases far in advance of their expirations for much higher rates. As the Inland Empire and Los Angeles markets continue to see record-low vacancies and compressing cap rates, it stands to reason that Orange County will continue its own record-breaking trajectory.

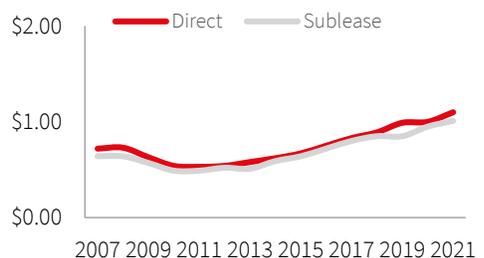
Fundamentals	Forecast
YTD net absorption	2,556,515 s.f. ▲
Under construction	3,507,959 s.f. ▲
Total vacancy	2.0% ▼
Sublease vacancy	359,771 s.f. ▼
Direct asking rent	\$1.10 p.s.f. ▲
Sublease asking rent	\$1.01 p.s.f. ▲
Concessions	Falling ▼



Total vacancy (%)



Average asking rent (\$ p.s.f.)



Industrial Statistics

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Average total asking rent (\$ p.s.f.)	Quarterly Completions (s.f.)	YTD Completions (s.f.)	Under construction (s.f.)
Orange County total										
Warehouse & Distribution	144,480,443	-160,368	1,330,908	0.9%	2.3%	5.4%	\$1.10	367,897	508,906	3,074,094
Manufacturing	63,062,530	115,821	1,225,607	1.9%	1.4%	2.7%	\$1.13	0	0	433,865
Overall Total	207,594,913	-44,547	2,556,515	1.2%	2.0%	4.6%	\$1.10	367,897	508,906	3,507,959
North County										
Warehouse & Distribution	73,554,968	107,192	871,648	1.2%	1.5%	5.6%	\$1.10	108,125	265,930	1,946,974
Manufacturing	28,970,687	28,409	171,506	0.6%	0.7%	2.6%	\$1.25	0	0	0
Overall Total	102,525,655	135,601	1,043,154	1.0%	1.2%	4.7%	\$1.13	108,125	265,930	1,946,974
West County										
Warehouse & Distribution	20,366,648	88,861	490,293	2.4%	2.6%	4.3%	\$1.03	259,772	242,976	571,135
Manufacturing	11,867,050	27,876	164,103	1.4%	2.5%	4.4%	\$1.16	0	0	433,865
Overall Total	32,233,698	116,737	654,396	2.0%	2.6%	4.3%	\$1.05	259,772	242,976	1,005,000
Airport Area										
Warehouse & Distribution	35,262,353	-362,486	-132,250	-0.4%	3.9%	6.2%	\$1.08	0	0	464,465
Manufacturing	15,610,437	-31,813	476,578	3.1%	2.0%	2.7%	\$1.03	0	0	0
Overall Total	50,924,730	-394,299	344,328	0.7%	3.3%	5.1%	\$1.07	0	0	464,465
South County										
Warehouse & Distribution	15,296,474	6,065	101,217	0.7%	2.4%	4.4%	\$1.34	0	0	91,520
Manufacturing	6,614,356	91,349	413,420	6.3%	0.8%	0.7%	\$1.50	0	0	0
Overall Total	21,910,830	97,414	514,637	2.3%	1.9%	3.3%	\$1.34	0	0	91,520