

Orange County Industrial Market Report

Rents Climb to New High; Large Blocks are Few

- Vacancy has remained below 4.0% for 30 consecutive quarters.
- Net absorption was positive after notable move-ins from PODs (166,722 square feet in Santa Ana), Ready Spaces (129,600 square feet in Garden Grove) and QYK Brands LLC (125,773 square feet in Santa Ana).
- The average asking rent increased 1.8% from three months ago, to \$1.20/SF.
- Local warehouse and storage jobs had a 9.1% annual gain in February. Warehouse labor is extremely tight.
- Amazon has become a major demand driver for industrial space in Orange County, growing its presence to roughly 1.6 million square feet over the last five years.
- Amazon continues to grow its Orange County footprint with a 242,976-square-foot warehouse currently under construction on a 30-acre site in Huntington Beach, as well as recent land acquisitions of 16.5 acres in Santa Ana and 31 acres in Irvine.
- Construction activity totals 351,101 square feet across two developments. Some tenants are expanding their search radius to the neighboring Inland Empire, where 21.3 million square feet of new inventory is underway.

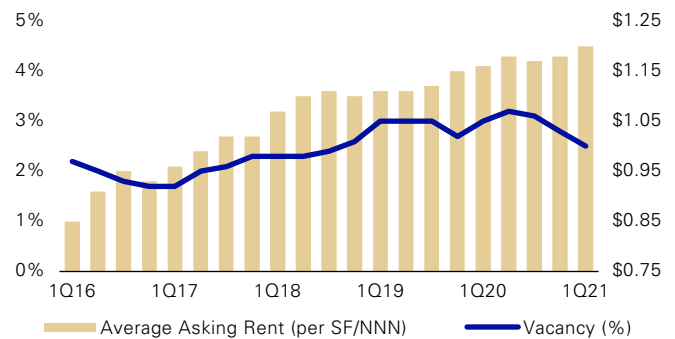
New Supply Continues to Push Rents

Strong fundamentals have been a persistent trend for Orange County's industrial market, as cited in previous market reports. Even in the face of the pandemic, the county proved resilient with tightening vacancies and healthy demand, giving landlords the upper hand in lease negotiations.

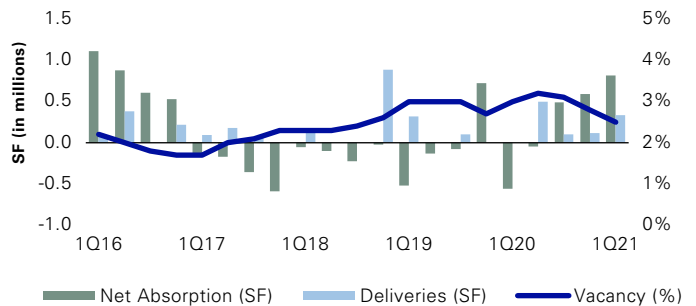
Supply of Class A product is extremely limited, with zero availability of existing state-of-the-art (32-foot clearance height) buildings over 100,000 square feet. Options in smaller size segments are tightening as well.

Market Analysis

VACANCY AND ASKING RENT



NET ABSORPTION, CONSTRUCTION DELIVERIES AND VACANCY



Market Summary

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	261.5M	260.2M	259.6M	↑
Total Vacancy Rate	2.5%	2.8%	3.0%	→
Quarterly Net Absorption (SF)	818,377	589,381	-560,041	→
Average Asking Rent/SF/Month	\$1.20 NNN	\$1.18 NNN	\$1.16 NNN	↑
Deliveries (SF)	332,382	116,362	0	↑
Under Construction (SF)	351,101	440,507	929,220	↓

RESEARCH Q1 2021

Orange County is a highly mature market and infill development is the only option for new development. With land values well north of \$80/SF (and rising), replacement costs are increasing. Developers, to get a return on their investments, will continue to increase rents. With several planned projects in progress, rental rates for the next generation of warehouse product in the county are expected to push well above \$1.00/SF NNN.

Economic Conditions

February's local unemployment rate of 6.8% is a considerable improvement from May's record high of 14.7% but is still higher than the national average of 6.2%. Continued job growth is expected in the months ahead as Orange County continues to ease restrictions on businesses.

Loaded import volume at the Ports of Long Beach and Los Angeles totaled nearly 1.6 million TEUs in the first two months of the year, up 27.8% from the same period in 2020. Import volume sharply increased in the second half of 2020, creating

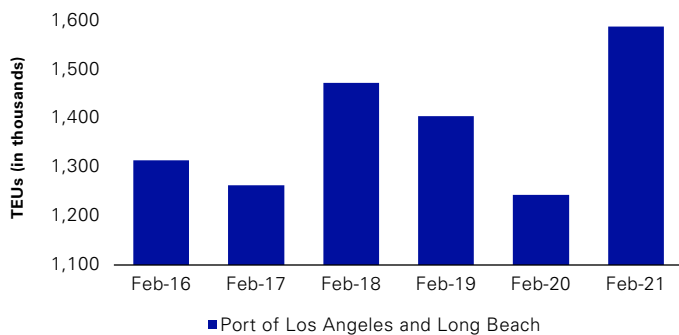
heavy gridlock at the nation's ports, and these trends carried over into the early months of 2021. Many U.S. distributors also frontloaded imports before production plants closed in China for the Lunar New Year in mid-February, partly accounting for the inflated import volume.

Outlook

U.S. consumer e-commerce sales in 2020 were up 32.3% from 2019, due to local stay-at-home orders and social distancing mandates. E-commerce penetration rates will continue to grow in 2021 as the county awaits the widespread distribution of vaccinations. This, coupled with the labor market's recovery and a rise in consumer spending, favors the local industrial market. However, availability will remain a hurdle for tenants in the search for quality supply, and, with minimal new inventory in the pipeline, tenants may look to neighboring markets to meet large block needs.

YTD Import Volume

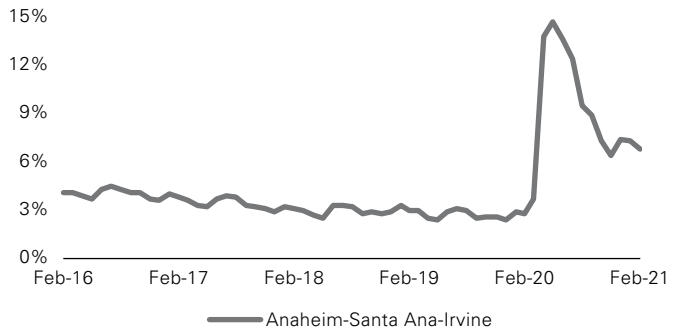
Loaded Inbound Cargo



Source: U.S. Bureau of Labor Statistics (Preliminary data, not seasonally adjusted)

Unemployment Rate

Total Nonfarm



Source: U.S. Bureau of Labor Statistics (Preliminary data, not seasonally adjusted). Includes information, financial activities and professional and business services jobs.

Lease Transactions

Tenant	Building	Market Area	Lease Type	Square Feet
Amazon	14952 Bolsa Chica Street	West County	New	242,976
Protab Laboratories	25892 Towne Center	South County	Sublease	130,706
Ready Spaces	3731 W. Warner Avenue	Airport	New	129,600

Sale Transactions

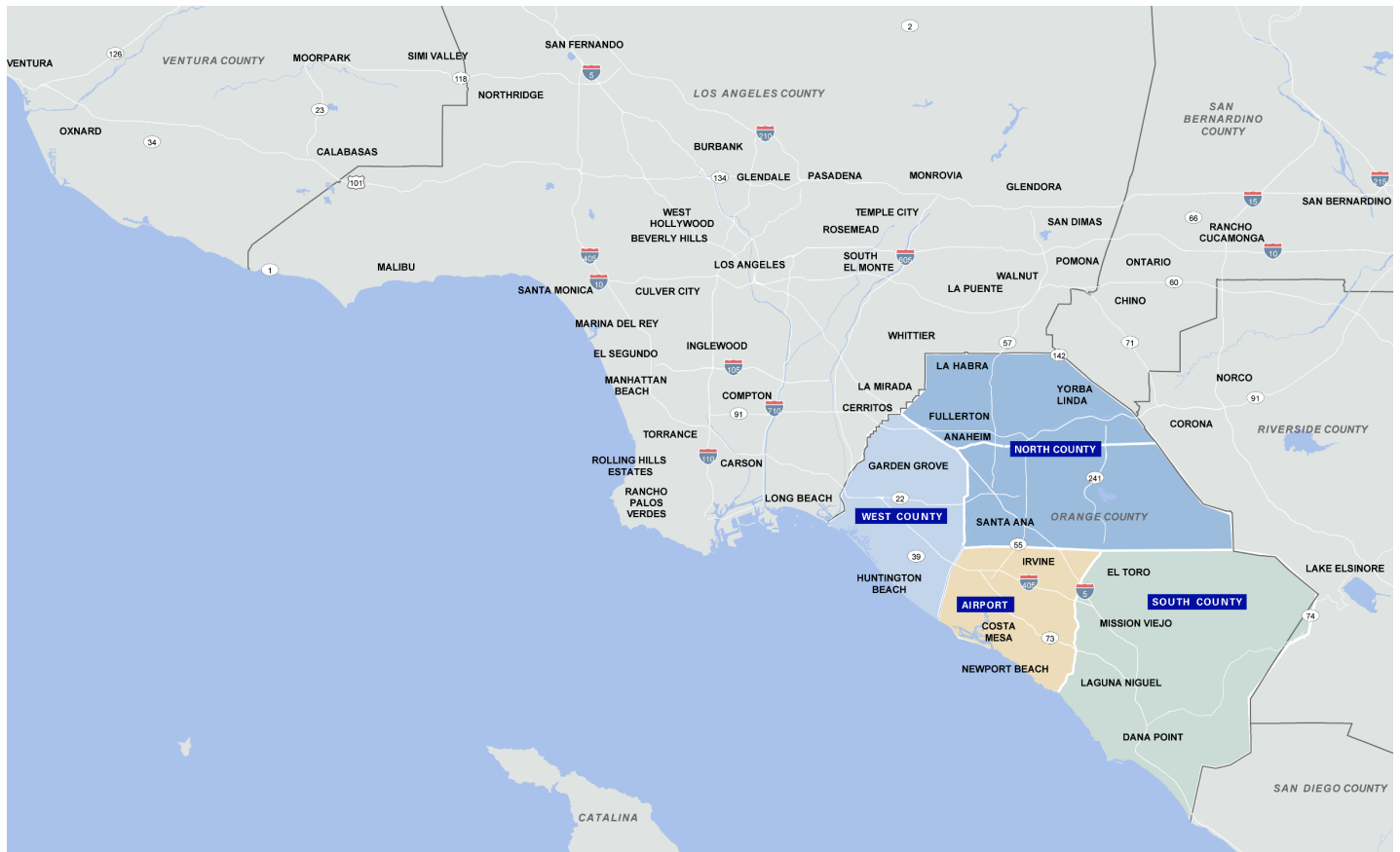
Buyer	Building(s)	Market Area	Sale Price/SF	Square Feet
Guthrie Development	2001-2007 Raymer Avenue	North County	\$221	80,000
Alere Property Group	14422 Astronautics Lane	West County	\$270	46,644
TA Realty	170 W. Technology Drive	South County	\$284	41,905

Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Wh/Dist Asking Rent (Price/SF)	General Ind Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Airport	83,945,846	0	4.9%	514,302	514,302	\$0.89	\$1.17	\$1.35
Costa Mesa	10,564,184	0	4.6%	-43,689	-43,689	-	\$1.45	\$1.45
Fountain Valley	4,659,715	0	2.5%	5,778	5,778	-	\$1.28	\$1.27
Irvine	26,372,948	0	6.4%	189,474	189,474	\$0.85	\$1.12	\$1.46
Newport Beach	892,953	0	4.8%	7,500	7,500	-	\$2.43	\$1.88
Santa Ana	31,766,434	0	3.0%	433,097	433,097	\$0.90	\$1.03	\$1.08
Tustin	9,689,612	0	8.5%	-77,858	-77,858	\$1.02	\$1.19	\$1.33
North County	103,553,848	108,125	2.6%	71,270	71,270	\$1.00	\$0.96	\$1.01
Anaheim	49,756,411	0	2.3%	114,224	114,224	\$0.85	\$1.01	\$1.01
Brea	11,280,609	108,125	2.3%	-45,711	-45,711	\$1.01	\$0.91	\$1.07
Fullerton	20,218,305	0	2.2%	27,459	27,459	\$1.05	\$0.78	\$0.85
La Habra	3,456,110	0	1.2%	9,278	9,278	-	\$1.13	\$1.13
Orange	12,797,040	0	2.2%	-30,760	-30,760	\$1.09	\$0.92	\$1.02
Placentia	3,796,636	0	7.0%	-4,863	-4,863	\$0.95	\$1.49	\$1.27
Yorba Linda	2,248,737	0	11.8%	1,643	1,643	-	\$1.35	\$1.31
South County	34,933,552	0	5.8%	-110,766	-110,766	\$1.11	\$1.29	\$1.33
Aliso Viejo	1,810,021	0	1.2%	599	599	-	\$1.21	\$1.03
Foothill Ranch	2,829,044	0	0.0%	179,865	179,865	\$0.85	-	\$0.85
Irvine Spectrum	17,459,742	0	6.1%	-253,782	-253,782	\$1.20	\$1.29	\$1.35
Laguna Beach	76,268	0	4.7%	0	0	-	-	-
Laguna Hills	1,209,803	0	2.4%	-586	-586	-	\$1.30	\$1.44
Laguna Niguel	498,492	0	5.7%	-1,922	-1,922	-	-	-
Lake Forest	4,706,353	0	1.6%	-54,029	-54,029	-	\$1.33	\$1.33

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Mission Viejo	1,054,227	0	6.3%	10,674	10,674	-	-	-
Rancho Santa Margarita	2,312,865	0	0.9%	1,158	1,158	-	\$1.35	\$1.78
San Clemente	2,023,031	0	2.6%	18,817	18,817	\$3.55	\$0.99	\$1.11
San Juan Capistrano	953,706	0	3.4%	-11,560	-11,560	-	\$1.60	\$1.60
West County	39,109,689	242,976	2.5%	343,571	343,571	\$0.85	\$0.89	\$0.91
Cypress	6,345,912	0	3.9%	71,463	71,463	\$0.89	-	\$0.91
Garden Grove	12,612,970	0	2.5%	241,045	241,045	\$0.86	\$0.86	\$0.90
Huntington Beach	14,748,419	242,976	1.3%	28,488	28,488	\$0.78	\$0.98	\$0.90
Los Alamitos	2,037,124	0	3.5%	6,215	6,215	\$1.03	\$1.47	\$1.00
Seal Beach	841,203	0	10.5%	0	0	-	-	-
Stanton	797,352	0	0.6%	-3,740	-3,740	-	\$0.87	\$0.87
Westminster	1,726,709	0	3.4%	100	100	-	\$0.54	\$0.83
Market	261,542,935	351,101	2.5%	818,377	818,377	\$0.94	\$1.11	\$1.20

Net absorption is the change in physically occupied space. A hypothetical vacant and available space could lease this quarter with the tenant set to take occupancy six months later; positive absorption is not recorded until this physical move-in occurs. The space will remain vacant, but not available, until occupancy.

The total asking rent is the weighted average across warehouse, manufacturing, flex, incubator and general industrial properties.



Dain Fedora
 Director of Research
 dain.fedora@ngkf.com

Nicole Repasky
 Senior Research Analyst
 nicole.repasky@ngkf.com

Claudia Morales
 Senior Database Coordinator
 cmorales@ngkf.com

Orange County Office
 18401 Von Karman Avenue, Suite 150
 Irvine, CA 92612
 t 949-608-2000

nmrk.com

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