

# Orange County Industrial Market Report

## Tight Market Conditions Abound Amid High Inflation

- Net absorption was positive for the eighth consecutive quarter, following move-ins from Romeo Power (215,000 square feet), Old World Industries (196,309 square feet) and Enevale (126,497 square feet), among others.
- Vacancy in the Inland Empire is now 0.6%; this will limit migration activity from Orange County.
- Loaded inbound cargo at Los Angeles-Long Beach totaled 10.1 million TEUs in 2021, the busiest year on record. Volume was pronounced in the first two months of 2022.
- Orange County's principal challenge is one of supply; pronounced tenant demand is confronted with few modern space options. This is limiting net absorption activity, and developers are responding accordingly.
- Under-construction activity is at an all-time high.
- U.S. consumer e-commerce sales in 2021 were up 51.0% from 2019. Demand for final-mile space is high.

### EV Companies Set Up Shop

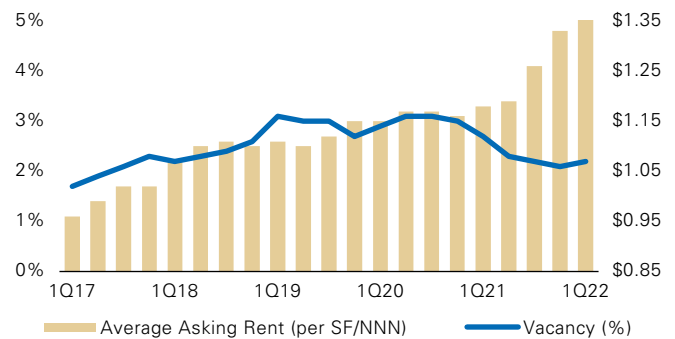
Orange County has gained a reputation for becoming an electric-vehicle (EV) hub in recent years due to its diverse labor pool and a growing roster of industry players.

This quarter, Enevale, an EV battery maker, signed a new lease for 126,497 square feet in Irvine to house its headquarters. Neighboring tenants include Rivian and Karma, which are also headquartered in the area. Romeo Power, another EV battery maker, also completed a relocation from Los Angeles to Cypress to expand its operations.

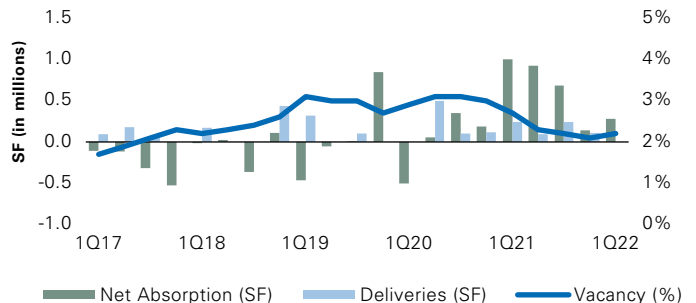
It is no secret that Orange County has a growing tech base, which is partly supported by graduates from the University of California Irvine (UCI) entering the workforce. UCI awarded 4,334 engineering degrees from 2015 to 2020.

### Market Analysis

#### ASKING RENT AND VACANCY



#### NET ABSORPTION, CONSTRUCTION DELIVERIES AND VACANCY



### Market Summary

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	262.9M	261.9M	261.4M	↑
Total Vacancy Rate	2.2%	2.1%	2.7%	↓
Quarterly Net Absorption (SF)	277K	144K	1.0M	→
Average Asking Rent/SF/Month	\$1.42 NNN	\$1.33 NNN	\$1.18 NNN	↑
Deliveries (SF)	0	109K	239K	↑
Under Construction (SF)	3.1M	3.0M	430K	→

### Under-Construction Activity Reaches Record-High

Vacancy has remained under 4.0% for 34 straight quarters, and developers are accelerating groundbreakings at entitled sites. Current projects include Goodman Logistics Center Fullerton, a four-building campus totaling 1.5 million square feet; Huntington Gateway, a six-building campus totaling 1.0 million square feet; and a 145,000-square-foot Amazon facility in Irvine Spectrum. Developers are also targeting older industrial facilities for renovation, in addition to covered land plays.

The ongoing office-to-industrial redevelopment trend continued this quarter after Prologis acquired a 24-acre office campus in Lake Forest. According to the press release, Prologis will operate the asset as an office property, but dubbed the acquisition as a long-term strategic play. Prologis does not own any other office assets in the county; eventual redevelopment to industrial is likely.

Goodman Group also bought a 30,000-square-foot medical office property in Anaheim near the Goodman Industrial Center

Anaheim, where Amazon is the tenant. The medical office site will either serve as an extension of Amazon’s distribution center or become a new speculative industrial facility. In Aliso Viejo, Holt Integrated Circuits, a circuit supplier for the aerospace industry, purchased a 38,000-square-foot office building. The ground floor will be used for warehouse operations; the second floor for corporate offices.

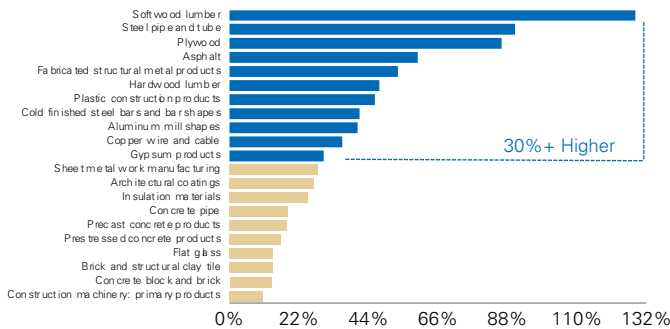
### Outlook

Speculative developers will wait until the eve of a given building’s delivery before signing a tenant to capitalize on higher rents, which are being influenced by fluctuating construction material costs and ever-tightening leasing market conditions.

While the outlook for 2022 is highly bullish, inflation, which reached a 40-year high in Southern California in January, remains a concern as it pertains to future consumer spending. It also remains to be seen what impact future interest rate hikes will have on the U.S. economy amid rising fuel costs and ongoing supply chain disruptions.

### Construction Material Price Movement

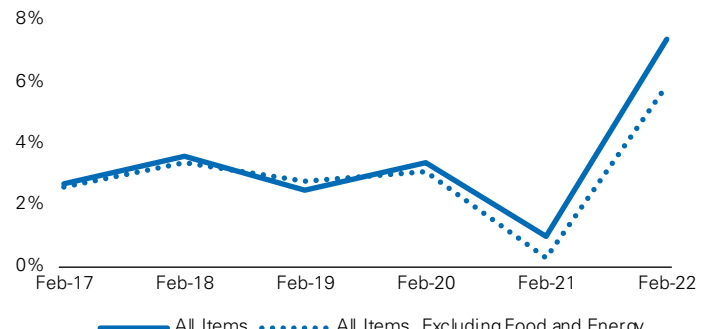
U.S. PRODUCER PRICE INDEX: DEC 2019 TO FEB 2022 % CHANGE



Source: US Census Bureau (consumer adjusted retail sales); based on the most current data available

### Consumer Price Index (CPI-U)

LOS ANGELES-LONG BEACH-ANAHEIM | 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics (data not adjusted for seasonality)

### Lease Transactions

Tenant	Building(s)	Market Area	Lease Type	Square Feet
Old World Industries	7300 Chapman Avenue	West County	Direct	196,309
Arbonne International LLC	9400 Jeronimo Road	South County	Renewal	146,482
Modern Fittings	295 East Orangethorpe Avenue	North County	Direct	96,000

### Sale Transactions

Buyer	Building(s)	Market Area	Sale Price (PSF)	Square Feet
9th Street Partners LLC	17451 Von Karman Avenue	Airport	\$26,000,000 (\$285/SF)	90,000
EverWest Real Estate Investors, LLC	5410-5414 East La Palma Avenue	North County	\$22,400,000 (\$307/SF)	73,000
Robinson Pharma, Inc.	3501 West Segerstrom Avenue	Airport	\$25,000,000 (\$375/SF)	66,600

RESEARCH Q1 2022

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)
<b>Airport</b>	<b>84,209,477</b>	<b>0</b>	<b>2.8%</b>	<b>116,503</b>	<b>116,503</b>	<b>\$1.47</b>	<b>\$1.43</b>	<b>\$1.56</b>
Costa Mesa	10,764,021	0	2.1%	24,324	24,324	\$1.59	\$1.37	\$1.43
Fountain Valley	4,697,315	0	1.5%	-16,070	-16,070	-	-	\$1.54
Irvine	26,212,380	0	3.8%	-44,641	-44,641	-	\$1.58	\$1.66
Newport Beach	892,953	0	4.3%	14,700	14,700	-	-	\$1.43
Santa Ana	31,858,114	0	1.5%	5,475	5,475	-	\$1.50	\$1.45
Tustin	9,784,694	0	6.1%	132,715	132,715	\$1.44	\$1.29	\$1.59
<b>North County</b>	<b>103,941,461</b>	<b>1,871,415</b>	<b>1.4%</b>	<b>-328,322</b>	<b>-328,322</b>	<b>\$1.39</b>	<b>\$1.13</b>	<b>\$1.30</b>
Anaheim	49,974,076	298,610	1.6%	-240,000	-240,000	\$1.29	\$1.11	\$1.28
Brea	11,535,520	0	2.7%	-162,306	-162,306	\$1.21	\$1.24	\$1.26
Fullerton	20,219,737	1,572,805	0.8%	-51,121	-51,121	\$1.44	-	\$1.43
La Habra	3,472,738	0	0.4%	20,825	20,825	\$0.60	-	\$0.60
Orange	12,813,728	0	1.0%	6,171	6,171	-	\$0.72	\$0.81
Placentia	3,796,891	0	0.5%	93,173	93,173	-	\$1.31	\$1.31
Yorba Linda	2,128,771	0	0.7%	4,936	4,936	-	\$1.40	\$1.40
<b>South County</b>	<b>34,953,110</b>	<b>145,000</b>	<b>2.8%</b>	<b>119,996</b>	<b>119,996</b>	<b>\$1.48</b>	<b>\$1.55</b>	<b>\$1.45</b>
Aliso Viejo	1,812,203	0	5.5%	-56,816	-56,816	-	-	\$1.33
Foothill Ranch	2,829,044	0	0.0%	0	0	\$1.50	-	\$1.50
Irvine Spectrum	17,372,567	145,000	3.7%	207,423	207,423	\$1.70	\$1.53	\$1.47
Laguna Beach	76,268	0	4.7%	0	0	-	-	\$2.52
Laguna Hills	1,227,951	0	1.7%	-737	-737	\$1.50	\$1.45	\$1.43
Laguna Niguel	498,492	0	5.7%	0	0	-	-	\$1.50
Lake Forest	4,740,058	0	0.7%	-296	-296	\$1.45	\$1.66	\$1.50

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Mission Viejo	1,054,227	0	5.3%	-14,956	-14,956	-	\$1.23	\$1.39
Rancho Santa Margarita	2,337,119	0	0.4%	5,618	5,618	-	\$1.55	\$1.55
San Clemente	2,051,475	0	3.4%	-8,050	-8,050	\$1.25	-	\$1.39
San Juan Capistrano	953,706	0	1.3%	-12,190	-12,190	-	-	-
<b>West County</b>	<b>39,777,640</b>	<b>1,114,892</b>	<b>2.3%</b>	<b>368,867</b>	<b>368,867</b>	<b>\$1.30</b>	<b>\$1.21</b>	<b>\$1.20</b>
Cypress	6,311,612	0	4.5%	93,785	93,785	\$1.30	\$1.29	\$1.21
Garden Grove	12,976,450	0	3.1%	220,963	220,963	-	\$0.95	\$0.96
Huntington Beach	15,019,722	1,114,892	1.3%	15,253	15,253	-	\$1.25	\$1.27
Los Alamitos	2,039,241	0	0.9%	3,818	3,818	-	-	-
Seal Beach	841,203	0	0.0%	16,720	16,720	-	-	-
Stanton	797,352	0	0.2%	0	0	-	\$1.02	\$1.02
Westminster	1,792,060	0	1.9%	18,328	18,328	-	-	-
<b>Orange County</b>	<b>262,881,688</b>	<b>3,131,307</b>	<b>2.2%</b>	<b>277,044</b>	<b>277,044</b>	<b>\$1.39</b>	<b>\$1.31</b>	<b>\$1.42</b>

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. Older, available buildings often cite asking rents, while newer facilities often withhold rent values. Based on this, today's asking rent averages are materially understated.



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