

1Q24

Orange County Industrial Market Overview



NEWMARK

Market Observations

Economy

- U.S. retail sales growth fell below the 20-year average by the end of 2023; local industrial leasing activity remained subdued through this period.
- Loaded import volume at Southern California’s ports totaled 1.5 million containers in the first two months of 2024, slightly higher than the same period in 2018.
- A probable strike by Gulf and East Coast dockworkers, drought-induced restrictions at the Panama Canal and continued ship attacks on the Red Sea suggest significant import traffic gains at Southern California’s ports in 2024.
- A rise in imports does not necessarily portend more demand for Inland Empire warehouse space. Goods that are “just passing through” to other U.S. markets have a negligible effect on local market dynamics.

Major Transactions

- Three leases over 100,000 SF were signed this quarter compared to two that were signed in the first quarter of 2022.
- Hampton Products signed a short-term renewal for 307,781 SF at 50 Icon in Foothill Ranch in what was this quarter’s largest lease.
- Rexford Industrial Realty acquired 48 properties (mostly based in Los Angeles and Orange Counties) from Blackstone. The portfolio was 98% leased at the time of sale, totaled 3.0 MSF and traded for \$996.8 million.
- Industrial sales activity in the first quarter of the year rested just slightly below the 10-year first-quarter market average, a far healthier showing than for Los Angeles and the Inland Empire.

Leasing Market Fundamentals

- Current leasing activity is subdued relative to 2021-2022.
- Limited occupancy gains amid a stream of tenant departures and downsizings resulted in the worst quarterly net absorption loss since 2017. Move-outs and vacant construction deliveries increased vacancy to 3.3%, up 60bps from last quarter.
- Available sublease space reached 2.3 MSF, up 12.5% from three months ago. Future sublet availability will likely fluctuate as tenants continue to reassess space needs.
- Under-construction activity totals 1.3 MSF, which is reminiscent of 2019, or just before the pandemic. Approximately 45.5% has pre-leased to date.

Outlook

- Elevated rents and continued inflationary pressures will lead to additional space givebacks in the coming months.
- Vacancy in the Inland Empire is at a 12-year high, sublet availability has reached a staggering 19.6 MSF and rents are steadily falling. A few Orange County tenants may consider relocation-consolidation moves to the market.
- Institutional investors are reducing their exposure to office by increasing allocations to industrial, multifamily and other alternative sectors. Core industrial assets in gateway markets are in demand, and more portfolio sales are expected.
- Developers will continue to pursue opportunities to convert infill sites for industrial use in a market where the industrial vacancy rate remains below the historical average.

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 2. Leasing Market Fundamentals
 3. Sales Activity
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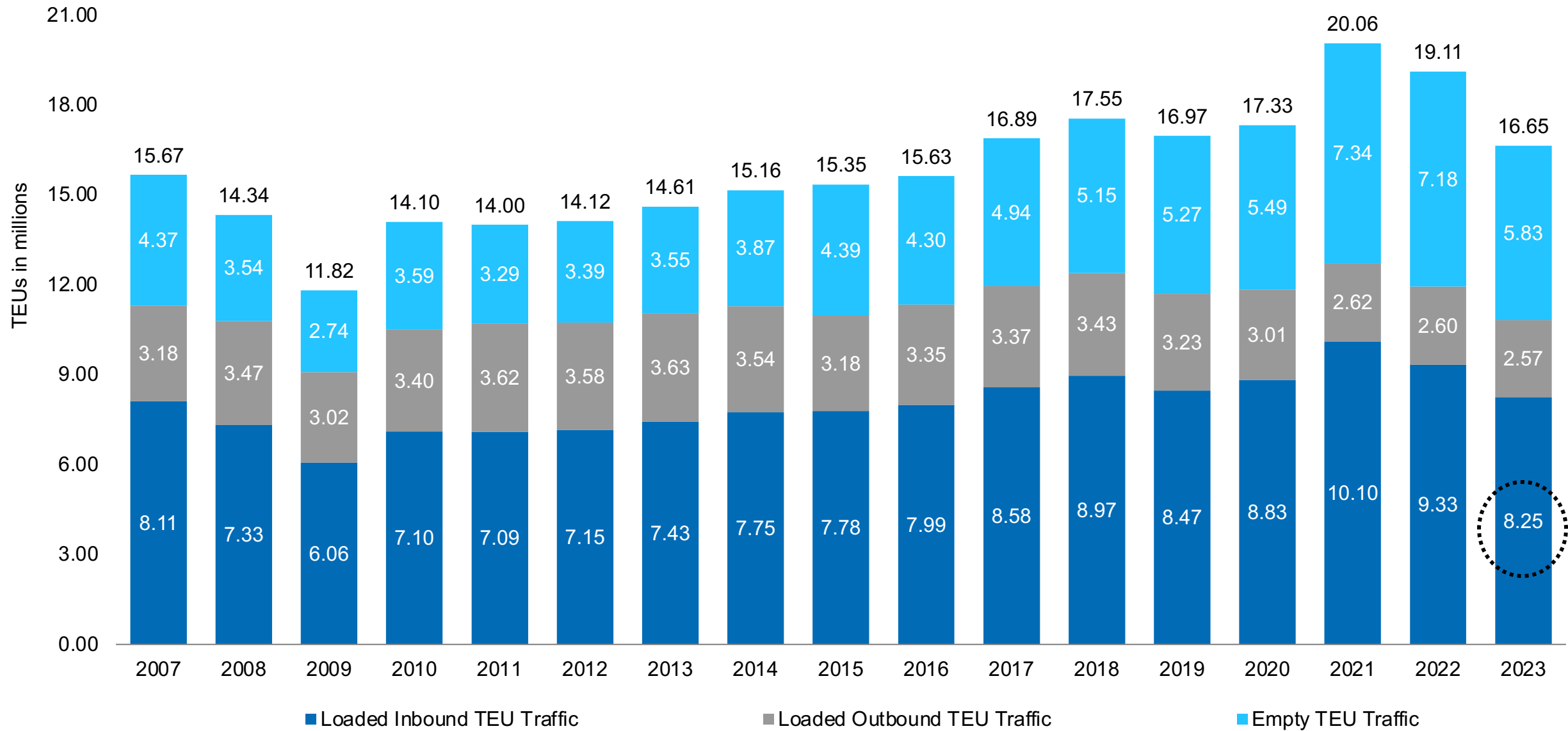
Economy



Southern California’s Ports: 2023 Was the Seventh Busiest Year on Record for Import Volume

This is still healthy from a historical perspective. A return to normal for import traffic is, in turn, moderating demand for warehouse space.

The Ports of Los Angeles and Long Beach: Combined TEU Volume | Loaded Imports, Loaded Exports and Empty Containers | By Year



Source: Newmark Research, The Port of Long Beach and Los Angeles
 Note: TEUs are a standard measure for the steel cargo containers commonly used interchangeably on ships, trucks and trains. A TEU or 20-foot equivalent unit is the industry measure used to tally cargo containers, whether the containers are 20-foot long, 40-foot long or some other size.

West Coast Dockworkers Signed a New Contract in 2023; Their Eastern Counterparts are Next Up...

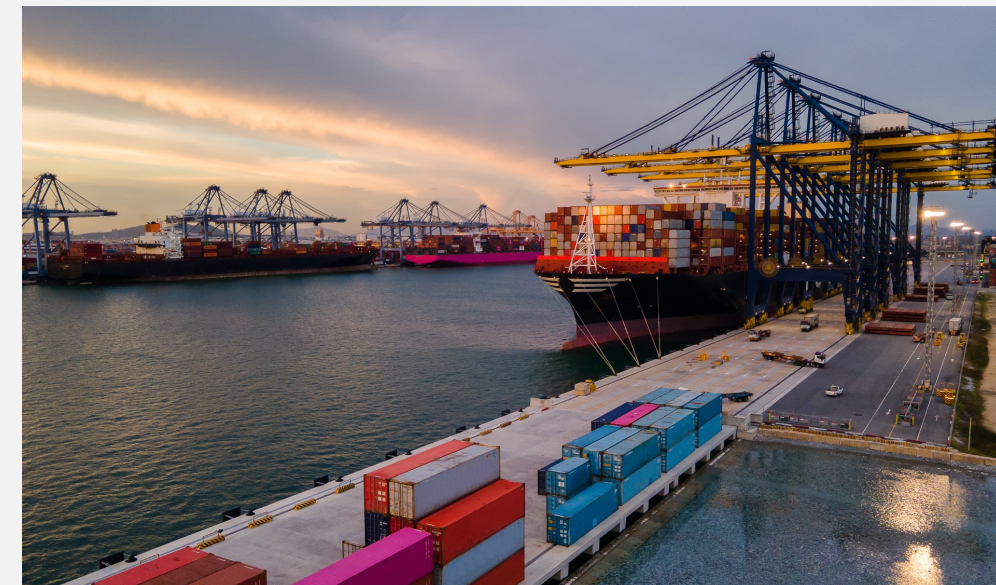
The ILWU and PMA signed a new labor contract in September, restoring a sense of much-needed stability at U.S. West Coast seaports for the next six years. Longshoremen at East and Gulf Coast ports will soon negotiate their contract, which will expire in late 2024. Import volume will likely shift to other ports of entry (e.g., Los Angeles-Long Beach) until an agreement is reached.

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 periods.
- 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 is returning since stability is now less of a concern.

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.
- Harold Daggett, International President of the ILA, has warned that a strike is likely in 2024.
- Higher pay and job security as it pertains to automating port operations were primary issues for the ILA in 2018/the last negotiation period.



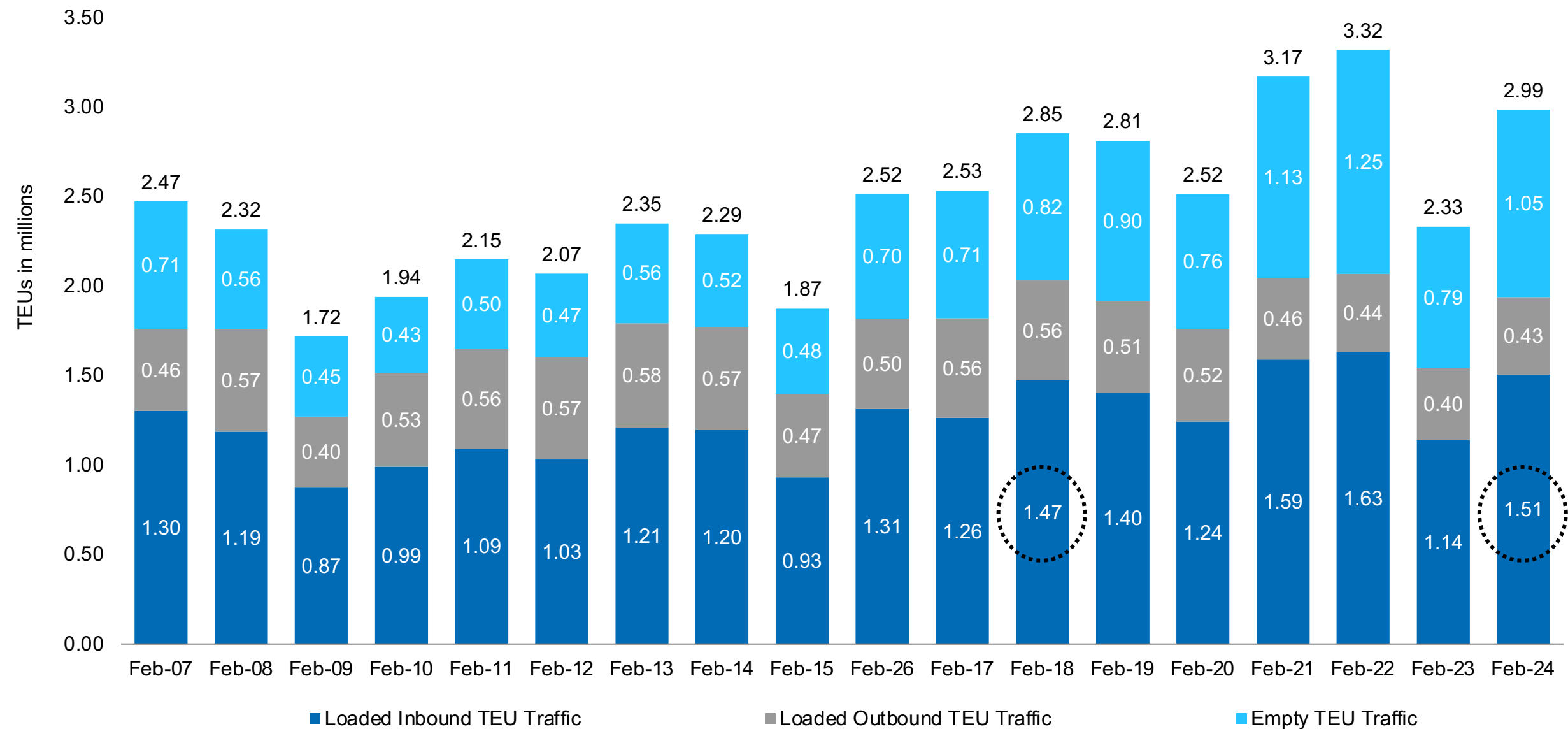
Import Traffic Has Jumped in Recent Months at Los Angeles-Long Beach

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Loaded Imports in the First Two Months of 2024 Were Higher Than the Same Period in 2018

Loaded inbound TEU traffic during the first two months of 2024 reached the third-highest level on record. Import activity is expected to remain healthy in the coming months.

The Ports of Los Angeles and Long Beach: Combined TEU Volume | Loaded Imports, Loaded Exports and Empty Containers | First Two Months of a Given Year



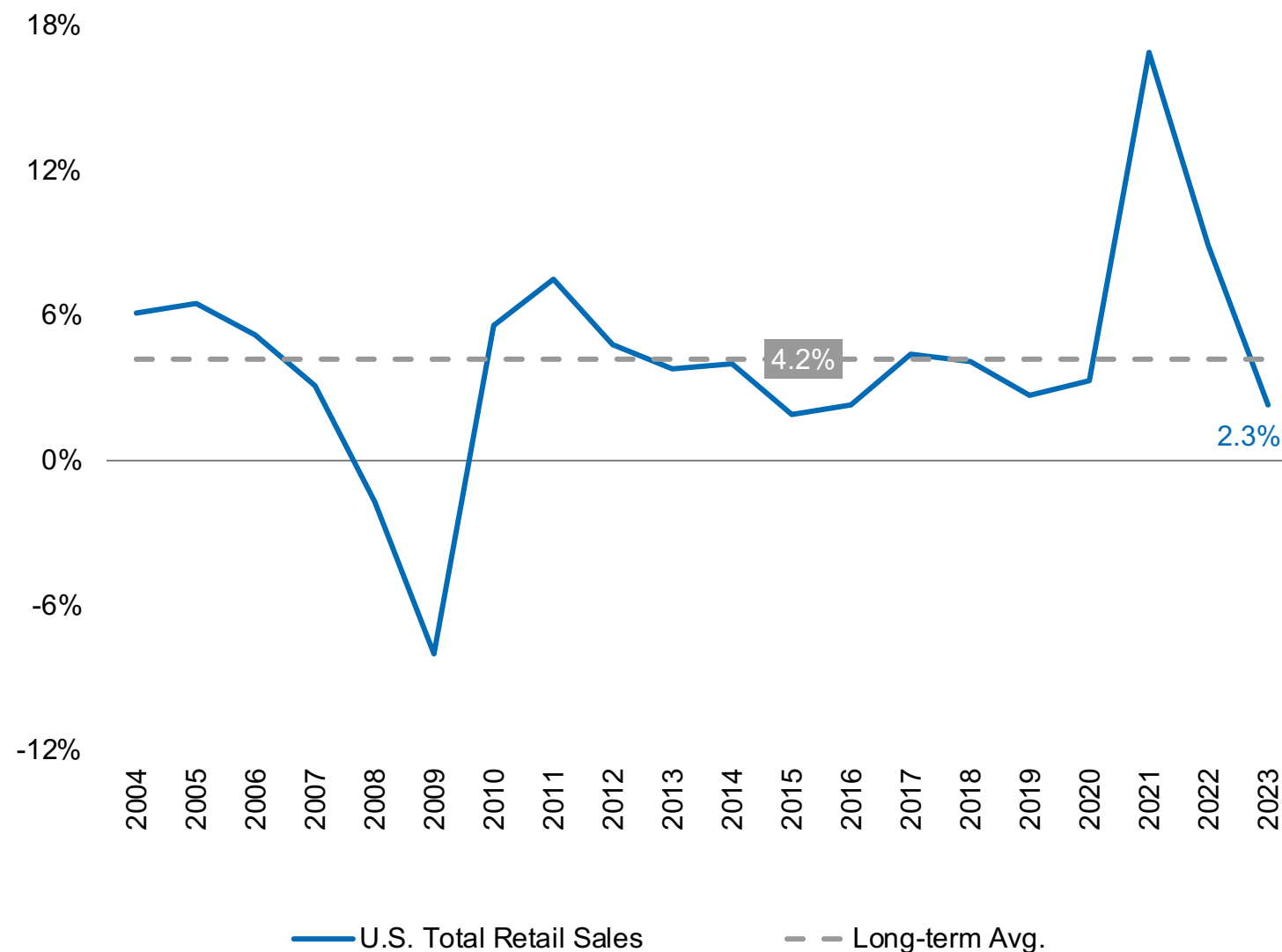
Source: Newmark Research, The Port of Long Beach and Los Angeles

Note: TEUs are a standard measure for the steel cargo containers commonly used interchangeably on ships, trucks and trains. A TEU or 20-foot equivalent unit is the industry measure used to tally cargo containers, whether the containers are 20-foot long, 40-foot long or some other size. The Lunar New Year started on February 10th this year, a time when factories in Asia shut down entirely. Since U.S. distributors tend to front-load imports beforehand, port volume in the first quarter of a given year is not reflective of how the year will unfold.

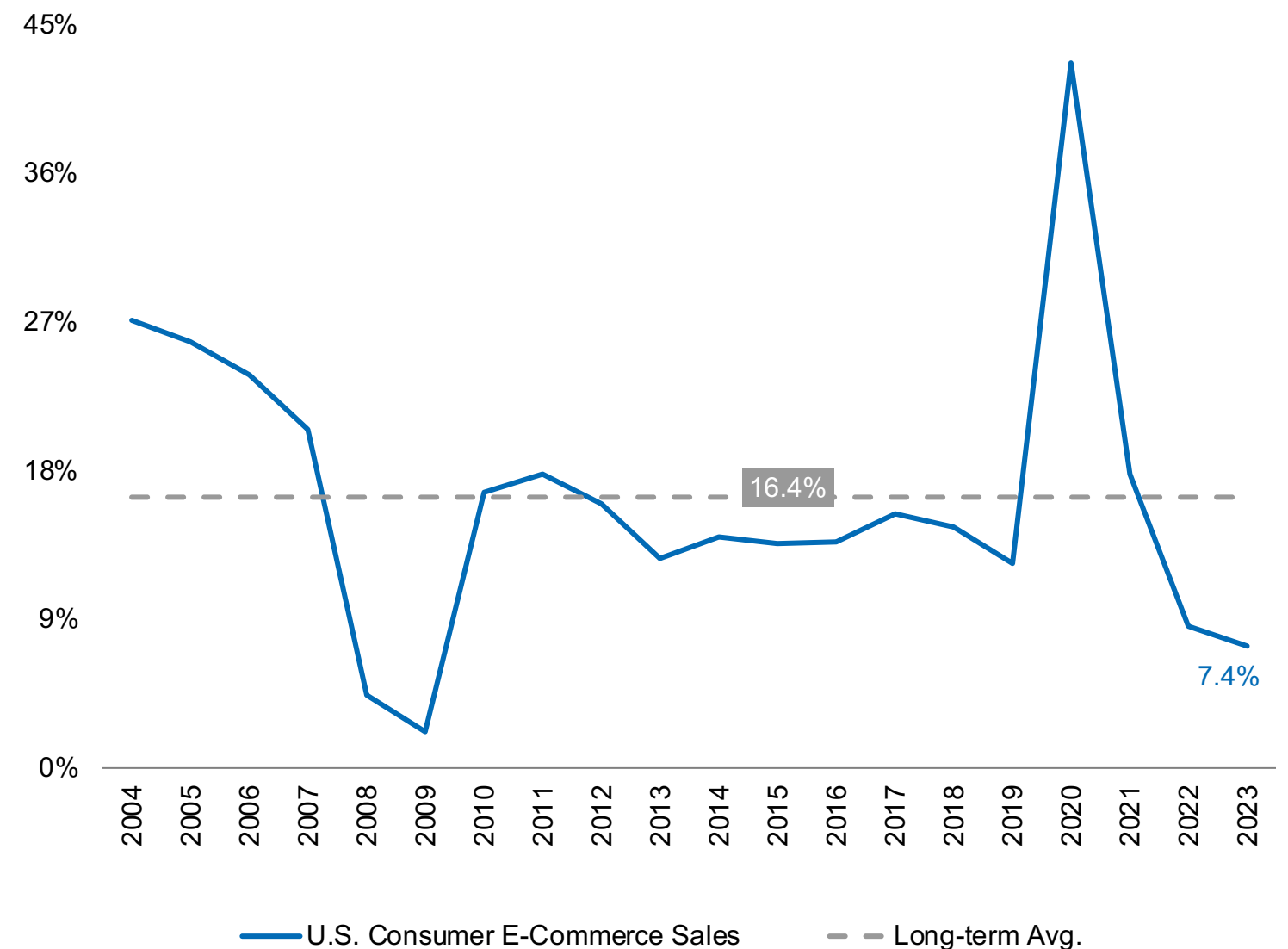
Retail Sales (an Indicator of Warehouse Demand) Continue to Moderate

Consumer e-commerce sales were up 7.4% from 2022 to 2023. Although e-commerce sales growth exceeded total retail sales (+2.3% over the same period), the decline from 2021 onward is noticeable as consumer spending slows.

U.S. Retail Sales Annual Growth



U.S. Consumer E-Commerce Sales Annual Growth



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

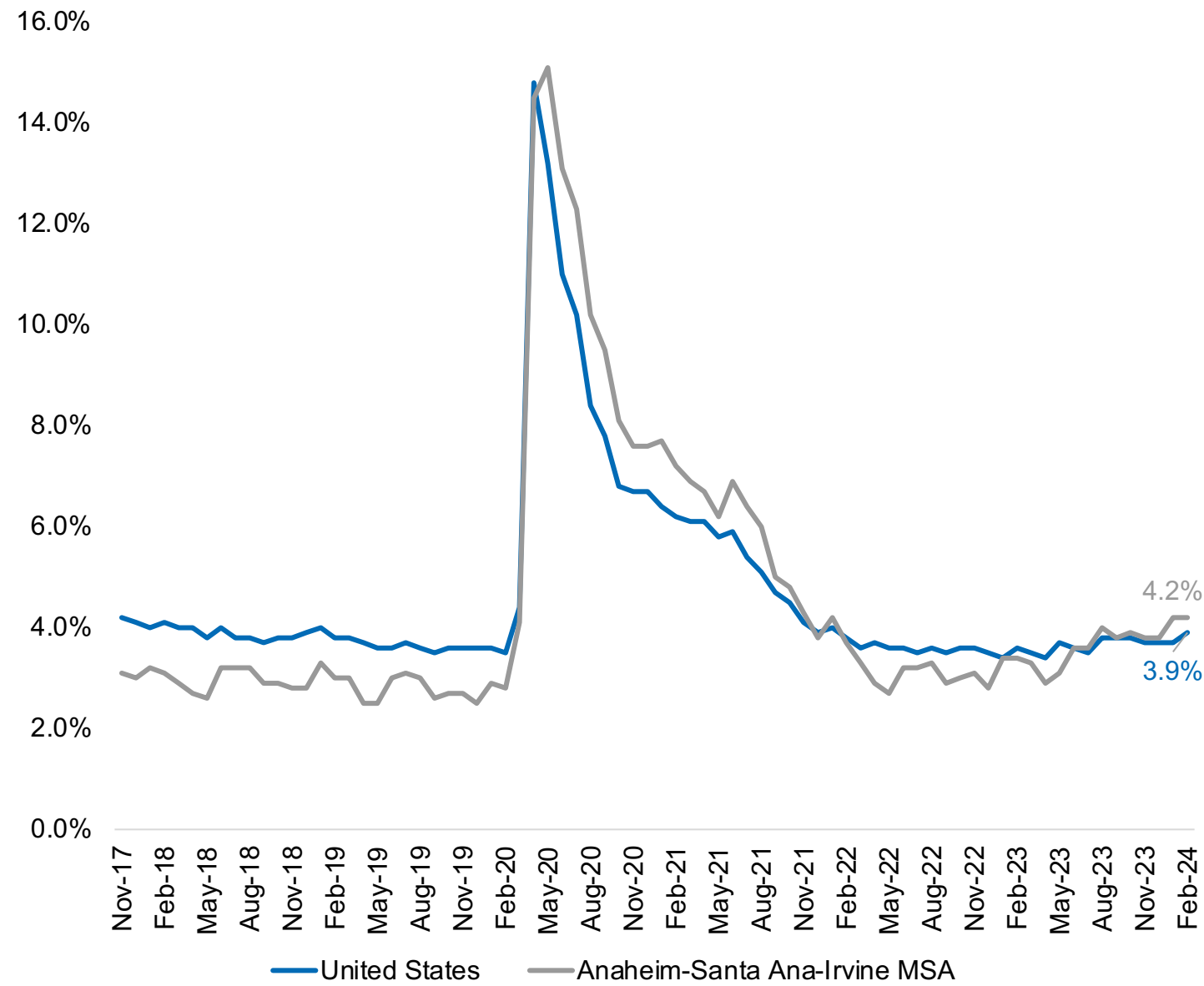
The Pandemic Accelerated E-Commerce Sales Growth and Adoption Rates

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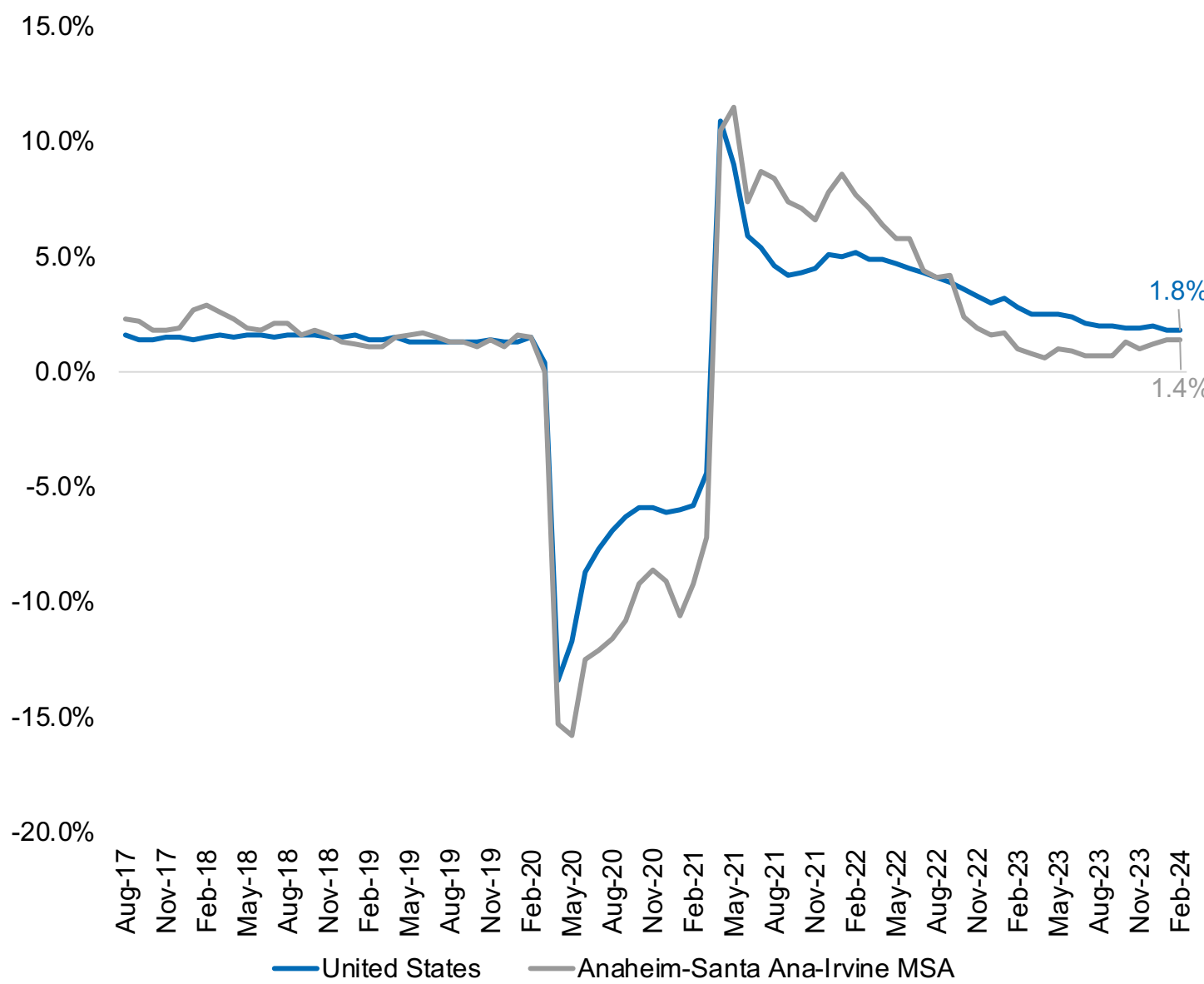
Local Unemployment Inches Above National Average

Orange County unemployment has increased over the last year, going from 3.4% in February 2023 to 4.2% in February 2024. This increase can be attributed to cooling in the labor market and cost-cutting measures, such as hiring freezes, enacted by companies in the current high-interest-rate environment.

Unemployment Rate, Seasonally Adjusted



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

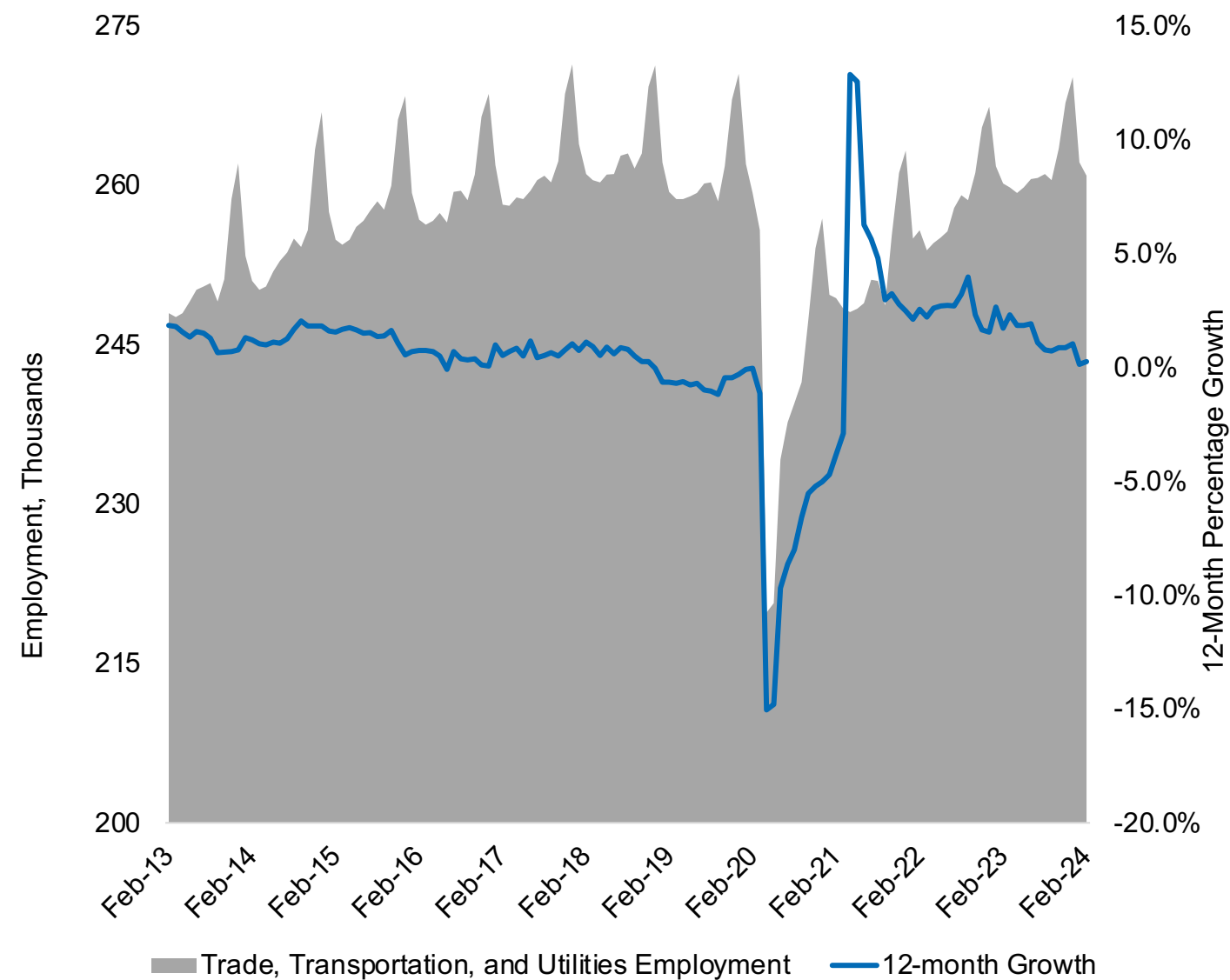


Source: U.S. Bureau of Labor Statistics, Anaheim-Santa Ana-Irvine, CA
 Note: February 2024 data is preliminary.

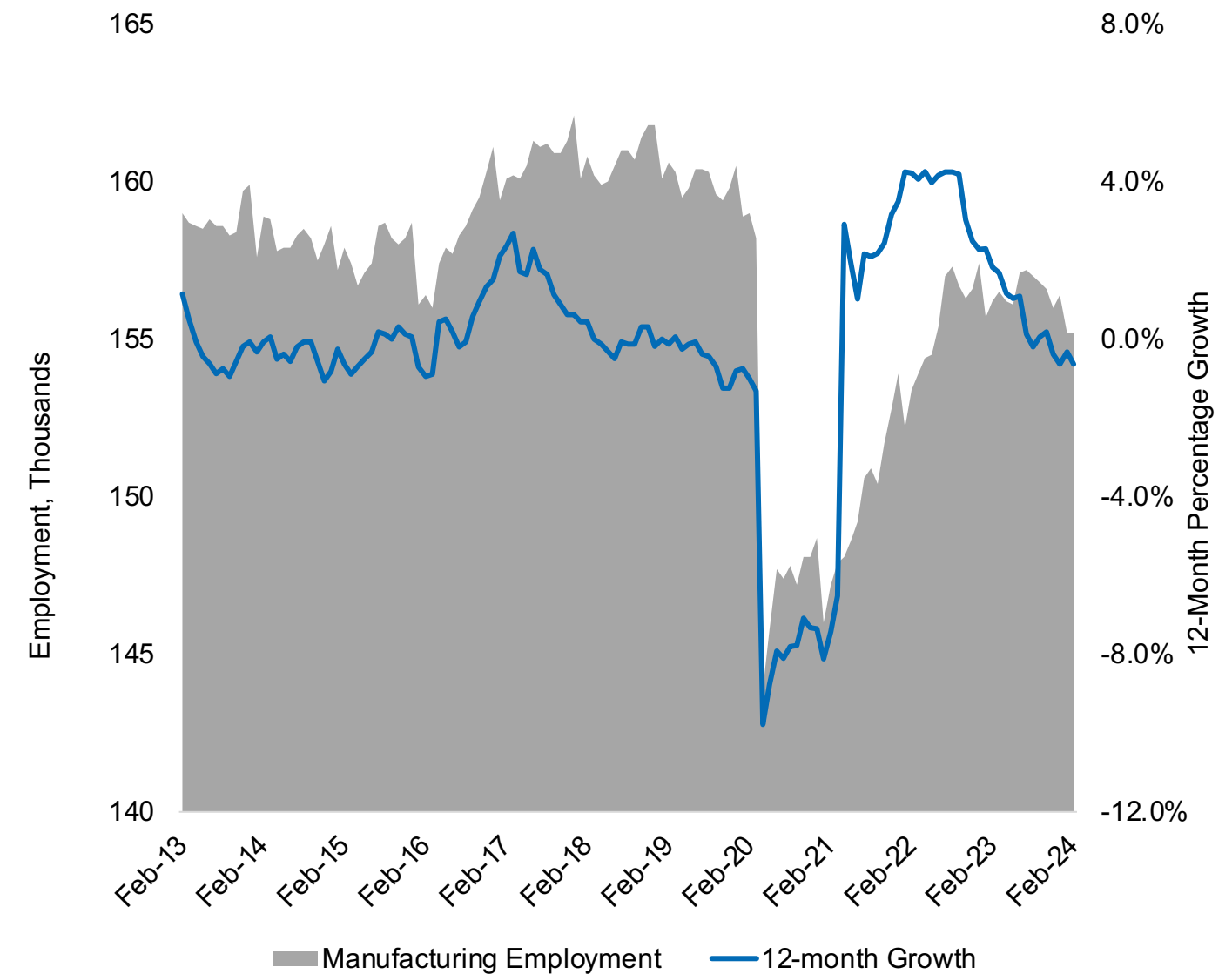
Decelerating Growth in Industrial Employment

Local employment in the trade/transportation/utilities sector dropped after reaching an all-time high in December following the holiday season. A spate of plant closures in the past year has contributed to a continued decline in manufacturing employment over the last four months. Given the regionally disadvantageous costs of doing business in California, it is unlikely that the county will recoup these job losses anytime soon. With that said, EV-related production in the southern reaches of the market remains a bright spot.

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: February 2024 data is preliminary

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Leasing Market Fundamentals



Start Rents Continue to Adjust

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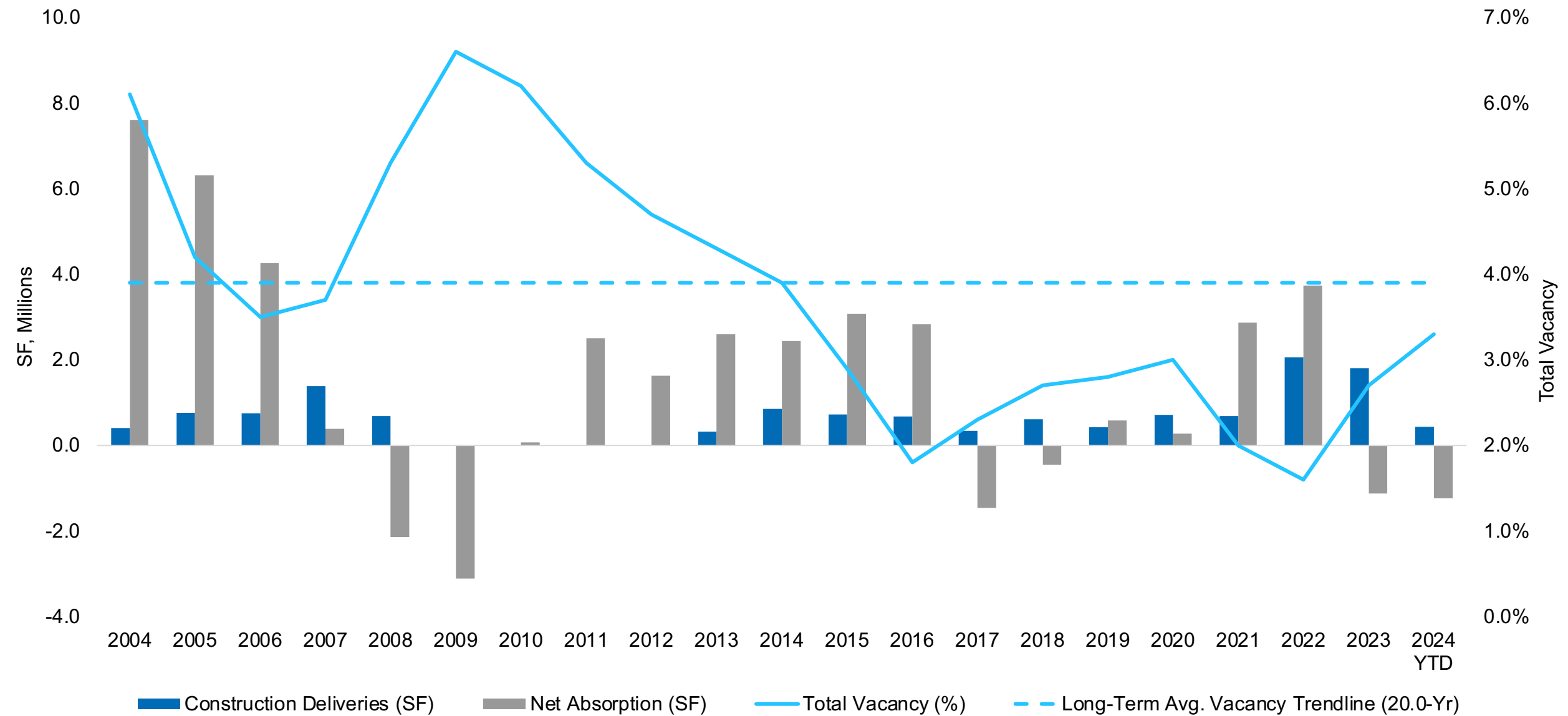
Term Lengths are Shorter than 2021-2022, But On Par with the Long-Term Average

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Vacancy Continues Upward Trajectory

Net absorption losses persisted for the fifth-straight quarter, with -1.2 MSF in the first quarter of 2024. Total vacancy increased to 3.3% and inched closer to the 20-year average.

Historical Construction Deliveries, Net Absorption, and Vacancy

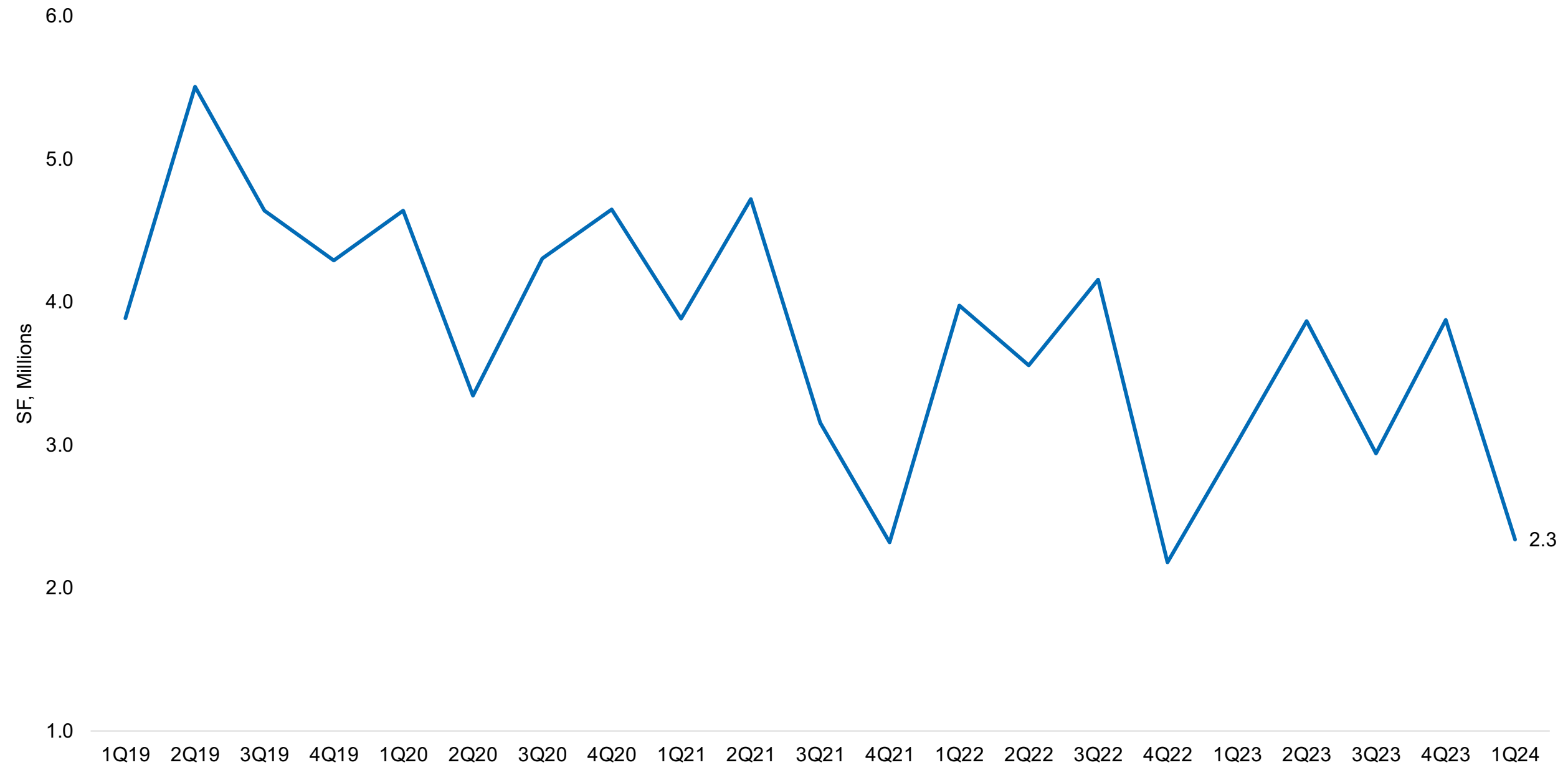


Source: Newmark Research

Fewer, Smaller Deals Reducing Leasing Activity

Cooling demand and a slowing economy is prompting tenants to downsize, 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)

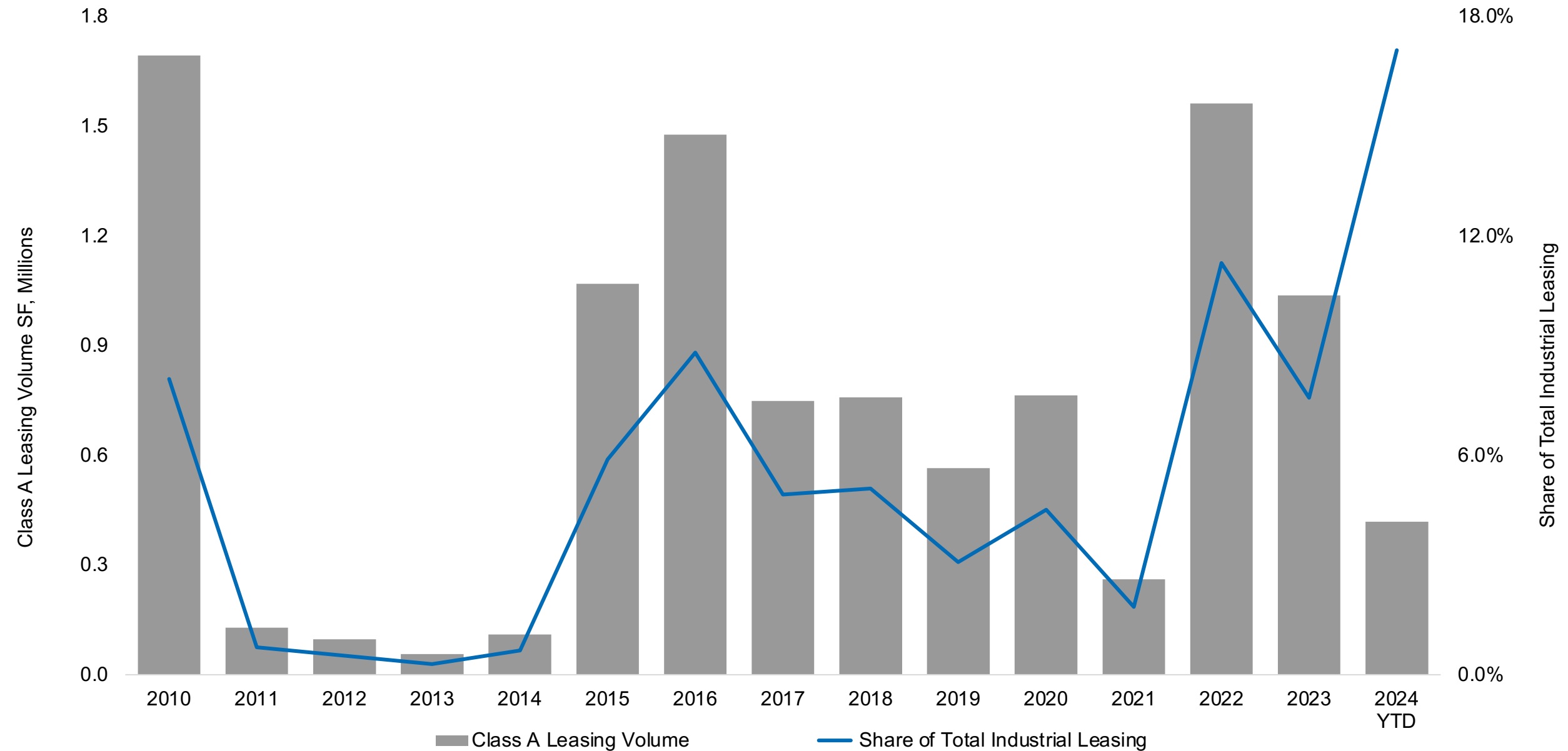


Source: Newmark Research, CoStar

Two Major Deals Boost Class A Leasing Activity

The year started off on a good note for Class A properties, with first quarter leasing activity surpassing the entirety of 2021. Mach Industries (110,592 SF at the new Huntington Gateway development) and Hampton Products (a renewal for 307,781 SF in Foothill Ranch) were the main contributors..

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

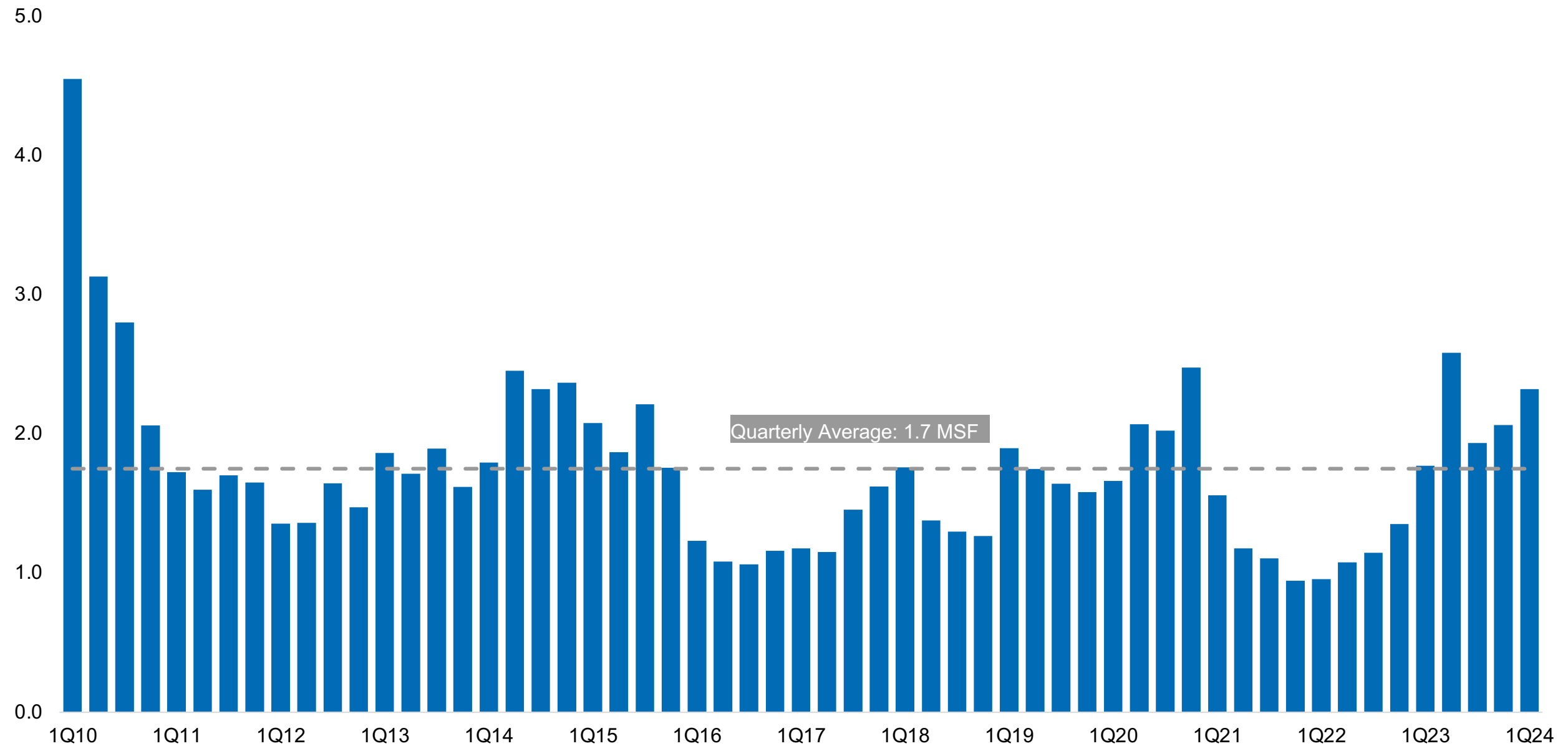


Source: Newmark Research, CoStar

Sublease Availability Still On The Rise

New sublease offerings from Brentwood Homes (196,901 SF at 701 Burning Tree in Fullerton), The Paper Company (120,000 SF at 2815 Warner Avenue in Irvine) and Lund Motion Products (104,316 SF at 3170-3172 Nasa Street in Brea) contributed to this quarter's modest rise in sublease space. Some tenants are downsizing to mitigate the high costs of doing business amid a slowed economy.

Available Industrial Sublease Volume (MSF)



Source: Newmark Research

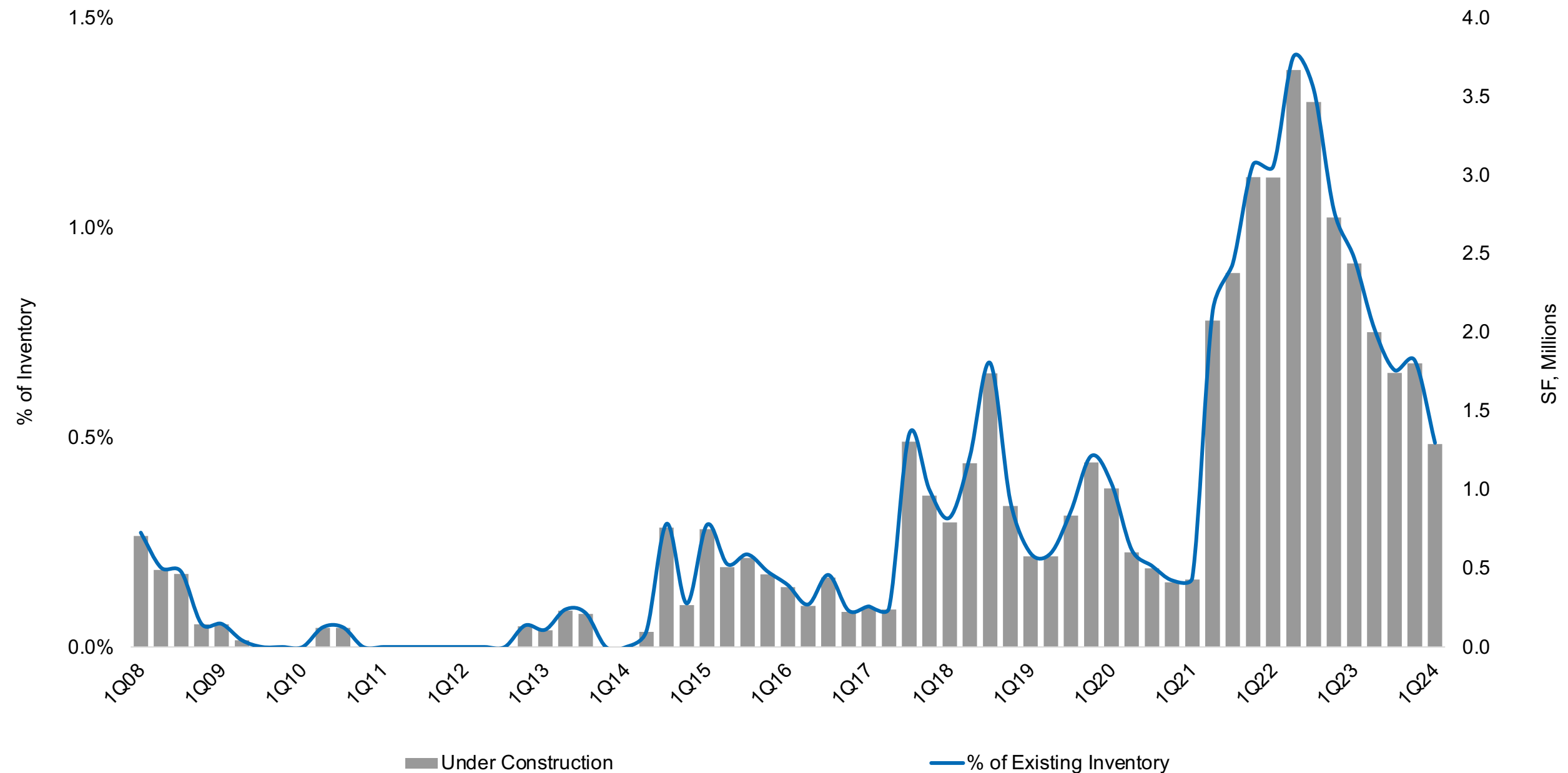
South County Contributing to Sublet Availability Growth

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Under-Construction Levels Drop Following Delivery of Three Projects

435,034 SF across three developments delivered this quarter, all of which remain available and vacant. Just under 1.3 MSF is under construction, 45.5% of which has pre-leased.

Industrial Under Construction and % of Existing Inventory



Source: Newmark Research

Pre-leasing Activity at a Halt

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Leasing Activity Transaction Types Were Diverse

A healthy mix of direct leases and renewals were signed this quarter, most of which were over 100,000 SF. One of the deals was signed at a new construction development, suggesting an ongoing interest in Class A facilities.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Hampton Products	50 Icon	South County	Lease Renewal	307,781
<i>The security products manufacturer has leased the property since 2004 and will remain in the same location for an additional year.</i>				
Coast Composites, LLC	1395 S Lyon St	Airport	Lease Extension	114,882
<i>The tenant was represented by Newmark and has extended its stay for an additional eight years.</i>				
Mach Industries Inc	5473 Bolsa Ave	West County	Direct Lease	110,592
<i>The defense startup will occupy the newly-delivered warehouse facility from the Huntington Gateway development in the second half of the year.</i>				
Little Buddy	270 Palais Rd	North County	Direct Lease	95,178
<i>This will be the Garden Grove-based manufacturer's second location in the region.</i>				
ProTab Laboratories	25892 Towne Centre Dr	South County	Lease Renewal	78,605
<i>The tenant has been at this location since 2013.</i>				

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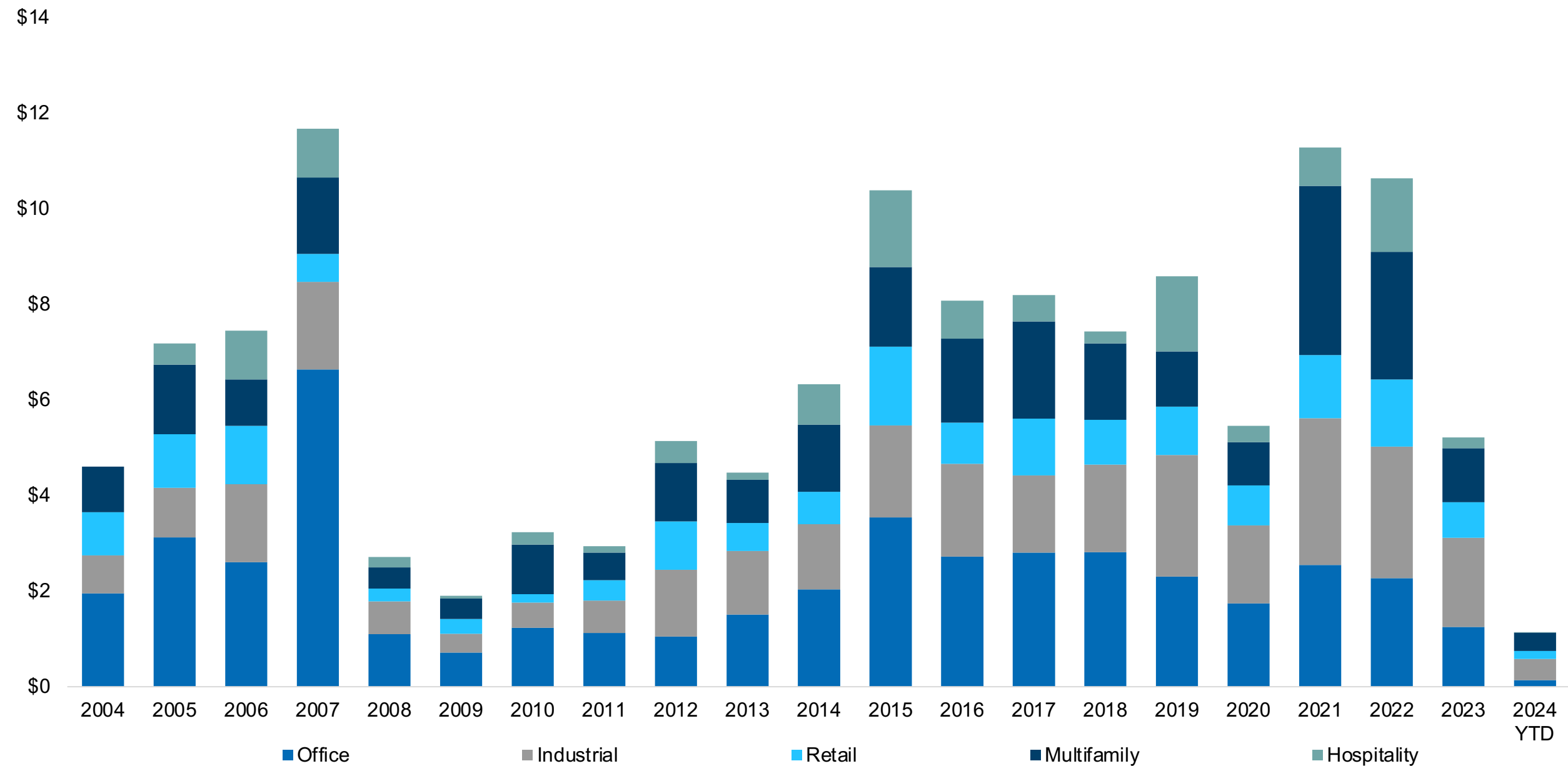
Sales Activity



Industrial Comprised 35.7% of Total Sales Volume in 2023

This figure is significantly higher than the 20-year average (2004 to 2023) of 23.4%. 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 (\$\$\$\$).

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

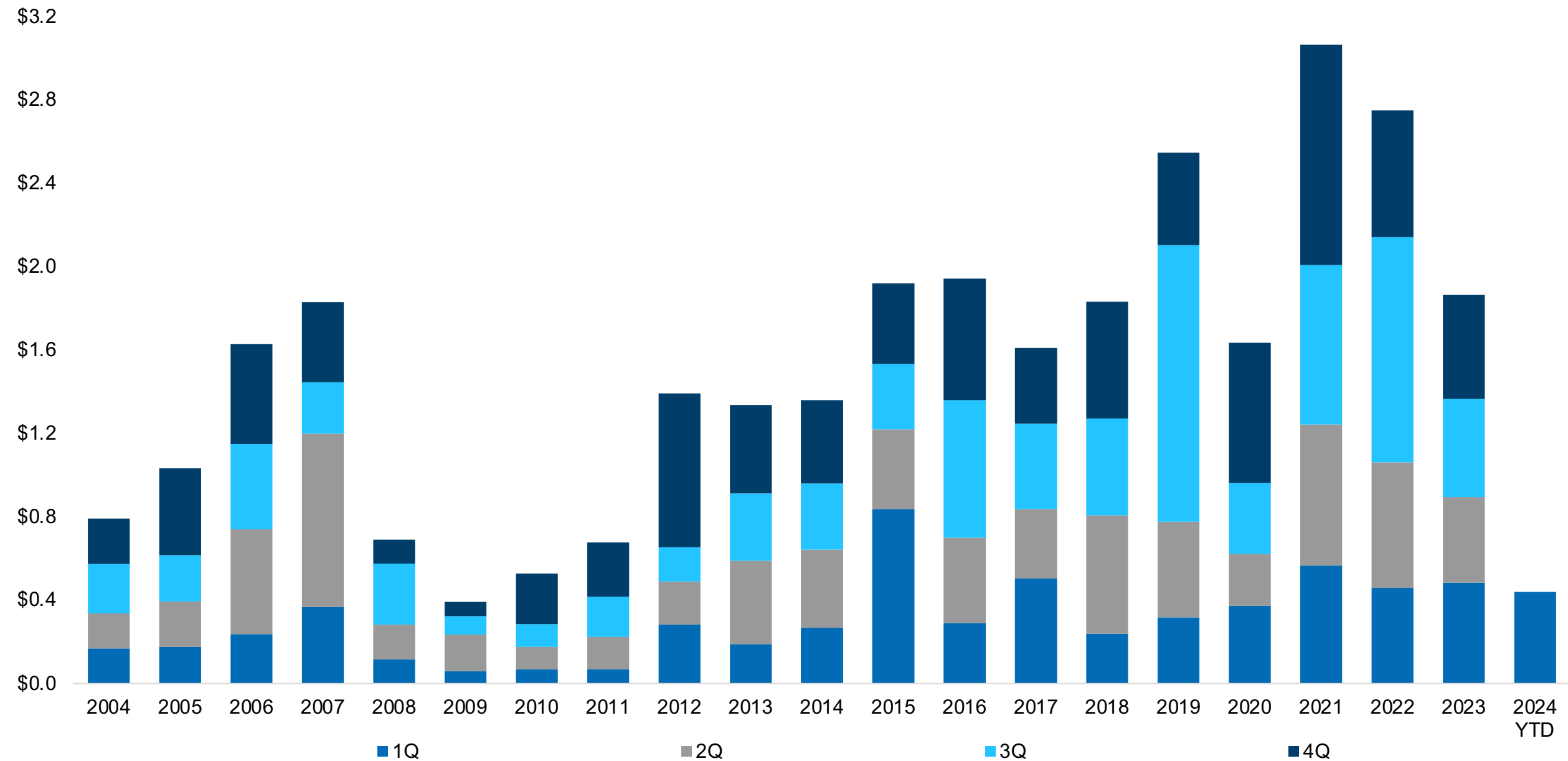


Source: MSCI Real Capital Analytics, Newmark Research
 Note: Preliminary data is cited for the first quarter of 2024

Industrial Sales Volume: Up Close

Industrial sales volume totaled \$440.0 million in the first quarter of 2024, down 9.0% from the same period in 2023; 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) | By Quarter



Source: Newmark Research, MSCI Real Capital Analytics
 Note: Preliminary data is cited for the first quarter of 2024

Pricing Hovers Below 2022's Peak, While Cap Rates Are Rising

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Private Buyers Were Active in 2023, 2024 May See More from REITs and Institutions

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Appendix



Orange County Submarket Map and High-Level Statistics | 1Q24

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Some Underperforming Office Properties Will Find New Life

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WAIRE: Program Summary and Implications for Industrial

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The World's Top 20 Containerized Cargo Seaports

Fifteen are in Asia, China leads all other countries with eight and Los Angeles-Long Beach and New York-New Jersey are the only U.S. complexes to make the list.

Rank	Seaport	2022 Volume (TEU, in millions)
1	Shanghai, China	47.3
2	Singapore	37.3
3	Ningbo-Zhoushan, China	33.4
4	Shenzhen, China	30.0
5	Qingdao, China	25.7
6	Guangzhou Harbor, China	24.9
7	Busan, South Korea	22.1
8	Tianjin, China	21.0
9	Los Angeles-Long Beach, U.S.A.	19.1
10	Hong Kong, S.A.R., China	16.7

Rank	Seaport	2022 Volume (TEUs, in millions)
11	Rotterdam, The Netherlands	14.5
12	Jebel Ali/Dubai, United Arab Emirates	14.0
13	Antwerp, Belgium	13.5
14	Port Klang, Malaysia	13.2
15	Xiamen, China	12.4
16	Tanjung Pelepas, Malaysia	10.5
17	New York-New Jersey, U.S.A.	9.5
18	Kaohsiung, Taiwan	9.5
19	Laem Chabang, Thailand	8.7
20	Hamburg, Germany	8.3

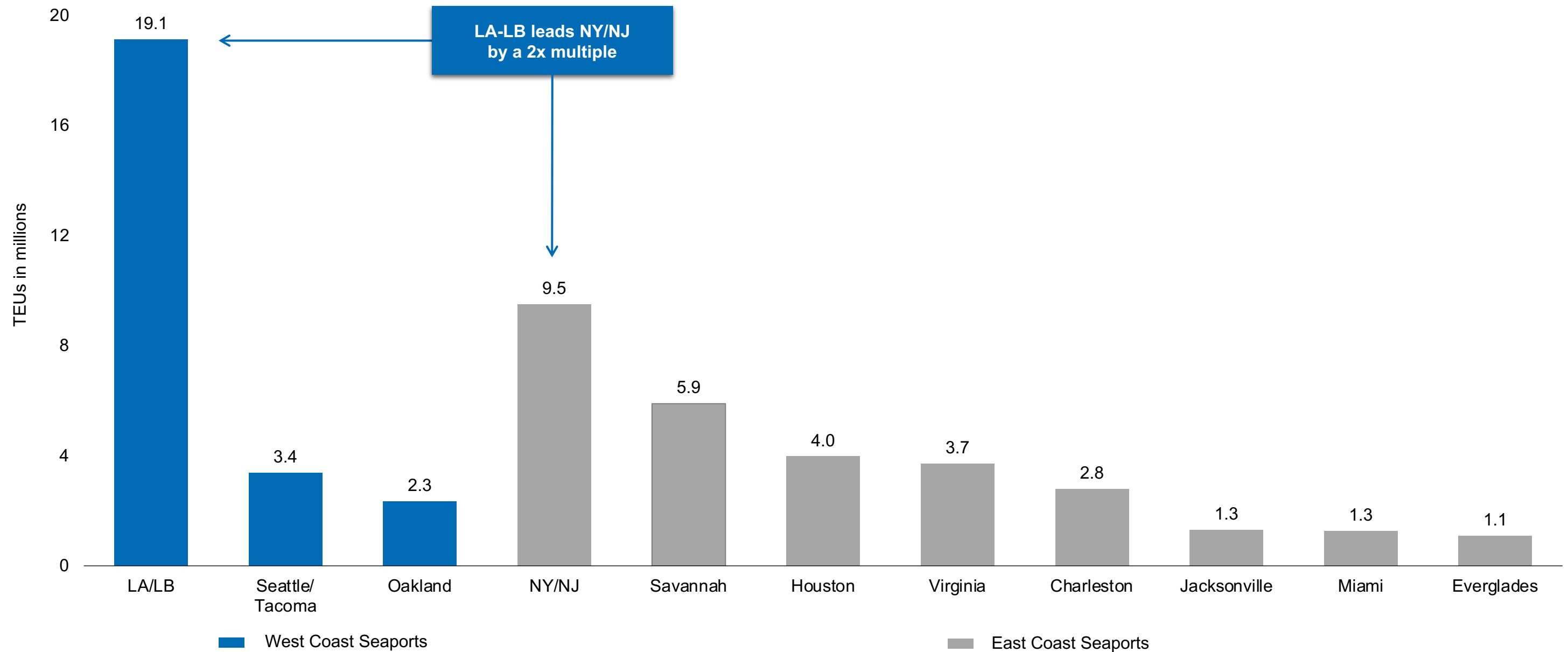
Source: Newmark Research, Alphaliner

Note: TEU totals includes loaded and empty containers. 2022 are the most current figures from the source (Alphaliner)

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)



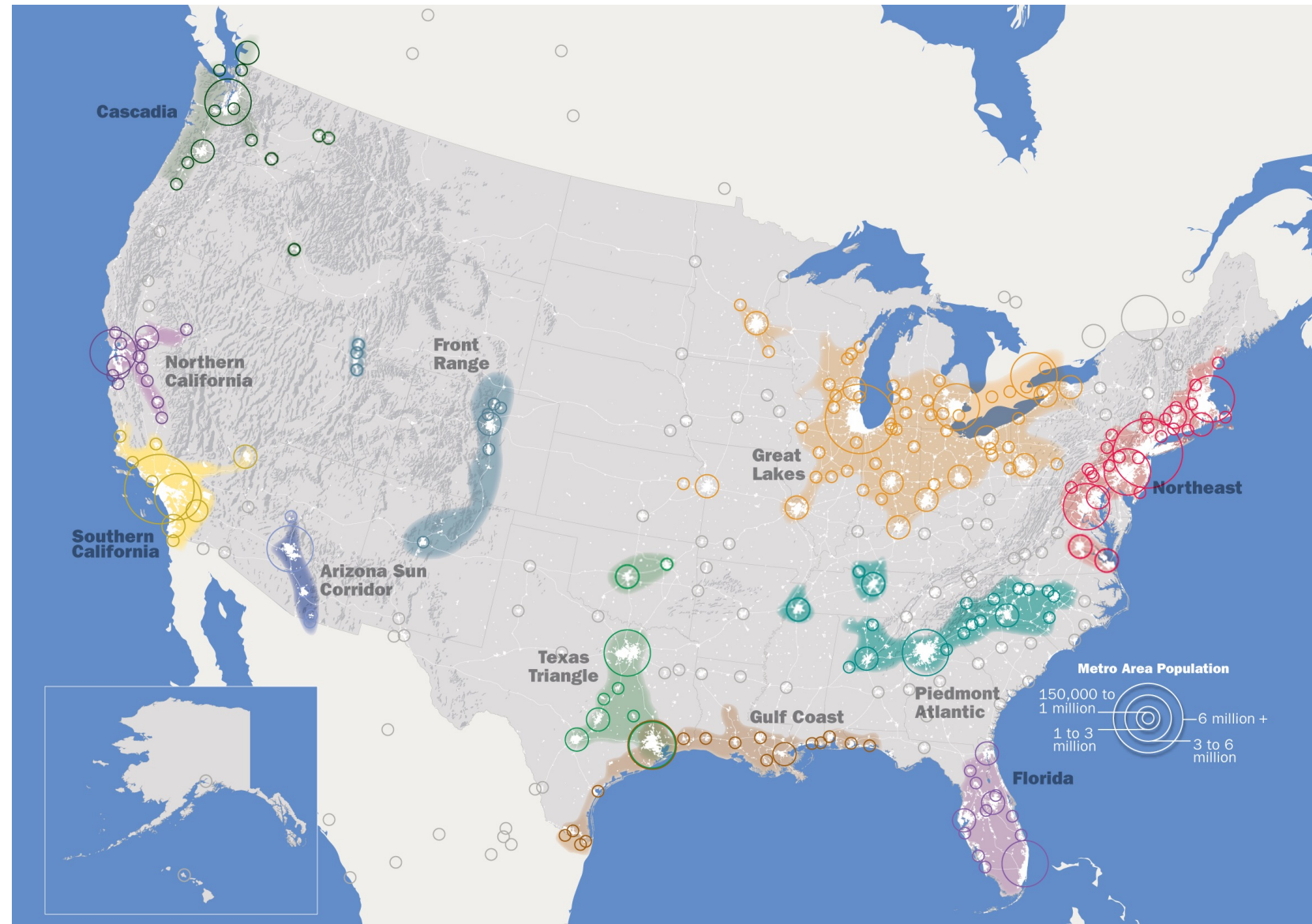
Source: Newmark Research, Individual Seaports
Note: Data is through February 2023 and is not adjusted for seasonality. Shaded areas indicate U.S. recessions

Why Los Angeles-Long Beach?

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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

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Transport Costs per TEU Container

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