

2Q24

Orange County Industrial Market Overview



NEWMARK

Market Observations

Economy

- U.S. retail sales are healthy but remain below their 20-year average; local industrial leasing activity remained subdued through this period.
- Orange County boasts the highest median household income in Southern California, and its affluent population of three million drives retail sales (and warehouse demand) in the area.
- Ship attacks in the Red Sea, along with a potential strike by Gulf and East Coast dockworkers in the coming months, are causing more goods to be funneled in through western ports of entry, notably Los Angeles/Long Beach.
- Most of this rerouted cargo is being shipped eastward by rail to markets outside of Southern California. Goods that are “just passing through” have a negligible impact on local market dynamics.

Major Transactions

- The largest deal of the quarter was a pre-lease signed at Prologis’ 149,335-SF warehouse project in Garden Grove. The tenant, Daisy Nails, will occupy the entirety of the facility upon completion next quarter.
- Another top deal of the quarter was signed by Boeing Encore Interiors at the Huntington Gateway Development for 119,894 SF where Newmark represented the landlord. The two leases suggest an ongoing interest in new construction.
- Rexford Industrial Realty acquired a distribution facility in Fullerton for \$94.3 million, marking the largest industrial purchase of the year. The REIT has aggressively increased its local presence over the last year

Leasing Market Fundamentals

- Current leasing activity is subdued relative to 2021-2022.
- After five consecutive quarters of net losses, the market experienced a modest net absorption gain of 41,271 SF this quarter.
- A stream of tenant departures and downsizings contributed to the rise in vacancy to 3.9%, the highest it has been in nine years.
- 912,789 SF of available sublease space was added this quarter as tenants continue to reassess space needs. Sublet availability will fluctuate in the quarters ahead.
- Under-construction activity increased to 2.1 MSF after six projects broke ground, while six others totaling 687,391 SF delivered. The new construction starts brought down pre-leasing levels to 10.3% of overall construction.

Outlook

- Rent declines will be lower than neighboring markets, due to Orange County’s smaller inventory set, and its high-earning consumer base that is appealing to all final-mile distributors. These factors also appeal to developers and investors.
- Sales activity is expected to hold steady, especially within the small-box market where smaller price-tags drive all-cash transactions.
- Vacancy will rise for the foreseeable future as elevated rents and inflationary pressures deter potential tenants from entering or expanding within the market, while existing occupiers consider applicable cost-cutting measures. New supply coming online will be a factor, too.

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

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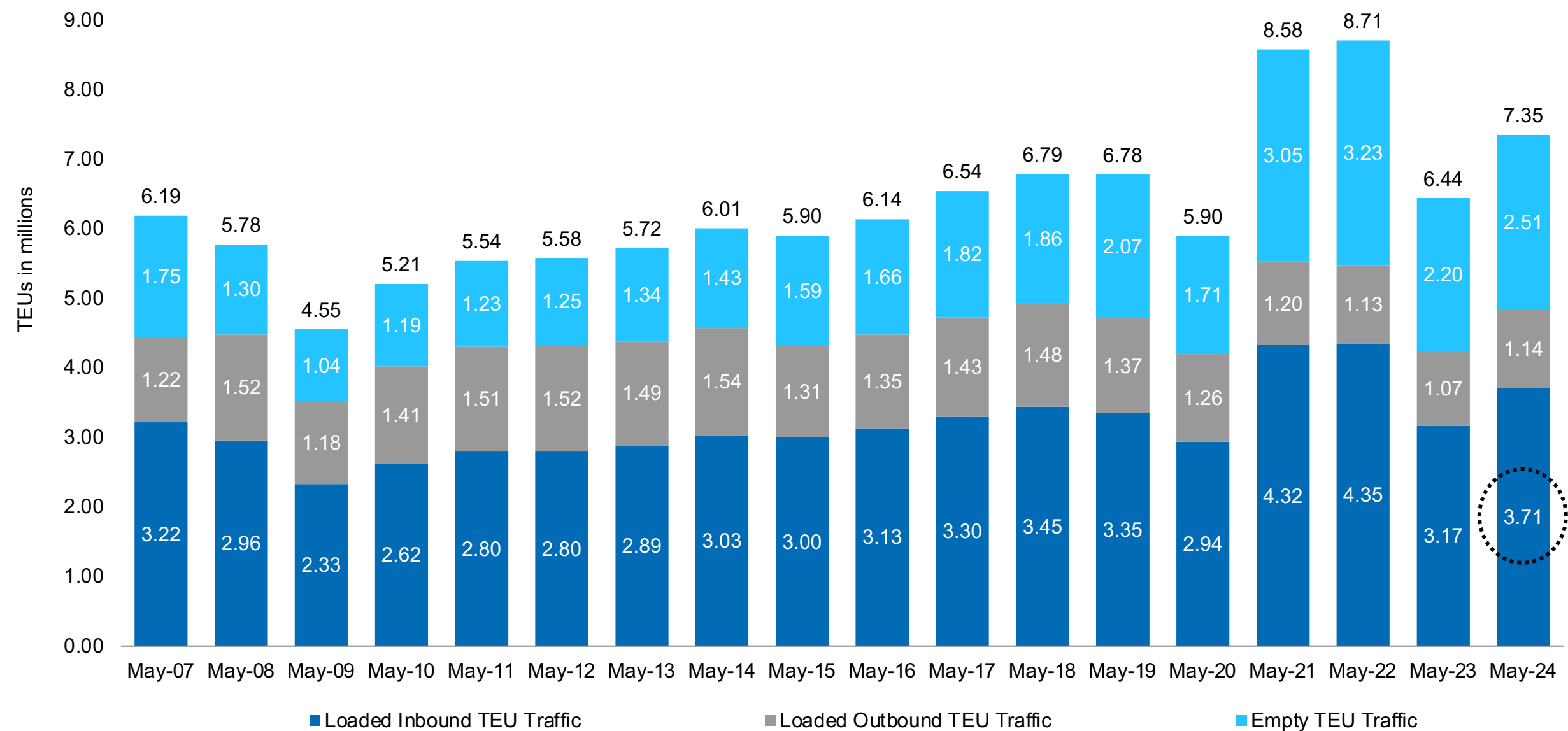
Economy



Loaded Imports in the First Five Months of 2024 Were Stronger Than the Same Periods in 2018 and 2019

2018 and 2019 ended up being healthy years before the exceptional (but inflated and unsustainable) growth of 2021-2022 due to COVID-19-related stay-at-home measures, government stimulus and domestic warehouse occupiers stockpiling goods to mitigate against global supply chain disruptions at the time.

The Ports of Los Angeles and Long Beach: Combined TEU Volume | Loaded Imports, Loaded Exports and Empty Containers | First Five 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.

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 2023, 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 are currently negotiating their contract, which will expire at the end of September 2024. Import volume will 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 (USMX) 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.

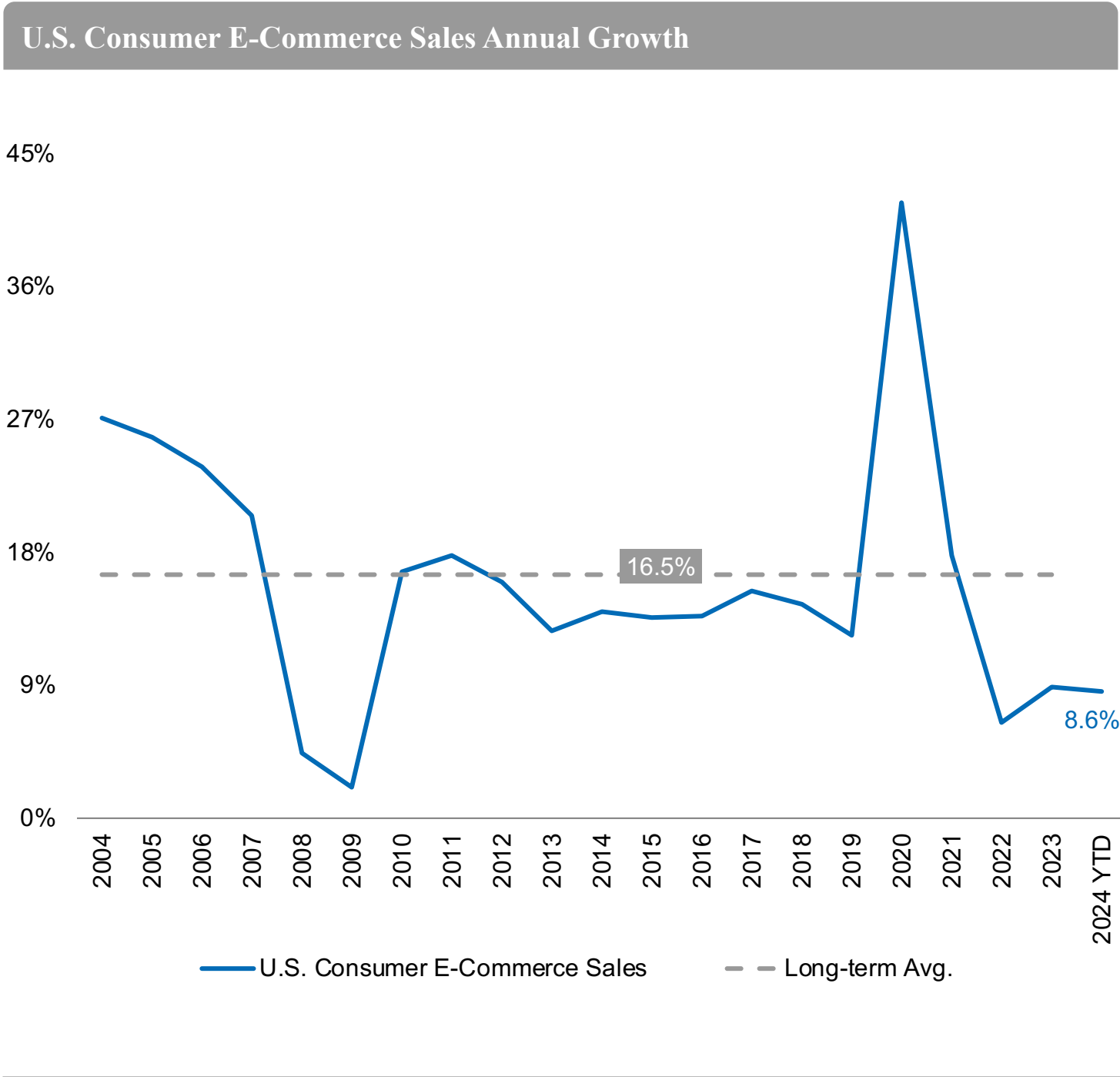
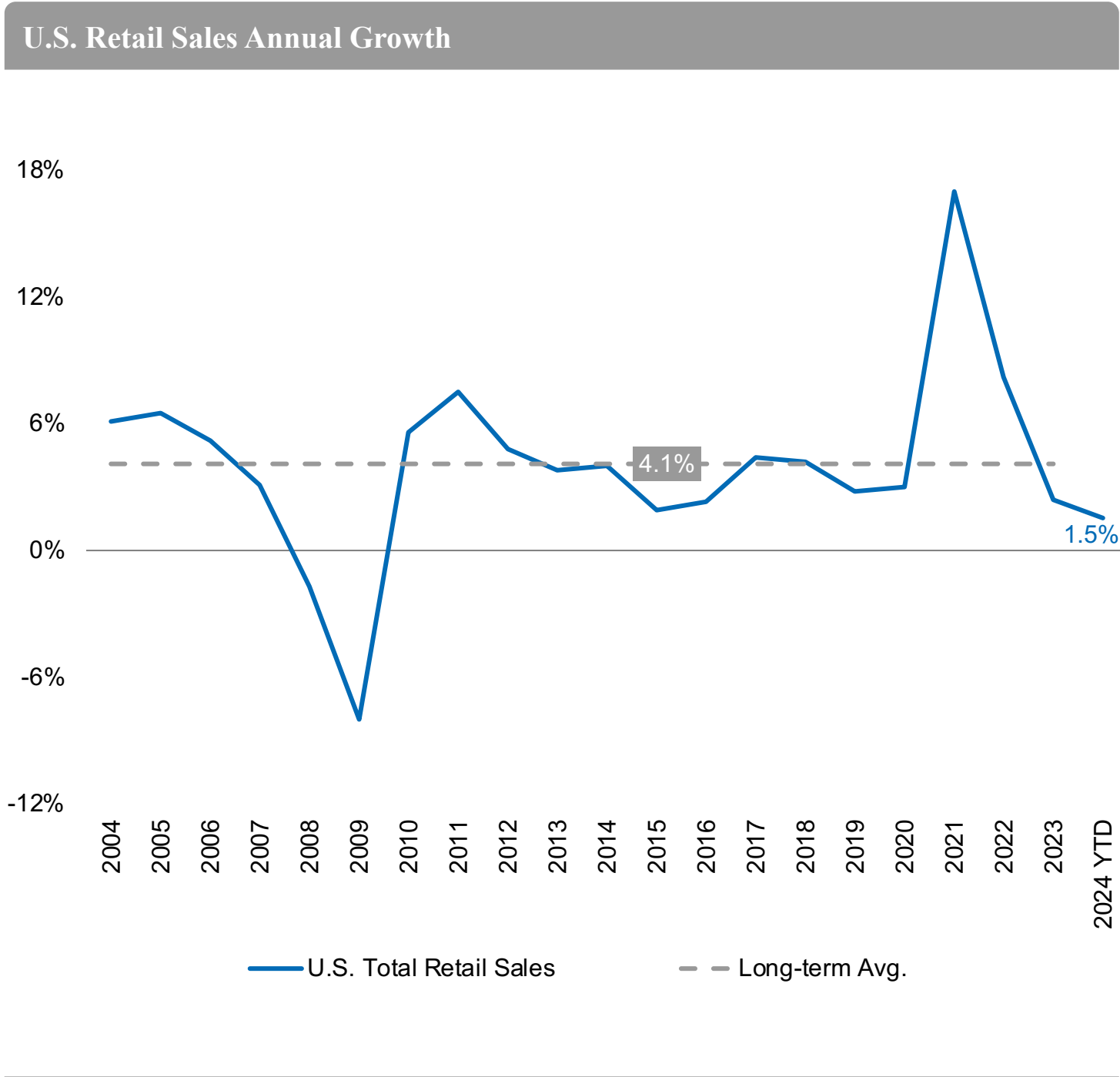


Import Traffic Has Jumped Since Late 2023 at Los Angeles/Long Beach

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

Consumer e-commerce sales were up 8.6% in the first three months of 2024 compared with the same period in 2023. Although e-commerce sales growth exceeded total retail sales (+1.5% over the same period), the decline from 2021 onward is noticeable as consumer spending registers slower gains.



Source: US Census Bureau (consumer adjusted retail sales); most current data available
Note: 2024 YTD annual growth represents sales in the first three months of 2023 vs. the same period in 2024.

The Pandemic Accelerated E-Commerce Sales Growth and Adoption Rates

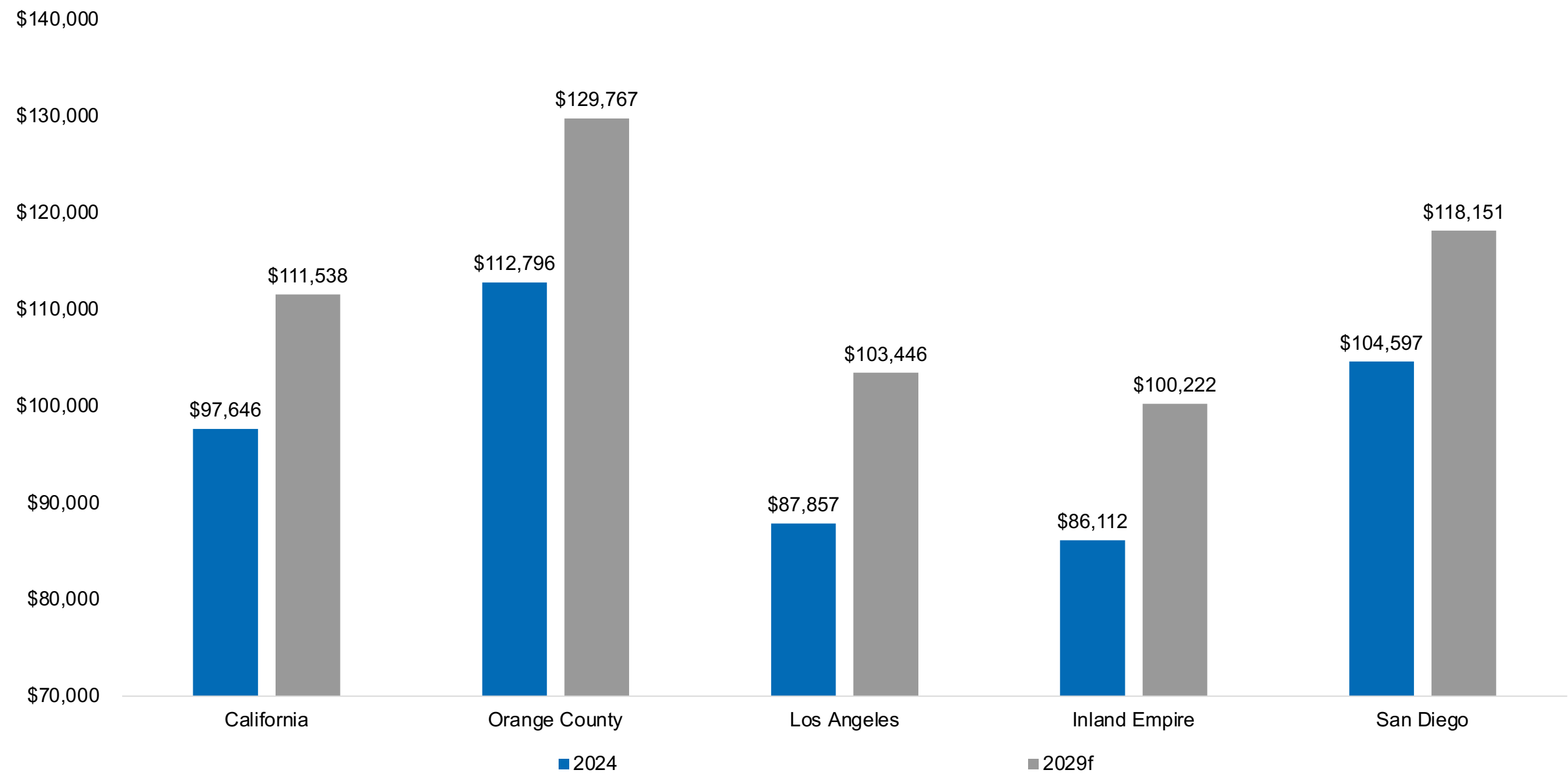


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Orange County Median Household Income Highest In Southern California

Orange County’s affluent population continues to attract major industrial players to fill the growing demand for last-mile e-commerce delivery facilities in the supply-constrained market.

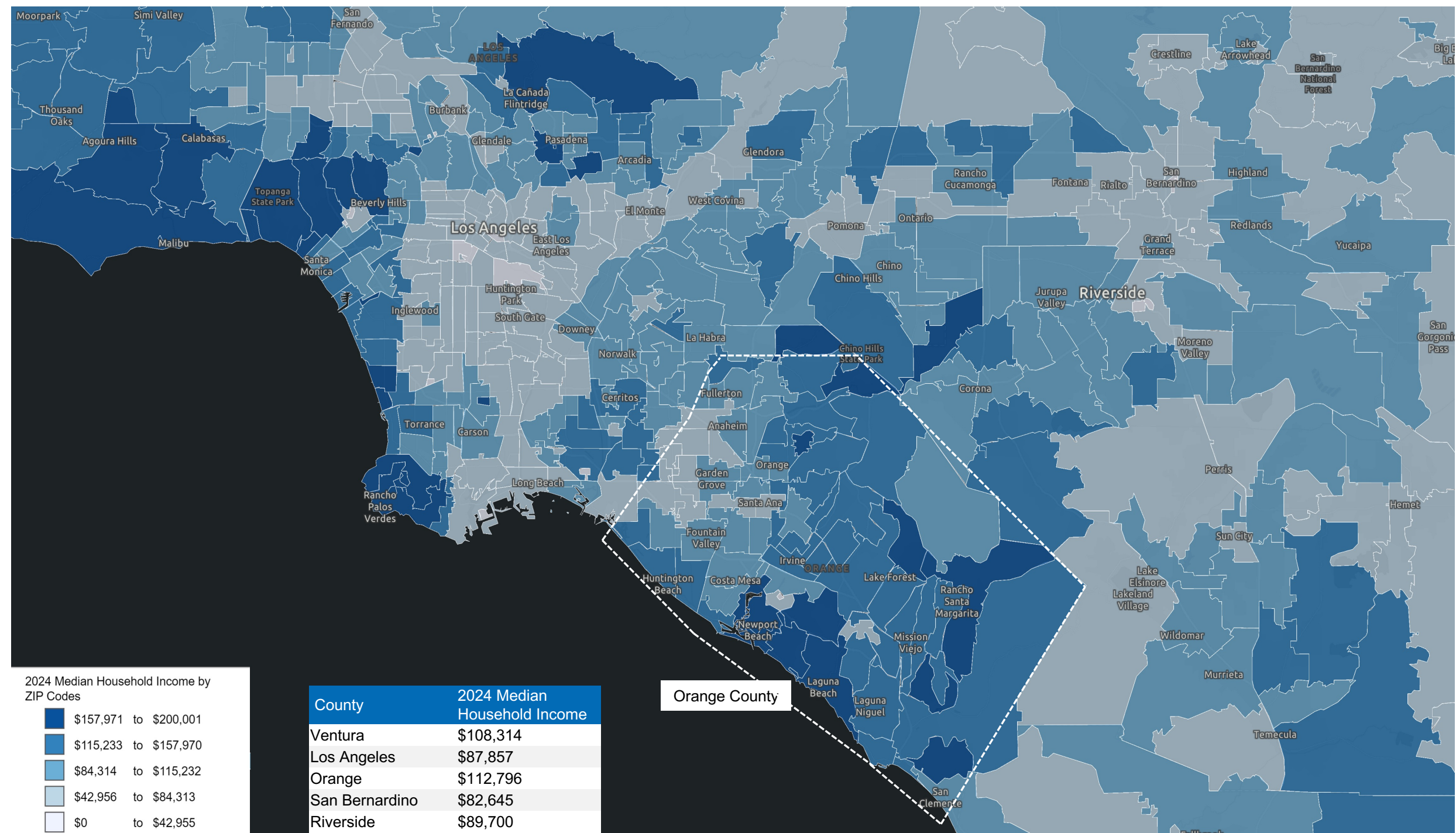
Southern California Median Household Income: 2024 vs. 2029 Projections



Source: Newmark Research, ESRI

Median Household Incomes are Generally Higher in Coastal and Foothill Communities

Orange County is the most affluent county in Southern California’s core basin (highlighted below).

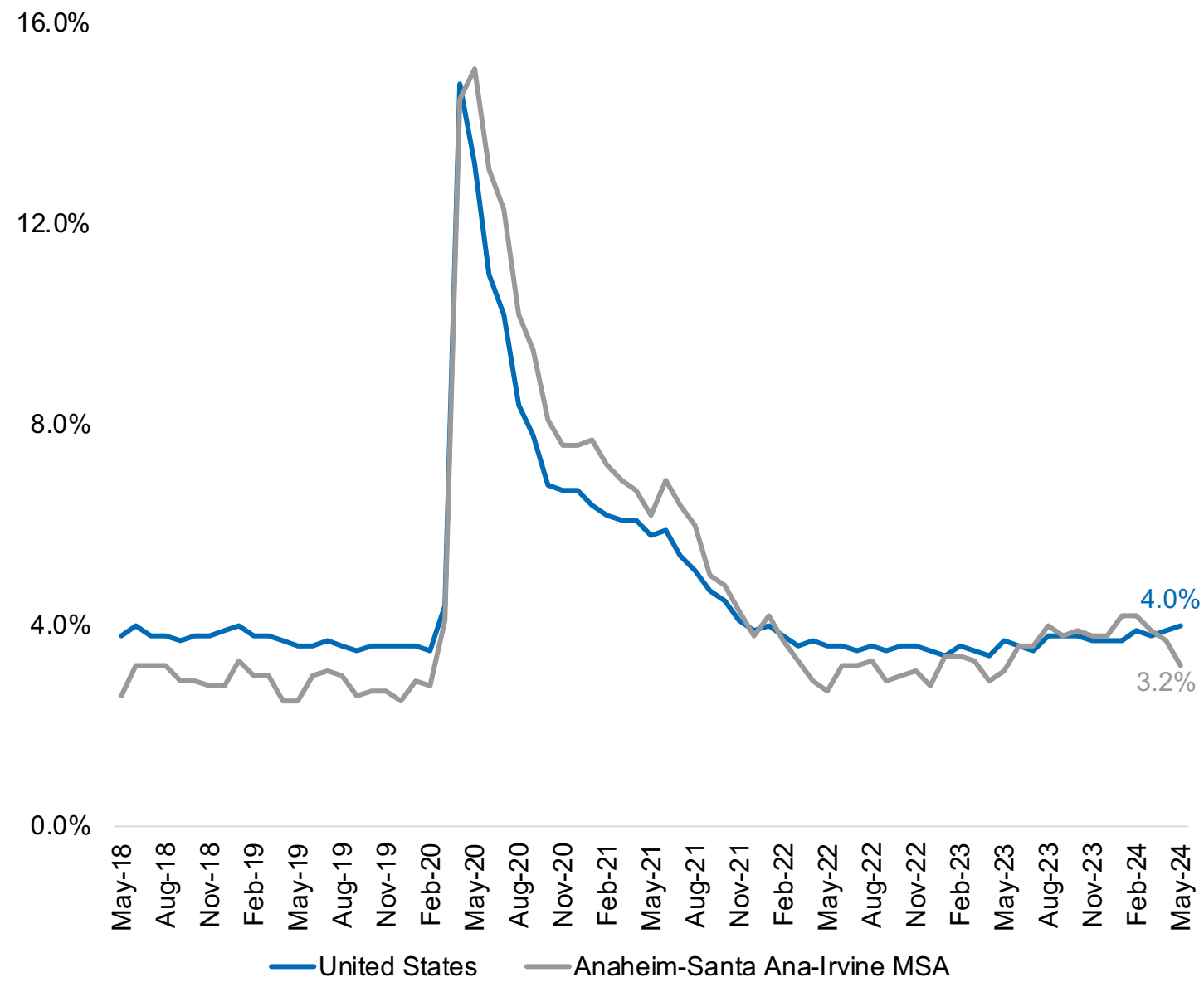


Source: Newmark Research, ESRI

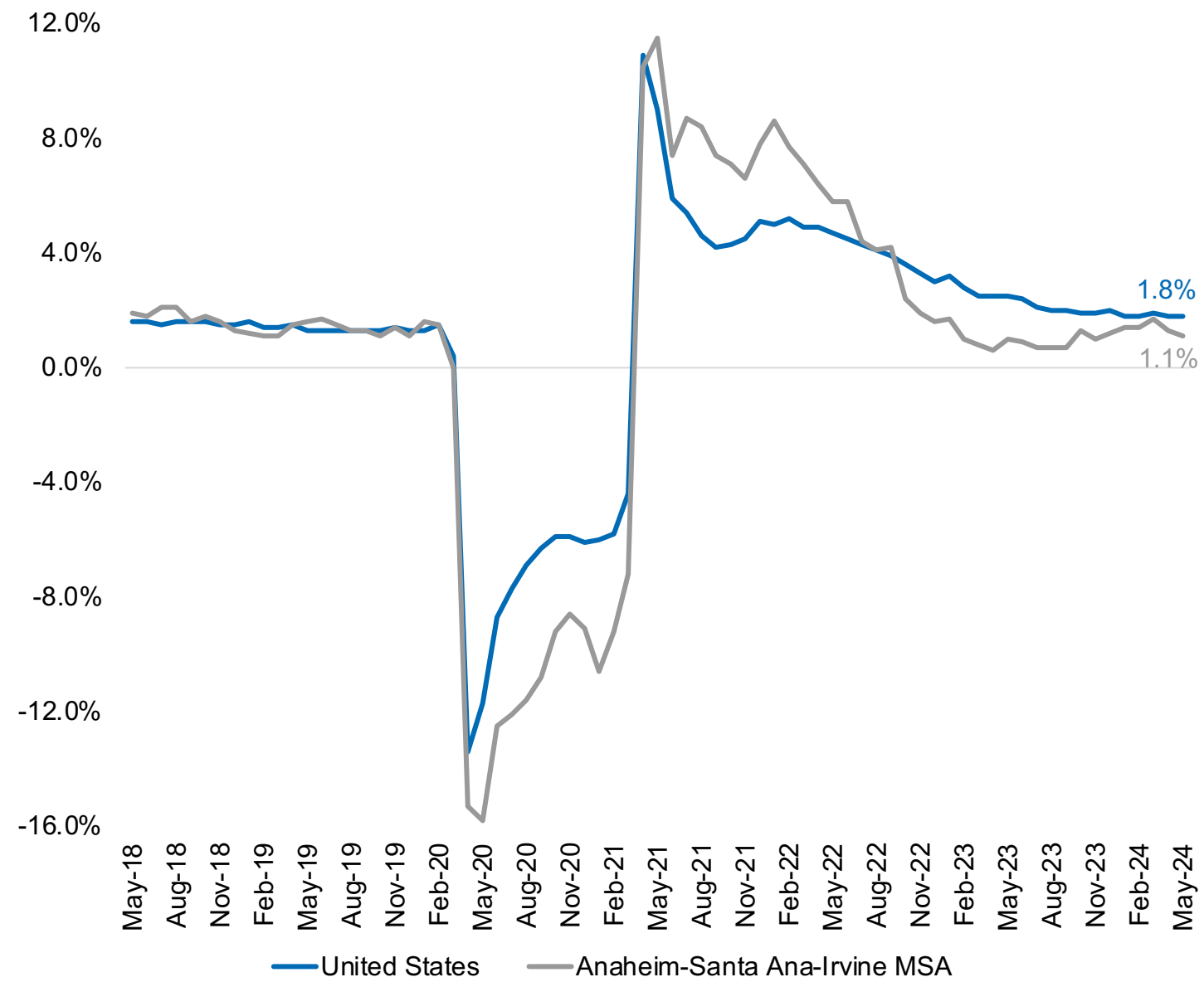
Local Unemployment Drops Below National Average

Orange County unemployment dropped by 100 bps since the start of the year despite an increase nationally. A rise in total nonfarm employment is a factor, where 6,000 jobs were added from April to May. Total nonfarm employment reached record-high levels at the end of 2023 and has remained elevated since.

Unemployment Rate, Seasonally Adjusted



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

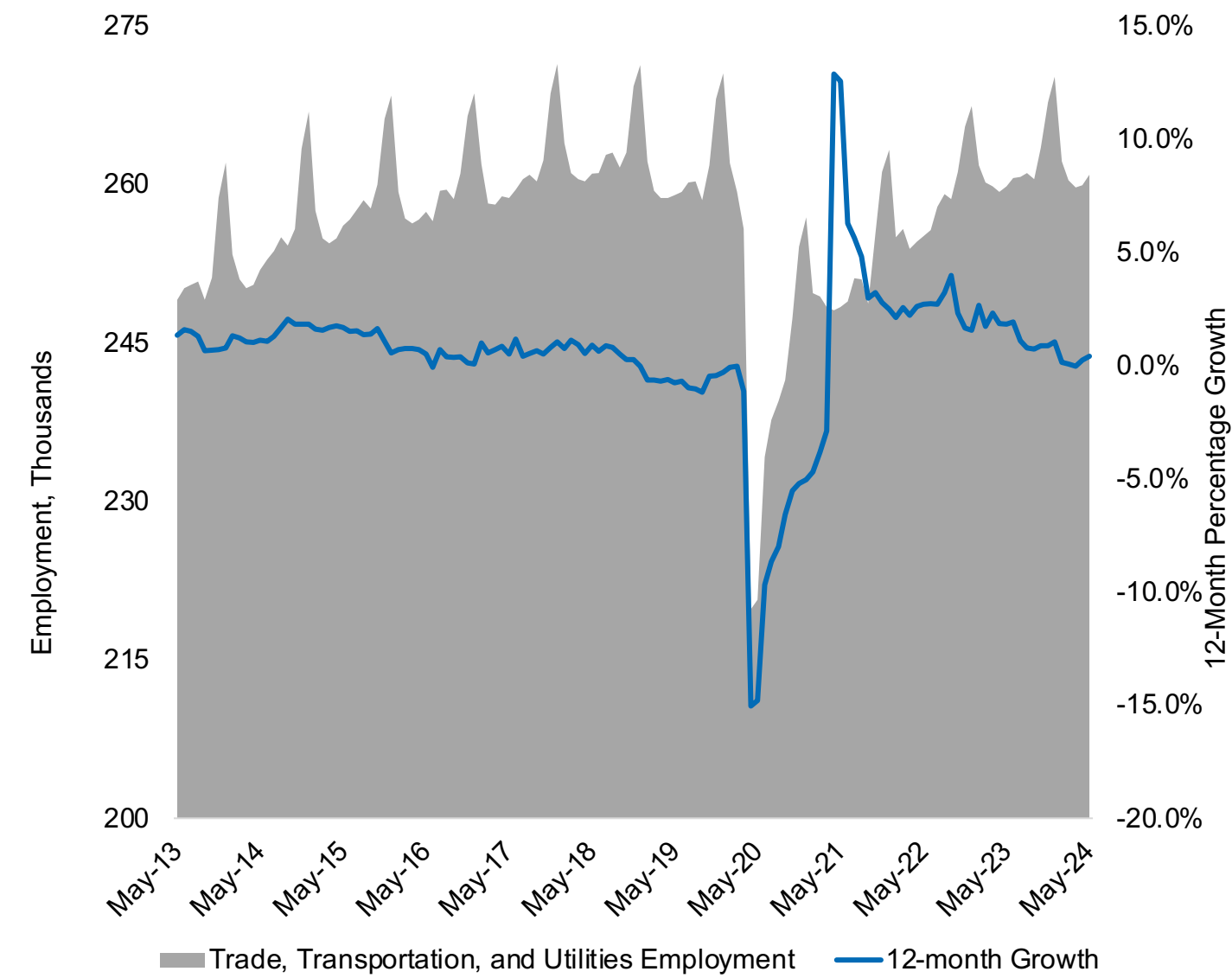


Source: U.S. Bureau of Labor Statistics, Anaheim-Santa Ana-Irvine, CA
Note: May 2024 data is preliminary.

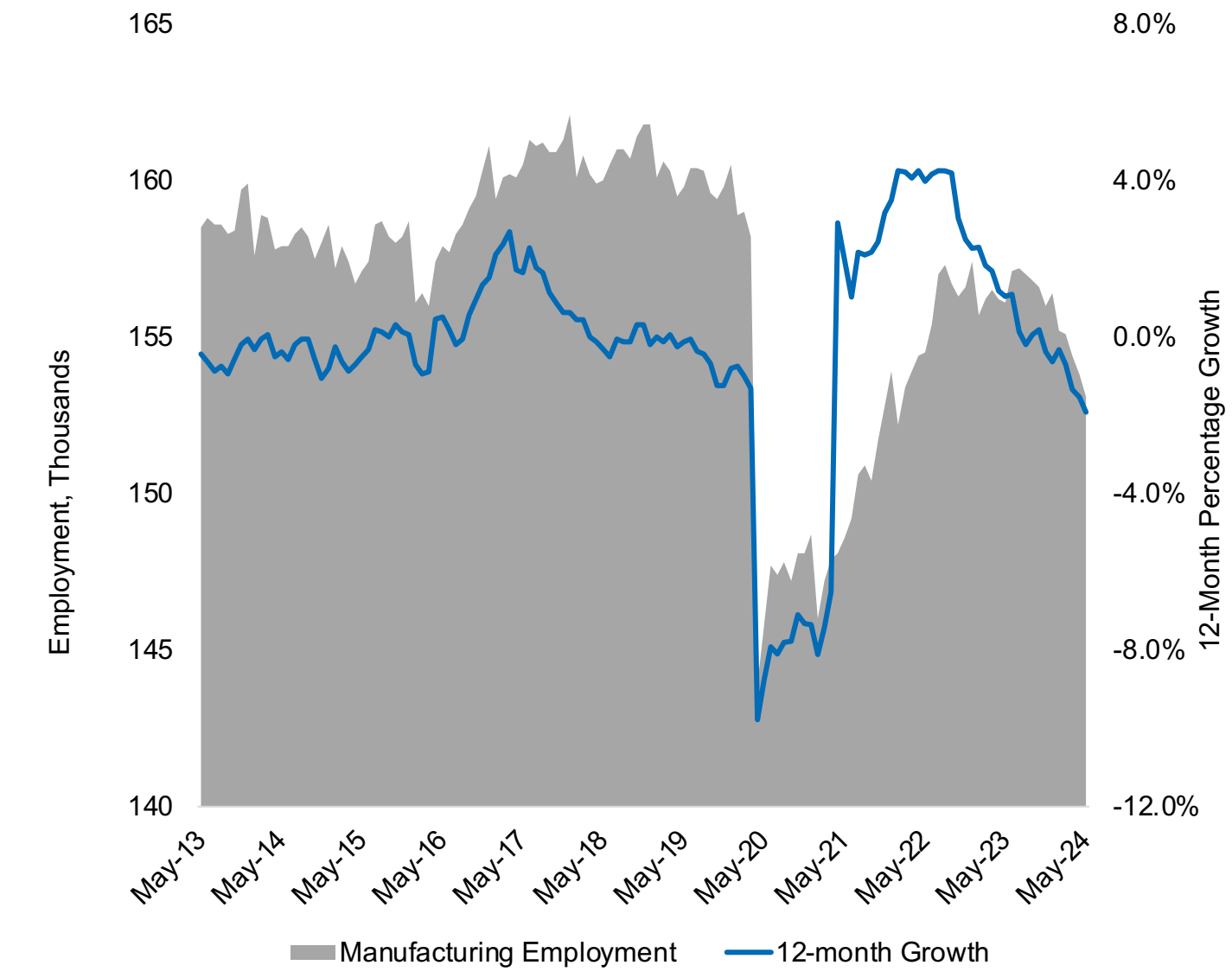
Decelerating Growth in Industrial Employment

The trade/transportation/utilities sector continues to follow a cyclical pattern where local employment peaks in December following the holiday season and drops gradually in the first half of the year. A spate of plant closures has contributed to a continued decline in manufacturing employment over the last year. Given the regionally disadvantageous costs of doing business in California, it is unlikely that the county will recoup these job losses anytime soon.

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: May 2024 data is preliminary.

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Leasing Market Fundamentals



Contract Rents Continue to Adjust

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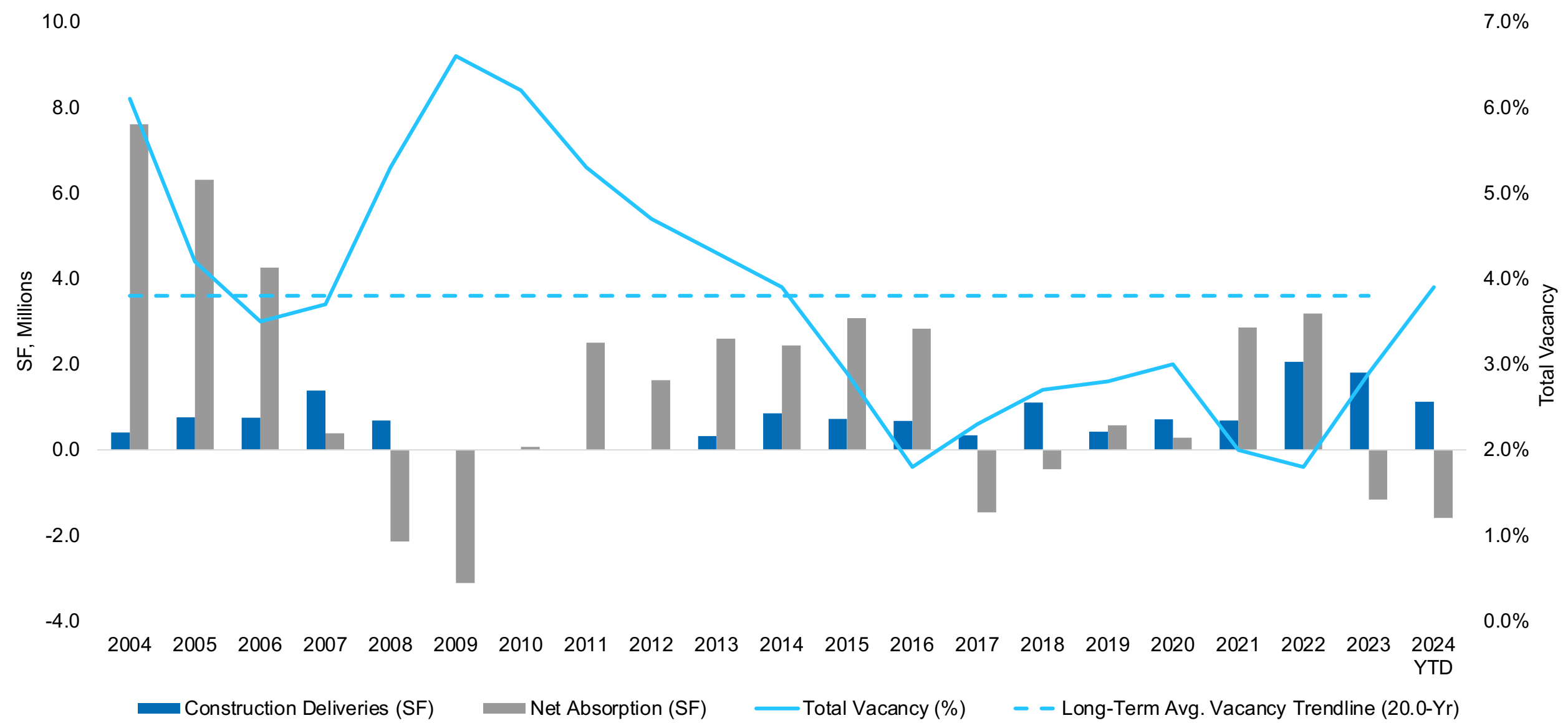
Term Lengths Continue to Decrease

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Vacancy Reaches Highest Level In Nine Years

Net absorption finally came out of the negative after five consecutive quarters of net losses, reaching 41,271 SF this quarter. On a year-to-date basis, nearly 1.2 MSF in net absorption losses was met with 1.1 MSF in construction deliveries, causing vacancy to rise to 3.9%. Current vacancy is higher than the 20-year average.

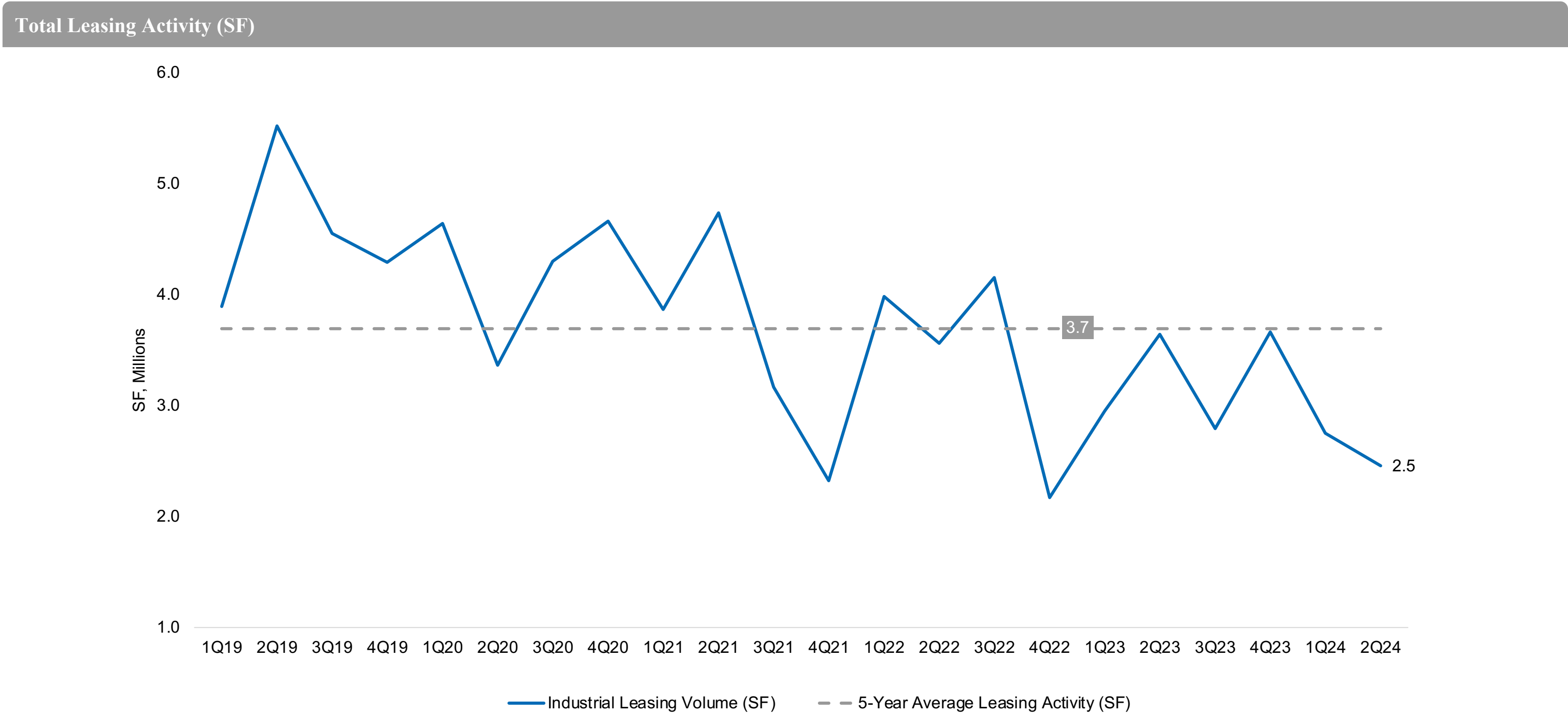
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Fewer, Smaller Deals Hampering 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.

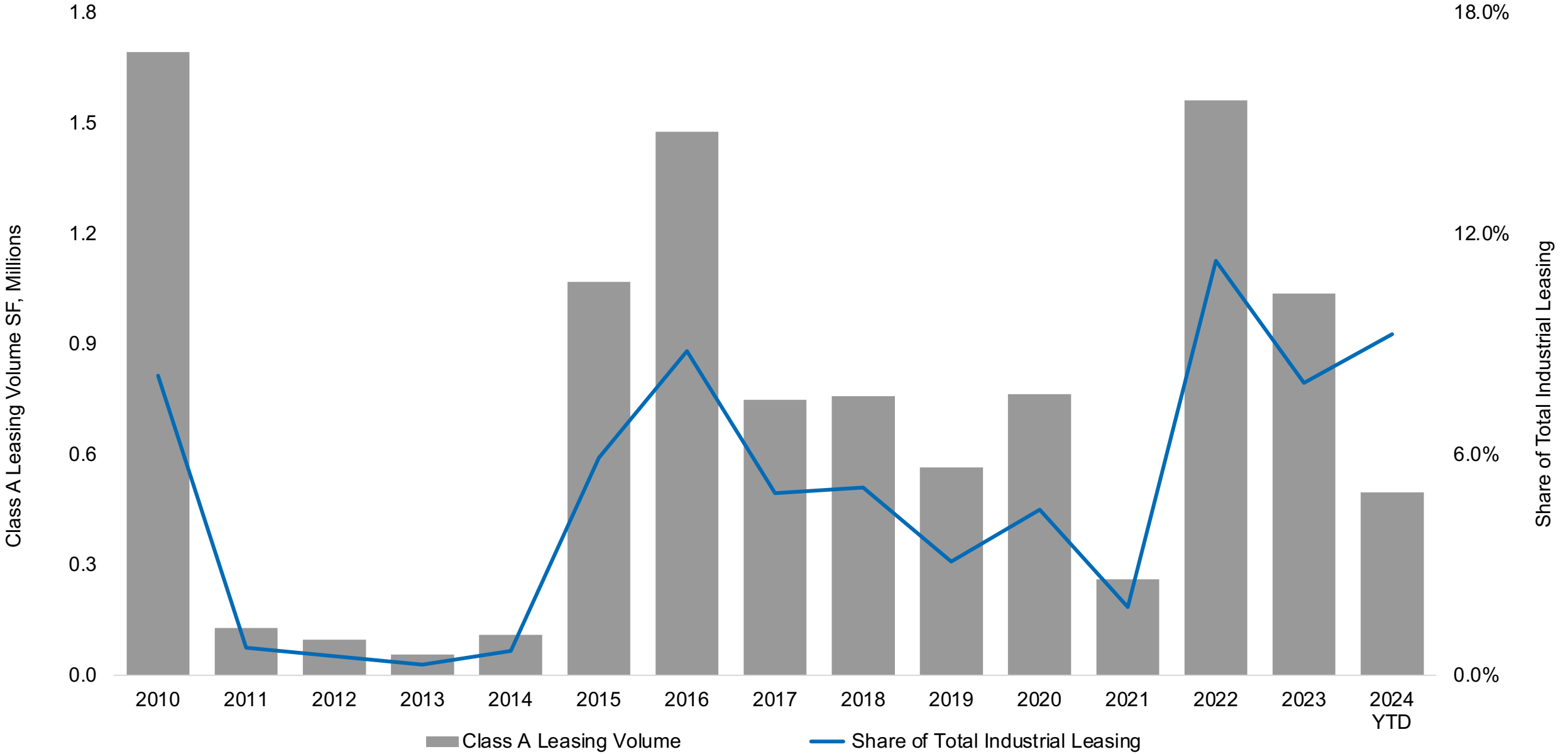


Source: Newmark Research, CoStar

Handful Of Notable Leases Boost Class A Leasing Activity

The first half of the year started off on a good note for Class A properties, with leasing activity almost doubling the entirety of 2021. Daisy Nails (149,335 SF at the Prologis Logistics Center in Garden Grove) and Boeing Encore Interiors (119,894 SF at the Huntington Gateway Development) were the main contributors this quarter.

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

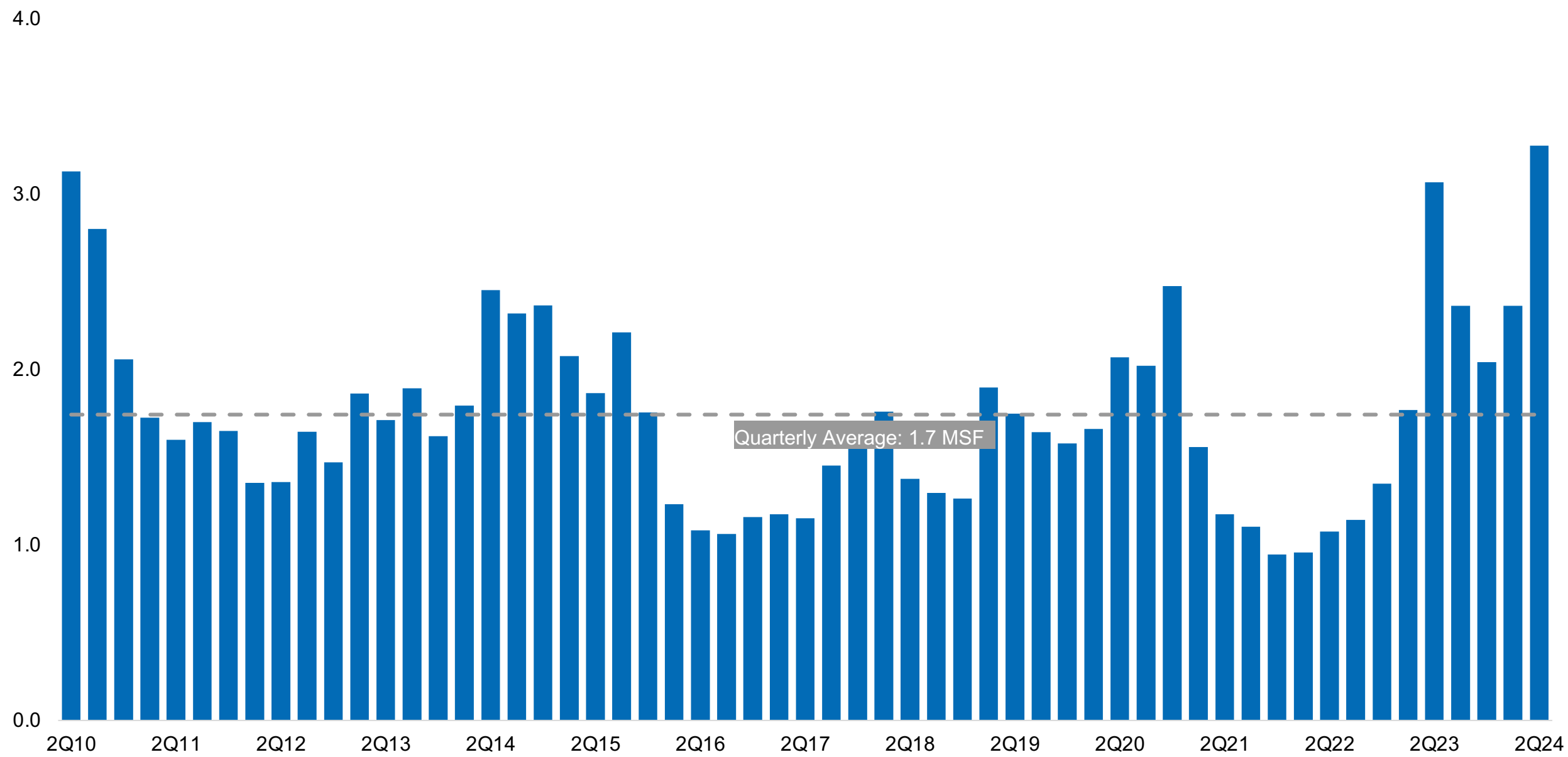


Source: Newmark Research, CoStar

Sublease Availability Reaches Highest Level Since 2010

New sublease offerings from Quicksilver and TYP Sport (328,084 SF in all at 5600 Argosy Ave in Huntington Beach), McKesson (147,950 SF at 1930 Malvern Ave in Fullerton) and Syco Enterprise (134,716 SF at 500 W Warner Ave in Santa Ana) contributed to this quarter’s 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

A Few Large Listings Boost Sublet Availability Across Most Submarkets

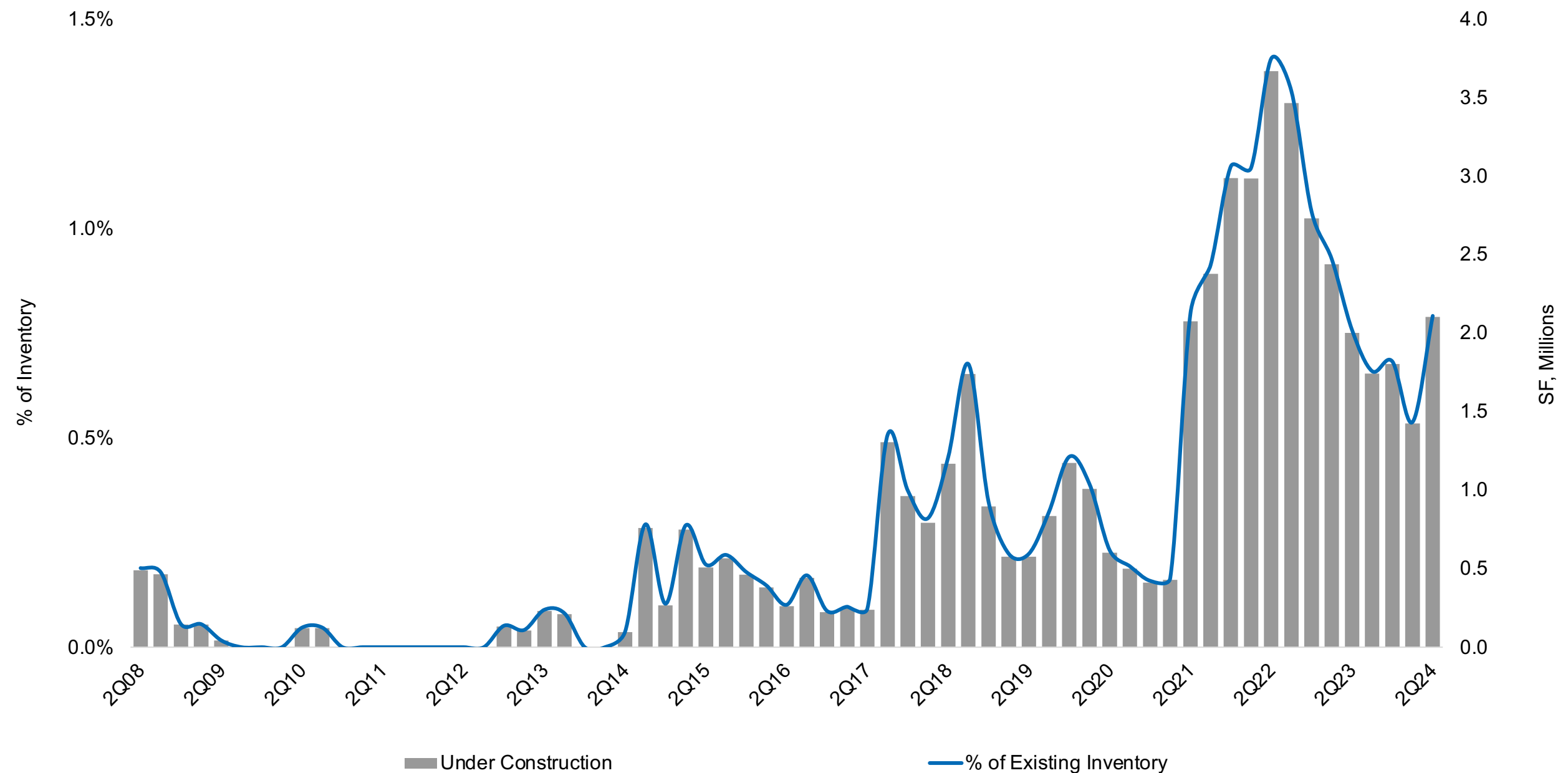


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Under-Construction Levels Spike After Six Projects Break Ground

A total of 687,391 SF across six developments delivered this quarter, four of which remain available and vacant. Despite this, under-construction levels increased after an additional six projects totaling 1.1 MSF broke ground, bringing the grand total to 2.1 MSF. Only 10.3% of under-construction inventory has pre-leased.

Industrial Under Construction and % of Existing Inventory



Source: Newmark Research

Pre-leasing Activity at a Halt



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Top Deals Signal Healthy Leasing Fundamentals

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

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
Daisy Nails	12691 Pala Dr	West County	Pre-lease	149,335
The tenant will be moving out of 3335 La Palma Ave in Anaheim to occupy the new warehouse facility in Garden Grove once construction is completed next quarter.				
Cryogenic Industries Inc.	5701 Bolsa Ave	West County	Direct Lease	147,010
This will be the industrial gas supplier's fifth location in Orange County.				
Arden Engineering Inc.	3130-3150 Miraloma Ave	North County	Renewal	144,000
The aerospace company renewed its lease at the manufacturing facility for double its rate from ten years ago.				
Boeing Encore Interiors	14852 Delta Ln	West County	Direct Lease	119,894
The tenant occupied the newly-delivered warehouse facility from the Huntington Gateway development this quarter. Newmark represented the landlord.				
McKenna Labs	320 - 330 S Hale Ave	North County	Direct Lease	90,336
The personal care manufacturer leased a second location down the street from its headquarters in Fullerton. The landlord was represented by Newmark.				

Source: Newmark Research

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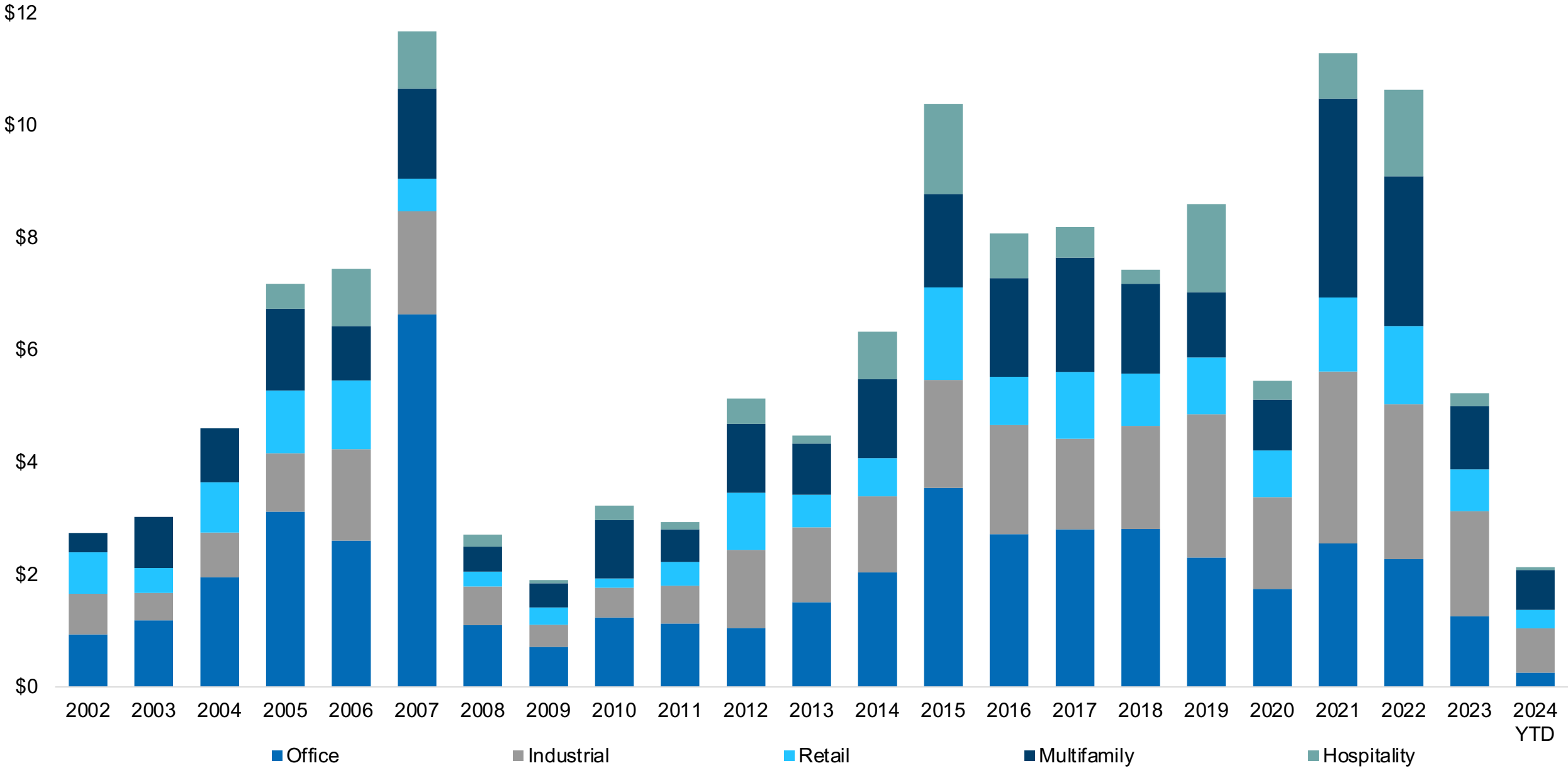
Sales Activity



Industrial Comprised 37.0% of Total Sales Volume in the First Half of the Year

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)

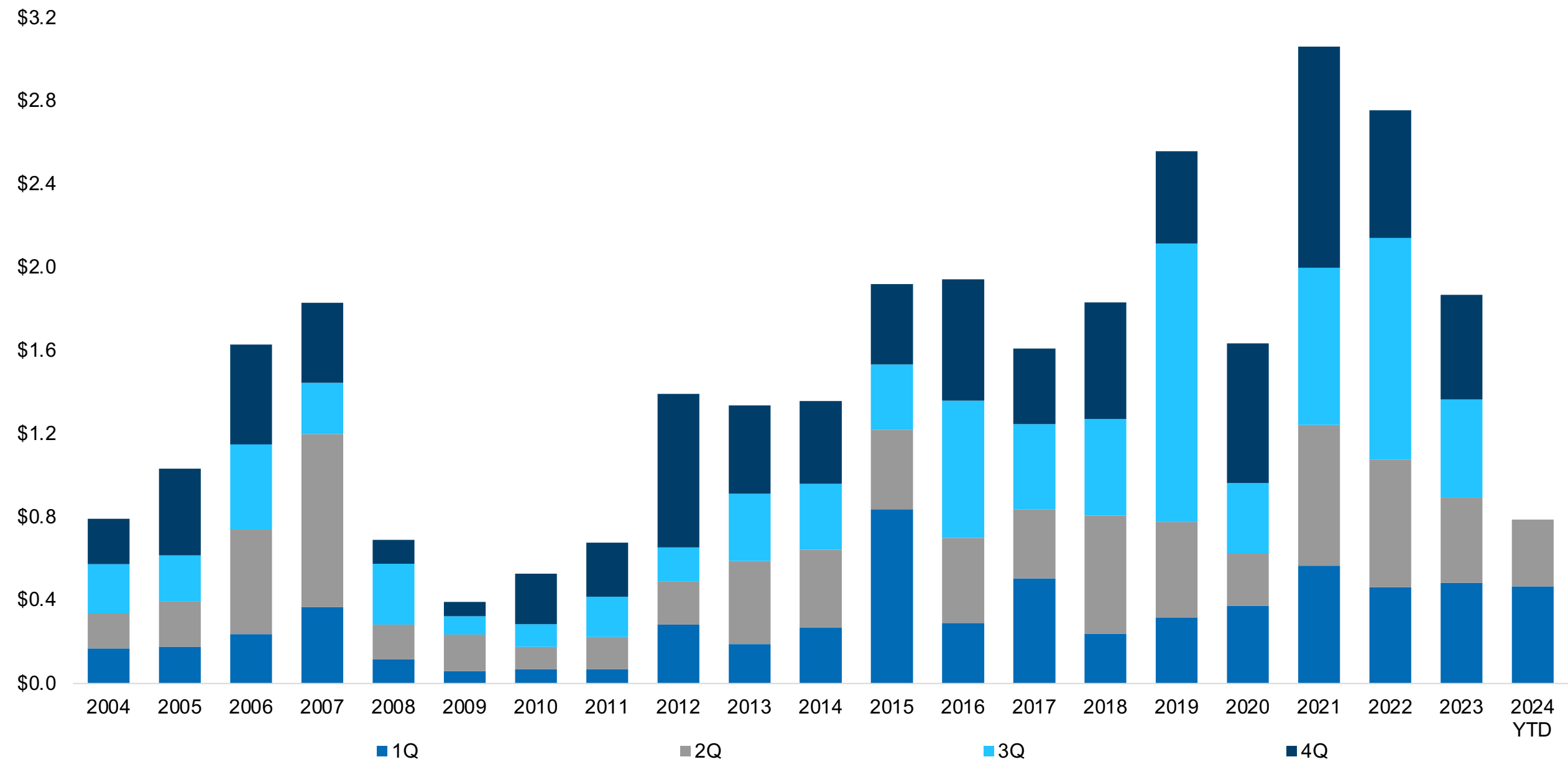


Source: Newmark Research, MSCI Real Capital Analytics
Note: Preliminary data is cited for the second quarter of 2024.

Industrial Sales Activity Cooling

Industrial sales volume totaled \$321.2 million in the second quarter of 2024, down by 22.1% 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 second quarter of 2024.

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

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Private and REIT Buyers Make Up Bulk Of Industrial Sales



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Appendix



Orange County Submarket Map and High-Level Statistics | 2Q24

A low-angle, upward-looking photograph of a modern building's structural steel framework. The image shows a complex network of dark steel beams and girders forming a grid-like pattern against a bright blue sky. The perspective creates a sense of height and architectural scale. A semi-transparent blue horizontal band is overlaid across the middle of the image, containing white text.

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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 is the only U.S. complex to make the list.

Rank	Seaport	2023 Volume (TEU, in millions)
1	Shanghai, China	49.2
2	Singapore	39.0
3	Ningbo-Zhoushan, China	35.3
4	Qingdao, China	30.0
5	Shenzhen, China	29.9
6	Guangzhou Harbor, China	25.4
7	Busan, South Korea	22.8
8	Tianjin, China	22.2
9	Los Angeles-Long Beach, U.S.	16.6
10	Jebel Ali/Dubai, United Arab Emirates	14.5

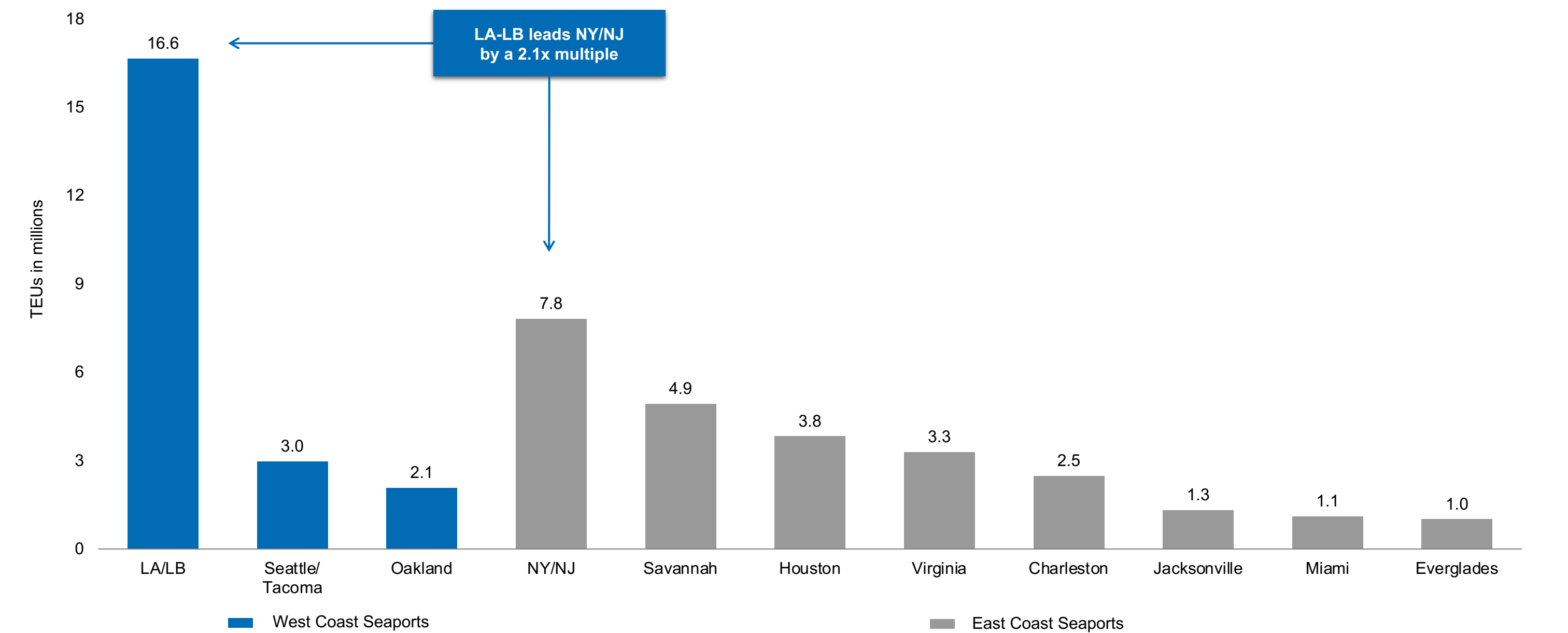
Rank	Seaport	2023 Volume (TEUs, in millions)
11	Hong Kong	14.3
12	Port Klang, Malaysia	14.1
13	Rotterdam, The Netherlands	13.4
14	Xiamen, China	12.6
15	Antwerp, Belgium	12.5
16	Tanjung Pelepas, Malaysia	10.5
17	Kaohsiung, Taiwan	8.8
18	Laem Chabang, Thailand	8.7
19	Tanger Med, Morocco	8.6
20	Beibu Gulf, China	8.0

Source: Newmark Research, upply
Note: TEU totals includes loaded and empty containers.

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: 2023 TEU Volume (All Containers: Loaded and Empty)



Source: Newmark Research, Individual Seaports

Why Los Angeles-Long Beach?

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Transport Costs Are the Biggest Expenditure for Most Warehouse Occupiers



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Transport Costs Per TEU Container Increase the Further an Occupier is from the Ports

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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](#).

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