

MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
3.6% Vacancy Rate	▲	▼
-1.89M YTD Net Absorption, SF	▼	▲
\$1.55 Asking Rent, PSF <small>(Overall, Net Asking Rent)</small>	▼	▲

ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
1.7M Orange County Employment	▲	▲
4.0% Orange County Unemployment Rate	▲	▼
4.1% U.S. Unemployment Rate	▲	▼

Source:BLS

ECONOMIC OVERVIEW

Between August 2023 and August 2024, total nonfarm employment in Orange County (OC) increased by 20,800 jobs, or 1.2% year-over-year (YOY). The private education and health services sector accounted for the most gains with 12,200 jobs added (+4.6% YOY), followed by the leisure & hospitality sector adding 4,800 jobs (+2.1% YOY) and government adding 4,000 jobs (+2.6% YOY). In sectors impacting industrial demand, construction grew by 1,200 jobs (+1.1% YOY), while manufacturing lost 3,700 jobs (-2.4% YOY) and trade, transportation and utilities gained 1,500 jobs (+0.6% YOY).

During the same time, the monthly unemployment rate increased from 4.0% last year to 4.5% and is currently 50 basis points (bps) above the quarterly average of 4.0%.<sup>1</sup> All employment sectors are projected to grow at a combined growth rate of 1.5% in 2024 and 1.2% in 2025 compared to the 5-year historical average of 0.1%.<sup>2</sup>

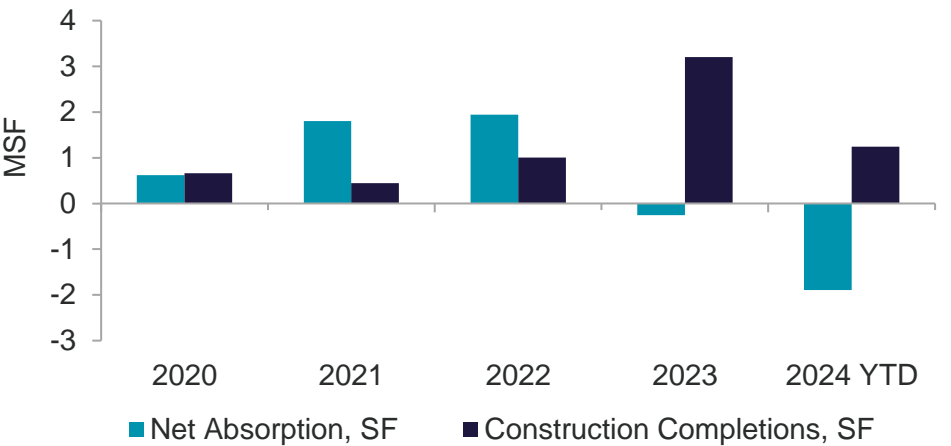
SUPPLY OR DEMAND

The vacancy rate in OC rose for the seventh consecutive quarter, increasing by 60 bps quarter over quarter (QOQ) and 150 bps YOY to 3.6%. Overall net absorption remained negative for the sixth quarter, with total net occupancy losses reaching -1,213,142 square feet (sf) in Q3 2024.

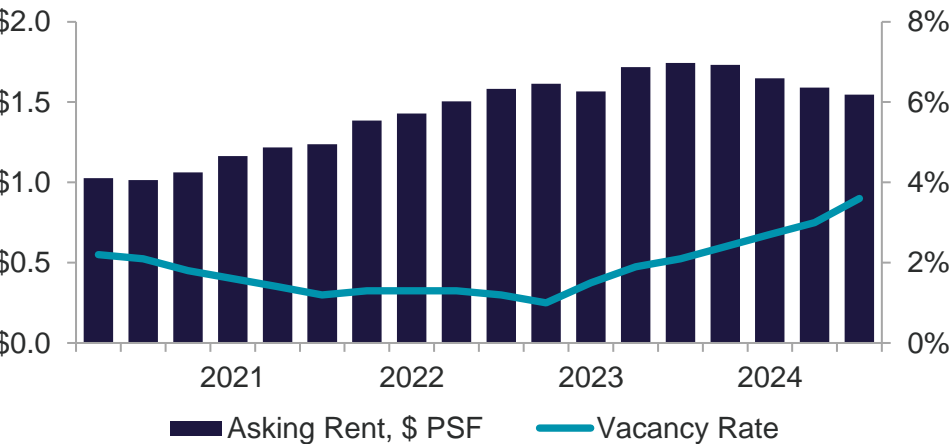
Though the overall net absorption was negative, West County (WOC) and South County (SOC) accounted for 280,654 sf and 28,188 sf of positive absorption, respectively. The Garden Grove submarket recorded the highest absorption total, with 270,632 sf of positive absorption in Q3.

Leasing activity in Q3 2024 totaled slightly under 1.7 msf, reflecting a 1.5% increase QOQ and a 6.4% increase YOY. In addition to tenants vacating space throughout the county, the rise in the vacancy rate can partly be attributed to speculative (SPEC) construction projects delivered without prior tenant commitments. Of the 287,033 sf of new inventory that came online in Q3 2024, only one building, totaling

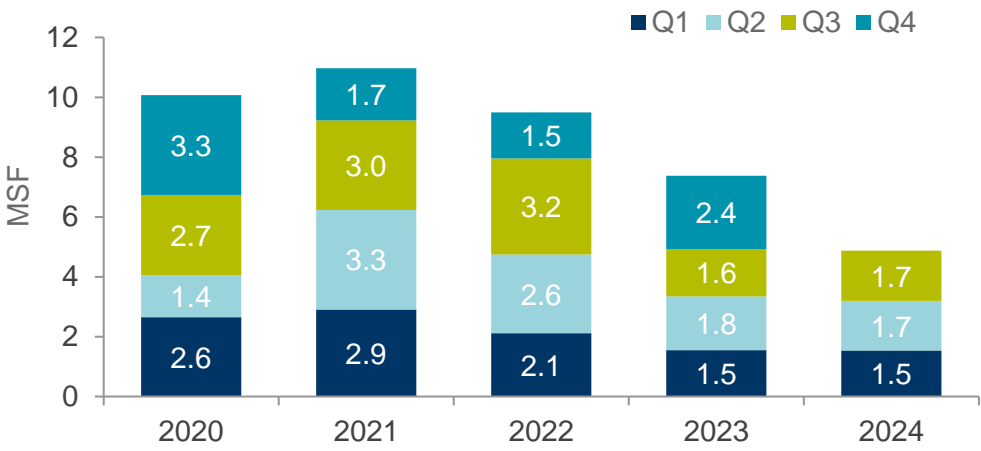
SPACE DEMAND / DELIVERIES



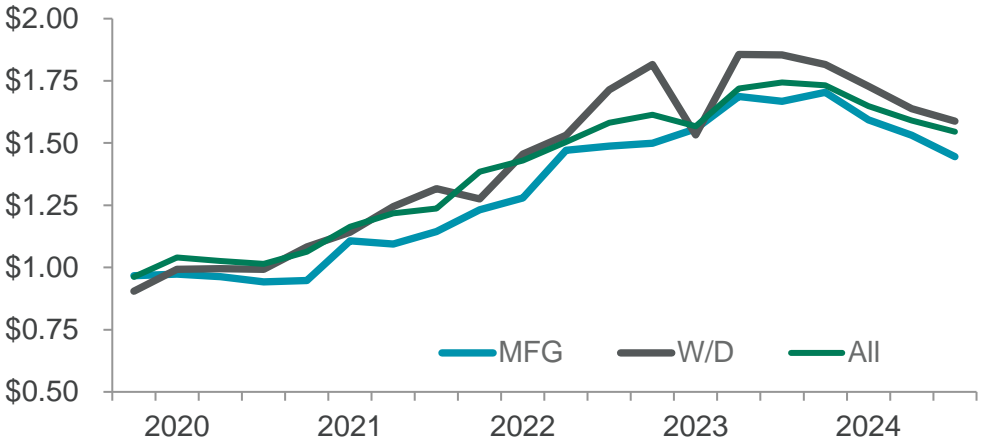
OVERALL VACANCY & ASKING RENT



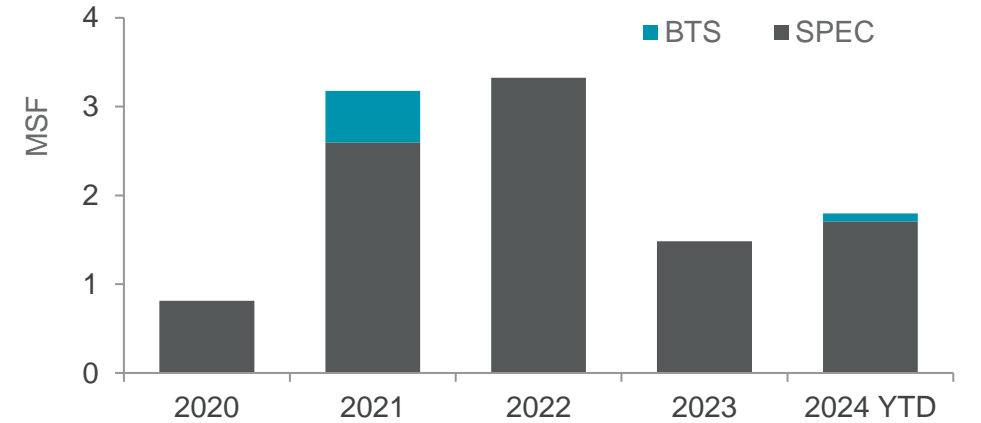
NEW LEASING ACTIVITY



AVERAGE OVERALL ASKING RENT \$PSF MONTHLY



UNDER CONSTRUCTION BY BUILDING TYPE



SUPPLE AND DEMAND CONTINUED...

149,335 sf, was preleased. Of the 0.1 million square feet (msf) projected for completion by year-end 2024, all remain available for lease.

PRICING

Overall asking rent in OC continued to decline. The average asking rent dropped for the fourth consecutive quarter, falling \$0.04 (-2.8% QOQ) to \$1.55 per square foot (psf) per month on a triple net basis. This marks a decrease of \$0.20 (-11.3%) from \$1.74 psf one year ago. Decreases in asking rents for available space continue to be a frequent occurrence. For warehouse and distribution buildings, which comprise the majority of industrial inventory in OC, the average asking rate also decreased, dropping \$0.05 (-3.0%) QOQ and \$0.27 (-14.3%) YOY to \$1.59 psf.

FUTURE INVENTORY

At the end of Q3 2024, 16 buildings, totaling slightly under 1.8 msf, were under construction. Out of these 16 buildings, only one was build-to-suit (BTS), with one building being preleased. Developers are increasingly delaying the start of projects until securing tenants, signaling a preference for BTS projects to reduce vacancy risk. This shift shows an emphasis on managing financial risks by ensuring long-term occupancy and stable revenue before construction begins.

SALES ACTIVITY

In Q3 2024, sales activity fell 38.6% QOQ and 38.3% YOY, to \$255.6 million. The average price psf increased both QOQ and YOY by 7.3% from \$300 to \$322 psf.<sup>3</sup> The average capitalization rate decreased 20 bps QOQ but stayed flat YOY at 5.1%.

As of October 2024, the Federal Reserve holds the federal funds rate steady at 4.75% to 5.0% while continuing to target 2% inflation despite slight upward revisions in inflation forecasts. The Fed also considers up to three rate cuts in 2024, reflecting more robust economic growth projections and confidence in moderating inflation. Private buyers accounted for 45.9% of all sales year-to-date, followed by REIT/listed buyers at 31.7%. This marks a notable rise in REIT/listed activity from the previous year's 9.4%, reflecting an increasing inclination toward institutional investments in the market.

OUTLOOK

- With reduced demand, developers are expected to slow the pace of new SPEC construction in the coming quarters, though significant new builds are still forecasted for next year, indicating cautious but continued inventory growth.
- The Federal Reserve's decision in September 2024 to lower the benchmark interest rate by 50 bps, bringing it to a range of 4.75% to 5.0%, could impact the OC industrial market. While earlier projections had suggested potential rate hikes, this shift toward easing monetary policy might lead developers and investors to assess market conditions cautiously. They may delay significant real estate transactions until signs of continued monetary easing are clearer.
- Additionally, ongoing challenges, such as trade tensions and supply chain disruptions, could reinforce a more strategic, risk-managed approach among market players as they navigate these evolving conditions.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	CNSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (MF)*	OVERALL WEIGHTED AVG NET RENT (W/D)*	OVERALL WEIGHTED AVG NET RENT (ALL TYPES)*
North County	109,652,886	4,601,992	4.2%	-1,333,887	-1,562,331	501,536	510,955	\$1.38	\$1.65	\$1.59
West County	39,140,736	1,215,307	3.1%	280,654	1,815	478,432	149,335	\$1.50	\$1.65	\$1.56
Greater Airport Area	70,134,600	2,649,859	3.8%	-188,097	-450,804	598,540	476,686	\$1.47	\$1.39	\$1.44
South County	35,493,325	727,888	2.1%	28,188	118,794	218,183	107,117	\$1.54	\$1.61	\$1.56
R&D	21,723,242	831,167	3.8%	33,523	-212,963	91,500	0	N/A	N/A	\$1.52
MFG	84,179,999	1,591,384	1.9%	-222,445	-301,221	0	0	N/A	N/A	\$1.45
FLEX	18,123,151	377,110	2.1%	-97,210	-177,402	0	0	N/A	N/A	\$1.44
W/D	130,395,155	6,395,385	4.9%	-927,010	-1,200,940	1,705,191	1,244,093	N/A	N/A	\$1.59
OC TOTALS	254,421,547	9,195,046	3.6%	-1,213,142	-1,892,526	1,796,691	1,244,093	\$1.45	\$1.59	\$1.55

\*Rental rates reflect weighted triple net asking \$psf/month. \*\*Renewals not included in leasing statistics. W/D = Warehouse/Distribution.

KEY LEASE TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	TENANT	SF	TYPE
3030 Red Hill Ave.	Greater Airport Area	Astech Engineered Products	315,000	Renewal**
2040 Dyer Rd.	Greater Airport Area	Integral Aerospace	278,132	Renewal**
22745 Savi Ranch Pkwy.	North County	L3 Technologies	131,662	Direct
2815 Warner Ave.	Greater Airport Area	Orange Courier	120,000	Direct
12752-12802 Monarch St.	West County	Big D Floor Covering Supplies	108,981	Direct

KEY SALE TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE / \$ PSF
2325-2335 Moore Ave.	North County	Moore Avenue Partners / Staley Point Capital	161,738	\$30.1M / \$186
5609 River Way.	North County	Staley Point / Style Korean	149,000	\$43.5M / \$292
4010 – 4080 N. Palm St.	North County	BKM Fullerton / Newport Private Group	110,933	\$28.8M / \$260
17300 Red Hill Ave.	Greater Airport Area	AG Red Hill Owner / City of Irvine	110,000	\$96.5M/ \$877
5330 Beach Blvd.	North County	Staley Point / Style Korean	34,000	\$9.8M / \$288

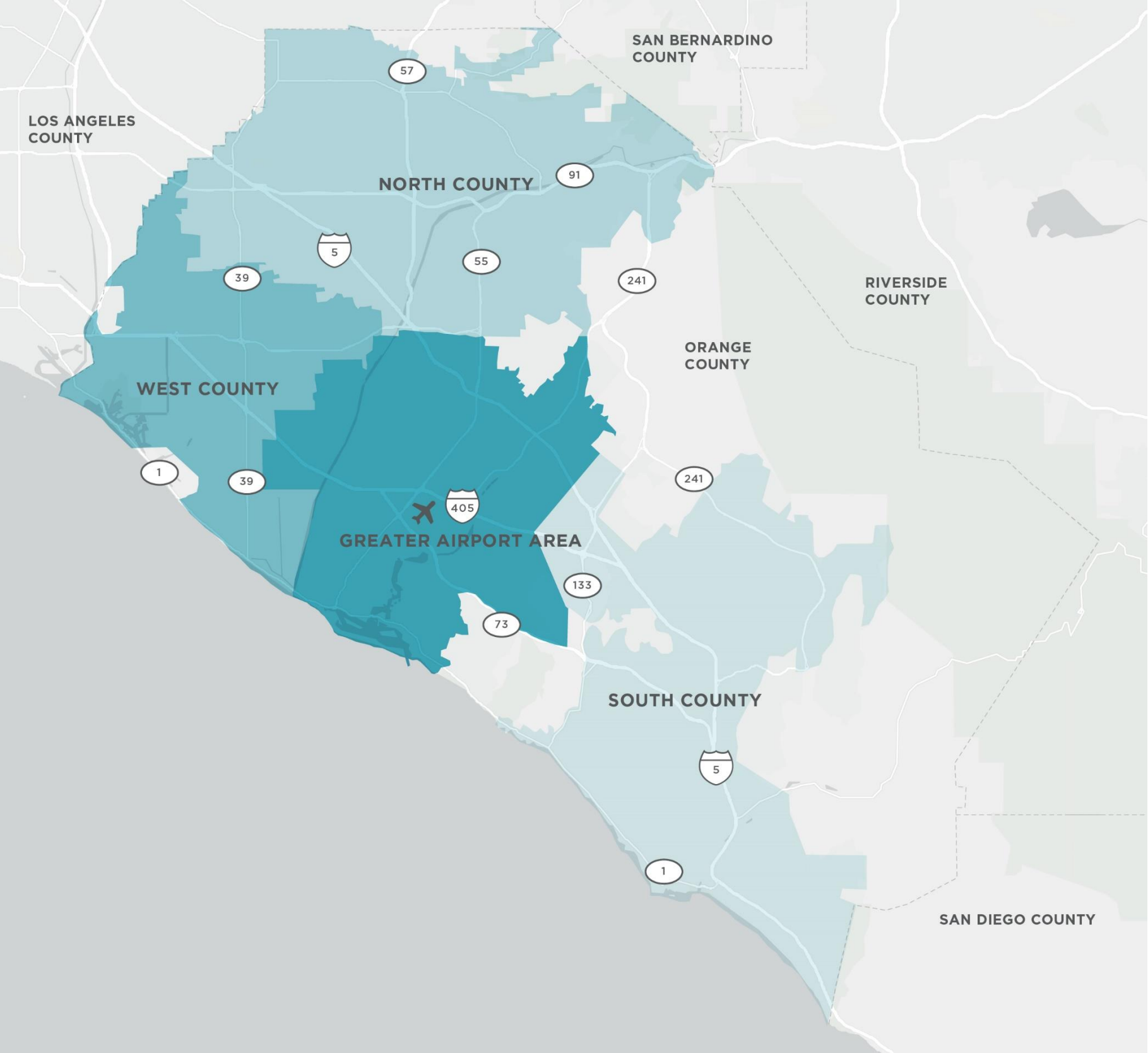
KEY PROJECTS UNDER CONSTRUCTION 2024 YTD

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
Cypress Technology Center	West County	N/A	390,268	Goodman Group
2120 E. Howell	North County	N/A	237,246	Pacific Industrial

Sources: <sup>1</sup> [www.bls.gov](http://www.bls.gov) Anaheim-Santa Ana-Irvine MD (Orange County). <sup>2</sup>Lightcast forecast for Orange County, CA as of 10/2024. RCA, \$10M+.



INDUSTRIAL SUBMARKETS



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