

4Q24

Orange County Industrial Market Overview



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Market Observations

Economy

- U.S. retail sales are healthy but remain below the 20-year average; local industrial leasing activity will remain subdued.
- Orange County’s median household income is the highest in Southern California. Its affluent population of 3.2 million is appealing to warehouse occupiers.
- Loaded import volume at Southern California’s ports totaled 9.2 million containers in the first 11 months of 2024, up 22.1% from the same period in 2023.
- Gulf and East Coast dockworkers ended a 3-day strike in October, returning to the bargaining table with the United States Maritime Alliance. Both sides eventually reached a tentative agreement for a new six-year master contract on January 8. Once the contract is ratified, Eastern U.S. distributors will slow cargo reroutes to other seaports. Southern California will see decreased TEU volume in 2025.

Major Transactions

- The largest lease of the quarter was a renewal at 50 Icon in Foothill Ranch for 307,781 SF. The tenant, Hampton Products, has been headquartered at this location for over two decades.
- Adient Aerospace, a joint-venture between Boeing and Adient, is taking over Hybrid Apparel’s space at 5701 Skylab Rd for 280,460 SF. The large facility is two blocks down from its headquarters and will serve as an expansion.
- Ares Management, a New York-based investment management company, has acquired 25892-25902 Towne Centre Dr in Foothill Ranch, a 310,067-SF industrial facility, for \$96.0M. The transaction marks the largest sale of the year.

Leasing Market Fundamentals

- Current leasing activity is slow relative to 2021-2022.
- Net absorption is out of the red for the first time in seven quarters, with the market accruing 389,733 SF of net gains. Move-ins by Weber Distribution (136,998 SF), 7 Diamonds (87,000 SF) and Toyota Racing Development (73,218 SF) are contributors.
- Year-end vacancy (4.0%) is 220 basis points higher than it was two years ago but remains well below the peak of 6.8% from the Global Financial Crisis (reached in 2010). Orange County’s current vacancy is the lowest across the Southwest region.
- After experiencing rapid growth and reaching an all-time high of \$1.64/SF NNN last year, asking rents have dropped to \$1.55/SF NNN and are expected to normalize.
- Under-construction activity increased to 2.4 MSF after three projects totaling 223,361 SF broke ground, bringing pre-leasing levels to 7.7% of overall construction.

Outlook

- Rent declines will be slower 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.
- California Assembly Bill 98 – new regulation on warehouse developments in California via guidelines related to building setbacks, facility design features and truck routing plans – was signed into law. Construction and occupancy costs will rise.
- Vacancy will increase in the quarters ahead as some tenants enact cost-cutting measures and new speculative construction delivers vacant.

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

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Economy



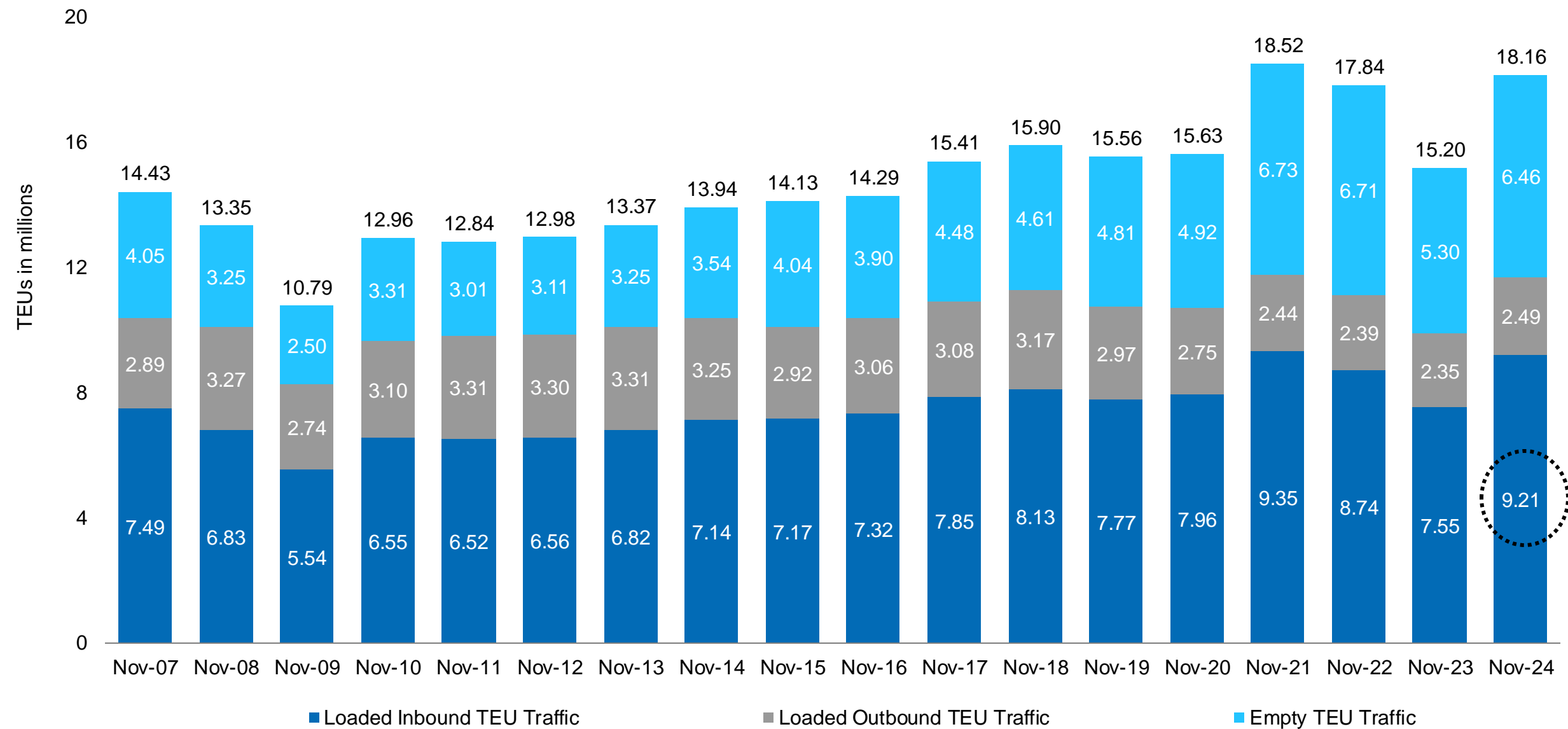
Ocean Container Spot Rates Far Higher Than Two Years Ago

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2024 Will Be the Second Busiest Year on Record Once December's Numbers are In

The inflated growth of 2021-2022 (due to strong retail sales from stay-at-home measures, government stimulus and distributors stockpiling goods) has passed. Now, Southern California's ports are contending with an influx of imports due to labor contract negotiations with Gulf and East Coast dockworkers and the frontloading of cargo as a hedge against potential tariffs.

The Ports of Los Angeles and Long Beach: Combined TEU Volume | Loaded Imports, Loaded Exports and Empty Containers | First 11 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 through late 2029. Longshoremen at Gulf and East Coast ports went on strike for three days in early October 2024 after their demands with the United Maritime Alliance were unmet. Now, both sides have a tentative agreement. Import volume will continue to be rerouted to other North American ports (e.g., Los Angeles-Long Beach) until a master contract is finalized between the ILA and USMX.

West Coast Ports Agreement Reached; New Contract Good Through Mid-2028

- 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.
- 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's Association (ILA) represents dockworkers at 36 ports from Maine to Texas. The United States Maritime Alliance (USMX) represents ocean carriers and terminal operators.
- Their contract expired on September 30, 2024.
- Harold Daggett, International President of the ILA, initiated a strike on October 1, 2024 that ended two days later.
- A tentative agreement with USMX for a new six-year master contract was reached on January 8, 2025. Port operations will continue as normal as the contract is ratified.
- Job protection from automation and higher pay (a 62% wage increase over six years) for longshore workers are part of the current deal.



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

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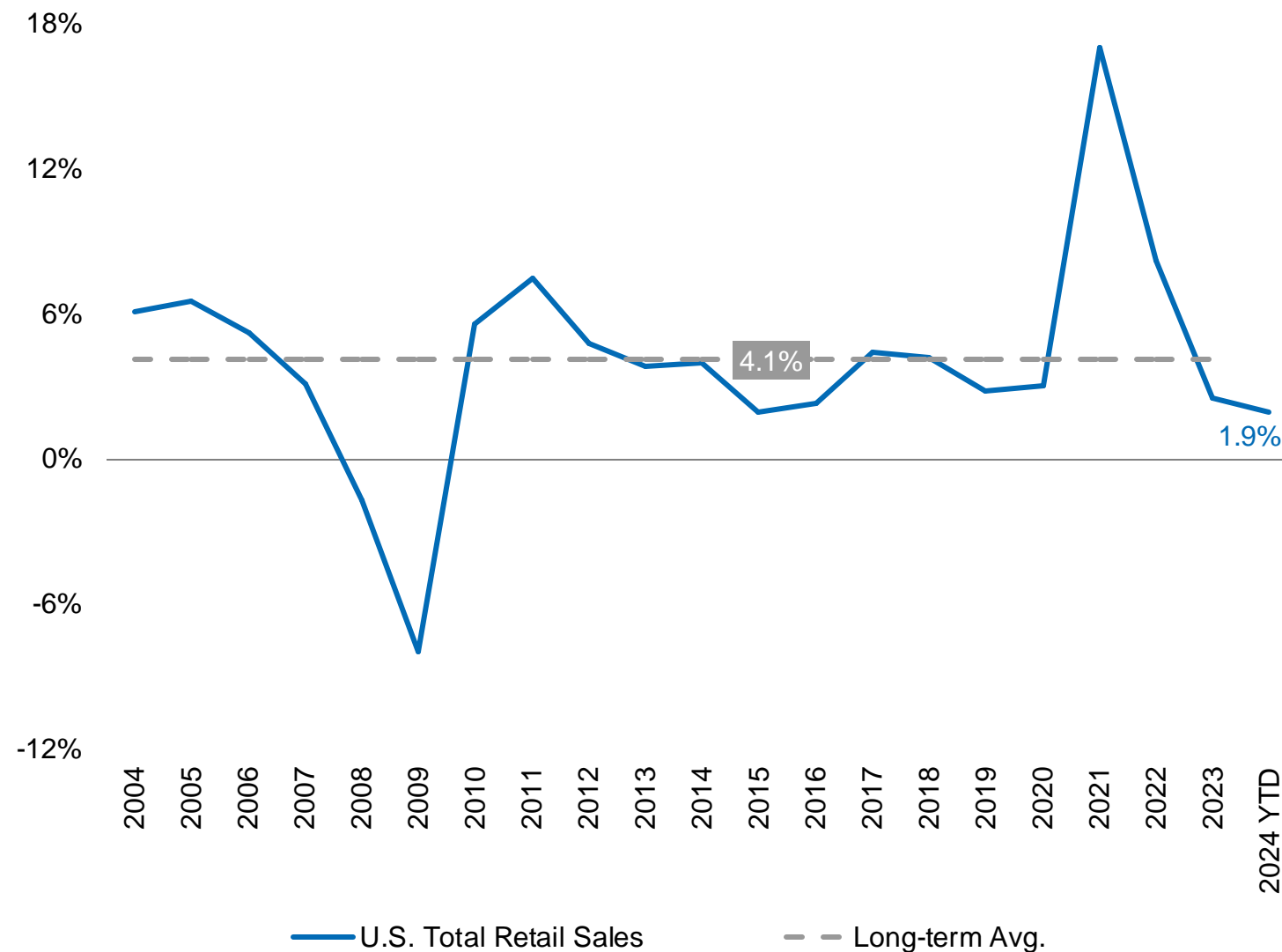
Rail Dwell Times Remain High

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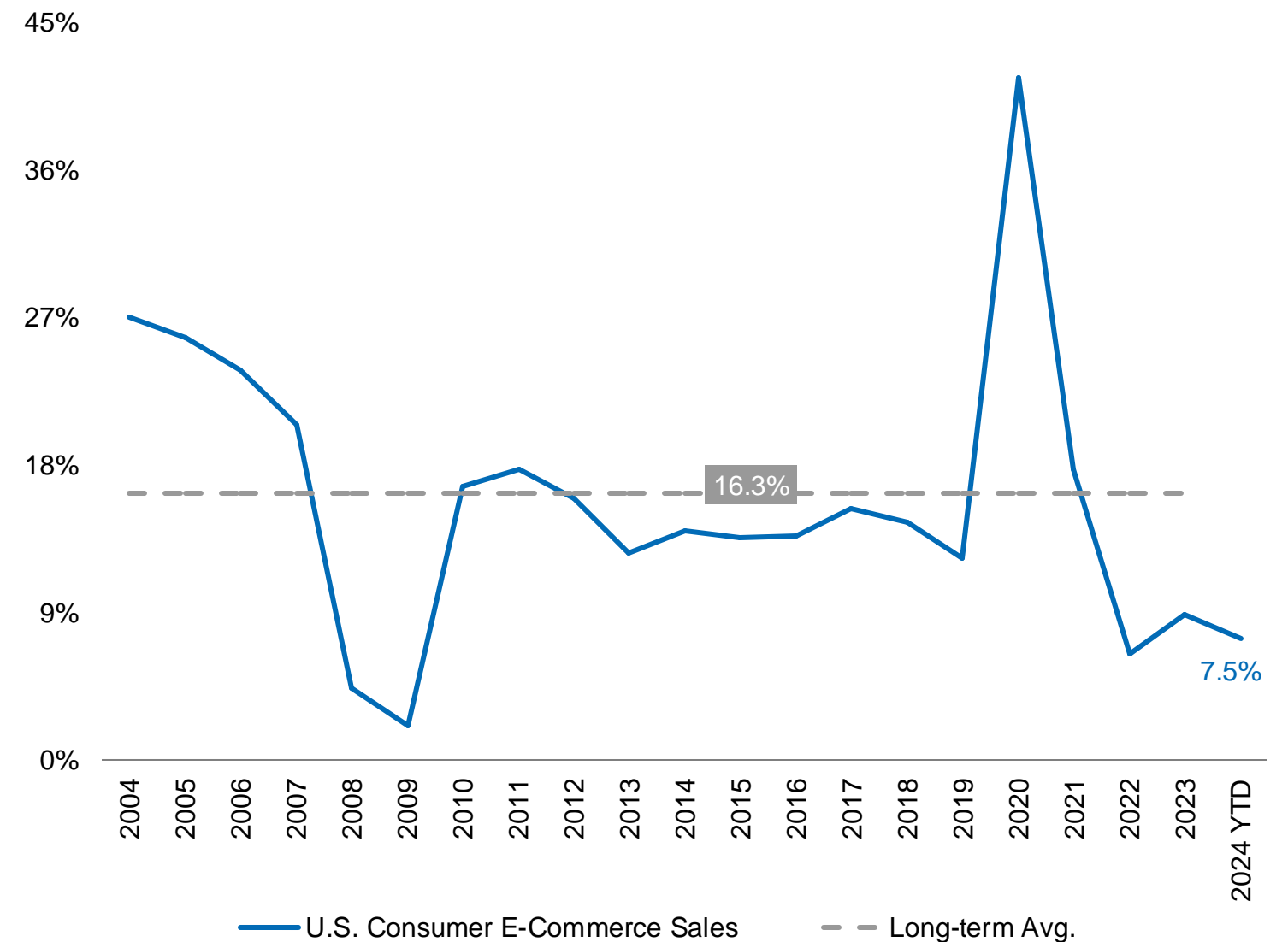
Retail Sales (an Indicator of Warehouse Demand) Continue to Moderate

Consumer e-commerce sales were up 7.5% in the first nine months of 2024 compared with the same period in 2023. Although e-commerce sales growth exceeded total retail sales (+1.9% over the same period), the decline from 2021 onward is noticeable as consumer spending registers slower gains.

U.S. Overall Retail Sales Annual Growth



U.S. Consumer E-Commerce Sales Annual Growth



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

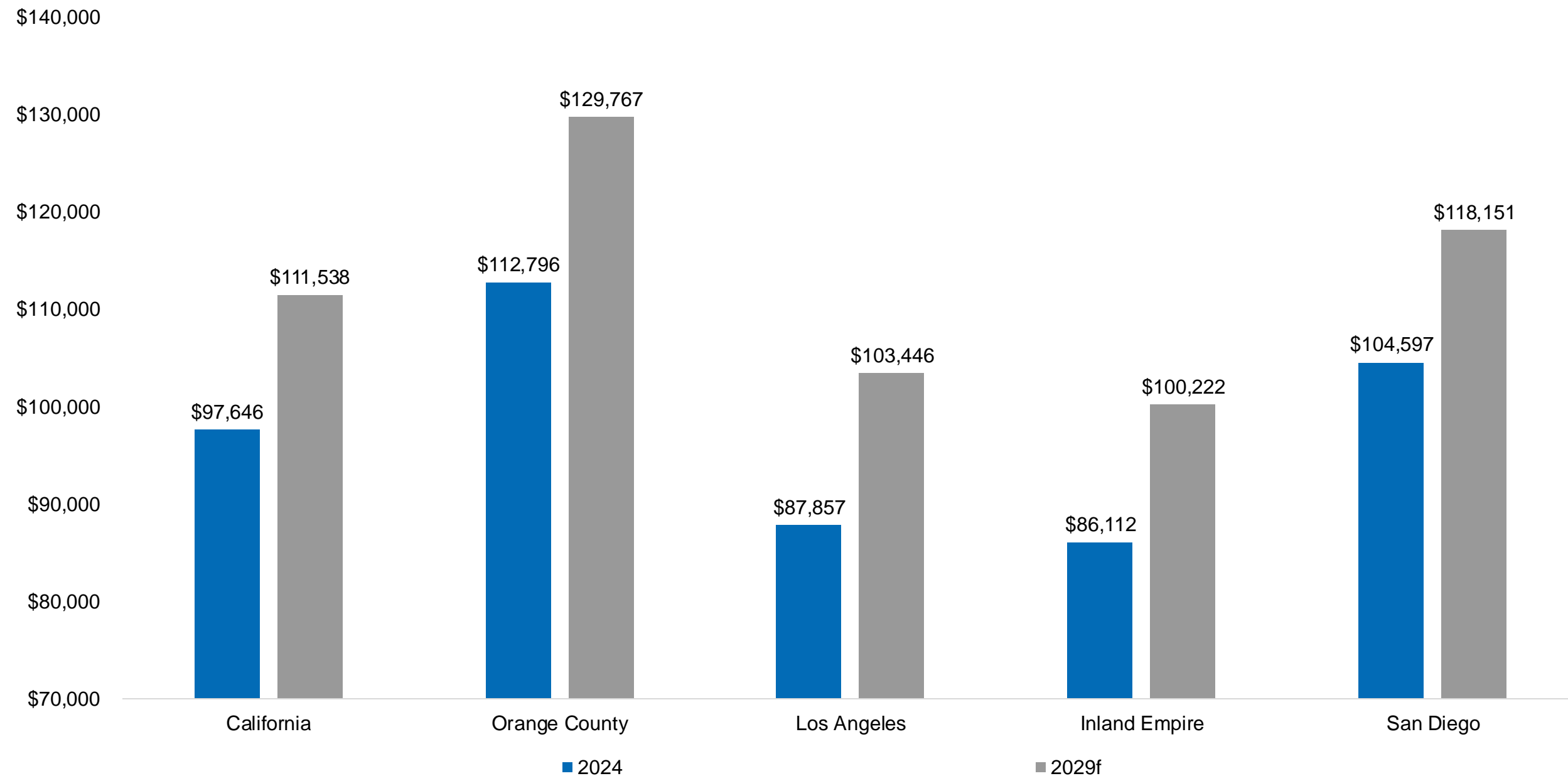
The Pandemic Accelerated E-Commerce Sales Growth and Adoption Rates

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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.

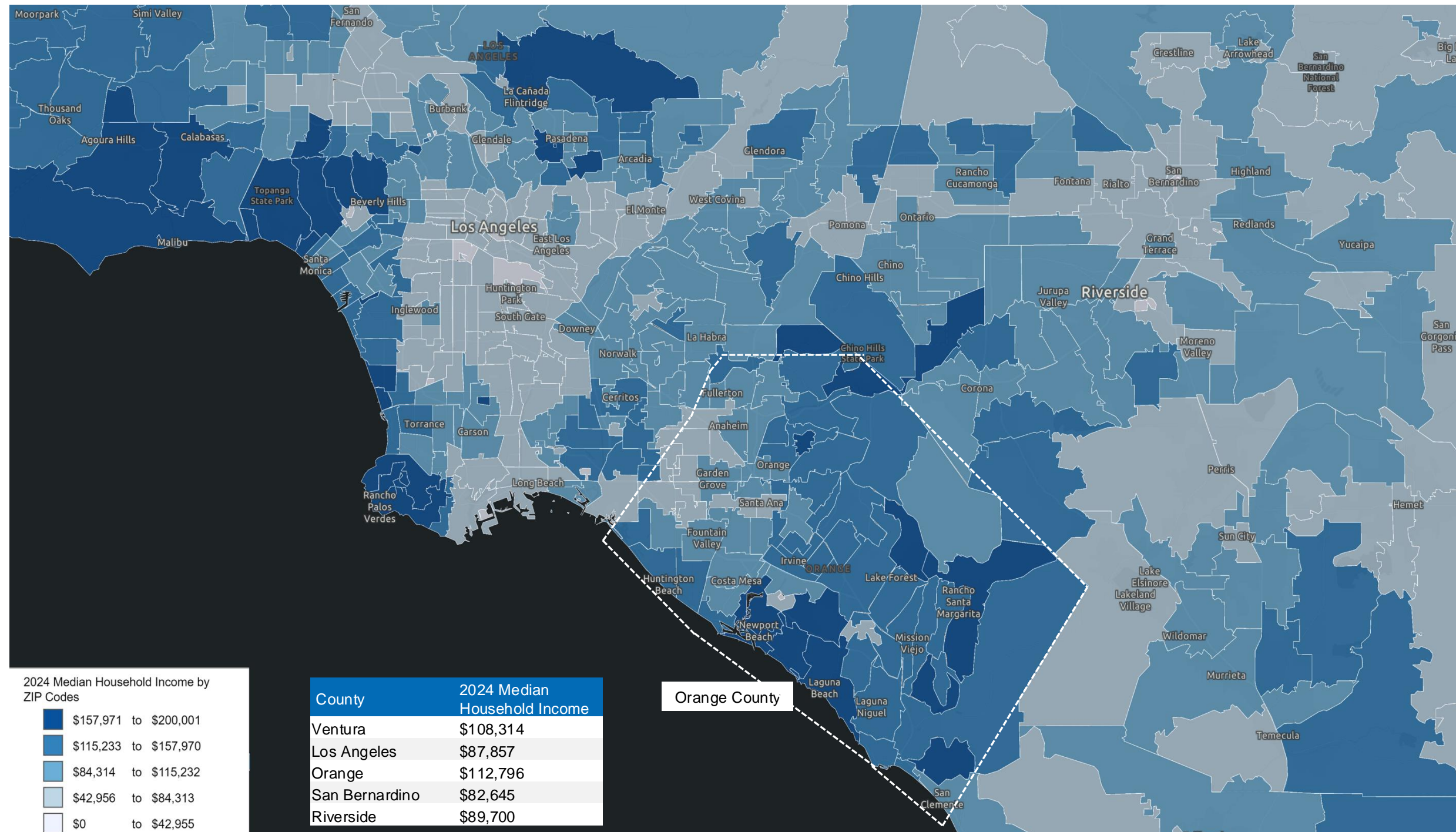
Southern California Median Household Income: 2024 vs. 2029 Projections



Source: Newmark Research, ESRI

Orange County is the Most Affluent County in Southern California

Across the greater map: median household incomes are generally higher in coastal and foothill communities.

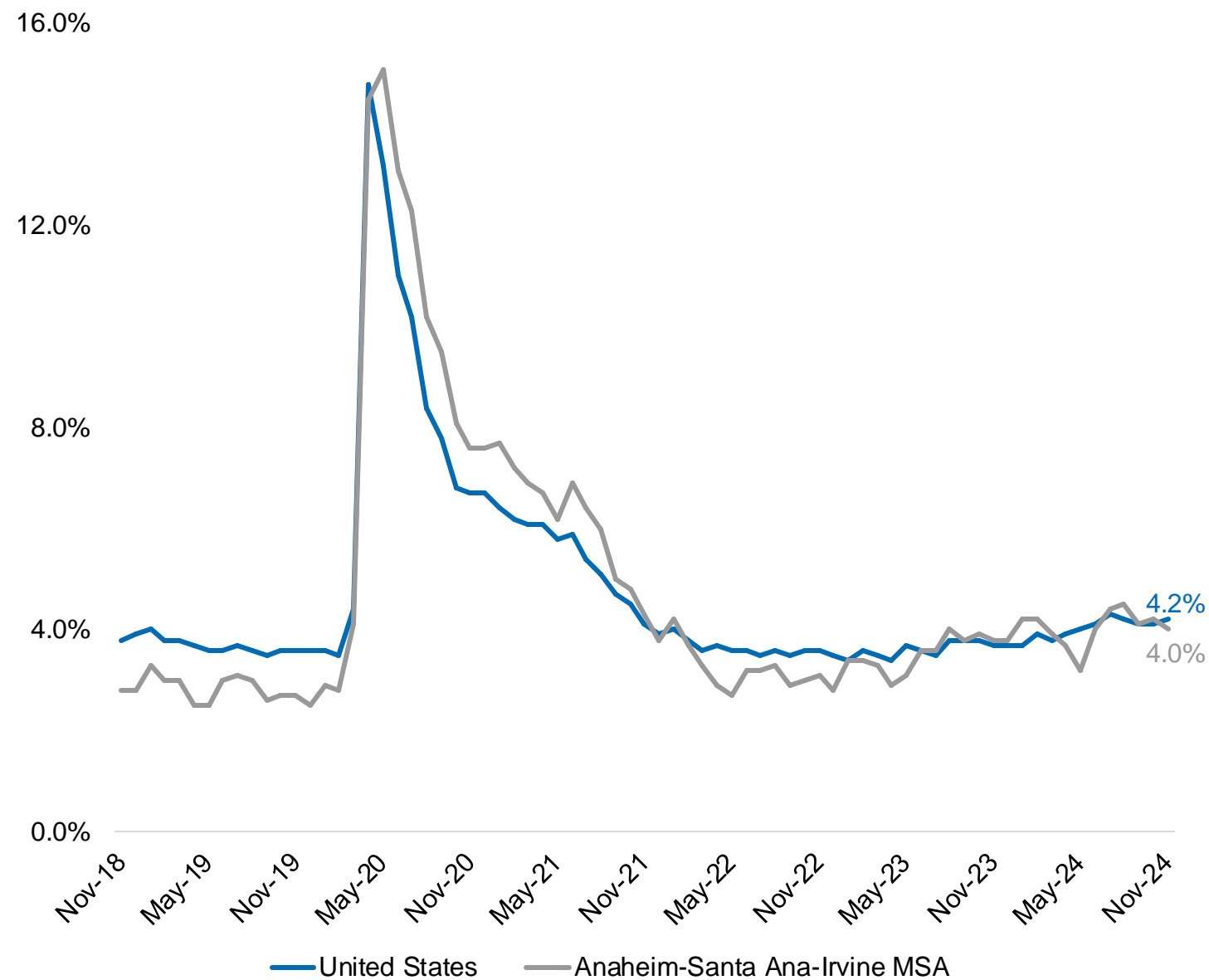


Source: Newmark Research, ESRI

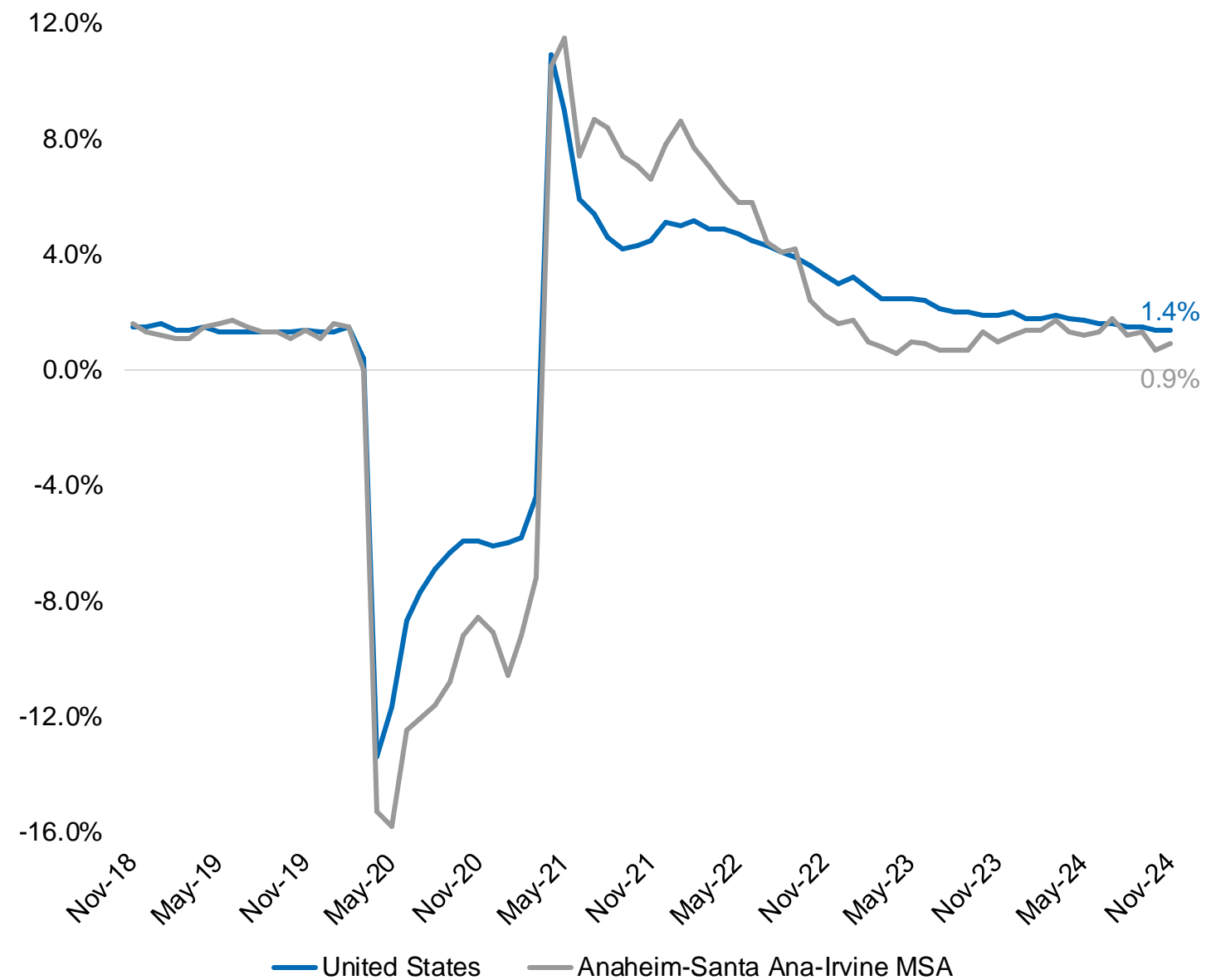
Cyclical Drop In Local Unemployment Ahead Of Holiday Season

After reaching a three-year peak of 4.5% in August, local unemployment dropped 50 basis points as retailers gear up for the holiday season. In the months ahead, unemployment will continue to fluctuate as companies reassess business needs, especially in the manufacturing and information technology sectors. Year-over-year nonfarm employment growth has held steady despite these fluctuations.

Unemployment Rate, Seasonally Adjusted



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

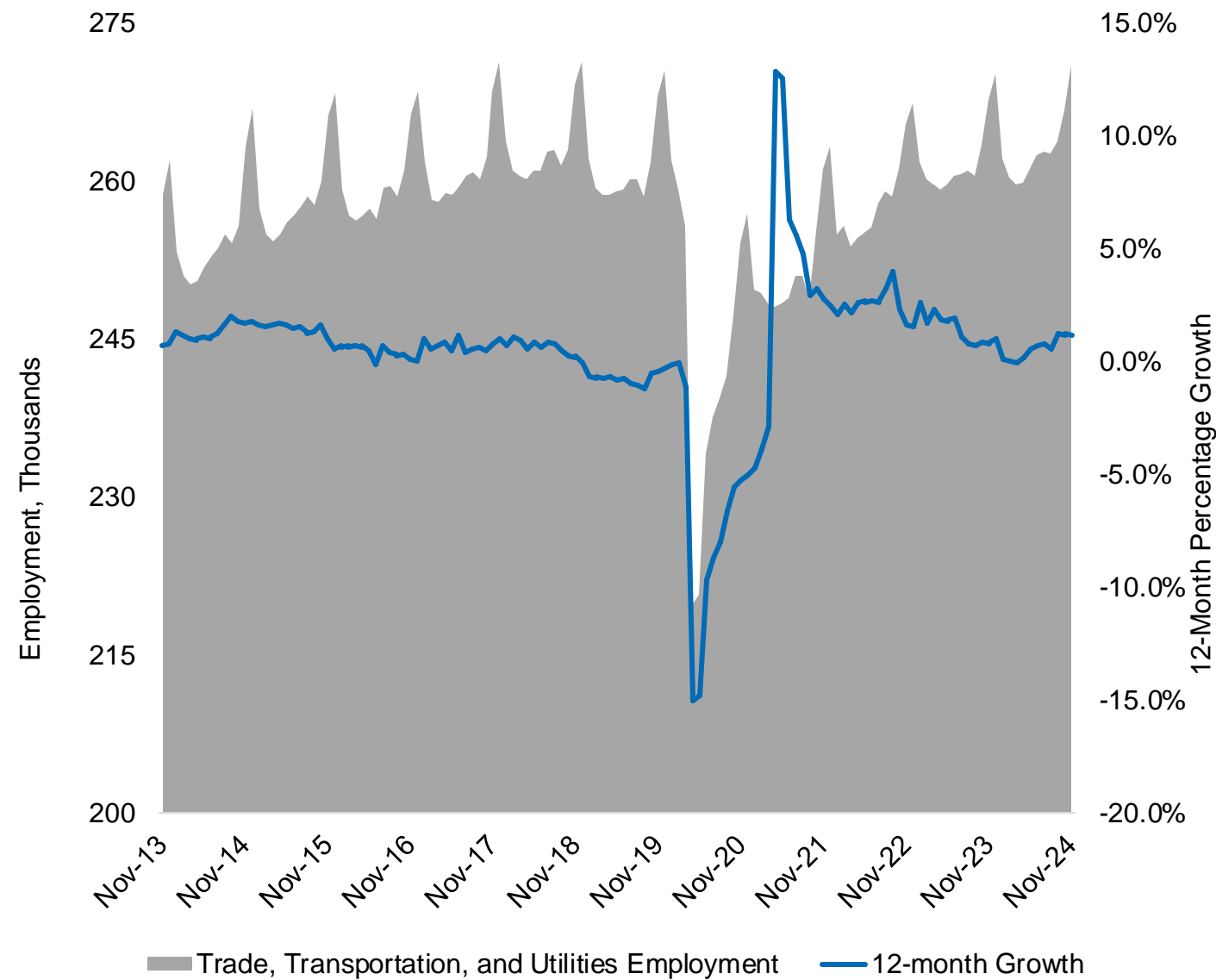


Source: U.S. Bureau of Labor Statistics, Anaheim-Santa Ana-Irvine, CA
 Note: November 2024 data is preliminary.

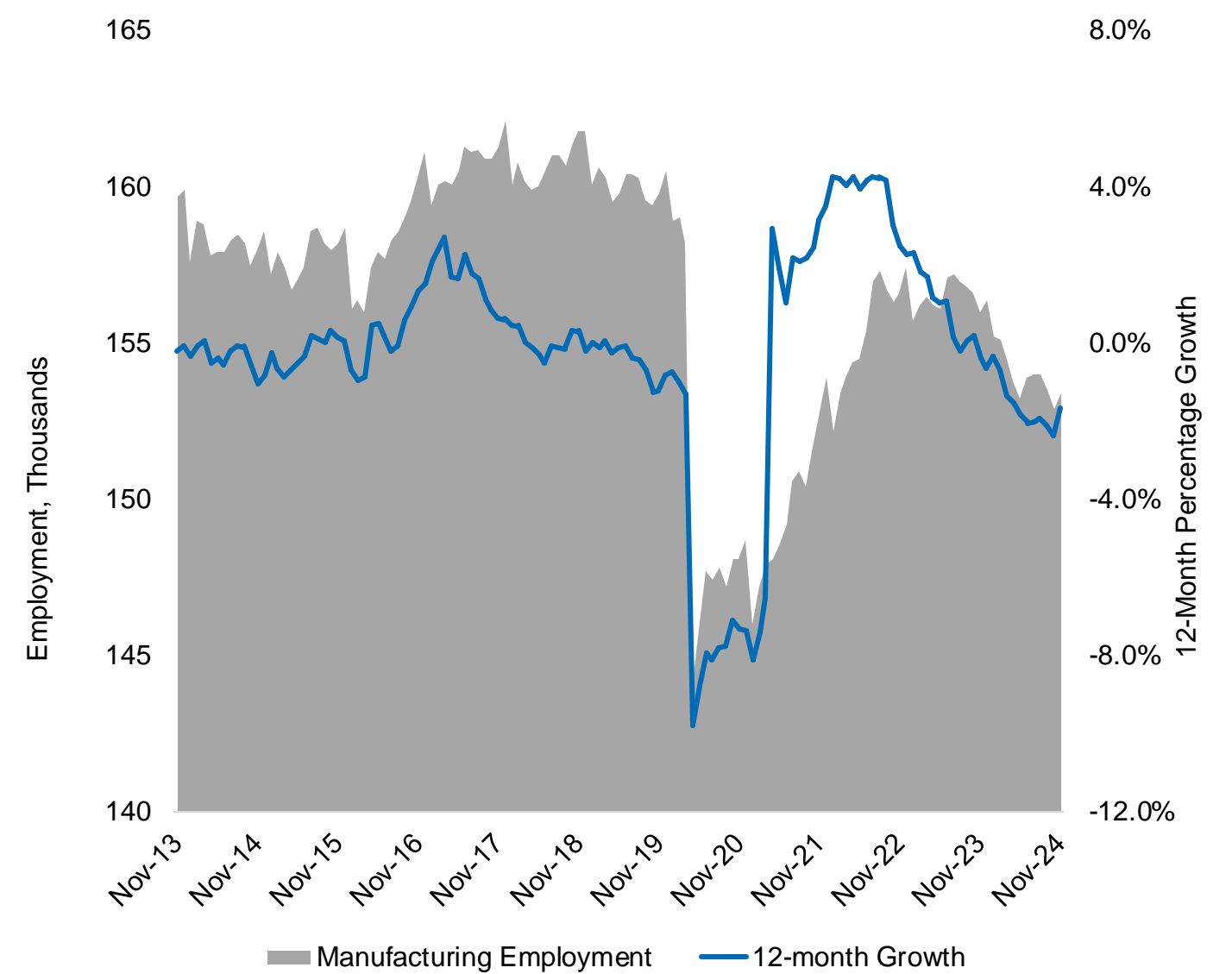
Manufacturing Sector Driving Down Industrial Employment

The trade/transportation/utilities sector continues to follow a cyclical pattern where local employment peaks in November ahead of 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: November 2024 data is preliminary.

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Leasing Market Fundamentals



Contract Rents Continue to Adjust

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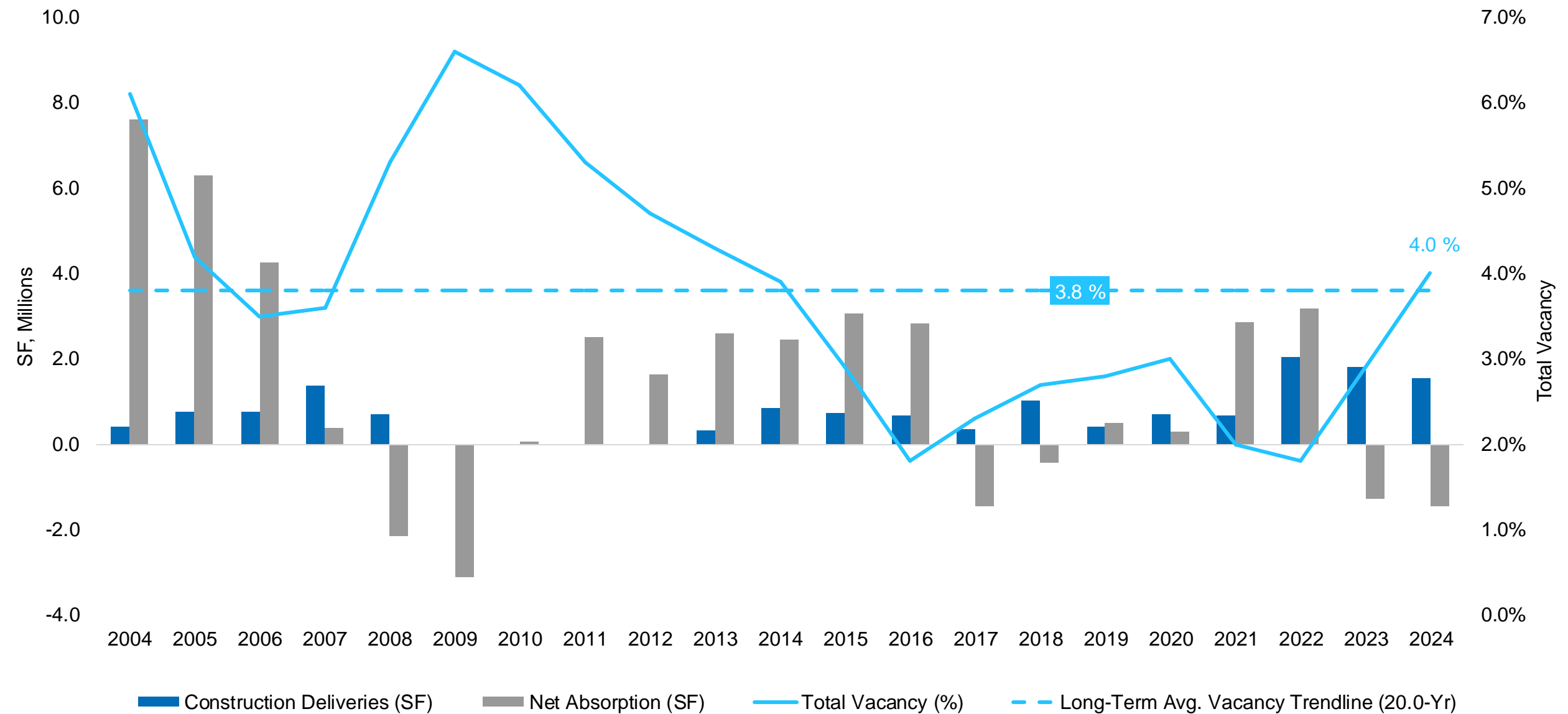
Term Lengths are Moderately Up After Declines in 2022 and 2023

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Vacancy Surpasses 20-Year Average

Vacancy dropped modestly from 4.1% last quarter to 4.0% after the market accrued 389,733 SF of net gains. On an annual basis, nearly 1.5 MSF in net absorption losses was met with over 1.5 MSF in construction deliveries, causing vacancy to exceed the 20-year average.

Historical Construction Deliveries, Net Absorption, and Vacancy

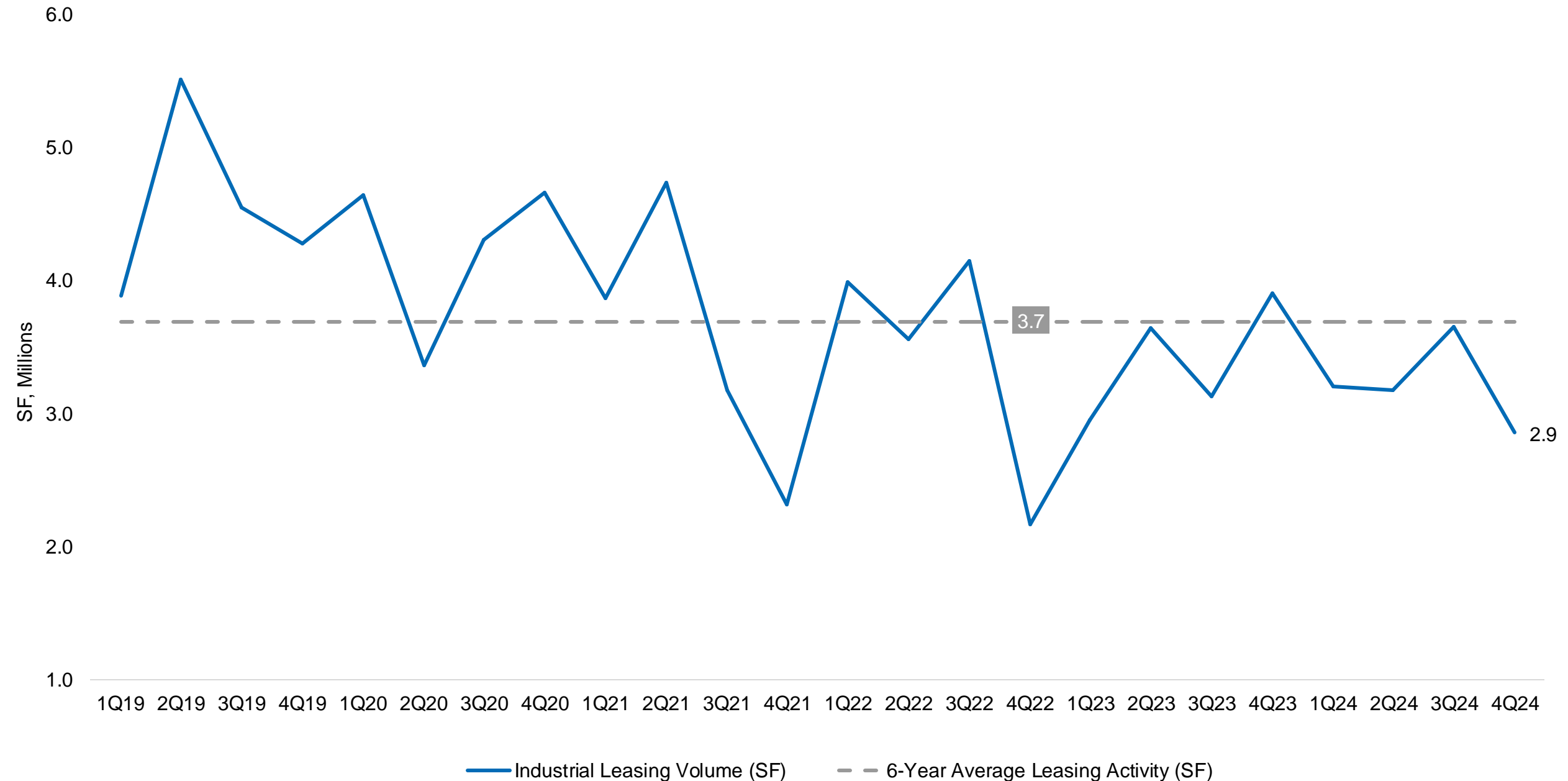


Source: Newmark Research

Leasing Activity Levels Remain Below Six-Year Average

Leasing activity dropped to its lowest level in two years and is subdued compared to leasing volumes seen during the pandemic. Measured retail sales growth and high business costs are prompting tenants to downsize, which will lead to lower leasing figures in the quarters ahead. The current economic climate 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)

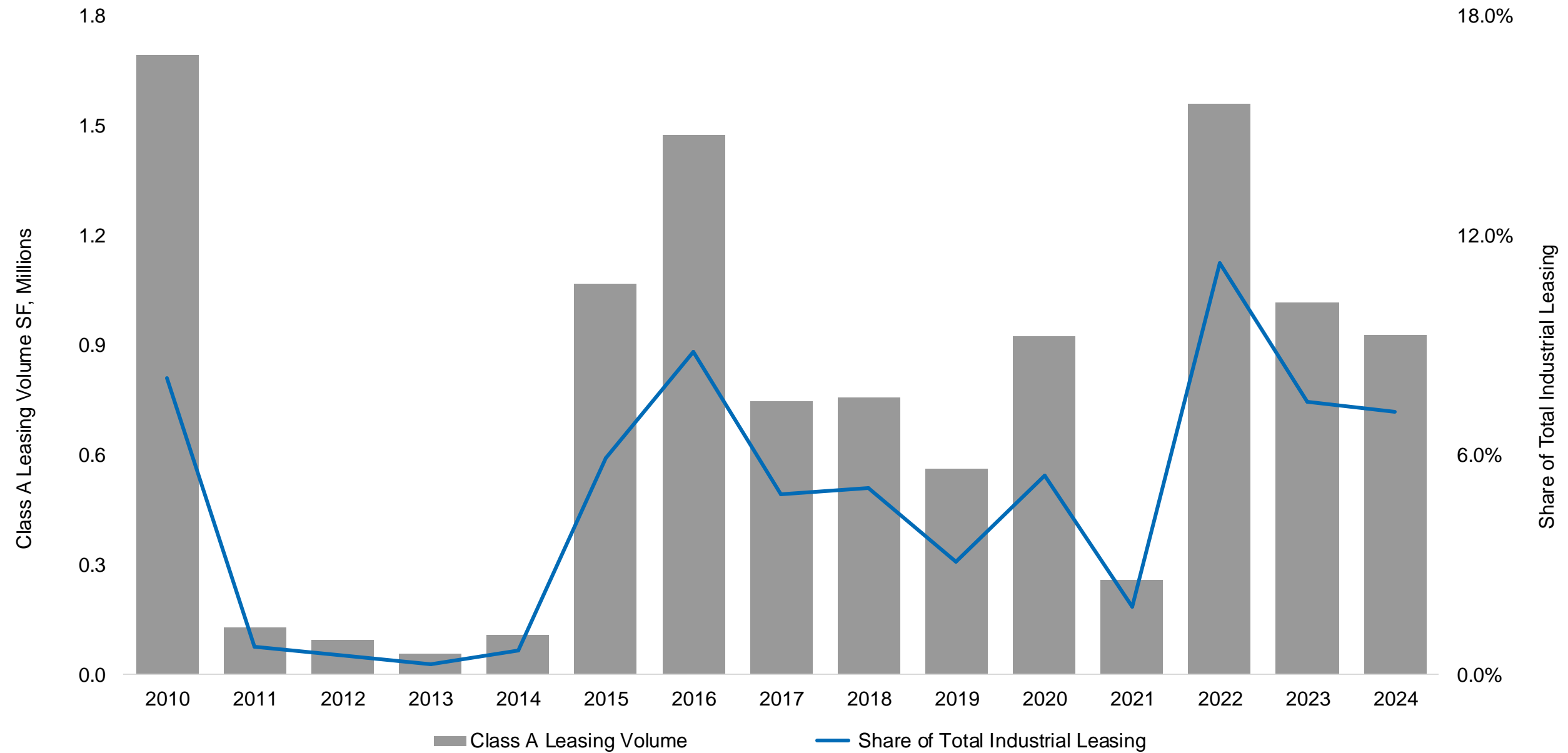


Source: Newmark Research, CoStar

Slowed Class A Leasing Activity This Quarter

The momentum of Class A leasing activity from the first half of the year has slowed, with year-end leasing activity falling just under 2023 totals. The top three Class A deals of the year include a renewal for Gorilla Automotive Product at 6101-6151 Knott Ave (272,548 SF) and direct leases for Daisy Nails at 12691 Pala Dr (149,335 SF) and Encore Interior at 14852 Delta Ln (119,894 SF).

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

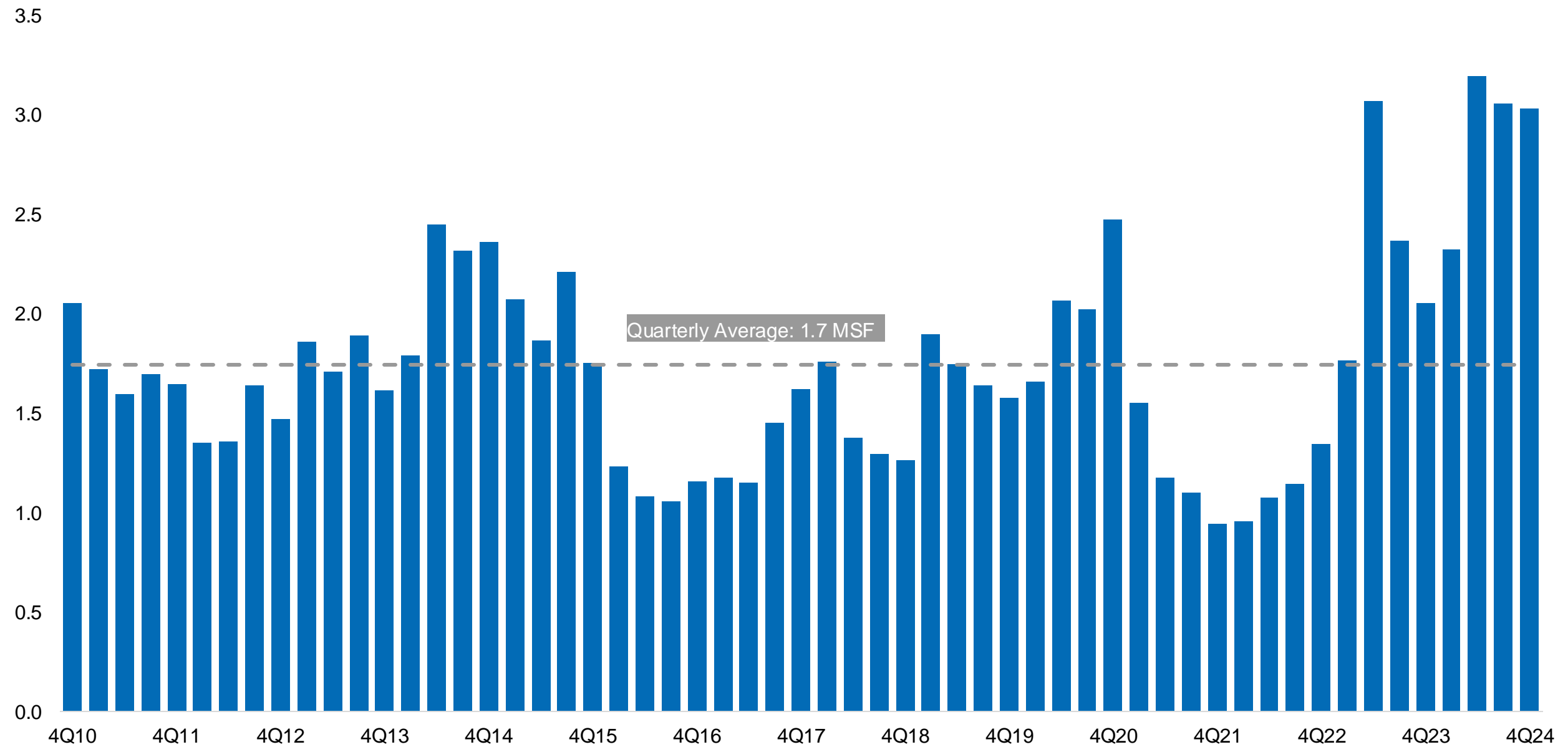


Source: Newmark Research, CoStar

Sublease Availability Remains Elevated Following Surge From Second Quarter

New sublease offerings from 3PL Global (229,422 SF at 2501 E Orangethorpe Ave) and Berger Transfer & Storage (91,116 SF at 1400 Manhattan Ave), combined with older, active listings from Brentwood Homes (196,911 SF at 701 Burning Tree Rd), McKesson (147,950 SF at 1930 Malvern Ave in Fullerton) and Syco Enterprise (134,716 SF at 500 W Warner Ave in Santa Ana) are keeping availability elevated. Some tenants are downsizing to mitigate the high costs of doing business amid a slowed economy.

Available Industrial Sublease Volume (MSF)



Source: Newmark Research

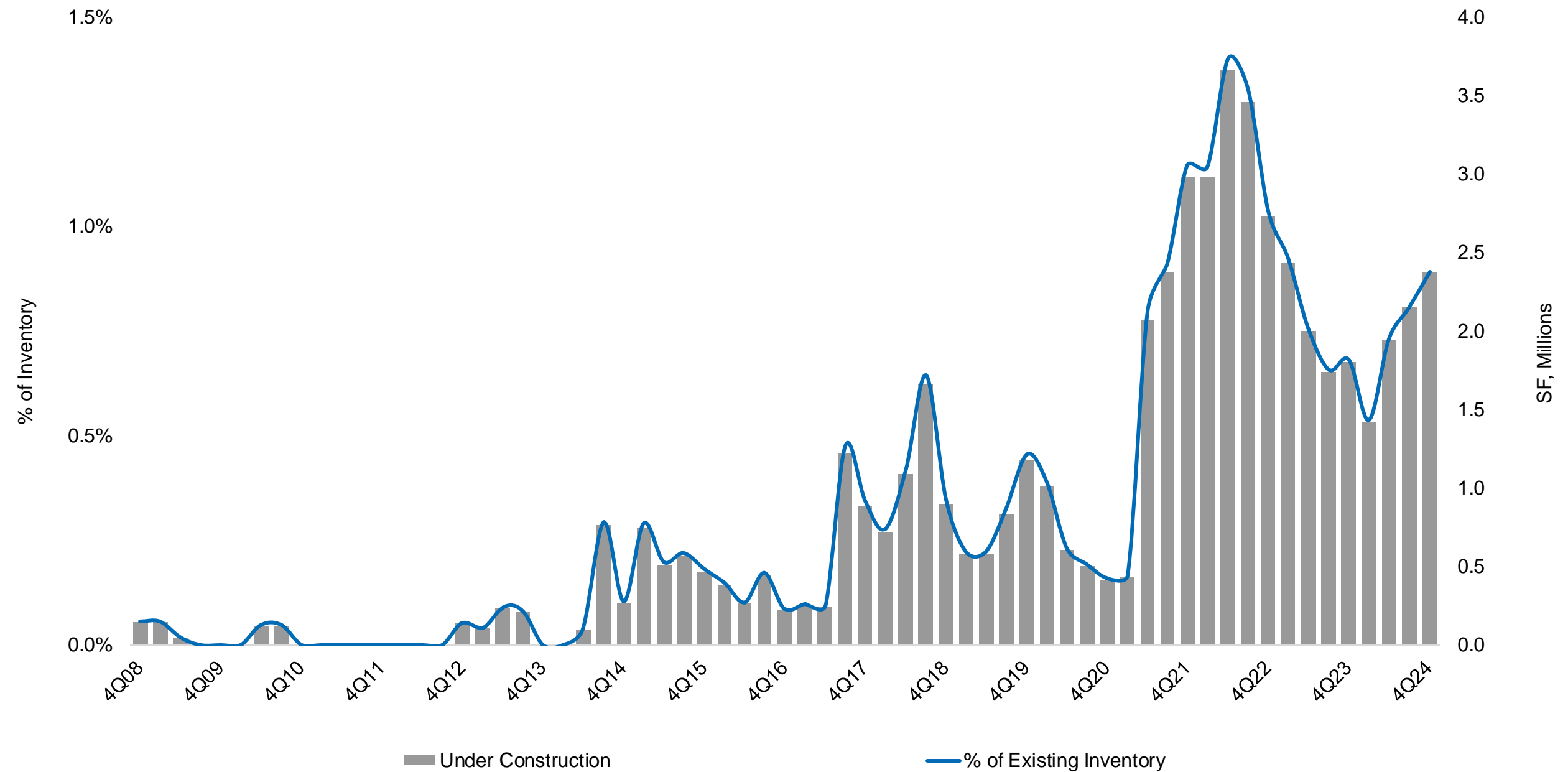
North County Accounts For Almost Half Of Total Sublet Availability

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Elevated Under-Construction Levels Gradually Normalizing

An additional three buildings (19 Hughes, 534 W Stuck Ave and 11311 Western Ave) broke ground this quarter, bringing the under-construction total to 2.4 MSF across 13 development projects, all of which remain fully available save two. Construction starts are expected to level off in the quarters ahead.

Industrial Under Construction and % of Existing Inventory



Source: Newmark Research

Pre-leasing Activity at a Halt

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Majority Of Quarterly Top Deals Were Over 100,000 SF

Most of this quarter's top deals were over 100,000 SF and signed across all submarkets except Airport. Traditional manufacturing occupiers, specifically in the aerospace sector, are snapping up large-block spaces as they are harder to come by in the small-box market.

Notable Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Hampton Products	50 Icon	South County	Lease Renewal	307,781
<i>This has been the security products manufacturer's headquarters for over two decades.</i>				
Adient	5701 Skylab Rd	West County	Direct Lease	280,460
<i>The aerospace company has an existing facility down the street and has committed to a long-term lease at the new facility.</i>				
Weber Distribution LLC	15967 Alton Pkwy	South County	Direct Lease	136,998
<i>The Santa Fe-based logistics company signed a deal for its first warehouse facility in Orange County.</i>				
GKN Aerospace	12101 Western Ave	West County	Direct Lease	125,773
<i>The aerospace company committed to the new space for ten years.</i>				
TransPak Inc.	295 E Orangethorpe Ave	North County	Direct Lease	96,000
<i>The packaging and logistics company relocated from its previous location in Santa Ana and has committed to five years at the new facility.</i>				

New California Bill Adds Regulations on Warehouse Development in the State

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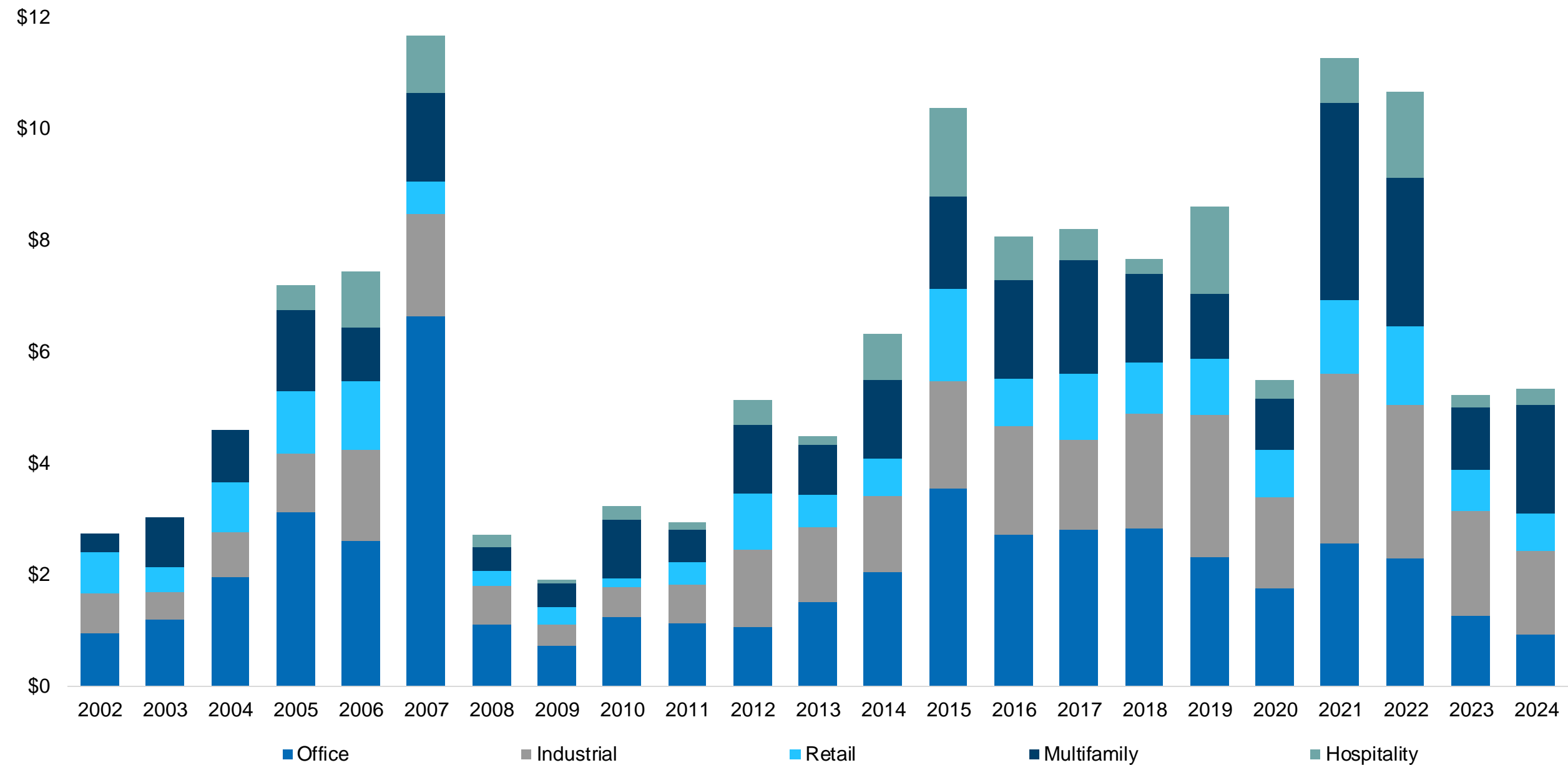
Sales Activity



Industrial Comprised 28.1% of Total Sales Volume Year-To-Date

This is a notable drop from the previous year's contribution of 35.7% but still well above the 20-year average of 23.5%. Still-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)

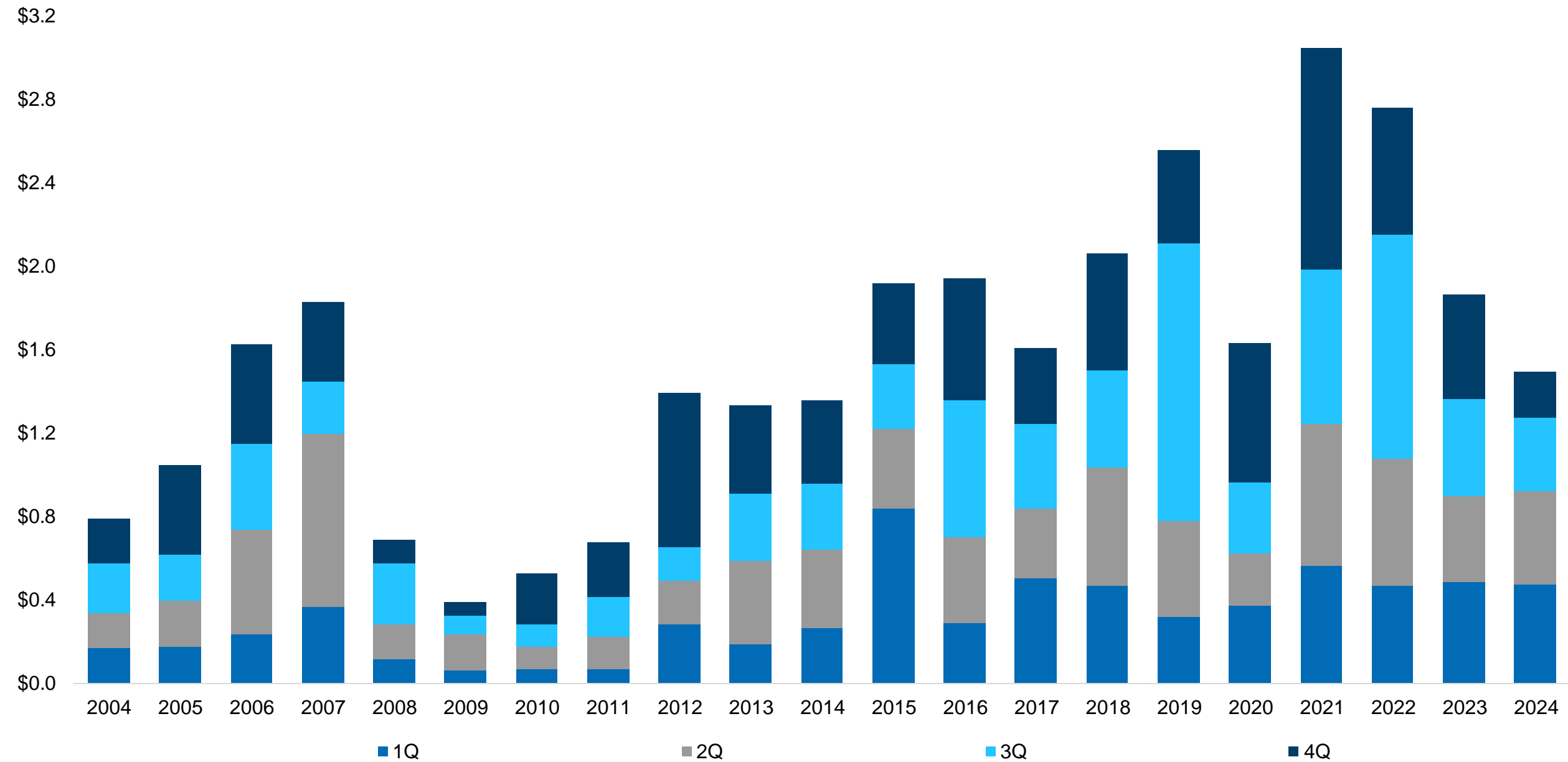


Source: MSCI Real Capital Analytics, Newmark Research
 Note: Preliminary data is cited for the fourth quarter of 2024.

Industrial Sales Activity Cooling

Industrial sales volume totaled \$223.8 million in the fourth quarter of 2024, down by more than half from the same period in 2023. The higher cost of capital following multiple interest rate hikes from March 2022 to July 2023 has crimped momentum, in addition to adjusting leasing fundamentals. Sales activity could increase in 2025 as the Fed imposes successive interest rate cuts, following this quarter's 25 bps reduction.

Orange County: Industrial Sales Volume (\$ in Billions) | By Quarter



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

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

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Private and REIT Investors Most Active Industrial Buyers

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Appendix



Orange County Submarket Map and High-Level Statistics | 4Q24

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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

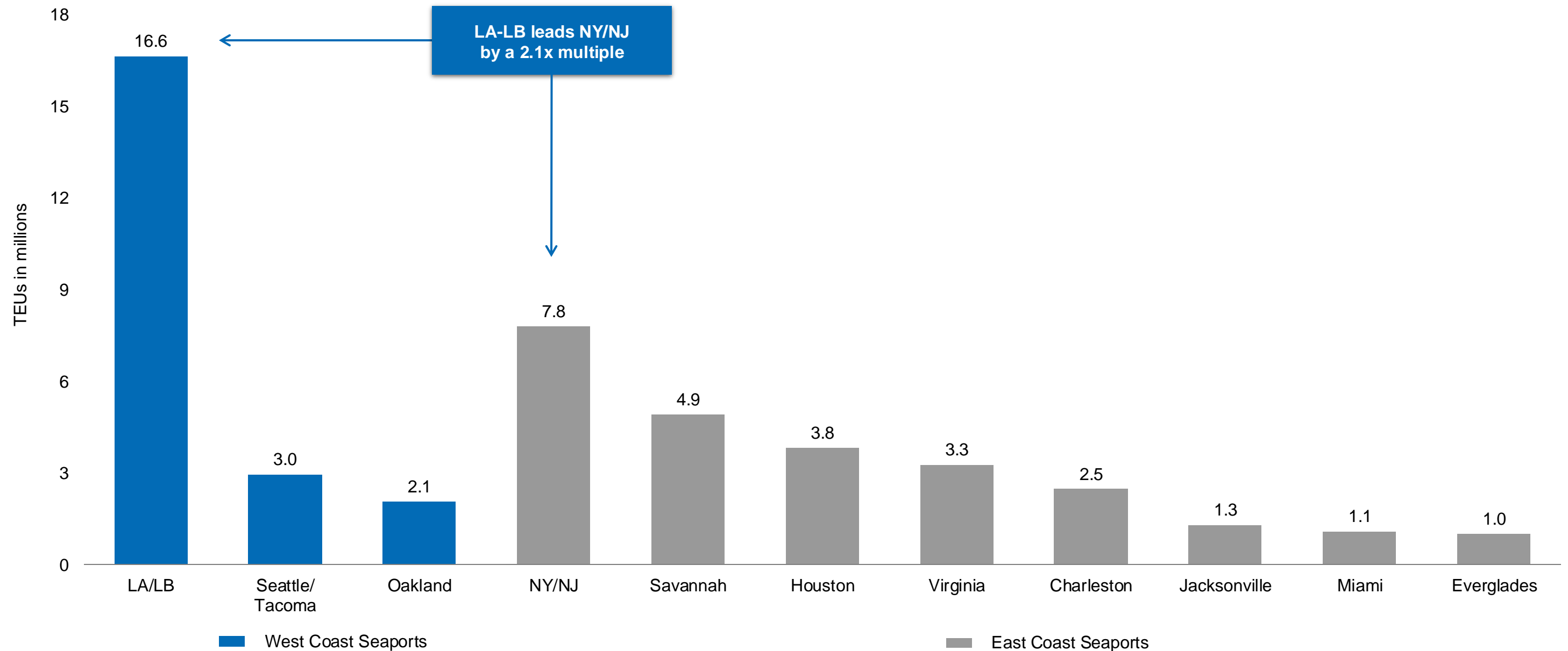
Rank	Seaport	2023 Volume (TEUs, in millions)
11	Hong Kong	14.3
12	Port Klang, Malaysia	14.1
13	Rotterdam, The Netherlands	13.4
14	Xiamen, China	12.6
15	Antwerp, Belgium	12.5
16	Tanjung Pelepas, Malaysia	10.5
17	Kaohsiung, Taiwan	8.8
18	Laem Chabang, Thailand	8.7
19	Tanger Med, Morocco	8.6
20	Beibu Gulf,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