

OVERVIEW. The Orange County industrial sector remained on course in 3Q. Demand remained intense, supply shrank, vacancy fell, and prices moved sharply higher. In other words, things haven't changed much. OC business owners are still in expansion mode, if only they could find quality space for their operations. Even another surge in the virus didn't slow things down. In fact, active requirements for lease and owner / user purchase opportunities moved steadily higher as the quarter progressed. That sent lease rates and sales prices to new record highs. While e-commerce drove activity early in the pandemic crisis, users across the entire industrial spectrum are now experiencing healthy growth. The biggest problem for Orange County business owners is the lack of supply of quality industrial space. The existing base of inventory is stretching to meet demand and construction activity remains light.

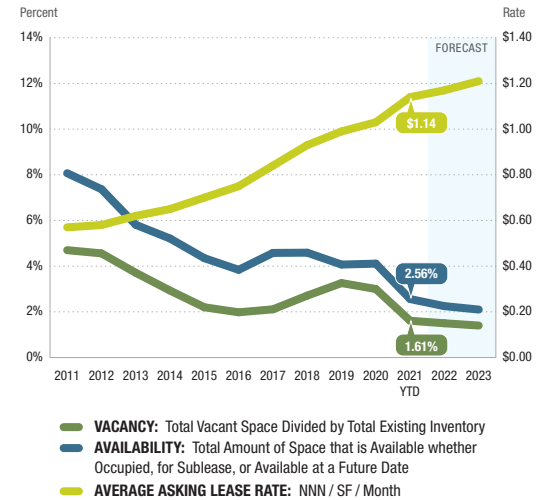
VACANCY & AVAILABILITY. The overall vacancy rate in Orange County fell to 1.61%, a 54-basis-point drop from the previous quarter. Some of the available space is functionally deficient in one way or another, so from a practical point of view, the vacancy rate is approaching zero in many Orange County cities. Tenants and buyers continue to compete aggressively for product. It is not uncommon for landlords to consider ten or more offers on their properties. The availability rate, which includes space offered for lease or sale but is still occupied, fell to 2.56% from 3.16% in 3Q. That tight spread to the vacancy rate indicates an increase in lease renewals and fewer properties being offered for sublease.

LEASE RATES & SALES PRICES. The average asking lease rate for the county added another \$0.02 to \$1.14 in 3Q, breaking yet another record. Landlords still have the upper hand in lease negotiations, and they are holding the line on concessions, with many deals being struck without free rent or tenant improvement contributions. With such intense competition for space, it is common for final lease rates to be well above asking. It is also important to note that many buildings are offered for lease without an asking rate, and those tend to be of higher quality. As a result, actual rents are somewhat higher than reported.

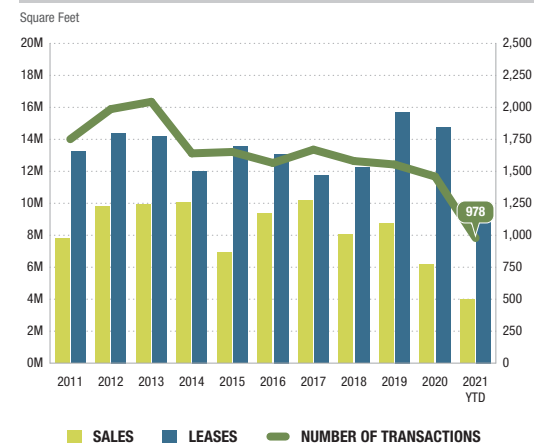
The county's average asking sales price broke the \$300 per square foot barrier for the first time in 3Q, moving up to \$300.42 from \$295.47 in 2Q. However, many properties are sold on an off-market basis and they are selling for well above \$300 per square foot depending on size and location. Suffice it to say, the sale market is on fire and buyers continue to bid aggressively.

TRANSACTION ACTIVITY. Lease and sale activity both in terms of square footage and number of transactions fell sharply in 3Q after a strong second quarter. However, that is due in large part to the lack of supply, which has hamstrung industrial users from signing new leases and purchase contracts. Just 3.3 MSF of deals were inked during the current period, down from over 5.9 MSF in 2Q. In all, 258 transactions were completed during the period; 183 leases and 75 sales, as compared to a total of 277 leases and just 101 sales in 2Q. The largest deal of the period was a 395,000 SF sale to CBRE Global Investors at 17871 Von Karman Avenue in Irvine. Another

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

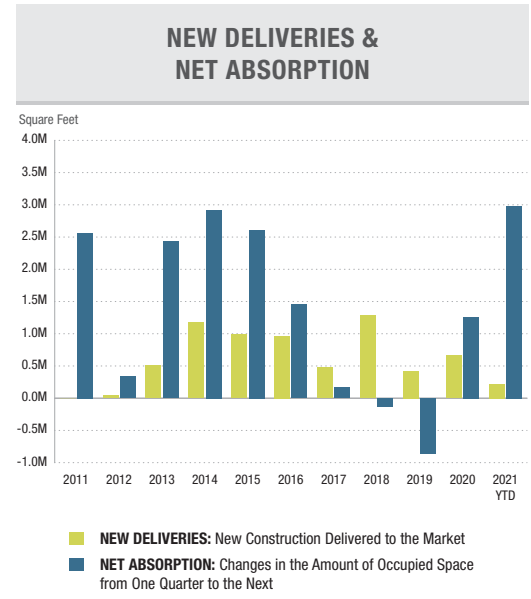
	Change Over Last Quarter	3Q 2021	2Q 2021	3Q 2020	% Change Over Last Year
Vacancy Rate	▼ DOWN	1.61%	2.15%	3.14%	(48.71%)
Availability Rate	▼ DOWN	2.56%	3.16%	4.49%	(42.98%)
Average Asking Lease Rate	▲ UP	\$1.14	\$1.12	\$0.99	15.15%
Average Asking Sale Price	▲ UP	\$300.42	\$295.47	\$264.00	13.80%
Sale & Lease Transactions	▼ DOWN	3,284,259	5,949,513	5,101,691	(35.62%)
Gross Absorption	▲ UP	3,578,262	2,534,508	2,675,393	33.75%
Net Absorption	▲ POSITIVE	1,564,860	876,591	(255,298)	N/A

106,000 SF building in Anaheim was sold as an investment to Penwood Real Estate Investments Management by Camphor Partners.

ABSORPTION. As we reported last quarter, positive net absorption becomes more difficult to maintain when there is a lack of quality space available. Net absorption measures the net difference in occupied space in a period. With the availability of quality space so low, it is difficult for companies to expand their existing footprint, often forcing them to renew in place, which does not impact net absorption. That said, net positive absorption still managed to move higher in 3Q to above 1.5 MSF, up from 874,000 SF in 2Q. Gross absorption, which measures total move-ins, also posted a gain in 3Q, rising to 3.5 MSF from the second quarter's 2.5 MSF. Absorption remains strongest in the 20,000–100,000 SF range.

CONSTRUCTION. Development activity remains light, but it did increase in 3Q to its highest level since 2011. The quarter ended with 2.3 MSF in the construction queue. The increase came courtesy of Goodman Logistics who is developing a four-building logistics campus totaling 1,536,055 SF on a 65-acre site in Fullerton. Phase I of Huntington Gateway in Huntington Beach remains under construction with Phase II scheduled to break ground in the final quarter of 2021. Over the next year, an additional one million square feet is expected to break ground in projects in West and South Orange County.

EMPLOYMENT. The unemployment rate in Orange County was 6.0% in August 2021, down from a revised 6.3% in July 2021, and below the year-ago estimate of 10.7%. Professional and business services grew by 2,700 jobs, with administrative and support (up 2,000 jobs), which includes temporary help firms, accounting for 74% of the increase. Three other sectors grew over the month, including leisure and hospitality (up 2,100 jobs), educational and health services (up 1,000 jobs), and construction (up 400 jobs).



Forecast

Until and unless there is an exogenous economic shock, the Orange County industrial market looks to stay on its current trajectory into next year. Demand will increase further, supply will continue to shrink, and therefore lease rates and sales prices will soar to new records each quarter. The latest pandemic worry appears to be under control and most of the industrial sector is back to on-site work, unlike its office sector counterpart. Unemployment is under control and “Help Wanted” signs are everywhere. In fact, it is the lack of available workers that is hindering even more rapid growth. Orange County has historically weathered economic downturns well, and it has done so again over the last year. The county enjoys a broad economic base and has never been dependent on a single industry. It is surrounded by other large population centers, two major ports and a large distribution hub.

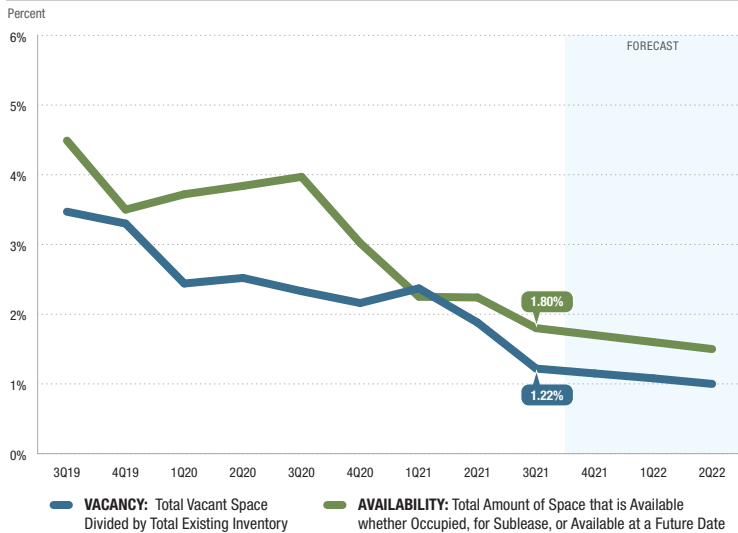
Significant Transactions

Sales						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller	
5757 Plaza Dr.	Cypress	331,376	\$83,587,854	DRA Advisors LLC	Goodman	
2040-2050 S. State College Blvd.	Anaheim	106,000	\$43,825,500	Penwood Real Estate Investments Mgmt.	Camphor Partners	
2802-2832 Dow Ave.	Tustin	104,745	\$32,660,000	Black Creek Group	Vita-Best Nutrition	
1901 E. Van Burton St.	Fullerton	87,725	\$24,211,000	Rexford Industrial Realty, Inc. *	Schreiber Foods, Inc. *	
850-851 Enterprise	Fullerton	59,277	\$9,050,000	LBA Realty	Enterprise Property Management LLC	
Leases						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner	
500 W. Warner Ave.	Santa Ana	246,622	Jul-2021	Cloud Mountain Furniture	500 Warner Avenue, LLC	
3030 S. Susan St.	Santa Ana	108,858	Aug-2021	Overair, Inc.	APG OCIC LLC	
3172 Nasa St.	Brea	104,915	Sept-2021	Lund Motion Products	CheckerProp	
1709 Apollo Ct.	Seal Beach	88,507	Jul-2021	AIM Sports	Limbach Company, LP	
1547 S. State College Blvd.	Anaheim	60,160	Jul-2021	EMEG, Inc.	Seaward RE, LP *	

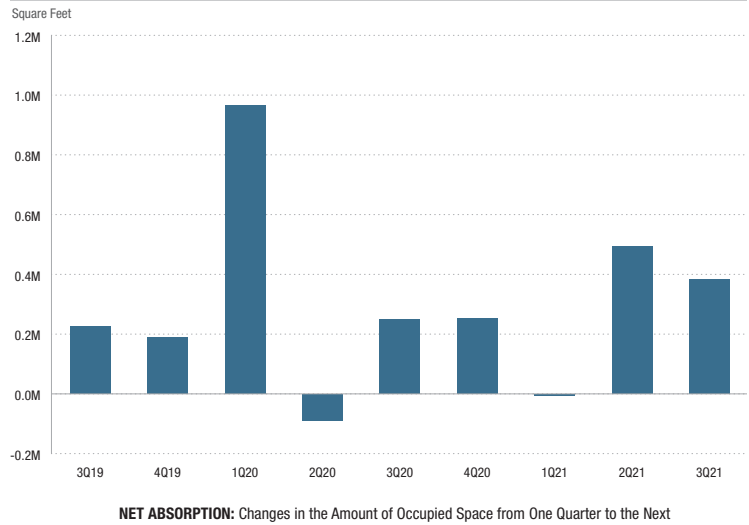
NORTH ORANGE COUNTY

In the third quarter of 2021, the North Orange County industrial market consisted of 4,068 buildings totaling 111,597,302 square feet and had an availability rate of 1.80%, which shows a decrease from the previous quarter's figure of 2.24%.

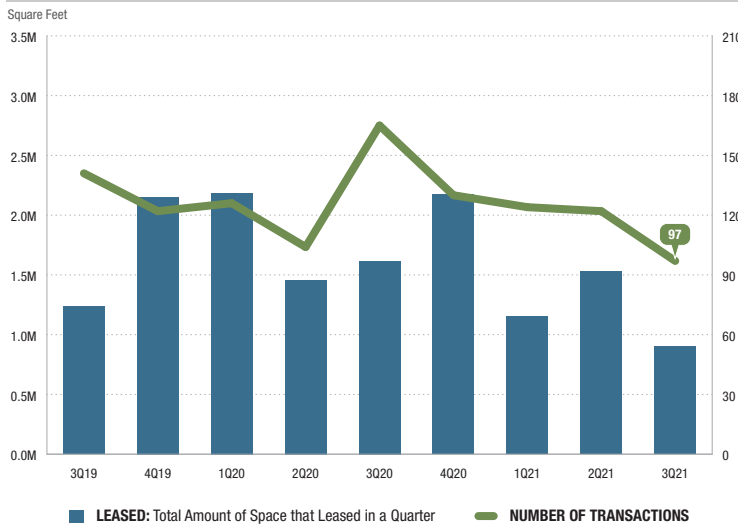
VACANCY & AVAILABILITY RATE



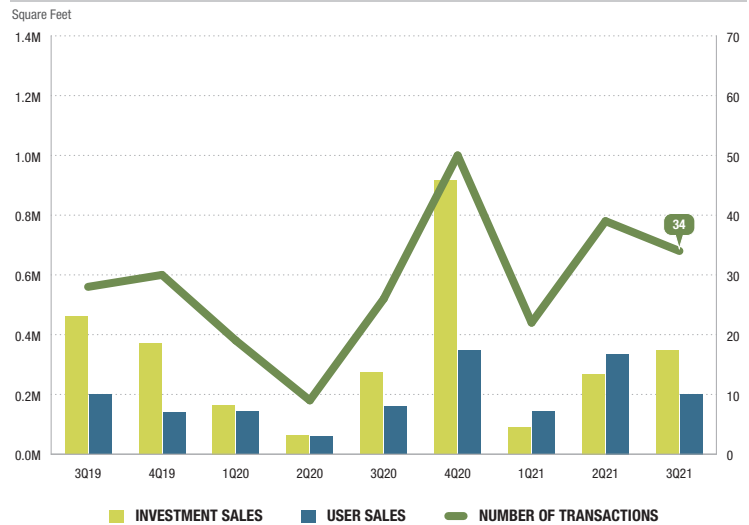
NET ABSORPTION



LEASE TRANSACTIONS



SALES TRANSACTIONS



INVENTORY

VACANCY & LEASE RATES

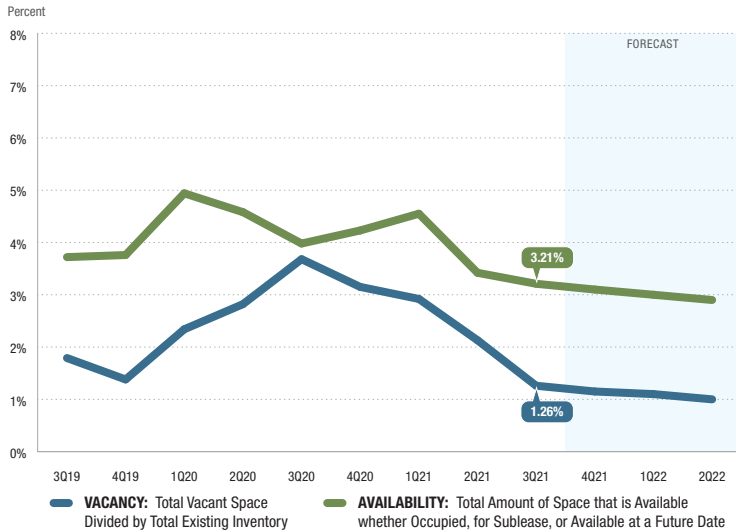
ABSORPTION

	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2021	Square Feet Available	Availability Rate 3Q2021	Average Asking Lease Rate	Average Asking Sales Price	Net Absorption 3Q2021	Net Absorption 2021	Gross Absorption 3Q2021	Gross Absorption 2021
North Totals														
Less than 9,999	1,346	8,507,585	0	0	103,964	1.22%	154,547	1.82%	\$1.71	\$322.11	7,350	6,990	104,568	300,466
10,000-19,999	1,392	19,264,733	0	0	194,434	1.01%	244,647	1.27%	\$0.99	\$258.84	56,677	44,561	205,345	743,631
20,000-29,999	522	12,425,477	0	45,960	133,881	1.08%	143,537	1.16%	\$0.97	\$199.00	103,019	226,900	236,775	688,331
30,000-39,999	224	7,624,636	33,000	30,650	60,161	0.79%	47,078	0.62%	\$1.03	\$280.03	101,395	112,800	177,447	337,843
40,000-49,999	135	5,931,726	0	0	96,632	1.63%	75,682	1.28%	\$0.90	\$273.79	41,861	84,836	96,063	291,786
50,000-74,999	178	10,717,906	0	0	58,000	0.54%	0	0.00%	\$0.00	\$0.00	153,364	355,062	327,019	484,940
75,000-99,999	71	6,050,433	0	90,980	206,793	3.42%	218,824	3.62%	\$0.95	\$0.00	(79,480)	(7,557)	66,768	264,798
100,000-199,999	133	17,573,765	469,470	428,200	461,463	2.63%	258,997	1.47%	\$0.00	\$0.00	(45,728)	1,026	40,659	559,321
200,000 plus	67	23,501,041	1,362,230	201,520	44,281	0.19%	865,962	3.68%	\$0.00	\$0.00	45,350	47,608	47,600	333,815
Total	4,068	111,597,302	1,864,700	797,310	1,359,609	1.22%	2,009,274	1.80%	\$0.98	\$287.71	383,808	872,226	1,302,244	4,004,931

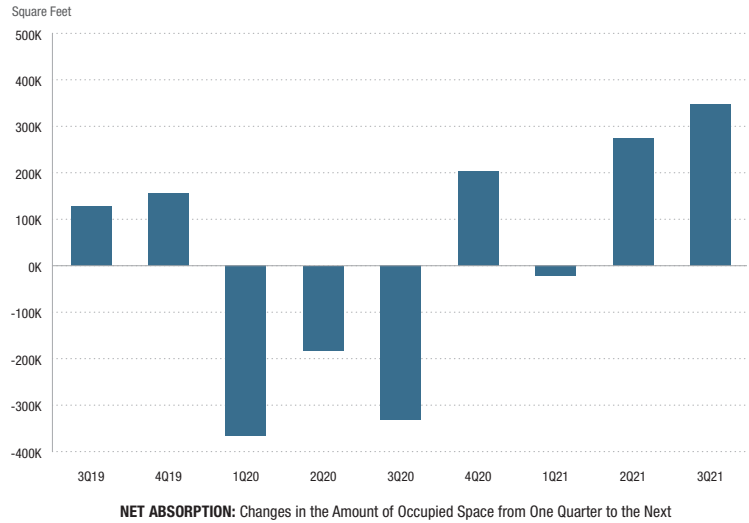
WEST ORANGE COUNTY

In the third quarter of 2021, the West Orange County industrial market consisted of 1,706 buildings totaling 38,254,753 square feet and had an availability rate of 3.21%, which shows a decrease from the previous quarter's figure of 3.42%.

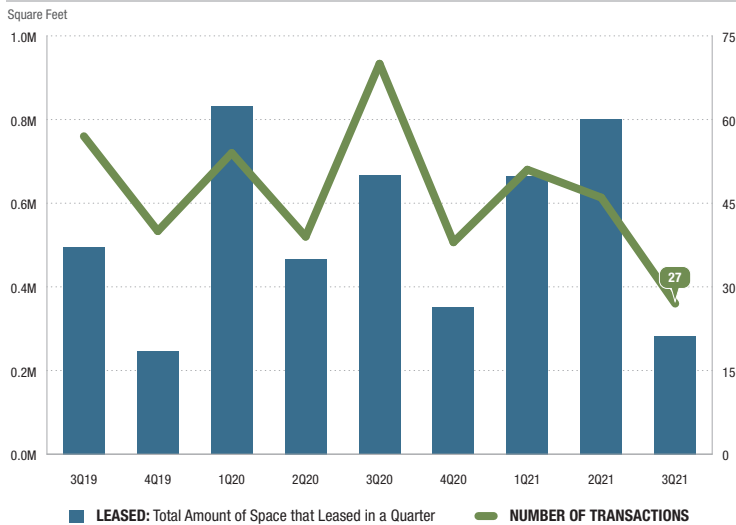
VACANCY & AVAILABILITY RATE



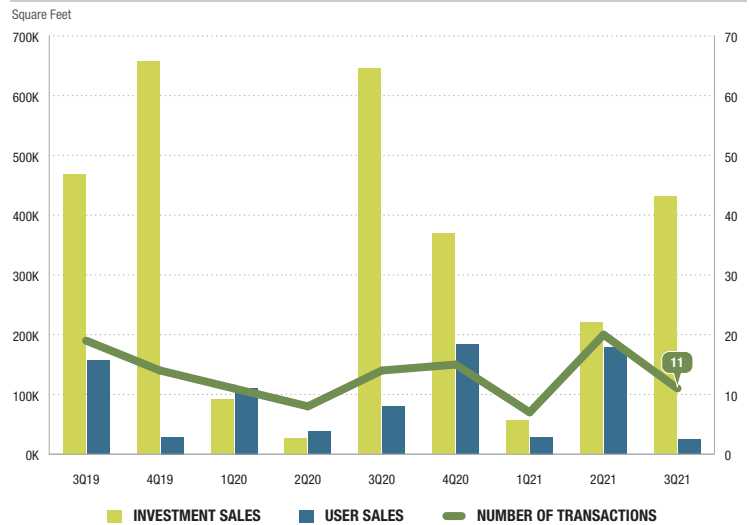
NET ABSORPTION



LEASE TRANSACTIONS



SALES TRANSACTIONS



INVENTORY

VACANCY & LEASE RATES

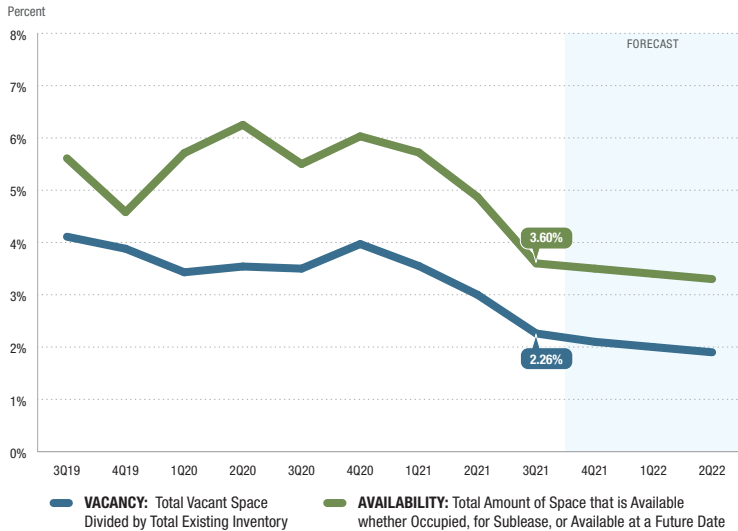
ABSORPTION

	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2021	Square Feet Available	Availability Rate 3Q2021	Average Asking Lease Rate	Average Asking Sales Price	Net Absorption 3Q2021	Net Absorption 2021	Gross Absorption 3Q2021	Gross Absorption 2021
West Totals														
Less than 9,999	696	4,128,398	0	0	27,856	0.67%	48,602	1.18%	\$1.07	\$385.30	16,757	(1,070)	49,428	136,732
10,000-19,999	567	7,520,251	0	0	60,327	0.80%	117,728	1.57%	\$1.06	\$313.08	(15,829)	39,759	56,373	222,126
20,000-29,999	180	4,329,707	0	0	52,376	1.21%	51,987	1.20%	\$1.29	\$229.00	15,164	78,589	50,252	155,181
30,000-39,999	61	2,122,825	0	0	0	0.00%	0	0.00%	\$0.00	\$0.00	61,477	50,407	36,179	60,443
40,000-49,999	49	2,152,523	0	0	6,100	0.28%	2,161	0.10%	\$0.95	\$210.00	45,917	30,039	53,828	189,858
50,000-74,999	57	3,407,218	0	0	135,621	3.98%	251,319	7.38%	\$0.95	\$0.00	78,137	12,335	0	62,536
75,000-99,999	31	2,661,547	0	0	70,265	2.64%	86,028	3.23%	\$0.99	\$0.00	88,507	137,327	124,008	227,732
100,000-199,999	39	5,249,466	0	0	4,100	0.08%	4,100	0.08%	\$0.00	\$0.00	52,375	212,373	162,547	576,956
200,000 plus	22	6,682,818	259,772	433,865	125,454	1.88%	665,609	9.96%	\$0.00	\$0.00	4,760	38,974	105,682	105,682
Total	1,702	38,254,753	259,772	433,865	482,099	1.26%	1,227,534	3.21%	\$0.99	\$287.27	347,265	598,733	638,297	1,737,246

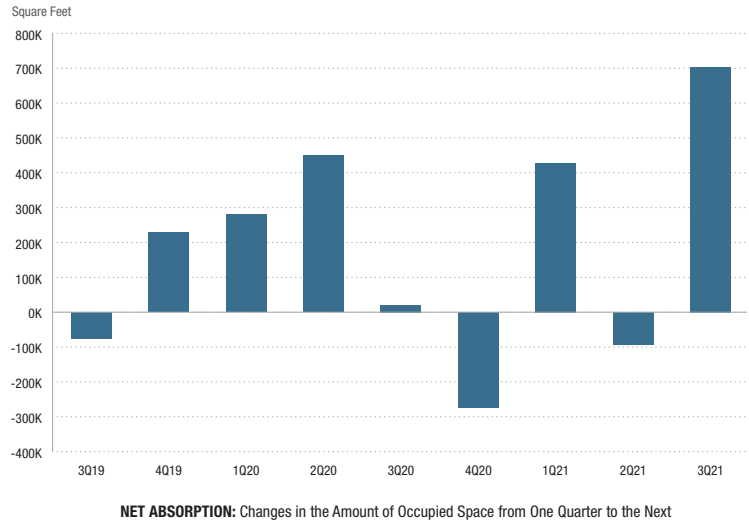
AIRPORT AREA

In the third quarter of 2021, the Airport Orange County industrial market consisted of 2,665 buildings totaling 58,523,233 square feet and had an availability rate of 3.60%, which shows a decrease from previous quarter's figure of 4.87%.

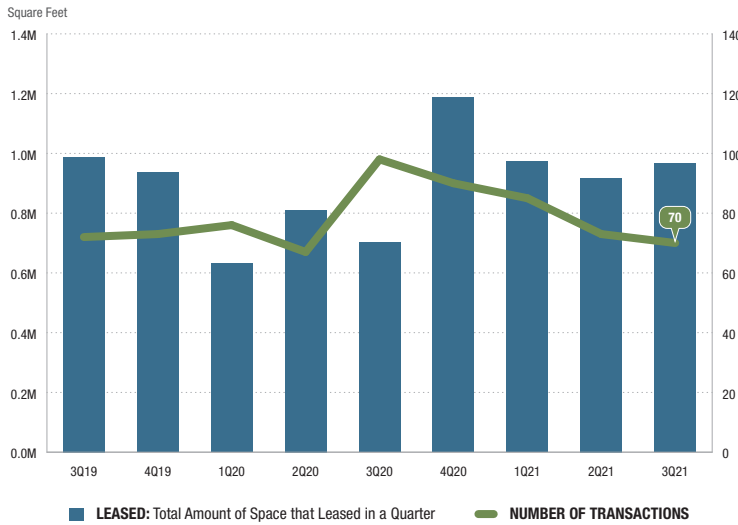
VACANCY & AVAILABILITY RATE



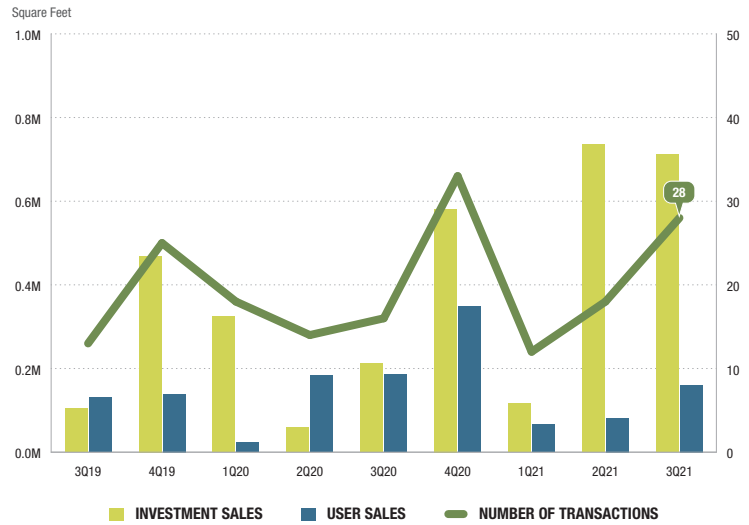
NET ABSORPTION



LEASE TRANSACTIONS



SALES TRANSACTIONS



INVENTORY

VACANCY & LEASE RATES

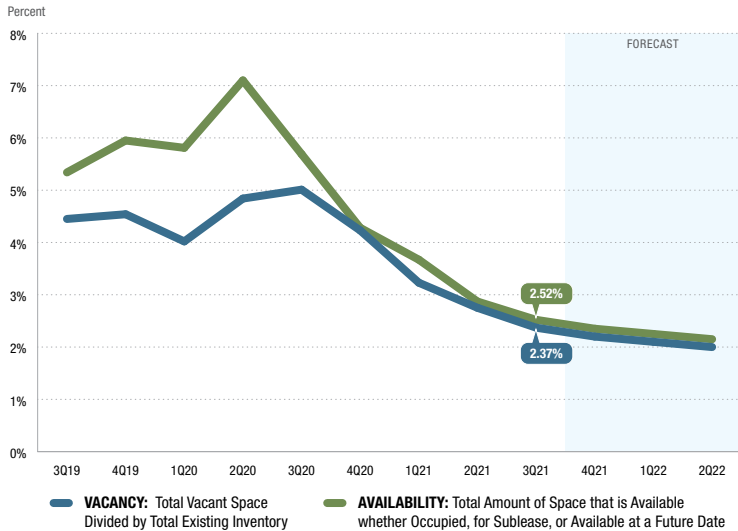
ABSORPTION

	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2021	Square Feet Available	Availability Rate 3Q2021	Average Asking Lease Rate	Average Asking Sales Price	Net Absorption 3Q2021	Net Absorption 2021	Gross Absorption 3Q2021	Gross Absorption 2021
Airport Totals														
Less than 9,999	934	5,411,575	0	0	39,939	0.74%	66,499	1.23%	\$1.48	\$378.05	20,434	14,819	50,267	148,006
10,000-19,999	911	12,759,822	0	0	116,344	0.91%	235,825	1.85%	\$1.38	\$305.29	58,301	176,797	156,834	565,704
20,000-29,999	356	8,493,138	0	29,804	105,055	1.24%	166,719	1.96%	\$1.17	\$286.42	40,316	79,368	130,136	314,978
30,000-39,999	157	5,345,190	0	0	60,945	1.14%	100,887	1.89%	\$1.13	\$264.31	34,696	230,877	153,477	520,013
40,000-49,999	78	3,416,263	0	0	124,565	3.65%	105,386	3.08%	\$0.00	\$317.46	21,800	(54,370)	76,279	76,279
50,000-74,999	106	6,410,844	0	0	119,918	1.87%	225,736	3.52%	\$1.17	\$238.26	7,823	215,801	115,519	265,497
75,000-99,999	50	4,281,513	0	0	130,942	3.06%	150,599	3.52%	\$1.16	\$0.00	30,032	56,115	99,300	266,315
100,000-199,999	53	6,612,031	0	0	19,600	0.30%	188,874	2.86%	\$0.00	\$0.00	108,858	392,486	120,500	763,095
200,000 plus	20	5,792,857	219,827	0	603,308	10.41%	864,158	14.92%	\$0.00	\$0.00	381,338	(72,439)	381,338	381,338
Total	2,665	58,523,233	219,827	29,804	1,320,616	2.26%	2,104,683	3.60%	\$1.20	\$291.58	703,598	1,039,454	1,283,650	3,301,225

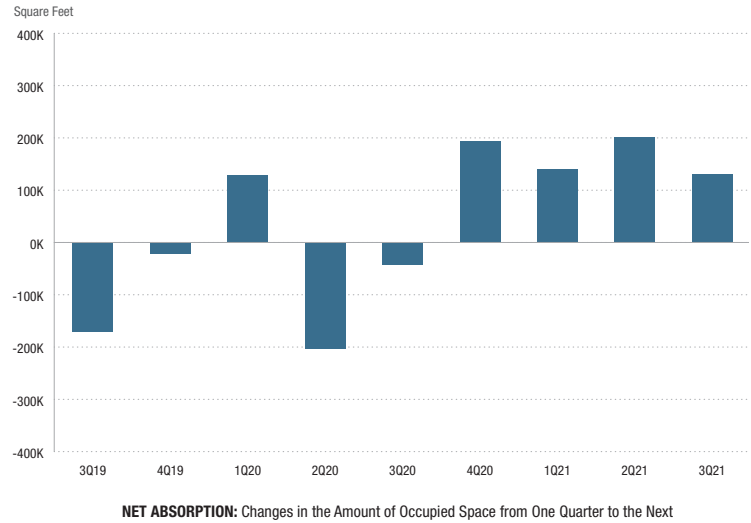
SOUTH ORANGE COUNTY

In the third quarter of 2021, the South Orange County industrial market consisted of 934 buildings totaling 24,812,480 square feet and had an availability rate of 2.52%, which shows a decrease from the previous quarter's figure of 2.87%.

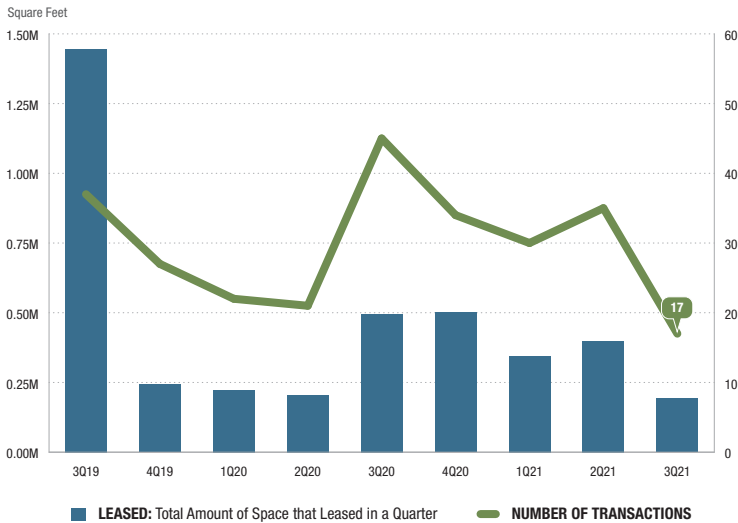
VACANCY & AVAILABILITY RATE



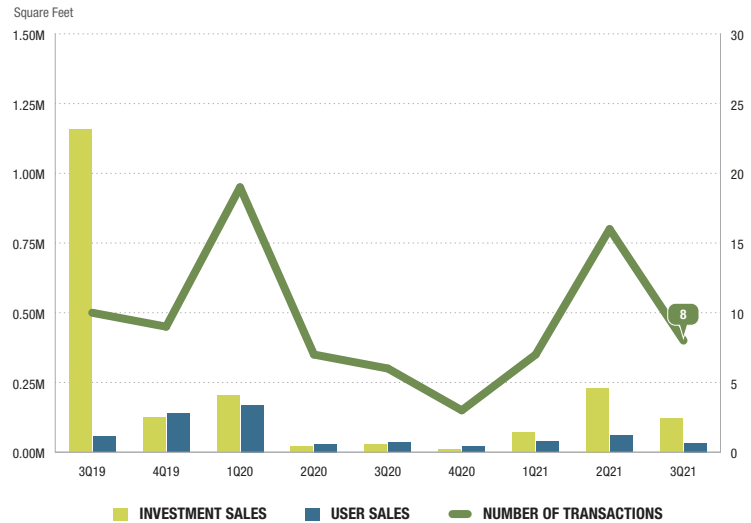
NET ABSORPTION



LEASE TRANSACTIONS



SALES TRANSACTIONS



INVENTORY

VACANCY & LEASE RATES

ABSORPTION

	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2021	Square Feet Available	Availability Rate 3Q2021	Average Asking Lease Rate	Average Asking Sales Price	Net Absorption 3Q2021	Net Absorption 2021	Gross Absorption 3Q2021	Gross Absorption 2021
South Totals	934	24,812,480	0	529,000	588,569	2.37%	625,523	2.52%	\$1.23	\$349.42	130,189	471,991	354,071	1,378,181
Less than 9,999	362	2,238,102	0	0	34,494	1.54%	41,508	1.85%	\$1.48	\$385.43	10,074	(9,883)	38,119	88,197
10,000-19,999	273	3,904,700	0	0	89,688	2.30%	100,408	2.57%	\$1.49	\$331.66	14,027	(17,574)	63,655	270,527
20,000-29,999	132	3,144,100	0	0	43,093	1.37%	105,964	3.37%	\$1.33	\$315.00	11,558	(31,697)	79,697	199,640
30,000-39,999	45	1,531,056	0	0	32,657	2.13%	32,657	2.13%	\$1.18	\$0.00	9,300	31,833	41,407	41,407
40,000-49,999	27	1,200,031	0	0	56,090	4.67%	45,130	3.76%	\$1.29	\$0.00	47,544	51,371	51,363	80,562
50,000-74,999	33	1,965,689	0	67,000	67,520	3.43%	111,692	5.68%	\$1.35	\$295.00	0	74,610	0	105,999
75,000-99,999	15	1,301,308	0	0	0	0.00%	0	0.00%	\$0.00	\$0.00	0	14,003	9,600	23,603
100,000-199,999	31	4,183,355	0	462,000	161,948	3.87%	85,085	2.03%	\$0.00	\$0.00	(5,637)	173,438	0	179,075
200,000 plus	16	5,344,139	0	0	103,079	1.93%	103,079	1.93%	\$0.00	\$0.00	43,323	185,890	70,230	389,171

Finishing Strong but Stay Alert

by Alton Burgess and Dane Olson



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After yet another quarter of historic results, the Orange County industrial market continues to exceed the expectations set by many at the start of the year. Owner-user and investor demand for industrial product is through the roof, which is the primary driver of the rapid increase in lease rates and sale prices. The general economy is heading in the right direction and many industrial businesses are on pace to have record-setting years.

However, there is some cause for concern regarding the revenue component of the \$3.5 trillion American Families Plan currently being debated in Washington. On September 13, the House Ways and Means Committee released its recommendations to raise federal revenues through a series of tax increases that could be disruptive to the industrial property market. The committee voted to:

- Increase the capital gains tax rate from 20% to 25%
- Raise the top individual income tax rate from 37% to 39.6%
- Lower the estate tax exemption threshold from \$11.7 Million to \$5 Million
- Raise the corporate income tax rate from the current 21% to a graduated system starting at 18% for the first \$400,000 of income, 21% for \$400,000 — \$5 Million and 26.5% thereafter

The encouraging news is that the elimination of 1031 Exchange provisions appears to be off the negotiating table. This 100-year-old rule allowing for the deferral of capital gains taxes is utilized in up to 40% of all commercial property transactions in California, and if removed, would instantly reduce transaction volume and make commercial real estate ownership less attractive. Also, the elimination of the step-up rule is being left out of the bill, which is a huge win for investors who hold property for a lifetime to build generational wealth.

If the committee's recommendations find their way into the new law, they will impact the market to a certain degree, but it would not be as significant as it would have been if passed as originally proposed. Assuming the bill either fails or a scaled-down version of it passes, we expect the local industrial market to finish the year on a high note and maintain its momentum into 2022.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a triple-net basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services. ©2021 Voit Real Estate Services, Inc. DRE License #01991785.

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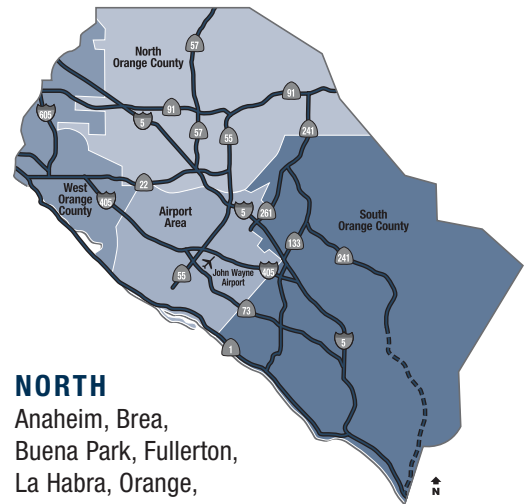


Product Type

MFG./DIST.

Manufacturing / Distribution / Warehouse facilities with up to 29.9% office space.

Submarkets



NORTH

Anaheim, Brea, Buena Park, Fullerton, La Habra, Orange, Placentia and Yorba Linda

WEST

Cypress, Garden Grove, Huntington Beach, La Palma, Los Alamitos, Seal Beach, Stanton and Westminster

AIRPORT

Costa Mesa, Fountain Valley, Irvine, Newport Beach, Santa Ana and Tustin

SOUTH

Aliso Viejo, Foothill Ranch, Irvine Spectrum, Laguna Hills, Laguna Niguel, Lake Forest, Mission Viejo, Rancho Santa Margarita, San Clemente and San Juan Capistrano