

INVESTMENT FORECAST

Industrial
Orange County

IPA
INSTITUTIONAL
PROPERTY
ADVISORS






2022

Users and Investors Covet Space Near Ports and Population Centers, Extending Stretch of Strong Performance

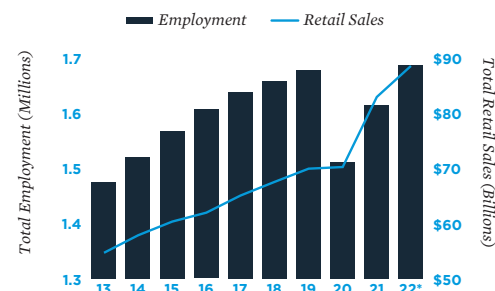
Largest submarkets highlight metro's historic fundamentals. Supported by a varied tenant roster of warehouse and distribution center users, as well as a diverse manufacturing base that includes electric car and medical device companies, Orange County entered 2022 with a scant vacancy rate of 2 percent. For these firms, proximity to Los Angeles County ports, major freeways or John Wayne International Airport is paramount, with submarket vacancy rates reflecting these preferences. Home to 40 percent of market inventory, North County began this year with low-1 percent availability, while vacancy in the Airport Area was at 2.5 percent. Tight conditions warrant development, although only North County will register noteworthy speculative completions this year. These circumstances will steer most expanding users to an extremely limited number of available spaces, enabling Orange County to end 2022 as the nation's second tightest market.

Limited supply additions and bullish projections bolster competition. Deal flow and average pricing escalated during 2021, translating to a record year for dollar volume. Investors are largely following user demand trends when making acquisitions, focusing on properties in North County and listings near the airport. Relatively older warehouses, as well as manufacturing facilities in Anaheim and the city of Orange, are frequently trading at low-3 to high-4 percent cap rates, with similar assets in Santa Ana changing hands with first-year returns in the 4 percent band. These locales account for the most diverse buyer pools, with out-of-state buyers and institutional firms exhibiting a more substantial presence that has the potential to place upward pressure on pricing. Private buyers and owner-users local to Southern California, who wish to avoid outside competition and obtain below-average pricing, are pursuing opportunities west of Interstate 5.

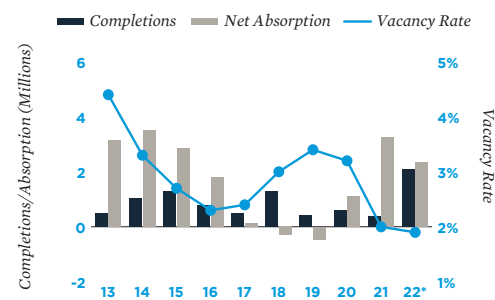
2022 Market Forecast

- Employment** up 4.5%  Organizations add 72,000 positions, enabling the metro's year-end job count to exceed the pre-pandemic mark by 10,000 roles.
- Construction** 2.1 million sq. ft.  Annual delivery volume reaches a 20-year high; inventory, however, increases by just 0.8 percent. Supply additions are concentrated in North County, highlighted by projects in Fullerton.
- Vacancy** down 10 bps  Availability compresses for a third straight year, as industrial users absorb more than 2.3 million square feet of space. This leasing velocity lowers metro vacancy to 1.9 percent.
- Rent** up 6.8%  After rising by nearly 12 percent last year, the average asking rent increases at a pace on par with the prior 10-year average, climbing to \$16.05 per square foot in 2022.
- Investment**  Scant availability and a lack of developable land in North County and the Airport Area heighten investor competition for assets well-positioned for redevelopment into modern facilities.

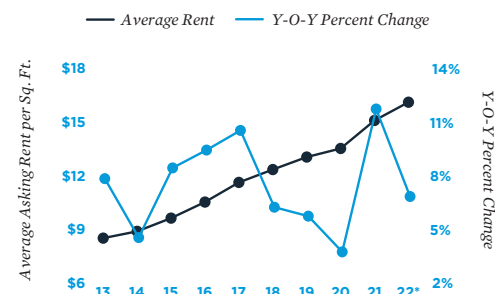
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.