

OVERVIEW. The Orange County industrial market was unchanged in many respects in Q3. Vacancy fell again, gross and net absorption were much the same, lease rates and sales prices moved up, construction activity was unchanged and transaction volume remained strong. However, the shortage of quality space persisted and OC business owners remain frustrated by the lack of options. As we indicated in our last report, there are anecdotal indications of waning demand and this could lead to reduced sale and lease activity. Mortgage interest rates have nearly doubled in the past year, making it more difficult to complete owner/user sales, a key component of Orange County's industrial market. Persistent high inflation is wreaking havoc on profitability, and that has some tenants and buyers in a wait-and-see mode when it comes to committing to new transactions.

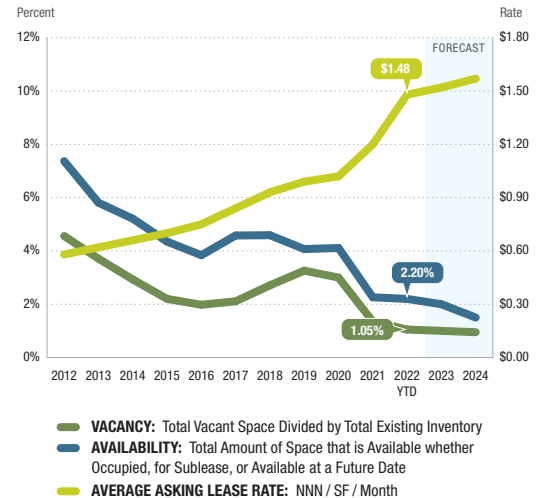
VACANCY & AVAILABILITY. The overall vacancy rate in Orange County fell again in Q3 despite a perceived falloff in demand. Vacancy stood at just 1.05% when the quarter ended, down 18 basis points from Q2. But, as we have been reporting, many cities have vacancy rates even lower than that. In fact, 18 of the Orange County cities we track have a vacancy rate well under 1%, including Anaheim, which has the largest inventory of industrial buildings at 44.3 MSF. The availability rate, which includes space offered for lease or sale but is still occupied, hwas 2.2% of the county's inventory at the end of 3Q.

LEASE RATES & SALES PRICES. The average asking lease rate for the county jumped another \$0.15 to \$1.48 in Q3, after a \$0.09 increase in Q2. Year over year, asking rents have increased by 30.97%, but since many buildings have been marketed and leased without an asking rate, the actual average lease rate is even higher. Landlords are still holding the line on free rent and tenant improvement contributions. Fixed annual rental increases are also moving up. It is now common to see landlords insist on increases of 4% to 4.5% per year, rather than the traditional 3%.

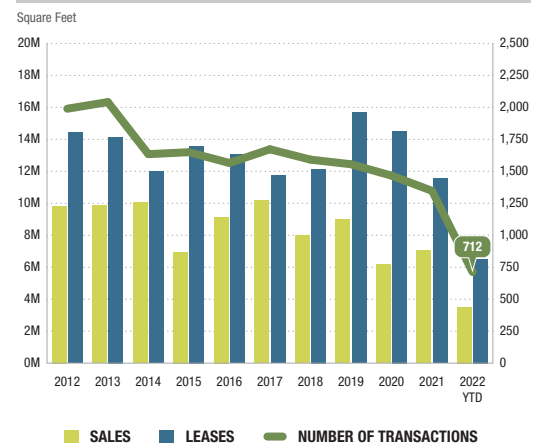
The county's average asking sales price is very difficult to interpret because price per square foot is heavily dependent on the size of the building. Industrial condominium pricing is over \$500 per square foot in some areas, while larger buildings trade in the \$350 to \$450 per square foot range.

TRANSACTION ACTIVITY. For the past several years, lease and sale activity has been restricted by the persistent shortage of quality space available. Many tenants and would-be buyers are left with no choice but to renew existing leases, even if their existing space no longer supports efficient operations. Many of those transactions don't find their way into the quarterly statistics, so actual transaction activity is somewhat higher than reported. In the past several months mortgage rates have moved sharply higher and that is having an impact on owner/user buyers who utilize SBA loans to fund their purchases. The combination of record high prices

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

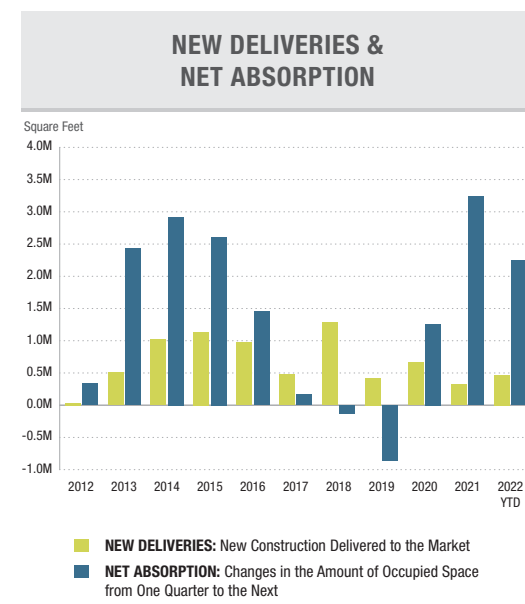
	Change Over Last Quarter		3Q 2022	2Q 2022	3Q 2021	% Change Over Last Year
Vacancy Rate	▼	DOWN	1.05%	1.23%	1.61%	(35.02%)
Availability Rate	▼	DOWN	2.20%	2.40%	2.56%	(14.10%)
Average Asking Lease Rate	▲	UP	\$1.48	\$1.33	\$1.13	30.97%
Average Asking Sale Price	▲	UP	\$438.89	\$366.00	\$300.42	46.09%
Sale & Lease Transactions	▼	DOWN	2,752,309	3,373,778	4,859,801	(43.37%)
Gross Absorption	▲	UP	2,695,714	1,801,590	3,578,262	(24.66%)
Net Absorption	▲	POSITIVE	750,461	407,952	1,564,860	N/A

and the rising cost of capital is sending many buyers to the sidelines. Just 2.75 MSF of deals were inked in Q3, which is roughly half of the total for the same period last year.

ABSORPTION. Net absorption picked up the pace in Q3, posting a gain in occupied space of 750,461 SF, as compared with 407,952 SF in Q2. The largest move-in for the period was 500,625 SF by Bedrosian Tile at 1123 Warner Avenue in Tustin. The other large gain for the period was Rivian's 219,827 SF occupation of its new facility at 14451 Myford Road, also in Tustin. Consistent and strong net absorption is difficult to achieve in such a low vacancy market with few new deliveries.

CONSTRUCTION. Space under construction was little changed in Q3. Only 2,443,526 SF of space is in the queue, with most of that total in the Goodman Logistics Center on Orangethorpe Avenue in Fullerton. When completed, the four-building logistics campus will add 1,536,055 SF of first-generation space to the market. Huntington Gateway Business Park in Huntington Beach is the other major project currently under construction. The project, owned by Sares-Regis, includes a build-to-suit of 433,865 SF for Cambro Manufacturing and a spec building of 244,705 SF. Another 2.2 MSF of space is in the planning stages, most of which will be built in the North County submarket.

EMPLOYMENT. The unemployment rate in Orange County was 3.0% in August 2022, up from a revised 2.8% in July 2022, and below the year-ago estimate of 6.0%. Three sectors grew over the month: construction (up 1,500 jobs), trade, transportation, and utilities (up 1,300 jobs), and manufacturing (up 100 jobs).



Forecast

Although Q3 statistics don't report a significant slowdown in market activity, anecdotal evidence appears to indicate a shift in momentum. Moreover, macroeconomic conditions deteriorated in Q3, which, we believe, will result in the suppression of sale and lease activity moving forward. Mortgage interest rates have almost doubled since the first of the year, and that has impacted the buying power in the owner/user sector, a key driver of industrial market activity in Orange County. Also, time on market for buildings offered for lease is on the rise, and there are fewer tenants competing for even the highest quality space. High inflation is driving up operating costs for local business owners across the board and the Fed's attempt to slow it down is likely to cause further increases in the cost of capital. Those economic headwinds are making tenants and buyers exercise more caution in their real estate decision making, the result of which will likely be an increase in vacancy, an attenuation of pricing increases, and reduced transaction velocity over the next few quarters.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
458-486 E. Lambert Rd.	Fullerton	406,261	\$156,000,000	AEW Capital	Global Logistic Properties
3701-3729 Catalina St.	Los Alamitos	365,726	\$72,220,000	Duke Realty Corporation	Don Wilson Builders
14321 Myford Rd.	Tustin	57,330	\$21,320,000	Panattoni Development	Siciliani Brothers LLC
27912-27972 Forbes Rd.	Laguna Niguel	36,721	\$25,000,000	Hanover Company	Forbes Red Lp
1649 E. Miraloma Ave.	Placentia	26,000	\$9,200,000	Adam Joseph Kutlug	Benedikt Family Trust

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2099-2289 E. Orangethorpe Ave.	Fullerton	1,025,262	Sep-2022	Samsung	Goodman North America
1515 E. Winston Rd.	Anaheim	375,000	Aug-2022	Crane Logistics	Bedrosians Tile & Stone
1801-1995 S. Standard Ave. - Renewal	Santa Ana	296,019	Sep-2022	Behr Paints	Prologis
5383 Bolsa Ave.	Huntington Beach	233,705	Jul-2022	Epson America	Sares-Regis Group
2220 E. Cerritos Ave.	Anaheim	101,505	Sep-2022	Ahern Rentals	Karney Management Company

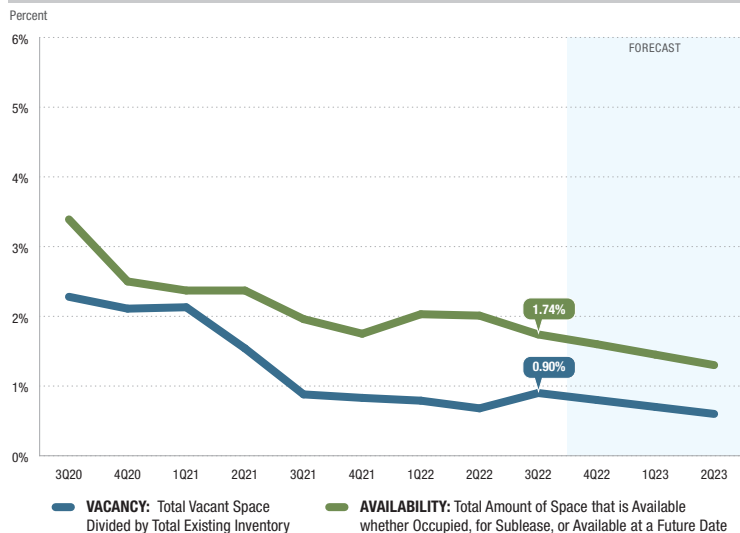
	INVENTORY				VACANCY & LEASE RATES						ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2022	Square Feet Available	Availability Rate 3Q2022	Average Asking Lease Rate	Average Asking Sales Price	Net Absorption 3Q2022	Net Absorption 2022	Gross Absorption 3Q2022	Gross Absorption 2022
Airport Area														
Costa Mesa	440	7,525,153	0	0	157,303	2.09%	248,504	3.30%	\$1.51	\$493.19	(54,005)	73,813	28,187	178,891
Fountain Valley	181	3,758,225	0	0	14,668	0.39%	53,122	1.41%	\$1.92	\$444.24	(7,052)	(7,052)	49,158	61,880
Irvine	302	11,438,160	0	138,000	153,156	1.34%	462,432	4.04%	\$1.79	\$0.00	(47,754)	(7,804)	130,061	247,309
Newport Beach	48	603,018	0	224,545	22,651	3.76%	22,651	3.76%	\$1.55	\$0.00	(3,140)	4,360	0	16,644
Santa Ana	1,578	31,031,897	0	0	345,241	1.11%	311,293	1.00%	\$1.30	\$391.49	(20,317)	74,036	178,512	871,444
Tustin	115	4,441,654	0	0	53,631	1.21%	559,156	12.59%	\$1.39	\$0.00	763,852	676,561	771,193	861,341
Airport Area Total	2,664	58,798,107	0	362,545	746,650	1.27%	1,657,158	2.82%	\$1.45	\$408.28	631,584	813,914	1,157,111	2,237,509
North County														
Anaheim	1,833	44,337,407	187,520	619,085	393,899	0.89%	570,888	1.29%	\$1.61	\$504.25	13,455	166,776	328,991	996,163
Brea	327	12,031,308	0	131,500	181,140	1.51%	249,125	2.07%	\$1.34	\$292.93	439	80,182	28,202	313,703
Buena Park	234	13,331,001	0	30,650	82,029	0.62%	396,297	2.97%	\$1.31	\$456.89	24,939	(24,625)	24,939	39,220
Fullerton	455	17,976,447	1,656,055	139,000	136,969	0.76%	253,493	1.41%	\$1.25	\$337.01	12,641	29,139	104,709	317,735
La Habra	197	3,526,156	0	0	4,050	0.11%	9,535	0.27%	\$0.00	\$0.00	3,631	9,867	3,631	30,657
Orange	745	13,623,277	66,448	300,620	97,173	0.71%	284,850	2.09%	\$1.66	\$368.84	2,113	37,474	116,790	298,843
Placentia	222	4,347,075	0	0	44,806	1.03%	91,055	2.09%	\$1.50	\$332.39	(28,881)	9,045	53,535	124,583
Yorba Linda	54	873,956	0	0	45,781	5.24%	54,906	6.28%	\$1.43	\$370.00	(1,643)	(26,649)	29,942	56,737
North County Total	4,067	110,046,627	1,910,023	1,220,855	985,847	0.90%	1,910,149	1.74%	\$1.45	\$421.18	26,694	281,209	690,739	2,177,641
South County														
Aliso Viejo	17	663,662	0	0	0	0.00%	32,300	4.87%	\$0.00	\$415.00	0	32,657	32,657	32,657
Foothill Ranch	64	3,417,232	0	0	33,138	0.97%	108,645	3.18%	\$1.55	\$0.00	(33,138)	(21,135)	12,003	87,510
Irvine Spectrum	215	9,954,353	99,638	0	68,518	0.69%	150,843	1.52%	\$1.38	\$549.93	26,222	210,226	297,507	495,147
Laguna Beach	21	108,920	0	0	0	0.00%	0	0.00%	\$0.00	\$0.00	1,845	3,690	1,845	1,845
Laguna Hills	74	1,039,882	0	0	7,884	0.76%	22,565	2.17%	\$1.64	\$413.59	12,862	(4,410)	17,771	85,304
Laguna Niguel	19	256,297	0	0	0	0.00%	0	0.00%	\$0.00	\$0.00	0	0	0	0
Lake Forest	190	4,226,661	0	317,000	33,543	0.79%	60,614	1.43%	\$1.61	\$361.19	36,068	97,933	86,045	199,210
Mission Viejo	31	719,801	0	0	853	0.12%	6,790	0.94%	\$1.60	\$0.00	66	(1,962)	919	2,947
Rancho Santa Margarita	107	1,702,949	0	0	5,489	0.32%	19,116	1.12%	\$1.57	\$0.00	(4,062)	(6,916)	0	9,397
San Clemente	160	1,997,181	0	0	8,792	0.44%	6,800	0.34%	\$1.65	\$420.00	6,741	(2,800)	17,594	28,571
San Juan Capistrano	42	887,189	0	91,520	12,272	1.38%	12,272	1.38%	\$2.00	\$0.00	0	(12,272)	0	0
South County Total	940	24,974,127	99,638	408,520	170,489	0.68%	419,945	1.68%	\$1.49	\$428.88	46,604	295,011	466,341	942,588
West County														
Cypress	100	4,516,995	0	0	63,845	1.41%	346,216	7.66%	\$1.38	\$0.00	78,621	192,872	98,637	165,392
Garden Grove	474	12,113,468	0	0	210,181	1.74%	333,590	2.75%	\$1.72	\$428.88	1,494	230,740	151,594	447,136
Huntington Beach	690	12,837,230	433,865	223,705	148,866	1.16%	234,384	1.83%	\$1.24	\$415.87	(33,120)	476,610	41,621	584,335
La Palma	16	1,778,247	0	0	0	0.00%	0	0.00%	\$0.00	\$0.00	0	0	75,000	234,321
Los Alamitos	94	2,221,377	0	0	1,620	0.07%	37,883	1.71%	\$0.00	\$405.00	(1,620)	27,716	1,620	38,551
Seal Beach	15	933,761	0	0	0	0.00%	0	0.00%	\$0.00	\$0.00	0	16,720	0	16,720
Stanton	175	1,833,786	0	0	31,702	1.73%	82,627	4.51%	\$1.35	\$567.56	204	(38,282)	13,051	25,159
Westminster	140	2,301,495	0	0	69,368	3.01%	85,644	3.72%	\$1.82	\$0.00	0	(47,640)	0	45,816
West County Total	1,704	38,536,359	433,865	223,705	525,582	1.36%	1,120,344	2.91%	\$1.53	\$510.14	45,579	858,736	381,523	1,557,430
Orange County Total	9,375	232,355,220	2,443,526	2,215,625	2,428,568	1.05%	5,107,596	2.20%	\$1.48	\$438.89	750,461	2,248,870	2,695,714	6,915,168
Less than 9,999	3,333	20,261,419	0	9,500	184,120	0.91%	366,597	1.81%	\$1.66	\$424.19	(35,636)	(92,002)	162,943	468,381
10,000-19,999	3,148	43,517,510	0	0	538,763	1.24%	945,423	2.17%	\$1.48	\$497.54	24,048	8,396	428,769	1,150,466
20,000-29,999	1,185	28,283,533	0	51,764	219,939	0.78%	612,568	2.17%	\$1.44	\$375.34	84,040	379,821	314,335	838,398
30,000-39,999	489	16,697,311	0	63,650	330,470	1.98%	461,611	2.76%	\$1.43	\$433.02	(45,299)	(157,964)	138,208	460,456
40,000-49,999	292	12,840,824	0	99,100	235,098	1.83%	227,493	1.77%	\$1.36	\$387.80	586	(25,302)	156,720	443,135
50,000-74,999	374	22,543,629	66,448	0	356,285	1.58%	445,223	1.97%	\$1.33	\$406.98	(75,823)	(28,045)	241,556	513,439
75,000-99,999	169	14,474,780	99,638	264,741	143,165	0.99%	147,191	1.02%	\$0.00	\$302.28	9,600	281,832	111,664	550,227
100,000-199,999	261	34,407,229	481,345	1,301,645	77,134	0.22%	735,214	2.14%	\$0.00	\$134.25	159,315	323,732	294,997	917,418
200,000 Plus	124	39,328,985	1,796,095	425,225	343,594	0.87%	1,166,276	2.97%	\$0.00	\$0.00	629,630	1,558,402	846,522	1,573,248
Orange County Total	9,375	232,355,220	2,443,526	2,215,625	2,428,568	1.05%	5,107,596	2.20%	\$1.48	\$438.89	750,461	2,248,870	2,695,714	6,915,168

Lease rates are on a triple-net basis.

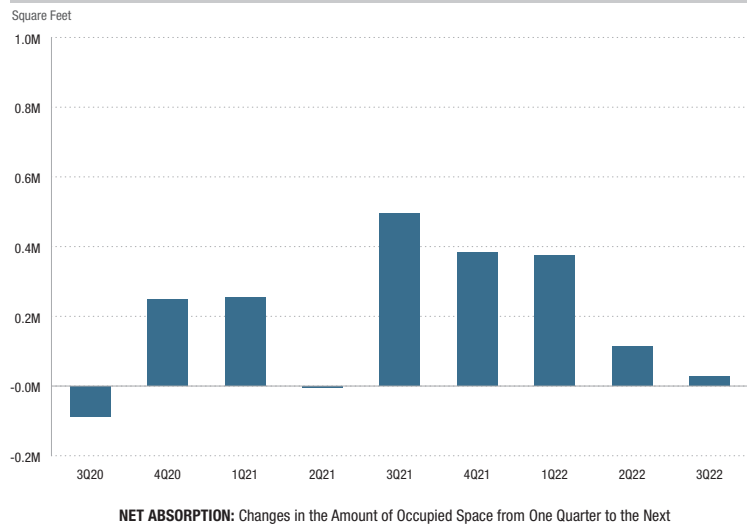
NORTH ORANGE COUNTY

In the third quarter of 2022, the North Orange County industrial market consisted of 4,067 buildings totaling 110,322,469 square feet and had an availability rate of 1.74%, which shows a decrease from the previous quarter's figure of 2.01%.

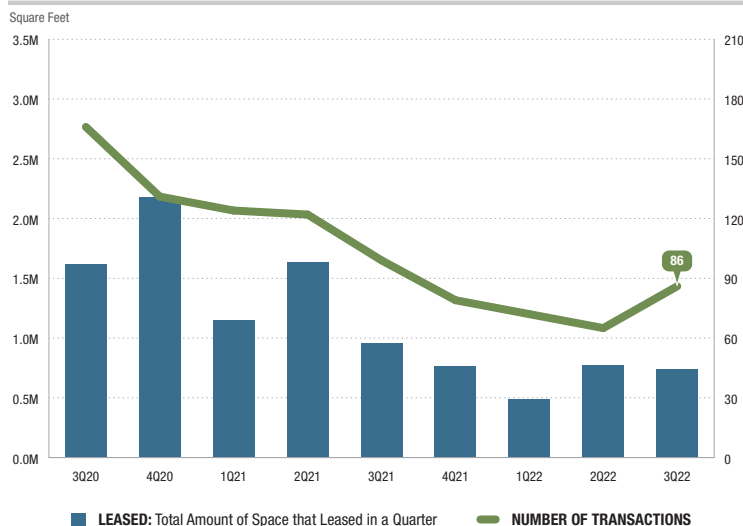
VACANCY & AVAILABILITY RATE



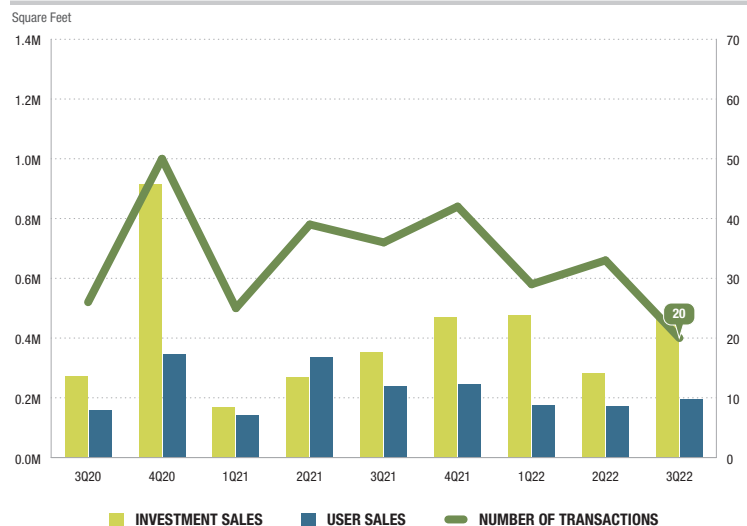
NET ABSORPTION



LEASE TRANSACTIONS



SALES TRANSACTIONS



INVENTORY

VACANCY & LEASE RATES

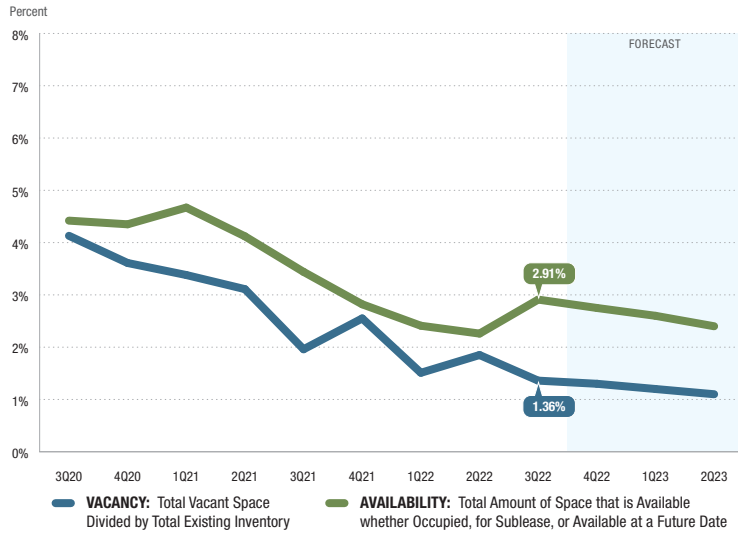
ABSORPTION

	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2022	Square Feet Available	Availability Rate 3Q2022	Average Asking Lease Rate	Average Asking Sales Price	Net Absorption 3Q2022	Net Absorption 2022	Gross Absorption 3Q2022	Gross Absorption 2022
North Totals														
Less than 9,999	1,344	8,498,179	0	9,500	70,867	0.83%	134,607	1.58%	\$1.52	\$566.21	(37,655)	(30,374)	73,500	245,686
10,000-19,999	1,391	19,254,223	0	0	248,694	1.29%	407,275	2.12%	\$1.46	\$345.23	74,381	(45,474)	254,010	528,006
20,000-29,999	518	12,338,680	0	21,960	26,825	0.22%	167,267	1.36%	\$1.52	\$339.47	69,114	146,430	171,780	310,557
30,000-39,999	226	7,693,560	0	63,650	117,159	1.52%	130,998	1.70%	\$1.43	\$320.28	(4,004)	(53,072)	48,626	179,544
40,000-49,999	138	6,071,905	0	99,100	91,603	1.51%	94,517	1.56%	\$1.39	\$0.00	(18,299)	7,516	41,558	191,967
50,000-74,999	176	10,618,962	66,448	0	113,725	1.07%	75,911	0.71%	\$1.47	\$0.00	(48,180)	10,220	58,192	135,092
75,000-99,999	74	6,322,143	0	90,980	0	0.00%	131,428	2.08%	\$0.00	\$0.00	0	100,800	0	155,371
100,000-199,999	135	17,860,224	481,345	734,145	29,012	0.16%	277,184	1.55%	\$0.00	\$134.25	108,337	283,929	43,073	373,596
200,000 plus	65	21,388,751	1,362,230	201,520	287,962	1.35%	490,962	2.30%	\$0.00	\$0.00	(117,000)	(138,766)	0	57,822
Total	4,067	110,046,627	1,910,023	1,220,855	985,847	0.90%	1,910,149	1.74%	\$1.45	\$421.18	26,694	281,209	690,739	2,177,641

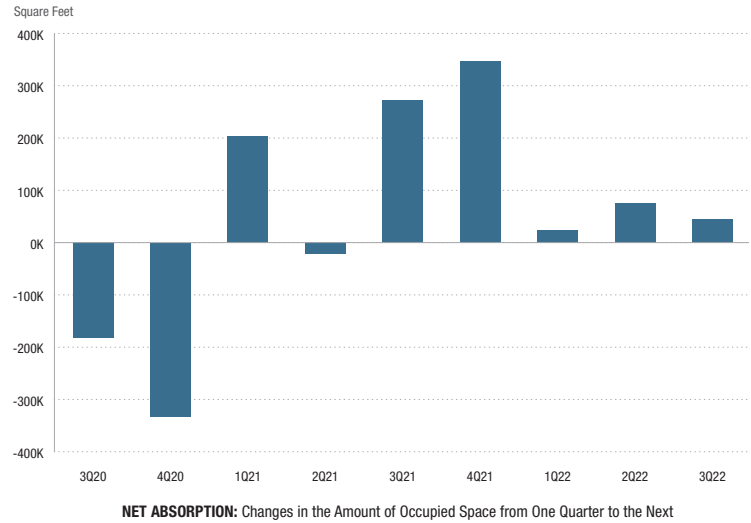
WEST ORANGE COUNTY

In the third quarter of 2022, the West Orange County industrial market consisted of 1,704 buildings totaling 38,536,359 square feet and had an availability rate of 2.91%, which shows a decrease from the previous quarter's figure of 2.26%.

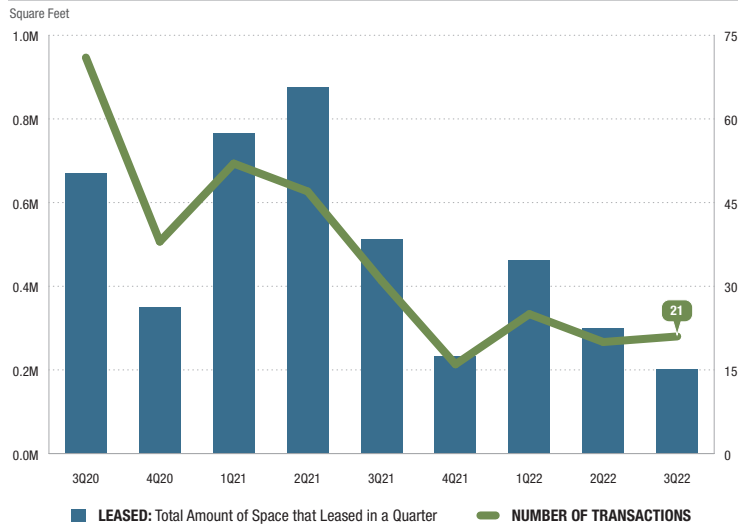
VACANCY & AVAILABILITY RATE



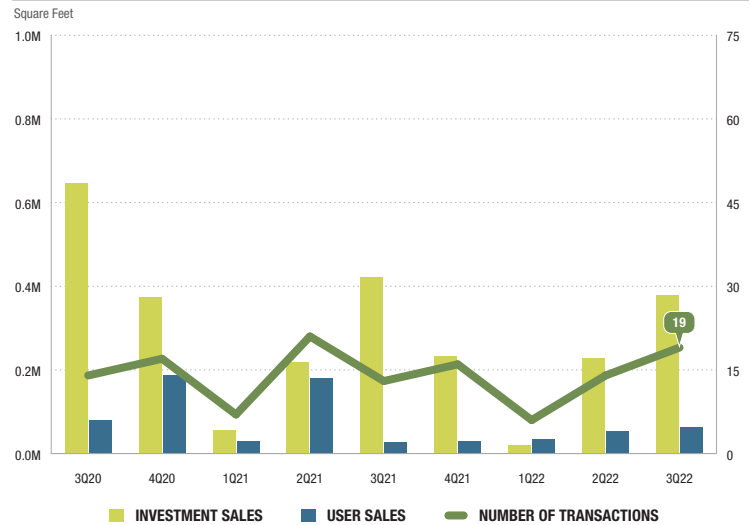
NET ABSORPTION



LEASE TRANSACTIONS



SALES TRANSACTIONS



INVENTORY

VACANCY & LEASE RATES

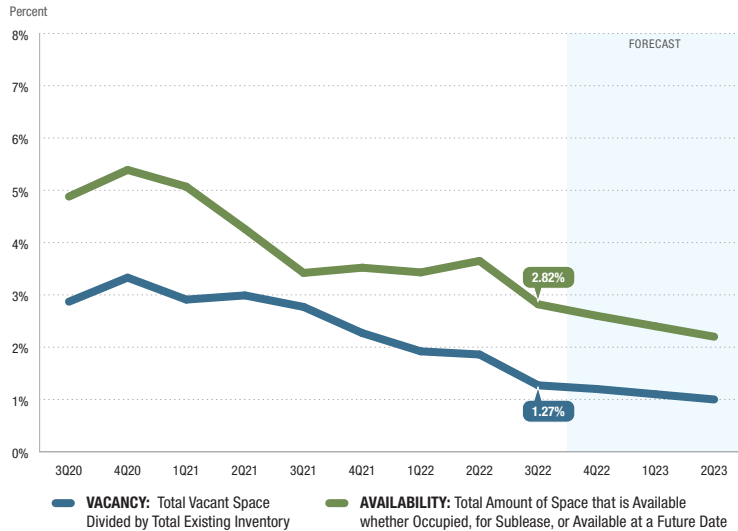
ABSORPTION

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West Totals														
Less than 9,999	693	4,117,474	0	0	29,935	0.73%	74,162	1.80%	\$1.67	\$536.18	13,871	(33,662)	28,397	83,901
10,000-19,999	569	7,534,030	0	0	101,319	1.34%	202,952	2.69%	\$1.27	\$366.05	(5,275)	28,459	60,067	211,760
20,000-29,999	181	4,358,343	0	0	51,294	1.18%	163,380	3.75%	\$1.12	\$476.05	2,008	101,043	10,650	113,335
30,000-39,999	61	2,128,714	0	0	110,201	5.18%	70,888	3.33%	\$1.37	\$0.00	(4,520)	(111,421)	39,313	95,471
40,000-49,999	49	2,158,231	0	0	0	0.00%	10,626	0.49%	\$1.08	\$0.00	2,747	2,539	7,149	23,247
50,000-74,999	57	3,405,460	0	0	55,339	1.63%	61,389	1.80%	\$0.00	\$0.00	15,692	(4,946)	121,984	182,398
75,000-99,999	31	2,661,547	0	0	143,165	5.38%	15,763	0.59%	\$0.00	\$0.00	0	16,720	0	101,041
100,000-199,999	41	5,560,637	0	0	9,797	0.18%	181,143	3.26%	\$0.00	\$0.00	(5,122)	(5,122)	79,675	154,675
200,000 plus	22	6,611,923	433,865	223,705	24,532	0.37%	340,041	5.14%	\$0.00	\$0.00	26,178	865,126	34,288	591,602
Total	1,704	38,536,359	433,865	223,705	525,582	1.36%	1,120,344	2.91%	\$1.53	\$510.14	45,579	858,736	381,523	1,557,430

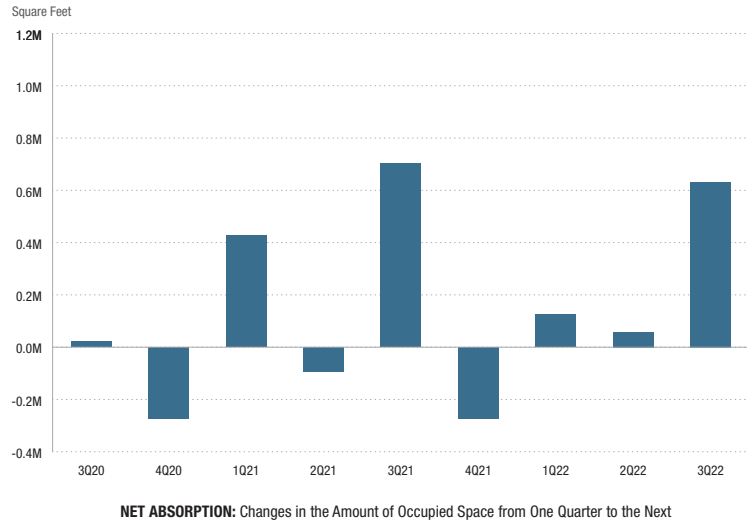
AIRPORT AREA

In the third quarter of 2022, the Airport Orange County industrial market consisted of 2,663 buildings totaling 58,578,280 square feet and had an availability rate of 2.82%, which shows a decrease from previous quarter's figure of 3.65%.

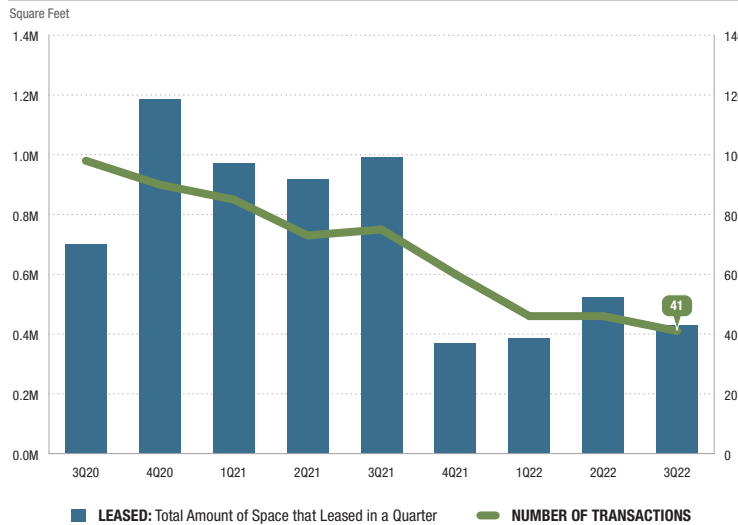
VACANCY & AVAILABILITY RATE



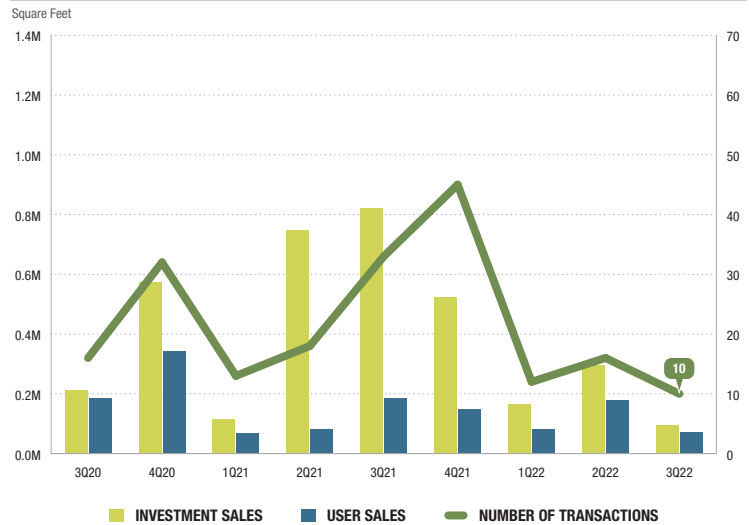
NET ABSORPTION



LEASE TRANSACTIONS



SALES TRANSACTIONS



INVENTORY

VACANCY & LEASE RATES

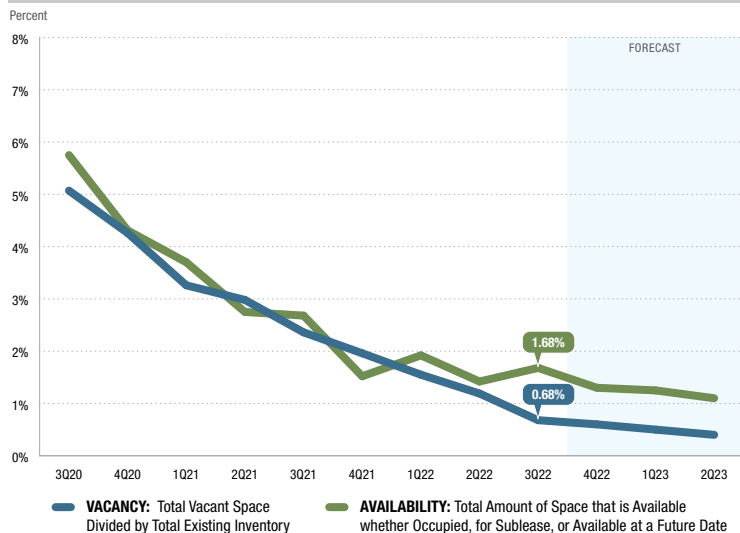
ABSORPTION

	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2022	Square Feet Available	Availability Rate 3Q2022	Average Asking Lease Rate	Average Asking Sales Price	Net Absorption 3Q2022	Net Absorption 2022	Gross Absorption 3Q2022	Gross Absorption 2022
Airport Totals														
Less than 9,999	933	5,414,001	0	0	75,978	1.40%	109,600	2.02%	\$1.75	\$433.68	(35,123)	(30,236)	23,478	62,948
10,000-19,999	913	12,793,456	0	0	112,297	0.88%	264,775	2.07%	\$1.60	\$412.62	(22,179)	61,308	83,673	314,437
20,000-29,999	354	8,438,136	0	29,804	104,723	1.24%	237,459	2.81%	\$1.67	\$491.03	(20,074)	4,710	92,442	219,010
30,000-39,999	156	5,309,843	0	0	98,357	1.85%	222,672	4.19%	\$1.45	\$391.11	(36,775)	(27,393)	17,612	108,077
40,000-49,999	77	3,363,356	0	0	138,006	4.10%	68,708	2.04%	\$1.25	\$406.98	20,200	(33,571)	68,013	181,364
50,000-74,999	107	6,479,190	0	0	154,083	2.38%	260,614	4.02%	\$1.29	\$302.28	(51,017)	(76,944)	61,380	146,035
75,000-99,999	49	4,191,427	0	82,241	0	0.00%	0	0.00%	\$0.00	\$0.00	0	152,309	90,061	196,705
100,000-199,999	54	6,803,013	0	250,500	32,106	0.47%	201,380	2.96%	\$0.00	\$0.00	56,100	(28,304)	0	216,898
200,000 plus	21	6,005,685	0	0	31,100	0.52%	291,950	4.86%	\$0.00	\$0.00	720,452	792,035	720,452	792,035
Total	2,664	58,798,107	0	362,545	746,650	1.27%	1,657,158	2.82%	\$1.45	\$415.56	631,584	813,914	1,157,111	2,237,509

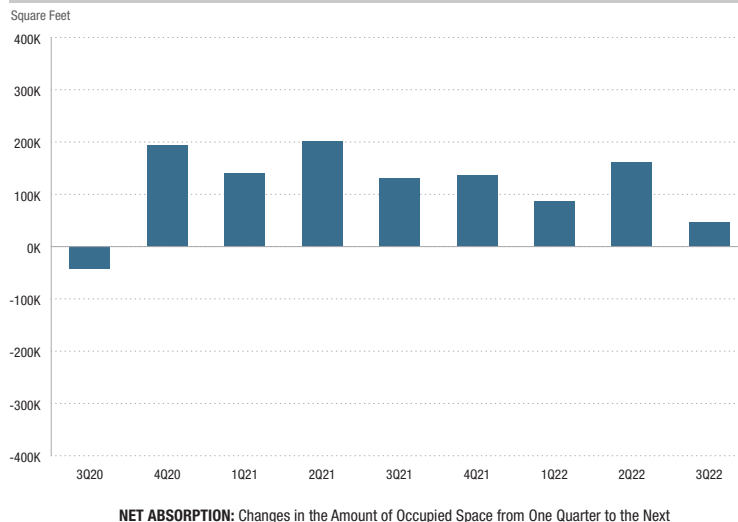
SOUTH ORANGE COUNTY

In the third quarter of 2022, the South Orange County industrial market consisted of 940 buildings totaling 24,974,127 square feet and had an availability rate of 1.68%, which shows an increase from the previous quarter's figure of 1.42%.

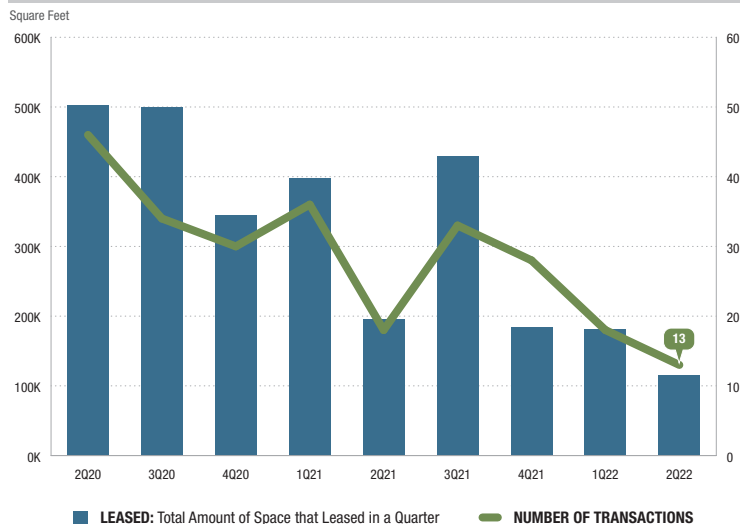
VACANCY & AVAILABILITY RATE



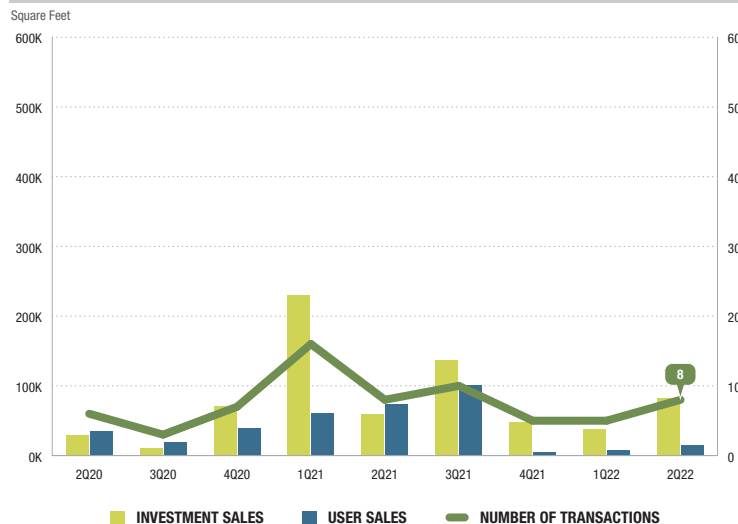
NET ABSORPTION



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 3Q2022	Square Feet Available	Availability Rate 3Q2022	Average Asking Lease Rate	Average Asking Sales Price	Net Absorption 3Q2022	Net Absorption 2022	Gross Absorption 3Q2022	Gross Absorption 2022
South Totals														
Less than 9,999	363	2,231,765	0	0	7,340	0.33%	48,228	2.16%	\$1.74	\$402.09	23,271	2,270	37,568	75,846
10,000-19,999	275	3,935,801	0	0	76,453	1.94%	70,421	1.79%	\$1.91	\$0.00	(22,879)	(35,897)	31,019	96,263
20,000-29,999	132	3,148,374	0	0	37,097	1.18%	44,462	1.41%	\$1.50	\$0.00	32,992	127,638	39,463	195,496
30,000-39,999	46	1,565,194	0	0	4,753	0.30%	37,053	2.37%	\$1.76	\$482.47	0	33,922	32,657	77,364
40,000-49,999	28	1,247,332	0	0	5,489	0.44%	53,642	4.30%	\$1.44	\$0.00	(4,062)	(1,786)	40,000	46,557
50,000-74,999	34	2,040,017	0	0	33,138	1.62%	47,309	2.32%	\$1.49	\$0.00	7,682	43,625	0	49,914
75,000-99,999	15	1,299,663	99,638	91,520	0	0.00%	0	0.00%	\$0.00	\$0.00	9,600	12,003	21,603	97,110
100,000-199,999	31	4,183,355	0	317,000	6,219	0.15%	75,507	1.80%	\$0.00	\$0.00	0	73,229	172,249	172,249
200,000 plus	16	5,322,626	0	0	0	0.00%	43,323	0.81%	\$0.00	\$0.00	0	40,007	91,782	131,789
Total	940	24,974,127	99,638	408,520	170,489	0.68%	419,945	1.68%	\$1.49	\$428.88	46,604	295,011	466,341	942,588

How Would a Significant Recession Impact the Industrial Property Market?

by Seth Davenport and Chris Drzyzga



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How would a significant recession impact the industrial property market?

Sale transaction velocity would decrease. Cheap mortgages have been a primary driver in both owner / user and investor activity since the current upcycle began in earnest back in 2011. Prices have quadrupled since then—staggering, to say the least. The SBA 504 rate bottomed out at 2.26% not much more than a year ago. It now stands above 5% and is expected to move higher. That means it costs more than twice as much to service debt than it did last year, and the Fed has made clear its intent to stomp on inflation with further Federal Funds Rate increases, at least into next year. Owner / user buyer appetite has already slowed substantially, and more rate hikes will only exacerbate that trend. Buyers just don't feel bold enough to offer a record price and pay more than twice as much in interest for the privilege. Increasingly, we are seeing buyers adopt a wait-and-see mentality and head to the sidelines.

For investors using leverage, the same is true. They are loathe to borrow capital at a higher rate of interest than the going-in cap rate. Negative leverage is one of the basic no-no's in real property investing. As the demand from leveraged buyers decreases substantially, the remaining cash buyers will take advantage of that shift and negotiate lower prices. The long-anticipated cap rate decompression could be substantial. We are seeing a 50-to-70 basis point increase on deals we are facilitating now, and that's before accounting for any impact of a general economic recession.

Given the scarcity of supply over the past several years, property values for even the most functionally obsolete buildings have risen sharply. Buyers have been willing to accept lower quality product because the alternative has been no product at all. As the old saying goes, a rising tide lifts all boats, and that has certainly been the case here in Southern California. But older and less functional buildings will be the first to get hurt as demand sags and available inventory rises. Obsolete buildings will be the first to see big price decreases as buyers look to more available quality product. And, with more quality buildings coming to the market just as demand falls off, qualified buyers will naturally become more discerning after years of begging for anything with a roof on it. The best buildings will have more competition and the functionally obsolete buildings will languish on the market. A flight to quality is on the horizon.

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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.

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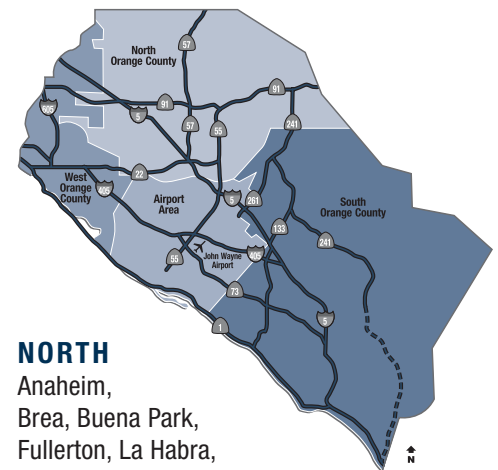
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