

ORANGE COUNTY INDUSTRIAL MARKET



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The industrial sector for Orange County commercial real estate continues to be one of the strongest in the country. Vacancy rates in Orange County for industrial space remain at approximately 2 percent. What this means for tenants out in the marketplace is a continued struggle to find viable space. When combining limited availability with the fact that some of the buildings are older or obsolete, or may have lower ceiling height or reduced power, this makes the challenge even more difficult.

With that said, we have seen the sales prices for industrial space level off and we have also now, for the first time in the past several years, begun to see landlords offer free rent and move-in concessions, and come off of their asking prices. The days of five or 10 different tenants looking at one available space in the marketplace seem to be over, and those with good credit looking to sign long-term leases clearly stand out from the mom-and-pop operator that may be looking to sign a short-term lease.

Landlords on the industrial side appear to be much more conscious of the changing of the guard in looking to lock in good quality tenants. We expect that this trend will continue over the course of the next 12 months. The overall challenges in the economy combined with reduced activity at the ports, and what appears to be a general slowdown, will all yield better and more opportunities for tenants. Advice for tenants that have leases coming up in the next 12 to 18 months would be to evaluate your options early and attempt to negotiate the overall best terms and conditions in advance of the lease expiration. Savvy landlords will do the same and we expect that vacancy rates will tick up slightly and that rents will stabilize. However, we do not expect any significant softening in the industrial market in the short term.

ORANGE COUNTY OFFICE MARKET



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The Orange County office market continues to struggle along with all of the other submarkets for office space throughout Southern California. The lingering effects of COVID and the desire for many employees to continue to work remotely has reduced the demand for physical office space. This, combined with the overall struggles in the economy and desires for companies to reduce overhead, have caused many of the office users to re-evaluate the type of space that they have, the configuration and how much space they actually need. This has caused an increase in vacancies across the board in all classes of office space from high-rise to low-rise, and from Class A to Class C.

The results of this have caused a softening in the market, which has lead to increased free rent, tenant concessions and willingness of landlords to do improvements to vacant space. Many landlords have taken the opportunity to make renovations to the common areas of their buildings, including creating outdoor amenities and upgrading lobbies, elevators and restrooms, all in an effort to attempt to attract viable tenants. In today's market, if you are a tenant looking to renew your soon-to-expire lease or are relocating for new space, you certainly have the upper hand in terms of negotiations.

We expect this trend of softness in the office sector to continue into the foreseeable future until there is some indication of growth back in the economy or certain industries begin to expand again. There are certainly fewer tenants looking for larger amounts of office space and vacancy will continue to remain high. Look for the coming year to be a continued struggle and challenge for landlords and opportunity for tenants out in the marketplace.

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