

CRE Dealmaking a Mixed Scene

Industrial Flourishes, Others Hit by COVID's Impact

By KATIE MURAR

Orange County's 2020 commercial market was a divided one.

Some sectors suffered blows dealt by the pandemic while others flourished as a result of new and ongoing tenant and investor demand.

Industrial has emerged as the true winner of the CRE scene, and multifamily deals continue to draw heavy interest.

The outlook for the office—despite some high-priced sales transactions—and retail sec-



FivePoint Gateway saw pair of mega-sales in 2020

tors remain cloudy.

This disparity remains true in 2021, as fervor for warehouses and distribution centers re-

main strong in terms of demand, largely from the e-commerce sector.

Notable sales in the office sector may be

outlier occurrences for now, as investors and tenants continue to wait out business restrictions and other pandemic-induced orders.

Interest in the multifamily sector has also held its own in the past year, with investor interest in the region's supply of affordable and workforce driving deals into the new year.

"There is plenty of capital for anything that's essential, while the office and hospital-ity sectors will continue to be challenged for some time," said Kurt Strasmann, executive managing director of CBRE's OC and Inland Empire operations.

Here, and on pages 28 and 29, are summaries of the 2020 results and 2021 expectations for the area's CRE sectors.

Industrial Reigns Supreme

The top industrial player in the region is still Amazon, the e-commerce giant that's been capturing local headlines for several years.

Amazon's collection of existing and in-development sites in the county is approaching 3 million square feet; as of two years ago, it occupied less than 500,000 square feet of industrial space in OC.

The company's leasing spree seems to be holding up. The firm recently inked a 260,000-square-foot lease for the first phase of Huntington Gateway Park, an under-construction project led by Newport Beach's Sares Regis Group.

Amazon could ultimately expand its space at the industrial complex, where a second phase could add north of 1 million square feet.

The company is expected to also continue its buying spree here; it was involved in three of the top five local industrial sales in 2020 (see listing, page 22).

With no slowdown in sight in the industrial sector, the county's lack of land for new supply presents a headwind.



Amazon facility under construction in Surf City at former office site

"E-commerce acceleration drove industrial to record levels in 2020 and it's the same thing in 2021, though it might not be sustainable at the same rate," said CBRE executive managing director Kurt Strasmann, noting that developers might eye new conversion projects to increase supply and meet demand.

"We might even see certain areas of the office sector undergo conversions to industrial."

As rent prices jump, developers are willing to pay more for

land, notes Clyde Stauff, senior executive vice president of Colliers.

The lack of supply hampered industrial sales volume in 2020, according to the Newport Beach office of JLL.

"While the industrial market is the darling of commercial real estate in the COVID-19 world, the segment that has suffered significantly is sales activity," notes a brokerage report, adding that volume was down 41% last year, largely due to very limited available supply.

Among the more closely watched industrial projects in the county is a new, 1.5 million-square-foot logistics site to be built at the former Kimberly-Clark tissue paper manufacturing site in Fullerton.

Plans have been in the works since the end of 2019 when it sold for \$202 million; demolition work is now underway.

"Demand from third party logistics companies is incredibly strong regionally, and that will help carry the market into 2021," Stauff said.

—Katie Murar

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