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Orange County Market Update

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Positive:
- Low cost of capital
- Sub 2% vacancy rate
- Reasonably vibrant economy

Negative:
- Global issues-
- State and Federal debt
- Anemic salary growth
- Looking over your shoulder

Forecast:
- Lower transaction volume – declining inventory
- Lease Rates – Flattening
- Sale Prices – Rising and fast
- Capital markets open – SBA, CMBS, Life Insurance & Banks
- Continued investor demand for quality assets
- Tenants / Buyers look East

Forecast

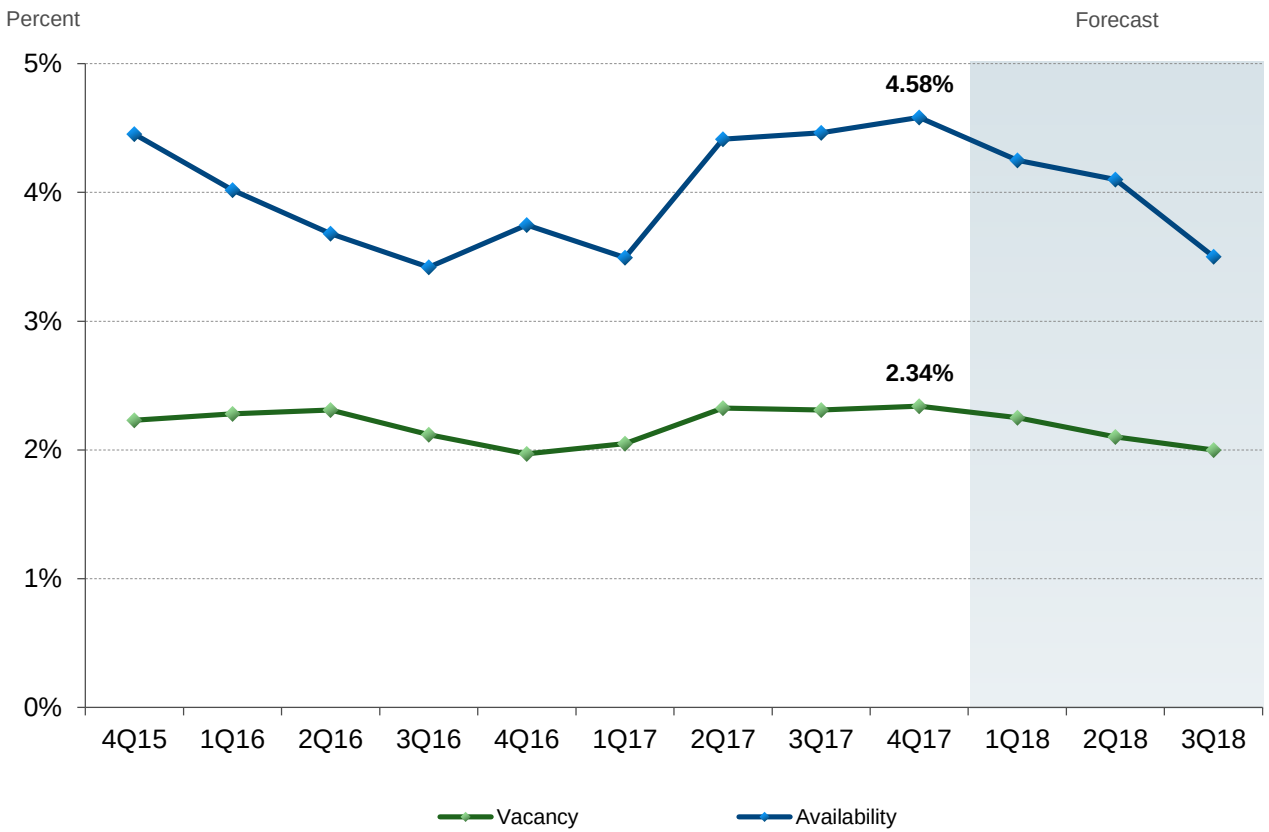
- **Lease Rates** – The supply and demand imbalance will continue causing asking rents to increase by a minimum of 3% to reach a level of $0.87 per square foot by the end of 2018, with more robust increases coming in Class A buildings with modern features such as 30’ warehouse clearance, ample dock-high loading, fenced yards and immediate freeway access.
- **Vacancy** - With low vacancy rates and a demand for industrial space, new users are finding it challenging to locate space and existing users are having a difficult time expanding operations. With limited new product coming online and tenants electing to recommit or to renew in larger blocks of space, expect vacancy rates to remain below 2.1% well into 2018.
- **Overall** – The Orange County market in 2018 will be characterized by increased capital flows/investor demand, strong tenant/user activity and continued increases in sale prices and lease rates. With limited new deliveries, expect the supply and demand imbalance to remain, ultimately benefiting landlords. Users and investors will continue to target this area given its highly educated workforce and proximity to affluent households. Industrial occupiers will tend to focus more on location than function in the coming quarters given the lack of product and our aging industrial base. Larger tenants with future expansion plans may start looking east to the Inland Empire to find larger blocks of quality spaces at lower costs. Consumer sentiment in the market is positive, aided by a robust stock market and the new tax laws put in place to encourage both investment and job growth.

Orange County Industrial Market Statistics

	2017	2016	2015	% Change vs. 2016
Inventory Added	283,753	770,655	995,615	-63.18%
Under Construction	793,138	342,137	552,007	131.82%
Vacancy Rate	2.34%	1.97%	2.23%	18.78%
Availability Rate	4.58%	3.75%	4.45%	22.13%
Average Asking Lease Rate	$0.84	$0.75	$0.69	12.00%
Average Asking Sale Price	$264.28	$235.97	$189.18	12.00%
Sale & Lease Transactions	17,428,960	22,442,126	20,110,331	-22.34%
Gross Absorption	10,714,116	11,707,379	13,186,007	-8.48%
Net Absorption	(404,248)	1,367,105	2,783,707	N/A

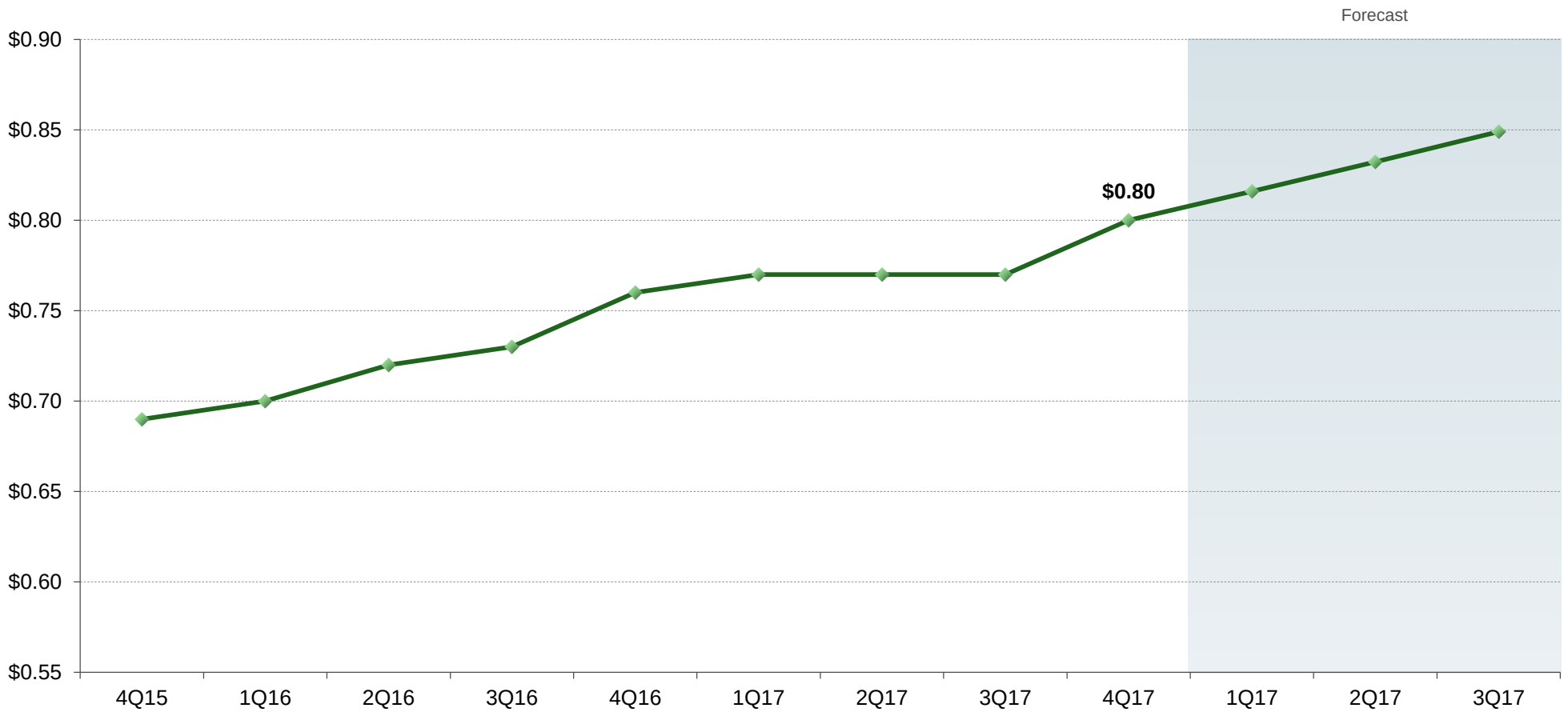
Market Overview

Vacancy vs. Availability

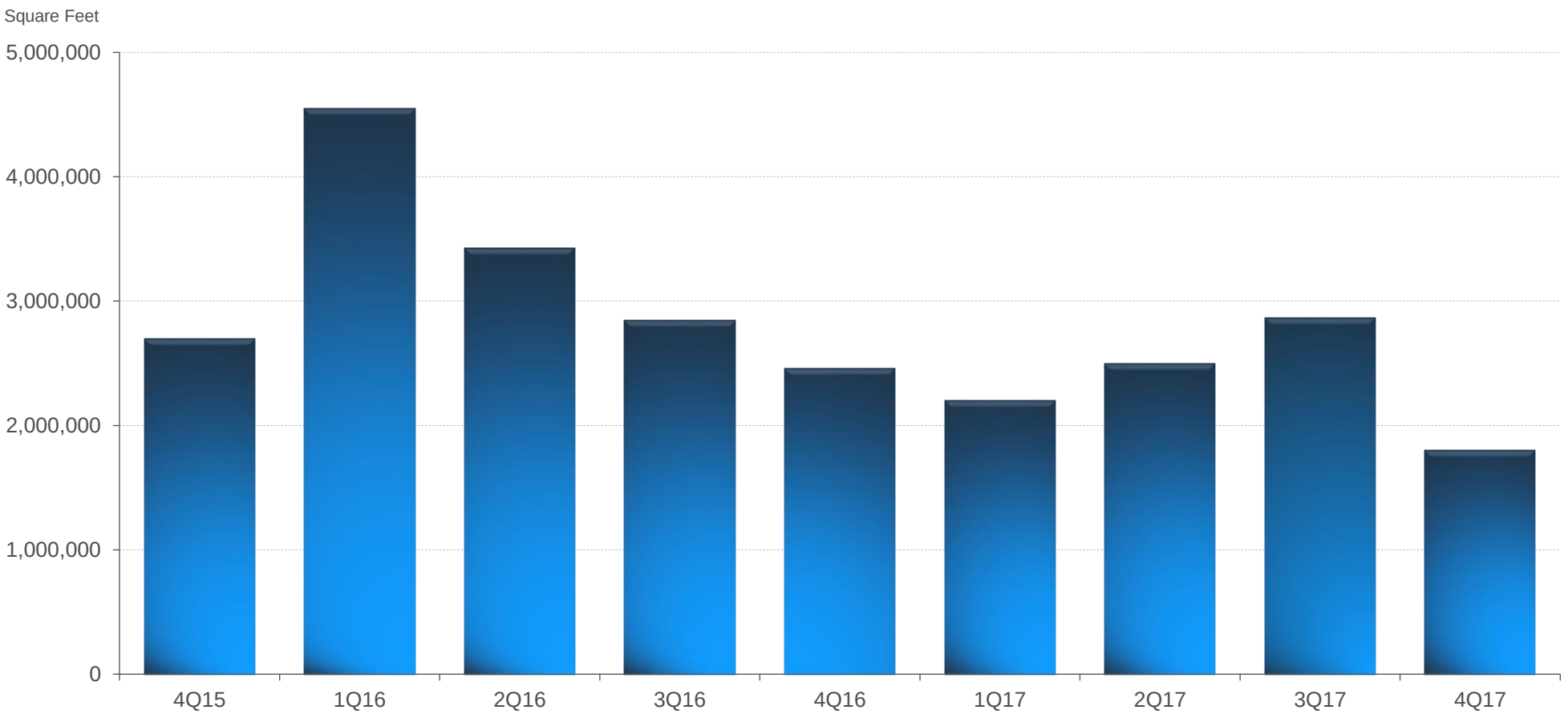


Leasing Market

Average Asking NNN Lease Rate

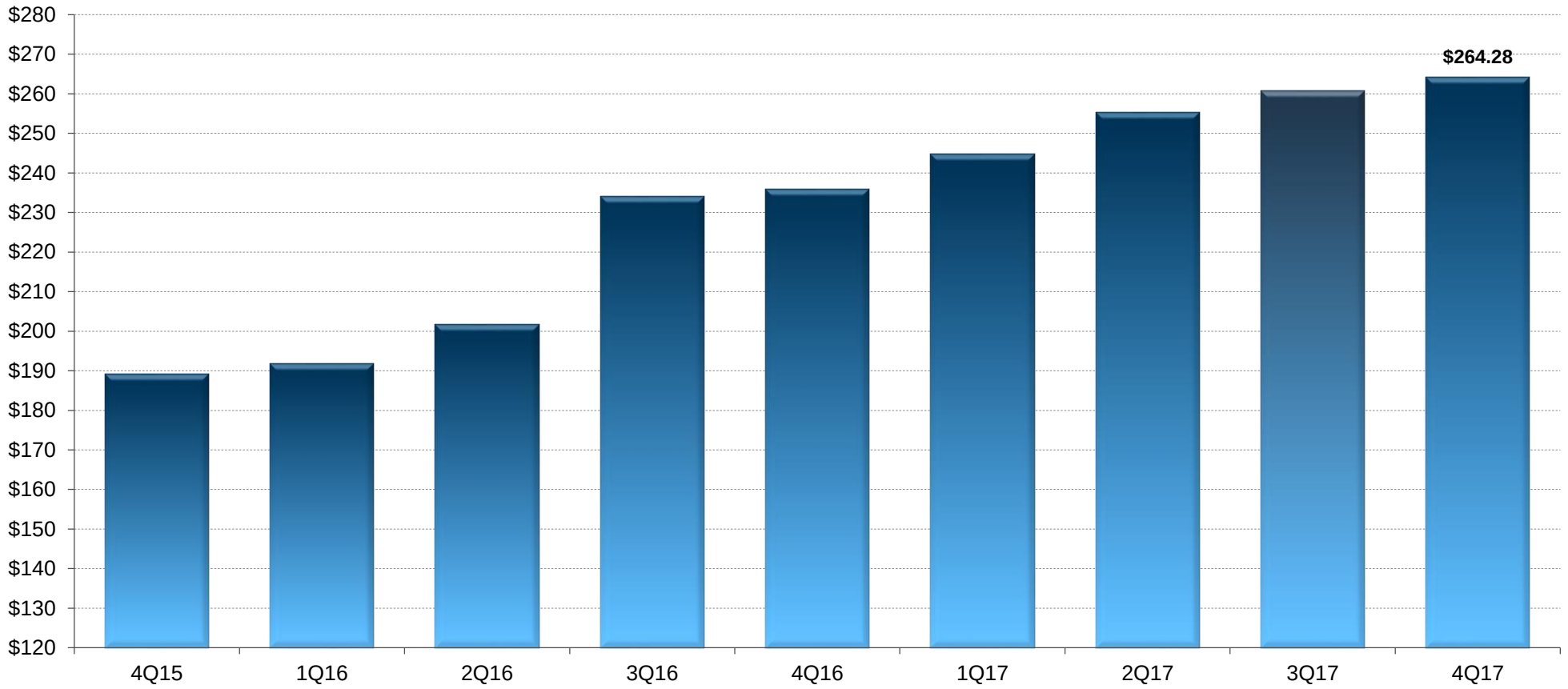


Lease Transaction Activity

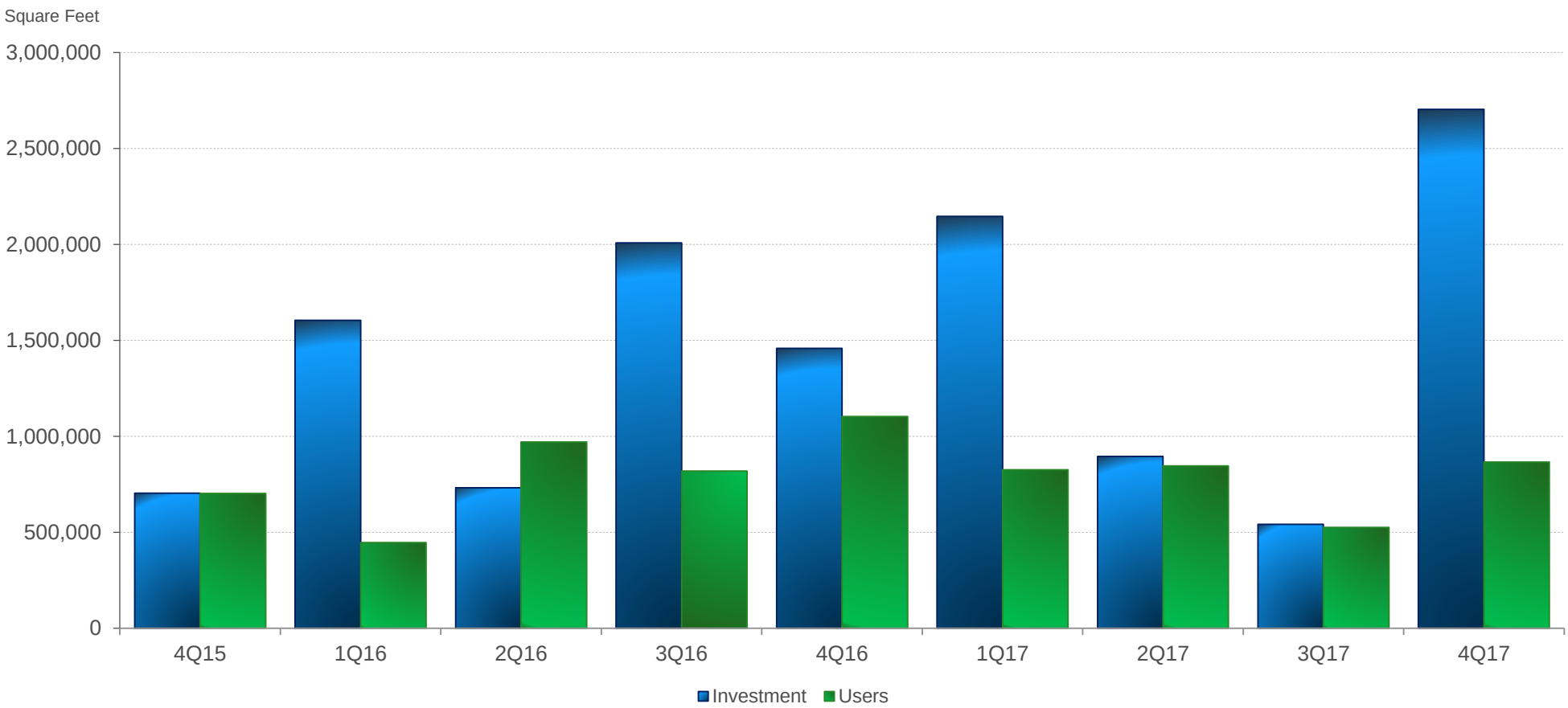


Sales Market

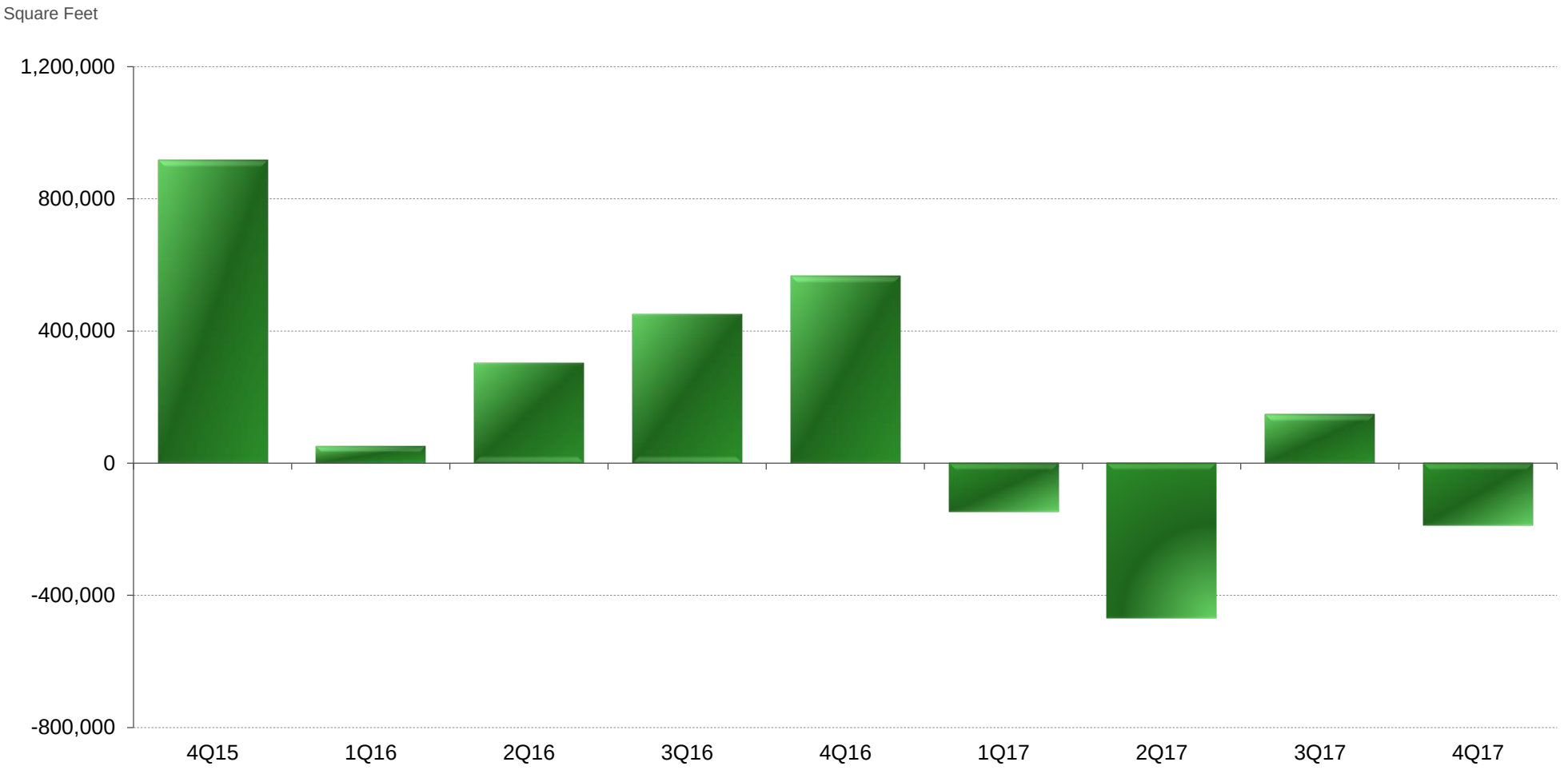
Average Asking Sales Rates Per SF



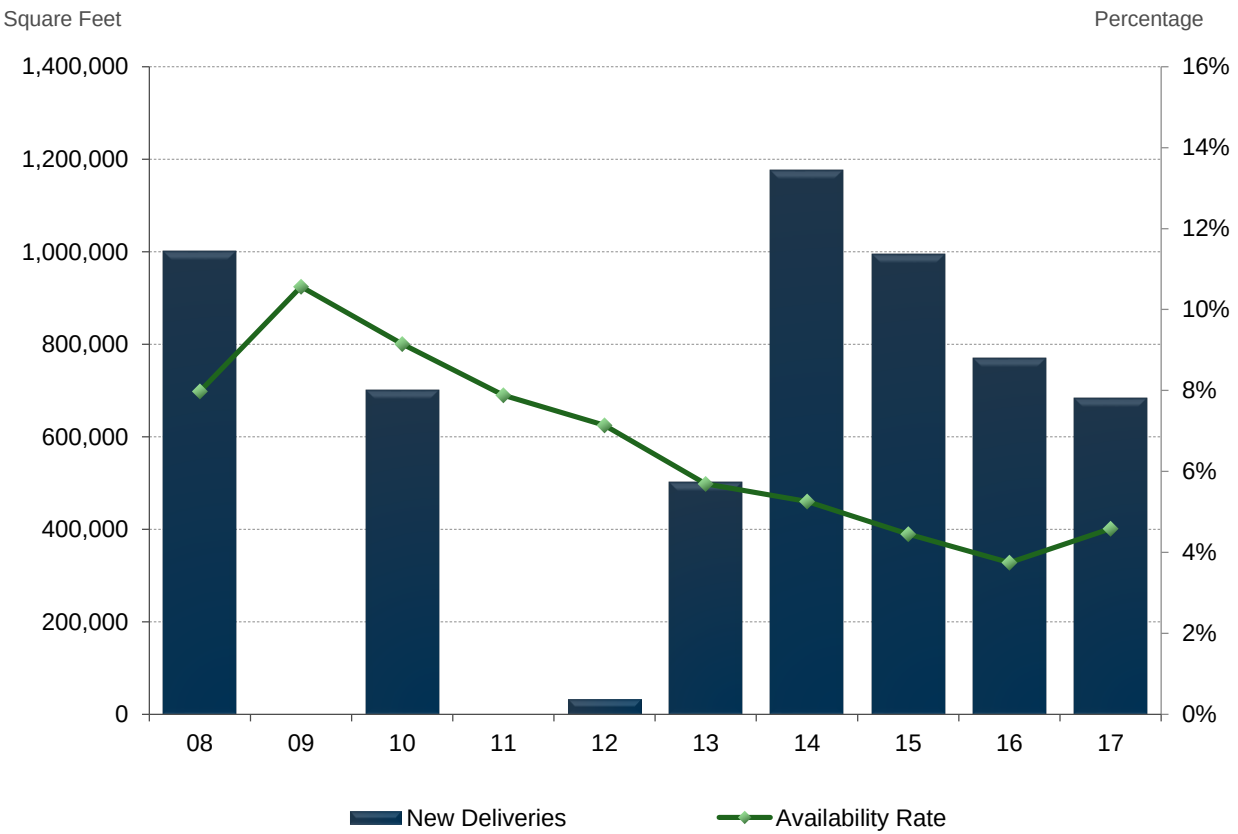
Sale Transaction Activity



Net Absorption



Annual New Deliveries vs. Availability



Major Transactions for 2017

Sales Activity

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
3454 E Miraloma Ave	Anaheim	300,000	$188.73	DCT Industrial	TH Real Estate
515 E Dyer Rd.	Santa Ana	414,308	$138.00 / $110	Hines	Turner Dev D/E
500 W Warner Ave	Santa Ana	316,232	$129.65	LBA	Sears
1350 S. Coast Dr	Costa Mesa	112,000	$298.21	Invesco	Kearny / Tribune
4150 N Palm	Fullerton	181,069	$180.00	Independent Trading Company	Western Realco/AEW

Leasing Activity

Property Address	Submarket	Square Feet	Effective Rate	Tenant	Owner
6400 Valley View St	Buena Park	238,270	$.75 NNN / $.77 NNN	Amazon	Prologis
6550 Katella Ave	Cypress	234,763	$.64 NNN / $.71 NNN	Shaw Industries, Inc.	Cypress Distribution Center
12131 Western Ave.	Garden Grove	207,953	$.74 NNN / $.84 NNN	Southland Industries	Rexford Industrial-Western*
25892-25902 Towne Center Dr.	Foothill Ranch	130,706	$.73 NNN / $.73 NNN	Sene Gence International	LBA Realty
1765 W. Penhall Way	Anaheim	128,372	$.92 NNN / $1.05 NNN	Legacy Farms	The Carson Companies

Orange County Top Industrial Lease Comparables

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		Space Leased / Rent/SqFt / Eff. Rent / Bldg SqFt	Office / TI Allow / Free Rent / NNN Chgs	Trans. Date / Expir. Date / Term / Occ Date	Prop. Type / Subtype / Bldg. Class / Parking	On Mrkt / Amps / Mul-Ten / Yr Built	DH / GL / POL / HT	Sprk / Rail / Yrd / Land	Lessee / Lessor / Space Type / Options/Rent Adj
1.		**BROOKHURST DISTRIBUTION CTR.**	128,372	11,715	12/05/17	Indust		28	Y	Legacy Farms
		1765 W PENHALL WAY	$0.92 NNN	As Is	07/31/28	Dist	2,500	1	N	The Carson Companies
		ANAHEIM, CA	$1.05	0	120 mos	B	N	N	Y	Direct-New
		Mrkt: Orange County / Submrkt: North	128,372	$0.13/SF	06/01/18	1.6:1	1997	28	266,021	One (1) Five (5) Yr / 3% Annual
		Proc. Brkr: CBRE				List. Brkr:	CBRE			
		Ann. Rates: Y1-$0.92; Y2-$0.95; Y3-$0.98; Y4-$1.01; Y5-$1.04; Y6-$1.07; Y7-$1.10; Y8-$1.13; Y9-$1.17; Y10-$1.20								
										Updt: 12/19/17 #775602
2.		**12131 WESTERN AVE**	207,953	47,797	10/04/17	Indust		26	Y	Southland Industries
		GARDEN GROVE, CA	$0.75 NNN	$2.15/SF	05/30/28	Dist	7,000	2	Y	Rexford Industrial - Western
		Mrkt: Orange County / Submrkt: North	$0.84	5 mos	125 mos	B	N	N	Y	Direct-New
			207,953	$0.1407	01/01/18	1.7:1	1987	26		/ 3% Annual Increases
		Proc. Brkr: Savills Studley - Matt Wiley				List. Brkr:	Voit RE Services / Colliers - Mike Bouma Mike Hartel, Clyde			
		Ann. Rates: Y1-$0.75; Y2-$0.77; Y3-$0.80; Y4-$0.82; Y5-$0.84; Y6-$0.87; Y7-$0.90; Y8-$0.92; Y9-$0.95; Y10-$0.98								
		Comments: Lease Status: Executed								
										Updt: 10/05/17 #772353
3.		**MID COUNTIES DISTRIBUTION CENT**	238,270	7,500	08/08/17	Indust		36	Y	Amazon
		6400 VALLEY VIEW ST	$0.75 NNN	$3/SF	12/31/22	Dist	2,000	1	N	Prologis
		BUENA PARK, CA	$0.77	2 mos	60 mos	B	N		Y	Direct-New
		Mrkt: Orange County / Submrkt: North	238,270		01/01/18	2.0:1	1967	19		/ 3% Annual Increases
		Proc. Brkr: Cushman & Wakefield - Rick Ellison				List. Brkr:	Jones Lang LaSalle - Paul Sablock			
		Ann. Rates: Y1-$0.75; Y2-$0.77; Y3-$0.80; Y4-$0.82; Y5-$0.84								
										Updt: 09/08/17 #769784
4.		**CYPRESS DISTRIBUTION CENTER**	234,763	3,500	07/31/17	Indust		14	Y	Shaw Industries, Inc.
		6550-11001 KATELLA AVE	$0.64 NNN	$0.51/SF	01/31/24	Dist	2,000	1	N	Cypress Distribution Center
		CYPRESS, CA	$0.71	5 mos	89 mos	B	Y		Y	Direct-New
		Mrkt: Orange County / Submrkt: West	339,117	$0.19	09/01/17	1.14:1	1982	26		/ 3% Annual Increases
		Proc. Brkr: CBRE				List. Brkr:	Cushman & Wakefield			
		Ann. Rates: Y1-$0.64; Y2-$0.66; Y3-$0.68; Y4-$0.70; Y5-$0.72; Y6-$0.74; Y7-$0.76; Y8-$0.79								
										Updt: 08/14/17 #769850
5.		**25892-25902 TOWNE CENTRE DR #2**	130,706	25,475	04/17/17	Indust		13	Y	SeneGence International
		FOOTHILL RANCH, CA	$0.73 NNN	$1.50/SF	04/30/22	Dist	4,000	1	N	LBA Realty
		Mrkt: Orange County / Submrkt: South	$0.75	2 mos	60 mos	B	Y		N	Direct-New
			309,685	$0.17	05/01/17	1.65:1	1998	30		/ 3% Annual Increases
		Proc. Brkr: Studley - Andrew Morrow				List. Brkr:	JLL - Steve Wagner, Louis Tomaselli			
		Ann. Rates: Y1-$0.73; Y2-$0.75; Y3-$0.77; Y4-$0.80; Y5-$0.82								
										Updt: 05/03/17 #759382

LEASE COMPARABLES
Metropolis

This information is compiled from data we believe to be correct but no liability is assumed by the company as to the accuracy of such data.

Tuesday, January 30, 2018
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