

Orange County Industrial

Market Summary

	Q1 2016	FORECAST
Absorption	↓	↑
Vacancy	↑	↓
Rental Rate	↑	↑
New Construction	↑	↑

Notable Lease Transactions

C&D Zodiac
5701 Skylab Road, Huntington Beach
280,000 s.f.

L&L Foods
1151 N Ocean Circle, Anaheim
207,000 s.f.

Disney
1625 S West Street, Anaheim
110,000 s.f.

Transaction Activity

	SF Sold	SF Leased
1Q14	2,142,693	2,803,370
2Q14	2,576,109	2,702,346
3Q14	2,478,933	3,348,597
4Q14	2,854,490	3,280,993
1Q15	1,777,622	4,075,682
2Q15	1,896,328	3,354,349
3Q15	1,460,979	3,343,136
4Q15	1,517,266	2,662,071
1Q16	1,377,474	2,182,358

The Orange County industrial market continued to improve in the first quarter of 2016, with a continued rise in prices and historically low vacancy. The amount of available space has decreased over 26% in the past year alone. There is a lack of product available for lease or sale in some size ranges (particularly anything below 100,000 square feet) which is causing an increase in prices and a drop in transaction volume. Through the rest of 2016, positive absorption should continue, occupancy costs should continue to increase, and with very few deliveries in the pipeline to apply upward pressure on vacancy, it is foreseen that 2016 will be another year of overall growth.

Net absorption, a measure of market strength, was negative 126,157 square feet in the first quarter of 2016, giving Orange County its first back-to-back first quarter slow starts since the great recession. Last year started with 302,143 square feet of negative absorption and ended the year with a total of 2.8 million square feet of positive absorption. The North County submarket added 327,581 square feet of occupied space this quarter, which accounted for all of the positive absorption in the county this quarter.

Leasing activity was down in the first quarter due to limited supply. The 2.2 million square feet that came off the market represents the slowest three months since the second quarter of 2009. With construction at historically low levels, and with industrial product disappearing in Orange County to make way for residential and office developments, vacancies will remain low.

The Orange County industrial market vacancy rate ticked up a bit from the record low rate of 2.3% to 2.4% during the first quarter, which equates to 5.6 million square feet of vacant industrial space countywide. This is down from the 7.4 million square feet that was vacant a year ago; a decrease of 25%. We foresee the vacancy rate remaining at this 2% level for the near future.

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The average asking rental rate in the first quarter was \$0.72 per square foot on a triple net basis per month. This asking rate is up 4.3% from the fourth quarter and 7.5% year-over-year. The peak lease rate was established in the second quarter of 2008 when it was \$0.78 per square foot. In a trend that first emerged in 2014, many industrial spaces are entering the market unpriced, with landlords letting the market set the going rate. The numbers above can thus be swayed drastically by a few low or high price tags. Nonetheless, the asking rate for high quality industrial space in Orange County should continue to increase.

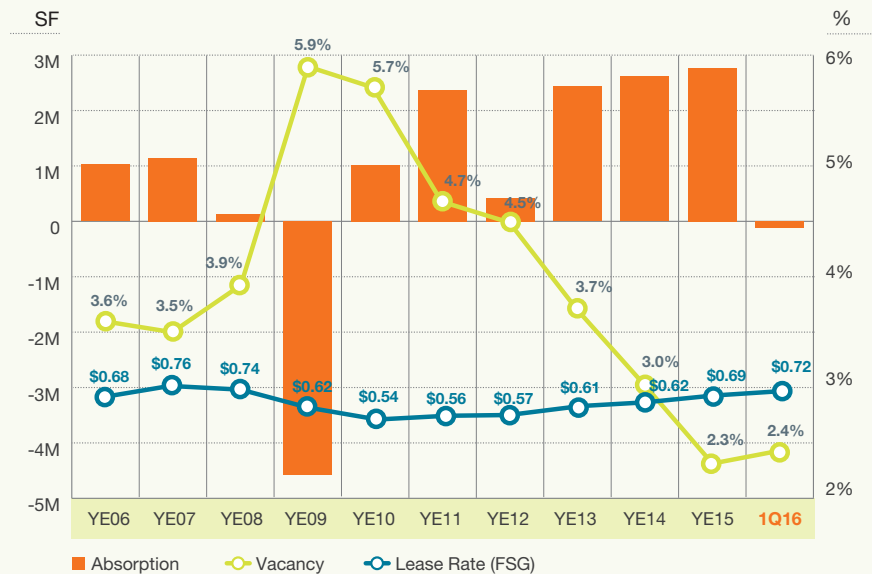
The Orange County industrial investment market remains relatively stable, mostly because much of the high quality industrial product that sellers were looking to move has been sold, and there is not much high quality industrial product currently available for sale in Orange County. Another driving factor is that some of the industrial properties that are purchased are viewed as redevelopment opportunities, slated for demolition or refurbishment into residential and/or creative space. It is a great time to be a seller, as the Orange County industrial market improves, pricing continues to increase, and vacancy and availabilities remain at historically low levels.

Data Source: CoStar

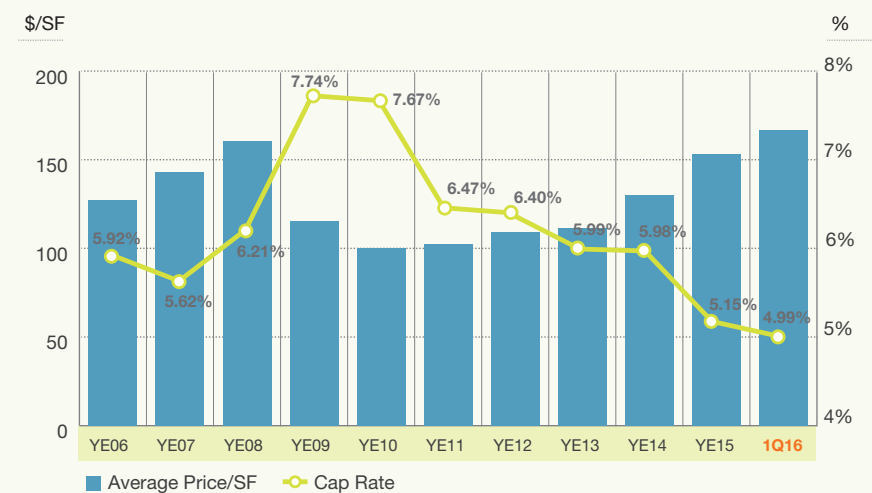
Market Breakdown

	Current Qtr	Previous Qtr	Year Ago	Annual % Change
Vacancy Rate	2.4%	2.3%	3.2%	-25.00%
Availability Rate	3.9%	4.3%	5.3%	-26.42%
Asking Lease Rate	\$0.72	\$0.69	\$0.67	7.46%
Lease Transactions	2,182,358	2,662,071	4,075,682	-46.45%
Sale Transactions	1,377,474	1,517,266	1,777,622	-22.51%
Net Absorption	-126,157	667,986	-302,143	N/A

Net Absorption, Vacancy & Lease Rates



Average Sales Price / Cap Rates



Contact

Mark Read
Executive Vice President, Brokerage
Southwest
949.557.5000 | mread@kiddermathews.com

Designated Broker: Mark Read | LIC #00572743

Offices

Orange County 949.557.5000	Redwood City 650.769.3600	Sacramento 916.751.3600	Seattle 206.296.9600	Phoenix 602.513.5200
San Francisco 415.229.8888	Silicon Valley 408.970.9400	San Diego 858.509.1200	Portland 503.221.9900	Reno 775.301.1300

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1st Quarter 2016 Orange County Industrial Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Availability Rate	QTR Direct Net Absorption	YTD Direct Net Absorption	SF Under Construction	YTD Construction Completions	QTR Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate
Costa Mesa	7,198,041	1.1%	0.0%	1.1%	2.8%	(51,123)	(51,123)	0	0	92,282	92,282	\$0.82
Fountain Valley	3,876,111	3.4%	0.0%	3.4%	3.7%	69,583	69,583	0	172,713	103,593	103,593	\$0.82
Irvine	12,506,649	3.0%	0.0%	3.0%	3.7%	58,703	58,703	0	0	61,167	61,167	\$0.76
Newport Beach	437,514	0.3%	0.0%	0.3%	0.3%	(699)	(699)	0	0	0	0	\$0.00
Santa Ana	30,431,690	2.5%	0.3%	2.8%	4.2%	(56,253)	(56,253)	12,100	0	314,018	314,018	\$0.68
Tustin	4,577,315	3.3%	0.0%	3.3%	8.6%	(81,451)	(81,451)	0	0	120,265	120,265	\$0.70
Airport Area	59,027,320	2.5%	0.1%	2.6%	4.2%	(61,240)	(61,240)	12,100	172,713	691,325	691,325	\$0.73
Anaheim	44,916,057	2.0%	0.0%	2.0%	3.7%	385,105	385,105	0	0	448,911	448,911	\$0.66
Brea/La Habra	14,922,952	0.7%	0.0%	0.7%	1.4%	(56,072)	(56,072)	367,194	0	71,612	71,612	\$0.62
Buena Park	13,468,382	1.3%	0.0%	1.3%	2.4%	(24,645)	(24,645)	0	0	1,250	1,250	\$0.53
Fullerton	19,027,346	3.2%	0.2%	3.4%	5.4%	(65,806)	(65,806)	0	0	164,047	164,047	\$0.61
Orange	13,549,876	1.0%	0.0%	1.0%	1.2%	46,122	46,122	0	0	68,390	68,390	\$0.84
Placentia/Yorba Linda	4,953,851	0.5%	0.0%	0.5%	2.1%	42,877	42,877	0	0	50,951	50,951	\$0.74
North County	110,838,464	1.8%	0.0%	1.8%	3.1%	327,581	327,581	367,194	0	805,161	805,161	\$0.63
Irvine Spectrum	9,755,993	3.7%	0.0%	3.7%	5.1%	(153,431)	(153,431)	0	0	3,100	3,100	\$0.89
Laguna Hills/Aliso Viejo	1,769,964	1.1%	0.0%	1.1%	3.9%	45,323	45,323	0	0	13,755	13,755	\$0.97
Laguna Niguel/Laguna Beach	390,967	0.8%	0.0%	0.8%	0.8%	1,600	1,600	0	0	2,850	2,850	\$0.00
Lake Forest/Foothill Ranch	9,262,349	5.3%	0.2%	5.5%	7.1%	(177,555)	(177,555)	0	0	231,035	231,035	\$0.87
Mission Viejo	523,373	0.4%	0.0%	0.4%	0.4%	5,025	5,025	0	0	14,771	14,771	\$1.10
Dana Point/San Juan/San Clemente	2,961,738	0.9%	0.9%	1.8%	3.5%	(8,710)	(8,710)	0	0	2,688	2,688	\$0.95
South County	24,664,384	3.7%	0.2%	3.9%	5.4%	(287,748)	(287,748)	0	0	268,199	268,199	\$0.89
Cypress	3,994,505	4.8%	0.0%	4.8%	9.6%	50,580	50,580	0	0	0	0	\$0.74
Garden Grove	12,135,381	1.7%	0.0%	1.7%	5.2%	(10,942)	(10,942)	0	0	247,825	247,825	\$0.67
Huntington Beach	14,209,587	2.1%	1.0%	3.1%	4.6%	(86,749)	(86,749)	0	0	85,364	85,364	\$0.67
La Palma	1,774,689	9.2%	0.0%	9.2%	5.0%	(52,112)	(52,112)	0	0	75,000	75,000	\$0.00
Los Alamitos/Staton	4,169,999	0.1%	0.0%	0.1%	0.6%	108	108	0	0	2,348	2,348	\$0.58
Seal Beach	988,339	0.0%	0.0%	0.0%	0.0%	0	0	0	0	0	0	\$0.73
Westminster	2,357,840	2.2%	0.0%	2.2%	2.8%	(5,635)	(5,635)	0	0	7,136	7,136	\$0.69
West County	39,630,340	2.3%	0.4%	2.7%	4.7%	(104,750)	(104,750)	0	0	417,673	417,673	\$0.68
Uptown	2,797,158	7.4%	0.3%	7.7%	7.7%	(4,229)	(4,229)	0	0	34,040	34,040	\$2.29
0 - 9,999	20,013,745	0.9%	0.1%	1.0%	2.2%	(186)	(186)	0	0	144,873	144,873	\$1.00
10,000 - 24,999	60,904,842	1.0%	0.1%	1.1%	2.4%	139,254	139,254	0	0	378,130	378,130	\$0.93
25,000 - 49,999	40,374,893	1.8%	0.0%	1.8%	2.8%	9,867	9,867	0	0	394,907	394,907	\$0.82
50,000 - 99,000	36,890,190	2.1%	0.3%	2.4%	4.0%	(147,838)	(147,838)	0	0	293,859	293,859	\$0.69
100,000 - 249,999	43,158,387	4.7%	0.4%	5.1%	6.5%	(127,254)	(127,254)	0	0	867,948	867,948	\$0.67
250,000 Plus	32,818,451	2.9%	0.0%	2.9%	5.5%	0	0	0	0	102,641	102,641	\$0.59
Orange County Total	234,160,508	2.3%	0.1%	2.4%	3.9%	(126,157)	(126,157)	379,294	172,713	2,182,358	2,182,358	\$0.72