

Orange County Industrial

Market Summary

	Q2 2016	FORECAST
Absorption	↓	↑
Vacancy	↑	↓
Rental Rate	↑	↑
New Construction	↑	↑

Notable Lease Transactions

Kuehne + Nagel
3454 E. Miraloma Avenue, Anaheim
300,000 s.f.

Airborne Systems
3100 W Segerstrom Avenue, Santa Ana
159,163 s.f.

Atosa Catering Equipment
1225 W Imperial Highway, Brea
126,599 s.f.

The Orange County industrial market continued to improve in the second quarter of 2016, as pricing continued to trend upward. Vacancy remains at historically low levels, and the amount of vacant space has decreased by over 11.5% in the past year. The lack of product available for lease and sale in some size ranges (particularly below 100,000 square feet) is driving prices upward and limiting transaction volume. Moderate increases in leasing and sales activity are expected in the coming year, as job creation stays strong. Moving into the second half of 2016, we anticipate further absorption gains and rising occupancy costs, and with very few deliveries in the pipeline to apply upward pressure on vacancy, we foresee 2016 being another year of growth.

Net absorption, a measure of market strength, was negative 12,873 square feet in the second quarter of 2016, giving Orange County a total of over 150,000 square feet of positive absorption for the year. Last year started with 302,143 square feet of negative absorption and ended with a total of 2.8 million square feet of positive absorption. The North County submarket added 199,727 square feet of occupied space this quarter, which accounted for all of the positive absorption in the county.

Leasing activity was up in the second quarter due to a couple of large deals. The 2.88 million square feet that came off the market represents an increase over the 2.74 million square feet that leased last quarter. With minimal new construction in the pipeline 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 from the record low rate of 2.1% to 2.3% during the second quarter, which equates to 5.3 million square feet of vacant industrial space countywide. This is down from the six million square feet that was vacant a year ago, a decrease of 11.54%. We foresee the vacancy rate remaining at this 2% level for the near future.

The average asking rental rate in the second quarter was \$0.74 per square foot on a triple net basis per month. This asking rate is up \$0.02 from the first quarter and 12.12%

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Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Availability Rate	2Q Direct Net Absorption	YTD Direct Net Absorption	2Q Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate
Costa Mesa	7,544,168	0.3%	0.8%	2.1%	23,412	(32,711)	92,571	197,786	\$0.87
Fountain Valley	3,876,111	3.4%	3.4%	3.7%	(1,587)	67,996	121,849	260,046	\$0.83
Irvine	12,487,397	3.3%	3.3%	5.2%	(40,527)	15,356	66,719	120,286	\$0.80
Newport Beach	437,514	0.6%	0.6%	1.1%	(1,174)	(1,873)	699	1,398	\$0.00
Santa Ana	30,456,716	2.2%	2.3%	4.8%	71,955	87,582	435,547	776,799	\$0.69
Tustin	4,577,226	6.3%	6.3%	7.3%	(137,672)	(219,123)	52,152	172,417	\$0.76
Airport Area	59,379,132	2.6%	2.7%	4.4%	(85,593)	(82,773)	769,537	1,528,732	\$0.74

Anaheim	44,546,917	1.5%	1.5%	2.5%	216,438	559,574	659,076	1,287,836	\$0.71
Brea/La Habra	15,319,562	3.2%	3.2%	3.7%	1,753	(54,319)	166,433	257,344	\$0.67
Buena Park	13,470,380	0.8%	1.1%	2.1%	22,959	(1,686)	10,953	16,543	\$0.62
Fullerton	19,102,768	3.3%	3.8%	5.7%	(90,218)	(147,104)	51,059	400,986	\$0.60
Orange	13,559,391	0.6%	0.7%	1.2%	36,912	83,034	94,723	180,713	\$0.77
Placentia/Yorba Linda	4,951,151	0.3%	0.3%	2.0%	11,883	54,760	86,336	143,577	\$0.74
North County	110,950,169	1.8%	2.0%	3.0%	199,727	494,259	1,068,580	2,286,999	\$0.66

Irvine Spectrum	9,757,630	1.5%	1.5%	5.1%	10,766	62,887	167,178	176,157	\$0.96
Laguna Hills/Aliso Viejo	1,769,964	1.9%	3.1%	2.9%	(36,634)	8,689	38,298	52,053	\$0.99
Laguna Niguel/Laguna Beach	371,382	1.3%	1.3%	1.3%	(1,640)	(40)	0	4,490	\$0.00
Lake Forest/Foothill Ranch	9,361,971	5.9%	6.2%	6.8%	(66,667)	(244,222)	91,939	334,146	\$0.88
Mission Viejo	523,373	0.7%	0.7%	1.3%	1,200	3,810	2,406	17,177	\$1.10
Dana Point/San Juan/San Clemente	2,970,445	1.7%	1.7%	5.3%	(21,981)	(5,463)	35,310	45,142	\$0.94
South County	24,754,765	3.2%	3.4%	5.5%	(114,956)	(174,339)	335,131	629,165	\$0.92

Cypress	4,198,819	5.8%	5.8%	16.4%	(82,433)	23	238,286	238,286	\$0.68
Garden Grove	12,113,616	1.3%	1.4%	4.7%	38,504	27,562	31,706	279,531	\$0.68
Huntington Beach	14,170,101	2.7%	2.9%	2.7%	39,056	(46,553)	383,631	479,049	\$0.68
La Palma	1,774,689	8.2%	8.2%	4.0%	18,846	(33,266)	0	75,000	\$0.00
Los Alamitos/Stanton	4,133,346	0.7%	0.7%	1.0%	(21,266)	(23,506)	11,408	11,408	\$0.95
Seal Beach	1,000,659	0.0%	0.0%	6.8%	0	0	0	0	\$0.74
Westminster	2,357,840	2.4%	2.4%	0.5%	(4,758)	(10,393)	41,973	67,437	\$0.79
West County	39,749,070	2.6%	2.7%	4.6%	(12,051)	(86,133)	707,004	1,150,711	\$0.69

0 - 9,999	20,009,793	1.0%	1.1%	2.0%	(22,351)	(22,537)	173,793	338,325	\$1.00
10,000 - 24,999	60,843,716	1.1%	1.2%	2.8%	(48,127)	96,812	470,772	1,021,953	\$0.97
25,000 - 49,999	40,334,540	1.7%	1.8%	3.1%	(12,295)	(45,725)	336,602	730,778	\$0.86
50,000 - 99,000	36,800,902	1.9%	1.9%	5.3%	151,909	29,299	237,367	531,226	\$0.71
100,000 - 249,999	43,318,253	3.6%	4.0%	4.9%	120,760	295,934	981,976	2,043,543	\$0.68
250,000 Plus	33,525,932	4.5%	4.6%	5.1%	(202,769)	(202,769)	679,742	929,782	\$0.61

Orange County Total	234,833,136	2.3%	2.4%	3.9%	(12,873)	151,014	2,880,252	5,595,607	\$0.74
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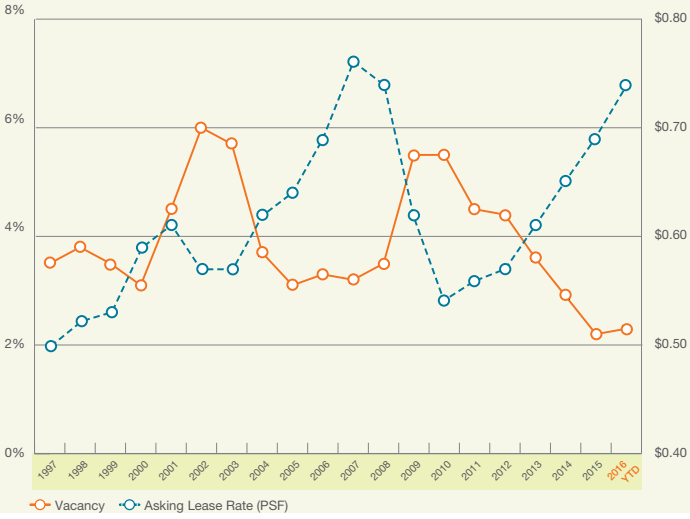
year-over-year. The market's peak lease rates were established in the second quarter of 2008, at \$0.78 per square foot. In a trend that first emerged in 2014, many industrial spaces are entering the market unpriced, with landlords letting the market set the going rate. The numbers above can thus be 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 sold, leaving little high quality industrial product available for sale. Another driving factor is

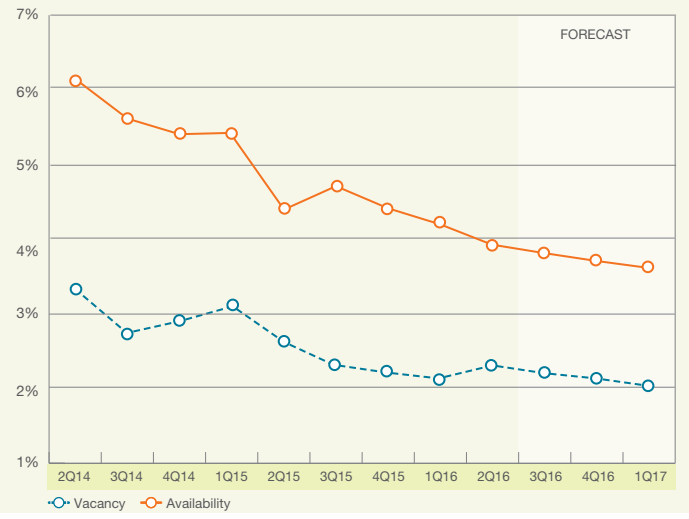
simply that some of the industrial properties that are purchased are viewed as redevelopment opportunities, slated for demolition or refurbishment into residential and/or creative space. It is a great time to be a landlord or a seller, as the Orange County industrial market improves, pricing continues to increase, and vacancy and availabilities remain at historically low levels.

Data Source: CoStar

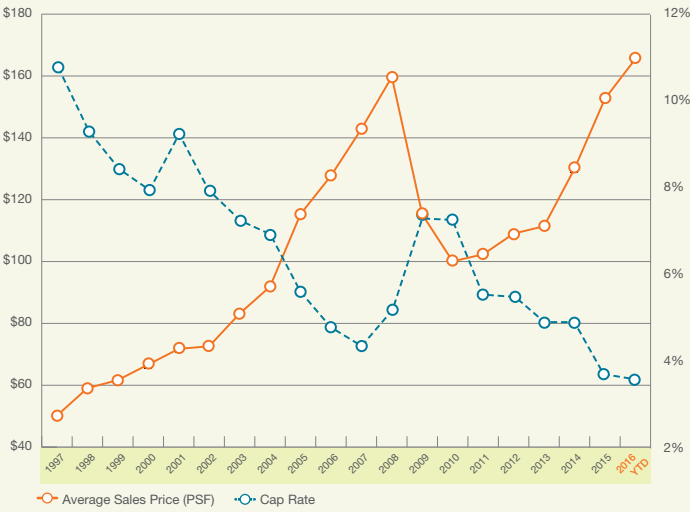
VACANCY VS ASKING LEASE RATE



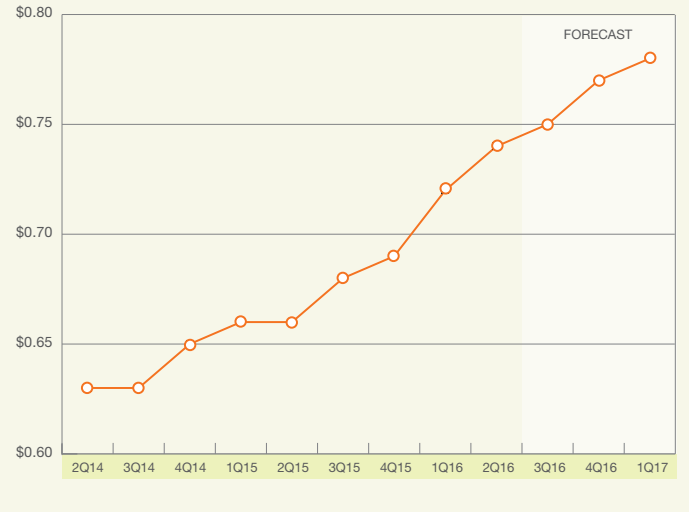
VACANCY VS AVAILABILITY



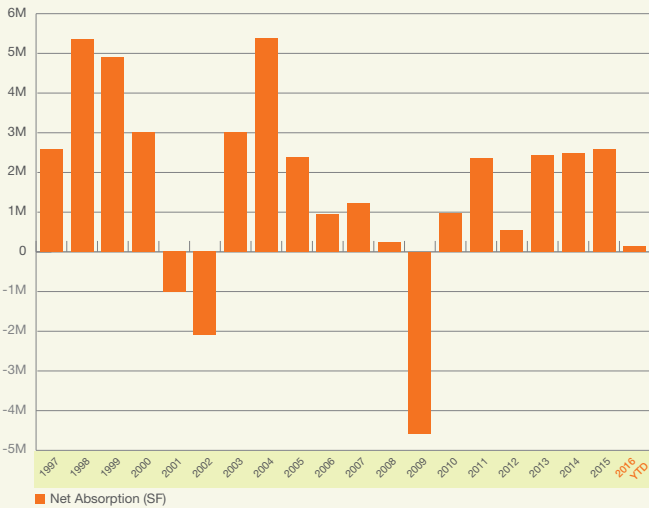
AVERAGE SALES PRICE & CAPITALIZATION RATES



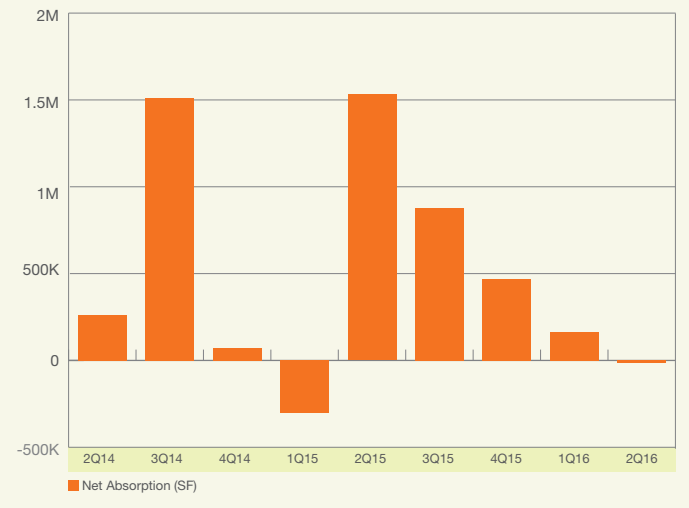
ASKING LEASE RATE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



Offices

Seattle
206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

Olympia
360.705.2800

Portland
503.221.9900

San Francisco
415.229.8888

Redwood Shores
650.769.3600

Silicon Valley
408.970.9400

Sacramento
916.751.3600

San Diego
858.509.1200

Orange County
949.557.5000

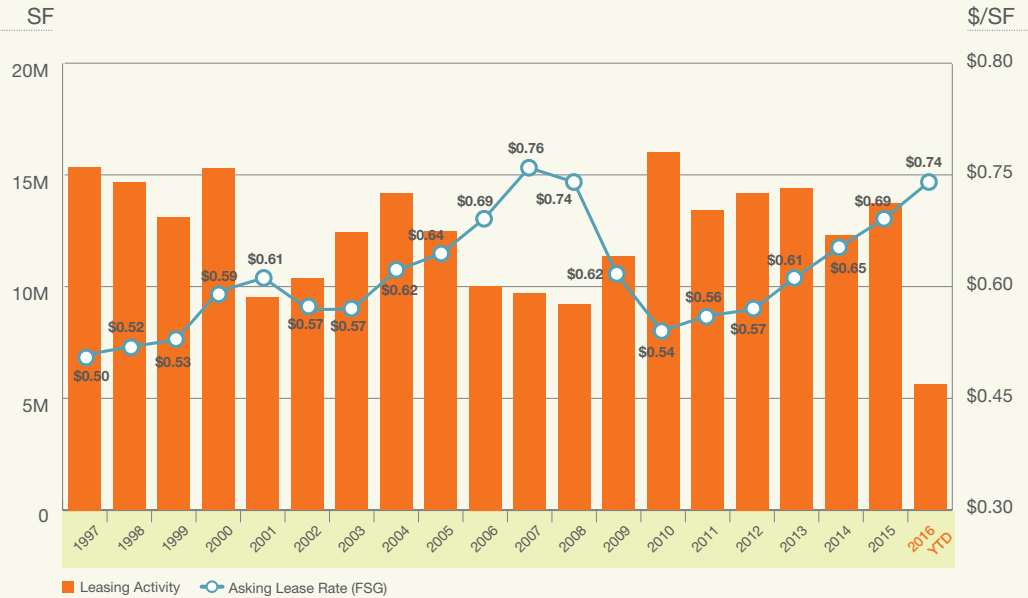
Phoenix
602.513.5200

Reno
775.301.1300

Market Breakdown

	2Q 2016	1Q 2016	2Q 2015	Annual % Change
Vacancy Rate	2.3%	2.1%	2.6%	-11.54%
Availability Rate	3.9%	4.2%	4.4%	-11.36%
Asking Lease Rate	\$0.74	\$0.72	\$0.66	12.12%
Leased SF	2,880,252	2,747,460	3,461,159	-16.78%
Sold SF	1,412,753	1,562,960	1,891,565	-25.31%
Net Absorption	-12,873	163,887	1,531,213	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES

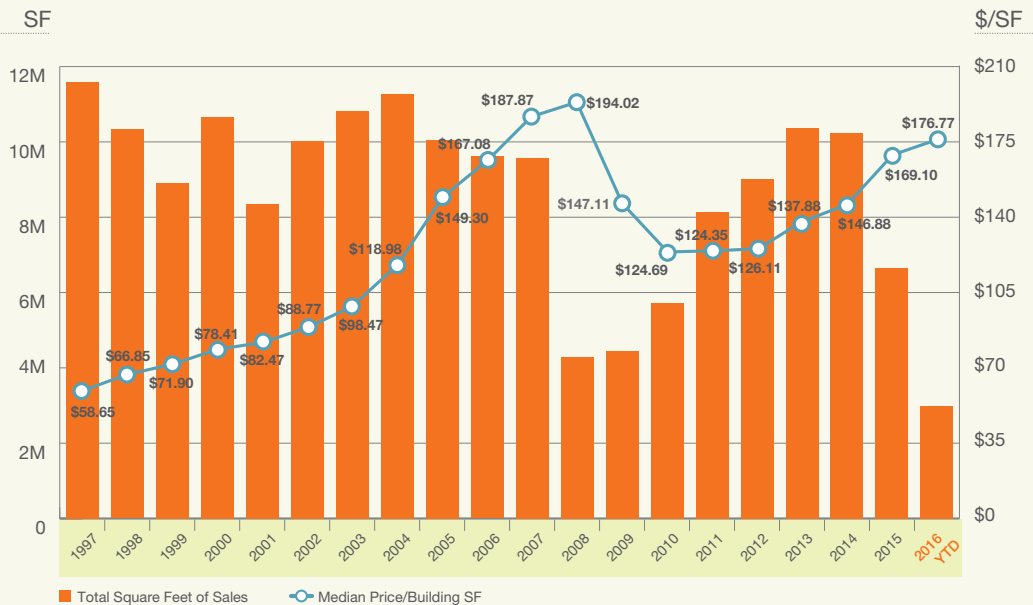


Contact

Mark Read
Executive VP, Brokerage
Southwest
949.557.5000
mread@kiddermathews.com

Designated Broker
Mark Read | LIC #00572743

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