

Orange County Industrial

Market Summary

	Q3 2016	FORECAST
Absorption	↑	↑
Vacancy	↓	↓
Rental Rate	↑	↑
New Construction	↔	↑

Notable Lease Transactions

3PL Global
601 S. Acacia Avenue, Fullerton
441,020 s.f.

Amazon
17871 Von Karman Avenue, Irvine
159,163 s.f.

ASEA Power Systems
15282 Newsboy Circle, Huntington Beach
57,914 s.f.

The Orange County industrial market continued to improve in the third quarter of 2016, as pricing continued to trend upward. Vacancy remains at historically low levels, and the amount of available space has decreased by over 18.8% 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. We expect moderate increases in leasing and sales activity in the coming year, as job creation stays strong. Moving into the fourth quarter 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 positive 428,607 square feet in the third quarter of 2016, giving Orange County a total of over 600,000 square feet of positive absorption for the year. Last year started with 302,143 square feet of negative absorption and 2015 ended the year with a total of 2.8 million square feet of positive absorption. The North County submarket added 164,390 square feet of occupied space this quarter, which accounted for the largest amount of positive absorption in the county.

Leasing activity was down in the third quarter due to the lack of available space. The 1.9 million square feet that came off the market represents a decrease over the 3.4 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 down from the record low rate of 2.5% to 2.4% during the third quarter, which equates to 5.7 million square feet of vacant industrial space countywide. This is down from the 5.9 million square feet that was vacant a year ago, a decrease of 4.0%. We foresee the vacancy rate remaining at this 2% level for the near future.

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Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Availability Rate	3Q Direct Net Absorption	YTD Direct Net Absorption	3Q Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate
Costa Mesa	7,514,948	4.4%	0.2%	4.6%	6.0%	18,254	(14,457)	31,063	229,449	\$0.88
Fountain Valley	3,860,388	3.2%	0.0%	3.2%	3.2%	11,695	79,691	12,200	272,246	\$0.85
Irvine	12,584,055	2.2%	0.1%	2.3%	4.7%	191,979	207,335	225,358	345,644	\$0.87
Newport Beach	437,514	0.0%	0.0%	0.0%	0.0%	2,500	627	5,000	6,398	\$0.00
Santa Ana	30,080,368	2.3%	0.2%	2.5%	4.8%	(37,716)	47,299	223,437	1,052,135	\$0.72
Tustin	4,591,604	6.7%	0.0%	6.7%	8.9%	(22,322)	(237,045)	960	173,377	\$0.76
Airport Area	59,068,877	2.9%	0.2%	3.1%	5.1%	164,390	83,450	498,018	2,079,249	\$0.78
Anaheim	44,489,858	1.0%	0.2%	1.2%	1.6%	147,190	703,776	273,201	1,838,032	\$0.66
Brea/La Habra	15,538,433	4.7%	0.0%	4.7%	5.3%	(43,064)	(73,488)	90,545	351,794	\$0.67
Buena Park	13,479,909	0.9%	0.0%	0.9%	3.9%	6,828	35,699	5,218	35,336	\$0.71
Fullerton	19,116,932	3.3%	0.5%	3.8%	2.8%	(6,419)	(153,523)	494,630	907,063	\$0.61
Orange	13,552,027	0.6%	0.1%	0.7%	1.7%	(25,432)	80,063	26,965	251,358	\$0.93
Placentia/Yorba Linda	4,963,462	0.8%	0.0%	0.8%	3.4%	(26,016)	26,585	7,798	151,375	\$0.69
North County	111,140,621	1.8%	0.2%	2.0%	2.7%	53,087	619,112	898,357	3,534,958	\$0.65
Irvine Spectrum	9,759,077	2.0%	0.0%	2.0%	4.3%	(55,284)	5,347	50,537	232,731	\$1.08
Laguna Hills/Aliso Viejo	1,776,772	0.1%	0.0%	0.1%	1.6%	54,089	62,778	18,612	105,818	\$1.13
Laguna Niguel/Laguna Beach	359,526	0.9%	0.0%	0.9%	0.9%	1,640	1,600	1,640	4,880	\$0.00
Lake Forest/Foothill Ranch	9,385,508	5.4%	0.2%	5.6%	7.7%	37,276	(237,691)	65,630	452,273	\$0.90
Mission Viejo	523,373	0.0%	0.0%	0.0%	0.9%	3,465	7,275	3,272	20,449	\$1.28
Dana Point/San Juan/San Clemente	2,971,575	0.7%	0.2%	0.9%	3.0%	21,711	16,248	12,027	76,079	\$1.09
South County	24,775,831	3.0%	0.1%	3.1%	5.1%	62,897	(144,443)	151,718	892,230	\$0.98
Cypress	4,198,819	4.7%	0.7%	5.4%	14.3%	59,953	17,295	0	296,714	\$0.67
Garden Grove	12,100,483	0.9%	0.2%	1.1%	4.1%	31,743	56,088	106,877	465,379	\$0.69
Huntington Beach	14,170,514	3.0%	0.2%	3.2%	2.0%	(49,750)	(97,503)	207,613	728,146	\$0.70
La Palma	1,774,689	4.0%	0.0%	4.0%	0.0%	75,000	41,734	0	145,200	\$0.00
Los Alamitos/Stanton	4,133,563	0.3%	0.0%	0.3%	1.5%	16,673	(7,754)	24,561	35,969	\$1.02
Seal Beach	1,000,659	0.0%	0.0%	0.0%	6.8%	0	0	0	0	\$0.75
Westminster	2,358,835	0.4%	0.0%	0.4%	0.2%	14,614	36,622	25,166	100,183	\$0.79
West County	39,737,562	2.3%	0.4%	2.7%	3.8%	148,233	46,482	364,217	1,771,591	\$0.70
0 - 9,999	20,045,100	0.9%	0.0%	0.9%	2.1%	15,711	17,250	133,787	487,593	\$1.05
10,000 - 24,999	60,785,036	1.1%	0.1%	1.2%	2.5%	(18,989)	95,142	569,642	1,795,305	\$1.03
25,000 - 49,999	40,235,640	1.8%	0.1%	1.9%	3.8%	(53,414)	(76,249)	216,154	1,110,732	\$0.88
50,000 - 99,000	36,846,197	2.3%	0.2%	2.5%	3.7%	(114,994)	(180,252)	342,228	963,823	\$0.73
100,000 - 249,999	43,651,616	3.0%	0.6%	3.6%	6.1%	375,951	727,137	21,662	2,190,181	\$0.68
250,000 Plus	33,159,302	4.8%	0.0%	4.8%	4.0%	224,342	21,573	628,837	1,730,394	\$0.61
Orange County Total	234,722,891	2.3%	0.1%	2.4%	3.9%	428,607	604,601	1,912,310	8,278,028	\$0.76

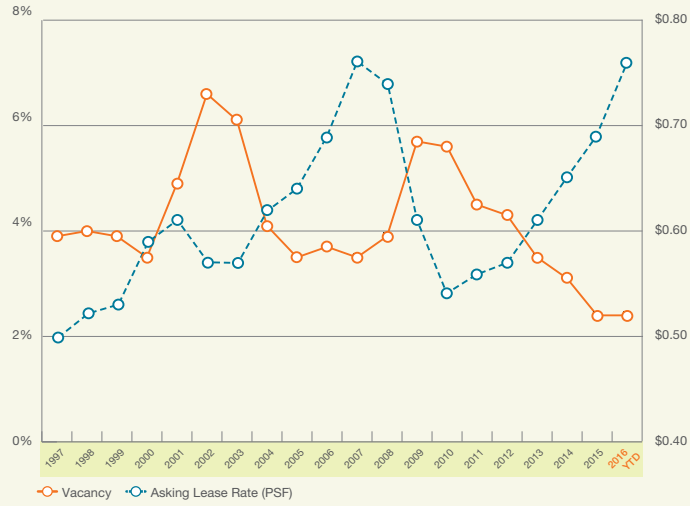
The average asking rental rate in the second quarter was \$0.76 per square foot on a triple net basis per month. This asking rate is up \$0.02 from the second quarter and 11.8% year-over-year. The market's peak lease rates were established in the second quarter of 2008, at \$0.78 per square foot. In 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

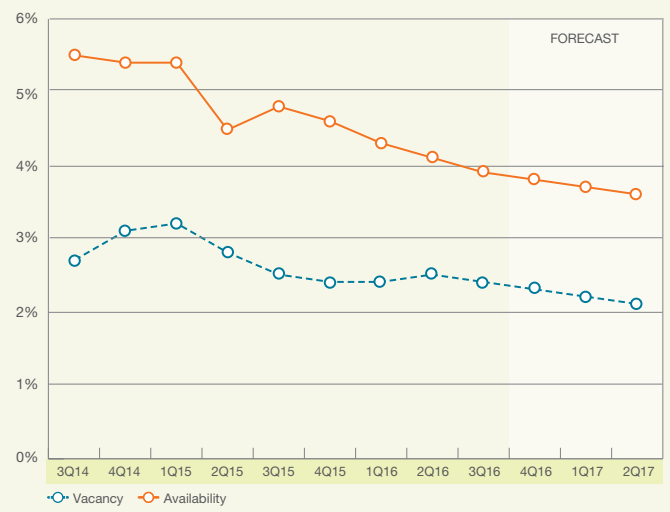
industrial product that sellers were looking to move has sold, and there isn't much high quality industrial product available for sale. Another driving factor is simply that some of the industrial properties that are purchased are viewed as redevelopment opportunities, slated for demolition or refurbishment into residential and/or creative office space. It's 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

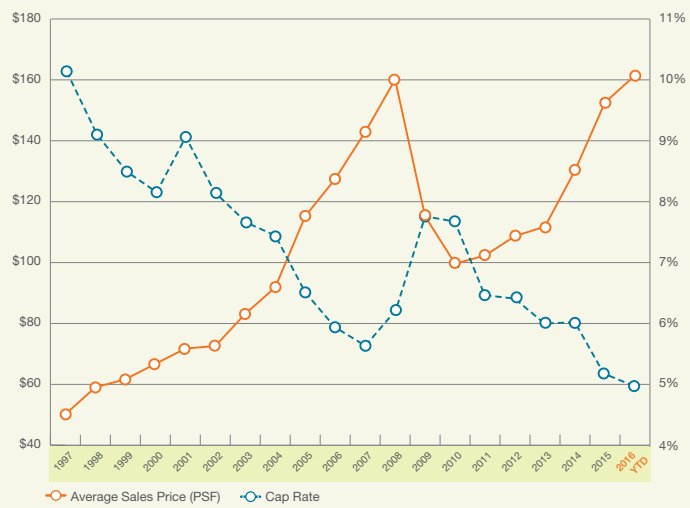
VACANCY VS ASKING LEASE RATE



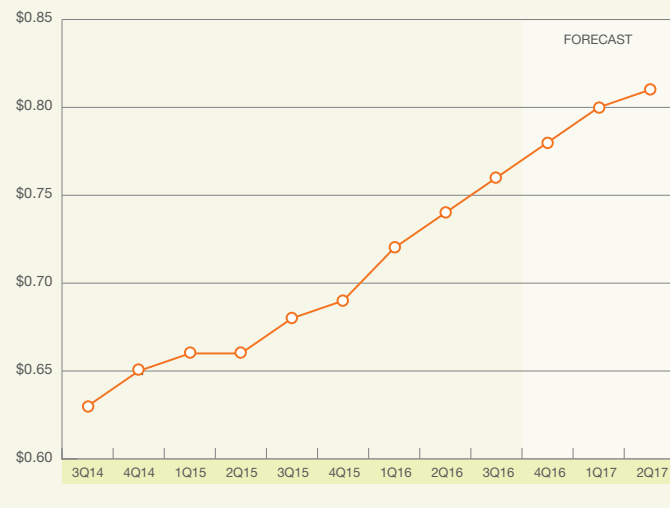
VACANCY VS AVAILABILITY



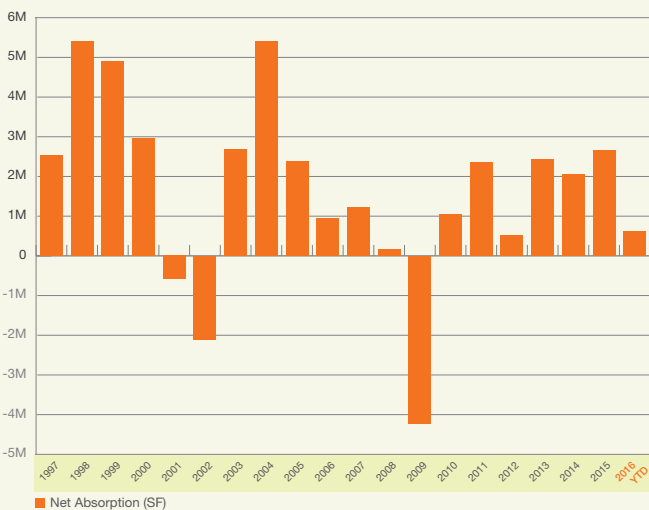
AVERAGE SALES PRICE & CAPITALIZATION RATES



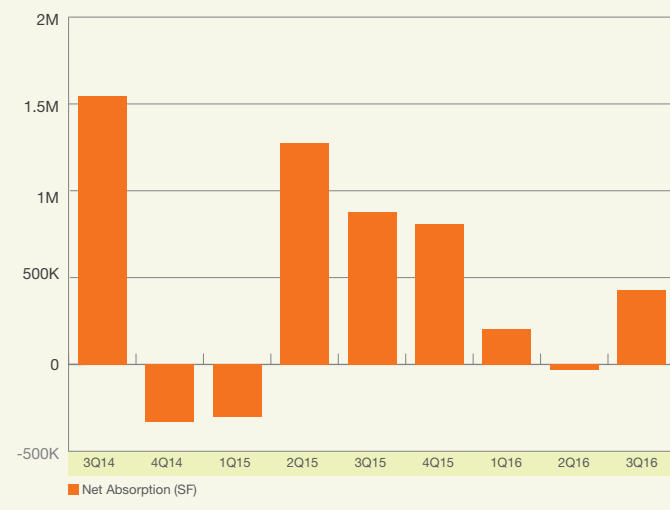
ASKING LEASE RATE



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
916.970.9700

Roseville
916.751.3600

Orange County
949.557.5000

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

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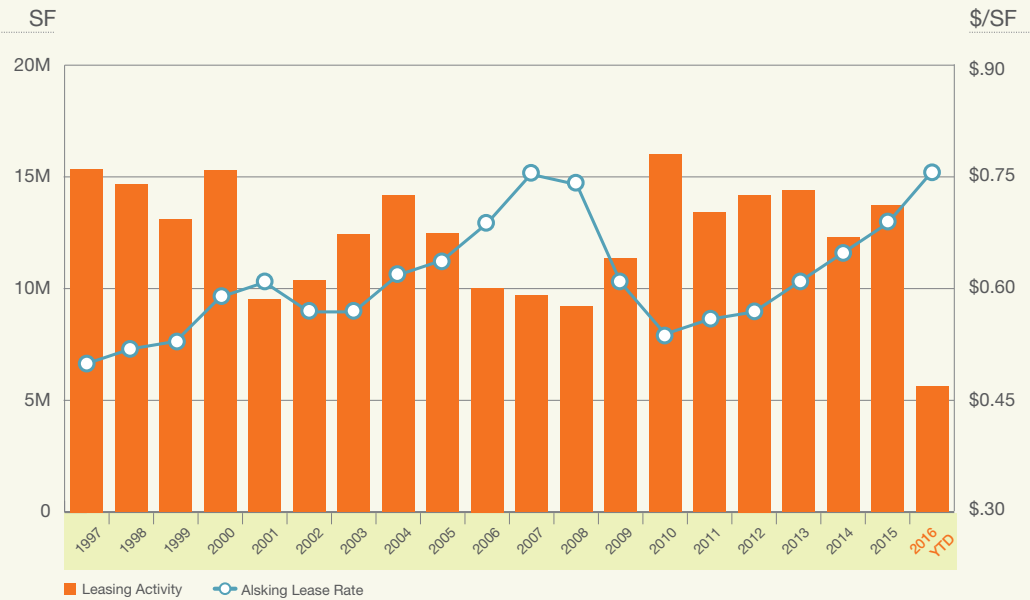
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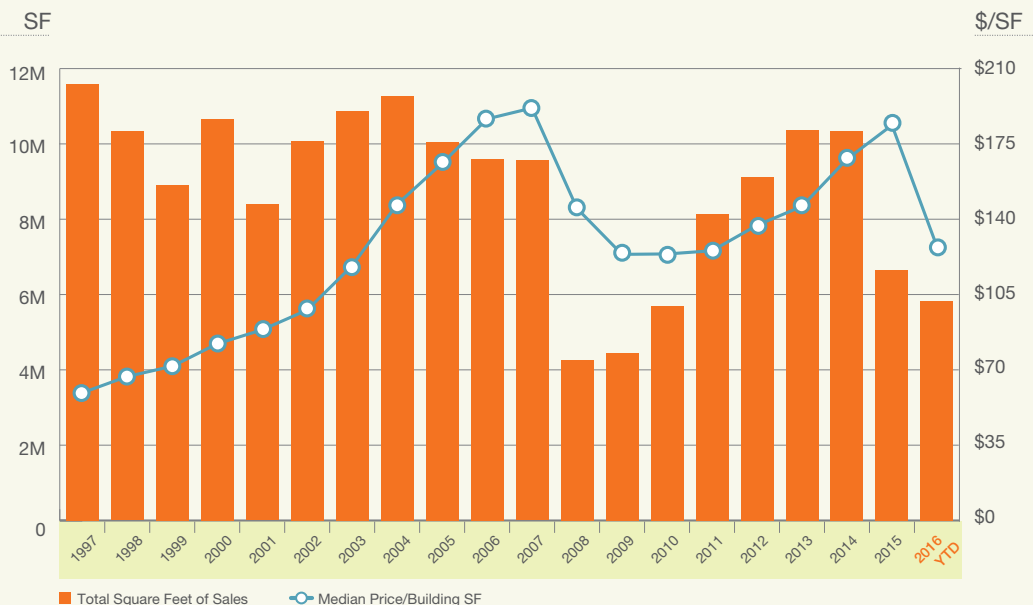
Market Breakdown

	3Q 2016	2Q 2016	3Q 2015	Annual % Change
Vacancy Rate	2.4%	2.5%	2.5%	-4.0%
Availability Rate	3.9%	4.1%	4.8%	-18.8%
Asking Lease Rate	\$0.76	\$0.74	\$0.68	11.8%
Leased SF	1,912,310	3,416,368	3,406,186	-43.9%
Sold SF	2,821,644	1,808,428	1,449,458	94.7%
Net Absorption	428,607	-29,402	877,674	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES



HISTORICAL SALES SF & MEDIAN SALE PRICE



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