

Orange County Industrial

Market Summary

	Q4 2016	FORECAST
Absorption	↑	↑
Vacancy	↓	↓
Rental Rate	↑	↑
New Construction	↔	↑

Notable 2016 Lease Transactions

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

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

Premier Packaging & Assembly
601 S Acacia, Fullerton
211,200 s.f.

Notable 2016 Sales Transactions

Bentall Kennedy
Anaheim Concourse, Anaheim
7 Properties | 965,255 sf

LBA Realty
9740 Irvine Blvd, Irvine
2 Properties | 446,856 s.f.

TSWA Supermarkets, Inc.
6300 Regio Ave, Buena Park
354,825 s.f.

The Orange County industrial market continued to improve in 2016, as pricing continued to trend upward. Vacancy remains at historically low levels, and the amount of vacant space has decreased by over 16.7% in the past year. The lack of product available for lease and sale in some size ranges (particularly below 100,000 s.f.) is driving prices upward and limiting transaction volume. Moderate increases are expected in leasing and sales activity in the coming year, as job creation stays strong. Moving into 2017, further absorption gains and rising occupancy costs are anticipated, and with very few deliveries in the pipeline to apply upward pressure on vacancy, 2017 is foreseen to be another year of growth.

Net absorption, a measure of market strength, was positive 956,313 s.f. in the fourth quarter of 2016, giving Orange County a total of over 1.6 million s.f. of positive absorption for the year. 2015 started with 307,663 s.f. of negative absorption and 2015 ended the year with a total of 2.6 million s.f. of positive absorption. The North County submarket added 781,366 s.f. of occupied space in 2016, which accounted for the largest amount of positive absorption in the county.

Leasing activity was down in 2017 due to the lack of available space. The 10.8 million s.f. that came off the market in 2016 represents a decrease over the 13.7 million s.f. that leased in 2015. 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 2.4% to 2.0% during 2016, which equates to 4.8 million s.f. of vacant industrial space countywide. This is down from the 5.97 million s.f. that was vacant a year ago, a decrease of 16.7%. We foresee the vacancy rate remaining at this 2% level for the near future.

The average asking rental rate at the end of 2016 was \$0.76 per s.f. on a triple net basis per month. This asking rate is up \$0.06 from the end of 2015, an 8.6% increase

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Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Availability Rate	4Q Direct Net Absorption	YTD Direct Net Absorption	4Q Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate
Costa Mesa	7,528,639	4.8%	0.1%	4.9%	5.7%	(23,290)	(37,747)	66,207	299,156	\$0.94
Fountain Valley	3,860,385	1.7%	0.0%	1.7%	3.3%	57,788	137,479	29,986	302,232	\$0.86
Irvine	12,552,053	2.7%	0.0%	2.7%	5.1%	(56,794)	150,541	145,900	553,904	\$0.91
Newport Beach	441,594	0.0%	0.0%	0.0%	0.0%	0	627	0	6,398	\$0.00
Santa Ana	29,925,681	1.2%	0.1%	1.3%	3.8%	366,970	416,380	445,409	1,597,420	\$0.73
Tustin	4,591,710	8.4%	0.1%	8.5%	8.1%	13,681	(228,284)	2,411	232,760	\$0.72
Airport Area	58,900,062	2.6%	0.1%	2.7%	5.1%	358,355	438,996	689,913	2,991,870	\$0.79
Anaheim	44,394,831	1.0%	0.1%	1.1%	2.4%	10,443	761,425	110,916	1,936,291	\$0.75
Brea/La Habra	15,563,275	4.2%	0.2%	4.4%	5.0%	24,759	(35,967)	208,372	572,586	\$0.69
Buena Park	13,371,389	0.1%	0.1%	0.2%	4.1%	43,295	124,755	18,907	55,364	\$0.71
Fullerton	19,165,590	3.8%	0.1%	3.9%	2.7%	(11,869)	(165,392)	297,175	1,440,128	\$0.62
Orange	13,623,016	0.5%	0.2%	0.7%	2.4%	(2,923)	77,140	75,391	383,331	\$0.80
Placentia/Yorba Linda	4,941,880	0.7%	0.3%	1.0%	2.7%	(7,660)	19,405	20,153	171,528	\$0.69
North County	111,059,981	1.8%	0.1%	1.9%	3.0%	56,045	781,366	730,914	4,559,228	\$0.67
Irvine Spectrum	9,773,630	1.4%	0.0%	1.4%	6.3%	52,826	64,594	57,996	423,597	\$1.03
Laguna Hills/Aliso Viejo	1,776,772	0.5%	0.0%	0.5%	2.4%	(7,080)	55,698	4,297	115,211	\$1.26
Laguna Niguel/Laguna Beach	359,526	0.9%	0.0%	0.9%	0.9%	0	1,600	0	4,880	\$0.00
Lake Forest/Foothill Ranch	9,398,493	6.0%	0.4%	6.4%	8.0%	(101,610)	(310,363)	26,082	527,095	\$0.87
Mission Viejo	502,030	0.5%	0.0%	0.5%	0.3%	(1,297)	4,965	2,364	22,813	\$1.10
Dana Point/San Juan/San Clemente	2,967,422	1.8%	0.0%	1.8%	5.1%	(24,943)	(8,695)	35,982	112,061	\$1.15
South County	24,777,873	3.1%	0.2%	3.3%	6.3%	(82,104)	(192,201)	126,721	1,205,657	\$0.95
Cypress	4,198,819	0.0%	0.0%	0.0%	14.0%	225,164	242,459	0	309,414	\$0.66
Garden Grove	12,119,924	1.1%	0.0%	1.1%	4.1%	30,623	60,667	82,192	614,651	\$0.71
Huntington Beach	14,181,798	1.0%	0.0%	1.0%	2.6%	320,367	222,864	41,890	777,305	\$0.70
La Palma	1,774,689	0.0%	0.0%	0.0%	7.4%	70,200	111,934	0	145,200	\$0.63
Los Alamitos/Staton	4,127,634	0.5%	0.0%	0.5%	1.9%	(8,280)	(16,994)	2,880	38,849	\$0.90
Seal Beach	994,446	0.0%	0.0%	0.0%	8.9%	0	0	0	0	\$0.00
Westminster	2,377,603	1.0%	0.0%	1.0%	0.5%	(14,057)	22,565	20,493	122,332	\$0.79
West County	39,774,913	0.8%	0.0%	0.8%	3.8%	624,017	643,495	147,455	2,007,751	\$0.69
0 - 9,999	20,024,668	0.8%	0.0%	0.8%	1.6%	15,334	25,456	146,325	657,233	\$1.07
10,000 - 24,999	60,635,372	1.3%	0.1%	1.4%	2.7%	(125,065)	(27,168)	426,650	2,392,873	\$1.00
25,000 - 49,999	40,505,490	2.0%	0.2%	2.2%	3.4%	(162,878)	(198,997)	321,482	1,673,372	\$0.85
50,000 - 99,000	36,848,753	1.6%	0.1%	1.7%	4.6%	335,518	166,077	334,584	1,337,577	\$0.77
100,000 - 249,999	43,449,419	1.9%	0.0%	1.9%	5.4%	662,933	1,454,162	465,962	2,761,857	\$0.68
250,000 Plus	33,049,127	4.2%	0.0%	4.2%	6.1%	230,471	252,126	0	1,941,594	\$0.61
Orange County Total	234,512,829	1.9%	0.1%	2.0%	4.0%	956,313	1,671,656	1,695,003	10,764,506	\$0.76

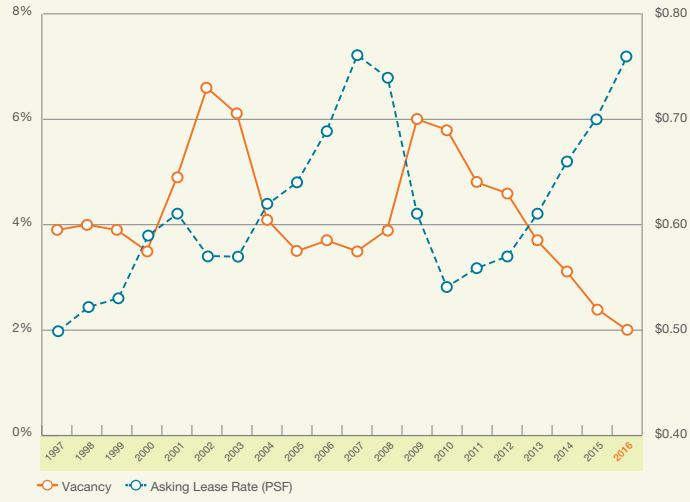
year-over-year. The market's peak lease rates were established in the second quarter of 2008, at \$0.78 per s.f. In a trend that first emerged in 2014, many industrial spaces are entering the market unpriced, with landlords letting the market set the going rate. The numbers above can thus be swayed drastically 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

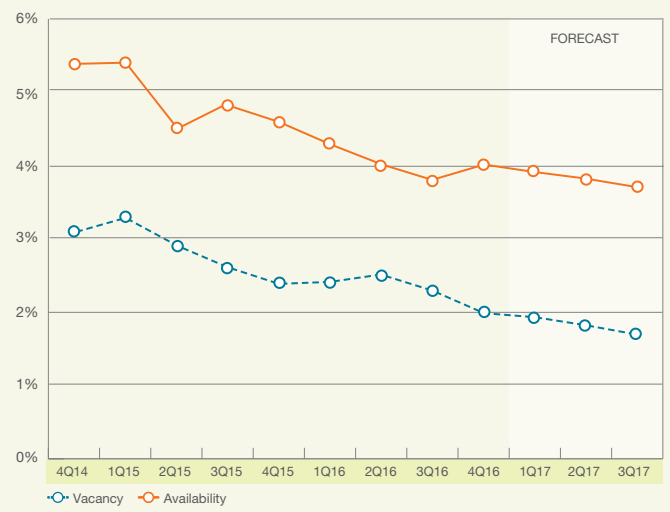
industrial product that sellers were looking to move has sold, and there isn't much high quality industrial product available for sale. Another driving factor is simply that some of the industrial properties purchased are viewed as redevelopment opportunities, slated for demolition or refurbishment into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

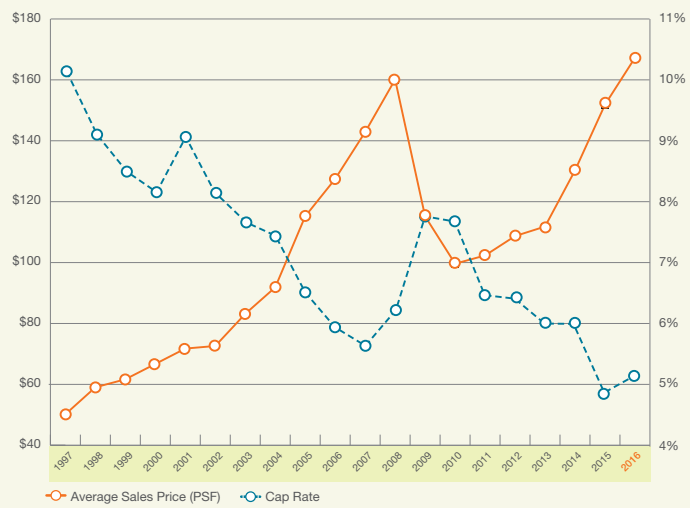
VACANCY VS ASKING LEASE RATE



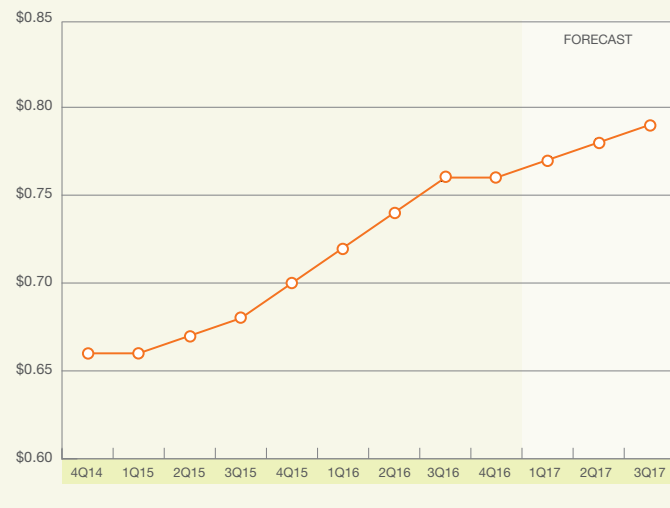
VACANCY VS AVAILABILITY



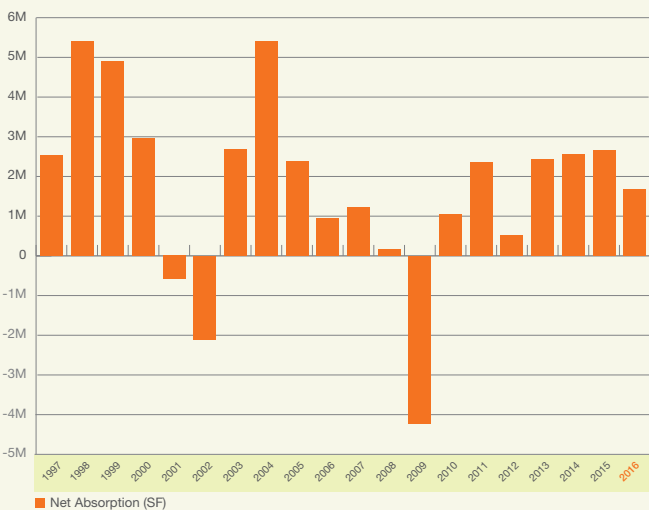
AVERAGE SALES PRICE & CAPITALIZATION RATES



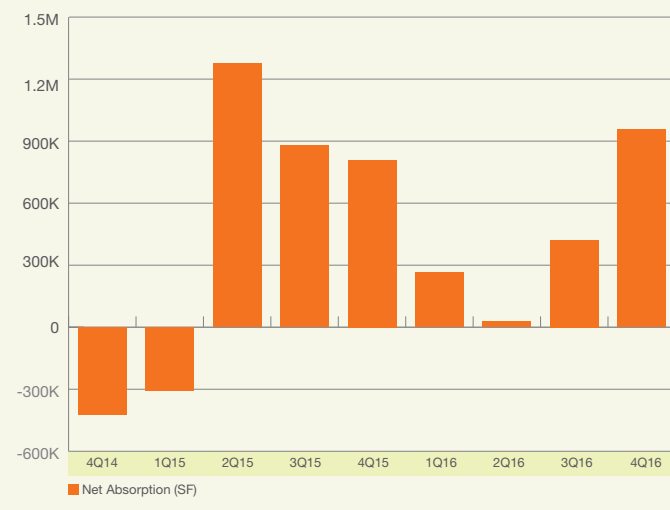
ASKING LEASE RATE



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

Inland Empire
909.764.6500

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

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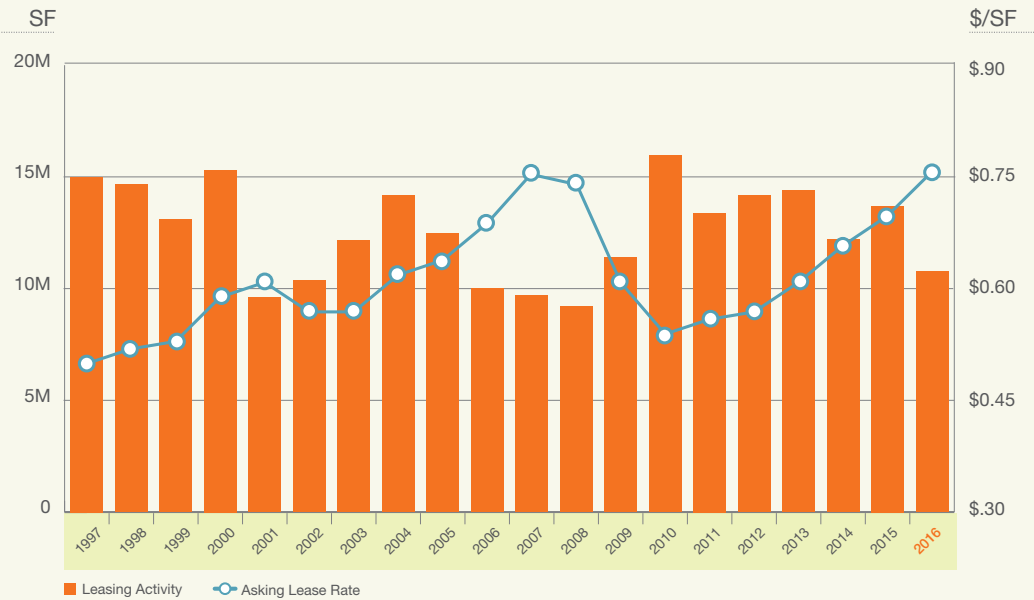
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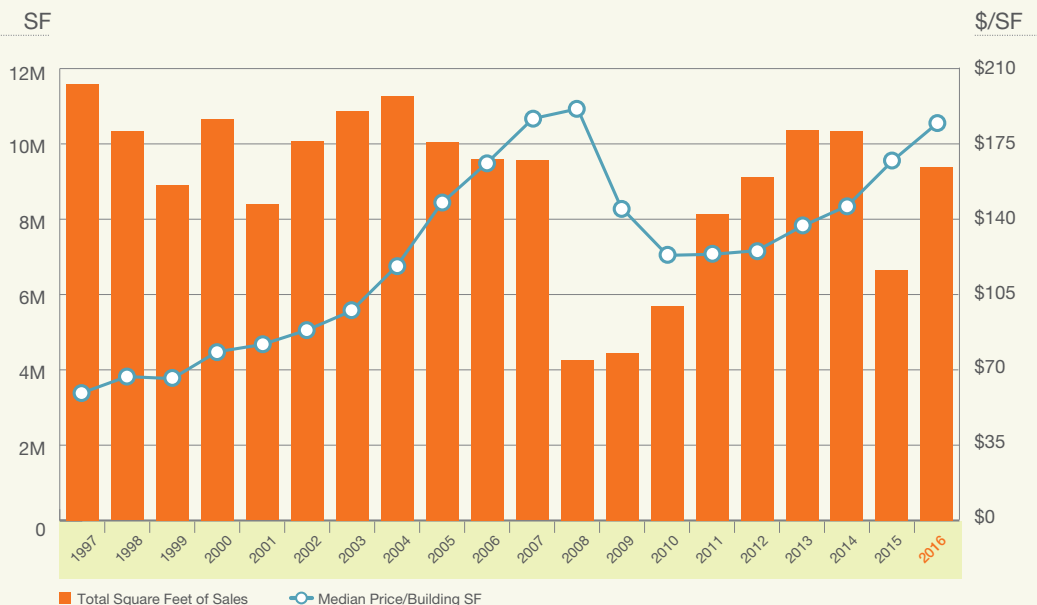
Market Breakdown

	2016	2015	2014	Annual % Change
Vacancy Rate	2.00%	2.40%	3.10%	-16.70%
Availability Rate	4.00%	4.60%	5.40%	-13.00%
Asking Lease Rate	\$0.76	\$0.70	\$0.66	8.60%
Leased SF	10,764,506	13,699,373	12,190,342	-21.40%
Sold SF	9,380,733	6,661,872	10,346,072	40.80%
Net Absorption	1,671,656	2,653,666	2,553,200	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES



HISTORICAL SALES SF & MEDIAN SALE PRICE



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