

Orange County Industrial

Market Summary

	Q1 2017	FORECAST
Absorption	↓	↑
Vacancy	↓	↓
Rental Rate	↑	↑
New Construction	↔	↑

Notable Industrial Leases

WORLD PAC, Inc.
1225 W. Imperial Hwy., Brea
240,513 sf

Pleaser Shoes USA, Inc
105 S. Puente St., Brea
184,000 sf

Travelers Club Luggage, Inc.
5911 Fresca Dr., La Palma
131,280 sf

Notable Industrial Sales

Shopoff Realty Investments, LP
901 E. South St., Anaheim
2 Properties | 367,519 sf

Banyan Tree Joint Venues, LP
2114 W. Ball Rd., Anaheim
2 Properties | 158,916 sf

American Technologies, Inc.
3356-3360 E. La Palma Ave., Anaheim
143,717 sf

The Orange County industrial market continued to improve in the first quarter of 2017, as pricing continued to trend upward. With the amount of overall vacant space decreasing by over 3.2% year-over-year, vacancy remains at historically low levels. 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 are expected in leasing and sales activity in the coming year, as job creation stays strong. Even with rising occupancy costs, gains in absorption are anticipated throughout the year, and with very few deliveries in the pipeline to apply upward pressure on vacancy, 2017 will most likely be another year of growth.

Net absorption, as a measure of market strength, was negative 288,983 square feet in the first quarter of 2017, giving Orange County its first back-to-back-to-back first quarter slow start since the great recession. 2015 and 2016, respectively, started with 418,403 and 182,620 square feet of negative absorption and ended the year with a total of 2.6 and over 1.5 million square feet of positive absorption for the year. The North County submarket added 155,677 square feet of occupied space in first quarter 2017, which accounted for the largest amount of positive absorption in the county.

Leasing activity was down in the first quarter due to the lack of available space. The 1.79 million square feet that came off the market represents the slowest three months since the second quarter of 2007. 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 direct vacancy rate ticked down to 2.1%, a 20 basis point drop from last year's direct rate of 2.3%. This equates to 5.02 million square feet of direct vacant industrial space county wide. This is down from the 5.28 million square feet that was vacant a year ago, a decrease of 4.9%. It's foreseen that the vacancy rate will remain at this 2% level for the near future.

The average asking rental rate at the end of the first quarter was \$0.79 per square foot on a triple net basis per month. This asking rate is up \$0.07 from the first quarter of 2016, a

→ Continued, page 2

Area Review

Submarket Statistics

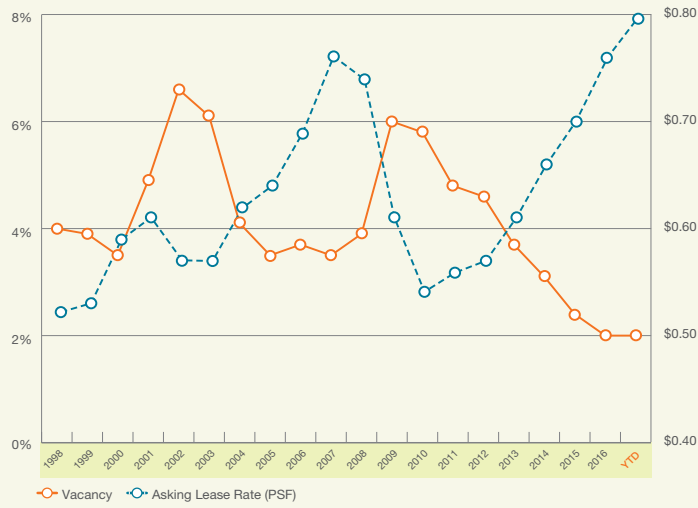
Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Availability Rate	QTR Direct Net Absorption	YTD Direct Net Absorption	QTR Total Leasing Activity	YTD Total Leasing Activity	Average Direct Rental Rate (NNN)
Costa Mesa	7,532,719	5.3%	0.0%	5.3%	5.2%	(33,504)	(33,504)	95,333	95,333	\$0.97
Fountain Valley	3,860,021	1.5%	0.0%	1.5%	2.6%	6,293	6,293	16,870	16,870	\$0.84
Irvine	12,531,078	4.5%	0.0%	4.5%	5.5%	(173,559)	(173,559)	105,605	105,605	\$0.89
Newport Beach	441,594	2.1%	0.0%	2.1%	2.5%	(9,140)	(9,140)	0	0	\$0.00
Santa Ana	29,921,810	1.7%	0.1%	1.8%	3.0%	(194,007)	(194,007)	271,514	271,514	\$0.71
Tustin	4,591,710	7.4%	0.1%	7.5%	9.0%	44,895	44,895	31,690	31,690	\$0.73
Airport Area	58,882,932	3.3%	0.1%	3.4%	4.3%	(359,022)	(359,022)	521,012	521,012	\$0.78
Anaheim	44,550,438	1.4%	0.1%	1.5%	2.7%	(177,419)	(177,419)	313,704	313,704	\$0.78
Brea/La Habra	15,511,263	4.4%	0.2%	4.6%	2.8%	12,884	12,884	209,862	209,862	\$0.72
Buena Park	13,322,901	0.6%	0.2%	0.8%	5.7%	(21,414)	(21,414)	24,658	24,658	\$0.74
Fullerton	19,156,528	1.4%	0.7%	2.1%	3.3%	499,838	499,838	154,043	154,043	\$0.65
Orange	13,610,284	1.2%	0.1%	1.3%	2.3%	(93,591)	(93,591)	62,834	62,834	\$0.83
Placentia/Yorba Linda	4,906,807	2.1%	0.3%	2.4%	2.6%	(64,621)	(64,621)	40,900	40,900	\$0.00
North County	111,058,221	2.0%	0.2%	2.2%	3.1%	155,677	155,677	806,001	806,001	\$0.70
Irvine Spectrum	9,778,429	2.5%	0.0%	2.5%	6.6%	(111,674)	(111,674)	40,126	40,126	\$1.24
Laguna Hills/Aliso Viejo	1,776,772	1.1%	0.0%	1.1%	1.9%	(11,653)	(11,653)	8,842	8,842	\$1.26
Laguna Niguel/Laguna Beach	359,526	1.2%	0.0%	1.2%	1.2%	(895)	(895)	0	0	\$0.00
Lake Forest/Foothill Ranch	9,419,830	5.1%	0.6%	5.8%	7.1%	76,677	76,677	109,246	109,246	\$0.88
Mission Viejo	482,104	0.0%	0.0%	0.0%	0.0%	2,310	2,310	1,050	1,050	\$0.00
Dana Point/San Juan/San Clemente	2,979,205	1.6%	1.3%	2.9%	5.3%	6,108	6,108	62,770	62,770	\$1.18
South County	24,795,866	3.2%	0.4%	3.6%	6.1%	(39,127)	(39,127)	222,034	222,034	\$1.02
Cypress	4,256,539	0.0%	0.0%	0.0%	14.9%	0	0	0	0	\$0.68
Garden Grove	12,053,794	1.3%	0.0%	1.3%	3.7%	(20,471)	(20,471)	55,715	55,715	\$0.75
Huntington Beach	14,144,000	1.5%	0.0%	1.5%	2.2%	(20,011)	(20,011)	81,262	81,262	\$0.71
La Palma	1,774,689	0.0%	0.0%	0.0%	0.0%	0	0	0	0	\$0.63
Los Alamitos/Staton	4,127,181	1.0%	0.0%	1.0%	1.4%	(18,866)	(18,866)	19,089	19,089	\$0.86
Seal Beach	994,446	0.0%	0.0%	0.0%	0.0%	0	0	88,507	88,507	\$0.00
Westminster	2,377,603	0.5%	0.0%	0.5%	0.2%	12,837	12,837	5,336	5,336	\$0.00
West County	39,728,252	1.0%	0.1%	1.1%	3.7%	(46,511)	(46,511)	249,909	249,909	\$0.71
0 - 9,999	20,029,140	0.9%	0.0%	0.9%	1.7%	(14,606)	(14,606)	88,420	88,420	\$1.17
10,000 - 24,999	60,596,805	1.7%	0.1%	1.8%	1.4%	(253,612)	(253,612)	559,264	559,264	\$1.04
25,000 - 49,999	40,324,179	2.6%	0.2%	2.8%	2.9%	(76,151)	(76,151)	633,755	633,755	\$0.90
50,000 - 99,999	36,855,795	2.1%	0.3%	2.4%	4.8%	(188,040)	(188,040)	375,902	375,902	\$0.76
100,000 - 249,999	43,605,426	2.7%	0.0%	2.7%	5.4%	(162,604)	(162,604)	106,615	106,615	\$0.70
250,000 Plus	33,053,926	2.5%	0.3%	2.8%	4.8%	406,030	406,030	35,000	35,000	\$0.61
Orange County Total	234,465,271	2.1%	0.2%	2.3%	3.8%	(288,983)	(288,983)	1,798,956	1,798,956	\$0.79

9.7% increase 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.

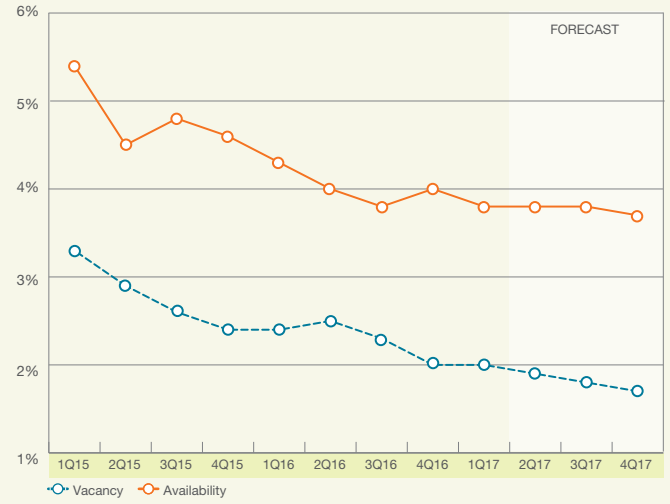
The Orange County industrial investment market remains relatively stable, mostly because much of the high quality industrial product that sellers were looking to move has sold, and there isn't much high-quality industrial product available for sale. Nevertheless,

demand for industrial product has never been greater. For multiple reasons, not least of which is that institutional investors are under-allocated in core product, and with Class A average cap rates ranging between 4-4.5%, industrial buildings are currently transacting above replacement cost. And, although trading above replacement cost is sometimes considered a sign of an overheated market, that is not the case presently because there are no indications, particularly, of excessive development or oversupply, to warrant fears that the Orange County industrial market is going to decline. 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.

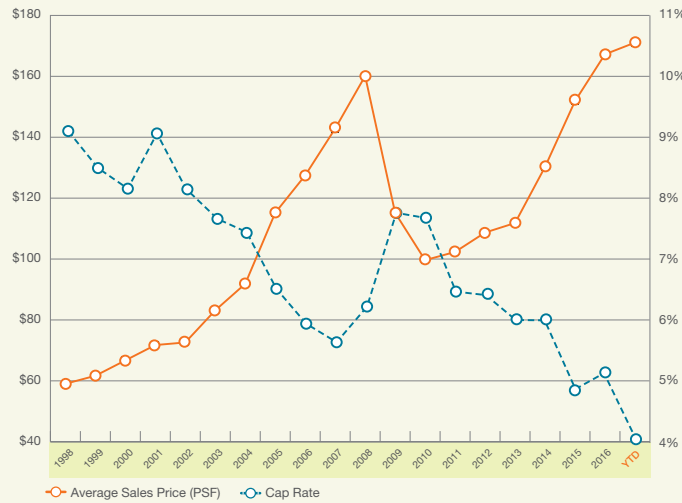
VACANCY VS ASKING LEASE RATE



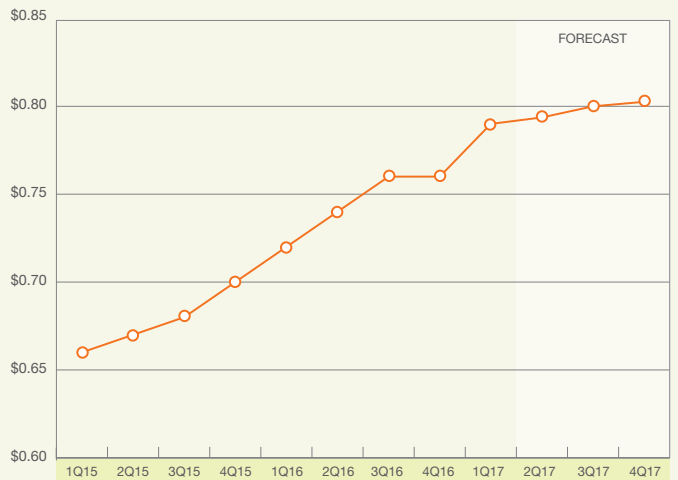
VACANCY VS AVAILABILITY



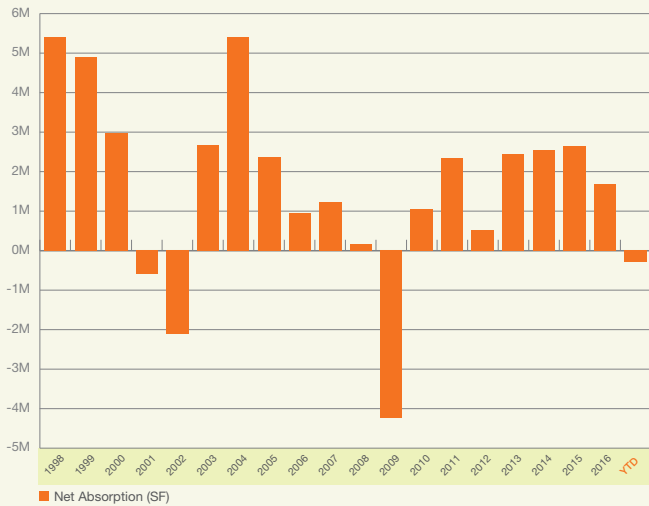
AVERAGE SALES PRICE & CAPITALIZATION RATES



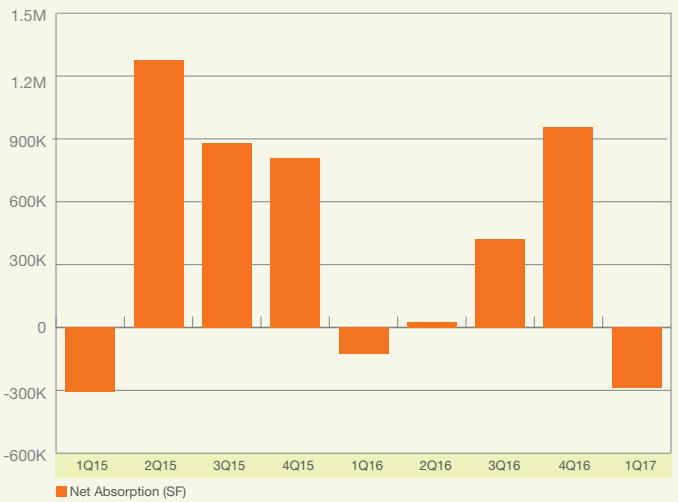
ASKING LEASE RATE



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

Los Angeles
213.880.5250

Commerce
323.727.1144

Long Beach
562.472.0071

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

Contact

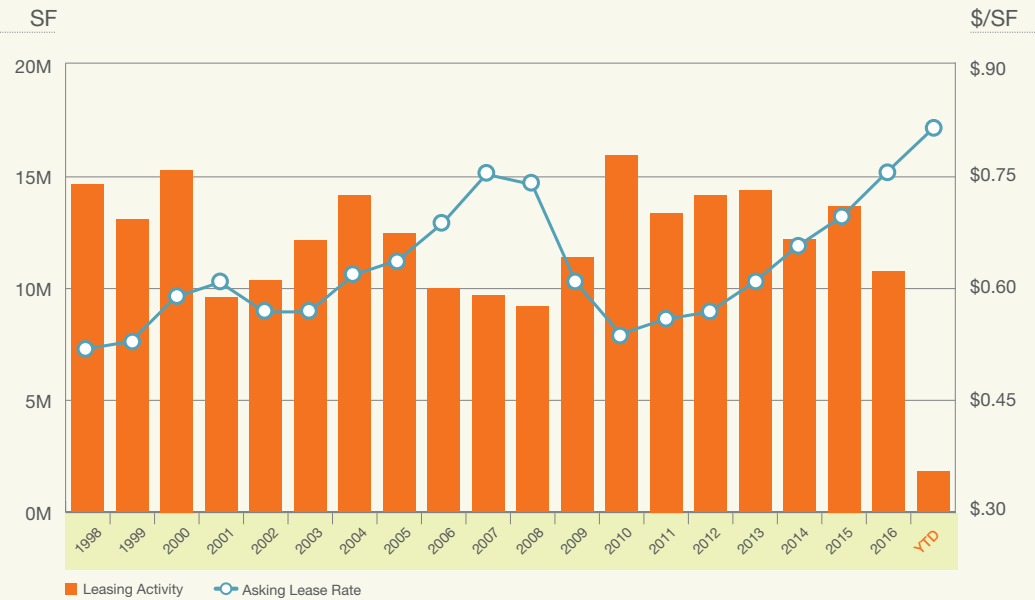
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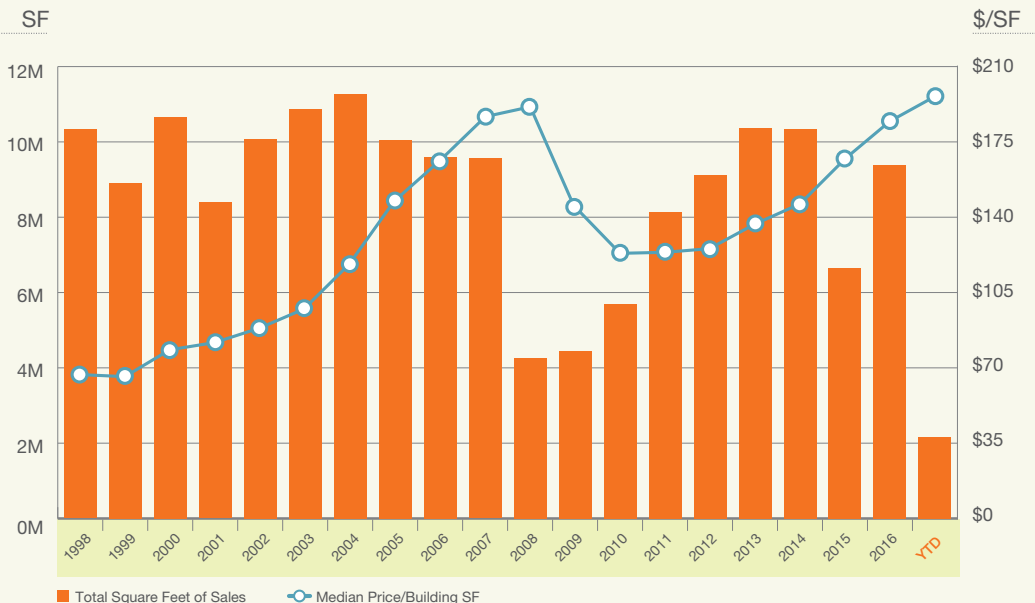
Market Breakdown

	1Q17	4Q16	1Q16	Annual % Change
Vacancy Rate	2.3%	2.0%	2.4%	-4.17%
Availability Rate	3.8%	4.0%	3.9%	-2.56%
Asking Lease Rate	\$0.79	\$0.76	\$0.72	9.72%
Leased Transactions	1,798,956	1,695,003	2,182,358	-17.57%
Sale Transactions	2,173,959	2,812,309	1,377,474	57.82%
Net Absorption	-288,983	956,313	-126,157	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES



HISTORICAL SALES SF & MEDIAN SALE PRICE



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