

Orange County Industrial

Market Summary

	Q2 2017	FORECAST
Absorption	↓	↑
Vacancy	↑	↓
Rental Rate	↑	↑
New Construction	↔	↑

Notable Lease Transactions

Flexport, Inc.
6201-6221 Knott Avenue, Buena Park
102,367 s.f.

American Technologies, Inc.
210 West Baywood Avenue, Orange
62,500 s.f.

Truck and Car Shop
654 North Hariton Street, Orange
37,928 s.f.

Notable Sales Transactions

La Palma Distribution Center
5455 E. La Palma Avenue, Anaheim
127,122 s.f.

BLT Enterprises
1650 Sunflower Avenue, Costa Mesa
112,000 s.f.

Brumleu Investments
6388-6400 Artesia Boulevard, Buena Park
103,366 s.f.

The Orange County industrial market continued to improve in Q2 2017, as prices continued to trend upward. Vacancy remains at historically low levels, but ticked up to 2.4% this quarter. The lack of product available for lease and sale is driving prices upward and limiting transaction volume in the market. We expect moderate increases in leasing and sales activity in the coming year, as job creation stays strong, but the limited availability will temper transaction volume. Even with rising occupancy costs, we anticipate gains in absorption throughout the year, and with very few deliveries in the pipeline to apply upward pressure on vacancy, we foresee the market staying very tight for the coming quarters.

Net absorption, a measure of market strength, was negative (20,958)¹ square feet in the second quarter of 2017. The Airport Area along with South County encountered the most positive absorption this quarter, with 94,796 square feet and 283,337 square feet, respectively. We foresee net absorption to continue its positive trend in the upcoming quarters.

Leasing activity was down in Q2 for a third straight quarter due to the lack of available space. The 1.22 million square feet that came off the market represents the slowest period in the last two years. With minimal new construction in the pipeline and with industrial product disappearing in Orange County to make way for residential and office developments, leasing activity is likely to remain lower than in years past.

The Orange County industrial market vacancy rate rose slightly to 2.4%, a 10 basis point increase from last year's rate of 2.3%. This equates to 3.93 million square feet of vacant industrial space countywide, up from the 3.25 million square feet that was vacant a year ago. We foresee the vacancy rate slightly decreasing due to the low availability in the market.

The average asking rental rate at the end of Q2 was \$0.81 per square foot on a triple net basis per month. This asking rate is up \$0.02 from the first quarter of 2017, and \$0.07 from the second quarter of 2016, a 9.46% increase year over year. Rental rates

¹ The net absorption figures in this paragraph refer to net direct absorption. → Continued, page 2

Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublet 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	7,540,956	5.6%	0.0%	5.6%	5.7%	(17,199)	(46,126)	36,920	137,528	\$1.02
Fountain Valley	3,857,245	2.2%	0.2%	2.3%	2.1%	(32,422)	(26,129)	44,660	61,530	\$0.95
Irvine	12,469,532	3.4%	0.0%	3.5%	4.4%	133,665	(33,880)	74,365	179,970	\$0.86
Newport Beach	441,594	1.5%	0.0%	1.5%	1.5%	4,200	(6,640)	2,700	2,700	\$0.00
Santa Ana	29,556,894	1.7%	0.0%	1.7%	2.9%	31,962	(159,717)	174,853	459,737	\$0.77
Tustin	4,497,353	5.2%	1.0%	6.2%	6.4%	(25,410)	19,490	5,633	77,323	\$0.74
Airport Area	58,363,574	2.9%	0.1%	3.0%	3.8%	94,796	(253,002)	339,131	918,788	\$0.81
Anaheim	44,610,289	1.1%	0.1%	1.2%	2.1%	119,721	(74,472)	309,708	647,689	\$0.79
Brea/La Habra	15,461,590	4.4%	0.0%	4.4%	2.6%	42,998	48,089	41,379	274,745	\$0.72
Buena Park	13,312,050	2.4%	0.0%	2.4%	5.4%	(221,758)	(245,305)	24,751	49,409	\$0.79
Fullerton	19,292,186	2.6%	0.4%	3.0%	4.3%	9,355	391,802	51,224	240,467	\$0.67
Orange	13,604,953	1.6%	0.0%	1.6%	2.2%	(43,527)	(94,905)	152,978	215,812	\$0.84
Placentia/Yorba Linda	4,916,745	2.8%	0.3%	3.2%	3.9%	(39,140)	(106,225)	27,364	79,964	\$0.00
North County	111,197,813	2.1%	0.1%	2.2%	3.0%	(132,351)	(81,016)	607,404	1,508,086	\$0.72
Irvine Spectrum	9,782,216	2.5%	0.1%	2.6%	8.0%	(34,939)	(146,613)	19,850	64,191	\$1.14
Laguna Hills/Aliso Viejo	1,745,892	1.0%	0.0%	1.0%	1.1%	2,983	(10,110)	15,065	22,467	\$1.23
Laguna Niguel/Laguna Beach	359,526	1.4%	0.0%	1.4%	1.4%	(950)	(1,845)	895	895	\$0.00
Lake Forest/Foothill Ranch	9,421,080	2.0%	0.5%	2.5%	5.7%	308,811	372,484	35,808	155,054	\$0.92
Mission Viejo	482,104	2.0%	0.0%	2.0%	1.7%	(9,462)	(7,152)	1,243	2,293	\$0.00
Dana Point/San Juan/San Clemente	2,979,089	2.4%	0.0%	2.4%	6.4%	16,894	(16,348)	12,647	75,417	\$1.23
South County	24,769,907	2.2%	0.2%	2.4%	6.2%	283,337	190,416	85,508	320,317	\$1.01
Cypress	4,256,604	2.5%	0.0%	2.5%	14.3%	(104,354)	(104,354)	8,228	8,228	\$0.89
Garden Grove	12,053,794	3.2%	0.0%	3.2%	3.5%	(27,371)	(47,119)	62,019	117,734	\$0.75
Huntington Beach	14,128,360	2.0%	0.6%	2.6%	2.8%	(147,467)	(167,478)	87,180	188,012	\$0.78
La Palma	1,774,689	0.0%	0.0%	0.0%	7.4%	0	0	0	131,222	\$0.63
Los Alamitos/Stanton	4,126,765	0.9%	0.0%	0.9%	1.4%	3,436	(15,430)	23,231	42,320	\$0.85
Seal Beach	994,446	0.0%	0.0%	0.0%	0.0%	0	0	0	88,507	\$0.00
Westminster	2,377,906	0.1%	0.0%	0.1%	10.9%	9,016	21,853	5,780	11,116	\$0.00
West County	39,712,564	2.0%	0.2%	2.3%	4.7%	(266,740)	(312,528)	186,438	587,139	\$0.76
0 - 9,999	20,054,156	1.4%	0.0%	1.4%	2.2%	(99,211)	(113,740)	122,453	219,973	\$1.16
10,000 - 24,999	60,674,614	1.7%	0.1%	1.9%	2.7%	(1,765)	(238,667)	674,015	1,308,945	\$1.06
25,000 - 49,999	40,286,788	2.2%	0.2%	2.4%	2.8%	132,120	49,250	243,391	956,181	\$0.87
50,000 - 99,000	36,456,991	2.1%	0.1%	2.2%	4.2%	(5,023)	(239,891)	162,622	560,394	\$0.76
100,000 - 249,999	43,891,383	3.7%	0.3%	3.9%	5.8%	(152,924)	(314,957)	16,000	122,615	\$0.73
250,000 Plus	32,679,926	2.4%	0.1%	2.5%	5.4%	105,845	401,875	0	166,222	\$0.64
Orange County Total	234,043,858	2.3%	0.1%	2.4%	3.8%	(20,958)	(456,130)	1,218,481	3,334,330	\$0.81

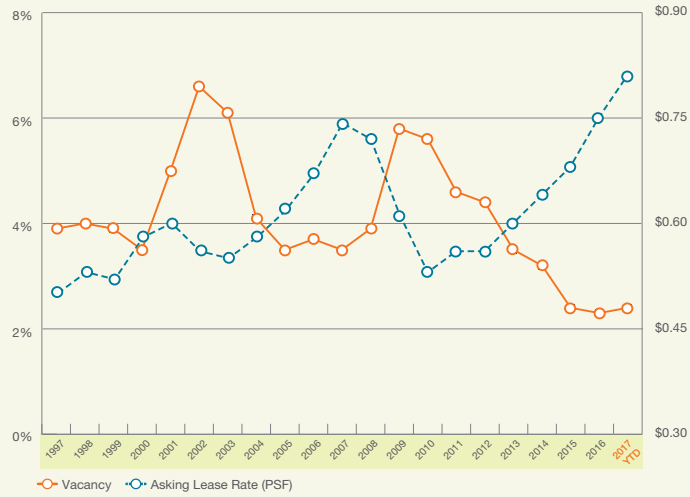
are likely to remain steady amid the small volume of new deliveries coming on line, though proposed industrial construction could affect rates in the future. At this stage, we believe that the asking rate will continue its upward trend, because of the minimal volume of available space in Orange County.

The Orange County industrial investment market has cooled slightly, mostly because there is not much high quality industrial product available for sale. Nonetheless, cap rates declined from 4.63% to 4.45%, reflecting the safety of industrial investments

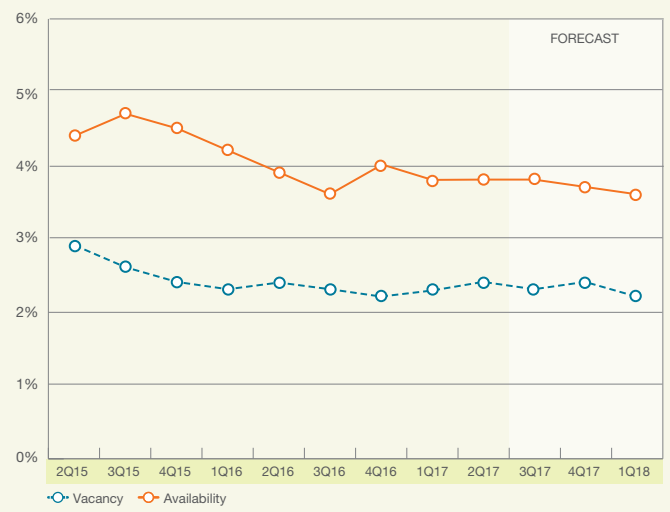
in the area, and demand for industrial product has never been higher. Institutional investors are currently under-allocated in core product, and with Class A average cap rates ranging between 4-4.5%, industrial buildings are trading above their replacement cost. It's a great time to be a landlord or 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

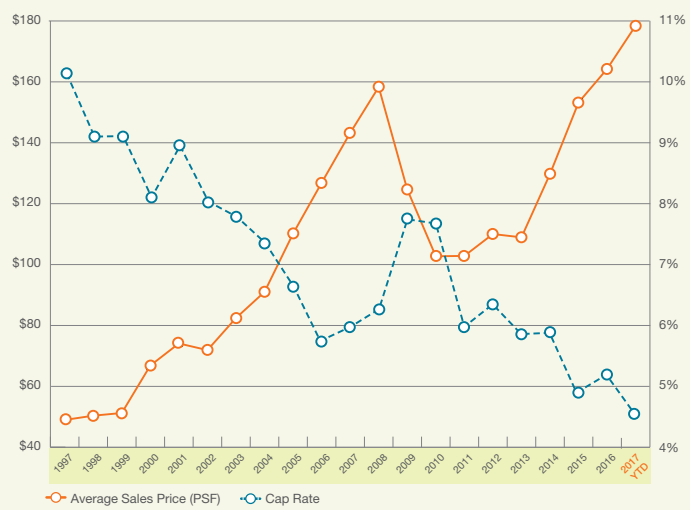
VACANCY VS ASKING LEASE RATE



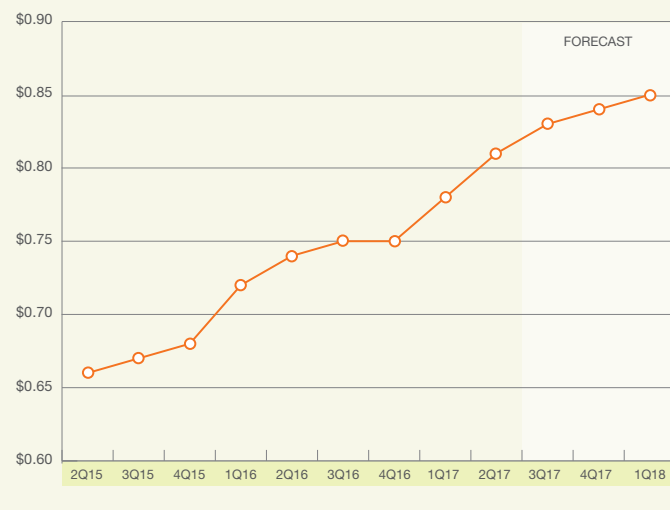
VACANCY VS AVAILABILITY



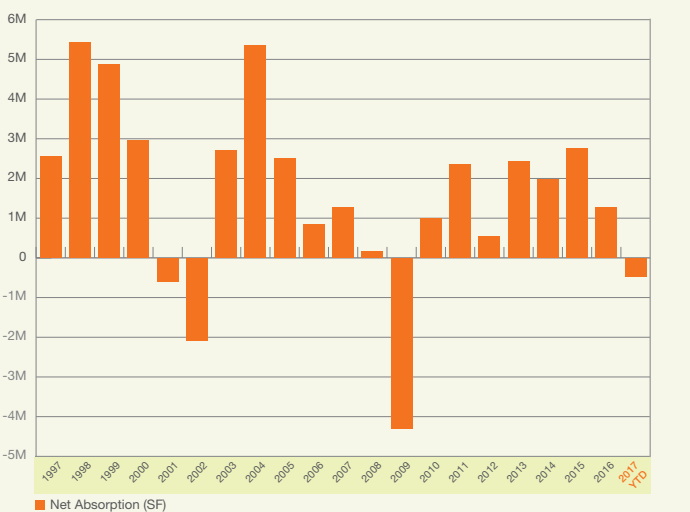
AVERAGE SALES PRICE & CAPITALIZATION RATES



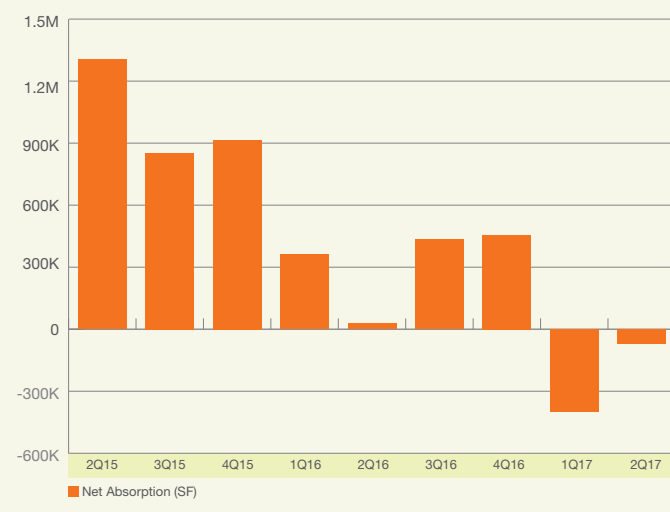
ASKING LEASE RATE



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

Long Beach
562.472.0071

Commerce
323.727.1144

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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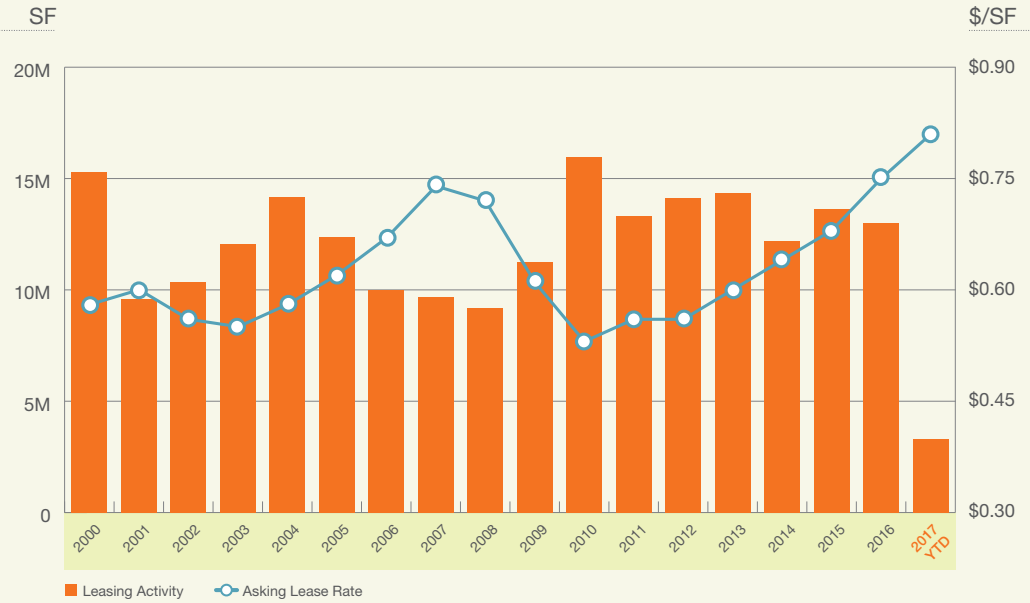
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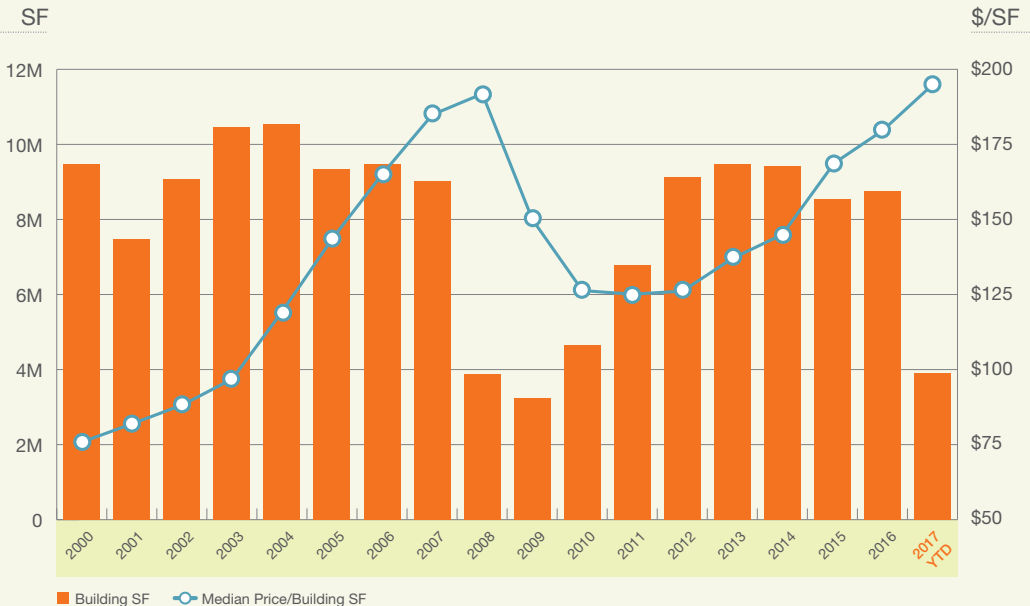
Market Breakdown

	2Q17	1Q17	2Q16	Annual % Change
Vacancy Rate	2.4%	2.3%	2.3%	4.35%
Availability Rate	3.8%	3.8%	3.9%	-2.56%
Asking Lease Rate	\$0.81	\$0.79	\$0.74	9.46%
Leased SF	1,218,481	1,798,956	2,880,252	-57.70%
Sold SF	2,032,214	2,173,959	1,412,753	43.85%
Net Absorption	-20,958	-288,983	-12,873	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES



HISTORICAL SALES SF & MEDIAN SALE PRICE



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