

**Real Estate Market Review**

# Orange County Industrial

The Orange County industrial market continued its improvement in the third quarter of 2017, as prices continued to trend upwards. Vacancy remains at historically low levels, as it dropped 10 basis points to 2.3%. The lack of available product in the market is continuing to drive prices upward and limiting lease transactions. We expect increases in sales and leasing activity in the coming quarter, as the Orange County market remains attractive for many businesses, creating stable job growth. With few deliveries and construction projects becoming available, we anticipate downward pressure on vacancy, resulting in the market to remain tight in the coming quarters.

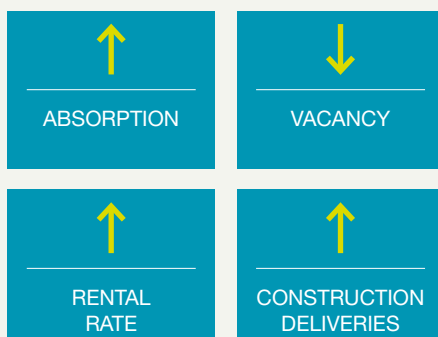
Net absorption, a measure of market strength, was positive at 311,287 in the third quarter. The Airport Area encountered the most positive absorption this quarter, with 322,504 square feet. Santa Ana, Brea, and La Habra submarkets contributed over 250,000 square feet of positive absorption. West County remained negative for a second straight quarter with 53,014 square feet in the third quarter. We expect net absorption to continue its positive trend in the coming quarters.

Leasing activity continued its downward trend in the third quarter due to the lack of available space. 2.2 million square feet came off the market in the third quarter, resulting in a decrease for two continuous quarters. Majority of the leasing activity came from North County, resulting in 1.06 million square feet coming of the

market, which may be a result of the railway accessibility in the area. South County increased its leasing activity from 85,508 square feet in the second quarter, to 196,343 square feet in the third quarter. With minimal construction in the pipeline to make way for more residential and office developments, we can foresee leasing activities in the Orange County market to continue to decrease, due to limited supply.

The Orange County industrial market vacancy rate dropped to 2.3%, a 10 basis point decrease from the second quarter. This equates to 5.2 million square feet of vacant industrial space for the Orange County industrial market. With minimal deliveries coming to the market in the fourth quarter, we anticipate the vacancy rate to decrease further by the end of the year.

## Market Forecast Trends



## Notable Lease Transactions

**Amazon**  
6400 Valley View St., Buena Park  
238,270 s.f.

**Shaw Industries, Inc.**  
6550 Katella Ave., Cypress  
234,763 s.f.

**Daisy Nail Products**  
3335 E. La Palma, Anaheim  
132,231 s.f.

## Notable Sale Transactions

**LBA Realty**  
500 W. Warner Ave., Santa Ana  
316,294 s.f.

**DCT Industrial Trust Inc.**  
3454 E. Miraloma, Anaheim  
300,000 s.f.

**Penwood Real Estate Investment Mgmt.**  
12752-12822 Monarch St., Garden Grove  
276,585 s.f.

# 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	7,501,312	4.9%	0.1%	5.0%	6.5%	45,951	(463)	27,900	293,884	\$0.94
Fountain Valley	3,857,245	2.7%	0.2%	2.9%	5.4%	(11,208)	(48,201)	41,422	114,259	\$0.91
Irvine	12,430,428	2.7%	1.0%	3.7%	9.0%	85,021	(41,089)	56,214	293,676	\$0.78
Newport Beach	441,594	4.0%	0.6%	4.6%	4.6%	(13,583)	(20,223)	0	2,700	\$0.00
Santa Ana	29,620,542	1.1%	0.0%	1.2%	3.8%	166,249	9,965	282,745	810,407	\$0.78
Tustin	4,499,309	5.4%	0.1%	5.5%	7.3%	50,074	49,020	50,172	127,495	\$0.76
<b>Airport Area</b>	<b>58,350,430</b>	<b>2.4%</b>	<b>0.3%</b>	<b>2.7%</b>	<b>5.6%</b>	<b>322,504</b>	<b>(50,991)</b>	<b>458,453</b>	<b>1,642,421</b>	<b>\$0.80</b>
Anaheim	44,699,575	1.4%	0.0%	1.4%	2.5%	(72,713)	(165,990)	169,112	1,089,626	\$0.85
Brea/La Habra	15,548,119	2.1%	0.0%	2.1%	2.1%	102,670	402,164	180,265	490,008	\$0.74
Buena Park	13,364,846	2.3%	0.0%	2.3%	10.2%	(7,251)	(237,551)	238,270	531,295	\$0.80
Fullerton	19,292,186	2.6%	0.2%	2.8%	2.7%	76,746	416,508	311,985	738,940	\$0.73
Orange	13,642,559	2.0%	0.1%	2.1%	2.9%	(77,972)	(158,716)	110,943	365,238	\$0.82
Placentia/Yorba Linda	4,946,863	2.2%	0.0%	2.2%	5.9%	(583)	(57,139)	54,945	147,459	\$0.75
<b>North County</b>	<b>111,494,148</b>	<b>1.9%</b>	<b>0.1%</b>	<b>2.0%</b>	<b>3.6%</b>	<b>20,897</b>	<b>199,276</b>	<b>1,065,520</b>	<b>3,362,566</b>	<b>\$0.78</b>
Irvine Spectrum	9,905,032	2.1%	0.0%	2.1%	9.0%	55,192	(96,557)	40,059	112,745	\$1.05
Laguna Hills/Aliso Viejo	1,728,892	0.6%	0.0%	0.6%	2.1%	8,143	(3,553)	14,423	36,890	\$1.04
Laguna Niguel/Laguna Beach	361,026	1.8%	0.0%	1.8%	1.8%	(1,500)	(3,345)	0	895	\$0.00
Lake Forest/Foothill Ranch	9,336,757	2.6%	0.7%	3.3%	5.8%	(68,342)	295,891	51,086	206,140	\$0.91
Mission Viejo	482,104	1.9%	0.0%	1.9%	2.2%	390	(6,762)	0	2,293	\$0.00
Dana Point/San Juan/San Clemente	2,979,089	1.4%	0.0%	1.4%	3.8%	27,017	10,669	33,792	121,481	\$1.12
<b>South County</b>	<b>24,792,900</b>	<b>2.1%</b>	<b>0.3%</b>	<b>2.4%</b>	<b>6.5%</b>	<b>20,900</b>	<b>196,343</b>	<b>139,360</b>	<b>480,444</b>	<b>\$0.97</b>
Cypress	4,256,604	3.2%	0.2%	3.4%	6.2%	(40,563)	(144,917)	261,167	456,860	\$0.86
Garden Grove	12,038,598	2.9%	0.0%	2.9%	4.2%	76,872	(2,627)	105,028	222,762	\$0.78
Huntington Beach	14,131,031	1.6%	0.6%	2.2%	2.3%	51,251	(116,227)	58,899	276,999	\$0.82
La Palma	1,774,689	0.0%	7.4%	7.4%	0.0%	(131,000)	(131,000)	131,000	262,222	\$0.86
Los Alamitos/Staton	4,155,812	0.6%	0.0%	0.6%	1.3%	14,010	(2,905)	6,900	61,820	\$0.86
Seal Beach	994,446	0.0%	0.0%	0.0%	0.0%	0	0	0	88,507	\$0.00
Westminster	2,377,906	0.3%	0.8%	1.1%	12.1%	(23,584)	(1,731)	0	11,116	\$0.00
<b>West County</b>	<b>39,729,086</b>	<b>1.9%</b>	<b>0.6%</b>	<b>2.5%</b>	<b>3.6%</b>	<b>(53,014)</b>	<b>(399,407)</b>	<b>562,994</b>	<b>1,380,286</b>	<b>\$0.79</b>
0 - 9,999	20,085,270	1.4%	0.0%	1.4%	2.0%	(28,932)	(119,770)	182,347	433,299	\$1.17
10,000 - 24,999	60,708,645	1.4%	0.1%	1.5%	2.5%	171,667	(36,500)	516,191	2,044,553	\$1.04
25,000 - 49,999	40,467,158	1.7%	0.1%	1.8%	3.2%	343,496	323,697	268,519	1,328,153	\$0.86
50,000 - 99,000	36,352,714	2.2%	0.2%	2.4%	4.3%	28,263	(300,978)	233,806	987,993	\$0.79
100,000 - 249,999	44,032,390	3.8%	0.5%	4.3%	6.1%	(124,259)	(487,616)	659,701	1,324,621	\$0.76
250,000 Plus	32,720,387	1.6%	0.4%	2.0%	8.9%	(78,948)	566,388	365,763	747,098	\$0.72
<b>Orange County Total</b>	<b>234,366,564</b>	<b>2.1%</b>	<b>0.2%</b>	<b>2.3%</b>	<b>4.4%</b>	<b>311,287</b>	<b>(54,779)</b>	<b>2,226,327</b>	<b>6,865,717</b>	<b>\$0.83</b>

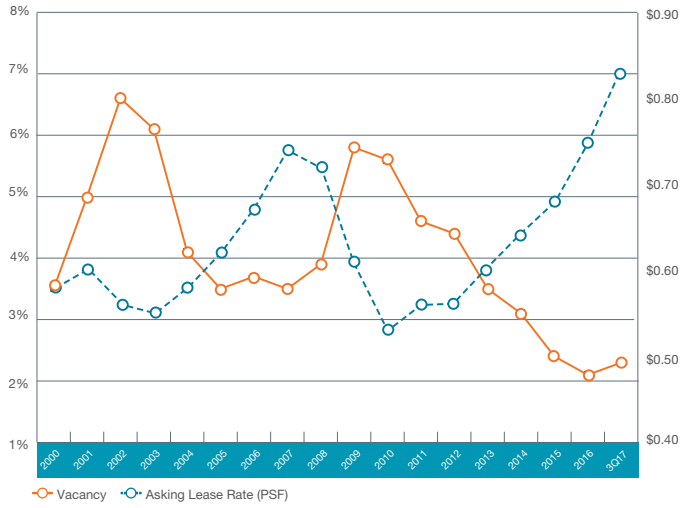
The average asking rental rate at the end of the third quarter was \$0.83 per square foot on a triple net basis. This asking rate is up \$0.03 from the second quarter and \$0.08 from the third quarter of 2016, a 10.66% increase. Rental rates are likely to continue to increase amid the small volume of new inventory. Proposed industrial construction projects may affect rental rates as they become available in 2018. At this stage, we believe that asking rates will continue its upward trend due to the minimal capacity of available space in Orange County.

The Orange County industrial investment market bounced back with 2,647,928 square feet coming off the market. The continual

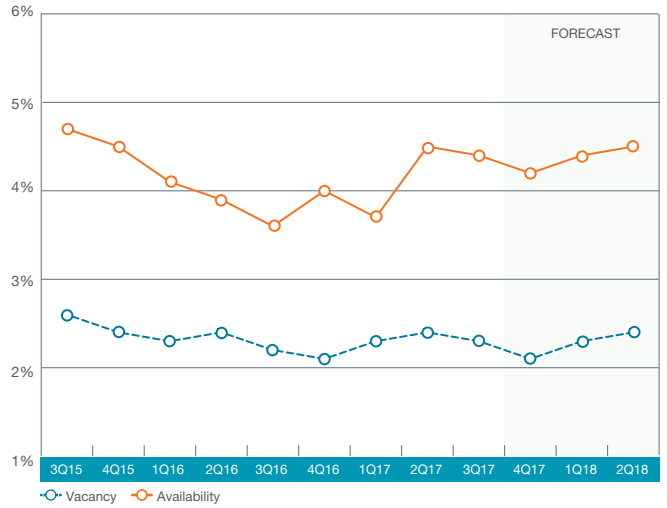
increase for three straight quarters reflects strong demand for high quality industrial product. Large industrial product sold this quarter resulted in the increase of square feet off the market. The third quarter resulted in 119 transactions, which is 20 less from the second quarter. Cap rates declined in the third quarter, dropping from 5.46% in the second quarter to 4.87%. 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

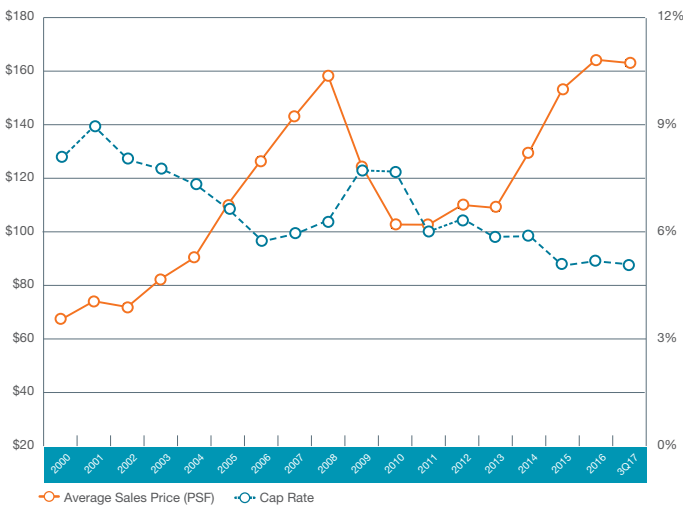
### VACANCY VS ASKING LEASE RATE



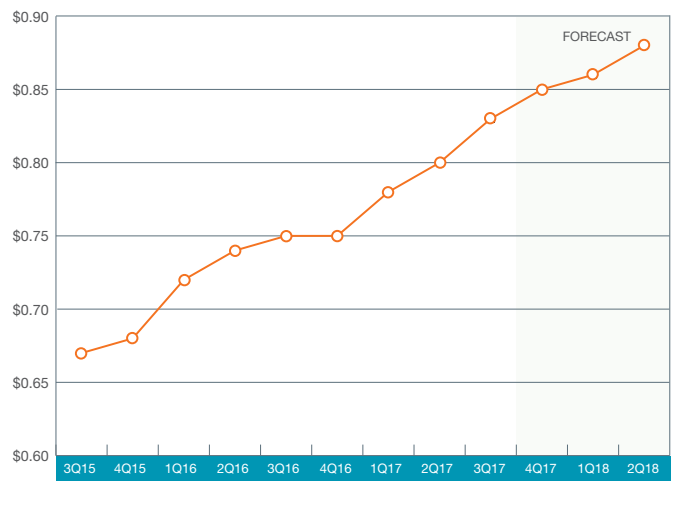
### VACANCY VS AVAILABILITY



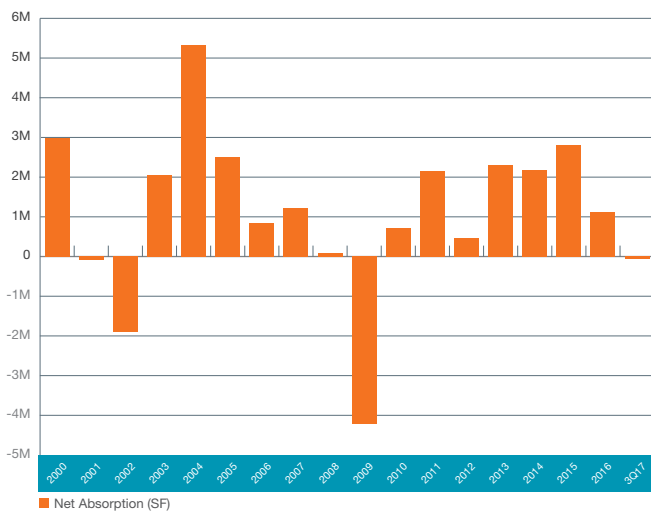
### AVERAGE SALES PRICE & CAPITALIZATION RATES



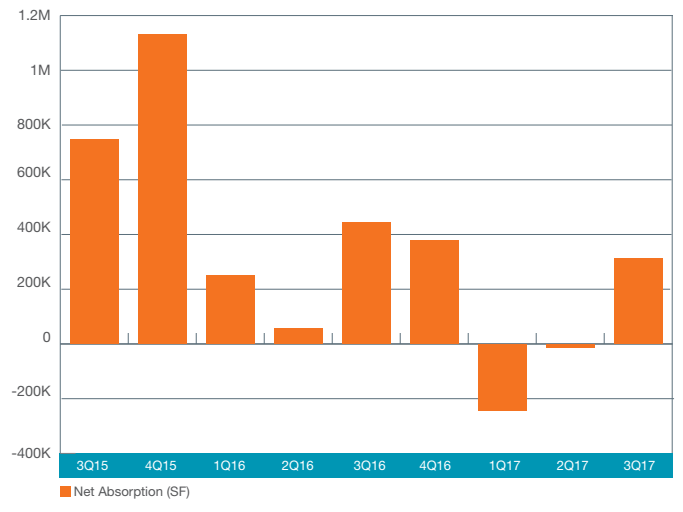
### ASKING LEASE RATE



### 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

**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

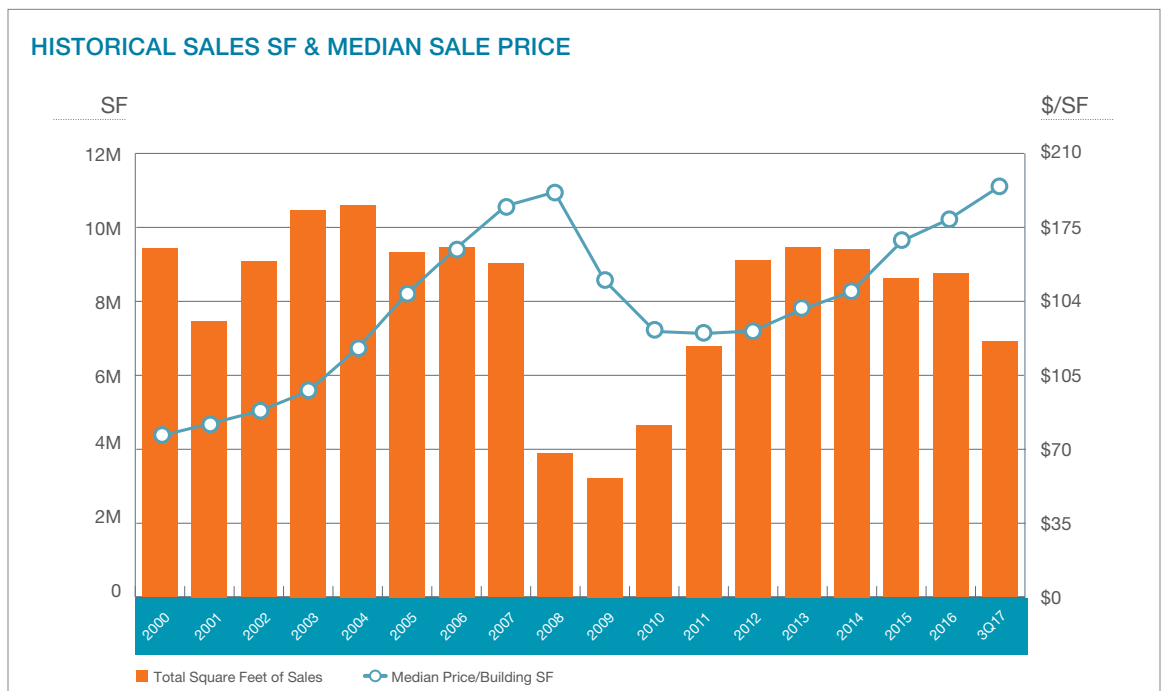
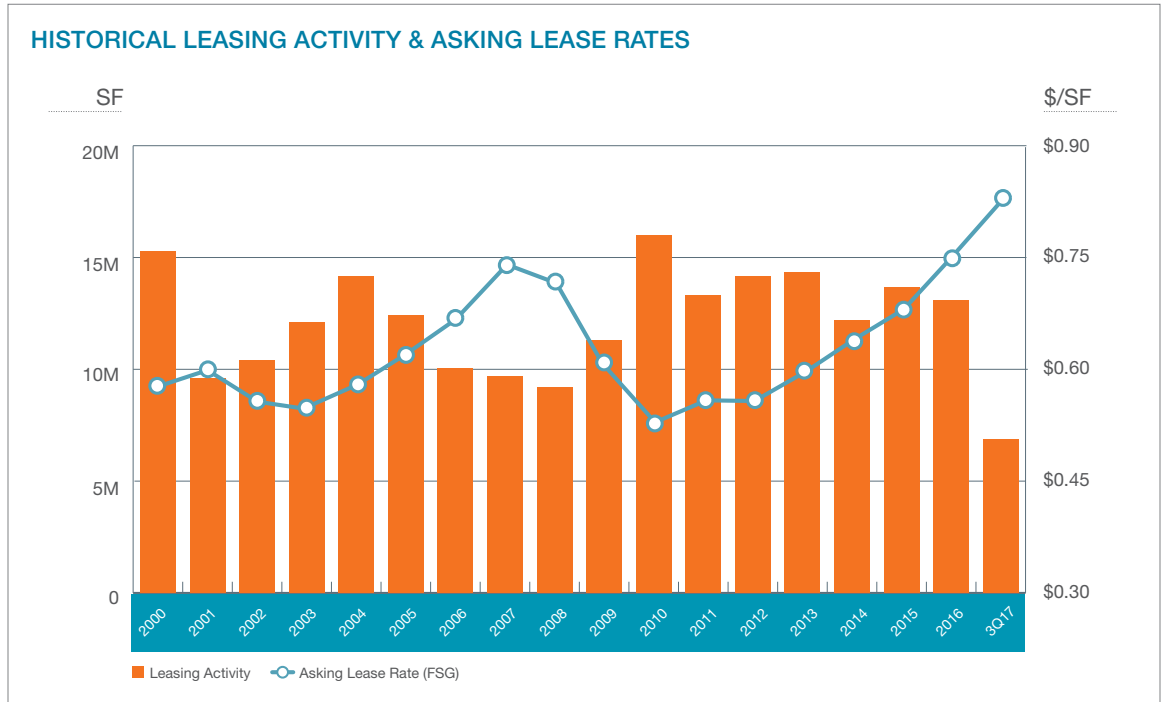
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**Market Breakdown**

	Q3 2017	Q2 2017	Q3 2016	Annual % Change
Vacancy Rate	2.30%	2.40%	2.20%	4.54%
Availability Rate	4.40%	4.50%	3.60%	22.22%
Asking Lease Rate	\$0.83	\$0.80	\$0.75	10.66%
Leased SF	2,226,327	2,438,249	2,842,313	-21.67%
Sold SF	2,647,928	2,385,173	2,959,877	-10.54
Net Absorption	311,287	-11,986	445,566	N/A



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