

Real Estate Market Review

Orange County Industrial

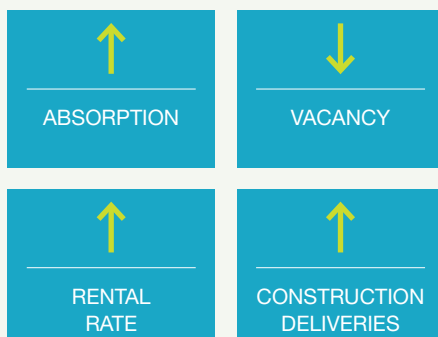
2017 was a spectacular year for the Orange County industrial market, as the sector continued to perform at its best levels of this cycle. Proximity to the ports of Los Angeles, lack of available product, and continued strong demand has enhanced Orange County's real estate fundamentals. Vacancy levels remained at or near record lows, concluding the year at 2.6%, an increase of 50 basis points from the end of 2016. We expect increases in sales and leasing activity in 2018, to the extent that available supply allows, as the Orange County industrial market remains attractive for many high-tech companies. With few deliveries and construction projects becoming available, we anticipate that the Orange County industrial market will remain tight, propelling rental and sales rates in the coming quarters.

Net absorption, a measure of market strength, was positive 528,734 square feet in the fourth quarter, as the market gained more than 700,000 square feet of occupied industrial space in the final six months of the year. In 2017 as a whole, net absorption was positive 207,558 square feet, building on the market's 1.2 million square foot gain in 2016. The North County submarket continued to contribute the largest amount of positive absorption, adding 522,667 square feet in the fourth quarter, potentially because its relatively low rental rates attracted new tenants.

Leasing activity continued its downward trend in the fourth quarter due to the lack of available space. About 1.8 million square feet came off the market in the fourth quarter, bringing the yearly total to over

9.3 million square feet. This represented a decrease of just under 30% from 2016, when 13.2 million square feet of leasing activity occurred. South County had the lowest leasing volume, as just 292,770 square feet came off the market in that region. With higher occupancy costs and limited supply in the area, businesses looked to other submarkets for expansion. North County contributed the most leasing activity for the fourth quarter, with 759,161 square feet. CJ Foods accounted for 127,375 square feet of the North County total with its new lease in Fullerton. As industrial product in the Orange County market is demolished to make way for residential and office developments, expect leasing activity to continue to be constrained by limited supply.

Market Forecast Trends



Notable Lease Transactions

Southland Industries
12131 Western Avenue, Garden Grove
207,953 s.f.

Undisclosed
1765 Penhall Way, Anaheim
128,372 s.f.

CJ Foods
675-679 S. Placentia Avenue, Fullerton
127,375 s.f.

Notable Sale Transactions

Hines
515 E. Dyer Road, Santa Ana
414,308 s.f.

SteelWave, Inc
1350 S. Coast Drive, Costa Mesa
361,483 s.f.

Undisclosed
4150 N. Palm Street, Fullerton
181,069 s.f.

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	7,632,915	6.1%	0.2%	6.3%	7.6%	(5,642)	(9,120)	72,268	423,271	\$0.90
Fountain Valley	3,857,245	1.0%	0.1%	1.1%	5.3%	32,992	26,053	8,600	130,189	\$0.89
Irvine	12,221,403	1.7%	0.1%	1.8%	7.4%	42,296	81,524	60,200	356,287	\$0.83
Newport Beach	441,594	4.0%	0.0%	4.0%	4.0%	66	(17,723)	2,500	5,200	\$0.00
Santa Ana	29,667,168	3.3%	0.0%	3.3%	4.4%	(123,938)	(642,462)	171,672	993,069	\$0.81
Tustin	4,483,011	5.3%	0.1%	5.4%	17.6%	(1,200)	42,900	0	122,575	\$0.68
Airport Area	58,303,336	3.3%	0.1%	3.4%	6.5%	(55,426)	(518,828)	315,240	2,030,591	\$0.82
Anaheim	44,912,477	1.1%	0.0%	1.1%	1.9%	356,270	156,940	486,407	1,835,767	\$0.87
Brea/La Habra	15,548,157	2.1%	0.4%	2.4%	2.2%	2,863	373,819	41,163	579,433	\$0.78
Buena Park	13,369,005	2.6%	0.0%	2.6%	10.3%	(36,732)	(292,462)	55,161	590,456	\$0.80
Fullerton	19,494,435	3.0%	0.1%	3.0%	2.1%	110,060	567,003	74,938	874,279	\$0.73
Orange	13,675,389	1.9%	0.0%	1.9%	2.5%	61,865	(153,656)	59,221	440,391	\$0.81
Placentia/Yorba Linda	4,936,809	1.6%	0.0%	1.6%	5.2%	28,341	(41,478)	42,271	194,465	\$0.75
North County	111,936,272	1.9%	0.1%	1.9%	3.2%	522,667	610,166	759,161	4,514,791	\$0.79
Irvine Spectrum	9,925,722	2.5%	1.6%	4.1%	11.1%	(19,862)	(129,959)	115,569	246,517	\$1.00
Laguna Hills/Aliso Viejo	1,722,597	0.6%	0.0%	0.6%	2.0%	20,635	17,082	31,655	68,545	\$1.12
Laguna Niguel/Laguna Beach	370,148	4.1%	0.0%	4.1%	4.1%	(8,231)	(12,076)	0	895	\$0.00
Lake Forest/Foothill Ranch	9,318,252	2.7%	0.8%	3.5%	4.9%	(5,493)	313,690	137,748	372,182	\$0.89
Mission Viejo	484,264	3.0%	0.0%	3.0%	3.0%	(4,226)	(12,068)	0	2,293	\$0.00
Dana Point/San Juan/San Clemente	2,980,607	1.8%	0.0%	1.8%	3.1%	(16,283)	1,356	7,798	195,211	\$1.13
South County	24,801,590	2.4%	1.0%	3.3%	6.9%	(33,460)	178,025	292,770	885,643	\$0.96
Cypress	4,262,922	2.5%	0.0%	2.5%	6.0%	27,632	(108,222)	9,063	514,272	\$0.87
Garden Grove	12,038,598	3.1%	0.2%	3.3%	3.9%	(37,528)	(38,962)	282,155	504,917	\$0.77
Huntington Beach	14,456,947	0.8%	2.6%	3.3%	3.2%	114,527	81,365	151,479	486,076	\$0.85
La Palma	1,780,025	0.0%	7.4%	7.4%	27.1%	0	0	0	262,222	\$0.00
Los Alamitos/Staton	4,154,409	0.8%	0.0%	0.8%	1.1%	(10,134)	(13,039)	2,712	64,532	\$0.88
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%	0.0%	0.3%	11.1%	456	17,053	8,536	37,980	\$0.00
West County	40,065,253	1.6%	1.3%	2.9%	4.9%	94,953	(61,805)	453,945	1,958,506	\$0.82
0 - 9,999	20,116,599	1.4%	0.1%	1.5%	2.3%	3,946	(116,889)	131,872	574,487	\$1.12
10,000 - 24,999	60,781,836	1.4%	0.1%	1.5%	2.6%	(43,744)	(56,938)	438,049	2,641,583	\$1.04
25,000 - 49,999	40,549,313	1.8%	0.2%	2.0%	3.1%	93,171	249,106	308,509	1,779,012	\$0.88
50,000 - 99,000	36,402,380	1.8%	0.2%	2.0%	3.6%	239,201	(81,520)	354,500	1,434,394	\$0.80
100,000 - 249,999	44,207,690	3.8%	0.6%	4.4%	5.3%	236,160	(79,281)	588,186	2,212,957	\$0.76
250,000 Plus	33,048,633	3.0%	1.3%	4.3%	12.5%	0	293,080	0	747,098	\$0.80
Orange County Total	235,106,451	2.2%	0.4%	2.6%	4.7%	528,734	207,558	1,821,116	9,389,531	\$0.85

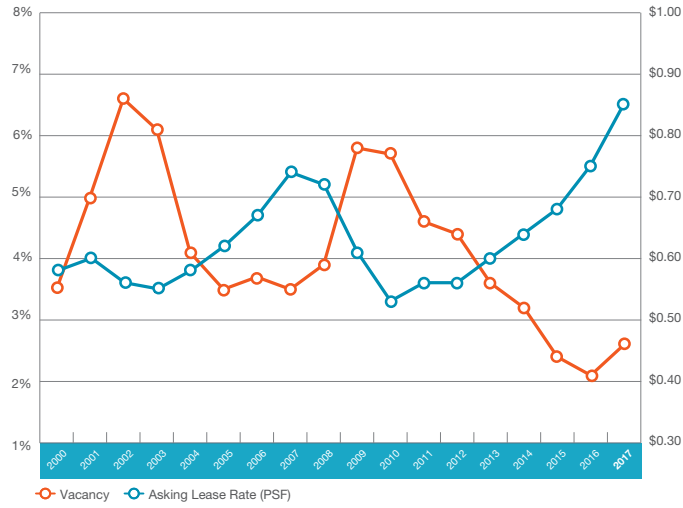
The Orange County industrial market vacancy rate increased from 2.1% in 2016 to 2.6% in 2017, equating to 11,061,353 square feet of vacant industrial space county wide. This is up from the 9,137,261 square feet that was vacant a year ago, an increase of 21.0%. With minimal construction in the pipeline, we expect the vacancy rate to remain constricted for the near future.

The average asking rental rate at the end of 2017 was \$0.85 per square foot on a triple net basis. This asking rate is up \$0.10 or about 13.3% year over year. South County's average asking rate of \$0.96 on a triple net basis remains the highest in the market for the second straight quarter. The current lack of available space in the Orange County industrial market will continue to drive rental rates upward in the coming quarters.

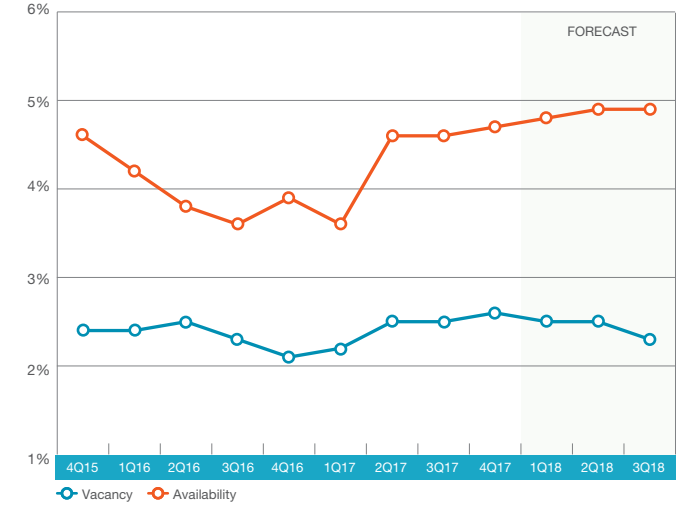
Ninety-five industrial investment transactions were completed in the fourth quarter, with 1,205,171 square feet changing hands, for a yearly sale total of 7,802,604 square feet. This is a decrease of 11.27% from the 8,794,275 square foot sale volume recorded in 2016. Nonetheless, transaction volume was at a five-year high with 486 sales completed, indicating that smaller buildings comprised a larger share of the investments in 2017. Average sales rose to \$176.43, up from \$163.86 a year ago, while cap rates saw a 10 basis point reduction, to 5.08%. It is a great time to be a landlord or a seller, as tight conditions in the Orange County industrial market will continue to drive prices upward into 2018.

Data Source: CoStar

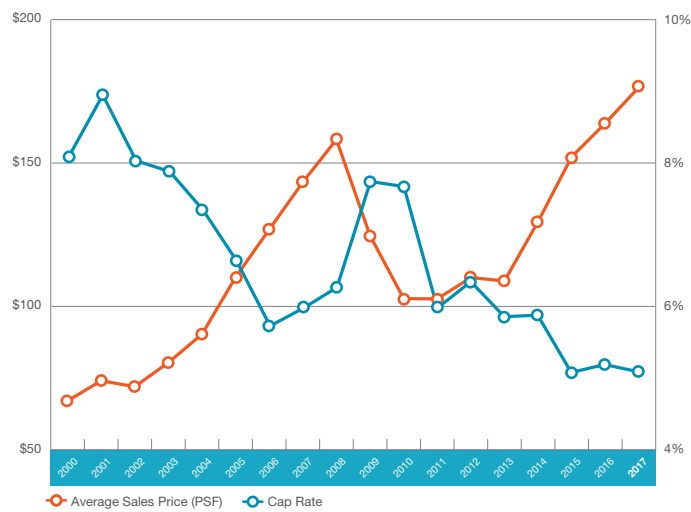
VACANCY VS ASKING LEASE RATE



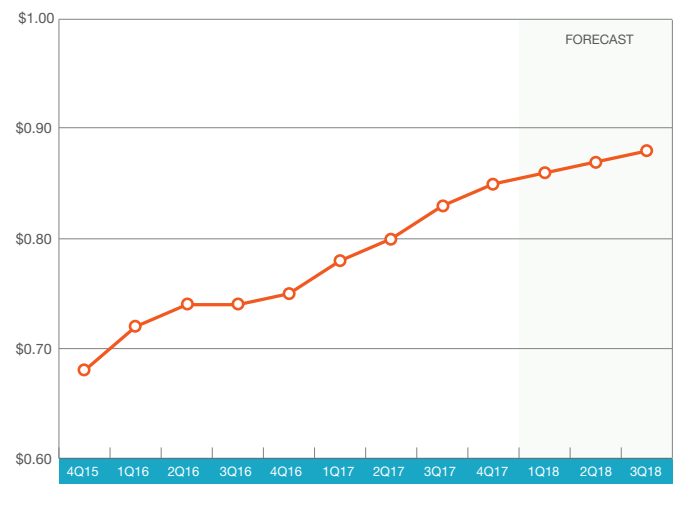
VACANCY VS AVAILABILITY



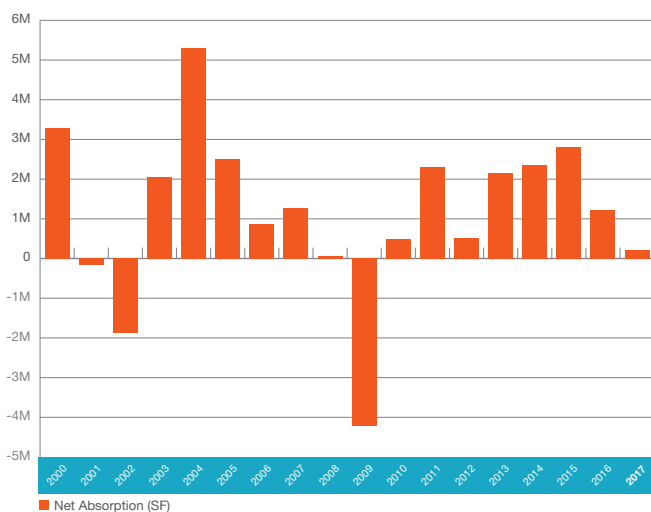
AVERAGE SALES PRICE & CAPITALIZATION RATES



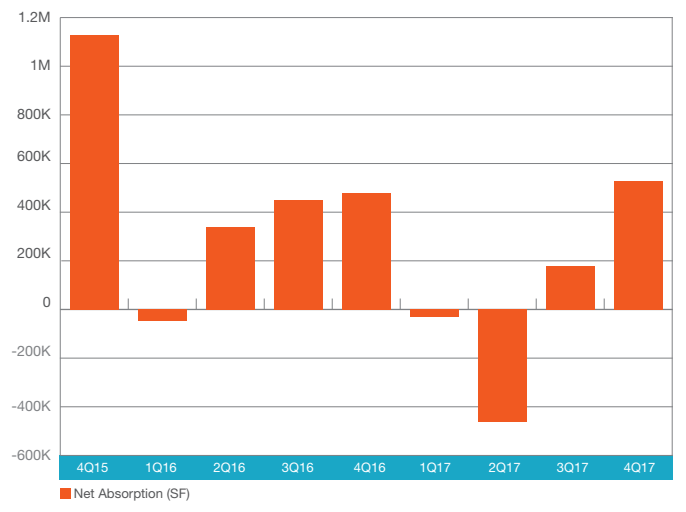
ASKING LEASE RATE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



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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
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Reno
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Phoenix
602.513.5200

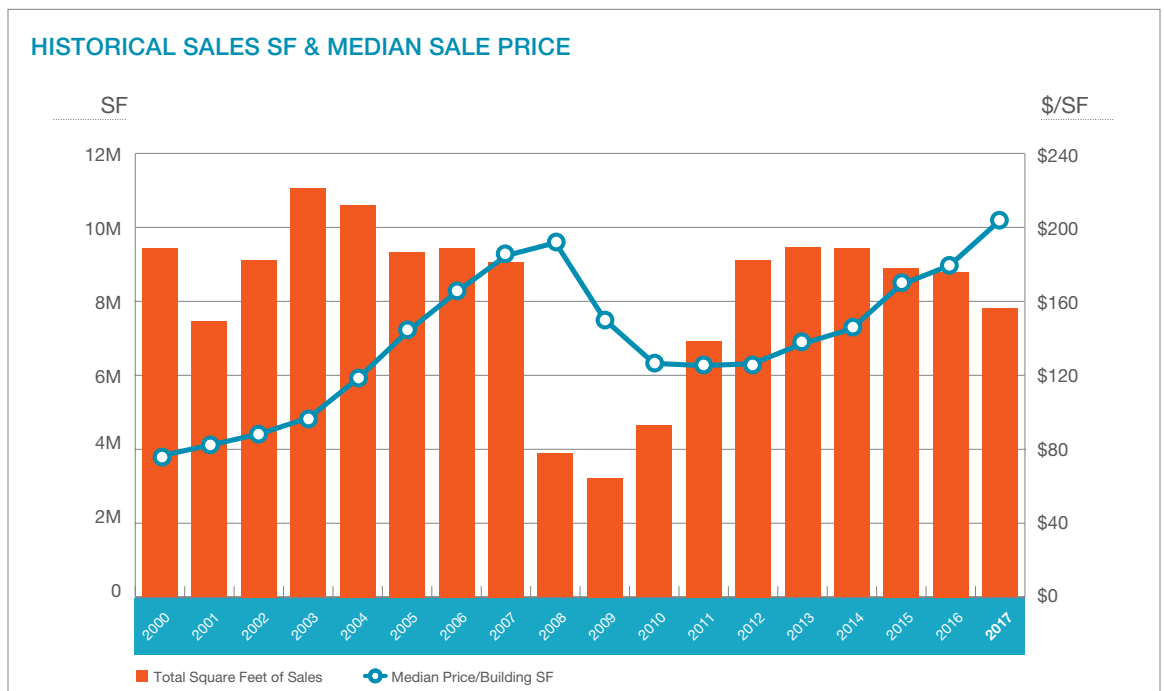
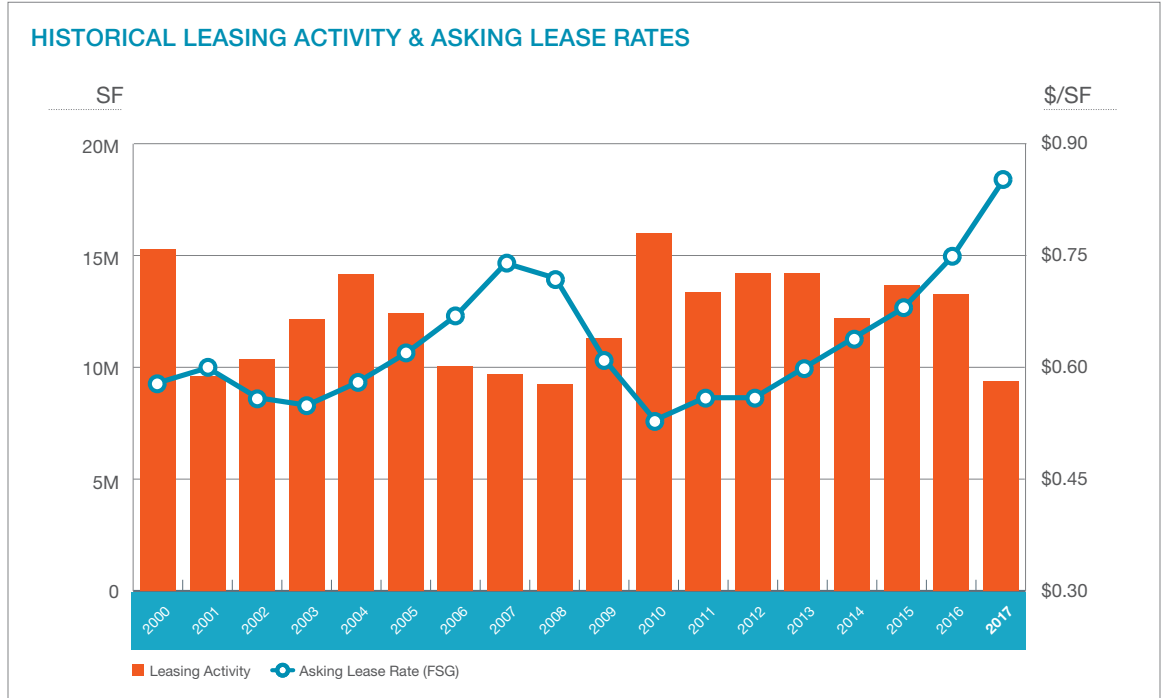
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Market Breakdown

	2017	2016	2015	Annual % Change
Vacancy Rate	2.60%	2.10%	2.40%	23.81%
Availability Rate	4.70%	3.90%	4.60%	20.51%
Asking Lease Rate	\$0.85	\$0.75	\$0.68	13.33%
Leased SF	9,389,531	13,278,009	13,658,179	-29.28%
Sold SF	7,802,604	8,794,275	8,901,899	-11.27
Net Absorption	207,558	1,218,669	2,804,055	N/A



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