

**Real Estate Market Review**

# Orange County Industrial

The Orange County industrial market continued to improve in 1Q 2018, as pricing continued to trend upward. Vacancy levels remained at historically low levels, stabilizing at 2.0%, an increase of 10 basis points from 4Q 2017. With conversions from industrial to other property types becoming the norm, low vacancies shall continue throughout the market. Moderate increases are expected in sales and leasing activity in 2018, to the extent that available supply allows. Furthermore, gains are anticipated in absorption, even as occupancy costs continue to rise. With minimal deliveries in the pipeline to apply substantial pressure on vacancy, 2018 is proving to be another strong year for growth.

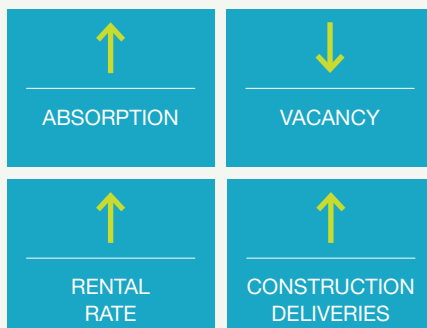
Net absorption, a measure of market strength, was positive 113,512 s.f. in 1Q 2018, a decrease from 4Q 2017's 870,062 s.f. Since 2015, the Orange County market has started off slowly recording minimal to negative absorption in the first quarter, while ultimately ending each year with strength. This quarter North County continued to contribute the largest amount of positive absorption, adding over 540K s.f.

Leasing activity continued its downward trend in 1Q 2018 due to the lack of available space. Over 1.9M s.f. came off the market this quarter representing a decrease of 27.64%, compared to the year prior when 2.6M s.f. of leasing activity occurred. Due to the fact that rents were among the highest, South County had the lowest leasing volume as just 240,000 s.f. of space came off the market. By contrast, North County had the most leasing activity at 887,268 s.f. coming off the market. The Walt Disney Company

and Engineered Floors Inc. accounted for over 325K s.f. of North County's total leasing activity with new leases in Anaheim and Fullerton. As conversions of industrial product to residential and office developments continue to increase, expect leasing activity in the market to remain constricted due to limited supply.

The Orange County industrial market vacancy rate increased from 1.9% in 4Q 2017 to 2.0% in 1Q 2018, equating to 9,727,181 s.f. of vacant industrial space county wide. Compared to 1Q 2017 when 7.5M s.f. was vacant, this is a year-over-year growth of 28.13%. Upward pressure on vacancy may be applied in the coming quarters as Western Realco is currently developing the next significant campus in North County. The Beckman Business Center is nearly a 1M s.f. campus that consists of eight buildings, of which four are over 100K s.f. and is scheduled to be completed next quarter.

## Market Forecast Trends



## Notable Lease Transactions

**The Walt Disney Company**  
1501-1601 E Cerritos Avenue, Anaheim  
200,000 s.f. leased

**Shinoda Design Center.**  
601-605 W Dyer Road, Santa Ana  
135,731 s.f. leased

**Engineered Floors Inc.**  
675-679 S Placentia Avenue, Fullerton  
127,375 s.f. leased

## Notable Sale Transactions

**TransDigm Group Inc.**  
300 E Cypress Street, Brea  
329,000 s.f. | \$19,604,000 or \$59.59/s.f.

**Samaritan's Purse**  
4200 Bonita Place, Brea  
67,950 s.f. | \$12,550,000 or \$184.69/s.f.

**Joseph Segilia**  
620 E Dyer Road, Santa Ana  
44,182 s.f. | \$11,000,000 or \$248.97/s.f.

# Area Review

## Submarket Statistics

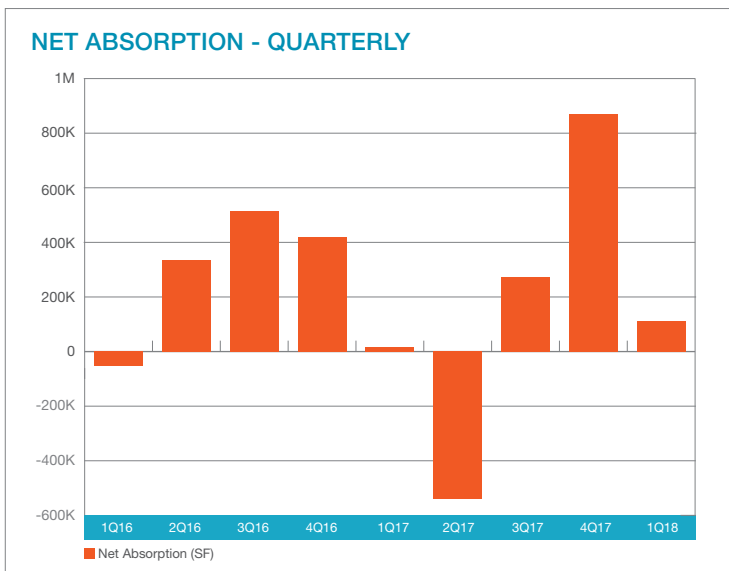
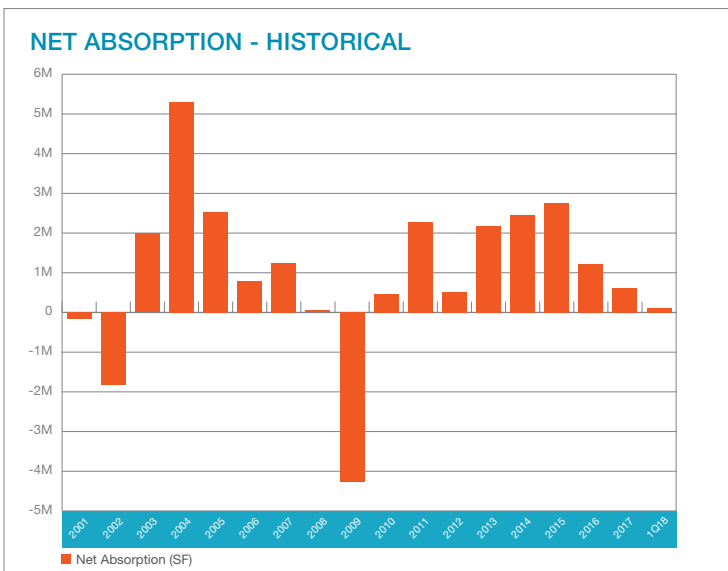
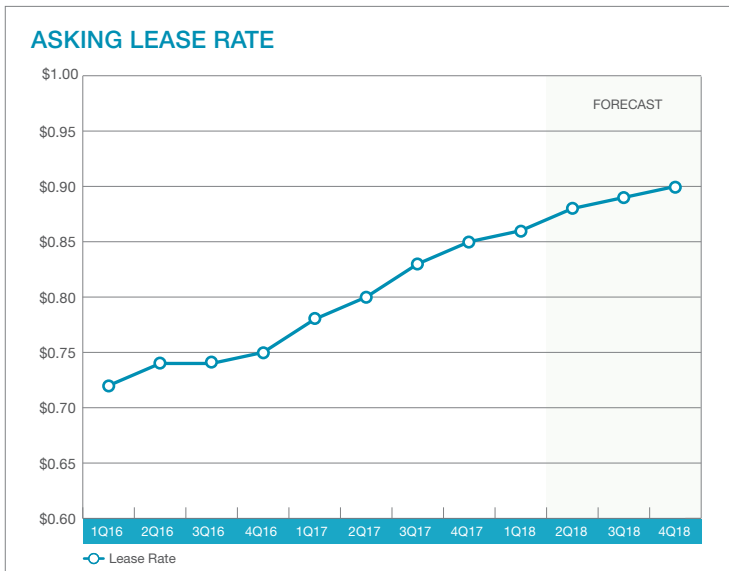
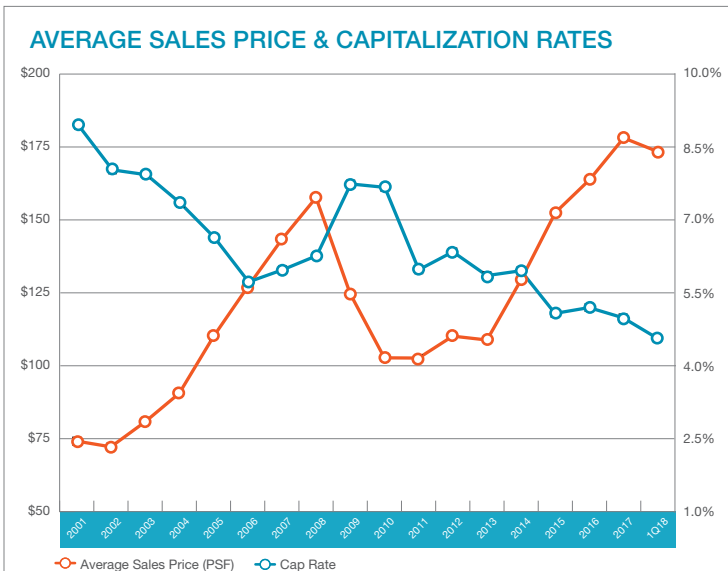
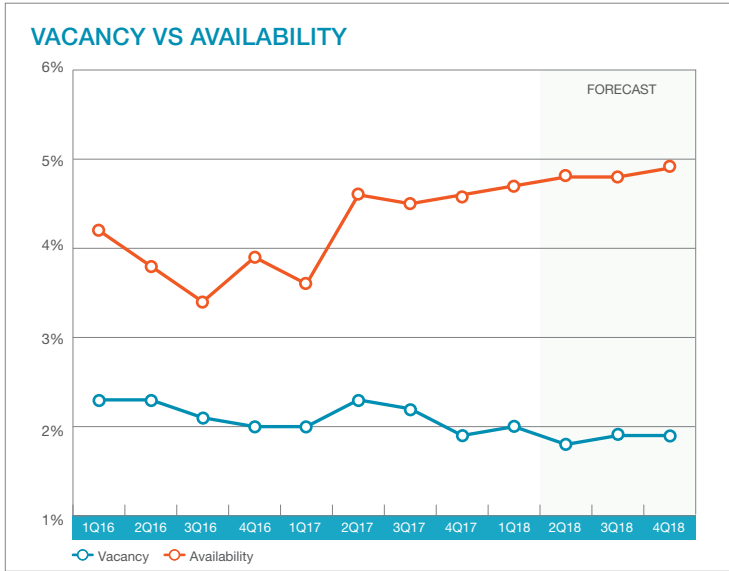
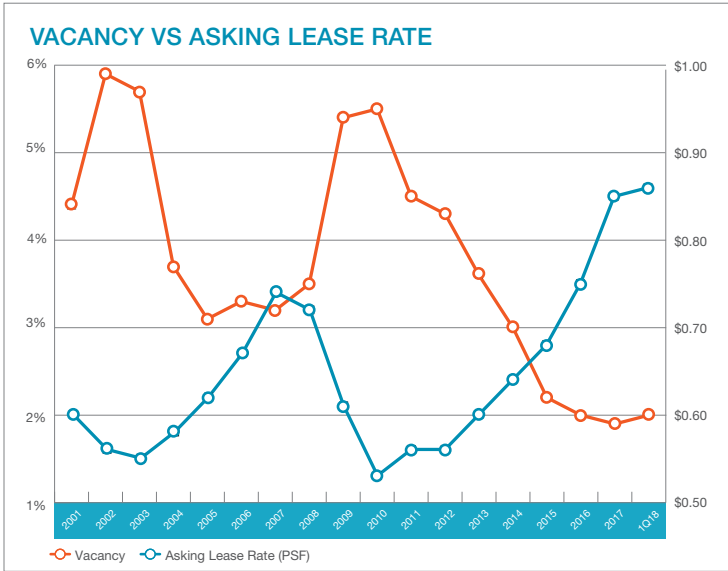
Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Availability Rate	1Q Direct Net Absorption	YTD Direct Net Absorption	1Q Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate
Costa Mesa	7,634,342	6.3%	0.1%	6.4%	9.0%	(12,424)	(12,424)	36,886	36,886	\$1.02
Fountain Valley	3,856,669	1.1%	0.1%	1.1%	4.9%	(2,510)	(2,510)	18,403	18,403	\$0.89
Irvine	11,877,956	2.5%	0.3%	2.8%	7.3%	(165,852)	(165,852)	177,386	177,386	\$0.82
Newport Beach	456,567	5.3%	0.0%	5.3%	2.3%	(6,566)	(6,566)	16,083	16,083	\$0.00
Santa Ana	29,852,344	2.1%	0.0%	2.1%	4.4%	187,743	187,743	196,258	196,258	\$0.83
Tustin	4,509,760	5.2%	0.9%	6.1%	4.7%	(220)	(220)	43,558	43,558	\$0.70
<b>Airport Area</b>	<b>58,187,638</b>	<b>2.9%</b>	<b>0.1%</b>	<b>3.1%</b>	<b>5.6%</b>	<b>171</b>	<b>171</b>	<b>488,574</b>	<b>488,574</b>	<b>\$0.83</b>
Anaheim	45,061,611	1.4%	0.1%	1.5%	2.9%	(13,602)	(13,602)	375,863	375,863	\$0.86
Brea/La Habra	15,548,157	1.4%	0.1%	1.5%	2.7%	99,322	99,322	125,700	125,700	\$0.77
Buena Park	13,369,005	0.8%	0.0%	0.8%	13.3%	242,460	242,460	26,273	26,273	\$0.81
Fullerton	18,268,240	0.5%	0.2%	0.7%	1.7%	228,205	228,205	186,222	186,222	\$0.73
Orange	13,647,614	2.3%	0.1%	2.4%	1.7%	(55,435)	(55,435)	145,839	145,839	\$0.84
Placentia/Yorba Linda	4,936,809	0.7%	0.0%	0.7%	4.7%	43,946	43,946	27,371	27,371	\$0.75
<b>North County</b>	<b>110,831,436</b>	<b>1.3%</b>	<b>0.1%</b>	<b>1.4%</b>	<b>3.9%</b>	<b>544,896</b>	<b>544,896</b>	<b>887,268</b>	<b>887,268</b>	<b>\$0.80</b>
Irvine Spectrum	9,748,257	2.7%	1.7%	4.4%	8.3%	(32,800)	(32,800)	54,015	54,015	\$1.00
Laguna Hills / Aliso Viejo	1,722,597	0.7%	0.0%	0.7%	0.7%	(2,164)	(2,164)	37,779	37,779	\$1.11
Laguna Niguel / Laguna Beach	373,148	4.1%	0.0%	4.1%	4.1%	0	0	0	0	\$0.00
Lake Forest / Foothill Ranch	9,286,868	1.8%	0.3%	2.1%	3.6%	20,565	20,565	115,235	115,235	\$0.96
Mission Viejo	486,294	3.2%	0.0%	3.2%	7.8%	(1,393)	(1,393)	3,835	3,835	\$1.15
Dana Point / San Juan / San Clemente	2,979,657	2.0%	0.0%	2.0%	2.4%	(8,300)	(8,300)	33,495	33,495	\$1.17
<b>South County</b>	<b>24,596,821</b>	<b>2.2%</b>	<b>0.8%</b>	<b>3.0%</b>	<b>5.2%</b>	<b>(24,092)</b>	<b>(24,092)</b>	<b>244,359</b>	<b>244,359</b>	<b>\$1.01</b>
Cypress	4,262,922	2.3%	1.6%	3.9%	3.1%	8,354	8,354	89,714	89,714	\$0.87
Garden Grove	12,075,906	3.2%	0.0%	3.3%	4.5%	(83,492)	(83,492)	119,798	119,798	\$0.77
Huntington Beach	14,489,066	2.5%	0.0%	2.5%	3.5%	(295,887)	(295,887)	56,574	56,574	\$0.83
La Palma	1,780,025	3.2%	0.0%	3.2%	33.1%	(57,702)	(57,702)	0	0	\$0.00
Los Alamitos / Stator	4,119,345	0.4%	0.0%	0.4%	1.7%	19,464	19,464	27,728	27,728	\$0.71
Seal Beach	994,446	0.0%	0.0%	0.0%	0.0%	0	0	0	0	\$0.00
Westminster	2,377,906	0.2%	0.0%	0.2%	11.5%	1,800	1,800	1,800	1,800	\$0.00
<b>West County</b>	<b>40,099,616</b>	<b>2.3%</b>	<b>0.2%</b>	<b>2.5%</b>	<b>5.3%</b>	<b>(407,463)</b>	<b>(407,463)</b>	<b>295,614</b>	<b>295,614</b>	<b>\$0.80</b>
0 - 9,999	20,109,884	1.6%	0.0%	1.6%	2.4%	(20,264)	(20,264)	198,669	198,669	\$1.17
10,000 - 24,999	60,769,120	1.7%	0.2%	1.9%	2.7%	(235,848)	(235,848)	645,992	645,992	\$1.11
25,000 - 49,999	40,395,554	1.4%	0.2%	1.6%	3.2%	150,907	150,907	343,141	343,141	\$0.90
50,000 - 99,000	36,422,847	1.8%	0.2%	2.0%	3.2%	(36,522)	(36,522)	321,992	321,992	\$0.81
100,000 - 249,999	44,059,258	2.0%	0.4%	2.3%	4.3%	527,346	527,346	78,646	78,646	\$0.76
250,000 Plus	31,958,848	3.6%	0.0%	3.6%	14.0%	(272,107)	(272,107)	327,375	327,375	\$0.80
<b>Orange County Total</b>	<b>233,715,511</b>	<b>2.0%</b>	<b>0.2%</b>	<b>2.2%</b>	<b>4.7%</b>	<b>113,512</b>	<b>113,512</b>	<b>1,915,815</b>	<b>1,915,815</b>	<b>\$0.86</b>

The average asking rental rate at the end of 1Q 2018 was \$0.86/s.f. on a triple net basis. This asking rate is up \$0.08 or an increase of 10.26% year-over-year. South County's average asking rate of \$1.01 on a triple net basis continues to be the highest in the market as tenants with R&D requirements are driving rental rates upward. In contrast, the average asking rates were the lowest in North and West County with \$0.80/s.f. With constrained available space in the Orange County Industrial market and strong demand drivers, we can assume rental rates will continue their upward trend in the following quarters.

The Orange County industrial investment market remains relatively stable, as most high-quality industrial product has sold, and there isn't much industrial product available for sale. Seventy-

nine investment transactions were completed in 1Q 2018, with 1,364,724 s.f. changing hands, equating to over \$195M in transaction volume. This is a decrease of 27.64% from the 1,886,148 s.f. recorded a year prior. The average building size per investment is 17,275 s.f., the largest it has been since 4Q 2016 where it averaged 21,357 s.f. Average sales decreased to \$173.40, slightly down from \$176.18 a year ago, while cap rates saw a 90 basis point reduction, to 4.56%. 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 in the coming quarters.

Data Source: CoStar



**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

El Segundo  
310.807.0880

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

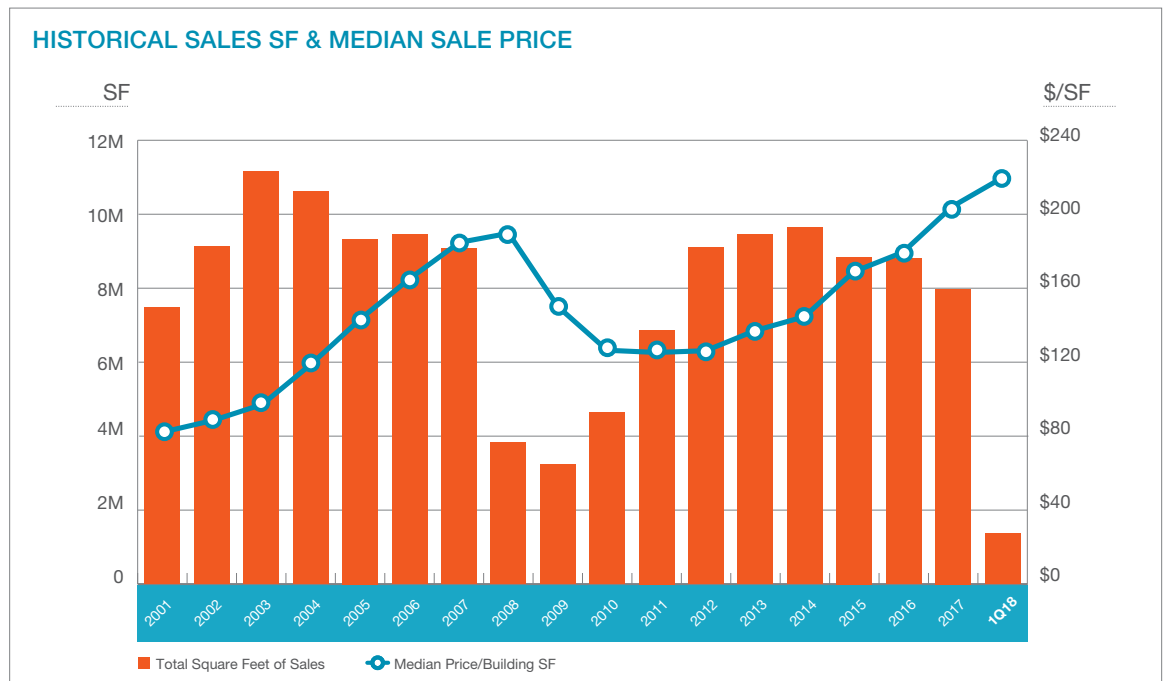
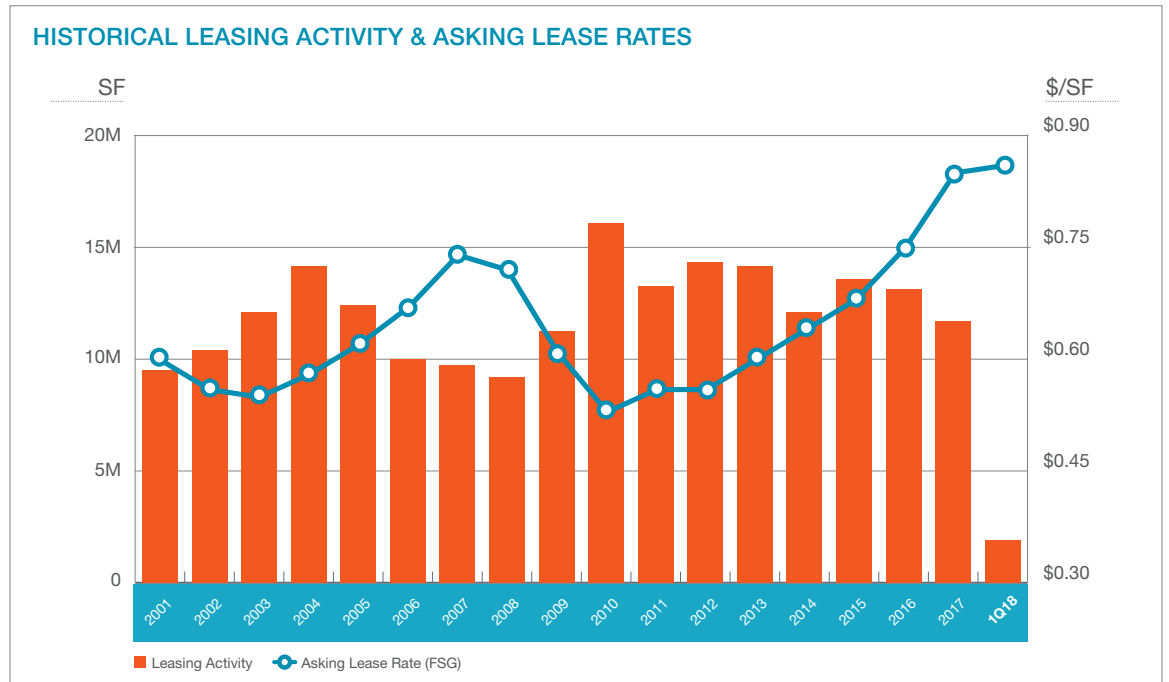
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**Market Breakdown**

	1Q18	4Q17	1Q17	Annual % Change
Vacancy Rate	2.00%	1.90%	2.00%	0.00%
Availability Rate	4.70%	4.60%	3.60%	30.56%
Asking Lease Rate	\$0.86	\$0.85	\$0.78	10.26%
Leased SF	1,915,815	2,754,493	2,634,711	-27.29%
Sold SF	1,364,724	1,707,419	1,886,148	-27.64%
Net Absorption	113,512	870,062	17,464	N/A



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