

Real Estate Market Review

Orange County Industrial

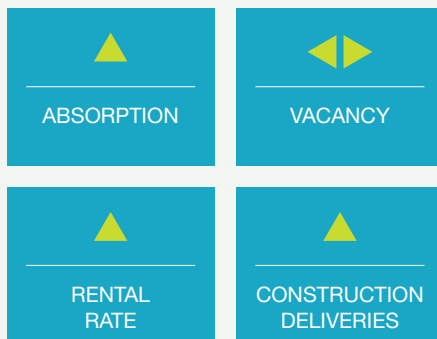
The Orange County industrial market remained on solid footing in 2Q18, as pricing continued to trend upwards and direct vacancies remained at historically low levels. Overall employment growth remains positive, while the Orange County unemployment rate sits at 2.6%, 140 basis points lower than the national average of 4.0%. According to the State of California’s Employment Development Department, total non-farm employment increased by 1.1% year over year, or 17,300 jobs between May 2017 and May 2018. North County’s Beckman Business Center should alleviate further downward pressure on vacancies as it is slated to deliver in the following quarters. We expect moderate increases in sales and leasing activity to continue, setting the stage for gains later in the year. Additionally, we can anticipate another strong year of growth as the competition for industrial product remains vigorous.

Net absorption, a measure of market strength, recorded -59,023 square feet of absorption in Q2 2018, a decrease from the 14,333 square feet of positive absorption in Q1 2018. Since 2015 the Orange County market has slowly recorded minimal to negative absorption while ultimately ending each year with strength. With additional supply currently being developed, we can foresee absorption to bounce back in the coming quarters.

Leasing activity continued its’ downward trend in Q2 2018 due to the lack of available space. Over 2.3 million square feet came off the market this quarter representing a decrease of 18.87%, compared to the year prior when 2.8 million square feet of leasing activity occurred. Expect leasing activities to increase as retail imports are reported to set records in the third quarter. Retailers will begin to prepare for the summer season influencing expansion

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Market Forecast Trends



YEAR-TO-YEAR BASIS

Notable Lease Transactions

- Lexor, Inc.**
7400 Hazard Avenue, Westminster
187,696 s.f.
- Robinson-Pharma**
1585 MacArthur Boulevard, Costa Mesa
100,276 s.f.
- Brewery X**
3191 E. La Palma Avenue, Anaheim
76,824 s.f.

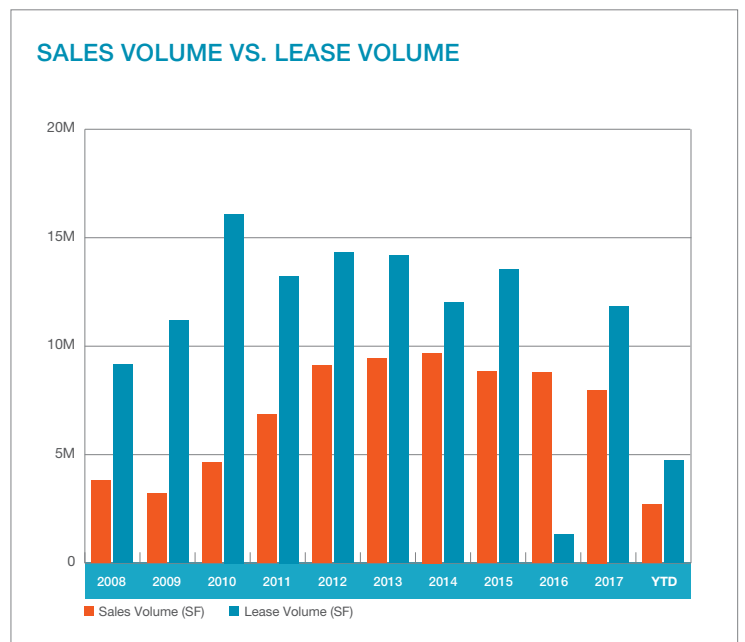
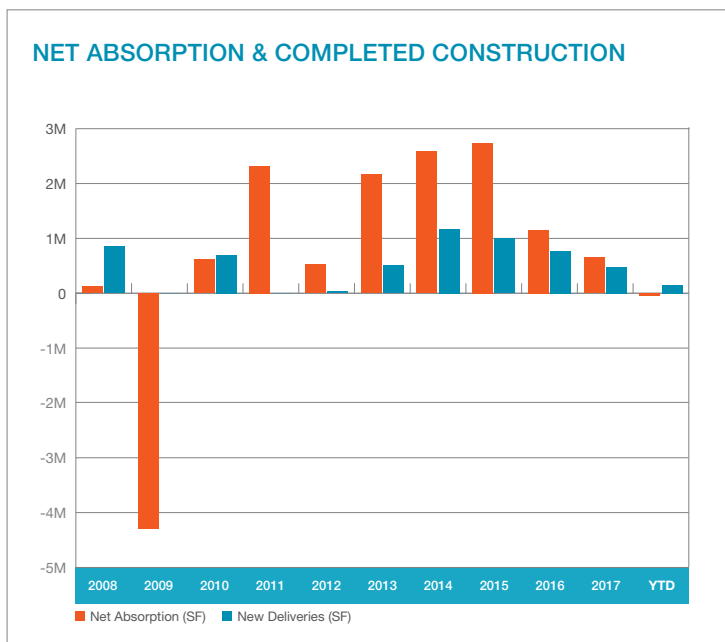
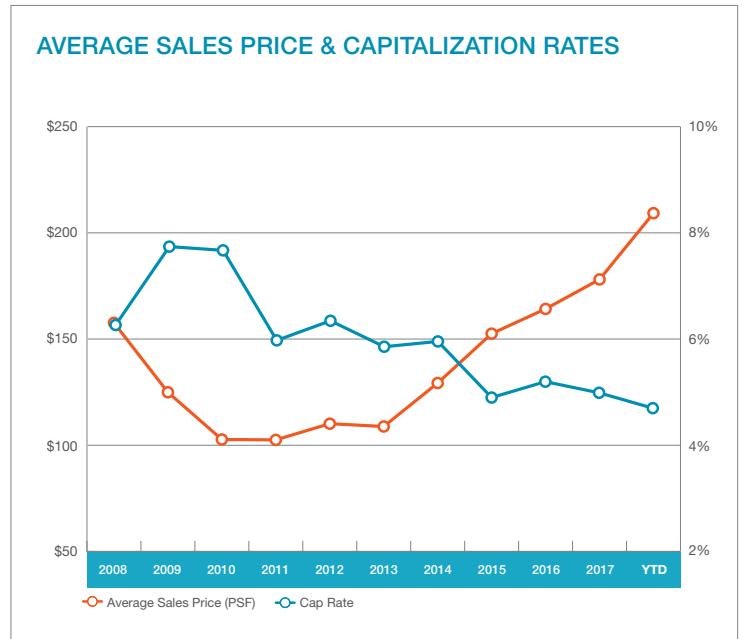
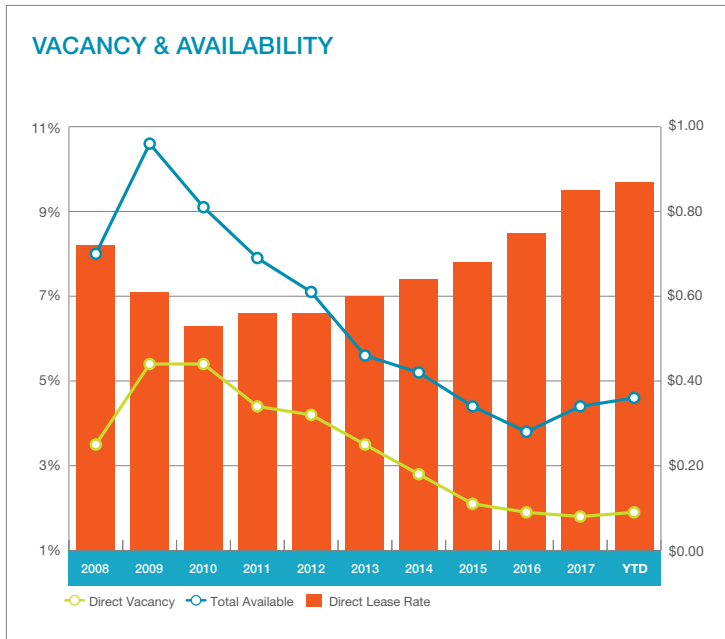
Notable Sale Transactions

- Oaktree Capital Mgmt. LP**
250 S. Kraemer Blvd., Brea
576,234 s.f. | \$115.25M or \$200.01/s.f.
- ProLogis**
50 Icon, Foothill Ranch
307,781 s.f. | \$56.M or \$183.57/s.f.
- American Realty Advisors**
1730 S. Anaheim Way, Anaheim
143,930 s.f. | \$33.1M or \$229.97/s.f.

Market Breakdown

	2Q 2018	1Q 2018	2Q 2017	Annual % Change
Vacancy Rate	2.0%	1.9%	2.2%	-9.09%
Availability Rate	4.7%	4.5%	4.5%	4.44%
Asking Lease Rate	\$0.87	\$0.86	\$0.80	8.75%
Leased SF	2,317,838	2,420,375	2,856,840	-18.87%
Sold SF	1,615,655	1,089,639	2,160,180	-25.21%
Net Absorption	(59,023)	14,333	(536,776)	N/A

Orange County Industrial Charts



Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Availability Rate	Q2 Net Absorption	YTD Net Absorption	Q2 Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
Costa Mesa	7,289,302	2.2%	1.0%	3.2%	3.3%	22,954	10,530	131,569	168,455	\$1.07
Fountain Valley	3,856,669	1.1%	0.1%	1.2%	5.2%	(2,709)	(5,219)	31,610	63,013	\$0.92
Irvine	11,877,956	2.6%	0.1%	2.7%	5.5%	167,159	1,307	76,442	296,277	\$0.83
Newport Beach	456,567	2.3%	0.0%	2.3%	2.3%	13,649	7,083	0	16,083	\$0.00
Santa Ana	29,830,133	2.5%	0.1%	2.6%	4.7%	(10,570)	60,430	193,273	525,262	\$0.85
Tustin	4,367,196	2.1%	1.5%	3.6%	5.7%	145,804	145,584	60,328	103,886	\$0.75
Airport Area	57,677,823	2.4%	0.3%	2.7%	4.8%	336,287	219,715	493,222	1,172,976	\$0.86
Anaheim	45,071,158	1.5%	0.1%	1.7%	2.7%	(45,572)	(80,244)	546,053	1,085,418	\$0.83
Brea/La Habra	15,351,052	1.4%	0.3%	1.8%	2.2%	(2,178)	97,638	150,875	276,575	\$0.76
Buena Park	13,086,340	0.9%	0.1%	1.0%	17.1%	(9,939)	232,521	39,592	65,865	\$0.83
Fullerton	18,248,766	1.4%	0.2%	1.6%	2.3%	(157,870)	70,335	129,218	315,440	\$0.78
Orange	13,622,820	1.8%	0.1%	1.9%	2.3%	66,894	12,554	102,050	258,923	\$0.84
Placentia/Yorba Linda	4,936,809	1.1%	0.2%	1.3%	7.7%	(20,791)	23,155	46,864	78,235	\$0.75
North County	110,316,945	1.4%	0.2%	1.6%	4.4%	(169,456)	355,959	1,014,652	2,080,456	\$0.81
Irvine Spectrum	9,780,345	3.2%	1.7%	4.8%	10.8%	(131,769)	(122,881)	63,337	117,352	\$0.98
Laguna Hills/Aliso Viejo	1,722,597	1.4%	0.0%	1.4%	1.7%	(11,288)	(13,452)	3,812	43,111	\$1.14
Laguna Niguel/Laguna Beach	362,348	5.6%	0.0%	5.6%	5.6%	(4,845)	(4,845)	0	0	\$0.00
Lake Forest/Foothill Ranch	9,300,642	1.9%	0.8%	2.6%	2.5%	5,976	19,498	157,313	345,921	\$0.97
Mission Viejo	478,814	3.4%	0.0%	3.4%	2.9%	(695)	(2,088)	29,745	33,580	\$1.16
Dana Point/San Juan/ San Clemente	2,990,732	1.6%	0.0%	1.6%	2.2%	13,738	5,438	11,699	45,194	\$1.16
South County	24,635,478	2.4%	1.0%	3.4%	5.7%	(128,883)	(118,330)	265,906	585,158	\$1.00
Cypress	4,262,922	2.3%	1.6%	3.8%	3.0%	3,868	12,222	27,980	117,694	\$0.90
Garden Grove	12,093,591	3.2%	0.3%	3.6%	4.4%	(515)	(84,007)	179,145	346,605	\$0.77
Huntington Beach	14,492,987	2.7%	0.1%	2.8%	3.1%	(27,934)	(321,421)	97,380	159,082	\$0.82
La Palma	1,780,025	5.0%	0.0%	5.0%	31.3%	(32,066)	(89,768)	32,066	32,066	\$0.00
Los Alamitos/Stanton	4,119,042	0.1%	0.0%	0.1%	1.4%	14,023	33,487	16,351	47,279	\$0.52
Seal Beach	994,446	0.0%	0.0%	0.0%	0.0%	0	0	0	0	\$0.00
Westminster	2,400,379	2.5%	0.0%	2.5%	7.3%	(54,347)	(52,547)	191,136	196,897	\$0.85
West County	40,143,392	2.6%	0.3%	2.9%	4.7%	(96,971)	(502,034)	544,058	899,623	\$0.79
0 - 9,999 SF	20,134,444	1.3%	0.1%	1.4%	2.3%	66,375	46,962	171,938	388,898	\$1.34
10,000 - 24,999 SF	60,787,404	1.7%	0.3%	2.0%	2.7%	25,186	(208,467)	885,851	1,556,607	\$1.10
25,000 - 49,999 SF	40,409,332	2.2%	0.3%	2.4%	3.3%	(266,494)	(132,940)	524,154	943,406	\$0.89
50,000 - 99,999 SF	36,332,278	1.7%	0.5%	2.2%	3.4%	12,148	(24,374)	310,040	695,405	\$0.82
100,000 - 249,999 SF	43,847,447	2.2%	0.4%	2.6%	5.4%	174,503	616,977	178,159	578,826	\$0.80
250,000+ SF	31,262,733	2.8%	0.2%	3.0%	12.7%	(70,741)	(342,848)	247,696	575,071	\$0.81
Orange County Total	232,773,638	2.0%	0.3%	2.3%	4.7%	(59,023)	(44,690)	2,317,838	4,738,213	\$0.87

plans for additional warehouse space. The Ports of Long Beach recorded the best month ever in June, 4.4% higher than the previous “best month” set back in July 2017. North County continues to record the most leasing activity with over 1 million square feet coming off the market in the second quarter as the majority of sizeable inventory resides in this area.

The Orange County industrial market’s direct vacancy rate continues to remain at historically low levels as it increased 10 basis points to 2.0% to end the second quarter, equating to 9,739,432 square feet of vacant industrial space county wide. Compared to Q2 2017 when 9,233,268 square feet were vacant, this is a year over year growth of 5.48%. The industrial market may experience signs of relief in the upcoming quarters with 1.4 million square feet currently under construction. Western Realco is responsible for a large majority of this construction with The Beckman Business Center underway. Scheduled to be the next significant campus located in North County, The Beckman Business Center will be nearly 1 million square feet. The campus will consist of 8 buildings, of which 4 are over 100,000 square feet and is scheduled to be completed next quarter.

The average asking rental continues to record post-recession highs, concluding the second quarter at \$0.87 per square foot on a triple net basis. This asking rate is up \$0.07, an increase of

8.75% year over year. It is anticipated that this upward trend will continue. South County’s average asking rate is \$1.00 across the market, which continues to be the highest as tenants with R&D and flex requirements drive up rental rates. In contrast, West County continues to record the lowest average asking lease rate with \$0.79 per square foot. Many industrial spaces entering the market continue to remain unpriced as landlords and sellers are letting the market set the rate, providing rates to be swayed drastically by a few low or high price tags. With a constraint on available industrial space, strong demand drivers buoyed by healthy employment, we can expect rental rates to continue their upward trend.

The Orange County industrial investment market remains tight for a second straight quarter, with only 66 transactions totaling approximately 1.6 million square feet, a decrease from this time last year’s 2.1 million square feet. As a result of limited supply, the average price per square foot has continued to record post-recession highs, finishing at \$203 per square foot. Cap rates remained relatively stable in 2Q 2018, slightly decreasing 30 basis points to 4.68%. Landlords and sellers will benefit from these conditions as strong fundamentals across the Orange County industrial market will continue to drive prices upward.

Source: CoStar, Employment Development Department, and National Retail Federation

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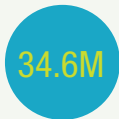
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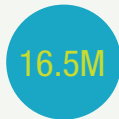
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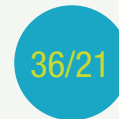


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