

Real Estate Market Review

Orange County Industrial

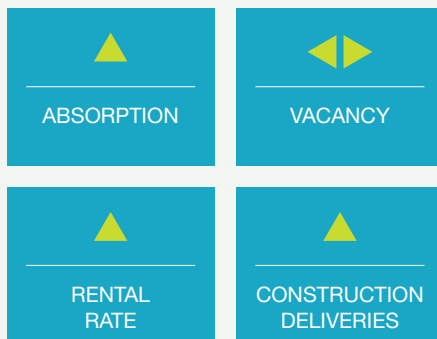
The Orange County industrial market remained vigorous in 3Q18 as demand for a considerable footprint has caused an increase in competition. Strong demand buoyed by historically low vacancy and availability levels has further increased rental rates to post-recession highs, as it still remains a landlord’s market. Overall employment growth remains positive, while the Orange County unemployment rate sits at 3.1% as of August 2018, 120 basis points lower than the state’s 4.3%. Total nonfarm employment increased by 0.7% from August 2017 to August 2018, adding 11,000 jobs to the market. The expectation of over 1.4 million square feet developers currently have under construction should alleviate some downward pressures on vacancies in the following quarters. With healthy fundamentals in place, we can expect the Orange County industrial market to remain robust.

Leasing activity continued a downward trend this quarter as 2,185,051 square feet came off the market, compared to the previous quarter in which 2,357,256 square feet was leased. The Anaheim submarket remains the leading benefactor for tenant demand leasing 601,530 square feet to conclude 3Q18. This submarket also accommodated a couple large deals this quarter

with Freeman Expositions leasing a 300,000 square feet warehouse at 3454 E. Miraloma Ave. Immediately following, 165,000 square feet was subleased to Kuene + Nagel. Buena Park also remained active this quarter as A&R Logistics renewed their 143,790 square foot lease at 6250 Caballero Blvd., giving the submarket a total of 341,340 square feet for the quarter. Overall, the Orange County

→ Continued, page 4

Market Forecast Trends



YEAR-TO-YEAR BASIS

Notable Lease Transactions

Freeman Expositions
3454 E. Miraloma Ave., Anaheim
300,000 s.f.

Kuehne + Nagel (Sublease)
3454 E. Miraloma Ave., Anaheim
165,000 s.f.

A&R Logistics (Renewal)
6250 Caballero Blvd., Buena Park
143,790 s.f.

Shasta Beverages
6201-6251 Knott Ave., Buena Park
102,367 s.f.

Notable Sale Transactions

Goodman North America
1256 N. Magnolia Ave., Anaheim
208,000 s.f. | \$36.04M or \$173.28/s.f.

Home Plus Group, Inc.
15172 Goldenwest Cir., Westminster
102,412 s.f. | \$14.5M or \$141.59/s.f.

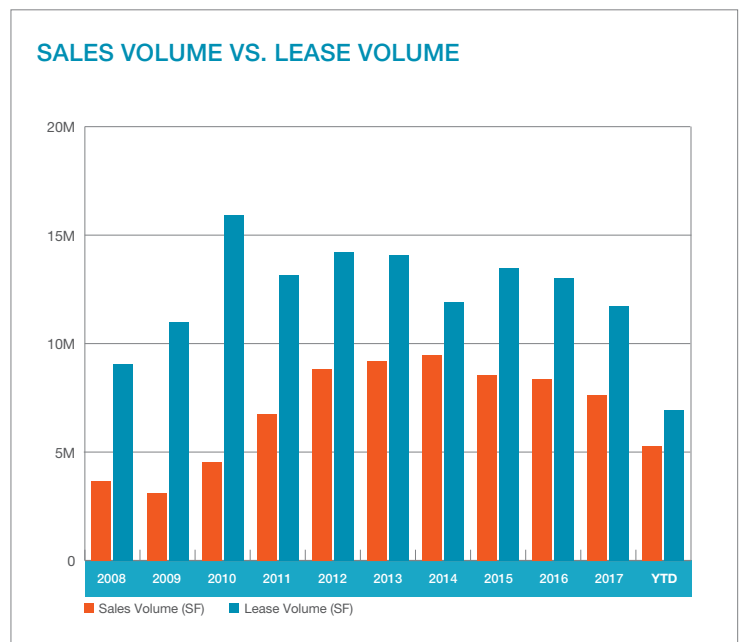
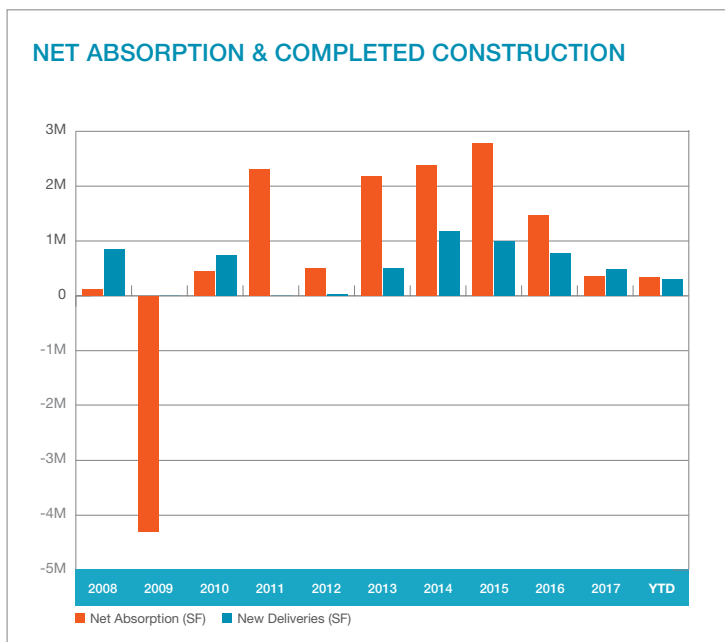
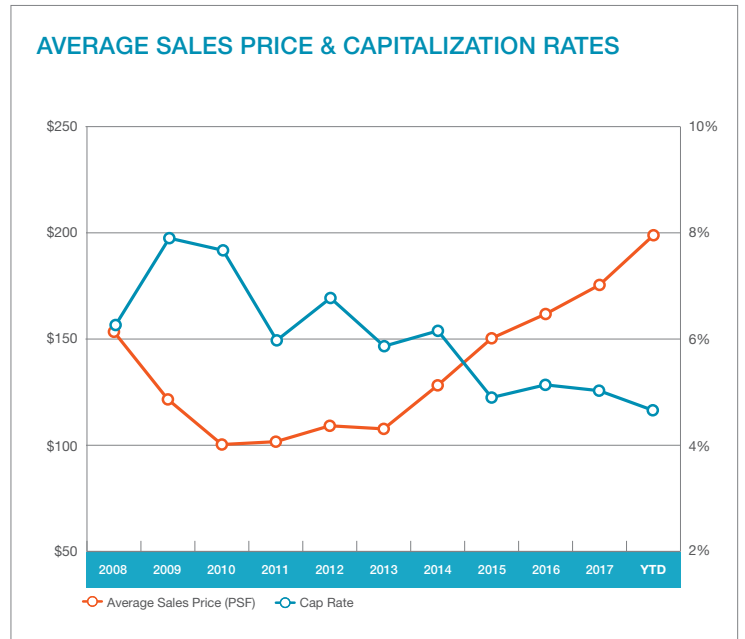
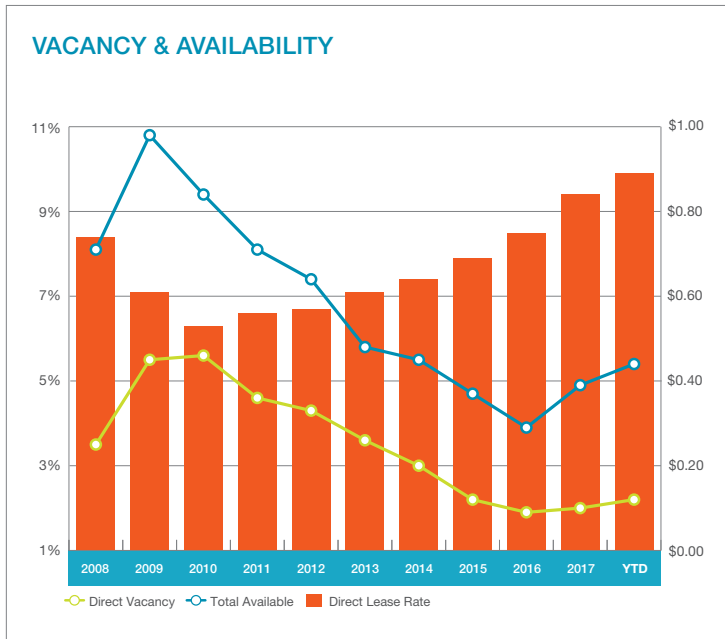
Arrimus Capital
2310 Red Hill Ave., Santa Ana
68,992 s.f. | \$14.3M or \$207.33/s.f.

Black Creek Group
531 Airpark Dr., Fullerton
82,474 s.f. | \$12.25M or \$148.53/s.f.

Market Breakdown

	3Q 2018	2Q 2018	3Q 2017	Annual % Change
Vacancy Rate	2.2%	1.9%	2.3%	-4.35%
Availability Rate	5.4%	5.1%	4.8%	12.50%
Asking Lease Rate	\$0.89	\$0.87	\$0.82	8.54%
Leased SF	2,185,051	2,357,256	3,390,997	-35.56%
Sold SF	1,644,945	2,614,689	2,140,779	-23.16%
Net Absorption	68,129	26,947	57,484	N/A

Orange County Industrial Charts



Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Availability Rate	Q3 Net Absorption	YTD Net Absorption	Q3 Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
Costa Mesa	7,339,915	2.6%	0.3%	2.9%	3.1%	(38,044)	(31,754)	73,972	234,187	\$1.07
Fountain Valley	3,821,958	1.4%	0.1%	1.5%	5.6%	(12,150)	(17,369)	6,990	71,003	\$1.33
Irvine	11,817,405	2.4%	0.3%	2.7%	5.5%	198,038	225,385	131,242	427,519	\$0.84
Newport Beach	441,575	1.3%	0.0%	1.3%	3.1%	5,000	12,083	4,000	20,083	\$0.00
Santa Ana	29,123,479	3.3%	0.0%	3.3%	5.9%	(104,414)	(62,936)	187,248	705,645	\$0.88
Tustin	4,349,251	3.3%	1.5%	4.8%	8.0%	(53,114)	92,470	5,019	108,905	\$0.79
Airport Area	56,893,583	2.9%	0.2%	3.1%	5.5%	(4,684)	217,879	408,471	1,567,342	\$0.87
Anaheim	44,283,787	1.2%	0.1%	1.2%	2.3%	433,043	458,299	601,530	1,711,699	\$0.92
Brea/La Habra	15,201,867	1.0%	0.1%	1.1%	2.6%	73,401	171,539	41,220	363,096	\$0.80
Buena Park	13,032,600	1.4%	0.1%	1.5%	15.5%	(76,289)	156,232	341,340	407,205	\$0.84
Fullerton	18,096,483	1.5%	0.2%	1.7%	7.8%	(82,900)	49,758	96,556	410,173	\$0.97
Orange	13,295,878	1.8%	0.0%	1.8%	2.1%	(7,878)	29,876	73,260	322,783	\$0.89
Placentia/Yorba Linda	4,892,904	1.8%	0.2%	2.0%	8.1%	(16,808)	6,347	49,659	127,894	\$0.75
North County	108,803,519	1.3%	0.1%	1.4%	5.1%	322,569	872,051	1,203,565	3,342,850	\$0.86
Irvine Spectrum	9,767,172	6.2%	1.7%	7.9%	12.6%	(179,189)	(141,357)	154,987	299,246	\$0.97
Laguna Hills/Aliso Viejo	1,724,089	1.9%	0.0%	1.9%	2.5%	(9,305)	(22,757)	13,016	56,127	\$1.31
Laguna Niguel/Laguna Beach	333,967	4.7%	0.0%	4.7%	4.7%	0	(4,845)	0	0	\$0.00
Lake Forest/Foothill Ranch	9,196,103	1.8%	0.9%	2.6%	1.7%	9,033	31,336	63,291	405,771	\$1.05
Mission Viejo	486,294	4.3%	0.0%	4.3%	5.8%	(4,260)	(6,348)	1,740	35,320	\$1.12
Dana Point/San Juan/ San Clemente	2,834,266	1.9%	0.0%	1.9%	1.9%	(12,088)	(1,700)	23,343	64,537	\$1.10
South County	24,341,891	3.7%	1.0%	4.7%	6.3%	(195,809)	(145,671)	256,377	861,001	\$1.02
Cypress	4,273,709	3.1%	0.1%	3.2%	4.8%	(35,261)	(26,907)	0	113,826	\$0.89
Garden Grove	11,867,916	3.7%	0.2%	3.9%	6.1%	(49,463)	(122,558)	74,428	384,571	\$0.77
Huntington Beach	12,339,293	2.8%	0.0%	2.8%	4.5%	43,033	(324,861)	55,948	215,030	\$0.81
La Palma	1,780,025	4.2%	0.0%	4.2%	23.8%	14,768	(75,000)	75,000	107,066	\$0.00
Los Alamitos/Stanton	3,896,868	0.1%	0.0%	0.1%	0.4%	(2,690)	27,741	49,169	88,942	\$0.61
Seal Beach	986,466	0.0%	0.0%	0.0%	0.0%	0	0	0	0	\$0.00
Westminster	2,266,708	3.7%	0.0%	3.7%	4.8%	(24,334)	(76,881)	62,093	255,029	\$0.85
West County	37,410,985	2.9%	0.1%	3.0%	5.4%	(53,947)	(598,466)	316,638	1,164,464	\$0.80
0 - 9,999 SF	16,625,174	1.2%	0.2%	1.4%	2.4%	1,272	46,686	144,359	456,414	\$1.29
10,000 - 24,999 SF	60,796,341	1.6%	0.2%	1.8%	2.4%	50,315	(135,777)	681,470	2,280,571	\$1.07
25,000 - 49,999 SF	40,227,393	2.2%	0.2%	2.5%	4.0%	2,793	(112,142)	394,121	1,302,061	\$0.94
50,000 - 99,999 SF	36,463,084	2.4%	0.2%	2.6%	5.2%	(99,085)	(123,507)	190,417	895,822	\$0.87
100,000 - 249,999 SF	43,642,590	2.1%	0.4%	2.5%	6.4%	386,115	825,748	372,317	1,023,351	\$0.84
250,000+ SF	29,695,396	4.0%	0.0%	4.1%	13.6%	(273,281)	(155,215)	402,367	977,438	\$0.81
Orange County Total	227,449,978	2.2%	0.2%	2.5%	5.4%	68,129	345,793	2,185,051	6,935,657	\$0.89

industrial market reported 68,129 square feet of positive absorption in 3Q18, an increase from the 26,947 square feet from the previous quarter. North County continues to provide the most absorption with 322,569 square feet this quarter, mainly attributable by the abundance of supply in the area. The Ports of Long Beach are on track to having its busiest year ever, already up 11.3% from the year prior as companies look to move their goods ahead of expected tariffs. In addition, total retail sales are expected to grow by 5.1% in 2018, with eCommerce sales pushing upwards to 15% in 2018. For these reasons, we can anticipate improvements in activity and absorption to bounce back in the following quarters.

The direct vacancy remains at historically low levels despite the 30 basis point increase from the prior quarter, concluding at 2.2% in 3Q18. South County posted the highest direct vacancy rate at 3.7%, while North County reported the least amount of vacant space at a tight 1.3%. The industrial market may experience signs of relief in the upcoming quarters with over 1.4 million square feet currently under construction. Western Realco is responsible for a large majority of the construction with The Beckman Business Center approaching completion, providing nearly 1.0 million square feet to the market. Moreover, Panattoni is currently constructing The Orange County Commerce Center which is a four building campus in Placentia totaling 232,354 square feet and is scheduled to be completed early next year. Expect upward pressure to be applied on vacancies as developments reach completion in the coming quarters.

The average asking rental rates continue to record post-recession highs, concluding the third quarter at \$0.89 per square foot on a triple net basis. The asking rate is up \$0.07, an increase of 8.54% year over year. The highest rental rates continue to be located in South County at \$1.02 per square foot, as tenants with R&D and flex requirements continue to drive up rental rates in the area. In contrast, West County has the lowest average asking lease rate at \$0.80 per square foot to conclude the third quarter. Presently, many industrial spaces entering the market remain unpriced as landlords and sellers are letting the market set the rate. In doing so, rental rates are able to be swayed drastically by a few low or high price tags. With sturdy demand fundamentals in place and lack of available product in the market, it is anticipated that rental rates will continue its upward trend moving forward.

The Orange County industrial investment market witnessed a decline this quarter with 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 \$188 per square foot. Cap rates remained relatively stable in 3Q18, slightly decreasing 30 basis points to 4.6%. Landlords and sellers will continue to benefit from these conditions as strong demand fundamentals across the Orange County industrial market will remain to drive prices upward.

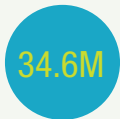
Source: CoStar, Employment Development Department, and National Retail Federation

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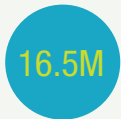
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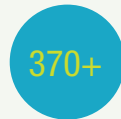
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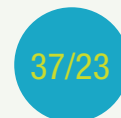


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