

Real Estate Market Review

Orange County Industrial

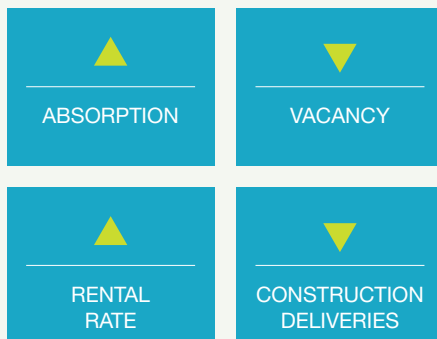
The Orange County industrial market ended 4Q18 on a high note, reporting 341,017 s.f. of positive absorption; recovering from negative absorption levels in the last few quarters. Vacancy rates climbed by 40 basis points (bps) to 2.6% this quarter, a 30% increase year-over-year as a result of the heavy influx of new construction. It is still considered a landlord's market as rental rates continue to record post-recession highs, averaging \$0.90 NNN to end the year. Overall employment growth has remained positive, and the Orange County unemployment rate has decreased to 2.8% as of November 2018, 110 basis points (bps) lower than the state's 3.9%. Healthy fundamentals accompanied by tight market conditions will likely maintain low vacancies and stable rental growth. Expect the Orange County market to remain robust in 2019.

The Orange County industrial market completed 210 transactions totaling 1,732,164 s.f. of leasing activity for the quarter, bringing the yearly total to 8,742,570 s.f. North County has continued to lead the way with 733,270 s.f. of leasing activity as Amorepacific U.S. leased 111,679 s.f. at 3300 E. Birch St., the largest deal this quarter. The Airport Area followed behind with 493,445 s.f. leased in 4Q18,

adding up to a yearly total of 2,120,259 s.f. As the availability of a sizeable footprint remains constricted, smaller product sizes such as 10,000 s.f.-24,999 s.f. continue to experience the most leasing activity with 527,152 s.f. of activity. Overall, the Orange County industrial market reported 341,017 s.f. of positive absorption in 4Q18, bringing the yearly total to 9,984 s.f. of positive absorption.

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Market Forecast Trends



YEAR-TO-YEAR BASIS

Notable Lease Transactions

Lexor, Inc.
7400 Hazard Ave., Westminster
187,696 sf

Kuehne + Nagel (Renewal)
3454 E. Miraloma Ave., Anaheim
165,000 sf

Consolidated Container Co. (Renewal)
1201 E. Cerritos Ave., Anaheim
162,000 sf

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

Notable Sale Transactions

Oaktree Capital Management, L.P.
250 S. Kraemer Blvd., Brea
576,234 s.f. | \$115,250,000 or \$200.01/s.f.

Norges Bank Investment Management
50 Icon, Foothill Ranch
307,781 s.f. | \$56,500,000 or \$183.57/s.f.

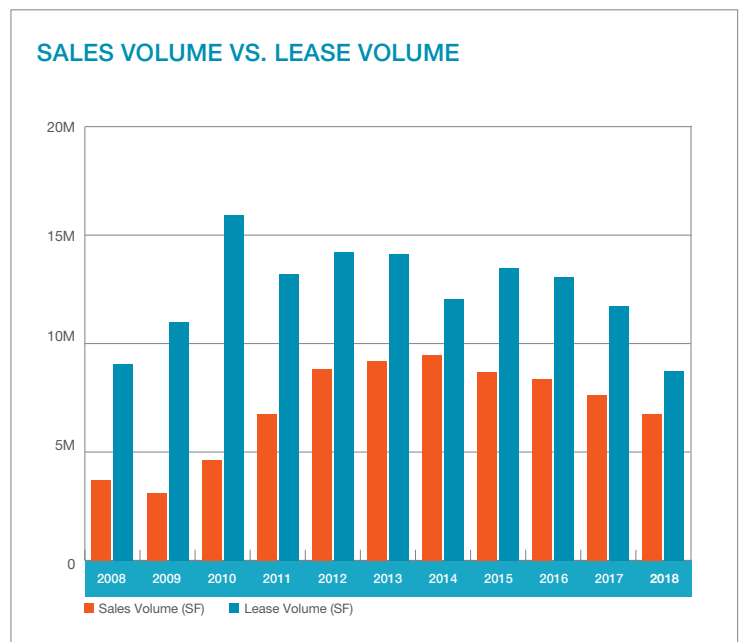
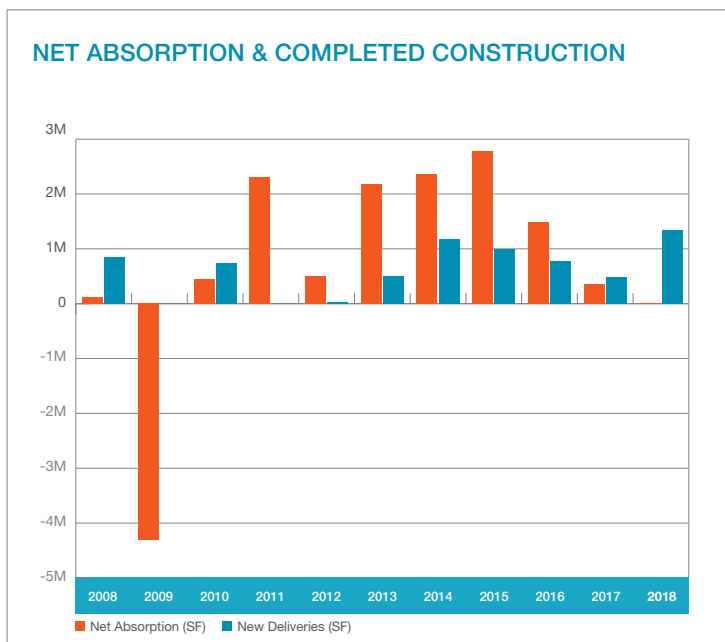
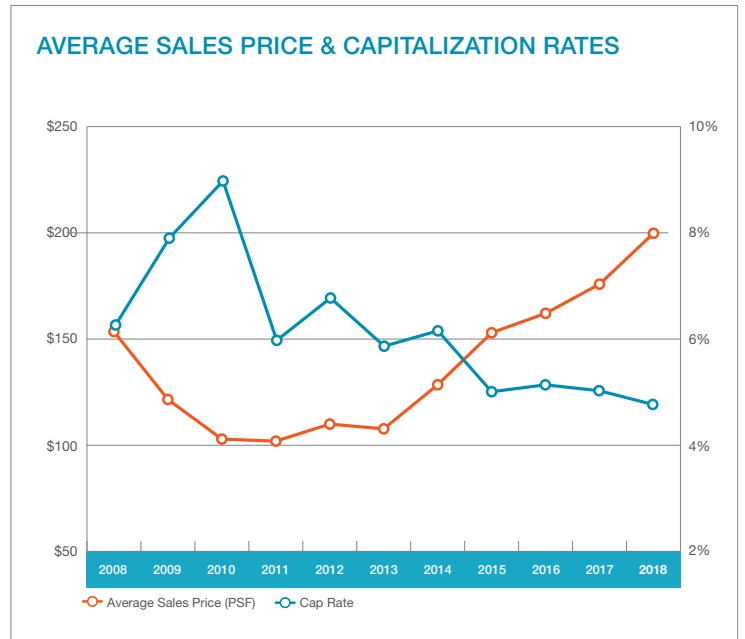
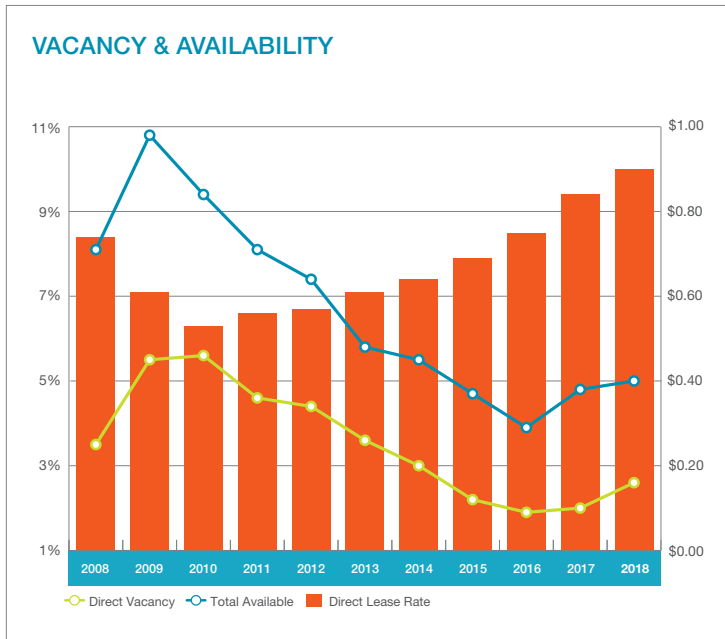
Goodman North America
1256 N. Magnolia Ave., Anaheim
208,000 s.f. | \$36,042,000 or \$173.28/s.f.

American Realty Advisors
1730 S. Anaheim Way, Anaheim
143,930 s.f. | \$33,100,000 or \$229.97/s.f.

Market Breakdown

	2018	2017	2016	Annual % Change
Vacancy Rate	2.6%	2.0%	1.9%	30.00%
Availability Rate	5.0%	4.8%	3.9%	4.17%
Asking Lease Rate	\$0.90	\$0.84	\$0.75	7.14%
Leased SF	8,742,570	11,753,279	13,056,632	-25.62%
Sold SF	6,767,597	7,646,044	8,373,600	-11.49%
Net Absorption	9,884	355,606	1,479,113	N/A

Orange County Industrial Charts



Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Availability Rate	Q4 Net Absorption	YTD Net Absorption	Q4 Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
Costa Mesa	7,340,391	2.0%	0.1%	2.1%	2.6%	45,403	13,649	37,549	271,736	\$1.02
Fountain Valley	3,821,602	1.4%	0.0%	1.4%	5.3%	7,976	(9,393)	53,837	124,840	\$1.26
Irvine	11,721,478	2.3%	0.2%	2.5%	5.0%	14,775	(127,955)	63,786	491,305	\$0.81
Newport Beach	441,575	1.8%	0.0%	1.8%	3.7%	(2,360)	9,723	0	20,083	\$0.00
Santa Ana	29,156,883	3.0%	0.1%	3.1%	5.1%	65,234	36,358	306,278	1,015,273	\$0.88
Tustin	4,330,153	4.7%	0.6%	5.3%	4.5%	(59,452)	33,018	31,995	197,022	\$0.80
Airport Area	56,812,082	2.7%	0.2%	2.9%	4.7%	71,576	(44,600)	493,445	2,120,259	\$0.86
Anaheim	44,305,216	1.0%	0.1%	1.0%	2.6%	80,624	237,823	127,714	1,856,845	\$0.97
Brea/La Habra	15,236,442	1.4%	0.0%	1.4%	2.1%	(75,004)	97,735	143,983	510,679	\$0.81
Buena Park	13,228,248	3.2%	0.1%	3.4%	13.4%	(46,550)	109,682	131,327	538,532	\$0.85
Fullerton	19,046,156	6.2%	0.6%	6.7%	7.8%	25,830	102,201	141,847	552,020	\$0.93
Orange	13,295,067	1.6%	0.0%	1.6%	1.4%	8,488	38,864	109,829	446,007	\$0.89
Placentia/Yorba Linda	4,925,905	2.9%	0.4%	3.3%	6.2%	(70,219)	(66,272)	78,570	206,464	\$0.82
North County	110,037,034	1.3%	0.1%	1.4%	5.1%	(76,831)	520,033	733,270	4,110,547	\$0.87
Irvine Spectrum	9,773,953	6.6%	1.7%	8.3%	13.2%	29,441	(168,699)	47,620	319,959	\$1.03
Laguna Hills/Aliso Viejo	1,724,089	2.1%	0.0%	2.1%	1.8%	(5,058)	(27,815)	17,700	73,827	\$1.31
Laguna Niguel/Laguna Beach	333,967	3.0%	0.0%	3.0%	3.0%	5,746	901	0	0	\$0.00
Lake Forest/Foothill Ranch	9,182,484	1.1%	1.0%	2.1%	2.9%	95,401	127,537	25,278	451,538	\$1.14
Mission Viejo	486,294	2.5%	0.0%	2.5%	2.3%	8,372	2,024	4,368	39,688	\$1.12
Dana Point/San Juan/ San Clemente	2,844,766	1.5%	0.0%	1.5%	1.9%	(571)	(1,771)	16,477	81,014	\$1.31
South County	24,345,553	3.5%	1.0%	4.5%	6.8%	133,331	(67,823)	111,443	966,026	\$1.10
Cypress	4,273,709	4.0%	0.1%	4.2%	4.9%	(41,820)	(68,727)	0	113,826	\$0.91
Garden Grove	11,867,916	2.3%	0.2%	2.6%	5.8%	149,783	27,225	233,444	618,015	\$0.75
Huntington Beach	12,316,570	1.4%	0.5%	2.0%	2.7%	225,639	(111,423)	127,814	330,112	\$0.82
La Palma	1,780,025	4.2%	0.0%	4.2%	23.8%	0	(75,000)	0	107,066	\$0.00
Los Alamitos/Stanton	3,897,484	1.6%	0.0%	1.6%	2.1%	(59,589)	(31,848)	10,820	99,762	\$1.16
Seal Beach	986,466	0.0%	0.0%	0.0%	0.0%	0	0	0	0	\$0.00
Westminster	2,279,708	6.3%	0.0%	6.3%	8.2%	(61,072)	(137,953)	21,928	276,957	\$0.85
West County	37,401,878	2.4%	0.3%	2.7%	5.2%	212,941	(397,726)	394,006	1,545,738	\$0.80
5,000 - 9,999	16,674,365	1.4%	0.2%	1.6%	2.8%	(41,767)	6,219	131,663	616,845	\$1.30
10,000 - 24,999	60,785,562	1.7%	0.1%	1.8%	2.5%	(58,185)	(212,692)	527,152	2,820,730	\$1.14
25,000 - 49,999	40,373,693	2.4%	0.2%	2.6%	3.9%	125,464	(66,589)	349,375	1,655,195	\$0.98
50,000 - 99,999	36,539,073	2.3%	0.4%	2.7%	3.9%	14,044	(30,933)	356,693	1,308,637	\$0.85
100,000 - 249,999	44,219,019	3.6%	0.4%	4.1%	6.7%	21,001	478,634	309,459	1,305,903	\$0.84
250,000 Plus	30,004,835	3.6%	0.4%	4.1%	6.7%	280,460	(164,755)	57,822	1,035,260	\$0.79
Orange County Total	228,596,547	2.6%	0.3%	2.9%	5.0%	341,017	9,884	1,732,164	8,742,570	\$0.90

West County recorded the most absorption with 212,941 s.f., mainly contributed by an undisclosed tenant moving into 280,460 s.f. at 5701 Skylab Road in Huntington Beach.

The direct vacancy remains at historically low levels despite the 40 basis point (bps) increase from the prior quarter, concluding at 2.6%. South County posted the highest direct vacancy rate at 3.5%, while North County continues to record the lowest direct vacancy levels at a tight 1.3%. The industrial market experienced signs of relief this quarter as 1.3 million s.f. of inventory was completed, further applying upward pressures on vacancies. Western Realco contributed the majority of the deliveries this quarter as the much anticipated Beckman Business Center reached completion, consisting of 8 buildings totaling 976,754 s.f. of inventory space. Currently, 10% of the campus is leased with 4 buildings over 100,000 s.f. still available to house large tenant users. In addition, 368,780 s.f. is currently under construction and is set to be delivered early next year.

The average asking rental rates continue to record post-recession highs, concluding the fourth quarter at \$0.90 NNN. This is up \$0.06, an increase of 7.14% year over year. Rental rates in South County remain the highest at \$1.10 NNN as tenants with R&D and flex requirements continue to drive rental rates upward. Contrarily, West County recorded the lowest asking lease rate at \$0.80 NNN to end the quarter. Presently, many industrial spaces remain unpriced as landlords and sellers are letting the market set the rate. In doing so, rental rates in the market are able to sway drastically by a few

low or high price tags. Additionally, the Orange County industrial market has experienced a deceleration in rental rate growth in past quarters. Despite that fact, with steady tenant demand and inventory constraints, we can expect rental rate growth to remain stable in 2019.

The Orange County industrial investment market remained vigorous as seventy-one properties (1,336,368 s.f.) traded hands at an average of \$197.87/s.f. Rexford Industrial purchased 5593-5595 Fresca Dr. in La Palma for \$14 million (\$121.53/s.f.), resulting in the largest transaction this quarter. The property was 100% occupied at time of sale by two tenants, recording a cap rate of 5.4%. Average cap rates remained relatively stable in 4Q18 concluding at 5.36%. With low vacancies and steady demand fundamentals in place, Orange County continues to attract many buyers. Expect 2019 to be another strong year in investment activity as landlords and sellers look to sell their assets at record highs.

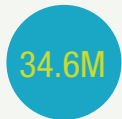
Source: CoStar, Employment Development Department, and National Retail Federation

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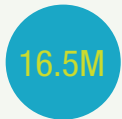
COMMERCIAL BROKERAGE



ANNUAL TRANSACTION VOLUME



ANNUAL LEASING SF



ANNUAL SALES SF



BROKERS

PROPERTY MANAGEMENT

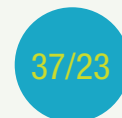


MANAGEMENT PORTFOLIO

VALUATION ADVISORY



ASSIGNMENTS ANNUALLY



TOTAL # APPRAISERS/MAI'S

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