

Orange County

Industrial Market Outlook 3Q 2018

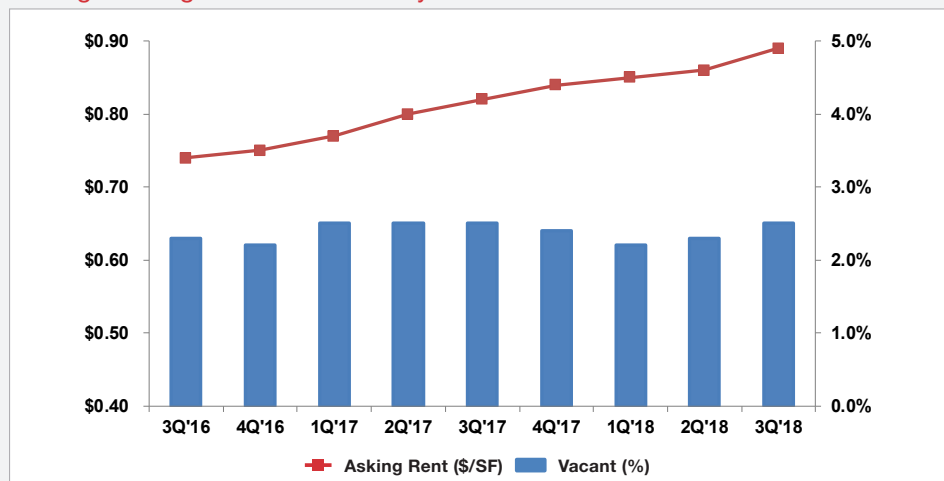
MARKET OVERVIEW

Rent in Orange County's industrial market continued to surge upward in 3Q 2018 while vacancy remained low. Average asking rent reached \$0.89/SF, up 3.5% over the prior quarter and up 8.5% over the previous year. Despite rent hitting a new record high, vacancy was just 2.5%, steady over 3Q 2017. There were no completions, though the 800,000 SF Beckman Business Center in Fullerton and the 232,000 SF Orange County Commerce Center in Anaheim are still underway. This quarter, construction began on a 100,276 SF warehouse at 1585 MacArthur Blvd in Costa Mesa. The property was fully leased to Robinson-Pharma in 2Q 2018 with an expected move-in date of March 2019. A strong economy and the ports' cargo volume continue to push demand as Orange County attracts a dynamic mix of industrial users. Companies involved in manufacturing, distribution and other local businesses are the primary users of industrial space. The Port of Los Angeles and the Port of Long Beach saw a total cargo volume of 11.3 million TEUs through August 2018, up 2.7% from August 2017 with imports up 3.1%. According to the latest data, the top imports in 2017 were furniture, auto parts, apparel, electronics and footwear.

TRENDS TO WATCH

The Orange County industrial market will continue its positive momentum through the end of 2018. The existing inventory in Orange County is insufficient to meet demand, meaning that those looking for space to expand are forced toward the neighboring Inland Empire. The 1.3% vacancy rate in Orange County's North submarket was the lowest vacancy rate in Southern California in 3Q 2018. Low vacancy is expected to continue in the face of relatively low construction volume; however, the delivery of Beckman Business Center expected in 4Q 2018 could bump up vacancy slightly as the entire development remained available at the end of Q3. Rents will remain at record high levels as the market strongly favors landlords. The three projects in the construction pipeline are a drop in the bucket compared to the more than 12.5M SF leased and sold in 2018, and are not likely to alter the fundamental supply and demand imbalance in Orange County's industrial market.

Average Asking Rent* and Vacancy Rate



MARKET OUTLOOK

Asking Rental Rates



Sale Prices



Availability/Vacancy Rates



Landlord Concessions



Sales/Leasing Volume



New Construction



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Market Statistics*

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	3Q18 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	3Q18 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/SF NNN	AVERAGE SALE PRICE \$/SF
Airport	54,308,669	100,276	5.4%	3.1%	401,481	1,512,744	574,555	1,340,969	\$0.86	\$204
North	97,102,964	1,167,108	3.5%	1.3%	866,900	3,289,875	873,247	2,824,521	\$0.88	\$173
South	31,176,905	0	6.1%	4.4%	358,364	1,068,565	111,556	606,860	\$0.95	\$291
West	40,195,456	0	4.6%	2.9%	256,128	1,151,236	356,305	802,516	\$0.80	\$178
Orange County	222,783,994	1,267,384	4.5%	2.5%	1,882,873	7,022,420	1,915,663	5,574,866	\$0.89	\$188

Leasing

Lease volume totaled more than 1.9M SF in 3Q 2018 for a total of more than 5.5M SF year to date. Low levels of available industrial inventory continued to limit leasing activity in Orange County- annual volume is down 13.1% from this time in 2017. Landlords remained in control of the rental market this quarter, pushing up the asking rent to \$0.89/SF, 8.5% higher than last year at this time. Once again, rents rose to the highest level on record and surpassed the 2008 peak by \$0.13/SF, or 17.1%. This quarter, Kuehne + Nagel renewed its lease of 165,000 SF at 3454 E Miraloma Ave in Anaheim through 2023. In the same building, Freeman Expositions leased 135,000 SF in 3Q 2018.

Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/SF**	SQUARE FEET
Kuehne + Nagel	3454 E Miraloma Ave	North	Withheld	165,000
Freeman Expositions	3454 E Miraloma Ave	North	Withheld	135,000
Bigger, Farther, Faster	6489 Oak Canyon	Airport	\$0.95	67,170
OCCS, Inc	10680 Ferm Ave	West	\$0.50	44,659
California Faucets	5451 Argosy Ave	West	\$0.69	23,500

Sales

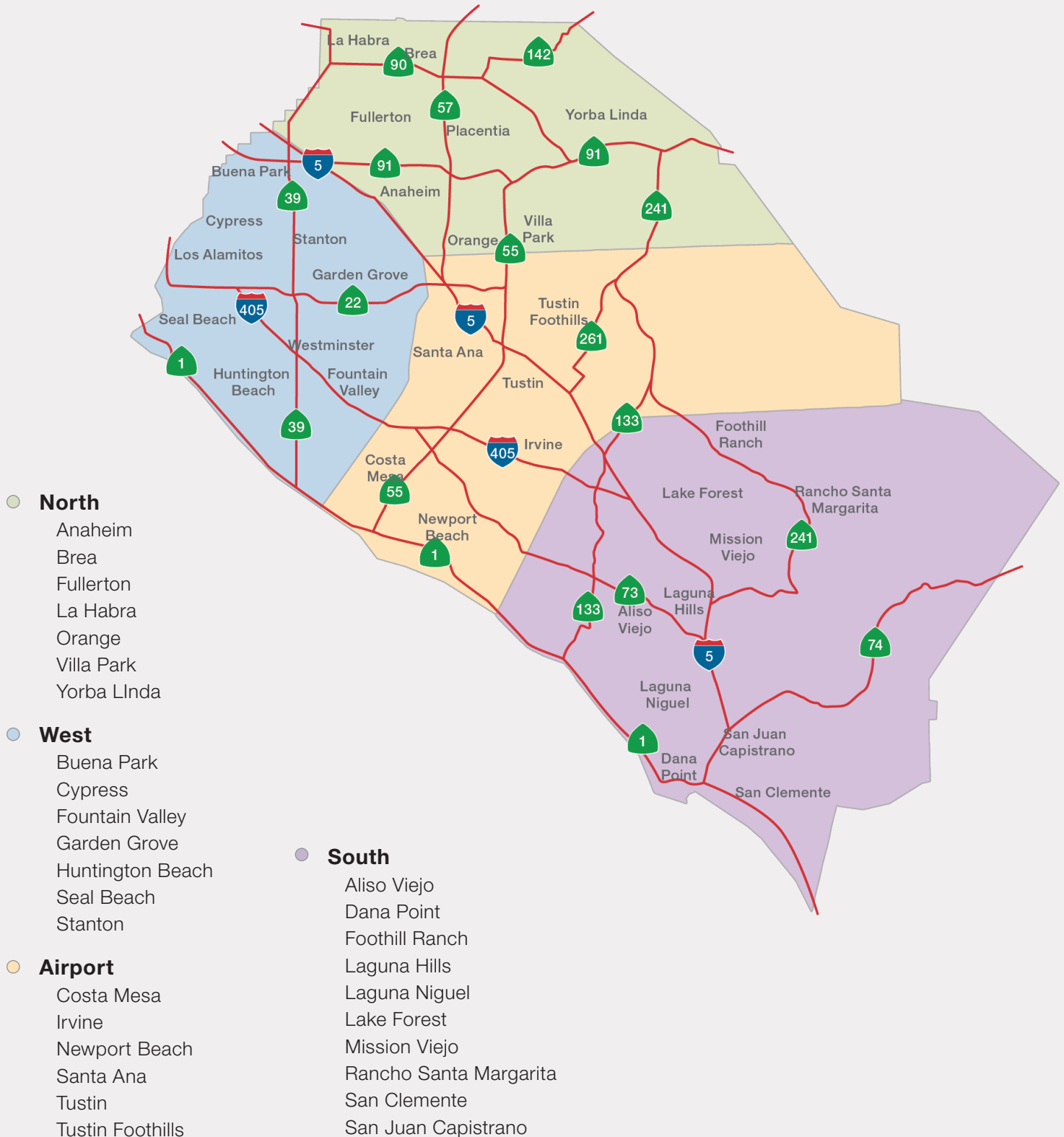
Sales volume for 3Q 2018 totaled more than \$217M. On a square footage basis, 1.9M SF sold in Q3, bringing the total for 2018 to 5.6M SF, on par with the total from last year at this time. The average sale price increased 6.4% over the year to \$188/SF. Cap rates averaged 4.62%, one of the lowest rates on record and steady over the year. Due to strong price growth, owners are incentivized to sell their buildings and capitalize on investment. Institutional investors were active in some of the most significant sales this quarter. Sares-Regis Group purchased a 58,674 SF manufacturing building in Huntington Beach for \$160/SF at a 5.63% cap rate. The seller moved operations to Chino, where there was an opportunity to expand to a facility four times the size.

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Arrimus Capital	2300-2320 Red Hill Ave	Airport	\$206	212,121
Goodman North America	1256 N Magnolia Ave	North	\$173	208,000
Home Plus Group, Inc.	15172 Goldenwest Cir	West	\$142	102,412
Black Creek Group	531 Airpark Dr	North	\$149	82,474
Sares-Regis Group	15301 Springdale St	West	\$160	58,674

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