

MARKET TRENDS | **INDUSTRIAL**

ORANGE COUNTY

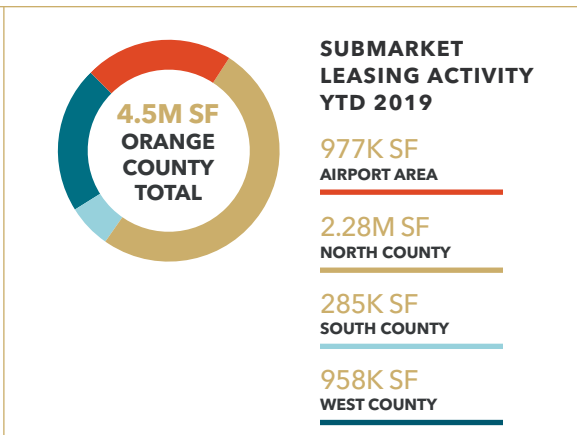
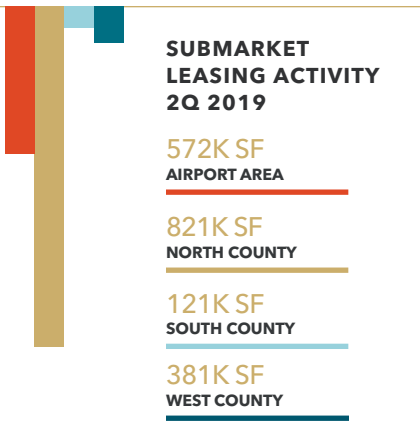
2ND QUARTER
2019

▲ ABSORPTION | ◀▶ VACANCY | ▲ RENTAL RATE | ▲ CONSTRUCTION DELIVERIES

The Orange County industrial market remains on firm footing as net absorption rebounded from negative absorption levels last quarter as a result of JCPenney's sizable move-out. Moreover, asking rental rates continue to record all-time highs experiencing the strongest rent growth out of any property type and direct vacancy levels remain below 4% for 21 straight quarters. Sales transactions have also picked up in 2Q19 as buyers have looked to capitalize on rent premiums and current market conditions. Overall employment growth remains positive, as the Orange County unemployment rate remains amongst the lowest in the nation at 2.4%, 110 basis points (bps) lower than the state's average of 3.5% and 100 basis points lower than the national average of 3.4%. Lack of availability and ongoing conversions of industrial product to residential or creative office space has forced some tenants to re-evaluate real estate needs as they proceed in negotiating early renewals or locating new space for operations. With limited opportunities, steady demand, and no indications of an economic downturn in the short-run, expect the Orange County industrial market to remain vigorous through 2019.

The industrial market gained confidence in 2Q19, recording positive absorption of approximately 342,097 square feet. West County had the most impact on net absorption with 349,298 square feet of positive absorption, largely due to Quiet Logistics moving into 424,285 square feet of space at 6565 Valley View St., La Palma.

Conversely, North County recorded the most negative absorption for a second straight quarter with 196,902 square feet. This comes after the substantial move out from JCPenney in 1Q19 which accounted for over 1.1 million square feet of negative absorption. Expect North County to recover as IDC Logistics is expected to move into 447,055 square feet at 6700 Artesia Blvd., Buena Park early next quarter. Leasing activity market-wide continued to slow down posting 1.9 million square feet in volume, down from 1Q19 when over 2.6 million square feet of leasing activity occurred. Demand for properties within smaller size ranges led the way as buildings from 10,000 square feet to 25,000 square feet contributed 622,925 square feet of leasing activity to end the quarter. Overall, the decrease in activity may be attributed to the limited supply coupled by record-high rental rates market-wide. In addition, as the demand for a sizeable footprint remains fierce in the market, some tenants are beginning the process of negotiating early lease renewals.



2Q 2019 MARKET HIGHLIGHTS

DIRECT VACANCY dropped 10 basis points quarter-over-quarter

AVERAGE ASKING LEASE RATES are up at an all-time high of \$0.94/s.f. on a triple net basis, up 8.05% year-over-year

AVERAGE SALES PRICE for the quarter was at \$224.46/s.f. with cap rates at 4.24%

UNDER CONSTRUCTION 572,943 s.f. of space

Average asking rental rates have flattened out in recent months, nominally increasing by \$0.01 per square foot since last quarter. Despite the slowdown in rent growth, the Orange County industrial market continues to outperform all property types, increasing by 8.05% year over year, concluding the quarter with an average asking rate of \$0.94 per square foot on a triple net basis. South County continues to boast the highest rates at \$1.13 per square foot, as an abundance of tenants with R&D and flex requirements continue to drive up rates in the area. In contrast, West County reported the lowest average asking lease rate at \$0.84 per square foot to conclude the second 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 can be swayed drastically by a few low or high price tags. With inventory constraints and steady demand in the market, we can expect rent growth to remain steady in the following quarters.

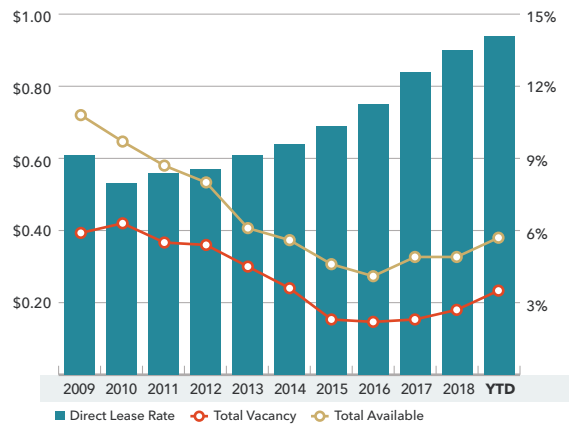
Limited vacancies, healthy demand fundamentals and steady rent growth have contributed to the confidence of investors in Orange County, as landlords look to benefit from the record-high rental rates. Consequently, some major acquisition groups and buyers have expanded their focus to smaller sized building portfolios in order to capitalize on these market rents. As a result, the Orange County industrial investment market experienced an increase this quarter with 71 transactions totaling approximately 1.1 million square feet. The average building size amounted to approximately 15,031 square feet, a decrease of over 12,000 square feet when the average building size per transaction was at 27,293 square feet. With supply constraints throughout the market, the average price per square foot has continued to record post-recession highs, finishing at \$224.46 per square foot with cap rates settling at 4.24%. 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, State of California Employment Development Dept.

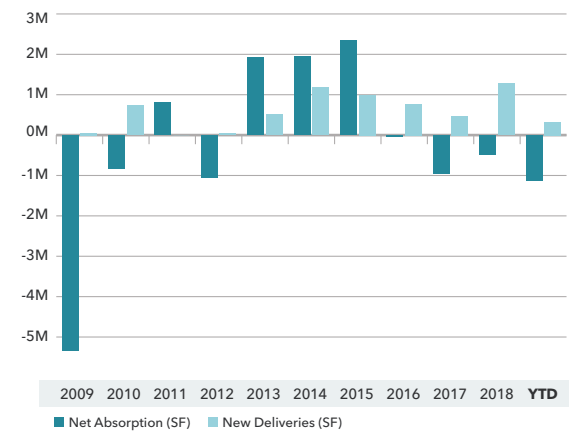
Market Breakdown

	2Q 2019	1Q 2019	2Q 2018	Annual % Change
Vacancy Rate	3.5%	3.6%	2.1%	66.67%
Availability Rate	5.7%	5.1%	4.9%	16.33%
Asking Lease Rate	\$0.94	\$0.93	\$0.87	8.05%
Leased SF	1,896,864	2,608,250	2,605,223	-27.19%
Sold SF	1,067,221	1,719,468	2,614,853	-59.19%
Net Absorption	342,097	-1,476,213	-163,139	N/A

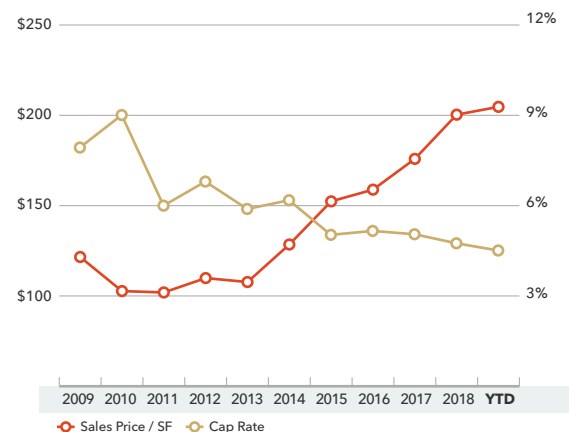
LEASE RATE, VACANCY & AVAILABILITY



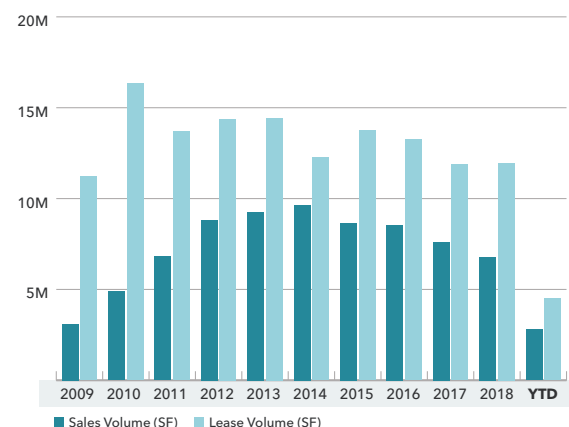
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALE PRICE & CAP RATES

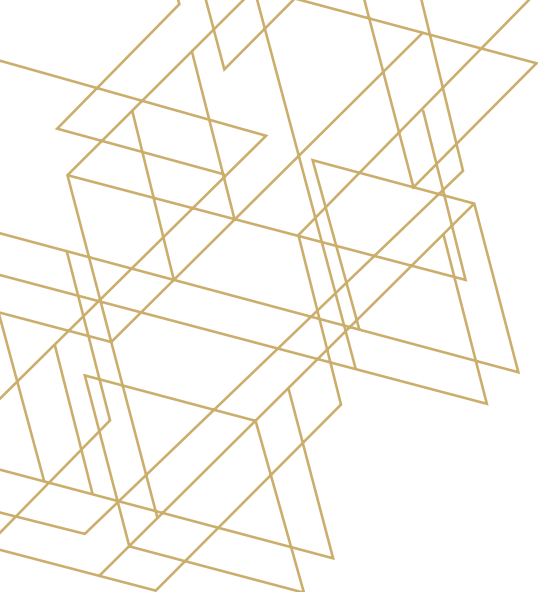


SALES VOLUME VS. LEASE VOLUME



INLAND EMPIRE SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Availability Rate	2Q19 Direct Net Absorption	2019 Direct Net Absorption	2Q19 Total Leasing Activity	2019 Leasing Activity	Avg NNN Rental Rate
Costa Mesa	7,472,050	6.6%	0.3%	6.9%	7.2%	-39,435	38,660	53,601	99,064	\$1.13
Fountain Valley	3,875,150	1.8%	0.0%	1.8%	8.3%	6,858	-12,785	22,717	45,899	\$1.13
Irvine	11,728,005	4.0%	0.6%	4.6%	4.1%	65,983	-68,936	202,217	250,417	\$0.81
Newport Beach	441,575	0.0%	0.0%	0.0%	0.6%	0	8,000	0	0	\$0.00
Santa Ana	29,696,473	5.0%	0.0%	5.0%	8.1%	97,356	-56,428	251,015	539,002	\$1.00
Tustin	4,256,176	2.1%	0.6%	2.7%	4.1%	21,412	39,760	43,268	43,268	\$1.04
Airport Area	57,469,429	4.5%	0.2%	4.7%	4.1%	152,174	-51,729	572,818	977,650	\$0.97
Anaheim	44,420,591	1.4%	0.1%	1.5%	2.9%	-69,286	-269,609	387,415	920,837	\$0.87
Brea/La Habra	15,423,793	1.4%	0.1%	1.5%	3.2%	95,885	50,945	110,130	441,419	\$0.85
Buena Park	13,235,271	12.1%	0.0%	12.1%	14.5%	-317,055	-1,178,875	18,386	226,546	\$0.82
Fullerton	18,970,482	6.2%	0.1%	6.3%	6.5%	78,691	88,617	156,571	459,876	\$1.00
Orange	13,188,506	1.7%	0.6%	2.3%	2.3%	-17,333	1,882	120,675	175,005	\$1.11
Placentia/Yorba Linda	4,763,192	1.2%	0.0%	1.2%	3.3%	32,196	137,972	27,953	59,486	\$0.82
North County	110,001,835	3.6%	0.1%	3.7%	4.9%	-196,902	-1,169,068	821,130	2,283,169	\$0.86
Irvine Spectrum	9,840,058	6.4%	1.1%	7.5%	10.6%	30,495	38,482	17,000	97,335	\$1.02
Laguna Hills/Aliso Viejo	1,689,768	2.6%	0.3%	2.9%	6.0%	3,720	11,028	14,075	39,015	\$1.31
Laguna Niguel/Laguna Beach	334,187	2.1%	0.0%	2.1%	3.8%	0	0	0	0	\$0.00
Lake Forest/Foothill Ranch	9,255,772	0.4%	0.4%	0.8%	2.0%	4,180	6,592	64,841	95,862	\$1.19
Mission Viejo	486,294	2.2%	0.0%	2.2%	2.2%	-7,073	-6,512	9,263	10,560	\$0.95
Dana Point/San Juan/ San Clemente	2,844,766	2.1%	0.0%	2.1%	2.3%	6,205	-4,825	16,204	43,114	\$1.32
South County	24,450,845	3.3%	0.6%	3.9%	5.8%	37,527	44,765	121,383	285,886	\$1.13
Cypress	4,605,085	8.5%	0.1%	8.6%	8.5%	21,446	5,806	0	44,838	\$0.89
Garden Grove	11,847,935	4.0%	0.0%	4.0%	5.0%	-7,320	53,974	196,533	482,368	\$0.84
Huntington Beach	12,411,131	2.0%	0.1%	2.2%	5.2%	-94,607	-111,165	149,515	295,549	\$0.81
La Palma	1,780,056	0.0%	0.0%	0.0%	0.0%	424,285	75,000	0	0	\$0.00
Los Alamitos/Stanton	3,896,718	1.4%	0.0%	1.4%	2.8%	-1,566	-28,763	28,729	50,882	\$1.04
Seal Beach	973,331	0.0%	0.0%	0.0%	0.0%	0	0	0	0	\$0.00
Westminster	2,284,708	0.6%	0.0%	0.6%	0.4%	7,060	47,064	6,756	84,772	\$0.85
West County	37,798,964	3.1%	0.1%	3.2%	4.6%	349,298	41,916	381,533	958,409	\$0.84
5,000 - 9,999	16,677,008	1.5%	0.1%	1.6%	2.5%	-4,272	-6,460	160,644	317,471	\$1.34
10,000 - 24,999	60,882,107	1.8%	0.1%	1.9%	3.1%	-16,605	-65,942	622,925	1,203,011	\$1.22
25,000 - 49,999	40,352,739	3.0%	0.5%	3.5%	5.2%	57,526	101,223	458,761	811,036	\$0.95
50,000 - 99,999	36,907,335	3.0%	0.3%	3.2%	4.3%	-13,719	-124,863	477,919	916,844	\$0.90
100,000 - 249,999	44,260,898	2.8%	0.2%	3.0%	6.1%	298,937	388,268	176,615	954,733	\$0.87
250,000 Plus	30,640,986	11.7%	0.0%	11.7%	12.3%	20,230	-1,426,342	0	302,019	\$0.82
Orange County Total	229,721,073	3.5%	0.2%	3.7%	5.7%	342,097	-1,134,116	1,896,864	4,505,114	\$0.94



Notable Sale Transactions

R+L CARRIERS, INC. 1441-1445 S Sunkist St, Anaheim
40,114 s.f. | \$13M or \$324.08/s.f.

SARES-REGIS GROUP 15461 Springdale St, Huntington Beach
61,389 s.f. | \$12.7M or \$207.69/s.f.

ALERE PROPERTY GROUP LLC 15201 Woodlawn Ave, Tustin
56,190 s.f. | \$11.4M or \$202.88/s.f.

Notable Lease Transactions

CHUBBY GORILLA, INC. 4320 N Harbor Blvd, Fullerton
78,523 s.f. leased

PACIFIC ATHLETIC WEAR, INC. 7340 Lampson Ave, Garden Grove
76,080 s.f. leased

ENHANCED VISION SYSTEMS 15301 Springdale St, Huntington Beach
60,891 s.f. leased



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20M ANNUAL SALES SF

380+ NO. OF BROKERS

\$9B ANNUAL TRANSACTION VOLUME

40M ANNUAL LEASING SF

VALUATION ADVISORY

1,600+ APPRAISALS ANNUALLY

36/23 TOTAL NO. APPRAISERS/MAI'S

PROPERTY MANAGEMENT

55M+ MANAGEMENT PORTFOLIO SF

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