

MARKET TRENDS | ORANGE COUNTY INDUSTRIAL

3RD QUARTER
2019

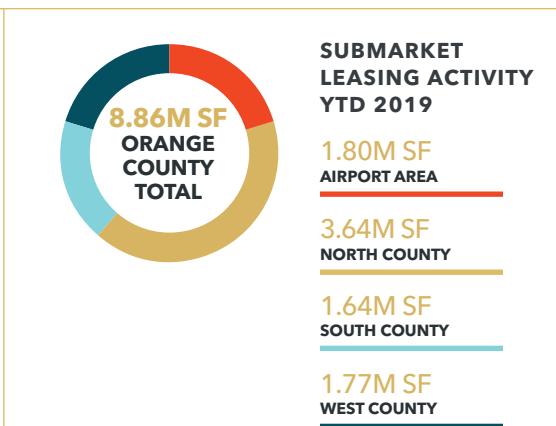
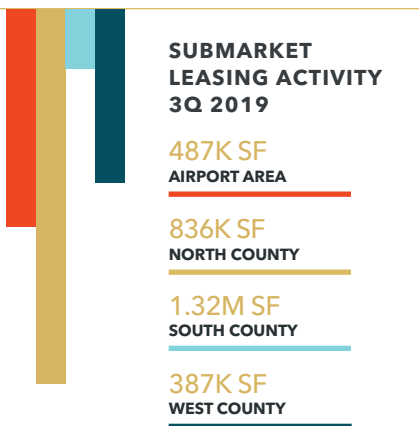
▼ ABSORPTION | ▲ VACANCY | ▲ RENTAL RATE | ▼ CONSTRUCTION DELIVERIES

The Orange County industrial market persevered through 3Q19 as net absorption continued to rebound from the significant drop in tenant movement to start the year, as a result of JCPenny's sizable move-out. In addition, asking rental rates continue to record post-recession highs and direct vacancy levels remain below 4% for 22 straight quarters.

Sale transactions cooled down this quarter, yet the Orange County industrial market was home to one of the largest single-property transactions in over 3 years. Buyers remain optimistic as they continue to acquire assets to capitalize on overall rent premiums and current market conditions. Some tenants have now looked towards re-evaluating real estate needs by proceeding to negotiate early renewals, or locating new space operations as ongoing conversions of industrial product to office or creative space have kept availabilities low. With limited availabilities, steady demand, and no indications of an economic down-turn in the short run, expect the Orange County industrial market to remain healthy in the following quarters.

The industrial market continued to regain confidence in 3Q19, recording positive absorption of approximately 293,485 square feet. North County submarket had the most impact on net absorption with 301,563 square feet of positive absorption, largely due to IDC Logistics moving into 447,055 square feet of space at 6700-6750 Artesia Blvd., Buena Park. Conversely, South County recorded negative absorption for the first time this year with 28,972 square

feet. As tenant movement across the market continued to improve, direct vacancies decreased by 10 basis points (bps) from a quarter prior to conclude at 3.4%. Much needed alleviation on vacancies may occur in the following quarters as 842,173 square feet is currently under construction. Of that, Shea Business Park is expected to deliver early next year which will consist of 9 buildings with a total of 497,638 square feet. Leasing activity market-wide picked up in 3Q19, mainly contributed to Albertson's sale-leaseback that accounted for over a million square feet. Demand for properties within smaller size ranges remains the most sought-after as properties within 10,000 square feet to 25,000 square feet contributed 780,330 square feet of leasing activity to end the quarter. This carries the year to date total in this size bracket to over 2 million square feet. As industrial conversions are the norm in Orange County, the demand for a sizeable



3Q 2019 MARKET HIGHLIGHTS

DIRECT VACANCY dropped 10 basis points quarter-over-quarter to 3.4%

AVERAGE sales price for the quarter was at \$215.20/sf with cap rates at 4.6%

842,173 SF of space is currently under construction

footprint have remained fierce, which has caused many tenants to begin the discussions of early lease renewals.

Average asking rental rates continued to level out, nominally increasing \$0.01 per square foot on a triple net basis. Despite the slowdown in rent growth, the Orange County industrial market has outperformed all other property types in terms of growth, increasing by 6.74% year over year, concluding the quarter with an average asking rate of \$0.95 per square foot. South County remains the market leader in highest rental rates at \$1.14 square foot, as a plethora of tenants with R&D and flex requirements continue to drive up rental rates in the area. In contrast, West County has reported the lowest average asking rate at \$0.85 per square foot to conclude the third quarter. As talks of a recession in the long-term lingers, 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 by a few low or high price tags. With inventory constraints and steady demand in the market, we can anticipate steady rent growth moving forward.

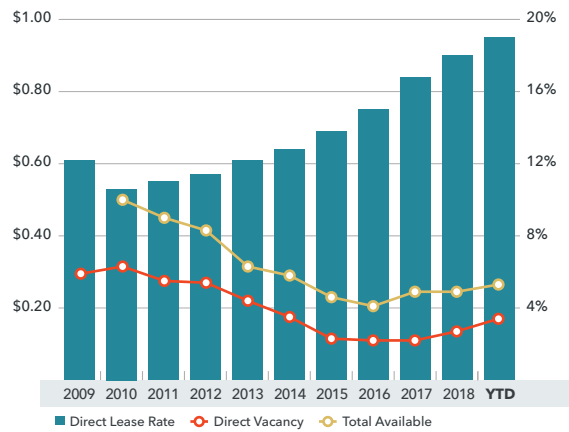
Limited vacancies, healthy demand fundamentals, and steady rent growth have contributed to the confidence of investors in Orange County, as landlords look to benefit from the record-high rental rates. Over 2.8 million square feet traded hands in 3Q19 which accounted for over \$583 million in sales volume, more than double last quarter's sales. Buildings currently trade, on average, at \$215.20 per square foot with cap rates settling at 4.6%. A major component to the high sales volume was mainly contributed by Albertson's million square foot sale-leaseback at 9300 Toledo Way, Irvine as they focus on paying off debt. The sale, which is amongst the highest in the United States for a single warehouse and distribution property totaled over \$277.7 million or \$232.62 per square foot. The buyer, CenterPoint Properties, also purchased JCPenney's 1.1 million square foot warehouse in Buena Park in 2017 for \$131.3 million. Landlords and sellers will continue to benefit from these conditions as strong demand fundamentals across the Orange County industrial market remain to drive prices upward.

Source: Costar, State of California Employment Development Dept.

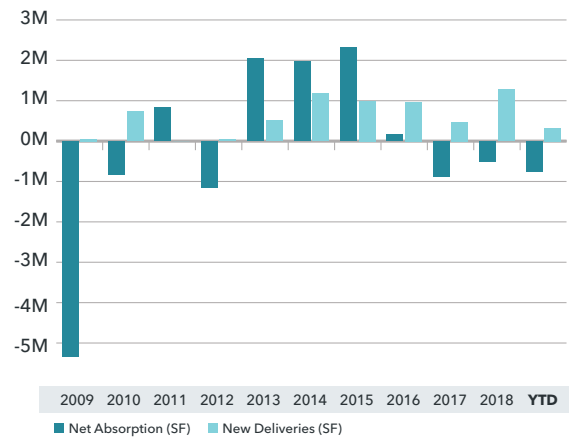
Market Breakdown

	3Q19	2Q19	3Q18	Annual % Change
Direct Vacancy Rate	3.4%	3.5%	2.4%	41.67%
Availability Rate	5.3%	5.7%	5.4%	-1.85%
Asking Lease Rate	\$0.95	\$0.94	\$0.89	6.74%
Lease Transactions	3,025,561	3,209,785	2,885,504	4.85%
Sale Transactions	2,830,116	1,427,648	1,801,851	57.07%
Net Absorption	293,485	342,097	68,129	N/A

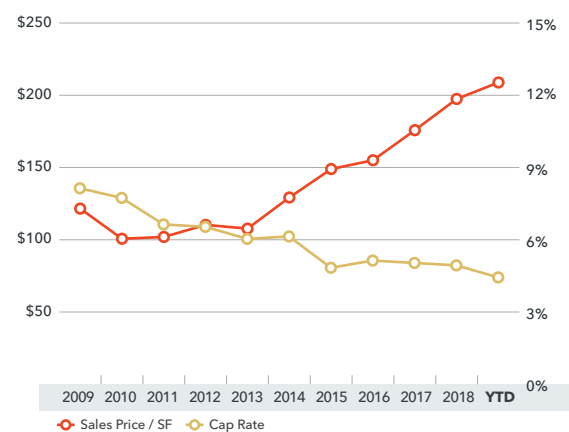
LEASE RATE, VACANCY & AVAILABILITY



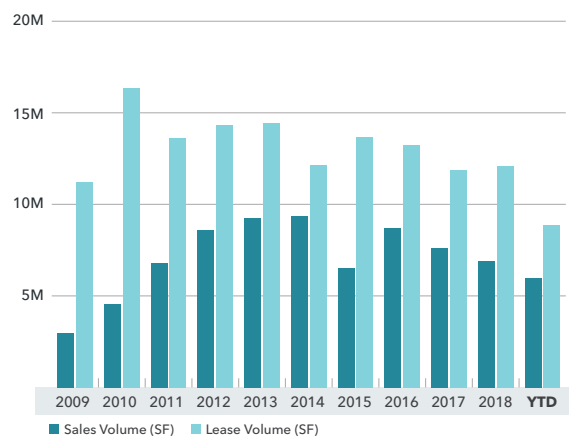
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALE PRICE & CAP RATES

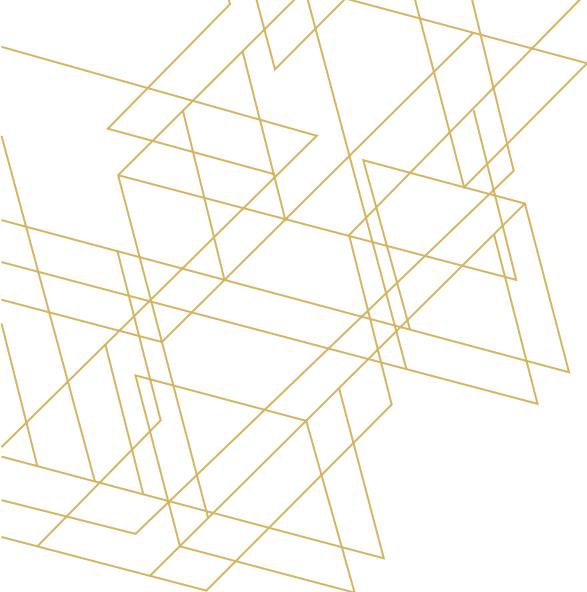


SALES VOLUME VS. LEASE VOLUME



ORANGE COUNTY SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Available Rate	3Q Direct Net Absorption	YTD Direct Net Absorption	3Q Total Leasing Activity	YTD Total Leasing Activity	Avg Direct Rental Rate (NNN)
Costa Mesa	7,157,173	2.4%	0.0%	2.4%	1.7%	(17,207)	21,453	51,294	178,941	\$1.15
Fountain Valley	3,833,756	1.8%	0.2%	2.0%	7.1%	(3,562)	(16,347)	35,612	81,511	\$1.16
Irvine	11,607,843	3.4%	0.5%	3.9%	3.3%	181,193	112,257	186,175	445,458	\$0.85
Newport Beach	440,873	0.0%	0.0%	0.0%	0.6%	0	8,000	0	0	\$0.00
Santa Ana	29,722,198	5.2%	0.2%	5.4%	9.2%	(135,176)	(190,904)	153,207	978,831	\$1.00
Tustin	4,281,159	3.4%	0.0%	3.4%	3.0%	(38,449)	1,311	60,300	112,068	\$1.10
Airport Area	57,043,002	4.1%	0.2%	4.3%	6.4%	(13,201)	(64,230)	486,588	1,796,809	\$1.01
Anaheim	44,083,216	1.7%	0.2%	1.9%	3.8%	(135,509)	(405,118)	386,681	1,322,918	\$0.90
Brea/La Habra	15,378,250	1.1%	0.4%	1.5%	2.9%	(8,442)	42,590	186,584	626,403	\$0.86
Buena Park	13,240,245	9.8%	0.0%	9.8%	11.3%	292,064	(829,800)	92,613	774,214	\$0.83
Fullerton	19,141,493	5.4%	0.4%	5.8%	6.1%	127,302	216,111	79,727	539,603	\$0.96
Orange	13,203,832	1.2%	0.6%	1.8%	1.7%	30,289	32,171	76,518	307,618	\$1.00
Placentia/Yorba Linda	4,773,085	1.2%	0.0%	1.2%	4.6%	(4,141)	133,831	13,397	72,883	\$0.82
North County	109,820,121	3.2%	0.3%	3.4%	4.8%	301,563	(810,215)	835,520	3,643,639	\$0.87
Irvine Spectrum	9,982,730	7.9%	1.0%	8.9%	10.3%	(7,709)	30,803	1,192,331	1,329,673	\$1.08
Laguna Hills/Aliso Viejo	1,659,083	3.3%	0.0%	3.3%	4.2%	(14,819)	(3,791)	34,352	73,367	\$1.33
Laguna Niguel/Laguna Beach	334,003	3.0%	0.0%	3.0%	4.7%	0	0	0	0	\$0.00
Lake Forest/Foothill Ranch	9,153,013	0.7%	0.3%	1.0%	1.6%	13,829	20,421	54,688	150,550	\$1.20
Mission Viejo	486,294	0.7%	0.0%	0.7%	0.5%	13,851	7,339	9,537	20,097	\$0.00
Dana Point/San Juan/ San Clemente	2,839,256	2.1%	0.2%	2.3%	1.8%	(34,124)	(38,949)	25,917	69,031	\$1.35
South County	24,454,379	4.0%	0.5%	4.5%	5.4%	(28,972)	15,823	1,316,825	1,642,718	\$1.14
Cypress	4,605,085	8.2%	0.3%	8.5%	8.3%	71,701	77,507	39,754	84,592	\$0.89
Garden Grove	11,834,470	3.1%	0.4%	3.5%	6.5%	79,375	133,349	107,151	589,519	\$0.83
Huntington Beach	12,507,501	1.5%	0.0%	1.5%	4.5%	79,638	(31,527)	211,227	510,464	\$0.81
La Palma	1,780,056	0.0%	0.0%	0.0%	9.2%	(163,240)	(88,240)	0	424,285	\$0.00
Los Alamitos/Stanton	3,809,158	1.5%	0.0%	1.5%	2.4%	(21,335)	7,428	28,496	79,378	\$1.05
Seal Beach	973,331	0.0%	0.0%	0.0%	0.0%	0	0	0	0	\$0.00
Westminster	2,265,380	1.0%	0.0%	1.0%	1.3%	(12,044)	35,020	0	84,772	\$0.00
West County	37,774,981	2.7%	0.2%	2.8%	5.3%	34,095	133,537	386,628	1,773,010	\$0.85
5,000 - 9,999	16,709,254	1.6%	0.1%	1.7%	2.5%	(55,536)	(49,076)	153,031	483,630	\$1.32
10,000 - 24,999	60,836,604	2.1%	0.1%	2.2%	2.8%	(84,506)	(150,448)	780,330	2,014,137	\$1.23
25,000 - 49,999	40,283,709	2.5%	0.7%	3.2%	5.2%	235,303	336,526	424,969	1,272,008	\$0.98
50,000 - 99,999	36,659,239	2.4%	0.2%	2.6%	4.2%	152,732	27,869	238,850	1,182,734	\$0.90
100,000 - 249,999	44,974,548	3.3%	0.4%	3.7%	7.2%	(401,563)	89,331	438,304	1,740,231	\$0.87
250,000 Plus	29,629,129	9.8%	0.0%	9.8%	10.8%	447,055	(979,287)	990,077	2,163,436	\$0.84
Orange County Total	229,092,483	3.4%	0.3%	3.7%	5.3%	293,485	(725,085)	3,025,561	8,856,176	\$0.95



Notable Sale Transactions

CENTERPOINTE PROPERTIES 9300 Toledo Way, Irvine Spectrum
1,193,692 s.f. | \$277.7M or \$232.62/s.f.

PROLOGIS 3370 E. La Palma Ave., Anaheim
129,355 s.f. | \$40M or \$309.23/s.f.

ALERE PROPERTY GROUP LLC 10681 Calle Lee, Los Alamitos
134,136 s.f. | \$25.9M or \$193.14/s.f.

Notable Lease Transactions

ALBERTSONS 9300 Toledo Way, Irvine Spectrum (3-bldgs.)
1,193,692 s.f. leased (renewal)

P&P IMPORTS 17352 Derian Ave., Irvine
132,545 s.f. leased (renewal)

BAKERY EXPRESS 1904-1910 W. Malvern Ave., Fullerton (Renewal)
99,334 s.f. leased (renewal)



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COMMERCIAL BROKERAGE

20M	ANNUAL SALES SF	420+	NO. OF BROKERS
\$9B	ANNUAL TRANSACTION VOLUME	40M	ANNUAL LEASING SF

VALUATION ADVISORY

1,600+	APPRAISALS ANNUALLY	39/24	TOTAL NO. APPRAISERS/MAI'S
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PROPERTY MANAGEMENT

70M+	MANAGEMENT PORTFOLIO SF
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