

Low Vacancy, Rents and Prices Hit Record Levels In Built-Out Market

The mid-year vacancy rate for Orange County industrial buildings hit 2.4%, the lowest ever, and lease rates continued their record climb while more obsolete buildings making way for new development adds to the strain on the market.

Average asking rents countywide are up more than 6% year over year with increases ranging from 2.5% in South County to 10.3% in West County. But overall gains slowed from the 10.2% jump from the previous four quarters.

Sale prices also show no signs of moderating. For example, a 39,000 sq. ft. facility in Costa Mesa sold in Q2 at \$425 per sq. ft. in a Lee & Associates-engineered trade. It was the highest price per sq. ft. ever for a mid-size building in Orange County.

Although demand for space turned downward the last two quarters by 580,428 sq. ft., it was the 12th straight quarter in which the vacancy rate closed at 3% or less. During that time, average asking lease rates have increased 27%.

There were 8,295 buildings totaling 275.8 million sq. ft. in the new survey, a reduction of 661,587 sq. ft. but Orange County industrial space essentially is at build-out. Since 2008, about 5.3 million sq. ft. of new product has been delivered but more than 6 million sq. ft. of obsolete space has been redeveloped with residential or mixed-use product. There are 13 buildings under construction totaling 1.4 million sq. ft. One developer is planning to raze an eight-story office building on 30 acres in Huntington Beach and redevelop the site with about 625,000 sq. ft. of premium distribution space.

Amazon signed one of the largest leases in the first half of the year with a 238,270 sq. ft. deal in Buena Park and Disney leased a 200,000 sq. ft. building in Anaheim.

Most of the activity was in the Airport market, the only one of four Orange County markets to post second-quarter growth. With 72.6 million sq. ft., the Airport market had 320,073 sq. ft. of absorption but is in the red over the last four quarters by 455,782 sq. ft.

North County, the largest market with 116.5 million sq. ft. of space, followed three quarters totaling nearly 1.2 million sq. ft. of growth, posted 189,299 sq. ft. of negative absorption in Q2.

South County, the smallest market, reported 220,905 sq. ft. of negative 2Q absorption and West County was negative 133,050 sq. ft.

MARKET FORECAST

The composite index of the latest Cal State Fullerton Business Expectations Survey touched an all-time high at the end of the second quarter. By margins of 10-1 or better, executives reported that they are looking to boost payrolls, inventories and capital investment.

ORANGE COUNTY INDUSTRIAL

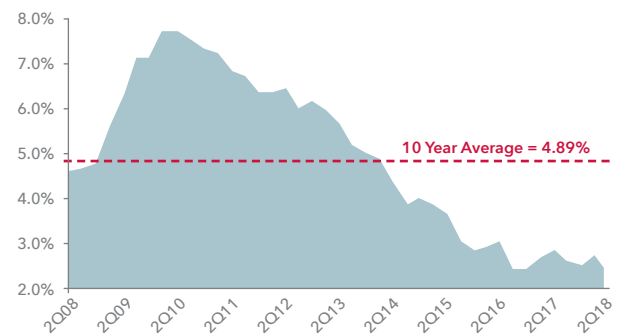
ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	2.6%	2.8%
California Unemployment	3.8%	4.4%
US Unemployment	4.0%	4.1%

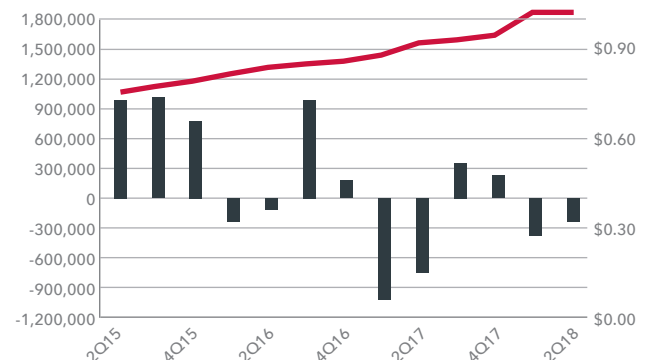
MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	275,826,300	276,487,887
Vacancy Rate (%)	2.4%	2.6%
Net Absorption (SF)	-223,181	-357,247
Average Asking Rent (NNN)	\$0.97	\$0.97
Under Construction (SF)	1,367,108	1,134,754

OVERALL VACANCY



NET ABSORPTION VS ASKING RATES



*All numbers are based on industrial buildings 10,000 sq. ft. and larger.

ORANGE COUNTY

SECOND QUARTER 2018 INDUSTRIAL MARKET REPORT

ORANGE COUNTY MARKET STATISTICS - 2Q 2018



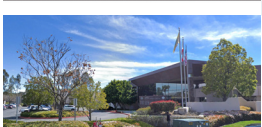
BY AREA

	Bldg Count	SF RBA	Total SF Available	Avail. Rate	Total SF Vacant	Total Vac. Rate	Net Absorption	YTD Net Absorption	Avg Asking Lease Rate	SF Under Construction
North Orange County	3,229	116,471,365	6,213,110	5.3%	1,927,483	1.7%	(189,299)	200,212	\$0.85	1,367,108
West Orange County	1,328	44,734,294	2,200,504	4.9%	1,450,215	3.2%	(133,050)	(140,234)	\$0.83	- 0 -
Greater Airport Area	2,486	72,578,759	3,670,991	5.1%	1,996,881	2.8%	320,073	(449,360)	\$0.94	- 0 -
South Orange County	1,250	41,840,727	2,247,558	5.4%	1,361,084	3.3%	(220,905)	(191,046)	\$1.19	- 0 -
Outlying Orange County	2	201,155	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -
TOTALS	8,293	275,826,300	14,332,163	5.2%	6,735,663	2.4%	(223,181)	(580,428)	\$0.97	1,367,108

LEASE TRANSACTIONS 2Q 2018

	PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
	9939 Norwalk Boulevard Santa Fe Springs, CA	89,499	Raymond Handling Solutions	9939 Norwalk Blvd., LLC	Allen Buchanan represented the Tenant.
	335 S. Hale Avenue Fullerton, CA	22,960	Cove Four Slide & Stamping Corp.	EastGroup Properties	Curt Stalder represented the Tenant.
	16782 Millikan Avenue Irvine, CA	15,000	The Embroidery Store	Westland-Irvine, LLC	Mark Jerue and Craig Fitterer represented the Landlord.

SALE TRANSACTIONS 2Q 2018

	PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
	10900 Walker Street Cypress, CA	95,900	American Dream Property, LLC	International Properties Holding Group, LLC	Ryan Swanson, Kurt Bruggeman and Phil Cohen represented the Seller.
	3100 & 3120 W. Central Avenue Santa Ana, CA	58,591	HPP Acquisitions	Donald Williams	Bill Garrett and Jeff Zaun represented both the Buyer and Seller.
	23182 Arroyo Vista Rancho Santa Margarita, CA	47,036	Unity Holdings, LLC	Toastmasters International	David Newton represented the Buyer.

LEE & ASSOCIATES - IRVINE

9838 Research Drive
Irvine, California 92618
(949) 727-1200

LEE & ASSOCIATES - NEWPORT BEACH

100 Bayview Circle, Suite 600
Newport Beach, California 92660
(949) 724-1000

LEE & ASSOCIATES - ORANGE

1004 West Taft Avenue, Suite 150
Orange, California 92865
(714) 647-9100

About Lee & Associates

Celebrating more than 38 years of leadership excellence in commercial real estate, Lee & Associates is the largest broker-owned firm in North America with locations across the U.S. and Canada including Arizona, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Maryland, Michigan, Minnesota, Missouri, Nevada, New Jersey, New York, Ohio, Pennsylvania, South Carolina, Texas, Vancouver BC, Washington and Wisconsin.

With a broad array of regional, national and international clients - ranging from individual investors and small businesses to large corporations and institutions - Lee & Associates has successfully completed transactions with a total value of more than \$11 billion last year, alone.

Copyright © 2018 Lee & Associates. All rights reserved. The information contained within this report is gathered from multiple sources considered to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.