

Tenants Expand Despite Record Low Vacancy; Rents Soar in North County

With the countywide average vacancy rate falling to 2.4% in the first quarter, available industrial space has never been in shorter supply. In the North County market, the first-quarter vacancy rate fell to 1.5%.

Of the county's 8,310 industrial buildings totaling 276.9 million sq. ft., about 200 are vacant and an additional 250 are listed as available. Few buildings offer well-located, quality options for growth-minded companies. Much of the available space is functionally obsolete and unsuitable for most users.

Asking rents across the county continued climbing in Q1 with year-over-year net increases averaging 10.2% for direct-marketed space. Lease rates spiked 18% in North County year over year after gains averaged 4.7% over the previous three years.

Countywide net absorption was mixed, totaling 407,615 sq. ft. in the first quarter. It was the third straight quarterly improvement, driven largely by strong demand across eight cities in north Orange County. On the other side of the ledger is the 73.2 million sq. ft. Airport market - the county's second largest-where tenants have shed nearly 1.3 million sq. ft. since 2016.

With 116.9 million sq. ft., North County - the county's largest market with 42% of the base inventory - posted its fifth straight quarterly increase. Year-over-year net absorption totaled 1,296,295 sq. ft. and has been positive in 16 of the last 20 quarters with a quarterly average of 235,000 sq. ft.

More than 415,000 sq. ft. came off of North County's available inventory in Q1. There were five leases in North County totaling 374,247 sq. ft., led by Walt Disney Company's agreement for a 200,000 sq. ft. building in on East Cerritos Avenue in Anaheim.

Since virtually no land is available anywhere in the county for development other than a handful of scattered infill sites, the prospect of any significant future new supply is effectively off the table. The county's industrial inventory is substantially unchanged since 2010 as the number of new buildings is essentially equal to the number razed for residential and retail development.

West County's asking rents jumped 12.3% year over year after gaining less than 20% over the prior 16 quarters. With 44,737,727 sq. ft., Q1's 2.9% vacancy rate was unchanged from year end 2017 but up 0.9% year over year across West County's cities of Cypress, Huntington Beach, Westminster, Stanton, Los Alamitos and Seal Beach.

The vacancy rate in South County - the county's smallest market with 41.9 sq. ft. - ticked downward 10 basis points from Q4, settling at 2.9%. Net absorption totaled 32,906 sq. ft. First-quarter lease rates were up 4.3% year over year.

MARKET FORECAST

Chapman University economists predict Orange County will add 42,000 jobs this year - a 10% increase from 2017 - and said any positions lost by weakening in the county's manufacturing sector will be offset by growth in information services and construction.

ORANGE COUNTY INDUSTRIAL

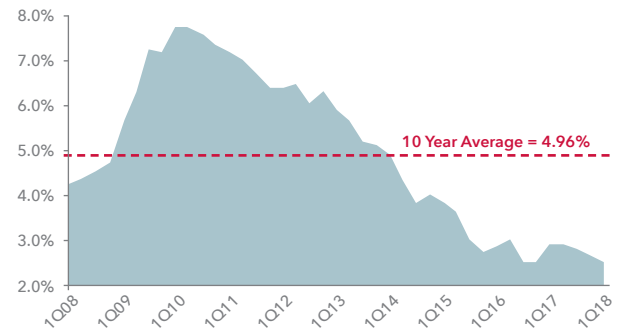
ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	3.2%	3.1%
California Unemployment	4.5%	4.2%
US Unemployment	4.1%	4.1%

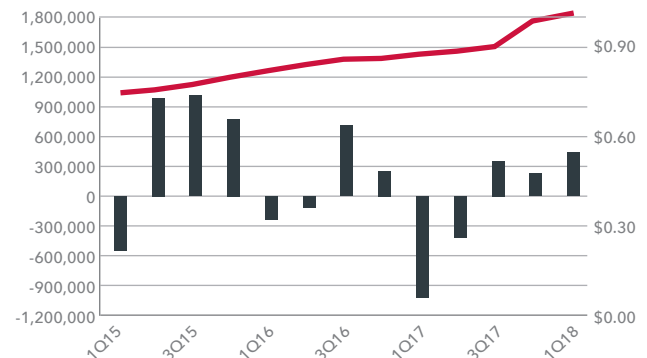
MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	276,882,354	276,871,936
Vacancy Rate (%)	2.4%	2.6%
Net Absorption (SF)	407,615	244,767
Average Asking Rent (NNN)	\$0.97	\$0.95
Under Construction (SF)	934,754	1,104,754

OVERALL VACANCY



NET ABSORPTION VS ASKING RATES



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

ORANGE COUNTY




FIRST QUARTER 2018 MARKET REPORT

ORANGE COUNTY MARKET STATISTICS - 1Q 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	3,231	116,861,876	5,549,679	4.7%	1,737,484	1.5%	415,081	415,081	\$0.85	934,754
West Orange County	1,328	44,737,427	2,479,743	5.5%	1,305,665	2.9%	(7,184)	(7,184)	\$0.82	- 0 -
Greater Airport Area	2,494	73,188,304	4,283,956	5.9%	2,493,691	3.4%	(33,188)	(33,188)	\$0.92	- 0 -
South Orange County	1,255	41,893,592	2,189,170	5.2%	1,228,717	2.9%	32,906	32,906	\$1.20	- 0 -
Outlying Orange County	2	201,155	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -
TOTALS	8,310	276,882,354	14,502,548	5.2%	6,765,557	2.4%	407,615	407,615	\$0.97	934,754

LEASE TRANSACTIONS 1Q 18

	PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
	12828 Carmenita Road Santa Fe Springs, CA	268,536	West Coast Distribution, Inc.	FDC Partners, LP and Imperial Development Sub A, LLC	Frank Adler and Jeff Hirsch represented the Tenant.
	1201 E. Cerritos Avenue Anaheim, CA	161,500	Consolidated Container Company	Prologis	Brad Gilmer represented the Tenant.
	11331 Valley View Street Cypress, CA	91,476	DiaSorin Molecular, LLC	Warland Investment Company	Justin Smith and David Newton represented the Tenant.

SALE TRANSACTIONS 1Q 18

	PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
	McFadden Center Santa Ana, CA	184,737	Adam Horowitz & Joel Tanner	Newport Asset Management Group, LLC	Kurt Bruggeman, Phil Cohen, Ryan Swanson and Skyler Serrano represented the Seller.
	1085-1095 N. Main Street Orange, CA	39,390	826 Property, LLC	Ball Road Corporation	Allen Buchanan and Joshua Harper represented the Seller.
	3020 Pullman Street Costa Mesa, CA	39,149	The Mitchell Co.	3020 Pullman St., LLC c/o Fidelity National Title	Tom West represented the Buyer. Kurt Bruggeman and Ryan Swanson represented the Seller.

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