Short Supply Sends Lease Rates, Prices Soaring

Strong demand and the record-low supply of available industrial space are combining to drive up lease rates at a torrid pace with second-quarter average asking rents jumping 4.5 percent over Q1. Virtually every building for lease or sale is drawing multiple offers, regardless of size.

Through the second quarter, average countywide lease rates climbed 9.5 percent year over year and are up 21 percent over the last eight quarters, according to data collected by Lee & Associates on 8,312 buildings totaling 277.8 million sq. ft.

The overall vacancy rate settled at 2.7 percent at the end of Q2, but the total of vacant space that is being actively marketed for lease was 2.1 percent or 5.6 million sq. ft.

The county's base of buildings is in decline. In the last eight years, the industrial inventory has been reduced by 93 buildings totaling 4.8 million sq. ft. to make way for new multifamily or retail development. There was an 181,069-sq.-ft. building completed in Fullerton in Q2 but the countywide inventory nevertheless fell by 395,788 sq. ft. from the first quarter.

MARKET OVERVIEW

(Change from last quarter)

AVAILABILITY - 4.8%
Up from 4.2% last quarter

VACANCY - 2.7%
Down from 2.9% last quarter

ABSORPTION - 117,638 SQ. FT.
Up from -1,081,308 SF last quarter

AVERAGE LEASE RATE - $0.92 NNN
Up from $0.88 last quarter

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

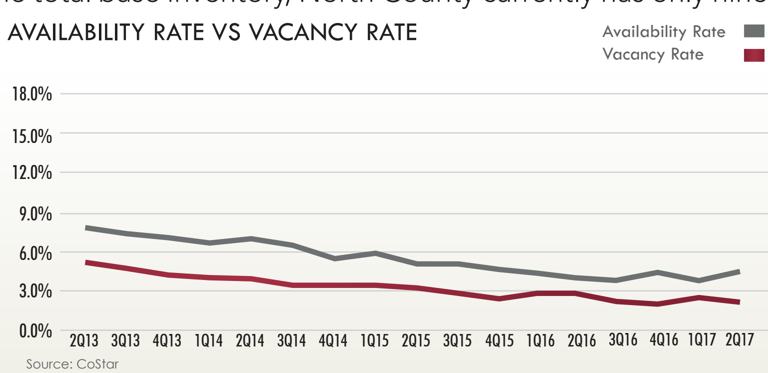
The strained market conditions have business owners weighing new strategies and options to accommodate their company's growth and, in some cases, are re-evaluating retirement plans. For example, current building prices in record territory and concern that Congress will end the 1031 exchange in the planned tax code overhaul could be added to a list of inducements.

The South County submarket was the big gainer in Q2 with 407,006 sq. ft. of net absorption, pushing down the vacancy rate 100 basis points to 2.7 percent in the 41,924,704-sq.-ft. submarket.

There was 325,337 sq. ft. of negative net absorption in the West County submarket, which totals 44,717,187 sq. ft. Average asking rents in Q2 jumped 6.9 percent over Q1.

North County posted 58,315 sq. ft. of net absorption in Q2 but the vacancy rate remained unchanged at 2.3 percent. The largest submarket with 117,181,593 sq. ft. and 42 percent of the total base inventory, North County currently has only nine buildings available over 150,000 sq. ft.

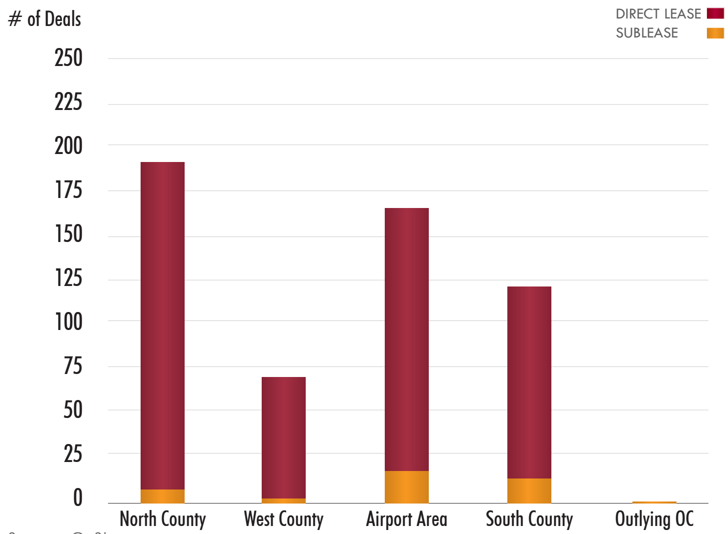
Despite 22,346 sq. ft. of negative net absorption in Q2, the vacancy rate in the Airport submarket slipped 50 basis points after two buildings totaling 430,640 sq. ft. were removed from the total inventory. The Airport submarket's base now totals 73,741,760 sq. ft.



Source: CoStar

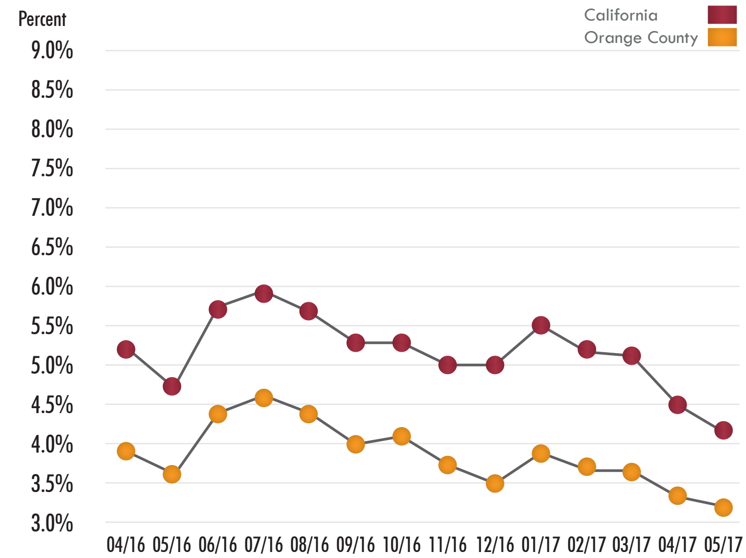
The Orange County Industrial Market Report is published quarterly by the Lee & Associates' Irvine, Newport Beach and Orange offices.

NUMBER OF LEASES EXECUTED FOR THE QUARTER BY SUBMARKET



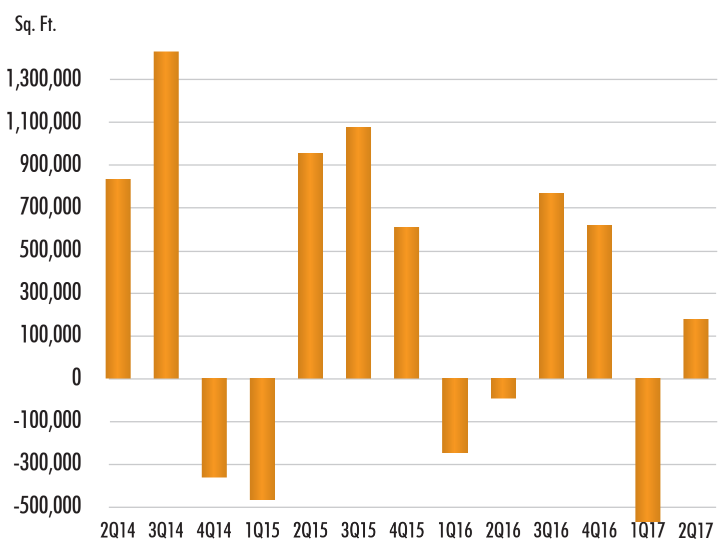
Source: CoStar

UNEMPLOYMENT RATE



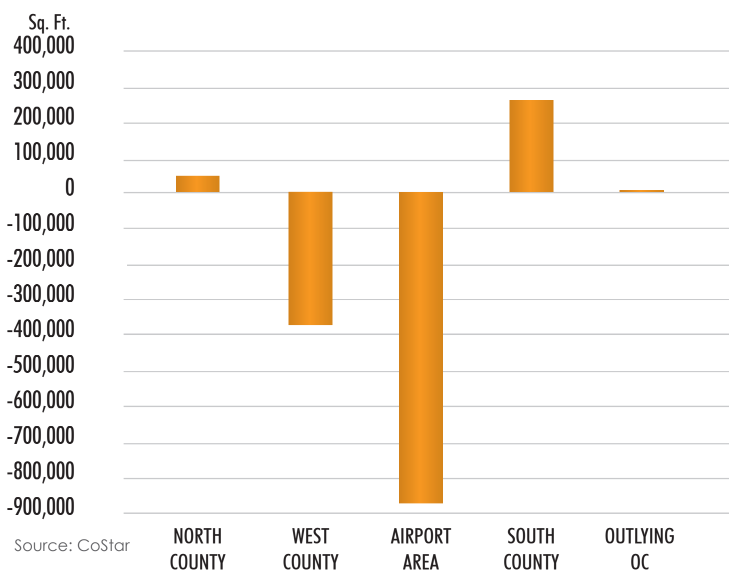
Source: EDD

COUNTY WIDE NET ABSORPTION INCLUDING SUBLET SPACE



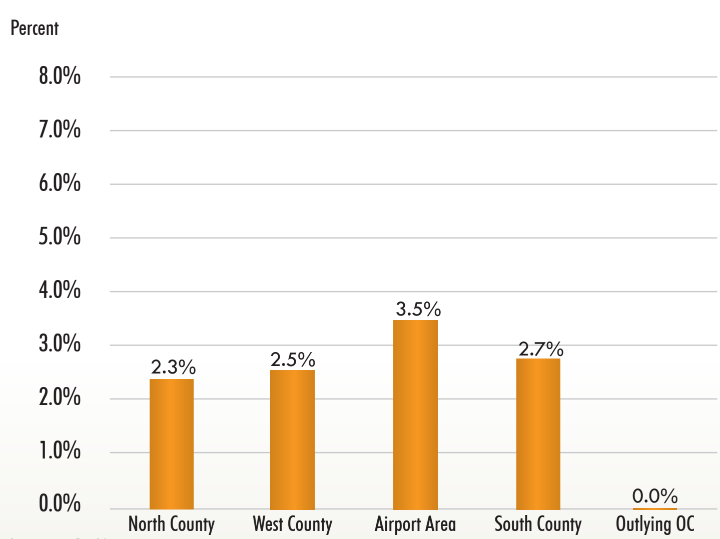
Source: CoStar

YTD NET ABSORPTION BY SUBMARKET, INCLUDING SUBLET SPACE



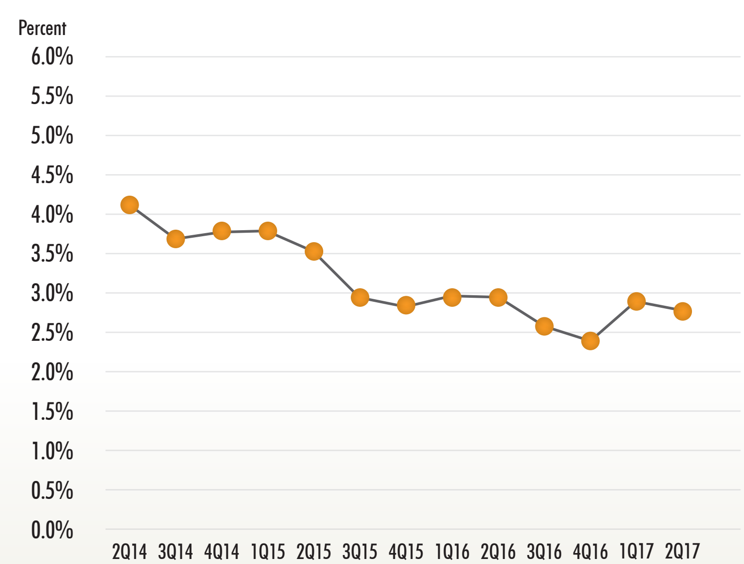
Source: CoStar

VACANCY RATE BY SUBMARKET - INCLUDING SUBLET SPACE



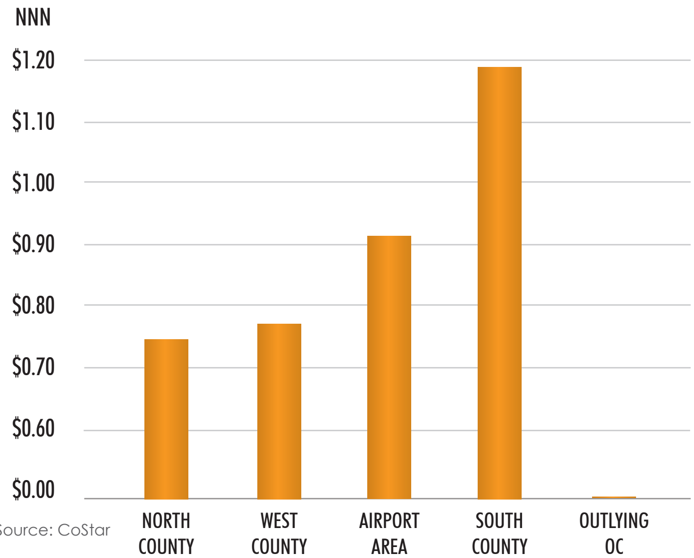
Source: CoStar

VACANCY RATE BY QUARTER



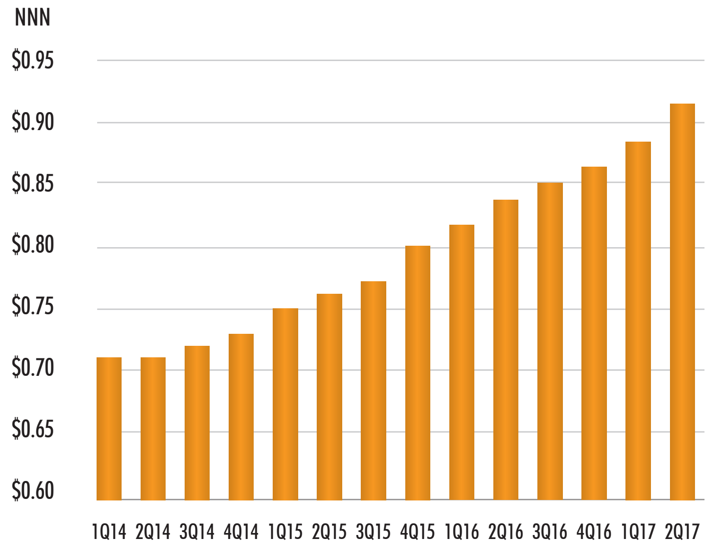
Source: CoStar

AVERAGE NNN LEASE RATE BY SUBMARKET



Source: CoStar

AVERAGE NNN LEASE RATES BY QUARTER



Source: CoStar

COMPLETED LEE & ASSOCIATES TRANSACTIONS


2026 McGaw
Irvine, CA


15912 Piuma Avenue
Norwalk, CA


29 Parker, Suite 100
Irvine, CA

Lease Transactions Q2 17

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
2026 McGaw Irvine, CA	105,120	CTC Global Corporation	CNH, LLC	Frank Adler & Jeff Hirsch represented the Landlord.
15912 Piuma Avenue Norwalk, CA	51,030	Vasquez Trucking, Inc.	PCK Piuma Family, LP	Phillip DeRousse represented the Tenant.
29 Parker, Suite 100 Irvine, CA	44,075	Blockade Medical, LLC	The Irvine Company	BJ Fell, Craig Fitterer & Mark Jerue represented the Tenant.


2811 Harbor Boulevard
Santa Ana, CA


226 Carleton
Orange, CA


991 Calle Amanecer
San Clemente, CA

Sale Transactions Q2 17

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
2811 Harbor Boulevard Santa Ana, CA	126,796	Robinson Pharma	Rexford Industrial Realty LP	Dale Camera, Jason Helmick & Kenah Cooper represented the Seller.
226 Carleton Orange, CA	30,560	H&H Enterprises, LLC	Dosmax Enterprises, LLC	David Williams represented the Buyer.
991 Calle Amanecer San Clemente, CA	28,075	del Boca Vista Phase II Investments LLC	TEEMU LLC, a California limited liability company	Tim Walker represented the Seller.

	Bldg Count	SF RBA	Total SF Available	Avail. Rate	Total SF Vacant	Total Vac. Rate	Direct SF Vacant	Direct Vac. Rate	Net Absorption	YTD Net Absorption	SF Avail Sublease	SF Vacant Sublease	Avg Asking Lease Rate	SF Under Construction
BY CITY														
Aliso Viejo	57	1,743,045	36,086	2.1%	17,382	1.0%	17,382	1.0%	2,828	6,570	6,000	- 0 -	$1.30	- 0 -
Anaheim	1,442	46,008,643	1,334,969	2.9%	751,348	1.6%	723,657	1.6%	103,878	(134,885)	312,102	27,691	$0.84	144,008
Brea	299	12,968,353	528,662	4.1%	551,751	4.3%	539,229	4.2%	211,616	268,164	12,522	12,522	$0.73	- 0 -
Buena Park	205	14,057,165	1,723,439	12.3%	332,738	2.4%	332,738	2.4%	(216,178)	(225,496)	180,000	- 0 -	$0.79	- 0 -
Capistrano Beach	1	35,486	- 0 -	0.0%	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Costa Mesa	398	10,755,260	784,779	7.3%	558,526	5.2%	554,526	5.2%	(48,239)	(58,187)	41,663	4,000	$0.95	- 0 -
Cypress	103	6,591,579	743,513	11.3%	194,297	2.9%	194,297	2.9%	(74,098)	(109,546)	7,063	- 0 -	$0.94	- 0 -
Dana Point	1	12,000	- 0 -	0.0%	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Foothill Ranch	50	3,594,399	188,119	5.2%	115,419	3.2%	84,516	2.4%	130,199	130,209	70,428	30,903	$0.88	- 0 -
Fountain Valley	206	5,067,359	88,575	1.7%	91,388	1.8%	84,398	1.7%	(20,297)	(18,648)	18,297	6,990	$0.95	- 0 -
Fullerton	358	20,401,447	857,039	4.2%	649,371	3.2%	579,237	2.8%	(36,099)	341,591	126,892	70,134	$0.67	- 0 -
Garden Grove	378	12,828,245	456,221	3.6%	445,809	3.5%	440,532	3.4%	(32,441)	(88,343)	37,557	5,277	$0.75	- 0 -
Huntington Beach	551	15,560,067	487,316	3.1%	444,607	2.9%	359,853	2.3%	(219,101)	(197,410)	101,163	84,754	$0.76	- 0 -
Irvine	1,022	38,504,719	2,600,727	6.7%	1,294,210	3.4%	1,257,935	3.3%	147,643	(302,037)	299,295	36,275	$1.25	51,450
La Habra	103	3,080,146	51,776	1.7%	34,910	1.1%	34,910	1.1%	2,124	(72,045)	- 0 -	- 0 -	$0.93	- 0 -
La Palma	17	1,859,689	131,000	7.0%	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	131,000	- 0 -	$0.63	- 0 -
Ladera Ranch	1	21,784	- 0 -	0.0%	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Laguna Beach	3	51,768	5,125	9.9%	5,125	9.9%	5,125	9.9%	(950)	(1,845)	- 0 -	- 0 -	- 0 -	- 0 -
Laguna Hills	110	2,192,064	87,022	4.0%	49,229	2.2%	46,169	2.1%	(3,006)	(28,462)	4,260	3,060	$1.26	- 0 -
Laguna Niguel	38	753,408	3,696	0.5%	1,707	0.2%	1,707	0.2%	12,010	12,350	1,989	- 0 -	$1.55	- 0 -
Laguna Woods	1	20,178	- 0 -	0.0%	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Lake Forest	181	5,037,928	201,594	4.0%	121,201	2.4%	118,044	2.3%	196,817	248,426	67,837	3,157	$0.95	- 0 -
Los Alamitos	106	3,073,461	34,335	1.1%	28,358	0.9%	28,358	0.9%	(8,065)	(4,280)	5,009	- 0 -	$1.20	- 0 -
Mission Viejo	55	1,290,646	26,702	2.1%	44,283	3.4%	43,003	3.3%	(19,265)	(18,234)	2,480	1,280	$1.16	- 0 -
Newport Beach	49	1,043,344	14,982	1.4%	14,982	1.4%	14,982	1.4%	648	591	- 0 -	- 0 -	$1.23	- 0 -
Orange	564	14,228,261	310,646	2.2%	199,119	1.4%	199,119	1.4%	1,761	(57,811)	10,036	- 0 -	$0.87	- 0 -
Placentia	170	4,203,700	158,097	3.8%	121,983	2.9%	121,983	2.9%	(46,423)	(66,015)	- 0 -	- 0 -	$0.76	- 0 -
Rancho Santa Margarita	84	2,739,391	141,505	5.2%	20,841	0.8%	5,484	0.2%	5,676	(2,224)	15,357	15,357	$0.88	- 0 -
San Clemente	122	2,812,556	186,670	6.6%	40,893	1.5%	40,893	1.5%	47,189	56,134	7,251	- 0 -	$1.20	- 0 -
San Juan Capistrano	78	1,771,907	85,155	5.4%	63,943	4.0%	63,943	4.0%	(14,125)	(23,328)	3,250	- 0 -	$1.36	- 0 -
Santa Ana	1,115	30,917,204	1,220,446	3.9%	740,560	2.4%	727,723	2.4%	(19,658)	(613,094)	134,761	12,837	$0.78	- 0 -
Seal Beach	13	986,466	- 0 -	0.0%	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Stanton	74	1,416,633	47,330	3.3%	5,580	0.4%	5,580	0.4%	1,412	(5,580)	- 0 -	- 0 -	$0.82	- 0 -
Tustin	188	7,460,689	571,419	7.7%	516,818	6.9%	465,510	6.2%	(32,810)	(10,373)	9,504	51,308	$1.03	- 0 -
Westminster	85	2,419,281	277,726	11.5%	17,220	0.7%	17,220	0.7%	6,956	16,875	- 0 -	- 0 -	- 0 -	- 0 -
Yorba Linda	84	2,243,878	82,604	3.7%	78,309	3.5%	64,737	2.9%	37,636	(6,737)	13,572	13,572	$0.80	- 0 -
Orange County Totals	8,312	277,752,149	13,467,275	4.8%	7,551,907	2.7%	7,172,790	2.6%	117,638	-963,670	1,619,288	379,117	$0.92	195,458

	Bldg Count	SF RBA	Total SF Available	Avail. Rate	Total SF Vacant	Total Vac. Rate	Direct SF Vacant	Direct Vac. Rate	Net Absorption	YTD Net Absorption	SF Avail Sublease	SF Vacant Sublease	Avg Asking Lease Rate	SF Under Construction
BY AREA														
North Orange County	3,224	117,181,593	5,047,232	4.3%	2,719,529	2.3%	2,595,610	2.2%	58,315	46,766	655,124	123,919	$0.74	144,008
West Orange County	1,327	44,717,187	2,177,441	4.9%	1,135,871	2.5%	1,045,840	2.3%	(325,337)	(388,284)	281,792	90,031	$0.77	- 0 -
Airport Area	2,501	73,741,760	3,849,682	5.2%	2,571,695	3.5%	2,480,845	3.4%	(22,346)	(885,448)	341,580	90,850	$0.91	51,450
South Orange County	1,259	41,924,704	2,392,920	5.7%	1,124,812	2.7%	1,050,495	2.5%	407,006	263,296	340,792	74,317	$1.19	- 0 -
Outlying Orange County	1	186,905	- 0 -	0.0%	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Orange County Totals	8,312	277,752,149	13,467,275	4.8%	7,551,907	2.7%	7,172,790	2.6%	117,638	-963,670	1,619,288	379,117	$0.92	195,458

ABOUT LEE & ASSOCIATES

Celebrating more than 37 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.

INDUSTRIAL SERVICES

Lee & Associates knows industrial real estate. Large, mid-size and small, we help clients transact their way through the intricacies of manufacturing plans, bulk warehousing/distribution facilities, specialized flex complexes, modern build-to-suit flex space and turn-key, high-tech campuses. Our industrial specialists provide skilled guidance running the gamut from facility, site and land acquisition/disposition to advisory services, sale and lease negotiations, build-to-suit analysis and planning.

SUBMARKETS:

NORTH

Anaheim, Brea/La Habra, Buena Park, Fullerton, Orange, Placentia/Yorba Linda

WEST

Cypress, Garden Grove, Huntington Beach, La Palma, Los Alamitos/Stanton, Seal Beach, Westminster

AIRPORT

Costa Mesa, Fountain Valley, Irvine, Newport Beach, Santa Ana, Tustin

SOUTH

Irvine Spectrum, Laguna Hills/Aliso Viejo, Laguna Niguel/Laguna Beach, Lake Forest/Foothill Ranch, Rancho Santa Margarita, Mission Viejo, San Juan Capistrano, San Clemente, Dana Point

OUTLYING

Outlying Orange County

MARKET FORECAST:

Public and private investors, which make up a substantial share of building owners, so far have shown no resistance to higher building prices. Activity may slow as usual in the summer months, but if economic growth and low interest rates remain unchanged, future price spikes could continue.

LEE & ASSOCIATES

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Travis Haining
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Pat Lacey
Ryan Lawler
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James Hawkins
Doug Himes
Mark Hintergardt
Luke Hudson
Elizabeth Hughes
Dave Hunsaker
Joel Hutak
Dan Kruse
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Dave Williams