

Demand Gets Second Wind in Third Quarter; Lease Rates, Prices Surge

After easing in the first half of the year, overall demand resumed in the third quarter for Orange County industrial space, keeping vacancy rates in record low territory while fueling the surge in lease rates as the long economic recovery continues.

Net absorption countywide totaled 190,167 sq. ft., in the quarterly Lee & Associates survey, and the vacancy rate settled at 2.7% on a base inventory of 278 million sq. ft. in 8,316 buildings. It is estimated, however, that as much as half of the space currently available is functionally obsolete. Direct NNN asking rents climbed to an average of 99 cents per sq. ft., an unprecedented jump of nearly 30% in the last three years.

The steady recovery of Orange County's industrial market is in its seventh year and soaring building prices have exceeded pre-recession highs, giving rise to speculation about timing the inevitable end to the current cycle. But for now, the market clearly is driven by users whose growth requires larger facilities. Those expansion plans have been confounded as few quality spaces or buildings of any size are available for lease, every quality building for sale draws multiple offers and there is virtually no land for development.

In addition to the strong national economy, a number of regional factors support the intense demand for space, including proximity to the ports of Los Angeles and Long Beach, for example. Prior concerns of disruptions to the giant twin ports from last year's expansion of the Panama Canal and negative effects from threatened changes to international trade deals have not materialized. In fact, high levels of container traffic are flowing through the ports, which posted record volume in August.

The North County submarket, the county's largest with 117 million sq. ft., posted 185,221 sq. ft. of Q3 net absorption and the vacancy rate fell to 2.1%. Nearly 1.3 million sq. ft. of space has come off the market in North County in the last 12 quarters as lease rates have soared 37%.

The vacancy rate in South County fell to 2.5% in Q3 on 77,364 sq. ft. of net absorption. Gross asking rents for space marketed direct totaled \$1.20 per sq. ft., a 25% increase since 2015.

Net absorption in the 74-million-sq.-ft. Airport submarket totaled 50,332 sq. ft., its vacancy rate closed at 3.8%. In the past 12 months 515,267 sq. ft. of industrial space has been razed and no new buildings are underway.

After posting 122,650 sq. ft. of negative net absorption in Q3, West County's vacancy rate ticked up to 2.8%, but average gross asking rents have jumped 14% in year over year.

FORECAST

Sharply rising building prices may begin to meet resistance from appraisers with lesser opinions and tougher loan-to-value requirements from lenders.

ORANGE COUNTY INDUSTRIAL

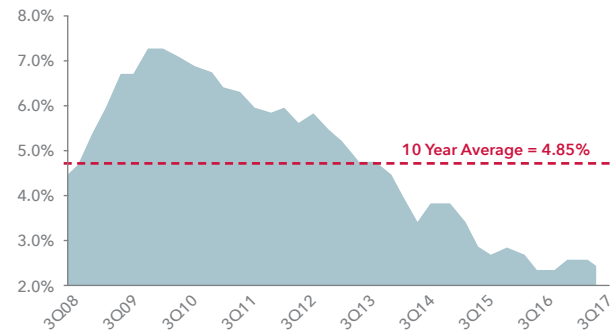
ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	4.2%	3.4%
California Unemployment	5.4%	4.5%
US Unemployment	4.4%	4.4%

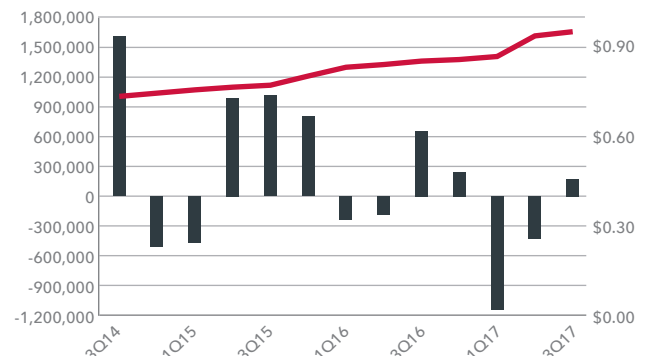
MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	278,094,112	278,076,182
Vacancy Rate (%)	2.7%	2.8%
Net Absorption (SF)	190,167	(400,801)
Average Asking Rent (NNN)	\$0.94	\$0.92
Under Construction (SF)	1,304,754	421,450

OVERALL VACANCY



NET ABSORPTION VS ASKING RATES



ORANGE COUNTY

THIRD QUARTER 2017 MARKET REPORT

ORANGE COUNTY MARKET STATISTICS - 3Q 2017

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	3,226	117,416,113	5,095,238	4.3%	2,489,502	2.1%	185,221	250,393	\$0.85	1,304,754
West Orange County	1,328	44,716,733	2,101,299	4.7%	1,259,721	2.8%	(122,650)	(510,134)	\$0.80	- 0 -
Greater Airport Area	2,503	73,862,954	4,908,098	6.6%	2,829,831	3.8%	50,232	(1,273,044)	\$0.87	- 0 -
South Orange County	1,258	41,911,407	2,478,591	5.9%	1,038,565	2.5%	77,364	310,267	\$1.17	- 0 -
Outlying Orange County	1	186,905	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -
TOTALS	8,316	278,094,112	14,583,226	5.2%	7,617,619	2.7%	190,167	(1,222,518)	\$0.94	1,304,754

LEASE TRANSACTIONS 3Q 17

	PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
	1415 S. Acacia Fullerton, CA	135,571	Advanced Image Direct	Icon Owner Pool	Jack Haley represented the Tenant.
	7272 Chapman Ave. Garden Grove, CA	70,000	Stratagene Corporation	Sakut Real Properties	Jim Snyder and Patrick Lacey represented the Landlord.
	1900 Carnegie, Suite B Santa Ana, CA	34,599	Identiv, Inc.	One Morgan, LLC	Dale Camera and Jason Helmick represented the Landlord.

SALE TRANSACTIONS 3Q 17

	PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
	420 W. 6th St. Tustin, CA	184,083	Intracorp Socal-1, LLC	Van Buren Plaza, LLC	Alton Burgess, Ryan Lawler and Travis Haining represented the Seller.
	2701-2717 S. Main St. Santa Ana, CA	38,980	The Goodman Family Trust	2717 Main Street, LLC	Skyler Serrano represented the Buyer.
	2398 Railroad St. Corona, CA	28,523	Rudolph International, Inc.	Cook Railroad Street, LLC	Luke Hudson represented the Buyer.

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