

Activity Slows As Users Make Do In Tight Market

Demand for most Orange County industrial space was healthy in 2018, and vacancy rates ended another year in record low territory. But rent growth slowed and leasing activity was the lowest in a decade.

The vacancy rate at 4% or less for 16 straight quarters has left executives with few choices and often none for larger space requirements. Frustrated growth-minded tenants increasingly have been forced to make do.

Meanwhile, landlords in 2018 became more conservative in rent demands as average gains in asking full-service rents fell to 4.9% countywide compared to 15% in 2017.

Gross absorption last year totaled 13.3 million SF, down nearly 6% from 2017 and off 25% from the post-recession peak of 17.7 million SF in 2013. There were 1,897 lease deals last year, down 18% from a year ago and off 41% since 2013. Over the same period, the county's inventory has fallen by 41 buildings totaling more than 2 million SF as more industrial property comes under the gaze of residential developers. There are 8,300 buildings totaling 274.6 million SF countywide in the Lee & Associates quarterly survey.

The Orange County industrial market is in the eighth year of recovery. But due to the constrained supply going into the downturn, the vacancy rate peaked at only 7.6% in the depths of the recession. By 2014, however, more than 10 million SF of empty space had been absorbed, pushing the vacancy rate below 4%. Most of the remaining available space is functionally obsolete and unsuitable for most uses except storage and newly legalized cannabis production.

In the fourth quarter, 10 buildings totaling nearly 1.2 million SF were completed in North County, including eight available spec facilities by Western Realco ranging from about 42,000 SF to 310,000 SF. Panattoni is due to deliver four buildings in the first quarter totaling 230,000 SF on South Van Buren Street on the Placentia and Anaheim border. One building has been leased.

Weakness in the Airport market accounted for 777,590 SF of the county's negative net absorption total of 881,786 SF for 2018.

North County, the largest market with 117.4 million SF, posted 12,041 SF of negative absorption in 2018. Net absorption in South County was in the red 119,831 SF in 2018 and West County reported 27,316 SF of positive absorption.

MARKET FORECAST

Chapman University economists recently projected that job growth would check in at 2.2% in 2018 in Orange County, slowing to 1.7% in 2019. Jobs in construction, the fastest-growing local employment sector in 2018 with 4.8% of workers, will fall to 1.5% in 2019.

ORANGE COUNTY INDUSTRIAL

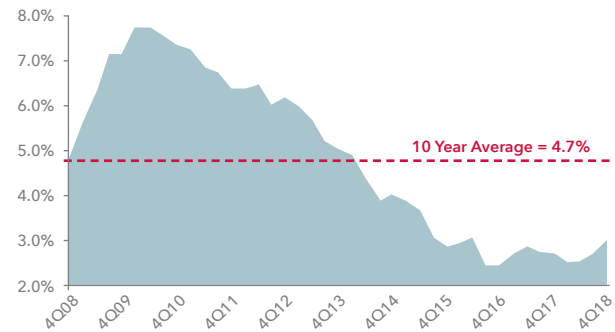
ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	2.8%	2.8%
California Unemployment	3.9%	3.9%
US Unemployment	3.9%	3.7%

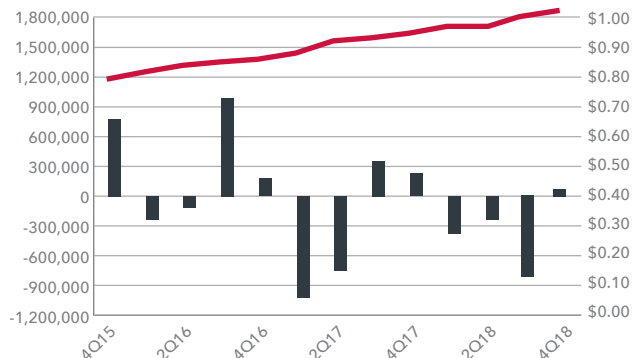
MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	274,572,110	273,588,919
Vacancy Rate (%)	3.1%	2.8
Net Absorption (SF)	14,831	(847,560)
Average Asking Rent (NNN)	\$1.02	\$1.00
Under Construction (SF)	368,780	1,557,384

OVERALL VACANCY



NET ABSORPTION VS ASKING RATES



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

ORANGE COUNTY




FOURTH QUARTER 2018 INDUSTRIAL MARKET REPORT

ORANGE COUNTY MARKET STATISTICS - 4Q 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	3,235	117,383,679	5,541,072	4.7%	3,129,115	2.7%	(172,705)	(12,041)	\$0.91	178,504
West Orange County	1,329	42,733,504	2,452,068	5.7%	1,270,805	3.0%	187,168	27,676	\$0.82	- 0 -
Greater Airport Area	2,489	72,798,117	3,987,195	5.5%	2,660,040	3.7%	(92,849)	(777,590)	\$1.01	100,276
South Orange County	1,245	41,455,655	2,318,274	5.6%	1,514,747	3.7%	93,217	(119,831)	\$1.31	90,000
Outlying Orange County	2	201,155	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -
TOTALS	8,300	274,572,110	14,298,609	5.2%	8,574,707	3.1%	14,831	(881,786)	\$1.02	368,780

LEASE TRANSACTIONS 4Q 2018

	PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
	3300 E. Birch Street Brea, CA	111,679	Amore Pacific US, Inc.	Brea Industrial III, LLC	Christopher Destino represented the Tenant.
	7 Holland Irvine, CA	84,797	Pinnacle Exhibits, Inc.	7 Holland Property Co., LP	Ryan Harman represented the Tenant.
	17632 Armstrong Avenue Irvine, CA	32,055	CP Carrillo	JS SJK LP	John Collins represented the Tenant.

SALE TRANSACTIONS 4Q 2018

	PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
	2152 & 2182 Alton Parkway Irvine, CA	9.0 Acres	KB Home & Alliance Residential	Dynasty Real Property Group & Wong Properties	Frank Adler, Tim Arguello, Steve Heimuli, Jeff Hirsch, Tim Walker & Jedd Zaun represented both the Buyer and the Seller.
	2911 Dow Avenue Tustin, CA	51,410	Shenmu Holdings, LLC	2911 Dow, LLC	Greg Diab, Jack Haley & Matt Slezak represented the Seller.
	6 Mason Irvine, CA	30,284	Domino Realty Management	Wyland	David LaFosse represented the Buyer.

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