LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

QUARTER IN REVIEW
1ST QUARTER 2016

LEE & ASSOCIATES - IRVINE / NEWPORT BEACH / ORANGE INDUSTRIAL MARKET REPORT

Except For Lease Rates It's A Game Of Dwindling Numbers

Continued strong demand for industrial space has reduced the already low inventory of vacant property by 25% over the last four quarters.

Orange County's industrial market has been among the nation's tightest before and since the recession. Average asking rents jumped 12% year-over-year for the largest annual gain since 2010 and rent increases in some renewals are topping 50%. But for most companies the big issue is availability and a dwindling number of choices. Statistically, 98 of every 100 Orange County buildings are occupied.

Lee & Associates surveys 8,328 buildings larger than 10,000 sq. ft. for a total inventory of 278 million sq. ft. This computes to an average building size of approximately 33,400 sq. ft. With a Q1 countywide vacancy of 7.9 million sq. ft. this translates to roughly 230 empty buildings, an increasing share of which is functionally handicapped or obsolete. Of course, availability in different sizes varies widely. Generally, larger buildings are in shortest supply.

The Airport and North County submarkets particularly are strained.

Net absorption of Airport-area properties totaled 246,013 sq. ft. in Q1. It was the fourth straight quarterly gain in the county's largest submarket and brought the vacancy rate to 2.7%, down 30 basis points from the prior quarter. Using the average building-size math for 5,737 Airport-area properties shows an equivalent of 92 vacant buildings that are ready for occupancy, down 31% year over year.

MARKET OVERVIEW

(Change from last quarter)

AVAILABILITY - 4.6%
Down from 5.1% last quarter

VACANCY - 2.9%
Up from 2.7% last quarter

ABSORPTION - 103,205 SQ. FT.
Down from 823,977 SF last quarter

AVERAGE LEASE RATE - $0.82 NNN
Up from $0.79 last quarter

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

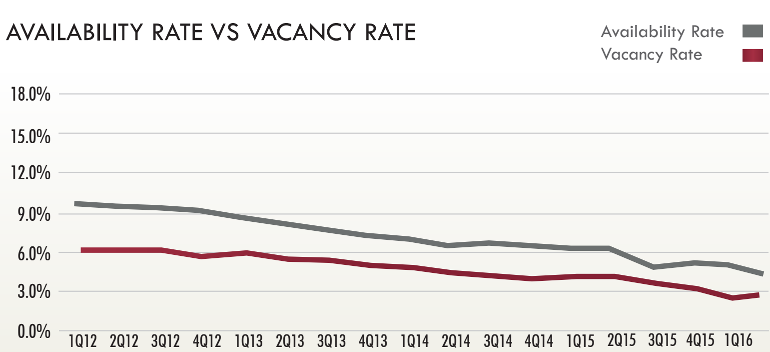
The North County submarket with 116.6 million sq. ft. is even tighter. Following Q1's net absorption of 207,606 sq. ft., the vacancy rate settled at 2.2%, off 20 basis points from the prior quarter and 100 basis points year over year. Using the same math and excluding obsolete space shows that of North County's 3,226 buildings only 57 are vacant versus about 92 one year ago.

Continuing the point with the West County and South County submarkets reveals even fewer choices for companies based there.

In the 44.7-million-sq.-ft. West County submarket, there were 369,899 sq. ft. that went back on the market in Q1, driving up the vacancy rate up 50 basis points to 3.5%. Based on the average building size in West County this computes to about 60 vacant functional buildings.

Although it posted a modest 20,000 sq. ft. gain in absorption, South County's vacancy rate was unchanged in Q1 at 3.5%, which is down 100 basis points from the same period last year. Using similar math shows a submarket with an equivalent of 30 buildings of suitable space.

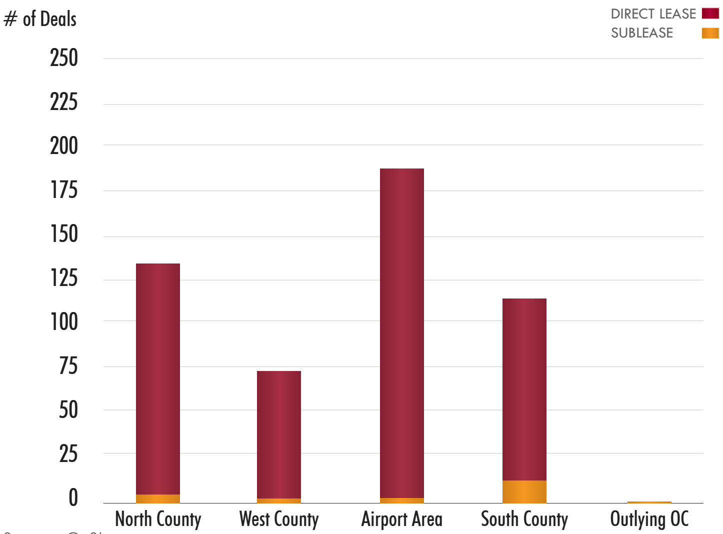
AVAILABILITY RATE VS VACANCY RATE



Source: CoStar

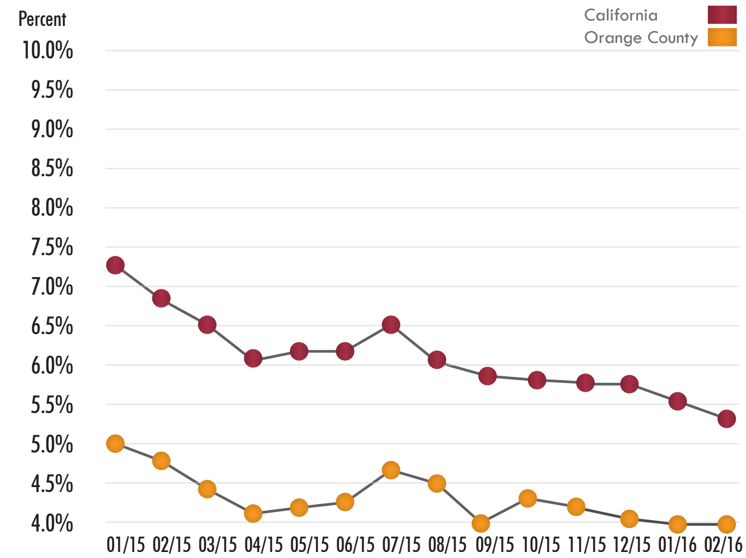
The Orange County Industrial Market Report is published quarterly by the Lee & Associates' Irvine, Newport Beach and Orange offices.

NUMBER OF LEASES EXECUTED FOR THE QUARTER — BY SUBMARKET



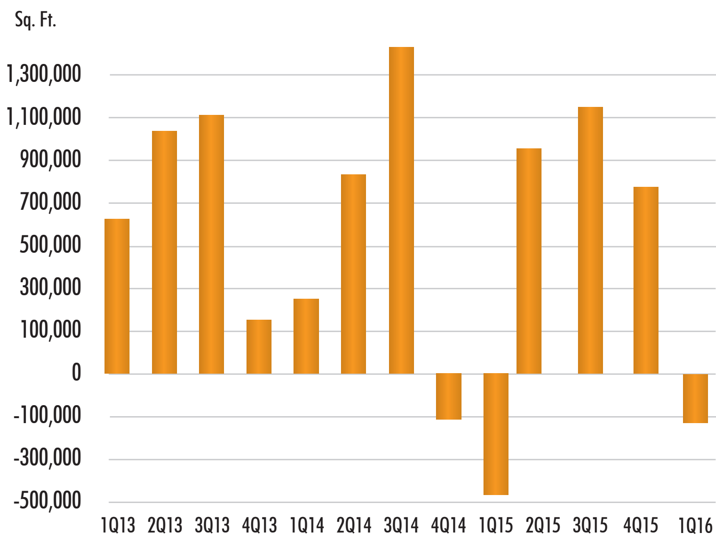
Source: CoStar

UNEMPLOYMENT RATE



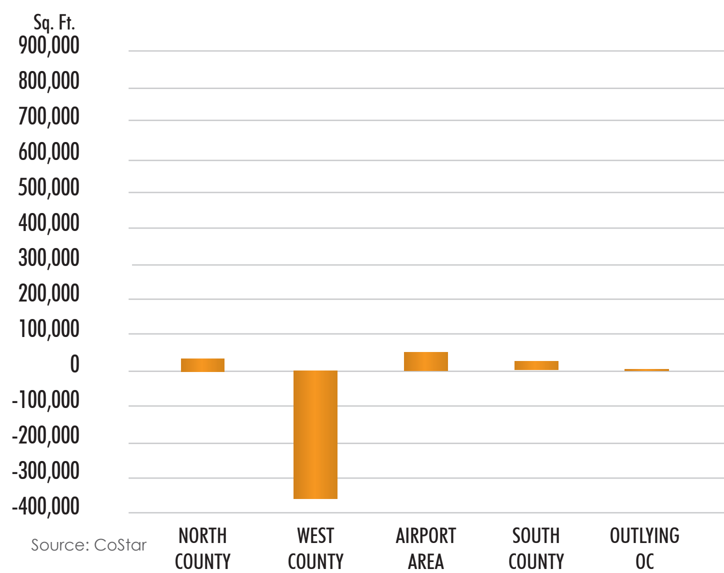
Source: EDD

COUNTY WIDE NET ABSORPTION — INCLUDING SUBLET SPACE



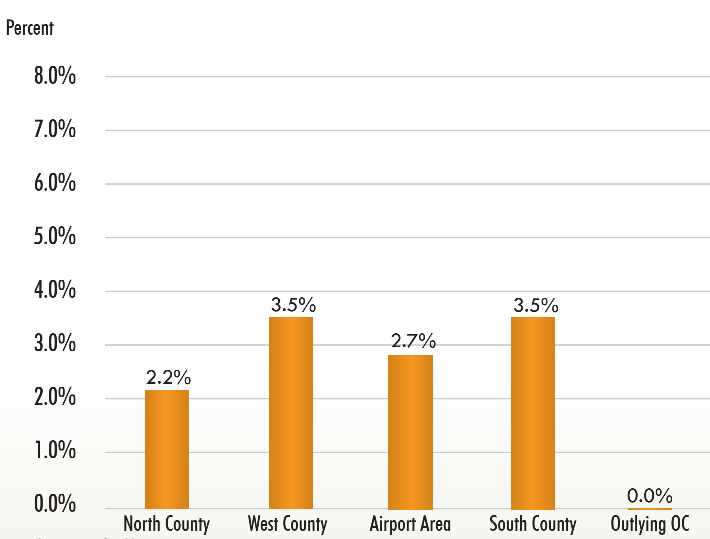
Source: CoStar

YTD NET ABSORPTION — BY SUBMARKET, INCLUDING SUBLET SPACE



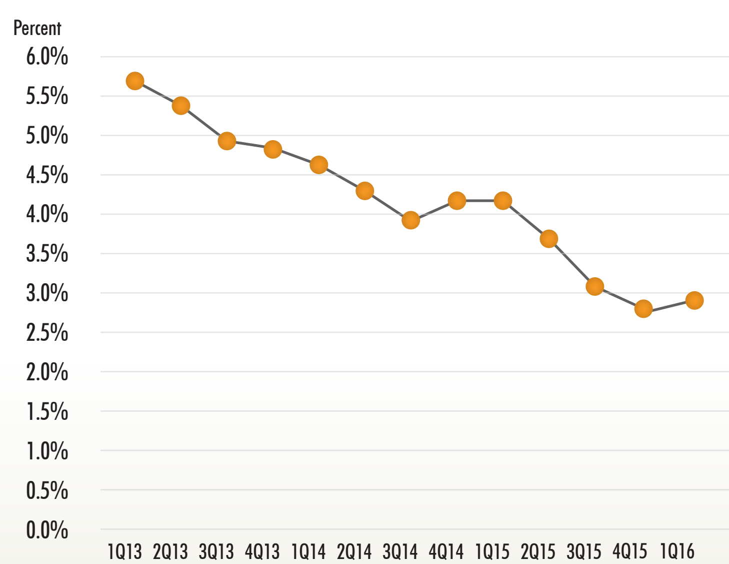
Source: CoStar

VACANCY RATE — BY SUBMARKET - INCLUDING SUBLET SPACE



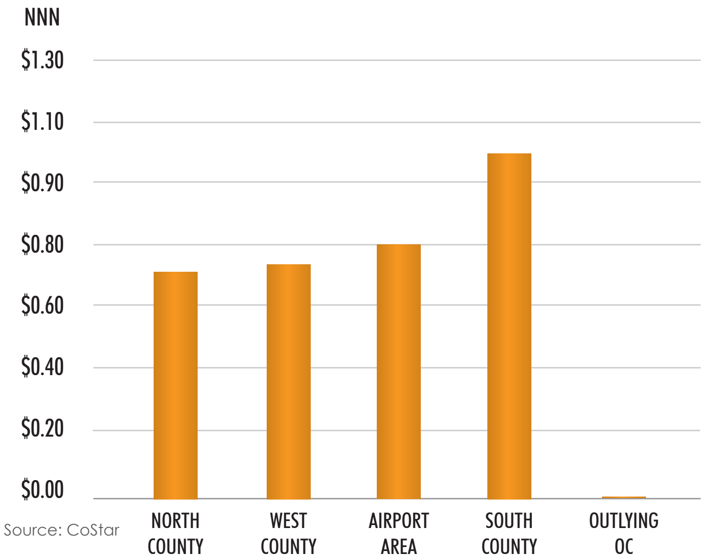
Source: CoStar

VACANCY RATE BY QUARTER



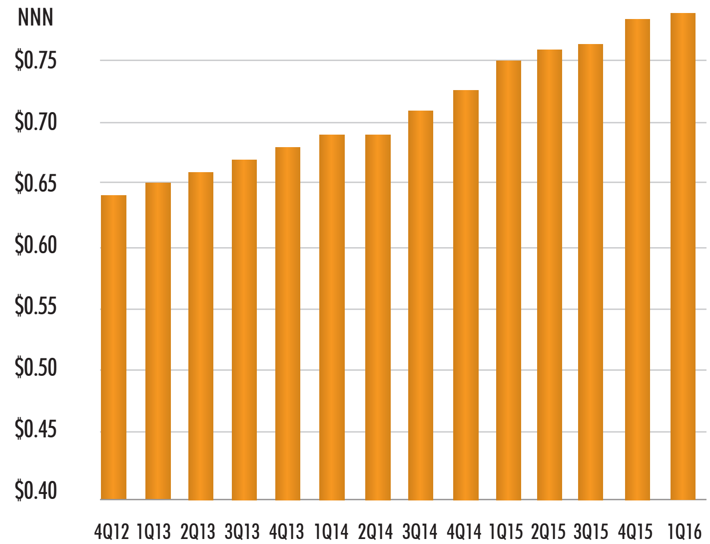
Source: CoStar

AVERAGE NNN LEASE RATE BY SUBMARKET



Source: CoStar

AVERAGE NNN LEASE RATES BY QUARTER



Source: CoStar

COMPLETED LEE & ASSOCIATES TRANSACTIONS

14404-14514 Best Ave.
Santa Fe Springs, CA

9600 Toledo Way
Irvine, CA

1669 - 1735 E Wilshire Ave.
Santa Ana, CA

Lease Transactions 1Q 16

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
14404-14514 Best Ave. Santa Fe Springs	200,000	Haringa Inc.	Best Avenue Centre	Chuck Noble and Dave Hunsaker represented the Landlord and Phillip DeRousse represented the Tenant.
9600 Toledo Way Irvine, CA	91,761	Nutrawise, Inc.	Icon Owner Pool I	Jim Snyder and Pat Lacey represented the Tenant.
1669-1735 E. Wilshire Ave. Santa Ana, CA	39,816	OC Superintendent	Pelican Asset Management Group, LLC	Kurt Bruggerman and Ryan Swanson represented the Landlord.

6 Journey
Aliso Viejo, CA

3011 S. Croddy
Santa Ana, CA 92780

2926 W. 1st St.
Santa Ana, CA

Sale Transactions 1Q 16

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
6 Journey Aliso Viejo, CA	60,648	Wilson Journey, LLC	LL & DM Investments, LLC	Alton Burgess, Travis Haining and Ryan Lawler represented the Buyer.
3011 S. Croddy Santa Ana, CA	28,896	Baseqamp, LLC	Finch/CA Properties LLC	Dale Camera and Jason Helmick represented the Buyer.
6811 Walker St. La Palma, CA	22,888	Emad Hakim	Clark & Barbara June Cornell	Chris Destino & Peter Sowa represented the Buyer.

	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	1,741,272	82,711	4.8%	31,750	1.8%	28,575	1.6%	64,472	64,472	34,593	3,175	$1.12 NNN	- 0 -
Anaheim	1,449	46,383,106	1,959,227	4.2%	1,313,011	2.8%	1,306,521	2.8%	380,893	380,893	111,208	6,490	$0.72 NNN	- 0 -
Brea	297	12,324,230	750,812	5.9%	227,768	1.8%	221,310	1.8%	(135,762)	(135,762)	37,500	6,458	$0.64 NNN	367,194
Buena Park	204	14,128,606	395,308	2.8%	130,914	0.9%	130,914	0.9%	(27,263)	(27,263)	206,340	- 0 -	$0.54 NNN	- 0 -
Capistrano Beach	1	35,486	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Costa Mesa	394	10,300,919	375,104	3.6%	221,131	2.1%	218,953	2.1%	(17,094)	(17,094)	45,915	2,178	$0.97 NNN	- 0 -
Cypress	102	6,532,313	982,049	15.0%	199,196	3.0%	199,196	3.0%	64,667	64,667	148,582	- 0 -	$0.83 NNN	- 0 -
Dana Point	1	12,000	2,106	17.6%	2,106	17.6%	2,106	17.6%	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Foothill Ranch	50	3,594,451	240,517	6.7%	248,479	6.9%	243,371	6.8%	(179,887)	(179,887)	37,807	5,108	$0.89 NNN	- 0 -
Fountain Valley	206	5,124,962	114,501	2.2%	122,988	2.4%	122,988	2.4%	77,943	77,943	- 0 -	- 0 -	$0.82 NNN	- 0 -
Fullerton	354	19,966,950	1,013,606	5.1%	719,682	3.6%	685,942	3.4%	(49,049)	(49,049)	144,668	33,740	$0.61 NNN	- 0 -
Garden Grove	380	12,852,644	567,039	4.4%	293,152	2.3%	293,152	2.3%	(21,836)	(21,836)	13,054	- 0 -	$0.68 NNN	- 0 -
Huntington Beach	551	15,631,174	703,412	4.5%	804,497	5.1%	658,397	4.2%	(343,589)	(343,589)	146,100	146,100	$0.66 NNN	41,668
Irvine	1,031	38,815,068	2,159,929	5.6%	1,196,363	3.1%	1,093,489	2.8%	195,539	195,539	186,565	102,874	$1.09 NNN	- 0 -
La Habra	105	3,153,844	83,189	2.6%	58,101	1.8%	58,101	1.8%	(3,662)	(3,662)	- 0 -	- 0 -	- 0 -	- 0 -
La Palma	17	1,859,689	89,046	4.8%	164,046	8.8%	164,046	8.8%	(52,112)	(52,112)	- 0 -	- 0 -	- 0 -	- 0 -
Ladera Ranch	1	21,784	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Laguna Beach	3	51,768	3,280	6.3%	3,280	6.3%	3,280	6.3%	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Laguna Hills	111	2,204,712	86,146	3.9%	82,352	3.7%	82,352	3.7%	8,356	8,356	- 0 -	- 0 -	$1.04 NNN	- 0 -
Laguna Niguel	38	748,402	13,641	1.8%	9,517	1.3%	9,517	1.3%	7,192	7,192	1,368	- 0 -	- 0 -	- 0 -
Laguna Woods	1	20,178	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Lake Forest	182	5,053,317	400,353	7.9%	239,494	4.7%	226,355	4.5%	13,193	13,193	30,238	13,139	$0.90 NNN	- 0 -
Los Alamitos	107	3,104,313	22,252	0.7%	25,000	0.8%	25,000	0.8%	(11,802)	(11,802)	- 0 -	- 0 -	$0.69 NNN	- 0 -
Mission Viejo	57	1,329,130	55,515	4.2%	48,275	3.6%	48,725	3.6%	(19,654)	(19,654)	- 0 -	- 0 -	$0.99 NNN	- 0 -
Newport Beach	50	1,116,522	32,177	2.9%	61,742	5.5%	61,742	5.5%	(6,917)	(6,917)	- 0 -	- 0 -	- 0 -	- 0 -
Orange	567	14,194,345	269,855	1.9%	152,102	1.1%	152,102	1.1%	35,929	35,929	52,333	- 0 -	$0.89 NNN	- 0 -
Placentia	170	4,217,567	58,349	1.4%	28,341	.07%	28,341	.07%	43,006	43,006	- 0 -	- 0 -	$0.74 NNN	- 0 -
Rancho Santa Margarita	84	2,722,741	43,107	1.6%	4,340	0.2%	4,340	0.2%	(537)	(537)	6,391	- 0 -	$0.96 NNN	- 0 -
San Clemente	120	2,771,178	152,688	5.5%	120,462	4.3%	89,982	3.2%	6,594	6,594	4,480	30,480	$0.98 NNN	- 0 -
San Juan Capistrano	78	1,762,915	30,635	1.7%	30,394	1.7%	30,394	1.7%	10,152	10,152	- 0 -	- 0 -	$1.11 NNN	- 0 -
Santa Ana	1,121	31,828,294	1,365,699	4.3%	767,278	2.4%	700,171	2.2%	56,897	56,897	67,467	67,107	$0.71 NNN	12,100
Seal Beach	13	975,959	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	$0.73 NNN	- 0 -
Stanton	73	1,377,219	2,800	0.2%	6,064	0.4%	6,064	0.4%	1,680	1,680	- 0 -	- 0 -	- 0 -	- 0 -
Tustin	188	7,474,003	536,102	7.2%	462,807	6.2%	462,807	6.2%	(157,161)	(157,161)	1,944	- 0 -	$0.76 NNN	- 0 -
Westminster	83	2,372,467	39,757	1.7%	66,243	2.8%	66,243	2.8%	(6,907)	(6,907)	1,728	- 0 -	$0.71 NNN	- 0 -
Yorba Linda	84	2,242,379	136,536	6.1%	95,270	4.2%	95,270	4.2%	(36,486)	(36,486)	1,452	- 0 -	$1.16NNN	- 0 -
Orange County Totals	8,330	278,045,907	12,767,448	4.6%	7,936,145	2.9%	7,519,296	2.7%	(103,205)	(103,205)	1,279,733	416,849	$0.82 NNN	420,962

	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	3,229	116,601,027	4,590,141	3.90%	2,559,942	2.20%	2,513,254	2.20%	30,345	30,345	372,000	46,688	$0.68 NNN	367,194
West Orange County	1,327	44,743,851	2,599,430	5.80%	1,546,161	3.50%	1,546,161	3.10%	(369,899)	(369,899)	309,464	146,100	$0.72 NNN	41,668
Airport Area	2,511	74,556,701	3,344,830	4.50%	2,043,151	2.70%	1,957,150	2.60%	38,869	38,869	148,120	86,001	$0.80 NNN	12,100
South Orange County	1,262	41,957,423	2,179,933	5.20%	1,480,397	3.50%	1,351,511	3.20%	20,681	20,681	248,518	128,886	$1.05 NNN	- 0 -
Outlying Orange County	1	186,905	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Orange County Totals	8,330	278,045,907	12,767,448	4.6%	7,936,145	2.9%	7,519,296	2.7%	(103,205)	(103,205)	1,279,733	416,849	$0.82 NNN	420,962

ABOUT LEE & ASSOCIATES

As a group of independently owned and operated companies, Lee & Associates currently has more than 54 offices in Arizona, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Maryland, Michigan, Missouri, Nevada, New Jersey, New York, Ohio, Pennsylvania, South Carolina, Texas 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 $9 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, Break, Buena Park, Fullerton, La Habra, Orange, Placentia, Yorba Linda

WEST

Anaheim, Cypress, Garden Grove, Huntington Beach, La Palma, Los Alamitos, Santa Ana, Seal Beach, Stanton, Westminster

AIRPORT

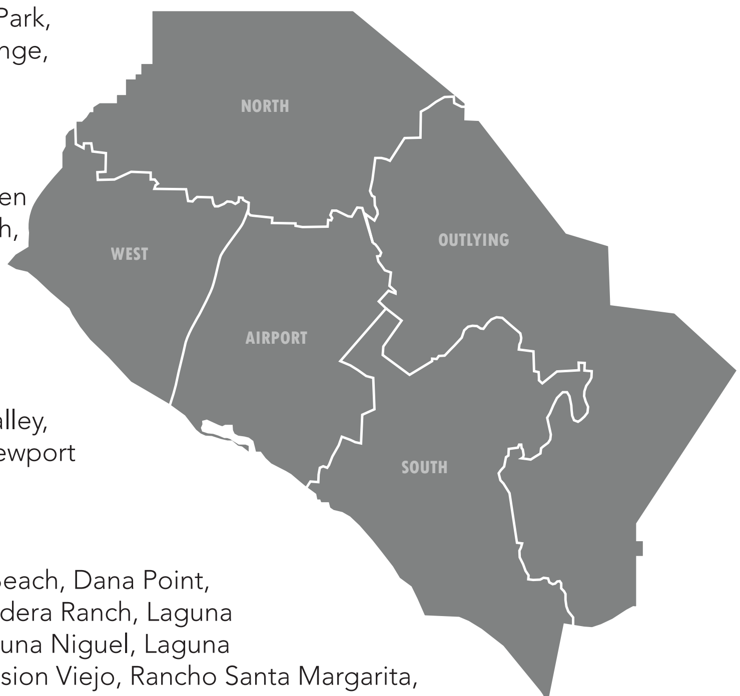
Costa Mesa, Fountain Valley, Garden Grove, Irvine, Newport Beach, Santa Ana, Tustin

SOUTH

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

OUTLYING

San Juan Capistrano



MARKET FORECAST:

If average asking rents continue increasing at the current pace they easily should surpass the pre-recession all-time high of 85 cents per sq. ft. triple net. That likelihood was improved as the latest Cal State Fullerton periodic survey of local executives shows the highest level of optimism in their outlook in the last four quarters.

LEE & ASSOCIATES®

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