

Tenants Stressed; Resistance Rises Against Bull-Market Price Growth

Countywide average lease rates - already in record territory - soared 10.5% in 2017, punctuating a strong seven-year recovery that has driven up rents 48% while pushing vacancy rates to historic lows and sale prices to new highs.

The overall vacancy rate held steady in the second half of 2017 at 2.7%, according to Lee & Associates' year-ending quarterly survey of the county's 8,315 buildings totaling 278.4 million sq. ft.

Buildings for sale continue to attract multiple offers from users and investors, although complexities of deals are increasing. Bidders are more price-sensitive and many see a late-stage economy where values are peaking. More risk from expected interest rate hikes is being factored into investor models as well as exit pricing. The increased scrutiny is combining to slow price acceleration and lengthen transactions with an exception to buyers highly motivated to complete 1031 exchanges.

While tenants have been facing steep rent hikes at renewal time, a lack of inventory also is throttling growth ambitions. Total space leased in 2017 was down 24% from 2016 and off 31% from the annual average since 2010. Additionally, since 2010 the county's inventory has been cut by 3 million sq. ft. as 36 buildings have been razed to make way typically for multifamily development.

In North County - the largest of the county's four submarkets at 118 million sq. ft. and 2% vacancy - average net asking rents jumped 21.4% in 2017 and are up 77% since 2010.

Even though the West County submarket posted 451,814 sq. ft. of negative net absorption in 2017, asking net lease rates rose 18.3% year over year and are up 44.8% since the recovery began. The vacancy rate for West County's 44.7-million-sq.-ft. inventory closed the year at 2.7%.

With the highest lease rates in Orange County - averaging \$1.14 per sq. ft. - asking rents in South County have increased 44% since the recession but gained only 2.7% in 2017. Net absorption was up a modest 47,235 sq. ft. for the year in the 41.9-million-sq.-ft. submarket.

After rents in the 73.6-million-sq.-ft. Airport submarket posted a 12.5% gain in 2016 and a 41% increase during the recovery, net lease rates last year fell 2%. The vacancy rate closed the year at 3.7%. Negative net absorption for the year totaled 1.3 million sq. ft., the most since 2009.

MARKET FORECAST

Chapman University economists say local manufacturing jobs are growing in better-paying niches and minimum-wage apparel and food processing work is on the decline. Regarding the California economy, forecasters said in December that dramatically altered international trade pacts could cost the state 280,000 trade-related jobs over five years.

ORANGE COUNTY INDUSTRIAL

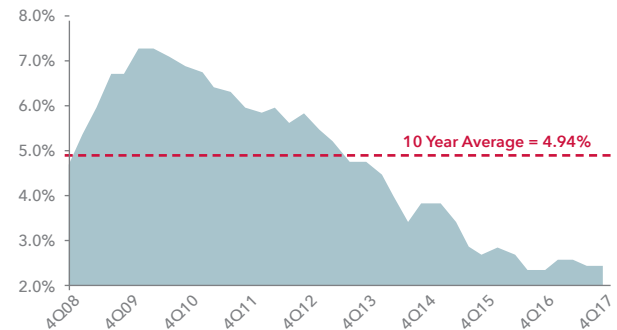
ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	3.2%	4.1%
California Unemployment	4.3%	5.2%
US Unemployment	4.0%	4.5%

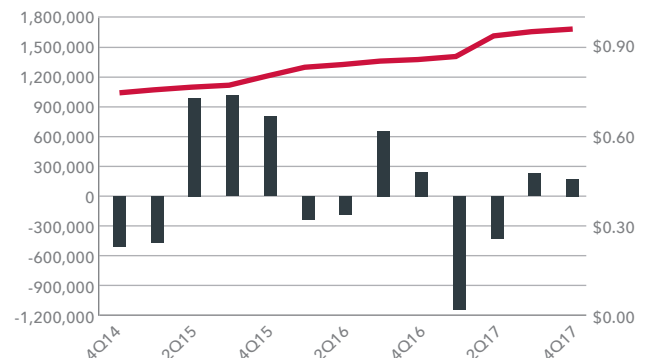
MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	278,357,766	278,208,061
Vacancy Rate (%)	2.7%	2.7%
Net Absorption (SF)	193,036	284,260
Average Asking Rent (NNN)	\$0.95	\$0.94
Under Construction (SF)	963,138	1,304,754

OVERALL VACANCY



NET ABSORPTION VS ASKING RATES



ORANGE COUNTY




FOURTH QUARTER 2017 MARKET REPORT

ORANGE COUNTY MARKET STATISTICS - 4Q 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	3,231	117,981,149	4,638,131	3.9%	2,322,884	2.0%	450,304	806,732	\$0.86	963,138
West Orange County	1,327	44,704,150	2,389,177	5.3%	1,201,401	2.7%	55,056	(451,814)	\$0.83	- 0 -
Greater Airport Area	2,498	73,561,675	4,694,212	6.4%	2,708,260	3.7%	(49,292)	(1,277,932)	\$0.88	- 0 -
South Orange County	1,258	41,923,887	2,528,524	6.0%	1,321,277	3.2%	(263,032)	47,235	\$1.14	- 0 -
Outlying Orange County	1	186,905	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -
TOTALS	8,315	278,357,766	14,250,044	5.1%	7,553,822	2.7%	193,036	(875,779)	\$0.95	963,138

LEASE TRANSACTIONS 4Q 17

	PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
	9700 Toledo Way Irvine, CA	77,313	NN, Inc.	Berdan Holdings, LLC	Kevin Thomas represented the Tenant.
	1300 N. Kellogg Anaheim, CA	44,913	Crosspointe Church	1300 Anaheim, LLC	Allen Buchanan represented the Landlord.
	3 Studebaker Irvine, CA	23,865	Heritage Asset Management, Inc.	DCC Studebaker, LLC	Dave Smith and Travis Watts represented the Tenant.

SALE TRANSACTIONS 4Q 17

	PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
	30142 Avenida De las Banderas Rancho Santa Margarita, CA	88,672	LBA Realty	NKL Paolone Family, LLC	Craig Fitterer and Mark Jerue represented the Seller.
	2970 Airway Avenue Costa Mesa, CA	72,053	2970 Airway, LLC	Lakeshore Enterprises	Jim Snyder represented the Buyer.
	1426-1348 Collins Orange, CA	26,268	Omini, LLC	Positive Developments	David Williams represented the Seller.

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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.

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