

Orange County

Industrial Market Outlook 1Q 2017

MARKET OVERVIEW

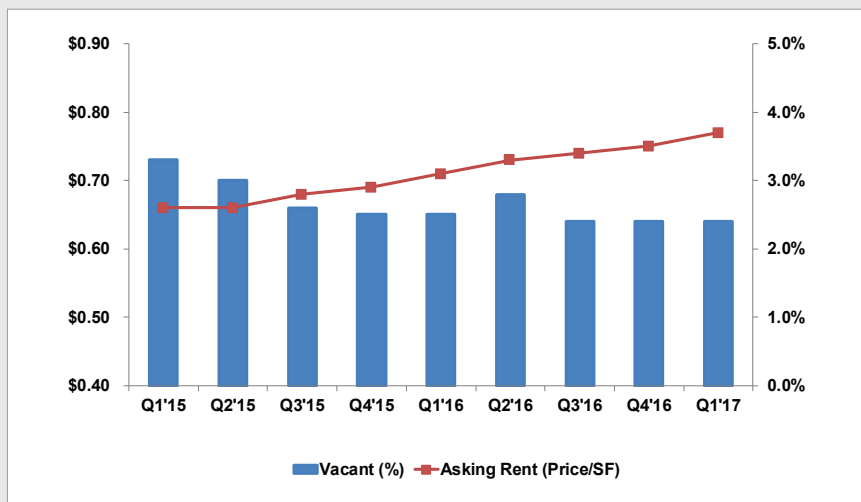
Rents in Orange County's industrial market returned to the previous peak rate reached in 2008, while vacancy remained at the lowest level on record at the end of the first quarter of 2017. Vacancy ended the quarter at 2.4%, steady over the previous quarter and down 10 basis points over the first quarter of 2016. Market activity was mixed among sales and leasing this quarter, with an increase in sale volume but a decline in leasing volume. Lack of land for development has limited construction opportunities over the past few years. There were no deliveries to the market this quarter and just 233,000 square feet is currently under construction. One of the two buildings under construction is an 181,000 square foot class A industrial building located in Fullerton, which is fully available for lease or sale to an owner-user. Demand is driven by a strong economy as well as cargo volume from the ports of Los Angeles and Long Beach. In the first two months of 2017, more than 2.5 million TEUs have filtered through the two ports. Year to date volume is up 1.0%, which is significant since volume usually slows down due to the Chinese Lunar New Year. January 2017 set records, making it the Port of Los Angeles' busiest month ever with an increase of 17.4% in total volume over January 2016.

TRENDS TO WATCH

The Orange County industrial market is expected to remain extremely tight in 2017. Land remains expensive, scarce and minimal construction is underway to affect future supply. Landlords and sellers will continue to have the upper hand in this market as demand vastly outpaces supply. Users looking to purchase expansion space may be forced into using smaller buildings, as very few large buildings remain in supply. Just 4% of buildings sold this quarter were larger than 100,000 square feet. Driving up pricing, increased competition from investors and developers looking for available opportunities is expected to continue in Orange County.

Average Asking Rent and Vacancy Rate

All Unit Sizes



Source: NAI Capital Research, CoStar, REIS

MARKET OUTLOOK

Asking Rental Rates



Sale Prices



Availability/Vacancy Rates



Landlord Concessions



Sales/Leasing Volume



New Construction



NAI Capital Research
www.naicapital.com

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Market Statistics

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	1Q17 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	1Q17 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/PSF NNN	AVERAGE SALE PRICE \$/PSF
North	97,729,440	181,069	2.9%	2.1%	981,801	981,801	1,696,934	1,696,934	\$0.70	\$150
West	41,755,354	0	3.7%	1.0%	286,349	286,349	276,483	276,483	\$0.73	\$171
Airport	55,078,122	51,450	4.4%	3.4%	514,449	514,449	517,403	517,403	\$0.76	\$191
South	31,399,458	0	5.6%	3.5%	241,407	241,407	52,480	52,480	\$0.96	\$244
Total	225,962,374	232,519	3.8%	2.4%	2,024,006	2,024,006	2,543,300	2,543,300	\$0.77	\$170

RBA includes industrial buildings of all sizes. Rents reflect buildings of at least 10,000 square feet.

Leasing

Leasing volume totaled more than two million square feet in the first quarter of 2017, indicating a 14.6% decline over the previous quarter and a 42.9% decline from this time last year. The decline in leasing volume reflects a supply constrained market with more demand than supply, which is also affecting rental rates. Average direct asking rents in Orange County were \$0.77/SF, up 2.7% from last quarter and 8.5% from last year. Landlords continue to have considerable leverage in the market and concessions are minimal, while tenants looking for space will find they lack options. This quarter, Worldpac, Inc leased 240,513 square foot of warehouse/distribution space in Brea at an asking rate of \$0.68/SF. Limbach Company leased 88,507 square feet of manufacturing space in Seal Beach at an asking rate of \$0.75/SF.

Sales

There was a significant increase in sale volume this quarter with a strong showing for investment sales. More than 2.5 million square feet sold representing an increase of 136% from this time in 2016. The average sale price has also increased over last year, growing 7.3% to \$170/SF with average cap rates at 4.5%. Shopoff Realty Investments purchased two industrial buildings totaling 398,223 square feet. The properties are located at 900-901 E Santa Ana Street in Anaheim and sold for \$95/SF. A joint venture between a private investor and Bayan Tree Joint Ventures purchased 156,054 square feet of industrial manufacturing space in Anaheim for \$113/SF.

Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/PSF*	SQUARE FEET
Worldpac, Inc	1225 W Imperial Hwy	North	\$0.68	240,513
Limbach Company	1709 Apollo Ct	West	\$0.75	88,507
McGuff Company	4040 Carriage Dr	Airport	\$0.79	81,916
Robinson Pharma	3701 W Warner Ave	Airport	\$0.79	63,982
Ethica	20531 Crescent Bay Dr	South	\$0.83	46,718

*All rents are NNN unless otherwise noted

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/PSF	SQUARE FEET
SLF-AREP IV South Street LLC	900-901 E Santa Ana St	North	\$95	398,223
Banyan Tree Joint Ventures	2114 W Ball Rd	North	\$113	156,054
American Technologies Inc	3356-3360 E La Palma Ave	North	\$115	144,000
Telfair Corporation	10855 Business Center Dr	West	\$111	98,986
JC Orange County	2660 Barranca Pky	Airport	\$247	57,131

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Orange County

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