

# Orange County

## Industrial Market Outlook 2Q 2017

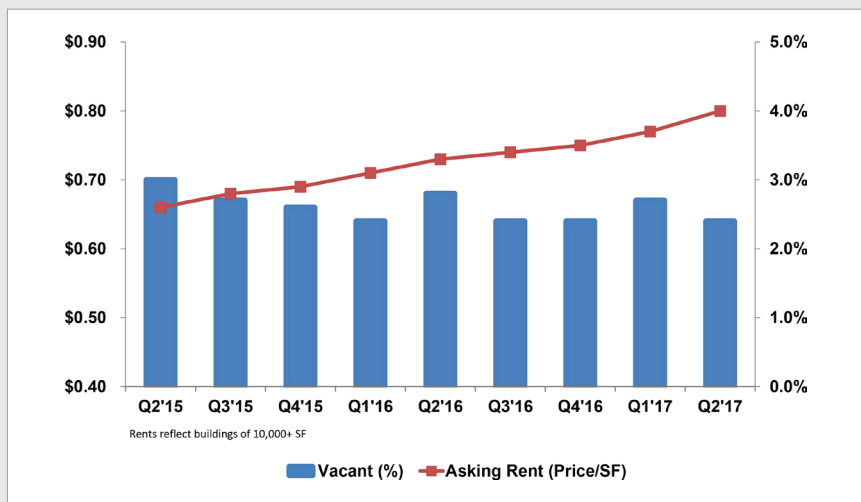
### MARKET OVERVIEW

Rents surpassed the prior peak while vacancy ended the second quarter of 2017 at the lowest level on record. Vacancy ended the quarter at 2.4%, down 30 basis points over the previous quarter and down 40 basis points from this time in 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 opportunities has limited construction over the last several years. There is just one construction project underway in Orange County- a 144,000 square foot warehouse in Anaheim that has been fully leased to Rosendin Electric. The sole delivery this quarter is a 181,000 square foot freestanding warehouse in Fullerton, which is available for sale or lease for an undisclosed price. Demand is driven by a strong economy as well as cargo volume from the ports of Los Angeles and Long Beach. In the first five months of 2017, more than 6.5 million TEUs have filtered through the two ports. Combined import volume for 2017 year to date is up 5.3% from this time last year. Consumer demand for imported goods is driving the increased cargo volume and is expected to continue to push demand for warehouse distribution space.

### TRENDS TO WATCH

The Orange County industrial market is expected to remain extremely tight throughout the rest of the year, as supply will not be able to keep up with demand. Land for development is expensive if it can be found at all, and is usually more valuable to a developer as office or multifamily housing. Users looking to expand are being forced into the neighboring Inland Empire due to lack of available space. Redevelopment of older existing properties could be the answer to supply constraints for those looking to remain in Orange County. Expect investors and developers to continue to look for opportunities in Orange County, when available, due to strong rent growth and low risk of oversupply.

### Average Asking Rent and Vacancy Rate



Source: NAI Capital Research, CoStar

### MARKET OUTLOOK

#### Asking Rental Rates



#### Sale Prices



#### Availability/Vacancy Rates



#### Landlord Concessions



#### Sales/Leasing Volume



#### New Construction



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### Market Statistics

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	2Q17 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	2Q17 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/PSF NNN	AVERAGE SALE PRICE \$/PSF
Airport	54,491,565	51,450	4.4%	3.2%	375,157	937,944	956,861	1,459,645	\$0.79	\$141
North	97,930,931	144,008	3.0%	2.0%	695,379	1,715,411	1,166,767	2,127,977	\$0.72	\$169
South	31,381,119	0	6.1%	2.5%	136,354	390,536	132,341	204,999	\$0.98	\$177
West	41,761,541	0	4.5%	2.4%	262,786	549,135	154,187	373,574	\$0.78	\$181
<b>Total</b>	<b>225,565,156</b>	<b>195,458</b>	<b>4.1%</b>	<b>2.4%</b>	<b>1,469,676</b>	<b>3,593,026</b>	<b>2,410,156</b>	<b>4,166,195</b>	<b>\$0.80</b>	<b>\$187</b>

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

### Leasing Trends

Leasing volume totaled nearly 1.5 million square feet in the second quarter of 2017, indicating a 30.2% decline over the previous quarter and a 55.7% decline from this time last year. The significant decline in leasing volume reflects a supply strapped market with more demand than supply, which is also pushing rental rates even higher. Average direct asking rents in Orange County were \$0.80/SF this quarter, up 3.9% from last quarter and 9.6% from last year at this time. Asking rents have surpassed the prior peak in 2008 by \$0.03/SF. This quarter, California Hi-Lites, Inc., a packaging and fulfillment company, leased 112,746 square feet in a warehouse/distribution property in Fullerton at a \$0.62/SF asking rate. Additionally, freight forwarder Flexport leased 102,367 square feet of warehouse/distribution space in Buena Park at an asking rate of \$0.78/SF.

### Sales Trends

There was a surge in sale volume in the second quarter. More than 2.4 million square feet sold this quarter for a total of more than 4.1 million square feet sold year to date. This is an increase of 64.4% from over the first half of 2016. Investors are taking advantage of the high demand and low perceived risk of industrial properties. The average sale price has also increased over last year, growing 7.6% to \$187/SF with average cap rates at 5.3%. In June, 1575 Sunflower LLC purchased the 6 building Costa Mesa Business Center, a 230,608 square foot industrial park, for \$119/SF. Trumark Companies purchased a two-building 135,582 square foot warehouse in Anaheim for \$182/SF.

### Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/PSF*	SQUARE FEET
California Hi-Lites, Inc.	2100 E Valencia Dr	North	\$0.62	112,746
Flexport, Inc.	6201-6221 Knott Ave	West	\$0.78	102,367
Truck and Car Shop	654 N Hariton St	North	\$0.80	37,928
Fntech	3000-3010 W Segerstrom Ave	Airport	\$0.79	35,112
Icon Store	1604 Collins Ave	North	\$0.92	16,478

\*All rents are NNN unless otherwise noted

### Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/PSF	SQUARE FEET
1575 Sunflower LLC	3396 Sunland Way	Airport	\$119	230,608
Trumark Companies	1654-1700 S Lewis St	North	\$182	135,582
Calton Corporation	5455 E La Palma Ave	North	\$125	127,122
6110 Valley View LLC	6180-6190 Valley View Ave	West	\$150	119,460
BLT Enterprises	1650 Sunflower Ave	Airport	\$298	112,000

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Commercial Real Estate Services, Worldwide.



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### NAI Capital Research

#### J.C. Casillas

Vice President  
Research, Marketing and Communications  
jcasillas@naicapital.com

#### Jillian Olivas

Research and Communications Assistant  
jolivas@naicapital.com

#### Kevin de Bree

Research Analyst  
kdebree@naicapital.com

### NAI Capital Southern California Office Locations

#### Headquarters

16001 Ventura Blvd., Ste. 200  
Los Angeles, CA 91436  
818.905.2400

#### Property Management

120<sup>1/2</sup> South El Camino Real, Ste. 210  
San Clemente, CA 92674  
949.874.0415

#### Los Angeles County

##### Downtown LA

601 S. Figueroa St., Ste 3825  
Los Angeles, CA 90017  
213.632.7700

##### West Los Angeles

11835 Olympic Blvd., Ste. 700E  
Los Angeles, CA 90064  
310.440.8500

##### Torrance

970 W. 190th St. Dr., Ste. 100  
Torrance, CA 90502  
310.532.9080

##### Pasadena

225 S. Lake Ave., Ste. 1170  
Pasadena, CA 91101  
626.564.4800

##### Valencia

27451 Tournay Rd., Ste. 200  
Valencia, CA 91355  
661.705.3550

##### Diamond Bar

21660 E. Copley Dr., Ste. 320  
Diamond Bar, CA 91765  
909.348.0600

#### Ventura County

##### Oxnard

300 Esplanade Dr., Ste. 1660  
Oxnard, CA 93036  
805.278.1400

##### Westlake Village

2555 Townsgate Rd., Ste. 320  
Westlake Village, CA 91361  
805.446.2400

##### Simi Valley

2655 First St., Ste. 250  
Simi Valley, CA 93065  
805.522.7132

#### Orange County

##### Irvine

1920 Main St., Ste. 100  
Irvine, CA 92614  
949.854.6600

#### Inland Empire

##### Ontario

800 N. Haven Dr., Ste. 400  
Ontario, CA 91764  
909.945.2339

##### Temecula

27720 Jefferson Ave., Ste. 330  
Temecula, CA 92590  
951.491.7590

##### Victorville

13911 Park Avenue, Ste. 206  
Victorville, CA 92392  
760.780.4200

#### Coachella Valley

##### Palm Desert

75-410 Gerald Ford Dr., Ste. 200  
Palm Desert, CA 92211  
760.346.1566