

Orange County

Industrial Market Outlook 2Q 2019

MARKET OVERVIEW

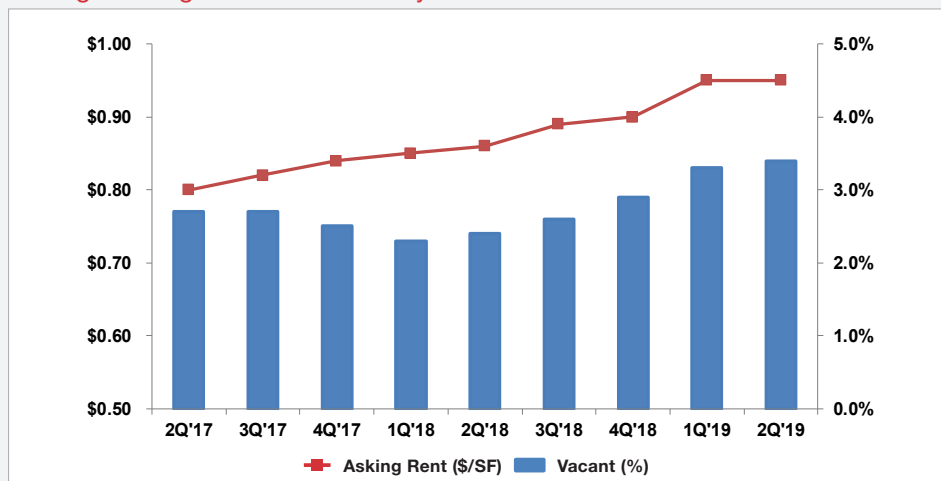
Positive fundamentals persist in Orange County's industrial market. Strong demand and limited supply are keeping vacancy low and rent rising. The asking rent rose 10.5% over 2Q 2018 to \$0.95/SF—remaining the highest on record. The vacancy rate remained low at 3.4%, up 100 basis points year over year. The jump in vacancy reflects tenants adjusting to tight market conditions by moving out of the region to expand. Due to a lack of available space, total year to date lease and sales volume has declined 15.1% from 2Q 2018 to 7.6 million square feet.

No construction was completed this quarter. Space under construction totaled 597,914 square feet, down 52.4% from this time last year. Not only is new supply limited, developers are poaching the urban industrial base to redevelop older product into mixed-use residential, such as Anaheim's Platinum Triangle. Plans for LT Platinum Center call for the redevelopment of industrial properties along State College Boulevard and E Orangewood Avenue into a mixed-use product akin to LA Live in Downtown Los Angeles. The project was approved in 2016 but is on hold while the City of Anaheim negotiates with the Anaheim Angels about the future of the baseball stadium, which is across from the development site.

TRENDS TO WATCH

A strong economy is fueling the success of Orange County's industrial market. The ongoing economic expansion reached its 121st month in July, becoming the longest in U.S. history. Ecommerce drives demand for industrial space in the region and is poised to grow to \$24 trillion by 2025, which will push demand for warehouse/distribution space. Last mile logistics will be important to Orange County's 3.2 million residents. As ecommerce grows—it currently accounts for just 12% of U.S. retail sales—retailers will need to minimize transit time in order to provide quick delivery of goods. Orange County lacks the space to build more warehouses near the population centers, but the West Inland Empire could fill the demand with nearly 10.4 million square feet under construction. The Orange County industrial market will continue to see pricing increase under steady demand for limited product available for lease or sale through the second half of 2019.

Average Asking Rent* and Vacancy Rate



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 (%)	2Q19 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	2Q19 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT (\$/SF NNN)	AVERAGE SALE PRICE (\$/SF)
Airport	54,434,975	597,914	6.7%	4.9%	594,366	983,641	319,289	611,865	\$0.96	\$275
North	97,855,076	0	3.6%	2.5%	815,459	2,081,121	446,376	1,539,799	\$0.90	\$212
South	24,696,672	0	5.7%	3.8%	162,890	335,737	80,560	132,930	\$1.10	\$277
West	40,608,420	0	5.2%	3.2%	404,250	1,011,473	566,002	929,726	\$0.86	\$177
Orange County	217,595,143	597,914	4.9%	3.4%	1,976,965	4,411,972	1,412,227	3,214,320	\$0.95	\$213

Leasing

Tight market conditions prevailed in Orange County in 2Q 2019 with a lack available space depressing leasing volume. Nearly two million square feet were leased in 2Q 2019 bringing the year-to-date leasing volume to 4.4 million square feet, down 16.9% year over year. Tenants in need of expansion space are moving out of Orange County toward the Inland Empire.

With limited options, tenants remaining in the market have no choice but to pay higher lease rates, which set another record this quarter. The average asking rent reached \$0.95/SF, up 10.5% from 1Q 2018 and up 23.4% from the peak in 2008. A mix of local businesses and 3PLs signed large leases in 2Q 2019. Chubby Gorilla, a liquid bottle design and engineering company, emphasizes that their products are all designed and engineered in California. The company leased a 78,523 square foot warehouse in Fullerton at an asking rate of \$0.88/SF.

Sales

Sales volume totaled 1.4 million square feet in this quarter which brought the year to date figure to 3.2 million square feet, down 12.4% from the first half of 2018. The average price per square foot was \$213 this quarter, up 7.6% year over year. The average cap rates on investment sales registered 4.3%.

The top owners of industrial real estate have been acquiring significant industrial properties over the past year. Prologis purchased a 10-building, 265,000 square foot industrial park in Westminster, just 12 miles east of the Ports of Los Angeles and Long Beach. The property sold for \$166 per square foot and was fully leased. Year to date, Prologis has spent nearly \$168 million acquiring 928,000 square feet in Orange County – a 5% increase over their acquisitions in 2018.

Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/SF**	SQUARE FEET
Chubby Gorilla	4320 N Harbor Blvd	North	\$0.88	78,523
Pacific Athletic Wear	7340 Lampson Ave	West	\$0.77	76,080
Enhanced Vision Systems	15301 Springdale St	West	Withheld	60,891
Rakuten Super Logistics	1365 S Van Buren St	North	Withheld	60,809
Yes 4 All	3172 Nasa St	North	\$0.75	50,600

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Prologis, Inc.	7100- 7220 Fenwick Ln	West	\$166	264,847
Rexford Industrial Realty, Inc.	445- 449 W Freedom Ave	North	\$194	92,647
Sares-Reigs Group	15461 Springdale St	West	\$208	61,389
Alere Property Group LLC	15201 Woodlawn Ave	Airport	\$203	56,190
TA Realty	7311 Doig Dr	West	\$129	51,718

Orange County

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● **North**

- Anaheim
- Brea
- Fullerton
- La Habra
- Orange
- Villa Park
- Yorba Linda

● **West**

- Buena Park
- Cypress
- Fountain Valley
- Garden Grove
- Huntington Beach
- Seal Beach
- Stanton

● **Airport**

- Costa Mesa
- Irvine
- Newport Beach
- Santa Ana
- Tustin
- Tustin Foothills

● **South**

- Aliso Viejo
- Dana Point
- Foothill Ranch
- Laguna Hills
- Laguna Niguel
- Lake Forest
- Mission Viejo
- Rancho Santa Margarita
- San Clemente
- San Juan Capistrano

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