

ORANGE COUNTY

Economic Indicators

	Q3 15	Q3 16	12-Month Forecast
O.C. Employment*	1.6M	1.6M	▲
O.C. Unemployment*	4.3%	4.1%	▼
U.S. Unemployment	5.2%	4.9%	▼

* July-August Average. Not seasonally adjusted.

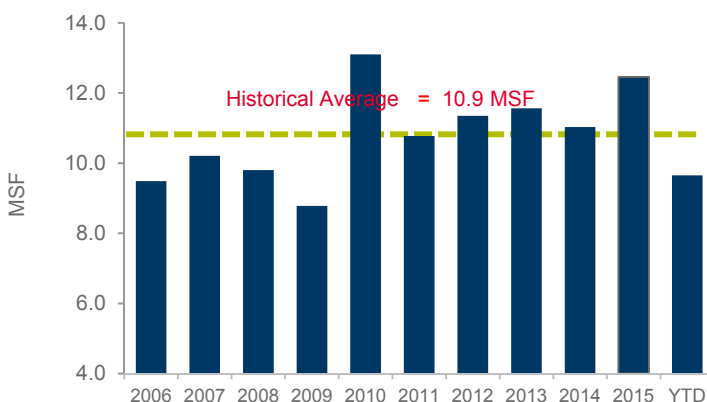
Market Indicators (Overall, All Product Types)

	Q3 15	Q3 16	12-Month Forecast
Vacancy	3.0%	2.2%	▼
YTD Net Absorption (sf)	1.8M	1.0M	■
Under Construction (sf)	1.2M	222K	■
Average Net Asking Rent	\$0.79	\$0.91	▲

Overall Vacancy/Asking Rent



Leasing Activity



Economy

The economy of Orange County is healthy and thriving. With a strong, diversified labor force, and employment growth not concentrated in just one sector, Orange County is quickly approaching full employment. In the last 12 months 39,000 jobs were created in the county. Not only is the county's August seasonally adjusted unemployment rate of 4.4% lower than that of both the state (5.6%), and the nation (4.9%), it has surpassed expectations, coming in 20 basis points (bps) below last year's projected rate (4.6%) the county was forecast to envisage. Adding 10,200 jobs over the past year, construction reported the second largest increase, with almost 90% of the gains in specialty trade contract work. Meanwhile, year-to-date container trade volume through September at the Ports of Los Angeles and Long Beach was up 0.02% from the same period in 2015. Imports, which are closely tied to warehousing demand, increased 1.1% during the period compared to a year ago.

Market Overview

Using any metric, whether land prices, lease rates, sale prices, vacancy rates, capital market investment, or leasing activity, the conclusion is inescapable: The fundamentals of Orange County industrial market are solid, and the sector is performing at the highest levels. Despite the manifest lack of product to transact, leasing activity is stable, and should approach, if not exceed, the historical average by years end. With overall occupancy gains of 1.0 million square feet (MSF) year to date, the vacancy rate stands at 2.2% in the third quarter -- 80bps lower than last year. Unlike the Inland Empire where construction of industrial space is at all time highs, demand is outstripping the capacity of developers to deliver new industrial product given both the lack of land to develop and its prohibitively high cost in Orange County. Moreover, the existing inventory is aging and becoming functionally obsolete. An undeniable windfall for landlords, this has induced an intense competition for industrial space. Tenants simply have less options to choose from and must take what they can. As a result, tenants are witnessing tenant concessions decline and marked increases in starting rents. Landlords can increase rates across all classes of industrial products and rental rates now match record highs. Not only have rents increased by 15.2% since Q3 of last year, rents now equal the same level achieved at the peak of the previous cycle, \$0.91 psf/mo in Q4 of 2007.

Outlook

Expect continued increases in both rents and sales prices as capital market investment will only increase in the industrial sector for the foreseeable future. Whereas institutional investor enthusiasm for office space has become reserved, it remains intense and white hot with regard to industrial products.

MARKETBEAT

Orange County

Industrial Q3 2016



SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	YTD LEASING ACTIVITY (SF)	YTD USER SALES ACTIVITY (SF)	OVERALL VACANCY RATE (%)	YTD NET OVERALL ABSORPTION (SF)	UNDER CNSTR (SF)	YTD CONSTRUCTION COMPLETIONS (SF)	OVERALL WEIGHTED AVG. NET RENT (MF)	OVERALL WEIGHTED AVG. NET RENT (OS)	OVERALL WEIGHTED AVG. NET RENT (W/D)
Irvine Spectrum	514	17,885,330	908,892	109,064	5.5%	-219,936	0	0	\$1.08	\$1.19	\$0.71
Lake Forest/R.S.M./F. Ranch	469	12,178,890	572,735	69,012	3.7%	70,048	0	0	\$1.04	\$1.19	\$0.98
Laguna Hills/Aliso Viejo	127	3,810,210	158,425	0	0.9%	10,781	0	0	\$1.39	\$1.25	\$1.76
Laguna Niguel/Laguna Beach	28	620,370	8,428	0	0.6%	12,288	0	0	\$0.00	\$0.00	\$0.95
Mission Viejo	45	1,425,392	31,568	0	2.9%	-7,716	0	0	\$1.25	\$0.00	\$0.81
S.J. Capo/S.Clemente/D.P.	141	3,956,035	135,815	0	2.8%	-74,765	0	0	\$1.00	\$1.18	\$1.12
South County	1,324	39,876,227	1,815,863	214,746	4.1%	-209,300	0	0	\$1.06	\$1.19	\$0.82
Fountain Valley	169	5,080,632	345,853	56,800	0.6%	48,373	0	38,713	\$0.00	\$0.89	-
Tustin	217	9,104,161	288,301	29,950	4.7%	-276,856	0	0	\$1.17	\$1.16	\$0.69
Santa Ana	1,040	33,892,348	1,094,279	214,643	1.8%	330,393	0	0	\$0.95	\$1.13	\$0.75
Costa Mesa	366	11,830,551	250,148	148,269	1.4%	-101,537	0	0	\$1.21	\$0.89	\$0.97
Newport Beach	48	1,140,564	5,700	0	0.1%	0	0	0	\$1.37	\$0.00	\$0.00
Irvine	648	23,985,517	505,666	477,219	2.2%	-92,805	0	0	\$1.10	\$1.28	\$0.91
Greater Airport Area	2,488	85,033,773	2,489,947	926,881	2.1%	-93,632	0	38,713	\$1.08	\$1.05	\$0.77
Seal Beach	11	896,105	0	0	0.0%	0	0	0	\$0.00	\$0.00	\$0.00
Westminster	85	2,533,365	66,251	10,603	0.5%	19,227	0	0	\$0.00	\$0.00	\$0.00
Huntington Beach	494	13,448,960	1,141,645	80,400	1.5%	281,819	41,666	0	\$0.89	\$0.91	\$0.68
Garden Grove	309	12,091,981	348,497	219,030	1.1%	29,691	0	0	\$0.91	\$1.08	\$0.64
Los Alamitos/Stanton	148	4,075,193	40,330	14,300	0.0%	1,409	0	0	\$0.00	\$1.15	\$0.00
Cypress	107	6,336,030	268,514	0	2.3%	-73,285	0	0	\$0.00	\$0.00	\$0.85
La Palma	20	1,979,029	169,751	25,996	3.9%	16,601	0	0	\$0.00	\$0.00	\$0.54
West County	1,175	41,360,663	2,034,988	350,329	1.4%	275,462	41,666	0	\$0.90	\$0.86	\$0.66
Anaheim	1,465	51,026,045	1,331,526	358,863	1.2%	718,616	0	0	\$0.85	\$1.03	\$0.73
Orange	501	13,956,312	215,535	0	1.3%	-66,682	0	0	\$0.81	\$0.00	\$0.71
Fullerton	338	18,682,766	1,048,681	0	3.4%	308,417	181,069	0	\$0.59	\$0.89	\$0.64
Brea/La Habra	364	13,530,021	328,803	46,629	4.7%	80,671	0	586,162	\$0.93	\$0.00	\$0.74
Placentia/Yorba Linda	239	6,746,477	221,339	80,927	1.4%	2,321	0	0	\$0.93	\$0.81	\$0.88
Buena Park	178	12,572,446	168,639	217,595	0.5%	15,919	0	0	\$0.00	\$0.00	\$0.75
North County	3,085	116,514,067	3,314,523	704,014	1.9%	1,059,262	181,069	586,162	\$0.77	\$0.93	\$0.67
ORANGE COUNTY TOTALS	8,072	282,784,730	9,655,321	2,195,970	2.2%	1,031,792	222,735	624,875	\$0.97	\$1.06	\$0.72

*Rental rates reflect asking \$psf/month

MF = Manufacturing OS = Office Service/Flex W/D = Warehouse/Distribution

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Industrial Q3 2016



Key Lease Transactions Q3 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
601 Acacia Ave., Fullerton	441,020	3PL Global	New Lease	North County
9950 Jeronimo Rd., Irvine Spectrum	260,000	Karma Automotive, LLC	New Lease	South County
17871 Von Karman Ave., Irvine	202,500	Amazon	New Lease	Airport Area
6485 Oak Canyon Rd., Irvine Spectrum	100,352	Confidential	New Lease	South County
10900 Walker St., Cypress	95,900	LTP	New Lease	West County

Key Sales Transactions Q3 2016

PROPERTY	SF	SELLER/BUYER	PRICE/\$PSF	SUBMARKET
1180 N. Miller St., Anaheim – 7 Building Project	965,255	Panattoni Development & Clarion Partners/Bentall Kennedy	\$190,000,000/\$196.84	North County
22705-22745 Savi Ranch Pkwy, Yorba Linda – 3 Building Project	376,808	Hines & Oaktree Capital Management/Savi Ranch Property Holdings	\$95,000,000/\$252.12	North County
1600 East Orangethorpe Ave., Fullerton – 5 Building Project	361,372	EverWest Real Estate Group & Operon Group/Rexford Industrial	\$40,137,222/\$111.07	North County
404-436 Berry St., Brea	167,385	Guardian Capital Management, LLC/Western Realco	\$25,425,000/\$151.90	North County
1230 N. Tustin Ave., Anaheim	145,991	Agni Beverages, LLC/GPT Tustin Lagrange Owner, LP.	\$28,000,000/\$191.79	North County

Cushman & Wakefield
2020 Main Street, Suite 1000
Irvine, CA 92614
www.cushmanwakefield.com

For more information, contact:
Rinku Mathew
Sr. Research Analyst
Tel: +1 949 930 9227
Rinku.Mathew@Cushwake.com

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