

ORANGE COUNTY

Economic Indicators

	Q4 15	Q4 16	12-Month Forecast
O.C. Employment	1.6M	1.6M	▲
O.C. Unemployment	4.3%	4.1%	▼
U.S. Unemployment	5.0%	4.8%	▼

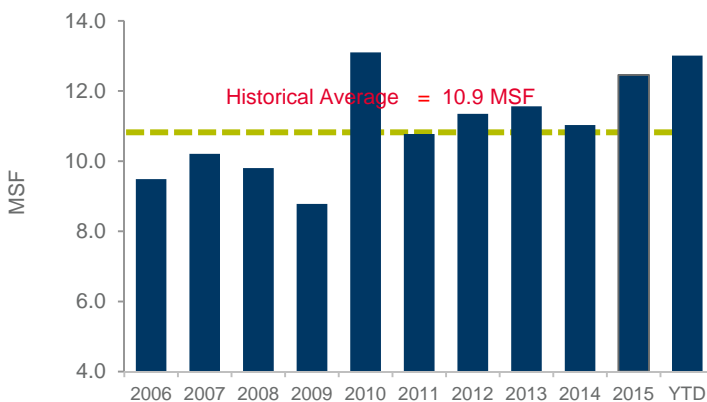
Market Indicators (Overall, All Product Types)

	Q4 15	Q4 16	12-Month Forecast
Vacancy	2.8%	2.0%	▼
YTD Net Absorption (sf)	2.4M	2.0M	■
Under Construction (sf)	625K	222K	■
Average Net Asking Rent	\$0.80	\$0.93	▲

Overall Vacancy/Asking Rent



Leasing Activity



Economy

With a diversified labor force, and employment growth not concentrated in just one sector, Orange County posted an unemployment rate of 4.1% at the end of 2016. In the last twelve months 38,300 jobs were created in the county. Compared to the unemployment rates of both the state (5.0%) and the nation (4.8%), not only did the county perform better, it surpassed expectations, coming in 20 basis points (bps) below the projected rate (4.3%) the county was forecast to face at the end of 2016. Adding 6,700 jobs in the past month, the trade, transportation and utilities sector reported the largest month-over-month increase, while construction reported the largest month-over-month employment decline, down 2,100 jobs. Meanwhile, year-to-date container trade volume through December at the Port of Los Angeles was up 8.53% from the same period in 2015. Imports, which are closely tied to warehousing demand, increased 9.26% during the period compared to a year ago.

Market Overview

2016 was a spectacular year for the Orange County industrial market. By any measure, whether land prices, lease rates, sale prices, vacancy rates, capital market investment, or leasing activity, the conclusion simply cannot be gainsaid: The fundamentals of OC's industrial market have never been stronger, and the sector is performing at the highest levels. Even burdened by an obvious lack of product to transact, and although it slowed in the fourth quarter, leasing activity not only stabilized, but exceeded the historical average by year end. With overall occupancy gains of 2.0 million square feet (MSF) year to date, the vacancy rate stands at an unprecedented 2.0%, the lowest vacancy rate in the history of the sector. Demand for industrial product has never been greater. Indeed, for multiple reasons, not least of which that institutional investors are under-allocated in core product, and with Class A average cap rates ranging between 4-4.5%, industrial buildings are currently transacting above replacement cost. And, although trading above replacement cost is sometimes considered a sign of an overheated market, that is not the case presently because there are no indications—particularly, of excessive development or oversupply—to warrant fears that OC's industrial market is going to decline, precipitously or otherwise. In fact, due to the paucity of land to develop and its high cost, supply has not kept pace with demand. Consequently, at \$0.93 psf/mo, average overall rents have not only increased by 16.3% in the last year, they have surpassed the peak of previous cycle, \$0.91 psf/mo in Q4 of 2007.

Outlook

Expect continued increases in both rents and sales prices as capital market investment and occupier demand will continue to increase in the industrial sector for the foreseeable future.

MARKETBEAT

Orange County

Industrial Q4 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	17,82,351	1,286,278	149,881	4.4%	-19,185	0	0	\$1.11	\$1.14	\$0.96
Lake Forest/R.S.M./F. Ranch	469	12,181,693	650,567	89,012	4.8%	296	0	0	\$1.02	\$1.15	\$0.87
Laguna Hills/Aliso Viejo	127	3,810,210	174,180	0	0.8%	0	0	0	\$1.20	\$0.00	\$1.53
Laguna Niguel/Laguna Beach	28	620,370	9,269	0	0.4%	13,129	0	0	\$0.00	\$0.00	\$0.95
Mission Viejo	45	1,425,392	42,691	0	2.8%	-6,150	0	0	\$0.00	\$0.00	\$0.81
S.J. Capo/S.Clemente/D.P.	141	3,956,035	215,109	36,670	0.7%	10,021	0	0	\$1.14	\$1.36	\$1.25
South County	1,324	39,876,051	2,378,094	275,563	3.7%	20,511	0	0	\$1.07	\$1.16	\$0.91
Fountain Valley	169	5,080,632	387,806	56,800	0.2%	69,959	0	38,713	\$0.00	\$1.07	\$0.00
Tustin	217	9,109,923	395,899	29,950	4.7%	-264,748	0	0	\$1.31	\$1.19	\$0.69
Santa Ana	1,040	33,885,038	1,591,390	237,643	1.5%	517,745	0	0	\$1.02	\$1.21	\$0.74
Costa Mesa	366	11,485,141	414,635	148,269	0.8%	-33,814	0	0	\$1.19	\$1.62	\$1.04
Newport Beach	48	1,140,564	21,694	0	0.0%	0	0	0	\$0.00	\$0.00	\$0.00
Irvine	648	23,332,803	909,933	477,219	2.6%	-47,051	0	0	\$1.08	\$1.65	\$0.79
Greater Airport Area	2,489	85,034,101	3,721,357	949,881	2.0%	336,193	0	38,713	\$1.10	\$1.25	\$0.74
Seal Beach	11	906,612	0	0	0.0%	0	0	0	\$0.00	\$0.00	\$0.00
Westminster	85	2,533,365	117,933	10,603	0.1%	29,491	0	0	\$0.99	\$0.00	\$0.00
Huntington Beach	495	13,462,598	1,305,689	109,033	0.9%	359,010	41,666	0	\$0.74	\$0.91	\$0.81
Garden Grove	309	12,091,981	547,369	219,030	1.1%	78,572	0	0	\$1.00	\$0.00	\$1.16
Los Alamitos/Stanton	148	4,075,193	66,123	14,300	0.1%	-2,031	0	0	\$1.06	\$1.15	\$0.00
Cypress	107	6,336,030	281,214	0	1.5%	-22,096	0	0	\$0.00	\$1.00	\$0.94
La Palma	20	1,979,029	221,038	25,996	1.0%	72,545	0	0	\$0.00	\$0.00	\$0.00
West County	1,175	41,384,808	2,539,366	378,962	0.9%	515,491	41,666	0	\$0.83	\$1.00	\$0.89
Anaheim	1,465	51,085,596	1,826,785	358,883	1.3%	701,146	0	0	\$0.81	\$1.13	\$0.70
Orange	501	13,932,724	321,844	0	0.6%	23,358	0	0	\$0.92	\$0.00	\$0.88
Fullerton	338	18,682,766	1,272,209	36,936	2.9%	395,602	181,069	0	\$0.84	\$0.92	\$0.62
Brea/La Habra	364	13,719,131	505,088	46,629	5.2%	-3,764	0	586,162	\$0.72	\$0.00	\$0.75
Placentia/Yorba Linda	239	6,746,477	267,782	110,927	0.9%	36,998	0	0	\$1.22	\$0.84	\$1.00
Buena Park	178	12,572,446	199,117	227,935	0.5%	22,443	0	0	\$0.55	\$0.74	\$0.00
North County	3,085	116,739,140	4,392,825	808,310	1.8%	1,175,783	181,069	586,162	\$0.79	\$0.92	\$0.66
ORANGE COUNTY TOTALS	8,073	283,034,100	13,031,642	2,412,716	2.0%	2,047,978	222,735	624,875	\$0.96	\$1.13	\$0.75

*Rental rates reflect asking \$psf/month

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

MARKETBEAT

Orange County

Industrial Q4 2016



Key Lease Transactions Q4 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
3100 Susan St., Santa Ana	109,987	Signature Party Rentals	New Lease	Greater Airport Area
1400 Manhattan Ave., Fullerton	102,288	Berger Transfer & Storage, Inc.	New Lease	North County
6485 Oak Canyon #100, Irvine	100,352	Ramp Logistics	New Lease	South County
2930 S. Fairview St., Santa Ana	71,363	Tailgate Printing, Inc.	Renewal	Greater Airport Area
3172 Nasa St., Brea	50,600	Precision, LLC	New Lease	North County

Key Sales Transactions Q4 2016

PROPERTY	SF	SELLER/BUYER	PRICE/\$PSF	SUBMARKET
9740 Irvine Blvd., Irvine— 2 Building Project	452,159	Toshiba American Information Systems, Inc./LBA Realty	\$65,000,000/\$143.75	South County
7050 Village Dr., Buena Park— 5 Building Project	301,328	Westcore Properties/TA Realty	\$41,050,000/\$136.23	North County
1880 E. Saint Andrew Pl., Santa Ana	200,202	Hart Realty Advisors/Alere Property Group	\$34,335,000/\$171.50	Greater Airport Area
704 N. Valley St., Anaheim—10 Building Project	208,824	Greenlaw Partners/Tri-Freeway Business Partner, LP	\$29,450,000 /\$141.03	North County
1400 S. Allec St., Anaheim	121,341	Alere Property Group/Bixby Land Company	\$18,215,000/\$150.11	North County

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