

Industrial Snapshot 2Q 2016

Orange County, CA



ORANGE COUNTY

Economic Indicators

| | 2Q 15 | 2Q 16 | 12-Month Forecast |
|--------------------|-------|-------|-------------------|
| O.C. Employment* | 1.5M | 1.5M | ▲ |
| O.C. Unemployment* | 4.3% | 3.6% | ▼ |
| U.S. Unemployment | 5.4% | 4.9% | ▼ |

* May data

Market Indicators (Overall, All Product Types)

| | 2Q 15 | 2Q 16 | 12-Month Forecast |
|-------------------------|--------|--------|-------------------|
| Vacancy | 3.5% | 2.3% | ▼ |
| YTD Net Absorption (sf) | 891k | 645k | ■ |
| Under Construction (sf) | 680k | 441k | ■ |
| Average Net Asking Rent | \$0.77 | \$0.87 | ▲ |

Overall Vacancy/Asking Rent



Leasing Activity



Economy

The economic milieu of Orange County is strong. Since May of last year, the Employment Development Department of California reports that 53,500 jobs were added in Orange County, an increase of 3.5%. Although this time last year it was estimated that the county would be facing a 4.3% unemployment rate, the unemployment rate for county actually stands at 3.6%. This compares with an unadjusted unemployment rate of 4.7% for California and 4.9% for the U.S. during the same period. With specialty trade contractors accounting for about 72% of the growth in the sector, construction posted the largest gain over the year with the addition of 14,700 jobs. Professional and business services gained 10,600 jobs, while government added 10,400 jobs. *This*, despite a lull in the total container volume in the port of Los Angeles-Long Beach, which experienced a 60bps decline from this time last year.

Market Overview

At midyear, the industrial sector of Orange county is teeming with vitality despite the conspicuous lack of product to transact – a fact which has been true for some years now not only in Orange County but across the LA Basin. Precisely because supply has not kept pace with demand, vacancy has declined to extremely low levels in Orange County. Currently, with occupancy gains of 645,039 sf, the vacancy rate stands at 2.3% -- 120bps lower than last year. For perspective, recall that at the peak of the real estate market in the previous cycle in 2006, vacancy was at 3.1%. Moreover, the existing inventory is aging and becoming functionally obsolescent. An unquestionable boon for landlords, this has induced an intense competition for industrial space. Tenants, as a result, are witnessing tenant concessions decline and fierce competition with regard to rents. Landlords can increase rates across all classes of industrial products. Since 2Q15, overall asking rents have increased to \$.87 triple net, a year over year increase of 12.9%. Similarly, sale prices continued to approach record highs on account of limited supply and a strong cohort of active institutional buyers. Consequently, on transactions over \$5 million, the industrial sales market ended the quarter with an average sales price of \$146.00. That is, at just the midyear, the average sales price of 2016 has already overtaken the average sale price of the whole of 2014, \$133.81, and is fast closing in on the record set in 2015 of \$159.12

Outlook

Expect continued increases in both rents and sales prices, as demand outstrips the capacity of developers to purvey new industrial product given increases in land costs.

MARKETBEAT

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| SUBMARKET | TOTAL BLDGS | INVENTORY (SF) | OVERALL VACANCY RATE | YTD LEASING ACTIVITY (SF) | YTD USER SALES ACTIVITY (SF) | YTD NET OVERALL ABSORPTION (SF) | UNDER CNSTR (SF) | YTD CONSTRUCTION COMPLETIONS (SF) | DIRECT WEIGHTED AVG. NET RENT (MF) | DIRECT WEIGHTED AVG. NET RENT (OS) | DIRECT WEIGHTED AVG. NET RENT (W/D) |
|-----------------------------|--------------|--------------------|----------------------|---------------------------|------------------------------|---------------------------------|------------------|-----------------------------------|------------------------------------|------------------------------------|-------------------------------------|
| Irvine Spectrum | 514 | 17,885,330 | 5.2% | 477,016 | 109,064 | (170,802) | 0 | 0 | \$1.05 | \$1.24 | \$0.72 |
| Lake Forest/R.S.M./F. Ranch | 469 | 12,178,890 | 4.7% | 488,065 | 69,012 | (53,554) | 0 | 0 | \$1.01 | \$1.19 | \$0.84 |
| Laguna Hills/Aliso Viejo | 127 | 3,810,210 | 1.9% | 91,841 | 0 | (27,226) | 0 | 0 | \$1.14 | - | \$0.85 |
| Laguna Niguel/Laguna Beach | 28 | 620,370 | 1.1% | 5,309 | 0 | 9,169 | 0 | 0 | - | - | \$1.10 |
| Mission Viejo | 45 | 1,425,392 | 2.7% | 23,121 | 0 | (5,823) | 0 | 0 | \$1.25 | - | \$0.83 |
| S.J. Capo/S.Clemente/D.P. | 141 | 3,956,035 | 2.5% | 91,558 | 13,442 | (62,718) | 0 | 0 | \$0.98 | \$1.16 | \$1.18 |
| South County | 1,324 | 39,876,227 | 4.3% | 1,176,910 | 191,518 | (310,954) | 0 | 0 | \$1.04 | \$1.22 | \$0.79 |
| Fountain Valley | 169 | 5,080,632 | 0.3% | 293,071 | 56,800 | 63,754 | 0 | 38,713 | - | \$0.72 | - |
| Tustin | 217 | 9,104,161 | 4.5% | 196,220 | 7,668 | (268,815) | 0 | 0 | \$1.16 | \$1.13 | \$0.73 |
| Santa Ana | 1,040 | 33,892,348 | 2.6% | 766,703 | 174,540 | (123,201) | 0 | 0 | \$0.86 | \$1.11 | \$0.74 |
| Costa Mesa | 367 | 11,830,551 | 1.0% | 206,588 | 80,773 | (11,033) | 0 | 0 | \$1.05 | \$1.50 | \$0.97 |
| Newport Beach | 48 | 1,140,564 | 0.0% | 3,200 | 0 | 0 | 0 | 0 | - | - | - |
| Irvine | 648 | 23,985,517 | 2.0% | 214,351 | 331,234 | (45,730) | 0 | 0 | \$0.85 | \$1.47 | \$0.68 |
| Greater Airport Area | 2,489 | 85,033,773 | 2.2% | 1,680,133 | 651,015 | (138,623) | 0 | 38,713 | \$0.89 | \$1.09 | \$0.73 |
| Seal Beach | 11 | 896,105 | 0.0% | 0 | 0 | 0 | 0 | 0 | - | - | - |
| Westminster | 85 | 2,533,365 | 0.0% | 66,251 | 10,603 | 31,231 | 0 | 0 | - | - | - |
| Huntington Beach | 494 | 13,448,960 | 1.6% | 943,956 | 55,794 | 230,841 | 41,666 | 0 | \$1.08 | - | \$0.65 |
| Garden Grove | 309 | 12,091,981 | 0.8% | 289,547 | 165,228 | 89,399 | 0 | 0 | \$1.01 | \$1.08 | \$0.77 |
| Los Alamitos/Stanton | 148 | 4,075,193 | 0.0% | 18,196 | 14,300 | 3,329 | 0 | 0 | - | - | - |
| Cypress | 107 | 6,336,030 | 1.5% | 239,300 | 0 | (26,238) | 0 | 0 | - | \$0.99 | \$0.99 |
| La Palma | 20 | 1,979,029 | 3.9% | 93,486 | 25,996 | 16,601 | 0 | 0 | - | - | \$0.54 |
| West County | 1,174 | 41,360,663 | 1.2% | 1,650,736 | 271,921 | 345,163 | 41,666 | 0 | \$1.04 | \$1.00 | \$0.63 |
| Anaheim | 1,465 | 51,026,045 | 1.6% | 990,791 | 285,580 | 589,871 | 0 | 0 | \$0.85 | \$0.99 | \$0.67 |
| Orange | 501 | 13,956,312 | 1.1% | 144,671 | 0 | (27,096) | 0 | 0 | \$0.72 | - | \$0.65 |
| Fullerton | 338 | 18,682,766 | 3.9% | 487,487 | 0 | 227,863 | 181,069 | 0 | \$0.64 | \$0.69 | \$0.62 |
| Brea/La Habra | 363 | 13,530,021 | 4.5% | 234,123 | 8,873 | (73,178) | 218,968 | 586,162 | \$0.77 | - | \$0.63 |
| Placentia/Yorba Linda | 239 | 6,746,477 | 1.0% | 192,797 | 66,427 | 15,374 | 0 | 0 | \$0.93 | \$0.82 | \$0.69 |
| Buena Park | 178 | 12,572,446 | 0.5% | 134,072 | 217,595 | 16,619 | 0 | 0 | - | - | \$0.70 |
| North County | 3,084 | 116,514,067 | 2.1% | 2,183,941 | 578,475 | 749,453 | 400,037 | 586,162 | \$0.80 | \$0.88 | \$0.63 |
| ORANGE COUNTY TOTALS | 8,071 | 282,784,730 | 2.3% | 6,691,720 | 1,692,929 | 645,039 | 441,703 | 624,875 | \$0.91 | \$1.08 | \$0.69 |

*Rental rates reflect asking \$psf/month

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

MARKETBEAT

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Key Lease Transactions 2Q 2016

| PROPERTY | SF | TENANT | PROPERTY TYPE | SUBMARKET |
|-------------------------|---------|--------------------------------|------------------------|----------------------|
| 3454 E. Miraloma Ave. | 300,000 | Kuehne+Nagel, Inc. | Warehouse/Distribution | North County |
| 3100 W. Segerstrom Ave. | 159,163 | Airborne System | Warehouse/Distribution | Greater Airport Area |
| 1225 W. Imperial Hwy. | 126,681 | Atosa Catering Equipment, Inc. | Warehouse/Distribution | North County |
| 14580 Delta Ln. | 115,870 | Rocket Lab, USA Inc. | Warehouse/Distribution | West County |
| 76 Fairbanks | 107,024 | Exhibitree | Warehouse/Distribution | South County |

Key Sales Transactions 2Q 2016

| PROPERTY | SF | SELLER/BUYER | PROPERTY TYPE | PRICE | SUBMARKET |
|---------------------------------|---------|--|------------------------|--------------|----------------------------------|
| 18218 E. McDermott | 204,083 | The Prudential Insurance Company of America/Olen Commercial Realty Corp. | Manufacturing | \$44,800,000 | Greater Airport |
| 671 W. 17 th St. | 190,518 | Walton Street Capital/Nc Meritage Home of California | Manufacturing | \$35,000,000 | Greater Airport Area |
| 9 Holland St. | 180,981 | CT Realty Investors/Rexford Industrial | Manufacturing | \$33,215,896 | Greater Airport Area |
| Cordia Portfolio – 4 Properties | 170,447 | Cordia Capital Management/Berdan Holdings | Warehouse/Distribution | \$28,000,000 | Greater Airport Area/West County |
| 6280 Artesia Blvd. | 218,640 | SHA Enterprises, Inc/Greenlaw Partners | Warehouse/Distribution | \$25,500,000 | North County |

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