

ORANGE COUNTY

Economic Indicators

	Q2 17	Q2 18	12-Month Forecast
O.C. Employment	1.6M	1.6M	▲
O.C. Unemployment*	3.7%	2.6%	▲
U.S. Unemployment	4.3%	3.9%	▼

*Q2 2018 is Apr-May average

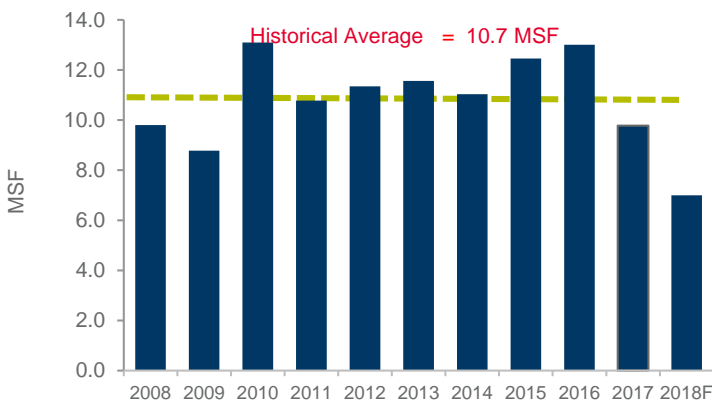
Market Indicators (Overall, All Product Types)

	Q2 17	Q2 18	12-Month Forecast
Vacancy	1.9%	1.9%	▼
YTD Net Absorption (sf)	348K	209K	▲
Under Construction (sf)	586K	1.4M	▼
Average Net Asking Rent	\$0.95	\$0.95	▲

Overall Vacancy/Asking Rent



Leasing Activity



Economy

Orange County has continued its dominance in the labor market with a historically low unemployment rate of 2.6%. Total nonfarm employment increased 1.1% over the last year with the addition of 17,300 jobs. The bulk of demand for industrial space is ultimately driven by consumer spending and this is projected to stay on an upward trajectory. Forecast calls for growth in total retail sales to accelerate from 4.6% in 2017 to 5.2% in 2018, with eCommerce sales advancing by 16.4% in 2018. Meanwhile, combined trade volume at the Ports of Los Angeles and Long Beach was 3.7% higher than the same period a year ago. The escalating trade tensions between the U.S. and its major trading partners could negatively impact some of the region's occupiers. To date, however, the trade issue has largely been a non-factor in terms of any impact on property markets and capital flows.

Market Overview

Orange County's overall vacancy rate remained at 1.9% in the second quarter and recorded net absorption of 208,866 square feet (sf) in the first half of the year. Although demand remains high, supply constraints continue to define this market. The lack of modern available logistics space presents limited options for tenants seeking modern fulfillment space. Consequently, mid-year's leasing total of 3.3 million square feet (msf) was 36.4% lower than the same period last year and is on pace to be one of the lowest yearly totals since 2009. Although overall rents have been relatively flat over the last year, they have grown by 9.2% over the last two years. Warehouse rents have seen a higher rate of appreciation, increasing by 6.2% year-over-year and 24.6% in the last two years. In response to the lack of modern product, development activity is on the rise in Orange County. The Beckman Business Center in Fullerton will bring seven new warehouses totaling 934,754 sf to the market this year. Additionally, Orange County Commerce Center in Anaheim/Placentia will bring four new warehouses totaling 232,354 sf. Due to a lack of product to transact, investment activity remained through the first half of 2018 with only 2.3 msf trading, a decrease of 39.4% from the same period in 2017. As rents continue to be at all-time high and continue to climb, investors are looking into redevelopment of low quality properties as rents outpace construction costs for now.

Outlook

The U.S. is in its 2nd longest economic expansion in the post WWII era as growth is clearly accelerating in the second quarter trending towards 4%. The labor market is nearing full employment as the cycle matures and imports are forecasted to set a record this month. With confidence high, wage growth accelerating, and with a massive tax cut stimulus package just now kicking in, the economic backdrop for the property markets will remain strong.

MARKETBEAT

Orange County

Industrial Q2 2018



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	17,877,004	283,138	0	3.0%	-9,014	0	0	\$1.26	\$1.45	\$0.80
Lake Forest/R.S.M./F. Ranch	469	12,182,491	325,997	0	2.9%	-50,954	0	0	\$0.91	\$1.15	\$1.25
Laguna Hills/Aliso Viejo	127	3,810,210	23,989	20,000	0.1%	27,166	0	0	\$1.16	N/A	N/A
Laguna Niguel/Laguna Beach	28	620,370	0	0	1.1%	-4,942	0	0	N/A	N/A	\$1.20
Mission Viejo	45	1,425,392	22,138	0	0.5%	4,733	0	0	\$1.50	N/A	N/A
S.J. Capo/S.Clemente/D.P.	141	3,956,534	9,502	0	1.7%	-48,350	0	0	\$1.16	\$1.10	\$1.11
South County	1,324	39,872,001	664,764	20,000	2.4%	-81,361	0	0	\$1.01	\$1.30	\$1.00
Fountain Valley	169	5,080,632	51,396	22,868	0.1%	-3,576	0	0	N/A	N/A	\$1.69
Tustin	216	8,991,497	84,226	22,957	3.3%	7,192	0	0	\$0.95	\$0.94	N/A
Santa Ana	1,039	33,599,495	210,094	128,440	3.0%	-7,192	0	0	\$0.81	N/A	\$0.80
Costa Mesa	368	11,843,543	140,287	86,731	1.6%	-113,290	0	0	\$1.19	\$1.92	\$1.06
Newport Beach	48	1,140,564	0	0	0.0%	0	0	0	N/A	N/A	N/A
Irvine	648	24,278,102	249,255	14,828	4.2%	44,489	0	0	\$0.87	\$1.78	\$0.81
Greater Airport Area	2,489	84,933,833	735,258	275,782	3.0%	-72,377	0	0	\$0.89	\$1.23	\$0.81
Seal Beach	11	906,612	0	0	0.0%	0	0	0	N/A	N/A	N/A
Westminster	85	2,533,365	200,533	0	2.1%	-53,413	0	0	\$0.91	N/A	N/A
Huntington Beach	496	13,506,713	81,615	72,239	2.9%	-1,515	0	0	\$1.03	\$1.02	\$0.76
Garden Grove	309	12,098,355	231,935	0	2.0%	-66,496	0	0	\$1.18	N/A	\$0.97
Los Alamitos/Stanton	148	4,075,193	14,159	0	0.1%	0	0	0	N/A	\$0.91	N/A
Cypress	107	6,336,030	35,385	0	0.6%	-8,371	0	0	N/A	\$0.98	N/A
La Palma	20	1,990,009	111,046	0	2.9%	-57,702	0	0	N/A	N/A	N/A
West County	1,176	41,446,277	674,673	72,239	1.9%	-187,497	0	0	\$0.99	\$0.98	\$0.83
Anaheim	1,468	51,374,918	718,899	68,110	0.7%	256,613	585,904	0	\$1.04	N/A	\$1.05
Orange	501	13,969,263	177,425	24,895	1.1%	25,028	0	0	\$1.05	N/A	\$0.91
Fullerton	339	18,867,535	102,482	64,250	1.2%	95,167	934,754	0	\$0.98	\$1.04	\$0.93
Brea/La Habra	364	13,732,552	169,482	301,635	1.3%	30,600	0	0	\$0.75	N/A	N/A
Placentia/Yorba Linda	240	6,783,077	23,321	28,759	1.0%	-25,685	0	0	\$0.89	N/A	\$0.91
Buena Park	179	12,659,368	30,773	0	0.7%	168,378	0	0	\$0.88	\$1.10	\$0.87
North County	3,092	117,386,713	1,222,382	487,649	0.9%	550,101	1,520,658	0	\$0.95	\$1.05	\$0.94
ORANGE COUNTY TOTALS	8,080	283,638,824	3,297,077	855,670	1.9%	208,866	1,520,658	0	\$0.92	\$1.22	\$0.86

*Rental rates reflect asking \$psf/month **Leasing activity does not include renewals.

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

MARKETBEAT

Orange County

Industrial Q2 2018



Key Lease Transactions Q2 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
7400 Hazard Avenue, Westminster	187,696	Lexor Inc.	New Lease	West County
1585 MacArthur Blvd, Costa Mesa	100,233	Robinson Pharma*	New Lease	Greater Airport Area
14 Centerpointe Drive, La Palma	78,980	Dynsity Tech Inc.	New Lease	North County
3191 E La Palma Avenue, Anaheim	76,824	Brewery X	New Lease	North County
1204 N Miller Street, Anaheim	74,313	Excelsior Nutrition Inc.	New Lease	North County
20081-20091 Ellipse, Foothill Ranch	72,501	Solutions 2 Go	New Lease	South County
1683 Sunflower Avenue, Costa Mesa	60,000	Freddie George Production	Renewal	Greater Airport Area
14370 Myford Road, Irvine	49,834	Integrus LLC	New Lease	Greater Airport Area
15091 Bake Parkway, Irvine Spectrum	47,862	Breathe Technologies	Renewal	South County

*Not Included in 2Q Leasing Activity total in this report – will be added next quarter and included for YTD total

Key Sales Transactions Q2 2018

PROPERTY	SF	SELLER/BUYER	PRICE/\$PSF	SUBMARKET
50 Icon, Foothill Ranch	308,000	AEW Capital Management / Prologis	\$55,370,000 / \$180	South County
3030-3080 Airway Avenue, Costa Mesa	156,847	3030-3080 Airway LLC / Pacific Industrial	\$33,012,000 / \$210	Greater Airport Area
1730 S Anaheim Way, Anaheim	144,008	Panattoni Development / American Realty Advisors	\$33,121,840 / \$230	North County
58 Discovery, Irvine Spectrum	76,993	Cornerstone RE Advisors / The Irvine Company	\$34,925,000 / \$275	South County
1421-1451 Edinger Avenue, Tustin	69,900	Laskey-Weil Co. / Lakeshore Enterprises	\$8,527,000 / \$122	Greater Airport Area
15391 Springdale Street, Huntington Beach	61,048	Aranda Tooling / Critchfield Mechanical	\$8,850,000 / \$145	West County

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