

ORANGE COUNTY | INDUSTRIAL

Q2 2019

Accelerating success.

» Vacancy Decreased In Second Quarter 2019

Key Takeaways

- > The vacancy rate in Orange County decreased by 10 basis points to 3.9% during the second quarter. Vacancy stood at 2.2% one year ago.
- > Asking rental rates increased 4.5% from one year ago to \$0.93 per square foot (PSF) triple net (NNN).
- > Despite the drop in absorption last quarter, industrial demand recorded positive at 315,700 square feet of net absorption. Much of this positive demand was concentrated in the North County submarket.
- > New construction in Orange County remains limited as industrial inventory continues to deplete due to new user property types.
- > Orange County job growth increased by 18,600 jobs compared to one year ago, a growth of 1.1%. The Orange County unemployment rate is still among the lowest in the Nation at 2.4%.

Orange County Industrial Market

Despite the significant drop in tenant movement last quarter, a result of the JCPenny's sizable move-out, tenant demand recorded positive in the second quarter at 315,700 square feet. Much of this positive movement stemmed from tenant move-in's in the North County submarket.

Market fundamentals are showing signs of market activity neutralizing as asking rental rates and vacancy are flattening. Availability options are limited due to lack of new inventory and the depletion of buildings as properties continue to be sold for multifamily redevelopment or creative office space conversion.

Market Indicators | Relative to Prior Period

	Q2 2019	Forecast
Vacancy	↓	→
Net Absorption	↑	↑
Construction	↕	→
Rental Rate	↓	→

Summary Statistics | Orange County, Q2 2019

Vacancy Rate	3.9%
Change from Q1 '19 (Basis Points)	-10 BPS
Net Absorption	315,700 SF
Construction Completions	0 SF
Under Construction	605,700 SF

Asking Rents | Orange County, Q2 2019

	Orange County Industrial Market
Average Asking Rent	\$0.93 NNN
Change from Q1 '19	-\$0.01
Y.O.Y. Change (%)	4.5%

Labor Force | Orange County, May 2019

	Construction	Manufacturing	Transportation, Trade & Utilities
12-mo Employment Growth (%)	-0.6%	-0.8%	-0.4%
12-mo Actual Employment Change	-300	1,300	-1000

Vacancy

- > The total vacancy rate in the second quarter decreased 10 basis points from last quarter to 3.9%.
- > Space options remain limited in Orange County, with the availability rate remaining unchanged from last quarter at 5.1%.
- > Vacancy is tightest for buildings up to 9,999 square feet at 1.9%, while buildings 100,000 square feet or greater have the highest vacancy rate at 5.7%.
- > **FORECAST:** With 605,700 square feet of space under construction and strong industrial demand, vacancy rates are expected to remain at historic lows.

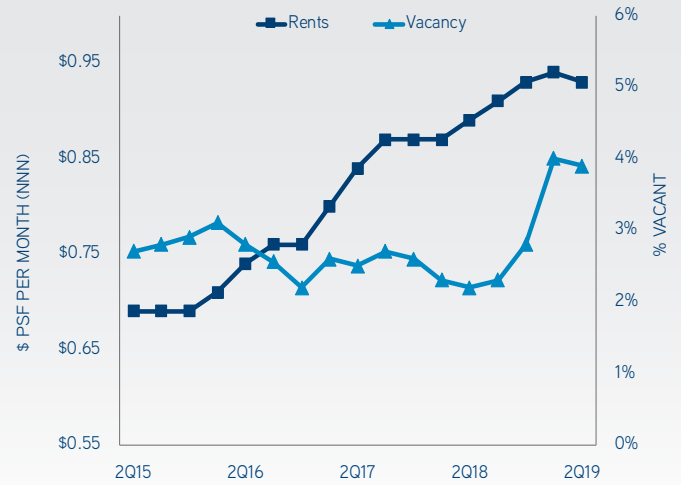
Absorption and Leasing Activity

- > The Orange County industrial market recorded positive movement as net absorption recorded 315,700 square feet. The main driver was the North County submarket, where Quiet Logistics moving into 424,285 square feet at 6565 Valley View Street in La Palma.
- > The biggest leases of the quarter were: IDC Logistics signing 447,055 square feet in Buena Park, Quiet Logistics signing for 424,285 square feet in La Palma and Chubby Gorilla signing for 75,523 square feet in Fullerton.
- > **FORECAST:** Net absorption is expected to be positive through the year given the lack of future construction deliveries.

Rental Rates

- > The weighted average asking rental rate for Orange County recorded at \$0.93 PSF NNN, up 4.5% from the \$0.89 reported one year ago.
- > Asking rental rates are starting to neutralize as rates dropped by \$0.01 from last quarter.
- > Average asking rates were highest in the South County submarket at \$1.10 PSF NNN and lowest in the West County submarket at \$0.85.
- > **FORECAST:** High industrial demand and low vacancy continue to put upward pressure on asking rental rates. Rates are expected to trend upward by 3-5% by the end of 2020 due to lack of new supply.

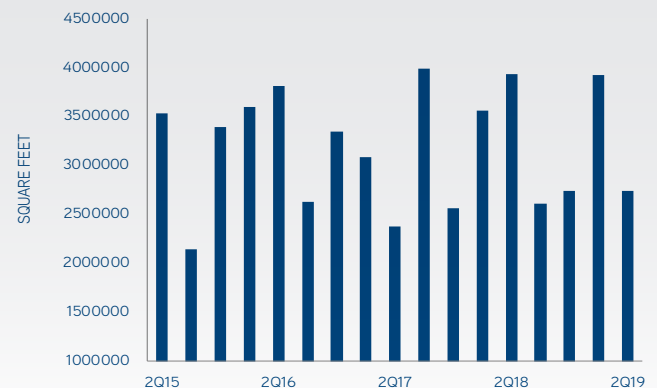
Historical Vacancy v. Rents | O.C. Market Q2 '15-'19



Net Absorption by Submarket | O.C. Market Q2 '19



Historical Sales & Leasing Activity | O.C. Market Q2 '15-'19



Construction

- > During the second quarter, no new industrial buildings were delivered to the Orange County market.
- > There are currently two projects under construction totaling 607,700 square feet. 1585 MacArthur Boulevard in Costa Mesa is 100% pre-leased to Robinson-Pharma. 666 East Dyer Road, which is a total of 9 buildings is expected to be delivered second quarter of 2020.
- > **FORECAST:** Development remains to be a challenge in Orange County as many industrial properties and remaining development sites are being converted to residential and other commercial uses.

Investment Trends

- > Overall investment volume for industrial properties in the second quarter increased by 2.5% compared to last quarter.
- > Rising sale prices led to a further compression of capitalization rates to 4.3%.
- > **FORECAST:** Investors remain attracted to the industrial sector due to continued shifts in consumer behavior and a growing economy. Next quarter Blackstone will pay a record \$18.7 billion for the industrial assets of GLP. This is a move to capture prime E-commerce assets and place a strong bet on the future growth of online shopping.

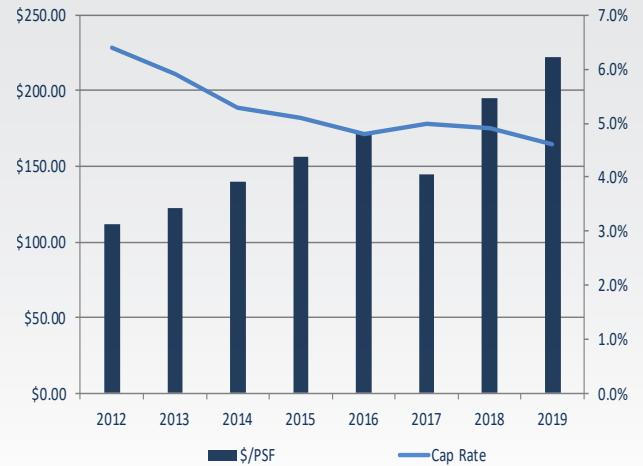
Outlook

- > Despite the increase in availability, tenants are struggling to find future space options to meet their needs given the lack of available inventory.
- > Economic headwinds, along with threats of an ongoing trade war and concerns of a southern border, remain background noise to an industrial market seeking record-low vacancy rates and record-high asking rates.

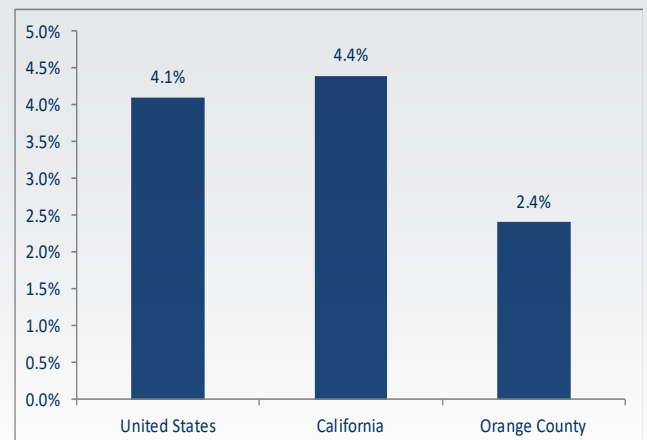
Historical Net Absorption & Construction Completions Q2 '15-'19



Investment Trends Chart 2012-2019



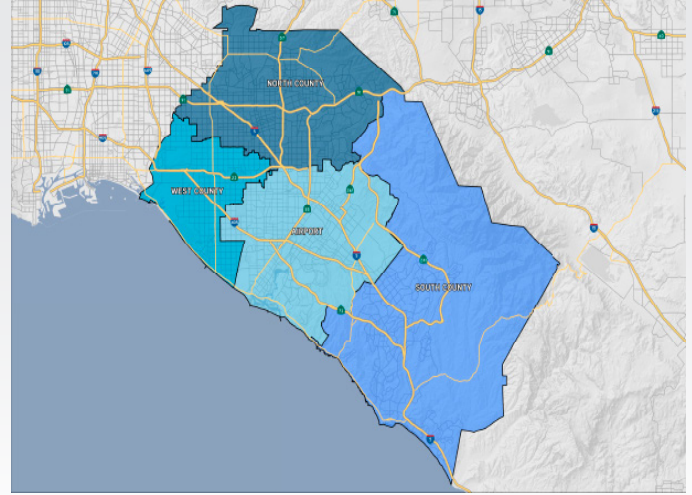
Unemployment Rate | U.S., C.A. & O.C. | May 2019



Market Description

The Orange County industrial market is a large market comprised of 199.4 million square feet representing 17% of the total industrial space in the greater Los Angeles Basin. Most of the space (68%) is in small to medium sized buildings, with the balance in big-box space (100,000+ square feet). The market includes many mid-sized manufacturers and distributors from a wide array of industries, including information, technology, electronics, food, apparel and communications. These firms pay a premium to be in the midst of Orange County's highly educated labor force and concentration of high-end firms and distributors.

Submarket Map



RECENT TRANSACTIONS & MAJOR DEVELOPMENTS

Orange County Industrial Market
Q2 2019

SALES ACTIVITY					
PROPERTY ADDRESS	SIZE SF	SALE PRICE	PRICE PSF	BUYER	SELLER
1441-1445 S Sunkist St., Anaheim	40,100 SF	\$13.0 Million	\$324 PSF	R+L Carriers, Inc.	Western Realco
15461 Sprindale St., Huntington Beach	61,400 SF	\$12.8 Million	\$207 PSF	Sares-Regis Group	Sandy & Michael Davis
15201 Woodlawn Ave., Tustin	56,200 SF	\$11.4 Million	\$202 PSF	Alere Property Group LLC	The Schulze Trust
1442-1450 W Collins Ave., Orange	78,300 SF	\$11.4 Million	\$145 PSF	Juan Reynoso	Positive Investments, Inc.
25871 Atlantic Ocean Dr., Lake Forest	33,800 SF	\$9.4 Million	\$277 PSF	25871 Atlantic Ocn Prop Co LP	RMJF LLC
LEASING ACTIVITY					
PROPERTY ADDRESS	LEASED SF	LEASE TYPE	BLDG TYPE	LESSEE	LESSOR
6700-6750 Artesia Blvd., Buena Park	447,055 SF	Direct - New	Distribution	IDC Logistics	Comref So Cal Industrial Sub G
6565 Valley View St., La Palma	424,285 SF	Direct - New	Distribution	Quiet Logistics	Veritive Corporation
4320 N Harbor Blvd, Fullerton	78,500 SF	Direct - New	Distribution	Chubby Gorilla	Laguna Canyon Plaza LLC
1365 S Van Buren St, Anaheim	60,800 SF	Direct - New	Distribution	Rankuten Super Logistics	CP Logistics Van Buren LLC
1729 Apollo Ct, Seal Beach	57,000 SF	Direct - New	Distribution	Boeing	Shamrock Apollo LLC
MAJOR DEVELOPMENTS					
PROJECT	DEVELOPER	SIZE SF	SUBMARKET	STATUS	ESTIMATED COMPLETION
1585 MacArthur, Costa Mesa	C.J. Segerstrom & Sons	100,276 SF	Airport Area	Under Construction	3Q 2019
666 E Dyer Rd, Santa Ana (9 Bldgs)	J.F. Shea Co., Inc.	505,420 SF	Airport Area	Under Construction	2Q 2020

EXISTING PROPERTIES		CONSTRUCTION		VACANCY		AVAILABILITY	ACTIVITY					ABSORPTION		RENTS		
Submarket/ Building Size	Bldgs	Total Inventory SF	Completions Current Qtr SF	Under Construction SF	Vacancy	Vacancy Prior Qtr	Availability	Sales Activity SF	Number of Sales	Lease Activity SF	Number of Leases	Total Gross Activity Current Qtr SF	Total Gross Activity YTD SF	Net Absorption Current Qtr SF	Net Absorption YTD SF	Weighted Avg Asking Lease Rates
AIRPORT																
1 - 9,999	384	2,776,200	0	0	2.0%	2.6%	3.2%	29,500	4	44,400	3	73,900	128,900	18,100	14,600	\$2.21
10,000 - 39,999	1,188	22,311,500	0	0	3.3%	3.1%	3.8%	69,600	4	371,400	8	441,000	725,000	(25,900)	(105,900)	\$1.09
40,000 - 69,999	148	7,304,800	0	0	2.9%	1.9%	2.8%	99,600	2	55,300	1	154,900	236,400	(6,400)	(28,500)	\$0.97
70,000 - 99,999	65	5,229,500	0	0	4.1%	5.3%	5.9%	0	0	41,400	1	41,400	67,300	143,600	23,500	\$1.02
100,000 +	66	11,091,800	0	605,700	9.0%	5.5%	12.1%	0	0	0	0	0	0	(324,500)	(319,700)	\$0.81
SUBTOTAL	1,851	48,713,800	0	605,700	4.6%	3.7%	5.6%	198,700	10	512,500	13	711,200	1,157,600	(195,100)	(416,000)	\$0.95
NORTH																
1 - 9,999	520	3,698,100	0	0	2.2%	1.7%	3.3%	48,400	10	54,500	4	102,900	199,700	(17,500)	(10,600)	\$1.00
10,000 - 39,999	1,794	32,864,600	0	0	1.7%	1.9%	2.8%	183,000	13	333,400	8	516,400	901,600	51,100	86,600	\$1.12
40,000 - 69,999	254	13,243,900	0	0	3.6%	4.4%	4.6%	40,100	1	134,300	3	174,400	393,900	108,500	53,100	\$0.85
70,000 - 99,999	89	7,062,200	0	0	3.2%	1.5%	5.6%	170,900	2	108,000	2	278,900	1,397,800	(114,800)	(115,300)	\$0.77
100,000 +	194	40,465,600	0	0	5.9%	6.9%	7.1%	0	0	128,400	3	128,400	784,500	414,500	(628,700)	\$0.83
SUBTOTAL	2,851	97,334,400	0	0	3.8%	4.3%	5.0%	442,400	26	758,600	20	1,201,000	3,677,500	441,800	(614,900)	\$0.89
SOUTH																
1 - 9,999	224	1,443,500	0	0	1.8%	2.8%	4.1%	22,000	4	17,300	1	39,300	89,300	14,600	6,700	\$1.44
10,000 - 39,999	392	7,570,253	0	0	3.3%	3.8%	4.9%	44,300	2	96,300	6	140,600	240,100	33,600	300	\$1.32
40,000 - 69,999	46	2,303,900	0	0	2.1%	5.0%	5.7%	0	0	8,300	1	8,300	16,600	65,200	65,200	\$1.11
70,000 - 99,999	19	1,558,000	0	0	5.4%	5.7%	0.0%	0	0	0	0	0	0	0	175,000	\$1.00
100,000 +	43	8,436,000	0	0	5.6%	2.4%	8.2%	0	0	0	0	0	0	0	(134,400)	\$0.95
SUBTOTAL	724	21,311,653	0	0	4.2%	3.4%	5.9%	66,300	6	121,900	8	188,200	346,000	113,400	112,800	\$1.10
WEST																
1 - 9,999	284	2,063,600	0	0	1.5%	1.0%	2.3%	16,000	3	10,200	4	26,200	83,000	(9,600)	3,300	\$0.99
10,000 - 39,999	709	12,261,000	0	0	2.7%	2.1%	4.3%	125,900	8	121,700	6	247,600	501,500	(69,200)	(32,300)	\$0.90
40,000 - 69,999	99	5,191,300	0	0	5.6%	4.7%	4.1%	113,100	2	130,300	1	243,400	299,700	10,900	(8,300)	\$0.83
70,000 - 99,999	32	2,656,300	0	0	2.9%	3.5%	0.6%	0	0	76,100	1	76,100	258,500	16,600	(59,500)	\$0.70
100,000 +	54	9,832,100	0	0	1.7%	2.8%	4.6%	0	0	48,300	2	48,300	347,500	6,900	147,200	\$0.82
SUBTOTAL	1,178	32,004,300	0	0	2.8%	2.8%	3.9%	255,000	13	386,600	14	641,600	1,490,200	(44,400)	50,400	\$0.86
MARKET TOTAL																
1 - 9,999	1,412	9,981,400	0	0	1.9%	2.0%	2.6%	115,900	21	126,400	12	242,300	500,900	5,600	14,000	\$1.26
10,000 - 39,999	4,083	75,007,353	0	0	2.5%	2.5%	3.5%	422,800	27	922,800	28	1,345,600	2,368,200	(10,400)	(51,300)	\$1.10
40,000 - 69,999	547	28,043,900	0	0	3.6%	3.8%	4.1%	252,800	5	328,200	6	581,000	946,600	178,200	81,500	\$0.90
70,000 - 99,999	205	16,506,000	0	0	3.6%	3.4%	4.4%	170,900	2	225,500	4	396,400	1,723,600	45,400	23,700	\$0.88
100,000 +	357	69,825,500	0	605,700	5.7%	5.5%	7.7%	0	0	176,700	5	176,700	1,132,000	96,900	(935,600)	\$0.84
TOTAL	6,604	199,364,153	0	605,700	3.9%	4.0%	5.1%	962,400	55	1,779,600	55	2,742,000	6,671,300	315,700	(867,700)	\$0.93

Note: revisions to the inventory base were made effective Q2 2019, historical data reported here reflect these revisions and may not match data reported in previous quarters.

Definitions of key terms in this report

Total Rentable Square Feet:

Industrial space in buildings with one square foot or more of industrial space. Includes speculative as well as owner-occupied buildings. Excludes Research & Development (R&D) buildings (industrial buildings with at least 30% office build-out, 3/1000 parking ratio and a high level of finish). Excludes space that is under-construction or renovation.

Vacancy:

Space in existing buildings that is vacant and immediately available during the quarter for direct lease, for sublease or for sale, plus space that is vacant but not available for direct lease or sublease.

Availability:

All space that is being currently marketed for occupancy, includes space which may be currently occupied or which may be under construction or renovation.

Net Absorption:

Net change in occupied square feet from one period to the next (includes the impact of change in vacant space available for sublease).

Gross Activity:

Square feet sold and leased for all known transactions completed during the quarter. Excludes lease renewals. Excludes investment sale transactions.

Weighted Average Asking Rental Rates:

Weighted by square feet available for direct lease. Data is based on triple net rents, and excludes expenses such as taxes, insurance, maintenance, janitorial service and utilities. Reported on a monthly, per SF basis.

Construction Completions:

Total square feet added during the quarter via construction completions, including renovated space returned to market, less total square feet taken off-market due to demolitions or conversions.

Under Construction:

Includes buildings that are in some phase of construction, beginning with foundation work and ending with the issuance of a Certificate of Occupancy.

Technical Note

Colliers International is continuously refining its database. The data shown in the historical tables and graphics in this report have been adjusted to take into account these changes in the database.

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438 offices in 68 countries on 6 continents

United States: 155	> \$3.3 billion in annual revenue
Canada: 48	> 2.0 billion square feet under management
Latin America: 20	
Asia Pacific: 44	> Over 17,000 professionals
EMEA: 119	

UNITED STATES:

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