

# ORANGE COUNTY | INDUSTRIAL

## Q1 2018

Accelerating success.

## » Vacancy Decreased In First Quarter 2018

### Key Takeaways

- > The vacancy rate decreased by 50 basis points to 2.1% during the first quarter to a historical low. Vacancy stood at 2.6% one year ago.
- > Asking rental rates increased 8.7% from one year ago to \$0.87 per square foot (PSF) triple-net (NNN).
- > Industrial demand recorded 602,600 square feet of net absorption. Much of this positive demand was in the North County submarket.
- > Construction activity fell during the first quarter totaling 934,800 square feet.
- > Demand was positive for the quarter as market conditions remain tight and quality industrial space is scarce. Asking rental rates are expected to rise an additional 3-6% by the end of 2018.

### Orange County Industrial Market

The Orange County industrial market closed the first quarter with net absorption recording 602,600 square feet. Much of this positive movement stemmed from large tenant move-in's in the North County submarket. There is strong demand for new industrial buildings as developers are challenged with finding available development opportunities. Industrial product is expected to continue depleting as many properties are being sold as multifamily redevelopment land or creative office space conversion.

As demand remains positive and available space options are limited, tenant renewals are increasing. Investors will also continue to take advantage of acquisition opportunities through 2018.

### Market Indicators | Relative to prior period

	Q1 2018	Forecast
Vacancy	↓	↓
Net Absorption	↑	↑
Construction	↓	→
Rental Rate	→	↑

### Summary Statistics | Orange County, Q1 2018

Vacancy Rate	2.1%
Change from Q4 '17 (Basis Points)	-50 BPS
Net Absorption	602,600 SF
Construction Completions	170,000 SF
Under Construction	934,800 SF

### Asking Rents | Orange County, Q1 2018

	Orange County Industrial Market
Average Asking Rent	\$0.87 NNN
Change from Q4 '17	\$0.00
Y.O.Y. Change (%)	8.8%

### Orange County Labor Force | Orange County, Q1 2018

	Construction	Manufacturing	Transportation, Trade & Utilities
12-mo Employment Growth (%)	6.5%	-0.1%	0%
12-mo Actual Employment Change	+6,300	-200	-100

### Vacancy

- > The total vacancy rate in the first quarter decreased 50 basis points from last quarter to 2.1%.
- > Space remains scarce in Orange County, with the availability rate hovering at 4.1%.
- > Vacancy is tightest for buildings up to 9,999 square feet and those between 40,000 and 69,999 square feet at 1.4%, while buildings 100,000 square feet or greater have the highest vacancy rate at 4.3%.
- > **FORECAST:** With 934,800 square feet of space under construction and strong industrial demand, vacancy rates are expected to remain at historic lows.

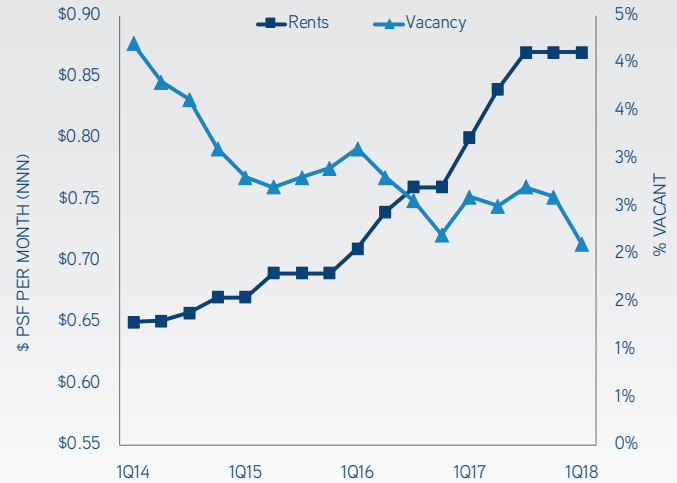
### Absorption and Leasing Activity

- > The Orange County industrial market recorded positive net absorption of 602,600 square feet. Much of this absorption stemmed from the North County submarket with notable move-in's Rosendin Electric Inc. (143,900 square feet) and Whynter LLC and Smartex (53,600 square feet).
- > The biggest leases of the quarter was Ricoh Development renewing 500,600 square feet in Tustin, Disney signing 200,000 square feet in Anaheim and Shinoda Designs renewing 183,600 square feet in Santa Ana.
- > **FORECAST:** Net absorption is expected to show positive movement in North County due to the future delivery of the Beckman Business Center Development in Fullerton.

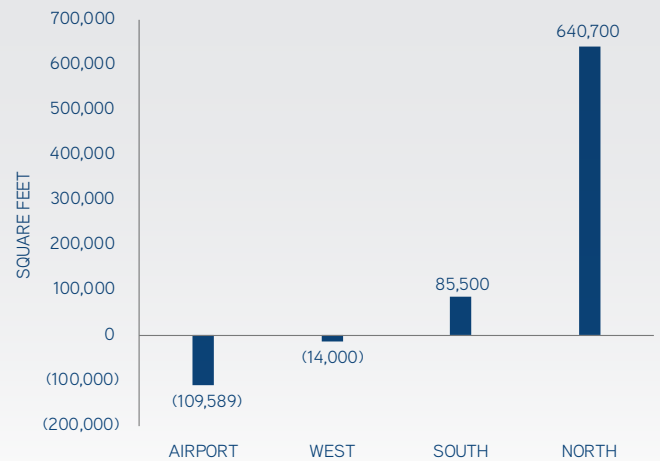
### Rental Rates

- > The weighted average asking rental rate for Orange County recorded at \$0.87 PSF NNN, up 8.8% from the \$0.80 reported one year ago.
- > Rents have steadily risen over the past three years as industrial tenant supply options remain limited.
- > Average asking rates were highest in the South County submarket at \$1.02 PSF NNN and lowest in the West County submarket at \$0.79 PSF NNN.
- > **FORECAST:** Asking rental rates are expected to trend upward by 3-6% by the end of 2018.

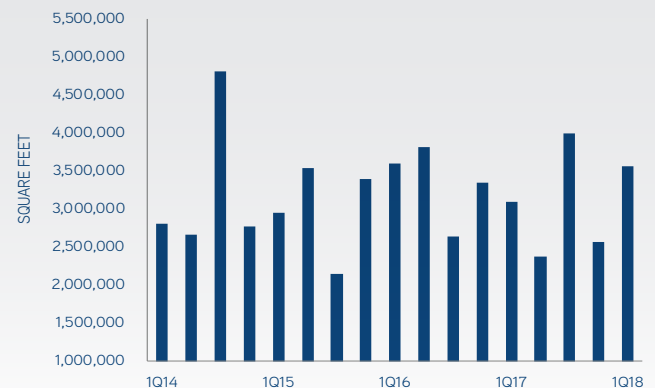
Historical Vacancy v. Rents | O.C. Market Q1 '14-'18



Net Absorption by Submarket | O.C. Market Q1 '18



Historical Sales & Leasing Activity | O.C. Market Q1 '14-'18



### Construction

- > During the first quarter, one building in North County totaling 170,000 square feet delivered to the market at 1730 S. Anaheim Way in Anaheim.
- > The project is expected to be completed by the first half of 2018.
- > **FORECAST:** Development is a challenge in Orange County as many industrial properties and development sites are converted to residential and other commercial uses.

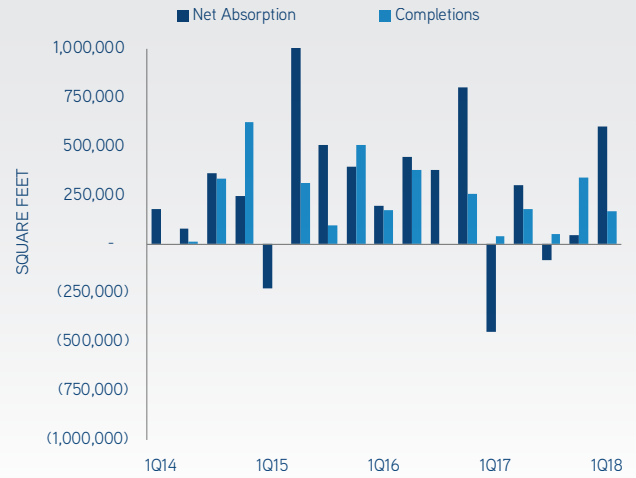
### Investment Trends

- > Investment volume for industrial properties in 2018 decreased by 110% compared to the same time last year. Sales volume recorded at \$210.2 billion compared to \$441.3 billion one year ago.
- > Investment sales prices have increased by 19.8% compared to this time last year, currently averaging \$175 PSF.
- > **FORECAST:** Real estate is proving to be a desirable asset as investors continue to look for stable income-producing assets and hedge against perceived upcoming inflation.

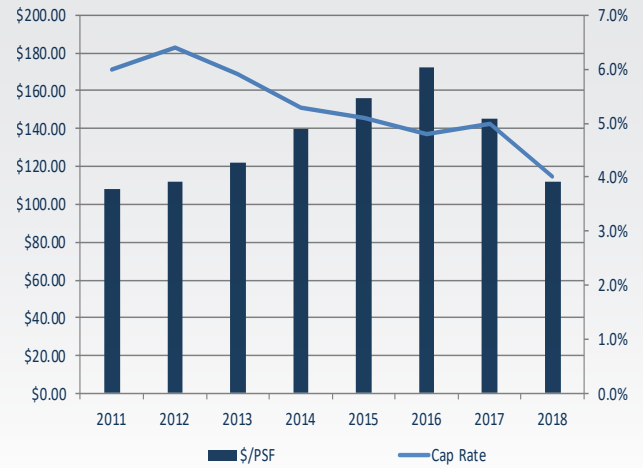
### Outlook

While absorption records positive, the Orange County industrial market continues to move forward with positive momentum. With minimal increase in available supply, asking rental rates have climbed above 2008 peak values of \$0.78-\$0.80 PSF NNN. Despite positive market fundamentals, tenants are struggling to find future space options to meet their needs given the lack of available inventory.

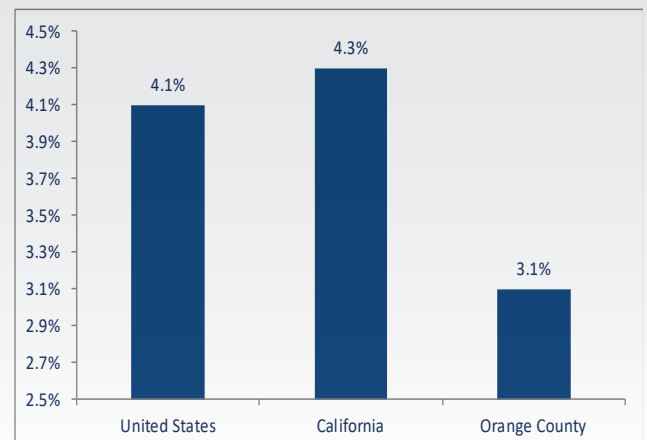
Historical Net Absorption & Construction Completions Q1 '14-'18



Investment Trends Chart 2011-2018



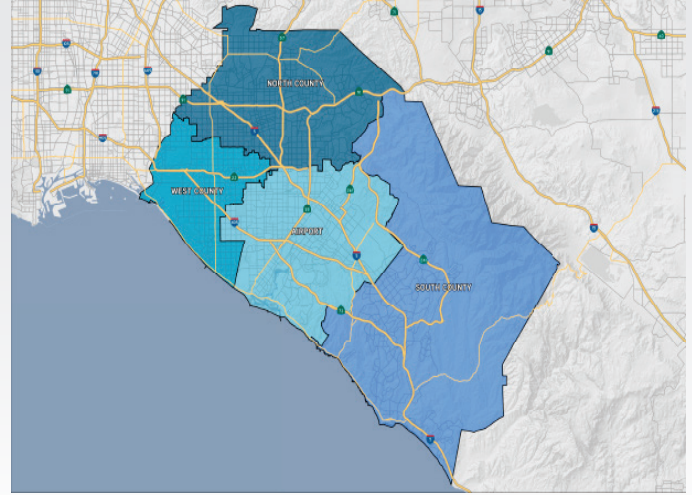
Unemployment Rate | U.S., C.A. & O.C. | Feb 2018



## Market Description

The Orange County industrial market is a large market comprised of 191.9 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  
Q1 2018

SALES ACTIVITY					
PROPERTY ADDRESS	SIZE SF	SALE PRICE	PRICE PSF	BUYER	SELLER
300 E Cypress St, Brea	329,000 SF	\$19.6 Million	\$60 PSF	TransDigm Group Incorporated	Esterline Corporation
4200 Bonita Pl, Brea	67,950 SF	\$12.6 Million	\$184 PSF	Samaritan's Purse	Guthrie Development Company
620 E Dyer Rd, Santa Ana	44,200 SF	\$11.0 Million	\$249 PSF	Joseph Segilia	Western Bay Group
785 Challenger St, Brea	28,700 SF	\$6.7 Million	\$231 PSF	B&F Properties LLC	2DRE LLC
LEASING ACTIVITY					
PROPERTY ADDRESS	LEASED SF	LEASE TYPE	BLDG TYPE	LESSEE	LESSOR
1123 Warner Ave, Tustin	500,600 SF	Renewal	Distribution	Ricoh Development of CA	Bedrosian Tustin LLC
150-1601 E Cerritos Ave, Anaheim	200,000 SF	Direct - New	Distribution	Disney	Inland Empire Realty Holdings
601 W Dyer Rd, Santa Ana	183,600 SF	Renewal	Distribution	Shinoda Designs	601 Dyer LLC
11130 Warland Dr, Cypress	117,000 SF	Renewal	Distribution	Kusha Food	Cypress Land Corp
895 Beacon St, Brea	58,200 SF	Direct - New	Light Industrial	NPL Construction Company	CIP Real Estate
MAJOR DEVELOPMENTS					
PROJECT	DEVELOPER	SIZE SF	SUBMARKET	STATUS	ESTIMATED COMPLETION
Beckman Business Center Development (7 Bldgs)	Cardinal Development Co.	934,754 SF	North County	Under Construction	2Q 2018

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
<b>AIRPORT</b>																
1 - 9,999	387	2,776,200	0	0	1.5%	2.1%	4.4%	47,000	7	39,900	2	86,900	86,900	17,000	17,000	\$1.53
10,000 - 39,999	1,190	22,406,900	0	0	1.5%	1.6%	3.0%	176,800	9	303,500	8	480,300	480,300	111	111	\$1.04
40,000 - 69,999	150	7,392,900	0	0	1.1%	1.5%	4.9%	44,200	1	32,100	1	76,300	76,300	(29,100)	(29,100)	\$0.91
70,000 - 99,999	65	5,229,500	0	0	1.8%	1.8%	1.8%	0	0	27,400	2	27,400	27,400	(38,200)	(38,200)	\$0.79
100,000 +	68	11,355,700	170,000	0	6.5%	7.2%	18.3%	0	0	135,700	1	124,000	124,000	(59,400)	(59,400)	\$0.75
<b>SUBTOTAL</b>	<b>1,860</b>	<b>49,161,200</b>	<b>170,000</b>	<b>0</b>	<b>2.6%</b>	<b>2.9%</b>	<b>6.7%</b>	<b>268,000</b>	<b>17</b>	<b>538,600</b>	<b>14</b>	<b>806,600</b>	<b>806,600</b>	<b>(109,589)</b>	<b>(109,589)</b>	<b>\$0.85</b>
<b>NORTH</b>																
1 - 9,999	519	3,698,100	0	0	1.4%	0.9%	1.9%	103,300	17	40,400	7	143,700	143,700	(20,200)	(20,200)	\$1.08
10,000 - 39,999	1,797	33,149,300	0	0	1.9%	1.7%	2.3%	419,900	24	239,200	15	659,100	659,100	(75,800)	(75,800)	\$1.06
40,000 - 69,999	248	12,993,200	0	87,700	1.1%	2.0%	3.4%	68,000	1	123,800	1	191,800	191,800	73,000	73,000	\$0.80
70,000 - 99,999	88	6,973,200	0	78,500	3.9%	2.8%	5.3%	0	0	29,500	1	29,500	29,500	(74,100)	(74,100)	\$0.77
100,000 +	152	30,590,700	0	768,600	0.5%	3.1%	1.8%	0	0	359,300	2	359,300	359,300	737,800	737,800	\$0.70
<b>SUBTOTAL</b>	<b>2,804</b>	<b>87,404,500</b>	<b>0</b>	<b>934,800</b>	<b>1.4%</b>	<b>2.3%</b>	<b>2.5%</b>	<b>591,200</b>	<b>42</b>	<b>792,200</b>	<b>26</b>	<b>1,383,400</b>	<b>1,383,400</b>	<b>640,700</b>	<b>640,700</b>	<b>\$0.87</b>
<b>SOUTH</b>																
1 - 9,999	224	1,443,500	0	0	0.5%	1.3%	3.7%	11,900	2	15,300	3	27,200	27,200	10,900	10,900	\$1.25
10,000 - 39,999	393	7,570,253	0	0	2.7%	2.9%	4.2%	34,600	2	148,200	4	182,800	182,800	7,600	7,600	\$1.35
40,000 - 69,999	46	2,303,900	0	0	2.2%	4.2%	7.3%	0	0	33,700	1	33,700	33,700	89,400	89,400	\$1.13
70,000 - 99,999	18	1,483,700	0	0	7.5%	3.7%	13.2%	0	0	0	0	0	0	(26,700)	(26,700)	\$0.80
100,000 +	43	8,390,500	0	0	3.8%	4.5%	4.2%	0	0	40,100	1	40,100	40,100	4,300	4,300	\$0.75
<b>SUBTOTAL</b>	<b>724</b>	<b>21,191,853</b>	<b>0</b>	<b>0</b>	<b>3.3%</b>	<b>3.6%</b>	<b>5.1%</b>	<b>46,500</b>	<b>4</b>	<b>237,300</b>	<b>9</b>	<b>283,800</b>	<b>283,800</b>	<b>85,500</b>	<b>85,500</b>	<b>\$1.02</b>
<b>WEST</b>																
1 - 9,999	284	2,063,600	0	0	1.4%	1.3%	2.4%	68,800	11	32,000	2	100,800	100,800	(3,500)	(3,500)	\$0.97
10,000 - 39,999	709	12,261,000	0	0	2.1%	1.6%	2.0%	89,000	6	126,400	5	215,400	215,400	(69,400)	(69,400)	\$0.86
40,000 - 69,999	99	5,156,800	0	0	1.9%	0.4%	3.3%	284,300	6	132,400	1	416,700	416,700	(75,000)	(75,000)	\$0.81
70,000 - 99,999	32	2,656,300	0	0	0.0%	0.0%	0.9%	194,200	2	22,800	0	217,000	217,000	0	0	\$0.65
100,000 +	55	12,020,700	0	0	4.3%	4.7%	6.6%	129,600	1	26,600	2	156,200	156,200	133,900	133,900	\$0.75
<b>SUBTOTAL</b>	<b>1,179</b>	<b>34,158,400</b>	<b>0</b>	<b>0</b>	<b>2.6%</b>	<b>2.3%</b>	<b>3.7%</b>	<b>765,900</b>	<b>26</b>	<b>340,200</b>	<b>10</b>	<b>1,106,100</b>	<b>1,106,100</b>	<b>(14,000)</b>	<b>(14,000)</b>	<b>\$0.79</b>
<b>MARKET TOTAL</b>																
1 - 9,999	1,414	9,981,400	0	0	1.3%	1.4%	2.6%	231,000	37	127,600	14	358,600	358,600	4,200	4,200	\$1.24
10,000 - 39,999	4,089	75,387,453	0	0	1.9%	1.8%	2.7%	720,300	41	817,300	32	1,537,600	1,537,600	(137,489)	(137,489)	\$1.08
40,000 - 69,999	543	27,846,800	0	87,700	1.3%	1.8%	4.1%	396,500	8	322,000	4	718,500	718,500	58,300	58,300	\$0.89
70,000 - 99,999	203	16,342,700	0	78,500	2.9%	2.1%	4.2%	194,200	2	79,700	3	273,900	273,900	(139,000)	(139,000)	\$0.78
100,000 +	318	62,357,600	170,000	768,600	2.8%	4.3%	6.1%	129,600	1	561,700	6	679,600	679,600	816,600	816,600	\$0.74
<b>TOTAL</b>	<b>6,567</b>	<b>191,915,953</b>	<b>170,000</b>	<b>934,800</b>	<b>2.1%</b>	<b>2.6%</b>	<b>4.1%</b>	<b>1,671,600</b>	<b>89</b>	<b>1,908,300</b>	<b>59</b>	<b>3,568,200</b>	<b>3,568,200</b>	<b>602,611</b>	<b>602,611</b>	<b>\$0.87</b>

Note: revisions to the inventory base were made effective Q1 2018, 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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## 413 offices in 69 countries on 6 continents

United States: 153	> \$2.6 billion in annual revenue
Canada: 29	> 2.0 billion square feet under management
Latin America: 24	
Asia Pacific: 79	> Over 15,000 professionals
EMEA: 111	

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