

Rents Up Again, But Absorption Eases As Resistance Creeps Into Market

Demand for industrial space ticked downward for the second straight quarter, continuing a slight easing that began last year. Despite the reduced activity, rents notched another healthy gain and vacancy rates settled at or near record lows countywide.

Countywide net absorption was negative 679,507 sq. ft. in Q3. Over the last seven quarters, absorption is off 2.3 million sq. ft. with 70% of that reduction coming from the Airport market.

Rent growth - while still healthy - has moderated. Gains averaged 6.3% over the last four quarters compared to 8.1% for the previous 12-month average. Available quality space remains in historically short supply, and the near absence of available land for development insures a virtually static long-term inventory.

Nevertheless, the recent reduced activity and other signs of caution by tenants and buyers come as overall operating and capital costs are rising. Properties are remaining longer on the market—which totals 273.8 million sq. ft. countywide - and only buildings in A-plus condition in the best locations are getting top dollar.

Evidence of this nascent resistance may be found in North County, the county's largest market with 116.2 million sq. ft. and where rents are up 84% since 2010. It's also where nine buildings totaling about 1.17 million sq. ft. are slated for delivery in Q4. Two of the buildings are build to suits in Buena Park.

The other seven make up a premium collection of spec buildings in Fullerton from 41,891 sq. ft. to 309,439 sq. ft. Despite North County's record-low 1.5% vacancy rate, none of the buildings was pre-leased when the project was due for completion at the end of Q3. A group of four more still-available spec buildings up to 69,882 sq. ft. is slated for first-quarter completion on the Anaheim and Placentia border.

Relief may be on the horizon for companies looking for new space in the Airport market as a nine-building, 500,000 sq. ft. rental project is planned to replace more than 300,000 sq. ft. of obsolete space on East Dyer Road in Santa Ana. It would be the market's largest new project in more than a decade. Otherwise, the Airport market has been the county's softest, posting 1.6 million sq. ft. in negative growth since Q1 2017.

Third-quarter net absorption in the 42.8-million-sq.-ft. West County market was up 39,416 sq. ft. The vacancy rate settled at 3.3%, which is up from its 1.9% record low reached 24 months ago. Since then, negative absorption has totaled nearly 221,000 sq. ft.

Net absorption in South County was down 251,371 sq. ft. in Q3 and is off 220,928 sq. ft. for the year.

MARKET FORECAST

Orange County manufacturers are planning to expand output for the 37th straight quarter, according to a Chapman University survey. Strong production levels are led by electronics, machinery and medical devices, said survey director Raymond Sfeir at Chapman's A. Gary Anderson Center for Economic Research.

ORANGE COUNTY INDUSTRIAL

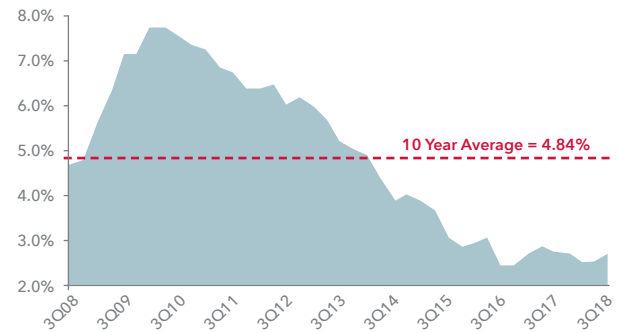
ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	3.2%	2.6%
California Unemployment	4.2%	3.8%
US Unemployment	3.9%	4.0%

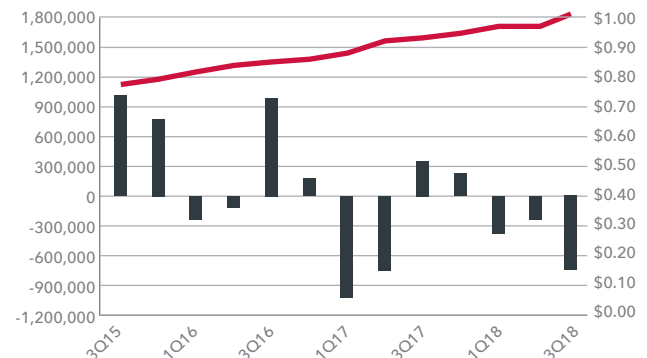
MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	273,771,539	273,968,064
Vacancy Rate (%)	2.7%	2.5%
Net Absorption (SF)	(679,507)	(373,807)
Average Asking Rent (NNN)	\$1.01	\$0.97
Under Construction (SF)	1,467,384	1,367,108

OVERALL VACANCY



NET ABSORPTION VS ASKING RATES



*All numbers are based on industrial buildings 10,000 sq. ft. and larger.

ORANGE COUNTY




THIRD QUARTER 2018 INDUSTRIAL MARKET REPORT

ORANGE COUNTY MARKET STATISTICS - 3Q 2018



BY AREA

	Bldg Count	SF RBA	Total SF Available	Avail. Rate	Total SF Vacant	Total Vac. Rate	Net Absorption	YTD Net Absorption	Avg Asking Lease Rate	SF Under Construction
North Orange County	3,226	116,245,574	5,754,221	4.9%	1,797,719	1.5%	(37,130)	134,451	\$0.90	1,367,108
West Orange County	1,329	42,785,795	2,597,843	6.1%	1,410,799	3.3%	39,416	(100,818)	\$0.83	- 0 -
Greater Airport Area	2,488	73,022,536	4,286,948	5.9%	2,589,303	3.5%	(430,422)	(535,169)	\$0.98	100,276
South Orange County	1,247	41,516,479	2,258,020	5.4%	1,615,344	3.9%	(251,371)	(220,928)	\$1.23	- 0 -
Outlying Orange County	2	201,155	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -
TOTALS	8,292	273,771,539	14,897,032	5.4%	7,413,165	2.7%	(679,507)	(722,464)	\$1.01	1,467,384

LEASE TRANSACTIONS 3Q 2018

	PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
	11650 Burke St. Santa Fe Springs, CA	106,110	Innovative Operations Solutions	Kekropia, Inc.	Joel Hutak & Phillip DeRousse represented the Landlord.
	152 Technology Dr. Irvine, CA	29,192 SF	Sena Technologies, Inc., a California corporation	The Irvine Company, LLC	Alton Burgess, Travis Haining & Ryan Lawler represented the Tenant.
	20431 North Sea Circle Lake Forest, CA	14,960 SF	Famand, Inc.	RMJF, LLC	Mark Jerue & Craig Fitterer represented both the Tenant and Landlord.

SALE TRANSACTIONS 3Q 2018

	PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
	5960 Pacific Mesa Ct. San Diego, CA	293,800	Sukut Real Propertes	Sorrento Montana L.P.	Jim Snyder & Patrick Lacey represented the Buyer.
	16902 & 16912 Von Karman Ave. Irvine, CA	104,677	TW Los Angeles, LLC	Beachbreak Properties LLC	Ryan Swanson, Kurt Bruggeman & Phil Cohen represented the Seller.
	11841 Monarch St. Garden Grove, CA	43,270	David & Wendy, LLC	Craig Arrojo	Greg Diab & Jack Haley represented the Buyer.

LEE & ASSOCIATES - IRVINE

9838 Research Drive
Irvine, California 92618
(949) 727-1200

LEE & ASSOCIATES - NEWPORT BEACH

100 Bayview Circle, Suite 600
Newport Beach, California 92660
(949) 724-1000

LEE & ASSOCIATES - ORANGE

1004 West Taft Avenue, Suite 150
Orange, California 92865
(714) 647-9100

About Lee & Associates

Celebrating more than 38 years of leadership excellence in commercial real estate, Lee & Associates is the largest broker-owned firm in North America with locations across the U.S. and Canada including Arizona, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Maryland, Michigan, Minnesota, Missouri, Nevada, New Jersey, New York, Ohio, Pennsylvania, South Carolina, Texas, Vancouver BC, Washington and Wisconsin.

With a broad array of regional, national and international clients - ranging from individual investors and small businesses to large corporations and institutions - Lee & Associates has successfully completed transactions with a total value of more than \$11 billion last year, alone.

Copyright © 2018 Lee & Associates. All rights reserved. The information contained within this report is gathered from multiple sources considered to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.