

Lease Rates Level Off, Deal Volume Falls

Tenant demand for Orange County industrial space posted a slight overall gain in the third quarter. But asking lease rates have leveled off this year after increasing an average of about 5% annually for the previous three years.

Following five straight quarters of negative absorption countywide, net absorption totaled 77,114 SF in Q3. But demand was uneven. North County and West County combined for 356,401 SF of positive growth in contrast to 278,865 SF of negative absorption in the Airport and South County markets.

Although the countywide vacancy rate is up 1.2 percentage points from 2016's all-time low, Orange County remains one of the tightest industrial markets in the nation.

Rental activity has been declining steadily due to a lack of available space combined with slowing business expansion in a late-stage economy. Executed lease transactions this year have averaged 460 deals per quarter. That's an 11% decline from 2018's quarterly average and 28% less than the transaction average in 2014.

Additionally, many industrial users rely on healthy international trade for finished goods, parts and raw materials. But the flow this year of container traffic at the twin ports of Long Beach and Los Angeles has suffered in the current U.S-Chinese trade war. Inbound container traffic through August was down 2.4% year over year, exports are off 6.4% and empty outbound containers are up 8.8%.

Lee & Associates quarterly survey of 8,288 buildings larger than 10,000 SF shows a total inventory of 274.3 million SF spread throughout the county's four major markets, North, South, West and the Airport.

Demand in North County, the county's largest industrial market with 112.9 million SF of inventory in 3,229 buildings, produced the most Q3 growth as net absorption was up 183,522 SF. Nevertheless, absorption year to date is nearly 1.1 million SF in the red. Average asking rents virtually are unchanged from the same period last year.

Tenant growth in the 42.6 million SF West County market totaled 172,879 SF in Q3. But absorption for the year is negative 152,288 SF. Average full-service lease rates remain flat this year.

It was the fifth straight quarter of negative absorption in the 73 million SF Airport market. Users have shed about 3.4 million SF of space since Q1 of 2017. Average asking rents are down slightly from Q1.

South County absorption was negative 106,944 SF in Q3 and is negative 80,926 SF for the year. South County's rents, the priciest in the county, also are flat this year.

MARKET FORECAST

Fifty-six percent of Orange County company executives in a new poll anticipate improved sales in the fourth quarter, a substantial bump from the 42% voicing the same outlook for the third quarter, according Cal State Fullerton's quarterly business expectations survey.

ORANGE COUNTY INDUSTRIAL

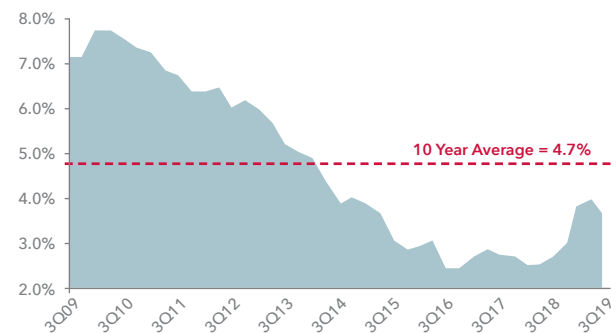
ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	3.1%	2.4%
California Unemployment	4.1%	3.5%
US Unemployment	3.7%	3.6%

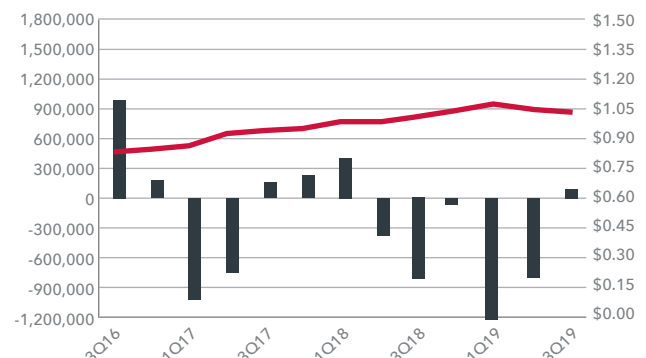
MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	274,336,274	275,068,461
Vacancy Rate (%)	3.7%	4.0%
Net Absorption (SF)	77,114	(825,225)
Average Asking Rent (NNN)	\$1.04	\$1.05
Under Construction (SF)	1,180,373	936,114

OVERALL VACANCY



NET ABSORPTION VS ASKING RATES



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

ORANGE COUNTY




THIRD QUARTER 2019 INDUSTRIAL MARKET REPORT

ORANGE COUNTY MARKET STATISTICS - 3Q 2019




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	3,229	116,902,824	5,716,683	4.9%	3,960,685	3.4%	183,522	(1,097,989)	\$0.86	244,259
West Orange County	1,328	42,591,209	2,296,675	5.4%	1,279,525	3.0%	172,879	(152,288)	\$0.85	- 0 -
Greater Airport Area	2,486	72,997,545	5,034,373	6.8%	3,277,477	4.5%	(172,343)	(659,780)	\$1.07	836,914
South Orange County	1,243	41,643,541	2,391,537	5.7%	1,571,438	3.8%	(106,944)	(80,926)	\$1.36	- 0 -
Outlying Orange County	2	201,155	98,400	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	99,200
TOTALS	8,288	274,336,274	15,537,668	5.6%	10,089,125	3.7%	77,114	(1,990,983)	\$1.04	1,180,373

LEASE TRANSACTIONS 3Q 2019

	PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
	7340 Lampson Avenue Garden Grove	76,080	Pacific Athletic Wear, Inc.	Hurtt JR Real Estate, Inc.	Jack Haley & Greg Diab represented the Landlord.
	7442 Orangewood Avenue Garden Grove	36,060	Little Buddy, LLC	PPF Industrial Orangewood Ave., L.P.	Brad Schneider represented the Tenant.
	25652 Commercentre Drive Lake Forest	12,843	Dynamic Air Services	1Commercentre, LLC	Ted Rommel represented the Tenant.

SALE TRANSACTIONS 3Q 2019

	PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
	7350 San Gorgonio Riverside	121,390	7350 SG DR, LLC	Molto Properties Fund III, LLC	Allen Buchanan & Joshua Harper represented the Buyer.
	1651 E. Saint Andrew Place Santa Ana	40,535	Orange County Real Estate Holdings	Memory Experts INTL USA Inc.	John Collins Represented the Seller and Jim Snyder & Patrick Lacey Represented the Buyer.
	1 Doppler Irvine	39,564	Private Investor	Bake Irvine Center	Dale Camera, Jason Helmick & Zach Schwaner represented the Seller.

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With a broad array of regional, national and international clients - ranging from individual investors and small businesses to large corporations and institutions - Lee & Associates successfully completed transactions with a total value of more than \$15 billion last year.

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