MARKET OVERVIEW

Orange County’s industrial market in the third quarter of 2016 saw lower transaction volume due to the dwindling supply of available industrial space, while rents and sale prices continued to rise. Vacancy ended the quarter at 2.4%, down 30 basis points from the previous quarter and down 20 basis points over last year. The low vacancy combined with minimal new construction and limited redevelopment opportunities make it difficult for supply to keep pace with the increasing demand. There is a mere 270,098 square feet under construction in two buildings and no new projects were delivered to the market this quarter. Demand is coming from tenants, investors and owner-users competing for industrial space, driven by a strengthening economy as well as increased cargo volume from the ports of Los Angeles and Long Beach. August figures, the latest available, indicate year to date inbound loaded cargo volumes were up 6.8% over last year as retailers and warehouses prepare inventory for a brisk holiday season.

TRENDS TO WATCH

Orange County is expected to remain one of the most supply constrained industrial markets in the region in the coming quarters due to its limited availability of land for spec industrial projects. The vacancy rate is projected to inch lower, remaining below 3% through the end of the year. Industrial developers find themselves competing for land for other uses. Business expansion and increasing employment indicate the outlook for demand in the industrial market remains strong, yet lease and sale volume will remain at lower levels due to a lack of supply, limited alternatives on expansion opportunities for users and higher peak prices.
Market Statistics

<table>
<thead>
<tr>
<th>SUBMARKET</th>
<th>EXISTING TOTAL RBA (SF)</th>
<th>UNDER CONSTRUCTION (SF)</th>
<th>TOTAL AVAILABLE (%)</th>
<th>TOTAL VACANCY (%)</th>
<th>3Q16 LEASING VOLUME (SF)</th>
<th>YTD LEASING VOLUME (SF)</th>
<th>3Q16 SALES VOLUME (SF)</th>
<th>YTD SALES VOLUME (SF)</th>
<th>AVERAGE ASKING RENT $/PSF NNN</th>
<th>AVERAGE SALE PRICE $/PSF</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>97,418,289</td>
<td>218,648</td>
<td>2.6%</td>
<td>1.9%</td>
<td>956,644</td>
<td>3,527,049</td>
<td>871,535</td>
<td>1.9%</td>
<td>$0.64</td>
<td>$209</td>
</tr>
<tr>
<td>West</td>
<td>41,843,584</td>
<td>0</td>
<td>4.1%</td>
<td>2.3%</td>
<td>394,841</td>
<td>1,917,061</td>
<td>205,418</td>
<td>2.3%</td>
<td>$0.71</td>
<td>$140</td>
</tr>
<tr>
<td>Airport</td>
<td>55,211,906</td>
<td>51,450</td>
<td>5.2%</td>
<td>3.1%</td>
<td>587,695</td>
<td>1,908,880</td>
<td>406,862</td>
<td>3.1%</td>
<td>$0.76</td>
<td>$189</td>
</tr>
<tr>
<td>South</td>
<td>31,450,691</td>
<td>0</td>
<td>4.2%</td>
<td>2.7%</td>
<td>538,462</td>
<td>1,330,463</td>
<td>219,572</td>
<td>2.7%</td>
<td>$0.93</td>
<td>$221</td>
</tr>
<tr>
<td>Total</td>
<td>225,924,470</td>
<td>270,098</td>
<td>3.8%</td>
<td>2.3%</td>
<td>2,477,642</td>
<td>8,683,453</td>
<td>3,013,869</td>
<td>2.3%</td>
<td>$0.75</td>
<td>$184</td>
</tr>
</tbody>
</table>

RBA includes industrial buildings of all sizes. Rents reflect buildings of at least 10,000 square feet.

Leasing

Leasing volume registered 8.6 million square feet year to date this quarter, indicating a 9.4% decline over last year. Direct rents in Orange County averaged $0.75/SF, up 10.3% from last year. Average asking rents are just $0.02 shy of the previous peak reached in 2008. Landlords continue to have considerable leverage in the market and concessions are minimal, while tenants looking for alternative space find they lack options especially for quality space.

Sales

Orange County industrial sale volume continues to be robust. While the average sale price per square foot has increased 18% from last year, higher pricing has forced users to focus the function and efficiency of buildings. In addition, higher land values have resulted in the development of owner user projects with smaller footprints at higher pricing levels to justify the increased land value. Significant sale transactions include the sale of 1230 N Tustin Ave. The 145,991 square foot manufacturing building was purchased by Gramercy Property Trust for $28,000,000 ($192/SF) and 12321 Western Ave, Garden Grove. The 64,705 square foot industrial building was purchased by Trico Development to be converted to self-storage for $9,000,000 ($139/SF).

Select Lease Transactions

<table>
<thead>
<tr>
<th>TENANT</th>
<th>BUILDING ADDRESS</th>
<th>SUBMARKET</th>
<th>ASKING RATE/ SF*</th>
<th>SQUARE FEET</th>
</tr>
</thead>
<tbody>
<tr>
<td>3PL Global LLC</td>
<td>601 S Acacia Ave</td>
<td>North</td>
<td>$0.62</td>
<td>441,020</td>
</tr>
<tr>
<td>Amazon</td>
<td>17871 Von Karman Ave</td>
<td>Airport</td>
<td>Not Disclosed</td>
<td>187,817</td>
</tr>
<tr>
<td>ASEA Power Systems</td>
<td>15282 Newsboy Cir</td>
<td>West</td>
<td>$0.67</td>
<td>57,914</td>
</tr>
<tr>
<td>Aseptic Technologies</td>
<td>4920-4970 E Landon Dr</td>
<td>North</td>
<td>$0.70</td>
<td>37,771</td>
</tr>
<tr>
<td>Provenza Floors</td>
<td>2610 S Birch St</td>
<td>Airport</td>
<td>$0.74</td>
<td>36,352</td>
</tr>
</tbody>
</table>

*All rents are NNN unless otherwise noted

Select Sales Transactions

<table>
<thead>
<tr>
<th>BUYER</th>
<th>BUILDING ADDRESS</th>
<th>SUBMARKET</th>
<th>PRICE/SF</th>
<th>SQUARE FEET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gramercy Property Trust</td>
<td>1230 N Tustin Ave</td>
<td>North</td>
<td>$192</td>
<td>145,991</td>
</tr>
<tr>
<td>Trico Development</td>
<td>12321 Western Ave</td>
<td>West</td>
<td>$139</td>
<td>64,705</td>
</tr>
<tr>
<td>JML Enterprises</td>
<td>12300 Monarch St</td>
<td>West</td>
<td>$143</td>
<td>53,802</td>
</tr>
<tr>
<td>Trelleborg Holding Inc</td>
<td>2761 Walnut</td>
<td>Airport</td>
<td>$195</td>
<td>50,000</td>
</tr>
<tr>
<td>Scott King</td>
<td>2401 Pullman St</td>
<td>Airport</td>
<td>$205</td>
<td>45,411</td>
</tr>
</tbody>
</table>
NAI Capital Research

J.C. Casillas
Vice President
Research, Marketing and Communications
jcasillas@naicapital.com

Jillian Olivas
Research and Communications Assistant
jolivas@naicapital.com

Kevin de Bree
Research Analyst
kdeebree@naicapital.com

NAI Capital Southern California Office Locations

**Headquarters**

**Encino**
16001 Ventura Blvd., Ste. 200
Encino, CA 91436
(818) 905-2400

**Los Angeles County**

**Commerce**
500 Citadel Dr., Ste. 100
Los Angeles, CA 90040
(323) 201-3600

**Diamond Bar**
21660 E. Copley Dr., Ste. 320
Diamond Bar, CA 91765
(909) 348-0600

**Pasadena**
225 S. Lake Ave., Ste. 1170
Pasadena, CA 91101
(626) 564-4800

**Torrance**
970 W. 190th St. Dr., Ste. 100
Torrance, CA 90502
(310) 522-9080

**Valencia**
27451 Tourney Rd., Ste. 200
Valencia, CA 91355
(661) 705-3550

**West Los Angeles**
11836 Olympic Blvd., Ste. 700E
Los Angeles, CA 90064
(310) 440-8500

**Ventura County**

**Oxnard**
300 Esplanade Dr., Ste. 1660
Oxnard, CA 93036
(805) 278-1400

**Westlake Village**
2555 Townsgate Rd., Ste. 320
Westlake Village, CA 91361
(805) 446-2400

**Simi Valley**
2655 First St., Ste. 250
Simi Valley, CA 93065
(805) 522-7132

**Orange County**

**Irvine**
1920 Main St., Ste. 100
Irvine, CA 92614
(949) 854-6600

**San Clemente**
120 1/2 South El Camino Real, Ste. 210
San Clemente, CA 92674
(949) 874-0415

**Inland Empire**

**Ontario**
800 N. Haven Dr., Ste. 400
Ontario, CA 91764
(909) 945-2339

**Temecula**
27720 Jefferson Ave., Ste. 330
Temecula, CA 92590
(951) 491-7590

**Victorville**
13911 Park Avenue, Ste. 206
Victorville, CA 92392
(760) 780-4200

**Coachella Valley**

**Palm Desert**
75-410 Gerald Ford Dr., Ste. 200
Palm Desert, CA 92211
(760) 346-1566

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