MARKET OVERVIEW

Rents surpassed the prior peak while vacancy ended the second quarter of 2017 at the lowest level on record. Vacancy ended the quarter at 2.4%, down 30 basis points over the previous quarter and down 40 basis points from this time in 2016. Market activity was mixed among sales and leasing this quarter, with an increase in sale volume but a decline in leasing volume. Lack of land for development opportunities has limited construction over the last several years. There is just one construction project underway in Orange County- a 144,000 square foot warehouse in Anaheim that has been fully leased to Rosendin Electric. The sole delivery this quarter is a 181,000 square foot freestanding warehouse in Fullerton, which is available for sale or lease for an undisclosed price. Demand is driven by a strong economy as well as cargo volume from the ports of Los Angeles and Long Beach. In the first five months of 2017, more than 6.5 million TEUs have filtered through the two ports. Combined import volume for 2017 year to date is up 5.3% from this time last year. Consumer demand for imported goods is driving the increased cargo volume and is expected to continue to push demand for warehouse distribution space.

TRENDS TO WATCH

The Orange County industrial market is expected to remain extremely tight throughout the rest of the year, as supply will not be able to keep up with demand. Land for development is expensive if it can be found at all, and is usually more valuable to a developer as office or multifamily housing. Users looking to expand are being forced into the neighboring Inland Empire due to lack of available space. Redevelopment of older existing properties could be the answer to supply constraints for those looking to remain in Orange County. Expect investors and developers to continue to look for opportunities in Orange County, when available, due to strong rent growth and low risk of oversupply.

Average Asking Rent and Vacancy Rate

![Graph showing average asking rent and vacancy rate](image.png)

Source: NAI Capital Research, CoStar
## 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>2017 LEASING VOLUME (SF)</th>
<th>YTD LEASING VOLUME (SF)</th>
<th>2017 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>Airport</td>
<td>54,491,565</td>
<td>51,450</td>
<td>4.4%</td>
<td>3.2%</td>
<td>375,157</td>
<td>937,944</td>
<td>956,861</td>
<td>1,459,645</td>
<td>$0.79</td>
<td>$141</td>
</tr>
<tr>
<td>North</td>
<td>97,930,931</td>
<td>144,008</td>
<td>3.0%</td>
<td>2.0%</td>
<td>695,379</td>
<td>1,715,411</td>
<td>1,166,767</td>
<td>2,127,977</td>
<td>$0.72</td>
<td>$169</td>
</tr>
<tr>
<td>South</td>
<td>31,381,119</td>
<td>0</td>
<td>6.1%</td>
<td>2.5%</td>
<td>136,354</td>
<td>390,536</td>
<td>132,341</td>
<td>204,999</td>
<td>$0.98</td>
<td>$177</td>
</tr>
<tr>
<td>West</td>
<td>41,761,541</td>
<td>0</td>
<td>4.5%</td>
<td>2.4%</td>
<td>262,786</td>
<td>549,135</td>
<td>154,187</td>
<td>373,574</td>
<td>$0.78</td>
<td>$181</td>
</tr>
<tr>
<td>Total</td>
<td>225,565,156</td>
<td>195,458</td>
<td>4.1%</td>
<td>2.4%</td>
<td>1,469,676</td>
<td>3,593,026</td>
<td>2,410,156</td>
<td>4,166,195</td>
<td>$0.80</td>
<td>$187</td>
</tr>
</tbody>
</table>

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

## Leasing Trends

Leasing volume totaled nearly 1.5 million square feet in the second quarter of 2017, indicating a 30.2% decline over the previous quarter and a 55.7% decline from this time last year. The significant decline in leasing volume reflects a supply strapped market with more demand than supply, which is also pushing rental rates even higher. Average direct asking rents in Orange County were $0.80/SF this quarter, up 3.9% from last quarter and 9.6% from last year at this time. Asking rents have surpassed the prior peak in 2008 by $0.03/SF. This quarter, California Hi-Lites, Inc., a packaging and fulfillment company, leased 112,746 square feet in a warehouse/distribution property in Fullerton at a $0.62/SF asking rate. Additionally, freight forwarder Flexport leased 102,367 square feet of warehouse/distribution space in Buena Park at an asking rate of $0.78/SF.

## Sales Trends

There was a surge in sale volume in the second quarter. More than 2.4 million square feet sold this quarter for a total of more than 4.1 million square feet sold year to date. This is an increase of 64.4% from over the first half of 2016. Investors are taking advantage of the high demand and low perceived risk of industrial properties. The average sale price has also increased over last year, growing 7.6% to $187/SF with average cap rates at 5.3%. In June, 1575 Sunflower LLC purchased the 6 building Costa Mesa Business Center, a 230,608 square foot industrial park, for $119/SF. Trumark Companies purchased a two-building 135,582 square foot warehouse in Anaheim for $182/SF.

## Select Lease Transactions

<table>
<thead>
<tr>
<th>TENANT</th>
<th>ADDRESS</th>
<th>SUBMARKET</th>
<th>ASKING RENT $/PSF*</th>
<th>SQUARE FEET</th>
</tr>
</thead>
<tbody>
<tr>
<td>California Hi-Lites, Inc.</td>
<td>2100 E Valencia Dr North</td>
<td>$0.62</td>
<td>112,746</td>
<td></td>
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<tr>
<td>Flexport, Inc.</td>
<td>6201-6221 Knott Ave West</td>
<td>$0.78</td>
<td>102,367</td>
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<tr>
<td>Truck and Car Shop</td>
<td>654 N Hariton St North</td>
<td>$0.80</td>
<td>37,928</td>
<td></td>
</tr>
<tr>
<td>Fntech</td>
<td>3000-3010 W Segerstrom Ave Airport</td>
<td>$0.79</td>
<td>35,112</td>
<td></td>
</tr>
<tr>
<td>Icon Store</td>
<td>1604 Collins Ave North</td>
<td>$0.92</td>
<td>16,478</td>
<td></td>
</tr>
</tbody>
</table>

*All rents are NNN unless otherwise noted.

## Select Sales Transactions

<table>
<thead>
<tr>
<th>BUYER</th>
<th>ADDRESS</th>
<th>SUBMARKET</th>
<th>SALE PRICE $/PSF</th>
<th>SQUARE FEET</th>
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</thead>
<tbody>
<tr>
<td>1575 Sunflower LLC</td>
<td>3396 Sunland Way Airport</td>
<td>$119</td>
<td>230,608</td>
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<tr>
<td>Trumark Companies</td>
<td>1654-1700 S Lewis St North</td>
<td>$182</td>
<td>135,582</td>
<td></td>
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<tr>
<td>Calton Corporation</td>
<td>5455 E La Palma Ave North</td>
<td>$125</td>
<td>127,122</td>
<td></td>
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<tr>
<td>6110 Valley View LLC</td>
<td>6180-6190 Valley View Ave West</td>
<td>$150</td>
<td>119,460</td>
<td></td>
</tr>
<tr>
<td>BLT Enterprises</td>
<td>1650 Sunflower Ave Airport</td>
<td>$298</td>
<td>112,000</td>
<td></td>
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Orange County
Industrial Market Outlook 2Q 2017

North
- Anaheim
- Brea
- Fullerton
- La Habra
- Orange
- Villa Park
- Yorba Linda

West
- Buena Park
- Cypress
- Fountain Valley
- Garden Grove
- Huntington Beach
- Seal Beach
- Stanton

Airport
- Costa Mesa
- Irvine
- Newport Beach
- Santa Ana
- Tustin
- Tustin Foothills

South
- Aliso Viejo
- Dana Point
- Foothill Ranch
- Laguna Hills
- Laguna Niguel
- Lake Forest
- Mission Viejo
- Rancho Santa Margarita
- San Clemente
- San Juan Capistrano
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949.874.0415

**Los Angeles County**

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Los Angeles, CA 90017
213.632.7700

**West Los Angeles**
11835 Olympic Blvd., Ste. 700E
Los Angeles, CA 90064
310.440.8500

**Torrance**
970 W. 190th St. Dr., Ste. 100
Torrance, CA 90502
310.532.9080

**Pasadena**
225 S. Lake Ave., Ste. 1170
Pasadena, CA 91101
626.564.4800

**Valencia**
27451 Tourney Rd., Ste. 200
Valencia, CA 91355
661.705.3550

**Diamond Bar**
21660 E. Copley Dr., Ste. 320
Diamond Bar, CA 91765
909.348.0600

**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

**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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