



SIO R

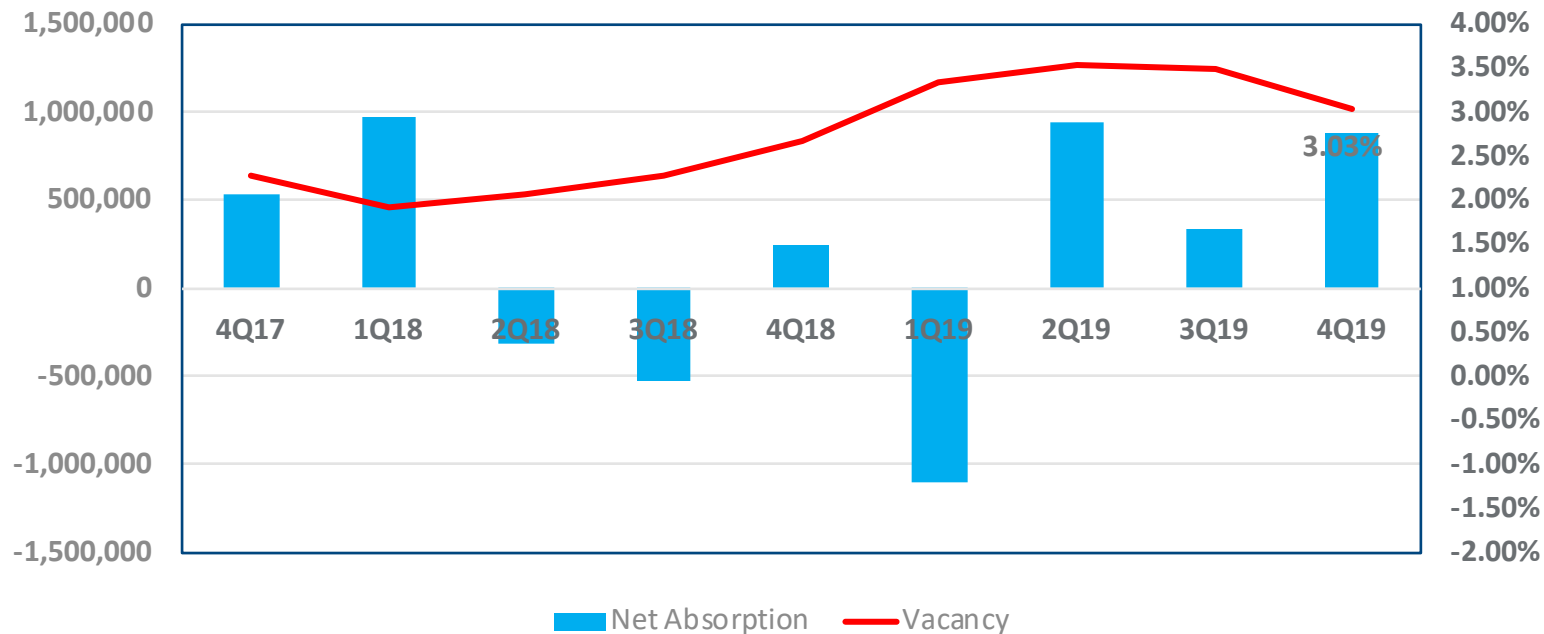
INLAND EMPIRE &
ORANGE COUNTY CHAPTER

Orange County Industrial Market Overview

Seth Davenport
Executive Vice President | Partner

Voit
REAL ESTATE SERVICES

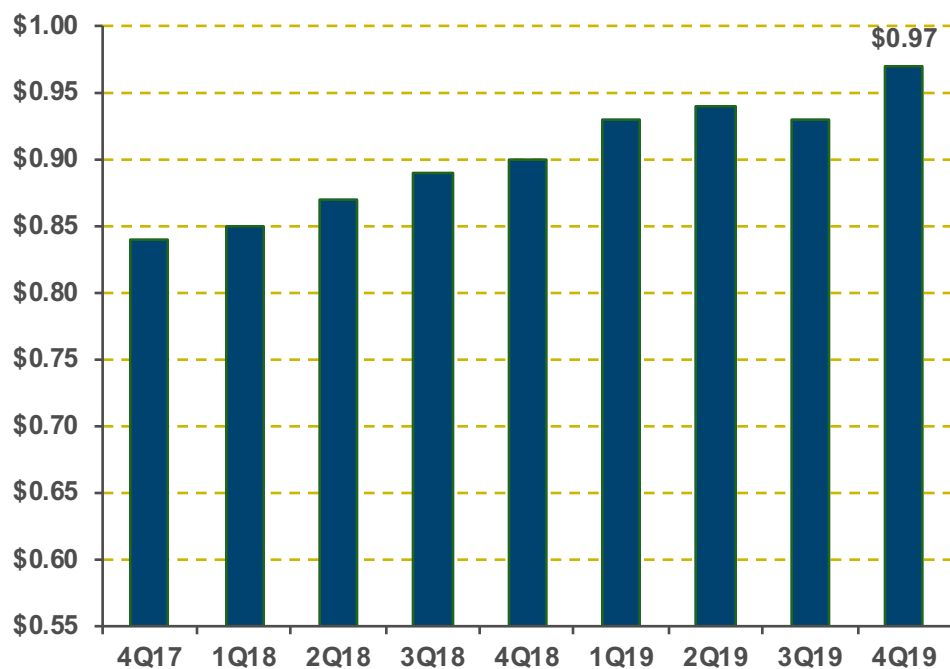
VACANCY & NET ABSORPTION



- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 3.03%—lower than last quarter's rate of 3.51% but still higher than last year's rate of 2.66%. Low vacancy will help to insulate the market from the impact of a possible market correction going forward, as the current supply could be readily absorbed even if demand fell significantly.
- Vacancy under 100,000 SF, direct/sublease space (unoccupied) finished the quarter at 2.0%—lower than last quarter's rate of 2.4%.
- **Net Absorption** - Fourth quarter net absorption hit 886,529 square feet, bringing 2019's net increase in occupied space up to 1,075,624 square feet. Tenants that moved into large blocks of space in the fourth quarter included: Amazon (414,309 square feet in Santa Ana and 143,248 SF in Anaheim), Total Transportation & Distribution, Inc. (309,439 square feet in Fullerton), OneSource Distributors (212,202 square feet in Fullerton) and Robinson Pharma (100,233 square feet in Costa Mesa).

WEIGHTED AVERAGE ASKING LEASE RATES

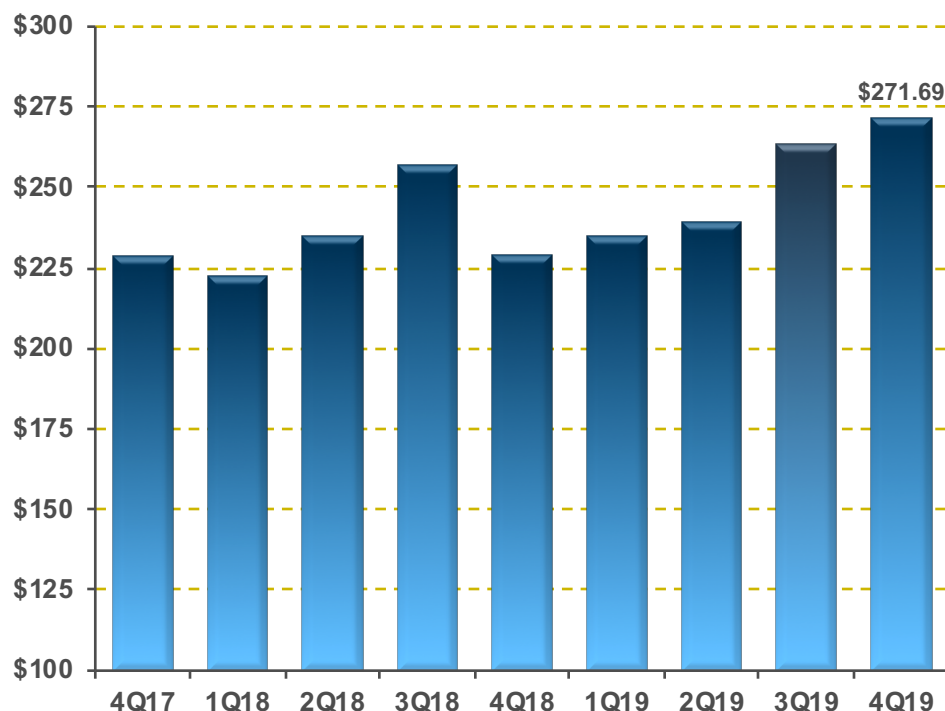
*NNN Basis For Mfg. & Dist. Product
(All Building Sizes)



- Average Asking Lease Rates Increased by 7.78% in 2019.
- Rates have been steadily trending upwards since 2010.
- Seeing strong activity across most industrial classes.
- Tenants renewing leases are still experiencing severe “sticker shock.”

WEIGHTED AVERAGE ASKING SALES PRICES

*PSF For Mfg. & Dist. Product
(All Building Sizes)



- The Orange County industrial market's average asking price at year end rose to \$271.69 per square foot (average price tracks 1,000 square foot buildings and larger). While sale prices vary greatly depending on the size range, this represents an increase of nearly 18.56% from the fourth quarter of 2018.
- Investors continue to target Orange County and market cap rates have settled near 5%, which is less than returns in the office sector and a bit higher than the yield on multifamily properties.
- Industrial assets in Orange County continue to draw significant investor interest. Total industrial sales volume in Orange County over the past three years is roughly \$6.1 billion. Among other property types, only office assets commanded higher totals.

New Development

- During 2019, Orange County added a total of 422,630 square feet of new industrial space. For perspective, the recent high point for new development was 2014 when 1.17 MSF of new space was added (vacancy rates were approximately 2.94%).
- Total space under construction checked in at 690,220 by year end.
- Significant projects include the Shea project on Dyer Road in Santa Ana, a nine-building industrial park totaling 497,638 square feet.
- The first phase of the Los Patrones Business Park comprised of three new multi-tenant buildings, totaling 99,200 SF on 9.36 acres.
- Two building project at S. Lakeview Loop Way in Placentia totaling 93,382 SF

Major Trends

- E-Commerce has finally arrived to Orange County.
- Last mile activity is robust.
- Development is limited to larger buildings due to cost of construction, land values, and increase in lease rates.
- Pricing of larger blocks of space no longer discounted compared to smaller blocks.
- Sale prices and lease rates appreciation slowing.
- Reduction in tenant concessions.
- Increase in time on market.
- Low supply. Low demand.
- “Spotty” market. Importance of pricing and presentation.
- Residential redevelopment.
- Covered land plays.

E-Commerce & Third Party Logistics

- Amazon – Leasing 3 buildings totaling 879,633 SF.
- UNIS – Leasing 1,075,347 SF at CenterPoint Valley View site.

MAJOR TRANSACTIONS FOR 2019

Sale Activity

Property Address	City	Square Feet	Sale Price	Price/SF	Buyer	Seller
9300 Toledo Way	Irvine Spectrum	1,193,692	\$277,715,000	\$232.65	CenterPoint	Albertson Companies
2001 E Orangethorpe Ave.	Fullerton	1,300,000	\$202,057,000	\$70.99	Goodman	Kimberly Clark
Beckman Business Center	Fullerton	663,257	\$123,644,369	\$186.42	Prologis	PSIP WR Fullerton, LLC
6400-6450 Katella Ave.	Cypress	361,200	\$57,000,000	\$159.19	Greenlaw Partners	Mitsubishi Motors North America
3201 S. Susan St.	Santa Ana	202,522	\$37,195,406	\$183.66	CenterPoint	The Dixie Group, Inc.
12752-12822 Monarch St.	Garden Grove	276,585	\$34,000,000	\$122.93	Rexford Industrial Realty, Inc.	Western Realco
14401-14471 Myford Rd.	Tustin	93,180	\$32,360,000	\$347.28	Panattoni	AT&T, Inc.
404-424 N. Berry St.	Brea	120,250	\$27,600,000	\$229.52	Rexford Industrial Realty, Inc.	PSIP WR Berry LLC

Leasing Activity

Property Address	City	Square Feet	Lease Rate	Term (Month)	Tenant	Landlord
6800 Valley View St.	Buena Park	1,075,347	\$0.71 NNN	84	UNIS	Centerpoint
6700-6750 Artesia Blvd	Buena Park	447,055	\$0.83 NNN	64	IDC Logistics	Comref So Cal Industrial Sub G
515 E. Dyer Rd.	Santa Ana	414,309	N/A	N/A	Amazon	Hines
25725 Jeronimo Rd.	Mission Viejo	322,076	N/A	N/A	Amazon	MV Unisys LLC
210 E. Lambert Rd.	Fullerton	309,439	\$0.86 NNN	74	Total Transportation & Distribution, Inc.	Prologis
4278 N. Harbor Blvd.	Fullerton	212,202	\$0.84 NNN	125	OneSource Distributors	Prologis
3201 S. Susan St.	Santa Ana	202,522	\$0.86 NNN	120	Fabrica Carpet & Fine Rug	CenterPoint

ORANGE COUNTY INDUSTRIAL MARKET STATISTICS 4Q19

	4Q 2008	4Q 2010	4Q 2019	% Change Since 2008	% Change Since 2010
Vacancy Rate	3.90%	4.59%	3.03%	-22.31%	-33.99%
Available Rate	8.03%	9.31%	4.11%	-48.82%	-55.85%
Average Asking Lease Rate (NNN)	\$0.72	\$0.54	\$0.97	34.72%	79.63%
Average Asking Sale Price	\$160.37	\$119.33	\$271.69	69.41%	127.68%
Sale & Lease Transactions	13,168,988	21,549,701	20,845,139	58.29%	-3.27%
Gross Absorption	11,771,061	14,795,477	11,250,411	-4.42%	-23.96%
Net Absorption	113,013	850,934	1,075,624	N/A	N/A

- **Forecast** – Signs of a global economic slowdown, concerns over US-China trade relations and a decline in the US GDP growth rate motivated the Fed to cut its benchmark Federal Funds Rate 3 times in 2019. That effort to stimulate consumer spending and business investment seems to be working. Equity markets responded by rising to new highs and the spread between short- and long-term US Treasuries widened again after a dangerous inversion earlier in the year. The latest estimates for domestic GDP growth for 2020 are running in the low 2% range, which should be enough to keep the current economic recovery on track. Yet, questions over global economic growth and election year uncertainty here at home remain a threat to what the longest economic up-cycle in US history is now.
- **Lease Rates** - After industrial rents averaged more than 9% annual growth over the past five years, the pace of gains has decelerated in recent quarters. Given that vacancies remain extremely low, this is likely an indication that years of outsized rent gains have pushed costs about as high as the market will bear. Expect rent growth to slow into the 3% range in 2020
- **Vacancy** – The Orange County market remains healthy and demand for industrial space is expected to remain strong, keeping vacancy rates in the 2.0 – 3.0% range over the next three quarters. Longer marketing time for less functional space will persist.
- **2020 Election** – Market could stall if the Presidential race appears to be highly competitive as decision makers often put off decisions until after the elections.
- **To Split Or Not To Split** – 2020 Prop B initiative and its implications.

Q & A Discussion



714.978.7880 www.VoitCo.com