

2017'S DYNAMIC MARKET CONDITIONS CARRY OPTIMISM INTO 2018. As we enter the ninth year of economic recovery and expansion, the second longest in US history, OC's competitive and diverse industrial market continues to thrive. With demand outpacing supply across all size ranges, lease rates and sale prices have accelerated past previous highs, up 12% on average over the fourth quarter of 2016. While this comes as welcome news to landlords, tenants are now challenged to compete for limited and expensive opportunities with very little help from owners in the way of concessions.

Third-party logistics and "last mile" users related with e-commerce are becoming more significant players in the infill market of Orange County. The overall supply chain of most retailers is evolving and responding to consumer buying patterns by decreasing delivery times. Other active and expanding industries in the fourth quarter of 2017, still carrying momentum into 2018, include food and beverage, aerospace, apparel, home improvement, medical and nutraceutical. While more established companies have already executed on expanding into larger, centralized facilities over the past several years, we are now seeing many of these occupiers acquire smaller spaces (25,000–50,000 square feet) near their existing facilities to accommodate further expansion.

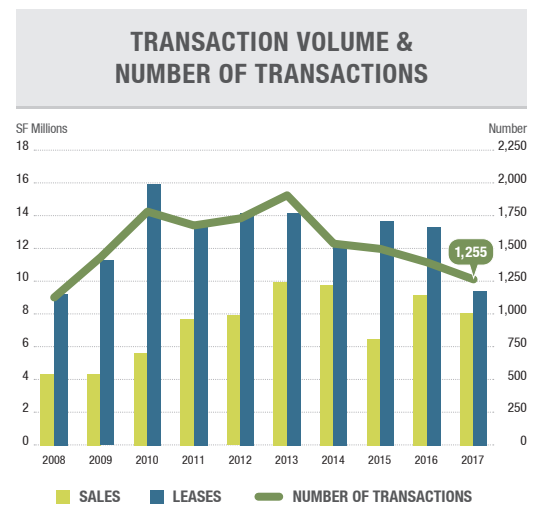
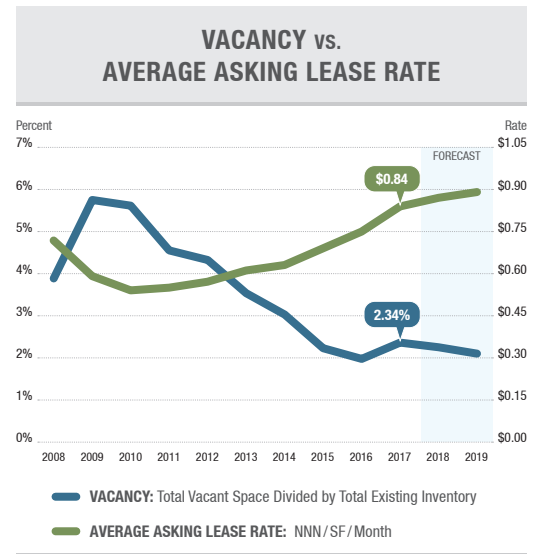
The flow of investment capital (foreign and domestic) targeting this region remains robust, driving prices up and cap rates down. With the new tax changes providing favorable treatment to real estate investors and corporations alike, expect overall demand and capital investment to increase in the coming quarters.

VACANCY. Direct vacancy rates in the industrial market rose slightly from 2.31% in the third quarter to 2.34% in the fourth quarter of 2017. We are forecasting that vacancy will trend downward in 2018, providing even fewer alternatives for local tenants. For tenants and buyers alike, being prepared, being able to react, and being willing to pursue "off market" deals will be keys for success in this competitive landscape. This tight market gives landlords the ability to push rents, extend lease terms and potentially upgrade the credit of their tenants.

LEASE RATES. The average asking lease rate, which incorporates all size ranges and submarkets throughout Orange County, is \$0.84 NNN per square foot per month, a one cent per square foot increase from last quarter and a \$0.09 cent per square foot increase from a year ago (12% annual increase). Tenants looking to renew leases signed in 2012–2013 are going to experience severe "sticker shock" based on the supply and demand imbalance.

SALE PRICES. The Orange County industrial market's average asking price at the end of the fourth quarter of 2017 came in at just under \$264.28 per square foot (average price tracks 1,000 square foot buildings and larger). While sale prices vary greatly depending on the size of the building and an average sale price doesn't tell the entire story, this represents an increase of more than 12% from the fourth quarter of 2016. Even though transaction volume is down based on the lack of product, interest rates are still attractive, and demand remains "red hot" across all size ranges. Users and investors will continue to compete in this "multiple offer" environment and will need to be both aggressive and creative to win out. As interest rates move up we expect to see more modest levels of appreciation in 2018.

TRANSACTION ACTIVITY. The overall lack of inventory continues to negatively impact transaction volume. Annual leasing activity checked in at nearly 9.36 million square feet for 2017, a decrease over the previous year's total of 13.2 million square feet. Sales volume also slowed, posting 8 million square feet of activity compared to the 9.1 million square feet we saw in 2016. On a quarterly basis volume also slipped from 4.9 million square feet in the third quarter of 2017 to roughly 3.2 million square feet in the fourth quarter of 2017. Notable lease transactions for the fourth quarter include: Southland Industries' lease of 207,953 square feet at 12131 Western Avenue in Garden Grove, Legacy Farm's lease of 128,372 square feet at 1765 W. Penhall Way in Anaheim, and Titan Footwear's lease of 84,754 square feet at 15342 Graham Street in Huntington Beach.



Market Statistics

	Change Over Last Quarter	4Q 2017	3Q 2017	4Q 2016	% Change Over Last Year
Vacancy Rate	▲ UP	2.34%	2.31%	1.97%	18.78%
Availability Rate	▲ UP	4.58%	4.46%	3.75%	22.13%
Average Asking Lease Rate	▲ UP	\$0.84	\$0.83	\$0.75	12.00%
Average Asking Sale Price	▲ UP	\$264.28	\$260.81	\$235.97	12.00%
Sale & Lease Transactions	▼ DOWN	3,173,592	4,972,654	5,491,313	(42.21%)
Gross Absorption	▲ UP	2,999,608	2,891,065	3,258,326	(7.94%)
Net Absorption	▼ NEGATIVE	(186,226)	147,106	565,040	N/A

LEASE RATES. The supply and demand imbalance will continue causing asking rents to increase by a minimum of 3% to reach a level of \$0.87 per square foot by the end of 2018, with more robust increases coming in Class A buildings with modern features such as 30' warehouse clearance, ample dock-high loading, fenced yards and immediate freeway access.

VACANCY. With low vacancy rates and a demand for industrial space, new users are finding it challenging to locate space and existing users are having a difficult time expanding operations. With limited new product coming online and tenants electing to recommit or to renew in larger blocks of space, expect vacancy rates to remain below 2.1% well into 2018.

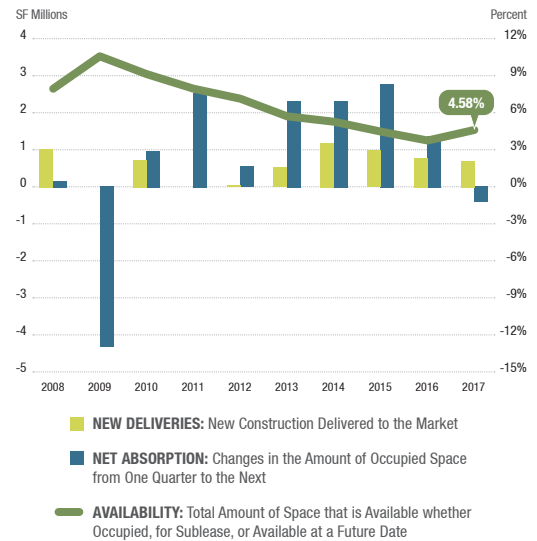
OVERALL. The Orange County market in 2018 will be characterized by increased capital flows/investor demand, strong tenant/user activity and continued increases in sale prices and lease rates. With limited new deliveries, expect the supply and demand imbalance to remain, ultimately benefiting landlords. Users and investors will continue to target this area given its highly educated workforce and proximity to affluent households. Industrial occupiers will tend to focus more on location than function in the coming quarters given the lack of product and our aging industrial base. Larger tenants with future expansion plans may start looking east to the Inland Empire to find larger blocks of quality spaces at lower costs. Consumer sentiment in the market is positive, aided by a robust stock market and the new tax laws put in place to encourage both investment and job growth.

CONSTRUCTION. During 2017, Orange County added a total of 683,753 square feet of new industrial space. For perspective, the recent high point for new development was 2014 when 1.17 million square feet of new space was added (vacancy rates were approximately 5.26%). Total space under construction checked in at 793,138 million square feet at the end of 2017. Even though the market is craving new product, Orange County is short on industrial land. The most notable new construction involves the redevelopment of the former Beckman Coulter Campus in Fullerton (Western Realco, 1 million square feet on 45 acres). Expected delivery is third quarter of 2018 and initial interest across all size ranges has been strong. There are also smaller projects of 5–10 acres still in the planning phases in Brea, Anaheim and Placentia. With limited infill parcels now approaching \$50 per square foot in some cases, do not expect any significant new construction in the coming quarters.

ABSORPTION. Net absorption for the county posted a negative 186,226 square feet for the fourth quarter of 2017, giving the industrial market a total of 690,448 square feet of negative absorption for the year. The Airport Area experienced the biggest swing in 2017 with a 3.53% vacancy rate and a negative 687,938 square feet of absorption. This increase in available space is largely due to the Royalty Carpets spaces coming online, adding 750,000 square feet of supply to the submarket.

ECONOMY. The unemployment rate in Orange County was 2.8% in November 2017, down from a revised 3.3% in October 2017, and below the year-ago estimate of 3.7%. Orange County trails only the Silicon Valley and San Diego with its number of tech-related jobs. The manufacturing sector is expanding slowly, confined primarily to high value-add sectors like aerospace and medical. Lower value-add jobs are leaving the area or being replaced by automation.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller	
515 E Dyer Rd.	Santa Ana	414,308	\$45,580,000	MDD Partners LP	515 Dyer Property Owner, LLC	
4150 N. Palm	Fullerton	181,069	\$32,592,420	Independent Trading Company	Western Realco/AEW	
17822 Gillette Ave.	Irvine	127,490	\$28,500,000	Intracorp Companies	Greenlaw Partners	
30142 Avenida De La Banderas	Rancho Santa Margarita	88,672	\$16,500,000	Applied Medical	Car Sound Exhaust	
6301 Orangethorpe Ave.	Buena Park	15,005	\$3,151,050	Natureware, Inc. *	Ham Family Trust *	

Leases						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner	
12131 Western Ave.	Garden Grove	207,953	Oct-2017	Southland Industries	Rexford Industrial-Western *	
1765 W. Penhall Way	Anaheim	128,372	Dec-2017	Legacy Farms	The Carson Companies	
1200 Valencia Ave.	Tustin	125,500	Dec-2017	B Braun Medical, LLC	GLP US Management, LLP	
6590 Darin Way – Sublease	Cypress	63,792	Nov-2017	Natureware, Inc. *	Sika Corporation	
337 Freedom Ave.	Orange	49,515	Oct-2017	SecurityBase.com	Mission Plaza Properties *	

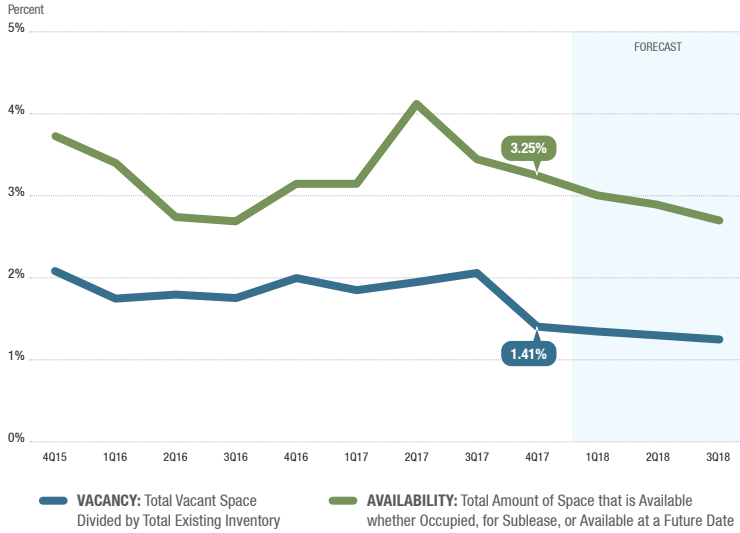
	INVENTORY				VACANCY & LEASE RATES					ABSORPTION				
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2017	Square Feet Available	Availability Rate 4Q2017	Average Asking Lease Rate	Average Asking Sales Price	Net Absorption 4Q2017	Net Absorption 2017	Gross Absorption 4Q2017	Gross Absorption 2017
Airport Area														
Costa Mesa	423	7,572,250	0	0	136,407	1.80%	213,494	2.82%	\$0.85	\$394.15	(11,857)	33,162	97,916	379,654
Fountain Valley	186	3,857,245	0	73,200	40,528	1.05%	203,509	5.28%	\$0.00	\$0.00	31,912	34,840	40,432	162,604
Irvine	314	12,192,918	0	0	649,545	5.33%	909,708	7.46%	\$0.79	\$337.29	(148,389)	(154,597)	154,373	589,124
Newport Beach	48	572,594	0	0	17,723	3.10%	17,723	3.10%	\$0.00	\$0.00	2,500	(17,723)	4,934	10,134
Santa Ana	1,572	29,675,430	0	527,691	974,100	3.28%	1,301,230	4.38%	\$0.83	\$222.22	(15,828)	(626,520)	317,807	1,242,453
Tustin	114	4,432,899	0	0	241,893	5.46%	787,263	17.76%	\$0.68	\$293.89	(1,200)	42,900	0	140,947
Airport Area Total	2,657	58,303,336	0	600,891	2,060,196	3.53%	3,432,927	5.89%	\$0.80	\$290.24	(142,862)	(687,938)	615,462	2,524,916
North County														
Anaheim	1,831	44,863,396	0	0	465,862	1.04%	892,152	1.99%	\$0.91	\$230.16	257,880	194,279	670,057	1,626,788
Brea	330	12,102,763	0	0	285,838	2.36%	369,086	3.05%	\$0.82	\$258.77	(6,645)	480,214	58,851	798,836
Buena Park	229	13,430,064	0	0	106,466	0.79%	1,414,362	10.53%	\$0.86	\$296.44	(36,732)	(36,013)	111,342	319,807
Fullerton	447	19,488,945	793,138	42,000	370,706	1.90%	344,451	1.77%	\$0.53	\$220.25	57,965	107,729	362,038	1,366,150
La Habra	198	3,493,102	0	0	36,630	1.05%	31,331	0.90%	\$0.00	\$216.69	7,341	(2,173)	33,273	98,525
Orange	739	13,675,389	0	0	241,202	1.76%	339,314	2.48%	\$0.79	\$218.00	62,401	(109,040)	191,304	499,769
Placentia	218	4,059,672	0	0	45,537	1.12%	78,069	1.92%	\$0.00	\$206.34	41,022	(18,617)	49,242	102,717
Yorba Linda	52	992,941	0	0	24,152	2.43%	171,908	17.31%	\$0.00	\$285.00	(12,789)	(2,172)	10,019	83,409
North County Total	4,044	112,106,272	793,138	42,000	1,576,393	1.41%	3,640,673	3.25%	\$0.80	\$228.24	370,443	614,207	1,486,126	4,896,001
South County														
Aliso Viejo	16	662,132	0	0	0	0.00%	19,680	2.97%	\$1.21	\$0.00	19,680	19,680	19,680	19,680
Foothill Ranch	68	3,555,303	0	0	207,390	5.83%	276,978	7.79%	\$0.75	\$0.00	(63,737)	38,238	7,550	149,774
Irvine Spectrum	213	9,923,732	0	0	405,946	4.09%	1,100,773	11.09%	\$0.96	\$332.11	(182,245)	(292,342)	145,551	391,727
Laguna Beach	19	91,053	0	0	15,356	16.86%	15,356	16.86%	\$0.00	\$0.00	(8,231)	(12,076)	0	895
Laguna Hills	73	1,040,287	0	0	9,910	0.95%	15,006	1.44%	\$1.25	\$365.24	955	(2,598)	17,360	44,825
Laguna Niguel	20	279,095	0	0	0	0.00%	0	0.00%	\$0.00	\$0.00	0	0	0	0
Lake Forest	189	4,132,524	0	0	124,273	3.01%	169,384	4.10%	\$1.10	\$322.33	8,388	221,713	45,095	414,377
Mission Viejo	30	462,480	0	0	14,378	3.11%	14,378	3.11%	\$0.00	\$0.00	(4,226)	(12,068)	0	4,657
Rancho Santa Margarita	102	1,632,415	0	0	0	0.00%	28,128	1.72%	\$1.10	\$308.57	29,497	10,088	29,822	59,536
San Clemente	157	1,977,054	0	0	64,627	3.27%	62,715	3.17%	\$0.00	\$253.68	(38,829)	(25,180)	78,173	190,056
San Juan Capistrano	43	923,385	0	0	13,595	1.47%	28,431	3.08%	\$1.17	\$0.00	(3,252)	738	4,692	40,448
South County Total	930	24,679,460	0	0	855,475	3.47%	1,730,829	7.01%	\$0.96	\$298.59	(242,000)	(53,807)	347,923	1,315,975
West County														
Cypress	99	4,262,922	0	0	108,222	2.54%	253,748	5.95%	\$0.99	\$177.72	36,695	(108,222)	50,118	497,423
Garden Grove	475	11,977,235	0	0	273,387	2.28%	476,908	3.98%	\$0.77	\$178.27	(63,926)	(60,901)	288,161	564,407
Huntington Beach	681	14,454,359	0	97,460	476,537	3.30%	464,817	3.22%	\$0.81	\$159.00	(166,026)	(282,942)	175,320	689,999
La Palma	16	1,780,025	0	0	131,000	7.36%	481,987	27.08%	\$0.00	\$0.00	0	(131,000)	0	0
Los Alamitos	97	2,384,153	0	0	11,013	0.46%	11,013	0.46%	\$0.00	\$0.00	(6,416)	4,302	1,752	55,617
Seal Beach	15	991,653	0	0	0	0.00%	0	0.00%	\$0.00	\$0.00	0	0	0	88,507
Stanton	175	1,834,412	0	0	4,200	0.23%	16,977	0.93%	\$0.00	\$205.00	7,882	(4,200)	7,882	30,454
Westminster	138	2,314,235	0	0	3,540	0.15%	262,046	11.32%	\$0.00	\$0.00	19,984	20,053	26,864	50,817
West County Total	1,696	39,998,994	0	97,460	1,007,899	2.52%	1,967,496	4.92%	\$0.80	\$175.54	(171,807)	(562,910)	550,097	1,977,224
Orange County Total	9,327	235,088,062	793,138	740,351	5,499,963	2.34%	10,771,925	4.58%	\$0.84	\$264.28	(186,226)	(690,448)	2,999,608	10,714,116
Less than 9,999	3,322	20,017,659	0	0	312,376	1.56%	454,570	2.27%	\$1.08	\$289.00	(10,380)	(122,811)	239,982	761,430
10,000–19,999	3,134	43,298,432	0	0	683,296	1.58%	1,107,694	2.56%	\$1.09	\$262.51	(56,528)	26,121	479,552	2,104,564
20,000–29,999	1,165	28,203,639	0	0	616,745	2.19%	844,434	2.99%	\$1.02	\$197.01	(80,232)	(252,796)	352,265	1,349,634
30,000–39,999	491	16,701,286	0	73,200	168,738	1.01%	503,955	3.02%	\$0.93	\$230.05	20,399	263,448	138,857	962,720
40,000–49,999	297	13,038,344	87,652	139,460	168,006	1.29%	423,402	3.25%	\$0.87	\$196.50	64,407	232,687	187,889	692,165
50,000–74,999	372	22,363,627	0	0	348,228	1.56%	881,764	3.94%	\$0.80	\$187.53	198,683	(55,085)	256,191	1,019,095
75,000–99,999	164	14,038,753	78,523	0	300,397	2.14%	442,734	3.15%	\$0.80	\$190.08	141,034	988	264,980	713,404
100,000–199,999	259	34,151,071	105,322	0	1,020,921	2.99%	1,979,018	5.79%	\$0.71	\$0.00	(173,867)	(331,855)	539,682	1,139,495
200,000 Plus	123	43,275,251	521,641	527,691	1,881,256	4.35%	4,134,354	9.55%	\$0.81	\$0.00	(289,742)	(451,145)	540,210	1,971,609
Orange County Total	9,327	235,088,062	793,138	740,351	5,499,963	2.34%	10,771,925	4.58%	\$0.84	\$264.28	(186,226)	(690,448)	2,999,608	10,714,116

Lease rates are on a triple-net basis.

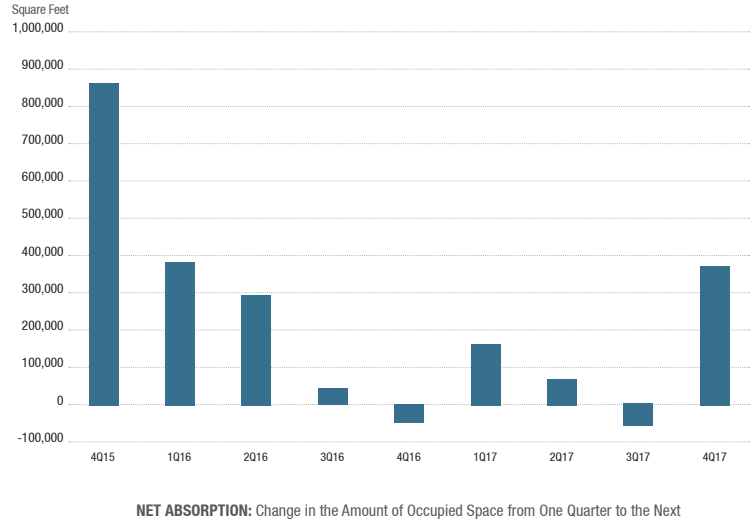
NORTH ORANGE COUNTY

In the fourth quarter of 2017, the North Orange County industrial market consisted of 4,044 buildings totaling 112,106,272 square feet and had an availability rate of 3.25%, which shows a decrease from the previous quarter's figure of 3.45%.

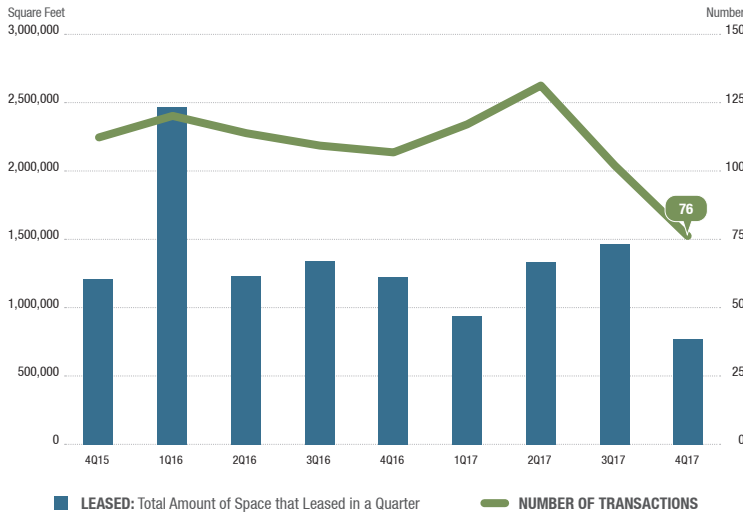
VACANCY & AVAILABILITY RATE



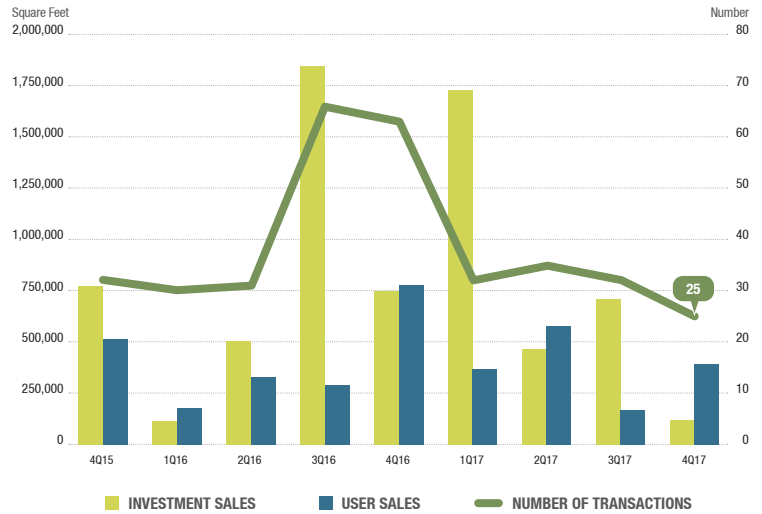
NET ABSORPTION



LEASE TRANSACTIONS



SALES TRANSACTIONS



INVENTORY

VACANCY & LEASE RATES

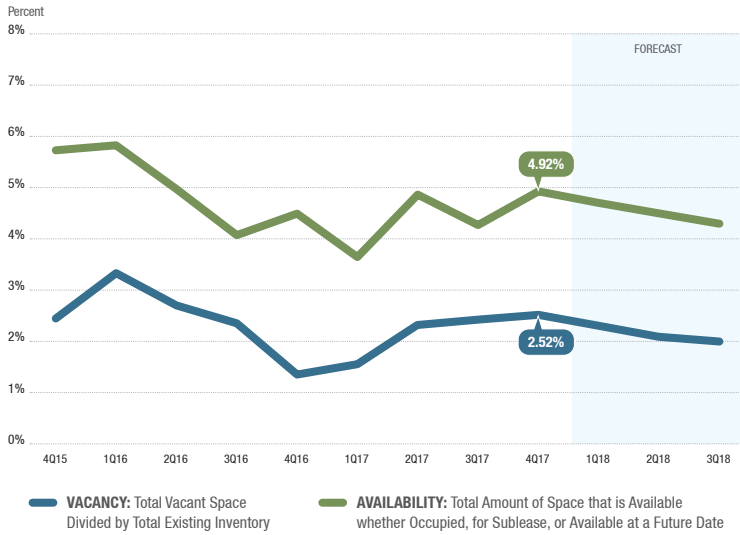
ABSORPTION

	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2017	Square Feet Available	Availability Rate 4Q2017	Average Asking Lease Rate	Average Asking Sales Price	Net Absorption 4Q2017	Net Absorption 2017	Gross Absorption 4Q2017	Gross Absorption 2017
North Totals														
Less than 9,999	1,323	8,375,562	0	0	88,514	1.06%	152,200	1.82%	\$1.00	\$238.20	24,069	(37,038)	117,371	345,218
10,000-19,999	1,397	19,308,346	0	0	277,953	1.44%	448,119	2.32%	\$1.20	\$226.26	(30,177)	67,932	205,400	1,024,393
20,000-29,999	518	12,288,172	0	0	248,555	2.02%	317,743	2.59%	\$0.96	\$201.58	(16,698)	(75,465)	152,277	625,108
30,000-39,999	226	7,636,124	0	0	(11,943)	(0.16%)	181,324	2.37%	\$0.00	\$215.16	(20,263)	70,814	62,776	469,213
40,000-49,999	133	5,838,264	87,652	42,000	141,412	2.42%	246,796	4.23%	\$0.79	\$0.00	11,787	4,465	73,369	204,820
50,000-74,999	176	10,548,618	0	0	195,452	1.85%	299,846	2.84%	\$0.80	\$189.11	(5,554)	(127,502)	42,524	273,227
75,000-99,999	72	6,139,628	78,523	0	131,424	2.14%	250,931	4.09%	\$0.74	\$0.00	0	(175,819)	39,139	39,139
100,000-199,999	133	17,705,129	105,322	0	280,601	1.58%	397,075	2.24%	\$0.55	\$0.00	80,420	226,592	471,013	801,093
200,000 plus	66	24,266,429	521,641	0	224,425	0.92%	1,346,639	5.55%	\$0.00	\$0.00	326,859	660,228	322,257	1,113,790
Total	4,044	112,106,272	793,138	42,000	1,576,393	1.41%	3,640,673	3.25%	\$0.80	\$228.24	370,443	614,207	1,486,126	4,896,001

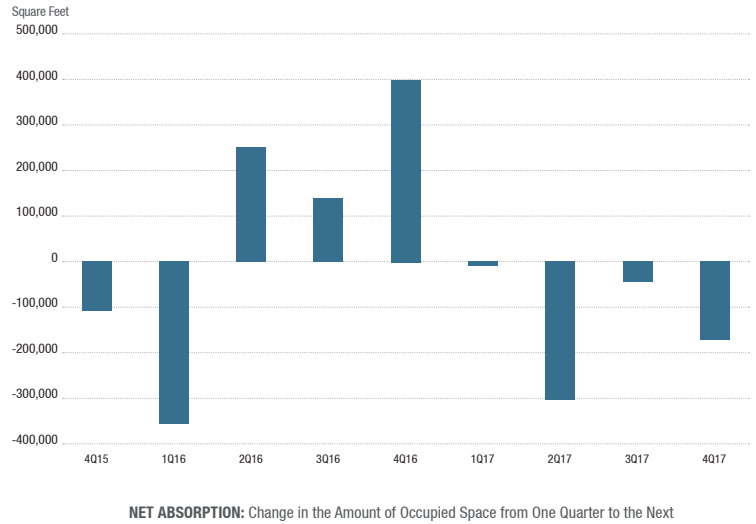
WEST ORANGE COUNTY

In the fourth quarter of 2017, the West Orange County industrial market consisted of 1,696 buildings totaling 39,998,994 square feet and had an availability rate of 4.92%, which shows an increase from the previous quarter's figure of 4.28%.

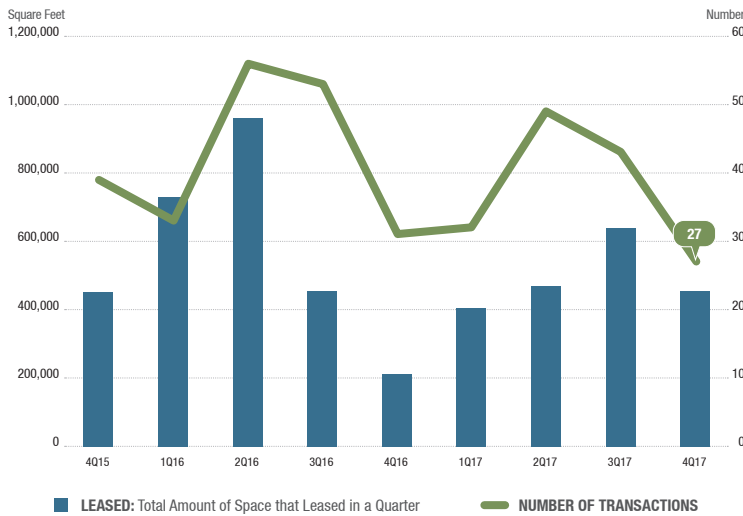
VACANCY & AVAILABILITY RATE



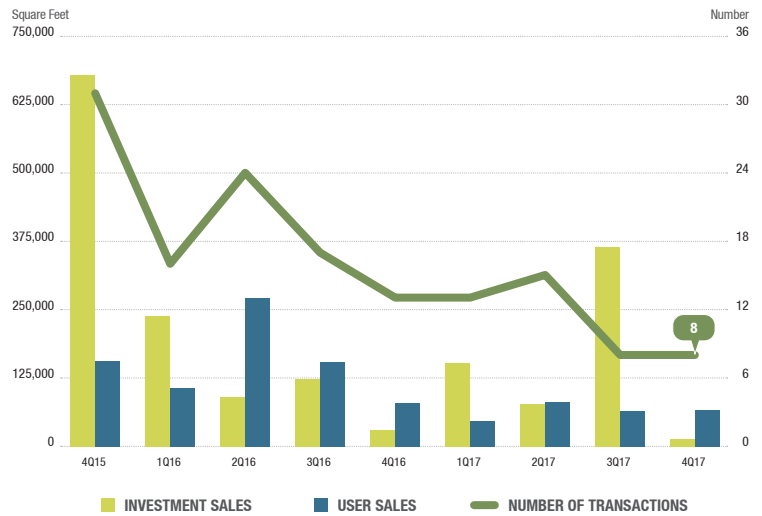
NET ABSORPTION



LEASE TRANSACTIONS



SALES TRANSACTIONS



INVENTORY

VACANCY & LEASE RATES

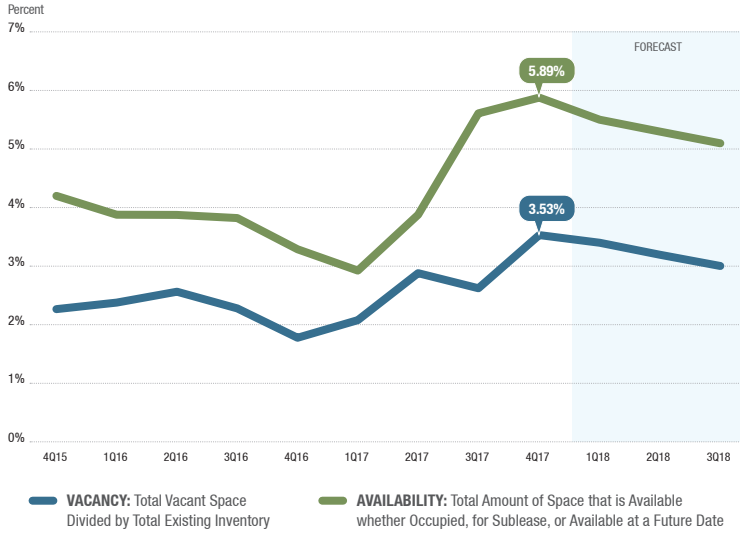
ABSORPTION

	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2017	Square Feet Available	Availability Rate 4Q2017	Average Asking Lease Rate	Average Asking Sales Price	Net Absorption 4Q2017	Net Absorption 2017	Gross Absorption 4Q2017	Gross Absorption 2017
West Totals														
Less than 9,999	713	4,083,592	0	0	34,300	0.84%	61,900	1.52%	\$1.09	\$219.69	8,142	7,015	53,289	176,822
10,000-19,999	558	7,400,051	0	0	74,222	1.00%	129,164	1.75%	\$0.92	\$220.96	(7,558)	(12,633)	49,346	311,883
20,000-29,999	160	4,322,515	0	0	100,860	2.33%	123,835	2.86%	\$1.02	\$128.39	(28,636)	(8,824)	28,074	188,455
30,000-39,999	63	2,206,846	0	0	32,976	1.49%	54,534	2.47%	\$0.00	\$187.50	(12,174)	69,595	9,456	104,261
40,000-49,999	51	2,221,147	0	97,460	0	0.00%	55,150	2.48%	\$0.80	\$180.33	51,039	54,505	51,039	105,544
50,000-74,999	58	3,473,415	0	0	7,800	0.22%	243,611	7.01%	\$0.82	\$145.00	111,640	8,200	119,440	198,622
75,000-99,999	30	2,574,308	0	0	0	0.00%	22,830	0.89%	\$0.00	\$0.00	31,500	0	31,500	238,607
100,000-199,999	40	5,391,236	0	0	(11,326)	(0.21%)	163,567	3.03%	\$0.77	\$0.00	0	(119,654)	0	6,000
200,000 plus	23	8,325,884	0	0	769,067	9.24%	1,112,905	13.37%	\$0.65	\$0.00	(325,760)	(561,114)	207,953	647,030
Total	1,696	39,998,994	0	97,460	1,007,899	2.52%	1,967,496	4.92%	\$0.80	\$175.54	(171,807)	(562,910)	550,097	1,977,224

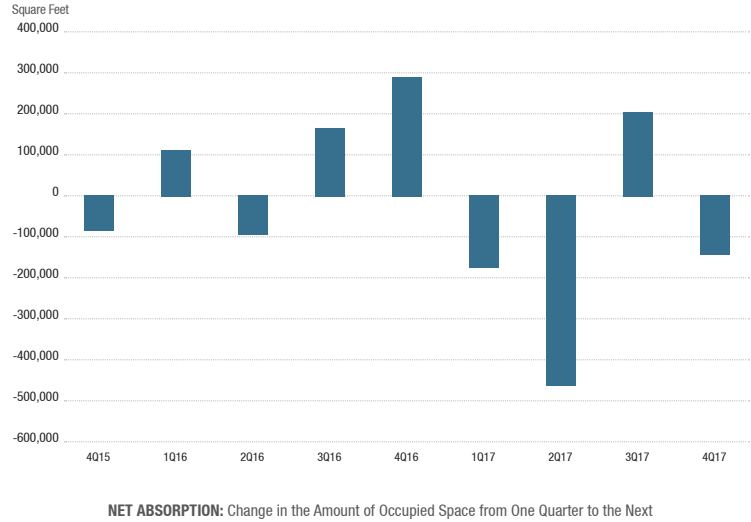
AIRPORT AREA

In the fourth quarter of 2017, the Airport Orange County industrial market consisted of 2,657 buildings totaling 58,303,336 square feet and had an availability rate of 5.89%, which shows an increase from previous quarter's figure of 5.61%.

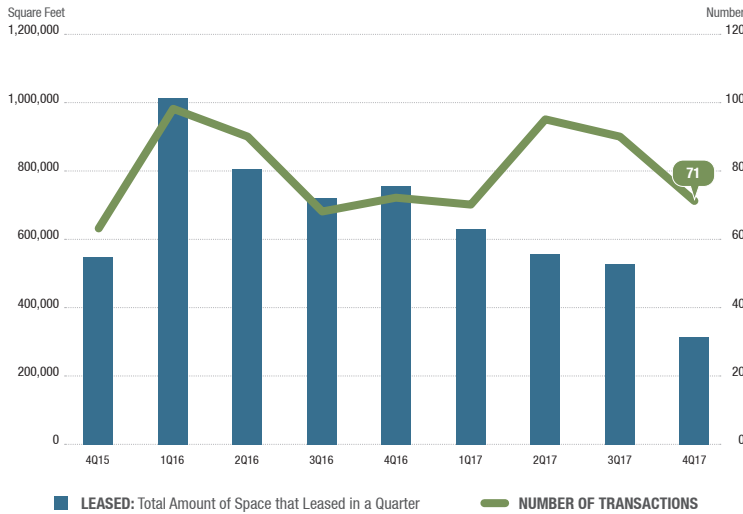
VACANCY & AVAILABILITY RATE



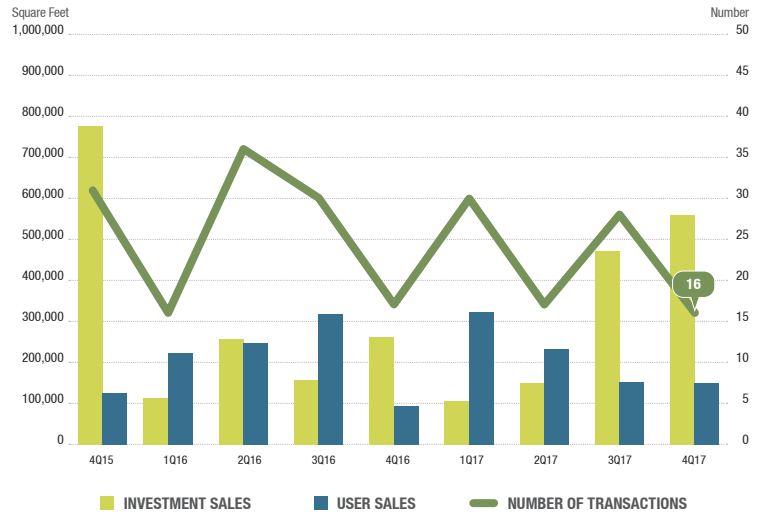
NET ABSORPTION



LEASE TRANSACTIONS



SALES TRANSACTIONS



INVENTORY

VACANCY & LEASE RATES

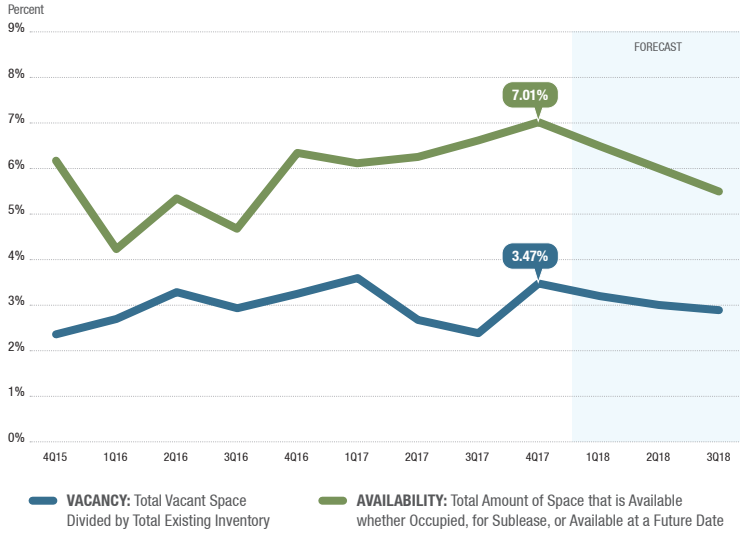
ABSORPTION

	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2017	Square Feet Available	Availability Rate 4Q2017	Average Asking Lease Rate	Average Asking Sales Price	Net Absorption 4Q2017	Net Absorption 2017	Gross Absorption 4Q2017	Gross Absorption 2017
Airport Totals														
Less than 9,999	939	5,384,090	0	0	150,632	2.80%	170,210	3.16%	\$1.22	\$335.56	(46,875)	(81,901)	40,855	152,424
10,000-19,999	902	12,607,073	0	0	215,924	1.71%	371,404	2.95%	\$0.97	\$269.94	(22,402)	(62,929)	156,382	523,871
20,000-29,999	351	8,351,278	0	0	151,853	1.82%	224,639	2.69%	\$1.02	\$197.50	(700)	(75,306)	87,409	356,920
30,000-39,999	154	5,230,416	0	73,200	128,869	2.46%	255,480	4.88%	\$0.92	\$225.00	47,199	80,249	54,769	288,162
40,000-49,999	84	3,684,733	0	0	0	0.00%	101,144	2.74%	\$0.95	\$245.00	3,840	99,798	3,840	227,928
50,000-74,999	104	6,295,572	0	0	65,663	1.04%	165,605	2.63%	\$0.79	\$189.00	86,510	85,778	86,510	463,250
75,000-99,999	49	4,206,576	0	0	84,176	2.00%	84,176	2.00%	\$0.00	\$190.08	117,028	104,898	117,028	274,705
100,000-199,999	56	7,108,058	0	0	503,917	7.09%	900,586	12.67%	\$0.73	\$0.00	(92,712)	(191,064)	68,669	202,656
200,000 plus	18	5,435,540	0	527,691	759,162	13.97%	1,159,683	21.34%	\$0.75	\$0.00	(234,750)	(647,461)	0	35,000
Total	2,657	58,303,336	0	600,891	2,060,196	3.53%	3,432,927	5.89%	\$0.80	\$290.24	(142,862)	(687,938)	615,462	2,524,916

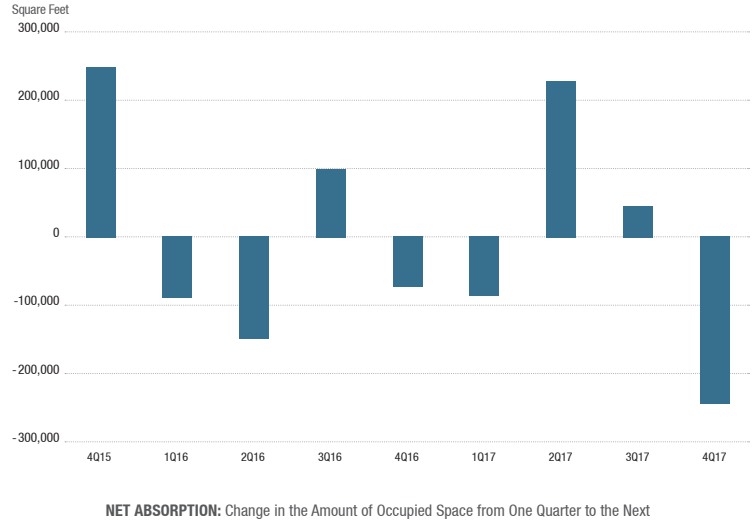
SOUTH ORANGE COUNTY

In the fourth quarter of 2017, the South Orange County industrial market consisted of 930 buildings totaling 24,679,460 square feet and had an availability rate of 7.01%, which shows an increase from the previous quarter's figure of 6.61%.

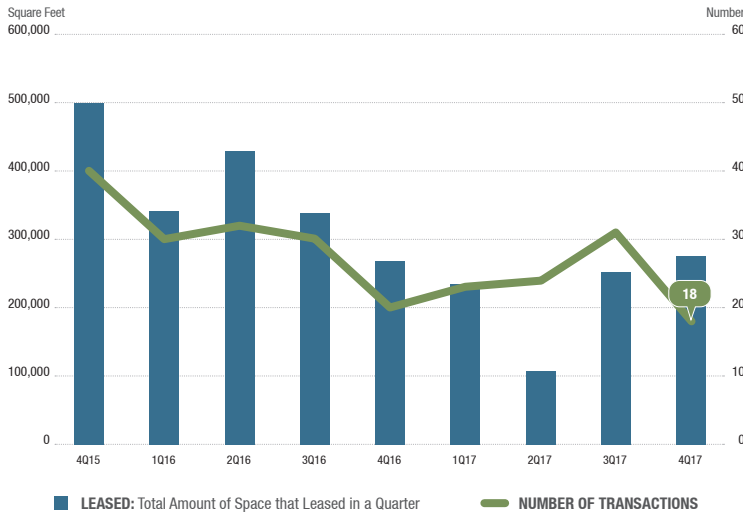
VACANCY & AVAILABILITY RATE



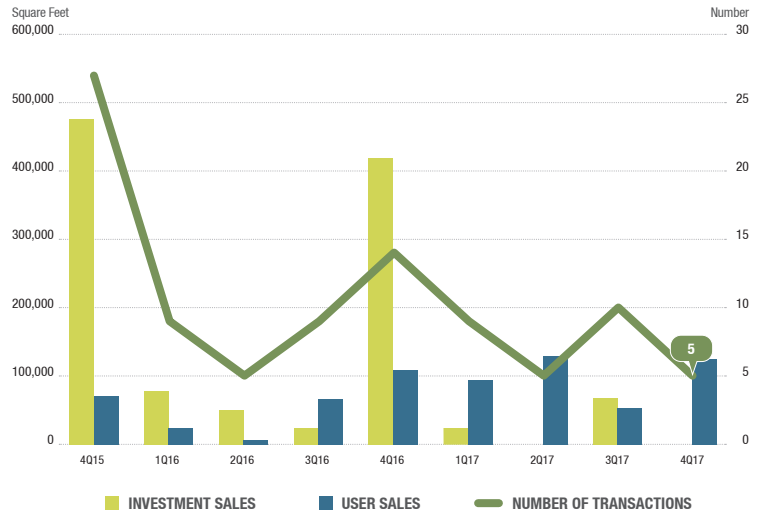
NET ABSORPTION



LEASE TRANSACTIONS



SALES TRANSACTIONS



INVENTORY

VACANCY & LEASE RATES

ABSORPTION

	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2017	Square Feet Available	Availability Rate 4Q2017	Average Asking Lease Rate	Average Asking Sales Price	Net Absorption 4Q2017	Net Absorption 2017	Gross Absorption 4Q2017	Gross Absorption 2017
South Totals														
Less than 9,999	347	2,174,415	0	0	38,930	1.79%	70,260	3.23%	\$1.04	\$317.09	4,284	(10,887)	28,467	86,966
10,000-19,999	277	3,982,962	0	0	115,197	2.89%	159,007	3.99%	\$1.21	\$294.93	3,609	33,751	68,424	244,417
20,000-29,999	136	3,241,674	0	0	115,477	3.56%	178,217	5.50%	\$1.09	\$243.41	(34,198)	(93,201)	84,505	179,151
30,000-39,999	48	1,627,900	0	0	18,836	1.16%	12,617	0.78%	\$1.10	\$350.00	5,637	42,790	11,856	101,084
40,000-49,999	29	1,294,200	0	0	26,594	2.05%	20,312	1.57%	\$1.15	\$0.00	(2,259)	73,919	59,641	153,873
50,000-74,999	34	2,046,022	0	0	79,313	3.88%	172,702	8.44%	\$0.00	\$227.00	6,087	(21,561)	7,717	83,996
75,000-99,999	13	1,118,241	0	0	84,797	7.58%	84,797	7.58%	\$0.82	\$0.00	(7,494)	71,909	77,313	160,953
100,000-199,999	30	3,946,648	0	0	247,729	6.28%	517,790	13.12%	\$0.00	\$0.00	(161,575)	(247,729)	0	129,746
200,000 plus	16	5,247,398	0	0	128,602	2.45%	515,127	9.82%	\$0.90	\$0.00	(56,091)	97,202	10,000	175,789
Total	930	24,679,460	0	0	855,475	3.47%	1,730,829	7.01%	\$0.96	\$298.59	(242,000)	(53,807)	347,923	1,315,975



Vibrant Conditions in 2017 Provide Optimism for 2018

by **Seth Davenport**

EXECUTIVE VICE PRESIDENT, ANAHEIM

2017 was another year for the record books. Rents and sale prices climbed throughout the year, driven by scant vacancy and low interest rate mortgages. Strong demand from growing businesses continued to outpace the available supply of functional industrial space, which kept the playing field tipped in favor of landlords and sellers. These tight market conditions caused further declines in leasing and sales activity, which was down 22.30% in 2017. Often, there is just no place to go, forcing many business owners to forgo new acquisitions or renew existing leases.

The average asking lease rate hit \$0.84 NNN by year end, up 12% year-over-year, but quality space in prime submarkets is even more expensive. Landlords are also in position to offer little in the way tenant improvements and rent abatement that would otherwise mitigate overall occupancy costs for tenants in a more balanced market. Clearly, it is still a good time to be the owner of functional industrial space anywhere in Orange County.

The average asking sale price for industrial space also grew by 12% in 2017, finishing the year at a record-high \$265 per square foot. That marks the 4th straight year of double-digit price appreciation. Mortgage rates on 25-year loans are still under 5%, despite multiple short term rate hikes by the US Federal Reserve Bank. That kept owner/user demand running well ahead of supply all year, as potential sellers remained averse to the huge tax hit that would come with the disposition of their assets.

A Look Ahead

Absent a “black swan” event, market dynamics are not expected to change much in 2018. The availability of industrial product is so thin that demand could fall by half and still be running well ahead of supply. Land is scarce and expensive, which will keep the addition of new inventory flowing at a trickle. Currently only one major project, the Beckman Business Park, is under construction countywide. The 8-building project in Fullerton offers state-of-the-art buildings for sale or lease from 41,000 to 300,000 square feet, but provides little relief for the vast majority of Orange County businesses that occupy less space. We expect overall vacancy to remain near its current level of 2.3% throughout the year, but some submarkets and size ranges will move even lower.

Overall economic conditions have been good and may be getting better soon. US GDP growth is back on the rise, registering annualized gains of more than 3% in the final half of the year, in part due to anticipation of tax reform legislation, which became reality in December. The new legislation offers much lower tax rates for C-corporations and pass-through entities, as well as generous new expensing and depreciation rules that are designed to encourage capital investment and new job creation. How it all plays out, no one can know at this point, but one thing is for sure—corporate executives and private business owners will keep more of their hard-earned income in 2018. That points to more demand for industrial property that will drive lease rates and sales prices even higher throughout the year.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a triple-net basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services. ©2018 Voit Real Estate Services, Inc. License #01991785.

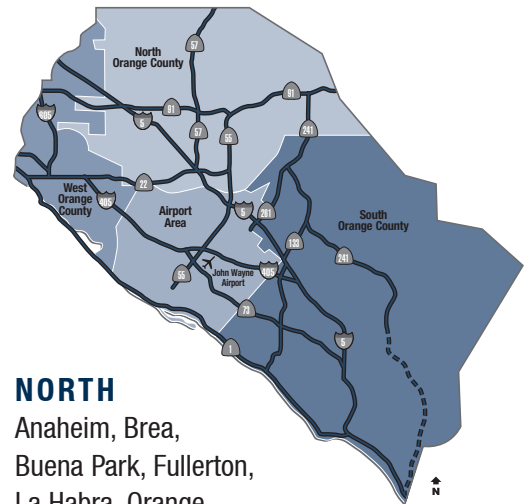
Represented in 150 Markets
Nationally & Internationally.
CORFAC
International

Product Type

MFG./DIST.

Manufacturing / Distribution / Warehouse facilities with up to 29.9% office space.

Submarkets



NORTH

Anaheim, Brea,
Buena Park, Fullerton,
La Habra, Orange,
Placentia and Yorba Linda

WEST

Cypress, Garden Grove, Huntington Beach,
La Palma, Los Alamitos, Seal Beach, Stanton
and Westminster

AIRPORT

Costa Mesa, Fountain Valley, Irvine,
Newport Beach, Santa Ana and Tustin

SOUTH

Aliso Viejo, Foothill Ranch, Irvine Spectrum,
Laguna Hills, Laguna Niguel, Lake Forest,
Mission Viejo, Rancho Santa Margarita,
San Clemente and San Juan Capistrano