



REAL ESTATE SERVICES

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# Industrial Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Sales Price

FLAT

Lease Rates

UP

Transactions

DOWN

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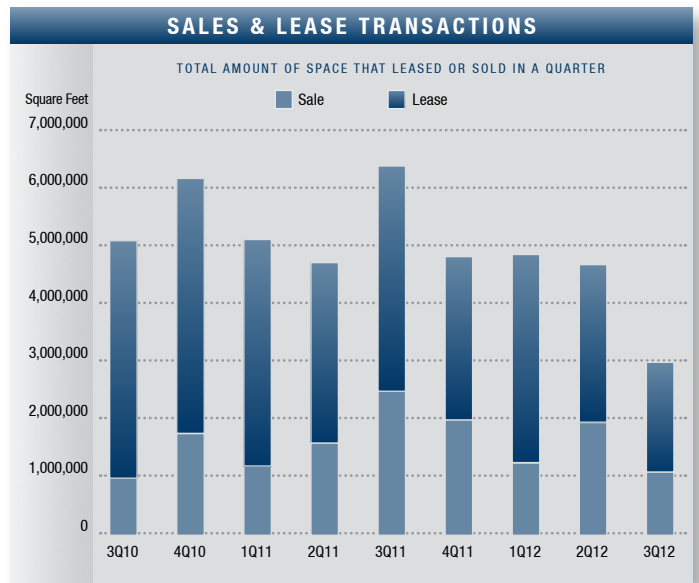
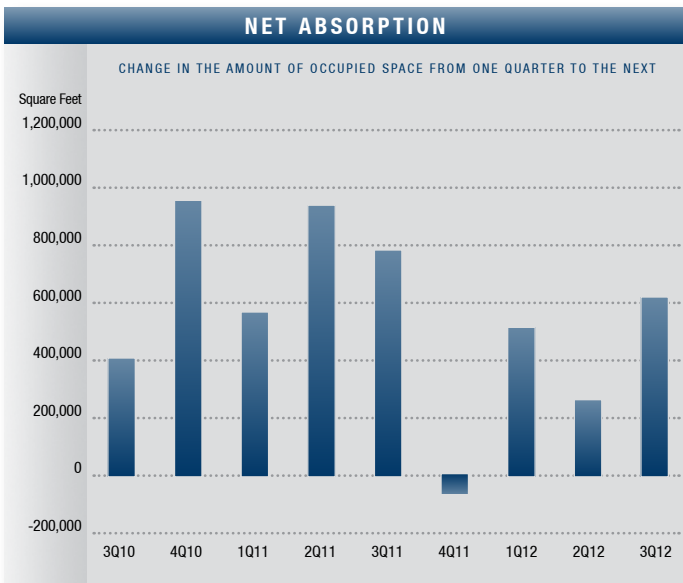
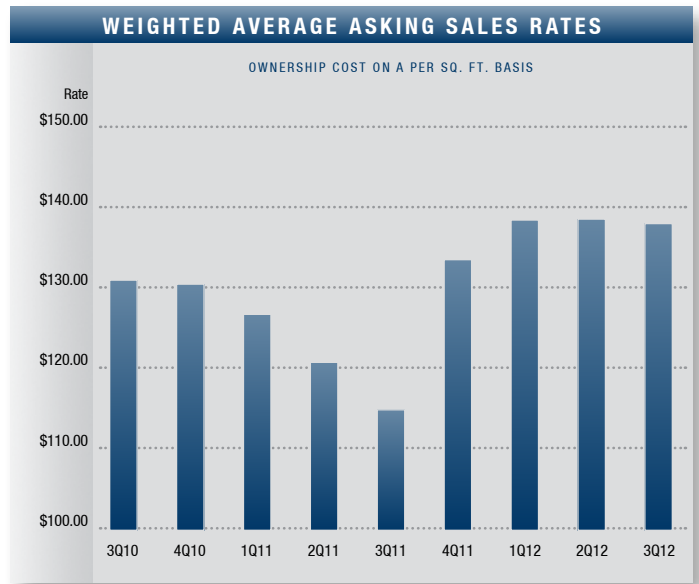
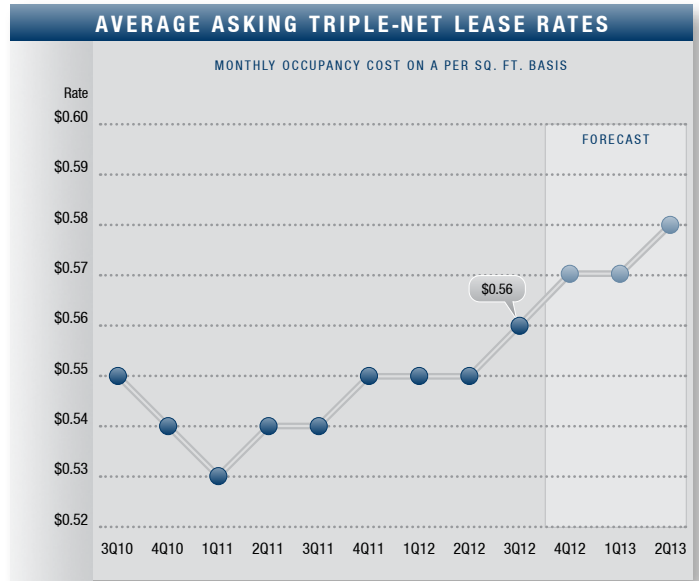
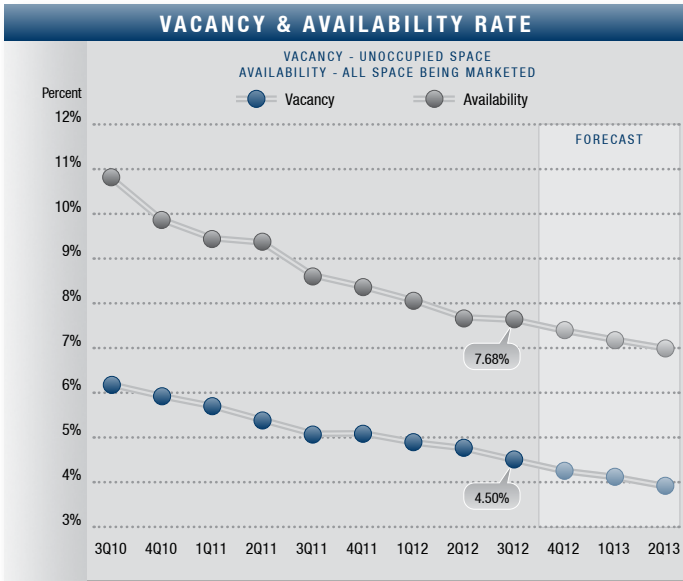


## Market Highlights

- Encouraging Numbers** - The Orange County industrial market continued its path to recovery, posting a modest 4.50% vacancy rate. Both vacancy and availability continued their downward trend and displayed double-digit percentage drops compared to the third quarter of 2011. Lease rates continued their upward trend, with the first quarter of 2011 marking the lowest rates of the recession. Net absorption posted nearly 5 million square feet of positive absorption from the second quarter of 2010 to the third quarter of 2012. While these are positive indicators, we are keeping a close eye on demand, which, being ultimately influenced by employment and overall economic stability, will need to be sustained in coming quarters for the Orange County industrial market to continue its pace of recovery.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 4.50%, one of the lowest figures seen since the first quarter of 2009 and a decrease of 10.54% when compared to the third quarter of 2011. The Airport Area submarket presented the lowest vacancy rate in the county at 4.01%. We are forecasting that vacancy will continue its downward trend in 2012, ending the year at around 4.25%.
- Availability** - Direct/sublease space being marketed came in at 7.68% for the third quarter of 2012, a slight drop from the 7.69% seen in the previous quarter and a decrease of over 10.5% from 2011's third quarter rate of 8.59%.
- Lease Rates** - The average asking triple-net lease rate checked in at \$.56 per square foot per month, one cent higher than the previous quarter and two cents higher than the \$.54 seen in the third quarter of 2011. The South County submarket posted the highest average asking lease rate in the county at \$.69. The record high rate of \$.80 was established in the first and second quarters of 2008. We are forecasting that lease rates will continue to rise, ending the year at \$.57.
- Sales Pricing** - The average asking sales price in the third quarter of 2012 was \$137.96 per square foot, a 20.20% increase from the previous year's price of \$114.78 and a slight decrease from 2012's second quarter price of \$138.66. The annual increase can be attributed to a lack of supply of product for sale in many size ranges; currently, only around 3% of the inventory in the Orange County industrial market is available for sale. This lack of supply will put upward pressure on pricing going forward. The record high asking rate of \$181.23 was established in the third quarter of 2007.
- Absorption** - The Orange County industrial market posted 619,671 square feet of positive net absorption for the third quarter of 2012, giving the industrial market nearly 5 million square feet of positive absorption since the second quarter of 2010. We are forecasting that net absorption will continue its positive trend in 2012, giving the year a total of around two million square feet.
- Transaction Activity** - Leasing activity for this quarter checked in at 1.8 million square feet, a decrease from the prior year's third quarter number of 3.9 million square feet. Sales activity decreased, posting 1.1 million square feet for the third quarter of 2012 compared to the 2.5 million square feet we saw in the same quarter of 2011. This drop in activity can be contributed to the lack of supply in some size ranges, which is putting upward pressure on pricing. Details of the largest transactions from the quarter can be found on the back page of this report.
- Employment** - The unemployment rate in Orange County was 7.7% in August 2012 — down from a revised 7.9% in July 2012 and below the previous year's estimate of 9.0%. This compares with an unadjusted unemployment rate of 10.4% for California and 8.2% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 29,000 payroll jobs from August 2011 to August 2012. The largest gains were 10,600 in professional & business services and 9,100 in leisure & hospitality; however, Orange County lost 1,900 government jobs during that same period.
- Overall** - We are seeing a continued decrease in vacancy and a subsequent increase in net occupancy, which is contributing to an increase in asking lease rates. A lack of product available for sale in many size ranges (particularly in the 30,000 to 100,000 square-foot range) is causing an increase in sale prices and a drop in transaction volume. While these are certainly positive indicators, cautious optimism still prevails, as job creation will need to continue in order to drive the demand needed to sustain growth in the Orange County industrial market.

## INDUSTRIAL MARKET OVERVIEW

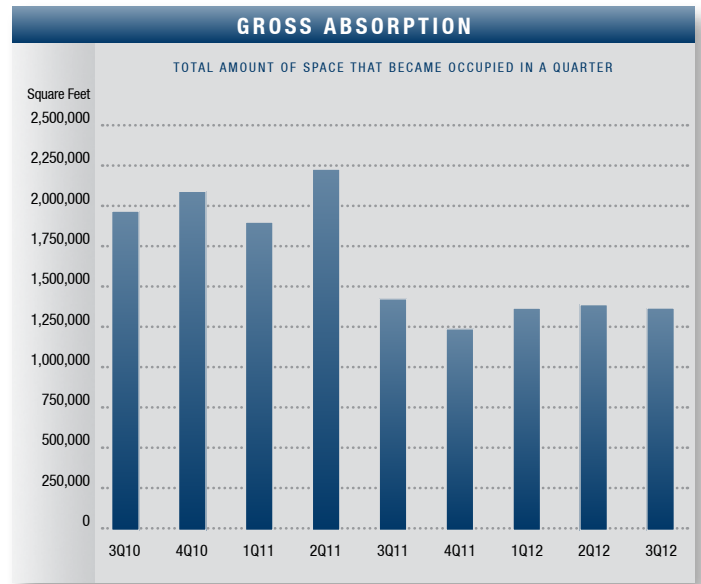
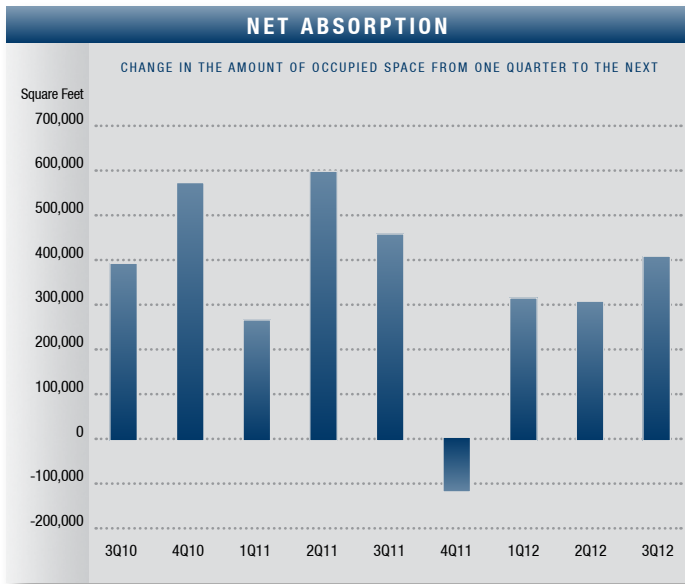
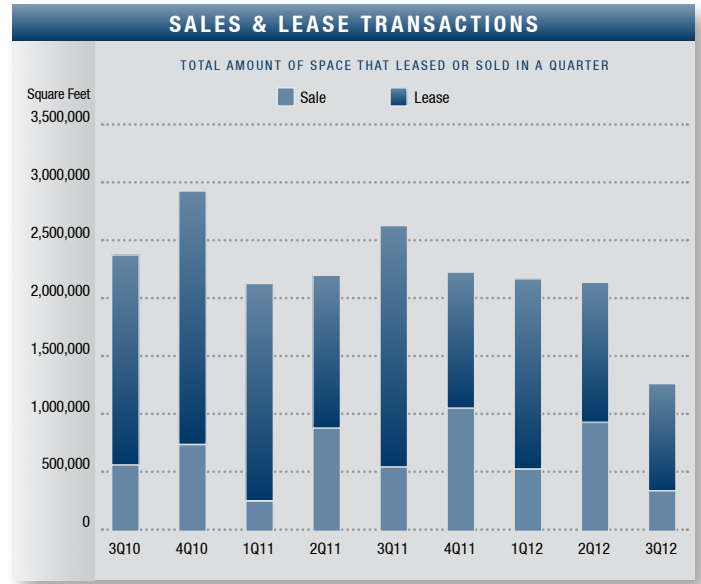
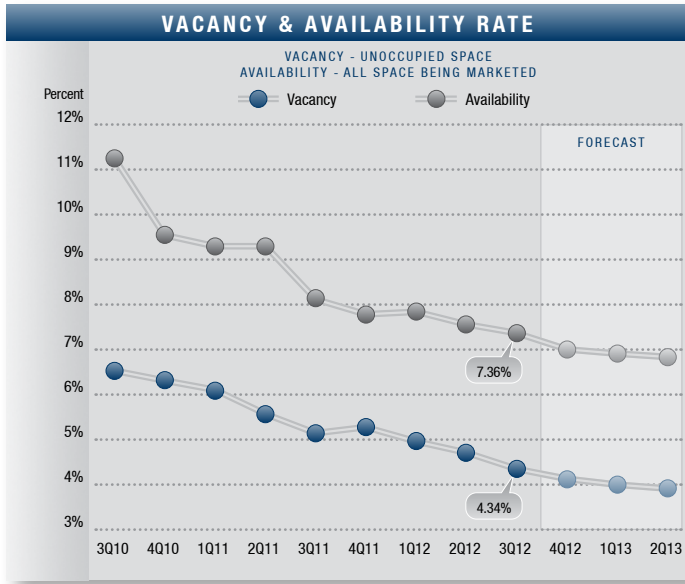
	3Q12	2Q12	3Q11	% of Change vs. 3Q11
Vacancy Rate	4.50%	4.75%	5.03%	(10.54%)
Availability Rate	7.68%	7.69%	8.59%	(10.59%)
Average Asking Lease Rate	\$0.56	\$0.55	\$0.54	3.70%
Average Asking Sale Price	\$137.96	\$138.66	\$114.78	20.20%
Sale & Lease Transactions	2,934,287	4,668,940	6,363,770	(53.89%)
Gross Absorption	3,189,579	2,904,237	3,029,872	5.27%
Net Absorption	619,671	256,553	771,819	N/A





NORTH ORANGE COUNTY

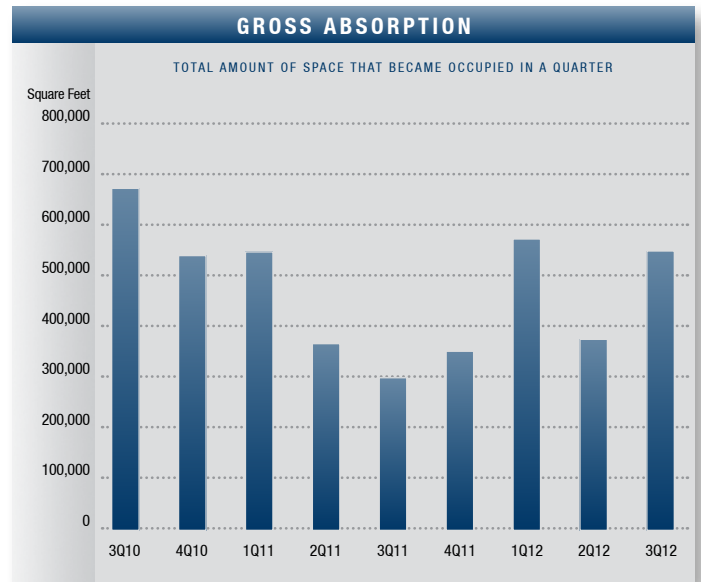
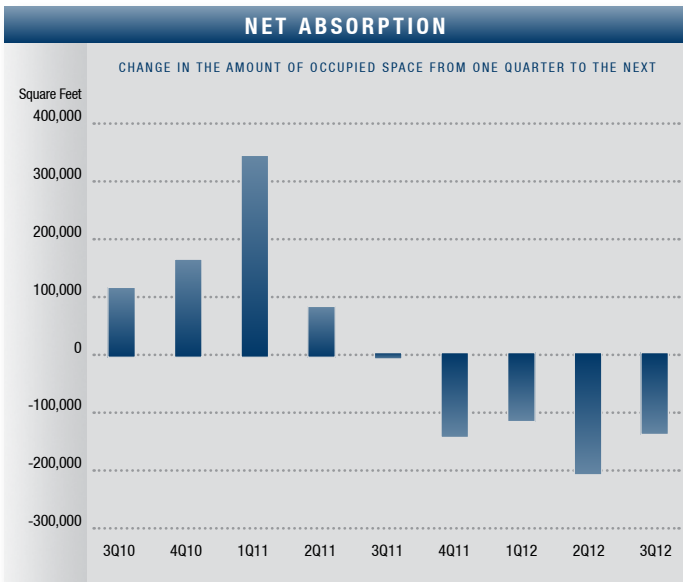
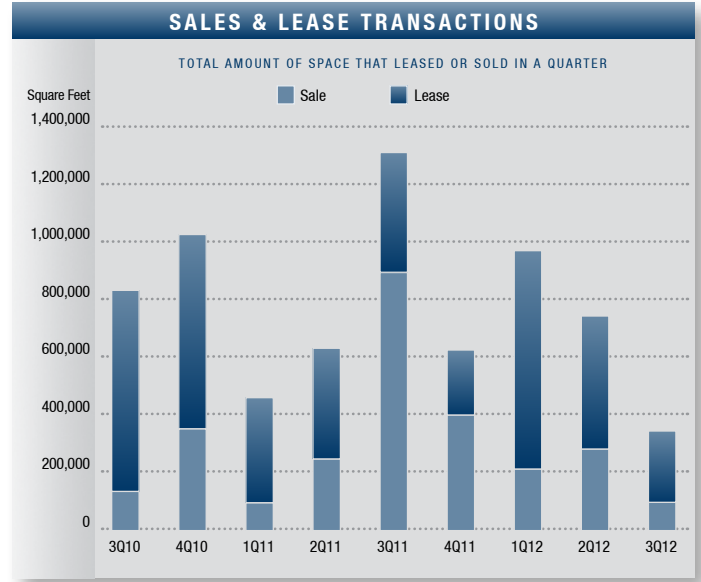
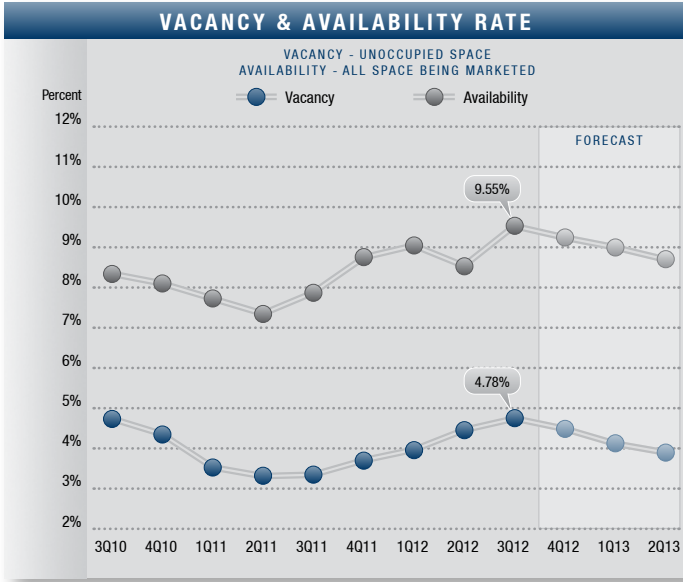
In the third quarter of 2012, the North Orange County industrial market consisted of 4,216 buildings totaling 112,761,448 square feet and had an availability rate of 7.36%, which shows a decrease from the previous quarter's figure of 7.56%.



	INVENTORY				VACANCY & LEASE RATES				ABSORPTION					
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2012	Square Feet Available	Availability Rate 3Q2012	Average Asking Lease Rate	Average Asking Sales Price	Net Absorption 3Q2012	Net Absorption 2012	Gross Absorption 3Q2012	Gross Absorption 2012
<b>North Totals</b>														
Less than 9,999	1,409	8,683,061	0	0	238,581	2.75%	374,544	4.31%	\$0.68	\$159.03	(37,254)	37,782	85,383	310,679
10,000-19,999	1,424	19,635,085	0	0	916,566	4.67%	1,242,327	6.33%	\$0.69	\$135.92	39,789	2,330	285,027	832,356
20,000-29,999	538	12,785,680	0	0	479,284	3.75%	929,445	7.27%	\$0.60	\$118.77	64,973	140,257	178,169	646,609
30,000-39,999	234	7,916,175	0	0	205,811	2.60%	438,260	5.54%	\$0.62	\$133.32	2,226	25,071	88,557	186,014
40,000-49,999	136	5,969,052	0	46,300	268,042	4.49%	525,021	8.80%	\$0.54	\$113.03	(4,738)	12,683	65,460	184,011
50,000-74,999	199	12,003,596	0	118,800	412,978	3.44%	731,798	6.10%	\$0.51	\$108.41	(3,836)	(117,241)	71,094	322,040
75,000-99,999	88	7,521,557	84,350	75,200	143,819	1.91%	359,676	4.78%	\$0.47	\$135.36	7,000	142,780	7,000	169,800
100,000-149,999	94	11,101,504	0	100,000	299,365	2.70%	1,198,344	10.79%	\$0.49	\$101.44	85,472	251,907	121,374	525,175
150,000-199,999	32	5,508,971	0	0	431,938	7.84%	557,106	10.11%	\$0.49	\$0.00	294,609	271,523	294,609	294,609
200,000-299,999	36	8,713,532	0	209,478	727,253	8.35%	1,187,791	13.63%	\$0.44	\$0.00	(209,206)	19,347	0	228,553
300,000 Plus	26	12,923,235	0	0	773,767	5.99%	750,800	5.81%	\$0.00	\$0.00	171,775	243,608	171,775	416,575
<b>Total</b>	<b>4,216</b>	<b>112,761,448</b>	<b>84,350</b>	<b>549,778</b>	<b>4,897,404</b>	<b>4.34%</b>	<b>8,295,112</b>	<b>7.36%</b>	<b>\$0.49</b>	<b>\$124.79</b>	<b>410,810</b>	<b>1,030,047</b>	<b>1,368,448</b>	<b>4,116,421</b>

**WEST ORANGE COUNTY**

In the third quarter of 2012, the West Orange County industrial market consisted of 1,768 buildings totaling 42,495,355 square feet and had an availability rate of 9.55%, which shows an increase from the previous quarter's figure of 8.53%.

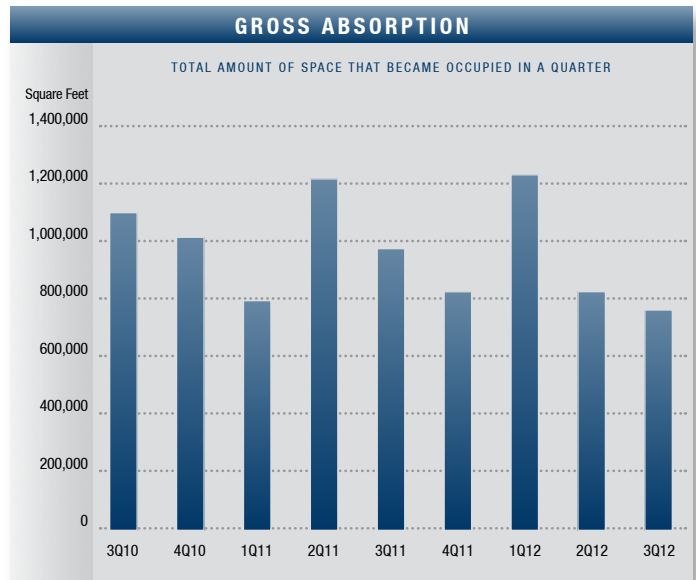
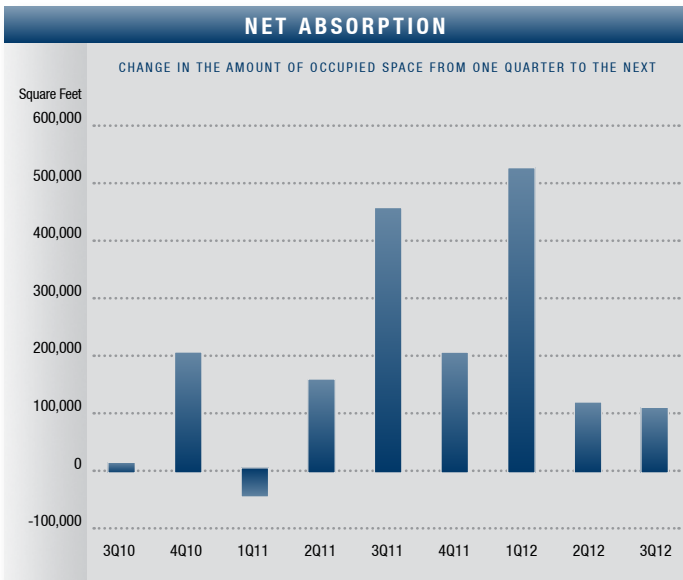
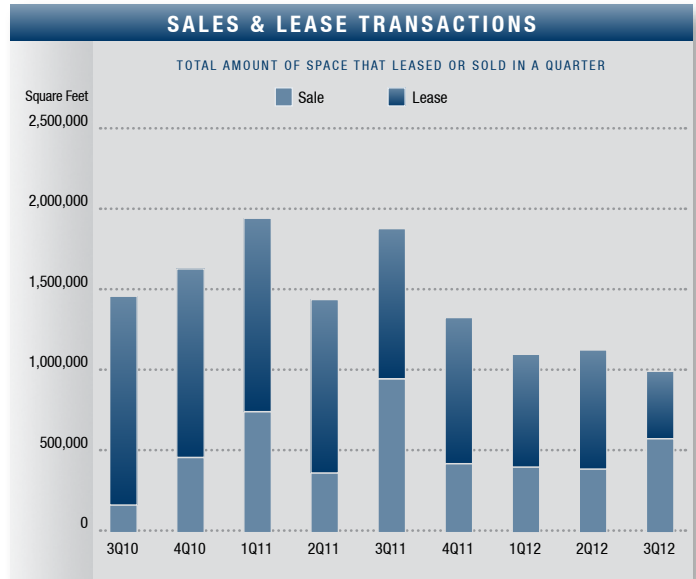
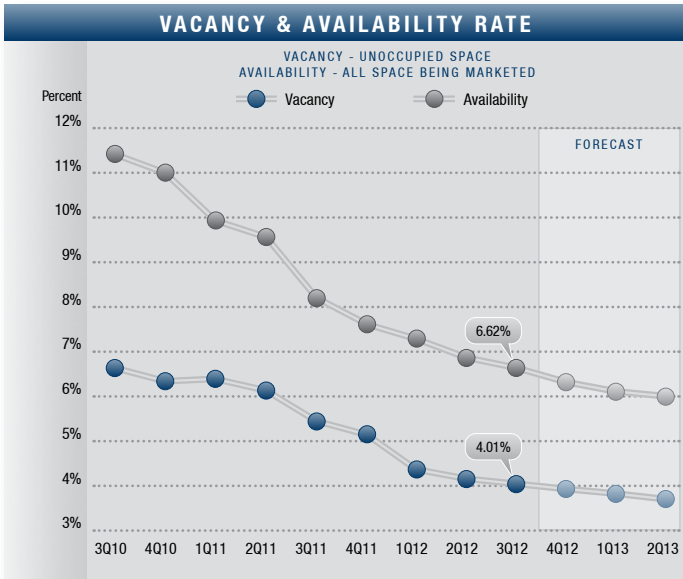


	INVENTORY				VACANCY & LEASE RATES				ABSORPTION					
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2012	Square Feet Available	Availability Rate 3Q2012	Average Asking Lease Rate	Average Asking Sales Price	Net Absorption 3Q2012	Net Absorption 2012	Gross Absorption 3Q2012	Gross Absorption 2012
<b>West Totals</b>	1,768	42,495,355	5,225	44,000	2,031,388	4.78%	4,057,040	9.55%	\$0.56	\$141.95	(135,410)	(458,516)	548,509	1,492,182
Less than 9,999	728	4,219,960	5,225	0	97,430	2.31%	174,525	4.14%	\$0.81	\$187.58	25,504	53,249	49,388	153,982
10,000-19,999	554	7,339,276	0	0	269,181	3.67%	473,408	6.45%	\$0.87	\$155.64	9,439	99,284	79,834	345,776
20,000-29,999	182	4,338,692	0	0	237,052	5.46%	326,490	7.53%	\$0.54	\$181.38	(43,562)	(62,453)	37,410	174,486
30,000-39,999	63	2,192,698	0	0	20,596	0.94%	13,684	0.62%	\$0.58	\$153.75	62,193	(5,472)	105,455	135,945
40,000-49,999	55	2,411,988	0	44,000	112,709	4.67%	157,018	6.51%	\$0.50	\$148.11	(43,219)	(46,529)	0	0
50,000-74,999	84	5,060,126	0	0	251,377	4.97%	236,186	4.67%	\$0.62	\$110.75	(5,606)	(147,271)	59,162	99,192
75,000-99,999	37	3,177,470	0	0	430,286	13.54%	512,809	16.14%	\$0.66	\$129.90	(124,295)	(342,232)	1,200	91,195
100,000-149,999	29	3,431,752	0	0	499,919	14.57%	999,595	29.13%	\$0.58	\$117.48	(9,436)	(129,944)	139,880	284,146
150,000-199,999	16	2,707,436	0	0	30,230	1.12%	328,892	12.15%	\$0.54	\$0.00	76,180	74,180	76,180	76,180
200,000-299,999	12	2,902,255	0	0	82,608	2.85%	341,114	11.75%	\$0.47	\$0.00	(82,608)	48,672	0	131,280
300,000 Plus	8	4,713,702	0	0	0	0.00%	493,319	10.47%	\$0.00	\$0.00	0	0	0	0



AIRPORT AREA

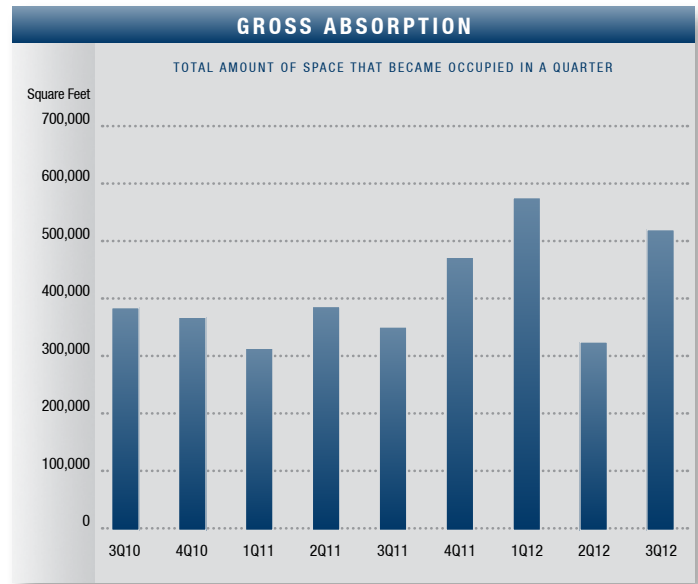
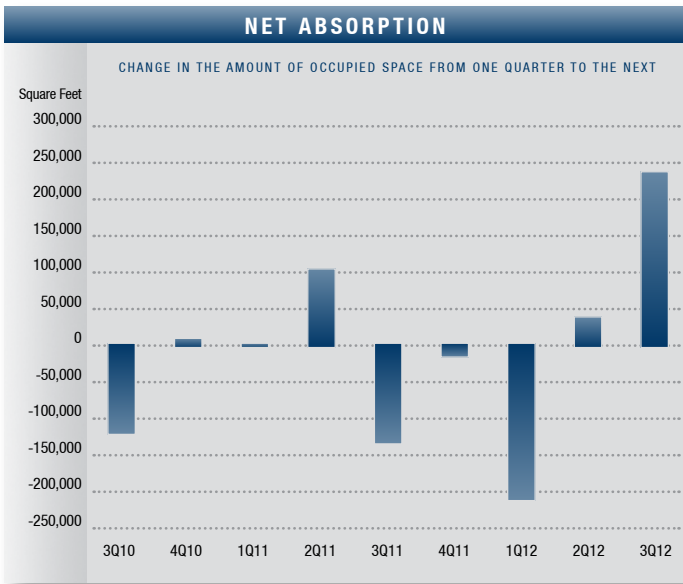
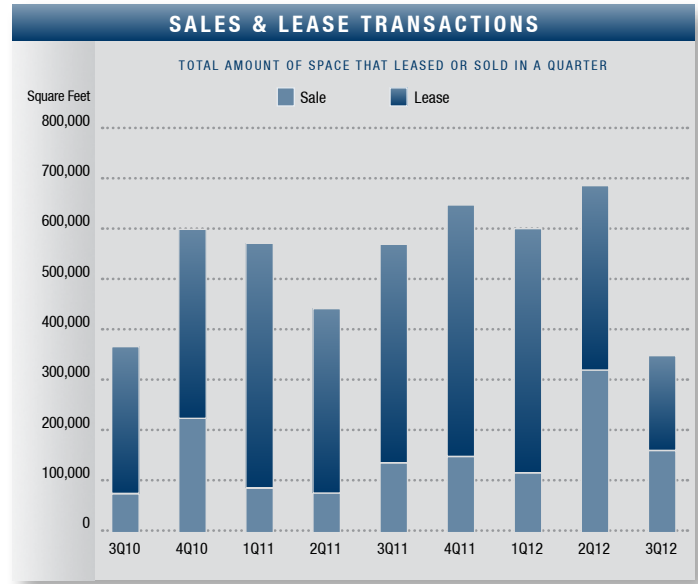
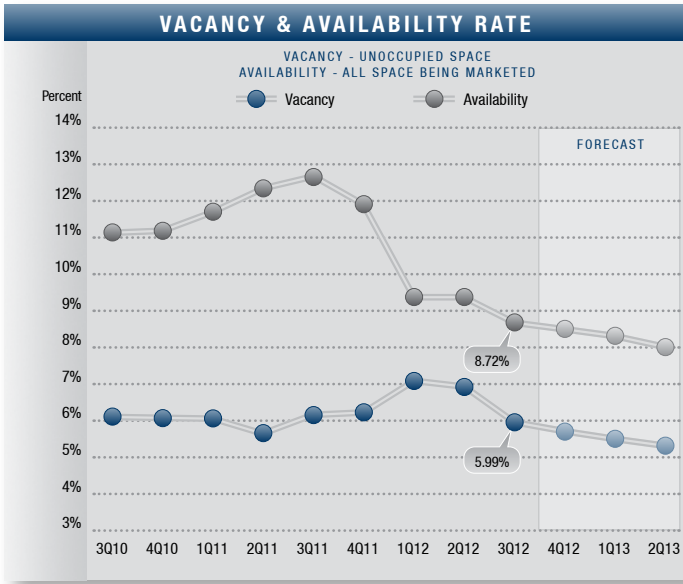
In the third quarter of 2012, the Airport Orange County industrial market consisted of 2,888 buildings totaling 66,112,467 square feet and had an availability rate of 6.62%, which shows a decrease from the previous quarter's figure of 6.84%.



	INVENTORY				VACANCY & LEASE RATES				ABSORPTION					
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2012	Square Feet Available	Availability Rate 3Q2012	Average Asking Lease Rate	Average Asking Sales Price	Net Absorption 3Q2012	Net Absorption 2012	Gross Absorption 3Q2012	Gross Absorption 2012
<b>Airport Totals</b>	<b>2,888</b>	<b>66,112,467</b>	<b>26,000</b>	<b>290,050</b>	<b>2,650,327</b>	<b>4.01%</b>	<b>4,378,603</b>	<b>6.62%</b>	<b>\$0.59</b>	<b>\$136.80</b>	<b>108,196</b>	<b>753,266</b>	<b>753,604</b>	<b>2,806,146</b>
Less than 9,999	1,018	5,752,146	0	0	156,230	2.72%	283,284	4.92%	\$1.43	\$182.43	(16,326)	(24,688)	69,406	223,630
10,000-19,999	950	13,308,713	0	0	475,576	3.57%	831,600	6.25%	\$0.77	\$172.48	60,525	107,674	215,168	695,364
20,000-29,999	379	9,062,241	26,000	0	445,083	4.91%	758,190	8.37%	\$0.54	\$126.89	19,642	78,829	188,597	581,734
30,000-39,999	171	5,816,273	0	68,250	121,490	2.09%	485,216	8.34%	\$0.73	\$143.93	33,985	142,557	128,755	455,759
40,000-49,999	99	4,336,494	0	0	207,294	4.78%	251,977	5.81%	\$0.47	\$136.27	44,819	(760)	61,509	187,368
50,000-74,999	121	7,278,596	0	0	234,836	3.23%	452,327	6.21%	\$0.55	\$118.50	23,816	121,339	55,182	170,625
75,000-99,999	61	5,250,225	0	0	421,547	8.03%	555,504	10.58%	\$0.59	\$135.99	(93,252)	71,795	0	200,159
100,000-149,999	52	5,986,625	0	221,800	0	0.00%	49,834	0.83%	\$0.59	\$129.00	0	146,121	0	146,121
150,000-199,999	13	2,243,005	0	0	221,642	9.88%	231,442	10.32%	\$0.56	\$0.00	34,987	110,399	34,987	145,386
200,000-299,999	13	3,213,133	0	0	0	0.00%	0	0.00%	\$0.00	\$0.00	0	0	0	0
300,000 Plus	11	3,865,016	0	0	366,629	9.49%	479,229	12.40%	\$0.57	\$98.19	0	0	0	0

**SOUTH ORANGE COUNTY**

In the third quarter of 2012, the South Orange County industrial market consisted of 961 buildings totaling 25,548,736 square feet and had an availability rate of 8.72%, which shows a decrease from the previous quarter's figure of 9.10%.



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION				
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2012	Square Feet Available	Availability Rate 3Q2012	Average Asking Lease Rate	Average Asking Sales Price	Net Absorption 3Q2012	Net Absorption 2012	Gross Absorption 3Q2012	Gross Absorption 2012
<b>South Totals</b>	<b>961</b>	<b>25,548,736</b>	<b>0</b>	<b>7,000</b>	<b>1,530,071</b>	<b>5.99%</b>	<b>2,227,906</b>	<b>8.72%</b>	<b>\$0.69</b>	<b>\$155.66</b>	<b>236,075</b>	<b>64,911</b>	<b>519,018</b>	<b>1,412,742</b>
Less than 9,999	358	2,444,653	0	7,000	107,945	4.42%	193,353	7.91%	\$0.88	\$189.14	12,921	24,704	49,938	145,141
10,000-19,999	294	4,198,460	0	0	326,383	7.77%	475,531	11.33%	\$0.82	\$161.08	(3,325)	(44,101)	103,133	300,760
20,000-29,999	122	2,886,740	0	0	208,339	7.22%	392,962	13.61%	\$0.69	\$179.64	70,101	87,386	112,920	283,110
30,000-39,999	46	1,540,814	0	0	77,181	5.01%	68,620	4.45%	\$0.83	\$0.00	45,795	40,006	49,930	68,919
40,000-49,999	33	1,477,551	0	0	97,405	6.59%	196,869	13.32%	\$0.76	\$142.44	26,031	16,668	26,031	175,757
50,000-74,999	42	2,555,487	0	0	184,346	7.21%	288,647	11.30%	\$0.63	\$199.04	453	(26,619)	29,572	107,522
75,000-99,999	22	1,879,484	0	0	54,218	2.88%	86,846	4.62%	\$0.59	\$131.85	(6,118)	(6,118)	21,400	34,071
100,000-149,999	23	2,722,925	0	0	166,864	6.13%	196,914	7.23%	\$0.63	\$99.00	67,123	55,410	103,000	216,474
150,000-199,999	7	1,184,891	0	0	186,906	15.77%	196,880	16.62%	\$0.63	\$98.98	0	(98,440)	0	0
200,000-299,999	7	1,538,857	0	0	41,879	2.72%	52,679	3.42%	\$0.53	\$0.00	23,094	16,015	23,094	80,988
300,000 Plus	7	3,118,874	0	0	78,605	2.52%	78,605	2.52%	\$0.00	\$0.00	0	0	0	0

RECENT TRANSACTIONS

Sales Transactions

Property Address	City	Square Feet	Sale Price Per SF	Buyer	Seller
19511 Pauling	Foothill Ranch	110,108	\$110.00	Star Furniture	Innovage, LLC
378 E. Orangethorpe Ave.	Placentia	77,788	\$76.17	Classic Performance Products	MNC Brothers
17152 Daimler St. – 2 Properties	Irvine	75,524	\$103.28	17152–17192 Daimler, LLC	Hope Qvale
1301 S. State College Blvd.	Anaheim	51,497	\$169.14	Thrifty Oil Company	Weingart Foundation
211 Avenida Fabricante	San Clemente	40,658	\$88.78	CRP Properties	California Reconveyance Company
401 W. Dyer Rd.	Santa Ana	38,568	\$80.75	John N Kallab	Lawrence Pasternack

Lease Transactions

Property Address	City	Square Feet	Transaction Date	Tenant	Owner
1123 E. Warner Ave. – Renewal	Tustin	500,625	Jul-12	Ricoh	Bedrosian Tustin, LLC
11240 Warland Dr.	Cypress	85,773	Jul-12	C & D Zodiac	Warland Drive Two, LLC
16542 Millikan Ave. – Renewal	Irvine	59,230	Jul-12	Smarthome	Rossmore
501 Burning Tree Rd. – Renewal	Fullerton	55,740	Aug-12	Berger Transfer & Storage	SFERS Real Estate Corporation
1580 Sunflower Ave. – Renewal	Costa Mesa	51,900	Jul-12	Alfred’s Picture Frame	CJ Segerstrom & Son
1500 E. Valencia Dr.	Fullerton	40,320	Jul-12	National Technical Systems	JCC California Properties, LLC

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



Product Type

MFG./DIST.

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

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