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VOIT REPORT: ORANGE COUNTY'S DIVERSE INDUSTRIAL MARKET CONTINUES ITS STEADY GROWTH WITH DEMAND OUTPACING SUPPLY - BIGGEST HURDLE CONTINUES TO BE EXPANSION OPPORTUNITIES GIVEN INVENTORY SHORTAGE

Orange County, Calif., (April 13, 2016) – Steady job growth, an improving housing market and an attractive interest rate environment have combined to fuel business expansion, driving lease rates up and sale prices past previous record highs. The scales are tipped in the landlords' favor at the moment resulting in limited concessions for tenants. Most of the new construction is being absorbed prior to completion and there is continued demand for well located, second-generation buildings as well. Aging industrial properties in parts of North and Central County are being sold in favor of higher and better uses, including retail, office, residential, and mixed use, according to a new First Quarter Market Report from Voit Real Estate Services.

Industrial vacancy for Q1 recorded an extraordinarily low rate of 2.37%, up from the already low rate of 3.16% for the previous year (Q4, 2015). The North County submarket boasted the lowest vacancy rate in the county at 1.80% and a majority of that inventory is functionally obsolete. Vacancies are at historic lows and demand is still on the rise, resulting in multiple offers on listed properties as well as motivated buyers making "unsolicited" offers to owners with the hope they will become sellers. For this reason, identifying expansion or replacement properties is taking much longer and both tenants and buyers need to give themselves ample time.

We have continued optimism for Orange County's industrial market for 2016 as employment growth is well above the national average and small businesses are continuing to thrive across most industries including apparel, consumer electronics, technology, automotive, food & beverage and specialty manufacturing. Smaller industrial spaces, particularly those less than 30,000 square feet, are in high demand and are not being built during this most recent development cycle given the increase in construction costs and a spike in industrial land values.

The Orange County office market is continuing its strong recovery brought about by a substantial increase in demand from an increasingly diverse tenant base.

With so few alternatives, particularly in large blocks of space, expect to see the most substantial rental rate increase since 2007. Occupancy rates have increased to the point where some of OC's more prominent landlords are unable to accommodate the expansion needs of their existing tenants. Orange County's wealthy and highly educated population has contributed to rapid expansion in industries tied to technology, biotech, healthcare, professional/financial services and lending. These industries will continue to add jobs and help to increase demand in the coming quarters.

Average asking lease rates in Orange County for the first quarter came in at $2.37 per square foot per month, up 4.9% from the $2.26 asking in the previous quarter. A year ago, asking rates were approximately $2.12, an increase of nearly 12%, excluding concessions such as free rent and above standard tenant improvement allowances provided by the owner. Class A asking rates for the county averaged $2.76 FSG, the highest being in the Airport submarket, where Class A rates averaged $3.12 FSG due to more modern construction and access to amenities.

Demand for Office Product Increases

The Orange County office market posted 207,095 square feet of positive absorption at the end of the first quarter, giving the market a net total of over 1.2 million square feet of positive absorption since the first quarter of 2015. Orange County's sound market fundamentals will fuel a healthy office market in the coming quarter with continued job growth and an overall increase in tenant demand, according to Voit's report.

Office vacancies will increase as the next wave of construction hits the market. Total space under construction checked in at 3.01 million square feet for the first quarter of 2016, which is 80% higher than the amount that was under construction this same time last year. Many of the projects currently under construction offer tenants an alternative to traditional office space. For example, Trammell Crow's new 545,000 SF project near John Wayne Airport, known as The Boardwalk, features larger floor plates, increased parking, high ceilings, indoor bridges and outdoor walkways as part of a comprehensive amenities package aimed to help businesses attract talent.

As the first quarter of 2016 came to an end, the Orange County office submarket saw its vacancy increase in the first quarter to 10.78%, up from 10.39% in the fourth quarter, due in part to an uptick in new construction. There was 744,944 square feet of new construction completed in the first quarter. While Orange County's fundamentals remain strong, there seems to be a bit of caution from the capital markets as it relates to pricing. The first wave of new supply was matched with enough demand to result in vacancy compression and rent growth. The fundamental drivers of tenant demand appear strong and absorption should retain its positive momentum over the next three quarters.

About Voit Real Estate Services

Voit Real Estate Services is a privately held, broker owned Southern California commercial real estate firm that provides strategic property solutions tailored to clients' needs. Throughout its 40+ year history, the firm has developed, managed and acquired more than 64 million square feet and completed more than $44.8 billion in brokerage transactions encompassing more than 43,000 brokerage deals. Voit's unmatched expertise in Southern California brokerage, investment advisory, financial analysis, and market research enable the firm to provide clients with forward looking strategies that create value for a wide range of assets and portfolios. Further information is available at www.voitco.com.

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