



Recovery Complete But Growth Hits The Brakes

Orange County's red-hot industrial market suddenly has taken a breather.

After reaching and exceeding historic pre-recession levels, rental rates for Orange County industrial space were flat in the second quarter. Leasing activity is off, averaging 13% fewer deals this year than in 2015 and 21% less than over the last five years. Absorption gained in the second quarter but remains negative for the year.

More evidence of a pause in the market is showing up in building prices. After recently topping all-time highs, asking prices have leveled off in all size ranges. Buildings are taking longer to sell, and some prices have been cut – a dramatic change from the intense demand and multiple offers driving values steadily upward since 2012.

The lull comes amid uncertainty over the strength of the economy and unpredictability of voter sentiment as the general election nears. The cost of high-quality debt has been rising, and values of big bank shares have plunged. Results of the Brexit referendum in June, in which England voted to leave the EU, sent a shockwave through financial markets and made a previously unthinkable outcome on Nov. 8th appear more possible.

None of this apprehension makes site selection any easier for businesses planning for growth. Orange County's industrial vacancy rate has remained at less than 3% for the last four quarters and is among the tightest in the U.S. Average asking rents are up 9% year over year and users are frustrated by the short supply. Nevertheless, landlords and users can expect that only buildings in Class A condition will command top dollar in the current market.

Despite the countywide respite, North County posted a healthy second quarter. With 116.8 million sq. ft., the vacancy rate in the county's largest submarket slipped 10 basis points to 2.2% on net absorption of 302,100 sq. ft. The year-over-year jump in asking rents averaged nearly 15% but slowed to 3% in Q2.

The small West County submarket with 44.7 million sq. ft. also posted 90 days of strong activity in which 281,808 sq. ft. was absorbed, but it brought the total gained in the last four quarters to 91,492 sq. ft. Asking rents were unchanged in Q2 but are up 9% year over year.

In the Airport submarket's 74,720,879 sq. ft., the vacancy rate gained 10 basis points, settling at 3.3% due to negative absorption of 169,964 sq. ft. Average asking rents were up 1.25% in Q2 and 8% year over year.

South County landlords have put 135,508 sq. ft. into the vacancy column since January, a reversal of the average 128,431-sq.-ft. quarterly absorption gains in the previous 16 quarters. With 41,939,615 sq. ft. in total inventory, South County's Q2 vacancy rate was unchanged at 3.2%.

MARKET OVERVIEW

(Change from last quarter)

AVAILABILITY - 4.3%
Down from 4.6% last quarter



VACANCY - 2.8%
Down from 2.9% last quarter



ABSORPTION - 349,290 SQ. FT.
Up from -434,682 SF last quarter

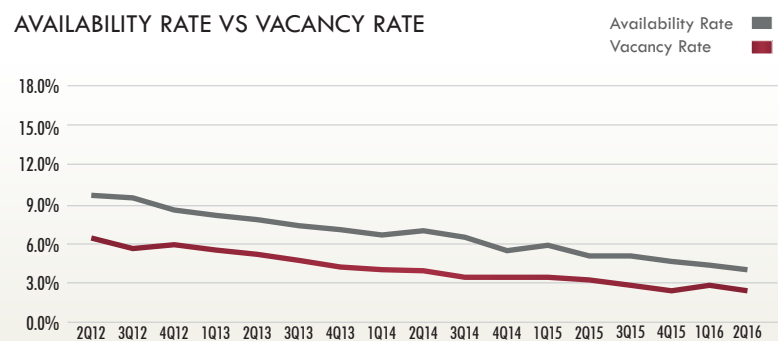


AVERAGE LEASE RATE - \$0.84 NNN
Up from \$0.82 last quarter

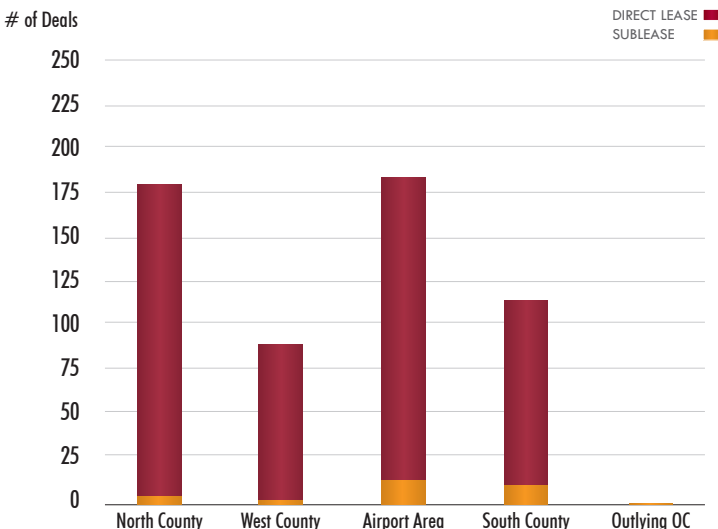


*All numbers are based on industrial buildings 10,000 sq. ft. and larger.

AVAILABILITY RATE VS VACANCY RATE

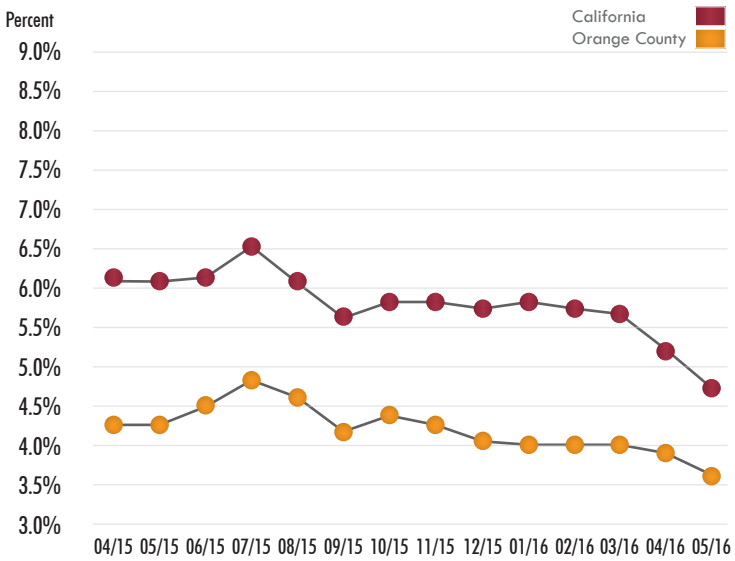


NUMBER OF LEASES EXECUTED FOR THE QUARTER BY SUBMARKET



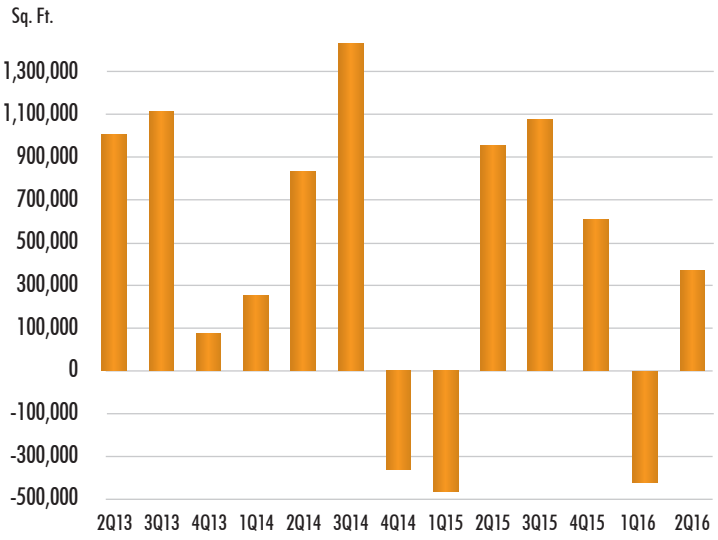
Source: CoStar

UNEMPLOYMENT RATE



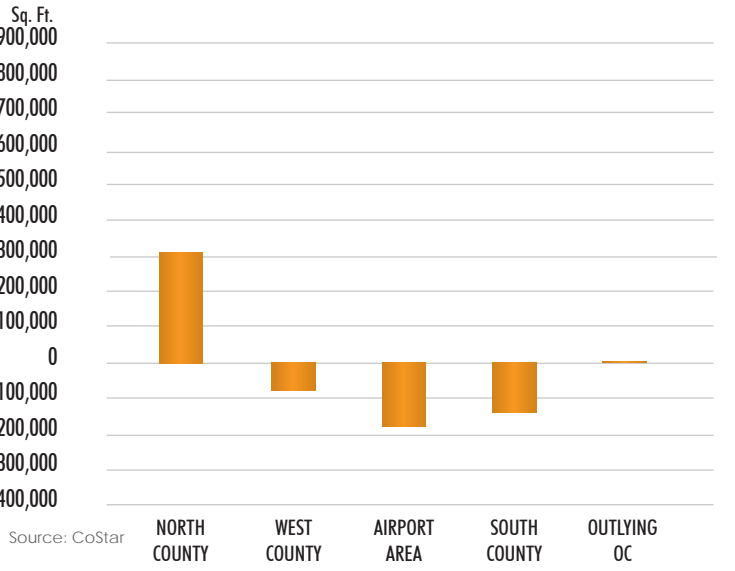
Source: EDD

COUNTY WIDE NET ABSORPTION INCLUDING SUBLET SPACE



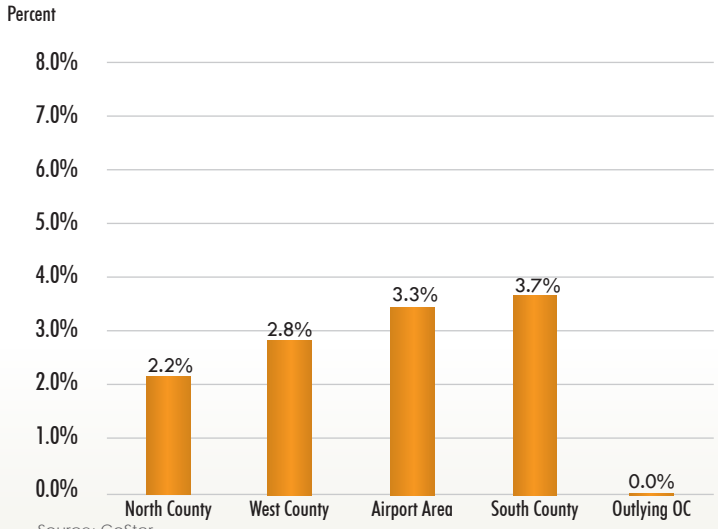
Source: CoStar

YTD NET ABSORPTION BY SUBMARKET, INCLUDING SUBLET SPACE



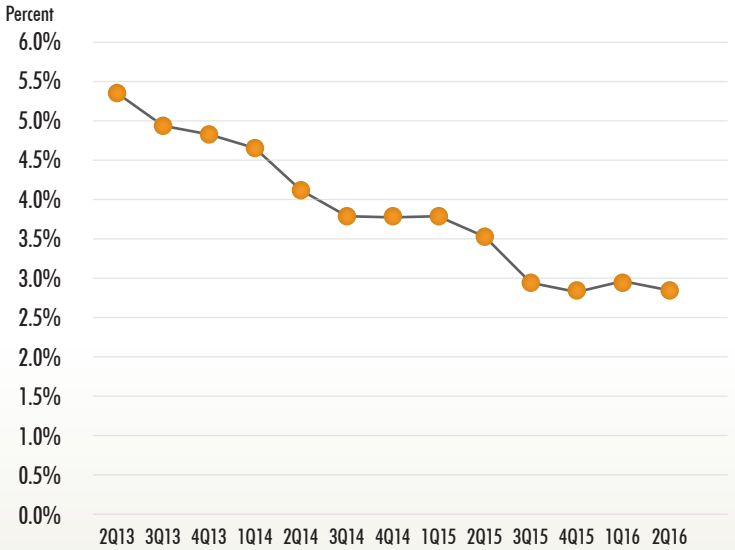
Source: CoStar

VACANCY RATE BY SUBMARKET - INCLUDING SUBLET SPACE



Source: CoStar

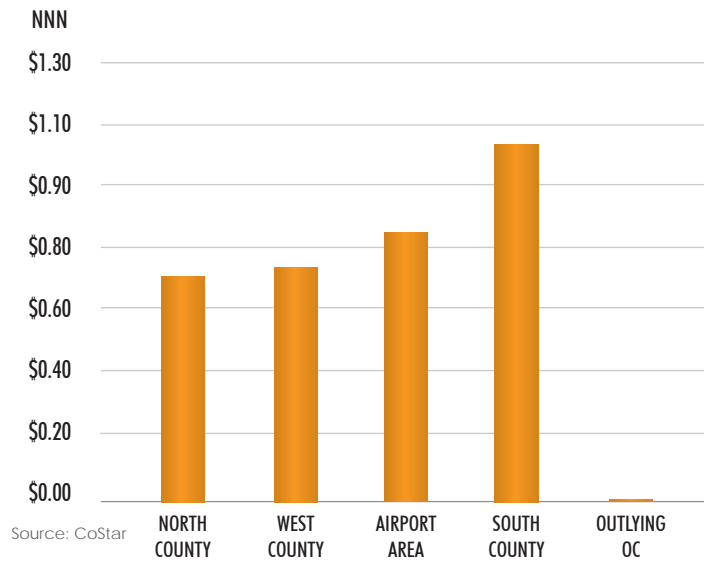
VACANCY RATE BY QUARTER



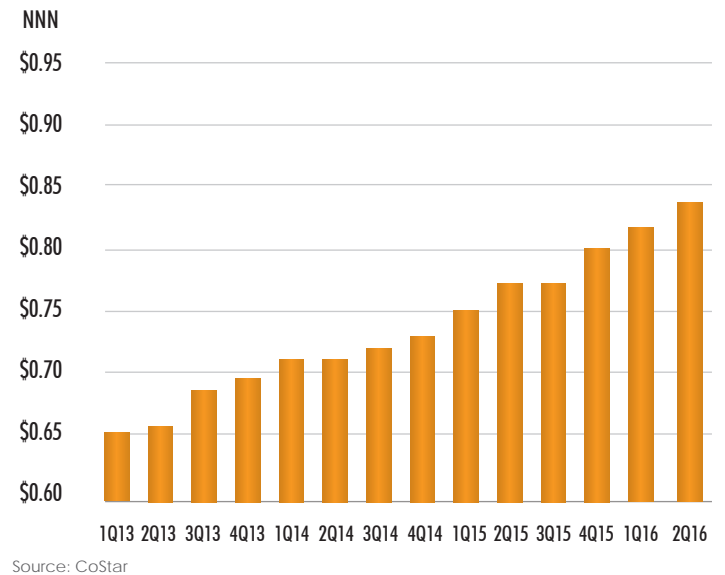
Source: CoStar

AVERAGE NNN LEASE RATE

BY SUBMARKET



AVERAGE NNN LEASE RATES BY QUARTER



COMPLETED LEE & ASSOCIATES TRANSACTIONS



3310 E. Miraloma
Anaheim, CA



330 S. Hale Avenue
Fullerton, CA



14380 Industry Circle
La Mirada, CA

Lease Transactions 2Q 16

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
3310 E. Miraloma Anaheim, CA	319,174	Bunzl Distribution California, LLC	Clarion Partners	Jedd Zaun represented the Tenant.
330 S. Hale Avenue Fullerton, CA	90,336	OSC Automotive, Inc.	Eastgroup Properties, LP	Justin Smith represented the Tenant.
14380 Industry Circle La Mirada, CA	74,349	California Hi-Lites	Suddath Global Logistics, LLC	Rob Leiter represented the Tenant.



7012 Belgrave Avenue
Garden Grove, CA



955 Columbia
Brea, CA



15 Argonaut
Aliso Viejo, CA

Sale Transactions 2Q 16

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
7012 Belgrave Avenue Garden Grove, CA	44,000	SoCal Belgrave, LLC	Disruptive Investments, LLC	Jim Snyder represented both Buyer and Seller.
955 Columbia Brea, CA	43,200	Millennium Investment, LLC	Gerard Roof Products, LLC	Allen Buchanan represented the Seller.
15 Argonaut Aliso Viejo, CA	41,519	Berdan Holdings, LLC	Cordia, LLC	Kurt Bruggeman and Ryan Swanson represented the Buyer.

	Bldg Count	SF RBA	Total SF Available	Avail. Rate	Total SF Vacant	Total Vac. Rate	Direct SF Vacant	Direct Vac. Rate	Net Absorption	YTD Net Absorption	SF Avail Sublease	SF Vacant Sublease	Avg Asking Lease Rate	SF Under Construction
BY CITY														
Aliso Viejo	57	1,742,524	51,506	3.0%	52,277	3.0%	17,684	1.0%	(13,075)	34,197	13,986	34,593	\$1.17 NNN	- 0 -
Anaheim	1,443	46,020,805	1,245,559	2.7%	876,773	1.9%	870,283	1.8%	253,959	418,220	16,270	6,490	\$0.76 NNN	- 0 -
Brea	299	12,757,727	690,665	5.4%	558,669	4.4%	552,211	4.3%	36,626	(99,136)	75,939	6,458	\$0.68 NNN	- 0 -
Buena Park	204	14,128,606	299,318	2.1%	181,549	1.3%	181,549	1.3%	23,369	(3,894)	160,579	- 0 -	\$0.64 NNN	- 0 -
Capistrano Beach	1	35,486	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Costa Mesa	396	10,729,743	643,209	6.0%	507,555	4.5%	468,852	4.5%	(909)	(18,003)	64,446	38,703	\$1.03 NNN	- 0 -
Cypress	102	6,532,938	777,737	11.9%	304,285	4.7%	275,071	4.2%	(105,089)	(40,422)	177,796	29,214	\$0.81 NNN	- 0 -
Dana Point	1	12,000	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	2,106	2,106	- 0 -	- 0 -	- 0 -	- 0 -
Foothill Ranch	50	3,594,451	285,707	7.9%	378,688	5.1%	373,580	5.0%	(130,209)	(310,096)	37,807	5,108	\$0.88 NNN	- 0 -
Fountain Valley	205	5,072,962	47,005	0.9%	151,942	2.9%	151,942	2.9%	(6,299)	71,644	- 0 -	- 0 -	\$0.83 NNN	- 0 -
Fullerton	354	20,106,276	1,022,568	5.1%	758,745	3.7%	656,457	3.2%	(83,019)	(123,148)	130,128	102,288	\$0.61 NNN	- 0 -
Garden Grove	379	12,843,959	636,644	5.0%	208,031	1.7%	202,031	1.6%	26,935	5,099	40,304	6,000	\$0.68 NNN	- 0 -
Huntington Beach	550	15,583,231	596,025	3.8%	518,113	3.5%	487,883	3.3%	314,104	(29,485)	24,693	30,230	\$0.69 NNN	41,668
Irvine	1,028	38,763,747	2,235,676	5.8%	1,238,060	3.0%	1,168,164	2.8%	(33,742)	123,797	199,211	69,896	\$1.13 NNN	- 0 -
La Habra	104	3,150,208	68,421	2.2%	43,508	1.4%	43,508	1.4%	(3,559)	(7,221)	- 0 -	- 0 -	- 0 -	- 0 -
La Palma	17	1,859,689	70,200	3.8%	145,200	7.8%	145,200	7.8%	18,846	(33,266)	- 0 -	- 0 -	- 0 -	- 0 -
Ladera Ranch	1	21,784	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Laguna Beach	3	51,768	4,920	9.5%	4,920	9.5%	4,920	9.5%	(1,640)	(1,640)	- 0 -	- 0 -	- 0 -	- 0 -
Laguna Hills	111	2,204,712	83,861	3.8%	69,923	2.4%	69,923	2.4%	(10,061)	(1,705)	4,625	- 0 -	\$1.16 NNN	- 0 -
Laguna Niguel	38	753,408	18,430	2.4%	9,395	1.1%	9,395	1.1%	122	(12,286)	1,368	- 0 -	\$1.55 NNN	- 0 -
Laguna Woods	1	20,178	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Lake Forest	181	5,036,393	344,209	6.8%	205,529	3.3%	192,390	3.0%	104,873	118,066	22,153	13,139	\$0.92 NNN	- 0 -
Los Alamitos	107	3,104,417	63,982	2.1%	28,565	1.3%	28,565	0.9%	(732)	(12,534)	12,600	- 0 -	\$1.61 NNN	- 0 -
Mission Viejo	57	1,329,130	49,662	3.7%	45,383	3.4%	45,383	3.4%	3,312	(16,342)	3,475	- 0 -	\$0.99 NNN	- 0 -
Newport Beach	49	1,022,698	12,420	1.2%	14,920	1.5%	14,920	1.5%	9,811	2,894	- 0 -	- 0 -	- 0 -	- 0 -
Orange	568	14,207,700	177,250	1.2%	80,306	0.6%	77,706	0.6%	39,905	75,834	41,397	2,600	\$0.81 NNN	- 0 -
Placentia	170	4,217,667	102,109	2.4%	11,811	0.5%	11,811	0.5%	10,833	53,839	- 0 -	- 0 -	\$0.74 NNN	- 0 -
Rancho Santa Margarita	84	2,722,741	38,349	1.4%	4,340	0.2%	4,340	0.2%	- 0 -	(537)	6,391	- 0 -	\$0.95 NNN	- 0 -
San Clemente	120	2,782,698	218,932	7.9%	148,560	5.3%	122,560	4.4%	(56,015)	(66,156)	17,450	26,000	\$1.02 NNN	- 0 -
San Juan Capistrano	78	1,762,915	39,023	2.5%	26,129	1.5%	26,129	1.5%	3,904	14,056	15,794	- 0 -	\$1.11 NNN	- 0 -
Santa Ana	1,120	31,805,735	1,516,519	4.8%	797,296	2.7%	760,896	2.5%	19,080	86,929	43,647	36,400	\$0.70 NNN	- 0 -
Seal Beach	13	992,679	67,667	6.8%	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	\$0.73 NNN	- 0 -
Stanton	73	1,377,219	8,704	0.6%	13,499	1.0%	13,499	1.0%	(12,299)	(10,619)	- 0 -	- 0 -	- 0 -	- 0 -
Tustin	187	7,410,399	436,264	5.9%	347,433	4.7%	345,581	4.7%	(125,876)	(326,219)	14,266	1,852	\$0.83 NNN	- 0 -
Westminster	84	2,384,511	20,430	0.9%	26,200	1.1%	26,200	1.1%	40,043	33,136	12,044	- 0 -	\$0.83 NNN	- 0 -
Yorba Linda	84	2,243,878	109,675	4.9%	77,755	3.5%	77,755	3.5%	23,986	(12,500)	- 0 -	- 0 -	\$1.17 NNN	- 0 -
Orange County Totals	8,319	278,384,982	11,982,646	4.3%	7,835,359	2.8%	7,426,388	2.7%	349,290	(85,392)	1,136,369	408,971	\$0.84 NNN	41,668

	Bldg Count	SF RBA	Total SF Available	Avail. Rate	Total SF Vacant	Total Vac. Rate	Direct SF Vacant	Direct Vac. Rate	Net Absorption	YTD Net Absorption	SF Avail Sublease	SF Vacant Sublease	Avg Asking Lease Rate	SF Under Construction
BY AREA														
North Orange County	3,225	116,822,867	3,715,565	3.2%	2,589,116	2.2%	2,471,280	2.1%	302,100	301,994	424,313	117,836	\$0.70 NNN	- 0 -
West Orange County	1,326	44,714,716	2,241,389	5.0%	1,243,893	2.8%	1,178,449	2.6%	281,808	(88,091)	267,437	65,444	\$0.72 NNN	41,668
Airport Area	2,506	74,720,879	3,734,302	5.0%	2,458,645	3.3%	2,366,176	3.2%	(169,964)	(163,787)	180,311	92,469	\$0.81 NNN	- 0 -
South Orange County	1,261	41,939,615	2,291,390	5.5%	1,543,705	3.7%	1,410,483	3.4%	(64,654)	(135,508)	264,308	133,222	\$1.08 NNN	- 0 -
Outlying Orange County	1	186,905	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Orange County Totals	8,319	278,384,982	11,982,646	4.3%	7,835,359	2.8%	7,426,388	2.7%	349,290	(85,392)	1,136,369	408,971	\$0.84 NNN	41,668

ABOUT LEE & ASSOCIATES



As a group of independently owned and operated companies, Lee & Associates currently has more than 54 offices in Arizona, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Maryland, Michigan, Missouri, Nevada, New Jersey, New York, Ohio, Pennsylvania, South Carolina, Texas and Wisconsin.

With a broad array of regional, national and international clients—ranging from individual investors and small businesses, to large corporations and institutions—Lee & Associates has successfully completed transactions with a total value of more than \$9 billion last year, alone.

INDUSTRIAL SERVICES

Lee & Associates knows industrial real estate. Large, mid-size and small, we help clients transact their way through the intricacies of manufacturing plants, bulk warehousing/distribution facilities, specialized flex complexes, modern build-to-suit flex space and turn-key, high-tech campuses. Our industrial specialists provide skilled guidance running the gamut from facility, site and land acquisition/disposition to advisory services, sale and lease negotiations, build-to-suit analysis and planning.

SUBMARKETS:

NORTH

Anaheim, Break, Buena Park, Fullerton, La Habra, Orange, Placentia, Yorba Linda

WEST

Anaheim, Cypress, Garden Grove, Huntington Beach, La Palma, Los Alamitos, Santa Ana, Seal Beach, Stanton, Westminster

AIRPORT

Costa Mesa, Fountain Valley, Garden Grove, Irvine, Newport Beach, Santa Ana, Tustin

SOUTH

Aliso Viejo, Capistrano Beach, Dana Point, Foothill Ranch, Irvine, Ladera Ranch, Laguna Beach, Laguna Hills, Laguna Niguel, Laguna Woods, Lake Forest, Mission Viejo, Rancho Santa Margarita, San Clemente, San Juan Capistrano

OUTLYING

San Juan Capistrano



MARKET FORECAST:

Chapman University's mid-year Orange County forecast said job growth will slow to 2.6% this year from 3.2% last year and housing will appreciate 4.6% this year, up from 2.7% in 2015.



COMMERCIAL REAL ESTATE SERVICES

Industrial Members of the Lee & Associates Group of Companies-Orange County

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BJ Fell	Todd Swanson
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Brian Garbutt	
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Nate Pivaroff	
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Chris Coyte	Dick Silva
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Jeff Gahagan	Bob Sattler
Brad Gilmer	Scott Seal
Tom Gilmer	John Son
Tom Grant	Peter Sowa
Jack Haley	David Tabata
Chuck Hardy	Randy Verdieck
James Hawkins	Dave Williams
Doug Himes	
Mark Hintergardt	
Luke Hudson	
Elizabeth Hughes	
Dave Hunsaker	
Joel Hutak	
Dan Kruse	

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