

ORANGE COUNTY

Economic Indicators

	Q4 17	Q4 18	12-Month Forecast
O.C. Employment	1.6M	1.6M	▲
O.C. Unemployment*	3.3%	2.9%	▲
U.S. Unemployment	4.1%	3.7%	▼

*4Q is for November

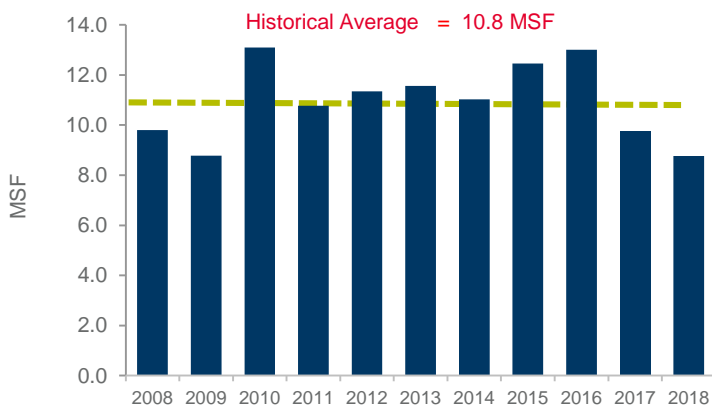
Market Indicators (Overall, All Product Types)

	Q4 17	Q4 18	12-Month Forecast
Vacancy	1.9%	1.8%	▼
YTD Net Absorption (sf)	-57K	883K	▲
Under Construction (sf)	1.5M	805K	▼
Average Net Asking Rent	\$0.94	\$0.92	▲

Overall Warehouse Vacancy/Asking Rent



Leasing Activity



Economy

Over the past year, Orange County has added 7,700 jobs for an increase of 0.4% in employment. As of November, the Orange County unemployment rate has decreased to 2.9%. This compares with unemployment rates of 3.9% for California and 3.7% for the nation during the same period. Additionally, Orange County ranked second both statewide and nationwide in economic growth between 2015-2018. A huge driver of industrial demand, U.S. import volume is forecast to remain healthy for first quarter 2019. Although there has been a slight slowdown in combined cargo volume at the San Pedro Bay Ports with only a 3.2% annual growth in volume through November, 2018 will be another record year for the ports.

Market Overview

Orange County ended the year with a 1.8% overall vacancy rate, down 10 basis points (bps) from last year. Due to strong demand for quality warehouse space, overall warehouse asking rents have seen a two-year rent growth of 16.0%, finishing the year with an average of \$0.87 per square feet per month (psf/mo). Totalling 8.8 million square feet (msf) at year-end, there was a slowdown in leasing activity with a year-over-year decrease of 10.4%. Much of the decline can be explained by the increase of renewals, particularly for large blocks of warehouse space. Half of all lease transactions over 100,000 sf in 2018 were renewals compared to only 33.0% of transactions in 2017. The largest new lease of the fourth quarter was a 130,291-sf deal by Rexel USA in Garden Grove. Meanwhile, the largest move-in of the fourth quarter was Hybrid Apparel who occupied 280,460 sf in Huntington Beach. Due to strong lease-up in Class A and B+ properties and lack of quality product coming on line, there was a slight dip in average rent. Given the tight market conditions and strong underlying fundamentals, our forecast calls for rent growth in 2019. With strong demand for logistics space, warehouse development activity ramped up in Orange County with the addition of 1.7 msf of new product to the market, the highest level since 2001. Due to a lack of supply, investment activity saw a sharp decline in 2018 with only 4.7 msf trading to investors. This represents a 32.1% decrease compared to 2017 and the lowest yearly total since 2011.

Outlook

With economic headwinds intensifying for the country and rest of the world, U.S. economic growth is likely to slow in 2019. According to the latest UCLA forecast, economic growth is in the process of downshifting from the 3.0% growth in real GDP in 2018 to 2.0% in 2019 and 1.0% in 2020, citing over-leveraged corporations and escalating trade tensions, especially with China as the biggest risks. The prospects of less-robust job growth in 2019 also adds to the slew of risks stacking up for the U.S. economy even as it heads towards its longest expansion on record.

MARKETBEAT

Orange County

Industrial Q4 2018



SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	**YTD LEASING ACTIVITY (SF)	YTD USER SALES ACTIVITY (SF)	OVERALL VACANCY RATE (%)	YTD NET OVERALL ABSORPTION (SF)	UNDER CNSTR (SF)	YTD CONSTRUCTION COMPLETIONS (SF)	OVERALL WEIGHTED AVG. NET RENT (MF)*	OVERALL WEIGHTED AVG. NET RENT (OS)*	OVERALL WEIGHTED AVG. NET RENT (WD)*
Irvine Spectrum	512	17,807,923	878,909	72,323	1.6%	156,362	0	0	\$1.25	\$1.46	\$0.85
Lake Forest/R.S.M./F. Ranch	469	12,182,491	420,319	0	1.4%	54,285	0	0	\$0.96	\$1.11	\$1.17
Laguna Hills/Aliso Viejo	127	3,810,210	33,264	20,000	0.4%	16,078	0	0	\$1.15	\$1.40	\$1.05
Laguna Niguel/Laguna Beach	28	620,370	6,491	15,000	1.1%	-5,143	0	0	N/A	N/A	\$0.95
Mission Viejo	45	1,425,392	40,707	0	0.9%	-1,193	0	0	\$1.34	N/A	\$1.37
S.J. Capo/S.Clemente/D.P.	141	3,956,534	97,295	29,000	1.4%	-34,916	0	0	\$1.20	\$1.10	\$1.15
South County	1,322	39,802,920	1,476,985	136,323	1.4%	185,473	0	0	\$1.06	\$1.34	\$1.12
Fountain Valley	169	5,105,842	113,017	22,826	0.4%	-20,327	0	0	\$1.22	\$1.07	N/A
Tustin	216	8,993,536	205,820	74,367	4.4%	-93,319	0	0	\$1.23	\$0.93	\$0.86
Santa Ana	1,039	33,607,874	659,128	283,924	2.9%	-188,119	472,667	0	\$0.85	\$1.15	\$0.81
Costa Mesa	368	11,843,543	470,634	105,002	2.8%	-254,887	100,233	0	\$1.37	N/A	\$0.79
Newport Beach	47	829,112	0	0	0.3%	-2,500	0	0	\$1.57	N/A	N/A
Irvine	639	23,131,139	610,888	283,465	2.0%	14,901	0	0	\$0.91	\$1.35	\$0.90
Greater Airport Area	2,478	83,511,046	2,059,487	769,584	2.6%	-544,251	572,900	0	\$0.94	\$0.97	\$0.85
Seal Beach	11	906,612	0	0	0.0%	0	0	0	N/A	N/A	N/A
Westminster	85	2,533,365	321,416	102,412	5.8%	-147,949	0	0	\$0.69	N/A	\$0.88
Huntington Beach	496	13,506,713	624,795	164,273	0.3%	346,035	0	0	\$1.18	N/A	\$0.96
Garden Grove	308	12,100,384	558,153	79,255	2.6%	-116,764	0	0	\$0.92	N/A	\$0.85
Los Alamitos/Stanton	148	4,075,193	32,032	0	0.3%	-8,240	0	0	N/A	\$1.08	\$1.04
Cypress	107	6,336,030	165,758	0	1.4%	-57,538	0	0	\$0.89	\$0.97	N/A
La Palma	19	1,969,009	186,046	57,702	0.0%	75,000	0	0	N/A	N/A	N/A
West County	1,174	41,427,306	1,888,200	403,642	1.4%	90,544	0	0	\$0.86	\$1.01	\$0.88
Anaheim	1,471	51,763,594	1,435,008	167,358	0.5%	344,026	114,659	350,774	\$1.05	\$1.14	\$0.92
Orange	502	13,969,263	369,607	54,695	1.0%	36,400	0	0	\$1.10	N/A	\$0.77
Fullerton	346	19,802,289	416,743	64,250	5.3%	261,350	0	934,754	N/A	N/A	\$0.86
Brea/La Habra	364	13,732,552	433,249	467,910	1.1%	110,671	0	0	\$1.00	\$0.89	\$0.95
Placentia/Yorba Linda	240	6,783,077	203,378	28,759	0.9%	-18,148	117,695	0	N/A	N/A	\$1.08
Buena Park	181	13,039,199	485,408	24,800	0.2%	416,608	0	380,000	\$0.79	\$1.10	\$1.08
North County	3,104	119,089,974	3,343,393	807,772	1.4%	1,150,907	232,354	1,665,528	\$0.99	\$1.10	\$0.87
ORANGE COUNTY TOTALS	8,078	283,831,246	8,768,065	2,117,321	1.8%	882,673	805,254	1,665,528	\$0.94	\$1.08	\$0.87

*Rental rates reflect asking \$psf/month **Leasing activity does not include renewals.

MF = Manufacturing OS = Office Service/Flex W/D = Warehouse/Distribution

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Key Lease Transactions Q4 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
7366 Orangewood Ave, Garden Grove	130,291	Rexel USA	New Lease	West County
11130 Warland Dr, Cypress	116,975	Kusha Food	Renewal*	West County
3300 Birch St, Brea	111,679	Amore Pacific USA	New Lease	North County
3355 E La Palma Ave, Anaheim	108,237	BE Aerospace	Renewal*	North County
7 Holland, Irvine Spectrum	84,797	Pinnacle Exhibits	New Lease	South County
6625 Caballero Blvd, Buena Park	84,600	Health-Ade	New Lease	North County
7300 Hazard Ave, Westminster	70,810	Wesco Distribution	New Lease	West County
5790 Katella Ave, Cypress	65,747	Kusha Foods	New Lease	West County
14505 Astronautics Ln, Huntington Beach	60,730	Bear Down Brands	Sublease	West County

*Renewals not included in leasing activity

Key Sales Transactions Q4 2018

PROPERTY	SF	SELLER/BUYER	PRICE/\$PSF	SUBMARKET
2100-2120 Howell Avenue, Anaheim	151,421	Seligman & Associates / Pacific Industrial	\$22,700,000 / \$150	North County
2152 Alton Avenue, Irvine	121,500	Dynasty Real Property / KB Home	\$28,585,305 / \$235	Greater Airport Area
5593-5595 Fresca Drive, La Palma	115,200	GTI Management / Rexford Industrial	\$14,000,000 / \$122	North County
1217 Saint Gertrude Place, Santa Ana	101,450	Gramercy Property Trust / Blackstone Group	\$23,175,258 / \$217	Greater Airport Area
2182 Alton Avenue, Irvine	80,771	Bayside Properties / Alliance Residential	\$19,080,000 / \$236	Greater Airport Area
3050 Enterprise, Brea	65,000	TA Realty / Kirkhill Aircraft Parts	\$12,039,500 / \$185	Greater Airport Area

Cushman & Wakefield
18111 Von Karman, Suite 1000
Irvine, CA 92614
www.cushmanwakefield.com

For more information, contact:
Mark Williams
Research Analyst
Tel: +1 949 474 4004
Mark.J.Williams@Cushwake.com

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