

VIBRANT CONDITIONS CONTINUE. The Orange County industrial market recorded another stellar quarter, but as demand continues to outpace supply, options are becoming severely limited for Orange County's diverse tenant base. Lease rates and sale prices are breaking through previous record highs across all size ranges and the region's lack of available inventory continues to hinder overall transaction volume. As e-commerce and related logistics/transportation operators emerge as more significant players in this market, industrial demand and competition is at an all-time high.

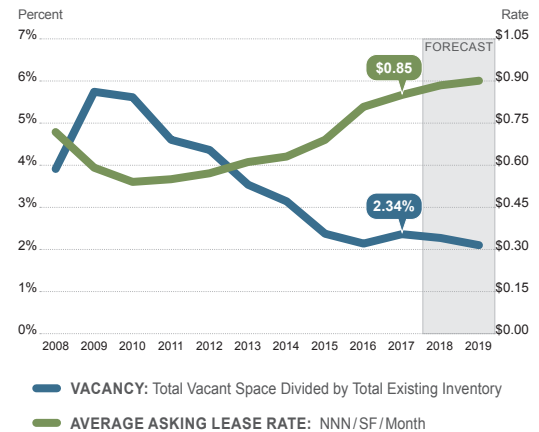
VACANCY. The vacancy rate for industrial buildings fell to 2.34%, down from an already low 2.38% in the third quarter. Expect vacancy rates to stay low as the limited and shrinking inventory of quality buildings is quickly absorbed by a motivated pool of tenants. "Availability" will be a significant hurdle for tenants for the balance of 2017 and into 2018. For tenants and buyers, being prepared, being able to react and being willing to pursue "off market" deals will be keys for success in this competitive landscape. Market conditions will also provide landlords with the ability to push rents and potentially upgrade the credit of their tenants.

LEASE RATES. The average asking lease rate which incorporates all size ranges and sub-markets throughout Orange County is \$0.85 NNN per square foot per month, a one cent per square foot increase from last quarter and a \$0.05 cent per square foot increase from a year ago (6.25% annual increase). Although averages are difficult to rely upon, the fact is that rents in certain segments of the market are up 25-40% when compared with when the last five-year lease was negotiated on that building in 2012.

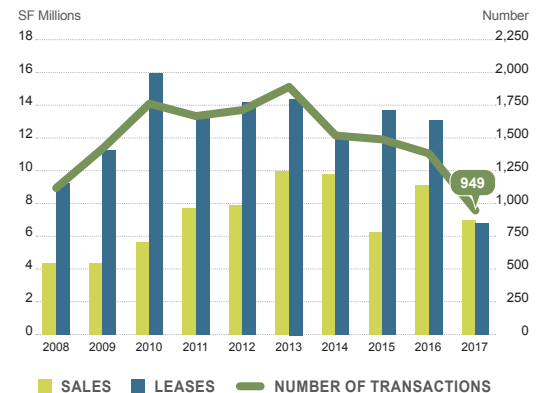
SALES PRICES. The Orange County industrial market's average asking price at the end of the third quarter 2017 came in at just under \$261 per square foot (average price tracks 1,000 square foot buildings and larger). While sale prices vary greatly depending on the size of the building and an average sale price doesn't tell the entire story, this represents an increase of more than 11% from the third quarter of 2016. As interest rates move up we expect to see more modest levels of appreciation in 2018.

TRANSACTION ACTIVITY. The overall lack of available inventory has taken its toll on transaction volume (sales and leases) as gross activity in the second quarter dropped to 4.2 million square feet, down from 4.3 million square feet in the previous quarter. Highlights include Amazon's lease of 238,000 square feet from Prologis at 6400 Valley View Street in Buena Park, Daisy Nails leasing 132,231 square feet at 3335 E. La Palma Avenue in Anaheim (Bentall Kennedy) and Primary Color leasing 204,314 square feet at 11130 Holder Street (former Van's headquarters) in Cypress.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



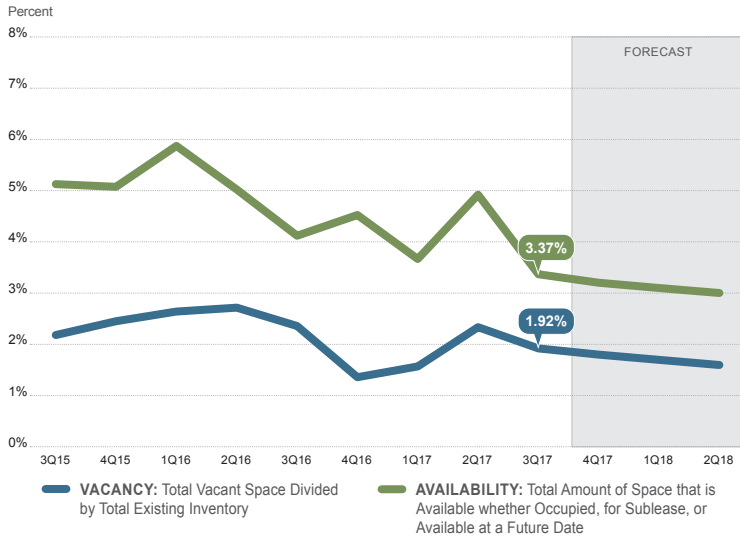
Market Statistics

| | Change Over Last Quarter | 3Q 2017 | 2Q 2017 | 3Q 2016 | % Change Over Last Year |
|---------------------------|--------------------------|-----------|-----------|-----------|-------------------------|
| Vacancy Rate | ▼ DOWN | 2.34% | 2.38% | 2.25% | 4.00% |
| Availability Rate | ▼ DOWN | 4.20% | 4.49% | 3.62% | 16.02% |
| Average Asking Lease Rate | ▲ UP | \$0.85 | \$0.84 | \$0.80 | 6.25% |
| Average Asking Sale Price | ▲ UP | \$260.81 | \$255.41 | \$234.06 | 11.43% |
| Sale & Lease Transactions | ▼ DOWN | 4,252,710 | 4,362,795 | 6,142,808 | -30.77% |
| Gross Absorption | ▲ UP | 3,125,109 | 2,564,548 | 2,937,076 | 6.40% |
| Net Absorption | ▲ POSITIVE | 92,714 | 17,140 | 442,758 | N/A |

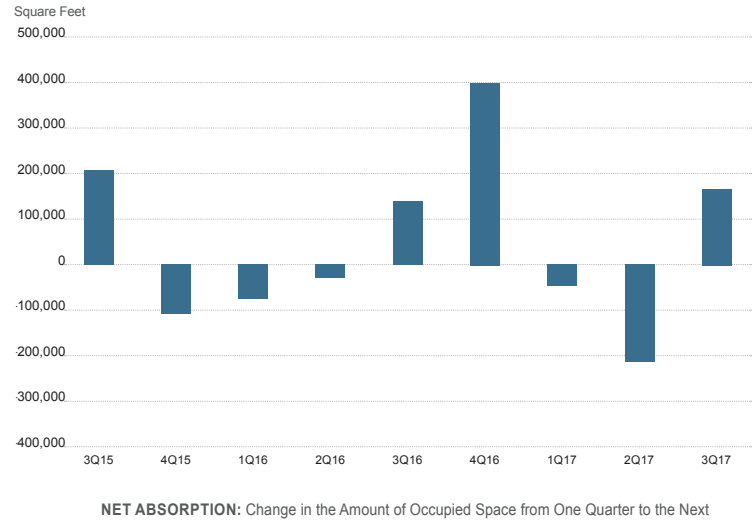
3Q2017 WEST ORANGE COUNTY INDUSTRIAL MARKET OVERVIEW

In the third quarter of 2017, the West Orange County industrial market consisted of 1,692 buildings totaling 39,662,827 square feet and had an availability rate of 3.37%, which shows a decrease from the previous quarter's figure of 4.91%.

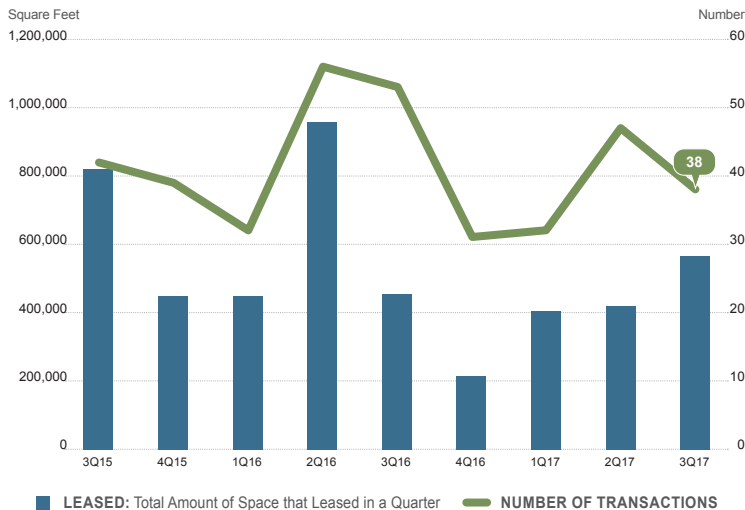
VACANCY & AVAILABILITY RATE



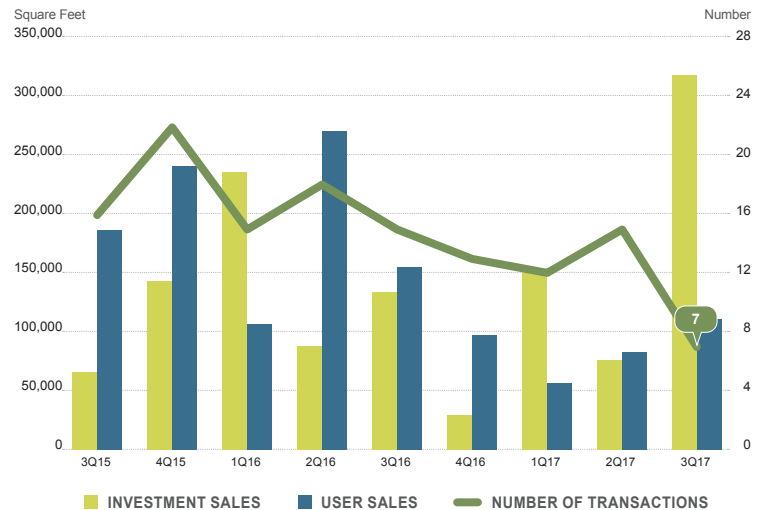
NET ABSORPTION



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 3Q2017 | Square Feet Available | Availability Rate 3Q2017 | Average Asking Lease Rate | Average Asking Sales Price | Net Absorption 3Q2017 | Net Absorption 2017 | Gross Absorption 3Q2017 | Gross Absorption 2017 |
| West Totals | | | | | | | | | | | | | | |
| Less than 9,999 | 691 | 4,078,677 | 0 | 0 | 42,442 | 1.04% | 85,358 | 2.09% | \$1.21 | \$228.68 | 24,600 | (1,127) | 58,303 | 123,533 |
| 10,000-19,999 | 558 | 7,400,051 | 0 | 0 | 91,228 | 1.23% | 99,490 | 1.34% | \$0.93 | \$178.15 | 24,890 | (29,639) | 137,471 | 255,914 |
| 20,000-29,999 | 180 | 4,322,374 | 0 | 0 | 72,224 | 1.67% | 127,696 | 2.95% | \$0.94 | \$136.03 | 72,154 | 19,852 | 106,782 | 160,381 |
| 30,000-39,999 | 63 | 2,206,846 | 0 | 0 | 20,802 | 0.94% | 79,620 | 3.61% | \$0.86 | \$190.00 | 1,544 | 81,769 | 11,000 | 94,805 |
| 40,000-49,999 | 50 | 2,175,832 | 0 | 0 | 51,039 | 2.35% | 12,373 | 0.57% | \$0.00 | \$176.84 | (51,039) | 3,466 | 0 | 54,505 |
| 50,000-74,999 | 58 | 3,472,364 | 0 | 0 | 119,440 | 3.44% | 152,119 | 4.38% | \$0.83 | \$155.00 | 0 | (103,440) | 13,000 | 79,182 |
| 75,000-99,999 | 30 | 2,574,308 | 0 | 0 | 31,500 | 1.22% | 54,330 | 2.11% | \$0.82 | \$0.00 | (15,700) | 57,007 | 15,800 | 207,107 |
| 100,000-199,999 | 40 | 5,391,236 | 0 | 0 | 125,654 | 2.33% | 262,634 | 4.87% | \$0.78 | \$0.00 | 5,277 | (119,654) | 5,277 | 6,000 |
| 200,000 plus | 22 | 8,041,139 | 0 | 0 | 207,953 | 2.59% | 463,013 | 5.76% | \$0.76 | \$0.00 | 104,354 | 0 | 439,077 | 439,077 |
| Total | 1,692 | 39,662,827 | 0 | 0 | 762,282 | 1.92% | 1,336,633 | 3.37% | \$0.81 | \$172.50 | 166,080 | (91,766) | 786,710 | 1,420,504 |

Visit My Website at www.EricRandolphSmith.com For More Information

4,312 SF | SUBLEASED



5622 Research Dr.
Huntington Beach, CA

27,645 SF | LEASED



529-533 Rose St.
Anaheim, CA

5,128 SF | LEASED



5672 Buckingham Drive
Huntington Beach, CA

5,500 SF | LEASED



17892 Metzler Lane
Huntington Beach, CA

45,533 SF | SOLD



Industry Street Industrial Park
Garden Grove, CA

19,295 SF | SOLD INVESTMENT



10520 Garden Grove Blvd.
Garden Grove, CA

In need of industrial space to buy or lease? Here's what you need to know. By Adam Hill

If you are occupying an industrial building that meets the needs of your business for the foreseeable future, consider yourself lucky. Those in this group have the luxury of devoting their time and energy to growing their business, rather than running around looking for a suitable building, in a market with very few choices.

For those who have a lease expiring in the next 12-18 months, have grown out of a building, or have changing needs in building requirements or location, finding a new space can be challenging if you aren't mentally prepared for the task at hand. The landscape of the industrial market has changed since you last executed whether that be 3, 5 or 7 years ago.

It's important to recognize that this process could take months, even years, depending upon the specifics of your building requirements. Vacancy is down again (below 2.5%), while sale prices and lease rates continue to climb. These market dynamics have created a very competitive atmosphere for buyers and tenants, while landlords and sellers have the luxury of being selective based on the multiple offers coming their way. Landlords have the leverage, which means concessions (free rent, moving allowances and tenant improvement packages) are limited or non-existent.

Those who are paying attention to the market, and have eyes on every new listing, represent a group of serious tenants/buyers who are prepared to pounce on any property that meets their needs. This means getting out to tour immediately, having financials available for submission, and being ready to submit a strong offer once a suitable space has been identified. In this market, the early bird often does get the worm, so having a strong offer in before more competition arrives just might be the difference-maker that gets you the deal. The good news is that quality assistance is available via a well informed and diligent commercial real estate broker.

Be prepared to go look at every building that has potential and to quickly and thoroughly assess the space. Once you are able to identify an appropriate space solution, move swiftly with a strong offer and provide all of the requested financial information to position YOUR deal in its best light. It may sound crazy and probably goes against your core beliefs as an entrepreneur, but if your business depends on operating in Orange County lease rates and sale prices are something that you can't control at this stage in the real estate cycle. In all likelihood your rent makes up 5-10% of your supply chain costs and proximity to your core customers is a more significant driver. The right location helps you control other expenses like labor and transportation costs which have a more significant impact on the bottom line.

± 40,840 SF FOR SALE



INVESTMENT

7142 Chapman Ave.
Garden Grove, CA

± 28,000 SF FOR SALE



LOWEST PRICED IN OC!

10451 Park Ave. & 12846 Nutwood St.
Garden Grove, CA

± 3,600 SF FOR LEASE



9465 Garden Grove Blvd.
Garden Grove, CA

± 4,843 SF FOR SUBLEASE



7402 Mountjoy Dr., #B
Huntington Beach, CA

± 1,088 - 60,000 SF FOR LEASE



12912 Brookhurst St.
Garden Grove, CA

± 28,500 SF FOR SALE



10701 Holder St.
Cypress, CA

± 13,745 USER/INVESTOR SALE



1501-1519 S. Grand Ave.
Santa Ana, CA

± 12,795 SF FOR LEASE



11450 Markon Dr.
Garden Grove, CA

± 2,216 SF FOR LEASE



5445 Oceanus Dr. & 15121 Graham St.
Huntington Beach, CA

± 5,514 SF FOR LEASE



17875 Metzler Ln.
Huntington Beach, CA

± 690 - 1,381 SF FOR LEASE



16601 Gothard St. & 16651 Gothard St.
Huntington Beach, CA



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