

## Tenant Demand, Rent Growth Cools

Easing overall demand for industrial space continued in the second quarter, pushing up the countywide vacancy rate to 3.9%, a percentage point more than a year ago and its highest in five years.

Tenants shed 519,062 SF in the second quarter and 1,826,119 SF of space in the first half, the most since the recession.

South County was the only market with positive net absorption in Q2 with 206,512 SF of tenant expansion but there was continued weakness in the North County, West County and Airport markets.

Since the vacancy rate bottomed out at the end of 2016 at 2.5%, 4,715,926 SF of space has gone back into available inventory, a break for growth-minded users whose expansion plans have been stymied by the lack of suitable space. Analysts maintain that the record-low vacancy rate was effectively zero vacancy for many requirements.

Because access to the twin ports of Long Beach and Los Angeles is vital for many industrial users, it follows that growth in port traffic has cooled in 2019 after breaking records the last several years. Year-to-date container volume is up only 0.25% from a year ago.

Absorption in the North County market, the county's tightest market and largest with 117.1 million SF of inventory, has been in the red this year by 982,825 SF. North County posted 16,888 SF of negative absorption in 2018. Its vacancy rate settled at 3.7% at the end of Q2, up from 1.4% since early last year.

Weakened demand for space in the 73.3-million SF Airport market for the fourth straight quarter totaled 1,261,371 SF of negative absorption. Negative absorption has totaled 2,759,546 SF since 2016.

Net absorption in the 42.8-million SF West County market was off 356,334 SF year to date and is negative 1,043,379 in the last 10 quarters.

South County, the smallest market with 41.5-million SF of inventory, has posted only four quarters of positive absorption since the end of 2016. In the last 10 quarters, South County net absorption was a negative 60,257 SF.

Year-over-year countywide rent growth totaled 8.2% but Q2 asking rents were virtually flat across all markets.

Asking rents are highest in the South County market, gaining 9.8% year over year and averaging \$1.36 per SF gross at the close of Q2.

Lease rates in the Airport market were up 15.4% year over year, settling at \$1.20 per SF gross in the second quarter.

North County asking rents averaged 97 cents per SF gross, up 5.4% year over year.

Rents in West County were off 1% year over year ending the second quarter averaging 95 cents per SF gross.

### MARKET FORECAST

Orange County employment was forecast to grow 1.3% this year, its lowest rate since 2014, said Chapman University economists in their recent mid-year report. Transportation and warehouse jobs are expected to grow by 1.9% in 2019, the report said, and the number of construction jobs declined 1% at the end of Q1 after growing at a 7.1% rate early last year.

## ORANGE COUNTY INDUSTRIAL

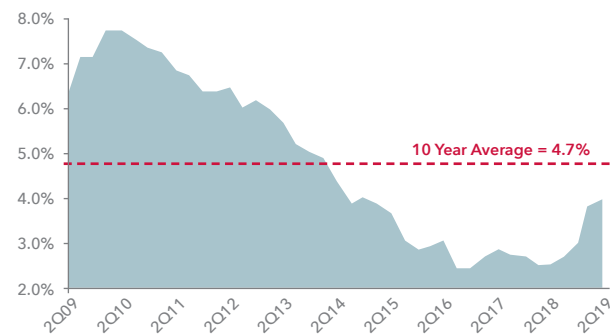
### ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	2.4%	3.2%
California Unemployment	3.5%	4.6%
US Unemployment	3.6%	3.8%

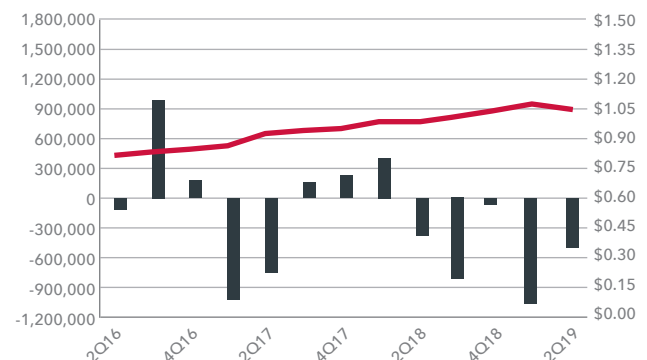
### MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	274,882,749	275,082,287
Vacancy Rate (%)	3.9%	3.8%
Net Absorption (SF)	(519,062)	(1,307,057)
Average Asking Rent (NNN)	\$1.05	\$1.06
Under Construction (SF)	811,943	100,276

### OVERALL VACANCY



### NET ABSORPTION VS ASKING RATES



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

# ORANGE COUNTY




## SECOND QUARTER 2019 INDUSTRIAL MARKET REPORT

### ORANGE COUNTY MARKET STATISTICS - 2Q 2019




BY AREA

	Bldg Count	SF RBA	Total SF Available	Avail. Rate	Total SF Vacant	Total Vac. Rate	Net Absorption	YTD Net Absorption	Avg Asking Lease Rate	SF Under Construction
North Orange County	3,232	117,091,248	5,783,873	4.9%	4,281,901	3.7%	(118,239)	(982,825)	\$0.88	- 0 -
West Orange County	1,330	42,742,306	2,083,252	4.9%	1,495,094	3.5%	(222,269)	(356,334)	\$0.86	- 0 -
Greater Airport Area	2,490	73,345,673	5,290,795	7.1%	3,509,881	4.8%	(385,066)	(511,929)	\$1.04	811,943
South Orange County	1,241	41,502,367	2,305,485	5.6%	1,424,498	3.4%	206,512	24,969	\$1.37	- 0 -
Outlying Orange County	2	201,155	- 0 -	0.0%	- 0 -	0.0%	- 0 -	- 0 -	- 0 -	- 0 -
<b>TOTALS</b>	<b>8,295</b>	<b>274,882,749</b>	<b>15,463,405</b>	<b>5.6%</b>	<b>10,711,374</b>	<b>3.9%</b>	<b>(519,062)</b>	<b>(1,826,119)</b>	<b>\$1.05</b>	<b>811,943</b>

### LEASE TRANSACTIONS 2Q 2019

	PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
	1319 Rocky Pointe Drive, Unit A Oceanside, CA	64,109	Weiland Sliding Doors & Windows, Inc.	NKL Paolone Family LLC	Mark Jerue and Craig Fitterer represented the Landlord.
	1550 Magnolia Avenue Corona	48,600	Latitude 365 Foods	Amore Pacific US, Inc.	Christopher Destino and Connor Howland represented the Landlord.
	7012 Belgrave Avenue Garden Grove, CA	44,000	Uremet Corporation	SoCal Belgrave, LLC	Jim Snyder, Patrick Lacey and William Greubel represented the Landlord and the Tenant.

### SALE TRANSACTIONS 2Q 2019

	PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
	185 E. Harrison Street Corona, CA	80,000	Ghunaim Investments, LLC	Harrison Street Trust 785	Chistopher Destino and John Seone represented the Buyer.
	13450 Stowe Drive Poway, CA	73,000	SoCal OCREH I, LLC	Dan McKinney Co, Robert Schulze, Molly Schulze, Pekham Properties	Jim Snyder and Patrick Lacey represented the Buyer.
	1339 Rocky Pointe Drive Oceanside, CA	51,102	Orange Circle	Blackstone Group	Craig Fitterer and Mark Jerue represented both Buyer and Seller.

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