

# MARKET REPORT

## INDUSTRIAL

Orange County Metro Area

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2H/19

## Vacancy Trends Upward Yet Conditions Remain Tight; Investors Seek Discounted Pricing, Upside Potential

**Strong demand for larger facilities bodes well for Orange County following a consortium of sizable move-outs.** A regionally central location and proximity to several major ports continued to attract growing logistics companies to the metro over the past year ending in September, driving demand for warehouses. Tenant competition for properties with a sizable footprint was high as the market's inventory of larger-scale buildings is smaller than neighboring Los Angeles and Riverside-San Bernardino. This summer, IDC Logistics occupied a 450,000-square-foot facility in Buena Park, while Quiet Logistics moved into a similar building in La Palma. These leases and Albertsons' decision to occupy a distribution center in Irvine Spectrum has held overall vacancy below 4 percent throughout this year, offsetting a collection of recent move-outs that included the closure of a 1.1 million-square-foot J.C. Penney facility in Buena Park. While tight conditions persist, a triple-digit rise in vacancy occurred over the past year, with North County recording the most notable increase. Supply additions did not play a role in the recent uptick in available space, as less than 300,000 square feet was finalized during the first three quarters of 2019.

**Tight conditions and steadfast rent growth generate opportunities for NOI growth, preserving investor demand.** Transaction activity in Orange County was steady over the past 12 months ending in September, translating to more than \$1.7 billion in total sales volume. Investors are placing a focus on lower-priced listings with upside potential, as properties priced below \$200 per square foot accounted for 45 percent of recent deal flow. Class B and C warehouses with less than 50,000 square feet of rentable building area are coveted, namely in Anaheim and neighboring Santa Ana. In these locales, tight vacancy and below-average asking rents persist, with first-year returns falling in the high-3 to low-5 percent range. Buyers pursuing higher yields coupled with below-average pricing target smaller to midsize manufacturing facilities in West County, where \$2 million to \$10 million closings are prevalent.

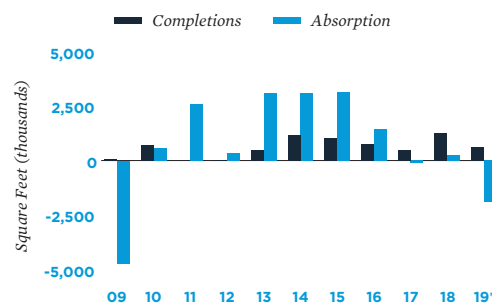
## 2019 Market Forecast

- Employment** up 1.5%  Job growth improves in 2019 as employers create 25,000 new positions following the 1.2 percent gain registered last year.
- Construction** 619,000 sq. ft.  Delivery volume moderates by roughly 50 percent in 2019 after the metro's industrial inventory expanded by 1.2 million square feet of space last year.
- Vacancy** up 100 bps  The metro's vacant stock increases for a third consecutive period as absorption turns negative in 2019. Amid the rise in available space, overall conditions remain tight as year-end vacancy reaches 3.9 percent.
- Rent** up 5.4%  Annual rent gains surpassed 8.0 percent in each of the past three years. This streak ends in 2019 yet healthy rate growth persists, pushing the metro's average asking rent to a cycle-high \$11.90 per square foot.
- Investment**  Limited development pipelines and strong rent growth influence institutional capital sources to acquire warehouses and manufacturing facilities in bulk, placing a focus on the northern and western portions of the county.

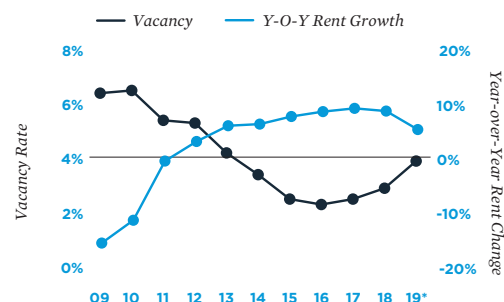
### Employment vs. Retail Sales Trends



### Industrial Completions



### Asking Rent and Vacancy Trends



\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; Moody's Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of September 2019. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and industrial data are made during the third quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.