Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

DAUM
COMMERCIAL REAL ESTATE SERVICES

Q4 | 2018
Market Report
Orange County Industrial

MARKET REPORT Q4

Industrial 2018 Orange County

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MARKET ACTIVITY

Direct Vacancy	Up	2.7%
Net Absorption	Up	192,048 SF
Overall Vacancy	Up	3.0%
Gross Absorption	Up	3,228,630 SF
Under Construction	Down	368,780 SF
Rental Rates (NNN)	Up	$1.06
Sale Price Change	Down	-3.0%
Deal Volume	Down	-14.7%

KEY TAKE AWAYS

MARKET

- **Vacancy Rate**: Increases for the 2nd consecutive quarter.
- **Net Absorption**: Relatively flat in Q4, but a significant increase from Q3.
- **Asking Rents**: Continue to reach historic highs.
- **Industrial Supply**: Increased by nearly 1.2 million square feet in Q4. As a result, under construction activity dropped to the lowest level in two years.

ECONOMIC OUTLOOK

- **Interest Rates**: The Fed is anticipating two (2) hikes in 2019; increasing borrowing costs.
- **Trade**: Tensions remain with China. USMCA still awaiting congressional ratification.
- **Stock Market**: Increased volatility, but corporate fundamentals remain strong.
- **Oil**: Crude Oil dropped 39% in Q4. Prices expected to remain low due to over-supply. Reduced transportation costs should benefit markets further away from ports.

ECONOMIC OUTLOOK

U.S. Employment	Up	3.9%
U6 Rate	Flat	7.6%
Interest Rate (30 year fixed)	Down	4.6%
Changing GDP	Down	2.8%
Port Traffic Y/Y Δ	Up	1.5%
NYSE Performance	Down	-14.4%
Inflation Change	Down	+1.9%
10 Yr. - 2 Yr. Spread	Down	15 BPS

EXPERIENCE IN A CHANGING MARKET

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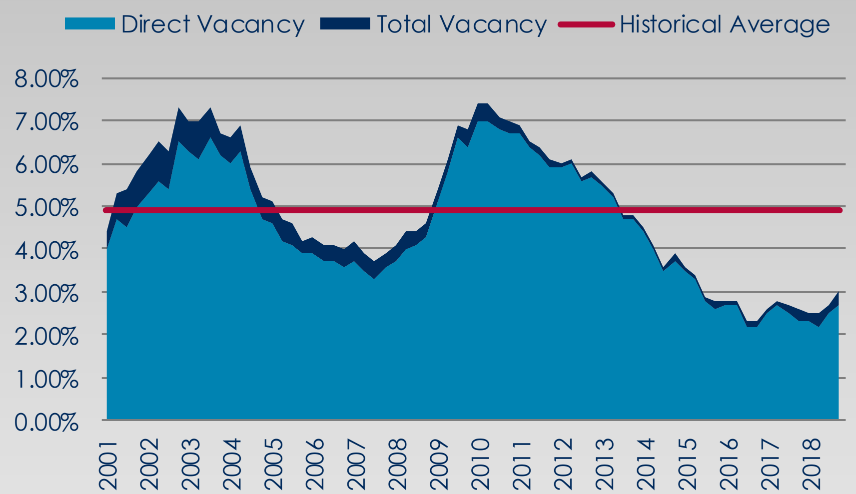
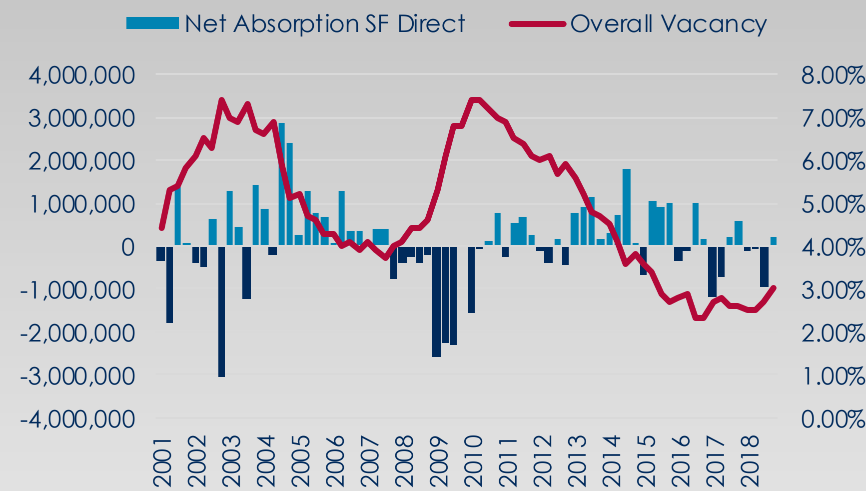
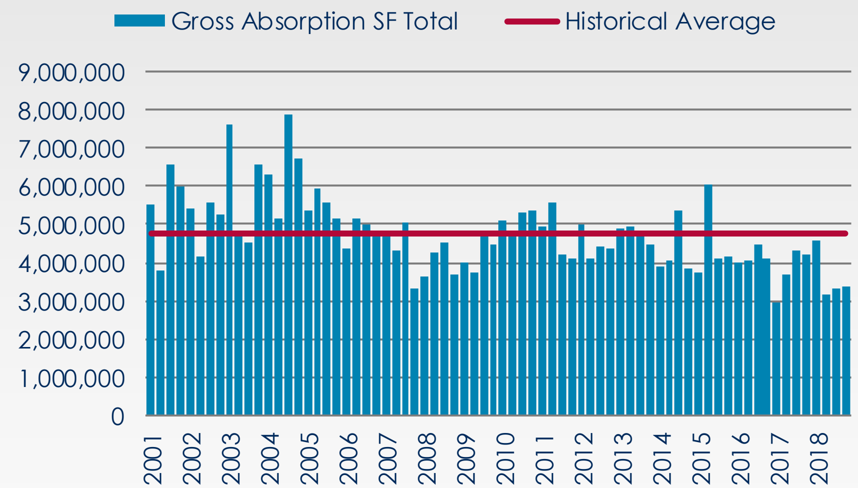
OVERALL VACANCY
Overall vacancy increases for 2nd straight quarter



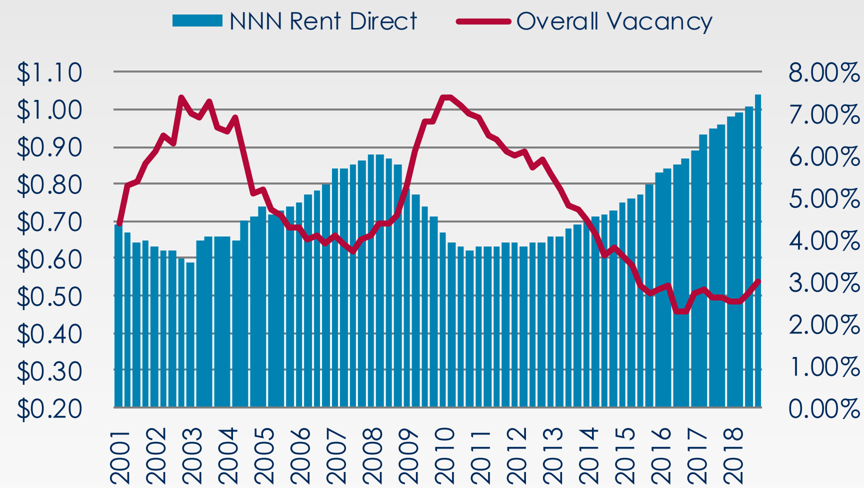
ONLY POSITIVE QUARTER OF NET ABSORPTION IN 2018



GROSS ABORPTION WELL BELOW HISTORIC AVERAGE



ASKING RENTS KEEP PUSHING RECORD HIGHS



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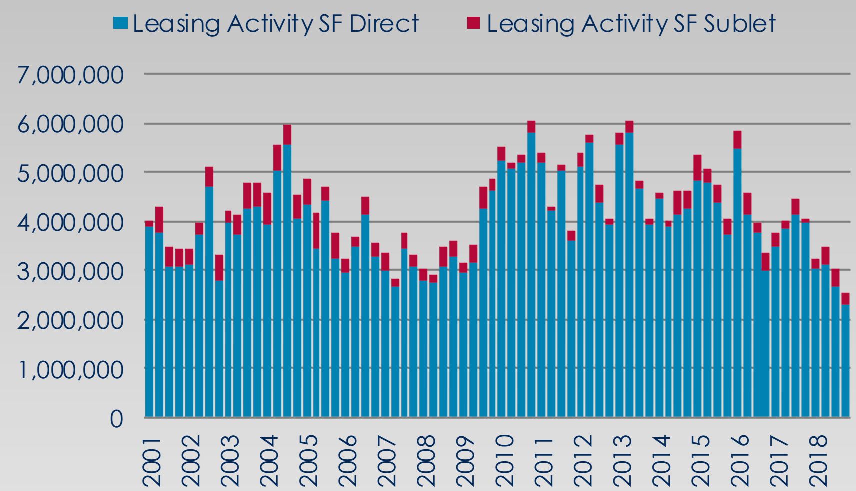
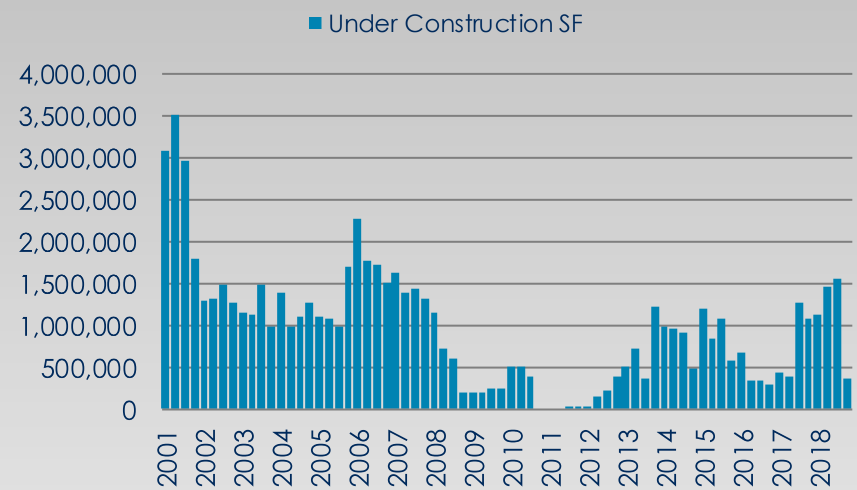
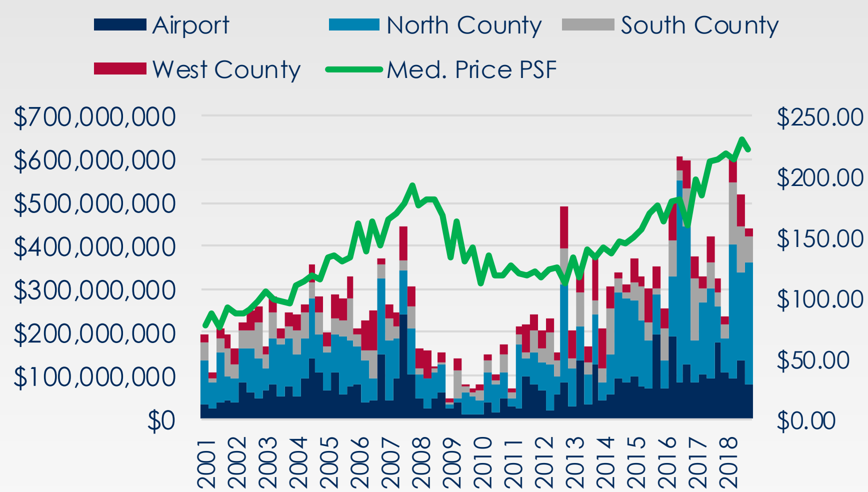
LEASING ACTIVITY DECLINES FOR 2ND STRAIGHT QUARTER



SLOWDOWN IN CONSTRUCTION ACTIVITY



SALE PRICES CONTINUE TO PUSH HISTORIC LEVELS



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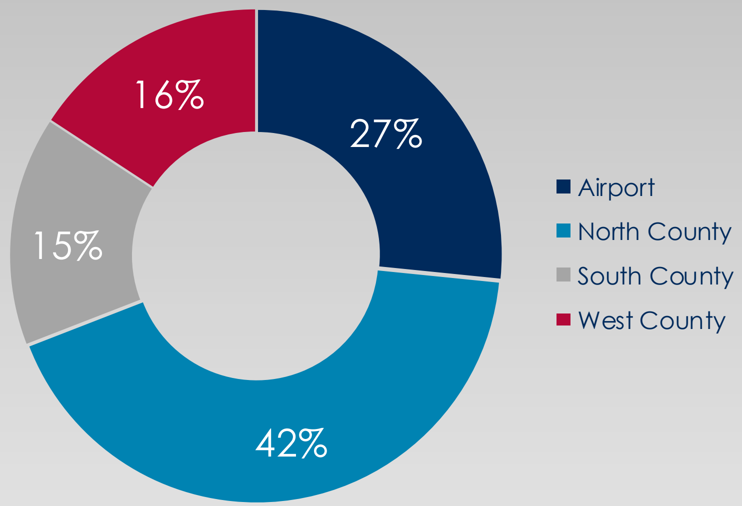
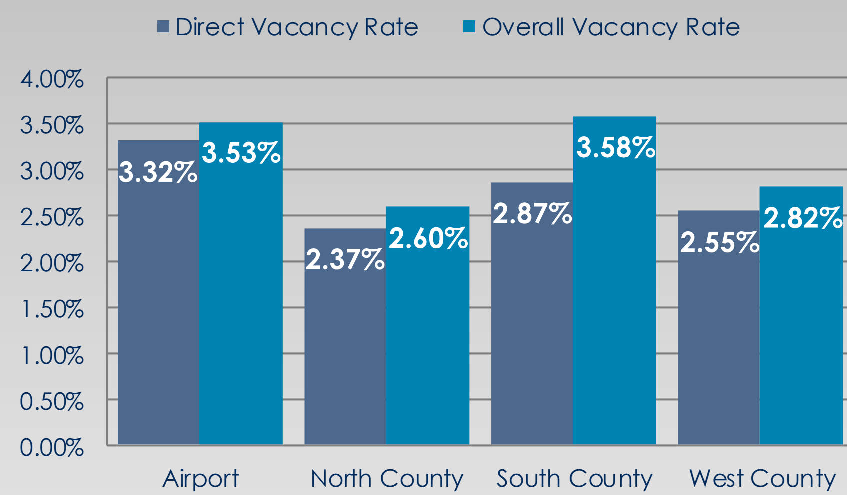
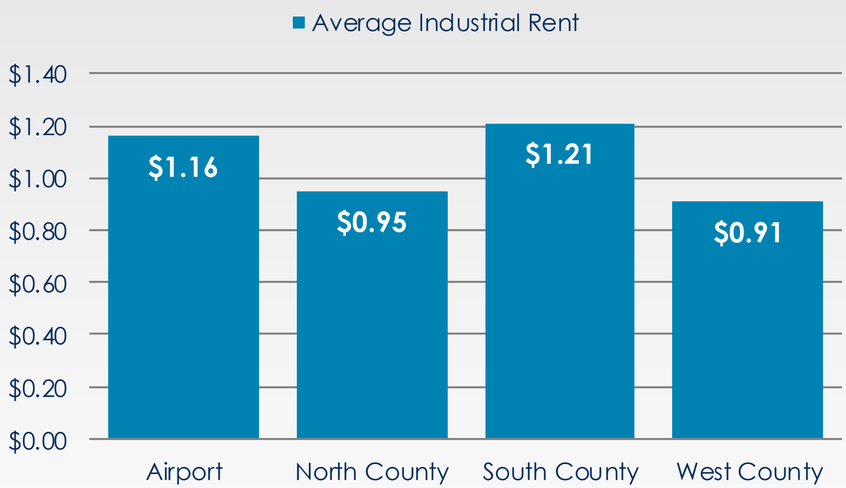
SQUARE FOOT BREAKDOWN– 295,772,917 SF MARKET SIZE



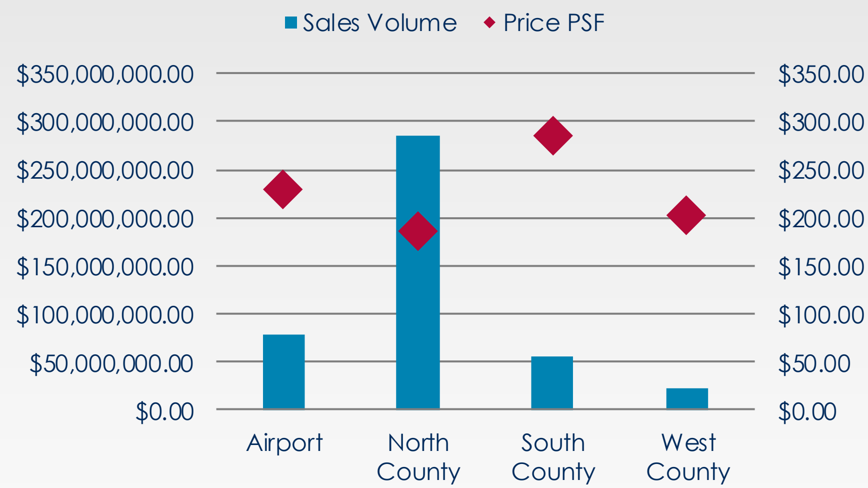
VACANCY BREAKDOWN



AVERAGE RENT PSF



VOLUME BREAKDOWN



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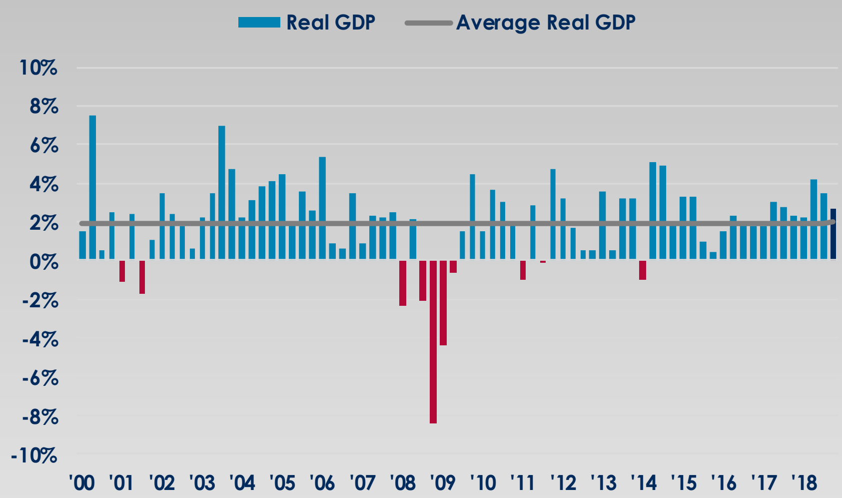
Q4

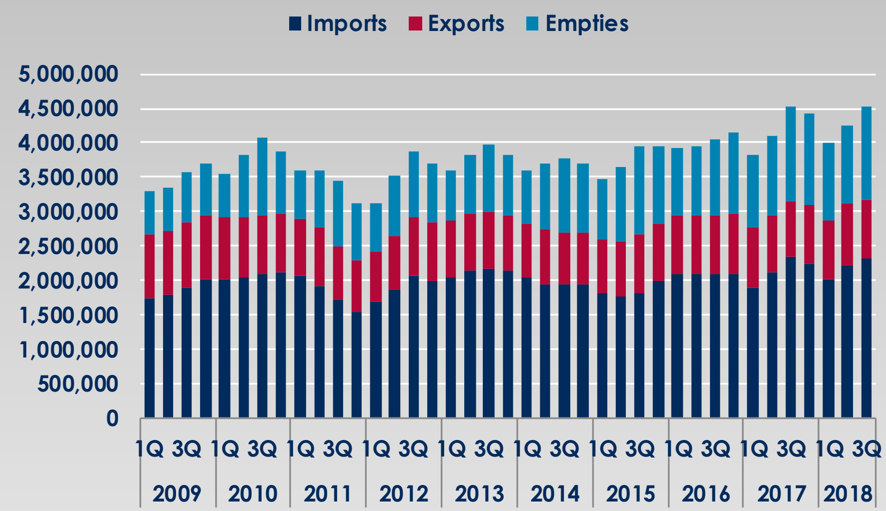
National Economic Overview //// Q4 2018

GDP GROWS 2.7% IN 4TH QUARTER

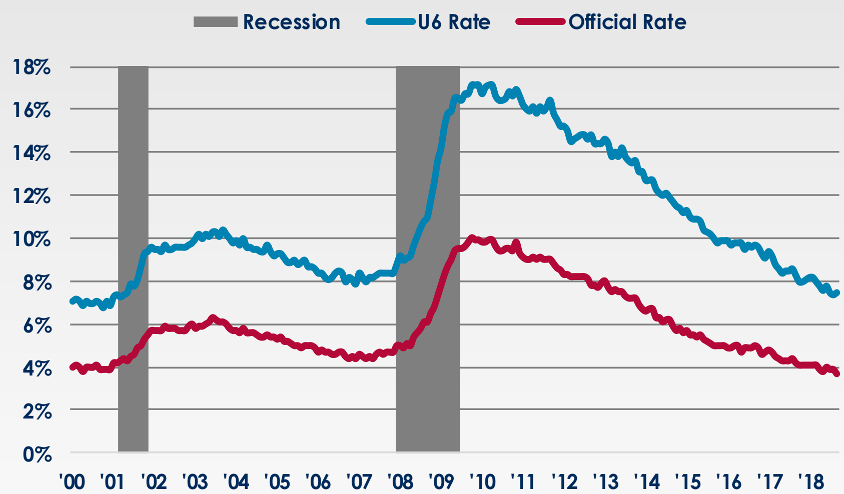


**2.8% for 4Q18 based on Fed Reserve Bank of Atlanta "GDP Now" Forecast*

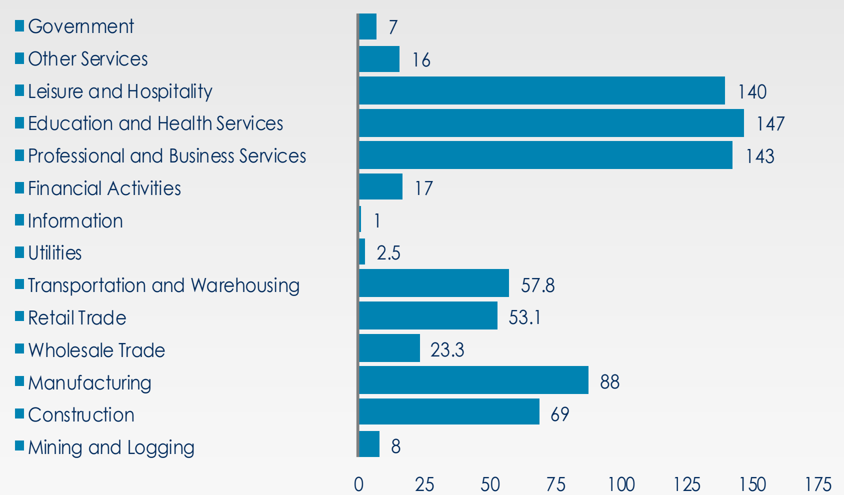
PORT ACTIVITY IS AT AN ALL-TIME HIGH



UNEMPLOYMENT CONTINUES DOWNWARD TREND

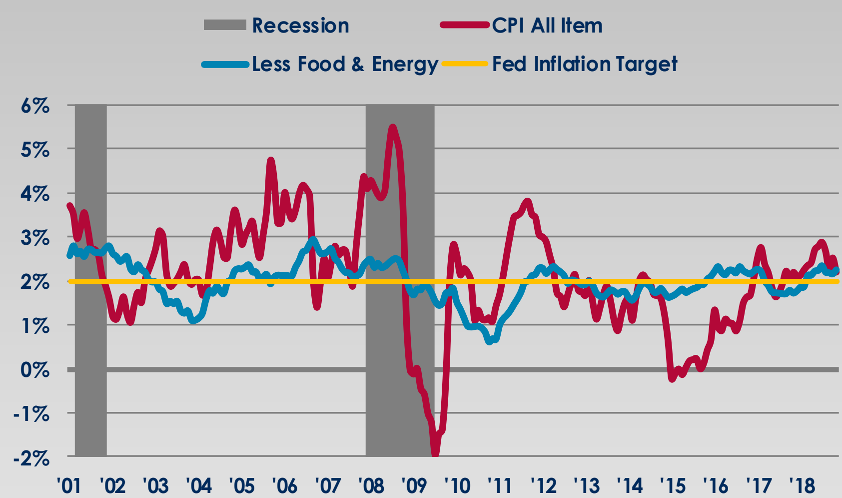


MOST INDUSTRY SECTORS CONTINUE TO SEE GROWTH

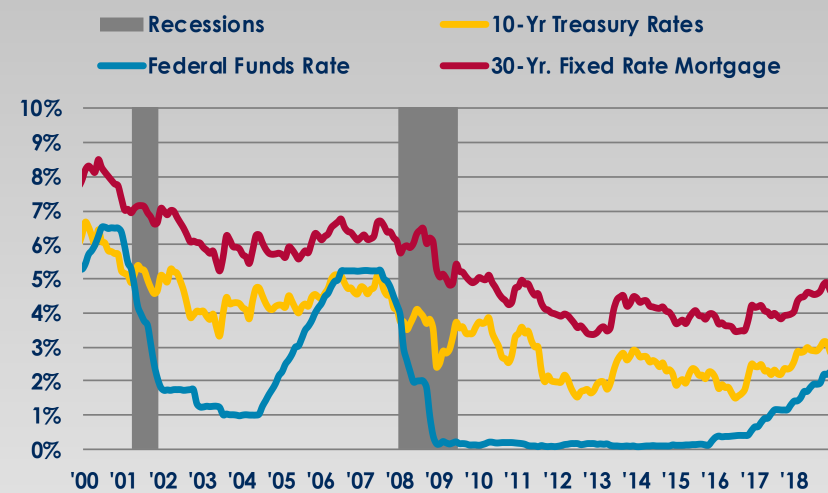


Q4

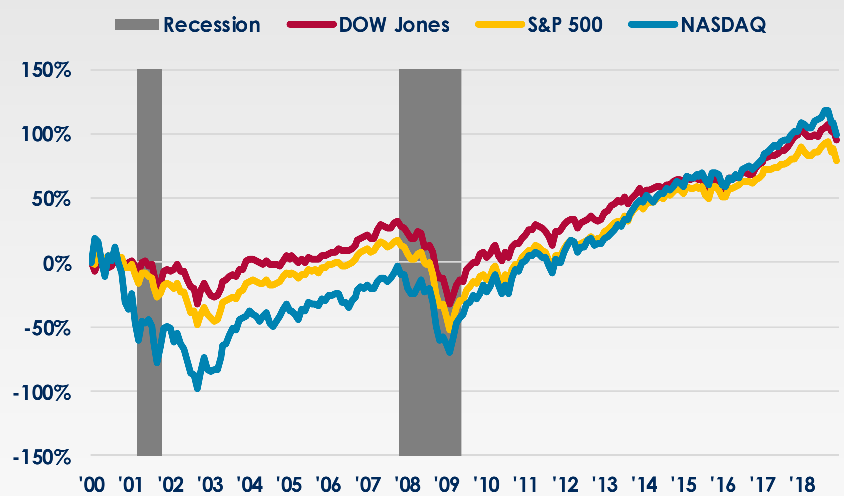
INFLATION REMAINS IN CHECK



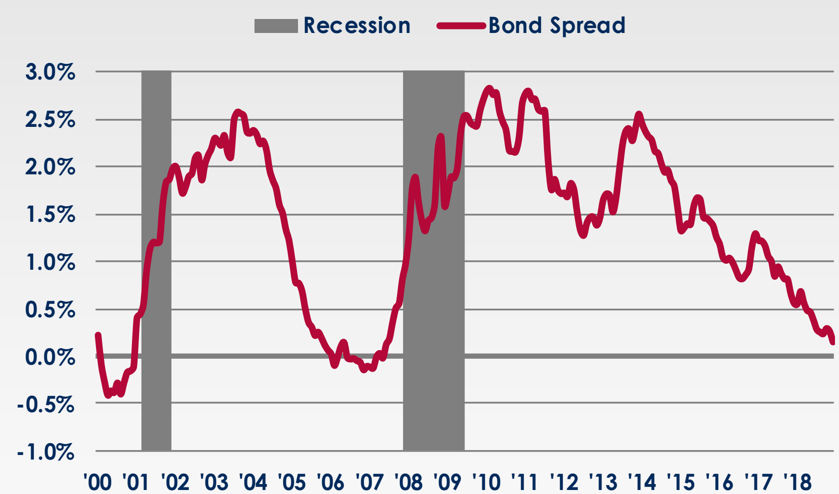
INTEREST RATES



NYSE SEES 14.45% DIP IN 4TH QUARTER



BOND SPREAD CONTINUES TO NARROW 15 BASIS POINTS



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METHODOLOGY & TERMINOLOGY

Methodology
Industrial and flex (R & D) buildings that are 5,000 square feet and greater.

Direct Vacant SF
Space that is vacant and ready for occupancy by a user. The space is being offered for lease or sale directly from the landlord.

Total Vacant W/ Sublet SF
Space that is vacant and ready for occupancy by a user. The space is being offered for lease or sale by the landlord or for sublease by the current tenant.

Direct Vacancy Rate
Total vacant direct space (vacant space for lease or sale from the landlord or owner) divided by the total rentable square footage for existing buildings only.

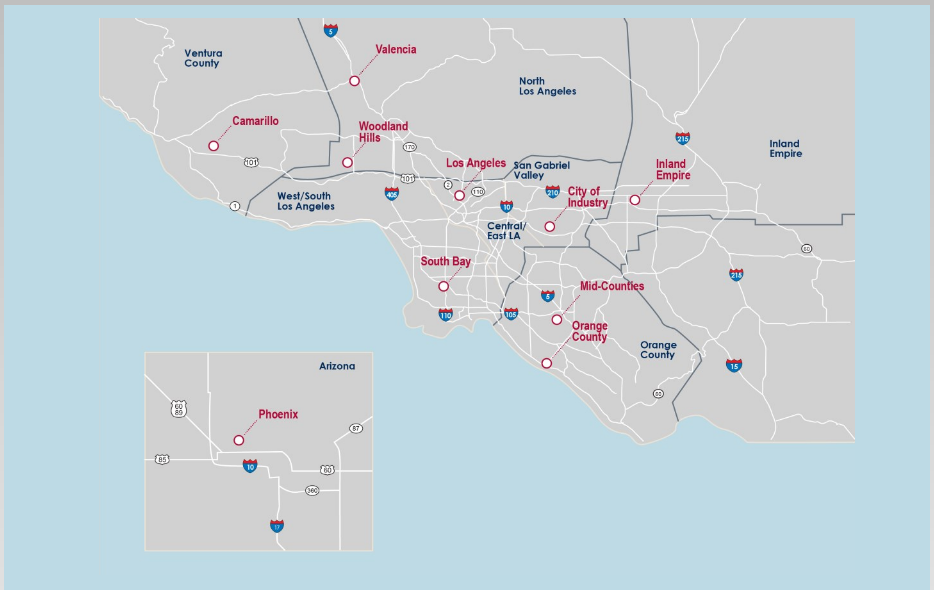
Vacancy W/ Sublet Rate
Total vacant direct space and sublease space divided by the total rentable square footage for existing buildings only.

Gross Absorption
The total change in occupied space over a given period of time, counting space that is occupied but not space that is vacated by tenants. Gross absorption differs from leasing activity, which is the sum of all space leased over a certain period of time.

Net Absorption
The net change in occupied space over a given period of time, calculated by summing all the positive changes in occupancy (move ins) and subtracting all the negative changes in occupancy (move outs).

Under Construction
Planned buildings for which construction has started but have not yet been granted a Certificate of Occupancy. Planned buildings are not included.

Completed in 2018
New buildings with original construction completed in the year 2018 and granted a Certificate of Occupancy. Renovated buildings are not included



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