Tight Industrial Market Gets High Prices, New Names

1.3% Vacancies Here
Bode Well for Sellers

By MARK MUELLER

Orange County’s ultra-tight industrial sector is resulting in record-breaking sale prices for the few buildings being added to the local market, and is apparently drawing more real estate investors and developers to the area. The latest eye-opening deal came in Fullerton, where a new warehouse sold for what brokers described as a record-high comp for an owner-user deal in North OC.

San Clemente-based Big Deltivity LLC, which is affiliated with stand-up paddleboard maker and distributor Riviera Paddlesurf, recently closed on the purchase of 4150 West Palm St. just off Imperial Highway and about three miles west of the Orange (57) Freeway. The 181,069-square-foot building traded hands for $32.5 million, or about $180 per square foot.

The buyer will shift to the new property manufacturing and warehouse operations of an apparel affiliate it operates in Whittier, where it had leased space, according to Daum Commercial Executive Vice President Casey Mungo, who represented the buyers. The family-owned firm, which makes a variety of stand-up paddleboards, accessories and apparel, will maintain its headquarters in San Clemente, where it also owns a smaller industrial property, Mungo said.

“It was an opportunity for the buyer to obtain a class A building in a class A market, said Mungo, who works at Daum’s Gardena office.

The sales price is among the highest per square foot of the past 10 years for a North OC industrial building larger than 150,000 square feet, according to records of market tracker CoStar Group Inc.

The few area industrial properties that sold at higher prices also involved new buildings but were largely occupied and were sold to investors rather than owner-users, at the Anaheim Concourse development a few miles away, records show.


Big Deltivity’s purchase “demonstrates owner-occupiers are well capitalized to purchase properties at prices high enough to compete with investors,” noted a recent market report by the local office of brokerage JLL.

Sales prices for OC industrial buildings are generally up about 12% year-over-year, while rents are up by more than 6%, according to a review of local brokerage data.

From an owner’s perspective, North OC’s industrial market can’t be much better, noted brokers with CBRE Group Inc., who represented the seller of the Fullerton property.

Newport Beach-based Western Realco.

North OC “is one of the strongest and tightest industrial markets in the country, in part due to its proximity to the Long Beach and Los Angeles ports. The area is a mature, fully developed, land-scarce market with few large-scale development opportunities,” CBRE said in a statement.

The county’s 230-million-square-foot industrial base has a 1.3% vacancy rate, a record low, according to CBRE.

Rents at high-end industrial buildings are up more than 50% since 2010, and projections show more increases this year, largely due to increased demand from e-commerce-related tenants, according to recent brokerage data from Cushman & Wakefield Inc.

Monthly industrial rents average nearly 90 cents per square foot.

Beckman Beacon

The sale to Big Deltivity marks another notable transaction for Western Realco, one of the most active industrial property builders in OC since the recession.

It and financial partner AEW Capital Management in Los Angeles bought the nearly 8-acre West Palm Street site about two years ago from Irvine-based LBA Realty for a reported $11.8 million.

At the time, the site held an older 89,000-square-foot building that was razed to make way for the new warehouse, which features about 7,000 square feet of offices, 17 dock doors, and a large, fenced truck court.

“They were confident in the high demand for industrial space in the region,” said CBRE’s Sean Ward, who worked on the deal with colleagues Ben Seybold and Keith Greer.

The sale and high per-square-foot price also bode well for the developer as it works on a larger, high-profile industrial development a few blocks away. Last summer it broke ground on its largest-ever local project, a multibuilding business park on Fullerton land previously home to Beckman Coulter Inc.’s headquarters.

The 44-acre site, vacant except for a mid-sized office that will be redeveloped, is being turned into an eight-building project called Beckman Business Center totaling nearly a million square feet.

It’s the largest industrial project start in OC in about four years, and its first buildings should be completed this summer, ranging from 42,000 square feet to 309,000 square feet, both for sale and for lease.

Office to Industrial

Other developers with little local industrial presence appear to be taking notice at what investors and tenants will pay for upgraded area facilities.

The local office of Houston-based Hines Industrial 36

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OFFICE SALES

Largest OC transactions in Q4

1. 4000 MacArthur Blvd.
   - Newport Beach
   - $176.5 million
   - Close Date: Oct. 11
   - Buyer: Goldman Sachs, Hines
   - Buyer Rep: Eastdil Secured LLC
   - Seller: Hines, Oaktree
   - Seller Rep: N/A

2. 500 N. State College Blvd.
   - Orange
   - $92.5 million
   - Close Date: Nov. 7
   - Buyer: Lincoln Property Co.
   - Buyer Rep: N/A
   - Seller: Starwood Capital Group
   - Seller Rep: Newmark Knight Frank

3. 26161 La Paz Road
   - Mission Viejo
   - $32.4 million
   - Close Date: Nov. 6
   - Buyer: Combined Investments LLC
   - Buyer Rep: Marcus & Millichap
   - Seller: Flinn West
   - Seller Rep: JLL

4. 3450 E. Miraloma Ave.
   - Anaheim
   - $27 million
   - Close Date: Oct. 13
   - Buyer: Hines, Oaktree
   - Buyer Rep: Colliers International
   - Seller: Pacific Sunwear of California Inc.
   - Seller Rep: Newmark Knight Frank

5. 24022 Calle de la Plata
   - Laguna Hills
   - $19.9 million
   - Close Date: Oct. 18
   - Buyer: Meridian Property Co.
   - Buyer Rep: Colliers International
   - Seller: Birtcher Anderson Realty LLC
   - Seller Rep: Colliers International

6. 17748 Sky Park Circle
   - Irvine
   - $17.9 million
   - Close Date: Nov. 14
   - Buyer: Koll Co.
   - Buyer Rep: N/A
   - Seller: Irvine Co.
   - Seller Rep: Newmark Knight Frank

7. 4220 Von Karman Ave.
   - Newport Beach
   - $17.2 million
   - Close Date: Oct. 31
   - Buyer: Bergener Mirejovsky
   - Buyer Rep: N/A
   - Seller: Burnham Ward Properties
   - Seller Rep: N/A

8. 24012 Calle de la Plata
   - Laguna Hills
   - $15.9 million
   - Close Date: Oct. 3
   - Buyer: Laurus Corp.
   - Buyer Rep: True North Management Group
   - Seller: PTK Co.
   - Seller Rep: HFF

9. 2333 N. Broadway
   - Santa Ana
   - $8.6 million
   - Close Date: Nov. 15
   - Buyer: Veros Credit LLC
   - Buyer Rep: N/A
   - Seller: Broadway Partners GP
   - Seller Rep: N/A

10. 203 N. Golden Circle Drive
    - Santa Ana
    - $7.4 million
    - Close Date: Oct. 17
    - Buyer: Jon Alberon
    - Buyer Rep: Daum Commercial Real Estate Services
    - Seller: TRISTAR Risk Management
    - Seller Rep: RE/MAX Estate Properties


THEM

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Thank you to our valued clients
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CORPORATE POINTE IRVINE
160,500 SF
Investment Sale

THE SUMMIT OFFICE CAMPUS ALISO VIEJO
480,000 SF
Investment Sale

1500 QUAILE NEWPORT BEACH
91,000 SF
Investment Sale

HUNTINGTON GATEWAY HUNTINGTON BEACH
285,000 SF
Investment Sale

CORPORATE PLAZA IRVINE
148,800 SF
Investment Sale

HUNTINGTON CENTER I ORANGE
148,800 SF
Investment Sale

ORANGEWOOD CORPORATE PLAZA
107,000 SF
Investment Sale

CORPORATE TOWER ORANGE
102,500 SF
Investment Sale

STADIUM TOWERS ANAHEIM
92,500,000
Investment Sale

PACIFIC VISTA LAKE FOREST
71,200,000
Investment Sale

S.TADIUM CROSSINGS ANAHEIM
46,000,000
Investment Sale

CENTREPOINTE PLAZA IRVINE
27,000,000
Investment Sale

PACIFIC SUN ANAHEIM
27,000,000
Investment Sale

THE PRESS COSTA MESA
22,500,000
Investment Sale

CENTREPOINTE LA PALMA
155,560 SF

THE PRESS COSTA MESA
427,000 SF

THE NUVE COSTA MESA
150,000 SF

4400 MACARTHUR NEWPORT BEACH
150,000 SF

200 CENTER BUSINESS CENTER IRVINE
Investment Sale

200 CENTER BUSINESS CENTER IRVINE
Investment Sale

200 CENTER BUSINESS CENTER IRVINE
Investment Sale

200 CENTER BUSINESS CENTER IRVINE
Investment Sale

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FINANCING AND CLOSED DEALS

$1.7B

2017 INVESTMENT SALES & FINANCINGS PENDING AND CLOSED DEALS

THE SUMMIT OFFICE CAMPUS ALISO VIEJO
480,000 SF
Investment Sale

1500 QUAILE NEWPORT BEACH
91,000 SF
Investment Sale

HUNTINGTON GATEWAY HUNTINGTON BEACH
285,000 SF
Investment Sale

CORPORATE POINTE IRVINE
160,500 SF
Investment Sale

HUNTINGTON CENTER I ORANGE
148,800 SF
Investment Sale

ORANGEWOOD CORPORATE PLAZA
107,000 SF
Investment Sale

CENTREPOINTE LA PALMA

corporate tower orange

102,500 SF
Investment Sale

STADIUM TOWERS ANAHEIM
92,500,000
Investment Sale

PACIFIC VISTA LAKE FOREST
71,200,000
Investment Sale

S.TADIUM CROSSINGS ANAHEIM
46,000,000
Investment Sale

CENTREPOINTE PLAZA IRVINE
27,000,000
Investment Sale

PACIFIC SUN ANAHEIM
27,000,000
Investment Sale

THE PRESS COSTA MESA
22,500,000
Investment Sale

CENTREPOINTE LA PALMA
155,560 SF

THE PRESS COSTA MESA
427,000 SF

THE NUVE COSTA MESA
150,000 SF

4400 MACARTHUR NEWPORT BEACH
150,000 SF

200 CENTER BUSINESS CENTER IRVINE
Investment Sale

200 CENTER BUSINESS CENTER IRVINE
Investment Sale

200 CENTER BUSINESS CENTER IRVINE
Investment Sale

200 CENTER BUSINESS CENTER IRVINE
Investment Sale

1.5+ MSF

NEW LEASING ASSIGNMENTS

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**OFFICE LEASES**

Largest OC deals in Q4

1. **510, 520 Technology Drive**
   - Irvine
   - 4,886 square feet
   - Term: N/A
   - Landlord: Irvine Co.
   - Tenant: Vyaire Medical Inc.
   - Landlord Rep: Irvine Co.
   - Tenant Rep: Hughes Marino

2. **3450 E. Miraloma Ave.**
   - Anaheim
   - 180,000 square feet
   - Term: 15 years
   - Landlord: Hines/Oaktree Capital
   - Tenant: Pacific Sunwear of California Inc.
   - Landlord Rep: Direct
   - Tenant Rep: Direct

3. **18565-18575 Jamboree Road**
   - Irvine
   - 63,879 square feet
   - Term: N/A
   - Landlord: Irvine Co.
   - Tenant: Pathway Capital
   - Landlord Rep: CBRE Group Inc.
   - Tenant Rep: N/A

4. **18200 Von Karman Ave.**
   - Irvine
   - 54,408 square feet
   - Term: N/A
   - Landlord: Irvine Co.
   - Tenant: American Advisors
   - Tenant Rep: N/A
   - Landlord Rep: Irvine Co.

5. **4000 Metropolitan Drive**
   - Orange
   - 43,275 square feet
   - Term: N/A
   - Landlord: Boyd Watterson Asset Management
   - Tenant: N/A
   - Tenant Rep: N/A
   - Landlord Rep: Colliers International

6. **18500 Von Karman Ave.**
   - Irvine
   - 43,068 square feet
   - Term: N/A
   - Landlord: Irvine Co.
   - Tenant: Squar Milner
   - Landlord Rep: Irvine Co.
   - Tenant Rep: N/A

7. **3200 Park Center Drive**
   - Costa Mesa
   - 39,053 square feet
   - Term: N/A
   - Landlord: Irvine Co.
   - Tenant: WeWork
   - Landlord Rep: Irvine Co.
   - Tenant Rep: N/A

8. **17877 Von Karman Ave.**
   - Irvine
   - 31,187 square feet
   - Term: 11 years
   - Landlord: Stream Realty Partners
   - Tenant: Xponential Fitness
   - Tenant Rep: N/A
   - Landlord Rep: JLL

9. **85 Enterprise**
   - Aliso Viejo
   - 28,719 square feet
   - Term: N/A
   - Landlord: RREEF Management LLC
   - Tenant: N/A
   - Tenant Rep: N/A
   - Landlord Rep: Stream Realty Partners

10. **6131 Orangeithorpe Ave.**
    - Buena Park
    - 26,593 square feet
    - Term: N/A
    - Landlord: Mohr Partners
    - Tenant: Sunwest Mortgage
    - Landlord Rep: Sunny Hills-Palladium
    - Tenant Rep: Sunny Hills Management Co.

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Warland Investments Company congratulates Shaw Industries, Inc. on completion of a 10-year lease extension for the 440,619 SF Regional Distribution Center.

Shaw Industries were represented by Sean Ward, Ben Seybold and Tom Cromartie of CBRE, Inc.

Warland thanks the City of Cypress for its partnership and efforts to create a business-friendly environment.

FOR FURTHER INFORMATION ON CYPRESS PORTFOLIO:

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Warland Investments Company
welcomes and thanks the following new tenants and renewals for 2017!

<table>
<thead>
<tr>
<th>Warland Cypress Business Center:</th>
<th>Warland Business Park:</th>
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<tbody>
<tr>
<td>• Shaw Industries, Inc.</td>
<td>• E-Mart America, Inc.</td>
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<td>• County of Orange</td>
<td>• AJX Distribution LLC</td>
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<td>• Money Mailer</td>
<td>• Eminence Escrow, Inc.</td>
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<td>• Paragon Partners</td>
<td>• Mahr Federal, Inc.</td>
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<td>• Dameron Alloy Foundries</td>
<td>• Verrex, LLC</td>
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<td>• Real Mex Restaurants, Inc.</td>
<td>• Lotte Global Logistics (USA)</td>
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<td>• Q-Tech Corporation</td>
<td>• Simplus Management Corporation</td>
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<tr>
<td>• Honma Golf (USA)</td>
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</tbody>
</table>
1. **15101 Alton Parkway**  
   - Irvine  
   - 287,726 square feet  
   - Completion Date: January  
   - Developer: DPR Construction Inc.  
   - Leasing Company: CBRE Group Inc.  
   - Owner: Five Point Holdings

2. **15131 Alton Parkway**  
   - Irvine  
   - 189,500 square feet  
   - Completion Date: January  
   - Developer: DPR Construction Inc.  
   - Leasing Company: CBRE Group Inc.  
   - Owner: Five Point Holdings

3. **Barranca Parkway & Armstrong Ave.**  
   - Tustin  
   - 145,400 square feet  
   - Completion Date: July  
   - Developer: Lincoln Property Co.  
   - Leasing Company: CBRE Group  
   - Owner: Lincoln Property/Alcion Ventures

4. **500 Technology Drive**  
   - Irvine  
   - 105,643 square feet  
   - Completion Date: June  
   - Developer: Irvine Co.  
   - Leasing Company: Irvine Co.  
   - Owner: Irvine Co.

5. **520 Technology Drive**  
   - Irvine  
   - 105,643 square feet  
   - Completion Date: June  
   - Developer: Irvine Co.  
   - Leasing Company: Irvine Co.  
   - Owner: Irvine Co.

6. **Barranca Parkway & Armstrong Ave.**  
   - Tustin  
   - 92,916 square feet  
   - Completion Date: July  
   - Developer: Lincoln Property Co.  
   - Leasing Company: CBRE Group  
   - Owner: Lincoln Property/Alcion Ventures

7. **Barranca Parkway & Armstrong Ave.**  
   - Tustin  
   - 89,500 square feet  
   - Completion Date: July  
   - Developer: Lincoln Property Co.  
   - Leasing Company: CBRE Group  
   - Owner: Lincoln Property/Alcion Ventures

8. **Barranca Parkway & Armstrong Ave.**  
   - Tustin  
   - 89,468 square feet  
   - Completion Date: July  
   - Developer: Lincoln Property Co.  
   - Leasing Company: CBRE Group  
   - Owner: Lincoln Property/Alcion Ventures

9. **510 Technology Drive**  
   - Irvine  
   - 79,243 square feet  
   - Completion Date: June 2018  
   - Developer: Irvine Co.  
   - Leasing Company: Irvine Co.  
   - Owner: Irvine Co.

10. **530 Technology Drive**  
    - Irvine  
    - 74,426 square feet  
    - Completion Date: June 2018  
    - Developer: Irvine Co.  
    - Leasing Company: Irvine Co.  
    - Owner: Irvine Co.
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INDUSTRIAL SALES
Largest OC transactions in Q4

1  1350 S. Coast Drive
Costa Mesa $64.8 million
Close Date: Nov. 15
Buyer: SteelWave Inc.
Buyer Rep: N/A
Seller: Tribune Media Co.
Seller Rep: Cushman & Wakefield

2  17822 Gillette Ave.
Irvine $28.5 million
Close Date: Oct. 31
Buyer: Intracorp Cos.
Buyer Rep: N/A
Seller: Greenlaw Partners
Seller Rep: Tierra Development Advisors

3  30142 Avenida De Las Banderas
Rancho Santa Margarita $16.5 million
Close Date: Oct. 2
Buyer: Applied Medical Resources Corp.
Buyer Rep: Lee & Associates Commercial Real Estate Services
Seller: Magnaflow
Seller Rep: N/A

4  2225 E. Katella Ave.
Anaheim $16.6 million
Close Date: Oct. 13
Buyer: Pacific Industrial
Buyer Rep: Voit Real Estate Services
Seller: Cathedral Center of St. Paul
Seller Rep: N/A

5  2970 Airway Ave.
Costa Mesa $9.2 million
Close Date: Oct. 24
Buyer: 2970 Airway LLC
Buyer Rep: N/A
Seller: Lakeshore Enterprises LP
Seller Rep: N/A

6  14831 Franklin Ave.
Tustin $8.4 million
Close Date: Oct. 10
Buyer: Hao Zhong
Buyer Rep: JLL
Seller: LBA Realty
Seller Rep: Lee & Associates

7  8521-8581 Roland St.
Buena Park $6.2 million
Close Date: Oct. 25
Buyer: Ohana 9 LP
Buyer Rep: GM Properties Inc.
Seller: McMillion Estate Co.
Seller Rep: GM Properties

8  3101 Red Hill Ave.
Costa Mesa $5.9 million
Close Date: Nov. 1
Buyer: J.L. Moseley Co.
Buyer Rep: N/A
Seller: Prism Realty Corp.
Seller Rep: N/A

9  1700 N. Main St.
Orange $5.7 million
Close Date: Oct. 31
Buyer: Viele & Sons Inc.
Buyer Rep: N/A
Seller: B & B Mill Sales
Seller Rep: Lee & Associates

10  2501 S. Garnsey St.
Santa Ana $5.5 million
Close Date: Nov. 28
Buyer: All American Racers Inc.
Buyer Rep: N/A
Seller: S & J Transportation/ SRM Transport
Seller Rep: N/A

It was important to our company that we secure this property. We’re huge believers in the area and this site in particular, but it took a Herculean effort from our company and the amazing team at Voit to get this deal across the goal line in an extremely short period of time. This property, which lies within Anaheim’s Platinum Triangle, represents an extraordinary opportunity to develop a wide array of options including a best in class “last mile” distribution facility or perhaps even higher density options including office, retail, hospitality or even multi-family. We’re excited to work with the Voit team to maximize the value of this incredible asset.”

- Dan Fiorani, Co-Founder
Pacific Industrial

Congratulations to Seth Davenport and Mitch Zehner for successfully executing the sale of an 8.5-acre land site in Anaheim on behalf of the buyer, Pacific Industrial.

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Stuart Kane LLP

Real Estate • Employment • Litigation • Corporate
620 Newport Center Drive, Suite 200 | Newport Beach, CA 92660 | P: 949.791.5100 | F: 949.791.5200 | StuartKane.com
INDUSTRIAL LEASES

1. 12131 Western Ave.
   Garden Grove
   207,953 square feet
   Term: 125 months
   Landlord Rep: Voit Real Estate Services/Colliers International
   Landlord: Rexford Industrial
   Tenant Rep: Savills Studley
   Tenant: Southland Industries

2. 1765 Penhall Way
   Anaheim
   128,372 square feet
   Term: One year
   Landlord Rep: CBRE Group Inc.
   Landlord: The Carson Companies
   Tenant Rep: N/A
   Tenant: N/A

3. 675-679 S. Placentia Ave.
   Fullerton
   127,375 square feet
   Term: Five years
   Landlord Rep: Transwestern Property Management
   Landlord: RREEF Management LLC
   Tenant Rep: Direct
   Tenant: CJ Foods

4. 15342 Graham St.
   Huntington Beach
   84,754 square feet
   Term: N/A
   Landlord Rep: CBRE Group
   Landlord: Sares-Regis Group
   Tenant Rep: N/A
   Tenant: Titan Footwear LLC

5. 9700 Toledo Way
   Irvine
   77,313 square feet
   Term: 120 months
   Landlord Rep: CBRE Group
   Landlord: BLT Enterprises
   Tenant Rep: N/A
   Tenant: NN Inc.

6. 5455 E. La Palma
   Anaheim
   53,362 square feet
   Term: N/A
   Landlord Rep: DAUM Commercial Real Estate Services
   Landlord: Colton Corp.
   Tenant Rep: Lee & Associates Commercial Real Estate Services
   Tenant: Smartex

7. 900-912 E. Arlee Place
   Anaheim
   49,813 square feet
   Term: One year
   Landlord Rep: CBRE Group
   Landlord: Narendra Gupta
   Tenant Rep: N/A
   Tenant: N/A

8. 337 W. Freedom Ave.
   Orange
   49,515 square feet
   Term: N/A
   Landlord Rep: Voit Real Estate Services
   Landlord: Kodish Inc.
   Tenant Rep: N/A
   Tenant: Securitybase.com

9. 70 Icon
   Foothill Ranch
   45,190 square feet
   Term: One year
   Landlord Rep: CBRE Group
   Landlord: DCT Industrial Trust Inc.
   Tenant Rep: N/A
   Tenant: A & J Manufacturing Co.

10. 2890-2900 E. White Star Ave.
    Anaheim
    44,395 square feet
    Term: N/A
    Landlord Rep: Cushman & Wakefield
    Landlord: Larry Bedrosian
    Tenant Rep: N/A
    Tenant: Direct Edge Media

KPRS Construction: Building the future with our clients.
Our mission is to maximize our clients’ objectives and build better communities. We are proud to partner with Hyatt Corporation to bring the Hyatt House Irvine to life.

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## INDUSTRIAL CONSTRUCTION
Largest OC projects in Q4

Data provided by: CoStarGroup

### Fullerton

<table>
<thead>
<tr>
<th>Project</th>
<th>Address</th>
<th>Size</th>
<th>Completion Date</th>
<th>Developer</th>
<th>Leasing Company</th>
<th>Owner</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>210 E. Lambert Road</td>
<td>309,439 sq ft</td>
<td>May</td>
<td>Western Realco</td>
<td>Voit Real Estate Services</td>
<td>Western Realco</td>
</tr>
<tr>
<td>2</td>
<td>4278 N. Harbor Blvd.</td>
<td>212,022 sq ft</td>
<td>May</td>
<td>Western Realco</td>
<td>Voit Real Estate Services</td>
<td>Western Realco</td>
</tr>
<tr>
<td>3</td>
<td>1701 S. Anaheim Way</td>
<td>170,000 sq ft</td>
<td>February</td>
<td>Batcheller Equities/Panattoni Development</td>
<td>Newmark Knight Frank</td>
<td>Batcheller Equities/Panattoni Development</td>
</tr>
<tr>
<td>4</td>
<td>4250 N. Harbor Blvd.</td>
<td>105,322 sq ft</td>
<td>May</td>
<td>Western Realco</td>
<td>Voit Real Estate Services</td>
<td>Western Realco</td>
</tr>
<tr>
<td>5</td>
<td>4320 N. Harbor Blvd.</td>
<td>78,523 sq ft</td>
<td>May</td>
<td>Western Realco</td>
<td>Voit Real Estate Services</td>
<td>Western Realco</td>
</tr>
<tr>
<td>6</td>
<td>110 E. Lambert Road</td>
<td>45,761 sq ft</td>
<td>May</td>
<td>Western Realco</td>
<td>Voit Real Estate Services</td>
<td>Western Realco</td>
</tr>
<tr>
<td>7</td>
<td>150 E. Lambert Road</td>
<td>41,891 sq ft</td>
<td>May</td>
<td>Western Realco</td>
<td>Voit Real Estate Services</td>
<td>Western Realco</td>
</tr>
</tbody>
</table>
Office Rental Rates Rise With Demand in Q4

Orange County lease rates increased six cents in the fourth quarter to $2.88, in large part due to product coming online while not oversaturating the market. Demand remains strong and continues to keep up with supply.

The average asking rental rate rose 2.1% from the third quarter and 10.8% since the start of the year. Large blocks of space were hard to find, so there was high demand from smaller tenants. The workplace has shifted, and space needs have increased 10% to 15%.

Rent increases are a result of new and renovated class A and B product coming to market. Cash flow buyers/owners are currently focused on high occupancy levels, offering lower asking rates with little to no free rent. Investors, looking to sell in three to five years, are increasing asking rates and offering larger amounts of free rent. North and West OC asking rates had the highest increases in the quarter as those areas remained the tightest; vacancy rates were 9.2% and 10%, respectively. Space was scarce, and leasing activity remained low. South OC rates increased despite the increasing 1.6% vacancy in Aliso Viejo as completions drove up rents. Rents are projected to continue going up, though at a slower rate.

Net absorption in the quarter was positive 131,360 square feet. It was positive but low in North, West and Central OC, with many small move-ins and move-outs. Large negative absorption in the Greater Airport Area was due to Broadcom vacating 740,000 square feet as it downsized and moved to Five Point Gateway in the Irvine Spectrum in South OC. That left a 740,000-square-foot dent in the countywide market.

Strong leasing activity and move-ins in the airport area have offset Broadcom’s move. There were no other dramatic expansions or contractions in the market in the quarter.

Aliso Viejo took a hit when QLogic moved 155,000 square feet. The Irvine Spectrum gained the most positive absorption with Broadcom, Lamenn Corp, and FivePoint moving into Five Point Gateway. South OC performed well during the quarter due to Vyaire Medical leasing 184,000 square feet and other large tenants moving into the market.

The long-anticipated 1.1-million-square-foot Five Point Gateway was completed with 72% of the office park preleased. Lamenn and FivePoint leased 90,000 square feet and 45,000 square feet, respectively. With a large amount of the project preleased, vacancy in Irvine Spectrum increased by 2.3%. The old 2722 Michelson industrial building is being converted to a creative-office/R&D building, delivering 155,000 square feet by the end of this year. The Boardwalk was finished, bringing 537,000 square feet to the airport area. Currently signed are Pathway Capital and Propel Media at 64,000 square feet and 13,000 square feet, respectively. The Boardwalk was 18% preleased at the time of completion.

A total of 2.5 million square feet of office space came online last year in the airport area and South OC. There are 982,000 square feet under construction in the county, 612,000 of that projected to be finished in the airport area and 370,000 in South OC due to the Flight, the Quad and the conversion of 2722 Michelle to creative-office space.

North OC hasn’t had new construction since the first quarter of 2016. Central and West OC last had construction in the third quarter of 2013, but we can expect new projects to pop up in those areas.

<table>
<thead>
<tr>
<th>No. of Projects</th>
<th>Net Rentable Area (SF)</th>
<th>Total Vacant SF (Q4)</th>
<th>SF Absorbed (Q4)</th>
<th>SF Absorbed (YTD)</th>
<th>Average Asking Rent (Q4)</th>
<th>Average Asking Rent (Q3)</th>
<th>Average Asking Rent (Q4) 2016</th>
<th>Vacancy Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Orange County</td>
<td>124</td>
<td>8,536,361</td>
<td>783,833</td>
<td>66,712</td>
<td>55,361</td>
<td>$2.39</td>
<td>$2.31</td>
<td>$2.24</td>
</tr>
<tr>
<td>Central Orange County</td>
<td>263</td>
<td>16,515,649</td>
<td>1,871,087</td>
<td>42,274</td>
<td>(2,564)</td>
<td>$2.28</td>
<td>$2.25</td>
<td>$2.15</td>
</tr>
<tr>
<td>West Orange County</td>
<td>86</td>
<td>4,814,761</td>
<td>479,949</td>
<td>56,341</td>
<td>123,211</td>
<td>$2.36</td>
<td>$2.25</td>
<td>$2.09</td>
</tr>
<tr>
<td>Airport/Coastal Area</td>
<td>680</td>
<td>48,995,550</td>
<td>6,099,816</td>
<td>(194,212)</td>
<td>(262,167)</td>
<td>$3.13</td>
<td>$3.09</td>
<td>$2.83</td>
</tr>
<tr>
<td>South Orange County</td>
<td>671</td>
<td>25,023,306</td>
<td>2,173,070</td>
<td>650,283</td>
<td>1,231,366</td>
<td>$3.08</td>
<td>$3.01</td>
<td>$2.58</td>
</tr>
</tbody>
</table>

Orange County Totals | 1,644 | 101,891,677 | 11,317,675 | 121,398 | 1,145,207 | $2.84 | $2.82 | $2.80 | 10.9% | 9.7% | 9.9% |

Includes single- and multitenant buildings and parks of 30,000 square feet or larger, excluding government and medical buildings. Lease rates are full-service gross, per square foot, per month, excluding any free rent, tenant improvements or other concessions and weighted by available square feet.

—Analysis by CBRE Research

Industrial

This month announced its largest-ever industrial property acquisition in OC, for a 414,309-square-foot building on East Dyer Road in Santa Ana.

The vacant property a few blocks from the Costa Mesa (55) Freeway was previously used by Irvine-based carpet manufacturer Royalty Carpets, which closed last year. Hines paid $57 million, or about $138 per square foot, for the 54-year-old property, according to CoStar records.

That’s an uptick in pricing compared to the last big, older, vacant industrial property that sold in OC, the 1.1-million-square-foot former J.C. Penny distribution center in Buena Park, which sold last year for roughly $126 per square foot to CenterPoint Properties in Oakbrook, Ill. The $131 million deal, which closed in April, also effectively marked CenterPoint’s entry into the area’s industrial market.

Hines’ purchase of the 515 E. Dyer property offers “strong visibility, flexibility, and scale in a highly desirable, 1% vacant Orange County industrial market where this product type is largely being turned down for multifamily development,” the company said in a statement.

The buyer also pointed out that the facility represents “one of the few substantial blocks of industrial vacancy on the market today.”

It said it’s begun “a robust capital improvement plan” for the building, which includes a new roof, seismic retrofit, expanded trailer parking, office upgrades, landscaping and signage.

The deal offers “a great opportunity to plant an industrial flag for Hines in Southern California,” said the developer, which has made its mark in OC the past decade through the purchase of numerous office properties across the region.

Hines said it’s scouting other area industrial deals.

“We look forward to aggressively pursuing industrial deals of all types, including development, urban infill, sale leasebacks, etc.,” said Hines Senior Managing Partner Ray Lawler.
Despite Poor Second Half, Industrial Market Still Tight

The county’s industrial market hit a somewhat sour note in the final act, a disappointing development following a stellar first half of 2017.

The root cause can be traced back to not one, but a series of poorly timed events and demolished buildings over the last six months of the year. But that shouldn’t be taken as a sign of bad things to come: the market is still tremendously tight on available space, and gross activity remained on par with past years.

Even with some late-cycle caution, the market remained in the landlord’s favor, with constant demand and a shrinking base.

Moving into this year, the market will have a new chance to shine, as occupancy gains and rental growth are projected to best 2017 results.

Lease rates at the end of the quarter closed at 88 cents per square foot, up 1 cent from the third quarter. Year-over-year, lease rates rose 4.8% due to an imbalance between available supply and demand. The lack of class A product caused class B product lease rates to increase significantly during the year. Steady demand and contracted supply prompted most landlords to offer fewer incentives due to high competition among tenants, so they offered concessions at their own discretion.

Given market conditions shouldn’t change much this year, we predict lease rates will grow 7.3% by year-end.

Average asking sale prices continued going up, ending the quarter at $202.94 per square foot, up 5.1% year-over-year, despite a slower growth rate during the second half of the year. They’re projected to grow this year, as purchasing opportunities will be limited.

Lack of available supply curbed occupancy gains down the stretch for the year, closing the quarter and the year with negative net absorption due to the shrinking base. Four buildings were demolished, accounting for over 600,000 square feet in the quarter. Activity by third-party logistics, e-commerce, engineering firms and medical manufacturing companies helped limit occupancy losses for the year. For example, engineering firm Southland Industries made a big splash in West Orange County, expanding into a 200,000-square-foot building in Garden Grove.

The growing need for medical products prompted Applied Medical to buy another manufacturing facility, increasing its footprint in the region. Despite the setback in net absorption, we predict the industrial market will bounce back strong, as net absorption is projected to be positive this year.

—Analysis by CBRE Research