

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

The sales price is among the highest per square foot of the past 10 years for a North



4150 W. Palm: Fullerton property recently sold for \$32.5 million, what brokers call record comp for North OC owner-user deal

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.

Those Anaheim buildings went for \$188 to \$195 per square foot in 2016 and 2017.

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

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-commercerelated 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 89,000square-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

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 midsized 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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First Vice President Investments Net Leased



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First Vice President Investments Retail



Senior Vice President Investments Retail

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OFFICE SALES

Largest OC







Newport Beach \$176.5 million

Close Date: Oct. 11 Buyer: Goldman Sachs, Hines Buyer Rep: N/A Seller: Hines, Oaktree Seller Rep: Eastdil Secured LLC

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

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

3450 E. Miraloma Ave.

Anaheim \$27 million

Close Date: Oct. 13 Buyer: Hines, Oaktree Buyer Rep: N/A Seller: Pacific Sunwear of California Inc. Seller Rep: Newmark Knight Frank

24012 Calle de la Plata

Laguna Hills \$15.9 million

Close Date: Oct. 3 Buyer: Laurus Corp. Buyer Rep: N/A Seller: True North Management Group Seller Rep: HFF

500 N. State College Blvd.



\$92.5 million

Close Date: Nov. 7 Buyer: Lincoln Property Co. Buyer Rep: N/A

Seller: Starwood Capital Group Seller Rep: Newmark Knight Frank

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

17748 Sky Park Circle

\$17.9 million

Close Date: Nov. 14 Buyer: Koll Co. Buyer Rep: N/A Seller: Irvine Co. Seller Rep: Newmark Knight Frank

▶ 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

203 N. Golden Circle Drive

Santa Ana \$7.6 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**

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Kevin Shannon & Team

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\$1.7B

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



1500 QUAIL NEWPORT BEACH 91,000 SF Investment Sale



GATEWAY HUNTINGTON BEACH 285,000 SF



HUNTINGTON Investment Sale



CITY TOWER ORANGE 435,000 SF Investment Sale & Financing



OCBC SANTA ANA 437,000 SF Investment Sale & Financing



CORPORATE POINTE IRVINE 160,500 SF Investment Sale



CITY CENTRE I ORANGE 148,000 SF Investment Sale



ORANGEWOOD CORPORATE PLAZA ORANGE 107,000 SF Investment Sale



2600 MICHELSON IRVINE Investment Sale \$120,000,000



CENTERPOINTE LA PALMA LA PALMA Investment Sale \$106,100,000 Financing \$79,000,000



ORANGE CENTER TOWER ORANGE Investment Sale \$92,500,000 Financing \$64,700,000



STADIUM TOWERS ANAHEIM Investment Sale \$76,925,000



PACIFIC VISTA LAKE FOREST Investment Sale \$76,200,000



4400 MACARTHUR NEWPORT BEACH Investment Sale \$59,800,000



200 CENTER **ANAHEIM** Investment Sale \$58,900,000 Financing \$43,500,000



STADIUM CROSSINGS ANAHEIM Investment Sale \$46,000,000



CENTERPOINTE **PLAZA IRVINE** Investment Sale \$27,000,000



PACSUN ANAHEIM Investment Sale \$27,000,000 Financing \$19,000,000



RADIUS TUSTIN Investment Sale \$22,500,000



SKYPARK **BUSINESS CENTER** IRVINE Investment Sale \$17,900,000 Financing \$15,580,000

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THE HIVE COSTA MESA 190,000 SF



4400 MACARTHUR **NEWPORT BEACH** 156,310 SF



SKYPARK **BUSINESS CENTER** IRVINE 81,551 SF



www.ngkf.com/orangecounty

OFFICE LEASES Largest OC deals in Q4





> 510, 520 Technology Drive



Irvine
184,886 square feet
Term: N/A
Landlord Rep: Irvine Co.
Landlord: Irvine Co.
Tenant Rep: Hughes Marino
Tenant: Vyaire Medical Inc.



Irvine 63,879 square feet

Term: N/A
Landlord Rep: CBRE Group Inc.
Landlord: Trammell Crow Co.
Tenant Rep: N/A
Tenant: Pathway Capital

3200 Park Center Drive

Costa Mesa 39,053 square feet

Term: N/A Landlord Rep: Irvine Co. Landlord: Irvine Co. Tenant Rep: N/A Tenant: WeWork

18200 Von Karman Ave.

Irvine 54,408 square feet

Term: N/A
Landlord Rep: Irvine Co.
Landlord: Irvine Co.
Tenant Rep: N/A
Tenant: American Advisors

17877 Von Karman Ave.

17 Irvine 31,187 square feet

Term: 11 years Landlord Rep: JLL Landlord: Hines Tenant Rep: N/A Tenant: Xponential Fitness

2 3450 E. Miraloma Ave.



Anaheim 180,000 square feet

Term: 15 years Landlord Rep: Direct Landlord: Hines/Oaktree Capital

Tenant Rep: Direct

Tenant: Pacific Sunwear of California Inc.

5 4000 Metropolitan Drive

Orange 43,295 square feet

Term: N/A
Landlord Rep: Colliers
International
Landlord: Boyd Watterson
Asset Management
Tenant Rep: N/A
Tenant: N/A

9 85 Enterprise

Aliso Viejo 28,719 square feet Term: N/A

Term: N/A
Landlord Rep: Stream
Realty Partners
Landlord: RREEF
Management LLC
Tenant Rep: N/A
Tenant: N/A



Irvine 43,068 square feet

Term: N/A
Landlord Rep: Irvine Co.
Landlord: Irvine Co.
Tenant Rep: N/A
Tenant: Squar Milner

6131 Orangethorpe Ave.

Buena Park 26,593 square feet

Term: N/A
Landlord Rep: Sunny
Hills-Palladium
Landlord: Sunny Hills
Management Co.
Tenant Rep: Mohr Partners
Tenant: Sunwest Mortgage



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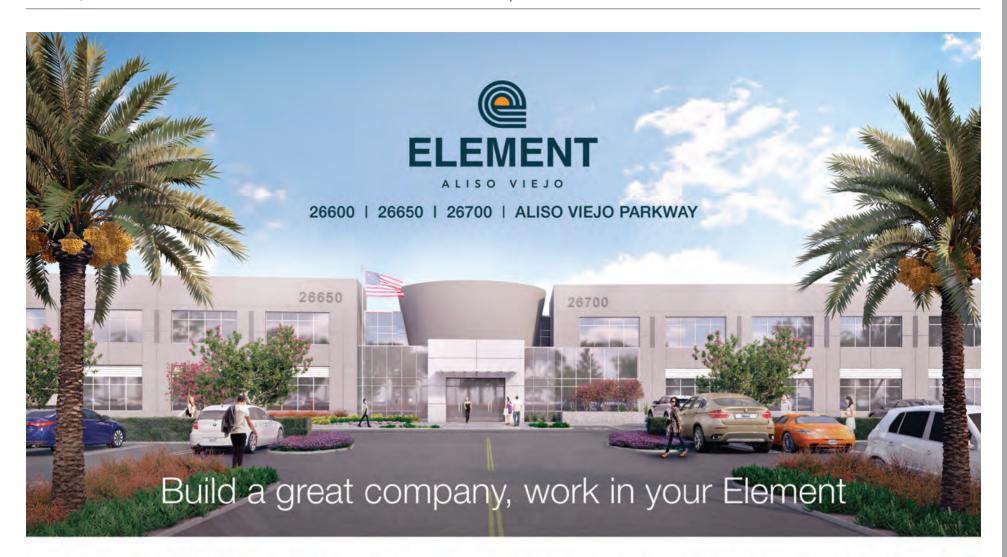
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Warland Investments Company congratulates **Shaw Industries, Inc.** on completion of a 10-year lease extension for the **440,619 SF Regional Distribution Center.**

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.



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

Warland Cypress Business Center:

- · Shaw Industries, Inc.
- County of Orange
- Money Mailer
- Paragon Partners
- Dameron Alloy Foundries
- Real Mex Restaurants, Inc.
- Q-Tech Corporation
- Honma Golf (USA)

Warland Business Park:

- · Vitae Core, Inc.
- ELAC Americas LLC
- Natoli Engineering
- SMS Systems Maintenance
- ELB US, Inc.
- Whale Logistics (USA), Inc.
- OC Department of Education
- Simply Fresh Foods, Inc.
- E-Mart America, Inc.
- AJX Distribution LLC
- Eminence Escrow, Inc.
- · Mahr Federal, Inc.
- Verrex, LLC
- Lotte Global Logistics (USA)
- Simplus Management Corporation











OFFICE CONSTRUCTION

Largest OC projects in Q2







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



189,500 square feet

Completion Date: January
Developer: DPR Construction
Leasing Company: CBRE Group Inc.
Owner: Five Point Holdings

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

500 Technology Drive

105,643 square feet

Completion Date: June Developer: Irvine Co. Leasing Company: Irvine Co. Owner: Irvine Co.

520 Technology Drive

Irvine

105,643 square feet Completion Date: June Developer: Irvine Co. Leasing Company: Irvine Co. Owner: Irvine Co.

Barranca Parkway & Armstrong Ave.

92,916 square feet

Completion Date: July
Developer: Lincoln Property
Leasing Company: CBRE Group
Owner: Lincoln Property/
Alcion Ventures

Barranca Parkway & Armstrong Ave.

89,500 square feet

Completion Date: July
Developer: Lincoln Property
Leasing Company: CBRE Group
Owner: Lincoln Property/
Alcion Ventures

Barranca Parkway & Armstrong Ave.

Tustin 89,468 square feet

Completion Date: July
Developer: Lincoln Property
Leasing Company: CBRE Group
Owner: Lincoln Property/
Alcion Ventures

9 510 Technology Drive

79,243 square feet

Completion Date: June 2018 Developer: Irvine Co. Leasing Company: Irvine Co. Owner: Irvine Co.

530 Technology Drive

74,426 square feet

Completion Date: June 2018 Developer: Irvine Co. Leasing Company: Irvine Co. Owner: Irvine Co.



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Suite A-1

Laguna Niguel Branch (Across from Trader Joe's") 32341 Golden Lantern Suite A

Mission Viejo Branch

(On the corner of Alicia Pkwy and Jeronimo Rd) 23982 Alicia Pkwy

Westminster Branch (Next to Albertsons*) 6745 Westminster Blvd Suite B

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INDUSTRIAL SALES

Largest OC transactions in Q4







Costa Mesa \$64.8 million

Close Date: Nov. 15
Buyer: SteelWave Inc.
Buyer Rep: N/A
Seller: Tribune Media Co.,
Kearny Real Estate
Seller Rep: Cushman & Wakefield

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

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: Lee & Associates

2225 E. Katella Ave.

Anaheim

\$14.6 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

14831 Franklin Ave.

Tustin \$8.4 million

Close Date: Oct. 10
Buyer: Hao Zhuang
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: McLellan Estate Co.
Seller Rep: GM Properties

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



Santa Ana \$5.5 million

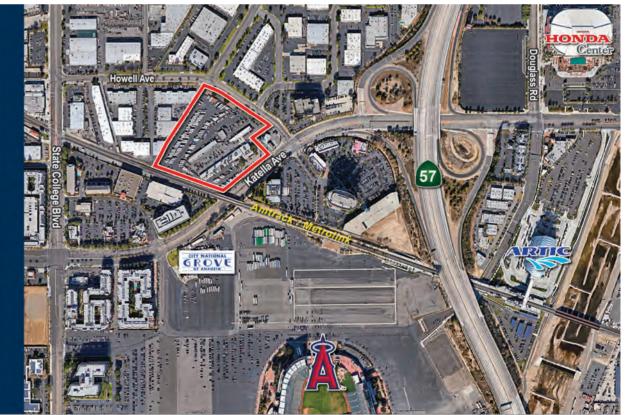
Close Date: Nov. 28
Buyer: All American Racers Inc.
Buyer Rep: N/A
Seller: S & J Transportation/
SRM Transport
Seller Rep: N/A

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 Floriani, 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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Executive Vice President, Partner (714) 935-2376 sdavenport@voitco.com

MITCH ZEHNER

Executive Vice President, Partner (714) 935-2307 mzehner@voitco.com



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INDUSTRIAL LEASES

Largest OC





675-679 S

Fullerton

Placentia Ave.

127,375 square feet

Property Management

Tenant Rep: Direct Tenant: CJ Foods

Landlord Rep: Transwestern

Landlord: RREEF Management LLC

Term: Five years



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

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

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

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 53,562 square feet

Term: N/A
Landlord Rep: DAUM Commercial
Real Estate Services
Landlord: Calton Corp.
Tenant Rep: Lee & Associates
Commercial Real Estate Services
Tenant: Smartex

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

337 W. Freedom Ave.

Orange 49,515 square feet

Term: N/A
Landlord Rep: Voit Real
Estate Services
Landlord: Kodash 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.



Anaheim 44,395 square feet

Term: N/A
Landlord Rep: Cushman
& Wakefield
Landlord: Larry Bedrosian
Tenant Rep: N/A
Tenant: Direct Edge Media



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INDUSTRIAL CONSTRUCTION

Largest OC projects in Q4





210 E. Lambert Road



Fullerton 309,439 square feet Completion Date: May Developer: Western Realco Leasing Company: Voit Real Estate Services Owner: Western Realco

2 4278 N. Harbor Blvd.



Fullerton
212,202 square feet
Completion Date: May
Developer: Western Realco
Leasing Company: Voit Real
Estate Services
Owner: Western Realco

3 ► 1701 S. Anaheim Way

4250 N. Harbor Blvd.

Anaheim 170,000 square feet

Completion Date: February Developer: Batcheller Equities/ Panattoni Development Leasing Company: Newmark Knight Frank

Owner: Batcheller Equities/ Panattoni Development

Fullerton 105,322 square feet

Completion Date: May Developer: Western Realco Leasing Company: Voit Real Estate Services Owner: Western Realco

5 > 4320 N. Harbor Blvd.

Fullerton 78,523 square feet

Completion Date: May Developer: Western Realco Leasing Company: Voit Real Estate Services Owner: Western Realco



Fullerton 45,761 square feet

Completion Date: May Developer: Western Realco Leasing Company: Voit Real Estate Services Owner: Western Realco



Fullerton 41,891 square feet

Completion Date: May Developer: Western Realco Leasing Company: Voit Real Estate Services

Owner: Western Realco



Hire An Attorney Before You Sign That Legal Document

Lawyers have made millions of dollars litigating real estate disputes which could have been avoided if their clients hired them before they got into trouble. Here are the reasons you should hire an attorney before you sign legal documents.

1. An ounce of prevention is worth a pound of cure.

While the form contract you found online is free, you probably do not understand all of the terms in the agreement or their consequences. There is no such thing as "one size fits all" in commercial real estate transactions. Each transaction can affect your business in different ways. An experienced real estate attorney can identify pitfalls in contracts and draft language to avoid them. The cost of having an attorney advise you before you sign legal documents is nominal

compared to the fees and costs you will incur prosecuting or defending a lawsuit arising from a defective agreement.



"Experienced transactional counsel will spot issues you never considered and plot a strategy to solve your goals."

Mark B. Wilson

2. You don't know what you don't know.

You are an expert in commercial real estate matters but probably not an expert on the constantly changing laws that affect your business and the contracts you sign. You would not perform your own brain surgery, why would you inflict your lack of legal experience on yourself? Experienced transactional counsel will spot issues you never considered and plot a strategy to solve your goals. Even lawyers hire lawyers; otherwise, they have a fool for a client.

3. Don't bring a knife to a gunfight.

Your adversary probably has a lawyer. That lawyer will carefully review relevant documents and negotiate terms in his or her client's favor. Without counsel in your corner, you may not realize the other party is taking advantage of you or that you are leaving opportunities on the table. One last thought – consider having a trial attorney review your contracts after your transactional attorney is finished with them. Trial attorneys often see issues transactional counsel never considered.

If you have a commercial real estate dispute we will evaluate the dispute, provide you a strategy, and execute it. Call us at (949) 631-3300.

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Klein & Wilson is solely responsible for the content of this article.

Figures are for Q4 **Average Asking Rent** Vacancy Rates **Q4** No. of **Net Rentable** Total SF Absorbed SF Absorbed Q3 **Q4 Q4 Projects** Area Vacant SF 04 YTD 2016 2016 **North Orange County** 124 8,536,361 66,712 55,361 9.8% **Central Orange County** 283 16,515,649 1,871,007 42,274 (2,564)\$2.28 \$2.25 \$2.15 11.3% 11.6% 11.3% \$2.25 **West Orange County** 4,814,781 479,949 56,341 123,211 \$2.09 10% 12.5% 11.1% Airport/Coastal Area 680 48,995,550 6,009,816 (594,212)(262, 167)\$3.13 \$3.09 \$2.83 12.3% 10.1% 10.8% South Orange County 25,029,336 2,173,070 560,283 1,231,366 \$3.08 \$2.58 8.7% **Orange County Totals** 1,145,207 1,844 103,891,677 11,317,675 131,398 \$2.88 \$2.82 \$2.60 10.9%

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 and other concessions and weighted by available square feet.

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 decreased 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 131,398 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 airport area and an 80,000-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 out 146,000 square feet. The Irvine Spectrum gained the most positive absorption with Broadcom, **Lennar 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. Lennar and Five-Point 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 Michelson into 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.

—Analysis by CBRE Research





Uptick: old Royalty Carpets facility brought more per square foot than last big older vacant industrial property that sold in county, in Buena Park

Industrial

▶ from page 22 —

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 64-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. Penney** 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 torn 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. ■

INDUST Figures are for Q4 **Average Asking Rent** Vacancy Rates **Q4 Q4** Total SF Sold SF Leased **Total Gross Q4** Q3 **Q4** 03 No. of Total **Total Net Projects Building SF** Vacant SF **Activity Absorption** 2016 2016 **North Orange County** 2,770 113,096,401 1,191,733 63,075 402,968 466,043 (265.351)\$0.87 \$0.87 \$0.73 1.1% 0.9% 1.2% **West Orange County** 348,541 14,000 498,994 512,994 \$0.83 \$0.81 \$0.75 0.8% 0.6% 0.4% 1,108 41,446,128 (132,419)Airport/Coastal Area 2,012 67,340,565 2,037,433 97,816 256,413 354,229 (852,108)\$0.82 \$0.83 \$0.86 3% 2.7% 1.8% 963 (171.502)\$1.03 \$0.96 2.2% South Orange County 33,640,570 754,905 124,051 359,141 483,192 \$1.08 2.5% 4,332,612 298,942 (1,421,380)**Orange County Totals** 6,853 255,523,664 1,517,516 1,816,458 \$0.88 \$0.87 \$0.84 1.7% 1.4%

Includes competitive single- and multitenant manufacturing and research and development buildings 10,000 square feet or larger. Total available includes space under construction. Net absorption figures are actually net activity, i.e., the change in the amount of vacant square feet from one period to the next. Lease rates are triple-net per square foot, per month, excluding any free rent, tenant improvements and other concessions and weighted by available square feet.

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



7390 Lincoln: Southland Industries expanded into Garden Grove building

class B product lease rates to increase significantly during the year. Steady demand and constricted 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



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