

ORANGE COUNTY



Rosenthal

By all accounts, 2005 was a stellar year for industrial property in Orange County. Vacancy was down, rental rates were up and cap rates continued to fall, as market fundamentals of strong economic activity and low unemployment, coupled with a scarcity of product, drove the Orange County industrial marketplace.

Overall vacancy, as reported by CoStar Group Inc., ended 2005 at 4.3 percent, down from 4.9 percent at the end of third quarter, and further down from 5.4 percent reported at year-end 2004. Orange County's industrial base is 295.9 million square feet. Warehouse space had the lowest year-end vacancy at 3.9 percent, followed by flex space at 5.9 percent. Both product types showed improvement from the prior quarter and from earlier in the year.

Net absorption for the year was a positive 4.2 million square feet, according to CoStar. Absorption for the year was evenly split between warehouse space (2.2 million square feet) and flex space (2 million square feet). Clearly, industrial demand continues to outpace supply in Orange County.

Given the tightness of supply, asking rental rates for industrial space continued to increase throughout the year. CoStar reported an average year-end asking rate of \$9.18 per square foot. This rate was similar to that reported by Grubb & Ellis, but substantially higher than the average asking rate reported by CB Richard Ellis of \$7.44 per square foot. The CoStar rate represents a 6 percent year-over-year increase versus year-end 2004. The rise in asking rates was substantially skewed by product type, with flex space reporting a 4.5 percent increase and warehouse space reporting a much stronger 13.4 percent growth rate.

The largest lease reported by CoStar throughout Orange County in 2005 was signed by Bedrosians for 375,000 square feet at 1515 E. Winston Rd. in Anaheim.

Total industrial sales volume for the first 9 months of 2005 was \$688 million, an increase of 5.7 percent compared to

the prior year. Strong investor demand and limited supply continued to fuel rising prices throughout the year. The average sale price per square foot of \$102 in 2005 represented a significant increase of 14.6 percent over the \$89 average for 2004. CoStar also reported that cap rates on investor sales in 2005 averaged 7.06 percent versus 7.67 percent in 2004. The average price per square foot in Orange County was almost double the average for the entire country, while the average cap rate was only slightly lower than the national average. CoStar reports that the \$40.2 million sale of a 543,431-square-foot building known as Panasonic Cypress Complex was the largest throughout Orange County in the first three quarters of 2005. Buyers of the largest industrial properties in Orange County included BKM Development Co. LLC, Legacy Partners, Centurian Partners, Turner Anaheim LLC and Lincoln Center Properties LLC.

CoStar reports that 132 industrial buildings, totaling 1.5 million square feet of new space, were delivered to the market in Orange County. This was slightly less than 2004's deliveries, which totaled 1.6 million square feet, and represented the lowest annual production level of industrial product delivered in Orange County since 1995. The vast majority of these buildings (129 out of 132) were less than 50,000 square feet, while only one new building exceeded 100,000 square feet. The smaller buildings entered the market with 85.3 percent pre-leasing at an average rental rate of \$14.55 per square foot. The larger buildings averaged 68.1 percent pre-leasing upon completion at an average rental rate of \$11.50 per square foot. The newly delivered space consisted of 61 percent single-tenant buildings and 39 percent multi-tenant buildings.

This year will also be a light year for new industrial space coming on line in Orange County with CoStar reporting that a total of 1.3 million square feet of new product was under construction at year-end 2005. This product was 52.9 percent pre-leased at year's end, and well over half of this is slated for completion by the end of this month.

Some major developments under construction at the end of 2005 included the San Clemente Business Park, a flex development in San Clemente being developed by P&N Builders; Astronautics Corporate Center, a multi-building project in central Orange County being developed by Burke Commercial Development; and Bake Commerce Center, a multi-building project in south Orange County being developed by Panattoni Construction Inc.

The most active submarkets for industrial construction include Garden Grove (469,189 square feet), San Clemente (274,709 square feet) and Brea (182,685 square feet). These were the only submarkets reported by CoStar to have more than 100,000 square feet of new industrial product under construction at year-end 2005.

The most active Orange County submarkets for construction were Garden Grove, San Clemente and Brea.

The future continues to look bright for the Orange County industrial market. Yes, there will be challenges,

including the high cost of doing business in the area and the risk of rising interest rates. Most industry sources concur that these challenges will be more than offset by the massive employment and population base, the scarcity of developable land, and the limited supply of new product. These factors, coupled with the continued demand for space, are projected to result in further upward pressure on rental rates and sale prices, together with continued compression of cap rates for investment product. CoStar and Grubb & Ellis also project a growing trend for new industrial condo developments and condo conversions to satisfy the growing owner-user demand for smaller space. The UCLA Anderson Forecast also predicts a decrease in larger distribution centers and an influx of R&D facilities and light-industry projects.

David Rosenthal is president and CEO of Curtis-Rosenthal Inc. in Los Angeles.

Results Matter... We Deliver



Brad Umansky,
Vice President,
Sperry Van Ness
The Umansky Retail
Team

Sperry Van Ness

Featured Listings:

Orange Tree Marketplace - \$24.5M / \$18.2M

Redlands, CA, at the Alabama exit on the 10 Freeway

- Anchored by Marshalls & JoAnn Fabrics - Both traded on the NYSE
- New Construction - Buildings to be completed first quarter 2006
- Across from Citrus Plaza which contains Target, Kohl's, Sport Chalet, Petco, Barnes & Noble
- 91,640 SF (\$267/SF)

Food 4 Less Shops - \$7,525,000

Moreno Valley, CA - NWC of Alessandro Blvd. and Indian St.

- Shops to a grocery-anchored center
- Construction completed 4th Qtr. 2005
- All leases have annual increases of 3-4% per year
- 7.4% Total Return on first-year income
- Anchored by a 73,000 SF Food 4 Less grocery store (NAP)
- Diversified income stream - 12 tenants located in 20,494 SF

Arrow Highway Shops - \$5,480,000

San Dimas, CA adjacent to the 57 Freeway

- Multi Tenant Center
- Upside potential - Average rent of only \$1.22/SF
- Potential to demise spaces and obtain higher rents
- Tenants include: 3 Day Blinds-170 stores, LA Carpet & LA Mattress - 8 stores, Mattress Outlet - 4 stores
- Surrounded by National Retailers including Target, Lowe's, Ralphs and Levitz
- High income trade area

To view our entire inventory and download packages go to
www.svn-umanskyretailteam.com

Brad Umansky, Vice President
Phone 909-466-2500 Email: brad.umansky@svn.com
800 North Haven Avenue • Suite 100 • Ontario, CA 91764