FOURTH QUARTER 2024 MARKET REPORT
MID COUNTIES INDUSTRIAL

Voit REAL ESTATE SERVICES

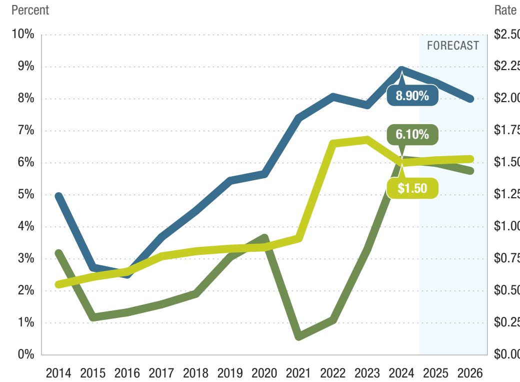
OVERVIEW. The Mid-Counties industrial market softened further in Q4. Vacancy made another substantial move up and average asking lease rates fell. Lease and sale activity was down and net absorption remained in negative territory. Gross absorption, which measures total move-ins, was also down. New construction was up slightly. Sale transaction count and square footage sold were both well off the Q3 pace. The interest rate on the SBA 504 moved back into the low 6% range by December after falling to 5.76% in September. That, along with election uncertainty, put potential owner / sales on the back burner. General activity picked up after the election, as market participants became more optimistic about a rollback in federal regulations and the potential of extending key provisions of the Tax Cuts & Jobs Act, which are otherwise scheduled to sunset at the end of 2025.

VACANCY & AVAILABILITY. Vacancy rose higher in Q4, which was widely anticipated. The overall vacancy rate was up by 36 basis points to 6.10% on the heels of a 69-basis-point spike recorded in Q3. Year over year, the vacancy rate has risen by almost 85%. This time last year, the vacancy rate was just 3.30%. As we have been reporting all year, vacancy is still low by historical standards, but the rate of increase clearly indicates reluctance from business owners to make new long-term decisions due to economic uncertainty. The vacancy rate for spaces under 25,000 SF is lowest at 3.07%, but that rate rose by 36 basis points in the fourth period. Vacancy is highest in spaces from 100,000–250,000 SF at 8.58% in Q4, down slightly from 8.65%. The availability rate, which includes occupied space offered for sale or lease, rose even more than vacancy, finishing the quarter at 8.90%, up 110 basis points.

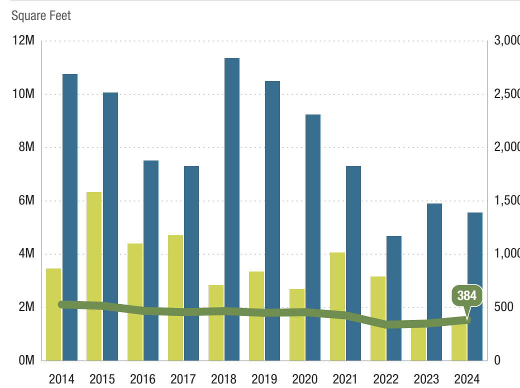
LEASE RATES. The Mid-Counties average asking lease rate moved lower in Q4 after being unchanged in the first three periods of 2024. In Q4, asking rates fell by $0.05 to $1.50 per square foot. In Q4 of 2023 that rate stood at $1.68, which equates to a 10.7% year-over-year decline, slightly below the decline for the entire LA region. As we pointed out last quarter, a significant amount of the space in the Mid-Counties market is owned by institutions who generally work hard to maintain their “coupon” or asking rates. Effective rates, which factor in the value of tenant concessions, are lower.

TRANSACTION ACTIVITY. Sale and lease activity in the Mid-Counties market fell by almost half in Q4, mainly due to a sharp falloff in sale activity. Just 10 sales were completed versus 18 in Q3. There was a notable absence of institutional sales, which are generally a key driver of sale activity in the area. In Q4, the largest sale

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter		Q4 2024	Q3 2024	Q4 2023	% Change Over Last Year
Vacancy Rate	▲	UP	6.10%	5.74%	3.30%	84.89%
Availability Rate	▲	UP	8.90%	7.80%	5.65%	57.34%
Average Asking Lease Rate	▼	DOWN	$1.50	$1.55	$1.68	(10.71%)
Sale & Lease Transactions	▼	DOWN	1,181,078	1,998,662	1,353,008	(12.71%)
Gross Absorption	▼	DOWN	1,100,511	1,372,607	1,430,972	(23.09%)
Net Absorption	▼	NEGATIVE	(222,413)	(976,842)	(524,306)	N/A

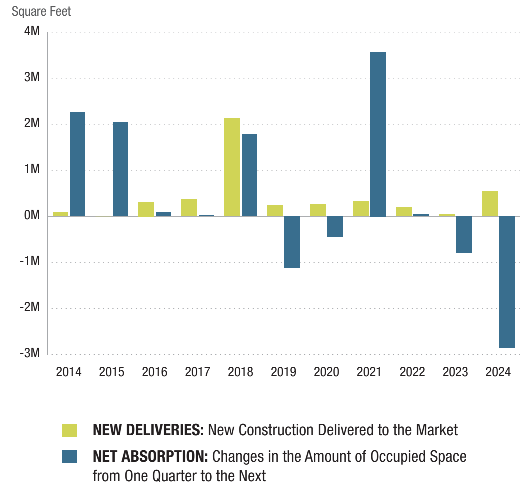
was a 27,610 SF building, as compared with the largest sale of Q3, a 239,532 SF building in Santa Fe Springs sold by Brookfield Asset Management. Lease count was unchanged at 72 in Q4, but total square footage leased was substantially lower. Rising mortgage interest rates kept the brakes on owner / user sales, which are generally financed up to 90% of value through the SBA. Although the Fed started reducing its benchmark Fed Funds Rate in September, the yield on the 10-year Treasury note, a key index used for setting commercial property mortgage rates, has moved sharply in the other direction.

ABSORPTION. Net absorption remained in negative territory in Q4, falling to 222,413 SF from almost 976,842 SF in Q3. Most of the loss in occupied space came from several move-outs in the 50,000–100,000 SF range. The Mid-Counties market currently stands at just under 118 MSF, the vast majority of which is in older facilities that lack the clear height and loading access associated with today's first-generation space. This has contributed to an increase in time on market for available space, which exacerbates the net negative absorption problem the region is currently experiencing. Unfortunately, new construction of state-of-the-art facilities has become increasingly difficult to execute due to high capital costs and a scarcity of sites suitable for ground-up development.

CONSTRUCTION. Despite a slight rise in Q4 construction to 780,506 SF (up from 699,663 in Q2), the sharp decline in planned projects to just 78,417 SF (from over 900,000 in Q3) signals a looming slowdown. This reflects the mounting challenges faced by developers, including soaring land and construction costs, high borrowing costs and slowing rent growth. While some projects initiated earlier may be reaching completion, the pipeline for future development is shrinking.

EMPLOYMENT. The Los Angeles County unemployment rate rose to 6.0% in November 2024, a slight increase from 5.9% in October 2024 and a more significant rise from 5.3% in November 2023. The Transportation and Warehousing sector experienced significant growth, adding 3,200 jobs likely driven by increased e-commerce activity and demand for logistics services. Construction contracted by 3,400 jobs mainly due to a decline in specialty trade contractors (down 2,400).

NEW DELIVERIES & NET ABSORPTION



Forecast

Mid-Counties market conditions will remain choppy for at least the first half of the year. Sale activity will remain light due to the recent increase in the cost of servicing mortgages. The monthly mortgage for an owner / user is now as much as 80% higher than the cost of leasing similar space. We will continue to see existing owner/users remain in place, as exchanging into larger facilities would likely require taking on debt at today's higher rates. Institutional owners still use debt in their acquisitions, though at much lower loan-to-value than a typical owner / user. But institutional owners also need strong prospects for rent growth that, for the moment, cannot be forecasted. We expect leasing activity to pick up early in the year, as those users who have delayed making moves due to uncertainty over the election get back in circulation. This would slow the rate of increase in vacancy, but also reduce the availability of the most functional space, which is in short supply already due to the advanced age of the bulk of the region's inventory.

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q4 2024	Square Feet Available	Availability Rate Q4 2024	Average Asking Lease Rate	Net Absorption Q4 2024	Net Absorption 2024	Gross Absorption Q4 2024	Gross Absorption 2024
Mid Counties													
Artesia / Cerritos	277	13,127,920	0	0	867,108	6.61%	1,314,111	4.88%	$1.43	(18,514)	(443,347)	169,330	887,443
Bellflower / Downey	211	5,743,791	0	0	169,989	2.96%	214,543	2.41%	$1.41	35,271	42,376	38,537	372,349
Buena Park / La Palma	234	14,932,019	0	0	1,704,139	11.41%	1,908,373	5.32%	$0.00	(55,983)	(703,581)	35,047	334,901
La Mirada	178	13,218,178	0	0	1,051,500	7.95%	1,391,019	9.47%	$1.58	(94,672)	(29,048)	56,693	787,002
Norwalk	91	2,924,525	0	0	75,764	2.59%	142,764	6.18%	$1.67	16,660	12,495	31,560	58,788
Paramount	417	9,311,394	0	0	220,564	2.37%	419,418	3.08%	$1.35	(34,685)	(192,748)	95,050	302,793
Santa Fe Springs	1,351	54,204,888	488,203	78,417	2,822,868	5.21%	4,750,857	5.63%	$1.74	(24,679)	(1,213,488)	657,958	2,580,443
Whittier	163	4,205,451	292,303	0	261,403	6.22%	327,584	2.97%	$1.50	(45,811)	(324,830)	16,336	114,407
Mid Counties Total	**2,922**	**117,668,166**	**780,506**	**78,417**	**7,173,335**	**6.10%**	**10,468,669**	**8.90%**	**$1.50**	**(222,413)**	**(2,852,171)**	**1,100,511**	**5,438,126**
5,000-24,999	1,829	23,993,848	0	0	736,474	3.07%	992,893	4.14%	$1.37	(33,929)	(68,257)	284,780	1,455,537
25,000-49,999	516	18,363,697	0	0	891,311	4.85%	1,347,536	7.34%	$1.43	52,339	(188,198)	239,639	1,069,200
50,000-99,999	302	21,010,799	58,463	78,417	1,285,949	6.12%	2,189,381	10.42%	$1.54	(175,943)	(324,264)	309,784	821,590
100,000-249,999	214	31,781,149	429,740	0	2,726,218	8.58%	4,146,206	13.05%	$1.58	(20,810)	(1,447,637)	266,308	1,558,274
250,000-499,999	53	17,535,796	292,303	0	1,169,102	6.67%	1,244,102	7.09%	$0.00	(44,070)	(1,004,784)	0	352,556
500,000 plus	8	4,982,877	0	0	364,281	7.31%	548,551	11.01%	$0.00	0	180,969	0	180,969
Mid Counties Total	**2,922**	**117,668,166**	**780,506**	**78,417**	**7,173,335**	**6.10%**	**10,468,669**	**8.90%**	**$1.50**	**(222,413)**	**(2,852,171)**	**1,100,511**	**5,438,126**

This survey consists of buildings greater than 5,000 square feet. Lease rates are on triple-net basis.

Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
8024-8036 Allport Ave. - 2 Properties	Santa Fe Springs	27,610	$5,383,500	The Holmes Family Trust	Allport Creative Studios LLC
15421 S. Blackburn Ave.	Norwalk	24,040	$8,798,640	JMS Hair	Norwalk Industrial Sub LLC
10928 Bloomfield Ave.	Santa Fe Springs	22,346	$9,385,320	Wayland Industries	Bloomingkoco LLC*
16005 Phoebe Ave.	La Mirada	14,700	$4,850,000	F1 La Mirada LLC	H.B. Fuller Construction Products
12201 Slauson Ave.	Santa Fe Springs	10,200	$3,250,000	Guillermo Castellanos	Eskay Properties LLC

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
9306 Sorensen Ave. - Renewal	Santa Fe Springs	305,422	Oct-2024	WESCO Distribution	Shopcore Properties
13225 Marquardt Ave.	Santa Fe Springs	174,047	Dec-2024	US Auto Forge	Golden Springs Development
11130 Bloomfield Ave.	Santa Fe Springs	163,436	Nov-2024	Jazwares	Alere Property Group
12995 Marquardt Ave.	Santa Fe Springs	68,640	Nov-2024	Richards Packaging Inc.	Golden Springs Development
16924 Marquardt Ave. - Renewal	Cerritos	44,400	Oct-2024	CyTek Manufacturing, Inc.*	TIAA-CREF

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What Goes Up, Must… (You Know the Rest)

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The Los Angeles industrial real estate market is clearly experiencing a major downturn in the post-COVID era. However, this downturn isn't exclusive to the LA market. Nearby Inland Empire and Orange County markets are also experiencing their own rough waters, with the former going through a much more pronounced downturn than either the LA or Orange County markets. Looking back to pre-COVID, however, reveals a significantly different picture. The industrial real estate market was arguably very healthy, having experienced several years of strong rent and value growth. At the end of 2019, the vacancy rate for the LA industrial market was trending around 2.39%, the average asking rate was around $0.93 PSF, and the average sale price was around $205 PSF.

The above 2019 figures for LA County clearly indicate significant appreciation in lease rates and sale prices since that time period. If we go back even further to 2015 when rents were trending in the $0.75 PSF range and sale prices were approximately $125 PSF, we see more evidence of strong growth over the last nine years! Despite this growth, the market currently feels like it's in a major downturn. Comparing today's market to the conditions prevalent from late 2020 through the end of 2022 confirms this feeling. Perspective is key.

While the long-term perspective offers some optimism, recent data from CoStar paints a more concerning picture for LA County. Net absorption has been negative for 11 consecutive quarters, indicating an oversupply of space. Additionally, 37% of the 11 MSF of new construction completed in 2023 remains vacant, and another 5.6 MSF is still under construction. Takeaway: the market will need consecutive quarters of positive absorption to recover. How do we accomplish this? A lot of landlords, particularly institutional ones who control a big portion of the product, may need to reset their asking rates. Some landlords try to offset high asking rents by offering tenant concessions such as multiple free months of rent or teaser rates in the first 12–24 months of the lease. This can be effective with certain tenants, but in many cases the tenants who are in the market are more concerned with, "What's my real estate overhead going to be after the concessions expire?"

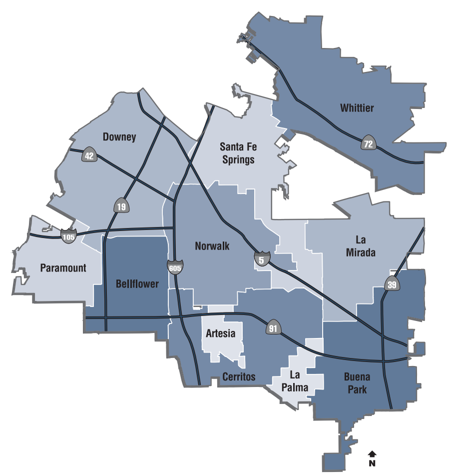
Looking ahead into 2025, there will likely be continued softness in the LA industrial real estate market for at least the first two quarters. These conditions will present opportunities for tenants to secure their real estate needs at attractive terms. For landlords, low-priced asking rates and free rent will likely be the main drivers of generating activity/deals for the foreseeable future.

Product Type

MFG./DIST.
Manufacturing / Distribution / Warehouse facilities with up to 29.9% office space.

Submarkets

MID COUNTIES
Artesia / Cerritos, Bellflower / Downey, Buena Park / La Palma, La Mirada, Norwalk, Paramount, Santa Fe Springs, Whittier



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