

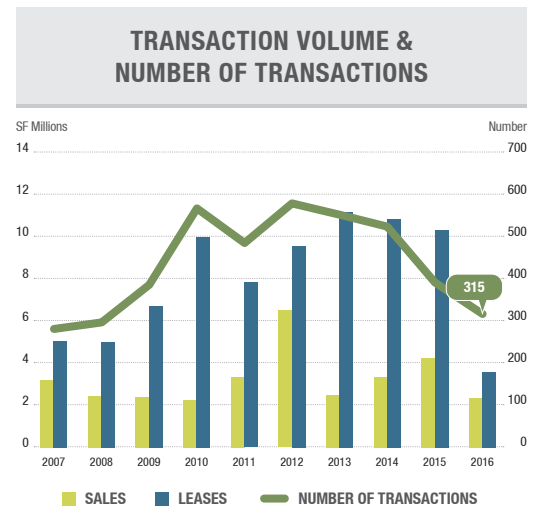
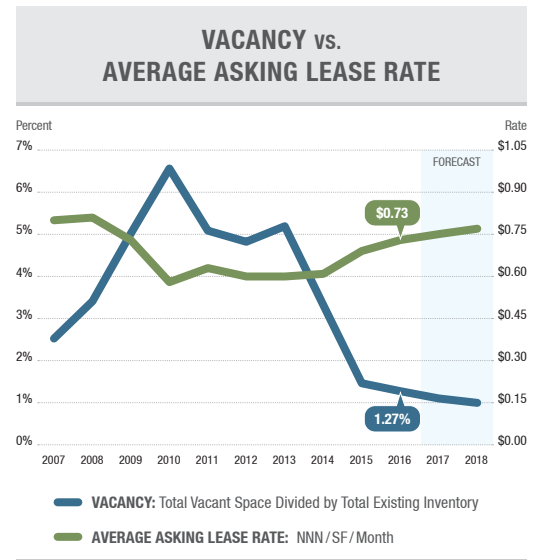
**POSITIVE MOMENTUM CONTINUES.** Highly influenced by both Los Angeles and Orange County, the Mid Counties industrial market continues to be one of the tightest and most desirable markets in the country. With significant ties to the Ports of LA/Long Beach, logistics and e-commerce operators continue to compete with one another for the very limited product in this 113,000,000 square foot market. With one of the lowest vacancy rates of any submarket in the country (approximately 1.27%) and among the highest industrial rents, companies looking to expand are now being forced to seek alternatives further East in the Inland Empire where modern buildings are available at substantially lower rents.

**LEASE RATES.** Lease rates will remain high and should have more room to run given the limited supply and increasing tenant demand. The average asking lease rate came in at \$0.73 per square foot per month, up one cent from last quarter and up seven cents from \$0.66 per square foot seen in the third quarter of 2015, a 10.61% annual increase.

**TRANSACTION ACTIVITY.** In the third quarter leasing and sale transaction volume totaled 1.98 million square feet. Notable activity this quarter includes American Cargo Express, Inc. leasing 220,000 square feet in Cerritos, Kenko Freight taking 184,475 square feet in Santa Fe Springs, and a large lease from Service Air Cargo taking 119,336 square feet in La Mirada.

**EMPLOYMENT.** Los Angeles has posted a notable round of job gains along with an extremely low unemployment rate. The seasonally adjusted unemployment rate in Los Angeles County increased over the month to 4.9% in August 2016 from a revised 4.8% in July 2016 and was below the rate of 6.4% one year ago.

**OVERALL.** The Mid Counties industrial market is well positioned for continued growth as e-commerce further impacts consumer buying patterns and the overall movement of goods. Proximity to the ports and direct access to one of the largest population centers in the country are huge strategic advantages. Greater Los Angeles will continue to be among the tightest industrial markets in the United States, resulting in steady rent growth.



### Market Statistics

	Change Over Last Quarter	3Q 2016	2Q 2016	3Q 2015	% Change Over Last Year
Vacancy Rate	▼ DOWN	1.27%	1.34%	2.03%	-37.44%
Availability Rate	▼ DOWN	3.13%	3.36%	3.04%	2.96%
Average Asking Lease Rate	▲ UP	\$0.73	\$0.72	\$0.66	10.61%
Sale & Lease Transactions	▼ DOWN	1,985,404	2,174,644	3,956,251	-49.82%
Gross Absorption	▲ UP	1,387,912	1,155,483	2,334,557	-40.28%
Net Absorption	▲ POSITIVE	33,927	(59,531)	509,608	N/A

**CONSTRUCTION.** New development is focused on large state-of-the-art distribution centers with easy access to LAX and the Ports of Los Angeles / Long Beach (cost-efficient drayage). In terms of planned projects, Goodman Logistics Center has a three-building distribution center totaling 1,220,040 square feet located in Santa Fe Springs scheduled to begin construction in the fourth quarter. Duke Realty also purchased 23 acres in La Mirada and plans to build a 475,000 square foot cross dock.

**LEASE RATES.** Expect average asking lease rates to increase by 4% to 6% over the next year.

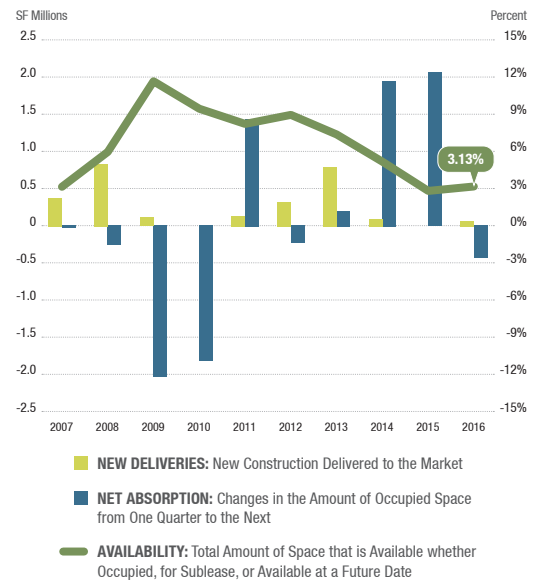
**VACANCY.** While it is hard to anticipate vacancy rates dropping further than an already low 1.27%, expect a slight drop in coming quarters, hovering in the range of 1% to 1.2% based on current activity levels.

**CONSTRUCTION.** With a limited amount of industrial land for development, only 1.08 million square feet of industrial space is under construction in the third quarter. A majority of the new construction is a single building by Overton Moore at 14445 Alondra Boulevard recently completed in La Mirada. The project brings 199,588 square feet of much needed, Class A industrial space to the market. Given the high cost of land and an increase in demand in the larger size ranges (above 40,000 square feet), developers are maximizing site coverage and building larger assets, shying away from smaller, less cost effective buildings.

**VACANCY / AVAILABILITY.** The vacancy rate remains critically low at 1.27%, meaning that most of the quality product in the market is absorbed prior to hitting the market. In fact, at the end of the third quarter there were only two existing blocks of Class A space larger than 50,000 square feet available for lease.

**ABSORPTION.** As limited inventory continues to takes its toll on transaction volume and absorption, the Mid Counties has bounced back from two consecutive quarters of negative net absorption. The market posted 33,927 square feet of positive net absorption in the third quarter, yielding a negative 427,276 square feet year to date. The lack of supply will limit the amount of positive absorption in the future.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2016	Square Feet Available	Availability Rate 3Q2016	Average Asking Lease Rate	Net Absorption 3Q2016	Net Absorption 2016	Gross Absorption 3Q2016	Gross Absorption 2016
<b>Mid Counties</b>													
Artesia/Cerritos	276	13,093,517	0	0	324,699	2.25%	585,986	5.71%	\$0.65	(346)	126,039	447,983	776,725
Bellflower/Downey	190	5,552,770	0	0	74,982	1.61%	122,948	2.47%	\$1.02	14,694	(43,987)	58,751	112,774
Buena Park/La Palma	231	15,261,660	0	0	139,921	1.95%	483,197	2.30%	\$0.89	127,589	123,194	149,984	375,667
La Mirada	181	12,315,987	199,588	0	80,944	1.17%	723,907	4.26%	\$0.68	20,882	(233,629)	171,771	441,275
Norwalk	85	2,940,339	0	0	29,756	0.14%	12,612	0.39%	\$0.82	(25,528)	(3,941)	960	28,120
Paramount	371	8,701,678	0	5,187	42,680	0.57%	248,477	2.68%	\$0.74	12,211	34,856	55,295	140,700
Santa Fe Springs	1,321	50,794,955	64,895	997,460	649,791	1.24%	1,220,778	2.92%	\$0.80	(123,160)	(375,598)	380,396	1,497,622
Whittier	166	3,897,995	0	0	90,083	2.51%	128,906	6.31%	\$0.74	7,585	(54,210)	122,772	157,633
<b>Total</b>	<b>2,821</b>	<b>112,558,901</b>	<b>264,483</b>	<b>1,002,647</b>	<b>1,432,856</b>	<b>1.27%</b>	<b>3,526,811</b>	<b>3.13%</b>	<b>\$0.73</b>	<b>33,927</b>	<b>(427,276)</b>	<b>1,387,912</b>	<b>3,530,516</b>
<b>Mid Counties Total</b>	<b>2,821</b>	<b>112,558,901</b>	<b>264,483</b>	<b>1,002,647</b>	<b>1,432,856</b>	<b>1.27%</b>	<b>3,526,811</b>	<b>3.13%</b>	<b>\$0.73</b>	<b>33,927</b>	<b>(427,276)</b>	<b>1,387,912</b>	<b>3,530,516</b>
5,000-24,999	1,773	23,590,128	0	75,099	460,955	1.95%	887,104	3.76%	\$0.76	977	(73,816)	251,663	770,954
25,000-49,999	483	17,152,115	0	106,990	300,876	1.75%	437,452	2.55%	\$0.67	5,866	(178,778)	257,271	610,455
50,000-99,999	299	20,436,933	64,895	314,093	284,354	1.39%	595,153	2.91%	\$0.77	(57,520)	313	170,565	501,883
100,000-249,999	211	30,984,466	199,588	0	386,671	1.25%	1,397,102	4.51%	\$0.66	84,604	(236,995)	605,213	1,098,625
250,000-499,999	49	15,944,122	0	0	0	0.00%	210,000	1.32%	\$0.00	0	62,000	103,200	365,200
500,000 plus	6	4,451,137	0	506,465	0	0.00%	0	0.00%	\$0.00	0	0	0	183,399
<b>Mid Counties Total</b>	<b>2,821</b>	<b>112,558,901</b>	<b>264,483</b>	<b>1,002,647</b>	<b>1,432,856</b>	<b>1.27%</b>	<b>3,526,811</b>	<b>3.13%</b>	<b>\$0.73</b>	<b>33,927</b>	<b>(427,276)</b>	<b>1,387,912</b>	<b>3,530,516</b>

This survey consists of buildings greater than 5,000 square feet. Lease rates are on an industrial-gross basis.

## Significant Transactions

### Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
14585 Industry Cir.	La Mirada	203,850	\$24,462,000	IDI Brookfield	TA Associates
8110 Sorensen Ave.	Santa Fe Springs	117,877	\$12,400,000	CenterPoint Properties	Prologis
131115-13133 Telegraph Rd.	Santa Fe Springs	32,385	\$4,600,000	Goldfein Investments	LIT Industrial Clarion
10648 Painter Ave – 2 Properties	Santa Fe Springs	35,659	\$4,600,000	5 Horseman, LLC	Eskay Properties, LLC

### Leases

\* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
15927 Distribution Way	Cerritos	220,000	Jul-2016	American Cargo Express	GLP US Management, LLC
13341 Cambridge St.	Santa Fe Springs	184,475	Jul-2016	Kenko Freight	Thrifty Oil Co.
16000 Heron Ave.	La Mirada	119,336	Sep-2016	Service Air Cargo	Ono May Broward
16012-16030 Arthur St.	Cerritos	103,200	Jul-2016	Bergen Shippers Corp.	GLP US Management, LLC
16924 Marquardt Ave. – Renewal	Cerritos	44,400	Jul-2016	CyTek Manufacturing *	TIAA



The Evolution of Industrial in Greater LA

by **C.J. Collins**

ASSOCIATE, LOS ANGELES

The Los Angeles Industrial market continues its march as one of the most coveted regions in the country. Many real estate professionals feel there is still some “room to run,” but most agree this cycle has matured to some degree. In short, vacancy continues to drop and new supply is very limited, especially under 100,000 SF. The average price per square foot in the sale market has reached (and in some cases surpassed) pre-recession levels, giving some buyers “sticker shock.” Many owner/user buyers are either passing, waiting or electing to become tenants given the sharp increase in pricing. We are also starting to see investors look elsewhere for yield as competitive capital from all over the world has created a frenzy in LA, driving cap rates down. This strong demand continues to put pressure on the limited number of available buildings, driving rents up. In the last twelve months, we have witnessed just under a 10% increase in average asking lease rates.

Concurrently, the vacancy rate has dropped to 2%, which basically means any functional building that makes it to market will have significant interest from many groups. This demand is being driven by many factors, the largest being the change in how we purchase and consume goods (e-commerce). Industrial as an asset class is stealing market share from bricks and mortar retail, as warehouses are becoming points of sale themselves. The LA Port area, also known as the South Bay, has been significantly impacted by this trend. To meet this demand there are 11 buildings under construction totaling just less than 2.13 million square feet, with several large blocks of space being absorbed prior to completion of construction. UPS recently took down nearly 50% of a one million-square-foot project in the City of Compton known as the Brickyard.

Downtown LA also continues to see more and more cranes. The LA Arts District, located just east of the Historic Core, is seeing the most gentrification of any area of LA at the moment. The LA Arts District was and is home to an ever shrinking number of core industrial users, but warehousing, manufacturing, distribution, seafood, produce and textile groups are now being forced out in favor of adaptive reuse in the form of creative office, residential and retail. Traditional industrial users are now having to consider areas like Vernon, Commerce, Pico Rivera or Montebello, and are still struggling to find functional alternatives in this world of constrained supply. We expect this trend and migration to continue, placing upward pressure on industrial rents in Central LA as well.

With an influx of capital, both foreign and domestic, targeting the LA Arts District, high-end mixed use projects such as The ROW at Mateo, 7th and Santa Fe and 4th Traction will all be coming online late 2016 and early 2017. The ROW project alone will be bringing 1.3 million square feet of creative office, a 5,000-stall parking structure and 200,000 SF of retail into the fold.

The LA market boasts a number of strategic advantages and as the market continues to evolve expect the vacancy rate to drop even further, the new supply to be quickly absorbed, and lease rates to continue their climb.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a industrial-gross basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.

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

