

# FOURTH QUARTER 2015 MID COUNTIES INDUSTRIAL



#### MARKET CHANGE

Compared to Previous Year:



#### **Net Absorption**



#### **Lease Rates**



# Transactions



# Deliveries DOWN

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#### HIGHLIGHTS

- Encouraging Numbers The Mid Counties industrial market continued to improve, posting a sub-1.3% vacancy rate for the fourth quarter of 2015. Both vacancy and availability displayed significant drops, and lease rates continued to increase from the previous year. Net absorption was positive for the quarter, for a total of 5.2 million square feet over the last ten quarters.
- Construction There was 224,483 square feet of industrial projects under construction in Mid Counties at the close of 2015. The shrinking availability of land combined with high land prices, scarce financing and rising construction costs, has led to few projects being developed.
- Vacancy Direct/sublease space (unoccupied) finished the quarter at 1.27%. This is down from both the previous quarter and from 2014's fourth quarter rate of 3.16%, a significant drop of 59.81%.
- Availability Direct/sublease space being marketed finished the year at 2.50%, down when compared to the previous quarter and a substantial decrease of 50.10% when compared to the same quarter of 2014 when the rate was 5.01%.
- Lease Rates The average asking lease rate came in at \$.69 per square foot per month, up three cents from last quarter and up eight cents compared to the \$.61 seen in the fourth quarter of 2014, a 13.11% annual increase.
- Absorption The Mid Counties industrial market posted 716,678 square feet of positive net absorption for the last quarter of 2015, giving the market an average of 525,000 square feet per quarter over the last ten quarters and a total of 5.25 million square feet since the third quarter of 2013.

- Transaction Activity Leasing activity for the Mid Counties industrial market checked in at just over eight million square feet for 2015, compared to 10.8 million in 2014. Total sold was over 3.6 million square feet in 2015, compared to the 2.4 million square feet in 2014. The slowdown in lease transactions volume can be attributed to a lack of supply in the marketplace. This statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher on the next report.
- Employment The unemployment rate in Los Angeles County declined to 5.9% in November 2015, down from a revised 6.1% in October 2015 and below the previous year's estimate of 8.0%. This compares with an unadjusted unemployment rate of 5.7% for California and 4.8% for the nation during the same period. According to the State of California Employment Development Department, Los Angeles County saw a net increase of 73,200 payroll jobs from November 2014 to November 2015. Most sectors showed gains in employment; the largest gains were 22,400 in educational and health services and 19,700 in leisure and hospitality during that same period. Los Angeles County's manufacturing sector suffered the biggest losses over the year down 7,500 jobs.
- Overall We are seeing significant drops in vacancy and availability coupled with overall increases in net occupancy. As we progress into 2016, positive absorption and higher occupancy costs should continue. A lack of product available for lease or sale in some size ranges is causing an increase in prices and a drop in transaction volume. With comparatively few new deliveries to apply more upward pressure on vacancy, the market should continue to improve. It's a great time to be a seller.

#### **FORECAST**

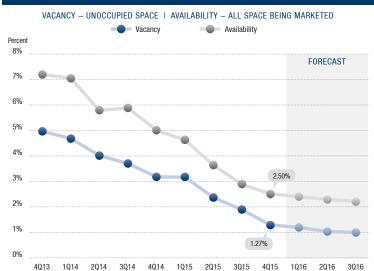
- **Construction** While we foresee very few development projects materializing in coming quarters, we expect land constraints to keep new supply well below demand growth over the next few years.
- **Employment** We anticipate job growth of around 1.9%, or 79,500 jobs, in the Los Angeles area over the year. Look for industries like technology and entertainment to outperform sectors that are dependent upon population gains in coming years.
- Lease Rates Expect average asking lease rates to increase by 5% to 8% over the next four quarters.
- Vacancy We anticipate vacancy rates continuing to descend in coming quarters, hovering in the range of 1% to 1.2% for the foreseeable future.

#### **OVERVIEW**

|                           | 2015       | 2014       | 2013       | % of Change vs. 2014 |
|---------------------------|------------|------------|------------|----------------------|
| Added Inventory           | 0          | 95,464     | 791,087    | N/A                  |
| Under Construction        | 224,483    | 24,895     | 120,359    | N/A                  |
| Total Vacancy Rate        | 1.27%      | 3.16%      | 4.98%      | (59.81%)             |
| Availability Rate         | 2.50%      | 5.01%      | 7.20%      | (50.10%)             |
| Average Asking Lease Rate | \$0.69     | \$0.61     | \$0.60     | 13.11%               |
| Sale & Lease Transactions | 11,625,888 | 13,237,003 | 13,645,123 | (12.17%)             |
| Gross Absorption          | 8,046,838  | 8,486,028  | 8,790,449  | (5.18%)              |
| Net Absorption            | 2,147,693  | 2,145,793  | 488,313    | N/A                  |

### INDUSTRIAL

#### **VACANCY & AVAILABILITY RATE**



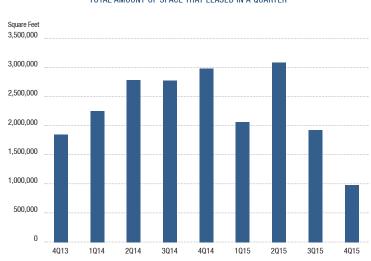
#### **AVERAGE ASKING TRIPLE-NET LEASE RATE**

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



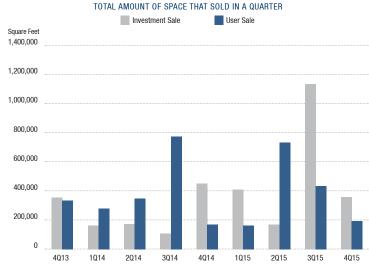
#### **LEASE TRANSACTIONS**





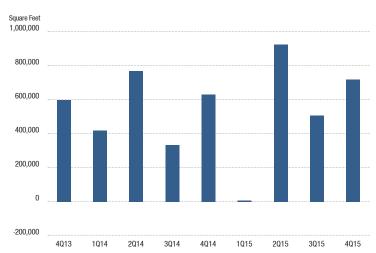
#### **SALES TRANSACTIONS**

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



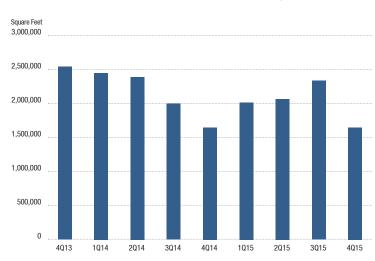
#### **NET ABSORPTION**

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



#### **GROSS ABSORPTION**

TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



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## INDUSTRIAL

|                     | INVENTORY              |                                |                         | VAC                       | VACANCY & LEASE RATES    |                           |                             |                                | ABSORPTION                      |                             |                           |                               |                             |
|---------------------|------------------------|--------------------------------|-------------------------|---------------------------|--------------------------|---------------------------|-----------------------------|--------------------------------|---------------------------------|-----------------------------|---------------------------|-------------------------------|-----------------------------|
|                     | Number<br>of<br>Bldgs. | Net<br>Rentable<br>Square Feet | Square<br>Feet<br>U / C | Square<br>Feet<br>Planned | Square<br>Feet<br>Vacant | Vacancy<br>Rate<br>4Q2015 | Square<br>Feet<br>Available | Availability<br>Rate<br>4Q2015 | Average<br>Asking<br>Lease Rate | Net<br>Absorption<br>4Q2015 | Net<br>Absorption<br>2015 | Gross<br>Absorption<br>4Q2015 | Gross<br>Absorption<br>2015 |
| Mid Counties        |                        |                                |                         |                           |                          |                           |                             |                                |                                 |                             |                           |                               |                             |
| Artesia / Cerritos  | 276                    | 13,086,126                     | 0                       | 0                         | 518,129                  | 3.96%                     | 447,345                     | 3.42%                          | \$0.66                          | (73,488)                    | (98,499)                  | 222,143                       | 892,191                     |
| Bellflower/Downey   | 196                    | 5,548,905                      | 0                       | 0                         | 38,995                   | 0.70%                     | 78,591                      | 1.42%                          | \$0.59                          | 8,425                       | 101,187                   | 16,543                        | 322,727                     |
| Buena Park/La Palma | 231                    | 15,248,790                     | 0                       | 0                         | 263,115                  | 1.73%                     | 507,929                     | 3.33%                          | \$0.62                          | 40,192                      | 393,178                   | 72,165                        | 1,093,216                   |
| La Mirada           | 190                    | 12,942,637                     | 199,588                 |                           | 136,160                  | 1.05%                     | 368,471                     | 2.85%                          | \$0.77                          | 172,870                     | 513,363                   | 316,270                       | 1,513,849                   |
| Norwalk             | 83                     | 2,921,539                      | 24,895                  | 0                         | 24,815                   | 0.85%                     | 30,325                      | 1.04%                          | \$0.69                          | (1,506)                     | 11,017                    | 80,529                        | 146,289                     |
| Paramount           | 369                    | 8,680,089                      | 0                       | 0                         | 73,536                   | 0.85%                     | 261,040                     | 3.01%                          | \$0.76                          | 3,876                       | 112,215                   | 52,589                        | 305,234                     |
| Santa Fe Springs    | 1,323                  | 51,003,454                     | 0                       | 1,394,202                 | 347,455                  | 0.68%                     | 823,035                     | 1.61%                          | \$0.84                          | 556,265                     | 1,081,004                 | 847,719                       | 3,574,146                   |
| Whittier            | 167                    | 3,900,182                      | 0                       | 0                         | 35,873                   | 0.92%                     | 321,653                     | 8.25%                          | \$0.61                          | 10,044                      | 34,228                    | 36,086                        | 199,186                     |
| Total               | 2,835                  | 113,331,722                    | 224,483                 | 1,394,202                 | 1,438,078                | 1.27%                     | 2,838,389                   | 2.50%                          | \$0.69                          | 716,678                     | 2,147,693                 | 1,644,044                     | 8,046,838                   |
| Mid Counties Total  | 2,835                  | 113,331,722                    | 224,483                 | 1,394,202                 | 1,438,078                | 1.27%                     | 2,838,389                   | 2.50%                          | \$0.69                          | 716,678                     | 2,147,693                 | 1,644,044                     | 8,046,838                   |
| 5,000-24,999        | 1,777                  | 23,615,541                     | 24,895                  | 14,000                    | 454,992                  | 1.93%                     | 574,906                     | 2.43%                          | \$0.85                          | 1,312                       | (1,977)                   | 297,272                       | 1,214,220                   |
| 25,000-49,999       | 489                    | 17,380,883                     | 0                       | 105,944                   | 144,810                  | 0.83%                     | 251,885                     | 1.45%                          | \$0.71                          | 156,799                     | 293,011                   | 320,360                       | 1,155,136                   |
| 50,000-99,999       | 301                    | 20,600,584                     | 0                       | 63,458                    | 272,095                  | 1.32%                     | 601,596                     | 2.92%                          | \$0.69                          | 62,211                      | 419,684                   | 213,119                       | 1,439,604                   |
| 100,000-249,999     | 213                    | 31,305,631                     | 199,588                 | 0                         | 504,181                  | 1.61%                     | 1,260,002                   | 4.02%                          | \$0.62                          | 168,422                     | 276,793                   | 485,359                       | 1,547,886                   |
| 250,000-499,999     | 49                     | 15,977,946                     | 0                       | 704,335                   | 62,000                   | 0.39%                     | 150,000                     | 0.94%                          | \$0.00                          | 327,934                     | 1,160,182                 | 327,934                       | 2,689,992                   |
| 500,000 plus        | 6                      | 4,451,137                      | 0                       | 506,465                   | 0                        | 0.00%                     | 0                           | 0.00%                          | \$0.00                          | 0                           | 0                         | 0                             | 0                           |
| Mid Counties Total  | 2,835                  | 113,331,722                    | 224,483                 | 1,394,202                 | 1,438,078                | 1.27%                     | 2,838,389                   | 2.50%                          | \$0.69                          | 716,678                     | 2,147,693                 | 1,644,044                     | 8,046,838                   |

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

#### **MAJOR TRANSACTIONS OF 2015**

| Sales Transactions                       |                  |             |                   |                                    |                                    |
|--|------------------|-------------|-------------------|------------------------------------|------------------------------------|
| Property Address                         | City             | Square Feet | Sale Price Per SF | Buyer                              | Seller                             |
| 9400 Santa Fe Springs Rd.                | Santa Fe Springs | 607,833     | \$102.41          | Deutsche Asset & Wealth Management | Cornerstone Real Estate Advisors   |
| 16301–16341 Carmenita Rd. (7 Properties) | Cerritos         | 395,177     | \$111.01          | Alere Property Group, LLC          | CBRE Global Investors              |
| 11688 Greenstone Ave.                    | Santa Fe Springs | 327,934     | \$221.08          | TIAA-CREF                          | Panattoni Development              |
| 13827 Carmenita Rd.                      | Santa Fe Springs | 208,432     | \$92.64           | Polycoat                           | EverWest Real Estate Partners, LLC |
| 14930 Alondra Blvd.                      | La Mirada        | 135,269     | \$110.85          | Leftbank                           | LBA Realty                         |
| Lassa Transactions                       |                  |             |                   |                                    |                                    |

| Lease Transactions      |                  |             |                         |                              |                                    |
|-------------------------|------------------|-------------|-------------------------|------------------------------|------------------------------------|
| Property Address        | City             | Square Feet | <b>Transaction Date</b> | Tenant                       | Owner                              |
| 913300-13408 Orden Dr.  | Santa Fe Springs | 454,826     | Jun-2015                | St. George Logistics         | Golden Springs Development         |
| 13012 Molette St.       | Santa Fe Springs | 306,286     | Jun-2015                | Gerber Plumbing              | Fremont Properties                 |
| 11811-11831 E. Florence | Santa Fe Springs | 288,000     | Feb-2015                | O'Neill Logistics            | Hathaway Industrial Properties     |
| 16400 Knott Ave.        | La Mirada        | 278,000     | May-2015                | Priority 1 Warehousing, Inc. | Invesco Advisors, Inc.             |
| 6101-6131 S. Knott Ave. | Buena Park       | 272,548     | Jun-2015                | Wheel Pros                   | COMREF So CA Industrial SUB G, LLC |

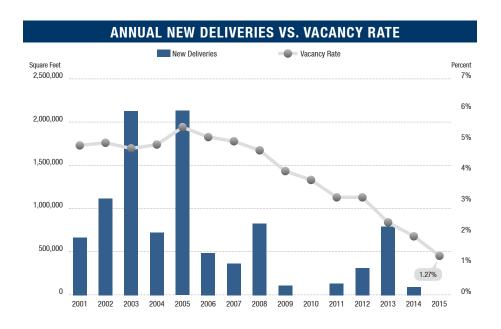
#### PRODUCT TYPE

#### MFG./DIST.

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