MC1Q18

FIRST QUARTER 2018 MARKET REPORT

MID COUNTIES INDUSTRIAL

Voit
REAL ESTATE SERVICES

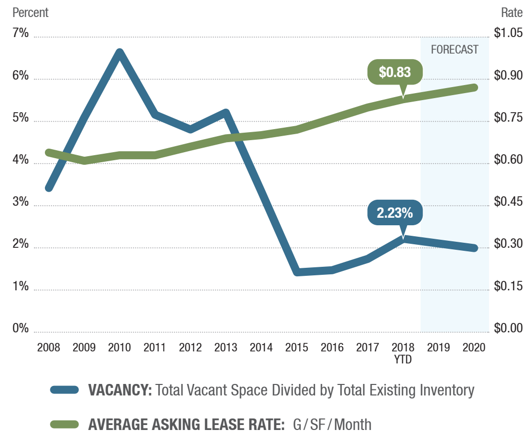
MARKET OVERVIEW. With the net absorption of industrial space exceeding previously reported figures, mostly due to new space being absorbed immediately (pre-leased), the vacancy rate in this product type has remained on an overall downward track from its 6.64% peak in 2010. The vacancy rate for the Mid Counties industrial market increased by 50 basis points during the first quarter of 2018 to 2.23%, the first increase since the second quarter of 2017. Despite this increase, net absorption was positive for the quarter, totaling 660,812 square feet during the first quarter of 2018. Persistent industrial demand stemming from port activities, coupled with the difficulty of bringing new industrial product to market, should ensure the market fundamentals remain among the strongest in the nation. The demand for industrial space in the Mid Counties area has been strong, although the supply of space is overly constrained and its price is high. Businesses, driven to reduce costs, have been forced to relocate to other, nearby markets with less expensive real estate.

VACANCY. The Mid Counties' industrial market employs a diverse local economy. The industrial sector of the economy encompasses a wide range of manufacturing, maritime, wholesale, transportation and other related businesses in the city. The first quarter of 2018 vacancy rate of 2.23% is up from an already tight 1.73% in the fourth quarter of 2017 and a majority of the actual vacancy is in older, functionally obsolete properties. Those that are between 5,000 and 24,999 square feet are 1.79% vacant. Buildings between 25,000 to 99,000 square feet are approximately 1.96% vacant. Buildings over 100,000 square feet are about 2.62% vacant.

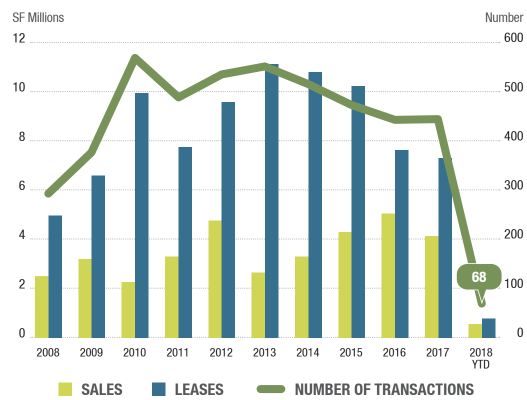
LEASE RATES. The average asking lease rate came in at $0.83 IG (Industrial Gross) per square foot per month, a three cent per square foot increase from last quarter and a six cent per square foot increase when compared with the $0.77 from a year ago (a 7.79% annual increase). While averages are tough to rely on in Los Angeles, given the disparity between Class A options and older, functionally obsolete properties, expect this trend of strong rent growth to continue.

TRANSACTION ACTIVITY. Demand for its industrial space, and particularly logistics inventory, correlates with international trade trends and will continue throughout Los Angeles and the Inland Empire, where land is cheap and logistics development has skyrocketed this cycle. However, Mid Counties' proximity to the ports and large diverse economy help ensure a strong outlook. Increased efficiency, access to labor and proximity to the consumer are at the core of most real estate decisions at the moment. Space larger than 50,000 square feet is the hottest segment, but the lack of inventory continues to negatively impact transaction volume. Sale and lease activity checked in at nearly 1.26 million square feet for the first quarter of 2018, a decrease over the same quarter last year total of 3.0 million square feet.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter		1Q 2018	4Q 2017	1Q 2017	% Change Over Last Year
Vacancy Rate	▲	UP	2.23%	1.73%	1.55%	43.87%
Availability Rate	▲	UP	7.23%	5.18%	3.81%	89.76%
Average Asking Lease Rate	▲	UP	$0.83	$0.80	$0.77	7.79%
Sale & Lease Transactions	▼	DOWN	1,261,774	2,514,468	3,029,117	(58.35%)
Gross Absorption	▼	DOWN	1,485,382	1,828,873	815,362	82.17%
Net Absorption	▲	POSITIVE	660,812	354,698	109,256	N/A

Forecast

LEASE RATES. Rents grew by 7.79% over the last four quarters. The supply and demand imbalance will continue, causing asking rents to increase by a minimum of 5% to reach a level of $0.87 IG per square foot by the end of 2018. Even larger increases will be seen by Class A buildings with modern features such as 30' warehouse clearance, ample dock-high loading, fenced yards and immediate freeway access.

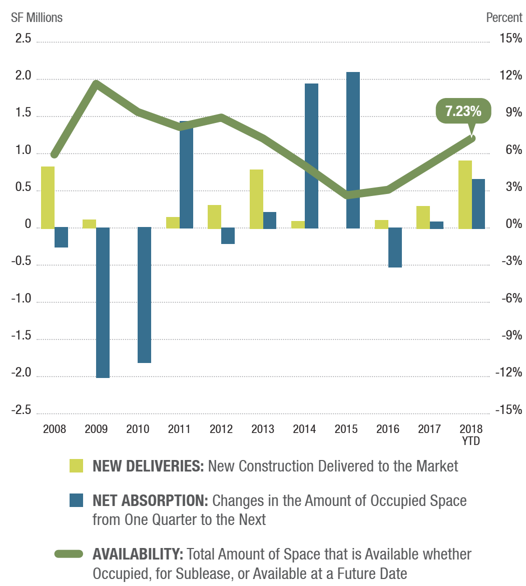
VACANCY. While hard to predict a drop in an already low 2.23% vacancy rate, we expect to see this figure dip below 2.10% by the end of 2018.

OVERALL. As we head into the second quarter of 2018, we are forecasting strength in the region. This should continue to fuel increases in lease rates and sale prices. The one possible headwind we could face is a change in federal trade policy. Overly nationalist trade policy could slow port volumes which would affect the industrial market. That will be an important area to watch in what should shape up to be a year of continued growth. A ramp up in new supply in the coming years should alleviate some of the supply constraints that have kept rent growth at or near double-digits for several consecutive years. Mid Counties should still rank near the top of national market for rent gains, but growth will likely moderate from recent record gains. Big-block space, which is exceedingly rare in Mid Counties, has generated most of the gains to date and could continue to over perform given the lack of options for tenants.

CONSTRUCTION. While there are significant barriers to entry for developers of new product in this market, Mid Counties industrial added a total of 905,674 square feet of new industrial space. The Mid Counties region now has more than 1.1 million square feet of industrial space under construction, most of it in the cities of Santa Fe Springs and La Mirada. The largest development projects in the pipeline include Goodman Logistics Center totaling 1,205,590 square feet at 12418–12588 Florence Avenue in Santa Fe Springs and Bridge Point — a three-building, 224,000 square foot (74,000–75,000) speculative for sale project in Santa Fe Springs and a 477,008 square foot speculative building at 16301 Trojan Way in La Mirada.

ABSORPTION. Available industrial space is scarce in Mid Counties, particularly newer and larger buildings suitable for modern-day logistics companies. Several buildings have delivered this cycle, and many of those were build-to-suit and preleased. The effects of supply constraints on this market cannot be overemphasized: with few developable sites, vacancies in the market remain among the lowest in the nation — with 660,812 square feet of positive absorption in the first quarter of 2018.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2018	Square Feet Available	Availability Rate 1Q2018	Average Asking Lease Rate	Net Absorption 1Q2018	Net Absorption 2018	Gross Absorption 1Q2018	Gross Absorption 2018
Mid Counties													
Artesia / Cerritos	277	13,168,685	0	70,696	340,937	2.59%	994,633	7.55%	$0.71	(106,740)	(106,740)	85,232	85,232
Bellflower / Downey	194	5,539,539	0	0	40,990	0.74%	120,814	2.18%	$0.00	56,250	56,250	59,801	59,801
Buena Park / La Palma	229	15,156,437	0	0	145,318	0.96%	2,394,129	15.80%	$0.89	321,918	321,918	440,544	440,544
La Mirada	181	12,486,557	477,008	0	90,027	0.72%	606,551	4.86%	$0.75	164,960	164,960	214,944	214,944
Norwalk	86	2,900,755	0	0	16,315	0.56%	65,615	2.26%	$0.00	5,492	5,492	10,492	10,492
Paramount	374	8,732,526	0	5,187	91,048	1.04%	132,590	1.52%	$0.85	16,591	16,591	56,363	56,363
Santa Fe Springs	1,333	52,081,710	627,855	514,289	1,760,663	3.38%	3,669,942	7.05%	$0.86	239,271	239,271	556,696	556,696
Whittier	167	3,933,465	0	0	55,207	1.40%	257,877	6.56%	$0.99	(36,930)	(36,930)	61,310	61,310
Mid Counties Total	**2,841**	**113,999,674**	**1,104,863**	**590,172**	**2,540,505**	**2.23%**	**8,242,151**	**7.23%**	**$0.83**	**660,812**	**660,812**	**1,485,382**	**1,485,382**
5,000-24,999	1,783	23,706,163	23,390	24,313	425,169	1.79%	613,158	2.59%	$0.94	(108,449)	(108,449)	269,584	269,584
25,000-49,999	484	17,221,199	0	160,955	420,290	2.44%	718,554	4.17%	$0.90	89,271	89,271	314,292	314,292
50,000-99,999	305	20,836,777	98,000	70,696	324,748	1.56%	584,603	2.81%	$0.78	86,777	86,777	312,460	312,460
100,000-249,999	212	31,202,744	477,008	334,208	315,583	1.01%	1,425,830	4.57%	$0.74	166,723	166,723	398,046	398,046
250,000-499,999	51	16,541,691	506,465	0	1,054,715	6.38%	2,308,581	13.96%	$0.00	426,490	426,490	191,000	191,000
500,000 plus	6	4,491,100	0	0	0	0.00%	2,591,425	57.70%	$0.00	0	0	0	0
Mid Counties Total	**2,841**	**113,999,674**	**1,104,863**	**590,172**	**2,540,505**	**2.23%**	**8,242,151**	**7.23%**	**$0.83**	**660,812**	**660,812**	**1,485,382**	**1,485,382**

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
16200 Trojan Way	La Mirada	106,926	$17,428,938	Ottagi America	Bixby Land Company
16010 Shoemaker Ave.	Cerritos	115,600	$17,200,000	Rexford Industrial	JLH Shoremaker Property, LLC
17211 Valley View Ave.	Cerritos	100,000	$15,000,000	Cabot Properties, Inc.	United Exchange Corporation
13123 Rosecrans Ave.	Santa Fe Springs	74,120	$14,100,000	UniFirst Corporation	Bridge Development Partners
13415 Marquardt Ave.	Santa Fe Springs	31,008	$5,736,480	AHOB, LLC	Boose 1990 Trust

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
12588 Florence Ave.	Santa Fe Springs	403,635	Mar-2018	Fashion Nova	Goodman Birtcher
12418 Florence Ave.	Santa Fe Springs	312,000	Mar-2018	Rim Logistics	Goodman Birtcher
12488 Florence Ave.	Santa Fe Springs	198,000	Mar-2018	Funai	Goodman Birtcher
13300 Orden Dr.	Santa Fe Springs	123,120	Mar-2018	Columbia Distributions Services	Golden Springs Development Co.
13915 Maryton Ave.	Santa Fe Springs	74,038	Jan-2018	Carroll Tire Company	Westcore Properties

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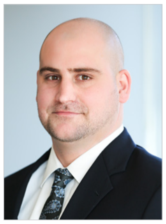

More Demand and Higher Lease Rates

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If you are one of the landlords who has owned industrial property long-term in the Los Angeles and Mid-Counties markets, you are very likely enjoying the demand for industrial land and warehouse space which continues to drive value up while operators struggle to find available quality space. For tenants, having an existing renewal option on a lease is extremely valuable considering the current market conditions, specifically the low vacancy rate. Companies that currently use industrial-zoned property in the Los Angeles markets are in constant search for expansion space that suits their needs. The competition to purchase or lease industrial space is continuing to outweigh the supply, causing lease rates to rise more than 6% to an average rent at $0.70 Net in the fourth quarter of 2017.

The Rise in Land Value

Industrial land is capturing more than $40 per square foot in Los Angeles and there has been no slow-down in demand. In 2017 a moratorium was set in Carson, preventing new business licenses from being approved for certain industrial uses. Additionally, zoning ordinances were made to restrict heavy industrial uses in several cities, however, the need for industrial-zoned land in close proximity to the port has not stopped growing. One result of these market conditions has been a rise in industrial land value. The Federal Reserve is expected to raise interest rates about a quarter point in the near future which could impact transactions, especially those on the larger side. Increasing interest rates could also trigger lease and sale pricing to level off or even decrease down the road.

The Market is Becoming Smaller

Zoning changes, ordinances, and moratoriums are not the only influence on the lack of available product. In 2017 we saw a rise in the conversion from industrial space to retail, creative office space, and residential in the Central Los Angeles markets. With much of the older product becoming obsolete in functionality for the modern industrial use, the repositioning of property to fit its highest and best use is expanding. The delivery of the proposed 700,000+ square feet in the South Bay and 1,500,000+ square feet in the Mid Counties Market in 2018 are highly anticipated additions to the lack of available industrial space.

With the surge in e-commerce as a consumer alternative to retail locations like Toys "R" Us, the development of new product and repositioning/redevelopment of older industrial buildings in Los Angeles will continue to expand in order to provide efficient warehouse and distribution alternatives moving forward.

Product Type

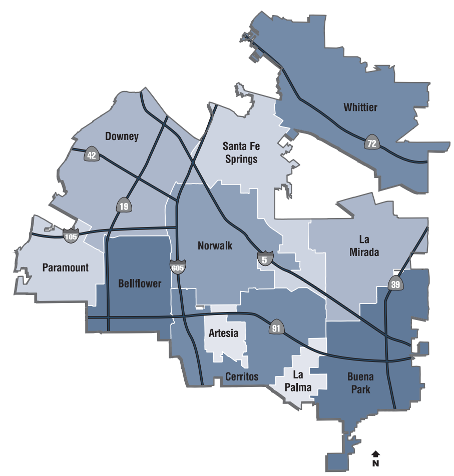
MFG./DIST.

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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