MC2Q17

SECOND QUARTER 2017 MARKET REPORT

MID COUNTIES INDUSTRIAL

Voit
REAL ESTATE SERVICES

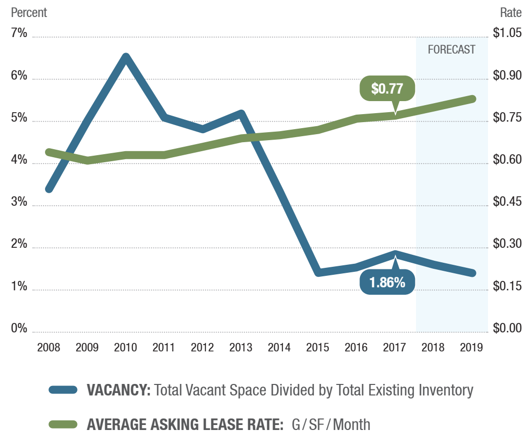
HEALTHY FUNDAMENTALS. The Mid Counties industrial market, like South Bay Los Angeles, boasts one of the lowest vacancy rates in the country (1.86%) as distribution / logistics firms tied to the retail / e-commerce market continue to compete with one another for quality expansion alternatives. Demand across all size ranges remains robust as users aim to acquire “last mile” sites near the influential population centers of Orange County and Los Angeles. Even the limited amount of new construction is being pre-leased (Duke / UPS, 492,693 square feet in La Mirada) further highlighting the pent-up demand in the market. Industrial land remains both scare and expensive (approaching $50 per square foot), limiting future development, and as e-commerce continues to emerge as a market driver, demand for space will only increase. Expect lease rates to increase in the coming quarters, moving further past previous record highs.

VACANCY. Vacancy rates across all size ranges remain near all-time lows (1.86% for the second quarter). Retailers and e-commerce operators aimed at improving logistics, reducing overall costs and improving convenience continue to make big commitments to the area in a market starved for product. Demand is certainly outpacing supply and we expect this trend to continue, keeping vacancy rates low.

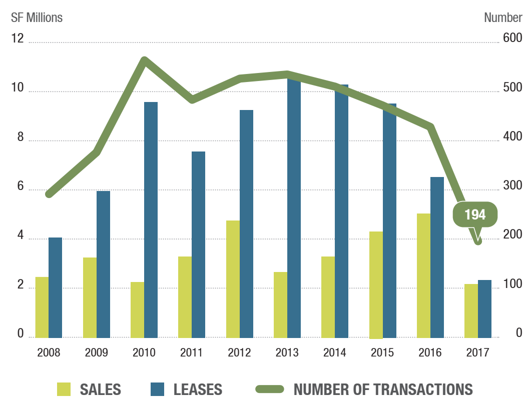
LEASE RATES. The average asking rate was unchanged in the second quarter at $0.77 per square foot. While we would have expected a larger quarterly gain in this category, most of the Class A product has been absorbed leaving Class B & C buildings as the only available alternatives, negatively affecting “asking rents.” Demand from a diverse tenant base in the logistics, apparel, e-commerce and food / beverage sectors will continue to apply upward pressure on lease rates. Lease rates for quality buildings in Mid Counties now mirror North Orange County as these two submarkets experience significant crossover from active tenants given the overall shortage of inventory.

TRANSACTION ACTIVITY. Tenant activity remains strong and the market is showing no signs of cooling off, but the shortage of quality supply is continuing to negatively impact transaction volume. Overall transaction activity (sales and leasing) was down for the second quarter. 2.03 million square feet of total transactions were recorded, down from 2.55 million in the first quarter. Noteworthy leases for the second quarter included a 492,638 square foot lease with UPS at 16301 Trojan Way in La Mirada, McMaster Car Supply’s 295,490 square foot lease at Goodman Logistics Center project in Santa Fe Springs, and DAISO California, LLC, leasing 220,000 square feet in La Mirada. The largest sale this quarter was Goldman Sachs Group Inc. purchasing 12252 Whittier Boulevard (161,610 square feet) in Whittier for $25 million ($156 per square foot).

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	2Q 2017	1Q 2017	2Q 2016	% Change Over Last Year
Vacancy Rate	UP	1.86%	1.70%	1.24%	50.00%
Availability Rate	UP	4.28%	3.84%	3.25%	31.69%
Average Asking Lease Rate	FLAT	$0.77	$0.77	$0.72	6.94%
Sale & Lease Transactions	DOWN	2,037,944	2,552,767	3,343,919	(39.06%)
Gross Absorption	UP	1,048,633	813,862	1,152,761	(9.03%)
Net Absorption	NEGATIVE	(157,135)	5,395	(1,893)	N/A

Forecast

LEASE RATES. Expect lease rates to continue to climb, with the largest gains in newer, Class A product. Asking rates are already past their previous 2007–2008 peak and we expect 3–4% annualized growth in the coming year.

VACANCY. While hard to predict a drop in an already low 1.86% vacancy rate, we expect to see this figure inch down to around 1.70% by the end of 2017.

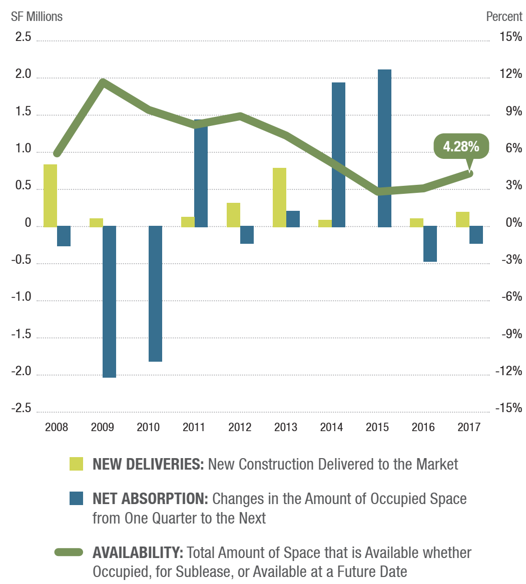
OVERALL. As new deliveries are absorbed at record lease rates, expect overall tenant activity to continue and average rents to rise. Industrial as an asset class will continue to be insulated, even as we enter the later innings of this cycle. The growth in e-commerce and the trend of "consumer impatience" will continue to stimulate this market, and we do not forecast any speculative excess given the limited number of development sites. Proximity to the Ports of Los Angeles / Long Beach and immediate access to critical population centers will continue to be a strategic advantage for the Mid Counties. Expect an increased flow of investment capital as both foreign and local investors aggregate small buildings in this critical submarket, where users tend to focus more on location than function.

CONSTRUCTION. While there are significant barriers to entry for developers of new product in this market, the Mid Counties region now has more than 1.1 million square feet of industrial space under construction, most of it in the City of Santa Fe Springs. Goodman Logistics Center is a phased project totaling 1.2 million square feet and Bridge Point is a 231,731 square foot spec project on Maryton Avenue. Both projects are experiencing a high level of interest from tenants, largely Fortune 500 companies, seeking modern features like 36' minimum warehouse clearance and 185' truck courts.

AVAILABILITY. The availability rate inched up from 3.84% in the first quarter of 2107 to 4.28% this quarter as a few larger tenants proactively placed their properties on the market for sublease as they target larger, expansion opportunities.

ABSORPTION. Limited available inventory continues to hinder transaction volume and net absorption. Net absorption for the Mid Counties industrial market was negative 157,135 square feet in the second quarter 2017 compared to a negative 1,893 square feet in the second quarter 2016.

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 2Q2017	Square Feet Available	Availability Rate 2Q2017	Average Asking Lease Rate	Net Absorption 2Q2017	Net Absorption 2017	Gross Absorption 2Q2017	Gross Absorption 2017
Mid Counties													
Artesia/Cerritos	277	13,157,915	0	0	289,024	2.20%	483,684	3.68%	$0.70	20,709	(51,879)	136,152	233,077
Bellflower/Downey	191	5,511,647	0	0	55,951	1.02%	101,174	1.84%	$0.87	39,347	1,921	61,833	90,372
Buena Park/La Palma	229	15,094,146	0	0	315,758	2.09%	850,028	5.63%	$0.83	(221,758)	(246,474)	21,512	43,279
La Mirada	182	12,552,047	0	492,639	645,135	5.14%	576,660	4.59%	$0.71	11,941	(184,687)	370,012	441,499
Norwalk	87	2,966,294	0	0	11,987	0.40%	11,987	0.40%	$0.00	54,489	54,489	42,909	42,909
Paramount	372	8,713,178	0	5,187	96,802	1.11%	222,247	2.55%	$0.77	(67,981)	(10,469)	67,911	156,044
Santa Fe Springs	1,323	50,959,996	1,178,577	514,681	649,819	1.28%	2,515,154	4.94%	$0.83	7,304	148,159	336,823	755,975
Whittier	166	3,929,395	0	0	31,275	0.80%	73,275	1.86%	$0.56	(1,186)	58,216	23,001	110,860
Mid Counties Total	**2,827**	**112,884,618**	**1,178,577**	**1,012,507**	**2,095,751**	**1.86%**	**4,834,209**	**4.28%**	**$0.77**	**(157,135)**	**(230,724)**	**1,060,153**	**1,874,015**
5,000-24,999	1,776	23,646,664	36,746	24,313	283,986	1.20%	577,478	2.44%	$0.79	121,183	173,550	315,023	682,095
25,000-49,999	482	17,129,111	0	200,065	337,773	1.97%	453,270	2.65%	$0.89	(15,718)	(25,872)	168,773	381,178
50,000-99,999	302	20,656,031	231,731	0	279,442	1.35%	676,811	3.28%	$0.76	(137,684)	(165,150)	153,782	255,935
100,000-249,999	212	31,177,728	0	0	1,194,550	3.83%	1,490,207	4.78%	$0.75	(181,076)	(269,412)	366,415	498,647
250,000-499,999	49	15,833,947	403,635	788,129	0	0.00%	1,129,978	7.14%	$0.75	56,160	56,160	56,160	56,160
500,000 plus	6	4,441,137	506,465	0	0	0.00%	506,465	11.40%	$0.00	0	0	0	0
Mid Counties Total	**2,827**	**112,884,618**	**1,178,577**	**1,012,507**	**2,095,751**	**1.86%**	**4,834,209**	**4.28%**	**$0.77**	**(157,135)**	**(230,724)**	**1,060,153**	**1,874,015**

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
12252 Whittier Blvd.	Whittier	161,610	$25,300,000	Goldman Sachs Group, Inc.	Terreno Realty Corporation
6388–6400 Artesia Blvd.	Buena Park	103,366	$15,000,473	OmniDuct	C & S, LLC
10712–10748 Bloomfield Ave.	Santa Fe Springs	75,960	$9,600,000	Dermody Properties, Inc.	Cook Investment Co., Ltd.
8146 Byron Rd.	Whittier	70,041	$8,800,000	Penwood REI	Kyung Nam
15500 Cornet Ave.	Santa Fe Springs	30,512	$4,393,728	Method Racing Wheel	Richard Elden

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
16301 Trojan Way	La Mirada	492,639	Apr-2017	UPS	Duke Realty
12318 Florence Ave.	Santa Fe Springs	295,490	Apr-2017	McMaster Car Supply	Goodman Birtcher
16400 Trojan Way	La Mirada	220,000	Jun-2017	DAISO California, LLC	Prologis
15221 Canary Ave.	La Mirada	180,848	May-2017	Westrock	Prologis
14659 Alondra Blvd.	La Mirada	60,783	May-2017	Staples Contract & Commercial, Inc.	Comref So Ca Industrial Sub G

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A Slight Pause in Momentum, but Landlords and Sellers are still in the Driver's Seat

by Loren Cargile
ASSOCIATE, ANAHEIM

Don't let the recent increase in vacancy and slower rent growth figures mislead you—we are still in a landlord / seller—driven market. For the past three years, owners of industrial buildings in the Mid Counties submarket have enjoyed annual double digit rent growth and twelve consecutive quarters of declining vacancy until a "bottom" was reached in 2015 of 1.40%. Despite a slight rise in the vacancy rate to the most recent 1.86% rate recorded in second quarter of 2017, lease rates continue to climb at an aggressive pace. Land prices have soared over the past few years as developers compete over limited available land, with ultimate plans to build and deliver the most highly sought after product in the marketplace: high-end, high capacity industrial buildings that cater to distribution companies. So how does one then navigate through today's market if a real estate change is needed?

Let's start with the tenant / buyer segment. To put it bluntly, if you are a tenant or buyer actively seeking to renew, relocate or purchase a building, you are going to find this process challenging and probably very frustrating. Depressed vacancy rates mean there are a very limited number of buildings to choose from. Therefore, be prepared that you may not find your "ideal building." In the case of relocating via a lease, make sure you survey the market at least 6–9 months in advance of your lease expiration (longer if your business will require significant moving time). Keep an open mind to geography and building features (determine which features are "must haves" and those which your business can do without) and be prepared, in some instances, to pay the full asking rate with very few concessions (e.g. free rent, tenant improvements). In the case of purchasing a building, the one silver lining for you is historically low borrowing rates. With that in mind, get prequalified before you make any offers! Desirable buildings will often have several interested buyers and you want to demonstrate to a seller that you have the ability to purchase a building. As with the case of relocating via a lease, survey the market and submit offers at least 3–4 months prior to your lease expiration since negotiations and escrow can collectively take 60–90 days.

On to the landlord / seller segment. For this group, I would say, "enjoy the ride and reap the benefits!" If you are a landlord and are expecting an upcoming vacancy, premarket your building. Many buildings over the past year have been preleased by a new tenant before the outgoing tenant has vacated. Also, be selective with prospective tenants, especially if your building offers a variety of desirable features. Be willing to negotiate to a degree but you likely won't need to concede much. For sellers, push the envelope on pricing, especially for a highly desirable building and also be selective. Ask that any buyer who submits an offer provide either proof of funds or a prequalification letter. You are in the driver seat and you have the power to select the most qualified buyer.

For either of the above groups, align yourself with a market leader in the industrial real estate sector. A market leader, such as Voit Real Estate Services, will give you access to off-market opportunities, introduce you to key vendors and strategic contacts (bankers, contractors, relocation specialists, etc.), and provide guidance on what to expect when considering a real estate change.

Product Type

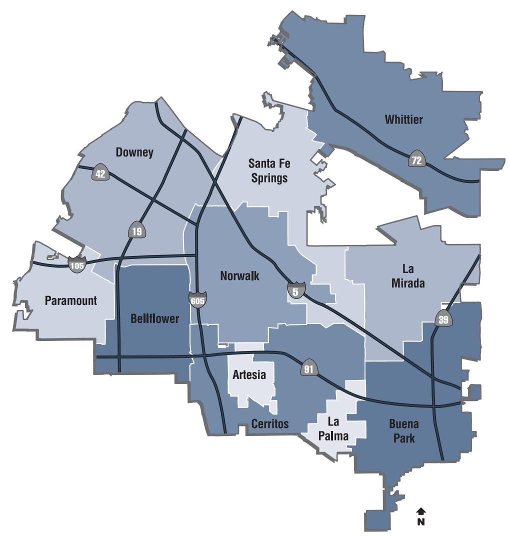
MFG./DIST.

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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