MC3Q17

THIRD QUARTER 2017 MARKET REPORT

MID COUNTIES INDUSTRIAL

Voit REAL ESTATE SERVICES

ROBUST MARKET CONTINUES DESPITE HURDLES. The Mid Counties industrial submarket, like the rest of Greater Los Angeles, continued to exhibit healthy fundamentals during the third quarter posting positive absorption, record-high asking lease rates and an extremely tight vacancy rate. With the twin ports of LA and Long Beach just 20 miles away, this infill market serves as a critical bridge between the ports and several influential population centers throughout Southern California. The market (113 million square feet in total) also offers a wide variety of Class A distribution space (100,000 square foot plus) as well as smaller, freestanding buildings to accommodate all segments of the supply chain. As consumption levels increased this quarter, aided by record highs on most major stock indexes, local port traffic increased 9% from its previous high-water mark set in 2016. Retailers with emerging e-commerce platforms and those with more traditional industrial uses in the manufacturing sector (food / beverage, fabricated metal, electronics and apparel) clamored for expansion space in this competitive market. This tight market has given landlords the leverage and with very few alternatives to choose from at expensive rates, tenants are having to get creative to find suitable alternatives. Solutions for the market's pent up demand seem limited as the scarcity of industrial land, rising construction costs, increased regulatory burdens and the presence of labor unions severely limit new development.

VACANCY. Vacancy rates across all size ranges remain near record lows. The overall vacancy rate in the third quarter is 1.78%, down from an already low 2.12% in the second quarter, as tenants continue to target efficient expansion alternatives.

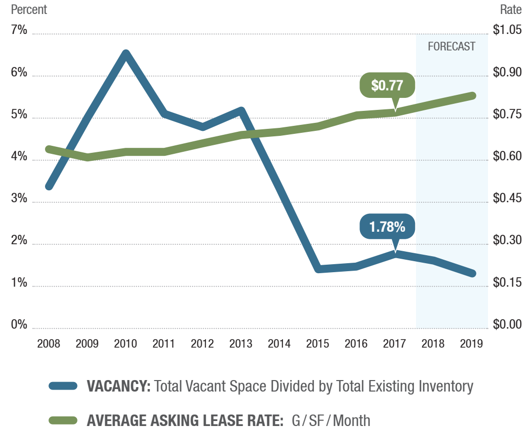
LEASE RATES. Strong demand from the transportation / logistics sector as well as the apparel and food/beverage industries resulted in intense competition for space, keeping lease rates at $0.77 per square foot on average, among the highest in the country.

TRANSACTION ACTIVITY. Large blocks of Class A space (100,000 square foot plus) continue to be in high demand by tenants and investors alike. Increased efficiency, access to labor and proximity to the consumer are at the core of most real estate decisions at the moment. The Mid Counties sale and leasing activity in the third quarter totaled 1.78 million square feet, down from 2.9 million square feet in the second quarter. The lack of inventory is negatively impacting overall transaction volume. Notable lease transactions for the third quarter include:

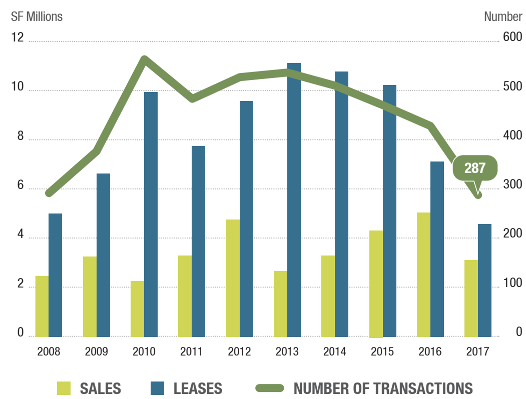
- Amazon's lease of 238,270 square feet at 6400 Valley View Street in Buena Park
- St George Logistics' lease of 199,588 square feet at 14445 Alondra Boulevard in La Mirada
- Bunzl Distribution USA, Inc.'s lease of 178,454 square feet at 15959 Piuma Avenue in Cerritos

With significant barriers to entry limiting new construction, investors (private, public, foreign and domestic) are paying up to purchase existing class A & B assets and are optimistic about the future of the industrial sector. Duke Realty recently purchased 6280 Artesia in Buena Park (218,640 square feet) for $35 million ($160 per square foot). The Seller, Greenlaw, paid $25.5 million ($116 per square foot) for the property twelve months ago, a 37% increase.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	3Q 2017	2Q 2017	3Q 2016	% Change Over Last Year
Vacancy Rate	DOWN	1.78%	2.12%	1.21%	47.11%
Availability Rate	DOWN	4.60%	5.04%	3.06%	50.33%
Average Asking Lease Rate	FLAT	$0.77	$0.77	$0.73	5.48%
Sale & Lease Transactions	DOWN	1,788,813	2,996,306	2,678,134	(33.21%)
Gross Absorption	UP	1,693,422	949,585	1,402,322	20.76%
Net Absorption	POSITIVE	373,921	(597,814)	103,456	N/A

Forecast

LEASE RATES. Rental rates are expected to increase at a moderate pace in the short run and rents in the "last mile" markets near critical population centers will experience the most aggressive growth. Tenant concessions like free rent, moving allowances and specific TI's will remain minimal as the market stays competitive and favors landlords. Upward pressure on lease rates will continue and increases of 2% during the balance of 2017 seem realistic based on current conditions.

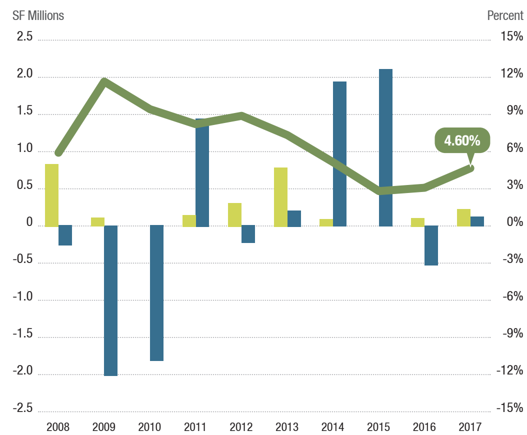
VACANCY. While hard to predict a drop in an already low 1.57% vacancy rate, we expect to see this figure stay below 2% for the foreseeable future.

OVERALL. The fundamentals of the Mid Counties / Greater LA market have never been better and we expect them to continue into 2018. With consumer spending up, tenant demand at a peak and a flood of investment capital targeting the region, we anticipate a healthy but competitive market. Landlords will have the upper hand and tenants will need to start making expansion or relocation plans further in advance as available options become even more scarce. Lease renewals will become more common. Exchange buyers (private investors/family offices) who have recently sold assets will continue to be aggressive and pay up for infill industrial product. Capital markets and investment activity should remain strong, but rising interest rates should slow the double-digit year over year growth in sale prices.

CONSTRUCTION. Despite several challenges for developers including increasing regulations, rising construction costs and record high land prices, the sharp increase in tenant demand has prompted 1,474,067 square feet under construction at the end of the quarter and two buildings were delivered to the market in the quarter totaling 224,483 square feet. The largest development projects in the pipeline include Goodman Logistics Center project's totaling 1,205,590 square feet at 12418–12588 Florence Avenue in Santa Fe Springs and Bridge Point. a three-building 224,000 (74,000–75000) speculative for sale project in Santa Fe Springs. Two of the three buildings are currently in escrow.

ABSORPTION. Mid Counties absorption bounced back in the third quarter to 373,921 square feet after a negative (597,814) square feet in the second quarter. New deals that contributed to this trend in the third quarter include Amazon (238,270 square feet in Buena Park), Tatum Logistics (110,791 square feet in Santa Fe Springs), and Victory Maritime Services (38,043 square feet in Cerritos).

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



NEW DELIVERIES: New Construction Delivered to the Market

NET ABSORPTION: Changes in the Amount of Occupied Space from One Quarter to the Next

AVAILABILITY: Total Amount of Space that is Available whether Occupied, for Sublease, or Available at a Future Date

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2017	Square Feet Available	Availability Rate 3Q2017	Average Asking Lease Rate	Net Absorption 3Q2017	Net Absorption 2017	Gross Absorption 3Q2017	Gross Absorption 2017
Mid Counties													
Artesia / Cerritos	277	13,158,023	0	0	210,526	1.60%	163,936	1.25%	$0.71	78,498	26,619	234,206	467,283
Bellflower / Downey	192	5,520,284	0	0	68,671	1.24%	119,771	2.17%	$0.81	(21,390)	(10,799)	38,009	128,381
Buena Park / La Palma	229	15,146,942	0	0	304,004	2.01%	1,355,048	8.95%	$1.25	(3,251)	(234,720)	164,017	207,296
La Mirada	182	12,554,168	0	492,639	450,665	3.59%	319,718	2.55%	$0.75	194,470	9,783	383,366	748,365
Norwalk	87	2,907,994	0	0	11,987	0.41%	34,302	1.18%	$0.00	0	54,489	11,315	79,119
Paramount	373	8,724,986	0	5,187	114,942	1.32%	267,901	3.07%	$0.80	(18,140)	(28,609)	33,964	190,008
Santa Fe Springs	1,323	50,958,211	1,474,067	268,191	815,731	1.60%	2,857,965	5.61%	$0.81	152,364	5,571	823,245	1,527,760
Whittier	166	3,925,465	0	0	38,318	0.98%	71,608	1.82%	$0.88	(8,630)	51,173	5,300	117,747
Mid Counties Total	**2,829**	**112,896,073**	**1,474,067**	**766,017**	**2,014,844**	**1.78%**	**5,190,249**	**4.60%**	**$0.77**	**373,921**	**(126,493)**	**1,693,422**	**3,465,959**
5,000-24,999	1,778	23,635,700	36,746	24,313	299,881	1.27%	644,983	2.73%	$0.85	33,553	200,891	289,581	1,002,858
25,000-49,999	481	17,111,992	0	151,065	288,166	1.68%	600,044	3.51%	$0.85	49,607	23,735	196,136	577,314
50,000-99,999	304	20,749,606	231,731	98,000	213,380	1.03%	586,901	2.83%	$0.77	71,814	(62,840)	295,514	551,449
100,000-249,999	211	31,073,728	0	0	726,827	2.34%	404,865	1.30%	$0.72	705,537	198,311	837,751	1,259,898
250,000-499,999	49	15,833,947	699,125	492,639	486,590	3.07%	1,177,761	7.44%	$0.00	(486,590)	(486,590)	74,440	74,440
500,000 plus	6	4,491,100	506,465	0	0	0.00%	1,775,695	39.54%	$0.00	0	0	0	0
Mid Counties Total	**2,829**	**112,896,073**	**1,474,067**	**766,017**	**2,014,844**	**1.78%**	**5,190,249**	**4.60%**	**$0.77**	**373,921**	**(126,493)**	**1,693,422**	**3,465,959**

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
6280 Artesia Blvd.	Buena Park	218,640	$35,000,500	Duke Realty, LP	Greenlaw Partner
14820–14830 Carmenita Rd.	Norwalk	198,062	$30,700,000	Rexford Industrial	Sydney Development Company
6270–6290 Caballero Blvd.	Buena Park	130,000	$14,305,873	AEW Capital Management	Invesco Advisors, Inc.
12803 Telegraph Rd.	Santa Fe Springs	86.814	$14,930,000	Terreno Realty Corporation	Telegraph Springs, LLC
13535 Marquardt Ave.	Santa Fe Springs	16,920	$2,831,313	WF Marquardt, LLC *	Mehta Family Trust *

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
6400 Valley View St.	Buena Park	238,270	Aug-2017	Amazon	Prologis
14445 Alondra Blvd.	La Mirada	199,580	Sep-2017	St. George Logistics	14445 Alondra, LLC
15959 Piuma Ave.	Cerritos	178,454	Jul-2017	Bunzl Distribution USA, Inc.	Karney Properties
14000–14030 E. 183rd St.	La Palma	131,000	Jul-2017	Gardner Trucking	183rd La Palma Investors Services
10810 Painter Ave	Santa Fe Springs	110,791	Aug-2017	Tatum Logistics, LLC	DCT

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REAL ESTATE SERVICES

Business as Usual for Tenants and Owners


by Loren Cargile
SENIOR ASSOCIATE, ANAHEIM
Colin Carter
ASSOCIATE, ANAHEIM

The Mid Counties Industrial market continues to experience sound fundamentals throughout. This means business as usual for tenants and owners who occupy functional buildings that comfortably fit their needs. However, if you're looking for more space or a different building to better suit your business model, this market can present many obstacles that you should navigate with the help of a service-oriented, proactive broker.

For potential buyers and tenants, it is crucial that you align yourself with a broker as soon as possible. Well informed clients who understand the difficulties of this market are employing the services of a broker as early as 18–24 months in advance. This timeline will give your broker plenty of time to identify the most suitable opportunity for you. Don't expect anything to come easy on the buyer/tenant side as sale prices and lease rates are at all-time highs. The rare availabilities that are on the open market will very likely have multiple offers at or above an already high asking price. Buyers—Be prepared to be very competitive with your offer terms (e.g. price, timing, deposits, etc.). Tenants—The best credit, longest lease terms and cleanest uses are most likely to win you the desired building. With that being said, your broker is your greatest asset in this market to help uncover off-market opportunities and secure the building that will provide the best benefit for your business.

While the current market conditions are undeniably frustrating on the tenant and buyer side, landlords and sellers are well positioned and reaping the benefits. As a landlord, it is essential that you pre-market your property at least 60 days in advance of vacancy as less downtime equals better ROI. Make sure to request the most current and comparable market transactions from your broker and price your building strategically. Even though vacancy in Mid Counties is down to 1.78%, creating a strong first impression is still a valuable differentiator. Minor items such as fresh paint/modern color scheme (interior and exterior), minor landscape cleanup and asphalt slurry coats are relatively inexpensive improvements, but go a long way towards helping you limit downtime and achieving the best terms. Sellers—leverage your building's strengths and play to those strengths. Some of the most desirable features in today's market include dock high loading, high density sprinkler systems, maximum warehouse clear height, fenced/secured yards, heavy power and deep trucking courts. Your broker can capitalize on these strengths by tapping into their most capable pool of buyers in their expansive database. It is also crucial to employ a broker who will provide you with an entire overview of the marketing/escrow process and successfully navigate you through common challenges along the way.

The value of a broker is more apparent now than ever. With availabilities as scarce as they've ever been, you simply cannot afford to miss any opportunities. A service-oriented approach from a broker, such as Voit Real Estate Services, who puts the client's needs above all else, will result in successful transactions, reduced risk and less stress in an otherwise stressful market.

Product Type

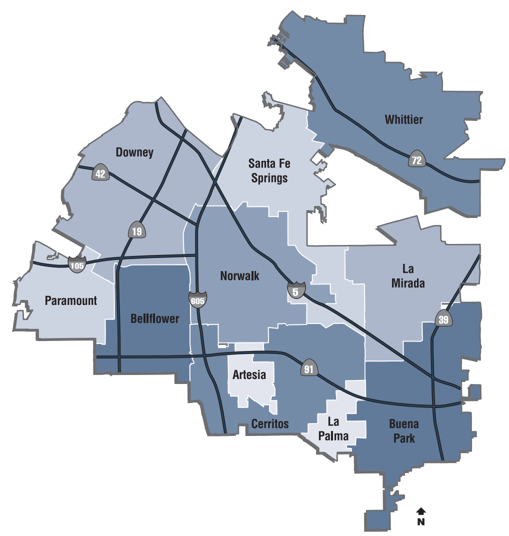
MFG./DIST.

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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