MC3Q18

THIRD QUARTER 2018 MARKET REPORT
MID COUNTIES INDUSTRIAL

Voit REAL ESTATE SERVICES

MARKET OVERVIEW. The Mid Counties industrial market has experienced improved fundamentals over the past three quarters, leading to a vacancy rate of 3.16%. Deliveries have been focused in Santa Fe Springs, and the latest industrial development is a spec project that delivered earlier in 2018 with strong leasing activity. Most current activity is in the repositioning of existing operations and the leasing of smaller facilities. Demand for industrial facilities in the Mid Counties is resulting from the ports' proximity, but new construction occurs intermittently due to lack of buildable land. As a result, vacancies are tight, with double-digit rent growth in recent quarters.

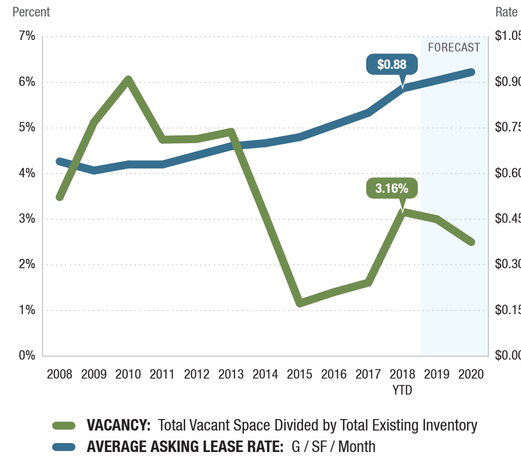
VACANCY. Although the vacancy rate in 3Q 2018 increased by 125 basis points to 3.16% year over year, the current rate remains 234 basis points below the five previous years. The main contributors to the vacancy rate increase include vacant speculative construction completions, and users moving out east or down south. The largest of these moveouts occurred when Xerox shut down operations at a 280,000 square foot industrial manufacturing building in March 2018. Despite recent moveouts, little industrial space is available for lease. Landlords will continue to have leverage in this competitive market, resulting in higher lease rates and fewer concessions. As a tenant, limited choices will result in longer timeframes for expansion or relocation, and "off market" transactions will become more common.

AVAILABILITY. During 3Q there was an increase of inventory of 1.8% (2 MSF) in comparison with 3Q 2017, which translates to a stable availability rate. Direct/sublease space being marketed finished the quarter at 5.67%, up 42 basis points from the previous quarter, and up 81 basis points from a year ago.

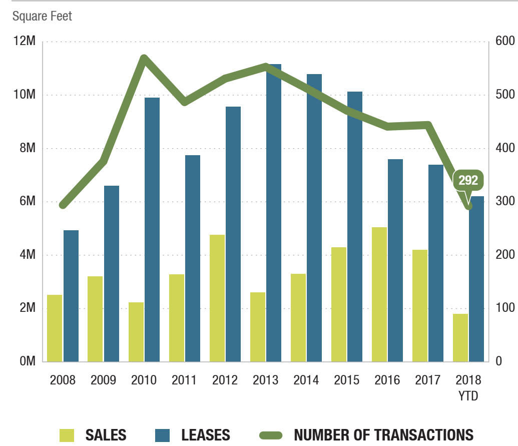
LEASE RATES. Rental rates are rising so quickly that we are seeing a growing trend of active listings without an advertised rate. Rents have sustained solid year-over-year growth of over 14% for the first time in many years. Mid Counties industrial rents have been strong all year. The average asking lease rate came in at $0.88 IG per square foot per month, a $0.03 per square foot increase from last quarter and a $0.11 per square foot increase when compared to the $0.77 from a year ago (a 14.29% annual increase).

TRANSACTION ACTIVITY. Demand for quality distribution space in Mid Counties has been high all year. 3Q is no exception as 1.55 MSF of total transactions (Sale and Lease) took place, up from just over 1.33 million year over year. With such a limited number of available options, the supply and demand imbalance continues to limit overall activity. The largest new lease involved Harbor Distribution leasing the 355,590 square foot building at 11204 Norwalk Blvd. in Santa Fe Spring. The largest sale completed during 3Q 2018 involved Rexford Industrial acquiring 16121 Carmenita Road in Cerritos purchased from Penwood Real Estate Investment.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	3Q 2018	2Q 2018	3Q 2017	% Change Over Last Year
Vacancy Rate	DOWN	3.16%	3.29%	1.91%	65.45%
Availability Rate	DOWN	5.67%	6.09%	4.86%	16.67%
Average Asking Lease Rate	UP	$0.88	$0.85	$0.77	14.29%
Sale & Lease Transactions	DOWN	2,023,770	3,341,160	2,424,302	(16.52%)
Gross Absorption	DOWN	1,552,012	2,023,888	1,333,748	16.36%
Net Absorption	POSITIVE	537,909	(746,768)	(104,999)	N/A

Forecast

OVERALL. The industrial market will remain stable through 2019 with absorption gradually increasing. In 3Q, the overall vacancy rate fell less than a percentage point and monthly rents ticked up $0.03 per square foot. The slight upward shift in occupancy was typical of the last several quarters. Leasing activity and absorption of empty space were strong in the third quarter, indicating that the market is continuing its strength and positive absorption is expected to continue throughout 2018. Demand has historically been strong in Mid Counties because of its dense concentration of manufacturing, wholesale, and logistics operations. Land availability and traffic congestion limit construction of new buildings with few being delivered in this cycle. Investors have been much more active recently, and 12-month sales volume totaled $500 million as of September 2018. One major factor has been price appreciation, as the market price per square foot doubled from 2Q 2013 to 3Q 2018.

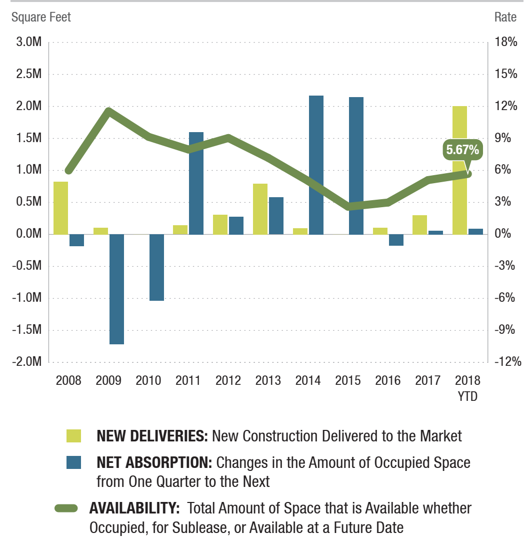
LEASE RATES. The industrial market remains a landlords' market, with rents expecting to rise another 3% to 5% in the coming year.

VACANCY. While hard to predict a drop in an already low 3.16% vacancy rate, we expect to see this figure decrease to around 2.50% by the end of the second quarter of 2019, based on current projections and activity levels.

CONSTRUCTION. The Mid Counties market is densely populated, making new development rare, with only one major project in the pipeline. Construction activity was down this quarter, with 70,696 square feet currently underway. The market has delivered 2.0 MSF of new space for the year. Bringing new product to Mid Counties is traditionally a challenge and one of the key reasons the nearby Inland Empire has evolved into one of the hottest industrial markets in the country. A scarcity of developable land, coupled with a sometimes difficult permitting process, tends to keep a lid on development even during periods of peak demand growth.

ABSORPTION. As absorption continues to be strong and rental rates increase, developers are not hesitating to break ground on new projects. Strong leasing and development activity are most prominent in the Santa Fe Springs industrial market. During the third quarter, 537,909 square feet was absorbed through leasing activity and user sales. In the third quarter, RIM Logistics moved into 311,000 square feet in Santa Fe Springs, Innovative Solutions moved into 106,110 square feet in Santa Fe Springs, and Lapco West, LLC moved into 75,000 square feet in La Palma.

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 3Q2018	Square Feet Available	Availability Rate 3Q2018	Average Asking Lease Rate	Net Absorption 3Q2018	Net Absorption 2018	Gross Absorption 3Q2018	Gross Absorption 2018
Mid Counties													
Artesia / Cerritos	277	13,113,913	70,696	0	551,083	4.20%	1,160,073	8.85%	$0.85	63,606	(406,658)	158,395	431,186
Bellflower / Downey	192	5,493,646	0	0	98,388	1.79%	103,436	1.88%	$0.69	(36,857)	(57,377)	17,875	133,172
Buena Park / La Palma	229	14,859,434	0	0	172,016	1.16%	2,622,529	17.65%	$1.20	(62,721)	192,853	145,174	638,808
La Mirada	183	12,973,873	0	0	436,394	3.36%	373,796	2.88%	$0.81	(86,110)	296,101	61,836	826,011
Norwalk	87	2,912,756	0	0	24,961	0.86%	110,282	3.79%	$1.08	1,414	(3,154)	15,060	64,792
Paramount	375	8,810,424	0	5,187	107,343	1.22%	188,353	2.14%	$0.60	(27,281)	296	22,003	164,619
Santa Fe Springs	1,341	52,629,203	0	629,694	2,214,930	4.21%	1,536,172	2.92%	$0.90	675,950	73,970	1,121,761	3,051,388
Whittier	165	3,927,689	0	0	21,215	0.54%	410,757	10.46%	$0.95	9,908	(7,202)	9,908	105,134
Mid Counties Total	**2,849**	**114,720,938**	**70,696**	**634,881**	**3,626,330**	**3.16%**	**6,505,398**	**5.67%**	**$0.88**	**537,909**	**88,829**	**1,552,012**	**5,415,110**
5,000-24,999	1,787	23,766,476	0	24,313	378,977	1.59%	554,757	2.33%	$0.94	34,666	(59,731)	301,591	942,851
25,000-49,999	483	17,176,608	0	129,223	331,405	1.93%	629,712	3.67%	$0.98	12,889	138,999	275,346	930,592
50,000-99,999	308	21,125,378	70,696	0	371,434	1.76%	1,148,597	5.44%	$0.78	98,533	91,720	192,580	749,050
100,000-249,999	213	31,470,650	0	481,345	1,101,041	3.50%	1,459,129	4.64%	$0.80	(135,397)	(708,307)	152,910	669,979
250,000-499,999	51	16,663,874	0	0	942,788	5.66%	1,608,538	9.65%	$0.85	20,753	617,568	123,120	1,613,373
500,000 plus	7	4,517,952	0	0	500,685	11.08%	1,104,665	24.45%	$0.00	506,465	8,580	506,465	509,265
Mid Counties Total	**2,849**	**114,720,938**	**70,696**	**634,881**	**3,626,330**	**3.16%**	**6,505,398**	**5.67%**	**$0.88**	**537,909**	**88,829**	**1,552,012**	**5,415,110**

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
16121 Carmenita Rd.	Cerritos	108,500	$13,300,000	Rexford Industrial	Penwood Real Estate Investment
13744 Excelsior Dr.	Santa Fe Springs	73,284	$11,000,000	Marquardt Avenue, LLC	ACPR 1, LLC
10747 Norwalk Blvd.	Santa Fe Springs	52,691	$10,800,000	Rexford Industrial	Chungsang Edward Chu
5572 Fresca Dr.	La Palma	57,702	$10,300,000	Armor Coasting Services, Inc.	Webb Management & Investment
9445 Ann St.	Santa Fe Springs	35,000	$6,350,000	Quicksilver Holdings, LLC	Dunkel Holdings, LLC

Leases

* Voit Real Estate Services Deal

Property Address					
11204 Norwalk Blvd.	Santa Fe Springs	355,590	Aug-2018	Harbor Distribution	Robertson Properties Group
14585–14589 Industry Cir.	La Mirada	203,850	Aug-2018	Living Spaces	IDI Grazeley
6250 Caballero Blvd.	Buena Park	143,970	Sep-2018	Safety Zone	AEW
15130 Northam St.	La Mirada	112,152	Aug–2018	Progressive Produce	DWS
14395–14451 Industry Cir.	La Mirada	41,307	Jul–2018	CCI Group, LLC	Voit VIC Partners, LLC*

Market Seeing Peak Value

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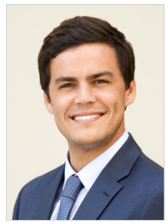

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The Greater Los Angeles Industrial Market covers the area from the Port of Los Angeles / Long Beach to the county line in Pomona. It is an amazing 932 million square foot economic engine. It features everything from early 1900's small brick manufacturing plants to million square foot 2018 vintage state of the art distribution centers. Currently, that entire market is seeing peak values.

The vacancy rate for the whole market was 2.39% at the end of 3Q. That rate is very close to effectively being the lowest it can get. We've seen it dip below 2%, but we are generally at minimum vacancy. At the moment, the South Bay / Port submarket is boasting the lowest vacancy rate, at 1.76%. That means that about 98% of buildings are fully occupied.

Strong vacancy rates have put incredible pressure on lease rates. The average lease rate for the quarter was $0.94 per square foot. That is up a whopping 17% from the 3Q 2017. With no sign of weakness in the market, we predict additional increases in the coming year.

Ninety-five buildings greater than 10,000 square feet sold in the quarter. Their prices ranged from $91 to $538 per square foot. The average was $213 per square foot. That compares with 125 sales in the 3Q 2017 that averaged $203 per square foot. Capitalization rates for industrial buildings sold during the quarter ranged from 4.4% to 6%. With interest rates rising, we are starting to see some pressure on the ultra-low cap rate deals, but investor demand is so strong that many sale prices haven't been materially affected yet.

The top sale for the quarter was NantHealth's purchase of the 93,800 square foot 2310 Imperial Hwy, El Segundo for $50M or about $530 per square foot. NantHealth is owned by billionaire Patrick Soon-Shiong. The top lease was aerospace manufacturer Monogram Systems' 242,143 square foot lease with The Carson Companies at 1500 Glenn Curtiss Street, Carson.

Product Type

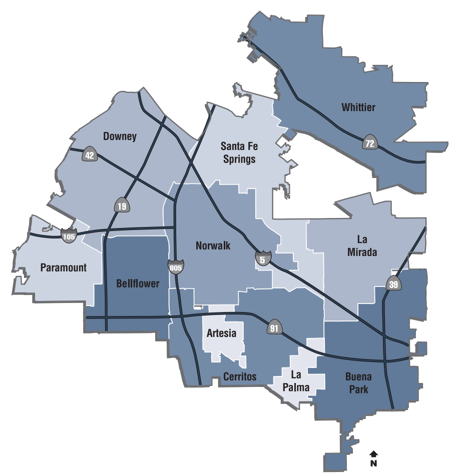
MFG./DIST.

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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