MC4Q17

FOURTH QUARTER 2017 MARKET REPORT

MID COUNTIES INDUSTRIAL

Voit REAL ESTATE SERVICES

2017'S DYNAMIC MARKET CONDITIONS CARRY OPTIMISM INTO 2018. As we enter the ninth year of economic recovery and expansion, the second longest in US history, the Mid Counties industrial market continues to thrive. With demand outpacing supply across all size ranges, lease rates have accelerated past previous highs, up more than 5% on average over the fourth quarter of 2016. While this comes as welcome news to landlords, tenants are now challenged to compete for limited and expensive opportunities with very little help from owners in the way of concessions.

Third party logistics and e-commerce related users remain the most active in the market as the overall supply chain of most retailers is evolving and responding to consumer buying patterns by decreasing delivery times. The twin Ports of LA/Long Beach are significant drivers in this distribution-centric submarket. 2017 marked the biggest year ever in the 110-year history of the Port of LA (9.3 million TEU), up 6% from 2016 volume. Transportation experts expect this trend to continue into 2018 based on high employment, strong retail sales and a boost in consumer confidence.

Los Angeles, and by extension Mid Counties, remains the #1 target in the U.S. for investment capital (foreign and domestic) on the industrial side and competition has never been more ferocious. As a result cap rates are being driven down and sale prices up, despite the modest increase in interest rates. With the new tax changes providing favorable treatment to real estate investors and corporations alike, expect demand and capital investment to increase in the coming quarters.

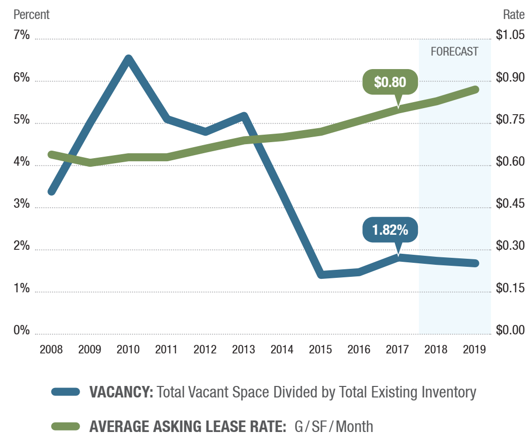
VACANCY. Vacancy rates across all size ranges remain near record lows and have hovered below 2% for over a year. The fourth quarter of 2017 vacancy rate of 1.82% is down from an already tight 1.98% in the third quarter of 2017 and a majority of the actual vacancy is in older, functionally obsolete properties. With limited new construction planned based on the lack of available industrial land, expect vacancy to remain tight and even decrease.

LEASE RATES. Strong demand from retailers and the transportation/logistics sector has resulted in intense competition for space. Average asking lease rates are now at $0.80 IG for the fourth quarter of 2017, up an average of four cents per square foot (5.26%) from the same quarter last year and three cents per square foot over third quarter figures.

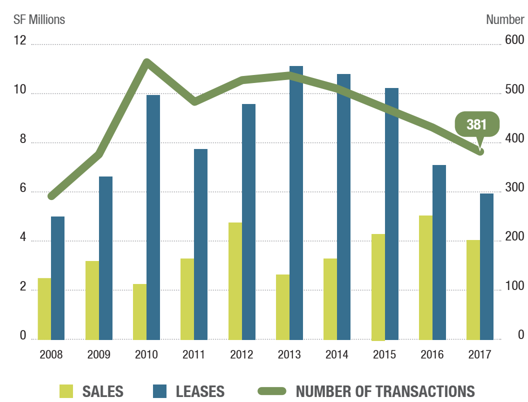
TRANSACTION ACTIVITY. Mid Counties industrial space continues to be in high demand by tenants and investors alike. Increased efficiency, access to labor and proximity to the consumer are at the core of most real estate decisions at the moment. Leasing activity checked in at nearly 5.9 million square feet for 2017, a decrease over the previous year's total of 7.5 million square feet as inventory is becoming scarcer. Sales activity also showed a decrease, posting 4 million square feet of activity compared with the 5 million square feet we saw in 2016. Notable lease transactions for the fourth quarter include:

- West Coast Distribution's lease of 268,536 square feet at 12828 Carmenita Road in Santa Fe Springs
- Straight Forwarding's lease of 131,642 square feet at 8945 Dice Road in Santa Fe Springs
- Total Transportation & Distribution, Inc.'s lease of 38,129 square feet at 11937 Woodruff Avenue in Downey

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	4Q 2017	3Q 2017	4Q 2016	% Change Over Last Year
Vacancy Rate	DOWN	1.82%	1.98%	1.48%	22.97%
Availability Rate	UP	5.27%	4.95%	3.05%	72.79%
Average Asking Lease Rate	UP	$0.80	$0.77	$0.76	5.26%
Sale & Lease Transactions	DOWN	1,862,196	2,019,711	3,327,704	(44.04%)
Gross Absorption	UP	1,632,194	1,344,817	1,006,600	62.15%
Net Absorption	POSITIVE	305,863	(102,184)	(271,434)	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. The supply and demand imbalance will continue causing asking rents to increase by a minimum of 3% to reach a level of $0.82–$0.83 IG per square foot by the end of 2018. More robust increases will be seen with Class A buildings having modern features such as 30' warehouse clearance, ample dock-high loading, fenced yards and immediate freeway access.

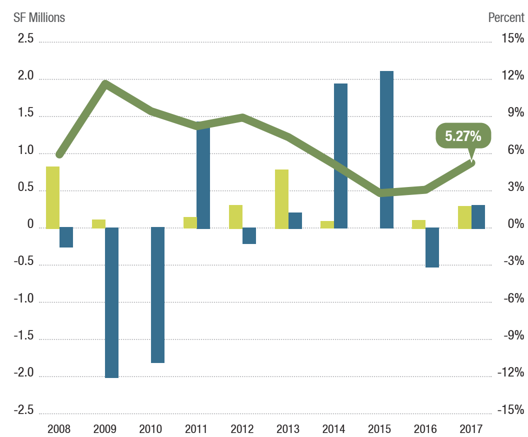
VACANCY. While hard to predict a drop in an already low 1.82% vacancy rate, we expect to see this figure stay below 2% for the foreseeable future.

OVERALL. The Los Angeles and Mid Counties industrial market in 2018 will be characterized by increased capital flows / investor demand, strong tenant / user activity and continued increases in sale prices and lease rates. Many of our larger investor clients are saying the "game is being extended," but are cautiously managing new acquisitions. With limited new deliveries, expect the supply and demand imbalance to remain, ultimately benefiting landlords. Users and investors will continue to target this area given its proximity to the influential Ports of LA / Long and access to the second largest population base in the US. Industrial occupiers will tend to focus more on location than function in the coming quarters given the lack of product and LA's aging industrial base. Larger tenants with future expansion plans may start looking east to the Inland Empire to find larger blocks of quality space at lower costs. Consumer sentiment in the market is positive, aided by record highs in the stock market and the recent tax laws put in place to encourage both investment and job growth.

CONSTRUCTION. During 2017, Mid Counties industrial added a total of 298,521 square feet of new industrial space. Total space under construction checked in at 2.0 million square feet at the end of 2017. The largest development projects in the pipeline include Goodman Logistics Center project's totaling 1,205,590 square feet at 12418–12588 Florence Ave. 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. Net absorption for Mid Counties industrial posted a positive 307,863 square feet for the fourth quarter of 2017, giving the market a total of 65,674 square feet of positive absorption for the year. The tight vacancy rate and limited availability continues to be the biggest hurdle in terms of absorption. Larger players are making significant space commitments in the Mid Counties given its proximity to the key population centers of Los Angeles and Orange County. A few such examples in fourth quarter include: UPS (492,639 square feet), West Coast Distribution (268,536 square feet) and Aramsco (33,561 square feet).

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 4Q2017	Square Feet Available	Availability Rate 4Q2017	Average Asking Lease Rate	Net Absorption 4Q2017	Net Absorption 2017	Gross Absorption 4Q2017	Gross Absorption 2017
Mid Counties													
Artesia / Cerritos	277	13,164,367	0	70,696	234,197	1.78%	697,772	5.30%	$1.10	6,537	49,142	114,362	581,645
Bellflower / Downey	193	5,530,156	0	0	59,708	1.08%	100,940	1.83%	$0.70	8,963	(1,836)	29,578	157,959
Buena Park / La Palma	229	15,156,437	0	0	97,966	0.65%	1,885,759	12.44%	$1.15	337,038	81,927	107,342	314,638
La Mirada	181	12,486,557	477,008	0	474,501	3.80%	342,836	2.75%	$0.75	(23,836)	(14,053)	266,662	1,011,027
Norwalk	86	2,900,765	0	0	21,807	0.75%	33,122	1.14%	$0.82	(9,820)	44,669	1,152	80,271
Paramount	373	8,724,986	0	5,187	107,639	1.23%	134,145	1.54%	$0.85	7,303	(21,306)	73,670	263,678
Santa Fe Springs	1,326	51,113,905	1,533,529	514,289	1,041,587	2.04%	2,694,958	5.27%	$0.84	(41,027)	(146,247)	1,007,022	2,186,177
Whittier	167	3,933,465	0	0	16,113	0.41%	71,213	1.81%	$0.90	22,705	73,378	32,406	150,153
Mid Counties Total	**2,832**	**113,010,638**	**2,010,537**	**590,172**	**2,053,518**	**1.82%**	**5,960,745**	**5.27%**	**$0.80**	**307,863**	**65,674**	**1,632,194**	**4,745,548**
5,000-24,999	1,780	23,666,434	36,746	24,313	290,673	1.23%	637,925	2.70%	$0.90	9,708	210,099	207,089	1,209,947
25,000-49,999	482	17,132,927	35,500	160,955	527,653	3.08%	636,832	3.72%	$0.83	(211,707)	(187,972)	252,505	829,819
50,000-99,999	303	20,679,084	255,693	70,696	217,903	1.05%	629,056	3.04%	$0.85	87,929	25,089	203,976	751,425
100,000-249,999	212	31,202,861	0	334,208	477,429	1.53%	887,727	2.85%	$0.72	475,203	558,318	597,721	1,509,014
250,000-499,999	49	15,838,232	1,176,133	0	355,590	2.25%	1,393,510	8.80%	$0.00	131,000	(355,590)	370,903	445,343
500,000 plus	6	4,491,100	506,465	0	184,270	4.10%	1,775,695	39.54%	$0.00	(184,270)	(184,270)	0	0
Mid Counties Total	**2,832**	**113,010,638**	**2,010,537**	**590,172**	**2,053,518**	**1.82%**	**5,960,745**	**5.27%**	**$0.80**	**307,863**	**65,674**	**1,632,194**	**4,745,548**

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
9399 Stewart & Gray Rd. – 3 Bldg Portfolio	Downey	406,653	$47,000,000	Prologis	DIC-I, LLC
13915 Maryton Ave.	Santa Fe Springs	74,038	$13,230,000	Westcore Properties	Bridge SF Springs, LLC
12809 Busch Pl.	Santa Fe Springs	64,725	$10,025,000	LBA Realty	Wilson & Geo Meyer & Co.
13984 Orange Ave.	Paramount	42,010	$6,650,000	Arias Properties, LLC	13984 Orange Avenue, LLC
8521–8581 Roland St.	Buena Park	44,500	$6,200,000	Ohana 9 LP	McLellan Estate Company

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
9400 Santa Fe Springs Rd. – Renewal	Santa Fe Springs	411,034	Nov-2017	XPO Logistics	SDCO SFS Logistics Center, Inc.
12828 Carmenita Rd.	Santa Fe Springs	268,536	Oct-2017	West Coast Distribution	Principal Global Investors, LLC
8945 Dice Rd.	Santa Fe Springs	131,642	Nov-2017	Straight Forwarding	Procal
11937 Woodruff Ave.	Downey	38,129	Nov-2017	Total Transportation & Distribution	Inco Express, Inc.
13201 Barton Cir.	Santa Fe Springs	13,569	Nov-2017	Chan Kim & E & B Flavors, Inc.	The Curley Family Trust *

The Future of Industrial Real Estate — 2018 Trends

by C.J. Collins
SENIOR ASSOCIATE, LOS ANGELES

The year 2017 came with great change and continued growth for the commercial real estate industry. As we dive into 2018 there will be some key market drivers impacting our business, each offering their own opportunities and hurdles:

The demand on e-commerce is increasing the need for industrial warehouse space.

One of the big acquisitions of 2017, Amazon's purchase of the massive retailer Whole Foods, gave us some serious insight into how the e-commerce industry will change our retail landscape in 2018. As more and more consumers are looking to e-commerce companies like Amazon to fulfill their everyday shopping needs, smaller retail stores are becoming obsolete. But with greater demand comes the need for an increase in total product inventory. And as more retailers close and consumer demand shifts to e-commerce, the need for industrial warehouse space will increase significantly.

Large warehouses sitting dormant for years are more likely to be refurbished to meet the growing demand for space, and the industrial real estate industry will see plenty of growth come 2018.

Tax reform could mean big changes for commercial real estate.

With the tax reform recently passed, we must consider changes to the industry that will occur. Experts have speculated that the favorable conditions for commercial real estate outlined in the tax reforms will boost the industrial sector in particular.

Because of mortgage expense and property tax deductions, and favorable treatment of pass-through entities for the commercial real estate sector, industrial as an asset class will be more attractive than ever as a sound investment. Expect continued competition from investors, pension funds and real estate investment trusts, driving cap rates down and pricing up.

The time demand of online retailers will increase space needs.

Did someone say Amazon Prime? What about same–day drone delivery? As delivery times get faster and faster, the demand for extra inventory space and more e–commerce warehouse locations will grow. When it comes to overnight delivery there just isn't time to source products from a wholesaler, so e-commerce companies offering quick delivery will need much more square footage in their industrial space to accommodate the extra inventory. This would likely significantly increase the demand for industrial space in 2018.

Energy efficiency may be pushed to the back burner.

As developers and companies look to churn out industrial space faster and faster to meet the growing demand of potential tenants, energy efficiency certifications like LEED may be overlooked. This idea isn't necessarily representative of a decrease in the desire to build energy efficient structures, but more of a disregard for certifications that could slow down construction. Luckily, energy efficiency standards are quite common now, and this kind of certification is more of a formality than an operational benefit.

We may see the introduction of vertical warehouses.

As you would imagine, an increase on the demand for property also comes with less availability and higher sale prices on land. So, how are companies responding? By building up! While constructing multi-story warehouses was never really the norm, this is a trend we expect to see in 2018 as companies seek more industrial space on less land.

While 2017 was a year of quite a bit of change, the future of industrial real estate is bright and shows no signs of slowing down. By keeping just a few of these trends in mind, you'll be one step ahead in this competitive market.

Product Type

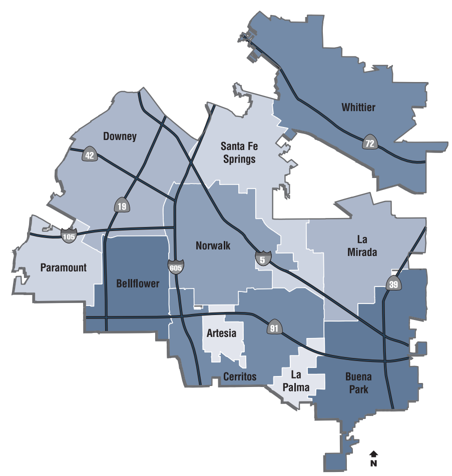
MFG./DIST.

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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