MC4Q18

# FOURTH QUARTER 2018 MARKET REPORT
# MID COUNTIES INDUSTRIAL

Voit REAL ESTATE SERVICES

**MARKET OVERVIEW.** Demand has historically been strong in the LA Mid Counties industrial market because of its dense concentration of manufacturing, wholesale, and logistics operations. A few signs are pointing towards softening, but the overall fundamentals remain strong. Mid Counties has experienced improved fundamentals over the course of this cycle, leading to a vacancy rate of 2.65%. Deliveries have been more common here than in the rest of the Los Angeles, and the latest industrial development is a spec project that delivered earlier in 2018 with strong leasing activity. Recent transaction activity can be characterized by above-average volume, above-average number of deals closed, and a sharp rise in pricing.

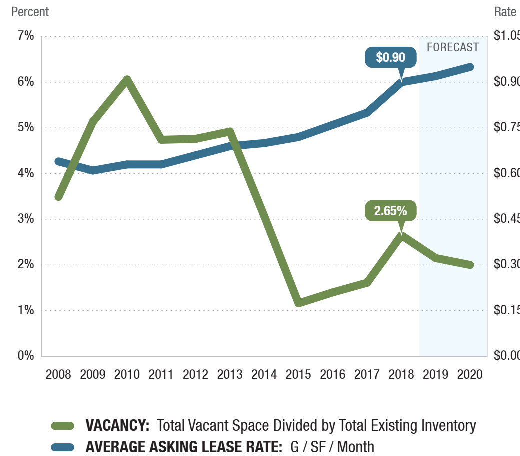
**VACANCY.** Vacancy in the Mid Counties submarket was 2.65% at the end of the fourth quarter of 2018, down 73 basis points compared with the prior quarter, and up 38.7% compared to the previous year. The effects of supply constraints on this market cannot be overstated — with few developable sites, vacancies in Mid Counties remain among the lowest in the nation.

**AVAILABILITY.** Direct / sublease space being marketed in the fourth quarter is now at 5.48%, up 12.53% from the fourth quarter of 2017. Due to the difficulty in developing new, modern buildings, much of Mid Counties industrial inventory tends to be in properties that are smaller and older than might be considered normal for such a distribution market.

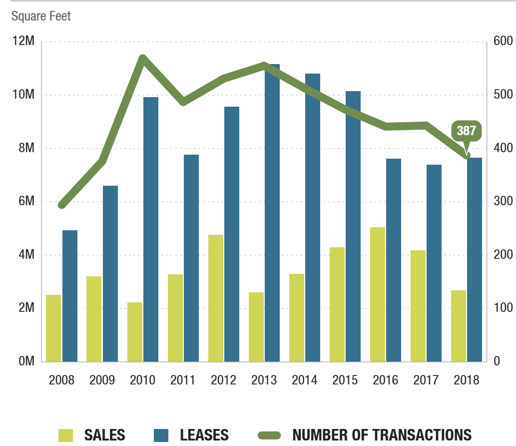
**LEASE RATES.** Rental rates are rising so quickly that we are seeing a growing trend of active listings without an advertised rate. Mid Counties industrial rents were healthy in 2018, with the average asking lease rate coming in at $0.90 IG per square foot per month, a $0.02 per square foot increase from last quarter, and a $0.10 per square foot increase when compared with the $0.80 from a year ago (a 12.50% annual increase). Rents will continue to rise in 2019 and tenants can expect to pay a premium for industrial space.

**TRANSACTION ACTIVITY.** Vacancies have steadily declined and are well below both the market's historical average and the national rate. Compared with many industrial markets since the recession, construction has been scarce here, allowing vacancies to compress, especially with robust demand for space. Activity in Mid Counties has slowed down, with 1.53 million square feet of total transactions (sale and lease), down from just over 2.5 million square feet last quarter. There being a limited number of available options, the supply constraint continues to limit overall activity.

## VACANCY vs. AVERAGE ASKING LEASE RATE




## TRANSACTION VOLUME & NUMBER OF TRANSACTIONS




## Market Statistics

| | Change Over Last Quarter | 4Q 2018 | 3Q 2018 | 4Q 2017 | % Change Over Last Year |
|---|---|---|---|---|---|
| Vacancy Rate | DOWN | 2.65% | 3.38% | 1.91% | 38.74% |
| Availability Rate | DOWN | 5.48% | 5.49% | 4.87% | 12.53% |
| Average Asking Lease Rate | UP | $0.90 | $0.88 | $0.80 | 12.50% |
| Sale & Lease Transactions | DOWN | 1,533,518 | 2,513,624 | 2,424,302 | (36.74%) |
| Gross Absorption | UP | 2,124,730 | 1,401,885 | 1,333,748 | 59.31% |
| Net Absorption | POSITIVE | 1,027,211 | 279,287 | 406,719 | N/A |

Forecast

**OVERALL.** The Mid Counties market is the primary point of entry for goods manufactured in Asia and shipped to the United States, and demand for its industrial space, and particularly logistics inventory, correlates with international trade trends. The ports of LA and Long Beach are expected to stay busy with imports from Asia; however, possible changes in trade policy with China and the expansion of the Panama Canal pose a threat to the market. Still, persistent industrial demand, coupled with the difficulty of bringing new industrial product to market, should ensure that Mid Counties fundamentals remain among the strongest in the nation.

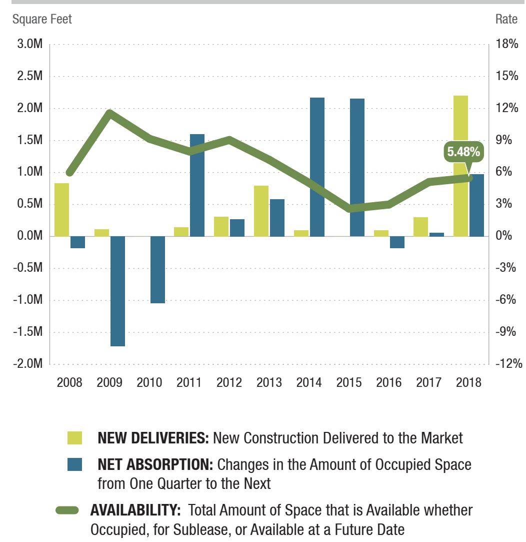
**LEASE RATES.** Expect lease rates to continue to climb, with the largest gains in newer, Class A product. We expect 3–6% annualized growth in the coming year.

**VACANCY.** While hard to predict a drop in an already low vacancy rate, we expect to see this figure continue to decrease based on current activity levels.

**CONSTRUCTION.** Many of the buildings in the submarket were designed for labor-intensive manufacturing firms, so buildings tend to run smaller when compared with the immense warehouses being developed in the Inland Empire. However, renovations and upgrades have helped modernize some of the older stock. A scarcity of land, and a laborious permitting process, tend to keep a lid on development even during periods of peak demand growth. New construction deliveries totaled 200,000 square feet this quarter, while 70,696 square feet of additional space remains under construction. Development opportunities continue to be scarce, and land prices for even marginal industrial parcels are seeing new highs.

**ABSORPTION.** As the U.S. sees ongoing economic expansion and businesses act to meet the rising demand for consumer goods, demand for industrial space is on the upswing. The Mid Counties industrial market boasts positive net absorption in the region. Net absorption posted 1,027,211 square feet in the fourth quarter of 2018. Primary contributors to this trend in the fourth quarter include: Damco-Maersk (989,809 square feet), Fashion Nova (403,635 square feet) and Harbor Distribution (355,590 square feet).

**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 4Q2018 | Square Feet Available | Availability Rate 4Q2018 | Average Asking Lease Rate | Net Absorption 4Q2018 | Net Absorption 2018 | Gross Absorption 4Q2018 | Gross Absorption 2018 |
| **Mid Counties** | | | | | | | | | | | | | |
| Artesia / Cerritos | 277 | 13,113,942 | 70,696 | 0 | 583,685 | 4.45% | 808,034 | 6.16% | $0.88 | (11,768) | (436,194) | 87,901 | 519,087 |
| Bellflower / Downey | 193 | 5,506,846 | 0 | 0 | 74,162 | 1.35% | 89,674 | 1.63% | $0.65 | 22,226 | (33,151) | 59,196 | 192,368 |
| Buena Park / La Palma | 231 | 14,969,332 | 0 | 0 | 519,733 | 3.47% | 2,202,808 | 14.72% | $1.05 | (146,550) | 47,503 | 245,567 | 884,375 |
| La Mirada | 183 | 12,973,873 | 0 | 0 | 398,537 | 3.07% | 529,123 | 4.08% | $0.89 | 169,171 | 392,299 | 272,533 | 1,098,544 |
| Norwalk | 87 | 2,912,756 | 0 | 0 | 47,629 | 1.64% | 122,262 | 4.20% | $1.03 | (25,848) | (29,002) | 0 | 64,792 |
| Paramount | 375 | 8,810,724 | 0 | 0 | 47,383 | 0.54% | 103,386 | 1.17% | $0.70 | 64,960 | 65,256 | 90,245 | 254,864 |
| Santa Fe Springs | 1,341 | 52,648,717 | 0 | 586,624 | 1,350,023 | 2.56% | 1,971,793 | 3.75% | $0.97 | 951,320 | 967,579 | 1,364,088 | 4,388,569 |
| Whittier | 164 | 3,874,857 | 0 | 0 | 17,515 | 0.45% | 460,344 | 11.88% | $0.97 | 3,700 | (3,502) | 5,200 | 110,334 |
| **Mid Counties Total** | **2,851** | **114,811,047** | **70,696** | **586,624** | **3,038,667** | **2.65%** | **6,287,424** | **5.48%** | **$0.90** | **1,027,211** | **970,788** | **2,124,730** | **7,512,933** |
| | | | | | | | | | | | | | |
| 5,000-24,999 | 1,789 | 23,799,936 | 0 | 19,126 | 368,878 | 1.55% | 575,824 | 2.42% | $0.98 | 80,001 | (43,640) | 307,481 | 1,251,132 |
| 25,000-49,999 | 483 | 17,176,637 | 0 | 87,980 | 353,123 | 2.06% | 645,163 | 3.76% | $0.91 | 31,281 | 144,877 | 160,879 | 1,063,764 |
| 50,000-99,999 | 307 | 21,081,998 | 70,696 | 0 | 450,410 | 2.14% | 867,532 | 4.12% | $0.75 | 18,270 | 54,051 | 389,674 | 1,138,724 |
| 100,000-249,999 | 214 | 31,570,650 | 0 | 479,518 | 821,101 | 2.60% | 1,917,478 | 6.07% | $0.81 | 396,974 | (311,333) | 766,011 | 1,435,990 |
| 250,000-499,999 | 51 | 16,663,874 | 0 | 0 | 1,045,155 | 6.27% | 1,176,762 | 7.06% | $0.00 | 0 | 617,568 | 0 | 1,613,373 |
| 500,000 plus | 7 | 4,517,952 | 0 | 0 | 0 | 0.00% | 1,104,665 | 24.45% | $0.00 | 500,685 | 509,265 | 500,685 | 1,009,950 |
| **Mid Counties Total** | **2,851** | **114,811,047** | **70,696** | **586,624** | **3,038,667** | **2.65%** | **6,287,424** | **5.48%** | **$0.90** | **1,027,211** | **970,788** | **2,124,730** | **7,512,933** |

This survey consists of buildings greater than 5,000 square feet. Lease rates are on an industrial-gross basis.

## Significant Transactions

### Sales

* Voit Real Estate Services Deal

| Property Address | Submarket | Square Feet | Sale Price | Buyer | Seller |
|---|---|---|---|---|---|
| 12910 Mulberry Dr. | Whittier | 153,000 | $21,300,000 | Greenlaw | Indio Products |
| 13226 Alondra Blvd. | Cerritos | 128,000 | $28,600,000 | United Parcel Services, Inc. | Achem Industry America, Inc. |
| 12128 Burke St. | Santa Fe Springs | 95,685 | $20,508,635 | Black Creek Group | Stadler Family Trust |
| 13301 Alondra Blvd. | Santa Fe Springs | 21,960 | $3,150,000 | Garni, LLC | T & S Die Cutting |
| 6430–6450 Roland St. | Buena Park | 11,562 | $2,659,260 | Chang Hu Lee* | Jeff Tenney* |

### Leases

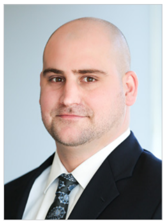
* Voit Real Estate Services Deal

| Property Address | Submarket | Square Feet | Transaction Date | Tenant | Owner |
|---|---|---|---|---|---|
| 12889 Moore St. | Cerritos | 281,776 | Oct-2018 | Revolve Clothing | Oltmans |
| 10035 Geary Ave. | Santa Fe Springs | 149,683 | Oct-2018 | Western Corrugated Design | Lewis Industries, Inc. |
| 6625 Caballero Blvd. | Buena Park | 84,600 | Oct-2018 | Health-Ade | TA Realty |
| 6931–6935 Hermosa Cir. | Buena Park | 20,200 | Nov-2018 | Legacy Transportation Services, Inc. | Terrance Chen* |
| 6170 Valley View Ave. | Buena Park | 18,179 | Dec-2018 | Production Resources Group | RREEF* |

**FOURTH QUARTER 2018 MARKET REPORT**

# MID COUNTIES INDUSTRIAL

Voit
REAL ESTATE SERVICES



## Finding Suitable Industrial Product to Purchase in Los Angeles

**by John Costa**
ASSOCIATE, LOS ANGELES
424.329.7505 · jcosta@voitco.com · Lic. #01940766

As we enter 2019, the demand to purchase distribution facilities in the Los Angeles Industrial market outweighs the supply because of several factors that sometimes go unnoticed.

The number of companies looking to locate in the Los Angeles Industrial market is huge, and finding a building in Los Angeles for an owner/user or company that intends to occupy the building is becoming more difficult because of the type of product available, lack of land for new construction, and the competition with large industrial investors. Many industrial buildings in Los Angeles were built between 1950 and 1975 and were developed to serve a manufacturing use with high power, low ceiling heights, and ground level doors. One difficulty many tenants and buyers are having in the Central and South Bay markets is finding a building that fits the modern needs of a company, e.g. dock high loading and a high ceiling with racking for storage.

Another factor making it difficult to find a functional building to purchase is that the majority of the product in Los Angeles that suits a distribution company's needs is already owned by investment companies that have no intention of selling soon. There are beautiful distribution facilities in Los Angeles, but you might only have the chance to tour them if you are interested in leasing.

There are techniques to combat the difficulties. Finding creative ways to make the older brick manufacturing building work for a company in need of an up-to-date distribution facility is becoming more necessary. Some options may include: digging truck wells to replace the ground level doors, raising ceiling heights, and demolishing portions of the building to create more yard area for a truck turning radius — all of which are important for distribution-related companies.

On the other hand, LA-based companies that own industrial property with excess land or buildings with older construction types have the opportunity to capitalize on the current land value by selling their property and consolidating into newer product in the Inland Empire and other nearby markets. This could ultimately suit the companies' needs in a more efficient way.

## Product Type

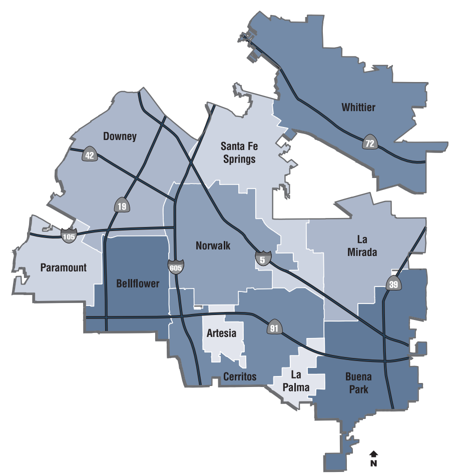
**MFG./DIST.**

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




**Please Contact Us for Further Information**

**Tony Tran**
Regional Director of Research
ttran@voitco.com

| Anaheim, CA | Carlsbad, CA | Inland Empire, CA | Irvine, CA | Los Angeles, CA | San Diego, CA |
|---|---|---|---|---|---|
| 714.978.7880 | 760.517.4000 | 909.545.8000 | 949.851.5100 | 424.329.7500 | 858.453.0505 |