MC2Q19

SECOND QUARTER 2019 MARKET REPORT

MID COUNTIES INDUSTRIAL

Voit REAL ESTATE SERVICES

MARKET OVERVIEW. The Mid Counties industrial market has reported strong fundamentals and growth metrics, with key market indicators for both the overall economy and the local real estate market trending in a positive direction. Unemployment in the month of April was 4.5%, down from 4.6% from one year ago. The Mid Counties industrial market is arguably the strongest logistics market in the country, thanks largely to the Port of Los Angeles and the Port of Long Beach. The market for logistics properties has grown over the last several years, benefiting from the overall growth in e-commerce. The market rebounded overall during the second quarter of 2019. Vacancy trended downward compared with the previous quarter and the same quarter of 2018. Several driving economic factors suggest that vacancy rates will continue to drop for the foreseeable future, putting upward pressure on lease rates.

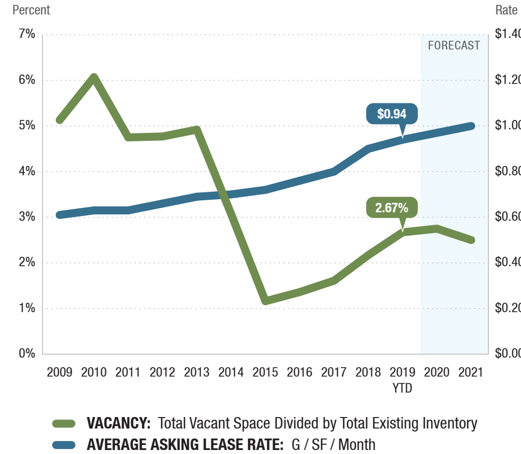
VACANCY. The demand for warehousing and distribution space shows no signs of diminishing. In addition to low unemployment, the economy is thriving with corporate tax cuts, low interest rates, and overall good financial health of the market's tenant base. The Mid Counties industrial market is as healthy as it has ever been, despite steep barriers to entry. As tenant demand for space remains consistent among a diverse pool of tenants, vacancy rates will remain low and we expect rents to stay high. Vacancy in the Mid Counties region was 2.67% at the end of the second quarter of 2019, down 39 basis points compared with the prior quarter, and 14.97% compared with the previous year.

AVAILABILITY. Direct/sublease space being marketed in the second quarter came in at 5.44%, down 30 basis points compared with the prior quarter, and up 16 basis points compared with the previous year. Due to the difficulty in developing new, modern buildings, much of the Mid Counties industrial inventory tends to be in properties that are smaller and older than might be considered normal for such a distribution market.

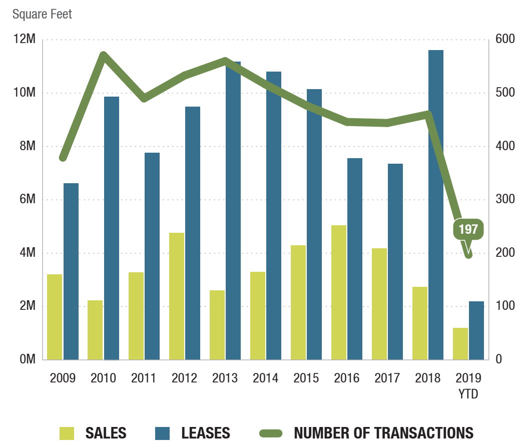
LEASE RATES. The average asking lease rate is $0.94 IG per square foot per month, a $0.09 per square foot increase from a year ago (10.59% annual increase). While uncertainty (e.g. escalating U.S./China trade war) typically reduces expectations, which could reduce growth, consumer sentiment appears to be forward-looking, focusing on long-term expansion plans. Vacancies in many markets are at or near historic lows and are likely to remain low in the near term.

TRANSACTION ACTIVITY. We are seeing significant drops in vacancy and availability coupled with overall increases in net occupancy. As we progress into the second half of 2019, positive absorption and higher occupancy costs should continue. A lack of product available for lease or sale in some size ranges is causing an increase in prices and a drop in transaction volume. Sale and leasing activity for the Mid Counties industrial market checked in at just over 1,574,808 square feet this quarter, compared with 4,851,510 in the second quarter of 2018. The slowdown in transaction volume can be attributed to a lack of supply in the marketplace.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	2Q 2019	1Q 2019	2Q 2018	% Change Over Last Year
Vacancy Rate	DOWN	2.67%	3.06%	3.14%	(14.97%)
Availability Rate	DOWN	5.44%	5.74%	5.28%	3.03%
Average Asking Lease Rate	FLAT	$0.94	$0.94	$0.85	10.59%
Sale & Lease Transactions	DOWN	1,574,808	1,815,270	4,851,510	(67.54%)
Gross Absorption	DOWN	961,779	1,831,271	2,149,468	(55.26%)
Net Absorption	POSITIVE	752,091	(1,247,799)	(593,494)	N/A

Forecast

OVERALL. Mid Counties has a remarkably diverse economy, fueled by manufacturing, logistics, and the food industry. Simultaneously, supply is constrained due to a scarcity of developable land. Despite a tight market for space and relatively high rents, companies choose to locate their distribution facilities in the Mid Counties area to facilitate last-mile deliveries to the region's consumer population. If trade wars escalate causing a slowing at the ports, this could have a profound effect on the industrial market. As long as the macro picture remains steady, the Mid Counties industrial market will continue with low vacancy rates and the resulting upward pressure on prices. Industrial sale prices are therefore expected to continue to rise over the next six months.

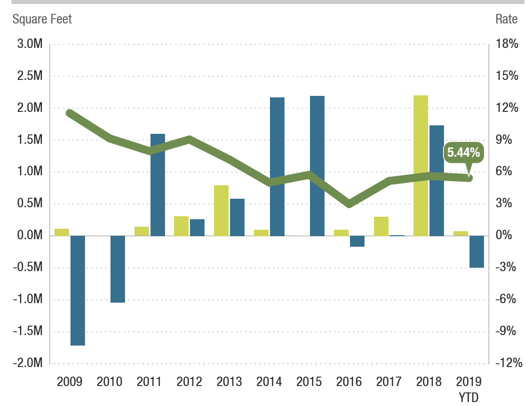
LEASE RATES. Expect lease rates to continue to climb, with the largest gains in newer, Class A product. We expect 1–2% annualized growth in the coming year. Although industrial vacancies continue to remain low, rent growth has decelerated year-over-year, which is likely an indication that years of enormous rent gains have pushed prices about as high as the market will bear.

VACANCY. Industrial real estate demand continues to soar to new heights, and we expect more of the same throughout 2019, with anticipated vacancy rates in the 2–3% range over the next three quarters.

CONSTRUCTION. In almost all the Mid Counties submarkets, development opportunities are hard to come by. It is considered an infill market with very little land still available for development, and this is pushing industrial demand farther inland into adjacent areas. Construction could begin soon on a last-mile logistics hub on a 10-acre lot with a history of environmental problems in Santa Fe Springs, a sign of just how rare desirable industrial sites have become for the e-commerce industry. Industrial real estate developer Xebec Realty plans to build a 234,330 square foot facility at 8201 Sorensen Avenue. At the end of the second quarter of 2019, there were only two buildings under construction in Mid Counties, totaling 89,081 square feet.

ABSORPTION. The Mid Counties industrial market has benefited from a number of economic shifts that have led to an increase in demand for warehouse space, including the rise of e-commerce and manufacturing. The Mid Counties industrial market posted 752,091 square feet of positive net absorption in the second quarter, bouncing back from 1,247,799 square feet of negative net absorption in the first quarter of 2019 and giving the market an average of 200,000 square feet per quarter over the last six quarters.

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 2Q2019	Square Feet Available	Availability Rate 2Q2019	Average Asking Lease Rate	Net Absorption 2Q2019	Net Absorption 2019	Gross Absorption 2Q2019	Gross Absorption 2019
Mid Counties													
Artesia/Cerritos	278	13,178,913	0	0	415,561	3.15%	937,284	7.11%	$0.86	11,680	291,836	205,044	676,898
Bellflower/Downey	192	5,496,646	0	0	65,755	1.20%	84,441	1.54%	$0.95	(9,381)	21,207	35,064	74,982
Buena Park/La Palma	232	15,076,386	0	0	1,160,874	7.70%	1,926,142	12.78%	$0.95	619,075	(955,418)	199,701	593,104
La Mirada	183	12,980,164	0	0	187,450	1.44%	598,238	4.61%	$0.89	(36,582)	133,053	31,826	337,505
Norwalk	86	2,900,838	0	0	19,959	0.69%	81,712	2.82%	$0.00	7,124	78,932	27,083	49,419
Paramount	377	8,782,399	0	0	150,280	1.71%	267,346	3.04%	$0.80	(57,351)	(107,897)	65,102	89,679
Santa Fe Springs	1,348	52,713,634	89,081	801,894	986,709	1.87%	1,912,080	3.63%	$0.99	43,282	106,751	371,563	929,385
Whittier	161	3,878,884	0	0	84,334	2.17%	448,181	11.55%	$0.97	174,244	(64,172)	26,396	42,078
Mid Counties Total	**2,857**	**115,007,864**	**89,081**	**801,894**	**3,070,922**	**2.67%**	**6,255,424**	**5.44%**	**$0.94**	**752,091**	**(495,708)**	**961,779**	**2,793,050**
5,000-24,999	1,792	23,824,180	17,338	0	260,042	1.09%	569,611	2.39%	$0.97	75,150	98,181	256,240	476,070
25,000-49,999	485	17,220,569	0	87,980	209,014	1.21%	595,789	3.46%	$1.06	46,221	36,303	241,664	388,908
50,000-99,999	307	21,095,851	71,743	0	609,447	2.89%	1,076,850	5.10%	$0.83	66,118	164,265	274,467	573,039
100,000-249,999	215	31,685,438	0	713,914	582,332	1.84%	2,111,743	6.66%	$0.00	140,317	(171,013)	189,408	970,890
250,000-499,999	51	16,663,874	0	0	305,422	1.83%	796,766	4.78%	$0.00	424,285	481,221	0	384,143
500,000 plus	7	4,517,952	0	0	1,104,665	24.45%	1,104,665	24.45%	$0.00	0	(1,104,665)	0	0
Mid Counties Total	**2,857**	**115,007,864**	**89,081**	**801,894**	**3,070,922**	**2.67%**	**6,255,424**	**5.44%**	**$0.94**	**752,091**	**(495,708)**	**961,779**	**2,793,050**

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
15300 Desman Rd.	La Mirada	254,718	$52,886,500	Prim Desman Industrial, LLC	AEW Capital Management
11520–11680 Bloomfield Ave.	Santa Fe Springs	62,612	$43,000,000	Kelly Pipe Co.	Shapco, Inc.
11903 Pike St.	Santa Fe Springs	40,148	$8,000,000	Crowsnest Pike, LLC	Louie & Jacqueline Carnevale
9331 Santa Fe Springs Rd.	Santa Fe Springs	39,240	$7,175,000	CAM Investment 378, LLC	R. S. Mariano Interests
9868 Firestone Blvd.	Downey	16,128	$2,990,000	Montserrat Real Estate, LLC	Brother Holdings US, Inc.

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
6700–6750 Artesia Blvd.	Buena Park	447,055	Jun-2019	IDC Logistics	Comref So Cal Industrial Sub G
6565 Valley View St.	La Palma	424,285	Apr-2019	Quiet Logistics	Veritiv Corporation
12910 Mulberry Dr.	Whittier	153,080	May-2019	Shift Technologies, Inc.	Nuveen Real Estate
12128 Burke St.	Santa Fe Springs	95,685	May-2019	Iron Mountain Secure Shredding, Inc.	Black Creek Group
15905 Commerce Way	Cerritos	85,900	Apr-2019	Oregon International Air Freight	Global Logistic Properties

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Plenty of Tenants. Supply: Not so much.

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As we enter the third quarter of 2019, one thing is certain about the industrial market: the demand is still sky high.

According to CoStar, the Los Angeles industrial market has a vacancy rate of 2.5% and landlords are benefiting from an overwhelming demand that continues to grow due to the need for warehouse spaces. But on the flipside, how are the tenants doing in such a market?

When I speak with tenants whom I represent and ask them what type of terms they're looking for in a lease agreement, they reveal their preferences are typically very different from what landlords are expecting. For example, most industrial landlords within the Greater Los Angeles area are asking for a minimum 3 to 5-year commitment, while many tenants I speak with want to start a new lease for a shorter term. The other part of the equation is rental rate. If a landlord with a 15,000 square foot warehouse space is asking a $1.10 per square foot and the tenant can manage $0.90 per square foot, you would think that there would be some negotiation and compromise by both parties to reach an agreement, right? Not always the case.

Warehouse owners know that they have one of the most sought-after asset classes in the current commercial real estate market and are holding out for better offers. Additionally, many of the newly constructed CTU (Concrete Tilt-Up) buildings are getting multiple offers right when they hit the market, if not before!

Whenever I've got a startup company looking for a warehouse space, I always meet with them over coffee to discuss expectations before submitting offers. Understandably, most are hoping to find space in an attractive business park with good parking, plenty of power, high ceilings and roll–up doors. However, the reality is that most of these highly desirable business parks are owned by publicly traded companies that typically have strict criteria when considering startup companies as possible tenants. One of the biggest hurdles that is very typical is a minimum of two years of being in business. Since the publicly traded companies have an obligation to their shareholders to produce a certain return, startup companies with less than two years of experience are often considered too risky.

With such low vacancy rates and quality industrial space in high demand, it is advantageous for tenants to have a broker who is active in their market, who knows when upcoming vacancies may be occurring before anyone else, and who is able to negotiate the best possible terms on the tenant's behalf.

Product Type

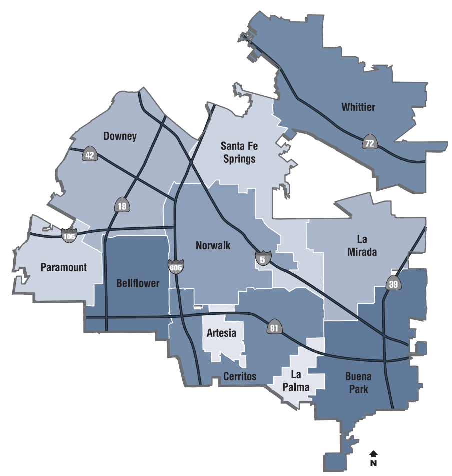
MFG./DIST.

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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