MC4Q19

FOURTH QUARTER 2019 MARKET REPORT

MID COUNTIES INDUSTRIAL

Voit
REAL ESTATE SERVICES

MARKET OVERVIEW. Even though the Mid Counties region is not the epicenter for national distribution tenants that the Inland Empire has become, its central metro location makes it a primary target for e-commerce users whose appetite for so-called “last mile” logistics space has risen sharply. That, in addition to strong demand from traditional manufacturers and port-related distributors, has driven supply of quality space to an all-time low. In recent quarters, net absorption has been soft, but this is more due to a lack of supply rather than waning demand. In fact, demand is still running well ahead of supply and that is forcing more tenants to renew in place rather than relocate to alternate space that may not improve operational efficiency. Unfortunately, a disproportionate amount of the space offered for lease has elements of functional obsolescence and there is not enough new space offered at higher rents that support overall rent growth. As a result, rent growth slipped to just 3% over the past year, well behind the pace of surrounding markets.

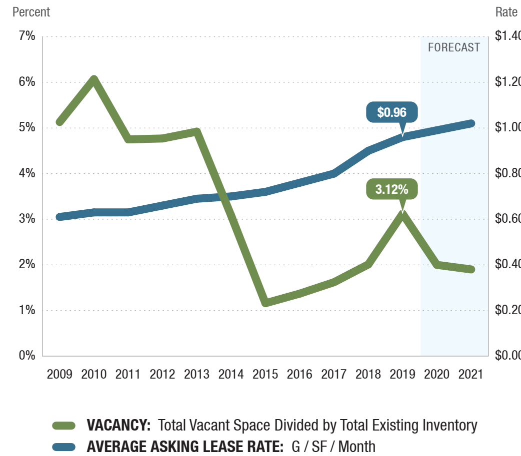
VACANCY. The demand for warehouse and distribution space shows no sign of abating. In addition to low unemployment, the economy is thriving due a strong overall economy, corporate tax cuts, low interest rates, and the financial health of the market’s tenant base. The Mid Counties industrial market is as healthy as it has ever been, despite steep barriers to entry. As tenant demand remains consistent from a diverse pool of tenants, vacancy rates will remain low and rents are likely to keep moving higher. Vacancy in the Mid Counties region stood at 3.12% at the end of the fourth quarter of 2019, down 23 basis points from the third quarter, but up 111 basis points year-over-year.

AVAILABILITY. Direct/sublease space being marketed in the fourth quarter came in at 4.68%, down from 5.19% from the fourth quarter of 2018. Due to the difficulty in developing new, modern buildings, much of the Mid Counties industrial inventory tends to be in smaller and older properties that don’t necessarily meet the needs of today’s high-growth industrial user types. That tends to increase marketing time for more traditional space.

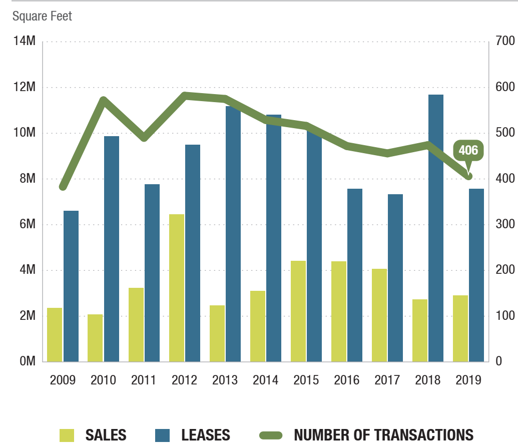
LEASE RATES. The average asking lease rate is $0.96 IG per square foot per month, a $0.06 per square foot increase from a year ago (6.67% annual increase). While uncertainty over US/China relations has dampened expectations and impacted growth momentum, consumer spending has remained strong and that has kept importers focused on long-term expansion plans. The recently announced first-phase trade agreement between the economic superpowers could fuel an increase in demand and accelerate rent growth in 2020.

TRANSACTION ACTIVITY. Sale and lease activity for the Mid Counties industrial market checked in at just over 3,322,668 square feet this quarter, compared with 2,291,898 square feet in the fourth quarter of 2018. The increase in volume can be largely attributed to the 1.1 MSF lease to UNIS at the old JC Penny site at 6800 Valley View in Buena Park.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter		4Q 2019	3Q 2019	4Q 2018	% Change Over Last Year
Vacancy Rate	▼	DOWN	3.12%	3.35%	2.01%	55.22%
Availability Rate	▲	UP	4.68%	4.55%	5.19%	(9.83%)
Average Asking Lease Rate	▼	DOWN	$0.96	$0.99	$0.90	6.67%
Sale & Lease Transactions	▲	UP	3,322,668	2,449,558	2,291,898	44.97%
Gross Absorption	▲	UP	2,020,730	1,785,917	2,604,495	(22.41%)
Net Absorption	▲	POSITIVE	59,646	274,076	1,723,761	N/A

Forecast

OVERALL. Signs of a global economic slowdown, concerns over US-China trade relations and a decline in the US GDP growth rate motivated the Fed to cut its benchmark Federal Funds Rate 3 times in 2019. That effort to stimulate consumer spending and business investment seems to be working. Equity markets responded by rising to new highs and the spread between short- and long-term US Treasuries widened again after a dangerous inversion earlier in the year. The latest estimates for domestic GDP growth for 2020 are running in the low 2% range, which should be enough to keep the current economic recovery on track. Yet, questions over global economic growth and election year uncertainty here at home remain a threat to what is now the longest economic up-cycle in US history.

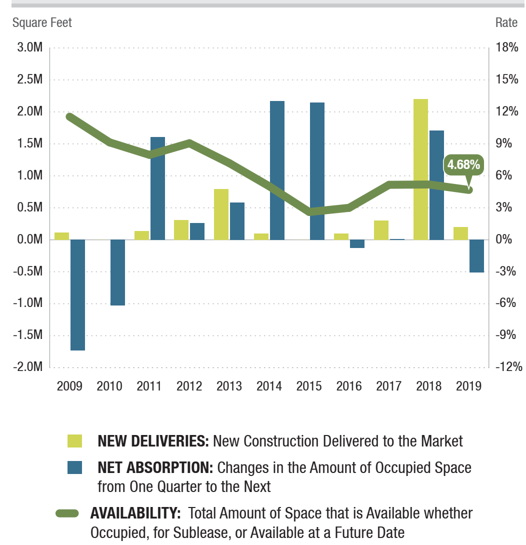
LEASE RATES. After industrial rents averaged more than 7.24% annual growth over the past five years, the pace of gains decelerated sharply in recent quarters. Given that vacancies remain extremely low, this is likely an indication that years of outsized rent gains have pushed costs about as high as the market will bear. Class A warehousing will generate the highest rent premiums; overall, rents are expected to rise by 3% in the coming year.

VACANCY. Demand for industrial space should remain near current levels and well ahead of supply, which will keep vacancy rates in the 2.0–3.0% range in 2020.

CONSTRUCTION. As 2019 came to an end, there was only one 17,338 square foot building under construction in Mid Counties, a market with 115,132,299 square feet of existing inventory. Historically, the region has supported labor-intensive manufacturing firms that tend to use less space than the Inland Empire's mega-distributors who gobble up space one MSF at a time. Ground-up development in Mid Counties has slowed to a near standstill, and there is not enough in the pipeline to satisfy current demand. The most significant upcoming ground-up project is Xebec Realty's 234,330 square foot facility at 8201 Sorensen Avenue in Santa Fe Springs. However, renovations and upgrades to help modernize some of the older buildings are also in the works.

ABSORPTION. Net absorption was positive in the fourth quarter but remains on the decline. Net growth in occupied space totaled 59,646 in the final quarter or 2019, but that was down from 274,076 in the previous quarter and well off the 1.7 MSF of net growth recorded in the final quarter of 2018. Primary contributors to fourth quarter growth were: The Tung Corporation (46,608 square feet), Yi Long (46,320 square feet) and TJ Creative Inc. (35,280 square feet).

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2019	Square Feet Available	Availability Rate 4Q2019	Average Asking Lease Rate	Net Absorption 4Q2019	Net Absorption 2019	Gross Absorption 4Q2019	Gross Absorption 2019
Mid Counties													
Artesia / Cerritos	279	13,165,217	0	0	208,120	1.58%	425,509	3.23%	$1.03	70,224	514,574	167,510	1,196,921
Bellflower / Downey	193	5,533,078	0	0	208,435	3.77%	324,218	5.86%	$0.87	(79,170)	(79,041)	38,075	144,495
Buena Park / La Palma	232	15,081,375	0	0	1,271,823	8.43%	1,694,810	11.24%	$1.12	61,045	(694,789)	1,079,097	2,146,981
La Mirada	182	12,953,445	0	0	533,123	4.12%	760,161	5.87%	$0.94	(20,078)	(226,344)	52,337	454,016
Norwalk	87	2,850,212	0	0	14,491	0.51%	77,024	2.70%	$1.35	14,096	92,800	11,500	63,859
Paramount	378	8,747,598	0	0	169,662	1.94%	306,282	3.50%	$0.94	(20,197)	(134,431)	68,578	187,858
Santa Fe Springs	1,348	52,731,375	17,338	757,069	911,487	1.73%	1,507,208	2.86%	$0.99	45,109	260,291	436,213	2,181,142
Whittier	153	4,069,999	0	0	280,176	6.88%	288,576	7.09%	$0.91	(11,383)	104,954	167,420	224,425
Mid Counties Total	**2,852**	**115,132,299**	**17,338**	**757,069**	**3,597,317**	**3.12%**	**5,383,788**	**4.68%**	**$0.96**	**59,646**	**(161,986)**	**2,020,730**	**6,599,697**
5,000-24,999	1,783	23,830,985	17,338	0	461,860	1.94%	690,178	2.90%	$1.02	(103,763)	(134,531)	168,688	844,574
25,000-49,999	489	17,340,418	0	43,905	388,471	2.24%	815,632	4.70%	$0.96	(22,058)	56,176	163,808	683,009
50,000-99,999	308	21,216,474	0	0	282,931	1.33%	975,033	4.60%	$0.90	102,139	407,340	252,227	1,028,569
100,000-249,999	214	31,591,914	0	713,164	1,083,286	3.43%	1,249,290	3.95%	$0.87	39,039	(343,900)	360,660	2,137,000
250,000-499,999	51	16,663,874	0	0	305,422	1.83%	583,655	3.50%	$0.00	44,289	928,276	0	831,198
500,000 plus	7	4,488,634	0	0	1,075,347	23.96%	1,070,000	23.84%	$0.00	0	(1,075,347)	1,075,347	1,075,347
Mid Counties Total	**2,852**	**115,132,299**	**17,338**	**757,069**	**3,597,317**	**3.12%**	**5,383,788**	**4.68%**	**$0.96**	**59,646**	**(161,986)**	**2,020,730**	**6,599,697**

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
14041–14007 Rosecrans Ave.	La Mirada	337,125	$76,800,000	Clarion Partners	BB&K / La Mirada Industrial Properties, Inc.
16400 Valley View Ave.	La Mirada	278,000	$65,869,500	Liberty Property Trust	The Lanting Family, LLC
14420 Bloomfield Ave.	Santa Fe Springs	91,189	$20,330,000	Goodman North America	Metropolis Partners
13538 Excelsior Dr.	Santa Fe Springs	62,840	$12,000,000	Prologis, Inc.	William G & Shirley Lunney Tr.
10261 Matern Pl.	Santa Fe Springs	42,624	$9,449,741	Triangle Plaza, LLC	Jm Santa Fe Springs Ents, LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
6800 Valley View St.	Buena Park	1,075,347	Dec-2019	UNIS	CenterPoint
9306 Sorensen Ave.	Santa Fe Springs	305,422	Oct-2019	WESCO	LINK
14911 Valley View Ave.	Santa Fe Springs	155,408	Nov-2019	BINEX	PPF Industrial
16010 Shoemaker Ave.	Cerritos	115,600	Dec-2019	Silver Spur Corporation	Rexford Industrial Realty, Inc.
12801 Busch Pl.	Santa Fe Springs	70,756	Dec-2019	Southwire Company	Catellus Development Corp.

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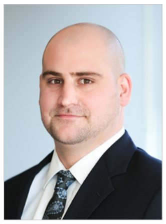

LA Industrial Market Keeps Moving Higher Despite Trade Headwinds

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The impact of land scarcity and low vacancy has sent industrial land prices and lease rates soaring for the past several years. That trend continued in 2019. Industrial land values near the Ports of Los Angeles and Long Beach have climbed into the $80.00 per square foot range for improved sites, and the average asking lease rate ended the year at $0.99 per square foot, a year-over-year increase of 6.45%.

While tenant demand remains strong and landlords continue their push for even higher rates, the ongoing trade war between China and the US, by far the world's two largest economies, has caused growing uncertainty throughout the region. Currently, half of the goods moving through the ports are subject to some level of tariff, but recent news about an agreement for a first phase of a comprehensive trade agreement between the two countries should help clarify market direction for the coming year. That, along with the long anticipated approval of the USMCA trade agreement, should help ease the frazzled nerves of those importing, exporting and transporting goods via the ports, which still account for more than a third of US TEU container volume.

Even with the tariffs, port activity was robust in the final quarter of 2019. The importation of finished goods remains strong, but exports have declined for the last 12 consecutive months, due, in part, to the global impact of tariffs and lower domestic manufacturing output. The Institute of Supply Management's latest manufacturing index reading of 47.5 is indicative of a slight contraction in the US manufacturing sector. That said, overall US GDP growth is still running in the low 2% range and the US Federal Reserve Bank has gone back on the offensive to keep the cost of investment capital near a record low point heading into 2020.

For Los Angeles going forward, we may see rent growth level off in some submarkets as tenants push back on paying even more for space that is either functionally obsolete or in poor condition. However, sales prices and lease rate gains will be highest in the Heavy Weight Corridor and the South Bay market, which includes Wilmington, Long Beach, Rancho Dominguez, Gardena, Hawthorne, Compton and Carson.

Product Type

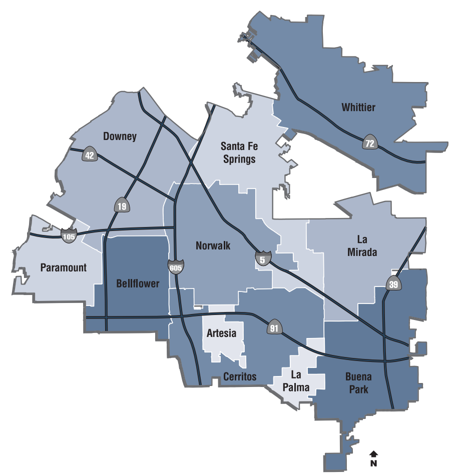
MFG./DIST.

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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