MC2Q20

SECOND QUARTER 2020 MARKET REPORT

MID COUNTIES INDUSTRIAL

Voit REAL ESTATE SERVICES

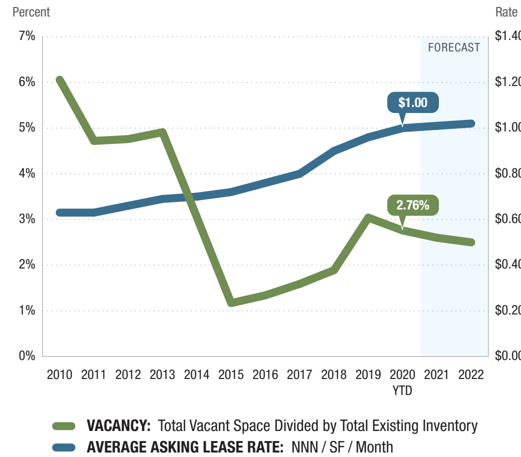
OVERVIEW. The Mid Counties industrial market showed further signs of weakening in the second quarter, mainly due to the ongoing effects of the economic shutdown. Through most of the period, businesses deemed non-essential pursuant to the governor's lockdown orders were either closed or operating at reduced capacity. Uncertainty over the long-term impact of the pandemic put existing requirements on hold, especially those in the upper size ranges. Fortunately, the strong market metrics going into the current crisis are likely to shield the region from any serious damage. Supply has been tight with rents and sales prices rising sharply for the past several years. Construction activity has been light due to a shortage of buildable sites, so the area is avoiding the overbuilding problem experienced in previous down-cycles. Though leasing activity and absorption numbers were off substantially in the second quarter, the market is generally in good health and is likely to resume its previous course as soon as the bulk of businesses return to normal business activities.

VACANCY. The vacancy rate moved up by 52 basis points in the second quarter, giving back its sharp decrease in the opening quarter. Most of the increase came from Buena Park and Santa Fe Springs due to a handful of large move-outs. Some landlords are showing a willingness to use concessions like free rent, tenant improvements and shorter lease terms after years of holding the line on such items. The most functional product continues to move first, but it's still hard to find in a market that has a disproportionate share of older inventory. The 300-basis-point spread between the vacancy and availability rates is an indication that sublease space is on the rise as business owners look to shed excess space to cut operating expenses. The amount of vacant sublease space has tripled year-over-year, ending the second quarter at 350,000 square feet. Another possible explanation for the rise in vacancy is the difficulty some tenants had in making their moves as planned due to the pandemic.

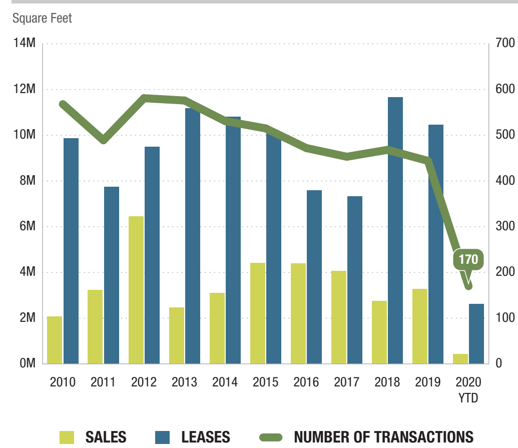
LEASE RATES. Lease rates have been climbing for years, and that trend continued in the second quarter despite the slowdown in leasing activity. Landlords have stubbornly refused to lower their rates to attract tenants, choosing instead to negotiate on concessions. The average asking rental rate moved up another $0.02 to end the first half of the year at $1.00 industrial gross. We should note again, however, that higher property taxes triggered by recent sales have contributed to the rate increase, as industrial gross lease rates include base year property taxes with increases passed through to tenants in subsequent years.

TRANSACTION ACTIVITY. Total sales and lease transaction activity fell sharply for the second consecutive period. Just 825,220 square feet in sale and lease deals were inked in the second quarter, down from more than 2.5 MSF in the first quarter and 3.3 MSF in the fourth quarter of 2019. The decline is clearly related to the pandemic response, as many larger requirements were understandably put on hold in the first quarter. Most businesses have reopened to some extent, but decision makers are focused on ramping up revenues as they grapple with new safety protocols designed to avoid a spike in COVID-19 cases. In June, tenant and buyer inquiries began to rise, an indication that business owners are beginning to expand their facility needs going forward.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



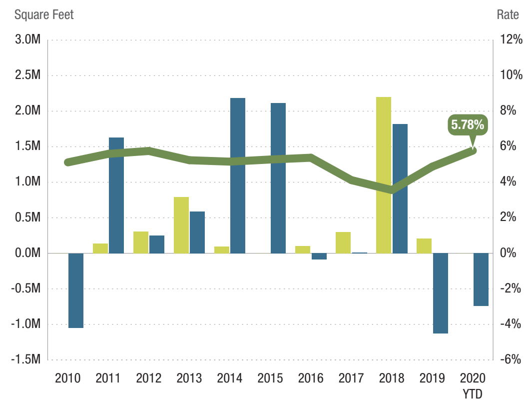
Market Statistics

	Change Over Last Quarter		2Q 2020	1Q 2020	2Q 2019	% Change Over Last Year
Vacancy Rate	▲	UP	2.76%	2.24%	3.10%	(11.16%)
Availability Rate	▲	UP	5.78%	4.88%	5.38%	7.49%
Average Asking Lease Rate	▲	UP	$1.00	$0.98	$0.94	6.38%
Sale & Lease Transactions	▼	DOWN	1,143,632	1,888,207	4,429,996	(74.18%)
Gross Absorption	▼	DOWN	825,220	2,480,208	538,579	53.22%
Net Absorption	▼	NEGATIVE	(742,848)	879,525	(571,867)	N/A

CONSTRUCTION. Thankfully for landlords, new deliveries are light, which helps keep vacancy at their historically low level. Only two buildings, both in Santa Fe Springs, are in the construction queue. The first, Xebec Realty's 234,330-square-foot facility on Sorensen Avenue, is scheduled for completion in the fourth quarter of 2020. The second, Romandel's 17,338-square-foot facility on Los Nietos Road, is due to finish up in the third quarter of 2020. Moreover, only Santa Fe Springs is reporting any planning for subsequent development projects. Records show another 545,000 square feet is on the drawing board, with buildings ranging from 25,000 to 250,000 square feet.

ABSORPTION. Net absorption, the difference in occupied space from one period to another, suffered in the second quarter after posting a significant gain in the first quarter. Six of the eight cities that make up the Mid Counties market posted a net loss in occupied space. Santa Fe Springs and Buena Park posted the biggest declines at 480,000 square feet and 303,000 square feet, respectively. But their losses were other cities' gains. O'Neill Logistics Inc. moved out of a 288,000-square-foot building in Santa Fe Springs to take a larger facility in Rancho Cucamonga, while OCRV vacated a 130,000-square-foot building in Buena Park and relocated their operation to Anaheim. It has become common for Mid Counties companies in need of expansion space to be forced to look outside the area, given the ongoing supply shortage that has been frustrating tenants and buyers for years. Year to date, net absorption remains modestly positive at just under 137,000 square feet, but that may not be enough to keep it above the line for the year if the volume of larger requirements doesn't tick back up soon.

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

Forecast

Our forecast last quarter called for a substantial slowing in leasing activity. Unfortunately, that turned out to be the case in the second quarter. With fewer large transactions in the works, leasing activity and net absorption are likely to remain soft. Vacancy could move slightly higher, but it is currently at such a low level that landlords will still be able to hold the line on asking rates. Concessions are on the rise, but modestly so. Wary tenants are insisting on shorter lease terms to mitigate risk and some landlords are cooperating. For the first time in years, free rent of more than one month is being offered by landlords, even on deals under five years in length.

Sellers will continue to hold the line on sales prices, especially for the highest quality buildings. The return of record-low SBA financing rates should keep demand from owner-users running ahead of supply. However, investors looking to finance leased projects will face stricter underwriting and higher rates, as banks look to mitigate higher perceived risk. The full impact of the recent economic shock is still an unknown, and a recent spike in COVID-19 cases has motivated Governor Newsom to tighten up on recently relaxed safety protocols. That is the wild card on the table in the third quarter.

We are not out of the woods yet, but there are indications that the unemployment spike has been abated and businesses are rehiring furloughed workers. Government stimulus plans have been a big help, especially the Paycheck Protection Program, which offers forgivable loans to small businesses who spend at least 60% of their loan proceeds on payroll expense over a 24 week period. Any portion not qualified for forgiveness comes with a five-year payback period at an interest rate of just 1%. As the quarter ended, roughly $100 billion allocated to the program was still available to eligible borrowers.

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2020	Square Feet Available	Availability Rate 2Q2020	Average Asking Lease Rate	Net Absorption 2Q2020	Net Absorption 2020	Gross Absorption 2Q2020	Gross Absorption 2020
Mid Counties													
Artesia / Cerritos	280	13,176,775	0	0	229,418	1.74%	1,004,659	7.62%	$0.86	(56,762)	(105,252)	60,230	149,923
Bellflower / Downey	196	5,579,689	0	0	167,596	3.00%	188,758	3.38%	$1.12	(10,738)	131,907	50,249	308,325
Buena Park / La Palma	233	15,126,448	0	0	446,663	2.95%	1,202,380	7.95%	$0.94	(303,260)	870,597	105,529	1,299,623
La Mirada	178	12,894,441	0	0	661,799	5.13%	1,359,125	10.54%	$1.12	68,881	(410,214)	152,000	246,720
Norwalk	88	2,886,221	0	0	187,519	6.50%	335,403	11.62%	$0.00	100,036	94,503	17,728	35,170
Paramount	405	9,093,708	0	0	269,608	2.96%	392,184	4.31%	$0.98	(40,976)	(120,721)	63,335	101,904
Santa Fe Springs	1,347	52,691,736	251,668	545,949	1,134,851	2.15%	1,888,851	3.58%	$1.06	(480,132)	(244,885)	330,839	879,898
Whittier	164	4,108,715	0	0	88,772	2.16%	312,985	7.62%	$0.94	(19,897)	(79,258)	45,310	283,865
Mid Counties Total	**2,891**	**115,557,733**	**251,668**	**545,949**	**3,186,226**	**2.76%**	**6,684,345**	**5.78%**	**$1.00**	**(742,848)**	**136,677**	**825,220**	**3,305,428**
5,000-24,999	1,814	24,009,927	17,338	0	494,326	2.06%	925,642	3.86%	$1.09	(112,957)	37,290	292,670	595,334
25,000-49,999	498	17,680,977	0	43,905	574,127	3.25%	963,019	5.45%	$0.91	105,261	(37,005)	93,491	256,063
50,000-99,999	308	21,244,753	0	74,460	689,842	3.25%	1,526,330	7.18%	$0.88	(172,995)	(315,702)	238,889	587,949
100,000-249,999	213	31,469,568	234,330	427,584	903,219	2.87%	1,999,232	6.35%	$0.90	(97,445)	156,177	200,170	746,446
250,000-499,999	51	16,663,874	0	0	524,712	3.15%	950,122	5.70%	$0.90	(464,712)	(779,430)	0	44,289
500,000 plus	7	4,488,634	0	0	0	0.00%	320,000	7.13%	$0.00	0	1,075,347	0	1,075,347
Mid Counties Total	**2,891**	**115,557,733**	**251,668**	**545,949**	**3,186,226**	**2.76%**	**6,684,345**	**5.78%**	**$1.00**	**(742,848)**	**136,677**	**825,220**	**3,305,428**

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
8155 Bryon Rd.	Whittier	32,000	$5,500,000	Allblack NDT, LLC	CEC Properties, LLC
12636 Los Nietos Rd.	Santa Fe Springs	17,338	$5,183,000	In-N-Out Burger	RC S Adria Maru Property, LLC
8740 Park St.	Bellflower	7,000	$1,292,500	Five Golden Star, LLC	Cuong Nguyen & Michelle Mai

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
9615 Norwalk Blvd. - Renewal	Santa Fe Springs	201,808	Apr-2020	Fleet Yards, Inc.	Rexford Industrial Realty, Inc.
14720–14750 E Alondra Blvd.	La Mirada	100,000	Apr-2020	Allstate Floral & Craft, Inc.	Link Industrial Properties
16404 Knott Ave.	La Mirada	55,336	Jun-2020	Wesanco	Brookfield Property Group
13555 Excelsior Dr.	Norwalk	48,000	Apr-2020	Santa Ana RV Storage, LP*	Rexford Industrial Realty, Inc.
14830 Carmenita Rd.	Norwalk	45,900	Apr-2020	Santa Ana RV Storage, LP*	Rexford Industrial Realty, Inc.

MID COUNTIES INDUSTRIAL

Voit
REAL ESTATE SERVICES

The Exuberance is Gone, but Long-Term Fundamentals Remain

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In today's environment, discussions about industrial real estate values and trends are inseparable from the elephant in the room, COVID-19. Prior to the virus taking over the world, industrial real estate was one of the most sought-after asset types, especially in infill markets like the Mid Counties submarket of Los Angeles. However, cracks started developing in 2019. The multi-year bull run for industrial property that was propelled by plentiful foreign capital, lofty rent growth expectations and an exuberance that resembled the residential real estate market of the mid-2000s, began to lose energy coming into 2020. The steep rise in the cost of real estate facilities, combined with the burden of tariffs that started in 2018, finally put enough financial pressure on local businesses to temper their demand for industrial space.

Then came the "black swan." The effects of COVID-19 and shelter-in-place restrictions put a temporary halt to many industrial CRE requirements, which drastically affected leasing / sales activity in the Mid Counties area. Not surprisingly, several spaces / buildings started being offered on a sublease basis as companies looked to offset their real estate overhead. Some of the sublease space that came on the market during the second quarter of 2020 competed head-to-head with the direct lease space due to the ample amount of time remaining on the master leases, but at more competitive sublease terms. On the direct lease side, many leases that have been completed since April 1 contained shorter lease terms than previously seen, as low as 24 or 36 months. The main reason? Many companies have become hesitant about longer commitments in uncertain times. In some instances, landlords even offered free rent on these shorter term leases.

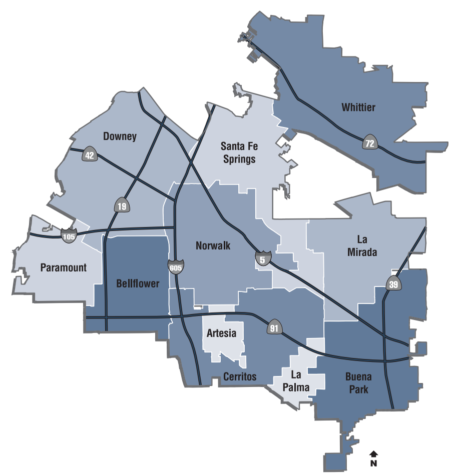
Despite the initial "shell shock" that was felt from COVID-19, transaction velocity started improving in mid-May. The buildings that have leased or sold attracted activity due to competitive pricing (for tenants / buyers) and landlords / sellers investing in building renovations. Today's tenants and buyers have become more selective and, in general, are wanting move-in-ready spaces. Additionally, they are not afraid to make aggressive offers right now. The strong fundamentals will prevail in the long run, however, as the Mid Counties submarket offers several intrinsic advantages: proximity to freeways, ports, major transportation hubs, access to other nearby infill markets and a variety of building options for occupiers.

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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