

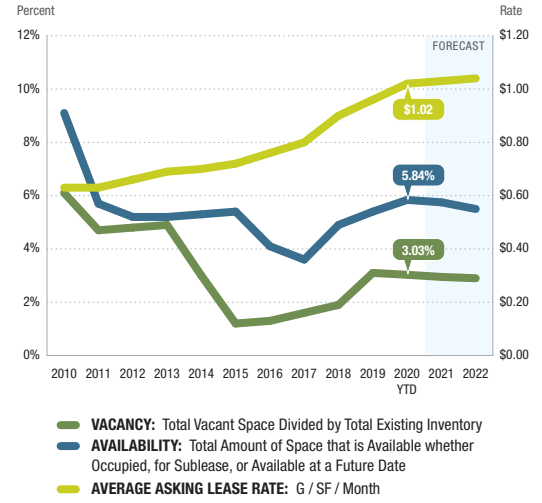
OVERVIEW. After a sluggish second quarter, the Mid-Countries industrial market picked up the pace in 3Q. Lease and sale transaction activity rose sharply after a big falloff in 2Q. Net absorption returned to positive territory and gross absorption more than doubled. Notwithstanding continuing shutdown regulations for many, essential business owners began calling their employees back to work to meet rising demand for goods and services. The market was tight going into the pandemic and remained so throughout the quarter, especially for owner / user purchase opportunities, as demand from buyers looking to take advantage of historically low SBA mortgage rates outpaced supply of quality product. Overall, the Mid-Countries region has weathered the economic crisis better than was expected.

VACANCY & AVAILABILITY. The overall vacancy rate rose a modest 13 basis points to finish the quarter at just 3.03%, still near a historic low point. A year ago, the vacancy rate was 3.00%. Fears of a looming spike in vacancy going into the pandemic crisis turned out to be unfounded. Santa Fe Springs, the region's largest submarket, has a vacancy rate of just 2.37%, which makes it difficult for that city's expanding businesses to find suitable space to accommodate projected growth. Those tight conditions also limit net and gross absorption, as many tenants are forced to renew in place rather than move to more efficient facilities. The availability rate (vacant space plus occupied space offered for lease or sale) moved up 44 basis points, which indicates a slight rise in space being offered for sublease.

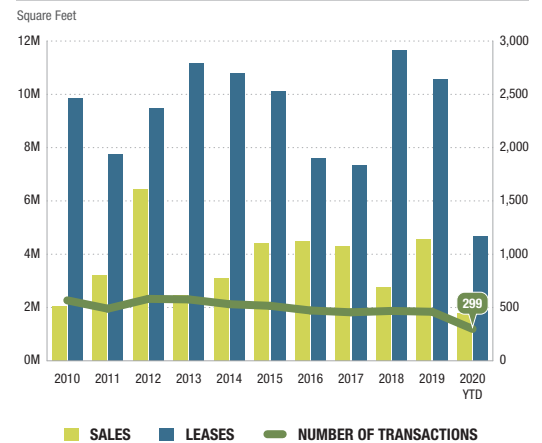
LEASE RATES. Average asking lease rates in the Mid-Countries have been on the rise for several years and the trend has continued even during the current economic slowdown. Mid-Countries recorded a two-cent increase to \$1.02 PSF in 3Q. Landlords are holding the line on asking rates during lease negotiations, but are showing some willingness to make minor concessions on free rent and tenant improvements. More tenants are looking for turnkey deals, so those landlords who are willing to spend up-front money on refurbishments are getting their spaces leased faster and at full asking rates. Spaces under 25,000 SF averaged highest, \$1.07, while the larger sizes ranged from \$0.90 to \$0.98. Of note is the fact that the highest quality buildings command premium rates, but are often marketed without an asking rate to encourage competitive bidding from multiple tenants. Therefore, the real rate is somewhat higher than \$1.02.

TRANSACTION ACTIVITY. The third quarter produced a sharp increase in the number of lease transactions, up from 76 to 103. Sale transactions more than tripled from 5 in 2Q to 16 in 3Q. The increases were due to the combination of the pandemic-induced pent-up demand from 2Q and the increase in general business activity in 3Q. The shutdown slowed the lease negotiation process and made it difficult to make actual moves. Now, with essential employees back on the job and the economy back in growth mode, business owners are more inclined to

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

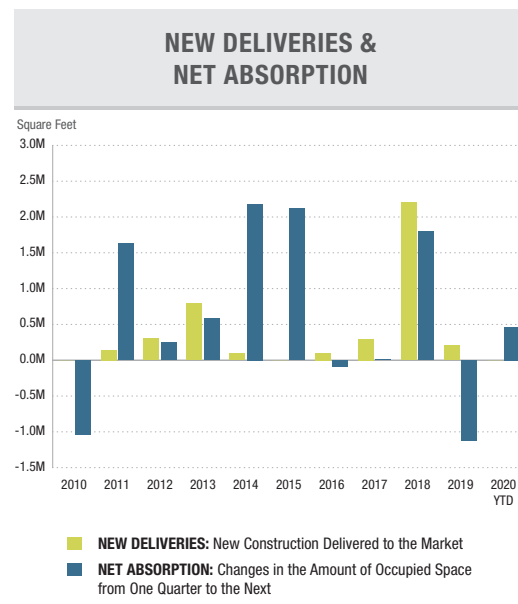
	Change Over Last Quarter	3Q 2020	2Q 2020	3Q 2019	% Change Over Last Year
Vacancy Rate	▲ UP	3.03%	2.90%	3.00%	1.02%
Availability Rate	▲ UP	5.84%	5.40%	4.10%	42.43%
Average Asking Lease Rate	▲ UP	\$1.02	\$1.00	\$0.99	3.03%
Sale & Lease Transactions	▲ UP	3,276,566	1,289,662	4,347,374	(24.63%)
Gross Absorption	▲ UP	1,377,792	648,773	1,432,842	(3.84%)
Net Absorption	▲ POSITIVE	328,767	(771,766)	263,003	N/A

take action. The total amount of square footage leased and sold nearly tripled in the period, with most of the increase coming on the sale side. The total square footage leased actually declined slightly, indicating that it is the smaller tenants making most of the moves thus far in the recovery.

ABSORPTION. Net absorption year-to-date is a positive 465,444 SF thanks to a 3Q net gain of 328,767 SF. This made up for a dip into negative territory in 2Q, understandable given the pandemic shutdown. La Mirada led all cities with a 357,000-SF gain, while Santa Fe Springs recorded another 138,000 gain in occupied space. Buena Park, La Palma, Norwalk and Whittier all showed slight declines. Gross absorption (total move-ins) was up after a big falloff in 2Q, and with new requirements on the rise, it should get another boost in the final quarter. Generating significant absorption numbers in such a tight market is very difficult. Expansion space is hard to come by and many growing businesses are forced to renew in place or leave the area to accommodate their growth.

CONSTRUCTION. New ground-up development has been light for the past several years and the third quarter was consistent with that trend. Santa Fe Springs was the only city in the Mid-Counties region that had any new space in the construction queue. Xebec Realty is building a 234,300 SF, state-of-the-art distribution building at 8201 Sorenson Ave. That project is scheduled for completion before the end of the year. Overton Moore is underway with their 130,958 SF project at 9816 Greenleaf Ave and another 43,905 SF building at 12905 Los Nietos Road. Both buildings are scheduled for delivery in 4Q. Only another 401,000 SF is in the planning stage. That means tenants will have to continue choosing buildings from existing inventory, much of it with elements of functional obsolescence.

EMPLOYMENT. The seasonally adjusted unemployment rate in Los Angeles County declined over the month to 16.1% in August 2020, from a revised 17.9% in July 2020, and was above the rate of 4.3% one year ago. Civilian employment increased by 85,000 to 4,134,000 in August 2020, while unemployment decreased by 87,000 to 795,000. The civilian labor force decreased by 2,000 over the month to 4,929,000 in August 2020. (All of the above figures are seasonally adjusted.) The unadjusted unemployment rate for the county was 16.6% in August 2020.



Forecast

Activity in the Mid-Counties should continue to move back to pre-pandemic levels in the coming quarters. All current market metrics point to strengthening demand for both lease and sale product. The biggest hindrance to market growth is the lack of availability of quality functional buildings for growing businesses. Demand for owner / user buildings is expected to rise further as long as mortgage interest rates remain near their current historic lows. The SBA 504 interest rate fell to 2.26% in July, before moving up to 2.4% in September, and the US Federal Reserve Open Market Committee has made clear its commitment to keeping rates low until the national economy fully recovers from the effects of the pandemic.

That said, uncertainty over the election and the potential passage of Proposition 15, the split-roll property tax initiative, are real and are impacting decision-making heading into Q4. If the proposition fails and a virus vaccine becomes a reality, we should see a significant bump in market activity.

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2020	Square Feet Available	Availability Rate 3Q2020	Average Asking Lease Rate	Net Absorption 3Q2020	Net Absorption 2020	Gross Absorption 3Q2020	Gross Absorption 2020
Mid Counties													
Artesia / Cerritos	280	13,145,089	0	0	341,823	2.60%	952,933	7.25%	\$0.86	75,621	(29,631)	60,230	221,249
Bellflower / Downey	196	5,579,646	0	0	152,969	2.74%	174,268	3.12%	\$1.12	12,516	144,423	50,249	356,847
Buena Park / La Palma	233	15,119,041	0	0	552,905	3.66%	1,337,008	8.84%	\$0.93	(142,651)	727,946	105,529	1,379,215
La Mirada	178	12,963,624	0	0	517,651	3.99%	1,127,061	8.69%	\$1.00	356,910	(53,304)	152,000	749,576
Norwalk	88	2,887,282	0	0	313,141	10.85%	347,857	12.05%	\$1.07	(88,597)	5,906	17,728	38,010
Paramount	406	8,975,563	0	0	261,576	2.91%	312,798	3.48%	\$0.96	11,438	(109,283)	63,335	202,672
Santa Fe Springs	1,348	52,888,888	426,531	401,951	1,253,532	2.37%	2,156,529	4.08%	\$1.08	138,626	(106,259)	330,839	1,419,658
Whittier	164	4,109,527	0	0	111,758	2.72%	346,188	8.42%	\$0.93	(35,096)	(114,354)	45,310	315,993
Mid Counties Total	2,893	115,668,660	426,531	401,951	3,505,355	3.03%	6,754,642	5.84%	\$1.02	328,767	465,444	1,377,792	4,683,220
5,000-24,999	1,817	24,048,573	17,338	0	481,036	2.00%	794,906	3.31%	\$1.07	44,387	81,677	226,672	822,006
25,000-49,999	500	17,762,491	43,905	30,875	755,616	4.25%	834,277	4.70%	\$0.98	53,537	16,532	284,615	540,678
50,000-99,999	303	20,876,480	0	74,460	1,021,703	4.89%	1,755,728	8.41%	\$0.90	(75,596)	(391,298)	246,940	834,889
100,000-249,999	215	31,813,543	365,288	296,616	744,019	2.34%	2,020,588	6.35%	\$0.92	89,990	246,167	172,424	918,870
250,000-499,999	51	16,678,939	0	0	502,981	3.02%	844,873	5.07%	\$0.90	216,449	(562,981)	447,141	491,430
500,000 plus	7	4,488,634	0	0	0	0.00%	504,270	11.23%	\$0.00	0	1,075,347	0	1,075,347
Mid Counties Total	2,893	115,668,660	426,531	401,951	3,505,355	3.03%	6,754,642	5.84%	\$1.02	328,767	465,444	1,377,792	4,683,220

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
15015 Valley View Ave.	Santa Fe Springs	302,850	\$67,960,000	Brookfield Property Group	United Natural Foods, Inc.
12828 Carmenita Rd.	Santa Fe Springs	268,536	\$46,975,000	Fremont Associates	Principal Global Investors
12100 Rivera Rd.	Whittier	215,462	\$44,000,000	EverWest Real Estate Investors, LLC	Exeter Property Group
12903 Lakeland Rd.	Santa Fe Springs	114,459	\$36,750,000	LBA Realty	XPO Logistics
12836 Alondra Blvd.	Cerritos	109,368	\$22,256,388	Capitol Food Company	Gerard D & Deborah M Barnes

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
3777 Workman Mill Rd. - Renewal	Whittier	613,375	Sep-2020	Michael Kors	Gateway Pointe Investors
15300 Desman Rd.	La Mirada	254,718	Jul-2020	Orange Courier	All-Way Pacific, LLC
14000-14030 E 183rd St.	La Palma	170,692	Sep-2020	Americhine	183rd La Palma Investors
5911-5915 Fresca Dr. - Renewal	La Palma	160,800	Aug-2020	Iron Mountain	National Pension Services of Korea
13021 Leffingwell Ave.	Santa Fe Springs	132,423	Jul-2020	Mega Lion	Golden Springs



Proposition 15 Threatens Owners and Tenants with Higher Property Taxes

by **Seth Davenport**

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As we count down the days to the election, the presidential race gets most of the attention. The coronavirus response, civil unrest and, most recently, an open seat on the US Supreme Court, are the hot-button issues, but Proposition 15 is the big one here in California. Commonly known as the split-roll initiative, the proposition would strip commercial properties of the protections afforded by Proposition 13 and raise up to \$11.5 billion per year in new property tax revenue by reassessing commercial properties to full market value every three years rather than only in the event of a sale. The additional revenue would go to local governments, K-12 schools and community college districts. Collections would begin in the 2022-2023 fiscal year.

The ramifications of passing Proposition 15 are real and could undermine the value structure of all commercial properties. The proponents of the law claim to be going after big corporations and investors who have been using Proposition 13 rules as a loophole to avert paying their fair share of property taxes. Opponents of the measure point to the fact that most property taxes are passed along to the tenants who occupy commercial real estate. Higher property taxes means business owners will either have to raise prices, lay off workers or find other ways to reduce operating costs. The money has to come from somewhere and those who pay higher taxes are not going to just absorb the cost without taking countermeasures.

Those behind Proposition 15 claim to be protecting small businesses by exempting owners who occupy their own properties and who own commercial properties valued under \$3 million. What they don't tell the public is that the \$3 million limit refers to the aggregate value of commercial property owned in the state, and that all principal officers of the business must be California residents. At best, the exemption applies to a tiny fraction of property owners in the state. All non-owner-occupied commercial properties are subject to reassessment to full market value every three years.

So, who gets hurt the worst? The answer is everyone who owns or occupies commercial real estate, but especially long-term owners and their tenants who enjoy an older, lower property tax basis. Consumers will also be hurt by higher prices for everything from food to fuel, and property values will be impacted due to the increased risk of higher operating cost over time.

Since Proposition 13 was passed in 1978, the state has received a 7% average annual increase in property tax revenue despite large fluctuations in property values. If Proposition 15 passes, we believe it would exacerbate an already challenging business climate for our economy. Moreover, it would likely create a reduction in values in the short term and would attenuate the appreciation potential of commercial real estate in the long term.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a industrial-gross basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.

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

