

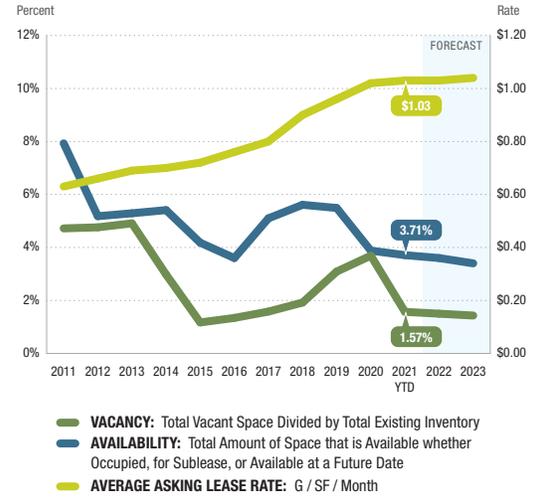
**OVERVIEW.** Activity in the Mid-Countries industrial market slowed somewhat in Q1, but maintained the trajectory it's been on for the past several years. Lease and sale transaction activity fell after a near-record performance in the final quarter of 2020, but lease rates ticked up. Vacancy moved lower, gross absorption nearly doubled and net absorption was firmly in positive territory, which indicates that the easing of pandemic lockdown protocols in Los Angeles County is encouraging industrial businesses to return to normal business operations. The Mid-Countries market has been starved for quality space for the last few years and the lack of new inventory continues to frustrate business owners looking to grow without looking to other markets. Owner/user purchase requirements far exceed available inventory and competition to secure those facilities has kept sales prices moving to new records each quarter.

**VACANCY/AVAILABILITY.** If there is anything holding the Mid-Countries market back, it's low vacancy. The overall vacancy rate fell 212 basis points in Q1 to 1.57%. Surprisingly, the pandemic crisis has done little to slow the region down. Santa Fe Springs, the largest submarket at just over 53 MSF, saw its vacancy rate fall to 0.93%, the lowest on record. As we reported last quarter, the lack of inventory is forcing tenants and buyers to expand their search areas to include Orange County and the Inland Empire or to renew in place and cope with space that no longer matches their operational needs. The availability rate (vacant space plus occupied space offered for lease, sublease, or sale) also decreased by 17 basis points to just 3.71%.

**LEASE RATES.** The average asking lease rate in the Mid-Countries ticked up another penny in Q1, to \$1.03. Landlords are still holding all the cards and continue to hold the line on lease negotiations, but some are willing to offer minor concessions for strong credit tenants. Tenants with immediate requirements prefer move-in-ready space, so those landlords willing to refurbish their older buildings during the marketing period are seeing quicker lease-up times. Lease rates moved up evenly across all size ranges in Q1, as opposed the spike we saw in Q4 in the smaller spaces. For the second consecutive quarter, no space is available between 250,000 to 500,000 SF, and the one offering over 500,000 SF is still available. Of note is the fact that some of the highest quality spaces are offered without an asking rate to encourage competition between potential tenants, meaning the true average lease rate is probably higher than reported.

**TRANSACTION ACTIVITY.** The number of lease transactions completed in Q1 was flat at 102, but sales transactions moved down to 18 from 22 in Q4. Lack of supply is limiting transaction activity, and there are usually multiple tenants or buyers pursuing

### VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



### Market Statistics

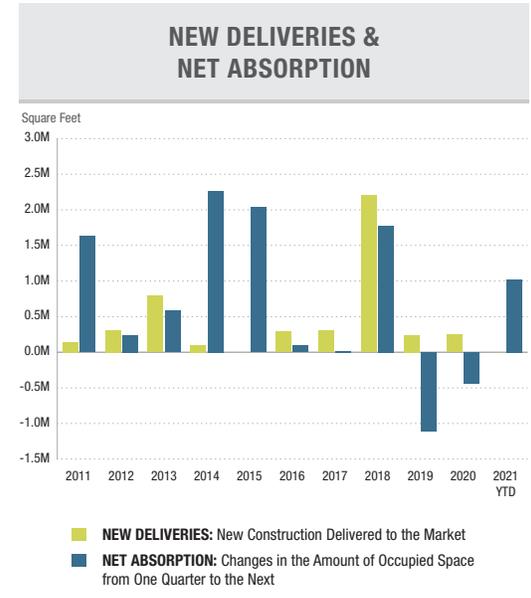
	Change Over Last Quarter	1Q 2021	4Q 2020	1Q 2020	% Change Over Last Year
Vacancy Rate	▼ DOWN	1.57%	3.69%	2.29%	(31.36%)
Availability Rate	▼ DOWN	3.71%	3.88%	5.10%	(27.27%)
Average Asking Lease Rate	▲ UP	\$1.03	\$1.02	\$0.98	5.10%
Sale & Lease Transactions	▼ DOWN	2,706,594	4,397,677	1,961,477	37.99%
Gross Absorption	▲ UP	1,923,522	1,055,051	1,982,210	(2.96%)
Net Absorption	▲ POSITIVE	1,020,920	(490,172)	922,694	N/A

each available property. Total square footage leased decreased to 2.36 MSF from 3.74 MSF in Q4. Inventory is so tight that some businesses are looking to the Inland Empire and Orange County for suitable alternatives. Unfortunately, those markets are also suffering from short supply.

**CONSTRUCTION.** Last quarter we reported a single ground-up development under construction, a 174,863 SF, two-building project in Santa Fe Springs. That is unchanged in Q1. Another 327,000 SF, also in Santa Fe Springs, is in the planning stages, but that will offer little relief for tenants looking for quality, first generation space with the ceiling clearance and fire suppression technology they need. Moreover, a good portion of the space currently available is functionally obsolete to some degree. Land, what little there is to build on, is prohibitively expensive and difficult to entitle. In sum, little change in the construction queue is expected anytime soon.

**ABSORPTION.** After tripling quarter-to-quarter in the final quarter of 2020, net absorption rose again in Q1 to just over 1 MSF, which puts the area on track for a significant net gain in occupied space in 2021. All eight cities that compose the Mid-Counties region posted positive absorption in the first quarter. Santa Fe Springs was back on top with a gain of 352,927 SF, followed closely by Norwalk at 243,998 SF. The Buena Park/La Palma area added another 149,515 SF to the total. Gross absorption (total move-ins) moved up slightly in Q1 to just over 1.9 MSF, further indication of intense demand throughout the region. That number would be substantially higher if the supply of quality space was not so constrained.

**EMPLOYMENT.** The seasonally adjusted unemployment rate in Los Angeles County decreased to 11.5% in February 2021, from a revised 12.6% in January 2021, and was above the rate of 5.0% one year ago. Three sectors lost jobs over the month: trade, transportation, and utilities (down 3,500), government (down 1,400), and construction (down 900).



## Forecast

The Mid-Counties market has been on the same trajectory for years and there is no clear indication that any substantial change is likely for the remainder of 2021. Low vacancy and a lack of new inventory remain a persistent problem. Demand for owner/user buildings will rise to new levels throughout the year as low SBA mortgage rates will remain attractive enough for owner/user buyers to pay a premium to stay in the area. The SBA 504 interest rate fell to an all-time low of 2.26% in January before rising to 3.04% in March due to a spike in the 10-year Treasury yield. But, even if mortgage rates creep higher, owner/user demand is expected to remain strong.

Cause for concern in 2021 is President Biden's platform of tax hikes that could have a negative impact on property values if they become law. The first round of tax increases will be in round one of the infrastructure bill soon to be debated in Congress. It includes provisions to increase corporate and personal income tax rates, along with the repeal of the 20% exemption of Qualified Business Income currently enjoyed by pass-through entities that make up the bulk of privately held business in the Mid-Counties region. While we do not know yet when the second infrastructure bill will be introduced, it could include provisions to eliminate 1031 exchanges, tax capital gains as ordinary income and eliminate the step-up rule, the go-to estate planning tool for most private investors. Any one or combination of these changes could profoundly impact commercial real estate markets across the country.

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2021	Square Feet Available	Availability Rate 1Q2021	Average Asking Lease Rate	Net Absorption 1Q2021	Net Absorption 2021	Gross Absorption 1Q2021	Gross Absorption 2021
<b>Mid Counties</b>													
Artesia / Cerritos	280	13,153,562	0	0	253,765	1.93%	477,717	3.63%	\$2.34	100,987	100,987	354,032	354,032
Bellflower / Downey	196	5,579,646	0	0	65,293	1.17%	132,515	2.37%	\$1.20	45,709	45,709	26,507	26,507
Buena Park / La Palma	233	15,053,500	0	0	145,924	0.97%	614,760	4.08%	\$0.93	149,515	149,515	215,370	215,370
La Mirada	178	12,871,236	0	0	417,850	3.25%	1,620,724	12.59%	\$1.00	42,826	42,826	274,636	274,636
Norwalk	88	2,886,812	0	0	46,303	1.60%	18,910	0.66%	\$1.07	243,998	243,998	203,266	203,266
Paramount	406	8,966,504	0	0	190,925	2.13%	308,358	3.44%	\$0.96	84,191	84,191	151,681	151,681
Santa Fe Springs	1,352	53,238,435	174,863	296,616	496,671	0.93%	1,082,251	2.03%	\$1.08	352,927	352,927	656,892	656,892
Whittier	163	4,109,620	0	0	207,649	5.05%	38,126	0.93%	\$1.12	767	767	41,138	41,138
<b>Mid Counties Total</b>	<b>2,896</b>	<b>115,859,315</b>	<b>174,863</b>	<b>296,616</b>	<b>1,824,380</b>	<b>1.57%</b>	<b>4,293,361</b>	<b>3.71%</b>	<b>\$1.03</b>	<b>1,020,920</b>	<b>1,020,920</b>	<b>1,923,522</b>	<b>1,923,522</b>
5,000-24,999	1,817	24,030,017	0	0	402,304	1.67%	611,170	2.54%	\$1.10	(11,016)	(11,016)	236,160	236,160
25,000-49,999	504	17,894,593	43,905	0	356,475	1.99%	567,972	3.17%	\$1.11	14,502	14,502	300,904	300,904
50,000-99,999	301	20,753,163	0	0	786,389	3.79%	1,400,926	6.75%	\$0.93	235,605	235,605	389,201	389,201
100,000-249,999	217	32,269,169	130,958	296,616	279,212	0.87%	1,351,262	4.19%	\$0.85	586,448	586,448	801,876	801,876
250,000-499,999	50	16,423,739	0	0	0	0.00%	0	0.00%	\$0.00	195,381	195,381	195,381	195,381
500,000 plus	7	4,488,634	0	0	0	0.00%	362,031	8.07%	\$0.00	0	0	0	0
<b>Mid Counties Total</b>	<b>2,896</b>	<b>115,859,315</b>	<b>174,863</b>	<b>296,616</b>	<b>1,824,380</b>	<b>1.57%</b>	<b>4,293,361</b>	<b>3.71%</b>	<b>\$1.03</b>	<b>1,020,920</b>	<b>1,020,920</b>	<b>1,923,522</b>	<b>1,923,522</b>

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
13115-13133 Telegraph Rd.	Santa Fe Springs	32,385	\$7,385,000	Dean Martin Vegas Investor	Goldfein Investments LLC
12906 Telegraph Rd.	Santa Fe Springs	32,000	\$6,171,000	Rebecca Simin LLC	337 Elk Ave LLC
15915-15939 Piuma Ave.	Cerritos	31,800	\$8,300,000	CenterPoint Properties	Amans Trust
11718 Burke St.	Santa Fe Springs	31,539	\$6,021,500	Oliaie-Burke LLC	C.E.G. Construction
15523 Carmenita Rd.	Santa Fe Springs	20,319	\$4,633,370	LN Curtis and Sons	Tellkamp Martin E

### Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
15910-15912 Valley View Ave.	La Mirada	202,310	Feb-2021	Cubework	Brookfield Properties
9400-9500 Santa Fe Springs Rd.	Santa Fe Springs	184,270	Mar-2021	JCR Logistics	RREEF
15625 Shoemaker Ave.	Norwalk	181,472	Jan-2021	Midway Importing	Principle Real Estate
9816 Greenleaf Ave.	Santa Fe Springs	130,958	Mar-2021	The Tire Rack	AEW
14407-14350 Alondra Blvd.	La Mirada	125,415	Mar-2021	Landmark Global Inc.	Link Industrial Properties



Owner-User Demand Flourishes in Industrial Market

by **Erik Sikes**

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A year ago, many industrial business sectors were left in a state of panic and disarray due to the coronavirus pandemic. It is not unusual for markets to be thrown an occasional curveball, but the severity of the global pandemic that essentially shut down the world in March instilled a new sense of vulnerability and uncertainty. Today some business sectors are still struggling. However, others are back to business as usual and some even managed to have record-breaking years in 2020. Overall, the industrial market flourished in 2020 and we expect it to be even stronger this year.

Although Covid-19 remains a major issue, the largest source of uncertainty is a series of tax hikes proposed by the new administration. President Biden campaigned on eliminating 1031 exchanges, raising marginal income tax rates, taxing capital gains at ordinary income tax rates, lowering the estate tax threshold, erasing the step-up rule and raising corporate income tax rates. A question we constantly hear from clients is, "Which proposal will affect me the most?" The reality is, to varying degrees, they all would have an adverse effect on the commercial real estate market. But, it is too early to know which of President Biden's proposals will be formally pursued, and he will face a tough legislative challenge, given the even split of Democrat and Republican Senators.

Even with the reality of Covid-19 and the threat of higher taxes, the owner-user market has exploded. With vacancy rates on leased buildings dropping to a historic low, sale prices for free-standing buildings have moved higher and higher. Potential buyers are enticed by fixed-rate SBA loans in the 3% range, as well as three months of free mortgage payments of up to \$9,000. For many, it just makes sense to amortize their own mortgage rather than write a check to their landlord each month so he can do the same.

While there are undoubtedly reasons to exercise caution about near-term economic challenges, many of our clients remain willing to take on the risk of owning industrial property in Southern California. For them, the desire to grow their businesses and build wealth through property ownership at the same time is a prudent decision.

Product Type

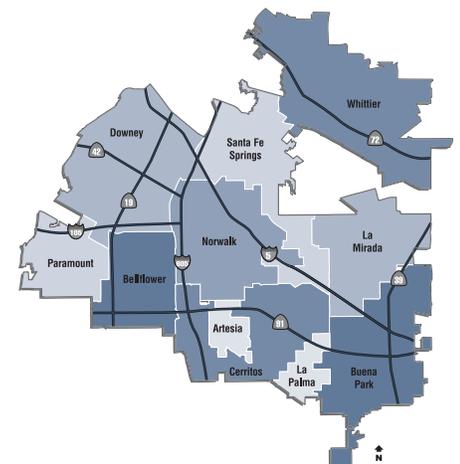
**MFG./DIST.**

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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