

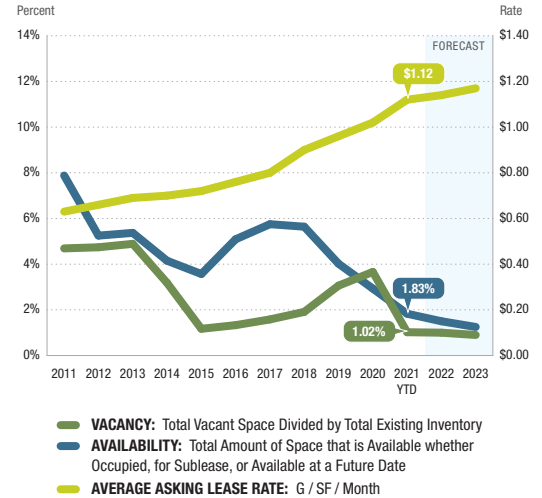
OVERVIEW. Supply and demand fell even further out of balance in the Mid-Countries industrial market this quarter. Vacancy declined sharply to a new low, while move-ins and net absorption were both up. Average asking lease rates spiked again, as well. As we have reported numerous times, the Mid-Countries market has been starved for quality space for the last few years and with new deliveries running at such a sluggish pace, the situation has become critical for businesses who need space to grow. That is forcing them to look to Orange County and the Inland Empire, both of which are wrestling with shortages of their own. Tenants looking to buy and existing owner-users trying to trade up are competing aggressively for purchase opportunities, which pushed sales prices up to a record high in 2Q.

VACANCY/AVAILABILITY. The overall vacancy rate fell from 2.82% to just 1.02% in a single quarter. After a pandemic-induced slowdown in 2Q of 2020, market activity came roaring back and now with the crisis in the rearview mirror, most employees are back to work and businesses are running at full tilt to take advantage of the strengthening economy. Santa Fe Springs, which accounts for nearly half of the region's 116 MSF inventory base, saw its vacancy rate decline by 37 basis points to 0.56%, another record. The availability rate (vacant space plus occupied space offered for lease, sublease, or sale) also decreased by 197 basis points to just 1.83%, an unprecedented decline for a single quarter, and an indication of an increase in renewal activity, as many businesses are forced to stay where they are.

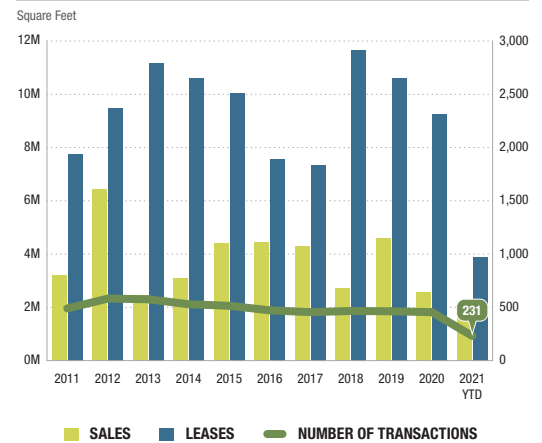
LEASE RATES. The average asking lease rate in the Mid-Countries moved up \$0.09 to a record-high \$1.12 in the second period. But, competition among tenants for space is causing deals to be struck above asking rates in many instances. To be sure, landlords maintain a huge advantage in lease negotiations and they are offering little or no incentives, except for those with very strong credit. Buildings from 25,000 to 100,000 SF saw the biggest increase in average asking lease rate for the period, but all size ranges registered strong gains. However, not a single building in the 250,000-500,000 SF range is available.

TRANSACTION ACTIVITY. The number of lease transactions completed fell to 77 in 2Q from 107 in the previous quarter, but the decrease is mainly due to the lack of supply. 27 sale transactions were closed in 2Q up from 20 in the first quarter. Total square footage leased decreased to 1.27 MSF from over 2.6 MSF last quarter, also due to short supply. In fact, two of the five largest leases recorded in the period were

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

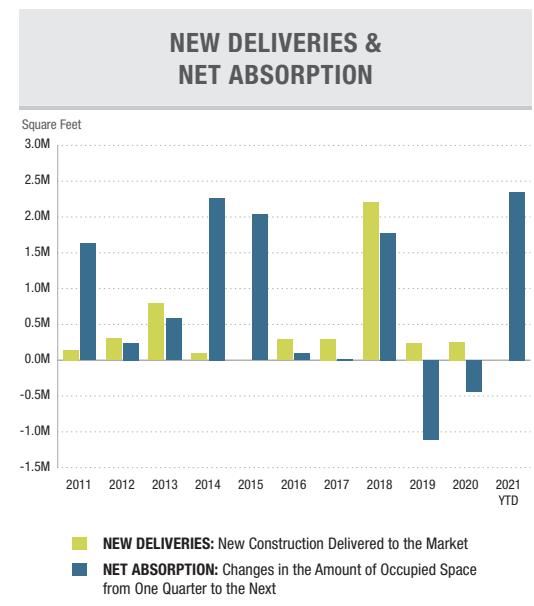
	Change Over Last Quarter	2Q 2021	1Q 2021	2Q 2020	% Change Over Last Year
Vacancy Rate	▼ DOWN	1.02%	2.82%	2.93%	(65.33%)
Availability Rate	▼ DOWN	1.83%	2.93%	5.75%	(68.25%)
Average Asking Lease Rate	▲ UP	\$1.12	\$1.03	\$1.00	12.00%
Sale & Lease Transactions	▼ DOWN	2,490,540	2,963,664	1,584,438	57.19%
Gross Absorption	▲ UP	2,759,426	1,647,294	648,773	325.33%
Net Absorption	▲ POSITIVE	1,325,381	1,009,100	(732,266)	N/A

renewals, a 400,000 SF building on Knott Avenue in Buena Park, and a 290,000 SF building on Arthur Street in Cerritos. The two largest sales in 2Q were both third-party investments, a \$31,500,000 project on Whittier Boulevard acquired by Western Realco and a \$27,800,000 sale to 4M Investments on Phoebe Avenue in La Mirada.

CONSTRUCTION. Ground-up construction was limited to the same two buildings totaling 174,863 in Santa Fe Springs we reported on last quarter. Another 460,000 SF, also in Santa Fe Springs, is in the planning stages, but no other city in the Mid-Counties has a single building on the drawing board at the moment. This is unfortunate, as it is first-generation space with the ceiling clearance and fire-suppression technology that is in such high demand from e-commerce and 3PL operators. Land is scarce and expensive, so there is little relief in sight for those businesses who like the Mid-Counties central location and proximity to the ports of Long Beach and Los Angeles. For the foreseeable future, only an aging inventory of increasingly obsolete facilities remains for users in need of space to accommodate plans for growth.

ABSORPTION. Net absorption increased to 1,325,381 SF in 2Q despite tight conditions. As in 1Q, all 8 cities in the Mid-Counties region posted a net gain in occupied space for the period. La Mirada led the way again with a gain of 430,305 SF, followed by Santa Fe Springs at 299,792 SF. Artesia/Cerritos added another 204,018 SF to the total. Gross absorption (total move-ins) moved up to 2.7 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 remained unchanged at 11.1% in May 2021, from a revised 11.1% in April 2021, and was below the rate of 18.8% one year ago. Sectors expanding employment: trade, transportation and utilities (up 3,100), manufacturing (up 2,900), and financial activities (up 100).



Forecast

The Mid-Counties market will remain critically low on inventory for the foreseeable future. Without new construction to add to the region's depleted inventory, businesses will have little to choose from and will be paying a premium to get their hands on any space that becomes available. Lease renewal activity is likely to increase, especially for users who must stay in the local area to service their customers and that will dampen net absorption performance. Demand for owner/user buildings will remain strong, as SBA mortgage rates dipped below 3% during 2Q after a big spike in 1Q.

However, President Biden's American Families Plan, a massive stimulus plan presently being negotiated in Congress, proposes a series of tax hikes that would directly impact commercial property values if passed. As proposed, capital gains would be taxed as ordinary income, 1031 exchanges would be limited to just \$500,000 in gain and capital gains taxes would be levied at death whether or not assets are sold, which would eliminate the step-up rule, a widely used estate planning tool used by investors big and small. All property owners and those looking to acquire real estate assets should follow the negotiations closely and be ready to take appropriate action.

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2021	Square Feet Available	Availability Rate 2Q2021	Average Asking Lease Rate	Net Absorption 2Q2021	Net Absorption 2021	Gross Absorption 2Q2021	Gross Absorption 2021
Mid Counties													
Artesia / Cerritos	280	13,156,074	0	0	240,538	1.83%	410,283	3.12%	\$1.06	204,018	305,005	436,268	436,268
Bellflower / Downey	198	5,597,512	0	0	73,931	1.32%	63,724	1.14%	\$1.17	20,297	66,006	131,540	158,047
Buena Park / La Palma	233	15,058,712	0	0	78,761	0.52%	430,517	2.86%	\$0.93	149,894	299,409	402,748	618,118
La Mirada	179	13,110,165	0	0	311,496	2.38%	409,212	3.12%	\$1.00	430,305	473,131	266,828	541,464
Norwalk	88	2,874,315	0	0	24,997	0.87%	47,147	1.64%	\$1.07	14,906	258,904	63,142	266,408
Paramount	408	8,995,812	0	0	131,547	1.46%	180,502	2.01%	\$0.96	111,346	195,537	99,617	251,298
Santa Fe Springs	1,351	53,702,901	174,863	460,134	299,051	0.56%	575,530	1.07%	\$1.08	299,792	652,719	1,168,214	1,825,106
Whittier	164	4,121,940	0	0	23,352	0.57%	11,668	0.28%	\$1.00	94,823	95,590	191,069	232,207
Mid Counties Total	2,901	116,617,431	174,863	460,134	1,183,673	1.02%	2,128,583	1.83%	\$1.12	1,325,381	2,346,301	2,759,426	4,682,948
5,000-24,999	1,821	24,077,847	0	0	382,484	1.59%	428,234	1.78%	\$1.13	(20,308)	(31,324)	344,051	580,211
25,000-49,999	504	17,904,752	43,905	59,568	188,612	1.05%	216,938	1.21%	\$1.23	367,248	381,750	349,632	650,536
50,000-99,999	301	20,729,779	0	0	554,161	2.67%	689,010	3.32%	\$1.10	537,293	772,898	648,892	1,038,093
100,000-249,999	216	32,165,193	130,958	400,566	16,385	0.05%	387,125	1.20%	\$1.10	717,509	1,303,957	1,128,851	1,930,727
250,000-499,999	52	17,251,226	0	0	0	0.00%	45,245	0.26%	\$0.00	(234,330)	(38,949)	288,000	483,381
500,000 plus	7	4,488,634	0	0	42,031	0.94%	362,031	8.07%	\$0.00	(42,031)	(42,031)	0	0
Mid Counties Total	2,901	116,617,431	174,863	460,134	1,183,673	1.02%	2,128,583	1.83%	\$1.12	1,325,381	2,346,301	2,759,426	4,682,948

This survey consists of buildings greater than 5,000 square feet. Lease rates are on an industrial-gross basis.

Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
12352 Whittier Blvd.	Whittier	224,628	\$31,500,000	Western Realco	Leggett & Platt Canada Co.
16222 Phoebe Ave.	La Mirada	137,700	\$27,800,000	4M Investments	Doug Clausen
10901-10915 Painter Ave.	Santa Fe Springs	57,906	\$14,300,000	Bain Capital Real Estate Lp	Luciano Family Trust
7300 Somerset Blvd.	Paramount	53,273	\$9,980,000	Lion Floor	Dunbar Real Estate Investment
13013-13017 166th St.	Cerritos	49,344	\$11,843,000	Kiturami America Inc.	Brad Byungsik & Helen Park *

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
6311 Knott Ave.	Buena Park	399,473	May-2021	Houdini, Inc.	Clarion Partners
16012-16030 Arthur St. - Renewal	Cerritos	290,000	Jun-2021	Bergen Shippers Corporation	Link Logistics Real Estate
15927 Distribution Way - Renewal	Cerritos	220,000	Jun-2021	American Cargo Express, Inc.	Link Logistics Real Estate
13930-13950 Mica St.	Santa Fe Springs	102,516	Apr-2021	McKinley Packaging LA Company	Prologis
15220 Canary Ave.	La Mirada	93,280	Jun-2021	Pago	Poliquin Revocable Trust



The Skinny on the Proposed American Families Plan

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As we begin the second half of 2021, it is safe to say that most folks involved in the investment community are anxiously waiting to see how the new administration’s tax plan unfolds. The most talked about items of the American Families Plan are the capital gains rate, step up in asset basis and carried interest.

In broad strokes, the current top-level, long-term capital gains rate of 20% is being proposed to increase to 39.6% (for investors with income over \$1M). Also, the Net Investment Income Tax (NIIT) will also continue at 3.8%, which brings the new proposed long term capital gains rate to 43.4%.

The other hot topic tax rule the step-up in basis rule. Under the current rule, the step-up in basis rule allows assets to be transferred at death without paying capital gains tax on the appreciation in value. As an example, say an investor purchased a property for \$500,000 and, once passed down to the beneficiary at a later date, it was valued at \$750,000. After holding onto the property for some time, the beneficiary ends up selling the property for \$1,000,000. As such, a tax payment will be due based upon \$250,000, which came from the difference between the \$1,000,000 selling price and the step-up in basis of \$750,000. On the other hand, without a step-up in basis, the above example would now be a tax payment based on \$500,000 instead of the \$250,000 amount.

Most of the attention has been given to the above two tax items, however, the elimination of carried interest could also be significant. Carried interest is a percentage of the profits generated by a hedge fund or private equity fund and is typically included in the managing partner’s compensation. As such, carried interest plays an important role in encouraging the fund’s performance.

Currently, carried interest is seen as a return on investment. Being so, it is taxed now at the 20% capital gains rate as opposed to the regular income tax rate of 37% (for those whose incomes are over \$1M.)

The legislation under consideration, if approved, would raise the long-term capital gains tax rate for investors to whatever federal rate the owner is currently paying on ordinary income. So, for investors with income above \$1M, the percentage would nearly double from 20% to 39.6%.

However, carried interest is not easily achieved. It should be noted that if the managing partner of the hedge fund or private equity fund does not achieve the agreed upon rate of return, then the partner does not receive a carried interest. Instead, they may even have their share “clawed back” for lackluster performance.

Some believe that plans will get trimmed down a bit and try to “meet somewhere in the middle” but only time will tell.

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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.

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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

