

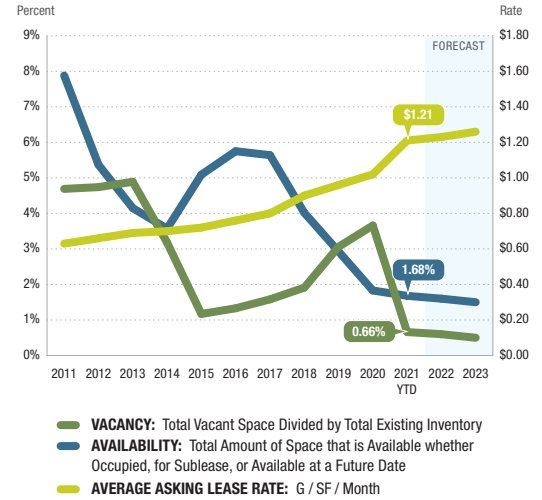
OVERVIEW. The Mid Counties industrial market maintained the status quo in 3Q, which is not good news for tenants in the hunt for space. Vacancy declined to another record low while average asking lease rates hit another record high. Absorption remained in positive territory, but move-ins and lease/sale activity dropped off due to low supply. As we have been reporting for years, the Mid-Counties market is starved for quality space. With new deliveries so few and far between, the situation has become critical for businesses who want to expand within their immediate area. Those who can expand their search areas are looking to the Inland Empire, but supply is just as tight there. Existing owner/ users looking to grow and tenants looking to be owners have become increasingly frustrated. They are anxious to take advantage of mortgage rates in the 3% range to secure a Mid Counties location for the long term. That has sale opportunities even harder to find than space for lease, and without new construction, things won't be changing much in the near term.

VACANCY/AVAILABILITY. The overall vacancy rate is shrinking fast. In 1Q it was 2.8%, but by the end of 3Q, it saw a new record low of 0.66%, the lowest of any major submarket in Southern California. Even the resurgent virus did nothing to slow things down in 3Q. Market activity snapped back in 2Q of 2020 and hasn't lost any momentum since. The availability rate (vacant space plus occupied space offered for lease, sublease, or sale) also declined another 15 basis points to 1.68%.

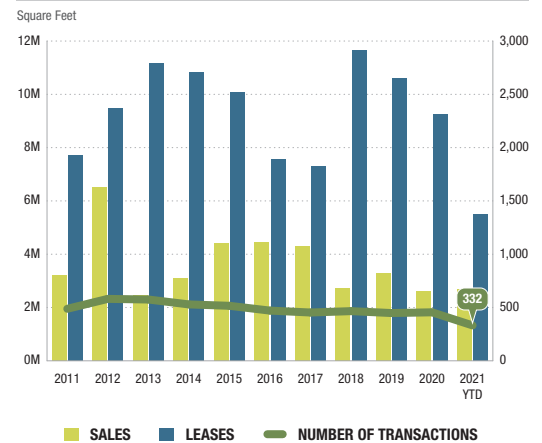
LEASE RATES. The average asking lease rate in the Mid-Counties took off again in 3Q, rising another \$0.09 to a record-high \$1.21 in 3Q, after a similar increase in 2Q. Actual rates are higher as competition among prospective tenants is driving them higher than asking. Some buildings are offered without an asking rate, so they don't show up in the quarterly statistics. Space offered this way also tends to be of the highest quality, which adds another rate premium. Landlords control the process and have the upper hand in lease negotiations. They expect and get strong credit and big security deposits and offer little in the way of free rent or tenant improvements. The rate increase was similar across the board in terms of building size. A 100,000 SF building now leases at essentially the same rate as a 10,000 SF building.

TRANSACTION ACTIVITY. The number of signed lease transactions fell for the fourth consecutive period in 3Q. Only 67 leases were inked during the period, down from 82 in 2Q, 107 in 1Q and 113 in 4Q of 2020. The decrease is primarily due to the lack of supply. There just isn't any place to go for most businesses and that is forcing

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

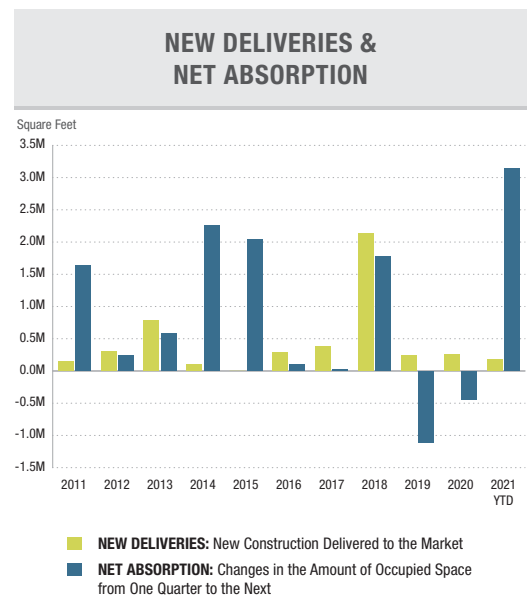
	Change Over Last Quarter	3Q 2021	2Q 2021	3Q 2020	% Change Over Last Year
Vacancy Rate	▼ DOWN	0.66%	1.02%	3.05%	(78.24%)
Availability Rate	▼ DOWN	1.68%	1.83%	5.64%	(70.19%)
Average Asking Lease Rate	▲ UP	\$1.21	\$1.12	\$1.02	18.63%
Sale & Lease Transactions	▼ DOWN	1,869,406	3,366,823	3,884,222	(51.87%)
Gross Absorption	▼ DOWN	2,016,837	2,301,502	842,252	139.46%
Net Absorption	▲ POSITIVE	800,507	1,325,381	(146,760)	N/A

them to renew in place and continue operations in buildings that do not support efficient operations. Those who need to be in the immediate area have no choice, while others find things just as tight whether they look in Central LA, San Gabriel Valley or all the way out in the Inland Empire. Total square footage leased decreased to 1.27 MSF from over 2.6 MSF last quarter, also due to short supply.

ABSORPTION. Net absorption decreased to 800,507 SF in 3Q, but remained in positive territory despite tight conditions. All eight cities in the Mid-Counties region posted a net gain in occupied space for the third consecutive period. Santa Fe Springs had the biggest gain at 413,835 SF, followed by La Mirada at 142,425 SF. Artesia / Cerritos added another 79,712 SF to the total. Gross absorption (total move-ins) also decreased in 3Q, falling to 2 MSF, down from 2.3 MSF in 2Q. Both net and gross absorption are heavily impacted by tight supply, as tenants in all size ranges are lined up to lease every space that becomes available.

CONSTRUCTION. Ground-up construction is limited to the same four buildings we reported on last quarter. Three are in Santa Fe Springs and total 234,000 SF. The other is a 28,000 SF building in Whittier. Santa Fe Springs has approximately 406,000 SF in the planning stage and Buena Park / La Palma has a single building, 30,650 SF, in the planning queue. This is not nearly enough to ease market conditions, which means things could get even tighter going forward. Current leasing activity would support the immediate delivery of several million square feet of quality first-generation space, as e-commerce retailers and 3PL operators need the clear height and ESFR sprinkler systems associated with new construction. But this is wishful thinking, as land for ground-up development remains scarce and prohibitively expensive.

EMPLOYMENT. The seasonally adjusted unemployment rate in Los Angeles County decreased over the month to 10.1% in August 2021 from a revised 10.4% in July 2021 and was below the rate of 17.2% a year ago. The industries adding employment over the month include educational and health services (up 3,000), construction (up 2,500), and manufacturing (up 1,800).



Forecast

The Mid-Counties market will remain as it is today for the foreseeable future. Without new inventory to augment the existing base, tenants and buyers will be driving up lease rates and sales prices as they compete to be the winning bidders. Lease renewal activity is likely to increase out of necessity for those tenants who must remain in the immediate area. Owner / user demand will increase again in the next few quarters, as mortgage rates have moved lower and more tenants will be looking to buy in order to control product and fix their occupancy cost without moving.

Still of concern is the debate over the Build Back Better Plan, proposed by the White House and currently being debated in Congress. The plan calls for several tax hikes that could have a significant impact on commercial property values. The issue is politically charged and there is much at stake for the new administration. It is too soon to say which way things will go, but everyone interested in commercial real estate is well advised to follow the issue closely. A vote is expected sometime in October.

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2021	Square Feet Available	Availability Rate 3Q2021	Average Asking Lease Rate	Net Absorption 3Q2021	Net Absorption 2021	Gross Absorption 3Q2021	Gross Absorption 2021
Mid Counties													
Artesia / Cerritos	280	13,086,674	0	0	181,410	1.39%	344,603	2.63%	\$2.44	79,712	384,717	412,767	1,203,067
Bellflower / Downey	198	5,585,507	0	0	20,182	0.36%	30,155	0.54%	\$1.16	16,924	82,930	39,584	197,631
Buena Park / La Palma	233	15,058,712	0	30,650	52,461	0.35%	374,731	2.49%	\$0.93	37,975	337,384	182,340	800,458
La Mirada	178	13,045,877	0	0	137,122	1.05%	413,699	3.17%	\$1.00	142,425	615,556	391,503	932,967
Norwalk	88	2,874,315	0	0	13,678	0.48%	3,800	0.13%	\$1.07	35,319	294,223	94,397	360,805
Paramount	408	8,995,812	0	0	91,247	1.01%	108,589	1.21%	\$0.96	72,800	268,337	111,245	362,543
Santa Fe Springs	1,352	53,820,820	234,468	406,837	273,455	0.51%	679,961	1.26%	\$1.08	413,835	1,066,554	778,834	2,603,940
Whittier	163	4,105,841	28,332	0	5,130	0.12%	2,802	0.07%	\$1.35	1,517	97,107	6,167	238,374
Mid Counties Total	2,900	116,573,558	262,800	437,487	774,685	0.66%	1,958,340	1.68%	\$1.21	800,507	3,146,808	2,016,837	6,699,785
5,000-24,999	1,823	24,081,716	10,138	0	176,082	0.73%	262,235	1.09%	\$1.22	137,350	106,026	417,393	997,604
25,000-49,999	503	17,905,741	28,332	90,218	156,529	0.87%	235,473	1.32%	\$1.19	222,814	604,564	456,961	1,107,497
50,000-99,999	298	20,525,082	77,713	92,771	385,167	1.88%	618,107	3.01%	\$1.19	221,501	994,399	609,772	1,647,865
100,000-249,999	217	32,275,124	146,617	254,498	12,626	0.04%	478,244	1.48%	\$1.25	139,012	1,442,969	450,631	2,381,358
250,000-499,999	52	17,266,836	0	0	0	0.00%	0	0.00%	\$0.00	82,080	43,131	82,080	565,461
500,000 plus	7	4,519,059	0	0	44,281	0.98%	364,281	8.06%	\$0.00	(2,250)	(44,281)	0	0
Mid Counties Total	2,900	116,573,558	262,800	437,487	774,685	0.66%	1,958,340	1.68%	\$1.21	800,507	3,146,808	2,016,837	6,699,785

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
15005 Northam St.	La Mirada	240,000	\$95,500,000	LBA Realty	International Paper
1455 Alondra Blvd.	Santa Fe Springs	237,089	\$55,000,000	Brookfield Properties	Interstate 5 Firestone, LLC
12021-12023 Woodruff Ave.	Downey	159,992	\$14,750,000	Prologis, Inc.	Kirkhill Manufacturing Company
11804 Wakeham St.	Santa Fe Springs	56,577	\$12,800,000	Staley Point Capital	11804 Wakeman LLC
14263 Gannet St.	La Mirada	46,000	\$7,902,000	SDI Real Property Investors LLC	Spartech Corporation

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
11500 Los Nietos Rd. - Renewal	Santa Fe Springs	121,344	Jul-2021	Midas Express Inc.	Principle Real Estate Investors, LLC
12935-13021 Leffingwell Ave.	Santa Fe Springs	82,080	Aug-2021	Prime Wire & Cable, Inc.	Hydrofarm
10634 Shoemaker Ave.	Santa Fe Springs	79,582	Sept-2021	Priority Wire & Cable, Inc.	10634 Shoemaker LLC
16010 Bloomfield Ave.	Cerritos	53,760	Aug-2021	GPA Acquisition Company	Link Logistics
13512-13518 Imperial Hwy.	Santa Fe Springs	48,057	Sept-2021	Midwest Hose & Supply	Fremont Associates



A Quickly Evolving Supply Chain

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As we enter the final quarter of 2021, the familiar narrative persists in the LA Industrial Market. Record absorption, record customer demand, and record rent increases have been consistent across the majority of submarkets. The boom of the e-commerce industry coupled with increased port activity has boosted demand across all submarkets and the supply of industrial inventory has been unable to keep pace. There may be no better illustration of the supply chain buildup than the hundreds of cargo ships stalled offshore of Los Angeles and Long Beach over recent months. The congestion at the ports, in combination with a lack of warehouse availability, has saddled distributors and drayage businesses with increased transportation costs as they have been forced to expand into new submarkets. The lack of availability for high-clear and dock-high warehouses has put pressure on distributors to expand into new markets that weren't previously desired. This has allowed smaller submarkets to thrive in response to the pent-up demand.

The increase in demand has made landlords the beneficiaries. Lease rates increased again this past quarter, driving average asking lease rates in Los Angeles to \$1.14 PSF in 3Q. Vacancy rates fell once again below what many had predicted when we began the year and found ourselves in a pandemic that froze major sectors of the economy. This combination of increased lease rates and low vacancy has put pressure on tenants with real estate requirements. Tenants looking for industrial space have been forced to move quickly when signing a lease as acquiring space remains exceptionally competitive.

Investor activity remains high in the current market, and it is clear that no price is out of reach for some institutional buyers. We have seen record-setting sale prices across the majority of submarkets, and this will certainly continue through the rest of the year. The top institutional players have demonstrated they are willing to bite the bullet on pricing, knowing the annual rent forecasts are so strong in the greater LA market.

Although it appears to be full steam ahead for all sectors of the US economy, inflationary concerns have intensified recently, and it remains to be seen whether investors will begin adopting a defensive posture as we wrap up the current economic cycle. CPI data from August has the inflation rate at approximately 5.3%, with other data suggesting even higher numbers. The money that has been injected into the system has kept the economy stable and allowed businesses in the free market to flourish. However, some economists warn this infusion of capital will have consequences. How will companies react when profits recede, and government stops flooding the money supply? All this remains to be seen. Inflationary pressures will be a focal point over the next few months, and this will be something to pay attention to as we wrap up 2021.

Product Type

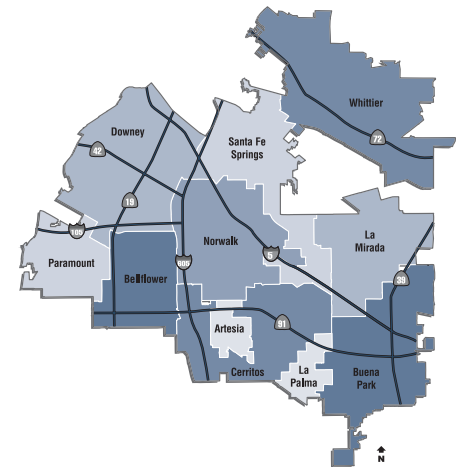
MFG./DIST.

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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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.