

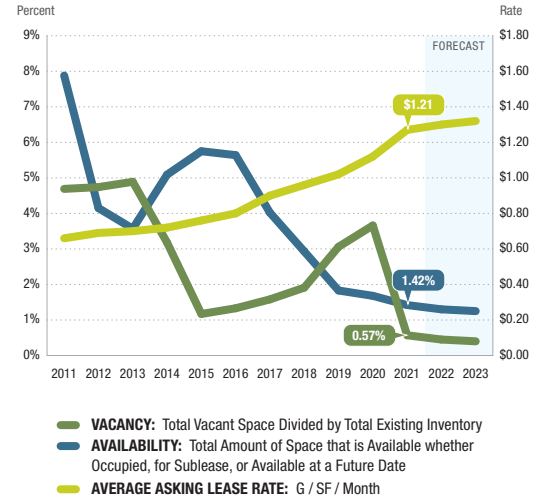
OVERVIEW. The Mid-Countries industrial market, like its neighbors to the north and south, tightened even further in the final quarter of 2021. Vacancy declined to another record low, leaving the Mid-Countries with the lowest vacancy rate of all major Southern California industrial markets. That helped to push average asking lease rates to another record, while net absorption managed to remain in positive territory. Move-ins and transaction activity slowed due to lack of supply, as tenants and buyers had next to nothing to choose from in terms of quality space. Construction of new inventory has dwindled and few projects are in the planning stages. Existing and prospective owner/users are scrambling to make acquisitions to control long-term occupancy cost and lock in low mortgage rates before the Fed's expected efforts to fight inflation send rates higher.

VACANCY / AVAILABILITY. The overall vacancy rate fell by 84.6% in the past year, and ended the year at 0.57%, the lowest in the area's history. Just 664,000 SF of the 116.9 MSF base stood vacant as the year ended. Santa Fe Springs, the largest Mid-Countries submarket at 53.6 MSF, now has a vacancy rate of 0.46%. In Whittier, a single 4,280 SF space is the only vacancy in the city. La Mirada has the highest vacancy rate in the region, but it is still only 1.79% and will probably drop to under 1% when the next space leases up. In Paramount, a city with 409 buildings in inventory, only 30,100 SF is currently unoccupied and not a single new building is in the planning queue.

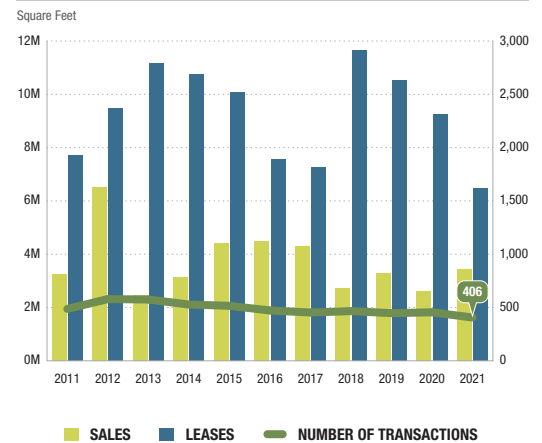
LEASE RATES. The average asking lease rate in the Mid-Countries rose another \$0.06 to a new record high of \$1.27 in Q4, after another big jump in Q3. As reported last quarter, actual rates are higher as many buildings lease above the asking price due to fierce competition from multiple prospective tenants. Some of the higher quality spaces are either offered without an asking price or leased on an off-market basis at higher than the reported average asking rates. As the year ended, not a single space over 50,000 SF was offered for lease with an asking price. Landlords still hold all the cards in lease negotiations and offer little in the way of free rent or tenant improvements. Strong credit is a must to be competitive, especially on properties with institutional owners who are looking for long-term asset stability.

TRANSACTION ACTIVITY. The number of signed lease transactions fell for the fifth consecutive period in Q4. Only 47 leases were completed during the period, down from 71 in Q3, 82 in Q2 and 107 in Q1. That consistent decrease makes clear how the lack of supply is a market chokepoint. There just isn't any place to go. The sale side of the equation is just as tight. Just 21 sales totaling 614,000 SF took place in Q4, down from

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

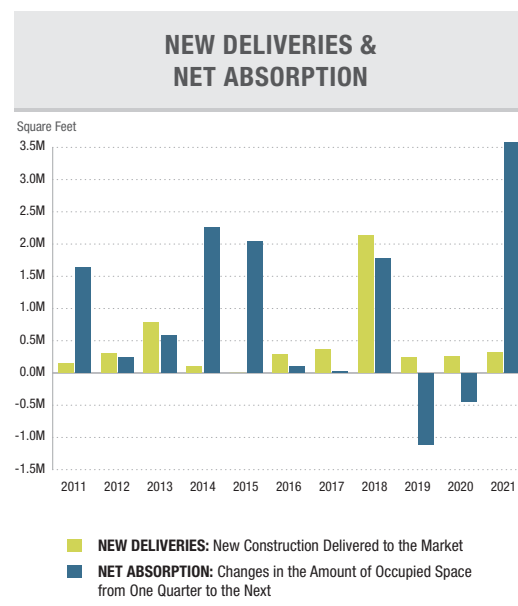
	Change Over Last Quarter	4Q 2021	3Q 2021	4Q 2020	% Change Over Last Year
Vacancy Rate	▼ DOWN	0.57%	0.66%	3.69%	(84.56%)
Availability Rate	▼ DOWN	1.42%	1.68%	4.02%	(64.79%)
Average Asking Lease Rate	▲ UP	\$1.27	\$1.21	\$1.02	24.51%
Sale & Lease Transactions	▼ DOWN	1,323,930	2,251,092	4,452,382	(70.26%)
Gross Absorption	▼ DOWN	1,102,499	2,301,502	1,055,051	4.50%
Net Absorption	▲ POSITIVE	426,368	800,507	(490,172)	N/A

30 sales totaling 1.25 MSF in Q3. The demand for property acquisition keeps climbing despite the lack of availability, as the owner/user model allows business owners to fix occupancy cost for up to 25 years in a market with rapidly rising lease rates.

ABSORPTION. Net positive absorption fell to 426,000 SF in Q4 from 800,507 SF in Q3. Five of the eight cities in the Mid-Counties region posted a net gain in occupied space while Bellflower/Downey, La Mirada and Paramount were slightly into negative territory. Santa Fe Springs had the biggest gain again in Q4 at 235,877 SF, followed by Artesia/Cerritos at 141,711 SF and Buena Park/La Mirada at just under 52,000 SF. Gross absorption (total move-ins) fell by half in the final quarter to 1.1 MSF, but that decline is purely reflective of the lowest vacancy rate in the region's history.

CONSTRUCTION. Ground-up construction activity declined again in the final quarter. Just under 179,000 SF was under construction as the year ended, including two buildings totaling 150,548 SF in Santa Fe Springs and a single 28,000 SF building in Whittier. Santa Fe Springs has approximately 256,000 SF in the planning stage, followed by Bellflower/Downey with 44,000 SF, Buena Park/La Palms with 30,000 SF and Whittier with only 5,400 SF. These numbers are woefully short of what is needed to put a dent in the supply problem throughout the region. As we reported in Q3, current lease and sale demand would support the immediate delivery of several million square feet of quality first-generation space. However, land for ground-up development is so scarce and expensive that the prospects for new deliveries are grim.

EMPLOYMENT. Los Angeles County's unemployment rate fell to 8.9% in November from 9.4% in October amid a hiring surge that saw employers in the county add 43,000 payroll jobs, according to state figures released last month. November's gains were spread across several industry sectors, led by a seasonal jump of 14,000 in retail trade jobs as stores entered holiday hiring mode. That was followed by a net gain of 9,100 jobs in the transportation/warehousing sector and a jump of 7,800 jobs in professional/business services.



Forecast

The Mid-Counties market is not likely to experience significant change in 2022. The existing supply shortage and lack of new development will keep prices up and vacancy down for the foreseeable future. Lease renewal activity is likely to increase out of necessity. Owner/user demand will stay strong even if Fed action to stem inflation results in a moderate increase in mortgage rates. Buyers will still be focused on fixing their occupancy costs for 25 years rather than face annual rental increases and higher asking rates caused by the lack of quality available space.

The good news as we look ahead is that the proposed increase in capital gains tax rates, elimination of the step-up rule and the curtailing of 1031 exchange provisions, appear to be on shaky ground. The Build Back Better Act has stalled and is unlikely to be revisited before the 2022 midterm elections. Any one of those tax hikes could have been consequential to commercial real estate markets. Concern will shift to the impact of inflation the likes of which we haven't seen in 40 years. The Consumer Price Index rose at an annualized rate of 6.8% in November. Initial indications from the Fed were that the spike was transitory, but the central bank now admits that is not the case and will be implementing policies to slow the flow of capital via the suspension of its bond-buying campaign and rate hikes are expected in 2022. That will move mortgage rates higher, but at this point we don't know by how much.

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2021	Square Feet Available	Availability Rate 4Q2021	Average Asking Lease Rate	Net Absorption 4Q2021	Net Absorption 2021	Gross Absorption 4Q2021	Gross Absorption 2021
Mid Counties													
Artesia / Cerritos	277	13,007,088	0	0	63,631	0.49%	198,774	1.53%	\$1.22	141,711	526,428	167,207	1,370,274
Bellflower / Downey	200	5,652,552	0	44,162	33,241	0.59%	58,892	1.04%	\$1.40	(16,325)	66,605	24,122	221,753
Buena Park / La Palma	233	15,058,712	0	30,650	45,656	0.30%	373,481	2.48%	\$0.93	51,805	389,189	10,805	811,263
La Mirada	176	13,368,827	0	0	238,936	1.79%	479,543	3.59%	\$1.00	(16,385)	599,171	264,465	1,197,432
Norwalk	88	2,874,315	0	0	3,800	0.13%	3,800	0.13%	\$1.07	32,150	326,373	8,150	368,955
Paramount	409	8,998,068	0	0	30,100	0.33%	60,922	0.68%	\$0.96	(9,363)	258,974	144,896	507,439
Santa Fe Springs	1,347	53,628,794	150,548	256,289	244,903	0.46%	445,612	0.83%	\$1.08	235,877	1,302,431	467,031	3,070,971
Whittier	163	4,104,354	28,332	5,465	4,280	0.10%	30,623	0.75%	\$1.40	6,898	104,005	15,823	254,197
Mid Counties Total	2,893	116,692,710	178,880	336,566	664,547	0.57%	1,651,647	1.42%	\$1.27	426,368	3,573,176	1,102,499	7,802,284
5,000-24,999	1,818	23,950,535	0	5,465	139,104	0.58%	336,491	1.40%	\$1.43	10,484	116,510	126,137	1,123,741
25,000-49,999	501	17,784,620	28,332	134,380	192,862	1.08%	211,130	1.19%	\$1.46	(22,605)	581,959	201,793	1,309,290
50,000-99,999	298	20,600,080	0	92,771	278,360	1.35%	406,584	1.97%	\$0.00	148,447	1,142,846	382,703	2,030,568
100,000-249,999	215	31,922,737	150,548	103,950	9,940	0.03%	205,576	0.64%	\$0.00	244,797	1,687,766	391,866	2,773,224
250,000-499,999	54	17,915,679	0	0	0	0.00%	127,585	0.71%	\$0.00	45,245	88,376	0	565,461
500,000 plus	7	4,519,059	0	0	44,281	0.98%	364,281	8.06%	\$0.00	0	(44,281)	0	0
Mid Counties Total	2,893	116,692,710	178,880	336,566	664,547	0.57%	1,651,647	1.42%	\$1.27	426,368	3,573,176	1,102,499	7,802,284

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
14100 Vine Pl.	Cerritos	118,906	\$48,500,000	Rexford Industrial Realty, Inc.	Fairmont Designs
12851 Midway Pl.	Cerritos	102,160	\$34,500,000	Black Creek Group	Polycell Packaging
14821 Artesia Blvd.	La Mirada	88,937	\$16,925,000	TA Realty	JDH Pacific Inc.
13534-13544 Imperial Hwy.	Santa Fe Springs	64,329	\$12,044,000	Dunbar Imperial LLC	Hind Site, Inc.
10020 Norwalk Blvd.	Santa Fe Springs	37,126	\$9,750,000	Amasantafe LLC	Emg Ents LLC

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
6300 Valley View Ave – Renewal	Buena Park	190,800	Dec-2021	Manhattan Beachwear, LLC	Prudential*
9206-9214 Santa Fe Springs Rd.	Santa Fe Springs	155,238	Oct-2021	Bay Cities Packaging & Design	Oltmans Investment Co
12330 Lakeland Rd. – Renewal	Santa Fe Springs	146,326	Oct-2021	7-Eleven, Inc.	Carson Dominguez
12851 Midway Pl.	Cerritos	102,160	Oct-2021	Polycell Packaging	Black Creek Group
14233-14263 Gannett St.	La Mirada	71,632	Nov-2021	ABC Logistics Freight Forwarding Co.	SDI Real Property Investors*



Industrial Inflation

by **David Fults**

SENIOR VICE PRESIDENT / PARTNER
424.329.7504 . dfults@voitco.com . Lic. #01242123

As we wrap up 2021, we can look back on an incredible year for commercial real estate values. Appreciation in sale and lease rates has been significant ever since we came out of the great recession in 2010. Last year saw incredible increases supercharged by several factors, including lack of development land, hostile government policies towards development, an industrial boom of activity coming out of the pandemic, and central bank support of low interest rates.

Lack of development land in Los Angeles has been an ongoing story for 30 years. We continue to get more creative, developing properties that previously were considered too complicated because of environmental or functional challenges. Industrial development demand in 2021 has pushed values from \$60–\$80 per square foot in the middle of the year to now \$150–\$160 per square foot in current activity. The next round of deals could be as high as \$200 per square foot for the best opportunities. And this is just for LAND!

Local governments are exacerbating the price increases through their increasingly hostile attitude towards industrial use of property, with trucking use bearing the brunt of unfavorable regulations. The ports of Los Angeles and Long Beach demand an enormous amount of trucking activity in Southern California. The disruption in the supply chain during the pandemic has caused increased demand for storage containers and trucks. That, combined with city use restrictions, has led to incredible lease rate inflation in truckyards that are preapproved by city governments. In 2021 truck yard lease rates in the South Bay / Port market jumped from \$0.45 to \$0.55 to \$0.65 and now the latest transactions will be close to \$1.00 PSF. We’re talking about land, pavement, and a city use permit.

Our central bank’s policy of supporting low interest rates is one of the largest contributors to the increase in pricing across the board. Investors eager to put money to work in the industrial market are able to borrow so cheaply that stabilized capitalization rates for the largest institutional transactions are trending toward 3%. This may not be sustainable, however, as the central bankers have indicated a willingness to increase rates in 2022.

These factors have combined to supercharge industrial market value in 2021. Looking forward we can see little release to these pressures, which will certainly result in new sale and lease records for the immediate future. The one foreseeable change ahead is interest rates, which, at this time, is the only speed bump ahead for pricing.

**Please Contact Us
for Further Information**

Tony Tran
Regional Director of Research
ttran@voitco.com

Anaheim, CA 714.978.7880	Carlsbad, CA 760.472.5620	Inland Empire, CA 909.545.8000	Irvine, CA 949.851.5100	Los Angeles, CA 424.329.7500	San Diego, CA 858.453.0505
-----------------------------	------------------------------	-----------------------------------	----------------------------	---------------------------------	-------------------------------

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

