MC1Q22

FIRST QUARTER 2022 MARKET REPORT

MID COUNTIES INDUSTRIAL

Voit REAL ESTATE SERVICES

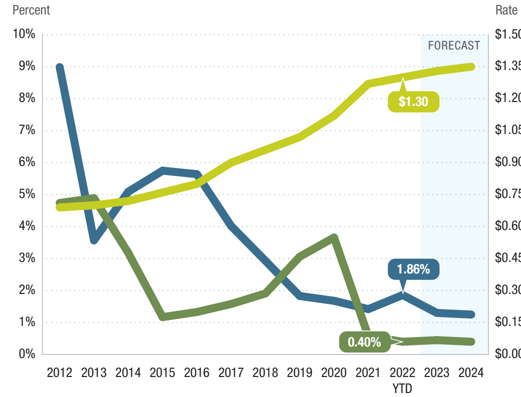
OVERVIEW. The Mid Counties industrial market, like its Los Angeles County counterparts, tightened further in the first quarter. The region still has the lowest vacancy rate in Southern California at just 0.4%, and average asking lease rates have spiked in response, rising to another record high in Q1. Net absorption, while in positive territory, remains restricted. Move-ins fell sharply, while total transaction activity managed a slight increase, as tenants and buyers continue their struggle to find quality space. Construction of new inventory is a fraction of what it needs to be for market balance and too few projects are in the planning queue. Existing and prospective owner/users are scrambling to make new acquisitions to control long-term occupancy cost and get ahead of Fed-fueled rising mortgage rates that will increase their occupancy cost going forward.

VACANCY/AVAILABILITY. The overall vacancy rate fell by 86% in the past year, ending Q1 at 0.40%, the lowest rate on record. Just 462,000 SF of the 116.6 MSF base is unoccupied. Santa Fe Springs, the largest Mid Counties submarket at 53.6 MSF, saw its vacancy rate fall to only 0.31%, also a record low. Artesia / Cerritos has the highest vacancy rate in the Mid Counties, but it is still only 0.73% on a base inventory of over 13 MSF. Norwalk had just one space of 5,144 SF standing vacant as Q1 ended. Paramount, a city with 410 industrial properties, has the lowest vacancy rate in the Mid Counties, at 0.15%.

LEASE RATES. The average asking lease rate in the Mid-Counties rose another $0.03 to a new record high of $1.30 in Q1. As reported last quarter, actual rates are higher as many buildings lease up 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 asking rates. Landlords maintain the upper hand in lease negotiations and can hold the line on offering concessions like free rent or tenant improvements to secure new tenants. A significant portion of the Mid Counties inventory is owned by institutional investors who demand strong credit from prospective tenants, which makes it even more difficult for small local operators to compete for space.

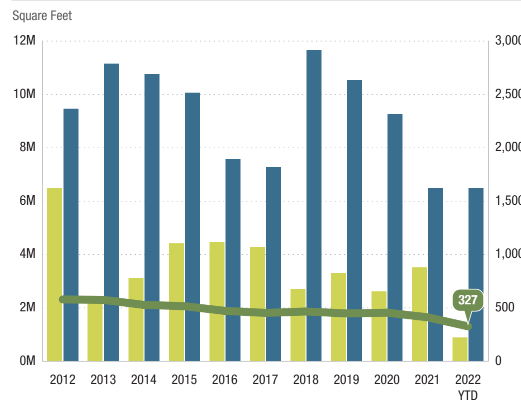
TRANSACTION ACTIVITY. The number of square feet leased and sold during Q1 finally showed an increase after consecutive quarters of decline. Total square footage leased and sold rose to 1.6 MSF, up 200,000 SF in the period. But, when gauged by transaction count, the decline in lease and sale activity continued. In Q1, 67 sale and

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



VACANCY: Total Vacant Space Divided by Total Existing Inventory
AVAILABILITY: Total Amount of Space that is Available whether Occupied, for Sublease, or Available at a Future Date
AVERAGE ASKING LEASE RATE: G / SF / Month

TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



SALES **LEASES** **NUMBER OF TRANSACTIONS**

Market Statistics

	Change Over Last Quarter		1Q 2022	4Q 2021	1Q 2021	% Change Over Last Year
Vacancy Rate	▼	DOWN	0.40%	0.57%	2.82%	(85.94%)
Availability Rate	▲	UP	1.86%	1.42%	2.93%	(36.54%)
Average Asking Lease Rate	▲	UP	$1.30	$1.27	$1.03	26.21%
Sale & Lease Transactions	▲	UP	1,607,953	1,420,063	2,963,664	(45.74%)
Gross Absorption	▼	DOWN	705,205	2,301,502	1,647,294	(57.19%)
Net Absorption	▲	POSITIVE	382,850	426,368	1,009,100	N/A

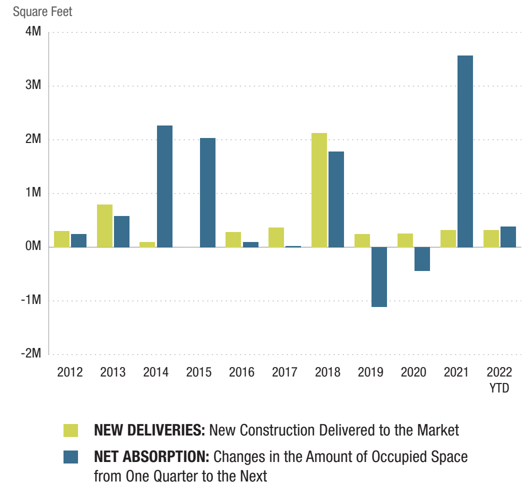
lease transactions were completed, down from 74 in Q4, 101 in Q3 and 110 in Q2 of last year. There just isn't any place to go, yet the demand for space keeps climbing despite the lack of availability. Owner/user demand for acquisition is off the charts, as business owners are willing to pay record high prices to fix their occupancy costs with SBA financing before rising interest rates make ownership infeasible. During Q1, the SBA 504 mortgage rate moved up by almost 21% to 3.92%, and that was before the Fed announced its first rate hike in March.

ABSORPTION. Net positive absorption fell to 382,850 SF in Q1 from 426,368 SF in Q4. Five of the eight cities in the Mid-Counties region posted a net gain in occupied space again this quarter, but Buena Park / La Palma, Norwalk and Whittier saw slight declines. Gross absorption (total move-ins) fell by two-thirds this quarter to 705,205 SF, but that decline is purely reflective of the lowest vacancy rate in the region's history, forcing tenants to renew in place rather than make a move to more efficient space.

CONSTRUCTION. Ground-up construction activity managed a modest increase in Q1 to 271,651 SF, up from 178,880 SF in Q4 of last year. That increase is due to two additional buildings breaking ground in Santa Fe Springs, a 50,000 SF building on Los Nietos Road and a 100,000 SF building in the Bridge Point project on Carmenita Road. Santa Fe Springs has approximately 163,519 SF in the planning stage, followed by Bellflower / Downey with 44,162 SF and Buena Park / La Palma with 30,650 SF. These numbers are well short of what is needed to move the needle in terms of the supply shortage, and are not expected to improve any time soon.

EMPLOYMENT. The seasonally adjusted unemployment rate in Los Angeles County decreased over the month to 6.4% in February 2022, from a revised 6.9% in January 2022, and was below the rate of 10.7% one year ago. Industry sectors with monthly gains included construction (up 4,400) and manufacturing (up 4,400).

NEW DELIVERIES & NET ABSORPTION



Forecast

The Mid-Counties market is likely to remain stuck in its present condition for the foreseeable future. The existing supply shortage and lack of new development will keep prices up and vacancy at or near record lows. More tenants will be forced to renew in place, even if their space does not support efficient operations. Owner/user demand will stay strong unless the Fed's inflation response sends mortgage rates much higher. For the moment, buyers are still willing to pay record prices to control long-term occupancy costs, but at some point high-leverage buyers will go to the sidelines if interest rates see a significant spike.

Concerns over the near-term health of the market have shifted to inflation, which is running at a pace we haven't seen for over 40 years. The Consumer Price Index rose at an annualized rate of 7.9% in February and will probably not ease in the short run. The Fed has committed to get it under control, but its actions could prove restrictive to the overall economy. The Fed now admits that inflation is not a transitory result of the supply chain issue, and has ended its bond-buying program, raised the Fed Funds rate in March and signaled multiple additional rate hikes through the rest of 2022. That will increase the cost of capital across the board, including mortgage interest rates for industrial properties.

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2022	Square Feet Available	Availability Rate 1Q2022	Average Asking Lease Rate	Net Absorption 1Q2022	Net Absorption 2022	Gross Absorption 1Q2022	Gross Absorption 2022
Mid Counties													
Artesia / Cerritos	277	13,021,133	0	0	95,597	0.73%	318,125	2.44%	$1.22	75,614	75,614	88,715	88,715
Bellflower / Downey	199	5,492,287	0	44,162	18,855	0.34%	60,333	1.10%	$1.05	19,993	19,993	31,488	31,488
Buena Park / La Palma	234	15,120,109	0	30,650	71,685	0.47%	402,200	2.66%	$0.93	(27,404)	(27,404)	4,969	4,969
La Mirada	176	13,363,739	0	0	68,054	0.51%	348,646	2.61%	$1.00	158,432	158,432	123,646	123,646
Norwalk	88	2,874,315	0	0	5,144	0.18%	13,060	0.45%	$1.07	(1,344)	(1,344)	0	0
Paramount	410	9,010,170	0	0	13,165	0.15%	94,862	1.05%	$0.96	19,390	19,390	57,641	57,641
Santa Fe Springs	1,346	53,605,106	243,319	163,518	166,346	0.31%	884,323	1.65%	$1.08	147,823	147,823	394,466	394,466
Whittier	164	4,134,093	28,332	5,465	22,998	0.56%	46,572	1.13%	$1.43	(9,654)	(9,654)	4,280	4,280
Mid Counties Total	**2,894**	**116,620,952**	**271,651**	**243,795**	**461,844**	**0.40%**	**2,168,121**	**1.86%**	**$1.30**	**382,850**	**382,850**	**705,205**	**705,205**
5,000-24,999	1,821	24,012,936	0	5,465	231,800	0.97%	400,376	1.67%	$1.36	(94,793)	(94,793)	156,854	156,854
25,000-49,999	503	17,885,254	28,332	134,380	53,814	0.30%	216,474	1.21%	$1.27	122,350	122,350	122,691	122,691
50,000-99,999	294	20,353,039	92,771	0	131,949	0.65%	436,188	2.14%	$1.15	107,258	107,258	245,310	245,310
100,000-249,999	215	31,934,985	150,548	103,950	0	0.00%	750,802	2.35%	$0.00	120,450	120,450	7,520	7,520
250,000-499,999	54	17,915,679	0	0	0	0.00%	0	0.00%	$0.00	127,585	127,585	172,830	172,830
500,000 plus	7	4,519,059	0	0	44,281	0.98%	364,281	8.06%	$0.00	0	0	0	0
Mid Counties Total	**2,894**	**116,620,952**	**271,651**	**243,795**	**461,844**	**0.40%**	**2,168,121**	**1.86%**	**$1.30**	**382,850**	**382,850**	**705,205**	**705,205**

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
5609 River Way	Buena Park	166,000	$41,000,000	Staley Point Capital	Alticor Inc.
12065 Pike St.	Santa Fe Springs	159,964	$35,000,000	Staley Point Capital	Santa Fe Properties LT
12690–16310 Shoemaker Ave.	Cerritos	150,379	$46,700,000	Pacific Industrial LLC	Laskey Weil Co LLC
16930 Valley View Ave.	La Mirada	125,000	$51,773,636	Pacific Industrial LLC	L-W Income Properties
13943 Maryton Ave.	Santa Fe Springs	75,363	$34,000,000	Duke Realty Corporation	Novella Plastics

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
5600-5640 Knott Ave. - Renewal	Buena Park	183,958	Jan-2022	RCUSA Holdings	5600-40 Knott Ave Property Co.
6800 Artesia - Renewal	Buena Park	159,036	Mar-2022	McLane Foodservices Distribution	ComRef So Ca Industrial
12801 Carmenita Rd.	Santa Fe Springs	153,724	Mar-2022	Pixior, LLC	Golden Springs Development Company
12500 E. Slauson Ave.	Santa Fe Springs	127,585	Jan-2022	Jet International Logistics	Prologis, Inc.
13545-13565 Larwin Cir.	Santa Fe Springs	120,862	Mar-2022	Silver Hawk Freight Inc.	Cliffwood Development

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REAL ESTATE SERVICES

Further Supply Chain Disruption

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The invasion of Ukraine by Russia and the sanctions imposed in response, and new pandemic-related shutdowns in China, are the latest events to rock global supply chains. Added to the China-U.S. trade war and other pandemic-related disruptions, this is certain to accelerate the movement by Western companies to reduce their dependency on China for components and finished goods and on Russia for transportation and raw materials. This will lead to more localized, or regional, sourcing strategies.

Already, over the last four years, the China-U.S. trade war and the supply chain disruptions generated by the pandemic have caused the pace of supply-chain localization to rise significantly. In fact, a January 2020 survey of 3,000 firms, motivated by the China-U.S. trade war, found that companies in a variety of industries, including semiconductors, autos, and medical equipment, had shifted, or planned to shift, at least part of their supply chains from current locations. Companies in about half of all global sectors in North America declared an intent to "reshore."

Costs are rising. With oil and gas prices soaring due to the war, transportation costs will continue to rise. What is less obvious but equally important is that the war has imposed constraints on the ability to use Russian transportation infrastructure and raw materials to support manufacturing in Asia.

Industry alone will not be able to address many of today's supply-chain challenges. Governments will have to be involved. In the United States, federal and state governments are increasing investments in ports, airports, and other infrastructure. The U.S. CHIPS Act (which Congress has yet to fund) and the European Chips Act are examples of government efforts to reduce dependence on Taiwan and South Korea for semiconductors.

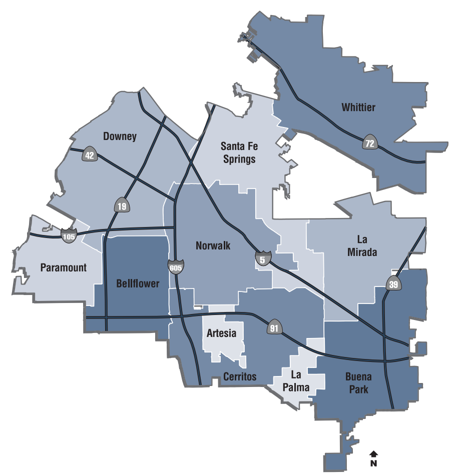
Until infrastructure investments in local regions are realized, companies should stress test their supply chains and pursue strategies to make them more resilient to risks. For the foreseeable future, the challenges to global supply chains are going to become greater and more complex.

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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