MC2Q22

SECOND QUARTER 2022 MARKET REPORT
MID COUNTIES INDUSTRIAL

Voit
REAL ESTATE SERVICES

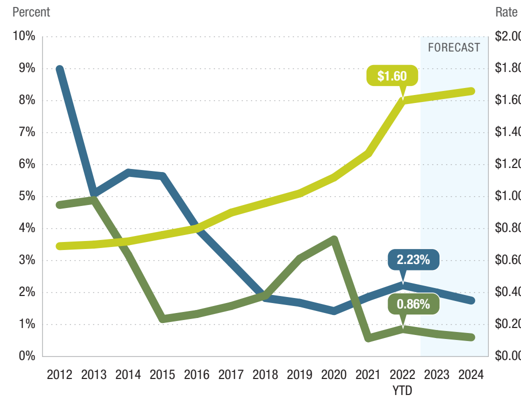
OVERVIEW. The Mid-Counties industrial market, like other regions of Los Angeles County, remains constrained. Vacancy is still under 1%, but increased for the first time in the past several years. Average asking lease rates spiked sharply again to another record. Net absorption was slightly negative in Q2, and remains restricted by the lack of supply. Move-ins fell for the third straight period and total transaction activity was also down, as the overall market remains starved for good quality space. Construction of new inventory also decreased during Q2 and remains well short of what is needed to offer tenants any real relief. Prospective owner/users have started to back off due to record pricing combined with much higher mortgage rates, and even the most aggressive institutional buyers are exercising more caution in their acquisition underwriting.

VACANCY/AVAILABILITY. The overall vacancy rate actually increased in Q2, something we haven't seen for some time. Q2 ended with a vacancy rate of 0.86%, up 46 basis points in just three months. That equates to an additional 603,000 SF of vacant space. A third of that total is in Santa Fe Springs, a city with a base inventory of over 53 MSF. Cerritos / Artesia added an additional 100,000 SF on a base of 13 MSF. The balance of the additional vacancy was spread throughout the region. In total, just over 1,000,000 SF stands vacant on a regional base of over 116,600,000. So, the vacancy increase is not significant. However, if it moves up again in Q3, it may indicate softening market conditions, which would be understandable given the challenges posed by concerns about inflation and an economic slowdown.

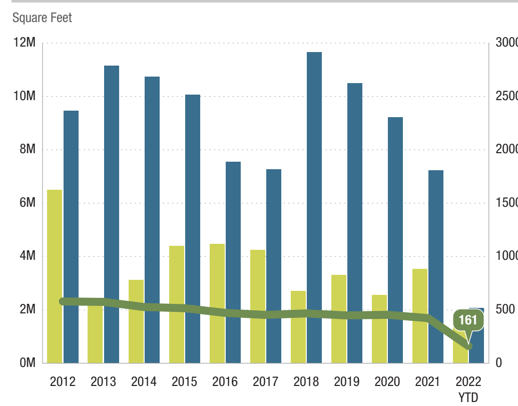
LEASE RATES. The average asking lease rate in the Mid-Counties shot through the roof in Q2, rising by a staggering $0.30 to a new record of $1.60 per square foot. Plus, many of the higher quality spaces are either offered without an asking price or leased on an off-market basis at higher than the reported average asking rates. Landlords still hold all the cards in lease negotiations and are stubbornly refusing concessions like free rent and tenant improvement allowances. Some are even using the CPI index for calculating annual increases, something we haven't seen for decades. A relatively small group of institutional owners control most of the larger spaces in the Mid Counties, and they are adamant about their demand for strong credit tenants and are holding the line on their coupon lease rates. With so little quality space on the market, they continue to be successful in those efforts.

TRANSACTION ACTIVITY. The number of square feet leased and sold during Q2 fell to 1.3 MSF from over 2.3 million in Q1. Last year's second quarter produced sale

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	2Q 2022	1Q 2022	2Q 2021	% Change Over Last Year
Vacancy Rate	UP	0.86%	0.40%	1.02%	(15.24%)
Availability Rate	UP	2.23%	1.86%	1.83%	21.95%
Average Asking Lease Rate	UP	$1.60	$1.30	$1.12	42.86%
Sale & Lease Transactions	DOWN	1,291,732	2,357,421	3,496,593	(63.06%)
Gross Absorption	DOWN	878,977	2,301,502	2,301,502	(61.81%)
Net Absorption	NEGATIVE	(136,882)	382,850	1,325,381	N/A

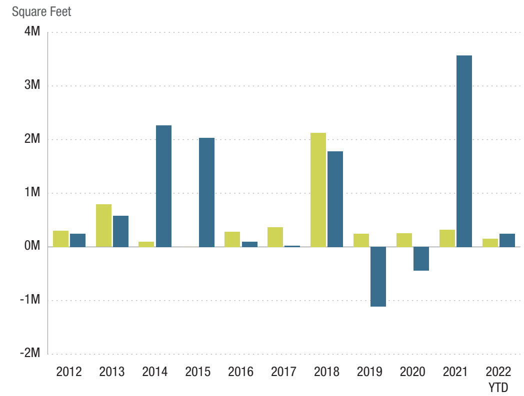
and lease activity of 3.5 MSF. Transaction count was also down for the period. In Q2, 53 lease transactions were completed, compared to 64 in Q1. Sale activity was off slightly, as well, with 21 sales in Q2 versus 23 in Q1. So far, it is lack of supply that has caused the declines in activity, but Q2's sale and lease activity was the lowest in more than three years. That said, there still isn't enough quality space to meet the bulk of demand and that keeps frustrated business owners stuck in their existing spaces, many of which no longer allow for efficient operations.

ABSORPTION. Net absorption slipped into negative territory in Q2. Occupied space reduced by 136,882 SF after a net gain of 382,850 SF in Q1. Gross absorption fell by two-thirds for the second consecutive period, posting just 878,977 of total move-ins. The decline is due in part to tenants being forced to renew in place, transactions that may not make their way into our quarterly metrics. However, the consistent falloff in gross absorption may be an early sign of a market correction brought on by the challenging business environment.

CONSTRUCTION. Ground-up construction activity declined to just 165,265 SF in Q2 due to the delivery of a 44,000 SF building in Bellflower / Downey and 150,548 SF of space in Santa Fe Springs. These numbers fall far short of what is needed to fill the supply shortage throughout the Mid Counties region, and there is little relief in sight, as the current queue of space in the planning stage has fallen to just 199,633 SF.

EMPLOYMENT. The seasonally adjusted unemployment rate in Los Angeles County decreased over the month to 5.2% in May 2022 from a revised 5.4% in April 2022 and was below the rate of 9.7% a year ago. Between May 2021 and May 2022, nonfarm employment increased by 230,700, or 5.4%.

NEW DELIVERIES & NET ABSORPTION



NEW DELIVERIES: New Construction Delivered to the Market

NET ABSORPTION: Changes in the Amount of Occupied Space from One Quarter to the Next

Forecast

The Mid-Counties market is going to remain tight for the next several quarters even if vacancy moves up again in Q3. We do have concern for the owner / user market, which is heavily dependent on the use of leverage. Current record sales prices have been driven primarily by low mortgage rates, and the SBA 504 mortgage now carries a rate of 5.19%, up 63% since January. When higher borrowing cost is combined with record high pricing, it seems reasonable to assume that the demand/ supply balance will be impacted in the near term.

Our concerns over the health of the market have also shifted to inflation. The Consumer Price Index rose at an annualized rate of 8.6% in May and many experts are predicting that it will get worse before it gets better. The Fed raised the Fed Funds Rate twice in Q2 and they are indicating that several additional increases are in the offing, including another 75 basis point increase in July. Clearly, our central bankers have now accepted the fact that this round of inflation is not transitory, and they are getting serious about getting it under control.

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2022	Square Feet Available	Availability Rate 2Q2022	Average Asking Lease Rate	Net Absorption 2Q2022	Net Absorption 2022	Gross Absorption 2Q2022	Gross Absorption 2022
Mid Counties													
Artesia / Cerritos	277	13,025,570	0	0	195,600	1.50%	537,206	4.12%	$1.22	(104,186)	(28,572)	217,290	306,005
Bellflower / Downey	201	5,484,173	44,162	0	72,018	1.31%	117,257	2.14%	$1.89	(33,030)	(13,037)	28,855	60,343
Buena Park / La Palma	234	15,079,982	0	30,650	107,024	0.71%	441,428	2.93%	$1.52	48,982	21,578	164,133	169,102
La Mirada	176	13,363,147	0	0	164,541	1.23%	308,654	2.31%	$1.00	(45,490)	112,942	107,189	230,835
Norwalk	88	2,880,377	0	0	5,144	0.18%	7,867	0.27%	$1.50	0	(1,344)	5,193	5,193
Paramount	410	9,010,216	0	0	61,694	0.68%	131,493	1.46%	$1.57	(31,795)	(12,405)	56,049	113,690
Santa Fe Springs	1,344	53,653,033	92,771	163,518	369,347	0.69%	994,454	1.85%	$1.79	43,862	191,685	297,368	691,834
Whittier	162	4,132,576	28,332	5,465	27,959	0.68%	57,653	1.40%	$1.47	(15,225)	(24,879)	2,900	7,180
Mid Counties Total	**2,892**	**116,629,074**	**165,265**	**199,633**	**1,003,327**	**0.86%**	**2,596,012**	**2.23%**	**$1.60**	**(136,882)**	**245,968**	**878,977**	**1,584,182**
5,000-24,999	1,818	23,930,687	28,332	33,611	296,334	1.24%	494,728	2.07%	$1.40	(105,628)	(200,421)	205,429	362,283
25,000-49,999	503	17,868,178	44,162	62,072	119,373	0.67%	347,296	1.94%	$1.32	40,282	162,632	178,959	301,650
50,000-99,999	294	20,375,577	92,771	0	208,860	1.03%	350,323	1.72%	$1.43	112,395	219,653	275,979	521,289
100,000-249,999	216	32,061,215	0	103,950	334,479	1.04%	1,039,384	3.24%	$1.65	(183,931)	(63,481)	218,610	226,130
250,000-499,999	54	17,915,679	0	0	0	0.00%	0	0.00%	$0.00	0	127,585	0	172,830
500,000 plus	7	4,477,738	0	0	44,281	0.99%	364,281	8.14%	$0.00	0	0	0	0
Mid Counties Total	**2,892**	**116,629,074**	**165,265**	**199,633**	**1,003,327**	**0.86%**	**2,596,012**	**2.23%**	**$1.60**	**(136,882)**	**245,968**	**878,977**	**1,584,182**

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
14001 S. Garfield Ave.	Paramount	160,000	$21,000,000	ARC Investment Group, LLC	Calmet, Inc.
12844 Excelsior Dr.	Norwalk	72,380	$62,500,000	Monster Energy Company	Safeway Inc.
13535 Larwin Cir.	Santa Fe Springs	56,010	$15,500,000	Rexford Industrial Realty LP	Lamance Family Trust
12765 166th St.	Cerritos	44,172	$19,000,000	ARES Industrial Management*	Megaland Enterprises, LLC*
14575 Firestone Blvd.	La Mirada	22,050	$6,467,000	Firestone Blvd Owner LLC	14575 Firestone Blvd LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
18021 Valley View Ave. – Renewal	Cerritos	309,934	Apr-2022	Westrock CP, LLC	JCC Calfornia Properties, LLC
15015 Valley View Ave – Renewal	Santa Fe Springs	302,850	Apr-2022	United Natural Foods, Inc.	Brookfield Property Group
13950 Cerritos Corporate Dr.	Cerritos	234,132	Apr-2022	Tricor Braun	SB Management Corporation
6901 Marlin Cir.	La Palma	75,000	Apr-2022	Revolve	Los Esteros Ranch, LLC
14659 Alondra Blvd.	La Mirada	60,783	Jun-2022	Brook Furniture Rental, Inc.	COMREF So Ca Industrial SUB P LLC

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2nd Quarter 2022 – "A Tale of Two Markets"

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Dateline – April 1, 2022: Industrial real estate market conditions are very strong and healthy. Investor activity is flourishing, vacancy rates are at an extreme low of 0.4%, and lease rates continue to climb for each deal completed, with an average above $1.30 NNN. Tenants are competing for any new building that hits the market, with multiple offers on most available buildings. Landlords have a "pick and choose" mentality, vetting each tenant closely for their financial strength, industrial use, and lease terms offered. Very few landlord concessions are being offered, and many lease deals are signed at or above their already record high asking rates. There are visible signs of negative market indicators — rising interest rates, forecasted further rises in Fed Treasury Rates imminent, growing inflation, historic high gas prices, and a slowdown of consumer spending / e-commerce purchases, but the industrial real estate market motors on.

Dateline June 1, 2022: The inflation report for May 2022 is released, with 1.0% increase in May, which equates to an annual increase of 8.6%, which is higher than experts' predictions. The Fed announces a 0.75% increase to the Federal Funds Rate. 30-year mortgage rates hit 5.78%. Major stock market indices get hammered, with the Dow Jones down 18.5% year to date, dropping below 30,000 for the first time since December 2020, the S&P 500 down 23% year to date, and the tech-heavy Nasdaq down 32% year to date. Suddenly, major industrial real estate investors are "pens down," meaning they are pausing on writing offers on value-add and especially core investment deals, as these deals were all underwritten on large rent growth projections over the next five to ten years, and with rising interest rates, investors spreads are suddenly squeezed. Unfortunately, sellers of industrial buildings are still seeking record high sale prices, so we foresee a classic "buyer / seller disconnect" on sale pricing over the next few months. Furthermore, many of the tenants who were stretching to pay historic high lease rates, to expand and grow their warehouses and manufacturing operations to meet high consumer demand, are starting to take a "wait and see" approach as to how the leasing market reacts to all these sudden economic changes.

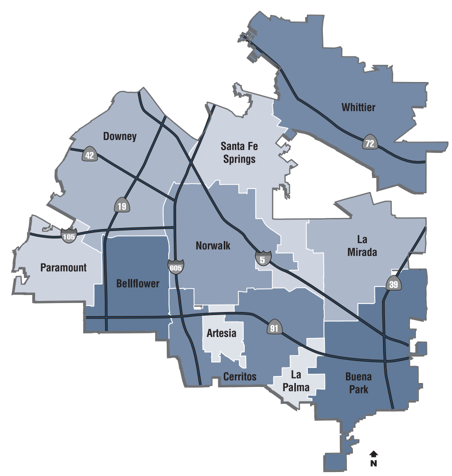
Overall, we are still at historically low vacancy rates in the Mid Counties, and this market area is a strategic location for industrial tenants, landlords, and investors, with its proximity to the Ports of Los Angeles and Long Beach, and its location central to the massive consumer populations of LA and Orange Counties. Therefore, there will be a slowdown of leasing and sale activity and rent growth, but it is likely only temporary.

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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