MC3Q22

THIRD QUARTER 2022 MARKET REPORT

MID COUNTIES INDUSTRIAL

Voit REAL ESTATE SERVICES

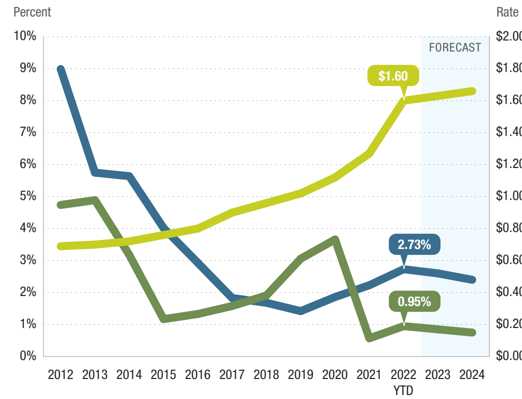
OVERVIEW. The Mid-Counties industrial market, like other regions of Los Angeles County, remained tight, but is showing signs of softening. Vacancy is still under 1%, but increased for the second consecutive quarter, something that hasn't happened in five quarters. Average asking lease rates were unchanged for the period and net absorption returned slightly into positive territory, but remains restricted by short supply of quality product. Move-ins fell for the fourth straight period and total transaction activity dipped again. Space under construction was unchanged. The owner / user market slowed further as mortgage rates moved sharply higher after the Fed's repeated hikes of its benchmark Federal Funds Rate.

VACANCY & AVAILABILITY. The overall vacancy rate increased for the second consecutive quarter, rising 9 basis points to 0.95%. While this rate is still very low, it has doubled in the last six months. Currently just over 1.1 MSF of the 116.6 MSF base inventory stands vacant. Just over half of that total is in Santa Fe Springs, a city with a base inventory of over 53.7 MSF. Cerritos / Artesia accounts for an additional 234,000 SF of the vacant space on a base of 13 MSF, which equates to a vacancy rate of 1.8%, highest in the region. So, while vacancy remains very low, consecutive quarterly increases reflect softening market conditions, which could signal that relief is on the way for tenants who have faced record-high lease rates and stiff competition to secure space. The availability rate, which includes occupied space offered for sale or lease, rose even more sharply in Q3, gaining 50 basis points to 2.73%.

LEASE RATES. The Mid-Counties average asking lease rate was unchanged at $1.60 in Q3 after a sharp $0.30 rise in Q2. But, as we have been reporting for the past several quarters, many of the highest quality spaces that command a rate premium have been offered without an asking price. So, actual average lease rates are higher. Landlords still have the upper hand in lease negotiations, but fewer tenants were competing for their space in Q3. The number of active requirements decreased as the highest inflation rate in 40 years has put huge pressure on profitability, which is impacting prospects for growth. Landlords are beginning to loosen up on concessions to secure long-term leases with strong-credit tenants. In essence, the market is shifting into a more defensive mode in response to a rise in concern over general economic conditions.

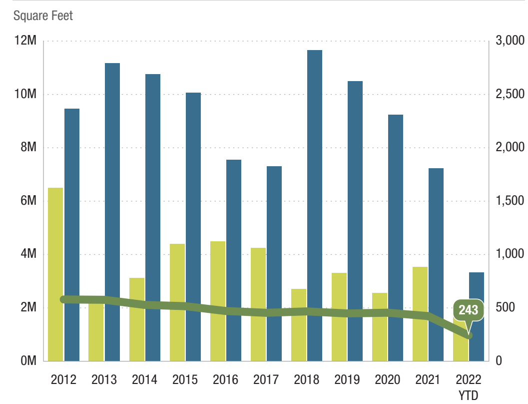
TRANSACTION ACTIVITY. The number of square feet leased and sold during Q3 fell by 559,000 SF to just over 1.2 MSF, the second consecutive quarterly decline and a decrease of 48% year over year. Transaction count was also down for the period.

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	3Q 2022	2Q 2022	3Q 2021	% Change Over Last Year
Vacancy Rate	UP	0.95%	0.86%	0.66%	42.63%
Availability Rate	UP	2.73%	2.23%	1.68%	62.63%
Average Asking Lease Rate	FLAT	$1.60	$1.60	$1.21	32.23%
Sale & Lease Transactions	DOWN	1,210,748	1,769,023	2,347,742	(48.43%)
Gross Absorption	DOWN	1,378,330	2,301,502	2,301,502	(40.11%)
Net Absorption	POSITIVE	24,302	(136,882)	800,507	N/A

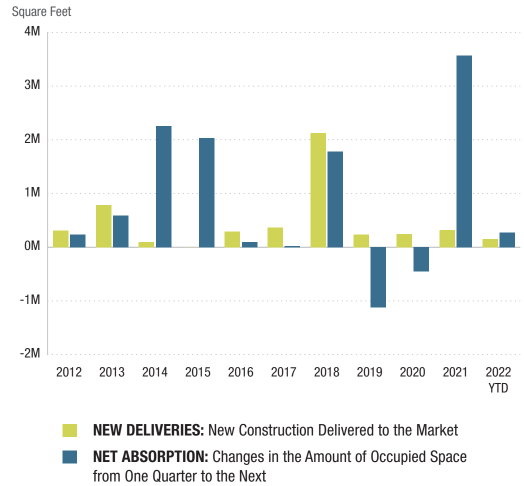
In Q3, 52 lease transactions were completed, compared with 66 in Q2. Sale activity was down sharply as well. Just 11 properties were sold in Q3 versus 27 in Q2. Lack of supply has been the main reason for falling transaction activity, but the recent downtick in demand is now impacting the decline in deal count and square footage leased and sold. The interest rate on the SBA 504 mortgage (the most widely used lending source for owner / user transactions) has soared to above 6% this year, which has drastically curtailed interest in owner / user purchases. Further increases in that rate are expected.

ABSORPTION. Net absorption turned slightly positive in Q3 after slipping into negative territory in Q2. Occupied space increased by 24,302 SF after a net loss of 136,882 SF in Q2. However, gross absorption, which measures total move-ins, fell sharply for the second consecutive period, slipping by almost 1 MSF to just 1,378,330 SF. To be sure, the decline is due in part to short supply, but the recent falloff in tenant / buyer demand is accelerating the slowdown in transaction activity and absorption.

CONSTRUCTION. Ground-up construction activity was unchanged in Q3 at just 165,265 SF. Only three buildings are under way: a 92,771 SF building on Los Nietos Road in Santa Fe Springs, a 44,162 SF building on Woodruff Avenue in Downey and a 28,322 SF building on Hadley Street in Whittier. These numbers fall far short of what is needed in terms of first-generation space. Unfortunately, the current shortage of new deliveries is likely to continue as the current queue of space in the planning stages stands at just 222,000 SF and much higher borrowing costs are making ground-up development even more expen sive.

EMPLOYMENT. The seasonally adjusted unemployment rate in Los Angeles County increased over the month to 5.2% in August 2022 from a revised 4.9% in July 2022 and was below the rate of 8.5% a year ago. Five other sectors increased over the month, including trade, transportation and utilities (up 2,000), government (up 1,800), construction (up 900), leisure and hospitality (up 700), and manufacturing (up 400).

NEW DELIVERIES & NET ABSORPTION



Forecast

The Mid-Counties market is going to remain tight for the foreseeable future. However, active requirements are on the decline and this will eventually shift the balance in favor of tenants over landlords, who have held the advantage for many years. The owner / user market, which is heavily dependent on the use of leverage, is expected to slow further over the next few quarters, as the Fed's interest rate hikes will send mortgage rates up. Current record pricing has been driven recently by low mortgage rates, but the SBA 504 mortgage is now up over 200 basis points in Q3 alone.

Inflation, which is running at a pace we haven't seen since the early 1980's, is also of growing concern in terms of impacting the Mid-Counties industrial market, as it seems to be firmly imbedded in all aspects of the economy. The Consumer Price Index rose at an annualized rate of 8.3% in August and it is expected to remain high into next year. Rising operating costs will limit local business growth and would-be buyers are going to hold off on purchases to conserve dry powder in anticipation of a more difficult business climate.

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2022	Square Feet Available	Availability Rate 3Q2022	Average Asking Lease Rate	Net Absorption 3Q2022	Net Absorption 2022	Gross Absorption 3Q2022	Gross Absorption 2022
Mid Counties													
Artesia / Cerritos	277	13,023,179	0	23,136	234,210	1.80%	389,966	2.99%	$1.59	(28,338)	(56,910)	249,654	555,659
Bellflower / Downey	201	5,484,080	44,162	0	83,301	1.52%	86,983	1.59%	$1.89	(24,266)	(37,303)	41,627	101,970
Buena Park / La Palma	234	15,078,361	0	30,650	65,281	0.43%	391,623	2.60%	$1.45	40,543	62,121	99,939	269,041
La Mirada	177	13,410,438	0	0	47,534	0.35%	448,708	3.35%	$0.00	74,178	187,120	177,340	408,175
Norwalk	88	2,878,575	0	0	4,280	0.15%	8,347	0.29%	$0.00	(480)	(1,824)	2,592	7,785
Paramount	409	9,002,722	0	0	80,487	0.89%	161,397	1.79%	$1.29	15,867	3,462	42,863	156,553
Santa Fe Springs	1,344	53,695,116	92,771	163,518	553,833	1.03%	1,668,056	3.11%	$1.62	(42,019)	149,666	739,370	1,431,204
Whittier	161	4,118,176	28,332	5,465	37,142	0.90%	32,875	0.80%	$1.41	(11,183)	(36,062)	24,945	32,125
Mid Counties Total	**2,891**	**116,690,647**	**165,265**	**222,769**	**1,106,068**	**0.95%**	**3,187,955**	**2.73%**	**$1.60**	**24,302**	**270,270**	**1,378,330**	**2,962,512**
5,000-24,999	1,816	23,906,783	0	28,601	306,988	1.28%	470,717	1.97%	$1.55	25,488	(174,933)	240,490	602,773
25,000-49,999	504	17,909,902	72,494	90,218	88,015	0.49%	349,078	1.95%	$1.71	(13,078)	149,554	136,120	437,770
50,000-99,999	294	20,389,334	92,771	0	101,663	0.50%	508,550	2.49%	$1.43	96,466	316,119	279,195	800,484
100,000-249,999	216	32,059,194	0	103,950	565,121	1.76%	1,084,295	3.38%	$0.00	(84,574)	(148,055)	722,525	948,655
250,000-499,999	54	17,947,696	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%	775,315	17.31%	$0.00	0	0	0	0
Mid Counties Total	**2,891**	**116,690,647**	**165,265**	**222,769**	**1,106,068**	**0.95%**	**3,187,955**	**2.73%**	**$1.60**	**24,302**	**270,270**	**1,378,330**	**2,962,512**

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
16200-16228 Carmenita Rd.	Cerritos	199,937	$88,000,000	Staley Point Capital	Prime Wire & Cable
12065 Pike St.	Santa Fe Springs	159,964	$85,000,000	Thor Equities	Staley Point Capital
11935 Baker Pl.	Santa Fe Springs	29,442	$14,000,000	Superior Plating	Merits Health Products Inc.
14640 Industry Cir.	La Mirada	16,410	$5,600,000	Adalberto Escutia	Santefort Family Trust
6440-6450 Dale St.	Buena Park	11,800	$2,650,000	6450 Dale St LLC	Donald & Lynn Southlard LLC

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
11600 Los Nietos Rd.	Santa Fe Springs	106,251	Sep-2022	Orange Currier	Rexford Industrial Realty, Inc.
17211 Valley View Ave.	Cerritos	100,000	Sep-2022	Felix Lighting Corporation	Blackstone Real Estate Income
13711 Freeway Dr.	Santa Fe Springs	82,092	Sep-2022	Brad Rambo & Associates	Rexford Industrial Realty, Inc.
13943 Maryton Ave.	Santa Fe Springs	75,363	Jul-2022	Alexhire	Duke Realty Corporation
15415 Marquardt Ave. – Renewal *	Santa Fe Springs	59,763	Aug-2022	Rentokil *	Marquardt SFS, LLC

Market Resiliency Continues

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As we make our way to the end of Q3, market resiliency continues to be tested as consecutive interest-rate increases exhibit effect on all sectors of the market. Notwithstanding, the LA market remains as one of the most sought-after industrial markets in the country. Through the first six months of 2022, transaction volume was consistent with 2021 trends, but the third quarter has seen a slowdown of transaction activity across all major submarkets. The Fed's third interest rate increase in late September threatens new deal activity as we begin to close out the year. With the cost of capital increasing, many investors are struggling to underwrite deals at low cap rates. Strong tenant demand, however, is keeping the market healthy and generating new deal activity.

The growth of e-commerce businesses has continued to impact the market significantly with Logistics and 3PL users leading the way on the tenant side. Industrial properties continue to be met with multiple tenant offers and demand still greatly outpaces supply, following the trend of previous quarters. With limited supply and tight market conditions, landlords benefit. Many landlords have been able to hold out for strong-credit tenants in the market because of the limited supply. Tenants looking to expand or relocate find that they need to plan months in advance in order to identify functional and available properties for their use. Pre-leased deals are commonplace with new properties that come to market, especially in the LA South submarket and deals around the port area.

The LA South market benefits greatly from its relationship with the ports of Los Angeles and Long Beach. Truck terminals and IOS sites continue to be the highest in demand for investors and owner-users alike. IOS sites in and around the port are experiencing historically high lease rates and sale prices. Older properties around the port are being redeveloped and repurposed for trucking and port-related transportation uses as investors prioritize this submarket over others. This trend will likely hold steady based on how important both ports are to the overall economy.

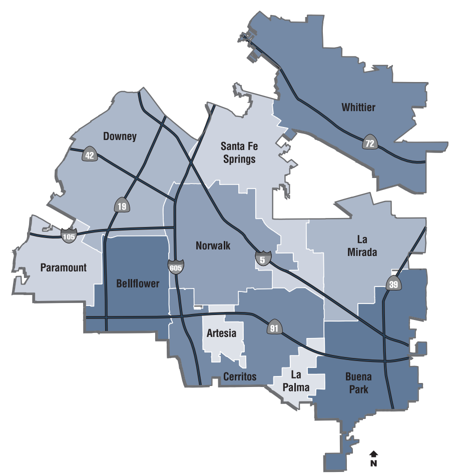
Even with the Fed's interest rate increases and a slightly pessimistic economic outlook, there is still optimism to be found with historically low vacancies. Los Angeles is a dynamic market that is constantly changing and offering new opportunities for tenants and buyers. As we wrap up 2022, it will be worth noting how specific sectors of the market differ in their handling of increasing market pressures on a national level. Interesting times lay ahead.

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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