

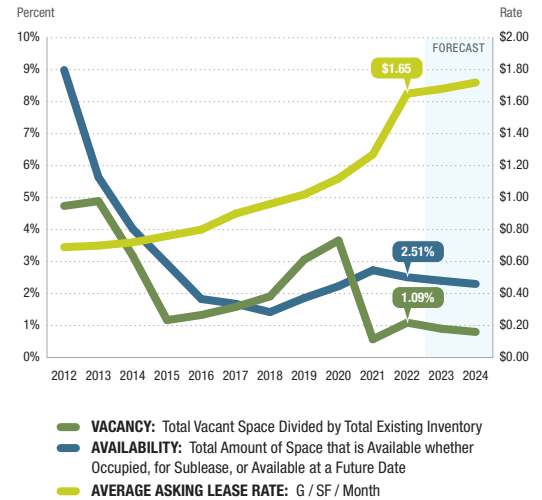
OVERVIEW. The Mid Counties industrial market, like other regions of Los Angeles County, has been softening. But, in 4Q, its market metrics showed that it was the least affected by inflation, higher mortgage rates, and declining demand. Vacancy finally broke above the 1% barrier, but only by a few basis points. Average asking lease rates and sale / lease activity both ticked higher, but move-ins and net absorption fell again despite an uptick in sale and lease transaction volume. Space under construction hovered near zero. Owner / user demand slowed further as mortgage interest rates doubled by the end of 2022. Time on market for product, whether offered for sale or lease, is increasing, as the sense of urgency to compete for space has diminished.

VACANCY / AVAILABILITY. The overall vacancy rate saw a 14-basis-point increase to end the year at 1.09%. Year-over-year vacancies have more than doubled, but that means only an additional 600,000 SF is available, which could be less than a handful of properties. Currently, just over 1.2 MSF of the 116.9 MSF base inventory stands vacant. Over half of the available space is in Santa Fe Springs, a city with a base inventory of over 53.8 MSF. Artesia / Cerritos accounts for an additional 193,042 SF of vacant space on a base of 13 MSF. The availability rate, which includes occupied space offered for sale or lease, declined in 4Q, falling by 22 basis points to 2.51%.

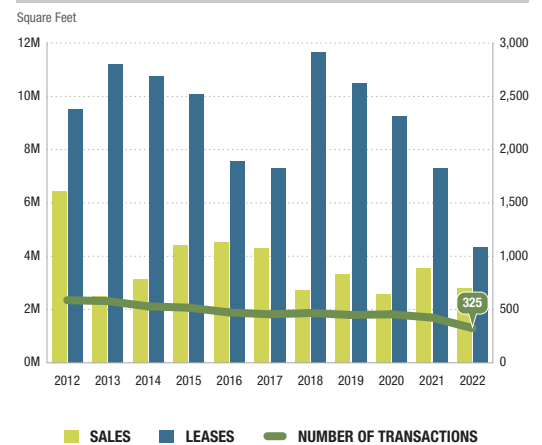
LEASE RATES. The Mid-Counties average asking lease rate gained a nickel in 4Q to end the year at \$1.65. But, as we have been reporting for the past several quarters, many of the highest quality spaces are offered without an asking price and they tend to command the highest rates. So, actual average lease rates are higher. Landlords still have the upper hand in lease negotiations, but the momentum is shifting to tenants, especially those with strong credit who are being courted by institutional landlords who understand the value of a reliable long-term income stream. The number of active user requirements continued to decline in 4Q as expected. Prospective owner / user are being scared off by higher borrowing cost and persistent high prices. As we pointed out in our last report, the market is shifting into a more defensive mode as all the market players prepare for a possible recession of unknown depth and breadth.

TRANSACTION ACTIVITY. The number of square feet leased or sold in 4Q rose to 1,647,688 SF from just over 1,400,000 SF in 3Q, while most other areas of Southern California saw declines. Lease transaction count fell to 51 from 62, but total space leased was little changed. Square footage sold rose to over 728,000 SF in 4Q from 407,000 SF in 3Q, mainly due to a 337,000 SF sale in La Mirada. In all, 15 properties were sold in 4Q. Leasing activity is keeping pace with new offerings, but owner / user

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

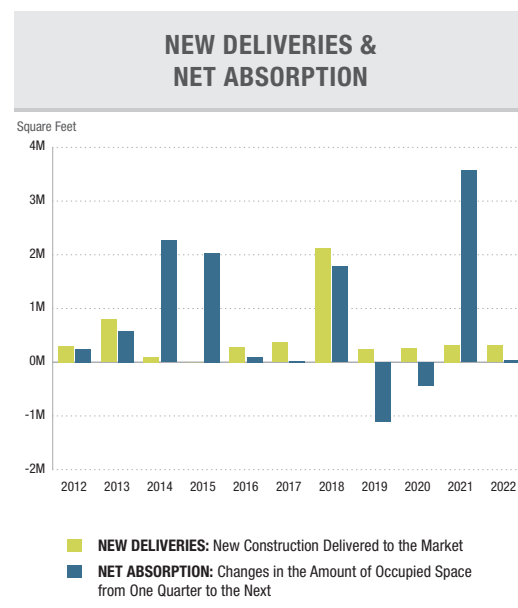
	Change Over Last Quarter	4Q 2022	3Q 2022	4Q 2021	% Change Over Last Year
Vacancy Rate	▲ UP	1.09%	0.95%	0.57%	90.56%
Availability Rate	▼ DOWN	2.51%	2.73%	1.42%	77.28%
Average Asking Lease Rate	▲ UP	\$1.65	\$1.60	\$1.27	29.92%
Sale & Lease Transactions	▲ UP	1,647,688	1,402,815	2,039,200	(19.20%)
Gross Absorption	▼ DOWN	1,015,047	2,301,502	2,301,502	(55.90%)
Net Absorption	▼ NEGATIVE	(227,485)	24,302	426,368	N/A

sale demand has declined due to higher mortgage rates, and sellers have been reluctant to lower prices to offset higher borrowing costs. The interest rate on the SBA 504 mortgage is still in the mid-6% range, double where it was this time last year. Further increases in that rate are expected as the Fed keeps raising its benchmark Fed Funds Rate to fight inflation.

ABSORPTION. Net absorption slipped into negative territory in 4Q after a modest increase in 3Q. Occupied space decreased by 227,485 SF after a net gain of 24,302 SF in 3Q. Gross absorption, which measures total move-ins, also fell sharply in 4Q to 1,015,000 SF from over 2,300,000 SF in 3Q. The decline is not unexpected due to the slowdown in owner / user deals and the ongoing shortage of quality functional products in the region. The biggest move-in for the period was by Orange Courier who leased 106,251 SF at 11600 Los Nietos in Santa Fe Springs.

CONSTRUCTION. Ground-up construction activity in the Mid Counties has essentially stopped. A single 23,136 SF building in Artesia / Cerritos is the only industrial building in the construction queue. Another 30,650 SF in Buena Park and 421,522 SF in Santa Fe Springs are in the planning stages, but that comes nowhere near what is needed to meet long-term demand in the region, which has been starving for quality space for years. The lack of new supply may be a blessing for existing landlords who don't have to compete with first-generation space by lowering their rates. Also, the current slowdown is likely to continue, as uncertain economic conditions and high capital costs are expected to keep ground-up development projects on the drawing board, at least until the Fed declares victory over inflation.

EMPLOYMENT. The seasonally adjusted unemployment rate in Los Angeles County was unchanged over the month at 4.9% in November 2022, from a revised 4.9% in October 2022, and was below the rate of 6.9% one year ago. The industry sector reported year-over job gains including trade, transportation, and utilities (up 18,600), manufacturing (up 10,800), and construction (up 6,500).



Forecast

The Mid-Counties market will continue on its current trajectory for the foreseeable future — a slight erosion of user demand, coupled with a slowdown in sales activity. Tenants will gain a slight advantage over landlords as marketing time for available product lengthens. The owner / user market is expected to slow further over the next few quarters, as more Fed interest rate hikes will keep mortgage rates elevated. The SBA 504 mortgage now carries a rate of 6.31%, double the rate seen just a year ago.

Inflation is still a big problem in terms of interference in growth plans for businesses in the region. Fortunately, supply chain issues are being sorted out and that has reduced the cost of shipping goods into the ports of Long Beach and Los Angeles. However, some of that relief has come at the expense of the ports, as shippers are depending more on east coast ports to deliver their cargo to avoid congestion here.

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2022	Square Feet Available	Availability Rate 4Q2022	Average Asking Lease Rate	Net Absorption 4Q2022	Net Absorption 2022	Gross Absorption 4Q2022	Gross Absorption 2022
Mid Counties													
Artesia / Cerritos	278	13,085,443	23,136	0	193,042	1.48%	524,630	4.01%	\$1.85	33,102	(23,808)	183,014	738,673
Bellflower / Downey	204	5,521,214	0	0	116,375	2.11%	129,033	2.34%	\$1.78	11,088	(26,215)	47,484	149,454
Buena Park / La Palma	236	15,092,669	0	30,650	78,269	0.52%	434,361	2.88%	\$1.70	2,616	64,737	42,330	311,371
La Mirada	177	13,411,678	0	0	82,385	0.61%	348,750	2.60%	\$1.93	(47,851)	139,269	70,611	478,786
Norwalk	89	2,889,795	0	0	6,480	0.22%	4,900	0.17%	\$1.85	(2,200)	(4,024)	59,848	67,633
Paramount	411	9,026,054	0	0	90,039	1.00%	182,245	2.02%	\$1.60	26,506	29,968	112,403	268,956
Santa Fe Springs	1,345	53,802,682	0	421,522	679,058	1.26%	1,269,263	2.36%	\$1.78	(292,491)	(142,825)	438,479	1,869,683
Whittier	162	4,142,635	0	5,465	23,729	0.57%	41,822	1.01%	\$1.41	41,745	5,683	60,878	93,003
Mid Counties Total	2,902	116,972,170	23,136	457,637	1,269,377	1.09%	2,935,004	2.51%	\$1.65	(227,485)	42,785	1,015,047	3,977,559
5,000-24,999	1,823	23,978,862	23,136	5,465	304,734	1.27%	583,098	2.43%	\$1.70	29,824	(145,109)	337,650	940,423
25,000-49,999	507	18,049,891	0	90,218	160,966	0.89%	393,599	2.18%	\$1.74	(2,670)	146,884	233,298	671,068
50,000-99,999	295	20,444,260	0	136,880	210,698	1.03%	695,542	3.40%	\$0.00	(124,360)	191,759	242,035	1,042,519
100,000-249,999	216	32,073,723	0	225,074	548,698	1.71%	898,484	2.80%	\$1.53	(130,279)	(278,334)	202,064	1,150,719
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%	364,281	8.14%	\$0.00	0	0	0	0
Mid Counties Total	2,902	116,972,170	23,136	457,637	1,269,377	1.09%	2,935,004	2.51%	\$1.65	(227,485)	42,785	1,015,047	3,977,559

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	
14001-14051 Rosecrans Ave.	La Mirada	337,847	\$151,200,000	Nuveen	Clarion Partners	
15125 Marquardt Ave.	Santa Fe Springs	70,084	\$15,000,000	Tristar	RSH Properties LLC	
8741 Pioneer Blvd.	Santa Fe Springs	59,905	\$10,900,000	8741 Pioneer LLC	A.C. Industrial Properties LLC	
6259 Descanso Ave.	Buena Park	54,000	\$20,000,000	Fortress Investment Group*	Boarsk Leasing LLC*	
13984 Orange Ave.	Paramount	42,010	\$14,250,000	Bridge Logistics Properites, LLC	Arias Properties, LLC	
Leases						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner	
9400-9500 Santa Fe Springs Rd.	Santa Fe Springs	411,034	Dec-2022	GXO Logistics	RREEF	
10715 Shoemaker Ave.	Santa Fe Springs	83,545	Oct-2022	Food Castle, Inc.	IAC Properties	
12765 166th St.	Cerritos	44,172	Nov-2022	New Indy Tri-Paq LLC	AIREF Cerritos IC LP*	
16215 Marquardt Ave.	Cerritos	42,640	Oct-2022	RE Logistics Corp.	Marquardt Investment Group	
16000-16010 Phoebe Ave.	La Mirada	28,322	Nov-2022	Tesseract, Inc.	Tangs Holdings LLC	



The Story of an Uncertain Market

by **Matt Peters**

SENIOR ASSOCIATE, IRVINE

949.263.5305 · mpeters@voitco.com · Lic. #02065503

What has happened over the past two years is something no one could have predicted. The pandemic began and the market was stunned and silenced, but only for a few short months. Since those early days of the pandemic, prices for industrial property have skyrocketed to a level which in 2020 we would have called “impossible.” This was due to unexpected and overwhelming demand from industrial users and investors who were driven to action by extremely low interest rates. In August of 2020, the SBA 504 rate bottomed out at 2.21%. Today we are sitting at 6.31%.

Over the course of the past two years, institutional buyers have led the way in scooping up everything they could sell to their investors. It was not hard convincing them that buildings with a 3.5% cap rate were a worthwhile investment, while their borrowing cost remained a point below that. Each week it seemed we were seeing a new record price that raised the bar for the next seller.

But now rising interest rates, mixed with inflated prices, have brought us back to what seems to be a stalemate. Sellers have yet to acknowledge that peak pricing is behind us, and buyers are refusing to set another pricing record with interest rates that are 3x what they were a short time ago. It will take some time for a new normal to be established, but the bid-to-ask pricing gap is with us for now.

With this rise in uncertainty, asking prices for sales and for leases have pulled back from their peak a few months ago. Institutional buyers are less inclined to speculate and have shifted back to traditional underwriting that emphasizes current property performance. And more of the properties being traded are listed rather than sold on an off-market basis.

Despite these challenges to the status quo, Southern California industrial markets have shown remarkable resilience. The fundamental benefits of our geography and infrastructure point to the long-term health of the region. Vacancy is still low, lease rates are holding up, and transaction volume is still at a level that will keep supply and demand in relative balance. Less predictable will be the trajectory of sales prices, as it was low capital cost that drove prices to record highs, and the Fed isn’t done raising rates.

Product Type

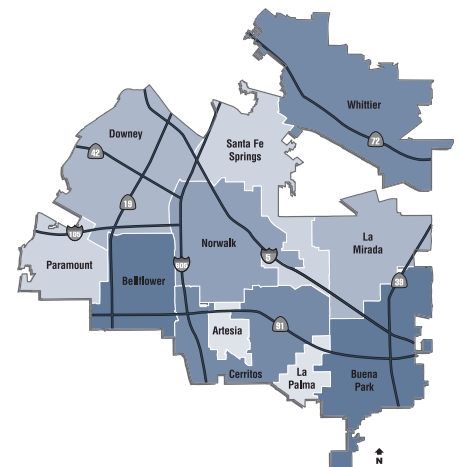
MFG./DIST.

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



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.