MCQ1 23

FIRST QUARTER 2023 MARKET REPORT

MID COUNTIES INDUSTRIAL

Voit REAL ESTATE SERVICES

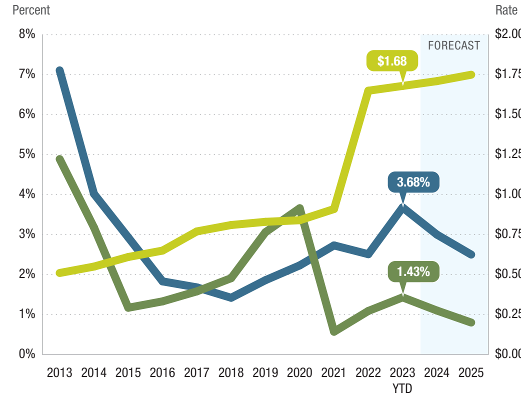
OVERVIEW. The Mid Counties industrial market remains tight, but vacancy and availability continued on their upward trend in Q1. The biggest indicator of softening market conditions is the falloff in sale and lease activity, which dropped by more than 50%, primarily due to a sharp drop in sale transactions. Higher mortgage rates have softened demand for owner / user buildings and institutional buyers are becoming more cautious in their acquisitions. Demand has shifted to buildings for lease, which has kept average asking rates at record levels. Net and gross absorption were down again in the period. Construction activity was limited to just a single 23,000 SF building. Another key indicator of softening conditions is time-on-market, as the fierce competition from tenants and buyers we experienced for the past several years has subsided. So, marketing time is now measured in months rather than days or weeks.

VACANCY & AVAILABILITY. In Q1 2023, the overall vacancy rate in the Mid-Counties rose sharply by 34 basis points to 1.43% from 1.09% in Q4 2022, signaling softening conditions. The availability rate increased more rapidly, reaching 3.68% from 2.51% in the previous quarter. This suggests that business owners may be reassessing their space needs amid worsening economic conditions. Currently, over 1.6 MSF are vacant, with total available space exceeding 4.3 MSF on a base inventory of nearly 117 MSF. Santa Fe Springs, with a base inventory of 53.8 MSF, has the most available space at 1.8 MSF, followed by Buena Park / La Palma (607,000 SF) and La Mirada (576,000 SF).

LEASE RATES. The Mid-Counties average asking lease rate rose again in Q1, adding $0.03 to end the period at $1.68. Landlords still have the advantage due to low vacancy, but tenants, especially those with strong credit, are gaining more negotiating leverage. Active user requirements continued to thin in Q1, which explains the increase in lease-up times. Properties are getting leased, but not overnight. Also, there are fewer off-market deals being reported. The pool of owner / user buyers continues to shrink because of higher mortgage interest rates. Many would-be buyers are either on the sidelines waiting for lower prices or moving forward with another lease.

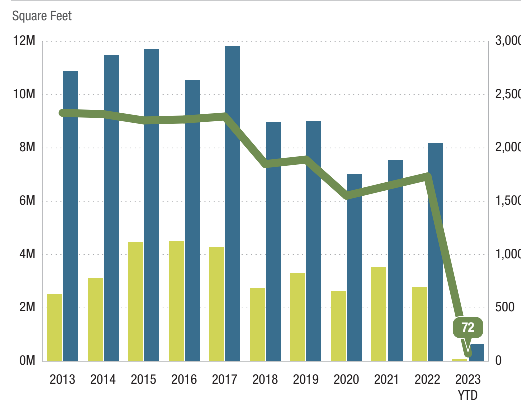
TRANSACTION ACTIVITY. The number of square feet leased or sold in Q1 fell sharply to 718,846 SF from 1,834,983 last quarter. The Mid Counties region was not alone in this regard as all Southern California markets experienced slowdowns in activity, especially on the sales side of the equation. Lease transaction count rose to 65 from 56, but total space leased fell to 653,933 SF from 1,097,079 SF last quarter, indicative of the fact that leasing activity has shifted to the smaller size ranges. Square footage sold plummeted to just 64,913 SF in Q1 from 737,904 SF in Q4 of 2022. In

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: NNN / SF / Month

TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



SALES LEASES NUMBER OF TRANSACTIONS

Market Statistics

	Change Over Last Quarter		Q1 2023	Q4 2022	Q1 2022	% Change Over Last Year
Vacancy Rate	▲	UP	1.43%	1.09%	0.40%	260.60%
Availability Rate	▲	UP	3.68%	2.51%	1.86%	97.93%
Average Asking Lease Rate	▲	UP	$1.68	$1.65	$1.30	29.23%
Sale & Lease Transactions	▼	DOWN	718,846	1,834,983	2,369,239	(69.66%)
Gross Absorption	▼	DOWN	480,083	504,746	218,357	119.86%
Net Absorption	▼	NEGATIVE	(304,741)	(227,485)	382,850	N/A

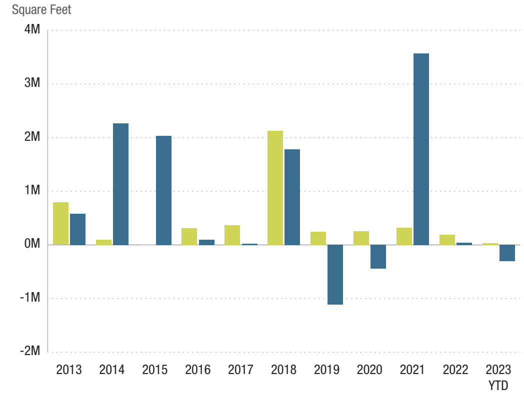
all, only seven sales were inked in Q1 compared with seventeen in Q4. Clearly, higher mortgage rates have impacted both the institutional and owner / user sale markets. Not a single institutional sale was recorded in Q1 and the largest owner / user sale was only 13,891 SF. With mortgage rates expected to remain near current levels, the sales market is expected to remain suppressed.

ABSORPTION. Net absorption fell further into negative territory in Q1. Occupied space decreased by another 77,000 SF from Q4 of last year after a modest gain of 24,302 SF in Q3. Seven of the eight submarkets in the region suffered a net loss in occupied space, with Buena Park / La Palma posting the largest drop of 88,000 SF. Artesia / Cerritos was the lone submarket in positive territory with a 29,000 SF gain. Gross absorption, which measures total move-ins, fell slightly to 480,083 SF in Q1 from 504,746 SF in Q4. The slowdown in owner / user deals and the disproportionate share of leases being in the smaller ranges is the main reason for falloff in both net and gross absorption, and this is exacerbated by the ongoing shortage of quality functional product. The only two deals over 100,000 SF during the quarter were lease renewals.

CONSTRUCTION. Ground-up construction activity in the Mid Counties has been limited but ongoing. A 23,136 SF building in Artesia / Cerritos and a 144,434 SF building in Santa Fe Springs are the current industrial projects under construction, totaling 167,570 SF. A total of 258,004 SF is planned for construction in Santa Fe Springs, and when combined with the 27,765 SF in Buena Park / La Palma and 5,465 SF in Whittier, this contributes to an overall 291,234 SF of planned projects in the region. This means that the region will continue to experience a scarcity of quality first-generation space. And, with land sales at a standstill due to the rising cost of capital, that will be the case for at least another couple of years. However, the lack of new deliveries will help landlords of existing buildings who are seeing overall demand for their space decline. Tenants and owner / user buyers are forced to choose from existing buildings, many of which have elements of functional obsolescence.

EMPLOYMENT. In February 2023, the seasonally adjusted unemployment rate in Los Angeles County increased slightly to 4.9%, up from a revised 4.8% in January 2023. This rate was lower than the 5.7% recorded one year ago. Despite adverse weather conditions, construction experienced the third-largest monthly expansion, increasing by 4,800 jobs. Growth occurred in specialty trade contractors (up 2,800), building construction (up 1,100), and heavy and civil engineering construction (up 900).

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 expected to remain tight due to limited new deliveries and low vacancy rates. Aging inventory, including functionally obsolete buildings, will continue to find occupants, albeit with longer lease-up intervals. Mortgage interest rates need to come down for owner / user demand to improve, and supply will stay in line with declining demand as sellers hold on to high-value properties. Throughout the year, we anticipate fewer escrows to close, but qualified buyers will be available for properties that enter the market. Time on market will now be measured in months rather than weeks or days, as the era of multiple parties bidding up prices has ended. Landlords, aiming to reduce marketing time, may offer more concessions like free rent and tenant improvements to attract the most qualified tenants. While they will maintain their asking rates for now, significant rate reductions could emerge if demand continues to fall.

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q1 2023	Square Feet Available	Availability Rate Q1 2023	Average Asking Lease Rate	Net Absorption Q1 2023	Net Absorption 2023	Gross Absorption Q1 2023	Gross Absorption 2023
Mid Counties													
Artesia / Cerritos	277	13,105,031	23,136	0	253,341	1.93%	647,584	4.94%	$1.64	29,388	29,388	49,505	49,505
Bellflower / Downey	204	5,525,267	0	0	146,456	2.65%	221,706	4.01%	$1.69	(58,081)	(58,081)	22,746	22,746
Buena Park / La Palma	236	15,031,467	0	27,765	166,682	1.11%	607,239	4.04%	$0.00	(88,413)	(88,413)	26,902	26,902
La Mirada	177	13,411,678	0	0	147,839	1.10%	576,772	4.30%	$1.67	(20,322)	(20,322)	146,643	146,643
Norwalk	89	2,889,795	0	0	8,932	0.31%	8,932	0.31%	$1.50	(2,932)	(2,932)	1,100	1,100
Paramount	412	9,036,896	0	0	100,865	1.12%	331,930	3.67%	$1.45	(68,429)	(68,429)	29,961	29,961
Santa Fe Springs	1,345	53,751,437	144,434	258,004	793,307	1.48%	1,792,696	3.34%	$1.70	(67,802)	(67,802)	162,644	162,644
Whittier	161	4,142,988	0	5,465	51,879	1.25%	114,493	2.76%	$1.25	(28,150)	(28,150)	40,582	40,582
Mid Counties Total	**2,901**	**116,894,559**	**167,570**	**291,234**	**1,669,301**	**1.43%**	**4,301,352**	**3.68%**	**$1.68**	**(304,741)**	**(304,741)**	**480,083**	**480,083**
5,000-24,999	1,822	23,954,732	23,136	5,465	441,181	1.84%	771,841	3.22%	$1.62	(156,847)	(156,847)	202,188	202,188
25,000-49,999	504	17,963,668	0	27,765	308,780	1.72%	711,761	3.96%	$1.54	(64,122)	(64,122)	113,803	113,803
50,000-99,999	298	20,645,568	0	136,880	298,610	1.45%	826,172	4.00%	$1.38	(79,061)	(79,061)	39,092	39,092
100,000-249,999	216	31,905,157	144,434	121,124	576,449	1.81%	1,422,097	4.46%	$1.78	(4,711)	(4,711)	125,000	125,000
250,000-499,999	54	17,947,696	0	0	0	0.00%	205,200	1.14%	$0.00	0	0	0	0
500,000 plus	7	4,477,738	0		44,281	0.99%	364,281	8.14%	$0.00	0	0	0	0
Mid Counties Total	**2,901**	**116,894,559**	**167,570**	**291,234**	**1,669,301**	**1.43%**	**4,301,352**	**3.68%**	**$1.68**	**(304,741)**	**(304,741)**	**480,083**	**480,083**

This survey consists of buildings greater than 5,000 square feet. Lease rates are on triple-net basis.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
11258 Regentview Ave.	Downey	13,891	$3,800,000	Lyons & Lyons Properties	W W Holdings Inc.
9078 Rosecrans Ave.	Bellflower	11,083	$4,055,000	CJRTB Enterprises LLC	Lyons Bellflower LLC
15124-15128 Lakewood Blvd.	Bellflower	8,010	$2,050,000	Eduardo M Martinez & Teresa M Zuniga-Martinez	Prescott Living Trust
8734 Cleta St.	Downey	7,572	$3,000,000	Cloveworth LLC	8734 Cleta LLC
12940 Firestone Blvd.	Santa Fe Springs	7,557	$11,100,000	Ken & Tel Properties LLC	Cox Living Trust

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
15928 Commerce Way - Renewal	Cerritos	163,290	Feb-2023	Medify Air, LLC	Link Logistics
16930 Valley View Ave. - Renewal	La Mirada	125,000	Jan-2023	United Rentals	Pacific Industrial
12521 Los Nietos Rd.	Santa Fe Springs	92,771	Feb-2023	BeBella	Panattoni Development Co. Inc.
16410 Bloomfield Ave. - Renewal	Cerritos	58,536	Feb-2023	Silver Hawk	Injans Investments
13815 Struikman Rd.	Cerritos	43,080	Jan-2023	Gurunanada	HOS Realty Cerritos, LLC

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MID COUNTIES INDUSTRIAL

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We're in a World Different from Only Twelve Months Ago

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Up until last year, industrial real estate was the darling child of the commercial real estate sector. It made sense. The COVID-19 pandemic hit, retail shut down, e-commerce sales exploded, e-commerce-based businesses and third-party logistics providers gobbled up buildings to try to meet surging online purchases, and investors / developers clamored over each other to acquire buildings and land to capitalize on these trends. Submarkets close to the LA / Long Beach ports, such as the Mid-Counties Los Angeles submarket, saw unprecedented rent / sales price growth over the last few years due to the spike in demand. To give some perspective, the average asking rate per square foot for the Mid-Counties submarket in Q1 2023 was $1.57 / SF NNN. This compares with $1.02 / SF NNN in Q1 2018 and $0.70 / SF NNN in Q1 2013. That is impressive rent growth in a relatively short period of time.

Despite having strong momentum heading into last year, the industrial real estate market, and the economy as a whole, faced strong headwinds in 2022 — primarily, inflation and the resulting interest rates increases. Those two factors directly impacted, and continue to impact, the bottom lines of businesses and the cost of debt for borrowers. Now we're seeing longer times on market, tenant concessions slowly starting to return (e.g., free rent, tenant improvement allowances), and in some cases lease rate/sale price reductions for properties that have been on the market for multiple months. I have also personally noticed through buildings I have marketed over the past several months within the Mid-Counties submarket that the financial credit of many prospective tenants in the market for buildings is not exceptionally strong, and in some cases quite weak. This means landlords will likely have to be more patient in leasing these buildings, which could further extend average time on market.

Another area where we are seeing a change in demand, which is inversely correlated to industrial vacancy, is the amount of inbound cargo activity at the LA / Long Beach ports. When the number of twenty-foot equivalent (TEU) containers entering through the ports rises, it is usually followed by a drop in the industrial vacancy rate, and the converse is also true. Cargo volumes have been declining since early 2022 and will likely remain relatively light through the first half of 2023. Consequently, this will likely translate to a gradual rise in the industrial vacancy rate across LA County.

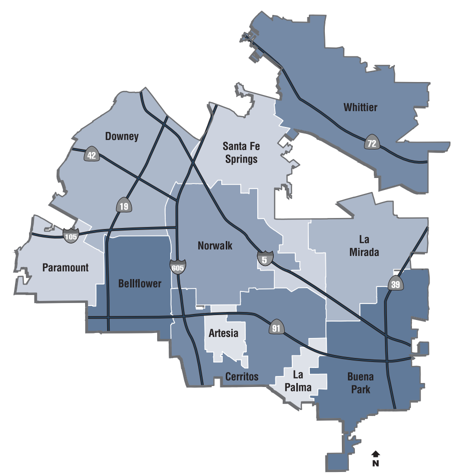
In the long term, the Mid Counties submarket will continue to be a highly sought-after submarket due to port proximity, limited land availability for new construction, and excellent freeway access. In the short term, don't be surprised if we see a gradual rise in the overall vacancy rate, decelerating or even flat rent growth, and slightly lower sale prices.

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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