

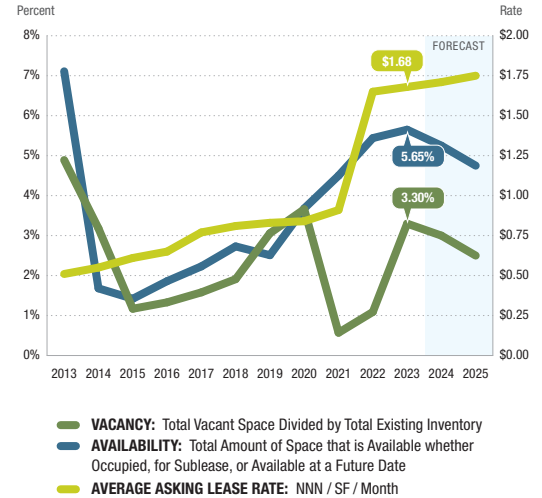
**OVERVIEW.** The Mid-Counties industrial market is still the tightest of all the Southern California markets we track, but in Q4 it experienced some large moves in several key metrics. Vacancy spiked by more than a full percentage point and sale/lease transaction volume sunk to a multiyear low. Net absorption was firmly in negative territory, but the average asking lease rate inched up by a penny. New construction increased, but is still far too low to meet the local demand for state-of-the-art distribution space. Buildings available for sale or lease are still taking longer to secure buyers and tenants, but it has been worth the wait for landlords and sellers as prices remain at or near the recent market peak.

**VACANCY & AVAILABILITY.** Vacancy is the big story for the Mid-Counties industrial market in Q4. It rose by 117 basis points during the period to 3.30% after just breaking past 2% in Q3. The increase places the Mid-Counties vacancy rate roughly in the middle between the rest of the LA area, at 3.77%, and Orange County, at 2.57%. Mid-County cities seeing outsized increases in vacancy include Artesia/Cerritos, La Mirada and Santa Fe Springs. In all, vacancy increased by 1,373,438 SF in Q4. From a historical perspective, vacancy is still low, but the large short-term increase is noteworthy. Interestingly, availability, which includes occupied space offered for sale or lease, only rose by 21 basis points during the period. This reflects low levels of space offered for sublease and the overall health of the local economy.

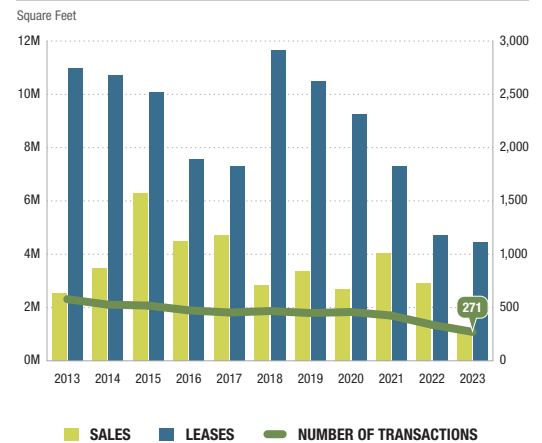
**LEASE RATES.** The Mid-Counties average asking lease rate has remained relatively flat all year. Year over year the average asking lease rate has risen by only three cents, but it stands at a historic high of \$1.68 after moving up a penny in Q4. By city, the biggest rate increase came from Paramount, up \$0.08 to \$1.45, but it represents only 9.2 MSF of the region's 117.6 SF base inventory. Santa Fe Springs, which accounts for almost half the region's inventory at 53.8 MSF, recorded an increase of \$0.04 to end the year at \$1.77. Artesia/Cerritos lost \$0.05 to \$1.63 while La Mirada lost \$0.02 to \$1.59. Tenants are negotiating from a position of increased strength now that competition from multiple tenants has diminished.

**TRANSACTION ACTIVITY.** The total square footage of space leased or sold fell from 2,976,717 SF in Q3 to just 683,566 SF in Q4. In fact, this is the first quarter in several years that failed to see at least 1 MSF of sale and lease activity. Just 396,201 SF was leased compared to 2,180,884 SF in Q3 and square footage sold fell to 287,365 SF from 795,833 SF in the third quarter. Total transaction count also fell sharply to 51

### VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



### Market Statistics

	Change Over Last Quarter	Q4 2023	Q3 2023	Q4 2022	% Change Over Last Year
Vacancy Rate	▲ UP	3.30%	2.13%	1.09%	203.83%
Availability Rate	▲ UP	5.65%	5.44%	2.51%	125.35%
Average Asking Lease Rate	▲ UP	\$1.68	\$1.67	\$1.65	1.82%
Sale & Lease Transactions	▼ DOWN	683,566	2,976,717	1,849,291	(63.04%)
Gross Absorption	▲ UP	1,583,930	1,146,222	920,278	72.11%
Net Absorption	▼ NEGATIVE	(524,306)	195,326	(227,485)	N/A

from 95 in Q3. There were 42 leases completed versus 87 in Q3, and nine sales versus eight in Q3. A decrease in sales volume is reflective of two things: more cautious institutional investor behavior and high mortgage rates on loans to fund owner / user transactions. Only 31 sales were completed in 2023 as compared with 82 in 2022.

**ABSORPTION.** Net absorption turned back to negative in Q4 after a gain in Q3. The net loss for the final period was 524,306 SF bringing year-to-date net absorption to negative 795,126 SF. Negative absorption at this level was not unexpected given the lack of functional available space offered for lease or sale and very low levels of new deliveries. Seven of the eight cities that compose the Mid-Countries region posted losses in occupied space for the year. La Mirada suffered the biggest loss, 412,403 SF, followed by Santa Fe Springs with a decline of 205,092 and Norwalk at 177,059. Whittier posted the only net gain in occupied space at 215,201. Gross absorption, which measures total move-ins, increased to 1,583,930 SF, up from 1,146,222 SF in the third period. The largest lease deal for the quarter was a 220,000 SF building lease renewal to Daiso California LLC at 16400 Trojan Way in La Mirada.

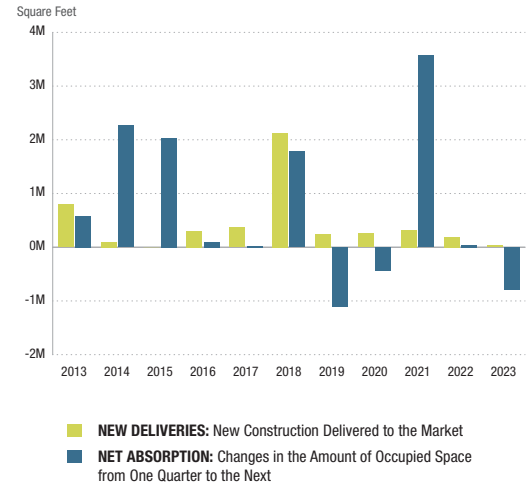
**CONSTRUCTION.** Ground-up construction activity ticked up to 394,097 SF from 295,668 SF in Q3. All but 27,765 SF of that total is in Santa Fe Springs. Another 900,050 SF is in the planning stages, with two thirds of that in Santa Fe Springs and the balance in Whittier. As we have been reporting, the lack of new deliveries to the Mid-Countries is an ongoing problem, and is likely to remain so for years to come. Suitable sites for ground-up development are extremely limited and very expensive, making it tough for projects to pencil out despite record high lease rates and sales prices. As a result, tenants and buyers who need to stay in the immediate area are often forced to take space that does not allow them to operate at peak efficiency.

**EMPLOYMENT.** In November 2023, the seasonally adjusted unemployment rate in Los Angeles County increased to 5.3%, up from the revised rate of 5.2% in October 2023, and surpassing the 4.7% rate observed one year ago. On a positive note, several industries experienced job gains over the year, including private education and health services, which saw an increase of 56,200 jobs. Similarly, the leisure and hospitality sector added 33,700 jobs, while trade, transportation, and utilities registered a gain of 10,700 jobs.

## Forecast

The Mid-Countries market will remain the tightest of all Southern California regional markets in 2024. Though vacancy has finally ticked up, demand for quality product will remain strong enough to absorb the slight rise in available space and keep lease rates and sales prices near current levels. Net absorption is expected to hang slightly above or below the zero line each quarter due to the static nature of the inventory base and the longer marketing time for older, functionally obsolete buildings. With demand and supply in better balance than it has been in many years, competition for space has moderated. This reduced sense of urgency allows tenants to be more deliberate in their decision-making and hold out for space that truly fits their needs. There is still a real possibility of losing tenants in need of modern warehouse space to the Inland Empire, where market conditions have softened somewhat, especially in the 100,000 to 250,000 SF range. Sale activity in the Mid-Countries will remain constrained by limited supply, but mortgage interest rates fell sharply in December, with more declines expected. This could trigger a resurgence in demand from potential buyers.

## NEW DELIVERIES & NET ABSORPTION



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q4 2023	Square Feet Available	Availability Rate Q4 2023	Average Asking Lease Rate	Net Absorption Q4 2023	Net Absorption 2023	Gross Absorption Q4 2023	Gross Absorption 2023
<b>Mid Counties</b>													
Artesia / Cerritos	277	13,055,746	0	0	525,490	4.02%	920,675	4.88%	\$1.63	73,093	(74,783)	222,945	537,294
Bellflower / Downey	204	5,547,944	0	0	158,990	2.87%	240,629	2.41%	\$1.55	(25,312)	(27,375)	19,478	260,191
Buena Park / La Palma	236	15,304,937	27,765	0	507,391	3.32%	685,812	5.32%	\$0.00	(71,544)	(96,899)	135,571	388,857
La Mirada	177	13,415,184	0	0	769,665	5.74%	1,522,743	9.47%	\$1.59	(289,166)	(412,403)	128,749	611,174
Norwalk	90	2,919,603	0	0	94,271	3.23%	103,199	6.18%	\$1.60	(687)	(177,059)	5,744	11,053
Paramount	414	9,228,217	0	0	115,280	1.25%	274,208	3.08%	\$1.45	17,209	(16,716)	73,197	323,687
Santa Fe Springs	1,345	53,800,422	366,332	607,624	1,634,471	3.04%	2,805,699	5.63%	\$1.77	(195,675)	(205,092)	752,774	2,255,519
Whittier	162	4,339,467	0	292,426	72,310	1.67%	97,298	2.97%	\$1.38	(32,224)	215,201	245,472	349,758
<b>Mid Counties Total</b>	<b>2,905</b>	<b>117,611,520</b>	<b>394,097</b>	<b>900,050</b>	<b>3,877,868</b>	<b>3.30%</b>	<b>6,650,263</b>	<b>5.65%</b>	<b>\$1.68</b>	<b>(524,306)</b>	<b>(795,126)</b>	<b>1,583,930</b>	<b>4,737,533</b>
5,000-24,999	1,818	23,879,638	22,850	0	704,187	2.95%	1,073,221	4.49%	\$1.59	(114,591)	(320,316)	290,034	1,110,680
25,000-49,999	510	18,151,490	63,683	59,568	583,790	3.22%	924,313	5.09%	\$1.56	71,395	(216,499)	248,011	878,130
50,000-99,999	299	20,712,351	58,463	178,264	638,684	3.08%	1,016,874	4.91%	\$1.65	66,803	(101,096)	452,149	962,272
100,000-249,999	215	31,795,536	249,101	369,792	1,118,519	3.52%	2,386,047	7.50%	\$1.78	(366,944)	93,754	593,736	1,375,417
250,000-499,999	56	18,607,296	0	292,426	468,407	2.52%	885,527	4.76%	\$0.00	(180,969)	(250,969)	0	0
500,000 plus	7	4,465,209	0	0	364,281	8.16%	364,281	8.16%	\$0.00	0	0	0	411,034
<b>Mid Counties Total</b>	<b>2,905</b>	<b>117,611,520</b>	<b>394,097</b>	<b>900,050</b>	<b>3,877,868</b>	<b>3.30%</b>	<b>6,650,263</b>	<b>5.65%</b>	<b>\$1.68</b>	<b>(524,306)</b>	<b>(795,126)</b>	<b>1,583,930</b>	<b>4,737,533</b>

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

## Significant Transactions

Sales						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller	
7050-7150 Village Dr. - 5 Properties	Buena Park	295,860	\$71,000,000	Buchanan Street Partners	TA Realty	
12333 Los Nietos Rd.	Santa Fe Springs	38,801	\$12,100,000	Dinasys, LLC *	Vantage Composites and Thermoforming	
13710 Carmenita Rd.	Santa Fe Springs	24,400	\$7,778,665	Santokh Erp LLC	Cardall Properties LP	
16207 Carmenita Rd.	Cerritos	23,807	\$7,200,000	Margate Holdings LLC	Accurate Air Engineering Inc.	
7333 Adams St.	Paramount	15,040	\$4,600,000	COMPASS Commercial	Wilson Edward V & Nadine A	
Leases						
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner	
16400 Trojan Way - Renewal	La Mirada	220,000	Oct-2023	Daiso California LLC	Prologis Inc.	
6280 Artesia Blvd. - Renewal	Buena Park	218,640	Oct-2023	Exemplis	Prologis Inc.	
6250 Caballero Blvd. - Renewal	Buena Park	143,970	Oct-2023	Safety Zone	AEW	
14245-14249 Artesia - Renewal	La Mirada	89,900	Nov-2023	Imagine Fulfillment Services	E&H Inv. Co	
12425-12441 Los Nietos Rd. - Renewal	Santa Fe Springs	84,772	Nov-2023	ALS West Coast Logistics	Prologis Inc.	

## Promising Horizons for the 2024 Los Angeles Industrial Real Estate Market

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Los Angeles industrial real estate experienced a return to a more balanced market in 2023. Vacancy rates rose quarter by quarter, resulting in landlords offering more concessions including rent abatement and tenant improvement allowances. Sale prices continued decreasing over the year as the price of capital continued to rise. However, multiple indicators demonstrate the Los Angeles industrial market could remain resilient in 2024 as port activity began to increase and the cost of capital started falling along with the 10 Year Treasury Note.

In November, port activity saw a 19% increase in monthly year-over-year activity for twenty-foot equivalent units (TEU's). This is the largest monthly year-over-year increase since June of 2021. The primary contributors to this increase in activity are the shortage of water in the Panama Canal and labor negotiations at U.S. ports. The Panama Canal is experiencing a drought, resulting in delayed passage for shipping containers. It is predicted the number of shipping containers that can pass through the Panama Canal will be reduced by 50% by February 2024. The ports of Los Angeles and Long Beach experienced a surge in activity as global shipping routes shifted in response to the passageway limitations. This redirection amplified the region's role as a key gateway for international trade. Additionally, after reaching a tentative six-year labor contract for the West Coast port workers, the East Coast ports now find themselves dealing with labor negotiations heading into 2024. Port workers have threatened strikes if their terms for increased wages are not met, resulting in carriers diverting ships to Western ports. The combination of the shortage of water in the Panama Canal combined with ongoing labor issues on the East Coast should continue to facilitate growth for the Los Angeles ports.

Moreover, in December the Federal Reserve reported their intention not to implement additional rate hikes, instead signaling the possibility of three rate reductions in 2024. Although the supply of properties for sale is limited, the divergence between buyer and seller expectations continues, with asking prices maintaining elevated levels. Nevertheless, the prospective reduction in the cost of capital in 2024, which will result in increased buying power, may serve to mitigate the gap between buyer and seller expectations.

Real estate giant Prologis anticipates vacancy rates to hit an all-time low by mid-2024, according to their year-end report. As many new developments have been delayed due to rising material and labor expenses, along with increased capital costs, Prologis predicts these factors could lead to more scarcity in the market as speculative development slumped 65% from peak levels and continue to drop.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a triple-net 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.

### 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

