FIRST QUARTER 2024 MARKET REPORT
MID COUNTIES INDUSTRIAL

Voit
REAL ESTATE SERVICES

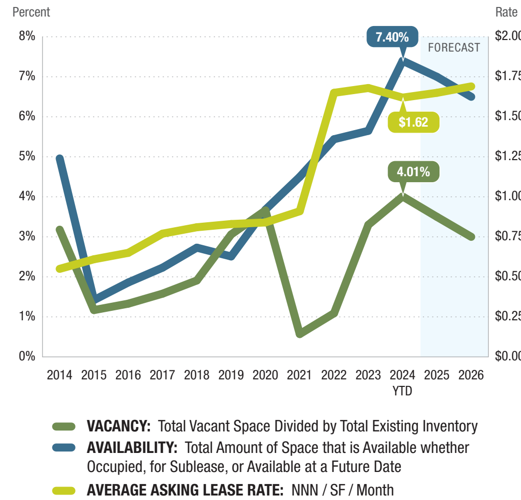
OVERVIEW. The Mid-Counties industrial market has been the tightest of all the Southern California markets we track, but that may be changing. The region showed significant signs of softening in Q1. Vacancy experienced another spike and has now almost doubled in just six months. Negative net absorption worsened and average asking lease rates declined for the first time in more than a decade. New construction was little changed. Lease transaction count increased but total space leased declined. Fewer buildings were sold as investors continued to struggle with high mortgage interest rates and high prices at the same time. The SBA 504 mortgage fell to 6.28% in March from 7.01% last December, but that wasn't enough of a drop to energize interest from prospective owner / users in any significant way.

VACANCY & AVAILABILITY. A big change in vacancy was the story again for the Mid-Counties industrial market. The overall vacancy rate rose by another 71 basis points in Q1 after a 117-basis-point spike in Q4. After breaking the 2% barrier in Q3 of 2023, the region broke the 4% barrier in just 6 months. A doubling of vacancy in that span, even at such relatively low levels, is cause for concern. The increase brings vacancy closer in line with the rest of the LA area (4.7%) and pushed it well past Orange County's rate of 3.2%. Santa Fe Springs recorded an increase in availability, which includes available space that is still occupied, from 2.8 MSF to nearly 4.2 MSF on a base inventory of 53.9 MSF. Availability in Whittier quadrupled to 314,000 SF on its base of 4.2 MSF. In fact, all ten cities in the Mid-Counties region saw an increase in both vacancy and availability. By size range, the 100,000 to 250,000 SF range has the highest availability rate at 10.07%, followed by the 50,000 to 100,000 SF range at 7.57%.

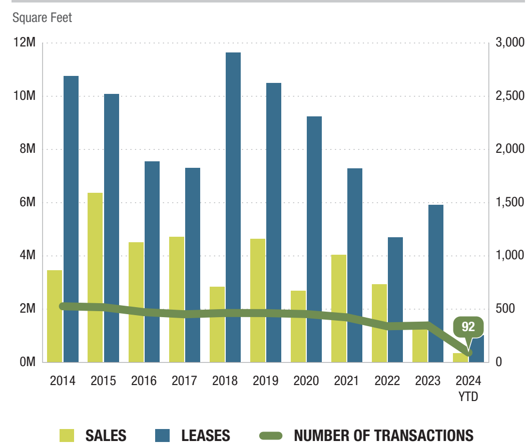
LEASE RATES. The Mid-Counties average asking lease rate actually fell for the first time in recent memory, dipping by $0.06 to $1.62 after relatively flat growth for the last several quarters. That took year-over-year rent growth into negative territory (-2.99%) for the first time since 2010. It should be noted that average asking rates can be misleading, as landlords will offer concessions like free rent and tenant improvements to keep their "coupon" rates higher to facilitate refinancing or maximize value in a disposition. Effective rates have been declining since late 2022 when the market lost momentum due to inflation and the Fed's response to it.

TRANSACTION ACTIVITY. The total square footage of space leased or sold managed a slight increase in Q1, gaining 33,940 SF to 1,380,992 SF. However,

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter		Q1 2024	Q4 2023	Q1 2023	% Change Over Last Year
Vacancy Rate	▲	UP	4.01%	3.30%	1.43%	180.57%
Availability Rate	▲	UP	7.40%	5.65%	3.68%	101.06%
Average Asking Lease Rate	▼	DOWN	$1.62	$1.68	$1.67	(2.99%)
Sale & Lease Transactions	▲	UP	1,380,992	1,347,052	1,049,396	31.60%
Gross Absorption	▼	DOWN	999,506	1,430,972	446,921	123.64%
Net Absorption	▼	NEGATIVE	(646,454)	(524,306)	(304,741)	N/A

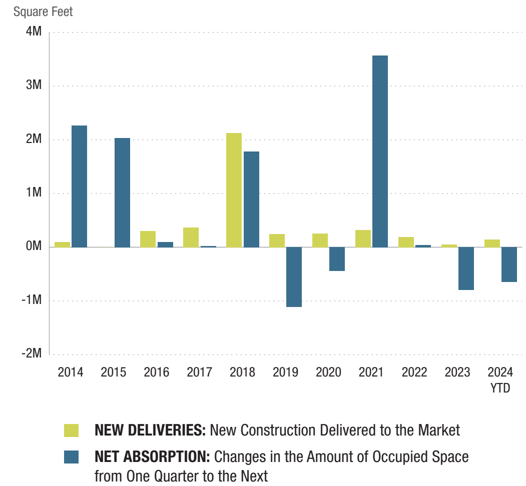
activity has been consistently running at about half the pace it was in 2021 and the first half of 2022 when the Fed pumped the monetary brakes. Overall lease transaction count was up, but square footage leased was about the same as Q4, which means the larger buildings are experiencing more of an activity slowdown. Sale transaction activity fell from 15 to 12 with the square footage sold little changed. In Q1, those 12 sales totaled just over 353,000 SF. In all of 2023, just 30 buildings changed hands, as compared to 83 in 2022. Until either prices or rates come down, sale activity will remain thin.

ABSORPTION. Net absorption remained firmly in negative territory in Q1, increasing to 646,454 SF from 524,306 SF back in Q4. Year-over-year, the loss in occupied space doubled, as demand from both tenants and buyers has been consistently light since the last half of 2022. This trend appears to be accelerating as total negative absorption for all of 2023 was 795,126 SF. Gross absorption, which measures total move-ins, decreased to just 999,506 SF, from 1,430,972 SF in Q4.

CONSTRUCTION. Ground-up construction activity fell slightly to 370,787 SF in Q1. Just one new building was delivered, a 22,850-square-footer in Santa Fe Springs. Planned space also declined, dropping to just 780,803 SF from 900,050 SF last quarter, further evidence of the difficult conditions for ground-up development. Interest rates have doubled since 2022, land is scarce and expensive, building costs are up and even at today's high lease rates, new projects just don't pencil. All but 5,000 SF of the planned space is in Santa Fe Springs and Whittier. The lack of new deliveries to the Mid-Counties is an ongoing problem and is likely to remain so for years to come.

EMPLOYMENT. The seasonally adjusted unemployment rate in Los Angeles County held steady at 5.4% in February 2024, unchanged from the revised 5.4% rate in January but higher than the 4.9% rate a year earlier in February 2023. Several industries contributed to job growth during the month, government employment up by 2,200, the construction sector gaining 1,100 jobs, and manufacturing adding 100 jobs.

NEW DELIVERIES & NET ABSORPTION



Forecast

The Mid-Counties market will continue to soften throughout 2024, especially on the sales side of the equation. The area has been a hotbed of investor and owner/user activity for decades, and that niche has been heavily impacted by high mortgage rates, coupled with stubbornly high prices. Now, highly leveraged transactions just don't make the good sense they did with the historically low interest rates available before the middle of 2022. Until then, low rates were driving strong demand and big price gains. While vacancy on the leasing side has experienced major increases in the last year, quality product is still in demand. The bulk of the region's base inventory was built in the 1970's and 1980's, much of which has become functionally obsolete to the logistics sector. Challenges aside, the supply/demand balance has returned to "normal" when viewed from a historical perspective. Tenants, who were at a distinct disadvantage for the better part of the last decade, have more alternatives from which to choose and finally have some leverage in negotiations.

	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 2024	Square Feet Available	Availability Rate Q1 2024	Average Asking Lease Rate	Net Absorption Q1 2024	Net Absorption 2024	Gross Absorption Q1 2024	Gross Absorption 2024
Mid Counties													
Artesia / Cerritos	276	13,125,844	0	0	609,565	4.64%	1,013,628	4.88%	$1.53	(25,779)	(25,779)	236,756	236,756
Bellflower / Downey	206	5,775,407	0	0	210,083	3.64%	229,468	2.41%	$1.42	(54,706)	(54,706)	157,059	157,059
Buena Park / La Palma	238	15,345,859	27,765	0	578,025	3.77%	974,098	5.32%	$0.00	(74,549)	(74,549)	39,913	39,913
La Mirada	178	13,442,224	0	0	968,339	7.20%	1,535,377	9.47%	$1.57	(172,996)	(172,996)	102,583	102,583
Norwalk	90	2,919,603	0	5,000	105,877	3.63%	103,794	6.18%	$1.67	(9,523)	(9,523)	5,958	5,958
Paramount	414	9,231,789	0	0	189,930	2.06%	370,552	3.08%	$1.44	(99,708)	(99,708)	33,762	33,762
Santa Fe Springs	1,350	53,878,719	343,022	483,500	1,967,428	3.65%	4,184,453	5.63%	$1.75	(181,684)	(181,684)	397,144	397,144
Whittier	163	4,224,305	0	292,303	96,308	2.28%	314,349	2.97%	$1.50	(27,509)	(27,509)	26,331	26,331
Mid Counties Total	**2,915**	**117,943,750**	**370,787**	**780,803**	**4,725,555**	**4.01%**	**8,725,719**	**7.40%**	**$1.62**	**(646,454)**	**(646,454)**	**999,506**	**999,506**
5,000-24,999	1,825	24,294,512	22,850	5,000	845,726	3.48%	1,167,845	4.81%	$1.54	(95,576)	(95,576)	306,534	306,534
25,000-49,999	513	18,250,267	63,683	59,568	754,273	4.13%	1,071,746	5.87%	$1.48	(95,276)	(95,276)	223,985	223,985
50,000-99,999	300	20,803,725	58,463	178,264	733,219	3.52%	1,505,741	7.24%	$1.65	(94,172)	(94,172)	99,632	99,632
100,000-249,999	215	31,815,519	225,791	245,668	1,441,875	4.53%	3,204,114	10.07%	$1.64	(243,656)	(243,656)	369,355	369,355
250,000-499,999	55	18,314,518	0	292,303	586,181	3.20%	1,411,992	7.71%	$0.00	(117,774)	(117,774)	0	0
500,000 plus	7	4,465,209	0	0	364,281	8.16%	364,281	8.16%	$0.00	0	0	0	0
Mid Counties Total	**2,915**	**117,943,750**	**370,787**	**780,803**	**4,725,555**	**4.01%**	**8,725,719**	**7.40%**	**$1.62**	**(646,454)**	**(646,454)**	**999,506**	**999,506**

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
10329 Painter Ave.	Santa Fe Springs	41,725	$11,250,000	Sterling Investors	LA Industrial 2, LLC
16912–16920 Gridley Pl.	Cerritos	37,178	$9,800,000	Xchange Solutions	ACPRE, Inc.
9435–9439 Sorensen Ave.	Santa Fe Springs	39,880	$8,450,000	AJ Sorenson, LLC	Rocket Properties LLC
9838 Firestone Blvd.	Downey	24,954	$4,000,000	Fulpar Inc.	No Dumb Bunny LLC
13905 Mica St.	Santa Fe Springs	24,600	$8,130,264	Chicology	California Bees, Inc.

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
12821–12816 Carmenita Rd. - Renewal	Santa Fe Springs	117,774	Jan-2024	Montage Fulfillment	Golden Springs Building F LLC
14455–14489 Industry Cir.	La Mirada	112,946	Mar-2024	National Sign*	Heitman
17707–17719 Valley View Ave.	Cerritos	71,786	Feb-2024	CMA Dishmachines	D&D Management LLC
17515 Valley View Ave.	Cerritos	30,302	Jan-2024	Vellichor Floors	Link Logistics Real Estate
16731 Knott Ave.	La Mirada	26,650	Feb-2024	Sunny Sky Products	DWS

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The Los Angeles Industrial Market in Transition

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There is no question the LA industrial real estate market is in a state of transition right now. After unprecedented rent growth and property appreciation coming out of the COVID-19 pandemic, the market started cooling off in 2023. To provide some perspective, the vacancy rate for the LA County industrial real estate market was approximately 1.7% at its lowest point in Q1 2022. Since that time, the vacancy rate has almost tripled. Despite the rising vacancy rate, the average asking rate paradoxically also climbed. This climb lasted through July 2023, at which point it started declining. Sale prices per square foot spiked in Q1 2023 and have gradually been declining since that time.

The rise in the vacancy rate and the recent decline in the average asking lease rate are largely attributable to overly ambitious lease rate expectations created by market-maker landlords (i.e. publicly traded REITS, institutional landlords, and new buyers that entered the market between 2020 to mid-2023) and an overall decline in new lease requirements. As the leasing market recalibrates, lease rate reductions, tenant concessions (free rent, tenant improvement allowances, early possession), and more tenant-friendly deal terms are quickly becoming more common. For tenants, these conditions will present opportunities to secure more favorable terms compared to 12 to 18 months ago. For landlords, being attuned to market conditions and being flexible with deal terms for the right tenants will likely yield the most favorable results for the foreseeable future.

On the sales side, prices will likely see a gradual decline over the coming months due to the current interest rate environment and less investor capital in the market. However, the inventory of buildings for sale is still relatively low and the Small Business Administration (SBA) is still actively lending on owner-user purchases. Owner-users will likely be the more active buyer group in the foreseeable months due to access to SBA capital and also due to a more conservative posture from investors.

On a positive note, Port of Los Angeles activity (measured by a twenty-foot-equivalent container "TEU") increased by 60% year over year for the month of February 2024 and is also up 35% year to date as compared with the first two months of 2023. There is typically a very strong positive correlation between port activity and the industrial vacancy rate, so it's possible that if the positive trends in port activity continue, those could translate to positive absorption later this year.

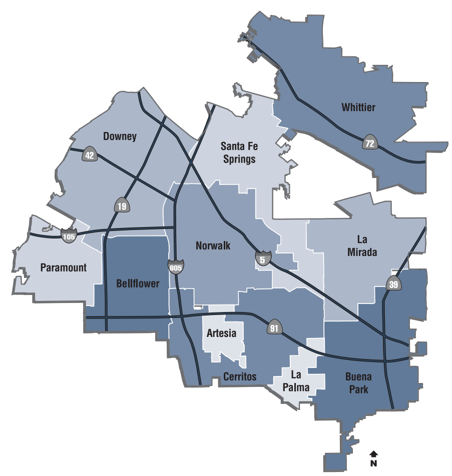
For the coming months, further softening in the market is likely to occur. However, long term, the LA industrial real estate market will continue to be a highly sought-after market in which demand, rent growth, and price appreciation will return.

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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