MCQ2 24

SECOND QUARTER 2024 MARKET REPORT

MID COUNTIES INDUSTRIAL

Voit REAL ESTATE SERVICES

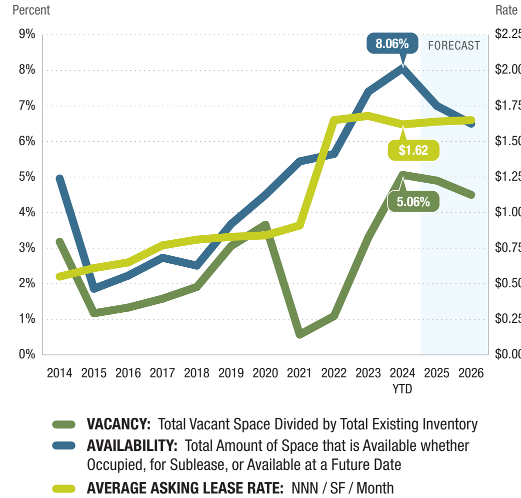
OVERVIEW. The Mid-Counties industrial market continued to slow during the second period. Vacancy was up by over a full percentage point, average asking lease rates were flat, lease and sale activity was down and net absorption was deep in negative territory. However, gross absorption, which measures total move-ins, managed a healthy increase. New construction rose, as well. Institutional investment activity continues to lag and the owner / user sale sector, a primary driver of the Mid-Counties market for decades, struggled for momentum in the face of high mortgage interest rates and high sales prices. Only a handful of small buildings, totaling 126,000 SF, were sold during the period. The interest rate on SBA 504 mortgages fell to 6.35% in June after a spike in April in May, but remains high enough to discourage demand. Tenants and buyers have been taking a more cautious approach to making new commitments since they are no longer suffering from the supply constraints of the past several years.

VACANCY & AVAILABILITY. A significant rise in vacancy was the big story again in Q2. The overall vacancy rate rose by another 105 basis points in Q2 to 5.06% after a 71-basis-point spike in Q1. Year over year the vacancy rate has risen by almost 173%. This time last year, the vacancy rate was a scant 1.85%. Even though it remains low by historical standards, the recent rate of increase is cause for concern for landlords and prospective owner / user sellers. Vacancy rates vary by building size: under 25,000 SF spaces have the lowest rate at 3.42%, while buildings over 500,000 SF have the highest at 7.3%, closely followed by 100,000-250,000 SF spaces at 7.14%.

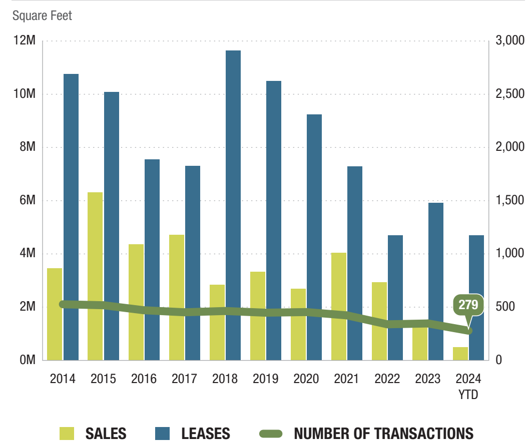
LEASE RATES. The Mid-Counties average asking lease rate was unchanged at $1.62 for the quarter. That kept year-over-year rent growth into negative territory at -3.57%. Effective rates, which factor in discounts for free rent, tenant improvements, signing bonuses and moving allowances, are much lower, though. Landlords are becoming more willing to offer these discounts in response to a decline in active requirements and longer lease-up times. Until late 2022, time on market was measured in days as competition among tenants in dire need of space precipitated multiple offers as soon as properties hit the market. Now a marketing time of six months or more is not uncommon and is softening asking rents.

TRANSACTION ACTIVITY. The industrial real estate market in Q2 saw a decline in total square footage leased or sold compared with Q1. There were 86 transactions totaling 1,510,286 SF, down from 100 transactions and 1,958,653 SF in Q1. Sales

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter		Q2 2024	Q1 2024	Q2 2023	% Change Over Last Year
Vacancy Rate	▲	UP	5.06%	4.01%	1.85%	172.74%
Availability Rate	▲	UP	8.06%	7.40%	4.50%	79.31%
Average Asking Lease Rate	▬	FLAT	$1.62	$1.62	$1.68	(3.57%)
Sale & Lease Transactions	▼	DOWN	1,510,286	1,958,653	1,842,540	(18.03%)
Gross Absorption	▲	UP	1,768,781	890,434	1,221,382	44.82%
Net Absorption	▼	NEGATIVE	(1,006,462)	(646,454)	(161,405)	N/A

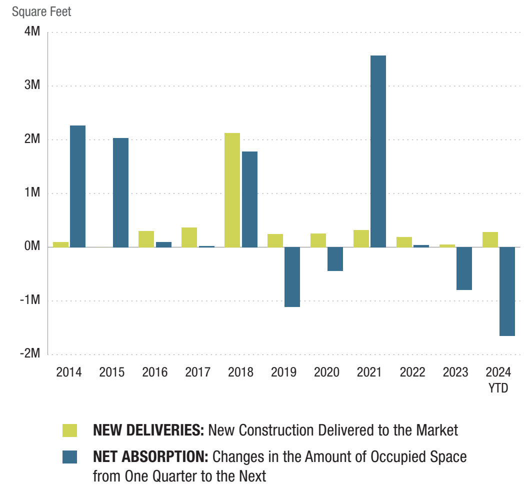
activity was particularly sluggish, with only 9 sales amounting to 126,025 SF, a significant drop from Q1's 14 sales totaling 376,746 SF. This decline in sales activity is mostly attributed to higher mortgage interest. Historically, 20 to 30 buildings would change hands per quarter, even during periods of low for-sale inventory. The current market conditions suggest that sale activity will remain slow until interest rates decrease or property prices adjust to reflect the higher rates.

ABSORPTION. Negative net absorption in Q2 increased to 1,006,462 SF from 646,454 SF in Q1, continuing a trend since Q2 last year. This trend explains the rapid rise in vacancy. Some tenants are relocating to the Inland Empire for newer, more affordable warehouse space, as that area experiences increased vacancy due to speculative development. The Mid-Counties region faces challenges with aging, less functional, buildings lacking modern features like adequate clear height, fire sprinkler systems, and loading facilities. Without significant new construction, this issue will persist, potentially forcing more tenants to leave the area and maintaining downward pressure on net absorption. The contrast between the Inland Empire's new developments and Mid-Counties' aging inventory highlights the importance of modernization in retaining tenants and maintaining market competitiveness.

CONSTRUCTION. Ground-up construction activity rose to 577,832 SF in Q2 from 370,787 SF in Q1. In Buena Park, a 100,000 SF build-to-suit facility for Yamaha is underway. In Santa Fe Springs, Rexford has three buildings totaling 163,435 SF under construction, while another 107,045 SF building is being built on Bloomfield Avenue. That building is replacing a 63,000 SF building that was demolished on the five-acre site. Telegraph Point, a two-building project totaling 179,537 SF, is also under construction in Santa Fe Springs. Planned space has fallen sharply. Just one project in Santa Fe Springs totaling 178,264 SF is in the planning phase, further evidence of the difficult economic and financial environment for ground-up developers.

EMPLOYMENT. Los Angeles County's unemployment rate remained steady at 5.3% in May 2024, higher than the previous year's 4.8%. Despite challenges, non-farm employment grew by 11,100 jobs. The mixed performance across business sectors, including growth in leisure and hospitality but declines in manufacturing, presents both opportunities and challenges for the industrial real estate market.

NEW DELIVERIES & NET ABSORPTION



Forecast

Mid-Counties market conditions will continue to soften for the foreseeable future. Higher costs across the board, including the highest mortgage rates in years, will keep the pressure on institutional and private investors. Since it was low interest rates that once drove property values soaring to new heights, it only stands to reason that some level of market correction is in the offing. Thus far, we can point to the decrease in active requirements and transaction velocity for properties offered for sale or lease as a preliminary sign of correction. Fortunately, the region was not overbuilt heading into a slowing market, as has been the case in previous market down-cycles. Today, existing owners only need to compete with one another for tenants rather than developers of first-generation space. Moreover, the region's central location and proximity to the ports of Los Angeles and Long Beach will always be a good reason for tenants, owner / users and institutions to stay in the area.

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q2 2024	Square Feet Available	Availability Rate Q2 2024	Average Asking Lease Rate	Net Absorption Q2 2024	Net Absorption 2024	Gross Absorption Q2 2024	Gross Absorption 2024
Mid Counties													
Artesia / Cerritos	277	13,092,868	0	0	700,883	5.35%	1,315,312	4.88%	$1.53	(266,242)	(292,021)	169,634	406,390
Bellflower / Downey	206	5,674,048	0	0	157,860	2.78%	172,636	2.41%	$1.42	52,223	(2,483)	40,255	197,314
Buena Park / La Palma	236	15,068,436	127,765	0	744,671	4.94%	1,614,648	5.32%	$0.00	(98,067)	(172,616)	85,896	125,809
La Mirada	178	13,186,648	0	0	929,030	7.05%	1,589,395	9.47%	$1.57	339,545	166,549	569,871	672,454
Norwalk	90	3,090,615	0	0	100,418	3.25%	95,322	6.18%	$1.67	5,392	(4,131)	17,970	23,928
Paramount	415	9,262,439	0	0	225,970	2.44%	383,229	3.08%	$1.44	(38,691)	(138,399)	70,724	104,486
Santa Fe Springs	1,345	53,876,331	450,067	178,264	2,826,432	5.25%	3,819,657	5.63%	$1.75	(846,121)	(1,027,805)	777,948	1,175,092
Whittier	163	4,196,885	0	0	252,209	6.01%	476,858	2.97%	$1.50	(154,501)	(182,010)	36,483	62,814
Mid Counties Total	**2,910**	**117,448,270**	**577,832**	**178,264**	**5,937,473**	**5.06%**	**9,467,057**	**8.06%**	**$1.62**	**(1,006,462)**	**(1,652,916)**	**1,768,781**	**2,768,287**
5,000-24,999	1,821	23,934,541	22,850	0	817,815	3.42%	1,167,845	4.88%	$1.49	(39,822)	(135,398)	522,561	829,095
25,000-49,999	512	18,208,661	63,683	0	947,031	5.20%	1,071,746	5.89%	$1.59	(292,141)	(387,417)	242,197	466,182
50,000-99,999	302	20,981,644	58,463	178,264	882,207	4.20%	1,505,741	7.18%	$1.66	(109,379)	(203,551)	117,496	217,128
100,000-249,999	213	31,476,956	432,836	0	2,246,234	7.14%	3,945,522	12.53%	$1.64	(348,276)	(591,932)	518,050	887,405
250,000-499,999	54	17,857,500	0	0	679,905	3.81%	1,411,922	7.91%	$0.00	(397,813)	(515,587)	187,508	187,508
500,000 plus	8	4,988,968	0	0	364,281	7.30%	364,281	7.30%	$0.00	180,969	180,969	180,969	180,969
Mid Counties Total	**2,910**	**117,448,270**	**577,832**	**178,264**	**5,937,473**	**5.06%**	**9,467,057**	**8.06%**	**$1.62**	**(1,006,462)**	**(1,652,916)**	**1,768,781**	**2,768,287**

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
6407–6431 Alondra Blvd - 2 Bldgs.	Paramount	28,934	$7,600,000	KDG Investments Inc.	Rexford Industrial Realty
14575 Firestone Blvd.	La Mirada	21,987	$9,234,540	RDO Equipment	Stos Partners
10838 Bloomfield Ave.	Santa Fe Springs	17,303	$6,921,500	Salta Capital Partners LLC	Antares Enterprises
6305 E. Alondra Blvd.	Paramount	16,608	$6,850,000	La Casa Del Pollo LLC	Ittella Foods Inc.
15520 Cornet Ave.	Santa Fe Springs	15,823	$4,600,000	15520 Cornet LLC	Free Man LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
16501–16509 Trojan Way - Sublease	La Mirada	180,969	May-2024	Americhine	Cotton On
14221 Artesia Blvd.	La Mirada	106,118	Apr-2024	Felix Lighting	Artesia Capital
11333–11335 Greenstone Ave. - Renewal	Santa Fe Springs	105,270	Apr-2024	Twin Med	AEW
12907 Imperial Hwy.	Santa Fe Springs	101,080	May-2024	Timken Gear & Services	Rexford Industrial Realty
12935–13021 Leffingwell Ave.	Santa Fe Springs	82,238	May-2024	Collision Auto Parts	Golden Springs Development Co

SECOND QUARTER 2024 MARKET REPORT

MID COUNTIES INDUSTRIAL

Voit REAL ESTATE SERVICES

Navigating the Shift to a Tenant-Friendly Landscape

by Dan Berkenfield and Rachel Burney

Dan Berkenfield
SENIOR VICE PRESIDENT / PARTNER
IRVINE
949.263.5308
dberkenfield@voitco.com
Lic. #01706467

Rachel Burney
ASSOCIATE
IRVINE
949.263.5312
rburney@voitco.com
Lic. #02217852

The Mid-Counties industrial market continues to be a highly desirable Southern California submarket. We entered 2024 with signs of softening, evidenced by modest price corrections and rising vacancy rates. These market conditions took a more definitive turn in Q2. We're witnessing a slowdown in overall transactions and a consistent decline in lease rates.

While Q1 saw a slight uptick in vacancy (reaching 4.01%), the vacancy rate jumped in Q2 to 5.06%. We're witnessing a slowdown in product movement and a consistent decline in lease rates. This is indicative of a transition from a landlord-dominated market to a softer market in favor of tenants.

The high cost of capital seems to be the driving force. With mortgage interest rates staying north of 6%, we're finally seeing sale prices softening in response, especially in the owner/user market. Supply is accumulating while overall sales activity has decreased to roughly half of what it was this time last year.

Key takeaways for Q2 2024:

- Softening Prices: Prepare to see a change from historically high price points going forward.
- Landlord Concessions: Landlord concessions like free rent, tenant improvements and signing bonuses are on the rise.

Looking Ahead: Uncertainty and Opportunity

The upcoming Presidential election injects an additional layer of uncertainty into the market outlook. Additionally, several important provisions of the Tax Cuts & Jobs Act of 2017 expire at the end of 2025. Higher interest rates and global economic and political volatility are also impacting overall demand.

- Tenants: This could be an opportune time to leverage the shifting market dynamics and negotiate more favorable lease terms on upcoming renewals or new Leases. Be aggressive.
- Landlords: Be prepared to adapt your strategies and consider increasing concessions to attract tenants quickly to avoid excess downtime.
- Investors: Stick with stabilized assets with long-term leases. Avoid value-add plays that rely on substantial rent growth.

The Bottom Line:

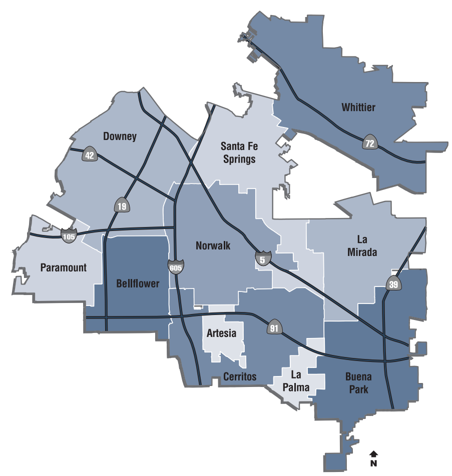
The Mid-Counties industrial market is in a state of flux. While the future remains uncertain, there are opportunities for both tenants and landlords willing to adapt to the changing landscape. By staying informed and working with experienced brokers, you can navigate this market shift and make more informed decisions.

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