MC1Q19

FIRST QUARTER 2019 MARKET REPORT

MID COUNTIES INDUSTRIAL

Voit REAL ESTATE SERVICES

MARKET OVERVIEW. Mid Counties showed improved fundamentals over the course of the first three months of 2019, leading to a vacancy rate of 3.06%. Deliveries have been more common recently in Mid Counties than in the rest of the Los Angeles market, with strong leasing activity as well. However, the pipeline has run dry to start 2019 and deliveries are expected to slow over the next two years. Many buildings are older and not suitable for modern logistics operations, but the submarket is near a dense population base and the smaller buildings can house last-mile operations. Although the Mid Counties average sale price per square foot has increased 83% from the first quarter of 2013 to the first quarter of 2019, investors have still been able to find opportunities in the first quarter of 2019, with sales volume topping $56 million.

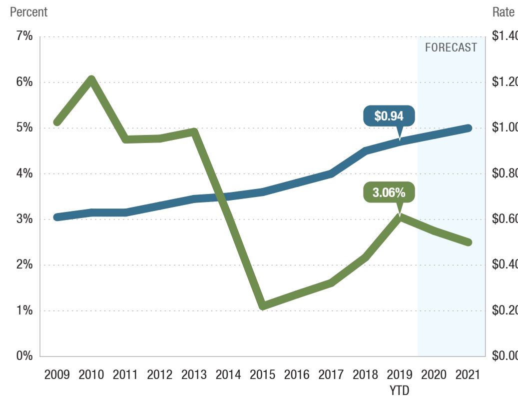
VACANCY. Continued economic expansion nationally and strong regional demographics are driving demand for industrial space in Mid Counties. As U.S. consumption and production expands, third-party logistics providers, packaging companies and apparel companies continue to look to the Mid Counties. In Los Angeles, 33,600 jobs have been created year-over-year and demand for traditional industrial space remains tepid, largely driven by local tenants. Vacancies hover around 3.06%, still comfortably beneath 10-year historical averages, but they have trended up since the first quarter of 2015. Vacancy in the Mid Counties was 3.06% at the end of the first quarter of 2019, up 89 basis points compared with the prior quarter, and up 45.7% compared with the previous year.

AVAILABILITY. Direct/sublease space being marketed in the first quarter is now at 5.74%, up from 5.58% from the first quarter of 2018. Due to the difficulty in developing new, modern buildings, much of the industrial inventory tends to be in properties that are smaller and older than might be considered normal for such a market.

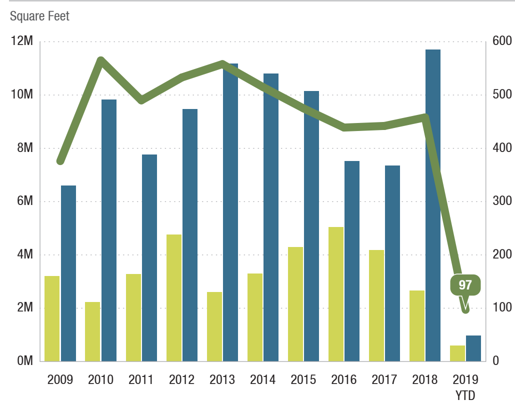
LEASE RATES. Annual rent growth has been remarkably strong this cycle and has remained above 5% every year since 2013. Somewhat surprisingly, the Mid Counties registered higher-than-normal rent growth over the past two years, and rent gains continued into the first quarter of 2019 as leasing activity remained steady and vacancies came back to a normal range. The average asking lease rate is $0.94 IG per square foot per month, a $0.01 per square foot increase from last quarter and a $0.05 per square foot increase from a year ago (5.62% annual increase). Limited availability will continue to favor property owners.

TRANSACTION ACTIVITY. Mid Counties is one of the smallest industrial submarkets in Los Angeles. With just 114 million square feet of inventory, available industrial space is scarce, particularly newer and larger buildings suitable for logistics companies. Few buildings have delivered and many of those were build-to-suit and preleased. The effects of supply constraints in this market cannot be overemphasized: with few developable sites, vacancies in Mid Counties grew slightly. Demand for quality space in Mid Counties has slowed down, with 1.55 million square feet in total transactions (sale and lease), down from just over 2.22 million square feet last quarter.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter		1Q 2019	4Q 2018	1Q 2018	% Change Over Last Year
Vacancy Rate	▲	UP	3.06%	2.17%	2.10%	45.71%
Availability Rate	▲	UP	5.74%	5.63%	5.58%	2.87%
Average Asking Lease Rate	▲	UP	$0.94	$0.93	$0.89	5.62%
Sale & Lease Transactions	▼	DOWN	1,557,072	2,227,702	4,077,283	(61.81%)
Gross Absorption	▼	DOWN	1,831,271	2,571,320	1,827,052	0.23%
Net Absorption	▼	NEGATIVE	(1,247,799)	1,512,283	323,944	N/A

Forecast

OVERALL. The Los Angeles labor market has been extremely tight since 2016, with the unemployment rate currently standing near 4.6% — creating challenges for many companies trying to expand. The high-priced cost of housing is a continuing problem for the market and is driving lower-income households east, to places like the Inland Empire. Yet Mid Counties remains an entry point for international migration, which helps offset the domestic population loss. The steady flow of international arrivals coupled with natural population growth is enough to keep Mid Counties growing, albeit slowly. The persistent industrial demand stemming both from port activities and manufacturing, coupled with the difficulty of bringing new industrial product to market, should ensure that Mid Counties fundamentals remain relatively strong.

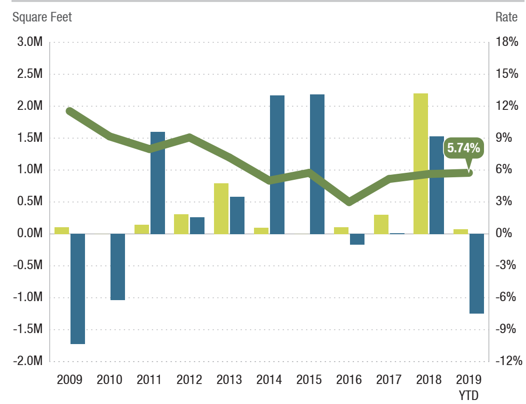
LEASE RATES. Despite slightly elevated vacancies, rent growth has remained strong. Expect lease rates to continue to climb. We expect 3–4% annualized growth in the coming year.

VACANCY. Industrial real estate demand continues to soar to new heights, and we expect more of the same in 2019, with anticipated vacancy rates in the 2–3% range over the next three quarters.

CONSTRUCTION. Most of the industrial buildings in the Mid Counties were designed for manufacturing, so buildings tend to run smaller in size when compared to the big box warehouses being developed in the Inland Empire. In almost all Mid Counties submarkets, development opportunities are hard to come by. In fact, the only industrial delivery in the last two years resulted from the demolition of an obsolete building. At the end of the first quarter of 2019, there was one building under construction totaling 71,743 square feet.

ABSORPTION. The Mid Counties market has mostly been left out of the industrial boom experienced in the Inland Empire, and net absorption was negative in the first quarter of 2019. Given the tight market conditions in Mid Counties, a showing of negative net absorption from quarter to quarter is most likely a factor of timing rather than demand. After posting positive net absorption in 2018, the Mid Counties industrial market slowed in the first quarter of 2019, starting the year with 1,247,799 square feet of negative net absorption. The primary contributor to this trend in the first quarter was due to the sale of the JC Penney Buena Park supply chain facility as part of the retailer closing 130–140 department stores. That asset accounted for more than 1 million square feet and became fully vacant in early 2019.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



NEW DELIVERIES: New Construction Delivered to the Market

NET ABSORPTION: Changes in the Amount of Occupied Space from One Quarter to the Next

AVAILABILITY: Total Amount of Space that is Available whether Occupied, for Sublease, or Available at a Future Date

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2019	Square Feet Available	Availability Rate 1Q2019	Average Asking Lease Rate	Net Absorption 1Q2019	Net Absorption 2019	Gross Absorption 1Q2019	Gross Absorption 2019
Mid Counties													
Artesia / Cerritos	278	13,177,399	0	0	318,059	2.41%	1,041,648	7.90%	$0.88	280,156	280,156	471,854	471,854
Bellflower / Downey	192	5,497,846	0	0	43,574	0.79%	69,895	1.27%	$1.01	30,588	30,588	39,918	39,918
Buena Park / La Palma	232	15,079,501	0	0	1,878,480	12.46%	2,222,192	14.74%	$1.15	(1,574,493)	(1,574,493)	393,403	393,403
La Mirada	183	12,980,164	0	0	66,093	0.51%	561,910	4.33%	$0.89	169,635	169,635	305,679	305,679
Norwalk	87	2,912,756	0	0	39,001	1.34%	104,345	3.58%	$0.00	71,808	71,808	22,336	22,336
Paramount	375	8,763,747	0	0	92,929	1.06%	157,297	1.79%	$0.86	(50,546)	(50,546)	24,577	24,577
Santa Fe Springs	1,342	52,638,136	71,743	567,564	820,203	1.56%	1,987,070	3.77%	$0.99	63,469	63,469	557,822	557,822
Whittier	164	3,874,857	0	0	255,931	6.60%	454,154	11.72%	$0.97	(238,416)	(238,416)	15,682	15,682
Mid Counties Total	**2,853**	**114,924,406**	**71,743**	**567,564**	**3,514,270**	**3.06%**	**6,598,511**	**5.74%**	**$0.94**	**(1,247,799)**	**(1,247,799)**	**1,831,271**	**1,831,271**
5,000-24,999	1,791	23,826,738	0	0	299,033	1.26%	498,769	2.09%	$1.00	23,031	23,031	219,830	219,830
25,000-49,999	481	17,082,116	0	87,980	296,542	1.74%	558,977	3.27%	$0.95	(9,918)	(9,918)	147,244	147,244
50,000-99,999	308	21,152,783	71,743	0	389,023	1.84%	1,202,852	5.69%	$0.82	98,147	98,147	298,572	298,572
100,000-249,999	215	31,680,943	0	479,584	695,300	2.19%	2,056,486	6.49%	$0.75	(311,330)	(311,330)	781,482	781,482
250,000-499,999	51	16,663,874	0	0	729,707	4.38%	1,176,762	7.06%	$0.88	56,936	56,936	384,143	384,143
500,000 plus	7	4,517,952	0	0	1,104,665	24.45%	1,104,665	24.45%	$0.00	(1,104,665)	(1,104,665)	0	0
Mid Counties Total	**2,853**	**114,924,406**	**71,743**	**567,564**	**3,514,270**	**3.06%**	**6,598,511**	**5.74%**	**$0.94**	**(1,247,799)**	**(1,247,799)**	**1,831,271**	**1,831,271**

This survey consists of buildings greater than 5,000 square feet. Lease rates are on an industrial-gross basis.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
9804–10012 Norwalk Blvd.	Santa Fe Springs	239,281	$45,500,000	BPREP Colonnade, LLC	Colonnade Nobbs, LLC
13151 Midway Pl.	Cerritos	67,191	$15,084,500	Haitai, Inc.	American Textile Systems
9505–9511 Ann St.	Santa Fe Springs	50,000	$7,500,000	J. Traches, LLC	Christopher Reed Blue
10316 Norwalk Blvd.	Santa Fe Springs	27,707	$5,600,000	Volar Fashion	Sam Yang USA, Inc.
14811–14831 Spring Ave.	Santa Fe Springs	28,760	$5,000,000	Spring Ave., LLC	Wyss Trust

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
6270–6290 Caballero Blvd.	Buena Park	130,000	Jan-2019	OC RV*	AEW
15300 Valley View Ave.	La Mirada	97,078	Jan-2019	Customspace	TIAA-CREF
9142–9150 Norwalk Blvd.	Santa Fe Springs	79,136	Mar-2019	Group Transport, Inc.	Prologis
7150 Village Dr.	Buena Park	67,920	Jan-2019	Mash Studios, Inc.	TA Realty
8741 Pioneer Blvd.	Santa Fe Springs	59,905	Feb-2019	Cubework.com Inc.	A C Industrial Properties

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Market in Its Second/Third Wind But Possible Concerns Lie Ahead

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If you have ever run in a marathon or participated in some other event that has required a tremendous amount of endurance, you may have noticed you hit a second or even third wind during the event that got you across the finish line. Despite mental and physical fatigue, when you “catch another wind,” your body somehow seems to come up with the energy and resolve to keep going. That is what has happened with the industrial real estate market. Despite being the longest recovery in history and mounting speculation about a pullback, the market continues to push to new highs with respect to lease rates, sale prices, and suppressed vacancy rates. For landlords and sellers, this is very favorable news. For tenants and buyers, limited options remain, and real estate costs continue to be at all-time highs. However, if you are a tenant and are going to be in the market for a 100,000 square foot building or larger, then you have a number of options and possibly some negotiating power.

For support of the bullish sentiment, look at the absorption of newly constructed buildings over the last year. There have been 12 new buildings constructed in the Mid Counties since the beginning of 2018, totaling 2,140,000 square feet. Incredibly all 12 of these buildings were leased or sold prior to construction being completed. Not surprisingly, each of those deals were at then-record-high lease rates or sale prices. New buildings are highly sought after by Mid County investors, tenants and owner-occupants.

On the bearish side, one area that is showing some weakness for the start of 2019 is buildings above 100,000 square feet. As of the end of the first quarter of 2019 there are 16 buildings available over 100,000 square feet, including the formerly owned/occupied JC Penny Building in Buena Park totaling just under 1 million square feet. The JC Penny building vacancy is the main reason the market vacancy rate jumped from 2.12% to 3.34% since the first quarter of 2018. The square footage of the 16 available buildings translates to about a 7.8% vacancy rate for the industrial base greater than 100,000 square feet, which is significantly higher than the vacancy rate for the rest of the market.

Looking forward from a more elevated perspective, there is legislation that will be on the California 2020 ballot called the California Schools and Local Communities Funding Act of 2018. If passed, this will remove Proposition 13 protection for commercial real estate owners (residential real estate is exempt from this legislation) and could have a catastrophic impact on the commercial real estate market for all market players. For more information about this, please reach out to your trusted Voit Real Estate Services broker.

Product Type

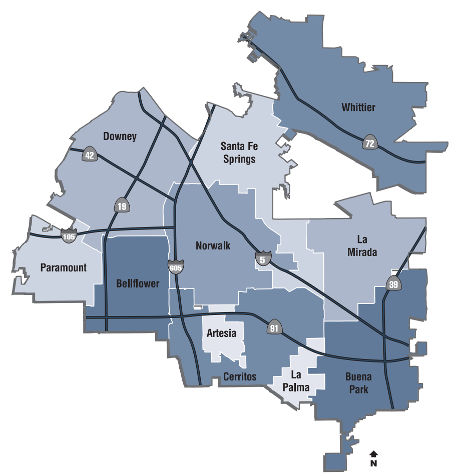
MFG./DIST.

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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