MC1Q20

FIRST QUARTER 2020 MARKET REPORT
MID COUNTIES INDUSTRIAL

Voit REAL ESTATE SERVICES

OVERVIEW. Just looking at the final metrics for the first quarter offers little evidence of the massive economic shock that came in the month of March. A shelter-in-place order from Governor Newsom on the 19th of the month amounted to the biggest interruption to business-as-usual in recent memory. The situation has worsened since and the order looks to stand at least through the month of April, perhaps longer. Notwithstanding all this, the Mid-Counties market tightened even further during the first quarter. Vacancy fell sharply, rents rose another $0.02 per square foot and net absorption was solidly in positive territory. Construction was light and demand in all size ranges remained strong, especially for owner/user sale opportunities, which are rare given that a disproportionate amount of the inventory in the area is institutionally owned business parks. Good quality product, whether it be for sale or lease, is still moving quickly, though market velocity is expected to slow as the virus crisis runs its course.

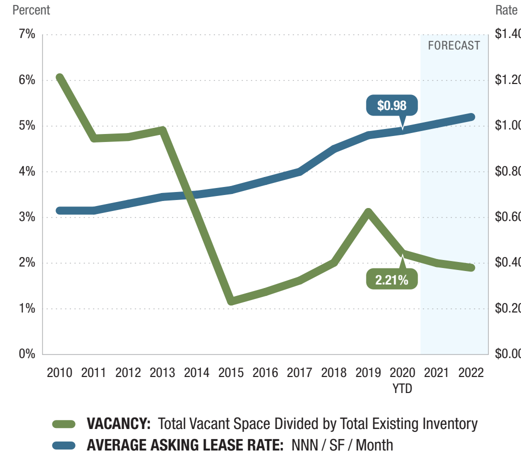
VACANCY. Surprisingly, vacancy fell by 89 basis points in the period, finishing up at a scant 2.21%. Since the most functional product moves first, a high proportion of what remains available has elements of functional obsolescence, items of deferred maintenance, or both. Until the virus scare turned into the Governor's unprecedented order designed to slow its spread, landlords had held the upper hand in negotiations and they had been able to get tenants to take properties in their as-is condition. That may change if vacancy rises substantially in the coming quarters. For now, low vacancy poses a significant problem for tenants looking to move to more efficient facilities to accommodate business growth.

AVAILABILITY. The availability rate, which includes direct lease space, sublease space and occupied space being marketed as available, actually ticked up by 23 basis points in the first quarter to 4.91%. Such a large gap between vacant and available space makes clear how impacted the market is and how much more difficult the timing of prospective moves can be. Often, tenants vacating space are unable to move in time for new tenants to occupy. As a result, delays in possession have been a problem for several years. Consequently, even a slight increase in vacancy, though not good for landlords in the short run, could help to alleviate the problem of coordinating major relocations.

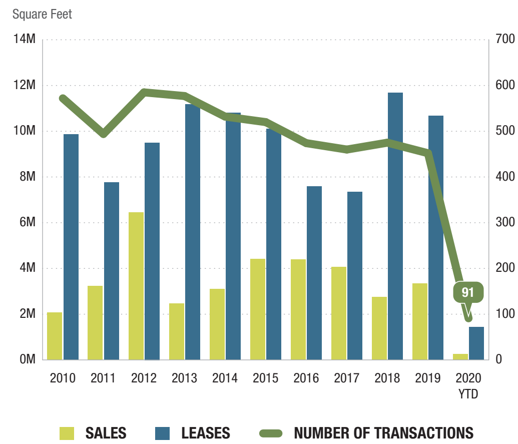
LEASE RATES. Lease rates have been rising rapidly for the past five years, and the first quarter saw another $0.02 increase, ending the quarter with an average asking lease rate of $0.98 industrial gross. Recent property sales, which trigger higher property taxes, have contributed to the increase. In the first quarter, concerns over US/China trade relations gave way to the work stoppage caused by the COVID-19 virus spread. The rise in rates does not reflect the fact that many lease transactions have been put on hold, and we assume that some retrading of deals in progress will occur in the second quarter.

TRANSACTION ACTIVITY. Despite the rise in average asking lease rates and a healthy positive net absorption, total sale and lease transaction activity fell by 820,000 square feet in the first quarter to just over 2.5 MSF. It is difficult to say what impact the economic shock caused by the virus had on that number, as many leases out for signature and escrows past the due diligence stage moved forward. We are likely to see a further drop through the second and third quarters as uncertainty will be driving decisions.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



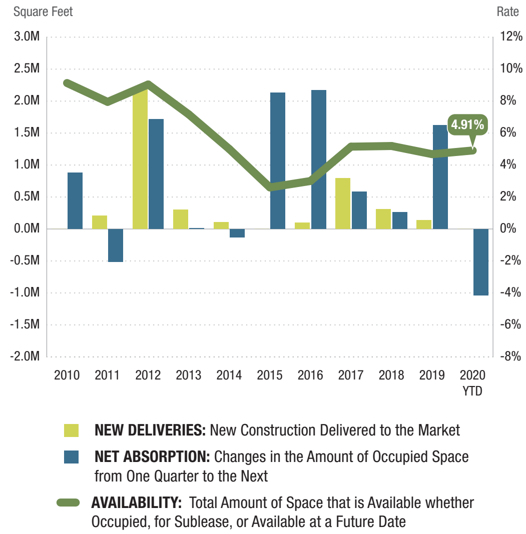
Market Statistics

	Change Over Last Quarter		1Q 2020	4Q 2019	1Q 2019	% Change Over Last Year
Vacancy Rate	▼	DOWN	2.21%	3.12%	2.68%	(17.54%)
Availability Rate	▲	UP	4.91%	4.68%	5.32%	(7.71%)
Average Asking Lease Rate	▲	UP	$0.98	$0.96	$0.94	4.26%
Sale & Lease Transactions	▼	DOWN	2,501,880	3,322,668	2,818,002	(11.22%)
Gross Absorption	▲	UP	2,480,208	2,020,730	1,831,271	35.44%
Net Absorption	▲	POSITIVE	879,525	59,646	(1,247,799)	N/A

CONSTRUCTION. The fact that the new deliveries are running at a trickle is probably good news given the current stress on the entire market. On a base of more than 115 MSF, the Mid-Counties had just 251,668 square feet under construction. That total included a ground-up project, Xebec Realty's 234,330-square-foot facility on Sorensen Avenue ,and Romandel's 17,338-square-foot facility on Los Nietos Road. Both projects are in Santa Fe Springs. While there are still tenants out there looking to secure quality functional space with adequate fire suppression systems and ceiling heights, lighter leasing activity during the current slowdown will help keep demand and supply in relative balance. Ground-up development has already been a big challenge due to the scarcity and high cost of industrially-zoned land. The fact that projects in the planning stages might be postponed could be good for the long term health of the market.

ABSORPTION. Net absorption, the net difference in occupied space from one period to another, spiked in the first quarter to 879,525, thanks to several significant move-ins, including UNIS's move to 6800 Valley View St. in Buena Park, WESCO's lease of 89,306 square feet on Sorensen Ave and BINEX's move into 14911 Valley View Avenue in Santa Fe Springs. Of all the major industrial metrics, it is positive net absorption that best reflects the health of the market. It means that businesses are growing and creating new jobs that support consumer spending, the primary component of GDP.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Forecast

In the short term, we feel safe in saying that transaction activity will slow, net absorption will fall and the market will be driven by a defensive posture as it relates to leases and sales. The breadth and depth of the market downturn is largely unknown at this point. We can report that buyers and tenants have definitely tapped the brakes on transactions in the making. Even if they move forward, it is unknown when properties can be delivered for occupancy, and so long as Governor Newsom's current orders are in place, that will remain the case. On a positive note, the CARES Act, a $2 trillion stimulus package, was signed into law by the President on March 27th. The multi-pronged program is providing needed support for individuals and businesses, especially those in sectors hardest hit by the crisis. It's too soon yet to tell what the impact of the act will be, but it will definitely be welcome assistance in uncertain times. Every business owner is advised to connect with their bank to determine the availability of immediate assistance through the SBA, which is offering forgivable loans of up to $10 million depending on the number of company employees. We expect the next two quarters to be a bumpy ride, but given the overall health of the Mid-Counties market immediately prior the COVID-19 crisis, the region is likely to recover quickly once things become less opaque.

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2020	Square Feet Available	Availability Rate 1Q2020	Average Asking Lease Rate	Net Absorption 1Q2020	Net Absorption 2020	Gross Absorption 1Q2020	Gross Absorption 2020
Mid Counties													
Artesia / Cerritos	279	13,168,415	0	0	229,361	1.74%	646,524	4.91%	$0.92	(48,490)	(48,490)	89,693	89,693
Bellflower / Downey	191	5,535,333	0	0	140,537	2.54%	200,439	3.62%	$1.28	142,645	142,645	258,076	258,076
Buena Park / La Palma	233	15,124,890	0	0	171,788	1.14%	886,683	5.86%	$0.77	1,173,857	1,173,857	1,194,094	1,194,094
La Mirada	182	12,957,646	0	0	985,398	7.60%	1,500,973	11.58%	$0.92	(479,095)	(479,095)	94,720	94,720
Norwalk	88	2,868,092	0	0	215,383	7.51%	92,643	3.23%	$1.35	(5,533)	(5,533)	17,442	17,442
Paramount	379	8,779,730	0	0	246,147	2.80%	331,517	3.78%	$0.90	(79,745)	(79,745)	38,569	38,569
Santa Fe Springs	1,348	52,811,528	251,668	673,297	456,523	0.86%	1,745,033	3.30%	$1.05	235,247	235,247	549,059	549,059
Whittier	164	4,088,009	0	0	103,075	2.52%	257,654	6.30%	$0.94	(59,361)	(59,361)	238,555	238,555
Mid Counties Total	**2,864**	**115,333,643**	**251,668**	**673,297**	**2,548,212**	**2.21%**	**5,661,466**	**4.91%**	**$0.98**	**879,525**	**879,525**	**2,480,208**	**2,480,208**
5,000-24,999	1,791	23,833,553	17,338	0	352,391	1.48%	566,161	2.38%	$1.03	150,247	150,247	302,664	302,664
25,000-49,999	494	17,496,079	0	43,905	502,103	2.87%	939,613	5.37%	$0.98	(142,266)	(142,266)	162,572	162,572
50,000-99,999	306	21,121,401	0	0	551,064	2.61%	1,214,721	5.75%	$0.97	(142,707)	(142,707)	349,060	349,060
100,000-249,999	215	31,730,102	234,330	629,392	827,936	2.61%	1,751,906	5.52%	$1.00	253,622	253,622	546,276	546,276
250,000-499,999	51	16,663,874	0	0	314,718	1.89%	1,069,065	6.42%	$0.95	(314,718)	(314,718)	44,289	44,289
500,000 plus	7	4,488,634	0	0	0	0.00%	120,000	2.67%	$0.00	1,075,347	1,075,347	1,075,347	1,075,347
Mid Counties Total	**2,864**	**115,333,643**	**251,668**	**673,297**	**2,548,212**	**2.21%**	**5,661,466**	**4.91%**	**$0.98**	**879,525**	**879,525**	**2,480,208**	**2,480,208**

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
14747 Artesia Blvd.	La Mirada	73,753	$13,700,000	PS Business Parks, Inc.	Davis Property Management, Inc.
16404 Knott Ave.	La Mirada	54,792	$13,015,000	Brookfield	Meese, Inc.
10329 Painter Ave.	Santa Fe Springs	40,787	$10,200,000	M Parkinson & Co., Inc.	Painter Santa, LLC
9445 Ann St.	Santa Fe Springs	35,000	$7,557,500	Combrus, Inc.	Quicksilver Holdings, LLC
12122-12130 Woodruff Ave.	Downey	29,089	$6,240,000	Barret Woods	Davis & Mary Urane Family Trust

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
14647 Northam St.	La Mirada	140,000	Mar–2020	Grand Life Inc.	Blackstone Group
6530 Altura Blvd.	Buena Park	67,350	Jan–2020	Premiere Packaging	RIAN II, LLC
14112-14120 Pontlavoy Ave.	Santa Fe Springs	58,829	Mar–2020	SC Commercial, LLC	Bkewihge Properties, LLC
6781 8th St.	Buena Park	52,459	Feb–2020	Consolidated Electrical Distributors	American Office Park Properties
13450 Imperial Hwy.	Santa Fe Springs	36,248	Feb–2020	Silver Hawk Freight Inc.	Grimco, Inc.

LA Looks to Weather the Storm

by Selden McKnight
ASSOCIATE, ANAHEIM
714.935.2323 . smcknight@voitco.com . Lic. #02027919

The industrial real estate market remained strong in Los Angeles throughout the first quarter of 2020, despite a major external shock. While many people had their attention focused on the trade war with China at the start of the year, all eyes have now shifted to the global COVID-19 crisis. What started as a viral outbreak in Wuhan, China, has now become a global pandemic that has sent the US equity markets spiraling and has disrupted supply chains around the world. The US Federal Reserve has responded quickly by slashing interest rates and buying back billions of dollars in bonds in an attempt to brace the economy for the impact most businesses and individuals will experience as a result of the coronavirus outbreak.

According to The Port of Los Angeles, total port activity was down approximately 5% in January 2020 from the year prior, and February experienced a 22% decline in activity compared with 2019. The Port of Long Beach is reporting activity being down close to 6% in both January and February compared with the prior year.

Many experts are predicting the port activity will pick up in the coming months as China reopens its major ports and trade resumes. Surprisingly, an issue many US exporters are facing is a lack of shipping containers due to a traffic jam of goods sitting in China's ports. Exporters partially rely on using empty containers that have come back from China in order to ship their goods. However, China is experiencing a major backup of shipping containers following a countrywide quarantine.

Despite the troublesome trade activity reports, the industrial real estate market rests firmly on the diverse mix of industries supporting the local economy. Food processing and packaging, apparel, aerospace, metals and electronics all contribute heavily to the massive industrial sector in Los Angeles, which does not appear to be diminishing anytime soon.

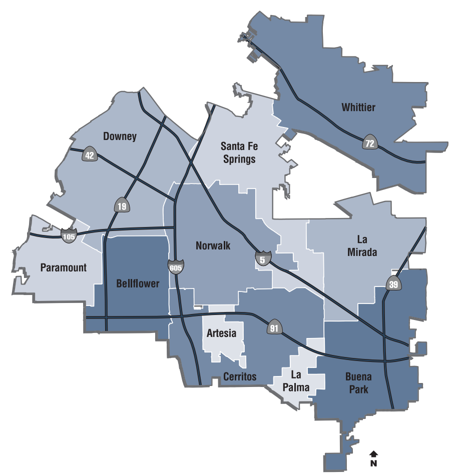
Overall, it can be expected that the US and global economies will experience financial slowdowns as a result of the coronavirus. However, most businesses and individuals will weather the storm and get through these temporary hardships as we always do.

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	Carlsbad, CA	Inland Empire, CA	Irvine, CA	Los Angeles, CA	San Diego, CA
714.978.7880	760.517.4000	909.545.8000	949.851.5100	424.329.7500	858.453.0505