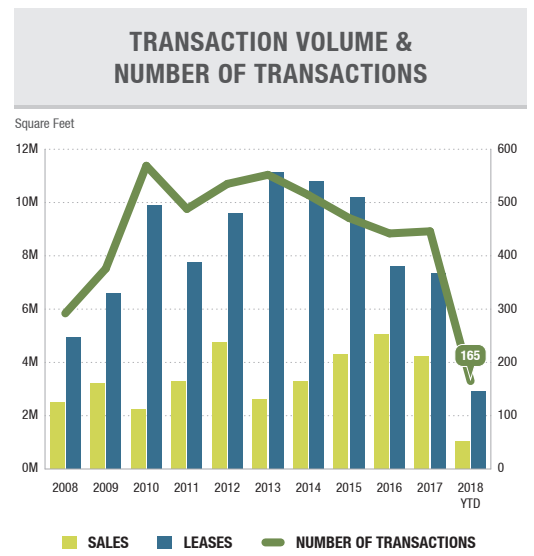
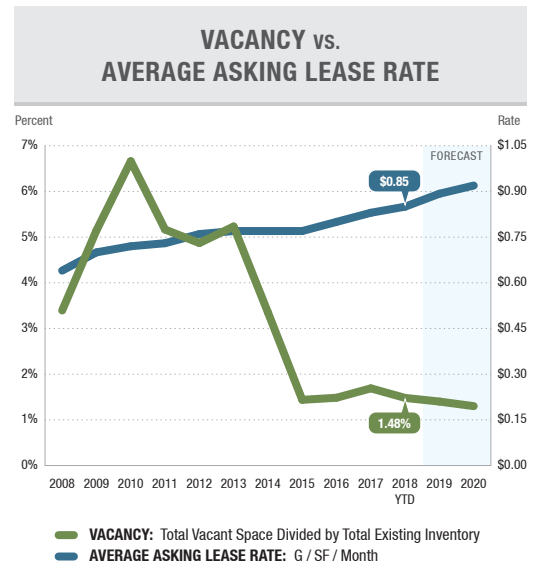


MARKET OVERVIEW. The Mid Counties market has historically housed a cluster of manufacturing firms specializing in automotive and aerospace components, but these firms have largely receded not only from the market, but also from the entire Southern California region. Fortunately, there has not been much of a negative impact on the Mid Counties industrial market because logistics companies have filled the void. Now, national logistics and distribution firms are the foundation of the tenant base in this region. Available industrial space is scarce in Mid Counties, particularly newer and larger buildings suitable for modern-day logistics companies. Few buildings have delivered during this cycle, and many of those that did were build-to-suit and preleased. However, the Mid Counties' proximity to the ports and large, diverse economy help ensure a healthy outlook.

VACANCY. The effects of supply constraints to the Mid Counties market cannot be overemphasized, with few developable sites, vacancies remain among the lowest in the region. The 2Q 2018 vacancy rate of 1.48% is down from an already low 2.16% in 1Q 2018 and a majority of the vacancy is in older, functionally obsolete properties. Strong industrial demand stemming from port activities, coupled with the difficulty of building new industrial product, should ensure the market remains among the strongest in the region.

LEASE RATES. This quarter average asking lease rates increased overall for industrial space, confirming market sentiment that the imbalance of supply and demand will drive rent growth into the foreseeable future. Rents have sustained solid year-over-year growth of over 5.6% for 12 straight quarters. Average asking lease rates were at \$0.85 IG (Industrial Gross) for 2Q 2018, up an average of eight cents per square foot (10.39%) from the same quarter last year and \$0.02 cents per square foot more than the previous quarter.

TRANSACTION ACTIVITY. Transaction activity remains solid in the Mid Counties industrial market. Solid rent growth in the market has led to increased liquidity, driving cap rate compression and price gains. Sale and lease activity checked in at nearly 1.87 million square feet for 2Q 2018, a decrease over the same quarter last year total of 3.39 million square feet. This significant drop in activity is a direct result of the dwindling product availability.



Market Statistics

	Change Over Last Quarter	2Q 2018	1Q 2018	2Q 2017	% Change Over Last Year
Vacancy Rate	▼ DOWN	1.48%	2.16%	2.20%	(32.73%)
Availability Rate	▲ UP	6.11%	5.75%	5.01%	21.96%
Average Asking Lease Rate	▲ UP	\$0.85	\$0.83	\$0.77	10.39%
Sale & Lease Transactions	▼ DOWN	1,871,064	2,617,251	3,399,933	(44.97%)
Gross Absorption	▲ UP	2,003,799	1,839,210	949,735	110.99%
Net Absorption	▲ POSITIVE	441,651	237,298	(718,615)	N/A

LEASE RATES. Despite rising construction costs, the strong demand for industrial space in Mid Counties and healthy projected rents are justifying the additional development of industrial properties. Upward pressure on lease rates will continue and increases of 2–3% during the balance of 2018 seem reasonable based on current conditions.

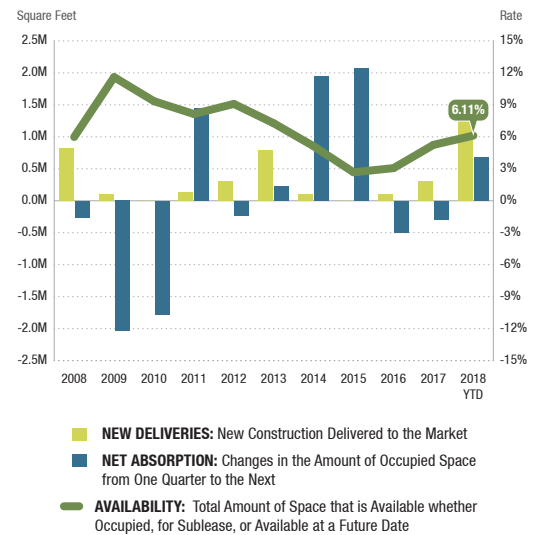
VACANCY. While hard to predict a drop in an already low 1.48% vacancy rate, we expect to see this figure dip below 1.30% by the end of 2018.

OVERALL. The Mid Counties industrial market in 2018 thus far has been characterized by lower vacancy rates and higher rental rates resulting in high investor confidence in the region. Absorption has been positive, and the influence of logistics is having a big impact. Rising demand for industrial space is evident in recent construction activity and completions, which have neared or exceeded pre-recession levels. Expansion trends are expected to continue over the course of the next two years.

CONSTRUCTION. Construction continues to be strong in Mid Counties through the first half of 2018. Total space under construction checked in at 875,161 square feet at the end of 2Q 2018. Available industrial space is scarce in Mid Counties, particularly newer and larger buildings suitable for logistics companies. Several buildings have delivered this cycle, and many of those that did were build-to-suit and preleased. The Mid Counties industrial market closed 2Q with more than 1.39 million square feet of delivered construction. Most of this space, over 900,000 square feet, was delivered in Santa Fe Springs.

ABSORPTION. 441,651 square feet were absorbed during 2Q 2018, pushing the absorption total to 678,949 square feet for the year. While vacant space hitting the market would rattle most metros, Mid Counties is a stable market with persistent demand and slow supply growth. The healthy absorption totals for 2Q stem from healthy demand within existing product, but also the deliveries of leased up new construction. Primary contributors to this trend in 2Q include: Western Overseas (123,120 SF), Midas Express Inc. (121,344 SF) and Valvoline (98,000 SF).

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



INVENTORY				VACANCY & LEASE RATES						ABSORPTION			
	Number Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2018	Square Feet Available	Availability Rate 2Q2018	Average Asking Lease Rate	Net Absorption 2Q2018	Net Absorption 2018	Gross Absorption 2Q2018	Gross Absorption 2018
Mid Counties													
Artesia/Cerritos	277	13,077,913	70,696	0	282,913	2.16%	864,433	6.61%	\$0.84	75,164	(185,216)	157,559	272,791
Bellflower/Downey	191	5,484,763	0	0	51,678	0.94%	107,907	1.97%	\$0.95	20,962	(10,667)	68,306	115,297
Buena Park/La Palma	229	14,859,522	200,000	0	212,912	1.43%	2,774,440	18.67%	\$0.72	(61,434)	254,324	53,090	493,634
La Mirada	183	12,973,873	0	0	350,284	2.70%	723,422	5.58%	\$0.79	366,520	382,211	525,131	764,175
Norwalk	86	2,900,838	0	0	26,375	0.91%	16,315	0.56%	\$0.00	(10,060)	(4,568)	39,240	49,732
Paramount	374	8,781,882	0	5,187	80,062	0.91%	119,910	1.37%	\$0.75	17,538	27,577	86,253	142,616
Santa Fe Springs	1,339	51,928,177	604,465	483,692	652,398	1.26%	1,960,523	3.78%	\$0.88	15,449	234,006	1,038,204	1,909,538
Whittier	166	3,926,611	0	0	32,731	0.83%	398,057	10.14%	\$0.89	17,512	(18,718)	36,016	95,226
Mid Counties Total	2,845	113,933,579	875,161	488,879	1,689,353	1.48%	6,965,007	6.11%	\$0.85	441,651	678,949	2,003,799	3,843,009
5,000-24,999	1,785	23,763,350	0	24,313	413,002	1.74%	624,914	2.63%	\$0.91	(6,843)	(94,756)	359,297	656,171
25,000-49,999	484	17,227,254	0	129,223	197,372	1.15%	538,702	3.13%	\$0.89	98,606	125,360	316,511	636,093
50,000-99,999	306	20,908,103	168,696		181,387	0.87%	818,227	3.91%	\$0.83	215,976	190,578	236,405	540,623
100,000-249,999	213	31,469,903	200,000	335,343	188,535	0.60%	1,831,709	5.82%	\$0.82	(160,794)	(143,109)	87,823	517,069
250,000-499,999	52	17,054,167	0	0	709,057	4.16%	2,066,495	12.12%	\$0.85	294,706	600,876	1,003,763	1,493,053
500,000 plus	5	3,510,802	506,465	0	0	0.00%	1,084,960	30.90%	\$0.00	0	0	0	0
Mid Counties Total	2,845	113,933,579	875,161	488,879	1,689,353	1.48%	6,965,007	6.11%	\$0.85	441,651	678,949	2,003,799	3,843,009

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
9601-9603 John St.	Santa Fe Springs	181,070	\$24,800,000	BPP John Street Property Owner	9601 John Street, LN LLC
11721-11741 Telegraph Rd.	Santa Fe Springs	53,975	\$12,300,000	Starpoint Capital, LLC	Nita B. Lederman
12851 166th St.	Cerritos	27,072	\$6,150,000	5270 Sunset Blvd, LLC	Sunset Boulevard, LLC
13744-13767 Milroy Pl.	Santa Fe Springs	32,664	\$5,423,530	Alere	Dedeaux Properties
11323 Shoemaker Ave.	Santa Fe Springs	24,002	\$4,691,500	GI Trading	Top Rich USA, Inc.

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
12801 Excelsior Dr.	Santa Fe Springs	989,809	Jun-2018	Damco-Maersk	Goodman North America
11500 Los Nietos Rd. - Sublease	Santa Fe Springs	121,344	May-2018	Midas Express, Inc.	Priority 1 Warehouse
13450 Imperial Hwy.	Santa Fe Springs	55,160	Jun-2018	Mass Movement	Imperial Development Sub B, LLC
12070 Altamar Pl.	Santa Fe Springs	35,500	May-2018	Highlight Motor Freight	Dice Road Industrial Investments
13545 Larwin Cir.	Santa Fe Springs	28,594	Apr-2018	North Bay Distribution *	Great American Logistics & Dist. *



Keep Your Seatbelts Fastened... For Now

by **Loren Cargile**

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If it seems like the industrial CRE market is moving at such a fast pace that it is becoming difficult to track, that's because it is. Even we brokerage professionals, who specialize in this product type, sometimes have difficulty pinpointing values in today's market. The reduced number of transactions, on a lease and sale basis, means there are fewer data points to draw from to determine building values. Nevertheless, there are still some overwhelming themes that are driving today's market conditions, including but not limited to 1) demand for industrial buildings overall is still very strong, 2) very few new buildings are being built, and 3) investors are very aggressive in chasing opportunities.

The market's current conditions bring about both opportunities and challenges for landlords/sellers and tenants/buyers. The opportunities for landlords and sellers are obvious: capitalize on peak pricing, leverage tight market conditions to obtain the most qualified tenant/buyer, and drive the negotiations. In our recent experience transacting with prominent landlords and investors in the Mid-Counties submarket, we have noticed the following specifics regarding the "new normal" for lease transactions: 1) 4.0% annual rent increases, 2) between zero and one half of one month of free rent on three-year deals and no more than one month of free rent on five-year deals, 3) minimal tenant improvement allowances within moderately functional buildings, and 4) landlords are very selective with prospective tenants with respect to financial statements.

For tenants/buyers, the deck is currently stacked against you. Limited inventory, sky-high pricing, multiple offers and selective landlords/sellers are likely the themes you are noticing. While you can't directly control market conditions, you can control how you position yourself if you seeking industrial space. These are the strategies our clients have utilized to secure the real estate they need: 1) act quickly when a suitable building hits the market (e.g. make time to tour the building right away), 2) have your financials ready to present along with your offer, 3) tell a story, or better yet employ a good broker who can tell a story for you, of why you are the best candidate for the building, and 4) provide references (e.g. current landlord, bank references, vendors, etc.). In today's market, you want to make yourself appear to be the best selection for "prom queen."

These trends are likely to continue for the remainder of the year. However, we do see some signs that could cause headwind for this market, such as rising interest rates, tariffs and other components of looming "trade wars," and rising construction costs. For guidance and expert service when it comes to industrial real estate needs, reach out to a trusted broker at Voit Real Estate Services.

Product Type

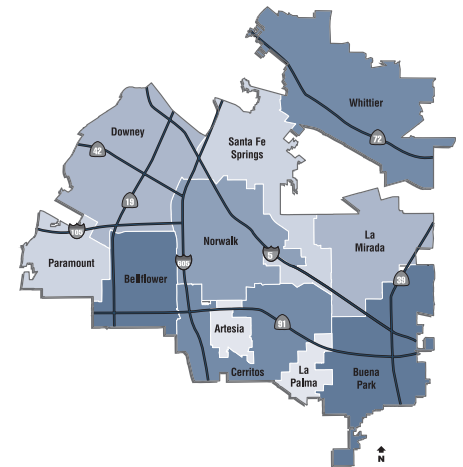
MFG./DIST.

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



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