Rising Costs, Rates Dampen Market

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The industrial real estate market in Los Angeles in the second quarter of 2023 was characterized by steady demand and limited supply. This led to low but rising vacancy rates. As a result, rents continued to rise, but at a slower rate.

The demand for industrial space in Los Angeles is being driven by a number of factors, including the continued growth of e-commerce, the expansion of logistics and distribution centers, and the need for more space for manufacturing and warehousing. The region's Los Angeles / Long Beach ports, as well as its proximity to Mexico and Asia, are the key drivers to the industrial market.

While the industrial real estate market in most of Southern California is currently strong, there are some signs that the market may be starting to cool off. The rising cost of construction and land is making it more difficult for developers to build new industrial space, and the Federal Reserve's raising of interest rates has also dampened demand. As a result, the industrial real estate market in Southern California may experience some moderation in the coming quarters.

Here are some additional details about the industrial real estate market in Southern California in the second quarter of 2023:

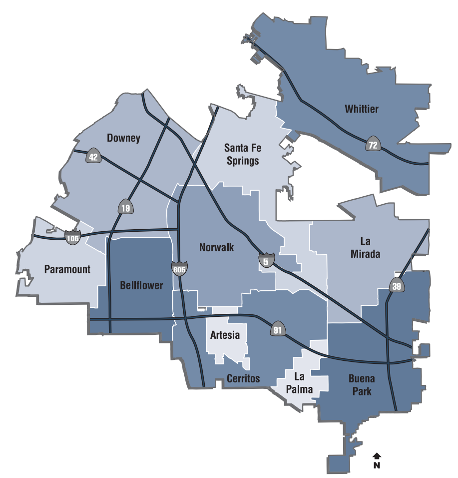
- **Demand:** Demand for industrial space in Southern California remained strong in the second quarter of 2023. The region's vacancy rate remained low, at only 3.4%.
- **Rents:** Rents for industrial space in Southern California continued to rise in the second quarter of 2023. Average asking rents for Class A industrial space increased by 8% year over year.
- **Development:** The pace of industrial development in Southern California slowed in the second quarter of 2023. The total amount of industrial space under construction in the region decreased by 15% year over year.
- **Interest Rates:** The Federal Reserve's plan to continue to raise interest rates could further dampen demand for industrial space in Southern California. Higher interest rates will make it more expensive for businesses to borrow money, which could lead to some companies delaying or canceling plans to expand or relocate.

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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MCQ2 23 SECOND QUARTER 2023 MARKET REPORT
MID COUNTIES INDUSTRIAL
Voit REAL ESTATE SERVICES

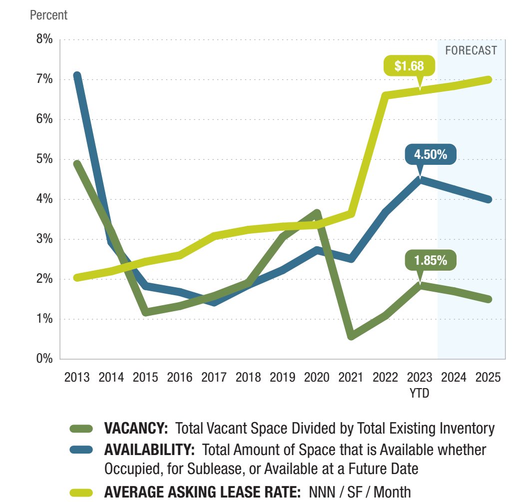
OVERVIEW. The Mid Counties industrial market is the tightest of all the markets we track in Southern California, and it remained so in Q2. Vacancy moved up, but is still under 2%. The average asking lease rate was flat, but remains at a record high. Transaction activity and gross absorption picked up after declining in Q1. Net absorption improved but remained in negative territory. New construction increased, but remains constrained. Overall, the market stayed on the same trajectory it has been on for the past several quarters. Time-on-market for buildings available for lease is increasing and competition among tenants for space is declining, but buildings offered for sale are scarce and running behind demand despite much higher owner / user mortgage rates. The acquisition appetite of institutional investors has waned, evidenced by the fact that no major investment sales were closed in Q2.

VACANCY / AVAILABILITY. In Q2, the overall vacancy rate in the Mid-Counties rose by another 42 basis points to 1.85% after a 57-basis-point rise in Q1. While these increases are substantial, vacancy is still low enough to support the current pricing matrix. However, the availability rate jumped by 82 basis points to 4.5%. This is indicative of an increase in space offered for sublease, which could accelerate softening market conditions. Currently, over 2.1 MSF stand vacant, while over 5.2 MSF is actually available. Santa Fe Springs, with a base inventory of 53.8 MSF, has the most available space at 2.1 MSF, followed by La Mirada (1.1 MSF) and Buena Park / La Palma (771,000 SF).

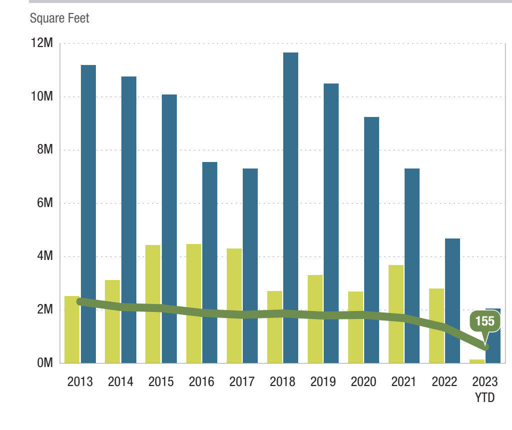
LEASE RATES. The Mid-Counties average asking lease rate rose a penny in Q2 to $1.68, after a $0.03 increase in Q1. However, Santa Fe Springs, the largest market by square footage, gained $0.07 to $1.77. With such low vacancy, landlords still hold most of the cards in negotiations, especially those who own the most functional space. However, tenants are able to push harder for some concessions now that the fierce competition for space has subsided. Overall demand for space has decreased, but is still strong enough to absorb any space that comes to the market. That said, time on market for space, especially space offered for lease only, has increased and there are fewer active requirements in circulation. As we reported last period, the pool of owner / user buyers has decreased because of higher mortgage interest rates that have yet to be offset by lower prices.

TRANSACTION ACTIVITY. The number of square feet leased or sold in Q2 increased to 1,228,187 SF after falling sharply to 627,277 SF in Q1 from 1,844,180 SF in the final quarter of 2022. Year over year, transaction activity is off by 33.4% in the Mid Counties

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter		Q2 2023	Q1 2023	Q2 2022	% Change Over Last Year
Vacancy Rate	▲	UP	1.85%	1.43%	0.86%	115.46%
Availability Rate	▲	UP	4.50%	3.68%	2.23%	101.96%
Average Asking Lease Rate	▲	UP	$1.68	$1.67	$1.47	14.29%
Sale & Lease Transactions	▲	UP	1,228,187	967,277	1,844,180	(33.40%)
Gross Absorption	▲	UP	1,374,340	446,921	873,767	57.29%
Net Absorption	▼	NEGATIVE	(161,405)	(304,741)	(136,882)	N/A

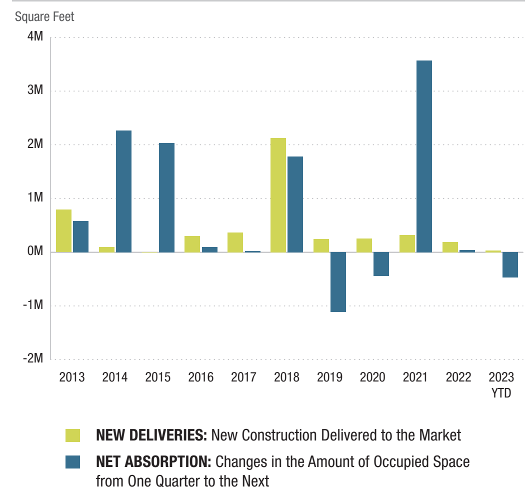
area, which is in line with declines in other major markets in Southern California. The lease transaction count in Q2 rose to 74 from 68, and total space leased increased to 1,148,027 SF from 901,555 SF last quarter. Square footage sold increased slightly to 80,160 SF in Q2 from 65,722 SF in Q1. Only 6 sales were made in Q2 compared with 7 in Q1. Conspicuously absent was a single institutional investment sale in the first half of the year, which makes clear the struggle institutional investors are experiencing in terms of the cost of their capital.

ABSORPTION. Net absorption remained in negative territory in Q2, with occupied space decreasing by another 161,405 SF. This loss was concentrated in Artesia / Cerritos, La Mirada, and Norwalk, while all other cities within the Mid Counties region experienced modest net gains. Maintaining consistent positive net absorption is difficult in markets with low vacancy and aging inventory, as is the case with the Mid-Counties market. However, gross absorption, which measures total move-ins, rose sharply to 1,374,340 SF, up 480,083 SF from Q1. This was due in part to three deals over 100,000 SF, the largest of which was a 302,850 SF lease renewal to United Natural Foods from Brookfield Property Group at 15015 Valley View Avenue in Santa Fe Springs. Prologis leased another 146,617 SF to Weee! at 13215 Cambridge Street, also in Santa Fe Springs.

CONSTRUCTION. Ground-up construction activity in the Mid-Counties was up slightly in Q2, as another 151,234 SF got underway in Santa Fe Springs. That brings the total amount of new space in the construction queue to 346,569 SF, not nearly enough to meet current demand even with fewer users looking for space. Land sales have dried up and only 304,853 SF of new space is in the planning stages, so the region will be short on new space for the foreseeable future. While this is not good for growing tenants who want the efficiency offered by first-generation space, it helps landlords of existing facilities, especially those with elements of functional obsolescence like low clear heights and low-calculation fire sprinkler systems. This may force some tenants to move to the Inland Empire, a market with high levels of construction and rising vacancy.

EMPLOYMENT. The seasonally adjusted unemployment rate in Los Angeles County increased to 5.0% in May 2023, up from 4.9% in April and 4.7% in May 2022. The increase was driven by losses in manufacturing, which shed 2,100 jobs. Nondurable goods manufacturing lost 1,200 jobs, with declines in food, apparel, and chemical subsectors. Durable goods manufacturing lost 900 jobs, with declines in computer and electronic products, metal, and transportation equipment. Job losses in these categories ranged from 100 to 300.

NEW DELIVERIES & NET ABSORPTION



Forecast

Absent a black swan event, the Mid-Counties market is not expected to change significantly in the next several quarters. Absorption will be constrained by the short supply of good quality buildings offered for lease or sale, as the inventory in the region is aging and not enough new inventory will be added in the near term to meet demand from the e-commerce and general distribution sectors. This could mean more of these users will be forced into the Inland Empire, which still has high levels of new construction and greater availability. Sale activity will remain light due to short supply and high interest rates, which will hamper institutional buyers' ability to pursue value-add acquisitions.

	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 2023	Square Feet Available	Availability Rate Q2 2023	Average Asking Lease Rate	Net Absorption Q2 2023	Net Absorption 2023	Gross Absorption Q2 2023	Gross Absorption 2023
Mid Counties													
Artesia / Cerritos	276	13,032,681	23,136	0	299,387	2.30%	550,400	4.22%	$1.66	(118,071)	(88,683)	69,271	118,776
Bellflower / Downey	204	5,525,650	0	0	147,258	2.66%	164,415	2.98%	$1.71	42,581	(15,500)	139,217	161,963
Buena Park / La Palma	237	15,277,008	27,765	0	141,096	0.92%	771,643	5.05%	$0.00	39,391	(49,022)	66,808	93,710
La Mirada	177	13,410,900	0	0	321,678	2.40%	1,159,112	8.64%	$1.62	(134,724)	(155,046)	77,776	224,419
Norwalk	89	2,889,795	0	0	180,313	6.24%	179,213	6.20%	$0.00	(171,381)	(174,313)	1,100	2,200
Paramount	411	9,034,416	0	0	175,577	1.94%	200,701	2.22%	$1.36	2,875	(65,554)	117,300	147,261
Santa Fe Springs	1,345	53,726,583	295,668	299,388	790,206	1.47%	2,074,418	3.86%	$1.77	92,152	24,350	884,223	1,046,867
Whittier	161	4,153,161	0	5,465	114,087	2.75%	161,942	3.90%	$1.35	85,772	57,622	18,645	59,227
Mid Counties Total	**2,900**	**117,050,194**	**346,569**	**304,853**	**2,169,602**	**1.85%**	**5,261,844**	**4.50%**	**$1.68**	**(161,405)**	**(466,146)**	**1,374,340**	**1,854,423**
5,000-24,999	1,819	23,914,227	23,136	5,465	397,708	1.66%	835,875	3.50%	$1.74	56,819	(100,028)	360,065	562,253
25,000-49,999	506	18,014,515	27,765	0	476,137	2.64%	768,610	4.27%	$1.64	(115,181)	(179,303)	145,286	259,089
50,000-99,999	297	20,549,782	151,234	178,264	753,720	3.67%	1,143,769	5.57%	$1.70	(294,234)	(373,295)	177,812	216,904
100,000-249,999	217	32,146,236	144,434	121,124	497,756	1.55%	1,874,109	5.83%	$1.67	261,191	256,480	280,143	405,143
250,000-499,999	54	17,947,696	0	0	0	0.00%	275,200	1.53%	$0.00	(70,000)	(70,000)	0	0
500,000 plus	7	4,477,738	0	0	44,281	0.99%	364,281	8.14%	$0.00	0	0	411,034	411,034
Mid Counties Total	**2,900**	**117,050,194**	**346,569**	**304,853**	**2,169,602**	**1.85%**	**5,261,844**	**4.50%**	**$1.68**	**(161,405)**	**(466,146)**	**1,374,340**	**1,854,423**

This survey consists of buildings greater than 5,000 square feet. Lease rates are on triple-net basis.

Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
12250 Coast Dr.	Whittier	20,717	$6,000,000	Eddie R Fischer Revocable Tr	HAI Top Properties LLC
13047 Lakeland Rd.	Santa Fe Springs	20,200	$5,700,000	Alfa Khory Trading, Inc.	Sanchez Rudolph J.
13117 Meyer Rd.	Santa Fe Springs	18,371	$5,625,000	Harry Dot, LLC	Meyer Road Property, LLC*
14035 Orange Ave.	Paramount	8,200	$2,357,500	CIF Group	McLane Manufacturing, Inc.
12303 Florence Ave	Santa Fe Springs	5,696	$1,765,000	Jimmy H Fung & Mei-Yin Chao	Yuan Ling Huang

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
15015 Valley View Ave. - Renewal	Santa Fe Springs	302,850	Apr-2023	United Natural Foods, Inc.	Brookfield Property Group
13215 Cambridge St.	Santa Fe Springs	146,617	Apr-2023	Weee!	Prologis
14100 Vine Pl.	Cerritos	122,514	Jun-2023	Cosmic Express	Rexford Industrial
14725 Northam St. - Renewal	La Mirada	80,000	May-2023	Siemans Corp.	Link Logistics
10749 Shoemaker Ave.	Santa Fe Springs	46,749	May-2023	Avanity	IAC Proper