Port Activity Mixed But Rebounding

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Business activity at the Port of Los Angeles has been on a roller coaster ride in 2023. After a record-breaking year in 2021, cargo volumes began to decline in early 2022 due to a combination of factors, including union labor issues, the war in Ukraine, rising inflation, and continued supply chain disruptions. This slowdown hurt trucking and warehousing businesses throughout the Southern California region.

However, in recent months, cargo volumes have started to rebound. In August 2023, the Port handled 828,016 Twenty-Foot Equivalent Units (TEUs), a 3% increase compared with the same period last year. This was the Port's first monthly year-over-year increase in 13 months.

The rebound in cargo volumes is a welcome sign for the Port of Los Angeles and the businesses that rely on it. The Port is a major economic engine for the region, supporting over 575,000 jobs and generating over $50 billion in economic activity each year.

However, there are still some challenges ahead for the Port of Los Angeles. The war in Ukraine continues to disrupt global supply chains, and rising inflation could dampen consumer demand. Additionally, the Port is facing increased competition from other ports, both in the United States and around the world.

Despite these challenges, the Port of Los Angeles is well-positioned to continue to be a major driver of economic activity in the region. The Port is investing in new infrastructure and technologies to improve efficiency and reduce congestion. Additionally, the Port is working to attract new businesses and industries to the region.

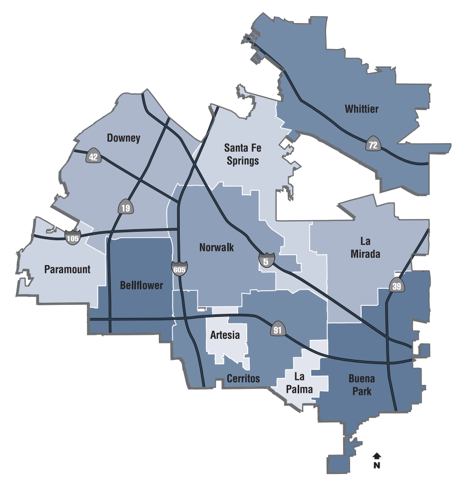
Overall, business activity at the Port of Los Angeles in 2023 has been mixed. However, the recent rebound in cargo volumes is a positive sign for the Port and the businesses that rely on it. The Port is facing some challenges, but it is well positioned to continue to be a major economic driver in the region.

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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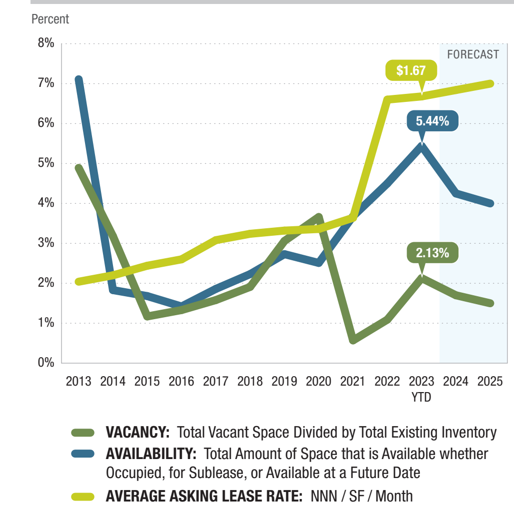
MCQ3 23
THIRD QUARTER 2023 MARKET REPORT
MID COUNTIES INDUSTRIAL
Voit REAL ESTATE SERVICES

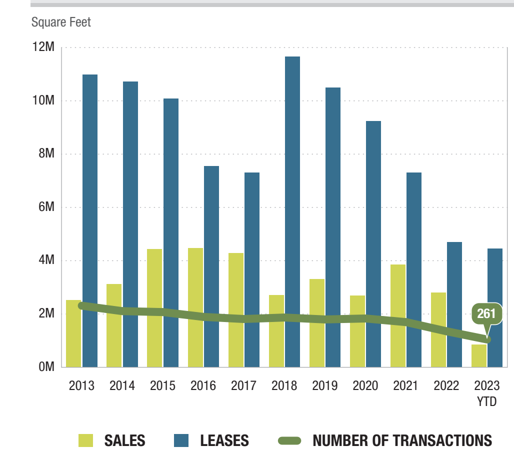
OVERVIEW. The Mid Counties industrial market maintained its status as the tightest of all the Southern California markets we track. Vacancy finally broke the 2% barrier, but continues to move up more slowly than in surrounding submarkets. The average asking lease rate was flat for the second consecutive period. Transaction activity picked up again and net absorption returned to positive territory. New construction fell slightly, leaving just two buildings under construction throughout the region. Generally, the market remains constricted by tight supply that continues to frustrate growing tenants and would-be owners / users. However, time-on-market for buildings available for lease continues to increase as fewer tenants are circulating. Institutional investors are restricting their activity to stabilized assets rather than value-add opportunities that rely on strong rent growth to justify in light of today's high interest rate environment.

VACANCY / AVAILABILITY. In Q3, the overall vacancy rate in the Mid-Counties finally broke the 2% barrier, rising by 28 basis points to finish the quarter at 2.13%, still the lowest rate of all surrounding submarkets. Vacancy is still low enough to support the current pricing structure, as we see rents have changed less than a penny for most of the year. However, the availability rate jumped by another 96 basis points to 5.44% after an 85-basis-point increase in Q2, a further indication of the increase in occupied space offered for sublease. Currently, just under 6.4 MSF of space is available, up from 5.25 MSF in Q2. If the spread between the vacancy and availability rates keeps widening, it could impact pricing in the near term.

LEASE RATES. The Mid-Counties average asking lease rate fell by a penny in Q3 to $1.67, after rising by the same amount in Q2. However, Santa Fe Springs, the largest market by square footage at 53 MSF, lost $0.04 to $1.73. Artesia / Cerritos gained two cents to $1.68, while La Mirada lost a penny to $1.61. With such low vacancy, landlords are still able to hold out for their asking rates, especially if they own high-quality functional space. However, tenants pushing for more free rent and tenant improvement dollars are seeing some success, especially for space that has been on the market for several months. Overall demand for leased space is down, but with vacancy so low, every reasonably priced property will find a new tenant. That said, time-on-market for space has been increasing since the middle of last year and may soon result in lower asking rates, especially from non-institutional owners.

TRANSACTION ACTIVITY. The number of square feet leased or sold in Q3 jumped to 2,837,820 SF from 1,504,790 SF in Q2. But, in the last two years the region has





Market Statistics

	Change Over Last Quarter		Q3 2023	Q2 2023	Q3 2022	% Change Over Last Year
Vacancy Rate	▲	UP	2.13%	1.85%	0.95%	125.17%
Availability Rate	▲	UP	5.44%	4.50%	2.73%	99.15%
Average Asking Lease Rate	▼	DOWN	$1.67	$1.68	$1.59	5.03%
Sale & Lease Transactions	▲	UP	2,837,820	1,504,790	1,441,519	96.86%
Gross Absorption	▲	UP	1,299,180	1,221,382	1,357,772	(4.32%)
Net Absorption	▲	POSITIVE	195,326	(161,405)	24,302	N/A

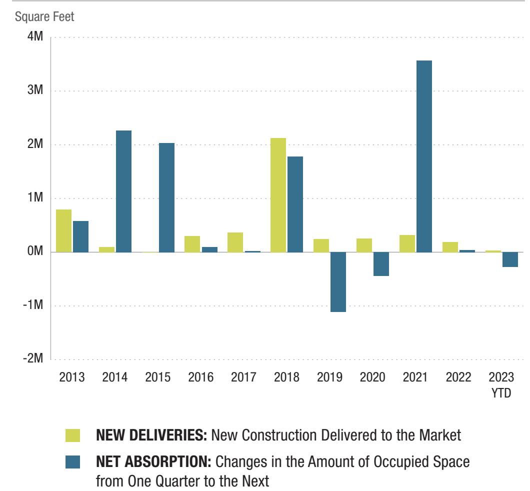
been incredibly consistent in terms of overall transaction count and square footage transacted. Deal count has ranged from 74 to 91 per quarter in that timeframe and square footage has ranged from 966,000 and 2,800,000, all on a base inventory of over 117 MSF. Lease transaction count in Q3 fell to 84 from 87, and total space leased increased to 2,134,693 SF from 1,415,430 SF in Q2. Square footage sold skyrocketed to 703,127 from just 89,360 SF in Q2 due to a 595,000 SF acquisition by Rexford in Santa Fe Springs. That was one of only seven sales completed in Q3, clear evidence that high mortgage rates have scared away owner/users and investors who need leverage to close their deals.

ABSORPTION. Net absorption returned to positive territory in Q3, with occupied space increasing by 195,326 SF after a net loss of 161,405 SF last quarter. Whittier led the way with a gain of 189,803 SF in the period, while Artesia/Cerritos posted a loss of 59,193. As we have reported previously, maintaining consistent positive net absorption is difficult in markets like the Mid Counties that have low vacancy, aging inventory and low levels of construction that all restrict growth. Gross absorption, which measures total move-ins, was relatively unchanged at 1,299,180 SF. The largest lease deal for the quarter was a 282,000 SF building leased to AM Castle & Company at 14001–14003 Orange Avenue in Paramount.

CONSTRUCTION. Ground-up construction activity is limited to just two buildings totaling 295,668 SF in Santa Fe Springs. Another 933,000 SF is in the planning stages, most of that also in Santa Fe Springs. Those projects are likely to be delayed due to high construction and capital costs along with the flattening of projected rent growth. The lack of first-generation space in the Mid Counties has been a problem for many years, and that is likely to continue for the foreseeable future. There are very few buildable sites left and the cost for those sites is prohibitive. As a result, Mid Counties tenants must make do with the existing inventory, some of which is growing functionally obsolete.

EMPLOYMENT. In August 2023, the seasonally adjusted unemployment rate in Los Angeles County increased to 5.0%, up from the revised rate of 4.9% in July 2023, and surpassing the 4.2% rate observed one year ago. On a positive note, several industries experienced job gains over the year, including professional and business services, which saw an increase of 11,700 jobs. Similarly, the trade, transportation, and utilities sector added 11,600 jobs, while other services registered a gain of 5,900 jobs.

NEW DELIVERIES & NET ABSORPTION



Forecast

The Mid-Counties market is likely to maintain the status quo in the near term. Absorption will be constrained by short supply, vacancy will remain lower than in surrounding markets and the pricing matrix will continue to be supported by the scarcity of available space. We could see more tenants, especially those in need of more vertical clearance and state-of-the-art fire suppression systems, look to the Inland Empire as a place to expand. More than 30 MSF is under construction and demand for space has fallen sharply, so landlords are getting more aggressive with free rent and tenant improvements. Sale activity in the Mid Counties will remain slow. Potential owner/users are hobbled by high mortgage interest rates and institutional investors are wary of the value-add deals that drove so much of the market activity for the past decade.

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	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q3 2023	Square Feet Available	Availability Rate Q3 2023	Average Asking Lease Rate	Net Absorption Q3 2023	Net Absorption 2023	Gross Absorption Q3 2023	Gross Absorption 2023
Mid Counties													
Artesia/Cerritos	277	13,054,831	0	0	398,007	3.60%	592,340	4.88%	$1.68	(59,193)	(147,595)	199,520	314,349
Bellflower/Downey	204	5,525,650	0	0	133,821	2.42%	133,283	2.41%	$1.55	13,437	(2,063)	78,750	240,713
Buena Park/La Palma	237	15,322,197	0	27,765	160,192	2.07%	814,413	5.32%	$0.00	23,667	(136,051)	155,629	253,286
La Mirada	177	13,410,900	0	0	466,463	4.02%	1,244,704	9.47%	$1.61	31,809	(83,707)	258,006	482,425
Norwalk	90	2,919,603	0	0	181,272	6.21%	180,372	6.18%	$0.00	(2,059)	(176,372)	3,109	5,309
Paramount	412	9,055,131	0	0	133,615	1.66%	278,484	3.08%	$1.37	31,629	(22,983)	103,229	250,490
Santa Fe Springs	1,344	53,727,744	295,668	607,624	969,966	3.05%	3,012,144	5.63%	$1.73	(33,767)	(786,682)	455,878	1,502,745
Whittier	161	4,323,530	0	297,891	61,094	4.95%	128,335	2.97%	$1.35	189,803	94,345	45,059	104,286
Mid Counties Total	**2,902**	**117,339,586**	**295,668**	**933,280**	**2,504,430**	**2.13%**	**6,384,075**	**5.44%**	**$1.67**	**195,326**	**(270,820)**	**1,299,180**	**3,153,603**
5,000-24,999	1,819	23,922,020	0	5,465	596,502	2.49%	1,006,690	4.21%	$1.64	(105,697)	(205,725)	258,393	820,646
25,000-49,999	507	18,058,003	0	87,333	623,022	3.45%	833,919	4.62%	$1.62	(108,591)	(287,894)	371,030	630,119
50,000-99,999	298	20,619,580	151,234	178,264	517,151	2.51%	1,013,286	4.91%	$1.70	205,396	(167,899)	293,219	510,123
100,000-249,999	216	31,933,382	144,434	369,792	653,474	2.05%	2,210,372	6.92%	$1.69	204,218	460,698	376,538	781,681
250,000-499,999	55	18,341,392	0	292,426	70,000	0.38%	955,527	5.21%	$0.00	0	(70,000)	0	0
500,000 plus	7	4,465,209	0	0	44,281	0.99%	364,281	8.16%	$0.00	0	0	0	411,034
Mid Counties Total	**2,902**	**117,339,586**	**295,668**	**933,280**	**2,504,430**	**2.13%**	**6,384,075**	**5.44%**	**$1.67**	**195,326**	**(270,820)**	**1,299,180**	**3,153,603**

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
9400–9500 Santa Fe Springs Rd.	Santa Fe Springs	595,304	$210,000,000	Rexford Industrial Realty, Inc.	SDCO SFS Logistics Center, Inc.
10901–10915 Painter Ave.	Santa Fe Springs	57,906	$21,162,115	Artisan Ventures	Staley Point Capital
16250 Gundry Ave.	Paramount	23,960	$6,000,000	Peabody Realty LLC	Young Min & Young Hwa Park
13168 Sandoval	Santa Fe Springs	14,765	$6,133,000	Kilmain Properties LLC	Nagatanien USA Inc.
9510 Ann St.	Santa Fe Springs	13,740	$5,000,000	So Cal Machinery Movers	Luzant Corporation

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
14001–14003 Orange Ave. – Renew/Expansion	Paramount	282,000	Jul-2023	A.M.Castle & Co.	DREES 14003 Orange, LLC
12012 Burke St.	Santa Fe Springs	129,578	Sep-2023	Rebas, Inc.	Burke Street Holdings/Phillip
13300 Orden Dr. – Renewal	Santa Fe Springs	123,120	Aug-2023	Wismeltac Asian Food, Inc.	Golden Springs Development Co.
11500 Los Nietos Rd.	Santa Fe Springs	121,344	Sep-2023	CTS Global Logistics	Midas Express Inc.
12840 E. Leyva St.	Norwalk	110,000	Sep-2023	Ottogi America, Inc.	Principal Real Estate