

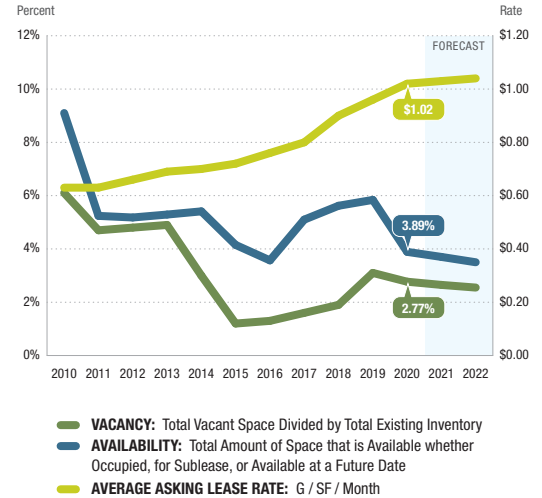
OVERVIEW. Activity in the Mid-Countries industrial market maintained its strong pace in the final quarter of 2020. Lease and sale transaction activity mirrored a strong performance in Q3. Lease rates were unchanged and vacancy made a modest decline. Gross absorption was way up and net absorption returned to positive territory. Despite another pandemic shutdown in Los Angeles County, industrial business owners kept their foot on the gas to meet surprisingly strong demand for goods and services. The Mid-Countries market has been tightening for the last few years, sending supply to record lows, while construction of new inventory has not kept pace with demand for quality space. Owner/user purchase activity accelerated in Q4, as buyers were anxious as ever to lock in fixed-rate mortgages at historically low interest rates.

VACANCY/AVAILABILITY. If there is anything holding the Mid-Countries market back, it's low vacancy. The entire market is starved for space. The overall vacancy rate fell 21 basis points in Q4 to just 2.77% after a slight increase in the previous period. The pandemic crisis has had little effect on market performance. Santa Fe Springs, the region's largest submarket at 53 MSF, saw its vacancy rate plummet to just 1.89%, which is forcing tenants and buyers to expand their search areas to include Orange County and the Inland Empire. Tight conditions continue to keep the brakes on net and gross absorption, forcing those tenants who need to stay in the area to renew in place or hold their owned properties, even if it impacts efficiency and productivity. The availability rate (vacant space plus occupied space offered for lease or sale) also moved sharply lower, in part because several larger available buildings leased or sold before becoming vacant.

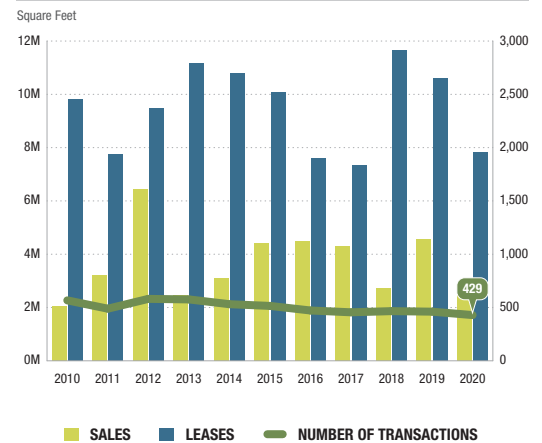
LEASE RATES. The average asking lease rate in the Mid-Countries was unchanged in Q4, at \$1.02. Landlords are still taking a hard line on lease negotiations, but some are willing to offer minor concessions on free rent and tenant improvements. Tenants continue to pursue turnkey deals that minimize downtime. So, those landlords willing to spend upfront money on refurbishing older buildings are getting their spaces leased up quickly. Spaces from 25,000 to 50,000 SF saw a rate rise of \$0.05 to \$1.12, while the larger size categories ranged from \$0.87 to \$0.93, a slight decline since the end Q3. Absolutely no space is available between 250,000 to 500,000 SF, and there is just one offering over 500,000 SF. The true average lease rate is probably higher due to the fact that many properties, some of them of the highest quality, are offered without an asking price to encourage competition between multiple tenants.

TRANSACTION ACTIVITY. The number of lease transactions completed in Q4 was relatively flat at 106, but sales transactions moved up to 22 from 18 in Q3. Only the lack of available buildings for sale is keeping that total from moving much higher. Total square footage leased rose to 2.9 MSF from 2.1 MSF in Q3. That is due to larger transactions being done as bigger tenants, who were uncertain about the pandemic's business impact earlier in the year, are now more confident in their ability to generate revenue going forward.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



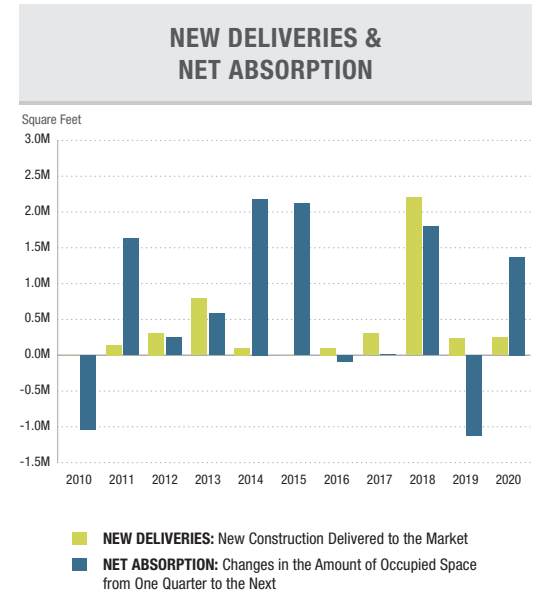
Market Statistics

	Change Over Last Quarter	4Q 2020	3Q 2020	4Q 2019	% Change Over Last Year
Vacancy Rate	▼ DOWN	2.77%	3.03%	3.06%	(9.53%)
Availability Rate	▼ DOWN	3.89%	5.84%	3.57%	8.83%
Average Asking Lease Rate	▬ FLAT	\$1.02	\$1.02	\$0.96	6.25%
Sale & Lease Transactions	▬ FLAT	3,534,618	3,548,984	3,945,389	(10.41%)
Gross Absorption	▲ UP	1,819,672	842,352	611,632	197.51%
Net Absorption	▲ POSITIVE	906,395	(206,660)	(93,909)	N/A

CONSTRUCTION. New ground-up development remains conspicuously absent. Just 174,863 SF of space is currently in the construction queue, and only 327,000 SF is in the planning stages, all of that in Santa Fe Springs. With the construction pipeline running at such a trickle, Mid-Counties businesses are going to find it even harder to find efficient space, as a good portion of the currently available space is functionally obsolete in one way or another. Xebec Realty completed its 234,300 SF, state-of-the-art distribution building at 8201 Sorenson Ave in Q4, while Overton Moore is putting the finishing touches on its 130,958 SF project on Greenleaf Ave and another 43,905 SF building on Los Nietos Road.

ABSORPTION. Positive net absorption more than tripled in the final quarter to 906,395 SF, boosting the annualized net gain in occupied space to 1,371,839, a remarkable performance given the lack of space available for expanding businesses. Buena Park led all Mid-County cities in 2020 with a net gain of 1,074,000, but that was due in large part to the lease-up of the former JC Penny building. Santa Fe Springs added of 302,000 SF, just behind Artesia/Cerritos at 376,449 SF. Whittier, Paramount, La Mirada and Norwalk posted modest losses in occupied space for the year. Gross absorption (total move-ins) more than doubled in Q4 to hit 1,819,672 SF, further indication of intense demand throughout the region. For the full year, 6,502,892 SF changed hands.

EMPLOYMENT. The seasonally adjusted unemployment rate in Los Angeles County decreased over the month to 11.0% in November 2020, from a revised 12.0% in October 2020, and was above the rate of 4.3% one year ago. The unadjusted unemployment rate for the county was 10.6% in November 2020. Construction reported a larger than normal month-over reduction totaling 3,300 jobs. This was the first time the industry had experienced job cuts since April, when public health concerns led to business closures. The reductions were evident across every industry group, specifically construction of buildings (down 1,700) and specialty trade contractors (down 1,400).



Forecast

All current market metrics in the Mid-Counties point to more of the same heading into the new year. Low vacancy is a persistent problem and without adequate new supply, a lack of quality available space will remain a frustration. Demand for owner/user buildings will continue to be driven by record-low mortgage interest rates and the desire to lock in long-term occupancy cost in a rising lease market. The SBA 504 interest rate fell to 2.6% in December and is expected to remain below 3% for the foreseeable future.

With election uncertainty behind us and the failure of Proposition 15, the split-roll property tax initiative that would have caused a huge spike in property taxes for commercial property throughout California, getting ahead of the virus is the big focus going forward. However, of cause for concern in 2021 is President Biden's platform of tax hikes that would have a negative impact on property values if they become law. He is proposing to eliminate 1031 exchanges, tax capital gains as ordinary income, raise corporate and personal income tax rates and eliminate the step-up rule, the go-to estate planning tool for most private investors. It is unclear exactly when he will make the attempt, but just the threat of any of these tax increases could add a new level of uncertainty in the commercial real estate world.

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2020	Square Feet Available	Availability Rate 4Q2020	Average Asking Lease Rate	Net Absorption 4Q2020	Net Absorption 2020	Gross Absorption 4Q2020	Gross Absorption 2020
Mid Counties													
Artesia / Cerritos	280	13,145,089	0	0	304,076	2.31%	717,427	5.46%	\$1.09	376,449	346,818	337,276	558,525
Bellflower / Downey	196	5,579,646	0	0	124,659	2.23%	86,757	1.55%	\$1.19	11,481	155,904	73,224	430,071
Buena Park / La Palma	233	15,119,041	0	0	381,150	2.52%	629,092	4.16%	\$0.93	346,194	1,074,140	574,965	1,954,180
La Mirada	178	12,963,624	0	0	537,662	4.15%	1,218,469	9.40%	\$1.00	(21,906)	(75,210)	203,569	953,145
Norwalk	88	2,887,282	0	0	350,301	12.13%	315,794	10.94%	\$1.07	(36,544)	(30,638)	24,040	62,050
Paramount	406	8,975,563	0	0	300,342	3.35%	319,420	3.56%	\$0.96	(21,911)	(131,194)	75,351	278,023
Santa Fe Springs	1,352	53,187,225	174,863	327,491	1,002,753	1.89%	1,198,032	2.25%	\$1.08	408,567	302,308	505,164	1,924,822
Whittier	164	4,109,527	0	0	210,496	5.12%	23,448	0.57%	\$1.07	(155,935)	(270,289)	26,083	342,076
Mid Counties Total	2,897	115,966,997	174,863	327,491	3,211,439	2.77%	4,508,439	3.89%	\$1.02	906,395	1,371,839	1,819,672	6,502,892
5,000-24,999	1,817	24,049,862	0	0	408,512	1.70%	538,260	2.24%	\$1.09	(4,422)	77,255	391,410	1,213,416
25,000-49,999	503	17,860,403	43,905	30,875	434,349	2.43%	652,931	3.66%	\$1.12	184,544	201,076	495,680	1,036,358
50,000-99,999	302	20,919,332	0	0	1,054,915	5.04%	1,324,367	6.33%	\$0.93	(79,363)	(470,661)	249,630	1,084,519
100,000-249,999	217	32,225,027	130,958	296,616	1,162,571	3.61%	1,446,580	4.49%	\$0.87	498,036	744,203	239,712	1,158,582
250,000-499,999	51	16,423,739	0	0	151,092	0.92%	0	0.00%	\$0.00	307,600	(255,381)	443,240	934,670
500,000 plus	7	4,488,634	0	0	0	0.00%	546,301	12.17%	\$0.00	0	1,075,347	0	1,075,347
Mid Counties Total	2,897	115,966,997	174,863	327,491	3,211,439	2.77%	4,508,439	3.89%	\$1.02	906,395	1,371,839	1,819,672	6,502,892

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
5701 Fresca Dr.	La Palma	84,321	\$14,510,000	Longpoint Realty Partners	Greif, Inc.
12511-12521 Los Nietos Rd.	Santa Fe Springs	88,495	\$11,700,000	Panattoni Development Company, Inc.	S & S Hamrock Family Trust
14600 Alondra Blvd.	La Mirada	50,000	\$6,050,000	4M Investment Corporation	Laskey-Blonstein Prop LLC
10329 Painter Ave.	Santa Fe Springs	40,787	\$12,273,000	LA Industrial 2 LLC	MDP Properties, LLC
10754 Artesia Blvd.	Cerritos	24,907	\$4,000,000	The Sobh Familiy Wealth Preservation Tr	September Properties LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
6565 Knott Ave – Renewal	Buena Park	626,304	Dec-2020	Saddle Creek Corporation	Prudential Real Estate Investors
11811-11831 E. Florence Ave.	Santa Fe Springs	288,000	Oct-2020	Amazon	PS Business Parks, Inc.
8201 Sorensen Ave.	Santa Fe Springs	234,330	Nov-2020	DX Supply	Xebec Realty
16050 Canary Ave. – Renewal	La Mirada	177,812	Nov-2020	E. T. Horn Company	Mirada Enterprises, LTD
15928 Commerce Way	Cerritos	163,290	Nov-2020	Medify Air, LLC	Link Logistics



Post-Election Analysis - Commercial Real Estate in Southern California

by **Zac Kolander**

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It's on everyone's mind—how does a change in presidential administration affect the bottom line of a business or commercial property owner in the Los Angeles and Mid-COUNTIES markets? A Biden victory does not necessarily equate to automatic changes in the local commercial real estate market. The fears among commercial property owners we hear most are:

- Does this mean property values are going to fall?
- Will the President-Elect eliminate 1031 Exchanges and the 'step-up' rule?
- Is it no longer a good time to purchase or hold commercial real estate?

Legislation is much more difficult to pass through a divided Congress. This was the outlook heading into January before the results of the Georgia runoff elections. Though the surprise wins in Georgia break the Republican majority in the Senate, not every Democratic senator sees eye-to-eye with the President-Elect's stated goals.

Proposition 15 – In California, changes to state and property taxes were a concern with the persistent efforts to push through a split-roll property tax plan, most recently known as Prop 15. Many property owners were delighted to hear that Prop 15 was defeated. For the foreseeable future, commercial property will remain under the protection of the old Prop 13, limiting the annual increase of property taxes to 2% each year.

Revisiting our questions above:

Do the election results mean property values are going to fall? The election should not spark an immediate correction to property values in California. However, property owners who had planned to sell in the next 3-5 years are considering moving up their timetables. Many will choose not to gamble with the unknowns surrounding the elimination of the 1031 Exchange and the 'step-up' rule.

Will the President-Elect eliminate 1031 Exchanges and raise taxes? Many of Biden's stated goals give property owners reason to be concerned about whether their current hold strategy would be wise if tax laws change. As advisors, it is our hope that there will be a level of protection from seemingly one-sided legislation from the more moderate democrats in the US Senate. A single democratic senator defecting on a legislative bill provides opportunity for bipartisanship.

Is it no longer a good time to purchase (or hold) commercial real estate? This is solely dependent upon the property owner's situation. Many businesses that have already outgrown their facilities are purchasing at record prices, because the opportunity to grow revenue is more dominant and mortgage rates remain at historic lows. Property owners nearing retirement and/or the end of their hold strategy are considering an early exit. Investor acquisition criteria have tightened since the pandemic began, but there is still a steady flow of capital moving into commercial real estate.

In short summary, there is a level of uncertainty looming. Your strategy moving forward should be specific to your individual goals.

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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.

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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

