

» 2017 Ends With Rents At All Time High

Key Takeaways

- > Average asking rents increased \$0.02 PSF NNN over the prior quarter to \$0.72.
- > The overall vacancy rate was 0.8%, up 20 basis points from the previous quarter. Vacancy has remained below 1% for the last nine quarters.
- > Sales and leasing activity totaled 1,350,800 SF for the quarter, including seven sales (167,600 SF) and 24 leases (1,183,200 SF).
- > Net absorption was positive at 298,500 SF for the quarter.
- > Approximately 1,616,800 SF remains under construction with much expected to be completed in 2018.

Mid-Counties Industrial Market

The Mid-Counties remains the tightest industrial market in Southern California, with a vacancy rate of 0.8%. This has left very limited options for firms looking to expand in that market. New construction in future quarters will likely be absorbed quickly as available industrial space remains scarce.

Market Indicators | Relative to prior period

	Q4 2017	Forecast
Vacancy	↑	→
Net Absorption	↑	↑
Construction	↑	↓
Rental Rate	↑	↑

Summary Statistics | Mid-Counties, Q4 2017

Vacancy Rate	0.8%
Change from Q1 '17 (Basis Points)	+20 BPS
Net Absorption	298,500 SF
Construction Completions	553,000 SF
Under Construction	1,616,800 SF

Asking Rents | Mid-Counties, Q4 2017

	Mid-Counties Industrial Market
Average Asking Rent	\$0.72 PSF NNN
Change from Q4 '16	+\$0.08
Y.O.Y. Change (%)	+12.5%

Labor Force | Mid-Counties, Q4 2017

	Construction	Manufacturing	Transportation, Trade & Utilities
12-mo Employment Growth (%)	6.2%	-1.0%	-0.2%
12-mo Actual Employment Change	+8,200	-3,500	-1,400

Vacancy

- > The vacancy rate remained low, ending the quarter at 0.8%.
- > Currently, 1,616,800 SF of buildings is under construction.
- > **FORECAST:** Vacancy is expected to remain below 1% for the foreseeable future. Lack of space continues to hinder businesses from expanding in the Mid-Countries. Tenants are advised to start their building search well in advance of their lease termination.

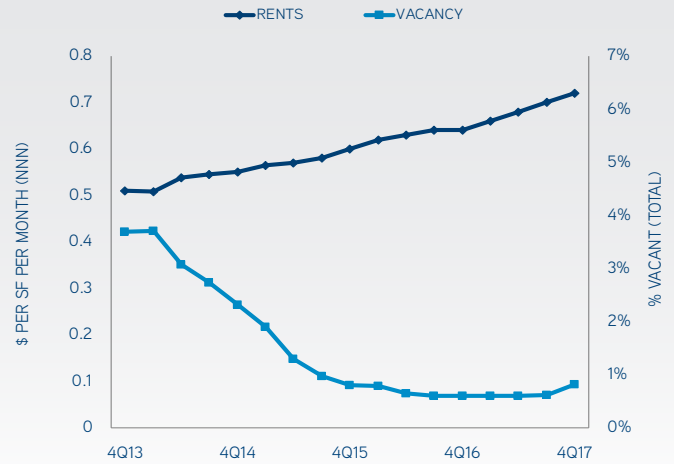
Absorption and Leasing Activity

- > Positive net absorption reached 298,500 SF this quarter. Net absorption has been positive for the last 31 quarters.
- > Sales and leasing activity totalled 1,350,800 SF. Tight market conditions for quality buildings continue to limit options for tenants looking to expand.
- > **FORECAST:** Absorption is likely to be positive in future quarters even as new industrial product is delivered to the market.

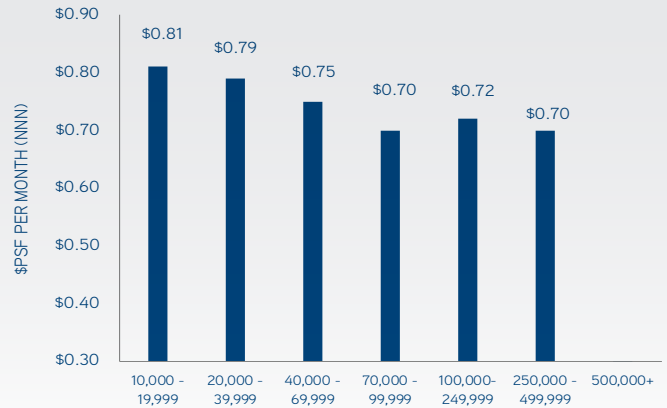
Rental Rates

- > Rents increased to \$0.72 PSF NNN, which is the highest average rental rate ever for this market.
- > Significant barriers to creating new supply and increased demand by tenants are putting continued upward pressure on rents. This will continue to make the Mid-Countries one of the more expensive markets in Southern California.
- > **FORECAST:** Rents will continue to rise in future quarters and tenants can expect to pay a premium for all types of industrial space. Tenants who signed leases five years ago can expect their rents to increase significantly upon renewal.

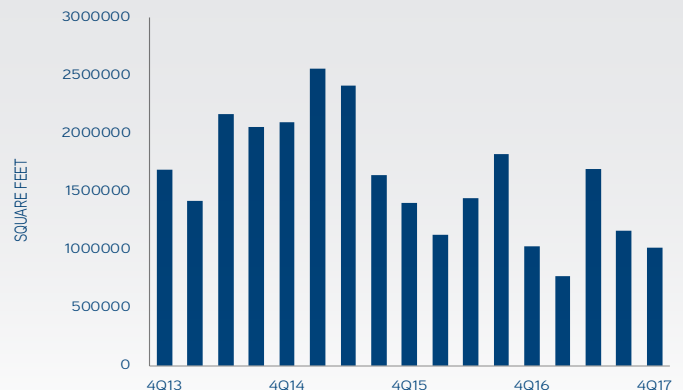
Historical Vacancy v. Rents | Mid-Countries | Q4 '13-'17



Avg. Asking Lease Rates | Mid-Countries | Q4 '17



Historical Sales & Leasing Activity | Mid-Countries | Q4 '13 - '17



Construction

- > There was 553,000 square feet of new construction deliveries this quarter, and 1,616,800 SF of additional space remains under construction in a small number of projects.
- > Development opportunities continue to be scarce and land prices for even marginal industrial parcels are seeing new highs.
- > **FORECAST:** Increasing rental rates and sales prices, along with continued low vacancy rates, may lead to older buildings being redeveloped into new projects.

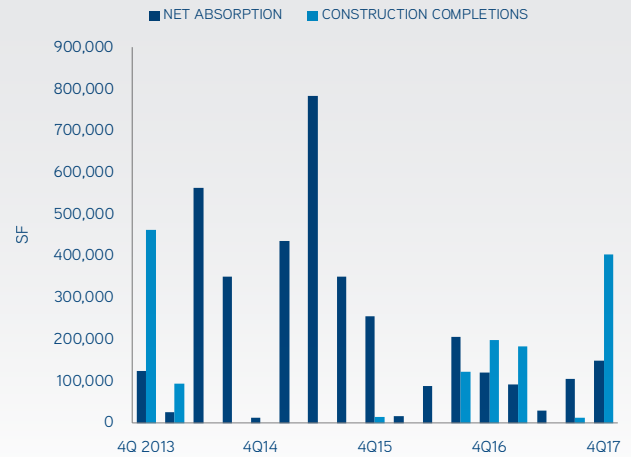
Investment Trends

- > Capitalization rates continued to tighten in Los Angeles County, averaging 4.6% in the final quarter of 2017.
- > Average sales prices fell over the quarter to \$147 PSF. The fourth quarter saw a reduction in the number of deals as numerous pending sales were pushed into 2018.
- > **FORECAST:** The full impact of the new federal tax bill could generate further interest in investment sale transactions.

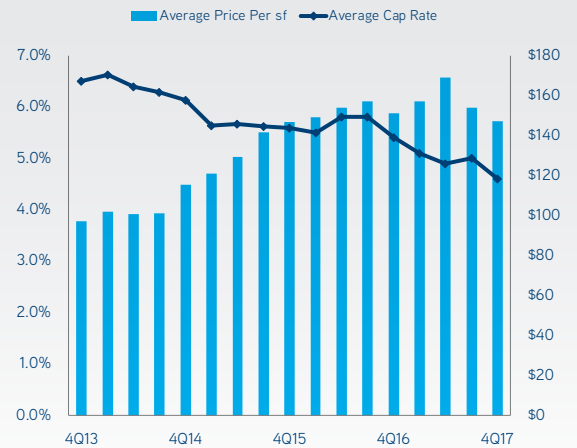
Outlook

The Mid-Counties market has hit a record low vacancy rate of 0.8%. This is putting upward continued upward pressure on asking rates which have also hit a new market peak. Consequently, demand to purchase real estate continues to be strong.

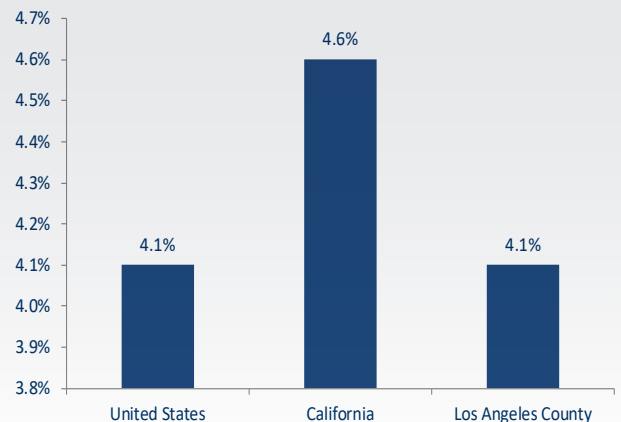
Historical Net Absorption & Construction Completions
Mid-Counties | Q4 '13-'17



Investment Trends Chart Los Angeles County
Q4 '13-'17



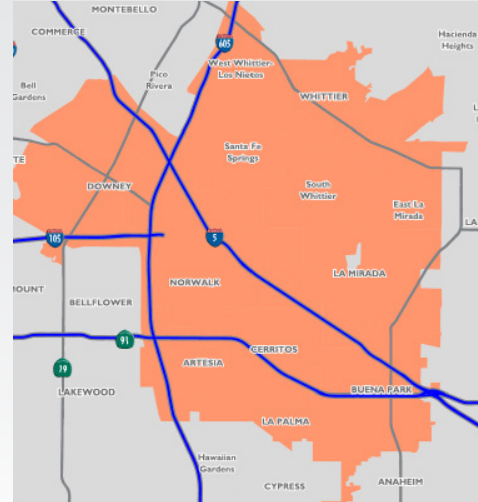
Unemployment Rate | November 2017



Market Description

The Mid-Counties represents 103.5 million square feet of industrial space located in cities that border Los Angeles and Orange Counties. It is at the geographic heart of Southern California, a strategic location in the middle of the largest industrial market in the nation. It has a mix of industrial property types, with 50 percent in big box space (100,000+ SF) and the remaining balance in small- and medium-sized buildings. Businesses are attracted to the Mid-Counties due to its central location and proximity to the Ports of Long Beach and Los Angeles.

Submarket Map



RECENT TRANSACTIONS & MAJOR DEVELOPMENTS

Mid-Counties Industrial Market
Q4 2017

SALES ACTIVITY

PROPERTY ADDRESS	SIZE SF	SALE PRICE	PRICE PSF	BUYER	SELLER
13943 Maryton, Santa Fe Springs	75,300 SF	\$13.2 Million	\$176 PSF	Novella Plastics, Inc.	Bridge SF Springs, LLC
10024 Romandel, Santa Fe Springs	27,900 SF	\$4 Million	\$145 PSF	Show FX	FeLyBy Associates, LLC
13804 Shoemaker, Norwalk	11,000 SF	\$3 Million	\$272 PSF	Pacific States Petro	Phillip & Jackie Bor
10124 Romandel, Santa Fe Springs	12,100 SF	\$2.6 Million	\$212 PSF	Weldco Sales	Gary & Anna Grossman

LEASING ACTIVITY

PROPERTY ADDRESS	LEASED SF	LEASE TYPE	BLDG TYPE	LESSEE	LESSOR
9400 Santa Fe Springs, Santa Fe Springs	411,000 SF	Renewal	Distribution	XPO Logistics	SDCO SFS Logistics Center, Inc
12828 Carmenita, Santa Fe Springs	268,500 SF	Direct - New	Distribution	West Coast Distribution	Imperial Dev Sub A LLC
8945 Dice, Santa Fe Springs	131,600 SF	Direct - New	Distribution	Straight Forwarding	Procal
11517 Los Nietos, Santa Fe Springs	44,700 SF	Renewal	Light	Wood Decking, Inc.	Margies Investments

MAJOR DEVELOPMENTS

PROJECT	DEVELOPER	SIZE SF	SUBMARKET	STATUS	ESTIMATED COMPLETION
12588 Florence, Santa Fe Springs	Goodman Birtcher	403,600 SF	Mid Counties	Under Construction	Q1 2018
13943 Maryton, Santa Fe Springs	Bridge Development	75,300 SF	Mid Counties	Completed	Q4 2017
13915 Maryton, Santa Fe Springs	Bridge Development	74,000 SF	Mid Counties	Completed	Q4 2017

INDUSTRIAL OVERVIEW

MID-COUNTIES
Q4 2017

EXISTING PROPERTIES		CONSTRUCTION		VACANCY		AVAILABILITY	ACTIVITY					ABSORPTION		RENTS		
Submarket/ Building Size	Bldgs	Total Inventory SF	Completions Current Qtr SF	Under Construction SF	Vacancy	Vacancy Prior Qtr	Availability	Sales Activity SF	Number of Sales	Lease Activity SF	Number of Leases	Total Gross Activity Current Qtr SF	Total Gross Activity YTD SF	Net Absorption Current Qtr SF	Net Absorption YTD SF	Weighted Avg Asking Lease Rates
MARKET TOTAL																
10,000-19,999	736	10,268,600	0	14,000	0.3%	0.4%	2.5%	45,300	4	26,600	2	71,900	388,600	13,600	-11,300	\$0.81
20,000-39,999	512	13,908,400	0	88,900	0.1%	0.0%	2.6%	47,000	2	117,100	5	164,100	457,000	-13,100	17,400	\$0.79
40,000-69,999	318	16,263,200	0	160,700	0.2%	0.3%	1.4%	0	0	174,100	6	174,100	791,500	16,500	-76,300	\$0.75
70,000-99,999	134	10,797,500	149,400	74,100	0.6%	0.9%	2.4%	75,300	1	194,700	6	270,000	482,000	187,500	91,900	\$0.70
100,000-249,999	216	32,114,900	0	0	0.9%	1.2%	2.8%	0	0	143,400	2	143,400	2,103,300	94,000	504,000	\$0.72
250,000-499,999	50	15,811,800	403,600	772,600	2.6%	0.0%	8.6%	0	0	343,000	2	343,000	576,400	0	0	\$0.70
500,000+	6	3,901,100	0	506,500	0.0%	0.0%	27.8%	0	0	184,300	1	184,300	184,300	0	0	N/A
TOTAL	1,972	103,065,500	553,000	1,616,800	0.8%	0.6%	4.3%	167,600	7	1,183,200	24	1,350,800	4,983,100	298,500	525,700	\$0.72

Definitions of key terms in this report

Total Rentable Square Feet:

Industrial space in buildings with 10,000 SF or more of industrial space. Includes speculative as well as owner-occupied buildings. Excludes Research & Development (R&D) buildings (industrial buildings with at least 30% office build-out, 3/1000 parking ratio and a high level of finish). Excludes space that is under-construction or renovation.

Vacancy:

Space in existing buildings that is vacant and immediately available during the quarter for direct lease, for sublease or for sale, plus space that is vacant but not available for direct lease or sublease.

Availability:

All space that is being currently marketed for occupancy, includes space which may be currently occupied or which may be under construction or renovation.

Net Absorption:

Net change in occupied square feet from one period to the next (includes the impact of change in vacant space available for sublease).

Gross Activity:

Square feet sold and leased for all known transactions completed during the quarter. Excludes lease renewals. Excludes investment sale transactions.

Weighted Average Asking Rental Rates:

Weighted by square feet available for direct lease. Data is based on triple net rents, and excludes expenses such as taxes, insurance, maintenance, janitorial service and utilities. Reported on a monthly, per SF basis.

Construction Completions:

Total square feet added during the quarter via construction completions, including renovated space returned to market, less total square feet taken off-market due to demolitions or conversions.

Under Construction:

Includes buildings that are in some phase of construction, beginning with foundation work and ending with the issuance of a Certificate of Occupancy.

Technical Note

Colliers International is continuously refining its database. The data shown in the historical tables and graphics in this report have been adjusted to take into account these changes in the database.

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UNITED STATES:

Commerce Office
License No. 01908231
5100 S. Eastern, Suite 100
Commerce, CA 90040

TEL: +1 323 726 1200
FAX: +1 323 278 3000

HANS MUMPER

Executive Managing Director
Greater Los Angeles

THOMAS GALVIN
Research Analyst
Research Services

