

# ROBUST DEMAND CONTINUES TO LIMIT AVAILABLE SUPPLY

▶ Availability Rate **1.9%**
▲ Sales Price **\$145.19 PSF**
▲ Lease Rates **0.63 NNN**
▲ Net Absorption **256,044 SF**
▼ Vacancy Rate **0.6%**
▲ Construction **263,088 SF**

\*Arrows indicate change from previous quarter

### HOT TOPICS

- 51.6% decrease in available inventory year-over-year
- Starting off 2016 with the 8th consecutive quarter of positive net absorption
- Availability Rate (1.9%) and Vacancy Rate (0.6%) at all-time lows
- Average NNN Effective Lease Rates up 4.3% quarter over quarter
- New development on upward trend with 2,446,749 SF in the pipeline

The Mid-Countries Industrial Market strategically situated at the border of Los Angeles and Orange Counties. The cities within the Mid-Countries Market include Santa Fe Springs, Cerritos, La Mirada, Paramount, Downey, Whittier, Norwalk, Lakewood, Bellflower, and Artesia. The cities within Orange County include Buena Park, Cypress, La Palma, and Los Alamitos. The cities listed in descending order by the size of their respective industrial base.

New businesses continued to migrate to the Mid-Countries market while existing businesses expanded resulting in 256,044 sq. ft. of positive net absorption in Q1 2016. This high demand follows 2015, which marked the highest level of positive net absorption in this market since 2005. If this momentum continues throughout 2016, it will also mark the fifth consecutive year of positive net absorption. As a result of this sustained increased demand, the Mid-Countries industrial market now has all time historically low levels of inventory, currently tracking at 1.9% availability and 0.6% vacancy. The year-over-year decline in the supply of available buildings is a staggering 51.6%.

Gross activity no longer serves as a reflection of demand. Given the low supply, only 256,044 sq. ft. was absorbed in Q1 2016 down 42.0% from Q1 2015. If the trend continues, 2016 is on pace to average 1.0 million sq. ft. of positive net absorption, which would be down significantly from the prior year. This is further evidenced by the restraint on gross

Figure 1: Year-Over-Year Comparison

	Q1 2016	Q1 2015	% Change
Availability Rate (%)	1.9	3.9	(51.6)
Vacancy Rate (%)	0.6	2.0	(72.3)
Gross Activity (Sq. Ft.)	1,513,831	1,603,808	(5.6)
Net Absorption (Sq. Ft.)	256,044	441,360	(42.0)
Transaction Volume (#)	42	34	23.5
Avg. Asking Lease Rate (\$/Sq. Ft.)	0.63	0.60	5.0
Avg. Asking Sale Price (\$/Sq. Ft.)	145.19	132.9	9.2

activity due to the severe lack of supply – a dilemma expected to continue throughout 2016.

Given these dynamics of limited supply and strong demand, property values are increasing. The year-over-year average asking lease rate has increased 5.0%, and the average asking sale price rose 9.2%. In Q1 2016, the average asking lease rate for buildings 10,000 sq. ft. and greater was \$0.63 per sq. ft. per month, up from \$0.60 in Q1 2015. This appreciation is taking place without an influx of new development or available Class A product; thus, the jump in effective rates reflects longer lease terms with more rental increases and less free rent. The good news is that these values are still ±10% from the peak set in 2008.

There were several larger lease and sale transactions that were executed and closed in the 1<sup>st</sup> Quarter 2016. Tool Lots leased 115,560 SF Class B/C building in Cerritos located at 16290 Shoemaker Avenue. Packaging Corporation of America renewed their lease in 107,740 SF Class B building located at 11600 Los Nietos Road, Santa Fe Springs. Also, Apollo Apparel Group completed a 92,395 SF lease at the Class A, 6635 Caballero Blvd., Buena Park building.

There were seven owner/user sales during the 1<sup>st</sup> Quarter 2016. The largest sale was 13711 Freeway Drive, Santa Fe Springs, which was acquired by Martinez Trucking, who was the building’s current tenant. A noteworthy investment transaction was sale of Heritage Corporate Center in Santa Fe Springs, a 23-building mixed use business park totaling 724,154 SF of industrial, R&D, and office product. This project is on a long term ground lease, the seller was Steelwave, and the buyer was Kearny Real Estate Company.

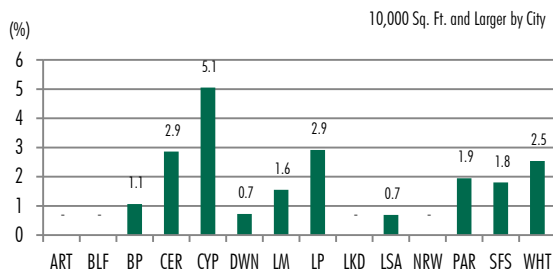
Based on these previously stated market statistics, it is clear that the Mid-Countries is starving for new product. However,

land is scarce in this mature, in-fill market. There are three significant projects about to break ground, and their timing appears to be optimal. Overton Moore Properties recently tilted walls on a state-of-the-art 199,588 sq. ft. distribution building located on a 8.89-acre site in La Mirada. Goodman Birtcher is scheduled to break ground in May at the former Cenco (Powerine) Refinery to build 1,220,000 sq. ft. consisting of three buildings, to be constructed in three consecutive phases. Both of these projects are enjoying pre-leasing activity. Bridge Development closed in December 2015 on the ±9.7 acre former Norwalk Dairy Site in Santa Fe Springs at a record price per sq. ft. for land in the market. Bridge Development plans to build three (3) buildings

totaling 231,731 sq. ft. ranging from 74,038 sq. ft. to 82,362 sq. ft. Duke Realty is scheduled to close on the 21 acre “Chevron Site” in La Mirada and is planning to construct a ±470,000 sq. ft. State-of-the-Art logistics building.

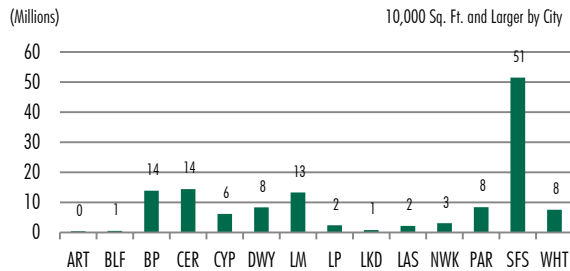
As we enter the election year of 2016, the national economy is improving, and interest rates remain historically low. We are confident occupiers, investors and developers will continue to seek opportunities in the Mid-Counties Market because of its central location in the Southern California basin, within proximity to the Ports of Long Beach/Los Angeles, appealing housing options, strong labor pool, and functional industrial base.

Figure 2: City Availability Rate (%)



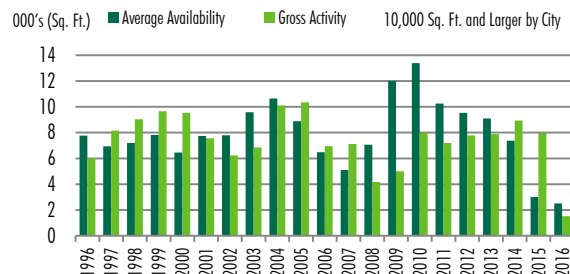
Source: CBRE Research, Q1 2016.

Figure 3: Market Base (SF)



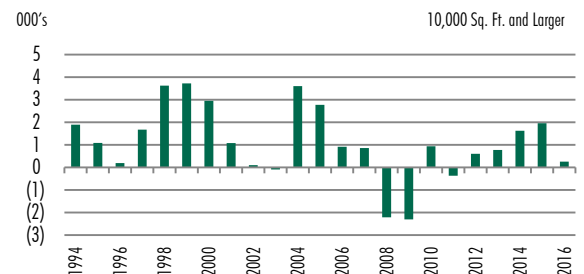
Source: CBRE Research, Q1 2016.

Figure 4: Annual Average Availability vs. Annual Gross Activity



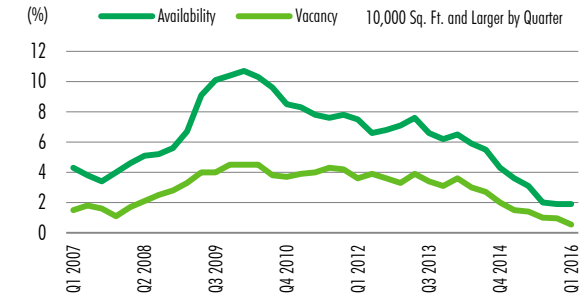
Source: CBRE Research, Q1 2016.

Figure 5: Annual Net Absorption (SF)



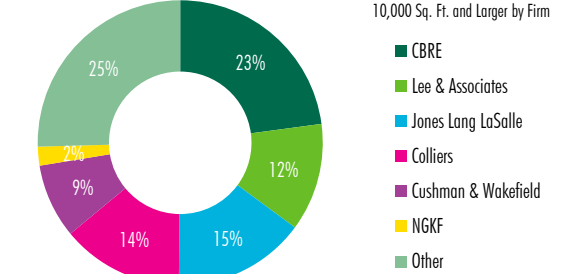
Source: CBRE Research, Q1 2016.

Figure 6: Availability Rats vs. Vacancy Rate (%)



Source: CBRE Research, Q1 2016.

Figure 7: Market Share



Source: CBRE Research, Q1 2016.

Figure 8: Construction Activity

Site (Owner)	Approximate Land Acreage	Planned Development	Status	Comments/Activity
12345 Lakeland Avenue Santa Fe Springs (Goodman Birtcher)	± 52 Acres	± 1,220,000 Sq. Ft.	Land acquired June 2014.	Former Cenco (Powerine) Refinery. Planned three building Class A distribution center. Expected to break ground Q2 2016.
Dairy Site 1311-13123 Rosecrans Avenue Santa Fe Springs (Bridge Development)	± 9.68 Acres	± 231,731 Sq. Ft.	Land acquired in December 2015.	Planned three-building project, all for sale. Expect to break ground Q2 2016.
14445 Alondra Boulevard La Mirada (OMP)	± 8.89 Acres	± 199,598 Sq. Ft.	Land acquired December 2014.	Former Dow Chemical site. Currently has a ± 200,000 Sq. Ft. Class A distribution building with yard area under construction.
11756 Burke Street Santa Fe Springs (Pilot Chemical Company)	± 4.32 Acres	± 90,000 Sq. Ft.	Under Contract	Planned Pilot Chemical Company site. In escrow, buyer is waiting on no further action letter.
14141 Arbor Place Cerritos (Crown)	± 3.5 Acres	± 70,500 Sq. Ft.	Redevelopment.	Planned Class A light industrial building for lease.
12150 Altamar Place Santa Fe Springs	± 3 Acres	± 64,000 Sq. Ft.	Currently Available for sale.	Under Construction Class A light industrial building for sale.
9046-9102 Dice Road Santa Fe Springs (Marquez)	± 2.293 Acres	± 100,000 Sq. Ft.	Land acquired March 2016.	Planned two-building project, for sale.

Figure 9: Transactions

Occupier	Transaction Type	Location	Total Sq. Ft.
Tool Lots	Leased	16290 Shoemaker Ave, Cerritos	115,560
Packaging Corporation of America	Leased	11600 Los Nietos Rd, Santa Fe Springs	107,740
Apollo Apparel Group	Leased	6635 Caballero Blvd, Buena Park	92,395
Air & Water, Inc.	Leased	6600 Katella Ave, Cypress	82,433
Martinez Trucking	User Sale	13711 Freeway Dr, Santa Fe Springs	82,092

Source: CBRE Research, Q1 2016.

**DEFINITIONS**

**Average Asking Lease Rate:** Rate determined by multiplying the asking net lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary. **Net Leases:** Includes all lease types whereby the tenant pays an agreed rent plus most, or all, of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses. **Market Coverage:** Includes all competitive industrial buildings 10,000 sq. ft. and greater in size. **Net Absorption:** The change in occupied sq. ft. from one period to the next. **Net Rentable Area:** The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies, and stairwell areas. **Occupied Area (Sq. Ft.):** Building area not considered vacant. **Under Construction:** Buildings which have begun construction as evidenced by site excavation or foundation work. **Available**

**Area (Sq. Ft.):** Available Building Area which is either physically vacant or occupied. **Availability Rate:** Available Sq. ft. divided by the Net Rentable Area. **Vacant Area (Sq. Ft.):** Existing Building Area which is physically vacant or immediately available. **Vacancy Rate:** Vacant Building Feet divided by the Net Rentable Area. **Normalization:** Due to a reclassification of the market, the base, number and square footage of buildings of previous quarters have been adjusted to match the current base. Availability and Vacancy figures for those buildings have been adjusted in previous quarters.

**SURVEY CRITERIA**

Includes all industrial buildings 10,000 sq. ft. and greater in size in Los Angeles and Ventura counties. Buildings which have begun construction as evidenced by site excavation or foundation work.

**PROPERTY SPOTLIGHT**



**Goodman Logistics Center  
Santa Fe Springs**

12345 Lakeland Dr, Santa Fe Springs, CA

Goodman Logistics Center Santa Fe Springs is a planned, three building logistics campus totalling 1,210,800 s.f. and will be available Q4, 2016.



**1.6mi**  
to 5 Freeway



**10mi**  
to intermodal yard



**13mi**  
to City of Los Angeles



**18mi**  
to Port of Los Angeles / Long Beach



Laird Perkins  
laird.perkins@cbre.com  
T +1 310 363 4920

Dan Berkenfield  
dan.berkenfield@cbre.com  
T +1 714 371 9227



**INDUSTRIAL SALES PROFESSIONALS MID-COUNTIES OFFICE**

**Orange County Central Office**  
1100 Town & Country Rd., Suite 1200  
Orange, CA 92868  
+1 714 371 9200 • FAX +1 714 371 9201

**Josh Bonwell**  
First Vice President +1 714 371 9207

**Dan Berkenfield**  
Senior Associate +1 714 371 9227

**Steve Young**  
First Vice President +1 714 371 9217

**Santa Fe Springs Office**  
10350 Heritage Park Drive, Suite 100  
Santa Fe Springs, California 90670  
+1 562 946 1541 • FAX +1 562 946 4940

**John Biven**  
First Vice President +1 562 968 1150

**Chris Ehrlich**  
Senior Associate +1 562 968 1160

**South Bay Office**  
2221 Rosecrans Avenue, Suite 100  
El Segundo, CA 90245  
+1 310 363 4900 • FAX +1 310 363 4905

**Rick McGeagh**  
Senior Vice President +1 310 363 4878

**Laird Perkins**  
Senior Vice President +1 310 363 4920