

April 7, 2008

REAL ESTATE WATCH: THE MID-COUNTIES MARKET

By SAM CHU

The fourth quarter of 2007 saw an increase of activity in the Mid-Counties industrial market.

In the fourth quarter alone, the Mid-Counties submarket saw gross absorption of 2.1 million square feet, which accounted for 29% of year-to-date gross absorption (2007 total activity was 7.1 million square feet).

Absorption for the fourth quarter was up 7% from the third quarter of 2007.

Significant transactions contributed to the strong quarter include Kroger Co.'s 30-year lease of 551,879 square feet at Birtcher Development and Investment Co.'s Paramount Distribution Center for more than \$200 million; Kuehn & Nagel's lease of 366,542 square feet at Gateway Pointe in Whittier; Easy Life Furniture's sublease of 196,332 square feet at ProLogis' Mid-Counties Distribution Center in Buena Park; Marathon Distribution's lease of 146,640 square feet in Cerritos; and Solaris Paper lease of 109,000 square feet to expand its Mid-Counties presence to 310,000 square feet.

Last year's gross absorption was 7.1 million square feet, up 4% from 6.8 million square feet in 2006 yet well below the record levels in excess of 10 million square feet in 2004 and 2005.

Competition

Given the lack of inventory, prospective tenants and buyers continue to struggle to find available space, resulting in competition for the same buildings. This demand and lack of product continue to enable landlords to increase lease rates.

At year's end, both the availability rate and vacancy rate decreased slightly. The availability rate went from 4.7% in 2006 to 4% in 2007. The vacancy rate fell to a historic low of 1.1% as compared to 1.8% in 2006.

According to the American Association of Port Authorities and CB Richard Ellis Group Inc.'s Torto Wheaton Research Industrial Outlook, a slowdown in import growth rates due to flat or declining port traffic at many West Coast ports is anticipated. According to the Los Angeles Times, the velocity of imports from the ports of Long Beach and Los Angeles remained flat at 8.1 million containers in 2007. Both the Long Beach and Los Angeles ports account for about 40% of all container traffic in the U.S. and service the Southland industrial market, which consist of 1.5 billion square feet.

Coming Up

What can we expect in 2008?

Economic challenges resulting from the credit and housing crisis will continue to have a negative impact on consumer confidence. This may bring some challenges to our national and local industrial markets.

However, due to its central location, proximity to the ports of Long Beach and Los Angeles, modern functional industrial base and its clean safe environment, the Mid-Counties market will fair better than

most other industrial markets.

Historically low supply and being situated in an infill market will allow lease rates and sale prices to stabilize, thus enabling it to weather through this storm.

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