

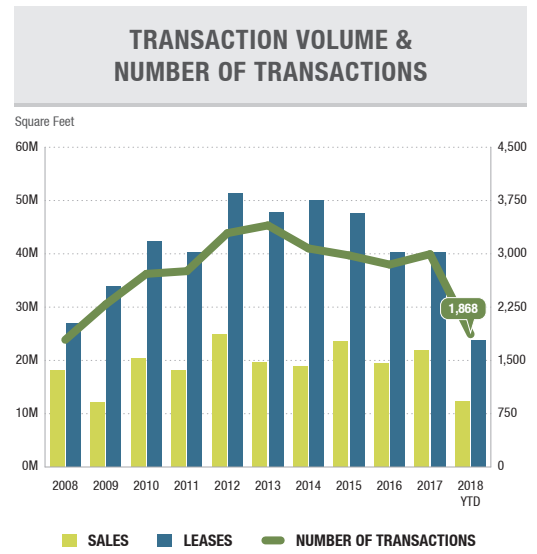
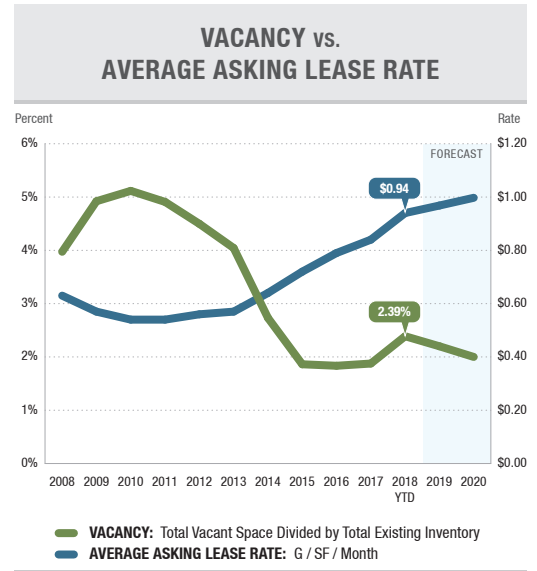
**MARKET OVERVIEW.** The Los Angeles industrial market continues to exhibit strong performance, as economic indicators and property market fundamentals remain positive. The Los Angeles industrial market saw vacancies decline and rental rates increase. Supply constraints continue to define this market and the tight market means tenants/ buyers have relatively few alternatives. As the Los Angeles economy is growing, demand for industrial properties is driving rents up and vacancies down. The overall vacancy rate for 3Q fell just less than a percentage point and monthly rents ticked up \$0.05 per square foot. The slight upward shift in occupancy was typical of the last several quarters. Leasing activity and absorption of empty space were strong in 3Q, indicating that the market is continuing to stabilize, and positive absorption is expected to continue throughout 2018.

**VACANCY.** Vacancy in the Los Angeles region was 2.39% at the end of 3Q 2018, down 14 basis points compared with the prior quarter, and up 43 basis points compared with the previous year. Landlords will continue to have leverage in this competitive market, resulting in higher lease rates and fewer concessions. As a tenant, limited choices will result in longer timeframes for expansion or relocation, and “off market” transactions will become more common.

**AVAILABILITY.** Marketed direct/ sublease space finished the quarter at 4.55%, up 13 basis points from the previous quarter and 26 basis points from a year ago. Many companies are taking the proactive step of offering their current space for sublease as they consider larger expansion opportunities.

**LEASE RATES.** Rental rates are rising so quickly that we are seeing a growing trend of active listings without an advertised rate. Rents have sustained solid year-over-year growth of over 10% for 18 straight quarters. Los Angeles industrial rents have been strong all year, with the average asking lease rate coming in now at \$0.94 IG per square foot per month, a \$0.05 per square foot increase from last quarter, and a \$0.14 per square foot increase when compared to the \$0.80 from a year ago (a 17.50% annual increase). While averages are tough to rely on in LA given the disparity between Class A options and older, functionally obsolete properties, expect this trend of strong rent growth to continue.

**TRANSACTION ACTIVITY.** Demand for quality distribution space in LA has slowed down, with 8.5 MSF total transactions (sale and lease), down from just over 14 MSF last quarter. With such a limited number of available options, the supply and demand imbalance continues to limit overall activity. With tenants moving in immediately upon delivery of the industrial center, vacancies have remained steadily low. The bulk of recent leasing activity has taken place at the Goodman Logistics Center.



### Market Statistics

	Change Over Last Quarter	3Q 2018	2Q 2018	3Q 2017	% Change Over Last Year
Vacancy Rate	▼ DOWN	2.39%	2.53%	1.96%	21.94%
Availability Rate	▲ UP	4.55%	4.42%	4.29%	6.06%
Average Asking Lease Rate	▲ UP	\$0.94	\$0.89	\$0.80	17.50%
Sale & Lease Transactions	▼ DOWN	8,588,091	14,127,251	15,164,024	(43.37%)
Gross Absorption	▲ UP	9,413,899	8,431,862	10,769,777	(12.59%)
Net Absorption	▲ POSITIVE	756,826	290,527	2,797,636	N/A

**OVERALL.** Vacancies will be at a cyclical low of 2% by year-end. Demand has historically been strong in Los Angeles because of its dense concentration of manufacturing, wholesale, and logistics operations. Rent growth has been robust and remain about 20% higher than the regional average. Land availability and traffic congestion limit construction of new buildings. Sales volume is starting to decline and the bulk of investment activity has been concentrated in the Arts District, where industrial inventory is rapidly being converted to creative office space, retail stores, and multifamily housing.

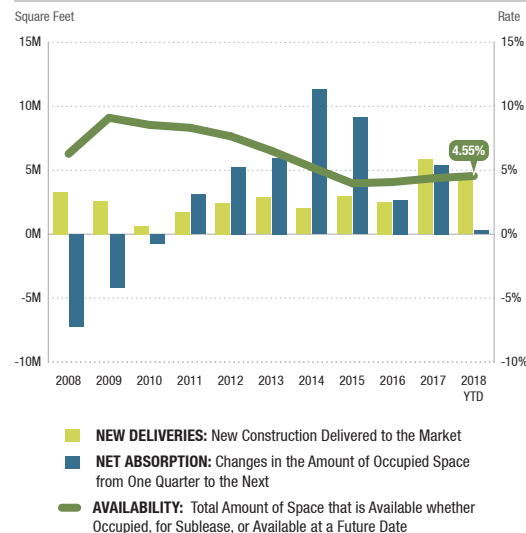
**LEASE RATES.** Expect lease rates to continue to climb, with the largest gains in newer, Class A product. We expect 6–10% annualized growth in the coming year.

**VACANCY.** While hard to predict a drop in an already low vacancy rate, we expect to see this figure continue to decrease based on current activity levels.

**CONSTRUCTION.** Bringing new product to Los Angeles is traditionally a challenge and one of the key reasons the nearby Inland Empire has evolved into one of the hottest industrial markets in the country. A scarcity of land able to be developed, and a laborious permitting process, tend to keep a lid on development even during periods of peak demand growth. Nonetheless, industrial construction continues to grow in Los Angeles into 3Q, with 36 buildings totaling 4.5 MSF completed year to date. Another 1.2 MSF of industrial product is currently under construction, 80% of which is actively marketed as available. The majority of this is speculative development.

**ABSORPTION.** The trend of positive net absorption for LA’s industrial market continues despite the drop in overall transaction volume due the lack of available product. During 3Q, 756,826 square feet was absorbed through leasing activity and user sales. In the third quarter, SimpleHuman, Inc. moved into 219,280 square feet in Long Beach, HD Supply moved into 147,521 square feet in Pomona, and US Pride Furniture moved into 115,000 square feet in City of Industry.

### NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



## Significant Transactions

### Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2310 E. Imperial Ave.	El Segundo	93,800	\$49,787,000	NantHealth	Tom Shapiro
5685 Alcoa Ave.	Los Angeles	116,450	\$24,515,000	Clarion Partners	Sandberg Family
1100 John Reed Ct.	City of Industry	109,730	\$17,150,000	Ta Chen International	Fan Family Trust
1223 E. 58th Pl.	Los Angeles	110,700	\$13,824,000	Equimax Management	Puckett Family Trust
13260 E. Amar Rd.	City of Industry	93,818	\$13,603,610	CenterPoint Properties	American Foam, Fiber & Supplies

### Leases

Property Address	Submarket	Square Feet	Lease Term	Buyer	Seller
1500 E. Glenn Curtiss St.	Carson	242,143	Sep-2018	Monogram	The Carson Companies
8700 Rex Rd.	Pico rivera	186,500	Jul-2018	Million Dollar Baby	Majestic Realty
15530 E. Salt Lake Ave.	City of Industry	115,000	Aug-2018	US Pride Furniture	Blackstone Group
4000 Noakes St.	Commerce	111,260	Sep-2018	Taylor Fresh Foods	Dedeaux Properties
18835 E. San Jose Ave.	City of Industry	100,100	Aug-2018	Jada Toys	Principal Real Estate



## Market Seeing Peak Value

by David Fults and Sean McDonald



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The Greater Los Angeles Industrial Market covers the area from the Port of Los Angeles / Long Beach to the county line in Pomona. It is an amazing 932 million square foot economic engine. It features everything from early 1900's small brick manufacturing plants to million square foot 2018 vintage state of the art distribution centers. Currently, that entire market is seeing peak values.

The vacancy rate for the whole market was 2.39% at the end of 3Q. That rate is very close to effectively being the lowest it can get. We've seen it dip below 2%, but we are generally at minimum vacancy. At the moment, the South Bay / Port submarket is boasting the lowest vacancy rate, at 1.76%. That means that about 98% of buildings are fully occupied.

Strong vacancy rates have put incredible pressure on lease rates. The average lease rate for the quarter was \$0.94 per square foot. That is up a whopping 17% from the 3Q 2017. With no sign of weakness in the market, we predict additional increases in the coming year.

Ninety-five buildings greater than 10,000 square feet sold in the quarter. Their prices ranged from \$91 to \$538 per square foot. The average was \$213 per square foot. That compares with 125 sales in the 3Q 2017 that averaged \$203 per square foot. Capitalization rates for industrial buildings sold during the quarter ranged from 4.4% to 6%. With interest rates rising, we are starting to see some pressure on the ultra-low cap rate deals, but investor demand is so strong that many sale prices haven't been materially affected yet.

The top sale for the quarter was NantHealth's purchase of the 93,800 square foot 2310 Imperial Hwy, El Segundo for \$50M or about \$530 per square foot. NantHealth is owned by billionaire Patrick Soon-Shiong. The top lease was aerospace manufacturer Monogram Systems' 242,143 square foot lease with The Carson Companies at 1500 Glenn Curtiss Street, Carson.

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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.

## Product Type

### MFG./DIST.

Manufacturing / Distribution / Warehouse facilities with up to 29.9% office space.

## Submarkets

### CENTRAL

Bell / Bell Gardens / Maywood, City of Commerce, Huntington Park / Cudahy, Downtown, Montebello / Monterey Park, Pico Rivera, South Gate, Vernon

### MID COUNTIES

Artesia / Cerritos, Bellflower / Downey, Buena Park / La Palma, La Mirada, Norwalk, Paramount, Santa Fe Springs, Whittier

### SAN GABRIEL VALLEY

Alhambra, Arcadia / Temple City, Azusa, Baldwin Park, City of Industry / DB / HH / RH, Covina / West Covina, Duarte, El Monte, Irwindale, La Puente, La Verne / San Dimas / Glendora, Monrovia, Pomona / Claremont, Rosemead / San Gabriel, South El Monte, Walnut

### SOUTH BAY

Carson, Compton, El Segundo, Gardena, Harbor City, Hawthorne, Inglewood, Lakewood / Hawaiian Gardens, Lawndale, Long Beach / Terminal Island, Lynwood, Rancho Dominguez, Redondo & Hermosa Beach, San Pedro, Signal Hill, Torrance, Wilmington