

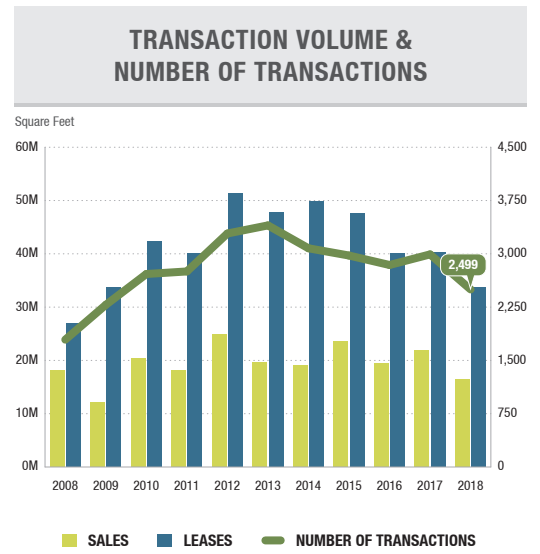
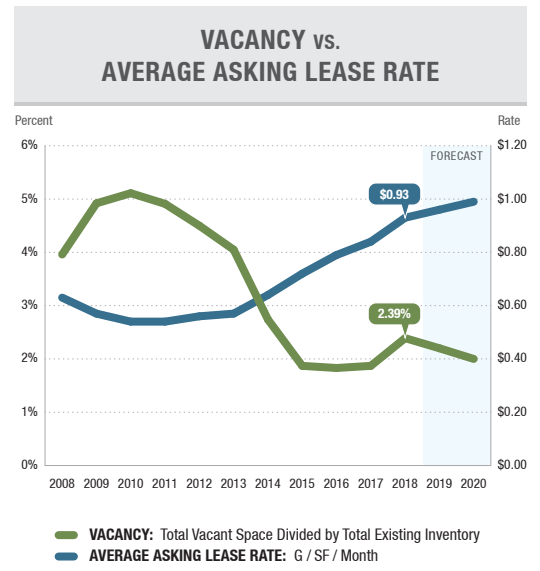
MARKET OVERVIEW. Demand has historically been strong in the Los Angeles industrial market because of its dense concentration of manufacturing, wholesale, and logistics operations. A few signs are pointing towards softening, but the overall fundamentals remain promising. Absorption was negative in the first two quarters of 2018, but the vacancy rate remains compressed at 2.39%. During the downturn, vacancies topped out at about 4.5% — demonstrating the submarket’s resilience even during the worst of times. Industrial development has been scarce in the submarket as land availability and traffic congestion limit construction of new buildings. The market experienced improved leasing activity during the second half of the year that more closely resembles the market’s performance throughout this cycle. Rents have also performed well, growing by an average annual rate of 10.3% over the past five years.

VACANCY. Vacancy in the Los Angeles region was 2.39% at the end of the fourth quarter of 2018, down 10 basis points compared with the prior quarter, and up 44 basis points compared to the previous year. The effect of supply constraints on this market cannot be overstated — with few developable sites, vacancy in Los Angeles remains among the lowest in the nation.

AVAILABILITY. Direct/sublease space being marketed in the fourth quarter is now at 4.14%, down 3.27% from the fourth quarter of 2017. Due to the difficulty in developing new, modern buildings, much of Los Angeles industrial inventory tends to be in properties that are smaller and older than might be considered normal for such a distribution market.

LEASE RATES. Rental rates are rising so quickly that we are seeing a growing trend of active listings without an advertised rate. Los Angeles industrial rents were healthy in 2018, with the average asking lease rate coming in at \$0.93 IG per square foot per month, a \$0.01 per square foot increase from last quarter, and a \$0.09 per square foot increase when compared to the \$0.84 from a year ago (a 10.71% 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. Leasing activity has picked up recently, after several large moveouts ruffled the market in the first half of 2018. Third-party logistics companies account for some of the largest leases signed recently. While leasing has come from a broad range of industries, the apparel industry appears to be making strides to regain its footprint in LA. Demand for quality distribution space in LA has slowed down, with 10.3 million square feet of total transactions (sale and lease), down from just over 11.9 million square feet last quarter. With such a limited number of available options, the supply and demand imbalance continues to limit overall activity.



Market Statistics

	Change Over Last Quarter	4Q 2018	3Q 2018	4Q 2017	% Change Over Last Year
Vacancy Rate	▼ DOWN	2.39%	2.49%	1.95%	22.56%
Availability Rate	▼ DOWN	4.14%	4.47%	4.28%	(3.27%)
Average Asking Lease Rate	▲ UP	\$0.93	\$0.92	\$0.84	10.71%
Sale & Lease Transactions	▼ DOWN	10,302,380	11,991,375	15,238,490	(32.39%)
Gross Absorption	▼ DOWN	8,863,229	9,327,965	10,731,974	(17.41%)
Net Absorption	▲ POSITIVE	1,662,692	784,031	2,803,473	N/A

OVERALL. LA is the primary point of entry for goods manufactured in Asia and shipped to the United States, and demand for its industrial space, and particularly logistics inventory, correlates with international trade trends. The ports of LA and Long Beach are expected to stay busy with imports from Asia; however, possible changes in trade policy with China and the expansion of the Panama Canal pose a threat to the market. Still, persistent industrial demand, coupled with the difficulty of bringing new industrial product to market, should ensure that LA fundamentals remain among the strongest in the nation.

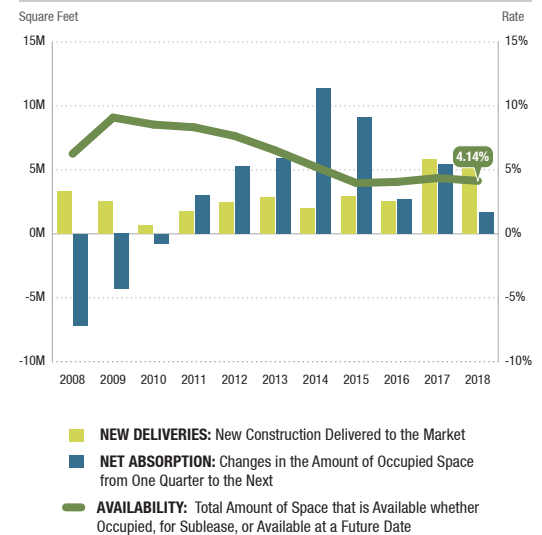
LEASE RATES. Expect lease rates to continue to climb, with the largest gains in newer, Class A product. We expect 6–10% annualized growth in the coming year.

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, and a laborious permitting process, tend to keep a lid on development even during periods of peak demand growth. Industrial construction in Los Angeles comprised 45 buildings totaling 5.34 million square feet completed in 2018. Another 3.49 million square feet of industrial product is currently under construction, 95% of which is actively marketed as available. The majority of this is speculative development.

ABSORPTION. As the U.S. sees ongoing economic expansion and businesses act to meet the rising demand for consumer goods, demand for industrial space is on the upswing. The Los Angeles industrial market boasts positive net absorption in the region. Net absorption posted 1,662,692 square feet in the fourth quarter of 2018. Primary contributors to this trend in the fourth quarter include: Damco-Maersk (989,809 square feet), Prompt Apparel (240,959 square feet) and Smurfit Kappa (120,000 square feet).

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
1 Minson Way	Montebello	282,000	\$38,200,000	Elite Lighting Corp.	Minson Corp
13344 S. Main St.	Los Angeles	256,000	\$35,735,000	Duke Realty Corporation	South Main Street, LLC
14505 E. Proctor Ave.	City of Industry	217,464	\$29,389,000	Global Logistic Properties	Sun Hing Foods
15025 Proctor Ave.	City of Industry	128,581	\$28,975,000	Liberty Property Trust	Soho Apparel Group, Inc.
6100 Sheila St.	City of Commerce	74,527	\$18,245,000	Rexford Industrial	The Guardian Life Ins of America

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
5804–5884 E. Slauson Ave.	City of Commerce	631,264	Dec-2018	Four Season General Merchandise	Clarion Partners
4350 Conant St.	Long Beach	140,430	Nov-2018	Spinlaunch, Inc.	DP3 SUB2, LLC
1452–1461 W. Knox St.	Torrance	130,826	Nov-2018	JR286, Inc.	Sunrider International
15700–15800 S. Main St.	Gardena	113,300	Nov-2018	Avid Warehouse	Fontana Sierra
368 Cheryl Ln.	City of Industry	109,448	Dec-2018	EP Family Corp.	PAC Operating LP



Finding Suitable Industrial Product to Purchase in Los Angeles

by **John Costa**

ASSOCIATE, LOS ANGELES

424.329.7505 · jcosta@voitco.com · Lic. #01940766

As we enter 2019, the demand to purchase distribution facilities in the Los Angeles Industrial market outweighs the supply because of several factors that sometimes go unnoticed.

The number of companies looking to locate in the Los Angeles Industrial market is huge, and finding a building in Los Angeles for an owner/user or company that intends to occupy the building is becoming more difficult because of the type of product available, lack of land for new construction, and the competition with large industrial investors. Many industrial buildings in Los Angeles were built between 1950 and 1975 and were developed to serve a manufacturing use with high power, low ceiling heights, and ground level doors. One difficulty many tenants and buyers are having in the Central and South Bay markets is finding a building that fits the modern needs of a company, e.g. dock high loading and a high ceiling with racking for storage.

Another factor making it difficult to find a functional building to purchase is that the majority of the product in Los Angeles that suits a distribution company's needs is already owned by investment companies that have no intention of selling soon. There are beautiful distribution facilities in Los Angeles, but you might only have the chance to tour them if you are interested in leasing.

There are techniques to combat the difficulties. Finding creative ways to make the older brick manufacturing building work for a company in need of an up-to-date distribution facility is becoming more necessary. Some options may include: digging truck wells to replace the ground level doors, raising ceiling heights, and demolishing portions of the building to create more yard area for a truck turning radius — all of which are important for distribution-related companies.

On the other hand, LA-based companies that own industrial property with excess land or buildings with older construction types have the opportunity to capitalize on the current land value by selling their property and consolidating into newer product in the Inland Empire and other nearby markets. This could ultimately suit the companies' needs in a more efficient way.

Please Contact Us for Further Information

Tony Tran
Regional Director of Research
ttran@voitco.com

Anaheim, CA
714.978.7880

Carlsbad, CA
760.517.4000

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Los Angeles, CA
424.329.7500

San Diego, CA
858.453.0505

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