LAQ4 24

FOURTH QUARTER 2024 MARKET REPORT

GREATER LOS ANGELES INDUSTRIAL

Voit REAL ESTATE SERVICES

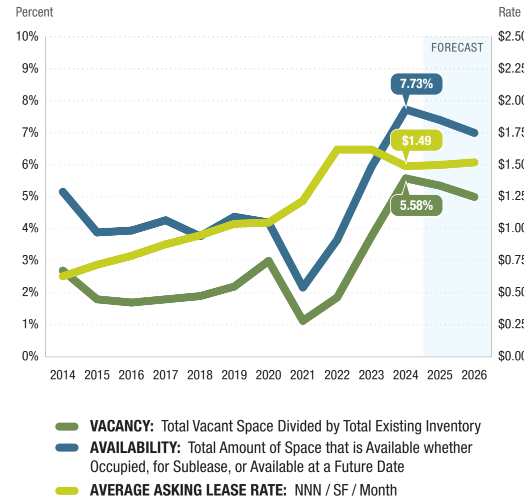
OVERVIEW. The Los Angeles industrial market softened somewhat in Q4 after an improved performance in Q3. Vacancy spiked again, net absorption moved further into negative territory, and average asking lease rates were lower. Transaction volume by square footage and transaction count both suffered declines. The spread between asking and effective rates widened due to an increase in tenant concessions. Uncertainty over the election results put a damper on active lease requirements, but tenant interest revived once the results were in and prospects for an extension of key provisions of the Tax Cuts & Jobs Act improved. Time on market for landlords was still a problem and the thin supply of quality properties offered for sale kept prices high for would-be buyers. Persistently high interest rates were a problem for potential owner / users despite the Fed lowering its benchmark Fed Funds Rate three times in the last four months of the year.

VACANCY & AVAILABILITY. Vacancy spiked again in Q4 after coming in relatively flat in Q3. The quarter saw a 29-basis-point rise to 5.58%. In the past year, vacancy has risen by 181 basis points, or 48%. Time on market remains a big problem, as inventory is accumulating, reducing the sense of urgency for tenants to sign leases on properties that don't check all the boxes. They are also getting much more aggressive in negotiations, which has kept concessions elevated. Inventory for sale remains thin, as existing owner/users are staying put over reluctance to give up their low-rate fixed mortgages to exchange into alternate facilities with higher borrowing costs. The availability rate, which includes space offered for sale or lease while still occupied, rose just 10 basis points to 7.73% in Q4.

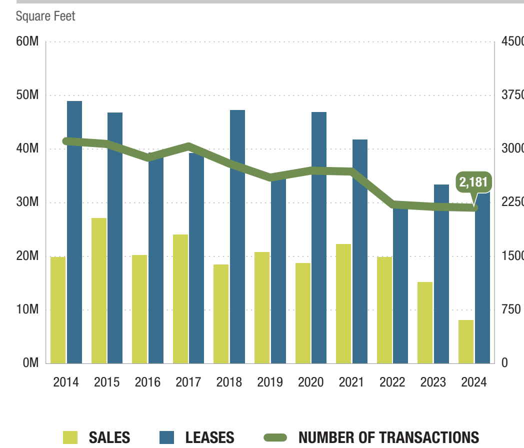
LEASE RATES. The average lease rate slid again in the final quarter, losing another $0.02 to finish the year at $1.49. Year over year, asking rents are down by over 14%. While this is a significant decrease and of serious concern to area landlords, it comes on the heels of a more than doubling of rents over a decade ending in late 2022. During that time, many properties were offered without asking rates to encourage competitive bidding from multiple tenants in low-vacancy market conditions. Now that vacancy has moved above 5% and there are fewer active requirements, tenants have become more cautious and discerning regarding their choice of space. Concessions came back into play starting in 2022, but asking rents were relatively unchanged until early 2024 when time on market crept higher and landlords became more aggressive.

TRANSACTION ACTIVITY. Transaction activity by square footage fell sharply in Q4 after rebounding in Q3. Lease and sale activity fell from 12,020,938 SF in Q3 to 9,007,862 SF in Q4. Leasing activity accounted for all of the loss, ending the period at 6,519,078 SF, down from 9,876,591 SF in Q3. The total number of sale and lease transactions ended the period at 457, down from 582 in Q3. Again, it was leasing action that took the hit. Transaction count fell to 385 from 489 in Q3. Sale transaction volume also declined, but square footage sold was up. In all, 72 sales were closed, down from 93 in Q3, but total square footage sold rose to 2,488,784 from 2,144,147 SF in Q3. Rising mortgage interest rates, now in the low 6% range, are impacting owner-user commercial property markets.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

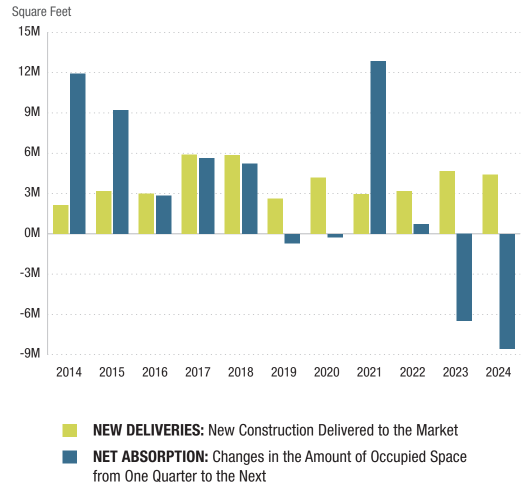
	Change Over Last Quarter	Q4 2024	Q3 2024	Q4 2023	% Change Over Last Year
Vacancy Rate	UP	5.58%	5.29%	3.77%	48.13%
Availability Rate	UP	7.73%	7.63%	5.94%	30.12%
Average Asking Lease Rate	DOWN	$1.49	$1.51	$1.74	(14.37%)
Sale & Lease Transactions	DOWN	9,007,862	12,020,938	10,849,729	(16.98%)
Gross Absorption	DOWN	9,722,698	11,032,535	10,135,574	(4.07%)
Net Absorption	NEGATIVE	(815,292)	(778,339)	(414,935)	N/A

ABSORPTION. Net absorption, the difference in total occupied space between periods, moved even further into negative territory in Q4. The net loss came in at 815,292 SF, up from 778,339 SF in the third period. For the year, the Los Angeles region that we track posted negative net absorption of over 8.5 MSF on a base inventory of almost 752 MSF. Net absorption is the primary metric used to determine overall business growth or contraction. As the year ended, it remained clear that area business owners are reluctant to make big moves on space. Throughout the year, they became increasingly cautious about committing themselves to long-term leases or acquisitions, and that was exacerbated by the uncertainty associated with the national election in early November.

CONSTRUCTION. New construction fell slightly to 3,175,780 SF in Q4 from 3,445,802 in Q3. Buildings were delivered in Los Angeles Downtown and in Buena Park / La Palma, while the cities of Carson and Whittier saw significant new starts. Planned space fell from 6.7 MSF in Q3 to just 3.3 MSF in Q4 primarily due to reductions in planned projects in Irwindale, Pomona, Carson and Torrance. Interest rates are still too high for many developers to access capital to bring new projects out of the ground, and rent growth that was heading sharply higher every year for over a decade has flattened out.

EMPLOYMENT. The Los Angeles County unemployment rate rose to 6.0% in November 2024, a slight increase from 5.9% in October 2024 and a more significant rise from 5.3% in November 2023. The Transportation and Warehousing sector experienced significant growth, adding 3,200 jobs, likely driven by increased e-commerce activity and demand for logistics services. Construction contracted by 3,400 jobs mainly due to a decline in specialty trade contractors (down 2,400).

NEW DELIVERIES & NET ABSORPTION



Forecast

The Los Angeles industrial market lacks clear direction as we head into 2025. The last few quarters have delivered mixed results. Rent growth has stalled and time on market for available lease product has gone up, but there is still enough demand to clear the inventory held by landlords who are patient enough and willing to offer significant concessions to qualified tenants. Acquisitions have been and will remain a major challenge. Mortgage interest rates are back above 6% again after dipping into the mid-5% range at the end of Q3. However, now that election uncertainty is in the rearview mirror, we expect to see more active requirements in circulation, especially if it becomes clear that key provisions of the Tax Cuts & Jobs Act of 2017 will be extended beyond their December 31, 2025 sunset date.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2501 Rosecran Ave.	Los Angeles	300,217	$137,200,000	Rexford Industrial Realty, Inc.	Inland Empire Holdco LLC
918 S. Stimson Ave.	City of Industry	282,377	$59,900,000	Ardmore Home Designs	LBA Logistics
18500 Crenshaw Blvd.	Torrance	180,269	$55,000,000	Lift Partners	Mitzel Law Group PLC
2550 El Presidio St.	Carson	130,055	$45,000,000	Vista Bella LP	Agron, Inc.
15914 S. Avalon Blvd.	Compton	75,431	$35,000,000	Access Services	Empuja Descanando LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
151 Marcellin Dr.	City of Industry	606,480	Nov-2024	Win.IT America	Majestic Realty Co
13000 Temple Ave.	City of Industry	407,638	Nov-2024	Sunny Distributor	Blackstone Inc.
2100 Yates Ave.	Motebello	374,370	Dec-2024	Source Logistics	Prologis
9306 Sorenson Ave. - Renewal	Santa Fe Springs	305,422	Oct-2024	Westco Distribution	Shopcare Properties
24760 Main St.	Carson	231,008	Oct-2024	DCW Logistics	Prologis

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q4 2024	Square Feet Available	Availability Rate Q4 2024	Average Asking Lease Rate	Net Absorption Q4 2024	Net Absorption 2024	Gross Absorption Q4 2024	Gross Absorption 2024
Central													
Bell/Bell Gardens/Maywood	203	7,566,730	0	0	362,513	4.79%	527,784	6.98%	$1.77	(4,664)	(92,691)	25,370	220,611
City of Commerce	740	46,332,370	47,052	0	3,011,653	6.50%	5,232,653	11.29%	$1.12	(483,993)	(1,934,896)	764,965	2,196,935
Huntington Park/Cudahy	197	4,830,868	0	0	224,503	4.65%	453,926	9.40%	$0.82	(42,537)	(97,914)	0	276,115
Downtown	5,066	124,669,074	5,825	199,014	6,722,136	5.39%	8,745,978	7.02%	$1.69	120,459	(1,245,949)	1,237,459	5,809,373
Montebello/Monterey Park	317	11,932,276	0	0	727,125	6.09%	1,046,050	8.77%	$1.77	109,814	(169,594)	242,355	711,954
Pico Rivera	197	10,291,216	0	0	754,469	7.33%	905,933	8.80%	$1.31	(171,934)	(585,909)	20,767	687,454
South Gate	231	9,793,140	0	550,000	324,196	3.31%	715,031	7.30%	$1.41	14,400	(155,964)	47,180	187,102
Vernon	804	45,232,326	0	86,748	2,606,283	5.76%	3,801,138	8.40%	$1.26	161,738	281,345	785,285	3,154,672
Total	7,755	260,648,000	52,877	835,762	14,732,878	5.65%	21,428,493	8.22%	$1.37	(296,717)	(4,001,572)	3,123,381	13,244,216
Mid Counties													
Artesia/Cerritos	277	13,127,920	0	0	867,108	6.61%	1,314,111	10.01%	$1.18	(18,514)	(443,347)	169,330	887,443
Bellflower/Downey	211	5,743,791	0	0	169,989	2.96%	214,543	3.74%	$1.08	35,271	42,376	38,537	372,349
Buena Park/La Palma	234	14,932,019	0	0	1,704,139	11.41%	1,908,373	12.78%	$1.64	(55,983)	(703,581)	35,047	334,901
La Mirada	178	13,218,178	0	0	1,051,500	7.95%	1,391,019	10.52%	$1.54	(94,672)	(29,048)	56,693	787,002
Norwalk	91	2,924,525	0	0	75,764	2.59%	142,764	4.88%	$1.49	16,660	12,495	31,560	58,788
Paramount	417	9,311,394	0	0	220,564	2.37%	419,418	4.50%	$1.21	(34,685)	(192,748)	95,050	302,793
Santa Fe Springs	1,351	54,204,888	488,203	78,417	2,822,868	5.21%	4,750,857	8.76%	$1.64	(24,679)	(1,213,488)	657,958	2,580,453
Whittier	163	4,205,451	292,303	0	261,403	6.22%	327,584	7.79%	$1.30	(45,811)	(324,830)	16,336	114,407
Total	2,922	117,668,166	780,506	78,417	7,173,335	6.10%	10,468,669	8.90%	$1.50	(222,413)	(2,852,171)	1,100,511	5,438,136
San Gabriel Valley													
Alhambra	112	2,154,610	0	0	63,023	2.93%	76,437	3.55%	$1.49	23,186	12,587	51,305	109,614
Arcadia/Temple City	143	3,174,139	0	0	193,254	6.09%	217,513	6.85%	$1.52	(53,435)	(101,691)	4,400	118,608
Azusa	252	6,942,647	0	0	614,358	8.85%	777,291	11.20%	$1.41	(56,873)	(170,393)	29,930	277,487
Baldwin Park	251	5,295,235	0	0	184,474	3.48%	272,469	5.15%	$1.49	32,419	69,570	46,518	281,456
City of Industry/DB/HH/RH	1,111	78,152,824	58,500	532,845	5,118,983	6.55%	5,525,585	7.07%	$1.62	948,893	1,265,534	2,591,524	6,636,553
Covina/West Covina	186	3,567,440	0	0	108,142	3.03%	324,480	9.10%	$1.27	(33,432)	(32,428)	12,288	106,450
Duarte	70	1,798,317	0	0	145,723	8.10%	87,163	4.85%	$0.00	(8,822)	(77,977)	10,446	70,161
El Monte	319	9,065,801	0	0	366,947	4.05%	336,429	3.71%	$0.99	(84,041)	119,741	41,622	609,075
Irwindale	263	13,261,939	129,619	496,306	930,008	7.01%	953,581	7.19%	$1.41	66,078	243,462	200,583	844,670
La Puente	95	1,951,505	0	0	18,270	0.94%	52,338	2.68%	$0.00	(4,500)	(7,433)	2,000	25,064
La Verne/San Dimas/Glendora	307	6,743,323	0	30,980	268,663	3.98%	480,952	7.13%	$1.38	37,845	26,950	102,751	357,629
Monrovia	207	3,401,913	0	0	122,221	3.59%	222,938	6.55%	$1.75	(29,152)	(47,628)	5,000	98,973
Pomona/Claremont	674	20,627,907	0	0	1,246,865	6.04%	1,603,097	7.77%	$1.05	(439,748)	(716,888)	155,266	698,690
Rosemead/San Gabriel	121	2,226,029	0	0	38,024	1.71%	64,742	2.91%	$1.24	19,432	80,063	19,432	174,725
South El Monte	841	11,198,075	0	0	239,760	2.14%	255,368	2.28%	$1.48	36,267	(3,997)	149,192	470,573
Walnut	208	7,203,096	0	0	696,893	9.67%	897,228	12.46%	$1.30	(8,768)	41,972	96,130	836,098
Total	5,160	176,764,800	188,119	1,060,131	10,355,608	5.86%	12,147,611	6.87%	$1.45	445,349	701,444	3,518,387	11,715,826
South Bay													
Carson	496	36,009,388	429,112	0	1,753,150	4.87%	2,377,179	6.60%	$1.68	(117,096)	67,654	423,848	1,687,853
Compton	481	25,160,289	128,822	0	1,190,716	4.73%	2,482,796	9.87%	$1.46	169,568	(714,360)	154,956	697,102
El Segundo	155	7,642,343	0	0	155,995	2.04%	239,259	3.13%	$2.47	(98,193)	(96,095)	2,042	121,490
Gardena	1,176	29,068,975	535,331	234,765	1,274,987	4.39%	1,947,873	6.70%	$1.61	(47,112)	(840,436)	356,061	1,053,361
Harbor City	96	1,801,758	0	0	6,628	0.37%	73,628	4.09%	$0.75	70,268	92,944	110,648	163,048
Hawthorne	223	8,229,323	31,378	48,080	258,209	3.14%	347,622	4.22%	$1.77	11,691	(55,825)	90,736	256,488
Inglewood	234	4,798,468	0	215,455	291,271	6.07%	266,659	5.56%	$1.46	(11,503)	(185,744)	44,180	188,788
Lakewood/Hawaiian Gardens	24	538,131	0	0	7,649	1.42%	7,649	1.42%	$0.00	(7,649)	(9,499)	0	0
Lawndale	30	268,126	0	0	21,370	7.97%	21,370	7.97%	$0.00	0	(19,370)	0	11,000
Long Beach/Terminal Island	753	23,521,872	869,342	547,530	1,281,421	5.45%	1,607,452	6.83%	$1.73	24,150	(222,021)	236,567	925,953
Lynwood	98	4,372,764	0	0	72,400	1.66%	483,192	11.05%	$1.46	8,304	(22,100)	54,895	70,578
Rancho Dominguez	232	14,259,921	76,553	0	1,015,859	7.12%	1,263,076	8.86%	$1.51	(332,916)	(573,538)	193,253	1,385,494
Redondo & Hermosa Beach	34	1,741,633	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
San Pedro	45	2,770,703	0	0	393,153	14.19%	413,153	14.91%	$0.00	(17,500)	(328,928)	0	27,471
Signal Hill	209	3,061,038	0	0	111,643	3.65%	135,848	4.44%	$1.41	(7,350)	(69,244)	32,569	88,221
Torrance	635	29,399,578	83,740	323,232	1,782,760	6.06%	2,352,160	8.00%	$1.97	(368,024)	581,601	271,094	1,168,535
Wilmington	151	4,109,311	0	0	46,333	1.13%	73,492	1.79%	$1.49	(18,149)	(8,221)	9,570	105,062
Total	5,072	196,753,621	2,154,278	1,369,062	9,663,544	4.91%	14,092,408	7.16%	$1.66	(741,511)	(2,403,182)	1,980,419	7,950,444
Los Angeles Total	**20,909**	**751,834,587**	**3,175,780**	**3,343,372**	**41,937,601**	**5.58%**	**58,137,181**	**7.73%**	**$1.49**	**(815,292)**	**(8,555,481)**	**9,722,698**	**38,348,622**
5,000-24,999	13,687	166,085,160	5,825	39,958	6,553,527	3.95%	8,619,452	5.19%	$1.68	64,041	(1,350,864)	1,830,427	8,038,636
25,000-49,999	3,609	125,697,085	78,430	166,541	5,184,971	4.12%	7,979,606	6.35%	$1.41	(37,462)	29,751	1,768,790	7,059,238
50,000-99,999	1,993	135,995,612	337,814	325,024	7,321,767	5.38%	11,674,019	8.58%	$1.51	198,625	(1,136,225)	2,294,132	7,321,653
100,000-249,999	1,285	190,954,550	1,527,486	1,964,045	13,616,514	7.13%	18,615,884	9.75%	$1.48	(781,112)	(4,502,003)	1,714,680	9,119,124
250,000-499,999	271	87,553,765	721,415	297,804	5,757,598	6.58%	6,802,387	7.77%	$1.98	647,227	(330,301)	1,419,605	5,745,838
500,000 plus	64	45,548,415	504,810	550,000	3,503,224	7.69%	4,445,833	9.76%	$0.00	(906,611)	(1,265,839)	695,064	1,064,133
Los Angeles Total	**20,909**	**751,834,587**	**3,175,780**	**3,343,372**	**41,937,601**	**5.58%**	**58,137,181**	**7.73%**	**$1.49**	**(815,292)**	**(8,555,481)**	**9,722,698**	**38,348,622**

This survey consists of buildings greater than 5,000 square feet. Lease rates are on a triple-net basis.

What Goes Up, Must… (You Know the Rest)

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The Los Angeles industrial real estate market is clearly experiencing a major downturn in the post-COVID era. However, this downturn isn't exclusive to the LA market. Nearby Inland Empire and Orange County markets are also experiencing their own rough waters, with the former going through a much more pronounced downturn than either the LA or Orange County markets. Looking back to pre-COVID, however, reveals a significantly different picture. The industrial real estate market was arguably very healthy, having experienced several years of strong rent and value growth. At the end of 2019, the vacancy rate for the LA industrial market was trending around 2.39%, the average asking rate was around $0.93 PSF, and the average sale price was around $205 PSF.

The above 2019 figures for LA County clearly indicate significant appreciation in lease rates and sale prices since that time period. If we go back even further to 2015 when rents were trending in the $0.75 PSF range and sale prices were approximately $125 PSF, we see more evidence of strong growth over the last nine years! Despite this growth, the market currently feels like it's in a major downturn. Comparing today's market to the conditions prevalent from late 2020 through the end of 2022 confirms this feeling. Perspective is key.

While the long-term perspective offers some optimism, recent data from CoStar paints a more concerning picture for LA County. Net absorption has been negative for 11 consecutive quarters, indicating an oversupply of space. Additionally, 37% of the 11 MSF of new construction completed in 2023 remains vacant, and another 5.6 MSF is still under construction. Takeaway: the market will need consecutive quarters of positive absorption to recover. How do we accomplish this? A lot of landlords, particularly institutional ones who control a big portion of the product, may need to reset their asking rates. Some landlords try to offset high asking rents by offering tenant concessions such as multiple free months of rent or teaser rates in the first 12–24 months of the lease. This can be effective with certain tenants, but in many cases the tenants who are in the market are more concerned with, "What's my real estate overhead going to be after the concessions expire?"

Looking ahead into 2025, there will likely be continued softness in the LA industrial real estate market for at least the first two quarters. These conditions will present opportunities for tenants to secure their real estate needs at attractive terms. For landlords, low-priced asking rates and free rent will likely be the main drivers of generating activity/deals for the foreseeable future.

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

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