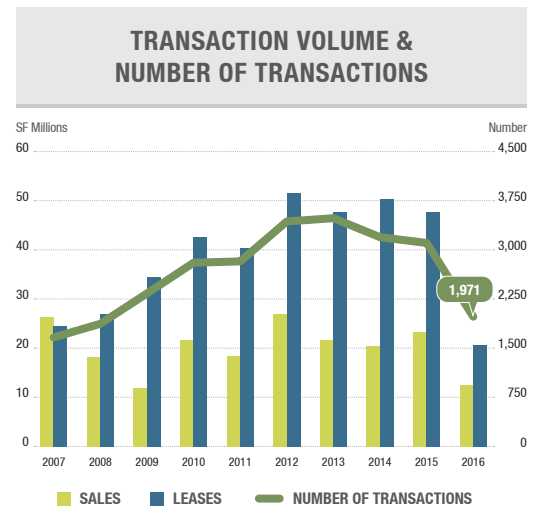
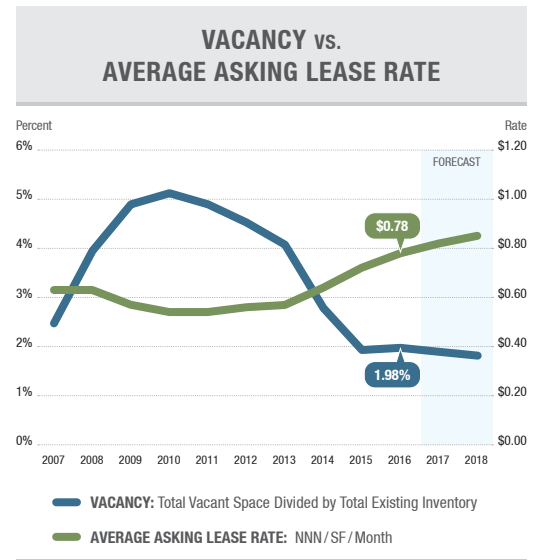


POSITIVE MOMENTUM CONTINUES. The Los Angeles industrial market continues to be one of the most desirable, and therefore tightest, markets in the country. Driven primarily by the Ports of LA/Long Beach, logistics and e-commerce operators compete with one another for the very few available options in a nearly 720 million square foot base. With the lowest vacancy rate in the country (approximately 1.98%) and among the highest industrial rents, companies looking to expand are now being forced to seek alternatives further east in the Inland Empire, where modern buildings are available at substantially lower rents.

VACANCY. Los Angeles finished the quarter with one of the lowest vacancy rates in the nation at 1.98%, down from an already low 2.04% in the second quarter. 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.

LEASE RATES. The average asking lease rate came in at \$0.78 IG per square foot per month, a two cent per square foot increase from last quarter and a seven cent per square foot increase when compared to the \$0.71 from a year ago (a 9.86% 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 will has not slowed down. The third Quarter is no exception as 10.11 million square feet of total transactions (Sale and Lease) took place, down from just over 12 million last quarter. With such a limited number of available options, the supply and demand imbalance continues to limit overall activity. Notable activity this quarter includes UPS leasing 520,000 square feet in Compton (Brickyard; \$44 million lease), American Cargo Express, Inc. leasing 220,000 square feet in Cerritos and Beston Shoes taking over 150,000 square feet in City of Industry.



Market Statistics

	Change Over Last Quarter	3Q 2016	2Q 2016	3Q 2015	% Change Over Last Year
Vacancy Rate	▼ DOWN	1.98%	2.04%	2.36%	-16.10%
Availability Rate	▲ UP	3.95%	3.84%	4.21%	-6.18%
Average Asking Lease Rate	▲ UP	\$0.78	\$0.76	\$0.71	9.86%
Sale & Lease Transactions	▼ DOWN	10,112,818	12,478,881	17,277,348	-41.47%
Gross Absorption	▲ UP	8,974,910	7,484,791	10,647,888	-15.71%
Net Absorption	▲ POSITIVE	604,336	1,014,482	2,423,967	N/A

OVERALL. The Los Angeles industrial market is well positioned for continued growth as e-commerce further impacts consumer buying patterns and the regional distribution of goods. Proximity to the ports and direct access to one of the largest population centers in the country are huge strategic advantages. Los Angeles will continue to be among the tightest industrial markets in the United States, resulting in steady rent growth.

CONSTRUCTION. A majority of construction in this market will take the form of repositioning older assets by removing portions of the facility to improve truck maneuverability. The limited new construction will be focused on large, state-of-the-art distribution centers (200,000 square feet and above).

LEASE RATES. Expect lease rates to continue to climb, with the largest gains in newer, Class A product. Asking rates are already past their previous 2007–2008 peak and we expect 6–10% annualized growth in the coming year.

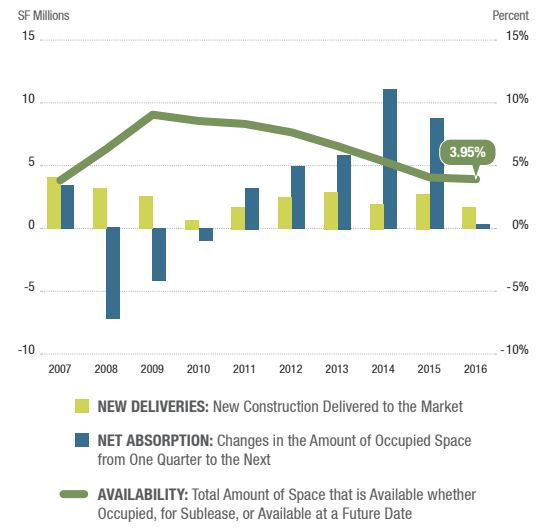
VACANCY. While hard to predict a drop in an already low 1.98% vacancy rate, we expect to see this figure decrease approximately 10 basis points, to around 1.88% by the end of the second quarter of 2017, based on current activity levels.

CONSTRUCTION. While opportunities are scarce given the lack of available land, submarkets like the South Bay are quite active, with 11 buildings totaling just over 2.3 million square feet currently underway on a spec basis. In total, more than 4.95 million square feet is under construction in Los Angeles’s industrial market, a majority of it catering to larger distributors (200,000 SF and larger).

AVAILABILITY. Direct/sublease space being marketed finished the quarter at 3.95%, up 11 basis points from the previous quarter and down 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.

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 the third quarter, 604,336 square feet was absorbed through leasing activity and user sales. In third quarter, TJ Maxx moved into 457,960 square feet in Compton, 4PX moved into 361,435 square feet in Commerce, and Space X moved into 244,200 square feet in Hawthorne.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

* Land Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
20333 S. Normandie Ave. *	Torrance	885,435	\$43,000,000	Bridge Development Partners, LLC	Farmer Brothers Coffee
3820 Union Pacific Ave. *	Los Angeles	703,106	\$30,038,000	REDA	99 Cents Only Store, LLC
13110 Loudon Ln.	City of Industry	168,000	\$29,000,160	PNC	CT Realty Investors
14585 Industry Cir.	La Mirada	203,850	\$24,462,000	IDI Gazeley	TA Associates
2800 Casitas Ave.	Los Angeles	117,000	\$22,000,000	Pan Am Equities, Inc.	TD Investment Company

Leases

** Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1430 S. McKinley Ave.	Compton	528,000	Sep-2016	UPS	Trammell Crow
2201 E. Carson St. – Renewal	Carson	521,856	Aug-2016	Sony Electronics, Inc.	Morgan Standley & Co., Inc.
2701–2705 W. El Segundo Blvd.	Hawthorne	244,200	Jul-2016	Space X	Karney Management Company
15927 Distribution Way	Cerritos	220,000	Jul-2016	American Cargo Express, Inc.	GLP US Management, LLC
2652 Long Beach Ave.	Los Angeles	149,738	Sep-2016	Worldwide Produce	CREF LA Food LLC **

	INVENTORY			VACANCY & LEASE RATES						ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2016	Square Feet Available	Availability Rate 3Q2016	Average Asking Lease Rate	Net Absorption 3Q2016	Net Absorption 2016	Gross Absorption 3Q2016	Gross Absorption 2016
Central													
Bell/Bell Gardens/Maywood	192	6,878,942	0	534,000	188,666	2.74%	245,952	3.58%	\$0.85	143,166	31,900	160,926	229,095
City of Commerce	727	45,042,377	40,000	304,432	1,016,861	2.26%	1,495,105	3.32%	\$0.67	57,821	141,096	697,446	1,744,490
Huntington Park/Cudahy	195	4,587,584	0	226,000	126,142	2.75%	326,584	7.12%	\$0.69	22,780	(22,428)	58,500	72,674
Downtown	5,163	133,210,292	0	141,635	3,988,007	2.99%	7,110,692	5.34%	\$0.92	(256,224)	(540,240)	1,305,803	3,917,714
Montebello/Monterey Park	306	11,552,774	113,634	0	189,660	1.64%	391,805	3.39%	\$0.70	25,922	(58,183)	62,026	271,155
Pico Rivera	200	10,195,552	0	113,894	105,100	1.03%	240,706	2.36%	\$0.68	45,932	(18,529)	121,577	219,718
South Gate	227	10,281,005	0	116,425	148,919	1.45%	157,895	1.54%	\$0.00	(88,036)	(98,194)	36,000	74,242
Vernon	740	39,694,600	586,818	207,584	1,220,115	3.07%	2,573,275	6.48%	\$0.59	232,007	114,505	846,751	1,717,746
Total	7,750	261,443,126	740,452	1,643,970	6,983,470	2.67%	12,542,014	4.80%	\$0.79	183,368	(450,073)	3,289,029	8,246,834
Mid Counties													
Artesia/Cerritos	276	13,093,517	0	0	324,699	2.48%	585,986	4.48%	\$0.65	(346)	126,039	447,983	776,725
Bellflower/Downey	190	5,552,770	0	0	74,982	1.35%	122,948	2.21%	\$1.02	14,694	(43,987)	58,751	112,774
Buena Park/La Palma	231	15,261,660	0	0	139,921	0.92%	483,197	3.17%	\$0.89	127,589	123,194	149,984	375,667
La Mirada	181	12,315,987	199,588	0	80,944	0.66%	723,907	5.88%	\$0.68	20,882	(233,629)	171,771	441,275
Norwalk	85	2,940,339	0	0	29,756	1.01%	12,612	0.43%	\$0.82	(25,528)	(3,941)	960	28,120
Paramount	371	8,701,678	0	5,187	42,680	0.49%	248,477	2.86%	\$0.74	12,211	34,856	55,295	140,700
Santa Fe Springs	1,321	50,794,955	64,895	1,886,270	649,791	1.28%	1,220,778	2.40%	\$0.80	(123,160)	(375,598)	380,396	1,497,622
Whittier	166	3,897,995	0	0	90,083	2.31%	128,906	3.31%	\$0.74	7,585	(54,210)	122,772	157,633
Total	2,821	112,558,901	264,483	1,891,457	1,432,856	1.27%	3,526,811	3.13%	\$0.72	33,927	(427,276)	1,387,912	3,530,516
San Gabriel Valley													
Alhambra	113	2,240,778	0	0	0	0.00%	5,800	0.26%	\$1.00	23,000	31,355	25,800	72,781
Arcadia/Temple City	133	1,979,918	0	2,434,100	47,061	2.38%	47,061	2.38%	\$0.79	(9,689)	2,208	17,680	64,782
Azusa	225	5,276,728	185,273	0	130,121	2.47%	174,159	3.30%	\$0.89	(29,370)	(72,101)	60,666	156,500
Baldwin Park	234	4,412,927	0	109,507	19,575	0.44%	122,799	2.78%	\$0.83	13,469	14,460	23,009	48,341
City of Industry/DB/HH/RH	1,074	69,868,682	660,051	1,254,148	1,172,980	1.68%	2,798,778	4.01%	\$0.78	(143,665)	(471,528)	660,106	1,891,408
Covina/West Covina	170	3,037,135	0	0	84,750	2.79%	238,354	7.85%	\$0.78	59,232	38,032	72,010	78,060
Duarte	71	1,766,002	0	0	5,432	0.31%	9,916	0.56%	\$0.85	3,899	650	7,579	26,266
El Monte	300	8,544,567	0	2,366,966	817,299	9.57%	773,618	9.05%	\$0.95	193,900	236,961	244,734	364,890
Irwindale	252	10,914,036	0	638,290	225,110	2.06%	295,476	2.71%	\$0.95	(122,659)	74,467	8,180	394,327
La Puente	97	2,231,214	0	0	26,701	1.20%	30,703	1.38%	\$0.81	189,344	217,087	196,409	289,375
La Verne/San Dimas/Glendora	314	6,631,430	0	387,842	79,178	1.19%	174,764	2.64%	\$0.85	35,059	80,046	40,999	190,174
Monrovia	202	3,325,678	0	0	59,564	1.79%	61,923	1.86%	\$0.61	(13,391)	49,075	45,573	196,777
Pomona/Clermont	650	19,296,750	631,178	593,653	291,021	1.51%	436,335	2.26%	\$0.78	99,387	54,079	189,767	452,529
Rosemead/San Gabriel	112	2,089,030	0	0	25,963	1.24%	85,582	4.10%	\$1.09	(9,662)	(10,974)	16,679	19,557
South El Monte	759	10,288,086	0	0	66,068	0.64%	127,587	1.24%	\$0.92	16,811	28,974	90,069	307,629
Walnut	200	6,847,324	0	37,648	106,618	1.56%	136,492	1.99%	\$0.96	7,986	(45,507)	63,620	483,453
Total	4,906	158,750,285	1,476,502	7,822,154	3,157,441	1.99%	5,519,347	3.48%	\$0.80	313,651	227,284	1,762,880	5,036,849
South Bay													
Carson	501	34,178,428	366,052	285,610	335,766	0.98%	1,509,917	4.42%	\$0.75	(151,663)	173,689	1,011,523	1,869,940
Compton	451	23,492,501	1,141,395	0	321,449	1.37%	986,431	4.20%	\$0.70	382,248	599,436	503,631	926,510
El Segundo	185	10,246,140	0	101,874	131,503	1.28%	308,684	3.01%	\$1.50	(19,268)	(55,070)	33,702	39,702
Gardena	1,161	27,641,346	100,580	0	536,791	1.94%	832,276	3.01%	\$0.74	(195,672)	8,626	234,855	818,518
Harbor City	82	1,659,065	0	5,000	71,531	4.31%	53,940	3.25%	\$0.66	(11,690)	29,110	10,000	69,386
Hawthorne	235	8,059,946	0	0	32,580	0.40%	118,605	1.47%	\$0.82	224,606	231,072	263,991	360,494
Inglewood	231	4,689,625	149,040	0	76,949	1.64%	172,950	3.69%	\$1.67	(63,535)	(52,036)	31,870	151,828
Lakewood/Hawaiian Gardens	23	539,614	0	0	0	0.00%	1,596	0.30%	\$0.00	3,003	6,282	5,070	12,320
Lawndale	26	228,559	0	0	0	0.00%	0	0.00%	\$0.00	6,136	3,575	10,786	14,361
Long Beach/Terminal Island	717	20,167,326	470,650	3,024,720	179,819	0.89%	873,387	4.33%	\$0.66	(12,721)	37,492	10,272	141,219
Lynwood	87	4,170,240	201,027	0	71,955	1.73%	52,864	1.27%	\$0.59	0	(71,955)	0	323,974
Rancho Dominguez	240	14,936,558	15,194	139,490	357,403	2.39%	991,352	6.64%	\$0.59	(215,254)	(133,207)	122,660	659,632
Redondo & Hermosa Beach	39	1,873,457	0	0	77,414	4.13%	84,118	4.49%	\$1.30	953	(77,414)	3,448	3,448
San Pedro	40	2,730,305	0	0	2,442	0.09%	24,454	0.90%	\$0.75	6,500	13,380	6,500	169,400
Signal Hill	190	3,380,418	0	0	40,268	1.19%	60,141	1.78%	\$0.83	1,119	52,917	13,652	113,955
Torrance	598	25,475,041	30,492	19,500	465,271	1.83%	743,160	2.92%	\$0.92	118,628	229,578	273,129	927,866
Wilmington	133	3,055,521	0	0	0	0.00%	9,092	0.30%	\$1.37	0	500	0	35,930
Total	4,939	186,524,090	2,474,430	3,576,194	2,701,141	1.45%	6,822,967	3.66%	\$0.77	73,390	995,975	2,535,089	6,638,483
Los Angeles Total	20,416	719,276,402	4,955,867	14,933,775	14,274,908	1.98%	28,411,139	3.95%	\$0.78	604,336	345,910	8,974,910	23,452,682
5,000-24,999	13,411	164,116,016	107,105	500,351	3,148,943	1.92%	6,005,704	3.66%	\$0.94	85,131	30,718	1,909,297	5,785,474
25,000-49,999	3,528	122,322,027	398,856	1,715,606	3,071,619	2.51%	5,351,443	4.37%	\$0.72	(346,867)	(1,042,984)	1,269,889	3,519,078
50,000-99,999	1,978	134,158,686	361,672	2,391,177	2,800,132	2.09%	5,867,663	4.37%	\$0.76	473,197	292,888	1,624,726	4,899,412
100,000-249,999	1,204	177,223,427	2,389,090	4,350,454	3,613,049	2.04%	8,040,575	4.54%	\$0.73	508,193	687,661	3,135,044	6,017,757
250,000-499,999	241	77,757,765	1,173,744	3,272,658	1,383,277	1.78%	1,930,433	2.48%	\$0.62	(387,536)	(194,829)	152,663	1,683,109
500,000 plus	54	43,698,481	525,400	2,703,529	257,888	0.59%	1,215,321	2.78%	\$0.00	272,218	572,456	883,291	1,547,852
Los Angeles Total	20,416	719,276,402	4,955,867	14,933,775	14,274,908	1.98%	28,411,139	3.95%	\$0.78	604,336	345,910	8,974,910	23,452,682

This survey consists of buildings greater than 5,000 square feet. Lease rates are on an industrial-gross basis.



The Evolution of Industrial in Greater LA

by **C.J. Collins**

ASSOCIATE, LOS ANGELES

The Los Angeles Industrial market continues its march as one of the most coveted regions in the country. Many real estate professionals feel there is still some “room to run,” but most agree this cycle has matured to some degree. In short, vacancy continues to drop and new supply is very limited, especially under 100,000 SF. The average price per square foot in the sale market has reached (and in some cases surpassed) pre-recession levels, giving some buyers “sticker shock.” Many owner/user buyers are either passing, waiting or electing to become tenants given the sharp increase in pricing. We are also starting to see investors look elsewhere for yield as competitive capital from all over the world has created a frenzy in LA, driving cap rates down. This strong demand continues to put pressure on the limited number of available buildings, driving rents up. In the last twelve months, we have witnessed just under a 10% increase in average asking lease rates.

Concurrently, the vacancy rate has dropped to 2%, which basically means any functional building that makes it to market will have significant interest from many groups. This demand is being driven by many factors, the largest being the change in how we purchase and consume goods (e-commerce). Industrial as an asset class is stealing market share from bricks and mortar retail, as warehouses are becoming points of sale themselves. The LA Port area, also known as the South Bay, has been significantly impacted by this trend. To meet this demand there are 11 buildings under construction totaling just less than 2.13 million square feet, with several large blocks of space being absorbed prior to completion of construction. UPS recently took down nearly 50% of a one million-square-foot project in the City of Compton known as the Brickyard.

Downtown LA also continues to see more and more cranes. The LA Arts District, located just east of the Historic Core, is seeing the most gentrification of any area of LA at the moment. The LA Arts District was and is home to an ever shrinking number of core industrial users, but warehousing, manufacturing, distribution, seafood, produce and textile groups are now being forced out in favor of adaptive reuse in the form of creative office, residential and retail. Traditional industrial users are now having to consider areas like Vernon, Commerce, Pico Rivera or Montebello, and are still struggling to find functional alternatives in this world of constrained supply. We expect this trend and migration to continue, placing upward pressure on industrial rents in Central LA as well.

With an influx of capital, both foreign and domestic, targeting the LA Arts District, high-end mixed use projects such as The ROW at Mateo, 7th and Santa Fe and 4th Traction will all be coming online late 2016 and early 2017. The ROW project alone will be bringing 1.3 million square feet of creative office, a 5,000-stall parking structure and 200,000 SF of retail into the fold.

The LA market boasts a number of strategic advantages and as the market continues to evolve expect the vacancy rate to drop even further, the new supply to be quickly absorbed, and lease rates to continue their climb.

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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/C 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