

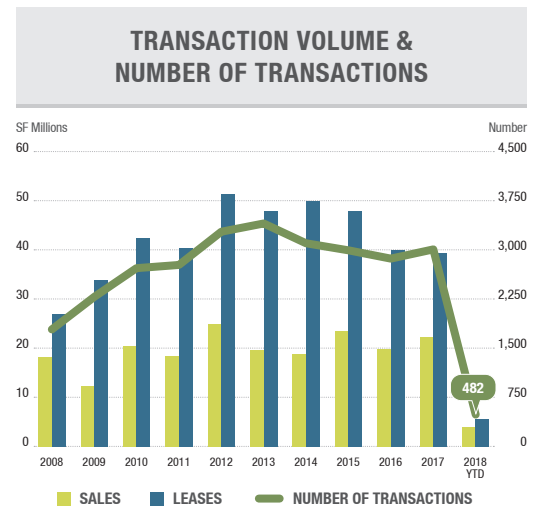
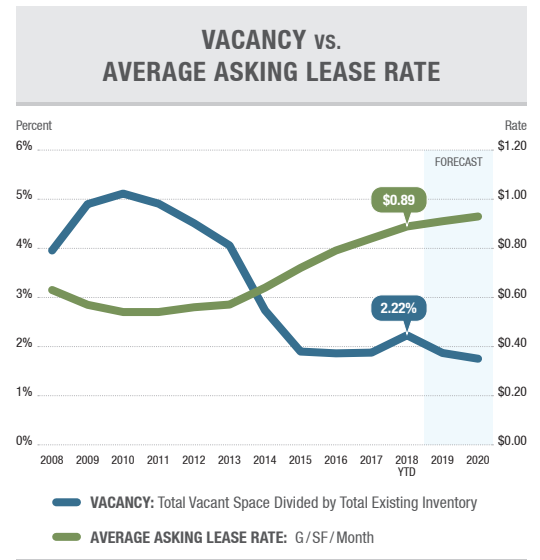
MARKET OVERVIEW. The Los Angeles industrial market finally showed a bump in vacancy, as a number of tenant move-outs generated negative absorption in first quarter of 2018. While 16.1 million square feet of vacant space hitting the market would rattle most markets, Los Angeles is a stable market with persistent demand and slow supply growth. Persistent industrial demand stemming from port activities, coupled with the difficulty of bringing new industrial product to market, should ensure Los Angeles fundamentals remain among the strongest in the nation. Three consecutive years of rent growth is proof to the market's healthy fundamentals. Investors here continue to accept low returns in exchange for stability and liquidity, as extremely low cap rates have continued to trend even further downward in the first quarter of 2018.

VACANCY. The Los Angeles industrial market generally needs 2–3% vacancy in order to enable businesses to move in an orderly fashion as they expand or downsize in the market. The first quarter of 2018 vacancy rate of 2.22% is up from an already tight 1.87% in the fourth quarter of 2017 and a majority of the actual vacancy is in older, functionally obsolete properties. The South Bay submarket has a lower vacancy rate of 2.09% this quarter and is the second largest of all the submarkets in the Los Angeles region.

LEASE RATES. Roughly 98% of buildings between the Port and Pomona are occupied. Average asking lease rates were at \$0.89 IG (Industrial Gross) for the first quarter of 2018, up an average of six cents per square foot (7.23%) from the same quarter last year and five cents per square foot more than the previous quarter. Larger, Class A blocks of space have experienced the most significant rent gains to date and we expect this trend to continue. Sale prices are also at all-time highs, averaging \$183 per square foot, which is up from \$149 per square foot from a year earlier.

TRANSACTION ACTIVITY. Demand for its industrial space, and particularly logistics inventory, correlates with international trade trends and will continue throughout Los Angeles and the Inland Empire, where land is cheap and logistics development has skyrocketed this cycle. However, Los Angeles' proximity to the ports and large diverse economy help ensure a strong outlook. Increased efficiency, access to labor and proximity to the consumer are at the core of most real estate decisions at the moment. Space larger than 50,000 square feet is the hottest segment, but the lack of inventory continues to negatively impact transaction volume. Sale and lease activity checked in at nearly 9.38 million square feet for the first quarter of 2018, an increase over the same quarter last year total of 8.8 million square feet. Notable lease transactions for the first quarter include:

- Classic Home's renewal lease of 255,352 square feet at 4505 Bandini Boulevard in Vernon
- Aeronet's lease of 120,578 square feet at 250 Edison Way in Compton
- Loot Crate's lease of 94,769 square feet at 4490 Ayers Avenue in Vernon



Market Statistics

	Change Over Last Quarter	1Q 2018	4Q 2017	1Q 2017	% Change Over Last Year
Vacancy Rate	▲ UP	2.22%	1.87%	1.94%	14.43%
Availability Rate	▲ UP	4.72%	4.30%	4.10%	15.12%
Average Asking Lease Rate	▲ UP	\$0.89	\$0.84	\$0.83	7.23%
Sale & Lease Transactions	▼ DOWN	9,380,021	14,767,796	14,752,261	(36.42%)
Gross Absorption	▼ DOWN	9,354,942	9,842,350	8,804,113	6.26%
Net Absorption	▼ NEGATIVE	(766,576)	1,924,887	1,320,770	N/A

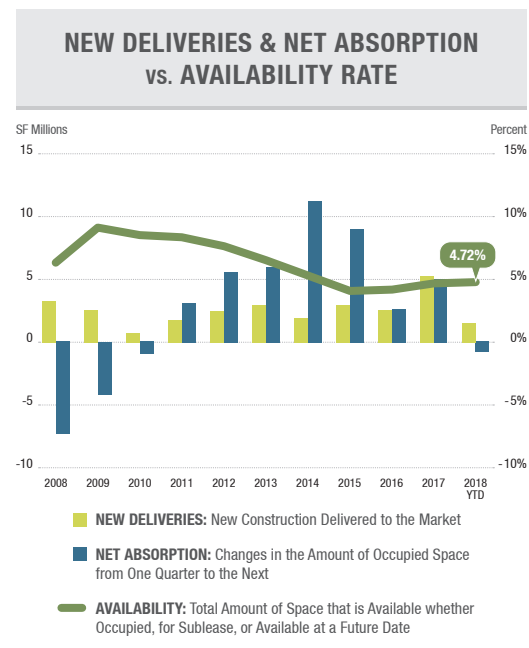
LEASE RATES. Rents grew by 7.23% over the last four quarters. The supply and demand imbalance will continue, causing asking rents to increase by a minimum of 6% to reach a level of \$0.94 IG per square foot by the end of 2018. Even larger increases will be seen by Class A buildings with modern features such as 30' warehouse clearance, ample dock-high loading, fenced yards and immediate freeway access.

VACANCY. While hard to predict a drop in an already low 2.22% vacancy rate, we expect to see this figure dip below 2.10% by the end of 2018.

OVERALL. As we head into the second quarter of 2018, we are forecasting strength in the region. This should continue increases in lease rates and sale prices. The one possible headwind we could face is a change in federal trade policy. Overly nationalist trade policy could slow port volumes which would affect the industrial market. That will be an important area to watch in what should shape up to be a year of continued growth. A ramp up in new supply in the coming years should alleviate some of the supply constraints that have kept rent growth at or near double digits for several consecutive years. Los Angeles should still rank near the top of the national market for rent gains, but growth will likely moderate from recent record gains. Big-block space, which is exceedingly rare in Los Angeles, has generated most of the gains to date and could continue to over perform given the lack of options for tenants.

CONSTRUCTION. New construction added to the Los Angeles Industrial market in 2017 totaled 5.1 million square feet, which is more than double the 2016 figure of 2.5 million square feet. This is expected to slow down due to the lack of available land for development. Total space under construction checked in at 1.4 million square feet at the end the first quarter of 2018. The largest development projects in the pipeline include a three-building project totaling 1,205,590 square feet at 12418–12588 Florence Avenue in Santa Fe Springs, a 512,490 square foot speculative building at 20333 Normandie Avenue in Torrance (Bridge Development pre-selling to IPT), and a 477,008 square foot speculative building at 16301 Trojan Way in La Mirada.

ABSORPTION. Available industrial space is scarce in Los Angeles, particularly newer and larger buildings suitable for modern-day logistics companies. Several buildings have delivered this cycle, and many of those were build-to-suit and preleased. The effects of supply constraints on this market cannot be overemphasized. With few developable sites, vacancies in LA remaining among the lowest in the nation—despite more than one million square feet of negative absorption in the first quarter of 2018. Net absorption posted a negative 766,576 square feet for the first quarter of 2018, down from the 1.9 million square feet seen in fourth quarter of 2017, with the lack of inventory being the biggest hurdle.



Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
5959 Randolph St.	Commerce	400,169	\$92,700,000	Liberty Property Trust	Bentall Kennedy
5811–5833 E. 61th St.	Commerce	291,413	\$42,100,000	Blackstone	SCIF Olympic I, LLC
2300–2498 Peck Rd.	City of Industry	286,094	\$51,001,000	Morgan Stanley	Charles Dunn Equities II, LLC
2652 Long Beach Ave.	Los Angeles	266,969	\$57,821,000	LBA Realty*	CREF LA Food, LLC*
16010 Shoemaker Ave.	Cerritos	115,600	\$17,200,000	Rexford Industrial	JLH Shoemaker Property, LLC

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
12588 Florence Ave.	Santa Fe Springs	403,635	Mar-2018	Fashion Nova	Goodman Birtcher
4505 Bandini Blvd. – Renewal	Vernon	255,352	Mar-2018	Classic Home*	DN&E Walter
3030 S. Atlantic Blvd.	Vernon	200,000	Jan-2018	Home Furniture International	Principal Financial Group
255 W. Manville St.	Compton	108,387	Mar-2018	GlobeCon Freight System	New York State Common RE
13915 Maryton Ave.	Santa Fe Springs	74,038	Jan-2018	Carroll Tire Company	Westcore Properties

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2018	Square Feet Available	Availability Rate 1Q2018	Average Asking Lease Rate	Net Absorption 1Q2018	Net Absorption 2018	Gross Absorption 1Q2018	Gross Absorption 2018
Central													
Bell/Bell Gardens/Maywood	193	6,924,446	0	0	95,216	1.38%	143,605	2.07%	\$1.05	(10,160)	(10,160)	124,520	124,520
City of Commerce	732	45,228,741	0	172,780	572,073	1.26%	2,090,040	4.62%	\$0.73	(238,470)	(238,470)	244,398	244,398
Huntington Park/Cudahy	193	4,599,993	0	0	88,964	1.93%	165,032	3.59%	\$0.81	25,546	25,546	67,670	67,670
Downtown	5,174	131,440,174	117,500	103,300	2,999,102	2.28%	6,513,830	4.96%	\$1.10	(218,559)	(218,559)	1,671,348	1,671,348
Montebello/Monterey Park	306	11,725,120	0	0	210,743	1.80%	304,836	2.60%	\$0.77	(34,484)	(34,484)	96,683	96,683
Pico Rivera	199	10,164,108	0	0	330,020	3.25%	291,806	2.87%	\$0.87	(253,869)	(253,869)	72,031	72,031
South Gate	228	10,351,424	0	0	94,094	0.91%	232,771	2.25%	\$0.92	(1,600)	(1,600)	105,053	105,053
Vernon	757	41,216,090	120,000	346,498	1,269,966	3.08%	2,246,331	5.45%	\$0.74	25,015	25,015	944,664	944,664
Total	7,782	261,650,096	237,500	622,578	5,660,178	2.16%	11,988,251	4.58%	\$0.93	(706,581)	(706,581)	3,326,367	3,326,367
Mid Counties													
Artesia/Cerritos	277	13,168,685	0	70,696	340,937	2.59%	994,633	7.55%	\$0.71	(106,740)	(106,740)	85,232	85,232
Bellflower/Downey	194	5,539,539	0	0	40,990	0.74%	120,814	2.18%	\$0.00	56,250	56,250	59,801	59,801
Buena Park/La Palma	229	15,156,437	0	0	145,318	0.96%	2,394,129	15.80%	\$0.89	321,918	321,918	440,544	440,544
La Mirada	181	12,486,557	477,008	0	90,027	0.72%	606,551	4.86%	\$0.75	164,960	164,960	214,944	214,944
Norwalk	86	2,900,755	0	0	16,315	0.56%	65,615	2.26%	\$0.00	5,492	5,492	10,492	10,492
Paramount	374	8,732,526	0	5,187	91,048	1.04%	132,590	1.52%	\$0.85	16,591	16,591	56,363	56,363
Santa Fe Springs	1,333	52,081,710	627,855	514,289	1,760,663	3.38%	3,669,942	7.05%	\$0.86	239,271	239,271	556,696	556,696
Whittier	167	3,933,465	0	0	55,207	1.40%	257,877	6.56%	\$0.99	(36,930)	(36,930)	61,310	61,310
Total	2,841	113,999,674	1,104,863	590,172	2,540,505	2.23%	8,242,151	7.23%	\$0.83	660,812	660,812	1,485,382	1,485,382
San Gabriel Valley													
Alhambra	112	2,219,619	0	0	27,100	1.22%	48,947	2.21%	\$1.15	(5,900)	(5,900)	11,700	11,700
Arcadia/Temple City	138	2,647,713	0	0	29,057	1.10%	52,957	2.00%	\$1.15	671,457	671,457	686,861	686,861
Azusa	230	5,840,833	0	154,000	25,900	0.44%	473,059	8.10%	\$0.84	11,571	11,571	43,171	43,171
Baldwin Park	242	4,563,990	0	0	66,993	1.47%	230,943	5.06%	\$0.90	(41,043)	(41,043)	13,480	13,480
City of Industry/DB/HH/RH	1,086	72,094,568	500,116	415,870	1,677,877	2.33%	3,536,381	4.91%	\$1.01	(480,875)	(480,875)	1,174,641	1,174,641
Covina/West Covina	170	3,063,932	26,512	0	84,028	2.74%	214,539	7.00%	\$0.78	(13,587)	(13,587)	32,197	32,197
Duarte	70	1,812,238	0	0	85,687	4.73%	123,979	6.84%	\$0.86	(25,667)	(25,667)	2,920	2,920
El Monte	302	8,508,827	0	0	378,964	4.45%	419,855	4.93%	\$0.96	(24,951)	(24,951)	34,936	34,936
Irwindale	261	11,192,604	0	929,537	1,054,812	9.42%	1,172,864	10.48%	\$1.00	(495,126)	(495,126)	148,915	148,915
La Puente	93	1,982,051	0	12,650	25,724	1.30%	25,724	1.30%	\$1.04	(19,961)	(19,961)	21,798	21,798
La Verne/San Dimas/Glendora	312	6,700,378	0	0	41,475	0.62%	155,238	2.32%	\$0.88	89,394	89,394	124,690	124,690
Monrovia	200	3,295,821	0	0	48,069	1.46%	56,251	1.71%	\$0.78	15,580	15,580	19,380	19,380
Pomona/Claremont	661	19,996,226	0	74,052	253,517	1.27%	379,243	1.90%	\$0.76	(36,878)	(36,878)	229,756	229,756
Rosemead/San Gabriel	115	2,280,626	0	0	25,500	1.12%	52,242	2.29%	\$0.00	0	0	0	0
South El Monte	764	10,302,454	0	0	103,569	1.01%	141,199	1.37%	\$0.92	34,660	34,660	138,426	138,426
Walnut	198	6,667,030	0	0	112,904	1.69%	276,157	4.14%	\$1.12	(75,204)	(75,204)	36,736	36,736
Total	4,954	163,168,910	526,628	1,586,109	4,041,176	2.48%	7,359,578	4.51%	\$0.95	(396,530)	(396,530)	2,719,607	2,719,607
South Bay													
Carson	505	35,006,423	0	70,300	460,072	1.31%	1,009,542	2.88%	\$0.61	150,760	150,760	476,945	476,945
Compton	457	24,625,750	0	0	668,188	2.71%	913,066	3.71%	\$0.63	(208,062)	(208,062)	364,164	364,164
El Segundo	180	9,002,054	0	0	274,284	3.05%	264,959	2.94%	\$0.00	19,011	19,011	81,473	81,473
Gardena	1,162	27,906,437	255,603	41,142	488,448	1.75%	713,187	2.56%	\$0.86	(107,616)	(107,616)	332,550	332,550
Harbor City	82	1,661,749	512,490	0	14,400	0.87%	19,200	1.16%	\$1.00	0	0	0	0
Hawthorne	229	8,010,723	0	0	61,115	0.76%	83,615	1.04%	\$0.00	(7,779)	(7,779)	27,439	27,439
Inglewood	234	4,867,751	0	0	67,337	1.38%	248,459	5.10%	\$1.25	16,915	16,915	42,343	42,343
Lakewood/Hawaiian Gardens	24	556,012	0	60,500	16,398	2.95%	16,398	2.95%	\$0.00	0	0	0	0
Lawndale	29	250,003	0	0	0	0.00%	7,320	2.93%	\$0.00	0	0	0	0
Long Beach/Terminal Island	723	20,421,610	0	632,660	468,665	2.29%	1,012,671	4.96%	\$0.76	43,945	43,945	148,432	148,432
Lynwood	93	4,393,704	0	0	201,027	4.58%	111,465	2.54%	\$0.00	23,760	23,760	27,200	27,200
Rancho Dominguez	241	14,964,857	0	0	617,665	4.13%	956,879	6.39%	\$0.84	(403,645)	(403,645)	0	0
Redondo & Hermosa Beach	39	1,873,457	0	137,090	2,495	0.13%	2,495	0.13%	\$0.00	4,352	4,352	4,352	4,352
San Pedro	42	2,754,278	0	0	9,023	0.33%	25,385	0.92%	\$0.00	1,019	1,019	6,500	6,500
Signal Hill	193	3,402,191	0	0	40,841	1.20%	118,620	3.49%	\$1.27	(5,670)	(5,670)	14,900	14,900
Torrance	597	25,149,970	0	90,000	435,206	1.73%	1,086,634	4.32%	\$0.92	172,674	172,674	296,188	296,188
Wilmington	138	3,690,886	0	0	108,301	2.93%	168,570	4.57%	\$0.81	(23,941)	(23,941)	1,100	1,100
Total	4,968	188,537,855	768,093	1,031,692	3,933,465	2.09%	6,758,465	3.58%	\$0.81	(324,277)	(324,277)	1,823,586	1,823,586
Los Angeles Total	20,545	727,356,535	2,637,084	3,830,551	16,175,324	2.22%	34,348,445	4.72%	\$0.89	(766,576)	(766,576)	9,354,942	9,354,942
5,000-24,999	13,478	164,875,742	23,390	44,963	3,475,683	2.11%	5,995,662	3.64%	\$1.04	(288,926)	(288,926)	1,841,236	1,841,236
25,000-49,999	3,541	122,832,213	303,055	475,349	2,728,894	2.22%	6,223,589	5.07%	\$0.86	(129,848)	(129,848)	1,470,504	1,470,504
50,000-99,999	1,987	134,859,986	390,160	1,079,570	2,515,195	1.87%	4,853,868	3.60%	\$0.75	37,920	37,920	1,795,036	1,795,036
100,000-249,999	1,240	182,903,005	424,516	1,425,075	3,876,834	2.12%	9,723,189	5.32%	\$0.88	(239,574)	(239,574)	3,255,729	3,255,729
250,000-499,999	245	79,148,056	477,008	264,594	2,585,138	3.27%	4,348,913	5.49%	\$1.14	340,852	340,852	992,437	992,437
500,000 plus	54	42,737,533	1,018,955	541,000	993,580	2.32%	3,203,224	7.50%	\$0.00	(487,000)	(487,000)	0	0
Los Angeles Total	20,545	727,356,535	2,637,084	3,830,551	16,175,324	2.22%	34,348,445	4.72%	\$0.89	(766,576)	(766,576)	9,354,942	9,354,942

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



More Demand and Higher Lease Rates

by **John Costa**

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If you are one of the landlords who has owned industrial property long-term in the Los Angeles and Mid-Counties markets, you are very likely enjoying the demand for industrial land and warehouse space which continues to drive value up while operators struggle to find available quality space. For tenants, having an existing renewal option on a lease is extremely valuable considering the current market conditions, specifically the low vacancy rate. Companies that currently use industrial-zoned property in the Los Angeles markets are in constant search for expansion space that suits their needs. The competition to purchase or lease industrial space is continuing to outweigh the supply, causing lease rates to rise more than 6% to an average rent at \$0.70 Net in the fourth quarter of 2017.

The Rise in Land Value

Industrial land is capturing more than \$40 per square foot in Los Angeles and there has been no slow-down in demand. In 2017 a moratorium was set in Carson, preventing new business licenses from being approved for certain industrial uses. Additionally, zoning ordinances were made to restrict heavy industrial uses in several cities, however, the need for industrial-zoned land in close proximity to the port has not stopped growing. One result of these market conditions has been a rise in industrial land value. The Federal Reserve is expected to raise interest rates about a quarter point in the near future which could impact transactions, especially those on the larger side. Increasing interest rates could also trigger lease and sale pricing to level off or even decrease down the road.

The Market is Becoming Smaller

Zoning changes, ordinances, and moratoriums are not the only influence on the lack of available product. In 2017 we saw a rise in the conversion from industrial space to retail, creative office space, and residential in the Central Los Angeles markets. With much of the older product becoming obsolete in functionality for the modern industrial use, the repositioning of property to fit its highest and best use is expanding. The delivery of the proposed 700,000+ square feet in the South Bay and 1,500,000+ square feet in the Mid Counties Market in 2018 are highly anticipated additions to the lack of available industrial space.

With the surge in e-commerce as a consumer alternative to retail locations like Toys "R" Us, the development of new product and repositioning/redevelopment of older industrial buildings in Los Angeles will continue to expand in order to provide efficient warehouse and distribution alternatives moving forward.

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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.

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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