LA2Q17

SECOND QUARTER 2017 MARKET REPORT
GREATER LOS ANGELES INDUSTRIAL

Voit
REAL ESTATE SERVICES

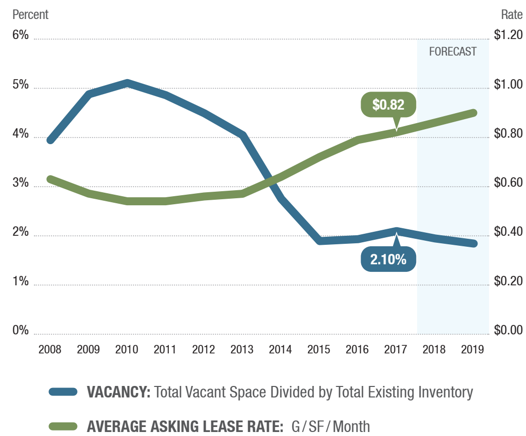
SUPPLY & DEMAND STILL OUT OF BALANCE. The Los Angeles industrial market boasts one of the lowest vacancy rates in the country and continues to be the most highly sought-after industrial market in the US in terms of investment capital. REIT's, life insurance companies, private equity groups and foreign investors continue to target this region given its healthy fundamentals, proximity to the influential Ports of Los Angeles/Long Beach and immediate access to a diverse and growing consumer base. Driven by imports and the continued emergence of e-commerce, industrial tenants continue to scramble for quality space in this tight market. Low coverage sites for surface storage are also in high demand and rents in Greater Los Angeles have been pushed to record highs. These robust and competitive market conditions should continue as Los Angeles becomes more urbanized and consumer consumption continues its aggressive growth.

VACANCY. Vacancy rates across all size ranges and parts of the supply chain remain near all-time lows. Retailers and e-commerce operators aimed at improving logistics, reducing overall costs and improving convenience continue to compete with one another in a supply-starved environment. Los Angeles' overall industrial vacancy rate is now 2.10% and even tighter than that among larger, Class A buildings. Even during this prolonged expansion period, we feel that demand will continue to outpace supply as tenants clamor for "last mile" locations in this market.

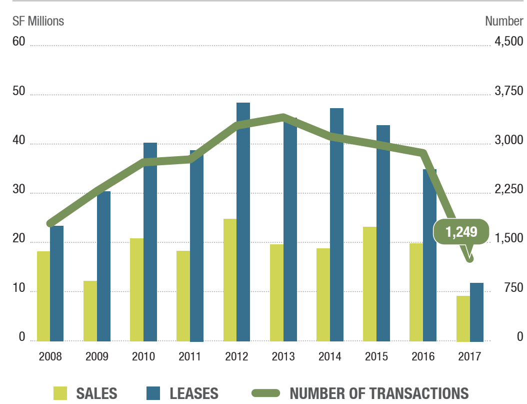
LEASE RATES. Sharp demand from a diverse base of tenants in the food/beverage, transportation/logistics and e-commerce sectors kept rents at all-time highs during the second quarter of 2017. The average asking lease rate came in at $0.82 IG per square foot per month, a six cent ($0.06) per square foot increase when compared with the $0.76 from a year ago (a 7.89% annual increase). While averages are tough to rely on in Los Angeles given the disparity between Class A options and older, functionally obsolete properties, expect this trend of strong rent growth to continue. Class A rents for the South Bay on new projects (100,000 square feet plus) are now approaching the rarefied air of $1.00 per square foot on a gross basis.

TRANSACTION ACTIVITY. Overall transaction activity (sales and leasing) was down for second quarter as the lack of supply severely restricted transaction volume. The second quarter saw 10.2 million square feet of total transactions (sale and lease), down from just over 11.5 million in the first quarter. Notable leasing activity this quarter included UPS leasing 492,639 square feet from Duke Realty on a building currently under construction in La Mirada, McMaster Car Supply taking down 295,000 square feet from Goodman in Santa Fe Springs, Daiso leasing the former American Apparel building on Trojan Way in Santa Fe Springs (220,000 square feet) from Prologis and Quick Pick Express, leasing 177,573 square feet in Carson on Banning Boulevard from Watson Land Company.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter		2Q 2017	1Q 2017	2Q 2016	% Change Over Last Year
Vacancy Rate	▲	UP	2.10%	2.06%	1.95%	7.69%
Availability Rate	▲	UP	4.07%	4.05%	3.92%	3.83%
Average Asking Lease Rate	▼	DOWN	$0.82	$0.83	$0.76	7.89%
Sale & Lease Transactions	▼	DOWN	10,265,546	11,550,088	16,330,330	(37.14%)
Gross Absorption	▼	DOWN	8,434,557	8,590,119	7,666,636	10.02%
Net Absorption	▲	POSITIVE	34,920	882,026	1,315,053	N/A

Forecast

LEASE RATES. Rental rates are expected to increase at a moderate pace in the short run and rents in the "last mile" markets near critical population centers will experience the most aggressive growth. Tenant concessions like free rent, moving allowances and specific TI's will remain minimal as the market stays competitive and favors landlords. Upward pressure on lease rates will continue and increases of 3–5% during the balance of 2017 seem reasonable based on current conditions.

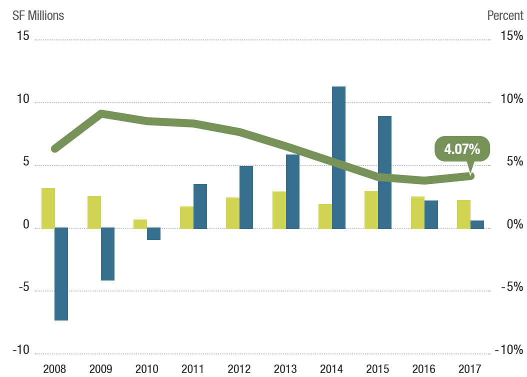
VACANCY. While hard to predict a drop in an already low 2.10% vacancy rate, we expect to see this figure dip below 2% by the end of 2017.

OVERALL. As new deliveries are absorbed at record lease rates, expect overall tenant activity to continue and average rents to rise. Industrial as an asset class seems somewhat insulated given the growth in e–commerce and a rise in "consumer impatience." We do not anticipate any "speculative excess" given the current demand levels and the limited number of development opportunities by comparison. Proximity to the Ports of Los Angeles and Long Beach coupled with immediate access to the affluent households within the Los Angeles basin are strategic advantages to this market and are not likely to change in the near term. Industrial occupiers will tend to focus more on location than building function in the coming quarters and the Los Angeles industrial market will continue to be a primary target for investment capital.

CONSTRUCTION. Despite several barriers to entry for developers including increasing regulations, rising construction costs and record high land prices, the sharp increase in tenant demand has prompted more than 4.8 million square feet of new construction, most of it in the San Gabriel Valley and Mid Counties submarket. Many of these projects are pre-committed.

ABSORPTION. The Los Angeles market witnessed positive net absorption for five consecutive quarters after registering its first negative net absorption in the first quarter of 2016. Los Angeles added 34,920 square feet of positive absorption during the second quarter of 2017 for a total 575,790 square feet of positive absorption year to date. While the lack of inventory has hindered this category, absorption and activity levels will improve as a few new projects comes online in future quarters.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



NEW DELIVERIES: New Construction Delivered to the Market

NET ABSORPTION: Changes in the Amount of Occupied Space from One Quarter to the Next

AVAILABILITY: Total Amount of Space that is Available whether Occupied, for Sublease, or Available at a Future Date

Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
4440 E. 26th St.	Vernon	219,877	$28,584,010	LBA Realty	Delta Galil, LLC
12252 Whittier Blvd.	Whittier	161,610	$25,300,000	Goldman Sachs Group, Inc.	Terreno Realty Corporation
2615 S. Bonnie Beach Pl.	Vernon	148,092	$16,410,000	Realterm NAT	Cahn Realty Associates
1218 S. 5th Ave.	Monrovia	137,936	$15,500,000	City of Hope	Samuelson & Fetter
5205–5207 S. Downey Rd.	Vernon	47,572	$8,275,100	Soleimani Enterprises	Rainfield Ranches, LP*

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
16301 Trojan Way	La Mirada	492,639	Apr-2017	UPS	Duke Realty
2652 Long Beach Ave.	Los Angeles	86,486	Jun-2017	Alday's Cold Storage	Dedeaux Properties*
175 E. Manville St.	Compton	34,179	Apr-2017	MIQ Global, LLC*	ADS Logistics Co., LLC*
6100 E. Sheila St.	Commerce	18,000	Jun-2017	Harvest Meat Company, Inc.*	The Guardian Life Insurance Co.*
6100 E. Shelia St.	Commerce	10,080	May-2017	Manning Beef*	The Guardian Life Insurance Co.*

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2017	Square Feet Available	Availability Rate 2Q2017	Average Asking Lease Rate	Net Absorption 2Q2017	Net Absorption 2017	Gross Absorption 2Q2017	Gross Absorption 2017
Central													
Bell/Bell Gardens/Maywood	194	6,945,060	0	0	105,702	1.52%	319,460	4.60%	$0.84	(8,047)	46,920	99,475	192,520
City of Commerce	729	45,251,772	0	287,865	494,902	1.09%	1,041,972	2.30%	$0.67	211,573	41,986	925,493	1,348,687
Huntington Park/Cudahy	195	4,598,785	0	0	83,977	1.83%	282,833	6.15%	$0.66	5,173	18,693	57,770	100,790
Downtown	5,171	132,718,569	117,500	117,030	3,185,435	2.40%	6,293,095	4.74%	$0.95	259,428	359,278	1,635,203	2,951,512
Montebello/Monterey Park	304	11,576,226	0	0	94,961	0.82%	305,266	2.64%	$0.67	41,067	31,613	47,780	136,608
Pico Rivera	200	10,190,222	0	59,849	95,586	0.94%	433,233	4.25%	$0.81	26,543	9,571	149,194	244,701
South Gate	229	10,346,331	0	119,340	104,869	1.01%	188,603	1.82%	$1.14	(24,469)	(16,933)	900	13,536
Vernon	747	40,452,938	13,202	394,807	1,889,276	4.67%	3,747,278	9.26%	$0.62	(536,205)	(722,407)	651,865	863,119
Total	7,769	262,079,903	130,702	978,891	6,054,708	2.31%	12,611,740	4.81%	$0.77	(24,937)	(231,279)	3,567,680	5,851,473
Mid Counties													
Artesia/Cerritos	277	13,157,915	0	0	289,024	2.20%	483,684	3.68%	$0.70	20,709	(51,879)	136,152	233,077
Bellflower/Downey	191	5,511,647	0	0	55,951	1.02%	101,174	1.84%	$0.87	39,347	1,921	61,833	90,372
Buena Park/La Palma	229	15,094,146	0	0	315,758	2.09%	850,028	5.63%	$0.83	(221,758)	(246,474)	21,512	43,279
La Mirada	182	12,552,047	0	492,639	645,135	5.14%	576,660	4.59%	$0.71	11,941	(184,687)	370,012	441,499
Norwalk	87	2,966,294	0	0	11,987	0.40%	11,987	0.40%	$0.00	54,489	54,489	42,909	42,909
Paramount	372	8,713,178	0	5,187	96,802	1.11%	222,247	2.55%	$0.77	(67,981)	(10,469)	67,911	156,044
Santa Fe Springs	1,323	50,959,996	1,178,577	514,681	649,819	1.28%	2,515,154	4.94%	$0.83	7,304	148,159	336,823	755,975
Whittier	166	3,929,395	0	0	31,275	0.80%	73,275	1.86%	$0.56	(1,186)	58,216	23,001	110,860
Total	2,827	112,884,618	1,178,577	1,012,507	2,095,751	1.86%	4,834,209	4.28%	$0.77	(157,135)	(230,724)	1,060,153	1,874,015
San Gabriel Valley													
Alhambra	113	2,233,048	0	0	2,167	0.10%	69,437	3.11%	$1.03	617	(2,167)	2,784	6,534
Arcadia/Temple City	135	1,998,151	679,851	0	32,413	1.62%	50,041	2.50%	$0.88	16,528	(10,113)	38,766	61,766
Azusa	226	5,431,479	364,373	0	201,679	3.71%	476,473	8.77%	$0.79	(44,842)	(56,937)	2,600	36,358
Baldwin Park	237	4,460,911	0	0	53,698	1.20%	140,577	3.15%	$0.89	56,692	12,856	130,362	183,291
City of Industry/DB/HH/RH	1,083	71,426,412	695,640	425,903	1,564,100	2.19%	2,579,433	3.61%	$0.91	136,782	15,310	842,586	2,200,538
Covina/West Covina	169	3,054,224	26,512	0	144,155	4.72%	195,367	6.40%	$0.78	84,169	23,416	94,629	109,629
Duarte	71	1,766,002	0	0	107,427	6.08%	120,131	6.80%	$0.88	(46,985)	(105,152)	11,575	19,940
El Monte	302	8,544,230	0	0	692,516	8.11%	521,064	6.10%	$0.87	42,368	43,019	110,852	182,551
Irwindale	254	10,925,760	195,130	924,830	180,423	1.65%	657,843	6.02%	$0.91	7,211	8,908	68,641	87,355
La Puente	95	2,057,022	0	12,650	28,721	1.40%	4,762	0.23%	$1.23	(12,617)	(10,677)	10,954	17,194
La Verne/San Dimas/Glendora	312	6,614,310	0	0	63,276	0.96%	148,420	2.24%	$0.76	43,609	33,982	90,110	110,345
Monrovia	201	3,288,983	0	0	32,854	1.00%	56,444	1.72%	$1.00	(4,000)	13,867	5,900	26,267
Pomona/Claremont	653	19,550,579	433,493	0	213,276	1.09%	601,700	3.08%	$0.62	15,859	217,074	145,087	562,908
Rosemead/San Gabriel	114	2,264,229	0	0	8,065	0.36%	89,029	3.93%	$0.00	7,631	4,535	15,696	23,396
South El Monte	763	10,292,296	0	0	97,484	0.95%	219,240	2.13%	$0.82	(8,955)	(13,326)	109,325	234,845
Walnut	197	6,644,002	0	37,648	46,418	0.70%	163,210	2.46%	$1.34	12,563	55,856	62,572	249,517
Total	4,925	160,551,638	2,394,999	1,401,031	3,468,672	2.16%	6,093,171	3.80%	$0.87	306,630	230,451	1,742,439	4,112,434
South Bay													
Carson	504	34,860,148	113,892	0	525,689	1.51%	1,196,089	3.43%	$0.86	(134,423)	(157,967)	622,825	1,132,701
Compton	454	24,540,457	136,685	0	1,001,134	4.08%	853,455	3.48%	$0.77	(81,885)	413,421	128,394	919,176
El Segundo	187	9,704,637	0	0	226,974	2.34%	882,824	9.10%	$0.00	(42,347)	(61,607)	6,500	29,000
Gardena	1,162	27,877,916	100,580	298,701	459,350	1.65%	610,539	2.19%	$0.94	121,305	339,937	458,235	877,928
Harbor City	82	1,661,749	0	0	34,386	2.07%	34,386	2.07%	$0.00	16,726	43,055	27,600	77,441
Hawthorne	232	8,047,066	0	0	36,677	0.46%	50,331	0.63%	$1.10	8,019	(5,257)	55,491	133,188
Inglewood	233	4,723,640	149,040	0	76,819	1.63%	138,881	2.94%	$1.43	(104)	3,450	76,618	114,152
Lakewood/Hawaiian Gardens	23	539,614	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	1,596
Lawndale	28	243,317	0	0	0	0.00%	9,120	3.75%	$0.00	0	0	0	0
Long Beach/Terminal Island	719	19,898,550	405,747	311,200	382,378	1.92%	842,569	4.23%	$0.71	(16,918)	252,280	80,433	544,244
Lynwood	89	4,140,735	201,027	0	10,683	0.26%	142,593	3.44%	$0.00	48,406	64,008	48,406	100,273
Rancho Dominguez	241	14,968,586	0	0	243,564	1.63%	378,340	2.53%	$1.05	20,467	(8,654)	94,084	463,197
Redondo & Hermosa Beach	39	1,873,457	0	0	5,861	0.31%	48,382	2.58%	$0.00	0	69,003	0	74,164
San Pedro	40	2,726,905	0	0	23,406	0.86%	27,372	1.00%	$0.00	(14,464)	(14,364)	7,782	10,182
Signal Hill	191	3,408,157	0	0	139,341	4.09%	64,719	1.90%	$1.13	(85,184)	(82,634)	35,387	59,207
Torrance	595	25,160,931	30,492	602,490	441,172	1.75%	631,328	2.51%	$0.72	15,264	(50,629)	367,030	616,724
Wilmington	136	3,672,172	0	0	0	0.00%	11,628	0.32%	$0.86	55,500	3,300	55,500	55,500
Total	4,955	188,048,037	1,137,463	1,212,391	3,607,434	1.92%	5,922,556	3.15%	$0.84	(89,638)	807,342	2,064,285	5,208,673
Los Angeles Total	**20,476**	**723,564,196**	**4,841,741**	**4,604,820**	**15,226,565**	**2.10%**	**29,461,676**	**4.07%**	**$0.82**	**34,920**	**575,790**	**8,434,557**	**17,046,595**
5,000-24,999	13,429	164,138,064	49,948	50,693	2,998,694	1.83%	6,897,001	4.20%	$0.98	99,038	24,737	2,077,229	3,797,868
25,000-49,999	3,547	122,895,186	610,489	666,202	2,546,813	2.07%	4,769,791	3.88%	$0.82	(93,248)	26,083	1,484,912	2,923,988
50,000-99,999	1,986	134,774,338	642,683	779,848	2,544,847	1.89%	5,443,446	4.04%	$0.76	260,500	(144,389)	1,876,511	3,091,731
100,000-249,999	1,217	179,314,925	1,869,889	1,001,864	4,868,214	2.71%	8,828,762	4.92%	$0.72	231,970	603,632	1,983,533	5,302,530
250,000-499,999	242	77,954,113	1,162,267	1,052,723	1,761,417	2.26%	2,384,486	3.06%	$0.67	(98,785)	105,816	874,415	1,270,705
500,000 plus	55	44,487,570	506,465	1,053,490	506,580	1.14%	1,138,190	2.56%	$0.53	(364,555)	(40,089)	137,957	659,773
Los Angeles Total	**20,476**	**723,564,196**	**4,841,741**	**4,604,820**	**15,226,565**	**2.10%**	**29,461,676**	**4.07%**	**$0.82**	**34,920**	**575,790**	**8,434,557**	**17,046,595**

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

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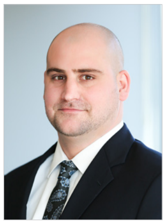

The Market Dynamics and Lack of Inventory

by John Costa
ASSOCIATE, LOS ANGELES

As we round out the second quarter of 2017, the ever-increasing tenant demand for functional distribution buildings and "heavy industrial" zoned land continues, and when coupled with an overall lack of industrial inventory, the result is asking lease rates and sale prices up approximately 10% as compared with this time last year.

With the continued emergence of e-commerce, proximity to both rooftops and the influential ports of Los Angeles and Long Beach has become critically important to industrial occupiers and is accelerating tenant demand. Tenants and buyers are having to become increasingly aggressive when submitting proposals and offers to purchase or lease. Locating a functional alternative with high warehouse clearance and a large yard area for trailer storage/parking is becoming more difficult in this competitive environment. Partnering with a professional who truly understands their client's needs and can identify properties quickly, whether on, or in most cases off, the market is becoming increasingly valuable. The average asking lease rate for industrial space has jumped from $0.76 Gross per square foot to $0.83 Gross per square foot since the second quarter of 2016 when you factor in all the submarkets in greater Los Angeles. This increase has been even more pronounced in newer, Class A buildings.

This spike in lease rates has driven the limited amount of developable industrial land well over $40.00 per square foot while transportation/logistics related users are also paying a premium for surface storage uses near the Port of Los Angeles and Long Beach.

The "heavy container corridor" is a designated and permitted route set by the City of Los Angeles, City of Long Beach, and State of California that helps to aid the movement of overweight 40' or larger ocean-going containers. The value and efficiency this creates in areas of Carson, Long Beach, Wilmington and San Pedro for trucking, distribution, and logistics-related companies has sent property and land values through the roof as demand far outweighs supply in this region.

The market dynamics and lack of inventory near the Port of Los Angeles and Long Beach has had a ripple effect throughout the entire Los Angeles industrial market including Central Los Angeles, Mid Counties, and the San Gabriel Valley. Tenants in search of expansion and relocation alternatives are now being forced to consider a wider geographic area and alternative markets. Many have elected to move East to the Inland Empire where newer, Class A product is more widely available at less expensive rents (20–30% less in some cases), offsetting the increase in drayage costs.

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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