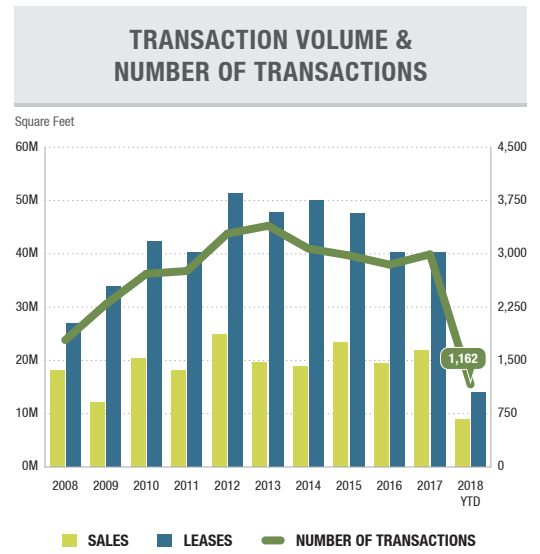
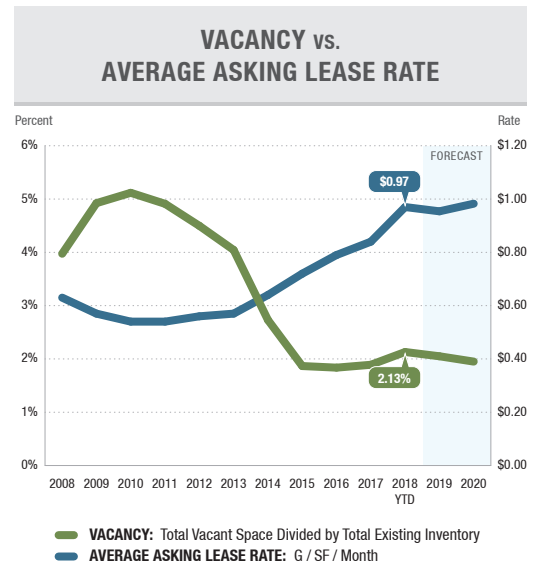


**MARKET OVERVIEW.** Tenant demand for industrial space remains strong in the Los Angeles market with significant upward pressure on rents driven by historically low vacancy rates and moderate levels of new supply. Available industrial space is scarce in LA, particularly newer and larger buildings suitable for modern-day logistics companies. Few buildings have delivered during this cycle, and those that did were build-to-suit and preleased. Los Angeles' proximity to the ports and large, diverse economy help ensure a healthy outlook. Transaction activity remains solid in the LA industrial market with sales volume reaching over \$692 million as of June 2018. Outsized rent growth in the Los Angeles industrial market has led to increased liquidity, driving cap rate compression and price gains.

**VACANCY.** The effects of supply constraints to the LA industrial market cannot be overemphasized—with few developable sites, vacancies in LA remain among the lowest in the nation. The 2Q 2018 vacancy rate of 2.13% is down from an already tight 2.21% in 1Q and a majority of the vacancy is in older, functionally obsolete properties. Strong industrial demand stemming from port activities, coupled with the difficulty of bringing new industrial product to market, should ensure that the LA market remains among the strongest in the nation.

**LEASE RATES.** Roughly 98% of the buildings between the Port and Pomona are occupied. Average asking lease rates were at \$0.97 IG (Industrial Gross) for 2Q 2018, up an average of eight cents per square foot (18.29%) from the same quarter last year and five cents per square foot more than the previous quarter. Cannabis growers are pushing up the price of industrial properties in some areas, as California has legalized cannabis consumption for recreational and medical use.

**TRANSACTION ACTIVITY.** The amount of available space continued to decline in the Los Angeles industrial market, despite 3.2 million square feet of new deliveries since 1Q 2018. Sale and lease activity checked in at nearly 11.0 million square feet for 2Q 2018, a decrease over the same quarter last year total of 17.1 million square feet. This stabilization in activity seems to be a result of a decline in the market, resulting in less available space.



Market Statistics

	Change Over Last Quarter	2Q 2018	1Q 2018	2Q 2017	% Change Over Last Year
Vacancy Rate	▼ DOWN	2.13%	2.21%	2.03%	4.93%
Availability Rate	▲ UP	4.49%	4.36%	4.24%	5.90%
Average Asking Lease Rate	▲ UP	\$0.97	\$0.89	\$0.82	18.29%
Sale & Lease Transactions	▼ DOWN	11,079,485	11,916,159	17,110,795	(35.25%)
Gross Absorption	▼ DOWN	8,971,214	10,139,615	7,748,363	15.78%
Net Absorption	▲ POSITIVE	1,208,992	(715,871)	(328,239)	N/A

**LEASE RATES.** Despite rising construction costs, the strong demand for industrial space in Los Angeles coupled with healthy projected rents are justifying the additional development of industrial properties. LA's industrial rents are poised to rise further thanks to one burgeoning industry: cannabis. Upward pressure on lease rates will continue and increases of 3–4% during the balance of 2018 seem reasonable based on current conditions.

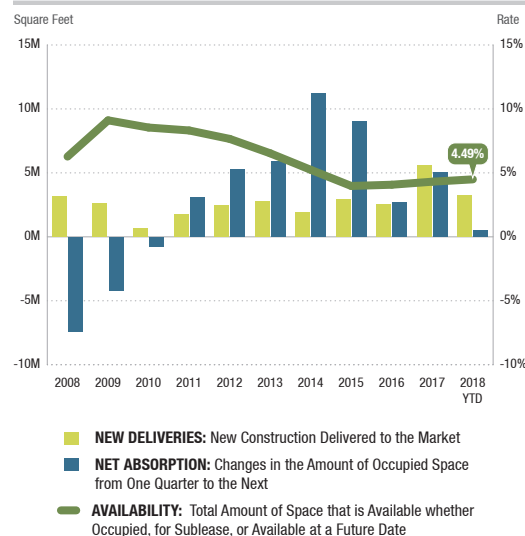
**VACANCY.** While hard to predict a drop in an already low 2.13% vacancy rate, we expect to see this figure dip below 2% by the end of 2018.

**OVERALL.** The Los Angeles industrial market in 2018 has been characterized by extremely low vacancy rates and high rental rates, which have led to increased investor confidence in the LA region. Absorption has been positive, and e-commerce and retailers are having a big impact. Rising demand for industrial space is evident in recent construction activity and completions, which have neared or exceeded pre-recession levels. Through the first six months of 2018, the industrial market has welcomed over three million square feet of new product, and vacancy rates remain below historical averages. At present, there is approximately 2.5 million square feet of space actively under construction and millions more in the development pipeline. Expansion trends are expected to continue over the course of the next two years.

**CONSTRUCTION.** Construction continues to rise in Los Angeles through the first half of 2018. More than 5.5 million square feet of new product delivered in 2017, and over 2 million square feet are projected to deliver in 2018. For most of the cycle prior to 2017, an average of less than two million square feet delivered annually. Total space under construction checked in at 2.56 million square feet at the end 2Q 2018. Available industrial space is scarce in Los Angeles, particularly newer and larger buildings suitable for logistics companies. Several buildings have delivered this cycle, and many of those were build-to-suit and preleased.

**ABSORPTION.** The tight Los Angeles industrial market rebounded from a slight vacancy expansion, as a number of large-scale move-outs generated negative absorption in 1Q 2018. The Los Angeles industrial market rebounded from last quarter's negative absorption this quarter with 1.2 million square feet of positive absorption. While vacant space hitting the market would rattle most metros, Los Angeles is a stable market with persistent demand and slow supply growth. The healthy absorption totals for 2Q stem from healthy demand within existing product, but also the deliveries of leased up new construction, with much of the positive quarterly absorption concentrated in Mid Counties and San Gabriel Valley submarkets.

### NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



## Significant Transactions

### Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
5300 Shelia St.	Commerce	695,120	\$121,000,000	Rexford Industrial	Fortress Investment Group, LLC
20333 Normandie Ave.	Torrance	512,490	\$102,500,000	Morgan Stanley	Bridge Development
1420 N. McKinley Ave.	Compton	136,685	\$30,000,000	Rexford Industrial	Prism Realty Corporation
9601–9603 John St.	Santa Fe Springs	181,070	\$24,800,000	The Blackstone Group, LP	Windsor Fashions, Inc.
2340 S. Eastern Ave.	Commerce	165,480	\$22,400,000	Elite Lighting Corporation	Dependable Co.

### Leases

\* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
12801 Excelsior Dr.	Santa Fe Springs	989,809	May-2018	Damco-Maersk	Goodman North America
20333 Normandie Ave. – Sublease	Torrance	512,490	May-2018	Nordstrom	Sears
1540 Francisco St.	Torrance	206,055	May-2018	Puma North America	BlackRock
331–367 W. Victoria St. – Sublease	Carson	40,650	Apr-2018	JR285, Inc.	Classic Brands
175 E. Manville St.	Compton	40,000	Apr-2018	Weber Metals, Inc.	ADS Logistics, 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 2Q2018	Square Feet Available	Availability Rate 2Q2018	Average Asking Lease Rate	Net Absorption 2Q2018	Net Absorption 2018	Gross Absorption 2Q2018	Gross Absorption 2018
<b>Central</b>													
Bell/Bell Gardens/Maywood	195	7,350,876	0	0	18,538	0.25%	139,965	1.90%	\$0.99	76,678	66,518	76,678	201,198
City of Commerce	731	44,778,803	0	172,780	1,241,159	2.77%	2,076,457	4.64%	\$0.75	(546,144)	(796,296)	199,569	449,667
Huntington Park/Cudahy	195	4,712,932	0	0	53,047	1.13%	264,740	5.62%	\$0.71	25,117	58,291	26,217	90,715
Downtown	5,175	130,854,686	135,360	103,300	3,465,811	2.65%	6,951,786	5.31%	\$0.97	(437,403)	(933,270)	1,195,588	2,794,414
Montebello/Monterey Park	306	11,732,659	0	0	216,822	1.85%	301,835	2.57%	\$0.89	32,001	(40,563)	190,943	287,626
Pico Rivera	199	10,160,308	0	0	195,235	1.92%	276,115	2.72%	\$0.85	144,085	(119,084)	170,420	242,451
South Gate	229	10,364,417	0	0	117,318	1.13%	178,261	1.72%	\$0.93	(23,224)	(24,824)	3,600	108,653
Vernon	760	41,411,096	120,000	346,498	1,221,078	2.95%	2,165,125	5.23%	\$0.79	182,789	306,701	358,526	1,350,576
<b>Total</b>	<b>7,790</b>	<b>261,365,777</b>	<b>255,360</b>	<b>622,578</b>	<b>6,529,008</b>	<b>2.50%</b>	<b>12,354,284</b>	<b>4.73%</b>	<b>\$0.98</b>	<b>(546,101)</b>	<b>(1,482,527)</b>	<b>2,221,541</b>	<b>5,525,300</b>
<b>Mid Counties</b>													
Artesia/Cerritos	277	13,077,913	70,696	0	282,913	2.16%	864,433	6.61%	\$0.84	75,164	(185,216)	157,559	272,791
Bellflower/Downey	191	5,484,763	0	0	51,678	0.94%	107,907	1.97%	\$0.90	20,962	(10,667)	68,306	115,297
Buena Park/La Palma	229	14,859,522	200,000	0	212,912	1.43%	2,774,440	18.67%	\$0.92	(61,434)	254,324	53,090	493,634
La Mirada	183	12,973,873	0	0	350,284	2.70%	723,422	5.58%	\$0.87	366,520	382,211	525,131	764,175
Norwalk	86	2,900,838	0	0	26,375	0.91%	16,315	0.56%	\$0.00	(10,060)	(4,568)	39,240	49,732
Paramount	374	8,781,882	0	5,187	80,062	0.91%	119,910	1.37%	\$0.75	17,538	27,577	86,253	142,616
Santa Fe Springs	1,339	51,928,177	604,465	483,692	652,398	1.26%	1,960,523	3.78%	\$0.89	15,449	234,006	1,038,204	1,909,538
Whittier	166	3,926,611	0	0	32,731	0.83%	398,057	10.14%	\$0.89	17,512	(18,718)	36,016	95,226
<b>Total</b>	<b>2,845</b>	<b>113,933,579</b>	<b>875,161</b>	<b>488,879</b>	<b>1,689,353</b>	<b>1.48%</b>	<b>6,965,007</b>	<b>6.11%</b>	<b>\$0.85</b>	<b>441,651</b>	<b>678,949</b>	<b>2,003,799</b>	<b>3,843,009</b>
<b>San Gabriel Valley</b>													
Alhambra	111	2,213,619	0	0	16,000	0.72%	35,742	1.61%	\$0.94	11,100	5,200	13,205	24,905
Arcadia/Temple City	139	3,037,928	0	0	85,135	2.80%	85,625	2.82%	\$0.93	(69,384)	464,707	2,108	551,603
Azusa	231	5,875,459	0	154,000	44,844	0.76%	300,884	5.12%	\$0.93	18,629	100,029	47,973	198,546
Baldwin Park	247	4,632,880	0	0	153,716	3.32%	215,718	4.66%	\$0.95	(82,406)	(126,966)	29,938	43,418
City of Industry/DB/HH/RH	1,090	72,539,821	1,015,879	239,250	2,187,549	3.02%	3,621,644	4.99%	\$0.97	(83,656)	(557,667)	759,429	1,975,664
Covina/West Covina	173	3,176,153	99,272	0	146,296	4.61%	137,100	4.32%	\$1.14	(23,913)	(49,343)	35,688	67,885
Duarte	70	1,812,238	0	0	73,601	4.06%	35,861	1.98%	\$0.90	13,652	(13,581)	69,377	72,297
El Monte	303	8,461,569	67,609	1,235,340	399,822	4.73%	478,580	5.66%	\$0.82	(33,625)	(45,809)	24,660	71,263
Irwindale	262	11,206,748	0	929,537	384,916	3.43%	743,646	6.64%	\$0.88	669,896	589,984	769,200	846,329
La Puente	94	2,021,411	0	12,650	22,890	1.13%	32,090	1.59%	\$1.05	2,834	(17,127)	5,714	27,512
La Verne/San Dimas/Glendora	312	6,700,378	0	0	121,789	1.82%	231,577	3.46%	\$0.97	(82,950)	9,080	22,789	147,479
Monrovia	199	3,264,341	0	0	30,779	0.94%	86,976	2.66%	\$1.14	2,476	17,870	44,530	63,910
Pomona/Claremont	661	19,979,969	143,252	0	241,125	1.21%	281,813	1.41%	\$0.80	(11,127)	(57,894)	46,249	305,905
Rosemead/San Gabriel	116	2,297,346	0	0	51,020	2.22%	53,194	2.32%	\$0.98	(19,678)	(25,520)	5,842	5,842
South El Monte	772	10,410,810	0	0	194,140	1.86%	375,789	3.61%	\$0.91	(76,609)	(55,911)	80,687	232,463
Walnut	198	6,680,057	0	0	95,381	1.43%	224,433	3.36%	\$1.23	13,163	(57,681)	122,805	159,541
<b>Total</b>	<b>4,978</b>	<b>164,310,727</b>	<b>1,326,012</b>	<b>2,570,777</b>	<b>4,249,003</b>	<b>2.59%</b>	<b>6,940,672</b>	<b>4.22%</b>	<b>\$0.94</b>	<b>248,402</b>	<b>179,371</b>	<b>2,080,194</b>	<b>4,794,562</b>
<b>South Bay</b>													
Carson	501	34,897,679	0	70,300	332,090	0.95%	885,554	2.54%	\$0.86	129,392	226,917	348,972	869,007
Compton	457	24,615,311	0	0	332,973	1.35%	838,876	3.41%	\$0.74	129,963	128,553	447,331	947,089
El Segundo	178	8,969,579	0	0	155,132	1.73%	276,482	3.08%	\$1.45	124,152	138,163	135,252	216,725
Gardena	1,166	28,241,929	110,500	0	618,186	2.19%	1,139,210	4.03%	\$0.83	10,793	(64,609)	224,931	545,665
Harbor City	83	1,672,336	0	0	0	0.00%	0	0.00%	\$0.00	14,400	14,400	17,400	17,400
Hawthorne	229	8,048,530	0	0	106,428	1.32%	258,828	3.22%	\$1.25	(65,390)	(53,092)	28,320	75,836
Inglewood	234	4,867,876	0	0	122,528	2.52%	238,607	4.90%	\$1.60	(49,391)	(38,276)	23,120	65,463
Lakewood/Hawaiian Gardens	24	556,012	0	60,500	16,398	2.95%	18,763	3.37%	\$0.00	0	0	0	0
Lawndale	29	251,651	0	0	13,000	5.17%	20,320	8.07%	\$1.45	(13,000)	(13,000)	0	0
Long Beach/Terminal Island	720	20,423,978	0	910,552	571,188	2.80%	959,030	4.70%	\$1.24	(11,568)	(59,778)	169,279	316,511
Lynwood	93	4,393,069	0	0	13,056	0.30%	62,171	1.42%	\$0.00	(13,056)	211,731	46,131	274,358
Rancho Dominguez	240	14,909,737	0	0	452,070	3.03%	688,801	4.62%	\$0.87	50,237	(296,850)	285,413	285,413
Redondo & Hermosa Beach	39	1,873,457	0	137,090	2,495	0.13%	2,495	0.13%	\$0.00	0	4,352	0	4,352
San Pedro	42	2,754,278	0	203,450	3,783	0.14%	5,131	0.19%	\$1.35	5,240	6,259	5,240	11,740
Signal Hill	196	3,425,003	0	0	77,358	2.26%	90,864	2.65%	\$1.09	(38,617)	(37,747)	25,951	45,291
Torrance	595	25,472,874	0	90,000	128,909	0.51%	785,651	3.08%	\$1.11	851,380	991,461	833,839	1,163,687
Wilmington	142	3,723,081	0	0	132,516	3.56%	222,787	5.98%	\$1.03	(60,095)	(41,756)	74,501	109,421
<b>Total</b>	<b>4,968</b>	<b>189,096,380</b>	<b>110,500</b>	<b>1,471,892</b>	<b>3,078,110</b>	<b>1.63%</b>	<b>6,493,570</b>	<b>3.43%</b>	<b>\$1.04</b>	<b>1,064,440</b>	<b>1,116,728</b>	<b>2,665,680</b>	<b>4,947,958</b>
<b>Los Angeles Total</b>	<b>20,581</b>	<b>728,706,463</b>	<b>2,567,033</b>	<b>5,154,126</b>	<b>15,545,474</b>	<b>2.13%</b>	<b>32,753,533</b>	<b>4.49%</b>	<b>\$0.97</b>	<b>1,208,392</b>	<b>492,521</b>	<b>8,971,214</b>	<b>19,110,829</b>
5,000-24,999	13,499	165,132,650	17,860	44,963	4,064,594	2.46%	6,382,720	3.87%	\$1.10	(559,941)	(954,471)	2,119,016	4,027,299
25,000-49,999	3,554	123,216,556	357,916	363,115	2,857,505	2.32%	5,755,399	4.67%	\$1.00	(10,240)	(339,372)	1,597,657	3,158,102
50,000-99,999	1,987	134,989,815	618,720	791,022	2,618,328	1.94%	5,319,978	3.94%	\$0.84	115,248	(194,459)	1,178,521	2,909,233
100,000-249,999	1,239	182,805,114	1,066,072	1,914,092	3,327,979	1.82%	9,082,607	4.97%	\$0.80	422,056	442,112	1,857,907	5,530,991
250,000-499,999	248	80,290,765	0	264,594	2,045,804	2.55%	4,496,605	5.60%	\$0.85	366,463	663,905	1,218,623	2,485,714
500,000 plus	54	42,271,563	506,465	1,776,340	631,264	1.49%	1,716,224	4.06%	\$0.00	874,806	874,806	999,490	999,490
<b>Los Angeles Total</b>	<b>20,581</b>	<b>728,706,463</b>	<b>2,567,033</b>	<b>5,154,126</b>	<b>15,545,474</b>	<b>2.13%</b>	<b>32,753,533</b>	<b>4.49%</b>	<b>\$0.97</b>	<b>1,208,392</b>	<b>492,521</b>	<b>8,971,214</b>	<b>19,110,829</b>

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



## Keep Your Seatbelts Fastened... For Now

### by Loren Cargile

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If it seems like the industrial CRE market is moving at such a fast pace that it is becoming difficult to track, that's because it is. Even we brokerage professionals, who specialize in this product type, sometimes have difficulty pinpointing values in today's market. The reduced number of transactions, on a lease and sale basis, means there are fewer data points to draw from to determine building values. Nevertheless, there are still some overwhelming themes that are driving today's market conditions, including but not limited to 1) demand for industrial buildings overall is still very strong, 2) very few new buildings are being built, and 3) investors are very aggressive in chasing opportunities.

The market's current conditions bring about both opportunities and challenges for landlords/sellers and tenants/buyers. The opportunities for landlords and sellers are obvious: capitalize on peak pricing, leverage tight market conditions to obtain the most qualified tenant/buyer, and drive the negotiations. In our recent experience transacting with prominent landlords and investors in the Mid-Counties submarket, we have noticed the following specifics regarding the "new normal" for lease transactions: 1) 4.0% annual rent increases, 2) between zero and one half of one month of free rent on three-year deals and no more than one month of free rent on five-year deals, 3) minimal tenant improvement allowances within moderately functional buildings, and 4) landlords are very selective with prospective tenants with respect to financial statements.

For tenants/buyers, the deck is currently stacked against you. Limited inventory, sky-high pricing, multiple offers and selective landlords/sellers are likely the themes you are noticing. While you can't directly control market conditions, you can control how you position yourself if you seeking industrial space. These are the strategies our clients have utilized to secure the real estate they need: 1) act quickly when a suitable building hits the market (e.g. make time to tour the building right away), 2) have your financials ready to present along with your offer, 3) tell a story, or better yet employ a good broker who can tell a story for you, of why you are the best candidate for the building, and 4) provide references (e.g. current landlord, bank references, vendors, etc.). In today's market, you want to make yourself appear to be the best selection for "prom queen."

These trends are likely to continue for the remainder of the year. However, we do see some signs that could cause headwind for this market, such as rising interest rates, tariffs and other components of looming "trade wars," and rising construction costs. For guidance and expert service when it comes to industrial real estate needs, reach out to a trusted broker at Voit Real Estate Services.

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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/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