

**ROBUST MARKET CONTINUES DESPITE HURDLES.** The Los Angeles market continues to be the most highly sought-after industrial market in the U.S. This was clear in the third quarter, when we saw positive absorption, record-high asking lease rates and an extremely tight vacancy rate. As the primary point of entry for goods manufactured in Asia and shipped to the United States, the twin ports of LA and Long Beach give the Greater Los Angeles industrial market a strategic advantage. As consumption levels increased this quarter aided by record highs on most major stock indexes, local port traffic increased 9% from its previous high-water mark set in 2016. Retailers with emerging e-commerce platforms as well as more traditional industrial uses in the manufacturing sector (food/beverage, fabricated metal, electronics and apparel) clamored for expansion space in this competitive market. As the largest industrial market in the country with consistent demand, Los Angeles leads the nation in investment sale volume, up 17% from last year, as both foreign and domestic capital continue to favor the industrial asset class over office, retail and multifamily. This tight market has given landlords the leverage and with very few alternatives to choose from at expensive rates, tenants are having to get creative to find real estate solutions. Solutions for the market's pent up demand seem limited, as recent moratoriums have been put in place in certain cities to limit new truck yards, logistics facilities and container storage. Scarcity of industrial land, rising construction costs, increased regulatory burdens and the presence of labor unions will severely limit new development.

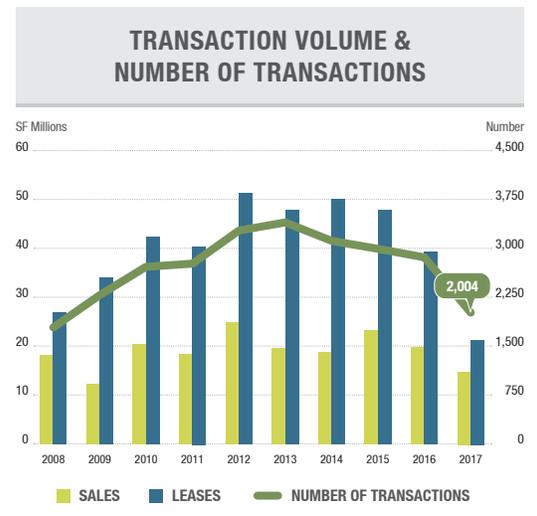
**VACANCY.** Vacancy rates across all size ranges remain near record lows. The overall vacancy rate in the third quarter is 2.06%, down 6 basis points from the prior quarter, as tenants and users set their sights on improving function and minimizing their overall transportation costs.

**LEASE RATES.** Strong demand from the transportation/logistics sector and the apparel and food/beverage industries resulted in intense competition for space, maintaining lease rates at \$0.80 per square foot on average. Los Angeles now boasts the highest industrial rents in the county along with the tightest vacancy.

**TRANSACTION ACTIVITY.** Large blocks of Class A space (100,000 square foot plus) continue to be in high demand by tenants and investors alike. Increased efficiency, access to labor and proximity to the consumer are at the core of most real estate decisions at the moment. Los Angeles' sale and leasing activity in the third quarter totaled 9.7 million square feet, down from 13.6 million square feet in the second quarter of 2017. The lack of inventory is negatively impacting overall transaction volume. Notable lease transactions for the third quarter include:

- Capitol Logistics' lease of 222,000 square feet at 20100 Alameda Street in Compton
- Home Furniture International's lease of 200,000 square feet at 3030 S. Atlantic Boulevard in Vernon
- 99 Cents Only Store's lease of 190,359 square feet at 4633 S. Downey Road in Vernon

With significant barriers to entry limiting new construction, investors (private, public, foreign and domestic) are paying up to purchase existing class A assets and are optimistic about the future of the industrial sector. Rexford Industrial purchased a fully leased 143,000 square feet in Douglas Park, Long Beach (former Boeing property) for \$30.5 million or \$215 per square foot. To put this in perspective, a building of similar size in the same project sold for only \$130 per square foot in 2013.



### Market Statistics

	Change Over Last Quarter	3Q 2017	2Q 2017	3Q 2016	% Change Over Last Year
Vacancy Rate	▼ DOWN	2.05%	2.11%	1.88%	9.04%
Availability Rate	▲ UP	4.35%	4.17%	4.10%	6.10%
Average Asking Lease Rate	▬ FLAT	\$0.80	\$0.80	\$0.78	2.56%
Sale & Lease Transactions	▼ DOWN	9,798,494	13,610,630	12,696,148	(22.82%)
Gross Absorption	▲ UP	11,054,596	7,866,455	8,802,203	25.59%
Net Absorption	▲ POSITIVE	1,300,619	34,920	840,684	N/A

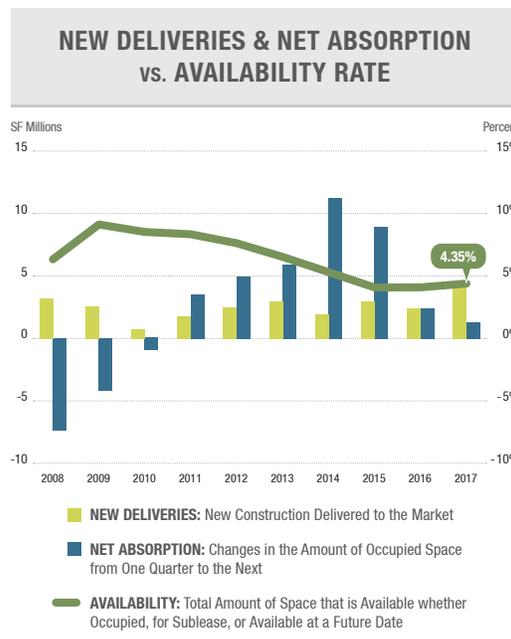
**LEASE RATES.** Rental rates are expected to increase at a moderate pace in the short run and rents in the “last mile” markets near critical population centers will experience the most aggressive growth. Tenant concessions like free rent, moving allowances and specific TI’s will remain minimal as the market stays tight and favors landlords. Upward pressure on lease rates will continue and increases of 2% during the balance of 2017 seem likely based on current conditions.

**VACANCY.** While hard to predict a drop in an already low 2.05% vacancy rate, we expect to see this figure dip below 2% by the end of 2017.

**OVERALL.** The fundamentals of the LA market have never been better and we expect them to continue into 2018. With consumer spending up, tenant demand at a peak and a flood of investment capital targeting the region, we anticipate a healthy but competitive market. Landlords will have the upper hand and tenants will need to start making expansion or relocation plans further in advance as available options become even more scarce. Lease renewals will become more common. Exchange buyers (private investors/family offices) who have recently sold assets will continue to be aggressive and pay up for infill industrial product. Capital markets and investments activity should remain strong, but rising interest rates should slow the double digit year over year growth in sale prices.

**CONSTRUCTION.** Despite several challenges for developers, including increasing regulations, rising construction costs and record high land prices, the sharp increase in tenant demand has prompted 4,458,698 square feet of new construction. At the end of the quarter a total of 22 buildings were delivered to the market totaling 1.7 million square feet. 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 328,792 square foot speculative building at 12359 Lower Azusa Road in Arcadia.

**ABSORPTION.** Los Angeles added 1.3 million square feet of positive absorption during the third quarter of 2017 for a total 2.48 million 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. Primary contributors to this trend in the third quarter include: FedEx (367,102 square feet), Amazon (238,270 square feet) and simplehuman (219,280 square feet).



## Significant Transactions

### Sales

\* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2301–2398 E Pacifica Pl.	Rancho Dominguez	1,170,806	\$210,500,000	Rexford Industrial	CBRE Global Investors, Ltd.
14237–14343 E Don Julian Rd.	City of Industry	798,899	\$92,250,000	AEW Capital Management	Invesco Advisors, Inc.
14820–14830 Carmenita Rd.	Norwalk	198,062	\$30,700,000	Rexford Industrial	Sydney Development Company
462 S. Humane Way	Pomona	146,806	\$20,112,422	HF Global Investment, LLC	PSIP CHI Pomona, LLC
927 S. Santa Fe Ave.	Compton	56,758	\$6,350,000	Dedeaux Properties LLC *	Dameron Alloy Foundries *

### Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2220 Carson St.	Carson	270,674	Jul-2017	AZ West / St. George	Watson Land Company
14445 Alondra Blvd.	La Mirada	199,588	Sep-2017	St. George Logistic	14445 Alondra, LLC
4633 S. Downey Rd.	Vernon	190,359	Jul-2017	99 Cent Only Stores	4633 Downey Acquisition, LLC
3113–3121 E. 26th St.	Vernon	150,669	Aug-2017	Sewing Collection, Inc.	Hersel Saidly
5001 S. Soto St.	Vernon	118,714	Sep-2017	Snail Games USA	Bel Air Soto, 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 3Q2017	Square Feet Available	Availability Rate 3Q2017	Average Asking Lease Rate	Net Absorption 3Q2017	Net Absorption 2017	Gross Absorption 3Q2017	Gross Absorption 2017
<b>Central</b>													
Bell/Bell Gardens/Maywood	193	6,924,446	0	0	94,304	1.36%	399,326	5.77%	\$0.77	11,398	58,318	78,837	271,357
City of Commerce	730	45,268,479	0	287,865	537,171	1.19%	1,138,743	2.52%	\$0.65	(109,698)	14,657	382,173	1,731,360
Huntington Park/Cudahy	194	4,600,341	0	0	93,220	2.03%	331,070	7.20%	\$0.65	88	9,450	39,198	139,988
Downtown	5,177	132,785,030	117,500	103,300	2,941,566	2.22%	6,626,360	4.99%	\$0.93	272,402	535,806	2,176,093	5,018,237
Montebello/Monterey Park	305	11,586,813	0	0	179,868	1.55%	344,537	2.97%	\$0.84	(84,407)	(52,694)	85,483	222,191
Pico Rivera	200	10,190,222	0	59,849	69,489	0.68%	270,905	2.66%	\$0.82	(26,825)	35,668	216,482	427,077
South Gate	228	10,346,669	0	119,340	167,532	1.62%	303,108	2.93%	\$0.93	(62,663)	(79,596)	50,000	63,536
Vernon	749	40,493,545	94,769	300,038	1,718,342	4.24%	2,917,253	7.20%	\$0.59	213,572	(712,335)	1,045,919	1,666,138
<b>Total</b>	<b>7,776</b>	<b>262,195,545</b>	<b>212,269</b>	<b>870,392</b>	<b>5,801,492</b>	<b>2.21%</b>	<b>12,331,302</b>	<b>4.70%</b>	<b>\$0.77</b>	<b>213,867</b>	<b>(190,726)</b>	<b>4,074,185</b>	<b>9,539,884</b>
<b>Mid Counties</b>													
Artesia/Cerritos	277	13,158,023	0	0	210,526	1.60%	163,936	1.25%	\$0.71	78,498	26,619	234,206	467,283
Bellflower/Downey	192	5,520,284	0	0	68,671	1.24%	119,771	2.17%	\$0.81	(21,390)	(10,799)	38,009	128,381
Buena Park/La Palma	229	15,146,942	0	0	304,004	2.01%	1,355,048	8.95%	\$1.25	(3,251)	(234,720)	164,017	207,296
La Mirada	182	12,554,168	0	492,639	450,665	3.59%	319,718	2.55%	\$0.75	194,470	9,783	383,366	748,365
Norwalk	87	2,907,994	0	0	11,987	0.41%	34,302	1.18%	\$0.00	0	54,489	11,315	79,119
Paramount	373	8,724,986	0	5,187	114,942	1.32%	267,901	3.07%	\$0.80	(18,140)	(28,609)	33,964	190,008
Santa Fe Springs	1,323	50,958,211	1,474,067	268,191	815,731	1.60%	2,857,965	5.61%	\$0.81	152,364	5,571	823,245	1,527,760
Whittier	166	3,925,465	0	0	38,318	0.98%	71,608	1.82%	\$0.88	(8,630)	51,173	5,300	117,747
<b>Total</b>	<b>2,829</b>	<b>112,896,073</b>	<b>1,474,067</b>	<b>766,017</b>	<b>2,014,844</b>	<b>1.78%</b>	<b>5,190,249</b>	<b>4.60%</b>	<b>\$0.77</b>	<b>373,921</b>	<b>(126,493)</b>	<b>1,693,422</b>	<b>3,465,959</b>
<b>San Gabriel Valley</b>													
Alhambra	112	2,220,448	0	0	31,054	1.40%	57,079	2.57%	\$1.10	(28,887)	(31,054)	0	6,534
Arcadia/Temple City	134	1,984,172	679,851	0	30,081	1.52%	27,460	1.38%	\$0.86	(4,642)	(7,781)	12,239	74,005
Azusa	230	5,801,858	0	154,000	288,365	4.97%	502,962	8.67%	\$1.10	63,935	(19,546)	440,508	476,866
Baldwin Park	242	4,561,182	0	0	37,890	0.83%	133,966	2.94%	\$0.88	1,051	31,264	30,295	222,186
City of Industry/DB/HH/RH	1,085	71,886,235	563,770	179,360	1,641,205	2.28%	3,000,225	4.17%	\$0.88	349,684	428,529	863,614	3,018,643
Covina/West Covina	169	3,054,800	26,512	0	83,710	2.74%	75,528	2.47%	\$0.95	69,509	83,861	103,505	205,820
Duarte	70	1,752,002	0	0	118,371	6.76%	107,427	6.13%	\$0.86	(10,944)	(116,096)	3,200	23,140
El Monte	302	8,531,289	0	0	456,387	5.35%	666,044	7.81%	\$1.12	234,802	279,148	293,769	476,320
Irwindale	258	11,105,331	0	924,737	400,318	3.60%	1,170,399	10.54%	\$0.97	(65,700)	(15,857)	80,078	249,919
La Puente	95	2,057,022	0	12,650	24,357	1.18%	10,073	0.49%	\$0.90	6,832	(6,313)	21,116	38,310
La Verne/San Dimas/Glendora	312	6,600,696	0	0	74,869	1.13%	183,363	2.78%	\$0.79	(11,593)	22,389	27,156	137,501
Monrovia	200	3,295,821	0	0	43,889	1.33%	70,062	2.13%	\$0.83	(13,995)	2,832	59,411	85,678
Pomona/Claremont	660	19,983,371	0	0	379,415	1.90%	470,891	2.36%	\$0.73	260,109	470,335	509,437	1,065,450
Rosemead/San Gabriel	114	2,266,868	0	0	42,592	1.88%	53,370	2.35%	\$0.00	(34,527)	(29,992)	8,065	31,461
South El Monte	764	10,291,557	0	0	95,546	0.93%	197,258	1.92%	\$0.86	24,250	(11,388)	126,715	361,560
Walnut	197	6,641,842	0	37,648	135,383	2.04%	20,811	0.31%	\$0.00	(94,950)	(33,109)	158,984	408,501
<b>Total</b>	<b>4,944</b>	<b>162,034,494</b>	<b>1,270,133</b>	<b>1,308,395</b>	<b>3,883,432</b>	<b>2.40%</b>	<b>6,746,918</b>	<b>4.16%</b>	<b>\$0.88</b>	<b>744,934</b>	<b>1,047,222</b>	<b>2,738,092</b>	<b>6,881,894</b>
<b>South Bay</b>													
Carson	504	35,037,753	113,892	0	632,380	1.80%	1,589,724	4.54%	\$0.35	(233,859)	(98,508)	384,348	1,619,289
Compton	454	24,469,076	136,685	0	258,196	1.06%	988,341	4.04%	\$0.74	75,535	1,156,359	845,912	1,765,088
El Segundo	186	9,650,566	0	0	308,574	3.20%	996,255	10.32%	\$0.00	(81,600)	(143,207)	26,500	55,500
Gardena	1,163	28,033,485	112,900	188,201	438,379	1.56%	728,178	2.60%	\$0.82	54,437	461,488	326,066	1,215,994
Harbor City	82	1,661,749	0	0	7,200	0.43%	7,200	0.43%	\$1.00	27,186	70,241	34,386	111,827
Hawthorne	231	8,040,041	0	0	61,735	0.77%	78,424	0.98%	\$1.17	(6,588)	(30,315)	49,565	182,753
Inglewood	233	4,750,814	143,436	0	81,151	1.71%	164,269	3.46%	\$1.50	(11,268)	(882)	72,469	191,257
Lakewood/Hawaiian Gardens	23	539,614	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	1,596
Lawndale	29	251,152	0	0	0	0.00%	7,320	2.91%	\$0.00	0	0	1,800	1,800
Long Beach/Terminal Island	721	20,047,902	251,307	311,200	467,632	2.33%	852,326	4.25%	\$0.95	70,137	321,748	161,317	705,561
Lynwood	91	4,198,125	201,027	0	34,443	0.82%	154,212	3.67%	\$0.00	(23,760)	41,307	10,000	111,332
Rancho Dominguez	241	14,966,086	0	0	261,947	1.75%	315,637	2.11%	\$1.16	(18,383)	(74,911)	221,182	684,379
Redondo & Hermosa Beach	39	1,873,456	0	0	4,352	0.23%	4,352	0.23%	\$0.00	1,509	70,512	48,082	122,246
San Pedro	41	2,734,278	0	0	24,896	0.91%	49,891	1.82%	\$0.00	(1,490)	(15,354)	1,490	12,170
Signal Hill	193	3,416,685	0	0	55,934	1.64%	105,482	3.09%	\$1.12	84,607	773	116,664	175,871
Torrance	595	25,161,028	542,982	90,000	496,630	1.97%	1,208,745	4.80%	\$0.82	38,542	3,457	249,116	865,840
Wilmington	136	3,672,187	0	0	7,108	0.19%	29,143	0.79%	\$0.85	(7,108)	(3,808)	0	55,000
<b>Total</b>	<b>4,962</b>	<b>188,503,997</b>	<b>1,502,229</b>	<b>589,401</b>	<b>3,140,557</b>	<b>1.67%</b>	<b>7,279,499</b>	<b>3.86%</b>	<b>\$0.78</b>	<b>(32,103)</b>	<b>1,758,900</b>	<b>2,548,897</b>	<b>7,877,503</b>
<b>Los Angeles Total</b>	<b>20,511</b>	<b>725,630,109</b>	<b>4,458,698</b>	<b>3,534,205</b>	<b>14,840,325</b>	<b>2.05%</b>	<b>31,547,968</b>	<b>4.35%</b>	<b>\$0.80</b>	<b>1,300,619</b>	<b>2,488,903</b>	<b>11,054,596</b>	<b>27,765,240</b>
5,000-24,999	13,445	164,266,338	36,746	44,963	3,362,410	2.05%	6,661,512	4.06%	\$1.03	(186,619)	(243,606)	2,241,214	6,150,222
25,000-49,999	3,558	123,357,333	379,166	370,659	2,778,813	2.25%	5,230,419	4.24%	\$0.80	165,149	395,326	1,604,692	4,494,685
50,000-99,999	1,986	134,742,004	662,614	783,079	2,057,290	1.53%	5,175,907	3.84%	\$0.77	409,975	551,422	1,990,819	5,069,809
100,000-249,999	1,224	180,340,325	1,333,300	1,037,271	4,239,228	2.35%	9,086,441	5.04%	\$0.71	1,109,015	1,546,790	4,129,357	9,126,524
250,000-499,999	243	78,386,576	1,027,917	757,233	1,896,004	2.42%	2,986,269	3.81%	\$0.77	(196,901)	344,032	1,088,514	2,260,159
500,000 plus	55	44,537,533	1,018,955	541,000	506,580	1.14%	2,407,420	5.41%	\$0.53	0	(105,061)	0	663,841
<b>Los Angeles Total</b>	<b>20,511</b>	<b>725,630,109</b>	<b>4,458,698</b>	<b>3,534,205</b>	<b>14,840,325</b>	<b>2.05%</b>	<b>31,547,968</b>	<b>4.35%</b>	<b>\$0.80</b>	<b>1,300,619</b>	<b>2,488,903</b>	<b>11,054,596</b>	<b>27,765,240</b>

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



## Patience, Creativity and Open Communication Are Keys to Success in A Tight Market

by **Brian McLoughlin**

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Being a commercial real estate professional in the Los Angeles industrial market is an amazing way to make a living, but today's current market conditions have many of us pulling our remaining hair out. Creating opportunities for our clients and unlocking value is becoming more and more challenging given the incredible demand, competition and capital flow into this region. To provide valuable service, our team reviews an expansive list of quality tenants we are working to find space for as well as the "off market" opportunities we will be researching to try and create a match. This is a daily function and is critical to the success of our clients given how quickly the market is moving. On the other side of the ledger is a qualified group of investors who are looking for the next "value add" opportunity and are counting on our intimate knowledge of the market to help them make an informed purchase. The fundamental challenge is that we have more puzzle pieces than open spaces. Tenants, users and investors are having to expand their search criteria and geographic area of focus, while remaining patient, to successfully transact in this market.

The Los Angeles 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 LA/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 industrial rents in Greater LA are now the highest in the county.

Landlords clearly have the leverage in this environment and the limited number of quality alternatives usually have multiple offers in play. Concessions are limited and credit is key. An unfortunate reality is that many companies are simply being priced out of the Los Angeles market and forced to relocate to less expensive regions like the Inland Empire or even out of state. Industrial land prices in certain segments of the South Bay are approaching \$60 per square foot, a new high-water mark.

While brokerage as an industry can be viewed by many as a commodity, unfairly characterized by every broker providing the same level of service, it is in a market like this where the good ones add value, create opportunities and provide key insight for success. You deserve and should expect a high level of service, but let us be the first to encourage tenants, users and investors to expand timelines, be open to alternatives that are somewhat "outside the box," start the relocation or acquisition process earlier than anticipated, be prepared to "pounce" on the right deal and keep the communication open. Trust, patience and an open exchange of information will be rewarded.

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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