LA3Q18 THIRD QUARTER 2018 MARKET REPORT GREATER LOS ANGELES INDUSTRIAL



MARKET OVERVIEW. The Los Angeles industrial market continues to exhibit strong performance, as economic indicators and property market fundamentals remain positive. The Los Angeles industrial market saw vacancies decline and rental rates increase. Supply constraints continue to define this market and the tight market means tenants/buyers have relatively few alternatives. As the Los Angeles economy is growing, demand for industrial properties is driving rents up and vacancies down. The overall vacancy rate for 3Q fell just less than a percentage point and monthly rents ticked up \$0.05 per square foot. The slight upward shift in occupancy was typical of the last several quarters. Leasing activity and absorption of empty space were strong in 3Q, indicating that the market is continuing to stabilize, and positive absorption is expected to continue throughout 2018.

VACANCY. Vacancy in the Los Angeles region was 2.39% at the end of 3Q 2018, down 14 basis points compared with the prior quarter, and up 43 basis points compared with the previous year. 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.

AVAILABILITY. Marketed direct/sublease space finished the quarter at 4.55%, up 13 basis points from the previous quarter and 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.

LEASE RATES. Rental rates are rising so quickly that we are seeing a growing trend of active listings without an advertised rate. Rents have sustained solid year-over-year growth of over 10% for 18 straight quarters. Los Angeles industrial rents have been strong all year, with the average asking lease rate coming in now at \$0.94 IG per square foot per month, a \$0.05 per square foot increase from last quarter, and a \$0.14 per square foot increase when compared to the \$0.80 from a year ago (a 17.50% 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 has slowed down, with 8.5 MSF total transactions (sale and lease), down from just over 14 MSF last quarter. With such a limited number of available options, the supply and demand imbalance continues to limit overall activity. With tenants moving in immediately upon delivery of the industrial center, vacancies have remained steadily low. The bulk of recent leasing activity has taken place at the Goodman Logistics Center.



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	3Q 2018	2Q 2018	3Q 2017	% Change Over Last Year		
Vacancy Rate	DOWN	2.39%	2.53%	1.96%	21.94%		
Availability Rate	UP	4.55%	4.42%	4.29%	6.06%		
Average Asking Lease Rate	UP UP	\$0.94	\$0.89	\$0.80	17.50%		
Sale & Lease Transactions	DOWN	8,588,091	14,127,251	15,164,024	(43.37%)		
Gross Absorption	UP	9,413,899	8,431,862	10,769,777	(12.59%)		
Net Absorption	POSITIVE	756,826	290,527	2,797,636	N/A		

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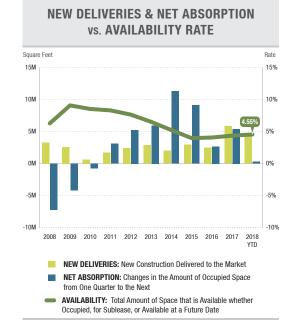
OVERALL. Vacancies will be at a cyclical low of 2% by year-end. Demand has historically been strong in Los Angeles because of its dense concentration of manufacturing, wholesale, and logistics operations. Rent growth has been robust and remain about 20% higher than the regional average. Land availability and traffic congestion limit construction of new buildings. Sales volume is starting to decline and the bulk of investment activity has been concentrated in the Arts District, where industrial inventory is rapidly being converted to creative office space, retail stores, and multifamily housing.

LEASE RATES. Expect lease rates to continue to climb, with the largest gains in newer, Class A product. We expect 6–10% annualized growth in the coming year.

VACANCY. While hard to predict a drop in an already low vacancy rate, we expect to see this figure continue to decrease based on current activity levels.

CONSTRUCTION. Bringing new product to Los Angeles is traditionally a challenge and one of the key reasons the nearby Inland Empire has evolved into one of the hottest industrial markets in the country. A scarcity of land able to be developed, and a laborious permitting process, tend to keep a lid on development even during periods of peak demand growth. Nonetheless, industrial construction continues to grow in Los Angeles into 3Q, with 36 buildings totaling 4.5 MSF completed year to date. Another 1.2 MSF of industrial product is currently under construction, 80% of which is actively marketed as available. The majority of this is speculative development.

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 3Q, 756,826 square feet was absorbed through leasing activity and user sales. In the third quarter, SimpleHuman, Inc. moved into 219,280 square feet in Long Beach, HD Supply moved into 147521 square feet in Pomona, and US Pride Furniture moved into 115,000 square feet in City of Industry.



Significant Transactions

Sales							
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller		
2310 E. Imperial Ave.	El Segundo	93,800	\$49,787,000	NantHealth	Tom Shapiro		
5685 Alcoa Ave.	Los Angeles	116,450	\$24,515,000	Clarion Partners	Sandberg Family		
1100 John Reed Ct.	City of Industry	109,730	\$17,150,000	Ta Chen International	Fan Family Trust		
1223 E. 58th Pl.	Los Angeles	110,700 \$13,824,000		Equimax Management	Puckett Family Trust		
13260 E. Amar Rd.	City of Industry	93,818	\$13,603,610	CenterPoint Properties	American Foam, Fiber & Supplies		
Leases							
Property Address							
1500 E. Glenn Curtiss St.	Carson	242,143	Sep-2018	Monogram	The Carson Companies		
8700 Rex Rd.	Pico rivera	186,500	Jul-2018	Million Dollar Baby	Majestic Realty		
15530 E. Salt Lake Ave.	City of Industry	115,000	Aug-2018	US Pride Furniture	Blackstone Group		
4000 Noakes St.	Commerce	111,260	Sep-2018	Taylor Fresh Foods	Dedeaux Properties		
18835 E. San Jose Ave.	City of Industry	100,100	Aug-2018	Jada Toys	Principal Real Estate		

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	INVENTORY				VACANCY & LEASE RATES					ABSORPTION				
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2018	Square Feet Available	Availability Rate 3Q2018	Average Asking Lease Rate	Net Absorption 3Q2018	Net Absorption 2018	Gross Absorption 3Q2018	Gross Absorption 2018	
Central														
Bell/Bell Gardens/Maywood	194	7,447,153	0	0	25,378	0.34%	202,965	2.73%	\$0.88	(6,840)	59,678	11,600	212,798	
City of Commerce	730	44,673,858	0	172,780	1,188,759	2.66%	2,140,580	4.79%	\$0.73	151,157	(748,264)	361,475	761,942	
Huntington Park/Cudahy	196	4,719,621	0	0	159,045	3.37%	345,586	7.32%	\$0.80	(105,998)	(47,707)	1,600	92,315	
Downtown	5,170	130,707,252	70,360	103,300	3,745,414	2.87%	7,253,763	5.55%	\$1.02	(381,855)	(1,165,651)	1,358,841	4,123,707	
Montebello/Monterey Park	306	11,875,347	0	, 0	177,866	1.50%	825,716	6.95%	\$0.89	29,693	(60,883)	106,289	334,639	
Pico Rivera	202	10,194,428	0	0	275,349	2.70%	371,946	3.65%	\$0.85	(79,514)	(198,698)	7,100	249,651	
South Gate	227	10,331,219	0	0	104,694	1.01%	122,450	1.19%	\$0.00	12,624	(12,200)	36,424	145,077	
Vernon	763	42,037,535	120,000	82,412	1,426,136	3.39%	1,916,163	4.56%	\$0.82	130,068	102,143	1,150,637	2,569,913	
Total	7,788	261,986,413	190,360	358,492	7,102,641	2.71%	13,179,169	5.03%	\$0.98	(250,665)	(2,071,582)	3,033,966	8,490,042	
Mid Counties											,			
Artesia/Cerritos	077	10 110 010	70 606	0	EE1 092	4 200/	1 160 072	8.85%	\$0.85	62 606	(406 659)	159 205	101 100	
	277	13,113,913	70,696	0	551,083	4.20%	1,160,073			63,606	(406,658)	158,395	431,186	
Bellflower/Downey	192	5,493,646	_	0	98,388	1.79%	103,436	1.88%	\$0.69	(36,857)	(57,377)	17,875	133,172	
Buena Park/La Palma	229	14,859,434	200,000		172,016	1.16%	2,622,529	17.65%	\$1.20	(62,721)	192,853	145,174	638,808	
La Mirada	183	12,973,873	0	0	436,394	3.36%	373,796	2.88%	\$0.81	(86,110)	296,101	61,836	826,011	
Norwalk	87	2,912,756	0	0	24,961	0.86%	110,282	3.79%	\$1.08	1,414	(3,154)	15,060	64,792	
Paramount	375	8,810,424	0	5,187	107,343	1.22%	188,353	2.14%	\$0.60	(27,281)	296	22,003	164,619	
Santa Fe Springs	1,341	52,629,203	0	629,694	2,214,930	4.21%	1,536,172	2.92%	\$0.90	675,950	73,970	1,121,761	3,051,38	
Whittier	165	3,927,689	0	0	21,215	0.54%	410,757	10.46%	\$0.95	9,908	(7,202)	9,908	105,134	
Total	2,849	114,720,938	270,696	634,881	3,626,330	3.16%	6,505,398	5.67%	\$0.88	537,909	88,829	1,552,012	5,415,110	
San Gabriel Valley														
Alhambra	113	2,255,121	0	0	17,000	0.75%	40,017	1.77%	\$0.93	(300)	4,700	700	26,105	
Arcadia/Temple City	139	3,011,434	0	0	53,503	1.78%	24,771	0.82%	\$1.11	31,632	496,339	44,308	595,911	
Azusa	231	5,926,814	0	154,000	61,874	1.04%	445,117	7.51%	\$0.76	(17,230)	85,699	24,144	224,890	
Baldwin Park	248	4,650,102	0	0	151,742	3.26%	129,156	2.78%	\$0.99	3,034	(124,992)	49,365	92,783	
City of Industry/DB/HH/RH	1,101	73,204,679	596,432	239,250	1,332,901	1.82%	3,337,062	4.56%	\$0.95	285,085	688,159	1,607,544	3,646,862	
Covina/West Covina	173	3,176,153	99,272	0	146,515	4.61%	173,035	5.45%	\$0.82	(219)	(49,562)	48,805	116,690	
Duarte	70	1,812,238	00,272	0	30,549	1.69%	30,549	1.69%	\$0.93	43,052	(29,089)	55,539	69,276	
El Monte	303	8,467,370	1,302,666	0	389,520	4.60%	452,108	5.34%	\$1.06	10,302	(35,507)	36,000	107,263	
Irwindale	263	11,259,841	75,807	1,084,494	263,947	2.34%	637,701	5.66%	\$0.87	101,248	710,953	140,237	986,566	
La Puente	94	2,021,411	0	12,650	26,616	1.32%	29,819	1.48%	\$0.96	(3,726)	(20,853)	16,104	43,616	
La Verne/San Dimas/Glendora	312	6,712,494	0	0	80,758	1.20%	190,989	2.85%	\$1.07	44,547	52,127	91,878	241,373	
Monrovia	199	3,264,645	0	0	44,457	1.36%	39,422	1.21%	\$1.63	(25,471)	4,192	9,564	73,474	
Pomona/Claremont	661	19,999,139	143,252	0	344,388	1.72%	39,422	1.56%	\$0.69	,		9,564		
Rosemead/San Gabriel	116		143,252	0	36,967	1.61%		3.67%	\$0.09	(98,073)	(161,157)	,	434,909	
		2,302,709			,		84,436			14,053	(11,467)	49,520	55,362	
South El Monte	774	10,479,287	0	0	211,986	2.02%	385,652	3.68%	\$1.11	34,854	(21,057)	177,998	410,461	
Walnut	197	6,656,869	0	0	203,766	3.06%	206,013	3.09%	\$1.16	(110,077)	(166,066)	65,919	203,652	
Total	4,994	165,200,306	2,217,429	1,490,394	3,396,489	2.06%	6,517,709	3.95%	\$0.95	312,711	1,422,419	2,546,629	7,329,193	
South Bay														
Carson	500	34,914,590	0	70,300	469,973	1.35%	947,100	2.71%	\$0.94	(137,883)	89,034	358,663	1,227,670	
Compton	452	24,764,771	94,875	0	324,855	1.31%	1,219,733	4.93%	\$0.80	(30,973)	135,271	229,664	1,291,253	
El Segundo	174	8,935,763	0	0	144,952	1.62%	187,527	2.10%	\$0.00	10,180	142,843	14,180	225,405	
Gardena	1,163	28,191,662	112,000	0	687,669	2.44%	1,182,646	4.20%	\$0.81	(92,293)	(134,092)	317,671	863,336	
Harbor City	85	1,693,096	0	0	10,200	0.60%	118,168	6.98%	\$0.00	(10,200)	4,200	3,000	20,400	
Hawthorne	228	8,005,663	0	0	146,165	1.83%	279,866	3.50%	\$1.19	(39,737)	(92,829)	12,718	64,054	
Inglewood	234	4,874,190	0	0	144,485	2.96%	229,752	4.71%	\$1.27	(29,977)	(59,733)	19,781	85,744	
Lakewood/Hawaiian Gardens	39	1,873,457	0	60,500	2,495	0.13%	2,495	0.13%	\$0.00	0	4,352	0	4,352	
Lawndale	29	251,651	0	00,000	11,800	4.69%	11,800	4.69%	\$1.25	1,200	(11,800)	1,200	1,200	
Long Beach/Terminal Island	724	20,468,542	421,692	910,105	544,600	2.66%	986,602	4.82%	\$0.79	(12,794)	(28,790)	121,689	481,982	
Lynwood	94	4,402,695	421,032	0	48,096	1.09%	115,537	2.62%	\$0.62	(35,040)	176,691	15,556	289,914	
Rancho Dominguez	239	14,808,671	0	0	383,633	2.59%	587,290	3.97%	\$0.84	68,437	(228,413)	220,403	389,710	
Redondo & Hermosa Beach	239	556,012	0	137,090	2,366	0.43%	4,869	0.88%	\$0.84	14,032	(228,413)	16,398	16,398	
San Pedro	42		0		3,783				\$0.00	14,032	6,259	16,398	10,390	
		2,754,278		203,450		0.14%	5,131	0.19%						
Signal Hill	196	3,395,823	0	0	28,973	0.85%	47,078	1.39%	\$1.25	48,385	10,638	75,763	121,054	
Torrance	595	25,387,433	0	90,000	231,444	0.91%	813,507	3.20%	\$1.14	528,756	888,926	862,755	1,526,152	
Wilmington	142	3,738,525	0	0	146,738	3.93%	306,362	8.19%	\$0.93	(125,222)	(55,978)	11,851	121,272	
Total	4,960	189,016,822	628,567	1,471,445	3,332,227	1.76%	7,045,463	3.73%	\$0.89	156,871	860,611	2,281,292	6,741,642	
os Angeles Total	20,591	730,924,479	3,307,052	3,955,212	17,457,687	2.39%	33,247,739	4.55%	\$0.94	756,826	300,277	9,413,899	27,975,987	
5,000-24,999	13,502	165,087,846	17,860	44,963	4,124,133	2.50%	6,372,579	3.86%	\$1.05	(171,050)	(1,047,097)	2,244,278	6,272,860	
25,000-24,999	3,556	123,244,920	97,326	44,963	3,049,350	2.30%	5,934,897	4.82%	\$0.87	(171,030)	(1,047,097)	1,494,375	4,692,378	
25,000-49,999 50,000-99,999	3,556	123,244,920	626,402	801,445	3,049,350	2.47%			\$0.87		,		4,692,378	
							6,310,628	4.68%		(307,820)	(669,273)	1,340,649		
100,000-249,999	1,239	182,954,607	1,330,124	2,155,076	4,362,923	2.38%	8,304,666	4.54%	\$0.82	(66,077)	90,312	2,291,351	7,713,866	
250,000-499,999	252	81,433,705	0	0	1,593,091	1.96%	4,440,234	5.45%	\$0.80	(82,513)	1,220,195	517,711	3,000,62	
500,000 plus	56	43,278,713	1,235,340	541,000	1,131,949	2.62%	1,884,735	4.35%	\$0.79	1,525,535	883,386	1,525,535	2,015,335	

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



Market Seeing Peak Value

by David Fults and Sean McDonald



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The Greater Los Angeles Industrial Market covers the area from the Port of Los Angeles / Long Beach to the county line in Pomona. It is an amazing 932 million square foot economic engine. It features everything from early 1900's small brick manufacturing plants to million square foot 2018 vintage state of the art distribution centers. Currently, that entire market is seeing peak values.

The vacancy rate for the whole market was 2.39% at the end of 3Q. That rate is very close to effectively being the lowest it can get. We've seen it dip below 2%, but we are generally at minimum vacancy. At the moment, the South Bay/Port submarket is boasting the lowest vacancy rate, at 1.76%. That means that about 98% of buildings are fully occupied.

Strong vacancy rates have put incredible pressure on lease rates. The average lease rate for the quarter was \$0.94 per square foot. That is up a whopping 17% from the 3Q 2017. With no sign of weakness in the market, we predict additional increases in the coming year.

Ninety-five buildings greater than 10,000 square feet sold in the quarter. Their prices ranged from \$91 to \$538 per square foot. The average was \$213 per square foot. That compares with 125 sales in the 3Q 2017 that averaged \$203 per square foot. Capitalization rates for industrial buildings sold during the quarter ranged from 4.4% to 6%. With interest rates rising, we are starting to see some pressure on the ultra-low cap rate deals, but investor demand is so strong that many sale prices haven't been materially affected yet.

The top sale for the quarter was NantHealth's purchase of the 93,800 square foot 2310 Imperial Hwy, El Segundo for \$50M or about \$530 per square foot. NantHealth is owned by billionaire Patrick Soon-Shiong. The top lease was aerospace manufacturer Monogram Systems' 242,143 square foot lease with The Carson Companies at 1500 Glenn Curtiss Street, Carson.

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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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.