

2017'S DYNAMIC MARKET CONDITIONS CARRY OPTIMISM INTO 2018. As we enter the ninth year of economic recovery and expansion, the second longest in US history, a competitive and diverse industrial market continues to thrive in Los Angeles. With demand outpacing supply across all size ranges, lease rates have surged past previous highs, up 6.33% on average over the fourth quarter of 2016. While this comes as welcome news to landlords, tenants are now challenged to compete for limited and expensive opportunities with very little help from owners in the way of concessions.

2017 was the biggest year ever in the 110-year history of the Port of LA (9.3 million TEU), up 6% from the 2016 volume. Transportation experts expect this trend to continue into 2018 based on high employment, strong retail sales and a boost in consumer confidence.

Third party logistics and e-commerce related users remain the most active in the market as the overall supply chain of most retailers is evolving and responding to consumer buying patterns by decreasing delivery times. It's not all about logistics and transportation in Los Angeles however. Los Angeles is also the largest manufacturing center in the U.S., and its most active sectors in 2017 were apparel, computer/electronics, steel fabrication, food and beverage, furniture and automotive.

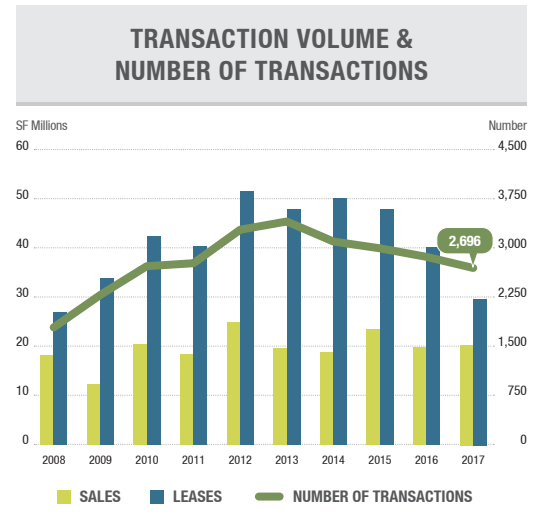
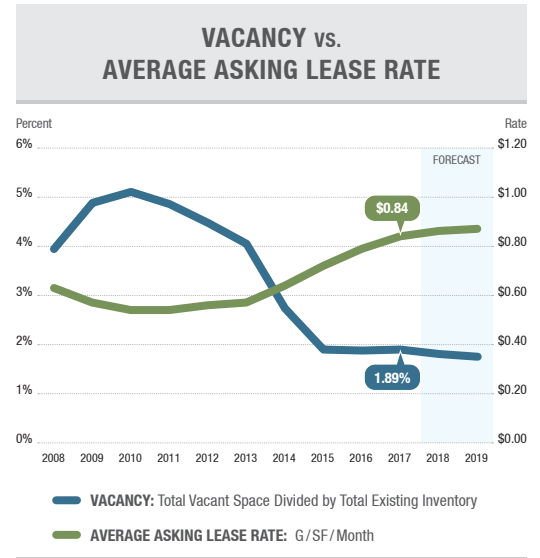
Los Angeles remains the #1 target for investment capital (foreign and domestic) on the industrial side and competition has never been more ferocious, driving prices up and cap rates down. With the new tax changes providing favorable treatment to real estate investors and corporations alike, expect demand and capital investment to increase in the coming quarters.

VACANCY. Vacancy rates across all size ranges remain near record lows and have hovered below 2% for more than a year. The fourth quarter of 2017 vacancy rate of 1.89% is down from an already tight 1.96% in the third quarter of 2017 and a majority of the actual vacancy is in older, functionally obsolete properties. With limited new construction planned because of the lack of available industrial land, expect vacancy to remain tight and even decrease.

LEASE RATES. Average asking lease rates are now at \$0.84 IG for the fourth quarter of 2017, up an average of five cents per square foot (6.33%) from the same quarter last year and four cents per square foot more than last quarter. Larger, Class A blocks of space have experienced the most significant rent gains to date and we expect this trend to continue.

TRANSACTION ACTIVITY. 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. Leasing activity checked in at nearly 29.5 million square feet for 2017, a decrease over the previous year's total of 40 million square feet. Notable lease transactions for the fourth quarter include:

- Nova Transportation's lease of 219,575 square feet at 415 W. Walnut Street in Compton
- Local Root's lease of 125,862 square feet at 4600-4620 S. Santa Fe Avenue in Vernon
- Custom Space's lease of 123,411 square feet at 1919 Vineburn Avenue in Los Angeles



Market Statistics

	Change Over Last Quarter	4Q 2017	3Q 2017	4Q 2016	% Change Over Last Year
Vacancy Rate	▼ DOWN	1.89%	1.96%	1.86%	1.61%
Availability Rate	▲ UP	4.47%	4.21%	4.03%	10.92%
Average Asking Lease Rate	▲ UP	\$0.84	\$0.80	\$0.79	6.33%
Sale & Lease Transactions	▼ DOWN	9,622,664	12,741,614	13,669,485	(29.60%)
Gross Absorption	▼ DOWN	9,915,994	10,472,904	7,362,684	34.68%
Net Absorption	▲ POSITIVE	1,685,455	1,913,497	786,136	N/A

LEASE RATES. The supply and demand imbalance will continue, causing asking rents to increase by a minimum of 3% to reach a level of \$0.87 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.

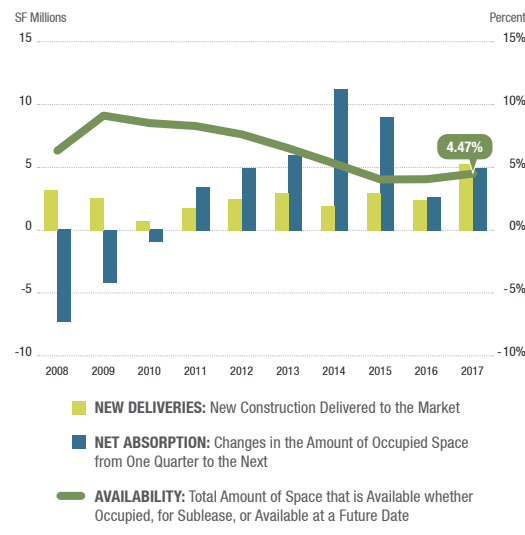
VACANCY. While hard to predict a drop in an already low 1.89% vacancy rate, we expect to see this figure dip below 1.80% by the end of 2018.

OVERALL. The Los Angeles industrial market in 2018 will be characterized by increased capital flows/investor demand, strong tenant/user activity and continued increases in sale prices and lease rates. Many of our larger investor clients are saying the “game is being extended,” but are cautiously managing new acquisitions. With limited new deliveries, expect the supply and demand imbalance to remain, ultimately benefiting landlords. Users and investors will continue to target this area given its proximity to the influential Ports of LA/Long and access to the second largest population base in the US. Industrial occupiers will tend to focus more on location than function in the coming quarters given the lack of product and Los Angeles’ aging industrial base. Larger tenants with future expansion plans may start looking east to the Inland Empire to find larger blocks of quality space at lower costs. Consumer sentiment in the market is positive, aided by record highs in the stock market and the new tax laws put in place to encourage both investment and job growth.

CONSTRUCTION. During 2017, Los Angeles added a total of 5.2 million square feet of new industrial space, a record year for new development. Total space under construction checked in at 3.9 million square feet at the end of 2017. 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. Net absorption posted a positive 1.68 million square feet for fourth quarter of 2017, down from the 1.9 million square feet seen in third quarter of 2017, the lack of inventory being the biggest hurdle. On an annual basis the market posted 4.9 million square feet of positive absorption. This trend of positive absorption has been in place for the past five years, averaging over 6.7 million square feet of positive net absorption per year.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
687 N. Eucalyptus Ave.	Inglewood	143,436	\$53,900,000	Rexford Industrial	Panattoni
16325 S. Avalon Blvd.	Carson	210,710	\$46,350,000	Liberty Property Trust	TIAA-CREFF
1855 W. 139th St.	Gardena	231,000	\$37,600,000	Terreno Realty Corporation	Zeiden Properties, LLC
4187 Temple City Blvd.	El Monte	164,284	\$32,193,500	TIAA-CREF	Principal Real Estate Investors
9399 Stewart & Gray Rd.	Downey	235,261	\$27,190,915	Prologis	DIC-II, LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
12828 Carmenita Rd.	Santa Fe Springs	268,536	Oct-2017	West Coast Distribution	Principal Global Investors, LLC
415 W. Walnut St.	Compton	219,575	Oct-2017	Nova Transportation	Prologis
4600–4620 S. Santa Fe Ave.	Vernon	125,862	Nov-2017	Local Roots	Melideo Michael
1919 Vineburn Ave.	Los Angeles	123,411	Oct-2017	Custom Space	Highpoint Capital
2820 S. Soto St.	Vernon	60,000	Dec-2017	Pilot Brands	Chalmers

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2017	Square Feet Available	Availability Rate 4Q2017	Average Asking Lease Rate	Net Absorption 4Q2017	Net Absorption 2017	Gross Absorption 4Q2017	Gross Absorption 2017
Central													
Bell/Bell Gardens/Maywood	193	6,924,446	0	0	105,172	1.52%	359,561	5.19%	\$0.80	(10,868)	47,450	85,604	356,961
City of Commerce	730	45,325,478	0	172,780	374,671	0.83%	2,137,552	4.72%	\$0.63	4,084	177,157	285,109	2,016,469
Huntington Park/Cudahy	194	4,603,999	0	0	112,110	2.44%	310,583	6.75%	\$0.80	(18,890)	(9,440)	5,700	145,688
Downtown	5,172	132,791,340	117,500	103,300	2,736,090	2.06%	6,108,910	4.60%	\$1.02	86,767	717,794	1,698,054	6,665,378
Montebello/Monterey Park	306	11,724,364	0	0	131,385	1.12%	358,648	3.06%	\$0.91	48,483	(4,211)	96,779	318,970
Pico Rivera	200	10,179,923	0	62,211	81,921	0.80%	256,245	2.52%	\$0.83	(12,432)	23,236	78,289	505,366
South Gate	228	10,346,669	0	0	92,494	0.89%	312,469	3.02%	\$0.89	75,038	(4,558)	97,292	160,828
Vernon	749	40,495,235	94,769	346,498	1,403,171	3.47%	2,765,176	6.83%	\$0.59	(38,095)	(397,164)	967,565	2,528,865
Total	7,772	262,391,454	212,269	684,789	5,037,014	1.92%	12,609,144	4.81%	\$0.81	134,087	550,264	3,314,392	12,698,525
Mid Counties													
Artesia/Cerritos	277	13,164,367	0	70,696	234,197	1.78%	697,772	5.30%	\$0.70	4,537	49,142	114,362	581,639
Bellflower/Downey	193	5,530,156	0	0	59,708	1.08%	100,940	1.83%	\$1.15	8,963	(1,836)	29,578	157,959
Buena Park/La Palma	229	15,156,437	0	0	97,966	0.65%	1,885,759	12.44%	\$1.10	337,038	81,927	107,342	314,638
La Mirada	181	12,486,557	477,008	0	474,501	3.80%	342,836	2.75%	\$0.75	(23,836)	(14,053)	266,662	1,011,027
Norwalk	86	2,900,765	0	0	21,807	0.75%	33,122	1.14%	\$0.82	(9,820)	44,669	1,152	80,271
Paramount	373	8,724,986	0	5,187	107,639	1.23%	134,145	1.54%	\$0.85	7,303	(21,306)	73,670	263,678
Santa Fe Springs	1,326	51,113,905	1,533,529	514,289	1,041,587	2.04%	2,694,958	5.27%	\$0.84	(41,027)	(146,247)	1,007,022	2,186,177
Whittier	167	3,933,465	0	0	16,113	0.41%	71,213	1.81%	\$0.90	22,705	73,378	32,406	150,153
Total	2,832	113,010,638	2,010,537	590,172	2,053,518	1.82%	5,960,745	5.27%	\$0.80	305,863	65,674	1,632,194	4,745,542
San Gabriel Valley													
Alhambra	112	2,219,548	0	0	21,200	0.96%	42,242	1.90%	\$1.25	8,954	(21,200)	26,094	32,628
Arcadia/Temple City	137	2,469,876	200,387	0	482,871	19.55%	332,139	13.45%	\$0.00	32,914	18,893	40,180	114,185
Azusa	230	5,847,376	0	154,000	73,416	1.26%	502,226	8.59%	\$0.76	102,452	388,426	225,700	702,566
Baldwin Park	242	4,561,159	0	0	25,950	0.57%	164,088	3.60%	\$0.93	42,240	43,204	55,455	277,141
City of Industry/DB/HH/RH	1,085	71,938,220	563,770	415,870	1,303,363	1.81%	3,304,653	4.59%	\$0.89	158,718	622,840	989,406	4,012,642
Covina/West Covina	169	3,054,800	26,512	0	71,822	2.35%	85,788	2.81%	\$0.79	11,888	95,749	11,888	217,708
Duarte	70	1,812,238	0	0	60,020	3.31%	58,560	3.23%	\$0.85	58,351	(57,745)	59,811	82,951
El Monte	303	8,536,796	0	0	14,350	0.17%	110,415	1.29%	\$1.11	442,037	721,185	449,531	925,851
Irwindale	260	11,175,356	0	929,537	544,166	4.87%	1,189,953	10.65%	\$0.97	(143,848)	(169,977)	185,180	424,827
La Puente	93	1,997,861	0	12,650	20,047	1.00%	22,821	1.14%	\$0.90	4,310	(4,003)	21,534	57,844
La Verne/San Dimas/Glendora	313	6,619,280	0	0	132,081	2.00%	230,959	3.49%	\$0.77	(57,212)	(34,323)	58,375	196,376
Monrovia	200	3,295,821	0	0	47,649	1.45%	47,649	1.45%	\$0.78	(3,760)	(928)	53,689	139,367
Pomona/Claremont	660	19,984,471	0	74,052	218,350	1.09%	405,001	2.03%	\$0.71	173,565	643,900	268,751	1,334,201
Rosemead/San Gabriel	114	2,266,868	0	0	25,500	1.12%	46,350	2.04%	\$0.00	17,092	(12,900)	27,267	58,728
South El Monte	763	10,290,462	0	0	109,117	1.06%	155,626	1.51%	\$0.97	(571)	(11,959)	118,524	480,084
Walnut	198	6,665,030	0	0	38,486	0.58%	138,760	2.08%	\$1.08	(11,806)	63,788	29,168	437,669
Total	4,949	162,735,162	790,669	1,586,109	3,188,388	1.96%	6,837,230	4.20%	\$0.90	835,324	2,284,950	2,620,553	9,494,768
South Bay													
Carson	506	35,145,942	0	70,300	630,332	1.79%	1,245,376	3.54%	\$0.88	(60,331)	(96,460)	341,570	2,005,887
Compton	454	24,469,076	136,685	0	370,972	1.52%	731,934	2.99%	\$0.68	(112,776)	1,043,583	148,715	1,913,803
El Segundo	183	9,542,054	0	0	295,635	3.10%	882,658	9.25%	\$0.00	77,939	(130,268)	147,829	203,329
Gardena	1,163	28,018,103	257,559	41,142	365,417	1.30%	666,426	2.38%	\$0.87	159,573	530,481	417,981	1,533,395
Harbor City	82	1,661,749	0	0	14,400	0.87%	26,400	1.59%	\$1.05	(7,200)	63,041	0	111,827
Hawthorne	229	8,010,723	0	0	43,633	0.54%	90,633	1.13%	\$0.00	12,422	(12,213)	74,461	255,694
Inglewood	234	4,867,076	0	0	76,652	1.57%	176,855	3.63%	\$1.25	141,949	147,053	185,663	376,920
Lakewood/Hawaiian Gardens	24	556,012	0	60,500	16,398	2.95%	16,398	2.95%	\$0.00	(16,398)	(16,398)	0	1,596
Lawndale	29	251,152	0	0	0	0.00%	9,320	3.71%	\$0.00	0	0	0	1,800
Long Beach/Terminal Island	724	20,256,518	32,027	311,200	466,773	2.30%	839,065	4.14%	\$0.81	227,789	543,887	440,571	1,153,232
Lynwood	93	4,405,652	0	0	224,787	5.10%	150,029	3.41%	\$0.00	11,183	51,990	11,183	122,515
Rancho Dominguez	241	14,964,789	0	0	237,755	1.59%	829,040	5.54%	\$0.82	24,192	(2,845)	254,175	938,554
Redondo & Hermosa Beach	39	1,873,457	0	137,090	6,847	0.37%	6,847	0.37%	\$0.00	(2,495)	68,017	0	122,246
San Pedro	41	2,734,278	0	0	8,942	0.33%	22,271	0.81%	\$0.00	15,954	600	22,454	34,626
Signal Hill	193	3,405,265	0	0	38,171	1.12%	73,229	2.15%	\$1.20	17,763	18,536	39,863	215,734
Torrance	596	25,128,444	512,490	90,000	594,205	2.36%	1,165,751	4.64%	\$0.89	(64,883)	(61,426)	255,574	1,076,586
Wilmington	137	3,677,371	0	0	94,718	2.58%	147,125	4.00%	\$0.81	(14,500)	(91,418)	8,816	64,316
Total	4,968	188,967,661	938,761	710,232	3,485,637	1.84%	7,079,357	3.75%	\$0.87	410,181	2,056,160	2,348,855	10,132,060
Los Angeles Total	20,521	727,104,915	3,952,236	3,571,302	13,764,557	1.89%	32,486,476	4.47%	\$0.84	1,685,455	4,957,048	9,915,994	37,070,895
5,000-24,999	13,447	164,314,123	36,746	44,963	3,080,294	1.87%	6,824,996	4.15%	\$1.04	292,786	22,693	2,385,267	8,505,703
25,000-49,999	3,563	123,471,404	340,582	389,361	2,781,722	2.25%	5,142,256	4.16%	\$0.85	(22,151)	280,610	1,837,697	6,261,259
50,000-99,999	1,978	134,121,171	616,276	1,067,039	2,107,059	1.57%	4,456,285	3.32%	\$0.78	87,683	594,105	1,730,089	6,734,898
100,000-249,999	1,234	181,966,475	763,544	1,264,345	3,376,135	1.86%	9,358,281	5.14%	\$0.79	898,134	3,298,518	2,745,634	11,425,135
250,000-499,999	244	78,694,209	1,176,133	264,594	1,728,497	2.20%	3,810,584	4.84%	\$0.87	468,123	709,331	1,072,157	3,334,909
500,000 plus	55	44,537,533	1,018,955	541,000	690,850	1.55%	2,894,074	6.50%	\$0.53	(39,120)	(79,209)	145,150	808,991
Los Angeles Total	20,521	727,104,915	3,952,236	3,571,302	13,764,557	1.89%	32,486,476	4.47%	\$0.84	1,685,455	4,826,048	9,915,994	37,070,895

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



The Future of Industrial Real Estate — 2018 Trends

by **C.J. Collins**

SENIOR ASSOCIATE, LOS ANGELES

The year 2017 came with great change and continued growth for the commercial real estate industry. As we dive into 2018 there will be some key market drivers impacting our business, each offering their own opportunities and hurdles:

The demand on e-commerce is increasing the need for industrial warehouse space.

One of the big acquisitions of 2017, Amazon's purchase of the massive retailer Whole Foods, gave us some serious insight into how the e-commerce industry will change our retail landscape in 2018. As more and more consumers are looking to e-commerce companies like Amazon to fulfill their everyday shopping needs, smaller retail stores are becoming obsolete. But with greater demand comes the need for an increase in total product inventory. And as more retailers close and consumer demand shifts to e-commerce, the need for industrial warehouse space will increase significantly.

Large warehouses sitting dormant for years are more likely to be refurbished to meet the growing demand for space, and the industrial real estate industry will see plenty of growth come 2018.

Tax reform could mean big changes for commercial real estate.

With the tax reform recently passed, we must consider changes to the industry that will occur. Experts have speculated that the favorable conditions for commercial real estate outlined in the tax reforms will boost the industrial sector in particular.

Because of mortgage expense and property tax deductions, and favorable treatment of pass-through entities for the commercial real estate sector, industrial as an asset class will be more attractive than ever as a sound investment. Expect continued competition from investors, pension funds and real estate investment trusts, driving cap rates down and pricing up.

The time demand of online retailers will increase space needs.

Did someone say Amazon Prime? What about same-day drone delivery? As delivery times get faster and faster, the demand for extra inventory space and more e-commerce warehouse locations will grow. When it comes to overnight delivery there just isn't time to source products from a wholesaler, so e-commerce companies offering quick delivery will need much more square footage in their industrial space to accommodate the extra inventory. This would likely significantly increase the demand for industrial space in 2018.

Energy efficiency may be pushed to the back burner.

As developers and companies look to churn out industrial space faster and faster to meet the growing demand of potential tenants, energy efficiency certifications like LEED may be overlooked. This idea isn't necessarily representative of a decrease in the desire to build energy efficient structures, but more of a disregard for certifications that could slow down construction. Luckily, energy efficiency standards are quite common now, and this kind of certification is more of a formality than an operational benefit.

We may see the introduction of vertical warehouses.

As you would imagine, an increase on the demand for property also comes with less availability and higher sale prices on land. So, how are companies responding? By building up! While constructing multi-story warehouses was never really the norm, this is a trend we expect to see in 2018 as companies seek more industrial space on less land.

While 2017 was a year of quite a bit of change, the future of industrial real estate is bright and shows no signs of slowing down. By keeping just a few of these trends in mind, you'll be one step ahead in this competitive market.

Please Contact Us for Further Information

Tony Tran
Regional Director of Research
ttran@voitco.com

Anaheim, CA
714.978.7880

Carlsbad, CA
760.517.4000

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Los Angeles, CA
424.329.7500

San Diego, CA
858.453.0505

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