

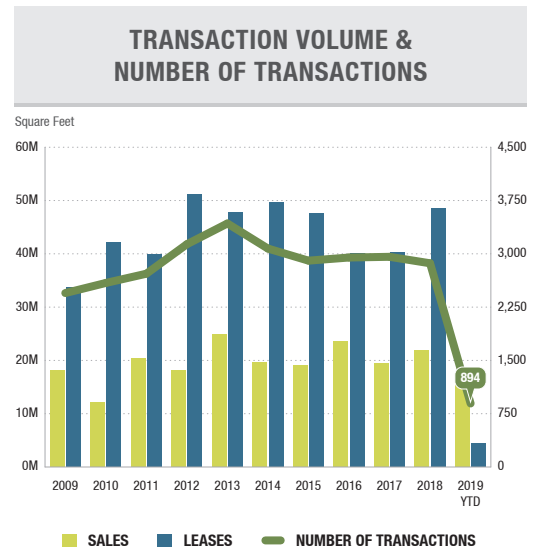
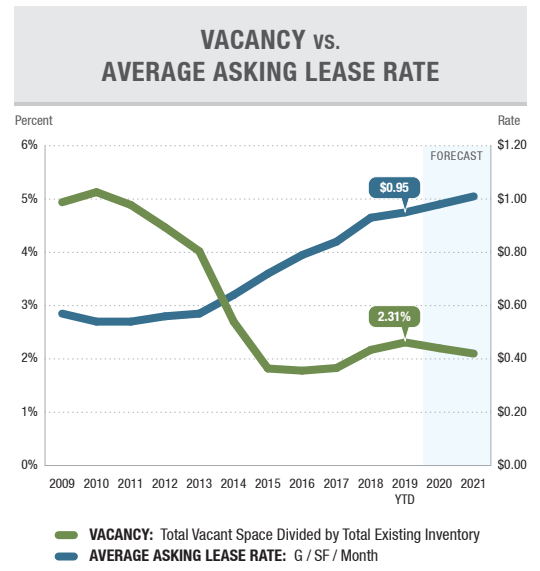
MARKET OVERVIEW. Los Angeles has been a stable market with persistent demand for much of this cycle. However, several large-scale move-outs generated more than 1 million square feet of negative net absorption in the first three months of 2019. Rents grew by 6.7% over the past four quarters, which may be an early sign that some industrial tenants are starting to face challenges brought on by the higher cost of doing business. Apart from rent escalations, many businesses are facing minimum wage hikes that recently reached up to \$14.25/hour in Los Angeles. The largest leases have been from third-party logistics companies attracted to infill properties and manufacturing companies that established local production/distribution services. While the Los Angeles/Long Beach ports are the busiest in the nation, the outlook for the industrial market does not fully hinge on future trade flows or changes to national trade policies mainly because Los Angeles has a diverse tenant base.

VACANCY. Continued economic expansion nationally and strong regional demographics are driving demand for industrial space in Los Angeles. As U.S. consumption and production expands, third-party logistics providers, national retailers and apparel companies continue to look to Los Angeles. While 33,600 jobs have been created year-over-year in Los Angeles, demand for traditional industrial space remains tepid and is largely driven by local and regional tenants. Vacancies hover around 2.31%, still comfortably beneath historical averages, but they have trended up since the first quarter of 2017. Vacancy in the Los Angeles region was 2.31% at the end of the first quarter of 2019, up 14 basis points compared with the prior quarter, and up 10.5% compared with the previous year.

AVAILABILITY. Direct/sublease space being marketed in the first quarter is now at 4.10%, down from 4.25% from the first quarter of 2018. Due to the difficulty in developing new, modern buildings, much of the Los Angeles industrial inventory tends to be in properties that are smaller and older than might be considered normal for such a distribution market.

LEASE RATES. Los Angeles registered higher-than-normal rent growth over the past two years, and rent gains continued into the first quarter of 2019 as leasing activity remained steady and vacancies came back to a normal range. Average asking rents have averaged 9.0% annual growth over the past eight quarters, as Los Angeles has been one of the most desired markets this cycle. The average asking lease rate is \$0.95 IG per square foot per month, a \$0.02 per square foot increase from last quarter and a \$0.06 per square foot increase from a year ago (6.74% annual increase). Recently, however, rent growth has sharply decelerated year-over-year, an indication that the cost of doing business has increased too much for some tenants. While averages are tough to rely on in L.A. given the disparity between Class A options and older, functionally obsolete properties, expect this attenuation of rent growth to continue.

TRANSACTION ACTIVITY. Los Angeles is one of the largest industrial markets in the nation — with more than 728 million square feet of inventory — but available industrial space is scarce, particularly newer and larger buildings suitable for logistics companies. Few buildings have delivered, and many of those were build-to-suit and preleased. The effects of supply constraints in this market cannot be overemphasized: with few developable sites, vacancies in Los Angeles, which grew slightly, remain among the lowest in the nation. Demand for quality space in Los Angeles has slowed down, with 7.2 million square feet in total transactions (sale and lease), down from just over 16.5 million square feet last quarter.



Market Statistics

	Change Over Last Quarter	1Q 2019	4Q 2018	1Q 2018	% Change Over Last Year
Vacancy Rate	▲ UP	2.31%	2.17%	2.09%	10.53%
Availability Rate	▲ UP	4.10%	4.01%	4.25%	(3.53%)
Average Asking Lease Rate	▲ UP	\$0.95	\$0.93	\$0.89	6.74%
Sale & Lease Transactions	▼ DOWN	7,269,324	16,553,845	17,439,771	(58.32%)
Gross Absorption	▼ DOWN	7,563,399	9,686,895	9,950,117	(23.99%)
Net Absorption	▼ NEGATIVE	(1,249,242)	2,577,547	(123,289)	N/A

OVERALL. Los Angeles's labor market has been extremely tight since 2016, with the unemployment rate currently standing near 4.6%—creating challenges for many companies trying to expand. The high-priced cost of housing is a continuing problem for the market and is driving lower-income households east, to places like the Inland Empire. Yet Los Angeles remains an entry point for international migration, which helps offset the domestic population loss. The steady flow of international arrivals coupled with natural population growth is enough to keep Los Angeles growing, albeit very slowly. The persistent industrial demand stemming both from port activities and manufacturing, coupled with the difficulty of bringing new industrial product to market, should ensure that Los Angeles fundamentals remain among the strongest in the nation.

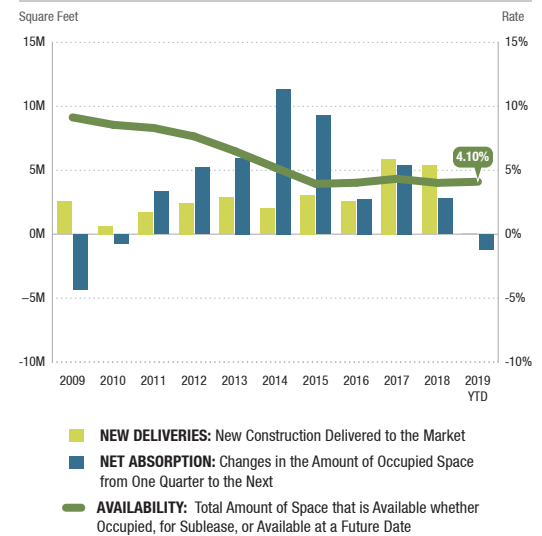
LEASE RATES. Expect lease rates to continue to climb, with the largest gains in newer, Class A product. We expect 4–5% annualized growth in the coming year.

VACANCY. Industrial real estate demand continues to soar to new heights, and we expect more of the same in 2019, with anticipated vacancy rates in the 2–3% range over the next three quarters.

CONSTRUCTION. Despite rising construction costs, the strong demand for warehouses and distribution centers in Los Angeles is justifying the additional development of industrial properties in the market. Industrial construction has been growing in Los Angeles, but not to the levels seen in the nearby Inland Empire market. At the end of the first quarter of 2019, there were 28 buildings under construction totaling nearly 4.58 million square feet. In the pipeline, the largest project is a speculative two-building industrial center being developed by Goodman. The buildings will bring a combined 1.2 million square feet to market, replacing a similar sized, but aged, distribution center formerly owned and occupied by Vons. In Vernon, Prologis is developing a two-building industrial park at 5215 South Boyle Avenue with a projected delivery date in late 2019. The two buildings will bring 346,000 square feet to market. In Long Beach, Pacific Industrial's three-building, 422,000 square foot industrial complex at 2300 Redondo Avenue has a projected May 2019 delivery date.

ABSORPTION. The Los Angeles market has mostly been left out of the industrial boom experienced in the Inland Empire, and net absorption was negative in the first quarter of 2019. Given the tight market conditions in Los Angeles, a showing of negative net absorption from quarter to quarter is most likely a factor of timing rather than demand. After posting positive net absorption in the previous two quarters in 2018, the Los Angeles industrial market slowed in the first quarter of 2019, starting the year with 1,249,242 square feet of negative net absorption.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2425–2535 E. 12th St.	Los Angeles	261,528	\$60,000,000	Bridge Development Partners	Atlas Capital
9804 Norwalk Blvd.	Santa Fe Springs	239,281	\$45,500,000	BPREP Colonnade, LLC	Colonnade-Nobbs, LLC
13151 Midway Pl.	Cerritos	67,191	\$15,084,500	Haitai Inc.	American Textile Systems
15240–15250 Nelson Ave.	City of Industry	64,000	\$11,625,000	Industry Max, LLC	Matthew A Sawyer
13008 S. Western Ave.	Gardena	46,566	\$9,520,000	The Marvin Group	BBRT, LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
18120 Bishop Ave.	Carson	286,104	Jan-2019	Article.com	Watson Land Company
1901 W. Pacific Coast Hwy.	Long Beach	193,379	Jan-2019	Nippon Express	Prologis
14736 Nelson Ave.	City of Industry	168,913	Mar-2019	Soho Logistics	14700 Nelson, LLC
303–335 W. Artesia Blvd.	Compton	159,084	Feb-2019	AFC Worldwide Express	Prologis
1320 W. Holt Ave.	Pomona	106,080	Mar-2019	United Glass & Ceramics	CMC Dragon, LP*

* Voit Real Estate Services Deal

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2019	Square Feet Available	Availability Rate 1Q2019	Average Asking Lease Rate	Net Absorption 1Q2019	Net Absorption 2019	Gross Absorption 1Q2019	Gross Absorption 2019
Central													
Bell/Bell Gardens/Maywood	193	7,434,983	0	0	21,716	0.29%	81,007	1.09%	\$1.10	(13,076)	(13,076)	8,640	8,640
City of Commerce	729	44,999,534	0	41,590	540,299	1.20%	1,562,982	3.47%	\$0.83	540,453	540,453	839,871	839,871
Huntington Park/Cudahy	195	4,793,018	0	0	89,727	1.87%	182,472	3.81%	\$0.52	73,606	73,606	53,847	53,847
Downtown	5,146	129,983,730	202,580	103,300	3,941,867	3.03%	7,334,752	5.64%	\$0.97	(338,590)	(338,590)	1,101,182	1,101,182
Montebello/Monterey Park	306	11,691,258	0	0	113,020	0.97%	388,755	3.33%	\$0.86	168,239	168,239	167,052	167,052
Pico Rivera	202	10,108,252	118,664	0	252,308	2.50%	324,693	3.21%	\$0.95	13,388	13,388	194,041	194,041
South Gate	226	10,298,104	0	0	70,913	0.69%	207,999	2.02%	\$1.00	76,114	76,114	95,414	95,414
Vernon	773	42,101,941	346,181	199,772	1,531,888	3.64%	1,748,114	4.15%	\$0.81	(101,773)	(101,773)	308,599	308,599
Total	7,770	261,410,820	667,425	344,662	6,561,738	2.51%	11,830,774	4.53%	\$0.90	418,361	418,361	2,768,646	2,768,646
Mid Counties													
Artesia/Cerritos	278	13,177,399	0	0	318,059	2.41%	1,041,648	7.90%	\$0.88	280,156	280,156	471,854	471,854
Bellflower/Downey	192	5,497,846	0	0	43,574	0.79%	69,895	1.27%	\$1.01	30,588	30,588	39,918	39,918
Buena Park/La Palma	232	15,079,501	0	0	1,878,480	12.46%	2,222,192	14.74%	\$1.15	(1,574,493)	(1,574,493)	393,403	393,403
La Mirada	183	12,980,164	0	0	66,093	0.51%	561,910	4.33%	\$0.89	169,635	169,635	305,679	305,679
Norwalk	87	2,912,756	0	0	39,001	1.34%	104,345	3.58%	\$0.00	71,808	71,808	22,336	22,336
Paramount	375	8,763,747	0	0	92,929	1.06%	157,297	1.79%	\$0.86	(50,546)	(50,546)	24,577	24,577
Santa Fe Springs	1,342	52,638,136	71,743	567,564	820,203	1.56%	1,987,070	3.77%	\$0.99	63,469	63,469	557,822	557,822
Whittier	164	3,874,857	0	0	255,931	6.60%	454,154	11.72%	\$0.97	(238,416)	(238,416)	15,682	15,682
Total	2,853	114,924,406	71,743	567,564	3,514,270	3.06%	6,598,511	5.74%	\$0.94	(1,247,799)	(1,247,799)	1,831,271	1,831,271
San Gabriel Valley													
Alhambra	113	2,231,472	122,729	0	36,457	1.63%	72,757	3.26%	\$1.30	3,163	3,163	30,485	30,485
Arcadia/Temple City	141	3,067,541	0	0	34,000	1.11%	63,525	2.07%	\$1.60	(7,106)	(7,106)	20,624	20,624
Azusa	228	5,793,355	146,000	8,000	112,359	1.94%	356,821	6.16%	\$0.98	(31,400)	(31,400)	80,993	80,993
Baldwin Park	250	4,674,616	0	356,716	99,609	2.13%	106,418	2.28%	\$0.89	(14,293)	(14,293)	59,895	59,895
City of Industry/DB/HH/RH	1,104	73,255,868	85,192	0	1,778,892	2.43%	2,407,299	3.29%	\$1.04	(300,518)	(300,518)	509,338	509,338
Covina/West Covina	173	3,178,789	0	0	74,114	2.33%	53,437	1.68%	\$1.09	23,313	23,313	31,895	31,895
Duarte	70	1,812,238	0	0	19,622	1.08%	9,185	0.51%	\$1.04	(8,345)	(8,345)	32,273	32,273
El Monte	305	6,961,851	1,327,806	61,163	182,010	2.61%	265,467	3.81%	\$0.96	(34,094)	(34,094)	53,949	53,949
Irwindale	261	11,180,806	696,498	1,722,694	242,294	2.17%	562,618	5.03%	\$0.84	7,065	7,065	85,836	85,836
La Puente	91	1,995,191	0	12,650	39,174	1.96%	37,446	1.88%	\$0.96	(409)	(409)	4,519	4,519
La Verne/San Dimas/Glendora	311	6,686,562	0	0	65,731	0.98%	232,010	3.47%	\$0.88	(12,312)	(12,312)	41,068	41,068
Monrovia	200	3,212,552	0	0	14,301	0.45%	32,328	1.01%	\$1.52	4,254	4,254	15,200	15,200
Pomona/Claremont	663	20,198,277	0	0	188,895	0.94%	272,882	1.35%	\$0.76	(28,219)	(28,219)	58,285	58,285
Rosemead/San Gabriel	118	2,412,589	0	0	34,479	1.43%	40,479	1.68%	\$1.15	13,747	13,747	35,500	35,500
South El Monte	783	10,578,435	0	0	272,296	2.57%	350,229	3.31%	\$0.87	5,236	5,236	97,473	97,473
Walnut	197	6,656,716	0	0	106,342	1.60%	116,780	1.75%	\$1.18	(4,292)	(4,292)	42,504	42,504
Total	5,008	163,896,858	2,378,225	2,161,223	3,300,575	2.01%	4,979,681	3.04%	\$0.97	(384,210)	(384,210)	1,199,837	1,199,837
South Bay													
Carson	496	34,775,595	412,000	70,300	396,893	1.14%	571,533	1.64%	\$0.92	17,123	17,123	177,293	177,293
Compton	453	24,312,506	94,875	0	362,216	1.49%	1,182,130	4.86%	\$0.77	164,519	164,519	342,103	342,103
El Segundo	172	8,911,623	0	0	132,263	1.48%	214,609	2.41%	\$1.77	(20,838)	(20,838)	70,810	70,810
Gardena	1,167	28,176,538	112,000	0	838,276	2.98%	1,280,092	4.54%	\$1.01	35,740	35,740	467,791	467,791
Harbor City	85	1,692,436	0	0	900	0.05%	138,840	8.20%	\$1.05	(900)	(900)	0	0
Hawthorne	221	7,935,889	0	0	82,801	1.04%	172,531	2.17%	\$1.20	(37,756)	(37,756)	11,870	11,870
Inglewood	234	4,847,780	0	0	139,844	2.88%	216,206	4.46%	\$1.45	(3,700)	(3,700)	38,502	38,502
Lakewood/Hawaiian Gardens	24	555,659	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Lawndale	29	251,651	0	0	2,900	1.15%	9,386	3.73%	\$1.55	(220)	(220)	2,680	2,680
Long Beach/Terminal Island	722	20,647,811	816,958	684,527	550,491	2.67%	993,099	4.81%	\$1.31	(33,508)	(33,508)	210,862	210,862
Lynwood	93	4,390,036	0	0	9,400	0.21%	225,496	5.14%	\$0.88	17,956	17,956	21,356	21,356
Rancho Dominguez	237	14,700,810	0	0	383,025	2.61%	439,106	2.99%	\$0.78	(42,000)	(42,000)	18,075	18,075
Redondo & Hermosa Beach	39	1,885,536	0	137,090	1,800	0.10%	4,300	0.23%	\$1.45	(770)	(770)	1,030	1,030
San Pedro	42	2,754,278	0	0	13,783	0.50%	15,942	0.58%	\$0.90	(10,000)	(10,000)	1,348	1,348
Signal Hill	197	3,414,706	0	0	19,038	0.56%	45,769	1.34%	\$1.39	5,439	5,439	12,489	12,489
Torrance	602	25,495,909	34,734	293,877	416,801	1.63%	692,985	2.72%	\$1.19	(146,894)	(146,894)	333,330	333,330
Wilmington	144	3,746,162	0	0	121,661	3.25%	247,652	6.61%	\$0.85	20,215	20,215	54,106	54,106
Total	4,957	188,494,925	1,470,567	1,185,794	3,472,092	1.84%	6,449,676	3.42%	\$0.99	(35,594)	(35,594)	1,763,645	1,763,645
Los Angeles Total	20,588	728,727,009	4,587,960	4,259,243	16,848,675	2.31%	29,858,642	4.10%	\$0.95	(1,249,242)	(1,249,242)	7,563,399	7,563,399
5,000-24,999	13,505	165,163,652	30,173	20,650	3,946,674	2.39%	6,434,546	3.90%	\$1.11	(560,264)	(560,264)	1,624,019	1,624,019
25,000-49,999	3,557	123,302,148	127,200	413,075	3,483,856	2.83%	6,423,950	5.21%	\$0.98	(90,982)	(90,982)	1,324,692	1,324,692
50,000-99,999	1,980	134,417,010	633,988	250,463	3,112,966	2.32%	5,441,183	4.05%	\$0.85	237,172	237,172	1,245,096	1,245,096
100,000-249,999	1,241	183,134,014	1,608,259	2,146,895	3,796,955	2.07%	7,912,566	4.32%	\$0.85	(431,437)	(431,437)	2,027,455	2,027,455
250,000-499,999	250	80,657,472	412,000	663,160	1,308,211	1.62%	2,370,952	2.94%	\$0.72	39,712	39,712	670,915	670,915
500,000 plus	55	42,052,713	1,776,340	765,000	1,200,013	2.85%	1,275,445	3.03%	\$0.00	(443,443)	(443,443)	671,222	671,222
Los Angeles Total	20,588	728,727,009	4,587,960	4,259,243	16,848,675	2.31%	29,858,642	4.10%	\$0.95	(1,249,242)	(1,249,242)	7,563,399	7,563,399

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



Market in Its Second/Third Wind But Possible Concerns Lie Ahead

by **Loren Cargile**

VICE PRESIDENT / PARTNER, ANAHEIM

714.935.2306 · lcargile@voitco.com · Lic. #01431329

If you have ever run in a marathon or participated in some other event that has required a tremendous amount of endurance, you may have noticed you hit a second or even third wind during the event that got you across the finish line. Despite mental and physical fatigue, when you “catch another wind,” your body somehow seems to come up with the energy and resolve to keep going. That is what has happened with the industrial real estate market. Despite being the longest recovery in history and mounting speculation about a pullback, the market continues to push to new highs with respect to lease rates, sale prices, and suppressed vacancy rates. For landlords and sellers, this is very favorable news. For tenants and buyers, limited options remain, and real estate costs continue to be at all-time highs. However, if you are a tenant and are going to be in the market for a 100,000 square foot building or larger, then you have a number of options and possibly some negotiating power.

For support of the bullish sentiment, look at the absorption of newly constructed buildings over the last year. There have been 12 new buildings constructed in the Mid Counties since the beginning of 2018, totaling 2,140,000 square feet. Incredibly all 12 of these buildings were leased or sold prior to construction being completed. Not surprisingly, each of those deals were at then-record-high lease rates or sale prices. New buildings are highly sought after by Mid County investors, tenants and owner-occupants.

On the bearish side, one area that is showing some weakness for the start of 2019 is buildings above 100,000 square feet. As of the end of the first quarter of 2019 there are 16 buildings available over 100,000 square feet, including the formerly owned/occupied JC Penny Building in Buena Park totaling just under 1 million square feet. The JC Penny building vacancy is the main reason the market vacancy rate jumped from 2.12% to 3.34% since the first quarter of 2018. The square footage of the 16 available buildings translates to about a 7.8% vacancy rate for the industrial base greater than 100,000 square feet, which is significantly higher than the vacancy rate for the rest of the market.

Looking forward from a more elevated perspective, there is legislation that will be on the California 2020 ballot called the California Schools and Local Communities Funding Act of 2018. If passed, this will remove Proposition 13 protection for commercial real estate owners (residential real estate is exempt from this legislation) and could have a catastrophic impact on the commercial real estate market for all market players. For more information about this, please reach out to your trusted Voit Real Estate Services broker.

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