

**OVERVIEW.** At first glance, the Greater Los Angeles industrial market metrics for the second quarter point to the possibility that the economic fallout from the pandemic is as virulent as the virus itself. Being in Los Angeles County, hardest hit by COVID-19 of all the 58 counties in the state, did indeed present a monumental challenge to businesses of all sizes. The second quarter started under the governor's full lockdown order and ended in the midst of both an economic reopening and another spike in COVID-19 cases. Vacancy moved sharply higher, lease and sale activity fell nearly 25% and net absorption was well in the red for the second straight quarter.

However, a closer look at the numbers reveals that things may not be as bad as they initially appear. Average asking lease rates managed to remain unchanged and more than 75% of the negative absorption was attributed to two major move-outs, one in LA Downtown and the other in Long Beach. There were also several other moves-outs of spaces that were already pre-leased to new tenants who will be taking occupancy in the third quarter.

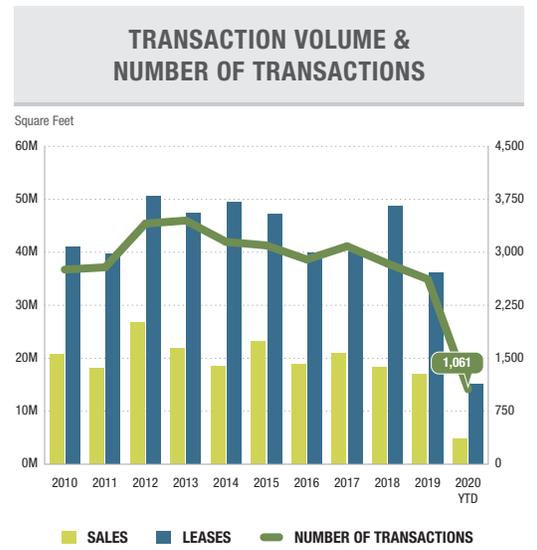
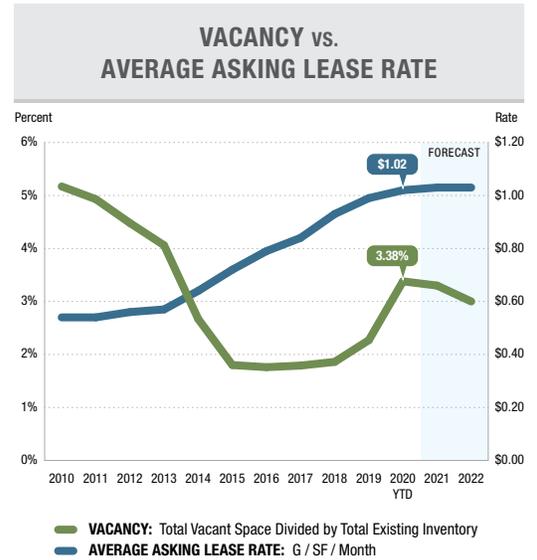
**VACANCY.** The vacancy rate rose 68 basis points in the second quarter to 3.38%, a substantial increase considering the fact that at the end of the first quarter, the rate stood at just 2.70%. All major submarkets, including Central LA, Mid Counties, San Gabriel Valley and South Bay, saw vacancy increases in the second quarter, but the vacancy rate remains below 4% in all of them despite the impact of the economic shutdown.

The biggest contributor to the rate rise came from Long Beach, which saw its vacancy skyrocket from 3.23% to 8.66% due to Boeing's official exit from nearly 1.5 MSF of aircraft manufacturing space near the Long Beach Airport. Production of the C-17 cargo plane ended years ago, but Boeing still technically occupied the space until its recent sale to Goodman Development. The new owners are looking for short-term tenants while the 89-acre site goes through a city rezoning process for general industrial and office use.

**LEASE RATES.** Average lease rates were virtually unchanged in the second quarter, though they tend to be a lagging indicator in market data. Many Landlords are still holding the line on lease rates because vacancy remains historically low. Rather than lower rates, many landlords are offering more concessions like free rent and tenant improvements. In some cases they are loosening up on credit evaluations and are becoming less resistant to requests for shorter lease terms. South Bay recorded the highest average asking rate at \$1.11 per square foot per month, while the other major submarkets range from \$0.98 to \$1.02.

**TRANSACTION ACTIVITY.** Sale and lease activity, defined as the total amount of space that goes under contract in a given period, fell by another 3 MSF in the second quarter to 8.4 MSF after a similar decline in the first quarter. This comes as no surprise given the difficult circumstances caused by the governor's lockdown orders. The mechanics of completing real estate transactions became more difficult, and many business decision makers had to focus instead on dealing with the business interruption. Space inquiries picked up substantially toward the end of the quarter, as businesses reopened and began rehiring their workers.

**CONSTRUCTION.** The construction queue in the Greater Los Angeles area remains thin. Land is scarce, expensive and difficult to entitle. Even at today's record-high lease rates and sales prices, penciling speculative development is a big challenge. Currently, just over 2.1 MSF of space is under construction, but the completion of those facilities will only add 0.3% to the 736-MSF inventory. All



Market Statistics

	Change Over Last Quarter	2Q 2020	1Q 2020	2Q 2019	% Change Over Last Year
Vacancy Rate	▲ UP	3.38%	2.70%	2.15%	57.17%
Availability Rate	▲ UP	6.05%	5.49%	4.07%	48.53%
Average Asking Lease Rate	▬ FLAT	\$1.02	\$1.02	\$0.97	5.15%
Sale & Lease Transactions	▼ DOWN	8,463,932	11,479,094	14,478,516	(41.54%)
Gross Absorption	▼ DOWN	6,789,330	6,882,282	4,428,536	53.31%
Net Absorption	▲ NEGATIVE	(4,062,790)	(332,851)	(779,238)	N/A

buildings underway are configured for warehouse use, featuring the high clearance and ESFR sprinkler systems required by expanding e-commerce and port-related users. South Bay projects account for just under half the total square footage under construction, with the balance fairly evenly distributed in Central LA, Mid Counties and the San Gabriel Valley.

**ABSORPTION.** Net Absorption, the net difference in occupied space in a given time period, took a sharp dive in the second quarter. More than half the 50+ cities we track for this report experienced a decline in occupied space. The bulk of the losses were concentrated in Long Beach and Downtown LA. Those two areas accounted for 3.1 MSF of the 4.06-MSF loss in occupancy in the quarter. So, without Boeing's sale to Goodman and Forever 21's vacating its 1.5-MSF building Downtown, net absorption would have been much more in line with expectations.

There were other move-outs around the region that had already been preleased to new tenants, the largest being TJ Maxx's impending move into 381,000 SF in Compton, vacated by Nissan in the second quarter. That and other deals will show up as positive net absorption in the third quarter, which speaks to the motivation many companies have to relocate within the region. Two other move-outs totaling more than 400,000 SF came from businesses relocating and expanding, one to Orange County and the other to the Inland Empire. In general, most of the move-ins for the second quarter were in buildings under 50,000 SF, the big exception being Amazon's 619,000-SF expansion move in City of Industry.

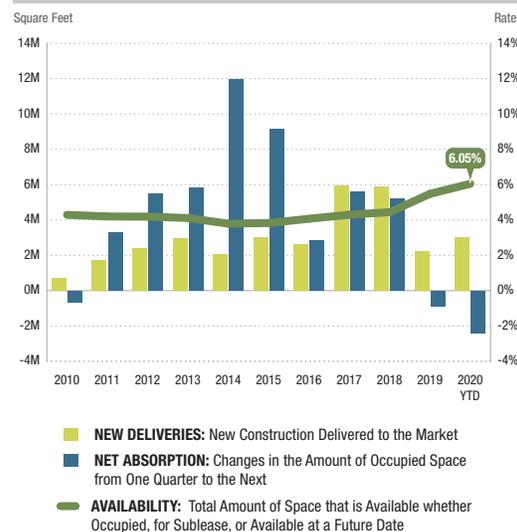
## Forecast

Our forecast last quarter called for a substantial slowing in leasing activity. Unfortunately, that turned out to be the case in the second quarter. With fewer large transactions in the works, leasing activity and net absorption are likely to remain soft. Vacancy could move slightly higher, but it is currently at such a low level that landlords will still be able to hold the line on asking rates. Concessions are on the rise, but modestly so. Wary tenants are insisting on shorter lease terms to mitigate risk and some landlords are cooperating. For the first time in years, free rent of more than one month is being offered by landlords, even on deals less than five years in length.

Sellers will continue to hold the line on sales prices, especially for the highest quality buildings. The return of record-low SBA financing rates should keep demand from owner-users running ahead of supply. Investors looking to finance leased projects will face stricter underwriting and higher rates, however, as banks look to mitigate higher perceived risk. The full impact of the recent economic shock is still an unknown, and a recent spike in COVID-19 cases has motivated Governor Newsom to tighten up on recently relaxed safety protocols. That is the wild card on the table in the third quarter.

We are not out of the woods yet, but there are indications that the unemployment spike has been abated and businesses are rehiring furloughed workers. Government stimulus plans have been a big help, especially the Paycheck Protection Program, which offers forgivable loans to small businesses who spend at least 60% of their loan proceeds on payroll expense over a 24-week period. Any portion not qualified for forgiveness comes with a five-year payback period at an interest rate of just 1%. As the quarter ended, roughly \$100 billion allocated to the program was still available to eligible borrowers.

## NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



## Significant Transactions

### Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2001 E. Dominquez St. & 20740-20750 S. Wilmington Ave.	Long Beach	306,313	\$48,421,139	Brookfield Asset Management, Inc.	Western Tube & Conduit Corporation
538 Crenshaw Blvd.	Torrance	174,361	\$49,500,000	Black Creek Group	Tansavatdi Family Trust
6687 Flotilla St.	Commerce	120,000	\$21,000,000	Rexford Industrial Realty, Inc.	Stampley Family Trust
351 Cheryl Ln.	Walnut	91,535	\$26,500,000	LBA Realty	Nestle USA, Inc.
17891-17907 Arenth Ave.	City of Industry	90,318	\$13,887,500	Transwestern Investment Group	Oakes Family Trust

### Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
660-700 W. Artesia Blvd.	Compton	457,960	Apr-2020	TJ Maxx	Sares-Regis Group
19600 S. Western Ave. - Renewal	Torrance	305,400	Apr-2020	CEVA Logistics	DWS
9615 Norwalk Blvd. - Renewal	Santa Fe Springs	201,808	Apr-2020	Fleet Yards, Inc.	Rexford Industrial Realty, Inc.
1860 Acacia Ave.	Compton	100,512	Jun-2020	Seko Worldwide Logistics	Seymour Adler
14720-14750 E. Alondra Blvd.	La Mirada	100,000	Apr-2020	Allstate Floral & Craft, Inc.	Link Industrial Properties

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2020	Square Feet Available	Availability Rate 2Q2020	Average Asking Lease Rate	Net Absorption 2Q2020	Net Absorption 2020	Gross Absorption 2Q2020	Gross Absorption 2020
<b>Central</b>													
Bell/Bell Gardens/Maywood	195	7,576,372	0	0	124,513	1.64%	354,057	4.67%	\$0.96	(76,393)	(104,956)	23,772	82,525
City of Commerce	732	45,072,649	171,726	0	976,260	2.17%	2,589,391	5.74%	\$0.86	27,306	(107,365)	369,992	716,631
Huntington Park/Cudahy	193	4,746,326	0	45,400	98,186	2.07%	122,818	2.59%	\$1.03	9,110	4,025	30,754	47,769
Downtown	5,129	127,656,267	202,580	569,442	5,781,617	4.53%	9,274,834	7.27%	\$1.08	(1,797,514)	(1,987,153)	940,562	2,035,867
Montebello/Monterey Park	312	11,663,491	0	5,750	263,674	2.26%	528,864	4.53%	\$0.89	(47,760)	(66,351)	104,537	153,335
Pico Rivera	203	10,532,164	0	0	489,303	4.65%	596,668	5.67%	\$0.89	(3,625)	(43,201)	73,525	85,600
South Gate	228	10,879,945	0	0	226,776	2.08%	442,981	4.07%	\$0.95	(17,286)	(63,750)	9,024	10,124
Vernon	781	42,506,291	117,360	82,412	1,443,041	3.39%	3,107,793	7.31%	\$0.89	(173,855)	(44,117)	464,499	947,831
<b>Total</b>	<b>7,773</b>	<b>260,633,505</b>	<b>491,666</b>	<b>703,004</b>	<b>9,403,370</b>	<b>3.61%</b>	<b>17,017,406</b>	<b>6.53%</b>	<b>\$0.98</b>	<b>(2,080,017)</b>	<b>(2,412,868)</b>	<b>2,016,665</b>	<b>4,079,682</b>
<b>Mid Counties</b>													
Artesia/Cerritos	280	13,176,775	0	0	229,418	1.74%	1,004,659	7.62%	\$0.86	(56,762)	(105,252)	60,230	149,923
Bellflower/Downey	196	5,579,689	0	0	167,596	3.00%	188,758	3.38%	\$1.12	(10,738)	131,907	50,249	308,325
Buena Park/La Palma	233	15,126,448	0	0	446,663	2.95%	1,202,380	7.95%	\$0.94	(303,260)	870,597	105,529	1,299,623
La Mirada	178	12,894,441	0	0	661,799	5.13%	1,359,125	10.54%	\$1.12	68,881	(410,214)	152,000	246,720
Norwalk	88	2,886,221	0	0	187,519	6.50%	335,403	11.62%	\$0.00	100,036	94,503	17,728	35,170
Paramount	405	9,093,708	0	0	269,608	2.96%	392,184	4.31%	\$0.98	(40,976)	(120,721)	63,335	101,904
Santa Fe Springs	1,347	52,691,736	251,668	545,949	1,134,851	2.15%	1,888,851	3.58%	\$1.06	(480,132)	(244,885)	330,839	879,898
Whittier	164	4,108,715	0	0	88,772	2.16%	312,985	7.62%	\$0.94	(19,897)	(79,258)	45,310	283,865
<b>Total</b>	<b>2,891</b>	<b>115,557,733</b>	<b>251,668</b>	<b>545,949</b>	<b>3,186,226</b>	<b>2.76%</b>	<b>6,684,345</b>	<b>5.78%</b>	<b>\$1.00</b>	<b>(742,848)</b>	<b>136,677</b>	<b>825,220</b>	<b>3,305,428</b>
<b>San Gabriel Valley</b>													
Alhambra	116	2,356,591	0	0	73,709	3.13%	76,358	3.24%	\$1.17	42,005	40,662	51,335	89,561
Arcadia/Temple City	141	3,097,885	0	0	62,650	2.02%	86,369	2.79%	\$1.32	2,681	19,719	13,938	67,277
Azusa	238	6,448,493	0	96,950	681,466	10.57%	722,029	11.20%	\$1.33	(42,251)	(75,402)	12,860	40,783
Baldwin Park	250	4,697,762	0	0	90,507	1.93%	118,465	2.52%	\$1.19	17,711	11,043	67,566	150,234
City of Industry/DB/HH/RH	1,102	73,164,687	216,716	327,783	1,973,372	2.70%	4,723,967	6.46%	\$1.00	632,420	(349,020)	1,241,098	1,810,080
Covina/West Covina	180	3,383,302	0	0	178,057	5.26%	224,385	6.63%	\$1.02	12,245	8,549	37,968	42,718
Duarte	71	1,897,930	0	0	1,752	0.09%	5,752	0.30%	\$1.10	14,786	18,210	16,538	32,400
El Monte	311	8,293,062	92,466	61,163	1,148,961	13.85%	1,149,054	13.86%	\$1.11	(21,941)	297,903	80,874	500,652
Irwindale	263	11,264,117	0	2,307,191	198,237	1.76%	139,550	1.24%	\$1.14	(7,887)	127,861	159,527	374,815
La Puente	92	2,039,666	0	12,650	91,028	4.46%	83,914	4.11%	\$0.82	30,527	(5,235)	40,899	65,512
La Verne/San Dimas/Glendora	315	6,735,946	0	0	159,567	2.37%	204,471	3.04%	\$1.00	(20,849)	(49,658)	33,725	79,320
Monrovia	202	3,238,818	0	0	47,252	1.46%	51,102	1.58%	\$1.15	(32,287)	(13,085)	32,665	64,867
Pomona/Claremont	662	20,158,900	0	0	366,009	1.82%	1,030,829	5.11%	\$0.88	178,108	164,557	362,612	494,349
Rosemead/San Gabriel	120	2,416,729	0	0	53,315	2.21%	49,348	2.04%	\$1.15	0	(22,450)	7,567	8,667
South El Monte	819	10,947,373	0	0	439,074	4.01%	459,703	4.20%	\$0.96	(16,779)	(65,703)	94,811	200,447
Walnut	193	6,735,651	143,999	0	340,286	5.05%	595,126	8.84%	\$1.07	35,011	29,508	80,841	113,969
<b>Total</b>	<b>5,075</b>	<b>166,876,912</b>	<b>453,181</b>	<b>2,805,737</b>	<b>5,905,242</b>	<b>3.54%</b>	<b>9,720,422</b>	<b>5.82%</b>	<b>\$1.02</b>	<b>823,500</b>	<b>137,459</b>	<b>2,334,824</b>	<b>4,135,651</b>
<b>South Bay</b>													
Carson	495	35,343,924	0	196,313	455,484	1.29%	1,254,584	3.55%	\$1.03	(96,601)	392,881	70,766	639,076
Compton	464	24,860,365	0	0	1,172,766	4.72%	1,771,373	7.13%	\$1.23	(282,395)	(712,004)	417,924	543,618
El Segundo	167	8,744,377	0	0	115,468	1.32%	128,068	1.46%	\$1.75	(52,409)	(57,949)	0	15,085
Gardena	1,174	28,407,346	62,690	6,765	762,118	2.68%	837,448	2.95%	\$1.08	(73,229)	(192,415)	263,213	494,263
Harbor City	92	1,745,153	0	0	61,173	3.51%	122,606	7.03%	\$1.12	(10,170)	(46,773)	21,963	46,843
Hawthorne	217	7,812,647	0	48,080	129,443	1.66%	155,429	1.99%	\$1.17	(45,872)	(49,727)	17,443	74,438
Inglewood	235	4,786,771	0	0	181,603	3.79%	207,740	4.34%	\$1.40	29,951	(90,317)	48,301	105,600
Lakewood/Hawaiian Gardens	25	563,155	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Lawndale	30	260,396	0	0	15,956	6.13%	18,565	7.13%	\$0.00	0	(9,820)	0	0
Long Beach/Terminal Island	737	23,582,609	415,160	92,245	2,043,108	8.66%	3,076,891	13.05%	\$0.96	(1,292,742)	(788,613)	94,224	948,788
Lynwood	99	4,724,611	0	0	37,883	0.80%	89,299	1.89%	\$0.95	5,017	(5,426)	13,500	24,057
Rancho Dominguez	233	14,296,692	0	27,842	575,415	4.02%	1,049,724	7.34%	\$1.15	(152,544)	(235,615)	52,111	111,619
Redondo & Hermosa Beach	37	1,943,084	0	0	8,800	0.45%	236,134	12.15%	\$0.00	0	0	0	0
San Pedro	43	2,752,196	0	0	3,724	0.14%	3,724	0.14%	\$1.49	0	0	0	0
Signal Hill	199	3,336,249	0	49,900	42,967	1.29%	105,954	3.18%	\$1.37	3,712	(25,232)	3,712	6,912
Torrance	605	26,011,935	413,070	214,936	696,024	2.68%	1,816,077	6.98%	\$1.10	(63,741)	38,290	607,898	721,956
Wilmington	145	3,770,403	55,000	0	53,818	1.43%	206,816	5.49%	\$1.30	(32,402)	(40,342)	1,566	9,879
<b>Total</b>	<b>4,997</b>	<b>192,941,913</b>	<b>945,920</b>	<b>636,081</b>	<b>6,355,750</b>	<b>3.29%</b>	<b>11,080,432</b>	<b>5.74%</b>	<b>\$1.11</b>	<b>(2,063,425)</b>	<b>(1,823,062)</b>	<b>1,612,621</b>	<b>3,742,134</b>
<b>Los Angeles Total</b>	<b>20,736</b>	<b>736,010,063</b>	<b>2,142,435</b>	<b>4,690,771</b>	<b>24,850,588</b>	<b>3.38%</b>	<b>44,502,605</b>	<b>6.05%</b>	<b>\$1.02</b>	<b>(4,062,790)</b>	<b>(3,961,794)</b>	<b>6,789,330</b>	<b>15,262,895</b>
5,000-24,999	13,624	165,967,715	38,822	79,822	4,972,736	3.00%	7,454,346	4.49%	\$1.20	(337,925)	(763,669)	1,900,148	3,684,212
25,000-49,999	3,562	123,643,635	214,981	713,548	4,738,778	3.83%	8,053,037	6.51%	\$0.97	(543,190)	(885,717)	1,038,968	2,429,690
50,000-99,999	1,988	135,395,211	117,690	521,656	4,095,520	3.02%	7,717,833	5.70%	\$0.95	(154,709)	(372,408)	1,349,037	2,540,921
100,000-249,999	1,248	185,150,328	1,355,782	1,521,442	5,563,771	3.01%	11,445,429	6.18%	\$0.92	(204,705)	77,349	1,089,123	3,354,756
250,000-499,999	257	83,008,620	415,160	548,303	1,930,170	2.33%	5,251,904	6.33%	\$0.82	(1,032,027)	(1,183,326)	592,576	1,058,705
500,000 plus	57	42,844,554	0	1,306,000	3,549,613	8.28%	4,580,056	10.69%	\$0.00	(1,790,234)	(834,023)	819,478	2,194,611
<b>Los Angeles Total</b>	<b>20,736</b>	<b>736,010,063</b>	<b>2,142,435</b>	<b>4,690,771</b>	<b>24,850,588</b>	<b>3.38%</b>	<b>44,502,605</b>	<b>6.05%</b>	<b>\$1.02</b>	<b>(4,062,790)</b>	<b>(3,961,794)</b>	<b>6,789,330</b>	<b>15,262,895</b>

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



## The Exuberance is Gone, but Long-Term Fundamentals Remain

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In today's environment, discussions about industrial real estate values and trends are inseparable from the elephant in the room, COVID-19. Prior to the virus taking over the world, industrial real estate was one of the most sought-after asset types, especially in infill markets like the Mid Counties submarket of Los Angeles. However, cracks started developing in 2019. The multi-year bull run for industrial property that was propelled by plentiful foreign capital, lofty rent growth expectations and an exuberance that resembled the residential real estate market of the mid-2000s, began to lose energy coming into 2020. The steep rise in the cost of real estate facilities, combined with the burden of tariffs that started in 2018, finally put enough financial pressure on local businesses to temper their demand for industrial space.

Then came the "black swan." The effects of COVID-19 and shelter-in-place restrictions put a temporary halt to many industrial CRE requirements, which drastically affected leasing/sales activity in the Mid Counties area. Not surprisingly, several spaces/buildings started being offered on a sublease basis as companies looked to offset their real estate overhead. Some of the sublease space that came on the market during the second quarter of 2020 competed head-to-head with the direct lease space due to the ample amount of time remaining on the master leases, but at more competitive sublease terms. On the direct lease side, many leases that have been completed since April 1 contained shorter lease terms than previously seen, as low as 24 or 36 months. The main reason? Many companies have become hesitant about longer commitments in uncertain times. In some instances, landlords even offered free rent on these shorter term leases.

Despite the initial "shell shock" that was felt from COVID-19, transaction velocity started improving in mid-May. The buildings that have leased or sold attracted activity due to competitive pricing (for tenants/buyers) and landlords/sellers investing in building renovations. Today's tenants and buyers have become more selective and, in general, are wanting move-in-ready spaces. Additionally, they are not afraid to make aggressive offers right now. The strong fundamentals will prevail in the long run, however, as the Mid Counties submarket offers several intrinsic advantages: proximity to freeways, ports, major transportation hubs, access to other nearby infill markets and a variety of building options for occupiers.

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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