

OVERVIEW. Despite an aggressive government response to the pandemic and uncertainty over the upcoming election, the Los Angeles industrial market showed continued resilience in 3Q. Absorption was back in positive territory and transaction activity was up, while lease rates and overall vacancy held firm at pre-pandemic levels. Commercial activity picked up as essential businesses called their employees back to work. New lease and sale requirements rose during the period, indicating a strong end to what has been a tumultuous year for the local economy. Historically low mortgage interest rates have kept owner/user demand running ahead of supply, so buyers looking for bargains remain disappointed that a fall in sales prices has failed to materialize. Activity at both Los Angeles ports, a key driver of industrial activity, also began to recover during the period.

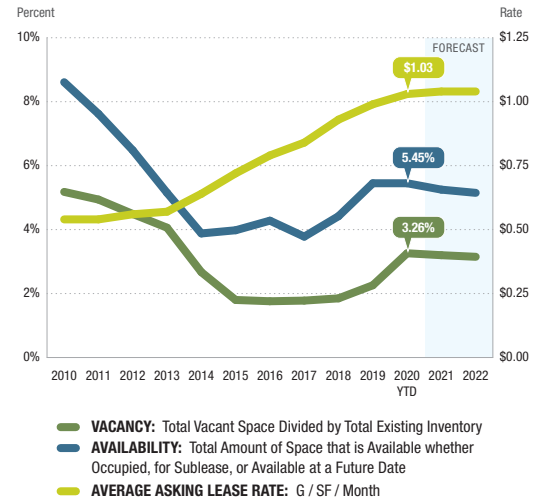
VACANCY & AVAILABILITY. The overall vacancy rate in Los Angeles rose by a modest 9 basis points to 3.26%, but remains near its historic low. Results were mixed across submarkets; however, as Central Los Angeles, the largest in the region, reported a 30 basis point decline in the period, while the Mid-Counties submarket logged a 37 basis point increase. Many expected a pandemic-induced rise in vacancy across the board, but market performance through the worst of the crisis clearly indicates that such an increase is very unlikely. The availability rate, which includes vacant space and occupied space offered for sale or lease, actually fell by 39 basis points, dampening fears of a flood of sublease space coming to the market. Vacancy and availability at these low levels acts as a buffer against a market correction. So, those tenants who were holding off on relocating expecting a bargain have been disappointed and are left with the same choices they had before the economic shock.

LEASE RATES. Lease rates and sales prices are holding at or near pre-pandemic levels, as available inventory is still thin. Landlords are holding firm on asking rates, but have shown some willingness to soften on concessions like free rent, so long as the credit is strong. The average asking lease rate moved up a penny in 3Q to \$1.03, and is up \$0.05 year-over-year. The South Bay submarket commands the highest rate, \$1.11, due to its proximity to both major ports. The Central Los Angeles submarket has the lowest average rate, \$1.00, as a significant amount of the inventory is older and has elements of functional obsolescence.

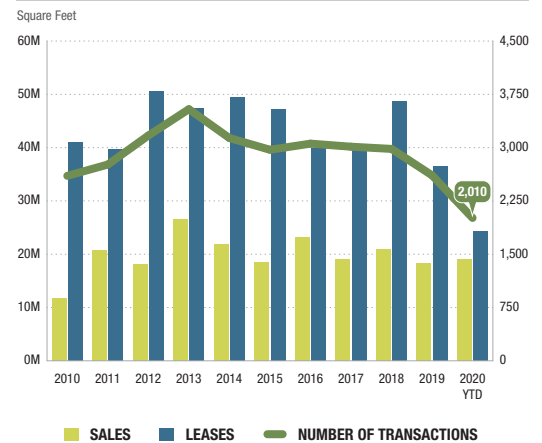
TRANSACTION ACTIVITY. Leasing activity, the measure of deals inked in a given period, has remained consistent since this time last year, which has been a surprise to many. In 3Q, 456 leases were signed for a total of 7,954,000 SF. This quarter last year there were 493 leases signed for a total of 7,971,000 SF, a remarkable comparison given all that has happened to disrupt business flow in between and the fact that such low vacancy restricts the number of location choices for tenants looking to make a move. Anecdotal evidence shows a rise in transaction activity going forward, as well.

ABSORPTION. Net absorption, the net difference in occupied space in a period, returned to positive territory in 3Q after posting a net loss in 2Q. This is noteworthy given the severity of the economic impact from COVID-19 and the increased difficulty in completing the property search

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



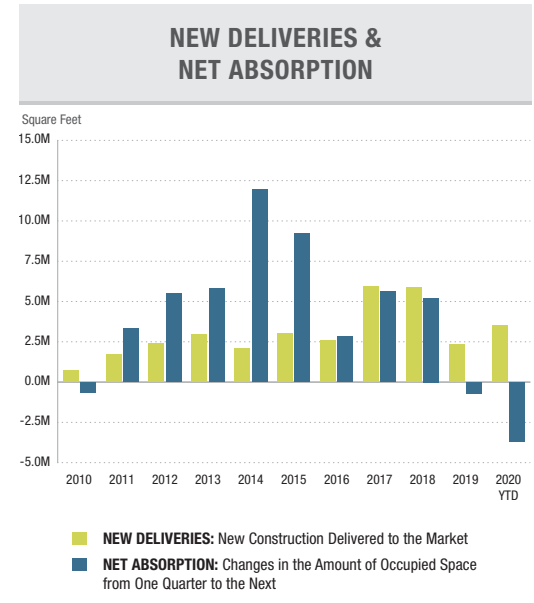
Market Statistics

	Change Over Last Quarter	3Q 2020	2Q 2020	3Q 2019	% Change Over Last Year
Vacancy Rate	▲ UP	3.26%	3.17%	2.08%	56.96%
Availability Rate	▼ DOWN	5.45%	5.84%	4.28%	27.17%
Average Asking Lease Rate	▲ UP	\$1.03	\$1.02	\$0.98	5.10%
Sale & Lease Transactions	▼ DOWN	9,929,328	10,548,873	10,993,047	-9.68%
Gross Absorption	▲ UP	7,751,234	4,508,562	5,956,832	30.12%
Net Absorption	▲ POSITIVE	287,003	(4,062,790)	1,367,283	N/A

and relocation process. The San Gabriel Valley posted the highest net gain at 643,000 SF, while Central Los Angeles suffered a net loss of just under 529,000 SF. However, Central Los Angeles also recorded the highest level of gross absorption (move-ins) of all submarkets at 2,400,000 SF, a good sign that businesses are actively seeking to right-size their operations to increase efficiency. Another positive sign is that gross absorption for the entire Los Angeles area was up by more than 30% on a year-over-year basis, evidence that the demand for space has remained robust despite the serious threat to the economy.

CONSTRUCTION. Construction activity remains at a low point. Only 2.77 MSF are in the queue to be added to a total existing inventory of 736 MSF, or 0.38%. Clearly, there is no risk of overbuilding matched to such low overall vacancy. The San Gabriel Valley outpaced all submarkets in construction activity, led by Irwindale and City of Industry, at 1,349,000 SF, followed by the South Bay Area at 625,000 SF and the Mid Counties submarket at 426,000 SF. Another 5 MSF is in the planning stages, but it is unlikely that the pace of new ground-up develop will increase soon. Some developers and their lenders have become more cautious, delaying their projects until the economic situation becomes clearer.

EMPLOYMENT. The seasonally adjusted unemployment rate in Los Angeles County declined to 16.1% in August 2020, from a revised 17.9% in July 2020, and was above the rate of 4.3% one year ago. Civilian employment increased by 85,000 to 4,134,000 in August 2020, while unemployment decreased by 87,000 to 795,000. The civilian labor force decreased by 2,000 over the month to 4,929,000 in August 2020. (All of the above figures are seasonally adjusted.) The unadjusted unemployment rate for the county was 16.6% in August 2020.



Forecast

While the pandemic response and uncertainty over the upcoming election are likely to impact market activity in the short term, the long-term outlook for the Los Angeles industrial market is good. There is little sign of a correction in terms of lease rates and sales prices and new requirement activity looks to be picking up, as relocations that were delayed earlier in the year get back on the front burner. Low levels of new construction will keep supply tight and vacancy low over the next few quarters. The Fed has sent strong signals of its intention to keep interest rates low, which should fuel ongoing owner/user activity. The wild card going forward is the fate of Proposition 15, the so-called split roll initiative that would strip commercial properties of Proposition 13 protection that has stabilized property taxes on commercial properties for 42 years. Should Proposition 15 pass, there could be a surge in supply as long-term owners, the group that would be most impacted by the new law, look to exit their investments in anticipation of a correction in property values.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
15015 Valley View Ave.	Santa Fe Springs	302,850	\$67,960,000	Brookfield Property Group	United Natural Foods, Inc.
3855 N. Lakewood Blvd.	Long Beach	299,144	\$146,000,000	Sares-Regis Group	The Boeing Company
12828 Carmenita Rd.	Santa Fe Springs	268,536	\$46,975,000	Fremont Associates	Principal Global Investors
2300 Pellissier Pl.	City of Industry	255,878	\$52,100,000	Los Angeles Regional Foodbank	Anthony Haralambos
8700 Mercury Ln.	Pico Rivera	244,768	\$62,000,000	The Blackstone Group	Iron Mountain Incorporated

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
3777 Workman Mill Rd. - Renewal	Whittier	613,375	Sep-2020	Michael Kors	Gateway Pointe Investors, LLC
13000 Temple Ave. - Renewal	City of Industry	407,638	Aug-2020	Pilot Automotive	Mabek Co.
918 S. Stimson Ave.	City of Industry	282,377	Aug-2020	Ardmore Home Design	LBA Realty
15300 Desman Rd. - Sublease	La Mirada	254,718	Jul-2020	Orange Courier	All-Ways Pacific, LLC
5215 S Boyle Ave.	Vernon	232,229	Aug-2020	US Elogistics Services	Prologis

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2020	Square Feet Available	Availability Rate 3Q2020	Average Asking Lease Rate	Net Absorption 3Q2020	Net Absorption 2020	Gross Absorption 3Q2020	Gross Absorption 2020
Central													
Bell/Bell Gardens/Maywood	197	7,591,332	0	0	101,392	1.34%	259,521	3.42%	\$1.10	47,184	(57,772)	61,369	143,894
City of Commerce	731	44,941,729	171,726	0	1,031,333	2.29%	2,050,765	4.56%	\$0.81	(64,770)	(172,135)	205,335	921,966
Huntington Park/Cudahy	194	4,741,547	0	45,400	110,524	2.33%	122,821	2.59%	\$1.00	(98)	3,927	27,639	75,408
Downtown	5,116	127,573,986	202,580	777,703	4,933,020	3.87%	8,926,451	7.00%	\$1.15	(721,364)	(2,708,517)	1,290,664	3,326,531
Montebello/Monterey Park	312	11,663,491	0	5,750	190,513	1.63%	572,243	4.91%	\$0.88	42,253	(24,098)	135,483	288,818
Pico Rivera	203	10,550,530	0	0	624,205	5.92%	677,939	6.43%	\$0.89	(100,187)	(143,388)	97,218	182,818
South Gate	227	10,809,966	0	0	75,957	0.70%	299,225	2.77%	\$0.80	150,819	87,069	31,455	41,579
Vernon	783	42,755,989	0	140,892	1,555,163	3.64%	2,674,143	6.25%	\$0.84	117,377	73,260	586,665	1,534,496
Total	7,763	260,628,570	374,306	969,745	8,622,107	3.31%	15,583,108	5.98%	\$0.98	(528,786)	(2,941,654)	2,435,828	6,515,510
Mid Counties													
Artesia/Cerritos	280	13,145,089	0	0	341,823	2.60%	952,933	7.25%	\$0.86	75,621	(29,631)	71,326	221,249
Bellflower/Downey	196	5,579,646	0	0	152,969	2.74%	174,268	3.12%	\$1.12	12,516	144,423	48,522	356,847
Buena Park/La Palma	233	15,119,041	0	0	552,905	3.66%	1,337,008	8.84%	\$0.93	(142,651)	727,946	79,592	1,379,215
La Mirada	178	12,963,624	0	0	517,651	3.99%	1,127,061	8.69%	\$1.00	356,910	(53,304)	502,856	749,576
Norwalk	88	2,887,282	0	0	313,141	10.85%	347,857	12.05%	\$1.07	(88,597)	5,906	2,840	38,010
Paramount	406	8,975,563	0	0	261,576	2.91%	312,798	3.48%	\$0.96	11,438	(109,283)	100,768	202,672
Santa Fe Springs	1,348	52,888,888	426,531	401,951	1,253,532	2.37%	2,156,529	4.08%	\$1.08	138,626	(106,259)	539,760	1,419,658
Whittier	164	4,109,527	0	0	111,758	2.72%	346,188	8.42%	\$0.93	(35,096)	(114,354)	32,128	315,993
Total	2,893	115,668,660	426,531	401,951	3,505,355	3.03%	6,754,642	5.84%	\$1.02	328,767	465,444	1,377,792	4,683,220
San Gabriel Valley													
Alhambra	116	2,225,551	0	0	70,124	3.15%	83,827	3.77%	\$1.15	1,005	41,667	32,882	122,443
Arcadia/Temple City	141	3,104,184	0	0	65,341	2.10%	110,074	3.55%	\$1.11	(5,810)	13,909	10,848	78,125
Azusa	237	6,435,570	0	96,950	694,066	10.78%	647,727	10.06%	\$1.33	(12,600)	(88,002)	43,716	84,499
Baldwin Park	246	4,683,919	0	0	102,088	2.18%	119,762	2.56%	\$1.21	(26,731)	(15,688)	19,182	169,416
City of Industry/DB/HH/RH	1,104	73,232,214	843,836	451,783	1,682,947	2.30%	2,898,420	3.96%	\$1.07	817,617	468,597	900,494	2,710,574
Covina/West Covina	180	3,383,302	0	0	129,090	3.82%	194,888	5.76%	\$1.25	48,967	57,516	62,233	104,951
Duarte	71	1,897,930	0	0	12,227	0.64%	32,650	1.72%	\$1.15	(10,475)	7,735	5,752	38,152
El Monte	312	8,381,304	0	61,163	1,215,823	14.51%	1,221,887	14.58%	\$0.90	9,734	307,637	99,989	600,641
Irwindale	262	11,184,675	362,086	1,945,105	200,613	1.79%	229,432	2.05%	\$1.11	(28,376)	99,485	26,150	400,965
La Puente	92	2,039,766	0	12,650	24,263	1.19%	33,103	1.62%	\$1.00	60,159	54,924	77,326	142,838
La Verne/San Dimas/Glendora	315	6,769,759	0	0	93,211	1.38%	139,802	2.07%	\$1.01	24,474	(25,184)	102,150	181,470
Monrovia	203	3,247,379	0	0	47,312	1.46%	65,096	2.00%	\$0.00	(60)	(13,145)	46,402	111,269
Pomona/Claremont	662	20,107,765	0	0	321,625	1.60%	889,191	4.42%	\$0.97	3,566	168,123	119,639	613,988
Rosemead/San Gabriel	120	2,416,729	0	0	49,348	2.04%	75,129	3.11%	\$1.15	0	(22,450)	11,172	19,839
South El Monte	821	10,965,462	0	0	350,361	3.20%	369,451	3.37%	\$0.86	35,443	(30,260)	172,738	373,185
Walnut	193	6,738,191	143,999	0	613,555	9.11%	597,203	8.86%	\$1.07	(273,269)	(243,761)	36,753	150,722
Total	5,075	166,813,700	1,349,921	2,567,651	5,671,994	3.40%	7,707,642	4.62%	\$1.05	643,644	781,103	1,767,426	5,903,077
South Bay													
Carson	498	35,457,709	0	196,313	744,003	2.10%	1,599,077	4.51%	\$1.04	(297,092)	95,789	238,475	877,551
Compton	463	24,807,253	0	0	1,108,359	4.47%	1,977,976	7.97%	\$2.24	(194,146)	(906,150)	665,917	1,209,535
El Segundo	164	8,650,669	0	0	78,834	0.91%	122,739	1.42%	\$1.14	30,778	(27,171)	31,578	46,663
Gardena	1,171	28,299,860	62,690	6,765	743,204	2.63%	849,982	3.00%	\$2.65	28,105	(164,310)	360,011	854,274
Harbor City	92	1,745,153	0	0	72,573	4.16%	109,473	6.27%	\$1.04	(11,400)	(58,173)	11,975	58,818
Hawthorne	217	7,784,651	0	48,080	120,065	1.54%	157,530	2.02%	\$1.04	2,808	(46,919)	56,408	130,846
Inglewood	237	4,837,600	0	0	195,323	4.04%	333,535	6.89%	\$1.44	(13,720)	(104,037)	29,554	135,154
Lakewood/Hawaiian Gardens	25	563,155	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Lawndale	29	253,076	0	0	8,636	3.41%	11,245	4.44%	\$0.00	0	(9,820)	6,136	6,136
Long Beach/Terminal Island	739	23,648,590	415,160	92,245	2,045,660	8.65%	1,430,148	6.05%	\$0.90	(23,611)	(812,224)	64,065	1,012,853
Lynwood	99	4,724,611	0	0	16,883	0.36%	64,899	1.37%	\$0.97	0	(5,426)	0	24,057
Rancho Dominguez	234	14,389,431	0	27,842	369,024	2.56%	880,205	6.12%	\$1.25	79,435	(156,180)	211,338	322,957
Redondo & Hermosa Beach	37	1,808,684	0	0	5,600	0.31%	245,521	13.57%	\$0.00	(5,600)	(5,600)	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	3,337,449	0	49,900	37,946	1.14%	86,724	2.60%	\$1.37	3,581	(21,651)	41,447	48,359
Torrance	608	26,338,867	146,919	642,956	590,757	2.24%	1,990,336	7.56%	\$1.08	178,313	216,603	369,793	1,091,749
Wilmington	146	3,825,353	0	0	43,598	1.14%	190,992	4.99%	\$1.30	65,927	25,585	83,491	93,370
Total	5,001	193,224,307	624,769	1,064,101	6,184,189	3.20%	10,054,106	5.20%	\$1.18	(156,622)	(1,979,684)	2,170,188	5,912,322
Los Angeles Total	20,732	736,335,237	2,775,527	5,003,448	23,983,645	3.26%	40,099,498	5.45%	\$1.03	287,003	(3,674,791)	7,751,234	23,014,129
5,000-24,999	13,614	165,838,424	38,822	79,822	4,757,973	2.87%	7,023,405	4.24%	\$1.29	34,294	(729,375)	2,132,337	5,816,549
25,000-49,999	3,566	123,746,376	343,627	523,311	4,923,039	3.98%	7,677,346	6.20%	\$0.99	(172,858)	(1,058,575)	1,224,925	3,654,615
50,000-99,999	1,985	135,049,548	62,690	704,136	4,583,999	3.39%	7,756,925	5.74%	\$0.93	(305,217)	(677,625)	1,303,026	3,843,947
100,000-249,999	1,254	186,119,066	1,287,748	1,520,966	5,641,368	3.03%	10,104,376	5.43%	\$0.91	163,050	240,399	1,803,756	5,158,512
250,000-499,999	256	82,737,269	415,160	869,213	2,268,959	2.74%	3,796,406	4.59%	\$0.94	(51,466)	(1,234,792)	1,287,190	2,345,895
500,000 plus	57	42,844,554	627,480	1,306,000	1,808,307	4.22%	3,741,040	8.73%	\$0.00	619,200	(214,823)	0	2,194,611
Los Angeles Total	20,732	736,335,237	2,775,527	5,003,448	23,983,645	3.26%	40,099,498	5.45%	\$1.03	287,003	(3,674,791)	7,751,234	23,014,129

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



Proposition 15 Threatens Owners and Tenants with Higher Property Taxes

by **Seth Davenport**

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As we count down the days to the election, the presidential race gets most of the attention. The coronavirus response, civil unrest and, most recently, an open seat on the US Supreme Court, are the hot-button issues, but Proposition 15 is the big one here in California. Commonly known as the split-roll initiative, the proposition would strip commercial properties of the protections afforded by Proposition 13 and raise up to \$11.5 billion per year in new property tax revenue by reassessing commercial properties to full market value every three years rather than only in the event of a sale. The additional revenue would go to local governments, K-12 schools and community college districts. Collections would begin in the 2022-2023 fiscal year.

The ramifications of passing Proposition 15 are real and could undermine the value structure of all commercial properties. The proponents of the law claim to be going after big corporations and investors who have been using Proposition 13 rules as a loophole to avert paying their fair share of property taxes. Opponents of the measure point to the fact that most property taxes are passed along to the tenants who occupy commercial real estate. Higher property taxes means business owners will either have to raise prices, lay off workers or find other ways to reduce operating costs. The money has to come from somewhere and those who pay higher taxes are not going to just absorb the cost without taking countermeasures.

Those behind Proposition 15 claim to be protecting small businesses by exempting owners who occupy their own properties and who own commercial properties valued under \$3 million. What they don't tell the public is that the \$3 million limit refers to the aggregate value of commercial property owned in the state, and that all principal officers of the business must be California residents. At best, the exemption applies to a tiny fraction of property owners in the state. All non-owner-occupied commercial properties are subject to reassessment to full market value every three years.

So, who gets hurt the worst? The answer is everyone who owns or occupies commercial real estate, but especially long-term owners and their tenants who enjoy an older, lower property tax basis. Consumers will also be hurt by higher prices for everything from food to fuel, and property values will be impacted due to the increased risk of higher operating cost over time.

Since Proposition 13 was passed in 1978, the state has received a 7% average annual increase in property tax revenue despite large fluctuations in property values. If Proposition 15 passes, we believe it would exacerbate an already challenging business climate for our economy. Moreover, it would likely create a reduction in values in the short term and would attenuate the appreciation potential of commercial real estate in the long term.

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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