

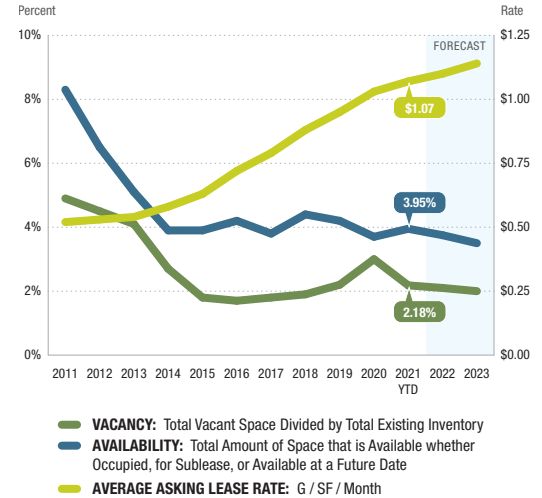
OVERVIEW. Los Angeles industrial market activity intensified in Q1 and the search for quality product in the region got even tougher. Net absorption spiked again, as did average asking lease rates. Transaction activity, as is typical in the first quarter of the year, declined somewhat, but so did vacancy and availability, which further complicated the search for quality space. With three vaccines in wide distribution, employees are getting back work in the industrial sector and some companies are having trouble filling available positions, especially in e-commerce. The level of new lease and sale requirements continues to rise, which means competition for quality space from tenants and buyers has intensified. The SBA 504 mortgage interest rate hit an all-time low of 2.26% in January before moving back above 3% by March, but that did not slow the wave of new owner/user purchase requirements from buyers looking to lock in 25-year fixed-rate financing to lock in their occupancy costs. Port activity picked up again in the first quarter, as well, as the global supply chain played catch-up after a difficult 2020.

VACANCY/AVAILABILITY. The overall vacancy rate in Los Angeles fell by 82 basis points to 2.18% in Q1. As was the case in Q4, all four major Los Angeles area submarkets posted vacancy declines. Fears of a pandemic-induced spike in vacancy are in the rearview mirror and conditions look to tighten even further. As a result, more distribution tenants are expanding their search areas to include the Inland Empire where more efficient space at a lower price point can help them offset higher drayage cost. The availability rate, which includes vacant space and occupied space offered for sale or lease, also fell 25 basis points in Q1, after a similar decline in Q4. As we reported last quarter, tenants who were hoping to see the market loosen up due to the broader economic downturn have found that the going has gotten even tougher when it comes to finding quality space.

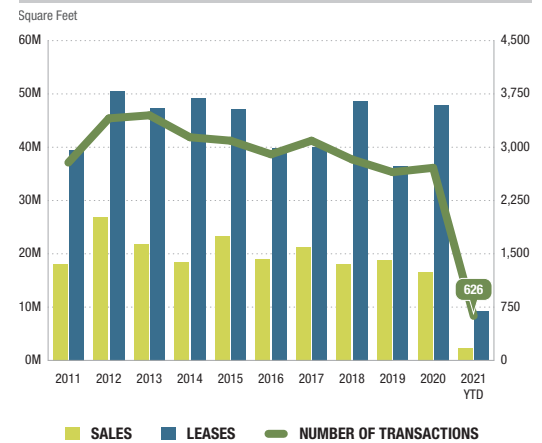
LEASE RATES. With quality space in such short supply, the average asking lease rate moved up in Q1 to an all-time high of \$1.07. Year-over-year, asking rates have moved up by almost 4% despite a major recession caused by the pandemic and the fact that the Los Angeles area was one of the hardest-hit metro areas in the country. Landlords are still holding the line on lease negotiations, taking advantage of the competitive bidding for their space. However, landlords who prioritize the long-term stability they get from the most creditworthy tenants are willing to make modest concessions. South Bay posted the biggest increase in average asking rates, moving up \$.08 to \$1.13. The Central Los Angeles submarket rose another \$0.02 to \$1.04. The San Gabriel Valley submarket, at \$1.10, was unchanged for the period. The average rate will move up or down slightly quarter-to-quarter depending on the number of older, functionally obsolete buildings in the pool of available inventory. Also, some higher quality buildings are offered without an asking price, which excludes their higher rates from the average rent calculation.

TRANSACTION ACTIVITY. Leasing activity, the measure of deals inked in a given period, continues to increase despite the challenges posed by the pandemic. In Q1, 515 leases were signed for a total of 9,181,000 SF compared with 580 leases totaling 16,034,938 SF in Q4 of 2020. Another 111 properties, totaling 2,212,441 SF, were sold in the first quarter. That was down from 180 in Q4, but not unexpected given that the final period of any year is the strongest for closed sales due to year-end considerations. Total transaction activity would likely be much higher if more inventory was available. The short supply of quality product forces many tenants and would-be buyers to delay decisions and to acquire alternate facilities or to make moves outside the area.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



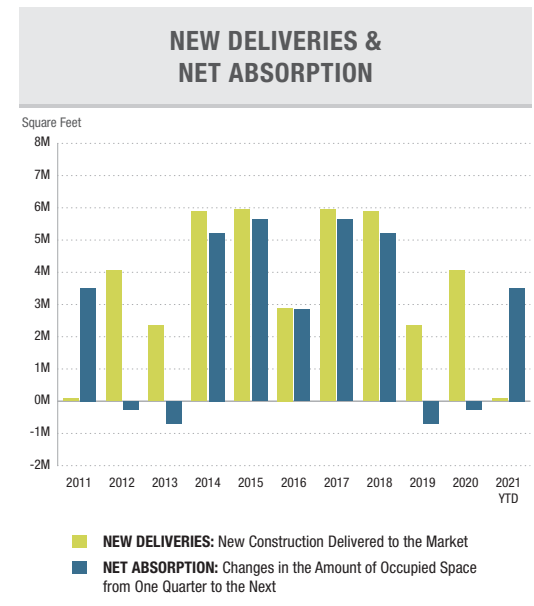
Market Statistics

	Change Over Last Quarter	1Q 2021	4Q 2020	1Q 2020	% Change Over Last Year
Vacancy Rate	▼ DOWN	2.18%	3.00%	2.70%	(19.41%)
Availability Rate	▼ DOWN	3.95%	4.20%	5.40%	(26.84%)
Average Asking Lease Rate	▲ UP	\$1.07	\$1.05	\$1.03	3.88%
Sale & Lease Transactions	▼ DOWN	11,393,606	22,683,580	13,107,003	(13.07%)
Gross Absorption	▲ UP	11,387,630	6,202,268	6,972,861	63.31%
Net Absorption	▲ POSITIVE	3,917,017	(1,015,762)	(962,637)	N/A

ABSORPTION. Net absorption (the net difference in occupied space in a period) moved up again in Q1. After a gain of 3.1 MSF in Q4, the region added another 3.9 MSF in the first quarter. The San Gabriel Valley submarket led the way with a gain of 1,370,000 SF, followed by the Mid-Counties at 1,020,000 SF. Central Los Angeles posted a solid gain of 840,000 SF, up from 553,000 SF in Q4. South Bay saw a slight decline, but still added 685,000 SF to the total gain. In terms of gross absorption, the metric that measures total move-ins, Central Los Angeles led the pack again in Q1 with 3,849,000 SF, besting Q4 by 1 MSF. San Gabriel Valley improved to 3.1 MSF, up from 2.5 MSF in Q4. Year-over-year, gross absorption for the entire Los Angeles market was up by more than 63% to 11,387,000 SF, an impressive performance given the challenges posed by the pandemic.

CONSTRUCTION. Lack of new construction activity continues to exacerbate the supply shortage throughout the region. Land sites suitable for ground-up development are few and far between, and what does hit the market is so expensive that, even at today's high disposition values, it does not make sense to build conventional industrial product. Prime existing sites are being repurposed to higher uses, as well. Just over 3 MSF is under construction, unchanged from the previous quarter. So, the stock of industrial inventory in Los Angeles remains at 737 MSF. The Inland Empire has nearly 20 MSF of new space under construction and that is encouraging Los Angeles-based companies to move to the IE.

EMPLOYMENT. The seasonally adjusted unemployment rate in Los Angeles County decreased to 11.5% in February 2021, from a revised 12.6% in January 2021, and was above the rate of 5.0% one year ago. Three sectors lost jobs over the month: trade, transportation, and utilities (down 3,500), government (down 1,400), and construction (down 900). Trade, transportation, and utilities cut 3,500 jobs.



Forecast

The Los Angeles industrial market should continue on its current course for the remainder of 2021. Virus safety protocols have been eased and three vaccines are in wide distribution, which is helping the Los Angeles economy on its path to full recovery. Demand from tenants and prospective buyers is strengthening and the recovery appears to be impacting a wider variety of industrial sectors. Commercial mortgage interest rates remain low and the SBA is offering incentives to stimulate owner/user purchases, which will keep upward pressure on sales prices for the balance of the year. With a shortage of industrial inventory, tenants will be forced to pay even higher lease rates, as competition is fierce for quality product when it does become available. Port activity has also picked up and the e-commerce sector, fueled by changes in consumer spending habits during the pandemic, should see another year of explosive growth.

However, the new infrastructure legislation in Congress contains provisions to increase corporate and personal income tax rates, along with new rules for taxing pass-through entities and foreign-earned income. This could pose a significant threat to the capital spending budgets of the end user. The administration has set a goal to finalize the legislation during the second quarter.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
5037 Patata St.	South Gate	200,000	\$76,700,000	Overton Moore Properties	Armstrong World Industries, Inc.
17915 & 18001 S. Figueroa St.	Gardena	74,810	\$20,200,000	Rexford Industrial Realty, Inc.	Granger Company
620-640 E Slauson Ave.	Los Angeles	71,121	\$9,503,000	Ness 18 LLC	Be Real Holding LLC
9602-9640 Beverly Rd.	Pico Rivera	57,200	\$8,200,000	The Alchalel Real Estate Investment Trust	Ordin Family Trust
2911 E. Harcourt St.	Compton	49,859	\$8,975,000	TA Realty	SMI Management Company LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
13000 Temple Ave. - Renewal	City of Industry	407,638	Mar-2021	Pilot Inc.	Mabek Co.
2711 E. Dominguez St.	Carson	261,557	Feb-2021	Starship Logistics	EastGroup Properties
18420-18620 Harmon Ave.	Carson	247,788	Feb-2021	FNS, Inc.	Watson Land Company
1501-1537 Greenwood Ave.	Montebello	246,181	Mar-2021	KC Exclusive	Comref So Cal Industrial Sub G
4240 W. 190th St.	Torrance	208,674	Jan-2021	Vie Logistics	ZA Torrance Associates

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2021	Square Feet Available	Availability Rate 1Q2021	Average Asking Lease Rate	Net Absorption 1Q2021	Net Absorption 2021	Gross Absorption 1Q2021	Gross Absorption 2021
Central													
Bell/Bell Gardens/Maywood	199	7,618,310	0	0	101,219	1.33%	152,515	2.00%	\$0.00	39,040	39,040	57,244	57,244
City of Commerce	735	45,241,131	0	0	1,088,366	2.41%	1,658,543	3.67%	\$0.92	165,534	165,534	701,146	701,146
Huntington Park/Cudahy	195	4,769,947	0	45,400	77,822	1.63%	133,007	2.79%	\$1.27	32,530	32,530	37,930	37,930
Downtown	5,112	127,190,050	492,883	507,400	4,208,237	3.31%	7,859,785	6.18%	\$1.19	277,898	277,898	1,546,324	1,546,324
Montebello/Monterey Park	312	11,629,359	0	0	70,459	0.61%	326,614	2.81%	\$0.00	79,515	79,515	206,933	206,933
Pico Rivera	197	10,427,708	40,900	0	32,550	0.31%	108,536	1.04%	\$1.45	87,043	87,043	472,120	472,120
South Gate	228	10,877,971	0	0	105,765	0.97%	238,305	2.19%	\$0.79	(20,975)	(20,975)	210,713	210,713
Vernon	780	42,625,903	0	140,892	1,118,080	2.62%	2,406,622	5.65%	\$0.78	179,365	179,365	616,551	616,551
Total	7,758	260,380,379	533,783	693,692	6,802,498	2.61%	12,883,927	4.95%	\$1.04	839,950	839,950	3,848,961	3,848,961
Mid Counties													
Artesia/Cerritos	280	13,153,562	0	0	253,765	1.93%	477,717	3.63%	\$2.34	100,987	100,987	354,032	354,032
Bellflower/Downey	196	5,579,646	0	0	65,293	1.17%	132,515	2.37%	\$1.20	45,709	45,709	26,507	26,507
Buena Park/La Palma	233	15,053,500	0	0	145,924	0.97%	614,760	4.08%	\$0.93	149,515	149,515	215,370	215,370
La Mirada	178	12,871,236	0	0	417,850	3.25%	1,620,724	12.59%	\$1.00	42,826	42,826	274,636	274,636
Norwalk	88	2,886,812	0	0	46,303	1.60%	18,910	0.66%	\$1.07	243,998	243,998	203,266	203,266
Paramount	406	8,966,504	0	0	190,925	2.13%	308,358	3.44%	\$0.96	84,191	84,191	151,681	151,681
Santa Fe Springs	1,352	53,238,435	174,863	296,616	496,671	0.93%	1,082,251	2.03%	\$1.08	352,927	352,927	656,892	656,892
Whittier	163	4,109,620	0	0	207,649	5.05%	38,126	0.93%	\$1.12	767	767	41,138	41,138
Total	2,896	115,859,315	174,863	296,616	1,824,380	1.57%	4,293,361	3.71%	\$1.03	1,020,920	1,020,920	1,923,522	1,923,522
San Gabriel Valley													
Alhambra	116	2,216,751	0	0	101,265	4.57%	83,940	3.79%	\$1.70	(19,655)	(19,655)	38,756	38,756
Arcadia/Temple City	142	3,129,634	0	0	69,422	2.22%	129,198	4.13%	\$1.35	(6,719)	(6,719)	18,897	18,897
Azusa	240	6,539,737	0	96,950	109,208	1.67%	235,886	3.61%	\$1.26	528,709	528,709	266,724	266,724
Baldwin Park	245	4,676,185	0	0	53,497	1.14%	52,001	1.11%	\$1.13	(2,996)	(2,996)	101,347	101,347
City of Industry/DB/HH/RH	1,109	72,970,874	1,124,086	650,786	1,119,963	1.53%	1,992,091	2.73%	\$1.08	326,533	326,533	1,164,149	1,164,149
Covina/West Covina	181	3,391,642	0	0	114,712	3.38%	189,704	5.59%	\$1.30	(2,946)	(2,946)	0	0
Duarte	70	1,783,328	0	0	83,860	4.70%	70,951	3.98%	\$1.13	(22,866)	(22,866)	34,732	34,732
El Monte	313	8,418,631	60,579	0	195,667	2.32%	236,479	2.81%	\$1.25	549,135	549,135	726,756	726,756
Irwindale	263	11,210,715	319,421	2,473,815	232,773	2.08%	163,641	1.46%	\$0.99	1,213	1,213	109,484	109,484
La Puente	92	2,039,766	0	12,650	14,572	0.71%	14,572	0.71%	\$1.15	(140)	(140)	1,800	1,800
La Verne/San Dimas/Glendora	315	6,756,113	0	0	82,965	1.23%	97,312	1.44%	\$1.18	29,421	29,421	38,453	38,453
Monrovia	203	3,252,913	0	0	29,208	0.90%	43,182	1.33%	\$1.15	(17,168)	(17,168)	17,564	17,564
Pomona/Claremont	662	20,096,553	0	0	249,224	1.24%	274,564	1.37%	\$0.95	39,121	39,121	356,610	356,610
Rosemead/San Gabriel	120	2,416,729	0	0	17,233	0.71%	44,523	1.84%	\$1.25	(400)	(400)	5,100	5,100
South El Monte	826	10,889,627	0	0	120,532	1.11%	173,777	1.60%	\$1.23	10,541	10,541	71,385	71,385
Walnut	194	6,786,994	143,999	0	310,372	4.57%	163,266	2.41%	\$1.15	(41,379)	(41,379)	49,921	49,921
Total	5,091	166,576,192	1,648,085	3,234,201	2,904,473	1.74%	3,965,087	2.38%	\$1.10	1,370,404	1,370,404	3,001,678	3,001,678
South Bay													
Carson	499	35,449,805	145,840	196,313	751,090	2.12%	1,015,766	2.87%	\$1.05	350,078	350,078	587,431	587,431
Compton	463	24,842,218	0	0	468,373	1.89%	909,849	3.66%	\$0.92	(5,784)	(5,784)	485,542	485,542
El Segundo	160	8,616,686	0	0	104,580	1.21%	101,530	1.18%	\$0.00	3,959	3,959	55,084	55,084
Gardena	1,175	28,600,866	0	91,465	770,472	2.69%	1,366,375	4.78%	\$1.10	(109,230)	(109,230)	264,386	264,386
Harbor City	92	1,745,153	0	0	32,100	1.84%	70,243	4.03%	\$1.55	(500)	(500)	20,800	20,800
Hawthorne	218	7,789,559	0	48,080	193,852	2.49%	179,161	2.30%	\$1.09	(48,448)	(48,448)	55,842	55,842
Inglewood	240	4,939,634	0	0	243,589	4.93%	567,761	11.49%	\$1.59	4,618	4,618	29,168	29,168
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	0	0.00%	8,745	3.46%	\$0.00	0	0	0	0
Long Beach/Terminal Island	738	23,719,153	415,160	92,245	806,868	3.40%	893,624	3.77%	\$1.10	252,274	252,274	651,754	651,754
Lynwood	101	4,746,799	0	0	10,700	0.23%	9,600	0.20%	\$0.00	0	0	5,000	5,000
Rancho Dominguez	235	14,411,739	0	27,842	282,560	1.96%	1,058,592	7.35%	\$1.02	47,548	47,548	159,204	159,204
Redondo & Hermosa Beach	37	1,817,684	0	0	236,134	12.99%	239,134	13.16%	\$1.75	(230,534)	(230,534)	5,600	5,600
San Pedro	43	2,751,799	0	0	2,442	0.09%	2,442	0.09%	\$1.00	0	0	0	0
Signal Hill	201	3,364,286	0	49,900	65,005	1.93%	119,120	3.54%	\$1.48	(27,595)	(27,595)	23,814	23,814
Torrance	611	26,440,183	146,919	1,634,625	507,768	1.92%	1,347,860	5.10%	\$1.23	442,585	442,585	263,072	263,072
Wilmington	147	3,825,760	0	0	23,728	0.62%	71,784	1.88%	\$1.18	6,772	6,772	6,772	6,772
Total	5,014	193,877,555	707,919	2,140,470	4,499,261	2.32%	7,961,586	4.11%	\$1.13	685,743	685,743	2,613,469	2,613,469
Los Angeles Total	20,759	736,693,441	3,064,650	6,364,979	16,030,612	2.18%	29,103,961	3.95%	\$1.07	3,917,017	3,917,017	11,387,630	11,387,630
5,000-24,999	13,638	166,027,645	21,484	94,072	4,045,964	2.44%	5,599,825	3.37%	\$1.22	12,123	12,123	1,985,002	1,985,002
25,000-49,999	3,565	123,775,881	341,862	492,436	3,602,926	2.91%	5,483,649	4.43%	\$1.06	752,183	752,183	2,243,807	2,243,807
50,000-99,999	1,989	135,249,778	124,579	645,116	3,365,758	2.49%	6,570,275	4.86%	\$0.95	927,426	927,426	2,148,905	2,148,905
100,000-249,999	1,255	186,245,480	1,243,782	2,189,294	3,294,987	1.77%	7,025,844	3.77%	\$1.00	1,183,263	1,183,263	3,821,414	3,821,414
250,000-499,999	255	82,550,103	705,463	1,109,351	1,694,733	2.05%	2,141,185	2.59%	\$0.71	491,782	491,782	523,862	523,862
500,000 plus	57	42,844,554	627,480	1,834,710	26,244	0.06%	2,283,183	5.33%	\$0.76	550,240	550,240	664,640	664,640
Los Angeles Total	20,759	736,693,441	3,064,650	6,364,979	16,030,612	2.18%	29,103,961	3.95%	\$1.07	3,917,017	3,917,017	11,387,630	11,387,630

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



Owner-User Demand Flourishes in Industrial Market

by **Erik Sikes**

ASSOCIATE, IRVINE

949.263.5344 · esikes@voitco.com · Lic. #02103320

A year ago, many industrial business sectors were left in a state of panic and disarray due to the coronavirus pandemic. It is not unusual for markets to be thrown an occasional curveball, but the severity of the global pandemic that essentially shut down the world in March instilled a new sense of vulnerability and uncertainty. Today some business sectors are still struggling. However, others are back to business as usual and some even managed to have record-breaking years in 2020. Overall, the industrial market flourished in 2020 and we expect it to be even stronger this year.

Although Covid-19 remains a major issue, the largest source of uncertainty is a series of tax hikes proposed by the new administration. President Biden campaigned on eliminating 1031 exchanges, raising marginal income tax rates, taxing capital gains at ordinary income tax rates, lowering the estate tax threshold, erasing the step-up rule and raising corporate income tax rates. A question we constantly hear from clients is, "Which proposal will affect me the most?" The reality is, to varying degrees, they all would have an adverse effect on the commercial real estate market. But, it is too early to know which of President Biden's proposals will be formally pursued, and he will face a tough legislative challenge, given the even split of Democrat and Republican Senators.

Even with the reality of Covid-19 and the threat of higher taxes, the owner-user market has exploded. With vacancy rates on leased buildings dropping to a historic low, sale prices for free-standing buildings have moved higher and higher. Potential buyers are enticed by fixed-rate SBA loans in the 3% range, as well as three months of free mortgage payments of up to \$9,000. For many, it just makes sense to amortize their own mortgage rather than write a check to their landlord each month so he can do the same.

While there are undoubtedly reasons to exercise caution about near-term economic challenges, many of our clients remain willing to take on the risk of owning industrial property in Southern California. For them, the desire to grow their businesses and build wealth through property ownership at the same time is a prudent decision.

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

Please Contact Us for Further Information

Tony Tran
Regional Director of Research
ttran@voitco.com

Anaheim, CA
714.978.7880

Carlsbad, CA
760.472.5620

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.