

**OVERVIEW.** The Los Angeles industrial market tightened again in Q4. Vacancy fell to another record low and lease rates hit another record high. Leasing activity fell sharply, but that was due entirely to a lack of available inventory, as demand for space continued to run well ahead of supply. The Omicron virus variant hit late in the period, but with no discernible effect on industrial property activity. Demand for both sale and lease product was intense, while construction activity remained light. Port activity keeps rising, but the bottleneck at both LA and Long Beach persisted throughout the period with little sign of clearing out any time soon because port capacity is only part of the problem. The entire supply chain has been affected.

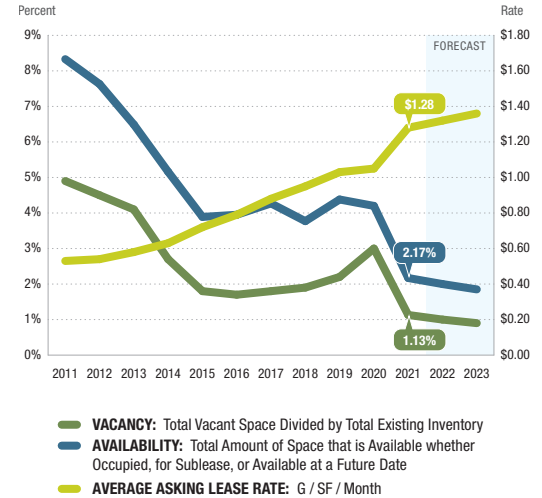
**VACANCY/AVAILABILITY.** The overall vacancy rate in Los Angeles fell another 19 basis points in Q4 to a new all-time low of 1.13%. The Mid-Counties submarket has the lowest vacancy at a scant 0.57%. Santa Fe Springs, the largest city in the Mid-Counties, ended the year with just 256,000 SF of vacant space on a base inventory of almost 54 MSF. Tenants are being forced to renew in place for lack of alternatives even if their existing facilities no longer fit their needs. Space that does come available is leased in a matter of days and is pursued by multiple tenants. The availability rate for the entire LA region, which includes vacant space and occupied space offered for sale or lease, also fell 26 basis points in Q4 to a new low of 2.17%. That tight spread reflects the short marketing time and the increase in in-place renewals.

**LEASE RATES.** Average asking lease rates skyrocketed in the final quarter, up \$0.13 to \$1.28 during the period. Year-over-year, rents increased by almost 22%. The San Gabriel Valley posted the highest asking rate of \$1.34, in part due to the fact that almost half of the county's new construction is in that submarket. South Bay, Mid-Counties and Central LA ran slightly behind at \$1.27. However, actual lease rates are higher due to fierce competition for space and the fact that many properties are offered for lease without an asking rate. Landlords are driving hard bargains, because they know they can, and are offering little in the way of concessions like free rent or tenant improvements.

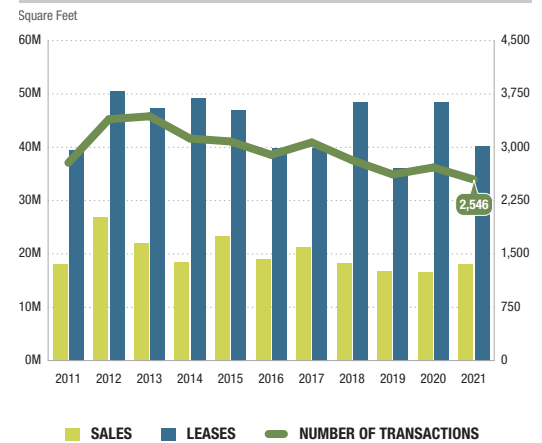
**TRANSACTION ACTIVITY.** Transaction activity measures the number of deals inked in a given period without regard to occupancy, as is the case with absorption. In Q4, transaction activity fell to 9.28 MSF from 14.8 MSF in Q3. As we have been reporting, the drop was driven by the lack of supply as opposed to waning demand. There are just too few options out there to support high levels of lease and sale activity. In Q4, 301 leases were signed for a total of 5.1 MSF, and another 163 properties were sold totaling 4.1 MSF. The biggest transaction of the quarter was a 298,785 SF sale-leaseback by Ducommun in Carson. The property was sold to CenterPoint Properties for \$143,100,000. Another 216,250 SF was leased to JD Logistics at 13400 E. Nelson Avenue in City of Industry, which is reflective of the strong demand from 3PL operators throughout Los Angeles and the Inland Empire.

**ABSORPTION.** Net absorption, the net difference in occupied space from one period to another, also fell again in Q4, but remained firmly in positive territory at just over 1.5 MSF. All four major LA regions posted positive gains during the period and for the year. In the past

**VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES**



**TRANSACTION VOLUME & NUMBER OF TRANSACTIONS**



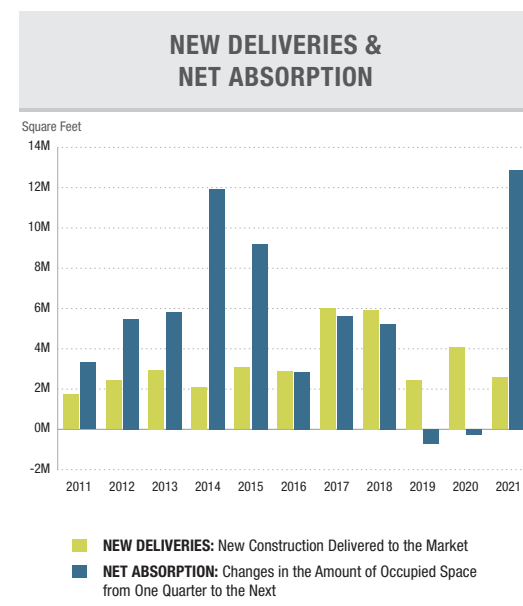
Market Statistics

	Change Over Last Quarter	4Q 2021	3Q 2021	4Q 2020	% Change Over Last Year
Vacancy Rate	▼ DOWN	1.13%	1.32%	3.05%	(63.04%)
Availability Rate	▼ DOWN	2.17%	2.41%	2.41%	(10.09%)
Average Asking Lease Rate	▲ UP	\$1.28	\$1.15	\$1.05	21.90%
Sale & Lease Transactions	▼ DOWN	9,282,841	14,833,430	23,242,620	(60.06%)
Gross Absorption	▼ DOWN	9,047,246	10,364,140	6,751,651	34.00%
Net Absorption	▲ POSITIVE	1,537,110	3,736,959	(1,015,762)	N/A

four quarters, overall occupancy increased by almost 13 MSF, no small feat in a market with such scant vacancy and low levels of construction. Gross absorption, which measures total move-ins, also fell again in Q4. Again, this is almost entirely due to tight supply that restricts transaction activity and subsequent absorption. For the year, absorption in all submarkets was almost evenly distributed in the range of 2.9 to 3.5 MSF.

**CONSTRUCTION.** Lack of new inventory has become a persistent problem throughout the Los Angeles region. Tenants, buyers, and third-party investors are clamoring for control of first-generation space, but there is just not enough of it to come close to satisfying that demand. Few buildable land sites are available and what little remains is prohibitively expensive. Only 3.65 MSF are in the construction queue in a 740 MSF market, and only 4.68 MSF of new space is in the planning stages. With no evidence of reduced demand going forward, the shortage of first-generation space is likely to remain a problem for years to come and keep upward pressure on lease rates and land prices.

**EMPLOYMENT.** Los Angeles County's unemployment rate fell to 8.9% in November from 9.4% in October amid a hiring surge that saw employers in the county add 43,000 payroll jobs, according to state figures released last month. November's gains were spread across several industry sectors, led by a seasonal jump of 14,000 in retail trade jobs as stores entered their holiday hiring mode. That was followed by a net gain of 9,100 jobs in the transportation / warehousing sector and a jump of 7,800 jobs in professional/business services.



## Forecast

The Los Angeles industrial market will continue to tighten heading into 2022. Upward pressure on lease rates and sales prices will continue and vacancy should fall under 1% for the next several quarters. Based on current projections, construction activity will remain light despite intense demand for first-generation inventory. That will keep lease rates moving up and cap rates for industrial investment properties at a historic low. Institutional investors will continue to pay a premium for assets that can serve the needs of e-commerce and port-related users.

In December the Build Back Better legislation, that contained several proposed tax hikes that would have had a negative impact on commercial real estate values, lost traction in Congress and is on shaky ground. That is welcome relief for investors and owner/users who would have been facing a potentially serious market correction had the legislation passed.

The new concern is inflation, which ramped up mid-year and is now the highest it has been in 40 years. That has prompted action from the Fed, which is accelerating the wind-down of its bond buying and has signaled future hikes in its benchmark Fed Funds Rate. That likely means higher commercial mortgage rates going forward, which would put a slight downward pressure on sales prices as the cost of capital rises.

## Significant Transactions

### Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
268 Gardena Blvd.	Carson	298,785	\$143,100,000	CenterPoint Properties	Ducommun Incorporated
5102 Industry Ave.	Pico Rivera	172,344	\$63,100,000	Black Creek Group	Howard's
6027 Eastern Ave.	Commerce	125,000	\$23,300,000	Rexford Industrial Realty, Inc.	Los Angeles Paper Box
17531 Railroad – 3 Properties	City of Industry	157,328	\$51,300,000	TA Realty	Heitman
12851 Midway Pl.	Cerritos	102,160	\$34,500,000	Black Creek Group	Polycell International Corporation

### Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
268 Gardena Blvd.	Carson	298,785	Dec-2021	Ducommun Incorporated	CenterPoint Properties
13400 E. Nelson Ave.	City of Industry	216,250	Oct-2021	JD Logistics	Feterik Ents Nelson LLC
6300 Valley View Ave. – Renewal	Buena Park	190,800	Dec-2021	Manhattan Beachwear, LLC	Prudential*
9206-9214 Santa Fe Springs Rd.	Santa Fe Springs	155,238	Oct-2021	Bay Cities Packaging & Design	Oltmans Investment Co.
2910-2960 Pacific Commerce Dr.	Rancho Dominguez	150,000	Nov-2021	KCC Transport	Blackstone Real Estate Income Trust

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2021	Square Feet Available	Availability Rate 4Q2021	Average Asking Lease Rate	Net Absorption 4Q2021	Net Absorption 2021	Gross Absorption 4Q2021	Gross Absorption 2021
<b>Central</b>													
Bell/Bell Gardens/Maywood	198	7,534,895	0	0	6,925	0.09%	55,489	0.74%	\$0.00	(40,827)	33,155	26,988	218,386
City of Commerce	734	45,428,742	169,898	0	230,242	0.51%	667,367	1.47%	\$1.30	151,040	684,085	502,221	2,798,293
Huntington Park/Cudahy	196	4,804,312	0	0	47,139	0.98%	71,854	1.50%	\$1.50	(8,419)	41,751	33,388	114,110
Downtown	5,074	126,747,377	237,258	231,033	2,298,299	1.81%	6,101,955	4.81%	\$1.28	185,805	853,952	1,595,253	6,256,354
Montebello/Monterey Park	314	11,726,884	0	25,500	33,070	0.28%	24,495	0.21%	\$0.00	(2,250)	80,719	0	290,563
Pico Rivera	197	10,266,405	40,900	0	108,366	1.06%	66,982	0.65%	\$0.00	63,976	48,211	146,084	739,257
South Gate	229	10,881,214	0	550,000	40,861	0.38%	68,461	0.63%	\$1.50	42,681	179,772	74,681	371,298
Vernon	783	42,677,481	75,843	106,968	567,949	1.33%	475,147	1.11%	\$1.00	299,712	1,274,634	815,812	3,066,439
<b>Total</b>	<b>7,725</b>	<b>260,067,310</b>	<b>523,899</b>	<b>913,501</b>	<b>3,332,851</b>	<b>1.28%</b>	<b>7,531,750</b>	<b>2.90%</b>	<b>\$1.26</b>	<b>691,718</b>	<b>3,196,279</b>	<b>3,194,427</b>	<b>13,854,700</b>
<b>Mid Counties</b>													
Artesia/Cerritos	277	13,007,088	0	0	63,631	0.49%	198,774	1.53%	\$1.22	141,711	526,428	167,207	1,370,274
Bellflower/Downey	200	5,652,552	0	44,162	33,241	0.59%	58,892	1.04%	\$1.40	(16,325)	66,605	24,122	221,753
Buena Park/La Palma	233	15,058,712	0	30,650	45,656	0.30%	373,481	2.48%	\$0.93	51,805	389,189	10,805	811,263
La Mirada	176	13,368,827	0	0	238,936	1.79%	479,543	3.59%	\$1.00	(16,385)	599,171	264,465	1,197,432
Norwalk	88	2,874,315	0	0	3,800	0.13%	3,800	0.13%	\$1.07	32,150	326,373	8,150	368,955
Paramount	409	8,998,068	0	0	30,100	0.33%	60,922	0.68%	\$0.96	(9,363)	258,974	144,896	507,439
Santa Fe Springs	1,347	53,628,794	150,548	256,289	244,903	0.46%	445,612	0.83%	\$1.08	235,877	1,302,431	467,031	3,070,971
Whittier	163	4,104,354	28,332	5,465	4,280	0.10%	30,623	0.75%	\$1.40	6,898	104,005	15,823	254,197
<b>Total</b>	<b>2,893</b>	<b>116,692,710</b>	<b>178,880</b>	<b>336,566</b>	<b>664,547</b>	<b>0.57%</b>	<b>1,651,647</b>	<b>1.42%</b>	<b>\$1.27</b>	<b>426,368</b>	<b>3,573,176</b>	<b>1,102,499</b>	<b>7,802,284</b>
<b>San Gabriel Valley</b>													
Alhambra	116	2,212,251	0	0	13,414	0.61%	26,784	1.21%	\$0.00	(83)	57,386	19,831	187,417
Arcadia/Temple City	140	3,113,701	0	0	24,143	0.78%	65,747	2.11%	\$1.40	1,252	35,342	6,109	108,699
Azusa	240	6,511,860	94,321	0	47,603	0.73%	59,471	0.91%	\$0.00	(16,500)	850,049	0	739,872
Baldwin Park	246	4,703,822	0	0	86,379	1.84%	75,809	1.61%	\$1.05	(56,089)	(77,669)	6,000	219,416
City of Industry/DB/HH/RH	1,111	73,477,810	474,685	483,546	683,489	0.93%	1,443,336	1.96%	\$1.52	47,538	1,142,951	1,484,906	5,073,720
Covina/West Covina	182	3,394,579	0	0	7,411	0.22%	100,631	2.96%	\$0.75	16,426	113,768	20,490	143,681
Duarte	70	1,800,654	0	0	61,804	3.43%	19,679	1.09%	\$0.00	(904)	(904)	2,340	67,517
El Monte	313	8,420,839	0	0	89,203	1.06%	31,943	0.38%	\$1.49	132,368	665,769	179,006	1,001,648
Irwindale	260	11,445,515	898,392	1,896,000	165,967	1.45%	480,199	4.20%	\$0.00	31,363	131,489	238,316	666,370
La Puente	92	1,986,773	0	0	30,031	1.51%	30,031	1.51%	\$1.16	0	(18,249)	11,046	18,446
La Verne/San Dimas/Glendora	315	6,755,780	0	0	79,789	1.18%	117,050	1.73%	\$1.17	(20,109)	22,412	93,351	307,865
Monrovia	204	3,292,471	0	12,725	0	0.00%	40,000	1.21%	\$0.00	0	670	32,524	85,517
Pomona/Claremont	663	20,260,419	0	0	154,082	0.76%	259,316	1.28%	\$0.99	(49,270)	70,489	87,435	716,088
Rosemead/San Gabriel	120	2,365,258	0	0	22,903	0.97%	6,899	0.29%	\$0.00	0	(10,123)	0	14,026
South El Monte	832	11,106,020	0	0	214,872	1.93%	126,494	1.14%	\$1.45	27,491	27,787	136,067	394,499
Walnut	198	6,925,528	0	0	255,202	3.68%	118,464	1.71%	\$1.48	219,533	153,046	605,471	719,945
<b>Total</b>	<b>5,102</b>	<b>167,773,280</b>	<b>1,467,398</b>	<b>2,392,271</b>	<b>1,936,292</b>	<b>1.15%</b>	<b>3,001,853</b>	<b>1.79%</b>	<b>\$1.34</b>	<b>333,016</b>	<b>3,164,213</b>	<b>2,922,892</b>	<b>10,464,726</b>
<b>South Bay</b>													
Carson	497	35,847,407	0	126,013	236,311	0.66%	466,257	1.30%	\$1.26	93,245	826,193	406,300	2,437,419
Compton	470	24,708,831	0	0	193,177	0.78%	470,382	1.90%	\$1.21	84,550	318,556	378,621	1,718,145
El Segundo	160	8,614,767	0	0	72,100	0.84%	89,170	1.04%	\$2.50	39,065	66,439	40,965	132,528
Gardena	1,176	28,977,330	0	414,748	322,230	1.11%	621,098	2.14%	\$1.39	59,268	271,150	247,751	1,375,516
Harbor City	93	1,756,313	0	0	0	0.00%	0	0.00%	\$0.00	28,526	12,146	28,526	79,962
Hawthorne	218	7,789,389	0	48,080	219,690	2.82%	82,370	1.06%	\$1.53	47,288	53,630	58,953	250,308
Inglewood	241	4,893,947	0	0	186,043	3.80%	408,003	8.34%	\$1.91	(33,129)	86,859	38,557	373,991
Lakewood/Hawaiian Gardens	25	563,155	0	0	43,054	7.65%	17,792	3.16%	\$0.00	(43,054)	(43,054)	0	0
Lawndale	29	253,076	0	0	8,745	3.46%	8,745	3.46%	\$0.00	0	(8,745)	0	0
Long Beach/Terminal Island	740	24,125,531	162,863	100,585	339,619	1.41%	538,411	2.23%	\$1.09	72,801	847,039	259,371	1,943,123
Lynwood	99	4,694,093	0	0	0	0.00%	5,474	0.12%	\$0.00	0	5,700	0	10,700
Rancho Dominguez	236	14,611,552	27,842	0	173,147	1.19%	469,746	3.21%	\$1.21	(83,984)	82,380	100,319	968,246
Redondo & Hermosa Beach	38	1,811,206	0	0	0	0.00%	4,250	0.23%	\$0.00	5,300	8,100	5,300	247,034
San Pedro	45	2,840,192	0	0	40,849	1.44%	40,849	1.44%	\$1.60	(38,407)	(38,407)	0	0
Signal Hill	204	3,399,277	0	49,900	42,502	1.25%	82,032	2.41%	\$1.28	11,032	(13,149)	44,677	128,705
Torrance	617	26,744,729	1,293,429	300,456	390,265	1.46%	544,649	2.04%	\$1.76	(44,993)	557,039	181,243	1,793,730
Wilmington	146	3,812,246	0	0	139,295	3.65%	16,864	0.44%	\$1.18	(111,500)	(93,684)	36,845	67,345
<b>Total</b>	<b>5,034</b>	<b>195,443,041</b>	<b>1,484,134</b>	<b>1,039,782</b>	<b>2,407,027</b>	<b>1.23%</b>	<b>3,866,092</b>	<b>1.98%</b>	<b>\$1.27</b>	<b>86,008</b>	<b>2,938,192</b>	<b>1,827,428</b>	<b>11,526,752</b>
<b>Los Angeles Total</b>	<b>20,754</b>	<b>739,976,341</b>	<b>3,654,311</b>	<b>4,682,120</b>	<b>8,340,717</b>	<b>1.13%</b>	<b>16,051,342</b>	<b>2.17%</b>	<b>\$1.28</b>	<b>1,537,110</b>	<b>12,871,860</b>	<b>9,047,246</b>	<b>43,648,462</b>
5,000-24,999	13,641	165,900,841	17,363	99,612	2,407,654	1.45%	3,659,335	2.21%	\$1.46	153,439	834,467	1,498,791	7,857,894
25,000-49,999	3,550	123,201,905	405,147	423,756	2,022,411	1.64%	2,704,474	2.20%	\$1.07	316,457	2,271,445	1,748,827	8,295,403
50,000-99,999	1,984	134,960,182	357,183	520,821	1,597,498	1.18%	2,820,612	2.09%	\$1.14	573,355	3,316,991	1,752,211	8,930,117
100,000-249,999	1,259	187,040,406	1,493,540	1,200,648	1,986,825	1.06%	3,608,183	1.93%	\$1.09	450,885	3,613,502	2,002,743	11,902,711
250,000-499,999	261	84,699,144	851,212	581,283	255,804	0.30%	982,665	1.16%	\$0.00	42,974	1,936,346	1,417,194	4,670,557
500,000 plus	59	44,173,863	529,866	1,856,000	70,525	0.16%	2,276,073	5.15%	\$0.00	0	899,109	627,480	1,991,780
<b>Los Angeles Total</b>	<b>20,754</b>	<b>739,976,341</b>	<b>3,654,311</b>	<b>4,682,120</b>	<b>8,340,717</b>	<b>1.13%</b>	<b>16,051,342</b>	<b>2.17%</b>	<b>\$1.28</b>	<b>1,537,110</b>	<b>12,871,860</b>	<b>9,047,246</b>	<b>43,648,462</b>

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



## Industrial Inflation

by **David Fults**

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As we wrap up 2021, we can look back on an incredible year for commercial real estate values. Appreciation in sale and lease rates has been significant ever since we came out of the great recession in 2010. Last year saw incredible increases supercharged by several factors, including lack of development land, hostile government policies towards development, an industrial boom of activity coming out of the pandemic, and central bank support of low interest rates.

Lack of development land in Los Angeles has been an ongoing story for 30 years. We continue to get more creative, developing properties that previously were considered too complicated because of environmental or functional challenges. Industrial development demand in 2021 has pushed values from \$60–\$80 per square foot in the middle of the year to now \$150–\$160 per square foot in current activity. The next round of deals could be as high as \$200 per square foot for the best opportunities. And this is just for LAND!

Local governments are exacerbating the price increases through their increasingly hostile attitude towards industrial use of property, with trucking use bearing the brunt of unfavorable regulations. The ports of Los Angeles and Long Beach demand an enormous amount of trucking activity in Southern California. The disruption in the supply chain during the pandemic has caused increased demand for storage containers and trucks. That, combined with city use restrictions, has led to incredible lease rate inflation in truckyards that are preapproved by city governments. In 2021 truck yard lease rates in the South Bay/Port market jumped from \$0.45 to \$0.55 to \$0.65 and now the latest transactions will be close to \$1.00 PSF. We're talking about land, pavement, and a city use permit.

Our central bank's policy of supporting low interest rates is one of the largest contributors to the increase in pricing across the board. Investors eager to put money to work in the industrial market are able to borrow so cheaply that stabilized capitalization rates for the largest institutional transactions are trending toward 3%. This may not be sustainable, however, as the central bankers have indicated a willingness to increase rates in 2022.

These factors have combined to supercharge industrial market value in 2021. Looking forward we can see little release to these pressures, which will certainly result in new sale and lease records for the immediate future. The one foreseeable change ahead is interest rates, which, at this time, is the only speed bump ahead for pricing.

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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