

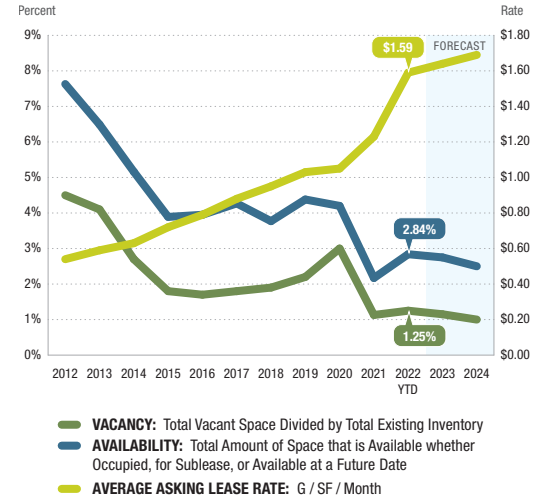
OVERVIEW. While the Los Angeles industrial market remained tight in Q2, preliminary signs of a slowdown in market velocity showed up in several key market metrics. Vacancy and availability actually increased for the first time in years. Transaction activity decreased and net absorption fell slightly into negative territory. Demand for owner/user product has been negatively impacted by rising mortgage rates, and competition among tenants for lease product is beginning to wane. Yet, the market remains tight with demand still running ahead of current supply. Institutional investors are becoming more conservative in their underwriting, as they grow increasingly concerned that the rent growth they assume in their analysis may not be sustainable. Some deals are being re-traded while in escrow and developers are starting to forgo opportunities for being too pricey, given the rising cost of capital and inflation that is impacting Los Angeles business owners. Supply chain problems are still in play even though the backup at both ports has improved. However, the ongoing shortage of trucks and drivers along with a massive increase in fuel prices is creating difficulties.

VACANCY/AVAILABILITY. The overall vacancy rate in Los Angeles increased by 14 basis points in Q2, but still stood at a scant 1.25% as the period ended. Top quality space still attracts offers from multiple tenants who are willing to complete aggressively to be the winning bidder, but older properties with elements of functional obsolescence are getting less attention. The 2.84% availability rate for the entire LA region moved up by a substantial 55 basis points in Q2 after a 12-basis-point increase in Q1. The increase indicates that time on market for vacant space is on the rise and space is beginning to accumulate rather than being leased up before it even hits the market, which has been the case for some time.

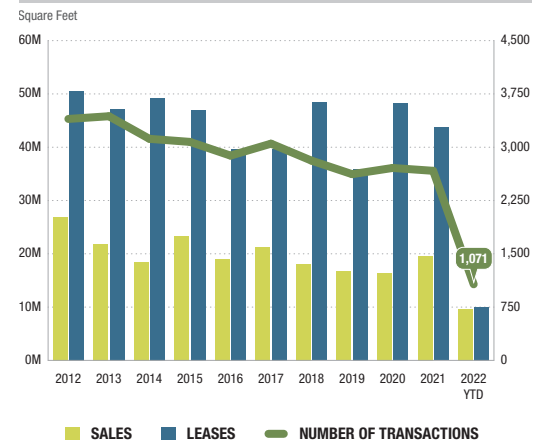
LEASE RATES. Average asking lease rates are still moving up sharply. Q2 ended with an average rate of \$1.59, up \$0.22 per square foot. That follows a \$0.27 increase in Q1 and brings the year over year increase in asking rents to a whopping 44.5%. The San Gabriel Valley edged out all other submarkets again in Q2 after posting an average asking lease rate of \$1.64, followed closely by Mid Counties at \$1.60 and South Bay at \$1.51. Central LA was lowest at \$1.48. San Gabriel Valley rents are highest due to the fact that over half the new construction is that area. Actual lease rates are somewhat higher due to the fact that a substantial portion of the space that is leased is done so on an off-market basis, or in situations where space is marketed without an asking rate.

TRANSACTION ACTIVITY. Transaction activity measures the number of deals inked in a given period without regard to occupancy. In Q2, transaction activity fell slightly to 9.6 MSF from 9.9 MSF. However, in Q2 of 2021 just under 18 MSF was leased or sold. In all, 371 leases were signed in Q2 for a total of 4.5 MSF, and another 152 properties were sold totaling 5.1 MSF. The biggest lease transaction of the quarter was a 400,332 SF lease renewal for APL Logistics at 408-488 Brea Canyon Road in City of Industry.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



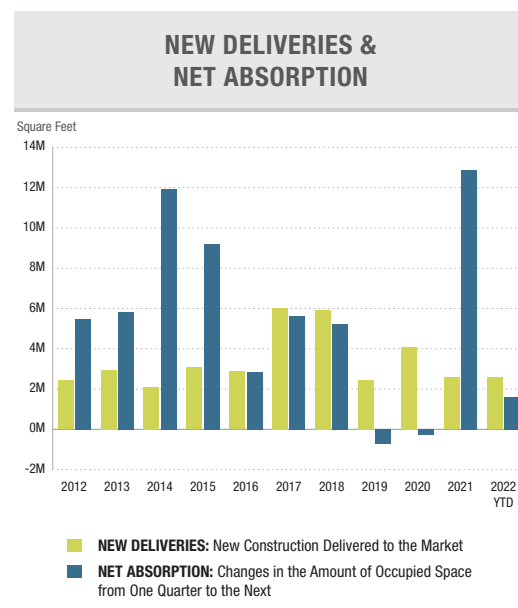
Market Statistics

	Change Over Last Quarter	2Q 2022	1Q 2022	2Q 2021	% Change Over Last Year
Vacancy Rate	▲ UP	1.25%	1.11%	1.76%	(28.98%)
Availability Rate	▲ UP	2.84%	2.29%	2.29%	24.17%
Average Asking Lease Rate	▲ UP	\$1.59	\$1.37	\$1.10	44.55%
Sale & Lease Transactions	▼ DOWN	9,653,226	9,946,399	17,989,279	(46.34%)
Gross Absorption	▲ UP	5,777,128	5,654,867	12,849,446	(55.04%)
Net Absorption	▼ NEGATIVE	(100,360)	1,587,197	3,680,774	N/A

ABSORPTION. Net absorption, the net difference in occupied space from one period to another, slipped into negative territory in Q2 with a loss of 100,360 SF. That came after a gain of 1,587,000 SF in Q1 and 3,680,000 SF in Q2 of last year. The downward trend in absorption can be mostly explained by a lack of quality supply, which has kept many tenants and owner/user buyers stuck in their existing facilities. Gross absorption, which measures total move-ins, was little changed at 5,777,000 compared to Q1, but was well off the 12,000,000 SF of move-ins recorded in Q2 of 2021.

CONSTRUCTION. Lack of ground-up development has been a persistent problem throughout the entire LA region for many years, and things were little changed in Q2. Just 4,254,351 SF was in the construction queue as Q2 ended. Unfortunately, only another 4,924,817 SF of new space is in the planning stages. Land sites are in short supply and have become prohibitively expensive. Moreover, developers are becoming more cautious about getting involved in projects that will take years to entitle in an economy that may be slowing down as a result of the Fed's efforts to tame inflation.

EMPLOYMENT. The seasonally adjusted unemployment rate in Los Angeles County decreased over the month to 5.2% in May 2022 from a revised 5.4% in April 2022 and was below the rate of 9.7% a year ago. Between May 2021 and May 2022, nonfarm employment increased by 230,700, or 5.4%.



Forecast

The Los Angeles industrial market will continue to operate under tight conditions despite signs of diminishing demand for development sites, owner/user buildings and leased investments. Mortgage rates have increased sharply and will likely move higher as the Fed follows through on its promise for several more rate hikes through the end of 2022 and into 2023. That is beginning to impact pricing and demand across the board, especially for owner/user transactions, which are heavily reliant on high levels of leverage. The SBA 504 loan program has seen its rate move up to 5.19% from 3.21% in just the past five months. We expect further increases as the Fed continues raise its benchmark rate. Even the most active lenders are also tightening up on their underwriting. That could mean higher debt service coverage ratios and interest rates moving forward, which will reduce borrowing power for leveraged buyers. Fewer buyers and higher rates mean that cap rate decompression may be on the way after years at record lows.

The good news is that if we are heading into a market slowdown, we do so with record-low vacancy and very little new inventory under construction. That should serve to soften the impact of a decrease in leasing activity and owner/user demand. All eyes will be on the results of the Fed's efforts to contain inflation and avoid recession.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
5729-5743 Smithway St.	Commerce	230,000	\$69,836,125	Penwood Real Estate Investment Management	Smithway Associates, Inc.
14724 Proctor Ave.	City of Industry	229,200	\$54,100,000	Duke Realty Corporation	Eighth & Proctor LLC
4701 S. Santa Fe Ave.	Vernon	224,640	\$35,400,000	Prime Data Centers	INI Investment Group
14001 S. Garfield Ave.	Paramount	160,000	\$21,000,000	ARC Investment Group, LLC	Calmet Inc.
13900 Carmenita Rd.	Santa Fe Springs	150,548	\$39,142,480	Modlo, Modern Logistics	Bridge Development Partners

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
408-488 Brea Canyon Rd. – Renewal	City of Industry	400,332	Apr-2022	APL Logistics	Industry East Land LLC Lessee
18021 Valley View Ave. – Renewal	Cerritos	309,934	Apr-2022	Westrock CP, LLC	JCC California Properties, LLC
4444 Ayers Ave.	Los Angeles	219,555	Apr-2022	Curacao	South of Bandini Partners, LP
333 S. Hacienda Blvd.	City of Industry	216,716	May-2022	JD Logistics	LW Investments, Inc.
5200 Sheila St.	City of Commerce	114,898	Apr-2022	Fastener Distribution Hgolding, LLC	Link Logistics

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2022	Square Feet Available	Availability Rate 2Q2022	Average Asking Lease Rate	Net Absorption 2Q2022	Net Absorption 2022	Gross Absorption 2Q2022	Gross Absorption 2022
Central													
Bell/Bell Gardens/Maywood	197	7,443,341	0	0	52,217	0.70%	9,000	0.12%	\$0.00	(45,406)	(15,737)	6,811	43,291
City of Commerce	734	45,110,811	55,000	0	197,880	0.44%	775,957	1.72%	\$1.41	192,339	279,567	263,263	696,252
Huntington Park/Cudahy	194	4,747,475	0	0	62,704	1.32%	253,186	5.33%	\$1.45	(15,811)	(8,619)	32,960	40,152
Downtown	5,062	126,211,328	386,525	283,300	3,073,732	2.44%	6,299,521	4.99%	\$1.52	(19,891)	(240,126)	1,332,110	2,755,006
Montebello/Monterey Park	313	11,589,137	0	25,500	120,984	1.04%	197,368	1.70%	\$1.51	(61,641)	(95,414)	109,672	125,272
Pico Rivera	197	10,289,870	40,900	0	42,658	0.41%	40,738	0.40%	\$0.00	2,480	68,208	4,900	73,403
South Gate	226	9,894,887	0	550,000	2,800	0.03%	31,535	0.32%	\$0.00	22,061	22,061	23,861	23,861
Vernon	785	42,959,954	216,307	60,000	426,071	0.99%	665,347	1.55%	\$1.30	(64,429)	(68,510)	207,814	533,898
Total	7,708	258,246,803	698,732	918,800	3,979,046	1.54%	8,272,652	3.20%	\$1.48	9,702	(58,570)	1,981,391	4,291,135
Mid Counties													
Artesia/Cerritos	277	13,025,570	0	0	195,609	1.50%	537,206	4.12%	\$1.22	(104,186)	(28,572)	217,290	306,005
Bellflower/Downey	201	5,484,173	44,162	0	72,018	1.31%	117,257	2.14%	\$1.89	(33,030)	(13,037)	28,855	60,343
Buena Park/La Palma	234	15,007,082	0	30,650	107,024	0.71%	441,428	2.94%	\$1.52	48,982	21,578	164,133	169,102
La Mirada	176	13,363,147	0	0	164,541	1.23%	308,654	2.31%	\$0.00	(45,490)	112,942	107,189	230,835
Norwalk	88	2,880,377	0	0	5,144	0.18%	7,867	0.27%	\$1.50	0	(1,344)	5,193	5,193
Paramount	410	9,010,216	0	0	61,694	0.68%	131,493	1.46%	\$1.57	(31,795)	(12,405)	56,049	113,690
Santa Fe Springs	1,344	53,653,033	92,771	163,518	369,347	0.69%	994,454	1.85%	\$1.79	43,862	191,685	297,368	691,834
Whittier	162	4,132,576	28,332	5,465	27,959	0.68%	57,653	1.40%	\$1.47	(15,225)	(24,879)	2,900	7,180
Total	2,892	116,556,174	165,265	199,633	1,003,336	0.86%	2,596,012	2.23%	\$1.60	(136,882)	245,968	878,977	1,584,182
San Gabriel Valley													
Alhambra	112	2,148,286	0	0	14,480	0.67%	31,812	1.48%	\$1.10	54,324	(1,066)	15,508	15,508
Arcadia/Temple City	137	3,052,261	0	0	43,051	1.41%	58,649	1.92%	\$1.69	(15,788)	(17,209)	12,744	14,165
Azusa	242	6,689,361	94,321	0	37,103	0.55%	367,555	5.49%	\$1.70	(2,340)	10,500	3,660	20,160
Baldwin Park	247	4,722,329	0	0	95,185	2.02%	128,905	2.73%	\$1.40	(10,934)	(5,460)	42,180	127,859
City of Industry/DB/HH/RH	1,104	74,169,480	1,399,015	210,950	690,485	0.93%	3,370,790	4.54%	\$1.85	35,832	(29,580)	639,092	837,095
Covina/West Covina	185	3,468,889	0	0	65,510	1.89%	51,123	1.47%	\$1.25	(50,499)	(54,499)	30,326	52,716
Duarte	70	1,800,654	0	0	25,376	1.41%	16,435	0.91%	\$1.20	(8,941)	(22,132)	19,462	22,706
El Monte	313	8,453,916	0	13,500	59,226	0.70%	180,208	2.13%	\$1.95	(40,042)	(13,558)	20,889	105,787
Irwindale	260	11,628,707	622,131	2,548,562	314,791	2.71%	728,325	6.26%	\$1.50	(8,774)	(281,556)	370,899	481,313
La Puente	92	1,986,773	0	0	6,536	0.33%	8,552	0.43%	\$1.29	0	5,136	0	5,136
La Verne/San Dimas/Glendora	312	6,704,888	0	0	89,437	1.33%	102,512	1.53%	\$1.32	25,824	8,267	80,042	139,215
Monrovia	205	3,312,337	79,337	0	20,158	0.61%	49,125	1.48%	\$0.00	(12,900)	(20,158)	4,223	4,223
Pomona/Claremont	666	20,390,427	37,690	0	150,971	0.74%	264,426	1.30%	\$1.51	(17,955)	51,230	53,875	144,541
Rosemead/San Gabriel	121	2,363,928	0	0	19,973	0.84%	19,973	0.84%	\$1.50	(2,450)	8,810	6,143	25,306
South El Monte	832	11,114,612	0	0	95,796	0.86%	145,572	1.31%	\$1.70	(25,183)	23,253	66,060	152,395
Walnut	198	6,932,568	0	0	89,359	1.29%	107,120	1.55%	\$1.73	13,913	337,628	30,772	58,768
Total	5,096	168,939,416	2,232,494	2,773,012	1,817,437	1.08%	5,631,082	3.33%	\$1.64	(65,913)	(394)	1,395,875	2,206,893
South Bay													
Carson	494	35,411,975	0	126,013	164,053	0.46%	440,017	1.24%	\$1.73	(66,809)	23,007	160,035	281,733
Compton	470	24,720,669	0	0	279,237	1.13%	485,544	1.96%	\$1.61	(118,467)	(330,652)	269,347	705,176
El Segundo	157	8,581,045	0	0	53,900	0.63%	101,016	1.18%	\$2.50	(11,800)	(11,800)	5,000	5,000
Gardena	1,178	29,171,367	0	414,748	242,832	0.83%	685,819	2.35%	\$1.56	(34,211)	200,955	244,037	519,448
Harbor City	93	1,756,313	0	0	0	0.00%	7,200	0.41%	\$1.75	0	0	0	6,800
Hawthorne	219	7,868,654	0	40,000	157,464	2.00%	65,700	0.83%	\$1.68	291	6,947	8,300	173,950
Inglewood	238	4,863,638	0	0	28,497	0.59%	269,978	5.55%	\$1.82	117,448	131,847	130,450	190,626
Lakewood/Hawaiian Gardens	25	563,732	0	0	17,792	3.16%	17,792	3.16%	\$0.00	0	0	0	25,262
Lawndale	29	253,076	0	0	0	0.00%	0	0.00%	\$0.00	0	8,745	0	8,745
Long Beach/Terminal Island	745	24,069,276	0	110,585	757,855	3.15%	857,290	3.56%	\$1.22	63,929	1,087,189	81,802	232,062
Lynwood	100	4,690,411	0	0	0	0.00%	20,174	0.43%	\$0.00	0	0	0	8,619
Rancho Dominguez	234	14,190,935	0	0	38,526	0.27%	563,881	3.97%	\$1.68	31,347	(41,878)	226,435	306,920
Redondo & Hermosa Beach	36	1,805,138	0	0	59,549	3.30%	0	0.00%	\$0.00	0	(59,549)	0	3,200
San Pedro	43	2,801,192	0	17,170	2,156	0.08%	114,656	4.09%	\$1.60	0	(918)	0	1,282
Signal Hill	204	3,259,450	0	24,400	57,878	1.78%	61,089	1.87%	\$1.50	507	(14,020)	18,641	61,282
Torrance	619	27,654,627	1,157,860	300,456	496,848	1.80%	752,177	2.72%	\$1.66	158,492	245,117	367,058	698,400
Wilmington	146	3,820,787	0	0	61,092	1.60%	88,462	2.32%	\$1.22	(47,994)	54,843	9,780	121,280
Total	5,030	195,482,285	1,157,860	1,033,372	2,417,679	1.24%	4,530,795	2.32%	\$1.51	92,733	1,299,833	1,520,885	3,349,785
Los Angeles Total	20,726	739,224,678	4,254,351	4,924,817	9,217,498	1.25%	21,030,541	2.84%	\$1.59	(100,360)	1,486,837	5,777,128	11,431,995
5,000-24,999	13,598	165,269,478	208,056	161,203	2,948,072	1.78%	4,376,463	2.65%	\$1.59	(539,996)	(697,548)	1,398,336	3,004,657
25,000-49,999	3,565	123,842,821	194,288	245,400	1,588,201	1.28%	3,137,990	2.53%	\$1.33	39,918	364,362	1,426,844	2,840,072
50,000-99,999	1,980	134,754,239	300,572	372,170	2,192,512	1.63%	3,910,659	2.90%	\$1.46	(110,843)	(65,721)	965,881	2,171,155
100,000-249,999	1,265	188,072,331	1,405,695	1,156,199	1,821,174	0.97%	5,210,779	2.77%	\$0.00	271,263	347,804	1,379,941	2,627,155
250,000-499,999	260	84,319,375	616,310	1,133,845	616,514	0.73%	2,463,827	2.92%	\$0.00	239,298	978,489	281,606	464,436
500,000 plus	58	43,039,334	1,529,430	1,856,000	51,025	0.12%	1,930,823	4.49%	\$0.00	0	559,451	324,520	324,520
Los Angeles Total	20,726	739,297,578	4,254,351	4,924,817	9,217,498	1.25%	21,030,541	2.84%	\$1.59	(100,360)	1,486,837	5,777,128	11,431,995

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



2nd Quarter 2022 – “A Tale of Two Markets”

by **Dan Berkenfield**

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Dateline – April 1, 2022: Industrial real estate market conditions are very strong and healthy. Investor activity is flourishing, vacancy rates are at an extreme low of 0.4%, and lease rates continue to climb for each deal completed, with an average above \$1.30 NNN. Tenants are competing for any new building that hits the market, with multiple offers on most available buildings. Landlords have a “pick and choose” mentality, vetting each tenant closely for their financial strength, industrial use, and lease terms offered. Very few landlord concessions are being offered, and many lease deals are signed at or above their already record high asking rates. There are visible signs of negative market indicators—rising interest rates, forecasted further rises in Fed Treasury Rates imminent, growing inflation, historic high gas prices, and a slowdown of consumer spending / e-commerce purchases, but the industrial real estate market motors on.

Dateline June 1, 2022: The inflation report for May 2022 is released, with 1.0% increase in May, which equates to an annual increase of 8.6%, which is higher than experts’ predictions. The Fed announces a 0.75% increase to the Federal Funds Rate. 30-year mortgage rates hit 5.78%. Major stock market indices get hammered, with the Dow Jones down 18.5% year to date, dropping below 30,000 for the first time since December 2020, the S&P 500 down 23% year to date, and the tech-heavy Nasdaq down 32% year to date. Suddenly, major industrial real estate investors are “pens down,” meaning they are pausing on writing offers on value-add and especially core investment deals, as these deals were all underwritten on large rent growth projections over the next five to ten years, and with rising interest rates, investors spreads are suddenly squeezed. Unfortunately, sellers of industrial buildings are still seeking record high sale prices, so we foresee a classic “buyer / seller disconnect” on sale pricing over the next few months. Furthermore, many of the tenants who were stretching to pay historic high lease rates, to expand and grow their warehouses and manufacturing operations to meet high consumer demand, are starting to take a “wait and see” approach as to how the leasing market reacts to all these sudden economic changes.

Overall, we are still at historically low vacancy rates in the Mid Counties, and this market area is a strategic location for industrial tenants, landlords, and investors, with its proximity to the Ports of Los Angeles and Long Beach, and its location central to the massive consumer populations of LA and Orange Counties. Therefore, there will be a slowdown of leasing and sale activity and rent growth, but it is likely only temporary.

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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