

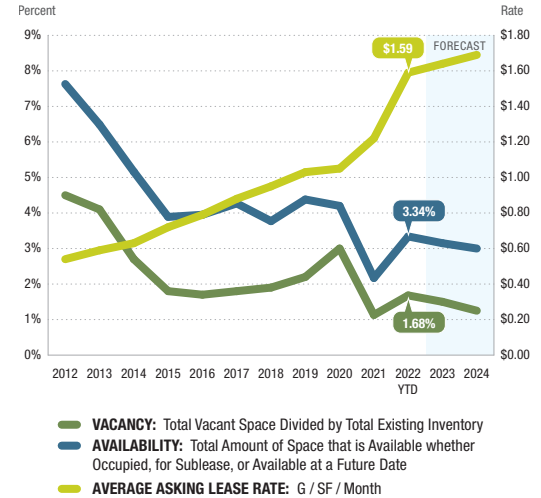
OVERVIEW. Further signs of a slowdown in Los Angeles industrial real estate activity were evident in Q3 despite persistent low supply and rising rents. Vacancy and availability both rose for the second consecutive period and transaction velocity slowed. Net absorption remained in negative territory while gross absorption gained. Sales activity fell sharply as demand for owner/user product was hit hard by rapidly rising SBA and conventional mortgage rates. Competition among tenants for lease product decreased further, but demand is still running ahead of current supply for now. More deals are being retraded as borrowing costs rise and concerns over a market correction grow. Developers are becoming more cautious on land acquisitions while considering a potential stall in future rent growth. Concern about inflation is across the board and figures heavily into decision-making for buyers and tenants. Many potential owner/users remain on the sidelines as they opt to maintain liquidity in anticipation of a looming recession.

VACANCY & AVAILABILITY. The overall vacancy rate in Los Angeles increased by 57 basis points in Q3 after a 14-basis-point rise in Q2, but remains historically low at 1.68%. The highest quality space is still moving, but there are fewer tenants competing for it. The availability rate for the entire LA region moved up by a substantial 105 basis points in Q3 after a 55-basis-point increase in Q2. The availability rate includes vacant space and occupied space offered for sale or lease. This large increase was unexpected and points to slower lease-up times, which allow inventory to accumulate. Until recently, space moved in a matter of days with multiple tenants or buyers in pursuit. Of late, time-on-market is being measured in months and there are fewer active requirements circulating through the market.

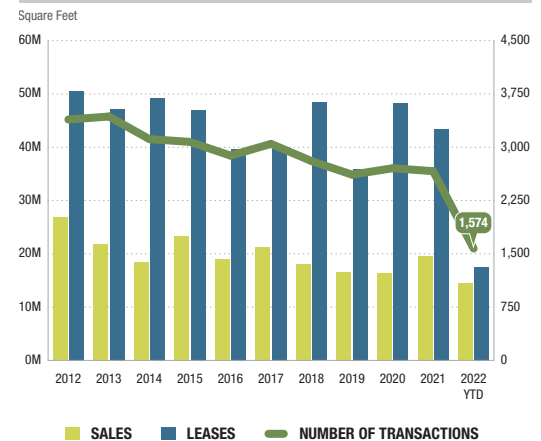
LEASE RATES. Average asking lease rates still managed to move up in Q3 despite signs of a softening market. Q3 ended with a rate of \$1.59, up \$0.12 per square foot after even heftier increases in the first two quarters. That brings the year-over-year increase in asking rents to 38.2%. The San Gabriel Valley posted the highest average asking rent again in Q3, up a penny to \$1.65, followed closely by Mid Counties at \$1.60 and South Bay at \$1.59. Central LA was lowest at \$1.56. Only the Mid-Counties region failed to see substantial rent growth during the quarter. Actual lease rates throughout the county are somewhat higher than reported due to the fact that a substantial portion of the space leased is off market, or 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 Q3, transaction activity fell slightly to 10.3 MSF from 11.7 MSF in Q2. But year over year, transaction activity is down by 32%. While low levels of supply make it harder to get deals done, there is also anecdotal evidence that there are fewer requirements in circulation. In all, 336 leases were signed in Q3 for a total of 5.9 MSF, and another 113 properties were sold totaling 4.3 MSF. By comparison, there were 177 sales in Q2, a clear indication that higher mortgage rates are impacting buyer demand.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



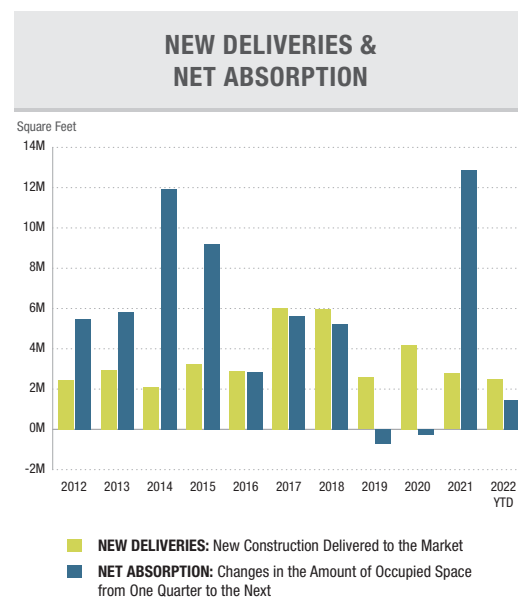
Market Statistics

	Change Over Last Quarter	3Q 2022	2Q 2022	3Q 2022	% Change Over Last Year
Vacancy Rate	▲ UP	1.68%	1.11%	1.76%	(4.49%)
Availability Rate	▲ UP	3.34%	2.29%	2.29%	45.91%
Average Asking Lease Rate	▲ UP	\$1.59	\$1.47	\$1.15	38.26%
Sale & Lease Transactions	▼ DOWN	10,307,634	11,711,566	15,193,034	(32.16%)
Gross Absorption	▲ UP	7,219,823	5,777,128	10,364,140	(30.34%)
Net Absorption	▼ NEGATIVE	(45,716)	(100,360)	3,736,959	N/A

ABSORPTION. Net absorption, the difference in occupied space from one period to another, remained in negative territory in Q3, but the loss narrowed to 45,716 SF from 100,360 SF in Q2. The downward trend in absorption has usually been from the lack of quality supply, but the decrease in active requirements is now playing more of a role. Gross absorption, which measures total move-ins, was up in Q3 to 7.2 MSF compared with 5.8 MSF in Q2, but was still well off the 10.4 MSF of move-ins recorded in Q3 of 2021. It is important to note that move-in statistics are a lagging indicator of market conditions.

CONSTRUCTION. Lack of ground-up development is still a problem throughout the LA region. There just isn't enough quality functional space to meet demand. With land so expensive and the uncertainty over continuing rent growth, developers are becoming even more cautious in their potential acquisitions. That means delivery of new product will likely slow down moving forward. In Q3, just 4,014,000 was in the construction queue, down 200,000 SF from Q2. Unfortunately, only another 5.2 MSF of new space is in the planning stages, and some of that is at risk of being delayed by higher capital costs and an anticipated slowdown in rent growth.

EMPLOYMENT. The seasonally adjusted unemployment rate in Los Angeles County increased over the month to 5.2% in August 2022 from a revised 4.9% in July 2022 and was below the rate of 8.5% a year ago. Five other sectors increased over the month, including trade, transportation and utilities (up 2,000), government (up 1,800), construction (up 900), leisure and hospitality (up 700), and manufacturing (up 400).



Forecast

The Los Angeles industrial market remains tight but is showing definite signs of slowing down that are expected to persist. Mortgage rates have doubled in the past year and are still moving higher. That will cut deeply into the demand for owner/user buildings and from third-party investors who use leverage to acquire properties. The Fed has made clear its intent to fight rampant inflation with more rate hikes. Lenders are tightening up on their underwriting, as well, which exacerbates the problem. Cap rates are beginning to decompress in response to higher capital costs, as leveraged buyers are loathe to borrow at rates higher than going-in cap rates.

Fortunately, we are facing all these economic headwinds under very tight market conditions, which should soften the impact of a general economic slowdown or outright recession. An excess of new deliveries, which has characterized previous changes to the market cycle, is simply not in play. That will keep downward pressure on vacancy as the market moves through a potential rough patch in terms of leasing and sales activity. Bottom line: the vacancy rate could quadruple and still be under 5%.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2900 & 2901 Fruitland	Vernon	855,470	\$181,000,000	2901 Fruitland Avenue Investors LLC	O-I Glass, Inc.
5801-5881 S. 2nd St.	Vernon	294,606	\$62,212,000	Bridge Development	Wimatex Inc.
16200-16228 Carmenita Rd.	Cerritos	199,937	\$88,000,000	Staley Point Capital	Prime Wire & Cable Inc.
6000-6027 Bandini Blvd.	Commerce	182,782	\$91,500,000	Rexford Industrial Realty, Inc.	Accendo Capital Group, Inc.
11077 Rush St.	South El Monte	159,780	\$47,300,000	EverWest Real Estate Investors LLC	Birtcher Anderson Realty LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
18045 E. Rowland St.	City of Industry	200,000	Sep-2022	Rider Logistics	Blackstone Inc.
23610 S. Banning Blvd.	Carson	177,573	Jul-2022	Quick Pick Express	Watson Land Company
5950-5790 S. Eastern Ave.	City of Industry	168,352	Aug-2022	DHE	Clarion Partners
18669 San Jose Ave.	City of Industry	160,000	Sep-2022	Puma North America	Blackstone Inc.
1451 Knox St. - Renewal	Torrance	152,790	Sep-2022	Metro Air Services	Industrial 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 3Q2022	Square Feet Available	Availability Rate 3Q2022	Average Asking Lease Rate	Net Absorption 3Q2022	Net Absorption 2022	Gross Absorption 3Q2022	Gross Absorption 2022
Central													
Bell/Bell Gardens/Maywood	198	7,451,027	0	0	0	0.00%	123,880	1.66%	\$1.79	45,406	29,669	45,406	88,697
City of Commerce	738	45,350,902	0	0	245,840	0.54%	1,053,572	2.32%	\$1.55	(4,797)	274,770	374,167	1,070,419
Huntington Park/Cudahy	197	4,761,116	0	0	97,905	2.06%	341,227	7.17%	\$1.42	(35,201)	(43,820)	44,196	84,348
Downtown	5,053	125,865,494	244,463	283,300	4,762,426	3.78%	6,821,597	5.42%	\$1.56	(334,154)	(574,280)	1,149,006	3,904,012
Montebello/Monterey Park	315	11,696,499	0	25,500	77,889	0.67%	470,702	4.02%	\$1.70	18,403	(77,011)	60,868	186,140
Pico Rivera	197	10,279,134	0	40,900	59,757	0.58%	104,350	1.02%	\$1.50	22,285	90,493	43,024	116,427
South Gate	226	9,918,458	0	550,000	12,836	0.13%	156,774	1.58%	\$1.05	(9,036)	13,025	0	23,861
Vernon	787	43,109,139	216,307	60,000	544,310	1.26%	1,119,783	2.60%	\$1.40	(126,247)	(194,757)	204,119	738,017
Total	7,711	258,431,769	460,770	959,700	5,800,963	2.24%	10,191,885	3.94%	\$1.56	(423,341)	(481,911)	1,920,786	6,211,921
Mid Counties													
Artesia/Cerritos	277	13,023,179	0	23,136	271,343	2.08%	389,966	2.99%	\$1.59	(28,338)	(56,910)	249,654	555,659
Bellflower/Downey	201	5,484,080	44,162	0	46,168	0.84%	86,983	1.59%	\$1.89	(24,266)	(37,303)	41,627	101,970
Buena Park/La Palma	234	15,078,361	0	30,650	65,281	0.43%	391,623	2.60%	\$1.45	40,543	62,121	99,939	269,041
La Mirada	177	13,410,438	0	0	47,534	0.35%	448,708	3.35%	\$0.00	74,178	187,120	177,340	408,175
Norwalk	88	2,878,575	0	0	4,280	0.15%	8,347	0.29%	\$0.00	(480)	(1,824)	2,592	7,785
Paramount	409	9,002,722	0	0	80,487	0.89%	161,397	1.79%	\$1.29	15,867	3,462	42,863	156,553
Santa Fe Springs	1,344	53,695,116	92,771	163,518	553,833	1.03%	1,668,056	3.11%	\$1.62	(42,019)	149,666	739,370	1,431,204
Whittier	161	4,118,176	28,332	5,465	37,142	0.90%	32,875	0.80%	\$1.41	(11,183)	(36,062)	24,945	32,125
Total	2,891	116,690,647	165,265	222,769	1,106,068	0.95%	3,187,955	2.73%	\$1.60	24,302	270,270	1,378,330	2,962,512
San Gabriel Valley													
Alhambra	112	2,148,176	0	0	53,590	2.49%	62,805	2.92%	\$1.41	(39,110)	(40,176)	41,376	56,884
Arcadia/Temple City	138	3,068,061	0	0	34,763	1.13%	32,558	1.06%	\$1.95	8,288	(8,921)	60,609	74,774
Azusa	244	6,795,186	0	0	147,730	2.17%	228,989	3.37%	\$1.70	(16,306)	(5,806)	21,872	42,032
Baldwin Park	247	4,722,329	11,715	0	154,717	3.28%	267,844	5.67%	\$1.73	(49,995)	(55,455)	75,132	202,991
City of Industry/DB/HH/RH	1,108	74,610,120	1,182,299	210,950	758,175	1.02%	2,961,395	3.97%	\$1.97	390,040	360,460	1,038,465	1,875,560
Covina/West Covina	186	3,482,890	0	0	45,481	1.31%	185,584	5.33%	\$0.00	29	(54,470)	8,160	60,876
Duarte	70	1,800,654	0	0	69,504	3.86%	10,944	0.61%	\$1.90	13,032	(9,100)	23,976	46,682
El Monte	313	8,464,895	0	13,500	128,383	1.52%	340,314	4.02%	\$1.52	(24,432)	(37,990)	56,009	161,796
Irwindale	264	12,335,171	0	2,548,562	749,392	6.08%	836,911	6.78%	\$1.60	136,517	(145,039)	612,341	1,093,654
La Puente	91	1,885,285	0	0	6,536	0.35%	8,552	0.45%	\$1.29	0	5,136	0	5,136
La Verne/San Dimas/Glendora	312	6,704,888	0	0	139,691	2.08%	178,474	2.66%	\$1.65	(48,904)	(40,637)	38,903	178,118
Monrovia	205	3,312,483	46,031	0	9,598	0.29%	50,992	1.54%	\$1.95	10,560	(9,598)	15,240	19,463
Pomona/Claremont	670	20,406,454	37,690	230,000	121,442	0.60%	466,008	2.28%	\$1.53	5,096	56,326	130,870	275,411
Rosemead/San Gabriel	123	2,376,568	0	0	23,954	1.01%	47,216	1.99%	\$1.66	(3,981)	4,829	7,279	32,585
South El Monte	832	11,093,554	0	0	258,934	2.33%	129,451	1.17%	\$1.52	(13,661)	9,592	135,121	287,516
Walnut	199	6,947,821	0	0	225,241	3.24%	102,476	1.47%	\$1.71	29,054	366,682	86,997	145,765
Total	5,114	170,154,535	1,277,735	3,003,012	2,927,131	1.72%	5,910,513	3.47%	\$1.65	396,227	395,833	2,352,350	4,559,243
South Bay													
Carson	493	35,364,352	293,093	126,013	152,368	0.43%	701,754	1.98%	\$1.89	6,727	29,734	87,937	369,670
Compton	469	24,695,004	0	45,000	186,229	0.75%	442,776	1.79%	\$1.25	110,016	(220,636)	401,616	1,106,792
El Segundo	158	8,590,034	0	0	96,800	1.13%	113,881	1.33%	\$2.50	(12,900)	(24,700)	0	5,000
Gardena	1,177	29,218,052	86,879	520,908	272,300	0.93%	679,071	2.32%	\$1.36	4,064	205,019	270,018	789,466
Harbor City	94	1,773,002	0	0	18,070	1.02%	70,139	3.96%	\$1.50	(18,070)	(18,070)	0	6,800
Hawthorne	218	7,959,526	0	40,000	108,974	1.37%	163,278	2.05%	\$1.95	27,365	34,312	43,765	217,715
Inglewood	238	4,847,320	0	0	56,102	1.16%	242,912	5.01%	\$1.88	(27,605)	104,242	37,998	228,624
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	255,756	0	0	0	0.00%	14,000	5.47%	\$0.00	0	8,745	0	8,745
Long Beach/Terminal Island	745	24,085,980	94,328	26,257	820,425	3.41%	1,076,908	4.47%	\$2.14	(8,391)	1,078,798	281,171	513,233
Lynwood	100	4,690,411	0	0	0	0.00%	86,474	1.84%	\$1.05	0	0	0	8,619
Rancho Dominguez	234	14,171,083	0	0	206,704	1.46%	633,860	4.47%	\$1.69	(168,178)	(210,056)	119,642	426,562
Redondo & Hermosa Beach	37	1,810,528	0	0	5,390	0.30%	5,390	0.30%	\$0.00	54,159	(5,390)	2,500	5,700
San Pedro	43	2,808,011	0	17,170	31,767	1.13%	54,227	1.93%	\$1.48	0	(918)	0	1,282
Signal Hill	208	3,285,071	0	24,400	94,281	2.87%	152,517	4.64%	\$1.55	(36,403)	(50,423)	26,366	87,648
Torrance	616	27,636,210	1,635,720	300,456	465,149	1.68%	942,458	3.41%	\$1.68	22,962	268,079	280,074	978,474
Wilmington	146	3,900,143	0	0	57,742	1.48%	81,932	2.10%	\$1.30	3,350	58,193	17,270	138,550
Total	5,030	195,654,215	2,110,020	1,100,204	2,590,093	1.32%	5,479,369	2.80%	\$1.59	(42,904)	1,256,929	1,568,357	4,918,142
Los Angeles Total	20,746	740,931,166	4,013,790	5,285,685	12,424,255	1.68%	24,769,722	3.34%	\$1.59	(45,716)	1,441,121	7,219,823	18,651,818
5,000-24,999	13,614	165,435,717	75,109	140,693	3,404,919	2.06%	4,837,998	2.92%	\$1.64	(459,453)	(1,157,001)	1,722,596	4,727,253
25,000-49,999	3,562	123,660,295	238,601	290,618	1,958,976	1.58%	3,741,532	3.03%	\$1.55	(30,283)	334,079	1,322,254	4,162,326
50,000-99,999	1,984	135,100,562	397,109	287,470	2,411,880	1.79%	4,663,132	3.45%	\$1.57	162,640	96,919	1,281,487	3,452,642
100,000-249,999	1,265	188,020,551	1,208,081	1,577,059	2,676,138	1.42%	6,107,192	3.25%	\$1.52	127,482	475,286	2,295,558	4,922,713
250,000-499,999	261	84,599,874	1,094,170	1,133,845	588,541	0.70%	3,268,153	3.86%	\$1.14	(55,692)	922,797	63,818	528,254
500,000 plus	60	44,114,167	1,000,720	1,856,000	1,383,801	3.14%	2,151,715	4.88%	\$0.00	209,590	769,041	534,110	858,630
Los Angeles Total	20,746	740,931,166	4,013,790	5,285,685	12,424,255	1.68%	24,769,722	3.34%	\$1.59	(45,716)	1,441,121	7,219,823	18,651,818

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



Market Resiliency Continues

by **Kevin Fults**

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As we make our way to the end of Q3, market resiliency continues to be tested as consecutive interest-rate increases exhibit effect on all sectors of the market. Notwithstanding, the LA market remains as one of the most sought-after industrial markets in the country. Through the first six months of 2022, transaction volume was consistent with 2021 trends, but the third quarter has seen a slowdown of transaction activity across all major submarkets. The Fed's third interest rate increase in late September threatens new deal activity as we begin to close out the year. With the cost of capital increasing, many investors are struggling to underwrite deals at low cap rates. Strong tenant demand, however, is keeping the market healthy and generating new deal activity.

The growth of e-commerce businesses has continued to impact the market significantly with Logistics and 3PL users leading the way on the tenant side. Industrial properties continue to be met with multiple tenant offers and demand still greatly outpaces supply, following the trend of previous quarters. With limited supply and tight market conditions, landlords benefit. Many landlords have been able to hold out for strong-credit tenants in the market because of the limited supply. Tenants looking to expand or relocate find that they need to plan months in advance in order to identify functional and available properties for their use. Pre-leased deals are commonplace with new properties that come to market, especially in the LA South submarket and deals around the port area.

The LA South market benefits greatly from its relationship with the ports of Los Angeles and Long Beach. Truck terminals and IOS sites continue to be the highest in demand for investors and owner-users alike. IOS sites in and around the port are experiencing historically high lease rates and sale prices. Older properties around the port are being redeveloped and repurposed for trucking and port-related transportation uses as investors prioritize this submarket over others. This trend will likely hold steady based on how important both ports are to the overall economy.

Even with the Fed's interest rate increases and a slightly pessimistic economic outlook, there is still optimism to be found with historically low vacancies. Los Angeles is a dynamic market that is constantly changing and offering new opportunities for tenants and buyers. As we wrap up 2022, it will be worth noting how specific sectors of the market differ in their handling of increasing market pressures on a national level. Interesting times lay ahead.

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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