

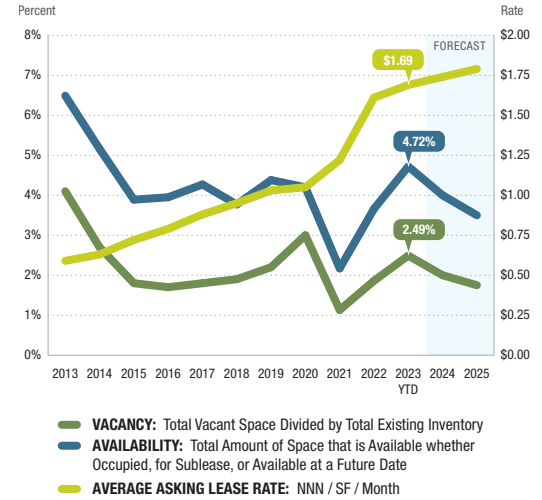
OVERVIEW. Demand in the Los Angeles industrial real estate market softened again in Q1, continuing a trend that began in the middle of last year. Vacancy and availability rose substantially for the fourth consecutive period and transaction activity ticked lower. Negative net absorption accelerated while gross absorption also lost ground. Sales activity measured by square footage fell again in the period, but deal count was up. Fewer tenants and buyers were actively seeking space, but demand is still strong enough to get deals done, though time on market is increasing. As we reported last quarter, land sales have all but stopped, as developers are unable to successfully underwrite projects due to the rise in capital costs and economic uncertainty that threatens rent growth. Inflation is still a big issue for buyers and tenants, who are having difficulty with higher operating costs on top of record sales prices and rental rates.

VACANCY & AVAILABILITY. The Los Angeles overall vacancy rate surged by 63 basis points to 2.49%, following significant increases in late 2022. Although good-quality space remains in demand with premium rates, deals take longer to finalize due to declining active requirements and tenants seeking concessions like free rent. The availability rate also spiked in Q1, rising by 106 basis points to 4.72%, after a 32-basis-point jump in Q4 2022 and a 105-basis-point spike in Q3. This trend suggests tenants are downsizing to smaller facilities and the amount of space available for sublease is rising.

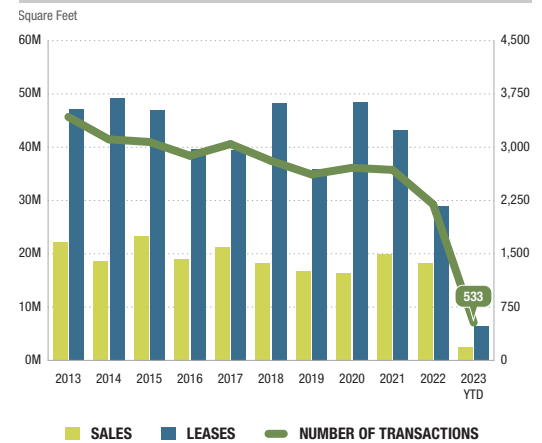
LEASE RATES. Average asking lease rates rose again in Q1 despite the decrease in activity because tenants are still willing to pay a premium for high quality, functional space. The average asking lease rate moved up 8 cents in Q1 and is up almost 23% year over year. The Mid Counties posted the highest average asking rent in Q1 at \$1.68, followed closely by the San Gabriel Valley at \$1.66, and South Bay at \$1.58. Central LA was lowest again, unchanged at \$1.57. Since some of the highest quality space (which leases at the high end of the rate range) is offered without an asking price, the average asking rate metric appears lower. Also, some of the owner / user buyer demand has shifted to leasing due to higher mortgage rates, and that keeps upper pressure on lease rates even as overall demand declines.

TRANSACTION ACTIVITY. Transaction activity by square footage moved lower again for the third straight quarter, though more deals were completed. In Q1, 452 leases were completed totaling 7,075,000 SF, as compared with 360 leases totaling 7,370,000 SF in Q4. On the sale side, 81 transactions were inked on 2,445,000 SF of space, as compared with 111 sales on 3,141,000 SF in Q4. The number of sale transactions has declined substantially in each of the last three quarters, which makes clear the impact of higher mortgage rates for owner / user transactions. The interest rate for SBA financing, the most popular financing method for owner / user transactions, more than doubled since the beginning of last year to just under 6.5% before dipping to 6.21% during Q1.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



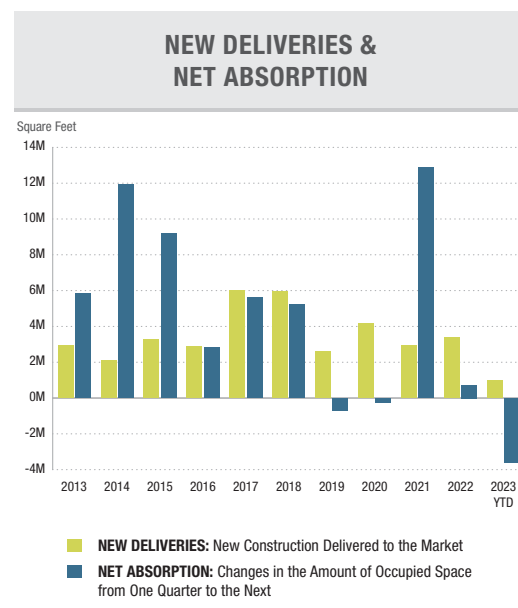
Market Statistics

	Change Over Last Quarter	Q1 2023	Q4 2022	Q1 2022	% Change Over Last Year
Vacancy Rate	▲ UP	2.49%	1.86%	1.13%	120.77%
Availability Rate	▲ UP	4.72%	3.66%	2.17%	117.39%
Average Asking Lease Rate	▲ UP	\$1.69	\$1.61	\$1.37	23.36%
Sale & Lease Transactions	▼ DOWN	9,521,245	10,516,752	11,310,749	(15.82%)
Gross Absorption	▼ DOWN	5,333,171	7,070,327	5,654,867	(5.69%)
Net Absorption	▼ NEGATIVE	(3,606,403)	(712,855)	1,587,197	N/A

ABSORPTION. Net absorption, the net difference in occupied space from one period to another, took a big hit in Q1, falling for the fourth consecutive quarter. In Q1, negative net absorption fell to 3,606,403 SF from a negative 712,855 SF in Q4, the biggest chunk of that loss coming from the Central and South Bay submarkets. Bell/Bell Gardens and Downtown were hit hardest in Central LA, while the loss in occupied space in the South Bay was distributed more evenly. Net absorption is a key metric because it indicates whether the business base is expanding or contracting. Gross absorption, which measures total move-ins, also fell in Q1, dropping from 7,070,000 SF in Q4 to 5,333,000 SF in Q1.

CONSTRUCTION. A major obstacle to business growth for years has been the low level of new construction, resulting from scarce and costly land for development. This issue has worsened as developers face higher borrowing and building costs amid a potential economic recession. In Q1, a banking sector crisis further complicated matters, likely leading to tighter loan underwriting for new projects going forward. By the end of Q1, the total square footage in the construction queue remained relatively unchanged at 5.6 MSF on a total existing base inventory of 744 MSF.

EMPLOYMENT. In February 2023, the seasonally adjusted unemployment rate in Los Angeles County increased slightly to 4.9%, up from a revised 4.8% in January 2023. This rate was lower than the 5.7% recorded one year ago. Despite adverse weather conditions, construction experienced the third-largest monthly expansion, increasing by 4,800 jobs. Growth occurred in specialty trade contractors (up 2,800), building construction (up 1,100), and heavy and civil engineering construction (up 900).



Forecast

Rising mortgage rates pose challenges for industrial property sales, including investor, developer, and owner/user transactions. The Fed's intention to continue rate hikes suggests industrial property mortgage rates may remain elevated for the rest of the year or even longer. With rates nearly double what they were a year ago, pricing faces significant pressure. Although historically low vacancy levels in most submarkets make lease rates less vulnerable to correction than sales prices, they may still decline if a recession arrives and demand for space continues to fall. Starting in Q2, submarkets within Los Angeles city limits face a new challenge in the form of Measure ULA. This transfer tax imposes a 4% tax on residential and commercial properties sold for \$5M to \$10M and a 5.5% tax on those sold for over \$10M. Measure ULA tax proceeds are primarily intended for addressing the city's homelessness problem along with funding for wildfire mitigation. The measure's impact on industrial property values and sales volume within the city limits could be significant, putting industrial properties in Los Angeles at a competitive disadvantage.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
14001-14051 Rosecrans Ave.	La Mirada	337,847	\$151,200,000	Nuveen	Clarion Partners
3700 E. Olympic Blvd.	Los Angeles	218,000	\$51,300,000	New Mountain Capital	Venator
14400 S. Figueroa St.	Gardena	119,824	\$49,001,000	Rexford Industrial Realty, Inc.	Young W & Chong Y Kong
3951 S. Capitol Ave.	City of Industry	78,722	\$17,900,000	Kay Management	ITT Goulds Pumps
301-411 Aerojet Dr.	Azusa	75,081	\$20,500,000	Raymond & Susan Croll	SENTRE, Inc.

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
680 S. Lemon Ave.	City of Industry	472,876	Mar-2023	Furniture of America	Unical Aviation
20333 Normandie Ave.	Torrance	312,212	Mar-2023	National Road Logistics LLC	Nordstrom
21508 Ferrero Pkwy.	City of Industry	274,474	Jan-2023	Weida Freight System	Grand Avenue Venture LLC
5525 S. Soto St.	Vernon	261,700	Mar-2023	Best Warehousing & Transportation, Inc.	Sears, Roebuck & Co.
1380-1400 Charles Willard St. - Renewal	Carson	249,840	Jan-2023	General Mills	The Carson Companies

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q1 2023	Square Feet Available	Availability Rate Q1 2023	Average Asking Lease Rate	Net Absorption Q1 2023	Net Absorption 2023	Gross Absorption Q1 2023	Gross Absorption 2023
Central													
Bell/Bell Gardens/Maywood	199	7,517,780	0	0	32,616	0.43%	277,176	3.69%	\$1.83	0	0	16,320	16,320
City of Commerce	738	45,826,952	40,210	0	1,004,528	2.19%	1,882,841	4.11%	\$1.72	(608,238)	(608,238)	278,450	278,450
Huntington Park/Cudahy	195	4,764,272	0	0	50,887	1.07%	187,260	3.93%	\$0.00	16,542	16,542	58,827	58,827
Downtown	5,056	125,534,875	177,255	103,300	5,779,377	4.60%	8,049,219	6.41%	\$1.87	(699,373)	(699,373)	961,185	961,185
Montebello/Monterey Park	315	11,815,923	0	25,500	306,550	2.59%	744,620	6.30%	\$1.64	(11,144)	(11,144)	109,958	109,958
Pico Rivera	198	10,306,021	40,900	0	82,975	0.81%	198,028	1.92%	\$1.88	7,237	7,237	34,699	34,699
South Gate	224	9,638,022	0	0	56,036	0.58%	370,506	3.84%	\$0.00	9,085	9,085	26,300	26,300
Vernon	795	44,409,689	233,762	226,014	839,846	1.89%	2,224,829	5.01%	\$1.82	(79,349)	(79,349)	786,743	786,743
Total	7,720	259,813,534	492,127	354,814	8,152,815	3.14%	13,934,479	5.36%	\$1.57	(1,365,240)	(1,365,240)	2,272,482	2,272,482
Mid Counties													
Artesia/Cerritos	277	13,105,031	23,136	0	253,341	1.93%	647,584	4.94%	\$1.64	29,388	29,388	49,505	49,505
Bellflower/Downey	204	5,525,267	0	0	128,456	2.32%	221,706	4.01%	\$1.69	(58,081)	(58,081)	22,746	22,746
Buena Park/La Palma	236	15,031,467	0	27,765	166,682	1.11%	607,239	4.04%	\$0.00	(88,413)	(88,413)	26,902	26,902
La Mirada	177	13,411,678	0	0	138,089	1.03%	576,772	4.30%	\$1.67	(20,322)	(20,322)	146,643	146,643
Norwalk	89	2,889,795	0	0	8,932	0.31%	8,932	0.31%	\$1.50	(2,932)	(2,932)	1,100	1,100
Paramount	412	9,036,896	0	0	128,615	1.42%	331,930	3.67%	\$1.45	(68,429)	(68,429)	29,961	29,961
Santa Fe Springs	1,345	53,751,437	144,434	258,004	793,307	1.48%	1,792,696	3.34%	\$1.70	(67,802)	(67,802)	162,644	162,644
Whittier	161	4,142,988	0	5,465	51,879	1.25%	114,493	2.76%	\$1.25	(28,150)	(28,150)	40,582	40,582
Total	2,901	116,894,559	167,570	291,234	1,669,301	1.43%	4,301,352	3.68%	\$1.68	(304,741)	(304,741)	480,083	480,083
San Gabriel Valley													
Alhambra	112	2,149,145	0	0	8,925	0.42%	8,925	0.42%	\$0.00	26,065	26,065	34,990	34,990
Arcadia/Temple City	139	3,076,487	0	0	50,586	1.64%	87,493	2.84%	\$0.00	(14,493)	(14,493)	16,200	16,200
Azusa	244	6,813,870	0	0	211,976	3.11%	177,365	2.60%	\$0.00	(13,269)	(13,269)	50,435	50,435
Baldwin Park	245	4,722,183	11,715	0	131,556	2.79%	133,788	2.83%	\$1.43	(21,772)	(21,772)	89,158	89,158
City of Industry/DB/HH/RH	1,107	74,662,571	2,008,953	1,057,930	1,726,967	2.31%	4,321,001	5.79%	\$1.71	(221,343)	(221,343)	674,874	674,874
Covina/West Covina	186	3,616,492	0	0	92,801	2.57%	382,467	10.58%	\$1.25	(35,756)	(35,756)	4,750	4,750
Duarte	70	1,799,384	0	0	44,006	2.45%	87,967	4.89%	\$0.00	(39,624)	(39,624)	4,543	4,543
El Monte	312	8,621,582	372,992	0	110,537	1.28%	327,862	3.80%	\$1.75	(39,334)	(39,334)	71,932	71,932
Irwindale	263	12,035,195	1,575,562	828,306	745,267	6.19%	1,050,490	8.73%	\$1.50	93,337	93,337	126,672	126,672
La Puente	93	1,918,050	0	0	34,036	1.77%	35,906	1.87%	\$0.00	0	0	0	0
La Verne/San Dimas/Glendora	313	6,746,786	30,110	0	184,353	2.73%	219,819	3.26%	\$1.15	(45,159)	(45,159)	70,581	70,581
Monrovia	206	3,312,801	12,725	0	38,019	1.15%	120,422	3.64%	\$1.98	6,529	6,529	22,629	22,629
Pomona/Claremont	670	20,431,212	37,690	0	158,786	0.78%	426,005	2.09%	\$1.20	28,556	28,556	134,469	134,469
Rosemead/San Gabriel	122	2,287,009	0	0	44,704	1.95%	59,924	2.62%	\$1.16	(4,919)	(4,919)	7,200	7,200
South El Monte	835	11,123,508	0	0	139,689	1.26%	121,445	1.09%	\$1.65	(23,736)	(23,736)	70,154	70,154
Walnut	199	6,947,821	0	0	118,803	1.71%	140,546	2.02%	\$1.60	(46,165)	(46,165)	33,823	33,823
Total	5,116	170,264,096	4,049,747	1,886,236	3,841,011	2.26%	7,701,425	4.52%	\$1.66	(351,083)	(351,083)	1,412,410	1,412,410
South Bay													
Carson	496	35,583,984	127,930	0	437,459	1.23%	1,289,304	3.62%	\$0.88	(224,931)	(224,931)	335,128	335,128
Compton	470	25,093,090	0	0	346,194	1.38%	1,398,799	5.57%	\$1.67	(392,173)	(392,173)	19,486	19,486
El Segundo	157	8,656,653	0	0	164,920	1.91%	201,005	2.32%	\$2.26	(38,120)	(38,120)	12,600	12,600
Gardena	1,179	29,400,011	0	620,128	421,171	1.43%	1,543,028	5.25%	\$1.72	(60,399)	(60,399)	234,817	234,817
Harbor City	94	1,760,255	0	0	198,122	11.26%	212,522	12.07%	\$0.00	(190,922)	(190,922)	0	0
Hawthorne	218	7,957,931	0	40,000	115,323	1.45%	94,665	1.19%	\$1.80	17,176	17,176	27,381	27,381
Inglewood	233	4,882,094	0	0	40,807	0.84%	147,142	3.01%	\$1.76	18,786	18,786	50,970	50,970
Lakewood/Hawaiian Gardens	24	545,940	0	0	2,450	0.45%	2,450	0.45%	\$0.00	(450)	(450)	2,000	2,000
Lawndale	29	255,756	0	0	2,500	0.98%	0	0.00%	\$0.00	2,500	2,500	2,500	2,500
Long Beach/Terminal Island	747	24,134,055	94,328	185,257	926,452	3.84%	1,006,715	4.17%	\$1.94	(142,724)	(142,724)	138,293	138,293
Lynwood	99	4,648,842	0	0	0	0.00%	124,542	2.68%	\$0.00	0	0	0	0
Rancho Dominguez	233	14,012,664	205,435	0	255,495	1.82%	629,630	4.49%	\$1.94	(247,755)	(247,755)	61,265	61,265
Redondo & Hermosa Beach	36	1,792,728	0	0	7,390	0.41%	7,390	0.41%	\$1.21	(2,000)	(2,000)	0	0
San Pedro	43	2,808,011	0	0	11,709	0.42%	38,714	1.38%	\$2.00	(5,612)	(5,612)	1,455	1,455
Signal Hill	205	3,268,257	0	0	126,878	3.88%	156,222	4.78%	\$2.31	(12,767)	(12,767)	62,799	62,799
Torrance	624	28,616,461	485,228	49,000	1,523,749	5.32%	1,952,071	6.82%	\$1.54	(53,602)	(53,602)	194,453	194,453
Wilmington	146	3,913,948	0	0	277,345	7.09%	355,940	9.09%	\$2.16	(252,346)	(252,346)	25,049	25,049
Total	5,033	197,330,680	912,921	894,385	4,857,964	2.46%	9,160,139	4.64%	\$1.58	(1,585,339)	(1,585,339)	1,168,196	1,168,196
Los Angeles Total	20,770	744,302,869	5,622,365	3,426,669	18,521,091	2.49%	35,097,395	4.72%	\$1.69	(3,606,403)	(3,606,403)	5,333,171	5,333,171
5,000-24,999	13,615	165,534,651	93,875	69,423	4,397,294	2.66%	6,194,501	3.74%	\$1.95	(912,103)	(912,103)	1,712,452	1,712,452
25,000-49,999	3,569	124,037,612	277,327	142,265	3,508,353	2.83%	5,708,023	4.60%	\$1.72	(878,157)	(878,157)	889,041	889,041
50,000-99,999	1,979	134,797,988	128,521	278,830	3,153,709	2.34%	6,086,452	4.52%	\$1.70	(356,300)	(356,300)	836,014	836,014
100,000-249,999	1,285	190,839,850	1,490,968	2,031,867	4,069,993	2.13%	10,037,127	5.26%	\$1.70	(1,131,391)	(1,131,391)	988,182	988,182
250,000-499,999	263	85,166,225	1,171,554	297,804	2,290,661	2.69%	5,018,448	5.89%	\$0.00	(449,152)	(449,152)	645,782	645,782
500,000 plus	59	43,926,543	2,460,120	606,480	1,101,081	2.51%	2,052,844	4.67%	\$0.00	120,700	120,700	261,700	261,700
Los Angeles Total	20,770	744,302,869	5,622,365	3,426,669	18,521,091	2.49%	35,097,395	4.72%	\$1.69	(3,606,403)	(3,606,403)	5,333,171	5,333,171

This survey consists of buildings greater than 5,000 square feet. Lease rates are on a triple-net basis.



We're in a World Different from Only Twelve Months Ago

by Loren Cargile, MBA

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Up until last year, industrial real estate was the darling child of the commercial real estate sector. It made sense. The COVID-19 pandemic hit, retail shut down, e-commerce sales exploded, e-commerce-based businesses and third-party logistics providers gobbled up buildings to try to meet surging online purchases, and investors/developers clamored over each other to acquire buildings and land to capitalize on these trends. Submarkets close to the LA/Long Beach ports, such as the Mid-Counties Los Angeles submarket, saw unprecedented rent/sales price growth over the last few years due to the spike in demand. To give some perspective, the average asking rate per square foot for the Mid-Counties submarket in Q1 2023 was \$1.57/SF NNN. This compares with \$1.02/SF NNN in Q1 2018 and \$0.70/SF NNN in Q1 2013. That is impressive rent growth in a relatively short period of time.

Despite having strong momentum heading into last year, the industrial real estate market, and the economy as a whole, faced strong headwinds in 2022—primarily, inflation and the resulting interest rates increases. Those two factors directly impacted, and continue to impact, the bottom lines of businesses and the cost of debt for borrowers. Now we're seeing longer times on market, tenant concessions slowly starting to return (e.g., free rent, tenant improvement allowances), and in some cases lease rate/sale price reductions for properties that have been on the market for multiple months. I have also personally noticed through buildings I have marketed over the past several months within the Mid-Counties submarket that the financial credit of many prospective tenants in the market for buildings is not exceptionally strong, and in some cases quite weak. This means landlords will likely have to be more patient in leasing these buildings, which could further extend average time on market.

Another area where we are seeing a change in demand, which is inversely correlated to industrial vacancy, is the amount of inbound cargo activity at the LA/Long Beach ports. When the number of twenty-foot equivalent (TEU) containers entering through the ports rises, it is usually followed by a drop in the industrial vacancy rate, and the converse is also true. Cargo volumes have been declining since early 2022 and will likely remain relatively light through the first half of 2023. Consequently, this will likely translate to a gradual rise in the industrial vacancy rate across LA County.

In the long term, the Mid Counties submarket will continue to be a highly sought-after submarket due to port proximity, limited land availability for new construction, and excellent freeway access. In the short term, don't be surprised if we see a gradual rise in the overall vacancy rate, decelerating or even flat rent growth, and slightly lower sale prices.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a triple-net 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