

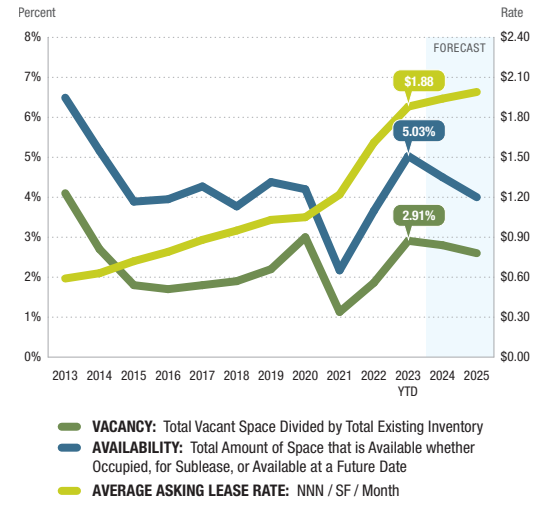
OVERVIEW. The slowdown in the Los Angeles industrial real estate market continued in Q2. Vacancy and availability moved up for the fifth consecutive quarter and transaction activity fell sharply. Net absorption remained in negative territory, but gross absorption increased. Sales activity dropped sharply measured by square footage and transaction count, in part due to the Measure ULA transfer tax in the City of Los Angeles that began on April 1. The number of active requirements to buy or lease thinned further, but there is still enough demand to absorb available product, as vacancy is still less than 3%. Buildings are taking longer to move, especially older functionally obsolete spaces. Developers remain on the sidelines, discouraged by higher capital costs and a flatter rent growth curve. Port activity was interrupted by a labor dispute, but an agreement has been reached and both ports were reporting normal operations as the quarter ended.

VACANCY / AVAILABILITY. The Los Angeles overall vacancy rate rose 42 basis points in Q2 to 2.91% after a 63-basis-point spike in the first quarter. Properly priced, good quality space still moves fairly quickly, but less functional space is taking longer to lease, which accounts for much of the rise in vacancy. Last year at this point, space moved in a matter of days, which kept vacancy in the 1% range region-wide. The availability rate also moved up in Q2, rising by another 31 basis points to 5.03%, after a 106-basis-point spike in the first quarter. Vacant and available space is almost all being offered for lease, as the rise in for-sale inventory we have been expecting has yet to materialize.

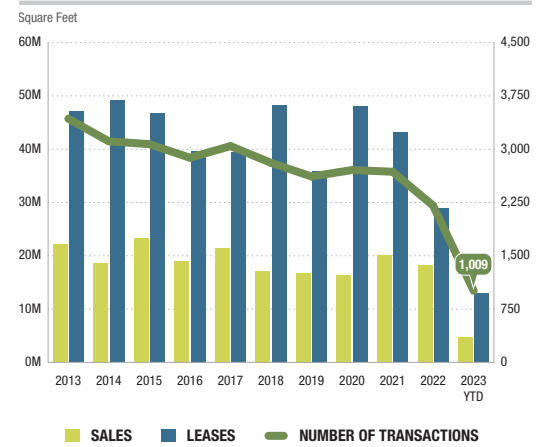
LEASE RATES. Average asking lease rates managed another significant gain in Q2 despite the less competitive environment for tenants. Business owners continue to show a willingness to pay a premium price for the highest quality space. The average asking lease rate moved up \$0.19 in Q2, after a \$0.08 increase in Q1. Year-over-year the average asking lease rate for the entire region is up by 18.24%. However, a significant amount of the highest quality space, which commands premium rates, is offered without an asking price. So, the average asking lease rate may show as lower than it would be if all space had an asking price. As we reported last quarter, some of the owner / user buyer demand has shifted to leasing due to higher mortgage rates, which has added additional price support for space offered for lease only.

TRANSACTION ACTIVITY. Transaction activity by square footage moved lower for the fourth straight quarter, and the number of transactions completed fell to 455 from 554 in Q1. In Q2, 391 leases were completed totaling 6,240,568 SF, as compared with 459 leases total for 6,700,390 SF in Q1. Sales activity dropped even more. Just 64 sale transactions were made on 1,156,953 SF of space, as compared with 95 sales on 3,667,683 SF in Q1. The large drop can be partly blamed on Measure ULA, a new transfer tax in the City of Los Angeles that took effect on April 1. It calls for a 4% tax on properties sold between \$5 million and \$10 million, and a 5.5% tax on properties sold for more than \$10 million. In Q2, not a single industrial property closed escrow for more than \$5 million within the city limits of Los Angeles, as compared with 21 sales totaling \$622.5 million in total consideration in Q1, according to CoStar. Measure ULA is being challenged in court, and property owners appear to be waiting on the outcome.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

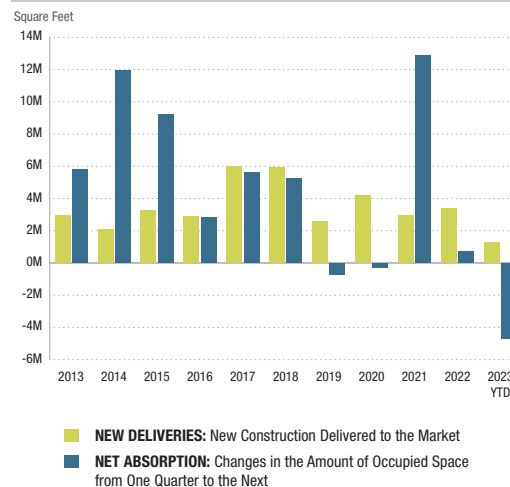
	Change Over Last Quarter	Q2 2023	Q1 2023	Q2 2022	% Change Over Last Year
Vacancy Rate	▲ UP	2.91%	2.49%	1.11%	163.37%
Availability Rate	▲ UP	5.03%	4.72%	2.29%	119.35%
Average Asking Lease Rate	▲ UP	\$1.88	\$1.69	\$1.59	18.24%
Sale & Lease Transactions	▼ DOWN	7,397,521	10,368,073	13,526,436	(45.31%)
Gross Absorption	▲ UP	8,719,107	5,333,171	5,777,128	50.92%
Net Absorption	▼ NEGATIVE	(1,058,665)	(3,606,403)	(100,360)	N/A

ABSORPTION. Net absorption, the net difference in occupied space from one period to another, was negative for the fifth straight quarter. In Q2, negative net absorption totaled 1,058,665 SF after a decline of 3,606,403 SF in Q1 and a negative 712,855 SF in Q4 of last year. Central Los Angeles suffered the biggest decline of 915,455 SF, followed by South Bay with its loss of 424,666 SF and Mid Counties loss of 161,405 SF. Only the San Gabriel Valley submarket recorded a net gain in occupied space of 442,861 SF in Q2. Net absorption in Los Angeles is declining, suggesting that the business base is contracting. However, the thin supply of quality space is also a factor, as it forces growing companies to either remain in their existing space or leave the market.

CONSTRUCTION. The lack of new construction in the Los Angeles distribution sector has been a major issue for many years. The vast majority of the space was built decades ago and is no longer suitable for modern distribution needs. Land for ground-up development is scarce and expensive, making it difficult to deliver the high quality distribution space that today's tenants need to operate efficiently. In Q2, square footage in the construction queue did manage to increase to 6.8 MSF from 5.6 MSF in Q1. The increase is largely due to activity in the San Gabriel Valley region, which saw an additional 847,000 SF break ground. Central LA and Mid Counties posted slight gains, while South Bay was unchanged.

EMPLOYMENT. The seasonally adjusted unemployment rate in Los Angeles County increased to 5.0% in May 2023, up from 4.9% in April and 4.7% in May 2022. The increase was driven by losses in manufacturing, which shed 2,100 jobs. Nondurable goods manufacturing lost 1,200 jobs, with declines in food, apparel, and chemical subsectors.

NEW DELIVERIES & NET ABSORPTION



Forecast

The Los Angeles industrial market should stay on its current trajectory for the balance of the year. Vacancy will continue to rise, but should remain well below historical standards. Net absorption will vacillate just above and below the zero line, as tight supply will continue to restrict major expansion throughout the region. We may see more tenants heading to the Inland Empire to secure first-generation space, where prolific amounts of new inventory are being delivered each quarter, especially in the 100,000 to 250,000-square-foot range. Mortgage rates will remain elevated and lender underwriting will continue to tighten. Measure ULA has the potential to cause significant upset in the City of Los Angeles sale market. As reported above, not a single industrial building over \$5 million in value was sold since the law was enacted on April 1. Legal challenges to the new law are in process. Should they fail, the health of the City of Los Angeles sale market will be under serious threat.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2395-2399 Bateman Ave.	Duarte	133,875	\$41,202,800	Rexford Industrial Realty, Inc.	Davidian & Susan Ouyang Trust
2665-2675 Pomona Blvd.	Pomona	103,228	\$30,200,000	GID Investment Advisors LLC	Birtcher Anderson & Davis
2824 E. 208th St.	Carson	101,175	\$32,000,000	EverWest Real Estate Investors, LLC	Black Equities Group LLC
4901 Patata St.	Cudahy	87,170	\$110,909,090	Stream Realty Partners, LP	Fred & Myrna I Smith
1332 S. Long Hill Ave.	Glendora	41,004	\$10,909,000	Eternity Re Investment LLC	R & H Investments

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
660-700 W Artesia Blvd - Renewal	Compton	457,960	Jun-2023	TJ Maxx	Sares-Regis Group
21558 Ferrero Pkwy.	City of Industry	318,497	Apr-2023	D-Element	PGIM
15015 Valley View Ave. - Renewal	Santa Fe Springs	302,850	Apr-2023	United Natural Foods, Inc.	Brookfield Property Group
400 W. Artesia Blvd. - Sublease	Compton	253,584	Apr-2023	Speedup Logistics Inc.	Transamerican Autoparts
5560-5580 E. Slauson Ave. - Renewal	Commerce	248,759	May-23	Century Snacks, LLC	Prologis

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q2 2023	Square Feet Available	Availability Rate Q2 2023	Average Asking Lease Rate	Net Absorption Q2 2023	Net Absorption 2023	Gross Absorption Q2 2023	Gross Absorption 2023
Central													
Bell/Bell Gardens/Maywood	199	7,517,963	0	0	235,734	3.14%	278,024	3.70%	\$1.83	(115,459)	(115,459)	41,736	58,056
City of Commerce	736	45,449,413	40,210	151,565	1,435,211	3.16%	1,753,076	3.86%	\$1.61	79,454	(528,784)	542,871	821,321
Huntington Park/Cudahy	196	4,771,805	0	0	126,187	2.64%	321,976	6.75%	\$0.00	(64,500)	(47,958)	37,200	96,027
Downtown	5,072	124,479,619	177,255	103,300	5,474,255	4.40%	8,519,277	6.84%	\$1.99	(292,795)	(992,168)	1,343,858	2,305,043
Montebello/Monterey Park	316	11,825,481	0	25,500	656,958	5.56%	849,584	7.18%	\$1.96	(439,422)	(450,566)	228,160	338,118
Pico Rivera	198	10,306,021	40,900	0	122,881	1.19%	247,310	2.40%	\$1.76	(24,406)	(17,169)	17,110	51,809
South Gate	225	9,644,654	0	550,000	62,551	0.65%	373,026	3.87%	\$0.00	1,415	10,500	6,415	32,715
Vernon	794	44,340,192	442,840	16,936	1,136,487	2.56%	2,211,206	4.99%	\$1.79	(59,742)	(139,091)	514,184	1,300,927
Total	7,736	258,335,148	701,205	847,301	9,250,264	3.58%	14,553,479	5.63%	\$1.87	(915,455)	(2,280,695)	2,731,534	5,004,016
Mid Counties													
Artesia/Cerritos	276	13,032,681	23,136	0	299,387	2.30%	550,400	4.22%	\$1.66	(118,071)	(88,683)	65,324	114,829
Bellflower/Downey	204	5,525,650	0	0	147,258	2.66%	164,415	2.98%	\$1.71	42,581	(15,500)	139,217	161,963
Buena Park/La Palma	237	15,277,008	27,765	0	141,096	0.92%	771,643	5.05%	\$0.00	39,391	(49,022)	70,755	97,657
La Mirada	177	13,410,900	0	0	321,678	2.40%	1,159,112	8.64%	\$1.62	(134,724)	(155,046)	77,776	224,419
Norwalk	89	2,889,795	0	0	180,313	6.24%	179,213	6.20%	\$0.00	(171,381)	(174,313)	1,100	2,200
Paramount	411	9,034,416	0	0	175,577	1.94%	200,701	2.22%	\$1.36	2,875	(65,554)	117,300	147,261
Santa Fe Springs	1,345	53,726,583	295,668	299,388	790,206	1.47%	2,074,418	3.86%	\$1.77	92,152	24,350	884,223	1,046,867
Whittier	161	4,153,161	0	5,465	114,087	2.75%	161,942	3.90%	\$1.35	85,772	57,622	18,645	59,227
Total	2,900	117,050,194	346,569	304,853	2,169,602	1.85%	5,261,844	4.50%	\$1.68	(161,405)	(466,146)	1,374,340	1,854,423
San Gabriel Valley													
Alhambra	112	2,149,145	0	0	47,892	2.23%	46,707	2.17%	\$0.00	(38,967)	(12,902)	3,659	38,649
Arcadia/Temple City	141	3,092,552	0	0	82,589	2.67%	105,106	3.40%	\$2.43	(28,590)	(43,083)	20,323	36,523
Azusa	245	6,820,631	0	0	40,400	0.59%	134,665	1.97%	\$1.95	110,216	96,947	192,616	243,051
Baldwin Park	245	5,114,490	32,562	0	145,082	2.84%	149,552	2.92%	\$1.33	(23,558)	(45,330)	50,155	139,313
City of Industry/DB/HH/RH	1,108	75,609,553	2,855,933	210,950	1,918,874	2.54%	4,514,091	5.97%	\$1.73	(10,476)	(231,819)	1,170,678	1,845,552
Covina/West Covina	186	3,619,442	0	0	51,013	1.41%	313,425	8.66%	\$1.25	40,038	4,282	56,894	61,644
Duarte	70	1,798,317	0	0	128,927	7.17%	73,023	4.06%	\$0.00	(30,904)	(70,528)	7,436	11,979
El Monte	312	8,621,622	372,992	0	125,962	1.46%	125,290	1.45%	\$1.64	(27,235)	(66,569)	225,978	297,910
Irwindale	263	12,035,325	1,575,562	653,306	450,867	3.75%	867,010	7.20%	\$1.50	272,094	365,431	319,259	445,931
La Puente	94	1,947,176	0	0	76,775	3.94%	79,599	4.09%	\$0.00	(42,739)	(42,739)	1,870	1,870
La Verne/San Dimas/Glendora	313	6,746,786	30,110	0	97,943	1.45%	124,640	1.85%	\$1.15	107,601	62,442	144,496	215,077
Monrovia	207	3,326,956	0	0	59,758	1.80%	95,893	2.88%	\$1.98	4,148	10,677	28,083	50,712
Pomona/Claremont	671	20,507,104	37,690	0	88,218	0.43%	341,446	1.67%	\$1.20	100,175	128,731	224,796	359,265
Rosemead/San Gabriel	122	2,287,009	0	0	53,369	2.33%	68,589	3.00%	\$1.18	(8,665)	(13,584)	19,980	27,180
South El Monte	836	11,166,395	0	0	123,795	1.11%	214,050	1.92%	\$1.56	42,506	18,770	123,165	193,319
Walnut	200	6,978,632	0	0	317,631	4.55%	453,496	6.50%	\$1.62	(22,783)	(68,948)	58,546	92,369
Total	5,125	171,821,135	4,904,849	864,256	3,809,095	2.22%	7,706,582	4.49%	\$1.66	442,861	91,778	2,647,934	4,060,344
South Bay													
Carson	497	35,509,595	127,930	0	1,165,747	3.28%	1,825,023	5.14%	\$2.20	(412,292)	(637,223)	297,683	632,811
Compton	470	25,039,216	0	0	900,985	3.60%	1,574,207	6.29%	\$1.84	6,337	(385,836)	290,797	310,283
El Segundo	156	8,651,553	0	0	228,999	2.65%	216,188	2.50%	\$2.13	(64,079)	(102,199)	23,684	36,284
Gardena	1,179	29,320,851	0	620,128	954,262	3.25%	1,782,466	6.08%	\$1.56	(90,613)	(151,012)	211,504	446,321
Harbor City	94	1,760,255	0	0	218,397	12.41%	218,397	12.41%	\$0.00	(20,275)	(211,197)	0	0
Hawthorne	218	8,205,822	0	40,000	98,915	1.21%	136,242	1.66%	\$1.84	16,408	33,584	21,408	48,789
Inglewood	233	4,930,679	0	0	54,819	1.11%	105,169	2.13%	\$1.75	(21,562)	(2,776)	24,471	75,441
Lakewood/Hawaiian Gardens	24	545,940	0	0	0	0.00%	0	0.00%	\$0.00	2,450	2,000	2,450	4,450
Lawndale	29	255,756	0	0	0	0.00%	0	0.00%	\$0.00	2,500	5,000	2,500	5,000
Long Beach/Terminal Island	749	24,158,091	94,328	185,257	931,046	3.85%	1,189,000	4.92%	\$1.87	65,179	(77,545)	306,322	444,615
Lynwood	98	4,641,650	0	0	2,374	0.05%	113,667	2.45%	\$1.65	(2,374)	(2,374)	0	0
Rancho Dominguez	233	14,052,544	205,435	0	180,489	1.28%	815,110	5.80%	\$1.86	(84,447)	(332,202)	39,160	100,425
Redondo & Hermosa Beach	35	1,751,599	0	0	5,390	0.31%	5,390	0.31%	\$0.00	0	(2,000)	0	0
San Pedro	45	2,768,303	0	0	14,254	0.51%	42,714	1.54%	\$2.00	(4,000)	(9,612)	0	1,455
Signal Hill	204	3,261,376	0	0	90,583	2.78%	170,136	5.22%	\$2.33	31,095	18,328	65,902	128,701
Torrance	624	28,262,273	485,228	49,000	1,523,430	5.39%	1,575,681	5.58%	\$2.21	(59,410)	(113,012)	653,843	848,296
Wilmington	146	4,057,997	0	0	66,928	1.65%	119,482	2.94%	\$2.16	210,417	(41,929)	25,575	50,624
Total	5,034	197,173,500	912,921	894,385	6,436,618	3.26%	9,888,872	5.02%	\$2.05	(424,666)	(2,010,005)	1,965,299	3,133,495
Los Angeles Total	20,795	744,379,977	6,865,544	2,910,795	21,665,579	2.91%	37,410,777	5.03%	\$1.88	(1,058,665)	(4,665,068)	8,719,107	14,052,278
5,000-24,999	13,623	165,592,555	101,997	69,423	4,613,578	2.79%	6,686,738	4.04%	\$1.90	(260,180)	(1,172,283)	2,066,161	3,778,613
25,000-49,999	3,582	124,502,860	305,092	114,500	4,240,815	3.41%	5,994,010	4.81%	\$1.72	(280,115)	(1,158,272)	1,267,360	2,156,401
50,000-99,999	1,982	134,855,927	279,755	471,779	4,162,684	3.09%	7,039,109	5.22%	\$1.86	(129,024)	(485,324)	1,752,327	2,588,341
100,000-249,999	1,287	191,090,102	1,940,546	1,407,289	5,046,276	2.64%	11,774,936	6.16%	\$1.81	187,334	(944,057)	2,238,733	3,226,915
250,000-499,999	261	84,698,113	1,171,554	297,804	3,557,945	4.20%	5,531,703	6.53%	\$2.22	(600,680)	(1,049,832)	764,685	1,410,467
500,000 plus	60	43,640,420	3,066,600	550,000	44,281	0.10%	384,281	0.88%	\$0.00	24,000	144,700	629,841	891,541
Los Angeles Total	20,795	744,379,977	6,865,544	2,910,795	21,665,579	2.91%	37,410,777	5.03%	\$1.88	(1,058,665)	(4,665,068)	8,719,107	14,052,278

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



Rising Costs, Rates Dampen Market

by **David Fults**

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The industrial real estate market in Los Angeles in the second quarter of 2023 was characterized by steady demand and limited supply. This led to low but rising vacancy rates. As a result, rents continued to rise, but at a slower rate.

The demand for industrial space in Los Angeles is being driven by a number of factors, including the continued growth of e-commerce, the expansion of logistics and distribution centers, and the need for more space for manufacturing and warehousing. The region's Los Angeles/Long Beach ports, as well as its proximity to Mexico and Asia, are the key drivers to the industrial market.

While the industrial real estate market in most of Southern California is currently strong, there are some signs that the market may be starting to cool off. The rising cost of construction and land is making it more difficult for developers to build new industrial space, and the Federal Reserve's raising of interest rates has also dampened demand. As a result, the industrial real estate market in Southern California may experience some moderation in the coming quarters.

Here are some additional details about the industrial real estate market in Southern California in the second quarter of 2023:

- **Demand:** Demand for industrial space in Southern California remained strong in the second quarter of 2023. The region's vacancy rate remained low, at only 3.4%.
- **Rents:** Rents for industrial space in Southern California continued to rise in the second quarter of 2023. Average asking rents for Class A industrial space increased by 8% year over year.
- **Development:** The pace of industrial development in Southern California slowed in the second quarter of 2023. The total amount of industrial space under construction in the region decreased by 15% year over year.
- **Interest Rates:** The Federal Reserve's plan to continue to raise interest rates could further dampen demand for industrial space in Southern California. Higher interest rates will make it more expensive for businesses to borrow money, which could lead to some companies delaying or canceling plans to expand or relocate.

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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