

OVERVIEW. Transaction activity in the Los Angeles industrial real estate market slowed further in Q3. Vacancy and availability both moved up and fewer sale and lease transactions were reported. Negative net absorption persisted, but gross absorption ticked slightly higher. The number of active requirements to buy or lease continued to shrink and average asking rents moved lower for the first time in many years. Buildings offered for lease or sale, especially functionally obsolete properties, take longer to move. Construction activity was flat and developers remain reluctant to start new projects due to uncertain rent growth and higher construction and capital costs. Many potential owner/users remain on the sidelines as they wait for pricing to come down to adjust for higher mortgage interest rates.

VACANCY/AVAILABILITY. The overall Los Angeles vacancy sits as 3.20%, rising another 29 basis points in Q3 after a 42-basis-point increase in Q2. A year ago the vacancy rate stood at just 1.68%. Good quality space still moves fairly quickly, but gone are the days of multiple offers within days of a property coming to market. Tenants are becoming more cautious and more demanding, and those with good credit are gaining an edge in negotiations for the first time in years. The availability rate moved up even more in Q3, rising by 46 basis points to 5.49%, in part due to an increase in space available for sublease. As we reported last quarter, almost all of the available and vacant space is offered for lease only. Sale inventory is very thin and pricing is still holding up despite higher mortgage interest rates.

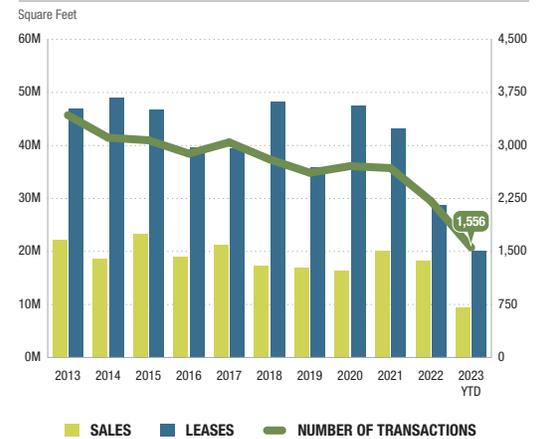
LEASE RATES. Average asking lease rates actually fell for the first time in many years. Q3 ended at \$1.84, down 4 cents during the period. This is due, in part, to price reductions resulting from longer lease-up times. Even the highest quality buildings are not moving quickly, and some landlords are resorting to lower asking rates in addition to tenant concessions like free rent and paying for tenant improvements to secure good credit tenants. Year over year, the average asking lease rate for the entire region is up by just 6.36%, a reflection of the slowdown in transaction velocity that began in mid-2022. Lease rates remain highest in the South Bay submarket at \$1.98, followed closely by Central Los Angeles at \$1.83. San Gabriel Valley is lowest at \$1.61 despite having the highest concentration of new construction.

TRANSACTION ACTIVITY. Transaction activity by square footage increased in Q3, but the number of completed transactions decreased to 452 from 518 in Q2. In Q3, 378 leases were completed totaling 6,033,337 SF, as compared with 434 leases totaling 6,956,041 SF in Q2. Sales transaction count rose slightly. 89 sale transactions were closed on 3,596,565 SF of space, as compared with 89 sales on 2,023,388 SF in Q2. The increase in total square footage sold in Q3 is mostly due to two large transactions completed in Commerce and Santa Fe Springs with a combined square footage of almost 1.4 MSF. Fewer lease and sale requirements are in circulation and short-term lease renewals are on the rise.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



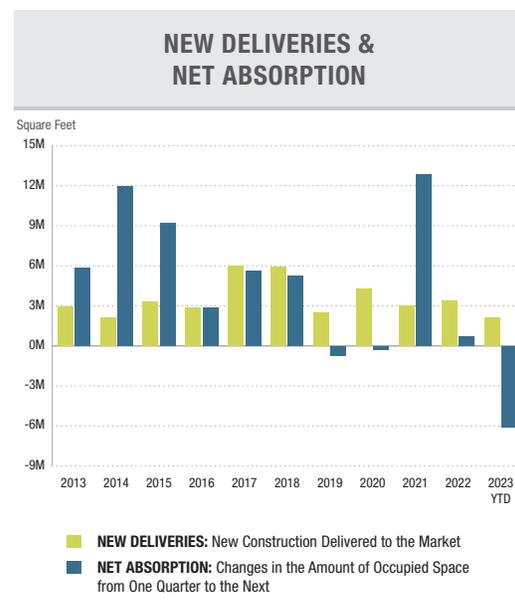
Market Statistics

	Change Over Last Quarter	Q3 2023	Q2 2023	Q3 2022	% Change Over Last Year
Vacancy Rate	▲ UP	3.20%	2.91%	1.68%	91.07%
Availability Rate	▲ UP	5.49%	5.03%	3.34%	64.13%
Average Asking Lease Rate	▼ DOWN	\$1.84	\$1.88	\$1.73	6.36%
Sale & Lease Transactions	▲ UP	9,629,902	8,979,429	12,562,789	(23.35%)
Gross Absorption	▲ UP	9,833,888	8,719,107	7,219,823	36.21%
Net Absorption	▼ NEGATIVE	(1,414,571)	(1,058,665)	(45,716)	N/A

ABSORPTION. Net absorption was negative for the sixth straight quarter. In Q3, negative net absorption increased to 1,414,571 SF after a decline of 1,058,665 SF in Q2. South Bay suffered the biggest loss in occupied space of 617,144 SF, followed by Central Los Angeles with its loss of 517,717 SF and San Gabriel Valley loss of 475,036 SF. The net absorption trend in Los Angeles bodes well for those tenants still in growth mode who will have more quality space to choose from, and they will not be forced to leave the area to find facilities to allow them to operate efficiently.

CONSTRUCTION. New construction in the Los Angeles area was flat in Q3 at 7 MSF. Current demand, though slower than this time last year, still justifies an uptick in construction activity, but developers are mostly not willing to build into a market with flattening rent growth and sharply higher construction and capital costs. In Q3, 75% of the square footage in the construction queue was in the San Gabriel Valley, mainly in Irwindale and the City of Industry. By comparison, in Mid Counties, the tightest of all LA area submarkets, there were just two buildings totaling just 269,000 SF under construction. South Bay has just 900,000 SF underway, half of which is in Gardena.

EMPLOYMENT. In August 2023, the seasonally adjusted unemployment rate in Los Angeles County increased to 5.0%, up from the revised rate of 4.9% in July 2023, and surpassing the 4.2% rate observed one year ago. Several industries experienced job gains over the year, including professional and business services, which saw an increase of 11,700 jobs. Similarly, the trade, transportation, and utilities sector added 11,600 jobs, while other services registered a gain of 5,900 jobs.



Forecast

The Los Angeles industrial market should stay on its present course for the foreseeable future. Vacancy and availability will keep moving up and net absorption will remain in negative territory, though the supply of highly functional space will remain tight. With vacancy in the Inland Empire rising quickly as new inventory is delivered, more Los Angeles tenants may look in that direction to obtain more functional space at a lower price point. This may be especially true for tenants looking for 100,000 to 250,000 SF, as availability in that range in the IE reached 12% in Q3. Mortgage rates will move higher in Q4 due to the recent spike in the yield on the 10-Year Treasury note. Lenders will set the underwriting bar even higher, as many of the regional banks that make commercial property loans are under increased regulatory scrutiny. The transfer tax in Measure ULA continues to pose a serious threat to property sales within the limits of the City of Los Angeles. Legal challenges to the new law are underway.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
4000 Union Pacific Ave.	Commerce	800,000	\$190,000,000	Dart Warehouse Corp	99 Cents Only Store LLC
9400–9500 Santa Fe Springs Rd.	Santa Fe Springs	595,304	\$210,000,000	Rexford Industrial Realty, Inc.	SDCO SFS Logistics Center, Inc.
2500 E. Thompson St.	Long Beach	174,691	\$20,300,000	Rexford Industrial Realty, Inc.	Kirkhill Manufacturing Company
20100–20200 S. Western Ave.	Torrance	116,433	\$88,000,000	Prologis, Inc.	Blackstone Inc.
7733 Telegraph Rd.	Montebello	79,055	\$16,000,000	New Lucent LLC	Frank's Legacy Inc.

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
5301–5305 Rivergrade Rd. – Renewal	Irwindale	486,476	Aug-2023	AP Express	LBA Realty
1452–1461 W. Knox St.	Torrance	442,550	Sep-2023	National Road Logistics	Prologis, Inc.
3900 Arden Dr.	El Monte	360,992	Sep-2023	WSS/Eurostar Inc.	Ares Commercial Properties
11852–11854 Alameda St. – Renewal	Lynwood	310,628	Aug-2023	Midas Express, Inc.	St. Paul Fire & Marine Insurance
14001–14003 Orange Ave. – Renew/Expansion	Paramount	282,000	Jul-2023	A.M.Castle & Co.	DREES 14003 Orange, LLC

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q3 2023	Square Feet Available	Availability Rate Q3 2023	Average Asking Lease Rate	Net Absorption Q3 2023	Net Absorption 2023	Gross Absorption Q3 2023	Gross Absorption 2023
Central													
Bell/Bell Gardens/Maywood	201	7,545,367	0	0	163,665	2.17%	274,234	3.63%	\$1.82	(67,488)	(182,947)	15,840	73,896
City of Commerce	738	45,527,874	151,565	0	1,117,753	2.46%	1,801,627	3.96%	\$1.58	34,517	(494,267)	785,913	1,607,234
Huntington Park/Cudahy	197	4,784,974	0	0	76,123	1.59%	438,846	9.17%	\$1.25	(5,436)	(53,394)	64,000	160,027
Downtown	5,082	125,016,472	69,522	356,618	5,726,971	4.58%	8,172,936	6.54%	\$1.94	(222,827)	(1,214,995)	1,202,200	3,507,243
Montebello/Monterey Park	316	11,787,962	0	25,500	554,696	4.71%	815,456	6.92%	\$2.02	94,574	(355,992)	276,878	614,996
Pico Rivera	198	10,307,162	40,900	0	111,299	1.08%	254,277	2.47%	\$1.80	17,382	213	56,072	107,881
South Gate	228	9,771,472	0	625,930	51,277	0.52%	278,284	2.85%	\$0.00	11,274	21,774	41,751	74,466
Vernon	793	43,975,148	303,645	86,748	2,204,911	5.01%	3,109,326	7.07%	\$1.74	(379,713)	(518,804)	394,474	1,695,401
Total	7,753	258,716,431	565,632	1,094,796	10,006,695	3.87%	15,144,986	5.85%	\$1.83	(517,717)	(2,798,412)	2,837,128	7,841,144
Mid Counties													
Artesia/Cerritos	277	13,054,831	0	0	398,007	3.05%	592,340	4.54%	\$1.68	(59,193)	(147,876)	199,520	314,349
Bellflower/Downey	204	5,525,650	0	0	133,821	2.42%	133,283	2.41%	\$1.55	13,437	(2,063)	78,750	240,713
Buena Park/La Palma	237	15,322,197	0	27,765	160,192	1.05%	814,413	5.32%	\$0.00	23,667	(25,355)	155,629	253,286
La Mirada	177	13,410,900	0	0	466,463	3.48%	1,244,704	9.28%	\$1.61	31,809	(123,237)	258,006	482,425
Norwalk	90	2,919,603	0	0	181,272	6.21%	180,372	6.18%	\$0.00	(2,059)	(176,372)	3,109	5,309
Paramount	412	9,055,131	0	0	133,615	1.48%	278,484	3.08%	\$1.37	31,629	(33,925)	103,229	250,490
Santa Fe Springs	1,344	53,727,744	295,668	607,624	969,966	1.81%	3,012,144	5.61%	\$1.73	(33,767)	(9,417)	455,878	1,502,745
Whittier	161	4,323,530	0	297,891	61,094	1.41%	128,335	2.97%	\$1.35	189,803	247,425	45,059	104,286
Total	2,902	117,339,586	295,668	933,280	2,504,430	2.13%	6,384,075	5.44%	\$1.67	195,326	(270,820)	1,299,180	3,153,603
San Gabriel Valley													
Alhambra	112	2,146,872	0	0	28,531	1.33%	31,986	1.49%	\$0.00	(19,668)	(32,570)	0	38,649
Arcadia/Temple City	141	3,146,409	0	0	79,777	2.54%	134,439	4.27%	\$2.43	(1,112)	(44,195)	15,336	51,859
Azusa	245	6,820,631	0	0	265,310	3.89%	364,327	5.34%	\$1.45	(76,710)	20,237	29,150	272,201
Baldwin Park	246	5,148,029	11,715	0	147,614	2.87%	233,004	4.53%	\$1.27	(14,479)	(59,809)	55,718	195,031
City of Industry/DB/HH/RH	1,109	75,648,759	3,128,036	271,730	1,899,278	2.51%	5,155,353	6.81%	\$1.71	(148,175)	(379,994)	1,109,649	2,955,201
Covina/West Covina	185	3,595,769	0	0	64,890	1.80%	346,184	9.63%	\$3.02	(13,877)	(9,595)	39,952	101,596
Duarte	70	1,798,317	0	0	122,358	6.80%	47,504	2.64%	\$0.00	6,569	(63,959)	15,775	27,754
El Monte	315	8,694,343	372,992	80,000	214,146	2.46%	312,813	3.60%	\$1.75	(96,797)	(163,366)	65,952	363,862
Irwindale	262	11,926,506	1,705,625	1,408,758	172,688	1.45%	837,624	7.02%	\$1.50	262,734	628,165	347,720	793,651
La Puente	94	1,947,208	0	0	41,672	2.14%	64,865	3.33%	\$0.00	35,103	(7,636)	42,528	44,398
La Verne/San Dimas/Glendora	308	6,686,506	0	30,110	174,247	2.61%	167,451	2.50%	\$1.15	(39,077)	23,365	62,143	277,220
Monrovia	208	3,371,951	0	0	94,294	2.80%	115,114	3.41%	\$1.95	(34,536)	(23,859)	23,440	74,152
Pomona/Claremont	671	20,553,917	37,690	230,000	174,175	0.85%	454,533	2.21%	\$1.82	(108,161)	20,570	59,472	418,737
Rosemead/San Gabriel	121	2,271,284	0	0	124,359	5.48%	71,679	3.16%	\$1.22	(58,495)	(72,079)	32,869	60,049
South El Monte	839	11,212,320	0	0	340,094	3.03%	202,139	1.80%	\$1.56	(44,939)	(26,169)	64,068	257,387
Walnut	200	6,978,789	0	269,740	430,754	6.17%	548,545	7.86%	\$1.55	(123,416)	(192,364)	39,235	131,604
Total	5,126	171,947,610	5,256,058	2,290,338	4,374,187	2.54%	9,087,560	5.29%	\$1.61	(475,036)	(383,258)	2,003,007	6,063,351
South Bay													
Carson	498	35,516,937	127,930	0	1,345,520	3.79%	2,006,417	5.65%	\$2.04	(88,700)	(725,923)	357,651	990,462
Compton	472	25,109,662	0	45,000	940,180	3.74%	1,860,627	7.41%	\$1.85	(209,016)	(594,852)	523,702	833,985
El Segundo	156	7,550,914	0	0	206,458	2.73%	170,367	2.26%	\$2.17	3,983	(98,216)	29,273	65,557
Gardena	1,179	29,375,533	474,774	468,658	1,176,583	4.01%	1,547,890	5.27%	\$1.52	(166,327)	(317,339)	616,372	1,062,693
Harbor City	94	1,760,255	0	0	103,669	5.89%	103,669	5.89%	\$0.00	(24,125)	(235,322)	144,728	144,728
Hawthorne	218	8,206,235	0	40,000	134,665	1.64%	169,016	2.06%	\$1.84	(35,750)	(2,166)	12,966	61,755
Inglewood	233	4,957,285	0	0	112,981	2.28%	175,826	3.55%	\$1.75	(58,162)	(60,938)	15,988	91,429
Lakewood/Hawaiian Gardens	24	545,940	0	0	0	0.00%	1,850	0.34%	\$0.00	0	2,000	0	4,450
Lawndale	29	255,756	0	0	0	0.00%	0	0.00%	\$0.00	0	5,000	0	5,000
Long Beach/Terminal Island	749	23,659,038	94,328	1,193,672	503,466	2.13%	848,836	3.59%	\$1.82	(135,923)	(213,468)	535,257	979,872
Lynwood	99	4,648,842	0	0	4,374	0.09%	57,205	1.23%	\$1.65	(2,000)	(4,374)	8,462	8,462
Rancho Dominguez	235	14,280,896	0	0	752,315	5.27%	1,022,493	7.16%	\$1.64	(292,002)	(624,204)	62,646	163,071
Redondo & Hermosa Beach	35	1,751,599	0	0	0	0.00%	4,230	0.24%	\$0.00	0	(2,000)	0	0
San Pedro	45	2,768,303	0	34,930	15,725	0.57%	369,624	13.35%	\$2.00	(1,471)	(11,083)	4,000	5,455
Signal Hill	205	3,280,244	0	24,400	65,081	1.98%	90,956	2.77%	\$1.86	43,833	62,161	97,889	226,590
Torrance	626	28,422,539	203,877	545,140	1,489,334	5.24%	1,709,585	6.01%	\$2.21	98,153	(14,859)	1,005,922	1,854,218
Wilmington	147	4,074,735	0	0	40,430	0.99%	76,630	1.88%	\$1.82	250,363	208,434	279,717	330,341
Total	5,044	196,164,713	900,909	2,351,800	6,890,781	3.51%	10,215,221	5.21%	\$1.98	(617,144)	(2,627,149)	3,694,573	6,828,068
Los Angeles Total	20,825	744,168,340	7,018,267	6,670,214	23,842,544	3.20%	40,831,842	5.49%	\$1.84	(1,414,571)	(6,079,639)	9,833,888	23,886,166
5,000-24,999	13,638	165,735,216	58,014	93,823	5,283,112	3.19%	7,096,891	4.28%	\$1.83	(666,166)	(1,838,449)	1,717,433	5,496,046
25,000-49,999	3,593	124,913,416	172,918	311,873	4,576,167	3.66%	6,387,713	5.11%	\$1.67	(60,431)	(1,218,703)	1,713,282	3,869,683
50,000-99,999	1,986	135,181,840	518,270	618,786	4,624,023	3.42%	7,711,233	5.70%	\$1.81	(537,562)	(1,022,886)	1,455,422	4,043,763
100,000-249,999	1,285	190,510,360	2,030,911	2,725,006	6,468,643	3.40%	12,929,686	6.79%	\$1.79	(572,970)	(1,517,027)	2,431,097	5,658,012
250,000-499,999	263	85,219,305	1,171,554	1,865,683	2,440,118	2.86%	5,495,721	6.45%	\$1.95	422,558	(627,274)	2,516,654	3,927,121
500,000 plus	60	42,608,203	3,066,600	1,055,043	450,481	1.06%	1,210,598	2.84%	\$0.00	0	144,700	0	891,541
Los Angeles Total	20,825	744,168,340	7,018,267	6,670,214	23,842,544	3.20%	40,831,842	5.49%	\$1.84	(1,414,571)	(6,079,639)	9,833,888	23,886,166

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



Port Activity Mixed But Rebounding

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Business activity at the Port of Los Angeles has been on a roller coaster ride in 2023. After a record-breaking year in 2021, cargo volumes began to decline in early 2022 due to a combination of factors, including union labor issues, the war in Ukraine, rising inflation, and continued supply chain disruptions. This slowdown hurt trucking and warehousing businesses throughout the Southern California region.

However, in recent months, cargo volumes have started to rebound. In August 2023, the Port handled 828,016 Twenty-Foot Equivalent Units (TEUs), a 3% increase compared with the same period last year. This was the Port's first monthly year-over-year increase in 13 months.

The rebound in cargo volumes is a welcome sign for the Port of Los Angeles and the businesses that rely on it. The Port is a major economic engine for the region, supporting over 575,000 jobs and generating over \$50 billion in economic activity each year.

However, there are still some challenges ahead for the Port of Los Angeles. The war in Ukraine continues to disrupt global supply chains, and rising inflation could dampen consumer demand. Additionally, the Port is facing increased competition from other ports, both in the United States and around the world.

Despite these challenges, the Port of Los Angeles is well-positioned to continue to be a major driver of economic activity in the region. The Port is investing in new infrastructure and technologies to improve efficiency and reduce congestion. Additionally, the Port is working to attract new businesses and industries to the region.

Overall, business activity at the Port of Los Angeles in 2023 has been mixed. However, the recent rebound in cargo volumes is a positive sign for the Port and the businesses that rely on it. The Port is facing some challenges, but it is well positioned to continue to be a major economic driver in the region.

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

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