LAQ224

SECOND QUARTER 2024 MARKET REPORT

GREATER LOS ANGELES INDUSTRIAL

Voit REAL ESTATE SERVICES

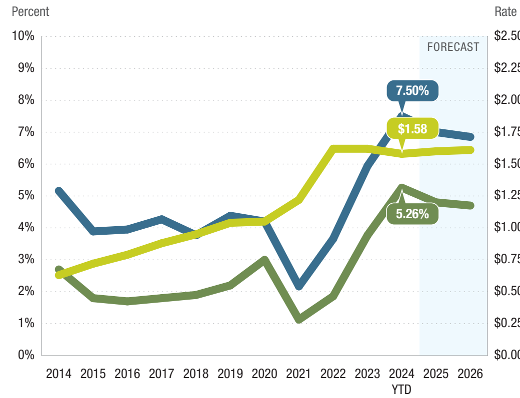
OVERVIEW. The Los Angeles industrial market remains on the downward trajectory that began back in 2022. Vacancy and availability both spiked again and net absorption remained firmly in negative territory. Transaction volume for both sale and lease product declined. The average asking lease rate fell sharply in the period and year-over-year rent growth turned negative for the first time in over a decade. Concessions were up too, which means effective rates are also taking a hit. The number of active requirements and prospective owner / user purchasers remains thin, as economic uncertainty and concern over the outcome of the presidential election are top-of-mind. Property is sitting on the market longer, as those tenants and buyers who are actively pursuing new facilities have more to choose from and are no longer faced with having to compete for space like they were before the market peaked in mid-2022. Total space under construction was down due to several new deliveries, mainly in the San Gabriel Valley.

VACANCY & AVAILABILITY. The recent sharp rise in vacancy continued in Q2, ending the period at 5.26%, up another 55 basis points on the heels of a 94-basis-point increase in Q1. In just the past year, vacancy has risen by 235 basis points, or 80.8%. Even the higher quality buildings, which were moving in a matter of days until mid-2022, are sitting on the market for months. Tenants just don't have the competitive pressure to close deals quickly, as they can afford to be more particular in terms of building choice and to get more aggressive during negotiations. The availability rate also moved higher in Q2, rising by 46 basis points to 7.5%.

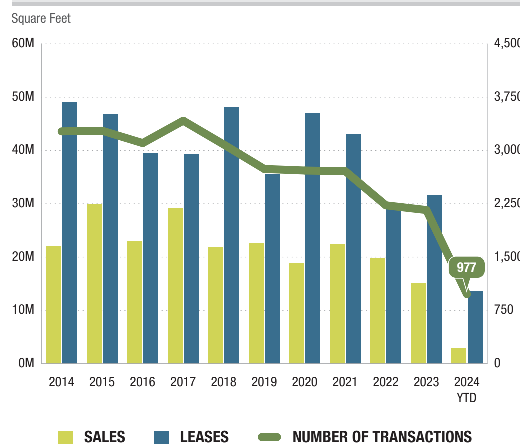
LEASE RATES. The average asking lease rate fell sharply in Q2, indicating that landlords are finally acquiescing to the reality of longer lease-up times. Until recently, they were sticking to keeping their asking or "coupon" rates because they enhance the underwriting of new financing and boost property value in the event of a disposition. Concessions are also in play and on the rise, so "effective" rates are coming down quickly. For the first time since the Great Recession, the year-over-year average asking lease rate is down. The quarter ended at $1.58, down 15.96% year over year, or $0.12 for the period. It appears the correction in lease rates many expected to occur much earlier is finally in play, a welcome respite for LA-area tenants who suffered from double-digit rent growth for years.

TRANSACTION ACTIVITY. Transaction activity both by square footage and by transaction count was down again in Q2, ending the period at 7,070,010 SF from 9,347,617 SF in Q1. The total number of sale and lease transactions fell to 465 from 511 in Q1. Lease transaction count fell to 410 from 446, and sale transactions fell to 55 from 65 in Q1. That is the lowest number of quarterly sales transactions in more than three years. Clearly, the increase in mortgage interest rates is having an impact, along with Measure ULA transfer taxes in the City of Los Angeles. Property owners are faced with 4.5% to 5.5% tax on the sales price depending on specific price thresholds.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

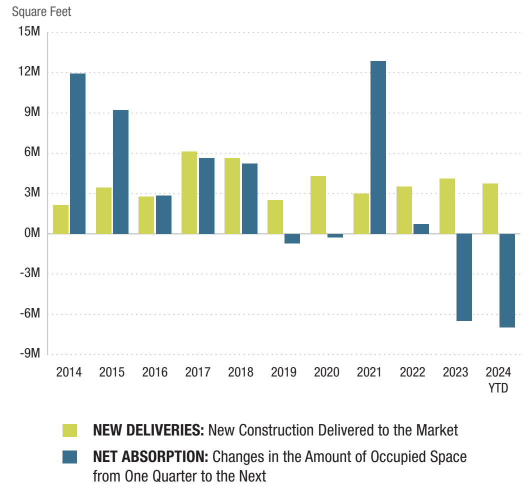
	Change Over Last Quarter		Q2 2024	Q1 2024	Q2 2023	% Change Over Last Year
Vacancy Rate	▲	UP	5.26%	4.71%	2.91%	80.80%
Availability Rate	▲	UP	7.50%	7.04%	5.03%	49.18%
Average Asking Lease Rate	▼	DOWN	$1.58	$1.70	$1.88	(15.96%)
Sale & Lease Transactions	▼	DOWN	7,070,010	9,347,617	11,006,070	(35.76%)
Gross Absorption	▲	UP	9,318,928	8,274,461	8,719,107	6.88%
Net Absorption	▼	NEGATIVE	(3,091,322)	(3,870,528)	(1,058,665)	N/A

ABSORPTION. Net absorption in Q2 remained negative, with occupied space declining by 3,091,322 SF, following a 3,870,528 SF loss in Q1. The slower lease-up time is causing inventory accumulation and higher vacancy rates. Net absorption, a crucial metric reflecting business community growth or contraction, indicates a general business contraction across industries. E-commerce users, who expanded rapidly during the pandemic, are making significant adjustments to align with current economic conditions. Inflation has led to sluggish retail sales growth, with consumers prioritizing essential goods over discretionary items typically transported through the Ports of Long Beach and Los Angeles. In 2023, negative absorption in the LA Region reached 6.5 MSF, and the first half of this year is outpacing that trend.

CONSTRUCTION. Construction fell significantly in Q2, due mainly to new deliveries in the San Gabriel Valley submarket. The period ended with just 3,690,156 SF in the construction queue, down from 5,459,653 SF in Q1. Over 1.4 MSF was delivered just in the City of Industry. Planned space fell sharply from 6.4 MSF to just 3.4 MSF, a clear indication that developers are taking their chips off the table until the direction of the local economy becomes clearer and the Fed makes up its mind about rate reductions.

EMPLOYMENT. Los Angeles County's unemployment rate remained steady at 5.3% in May 2024, higher than the previous year's 4.8%. Despite challenges, non-farm employment grew by 11,100 jobs. The mixed performance across business sectors, including growth in leisure and hospitality but declines in manufacturing, presents both opportunities and challenges for the industrial real estate market.

NEW DELIVERIES & NET ABSORPTION



Forecast

The Los Angeles industrial market will continue to spin its wheels for the foreseeable future. Demand will remain sluggish, vacancy will keep moving up and landlords will remain under pressure to lower asking rates and offer more concessions. Time on market will continue to increase. Owner/user sales will continue to lag unless prices come down far enough to offset higher mortgage interest rates. This is unlikely, as existing property owners who own older, lower-interest-rate loans will simply hold onto their properties and wait for prices to move back up when rates finally do come down. However, the timing of all that is uncertain because the Fed has been reluctant to lower rates as was expected by now. Economists are now expecting no more than one minor cut by the end of the year. New construction starts will slow further, which will bring some comfort to existing property landlords who are having trouble getting their space leased up. Uncertainty over the upcoming election is further reason for tenants and buyers to remain cautious through the end of the year.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
16203–16233 Arrow Hwy. - 4 Bldgs.	Irwindale	134,542	$48,500,000	Rexford Industrial Realty	Panattoni Development Company
4101 Whiteside St.	Los Angeles	43,681	$9,600,000	Ultimate Floors	Jomex LLC
15401 S. Figueroa St.	Gardena	38,584	$10,225,000	Ichi Trading Co	Rexford Industrial Realty
1454–1458 Esperanza St.	Los Angeles	37,595	$9,100,000	Tom Kim	Innovative Industrial Properties
2701 Signal Pkwy.	Signal Hill	31,500	$10,500,000	R.E. Michael Company	2700 LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1650 E. Glenn Curtiss St.	Carson	338,274	Jun-2024	KW International	Carson Companies
2501 West Rosecrans Ave.	Los Angeles	300,217	Apr-2024	Forward Air Corporation	Inland Empire Holdco LLC
18120 Bishop Ave.	Carson	286,104	Jun-2024	Prime Freight	Watson Land Company
18055 Harmon Ave.	Carson	253,354	Jun-2024	Agron	Watson Land Company
5801 S. 2nd St.	Vernon	185,089	Jun-2024	Reformation Group	Bridge Development

	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 2024	Square Feet Available	Availability Rate Q2 2024	Average Asking Lease Rate	Net Absorption Q2 2024	Net Absorption 2024	Gross Absorption Q2 2024	Gross Absorption 2024
Central													
Bell/Bell Gardens/Maywood	202	7,562,769	0	0	149,969	1.98%	465,815	6.16%	$1.83	85,697	87,267	91,677	154,028
City of Commerce	741	46,475,474	151,551	0	3,123,389	6.72%	5,103,127	10.98%	$1.20	(648,161)	(1,520,986)	602,161	911,452
Huntington Park/Cudahy	194	4,697,363	0	0	237,112	5.05%	434,239	9.24%	$0.79	29,469	(52,211)	40,613	63,318
Downtown	5,061	123,525,975	402,442	180,000	6,341,457	5.13%	8,341,762	6.75%	$1.68	(377,677)	(1,252,418)	1,304,929	3,023,310
Montebello/Monterey Park	316	11,825,509	0	25,500	940,815	7.96%	1,312,676	11.10%	$1.74	70,450	(180,573)	187,148	307,098
Pico Rivera	197	10,296,221	0	0	591,554	5.75%	732,013	7.11%	$1.41	(331,771)	(441,830)	194,725	202,972
South Gate	229	9,852,511	0	550,000	319,066	3.24%	774,523	7.86%	$1.36	(101,802)	(157,026)	11,607	121,510
Vernon	795	44,069,574	210,347	288,773	2,382,963	5.41%	3,362,242	7.63%	$1.53	6,915	13,638	467,224	1,151,165
Total	7,735	258,305,396	764,340	1,044,273	14,086,325	5.45%	20,526,397	7.95%	$1.66	(1,266,880)	(3,504,139)	2,900,084	5,934,853
Mid Counties													
Artesia/Cerritos	277	13,092,868	0	0	700,883	5.35%	1,315,312	10.05%	$1.43	(266,242)	(292,021)	169,634	406,390
Bellflower/Downey	206	5,674,048	0	0	157,860	2.78%	172,636	3.04%	$1.41	52,223	(2,483)	40,255	197,314
Buena Park/La Palma	236	15,068,436	127,765	0	744,671	4.94%	1,614,648	10.72%	$0.00	(98,067)	(172,616)	85,896	125,809
La Mirada	178	13,186,648	0	0	929,030	7.05%	1,589,395	12.05%	$1.58	339,545	166,549	569,871	672,454
Norwalk	90	3,090,615	0	0	100,418	3.25%	95,322	3.08%	$1.67	5,392	(4,131)	17,970	23,928
Paramount	415	9,262,439	0	0	225,970	2.44%	383,229	4.14%	$1.35	(38,691)	(138,399)	70,724	104,486
Santa Fe Springs	1,345	53,876,331	450,067	178,264	2,826,432	5.25%	3,819,657	7.09%	$1.74	(846,121)	(1,027,805)	777,948	1,175,102
Whittier	163	4,196,885	0	0	252,209	6.01%	476,858	11.36%	$1.50	(154,501)	(182,010)	36,483	62,814
Total	2,910	117,448,270	577,832	178,264	5,937,473	5.06%	9,467,057	8.06%	$1.62	(1,006,462)	(1,652,916)	1,768,781	2,768,297
San Gabriel Valley													
Alhambra	111	2,136,150	0	0	81,174	3.80%	98,300	4.60%	$1.26	6,450	2,716	30,195	49,433
Arcadia/Temple City	142	3,162,498	0	0	78,291	2.48%	147,892	4.68%	$1.52	2,350	10,869	32,639	91,914
Azusa	251	6,929,814	0	0	278,959	4.03%	497,047	7.17%	$1.46	(93,885)	(146,745)	9,440	71,940
Baldwin Park	249	5,172,300	0	0	225,961	4.37%	242,644	4.69%	$1.48	(23,058)	(45,418)	73,425	99,156
City of Industry/DB/HH/RH	1,111	78,981,010	307,045	100,000	6,098,708	7.72%	8,050,507	10.19%	$3.17	420,984	(69,795)	1,483,533	2,598,553
Covina/West Covina	185	3,492,841	0	0	63,513	1.82%	295,834	8.47%	$1.87	(1,683)	(6,887)	10,747	45,561
Duarte	70	1,798,317	0	0	75,223	4.18%	18,913	1.05%	$0.00	(9,674)	(68,069)	4,555	55,961
El Monte	316	9,007,627	0	0	208,644	2.32%	232,907	2.59%	$1.60	12,686	348,683	112,502	503,235
Irwindale	263	13,211,633	129,619	496,306	672,365	5.09%	1,037,853	7.86%	$1.57	(168,448)	349,557	604,026	608,232
La Puente	94	1,947,046	0	0	22,738	1.17%	26,622	1.37%	$0.00	(16,708)	(13,771)	935	7,342
La Verne/San Dimas/Glendora	308	6,771,727	0	30,980	239,948	3.54%	232,373	3.43%	$1.38	21,352	2,748	99,382	130,979
Monrovia	208	3,423,845	0	0	92,206	2.69%	296,497	8.66%	$1.85	16,269	(13,893)	33,810	63,067
Pomona/Claremont	673	20,636,900	0	0	692,009	3.35%	851,693	4.13%	$1.23	(122,280)	(252,800)	157,816	260,094
Rosemead/San Gabriel	121	2,233,679	0	0	67,082	3.00%	67,082	3.00%	$1.24	6,520	55,005	60,149	139,105
South El Monte	840	11,208,880	0	0	198,008	1.77%	262,127	2.34%	$1.55	(63,286)	(42,408)	53,890	209,207
Walnut	206	6,898,161	269,780	0	309,203	4.48%	530,012	7.68%	$1.51	4,189	94,036	70,985	315,186
Total	5,148	177,012,428	706,444	627,286	9,404,032	5.31%	12,888,303	7.28%	$1.56	(8,222)	203,828	2,838,029	5,248,965
South Bay													
Carson	496	35,956,794	127,775	429,112	2,492,852	6.93%	3,118,822	8.67%	$1.75	(152,612)	(354,903)	374,464	555,957
Compton	479	25,214,264	128,822	0	1,571,821	6.23%	2,562,928	10.16%	$1.55	(102,165)	(810,027)	125,411	182,353
El Segundo	154	7,543,634	0	0	49,122	0.65%	128,888	1.71%	$2.28	8,888	(18,012)	40,018	70,018
Gardena	1,181	29,254,927	474,773	234,765	1,265,042	4.32%	1,527,463	5.22%	$1.43	(467,432)	(654,964)	214,963	458,551
Harbor City	95	1,765,758	0	0	86,506	4.90%	86,506	4.90%	$0.00	27,066	41,466	38,000	52,400
Hawthorne	221	8,199,858	30,595	40,000	111,763	1.36%	214,098	2.61%	$1.61	76,500	50,657	79,500	135,572
Inglewood	236	4,968,170	0	0	294,765	5.93%	287,153	5.78%	$1.48	(132,121)	(188,511)	48,343	68,320
Lakewood/Hawaiian Gardens	24	538,131	10,000	0	1,850	0.34%	1,850	0.34%	$0.00	0	(1,850)	0	0
Lawndale	30	268,126	0	0	21,272	7.93%	30,370	11.33%	$0.00	0	(10,272)	0	2,000
Long Beach/Terminal Island	752	23,547,624	869,575	541,273	1,221,620	5.19%	1,445,754	6.14%	$1.78	(66,517)	(176,819)	198,269	340,595
Lynwood	99	4,363,391	0	0	122,748	2.81%	332,875	7.63%	$1.20	(9,400)	(27,800)	8,483	8,483
Rancho Dominguez	233	14,307,771	0	0	565,619	3.95%	1,150,800	8.04%	$1.48	81,086	(25,839)	497,271	1,097,981
Redondo & Hermosa Beach	34	1,750,535	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
San Pedro	45	2,768,203	0	0	387,624	14.00%	402,153	14.53%	$0.00	(316,899)	(316,899)	22,000	22,000
Signal Hill	208	3,060,480	0	0	91,722	3.00%	92,877	3.03%	$1.88	(30,114)	(46,630)	18,218	36,798
Torrance	634	29,358,292	0	323,232	1,642,222	5.59%	1,894,392	6.45%	$2.03	231,783	526,049	81,396	536,490
Wilmington	150	4,104,246	0	0	48,123	1.17%	53,790	1.31%	$1.75	42,179	5,731	65,698	73,756
Total	5,071	196,970,204	1,641,540	1,568,382	9,974,671	5.06%	13,330,719	6.77%	$1.84	(809,758)	(2,008,623)	1,812,034	3,641,274
Los Angeles Total	**20,864**	**749,736,298**	**3,690,156**	**3,418,205**	**39,453,694**	**5.26%**	**56,212,476**	**7.50%**	**$1.58**	**(3,091,322)**	**(6,961,850)**	**9,318,928**	**17,593,389**
5,000-24,999	13,660	165,911,613	38,675	50,637	6,372,864	3.84%	8,125,919	4.90%	$1.72	(460,840)	(1,324,147)	2,117,050	3,973,447
25,000-49,999	3,598	125,204,561	188,418	183,961	5,343,689	4.27%	7,684,862	6.14%	$1.53	102,607	(188,349)	1,864,489	3,456,711
50,000-99,999	1,989	135,505,276	346,976	424,871	6,858,053	5.06%	10,800,284	7.97%	$1.64	(204,798)	(984,243)	1,296,248	2,853,777
100,000-249,999	1,288	191,203,273	2,087,946	1,481,820	10,955,458	5.73%	18,591,323	9.72%	$1.56	(1,080,429)	(2,242,059)	2,352,817	4,230,967
250,000-499,999	264	85,497,400	523,098	726,916	6,702,938	7.84%	6,823,307	7.98%	$1.84	(1,013,288)	(1,863,824)	1,319,255	2,709,418
500,000 plus	65	46,414,175	505,043	550,000	3,220,692	6.94%	4,186,781	9.02%	$0.00	(434,574)	(359,228)	369,069	369,069
Los Angeles Total	**20,864**	**749,736,298**	**3,690,156**	**3,418,205**	**39,453,694**	**5.26%**	**56,212,476**	**7.50%**	**$1.58**	**(3,091,322)**	**(6,961,850)**	**9,318,928**	**17,593,389**

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

SECOND QUARTER 2024 MARKET REPORT

GREATER LOS ANGELES INDUSTRIAL

Voit
REAL ESTATE SERVICES

Navigating the Shift to a Tenant-Friendly Landscape

by Dan Berkenfield and Rachel Burney

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The Mid-Counties industrial market continues to be a highly desirable Southern California submarket. We entered 2024 with signs of softening, evidenced by modest price corrections and rising vacancy rates. These market conditions took a more definitive turn in Q2. We're witnessing a slowdown in overall transactions and a consistent decline in lease rates.

While Q1 saw a slight uptick in vacancy (reaching 4.01%), the vacancy rate jumped in Q2 to 5.06%. We're witnessing a slowdown in product movement and a consistent decline in lease rates. This is indicative of a transition from a landlord-dominated market to a softer market in favor of tenants.

The high cost of capital seems to be the driving force. With mortgage interest rates staying north of 6%, we're finally seeing sale prices softening in response, especially in the owner/user market. Supply is accumulating while overall sales activity has decreased to roughly half of what it was this time last year.

Key takeaways for Q2 2024:

- Softening Prices: Prepare to see a change from historically high price points going forward.
- Landlord Concessions: Landlord concessions like free rent, tenant improvements and signing bonuses are on the rise.

Looking Ahead: Uncertainty and Opportunity

The upcoming Presidential election injects an additional layer of uncertainty into the market outlook. Additionally, several important provisions of the Tax Cuts & Jobs Act of 2017 expire at the end of 2025. Higher interest rates and global economic and political volatility are also impacting overall demand.

- Tenants: This could be an opportune time to leverage the shifting market dynamics and negotiate more favorable lease terms on upcoming renewals or new Leases. Be aggressive.
- Landlords: Be prepared to adapt your strategies and consider increasing concessions to attract tenants quickly to avoid excess downtime.
- Investors: Stick with stabilized assets with long-term leases. Avoid value-add plays that rely on substantial rent growth.

The Bottom Line:

The Mid-Counties industrial market is in a state of flux. While the future remains uncertain, there are opportunities for both tenants and landlords willing to adapt to the changing landscape. By staying informed and working with experienced brokers, you can navigate this market shift and make more informed decisions.

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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