LA4Q22

FOURTH QUARTER 2022 MARKET REPORT

GREATER LOS ANGELES INDUSTRIAL

Voit REAL ESTATE SERVICES

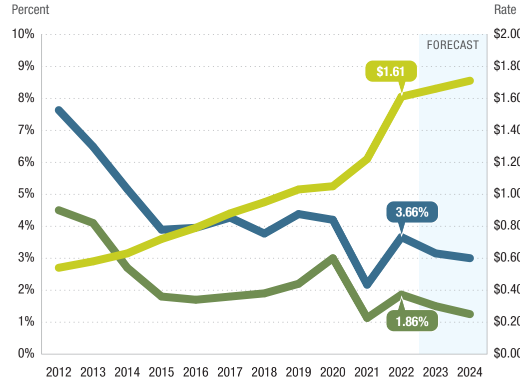
OVERVIEW. The Los Angeles industrial real estate market continued to soften in 4Q. Vacancy and availability both rose for the third consecutive period and transaction velocity slowed. Net absorption fell further into negative territory while gross absorption held its ground. Sales activity continued to decline, as would-be owner/users have lost interest in paying high prices with more expensive debt. Competition among tenants for leases declined, as well, but demand is still strong enough to get deals done. Developers are backing away from new land deals due to rising capital costs and a lowered confidence that the current rent growth trajectory is sustainable. Concern about inflation is still front and center for buyers and tenants who are worried about keeping enough of their powder dry to handle a recession that many believe is on the way.

VACANCY/AVAILABILITY. The overall vacancy rate in Los Angeles increased by another 18 basis points in 4Q after a 57-basis-point rise in 3Q, but still stands at just 1.86%. The highest quality space is still in demand, but is moving more slowly because there are fewer tenants in the market, and those who are have become more cautious and demanding. The availability rate for the entire LA region moved up by another 32 basis points in 4Q after a 105-basis-point increase in 3Q. These increases are significant and point to slower lease-up times and more space offered for sublease. Gone are the days of multiple offers and time-on-market measured in hours or days.

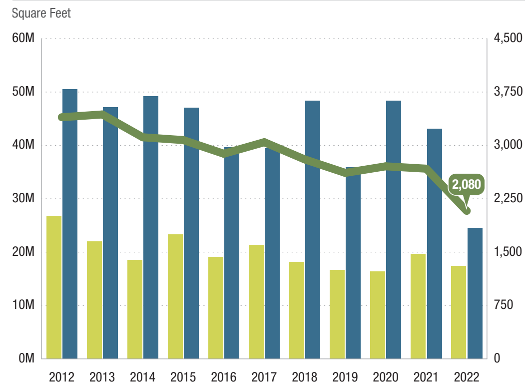
LEASE RATES. Average asking lease rates managed to move up again in 4Q despite softening market conditions. The year ended with a rate of $1.61, up $0.04 per square foot in the period after a major increase in 3Q. Year-over-year, asking rents have risen by almost 32%. The South Bay posted the highest average asking rent in 4Q, up $0.12 to $1.71, followed closely by the San Gabriel Valley at $1.66 and Mid Counties at $1.65. Central LA was lowest again at $1.57. Actual lease rates throughout the county are somewhat higher due to the fact that a substantial portion of the space leased is marketed without an asking rate. Of note is the fact that lease rates are still moving higher, even as leasing activity declines. That may, in part, be due to the shift in buyer demand to the leasing side and low levels of construction that have helped keep vacancy under 2% for the past two years.

TRANSACTION ACTIVITY. Transaction activity took a big step back in 4Q. This important metric measures the number of deals inked in a given period without regard to occupancy. It measures market velocity and this quarter's result makes it clear that the market is slowing down. In 4Q, transaction activity fell to 7.7 MSF, as compared to 12.5 MSF in 3Q. Sale demand from institutional and private investors, along with would-be owner/users, is in decline due to higher capital costs. The cost to service debt doubled in 2022 due to Fed action to rein in inflation. So, it comes as no surprise that demand would be impacted. In all, 314 leases were signed in 4Q, down from 402 in 3Q. 93 properties were sold versus 132 in 3Q.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

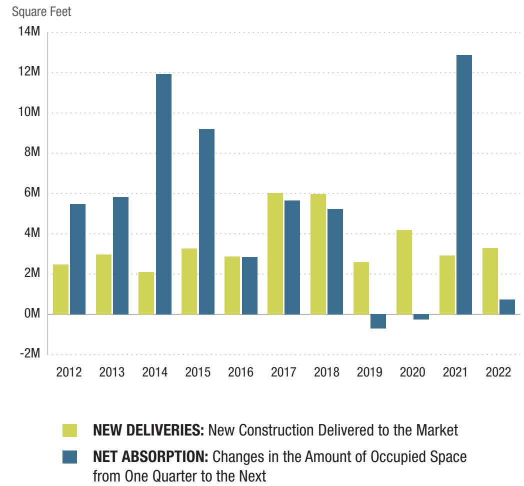
	Change Over Last Quarter		4Q 2022	3Q 2022	4Q 2021	% Change Over Last Year
Vacancy Rate	▲	UP	1.86%	1.68%	1.32%	41.34%
Availability Rate	▲	UP	3.66%	3.34%	3.34%	9.51%
Average Asking Lease Rate	▲	UP	$1.61	$1.57	$1.22	31.97%
Sale & Lease Transactions	▼	DOWN	7,684,579	12,517,781	12,499,310	(38.52%)
Gross Absorption	▼	DOWN	7,070,327	7,219,823	9,047,246	(21.85%)
Net Absorption	▼	NEGATIVE	(712,855)	(45,716)	1,537,110	N/A

ABSORPTION. Net absorption, the net difference in occupied space from one period to another, fell sharply in 4Q, remaining in negative territory for the third consecutive quarter. In 4Q, net negative absorption topped 712,855 SF. Net absorption is closely watched by lenders, developers and investors because it indicates whether the business base is expanding or contracting. Until recently, light net absorption numbers were attributed to lack of supply of quality product, but now it reflects the fact that there are fewer active relocation requirements and more short-term lease renewals by tenants who are unwilling to make new long-term commitments in uncertain economic times. Gross absorption, which measures total move-ins, was little changed at 7.1 MSF in 4Q.

CONSTRUCTION. As we have reported repeatedly, the lack of new construction has been a major barrier to growth in the LA region for the past decade. There just isn't enough quality space to meet immediate demand. Now that developers are facing higher borrowing costs and a less certain future, construction will probably slow even further. Though, in 4Q, total square feet under construction actually rose, adding an additional 1.7 MSF to the queue of buildings underway. The year ended with just over 5.7 MSF in the queue. All of the quarterly increase came from new projects in the San Gabriel Valley submarket, particularly in the City of Industry and Irwindale. The rest of the LA region was silent.

EMPLOYMENT. The seasonally adjusted unemployment rate in Los Angeles County was unchanged over the month at 4.9% in November 2022, from a revised 4.9% in October 2022, and was below the rate of 6.9% one year ago. The industry sector reported year-over job gains including trade, transportation, and utilities (up 18,600), manufacturing (up 10,800), and construction (up 6,500).

NEW DELIVERIES & NET ABSORPTION



Forecast

By the middle of 2022, the psychology of the market players had decidedly softened. In Q4 we began to see the metrics reflect that change in sentiment. Heading into the new year, we expect market conditions to become even more difficult. Sales activity, including investor, developer and owner / user, will be hobbled by rising mortgage rates and only owners willing to adjust price in response to higher capital costs will be active sellers. Those looking to get yesterday's peak price under today's new reality will be disappointed. We are already seeing major price reductions from sellers who priced their properties at peak levels, which are behind us for now. Low mortgage rates and scarcity of product drove the biggest bull market in history. Now that mortgage rates are on the rise, even if scarcity is still a factor, it only makes sense that we will see some level of market correction in 2023. How long and how deep, no one knows. A lot depends on whether the Fed engaged soon enough in its fight against inflation.

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
21921 Industry Way	City of Industry	1,000,720	Nov-2022	Ryder Logistics	Successor Agency to the Industry Urban-Development Agency
9400–9600 Santa Fe Springs Rd.	Santa Fe Springs	411,034	Dec-2022	GXO Logistics	RREEF
2230 E. Carson St.	Carson	198,292	Nov-2022	Seko Logistics	Watson Land Company
2100 W. 195th St.	Torrance	146,919	Nov-2022	Arc Boats	Sares Regis Group
2141 E. Paulham St.	Rancho Dominquez	133,752	Oct-2022	Damco (Maersk)	Carson Company

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2022	Square Feet Available	Availability Rate 4Q2022	Average Asking Lease Rate	Net Absorption 4Q2022	Net Absorption 2022	Gross Absorption 4Q2022	Gross Absorption 2022
Central													
Bell/Bell Gardens/Maywood	199	7,514,640	0	0	32,616	0.43%	157,132	2.09%	$0.00	29,884	59,553	50,000	138,697
City of Commerce	739	45,577,228	0	0	386,115	0.85%	1,433,783	3.15%	$1.60	(136,481)	138,289	252,652	1,323,071
Huntington Park/Cudahy	195	4,760,099	0	0	67,155	1.41%	150,166	3.15%	$1.50	40,576	(3,244)	83,782	168,130
Downtown	5,053	125,975,237	313,985	723,300	5,151,636	4.09%	7,178,752	5.70%	$1.48	129,217	(445,063)	1,405,675	5,309,687
Montebello/Monterey Park	314	11,763,446	0	25,500	178,967	1.52%	598,906	5.09%	$0.00	55,547	(21,464)	19,211	205,351
Pico Rivera	197	10,294,969	0	40,900	75,012	0.73%	236,612	2.30%	$1.50	(1,200)	89,293	11,280	127,707
South Gate	224	9,644,938	0	550,000	86,071	0.89%	170,639	1.77%	$1.69	(11,914)	1,111	9,036	32,897
Vernon	789	43,753,761	216,826	86,748	525,157	1.20%	1,269,701	2.90%	$1.34	(75,638)	(270,395)	627,931	1,365,948
Total	7,710	259,284,318	530,811	1,426,448	6,502,729	2.51%	11,195,691	4.32%	$1.57	29,991	(451,920)	2,459,567	8,671,488
Mid Counties													
Artesia/Cerritos	278	13,085,443	23,136	0	193,042	1.48%	524,630	4.01%	$1.85	33,102	(23,808)	183,014	738,673
Bellflower/Downey	204	5,521,214	0	0	116,375	2.11%	129,033	2.34%	$1.78	11,088	(26,215)	47,484	149,454
Buena Park/La Palma	236	15,092,669	0	30,650	78,269	0.52%	434,361	2.88%	$1.70	2,616	64,737	42,330	311,371
La Mirada	177	13,411,678	0	0	82,385	0.61%	348,750	2.60%	$1.93	(47,851)	139,269	70,611	478,786
Norwalk	89	2,889,795	0	0	6,480	0.22%	4,900	0.17%	$1.85	(2,200)	(4,024)	59,848	67,633
Paramount	411	9,026,054	0	0	90,039	1.00%	182,245	2.02%	$1.60	26,506	29,968	112,403	268,956
Santa Fe Springs	1,345	53,802,682	0	421,522	679,058	1.26%	1,269,263	2.36%	$1.78	(292,491)	(142,825)	438,479	1,869,683
Whittier	162	4,142,635	0	5,465	23,729	0.57%	41,822	1.01%	$1.41	41,745	5,683	60,878	93,003
Total	2,902	116,972,170	23,136	457,637	1,269,377	1.09%	2,935,004	2.51%	$1.65	(227,485)	42,785	1,015,047	3,977,559
San Gabriel Valley													
Alhambra	112	2,149,145	0	0	22,490	1.05%	13,370	0.62%	$1.25	13,200	(26,976)	13,200	70,084
Arcadia/Temple City	139	3,076,487	0	0	37,995	1.24%	60,524	1.97%	$1.95	22,095	13,174	44,463	119,237
Azusa	244	6,812,655	0	0	198,707	2.92%	320,372	4.70%	$1.54	86,929	81,123	101,321	143,353
Baldwin Park	248	4,743,704	11,715	0	106,623	2.25%	168,240	3.55%	$1.49	31,219	(24,236)	118,366	321,357
City of Industry/DB/HH/RH	1,106	75,379,670	2,723,679	361,850	996,989	1.32%	3,323,884	4.41%	$1.85	(320,502)	39,958	650,311	2,525,871
Covina/West Covina	185	3,478,652	0	0	57,045	1.64%	207,665	5.97%	$0.00	(11,564)	(66,034)	27,261	88,137
Duarte	70	1,794,092	0	0	62,942	3.51%	7,913	0.44%	$1.65	0	(9,100)	1,752	48,434
El Monte	312	8,563,178	0	13,500	66,203	0.77%	258,903	3.02%	$1.57	47,420	9,430	181,214	343,010
Irwindale	264	12,070,460	552,562	1,455,000	1,098,603	9.10%	1,107,602	9.18%	$1.47	(660,443)	(805,482)	364,886	1,458,540
La Puente	92	1,941,274	0	0	34,036	1.75%	34,036	1.75%	$1.10	(2,660)	2,476	26,856	31,992
La Verne/San Dimas/Glendora	312	6,704,878	0	0	132,013	1.97%	188,714	2.81%	$1.53	7,678	(32,959)	76,200	254,318
Monrovia	206	3,305,883	46,031	0	11,242	0.34%	68,825	2.08%	$1.87	916	(8,682)	7,597	27,060
Pomona/Claremont	670	20,428,313	37,690	230,000	126,172	0.62%	453,008	2.22%	$1.60	(59,739)	(3,413)	289,309	564,720
Rosemead/San Gabriel	122	2,287,009	0	0	34,903	1.53%	47,222	2.06%	$1.45	(6,149)	(1,320)	11,994	44,579
South El Monte	833	11,122,232	0	0	276,373	2.48%	113,860	1.02%	$1.54	(42,095)	(32,503)	107,304	394,820
Walnut	199	6,947,821	0	269,740	230,978	3.32%	141,646	2.04%	$1.75	(16,746)	349,936	14,475	160,240
Total	5,114	170,805,453	3,371,677	2,330,090	3,493,314	2.05%	6,515,784	3.81%	$1.66	(910,441)	(514,608)	2,036,509	6,595,752
South Bay													
Carson	491	35,257,215	292,878	126,013	187,760	0.53%	873,422	2.48%	$1.85	329,215	358,949	153,965	523,635
Compton	468	24,571,369	0	45,000	196,065	0.80%	538,703	2.19%	$1.68	(25,596)	(246,232)	174,596	1,281,388
El Segundo	156	8,558,019	0	0	135,789	1.59%	171,874	2.01%	$2.50	(38,989)	(63,689)	0	5,000
Gardena	1,175	29,133,819	86,879	520,908	299,782	1.03%	882,507	3.03%	$1.60	(26,300)	178,719	142,047	931,513
Harbor City	94	1,773,002	0	0	7,200	0.41%	59,269	3.34%	$1.75	10,870	(7,200)	10,870	17,670
Hawthorne	218	7,957,931	0	40,000	136,474	1.71%	135,193	1.70%	$2.20	(10,195)	24,117	50,078	267,793
Inglewood	234	4,920,237	0	0	62,135	1.26%	278,832	5.67%	$2.03	7,431	111,673	41,483	270,107
Lakewood/Hawaiian Gardens	25	564,084	0	0	2,000	0.35%	2,000	0.35%	$0.00	17,792	17,792	17,792	43,054
Lawndale	29	255,756	0	0	2,500	0.98%	2,500	0.98%	$1.85	(2,500)	6,245	0	8,745
Long Beach/Terminal Island	747	24,116,172	94,328	100,517	806,767	3.35%	1,071,384	4.44%	$1.56	(1,686)	1,077,112	48,194	561,427
Lynwood	100	4,662,380	0	0	81,000	1.74%	124,542	2.67%	$1.55	(81,000)	(81,000)	81,000	89,619
Rancho Dominguez	233	14,018,664	0	205,435	47,543	0.34%	610,508	4.35%	$1.67	159,161	(50,895)	413,642	840,204
Redondo & Hermosa Beach	37	1,810,528	0	0	5,390	0.30%	7,390	0.41%	$0.00	59,549	54,159	59,549	65,249
San Pedro	43	2,808,011	0	17,170	18,222	0.65%	31,682	1.13%	$1.48	13,545	12,627	15,000	16,282
Signal Hill	206	3,282,026	0	24,400	137,964	4.20%	171,096	5.21%	$1.53	(44,379)	(94,802)	35,835	123,483
Torrance	620	27,988,974	1,340,181	308,731	420,890	1.50%	1,245,069	4.45%	$1.75	3,477	271,556	268,890	1,247,364
Wilmington	145	3,886,703	0	0	37,057	0.95%	334,151	8.60%	$1.30	24,685	82,878	46,263	184,813
Total	5,021	195,564,890	1,814,266	1,388,174	2,584,538	1.32%	6,540,122	3.34%	$1.71	395,080	1,652,009	1,559,204	6,477,346
Los Angeles Total	**20,747**	**742,626,831**	**5,739,890**	**5,602,349**	**13,849,958**	**1.86%**	**27,186,601**	**3.66%**	**$1.61**	**(712,855)**	**728,266**	**7,070,327**	**25,722,145**
5,000-24,999	13,613	165,490,905	98,245	134,493	3,640,539	2.20%	5,494,208	3.32%	$1.60	(99,212)	(1,256,213)	1,935,136	6,662,389
25,000-49,999	3,562	123,747,959	166,107	290,618	2,387,209	1.93%	4,243,286	3.43%	$1.63	(180,921)	153,158	1,195,482	5,357,808
50,000-99,999	1,980	135,705,368	374,164	508,422	2,337,533	1.72%	5,147,708	3.79%	$1.57	172,509	269,428	1,868,319	5,320,961
100,000-249,999	1,271	188,994,717	2,799,774	2,733,816	2,862,683	1.51%	6,691,244	3.54%	$1.60	(66,157)	409,129	1,685,359	6,608,072
250,000-499,999	262	84,991,339	2,301,600	1,935,000	1,562,713	1.84%	3,907,374	4.60%	$0.95	(539,074)	383,723	386,031	914,285
500,000 plus	59	43,696,543	0	0	1,059,281	2.42%	1,702,781	3.90%	$0.00	0	769,041	0	858,630
Los Angeles Total	**20,747**	**742,626,831**	**5,739,890**	**5,602,349**	**13,849,958**	**1.86%**	**27,186,601**	**3.66%**	**$1.61**	**(712,855)**	**728,266**	**7,070,327**	**25,722,145**

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

FOURTH QUARTER 2022 MARKET REPORT

GREATER LOS ANGELES INDUSTRIAL

Voit
REAL ESTATE SERVICES

The Story of an Uncertain Market

by Matt Peters
SENIOR ASSOCIATE, IRVINE
949.263.5305 · mpeters@voitco.com · Lic. #02065503

What has happened over the past two years is something no one could have predicted. The pandemic began and the market was stunned and silenced, but only for a few short months. Since those early days of the pandemic, prices for industrial property have skyrocketed to a level which in 2020 we would have called "impossible." This was due to unexpected and overwhelming demand from industrial users and investors who were driven to action by extremely low interest rates. In August of 2020, the SBA 504 rate bottomed out at 2.21%. Today we are sitting at 6.31%.

Over the course of the past two years, institutional buyers have led the way in scooping up everything they could sell to their investors. It was not hard convincing them that buildings with a 3.5% cap rate were a worthwhile investment, while their borrowing cost remained a point below that. Each week it seemed we were seeing a new record price that raised the bar for the next seller.

But now rising interest rates, mixed with inflated prices, have brought us back to what seems to be a stalemate. Sellers have yet to acknowledge that peak pricing is behind us, and buyers are refusing to set another pricing record with interest rates that are 3x what they were a short time ago. It will take some time for a new normal to be established, but the bid-to-ask pricing gap is with us for now.

With this rise in uncertainty, asking prices for sales and for leases have pulled back from their peak a few months ago. Institutional buyers are less inclined to speculate and have shifted back to traditional underwriting that emphasizes current property performance. And more of the properties being traded are listed rather than sold on an off-market basis.

Despite these challenges to the status quo, Southern California industrial markets have shown remarkable resilience. The fundamental benefits of our geography and infrastructure point to the long-term health of the region. Vacancy is still low, lease rates are holding up, and transaction volume is still at a level that will keep supply and demand in relative balance. Less predictable will be the trajectory of sales prices, as it was low capital cost that drove prices to record highs, and the Fed isn't done raising rates.

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

Please Contact Us for Further Information

Tony Tran
Regional Director of Research
ttran@voitco.com

Anaheim, CA 714.978.7880
Carlsbad, CA 760.472.5620
Inland Empire, CA 909.545.8000
Irvine, CA 949.851.5100
Los Angeles, CA 424.329.7500
San Diego, CA 858.453.0505