

Real Estate Market Review

Los Angeles Industrial

2017 was a very strong year for the Los Angeles industrial market. By any measure, whether land prices, lease rates, sale prices, vacancy rates, capital market investment, or leasing activity, the conclusion simply cannot be denied: the sector is performing at the highest levels. Even burdened by a lack of product to transact, and although it is lower year over year, leasing activity exceeded the level achieved at the peak of the previous cycle. With overall occupancy gains of 4.8 million square feet in 2017, the vacancy rate stands at an unprecedented 1.8%, the lowest in the history of the sector. In fact, Los Angeles has the lowest vacancy rate of any major industrial market in the country, and demand for industrial product has never been greater. Institutional investors, currently under-allocated in core product, are confidently acquiring Class A industrial assets above replacement cost, at cap rates between 4-4.5%.

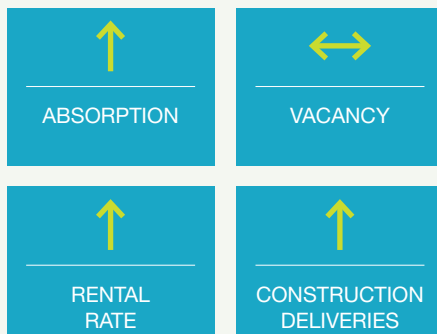
Although sales above replacement cost are sometimes considered a sign of an overheated market, there are no indications, particularly of excessive development, to warrant fears that LA's industrial market is going to decline. In fact, due to the lack of land to develop and its high cost, supply has not kept pace with demand. Consequently, average overall rents have reached \$0.85 psf/mo, up 10.3% in the last year, and 35.9% above the peak of the previous cycle, set at \$0.63 psf/mo in Q1 of 2008.

Net absorption, a measure of market strength, was positive in Q4 at 5.0 million s.f. The South Bay submarket recorded the highest positive net absorption at 2.34 million s.f., followed by the San Gabriel area with 2.06 million s.f. Demand is being driven by the rise of

e-commerce, and particularly the need for last mile logistics facilities. In contrast to the big box distribution centers which dominate the Inland Empire, last-mile facilities require parking, access, and proximity to customers. These facilities focus on fast throughput delivery rather than maintaining high levels of inventory. As such, ceiling heights are not as important as a location's capacity to quarter a large number of delivery vans and ample parking for employees. With demand for such industrial products continuing to grow, we anticipate that net absorption will continue trending upward.

Leasing activity stayed strong in Q4 with over 6.0 million s.f. coming off the market. This is the fourth straight quarter of over 5.0 million s.f. in leasing activity. Currently the vacancy rate stands at 1.8%, reflecting

Market Forecast Trends



Notable Lease Transactions

XPO Logistics
9400 Santa Fe Springs Road,
Santa Fe Springs
411,034 s.f. leased (renewal)

OnTrac
5959 Randolph Street, Commerce
403,444 s.f. leased

Bella+Canvas
825 S. Vail Avenue, Montebello
401,033 s.f. leased

Notable Sale Transactions

Blackstone
Fullerton Road Industrial Park & La Mirada
Industrial Park
3,501,809 s.f. | \$357,800,000 (Portfolio)

Duke Realty
825 Ajax Avenue, City of Industry
421,478 s.f. | \$66,500,000

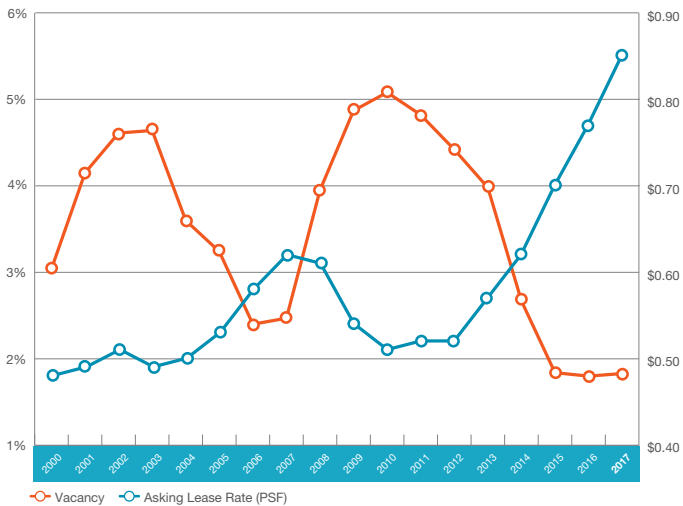
Rexford Industrial Realty
687 N. Eucalyptus Avenue, Inglewood
143,456 s.f. | \$54,000,000

Area Review

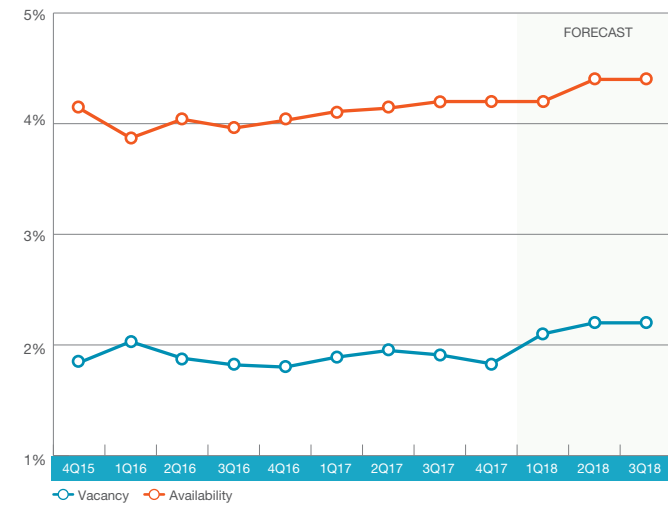
Submarket Statistics

Submarket	Total Inventory	SF Under Construction	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q4 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Rental Rate
Bell/Bell Gardens/Maywood	7,106,122	0	1.2%	1.2%	5.1%	9,348	51,041	25,116	349,896	\$1.88
Commerce	45,719,062	0	0.7%	0.8%	4.7%	42,725	231,010	169,592	1,513,859	\$0.50
Huntington Park/Cudahy	4,789,548	0	2.6%	2.6%	5.5%	(29,147)	(16,111)	49,324	153,377	\$1.25
Downtown LA	137,724,767	117,500	1.9%	2.0%	4.6%	88,306	812,924	1,033,737	5,043,958	\$1.33
Montebello/Monterey Park	11,829,636	0	1.1%	1.1%	2.6%	6,325	(920)	73,341	314,495	\$0.85
Pico Rivera	10,199,993	0	0.8%	0.9%	2.5%	(7,482)	27,836	176,970	509,722	\$0.83
South Gate	10,467,543	0	0.9%	0.9%	3.0%	75,038	(4,558)	18,654	141,317	\$0.77
Vernon	40,699,513	94,769	2.7%	2.9%	6.4%	232,018	(192,022)	446,831	2,528,723	\$0.69
Central	268,536,184	212,269	1.7%	1.8%	4.7%	428,204	909,200	1,993,565	10,663,393	\$0.90
Artesia/Cerritos	13,236,368	0	1.8%	1.8%	5.4%	(69,657)	2,948	48,008	357,999	\$0.80
Bellflower/Downey	5,759,611	0	4.5%	4.5%	1.7%	10,060	(2,739)	20,388	140,773	\$0.81
Buena Park/La Palma	15,210,089	0	2.3%	3.1%	12.2%	(36,732)	(292,462)	55,161	852,678	\$0.72
La Mirada	12,489,535	477,008	2.0%	2.0%	3.3%	195,678	205,461	95,773	1,307,841	\$0.73
Norwalk	2,961,225	0	0.7%	0.7%	1.1%	(9,820)	46,723	3,168	46,077	\$0.95
Paramount	8,949,043	0	1.2%	1.2%	1.5%	11,439	(21,306)	28,597	211,721	\$0.71
Santa Fe Springs	51,600,238	1,533,529	1.5%	1.6%	2.8%	192,867	15,751	946,670	262,625	\$0.73
Whittier	4,202,885	0	0.4%	0.5%	1.8%	21,441	78,954	13,351	80,104	\$0.00
Mid-Cities	114,408,994	2,010,537	1.6%	1.7%	4.2%	315,276	36,180	1,211,116	5,913,684	\$0.75
Alhambra	2,332,134	0	0.9%	0.9%	1.8%	8,954	(21,200)	11,080	32,103	\$1.14
Arcadia/Temple City	2,567,595	200,387	19.5%	19.5%	13.7%	14,944	4,344	6,620	200,596	\$0.67
Azusa	6,078,802	0	0.5%	0.6%	7.9%	137,472	422,546	110,359	288,585	\$0.85
Baldwin Park	4,779,017	0	0.5%	0.5%	3.7%	42,240	43,204	18,665	175,396	\$0.93
City of Industry/DB/HH/RH	72,039,073	563,770	1.4%	1.6%	3.3%	331,443	795,565	564,253	3,214,604	\$0.70
Covina/West Covina	3,186,169	26,512	2.2%	2.2%	2.6%	13,269	97,130	21,381	147,450	\$0.87
Duarte	1,827,653	0	3.5%	3.5%	3.4%	54,538	(62,158)	50,327	66,077	\$0.00
El Monte	8,784,500	0	0.3%	0.3%	1.5%	108,534	385,146	30,988	415,540	\$0.00
Irwindale	11,222,839	0	3.8%	5.1%	10.7%	(169,368)	(195,497)	123,319	450,421	\$0.68
La Puente	2,063,357	0	1.1%	1.1%	0.5%	6,832	(6,313)	4,039	34,070	\$0.00
Glendora/La Verne/ San Dimas	6,711,063	0	1.9%	2.0%	3.4%	(58,350)	(35,461)	45,454	180,728	\$0.62
Monrovia	3,511,114	0	1.8%	1.8%	1.4%	(19,760)	(11,932)	42,600	159,668	\$1.00
Pomona/Claremont	20,350,416	0	1.1%	1.2%	1.5%	175,764	635,400	209,170	608,358	\$0.71
Rosemead/San Gabriel	2,417,898	0	0.3%	2.0%	2.3%	19,331	9,339	15,642	28,707	\$0.95
South El Monte	11,150,456	0	0.9%	0.9%	2.1%	(29,683)	(35,873)	101,108	398,023	\$1.00
Walnut	6,683,538	0	1.9%	2.0%	0.3%	(3,678)	81,191	36,489	348,290	\$0.72
San Gabriel Valley	165,705,624	790,669	1.7%	1.9%	4.1%	375,135	2,067,412	1,368,864	6,848,356	\$0.71
Carson	35,282,390	0	1.2%	1.7%	3.4%	(40,831)	(72,275)	124,660	1,273,912	\$0.71
Compton	24,652,917	136,685	1.2%	1.3%	2.6%	(67,776)	1,083,183	337,103	1,387,537	\$0.74
El Segundo	9,817,886	0	3.0%	3.0%	8.5%	80,279	(127,928)	63,282	282,571	\$1.40
Gardena	28,654,689	257,559	1.1%	1.3%	2.5%	146,486	512,336	140,194	1,049,218	\$1.24
Harbor City	1,737,346	0	0.9%	0.9%	1.6%	(7,200)	61,941	0	14,114	\$0.00
Hawthorne	8,169,870	0	0.4%	0.7%	1.2%	2,719	(21,916)	9,236	150,814	\$0.94
Inglewood	5,132,439	3,525	1.6%	1.6%	3.6%	143,749	139,453	21,918	200,766	\$1.30
Lakewood/Hawaiian Gardens	336,386	0	4.9%	4.9%	4.9%	(16,398)	(16,398)	0	0	\$0.00
Lawndale	296,658	0	0.0%	0.0%	3.1%	3,860	0	0	1,800	\$1.60
Long Beach/Terminal Island	20,407,094	32,027	2.5%	2.5%	4.5%	206,960	516,179	133,940	911,099	\$2.03
Lynwood	4,521,335	0	5.0%	5.0%	3.4%	11,183	53,078	201,027	264,063	\$1.50
Rancho Dominguez	14,661,253	0	1.2%	1.5%	4.9%	47,927	(3,047)	0	487,495	\$0.78
Redondo/Hermosa Beach	1,861,459	0	0.4%	0.4%	0.3%	(2,495)	68,017	(2,495)	68,017	\$2.06
San Pedro	2,812,168	0	0.4%	0.4%	0.8%	14,854	(500)	0	18,762	\$0.92
Signal Hill	3,621,867	0	1.1%	1.1%	1.9%	16,323	17,096	31,457	188,931	\$1.72
Torrance	25,308,824	512,490	2.0%	2.4%	4.6%	(67,483)	(57,926)	387,726	968,681	\$0.83
Wilmington	3,839,179	0	2.2%	2.2%	3.3%	(3,042)	(79,760)	18,538	25,076	\$0.75
South Bay	192,434,032	942,286	1.6%	1.8%	3.7%	469,115	2,095,270	1,470,281	7,512,580	\$1.00
Total	741,216,169	3,955,761	1.6%	1.8%	4.2%	1,935,855	5,069,497	6,043,826	30,942,081	\$0.85

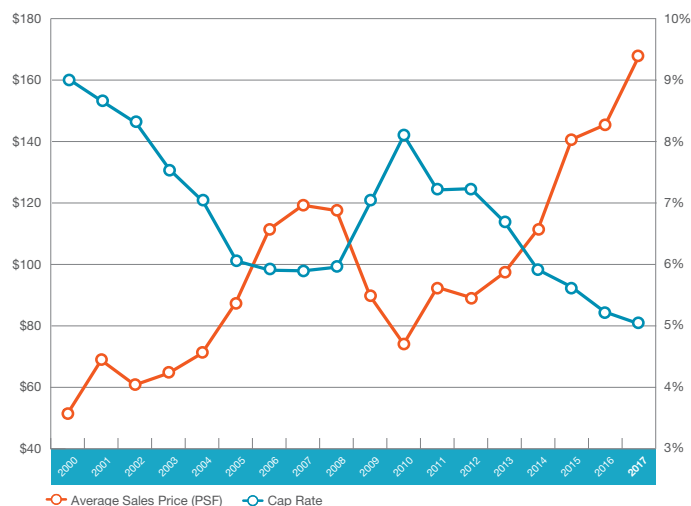
VACANCY VS ASKING LEASE RATE



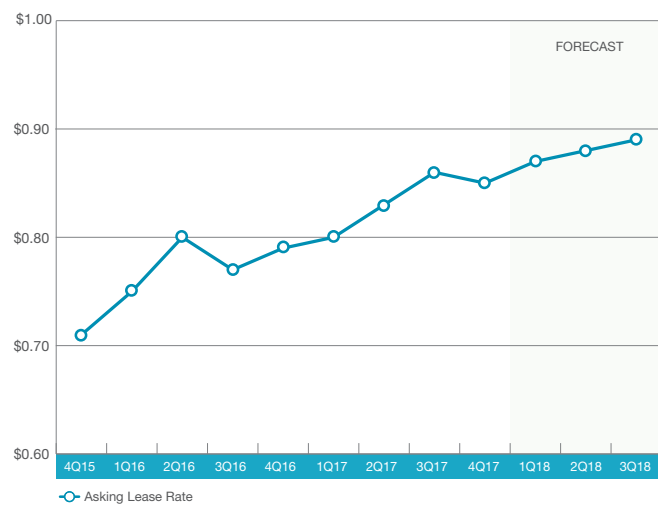
VACANCY VS AVAILABILITY



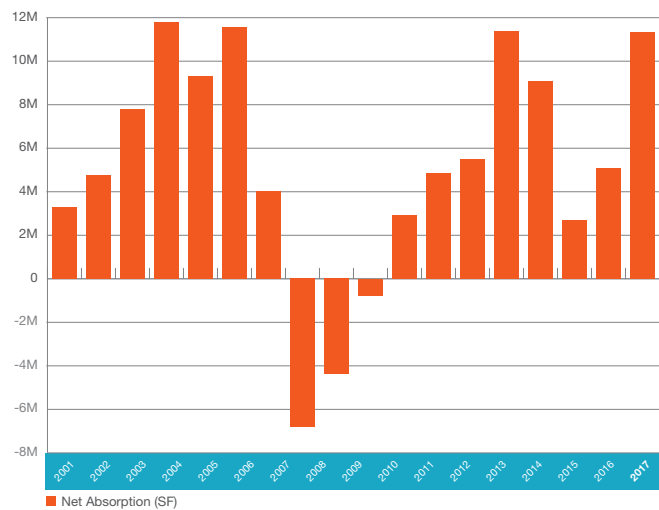
AVERAGE SALES PRICE & CAPITALIZATION RATES



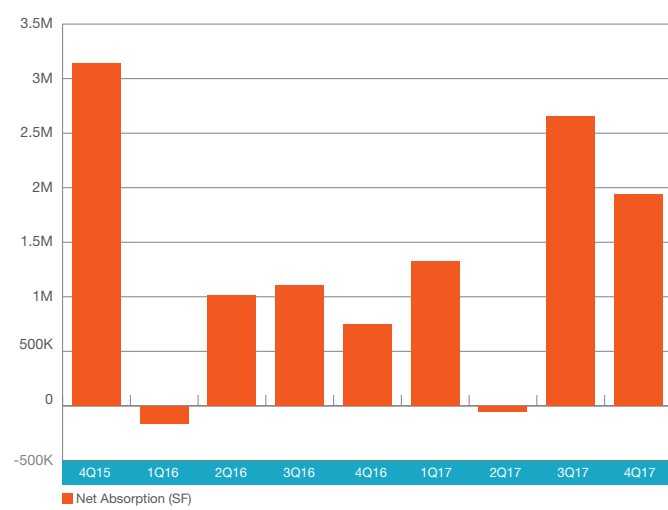
ASKING LEASE RATE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



Offices

- Seattle**
206.296.9600
- Bellevue**
425.454.7040
- South Seattle**
206.248.7300
- Tacoma**
253.722.1400
- Olympia**
360.705.2800
- Portland**
503.221.9900
- San Francisco**
415.229.8888
- Redwood Shores**
650.769.3600
- Silicon Valley**
408.970.9400
- Sacramento**
916.970.9700
- Roseville**
916.751.3600
- Los Angeles**
213.880.5250
- Commerce**
323.727.1144
- Long Beach**
562.472.0071
- Orange County**
949.557.5000
- Inland Empire**
909.764.6500
- San Diego**
858.509.1200
- Carlsbad**
760.430.1000
- Reno**
775.301.1300
- Phoenix**
602.513.5200

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13.3 million s.f. of unoccupied space. With vacancy rates ranging from 1.9% and 2.3% since Q3 of 2015, expect the Los Angeles industrial market to continue to have the lowest vacancy rate of any major industrial market in the country.

The average asking rental rate at the end of Q4 is \$0.85 psf on a triple net basis per month. The asking rate increased \$0.08 since Q4 of 2016, a 10.3% growth rate. The current asking rate is the highest on record and we anticipate this upward trend to continue. With the market operating at peak strength, many industrial spaces are entering the market unpriced, as landlords and sellers are letting the market set the going rate. The average listed asking rates can thus be swayed drastically by a few low or high price tags. Nonetheless, with the low amount of

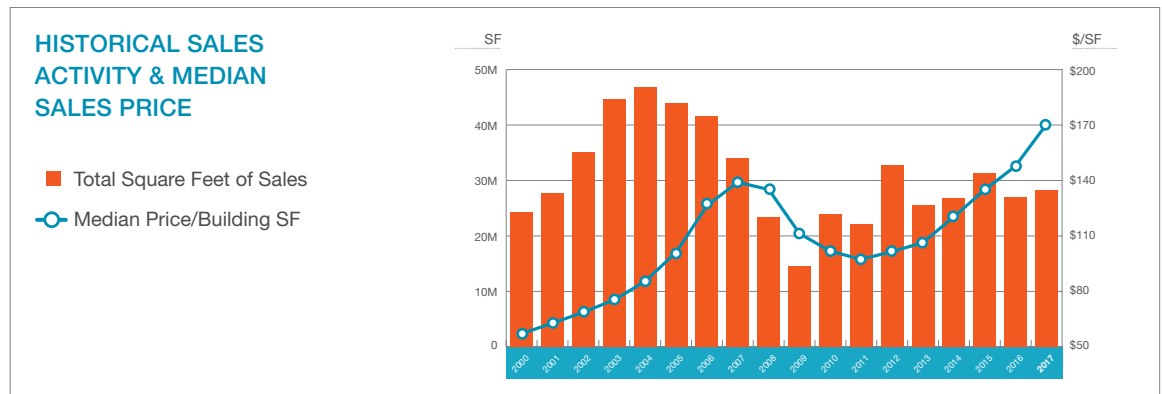
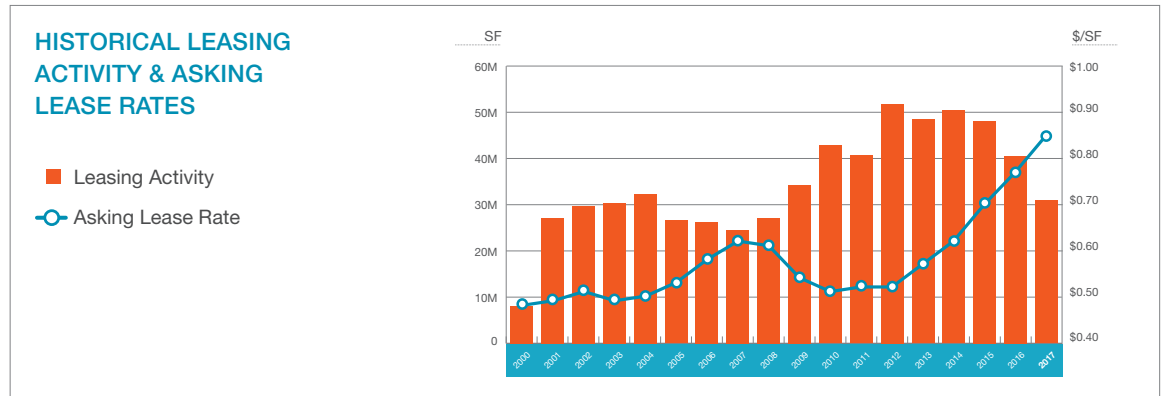
space available in the Los Angeles industrial market and considerable demand, we expect rates to keep rising in the new year.

The Los Angeles industrial investment market remains relatively stable, with cap rates in the 5% range and an average price/s.f. of \$167.79. 2017 was a great time to be a landlord or seller, as the demand for premium product was fierce. Amid stiff competition, tenants are witnessing a dramatic decline in concessions from landlords. This makes it imperative for tenants to plan carefully and allow themselves adequate time to either negotiate competitive lease renewals or find new space commensurate with their needs.

Data Source: CoStar

Market Breakdown

	2017	2016	2015	Annual % Change
Vacancy Rate	1.80%	1.80%	1.90%	0%
Availability Rate	4.20%	3.90%	3.90%	7.69%
Asking Lease Rate	\$0.85	\$0.77	\$0.70	10.30%
Leased SF	30,942,081	40,484,204	48,147,840	-23.56
Sold SF	28,216,522	26,993,211	31,282,849	4.53%
Net Absorption	5,069,497	2,730,377	8,945,256	N/A



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