

Real Estate Market Review

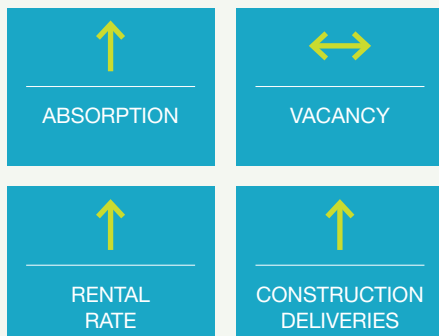
# Los Angeles Industrial

Record-low vacancies and soaring rents continue to dominate in the Los Angeles industrial market. With the fundamentals of the industrial market remaining strong, the sector is performing at the highest levels. Despite the lack of product to transact, at 6.8 million s.f. this quarter, leasing activity is stable and healthy, setting the stage for gains later in the year. With direct occupancy gains of nearly 1.2 million s.f. year-to-date, the vacancy rate stands at 2.07% in the first quarter, up 27 basis points (bps) year-over-year. Unlike the Inland Empire, where construction of industrial space is at all-time highs, tenant demand is surpassing the capacity of developers to deliver new industrial product because of the dearth of land to develop and its prohibitively high cost in Los Angeles. Moreover, the existing inventory is aging and becoming functionally obsolete. An undeniable windfall for landlords, this has induced a fierce competition for industrial space. Tenants simply have fewer options to choose from and must take what they can. As a result, tenants are witnessing tenant concessions decline and marked increases in starting rents. Landlords can increase rates across all classes of industrial products, and rental rates are now at all-time highs. At \$0.86 s.f./mo NNN, average direct rents have not only increased by 7.5% year-over-year, but they are also the highest on record in the history of the market.

Occupancy gains this quarter totaled nearly 1.2 million s.f. Deriving from multiple sources, tenant demand for industrial product in Los Angeles has never been greater. One major source of this demand has been the level of activity at the Ports of Los Angeles and Long Beach. Directly related, as imports have increased over the last few years, the desire for industrial space has risen as well. Expect demand to only increase throughout the year as imports are forecast to go up by 4.9% in the first half of 2018. Furthermore, tenant demand in Los Angeles is being driven by the rise of e-commerce, particularly the need for last mile 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 swift throughput delivery rather than keeping high levels of inventory via modern racking systems. 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. The appetite for such spaces has transformed the fortunes of particular Class B properties which happen to be ideally located. Once considered obsolete and irrelevant, they are now prized commodities in in-fill markets. With

### Market Forecast Trends



### Notable Lease Transactions

**Shason**  
5525 S Soto, Vernon  
411,034 s.f.

**Fashion Nova**  
12588 Florence Ave, Santa Fe Springs  
403,635 s.f.

**Danny Wong**  
21415-21489 Baker Pky, City of Industry  
343,609 s.f.

### Notable Sale Transactions

**Liberty Property Trust**  
5959 Randolph St, Commerce  
400,169 s.f. | \$92.7M or \$231.65/s.f.

**LBA Realty**  
2652 Long Beach Ave, Los Angeles  
266,369 s.f. | \$57.8M or \$217.07/s.f.

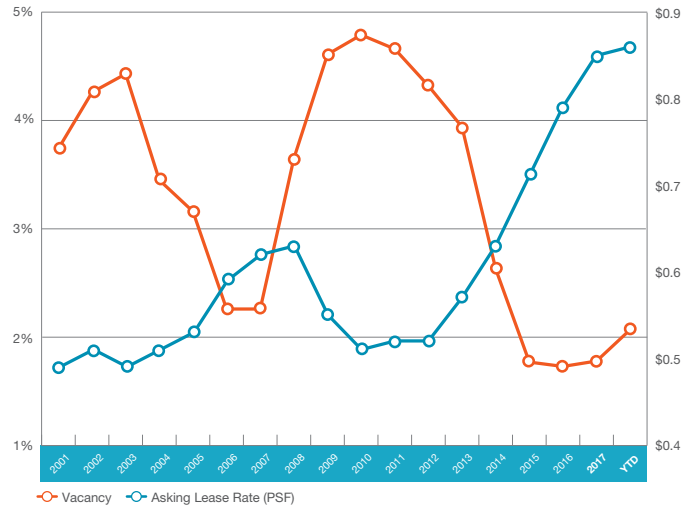
**NantHealth, LLC**  
202 N. Nash St, El Segundo  
111,238 s.f. | \$43.1M or \$387.46/s.f.

# Area Review

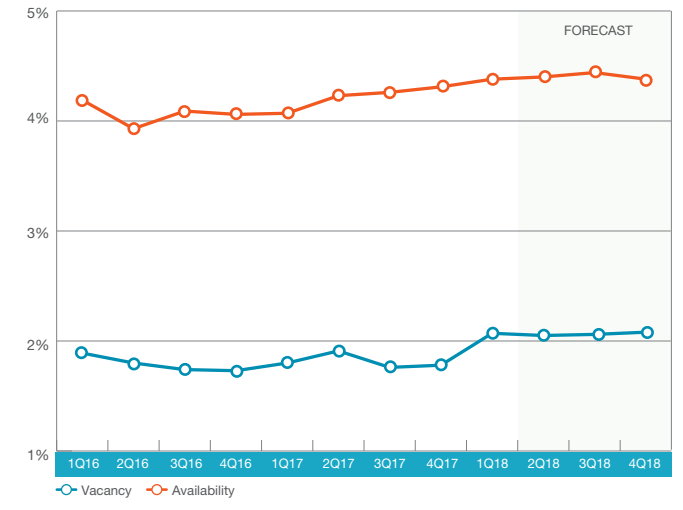
## Submarket Statistics

Submarket	Total Inventory	SF Under Construction	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	1Q Direct Net Absorption	YTD Direct Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Rental Rate
Bell/Bell Gardens/Maywood	7,107,857	0	3.6%	3.6%	5.9%	0	0	76,678	76,678	\$0.65
Commerce	45,526,534	0	1.5%	1.5%	4.6%	92,954	92,954	197,611	197,611	\$0.52
Huntington Park/Cudahy	4,866,491	0	2.7%	2.7%	6.5%	0	0	31,090	31,090	\$1.00
Downtown LA	136,612,337	117,500	2.3%	2.4%	5.1%	166,142	166,142	1,112,708	1,112,708	\$1.30
Montebello/Monterey Park	11,830,392	0	2.3%	2.3%	3.4%	54,648	54,648	54,648	54,648	\$0.76
Pico Rivera	10,184,178	0	3.4%	3.5%	3.2%	(134,608)	(134,608)	54,786	54,786	\$1.04
South Gate	10,472,298	0	0.9%	0.9%	1.4%	0	0	105,053	105,053	\$0.77
Vernon	41,300,835	120,000	2.9%	3.4%	5.2%	128,294	128,294	957,942	957,942	\$0.61
<b>Central</b>	<b>267,900,922</b>	<b>237,500</b>	<b>2.2%</b>	<b>2.3%</b>	<b>4.6%</b>	<b>307,430</b>	<b>307,430</b>	<b>2,590,516</b>	<b>2,590,516</b>	<b>\$0.90</b>
Artesia/Cerritos	13,238,999	0	0.0%	0.0%	0.0%	0	0	0	0	\$0.71
Bellflower/Downey	5,765,794	0	0.8%	2.0%	2.4%	(18,171)	(18,171)	10,856	10,856	\$0.82
Buena Park/La Palma	15,210,089	0	3.2%	3.2%	13.2%	45,290	45,290	26,273	26,273	\$0.81
La Mirada	12,489,535	477,008	1.0%	1.0%	5.0%	45,290	45,290	63,761	63,761	\$0.76
Norwalk	2,961,215	0	0.5%	0.7%	3.3%	0	0	10,492	10,492	\$0.88
Paramount	8,956,583	0	1.1%	1.1%	1.2%	11,439	11,439	25,987	25,987	\$0.71
Santa Fe Springs	52,434,831	604,465	2.5%	2.8%	2.9%	377,852	377,852	1,038,564	1,038,564	\$0.77
Whittier	4,196,031	0	1.3%	1.4%	6.5%	0	0	68,525	68,525	\$0.00
<b>Mid-Cities</b>	<b>115,252,995</b>	<b>1,081,473</b>	<b>1.9%</b>	<b>2.1%</b>	<b>5.6%</b>	<b>461,700</b>	<b>461,700</b>	<b>1,373,510</b>	<b>1,373,510</b>	<b>\$0.77</b>
Alhambra	2,332,205	0	1.2%	1.2%	2.1%	0	0	6,500	6,500	\$1.14
Arcadia/Temple City	2,567,595	0	0.4%	0.4%	1.5%	150,672	150,672	6,308	6,308	\$0.67
Azusa	6,072,457	0	1.0%	1.0%	6.1%	(47,273)	(47,273)	23,968	23,968	\$0.85
Baldwin Park	4,782,168	0	1.4%	1.4%	4.9%	0	0	11,674	11,674	\$0.93
City of Industry/DB/HH/RH	72,039,073	419,447	2.4%	2.5%	4.9%	(216,099)	(216,099)	1,188,641	1,188,641	\$0.70
Covina/West Covina	3,186,169	26,512	2.9%	2.9%	4.0%	0	0	21,381	21,381	\$0.87
Duarte	1,823,240	0	4.8%	4.8%	7.4%	0	0	1,460	1,460	\$0.00
El Monte	8,756,531	0	4.2%	4.2%	4.6%	0	0	44,263	44,263	\$0.00
Irwindale	11,240,517	0	7.9%	9.1%	11.4%	529,179	529,179	37,931	37,931	\$0.68
La Puente	2,047,411	0	1.3%	1.3%	1.3%	0	0	0	0	\$0.00
Glendora/La Verne/ San Dimas	6,711,063	0	1.9%	2.0%	3.4%	0	0	74,595	74,595	\$0.62
Monrovia	3,511,114	0	1.4%	1.4%	1.9%	13,169	13,169	8,646	8,646	\$1.06
Pomona/Claremont	20,350,416	74,052	1.3%	1.4%	1.5%	(47,308)	(47,308)	110,432	110,432	\$0.71
Rosemead/San Gabriel	2,417,898	0	0.3%	1.2%	2.3%	0	0	5,842	5,842	\$0.95
South El Monte	11,182,848	0	1.0%	1.0%	1.3%	0	0	83,356	83,356	\$1.00
Walnut	6,685,538	0	1.5%	1.6%	3.7%	(56,805)	(56,805)	60,298	60,298	\$0.67
<b>San Gabriel Valley</b>	<b>166,418,927</b>	<b>520,011</b>	<b>2.4%</b>	<b>2.7%</b>	<b>4.3%</b>	<b>325,535</b>	<b>325,535</b>	<b>1,667,502</b>	<b>1,667,502</b>	<b>\$0.70</b>
Carson	35,142,991	0	1.2%	1.3%	2.7%	189,759	189,759	251,771	251,771	\$0.77
Compton	24,802,352	0	1.2%	1.9%	3.4%	(56,758)	(56,758)	250,302	250,302	\$0.75
El Segundo	9,277,886	0	3.0%	3.0%	2.9%	0	0	126,555	126,555	\$1.74
Gardena	28,660,683	255,603	1.4%	1.6%	2.8%	(50,518)	(50,518)	94,283	94,283	\$1.09
Harbor City	1,747,933	0	0.9%	0.9%	1.6%	0	0	7,200	7,200	\$0.00
Hawthorne	8,169,989	0	0.4%	0.5%	1.2%	35,050	35,050	13,000	13,000	\$0.95
Inglewood	5,133,114	3,525	1.4%	1.4%	5.0%	(29,026)	(29,026)	18,493	18,493	\$1.35
Lakewood/Hawaiian Gardens	568,892	0	4.9%	4.9%	4.9%	55,524	55,524	0	0	\$0.00
Lawndale	301,249	0	0.0%	0.0%	2.4%	0	0	0	0	\$1.35
Long Beach/Terminal Island	21,335,678	0	2.9%	2.9%	5.1%	101,218	101,218	94,714	94,714	\$2.26
Lynwood	4,521,335	0	4.5%	4.5%	1.6%	0	0	49,571	49,571	\$1.50
Rancho Dominguez	14,661,321	0	1.3%	2.4%	5.1%	(58,050)	(58,050)	196,732	196,732	\$0.79
Redondo/Hermosa Beach	1,903,686	0	0.1%	0.1%	0.3%	0	0	3,152	3,152	\$1.30
San Pedro	2,832,168	0	0.4%	0.4%	1.0%	(29,024)	(29,024)	6,500	6,500	\$1.01
Signal Hill	3,624,103	0	1.0%	1.1%	3.5%	0	0	4,400	4,400	\$1.00
Torrance	25,308,824	0	1.8%	1.9%	4.2%	111,048	111,048	75,326	75,326	\$0.85
Wilmington	3,852,694	0	1.7%	1.8%	3.3%	0	0	41,200	41,200	\$1.46
South Bay	192,434,032	259,128	1.7%	2.0%	3.7%	269,223	269,223	1,233,199	1,233,199	\$1.05
<b>Los Angeles Total</b>	<b>741,865,791</b>	<b>2,098,112</b>	<b>2.1%</b>	<b>2.3%</b>	<b>4.4%</b>	<b>1,172,906</b>	<b>1,172,906</b>	<b>6,864,727</b>	<b>6,864,727</b>	<b>\$0.86</b>

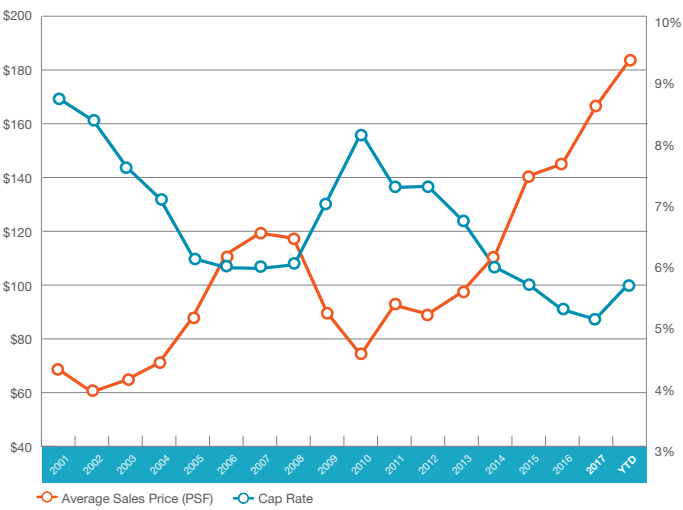
### VACANCY VS ASKING LEASE RATE



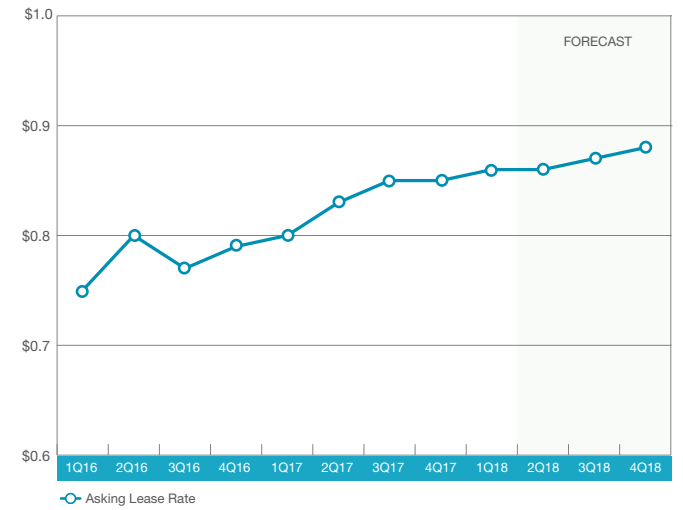
### VACANCY VS AVAILABILITY



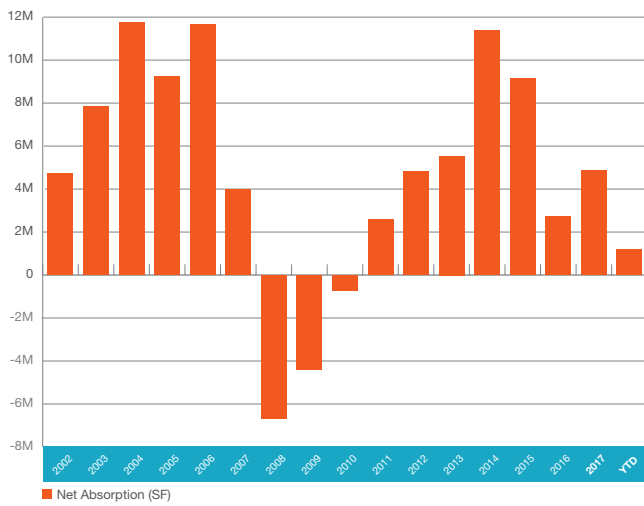
### AVERAGE SALES PRICE & CAPITALIZATION RATES



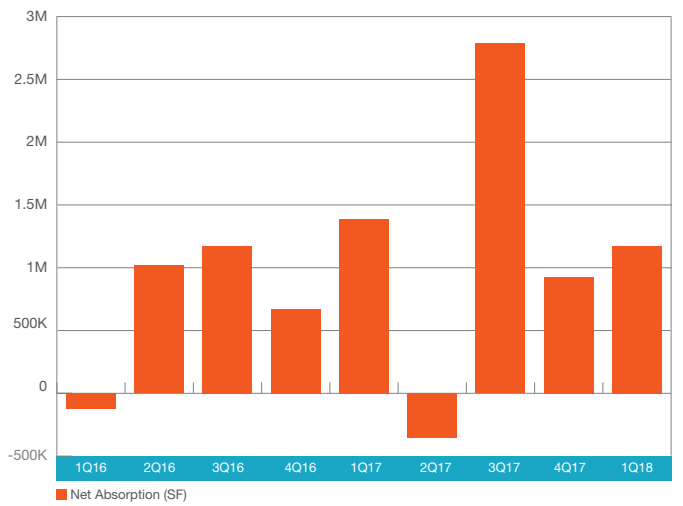
### ASKING LEASE RATE



### 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
- El Segundo**  
310.807.0880
- 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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demand for such industrial products continuing to grow, it is anticipated that net absorption will be positive throughout 2018.

Leasing activity stayed strong in the first quarter with over 6.8 million s.f. coming off the market, although declining by 34% year-over-year. This is the ninth straight quarter of over 6.0 million s.f. in leasing activity, not a mean feat in a market where the vacancy rate is at most 2%. While there is nearly 2.1 million s.f. of industrial space under construction, with 1 million of it in the MidCities, slated to be added to the inventory this year, not much upward pressure on vacancy is anticipated.

The average asking direct rental rate at the end of the first quarter is \$0.86/s.f. on a triple net basis per month. The asking rate increased \$0.11 since the first quarter of 2016, resulting in a 14.6% increase. The current asking rate is the highest on record, and it is anticipated that this upward trend will continue. With many industrial spaces entering the market unpriced, landlords and

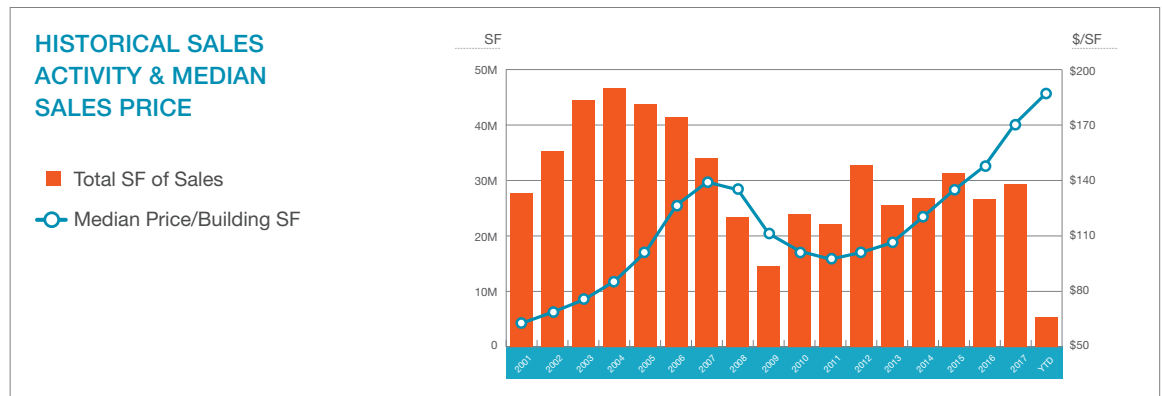
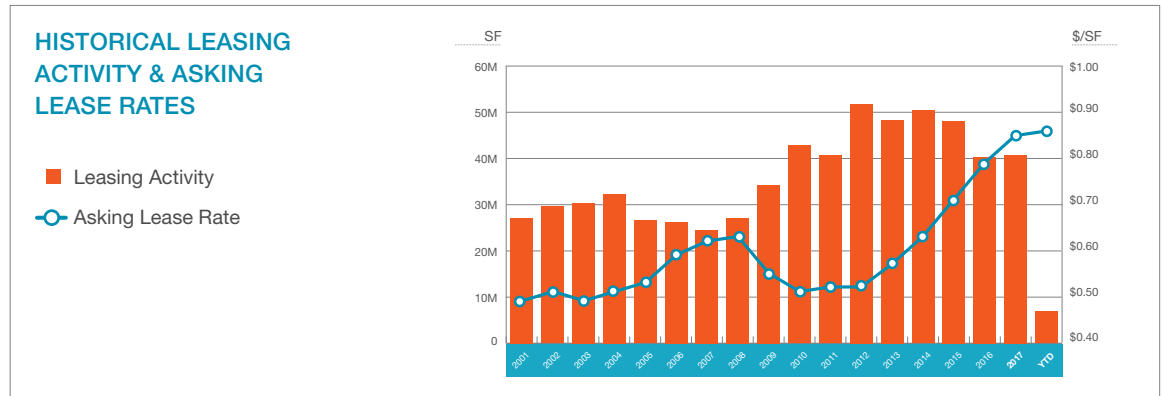
sellers are letting the market set the going rate. The asking rates can thus be swayed drastically by a few low or high price tags. Nonetheless, with the low amount of space available in the Los Angeles industrial market, it is expected that rents will continue their upward trend.

As is true across the Los Angeles Basin, the investment market in the Los Angeles market is hot. For multiple reasons, not least of which is that institutional investors are under-allocated in the core product, demand for industrial product has never been greater. On average, buildings of all classes are now trading at \$183.70 at a 5.3% cap rate. In fact, with Class A cap rates between 4-4.5%, industrial buildings are transacting above replacement cost, and although trading above replacement cost is sometimes considered a sign of an overheated market, there are no indications, particularly of excessive development, to warrant fears that the Los Angeles industrial market is going to decline.

*Data Source: CoStar, National Retail Federation*

**Market Breakdown**

	1Q 2018	4Q 2017	1Q 2017	Annual % Change
Vacancy Rate	2.07%	1.78%	1.80%	15.00%
Availability Rate	4.38%	4.31%	4.07%	7.62%
Asking Lease Rate	\$0.86	\$0.85	\$0.80	7.50%
Leased SF	6,864,727	8,972,451	10,434,901	-34.21
Sold SF	5,243,314	9,277,685	5,757,523	-8.93%
Net Absorption	1,172,906	927,144	1,387,937	N/A



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