

Real Estate Market Review

# Los Angeles Industrial

Record-low vacancies and soaring rents continue to bestride 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 8.3 million square feet (MSF) this quarter, leasing activity is stable and healthy, setting the stage for gains later in the year. Although direct occupancy gains declined this quarter, the vacancy rate stands at a mere 2.3% in the second quarter - up 42 basis points (bps) year-over-year.

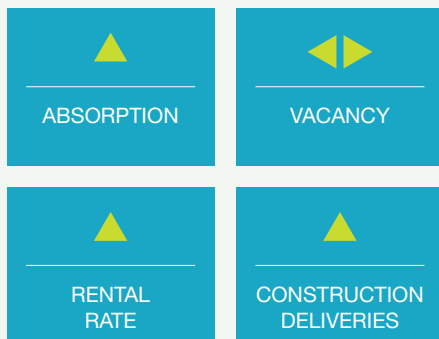
Unlike the Inland Empire, where construction of Industrial space is at all-time highs, tenant demand is surpassing the capacity of developers to deliver new Industrial product because of the dearth of land to develop and its prohibitively high cost in Los Angeles. Moreover, the existing inventory is aging and becoming functionally obsolete. An undeniable windfall for landlords, this has induced a fierce competition for Industrial space. Tenants simply have less 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 now are at all-time

highs. At \$0.90 sf/mo NNN, average direct rents have not only increased by 8.4% year-over-year, they are the highest on record in the history of market.

Net absorption this quarter declined to nearly -560,000 square feet. Typically, declines in net absorption are interpreted to mean that occupier demand has slowed. However, that is not the case in the LA market. Deriving from multiple sources, tenant demand for Industrial product in Los Angeles has never been greater. The LA market is so tight that even slight movements in occupancy can cause large swings in our measures of net absorption.

→ Continued, page 4

### Market Forecast Trends



YEAR-TO-YEAR BASIS

### Notable Lease Transactions

**Damco Distribution**  
Goodman Gateway, Santa Fe Springs  
989,809 s.f.

**Nordstrom**  
20333 Normandie Avenue, Torrance  
512,490 s.f. sublease

**Hand Air Express, LLC**  
LA Regional Distribution Center  
477,695 s.f.

### Notable Sale Transactions

**Rexford Industrial**  
5300 Shelia Street, Commerce  
695,120 s.f. | \$121M or \$174.07/s.f.

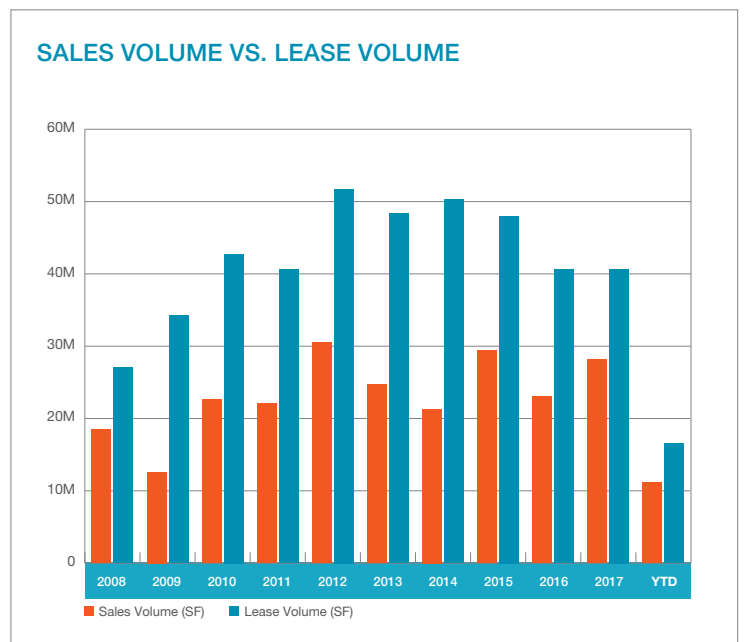
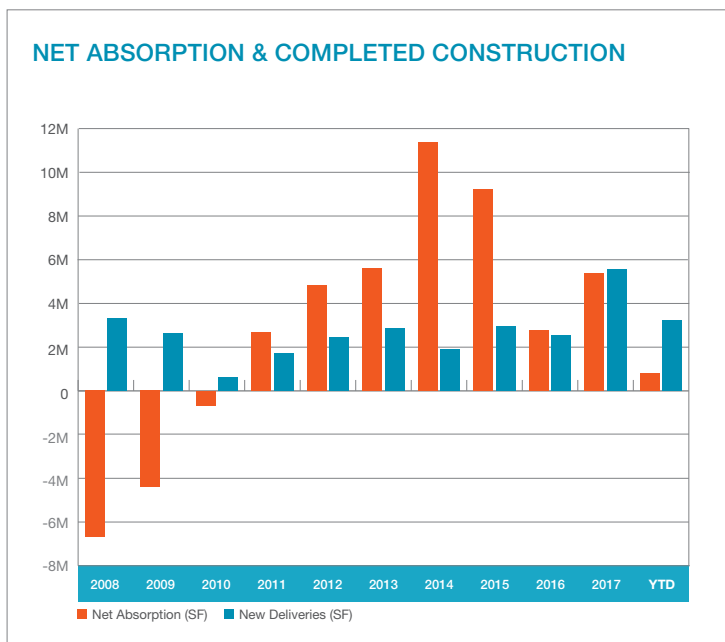
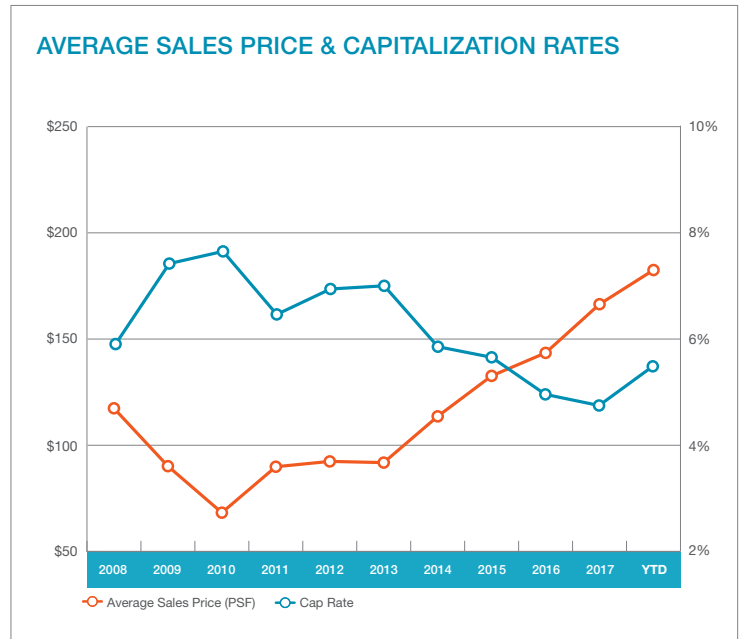
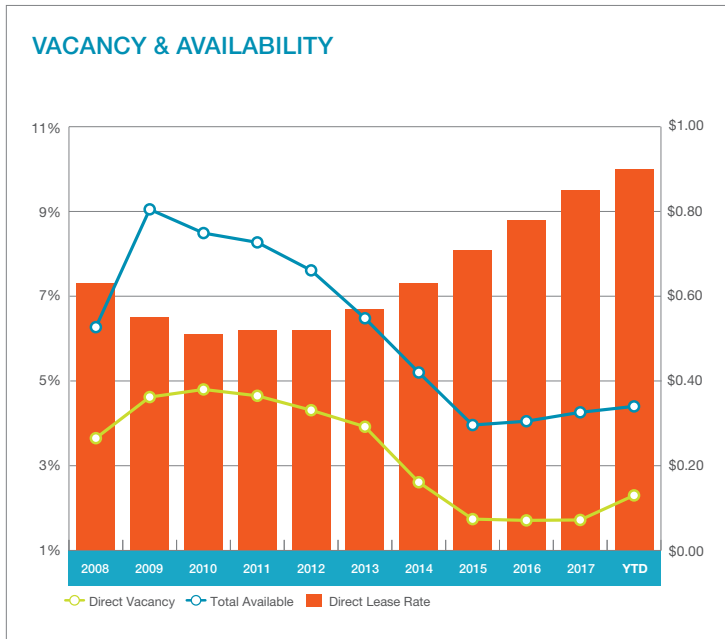
**Morgan Stanley**  
20333 Normandie Avenue, Torrance  
512,490 s.f. | \$102M or \$200.00/s.f.

**Rexford Industrial**  
1420 N. McKinley Avenue, Los Angeles  
136,685 s.f. | \$30M or \$219.48/s.f.

## Market Breakdown

	2Q 2018	1Q 2018	2Q 2017	Annual % Change
Direct Vacancy Rate	2.30%	1.95%	1.88%	22.34%
Availability Rate	4.40%	4.29%	4.19%	5.01%
Asking Lease Rate	\$0.90	\$0.86	\$0.83	8.43%
Leased SF	8,315,001	8,190,952	11,725,725	-29.09%
Sold SF	5,780,530	5,328,566	6,626,823	-12.77%
Net Absorption	-559,181	1,172,906	-273,610	N/A

## Los Angeles Industrial Charts



## Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Availability Rate	Q2 Net Direct Absorption	YTD Net Direct Absorption	Q2 Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
Bell/Bell Gardens/Maywood	7,107,857	3.6%	0.0%	3.6%	5.9%	1,440	78,118	10,160	86,838	\$0.65
Commerce	45,526,534	1.5%	0.0%	1.5%	4.6%	25,713	118,667	111,672	309,283	\$0.52
Huntington Park/Cudahy	4,866,491	2.7%	0.0%	2.7%	6.5%	23,401	23,401	21,821	52,911	\$1.00
Downtown LA	136,612,337	2.3%	0.1%	2.4%	5.1%	(41,934)	124,208	1,166,401	1,279,109	\$1.35
Montebello/Monterey Park	11,830,392	2.3%	0.0%	2.3%	3.4%	(16,459)	38,189	56,658	111,306	\$1.56
Pico Rivera	10,184,178	3.4%	0.1%	3.5%	3.2%	144,085	9,477	5,600	60,386	\$1.20
South Gate	10,472,298	0.9%	0.0%	0.9%	1.4%	(5,424)	(5,424)	3,600	108,653	\$1.27
Vernon	41,300,835	2.9%	0.5%	3.4%	5.2%	(199,803)	(71,509)	516,095	1,474,037	\$0.62
<b>Central</b>	<b>267,515,356</b>	<b>2.6%</b>	<b>0.1%</b>	<b>2.7%</b>	<b>4.6%</b>	<b>(68,981)</b>	<b>315,127</b>	<b>1,930,781</b>	<b>4,711,488</b>	<b>\$0.95</b>
Artesia/Cerritos	13,238,999	0.0%	0.0%	0.0%	0.0%	(281,776)	(281,776)	100,937	100,937	\$0.72
Bellflower/Downey	5,765,794	0.8%	1.2%	2.0%	2.4%	(2,175)	(20,346)	3,613	14,469	\$0.82
Buena Park/La Palma	15,210,089	3.2%	0.0%	3.2%	13.2%	(102,367)	(57,077)	39,592	65,865	\$0.83
La Mirada	12,489,535	1.0%	0.0%	1.0%	5.0%	0	45,290	52,326	116,087	\$0.76
Norwalk	2,961,215	0.5%	0.2%	0.7%	3.3%	0	0	4,930	15,422	\$0.88
Paramount	8,956,583	1.1%	0.0%	1.1%	1.2%	0	11,439	15,240	41,227	\$0.71
Santa Fe Springs	52,434,831	2.5%	0.3%	2.8%	2.9%	8,084	385,936	2,255,940	3,294,504	\$0.82
Whittier	4,196,031	1.3%	0.1%	1.4%	6.5%	0	0	24,699	93,224	\$0.00
<b>Mid-Cities</b>	<b>115,427,839</b>	<b>2.9%</b>	<b>0.2%</b>	<b>3.1%</b>	<b>5.6%</b>	<b>(378,234)</b>	<b>83,466</b>	<b>2,574,866</b>	<b>4,030,272</b>	<b>\$0.79</b>
Alhambra	2,332,205	1.2%	0.0%	1.2%	2.1%	(3,900)	(3,900)	5,380	11,880	\$1.14
Arcadia/Temple City	2,567,595	0.4%	0.0%	0.4%	1.5%	400	151,072	10,008	16,316	\$0.67
Azusa	6,072,457	1.0%	0.0%	1.0%	6.1%	0	(47,273)	10,600	34,568	\$0.85
Baldwin Park	4,782,168	1.4%	0.0%	1.4%	4.9%	0	(87,063)	78,296	89,970	\$0.93
City of Industry/DB/HH/RH	72,039,073	2.4%	0.1%	2.5%	4.9%	(74,791)	(290,890)	828,406	2,017,047	\$0.74
Covina/West Covina	3,186,169	2.9%	0.0%	2.9%	4.0%	0	0	3,500	24,881	\$0.87
Duarte	1,823,240	4.8%	0.0%	4.8%	7.4%	0	0	1,460	2,920	\$0.00
El Monte	8,756,531	4.2%	0.0%	4.2%	4.6%	(10,435)	(10,435)	48,557	92,820	\$0.00
Irwindale	11,240,517	7.9%	1.2%	9.1%	11.4%	31,260	560,439	600,444	638,375	\$0.68
La Puente	2,047,411	1.3%	0.0%	1.3%	1.3%	1,171	1,171	11,031	11,031	\$2.56
Glendora/La Verne/ San Dimas	6,711,063	1.9%	0.1%	2.0%	3.4%	(1,686)	(1,686)	31,611	106,206	\$0.62
Monrovia	3,511,114	1.4%	0.0%	1.4%	1.9%	0	13,169	28,884	37,530	\$1.06
Pomona/Claremont	20,350,416	1.3%	0.1%	1.4%	1.5%	(3,564)	(50,872)	89,037	199,469	\$0.73
Rosemead/San Gabriel	2,417,898	0.3%	0.8%	1.2%	2.3%	0	0	3,622	9,464	\$0.95
South El Monte	11,182,848	1.0%	0.0%	1.0%	1.3%	(44,660)	(44,660)	60,481	143,837	\$1.00
Walnut	6,685,538	1.5%	0.1%	1.6%	3.7%	4,305	(52,500)	251,491	311,789	\$0.67
<b>San Gabriel Valley</b>	<b>167,381,267</b>	<b>2.2%</b>	<b>0.3%</b>	<b>2.5%</b>	<b>4.3%</b>	<b>(101,900)</b>	<b>136,572</b>	<b>2,093,236</b>	<b>3,941,304</b>	<b>\$0.72</b>
Carson	35,142,991	1.2%	0.1%	1.3%	2.7%	(19,060)	170,699	433,636	685,407	\$0.77
Compton	24,802,352	1.2%	0.7%	1.9%	3.4%	0	(56,758)	523,265	773,567	\$0.78
El Segundo	9,277,886	3.0%	0.0%	3.0%	2.9%	0	0	6,382	132,937	\$1.67
Gardena	28,660,683	1.4%	0.2%	1.6%	2.8%	(56,868)	(107,386)	248,955	343,238	\$1.13
Harbor City	1,747,933	0.9%	0.0%	0.9%	1.6%	0	0	6,600	13,800	\$0.00
Hawthorne	8,169,989	0.4%	0.1%	0.5%	1.2%	(20,350)	14,700	5,543	18,543	\$1.28
Inglewood	5,133,114	1.4%	0.0%	1.4%	5.0%	0	(29,026)	25,870	44,363	\$1.35
Lakewood/Hawaiian Gardens	568,892	4.9%	0.0%	4.9%	4.9%	0	55,524	0	0	\$0.00
Lawndale	301,249	0.0%	0.0%	0.0%	2.4%	0	0	0	0	\$1.35
Long Beach/Terminal Island	21,335,678	2.9%	0.0%	2.9%	5.1%	0	101,218	115,332	210,046	\$2.26
Lynwood	4,521,335	4.5%	0.0%	4.5%	1.6%	(12,342)	(12,342)	16,656	66,227	\$1.50
Rancho Dominguez	14,661,321	1.3%	1.1%	2.4%	5.1%	(111,769)	(169,819)	51,359	248,091	\$0.79
Redondo/Hermosa Beach	1,903,686	0.1%	0.0%	0.1%	0.3%	0	0	0	3,152	\$1.30
San Pedro	2,832,168	0.4%	0.0%	0.4%	1.0%	0	(29,024)	5,342	11,842	\$1.01
Signal Hill	3,624,103	1.0%	0.1%	1.1%	3.5%	(6,446)	(6,446)	66,263	70,663	\$1.00
Torrance	25,308,824	1.8%	0.1%	1.9%	4.2%	216,769	327,817	154,307	229,633	\$0.85
Wilmington	3,852,694	1.7%	0.1%	1.8%	3.3%	0	0	56,608	97,808	\$1.86
<b>South Bay</b>	<b>192,711,596</b>	<b>1.5%</b>	<b>0.3%</b>	<b>1.8%</b>	<b>3.7%</b>	<b>(10,066)</b>	<b>259,157</b>	<b>1,716,118</b>	<b>3,822,889</b>	<b>\$1.16</b>
<b>Los Angeles Total</b>	<b>743,036,058</b>	<b>2.3%</b>	<b>0.2%</b>	<b>2.5%</b>	<b>4.4%</b>	<b>(559,181)</b>	<b>794,322</b>	<b>8,315,001</b>	<b>16,505,953</b>	<b>\$0.90</b>

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 demand for such Industrial products continuing to grow, we anticipate net absorption to be positive throughout 2018.

Leasing activity stayed strong in Q2 with over 8.3 MSF coming off the market, although declining by 29% year-over-year. This is the 10th straight quarter of over 6.0 million square feet in leasing activity — not a mean feat in a market where the vacancy rate is at most just north of 2%. While there is nearly 2.1 MSF of Industrial space under construction, with 1 million of it in the MidCities, slated to be added to the inventory this year, we do not anticipate much upward pressure on vacancy.

The average asking direct rental rate at the end of Q2 is \$0.90 per square foot on a triple net basis per month. The asking rate increased \$0.07 since Q2 of 2017 resulting in a 8.43% increase.

The current asking rate is the highest on record and we anticipate this upward trend to 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, we expect rents to continue their upward trend.

As is true across the LA Basin, the investment market in the Los Angeles market is hot. For multiple reasons, not least of which that institutional investors are under-allocated in core product, demand for Industrial product has never been greater. On average, buildings of all classes are now trading at \$180 at a 5% 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 LA's Industrial market is going to decline.

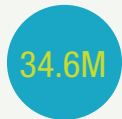
Source: CoStar

Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with more than 700 real estate professionals and staff in 21 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, property management, consulting, project and construction management, and debt equity finance services for all property types.

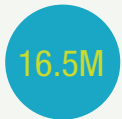
#### COMMERCIAL BROKERAGE



ANNUAL  
TRANSACTION  
VOLUME



ANNUAL  
LEASING SF



ANNUAL  
SALES SF



# BROKERS

#### PROPERTY MANAGEMENT



MANAGEMENT  
PORTFOLIO

#### VALUATION ADVISORY



APPRAISALS  
ANNUALLY



TOTAL #  
APPRAISERS/MAI'S

#### Contact

**Jerry Holdner**  
Director of Research  
949.557.5050  
jholdner@kiddermathews.com

**Robert Thornburgh, SIOR, CCIM**  
Executive VP, Brokerage  
Greater Los Angeles  
213.880.5250  
robertt@kiddermathews.com

Designated Broker  
Robert Thornburgh | LIC #01324961

[kiddermathews.com](http://kiddermathews.com)



This information supplied herein is from sources we deem reliable. It is provided without any representation, warranty or guarantee, expressed or implied as to its accuracy. Prospective Buyer or Tenant should conduct an independent investigation and verification of all matters deemed to be material, including, but not limited to, statements of income and expenses. CONSULT YOUR ATTORNEY, ACCOUNTANT, OR OTHER PROFESSIONAL ADVISOR.