

Real Estate Market Review

# Los Angeles Industrial

Q3 market stats reaffirm the essential truth about the LA market which has been known for some time: namely, that the industrial sector of Los Angeles continues to be one of the tightest and supply constrained markets in the country. Even after respectively rising 60 and 30 basis points from a year ago, the market wide direct vacancy rate and total availability rate are still only 2.3% and 4.5%.

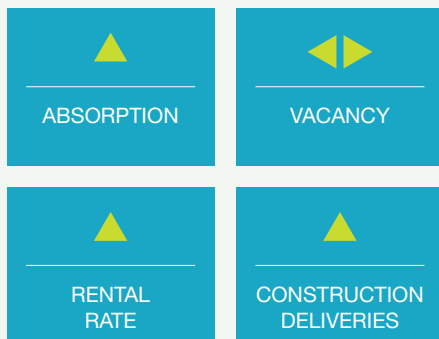
Although leasing activity declined from a year ago, it remained at a historically healthy level, with year-to-date total leasing activity equaling 31 million square feet. Contrary to what a surface analysis might imply, the decline in leasing activity reflects the lack of product to transact rather than a decline in demand for LA's industrial space. In fact, being enviably close to the ports of LA and Long Beach, and the Inland Empire, demand for LA's warehouse & distribution spaces and other industrial facilities has never been higher. For, unlike the Inland Empire, where construction of industrial space is at an all-time high, 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. Unsurprisingly, this combination of limited new product and strong demand has raised the asking rents across all classes of industrial products in LA, including well-located Class B and C properties. Market wide rental rates now are at all-time highs. At \$0.90 sf/mo NNN, average direct rents are the highest on record in the history of the market.

The overall U.S. economy has been undergoing a major long-term structural shift in how goods and services are purchased and consumed. Both the Inland Empire and the Los Angeles

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### Market Forecast Trends



YEAR-TO-YEAR BASIS

### Notable Lease Transactions

**Alibaba**  
4300 Shirley Avenue, El Monte  
572,240 s.f.

**Harbor Distributing**  
11204 Norwalk Boulevard, Sante Fe Springs  
355,590 s.f.

**Revolve**  
12889 Moore Street, Cerritos  
281,776 s.f.

### Notable Sale Transactions

**NantHealth, LLC**  
2310 E Imperial Avenue, El Segundo  
93,800 s.f. | \$49.7M or \$530.78/s.f.

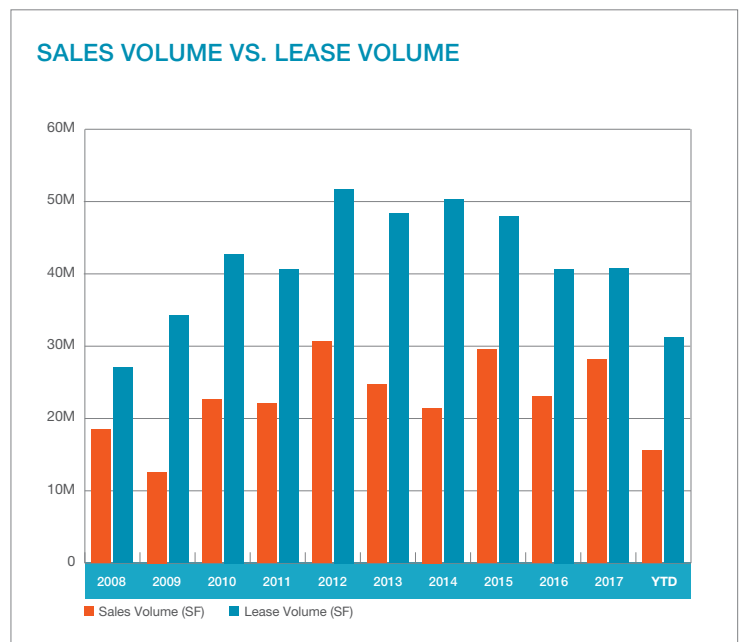
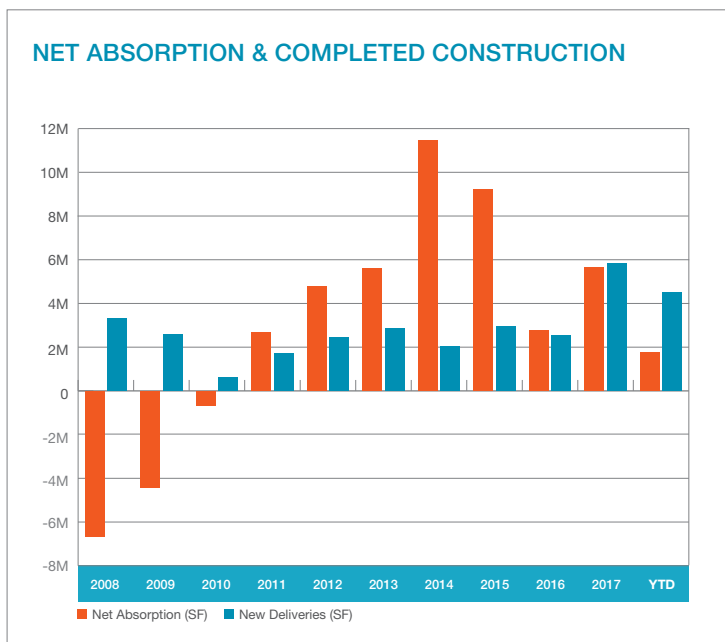
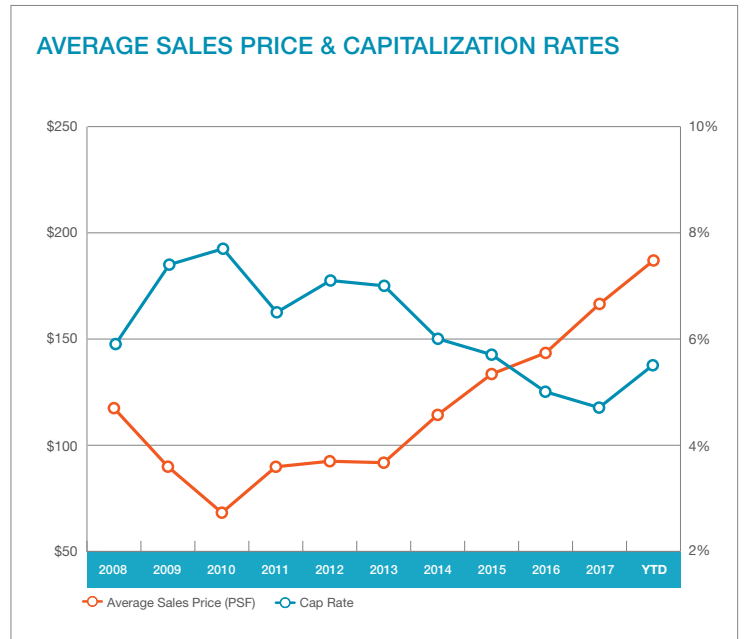
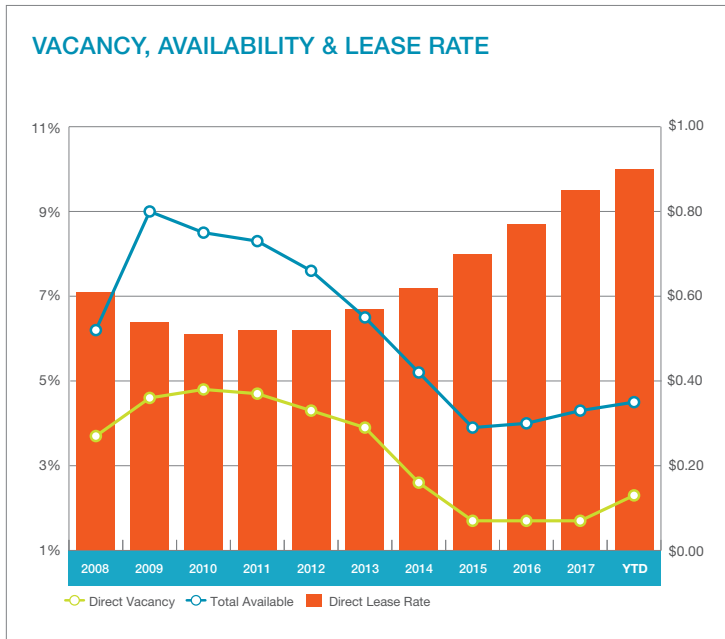
**Armorcast Products Co.**  
9140 Lurline Avenue, Chatsworth  
146,516 s.f. | \$28.5M or \$194.96/s.f.

**BKM Capital Partners**  
4510 W. Vanowen Street, Burbank  
100,000 s.f. | \$27.6M or \$276.87/s.f.

## Market Breakdown

	3Q 2018	2Q 2018	3Q 2017	Annual % Change
Direct Vacancy Rate	2.3%	2.3%	1.7%	35.29%
Availability Rate	4.5%	4.4%	4.2%	7.14%
Asking Lease Rate	\$0.90	\$0.89	\$0.85	5.88%
Leased SF	6,628,286	8,971,893	9,655,551	-31.35%
Sold SF	3,762,351	6,456,959	7,477,534	-49.68%
Net Absorption	975,918	-559,181	3,529,102	N/A

## Los Angeles Industrial Charts



## Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Availability Rate	Q3 Net Direct Absorption	YTD Net Direct Absorption	Q3 Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
Bell/Bell Gardens/Maywood	7,107,857	3.6%	0.0%	3.6%	5.9%	(6,840)	71,278	1,440	111,233	\$0.65
Commerce	44,673,858	1.5%	0.0%	1.5%	4.6%	16,120	134,787	309,071	1,077,288	\$0.52
Huntington Park/Cudahy	4,866,491	2.7%	0.0%	2.7%	6.5%	(60,958)	(37,557)	24,300	96,730	\$1.00
Downtown LA	130,627,173	2.3%	0.1%	2.4%	5.1%	(281,447)	(157,239)	852,344	4,019,914	\$1.35
Montebello/Monterey Park	11,830,392	2.3%	0.0%	2.3%	3.4%	(36,305)	1,884	26,924	202,107	\$1.56
Pico Rivera	10,194,428	3.4%	0.1%	3.5%	3.2%	(78,314)	(68,837)	20,455	11,296	\$1.20
South Gate	10,331,219	0.9%	0.0%	0.9%	1.4%	12,624	7,200	27,400	163,453	\$1.27
Vernon	42,061,910	2.9%	0.5%	3.4%	5.2%	220,051	148,542	444,832	2,546,827	\$0.62
<b>Central</b>	<b>261,930,714</b>	<b>2.6%</b>	<b>0.2%</b>	<b>2.8%</b>	<b>5.1%</b>	<b>(215,069)</b>	<b>100,058</b>	<b>1,706,766</b>	<b>8,399,504</b>	<b>\$0.93</b>
Artesia/Cerritos	13,238,999	0.0%	0.0%	0.0%	0.0%	45,838	(235,938)	74,269	5,000	\$0.72
Bellflower/Downey	5,765,794	0.8%	1.2%	2.0%	2.4%	(34,857)	(55,203)	24,790	10,946	\$0.82
Buena Park/La Palma	15,210,089	3.2%	0.0%	3.2%	13.2%	(58,521)	(115,598)	416,340	748,545	\$0.83
La Mirada	12,973,873	1.0%	0.0%	1.0%	5.0%	(159,083)	(113,793)	389,972	931,056	\$0.76
Norwalk	2,961,215	0.5%	0.2%	0.7%	3.3%	(13,646)	(13,646)	4,930	59,792	\$0.88
Paramount	8,956,583	1.1%	0.0%	1.1%	1.2%	(22,281)	(10,842)	15,240	87,037	\$0.71
Santa Fe Springs	52,629,203	2.5%	0.3%	2.8%	2.9%	583,698	969,634	756,878	5,417,947	\$0.82
Whittier	3,924,565	1.3%	0.1%	1.4%	6.5%	9,908	9,908	3,300	93,424	\$0.00
<b>Mid-Cities</b>	<b>114,717,814</b>	<b>3.2%</b>	<b>0.1%</b>	<b>3.3%</b>	<b>5.6%</b>	<b>348,056</b>	<b>434,522</b>	<b>1,674,574</b>	<b>8,045,510</b>	<b>\$0.80</b>
Alhambra	2,255,121	1.2%	0.0%	1.2%	2.1%	(300)	(4,200)	3,275	19,530	\$1.14
Arcadia/Temple City	2,567,595	0.4%	0.0%	0.4%	1.5%	32,232	183,304	66,603	143,174	\$0.67
Azusa	5,895,786	1.0%	0.0%	1.0%	6.1%	(17,230)	(64,503)	14,000	53,843	\$0.85
Baldwin Park	4,782,168	1.4%	0.0%	1.4%	4.9%	19,930	(67,133)	24,518	135,409	\$0.93
City of Industry/DB/HH/RH	72,039,073	2.4%	0.1%	2.5%	4.9%	775,563	484,673	1,119,146	4,532,653	\$0.74
Covina/West Covina	3,186,169	2.9%	0.0%	2.9%	4.0%	(219)	(219)	3,842	53,178	\$0.87
Duarte	1,823,240	4.8%	0.0%	4.8%	7.4%	43,052	43,052	16,233	82,483	\$0.00
El Monte	8,756,531	4.2%	0.0%	4.2%	4.6%	3,214	(7,221)	14,550	101,327	\$0.00
Irwindale	11,259,852	7.9%	1.2%	9.1%	11.4%	92,696	653,135	80,172	776,498	\$0.68
La Puente	2,021,411	1.3%	0.0%	1.3%	1.3%	6,378	7,549	15,450	40,760	\$2.56
Glendora/La Verne/ San Dimas	6,711,063	1.9%	0.1%	2.0%	3.4%	4,621	2,935	85,220	47,593	\$0.62
Monrovia	3,264,645	1.4%	0.0%	1.4%	1.9%	(25,471)	(12,302)	43,799	125,128	\$1.06
Pomona/Claremont	20,350,416	1.3%	0.1%	1.4%	1.5%	(72,120)	(122,992)	205,423	581,147	\$0.73
Rosemead/San Gabriel	2,417,898	0.3%	0.8%	1.2%	2.3%	(5,947)	(5,947)	14,122	28,244	\$0.95
South El Monte	10,479,287	1.0%	0.0%	1.0%	1.3%	49,034	4,374	91,926	322,237	\$1.00
Walnut	6,656,869	1.5%	0.1%	1.6%	3.7%	(111,926)	(164,426)	36,683	361,729	\$0.67
<b>San Gabriel Valley</b>	<b>165,170,344</b>	<b>2.1%</b>	<b>0.4%</b>	<b>2.5%</b>	<b>4.9%</b>	<b>793,507</b>	<b>930,079</b>	<b>1,841,385</b>	<b>7,851,993</b>	<b>\$0.74</b>
Carson	35,142,991	1.2%	0.1%	1.3%	2.7%	(182,508)	(11,809)	435,270	1,621,364	\$0.77
Compton	24,802,352	1.2%	0.7%	1.9%	3.4%	(66,876)	(123,634)	251,613	1,385,180	\$0.78
El Segundo	9,277,886	3.0%	0.0%	3.0%	2.9%	10,180	10,180	23,029	172,795	\$1.67
Gardena	28,660,683	1.4%	0.2%	1.6%	2.8%	(108,829)	(216,215)	320,513	1,005,933	\$1.13
Harbor City	1,747,933	0.9%	0.0%	0.9%	1.6%	(13,160)	(13,160)	10,200	34,200	\$0.00
Hawthorne	8,169,989	0.4%	0.1%	0.5%	1.2%	(44,455)	(29,755)	16,810	58,701	\$1.28
Inglewood	5,133,114	1.4%	0.0%	1.4%	5.0%	(32,636)	(61,662)	32,681	109,725	\$1.35
Lakewood/Hawaiian Gardens	568,892	4.9%	0.0%	4.9%	4.9%	14,032	69,556	0	0	\$0.00
Lawndale	301,249	0.0%	0.0%	0.0%	2.4%	1,200	1,200	0	0	\$1.35
Long Beach/Terminal Island	21,335,678	2.9%	0.0%	2.9%	5.1%	(21,657)	79,561	53,086	364,880	\$2.26
Lynwood	4,521,335	4.5%	0.0%	4.5%	1.6%	(40,310)	(52,652)	2,500	71,277	\$1.50
Rancho Dominguez	14,661,321	1.3%	1.1%	2.4%	5.1%	(41,740)	(211,559)	87,217	422,525	\$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%	(2,340)	(31,364)	0	12,342	\$1.01
Signal Hill	3,624,103	1.0%	0.1%	1.1%	3.5%	50,885	44,439	50,691	172,045	\$1.00
Torrance	25,308,824	1.8%	0.1%	1.9%	4.2%	541,554	869,371	89,267	1,161,372	\$0.85
Wilmington	3,852,694	1.7%	0.1%	1.8%	3.3%	(10,097)	(10,097)	32,684	274,676	\$1.86
<b>South Bay</b>	<b>192,573,076</b>	<b>1.6%</b>	<b>0.3%</b>	<b>1.9%</b>	<b>3.6%</b>	<b>53,244</b>	<b>312,400</b>	<b>1,405,561</b>	<b>6,870,117</b>	<b>\$1.12</b>
<b>Los Angeles Total</b>	<b>734,391,948</b>	<b>2.3%</b>	<b>0.3%</b>	<b>2.6%</b>	<b>4.5%</b>	<b>975,918</b>	<b>1,777,059</b>	<b>6,628,286</b>	<b>31,167,124</b>	<b>\$0.90</b>

industrial market have benefitted from this dramatic change, but in interestingly distinct ways. In contrast to the big box distribution centers which dominate the Inland Empire, what is most in demand in LA are last-mile distribution facilities. What these facilities require are abundant parking, and access & 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 and Class C properties which happen to be ideally situated. Once considered obsolete and irrelevant, they are now prized commodities in in-fill markets. With demand for such industrial products continuing to grow, net absorption for the quarter was positive 975,918 square feet, and year to date it equaled 1.77 million square feet. We anticipate net absorption to be positive throughout the rest of 2018.

Leasing activity stayed strong in Q3 with over 6.6 MSF coming off the market, although declining by 31.5% year-over-year. This is the tenth 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 2.3%. While there is nearly 3.3 MSF of industrial space under construction, with 1.3 million of it in the North San Gabriel Valley submarket slated to be added to the inventory in 2019, we do not anticipate much upward pressure on vacancy.

The average asking direct rental rate at the end of Q3 is \$0.90 per square foot on a triple net basis per month. The asking rate increased \$0.05 since Q3 of 2017 resulting in a 5.88% 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 Los Angeles is white hot. For multiple reasons, not least of which is 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 \$186 psf at a 5-5.5% cap rate. In fact, with Class A cap rates between 4-4.7%, 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.

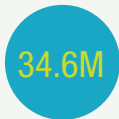
Source: CoStar

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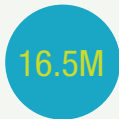
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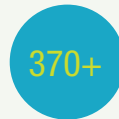
ANNUAL TRANSACTION VOLUME



ANNUAL LEASING SF



ANNUAL SALES SF



# BROKERS

#### PROPERTY MANAGEMENT

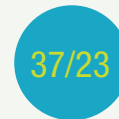


MANAGEMENT PORTFOLIO

#### VALUATION ADVISORY



ASSIGNMENTS ANNUALLY



TOTAL # APPRAISERS/MAI'S

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