

Los Angeles

Industrial Market Outlook 2Q 2019

MARKET OVERVIEW

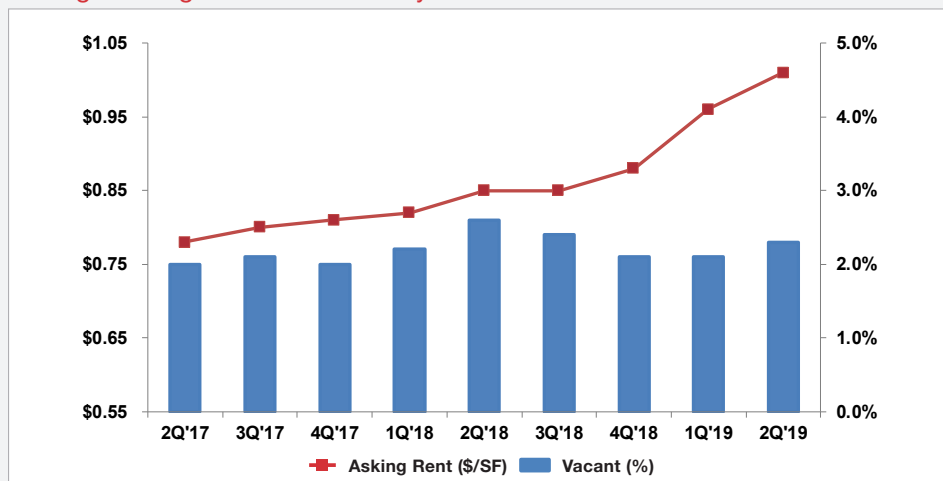
At mid-year 2019 the industrial market in Los Angeles County saw yet another record-setting quarter of rent growth and low vacancy. The average asking rent hit \$1.01/SF, representing a solid 5.2% increase over 1Q 2019 – up 18.8% from 2Q 2018. The vacancy rate at 2.3% remained extremely low – among the lowest in the nation. A shortage of available inventory for sale or lease continued to strain the industrial market and placed upward pressure on asking rents while depressing transaction volume. The nearly 16.0M SF total leasing volume was down 46.5% from last year at this time and annual sales were down 15.7%. Year to date, 46.2% of the 840K SF of new construction deliveries have been leased.

TRENDS TO WATCH

The ongoing economic expansion reached its 121st month, becoming the longest in U.S. history. The economy continues to grow steadily, and the result has been felt this cycle in the Los Angeles industrial market, which has achieved the highest asking rents ever. Ecommerce continues to be one of the main drivers of demand for industrial space in the region. Globally, ecommerce is poised to grow to \$24T by 2025. Ecommerce sales still account for just 12% of all U.S. retail sales, indicating room for growth for ecommerce and demand for warehouse/ distribution space.

In the short term, the trade war with China could impact the volume of cargo coming in at the Ports as Americans buy less from China and turn to other non-tariffed Asian countries. The latest figures available from the Ports of Los Angeles and Long Beach as of May 2019 show import cargo volume, a key indicator of demand for industrial space, down 2.9% over this time last year. According to the Census Bureau, during the first five months of the year, the United States imported 12% fewer goods from China during the same time period a year ago. But imports from Vietnam are up 36%, and they increased 23% from Taiwan, 14% from Bangladesh, and 12% from South Korea. Despite the trade war, the industrial market will continue to see increasing sale prices, steady leasing activity on limited available space for lease, and rising rents through 2019.

Average Asking Rent* and Vacancy Rate



MARKET OUTLOOK

Asking Rental Rates



Sale Prices



Availability/Vacancy Rates



Landlord Concessions



Sales/Leasing Volume



New Construction



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Market Statistics*

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	2Q19 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	2Q19 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT (\$/SF NNN)	AVERAGE SALE PRICE (\$/SF)
Central	241,284,844	784,785	5.3%	2.7%	2,305,878	4,074,576	1,004,073	2,683,921	\$1.13	\$184
Mid-Cities	101,345,581	89,081	4.3%	2.1%	1,027,217	1,982,494	736,723	1,569,332	\$0.83	\$225
South Bay	214,754,513	1,242,254	3.9%	2.0%	1,902,611	3,553,842	1,177,363	3,101,229	\$1.20	\$212
LA North	145,872,109	1,053,779	4.2%	2.4%	1,507,393	3,130,474	1,435,627	2,797,385	\$0.95	\$202
San Gabriel Valley	166,504,203	1,481,962	4.0%	2.1%	1,717,052	3,240,478	1,153,005	2,054,580	\$0.94	\$159
Los Angeles County	869,761,250	4,651,861	4.4%	2.3%	8,460,151	15,981,864	5,506,791	12,206,447	\$1.01	\$193

Leasing

The average asking rent for industrial space in Los Angeles County has been on an upward trend for ten years, reaching a record high of \$1.01/SF, up 55.4% over the prior 2008 peak. Tenants leased more than 8.4M SF of industrial space in 2Q, bringing the midyear volume to nearly 16.0M SF leased.

The South Bay submarket, nearest the Ports, had the highest average asking rent at \$1.20/SF and posted 22.5% of the total quarterly lease volume. Potential Industries subleased an entire 223,865 SF warehouse at an asking rate of \$0.77/SF. The proximity of the property at 909 Colon Street in Wilmington to the ports will help facilitate the export of recycled materials. Potential Industries is one of the top five exporters of recycled paper in the U.S. and sends 60,000 TEUs to Asia each year.

Sales

Sales volume totaled more than \$1.8B so far in 2019, with \$851M sold in the second quarter. In terms of square footage, 12.2M SF have sold year to date. Sales prices averaged \$193/SF, up 11.5% year over year, while the average cap rate on investment sales declined 50 basis points over the year to 4.3%.

The Los Angeles industrial market remained one of the top investment markets nationwide, though it may not surpass last year. In the first half of 2019, 6.0M SF of industrial space sold in investment sales of at least \$2.0 million, 36.8% of 2018's volume. Rexford Industrial was particularly active in 2Q 2019, acquiring nearly 1.4M SF of industrial space in six transactions, including the 592,000 SF San Fernando Business Center.

Select Lease Transactions

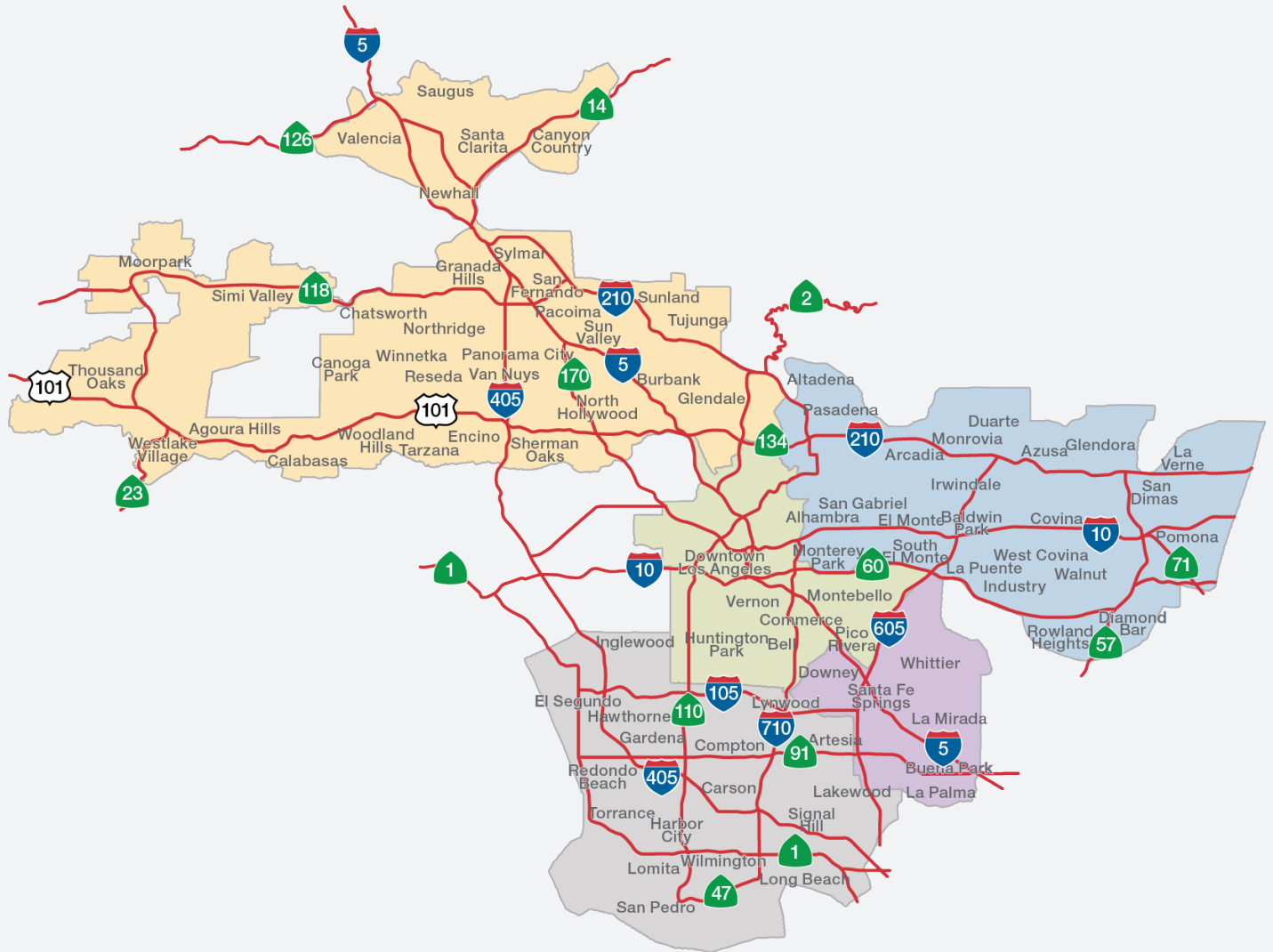
TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/SF**	SQUARE FEET
Mutual Trading	4250 Shirley Ave	San Gabriel Valley	Withheld	299,786
Potential Industries	909 Colon St	South Bay	\$0.77	223,865
Valencia Pipe Co.	28305 W Livingston Ave	LA North	\$0.65	167,990
Shift Technologies	12910 Mulberry Dr	Mid-Cities	\$0.74	153,080
NEP Group	7850 Ruffner Ave	LA North	\$0.89	108,162

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Rexford Industrial Realty, Inc.	San Fernando Business Center	LA North	\$200	591,660
Rexford Industrial Realty, Inc.	13890 E Nelson Ave	San Gabriel Valley	\$163	256,993
Robertson Properties Group	15300 Desman Rd	Mid-Cities	\$208	254,718
Rexford Industrial Realty, Inc.	1515 E 15th St	Central	\$118	238,000
WPT Industrial Real Estate Investment Trust	2910-2960 Pacific Commerce Dr	South Bay	\$192	150,000

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- LA North
- Central
- San Gabriel Valley
- Mid-Cities
- South Bay

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