

Los Angeles County

Industrial Market Outlook Q3 2019

MARKET OVERVIEW

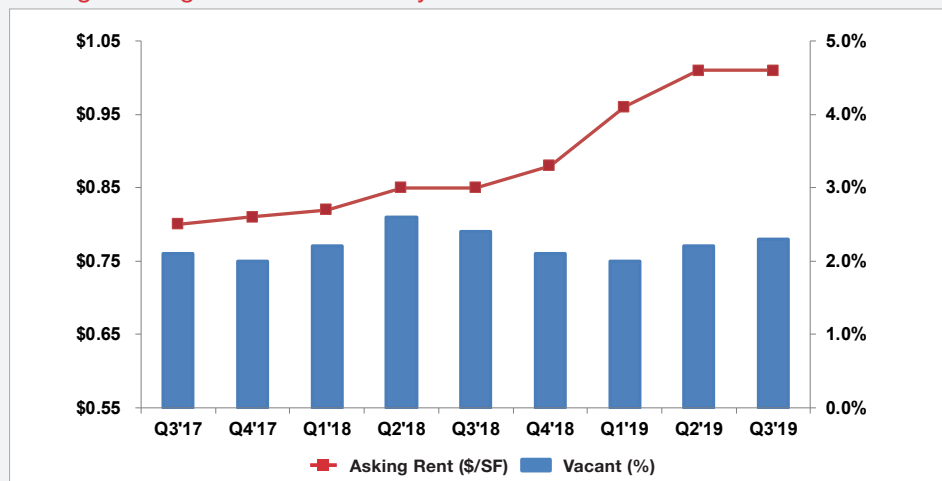
The third quarter marked a change of pace for Los Angeles County's industrial market. Leasing and sales volume declined significantly year over year, down 44.6% and 40%, respectively. The average asking rent was flat over the prior quarter at \$1.01/SF – still the highest on record. With vacancy at 2.3%, tenants are moving around the market as space allows. Developers had more than 5 million square feet under construction in an attempt to satisfy the demand for state-of-the-art warehouses. It is interesting to note that leasing volume this quarter (6.9 million square feet), while noticeably lower, remains above the construction volume. Investment sales over \$2 million remained brisk accounting for 3.4 million square feet of total sales volume. This quarter, the average sale price registered \$201/SF with a 4.3% cap rate.

TRENDS TO WATCH

Much of Los Angeles' industrial inventory is outdated and obsolete. The average existing industrial building in Los Angeles County is 51 years old, and many buildings lack the clear height, truck courts, loading docks and other technological features for a modern warehouse user. Minimal land for construction, scarce infill development sites and the rising cost of construction, labor and materials make new, functional space expensive— driving lease rates up. Record-high prices are preventing some would-be tenants from immediately snapping up new buildings. But with no alternatives, tenants that must remain pay the price. Those who can sacrifice location find quality facilities, expansion opportunities and lower costs in the Inland Empire.

The U.S. economy may be facing a drop off after climbing steadily for the last 10 years. The trade war and tariffs are undoubtedly influencing the ports' cargo volume, one of the strongest industrial demand indicators. Retailers usually prepare for increased sales during the holiday season by increasing imports in July and August. However, imports through August 2019 were down 2.4%, indicating slowing consumption. Last year they were up 3.1%. Additionally, the strength of the dollar is putting U.S. exports at a disadvantage and exports in Los Angeles's seaports declined 6.4% year over year. While the economy remains strong overall, growth is expected to moderate.

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 (%)	Q3 2019 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	Q3 2019 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT (\$/SF NNN)	AVERAGE SALE PRICE (\$/SF)
Central	241,787,600	769,917	5.3%	2.7%	1,657,530	6,125,442	1,801,175	4,734,839	\$1.15	\$185
Mid-Cities	101,336,919	17,338	3.8%	2.6%	1,229,527	3,894,130	793,311	2,248,942	\$0.84	\$210
South Bay	216,515,299	849,602	4.6%	1.9%	1,612,097	5,240,672	1,330,998	3,942,138	\$1.14	\$207
LA North	145,550,849	1,471,988	4.8%	2.3%	938,876	4,020,326	457,449	3,115,254	\$0.97	\$252
San Gabriel Valley	166,211,279	1,940,543	4.8%	2.2%	1,454,729	4,735,130	233,524	2,224,681	\$0.87	\$168
L.A. County	871,401,946	5,049,388	4.8%	2.3%	6,892,759	24,015,700	4,616,457	16,265,854	\$1.01	\$201

Leasing

The average asking rent for industrial space in Los Angeles County sustained the highest level on record —\$1.01/SF—but leasing volume declined significantly, down 25.5% from the prior quarter and down 44.6% from a year ago to nearly 6.9 million square feet. Year to date, about 24 million square feet of industrial space have been leased, which is 43.3% lower than the leasing volume from Q1 to Q3 2018.

Several factors are contributing to the declining leasing volume, including low availability and high pricing. Users for which price is not a deterrent, such as Amazon, continued to lease in Los Angeles in Q3 2019. Amazon signed a lease for a 213,232 square foot distribution building in South Gate at an asking rate of \$1.06/SF MG.

Sales

While high rental rates may be depressing leasing volume, they are encouraging investment sales. Strong demand, high rents and low interest rates make industrial assets particularly attractive to investors. Sales volume totaled more than \$2.7 billion so far in 2019. In terms of square footage, nearly 6.9 million square feet sold in Q3, down 44.6% over 2018's strong performance. Sales prices averaged \$201/SF while cap rates declined 30 basis points over the year to 4.3%.

The Los Angeles industrial market is one of the top investment markets nationwide. The more than 9 million square feet sold in investment sales of at least \$2.0 million this year was 78.9% of 2018's volume and may not surpass that total by the end of the year. Institutional investors purchased about 2.5 million square feet of space this quarter.

Select Lease Transactions

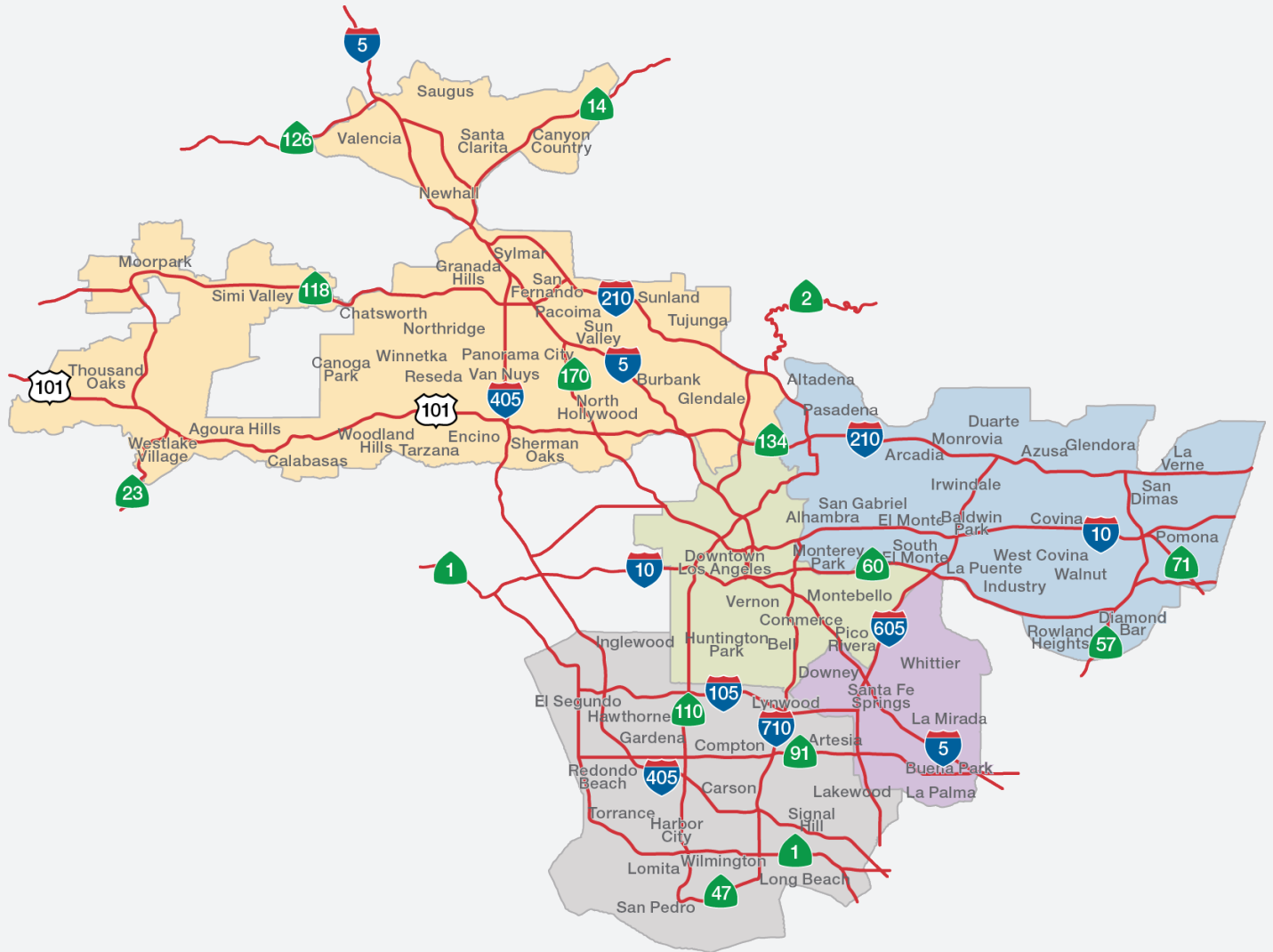
TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/SF**	SQUARE FEET
Amazon	9350 Rayo Ave.	Central	\$1.06	213,232
County of Los Angeles	13415 Carmenita Rd.	Mid-Cities	\$0.90	200,068
Innovel Solutions	17817 Valley View Ave.	Mid-Cities	\$0.75	146,640
Sky Chef	419-531 E. Euclid Ave.	South Bay	\$0.82 IG	86,810
Grimco, Inc.	16201 Commerce Way	Mid-Cities	\$0.80	71,712

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Property Reserve, Inc.	5300 S. Boyle Ave.	Central	\$249	305,350
PS Business Parks, Inc.	11811- 11831 E. Florence Ave.	Mid-Cities	\$191	288,000
Rexford Industrial, Inc.	South Bay Industrial Portfolio	South Bay	\$247	267,503
Liberty Property Trust	1241-1245 Watson Center Rd.	South Bay	\$193	203,280
The Blackstone Group L.P.	18221 S. Susana Rd.	South Bay	\$203	100,543

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

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