

Los Angeles County

Industrial Market Outlook Q3 2023

MARKET OVERVIEW

The industrial market in Los Angeles County underwent a turnaround as it shifted from the relentless demand for warehouse space. Completed construction surged by an impressive 338% quarter over quarter, resulting in a 190-bps increase in the vacancy rate, which now stands at 3.9%—the highest it has been in a decade. New developments and increased supply of industrial space are now trailing diminished demand. In Q3 alone, completed construction added approximately 3.1M square feet. Over the past five quarters, LA County added roughly 4.9M square feet of completed construction to the market, while absorption resulted in a negative 16.2M square feet during the same timeframe.

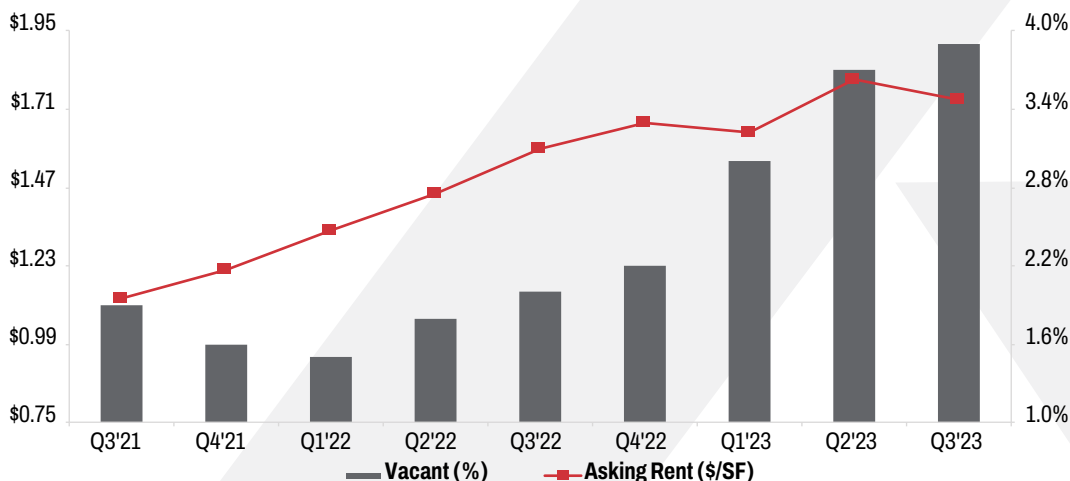
While land constraints limited new development, developers aggressively pursued keeping pace with the seemingly unending demand for warehouse space, driven by e-commerce, which has mostly been satisfied now. According to figures from the Ports of Los Angeles and Long Beach, combined TEU cargo volumes, a significant driver of warehouse space demand in SoCal, declined by 23.1% year to date as of August. Currently, 7.7M square feet of industrial space is under construction, representing a 6.3% drop from the prior quarter but a significant 45.2% increase compared to last year. Strong rent growth has been the primary driver in the push for new construction. This quarter, asking rent weakened by 3.3% from the previous quarter to \$1.74 triple net, while showing a 9.4% rise from Q2 2022. This raises concerns for developers and provides a more positive outlook for tenants seeking leases in the future.

TRENDS TO WATCH

With supply chain disruptions now subsided and leasing velocity moderating, developers are likely to pause construction. Companies that expanded their warehouse space throughout the pandemic to accommodate the e-commerce surge have actively reduced excess space. In Q3, the industrial market reached an all-time high in vacant sublease space, indicating that companies that overestimated their space requirements have left warehouses empty and are seeking subtenants. This has resulted in a significant increase in the amount of vacant sublease space on the market, up by 19.6% from the previous quarter and by 397% from the same time last year, totaling approximately 5.7M square feet. Moreover, 12.7M square feet of vacant space were directly added to the market since Q3 2022, accompanied by 3.1M square feet of completed construction year to date in 2023.

Despite lower economic growth, companies eager to dispose of costly unwanted space while some pick up much-needed lower-priced space will demonstrate the industrial market's resiliency. The increase in available industrial space offers tenants more options, although high prices and rising interest rates have weakened industrial building leases and sales. Leasing volume has experienced a decline of 5.5% compared to a year ago, amounting to 26.3M square feet year to date. Sales volume dropped 32.8% in the same timeframe. The average sale price per square foot has registered at \$278, reflecting an 18.5% drop year over year. The combination of rising interest rates, a slowing economy, and weakening demand will have a dampening effect on pricing heading into the end of the year.

VACANCY RATE AND AVERAGE ASKING RENT



MARKET OUTLOOK

**Asking
Rental Rates**



**Sale
Prices**



**Availability
Vacancy Rates**



**Landlord
Concessions**



**Leasing/Sales
Volume**



**New
Construction**



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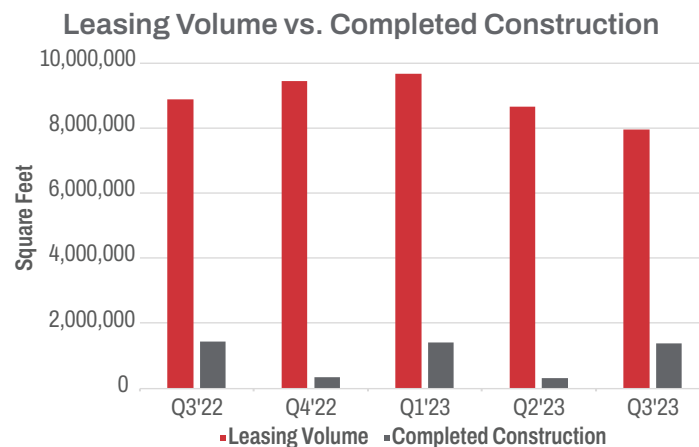
MARKET STATISTICS*

Submarket	Existing Total RBA (SF)	Under Construction (SF)	Total Available (%)	Total Vacancy (%)	Leasing Volume (SF)	YTD Leasing Volume (SF)	Sales Volume (SF)	YTD Sales Volume (SF)	Average Asking Rent \$/SF NNN	Average Sale Price \$/SF
Central	242,917,538	778,050	6.8%	5.0%	1,607,495	5,894,496	1,452,234	4,183,068	\$1.68	\$213
Mid-Cities	103,257,528	271,562	5.8%	3.4%	1,801,774	3,915,951	728,037	1,648,630	\$1.66	\$352
South Bay	223,472,531	728,573	6.1%	4.1%	1,849,848	5,281,341	635,030	2,711,255	\$1.95	\$357
North	150,354,316	799,530	4.1%	3.1%	931,265	3,487,511	1,280,614	2,309,159	\$1.57	\$269
San Gabriel Valley	173,960,873	5,162,131	6.6%	3.2%	1,775,086	7,719,364	877,507	2,807,279	\$1.65	\$280
Los Angeles County	893,962,786	7,739,846	6.0%	3.9%	7,965,468	26,298,663	4,973,422	13,659,391	\$1.74	\$278

*RBA includes industrial buildings of all sizes. Rents reflect buildings of at least 10,000 square feet.

LEASING TRENDS

In the last five quarters, leasing volume has been trending downward, decreasing by 8.1% quarter over quarter and 10.4% year over year. While completed construction averages a little under 1 million square feet, developers had to get creative in order to build projects due to land constraints.

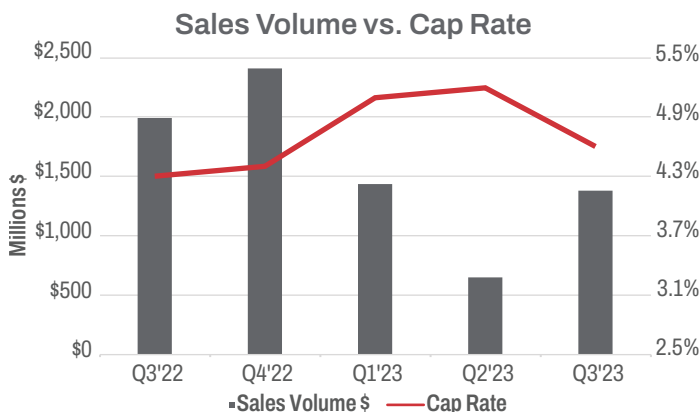


Select Lease Transactions

Address	City	Submarket	Square Feet
4000 Union Pacific Ave	Commerce	Central	800,000
9400-9500 Santa Fe Springs Rd	Santa Fe Spring	Mid-Cities	595,304
28104-28114 Witherspoon Pky (Part of a Portfolio)	Valencia	LA North	189,250
2500 E Thompson St	Long Beach	South Bay	174,691
28305 W Livingston Ave (Part of a Portfolio)	Valencia	LA North	167,990

SALES TRENDS

In the third quarter of 2023, sales volume regained some of its strength, more than doubling from the previous quarter. Year-to-date third-quarter 2023 sales volume amounted to nearly \$3.4B, marking a 40.1% decrease from last year, while the average cap rate decreased by 60 bps from the prior quarter and increased by 30 bps from the third quarter of 2022, reaching 4.6%.



Select Sales Transactions

Address	City	Submarket	Square Feet
1452 W Knox St	Torrance	South Bay	442,550
3900 Arden Dr	El Monte	San Gabriel Valley	360,992
4889 4th St	Irwindale	San Gabriel Valley	312,000
14001-14003 Orange Ave	Paramount	South Bay	282,000
13409 Orden Dr	Santa Fe Springs	Mid-Cities	219,759

*Sale Leaseback