

# Los Angeles County

## Industrial Market Outlook Q2 2023

### MARKET OVERVIEW

L.A. County's industrial market is shifting from high demand for warehouse space, resulting in an increase in excess space available for sublease. The market has observed a significant surge in the marketing of sublease space, with a 94.5% increase from the previous quarter and a remarkable 304% increase compared to a year ago. As of midyear 2023, the total vacant sublease space amounts to 4.7 million square feet, which surpasses the level observed during The Great Recession in Q2 2009 by 55.6%.

Leasing volume year to date has slightly increased by 0.8% compared to the previous year, totaling 17.5 million square feet. Additionally, over the past five quarters, the industrial market has witnessed the addition of 4.7 million square feet through completed construction. However, completed construction on a quarterly basis has experienced a significant drop of 77.4%, resulting in a year-to-date decline of 27.5% compared to Q2 2022. As the demand undergoes a change in pace, the vacancy rate has risen by almost 2 full percentage points from a year ago, reaching 3.6%.

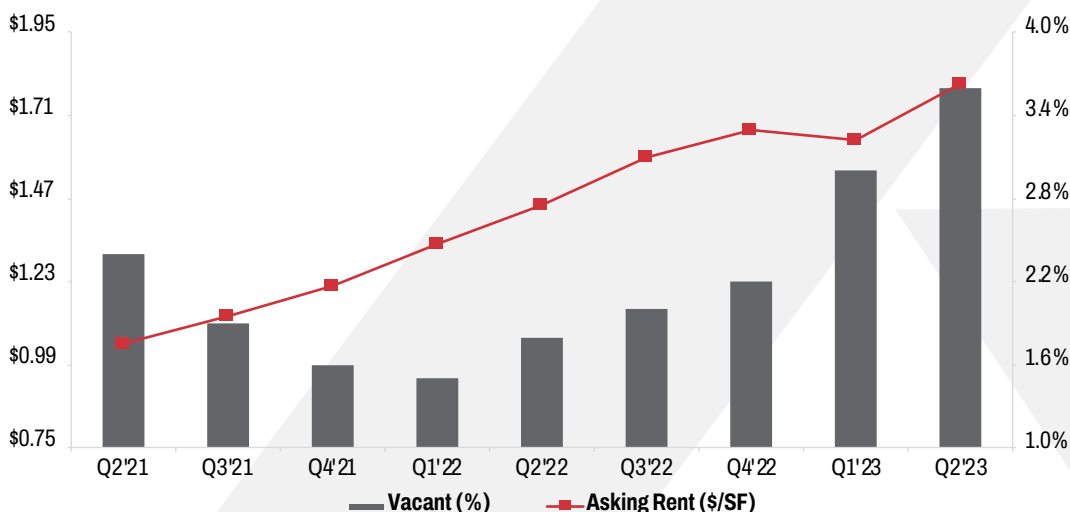
Rising rents are the driving force behind new construction. Rent has reached a new record high of \$1.80/SF, marking a 9.8% increase from the previous quarter and a substantial 24.1% increase from Q2 2022. Since the pandemic shutdown in Q2 2020, the average rent has climbed by 184%. Development activities continue at a rapid pace, with an 11.5% increase in industrial space under construction compared to the previous quarter and a 32% year-over-year jump.

### TRENDS TO WATCH

Companies that expanded their warehouse space throughout the pandemic to accommodate the e-commerce surge have actively been reducing excess space. In Q2, the industrial market reached an all-time high in available space for sublease, indicating that companies have overestimated their space requirements. This has led to a significant increase in the market, with approximately 2.3 million square feet of additional vacant sublease space listed during the second quarter, marking the largest quarter-over-quarter increase on record. Moreover, 2.7 million square feet of vacant space was directly added to the market, accompanied by 300 thousand square feet of completed construction.

Despite the anticipation of lower economic growth, the industrial market has demonstrated resilience. However, companies are eager to dispose of costly unwanted space. The increase in available industrial space offers tenants more options, although high prices and rising interest rates are expected to weaken sales of industrial buildings. Sales volume has experienced a decline of 65.4% quarter over quarter and is down by 48% compared to a year ago, amounting to 6.9 million square feet year to date. The median sale price per square foot has reached \$306, reflecting a 3% increase both quarter over quarter and year over year. The combination of rising interest rates, a slowing economy, and weakening demand is likely to have a dampening effect on transaction volume in the latter half 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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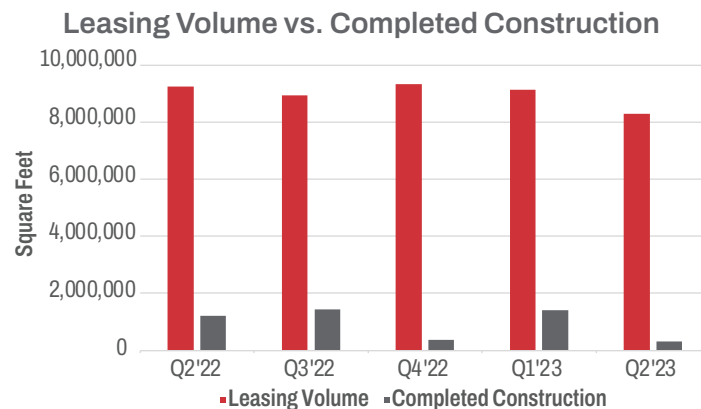
### MARKET STATISTICS\*

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	242,729,179	563,673	6.5%	4.8%	1,847,208	4,288,606	382,051	2,456,092	\$1.76	\$273
Mid-Cities	103,020,884	266,933	5.1%	2.5%	1,400,418	2,066,227	59,798	96,127	\$1.69	\$314
South Bay	223,907,589	944,462	5.8%	3.9%	1,442,543	2,929,655	421,972	1,860,359	\$2.05	\$285
North	149,814,532	1,201,159	3.8%	2.8%	1,410,960	2,307,544	290,259	1,006,957	\$1.58	\$323
San Gabriel Valley	174,115,945	4,845,388	5.7%	2.7%	2,203,073	5,862,542	621,472	1,483,045	\$1.65	\$283
<b>Los Angeles County</b>	<b>893,588,129</b>	<b>7,821,615</b>	<b>5.5%</b>	<b>3.6%</b>	<b>8,304,202</b>	<b>17,454,574</b>	<b>1,775,552</b>	<b>6,902,580</b>	<b>\$1.80</b>	<b>\$289</b>

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

### LEASING TRENDS

The market's resilience in leasing volume is highlighted by the last five quarters with completed construction adding a total of 4,713,167 square feet to the market as of Q2 2023. However, leasing volume superseded that, totaling 45,020,599 square feet year to date.

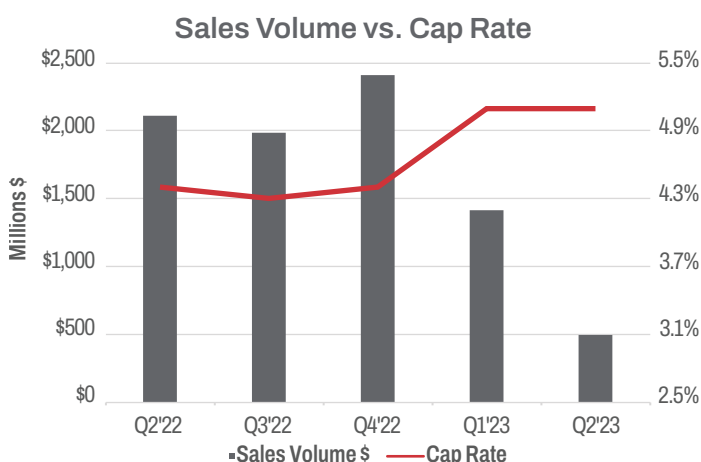


### Select Lease Transactions

Address	City	Submarket	Square Feet
21558 Ferrero Pky	City Of Industry	San Gabriel Valley	318,497
131 Marcellin Dr	City Of Industry	San Gabriel Valley	240,500
909 Colon St	Wilmington	South Bay	223,865
2225 Workman Mill Rd	City Of Industry	San Gabriel Valley	217,775
4250 Shirley Ave	El Monte	San Gabriel Valley	194,807

### SALES TRENDS

The last two quarters highlight the downward trend in sales volume as the impact of rising interest rates was felt. By midyear 2023, the sales volume ended approximately 47.8 percent below Q2 2022, amounting to approximately \$1.9 billion year to date. Additionally, the average cap rate on investment sales increased by 70 basis points from the second quarter of 2022, reaching 5.1 percent.



### Select Sales Transactions

Address	City	Submarket	Square Feet
3049 E Vernon Ave (4 Property Portfolio)	Vernon	LA Central	400,000
975-985 W 8th St (4 Property Portfolio)	Azusa	San Gabriel Valley	200,000
140 N Orange	City Of Industry	San Gabriel Valley	124,397
2824 E 208th St	Carson	South Bay	101,175
1525 Rosecrans Ave	Gardena	South Bay	78,914