

Los Angeles County

Industrial Market Outlook Q2 2020

MARKET OVERVIEW

After spending the entire second quarter of 2020 under a COVID-19 shutdown, the Los Angeles County industrial market was left with lower transaction volume, an uptick in vacancy and a dip in the average asking rent. Leasing volume declined 18.5% over the previous quarter, down 28.4% from 2Q 2019 to nearly 8.3M SF. Over the same periods, sales volume fell 63.7% and 57.4%, respectively, to over 2.3M SF in Q2. Tenants and landlords are negotiating lease renewals, rent abatement or deferments. Year-to-date total sales and leasing volume is 53.8% of what it was for all of 2009 at the depth of the last recession, indicating that if the shutdown continues into the second half of the year, 2020 transaction volume could look about the same as the last recession.

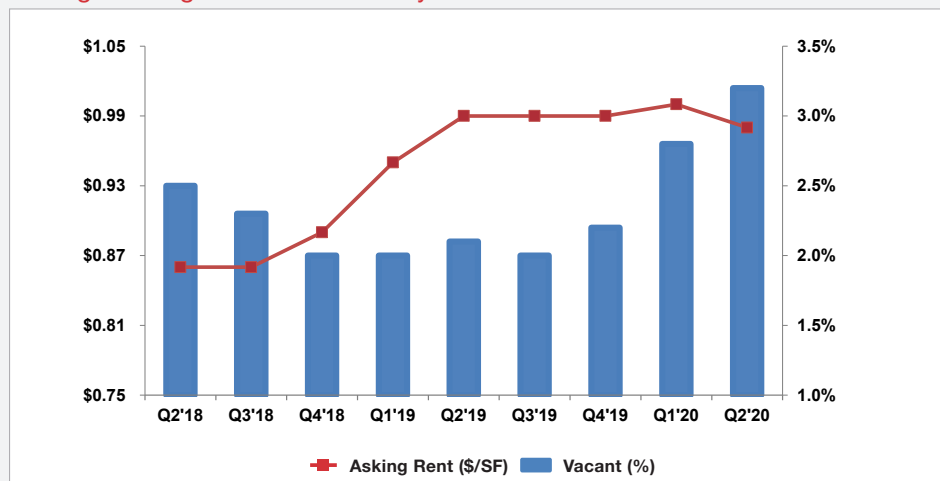
The Paycheck Protection Program, which provides small businesses with funds to pay up to 8 weeks of payroll costs including benefits, interest on mortgages, rent, and utilities, appears to be maintaining occupancy. Vacancy increased just 40 bps from Q1 2020 to 3.2%, mostly due to over 1M SF of completed construction. The average asking rent kept relatively stable, down two cents from Q1 2020 to \$0.98/SF. Construction remained constrained at 4.5M SF, down 48.6% from its peak in Q2 2017.

TRENDS TO WATCH

The pandemic continues to shape the industrial market. Following record losses across all sectors in the previous month, LA County added 15,300 jobs in manufacturing, and Trade, Transportation & Utilities added another 8,300 jobs in May. While online shopping has been a bright spot for the warehouse distribution market, imported goods in May declined 12.1% from May 2019. To get a pulse of where the industrial market could be headed, NAI Capital conducted a COVID-19 Impact Survey of its industrial market professionals.

Most industrial brokers (55%) believe rents will remain unchanged, vacancy will rise, and landlords will offer tenants more concessions. Landlords and tenants are renegotiating leases, and some landlords are deferring rent into 2021. About 45% of industrial brokers expect lower leasing volume while only 36% believe sales will decline as the market adjusts. Interestingly, most industrial brokers (64%) indicate sales prices won't change as sellers and buyers take a wait-and-see approach.

Average Asking Rent* and Vacancy Rate



MARKET OUTLOOK

Asking Rental Rates



Sale Prices



Availability/Vacancy Rates



Landlord Concessions



Sales/Leasing Volume



New Construction



NAI Capital Research
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Market Statistics*

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	Q2 2020 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	Q2 2020 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT (\$/SF NNN)	AVERAGE SALE PRICE (\$/SF)
Central	242,026,336	491,666	6.5%	3.2%	1,443,685	3,817,633	260,871	1,327,821	\$1.06	\$191
Mid-Cities	101,534,524	426,531	6.1%	2.9%	1,074,121	2,159,287	49,338	766,587	\$0.84	\$217
South Bay	219,021,717	1,185,722	5.8%	3.0%	2,303,305	5,469,266	991,848	2,902,983	\$1.15	\$191
LA North	145,488,547	1,899,783	5.4%	3.5%	1,483,460	3,220,157	350,609	1,611,042	\$0.96	\$189
San Gabriel Valley	169,151,612	495,846	5.6%	3.4%	1,977,249	3,772,758	708,114	2,143,930	\$0.82	\$204
Los Angeles County	877,222,736	4,499,548	5.9%	3.2%	8,281,820	18,439,101	2,360,780	8,752,363	\$0.98	\$195

Leasing

Leasing activity slowed significantly in Q2 2020 as tenants paused to evaluate their space needs and leasing strategies. Volume totaled more than 8.2M SF this quarter for a year-to-date total of more than 18.4M SF. At mid-year, leasing activity was down 14% from last year at this time.

While the pandemic triggered a slowdown overall, some industrial tenants are faring better than others and continued to expand. Distribution centers for ecommerce and logistics tenants as well as cold storage facilities remained high in demand. Amazon has surged due to the increase in online shopping and continued to sign large leases including a 619,200 SF distribution center in City of Industry and a 221,842 SF warehouse in the San Fernando Valley.

Sales

Sales volume bore the brunt of the decline in transactions in Q2 2020. Since 2012, an average of 323 transactions were completed per quarter, but just 89 deals were completed this quarter. Dollar volume totaled just \$459.7M, the lowest amount since 2011. More than 2.3M SF sold in Q2 for a total of nearly 8.8M SF sold in the first half of the year. This is a decline of 24.7% from the first half of 2019. Pricing remained relatively stable at \$195/SF.

While some investors paused this quarter, others used cash and favorable financing conditions to acquire new properties. Institutional investors Brookfield, Black Creek Group, Rexford, LBA Realty and Xebec Realty Partners continued to purchase industrial real estate in Q2. Cap rates on investment sales \$2M and above averaged 4.3%, up 20 bps year over year.

Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/SF**	SQUARE FEET
Amazon	15930 Valley Blvd.	San Gabriel Valley	\$0.78	619,200
Amazon	20730 Prairie St.	LA North	\$0.95	221,842
Access Plus Warehouse & Logistics***	601- 615 W. Walnut St.	South Bay	\$0.96	200,000
Seko Worldwide Logistics	1860 Acacia Ave.	South Bay	\$1.05	100,512
Allstate Floral & Craft, Inc.	14720 E. Alondra Blvd.	Mid-Cities	\$0.81	100,000

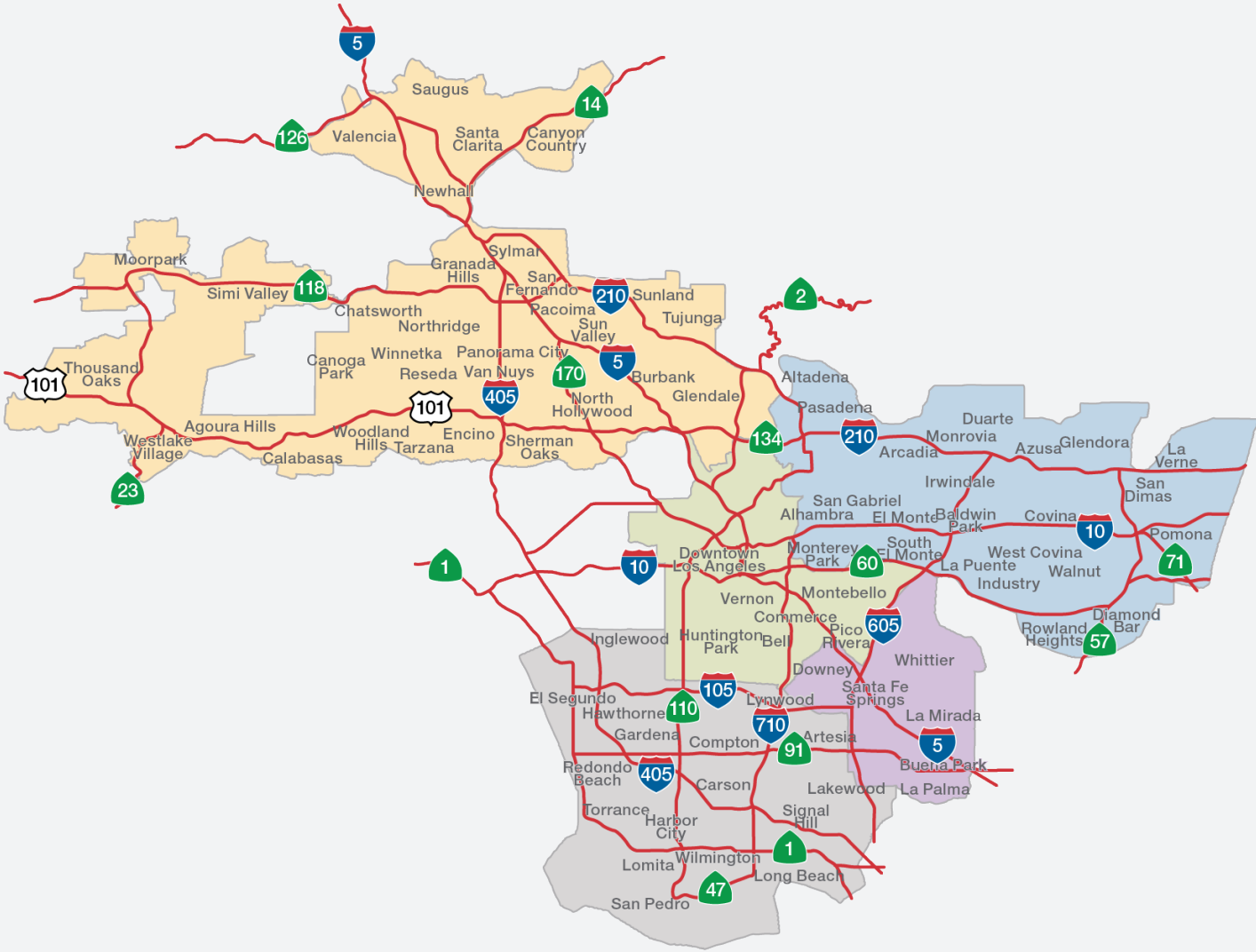
***Sublease

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Brookfield Asset Management, Inc.	2001 E. Dominguez St. & 20740-20750 S. Wilmington Ave.	South Bay	\$156	407,928
Black Creek Group	538 Crenshaw Ave.	South Bay	\$284	174,361
Rexford Industrial Realty, Inc.	6687 Flotilla St.	Central	\$175	120,000
LBA Realty	351 Cheryl Ln.	San Gabriel Valley	\$269	91,535
Xebec Realty Partners	15191 Bledsoe St.	LA North	\$74	84,960

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

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NAI Capital Research

J.C. Casillas

Vice President
Research, Marketing and Communications
jcasillas@naicapital.com

Jillian Olivas

Research and Communications
jolivas@naicapital.com

Katherine Tattersfield

Marketing Research Writer
ktattersfield@naicapital.com

NAI Capital Southern California Office Locations

Headquarters

15821 Ventura Blvd., Ste. 320
Los Angeles, CA 91436
818.905.2400

Property Management

120^{1/2} South El Camino Real, Ste. 210
San Clemente, CA 92674
949.874.0415

Los Angeles County

Downtown LA

707 Wilshire Blvd., Ste. 5125
Los Angeles, CA 90017
213.632.7700

West Los Angeles

11835 Olympic Blvd., Ste. 700E
Los Angeles, CA 90064
310.440.8500

Torrance

970 W. 190th St., Ste. 100
Torrance, CA 90502
310.532.9080

Pasadena

225 S. Lake Ave., Ste. 1170
Pasadena, CA 91101
626.564.4800

Valencia

25060 Avenue Stanford., Ste. 165
Valencia, CA 91355
661.705.3550

Diamond Bar

21660 E. Copley Dr., Ste. 320
Diamond Bar, CA 91765
909.348.0600

Ventura County

Oxnard

300 Esplanade Dr., Ste. 1660
Oxnard, CA 93036
805.278.1400

Westlake Village

2555 Townsgate Rd., Ste. 320
Westlake Village, CA 91361
805.446.2400

Inland Empire

Ontario

800 N. Haven Dr., Ste. 400
Ontario, CA 91764
909.945.2339

Temecula

27720 Jefferson Ave., Ste. 330
Temecula, CA 92590
951.491.7590

Victorville

13911 Park Ave., Ste. 206
Victorville, CA 92392
760.780.4200

Orange County

Irvine

1920 Main St., Ste. 100
Irvine, CA 92614
949.854.6600

Coachella Valley

Palm Desert

75-410 Gerald Ford Dr., Ste. 200
Palm Desert, CA 92211
760.346.1566