

San Fernando Valley

Industrial Market Trends Q3 2023

SHIFTING DEMAND AND RISING VACANCY IMPACT ON SAN FERNANDO VALLEY'S INDUSTRIAL MARKET IN Q3

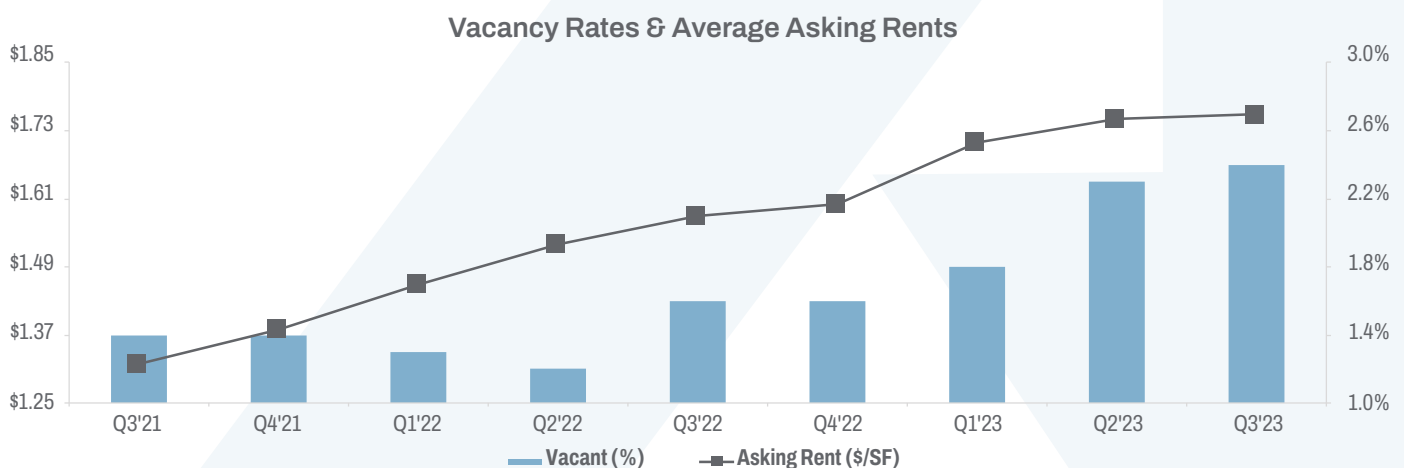
Vacancy Rates Reach 8-Year High as Demand Slows, Sublease Space Increases, Developers, and Investors Tread Cautiously

MARKET OVERVIEW

The demand for warehouse space in the San Fernando Valley shifted as the vacancy rate increased by 80 bps from last year to reach 2.4% – the highest level in 8 years. New developments and an increased supply of industrial space are now trailing behind diminished demand. In Q3, completed construction added 256,821 sq. ft.. Over the past five quarters, the San Fernando Valley added roughly 312,000 sq. ft. of completed construction to the market, while leasing volume resulted in 666,434 sq. ft. during the same timeframe. While land constraints limited new development, developers aggressively pursued keeping pace with economic growth and the seemingly unending demand for warehouse space across the region, driven by e-commerce, which has mostly been satisfied now. Companies that overestimated their space requirements are putting sublease space on the industrial market. This has led to a significant increase in the amount of available sublease space on the market, up by 24.2% (150,000 sq. ft.) from the previous quarter and by 149% (450,000 sq. ft.) from the same time last year. Developers have noticed, proceeding cautiously when considering new developments. Currently there are only 116,526 sq. ft. of industrial space under construction, representing a significant 53.2% decrease compared to last year. Executive Vice President Chad Gahr, SIOR, at NAI Capital Commercial's office in the San Fernando Valley commented, "In the San Fernando Valley Industrial Market, double-digit rent growth has come to an end as increased vacancy, increased borrowing costs and shifting economic conditions present a changing landscape. Despite these headwinds, the overall industrial vacancy rate in the San Fernando Valley remains only 2.4%. The torrid pace of industrial lease absorption and sale transactions of the past few years appears to be returning to a more normal volume, with slightly more choices for tenants coming available via vacant and sublease space, which has put some downward pressure on rental rates. Developers and investors are taking a more measured approach to their investments based upon these changing fundamentals, while tenants may start to experience a slightly more favorable outlook."

TRENDS TO WATCH

The primary driver pushing for new construction has been strong rent growth. In this quarter, the average asking rent grew at a slower pace, bumping up by merely 1 cent from the previous quarter to \$1.76 NNN, while it showed an 11.4% rise from Q3'22. This slowing in rent growth creates concerns for developers and yet provides a more positive outlook for tenants seeking leases in the future. The increase in vacant industrial space offers tenants more options, although high prices and rising interest rates have weakened industrial building leases and sales. Leasing volume declined 34.2% from the prior quarter and 13.8% year to date from last year at this time. Sales volume dropped 48.2% year to date from Q3'22. The average sale price per square foot has registered at \$315, reflecting a 6.1% drop quarter over quarter. The combination of rising interest rates, a slowing economy, and softening demand will have a dampening effect on pricing heading into the end of the year.



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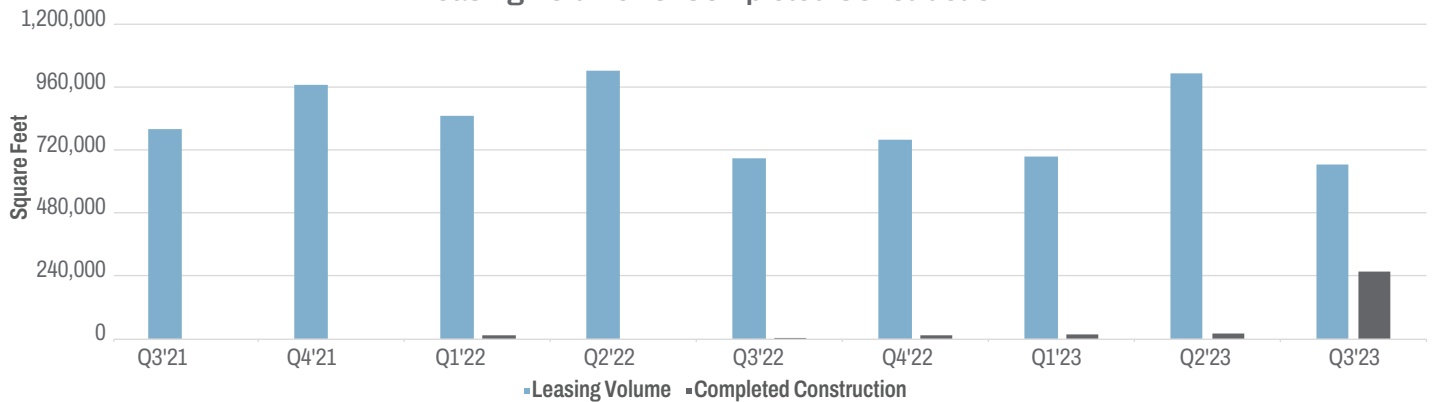
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MARKET STATISTICS*

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	19,608,591	10,000	2.6%	1.7%	86,353	562,555	10,000	159,468	\$1.80	\$273
East	60,921,897	106,526	3.7%	2.4%	396,398	1,055,961	278,660	580,656	\$1.90	\$320
West	27,093,203	0	4.1%	3.2%	183,683	755,132	42,567	485,886	\$1.57	\$305
San Fernando Valley	107,623,691	116,526	3.6%	2.4%	666,434	2,373,648	331,227	1,226,010	\$1.76	\$315
Santa Clarita Valley	23,256,561	193,490	3.9%	1.6%	122,021	754,284	240,596	268,180	\$1.28	\$188

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

Leasing Volume vs. Completed Construction



SELECT LEASE TRANSACTIONS

Tenant	Address	Square Feet
PRG California	1245 Aviation Pl, San Fernando	132,936*
NS Wash	28309 Avenue Crocker, Valencia	51,854
Cicoil	28606 Livingston Ave, Valencia	39,933
Compass/Fresh 'n Ready	1145 Arroyo Ave, San Fernando (unit A)	36,898
A-1 Delivery Co	16230 Filbert St, Sylmar (unit B)	36,827
California Dynamics Corporation	20500 Prairie St, Chatsworth	30,198

*Renewal

SELECT SALES TRANSACTIONS

Buyer	Seller	Address	Square Feet	Sale Price/SF	Sale Price
Westcore Bravo Valencia H LLC	Valencia II LLC	28355 Witherspoon Pkwy, Valencia	417,974	\$285	\$119,116,000
Westcore Bravo Valencia I LLC	Valencia LLC	28305 Livingston Ave, Valencia	321,151	\$287	\$92,134,500
Rexford Industrial-27712 Avenue Mentry LLC	Avenue Mentry LLC	27712 Ave Mentry, Santa Clarita	220,753	\$172	\$38,010,000
Future Visions Investments LLC	7410-7428 Bellaire LLC	7428 Bellaire Ave, North Hollywood	56,660	\$214	\$12,125,000
Snyder Childrens Trust	Kearny Lynn LLC	24908 Avenue Kearny, Santa Clarita	37,294	\$283	\$10,539,000
918 Thompson LLC	Forbello LLC	918 Thompson Ave & 1740 Standard Ave, Glendale	24,100	\$292	\$7,035,000

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