MARKETBEAT

Greater Los Angeles

Industrial Q1 2019

LOS ANGELES COUNTY

Economic Indicators

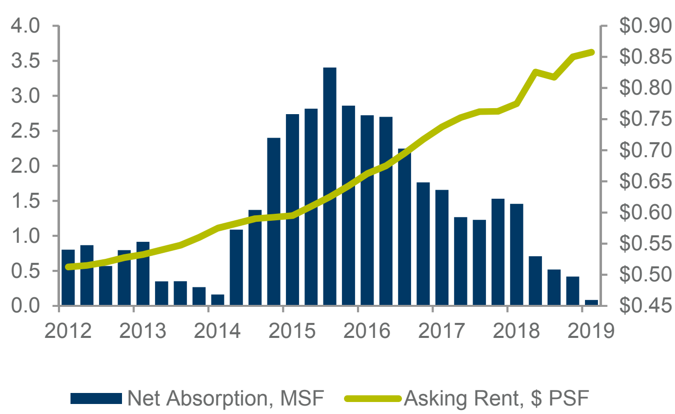
	Q1 18	Q1 19	12-Month Forecast
Los Angeles Employment	4.49M	4.52M	■
Los Angeles Unemployment	4.7%	4.6%	▼
U.S. Unemployment	4.1%	3.8%	▼

**1Q data is for February*

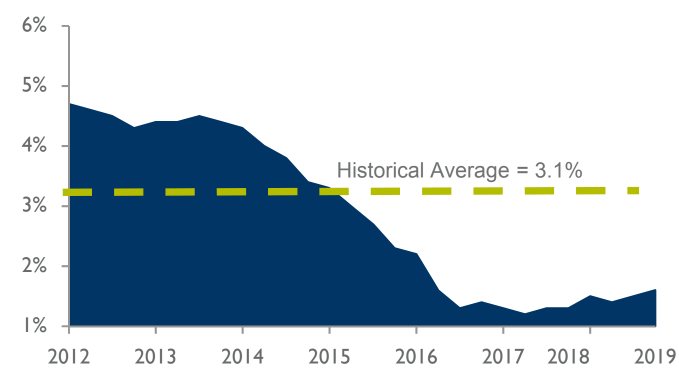
Market Indicators (Overall, All Property Types)

	Q1 18	Q1 19	12-Month Forecast
Vacancy	1.3%	1.6%	▼
YTD Net Absorption (sf)	1.8M	-1.2M	▲
Under Construction (sf)	4.2M	6.3M	▼
Average Asking Rent (psf/mo)	$0.82	$0.89	▲

Overall Net Absorption/Overall Asking Rent
4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Despite some concerns at the start of the year, the U.S. economy remains healthy, powered by solid fundamentals and tax cut stimulus. Most expect the expansion to continue at least through 2019. Real GDP is forecast to grow by 2.7% in 2019—a moderation from the 2.9% growth rate in 2018, but still providing a very healthy environment for the industrial sector. Following a robust year that was marked by record-high cargo growth amid a trade dispute with China, a slowing domestic economy will likely lead to only modest growth in container imports in 2019, following a 4.5% annual increase in 2018. Imports will be further impacted during the second half of the year in response to a sluggish U.S. economy as the initial effects of the federal Tax Cuts and Jobs Act of 2017 start to fade. In the first quarter, combined year-to-date trade volume at the San Pedro Bay ports was relatively flat, increasing by a mere 0.2%, with import volume declining by 2.8%.

Market Overview

Greater Los Angeles started the year in the red with 1.2 million square feet (msf) of negative absorption in the first quarter, resulting in a 30-basis point (bp) increase in vacancy from last year. Three of the five major markets recorded negative absorption in the first quarter and the bulk of this vacancy occurred in Mid-Counties with 1.5 msf of occupancy losses. However, due to strong demand, vacancy is expected to decrease slowly throughout the year as the additional supply of available inventory and new buildings that were delivered in 2018 are absorbed. Although strong demand has resulted in historically strong performance for Class A product and improved fundamentals for Class B and C product in the right locations, the limited supply of modern product has hampered leasing activity. Totaling 6.9 msf, leasing activity was down 35.6% from the same period a year ago. The South Bay market dominated the region in leasing, accounting for 31.3% of the activity in the first quarter.

The enormous emphasis on improving efficiency in the last-mile of distribution has been generating significant rent growth and asking rents reached new heights. After a double-digit annual increase in 2018, the region's average rent climbed to $0.89 per square foot per month (psf/mo) for an annual growth of 8.5%. A significant portion of demand for industrial space is ultimately driven by consumer spending, and we expect that engine to remain strong. Although total retail sales growth is forecast to decelerate from 5.1% in 2018 to 4.4% in 2019, eCommerce sales are expected to grow 15.1% to $605.3 billion in 2019.

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Central Los Angeles

Even with an uptick in vacancy and negative net demand in the first quarter, Central Los Angeles' market fundamentals remain relatively healthy with a vacancy rate of 1.7%. Although demand for industrial product has never been greater, options are limited and it has been very challenging market for tenants. Leasing activity totaled only 1.2 msf in the first quarter, compared to 2.6 msf a year ago. This is the lowest quarterly total since fourth quarter 2007. The significant drop in leasing velocity is the result of limited supply and not lack of demand. In response to the lack of modern product, development activity increased with 1.0 msf under construction at the end of the first quarter, which should help satisfy demand for modern product. It's definitely a great time to be a landlord or a seller as pricing continues to increase, and vacancy remains at low levels.

FOR MANY RETAILERS, FUTURE SALES—AND PROFITS—WILL DEPEND ON HOW QUICKLY AND CONSISTENTLY GOODS CAN BE DELIVERED TO CUSTOMERS AND THE NEED FOR LAST-MILE FACILITIES WILL ONLY INCREASE IN ORDER TO MEET TIGHTER DELIVERY COMMITMENTS

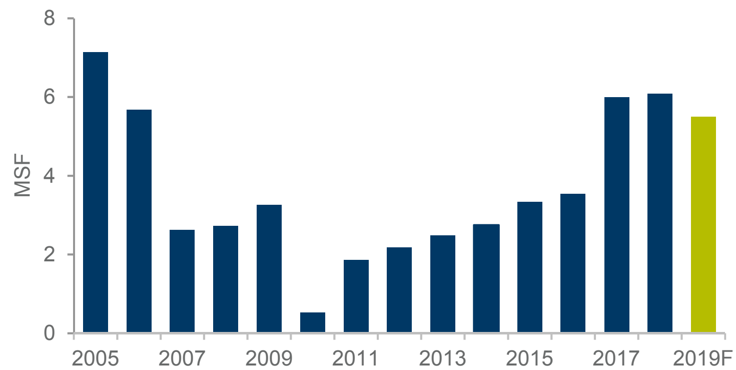
With net occupancy losses of 175,195 sf, there was a light uptick in Commerce/ Vernon submarket's overall vacancy, from 1.5% at year-end 2018, to 1.6%. Strong demand and limited supply continue to fuel strong rent growth and rental rates are now at historic highs with the overall average rate increasing by 8.5% in the last year. Rents have increased by 37.5% since year-2015.

Outlook

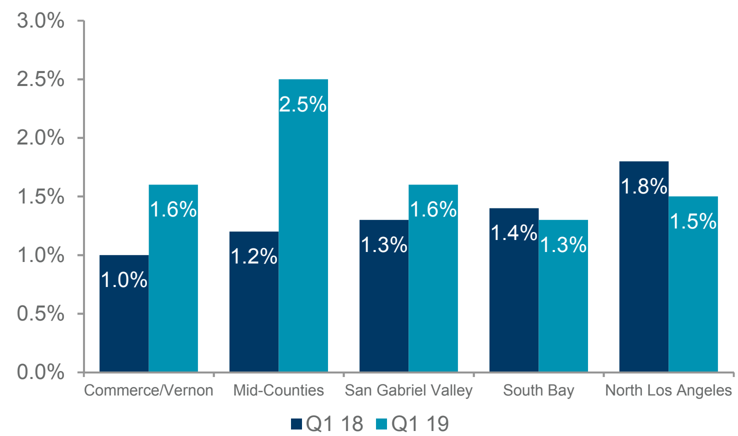
- Growth in asking rents will soften slightly, but rents will continue to rise.
- Real consumer spending is forecast to grow 2.6% in 2019—a growth rate more than sufficient to power demand for industrial real estate.
- Considering that online sales are growing nearly four times faster than overall retail sales, further industrial demand for eCommerce fulfillment can be expected.
- The National Retail Federation predicts that U.S. imports will grow between 3.8% and 4.4% during the first half of 2019. Port congestion is likely to remain a challenge.

New Supply

INCREASED DEVELOPMENT ACTIVITY

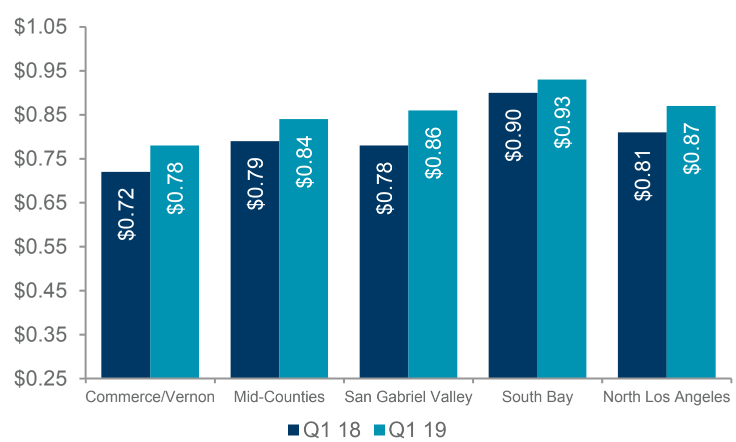


Overall Vacancy Comparison



Average Direct Asking Rent

ANNUAL RENT APPRECIATION AVERAGED 8.5%



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South Bay

Overall vacancy for the South Bay market stood at 1.3% - the same level as year-end 2018. Limited supply has become a constraining factor in the market's ability for growth. With such low vacancies across all submarkets, there is little room for further growth in terms of net demand or leasing. Totaling 2.2 msf in the first quarter, leasing activity was down 20.1% from a year ago with the number of transactions decreasing by 26.2%. Strong demand and lack of available inventory continue to drive upward movement in rents and the average overall rental rate jumped to a new historic high of $0.91 psf/mo (net), for an annual growth of 5.8%. Rental rates in the South Bay have increased by a whopping 51.7% since year-end 2014. The 1.6 msf currently in development is not anticipated to apply significant upward pressure on vacancy due to strong demand for Class A product. With the continued growth of eCommerce and customers increasingly demanding speedy delivery, last-mile warehouse locations are critical for online retailers. However, this infill market has significant barriers to entry and supply is not expected to keep pace with demand.

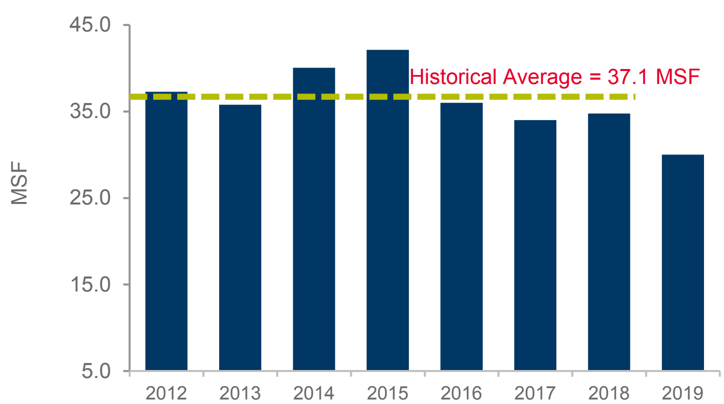
Mid-Counties

After a banner year in 2018 when the market posted record-high leasing activity and 1.6 msf of net demand, the Mid-Counties industrial market started the year in the red with 1.5 msf of negative absorption in the first quarter, resulting in a 130-bp increase in vacancy from a year ago. This snaps the four-year streak of sub 2% vacancy for the market. JCPenney's 1.1 msf of warehouse space at 6800 Valley View in Buena Park and Unisource Worldwide's vacated space of 424,000 sf in La Palma are two of the large move-outs of the quarter. Leasing activity took a significant dip as well. With the number of deals declining by 52.1%, leasing activity declined by a whopping 59.7% from the same period a year ago. On a positive note, the 1.1 msf of leased space in the first quarter was only down 9.0% from fourth quarter 2018. Due to strong demand, rents have been rising steadily and have grown an average annual rate of 8.5%. That growth accelerated in first quarter, with the average overall asking rate reaching a new high of $0.82 psf/mo, for a 13.9% annual growth.

San Gabriel Valley

Nearing ten years of growth, San Gabriel Valley continues to perform at peak levels with solid occupancy gains and record-high rents. The market continues to dominate the Los Angeles region in terms of development activity with 2.7 msf under construction at the end of the first quarter. Strong demand will intensify competition for the more desirable and functional spaces that become available and new supply is not expected to apply significant upward pressure on vacancy. With 2.3 msf new product completed in 2018, there was a 30-bp year-over-year increase in vacancy, but since this is a supply-driven increase and there is pent-up demand for new product, vacancy is expected to decrease slowly as these new buildings are absorbed. First quarter's net absorption of 346,630 sf of space brought down the overall vacancy rate to 1.6%, from 1.7% at year-end 2018. Strong demand continues to push rents higher and since year-end 2015, the average rent has increased by a whopping 36.2%. Leasing activity slowed in the first quarter with a 23.4% drop in space leased and a 21.7% decline in total transactions. The largest deal of the quarter was Soho Logistics' 168,913-sf lease at the Nelson Business Park in City of Industry. The tenant, a local logistics company, will utilize the property for last-mile distribution.

Leasing Activity



North Los Angeles

North Los Angeles started the new year strong with net absorption of 424,714 sf. This brought the overall vacancy rate down to 1.5%, from 1.6% at year-end 2018 and 30 bps lower than first quarter 2018. Leasing activity ramped up too and was up 8.5% from the same period a year ago, ending the first quarter with 1.1 msf of leased space. Investors are also quite active in the market. The largest sale of the quarter in the LA region was Rexford Industrial Realty's acquisition of Conejo Spectrum Business Park, a nine-building industrial park, for $106.3 million. Healthy demand continues to push rental rates higher with overall rental rates averaging $0.87 psf/mo, for a 7.4% annual growth. Santa Clarita Valley topped the market in net demand with 381,823 sf while East Valley took the top spot in leasing with 345,318 sf.

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SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	YTD LEASING ACTIVITY (SF)	YTD USER SALES ACTIVITY (SF)	OVERALL VACANCY RATE	YTD NET OVERALL ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	YTD CONSTRUCTION COMPLETIONS (SF)	DIRECT WEIGHTED AVG. NET RENT (MF)	DIRECT WEIGHTED AVG. NET RENT (OS)	DIRECT WEIGHTED AVG. NET RENT (W/D)
Los Angeles	2,370	100,922,997	405,976	87,908	1.8%	-76,138	202,580	0	$1.39	$1.01	$0.98
Commerce/Vernon	2,663	169,379,164	769,668	144,241	1.6%	-175,195	819,419	0	$0.74	$1.25	$0.80
Mid-Counties	2,072	124,193,892	1,057,851	220,079	2.5%	-1,518,260	71,743	0	$0.87	$1.10	$0.83
San Gabriel Valley	3,631	196,735,532	1,415,972	270,130	1.6%	346,630	2,674,536	0	$0.83	$0.94	$0.85
South Bay	4,762	234,735,532	2,173,231	177,669	1.3%	-218,500	1,551,946	0	$0.73	$1.48	$0.90
Westside	561	16,894,597	75,385	0	0.7%	0	0	0	N/A	$2.79	$2.67
North Los Angeles	5,920	225,544,241	1,051,076	288,340	1.5%	424,714	1,022,509	56,306	$0.80	$1.27	$0.81
GREATER LOS ANGELES TOTAL	**21,979**	**1,068,405,955**	**6,949,159**	**1,188,367**	**1.6%**	**-1,216,749**	**6,342,733**	**56,306**	**$0.87**	**$1.34**	**$0.86**

NOTE: Rental rates reflect asking $psf/month

MF = Manufacturing OS = Office Service/Flex W/D = Warehouse/Distribution

Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
7026-30 E Slauson Avenue, Commerce	267,500	JC Sales	Renewal	Commerce/Vernon
11130 Bloomfield Avenue, Santa Fe Springs	239,872	Tru-Aire (TA Industries)	New Lease	Mid-Counties
303-335 W Artesia Boulevard, Compton	238,084	R+L Truckload	Renewal/Expansion	South Bay
909 Colon Street, Wilmington	223,865	Potential Industries	Sublease	South Bay
2902 Val Verde Court, Rancho Dominguez	184,000	SBS Transportation	New Lease	South Bay
14736 Nelson Avenue, City of Industry	168,913	Soho Logistics	New Lease	San Gabriel Valley
2910 E Pacific Commerce Drive, Rancho Dominguez	150,000	KCC Transportation	Sublease	South Bay
18455 S Figueroa Street, Gardena	146,765	Faraday Future	New Lease/SLB	South Bay
6270 Caballero Boulevard, Buena Park	130,000	OC RV (RV Storage)	New Lease	Mid-Counties
1320 Holt Avenue, Pomona	106,080	United Glass & Ceramics	New Lease	San Gabriel Valley

Key Sale Transactions Q1 2019

PROPERTY	SF	SELLER/BUYER	PRICE/$PSF	SUBMARKET
2405-2595 Conejo Spectrum Drive, Thousand Oaks	531,378	Sares-Regis / Rexford Industrial	$106,300,000 / $200	North Los Angeles
9804-10012 Norwalk Boulevard, Santa Fe Springs	239,281	Colonnade-Nobbs LLC/ Brookfield Asset Management, Inc.	$45,500,000 / $190	Mid-Counties
20730 Prairie Street, Chatsworth	222,335	Rexam Beverage Can Co./ Xebec Realty Partners	$37,000,990 / $166	North Los Angeles
29125 Avenue Valley View, Valencia	187,540	IAC Properties / Chick-fil-A	$37,000,000 / $187	North Los Angeles
12901 Ramona Boulevard, Irwindale	127,092	Global Logistic Properties / BKM Capital Partners	$25,900,000 / $204	San Gabriel Valley

Under Construction Q1 2019

PROPERTY	SF	MAJOR TENANT	COMPLETION DATE	SUBMARKET
Goodman Logistics Center – Bldgs 1-2	1,235,443	Mutual Trading Company	Q4 2019/Q1 2020	San Gabriel Valley
The Center at Needham Ranch, Valencia	452,199	None	Q3/Q4 2019	North Los Angeles
Pacific Edge - Bldgs 1-3, Long Beach	421,692	HydraFacial	Q3 2019	South Bay

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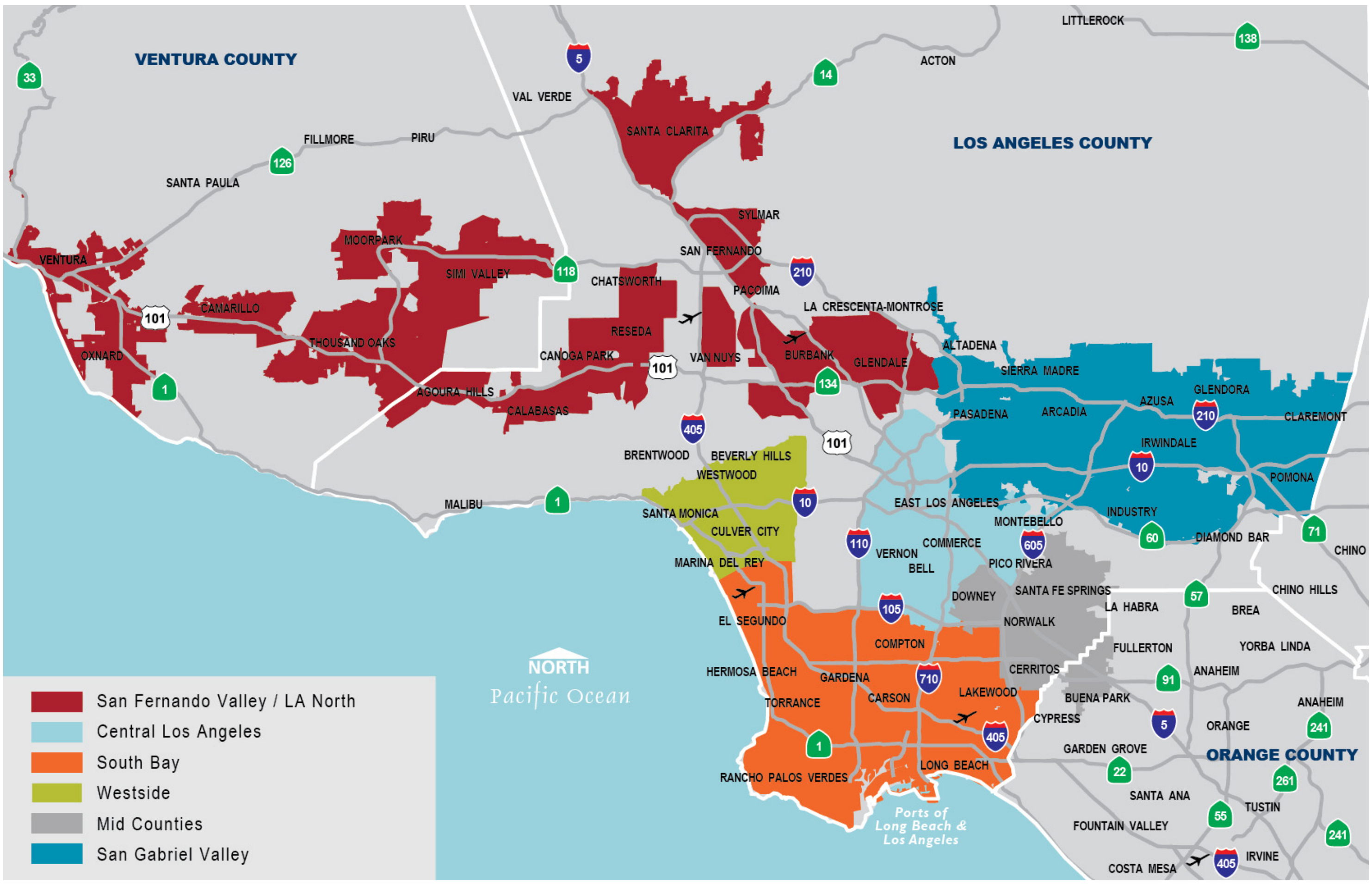
GREATER LOS ANGELES INDUSTRIAL MARKETS



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