MARKETBEAT

Greater Los Angeles

Industrial Q2 2019

LOS ANGELES COUNTY

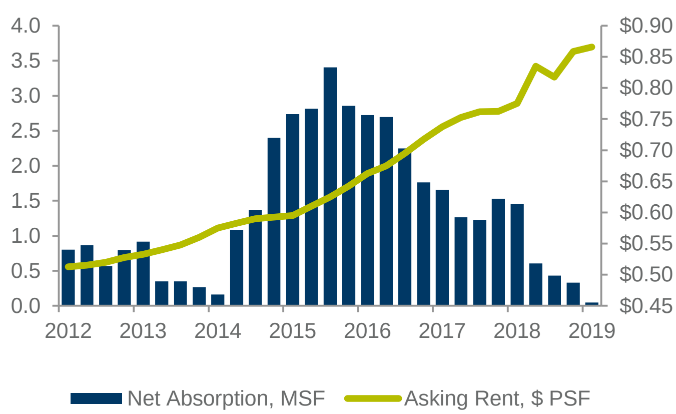
Economic Indicators

	Q2 18	Q2 19	12-Month Forecast
Los Angeles Employment	4.50M	4.55M	▬
Los Angeles Unemployment	4.6%	4.6%	▼
U.S. Unemployment	3.9%	3.6%	▼

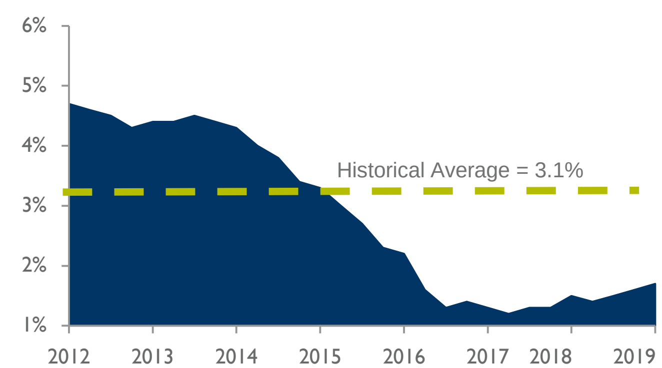
Market Indicators (Overall, All Property Types)

	Q2 18	Q2 19	12-Month Forecast
Vacancy	1.5%	1.7%	▼
YTD Net Absorption (sf)	2.0M	-1.3M	▲
Under Construction (sf)	3.8M	7.0M	▼
Average Asking Rent (psf/mo)	$0.83	$0.90	▲

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



Overall Vacancy



Economy

Global economic growth has downshifted with real global GDP projected to grow by 3.3% in 2019—a still reasonably solid rate but slower than the 3.6% growth in 2018 and much slower than the near 4% growth registered in 2017. The U.S. economy expanded at a 3.1% annual pace in the first quarter, but signs are emerging that growth is slowing to about 2.0% in the second quarter. Although the outlook for the U.S. economy remains favorable, the risks to this outlook appear to have grown with rising uncertainties over trade and global growth. The trade war tensions between the U.S. and China continued to impact the flow of goods and imports, especially from China, have been trending lower. Combined import volume into the San Pedro Bay ports was down 3.3% in the first half of the year, with Port of Long Beach posting a 9.0% decline in imports.

Market Overview

With 1.3 million square feet (msf) of negative absorption at mid-year, Greater Los Angeles' overall vacancy rate increased to 1.7%, 20 basis points (bps) higher than a year ago. Three of the five major markets recorded negative absorption at mid-year and the bulk of this vacancy occurred in Mid-Counties with 1.1 msf of occupancy losses. The limited supply of modern product continued to hamper market activity. Although leasing improved in the second quarter, increasing 11.5% quarter-over-quarter, mid-year's total of 15.4 msf was still 19.7% lower than the same period a year ago. The South Bay market continued to dominate the region in leasing, accounting for 25.8% of the region's activity. The enormous emphasis on improving efficiency in the last-mile of distribution has been generating significant rent growth. The last-mile facilities are commanding record rents and users are paying extraordinary prices. After a double-digit annual increase in 2018, the region's average rent climbed to $0.90 per square foot per month (psf/mo) for an annual growth of 8.4%. Vacancy is expected to decrease slowly throughout the year as new inventory delivered in the last year and half are absorbed.

The key engines that drive demand for industrial space remain firmly intact. Namely, eCommerce continues to thrive and consumers continue to spend. Despite the economic headwinds, consumer demand and spending have remained relatively resilient. U.S. consumer spending increased 0.4% in May and is expected to be solid in the coming months thanks to the strong job market, rising incomes and upbeat consumer sentiment.

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Central Los Angeles

With negative net absorption of 973,537 sf at mid-year 2019, Central Los Angeles's overall vacancy climbed to 2.0%, 60 bps higher than a year ago. Options for modern facilities remain limited and it has been a very challenging market for tenants. Leasing activity totaled 3.3 msf at mid-year, 13.1% lower than the same period a year ago. 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 has been healthy with 950,303 sf in development at the end of the second quarter. This should help satisfy demand for modern product.

DESPITE THE ECONOMIC HEADWINDS, THE UNDERLYING ECONOMIC FUNDAMENTALS THAT DRIVE DEMAND FOR INDUSTRIAL SPACE REMAIN HEALTHY. HEIGHTENED SERVICE DELIVERY EXPECTATIONS WILL CONTINUE TO CREATE INCREASED COMPETITION FOR LAST-MILE FACILITIES.

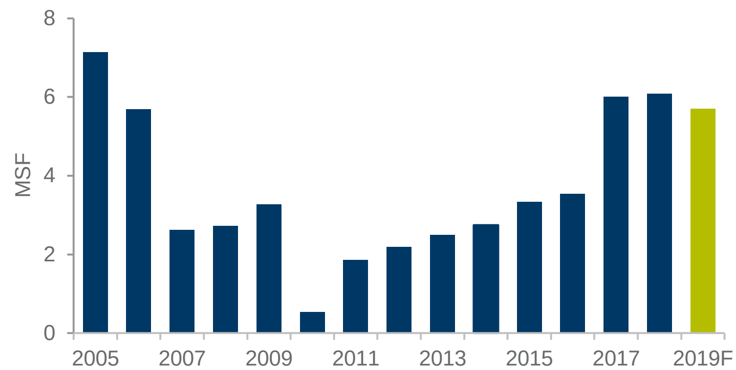
With net occupancy losses of 673,055 sf at mid-year, the Commerce/Vernon submarket's overall vacancy increased to 2.0%, from 1.6% in the first quarter. Strong demand and limited supply continue to fuel strong rent growth and the average overall rent increased 8.6% in the last year and a whopping 38.2% in the last two years. Although industrial continues to be the top performing real estate asset class, industrial leasing activity and user demand could slow in 2020 due to the slowing economic activity and pressure from trade tensions.

Outlook

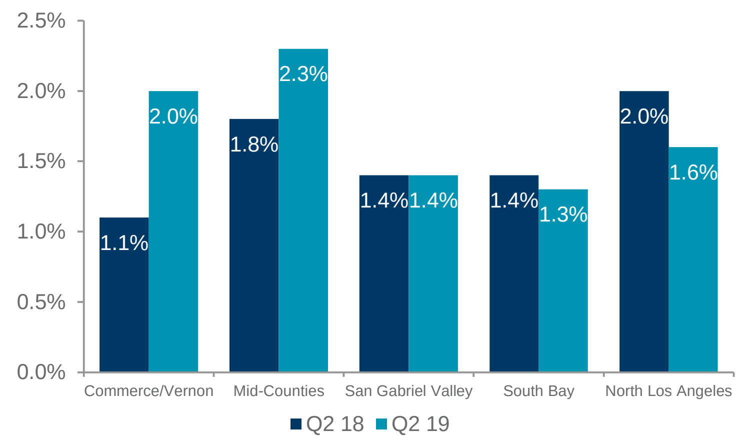
- Rising land and construction costs and strong demand will continue to fuel rent growth.
- U.S. growth rates are expected to moderate over the course of the year with most forecasters pegging GDP growth rates in the 2-to-2.5% range for 2019 and around 1.5-2% in 2020. While that is slower, such economic growth should be sufficient to support continued job growth and consumption.
- Considering that online sales are growing nearly four times faster than overall retail sales, further industrial demand for eCommerce fulfillment can be expected.
- According to a recent DHL Supply Chain report, eCommerce retailers expect online sales to increase as much as 21% over the next three to five years.

New Supply

INCREASED DEVELOPMENT ACTIVITY

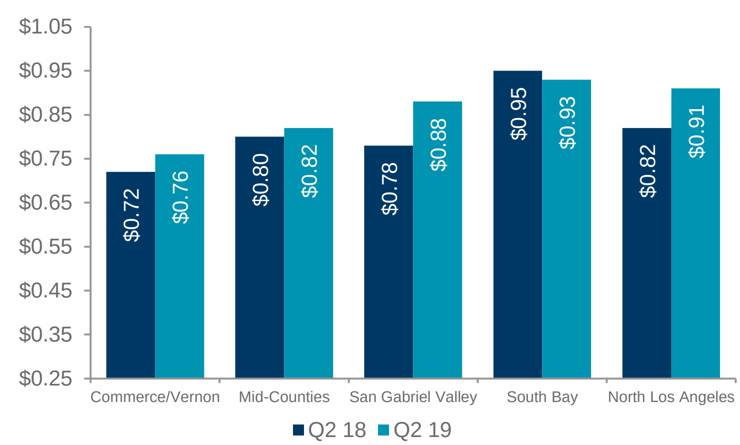


Overall Vacancy Comparison



Average Direct Asking Rent

ANNUAL RENT APPRECIATION AVERAGED 5.9%



South Bay

With limited supply hindering the market's ability for growth, overall vacancy for the South Bay market has been steady at 1.3% for the last three quarters. With such low vacancies across all submarkets, there is little room for further growth in terms of net demand or leasing. Although the South Bay led the Greater LA region in leasing velocity, its mid-year total of 4.0 msf was 20.9% below 2018's mid-year level. Strong demand and lack of available inventory, especially for modern product, continue to drive upward movement in rents. Although the rate of growth for the overall market has decelerated in the last two years, rental rates have increased by a whopping 51.7% since year-end 2014. Meanwhile, the average effective rent for Class A space over 50,000 sf has now surpassed the $1.00 mark, increasing by an impressive 37.3% in the last two and half years. To satisfy the demand for modern facilities, development activity ramped up with 2.0 msf currently in development, a significant increase from last year. Due to strong demand for Class A product, the addition of new inventory is not anticipated to apply significant upward pressure on vacancy.

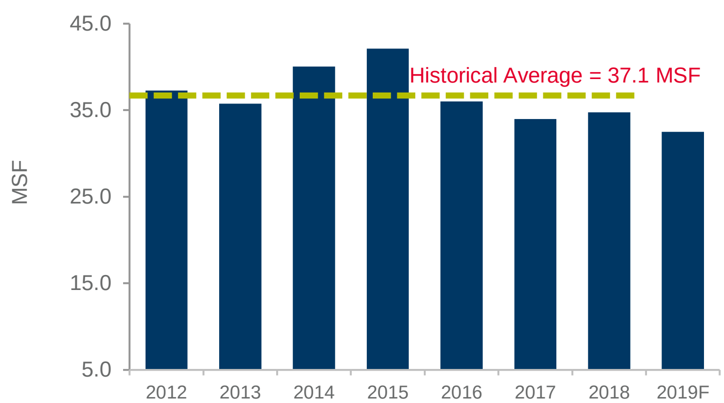
Mid-Counties

Still saddled with JCPenney's move-out of 1.1 msf in the first quarter that pushed the market's overall vacancy to 2.5%, mid-year's net absorption was negative 1.1 msf. However, with net occupancy gains of 390,916 sf in the second quarter, the market posted a 20-bp drop in vacancy quarter-over-quarter to 2.3%. Totaling 1.7 msf in the second quarter, leasing activity rebounded significantly as well, increasing by 49.4% from first quarter. But with the number of deals declining by 42.2% in the first half of the year, mid-year's leasing total of 2.8 msf was 35.4% lower than the same period a year ago. The largest lease of the second quarter was IDC Logistics' 447,055-sf lease at 6700-6750 Artesia Blvd. in Buena Park. This deal and Quiet Logistics' 424,285- sf lease in La Palma in addition to a number of large leases signed by logistics companies in the second quarter demonstrate the continued demand for fulfillment space across the region. Mid-Counties is recognized as one of the most central distribution locations and one of the strongest industrial markets in Southern California. Although the average rent remained at $0.82 psf/mo in the second quarter, this is a record high and was still 7.9% higher than last year.

San Gabriel Valley

Dominating the Los Angeles region in both net demand and development activity, San Gabriel Valley continues to perform at peak levels with solid occupancy gains and record-high rents. With net occupancy gains of 809,116 sf at mid-year, overall vacancy dropped to 1.4%, the same level as a year ago and 30 bps lower than the 1.7% posted at year-end 2018. With the tightening market, leasing velocity has slowed with a 25.4%-drop in leased space in the first half of the year. The largest deal of the quarter was a 230,992-sf deal signed by The Chefs' Warehouse in the City of Industry. With lack of available inventory for sale, user sales activity has also seen a slowdown, decreasing by 32.1% from last year and totaled just 479,599 sf. The 2.5-msf of development should help satisfy the demand for modern facilities and market activity should improve. The largest project in development is Goodman's 1.2-msf, two-building logistics campus in El Monte with 935,657 sf of available space. In the second quarter, Alere Property broke ground on a seven-building, 463,346-sf campus in Azusa which will offer buildings ranging from 28,795 sf to 159,067 sf. Strong fundamentals continue to push rents higher with the average rent increasing by 12.8% year-over-year.

Leasing Activity



North Los Angeles

After a strong start to the year, North Los Angeles posted negative demand in the second quarter of 204,829 sf, which brought the mid-year total to 244,308 sf. On a positive note, second quarter's overall vacancy of 1.6% was still 40 bps lower than last year. Totaling 2.6 msf at mid-year, leasing activity improved as well and was up 6.9% from the same period a year ago. Investor activity saw healthy transaction volume over the first half of 2019 with 2.2 msf trading, a significant increase from the 813,942 sf recorded at mid-year 2018. Healthy demand continues to push rental rates higher with overall rental rates averaging $0.88 psf/mo, for a 7.3% annual growth. Santa Clarita Valley topped the market in both net demand and leasing activity. This submarket is highly competitive due to its pro-business climate and lower cost of doing business.

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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	2,373	101,036,681	801,698	141,647	2.0%	-300,482	202,580	0	$1.16	$1.14	$1.18
Commerce/Vernon	2,663	169,360,080	2,496,170	404,883	2.0%	-673,055	747,723	118,664	$0.78	$1.12	$0.77
Mid-Counties	2,073	124,423,787	2,761,673	294,673	2.3%	-1,097,344	17,338	71,743	$0.87	$0.86	$0.82
San Gabriel Valley	3,633	197,055,544	2,653,628	479,599	1.4%	809,116	2,475,014	513,104	$0.90	$0.94	$0.88
South Bay	4,764	235,050,050	3,971,533	312,616	1.3%	-258,668	2,039,934	34,734	$0.69	$1.44	$0.92
Westside	549	16,593,277	75,385	10,500	1.0%	-45,720	0	0	$1.70	$2.75	$2.67
North Los Angeles	5,924	225,796,479	2,610,444	370,811	1.6%	244,308	1,563,178	239,192	$0.81	$1.33	$0.86
GREATER LOS ANGELES TOTAL	**21,979**	**1,069,315,898**	**15,370,531**	**2,014,729**	**1.7%**	**-1,321,845**	**7,045,767**	**977,437**	**$0.87**	**$1.41**	**$0.86**

NOTE: Rental rates reflect asking $psf/month

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

Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
6700-6750 Artesia Boulevard, Buena Park	447,055	IDC Logistics	New Lease	Mid-Counties
6565 Valley View Avenue, La Palma	424,285	Quiet Logistics	New Lease	Mid-Counties
455 Brea Canyon Road, City of Industry	230,992	The Chefs' Warehouse	New Lease	San Gabriel Valley
7855 Hayvenhurst Avenue, Van Nuys	175,660	Moulton Logistics	Renewal	North Los Angeles
28305 W Livingston Avenue, Valencia	167,990	Valencia Pipe Company	New Lease	North Los Angeles
12910 Mulberry Drive, Whittier	153,080	Shift Technologies, Inc.	New Lease	Mid-Counties
200 Alondra Boulevard, Carson	145,103	D.B. Group America, Ltd	New Lease	South Bay
2200 W 195th Street, Torrance	127,000	Wash Laundry Systems	New Lease	South Bay
13217 S Figueroa Street, Los Angeles	122,718	Punch Studios	New Lease	South Bay
16170-16180 Ornelas Street, Irwindale	115,327	Capacity, LLC	New Lease	San Gabriel Valley

Key Sale Transactions Q2 2019

PROPERTY	SF	SELLER/BUYER	PRICE/$PSF	SUBMARKET
San Fernando Business Center, San Fernando	591,660	Barings Real Estate / Rexford Industrial	$118,100,000 / $200	North Los Angeles
13890 E Nelson Avenue, City of Industry	256,993	Colony Capital / Rexford Industrial	$41,800,000 / $163	San Gabriel Valley
15300 Desman Road, La Mirada	254,718	AEW Capital Management / Robertson Properties	$52,887,000 / $208	Mid-Counties
1515 East 15th Street, Los Angeles	238,015	Graff Californiawear / Rexford Industrial	$28,100,000 / $118	Los Angeles
2910-2960 Pacific Commerce Ctr, Rancho Dominguez	150,000	CalSTRS / WPT Industrial Real Estate Investment	$28,800,000 / $192	South Bay

Under Construction Q2 2019

PROPERTY	SF	MAJOR TENANT	COMPLETION DATE	SUBMARKET
Goodman Logistics Center – Bldgs 1-2	1,235,443	Mutual Trading Company	Q4 2019	San Gabriel Valley
The Center at Needham Ranch, Valencia	870,183	None	Q4 2019/Q1 2020	North Los Angeles
Pacific Edge - Bldgs 1-3, Long Beach	421,692	HydraFacial/Traffic Tech	Q4 2019	South Bay

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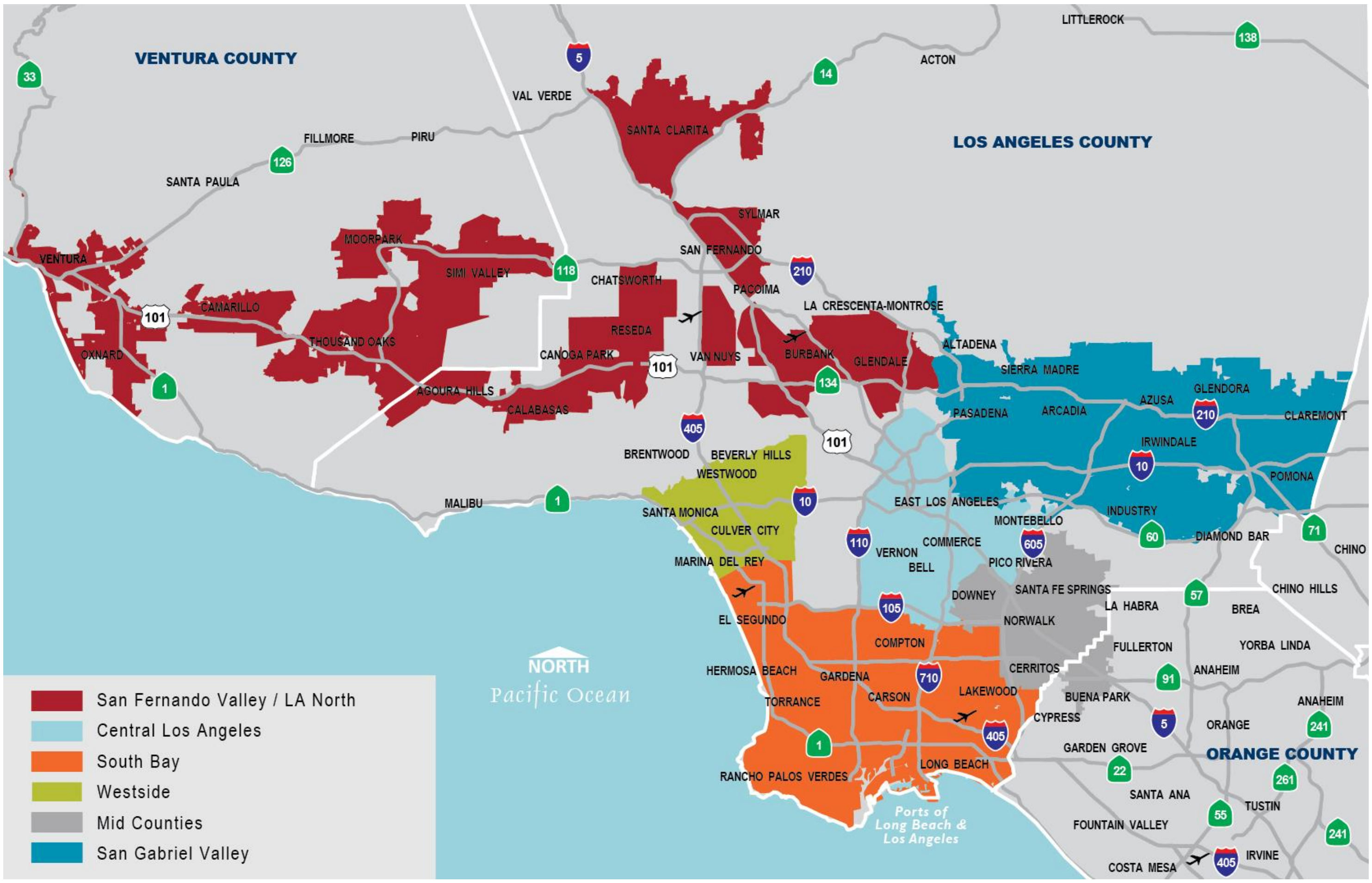
GREATER LOS ANGELES INDUSTRIAL MARKETS



Cushman & Wakefield
2141 Rosecrans Avenue,
Suite 7000
El Segundo, CA 90245 | USA
www.cushmanwakefield.com

For more information, contact:
Tina Arambulo
Industrial Research Director
Tel: +1 310 525 1918
Tina.arambulo@Cushwake.com

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