

Los Angeles Industrial Market

Tight Leasing Conditions Persist; Recession Concerns Loom

- Move-ins by JD Logistics (216,716 square feet), FDH Aerospace (114,898 square feet), Impex Fitness (102,654 square feet), and others kept vacancy at a record low.
- Vacancy, which hovered at 0.9%, is the second lowest in the nation, behind the Inland Empire's 0.8% average.
- Warehouse pricing has increased substantially for both leases and sales. For sales, this quarter's average building sold price was \$346/SF, 63.1% higher than 12 months prior.
- The current ILWU-PMA* contract will expire on July 1. Both parties have indicated that port operations will continue as negotiations extend past the deadline.
- Loaded inbound cargo volume at Southern California's ports totaled 4.3 million containers in the first five months of 2022, flat relative to the same period last year.
- Occupiers have taken 94.1% of the 11.2 million square feet of new supply delivered over the last 24 months.
- The office-to-industrial conversion trend continues, exemplified by this quarter's \$40.0 million sale of a 94,113-square-foot office campus in Torrance to Atlas Capital.

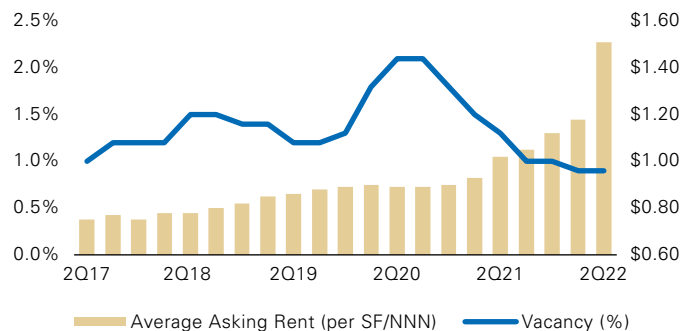
Pre-Leasing Continues to Drive Absorption Activity

Market-wide net absorption was positive for the eighth consecutive quarter, while submarket results were mixed. In a tight market, one or two tenant move-ins or outs can shape absorption activity if new supply, by way of new construction deliveries, is limited. Such was the case this quarter in South Bay and Mid-Counties, which posted slight absorption losses.

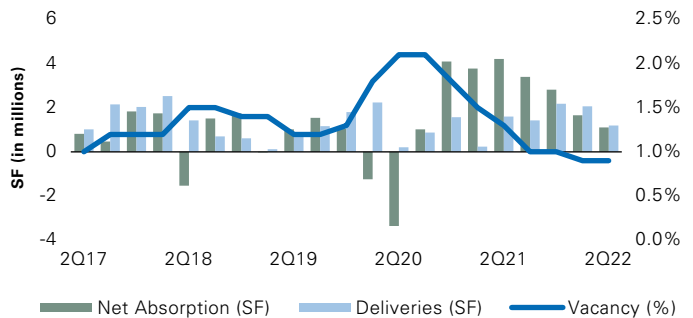
Tenants taking occupancy of pre-leased space continued to drive market-wide absorption figures. This quarter, Home Depot settled into 528,710 square feet in the City of Industry, LA North Studios LLC occupied 113,400 square feet in Valencia and Duty Free Shops took 107,140 square feet in Torrance. When combined, these three move-ins accounted for 67.1% of Los Angeles' quarterly net absorption gains.

Market Analysis

ASKING RENT AND VACANCY



NET ABSORPTION, CONSTRUCTION DELIVERIES AND VACANCY



Market Summary

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	1.055B	1.055B	1.050B	↑
Total Vacancy Rate	0.9%	0.9%	1.3%	→
Quarterly Net Absorption (SF)	1.1M	1.6M	4.2M	→
Average Asking Rent/SF/Month	\$1.51	\$1.18	\$1.02	→
Deliveries (SF)	1.2M	2.1M	1.6M	→
Under Construction (SF)	4.6M	4.3M	6.9M	→

* ILWU is an acronym for International Longshore and Warehouse Union - essentially the dockworkers of U.S. West Coast ports. The PMA, or the Pacific Maritime Association, governs the ports.

Development Obstacles to the East

A handful of Inland Empire cities have either enacted or are strongly considering development moratoriums on future industrial product. On the heels of this is California Assembly Bill 2840, which, if passed, will require new warehouses with footprints of 100,000 square feet or larger in Riverside and San Bernardino Counties to be built at least 1,000 feet away from residential properties and schools. This will effectively push new warehouse construction to more tertiary pockets of the Inland Empire, including the High and Low Deserts.

The above favors leasing conditions in Los Angeles since local distributors will have fewer options to the east to secure modern space within reasonable proximity of the ports. Conversely, Inland moratoriums may shape policy within select Los Angeles cities. Vernon, for instance, recently imposed a 45-day moratorium on new warehouse development, while Pomona is considering a similar measure.

Chances of a Recession Increase

The likelihood of a recession on most econometric models has now risen from 30% to about 60%, after the Fed raised interest rates by 75 basis points in mid-June, the biggest single increase since 1994. The exact timing, severity and duration of an upcoming recession is an unknown, while an absolute forecast is nonexistent; only potential

scenarios exist. Even if a recession is averted, rising interest rates will almost certainly produce less investment, less growth, layoffs and rising unemployment.

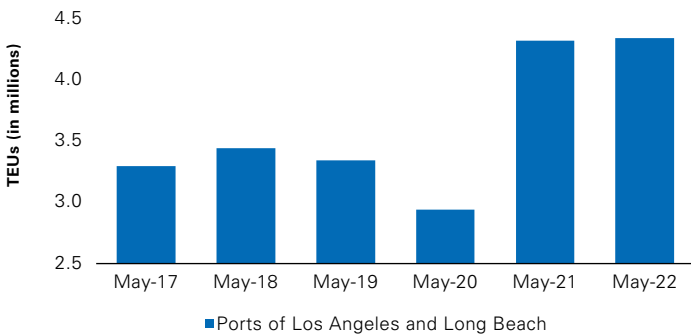
Leasing Conditions Through Year-End

As quality buildings that come to market continue to be met with multiple tenant offers, new construction is quickly finding tenants. Rents, as a result, will continue their steep ascent. Contract rents for warehouse leases over 50,000 square feet with a minimum clearance height of 30' in the region's historical infill submarkets (South Bay Central and Mid-Counties) were \$1.70/SF to \$1.90/SF this quarter. The range 12 months ago was \$1.00/SF to \$1.20/SF.

Although these trends will not change through the remainder of the year, the outlook for 2023 is difficult to pin down. A slowdown appears likely, but Los Angeles is far more insulated than other national markets on account of its underlying fundamentals, including access to the nation's busiest cargo seaport system, a robust consumer population, inventory size that exceeds one billion square feet and moderate construction activity.

YTD Import Volume

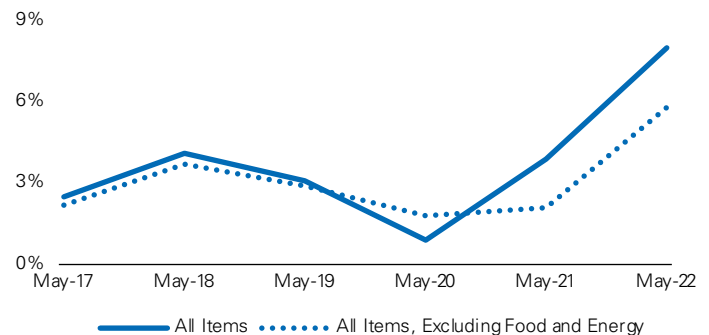
LOADED INBOUND CARGO



Source: Port of Los Angeles, Port of Long Beach

Consumer Price Index (CPI-U)

LOS ANGELES-LONG BEACH-ANAHEIM | 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics (data not adjusted for seasonality)

Lease Transactions

Tenant	Building(s)	City	Lease Type	Square Feet
Cambro Manufacturing, Inc.	21508 Ferrero Parkway	City of Industry	Extension	532,674
WestRock CP, LLC	18021 Valley View Avenue	Cerritos	Renewal	309,934
UNFI Grocers Distribution, Inc	15015 Valley View Avenue	Santa Fe Springs	Extension	302,850

Sale Transactions

Buyer	Building(s)	City	Sale Price (PSF)	Square Feet
Rexford Industrial Realty, Inc.	14200-14220 Arminta Street	Panorama City	\$90,160,000 (\$451/SF)	200,004
Duke Realty Corporation	14724 Proctor Avenue	City of Industry	\$54,100,000 (\$236/SF)	229,200
Ares Industrial REIT	16175-16185 E Stephens Street	City of Industry	\$51,250,000 (\$427/SF)	120,000

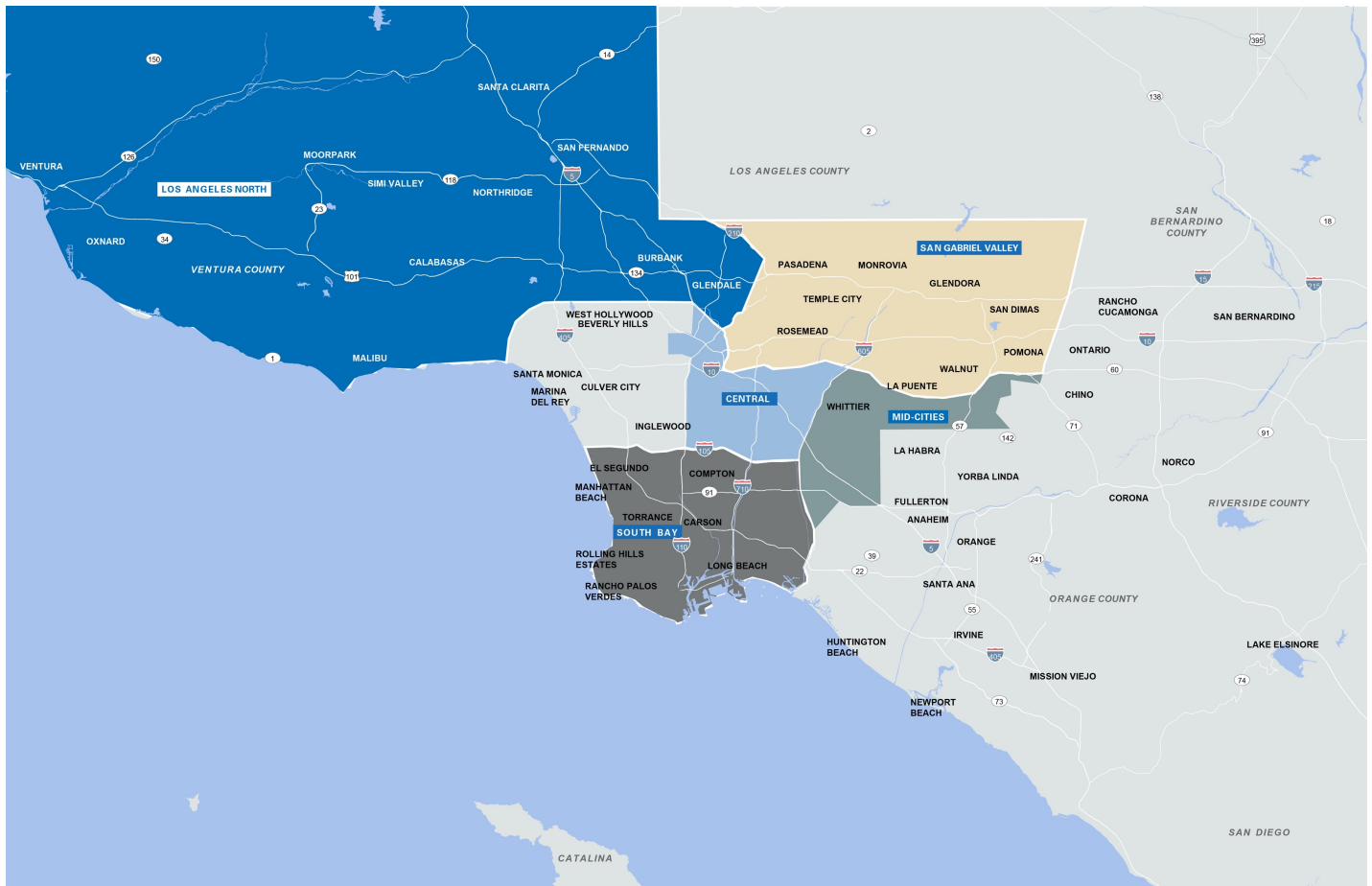
Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Wh/Dist Asking Rent (Price/SF)	General Ind Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Central	296,539,590	816,115	0.7%	49,095	-141,049	\$1.37	\$1.35	\$1.36
Bell	3,755,475	0	0.0%	0	12,000	-	-	-
Bell Gardens	2,367,979	0	1.4%	0	0	-	-	-
Commerce	52,716,366	55,000	0.3%	73,629	56,218	\$1.65	\$1.16	\$1.52
Cudahy	828,184	0	0.0%	0	0	-	-	-
Downtown Los Angeles	129,397,601	140,464	1.2%	-35,559	-277,324	\$1.29	\$1.37	\$1.30
Huntington Park	4,872,421	0	0.0%	0	0	-	-	-
Lynwood	3,822,994	0	0.0%	0	0	-	-	-
Maywood	764,938	0	0.0%	0	0	-	-	-
Montebello	13,383,008	25,500	0.2%	11,181	11,181	-	\$1.85	\$1.85
Pico Rivera	11,054,898	40,900	0.4%	-1,200	-1,200	\$1.29	-	\$1.29
South Gate	11,490,691	0	0.3%	0	0	-	-	-
Vernon	62,085,035	554,251	0.4%	1,044	58,076	\$1.28	\$1.15	\$1.27
Mid-Counties	114,754,557	165,265	0.6%	-42,071	171,392	\$1.44	\$1.52	\$1.49
Artesia	310,867	0	0.0%	0	23,298	-	-	-
Buena Park	14,577,518	0	0.2%	-27,353	-27,353	-	-	-
Cerritos	14,884,739	0	0.4%	21,415	10,483	\$1.28	\$1.55	\$1.47
Downey	4,134,741	44,162	0.5%	30,588	-5,535	-	\$1.41	\$1.41
La Mirada	14,364,094	0	0.7%	-60,783	-11,695	-	-	-
La Palma	2,101,336	0	0.0%	68,000	68,000	-	-	-
Norwalk	3,599,819	0	0.1%	3,849	-4,067	-	-	-
Santa Fe Springs	56,683,162	92,771	0.8%	-81,287	118,261	\$1.59	\$1.53	\$1.55
Whittier	4,098,281	28,332	0.0%	3,500	0	-	\$0.92	\$0.92

Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Wh/Dist Asking Rent (Price/SF)	General Ind Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
LA North	235,052,664	813,722	0.7%	423,671	1,355,158	\$1.51	\$1.55	\$1.53
Central Valley	31,904,172	45,786	0.3%	41,558	-8,320	\$1.50	\$1.70	\$1.62
Conejo Valley	14,971,889	0	1.7%	31,101	124,285	\$1.17	\$1.52	\$1.46
East Valley	57,972,533	0	0.4%	147,281	115,850	\$1.88	\$1.71	\$1.73
Santa Clarita	26,833,374	319,479	0.3%	119,728	467,688	\$1.25	\$1.45	\$1.34
Simi/Moorpark	14,445,389	369,807	0.1%	134,027	121,052	\$1.40	\$1.00	\$1.07
West Valley	41,391,603	10,000	0.9%	-39,459	4,970	\$1.75	\$1.33	\$1.64
West Ventura County	47,533,704	68,650	1.3%	-10,565	529,633	\$0.92	\$0.85	\$0.89
LA East (San Gabriel)	184,854,851	1,461,499	1.1%	795,737	594,046	\$1.81	\$1.41	\$1.47
Central SGV	27,739,356	1,279,920	2.2%	562,677	192,219	\$2.00	-	\$2.00
Eastern SGV	33,632,866	0	0.6%	12,364	13,805	-	\$1.15	\$1.15
El Monte Area	19,678,504	0	1.8%	-74,685	27,895	-	\$1.58	\$1.58
Industry Area	91,830,689	181,579	0.8%	223,782	346,403	\$1.75	\$1.84	\$1.81
Western SGV	11,973,436	0	1.6%	71,599	13,724	-	\$1.27	\$1.27
South Bay	224,100,091	1,340,355	1.1%	-109,913	784,377	\$1.71	\$1.57	\$1.67
Carson	41,258,677	0	0.4%	-22,848	-36,666	\$1.62	\$1.71	\$1.63
Compton/Rancho Dominguez	40,976,067	107,733	0.8%	-178,370	-86,812	\$1.91	-	\$1.91
El Segundo	9,567,526	0	1.2%	-55,127	5,977	-	-	-
Gardena/110 Corridor	34,670,972	86,879	1.6%	77,976	82,619	-	\$1.80	\$1.80
Hawthorne	10,194,087	0	0.9%	-58,546	-32,745	-	\$1.82	\$1.82
LAX/Inglewood	11,260,322	0	1.8%	26,457	80,054	-	\$2.19	\$2.19
Long Beach/Signal Hill	20,607,371	216,351	3.0%	41,744	13,694	\$1.37	\$0.91	\$1.13
Paramount	9,479,050	0	0.0%	0	70,619	-	\$0.96	\$0.96

Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Wh/Dist Asking Rent (Price/SF)	General Ind Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Port District	6,535,840	0	0.5%	-31,303	-31,303	-	\$1.70	\$1.70
Redondo Beach	3,539,750	0	0.0%	59,549	3,480	-	-	-
Torrance Area	36,010,429	929,392	1.0%	30,555	715,460	-	\$1.88	\$1.95
Los Angeles	1,055,301,753	4,596,956	0.9%	1,116,519	2,763,924	\$1.51	\$1.50	\$1.51

Net absorption is the change in physically occupied space. A hypothetical vacant and available space could lease this quarter with the tenant set to take occupancy six months later; positive absorption is not recorded until this physical move-in occurs. The space will remain vacant, but not available, until occupancy.

The total asking rent is the weighted average across warehouse, manufacturing, flex, incubator and general industrial properties. Older, available buildings often cite asking rents, while newer facilities often withhold rent values. Based on this, today's asking rent averages are materially understated.



Colin Harmony
Research Analyst
 colin.harmony@nrmk.com

Norma Llamas
Senior Database Coordinator
 norma.llamas@nrmk.com

Dain Fedora
Vice President of Research
 dain.fedora@nrmk.com

nrmk.com

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at ngkf.com/research.

All information contained in this publication is derived from sources that are deemed to be reliable. However, Newmark has not verified any such information, and the same constitutes the statements and representations only of the source thereof not of Newmark. Any recipient of this publication should independently verify such information and all other information that may be material to any decision the recipient may make in response to this publication and should consult with professionals of the recipient's choice with regard to all aspects of that decision, including its legal, financial and tax aspects and implications. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download or in any other way reproduce this publication or any of the information it contains. This document is intended for informational purposes only, and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter.