

MARKET TRENDS | INDUSTRIAL LOS ANGELES

2ND QUARTER
2019

▼ ABSORPTION | ◀▶ VACANCY | ▲ RENTAL RATE | ▼ CONSTRUCTION DELIVERIES

Competition for higher quality and flex industrial buildings continues to stiffen. Rents remain at record highs, with year over year rental rates increasing 20%. Market sale price per s.f. stands at a record high \$189.14. Cap rates continue the YTD trend of 4.4%. In addition, this year is on par with sales volume in the past 10 years as 10.6 billion s.f. was transacted this quarter. Smaller buildings continually to trade at record premiums between \$1000-\$5,800 s.f. The number of tenant expansions has continued to motivate investors, as steady cash flow and tenant renewals remain driving factors.

Los Angeles has one of the lowest amounts of square feet under construction nationwide. It is no secret; raw land is hard to find, so investors are focused on maximizing lease renewals or same building expansions. Within this market, 551,852 s.f. has been delivered or completed YTD. This includes a healthy amount of distribution and warehouse product. The LA industrial market will expect to see an average of 1.2 million s.f. deliver by end of 2019. Although the market will enjoy more supply, experts expect net absorption to slow pace throughout the year into 2020.

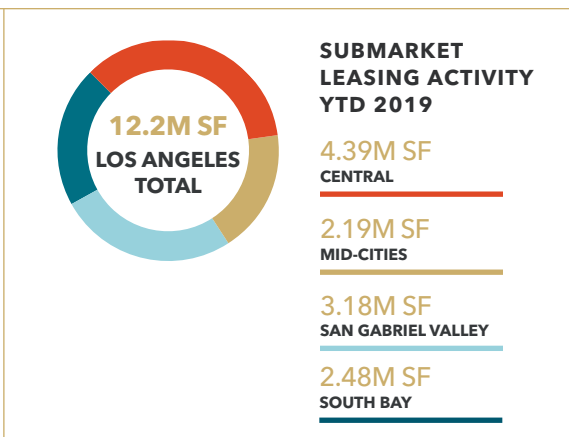
Class A product continues to be in heavy demand in infill LA Markets. Class A rental prices have been on a steady climb despite tariffs and a 10% drop in TEU's from the LA & LB ports since June 2018. E-Commerce continues to be the driver for growth and shows no signs of slowing down. As Class A rental values continue to increase, so does sale values for developable infill land. In many cases, we're seeing Class A product become pre-leased before construction and delivery is completed.

Los Angeles has seen a steady lease up in most submarkets YTD. However, Q2 2019 net direct absorption was overall negative, with 1,525,810 s.f. being vacated. This brings YTD net direct absorption to negative 2,075, 033 s.f. in tenant move-outs. Central LA experienced the heaviest exodus of 661,190 square feet during the quarter. Mid-Cities also suffered occupancy losses over 600,000 s.f. Total vacancy sits at a healthy 2.5%. Availabilities are abundant in El Monte (\$0.99 s.f.), Whittier (\$0.74 s.f.), Buena Park/La Palma (\$0.82 s.f.) and Long Beach, where rents are above average at \$1.68 s.f. NNN.

Rents started the year on average at \$1.01 NNN per s.f. In Q2 2019 average direct rents increased slightly to \$1.06 s.f. NNN., Landlords are not afraid to keep pushing rates slightly higher. Even though Class A pre-lease ups are on a climb, overall pre-leasing activity flattened compared to historical trends in the past four years.

The overall U.S economy is evolving, as consumers are making big changes in shopping trends. One driver of the evolution is E-commerce. Businesses are shifting to accommodate the consumer trends driving demand. Businesses are striving to get closer to ports for shorter shipping distances, lower wholesale prices, and quicker access to imports. It is estimated by 2020 E-Commerce giant Amazon will occupy 1 square foot per consumer across the entire nation. If Amazon's moves are any indicator of economic dominance, it may be time to identify non-traditional industrial tenants, complete building conversions, and find creative ways to get spaces occupied sooner.

One of the most notable sales was Goodman North America's purchase of the Boeing C-17 Portfolio in Long Beach. Boeing stopped producing the C-17 Globemaster III cargo plane and shuttered the facility in 2015, but the aerospace giant still plans to remain in the city. The buyer plans to rename the industrial facility as the Goodman Commerce Center Long Beach, and they plan to work with the city on future developments on the site. They are currently working with the city on creating a Globemaster Corridor Specific Plan for the property and its surroundings to address the long-term use of the area. The specific plan will allow different uses and purposes for the site. The objective is to bring forth job creation, office, industrial, and limited warehousing. However, the property, which is next to the Long Beach Airport, has been zoned for aircraft manufacturing only, and any other commercial or industrial development would require



2Q 2019 MARKET HIGHLIGHTS

VACANCY is lowest of any major US industrial hub at 2.48%

RENTAL RATES are the highest in the past 10 years at \$1.06/s.f

SALES PRICES have soared to all time highs \$189.14 s.f

CONSTRUCTION Over 680K delivered, 20% of existing product is 250K s.f or higher, 5.6M s.f. under construction only 1.1M is expected to complete by end of 2019

a zoning change from city government. Rexford Industrial's purchase of 1515 E 5th Street was sold in exchange for equity. The property was listed for \$50 million and equity came in the form of newly issued 4.43937% cumulative redeemable convertible preferred operating partnership units in the Operating Partnership (the Series 1 CPOP Units) valued at \$28.1 million or \$118/SF.

Some of the recent sales can be attributed to expansion. For example, Kite Pharma purchased a 160,000 SF flex building in Santa Monica for \$130 million (\$815/SF) from Agensys in April 2018. Gilead Sciences, the parent company of Kite Pharma has increased their footprint nationally. In addition, cash flow has driven sales volume. Rexford Industrial, for example, purchased a 700,000 SF distribution building in Commerce for \$121 million (\$174/SF). The building was sold and occupied by Supervalu. Supervalu, a high-quality and credit tenant will occupy the building for next 20 years on a triple net lease.

According to a logistics report from National Press Club in Washington, D.C, U.S. business logistics costs (USBLC) rose 11.45% to reach \$1.64 trillion—or 8% of last year's \$20.5 trillion gross domestic product (GDP). Tariffs continue to impact cargo traffic at the Port of Long Beach, where volumes declined in June compared to the same month in 2018. Last June was the busiest month in the Port's 108-year history. In 2019 the products are local; the warehouses are full. This is a good sign as consumers want faster delivery. A total of 677,167 (TEUs) were processed at the Port of Long Beach in June, 10% fewer than last year. The performance was still the second-best June for the Port. Imports shrank 13.7% last month, while exports were flat at 1% down. Empties loaded onto ships to fill with goods in Asia decreased 9.1%. Opinions regarding the depths that tariffs will have on the industrial industry are mixed. Some experts think, import volume will increase from India, Thailand, Philippines and Vietnam. While other professionals refute these countries lack the infrastructure and the capacity to scale. Due to laws and regulations in India, some deal makers are not in favor of the possibility. Due to trade tensions with China, experts are keeping an eye on an expected volume increase from India, Thailand, Philippines and Vietnam. Q2 2019 saw 1.9 million TEU's representing an overall drop of 8.7%. Over 3.7 million TEUs have been moved YTD.

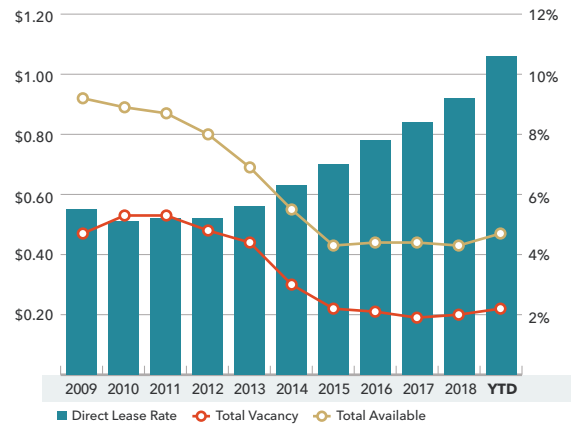
Class B and Class C properties in LA are asking rental rates comparable to Class A properties, yet their occupancy levels are not on par with Class A spaces. YTD absorption is over negative 2 million for older buildings. On the other hand, industrial investors are confident in attracting quality tenants. In addition, property enhancements, improved surveillance and renovations will allow outdated product to compete with newer buildings. Radical improvements and consistent demolition projects are forecasted to continue for the next 5 years. Currently, Class B and C properties make up 792 million s.f. in Los Angeles. Rents have grown 4.4% according to Costar data. Over the past year, these properties account for \$4.4 billion in sales while newer building account for \$140 million. In conclusion, more deals are being done with older buildings, but the scarcity of land ends up highlighting the delivery of Class A buildings. Keeping an eye on the sales and redevelopment of older buildings will paint a more detailed picture on the health of the LA industrial market.

Source: Logistics Management, Costar, Port of Long Beach

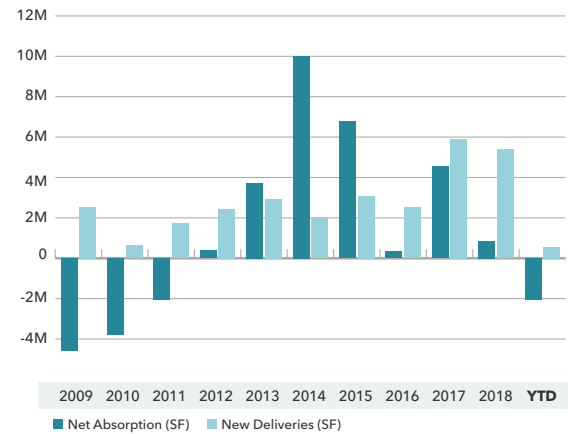
Market Breakdown

	2Q 2019	1Q 2019	2Q 2018	Annual % Change
Vacancy Rate	2.2%	2.0%	2.4%	-8.33%
Availability Rate	4.7%	4.4%	4.3%	9.30%
Asking Lease Rate	\$1.06	\$1.02	\$0.88	20.45%
Leased SF	6,584,865	5,972,579	14,007,460	-52.99%
Sold SF	5,035,309	5,654,995	7,177,248	-29.84%
Net Absorption	-1,525,810	-943,304	-2,092,608	N/A

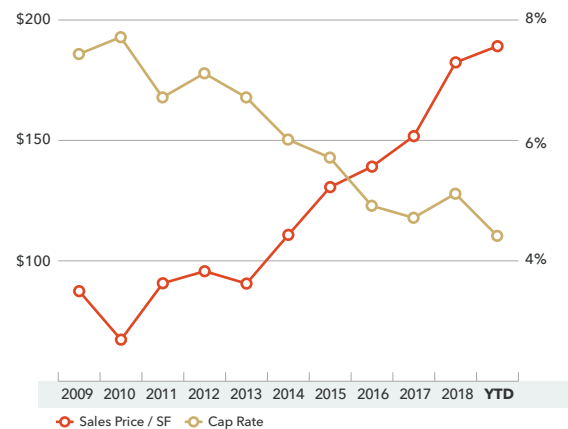
LEASE RATE, VACANCY & AVAILABILITY



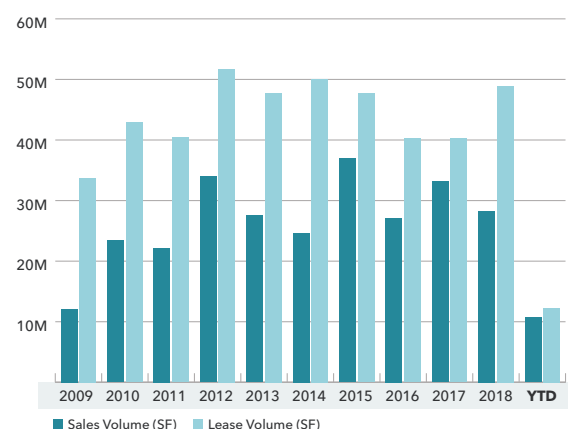
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALE PRICE & CAP RATES

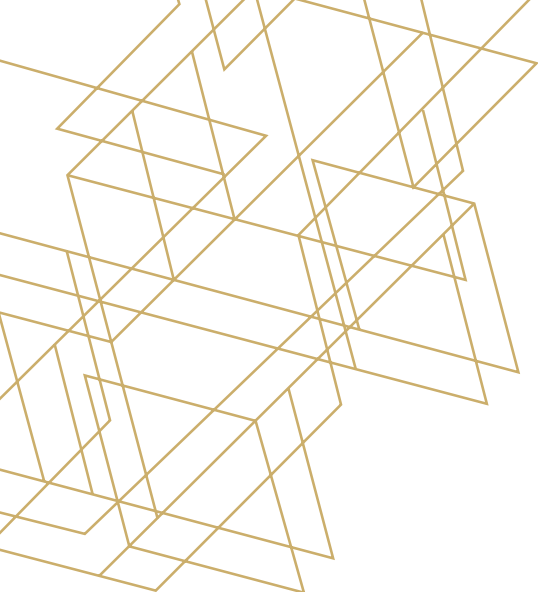


SALES VOLUME VS. LEASE VOLUME



LOS ANGELES SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Availability Rate	2Q19 Direct Net Absorption	2019 Direct Net Absorption	2Q19 Total Leasing Activity	2019 Leasing Activity	Avg NNN Rental Rate
Bell/Bell Gardens/Maywood	7,509,357	0.8%	0.0%	0.8%	1.4%	-38,821	-51,897	55,921	108,980	\$0.88
Commerce	45,035,578	1.6%	0.2%	1.8%	4.2%	-311,561	259,121	493,629	926,880	\$0.87
Huntington Park/Cudahy	4,782,818	2.3%	0.4%	2.7%	6.7%	-10,947	35,340	3,500	69,154	\$0.67
Downtown LA	129,435,340	3.1%	0.2%	3.3%	6.1%	-184,141	-884,882	1,259,376	2,101,996	\$1.52
Montebello/Monterey Park	11,689,679	1.8%	0.0%	1.8%	2.4%	-58,898	33,655	128,790	215,327	\$0.74
Pico Rivera	10,259,910	2.2%	0.3%	2.5%	3.8%	22,659	36,047	96,972	243,413	\$2.17
South Gate	10,298,085	1.6%	0.0%	1.6%	4.0%	-98,098	-61,984	21,032	70,751	\$1.03
Vernon	41,986,094	2.2%	0.5%	2.7%	5.6%	18,617	-132,795	480,795	652,813	\$0.97
Central	260,996,861	2.5%	0.2%	2.7%	5.2%	-661,190	-767,395	2,540,015	4,389,314	\$1.26
Artesia/Cerritos	13,179,376	4.0%	0.3%	4.3%	6.8%	-178,765	119,278	272,893	426,449	\$0.79
Bellflower/Downey	5,519,776	1.2%	0.0%	1.2%	1.5%	-8,421	9,567	3,620	63,922	\$0.98
Buena Park/La Palma	15,076,386	10.7%	0.0%	10.7%	12.7%	-319,555	-1,106,375	18,386	226,546	\$0.82
La Mirada	12,980,164	0.4%	0.4%	0.8%	5.4%	14,538	193,037	108,921	143,487	\$0.80
Norwalk	2,900,838	1.0%	0.0%	1.0%	0.9%	-15,316	-3,508	64,753	108,655	\$1.06
Paramount	8,788,098	1.6%	0.0%	1.6%	3.0%	-50,670	-101,216	41,020	83,258	\$0.77
Santa Fe Springs	52,714,576	1.5%	0.1%	1.5%	3.7%	80,285	19,243	420,842	983,386	\$0.85
Whittier	3,879,024	10.2%	0.1%	10.3%	11.8%	-132,650	-372,566	154,880	158,954	\$0.74
Mid-Cities	115,038,238	3.1%	0.1%	3.2%	5.5%	-610,554	-1,242,540	1,085,315	2,194,657	\$0.82
Alhambra	2,354,201	6.0%	0.0%	6.0%	6.6%	15,335	20,363	46,632	72,847	\$0.95
Arcadia/Temple City	3,063,655	3.0%	0.0%	3.0%	2.9%	-7,911	-69,193	66,619	81,207	\$0.00
Azusa	5,938,147	1.5%	0.0%	1.5%	4.3%	157,418	127,418	126,114	237,206	\$0.80
Baldwin Park	4,688,088	1.1%	0.0%	1.1%	1.3%	50,096	35,460	61,852	98,789	\$1.78
City of Industry/DB/HH/RH	73,219,162	1.2%	0.8%	2.0%	3.1%	176,810	347,974	457,738	1,158,184	\$0.79
Covina/West Covina	3,154,789	2.5%	0.0%	2.5%	3.3%	49,235	74,048	21,381	57,758	\$0.80
Duarte	1,807,063	1.4%	0.4%	1.8%	3.3%	-2,451	-10,796	9,019	57,702	\$0.00
El Monte	7,237,548	2.1%	0.2%	2.3%	15.2%	27,660	22,583	354,091	467,856	\$0.99
Irwindale	11,256,050	4.1%	0.3%	4.4%	5.6%	-158,604	-144,703	168,426	251,546	\$1.27
La Puente	1,966,065	3.1%	0.0%	3.1%	3.1%	-12,890	-11,571	6,070	10,089	\$0.92
Glendora/La Verne/San Dimas	6,712,014	2.0%	0.0%	2.0%	3.1%	-72,962	-87,789	111,837	131,093	\$0.00
Monrovia	3,211,374	1.1%	0.0%	1.1%	2.0%	-21,425	-29,022	2,000	20,037	\$1.06
Pomona/Claremont	20,090,280	1.1%	0.1%	1.2%	3.5%	-58,332	-83,573	75,302	225,695	\$0.66
Rosemead/San Gabriel	2,428,226	1.4%	0.2%	1.6%	2.5%	-5,375	12,672	9,352	19,032	\$1.05
South El Monte	10,559,036	2.9%	0.0%	2.9%	3.3%	1,888	-51	100,910	201,298	\$0.00
Walnut	6,611,316	2.3%	0.2%	2.5%	2.1%	-31,787	-35,098	65,367	94,103	\$0.00
San Gabriel Valley	164,297,014	1.7%	0.4%	2.2%	3.9%	106,705	168,722	1,682,710	3,184,442	\$0.91
Carson	34,709,767	0.7%	0.1%	0.7%	3.1%	-31,274	123,733	78,768	484,994	\$0.93
Compton	24,448,133	1.4%	0.5%	1.8%	4.2%	-59,263	85,729	115,644	531,647	\$0.82
El Segundo	8,916,365	1.4%	0.2%	1.5%	2.5%	6,603	-14,190	63,447	75,570	\$1.77
Gardena	9,853,966	2.8%	0.5%	3.4%	6.2%	-21,122	-72,863	72,760	142,618	\$0.95
Harbor City	1,700,617	0.9%	0.1%	1.0%	4.5%	-15,500	-15,500	0	85,018	\$0.00
Hawthorne	7,949,959	1.0%	0.1%	1.1%	1.6%	-7,365	-36,275	90,575	90,575	\$1.38
Inglewood	4,834,064	2.5%	0.2%	2.7%	4.8%	27,918	2,230	104,258	115,585	\$1.52
Lakewood/Hawaiian Gardens	525,659	0.0%	0.0%	0.0%	0.0%	1,200	0	0	2,000	\$1.15
Lawndale	246,151	3.8%	0.0%	3.8%	3.8%	-6,846	-8,046	0	3,650	\$1.25
Long Beach/Terminal Island	22,114,598	2.5%	0.0%	2.6%	7.7%	-38,466	-31,510	257,092	318,477	\$1.68
Lynwood	4,422,427	0.2%	0.0%	0.2%	6.1%	0	18,456	32,428	32,528	\$0.00
Rancho Dominguez/E Rancho Dominguez	14,715,353	3.2%	0.1%	3.2%	5.0%	-85,557	-124,423	90,147	162,015	\$0.85
Redondo/Hermosa Beach	2,022,636	0.0%	0.0%	0.0%	0.1%	1,800	1,030	1,800	2,830	\$1.62
San Pedro	2,754,278	0.5%	0.0%	0.5%	1.3%	1,341	-8,659	0	2,689	\$0.00
Signal Hill	3,417,888	1.4%	0.0%	1.4%	3.6%	-32,021	-22,642	8,460	13,592	\$1.17
Torrance	14,899,171	1.9%	0.0%	1.9%	2.7%	-109,979	-158,835	137,581	173,333	\$1.03
Wilmington	3,749,292	0.1%	6.0%	6.0%	3.5%	7,760	27,945	223,865	245,455	\$2.21
South Bay	161,280,324	1.7%	0.3%	2.0%	4.1%	-360,771	-233,820	1,276,825	2,482,576	\$1.23
Los Angeles Total	701,612,437	2.2%	0.3%	2.5%	4.7%	-1,525,810	-2,075,033	6,584,865	12,250,989	\$1.06



Notable Sale Transactions

GCC LONG BEACH, LLC 2400 and 2401 E Wardlow, Long Beach
1,522,141 s.f. | \$240M or \$157.67/s.f.

REDCAR PROPERTIES 3318 - 3322 La Cienega Pl, Los Angeles
57,363 s.f. | \$29M or 505.55/s.f.

REXFORD INDUSTRIAL 1515 E 15th St, Los Angeles
238,000 s.f. | \$28.1M or 118.07/s.f.

Notable Lease Transactions

LIBERTY CONTAINER COMPANY 4224 - 4232 Santa Ana, South Gate
262,945 s.f. leased

SHIFT 12910 Mulberry Dr, Whittier
153,080 s.f. leased

REVOLUTION FOODS 16932 Valley View Ave, La Mirada
83,945 s.f. leased



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COMMERCIAL BROKERAGE

20M ANNUAL SALES SF

380+ NO. OF BROKERS

\$9B ANNUAL TRANSACTION VOLUME

40M ANNUAL LEASING SF

VALUATION ADVISORY

1,600+ APPRAISALS ANNUALLY

36/23 TOTAL NO. APPRAISERS/MAI'S

PROPERTY MANAGEMENT

55M+ MANAGEMENT PORTFOLIO SF

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