

MARKET TRENDS | LOS ANGELES

INDUSTRIAL

3RD 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 15.73%. Market sale price per s.f. stands at a record high \$209/s.f. Cap rates are in at 4.7%. In addition, this year's sales volume has softened when compared to the past 10 years. QTD 12,852,734 s.f. has transacted, a number not seen since 2009.

Smaller buildings are commanding lower prices per s.f. Last quarter the smallest buildings transacted well over \$500/s.f. Some buildings transacted for over \$1000 per s.f. This quarter they are between \$133 and \$495. The number of tenant expansions has continued to motivate investors, as steady cash flow and tenant renewals remain driving factors. Twenty million square feet has transacted year to date. Vacancies on the market may be viewed as a rarity for the foreseeable future. Absorption is not impressive, yet that's primarily due to lack of available space.

Los Angeles is the premier industrial commercial marketplace. The 931M s.f. of industrial product is nearly fully leased, and vacancies are bound as tight as possible. However, industrial rents are stifled compared to the first half of this cycle. While the economy in Los Angeles has been healthy and job growth remains stable, it is expected to slow in the next five years. There are hardly any signs of job loss, so it is important to monitor demand as the addition of new jobs begin to slump. The manufacturing industry has been on a decline for the past 30 years. There were over 800K jobs in the 90's, but that number has dwindled to 350K today. Even with this greater than 50% decline, the workforce still makes Los Angeles the largest manufacturing market. In the past ten years, the market has

averaged \$30M - \$40M in volume every year. Lease renewals however, are currently leading the market. Construction activity is normal considering lack of construction flexibility. Rent growth is in a normal range. Properties are trading with the lowest cap rate historically at 4.74%. Yet, sales volume is outperforming historical normal ranges.

The LA Industrial market has 5.3M s.f. under construction and 2.6M s.f. delivered in the past 12 months. Although the market will enjoy more supply, experts expect net absorption to slow pace throughout the year into 2020. Vernon, Monrovia, Cerritos/Lakewood, Long Beach are leading the way with over 400K s.f. in construction. However, El Monte is expanding with over 1M s.f. under construction. Goodman is nearing completion on the two-building, 1.2M s.f. Goodman Logistics Center, the largest industrial project in the submarket in over 20 years.

Adaptive reuse has motivated investors. Adaptive Reuse refers to the process of reusing an old site or building for a purpose other than which it was built or

SUBMARKET LEASING ACTIVITY 3Q 2019

1.71M SF
CENTRAL

1.43M SF
MID-CITIES

1.42M SF
SAN GABRIEL VALLEY

1.35M SF
SOUTH BAY



SUBMARKET LEASING ACTIVITY YTD 2019

6.4M SF
CENTRAL

4.8M SF
MID-CITIES

4.3M SF
SAN GABRIEL VALLEY

4.6M SF
SOUTH BAY

3Q 2019 MARKET HIGHLIGHTS

SALES TRANSACTIONS are up 30% since last year this time.

RENTS are at all time high in Central LA \$1.27

ABSORPTION was abundant in Central LA, the only submarket cluster to show positive for the quarter.

designed for. The City's Adaptive Reuse Program works by streamlining the process developers must follow to get their projects approved, resulting in substantial time saving. An example of this is Goodman's logistics center. The buildings replace a similar-sized, but aging, distribution center formerly owned and occupied by Vons. The center is about 25% pre-leased, but interest is expected to be high given the scarcity of large blocks of modern logistics space in Los Angeles.

RENTS & LEASING

Los Angeles has seen a steady lease up in most submarkets YTD. However, Q3 2019 net direct absorption was overall negative with -506,877 s.f. being vacated. This brings YTD net direct absorption to negative (1,475,916 s.f.) in tenant move-outs. For the second straight quarter, South Bay experienced the heaviest exodus of (302,044) s.f. during the quarter. Total vacancy remains unchanged since last quarter at 2.5%. Availabilities are abundant in Central LA, where rents are above average at \$1.27/s.f. NNN. Rents started the year on average at \$1.01/s.f. NNN. In Q3 2019, average direct rents increased slightly to \$1.03/s.f. NNN. When compared to Q2 2019 (\$1.06/s.f.), landlords have not pushed rents much 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. These numbers are expected to pick up over the next two quarters, as new deliveries are expected to be absorbed swiftly.

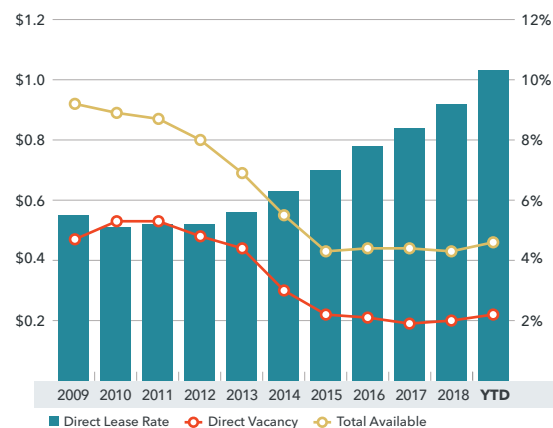
SALES

Almost 10% of all industrial sales recorded last year took place in Los Angeles. The average market sale price continues to move up and is currently \$209/s.f., and trading with an average 4.7% cap. Due to scarcity, rare properties like 2420 Yates Avenue in Commerce, which sold for \$41.4M, are desirable. The 11-acre site has an 85K s.f. building and will appeal to a variety of tenants in the future, especially e-commerce. The city of Commerce's dense population, terminal transportation facilities, and proximity to Downtown LA and the South Bay motivated the buyer (Prologis). Rexford Industrial acquired a South Bay Industrial Portfolio. The sale is comprised of an eight-building industrial complex totaling 267,503 s.f. The buildings rest on 14.23 acres of land situated between 1300-1347 Storm Parkway in Torrance. The sale price was reported at \$66.16M. The subject properties were 91% leased at the time of sale. The motivation for the seller was the end of the fund's life. The motivation for the buyer was to extend their ownership presence within one of Southern California's most high-demand and low-vacancy infill submarkets.

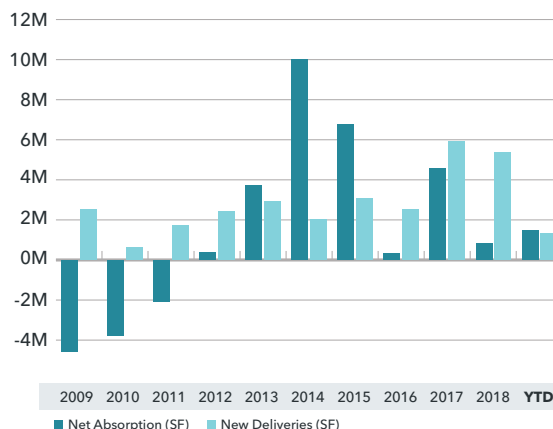
The largest sale of the quarter at 5300 S Boyle Avenue in Vernon for \$76M (\$248/s.f.) was fully leased to rPlanet Earth (NNN) until 2038 at the time of sale. The seller was motivated to develop, lease up, and then sell the property as part of their business plan. One more sale to note is the fully leased Hathaway I Industrial Park and Heritage Business Park/Hathaway II, a multi-tenant industrial park totaling 543,161 s.f. on 26.9 acres in Santa Fe Springs. The property sold for \$104M (\$191/s.f.). The Park is located in a prime last-mile location in the heart of Los Angeles Mid-Counties submarket with access to strong demographics of over 6M people within a 15-mile radius. The Los Angeles Mid-Counties submarket has limited supply, high demand, and strong rent growth.

Sources: Logistics Management, Costar, Port of Long Beach, Real Capital Analytics, Urbanize LA

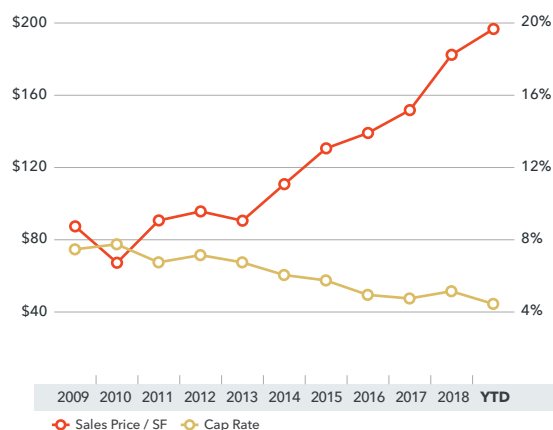
LEASE RATE, VACANCY & AVAILABILITY



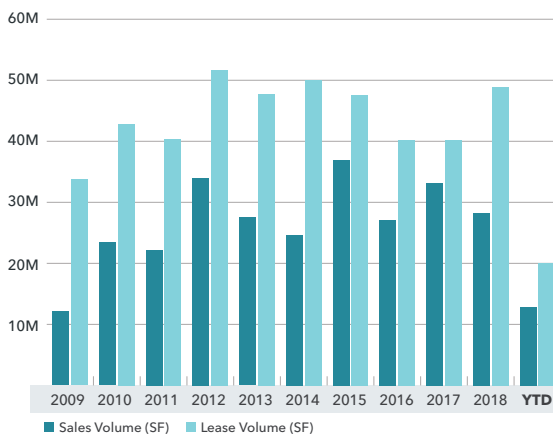
NET ABSORPTION & NEW DELIVERIES



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 Available Rate	3Q Direct Net Absorption	YTD Direct Net Absorption	3Q Leasing Activity	YTD Leasing Activity	Rental Rate
Bell/Bell Gardens/Maywood	7,563,077	0.0%	0.4%	0.4%	0.6%	58,172	32,094	1,310	136,109	\$0.88
Commerce	45,025,150	2.3%	0.2%	2.4%	4.8%	(200,052)	59,169	382,570	1,309,450	\$0.89
Huntington Park/Cudahy	4,713,849	2.5%	0.4%	2.9%	4.1%	(7,986)	1,535	32,400	75,735	\$0.67
Downtown LA	128,589,083	2.9%	0.2%	3.0%	6.2%	154,875	(309,015)	647,625	3,055,109	\$1.45
Montebello/Monterey Park	11,723,081	0.4%	0.4%	0.8%	2.2%	19,163	198,154	78,965	294,292	\$0.71
Pico Rivera	10,434,295	5.0%	0.5%	5.5%	5.0%	(136,977)	36,942	111,990	355,403	\$2.30
South Gate	10,287,003	0.1%	1.4%	1.6%	3.4%	153,717	91,733	213,232	290,283	\$1.00
Vernon	41,588,385	2.1%	0.5%	2.7%	4.4%	87,999	(97,659)	244,388	876,562	\$1.05
Central	259,923,923	2.4%	0.3%	2.7%	5.2%	128,911	12,953	1,712,480	6,392,943	\$1.27
Artesia/Cerritos	13,164,186	2.4%	0.0%	2.4%	3.6%	217,712	336,990	352,498	778,947	\$0.83
Bellflower/Downey	5,539,507	2.7%	0.3%	3.1%	6.4%	(89,080)	(78,913)	56,927	120,849	\$0.94
Buena Park/La Palma	15,050,058	8.6%	0.0%	8.6%	8.3%	280,138	(796,919)	92,613	1,198,499	\$0.81
La Mirada	12,976,445	3.6%	0.4%	4.0%	4.7%	(414,340)	(221,303)	142,266	285,753	\$0.80
Norwalk	2,911,422	0.9%	0.1%	1.0%	1.5%	1,500	(2,008)	21,444	140,099	\$1.00
Paramount	8,744,375	1.6%	0.1%	1.7%	3.9%	1,424	(99,792)	60,735	147,243	\$0.78
Santa Fe Springs	52,704,323	1.9%	0.3%	2.2%	3.0%	(131,214)	(77,791)	460,224	1,691,434	\$0.85
Whittier	3,872,607	10.8%	0.1%	10.9%	10.0%	(27,213)	(399,779)	240,721	399,675	\$0.74
Mid-Cities	114,962,923	3.3%	0.2%	3.5%	4.7%	(161,073)	(1,339,515)	1,427,428	4,762,499	\$0.83
Alhambra	2,366,701	5.1%	0.6%	5.7%	4.3%	25,052	41,165	53,642	126,464	\$0.89
Arcadia/Temple City	3,066,074	2.7%	0.0%	2.7%	2.5%	(6,550)	(63,513)	28,786	109,993	\$0.00
Azusa	5,962,290	1.1%	0.0%	1.1%	4.6%	(17,200)	110,218	16,740	253,946	\$0.80
Baldwin Park	4,709,400	2.3%	0.2%	2.5%	2.7%	(59,899)	(23,939)	18,300	117,089	\$2.55
City of Industry/DB/HH/RH	73,269,667	1.4%	0.6%	2.0%	4.1%	(178,891)	171,987	746,665	1,931,165	\$0.80
Covina/West Covina	3,159,805	4.1%	0.0%	4.1%	5.0%	(52,209)	21,839	15,710	75,468	\$0.80
Duarte	1,833,963	1.6%	1.5%	3.1%	3.2%	(5,651)	(16,447)	2,000	59,702	\$0.00
El Monte	6,995,975	2.2%	0.1%	2.4%	4.9%	(6,772)	15,811	43,957	143,891	\$1.00
Irwindale	11,084,163	2.5%	0.0%	2.5%	3.4%	85,145	(59,558)	159,108	443,549	\$1.27
La Puente	1,972,211	2.8%	0.0%	2.8%	10.8%	(3,911)	(15,482)	5,000	35,033	\$0.00
Glendora/La Verne/ San Dimas	6,729,114	0.6%	0.0%	0.6%	4.5%	94,238	6,449	50,140	181,233	\$0.00
Monrovia	3,200,774	1.9%	0.0%	1.9%	0.9%	(35,087)	(37,594)	32,000	52,037	\$0.87
Pomona/Claremont	19,988,704	1.2%	0.0%	1.2%	2.7%	(25,427)	(109,000)	93,585	319,280	\$0.68
Rosemead/San Gabriel	2,429,313	1.4%	0.2%	1.6%	2.9%	(763)	11,909	21,898	40,930	\$0.88
South El Monte	10,596,986	3.0%	0.1%	3.1%	3.5%	(4,676)	(5,564)	103,231	304,529	\$0.00
Walnut	6,578,929	1.7%	1.8%	3.5%	5.1%	19,930	(15,168)	32,445	127,048	\$0.00
San Gabriel Valley	163,944,069	1.7%	0.4%	2.1%	3.9%	(172,671)	33,113	1,423,207	4,321,357	\$0.86
Carson	35,053,401	2.5%	0.0%	2.5%	4.2%	(237,830)	(113,897)	178,694	698,249	\$0.94
Compton	24,443,549	0.9%	0.8%	1.7%	6.2%	(36,935)	48,754	146,806	678,453	\$0.89
El Segundo	8,870,041	1.0%	0.0%	1.1%	2.3%	32,236	18,046	20,350	95,920	\$1.92
Gardena	28,249,221	1.7%	0.2%	1.9%	3.1%	86,570	245,355	348,690	910,037	\$0.99
Harbor City	1,721,981	2.2%	0.0%	2.2%	4.3%	(21,600)	(37,100)	15,500	100,518	\$0.95
Hawthorne	7,949,729	1.7%	0.0%	1.7%	3.0%	(56,460)	(85,803)	15,349	112,324	\$1.34
Inglewood	4,833,045	2.1%	0.0%	2.1%	5.1%	19,990	36,338	17,245	132,830	\$1.52
Lakewood/Hawaiian Gardens	525,659	1.0%	0.0%	1.0%	0.0%	(5,199)	(5,199)	5,199	7,199	\$1.15
Lawndale	251,651	3.2%	0.0%	3.2%	2.4%	1,450	(6,236)	3,250	6,900	\$1.25
Long Beach/Terminal Island	22,134,832	2.5%	0.0%	2.5%	4.9%	(51,386)	(66,775)	86,505	299,978	\$1.63
Lynwood	4,437,059	0.5%	0.0%	0.5%	3.8%	(11,000)	7,456	0	32,528	\$0.00
Rancho Dominguez/E Rancho Dom.	14,488,043	2.3%	0.0%	2.3%	3.8%	(76,411)	(79,738)	297,083	459,098	\$0.88
Redondo/Hermosa Beach	2,022,636	0.1%	0.1%	0.2%	0.2%	(2,500)	(1,470)	0	2,830	\$1.62
San Pedro	2,754,278	0.5%	0.0%	0.5%	0.9%	0	(8,659)	10,000	12,689	\$0.00
Signal Hill	3,440,158	1.2%	1.6%	2.8%	1.9%	7,744	(14,898)	71,783	91,866	\$1.23
Torrance	25,718,951	1.6%	0.1%	1.6%	6.5%	57,826	(137,147)	129,120	666,064	\$0.99
Wilmington	3,759,486	0.4%	0.0%	0.4%	3.8%	(8,539)	18,506	2,931	248,386	\$2.11
South Bay	190,653,720	1.8%	0.2%	1.9%	4.4%	(302,044)	(182,467)	1,348,505	4,555,869	\$1.17
South Bay	190,653,720	1.8%	0.2%	1.9%	4.4%	(302,044)	(182,467)	1,348,505	4,555,869	\$1.17
Los Angeles Total	729,484,635	2.2%	0.3%	2.5%	4.6%	-506,877	(1,475,916)	5,911,620	20,032,668	\$1.03

Notable Sale Transactions

REXFORD INDUSTRIAL 1300-1347 Storm Pkwy, 23021-23023 Normandie, and 22815-22831 Frampton Avenue in Torrance
267,854 s.f. | \$66.16M or \$247/s.f.

PROLOGIS 2420 Yates Avenue in Commerce
85,000 s.f. | \$41.4M or \$487.06/s.f.

CAPE ANN PROPERTIES LLC 5300 S Boyle Ave in Vernon
305,350 s.f. | \$76 M or \$248.89/s.f.

Notable Lease Transactions

WASH INC 2200 195th Street
125,947 s.f.

ALPINE Torrance Commerce Center 2150 W 195th Street
135,903 s.f.

COUNTY OF LOS ANGELES 13415 Carmenita Rd in Santa Fe Springs
200,068 s.f.

Market Breakdown

	3Q2019	2Q2019	3Q2018	Annual % Change
Direct Vacancy Rate	2.2%	2.2%	2.3%	-4.35%
Total Availability Rate	4.6%	4.7%	4.9%	-6.12%
Direct Asking Lease Rate	\$1.03	\$1.06	\$0.89	15.73%
Total Lease Transactions	5,911,620	6,584,865	6,608,874	-10.55%
Sale Transactions	5,155,231	5,035,309	3,945,948	30.65%
Direct Net Absorption	-506,877	-1,525,810	975,918	N/A

DATA SOURCE: COSTAR

Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 800 real estate professionals and staff in 22 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, property management, consulting, project and construction management, and debt equity finance services for all property types.

COMMERCIAL BROKERAGE

20M

ANNUAL
SALES \$F

40M

ANNUAL
LEASING \$F

420+

NO. OF
BROKERS

\$9B

ANNUAL TRANSACTION
VOLUME

VALUATION ADVISORY

1,600+

APPRAISALS
ANNUALLY

39/24

TOTAL NO.
APPRAISERS/MAI'S

PROPERTY MANAGEMENT

70M+

MANAGEMENT
PORTFOLIO \$F

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