

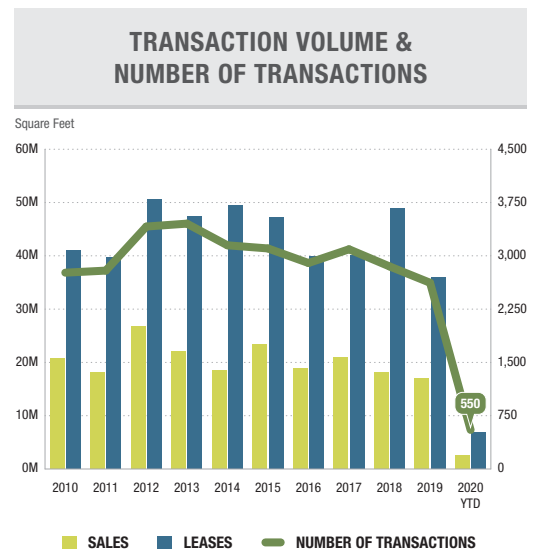
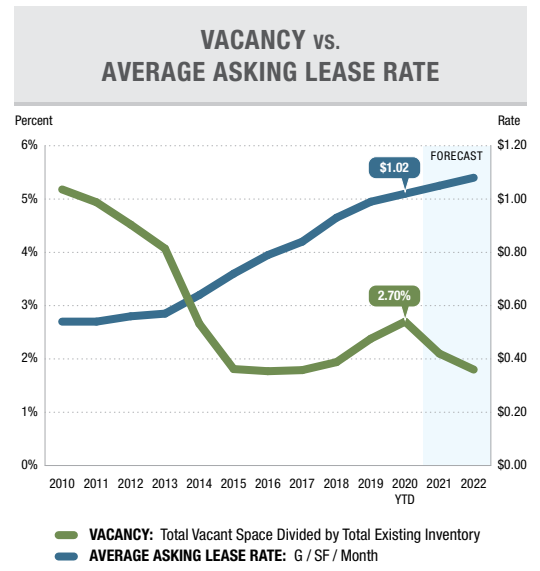
**MARKET OVERVIEW.** The Greater Los Angeles industrial market has for years been characterized by a scarcity of available inventory caused by intense demand from growing businesses combined with a lack of new deliveries. Land is not only in short supply, but also it has become prohibitively expensive, which makes the construction of standard industrial product nearly impossible. This all led to record-low vacancy and the highest lease rates and sales prices in the region's history. The year began with a continuation of these market dynamics, with the biggest concerns centered on trade issues with China. Then came March and the focus shifted to the potential impact of the coronavirus, or COVID-19. Those concerns, however, had little impact on the fundamental market metrics, as the economic shock came late in the quarter. Vacancy fell again, average asking lease rates moved even higher and net absorption moved back into positive territory after dipping below the line in the final period of 2019. That said, we do expect a significant decline in sale and lease activity that will be reflected in second quarter's numbers.

**VACANCY.** The overall vacancy rate of 2.70% for the region rose 32 basis points during the period, which reflects a decline in lease and sale activity in the previous quarter. The Greater Los Angeles market has a very diverse cross section of business sectors, many of which have seen dramatic growth in the past several years. E-commerce has changed the way we do business and that has spurred strong growth for businesses having anything to do with the supply chain. LA is also a hub for food manufacturing, cold storage, apparel and sectors related to activity in the Ports of Los Angeles and Long Beach. We expect vacancy to remain near current levels despite the sharp impact of the COVID-19 virus on the general economy. Business will return to normal levels in due course, and the same businesses that needed to be in LA before will stay.

**AVAILABILITY.** The availability rate, which includes vacant space, space offered for sublease and space offered for sale or lease that is still occupied, rose sharply in the first quarter, up 86 basis points to 5.63%. Compared with the vacancy rate of just 2.70%, it becomes clear how tight the market really is, as most of the space offered for sale and lease is still occupied when it comes to market. The total amount of move-ins for the quarter rose by 2.4 MSF, to almost 8.5 MSF, even with the rise in availability, indicating that occupiers are still in a short-term scramble to find space that works for them.

**LEASE RATES.** Average asking lease rate growth for the region has been running well ahead of the national average for the past 5 years. Since 2015, the industrial gross lease rate has risen by more than 9% per year. That trend continued in the first quarter of 2020 as that rate rose another \$0.03 to \$1.02. While low vacancy is driving up base lease rates, the increase in property taxes (the primary "net" charge in a gross lease), caused by property transfers at today's high sales prices, is putting additional upward pressure on gross asking rates. Also, the high proportion of heavily improved facilities like those offering cold storage, along with prime space in the port areas, has driven up average rates for the region.

**TRANSACTION ACTIVITY.** Sale and lease activity, which is defined by the total amount of space transacted in a given period, fell in the first quarter to 9.5 MSF, but that is most likely due to the flurry of activity in the final quarter of 2019 that saw more than 15.2 MSF change hands. Even with the projected virus-induced slowdown in the second quarter, we expect quality functional space to keep moving because there is a critical mass of businesses who need to remain in the area to thrive.



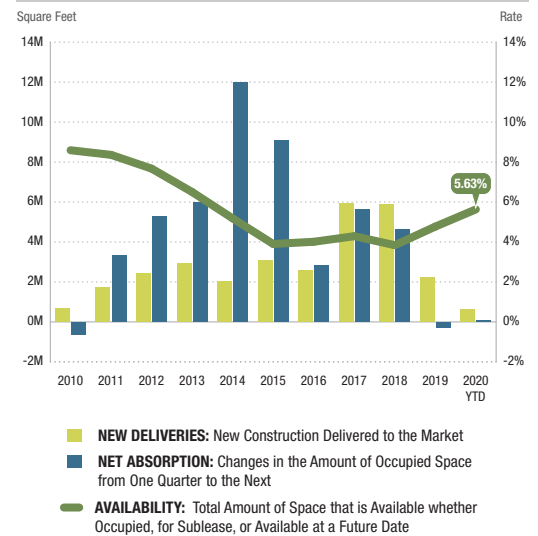
Market Statistics

	Change Over Last Quarter	1Q 2020	4Q 2019	1Q 2019	% Change Over Last Year
Vacancy Rate	▲ UP	2.70%	2.38%	2.04%	32.35%
Availability Rate	▲ UP	5.63%	4.77%	3.83%	47.00%
Average Asking Lease Rate	▲ UP	\$1.02	\$0.99	\$0.95	7.37%
Sale & Lease Transactions	▼ DOWN	9,555,390	15,285,785	11,059,221	(13.60%)
Gross Absorption	▲ UP	8,473,565	6,039,818	7,536,399	12.44%
Net Absorption	▲ POSITIVE	100,996	(808,453)	(1,088,894)	N/A

**CONSTRUCTION.** Ground-up development in the Los Angeles area has become difficult for several reasons. First, the area is nearing full buildout. LA is not a Phoenix or Dallas / Fort Worth that can expand in all directions as needed. Second, what becomes scarce gets more expensive. What land is left for the construction of industrial product has become prohibitively expensive, and even at today's record-high lease rates and sales prices, projects that don't pencil stay on the drawing board. Third, industrial land is being repurposed to high-density residential and/or mixed-use retail/office/multi-family uses. That trend will only accelerate going forward as the state and local governments try to solve a growing housing shortage. In all of Greater Los Angeles, just under 2 MSF was in the construction queue as the first quarter ended.

**ABSORPTION.** If the Los Angeles region had millions more square feet of high-clear buildings with calculated sprinkler systems and good truck access, it would disappear quickly. The e-commerce and logistics sectors continue to expand at a rapid rate and are the main drivers of net absorption (the net difference in occupied space from one period to another). Low vacancy tends to hamper net absorption because business expansion is limited by the lack of available space. Instead, growing businesses are forced to make do with what they have and do their best to work around inefficient facilities. Without sufficient new supply, the problem is self-perpetuating. In the first quarter of 2020, net absorption was positive by just over 100,000 square feet on a base of more than 733 MSF. This followed a quarter of negative absorption of 800,000. Compared to the base, these numbers lack significance other than to make clear how low supply restricts business growth.

## NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



## Forecast

It is too soon to tell what the immediate or mid-term impact the coronavirus response will have on LA's industrial market metrics. However, we do expect a substantial slowdown in activity at least for the next few months. We have already seen buyers and tenants tap the brakes and put pending deals on hold to give themselves enough time to assess the economic shock. It is unclear at this point when tenants and new owner/users can even take occupancy of a facility they lease or buy, and both are concerned over potential changes to market pricing going forward.

Demand drives prices and for the moment, demand is in a state of suspension. Therefore, many are taking a wait-and-see approach, at least until the worst of the crisis is behind us. Even before the major disruption hit with full force, buyers and tenants were showing signs of becoming more selective due to the lofty price points for both sale and lease product. Some sellers have been setting asking prices far above justifiable levels and those properties have not been getting expected activity even though mortgage interest rates sit at an all-time low. For lease product, high property taxes have helped to drive total occupancy costs to levels that many tenants cannot or will not pay.

Port activity, which suffered in the first quarter, will remain challenged for the time being. China's economy is beginning to ramp back up and that means container activity could pick up soon. For the moment, there are a lot of empty containers on this side of the Pacific that need a ride home.

## Significant Transactions

### Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
300 N. Baldwin Park Blvd.	City of Industry	230,247	\$61,035,224	Bentall Kennedy	Jacmar Food
11077 Rush St.	South El Monte	160,000	\$20,150,000	Birtcher Anderson Realty Management	MDP Properties, LLC
4224 District Blvd.	Vernon	117,360	\$34,034,400	Winix Global, LLC	Bridge Development Partners
19145 Gramercy Pl.	Torrance	108,186	\$21,500,000	IDI Logistics	Alpine Electronics of America
14923 Proctor	City of Industry	108,130	\$13,050,000	ARKA Properties Group	Cacique USA

### Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
15930 Valley Blvd.	City of Industry	619,200	Mar-2020	Amazon	Fisch Properties, LP
21900 S. Wilmington Ave.	Carson	411,840	Feb-2020	C. H. Robinson Worldwide	Alpert & Alpert Iron
20333 Normandie Ave. – Sublease	Torrance	290,278	Jan-2020	FR8 Zone	Nordstrom
2100 W 195th St.	Torrance	146,919	Feb-2020	DVS (Panalpina)	Ti Commerce Center, LLC
14647 Northam St.	La Mirada	140,000	Mar-2020	Grand Life, Inc.	Blackstone Group

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2020	Square Feet Available	Availability Rate 1Q2020	Average Asking Lease Rate	Net Absorption 1Q2020	Net Absorption 2020	Gross Absorption 1Q2020	Gross Absorption 2020
<b>Central</b>													
Bell/Bell Gardens/Maywood	195	7,559,346	0	0	70,125	0.93%	486,674	6.44%	\$0.95	(28,563)	(28,563)	58,753	58,753
City of Commerce	730	44,902,364	171,726	0	1,054,041	2.35%	2,351,958	5.24%	\$0.98	(134,671)	(134,671)	346,639	346,639
Huntington Park/Cudahy	192	4,741,175	0	45,400	107,296	2.26%	166,946	3.52%	\$1.00	(5,085)	(5,085)	17,015	17,015
Downtown	5,109	127,711,106	202,580	569,442	4,193,641	3.28%	9,648,804	7.56%	\$1.05	(189,639)	(189,639)	1,095,305	1,095,305
Montebello/Monterey Park	310	11,866,913	0	5,750	313,031	2.64%	523,125	4.41%	\$0.92	(18,591)	(18,591)	48,798	48,798
Pico Rivera	203	10,493,577	0	0	510,357	4.86%	493,389	4.70%	\$0.86	(39,576)	(39,576)	12,075	12,075
South Gate	228	10,785,010	0	0	211,175	1.96%	411,135	3.81%	\$0.78	(46,464)	(46,464)	1,100	1,100
Vernon	780	42,213,163	117,360	82,412	1,370,037	3.25%	2,713,563	6.43%	\$0.89	129,738	129,738	483,332	483,332
<b>Total</b>	<b>7,747</b>	<b>260,272,654</b>	<b>491,666</b>	<b>703,004</b>	<b>7,829,703</b>	<b>3.01%</b>	<b>16,795,594</b>	<b>6.45%</b>	<b>\$0.99</b>	<b>(332,851)</b>	<b>(332,851)</b>	<b>2,063,017</b>	<b>2,063,017</b>
<b>Mid Counties</b>													
Artesia/Cerritos	279	13,168,415	0	0	229,361	1.74%	646,524	4.91%	\$0.92	(48,490)	(48,490)	89,693	89,693
Bellflower/Downey	191	5,535,333	0	0	140,537	2.54%	200,439	3.62%	\$1.28	142,645	142,645	258,076	258,076
Buena Park/La Palma	233	15,124,890	0	0	171,788	1.14%	886,683	5.86%	\$0.77	1,173,857	1,173,857	1,194,094	1,194,094
La Mirada	182	12,957,646	0	0	985,398	7.60%	1,500,973	11.58%	\$0.92	(479,095)	(479,095)	94,720	94,720
Norwalk	88	2,868,092	0	0	215,383	7.51%	92,643	3.23%	\$1.35	(5,533)	(5,533)	17,442	17,442
Paramount	379	8,779,730	0	0	246,147	2.80%	331,517	3.78%	\$0.90	(79,745)	(79,745)	38,569	38,569
Santa Fe Springs	1,348	52,811,528	251,668	673,297	456,523	0.86%	1,745,033	3.30%	\$1.05	235,247	235,247	549,059	549,059
Whittier	164	4,088,009	0	0	103,075	2.52%	257,654	6.30%	\$0.94	(59,361)	(59,361)	238,555	238,555
<b>Total</b>	<b>2,864</b>	<b>115,333,643</b>	<b>251,668</b>	<b>673,297</b>	<b>2,548,212</b>	<b>2.21%</b>	<b>5,661,466</b>	<b>4.91%</b>	<b>\$0.98</b>	<b>879,525</b>	<b>879,525</b>	<b>2,480,208</b>	<b>2,480,208</b>
<b>San Gabriel Valley</b>													
Alhambra	115	2,346,802	0	0	111,914	4.77%	103,329	4.40%	\$1.14	(1,343)	(1,343)	38,226	38,226
Arcadia/Temple City	140	3,072,990	0	0	90,927	2.96%	91,231	2.97%	\$1.56	17,038	17,038	53,339	53,339
Azusa	230	5,977,820	458,581	96,950	182,134	3.05%	260,318	4.35%	\$0.99	(33,151)	(33,151)	27,923	27,923
Baldwin Park	250	4,710,202	7,782	0	100,436	2.13%	123,714	2.63%	\$1.13	(6,668)	(6,668)	82,668	82,668
City of Industry/DB/HH/RH	1,102	73,055,446	216,716	250,950	2,193,026	3.00%	4,639,544	6.35%	\$1.09	(981,440)	(981,440)	568,982	568,982
Covina/West Covina	177	3,277,547	30,173	0	140,971	4.30%	194,464	5.93%	\$1.15	(3,696)	(3,696)	4,750	4,750
Duarte	71	1,897,930	0	0	17,138	0.90%	5,752	0.30%	\$0.00	3,424	3,424	15,862	15,862
El Monte	307	8,271,605	92,466	61,163	1,141,436	13.80%	1,180,705	14.27%	\$1.14	319,844	319,844	419,778	419,778
Irwindale	260	11,138,299	0	2,263,691	182,796	1.64%	256,153	2.30%	\$1.09	135,748	135,748	215,288	215,288
La Puente	92	2,039,666	0	12,650	121,555	5.96%	248,275	12.17%	\$0.88	(35,762)	(35,762)	24,613	24,613
La Verne/San Dimas/Glendora	315	6,735,936	0	0	112,311	1.67%	205,899	3.06%	\$1.01	(28,809)	(28,809)	45,595	45,595
Monrovia	201	3,222,418	0	0	22,965	0.71%	61,783	1.92%	\$1.03	19,202	19,202	32,202	32,202
Pomona/Claremont	660	20,096,163	66,982	0	413,648	2.06%	912,251	4.54%	\$0.85	(13,551)	(13,551)	131,737	131,737
Rosemead/San Gabriel	120	2,416,729	0	0	52,348	2.17%	56,610	2.34%	\$1.15	(22,450)	(22,450)	1,100	1,100
South El Monte	788	10,643,909	0	0	390,756	3.67%	410,360	3.86%	\$1.01	(48,924)	(48,924)	105,636	105,636
Walnut	193	6,742,827	24,512	0	122,530	1.82%	465,929	6.91%	\$1.06	(5,503)	(5,503)	33,128	33,128
<b>Total</b>	<b>5,021</b>	<b>165,646,289</b>	<b>897,212</b>	<b>2,685,404</b>	<b>5,396,891</b>	<b>3.26%</b>	<b>9,216,317</b>	<b>5.56%</b>	<b>\$1.06</b>	<b>(686,041)</b>	<b>(686,041)</b>	<b>1,800,827</b>	<b>1,800,827</b>
<b>South Bay</b>													
Carson	497	35,274,985	0	70,300	387,749	1.10%	691,713	1.96%	\$1.05	489,482	489,482	568,310	568,310
Compton	461	24,682,829	0	0	815,321	3.30%	2,173,363	8.81%	\$0.87	(429,609)	(429,609)	125,694	125,694
El Segundo	168	8,770,359	0	0	87,463	1.00%	155,410	1.77%	\$0.00	(5,540)	(5,540)	15,085	15,085
Gardena	1,172	28,287,544	0	6,765	698,844	2.47%	1,067,996	3.78%	\$1.12	(119,186)	(119,186)	231,050	231,050
Harbor City	90	1,726,781	0	0	51,003	2.95%	83,173	4.82%	\$0.00	(36,603)	(36,603)	24,880	24,880
Hawthorne	220	7,925,093	0	48,080	87,193	1.10%	134,440	1.70%	\$1.34	(3,855)	(3,855)	56,995	56,995
Inglewood	232	4,777,333	0	0	209,554	4.39%	243,966	5.11%	\$1.55	(120,268)	(120,268)	57,299	57,299
Lakewood/Hawaiian Gardens	24	555,659	0	0	0	0.00%	2,820	0.51%	\$0.00	0	0	0	0
Lawndale	29	251,651	0	0	15,956	6.34%	15,956	6.34%	\$0.00	(9,820)	(9,820)	0	0
Long Beach/Terminal Island	728	23,461,250	0	507,837	758,658	3.23%	1,448,738	6.18%	\$1.23	504,129	504,129	854,564	854,564
Lynwood	98	4,437,031	0	0	30,400	0.69%	186,551	4.20%	\$0.00	(10,443)	(10,443)	10,557	10,557
Rancho Dominguez	234	14,422,539	0	0	377,737	2.62%	950,475	6.59%	\$0.96	(83,071)	(83,071)	59,508	59,508
Redondo & Hermosa Beach	37	1,943,084	0	0	8,800	0.45%	8,800	0.45%	\$0.47	0	0	0	0
San Pedro	43	2,752,196	0	0	2,442	0.09%	19,734	0.72%	\$0.00	0	0	0	0
Signal Hill	200	3,358,419	0	0	46,679	1.39%	101,847	3.03%	\$1.38	(28,944)	(28,944)	3,200	3,200
Torrance	607	26,075,702	282,822	214,936	435,093	1.67%	2,215,152	8.50%	\$1.14	102,031	102,031	114,058	114,058
Wilmington	145	3,769,696	55,000	0	21,416	0.57%	146,366	3.88%	\$0.00	(7,940)	(7,940)	8,313	8,313
<b>Total</b>	<b>4,985</b>	<b>192,472,151</b>	<b>337,822</b>	<b>847,918</b>	<b>4,034,308</b>	<b>2.10%</b>	<b>9,646,500</b>	<b>5.01%</b>	<b>\$1.06</b>	<b>240,363</b>	<b>240,363</b>	<b>2,129,513</b>	<b>2,129,513</b>
<b>Los Angeles Total</b>	<b>20,617</b>	<b>733,724,737</b>	<b>1,978,368</b>	<b>4,909,623</b>	<b>19,809,114</b>	<b>2.70%</b>	<b>41,319,877</b>	<b>5.63%</b>	<b>\$1.02</b>	<b>100,996</b>	<b>100,996</b>	<b>8,473,565</b>	<b>8,473,565</b>
5,000-24,999	13,531	165,332,878	99,588	55,422	4,743,684	2.87%	7,282,874	4.40%	\$1.15	(425,744)	(425,744)	1,784,064	1,784,064
25,000-49,999	3,547	123,044,335	293,700	482,999	3,845,351	3.13%	7,338,503	5.96%	\$1.02	(342,527)	(342,527)	1,390,722	1,390,722
50,000-99,999	1,980	134,920,602	200,479	370,363	3,652,461	2.71%	7,174,408	5.32%	\$0.99	(217,699)	(217,699)	1,191,884	1,191,884
100,000-249,999	1,248	185,113,268	1,384,601	1,730,944	4,989,342	2.70%	11,020,459	5.95%	\$0.95	282,054	282,054	2,265,633	2,265,633
250,000-499,999	253	81,815,365	0	963,895	1,019,175	1.25%	4,372,783	5.34%	\$0.84	(151,299)	(151,299)	466,129	466,129
500,000 plus	58	43,498,289	0	1,306,000	1,559,101	3.58%	4,130,850	9.50%	\$0.00	956,211	956,211	1,375,133	1,375,133
<b>Los Angeles Total</b>	<b>20,617</b>	<b>733,724,737</b>	<b>1,978,368</b>	<b>4,909,623</b>	<b>19,809,114</b>	<b>2.70%</b>	<b>41,319,877</b>	<b>5.63%</b>	<b>\$1.02</b>	<b>100,996</b>	<b>100,996</b>	<b>8,473,565</b>	<b>8,473,565</b>

This survey consists of buildings greater than 5,000 square feet. Lease rates are on an industrial-gross basis.



## LA Looks to Weather the Storm

by **Selden McKnight**

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The industrial real estate market remained strong in Los Angeles throughout the first quarter of 2020, despite a major external shock. While many people had their attention focused on the trade war with China at the start of the year, all eyes have now shifted to the global COVID-19 crisis. What started as a viral outbreak in Wuhan, China, has now become a global pandemic that has sent the US equity markets spiraling and has disrupted supply chains around the world. The US Federal Reserve has responded quickly by slashing interest rates and buying back billions of dollars in bonds in an attempt to brace the economy for the impact most businesses and individuals will experience as a result of the coronavirus outbreak.

According to The Port of Los Angeles, total port activity was down approximately 5% in January 2020 from the year prior, and February experienced a 22% decline in activity compared with 2019. The Port of Long Beach is reporting activity being down close to 6% in both January and February compared with the prior year.

Many experts are predicting the port activity will pick up in the coming months as China reopens its major ports and trade resumes. Surprisingly, an issue many US exporters are facing is a lack of shipping containers due to a traffic jam of goods sitting in China's ports. Exporters partially rely on using empty containers that have come back from China in order to ship their goods. However, China is experiencing a major backup of shipping containers following a countrywide quarantine.

Despite the troublesome trade activity reports, the industrial real estate market rests firmly on the diverse mix of industries supporting the local economy. Food processing and packaging, apparel, aerospace, metals and electronics all contribute heavily to the massive industrial sector in Los Angeles, which does not appear to be diminishing anytime soon.

Overall, it can be expected that the US and global economies will experience financial slowdowns as a result of the coronavirus. However, most businesses and individuals will weather the storm and get through these temporary hardships as we always do.

## Product Type

### MFG./DIST.

Manufacturing / Distribution / Warehouse facilities with up to 29.9% office space.

## Submarkets

### CENTRAL

Bell / Bell Gardens / Maywood, City of Commerce, Huntington Park / Cudahy, Downtown, Montebello / Monterey Park, Pico Rivera, South Gate, Vernon

### MID COUNTIES

Artesia / Cerritos, Bellflower / Downey, Buena Park / La Palma, La Mirada, Norwalk, Paramount, Santa Fe Springs, Whittier

### SAN GABRIEL VALLEY

Alhambra, Arcadia / Temple City, Azusa, Baldwin Park, City of Industry / DB / HH / RH, Covina / West Covina, Duarte, El Monte, Irwindale, La Puente, La Verne / San Dimas / Glendora, Monrovia, Pomona / Claremont, Rosemead / San Gabriel, South El Monte, Walnut

### SOUTH BAY

Carson, Compton, El Segundo, Gardena, Harbor City, Hawthorne, Inglewood, Lakewood / Hawaiian Gardens, Lawndale, Long Beach / Terminal Island, Lynwood, Rancho Dominguez, Redondo & Hermosa Beach, San Pedro, Signal Hill, Torrance, Wilmington

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a industrial-gross basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.