

Los Angeles

Industrial Market Outlook 2Q 2017

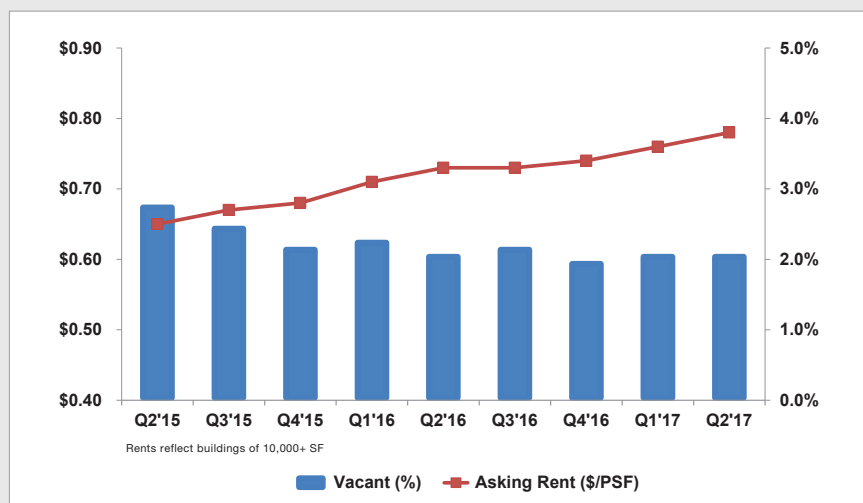
MARKET OVERVIEW

Strong demand continued to propel the Los Angeles industrial market in the second quarter of 2017. Vacancy has remained steady over the prior year at 2.0%, keeping Los Angeles the tightest industrial market in the nation. Rents have seen unprecedented growth this cycle, experiencing year over year rent growth for the last five years. Average asking rents closed the quarter at \$0.78/SF, up 2.7% from last quarter and up 6.8% from this time in 2016. Demand is driven by a strong economy as well as cargo volume from the ports of Los Angeles and Long Beach. In the first five months of 2017, more than 6.5 million TEUs have filtered through the two ports. This June, the Port of Los Angeles became the first port in the Western Hemisphere to handle nine million TEUs over a 12 month period. Combined import volume for 2017 year to date is up 5.3% from this time last year. Consumer demand for imported goods is driving the increased cargo volume and is expected to continue to push demand for warehouse distribution space.

TRENDS TO WATCH

While it is difficult to imagine vacancy being able to drop much further in an already extremely tight market, the lack of available land for development and insatiable user demand will likely push vacancy rates below 2.0% in the Los Angeles industrial market by the end of the year. Expect rents to continue rising as landlords continue to hold the upper hand in lease negotiations. New construction deliveries will not be enough to relieve the demand. Speculative development is up approximately 27% from last quarter for a construction pipeline of 6.5 million square feet that is approximately 20% preleased. New product should have no trouble finding tenants under current market conditions.

Average Asking Rent and Vacancy Rate



Source: NAI Capital Research, Costar

MARKET OUTLOOK

Asking Rental Rates



Sale Prices



Availability/Vacancy Rates



Landlord Concessions



Sales/Leasing Volume



New Construction



NAI Capital Research
www.naicapital.com

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Market Statistics

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	2Q17 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	2Q17 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/PSF NNN	AVERAGE SALE PRICE \$/PSF
Central	243,328,476	130,702	5.1%	2.4%	1,741,234	3,925,576	2,842,158	4,519,756	\$0.78	\$164
Mid-Cities	97,346,875	1,213,287	3.9%	2.1%	1,348,959	2,671,868	703,223	1,036,320	\$0.71	\$149
South Bay	212,746,730	1,033,284	3.4%	1.8%	2,460,845	4,595,710	1,227,404	2,695,988	\$0.91	\$167
LA North	143,593,122	1,779,439	4.4%	1.8%	945,912	2,302,098	1,151,604	2,476,698	\$0.79	\$159
San Gabriel Valley	162,587,230	2,400,289	5.1%	2.3%	1,249,883	3,162,173	887,019	2,079,665	\$0.70	\$144
Total	859,602,433	6,557,001	4.4%	2.0%	7,746,833	16,657,425	6,811,408	12,808,427	\$0.78	\$159

RBA includes industrial buildings of all sizes. Rents reflect buildings of at least 10,000 square feet.

Leasing

Leasing volume was down this quarter as a minimal vacancy rate leaves few opportunities for leasing. The total lease volume for the second quarter was 7.7 million square feet for a total of 16.7 million square feet for the first half of 2017. With vacancy at a record low and availability at just 4.4%, tenants are met with rising rents in a market that has already surpassed the peak of the prior cycle in 2008 by \$0.12, or 18%. In one of the largest lease transactions this quarter, Best Buy signed a 10 year lease for a 479,310 square foot distribution building at The Brickyard in Compton, one of South Bay's newest deliveries. Japanese chain store Daiso, known as the "Japanese dollar store," leased 220,000 square feet of distribution space in La Mirada at an asking rate of \$0.69/SF.

Sales

Los Angeles County saw an increased demand for industrial building purchases in the second quarter of 2017. More than 6.8 million square feet of industrial space were sold, which is an increase of 13.6% from last quarter and 29.6% more than last year at this time. The average sale price per square foot was \$159, an increase of 8.4% over the quarter and 7.2% above the prior year. This quarter, Terreno Realty Corporation, a San Francisco based REIT, purchased a 23-acre 465,000 square foot industrial center in Lynwood for \$68/SF. A 219,877 square foot industrial warehouse building in Vernon was purchased by investment management company LBA Realty for \$135/SF.

Select Lease Transactions:

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/PSF*	SQUARE FEET
Best Buy	1701 N Central Ave	South Bay	Withheld	479,310
McMaster-Carr	12318 Florence Ave	Mid-Cities	Withheld	295,490
Daiso	16400 Trojan Way	Mid-Cities	\$0.69	220,000
Simplehuman USA	4800 Conant St	South Bay	Withheld	219,280
Vie Logistics	4240 W 190th St	South Bay	\$0.63	156,827

*All rents are NNN unless otherwise noted

Select Sales Transactions:

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/PSF	SQUARE FEET
Terreno Realty Corp	11852-11854 S Alameda St	South Bay	\$68	465,000
LBA Realty	Lincoln Industrial Center II	LA North	\$135	338,551
LBA Realty	4440 E 26th St	Central	\$132	219,877
Goldman Sachs Group, Inc.	12252 Whittier Blvd	Mid-Cities	\$157	161,610
Rexford Industrial	2390 Ward Ave	LA North	\$119	138,700

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- LA North
- Central
- San Gabriel Valley
- Mid-Cities
- South Bay

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