Los Angeles
Industrial Market Outlook 3Q 2018

NAI Capital
COMMERCIAL REAL ESTATE SERVICES, WORLDWIDE

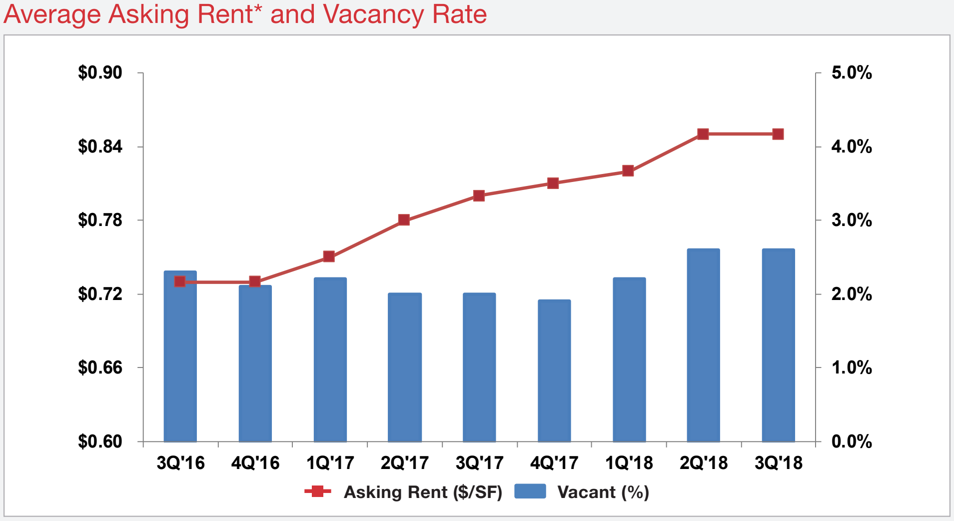
MARKET OVERVIEW

The Los Angeles industrial market saw the average asking rent and vacancy rate remain steady in 3Q 2018, while the pace of sales and leasing slowed. However, the market remained strong as demand continued to outpace supply. Lease volume totaled nearly 7.6M SF this quarter while sales totaled 5.2M SF. Combined lease and sale volume for 2018 is 46.9M SF. New construction delivered to the market this quarter totaled just 1.4M SF and less than 25% of these completions remained available. The largest of these was Building 2 at Goodman Logistics Center in El Monte. The 506,000 SF warehouse was fully leased to Rim Logistics and Funai upon delivery. The construction pipeline contained just 3.2M SF and was 19% preleased. Due to high demand, vacancy at the end of 3Q 2018 was 2.6% while the average asking rent remained at $0.85/SF. A strong economy continued to drive demand for industrial space, as demonstrated by cargo volume from the ports of Los Angeles and Long Beach. Through August 2018, nearly 11.3 million TEUs filtered through the two ports, up 2.7% over last year. Total imports combined for more than 5.7 million TEUs, up 3.1% from 2017.

TRENDS TO WATCH

After several consecutive quarters of growth, Los Angeles' red hot industrial market looks like it may finally be cooling off. This does not necessarily signal a market slowdown; rather, the market's capacity to meet demand is maxed out. Developers are bringing as much industrial product as they can to the market as quickly as possible, but tenants, owner/users and investors are insatiable. The national economy continues to experience growth, albeit at a slower rate than before. Global and domestic consumption, which is a major driver of industrial demand, is not seeing any measurable slowdown. Keep an eye on trade relations with China, which imports and exports more than half the cargo at the ports. The first wave of tariffs impacted cargo at the Port of Los Angeles, which showed August volume down slightly compared to last year. Port officials expect cargo volume to moderate but remain high in the coming months, suggesting that the industrial market will remain strong through 2018.

Average Asking Rent* and Vacancy Rate



MARKET OUTLOOK

Asking Rental Rates

Sale Prices

Availability/Vacancy Rates

Landlord Concessions

Sales/Leasing Volume

New Construction

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*Rents reflects building of 10,000 SF or greater.

Source: NAI Capital Research, CoStar

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Market Statistics*

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	3Q18 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	3Q18 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT $/SF NNN	AVERAGE SALE PRICE $/SF
Central	243,378,359	129,023	5.1%	2.8%	1,708,353	6,589,022	1,094,993	5,719,052	$0.80	$214
Mid-Cities	101,261,577	70,696	4.3%	3.8%	1,409,840	6,348,429	488,455	1,706,743	$0.85	$201
South Bay	214,336,302	206,875	3.7%	1.8%	1,513,185	5,611,795	581,496	3,549,709	$1.04	$288
LA North	145,486,961	608,505	4.4%	2.5%	1,051,389	3,593,192	1,558,748	3,332,098	$0.89	$219
San Gabriel Valley	171,215,086	2,219,113	4.9%	2.4%	1,915,386	6,208,126	1,482,595	4,271,961	$0.75	$174
Los Angeles County	**875,678,285**	**3,234,212**	**4.5%**	**2.6%**	**7,598,153**	**28,350,564**	**5,206,287**	**18,579,563**	**$0.85**	**$215**

Leasing

Los Angeles' industrial market may have reached its peak asking rent in 3Q 2018. The market leveled out and rent remained steady over the prior quarter at $0.85/SF, which is the highest on record. Compared to the peak of the prior cycle, rents are currently up 30.8%. Lease volume totaled nearly 7.6M SF this quarter for a total of more than 28.3M SF leased in 2018 to date, down 18.9% from the first three quarters of 2017. This is primarily due to an extremely tight market. Though projects are delivering to the market, demand is keeping the low vacancy rate steady. Logistics and 3PLs are some of the most prominent users of industrial space and this quarter, Universal Logistics Group leased 205,000 SF in Santa Fe Springs at a $0.44/SF asking rate.

Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT $/SF**	SQUARE FEET
Guess?, Inc.	1444 S Alameda St	Central	$0.66	354,809
Universal Logistics Group	9400 Santa Fe Springs Rd	Mid-Cities	$0.44	204,750
Tangram Interiors	9200 Sorensen Ave	Mid-Cities	Withheld	200,223
South Bay Logistics, LLC	9400 Santa Fe Springs Rd	Mid-Cities	$0.43	188,850
Bunzl Distribution USA, Inc.	15959 Piuma Ave	Mid-Cities	$0.71	178,454

Sales

Users and investors continued to show strong preference for industrial assets in Los Angeles. Space sold for an average of $215/SF, up 41% from $152/SF a year ago. High pricing and limited supply for sale caused volume to fall to 5.2M SF this quarter for a total of 18.6M SF sold in 2018. The year to date total is about 7.6% lower than the volume through three quarters last year. Industrial product continues to be a strong investment with cap rates at 4.92%. In one of the largest transactions, Amorcast Products Co purchased a vacant 146,500 SF manufacturing building in Chatsworth. Amorcast Products paid $195/SF for the building and plans to occupy as an owner/user. Rexford Industrial purchased a 123,000 SF warehouse in Pacoima. The property sold for $183/SF and will be leased back to the seller, Mole-Richardson Co. Ltd.

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE $/SF	SQUARE FEET
Armorcast Products Co	9140 Lurline Ave	LA North	$195	146,516
Rexford Industrial	12154 Montague St	LA North	$183	122,868
Clarion Partners	5685 Alcoa Ave	Central	$211	116,450
Westcore Properties	6100 Condor Dr	LA North	$120	114,556
Rexford Industrial	16121 Carmenita Rd	Mid-Cities	$123	108,500

*RBA includes all industrial buildings. Rents reflect buildings of 10,000 SF or greater. **Rents are NNN unless otherwise noted.

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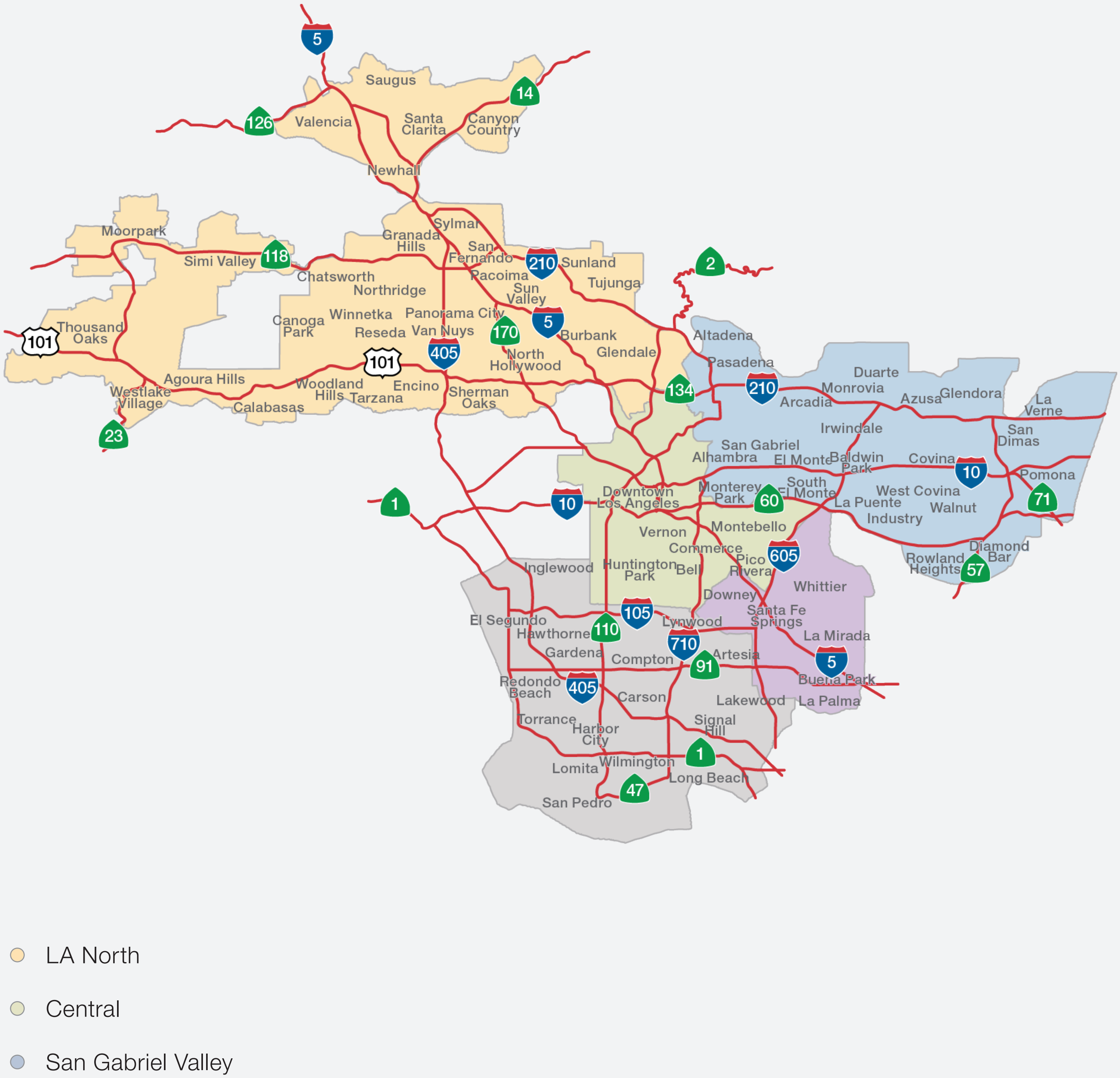

- LA North
- Central
- San Gabriel Valley
- Mid-Cities
- South Bay

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