MARKETBEAT

GREATER LOS ANGELES

Industrial Q4 2019

CUSHMAN & WAKEFIELD

	YoY Chg	12-Mo. Forecast
1.8% Vacancy Rate		
-16K YTD Net Absorption SF		
$0.91 Asking Rent, PSF		

Overall, Net Asking Rent per Month

ECONOMIC INDICATORS Q4 2019

	YoY Chg	12-Mo. Forecast
4.6M Los Angeles County Employment		
4.4% Los Angeles County Unemployment Rate		
3.5% U.S. Unemployment Rate		

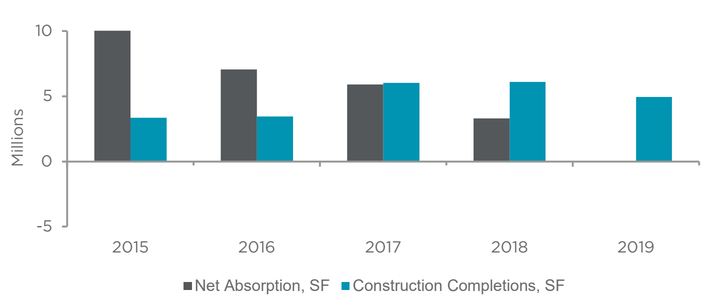
Source: BLS

Strong Job Growth Continues but Slowdown in Trade Volume: The national and local economies remain solid at the start of 2020 with the U.S. economy capping off a year that saw more than 2 million jobs added (from December 2018 to December 2019) for the ninth consecutive year. Over the last year, Los Angeles County added 81,900 jobs through November for an annual growth of 1.8%. Low unemployment and widespread hiring are fueling consumer confidence and thus consumer spending, which directly correlates into demand for industrial real estate. In 2019, retail sales increased in 10 of the 12 months, and by year-end stood 5.8% above last year's level. Despite the flourishing economy, there are risks to continued economic growth both for the U.S. and the county. These include continued slowdown in global trade due to tariffs and the prospect of slower job growth in 2020. Tariffs have accelerated shifts in supply chains with slower growth in container volume to the U.S. from China. Due to their reliance on the Chinese market, West Coast ports are being hit the hardest by the trade war. Imports were down 5.5% at the Ports of Los Angeles & Long Beach compared to 2018. After a historic high in 2018, the combined total container volume of 17.0 million TEUs was down 3.3% from last year.

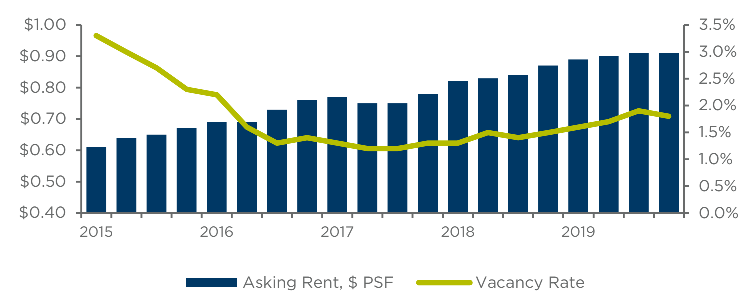
Slowdown in Demand Due to Limited Supply of Modern Product:. After a very strong first half of the year, leasing activity declined by 12.4% in the second half and 2019's year-end total of 30.6 million square feet (msf) was down 12.1% from last year. This was also below the 10-year annual average of 36.5 msf and the lowest annual total since 2009. The South Bay market continued to dominate the region in leasing, accounting for 26.9% of the region's activity. With the addition of 4.9 msf of new construction, Greater LA ended the year with a 1.8% overall vacancy rate, 30 basis points (bps) higher than last year. Even with this uptick in vacancy, the region continues to be one of the tightest markets in the U.S. Although there has been increased development in recent years, the lack of modern product continues to hamper activity. With a base of 1.1 billion square feet, less than 20% of Los Angeles' inventory was built after 1992. In the last five years, the market has added 23.8 msf of new product while absorbing 27.7 msf. Although the rate of growth has decelerated, rents continue to trend up. After a double-digit annual increase in 2018, the average rent climbed to a historical high of $0.91 per square foot per month (psf/mo), 4.6% higher than last year.

Investor Demand is Stronger Than Ever, but Limited Opportunities: There's certainly no shortage of capital flowing into industrial real estate and it remains one of the most favored asset classes among investors. After three strong years from 2015-2017, investment volume trended down in 2018 with just 12.5 msf in sales. This was not due to a lack of investor demand but rather a lack of availability of product. Investor demand is stronger than ever, but with limited opportunities, it has been a difficult market for investors. With single-asset sales setting new records in terms of sales volume and a number of portfolio sales in 2019, the year ended with 18.4 msf of investment sales activity, 46.2% higher than 2018's level.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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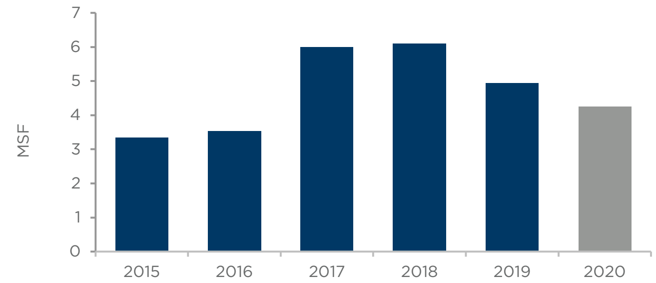
Central Los Angeles: Ending the year with a 1.8% overall vacancy rate, Central Los Angeles' market fundamentals remain relatively healthy even with a 20-bp year-over-year increase in vacancy. Leasing activity totaled 6.6 msf in 2019, 12.9% lower than last year. However, this is the result of limited supply and not lack of demand. The lack of available modern product presents limited options for tenants since the market has only added 5.9 msf of new product in the last decade. Although minimal at 878,950 sf, new development should help alleviate the scarcity of supply for modern product, at least for the near-term. Although there has been a deceleration in rent growth with rents increasing by just 4.5% this year after a 20.3% increase in 2018, Central LA's rental rates are now at historic high with an average of $0.93 psf/mo. Averaging $0.79 psf/mo, the Commerce/Vernon submarket posted a 3.9% annual increase in rents. The Commerce/Vernon submarket ended the year on a strong note with net occupancy gains of 597,502 sf in the final quarter of the year and a 60-bp quarter drop in vacancy. With 108,087 sf of net absorption during the year, overall vacancy rate dropped to 1.5% at year-end, the same level as last year. Due to limited options for modern product, there was a considerable slowdown in leasing activity. Totaling 4.8 msf at year-end, leasing was down 21.9% from last year. User sale activity was also down this year with 1.1 msf transacted in 2019, compared to 1.6 msf in 2018.

South Bay: The addition of 1.6 msf of new product to the South Bay's industrial inventory during the year did not apply significant upward pressure on vacancy and its overall vacancy rate only increased by 50 bps from last year and remained below 2.0%. Limited supply has become a constraining factor in the market's ability for growth. Less than 17% of South Bay's industrial inventory was built after 1992. This infill market has significant barriers to entry and supply has not kept pace with demand. During this decade, the market has absorbed 13.0 msf of space but only added 8.2 msf of new product to its inventory stock. Although leasing activity rebounded slightly in the second half of the year, 2019 ended with leasing down 9.6% from last year at 8.2 msf. This was 16.0% lower than the 10-year annual average of 9.8 msf and the lowest yearly total since 2016. However, strong demand continues to drive upward movement in rents and the average overall rental rate jumped to a historic high of $0.97 psf/mo (net), for an annual growth of 9.0%. Rental rates in the South Bay have increased by a whopping 61.7% since year-end 2014. With land values at record high, developers and investors are acquiring older and functionally obsolete product for redevelopment to meet market demand for high-quality industrial real estate. Recently in Carson, AT&T's 12.34-acre site sold for $82.42 psf with development plans for two buildings totaling approximately 285,000 sf.

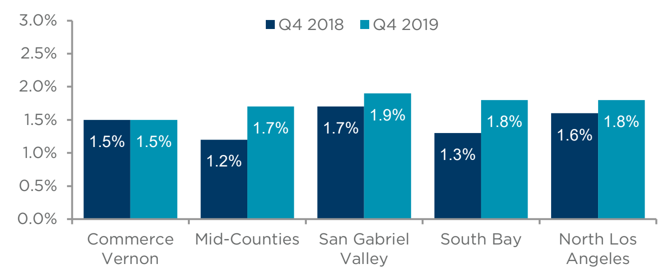
Outlook

- Strong warehouse demand will continue to be fueled by the vast consumer appetite for eCommerce. The enormous emphasis on improving efficiency in the last-mile of distribution will continue to be a significant generator of demand.
- Transportation costs are substantially higher than rent so there is incremental demand to locate facilities closer to the population center.
- Real estate fundamentals should stay steady through 2021. Rising land and construction costs and strong demand will continue to fuel rent growth.
- Although economic growth, including GDP and job growth, is forecast to moderate in 2020, the outlook for the economy remains favorable for continued growth.

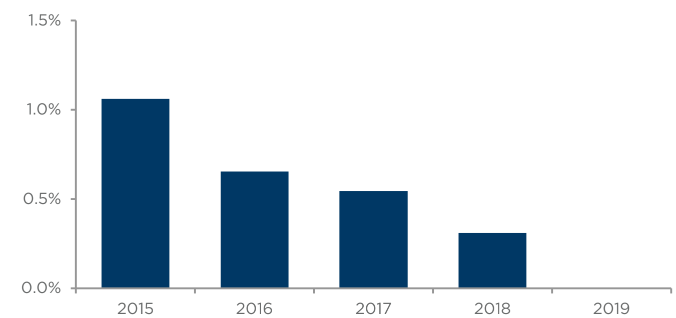
NEW SUPPLY



OVERALL VACANCY BY MARKET



INDUSTRIAL NET ABSORPTION AS % OF INVENTORY

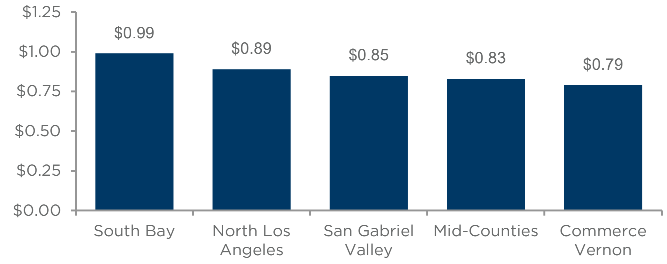


Mid-Counties: Even though the fourth quarter saw positive gains of 1.1 msf and a 90-bp quarter drop in overall vacancy, the year ended with a 50-bp year-over-year increase in vacancy. After performing at peak levels in 2018 with record-high leasing activity and net absorption of 1.6 msf, the Mid-Counties market saw a significant slowdown in demand with negative absorption of 473,104 sf and a 12.0% decline in leasing activity. This is the first time since 2013 that the market ended in the red. Fourth quarter's leasing total of 3.5 msf brought the year-end total to 6.4 msf. Although lower than last year's level, it is slightly higher than the 10-year annual average of 6.3 msf. Santa Fe Springs accounted for 39.3% of the market's leasing total with 2.5 msf leased, followed by Buena Park with 1.8 msf. The largest deal of the year not only in Mid-Counties but also in both the Orange County and Greater LA markets was UNIS/CubeWork's 1.1-msf, 84-month lease of the former JC Penney hub in Buena Park. Tight market conditions and solid demand continued to support rent growth and industrial asking rents increased 5.1% year-over-year, closing the year at $0.83 psf/mo. In the last five years, Mid-Counties rents have grown by 48.2%. This land-constrained market continues to attract both developers and investors looking for value-add opportunities. In 2019, the market recorded 4.5 msf of investment sales activity, almost four-times the amount of 1.2 msf sold to investors in 2018. La Mirada had multiple high-volume sales with Clarion Partners acquiring an industrial portfolio on Rosecrans Avenue for $76.8 million and Liberty Property Trust's purchase of a 278,000-sf industrial building in the area for $65.9 million.

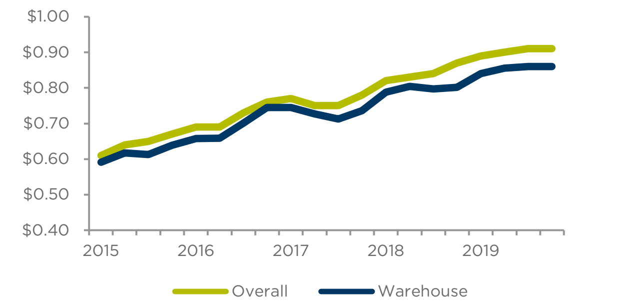
San Gabriel Valley: The San Gabriel Valley continues to benefit from the lack of available or buildable land on the coast and this market continues to dominate the Los Angeles region in both net demand and new construction. Formerly seen as an expansion area for growing Los Angeles area businesses, San Gabriel Valley has now grown into one of the largest industrial markets in Southern California and represents 18.5% of the Greater Los Angeles industrial market. With the market posting occupancy gains every single year during this decade, its overall vacancy has declined by 280 bps since year-end 2009. However, due to the addition of 1.8 msf of new product this year, there was a slight uptick in vacancy, from 1.7% at year-end 2018 to 1.9%. Demand has outpaced supply during this decade with 12.1 msf of net absorption and 11.2 msf of new product added to the market's inventory. After a 23.0% annual growth in 2018, leasing slowed to just 4.6 msf in 2019, 29.3% lower than last year and the lowest annual total in the last 15 years. New development will satisfy the demand for modern facilities and market activity should improve. Even with a slowdown in demand, rents are still on an upward trajectory with the average rent increasing by 7.7% year-over-year and 18.3% in the last two years. With strong rent growth in the past few years, industrial continues to be an attractive real estate asset class, evidenced by healthy investment activity of 2.5 msf in 2019, 29.6% higher than last year.

North Los Angeles: After starting the year on a high note with over 500,000 sf of positive gains, North Los Angeles posted two consecutive quarters of occupancy losses. During the final quarter of the year, the market rebounded with positive gains of 364,845 sf and the market ended the year in the black with 218,742 sf. The year ended with overall vacancy rate of 1.8%, 20 bps lower than the third quarter but 20 bps higher than last year. Santa Clarita Valley's 977,785 sf of net gains helped offset the loss in Ventura County, which suffered occupancy losses of 702,965 sf for the year. On a positive note, North LA's leasing activity remained healthy with 4.6 msf leased in 2019, 8.1% higher than last year. With the ground-breaking of Avion Burbank, an industrial campus totaling 1.0 msf, North LA now has the highest amount of new development (under construction) in Greater LA with 2.1 msf. Although rent growth has decelerated, healthy demand continues to push rental rates higher with overall rental rates averaging $0.87 psf/mo, for a 2.4% annual growth.

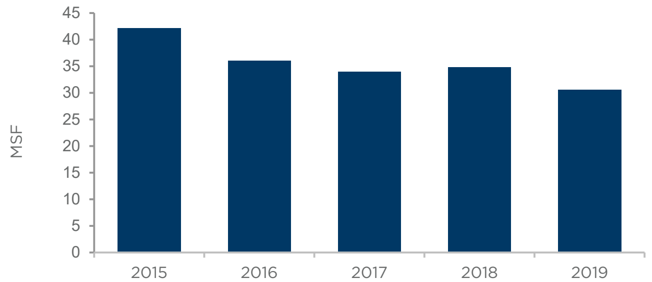
DIRECT RENT BY MARKET ($PSF/MO, NNN)



WAREHOUSE vs OVERALL MARKET RENT



ANNUAL LEASING ACTVITY



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MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANCY RATE	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	YTD USER SALES ACTIVITY (SF)	UNDER CNSTR (SF)	CONSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT (OS)	OVERALL WEIGHTED AVG NET RENT (W/D)
Downtown Los Angeles	100,951,429	2.4%	-772,253	1,723,354	293,917	202,580	0	$0.97	$1.47	$1.03
Commerce/Vernon	169,633,378	1.5%	108,087	4,835,820	1,050,346	676,370	364,332	$0.79	$1.36	$0.80
Mid-Counties	124,253,431	1.7%	-473,104	6,414,186	423,665	296,771	89,081	$0.81	$0.92	$0.83
San Gabriel Valley	198,592,208	1.9%	922,267	4,629,544	1,036,420	1,175,028	1,824,354	$0.84	$0.86	$0.83
South Bay	236,197,810	1.8%	40,437	8,224,621	421,370	811,877	1,552,463	$0.93	$1.93	$0.93
Westside	16,481,554	0.8%	-60,305	101,766	10,500	0	0	$1.17	$2.84	$1.95
North Los Angeles	226,582,262	1.8%	218,742	4,633,427	937,059	2,092,848	1,112,617	$0.96	$1.16	$0.81
GREATER LOS ANGELES TOTAL	**1,072,692,072**	**1.8%**	**-16,129**	**30,562,718**	**4,173,277**	**5,255,474**	**4,942,847**	**$0.91**	**$1.47**	**$0.86**

**Rental rates reflect weighted net asking $psf/month*

MF = Manufacturing OS = Office Service/Flex W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
6800 Valley View Boulevard, Buena Park	Mid-Counties	UNIS/CubeWork	1,075,347	Direct
9306 Sorensen Avenue, Santa Fe Springs	Mid-Counties	WESCO	305,422	Direct
950-990 Francisco Street, Torrance	South Bay	Internet Retailer	301,827	Direct
24760 S Main Street, Carson	South Bay	U.S. Postal Service	231,008	Direct
1000 E 223rd Street, Carson	South Bay	Curtis International	216,047	Sublease

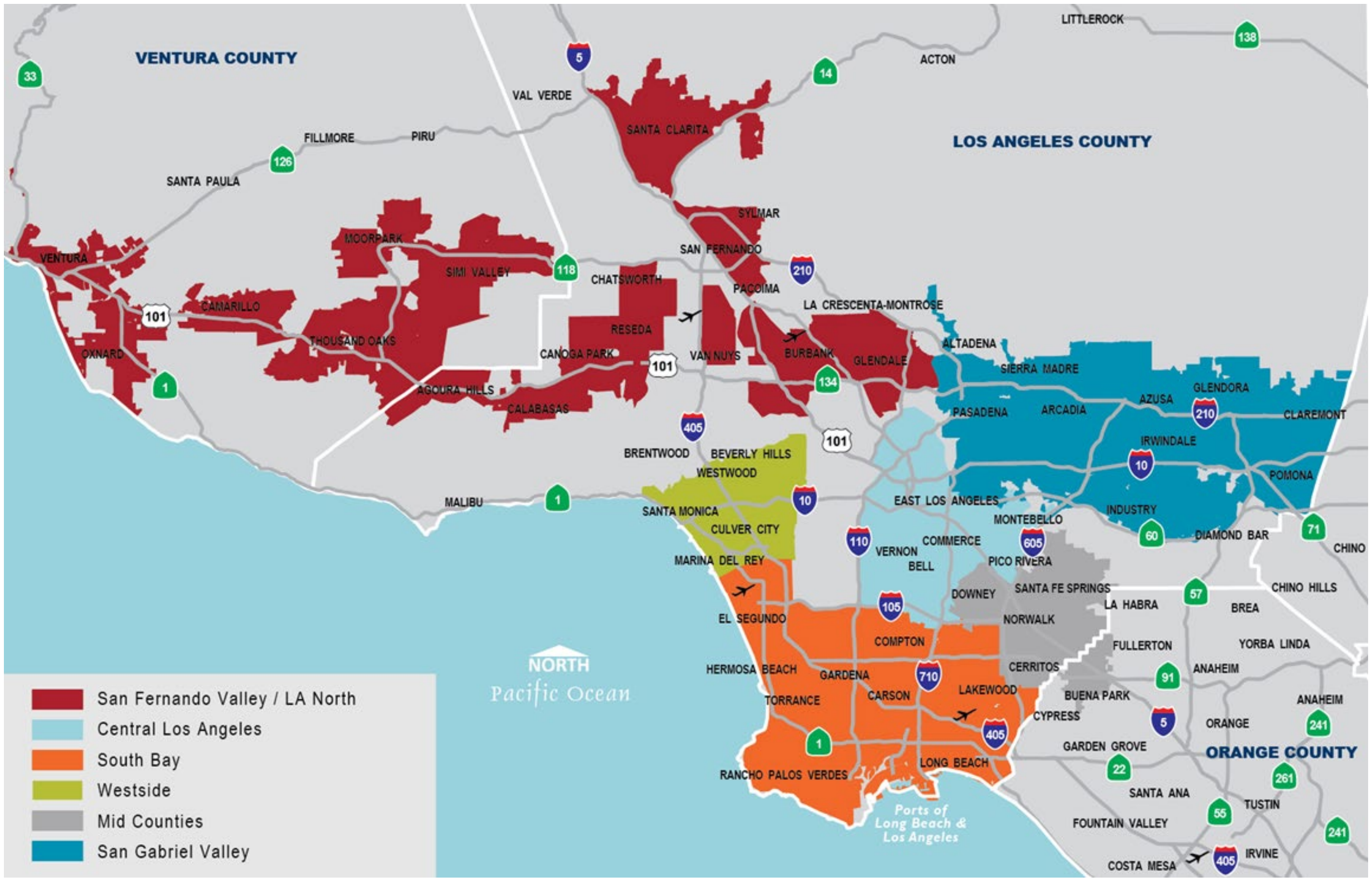
KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/$ PSF
1601 W Mission Boulevard, Pomona	San Gabriel Valley	Prologis / Rexford Industrial Realty	751,528	$87.8M / $117
2000 E 8th Street, Los Angeles	Downtown Los Angeles	Harridge Development Group / Atlas Capital Group	658,000	$241.5M / $367
14041-14051 Rosecrans Avenue, La Mirada	Mid-Counties	Bailard, Inc. / Clarion Partners	337,125	$76.8M / $228
6281-6289 E Slauson Avenue, Commerce	Commerce/Vernon	Prologis / Rexford Industrial Realty	336,085	$41.3M / $123
2875 Pomona Boulevard, Pomona	San Gabriel Valley	Hayward Industries / Garland Industries	288,195	$29.5M / $102

KEY CONSTRUCTION COMPLETIONS YTD 2019

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
Goodman Logistics Center, El Monte	San Gabriel Valley	Mutual Trading Co. (300K)	1,235,443	Goodman North America
21900 Wilmington Avenue, Carson	South Bay	N/A	412,000	Alpert Properties

GREATER LOS ANGELES INDUSTRIAL SUBMARKETS



TINA ARAMBULO
Industrial Research Director
Tel: +1 310 5251918
tina.arambulo@cushwake.com

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