MARKETBEAT

GREATER LOS ANGELES

Industrial Q2 2020

	YoY Chg
2.8% Vacancy Rate	▲
-6.3M YTD Net Absorption SF	▼
$0.92 Asking Rent, PSF	▲

Overall, Net Asking Rent per Month

ECONOMIC INDICATORS Q2 2020

	YoY Chg
3.9M Los Angeles County Employment	▼
20.9% Los Angeles County Unemployment Rate	▲
13.0% U.S. Unemployment Rate	▲

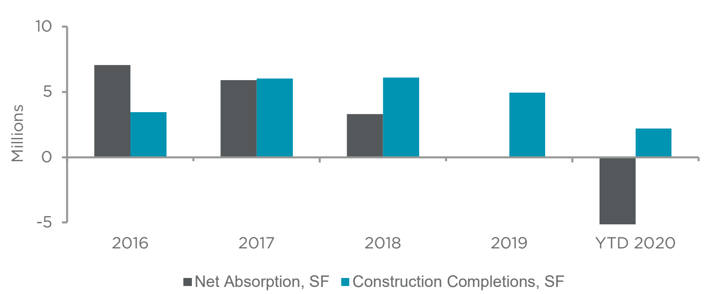
Source: BLS.

Record Job Losses & Declining Trade Volume: The COVID-19 pandemic struck the U.S. in March 2020, late in the quarter but with enough time to have a significant impact on first quarter market fundamentals. In the second quarter of 2020, the U.S. economy felt its effects more fully, as government-mandated shutdowns along with shelter-in-place ordinances pushed the country deeper into recession. Los Angeles County's May unemployment rate reached 20.9%, far exceeding the statewide average of 16.3%, and the highest unemployment rate the county has experienced since record keeping began in the mid-1970s - the previous record was 12.6% in October 2010. Between May 2019 and May 2020, Los Angeles County nonfarm employment decreased by 602,600, or 13.2%. Meanwhile, container volumes moving through San Pedro Bay Ports continue to slip due to their reliance on the Chinese market. For the first half of the year, overall cargo volumes at the Ports of Los Angeles and Long Beach have decreased by 12.5% compared to 2019, with import volume decreasing by 11.4%.

A Huge Uptick in Vacancy but Rents are Holding Steady:. With every market posting occupancy losses, Greater Los Angeles saw its vacancy rate inch up to 2.8% with negative absorption of 6.3 million square feet (mf) at mid-year. Although the market took a massive hit this quarter, the market is still relatively healthy. Even with an uptick in overall vacancy, the region still has a high level of occupancy and the region's vacancy rate is still 250 basis points (bps) lower than the U.S. vacancy rate of 5.3%. With vacancy at under 3% since 2015, Los Angeles has consistently been one of the tightest markets in the nation. Development activity is very minimal with under construction at just 3.4 msf, a mere 0.3% of the total inventory. If the 2.6 msf of vacated space by Boeing and Forever 21 are removed from the equation, Los Angeles' overall vacancy would be 2.5% which is only 70 bps higher than year-end 2019. The shift in consumer shopping behavior due to stay-at-home orders has intensified the demand for logistics space in infill markets. Los Angeles' year-to-date leasing of 16.1 msf was only down 1.2% from the same period last year. Transactions over 100,000 sf accounted for 42.5% of the market's activity with the bulk of the demand coming from eCommerce users and 3PLs. Rents are also holding relatively steady amid this crisis and the average rent of $0.92 psf/mo in the second quarter was still 2.2% higher than a year ago.

Although there has been a slowdown in activity this year, there is still no need for immediate concern. The overall climate throughout the marketplace will be one of cautious optimism, but solid product in desirable areas will still demand a high price. With still relatively low vacancy, it is clear that investors and developers alike are still bullish and see the demand for quality industrial space and are therefore still looking to invest in this market and expect to see healthy returns. There is an extremely limited selection of developable industrial land sites in the region. Although new development has increased sharply in recent years, land constraints make it difficult to develop new industrial projects which will help ensure that competition from new product is minimal.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT

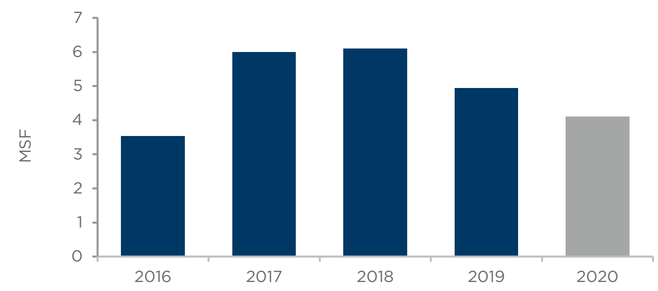
Central Los Angeles: Halfway through the year, the Central Los Angeles market continued to soften with negative net absorption of 2.7 msf. The significant loss in occupancy levels brought the overall vacancy rate to 3.1%, 110 bps higher than a year ago. Forever 21, which has been particularly hard-hit by slowing mall traffic and the shifting consumer buying habits toward online shopping, vacated 1.3 msf of warehouse space. In addition, there has been a sizable increase in the amount of sublease space on the market. Vacant sublease space now accounts for 13.4% of the market's vacancy, compared to 8.2% second quarter 2019. Leasing activity also took a massive hit in the second quarter and declined by 44.1% from the first quarter, resulting in a 28.0% drop in year-to-date leasing volume. With occupancy losses of 1.2 msf sf at mid-year, the Commerce/ Vernon submarket's overall vacancy rate increased to 2.6%, from 2.0% a year ago. Totaling 1.6 msf at mid-year, there has been a significant slowdown in leasing velocity with a 39.8% year-over-year decline. On a positive note, overall rents are holding relatively steady amid this crisis and has remained flat for the past three quarters with an average of $0.79 psf/mo

South Bay: South Bay started the year in the black but in the second quarter of 2020, the U.S. and local economies felt the effects of the pandemic more fully. Due to the pandemic, some companies experienced major disruptions to supply chains such as business closings and product shortages. As a result, there has been a huge increase in the amount of sublease space on the market. Sublease availability now accounts for 26.4% of the total available space in the South Bay, compared to 19.7% at year-end 2019. At mid-year, net absorption in the South Bay totaled negative 1.8 msf, the worst showing in ten years. Consequently, the overall vacancy rate increased to 3.0%, 170 bps higher than a year ago and the highest level since first quarter 2015 when the vacancy rate was 3.6%. The significant increase in vacancy is due to the addition of 1.3 msf of space at Boeing's C-17 site in Long Beach. Without this project coming online, South Bay's mid-year net absorption would only be negative 441,779 sf and vacancy at 2.3%. Although leasing activity took a hit in the second quarter and declined by 16.8% from the first quarter, 2020's mid-year total was only down 2.5% from the same period a year ago. Rents are also holding relatively steady amid this crisis with an average overall asking rent of $0.96 psf/mo.

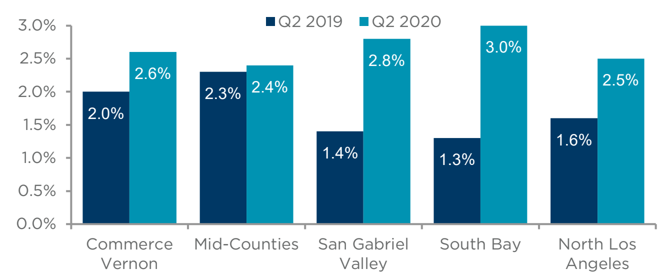
Outlook

- The nature of the economic recovery is highly uncertain and is ultimately tied to the path of the pandemic and the actions taken to contain it. Although consumer spending showed a better-than-expected increase in May, new jobless claims remained stubbornly high. The economy is heavily reliant on consumer spending and high unemployment cuts deeply into consumer spending. As the pandemic continues to impact consumer and business demand, it is also assumed that many of the job losses that occurred earlier in the year will ultimately become permanent.
- Although the ports are still very vital to the health of the market, eCommerce has been a powerful demand generator. As pandemic pushes on, the shift in consumers moving to online shopping has massively accelerated the growth of eCommerce and that shift may be permanent. Total U.S. online sales reached $73.2 billion in June, up 76.2% compared with $41.5 billion a year earlier, according to a recent report by Adobe Analytics report. The growth of eCommerce will continue to fuel strong demand for fulfillment facilities.
- The need for last-mile facilities bodes well for the industrial sector and will help the market weather the uncertainty. Industrial demand in the region will continue to be strong post-pandemic and we expect the logistics sector to continue to be one of the strongest sectors in commercial real estate. Having the nation's largest port complex and a consumer population of over 10 million also creates further market resiliency.

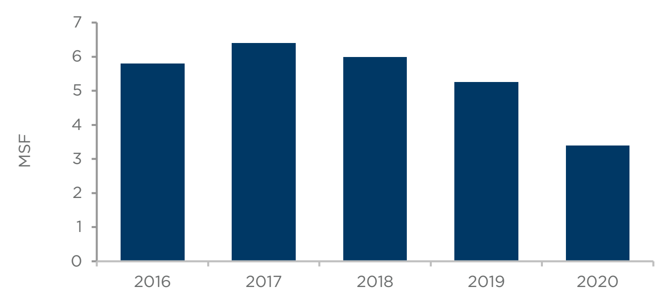
NEW SUPPLY



OVERALL VACANCY BY MARKET



UNDER CONSTRUCTION



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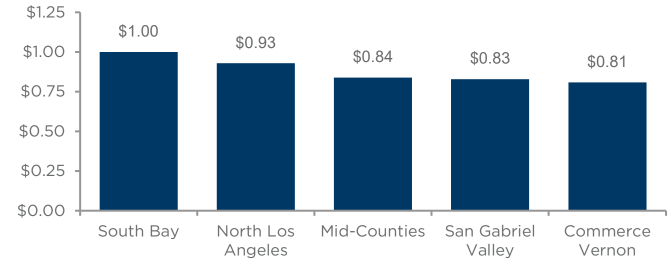
Mid-Counties: Headwinds from the economic slowdown on the back of the pandemic has had a huge impact on market activity and space availability. Leasing activity during the first half of the year was down 22.5% from last year. Although the La Mirada submarket was responsible for the bulk of the loss in occupancy, this submarket took the top spot in leasing activity with Santa Fe Springs in close second. Due to the pandemic, some companies experienced major disruptions to supply chains such as business closings and product shortages. As a result, there has been an increase in sublease space on the market. Available sublease space now accounts for 20.2% of the market's availability while vacant sublease space now accounts for 14.0% of the market's vacancy, compared to a mere 3.4% during second quarter 2019. But despite ending 2019 in the red and posting negative net absorption of 754,814 sf at mid-year, Mid-Counties overall vacancy rate of 2.4% was only 10 bps higher than a year ago. In addition, rents are holding relatively steady after taking a slight dip in the first quarter and is up 1.2% from a year ago with an average of $0.83 psf/mo.

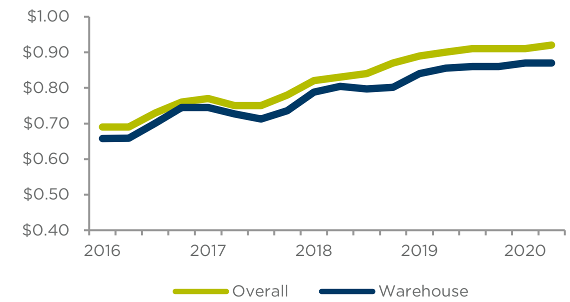
San Gabriel Valley: San Gabriel Valley ended the first half of the year in the red after ten years of growth. With negative net absorption of 405,587 sf and the addition of 629,293 sf of new product, overall vacancy was up 140 bps from a year ago. Since smaller companies are highly susceptible to shifts in the economy, they have been impacted the most by the pandemic. With an average size of 28,769 sf, available sublease space has increased by 39.0% since year-end 2019 and now accounts for 12.6% of the total available space on the market. New leasing activity also took a massive hit in the second quarter and declined by 44.7% from the first quarter. On a positive, 2020's mid-year total of 2.6 msf was only down 4.6% from the same period a year ago and renewal activity for large tenants has been strong. Renewals accounted for three out of the five top leases for the quarter. The largest one was Kellwood's ten-year renewal for a three-building complex totaling 471,341 sf in Industry. With current market conditions, there will be more opportunities for both buyers and tenants as the market will see room for negotiation in asking prices and concessions.

North Los Angeles: The enormous emphasis on improving efficiency in the last mile of distribution continues to generate demand and fulfillment facilities experienced a surge in demand. North LA is the only major market in the Los Angeles region to post positive growth in leasing with half of the top ten new deals signed in the second quarter in the Los Angeles region transacted in this market. Totaling 4.6 msf at mid-year 2020, leasing activity increased by a whopping 57.1% from the same period a year ago with one eCommerce user responsible for leasing 2.6 msf of that total. Ventura County took the top spot in leasing with 1.7 msf of leased space, followed closely by East SFV with 1.6 msf. Despite strong leasing volume, negative absorption combined with the addition of new product drove North LA's overall vacancy rate to 2.5%, 90 bps higher than a year ago. Overall rents are holding relatively steady with an average of $0.92 psf/mo. North LA has the largest project in development in Los Angeles with the Avion Burbank project, an industrial campus totaling 1.0 msf which is 75% pre-leased. With tenants taking occupancy of their space in the second half of the year, we should see improvement in absorption and vacancy by year-end.

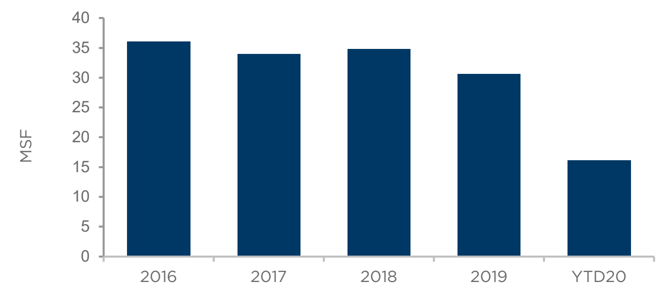
DIRECT RENT BY MARKET ($PSF/MO, NNN)



WAREHOUSE vs OVERALL MARKET RENT



ANNUAL LEASING ACTVITY



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CUSHMAN & WAKEFIELD

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	91,723,195	3.9%	-1,468,378	943,415	113,810	202,580	0	$0.99	$1.53	$1.03
Commerce/Vernon	164,560,957	2.6%	-1,213,004	1,594,781	248,299	174,315	510,509	$0.79	$1.48	$0.79
Mid-Counties	118,671,220	2.4%	-754,814	2,294,788	288,699	471,634	0	$0.77	$1.32	$0.83
San Gabriel Valley	185,732,563	2.8%	-405,587	2,622,639	1,042,081	684,999	629,293	$0.82	$0.93	$0.82
South Bay	219,572,712	3.0%	-1,773,706	3,956,589	334,228	352,993	521,574	$0.91	$1.86	$0.92
Westside	14,056,044	1.5%	-65,783	81,308	29,911	0	0	$1.35	$2.39	$2.66
North Los Angeles	207,863,028	2.5%	-591,551	4,599,447	699,178	1,480,400	546,119	$0.95	$1.16	$0.88
GREATER LOS ANGELES TOTAL	**1,002,179,719**	**2.8%**	**-6,272,823**	**16,092,967**	**2,756,206**	**3,366,921**	**2,207,495**	**$0.90**	**$1.57**	**$0.87**

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

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

KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
3081-3770 Tulare Avenue, Burbank	North Los Angeles	eCommerce Retailer	751,313	Direct
3735 & 3931 Workman Mill Road, Whittier	Mid-Counties	Michael Kors	565,619	Renewal*
13039-13085 Temple Avenue, Industry	San Gabriel Valley	Kellwood	471,341	Renewal*
19600 Western Avenue, Torrance	South Bay	CEVA Logistics	314,559	Renewal*
4841 W San Fernando Road, Glendale	North Los Angeles	eCommerce Retailer	305,505	Direct

**Renewals not included in leasing statistics*

KEY SALES TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/$ PSF
17851 Railroad St., 17637 Valley Blvd., & 18275 Arenth, Industry	San Gabriel Valley	Dean Foods Company/ Dairy Farmes Of America	445,653	Part of a portfolio sale
538 Crenshaw Boulevard, Torrance	South Bay	Nutri-Bon Distribution Company / Black Creek	174,361	$49.5M / $284
15620-15630 E Valley Boulevard, Industry	San Gabriel Valley	Real Partner Investments LLC / Trinidad Benham Corp.	161,217	$29.0M / $180
19901 Nordhoff Street, Northridge	North Los Angeles	3M Company / Kindeva Drug Delivery	144,000	$35.7M / $248
2001 Dominguez Street, Long Beach (Land value sale)	South Bay	Western Tube & Conduit / Brookfield	849,420	$64.0M / $75

KEY CONSTRUCTION COMPLETIONS YTD 2020

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
Canyon Commerce Park, Azusa	San Gabriel Valley	None	458,581	Alere Property
The Center at Needham Ranch – Phase 1B, Santa Clarita	North Los Angeles	eCommerce Retailer	411,709	Clarion Partners/TCC

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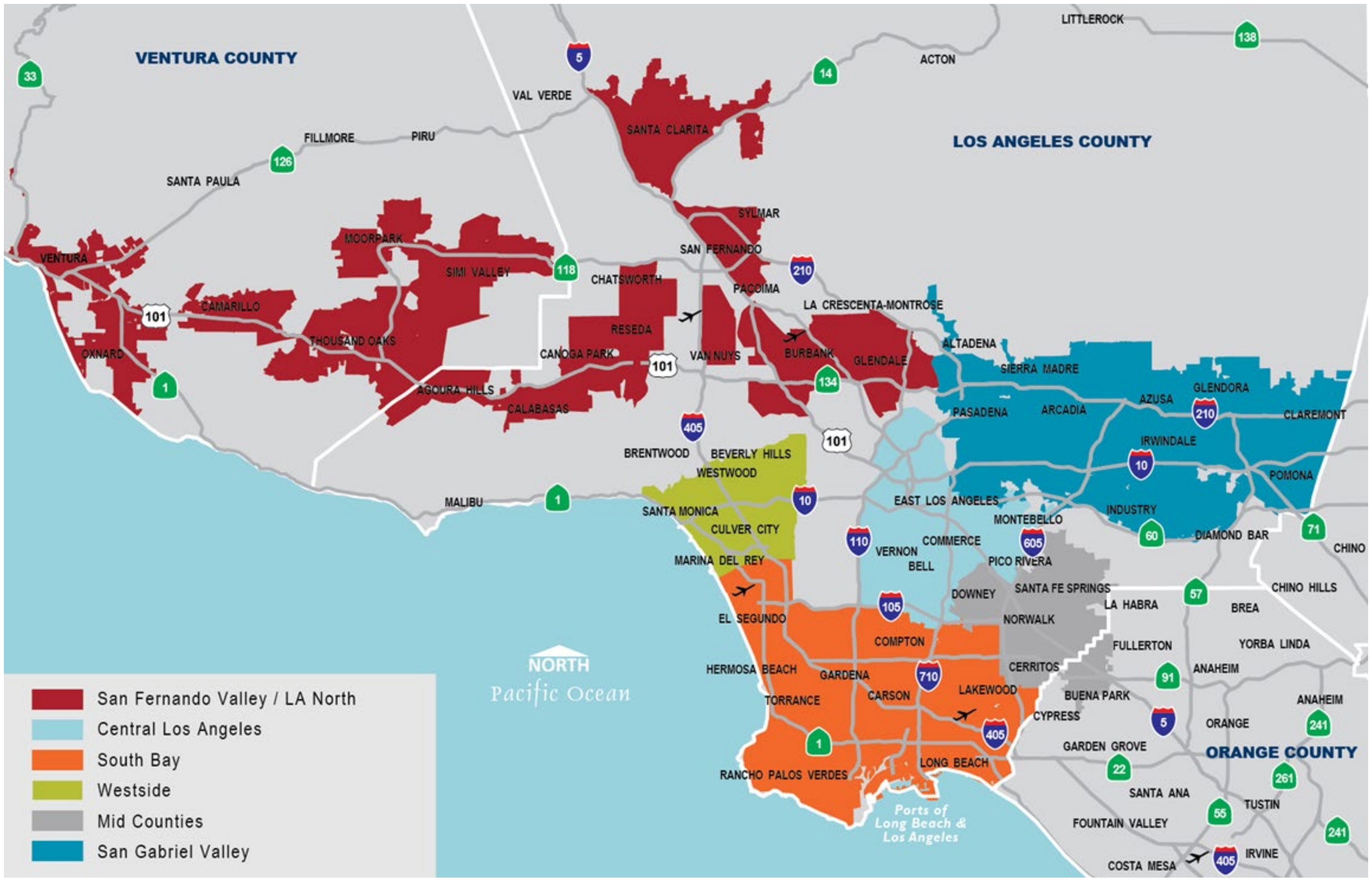
GREATER LOS ANGELES INDUSTRIAL SUBMARKETS



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