

## Industrial Q3 2020

YoY Chg      12-Mo. Forecast

**2.6%**  
Vacancy Rate



**-4.5M**  
YTD Net Absorption SF



**\$0.93**  
Asking Rent, PSF



Overall, Net Asking Rent per Month

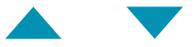
### ECONOMIC INDICATORS Q3 2020

YoY Chg      12-Mo. Forecast

**4.1M**  
Los Angeles County Employment



**16.1%**  
Los Angeles County Unemployment Rate



**8.8%**  
U.S. Unemployment Rate



Source: BLS/EDD. U.S. data Avg July-September. Los Angeles County is for August

**E-commerce Boost & Surge in Imports:** It appears that Los Angeles County's high unemployment rate of 16.1% in August has not impacted industrial demand due to the exponential growth of e-commerce. Strong e-commerce sales fueled by consumers shopping more online during the pandemic boosted imports from Asia to a two-year high. After an 11.4% drop in combined import volume in the first half of the year, the Ports of LA and Long Beach each set respective records in August volumes as retailers prepare for the holiday season and refill inventory after decreasing procurement in the early stages of the pandemic. Total POLA volume was up 11.7%, marking the highest-volume month in the port's 114-year history, paced largely by an 18.0% jump in imports. Meanwhile, POLB had the best August in its 109-year history with import volume up 13.0% from August 2019. Despite this import surge, the combined year-to-date cargo volume at the two ports remain 7.0% lower through the month of August, with imports down 5.3% from the same period in 2019. In this environment, it is no surprise that demand for logistics space is high.

**An Impressive Bounce Back in Leasing & Increased Occupancy in Q3:** Driven largely by positive growth in San Gabriel Valley and North Los Angeles, Greater Los Angeles posted occupancy gains of 1.5 million square feet (msf) in the third quarter and lowered its overall vacancy rate to 2.6%, down 20 basis points (bps) from Q2 2020. However, Q3 2020's overall vacancy rate was still 70 bps higher than a year ago due to the significant decline in occupancy in the second quarter. Year-to-date, net absorption remained in negative territory at 4.5 msf. On a positive note, demand for logistics space in infill markets has intensified and Los Angeles' year-to-date leasing total of 27.7 msf is up 18.9% from the same period a year ago. In addition, there has been a surge in large renewals and we've tracked 22 deals over 100,000 sf so far this year. The amount of sublease space on the market has also decreased after a 9.3% quarterly increase in the second quarter. Totalling 6.2 msf, the amount of sublease space on the market has declined by 11.7% from the second quarter after increasing by 9.3% in Q2. With 2.2 msf of sublease space, the South Bay market has the largest amount of availabilities; however, that has declined by 14.3% quarter-over-quarter. In addition, rents are holding relatively steady amid this crisis and Greater LA's average rent of \$0.93 per square foot per month (psf/mo) in Q3 2020 was still 2.2% higher than a year ago.

Although the Greater Los Angeles market has felt the negative impacts of the pandemic with significant decline in occupancy levels, the structural factors that underpin demand for industrial space remain strong. Increased leasing activity and the decline in vacancy in Q3 are signs of the industrial sector's resiliency. With the continued growth of e-commerce and customers increasingly demanding speedy delivery, last-mile warehouse locations are critical for online retailers and logistics companies. The acceleration in online sales which accounted for 15.1% of total U.S. retail sales in Q2 2020 and the Ports of LA and Long Beach's position as the largest U.S. import gateway means that industrial demand in the region will remain healthy despite the economic uncertainty and the outlook for the region remains favorable.

### SPACE DEMAND / DELIVERIES



### OVERALL VACANCY & ASKING RENT



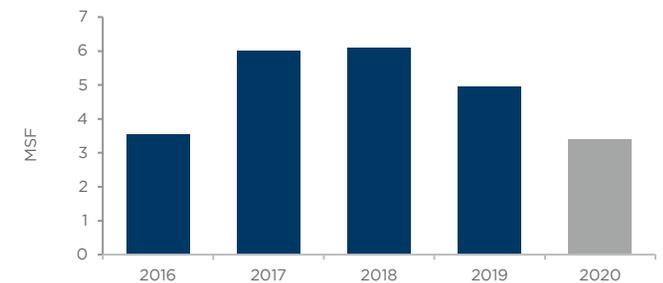
**Central Los Angeles:** The significant occupancy loss in the second quarter brought Central Los Angeles' overall vacancy rate to 3.1% and it remained the same in Q3, 90 bps higher than a year ago. Although there was a 4.6% quarterly decline in the amount of available sublease space on the market, sublease availabilities remain high at 1.5 msf, which accounts for 15.2% the market's availability. Fueled by the strong growth of e-commerce, leasing velocity was strong in the third quarter after taking a massive hit in the second quarter. Totalling 2.7 msf, Q3 2020's leasing volume was 64.9% higher than 2019's quarterly average of 1.6 msf and 48.6% higher than Q3 2019's level. However, increased vacancies and high levels of sublease availabilities have impacted rents with the average overall rent decreasing by 6.7% quarter-over-quarter. With occupancy losses of 1.5 msf sf year-to-date, the Commerce/ Vernon submarket's overall vacancy rate increased to 2.7%, from 2.1% a year ago. After remaining flat for three quarters with an average of \$0.79 psf/mo, rents declined slightly in Q3 with an average of \$0.77 psf/mo. On a positive note, strong leasing activity in Q3 of 2.1 msf brought the year-to-date total to 3.8 msf year-to-date, only 3.5% lower than the same period a year ago.

**South Bay:** With the continued support of strong e-commerce demand, leasing activity in the South Bay has managed to accelerate through the first three quarters of 2020 despite the pandemic. After a virus-induced pullback in the second quarter, third quarter 2020's leasing total of 2.3 msf was 14.1% higher than what was leased during Q3 2019. With a 15.4% quarter-over-quarter increase, leasing total of 6.5 msf through Q3 2020 was 7.2% higher than the same period a year ago. The amount of sublease space on the market has also decreased after a 34.5% quarterly increase in the second quarter. Totalling 2.2 msf, the amount of sublease space on the market has declined by 14.3% from the second quarter. However, sublease availability still accounts for 23.6% of the total available space in the South Bay, compared to 19.7% at year-end 2019. Due to the significant occupancy loss in the second quarter when 1.3 msf of space at Boeing's C-17 site in Long Beach became available, net absorption remained in negative territory at 1.8 msf year-to-date and Q3 2020's overall vacancy rate of 2.9% was 150 bps higher than a year ago. On a positive note, increased vacancy and economic conditions appear to have no impact on industrial rents. Although the pace of growth has slowed slightly, positive rent growth continues with an annual increase of 2.1%.

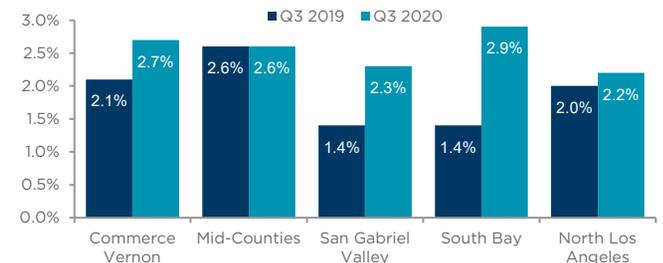
### Outlook

- The U.S economy is beating forecast with consumption and imports setting new records. Imports from Asia increased 11.2% year-over-year in September according to PIERS. Consumers have turned increasingly to online shopping and holiday season imports and a wave of e-commerce shipments will be especially strong through the remainder of the year. The significant share of the imports is going through the Ports of LA and Long Beach and this bodes well for the region's industrial sector.
- E-commerce has been a powerful demand generator and the longer the pandemic drags on, the more likely that consumers stick to their new habits. Heightened service delivery expectations will continue to create increased competition for last-mile facilities and leasing activity will easily surpass 2019's volume.
- Land constraints make it difficult to develop new industrial projects and with only 4.0 msf sf in development - just 0.4% of the region's total inventory, competition from new product will be minimal and vacancy should keep trending down.
- With sustained levels of demand and a vacancy rate 270 bps lower than the national average, the region is expected to see continued rent growth.

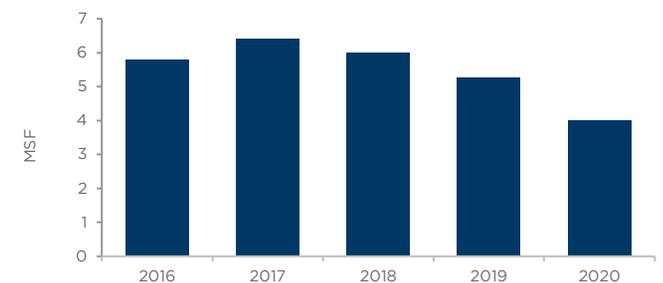
### NEW SUPPLY



### OVERALL VACANCY BY MARKET



### UNDER CONSTRUCTION



# GREATER LOS ANGELES

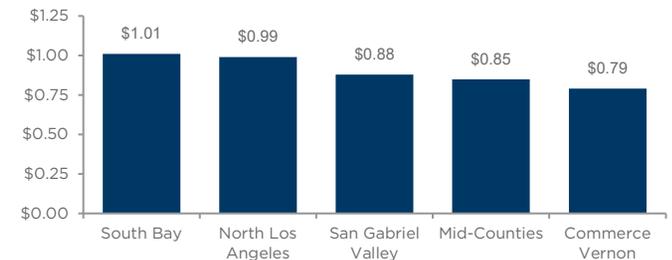
## Industrial Q3 2020

**Mid-Counties:** Despite ending 2019 in the red and posting negative net absorption of 834,387 sf year-to-date, Mid-Counties overall vacancy rate of 2.6% at the end of Q3 2020 was the same level as it was a year ago. Although there was a significant bounce back in demand with a 48.3% quarterly increase in leasing, the 4.0 msf of leased space through Q3 was still 8.2% lower than the same period in 2019. However, this was balanced out by a surge in large renewals. The renewal trend is reflected in the top leases for the quarter with three of the top five lease transactions being renewals. Also, the amount of available sublease space on the market has been declining and totaled just 883,959 sf at the end of Q3. This is a significant decrease from the peak of 1.6 msf of available sublease space in April 2020. In addition, there was a slight uptick in rents in Q3 with the average rent increasing by 2.4% year-over-year. Even with the pandemic and economic uncertainty, the industrial market has not seen investor demand deteriorate and there were a number of sizable transactions in the quarter. Although investment activity was down from a year ago, it remains relatively healthy at 1.2 msf year-to-date.

**San Gabriel Valley:** After a massive decline in the second quarter, leasing activity made an impressive bounce back in the third quarter. Fueled by demand from 3PLs, retailers, food-related companies and the automotive industry, industrial leasing totaled 2.7 msf in Q3. That is more than double 2019's quarterly average of 1.2 msf and the highest quarterly total since first quarter 2012. New leasing activity year-to-date of 5.4 msf has outpaced 2019 levels by 42.5% and has already surpassed 2019's year-end total of 4.6 msf. The Industry submarket accounted for the bulk of the market's activity with 3.4 msf year-to-date. Prominent Q3 transactions include the 407,638-sf renewal by Pilot Automotive, the 282,377-sf lease by Made Goods and the 220,000-sf lease by a 3PL company. Net absorption also turned positive with net gains of 907,516 sf in Q3 which brought the overall vacancy rate down 50 bps from Q2. The amount of available sublease space on the market has also been declining after peaking at 1.0 msf back in April. Totaling just 497,024 sf at the end of Q3, the amount of available sublease space has declined by 36.0% since Q2 2020. In addition, rents are holding relatively steady amid this crisis and the average rent of \$0.88 psf/mo in the third quarter was still 1.1% higher than a year ago.

**North Los Angeles:** With the strong backing of e-commerce, the North Los Angeles industrial market showed continued strength with leasing activity totaling 6.3 msf through Q3, up a whopping 73.2% from the same period a year ago. Although 20 bps higher than a year ago, Q3 2020's overall vacancy rate of 2.2% is the lowest among Greater Los Angeles' five major markets and 40 bps lower than Greater LA's vacancy rate. After two quarters of occupancy losses, North LA rebounded in the third quarter with 1.1 msf of positive gains which brought its year-to-date net absorption total to 480,155 sf. With net absorption of 864,955 sf year-to-date, Ventura County was able to offset the lost in occupancy in San Fernando Valley and also took the top spot in leasing with 2.0 msf of leased space. Healthy demand pushed rental rates higher. Averaging \$0.97 psf/mo, overall asking rents increased 5.4% quarter-over-quarter and 11.5% from Q3 2019. Although still low at 1.2%, San Fernando Valley's vacancy rate increased 20 bps from Q3 2019 due to 453,438 of occupancy losses so far this year.

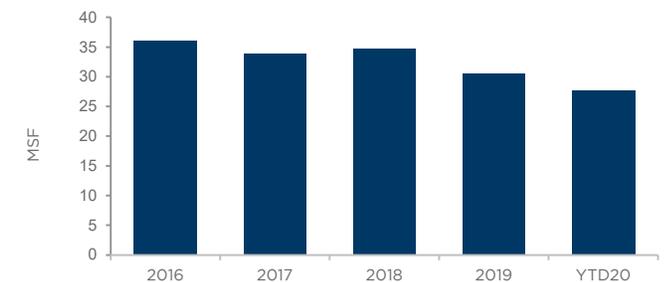
### DIRECT RENT BY MARKET (\$PSF/MO, NNN)



### WAREHOUSE vs OVERALL MARKET RENT



### ANNUAL LEASING ACTIVITY



## Industrial Q3 2020

## 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	91,969,131	3.7%	-1,241,551	1,611,719	181,794	202,580	0	\$1.00	\$1.04	\$1.07
Commerce/Vernon	164,772,808	2.7%	-1,469,580	3,750,470	577,983	171,726	510,509	\$0.76	\$1.48	\$0.75
Mid-Counties	118,902,224	2.6%	-834,387	4,013,502	497,735	559,741	62,441	\$0.82	\$1.18	\$0.84
San Gabriel Valley	185,809,639	2.3%	497,054	5,408,299	1,415,150	1,182,490	629,293	\$0.81	\$0.93	\$0.92
South Bay	219,342,876	2.9%	-1,791,423	6,522,670	557,752	768,153	521,574	\$0.92	\$1.66	\$0.93
Westside	14,069,345	1.8%	-108,996	103,029	29,911	0	0	\$2.05	\$2.63	\$2.62
North Los Angeles	208,298,080	2.2%	480,155	6,333,403	839,309	1,112,825	913,694	\$0.97	\$1.19	\$0.92
<b>GREATER LOS ANGELES TOTAL</b>	<b>1,003,164,103</b>	<b>2.6%</b>	<b>-4,468,728</b>	<b>27,743,092</b>	<b>4,099,634</b>	<b>3,997,515</b>	<b>2,637,511</b>	<b>\$0.89</b>	<b>\$1.41</b>	<b>\$0.89</b>

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

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

## KEY LEASE TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
15614-15620 Shoemaker Avenue, Norwalk	Mid-Counties	VF Outdoor, LLC	525,000	Renewal*
13000-13010 E Temple Avenue, Industry	San Gabriel Valley	Pilot Automotive	407,638	Renewal*
15015 Valley View Avenue, Santa Fe Springs	Mid-Counties	Unified Grocers, Inc.	302,850	Sale-Leaseback
918 Stimson Avenue, Industry	San Gabriel Valley	Made Goods (Ardmore Home Design)	282,377	Direct
8700 Mercury Lane, Pico Rivera	Central Los Angeles	Iron Mountain	244,754	Sale-Leaseback

\*Renewals not included in leasing statistics

## KEY SALES TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
15015 Valley View Avenue, Santa Fe Springs	Mid-Counties	Unified Grocers, Inc. / Brookfield Property Group	302,850	\$68.0M / \$224
12828 Carmenita Road, Santa Fe Springs	Mid-Counties	Principal Global Investors / Fremont Associates	268,536	\$47.0M / \$175
2300 Pellisier Place, Industry	San Gabriel Valley	Haralambos Beverage Co. / LA Regional Food Bank	255,978	\$52.1M / \$204
8700 Mercury Lane, Pico Rivera	Central Los Angeles	Iron Mountain / The Blackstone Group	244,754	\$62.0M / \$253
24600-24620 S Main Street, Carson	South Bay	Fremont Associates / Principal Global Investors	237,504	\$34.5M / \$145

## KEY CONSTRUCTION COMPLETIONS YTD 2020

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
Canyon Commerce Park, Azusa	San Gabriel Valley	JC USA/Eurybia Logistics, Inc.	458,581	Alere Property
The Center at Needham Ranch - Phase 1B, Santa Clarita	North Los Angeles	E-commerce Retailer	411,709	Clarion Partners/TCC

