

Industrial Q3 2022

1.1%

Vacancy Rate

YoY
Chg12-Mo.
Forecast

1.1M

Net Absorption SF



\$1.52

Asking Rent, PSF



Overall, Net Asking Rent per Month

ECONOMIC INDICATORS
Q3 2022

4.5M

Los Angeles County
EmploymentYoY
Chg12-Mo.
Forecast

5.1%

Los Angeles County
Unemployment Rate

3.5%

U.S.
Unemployment Rate

Sources: BLS

ECONOMIC OVERVIEW

A sense of normalcy has finally returned to Los Angeles County as the labor market regained many of the jobs which have been lost in the early months of the COVID-19 pandemic. As a result, total nonfarm employment grew by 139,300 or +3.2% year-over-year (YOY) between August 2021 and August 2022, with the trade, transportation and utility sector adding 35,000 jobs (+4.3% YOY) and manufacturing adding 8,500 jobs (+2.7% YOY). During the same time, the monthly unemployment rate decreased from 8.9% last year to 4.9% and is currently 20 basis points (bps) below the quarterly average of 5.1%. The labor market has strengthened since taking a critical blow from COVID-19, but it remains to be seen how long the bulwark will hold against a recession that seems all but certain to come.¹ All employment sectors are expected to grow at a combined rate of 5.1% in 2022 and 1.7% in 2023. The annual unemployment rate is forecasted to decrease from 8.3% in 2021 to 4.8% in 2022 and 4.3% in 2023.²

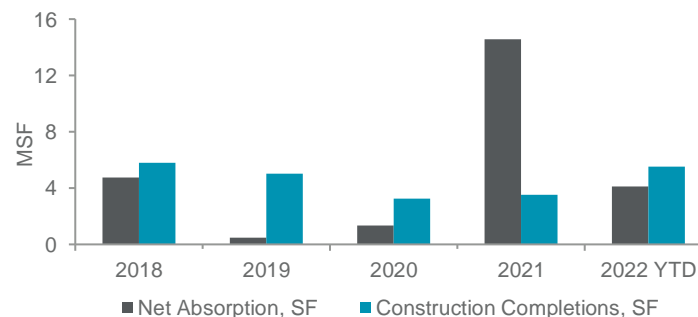
After record-breaking cargo volume in 2021 and the first half of 2022, the import surge at the Port of Los Angeles slowed in August. The Port handled an estimated 806,000 Twenty-Foot Equivalent Units (TEUs) in August, approximately 15% less YOY. Some goods that usually arrive in August for the fall and winter seasons were shipped earlier to make sure they reached their destination in time. Additionally, inflationary concerns and elevated inventory levels have made some retailers and e-commerce sellers more cautious.³ Advance estimates of U.S. retail and food services sales for September 2022 were \$684.0 billion, virtually unchanged from the previous month, but up 8.2% YOY.³ Further, the e-commerce share of total retail sales declined significantly from its peak of 16.4% in Q2 2020 to 14.5% in Q2 2022, representing \$257.3 billion and a 2.7% increase quarter-over-quarter (QOQ).⁴ Consumer spending habits will no doubt shift throughout the rest of the year as further economic uncertainty impacts the broader region and nation.

SUPPLY AND DEMAND

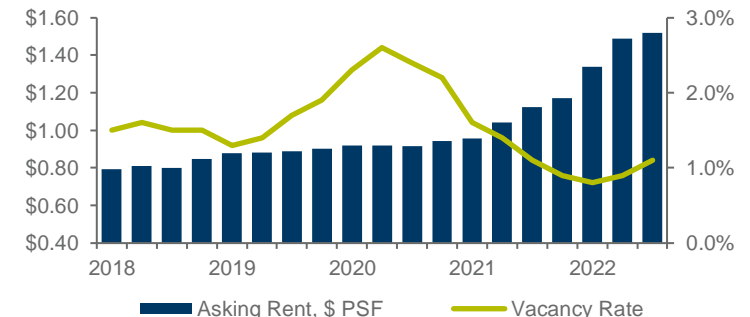
The overall vacancy rate in the Greater Los Angeles (GLA) industrial market in Q3 2022 was 1.1%, up 20 bps QOQ and unchanged YOY. The current GLA vacancy ranks as the second lowest in the U.S. after the neighboring Inland Empire market at 0.7%. Occupancy increased by 1.1 million square feet (msf) in Q3 2022, bringing year-to-date occupancy gains to 4.1 msf compared to 12.9 msf achieved during the first nine months of 2021. This slowdown can be attributed largely to the tight nature of the market. Despite the lower level of annual gains, Q3 2022 marked the ninth consecutive quarter of occupancy growth, during which the GLA market absorbed 24.2 msf combined, averaging 2.7 msf quarterly. Consequently, over the last nine quarters, the overall vacancy rate has decreased from 2.6% to 1.1%.

Comparing Q3 2022 vacancy by product type, manufacturing space recorded the lowest overall vacancy rate of 0.6%, a 50 bps decrease YOY. Traditional warehouse/distribution (W/D) space recorded a slightly higher rate of 1.1%, up 20 bps YOY. Vacancy

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT





Industrial Q3 2022

for high technology research and development space was 1.1% in Q3 2022, a decrease of 40 bps YOY. Office services/flex industrial buildings continued to show the highest vacancy rate at 3.7% yet 190 bps lower YOY. Total available space increased YOY from 1.3% (12.1 msf) to 1.9% (17.8 msf). Sublease available space increased from 0.1% or 862,098 square feet (sf) to 0.2% or 1.6 msf. New leasing activity, excluding renewals, totaled 6.5 msf in Q3 2022 compared to 4.6 msf in Q2 2022 and 8.6 msf in Q3 2021. Leasing of W/D space accounted for the most activity or 5.5 msf (84%), followed by manufacturing space at 662,000 sf (10%) in Q3 2022. On an annual basis, new leasing activity through the first three quarters of the year totaled 17.1 msf compared to 30.0 msf leased through the first three quarters of 2021 (- 43% YOY). The South Bay has been the most active leasing market in GLA in 2022 with 4.8 msf leased (28% of the total), followed by LA Central (3.8 msf or 22%) and San Gabriel Valley (3.5 msf or 21%). The market-wide overall asking rent for all product types in Q3 2022 was \$1.52 per square foot (psf) per month on a triple net basis, up \$0.03 (+1.9% QOQ) and up \$0.39 (+35.0% YOY). The overall average rent for W/D space increased by \$0.01 (+0.7% QOQ) and \$0.51 (+51% YOY) to \$1.51 psf per month. The South Bay continues to lead the GLA industrial market by commanding the highest average asking rent of \$1.74 psf per month.

FUTURE INVENTORY

As of Q3 2022, there are 4.8 msf (33 properties) currently under construction market-wide. The overwhelming majority or 92% of the future inventory is being built on a speculative basis, with the remaining 8% as build-to-suit. As of Q3 2022, only 17% of that new inventory has been pre-leased. The San Gabriel Valley currently has the most inventory under construction with 1.7 msf (36% of the total), followed closely by the South Bay with 1.6 msf (34%) and LA North with 1.0 msf (22%). The most popular new product getting built is W/D, accounting for 97% of all industrial projects currently under construction. Much of the future inventory is expected to deliver in a near future, with 53% of the current pipeline estimated to be completed by the end of 2022.

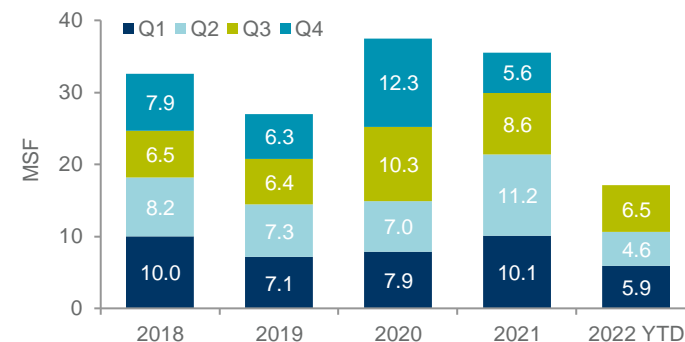
SALES ACTIVITY

The GLA industrial market recorded \$2.5 billion in sales activity in Q3 2022 compared to \$2.4 billion in Q2 2022 (+1% QOQ) and \$2.1 billion in Q3 2021 (+18% YOY). The average price psf was \$323 in Q3 2022, an increase of 4% QOQ and 33% YOY. The average capitalization (cap) rate increased 30 bps QOQ to 4.7% in Q3 2022 and increased 50 bps YOY. The leading buyers so far in 2022 are private investors, accounting for 34% of buying activity (vs. 43% in 2021), followed by REITs at 32% (vs. 13% in 2021). The leading sellers are also private investors, accounting for 52% of activity (vs. 57% in 2021), followed by REITs at 22% (vs. 4% in 2021).⁵

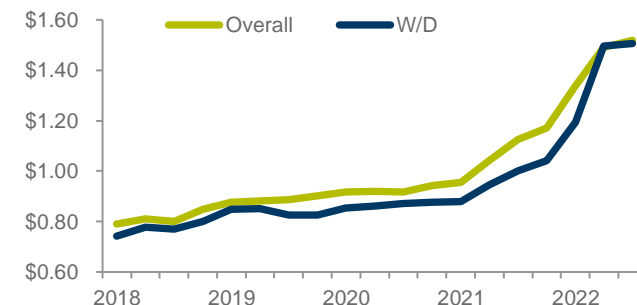
OUTLOOK

- Real estate fundamentals are expected to remain healthy throughout the rest of 2022. Rents are likely to continue to increase, while overall vacancy will stay relatively flat. Construction completions should help alleviate some of the supply woes, but more will be needed as the year continues in order to keep pace with demand.
- Import volumes at the San Pedro Complex have slowed slightly but remain near all-time highs. Economic headwinds are expected to put a damper on consumer spending for the remainder of 2022 and into the new year. As consumer wallets close and belts tighten, the e-commerce share of retail sales volumes in the U.S. is expected to contract, potentially softening e-commerce demand for industrial space as a result.

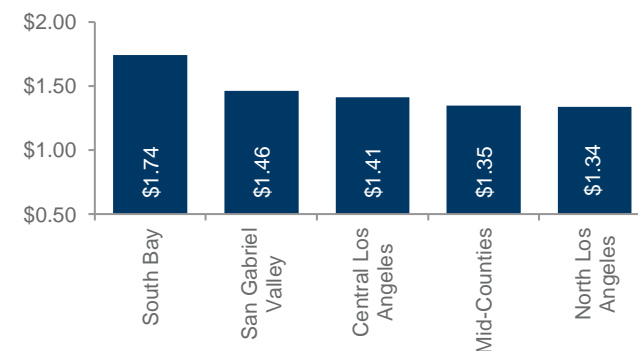
NEW LEASING ACTIVITY



AVERAGE ASKING RENT \$PSF MONTHLY NNN



AVERAGE ASKING RENT \$PSF MONTHLY NNN



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MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	CONSTR COMPLETIONS (SF)	AVERAGE ASKING OVERALL RENT (MF)	AVERAGE ASKING OVERALL RENT (OS)	AVERAGE ASKING OVERALL RENT (W/D)
LA Central	236,756,000	3,624,143	1.5%	-24,573	64,835	3,784,314	239,844	675,018	\$1.34	\$1.32	\$1.46
Mid-Counties	96,895,383	559,867	0.6%	29,437	-23,459	2,623,514	165,265	150,548	\$1.49	\$1.63	\$1.30
San Gabriel Valley	177,054,814	1,500,950	0.8%	867,194	599,788	3,535,979	1,734,861	1,291,904	\$1.35	\$1.35	\$1.50
South Bay	203,714,075	2,369,848	1.2%	450,941	986,859	4,816,663	1,618,575	914,541	\$1.61	\$2.21	\$1.74
LA North	178,919,011	1,428,510	0.8%	-268,770	2,492,724	2,222,556	1,043,227	2,474,311	\$1.36	\$1.61	\$1.24
Westside	10,689,012	151,241	1.4%	42,848	-5,893	107,239	0	0	N/A	\$2.33	\$4.41
LOS ANGELES TOTAL	904,028,295	9,634,559	1.1%	1,097,077	4,114,854	17,090,265	4,801,772	5,506,322	\$1.44	\$1.63	\$1.51

*Rental rates reflect weighted triple net asking \$psf/month. **Renewals not included in leasing statistics.

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

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
7255 Rosemead Blvd.	LA Central	Omni Logistics	202,629	Renewal*
The Center at Needham Ranch – Bldg. 14	LA North	DrinkPak	202,261	Direct
601-615 W. Walnut St.	South Bay	Great Central Transport	200,000	Direct
18045-18055 E. Rowland St.	San Gabriel Valley	Ryder Integrated Logistics	200,000	Direct
23610 S. Banning Blvd.	South Bay	Quik Pick Express	177,573	Renewal*

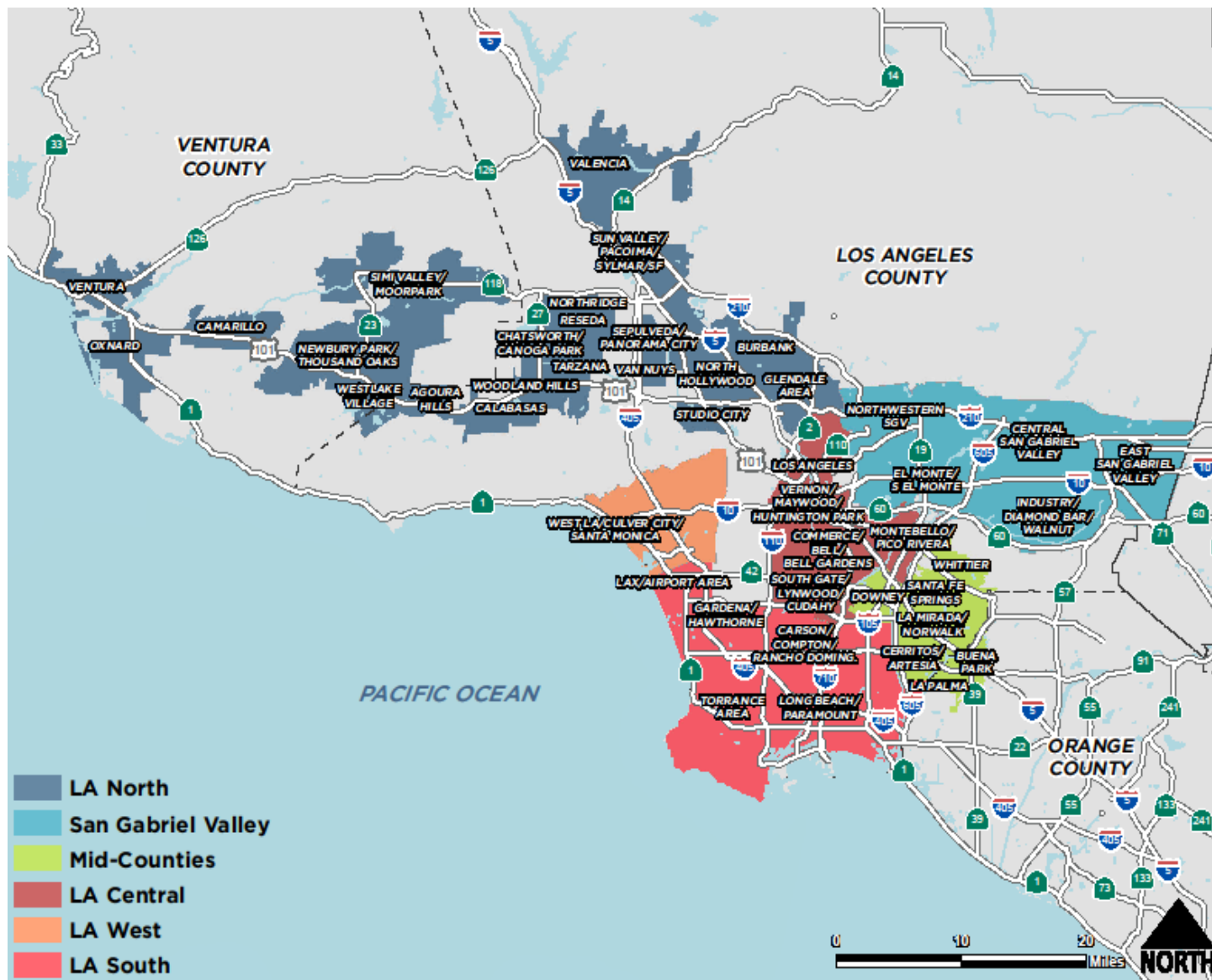
KEY SALES TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
9320-9328 Telstar Ave.	San Gabriel Valley	Rising Realty Partners / Majestic Asset Management	246,900	\$73.0M / \$296
3935-3949 Heritage Oaks Ct.	LA North	Heritage Oak Court LLC / Rexford Industrial	186,726	\$56.4M / \$302
159 N. San Antonio Ave.	San Gabriel Valley	Stos Partners / EverWest Real Estate Investors	182,275	\$45.9M / \$252
12065 Pike St.	Mid-Counties	Staley Point Capital / Thor Equities	159,964	\$85.0M / \$531
11077 Rush St.	San Gabriel Valley	Birtcher Anderson Realty / EverWest Real Estate Investors	159,780	\$47.3M / \$296

KEY CONSTRUCTION COMPLETIONS 2022 YTD

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
13131 Los Angeles St.	San Gabriel Valley	Home Depot	528,710	Duke Realty
19901 S. Western Ave.	South Bay	DSV-Panalpina	295,000	Sares Regis Group
19681 Pacific Gateway Dr.	South Bay	Omni Logistics	251,606	Black Creek Group
333 S. Hacienda Blvd.	San Gabriel Valley	JD.com	216,716	LW Investments Inc.

INDUSTRIAL SUBMARKETS

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