

Los Angeles

Industrial Market Outlook 2Q 2016

MARKET TRENDS

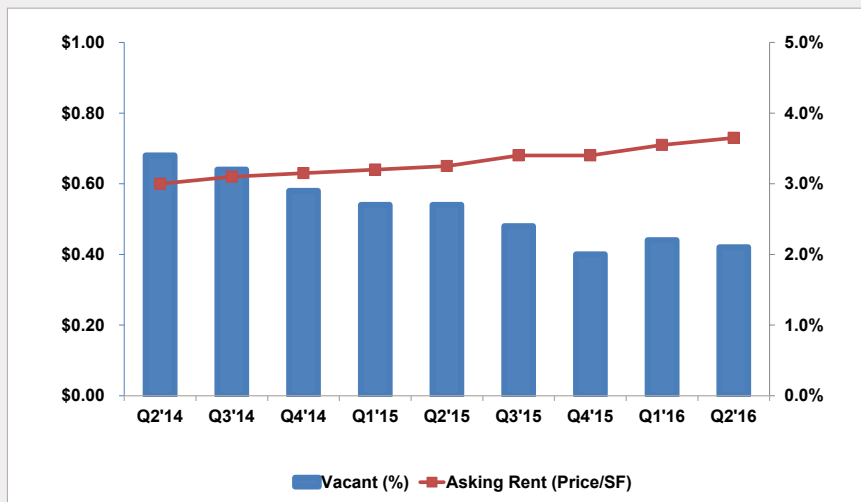
Los Angeles' trend of low vacancy and rising rents continued in the second quarter of 2016. The vacancy rate declined 10 basis points from last quarter to 2.1% and is 60 basis points lower than the same time last year. This is one of the lowest vacancies ever seen in Los Angeles County, which speaks to the high demand and tight supply in the market. Average asking rents closed the quarter at \$0.73/SF, up 2.8% from last quarter and 12.3% from last year. Within the market, the San Gabriel Valley had the highest quarterly rent increase at 9.8% and the Central submarket had the largest annual rent increase at 19.4%. Rents continue to rise due to strong demand and low inventory as sale and leasing volume declined overall. The second quarter saw 7,594,370 square feet in lease volume and 4,644,720 in sale volume. Construction is up 74.3% over the year with 4,343,778 square feet under construction.

TRENDS TO WATCH

There is almost no vacancy in Los Angeles' industrial market. Expect that trend to continue through the year as land remains expensive and scarce. The Brickyard, a two-building industrial distribution project totaling more than one million square feet in the South Bay is the largest project currently under construction. The San Fernando Valley remains one of the tightest markets in the region with virtually no land for construction. The neighboring Santa Clarita Valley may provide some welcome relief with three Class A warehouse/distribution buildings under construction at Gateway V totaling 254,722 square feet. Port activity at Los Angeles' harbors has increased this quarter, with the total number of TEU's from May up 6.1% year over year and up 24.3% from April 2016. Cargo volume should continue to bolster the industrial market in the coming quarters.

Average Asking Rent and Vacancy Rate

All Unit Sizes



Source: NAI Capital Research, CoStar, REIS

MARKET OUTLOOK

Asking Rental Rates



Sale Prices



Availability/Vacancy Rates



Landlord Concessions



Sales/Leasing Volume



New Construction



Market Statistics

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	2Q16 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	2Q16 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/PSF NNN	AVERAGE SALE PRICE \$/PSF
Central	242,670,485	235,348	4.8%	2.8%	2,631,125	5,061,522	1,523,328	2,899,088	\$0.81	\$162
Mid-Cities	97,259,255	327,941	3.4%	1.3%	892,446	1,557,734	509,080	878,724	\$0.62	\$126
South Bay	211,470,681	2,010,111	3.9%	1.6%	1,599,949	3,110,889	1,156,493	2,181,370	\$0.79	\$150
LA North	143,591,141	258,322	3.8%	2.3%	1,200,608	2,690,668	540,524	1,635,318	\$0.69	\$163
San Gabriel Valley	148,990,353	1,512,056	4.3%	2.0%	1,270,242	2,619,371	915,295	1,623,797	\$0.67	\$124
Total	843,981,915	4,343,778	4.2%	2.1%	7,594,370	15,040,184	4,644,720	9,218,297	\$0.73	\$148

RBA includes industrial buildings of all sizes. Rents reflect buildings of at least 10,000 square feet.

Leasing

Total leasing volume for the first half of 2016 equaled 15,040,184 square feet, which is a 46.6% decrease over the total from the first half of 2015. This is primarily due to limited inventory available in an extremely tight market. Furniture e-commerce company Wayfair leased 168,000 square feet in City of Industry at an asking rate of \$0.63/SF IG in one of the largest transactions this quarter. In another significant transaction, UPS signed a 10 year lease at an asking rent of \$0.77/SF NNN for a 136,240 square foot warehouse building in North Hills. This space will be used by the package-delivery company for overflow delivery traffic during busy months.

Sales

There were 288 transactions completed in the second quarter 2016, representing 19 more than the first quarter and even from this time in 2015. Sale volume for the first half of 2016 was 9,218,297 square feet, a decrease of 6.6% from the first half of 2015. The average size of buildings sold in the second quarter was 16,128 square feet and average sale price per foot was nearly \$148. This quarter, WISE International purchased an 184,772 square foot Class A warehouse building in Commerce for \$32,500,000 or \$176/SF. Indio Products purchased a 153,080 square foot distribution building in Whittier for \$97/SF.

Select Lease Transactions:

TENANT	BUILDING ADDRESS	SUBMARKET	ASKING RATE/SF*	SQUARE FEET
Wayfair	13110 Loudon Ln	San Gabriel Valley	\$0.63	168,000
UPS	16689 Schoenborn St	LA North	\$0.77	136,240
Priority One Warehouse	11500 Los Nietos Rd	Mid-Cities	\$0.73	121,344
Triscenic Production Services	1050 Arroyo St	LA North	\$0.67	76,993
Green Living Group	4821 4th St	San Gabriel Valley	\$0.64	62,881

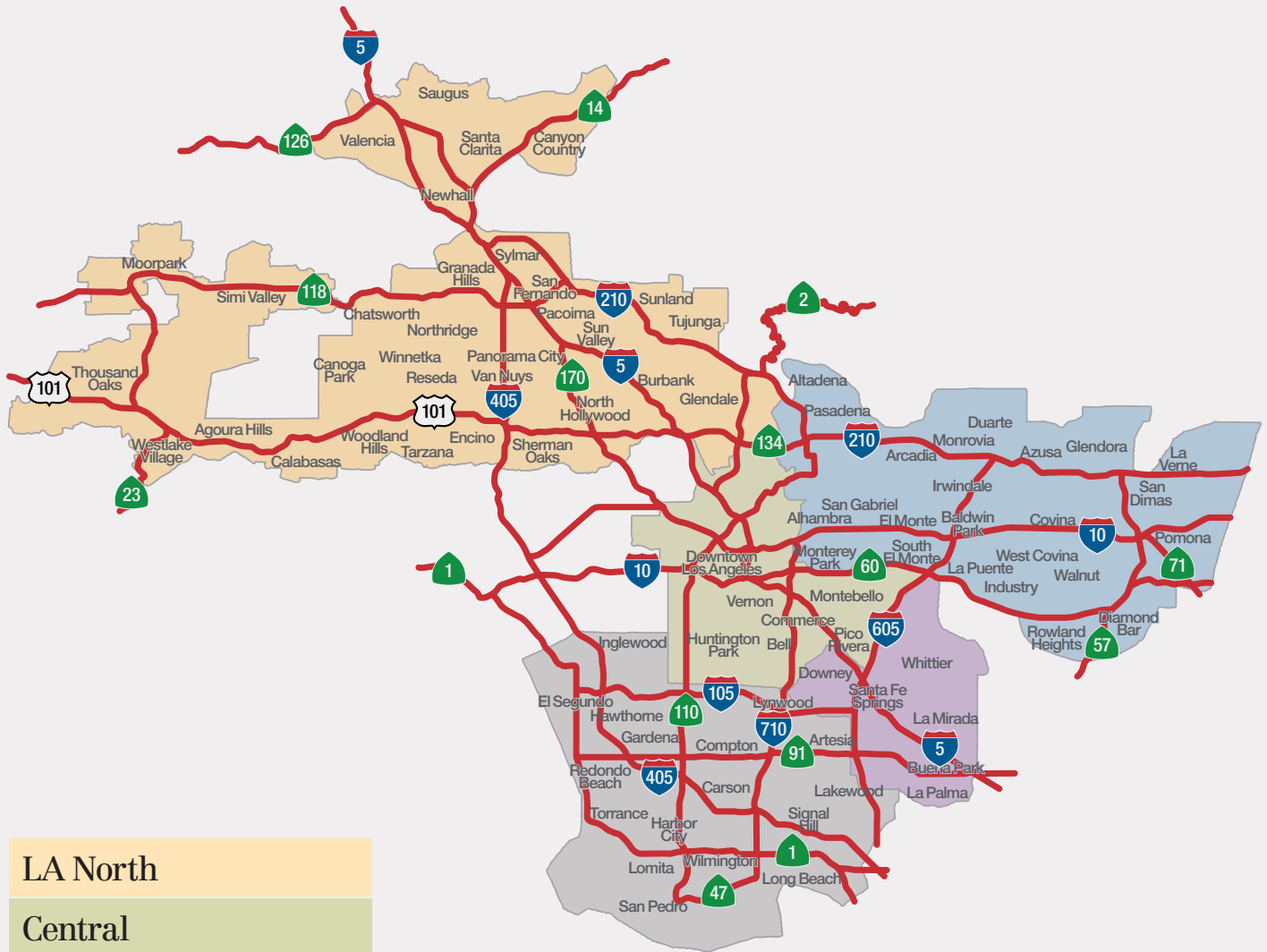
*All rents are NNN unless otherwise noted

Select Sales Transactions:

BUYER	BUILDING ADDRESS	SUBMARKET	PRICE/SF	SQUARE FEET
WISE International	6130 E Sheila St	Central	\$175.89	184,772
Indio Products	12910 Mulberry Dr	Mid-Cities	\$97.33	153,080
Capitol Food Company	16420-16424 Valley View Ave	Mid-Cities	\$131.86	136,508
Weiss Family Properties	4302-4310 W 190th St	South Bay	\$161.68	108,239
Great American Holding & Investment LLC	5500 S Boyle Ave	Central	\$141.60	102,400

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LA North

Central

Mid-Cities

South Bay

San Gabriel Valley

Los Angeles

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Commercial Real Estate Services, Worldwide.

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