

Los Angeles Industrial Market

Rents Continue Upward Trend; Headwinds Complicate the Outlook

- Vacancy decreased after redevelopment work began at a former Forever 21 facility in Central LA. Approximately 284,000 square feet of the 1.5-million-square-foot structure will be rehabbed, while the rest will be demolished to construct two warehouses, totaling 731,000 square feet.
- Vacancy is the second lowest in the nation, behind the Inland Empire's 0.6% average.
- Pricing is rich for both leases and sales. For sales, this quarter's average building sold price was \$279/SF, 45.0% higher than the first quarter of 2021.
- Studio space is in high demand throughout the region and companies like LA North Studios and Showtime Networks have targeted industrial space for conversion.
- The current ILWU-PMA* contract will expire in July, and any breakdown in talks will only exacerbate port congestion. The 2014-2015 contract negotiations resulted in crippling ILWU work slowdowns as West Coast ports went into gridlock for nearly four months.
- Occupiers have taken 92.9% of the 7.5 million square feet of new supply delivered over the last 24 months.
- Rising fuel costs will elevate drayage costs, which are already rich, throughout the region.

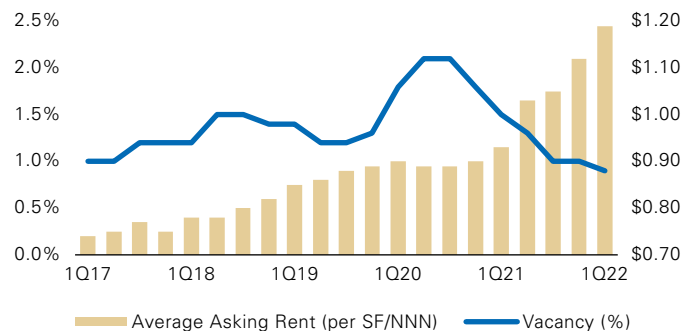
Pre-Leasing Propels Net Absorption Activity

Five of this quarter's top 10 move-ins came from companies occupying newly delivered space that was leased prior to delivery. The five companies include: DSV-Panalpina (295,000 square feet); Omni Logistics (251,606 square feet); Tire's Warehouse (169,854 square feet); Lief Labs (a 111,260-square-foot build-to-suit); and AT Worldwide (111,260 square feet).

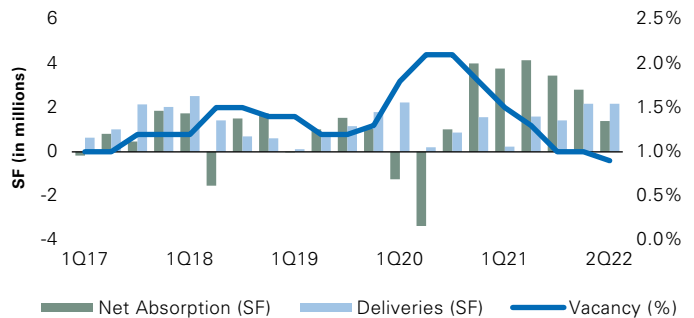
The combined total is 932,262 square feet, or 67.2% of this quarter's net absorption gain of 1.4 million square feet. New construction remains the primary vehicle to satisfy tenant demand in a market where vacancy is sub-1.0%.

Market Analysis

ASKING RENT AND VACANCY



NET ABSORPTION, CONSTRUCTION DELIVERIES AND VACANCY



Market Summary

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	1.054B	1.052B	1.047B	↑
Total Vacancy Rate	0.9%	1.0%	1.5%	→
Quarterly Net Absorption (SF)	1.4M	2.8M	3.8M	→
Average Asking Rent/SF/Month	\$1.19	\$1.12	\$0.93	↑
Deliveries (SF)	2.2M	2.2M	234K	→
Under Construction (SF)	4.3M	6.3M	8.4M	→

* ILWU is an acronym for International Longshore and Warehouse Union - essentially the dockworkers of U.S. West Coast ports. The PMA, or the Pacific Maritime Association, governs the ports.

Rising Drayage Rates Favor Los Angeles Leasing

Severe congestion at Southern California’s ports amid global supply chain disruptions, along with unprecedented import volume, has caused drayage rates throughout the basin to skyrocket: South Bay’s current average of \$753 to \$762 is far higher than the \$490 to \$500 range in late 2019. Since transportation costs can account for 50.0% of the average distributor’s overhead, proximity to the nation’s busiest port system is paramount. This, paired with a consumer population of 10.2 million, favors demand for local warehouse space.

Contract Rents Soar

Swift rent growth persists and will not abate any time soon. The average weighted contract rent for warehouse leases over 50,000 square feet, with a minimum clearance height of 30’, averaged \$1.726/SF this quarter, up 95.6% from the first quarter of 2021.

Supply-demand dynamics aside, construction material costs are substantially up from pre-pandemic averages, costs that are being passed on to tenants.

Outlook

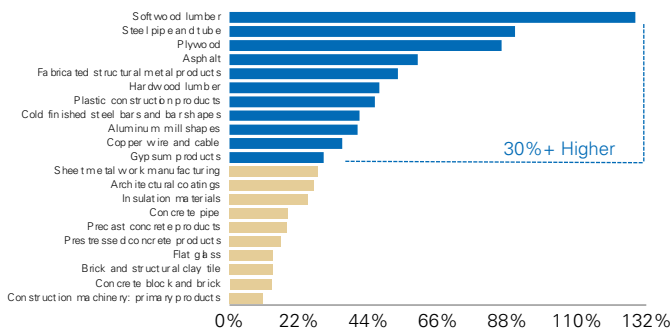
Dockworkers are progressively clearing a backlog of cargo at the ports during what is normally a quiet period in a given calendar year, following the 2021 U.S. holiday season and factory closures in China corresponding with the Lunar New Year. Import activity will pick up again this spring as distributors gear up for the 2022 holiday season. This, coupled with ongoing supply chain disruptions, will lead to additional congestion.

While the short-term outlook predicts a continuation of present market trends, the prospect of runaway inflation complicates down-the-road projections. Inflation, which reached a 40-year high across Southern California in January, has outpaced wage growth throughout the same period. It remains to be seen whether interest-rate adjustments by the Federal Reserve will course-correct the situation and stave off a future recession.

Even if the market were to decelerate in the second half of 2022 from its record-setting pace of the last few years, Los Angeles will be insulated due its underlying fundamentals. During the Great Recession’s trough years of 2009-2010, for instance, vacancy never climbed higher than 4.0%.

Construction Material Price Movement

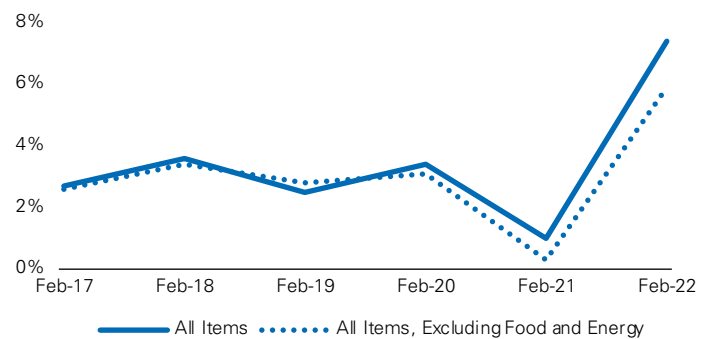
U.S. PRODUCER PRICE INDEX: DEC 2019 TO FEB 2022 % CHANGE



Source: US Census Bureau (consumer adjusted retail sales); based on the most current data available

Consumer Price Index (CPI-U)

LOS ANGELES-LONG BEACH-ANAHEIM | 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics (data not adjusted for seasonality)

Lease Transactions

Tenant	Building(s)	City	Lease Type	Square Feet
Deus Ex Supply	5600-5640 Knott Avenue	Buena Park	Renewal/Expansion	183,958
Structural Composites Index	336 Enterprise Place	Pomona	Renewal	172,800
C.H. Robinson Company	18291 S Santa Fe Avenue	Compton	Renewal	141,100

Sale Transactions

Buyer	Building(s)	City	Sale Price (PSF)	Square Feet
Walton Street Capital, LLC	21200 Victory Boulevard	Woodland Hills	\$60,000,000 (\$326/SF)	183,972
Rexford Industrial Realty, Inc.	24903 Avenue Kearny	Santa Clarita	\$58,500,000 (\$273/SF)	214,436
Rexford Industrial Realty, Inc.	1785 Voyager Avenue (3 bldgs.)	Simi Valley	\$57,000,000 (\$177/SF)	322,627

Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Wh/Dist Asking Rent (Price/SF)	General Ind Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Central	296,741,746	560,639	0.7%	-113,646	-113,646	\$1.15	\$1.33	\$1.16
Bell	3,755,475	0	0.0%	12,000	12,000	-	-	-
Bell Gardens	2,367,979	0	1.4%	0	0	-	-	-
Commerce	52,716,366	55,000	0.4%	-17,411	-17,411	\$1.13	\$0.94	\$1.05
Cudahy	828,184	0	0.0%	0	0	-	-	-
Downtown Los Angeles	129,599,757	0	1.1%	-183,267	-183,267	\$1.17	\$1.45	\$1.21
Huntington Park	4,872,421	0	0.0%	0	0	-	-	-
Lynwood	3,822,994	0	0.0%	0	0	-	-	-
Maywood	764,938	0	0.0%	0	0	-	-	-
Montebello	13,383,008	25,500	0.3%	0	0	-	-	-
Pico Rivera	11,054,898	40,900	0.4%	0	0	\$1.29	-	\$1.29
South Gate	11,490,691	0	0.3%	0	0	-	-	-
Vernon	62,085,035	439,239	0.4%	75,032	75,032	\$1.06	-	\$1.06
Mid-Cities	114,591,159	315,813	0.5%	213,463	213,463	\$1.05	\$1.17	\$1.08
Artesia	310,867	0	0.0%	23,298	23,298	-	-	-
Buena Park	14,577,518	0	0.0%	0	0	-	-	-
Cerritos	14,884,739	0	0.5%	-10,932	-10,932	\$1.22	-	\$1.22
Downey	4,134,741	44,162	1.3%	-36,123	-36,123	-	\$1.07	\$1.07
La Mirada	14,364,094	0	1.0%	49,088	49,088	\$0.87	-	\$0.87
La Palma	2,101,336	0	3.2%	0	0	-	-	-
Norwalk	3,599,819	0	0.2%	-7,916	-7,916	-	\$1.20	\$1.20
Santa Fe Springs	56,519,764	243,319	0.4%	199,548	199,548	\$1.39	\$1.40	\$1.40
Whittier	4,098,281	28,332	0.1%	-3,500	-3,500	-	\$0.92	\$0.92

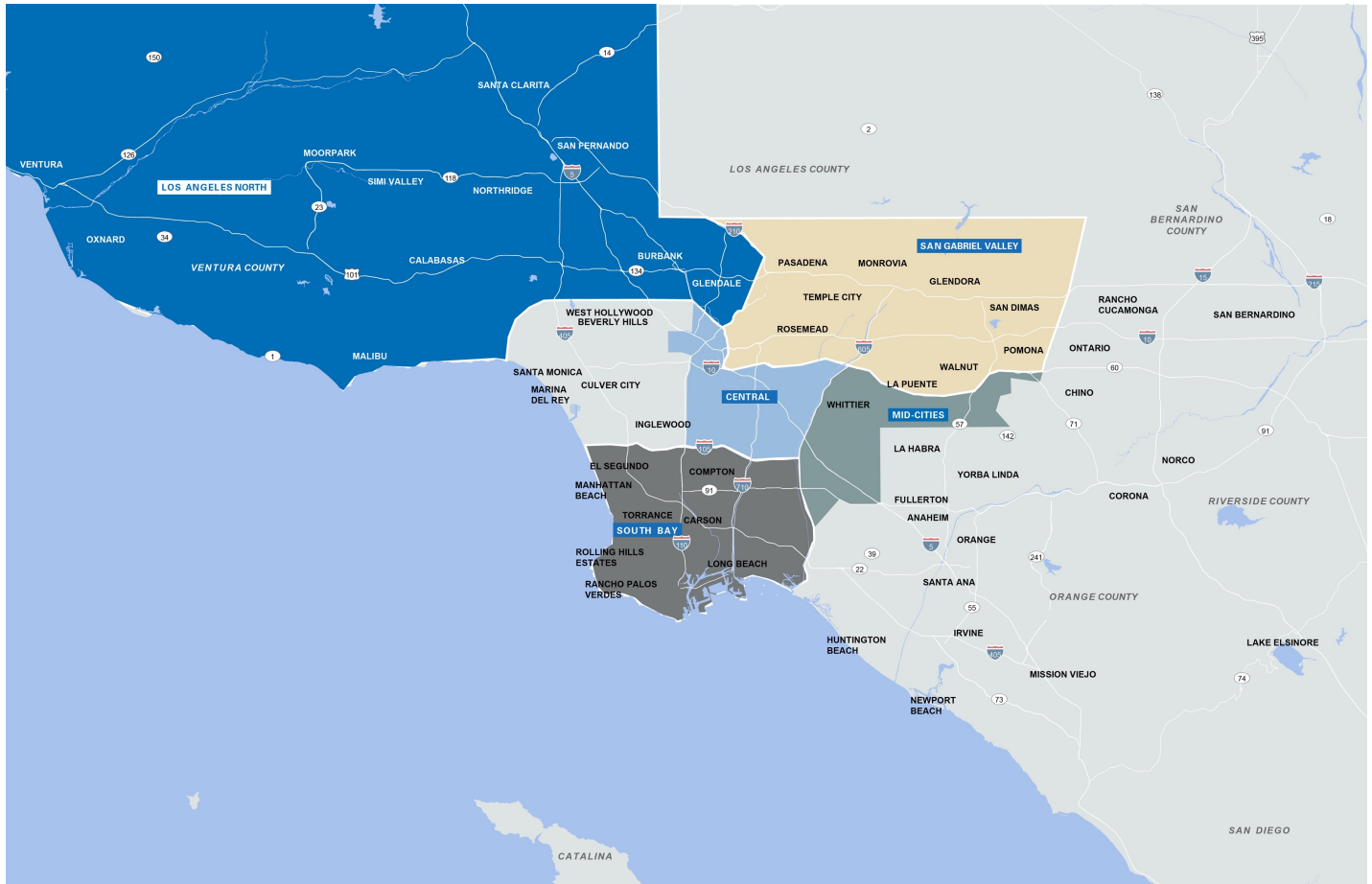
RESEARCH Q1 2022

Submarket Statistics								
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LA North	234,464,177	875,022	0.9%	882,741	882,741	\$1.07	\$1.25	\$1.11
Central Valley	31,903,649	45,786	0.4%	-49,878	-49,878	\$1.21	\$1.32	\$1.28
Conejo Valley	14,971,889	0	1.9%	93,184	93,184	\$1.17	\$1.05	\$1.12
East Valley	58,015,186	0	0.7%	-31,431	-31,431	\$1.55	\$1.30	\$1.38
Santa Clarita	26,835,725	319,479	0.7%	347,960	347,960	-	\$1.27	\$1.27
Simi/Moorpark	14,383,869	431,107	1.4%	-12,975	-12,975	\$0.91	\$1.09	\$0.92
West Valley	41,392,103	10,000	0.8%	44,429	44,429	\$1.33	\$1.25	\$1.32
West Ventura County	46,961,756	68,650	1.4%	491,452	491,452	\$0.96	\$0.83	\$0.91
LA East (San Gabriel)	184,001,699	1,311,190	1.1%	-196,291	-196,291	\$1.06	\$1.03	\$1.05
Central SGV	27,161,534	857,015	2.2%	-370,458	-370,458	\$1.00	-	\$1.00
Eastern SGV	33,632,866	0	0.8%	-48,256	-48,256	\$0.90	\$0.93	\$0.93
El Monte Area	19,678,504	0	0.7%	144,336	144,336	-	\$1.05	\$1.05
Industry Area	91,555,359	454,175	0.7%	122,621	122,621	\$1.09	\$1.35	\$1.10
Western SGV	11,973,436	0	2.1%	-44,534	-44,534	\$1.10	\$1.18	\$1.15
South Bay	224,538,715	1,271,154	1.4%	600,184	600,184	\$1.40	\$1.30	\$1.35
Carson	41,258,675	0	0.5%	-99,077	-99,077	\$1.46	\$1.05	\$1.44
Compton/Rancho Dominguez	40,977,124	107,733	1.0%	-143,042	-143,042	\$1.25	-	\$1.25
El Segundo	9,567,526	0	0.7%	61,104	61,104	-	-	-
Gardena/110 Corridor	34,608,925	100,528	1.6%	4,643	4,643	-	\$1.65	\$1.65
Hawthorne	10,147,332	0	0.0%	31,801	31,801	-	\$1.76	\$1.76
LAX/Inglewood	11,260,322	0	2.0%	53,597	53,597	-	\$1.84	\$1.84
Long Beach/Signal Hill	21,030,042	257,201	5.1%	-8,297	-8,297	\$1.27	\$0.93	\$1.13
Paramount	9,479,050	0	0.0%	70,619	70,619	-	\$0.96	\$0.96

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Port District	6,535,840	0	0.0%	0	0	-	\$1.15	\$1.15
Redondo Beach	3,539,750	0	1.7%	-56,069	-56,069	-	\$1.20	\$1.20
Torrance Area	36,134,129	805,692	1.5%	684,905	684,905	-	\$1.24	\$1.24
Los Angeles	1,054,337,496	4,333,818	0.9%	1,386,451	1,386,451	\$1.16	\$1.25	\$1.19

Net absorption is the change in physically occupied space. A hypothetical vacant and available space could lease this quarter with the tenant set to take occupancy six months later; positive absorption is not recorded until this physical move-in occurs. The space will remain vacant, but not available, until occupancy.

The total asking rent is the weighted average across warehouse, manufacturing, flex, incubator and general industrial properties. Older, available buildings often cite asking rents, while newer facilities often withhold rent values. Based on this, today's asking rent averages are materially understated.



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