
1Q24

Los Angeles Industrial Market Overview

NEWMARK

Market Observations

Economy

- U.S. retail sales growth fell below the 20-year average by the end of 2023; local industrial leasing activity remained subdued through this period.
- Loaded imports at Southern California’s ports totaled 1.5 million TEUs in the first two months of 2024, slightly higher than the same period in 2018.
- A probable strike by Gulf and East Coast dockworkers, drought-induced restrictions at the Panama Canal and continued ship attacks on the Red Sea suggest significant import traffic gains at Southern California’s ports in 2024.
- A rise in imports does not necessarily portend more demand for local warehouse space. Goods that are “just passing through” to other U.S. markets have a negligible effect on local market dynamics.

Major Transactions

- 11 leases over 100,000 were signed this quarter, fewer than the 19 signed in the same period in 2023. Renewals comprise most of today’s leasing activity.
- STG Logistics had the largest lease of the quarter when it renewed on 418,344 SF at 1650 S Central Ave in Compton.
- Rexford Industrial Realty acquired 48 properties (mostly based in Los Angeles and Orange Counties) from Blackstone. The portfolio was 98% leased at the time of sale, totaled 3.0 MSF and traded for \$996.8 million.
- CenterPoint Properties purchased 1620 S Wilmington in Compton (202,219 SF) from JPMorgan Chase & Co for \$86 million, the largest single-property trade of the quarter.

Leasing Market Fundamentals

- Leasing activity continues to ebb while term lengths decline. Stubbornly high rents, a cooler retail sales outlook and elevated costs of doing business are limiting tenant demand.
- Net absorption was negative for the seventh consecutive quarter, while vacancy climbed to a 12-year high of 3.0%.
- Sublet availability increased 2.0% over the preceding quarter to reach 9.3 MSF.
- Class A infill start rents were down 12.5% from six quarters ago. A drop, but not a severe one when considering rents grew by 112.6% from early 2021 to late 2022.
- The construction pipeline (6.7 MSF) has narrowed since the third quarter of 2023. Forty-three buildings are underway and only one (86,950-SF) has pre-leased.

Outlook

- Vacancy will rise as tenant downsizes persist and new construction delivers vacant.
- 3.7 MSF in new construction is slated to deliver next quarter; none has pre-leased.
- Rent declines will be less than the Inland Empire, where drayage costs are costlier, new supply is more abundant and sublet availability is exceptionally high.
- Institutional investors are reducing their exposure to office by increasing allocations to industrial, multifamily and other alternative sectors. Core industrial assets in gateway markets are in demand, and more portfolio sales are expected.
- Infill developers continue to search the market for opportunities despite today’s subdued leasing environment.

1. Economy
2. Leasing Market Fundamentals
3. Sales Activity
4. Appendix

1Q24

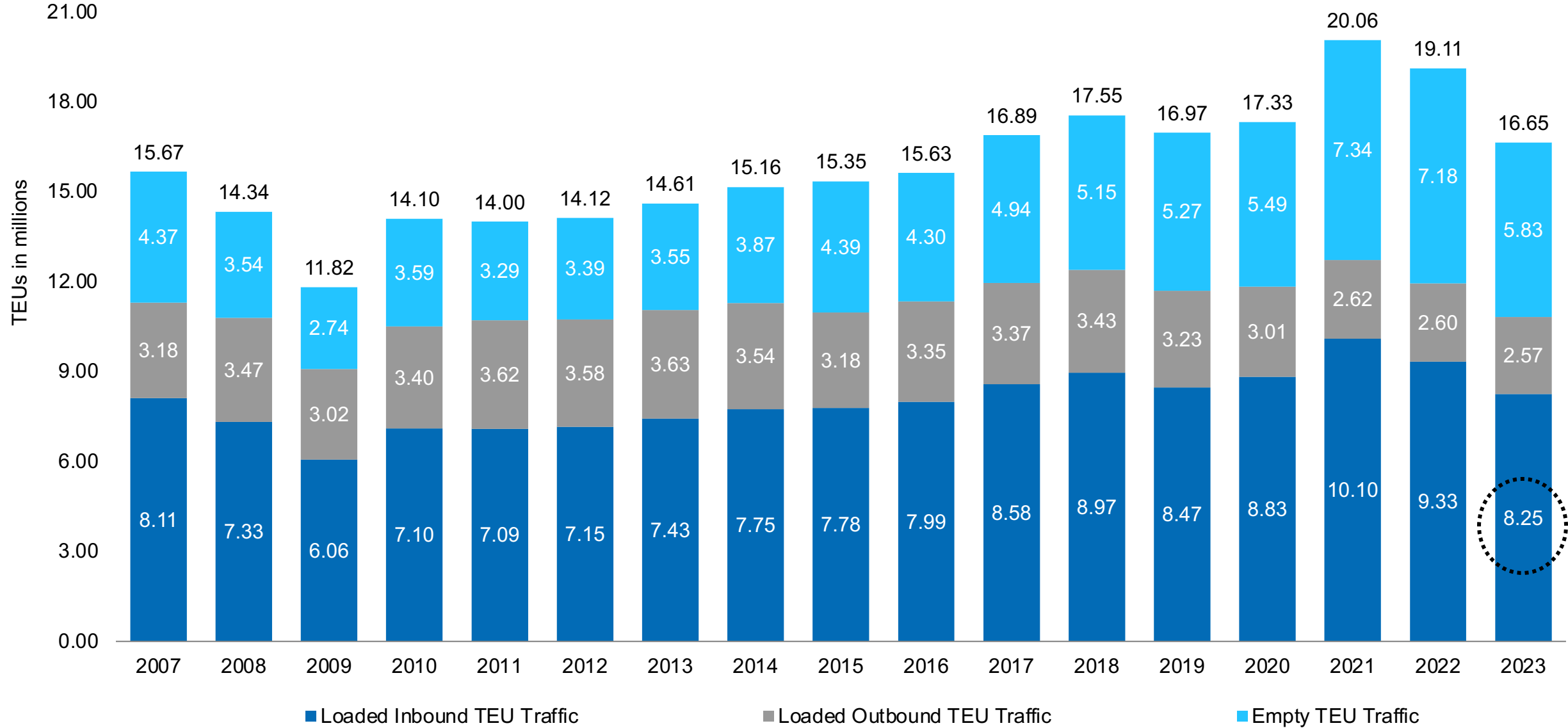
Economy



Southern California’s Ports: 2023 Was the Seventh Busiest Year on Record for Import Volume

This is still healthy from a historical perspective. A return to normal for import traffic is, in turn, moderating demand for warehouse space.

The Ports of Los Angeles and Long Beach: Combined TEU Volume | Loaded Imports, Loaded Exports and Empty Containers | By Year



Source: Newmark Research, The Port of Long Beach and Los Angeles
 Note: TEUs are a standard measure for the steel cargo containers commonly used interchangeably on ships, trucks and trains. A TEU or 20-foot equivalent unit is the industry measure used to tally cargo containers, whether the containers are 20-foot long, 40-foot long or some other size.

West Coast Dockworkers Signed a New Contract in 2023; Their Eastern Counterparts are Next Up...

The ILWU and PMA signed a new labor contract in September, restoring a sense of much-needed stability at U.S. West Coast seaports for the next six years. Longshoremen at East and Gulf Coast ports will soon negotiate their contract, which will expire in late 2024. Import volume will likely shift to other ports of entry (e.g., Los Angeles-Long Beach) until an agreement is reached.

West Coast Ports Agreement Reached...Finally!

- The International Longshore Warehouse Union (ILWU) represents dockworkers at 29 ports from Washington State to California. The Pacific Maritime Association (PMA) represents ocean carriers and terminal operators.
- The prior contract expired on July 1, 2022.
- The ILWU has a history of work disruptions in prior negotiation periods, ranging from strikes, to deliberate work slowdowns to under-staffing shifts.
- These disruptions have cost major retailers billions of dollars in the past.
- In March, for instance, the ILWU did not stagger shifts during meal periods.
- A tentative agreement was reached on June 15, 2023 for what became a new six-year contract. Longshore workers secured a 32% salary increase.
- Many Asian importers pushed inbound goods to East and Gulf Coast ports as talks dragged on. Some of this traffic is returning since stability is now less of a concern.



Source: Newmark Research, City of Los Angeles, The Real Deal

East and Gulf Coast Ports Are Up Next

- The International Longshoremen (ILA) represents dockworkers at 36 ports from Maine to Texas. The United States Maritime Alliance (USMA) represents ocean carriers and terminal operators.
- Their contract will expire on September 30, 2024.
- Harold Daggett, International President of the ILA, has warned that a strike is likely in 2024.
- Higher pay and job security as it pertains to automating port operations were primary issues for the ILA in 2018/the last negotiation period.



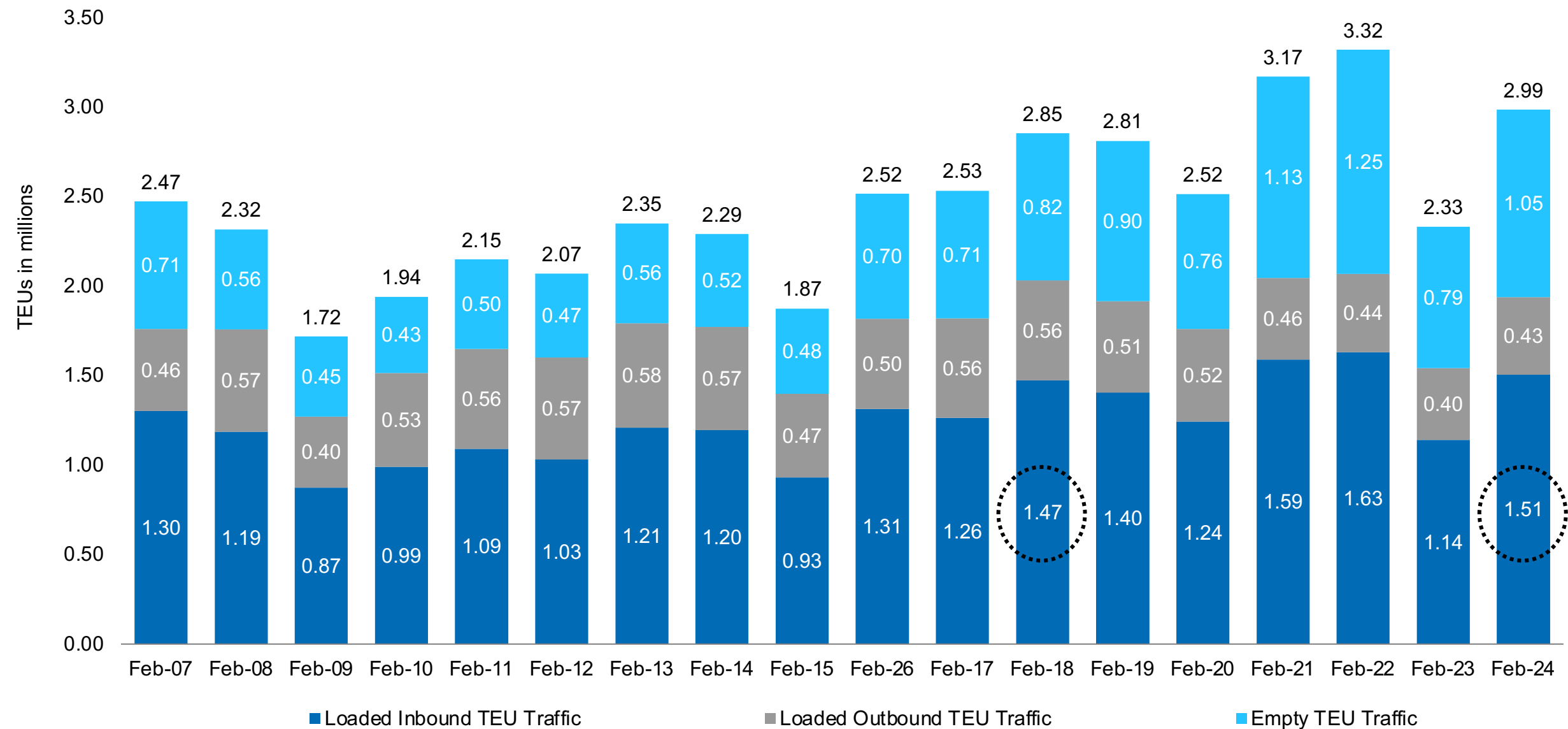
Import Traffic Has Jumped in Recent Months at Los Angeles-Long Beach

Please reach out to your
Newmark business contact for this information

Loaded Imports in the First Two Months of 2024 Were Higher Than the Same Period in 2018

Loaded inbound TEU traffic during the first two months of 2024 reached the third-highest level on record. Import activity is expected to remain healthy in the coming months.

The Ports of Los Angeles and Long Beach: Combined TEU Volume | Loaded Imports, Loaded Exports and Empty Containers | First Two Months of a Given Year



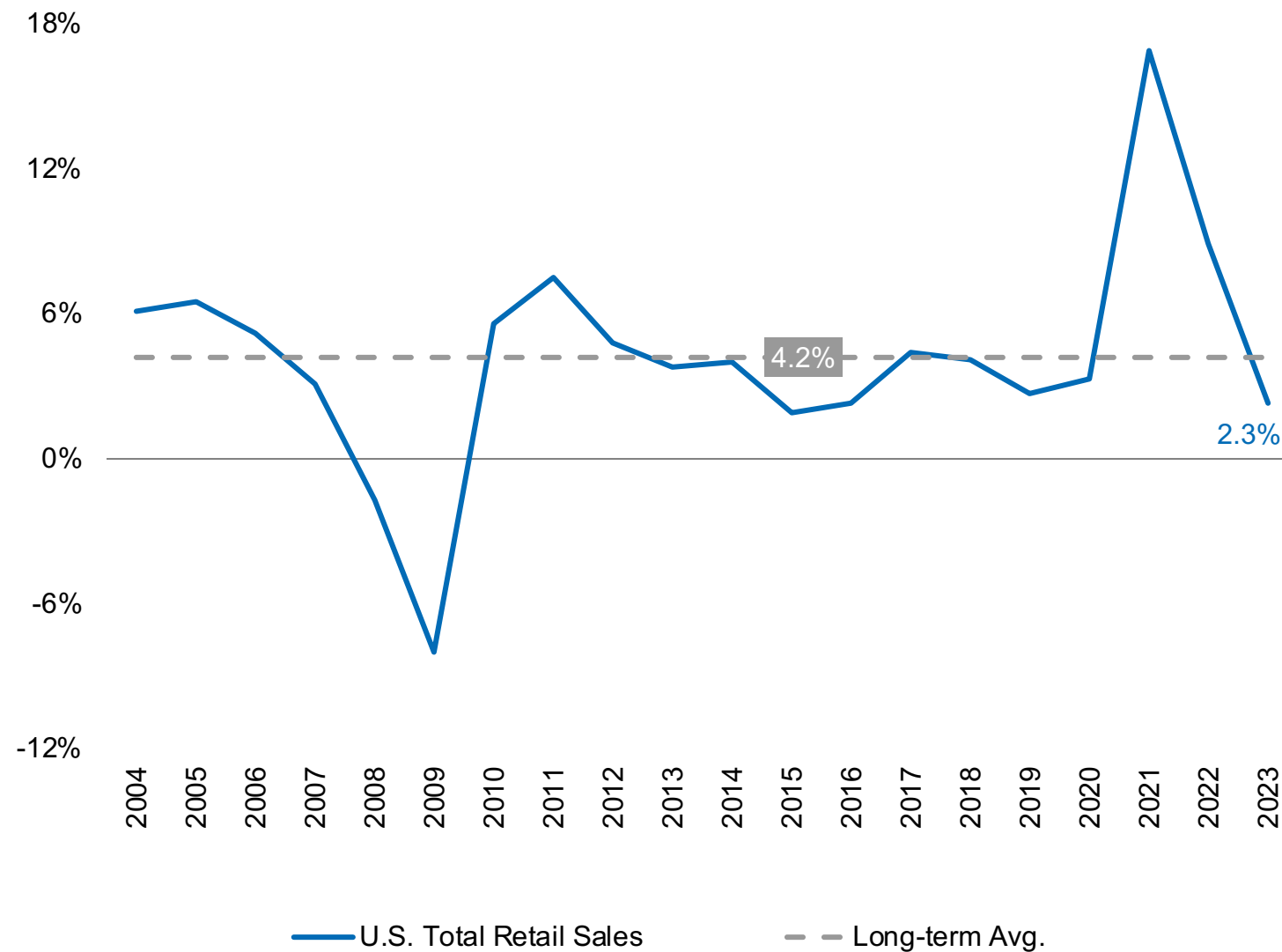
Source: Newmark Research, The Port of Long Beach and Los Angeles

Note: TEUs are a standard measure for the steel cargo containers commonly used interchangeably on ships, trucks and trains. A TEU or 20-foot equivalent unit is the industry measure used to tally cargo containers, whether the containers are 20-foot long, 40-foot long or some other size. The Lunar New Year started on February 10th this year, a time when factories in Asia shut down entirely. Since U.S. distributors tend to front-load imports beforehand, port volume in the first quarter of a given year is not reflective of how the year will unfold.

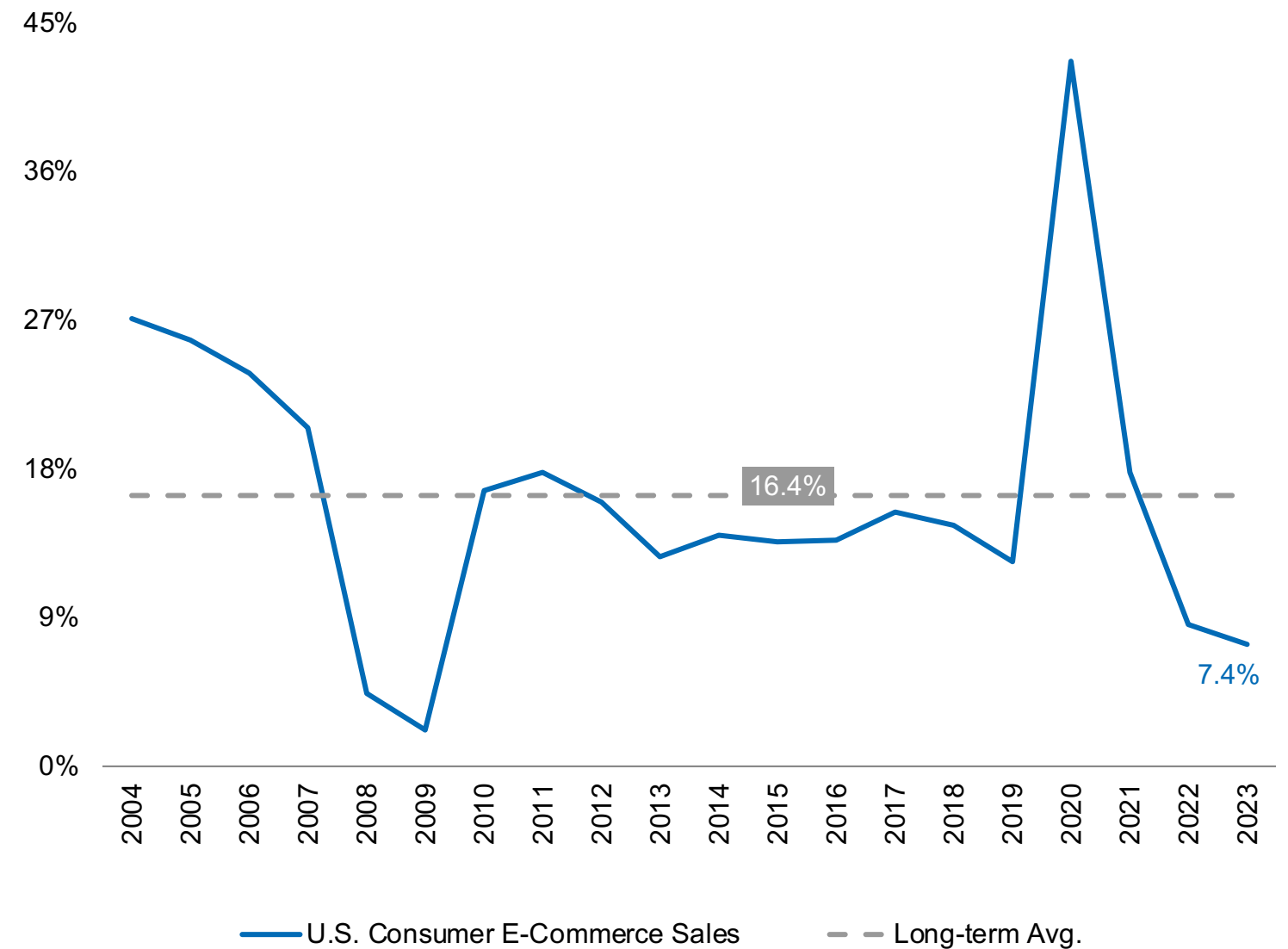
Retail Sales (an Indicator of Warehouse Demand) Continue to Moderate

Consumer e-commerce sales were up 7.4% from 2022 to 2023. Although e-commerce sales growth exceeded total retail sales (+2.3% over the same period), the decline from 2021 onward is noticeable as consumer spending slows.

U.S. Retail Sales Annual Growth



U.S. Consumer E-Commerce Sales Annual Growth



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

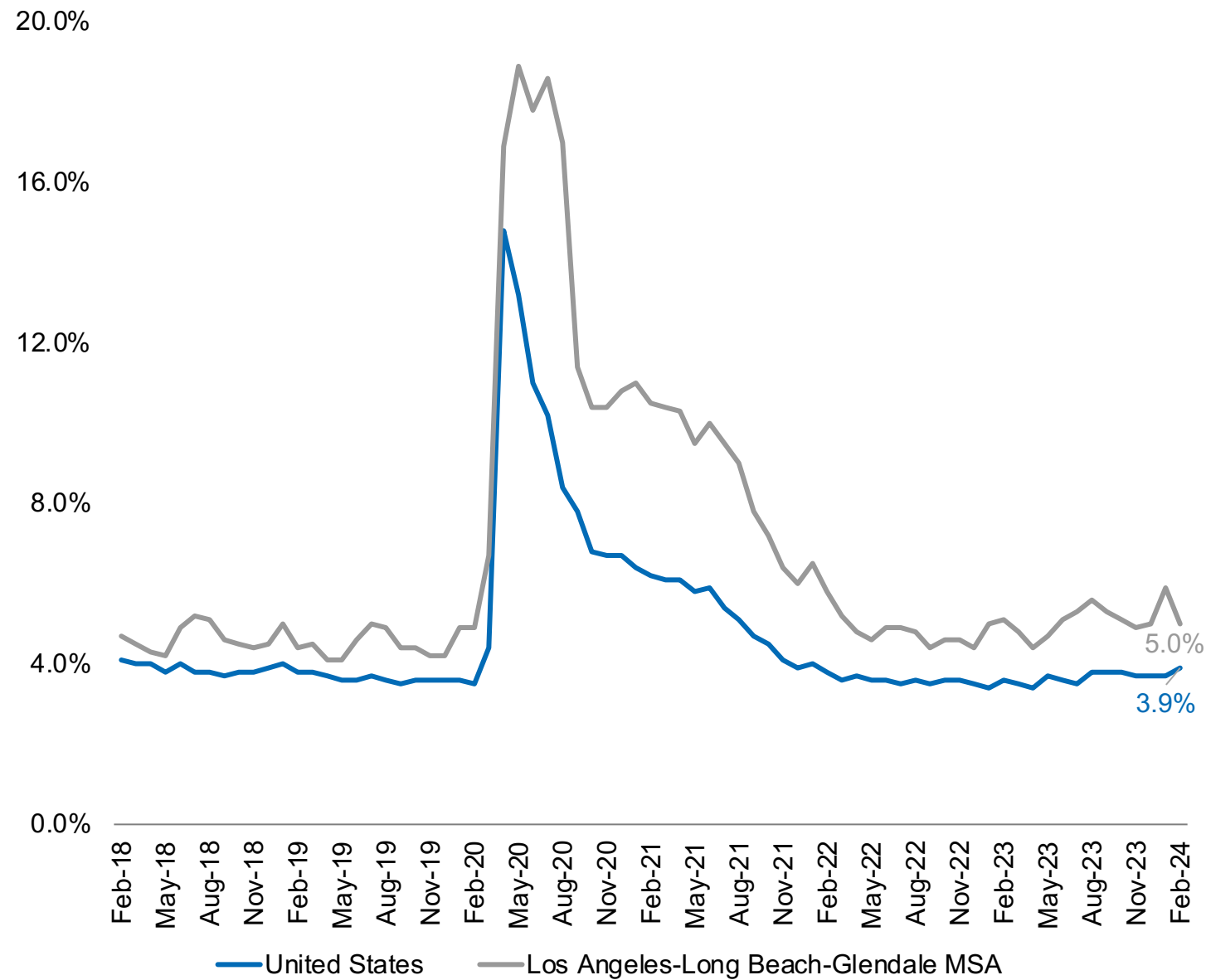
The Pandemic Accelerated E-Commerce Sales Growth and Adoption Rates

Please reach out to your
Newmark business contact for this information

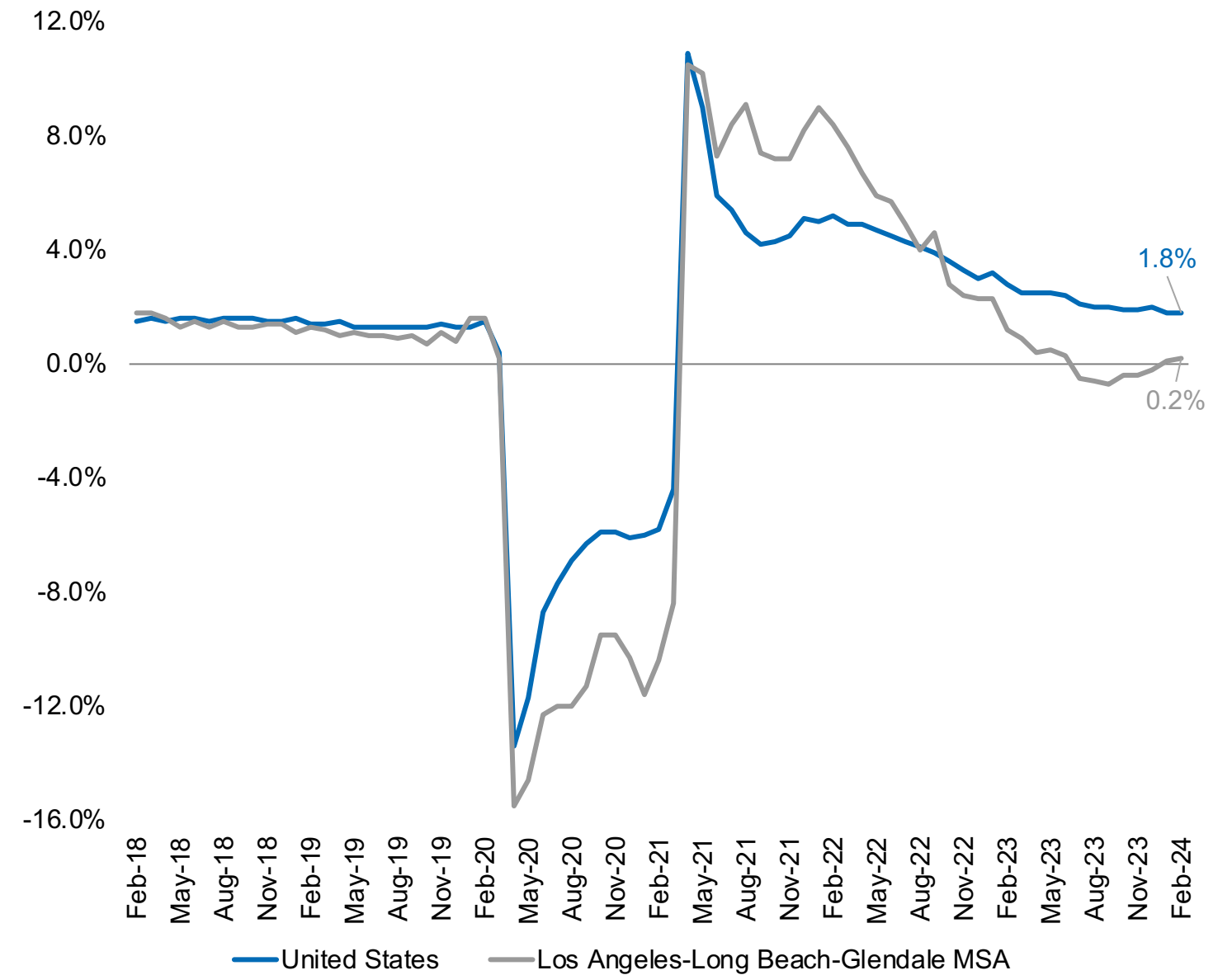
Unemployment Rate Near Pre-Pandemic Norm; Employment Growth in Flux

Local unemployment (5.0%) is on par with February 2020's pre-pandemic average of 4.9%. Nonfarm employment growth, which has steadily cooled since early-2022, posted marginally positive growth in January and February of this year. Future employment gains are expected to be low as still-high inflation persists.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

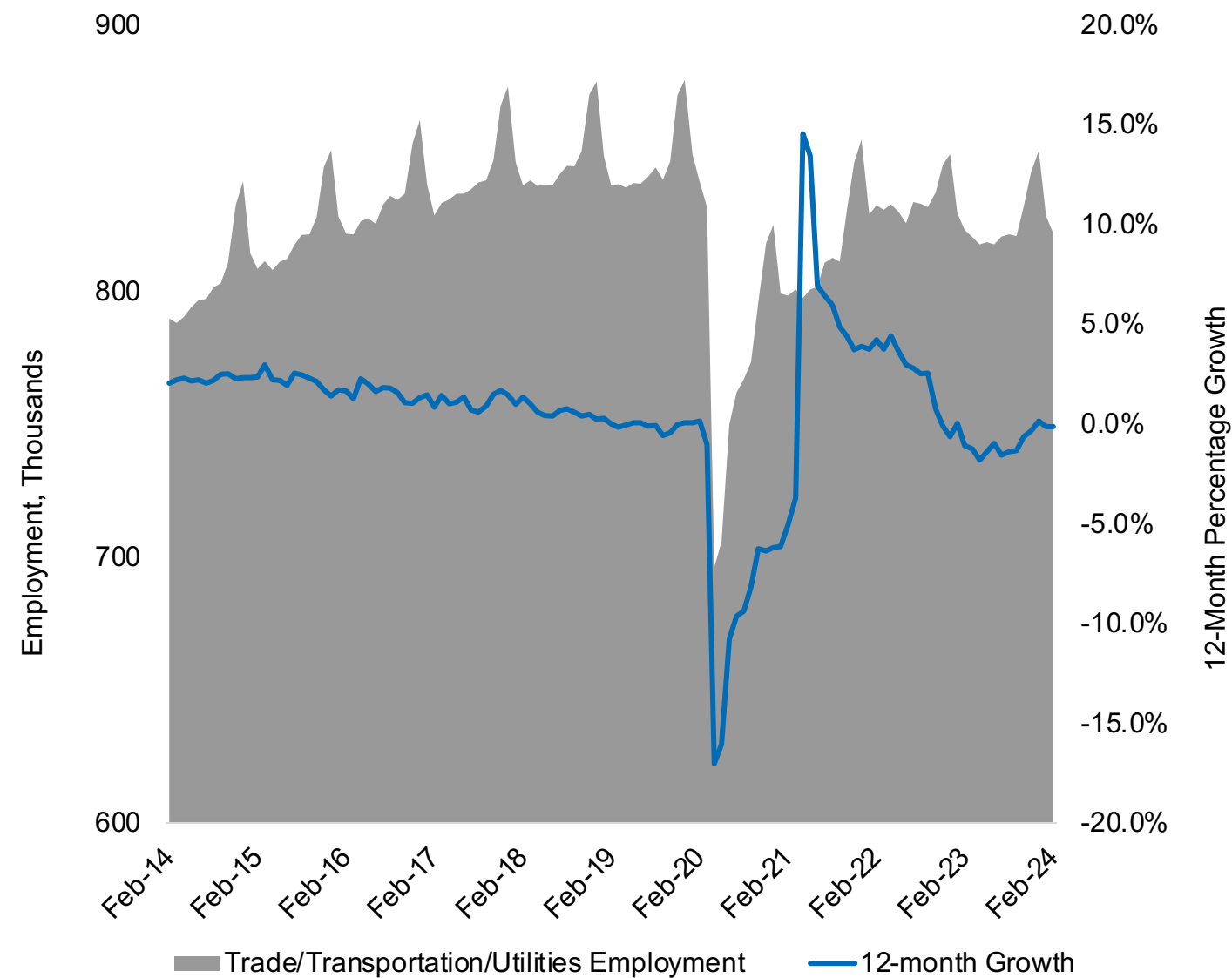


Source: U.S. Bureau of Labor Statistics, Los Angeles-Long Beach-Glendale MSA

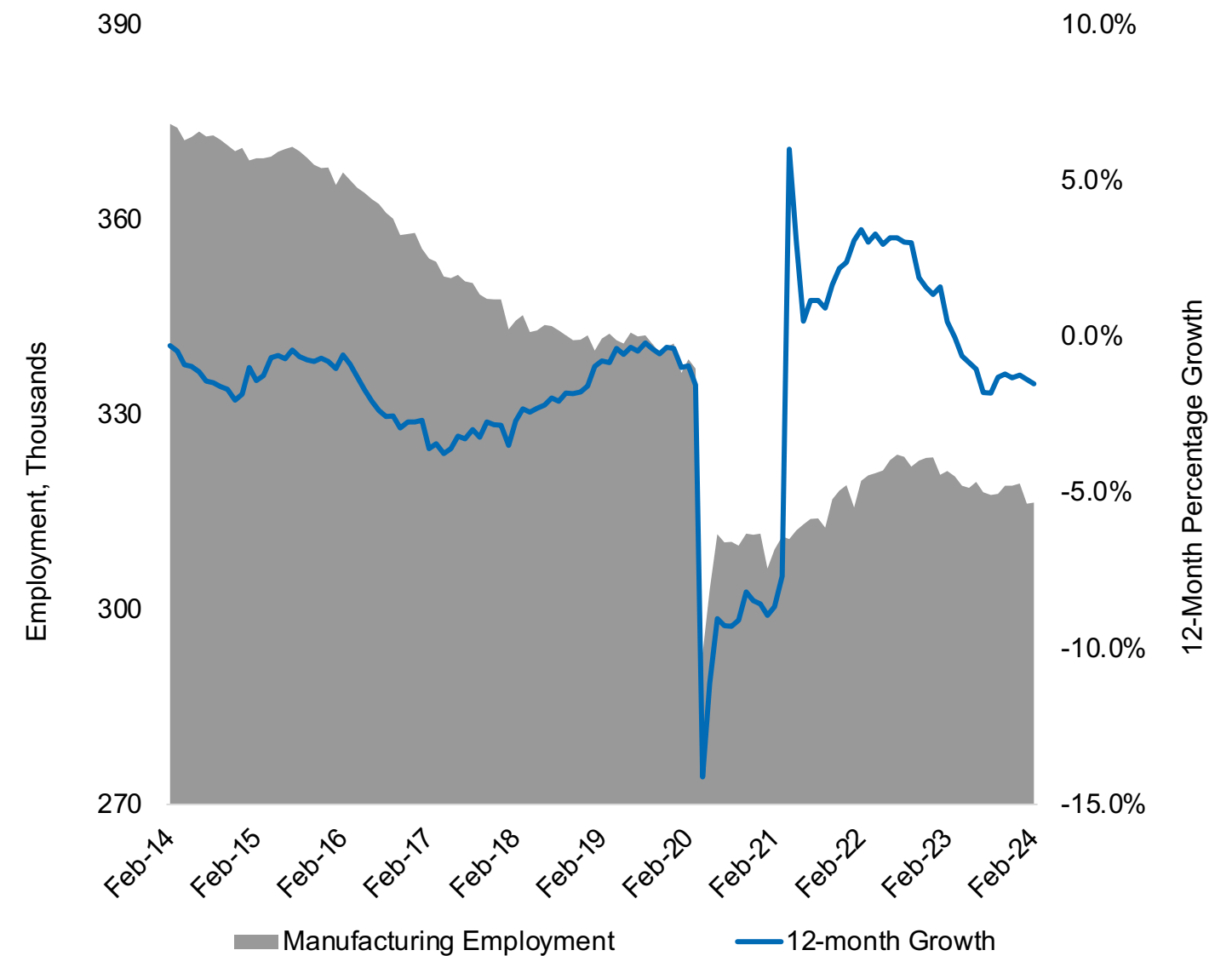
Industrial Employment Will Fluctuate over the Coming Months

While seasonal hiring increased trade, transportation and utilities employment in recent months, the segment continues to deal with slowing growth as warehouse occupiers focus on cost-cutting initiatives. Manufacturing remains in a state of flux, based on the current economic climate and the ever-rising costs of doing business in California.

Trade/Transportation/Utilities Employment and 12-Month Growth Rate



Manufacturing Employment and 12-Month Growth Rate



Source: U.S. Bureau of Labor Statistics, Los Angeles-Long Beach-Glendale

1Q24

Leasing Market Fundamentals



Start Rents Continue to Adjust

Please reach out to your
Newmark business contact for this information

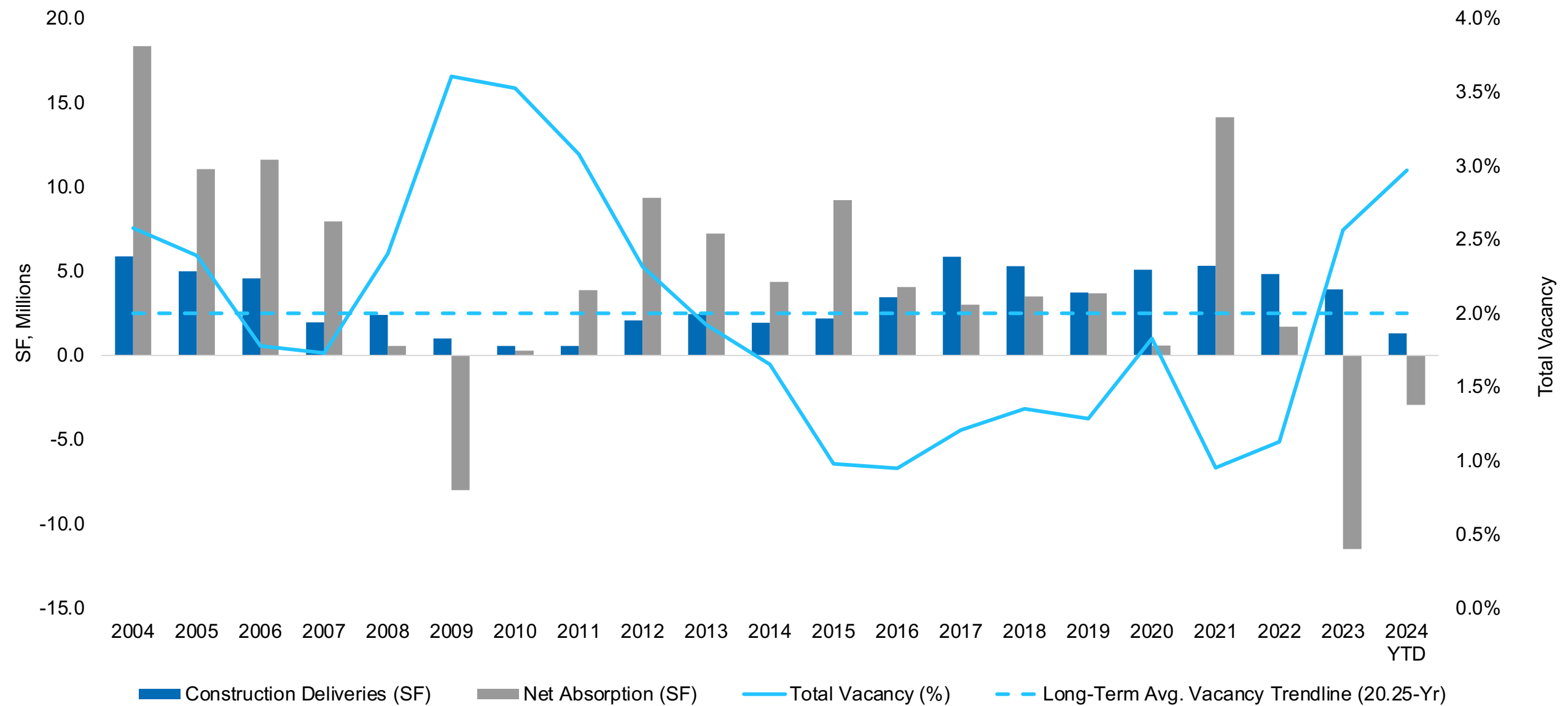
Average Weighted Lease Terms Are Declining

Please reach out to your
Newmark business contact for this information

Vacancy Surges as Market Observes Seventh-Straight Quarter of Net Absorption Losses

Vacancy reached 3.0% (a 12-year high) in the first quarter of 2024 year as tenants continued to shed space. Move-outs by Pilot Automotive (407,638 SF), WestRock Company (374,370 SF), Article.com (290,034 SF) and AZ West (206,483 SF) and a bevy of smaller vacancies accounted for first-quarter's net absorption losses of 2.9 MSF.

Historical Construction Deliveries, Net Absorption, and Vacancy

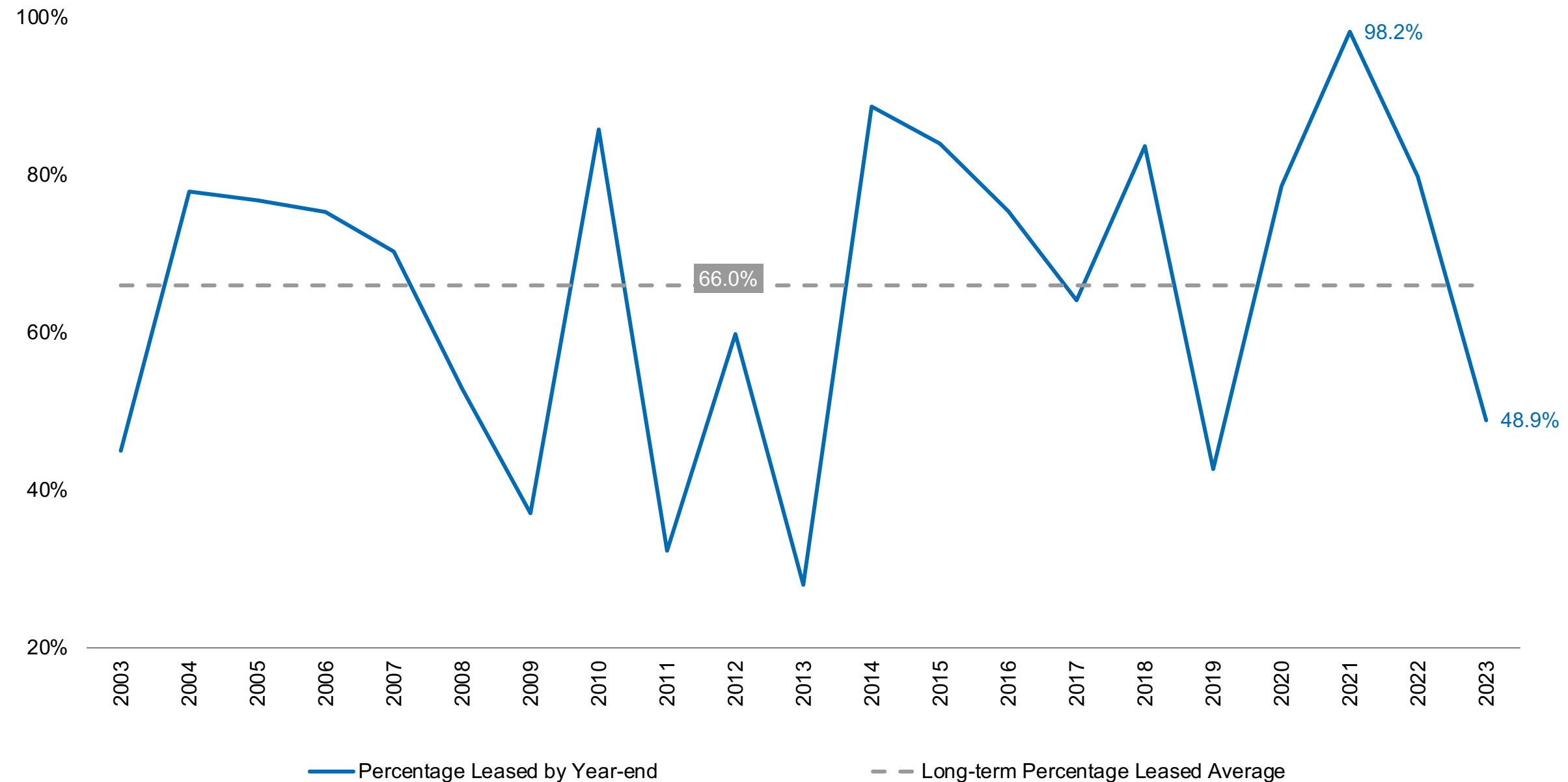


Source: Newmark Research

New Construction Leasing Averages are Declining

Slowing tenant commitments for higher-priced modern space will prompt many developers to hit the pause button on future groundbreakings. Developers with recently delivered available product, meanwhile, will become more competitive to vie for tenants, whether through greater concession packages, lowered rents or a combination of the two.

Year-end Lease-up Average of Buildings Delivered in a Given Year



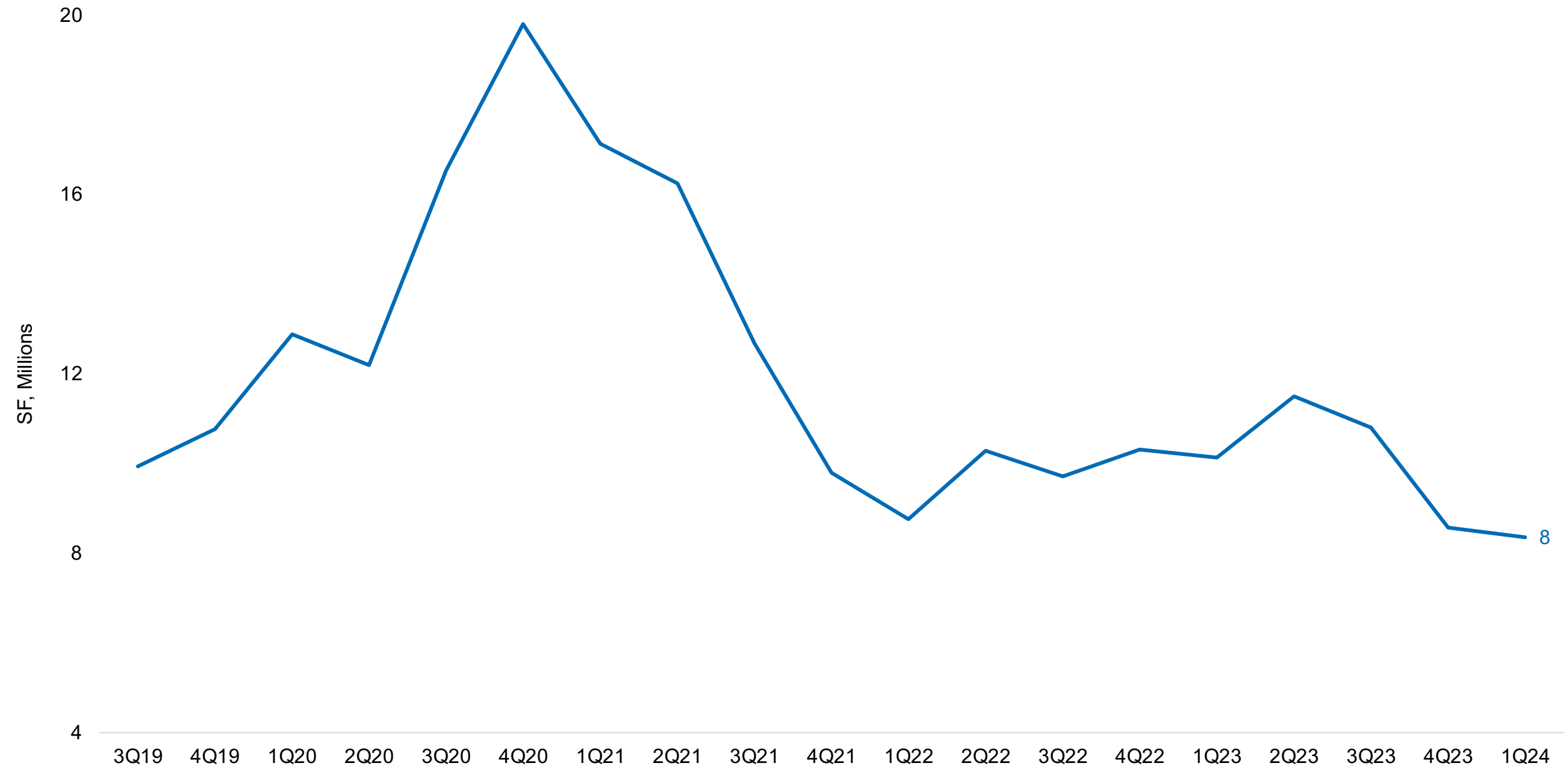
Source: Newmark Research

Note: Lease-up averages are somewhat volatile since Los Angeles is a highly mature market where infill development is generally the only option to inject new supply. Annual construction deliveries are far lower than a growth market like the Inland Empire, suggesting the delivery of a few large buildings (and how they are received) in a given year can move the needle on lease-up averages.

Quarterly Leasing Volume Slackens

Elevated rents and an uncertain macroeconomic climate have constricted tenant commitments for the time being.

Total Leasing Activity (SF)

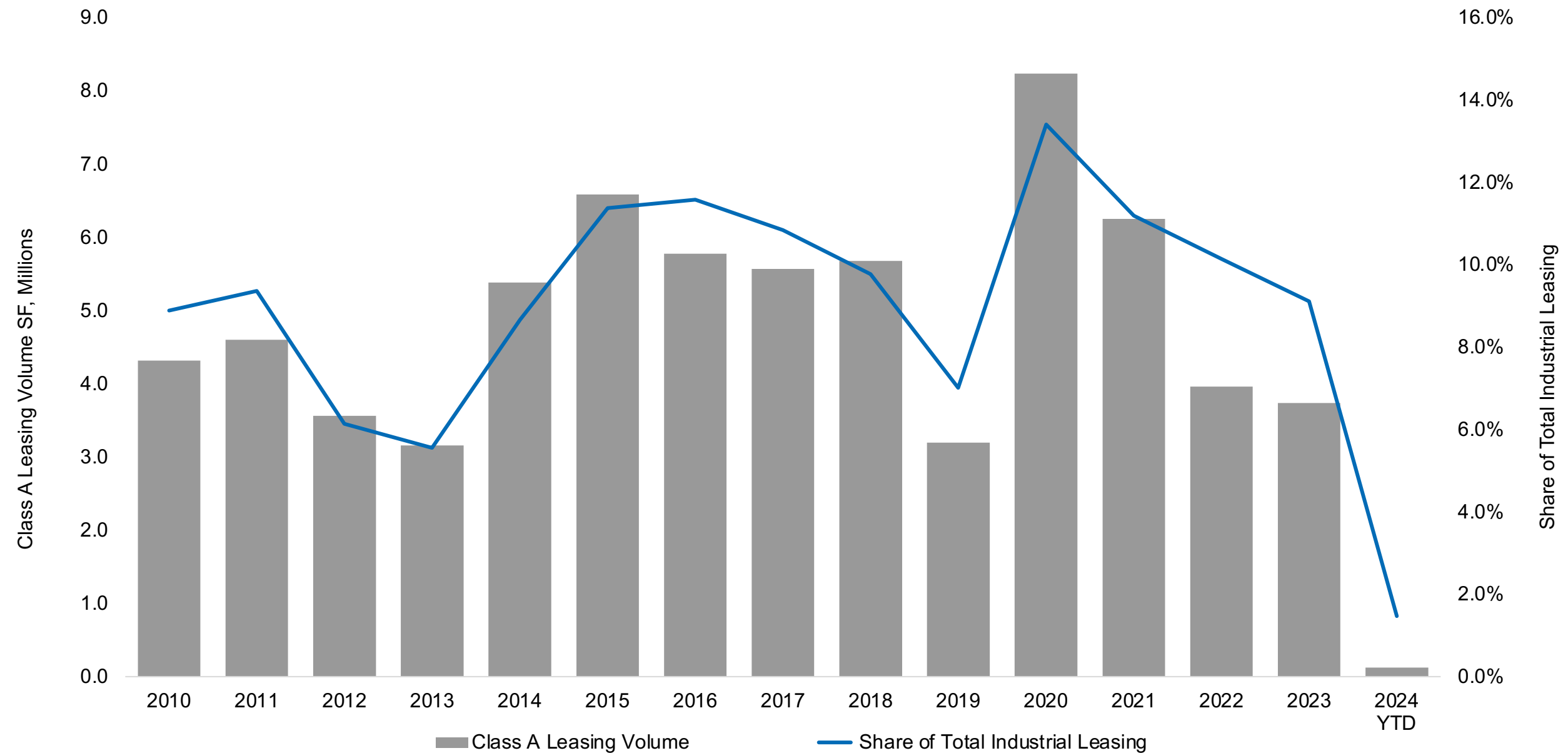


Source: Newmark Research, CoStar

Class A Warehouse Leasing Volume Sharply Down in Early 2024

Demand for modern-gen space remains high, but many tenants are waiting for elevated rents to soften first before committing to space.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



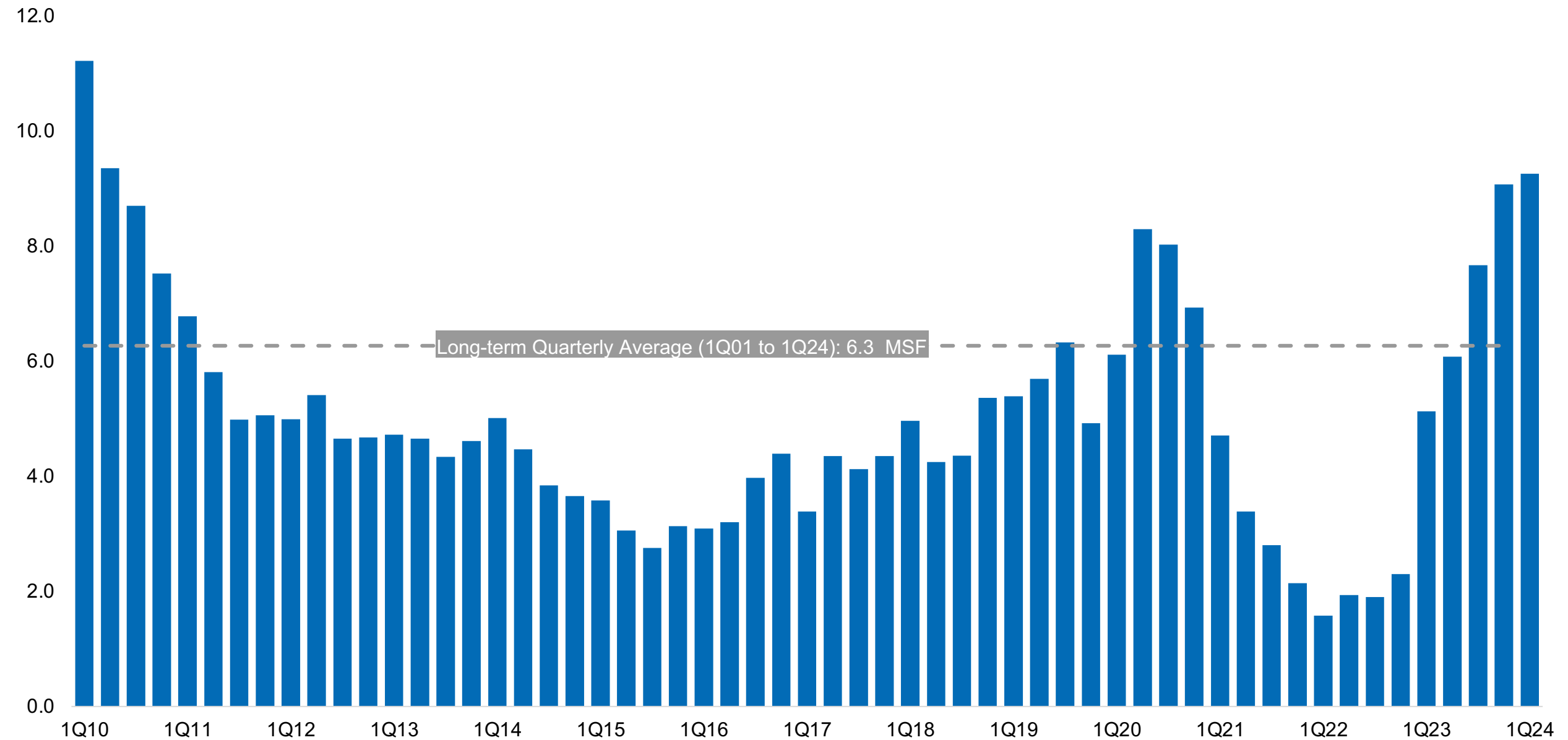
Source: Newmark Research, CoStar

Note: Class A is defined as 100,000+ SF warehouse/distribution facilities constructed since 2000 with a 30'+ minimum interior ceiling height.

Sublet Availability Volume Rests Above Long-Term Quarterly Average

Available sublease space increased a marginal 2.0% from the preceding quarter to reach a 13.75-year high of 9.3 MSF.

Available Industrial Sublease Volume (MSF)



Source: Newmark Research

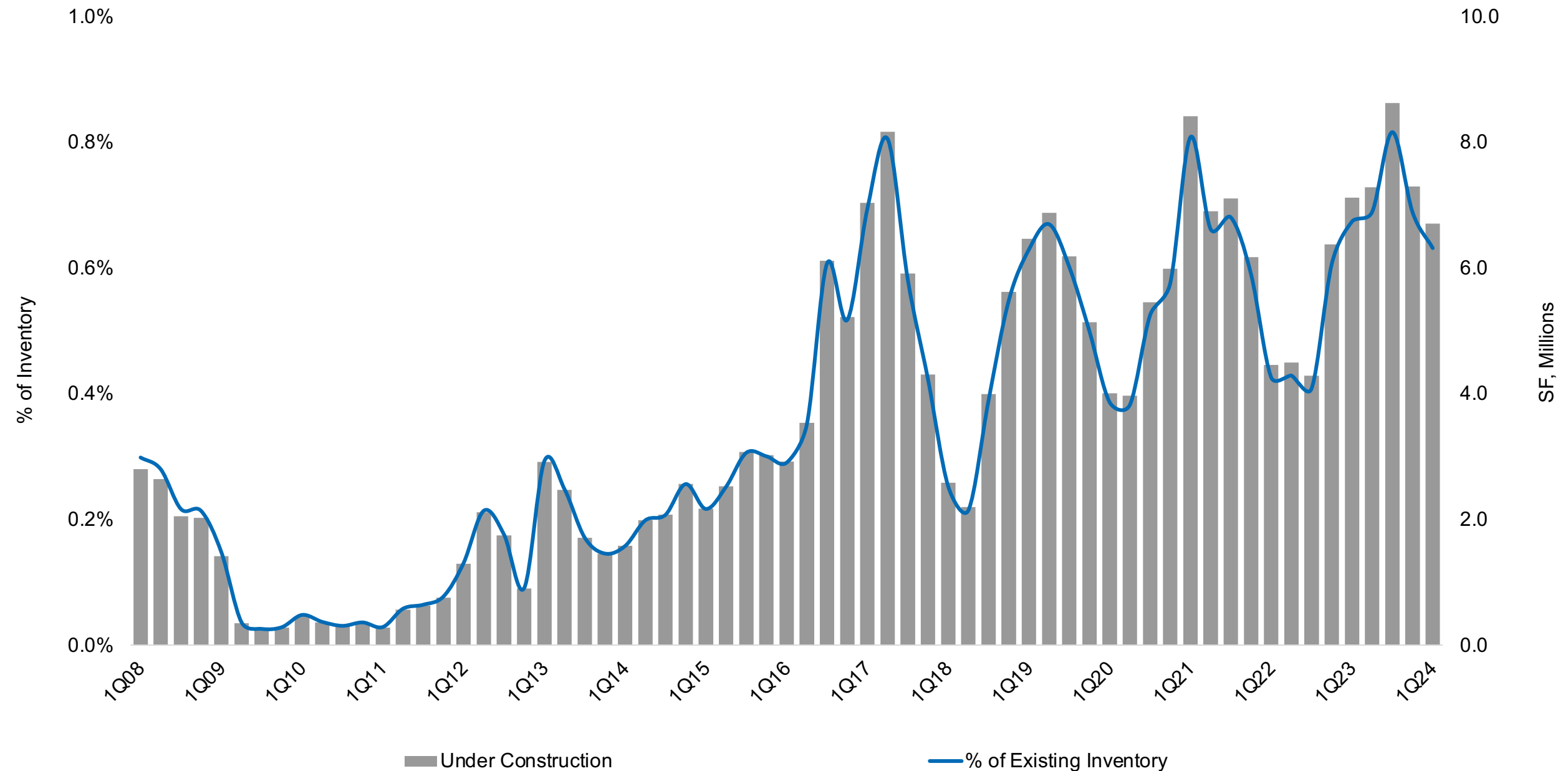
67.0% of Available Sublease Space in the Region is Based in the Infill Markets

Please reach out to your
Newmark business contact for this information

Construction Pipeline Continues to Fall From Historical Peak

Underway construction totals 6.7 MSF, of which a mere 1.3% is pre-leased. Market vacancy will further increase if this average does not improve.

Industrial Under Construction and % of Existing Inventory



Source: Newmark Research

Under-Construction Leasing is Limited as Elevated Rents Curb Demand for New Space

Please reach out to your
Newmark business contact for this information

Notable 1Q24 Lease Transactions

Only 11 leases over 100,000 SF were signed this quarter. Six were renewals predominated, while five were direct leases.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
STG Logistics	1650-1700 S Central Ave	South Bay	Lease Renewal	418,344
<i>The tenant has occupied entire property since 2014. Lease term expires in 3Q34.</i>				
UNFI Grocers Distribution, Inc.	15015 Valley View Ave	Mid-Counties	Lease Extension	302,850
<i>The tenant has occupied entire property since 2011. Newmark represented the landlord in the lease transaction.</i>				
Inland Star Distribution Centers, Inc.	2132 E Dominguez St Bldg #B	South Bay	Lease Renewal	254,411
<i>The tenant has occupied entire property since 2014. Lease term expires in 4Q27.</i>				
ACL America	14425-14525 Clark Ave	East (San Gabriel)	Direct Lease	232,643
<i>The medical IT hardware manufacturer is expanding eastward from the South Bay. Tenant occupies entire property.</i>				
Estes Forwarding Worldwide	2902 E Val Verde Ct	South Bay	Lease Renewal	184,000
<i>Lease term expires in 1Q29.</i>				

1Q24

Sales Activity

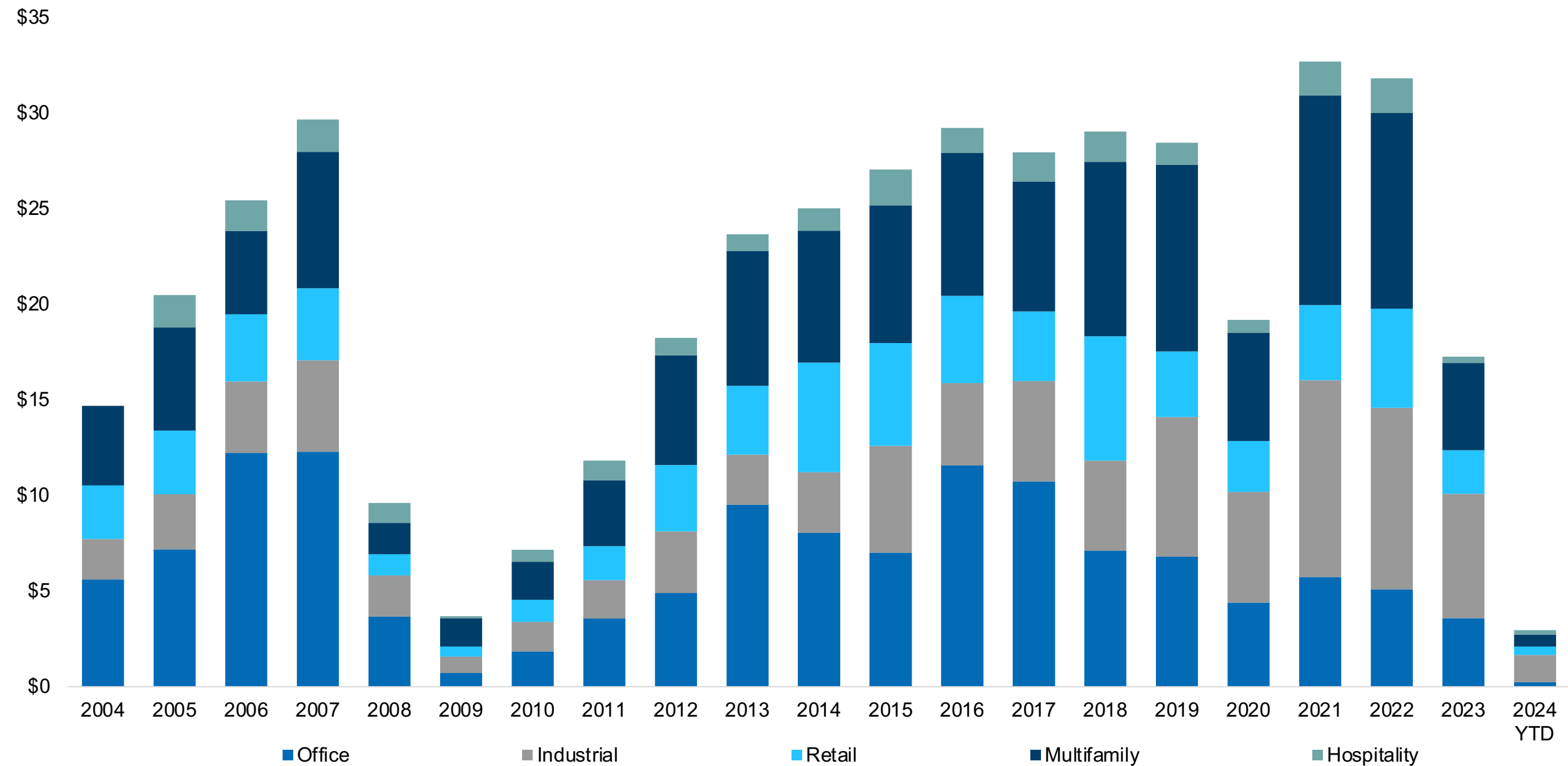


Industrial Comprised 37.7% of Total Sales Volume in 2023

This figure is vastly higher than the 20-year average (2004 to 2023) of 20.5%. Low vacancy and heated rent growth in recent years favor the segment, with many investors targeting desirable buildings with credit tenants whose leases are up for renewal. What the tenant was paying (\$\$) is different than today's rent averages (\$\$\$\$).

Industrial (48.0% of the preliminary sales total) led other property segments as well during the first quarter of 2024.

Los Angeles County: Sales Volume Across Commercial Property Segments (\$ in Billions)

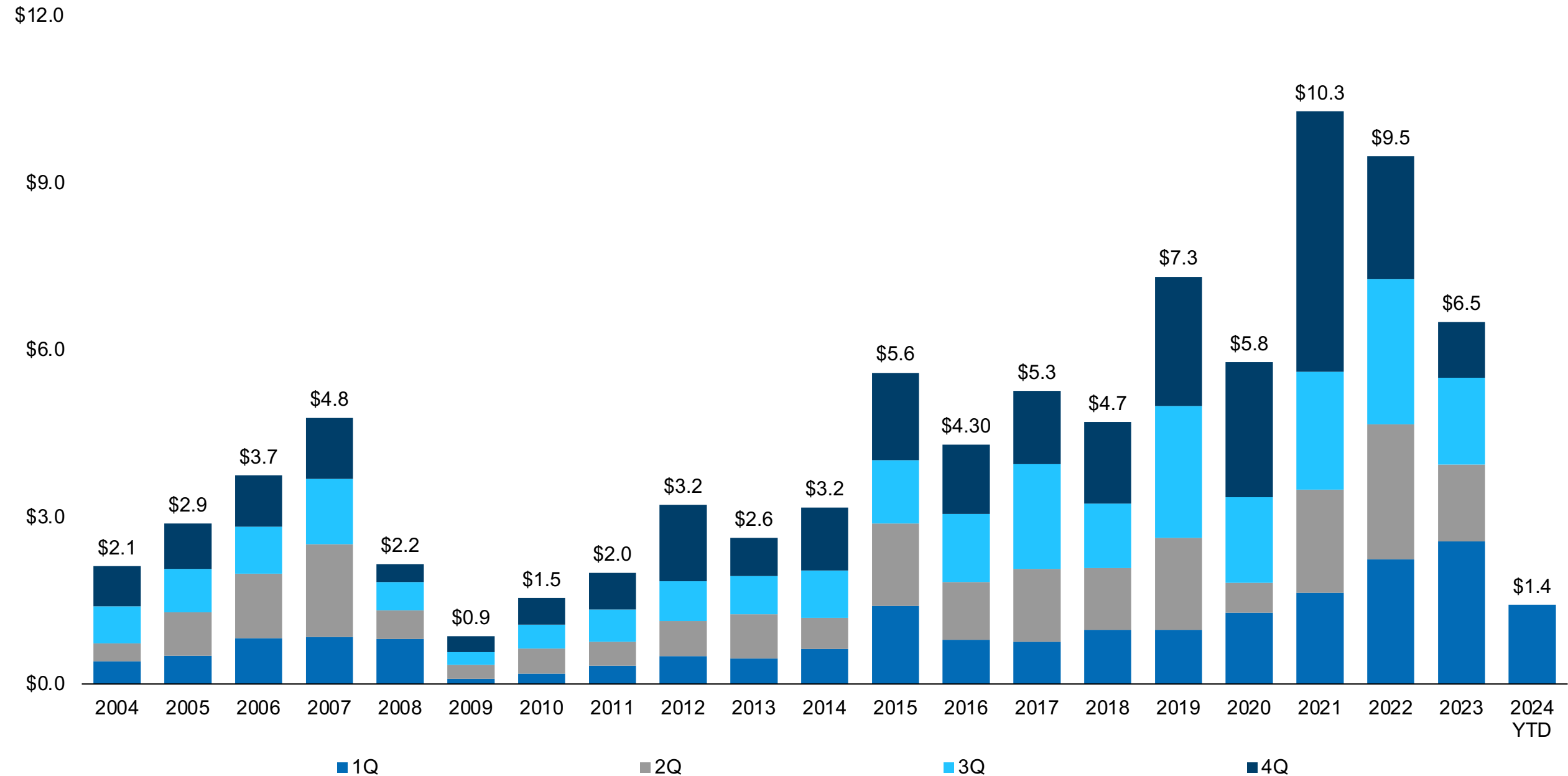


Source: MSCI Real Capital Analytics, Newmark Research
 Note: Preliminary data is cited for the first quarter of 2024.

Industrial Sales Volume: Up Close

Industrial sales volume totaled \$1.4 billion in the first quarter of 2024, down 44.3% from the same period in 2023. The higher cost of capital following multiple interest rate hikes from March 2022 to July 2023 is crimping momentum in addition to cooling leasing fundamentals. Both have pressed pricing downward.

Los Angeles County: Industrial Sales Volume (\$ in Billions) | By Quarter



Source: Newmark Research, MSCI Real Capital Analytics
 Note: Preliminary data is cited for the first quarter of 2024

Pricing is Down and Cap Rates are Rising

Please reach out to your
Newmark business contact for this information

Private, Cross-Border and REIT/Listed Buyers Active

Please reach out to your
Newmark business contact for this information

1Q24

Appendix



Los Angeles Submarket Map and High-Level Statistics | 1Q24

Please reach out to your
Newmark business contact for this information



Please reach out to your
Newmark business contact for this information



Please reach out to your
Newmark business contact for this information



Please reach out to your
Newmark business contact for this information



Please reach out to your
Newmark business contact for this information

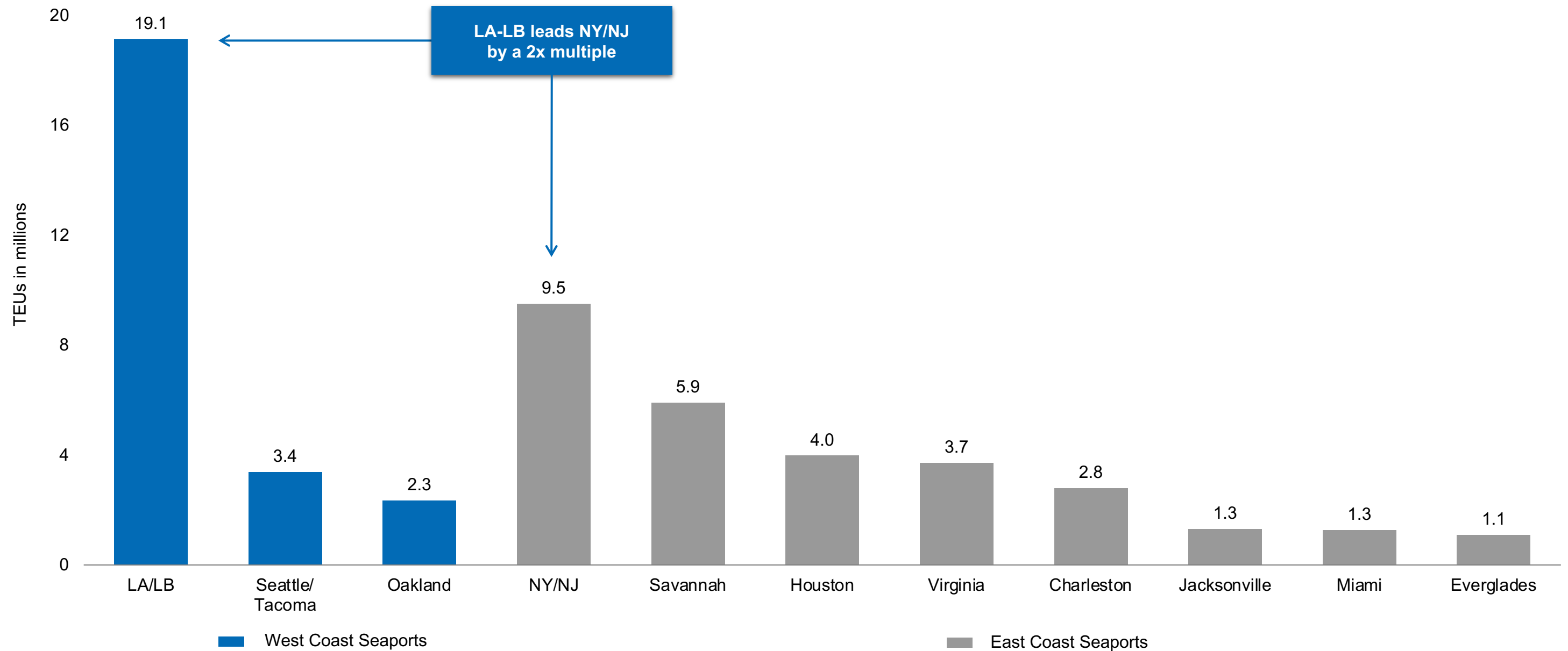
WAIRE: Program Summary and Implications for Industrial

Please reach out to your
Newmark business contact for this information

Los Angeles-Long Beach Is the Nation's Dominant Port System

Los Angeles-Long Beach can accommodate 18,000 TEU vessels, which are too wide to traverse the new Panama Canal. Additionally, both ports have Class 1 freight rail connectivity to the nation's major population centers.

Major U.S. Seaports: 2022 TEU Volume (All Containers: Loaded and Empty)



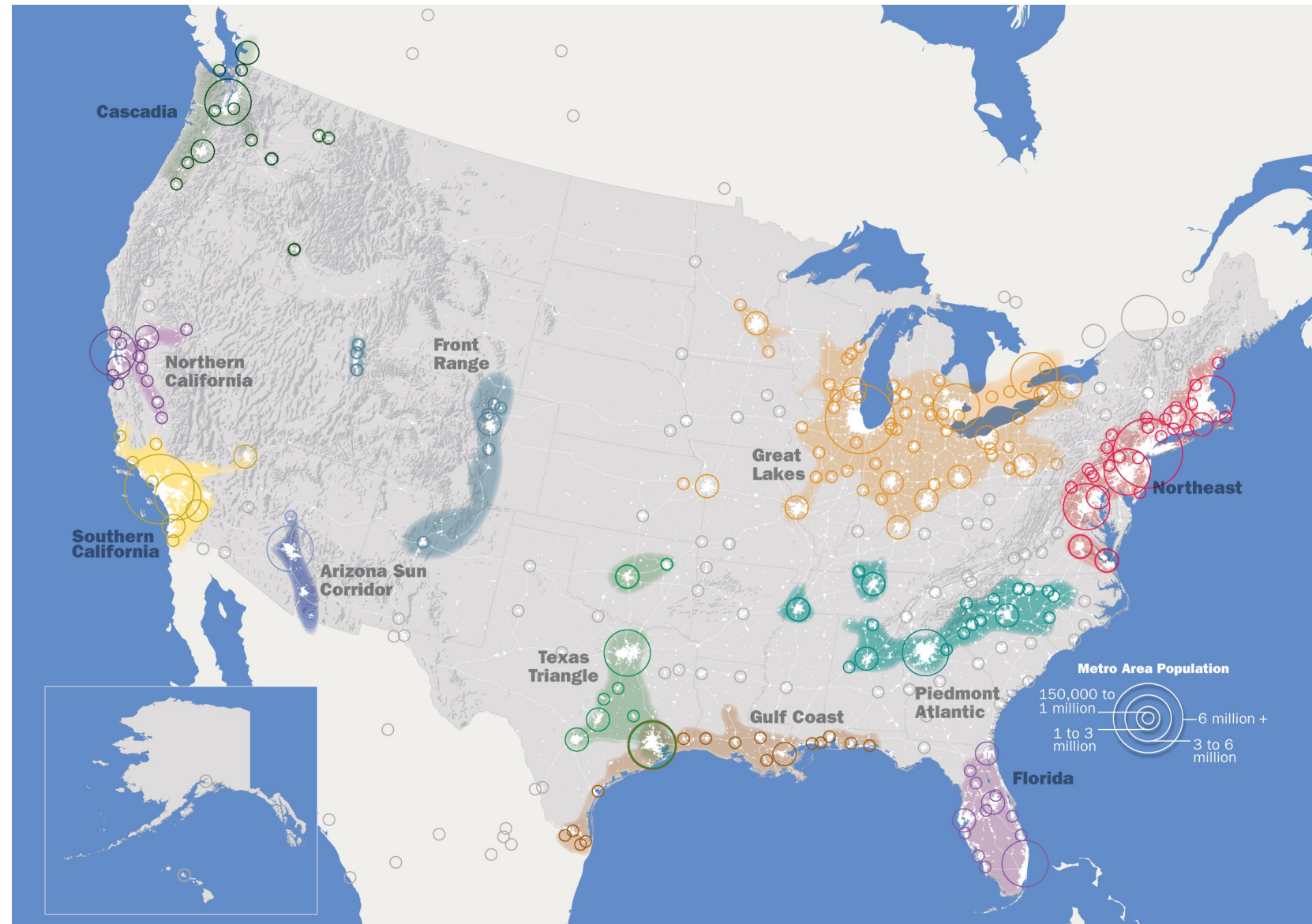
Source: Newmark Research, Individual Seaports

Why Los Angeles-Long Beach?

Please reach out to your
Newmark business contact for this information

Population of Megaregions: Past and Projected

Southern California benefits from its consumer base, ports and rail connectivity.



Megaregion	2010 Population	2025 Pop. Est.
Arizona Sun Corridor	5.7M	7.8M
Cascadia	8.4M	8.8M
Florida	17.3M	21.5M
Front Range	5.5M	7.0M
Great Lakes	55.6M	60.7M
Gulf Coast	13.4M	16.3M
Northeast	52.3M	58.4M
Northern California	14.0M	16.4M
Piedmont Atlantic	17.6M	21.7M
Greater Southern California	24.4M	29.0M
Texas Triangle	19.8M	24.8M

Source: U.S. Census Bureau

Transport Costs Are the Biggest Expenditure for Most Warehouse Occupiers

Please reach out to your
Newmark business contact for this information

Transport Costs per TEU Container

Please reach out to your
Newmark business contact for this information

For more information:

Colin Harmony

*Senior Research Analyst
Los Angeles, Inland Empire*

colin.harmony@nmrk.com

Norma Llamas

*Senior Database Coordinator
Los Angeles*

norma.llamas@nmrk.com

Dain Fedora

*Head of Research
Southwest*

dain.fedora@nmrk.com

Los Angeles -- Downtown

555 S. Flower St., Suite 3550
Los Angeles, CA 90071
t 213-596-2222

New York Headquarters

125 Park Ave.
New York, NY 10017
t 212-372-2000

nmrk.com

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

All information contained in this publication (other than that published by Newmark) is derived from third party sources. Newmark (i) has not independently verified the accuracy or completeness of any such information, (ii) does not make any warranties or representations, express or implied, concerning the same and (iii) does not assume any liability or responsibility for errors, mistakes or inaccuracies of any such information. Further, the information set forth in this publication (i) may include certain forward-looking statements, and there can be no guarantee that they will come to pass, (ii) is not intended to, nor does it contain sufficient information, to make any recommendations or decisions in relation to the information set forth therein and (iii) does not constitute or form part of, and should not be construed as, an offer to sell, or a solicitation of any offer to buy, or any recommendation with respect to, any securities. Any decisions made by recipient should be based on recipient's own independent verification of any information set forth in this publication and in consultation with recipient's own professional advisors. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download, or in any other way reproduce this publication or any of the information it contains with any third party. This publication is for informational purposes only and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter. If you received this publication by mistake, please reply to this message and follow with its deletion, so that Newmark can ensure such a mistake does not occur in the future.

NEWMARK