

3Q23

Los Angeles Industrial Market Overview

An aerial photograph of an industrial facility, likely a refinery or chemical plant. The image shows several large, rectangular storage tanks or processing units arranged in a grid-like pattern. The tanks are light-colored, possibly white or light blue, and have a series of dark, horizontal slats or pipes running across them. The perspective is from a high angle, looking down at the facility, which creates a strong sense of scale and repetition in the industrial structures.

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Market Observations

Economy

- The drop-off in ocean container spot rates from Asia to the U.S. West Coast since the second half of 2022, along with “return-to-normal” import volumes at Southern California’s ports, speak to more conservative retail spending outlooks.
- West Coast port operators and dockworkers signed a new six-year contract; this will help to restore a sense of operational stability at Los Angeles-Long Beach.
- Loaded import volume at the twin-port system totaled 5.3 million containers in the first eight months of 2023. This figure is on par with the same period in 2016.
- Local unemployment across all industries was 5.8% in August, up 140 bps from December 2022. While total nonfarm employment is strong, job gains are slowing.
- Industrial-using employment will fluctuate in the coming months.

Major Transactions

- Midas Express, Inc. signed two of the five largest leases for the quarter, committing to 312,000 SF and 310,628 SF at 4889 4th St in Irwindale and 11852-11854 S Alameda St in Lynwood, respectively.
- Footlocker secured the largest pre-lease of the year when it committed to 360,992 SF of space at El Monte Distribution Center. The building will deliver in early 2024.
- Six of the top 10 lease transactions signed this quarter were for direct space; this is a sign of still-healthy leasing activity in the market.
- Two of the five largest industrial sale transactions of this decade closed this quarter when Rexford purchased the Santa Fe Springs Logistics Center for \$210 million and Dart Warehouse Corp acquired the 99 Cents Only HQ in Commerce for \$190 million.

Leasing Market Fundamentals

- Fervent tenant demand for industrial space that came from anomalously high consumer spending in recent years is no more and most occupiers are focused on cutting costs amid still-high inflation.
- Pivoting from a “just-in-case” to a “just-in-time” inventory model is one way to reduce overhead by shedding unneeded space. This is leading to an uptick in available sublease space, which is now 7.5 MSF, the highest amount in three years.
- Class A start rents are progressively cooling following unprecedented growth in recent years. Tenants are committing to shorter lease terms with the expectation that rates will continue to fall. Landlords are becoming more competitive.
- Net absorption was negative for the fifth consecutive quarter. Vacancy, over this time, increased from 0.9% to 2.1% across the nearly 1.1-BSF market.

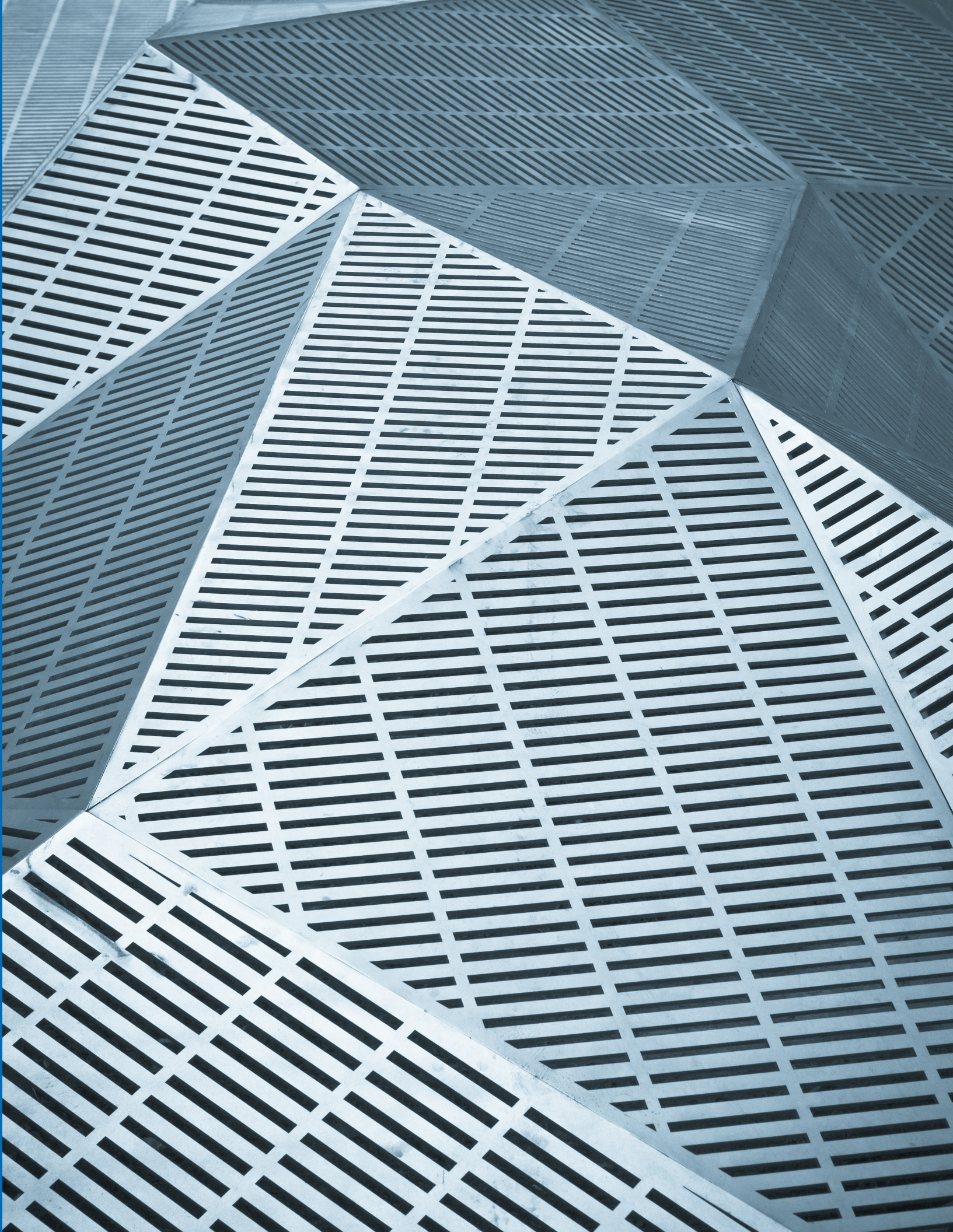
Outlook

- Demand for modern-gen space remains high, but many tenants will wait for elevated rents to soften first before committing to space.
- Vacancy will continue to rise as tenants shed unneeded space, and portion of available sublease space becomes vacant.
- 4.0 MSF in new construction will deliver in the fourth quarter of 2023; 46.6% has pre-leased to date.
- The South Coast Air Quality Management District (the same organization that successfully implemented the [WAIRE Program](#)) has proposed legislation to reduce emissions at the Ports of Los Angeles and Long Beach. Cargo volumes at both ports could be capped if the group’s initiative passes.

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Economy



Lower Ocean Container Spot Rates Are Indicative of Cooling Import Activity



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Loaded Imports in the First Eight Months of 2023 Were on Par with the Same Period in 2016

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Some West Coast Importers Diverted Cargo to Gulf and Eastern Ports in 2022



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The ILWU and PMA Reached a Tentative Labor Agreement in June 2023

Their contract was ratified in early 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 that is set to expire in late 2024; will conflict that potentially disrupts operations be avoided?

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 period.
- 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 will return 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.
- Both parties will start discussions early in hopes of avoiding disruptions.
- West Coast ports will be seen as more stable until an agreement is reached.
- Higher pay and job security as it pertains to automating port operations were primary issues for the ILA in 2018/the last negotiation period.



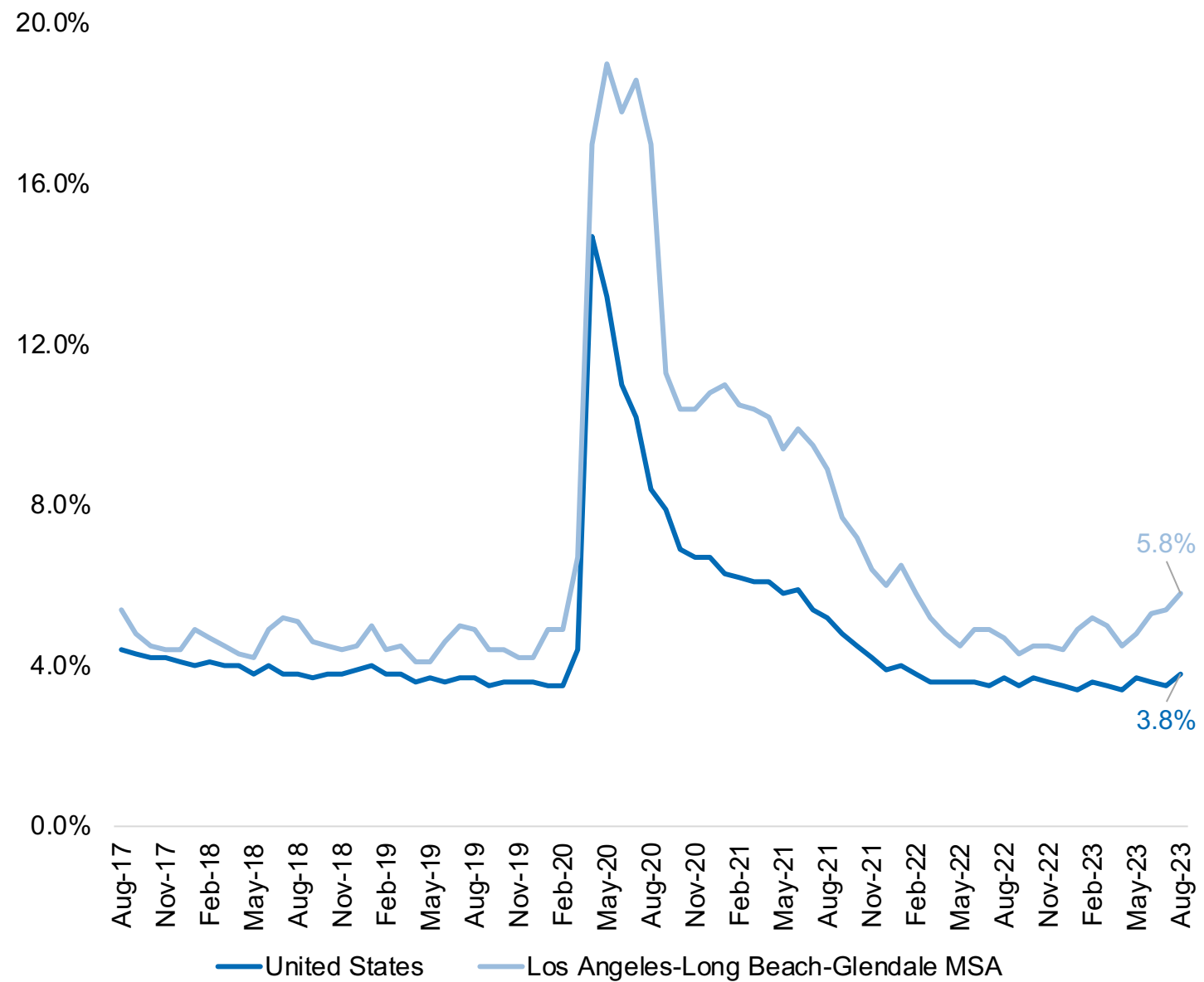
The Diverted Trend Continued to a Lesser Degree in the First Eight Months of 2023

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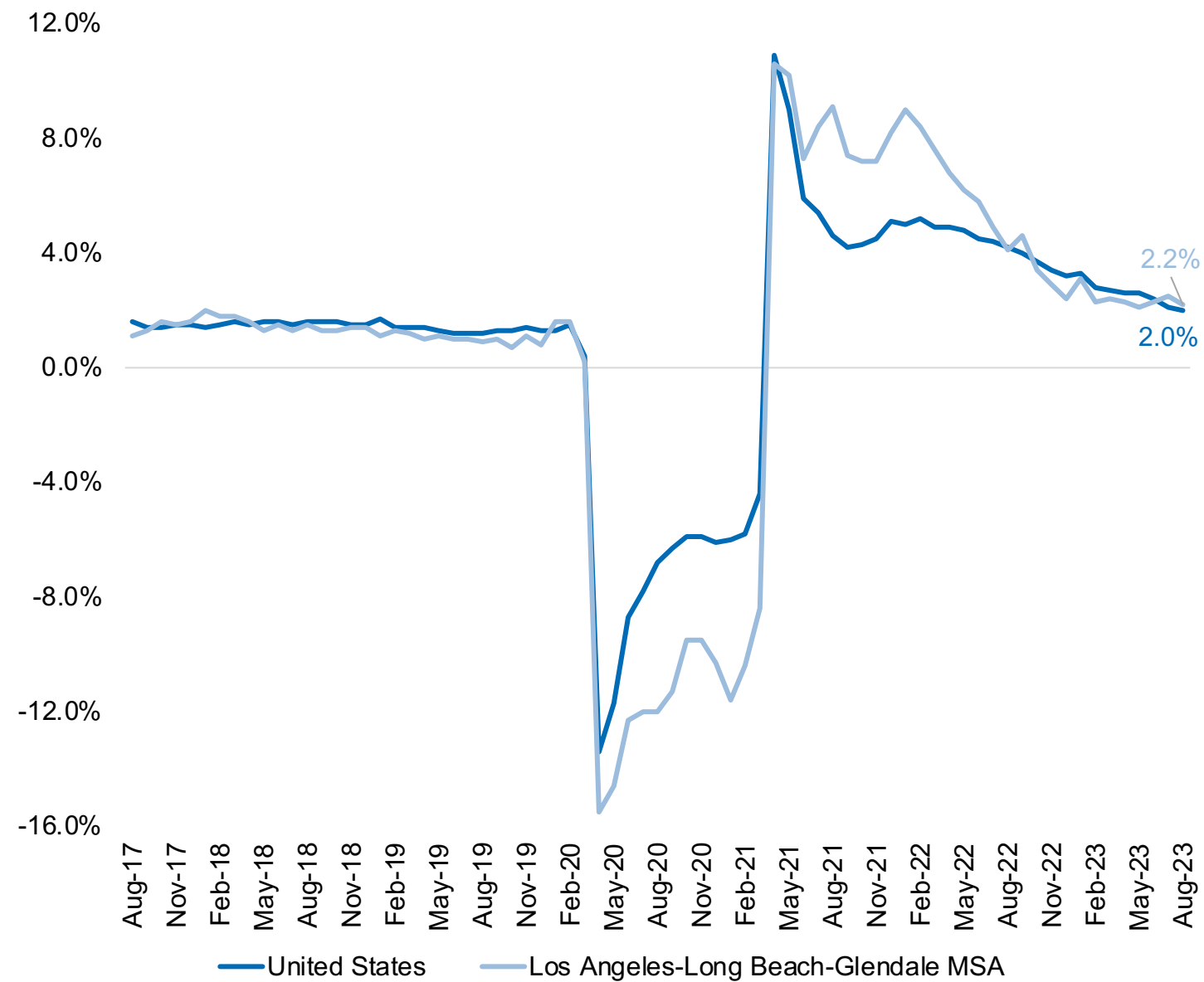
“Noticeably Slowing” Best Describes the Local Labor Market

Local unemployment is up, while 12-month job growth has been decelerating since late 2022. The Fed’s target policy interest rate is currently 5.25% to 5.5%, the highest it’s been in 22 years. Elevated interest rates affect companies’ bottom lines and will likely lead to job cuts, especially in higher-paying industries.

Unemployment Rate, Seasonally Adjusted



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

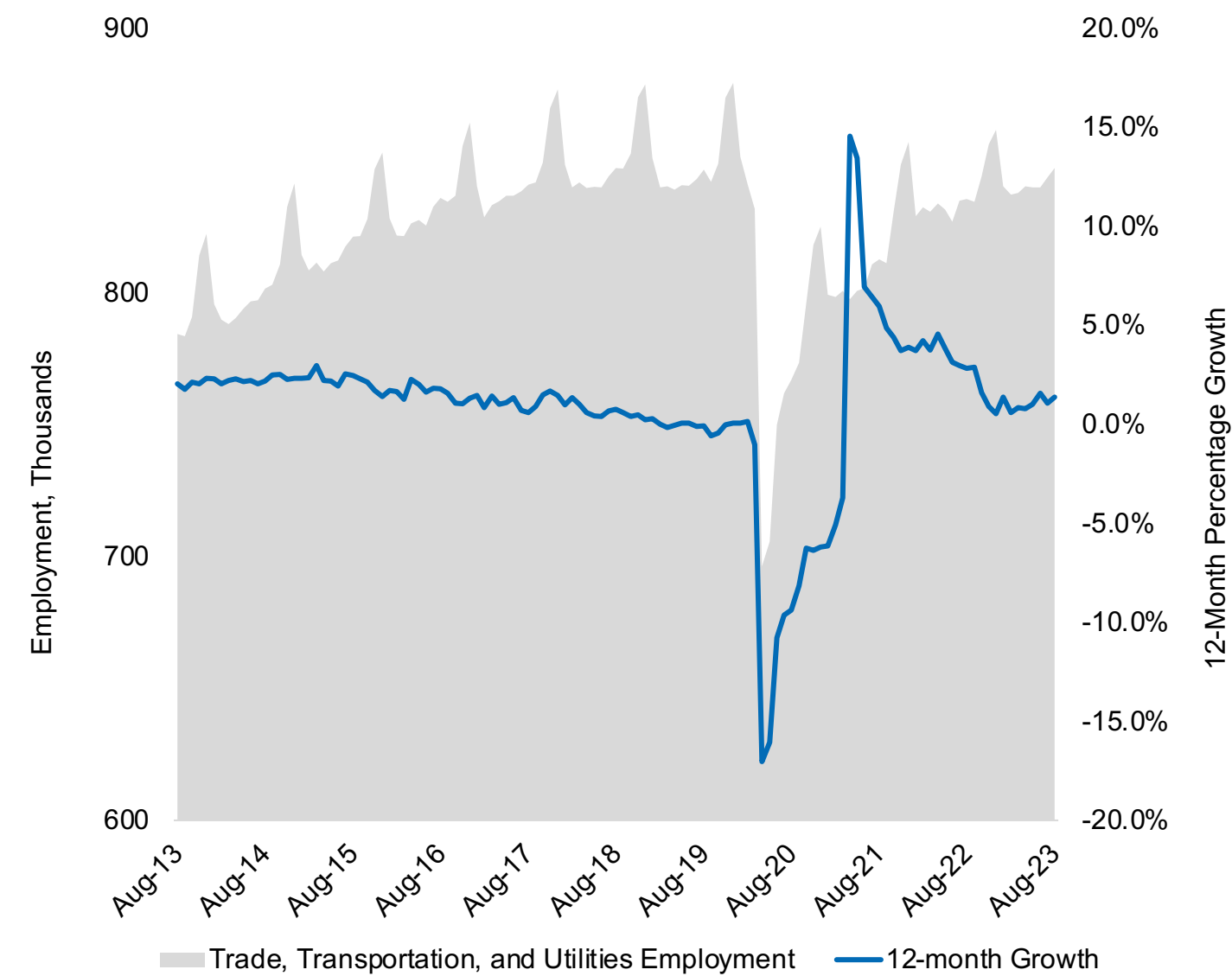


Source: U.S. Bureau of Labor Statistics, Los Angeles-Long Beach-Glendale MSA

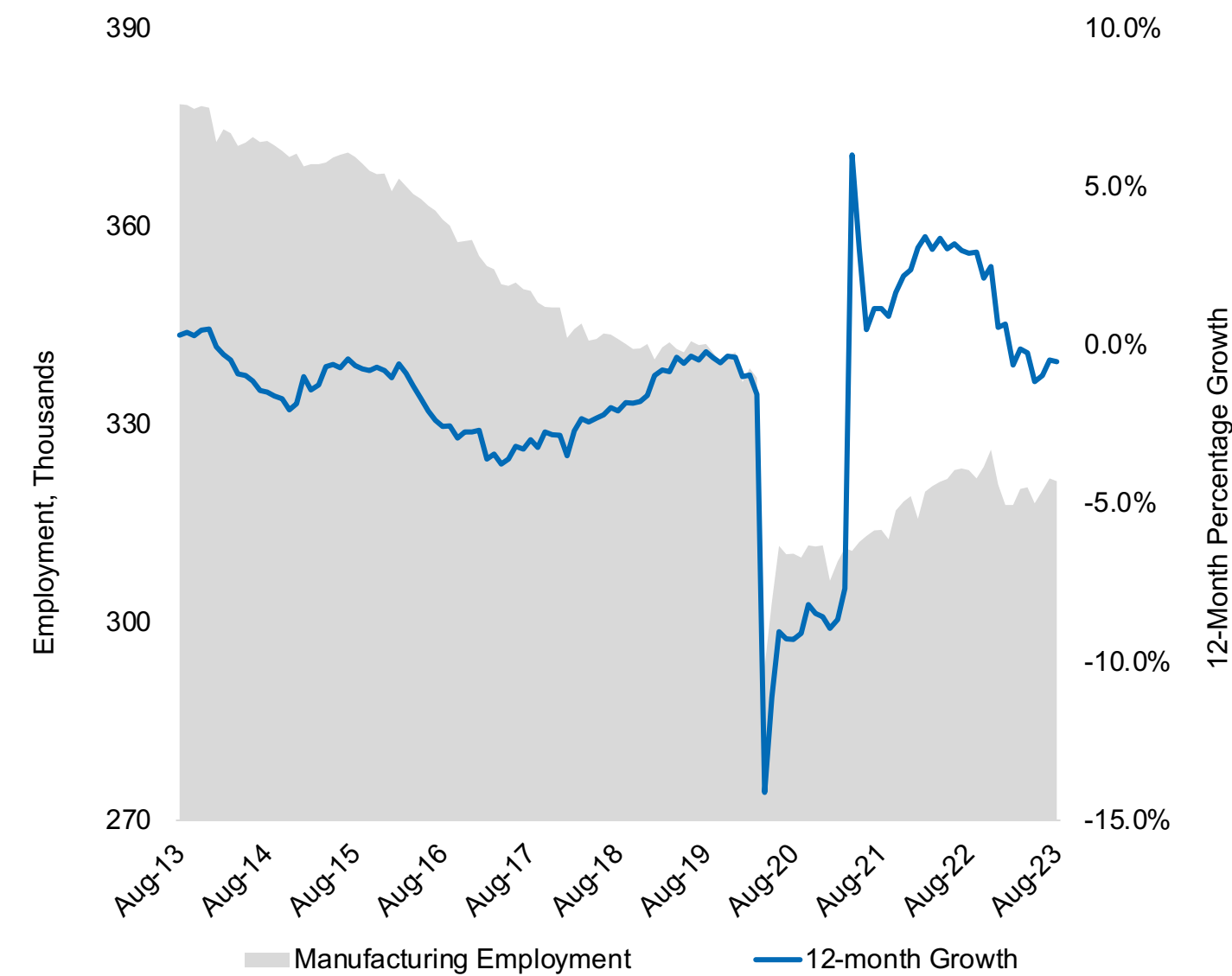
Industrial Employment Will Fluctuate over the Coming Months

Current trade/transportation/utilities employment is 1.4% higher than it was 12 months ago. Growth could turn to losses if U.S. retail sales dip in the coming months and distributors continue to shed excess space. Manufacturing remains challenged, 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



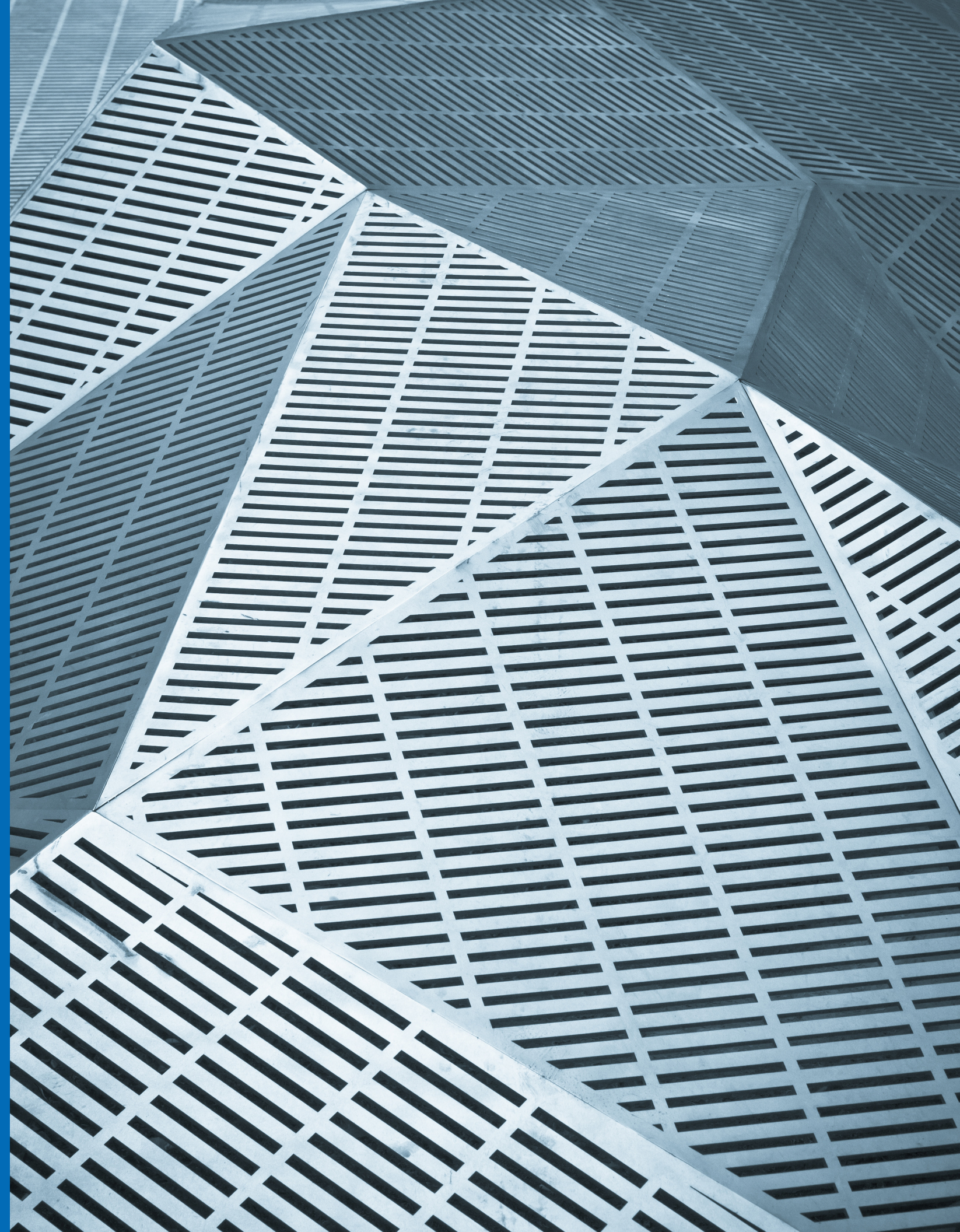
Manufacturing Employment and 12-Month Growth Rate



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

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Leasing Market Fundamentals



Unprecedented Rent Growth Occurred from Early 2021 into the Second Half of 2022

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Average Weighted Lease Terms Are Declining

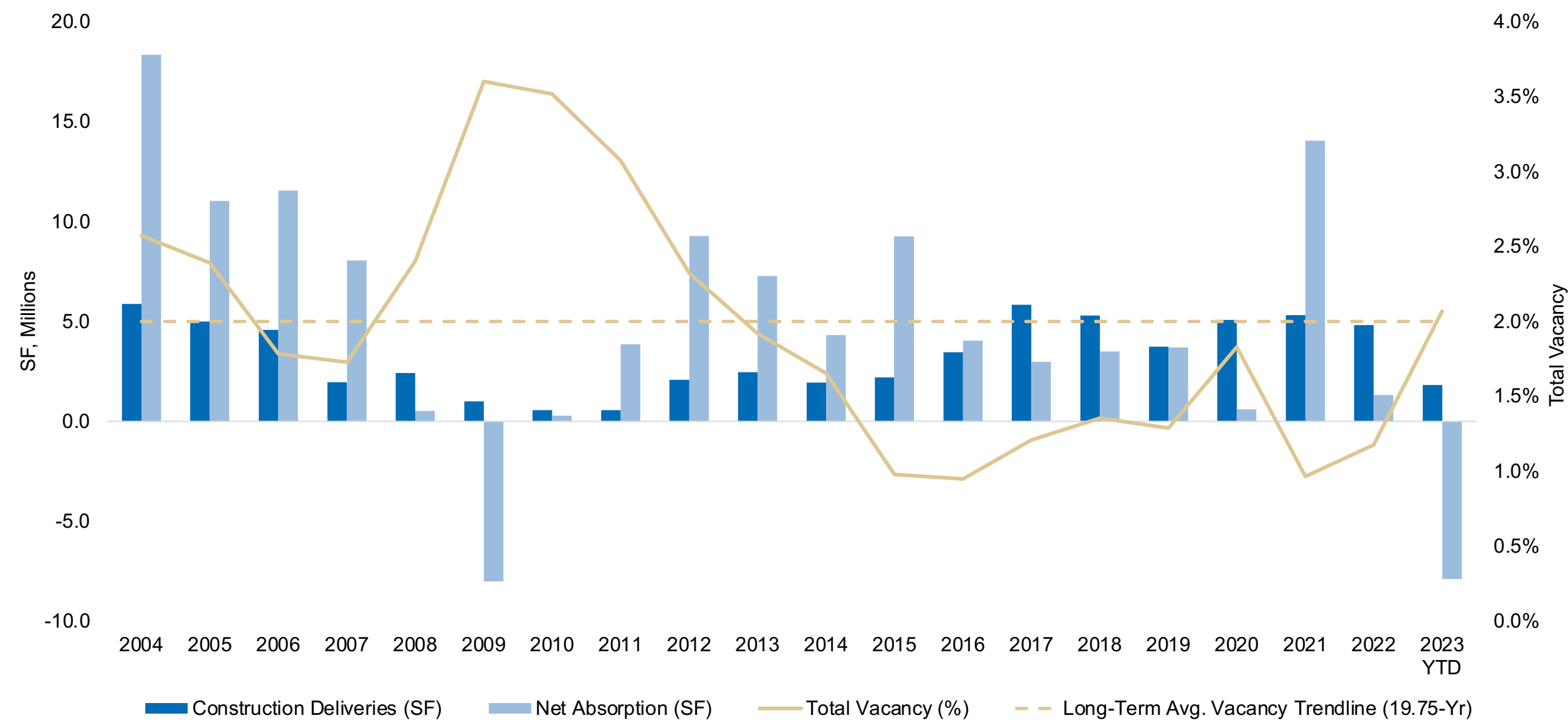


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Current Vacancy Is Higher than Its Long-Term Average

This is largely from net absorption losses over the last five quarters. For the third quarter of 2023, specifically, 3.2 MSF in net occupancy losses were recorded, driven by move-outs from Epson Robots (338,932 SF), Syncreon (315,150 SF), DirectBuy Home Improvements (244,177 SF) and a bevy of smaller tenants.

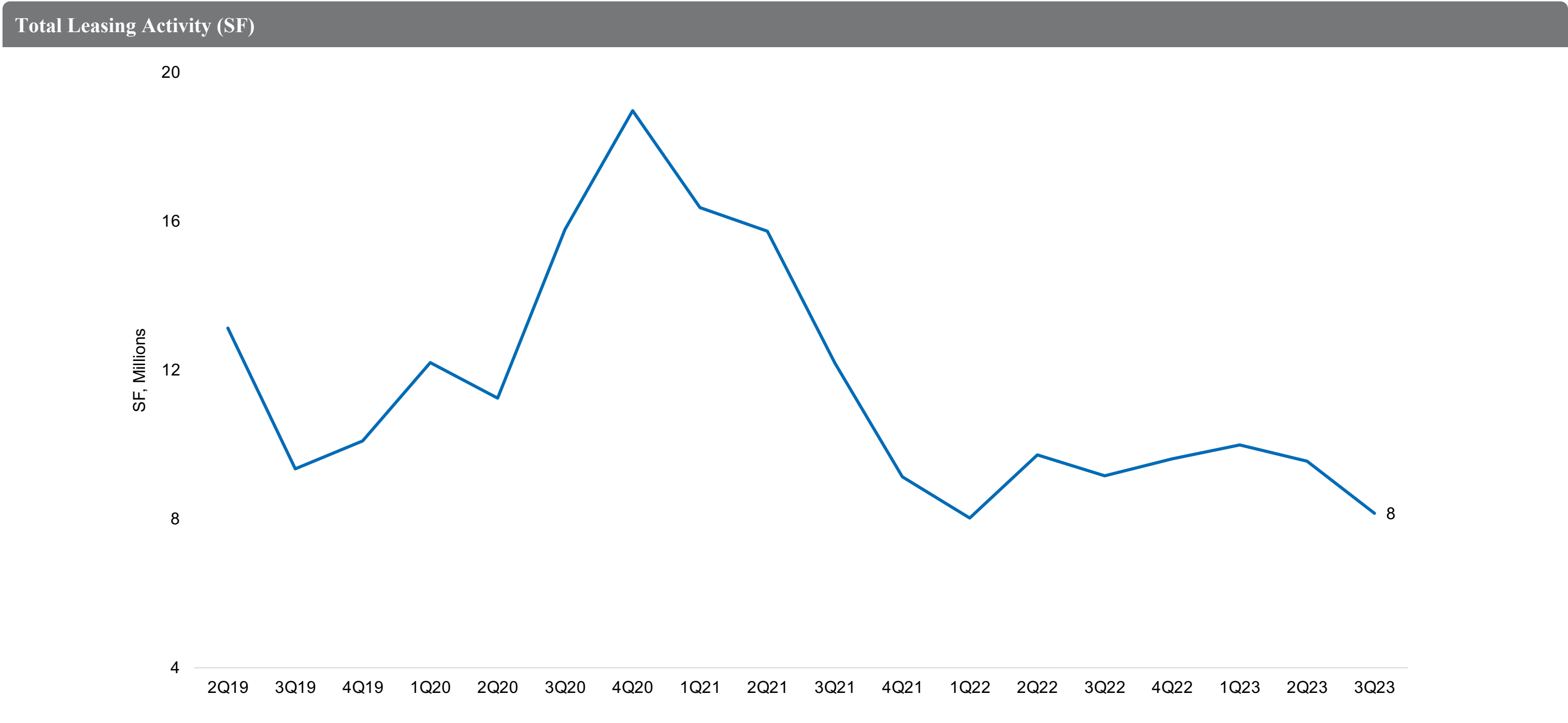
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Quarterly Leasing Volume Roughly in Line with the Past Two Years

8.0 MSF in the third quarter of 2023 is only slightly lower than the average volume over the past two years. The decline in volume relative to the second half of 2020 into the first half of 2021 is a combination of low vacancy and the recent cooling of overheated pandemic-era tenant demand.

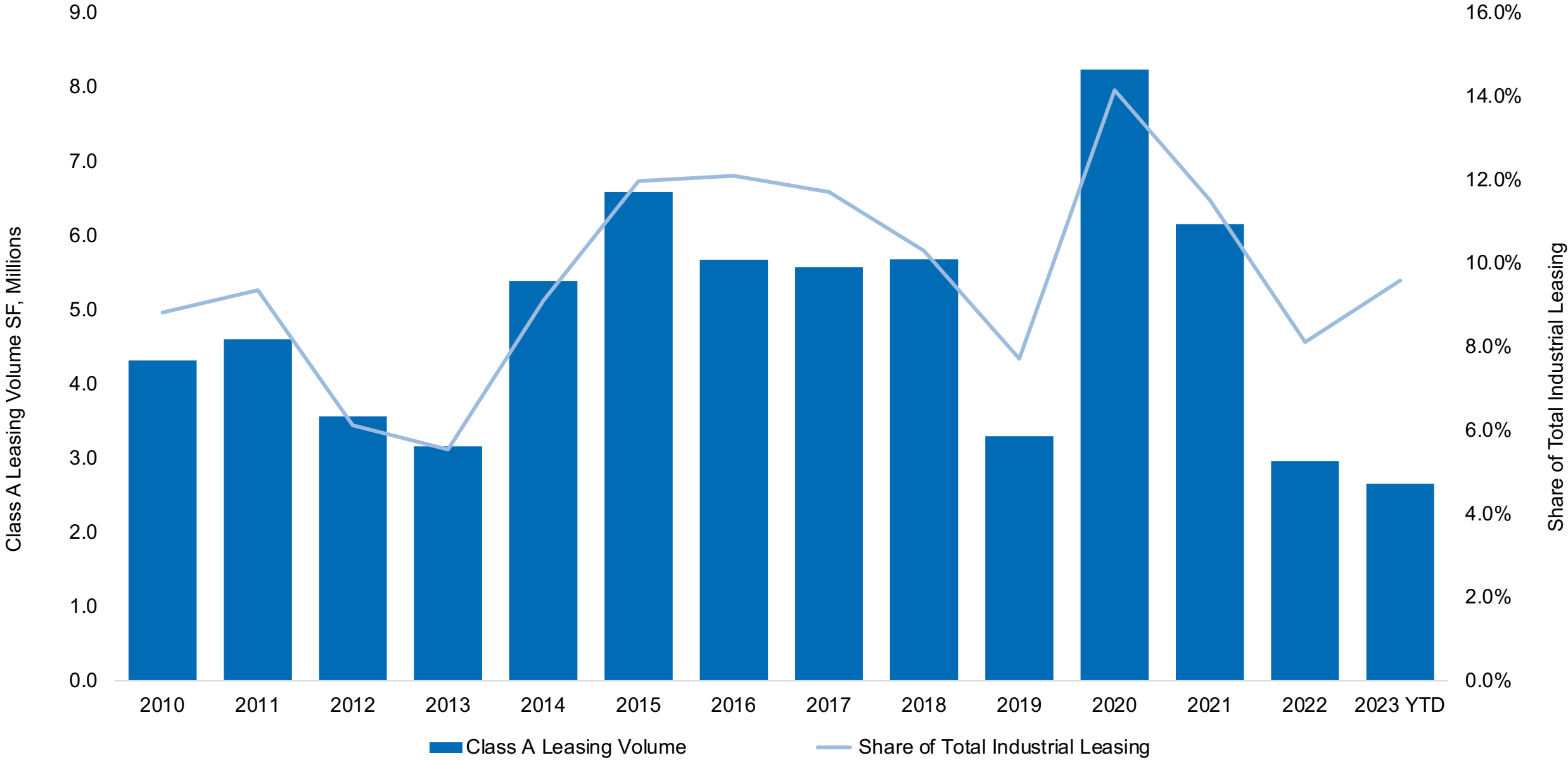


Source: Newmark Research, CoStar

Class A Warehouse Leasing Cools; Leasing Share Aligns with Historical Norm

Class A warehouse leasing activity comprised 9.6% of total leasing activity in the first three quarters of 2023, on par with the 13.75-year average of 9.7%. 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

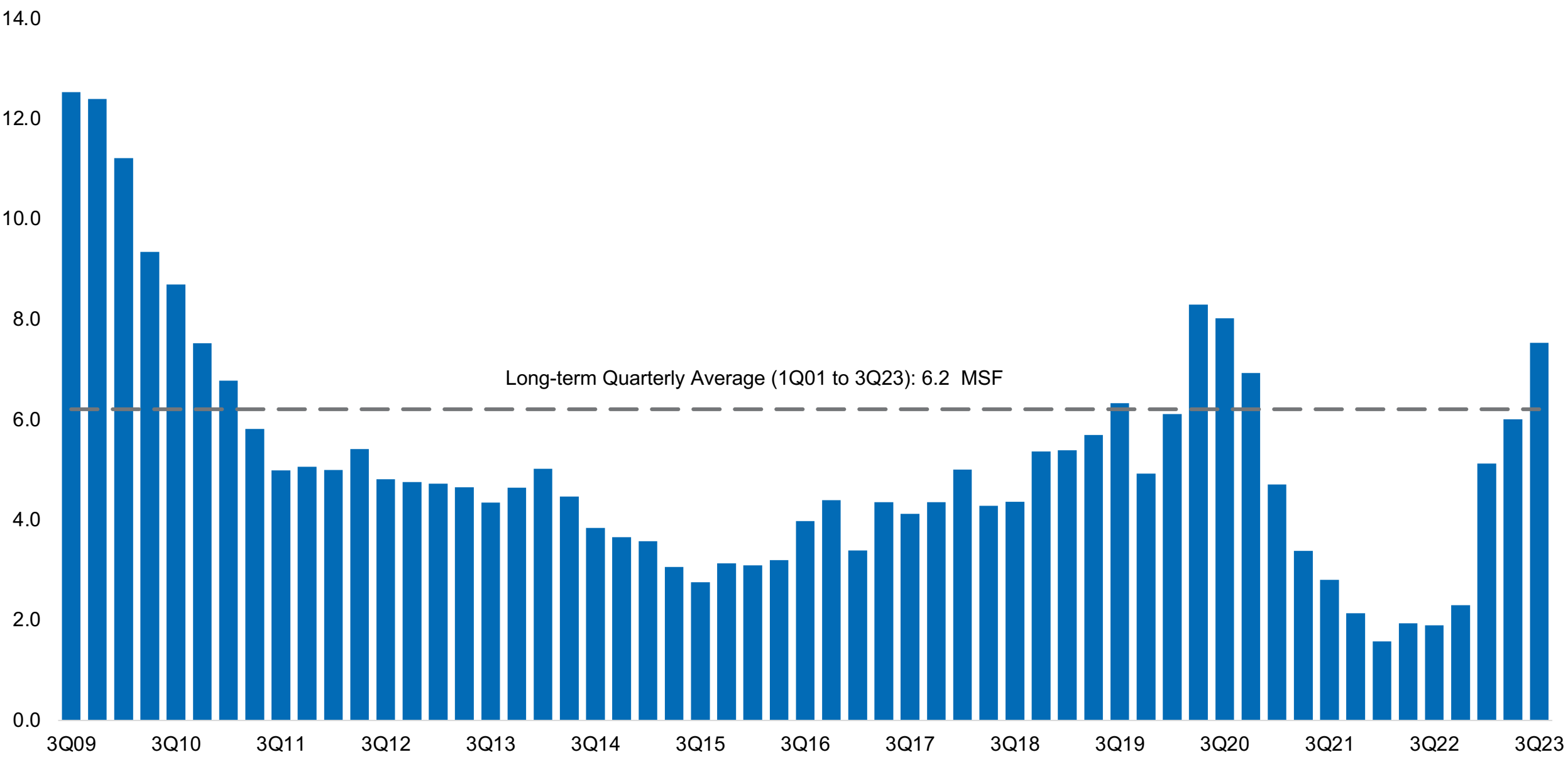


Source: Newmark Research, CoStar
Note: Class A is defined as 100,000+ SF warehouse/distribution facilities constructed since 2000 with a 30'+ minimum interior ceiling height.

Sublet Availability Exceeds Long-Term Quarterly Average

Sublease availability rose to a three-year high of 7.5 MSF after increasing 25.4% over the preceding quarter. New listings from tenants at Rancho Pacifica Industrial Park (244,177 SF in South Bay) and 16501-16509 Trojan Way (180,969 SF in Mid-Counties) contributed to this increase.

Available Industrial Sublease Volume (MSF)



Source: Newmark Research

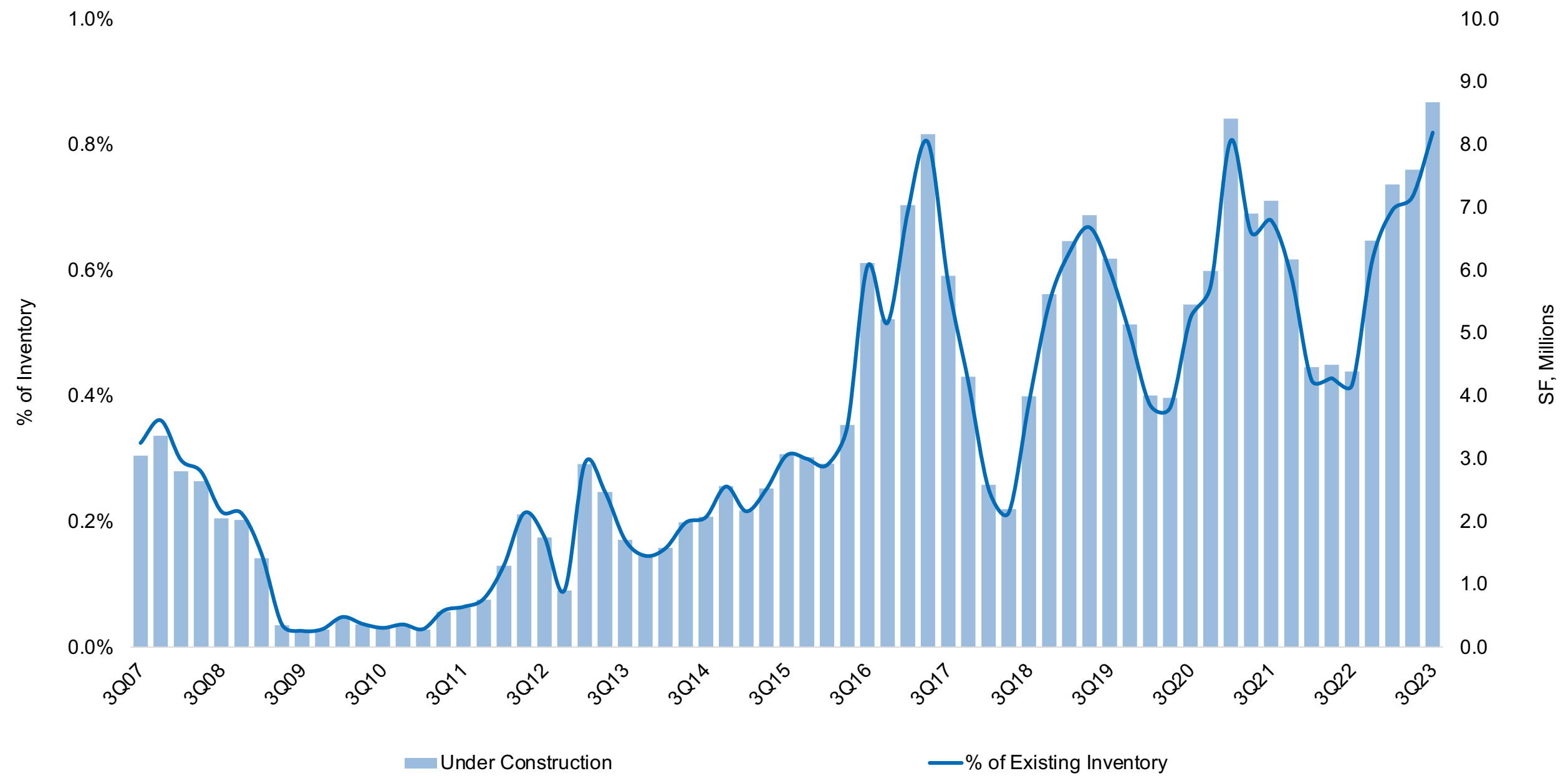
71.3% of Available Sublease Space in the Region is Based in the Infill Markets

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The Construction Pipeline Hits a Peak; Deliveries Set to Contribute to Vacancy Hike

Underway construction totals 8.7 MSF, of which 24.9% is pre-leased. Market vacancy will further increase if this average does not improve.

Industrial Under Construction and % of Existing Inventory



Source: Newmark Research

Most Under-Construction Properties are Sub-150,000 SF



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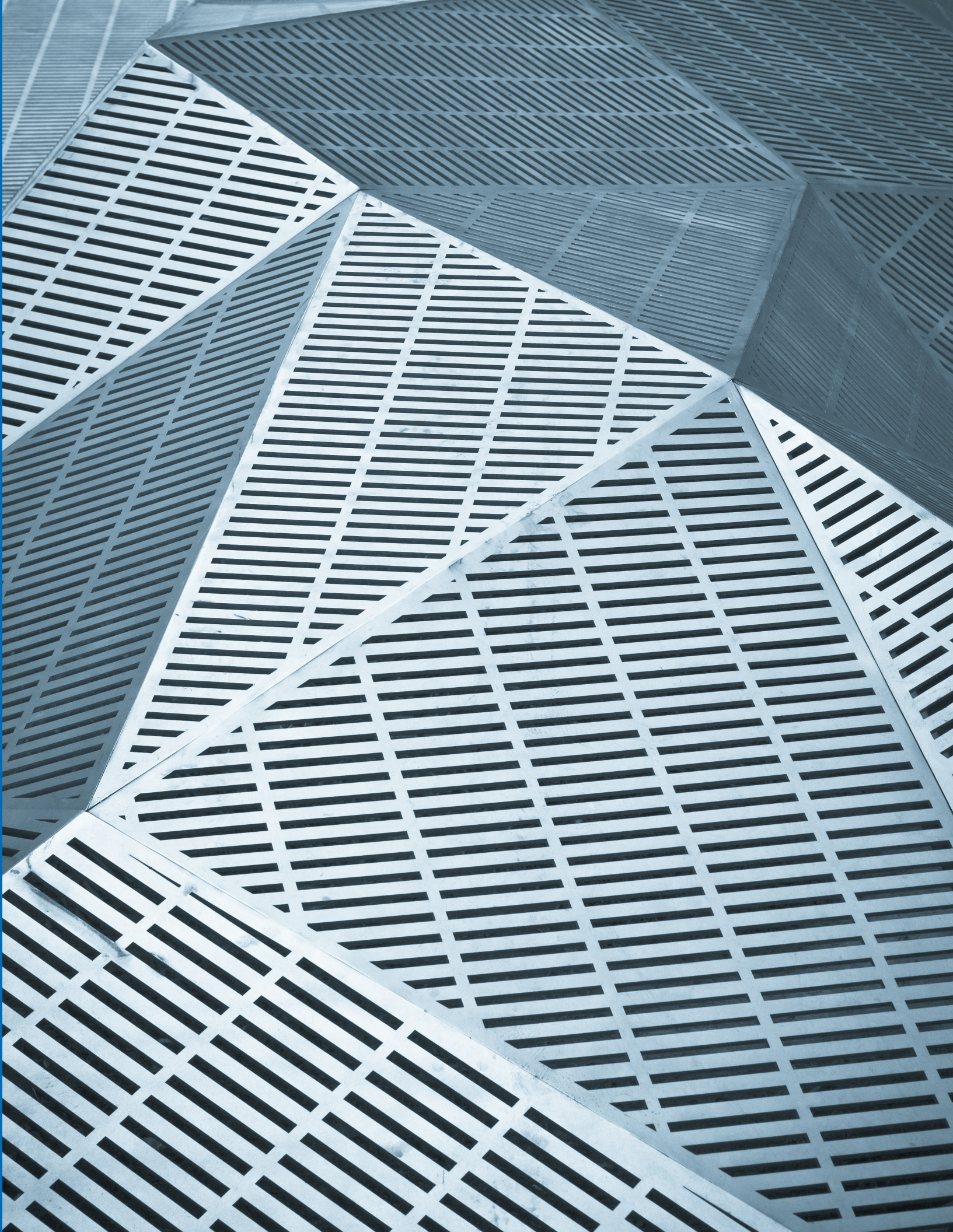
Notable 3Q23 Lease Transactions

Of the 27 known leases in the third quarter of 2023 that exceeded 100,000 SF, 14 were new leases, three were subleases and 10 were renewals/extensions.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
National Road Logistics	1452 West Knox Street	South Bay	Direct Lease	442,550
Tenant occupied space prior to end of third quarter. Lease term expires in 1Q29.				
OnTrac	5959 Randolph Street	Central	Lease Renewal	400,169
Tenant has occupied entire property following a lease expansion in 2012. The current lease expires in mid-2028.				
Footlocker	3900 Arden Dr	East (San Gabriel)	Pre-lease	360,992
Tenant will occupy entire property when it delivers in 1Q24. Lease term expires in 2Q31.				
Midas Express Inc.	4889 4 th Street Bldg #21	East (San Gabriel)	Direct Lease	312,000
Tenant moved into vacant property prior to end of third quarter. Tenant occupies entire space. The lease expires in the second half of 2028.				
Midas Express, Inc.	11852-11854 South Alameda Street	Central	Lease Renewal	310,628
Tenant has occupied entire property since 2011. The lease expires in the second half of 2028.				

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Sales Activity

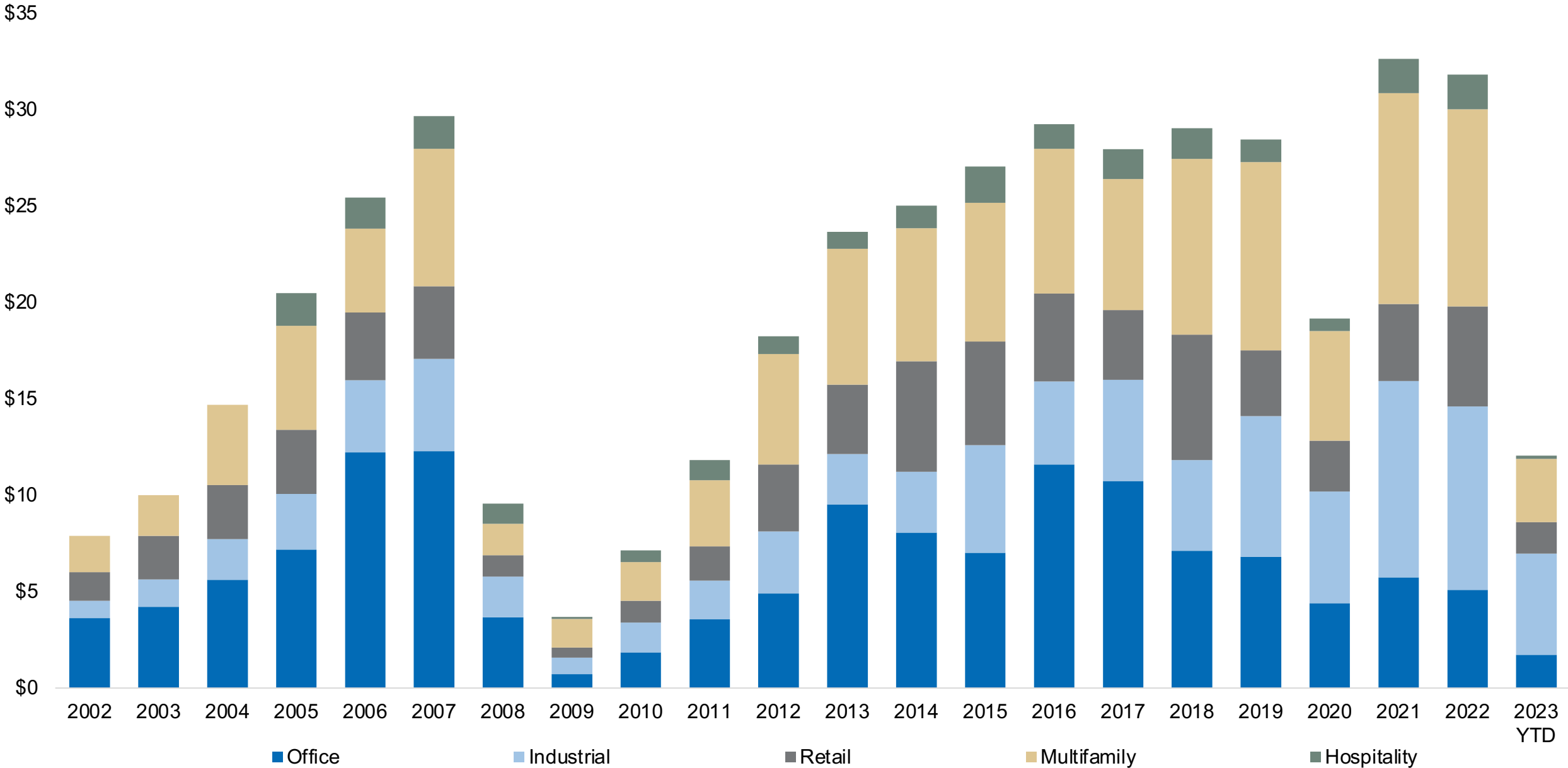


Industrial Comprised 29.9% of Total Sales Volume in 2022

This figure vastly exceeds the 21-year average (2002 to 2022) of 18.9%. 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 sales volume is currently leading other commercial property segments by a wide margin year-to-date.

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

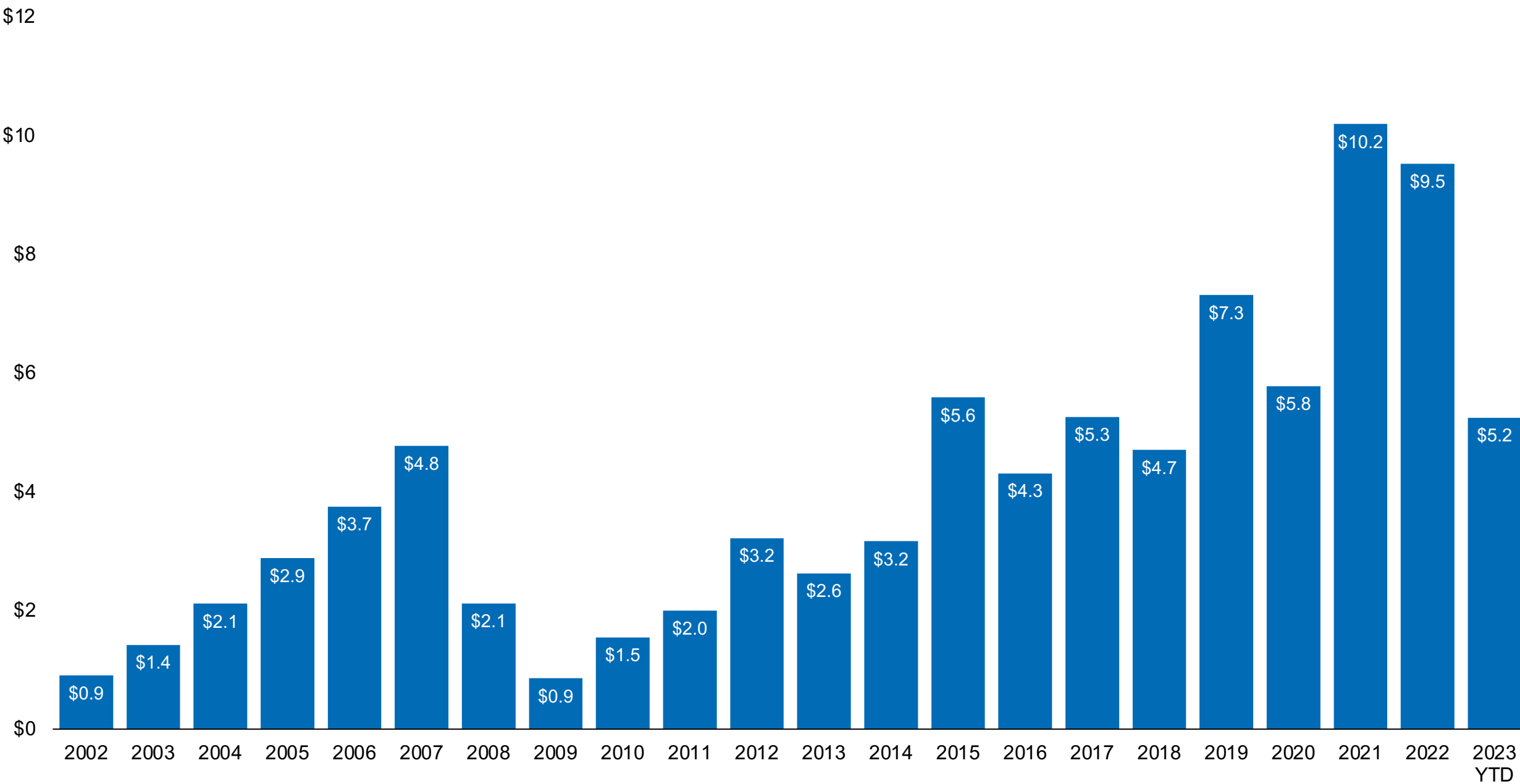


Source: MSCI Real Capital Analytics, Newmark Research
Note: Preliminary data is cited for the third quarter of 2023

Industrial Sales Volume: Up Close

Industrial sales volume totaled \$5.2 billion in the first nine months of 2023, and will fall short of 2022’s total when the year is done. The higher cost of capital following multiple interest rate hikes is crimping momentum, in addition to cooling, but still healthy leasing fundamentals. Both will add downward pressure to pricing.

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



Source: Newmark Research, MSCI Real Capital Analytics
Note: Preliminary data is cited for the third quarter of 2023

Pricing Has Plateaued, While Cap Rates Are Slowly Rising



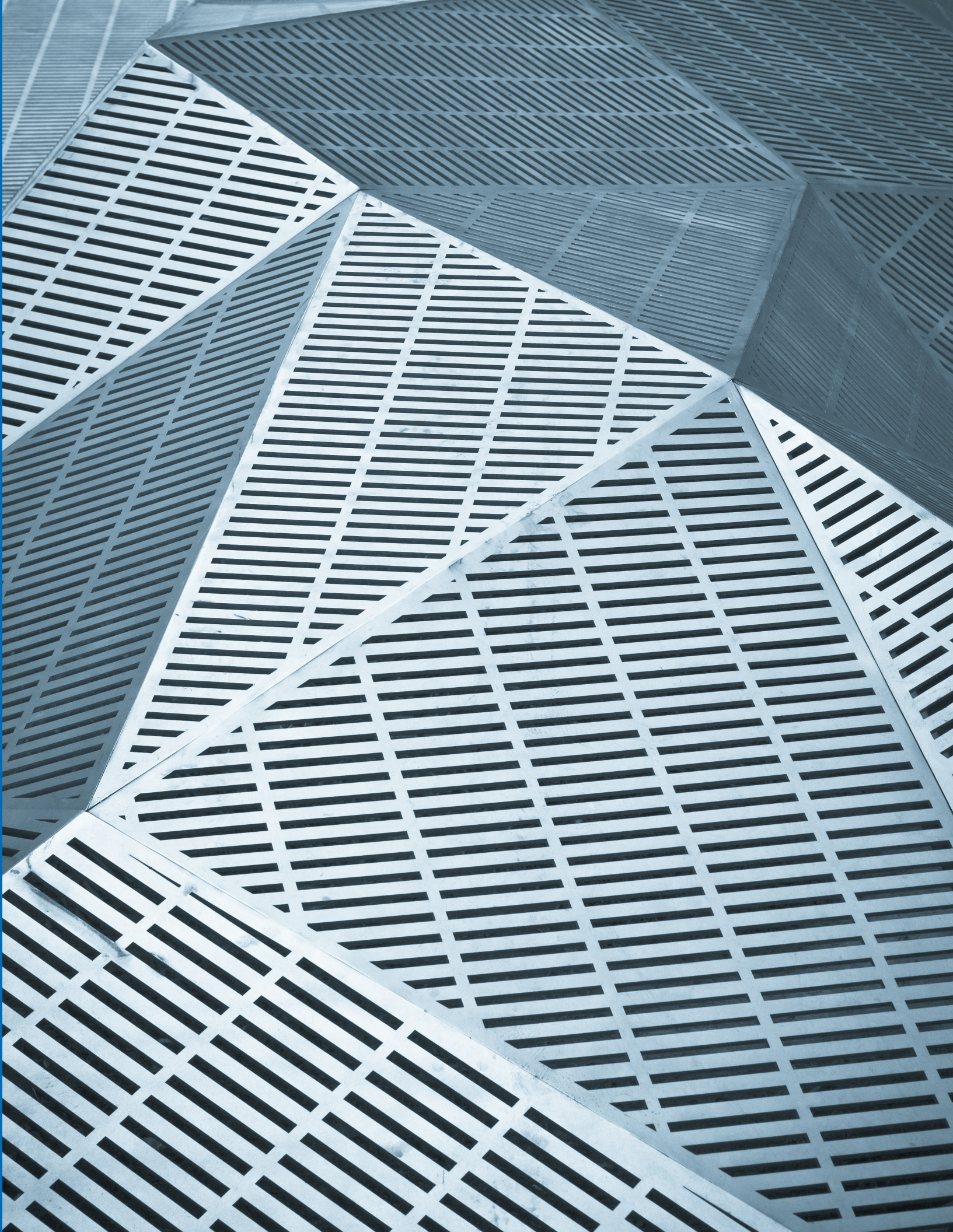
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Private, Cross-Border and REIT/Listed Buyers Active



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Appendix



Los Angeles Submarket Map and High-Level Statistics | 3Q23



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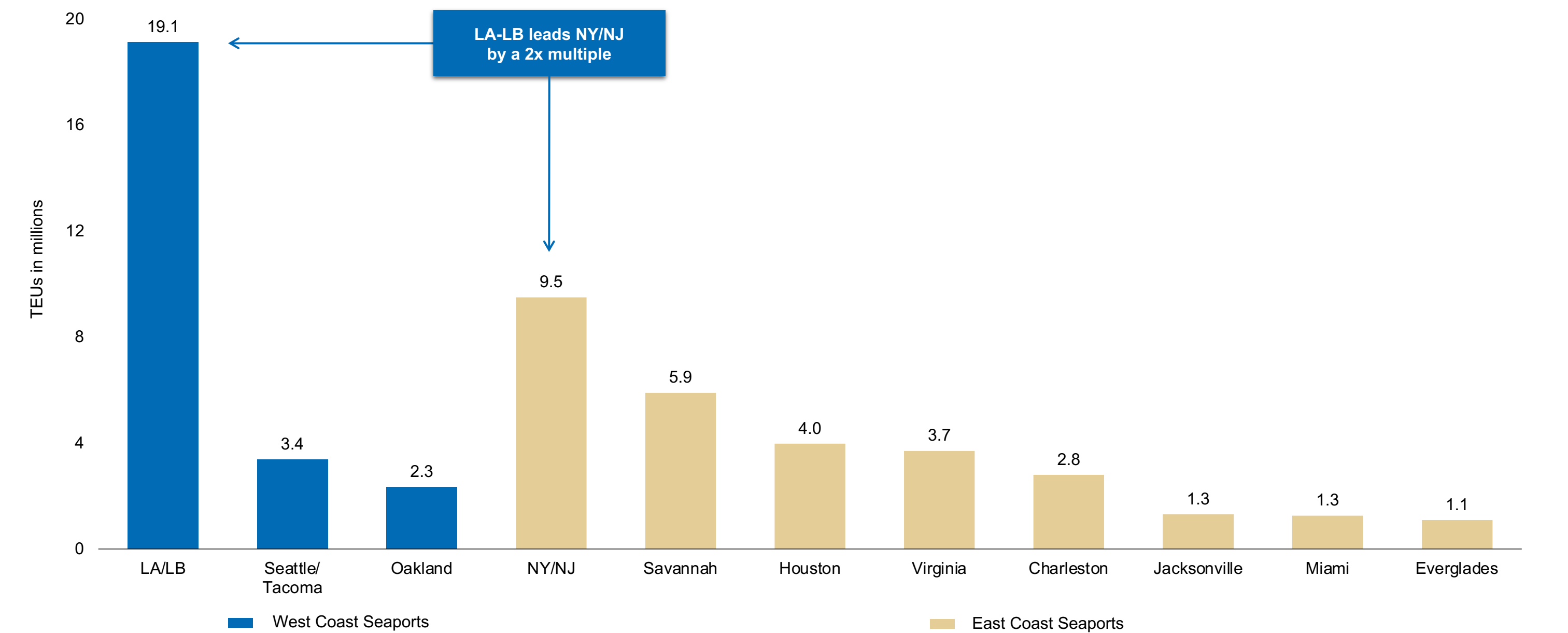
WAIRE: Program Summary and Implications for Industrial

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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
Note: Data is through February 2023 and is not adjusted for seasonality. Shaded areas indicate U.S. recessions

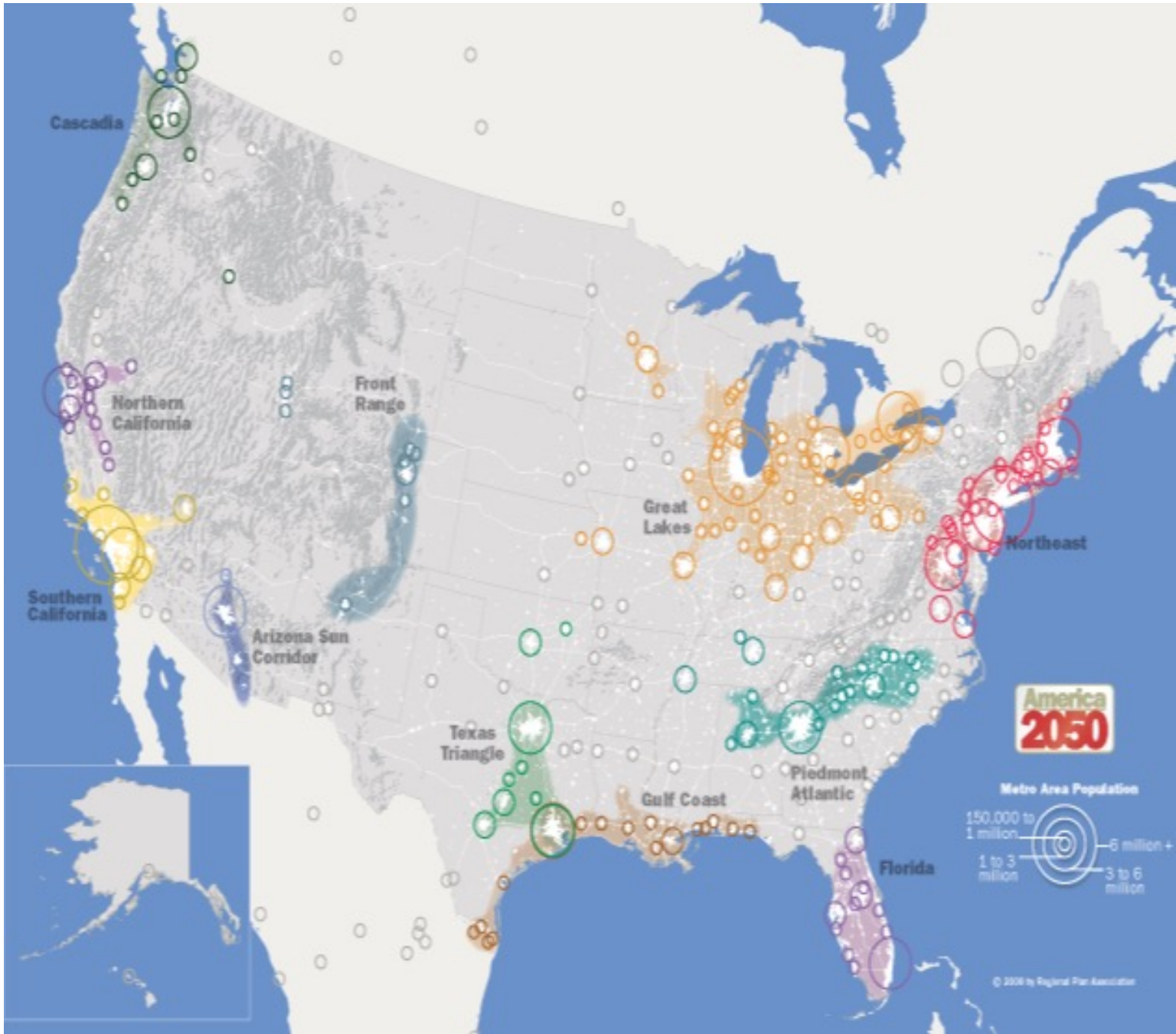
Why Los Angeles-Long Beach?



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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



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Transport Costs per TEU Container

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