

Los Angeles

Amid economic headwinds and softening in the second half of 2022, large leasing remains active

- Q4 saw large block move-outs overpowering move-ins, leading to negative 2.1 million s.f. of negative absorption.
- Cooling of demand caused asking rent growth to decline for the first time in over 16 quarters but still up 42% year-over-year.
- Although fundamentals softened, large block leasing and new construction remained active during Q4.
- Despite macro-economic factors and a decrease in cargo traffic through the SoCal ports, rents and vacancy remain stable

During Q4, the Los Angeles industrial market saw the cumulative effects of macro-economic challenges that had built throughout 2022. Large block tenant move-outs 100,000 s.f. and greater saw six tenants vacating a total of 1.4 million s.f., led by two consumer product manufacturers. As a result, the market posted 2.1 million s.f. of negative net absorption for all size segments over the quarter, causing vacancy to rise 30 bps since Q3. Due to three consecutive quarters of flat-to-negative absorption and a rise in 2nd generation space on the market, average rents fell by 3% from Q3, the first decrease since Q2 2018. Following 2021's record year of net absorption, 2022 ended relatively flat but asking rates still rose 42% year-over-year.

Despite move-outs, ten leases over 100,000 s.f. were signed during Q4, the bulk of which were represented by high-profile tenants. Ryder Logistics signed a new lease for 1 million s.f. at Grand Crossing South in the City of Industry, a new development currently under construction and slated for completion in mid-2023. GXO Logistics renewed 411,000 s.f. at the SFS Logistics Center in Santa Fe Springs and SEKO Logistics inked a new lease for 198,000 s.f. in Carson.

The current construction pipeline grew by 1.6 million s.f. in Q4, a welcome sign for large users seeking accommodations for modern logistics needs. The San Gabriel Valley and South Bay submarkets are now home to 80% of the active development, where there are more options to build at scale. Demand for space in these submarkets remains high because of proximity to ports and entry into the Inland Empire, with pre-leasing rates at 53%. The Mid-Counties submarket has the tightest vacancy and minimal construction pipeline, causing rental rates to hold steady, seeing a 56% year-over-year increase.

Outlook

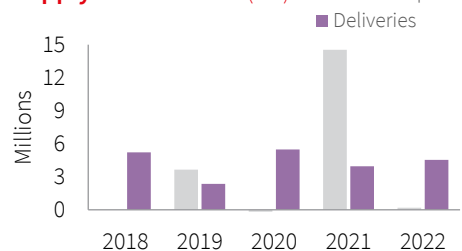
Although sentiment fell in the second half of 2022, owing to economic headwinds and a decrease in port activity, industrial forecasts remain optimistic. Industrial sector jobs lost due to the pandemic have recovered to nearly 99% as of Q4 2022, growing 3% year-over-year and providing continued confidence in the strength of Los Angeles' market.

Fundamentals

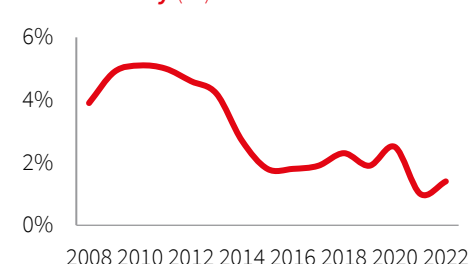
Forecast

| | |
|----------------------|------------------|
| YTD net absorption | 189,931 s.f. ▲ |
| Under construction | 6,834,284 s.f. ► |
| Total vacancy | 1.4% ▲ |
| Sublease vacancy | 907,924 s.f. ▲ |
| Direct asking rent | \$1.74 p.s.f. ► |
| Sublease asking rent | \$1.49 p.s.f. ▼ |
| Concessions | Stable ► |

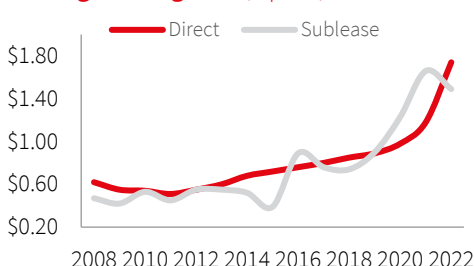
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent (\$ p.s.f.)



Industrial Statistics

| | Inventory (s.f.) | Quarterly total net absorption (s.f.) | YTD total net absorption (s.f.) | YTD total net absorption (% of stock) | Total vacancy (%) | Total availability (%) | Average total asking rent (\$ p.s.f.) | Quarterly Completions (s.f.) | YTD Completions (s.f.) | Under construction (s.f.) |
|--------------------------------|------------------|---------------------------------------|---------------------------------|---------------------------------------|-------------------|------------------------|---------------------------------------|------------------------------|------------------------|---------------------------|
| Los Angeles total | | | | | | | | | | |
| Warehouse & Distribution | 593,867,120 | -1,706,062 | 615,881 | 0.1% | 1.5% | 4.3% | \$1.77 | 559,994 | 4,489,779 | 6,834,284 |
| Manufacturing | 184,567,501 | -441,850 | -425,950 | -0.2% | 1.2% | 2.8% | \$1.53 | 0 | 45,225 | 0 |
| Overall Total | 778,434,621 | -2,147,912 | 189,931 | 0.0% | 1.4% | 3.9% | \$1.73 | 559,994 | 4,535,004 | 6,834,284 |
| Los Angeles Central | | | | | | | | | | |
| Warehouse & Distribution | 153,916,466 | -206,641 | -519,972 | -0.3% | 2.0% | 4.5% | \$1.58 | 515,832 | 685,730 | 288,663 |
| Manufacturing | 59,384,705 | -220,965 | -254,563 | -0.4% | 1.4% | 2.9% | \$1.29 | 0 | 45,225 | 0 |
| Overall Total | 213,301,171 | -427,606 | -774,535 | -0.4% | 1.8% | 4.0% | \$1.53 | 515,832 | 730,955 | 288,663 |
| Los Angeles San Gabriel Valley | | | | | | | | | | |
| Warehouse & Distribution | 126,778,564 | -703,295 | 244,575 | 0.2% | 1.6% | 5.4% | \$1.75 | 0 | 1,415,904 | 3,073,431 |
| Manufacturing | 27,428,180 | -46,068 | -6,199 | 0.0% | 0.7% | 2.0% | \$1.64 | 0 | 0 | 0 |
| Overall Total | 154,206,744 | -749,363 | 238,376 | 0.2% | 1.4% | 4.8% | \$1.74 | 0 | 1,415,904 | 3,073,431 |
| Los Angeles South Bay | | | | | | | | | | |
| Warehouse & Distribution | 151,176,568 | -473,246 | -198,415 | -0.1% | 1.3% | 4.5% | \$1.96 | 0 | 1,214,475 | 2,321,728 |
| Manufacturing | 45,858,580 | -92,988 | -202,368 | -0.4% | 1.8% | 3.6% | \$1.64 | 0 | 0 | 0 |
| Overall Total | 197,035,148 | -566,234 | -400,783 | -0.2% | 1.4% | 4.3% | \$1.91 | 0 | 1,214,475 | 2,321,728 |
| Greater San Fernando Valley | | | | | | | | | | |
| Warehouse & Distribution | 94,941,436 | -165,266 | 867,148 | 0.9% | 1.2% | 2.5% | \$1.56 | 0 | 754,630 | 455,800 |
| Manufacturing | 29,588,571 | -62,836 | 16,124 | 0.1% | 0.8% | 2.3% | \$1.60 | 0 | 0 | 0 |
| Overall Total | 124,530,007 | -228,102 | 883,272 | 0.7% | 1.1% | 2.5% | \$1.57 | 0 | 754,630 | 455,800 |
| Los Angeles Mid-Counties | | | | | | | | | | |
| Warehouse & Distribution | 67,054,086 | -157,614 | 222,545 | 0.3% | 0.9% | 3.4% | \$1.77 | 44,162 | 419,040 | 694,662 |
| Manufacturing | 22,307,465 | -18,993 | 21,056 | 0.1% | 0.4% | 2.7% | \$1.64 | 0 | 0 | 0 |
| Overall Total | 89,361,551 | -176,607 | 243,601 | 0.3% | 0.8% | 3.2% | \$1.75 | 44,162 | 419,040 | 694,662 |