

» Asking Rents Peak At Highest Point Ever

Key Takeaways

- › Asking rents have increased \$0.01 per square foot (PSF) triple net (NNN) to \$0.83. This is a record rate for the Greater Los Angeles Basin.
- › Vacancy rates have declined 20 basis points to 2.2%, which is near an all-time low for the region.
- › Construction completions were 8,751,800 square feet this quarter and are likely to decline in future quarters.
- › The construction pipeline has been reduced to 19,494,800 square feet.
- › Net absorption recorded positive 10,282,200 square feet, driven mostly by strong gains in the Inland Empire.

Los Angeles Basin Industrial Market

The Los Angeles Basin industrial market is the largest in the United States, totaling more than 1.6 billion square feet. It also has some of the highest asking rental rates, as well as one of the lowest vacancy rates of any market in the nation.

The current crisis is set to provide the worst shock the modern global supply chain has ever seen. This will likely have significant long-term changes such as reducing an over-reliance on just-in-time production in favor of building a safety stock of goods.

This crisis has laid bare the risks of building such a complex system, and the long-term impacts may be drastic changes to a supply chain model that has dominated global commerce for the past three decades.

Market Indicators | Relative to Prior Period

| | Q1 2020 | Forecast |
|----------------|---------|----------|
| Vacancy | ↓ | → |
| Net Absorption | ↑ | ↓ |
| Construction | ↓ | ↓ |
| Rental Rate | ↑ | → |

Summary Statistics | GLA, Q1 2020

| | |
|-----------------------------------|---------------|
| Vacancy Rate | 2.2% |
| Change from Q4 '19 (Basis Points) | -20 BPS |
| Net Absorption | 10,282,200 SF |
| Construction Completions | 8,751,800 SF |
| Under Construction | 19,494,800 SF |

Asking Rents | GLA, Q1 2020

| | GLA Industrial Market |
|---------------------|-----------------------|
| Average Asking Rent | \$0.83 PSF NNN |
| Change from Q4 '19 | \$0.01 PSF NNN |
| Y.O.Y. Change (%) | +7.6% |

GLA Labor Force | GLA, Q1 2020

| | Construction | Manufacturing | Transportation, Trade & Utilities |
|--------------------------------|--------------|---------------|--------------------------------------|
| 12-mo Employment Growth (%) | 4.4% | -1.2% | +0.5% |
| 12-mo Actual Employment Change | +15,300 | -7,200 | +17,800 |

Central Los Angeles

Vacancy has been on an upward trend for the last four years, but this pace is expected to rise drastically in future quarters. Next quarter, the former Forever 21 space will be vacated, adding 1.5 million square feet of vacant space to the market raising the vacancy rate by 60 basis points.

Recent surges in asking rental rates may have finally met their match as newly available space is brought to the market in light of the current economic environment. Landlords will be competing with sub-lessors for tenants in the market and the more motivated party will get the deal done.

South Bay

This quarter all remaining industrial space that was under construction in the South Bay has been delivered, most of which was fully leased or sold prior to completion. This has added 603,000 square feet to the region's industrial base.

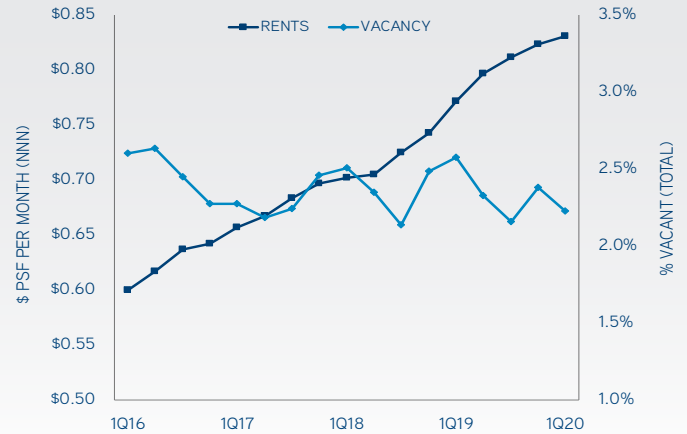
There have been significant short-term disruptions to the global supply chain caused by the current pandemic. Originally, supply disruptions by foreign manufacturing are now being followed by domestic disruptions as orders are being cut due to shriveling demand. Combined port activity was down significantly in March and is projected to remain below trend in future months.

San Fernando Valley & Ventura County

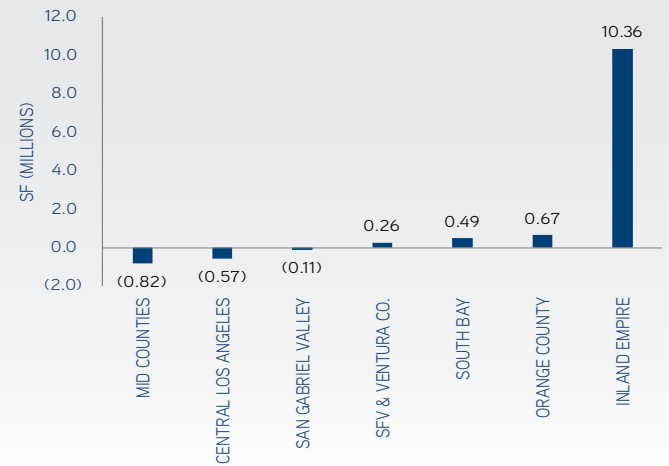
The San Fernando Valley industrial market had been riding high during the recent economic boom with increased construction, increased investment sales, rising rents and falling vacancy. That is set to change as vacancy is likely to rise in future quarters as tenants downsize or sublease space due to ongoing economic uncertainty. The San Fernando Valley has many tenants related to the entertainment industry, which is currently on an extended hiatus.

Short term, a recession is a certainty as the unemployment rate hits levels never seen before and economic activity is at a standstill. This crisis has come as a shock to under-capitalized firms and, much like the previous financial crisis of 2008, those that survive will emerge leaner and stronger.

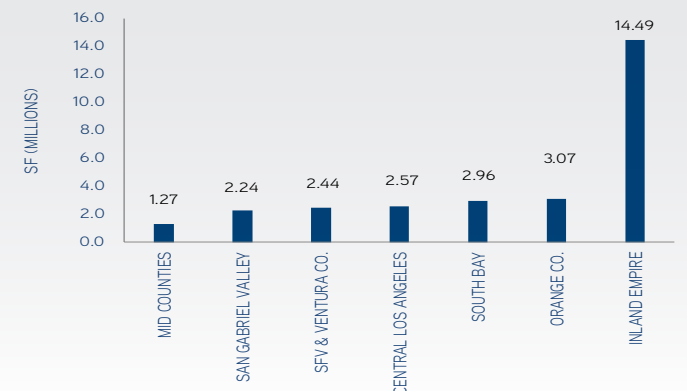
Historical Vacancy v. Rents | GLA Industrial Market Q1 '16-'20



Net Absorption by Submarket | GLA Industrial Market, Q1 2020



Sales & Leasing Activity by Submarket GLA Industrial Market Q1 2020



San Gabriel Valley

Future quarters may see an uptick in the vacancy rate as economic conditions remain murky. In addition, there remains 1,176,300 square feet currently under construction, which will add more vacant space once it is completed.

Market conditions are expected to soften as the global economy has entered into a pandemic-driven recession. This will likely put downward pressure on asking rates in the short term as landlords compete with motivated tenants looking to sublease excess space.

Mid-Counties

Construction activity remains an essential activity that can continue during the shelter-in-place order issued by local governments. Some delays are occurring due to a shortage of materials and equipment but mostly due to disruptions in the municipal permitting and inspection process.

Orange County

The Orange County industrial market continues to see positive absorption, recording 668,100 square feet in first quarter.

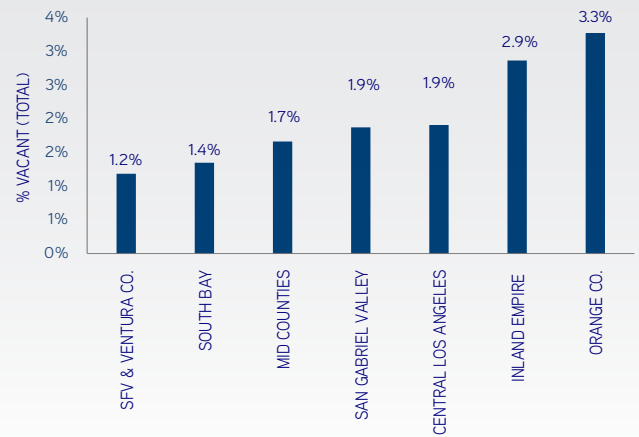
Average asking rates were flat at \$0.83 PSF NNN, the current high-water mark for rental rates in this region. Low vacancy rates and increased industrial demand has put continued upward pressure on rates.

Inland Empire

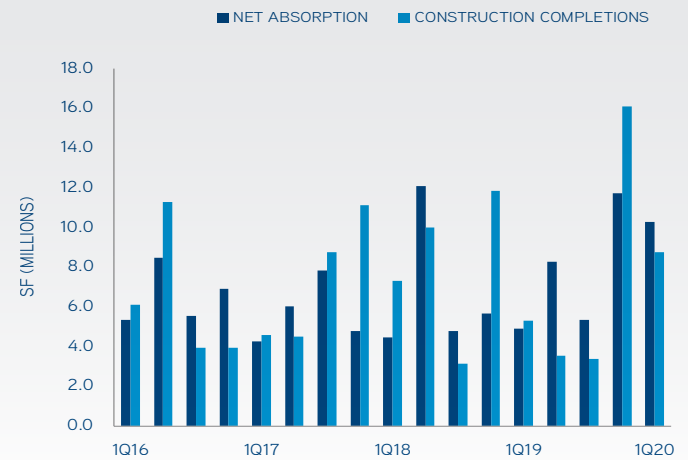
Industrial demand continues to be drawn from fast growing e-commerce tenants in the largest size buildings. Demand will likely remain high for these tenants as the ongoing crisis continues, but expansion options will likely be lower for traditional industrial users.

Development activity will likely decrease for the foreseeable future as the world economy enters into a pandemic-driven recession. This will put tremendous downward pressure on land sales prices over the next two or three years as speculative development is expected to decrease dramatically.

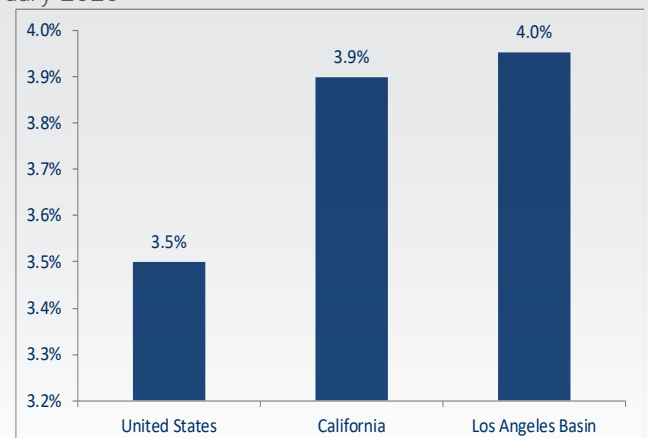
Vacancy by Submarket | GLA Industrial Market, Q1 2020



Historical Net Absorption & Construction Completions
GLA Industrial Market Q1 '16-'20



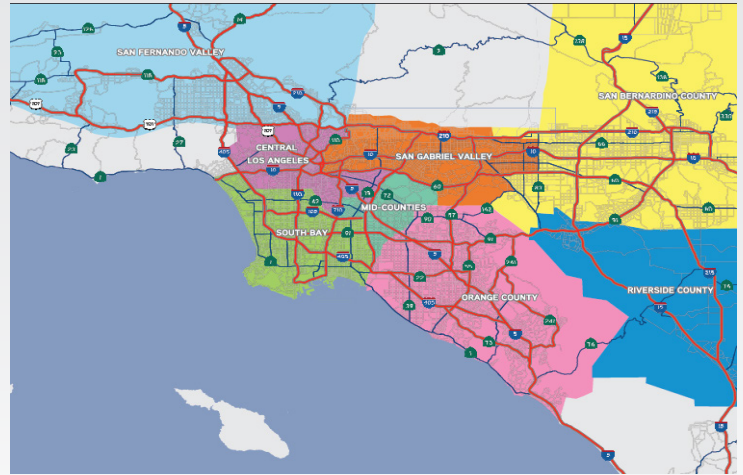
Unemployment Rate | Los Angeles Basin | February 2020



Market Description

The Los Angeles Basin boasts the largest industrial base in the nation, comprising 1.6 billion square feet in buildings 10,000 square feet and greater. It is a relatively decentralized market, with only 20% of the space located in Central Los Angeles and 80% dispersed throughout the region. Los Angeles and Orange counties are fairly built out and mostly infill markets, while the Inland Empire remains the last expansion area for industrial space in the region. The industrial market is beginning to mature, particularly in Los Angeles and Orange counties, as 60% of the buildings in the L.A. Basin are greater than 20 years old.

Submarket Map



RECENT TRANSACTIONS & MAJOR DEVELOPMENTS

GLA Industrial Market
Q1 2020

SALES ACTIVITY

| PROPERTY ADDRESS | SIZE SF | SALE PRICE | PRICE PSF | BUYER | SELLER |
|-------------------------------------|--------------|-----------------|-----------|---------------------------------|-------------------------------|
| 6275 Lance, Riverside | 1,013,000 SF | \$129 Million | \$127 PSF | TA Realty | Dedeaux Properties |
| 4224 District, Vernon | 117,400 SF | \$34 Million | \$290 PSF | Winix Global | Bridge Development |
| 20200-20202 Windrow Dr, Lake Forest | 125,400 SF | \$29.4 Million | \$234 PSF | Applied Medical | SY Corporation |
| 19145 Gramercy, Torrance | 102,300 SF | \$21.5 Million | \$210 PSF | IDI Logistics | Alpine Electronics of America |
| 11077 Rush, South El Monte | 160,000 SF | \$20.15 Million | \$126 PSF | Birtcher Anderson Realty | M. Parkinson & Co |
| 1300 Rancho Conejo, Thousand Oaks | 65,300 SF | \$8.1 Million | \$124 PSF | Alexandria Real Estate Equities | Arconic, Inc. |

LEASING ACTIVITY

| PROPERTY ADDRESS | LEASED SF | LEASE TYPE | BLDG CLASS | LESSEE | LESSOR |
|------------------------------|--------------|--------------|---------------|-------------------------------------|-----------------------|
| 4810 S Hellman Ave, Fontana | 1,245,049 SF | Direct - New | Distribution | Confidential | Clarion/REDA |
| 3175 Mission Oaks, Camarillo | 423,100 SF | Direct - New | Distribution | Confidential | Walton Street Capital |
| 21900 S Wilmington, Carson | 411,800 SF | Direct - New | Distribution | CH Robinson | Alpert & Alpert |
| 210 E Lambert Rd, Fullerton | 309,400 SF | Direct - New | Distribution | Total Transportation & Distribution | Prologis |
| 14647 Northam, La Mirada | 140,000 SF | Direct - New | Distribution | Grand Life, Inc | Blackstone Group |
| 5801 Ayala, Irwindale | 95,200 SF | Direct - New | Manufacturing | Korean Farms | CGU Capital Group |

MAJOR DEVELOPMENTS

| PROJECT | DEVELOPER | SIZE SF | SUBMARKET | STATUS | ESTIMATED COMPLETION |
|------------------------------------|---------------------|--------------|--------------|--------------------|----------------------|
| 5170 Archibald, Ontario | Ivanhoe Cambridge | 1,009,900 SF | Ontario | Under Construction | Q2 2020 |
| 5157 Vincent, Irwindale | Charles Company | 541,000 SF | Industry | Under Construction | Q4 2020 |
| 666 E Dyer Rd, Santa Ana (9 Bldgs) | J.F. Shea Co., Inc. | 505,420 SF | Airport Area | Under Construction | 2Q 2020 |
| 8201 Sorenson, Santa Fe Springs | Xebec | 234,300 SF | Mid-COUNTIES | Under Construction | Q3 2020 |
| 5215 Boyle, Vernon | ProLogis | 232,200 SF | Vernon | Completed | Q1 2020 |
| 2100 195th, Torrance | Sares-Regis | 146,900 SF | Torrance | Completed | Q1 2020 |

INDUSTRIAL OVERVIEW

GLA Industrial Market
Q1 2020

| EXISTING PROPERTIES | | | CONSTRUCTION | | VACANCY | | AVAILABILITY | ACTIVITY | | | | | ABSORPTION | | RENTS | |
|---|--------|--------------------|----------------------------|-----------------------|---------|-------------------|--------------|-------------------|-----------------|-------------------|------------------|-------------------------------------|-----------------------------|-------------------------------|-----------------------|---------------------------------|
| Market | Bldgs | Total Inventory SF | Completions Current Qtr SF | Under Construction SF | Vacancy | Vacancy Prior Qtr | Availability | Sales Activity SF | Number of Sales | Lease Activity SF | Number of Leases | Total Gross Activity Current Qtr SF | Total Gross Activity YTD SF | Net Absorption Current Qtr SF | Net Absorption YTD SF | Weighted Avg Asking Lease Rates |
| CENTRAL LOS ANGELES | | | | | | | | | | | | | | | | |
| SUBTOTAL | 5,356 | 247,515,400 | 463,500 | 376,900 | 1.9% | 1.5% | 5.6% | 711,900 | 20 | 1,859,400 | 58 | 2,571,300 | 2,571,300 | (567,100) | (567,100) | \$0.86 |
| SOUTH BAY | | | | | | | | | | | | | | | | |
| SUBTOTAL | 4,740 | 216,347,100 | 603,000 | - | 1.4% | 1.3% | 3.9% | 368,400 | 13 | 2,595,800 | 44 | 2,964,200 | 2,964,200 | 488,500 | 488,500 | \$0.95 |
| SAN FERNANDO VALLEY & VENTURA COUNTY | | | | | | | | | | | | | | | | |
| SUBTOTAL | 4,962 | 170,919,100 | 67,600 | 1,372,700 | 1.2% | 1.3% | 4.0% | 568,600 | 23 | 1,876,200 | 42 | 2,444,800 | 2,444,800 | 264,200 | 264,200 | \$0.81 |
| SAN GABRIEL VALLEY | | | | | | | | | | | | | | | | |
| SUBTOTAL | 3,621 | 160,507,900 | 63,300 | 1,176,300 | 1.9% | 1.8% | 4.8% | 701,400 | 16 | 1,538,300 | 33 | 2,239,700 | 2,239,700 | (108,300) | (108,300) | \$0.86 |
| MID COUNTIES | | | | | | | | | | | | | | | | |
| SUBTOTAL | 1,977 | 104,592,100 | 17,300 | 472,200 | 1.7% | 0.9% | 4.2% | 254,400 | 12 | 1,017,900 | 37 | 1,272,300 | 1,272,300 | (818,900) | (818,900) | \$0.84 |
| LOS ANGELES SUBTOTAL | | | | | | | | | | | | | | | | |
| SUBTOTAL | 20,656 | 899,881,600 | 1,214,700 | 3,398,100 | 1.6% | 1.4% | 4.6% | 2,604,700 | 84 | 8,887,600 | 214 | 11,492,300 | 11,492,300 | (741,600) | (741,600) | \$0.87 |
| INLAND EMPIRE | | | | | | | | | | | | | | | | |
| SUBTOTAL | 5,853 | 554,490,700 | 7,537,100 | 15,497,900 | 2.9% | 3.5% | 4.9% | 957,600 | 27 | 13,527,500 | 88 | 14,485,100 | 14,485,100 | 10,355,700 | 10,355,700 | \$0.71 |
| ORANGE COUNTY | | | | | | | | | | | | | | | | |
| SUBTOTAL | 1,413 | 189,143,100 | - | 598,800 | 3.3% | 3.6% | 2.0% | 695,600 | 23 | 2,378,200 | 49 | 3,073,800 | 3,073,800 | 668,100 | 668,100 | \$0.98 |
| GREATER LOS ANGELES BASIN MARKET TOTAL | | | | | | | | | | | | | | | | |
| TOTAL | 27,922 | 1,643,515,400 | 8,751,800 | 19,494,800 | 2.2% | 2.4% | 4.4% | 4,257,900 | 134 | 24,793,300 | 351 | 29,051,200 | 29,051,200 | 10,282,200 | 10,282,200 | \$0.83 |

Definitions of key terms in this report

Total Rentable Square Feet:

Industrial space in buildings with 10,000 square feet or more of industrial space. Includes speculative as well as owner-occupied buildings. Excludes Research & Development (R&D) buildings (industrial buildings with at least 30% office build-out, 3/1000 parking ratio and a high level of finish). Excludes space that is under-construction or renovation.

Vacancy:

Space in existing buildings that is vacant and immediately available during the quarter for direct lease, for sublease or for sale, plus space that is vacant but not available for direct lease or sublease.

Availability:

All space that is currently being marketed for occupancy, including space which may currently be occupied or which may be under construction or renovation.

Net Absorption:

Net change in occupied square feet from one period to the next (includes the impact of change in vacant space available for sublease).

Gross Activity:

Square feet sold and leased for all known transactions completed during the quarter, excluding lease renewals and investment sale transactions.

Weighted Average Asking Rental Rates:

Weighted by square feet available for direct lease. Data is based on triple net rents, and excludes expenses such as taxes, insurance, maintenance, janitorial services and utilities. Reported on a monthly per-square-foot basis.

Construction Completions:

Total square feet added during the quarter via construction completions, including renovated space returned to market, less total square feet taken off-market due to demolitions or conversions.

Under Construction:

Includes buildings that are in some phase of construction, beginning with foundation work and ending with the issuance of a Certificate of Occupancy.

Technical Note

Colliers International is continuously refining its database. The data shown in the historical tables and graphics in this report have been adjusted to take into account these changes in the database.

This report has been prepared by Colliers International for general information only. Information contained herein has been obtained from sources deemed reliable and no representation is made as to the accuracy thereof. Colliers International does not guarantee, warrant or represent that the information contained in this document is correct. Any interested party should undertake their own inquiries as to the accuracy of the information. Colliers International excludes unequivocally all inferred or implied terms, conditions and warranties arising out of this document and excludes all liability for loss and damages arising there from.

This report and other research materials may be found on our website at www.colliers.com/greaterlosangeles.

443 offices in 68 countries on 6 continents

| | |
|--------------------|--|
| United States: 159 | > \$3.5 billion in annual revenue |
| Canada: 48 | > 2.0 billion square feet under management |
| Latin America: 20 | |
| Asia Pacific: 45 | > Over 18,700 professionals |
| EMEA: 114 | |

UNITED STATES:

Downtown LA Office
License No. 01908231
865 S. Figueroa St., Ste. 3500
Los Angeles, CA 90017

TEL: +1 213 627 1214
FAX: +1 213 327 3200

THOMAS GALVIN

Research Analyst
Research Services

BILL STAUFF

Research Associate
Research Services

