

INVESTMENT FORECAST

Industrial
Los Angeles

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2022

Tightest Conditions in the Nation Enhance the Appeal of Local Industrial Listings Over Other Property Types

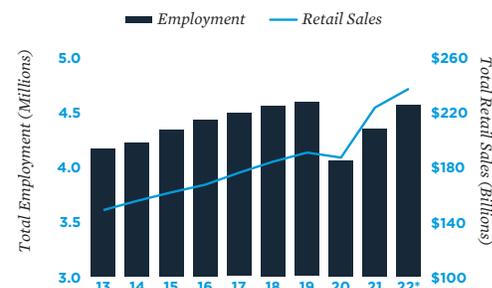
Dearth of available space persists. Los Angeles County registered a record year for demand in 2021, as a backlog of imports at the metro's two ports and the continual growth of e-commerce enhanced an already strong need for available space. Spanning the 12-month period, users absorbed 18.5 million square feet, slashing vacancy to a noteworthy 1.5 percent. Ample tenant demand was widespread as the market's five largest submarkets, each with over 100 million square feet of inventory, noted compression that lowered their respective vacancy rates below 2 percent. Additionally, four of these submarkets recorded net absorption of at least 2.7 million square feet. Tight conditions throughout Los Angeles warrant the moderate increase in supply additions that will occur this year; 60 percent of the space slated for delivery, however, is spread between the San Gabriel Valley and Torrance. The relative lack of completions elsewhere and expectations for elevated cargo volumes this year will preserve robust demand for available space, holding vacancy below 2 percent for a second consecutive year.

Distribution of trades reflect widespread demand. Deal flow reached a four-year high last year amid record-low vacancy and double-digit rent growth. The rise in transactions was highlighted by sizable increases in sub-\$10 million and \$20 million-plus trading, which fueled a new benchmark for annual dollar volume. Throughout the county, vigorous demand exists for warehouses suited for last-mile operations and manufacturing facilities. These assets change hands at high-3 percent to low-5 percent yields, with returns above this range most frequent in Central Los Angeles and the San Fernando Valley — the most active submarkets for warehouse deals. Buyers are also scouring the South Bay and San Gabriel Valley, as they seek assets proximate to ports and the Inland Empire.

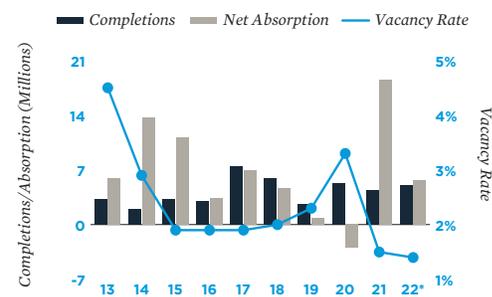
2022 Market Forecast

- Employment** ↗
up 5.1%
Metro employers add 220,000 positions, pushing the total headcount to be within 25,000 jobs of the year-end 2019 mark.
- Construction** ↗
5 million sq. ft.
The volume of supply additions in 2022 matches the prior five-year average, increasing inventory by 0.6 percent. Large-scale deliveries will be relatively modest, as half the properties slated for completion feature less than 100,000 square feet.
- Vacancy** ↘
down 10 bps
Following last year's 180-basis-point reduction in vacancy, industrial users absorb 5.6 million square feet of space during 2022, slightly compressing availability to 1.4 percent.
- Rent** ↗
up 7.4%
For the seventh time in the past nine years, the metro's average asking rent increases by more than 7 percent on an annual basis, elevating the mean marketed rate to \$15.80 per square foot.
- Investment** ●
Extremely tight vacancy, as well as a lack of developable land in Central Los Angeles and the South Bay, generates investor demand for aging properties well-positioned for redevelopment.

Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.