INVESTMENT OUTLOOK

Industrial

Los Angeles Metaro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

MIDYEAR 2025

Signs of Stabilization Emerge in Los Angeles' Industrial Market Despite Trade-Related Headwinds

Improving demand trends could be hampered by looming tariffs. Los Angeles recorded positive net absorption during the first quarter of 2025, ending a three-year stretch where quarterly relinquishments surpassed move-ins and renewals. Demand improvement was most apparent in Antelope Valley, where the completion of a 1 million-square-foot Trader Joe's distribution center underscores the submarket's growing strategic appeal. Westside and Central Los Angeles also posted year-over-year declines in vacancy in the first quarter, supported by increased leasing activity near Los Angeles International Airport. South Bay showed similar demand strength, though more than half of the space delivered since 2023 is still vacant. Home to the Port of Los Angeles — where roughly half of all cargo volume is tied to China — South Bay is particularly exposed to trade policy uncertainty, though the effects could extend across the broader metro. As such, metrowide net absorption will remain negative in 2025, with vacancy expected to reach its highest level in at least 30 years.

Private buyers step in as institutions stay cautious. Transaction velocity held steady during the 12 months ended in March compared with the previous year. While cap rates edged up during this span, the metro's 5.4 percent average remained among the five lowest in major U.S. markets, reflecting confidence in Los Angeles' long-term prospects despite near-term challenges. A shift in buyer composition is underway, as institutional owners are increasingly divesting amid rising risk and price sensitivity. In turn, private buyers, particularly owner-users, are stepping in, drawn by softening prices and the opportunity to secure space in high-barrier infill areas. These buyers typically hold longer horizons and are less deterred by short-term market fluctuations.

2025 MARKET FORECAST

-0.3% — **EMPLOYMENT:** Los Angeles is forecast to lose 15,000 jobs in 2025 — the largest decline among major U.S. metros — driven by weaknesses in manufacturing, construction and white-collar sectors.

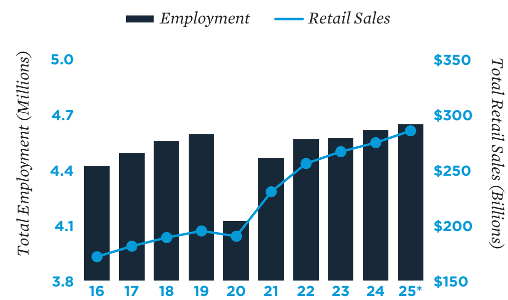
5 million *sq. ft.* — **CONSTRUCTION:** Deliveries remain steady, growing inventory by 0.6 percent. The volume of space added is on par with the metro's prior 10-year average of approximately 4.9 million square feet.

+120 bps — **VACANCY:** Demand continues to trail supply, pushing local vacancy to 7.7 percent by year-end. While historically elevated, the metro's rate is lower than 18 other major markets.

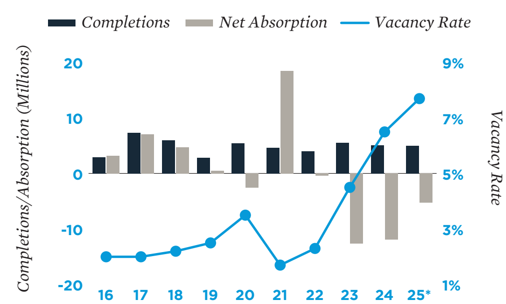
-1.6% — **RENT:** Heightened vacancy will keep asking rents under pressure. As such, the metro's average falls for a third straight year, albeit at a notably slower pace than last year, to $23.25 per square foot.

INVESTMENT: *San Fernando Valley's vacancy rate has tripled since 2022, driven by the entertainment industry's pullback from Los Angeles. Expanded state incentives launching in July could help stabilize demand.*

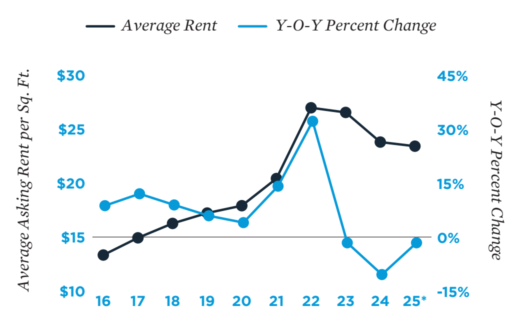
Economic Trends



Supply and Demand



Rent Trends



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

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