MARKET REPORT

INDUSTRIAL

Los Angeles Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

2H/19

Available Space Remains Scarce, Generating Stout Investor Demand for Assets Within Industrial Hubs

Moderate increase in vacancy is unconcerning as solid demand drivers persist. Entering this year, industrial vacancy sat at 2.1 percent in Los Angeles County, the lowest rate among major U.S. metros. While net absorption has softened slightly during the first three quarters of 2019, the result of limited available space, the presence of the nation's largest manufacturing sector and busiest ports of entry maintains overall demand for industrial product, holding vacancy below 3 percent in most submarkets this past third quarter. Expanding third-party logistics companies and manufacturing firms establishing a local presence are partially to credit as these groups accounted for the largest leases so far this year. Solid demand stemming from company growth coupled with a subdued volume of supply additions this year will ensure that industrial fundamentals remain strong in the metro moving forward. Of the 3.7 million square feet slated for completion this year, two-thirds are located in either the San Gabriel Valley or South Bay, locales where speculative space should be absorbed in a relatively short time frame.

Assets priced below the metro's average receive robust investor interest. Tight conditions throughout the metro are elevating rents and maintaining investor demand, supporting a double-digit increase in asset values over the past 12 months. Amid the spike in pricing, deal flow remains distributed throughout the county. Central Los Angeles and the eastern San Fernando Valley registered the largest number of recent closings, primarily Class C warehouses and manufacturing trades at average price points. While these locales are epicenters of transaction activity, submarkets where asset values routinely fall below $200 per square foot are highly targeted by investors. In Commerce, high-3 to 4 percent cap rates are obtainable for older warehouses, while a mix of Class B and C manufacturing facilities are closing in nearby Santa Fe Springs. Out-of-state capital has been recently active in Carson/Rancho Dominguez acquiring Class B warehouses at a mid-4 percent average return.

2019 Market Forecast

Employment up 1.1% — Organizations add 50,000 workers during 2019, an improvement over the nearly 42,600 positions created last year, a 0.9 percent increase.

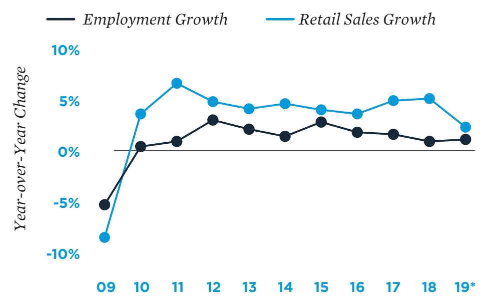
Construction 2.8 million sq. ft. — Delivery volume declines by nearly 2.9 million square feet of space on a year-over-year basis. A 572,000-square-foot distribution center at Goodman Logistics Center in El Monte represents the largest completion in 2019.

Vacancy up 90 bps — The metro's year-end vacancy rate reaches 3.0 percent, yet Los Angeles remains one of the tightest major markets in the nation.

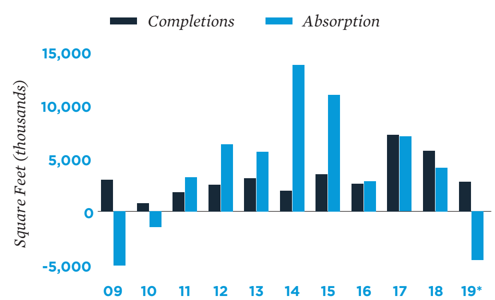
Rent up 10.3% — Persistent demand for industrial space enables the metro's average asking rent to rise by double digits in 2019 to $12.41 per square foot. This year's increase exceeds the prior year-average gain of 6.5 percent.

Investment — In South Bay, Silicon Beach and emerging employment hubs adjacent to Downtown Los Angeles, the potential for creative office conversions adds value to older industrial product, bolstering deal flow in these

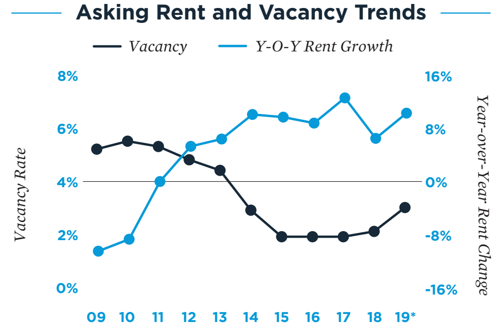
Employment vs. Retail Sales Trends



Industrial Completions



Asking Rent and Vacancy Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; Moody's Analytics

For information on national industrial trends, contact:

Alan L. Pontius *Senior Vice President | IPA National Office and Industrial Properties*
Tel: (415) 963-3070 | apontius@ipausa

John Chang *Senior Vice President | Research Services*
Tel: (602) 707-9700 | jchang@ipausa.com