Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

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COMMERCIAL REAL ESTATE SERVICES

Q4 | 2018 Market Report

Los Angeles Industrial

LA North

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MARKET REPORT Q4

Industrial 2018
Los Angeles North

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MARKET ACTIVITY

Direct Vacancy ⌄ 2.1%	Net Absorption ⌃ +203,205 SF
Overall Vacancy ⌄ 2.5%	Gross Absorption ⌃ 1,693,850 SF
Under Construction ⌃ 910,615 SF	Rental Rates (NNN) ⌄ $1.00
Sale Price Change ⌄ -5.8%	Deal Volume ⌄ -31.1%

KEY TAKE AWAYS

MARKET

- **Vacancy Rate**: Continues to decline in Q4.
- **Net Absorption**: Highest level of 2018.
- **Industrial Supply**: The new supply under construction in the Santa Clarita Valley is long overdue.
- **Asking Rents**: Remain near all-time highs.
- **Sale Prices**: Decline slightly in Q4 of 5.8%.

ECONOMIC OUTLOOK

- **Interest Rates**: The Fed is anticipating two (2) hikes in 2019; increasing borrowing costs.
- **Trade**: Tensions remain with China. USMCA still awaiting congressional ratification.
- **Stock Market**: Increased volatility, but corporate fundamentals remain strong.
- **Oil**: Crude Oil dropped 39% in Q4. Prices expected to remain low due to over-supply. Reduced transportation costs should benefit markets further away from ports.

ECONOMIC OUTLOOK

U.S. Employment ⌃ 3.9%	U6 Rate ⇔ 7.6%
Interest Rate ⌄ 4.6% (30 year fixed)	Changing GDP ⌄ 2.8%
Port Traffic Y/Y Δ ⌃ 1.5%	NYSE Performance ⌄ -14.4%
Inflation Change ⌄ +1.9%	10 Yr. - 2 Yr. Spread ⌄ 15 BPS

EXPERIENCE IN A CHANGING MARKET
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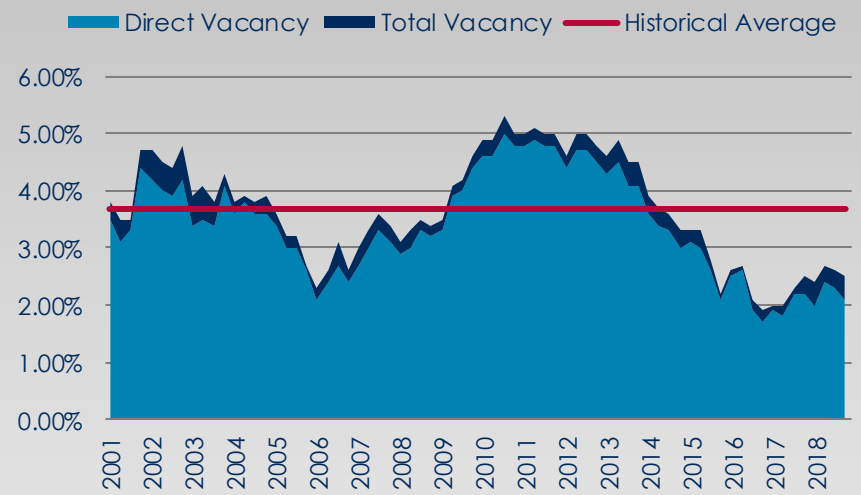
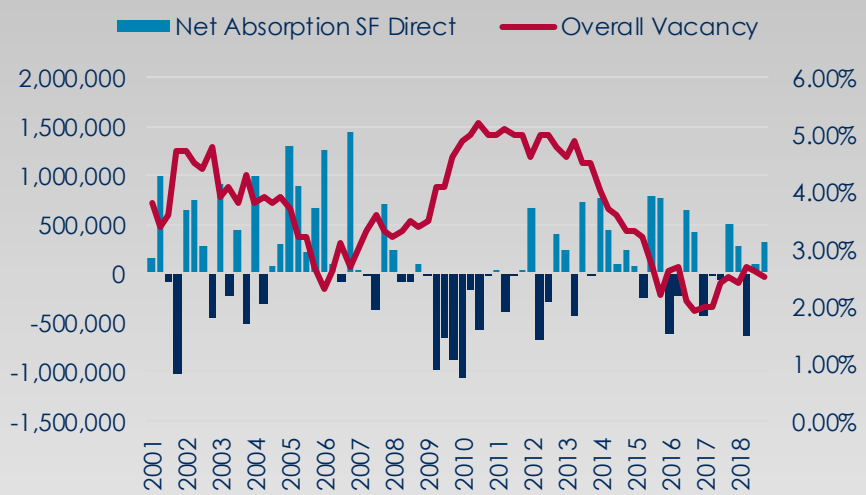
Q4 //////// Market Report

L.A. North | Industrial //// Q4 2018

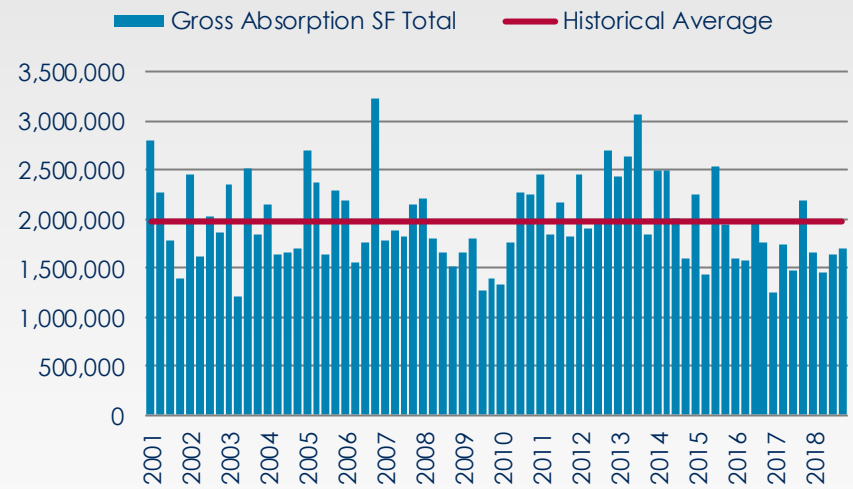
OVERALL VACANCY
Overall vacancy falls again for 3rd straight quarter



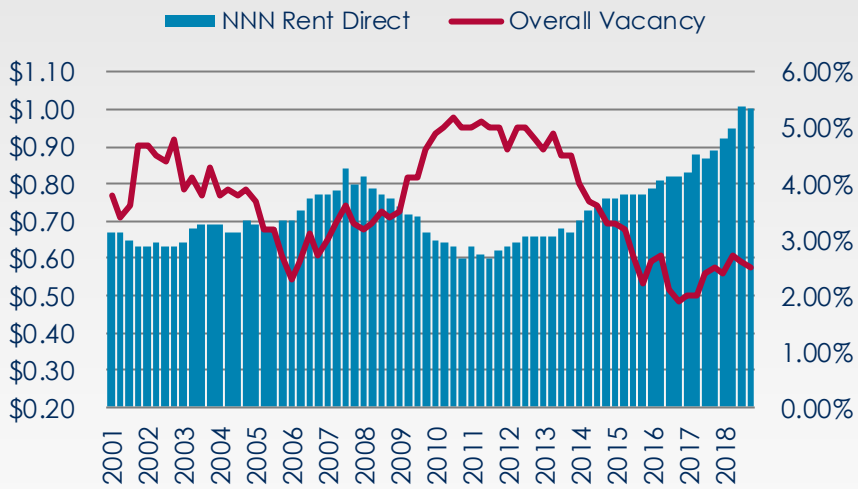
POSITIVE NET ABSORPTION FOR 2ND STRAIGHT QUARTER



GROSS ABORPTION REMAINS BELOW HISTORIC AVERAGE



ASKING RENTS REMAIN AT ALL-TIME HIGHS



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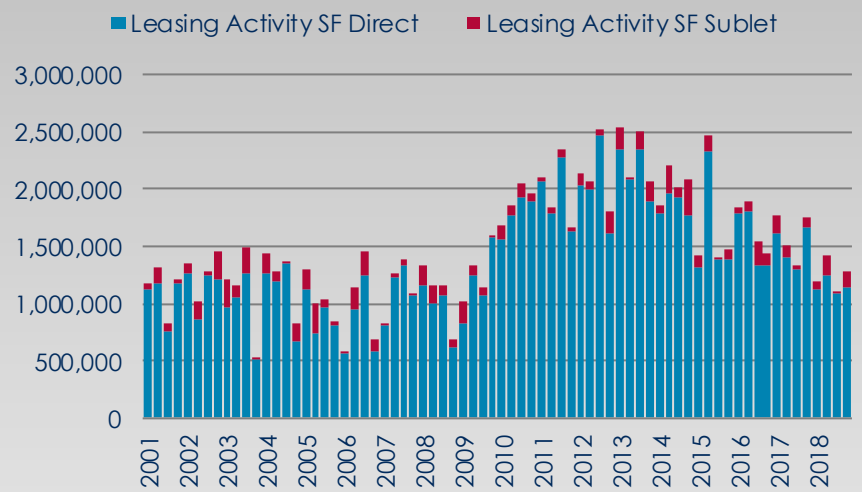
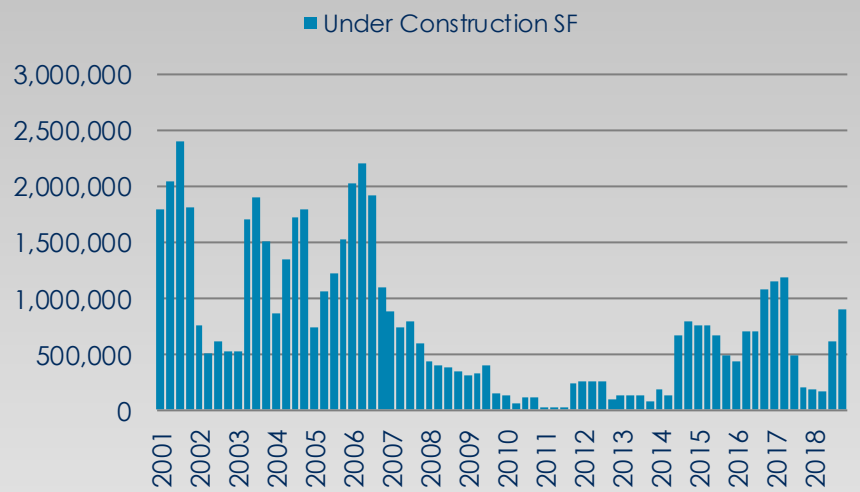
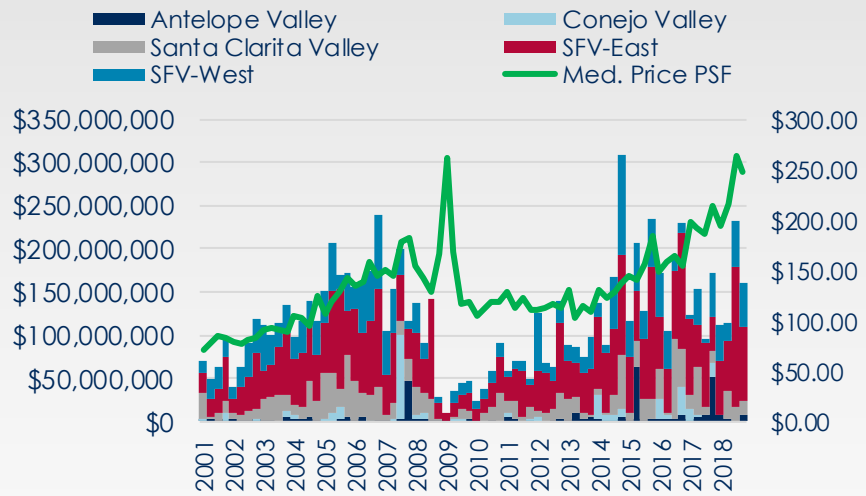
TOTAL NUMBER OF LEASES STABILIZES

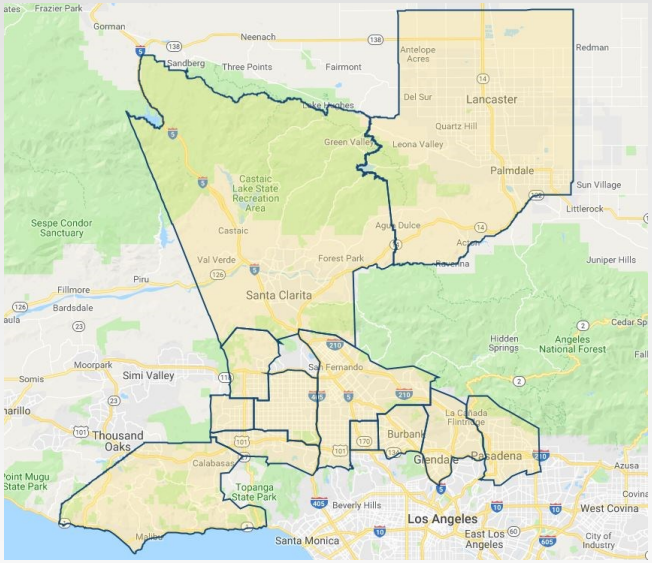


UPTICK IN CONSTRUCTION ACTIVITY



SALE PRICES SEE DIP FROM PREVIOUS QUARTER





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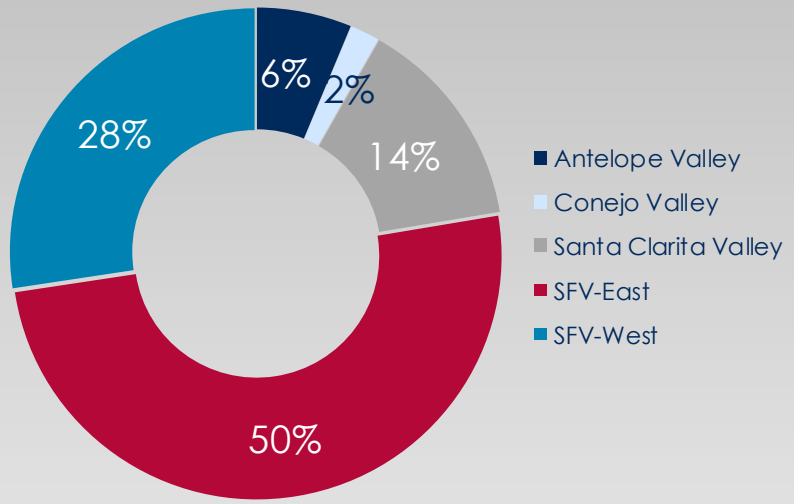
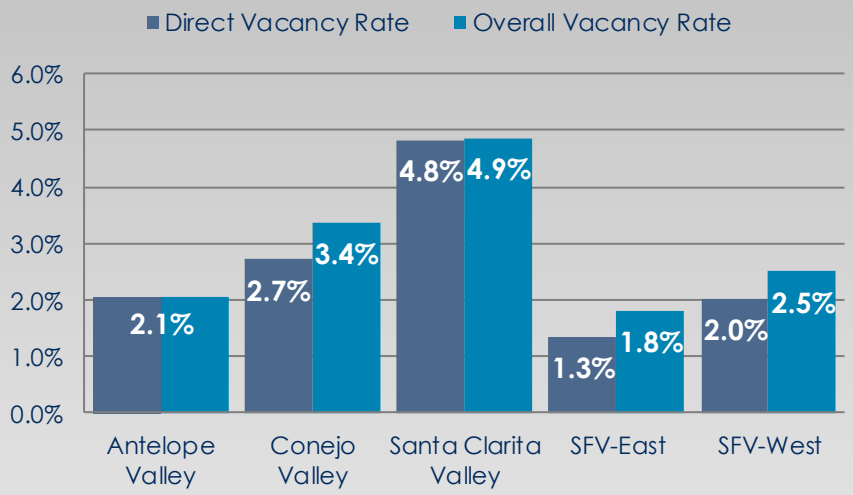
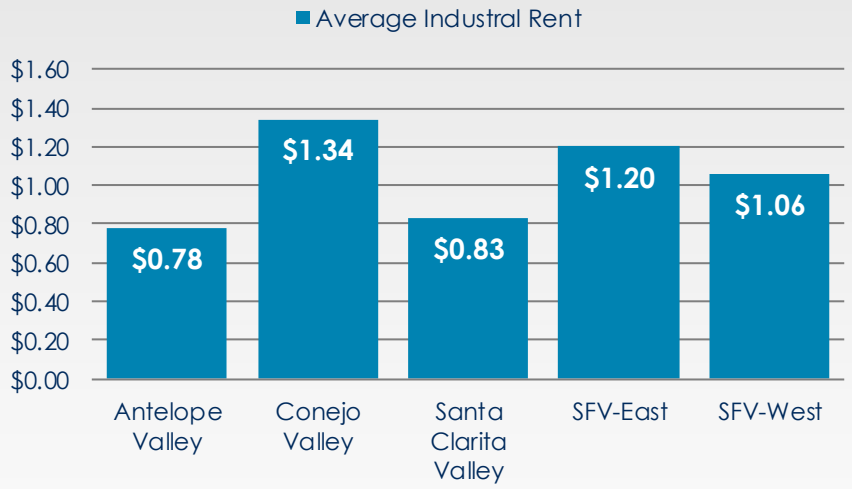
SQUARE FOOT BREAKDOWN– 166,321,997 SF MARKET SIZE



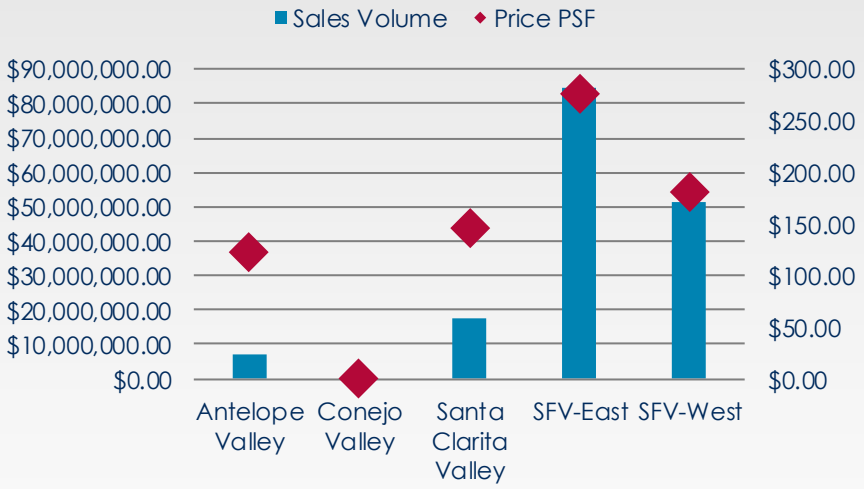
VACANCY BREAKDOWN



AVERAGE RENT PSF



VOLUME BREAKDOWN



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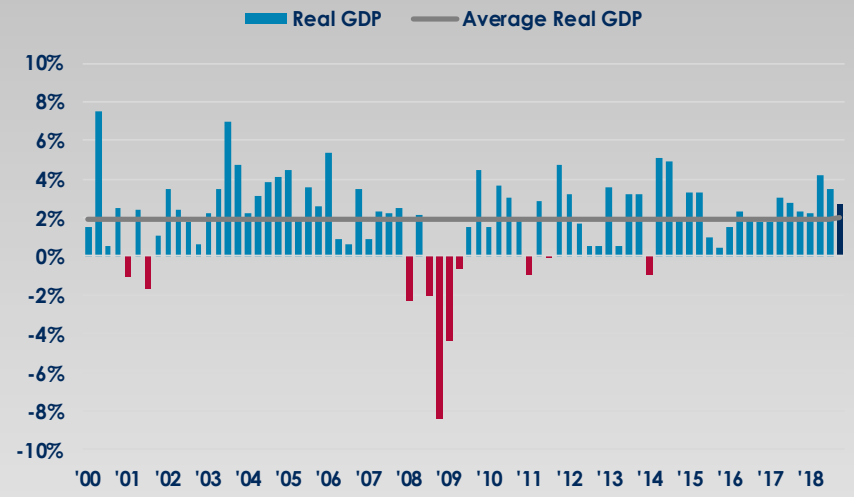
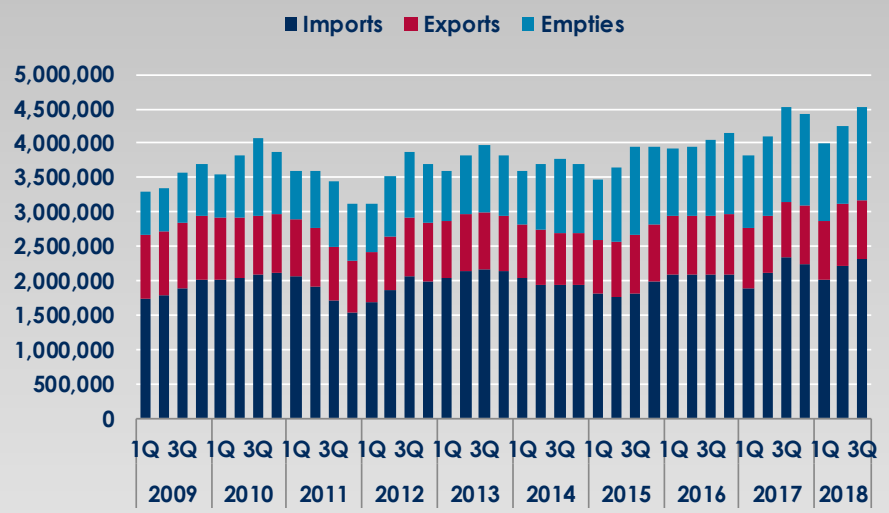
GDP GROWS 2.7% IN 4TH QUARTER

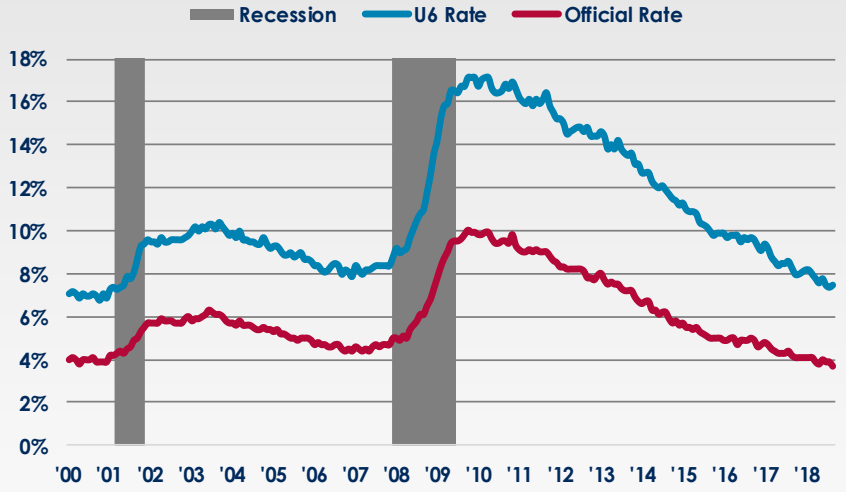


*2.8% for 4Q18 based on Fed Reserve Bank of Atlanta "GDP Now" Forecast

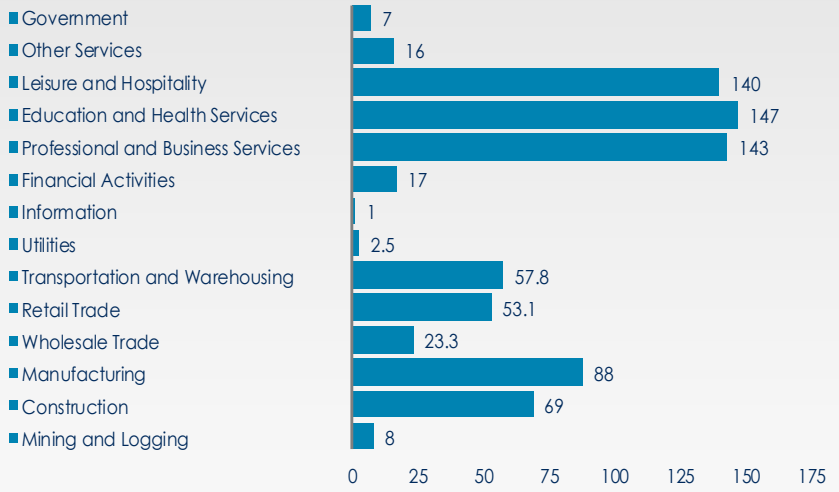
PORT ACTIVITY IS AT AN ALL-TIME HIGH



UNEMPLOYMENT CONTINUES DOWNWARD TREND



MOST INDUSTRY SECTORS CONTINUE TO SEE GROWTH



National Economic Overview //// Q4 2018

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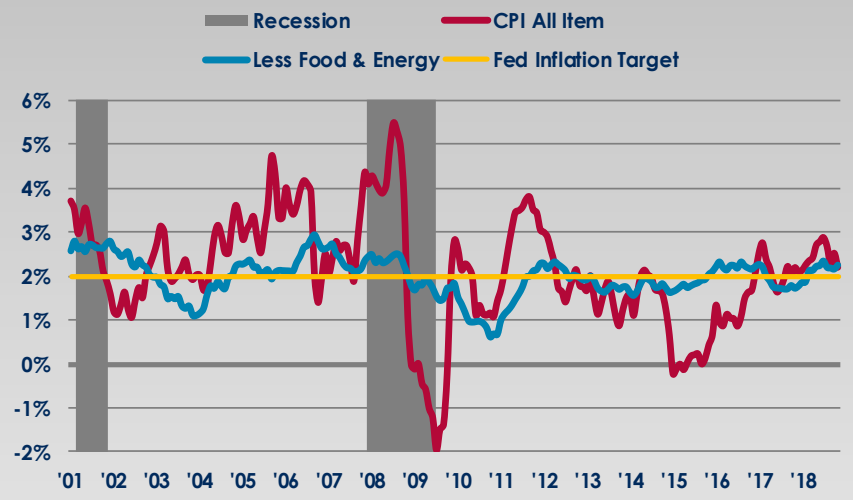
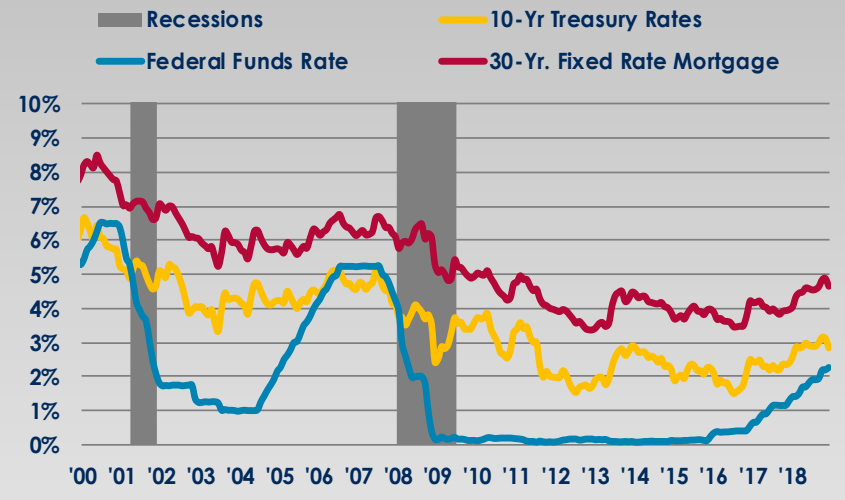
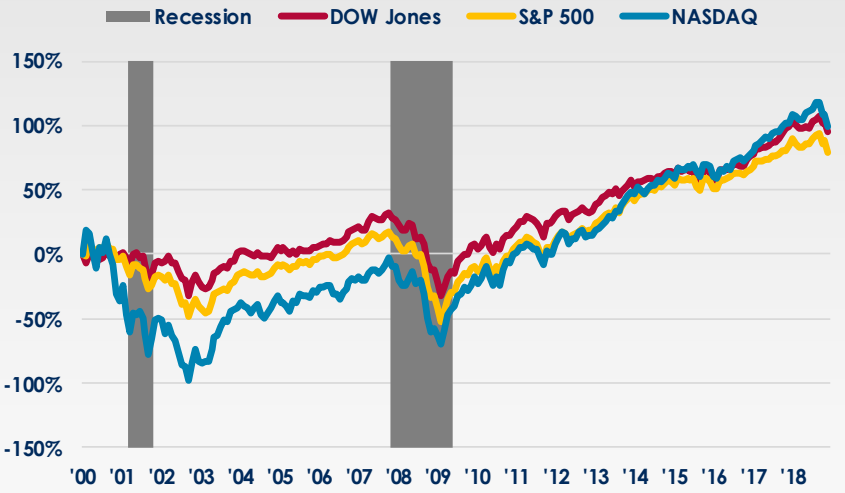
INFLATION REMAINS IN CHECK



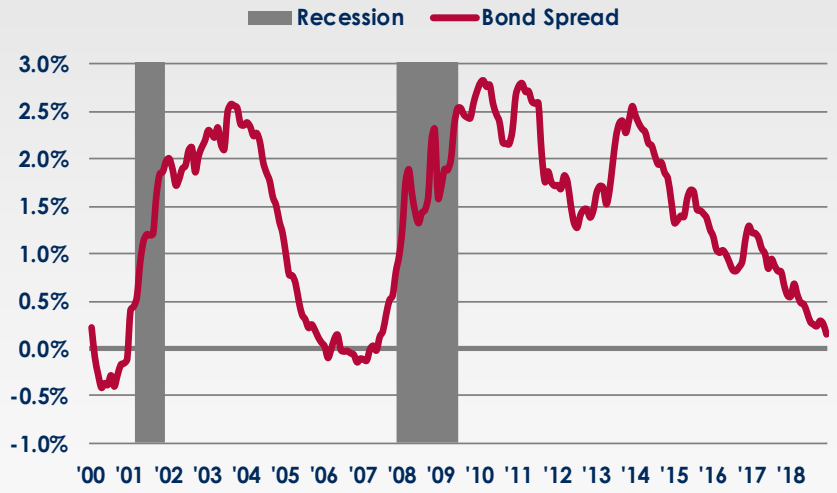
INTEREST RATES



NYSE SEES 14.45% DIP IN 4TH QUARTER



BOND SPREAD CONTINUES TO NARROW 15 BASIS POINTS



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METHODOLOGY & TERMINOLOGY

Methodology
Industrial and flex (R & D) buildings that are 5,000 square feet and greater.

Direct Vacant SF
Space that is vacant and ready for occupancy by a user. The space is being offered for lease or sale directly from the landlord.

Total Vacant W/ Sublet SF
Space that is vacant and ready for occupancy by a user. The space is being offered for lease or sale by the landlord or for sublease by the current tenant.

Direct Vacancy Rate
Total vacant direct space (vacant space for lease or sale from the landlord or owner) divided by the total rentable square footage for existing buildings only.

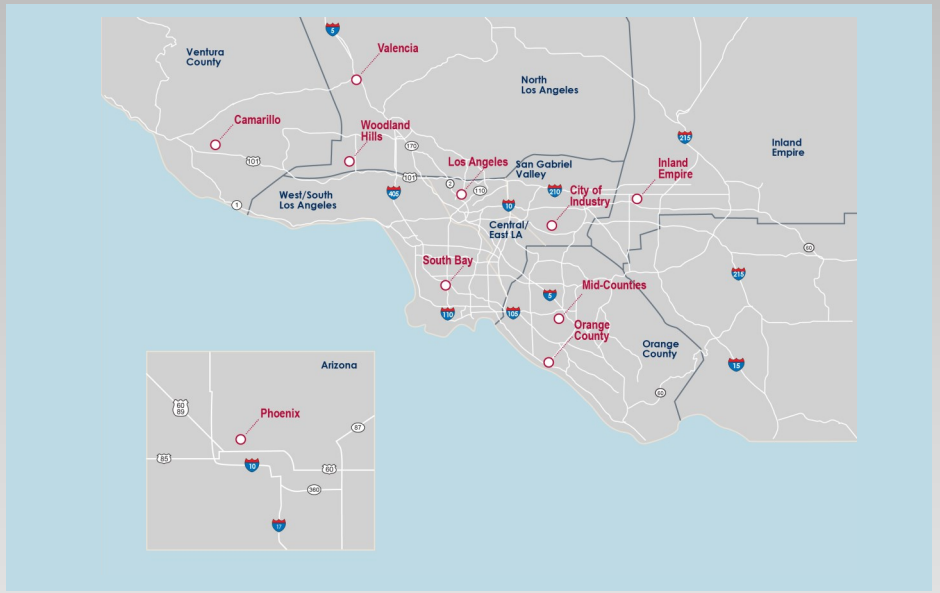
Vacancy W/ Sublet Rate
Total vacant direct space and sublease space divided by the total rentable square footage for existing buildings only.

Gross Absorption
The total change in occupied space over a given period of time, counting space that is occupied but not space that is vacated by tenants. Gross absorption differs from leasing activity, which is the sum of all space leased over a certain period of time.

Net Absorption
The net change in occupied space over a given period of time, calculated by summing all the positive changes in occupancy (move ins) and subtracting all the negative changes in occupancy (move outs).

Under Construction
Planned buildings for which construction has started but have not yet been granted a Certificate of Occupancy. Planned buildings are not included.

Completed in 2018
New buildings with original construction completed in the year 2018 and granted a Certificate of Occupancy. Renovated buildings are not included



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