Los Angeles industrial market report

Q1 2024

AVISON YOUNG

Los Angeles industrial market trends

10.0 msf

Sublet availabilities surpass 10.0 msf for the first time

The Los Angeles industrial market has seen a significant increase in sublet availabilities exceeding 10.0 msf, up 2.0 msf from the prior quarter, as occupiers continue to shed any unused industrial space. The just-in-case business model that gained popularity during the pandemic, which caused a surge in demand for additional warehouse space has cooled down.

However, there's potential for positivity in 2024. Contract negotiations at the Gulf and East Coast ports could lead to increased demand for industrial space on the West Coast, particularly for sublease space that offer short-term occupancy solutions.

$1.76

Rents continue to decline from all-time highs

The Los Angeles industrial market, which saw unprecedented rent growth during the pandemic due to intense competition for space, has witnessed a continued cooling trend for the third consecutive quarter, with rates now at $1.76/SF NNN. This marks a decline of 10.7% from the peak of $1.97/SF NNN in back in Q2 2023.

Additionally, some owner/landlords have begun to offer additional concessions in lieu of decreasing rents, something that was not obtainable during the pandemic as availabilities were scarce and often attracted multiple offers.

4.0 msf

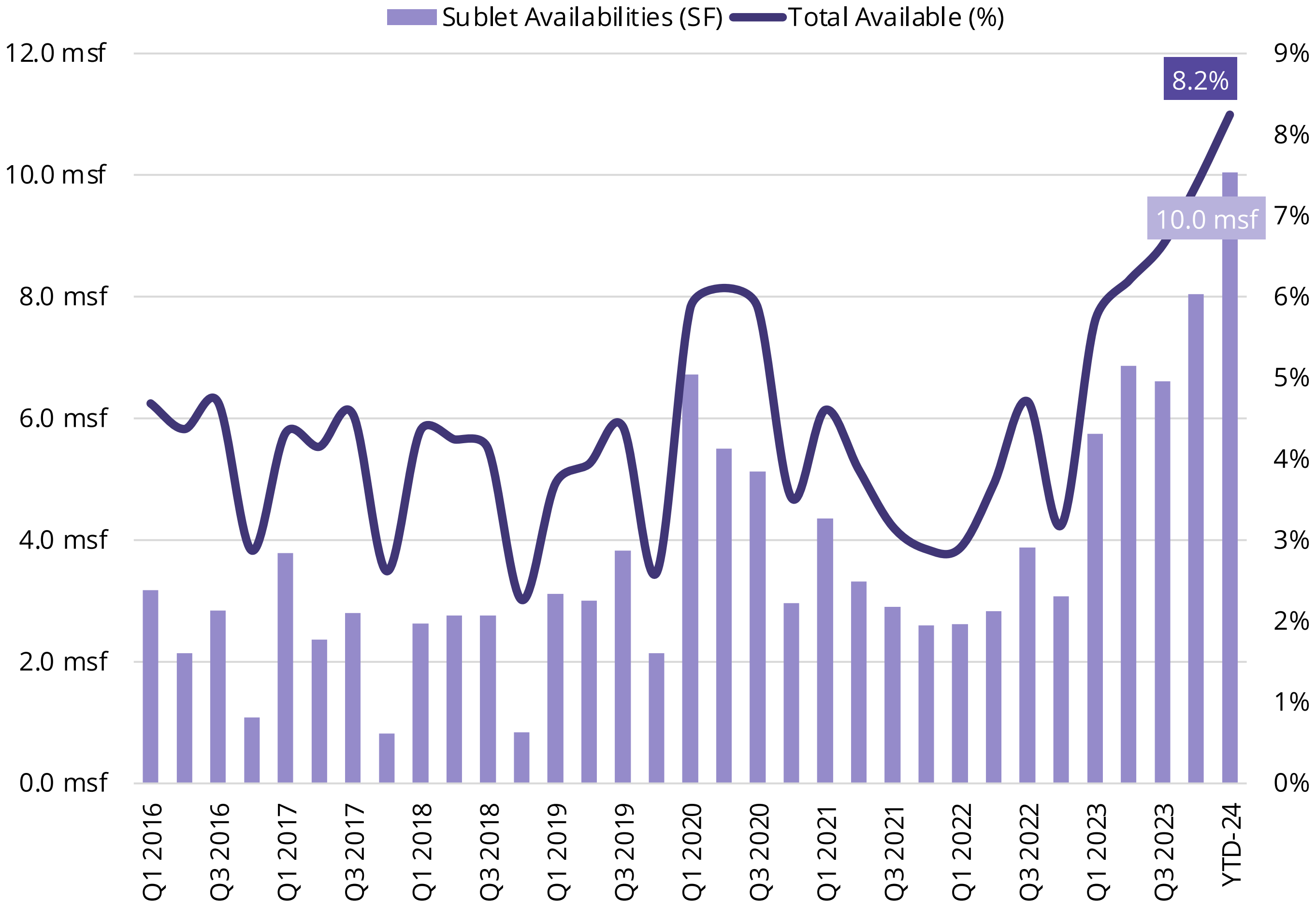
Leasing

In Q1 2024, leasing activity in Los Angeles remained subdued with 4.0 msf leased, yet the number of deals increased from the prior quarter to 132 transactions. Many occupiers have put a delay on expansion plans, awaiting further rental rate declines.

Contract negotiations at the LA Ports back in 2023, led operators to seek alternative shipping ports to prevent delays. Currently, contract negotiations at the Gulf and East Coast Ports, set to expire on Sept. 30th, could prompt operators to return back to the West Coast ports, potentially driving demand upward for the Los Angeles industrial market.

Source: AVANT by Avison Young, CoStar

Total Availabilities

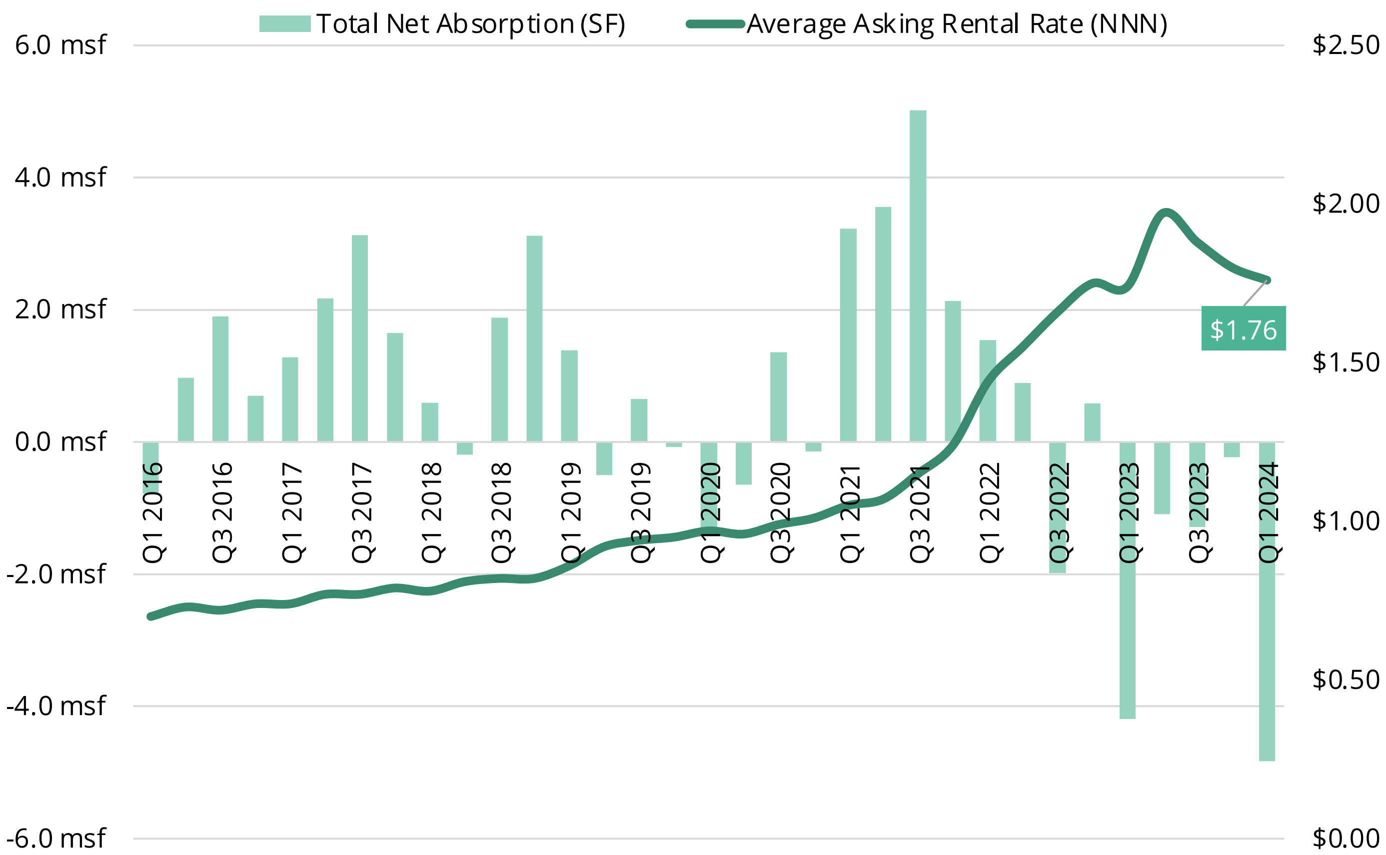


*Survey based industrial/flex buildings 50k+

Q1 2024 sublet availabilities in the Los Angeles industrial market have reached a record high with 10.0 million square feet available.

Source: AVANT by Avison Young, CoStar

Absorption



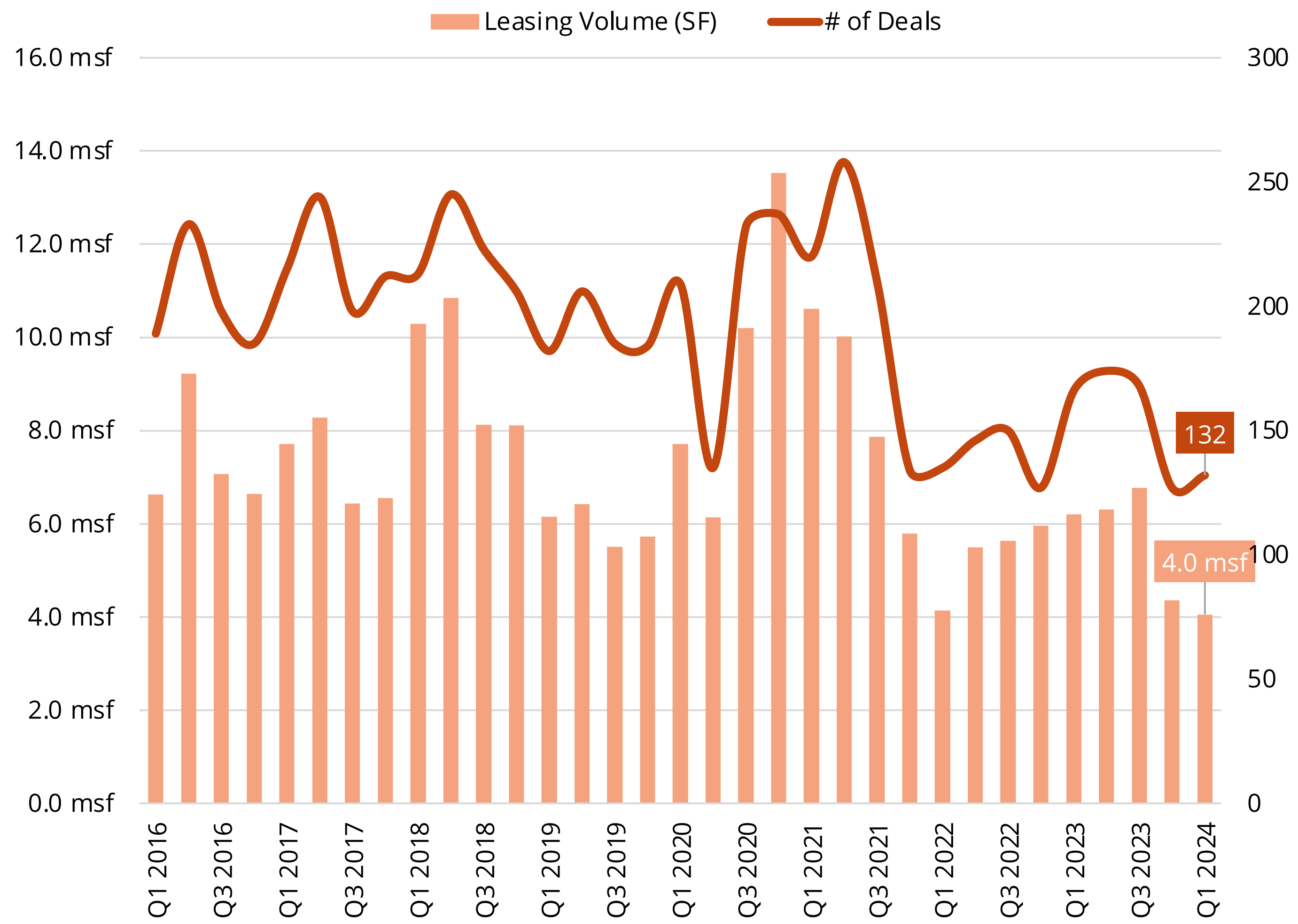
*Survey based industrial/flex buildings 50k+

Source: AVANT by Avison Young, CoStar

Average asking rental rates continue to cool down since 2Q 2023 to $1.76/SF NNN. Some owner/landlords have opted to provide rent abatements in lieu of decreasing rents.

AVANT by AVISON YOUNG

Leasing Activity



*Survey based industrial/flex buildings 50k+

Source: AVANT by Avison Young, CoStar

Leasing volume nominally declined in Q1, with a total volume of 4.0M square feet leased in the Los Angeles industrial market.

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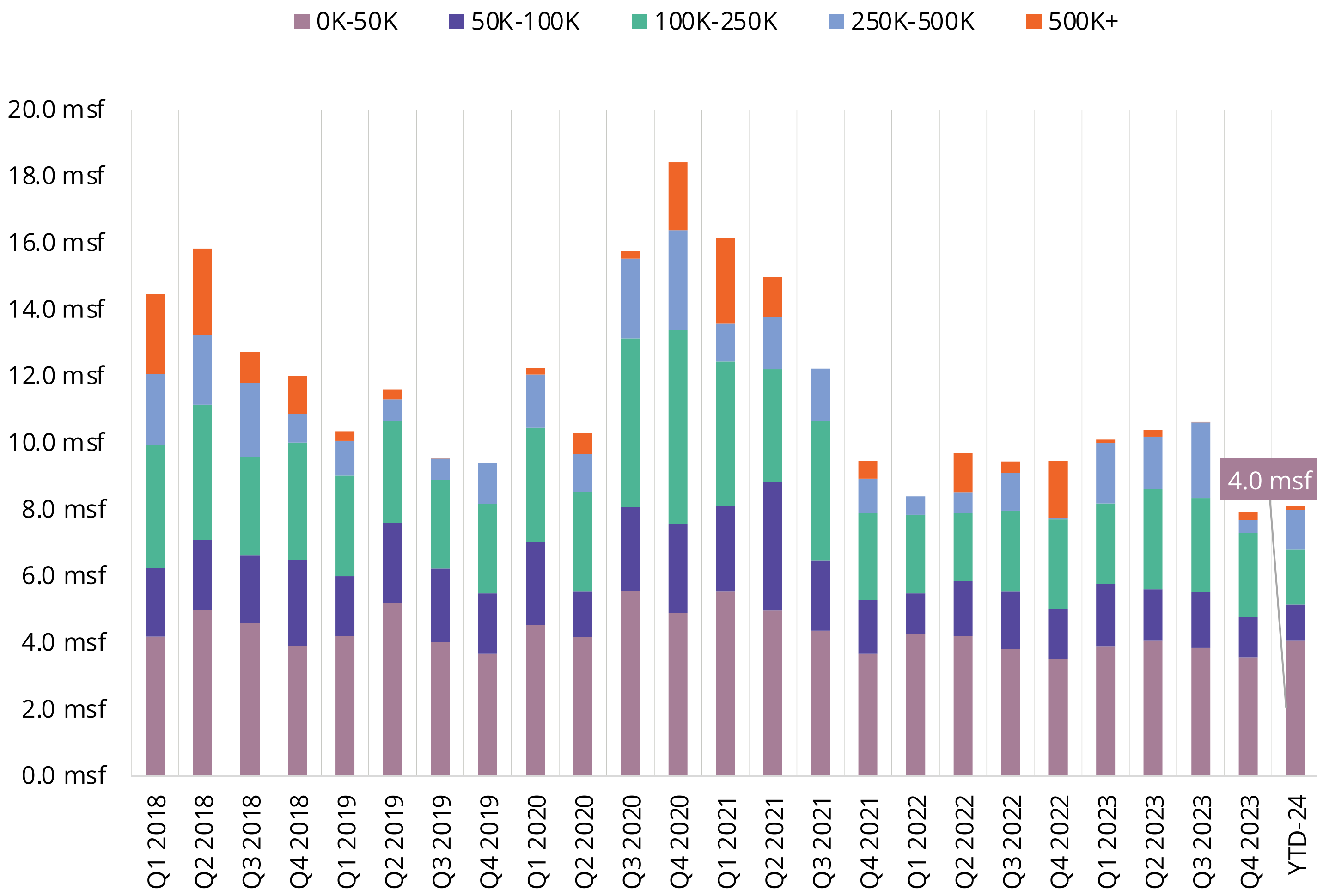
Small box buildings remain in demand

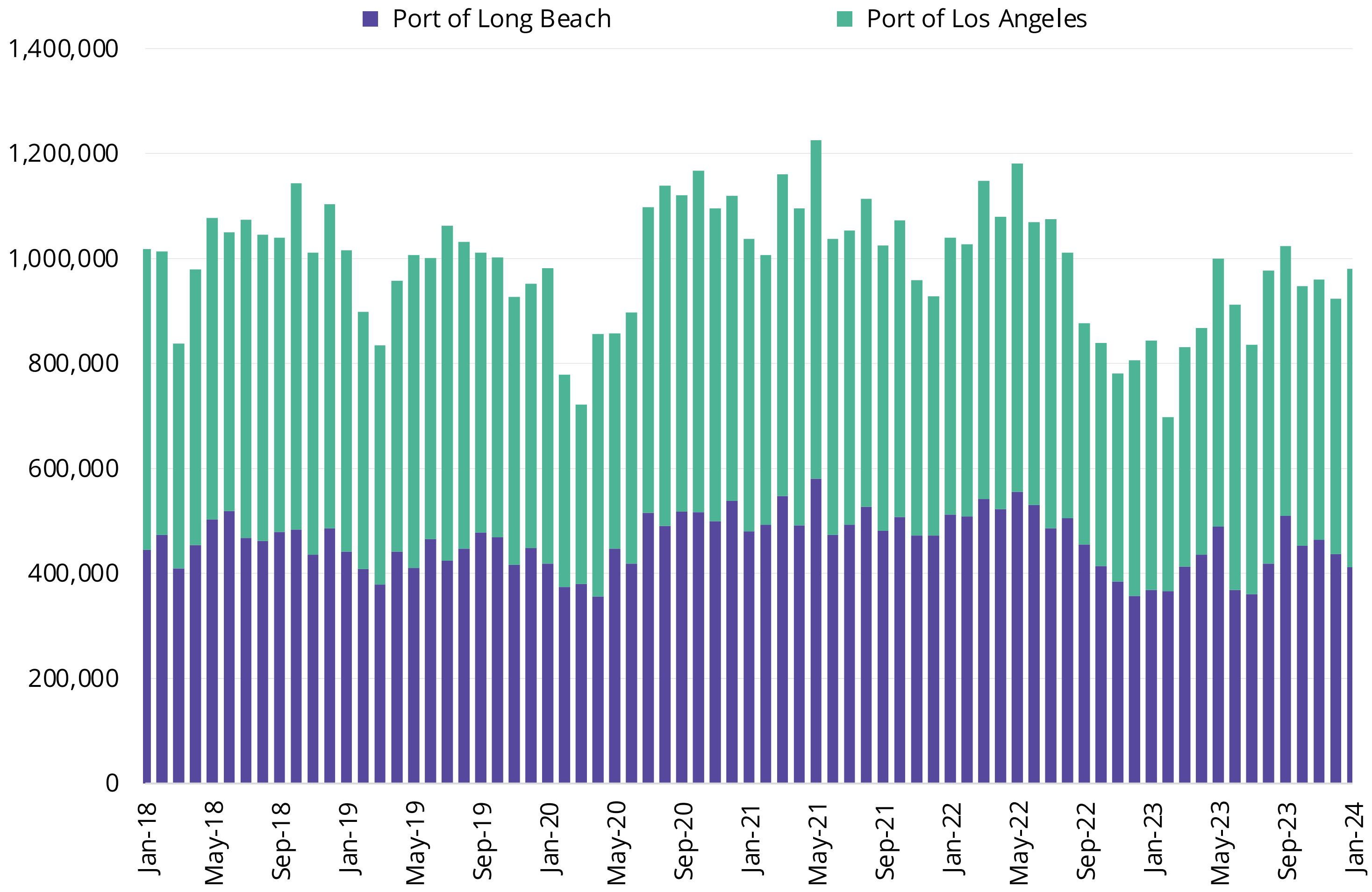


*Survey based on ALL industrial/flex buildings

Demand has been robust particularly for small-box buildings up to 50K SF, with leasing picking up to over 4.0 msf in Q1 2024.

Source: AVANT by Avison Young

Supply chains search for stability to limit holiday impact amid Gulf & East Coast Union contract issues

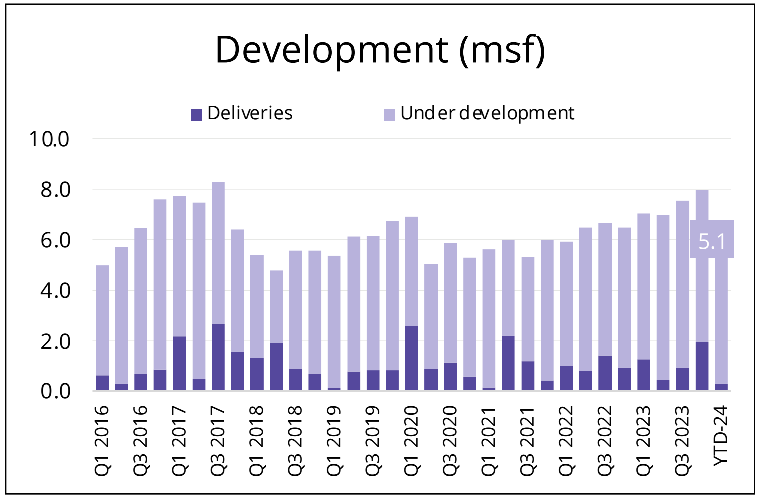


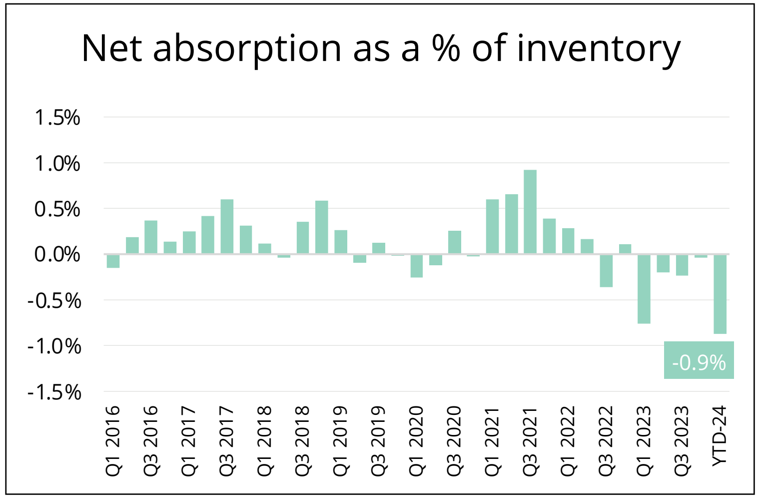
Contract negotiations on the East Coast, set to expire on Sept. 30th, may drive heightened activity at the LA Ports, potentially leading to increased demand for warehouse space.

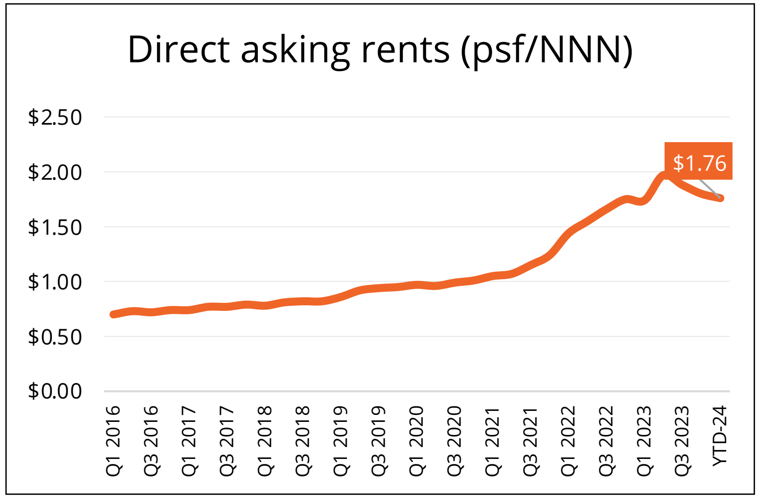
Source: AVANT by Avison Young, CoStar

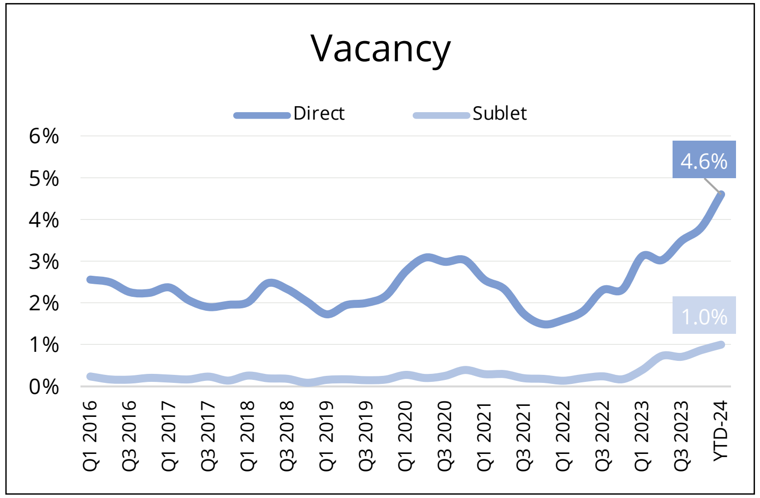
Appendix

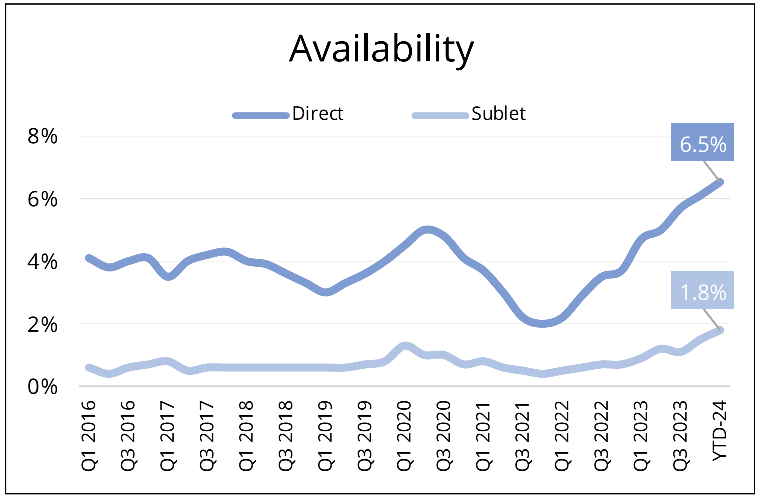
Los Angeles industrial market indicators

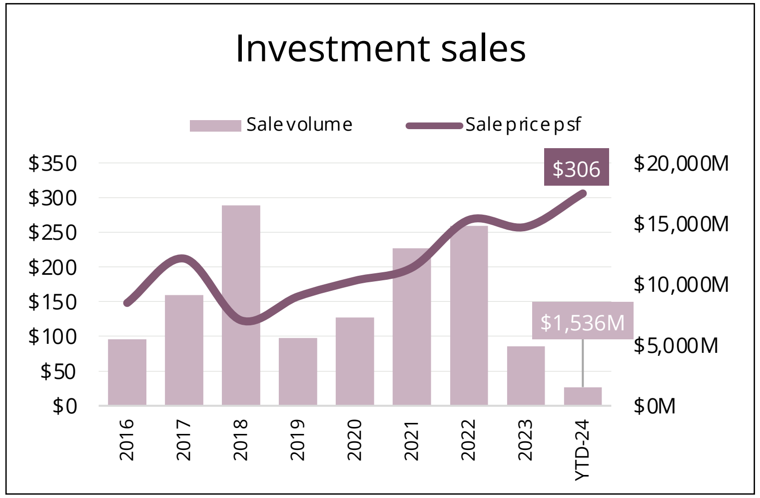












*Survey based on industrial/flex buildings 50K+

Source: AVANT by Avison Young, CoStar

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Los Angeles industrial market activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
STG Logistics	1650 S Central Ave	South Bay	Mar 2024	418,344	Direct	Renewal
Inland Star Distribution Centers	2132 E Dominguez St	South Bay	Feb 2024	254,411	Direct	Renewal
ACL America	14425-14525 Clark Ave	San Gabriel Valley	Jan 2024	232,643	Direct	New

Recent sales activity

Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
Rexford	48 Property Portfolio(LA & OC)	Mar 2024	3,008,000	$1,000,000,000	$332	Blackstone
CenterPoint	4 Building Portfolio, Compton	Feb 2024	546,866	$196,500,500	$359	JPMorgan Chase
Rexford	Azusa Canyon Rd(2 Buildings)	Feb 2024	233,984	$84,000,000	$359	AEW Capital Management

Top projects under development

Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
171 Marcellin Dr	San Gabriel Valley	Jun 2024	694,400	0%	Majestic Realty
151 Marcellin Dr	San Gabriel Valley	Apr 2024	606,480	0%	Majestic Realty
2001 E Dominguez St	Carson	Oct 2024	429,112	0%	Brookfield

Los Angeles industrial market stats

Submarket	Existing inventory sf	Deliveries sf	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf	Direct asking rent psf NNN
South Bay	132,399,345	0	1,292,914	4.4%	1.0%	5.4%	(860,005)	$1.95
San Gabriel Valley	102,366,002	147,490	1,997,331	4.9%	1.2%	6.1%	(1,264,798)	$1.58
Mid-Counties	71,640,967	144,434	284,254	4.6%	1.1%	5.7%	(1,235,077)	$1.73
Vernon	64,064,825	0	353,646	4.9%	1.5%	6.4%	(819,759)	$1.41
Commerce	56,955,406	0	404,883	6.6%	1.1%	7.7%	(801,848)	$1.23
East San Fernando Valley	25,433,493	0	106,526	1.1%	1.2%	2.3%	44,123	$1.80
West Ventura County	25,258,520	0	0	2.9%	0.1%	3.0%	(22,931)	$0.92
West San Fernando Valley	21,757,814	0	0	2.6%	0.4%	3.0%	(75,567)	$1.68
Downtown Los Angeles	18,032,713	0	0	6.7%	0.0%	6.7%	(44,132)	$1.43
Santa Clarita	14,963,473	0	0	2.3%	0.4%	2.7%	250,206	$1.13
East Ventura County	9,973,250	0	0	7.7%	1.6%	9.3%	(83,357)	$1.31
West Side	6,205,689	0	0	8.9%	1.0%	9.9%	93,473	$2.70
Antelope Valley	5,685,034	0	0	0.6%	0.0%	0.6%	(5,100)	$1.36
Market total	**554,736,531**	**291,924**	**5,119,700**	**4.6%**	**1.0%**	**5.6%**	**(4,824,772)**	**$1.76**

*Survey based industrial/flex buildings 50k+

Source: AVANT by Avison Young, CoStar

Industrial insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Industrial rents and concessions

- **Triple net rents:** tenant is responsible for paying rent, utilities, taxes, operating expenses and common area maintenance
- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as triple net (NNN)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as triple net (NNN)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an industrial suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Property subtypes

- **Distribution:** properties used primarily to ship good with higher proportions of dock doors and taller clear heights
- **General Warehouse:** properties used to store goods and materials
- **Manufacturing:** properties where goods are produced and assembled with heavier power and stronger floor loads for equipment

Capital markets

- **Investment volume:** industrial sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and information visit **avisonyoung.com**

Chris Cooper
Principal, Regional Managing Director
+1 213 935 7435
CA DRE #01260886
chris.cooper@avisonyoung.com

Jonathan Larsen
Principal & Managing Director
+ 1 213 471 1069
CA DRE #01008099
jonathan.larsen@avisonyoung.com

Patrick Barnes
Principal
+ 1 213 618 3826
CA DRE #01333182
patrick.barnes@avisonyoung.com

Erick Parulan
Senior Analyst, Market Intelligence
+ 1 949 757 1283
erick.parulan@avisonyoung.com

Taylor Stokes
Analyst, Market Intelligence
+ 1 310 339 2976
CA DRE #01987676
taylor.stokes@avisonyoung.com

Sebastian Bernt
Analyst, Market Intelligence
+ 1 818 584 9500
sebastian.bernt@avisonyoung.com

AVISON YOUNG