MARKET OVERVIEW

The Los Angeles industrial market posted low vacancy and strong rent growth to mark the midpoint of 2018. At the end of 2Q 2018, vacancy was just 2.5% while the average asking rent reached an unprecedented $0.85/SF, up 3.7% from 1Q 2018 and up 9.0% from 1Q 2017. At the end of the quarter, more than 2.8 million SF were under construction, of which 29.4% remained available for lease. Goodman Logistics Center in El Monte is one such project: the two-building, 1.2 million SF, class A facility is scheduled to deliver in 3Q 2018 and had not secured a tenant by the end of Q2. The strength of the economy continued to drive demand for industrial space, as demonstrated by strong cargo volume from the ports of Los Angeles and Long Beach, which handle roughly 32% of the nation’s cargo imports. In the first five months of 2018, nearly 6.8 million TEUs filtered through the ports, up 3.7% over the same time last year. Over the same time, total imports at the two ports combined for more than 3.4 million TEUs, up 4.5% from 2017. Consumer demand for imported goods supported cargo volume increases and will drive demand for industrial space in Los Angeles in the coming quarters.

TRENDS TO WATCH

Demand for industrial space will continue unabated heading into the second half of 2018. Tenants facing the end of a lease term are forced to choose between paying a rental rate that has increased 32.8% in 10 years or moving operations to more affordable space in the Inland Empire. The average asking rent is expected to head steadily higher as low vacancy limits tenants’ options. With virtually no land left for construction, older and functionally obsolete industrial buildings are primed for redevelopment. Owners are incentivized to sell their buildings for exorbitant prices to capitalize on their investments. Additionally, economists are watching trade relations with China, which exports and imports approximately 50% of the cargo volume moving through the San Pedro Bay ports. Tariffs on goods flowing to and from China could produce a surge of cargo volume in the short term but could impact up to 15% of shipments long term.

Average Asking Rent* and Vacancy Rate

*Rents reflect building of 10,000 SF or greater.

Source: NAI Capital Research, CoStar
## Market Statistics*

<table>
<thead>
<tr>
<th>SUBMARKET</th>
<th>EXISTING TOTAL RBA (SF)</th>
<th>UNDER CONSTRUCTION (SF)</th>
<th>TOTAL AVAILABLE (%)</th>
<th>TOTAL VACANCY (%)</th>
<th>2018 LEASING VOLUME (SF)</th>
<th>YTD LEASING VOLUME (SF)</th>
<th>2018 SALES VOLUME (SF)</th>
<th>YTD SALES VOLUME (SF)</th>
<th>AVERAGE ASKING RENT $/SF NNN</th>
<th>AVERAGE SALE PRICE $/SF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>242,759,230</td>
<td>255,360</td>
<td>4.8%</td>
<td>2.8%</td>
<td>1,755,272</td>
<td>4,439,358</td>
<td>2,249,841</td>
<td>4,757,932</td>
<td>$0.83</td>
<td>$186</td>
</tr>
<tr>
<td>Mid-Cities</td>
<td>100,560,504</td>
<td>675,161</td>
<td>4.8%</td>
<td>3.6%</td>
<td>2,838,926</td>
<td>4,884,185</td>
<td>603,399</td>
<td>1,387,916</td>
<td>$0.79</td>
<td>$167</td>
</tr>
<tr>
<td>South Bay</td>
<td>214,406,123</td>
<td>114,025</td>
<td>3.4%</td>
<td>1.9%</td>
<td>1,807,235</td>
<td>3,988,432</td>
<td>2,099,258</td>
<td>2,797,188</td>
<td>$1.08</td>
<td>$193</td>
</tr>
<tr>
<td>LA North</td>
<td>145,007,088</td>
<td>665,998</td>
<td>3.9%</td>
<td>2.3%</td>
<td>1,352,087</td>
<td>2,371,262</td>
<td>1,039,094</td>
<td>1,733,189</td>
<td>$0.86</td>
<td>$184</td>
</tr>
<tr>
<td>San Gabriel Valley</td>
<td>170,657,397</td>
<td>1,108,555</td>
<td>4.3%</td>
<td>2.6%</td>
<td>2,184,501</td>
<td>4,051,206</td>
<td>1,339,705</td>
<td>2,714,485</td>
<td>$0.73</td>
<td>$155</td>
</tr>
<tr>
<td>Total</td>
<td>873,390,342</td>
<td>2,819,099</td>
<td>4.2%</td>
<td>2.5%</td>
<td>9,938,021</td>
<td>19,734,443</td>
<td>7,331,297</td>
<td>13,390,710</td>
<td>$0.85</td>
<td>$178</td>
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</tbody>
</table>

## Leasing

The average asking rental rate continued to break records in 2Q 2018. Landlords pushed asking rents to an average of $0.85/SF NNN, up $0.03/SF from the prior quarter and $0.07/SF higher than 2Q 2017. The average asking rent reached a level 31% higher than the prior peak in 1Q 2008. More than 9.9M SF were leased in the second quarter, for a total of more than 19.7M SF leased in the first half of 2018. This is a decline of 20% over the first half of 2017 due to low availability. In one of the quarter’s largest transactions, DAMCO Distribution leased four buildings at Goodman Gateway in Santa Fe Springs totaling 989,809 SF. In another significant transaction, Hand Air Express, LLC leased 477,695 SF in a warehouse in Irwindale at an asking rate of $0.68/SF.

## Sales

Sales volume increased in 2Q 2018 due in part to strong price growth. More than 7.3M SF of industrial space sold this quarter at an average price of $178/SF, up 7.0% over 2Q 2017. Total transaction volume for the year exceeded $1.7B on 13.3M SF. Investment activity remained solid as cap rates averaged 4.82%. In one sale, Rexford Industrial purchased a 695,120 SF distribution center in Commerce for $174/SF. The property was purchased as an investment with Supervalu as a long-term credit tenant. In another significant investment, Morgan Stanley & Co. LLC purchased Bridge Point South Bay, a newly constructed warehouse totaling 512,490 SF. The building sold for $200/SF at a 5.1% cap rate and was vacant at the time of purchase; however, Nordstrom signed a lease and is expected to occupy the facility in early 2019.

## Select Lease Transactions

<table>
<thead>
<tr>
<th>TENANT</th>
<th>ADDRESS</th>
<th>SUBMARKET</th>
<th>ASKING RENT $/SF**</th>
<th>SQUARE FEET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hand Air Express, LLC</td>
<td>5301-5305 Rivergrade Rd</td>
<td>San Gabriel Valley</td>
<td>$0.68</td>
<td>477,695</td>
</tr>
<tr>
<td>Fashion Nova</td>
<td>12588 Florence Ave</td>
<td>Mid-Cities</td>
<td>Withheld</td>
<td>403,635</td>
</tr>
<tr>
<td>Prompt Apparel</td>
<td>3963 Workman Mill Rd</td>
<td>San Gabriel Valley</td>
<td>Withheld</td>
<td>240,959</td>
</tr>
<tr>
<td>VIG Furniture</td>
<td>2800-2900 Sierra Pine Ave</td>
<td>Central</td>
<td>$0.58 IG</td>
<td>129,509</td>
</tr>
<tr>
<td>Midas Express</td>
<td>1500 Los Nietos Rd</td>
<td>Mid-Cities</td>
<td>$0.88 IG</td>
<td>121,284</td>
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</table>

## Select Sales Transactions

<table>
<thead>
<tr>
<th>BUYER</th>
<th>ADDRESS</th>
<th>SUBMARKET</th>
<th>SALE PRICE $/SF</th>
<th>SQUARE FEET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rexford Industrial</td>
<td>5300 Sheila St</td>
<td>Central</td>
<td>$174</td>
<td>695,120</td>
</tr>
<tr>
<td>Morgan Stanley &amp; Co. LLC</td>
<td>20333 Normandie Ave</td>
<td>South Bay</td>
<td>$200</td>
<td>512,490</td>
</tr>
<tr>
<td>The Blackstone Group LP</td>
<td>9601-9603 John St</td>
<td>Mid-Cities</td>
<td>$137</td>
<td>181,070</td>
</tr>
<tr>
<td>First Industrial Realty Trust, Inc.</td>
<td>28545 Livingston Ave W</td>
<td>LA North</td>
<td>$120</td>
<td>173,056</td>
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<tr>
<td>Elite Lighting Corp</td>
<td>2340 S Eastern Ave</td>
<td>Central</td>
<td>$135</td>
<td>165,480</td>
</tr>
</tbody>
</table>

*RBA includes all industrial buildings. Rents reflect buildings of 10,000 SF or greater. **Rents are NNN unless otherwise noted.

Source: NAI Capital Research, CoStar
Los Angeles Industrial Market Outlook 2Q 2018

NAI Capital Research

J.C. Casillas
Vice President
Research, Marketing and Communications
jcasillas@naicapital.com

Jillian Olivas
Research and Communications Assistant
jolivas@naicapital.com

Kevin de Bree
Research Analyst
kdeebree@naicapital.com

Katherine Tattersfield
Marketing Research Writer
ktattersfield@naicapital.com

NAI Capital Southern California Office Locations

**Headquarters**
16001 Ventura Blvd., Ste. 200
Los Angeles, CA 91436
818.905.2400

**Property Management**
120th South El Camino Real, Ste. 210
San Clemente, CA 92674
949.874.0415

**Los Angeles County**

**Downtown LA**
601 S. Figueroa St., Ste 3825
Los Angeles, CA 90017
213.632.7700

**West Los Angeles**
11835 Olympic Blvd., Ste. 700E
Los Angeles, CA 90064
310.440.8500

**Torrance**
970 W. 190th St. Dr., Ste. 100
Torrance, CA 90302
310.332.9080

**Pasadena**
225 S. Lake Ave., Ste. 1170
Pasadena, CA 91101
626.564.4800

**Valencia**
27451 Tourney Rd., Ste. 200
Valencia, CA 91355
661.705.3550

**Diamond Bar**
21660 E. Copley Dr., Ste. 320
Diamond Bar, CA 91765
909.348.0600

**Ventura County**

**Oxnard**
300 Esplanade Dr., Ste. 1660
Oxnard, CA 93036
805.273.1400

**Westlake Village**
2555 Townsgate Rd., Ste. 320
Westlake Village, CA 91361
805.446.2400

**Ontario**
800 N. Haven Dr., Ste. 400
Ontario, CA 91764
909.945.2339

**Temecula**
27720 Jefferson Ave., Ste. 330
Temecula, CA 92590
951.491.7590

**Victorville**
13911 Park Avenue, Ste. 206
Victorville, CA 92392
760.790.4200

**Orange County**

**Irvine**
1920 Main St., Ste. 100
Irvine, CA 92614
949.854.6600

**Coachella Valley**

**Palm Desert**
75-410 Gerald Ford Dr., Ste. 200
Palm Desert, CA 92211
760.346.1566

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