MARKETBEAT

Greater Los Angeles

Industrial Q4 2017

LOS ANGELES COUNTY

Economic Indicators

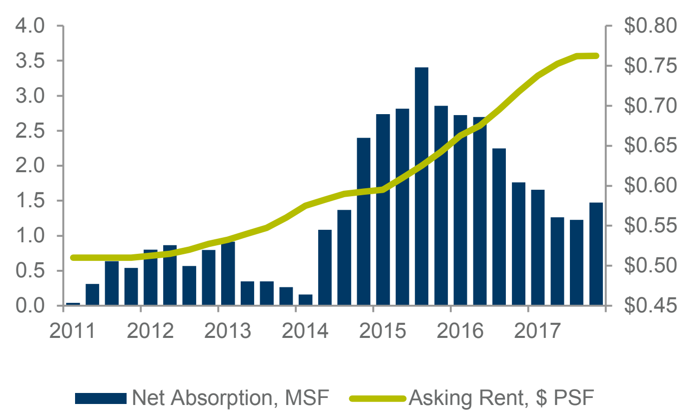
	Q4 16	Q4 17	12-Month Forecast
Los Angeles Employment	4.43M	4.47M	▬
Los Angeles Unemployment	5.1%	4.6%*	▼
U.S. Unemployment	4.7%	4.1%	▼

**Average Oct—Nov*

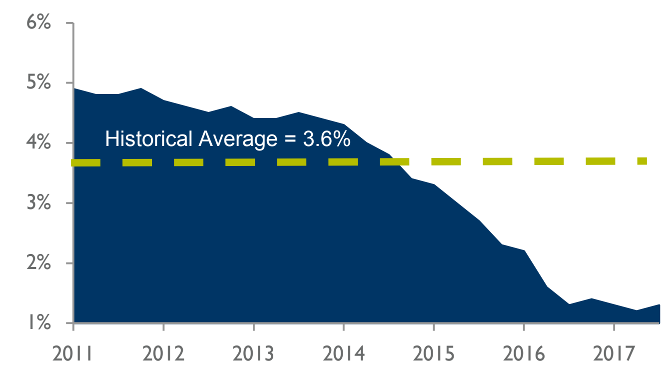
Market Indicators (Overall, All Property Types)

	Q4 16	Q4 17	12-Month Forecast
Vacancy	1.4%	1.3%	▲
YTD Net Absorption (sf)	7.0M	5.9M	▼
Under Construction (sf)	5.8M	6.4M	▬
Average Asking Rent (psf/mo)	$0.76	$0.78	▲

Overall Net Absorption/Overall Asking Rent
4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

According to the recent Cushman & Wakefield North American Industrial Forecast report, we enter a new year with a global economy that appears to have regained its footing for the first time since the financial crisis. Synchronized global growth, stabilizing oil prices, increasing manufacturing activity, and greater trade flows offer reasons for optimism. Continued job creation, stronger wage growth, and impending tax cuts in the U.S. should buoy household wealth and spur stronger consumer spending. On the downside, the greatest risk to the industrial outlook is trade policy. However, the fate of NAFTA, and any resulting shifts in real estate demand, will take time to unfold. Trade negotiations are seldom quickly accomplished, and even when an agreement is reached it can take months or years for the changes to take effect. Locally, 2017 is on track to be a record-setting year for container trade volume in a calendar year at the Long Beach & Los Angeles ports. Container volume at the combined ports are already at 15.41 million TEUs through November and will easily surpass 16 million TEUs when year-end numbers are tallied.

Market Overview

Greater Los Angeles continues to have the lowest vacancy of any major industrial market in the U.S. However, with vacancy of just 1.3%, 2017's leasing activity is down 5.7% from last year. The tight market means users have relatively few alternatives. Strong demand is putting added pressure on markets where both available space and land are in extremely short supply. In the last five years, the region has absorbed 35.0 million square feet (msf) of space while only adding 18.1 msf of new product to its inventory. Such momentum has generated significant rent growth in markets across the region and available Class A and B product are leased quickly at high rents. At year-end, direct average asking rent increased to $0.80 psf/mo for annual increase of 5.3% while overall rent posted a 2.6% annual growth. Although these increases are significantly lower than 2016's double-digit growth, overall rents are still up 56% from their lows during the financial crisis. Due to accelerating demand for last-mile facilities, well-located Class B properties, which five years ago may have been considered obsolete, are now sought after spaces in in-fill markets. These distribution centers are focus on fast throughput delivery rather than maintaining high levels of inventory and ceiling heights are not as important as a site's ability to accommodate a large number of delivery vans as well as employee parking. Last-mile facilities are about the parking, access, and proximity to customers.

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Central Los Angeles

Although demand for industrial product has never been greater, options are limited and users have relatively few alternatives due to insufficient available supply. After a significant increase in leasing activity in the third quarter, leasing velocity slowed at the final quarter of the year and 2017 ended with leasing total of 8.0 msf, down 17.8 % from last year. With 2.7 msf of leased space, the Vernon submarket dominated the Central LA market in terms of leasing activity in 2017. This submarket also accounted for the majority of the market's net demand with 470,559 of occupancy gains. Although rents have grown 60.9% in the last five years, there was a very slight decrease in overall rents from last year due to limited amount of quality space coming online. Class A and B+ facilities are leasing quickly so what remains are inferior buildings that drag the average rate down and the year ended with an average rent of $0.74 psf/mo, compared to $0.75 psf/mo in 2016. The Commerce/Vernon submarket's overall vacancy rate declined to 1.4% from 1.5% in the third quarter and ended the year with 324,788 sf net absorption. However, with the addition of 895,806 sf of new supply, the vacancy rate was 20 bps higher than last year. With strong demand and limited supply, rental rates are now at historic highs with the overall average rate now 23.1% higher than the last peak recorded in 2008. Market fundamentals will remain strong and lease rates and sale prices will continue to trend up.

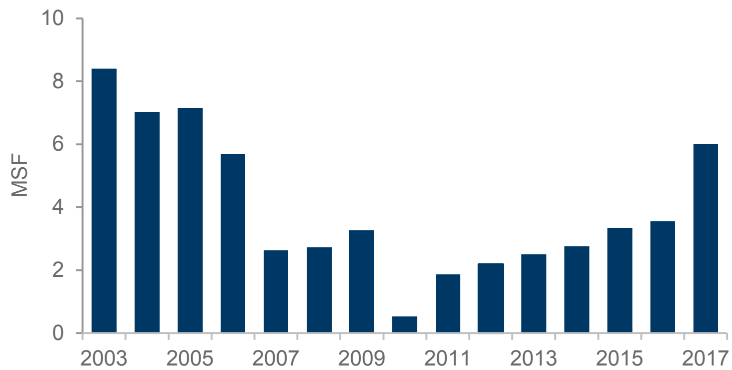
WITH ONLINE SALES GROWING MULTIPLE TIMES FASTER THAN OVERALL RETAIL SALES, THEY WILL REMAIN A POWERFUL INDUSTRIAL TAILWIND. LEASING WILL ALSO BENEFIT FROM A MUCH-IMPROVED GLOBAL ECONOMY.

Outlook

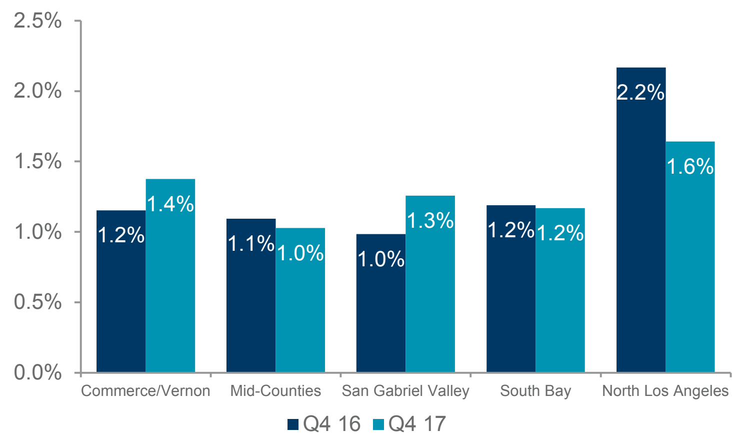
- Retailers will push to keep pace with pure play eCommerce-only contenders and will aggressively revamped their real estate strategies to favor greater investment in online fulfillment, distribution centers, and the technology necessary to facilitate same-day and next-day shipping.
- The need for last mile facilities will continue to be a significant generator of demand ahead and the warehouse sector will continue its red-hot run as an asset class.
- Rising land and construction costs and strong demand will continue to fuel rent growth in 2018.

New Supply

INCREASING DEVELOPMENT ACTIVITY

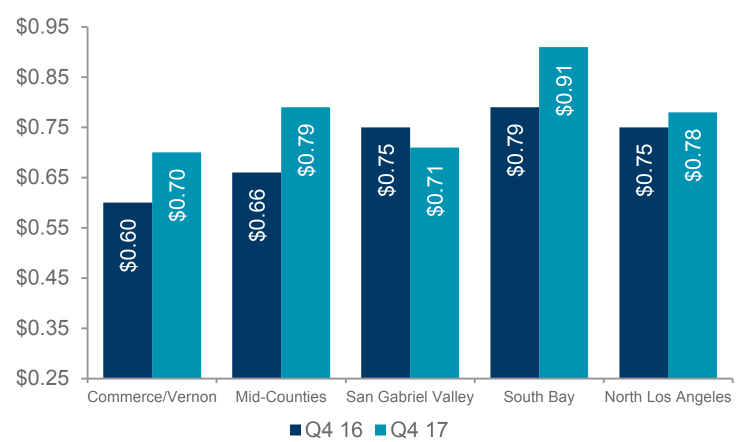


Overall Vacancy Comparison



Average Direct Asking Rent

ANNUAL RENT APPRECIATION AVERAGED 10%



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South Bay

At year-end, overall vacancy for the South Bay market stood at 1.2% - the same level as last year. For perspective, the lowest rate that was recorded during the last peak cycle period was 2.1% in 2004. With such low vacancies across all submarkets, there is little room for further growth and the year ended with net absorption of just 1.1 msf. It has been a very challenging market for users as available supply is limited. The tight market has intensified competition for the more desirable and functional spaces that become available and the average rental rate jumped to a historic high of $0.86 psf/mo (net), for an annual increase of 8.9%. Leasing velocity slowed to just 1.1 msf in the fourth quarter; however, due to a very strong first quarter, 2017's year-end leasing activity total of 9.2 msf is up 4.3% from 2016 year-end total of 8.8 msf. The Carson/ Compton/Rancho Dominguez submarket, South Bay's largest, posted a 3.4% annual increase in leasing activity in 2017. It's definitely a great time to be a landlord or a seller as pricing continues to increase, and vacancy remains at historically low levels. Perhaps the biggest news of the year in the South Bay is the $270 million sale of Toyota's 110-acre property to Sares-Regis for redevelopment that will have a mix of office, retail and industrial businesses.

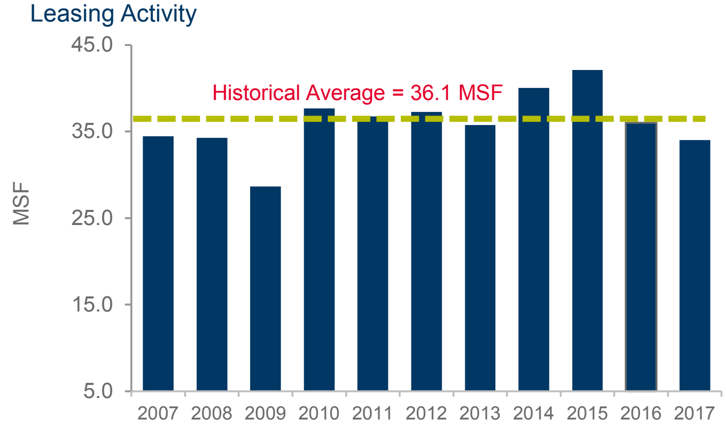
Mid-Counties

The Mid-Counties market is performing at peak levels with record high lease rates, sale values and land prices. Averaging $0.79 psf/mo, asking rental rates posted an 19.7% annual increase, more than double the annual growth rate of 8.2% in 2016. With the completion of 576,394 sf and only 209,566 sf of net demand in the fourth quarter, overall vacancy rate rose to 1.0%, from 0.7% in the third quarter. After a significant increase in leasing activity in the third quarter with 1.6 msf leased, leasing slowed significantly in the fourth quarter, totaling just 954,953 sf. However due to two strong quarters, the year-end leasing total of 5.4 msf easily surpassed 2016's total by 11.7%. Due to strong demand, the 1.5 msf of space under development, of which 53% is pre-leased, is not expected to apply additional upward pressure on vacancy in 2018.

San Gabriel Valley

San Gabriel Valley, which dominates the Los Angeles region in development activity, is now in its eighth year of positive growth. With 2.0 msf of new supply (the highest level since 2003) and 1.3 msf of net demand in 2017, the market's overall vacancy rate of 1.3% at year-end was 30 bps higher than last year. As it is a supply-driven increase and new buildings are likely to attract strong and, in some cases, pent-up demand, vacancy is expected to decrease slowly as these new buildings are absorbed. Logistics users and growing entrepreneurs will continue to drive demand for space. Due to the tight market, 2017's overall leasing total of 5.3 msf is 14.1% lower than the same period a year ago. The Industry submarket, which accounts for 44.0% of San Gabriel Valley's inventory, posted 3.2 msf of leasing activity in 2017 and ended the year with a 1.4% vacancy rate, 30 bps higher than last year. User sales activity has been strong this year, totaling 1.6 msf , 10.2% higher than a year ago. With strong lease-up in Class A properties and new product officially unpriced or tagged as TBD, there has been a slight dip in rental rates this year with an average of $0.71 psf/mo. Although the supply pipeline has been steadily increasing to satisfy the strong demand for Class A product, construction completions totaled just 5.6 msf in the last four years while 2.5 msf remained under construction at year-end.

Leasing Activity



North Los Angeles

North Los Angeles tops the region in net demand with 2.1 msf absorbed in 2017, lowering its vacancy rate 60 bps from last year to 1.6%. Healthy demand has lead to historic low vacancy and continues to push rental rates higher with direct rental rates averaging $0.78 psf/mo, for a 4.0% annual growth. In terms of net demand, Ventura County maintains its ranking as the market leader with 1.1 msf of net absorption in 2017 while East Valley remains the tightest submarket with an overall vacancy rate of 0.4%. Ontrac's occupancy of the newly completed 264,068-sf facility in Sun Valley brought East SFV's net absorption to 759,969 sf in 2017. Further north, Trammell Crow Company and investor Clarion Partners broke ground on a seven-building, 869,083-sf project on their 54- acre development site in Santa Clarita Valley which will provide new Class A industrial space into the highly constrained North Los Angeles market.

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CUSHMAN & WAKEFIELD

SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	YTD LEASING ACTIVITY (SF)	YTD USER SALES ACTIVITY (SF)	OVERALL VACANCY RATE	YTD NET OVERALL ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	YTD CONSTRUCTION COMPLETIONS (SF)	DIRECT WEIGHTED AVG. NET RENT (MF)	DIRECT WEIGHTED AVG. NET RENT (OS)	DIRECT WEIGHTED AVG. NET RENT (W/D)
Los Angeles	2,519	123,669,204	1,988,494	461,334	1.0%	169,618	0	0	$1.05	$1.45	$0.76
Commerce/Vernon	2,630	164,349,392	5,987,170	934,750	1.4%	324,788	388,474	895,806	$0.65	$1.23	$0.69
Mid-Counties	2,063	122,473,592	5,377,963	405,472	1.0%	871,965	1,452,664	761,454	$0.74	$1.10	$0.77
San Gabriel Valley	3,608	195,689,886	5,327,827	1,572,034	1.3%	1,277,185	2,539,348	1,995,912	$0.53	$0.75	$0.71
South Bay	4,753	233,358,074	9,229,535	945,612	1.2%	1,091,796	700,691	957,682	$0.81	$1.27	$0.87
Westside	558	16,681,394	136,440	17,940	0.4%	57,611	0	0	$0.00	$2.09	$2.21
North Los Angeles	5,914	224,419,913	5,930,473	1,693,169	1.6%	2,096,433	1,283,881	1,409,569	$0.65	$1.34	$0.73
GREATER LOS ANGELES TOTAL	**22,045**	**1,080,641,455**	**33,977,902**	**6,030,311**	**1.3%**	**5,889,396**	**6,365,058**	**6,020,423**	**$0.77**	**$1.18**	**$0.75**

NOTE: Rental rates reflect asking $psf/month MF = Manufacturing OS = Office Service/Flex W/D = Warehouse/Distribution

Key Lease Transactions Q4 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
9400 Santa Fe Springs Road, Santa Fe Springs	411,034	XOP Logistics	Renewal	Mid-Counties
5959 Randolph Street, Commerce	403,444	Ontrac	Renewal	Commerce/Vernon
825 S Vail Avenue, Montebello	401.033	Bella+Canvas	New Lease	Commerce/Vernon
12828 Carmenita Road, Santa Fe Springs	268,536	West Coast Distribution	New Lease	Mid-Counties
1375 Beachey Place, Carson	250,272	General Mills	Renewal	South Bay
2743 Thompson Creek Road, Pomona	245,961	Warehouse Specialist	Renewal	San Gabriel Valley
11600 Alameda Street, Lynwood	201,027	WSS-Eurostar	New Lease	Commerce/Vernon
2201 E Carson Street, Caron	145,140	Fitzmark, Inc	New Lease	South Bay
8900 Rex Road, Pico Rivera	145,000	Anastasia Beverly Hills	New Lease	Commerce/Vernon
8945 Dice Road, Santa Fe Springs	131,642	Straight Forwarding	New Lease	Mid-Counties

Key Sale Transactions Q4 2017

PROPERTY	SF	SELLER/BUYER	PRICE/$PSF	SUBMARKET
Fullerton Road Ind Park & La Mirada Industrial Park	3,501,809	Principal Real Estate Investors /Blackstone	$357,800,000 *	SGV/Mid-Counties
825 Ajax Avenue, City of Industry	421,478	Bridge Development / Duke Realty	$66,500,000 / $158	San Gabriel Valley
687 N Eucalyptus Avenue, Inglewood	143,456	Panattoni Development / Rexford Industrial Realty	$54,000,000 / $376	South Bay
16325 Avalon Blvd, Carson	210,710	TIAA-CREF / Liberty Trust	$46,350,000 / $220	South Bay

**Allocated amount – part of a portfolio sale*

Under Construction Q4 2017

PROPERTY	SF	MAJOR TENANT	COMPLETION DATE	SUBMARKET
The Center at Needham Ranch, Valencia	869,083	None	Q4 2018	North Los Angeles
Goodman Logistics Center, Santa Fe Springs	802,092	McMaster-Carr	Q1 2018	Mid-Counties
Arcadia Logistics Center, Arcadia	801,059	FedEx/Samuel & Son	Q1 2018	San Gabriel Valley

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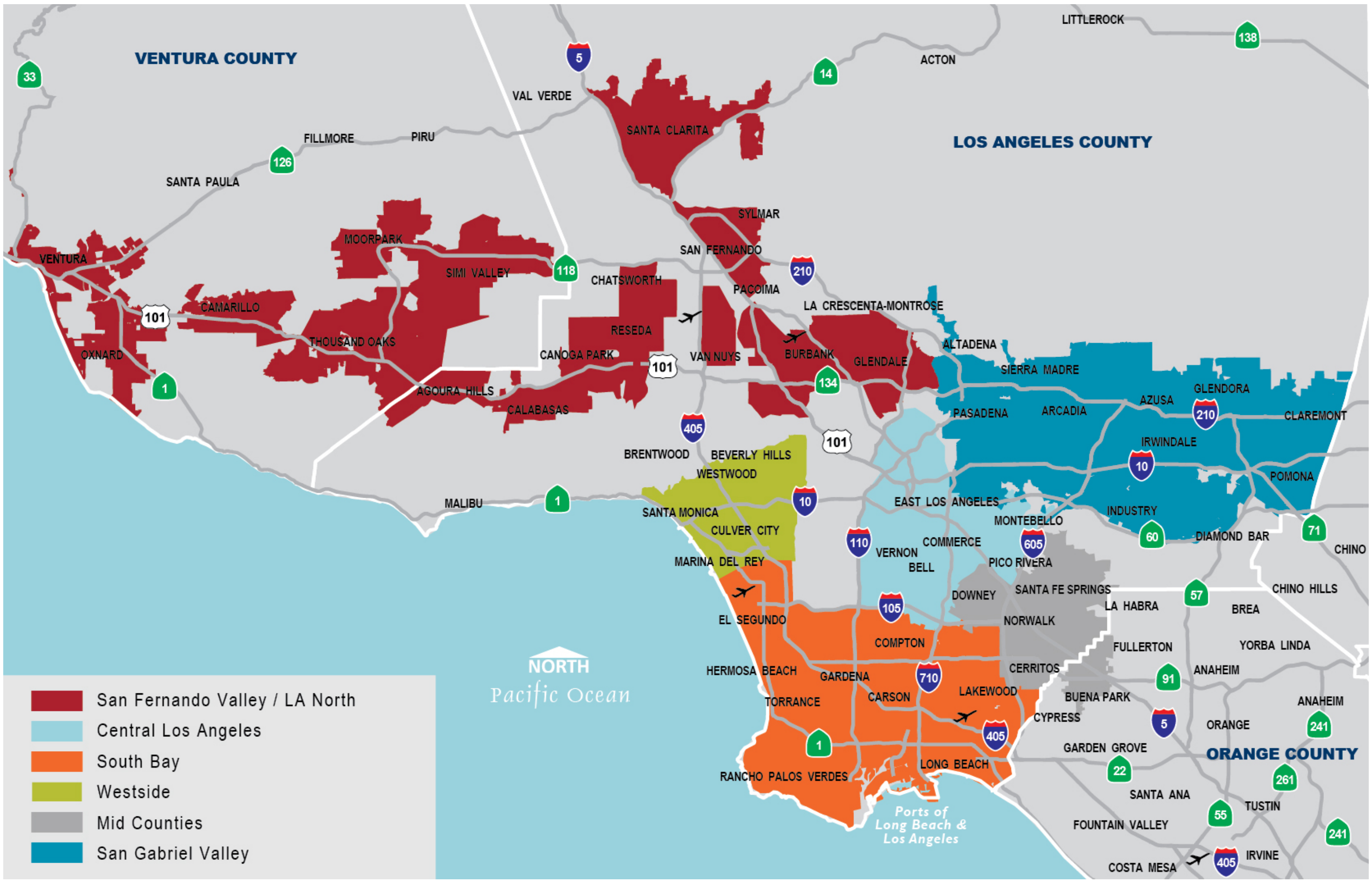
GREATER LOS ANGELES INDUSTRIAL MARKETS



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