2Q24

Los Angeles Industrial Market Overview

NEWMARK

Market Observations

Economy

- U.S. retail sales are healthy but remain below their 20-year average. “Decent” but “not great” sales have implications for local industrial leasing conditions.
- Loaded import volume at Southern California’s ports totaled 3.7 million containers in the first five months of 2024, up 17.0% from the same period in 2023.
- Ship attacks in the Red Sea, along with a potential strike by Gulf and East Coast dockworkers in the coming months, are causing more goods to be funneled in through western ports of entry, notably Los Angeles/Long Beach.
- Most of this rerouted cargo is being shipped eastward by rail to markets outside of Southern California. Goods that are “just passing through” have a negligible impact on local market dynamics.

Leasing Market Fundamentals

- Leasing volume and the average weighted lease term marginally increased over the past two quarters after hitting cyclical lows at the end of 2023. Still-high rents, elevated business costs and tepid retail sales are hindering a more robust recovery.
- Net absorption was negative for the eighth consecutive quarter, while vacancy climbed to a 14.5-year high of 3.7%.
- Sublet availability increased 11.6% over the preceding quarter to reach 9.7 MSF.
- Class A infill start rents were down 20.3% from seven quarters ago. A drop, but not a severe one when considering rents grew by 112.6% from early 2021 to late 2022.
- The construction pipeline (5.0 MSF) has narrowed since the third quarter of 2023. Thirty-nine buildings are underway and a mere 10.3% are pre-leased.

Major Transactions

- 24 leases over 100,000 SF were signed this quarter, an improvement over the 20 signed in the same period in 2023. Direct leases predominated.
- KW Logistics committed to 338,932 SF at 1650 Glenn Curtiss St in Carson in the largest lease of the quarter. The quarter’s four biggest leases were in the South Bay.
- Rexford Industrial Realty followed up a 48-property portfolio acquisition in the first quarter of the year with the purchase of Arrow Highway Business Park (134,542 SF) from Panattoni in May. The fully-leased, Irwindale-based site traded for $48.5 million.
- Invesco Advisers, Inc. purchased a 154,328-SF distribution facility at 8901-8945 Canoga Ave in Cangoa Park from AEW Capital Management. The $57.0 million sale closed in April and was the largest single-property trade of the quarter.

Outlook

- Vacancy will rise for the foreseeable future as elevated rents deter potential lessees from entering or expanding within the market, while existing tenants consider applicable cost-cutting measures. New supply coming online will be a factor, too.
- 1.8 MSF in new construction is slated to deliver next quarter; 18.0% has pre-leased.
- Leasing activity is rebounding in the western half of the Inland Empire, where modern facilities are more common and rents are cheaper: Class A warehouse contract rents for 100,000-199,999-SF spaces average $1.28/SF/month NNN compared to $1.96/SF in Los Angeles’ core basin. This gap might compel local landlords to further reduce rents to retain tenants, even though Inland drayage costs are higher.
- Infill developers will continue to search the market for opportunities; Los Angeles has excellent long-term fundamentals.

TABLE OF CONTENTS

2Q24

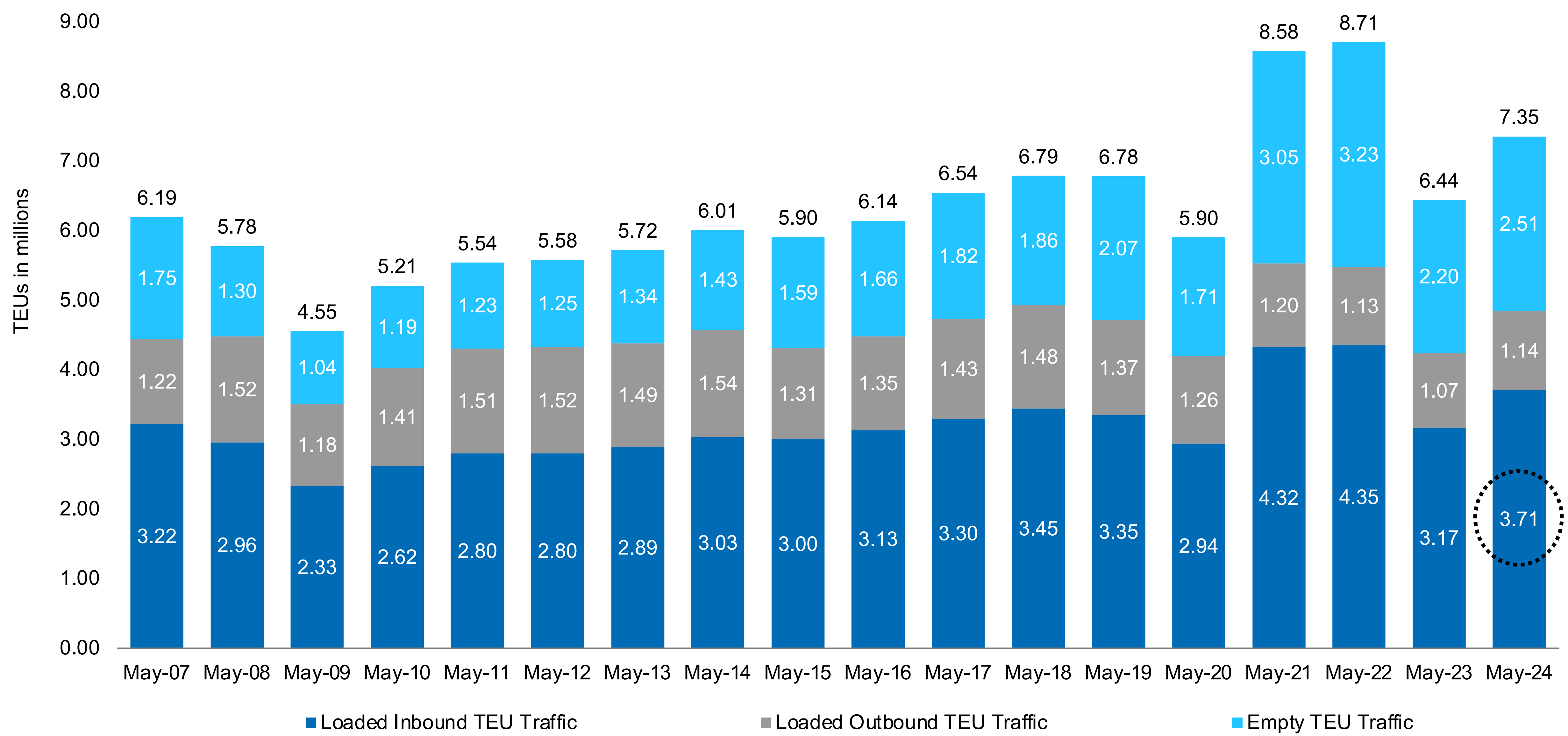
Economy: Southern California’s Ports and U.S. Retail Sales

Ocean Container Spot Rates Were Up 136% from Mid-April to Late June 2024

Loaded Imports in the First Five Months of 2024 Were Stronger Than the Same Periods in 2018 and 2019

2018 and 2019 ended up being healthy years before the exceptional (but inflated and unsustainable) growth of 2021-2022 due to COVID-19-related stay-at-home measures, government stimulus and domestic warehouse occupiers stockpiling goods to mitigate against global supply chain disruptions at the time.

The Ports of Los Angeles and Long Beach: Combined TEU Volume | Loaded Imports, Loaded Exports and Empty Containers | First Five Months of a Given Year



Source: Newmark Research, The Port of Long Beach and Los Angeles
Note: TEUs are a standard measure for the steel cargo containers commonly used interchangeably on ships, trucks and trains. A TEU or 20-foot equivalent unit is the industry measure used to tally cargo containers, whether the containers are 20-foot long, 40-foot long or some other size.

West Coast Dockworkers Signed a New Contract in 2023; Their Eastern Counterparts are Next Up…

The ILWU and PMA signed a new labor contract in September 2023, restoring a sense of much-needed stability at U.S. West Coast seaports for the next six years. Longshoremen at East and Gulf Coast ports are currently negotiating their contract, which will expire at the end of September 2024. Import volume will shift to other ports of entry (e.g., Los Angeles-Long Beach) until an agreement is reached.

West Coast Ports Agreement Reached…Finally!

- The International Longshore Warehouse Union (ILWU) represents dockworkers at 29 ports from Washington State to California. The Pacific Maritime Association (PMA) represents ocean carriers and terminal operators.
- The prior contract expired on July 1, 2022.
- The ILWU has a history of work disruptions in prior negotiation periods, ranging from strikes, to deliberate work slowdowns to under-staffing shifts.
- These disruptions have cost major retailers billions of dollars in the past.
- In March, for instance, the ILWU did not stagger shifts during meal periods.
- A tentative agreement was reached on June 15, 2023 for what became a new six-year contract. Longshore workers secured a 32% salary increase.
- Many Asian importers pushed inbound goods to East and Gulf Coast ports as talks dragged on. Some of this traffic is returning since stability is now less of a concern.

East and Gulf Coast Ports Are Up Next

- The International Longshoremen (ILA) represents dockworkers at 36 ports from Maine to Texas. The United States Maritime Alliance (USMX) represents ocean carriers and terminal operators.
- Their contract will expire on September 30, 2024.
- Harold Daggett, International President of the ILA, has warned that a strike is likely in 2024.
- Higher pay and job security as it pertains to automating port operations were primary issues for the ILA in 2018/the last negotiation period.

Source: Newmark Research, City of Los Angeles, The Real Deal

Import Traffic Has Jumped Since Late 2023 at Los Angeles/Long Beach

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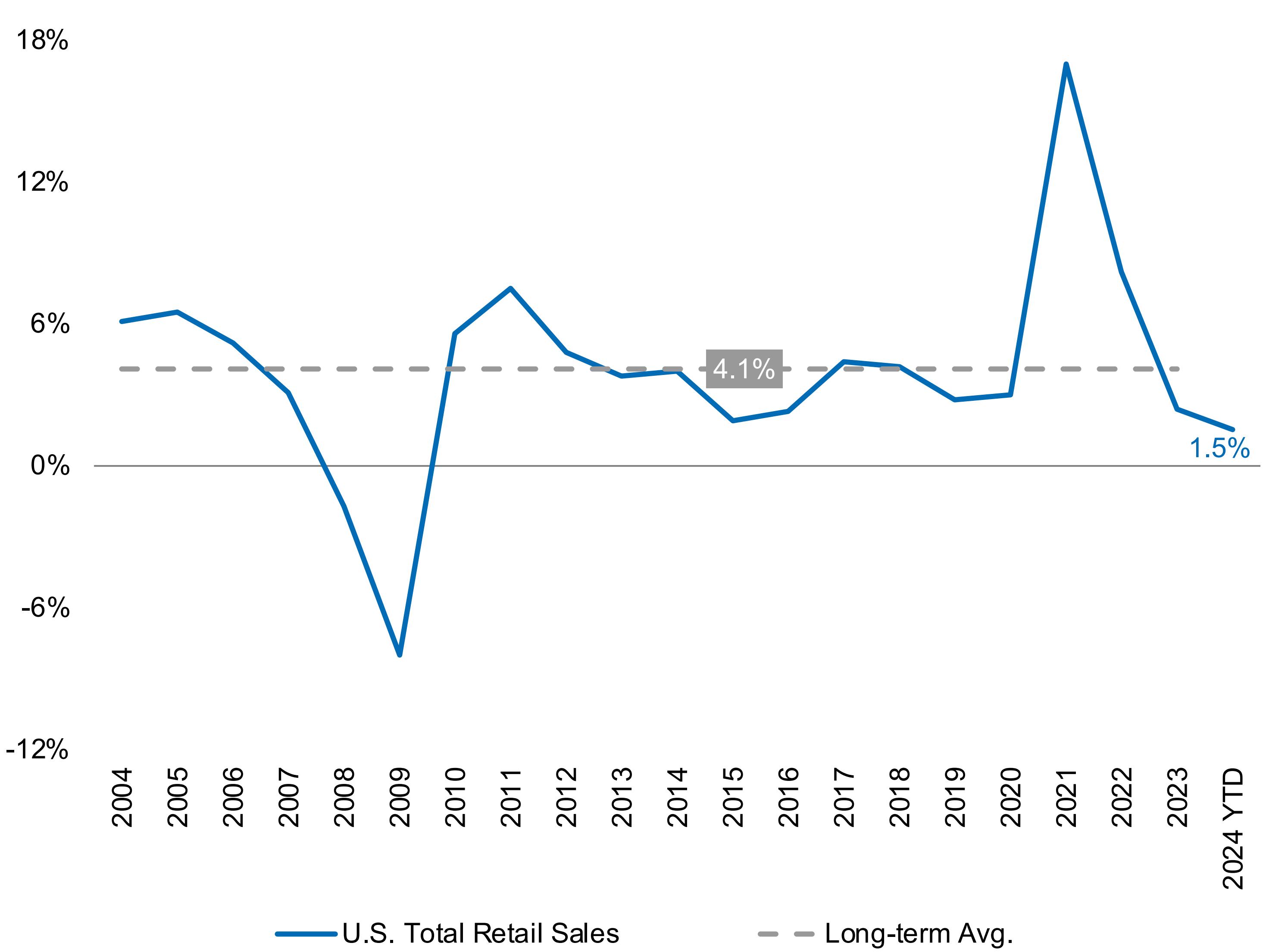
Truck Dwell Times are Lower Than Rail Dwell Times

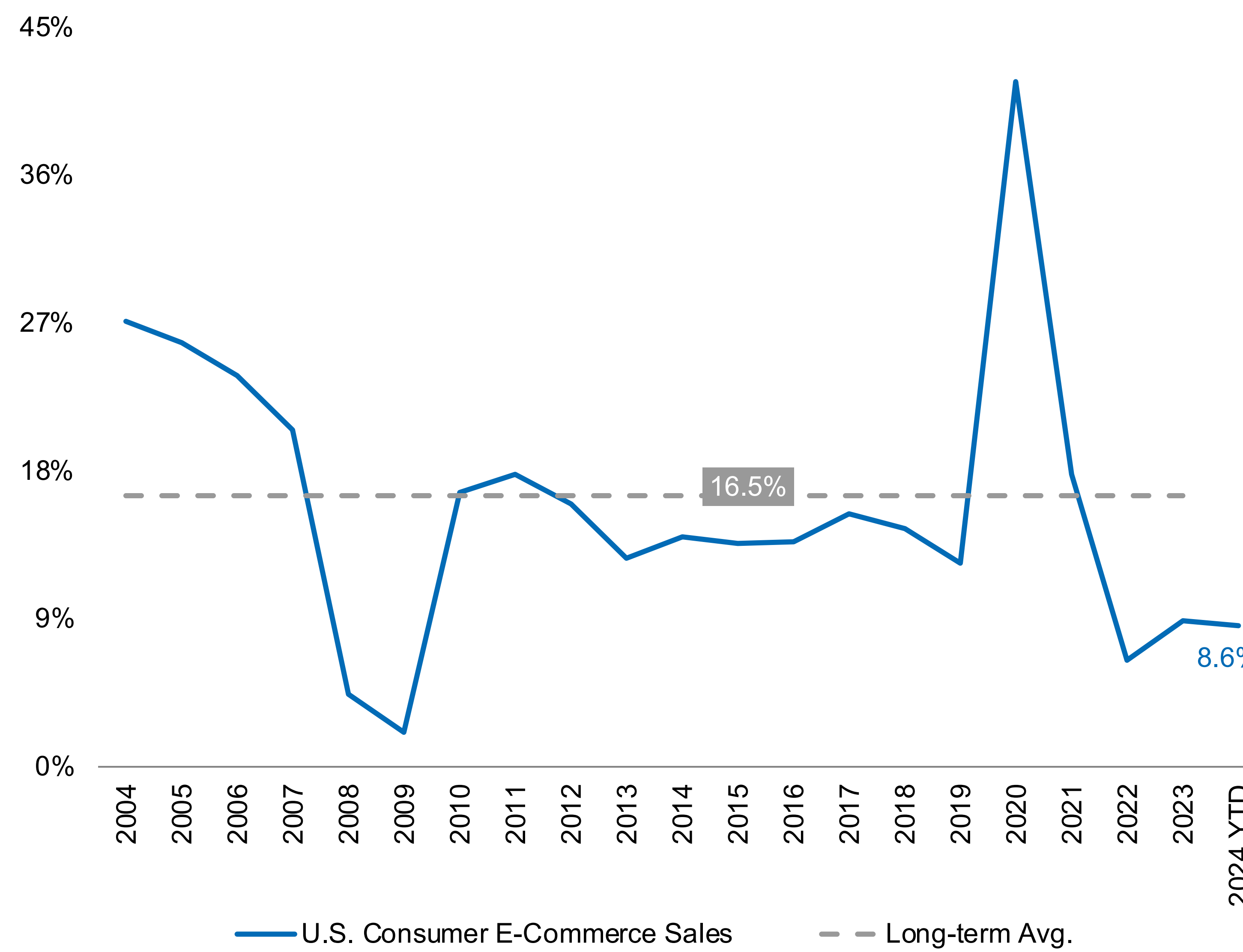
Retail Sales (an Indicator of Warehouse Demand) Continue to Moderate

Consumer e-commerce sales were up 8.6% in the first three months of 2024 compared with the same period in 2023. Although e-commerce sales growth exceeded total retail sales (+1.5% over the same period), the decline from 2021 onward is noticeable as consumer spending registers slower gains.

U.S. Retail Sales Annual Growth



U.S. Consumer E-Commerce Sales Annual Growth



Source: US Census Bureau (consumer adjusted retail sales); most current data available
Note: 2024 YTD annual growth represents sales in the first three months of 2023 vs. the same period in 2024.

The Pandemic Accelerated E-Commerce Sales Growth and Adoption Rates

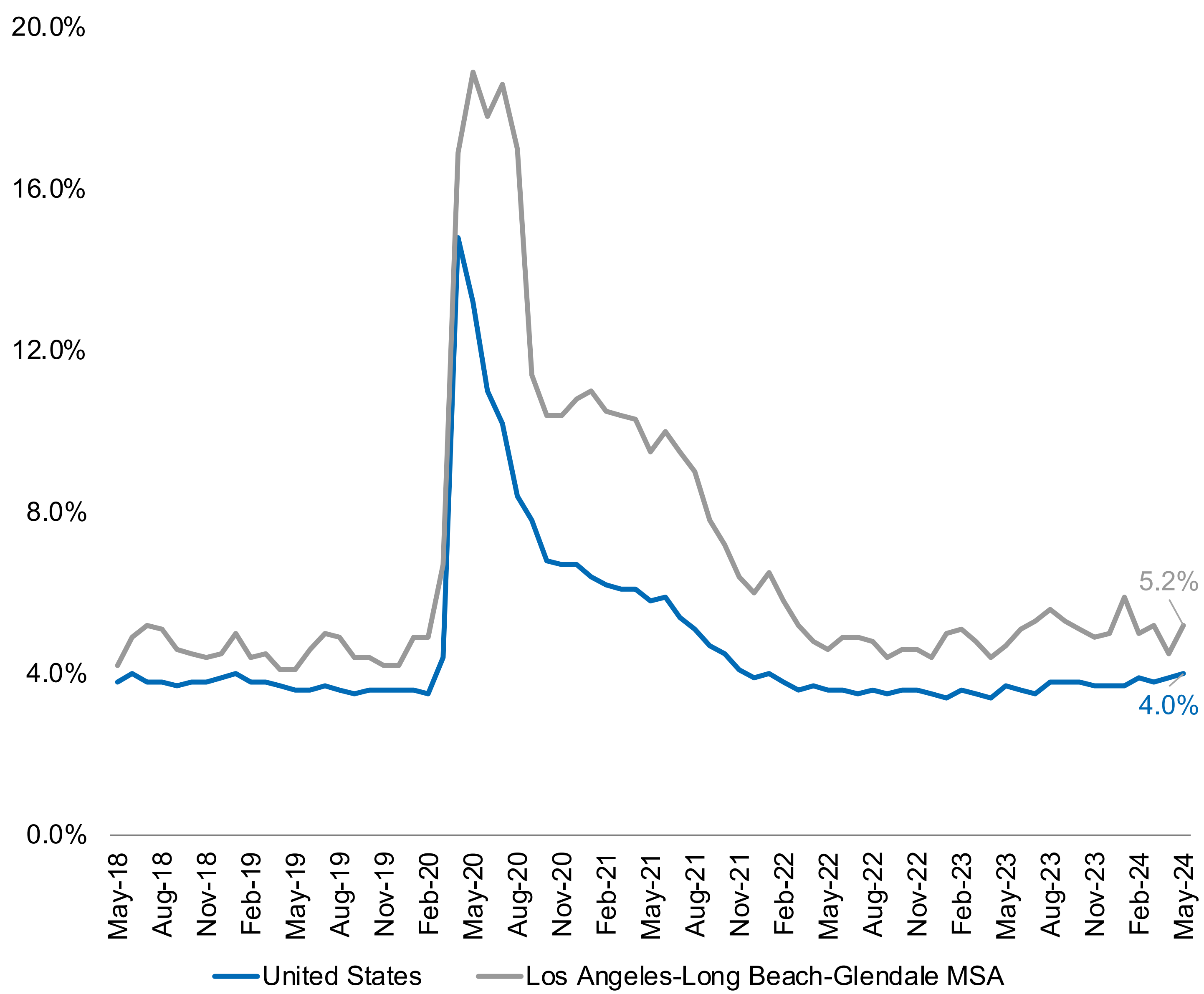
2Q24

Economy: Local Labor Market

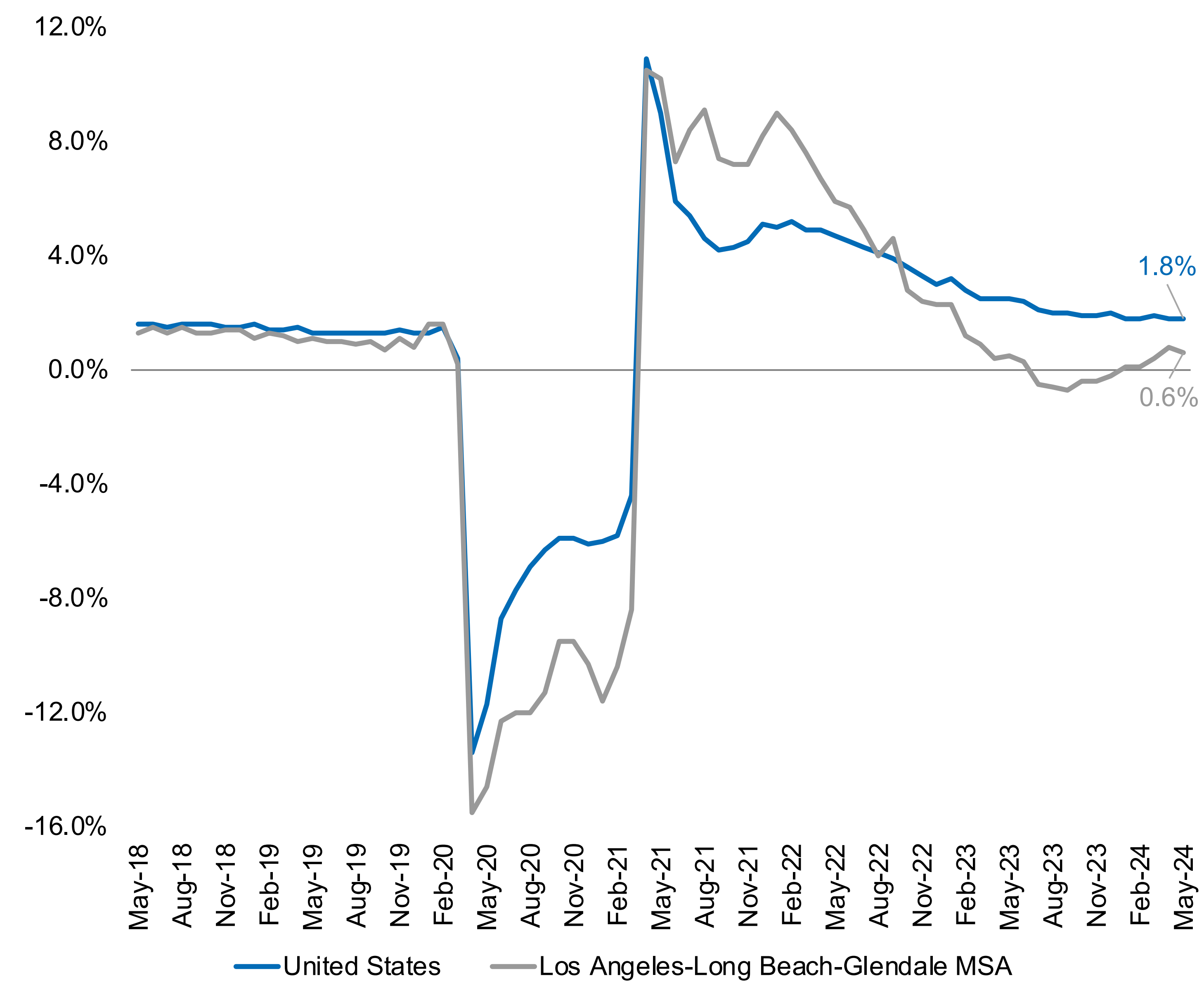
Unemployment Rate Fairly Consistent Over Past Year; Employment Growth in Flux

Local unemployment (5.2%) is identical to the region's 12-month average and slightly above the pre-pandemic (February 2020) average of 4.9%. Local nonfarm employment growth, which has steadily cooled since early 2022, benefitted from small-but-steady monthly gains from February through May. The elevated cost of debt and lingering inflation will continue to exert downward pressure on employment growth in the coming months.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

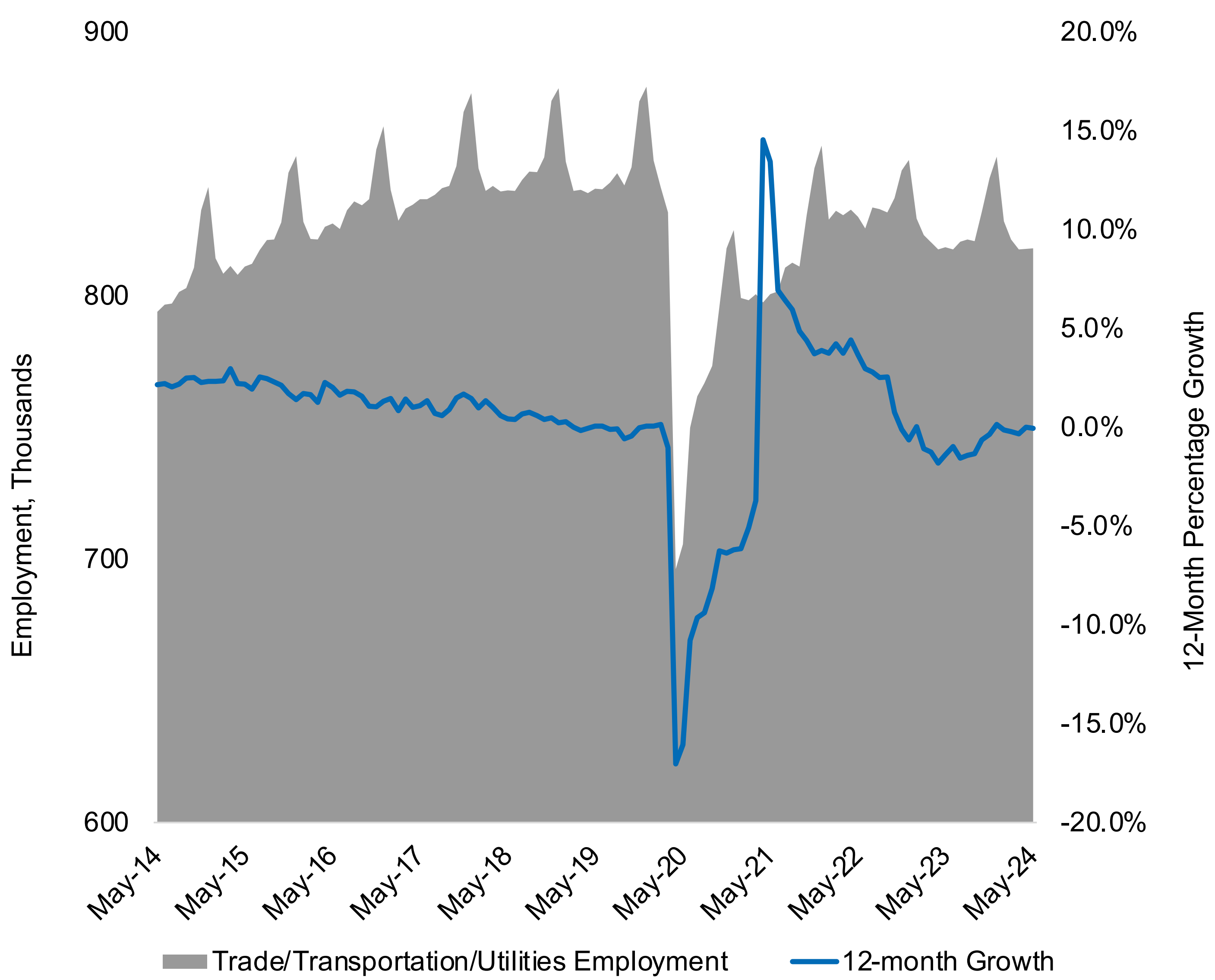


Source: U.S. Bureau of Labor Statistics, Los Angeles-Long Beach-Glendale MSA

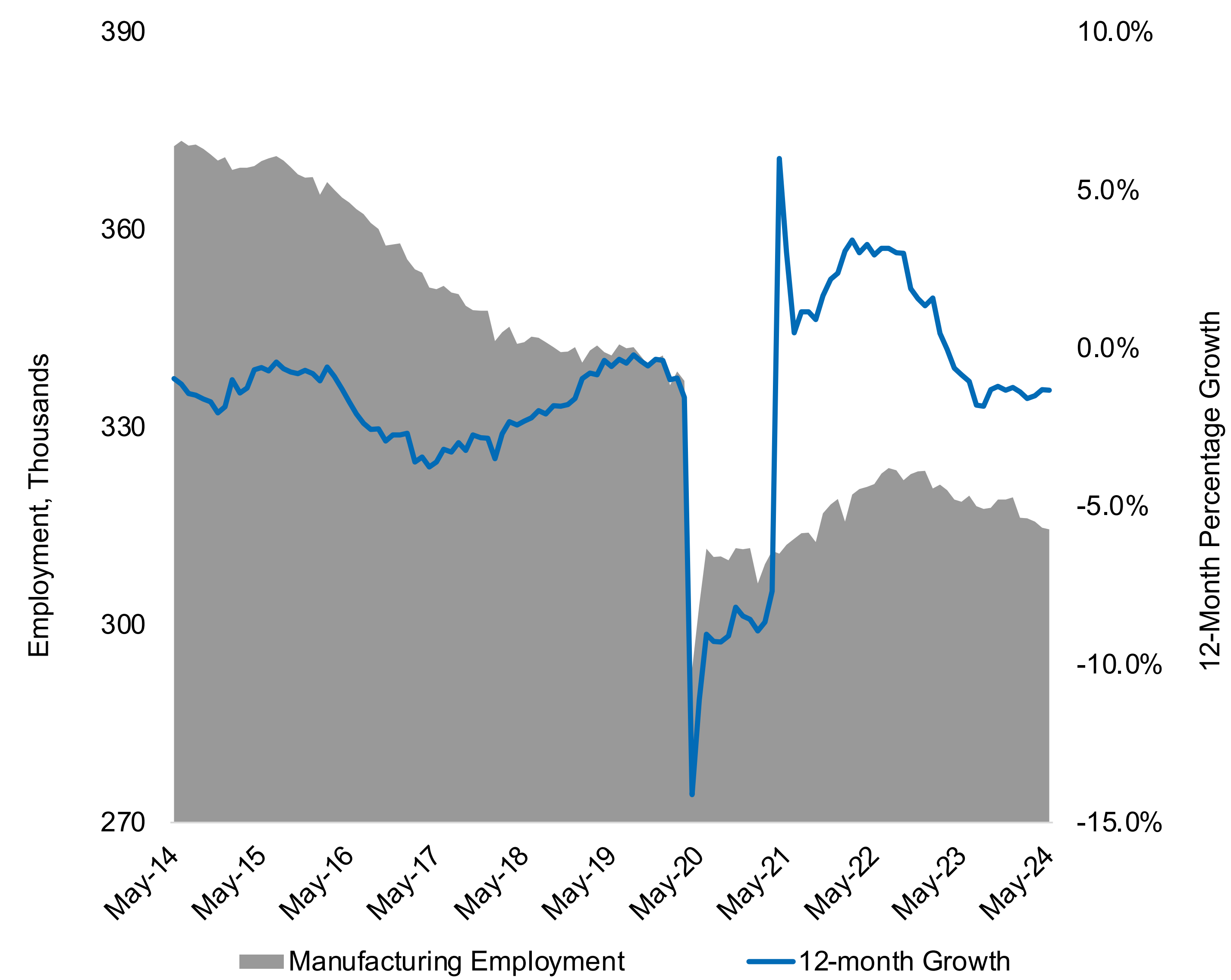
Industrial Employment Subject to Change Despite Relative Stability in Recent Months

The trade/transportation/utilities sector continues to contend with departures and downsizings among cost-conscious warehouse operators throughout the greater market. Manufacturing remains hampered by ever-rising costs of doing business in California.

Trade/Transportation/Utilities Employment and 12-Month Growth Rate



Manufacturing Employment and 12-Month Growth Rate



Source: U.S. Bureau of Labor Statistics, Los Angeles-Long Beach-Glendale

2Q24

Leasing Market Fundamentals

Contact Rents Continue to Adjust

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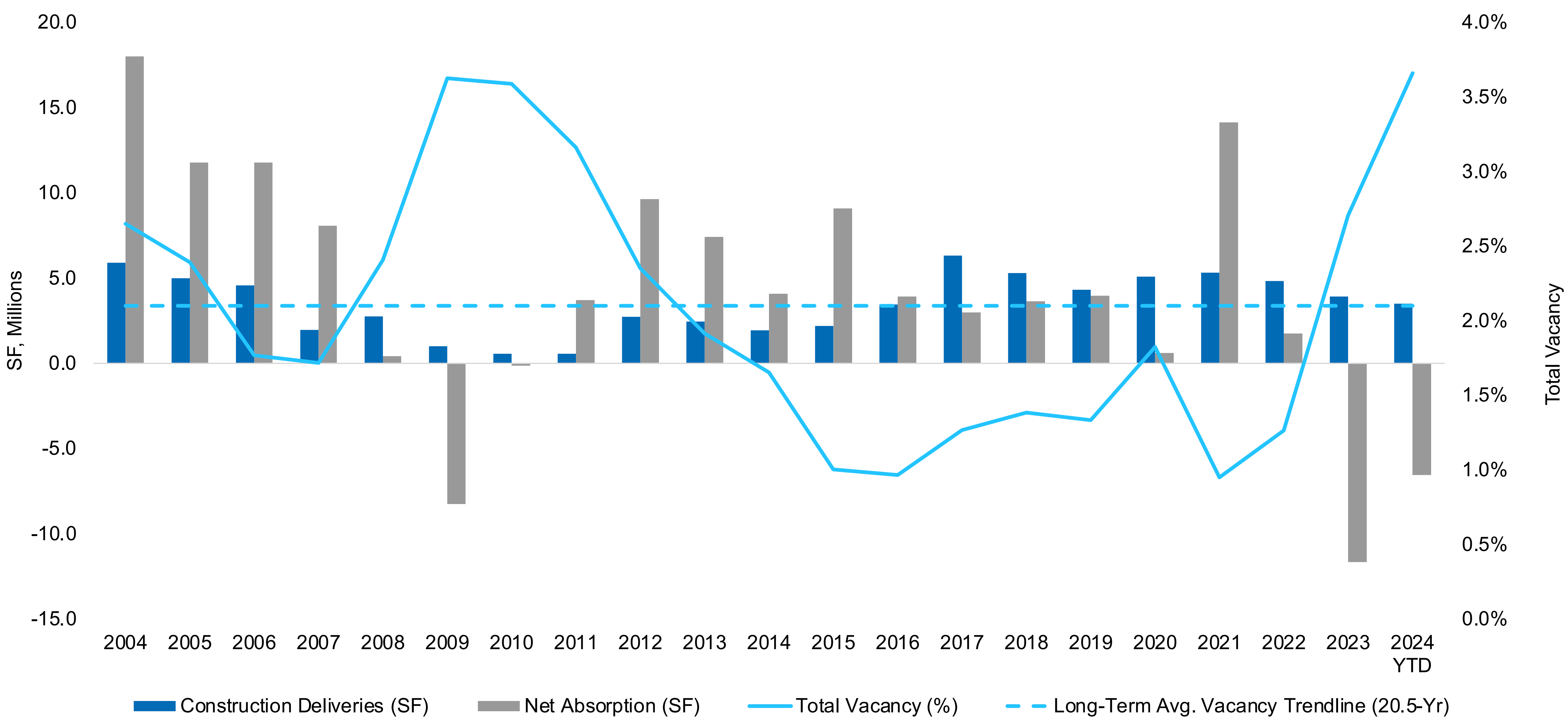
Average Weighted Lease Terms Remain Below Long-Term Average

Vacancy Highest Since 2010; Net Absorption Losses Posted For Eighth Quarter in Row

Vacancy reached 3.7% (a 14.5-year high) in the second quarter of 2024 year as tenants continued to shed space. Move-outs by 99 Cents Only (620,000 SF), VF Corp (530,038 SF), Huffy (338,899 SF SF) and Hollander Sleep Products (330,000 SF) as well as a host of smaller vacancies accounted for second-quarter net absorption losses of 3.2 MSF. On a year-to-date basis, net absorption totaled -6.5 MSF while new supply accounted for 3.5 MSF.

Historical Construction Deliveries, Net Absorption, and Vacancy

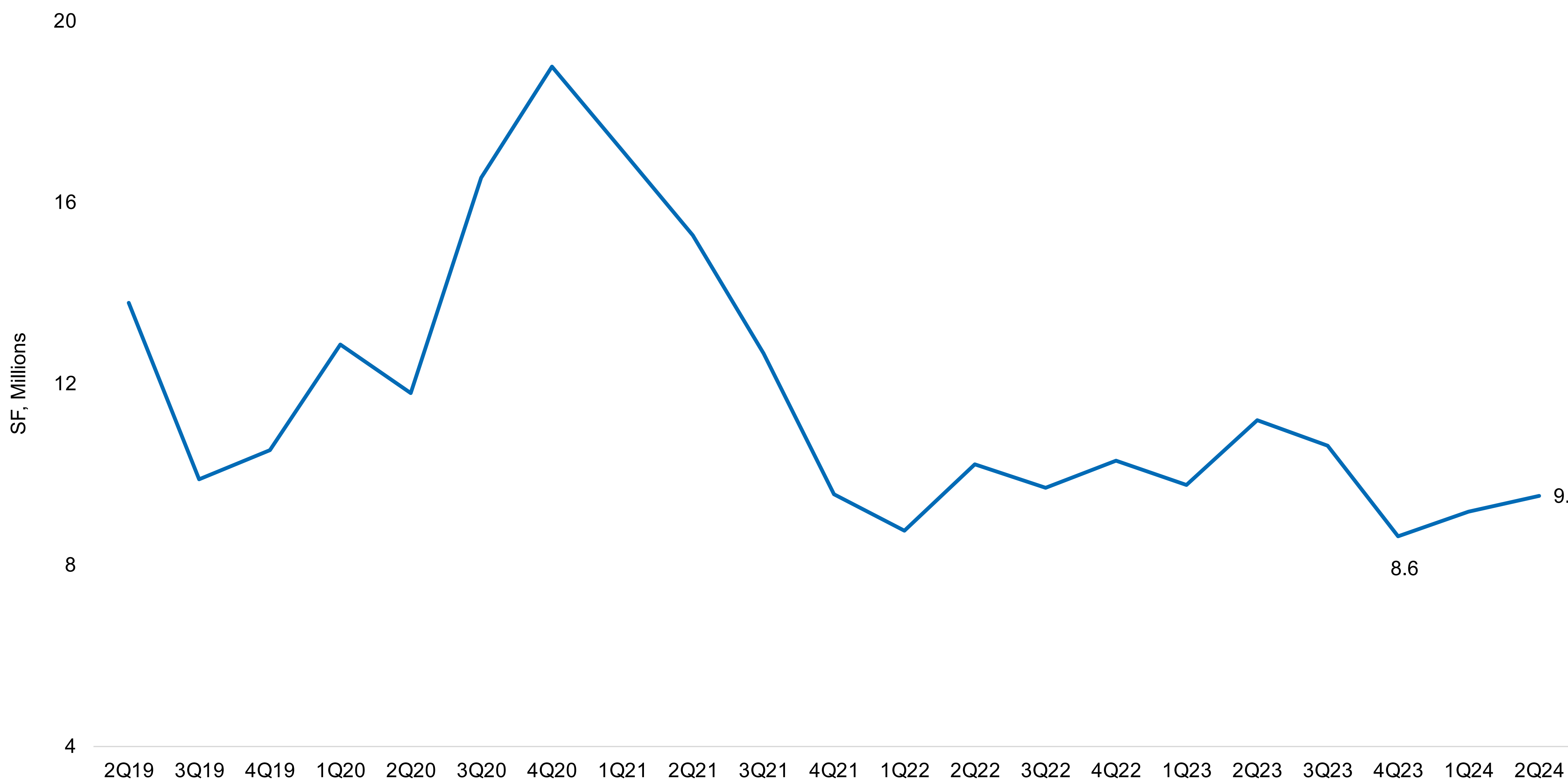


Source: Newmark Research

Leasing Volume Plods Along

While leasing activity has marginally increased since the fourth quarter of 2023, it remains measured at best from a historical perspective: This quarter's 9.5 MSF was lower than the 21-quarter average of 11.8 MSF.

Total Leasing Activity (SF)

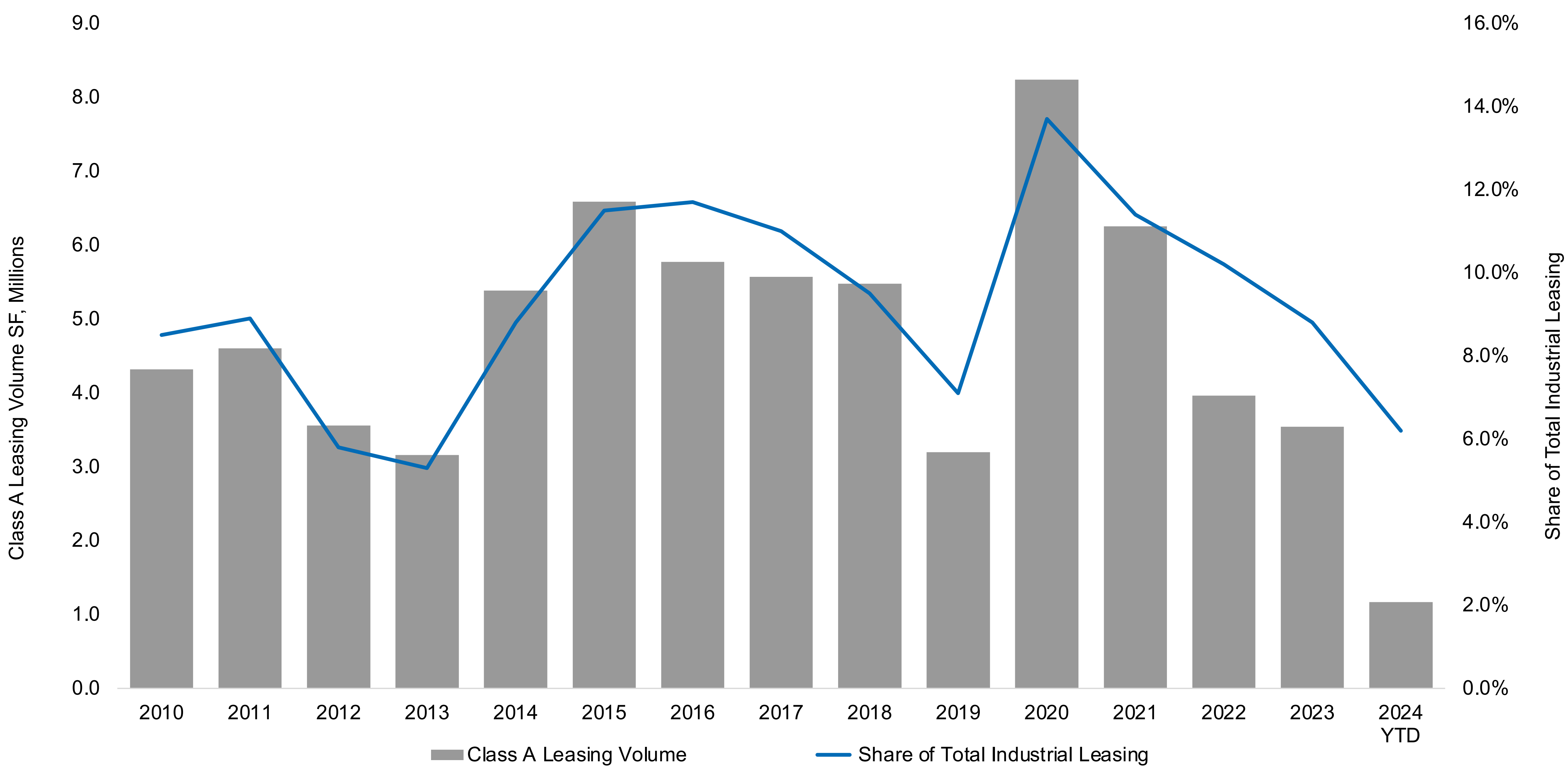


Source: Newmark Research, CoStar

Class A Warehouse Leasing Volume Down in 2024

Demand for modern-gen space remains high, but many tenants are waiting for elevated rents to soften first before committing to space.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

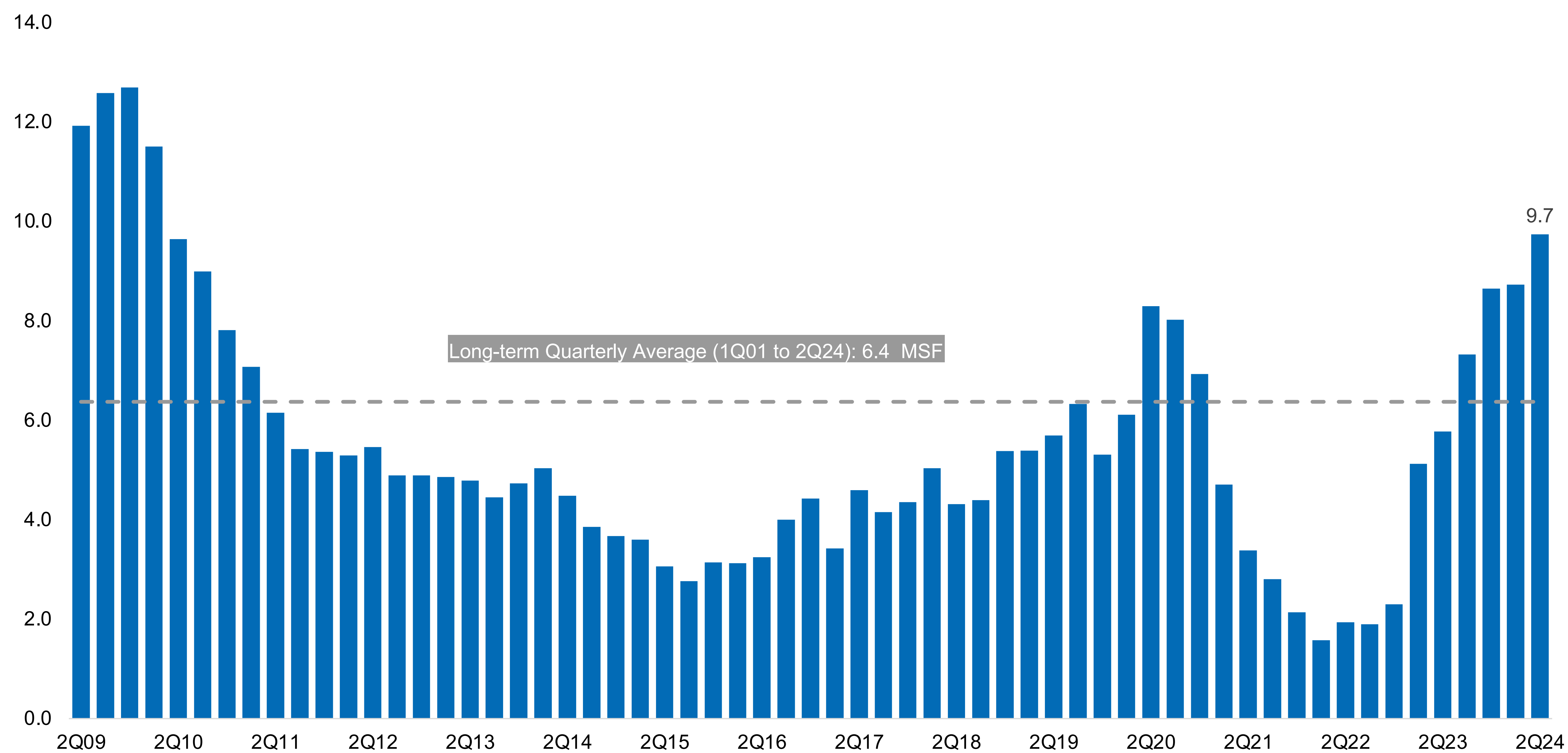


Source: Newmark Research, CoStar
Note: Class A is defined as 100,000+ SF warehouse/distribution facilities constructed since 2000 with a 30'+ minimum interior ceiling height.

Sublet Availability Volume Highest Since 2010

Available sublease space increased 11.6% from the preceding quarter to reach 9.7 MSF, a 14.25-year high. Limited sublease signings and new offering from Hollander Sleep Products (330,000 SF in Pico Rivera) WSS (201,027 SF in Lynwood) and JCR Logistics (184,270 SF in Santa Fe Springs) contributed to the increase.

Available Industrial Sublease Volume (MSF)



Source: Newmark Research

69.2% of Available Sublease Space in the Region is Based in the Infill Markets

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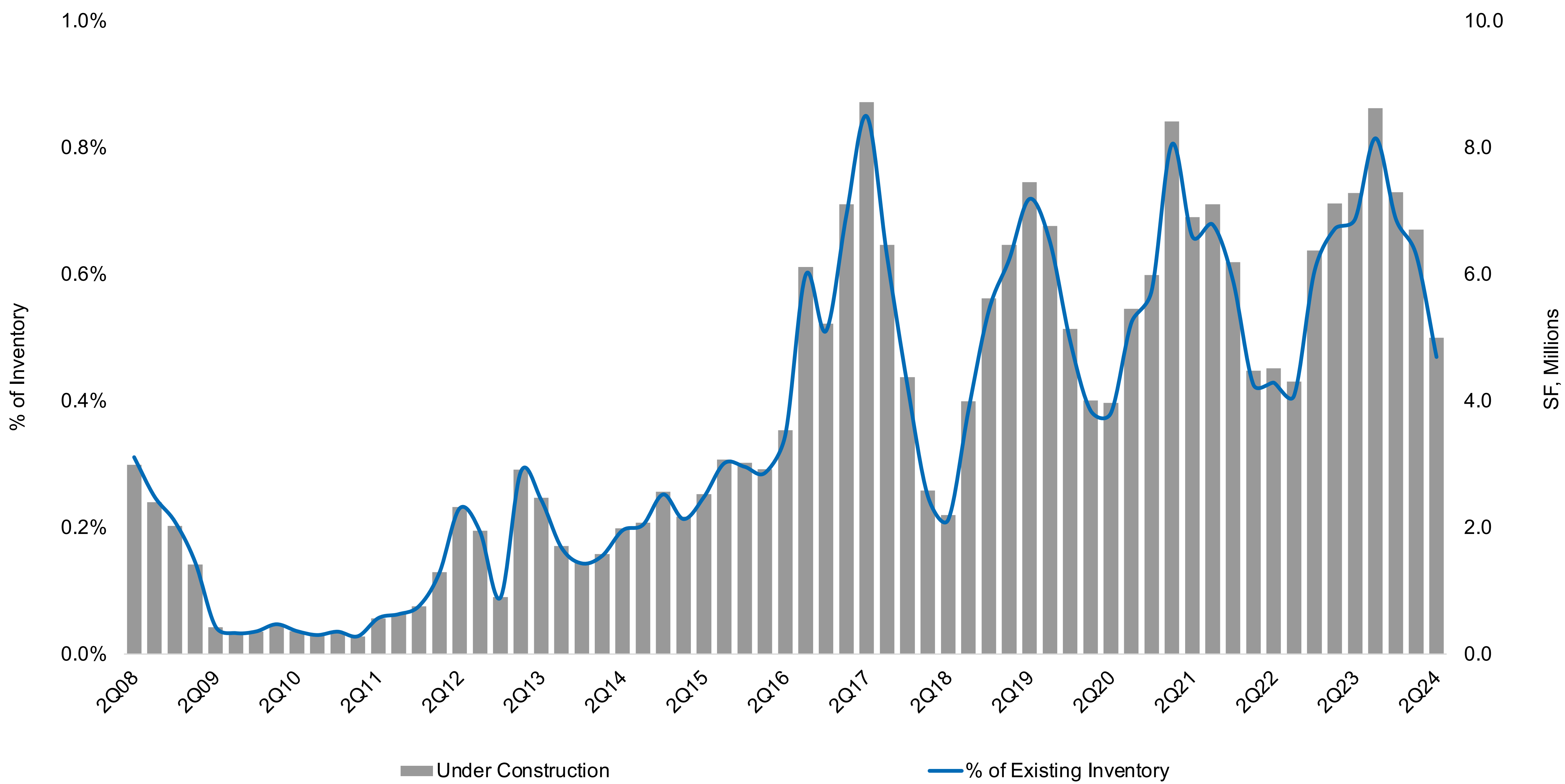
Construction Pipeline Continues to Fall From Recent Peak

Underway construction totals 5.0 MSF, of which a mere 10.3% is pre-leased. Market vacancy will further increase if this average does not improve.

Industrial Under Construction and % of Existing Inventory



Source: Newmark Research

Under-Construction Leasing is Limited as Elevated Rents Curb Demand for New Space

Notable 2Q24 Lease Transactions

Twenty-four leases over 100,000 SF were signed this quarter, compared to 20 in the same period of 2023. Of this quarter's big-box leases, 14 were direct, six were renewals and four were subleases.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
KW Logistics	1650 Glenn Curtiss	South Bay	Direct Lease	338,932
The 3PL lessee, which is expanding in the market, will move into the vacant property in July. Lease term expires in 3Q31.				
Forward Air	2501 W Rosecrans Ave	South Bay	Direct Lease	300,217
The tenant, which is expanding in the market, will move into the vacant property in August. Lease term expires in 4Q31.				
Prime Freight	18120 Bishop Ave Bldg. #716	South Bay	Direct Lease	290,034
The tenant is, which is expanding within the South Bay, will take occupancy of the vacant property in September.				
Agron	18055 Harmon Ave	South Bay	Direct Lease	253,354
The tenant is in the process of moving from Rancho Pacifica Park in Rancho Dominguez to the presently-leased property. Lease term commences in July.				
Reformation Group	5801 S 2nd St	Central	Direct Lease	185,089
An expansion within Vernon. Lease term commences in July. Lease term expires in 4Q29.				

Source: Newmark Research

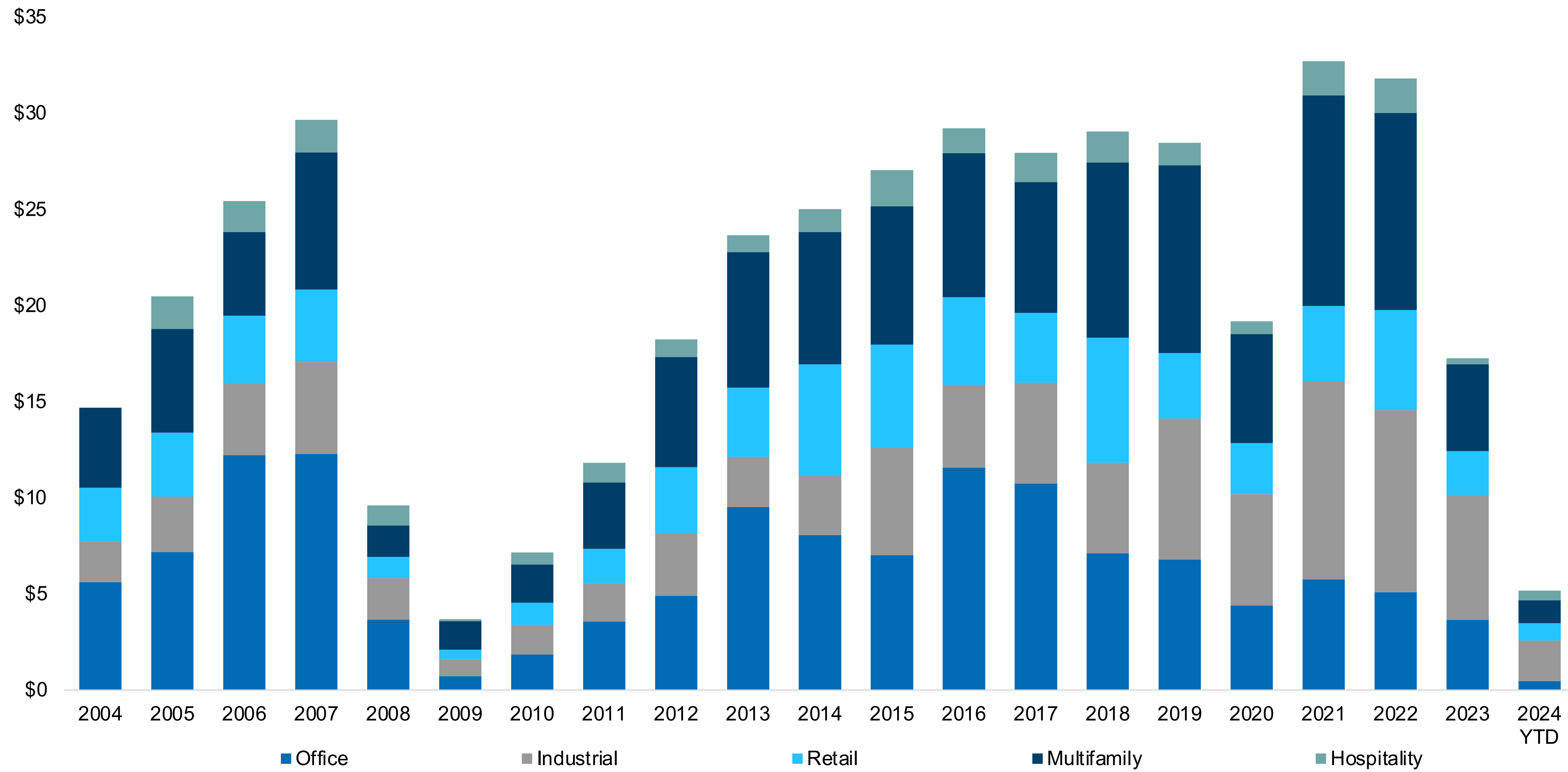
2Q24

Sales Activity

Industrial Comprised a Record 40.9% of Total Sales Volume in the First Half of 2024

This figure is vastly higher than the 20.5-year (2004 to 1H24) average of 21.5%. Heated rent growth in recent years has favored the segment, with many investors targeting desirable buildings with credit tenants whose leases are up for renewal. Elevated lending costs and steady occupancy losses within the market have cooled industrial sale activity in recent quarters, however.

Los Angeles County: Sales Volume Across Commercial Property Segments ($ in Billions)

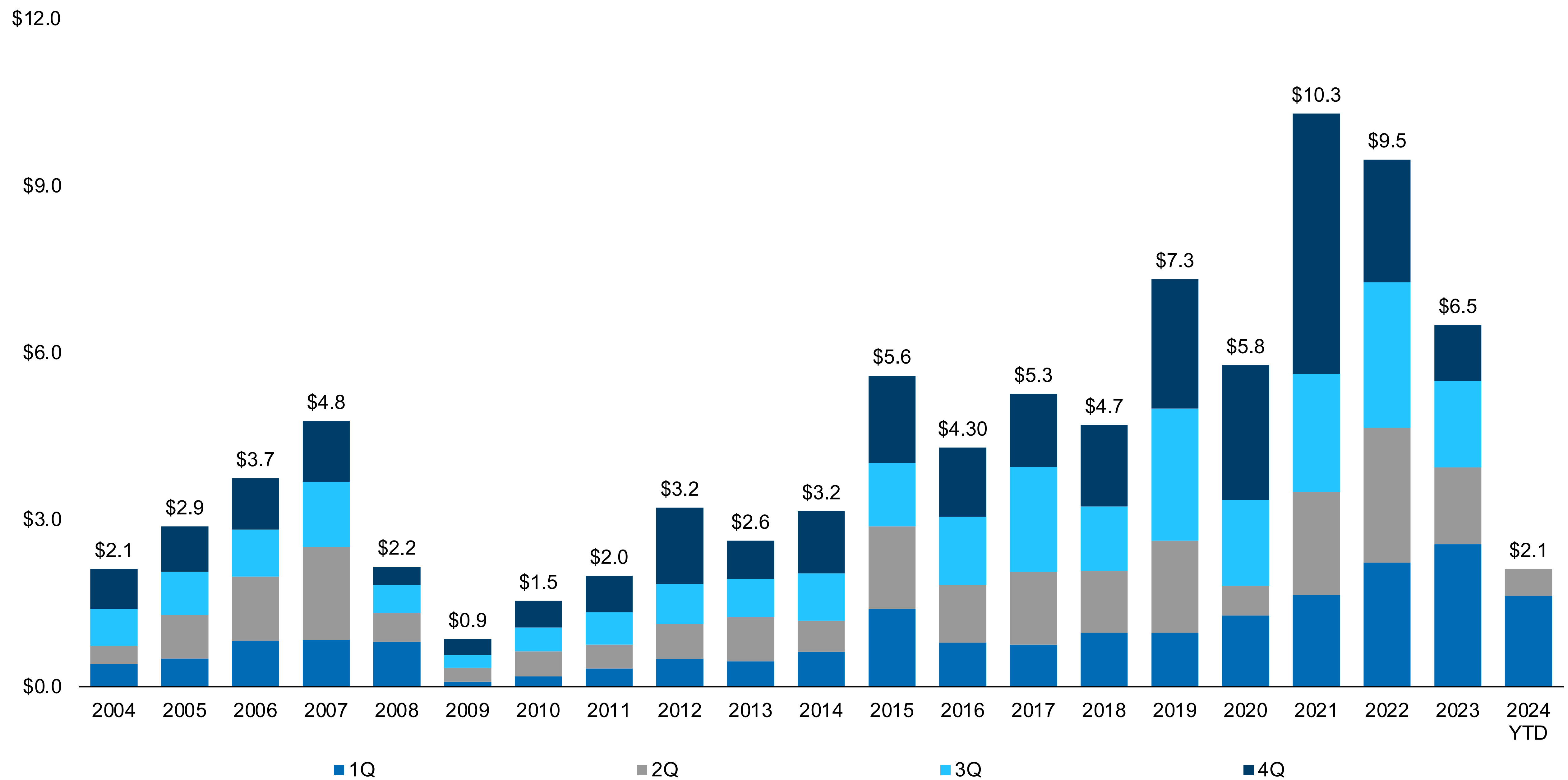


Source: MSCI Real Capital Analytics, Newmark Research
Note: Preliminary data is cited for the second quarter of 2024.

Industrial Sales Volume: Up Close

Industrial sales volume totaled $483.9 million in the second quarter of 2024, down 65.0% from the same period in 2023. The higher cost of capital following multiple interest rate hikes from March 2022 to July 2023 is crimping momentum, in addition to adjusting leasing fundamentals, have imposed downward pressure on volume and pricing.

Los Angeles County: Industrial Sales Volume ($ in Billions) | By Quarter



Source: Newmark Research, MSCI Real Capital Analytics
Note: Preliminary data is cited for the second quarter of 2024

Pricing is Down and Cap Rates are Rising

Rexford Acquisitions Dominate 2024 YTD Sales Activity; Private Buyers Still Active

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2Q24

Appendix

Los Angeles Submarket Map and High-Level Statistics | 2Q24

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Los Angeles Submarket Statistics | 2Q24 (page 1 of 4)

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Los Angeles Submarket Statistics | 2Q24 (page 3 of 4)

Los Angeles Submarket Statistics | 2Q24 (page 4 of 4)

WAIRE: Program Summary and Implications for Industrial

The World's Top 20 Containerized Cargo Seaports

Fifteen are in Asia, China leads all other countries with eight and Los Angeles-Long Beach is the only U.S. complex to make the list.

Rank	Seaport	2023 Volume (TEU, in millions)
1	Shanghai, China	49.2
2	Singapore	39.0
3	Ningbo-Zhoushan, China	35.3
4	Qingdao, China	30.0
5	Shenzhen, China	29.9
6	Guangzhou Harbor, China	25.4
7	Busan, South Korea	22.8
8	Tianjin, China	22.2
9	**Los Angeles-Long Beach, U.S.**	**16.6**
10	Jebel Ali/Dubai, United Arab Emirates	14.5

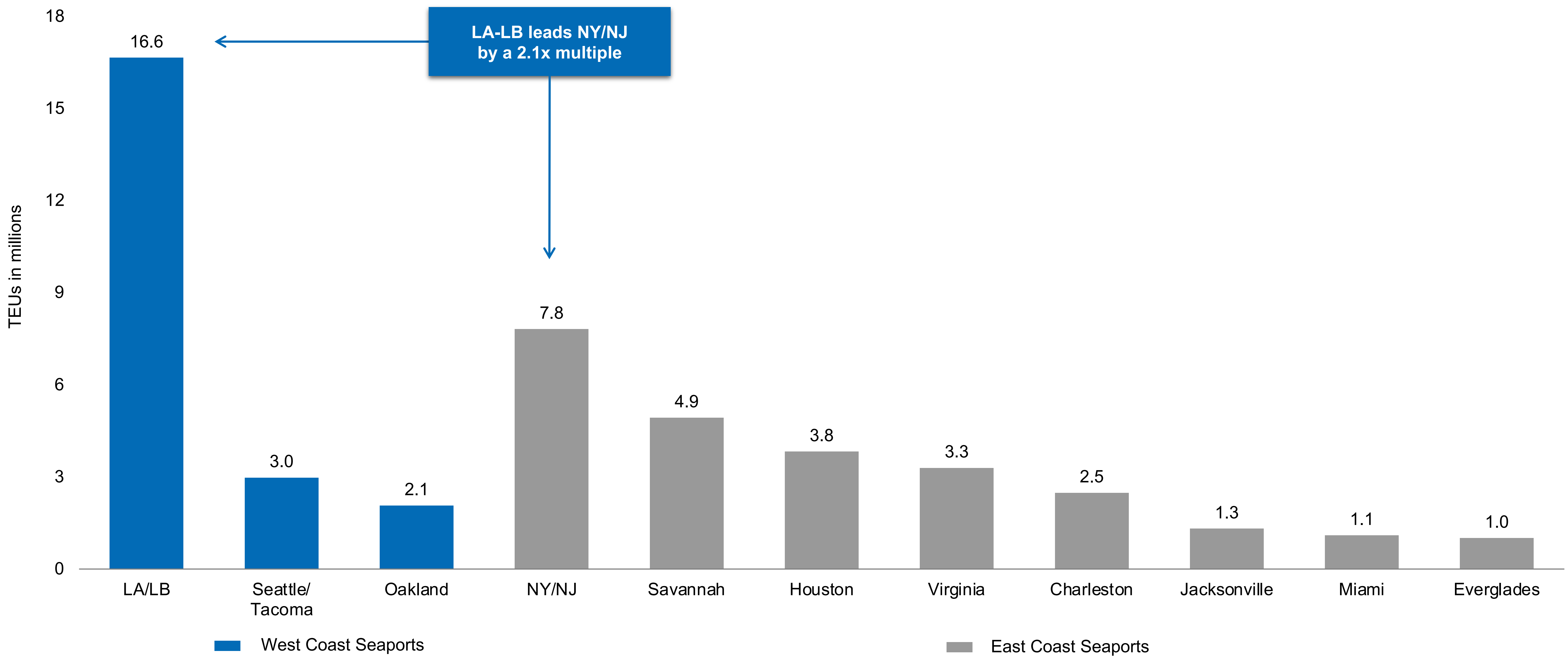
Rank	Seaport	2023 Volume (TEUs, in millions)
11	Hong Kong	14.3
12	Port Klang, Malaysia	14.1
13	Rotterdam, The Netherlands	13.4
14	Xiamen, China	12.6
15	Antwerp, Belgium	12.5
16	Tanjung Pelepas, Malaysia	10.5
17	Kaohsiung, Taiwan	8.8
18	Laem Chabang, Thailand	8.7
19	Tanger Med, Morocco	8.6
20	Beibu Gulf, China	8.0

Source: Newmark Research, upply
Note: TEU totals includes loaded and empty containers

Los Angeles-Long Beach is the Nation's Dominant Port System

Los Angeles-Long Beach can accommodate 18,000 TEU vessels, which are too wide to traverse the new Panama Canal. Additionally, both ports have Class 1 freight rail connectivity to the nation's major population centers.

Major U.S. Seaports: 2023 TEU Volume (All Containers: Loaded and Empty)



Source: Newmark Research, Individual Seaports

Why Los Angeles-Long Beach?

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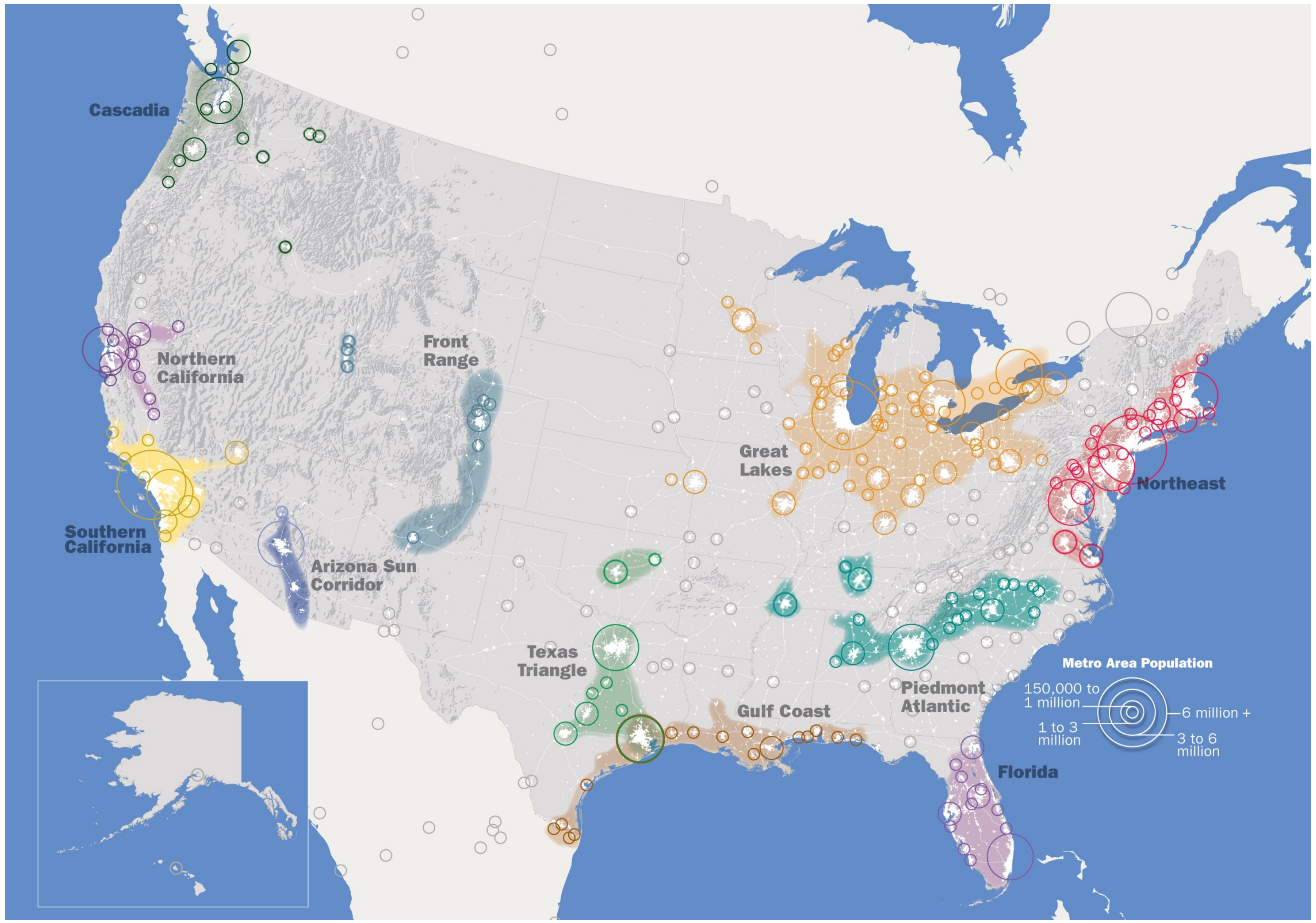
Population of Megaregions: Past and Projected

Southern California benefits from its consumer base, ports and rail connectivity.



Megaregion	2010 Population	2025 Pop. Est.
Arizona Sun Corridor	5.7M	7.8M
Cascadia	8.4M	8.8M
Florida	17.3M	21.5M
Front Range	5.5M	7.0M
Great Lakes	55.6M	60.7M
Gulf Coast	13.4M	16.3M
Northeast	52.3M	58.4M
Northern California	14.0M	16.4M
Piedmont Atlantic	17.6M	21.7M
Greater Southern California	**24.4M**	**29.0M**
Texas Triangle	19.8M	24.8M

Source: U.S. Census Bureau

Transport Costs Are the Biggest Expenditure for Most Warehouse Occupiers

Transport Costs Per TEU Container Increase the Further an Occupier is from the Ports

Central LA Has the Highest Population Density

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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