
4Q23

Los Angeles Industrial Market Overview

NEWMARK

Market Observations

Economy

- U.S. retail sales are slowing, coinciding with measured industrial leasing activity.
- Loaded import volume at Southern California’s ports totaled 7.6 million containers in the first 11 months of 2023, slightly higher than the same period in 2016.
- Gulf and East Coast dockworkers have signaled their intention to strike in 2024. Pair this with drought conditions at the Panama Canal and ship attacks in the Red Sea, and it is highly likely import traffic at Southern California’s ports will increase.
- A local rise in imports does not necessarily portend more demand for Los Angeles warehouse space. Goods that are just “passing through” to other U.S. markets have a negligible effect on local market dynamics. Severe congestion at the ports (if it happens) will drive up ocean container spot and truck drayage rates, though.

Major Transactions

- Ten direct leases, four subleases and six renewals/extensions over 100,000 SF each were signed this quarter.
- National Road Logistics is expanding its South Bay footprint, after signing the largest lease of the quarter (314,256 SF at Harbor Gateway Commerce Center in Torrance). The same company also inked third quarter’s biggest lease.
- Rexford acquired a 993,142-SF Pabst Brewing Company facility in Irwindale for \$120 million for redevelopment. Rexford also supplied a \$125 million loan to Pabst that features a right-of-first-offer to buy a 150-acre site adjacent to the facility.
- Infill developers continue to search the market for opportunities despite today’s sleepier leasing environment.

Leasing Market Fundamentals

- Tenant demand remains crimped by high capital costs, cooling retail sales projections, inflationary hurdles and occupier cost-cutting initiatives. The latter has led to more sublet availability, which presently totals 9.1 MSF; a 13.5-year high.
- Net absorption was negative for the sixth consecutive quarter, while total vacancy climbed to a 12-year high of 2.6%.
- Net absorption totaled -11.8 MSF in 2023, the market’s worst annual showing ever.
- Class A space remains desirable, but rents remain elevated.
- Lease term lengths are below their historical average as tenants wait for further declines in rental rates. Landlords are offering more in the way of concessions as vacancy and sublet availability rise.

Outlook

- Vacancy will continue to rise as tenants shed unneeded space, a portion of available sublease space becomes vacant and un-leased speculative construction delivers.
- 3.9 MSF in new construction will deliver in the first quarter of 2024 and only 28.1% has pre-leased to date.
- Sales activity will be slow in 2024. This trend will progressively reverse course once the Fed enacts interest rate cuts; in the second half of the year is the conservative consensus.
- The SCAQMD has begun to levy fines on industrial occupiers for non-compliance with the [WAIRE Program](#). The program, which will apply to additional property size segments in 2024, is expected to be recognized as federally enforceable.

1. Economy
2. Leasing Market Fundamentals
3. Sales Activity
4. Appendix

4Q23

Economy



Loaded Imports in the First 11 Months of 2023 Were Slightly Higher than the Same Period in 2016

Please reach out to your
Newmark business contact for this information

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, 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 will soon negotiate their contract, which will expire in late 2024. Import volume will likely shift to West Coast ports 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.



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

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 (USMA) 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.



-4.6%

+2.2%

+1.6%

4.0%

-2.5%

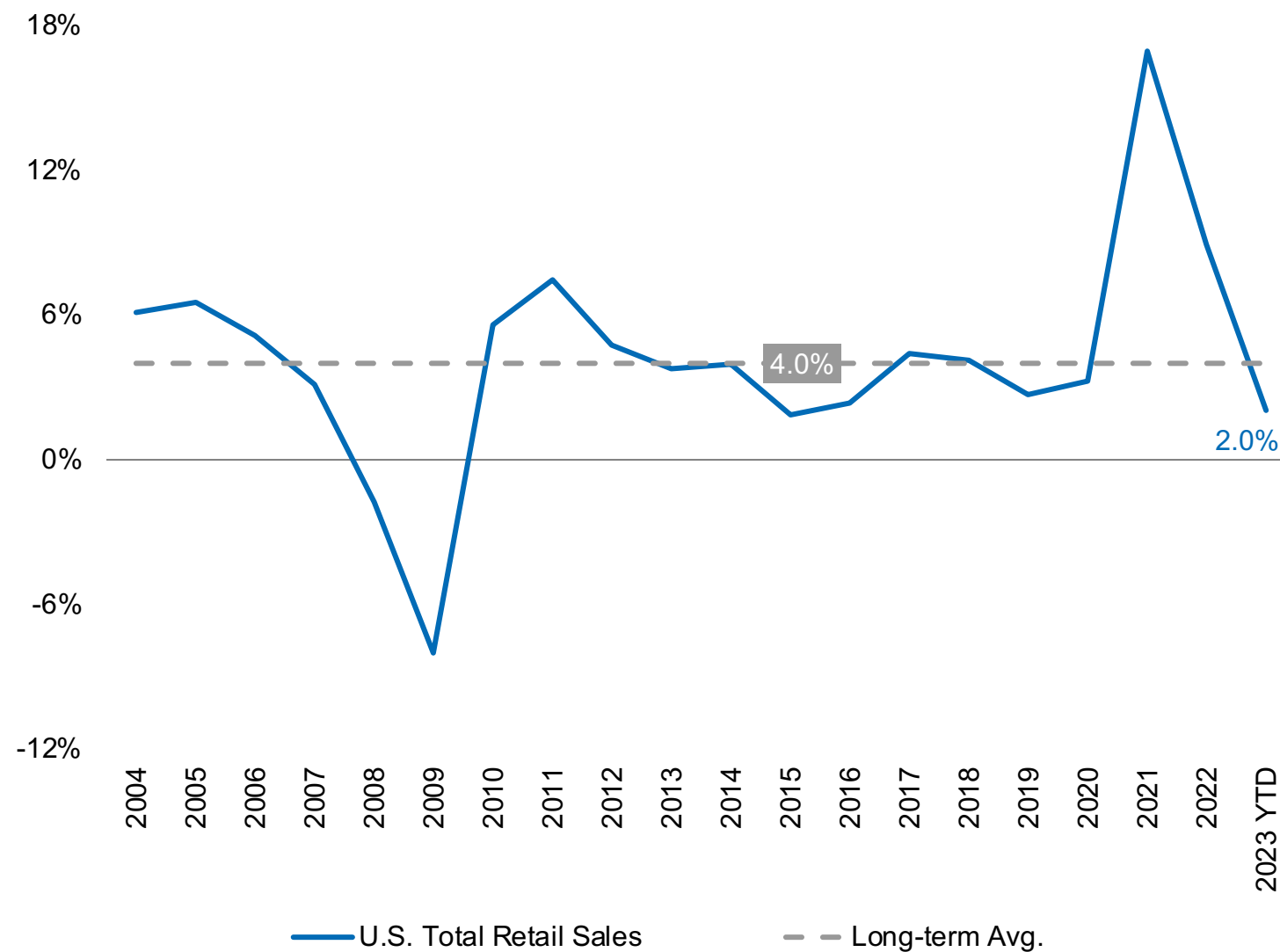
Import Traffic Recently Jumped at Los Angeles/Long Beach

Please reach out to your
Newmark business contact for this information

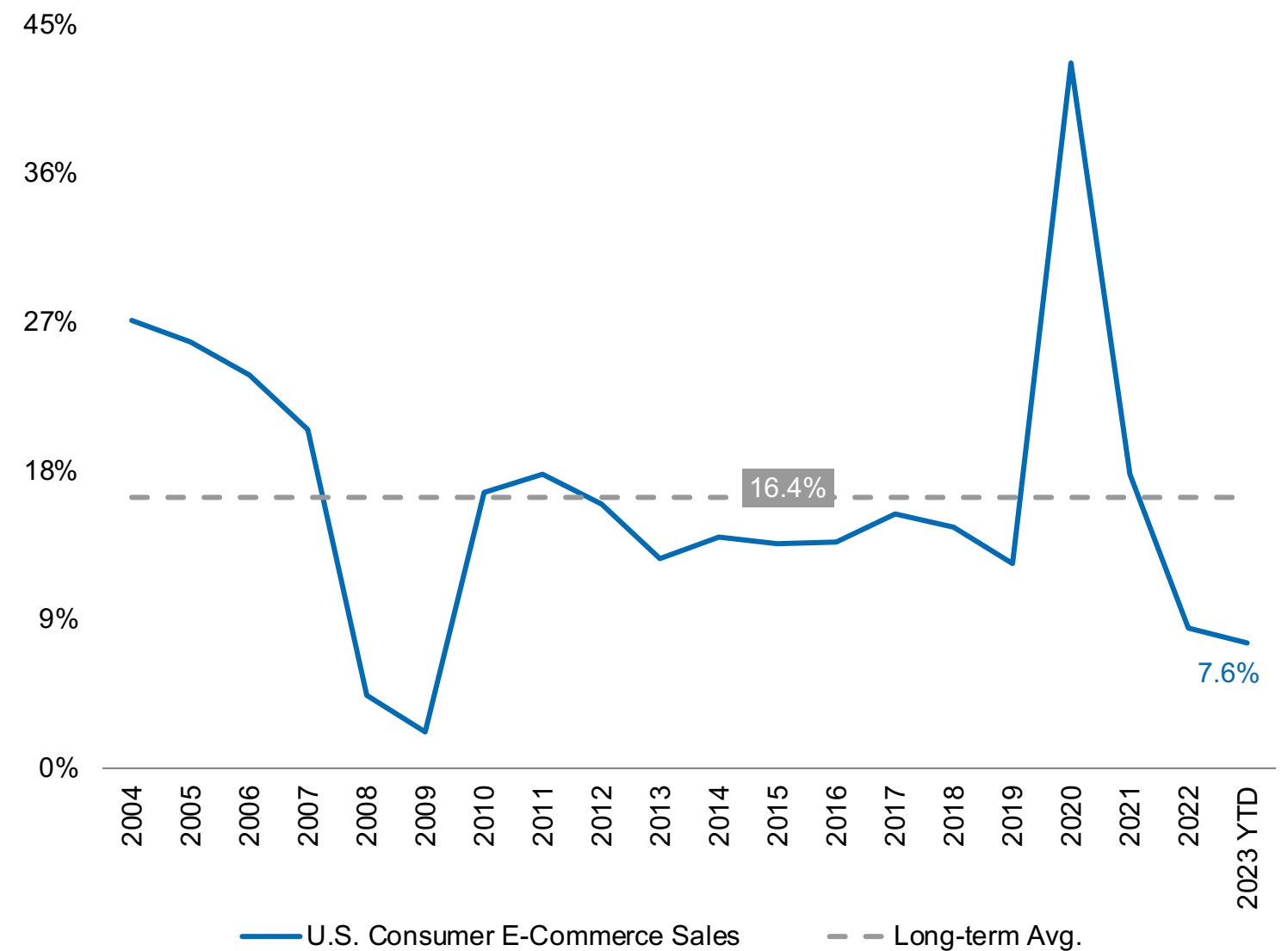
Retail Sales (an Indicator of Warehouse Demand) Continue to Moderate

Consumer e-commerce sales were up 7.6% in the first nine months of 2023 compared with the same period in 2022. Although e-commerce sales growth exceeded total retail sales (+2.0% over the same period), the decline from 2021 onward is noticeable as the macro economy slows.

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: 2023 YTD encompasses the first nine months of 2023

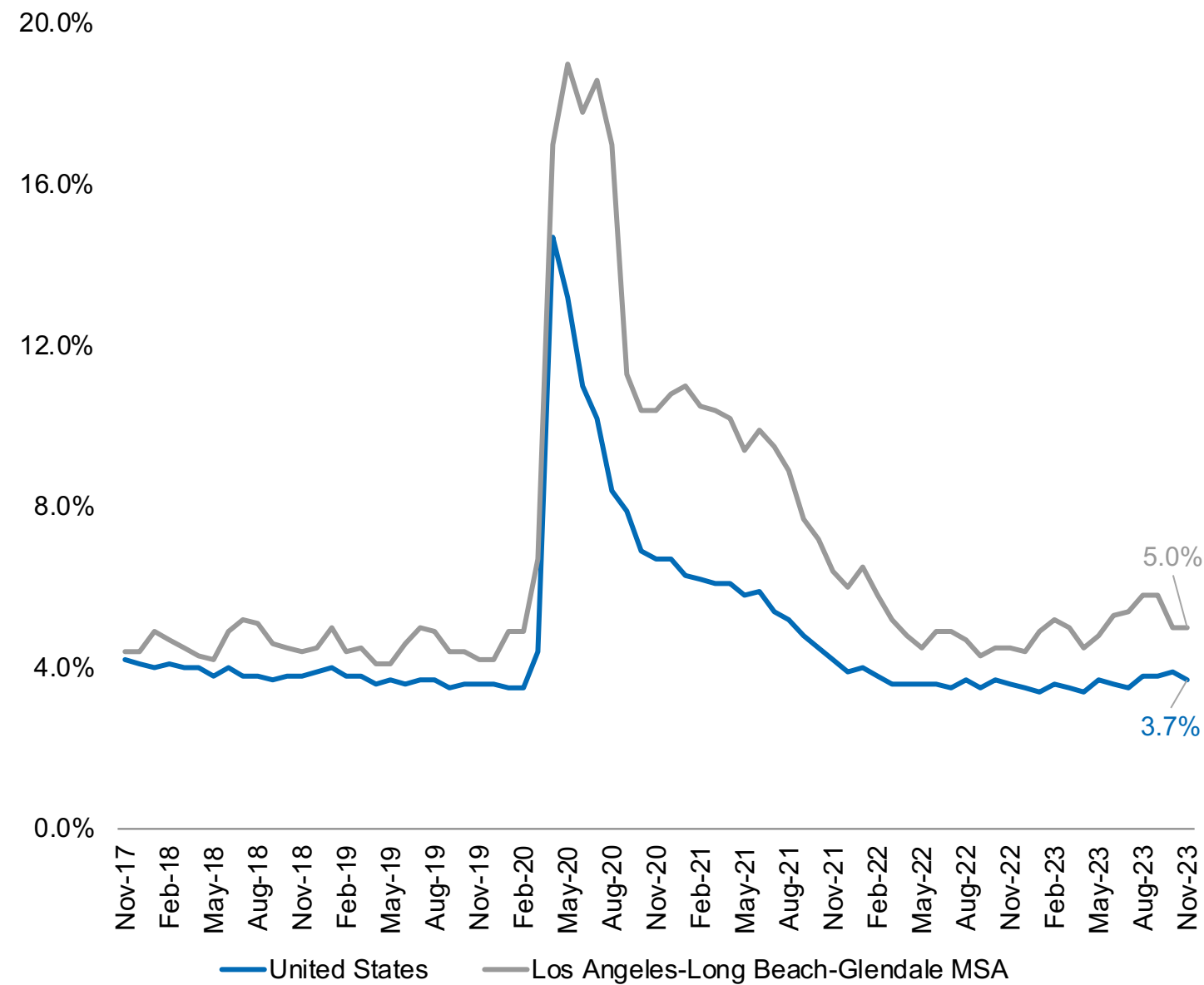
The Pandemic Accelerated E-Commerce Sales Growth and Adoption Rates

Please reach out to your
Newmark business contact for this information

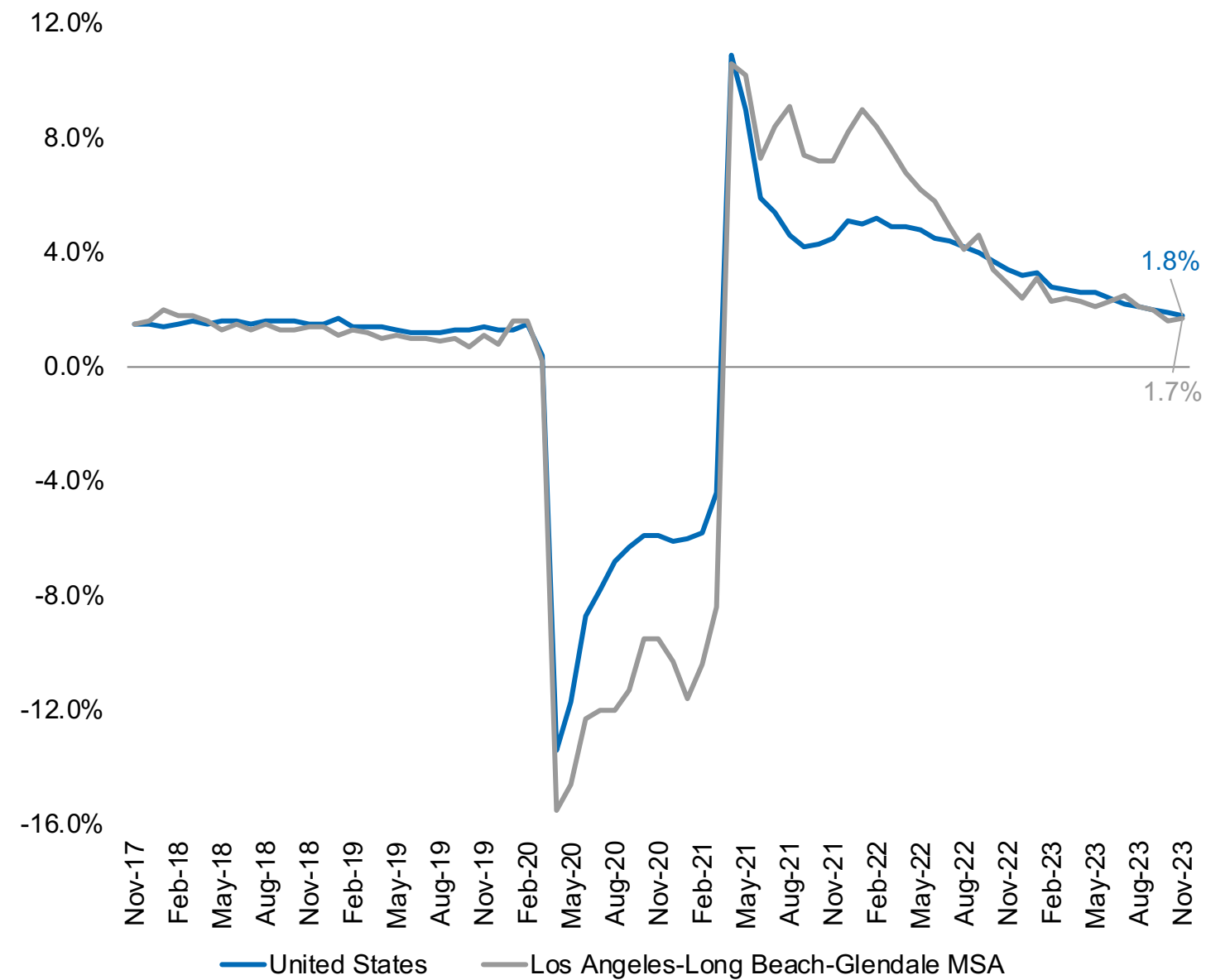
Unemployment Rate, Employment Growth Near Pre-Pandemic Norms

Local unemployment (5.0%) is on par with February 2020's pre-pandemic average of 4.9%. The same can be written for 12-month nonfarm employment growth (1.7% in November 2023 compared with 1.6% in February 2020). Employment gains are noticeably slowing and will continue to do so in a still-high inflationary environment. Eventual interest rate cuts by the Fed in 2024 will progressively help to reverse this trend.

Unemployment Rate, Seasonally Adjusted



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

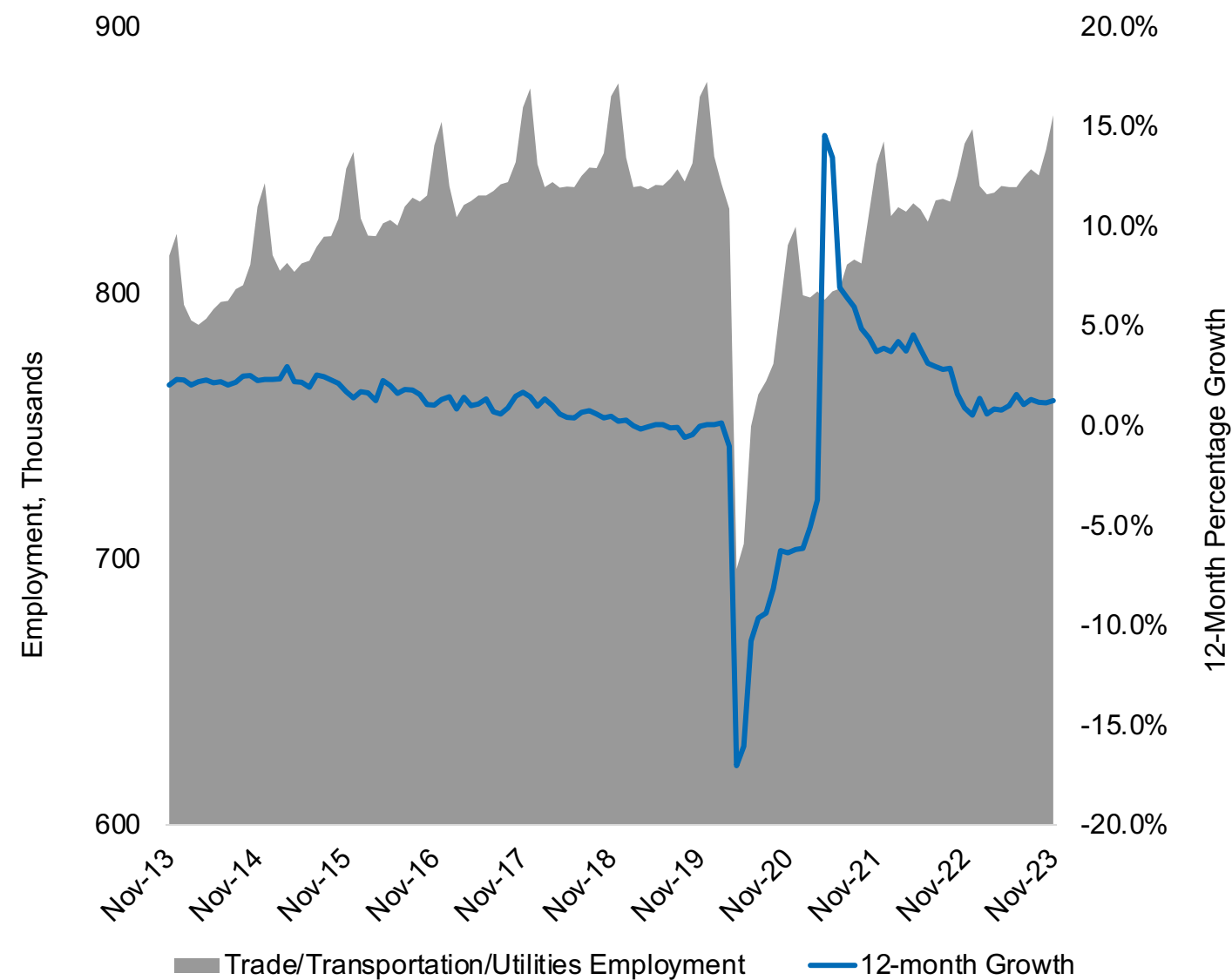


Source: U.S. Bureau of Labor Statistics, Los Angeles-Long Beach-Glendale MSA

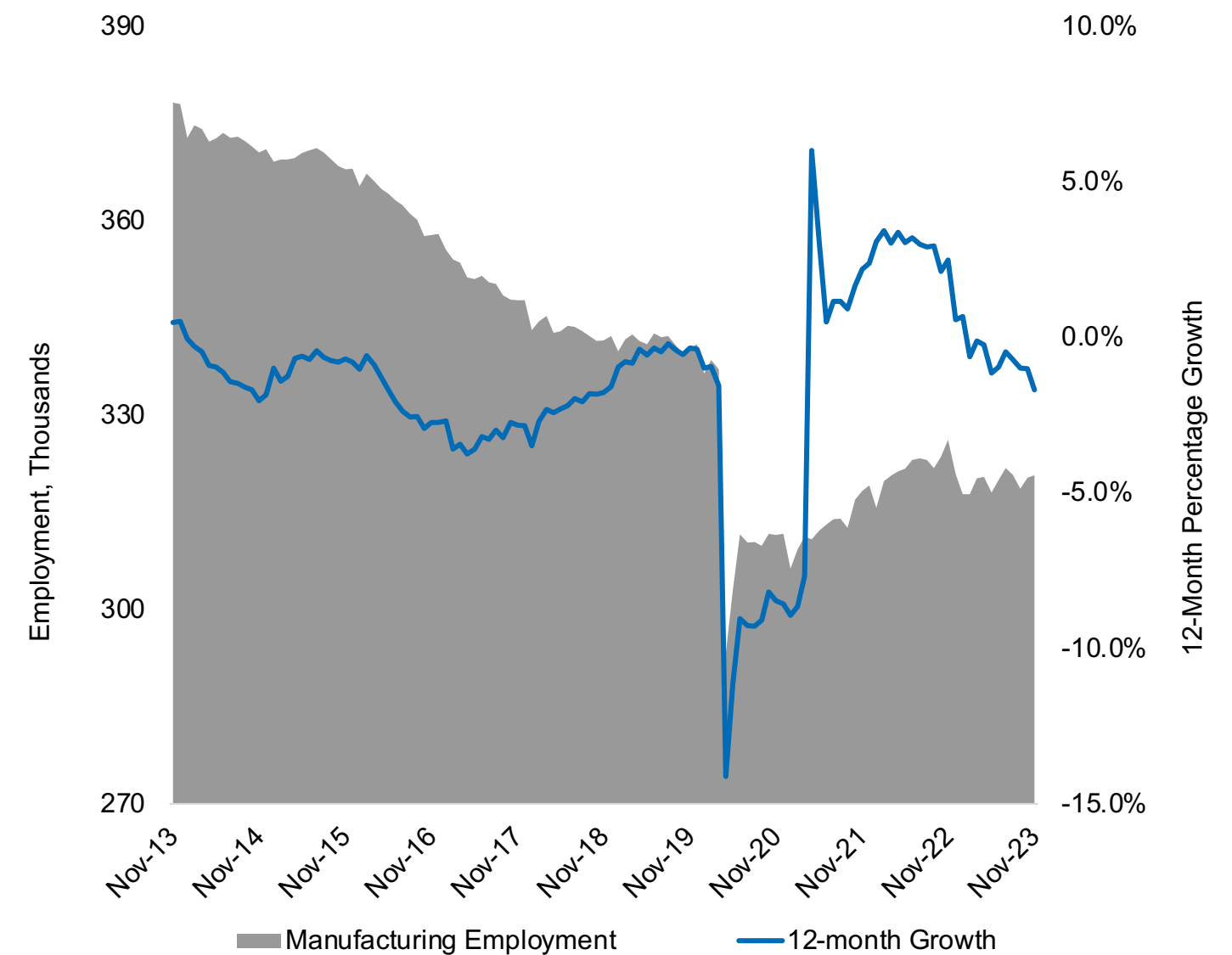
Industrial Employment Will Fluctuate over the Coming Months

While seasonal hiring increased trade, transportation and utilities employment in recent month, the segment continues to deal with slowing growth as warehouse occupiers focus on cost-cutting initiatives. The pandemic. Manufacturing remains challenged, based on the current economic climate and the 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

4Q23

Leasing Market Fundamentals



Unprecedented Rent Growth Occurred from Early 2021 into the Second Half of 2022

Please reach out to your
Newmark business contact for this information

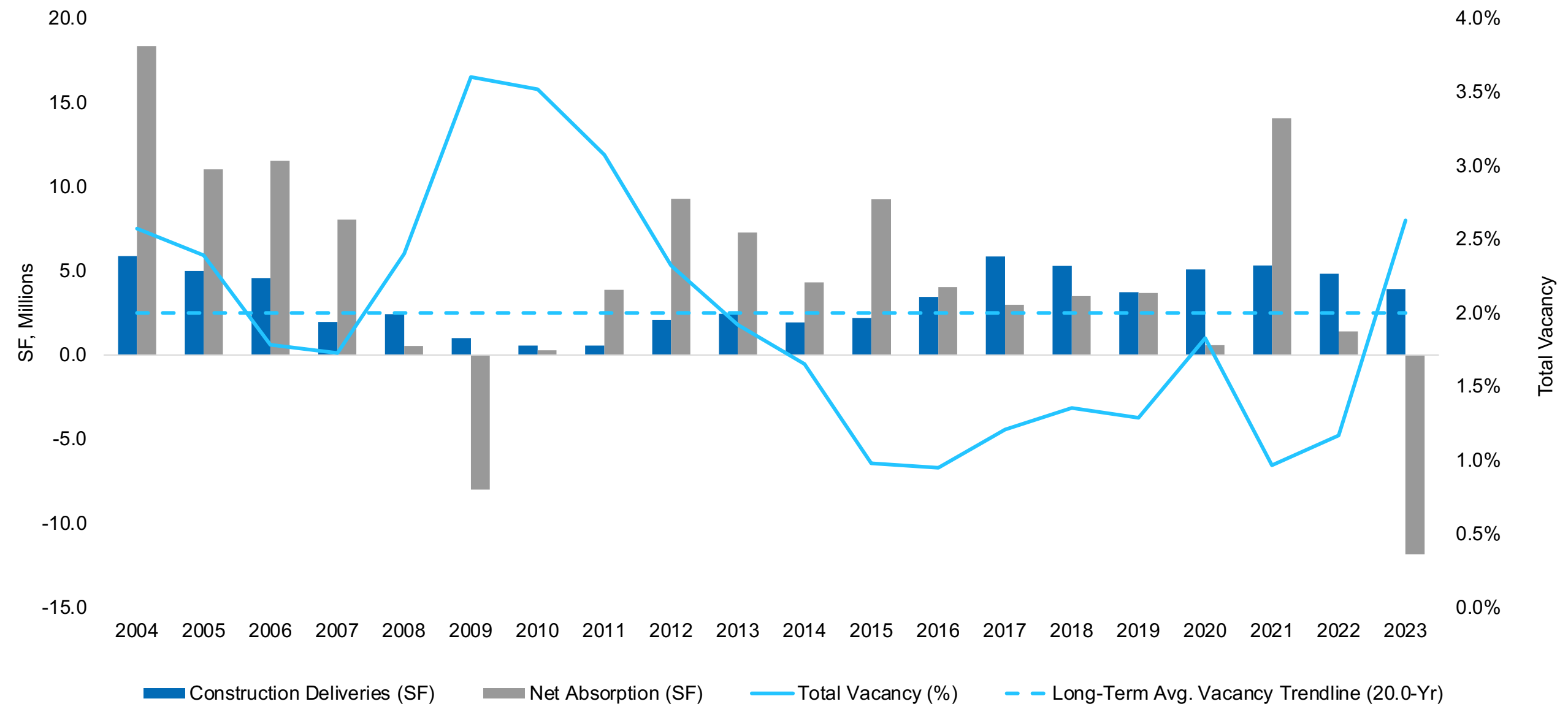
Average Weighted Lease Terms Are Declining

Please reach out to your
Newmark business contact for this information

Tenant Departures Fuel Continued Rise in Vacancy, Historical Net Absorption Losses

Net absorption losses in 2023 reached an all-time annual low of 11.8 MSF, while vacancy (2.6%) climbed to a 12-year high. Approximately 2.8 MSF in net occupancy losses were recorded in the fourth quarter of 2023, with Port Logistics Group (700,000 SF), Matheson Trucking (415,160 SF), Avalon Cold (300,217 SF), Toll Global (293,800 SF), Furniture of America (260,000 SF) and a host of smaller tenants shaping this figure.

Historical Construction Deliveries, Net Absorption, and Vacancy

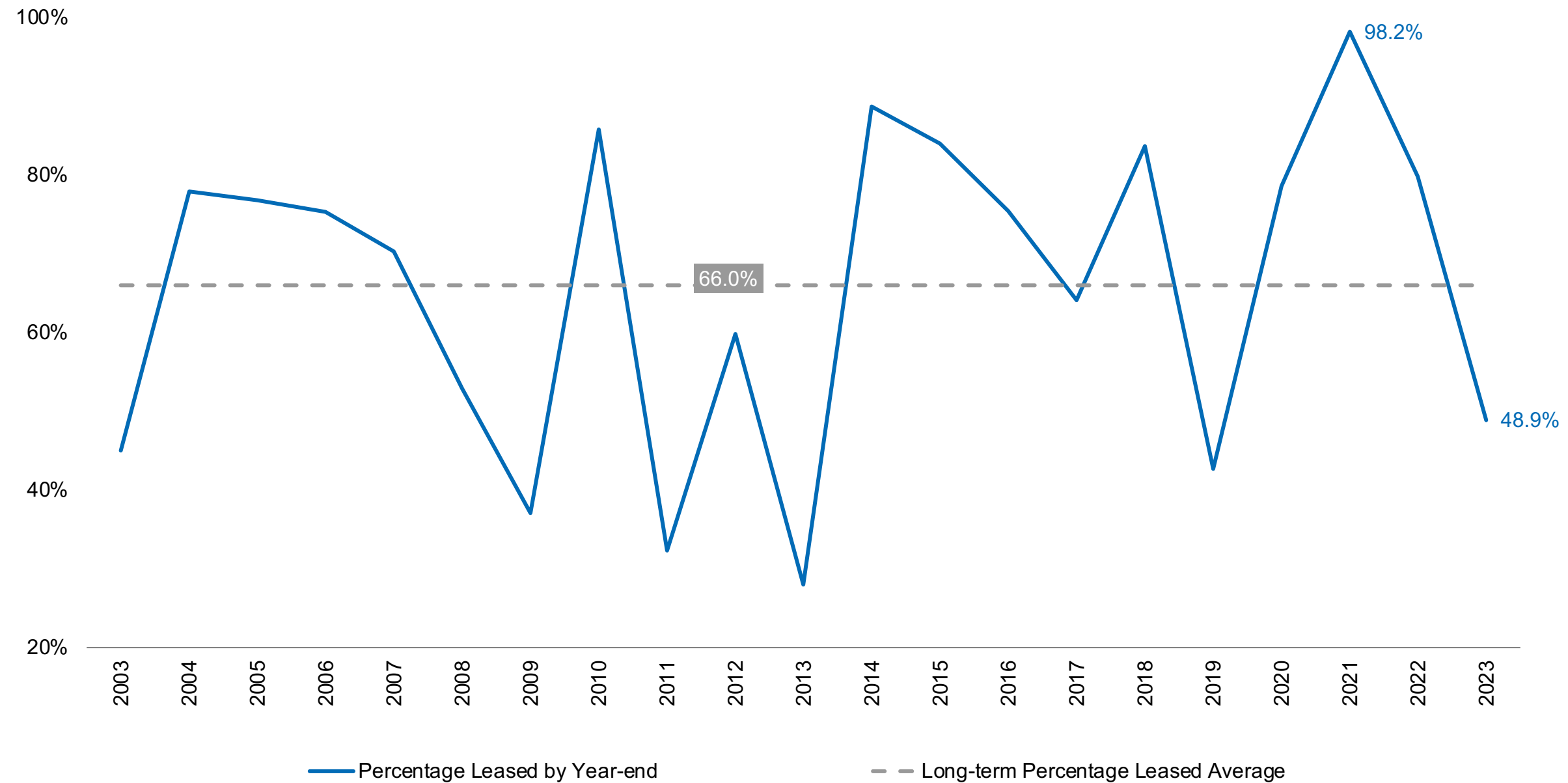


Source: Newmark Research

New Construction Leasing Averages are Declining

Slowing tenant commitments for higher-priced modern space will prompt many developers to hit the pause button on future groundbreakings. Developers with recently delivered available product, meanwhile, will become more competitive to vie for tenants, whether through greater concession packages, lowered rents or a combination of the two.

Year-end Lease-up Average of Buildings Delivered in a Given Year



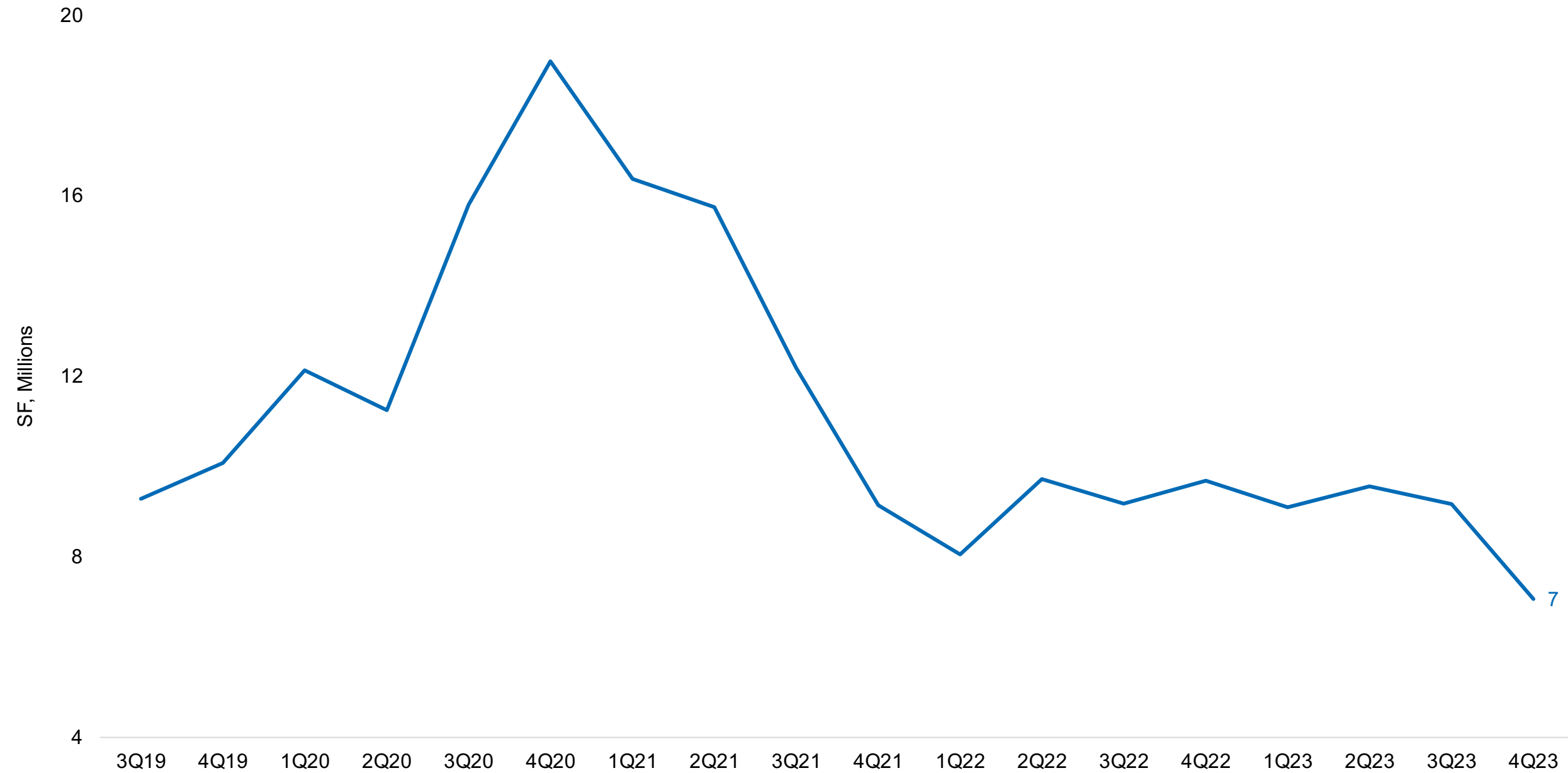
Source: Newmark Research

Note: Lease-up averages are somewhat volatile since Los Angeles is a highly mature market where infill development is generally the only option to inject new supply. Annual construction deliveries are far lower than a growth market like the Inland Empire, suggesting the delivery of a few large buildings (and how they are received) in a given year can move the needle on lease-up averages.

Quarterly Leasing Volume Slackens

At 7.1 MSF, leasing volume in the fourth quarter of 2023 rested at a 17-year low. Elevated rents and an uncertain macroeconomic climate have constricted tenant commitments for the time being.

Total Leasing Activity (SF)

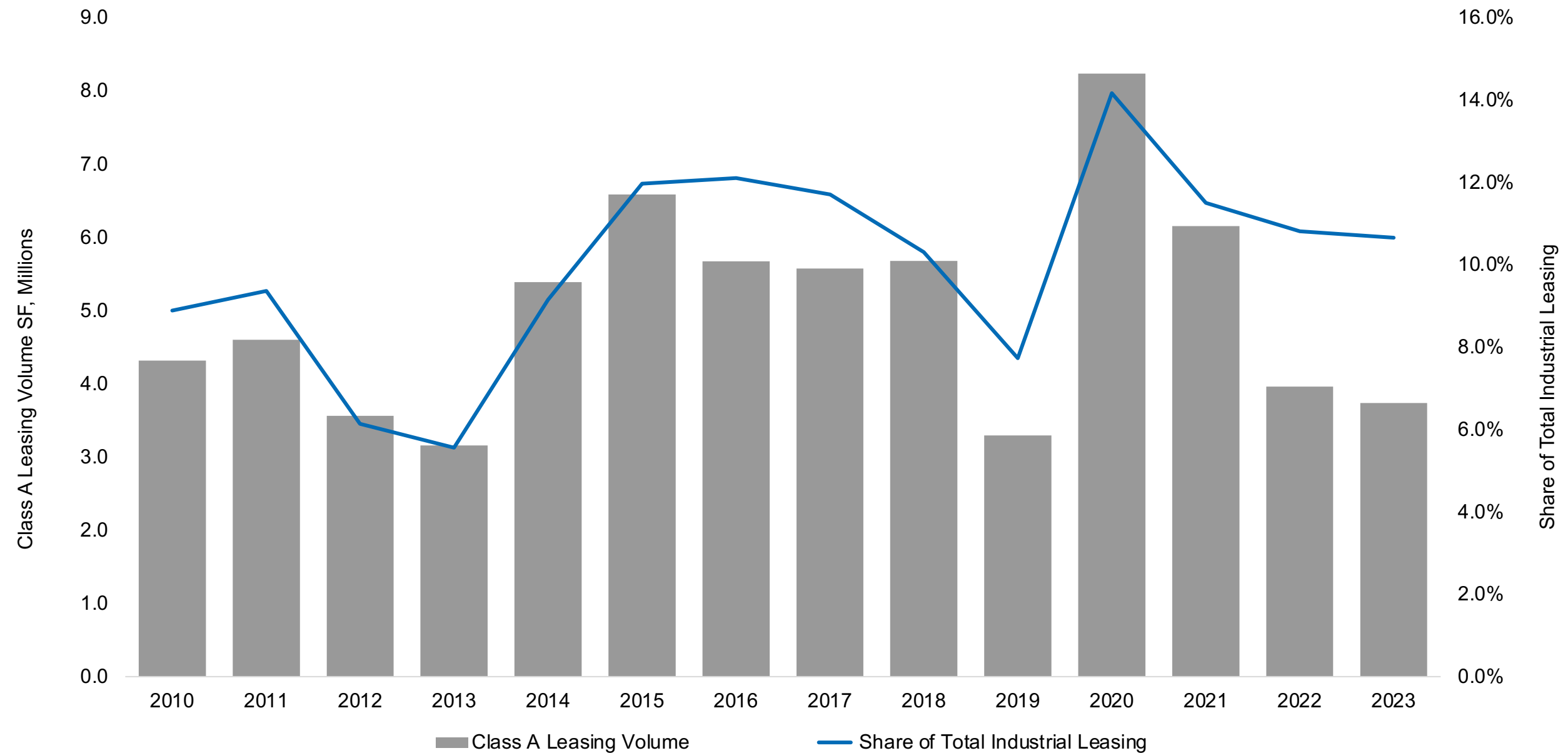


Source: Newmark Research, CoStar

Class A Warehouse Leasing Volume is Down; Share Aligns with Historical Norm

Class A warehouse leasing activity comprised 10.7% of total leasing activity in 2023, slightly exceeding the 14-year average of 10.0%. 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

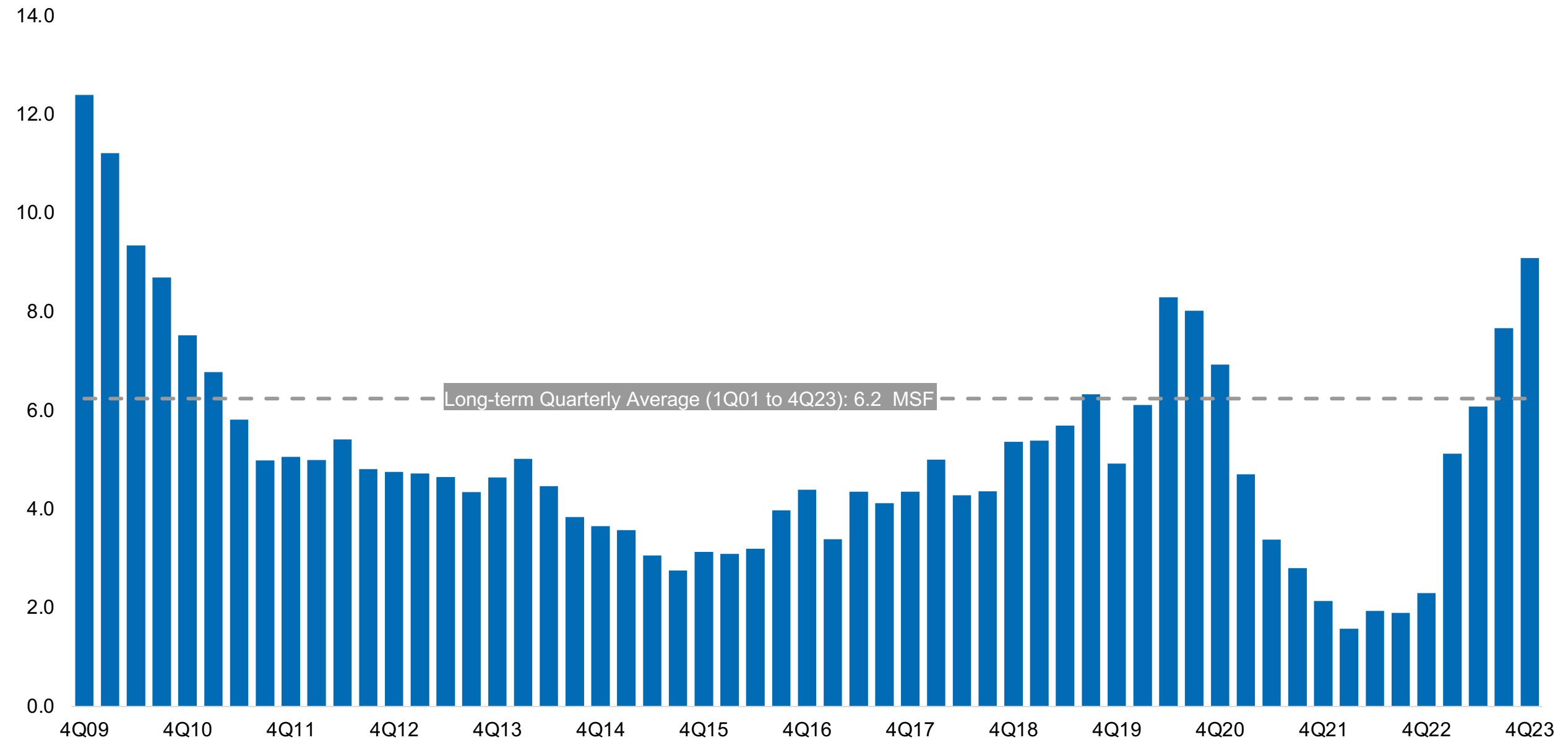


Source: Newmark Research, CoStar
 Note: Class A is defined as 100,000+ SF warehouse/distribution facilities constructed since 2000 with a 30'+ minimum interior ceiling height.

Sublet Availability Exceeds Long-Term Quarterly Average

Available sublease space (now at a 13.5-year high) totals 9.1 MSF, a 18.6% increase from the preceding quarter. A 903,335 SF offering from 99 Cents Only Stores is behind this jump.

Available Industrial Sublease Volume (MSF)



Source: Newmark Research

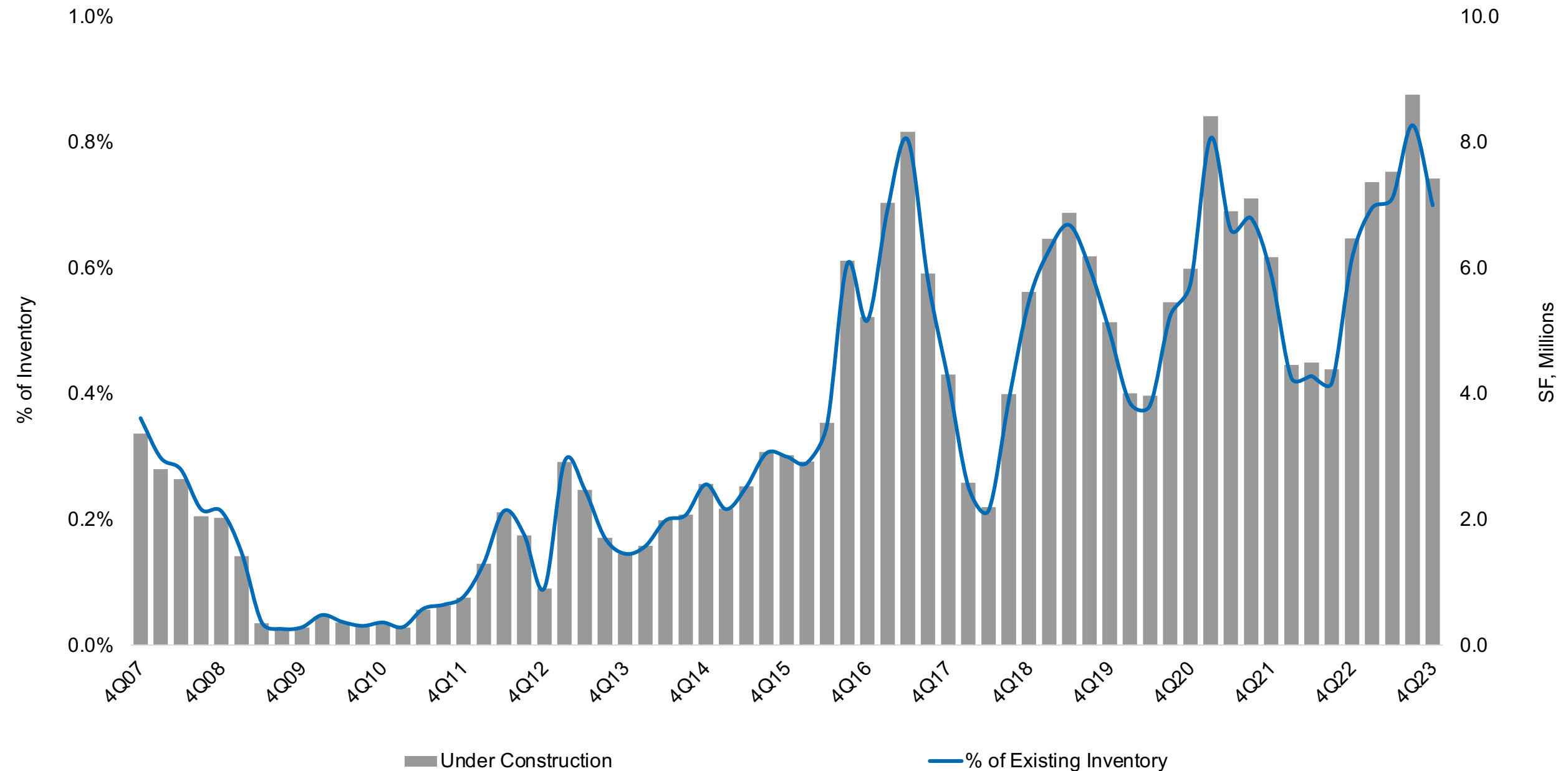
71.6% of Available Sublease Space in the Region is Based in the Infill Markets

Please reach out to your
Newmark business contact for this information

Construction Pipeline Begins Descent From Historical Peak

Underway construction totals 7.4 MSF, of which 14.6% is pre-leased. Market vacancy will further increase if this average does not improve.

Industrial Under Construction and % of Existing Inventory



Source: Newmark Research

Most Under-Construction Properties are Sub-150,000 SF

Please reach out to your
Newmark business contact for this information

Notable 4Q23 Lease Transactions

Of the 20 known leases in the fourth quarter of 2023 that exceeded 100,000 SF, 10 were new leases, four were subleases and six were renewals/extensions. No pre-leases over 20,000 SF were signed this quarter.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
National Road Logistics	19200-19270 S Western Ave	South Bay	Direct Lease	315,256
<i>Leased and occupied the space this quarter. National Road Logistics is consolidating space in South Bay; the tenant also signed the largest lease of the third quarter for 442,550 SF of space at 1430-1452 Knox St in Torrance.</i>				
Lincoln Transportation	601 W Carob St	South Bay	Sublease	234,600
<i>Subleased entire building from Puma and moved in by year-end. Tenant is expanding in market, having subleased 70,065 SF of space in Compton the previous year. Sublease term expires in 2Q26.</i>				
Classic Concepts	5091 4 th St	East (San Gabriel)	Direct Lease	233,342
<i>Leased and took occupancy this quarter. Lease term expires 1Q28.</i>				
Daiso California LLC	16400 Trojan Way	Mid-Counties	Lease Renewal	220,000
<i>The tenant has occupied entire property since 2017. Short term lease that expires at the end of 1Q24.</i>				
DrinkPAK, LLC	29125 Avenue Paine	North	Direct Lease	176,107
<i>Lease and occupied the space this quarter. The canned beverage manufacturer, which is headquartered in Santa Clarita, has rapidly expanded its footprint in recent years. Lease term expires in 2Q25.</i>				

4Q23

Sales Activity

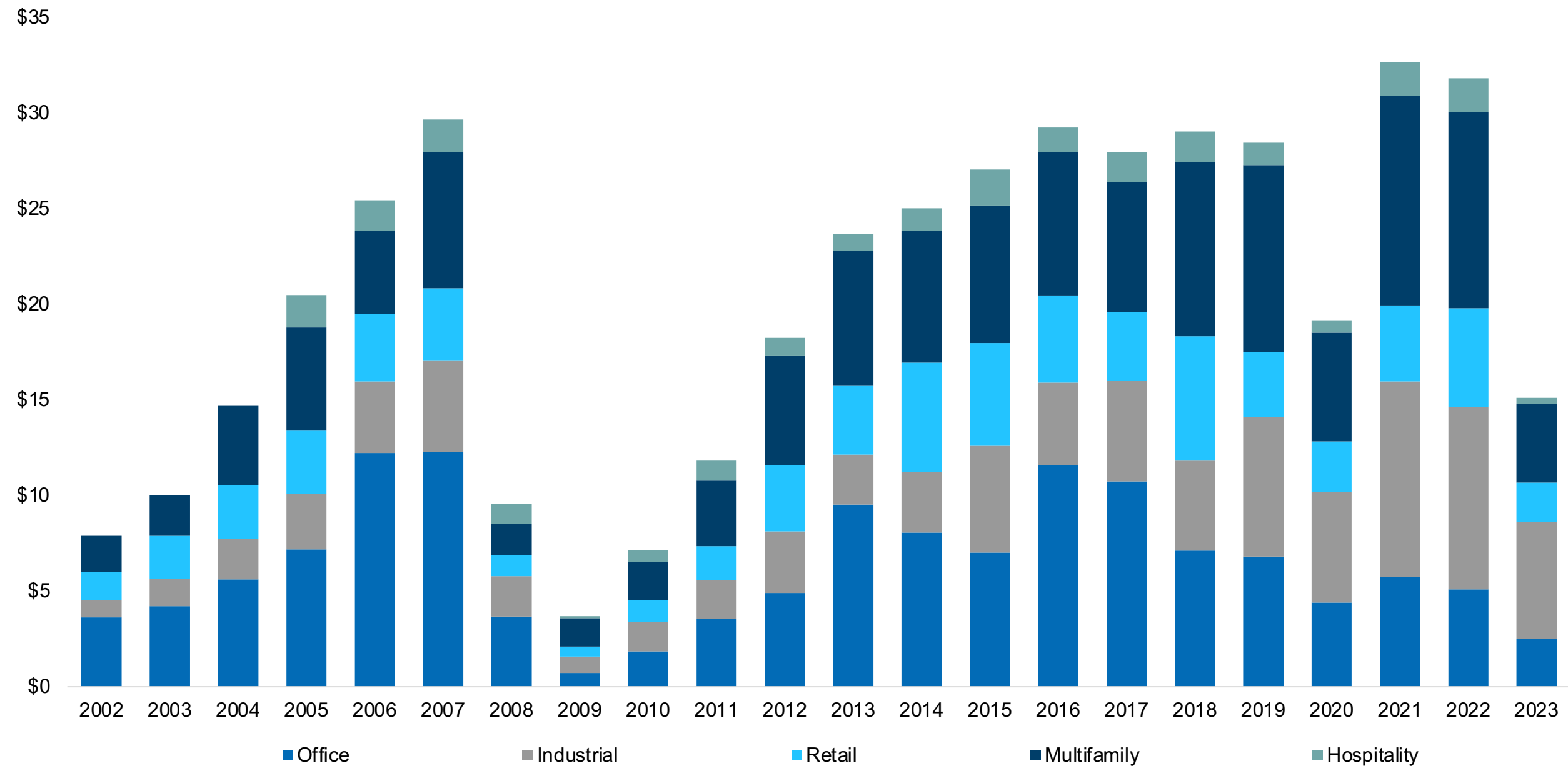


Industrial Comprised 40.6% of Total Sales Volume in 2023

This figure vastly exceeds the 21-year average (2002 to 2022) of 18.9%. Low vacancy and heated rent growth in recent years favor the segment, with many investors targeting desirable buildings with credit tenants whose leases are up for renewal. What the tenant was paying (\$\$) is different than today's rent averages (\$\$\$\$).

Industrial sales volume led other commercial property segments by a wide margin in 2023.

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

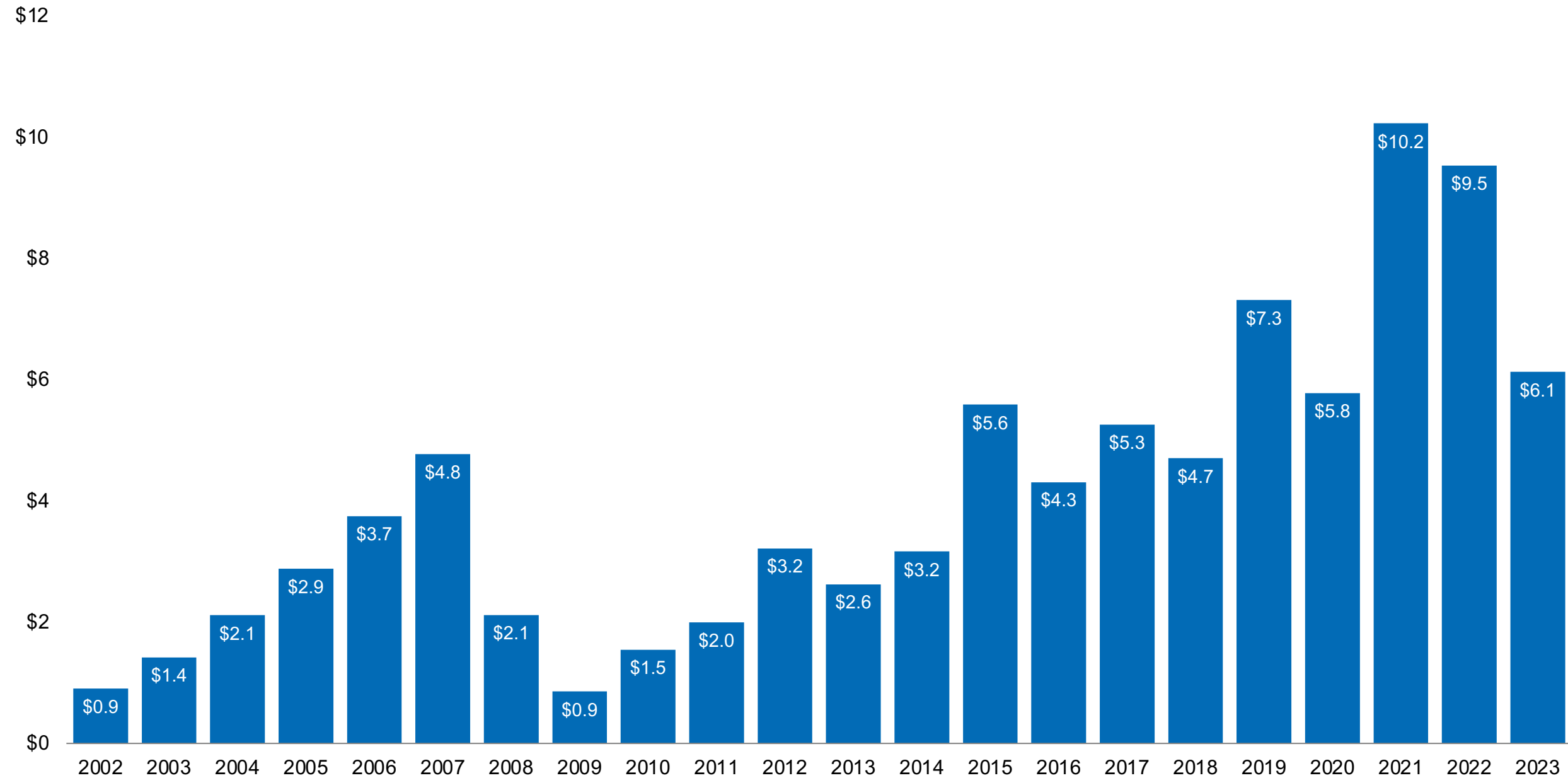


Source: MSCI Real Capital Analytics, Newmark Research
 Note: Preliminary data is cited for the fourth quarter of 2023

Industrial Sales Volume: Up Close

Industrial sales volume totaled \$6.1 billion in 2023, far short of 2022's total. The higher cost of capital following multiple interest rate hikes from March 2022 to July 2023 is crimping momentum in addition to cooling, but still healthy, leasing fundamentals. Both have pressed pricing downward.

Los Angeles County: Industrial Sales Volume (\$ in Billions)



Source: Newmark Research, MSCI Real Capital Analytics
Note: Preliminary data is cited for the fourth quarter of 2023

Pricing and Cap Rates Have Plateaued

Please reach out to your
Newmark business contact for this information

Private, Cross-Border and REIT/Listed Buyers Active

Please reach out to your
Newmark business contact for this information

4Q23

Appendix



Los Angeles Submarket Map and High-Level Statistics | 4Q23

Please reach out to your
Newmark business contact for this information



Please reach out to your
Newmark business contact for this information



Please reach out to your
Newmark business contact for this information



Please reach out to your
Newmark business contact for this information



Please reach out to your
Newmark business contact for this information

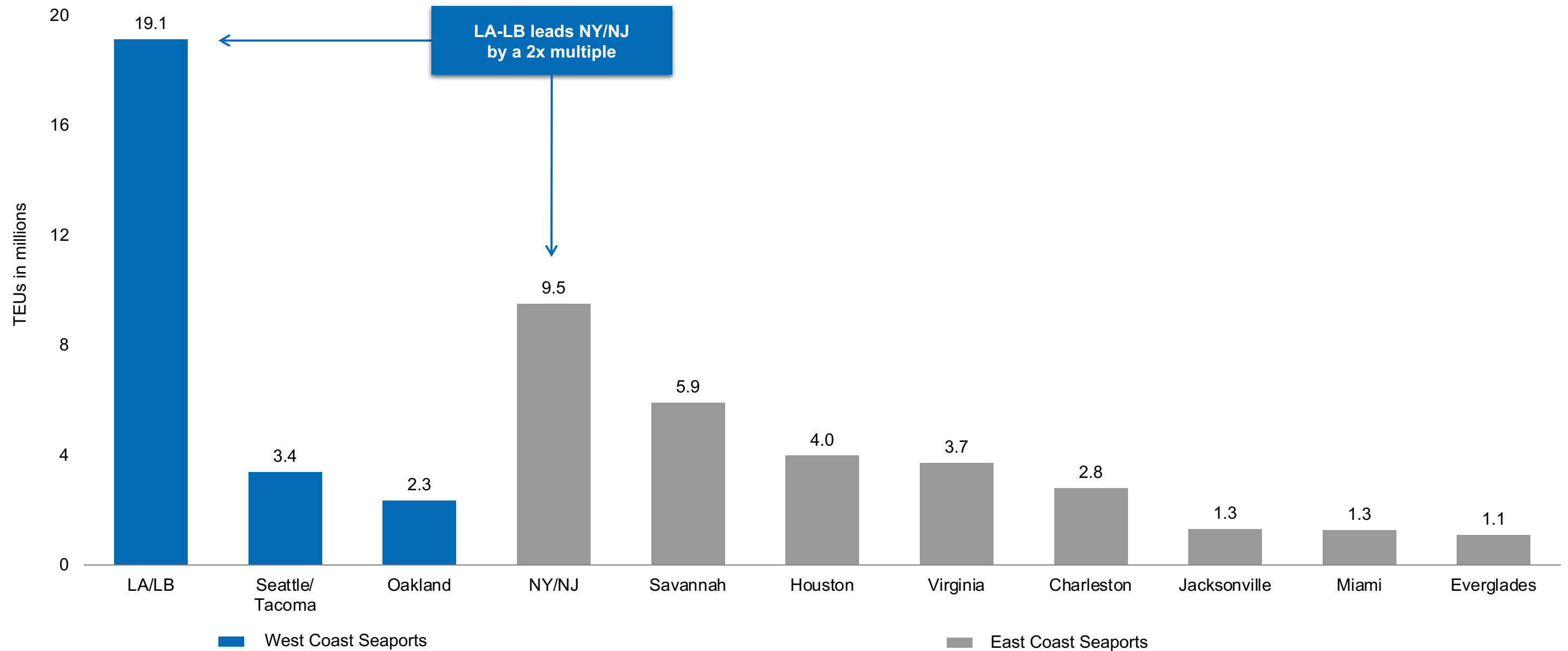
WAIRE: Program Summary and Implications for Industrial

Please reach out to your
Newmark business contact for this information

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: 2022 TEU Volume (All Containers: Loaded and Empty)



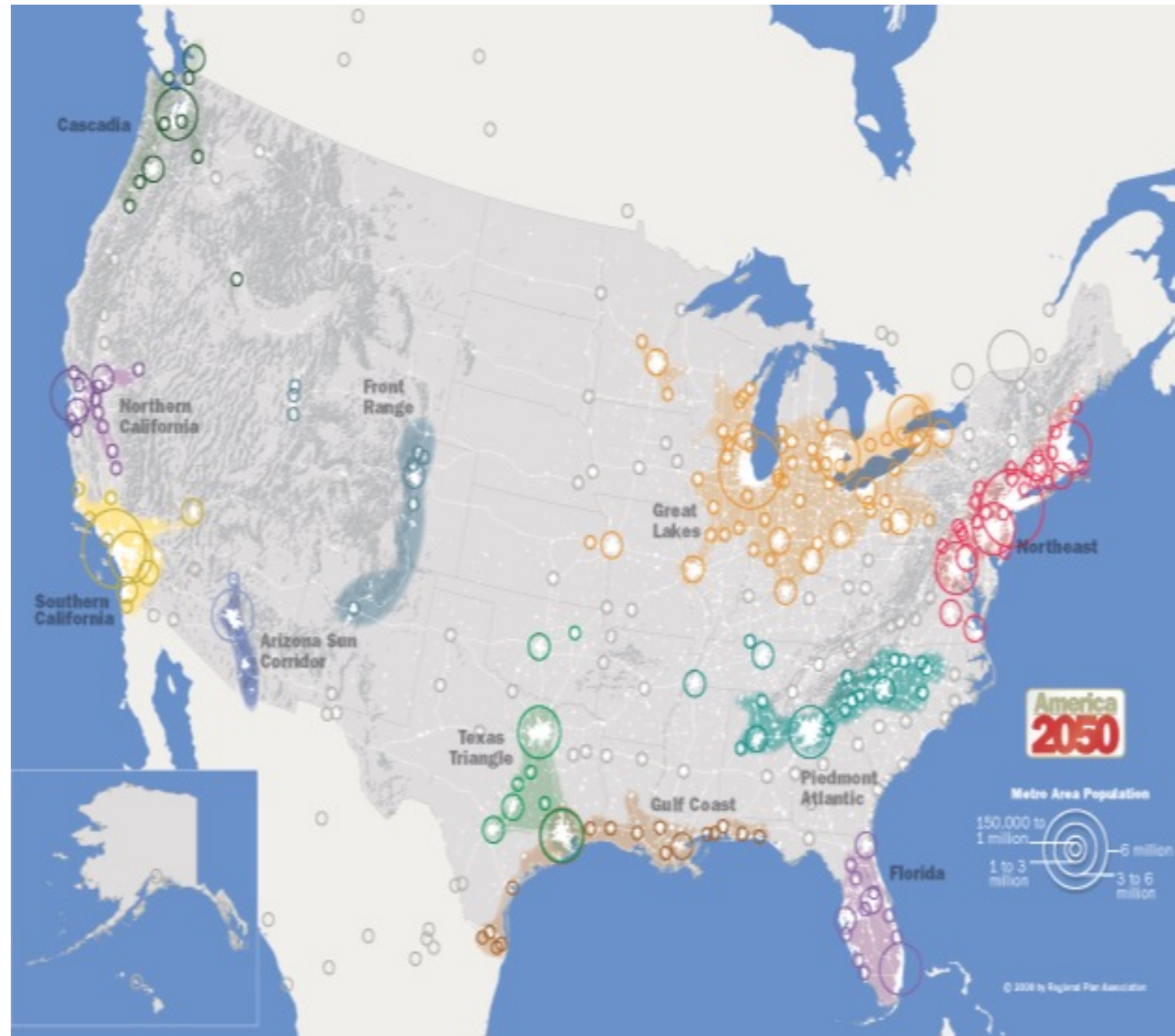
Source: Newmark Research, Individual Seaports

Why Los Angeles-Long Beach?

Please reach out to your
Newmark business contact for this information

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

Please reach out to your
Newmark business contact for this information

Transport Costs per TEU Container

Please reach out to your
Newmark business contact for this information

For more information:

Colin Harmony

*Senior Research Analyst
Los Angeles, Inland Empire*

colin.harmony@nmrk.com

Norma Llamas

*Senior Database Coordinator
Los Angeles*

norma.llamas@nmrk.com

Dain Fedora

*Head of Research
Southwest*

dain.fedora@nmrk.com

Los Angeles -- Downtown

555 S. Flower St., Suite 3550
Los Angeles, CA 90071
t 213-596-2222

New York Headquarters

125 Park Ave.
New York, NY 10017
t 212-372-2000

nmrk.com

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.

All information contained in this publication (other than that published by Newmark) is derived from third party sources. Newmark (i) has not independently verified the accuracy or completeness of any such information, (ii) does not make any warranties or representations, express or implied, concerning the same and (iii) does not assume any liability or responsibility for errors, mistakes or inaccuracies of any such information. Further, the information set forth in this publication (i) may include certain forward-looking statements, and there can be no guarantee that they will come to pass, (ii) is not intended to, nor does it contain sufficient information, to make any recommendations or decisions in relation to the information set forth therein and (iii) does not constitute or form part of, and should not be construed as, an offer to sell, or a solicitation of any offer to buy, or any recommendation with respect to, any securities. Any decisions made by recipient should be based on recipient's own independent verification of any information set forth in this publication and in consultation with recipient's own professional advisors. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download, or in any other way reproduce this publication or any of the information it contains with any third party. This publication is for informational purposes only and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter. If you received this publication by mistake, please reply to this message and follow with its deletion, so that Newmark can ensure such a mistake does not occur in the future.

NEWMARK