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3Q24

# Los Angeles Industrial Market Overview



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# Market Observations

## Economy

- U.S. retail sales are decent but not great relative to their 20-year average. This has implications for industrial leasing activity.
- Gulf and East Coast dockworkers ended a 3-day strike after a tentative deal was reached with the United States Maritime Alliance. Gulf and East Coast distributors will continue to reroute cargo to other seaports until a new labor contract is signed.
- Loaded import volume at Southern California’s ports totaled 6.5 million containers in the first eight months of 2024, up 22.5% from the same period in 2023.
- A good portion of this 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.

## Major Transactions

- 17 leases over 100,000 SF were signed this quarter, far fewer than the 34 signed during the same period in 2023. Direct leases predominated.
- American Starlink took 700,000 SF across two buildings at Fullerton Road Industrial Park in the City of Industry in the largest lease of the quarter.
- New leasing activity is noticeably up in Central.
- Center Capital Partners, LLC acquired a 150,831-SF warehouse at 9401 De Soto Ave in Chatsworth from NBP Capital. The \$41.5 million sale closed in July and was the largest single-property trade of the quarter.
- Sales volume is set to increase next year as the Fed pursues continued interest rate reductions and tenant demand recovers.

## Leasing Market Fundamentals

- Leasing activity and the average weighted lease term marginally rose over the past three 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 losses totaled -1.5 MSF in the third quarter, a marked improvement compared to the previous six quarters, which averaged -3.0 MSF. Vacancy growth also slowed, up 20 bps from last quarter to settle at 3.9%.
- Sublet availability increased 15.8% over the last three months to reach 10.4 MSF.
- Class A infill start rents were down 22.0% from eight 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 (6.6 MSF) grew amid few third-quarter deliveries and several new groundbreakings. Fifty buildings are underway (7.8% are pre-leased).

## Outlook

- Vacancy will moderately rise for the foreseeable future as elevated rents deter potential lessees from entering or expanding within the market, while existing tenants execute cost-cutting measures. New supply coming online will be a factor, too.
- 3.4 MSF in new construction is slated to deliver next quarter; 15.1% has pre-leased.
- The recent passage of California Assembly Bill 98 that, in its current state, is complicated with plenty of ambiguity, will alter development activity throughout the greater market—from where it can occur down to building features.
- The Port of Long Beach’s Pier B On-Dock Rail Support Facility broke ground this quarter, which will more than triple the port’s capacity for on-dock rail to 4.7 million TEUs per year. Such an enhancement reinforces Los Angeles’ status as the leading gateway for international trade in North America.

1. Local Ports, U.S. Retail Sales and New Regulation
2. Local Employment
3. Leasing Market Fundamentals
4. Sales Activity
5. Appendix

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# Local Ports, U.S. Retail Sales and New Regulation



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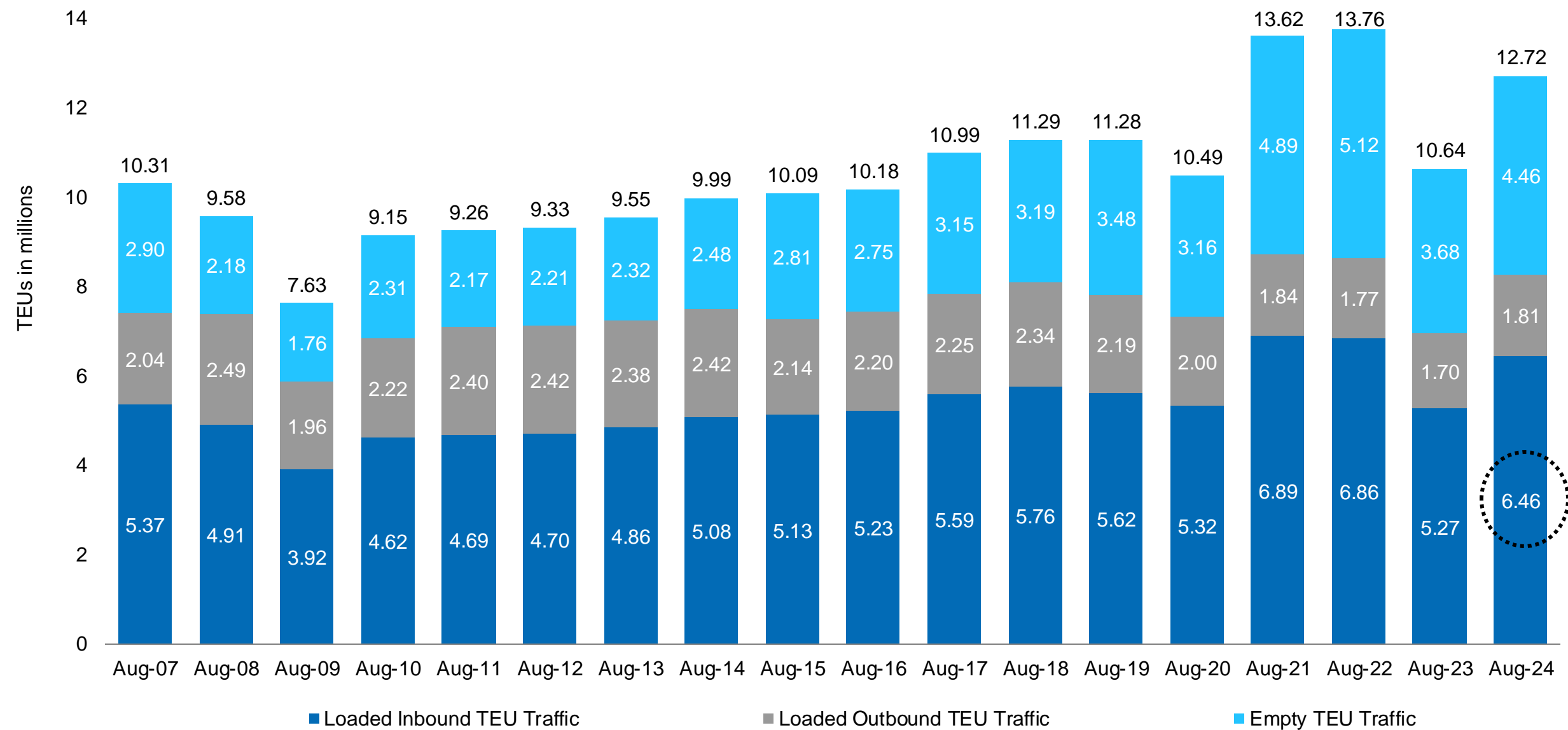
Ocean Container Spot Rates Were Up 178% from Mid-April to Mid-July 2024

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# Loaded Imports in the First Eight Months of 2024 Third Busiest Compared to Same Period of Prior Years

The exceptional (but inflated and unsustainable) growth of 2021-2022 due to COVID-19-related stay-at-home measures, government stimulus, strong retail sales and domestic warehouse occupiers stockpiling goods to mitigate against global supply chain disruptions at the time may have passed, but Southern California's ports are now contending with an influx of imports due to labor issues at Gulf and East Coast ports.

The Ports of Los Angeles and Long Beach: Combined TEU Volume | Loaded Imports, Loaded Exports and Empty Containers | First Eight 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 through late 2029. Longshoremen at Gulf and East Coast ports went on strike for three days in early October after their demands with the United Maritime Alliance were unmet. Now, both sides have a tentative deal in place. Import volume will continue to be rerouted to other North American ports (e.g., Los Angeles-Long Beach) until a master contract is finalized between the ILA and USMX.

## West Coast Ports Agreement Reached; New Contract Good Through Mid-2028

- 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.
- 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's Association (ILA) represents dockworkers at 36 ports from Maine to Texas. The United States Maritime Alliance (USMX) represents ocean carriers and terminal operators.
- Their contract expired on September 30, 2024.
- Harold Daggett, International President of the ILA, initiated a strike on October 1, 2024 that ended two days later.
- A tentative deal with USMX is now in place, and both sides have until January 15, 2025 to finalize an agreement.
- Job protection from automation and higher pay (a 62% wage increase over six years) for longshore workers are part of the current deal.



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

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# What Tends to Happen During a Coastal Port Strike

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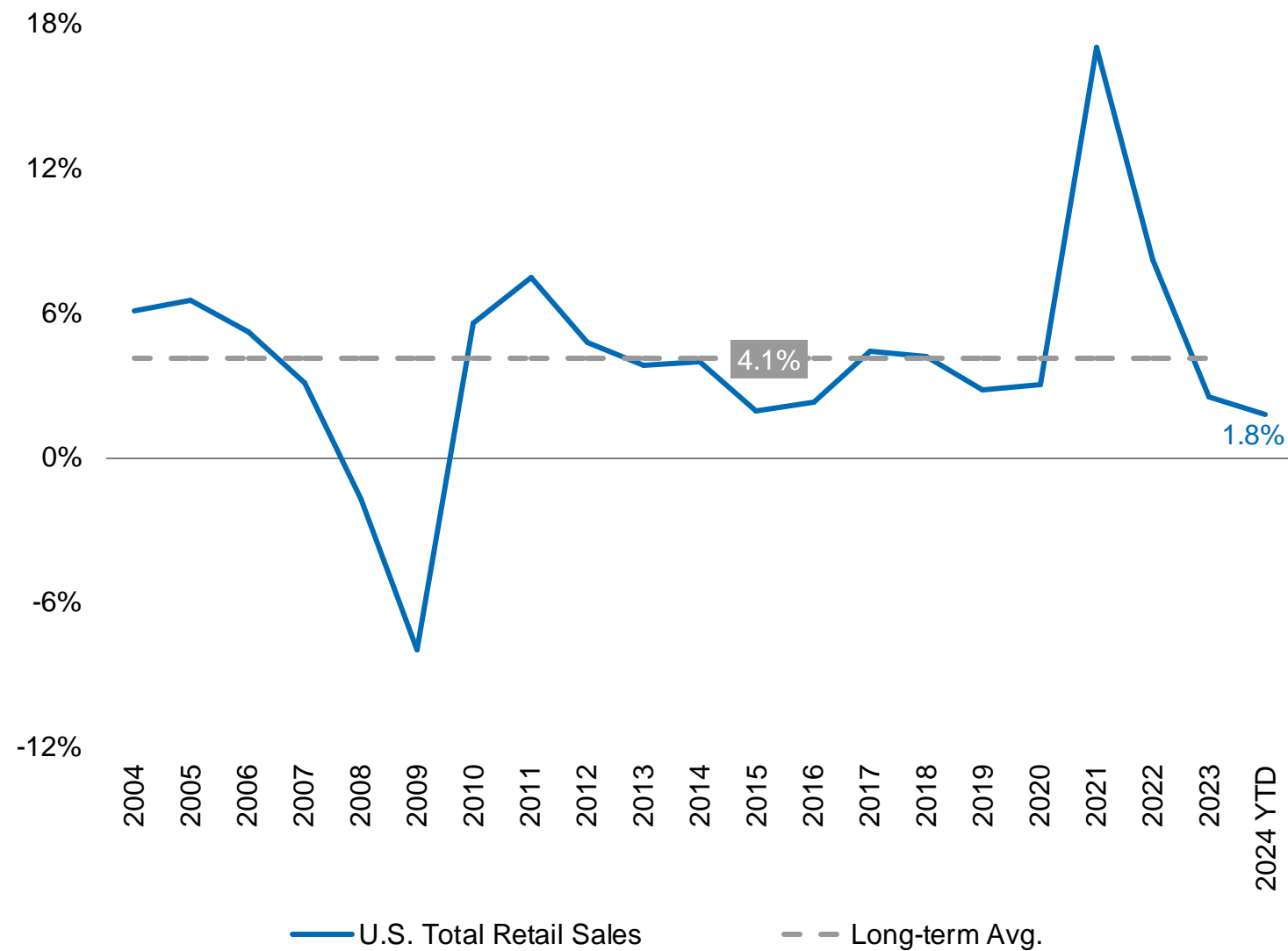
## Truck Dwell Times are Lower Than Rail Dwell Times

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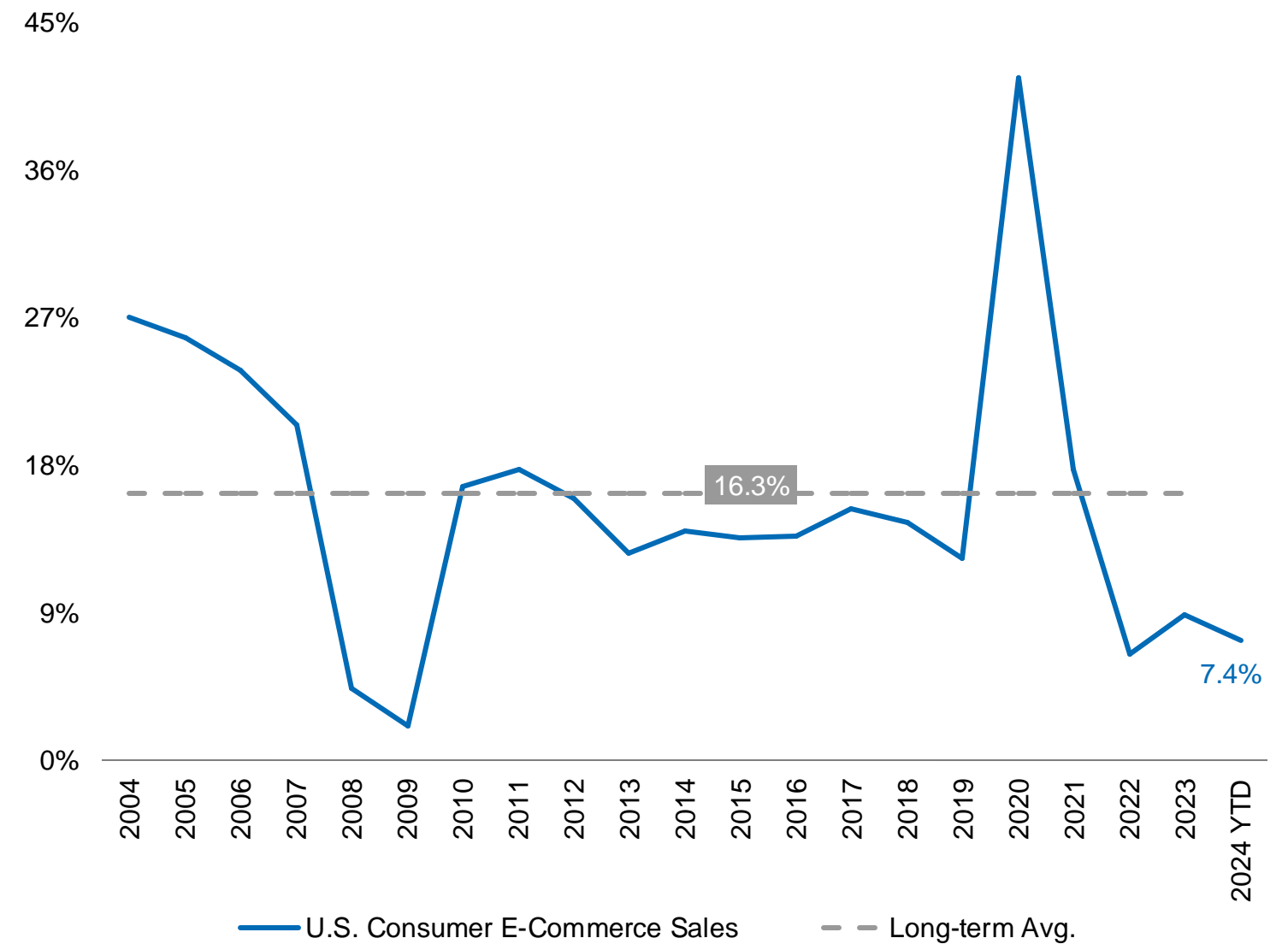
# Retail Sales (an Indicator of Warehouse Demand) Continue to Moderate

Consumer e-commerce sales were up 7.4% in the first half of 2024 compared with the same period in 2023. Although e-commerce sales growth exceeded total retail sales (+1.8% over the same period), the decline from 2021 onward is noticeable as consumer spending registers slower gains.

## U.S. Overall 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 the change in sales from the first six months of 2023 to the same period in 2024.

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# The Pandemic Accelerated E-Commerce Sales Growth and Adoption Rates

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## New California Bill Adds Regulations on Warehouse Development in the State

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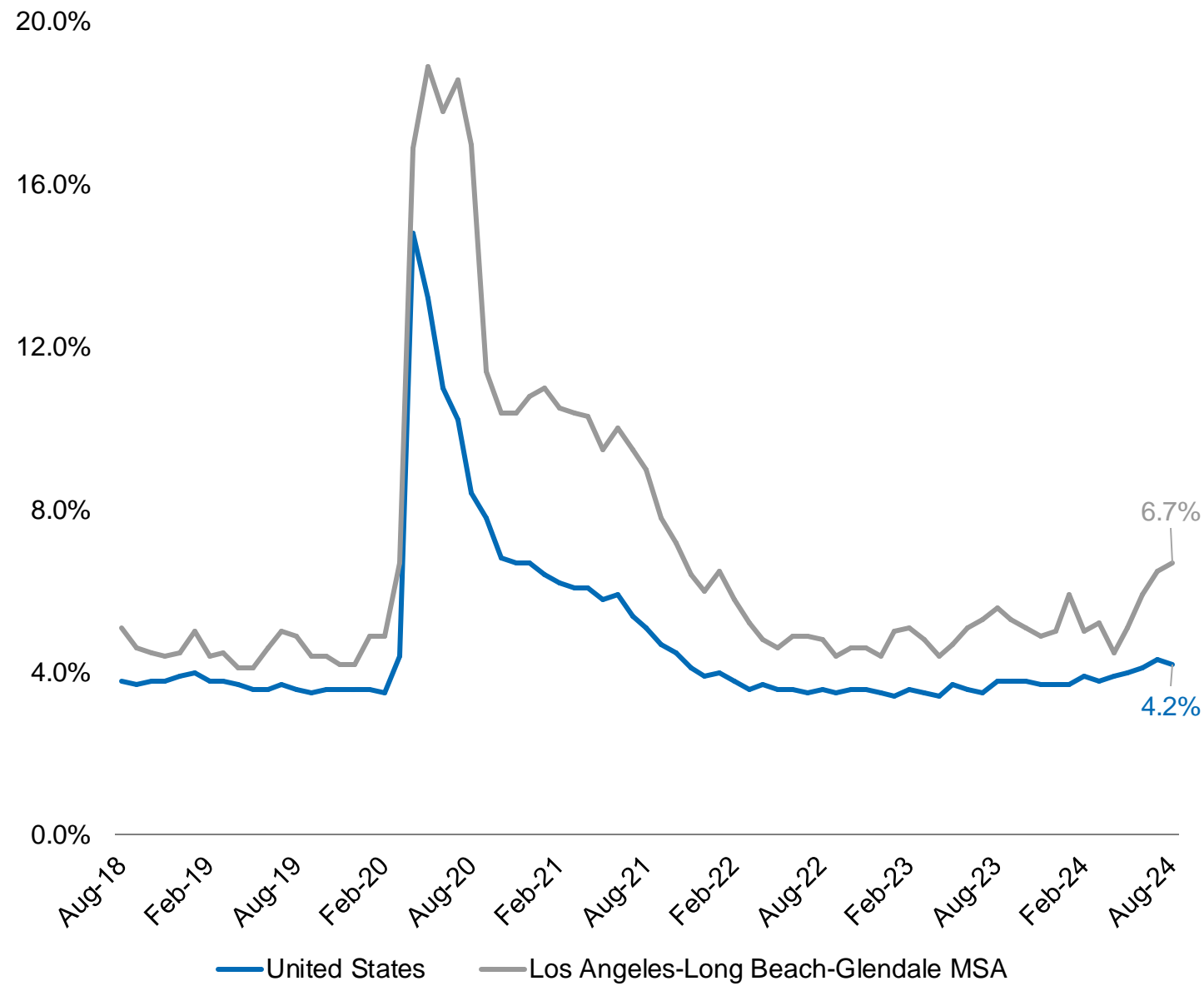
# Economy: Local Employment



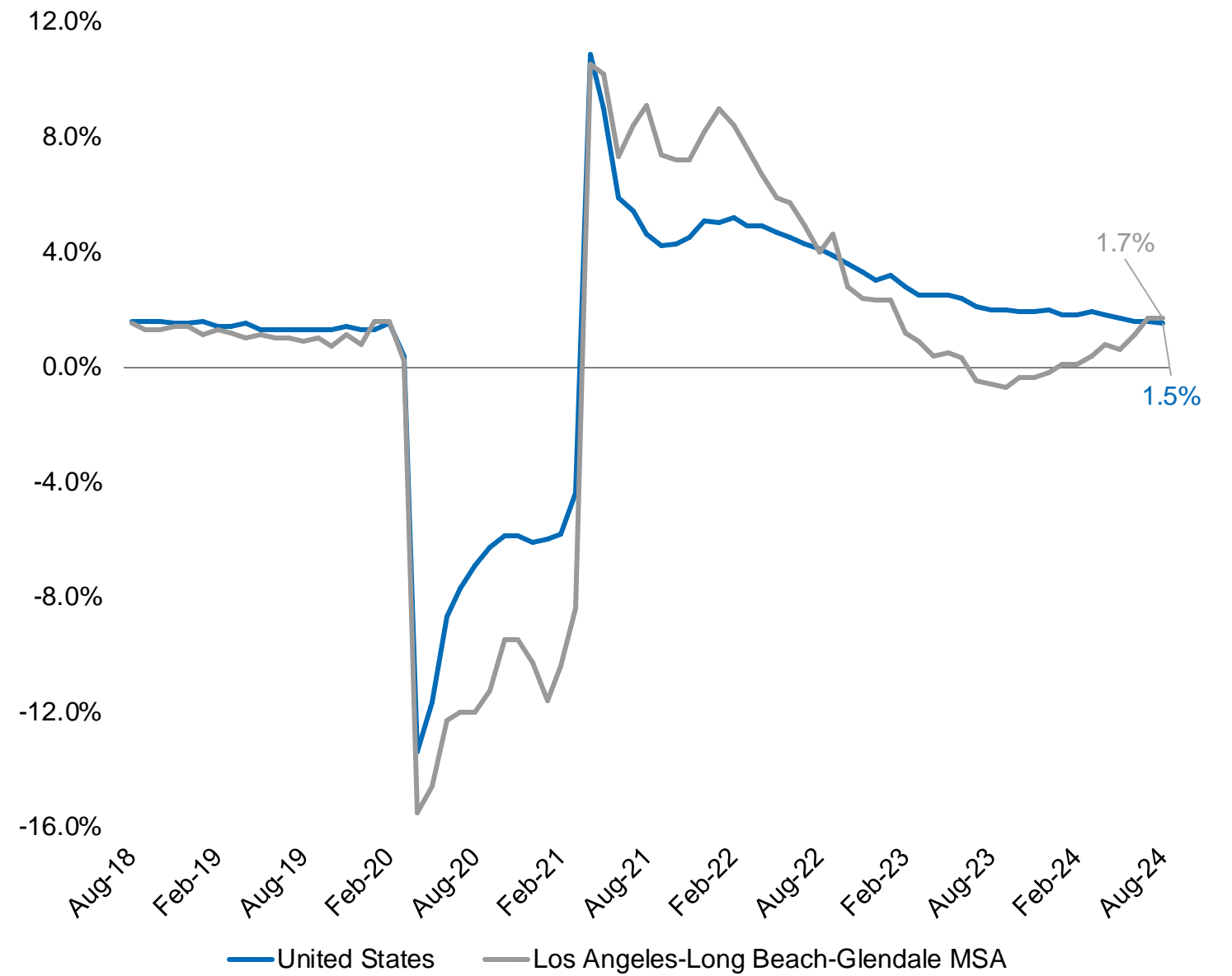
# Unemployment Increases to Highest Point Since 2021

Local unemployment settled at 6.7% in August 2024, a 70 bps increase from a year prior. Local 12-month job growth picked up during the first nine months of 2024 following a six-month period in the second half of 2023.

Unemployment Rate, Seasonally Adjusted



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

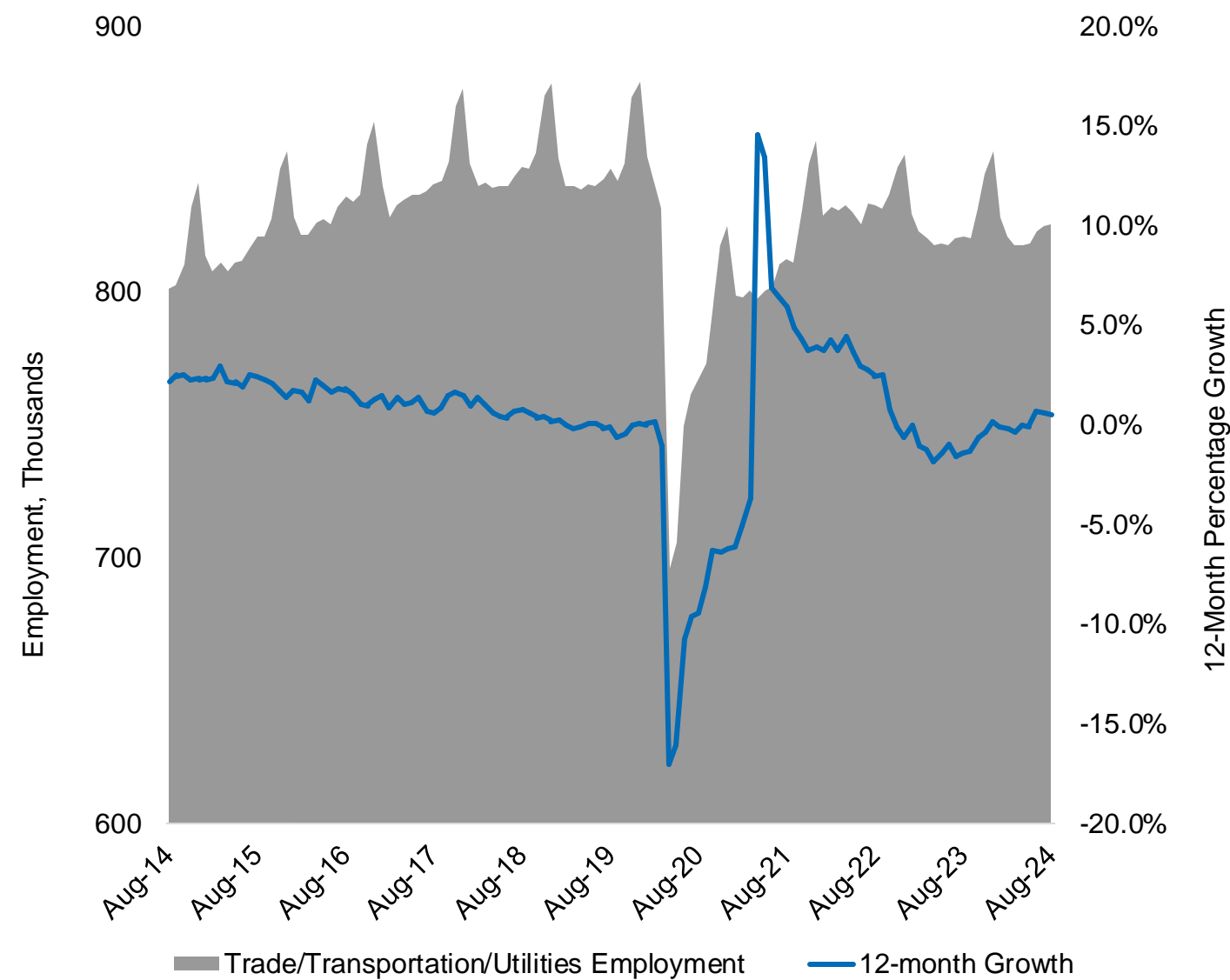


Source: U.S. Bureau of Labor Statistics, Los Angeles-Long Beach-Glendale MSA

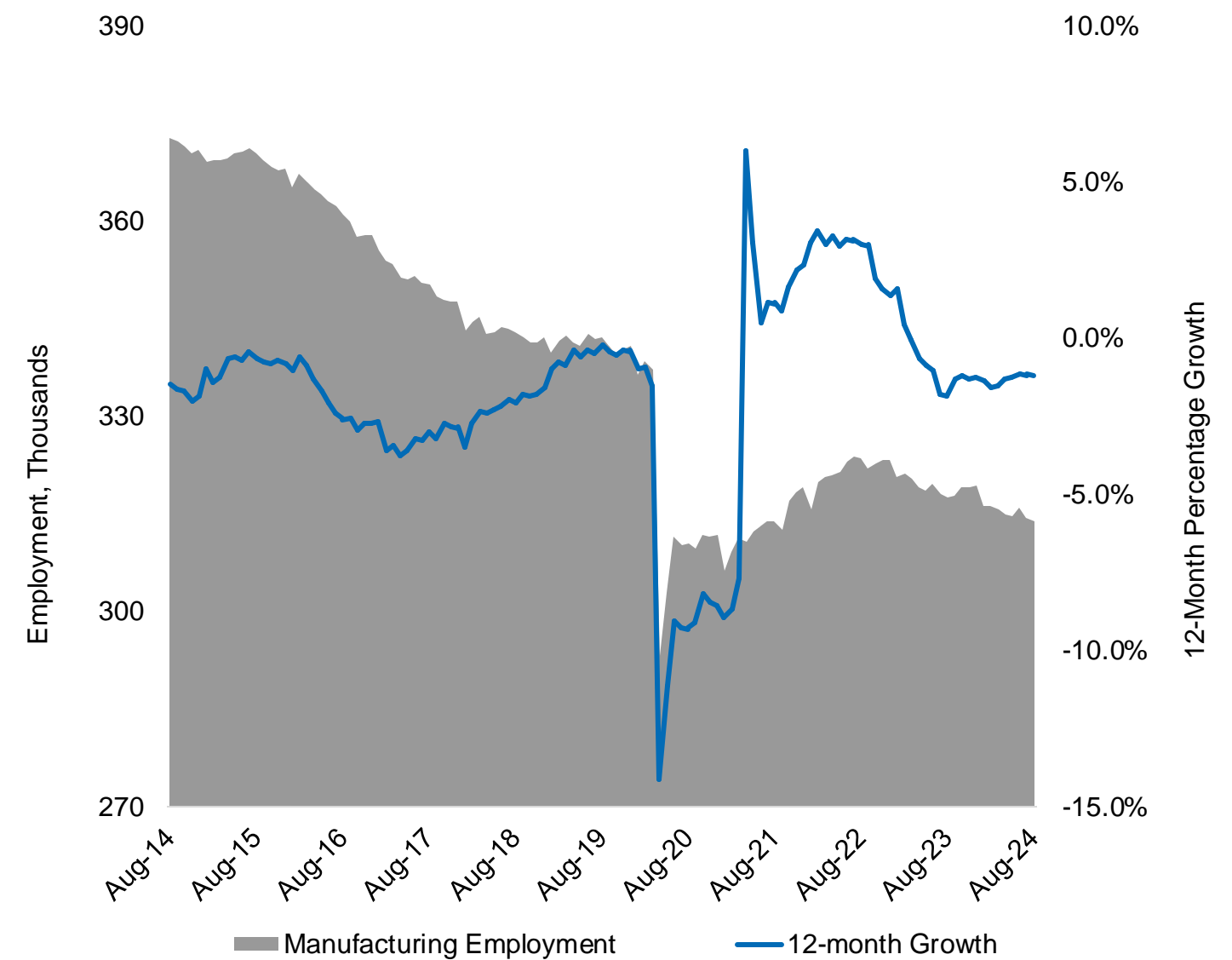
# Industrial Employment Subject to Change Despite Relative Stability in Recent Months

Seasonal volatility aside, 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 and automation.

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



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# Leasing Market Fundamentals



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## Contact Rents Continue to Adjust

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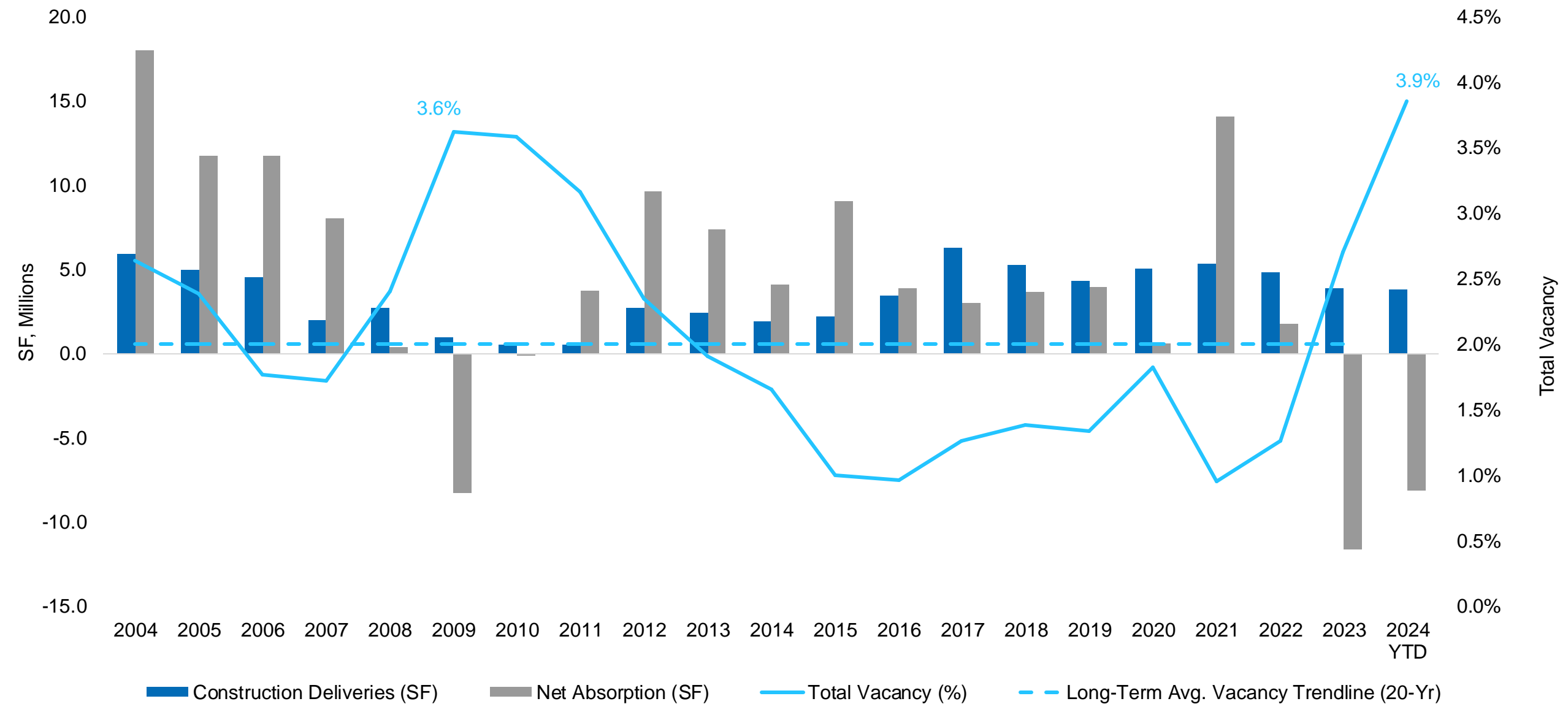
Average Weighted Lease Terms Remain Below Long-Term Average, But are Increasing

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# Vacancy Higher than 2009; Net Absorption Losses Begin to Moderate

Vacancy continued to rise as tenants shed excess space. Quarterly net absorption losses totaled -1.5 MSF after move-outs by IDC Logistics (447,055 SF), T.A. Industries (240,395 SF), Newegg (232,000 SF) and a host of smaller vacancies; a noticeable hit, but not as bad as the last six quarters, which averaged 3.0 MSF in losses. On a year-to-date basis, net absorption totals -8.1 MSF while new supply accounts for 3.8 MSF

## Historical Construction Deliveries, Net Absorption, and Vacancy

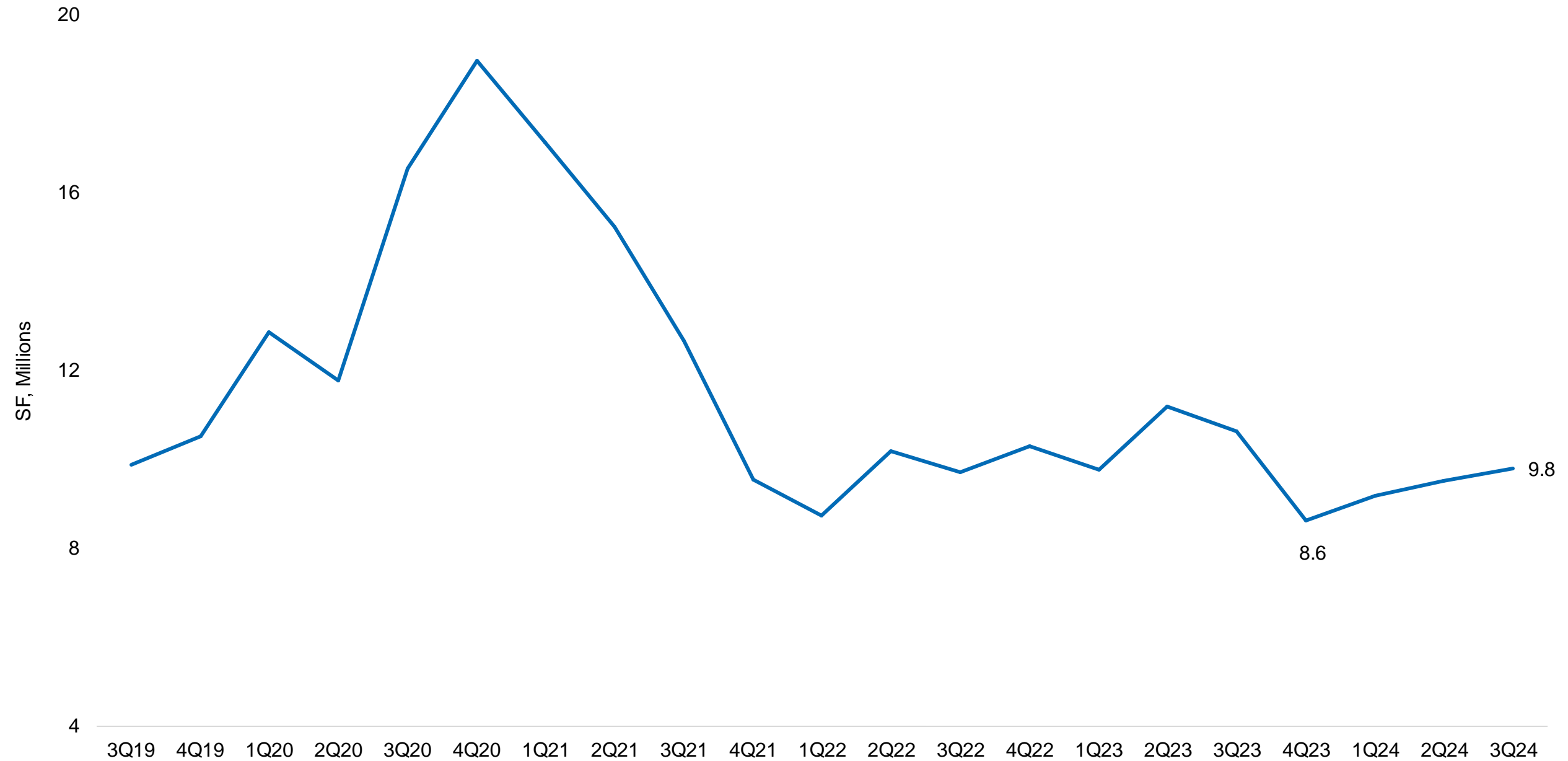


Source: Newmark Research

# Total Leasing Volume Inches Upward

While leasing activity has marginally increased since the fourth quarter of 2023, it remains measured at best from a historical perspective: This quarter's 9.8 MSF was lower than the 21-quarter average of 11.6 MSF.

Total Leasing Activity (SF) by Quarter



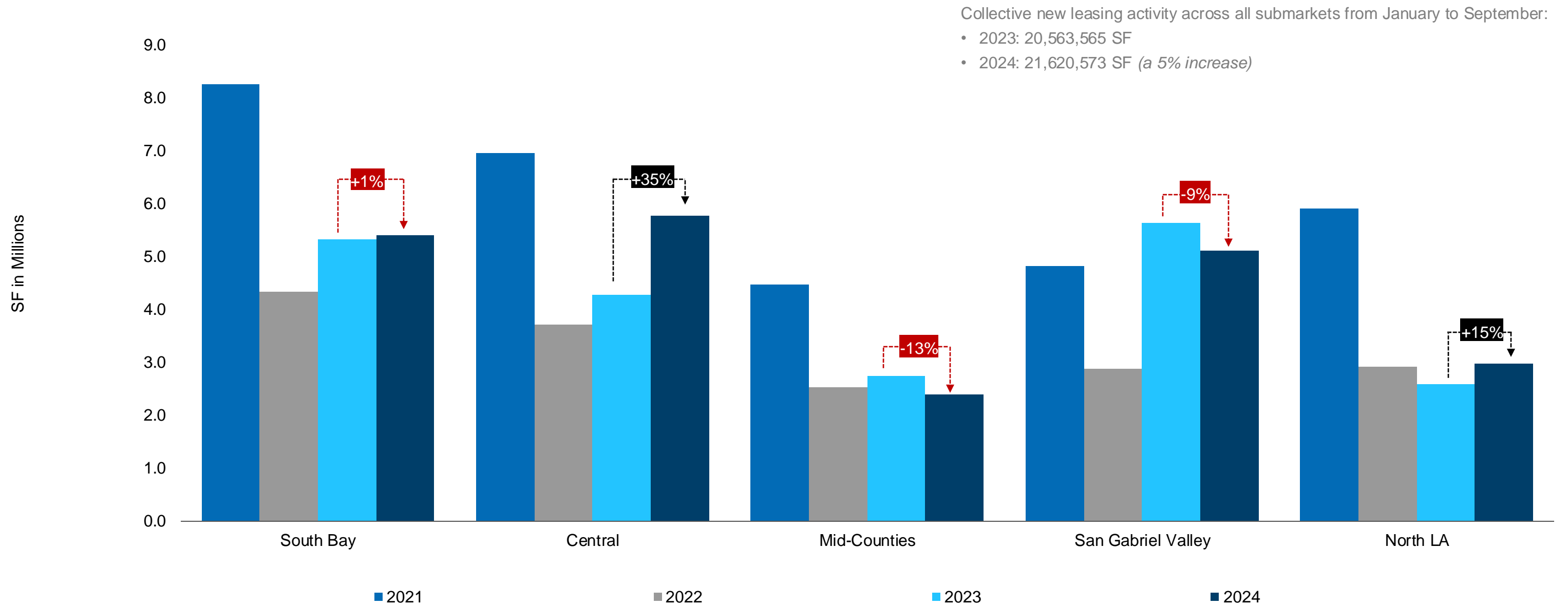
Source: Newmark Research, CoStar

Note: Total leasing activity includes direct leases, subleases, renewals and extensions.

# New Leases: Regional Activity Up 5%, Largely Thanks to a 35% Jump in Central

Central is adjacent to Southern California's seaports and offers access to a large (and dense) consumer population.

## New Leasing Activity by Submarket: First Nine Months of a Given Year

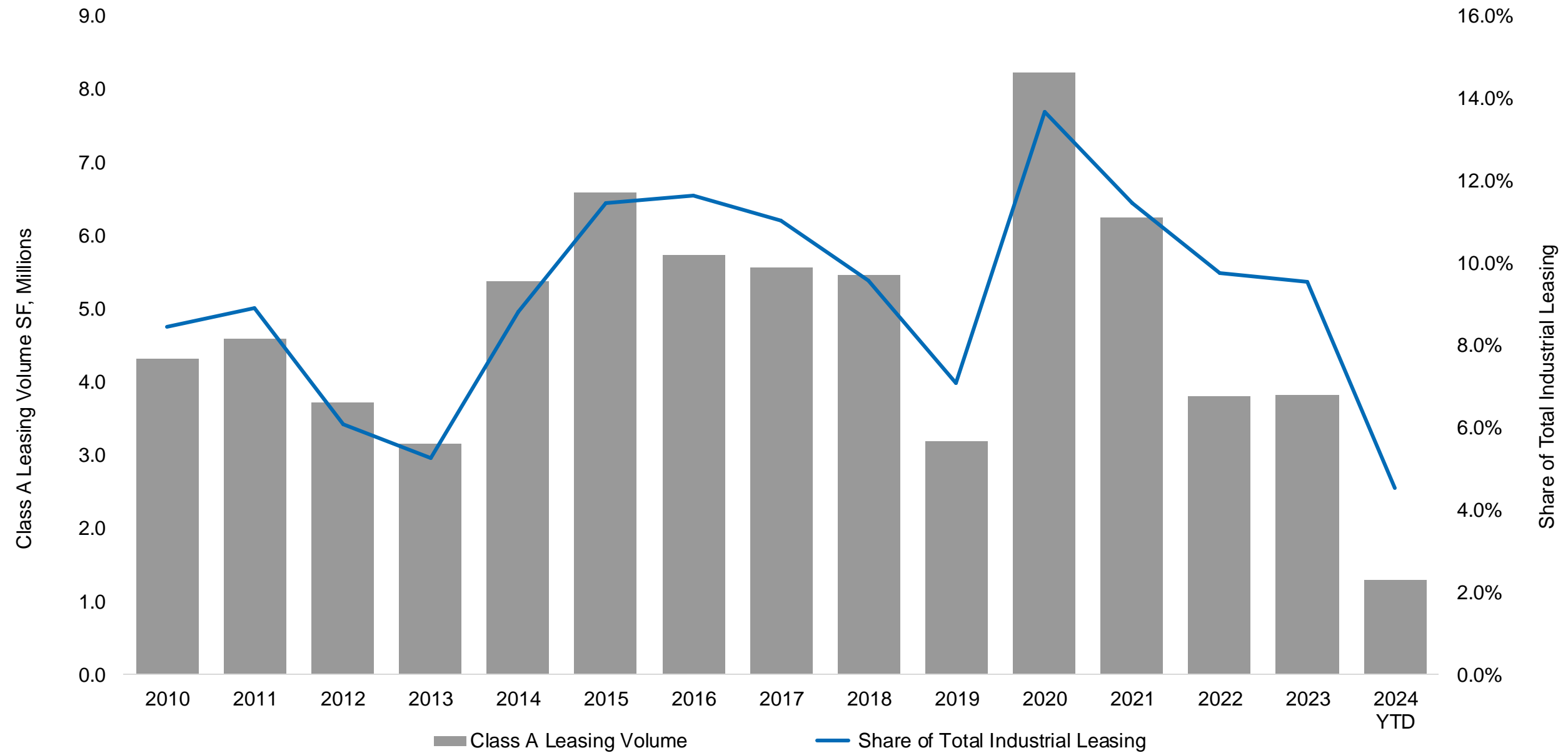


Source: Newmark Research, AIR  
Notes: Includes direct leases and subleases. Excludes renewals and extension.

# 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

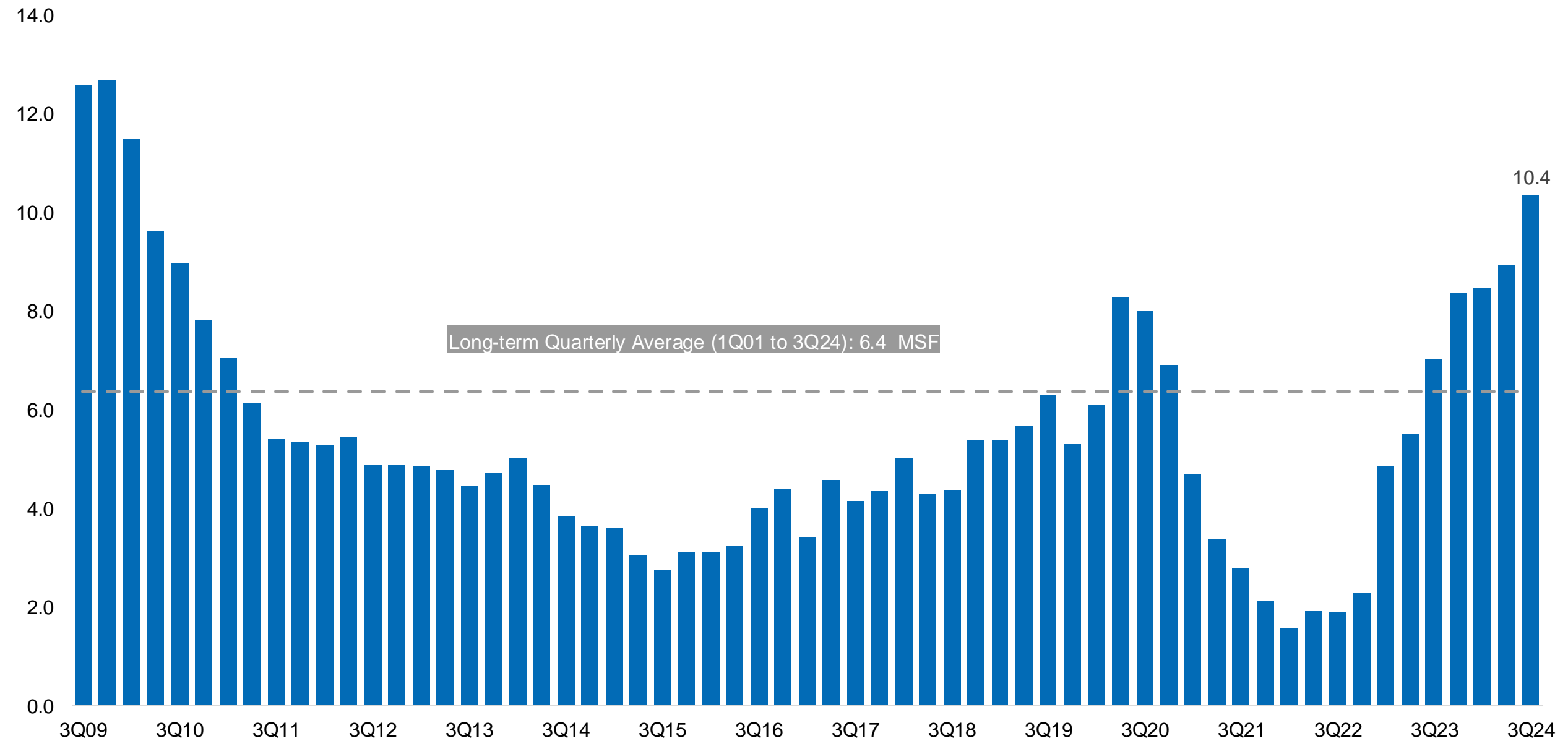


Source: Newmark Research, CoStar  
 Note: Class A is defined as 100,000+ SF warehouse/distribution facilities constructed since 2000 with a 30'+ minimum interior ceiling height.

# Sublet Availability Volume Highest Since 2010

Available sublease space increased 15.8% from the preceding quarter to reach 10.4 MSF, a 14.5-year high. Limited sublease signings and new offerings from Smart & Final (445,767 SF in Commerce), National Road Logistics (315,256 SF in Torrance), Pixior (153,724 SF in Santa Fe Springs) and range of smaller tenants contributed to the increase.

## Available Industrial Sublease Volume (MSF)



Source: Newmark Research



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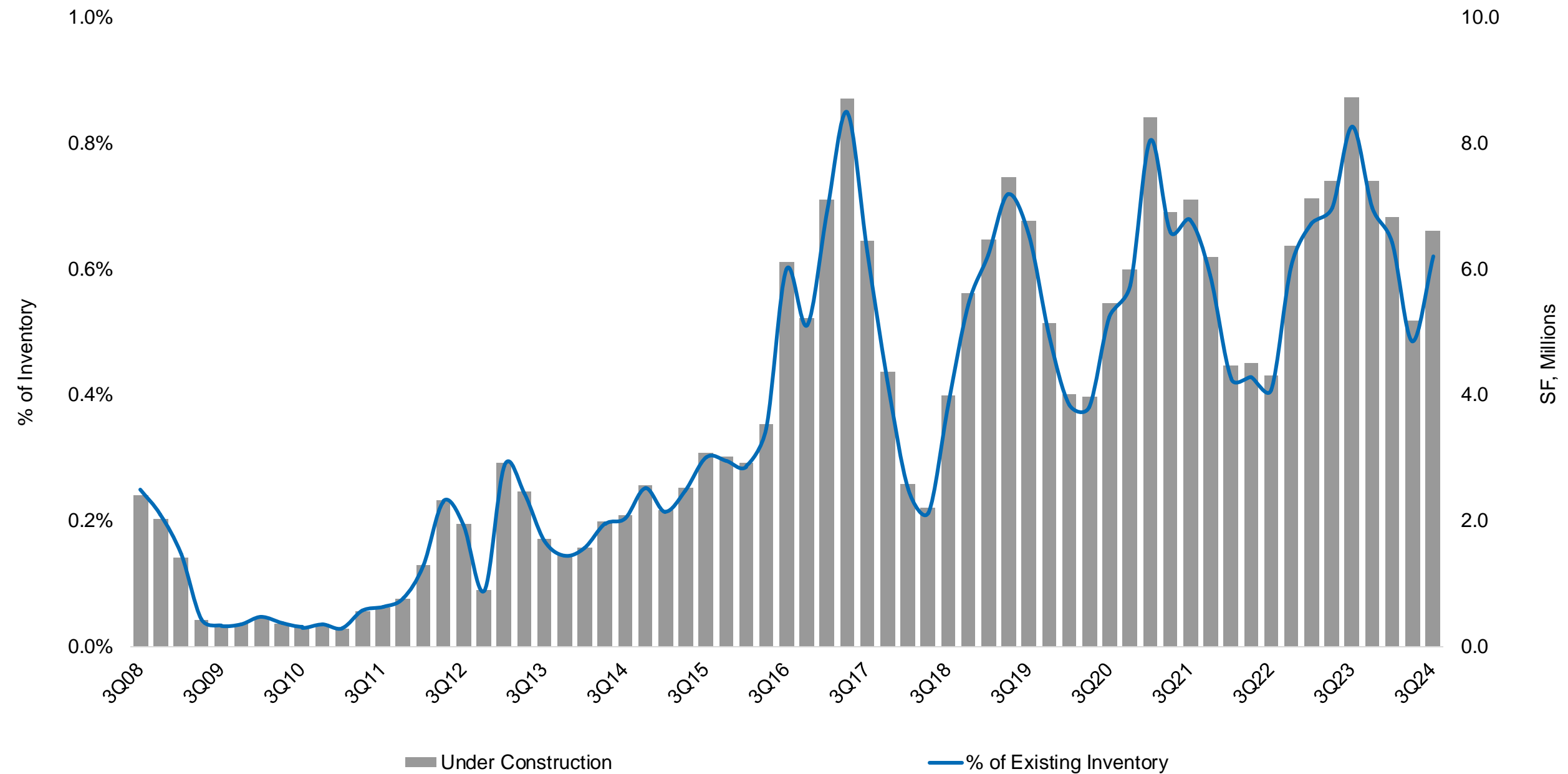
70.5% of Available Sublease Space in the Region is Based in the Infill Markets

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# Few Deliveries, New Groundbreakings Temporarily Boost Under-Construction Volume

Third-quarter construction starts, which included the 610,545-SF Rexford Street Industrial Park project in Sylmar as well as a host of smaller developments, boosted total under-construction volume to 6.6 MSF following three quarters of successive declines. Only 7.8% of underway product was pre-leased by the end of the quarter.

## Industrial Under Construction and % of Existing Inventory



Source: Newmark Research

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



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# Notable 3Q24 Lease Transactions

Seventeen leases over 100,000 SF were signed this quarter, compared to 34 in the same period of 2023. Of this quarter's big-box leases, 11 were direct, four were renewals and two were subleases.

## Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
American Starlink	18175-18215 Rowland St	East (San Gabriel)	Direct Lease	700,000
<i>The SpaceX subsidiary took early occupancy of the property. Lease term expires in 2Q32.</i>				
R1 Concept	2000 E Carson St	South Bay	Direct Lease	293,800
<i>The automotive firm, which is expanding in the market, will move into the vacant property in November. Newmark represented the lessee.</i>				
Geodis Logistics, LLC	301 W Walnut St	South Bay	Lease Renewal	215,316
<i>The 3PL has occupied the property since 2009. Lease term expires in 1Q30.</i>				
Kair Harbor	250 W Manville	South Bay	Direct Lease	206,483
<i>The Long Beach-based 3PL will occupy the vacant property in January 2025. Newmark represented the lessee.</i>				
Confidential Tenant	20435 E Business Pkwy	East (San Gabriel)	Sublease	200,000
<i>Sublease term expires in 1Q25.</i>				

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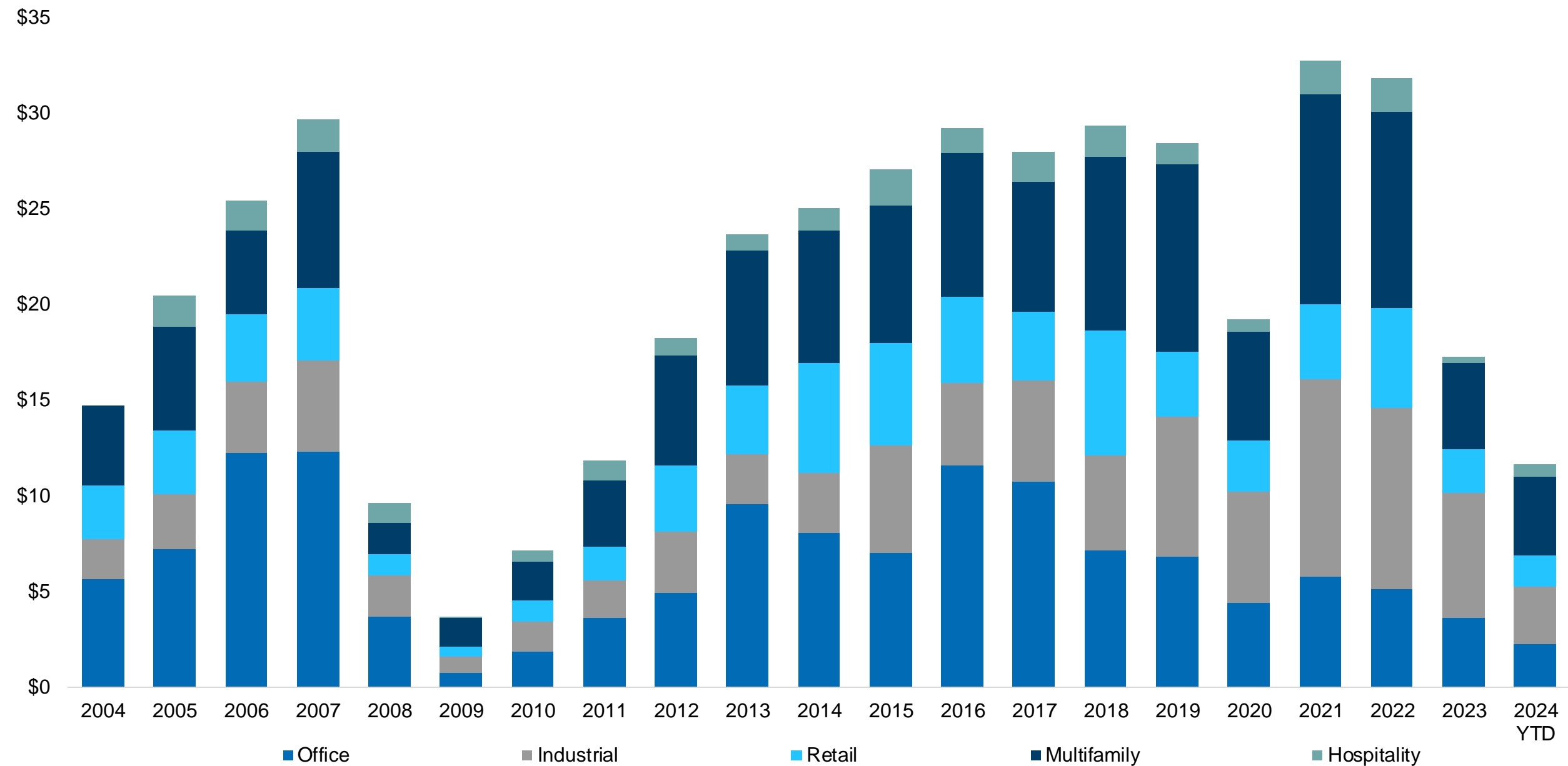
# Sales Activity



# Industrial Comprised 25.9% of Total Sales Volume in the First Nine Months of 2024

This figure is higher than the 20.75-year average of 20.1%. 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)

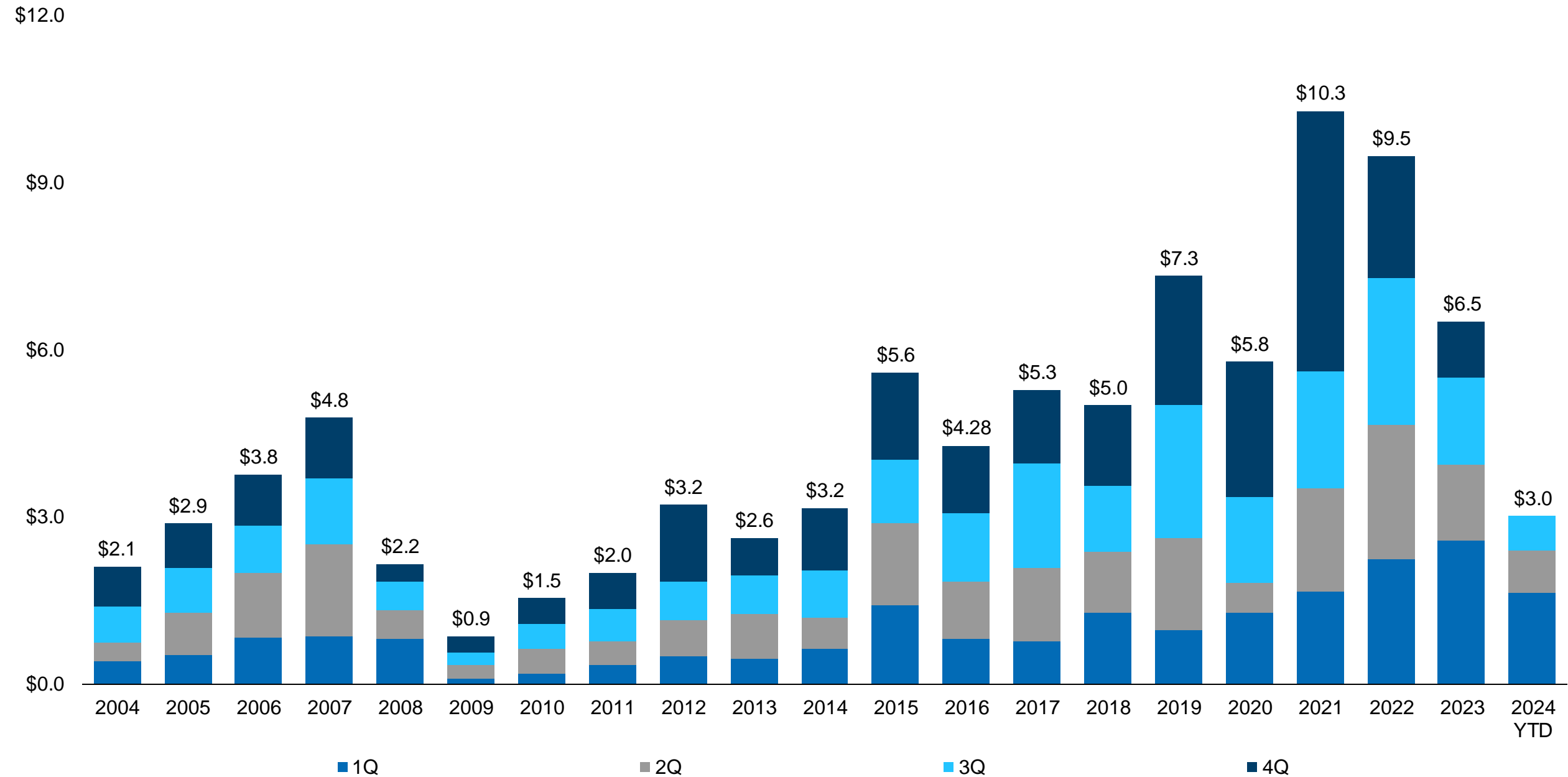


Source: MSCI Real Capital Analytics, Newmark Research  
 Note: Preliminary data is cited for the third quarter of 2024.

# Industrial Sales Volume: Up Close

Industrial sales volume totaled \$619.1 million in the third quarter of 2024, down 60.5% from the same period in 2023. The higher cost of capital following multiple interest rate hikes from March 2022 to July 2023 has crimped momentum, in addition to adjusting leasing fundamentals, have imposed downward pressure on volume and pricing. Sale activity is anticipated to increase in 2025 as the Fed imposes successive interest rate cuts, following this quarter's 50 bps reduction.

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



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

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Pricing is Down and Cap Rates are Rising

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## Rexford Dominates Sales Activity in Recent Months; Private Buyers Still Active

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# Appendix



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## Los Angeles Submarket Map and High-Level Statistics | 3Q24

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# WAIRE: Program Summary and Implications for Industrial

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# 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	<b>Los Angeles-Long Beach, U.S.</b>	<b>16.6</b>
10	Jebel Ali/Dubai, United Arab Emirates	14.5

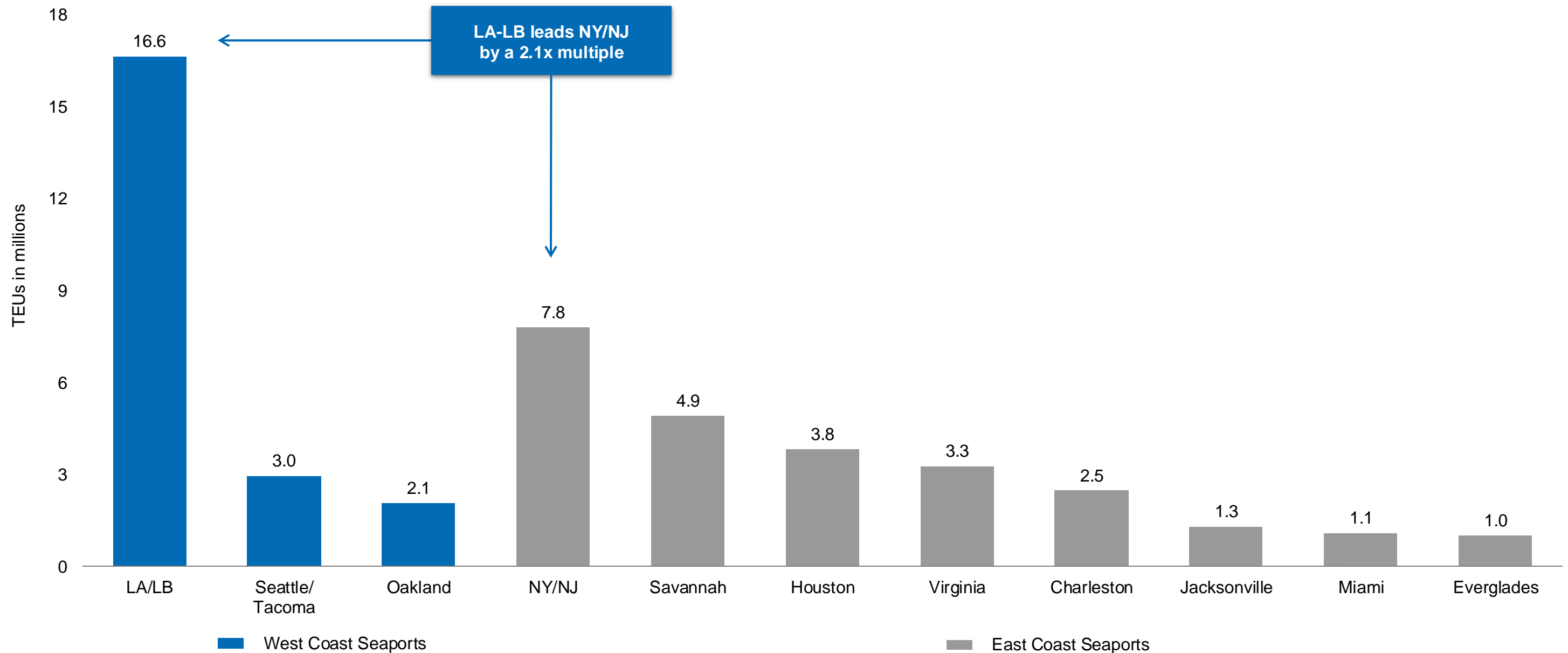
Rank	Seaport	2023 Volume (TEUs, in millions)
11	Hong Kong	14.3
12	Port Klang, Malaysia	14.1
13	Rotterdam, The Netherlands	13.4
14	Xiamen, China	12.6
15	Antwerp, Belgium	12.5
16	Tanjung Pelepas, Malaysia	10.5
17	Kaohsiung, Taiwan	8.8
18	Laem Chabang, Thailand	8.7
19	Tanger Med, Morocco	8.6
20	Beibu Gulf,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

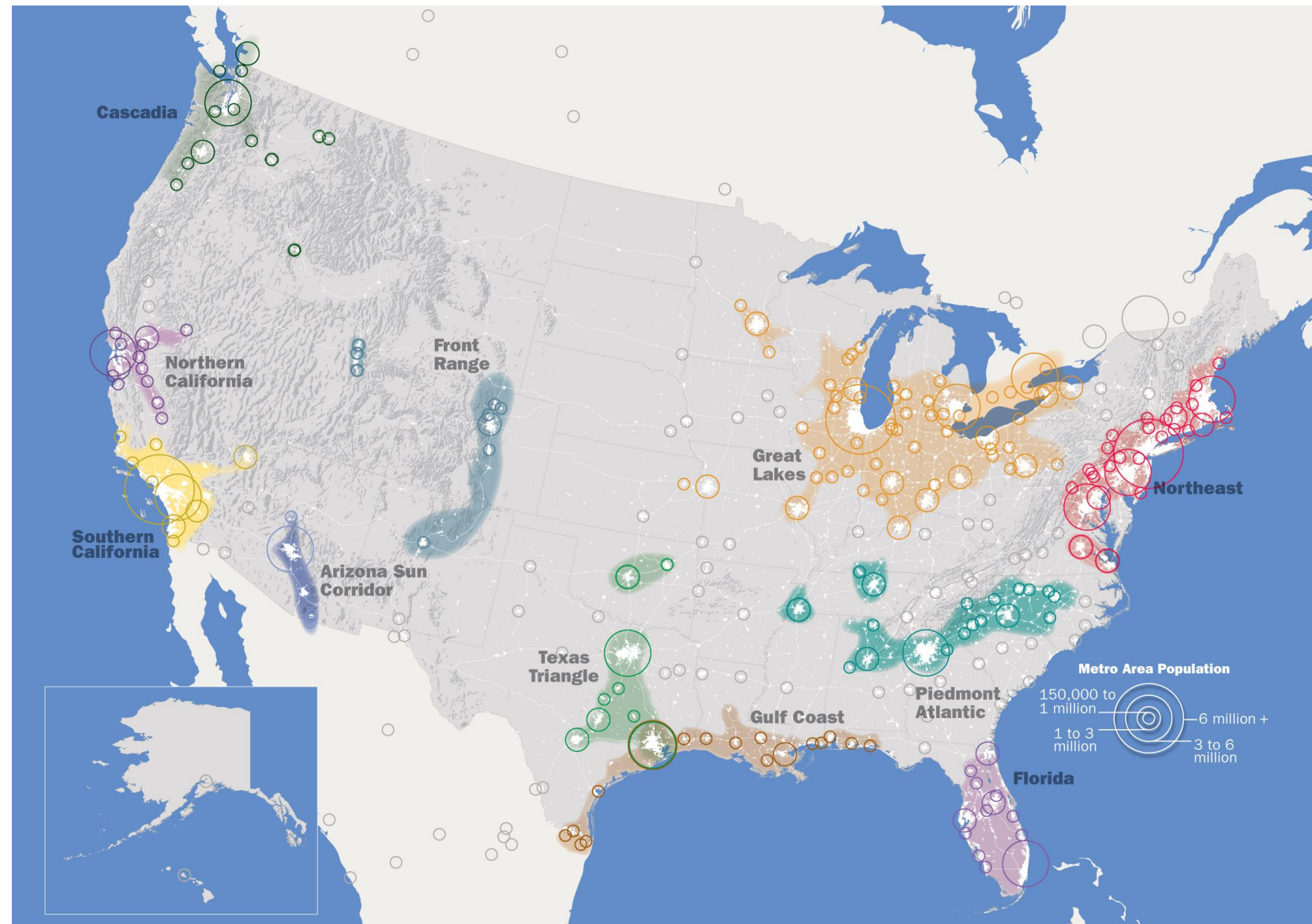
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## Why Los Angeles-Long Beach?

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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
<b>Greater Southern California</b>	<b>24.4M</b>	<b>29.0M</b>
Texas Triangle	19.8M	24.8M

Source: U.S. Census Bureau

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# Transport Costs Are the Biggest Expenditure for Most Warehouse Occupiers

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

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## Central LA Has the Highest Population Density

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