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////////////////////Los Angeles////////////////////

////////////////////

////////////////////Orange County////////////////////

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////////////////////Ventura////////////////////

////////////////////

////////////////////Inland Empire////////////////////

////////////////////

////////////////////Phoenix////////////////////

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Q4 | 2019

Market Report

//////////////////// Los Angeles Industrial



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MARKET ACTIVITY

KEY TAKE AWAYS

ECONOMIC OUTLOOK

MARKET

- **Vacancy Rate:** Increased slightly by 10 BPS.
- **Net Absorption:** Q4 was the worst performing quarter in 2019 for total Net Absorption. Total Net absorption failed to have a positive quarter in 2019. Marks the first time since 2009 that has happened.
- **Asking Rents:** Remain the same from Q3.
- **Sale Activity:** Prices rose by 0.8% to \$208.33 PSF. Volume in 2019 surpassed \$5B.
- **Leasing Activity:** Fell to lowest level since 2007 in Q4. Activity in 2019 was down 39% compared to 2018.
- **Industrial Supply:** The increase in construction activity shows that older buildings are becoming obsolete.

ECONOMIC OUTLOOK

- **Interest Rates:** The yield curve normalized in Q4. The Fed signaled no change in rates are coming in 2020.
- **Trade:** Congress is expected to pass the USMCA trade deal in early 2020. The trade war with China looks to be coming to an end as Phase 1 of the deal is to be signed in mid-January.
- **Stock Market:** The DOW, S&P 500, & NASDAQ had significant returns in 2019. The DOW saw gains of 22.3%, S&P 500 gained 28.9%, NASDAQ finished at 35.2%. The market is expected to continue its rise in 2020.



Direct Vacancy
∨ 2.2%



Net Absorption
∨ -1,028,078 SF



Overall Vacancy
∧ 2.5%



Gross Absorption
∨ 6,720,940 SF



Under Construction
∧ 6,429,751 SF



Rental Rates (NNN)
↔ \$1.13



Sale Price Change
∧ 0.8%



Deal Volume
∨ 21.3%



U.S. Employment
∨ 3.5%



U6 Rate
∨ 6.9%



Interest Rate
∧ 3.7%
(30 year fixed)



Changing GDP
∧ 2.3%



Port Traffic Y/Y Δ
∧ 0.3%



NYSE Performance
∧ 7.5%



Inflation Change
∧ 2.0%



10 Yr. - 2 Yr. Spread
∧ 34 BPS

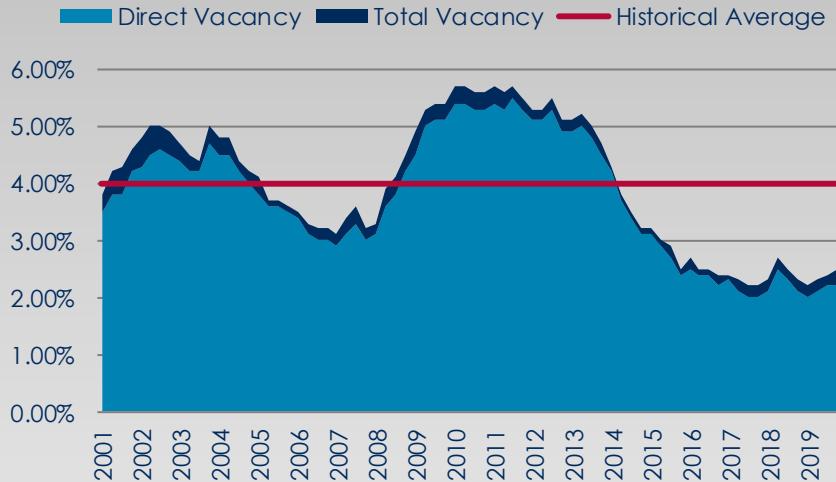
EXPERIENCE IN A CHANGING MARKET

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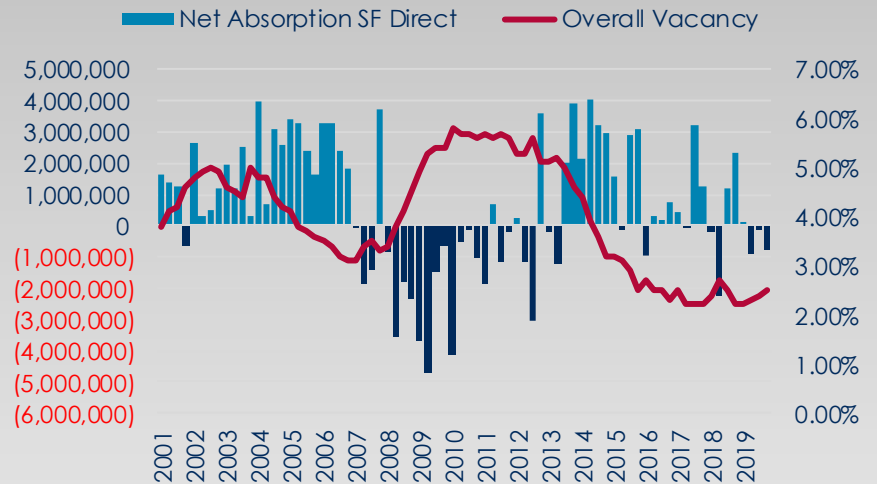


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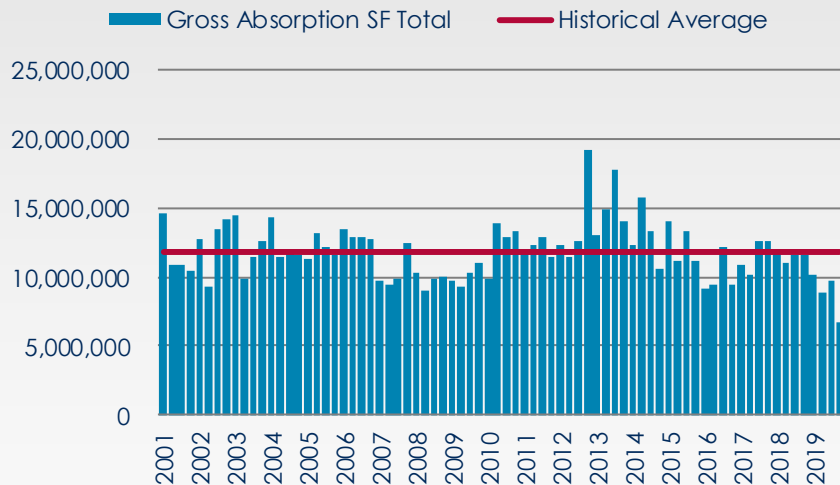
OVERALL VACANCY INCREASED BY 10 BPS TO 2.5%.



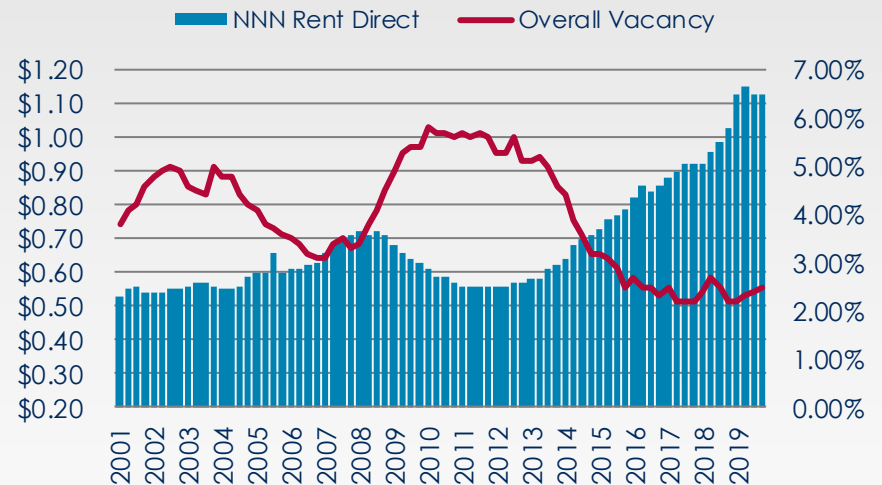
NET ABSORPTION DIRECT FELL TO NEARLY -800K SF. CSE MARKET REPRESENTED ≈ 73% OF IT



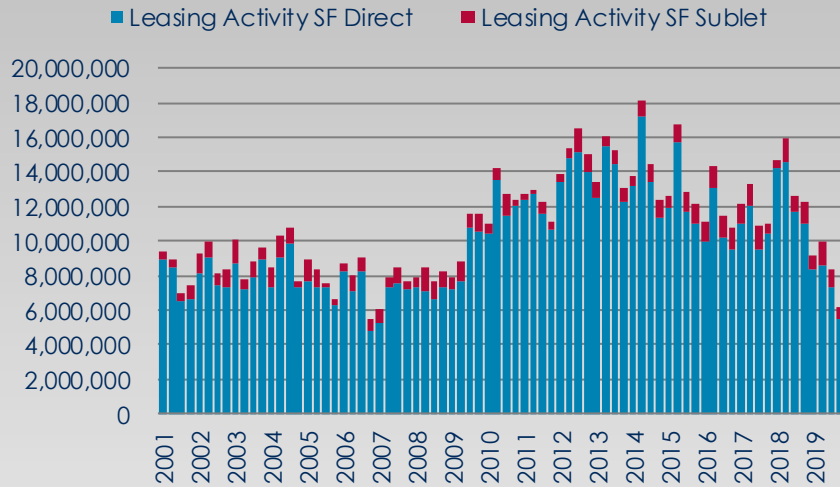
GROSS ABSORPTION PLUMMETED TO LOWEST TRACKED LEVEL



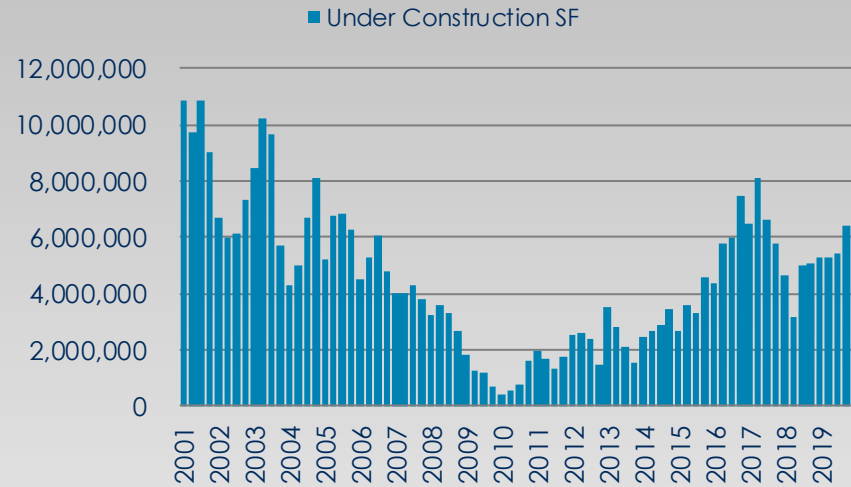
ASKING RENTS BEGINNING TO TAPPER AS MARKET SOFTENS



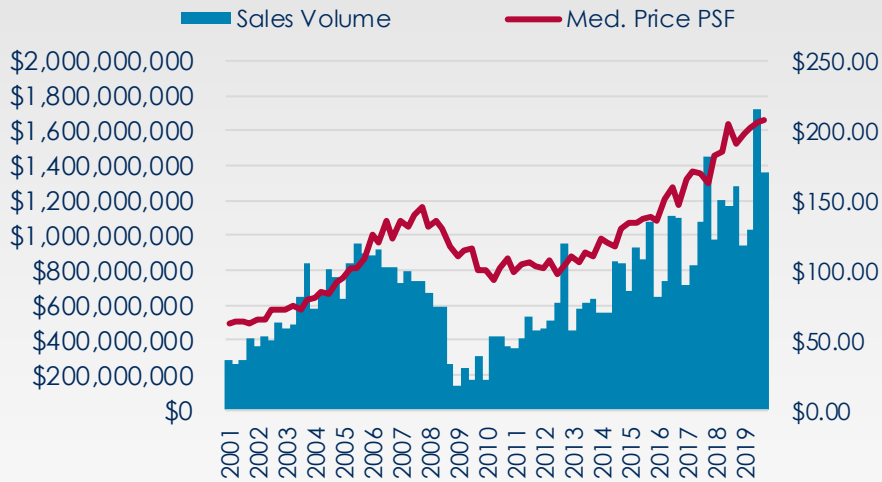
LEASING ACTIVITY VERY WEAK IN Q4 WITH JUST OVER 6.1M SF, LOWEST SINCE 2007



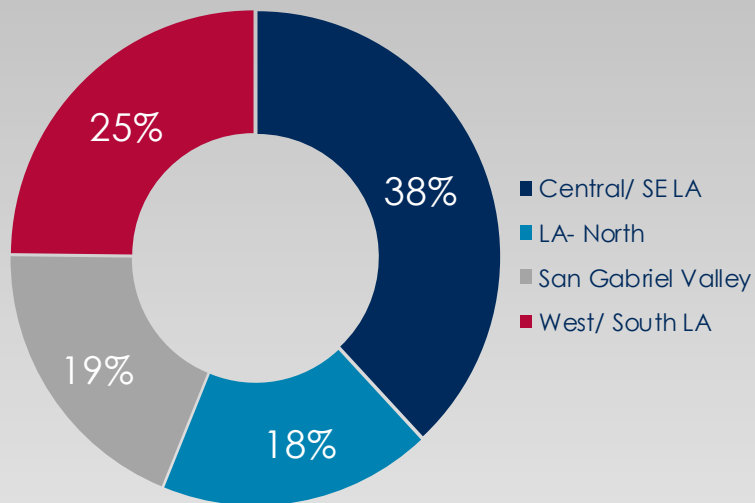
CONSTRUCTION ACTIVITY TICKED UP IN Q4 TO NEARLY 6.5M SF UNDER CONSTRUCTION



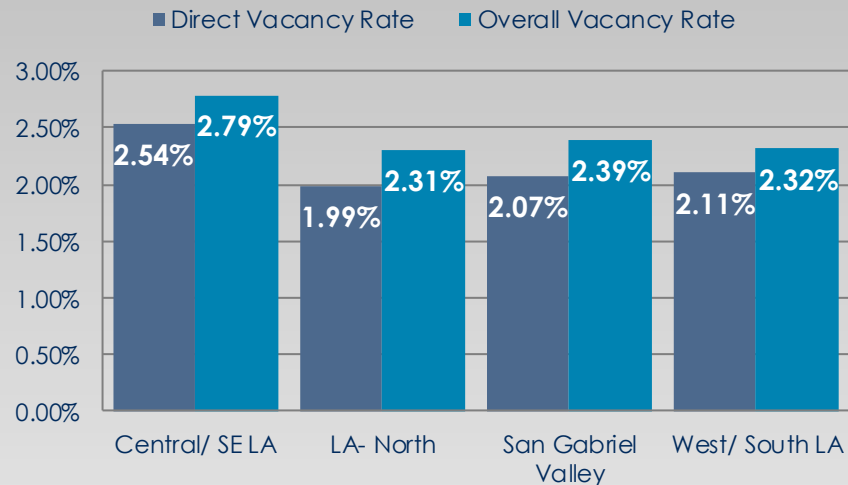
SALES PRICES FLATTENED OUT IN Q4. SALES VOLUME SURPASSED \$5B IN 2019



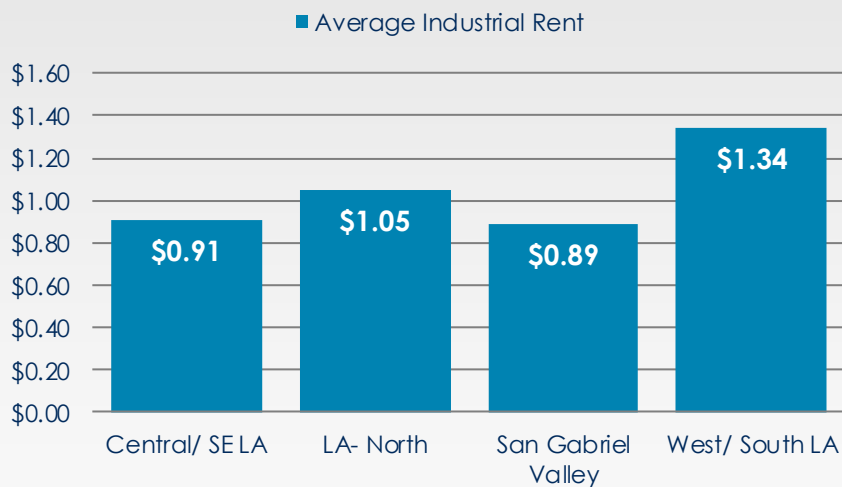
SQUARE FOOT BREAKDOWN- 915,217,316 SF MARKET SIZE



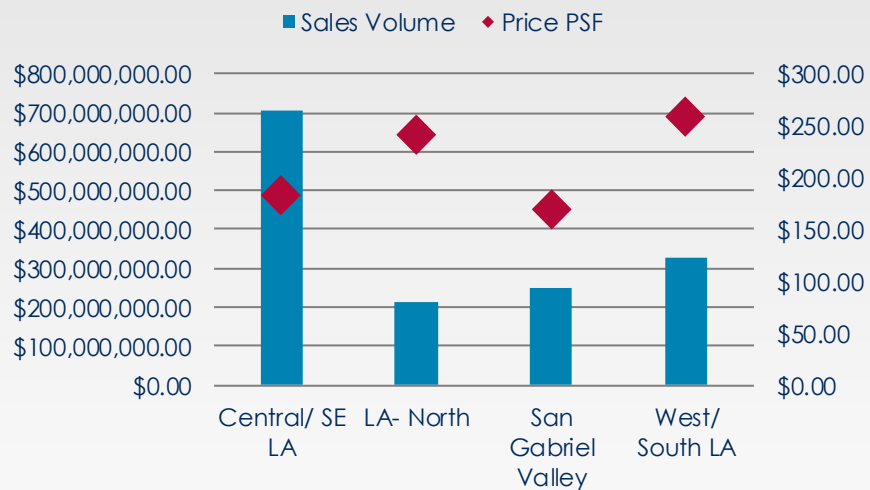
VACANCY BREAKDOWN



AVERAGE RENT PSF



VOLUME BREAKDOWN



Los Angeles

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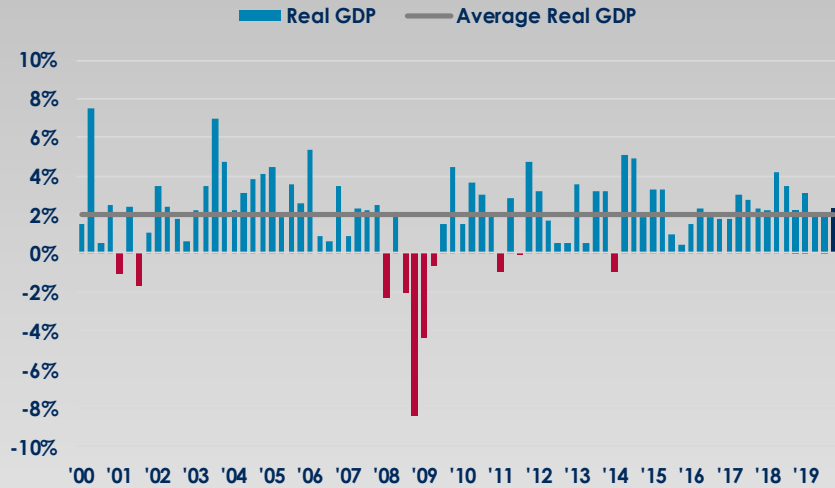
Economic Overview



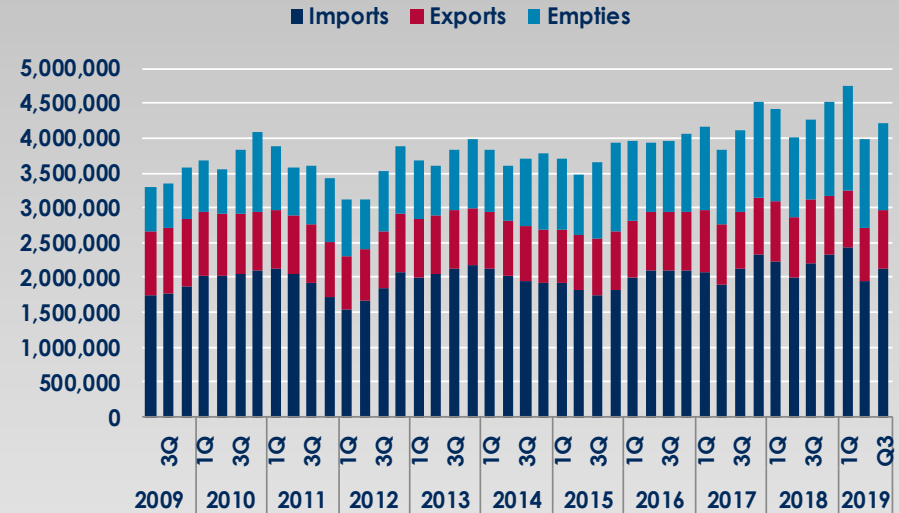
Q4 2019

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GDP IN Q3 FINISHED AT 2.1%. Q4 ESTIMATE IS 2.3%

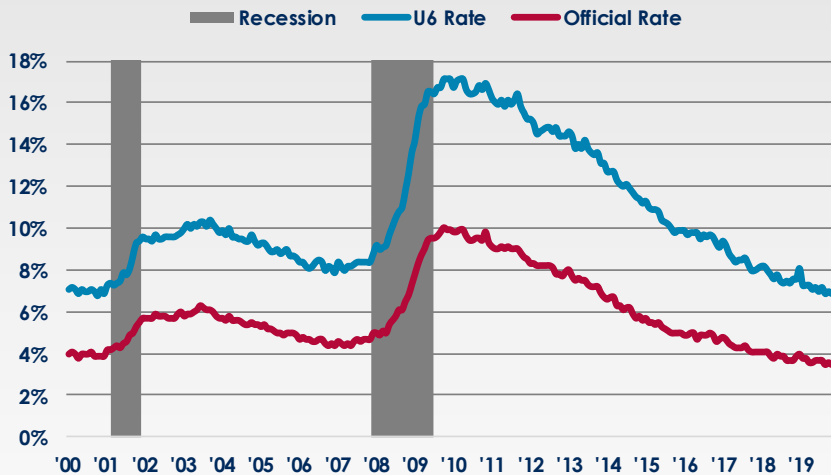


PORT ACTIVITY INCREASED IN Q3 BY 8.0% FROM Q2



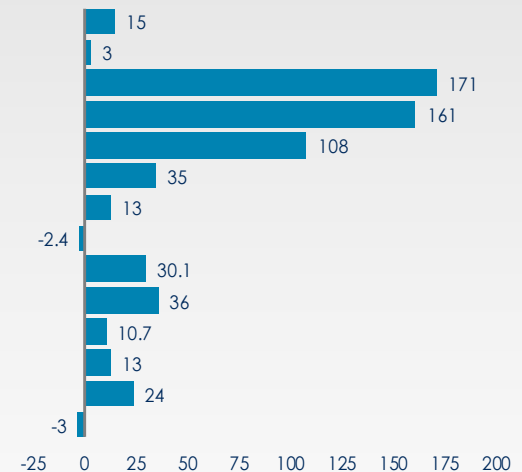
*2.3% for 4Q19 based on Fed Reserve Bank of Atlanta "GDP Now" Forecast

20 BPS INCREASE IN U6 RATE SHOWS PEOPLE ARE COMING BACK TO WORK

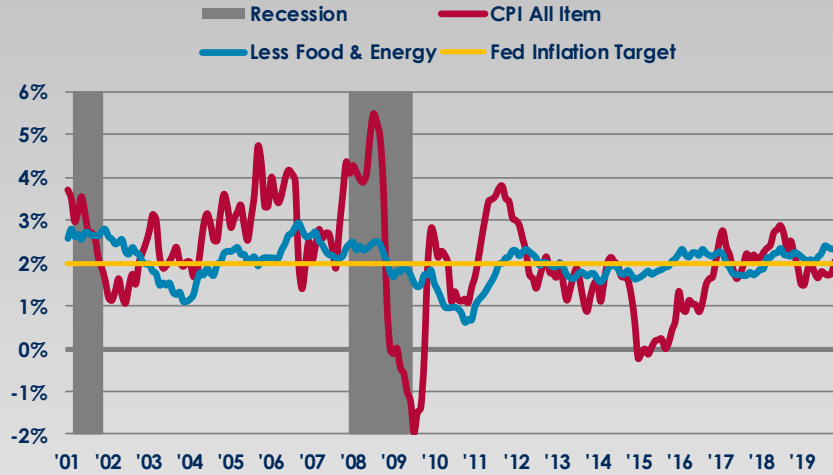


MOST INDUSTRY SECTORS CONTINUE TO SEE GROWTH

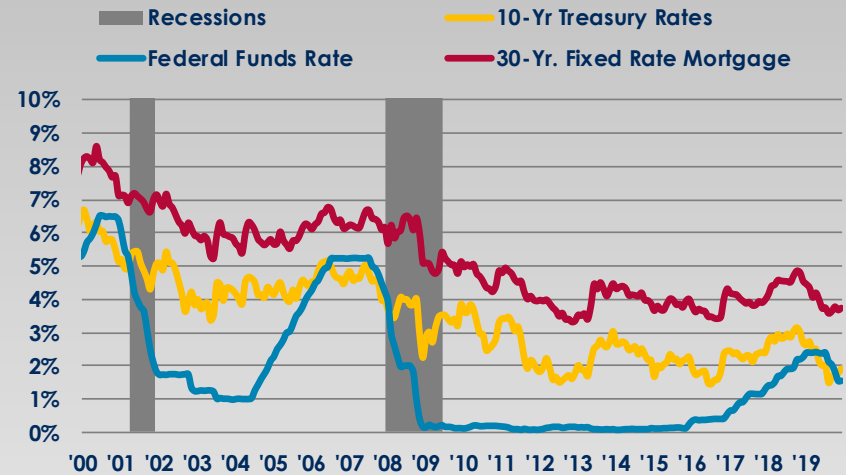
- Government
- Other Services
- Leisure and Hospitality
- Education and Health Services
- Professional and Business Services
- Financial Activities
- Information
- Utilities
- Transportation and Warehousing
- Retail Trade
- Wholesale Trade
- Manufacturing
- Construction
- Mining and Logging



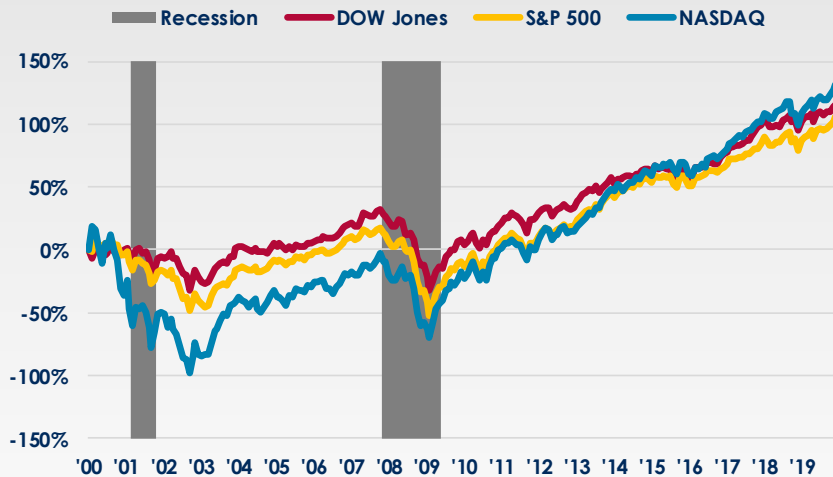
CPI JUST ABOVE 2% TARGET AT 2.05%



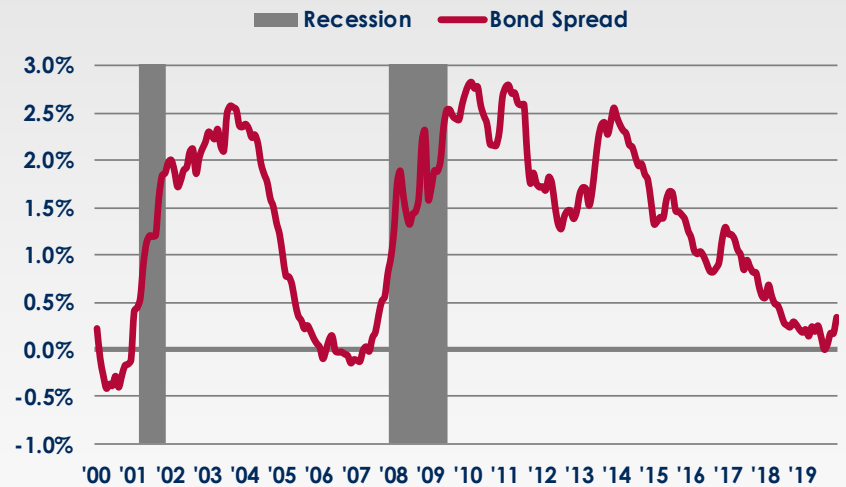
THE YIELD CURVE NORMALIZED IN Q4



ALL INDEXES SAW POSITIVE RETURNS IN Q4 AND FOR 2019



10-2 YEAR BOND SPREAD TURNED POSITIVE IN Q4



METHODOLOGY & TERMINOLOGY

Methodology

Industrial and flex (R & D) buildings that are 5,000 square feet and greater.

Direct Vacant SF

Space that is vacant and ready for occupancy by a user. The space is being offered for lease or sale directly from the landlord.

Total Vacant W/ Sublet SF

Space that is vacant and ready for occupancy by a user. The space is being offered for lease or sale by the landlord or for sublease by the current tenant.

Direct Vacancy Rate

Total vacant direct space (vacant space for lease or sale from the landlord or owner) divided by the total rentable square footage for existing buildings only.

Vacancy W/ Sublet Rate

Total vacant direct space and sublease space divided by the total rentable square footage for existing buildings only.

Gross Absorption

The total change in occupied space over a given period of time, counting space that is occupied but not space that is vacated by tenants. Gross absorption differs from leasing activity, which is the sum of all space leased over a certain period of time.

Net Absorption

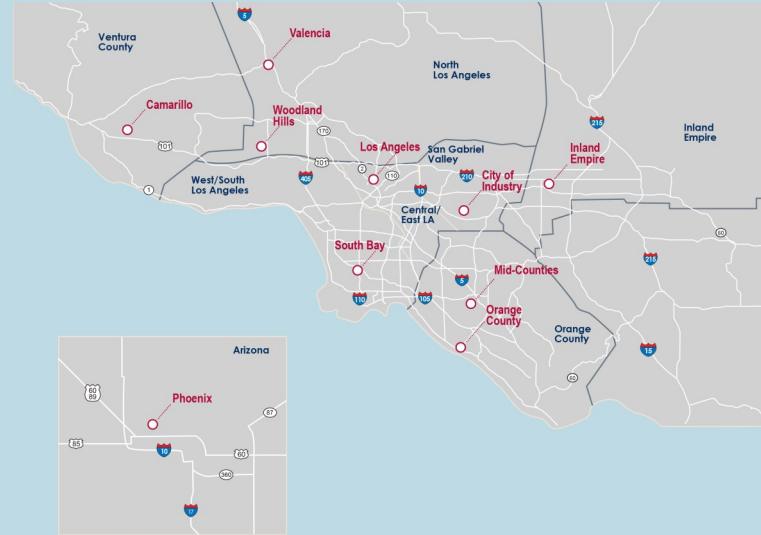
The net change in occupied space over a given period of time, calculated by summing all the positive changes in occupancy (move ins) and subtracting all the negative changes in occupancy (move outs).

Under Construction

Planned buildings for which construction has started but have not yet been granted a Certificate of Occupancy. Planned buildings are not included.

Completed in 2019

New buildings with original construction completed in the year 2019 and granted a Certificate of Occupancy. Renovated buildings are not included.



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