## THE ECONOMY

The midpoint of 2013 has passed, and Los Angeles has a mixed record of job growth so far. Some are hopeful: Voit Real Estate Services observes that Los Angeles "is further into the economic recovery than previously thought." This source, in its Mid-2nd Quarter 2013 update, notes that "the U.S. Bureau of Labor Statistics (BLS) revisions were particularly compelling in Los Angeles—turns out, job growth over the past year exceeded the national average by quite a bit. Upward revisions in wholesale trade and stabilization of the Manufacturing sector underscore improvements in the metro's industrial core." But Voit cautions market observers: "Don't break out the champagne just yet. Los Angeles's job count remains about 230,000 below peak levels, and unemployment is still in double digits. Additionally, the BLS revised employment downward in a few key sectors." Voit cites "nominally positive" growth in financial services and losses in the public sector as "worse than previously thought."

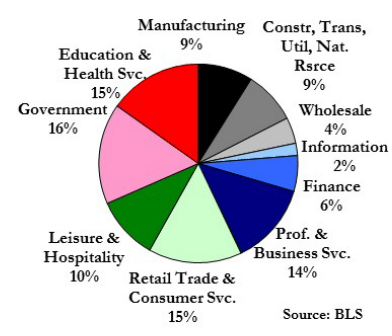
BLS reports a seasonally unadjusted unemployment rate of 9.2% in May for the Los Angeles Metropolitan Division, so it is close to Voit's observation. According to Current Employment Survey (CES) data from the BLS, total non-farm employment in Los Angeles has increased by 46,800 jobs (1.2%) in the 12 months ending in May 2013. This is welcome news, but not a grand performance for a metro the size of Los Angeles. Total private employment increased by 55,800 jobs (1.7%) in that May-to-May time span. The Los Angeles employment picture is holding on, but not quite getting ahead. This can lead to mixed conclusions about how the Los Angeles economy is actually performing. At the Los Angeles Regional Economic Forum held in June, the recurring them was that for Los Angeles, "things aren't as bad as they seem. There's much more to the Los Angeles economy, and the perception of negativity doesn't quite mesh with reality." The forum was held at the University of Southern California and hosted by the Los Angeles County Economic Development Corporation. Zack Zolan, co-founder and managing partner of digital product design firm Wilshire Axon, stressed just how different the public perception of Los Angeles differs from the reality. According to Zolan, Los Angeles "has the largest port complex in the Western Hemisphere, has the most people with PhD's per capita, and graduates more engineering students that any other city in America from its universities. The engineering graduation statistic represents what should be a huge strength for the region, but there's a problem." Zolan said that 50% of the graduating engineers leave the day they graduate. While Los

### Employment:

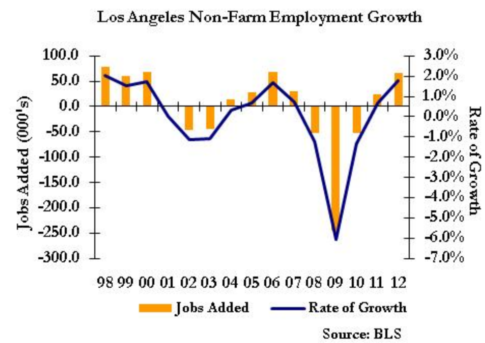
- *The BLS reports a seasonally unadjusted unemployment rate of 9.2% in May for the Los Angeles Metropolitan Division, down from 10.8% one year earlier.*
- *Total non-farm employment in Los Angeles was up 1.2% year-over-year in May, according the BLS.*
- *Moody's Economy.com reports a second quarter 2013 average household income of $135,133 for Los Angeles. Average household incomes of $126,990 and $130,315 are reported for the top metros in the nation and West region, respectively.*

Los Angeles Employment by Sector

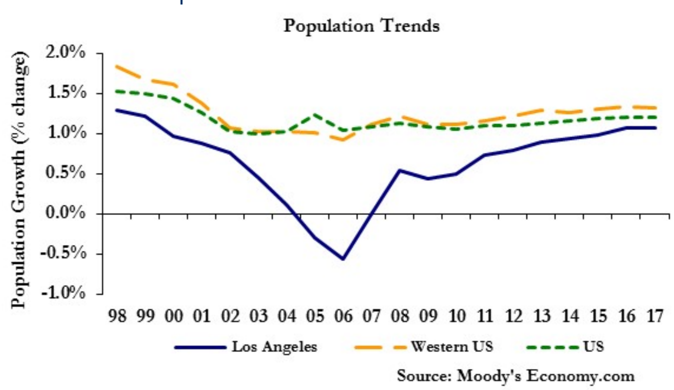

United States Employment by Sector



Angeles is doing "big innovation for Fortune 500 companies around the globe, outside of Los Angeles we are seen as anything but an innovative city."

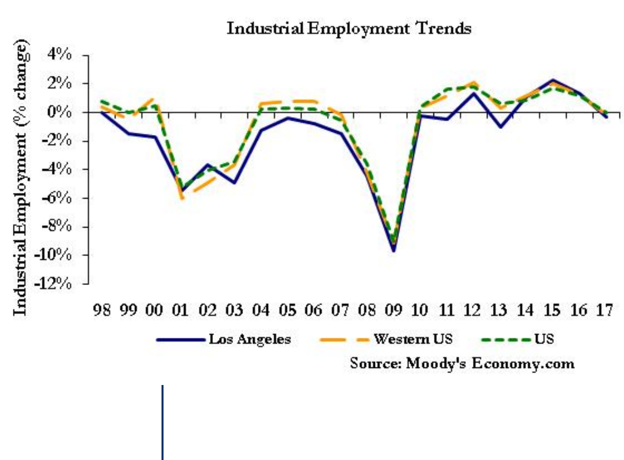



From a statistical perspective, Los Angeles employment gains and losses are spread widely across all sectors. Construction has added 7,000 jobs (6.5%) in the 12 months ending in May, while the struggling Manufacturing sector lost 6,100 (1.7%). Wholesale Trade, a fairly large sector with 210,300 employed, saw a slight decline of 300 jobs (0.1%), while the considerably larger Retail Trade employment remained unchanged, with 390,000 employed. Transportation and Warehousing, a big employer here with the San Pedro Bay ports of Los Angeles and Long Beach standing out at the largest container ports in the nation, employs 139,700 but actually registered a drop of 1,900 (1.3%). Even the ever-important Motion Picture and Sound Recording Industry, for which Los Angeles is world-renowned, registered a job loss of 2,600 (2.2%). However, the white-collar stalwarts of the Los Angeles economy are holding on. Financial Activities, with 215,400 employed, saw 5,700 new jobs (2.7%), while Professional and Business services, a huge sector with 585,800 employed, saw an increase of 22,700 jobs (4.0%). Corporate employment appears to have weathered the storm fairly well in Los Angeles. The substantially government-funded Education and Health Services, another large sector with 560,500 jobs, increased by 16,500 (3.0%) in the 12 months ending in May. However, as noted earlier in this section, Government employment has fallen. CES data indicate that overall Government employment, at 562,600, registered a decline of 9,000 jobs (1.6%).




## OUTLOOK

Moody's Economy.com reports that total employment, as defined by this source, is forecast to increase by 49,760 in 2013. Office employment is forecast to grow by 20,908 (1.8%) in 2013. Population is forecast to increase by about 90,000 in 2013, indicating the county is still a draw for new residents who will bring more economic activity. The nation might be recovering faster than Los Angeles, but a good quarter could put the metro back in the running.



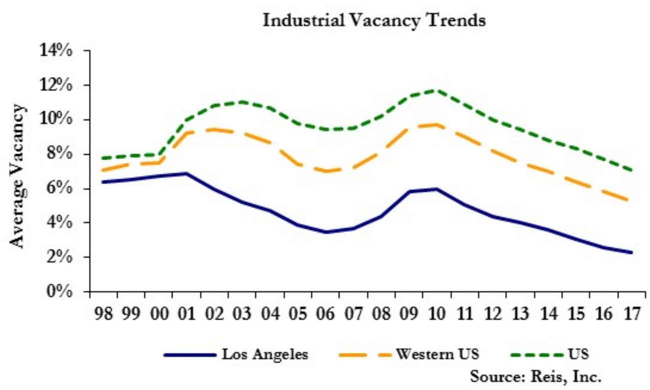

 

## THE REAL ESTATE MARKET

Los Angeles Flex/R&D and warehouse/distribution markets had stable first quarters and continued good performance in the second quarter of 2013. Rents are still on the rise. Voit Real Estate Services reports that the Los Angeles industrial market "continued on the path to recovery during the second quarter of 2013."

## OCCUPANCY

Reis reports a second quarter 2013 vacancy rate of 7.5% for 445.6 million square feet of multi-tenant, warehouse/ distribution space in Los Angeles County, down 20 basis points from the prior quarter and 100 from the second quarter of 2012. The rate finished 2012 at 7.9%, so occupancy here has been improving. For 38.7 million square feet of Flex/R&D space, Reis reports a vacancy rate of 4.7%, down 50 basis points from the prior quarter and down 130 year-over-year. This rate has also worked its way down from the year-end 2012 vacancy rate of 5.2%.



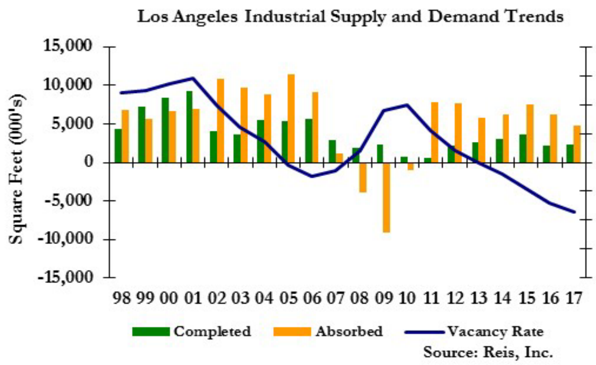

"Direct/sublease space (unoccupied) finished the quarter at 4.79%, up from the previous quarter and from 2012's second quarter rate of 4.70%," according to Voit. This source is "forecasting that vacancy will continue descending again, ending 2013 at around 4.0%." According to Newmark Grubb Knight Frank, "the vacancy rate for the Los Angeles industrial market closed the second quarter of 2013 at 2.2%, down 10 basis points over the prior quarter and flat when compared to the second quarter of 2012." This rate is "historically low," according to Newmark. Indeed, "developers and investors are taking notice of the low vacancy in this market." Colliers, in their Greater Los Angeles Basin report, notes that "industrial space remains incredibly scarce within Los Angeles County as the region has a vacancy rate of 3.5%, a drop of 20 basis points over the quarter." Reis forecast further declines in warehouse/distribution vacancy, to 7.1% at year-end 2013, with Flex/R&D vacancy falling to 4.7%.

### Special Real Estate Factors:

- *According to Daum Commercial Real Estate Services, "the Los Angeles County industrial market witnessed vacancy rates increase during the quarter, moving from 4.9% to 5.1%. Average asking rents increased 1.8%, year-over-year, moving from $0.55 NNN to $0.56 NNN ($6.72 psf). During the quarter, gross absorption totaled 14.7 million square feet, while net absorption posted a loss of 1.65 million square feet of occupied space. Under construction activity decreased during the quarter with 1.4 million square feet currently underway, as the market has added 1.1 million square feet of new construction for the year. The overall economy continues to see moderate growth levels heading into the second half of the year, as the recovery continues to be slow and steady." Daum reports that "overall industrial activity in the market is up 17% comparing the first half of 2013 to the first half of 2012, while total net absorption is in negative territory for the year. Newer, more functional buildings continue to be absorbed the quickest, while the older less functional buildings are remaining on the market longer. Demand for industrial space will continue to be driven by domestic and global consumption levels. Los Angeles and Long Beach Port container traffic totaled approximately 6.7 million TEU's during the first half of 2013, down 1.7% compared to the previous year." TEU's are twenty-foot equivalent units, used to measure capacity for container transportation.*

## SUPPLY AND DEMAND




Warehouse/distribution space posted a notable 1.6 million square feet of positive net absorption in the second quarter, after 941,000 square feet were absorbed in the first. The market now has a fighting chance to reach the 2012 total of 6.7 million square feet. For Flex/R&D space, second quarter posted a solid 177,000 square feet, nearly eliminating the negative net absorption of 1,000 square feet seen in the first quarter. This market absorbed 596,000 square feet of Flex/R&D space in 2012. There is little in the way of new construction for Flex/R&D space. Warehouse/distribution construction, however, has been more active. So far in 2013, another 886,246 square feet have completed, including 328,000 square feet at the Greenstone Logistics Center, which completed in June.

"The Los Angeles industrial market posted 496,000 square feet of negative net absorption in the second quarter of 2013, giving the market a total of over 15.4 million square feet of positive absorption over the last ten quarters," reports Voit. "There was just over 1.4 million square feet of industrial projects under construction in Los Angeles in the second quarter of 2013. The slowdown in construction is a result of a lack of demand, scarce financing, and rising construction costs," this source notes. According to Newmark Grubb Knight Frank, "positive net absorption of 1.5 million square feet was posted this quarter, representing a 70% decline over the prior year—in part the result of a lack of available product and a slower-than-anticipated first half of the year." This source notes that "the availability of industrial product is dwindling as speculative construction continues to slowly return, with 2.4 million square feet now in various stages of construction." In the second quarter, the Greater Los Angeles Basin industrial market recorded the positive net absorption of 5.5 million square feet, according to Colliers, with 16.3 million under construction. Reis predicts 1 million square feet of warehouse/distribution space to complete in 2013, and about 50,000 of Flex/R&D.

**Special Real Estate Factors:**
*Continued*

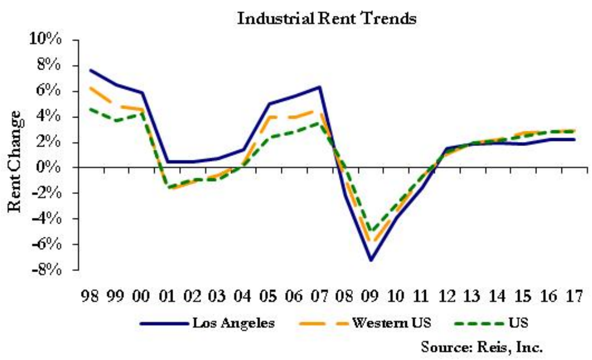
*"The overall market fundamentals continue to improve slowly, with activity levels, rents and sale prices all trending higher. The investment and sale market for industrial real estate in Los Angeles County has heated up again as the available supply of for sale inventory remains very low, which has pushed, year-over-year median prices up another 3% and are up 12% since 2010."*

- *For Los Angeles Industrial West/South, Daum reports "the Los Angeles West/South industrial market saw vacancy remain unchanged at 5.7%, during the quarter. Average asking rents increased 1.7%, year-over-year, moving from $0.59 NNN to $0.60 NNN ($7.20 psf). Gross absorption finished the quarter with 4.7 million square feet of activity, while net absorption finished with a gain of 181,000 square feet of occupied space. Under construction activity decreased during the quarter with 409,000 square feet currently under way. The overall economy continues to see moderate growth levels heading into the second half of the year, as the recovery continues to be slow and steady."*

- *For Los Angeles North, Daum reports that the North industrial market "witnessed vacancy rates increase from 4.8% to 5.2%, during the quarter. Average asking rents increased 1.6%, year-over-year, moving from $0.64 NNN to $0.65 NNN ($7.80 psf). Gross*

## RENTS




Warehouse/distribution rents posted high quarterly gains in the second quarter of 2013, Reis reports. The average asking and effective rents rose 0.8% and 0.9%, respectively, to finish the quarter at $6.13 psf and $5.67 psf, up 2.0% and 2.5%, respectively, from 12 months earlier, Reis reports. For Flex/R&D space, the average asking and effective rents were up 0.4% and 0.5%, respectively, during the second quarter, to $11.08 psf and $9.96 psf. These rates are up 0.6% and 0.9% over 12 months. Warehouse/distribution space is therefore edging out Flex space in terms of actual rental gain. The gains may be uneven across property classes, but they are still gains, and good news since this market's performance in 2012 was fairly modest across the board. The outlook is for continued modest gains. Asking and effective rents for Flex/R&D space are forecast to increase by 1.2% and 1.5%, respectively, in 2013, with similar gains to follow. Since not until 2017 does Reis forecast increases above 2.0% for both rental categories, this property type cannot be called a strong performer. Warehouse/distribution rents are forecast to post gains of 1.8% and 2.0% in 2013, with more substantial gains in the years to come.

According to Voit, "the average asking lease rate came in at $0.57 per-square-foot per month, one cent higher than the previous quarters' rate and up two cents from 2012's second quarter rate of $0.55." These respective rates record at $6.84 psf and $6.60 psf, by Reis's measure. Voit notes that that the second quarter lease rates "have increased for the third time in the last six quarters." According to Newmark Grubb Knight Frank, "the average asking rent for warehouse/distribution space ended the quarter at $0.51 psf, up $0.03 over the prior quarter and $0.04 over the last year." That is a $6.12 psf rental rate by Reis's measure. Increased competition for available industrial space has led to upward pressure on rents, this source notes. Reporting on the Greater Los Angeles Basin, Colliers notes a triple net asking rental rate of $6.00 psf. For Los Angeles County, this source reports a rate of $6.36 psf.

**Special Real Estate Factors:**
*Continued*

*absorption finished the quarter with 2.5 million square feet of activity, while net absorption finished in negative territory, losing 615,000 square feet of occupied space. Under construction activity was unchanged during the quarter, with no new projects currently under way."*

## SUBMARKETS

The South Bay area is the home of the ports of Los Angeles and Long Beach, and the key to the region's economic prosperity, although distribution centers are located throughout the county and further inland, particularly in the Mid Cities submarket. The San Gabriel Valley contains more traditional manufacturing, along with high-tech and distribution space while the San Fernando Valley is more technology and local-market oriented. Labor-intensive light manufacturing, including apparel and toys, is clustered in the central areas.

*San Fernando Valley*

- Reis reports a vacancy rate of 16.1%, highest among eight submarkets, and an average asking rent of $8.70 psf, also the highest countywide, for 6.6 million square feet of warehouse/distribution space in the San Fernando Valley West submarket.

- The vacancy rate is down 170 basis points year-over-year and down 50 in the second quarter. Rents were up this quarter, with the average asking rent up 0.5% and the average effective rent up 0.6% to $7.86 psf. The year-over-year increases are 0.8% and 1.2%, respectively.

- For 22.4 million square feet of warehouse/distribution space in the San Fernando Valley East submarket, Reis reports a vacancy rate of 6.6% and an average asking rent of $7.30 psf.

- The vacancy rate is down 20 basis points from the prior quarter and 110 from a year earlier. The average asking rent is up 0.4% from the prior quarter and up 1.0% year-over-year, while the average effective rent is up 0.6% for the quarter and up 1.2% year-over-year to $6.76 psf.

- Reis reports a vacancy rate of 7.2% and an average asking rent of $12.36 psf for 3.1 million square feet of Flex/R&D space in the San Fernando Valley West submarket.

- The vacancy rate is down 250 basis points from the prior quarter, and down 140 year-over-year. The asking average increased 0.7% during the second quarter, with the average effective rent up 0.9% to $11.12 psf. Rents are up 0.3% over 12 months by both measures.

- The vacancy rate for 2.1 million square feet of Flex/R&D space in the San Fernando Valley East submarket is 4.8% according to Reis, while the average asking rent is $8.59 psf.

- Flex/R&D vacancy is down 190 basis points from a year earlier but up 30 from the prior quarter. The average asking rent and the average effective rent, at $7.72 psf, are down 0.2% and 0.3% for the quarter, and unchanged and up 0.1%, respectively, over 12 months.

- For San Fernando Valley and Ventura County, "the market experienced positive absorption of 236,300 square feet," according to Colliers.

- "The best performing submarkets were East San Fernando Valley (at plus 177,700 square feet), West Ventura County (at plus 62,700 square feet), and Conejo Valley (at plus 49,800 square feet). The major lease transactions that made up some of this positive absorption are as follows: Araca Holdings moved into 65,000 square feet at 459 Park Ave in San Fernando and Weldlogic moved into 39,000 square feet at 2651 Lavery Ct. in Conejo Valley," according to this source. San Fernando and Ventura County have a 4.5% vacancy rate, according to Colliers, and an average asking lease rate of $6.60 psf.

*San Gabriel Valley*

- In the San Gabriel Valley, Reis reports a second quarter vacancy rate of 8.5% and an asking rent of $6.25 psf for 16.1 million square feet of multi-tenant warehouse/distribution space.

- The vacancy rate is up 30 basis points over three months but down 130 year-over-year. The average asking rent and the average effective rent were unchanged over the quarter, the latter at $5.75 psf. Rents are up 0.6% and 1.1% from a year earlier.

- This is one of Los Angeles County's largest industrial markets according to other sources, but the Reis inventory is small. This implies that a large share of the space is single-tenant, owner-occupied, or general industrial space.

- Moreover, Reis breaks out some of the more prominent industrial areas, such as City of Industry, in its separate and adjacent E. Los Angeles/Covina/Pomona Corridor submarket, which has 83.9 million square feet of warehouse/distribution space. Here Reis reports a vacancy rate of 6.5% and an average asking rent of $6.18 psf. The average effective rent is $5.67 psf. These rents are up 2.0% and 2.9% over 12 months.

- For 2.4 million square feet of Flex/R&D space in the San Gabriel Valley, Reis reports a vacancy rate of 7.2% and an average asking rent of $10.94 psf.

- The vacancy rate increased 30 basis points in the second quarter, and is up 100 from a year earlier. The average asking rent and the average effective rent both decreased 0.2% in the second quarter, the latter to $9.85 psf. The year-over-year decreases are 0.2% and 0.3%, respectively.

- For the San Gabriel Valley, Colliers reports "industrial demand remains positive with 465,500 square feet of positive net absorption registered this quarter. This marks the 11th consecutive quarter of positive net absorption and falling vacancy rates and a sign that industrial market conditions continue to strengthen. Vacancy rates fell 30 basis points over the quarter to end at 2.9%, the lowest the vacancy rate has been since late 2008."

- Colliers reports the San Gabriel Valley average asking lease rate at $5.40 psf. "The largest new lease of the quarter was Frontline Carrier Systems taking 125,000 square feet of space in the City of Industry," this source reports.

*South Bay*

- The South Bay submarket is home to the Ports of Los Angeles and Long Beach. Reis reports a second quarter vacancy rate of 8.4%, and an asking rent of $6.59 psf for 101 million square feet of multi-tenant, warehouse/distribution space.

- The vacancy rate is down 20 basis points for the quarter and down 60 year-over-year.

- The average asking rent rose 0.8% during the second quarter and the average effective rent 1.0%, to $6.12 psf. The asking average is up 2.5% year-over-year and the effective average is up 3.0%.

- Reis reports two Xebec Commerce Center buildings completed here in 2013. LD Products, Inc., at 107,000 square feet, also completed here earlier in 2013.

- For 9.0 million square feet of Flex/R&D space in South Bay, the most among the submarkets, Reis reports a vacancy rate of 5.2% and an average asking rent of $10.54 psf.

- The vacancy rate decreased 110 basis points in the second quarter on 94,000 square feet of positive net absorption, and is down 140 from a year earlier. The average asking rent is up 0.7% for the quarter and up 0.8% from a year earlier. The average effective rent increased 0.8% for the quarter and 0.9% for the year to $9.59 psf.

- "During the second quarter, two projects finished construction. The first was a 91,300-square-foot build-to-suit for YS Garments in Gardena/Harbor Freeway submarket. The second is a vacant 265,400-square-foot LEED Platinum Class A building in Torrance. This building has a 42 foot clear height, ESFR sprinklers and state of the art construction," notes Colliers, reporting on the South Bay.

- According to this source, "total gross activity was 2,526,700 square feet this quarter, broken down into 2,229,700 square feet of leasing activity in 43 transactions and 297,000 square feet of sales activity in 10 transactions. The largest new lease this quarter was Damco Distribution (Maersk) taking 258,700 square feet of space in Carson." Vacancy here is reported at 4.1%. The average asking lease rate is $7.20 psf.

*Central Los Angeles*

- In Central Los Angeles, the older but intensely-used industrial submarket surrounding Downtown Los Angeles, Reis reports a vacancy rate of 6.4%, lowest among the submarkets, and an average asking rent of $6.00 psf, for 77.3 million square feet of multi-tenant warehouse/distribution space.

- The vacancy rate is down 30 basis points for the second quarter and 100 from one year earlier on 270,000 square feet of positive net absorption for the quarter. The average asking rent is up 0.8% over three months and 1.7% over twelve months. The average effective rent is up 1.3% and 2.4%, respectively, to $5.60 psf.

- For 8.2 million square feet of Flex/R&D space, Reis reports a vacancy rate of 2.2% and an average asking rent of $14.50 psf.

- The vacancy rate fell 30 basis points in the second quarter on 26,000 square feet of positive net absorption. The average asking rent increased 0.5% for the quarter, with the average effective rent up 0.6% to $12.88 psf. The year-over-year gains are 1.3% and 1.8%, respectively.

- "The vacancy rate for the Central Los Angeles industrial market was 3.0%, unchanged from the previous quarter," according to Colliers. "Leasing activity this quarter totaled 1,154,100 square feet. The largest new lease deal of the quarter was Color Image Apparel moving into 136,700 square feet of industrial space in Montebello." This source reports an average asking lease rate of $6.48 psf.

## OUTLOOK

As noted, Reis expects rental gains for both warehouse/distribution and Flex/R&D, but the warehouse sector has the lead. There are no major changes ahead on the occupancy front. "Construction activity is likely to rise in future quarters as the outlook for industrial demand within the Greater Los Angeles Basin remains positive," according to Colliers. Voit cites generally positive indicators for the market, but notes "cautious optimism still prevails, as job creation will need to continue in order to drive the demand needed to sustain growth in the Los Angeles industrial market."

For additional metro and submarket level information on the top 82 markets for the four principal property types, visit www.reis.com or call Reis at: (800) 366-REIS.