INDUSTRIAL MARKET REPORT
LOS ANGELES, ORANGE COUNTY, INLAND EMPIRE
2023

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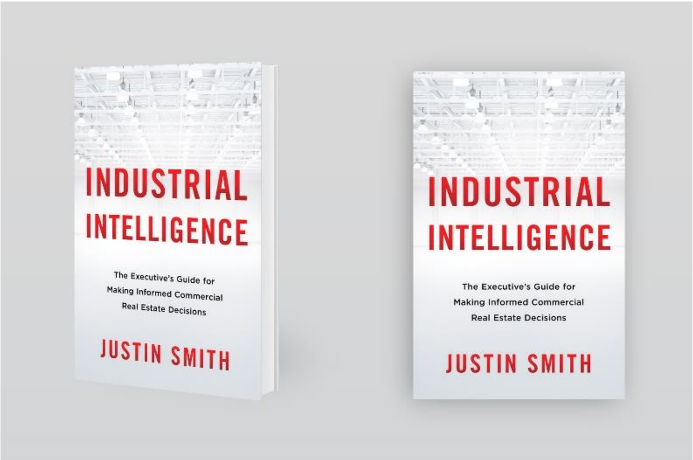
a) 19 years with Lee & Associates, Irvine Office, #1 producer 2021 & 2022

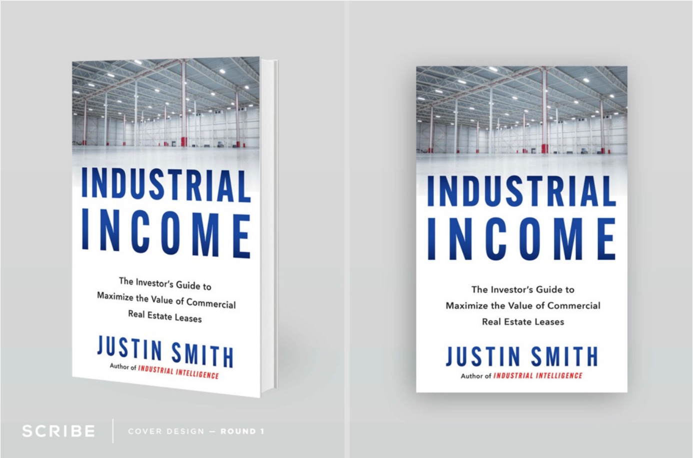
b) Primary focus is industrial in LA/OC/IE + Corporate Solutions (National Multi Market Tenant Rep)

c) Education - UCI Econ, USC MBA, USC MRED

d) Author – Industrial Intelligence: The Executive's Guide to Making Informed Commercial Real Estate Decisions – Publish Date April 15, 2021

e) Book #2 – Industrial Income: The Investor's Guide for Maximizing the Value of Commercial Real Estate Leases – Tenatative Publish Date July 1, 2023





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Know Your Audience

- At the end of this presentation what do you want to make sure you have learned about?
- What are your biggest challenges as an appraiser today?

Prologis – 7 Supply Chain Predictions

Prediction #1	**U.S. warehouse development starts will drop to a seven-year low**, even as rent growth exceeds 10%.
Prediction #2	**California's barriers to development will permanently constrain logistics demand**, allowing Texas to become the #1 state for net absorption.
Prediction #3	**Mexico demand will hit a new annual record** as nearshoring drives expansion along the border.
Prediction #4	**India will rise from fourth to the third-most-active country for development starts**, behind the U.S. and China.
Prediction #5	**Build-to-suit rents will reach new levels in the U.S. and EU** as market rents are capitalized at higher rates, despite falling land and construction costs.
Prediction #6	**E-commerce leasing will bounce back** to become the second-most-active year on record (after 2021).
Prediction #7	**Demand for sustainable warehouses will grow rapidly.** Installed rooftop solar capacity will double, and EV truck charging capacity will exceed 10 megawatts.

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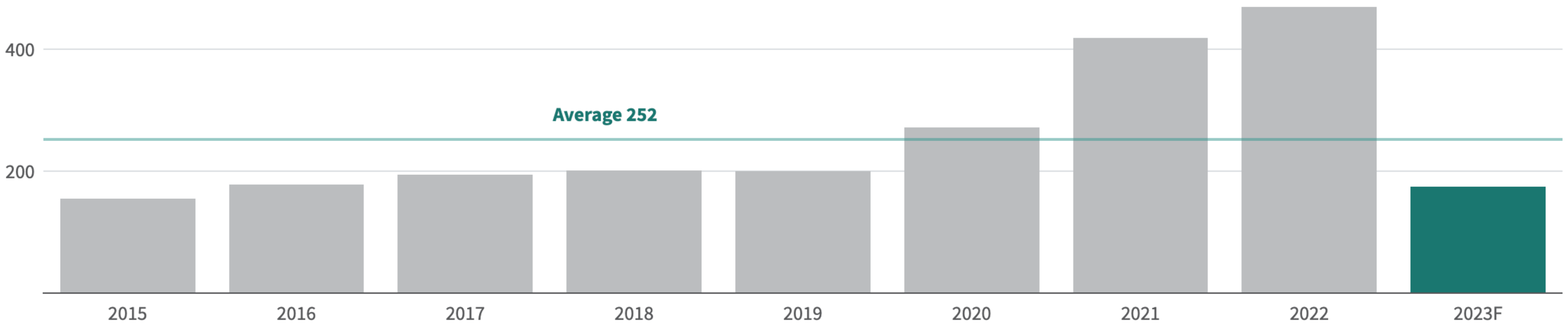
Prologis – Prediction #1

- A pullback of this magnitude would create a shortage of space in 2024. The pipeline will drop from over 500 million square feet in Q3 2022 to 275 by year-end 2023.
- Low vacancy will produce another year of double-digit rent growth. Even if new demand fell to zero, the national vacancy rate would increase by just 260 bps to 5.9%, well below the long-term average.

EXHIBIT 1: DEVELOPMENT STARTS, PROLOGIS U.S. MARKETS
MSF



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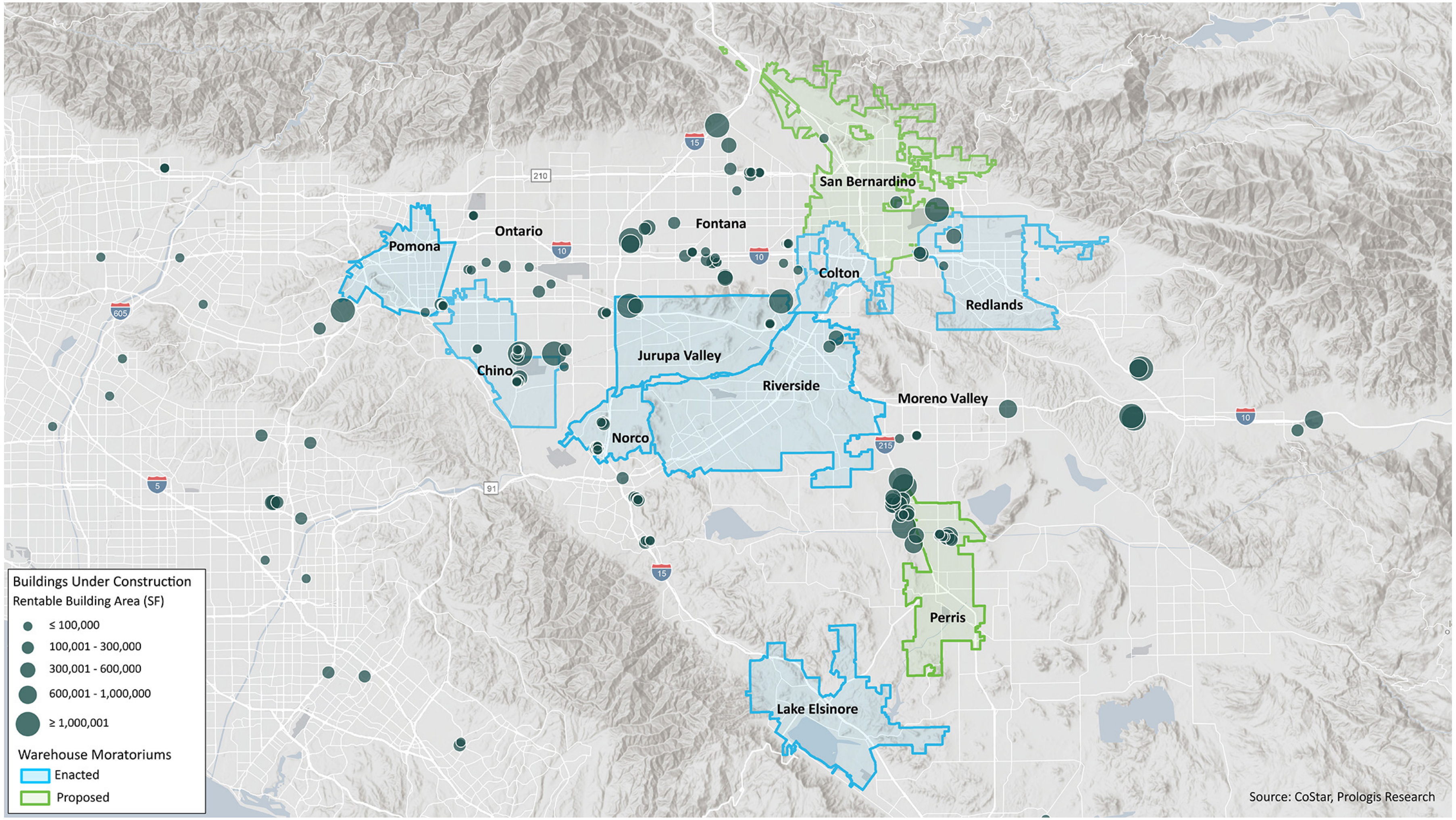
Prologis – Prediction #2



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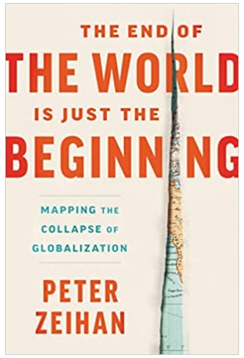
Prologis – Prediction #3

Mexico demand will hit a new annual record as nearshoring drives expansion along the border.

Supporting facts:

- Nearshoring-related expansions made up half of new leasing in 2022. Monterrey, Juarez and Tijuana were the primary beneficiaries.[1]
- Increased deliveries in 2023 will allow for more absorption because the vacancy rate is at an all-time low. The under-construction pipeline rose to a record 25 million square feet in Q3, while vacancy fell to 1.4%.[2]



<u>Recommended Reading</u>
Peter Zeihan: The End of the World is Just the Beginning

<u>Question</u>
Who here has worked on an appraisal in Mexico?

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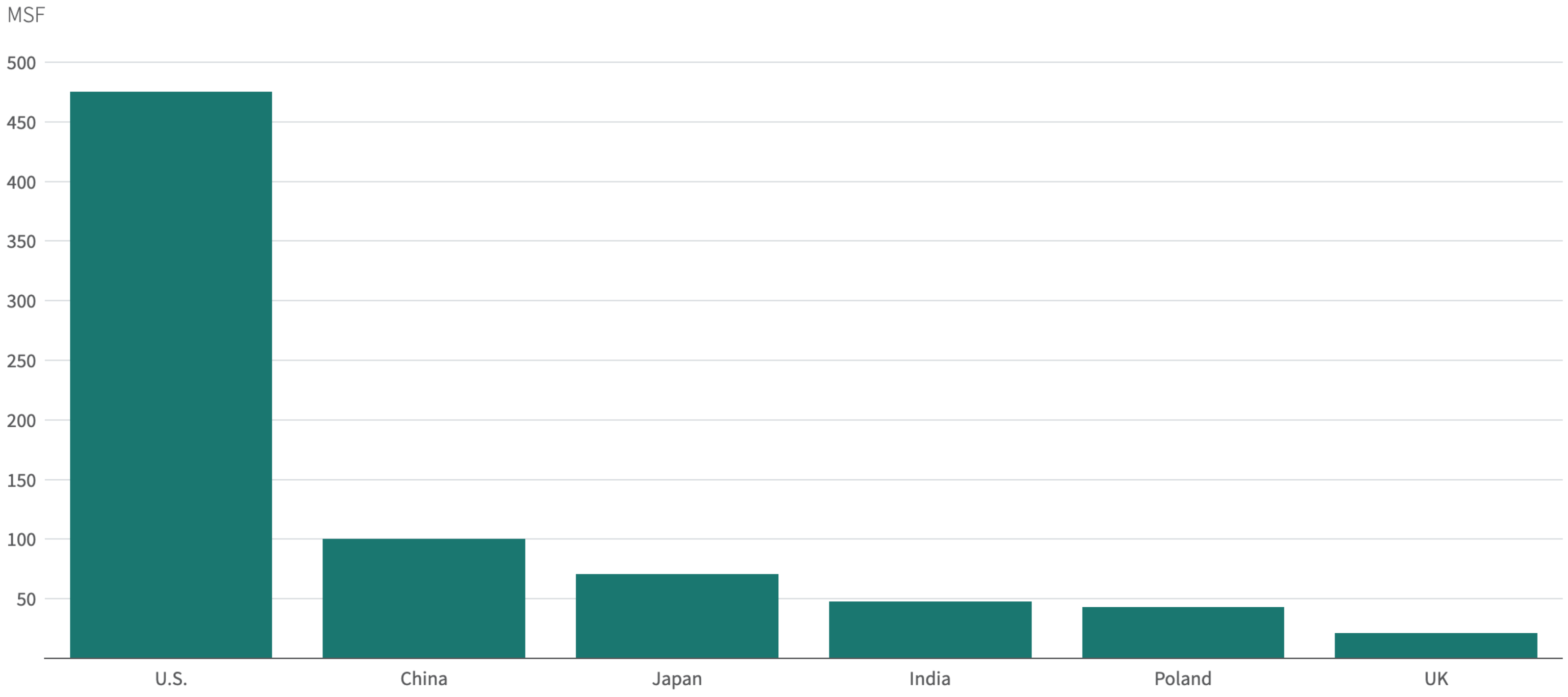
Prologis – Prediction #4

India will rise to the third-most-active country for development starts, behind the U.S. and China.

EXHIBIT 4: LOGISTICS DEVELOPMENT STARTS BY COUNTRY, 2022E



Prologis – Prediction #5

Build-to-suit rents will reach new levels in the U.S. and EU as market rents are capitalized at 5%, despite falling land and construction costs.

- Construction cost softness lags economic cycles. Costs may respond eventually to the overall economic landscape, but they haven't yet. We estimate 10-15% decline in construction costs by year-end 2023, back-loaded in the second half of the year.

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Prologis – Prediction #6

E-commerce leasing will bounce back to become the second-most-active year on record (after 2021).

Supporting facts:

- E-commerce sales are re-accelerating as the outsized desire for in-person experiences diminishes and the e-commerce value proposition for consumers remains intact. We maintain our prediction that >25% of retail goods will be sold through online channels by 2025, up from 15% in 2019.
- Leasing activity is re-accelerating. Prologis's proportion of new leases signed by e-commerce customers rose to more than 17% in Q3 from a trough of 13% in Q1 2022, lifted by a record diversity of customers as parcel networks expand, mid-size retailers improve service levels and new concepts emerge.
- Parcel delivery costs remain high. Online retailers will look to network design to achieve both cost savings and sustainability goals. Specifically, adding an urban hub to the end of e-fulfillment supply chains can yield cost and environmental efficiencies of 50% on average by shortening the final mile.

Prologis – Prediction #7

Demand for sustainable warehouses will grow rapidly. Installed warehouse rooftop solar capacity will double, and EV truck charging capacity will exceed 10 megawatts.

Supporting facts:

- Building future-proof facilities can shield logistics companies from future operational risks, including changing regulations, community resistance and volatile fossil fuel-based energy pricing. Costs for sustainable building and operations are dropping. Government incentive programs and the European energy crisis have the power to turbocharge these longer-term trends.
- In California, a commission found that 157,000 rapid chargers will be needed by 2030 to support fleet electrification and achieve the state's carbon reduction goals. (Prologis, which already invests in commercial EV infrastructure, has committed to installing 1 gigawatt of solar by 2025.)
- In Europe, cities with low-emission transportation zones comprise more than 60% of logistics markets as of 2022, up from less than 25% in 2015.[4]

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Trends in Southern California Legislation

2020 Passed - AB 5 - Gig workers vs W-2 Employees Truck Drivers

2021 Passed - Rule 2305 - Indirect Source Rule - South Coast Air Quality Management District. Replace diesel trucks with electric trucks, install solar panels, install air filters at nearby schools, or pay an impact fee of approximately $1 PSF billed to the tenant via the landlord.

2022 Not Passed - AB2840 - Prohibit the County of Riverside & San Bernardino from approving the development or expansion of any qualifying logistics use (+100,000 SF) adjacent to "sensitive receptors" (residence, school, daycare, health care, community center, place of worship, incarceration facility, public playground). Eloise Reyes from the Inland Empire has said she's going to bring it back next year.

2023 Measure ULA - Homelessness & Housing Solutions Tax - Under the measure, sales of residential and commercial real property valued at over $5 million but less than $10 million would be subject to an additional tax at the rate of 4%, while sales of properties valued at $10 million or more would be subject to an additional tax at the rate of 5.5%.

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Legislative Insights

- Tim Jemal, NAIOP Socal
  - “So when we look at just backwards a bit in 2022, I think what you’re gonna see in 2023 is an acceleration of what we started in 2022, which is more proactive outreach in terms of legislative advocacy. And more education on the value of commercial real estate to policy makers, city staff, city council members, the media, to really accelerate and tell that story more meaningfully. Using specific anecdotes of how does affect jobs and families, individual families. A lot of times we speak generically about jobs, but I think putting a face on some of the jobs and the people that are benefiting from good, solid jobs that do have career ladder abilities in them. I think that’s what we need to start doing. We formed a lot of good coalitions with labor organizations. You would think that somehow there’s acrimony and it’s not that we agree on everything, but I think one thing that we do agree on is this sector, not just industrial but commercial real estate, is one of the key engines of the Southern California economy. The national economy, when you look at the contributions to GDP taxes paid. Improvements to infrastructure that we make in local communities. But these often are not getting recognition or noticed enough. And it’s gonna be our job to tell that story because no one’s going to tell it for us, unless we lead it ourselves. So in 2023 you’re gonna see more of that.”

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Legislative Insights

- Matt Hargrove, CBPA
  - “And the biggest thing that has impacted how we operate in Sacramento is really term limits coming on in full force. And that's because 30 years ago before term limits really were in play, you had lots of legislators who were very stable. They knew they were in the legislature for many years to come. They became expert in different areas. They formulated personal relationships to the level that doesn't really happen today in Sacramento. They do happen, but not to the extent that they used to. Now you have legislators often without any background in business or commercial real estate.
  - Every year within the legislature, about 2,800 separate bills are introduced. I wake up every morning to a list of anywhere from 50 to 500 bills that have been introduced.
  - The state is pushing very hard for the clean truck rule that service our warehouse. So our ask back to the state isn't, don't do a clean truck rule. We want to see clean trucks. Our ask to the state has been invest the relative same amount of monies on the heavy duty truck sector infrastructure in the state as you are focusing on the private car infrastructure.

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Market Intel

Today’s Market Talk:

- “It’s all about price discovery”
- “There’s a disconnect between seller and buyer pricing expectations”
- “They want yesterday’s price in today’s market”
- “Seller’s with fixed rate debt don’t have to sell”
- “It’s finally more of a balanced market for landlord and tenant”
- “The days of 17 offers on an investment sale are over, now its more like 4 or 5”
- “It’s pencils down for institutional buyers right now”
- ”You have to be willing to buy at today’s rate, and wait out lower interest rates and mark to market to improve cash flow”
- “If you are waiting for pain in the industrial market, you are going to miss the boat”
- “Land pricing is down 10-30%”

Market Intel

Trend: California Adjacent
Lease Comp:

- Transaction Date 02/12/22
- New Lease
- Tenant: Sweetwater Sound
- Landlord: Overton Moore
- 349,663 SF
- $0.55 PSF NNN
- 1 Month Abated
- 3% annual increases
- 5 year lease
- TI – Landlord to provide $8 PSF
- New Construction
- Spec office included

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Market Intel

Trend: Rent Growth Continues

Lease Comp:

- Transaction Date 12/18/22
- Lease Renewal
- Tenant: Berger Transfer & Storage
- Landlord: Richard Bracamonte
- 91,116 SF
- $1.85 PSF NNN, $0.10 OpEx
- 4% annual increases
- 5 year lease
- TI – Landlord to demo 10,000 SF excess office
- Class B, 24-26’ clearance, extra 1 acre yard for trailer parking

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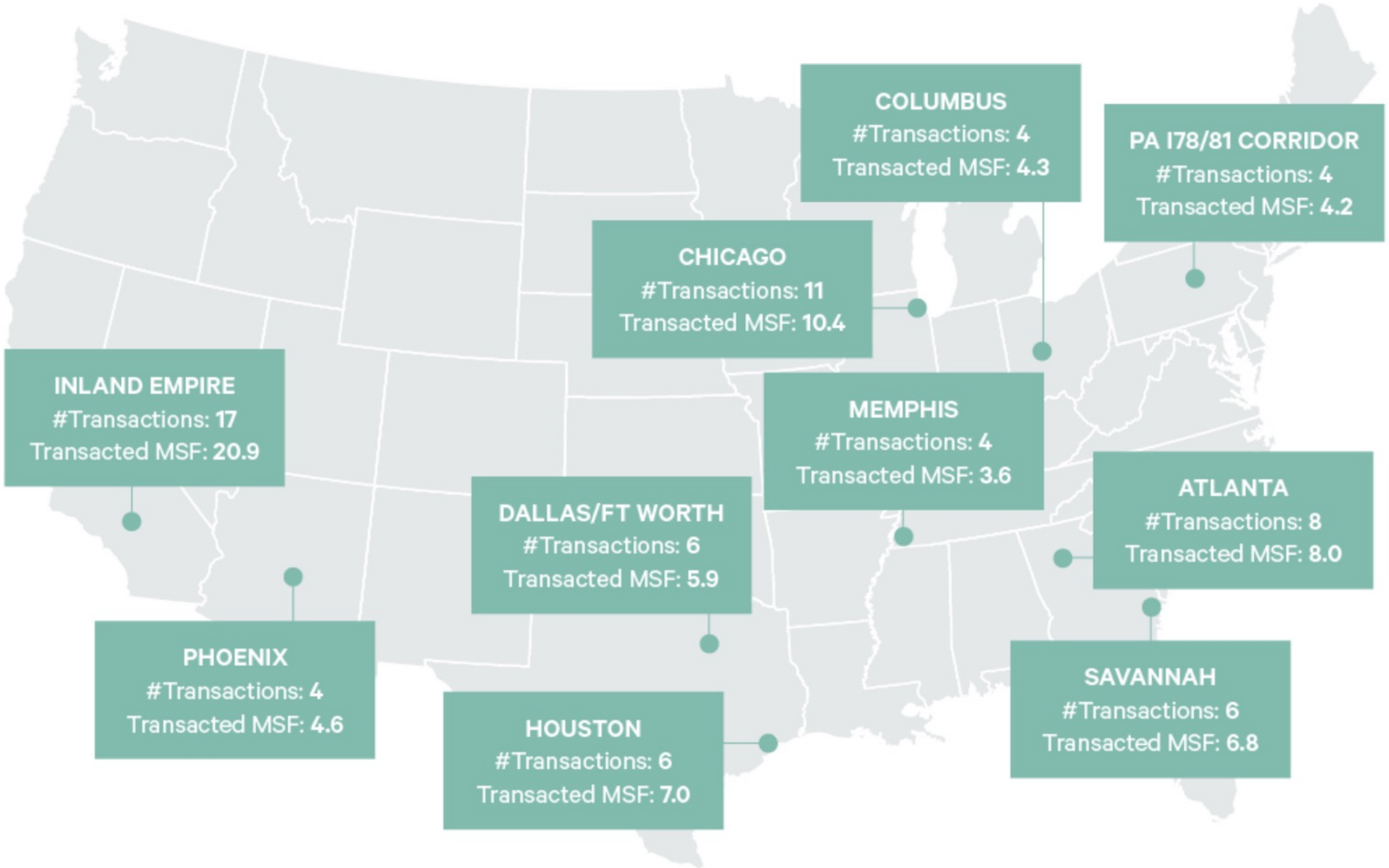
Market Intel



A record 63 signings for 1 million sq. ft. or more were among the top 100 industrial lease transactions in 2022, up from 57 in 2021.

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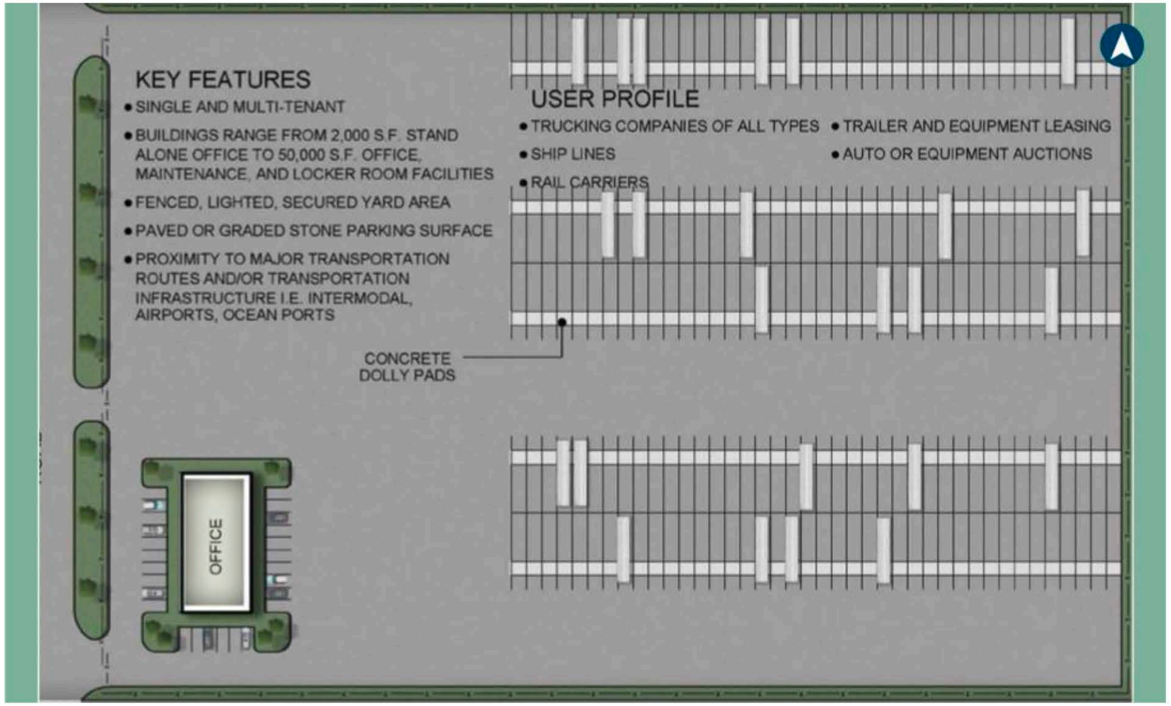
Market Challenge - IOS

Typical Site Plan: Trailer Drop Lot Or Container Stacking Yard



Industrial Outdoor Storage – What is it? How do you value it?

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Market Challenge - IOS

Industrial Outdoor Storage – What is it? How do you value it?

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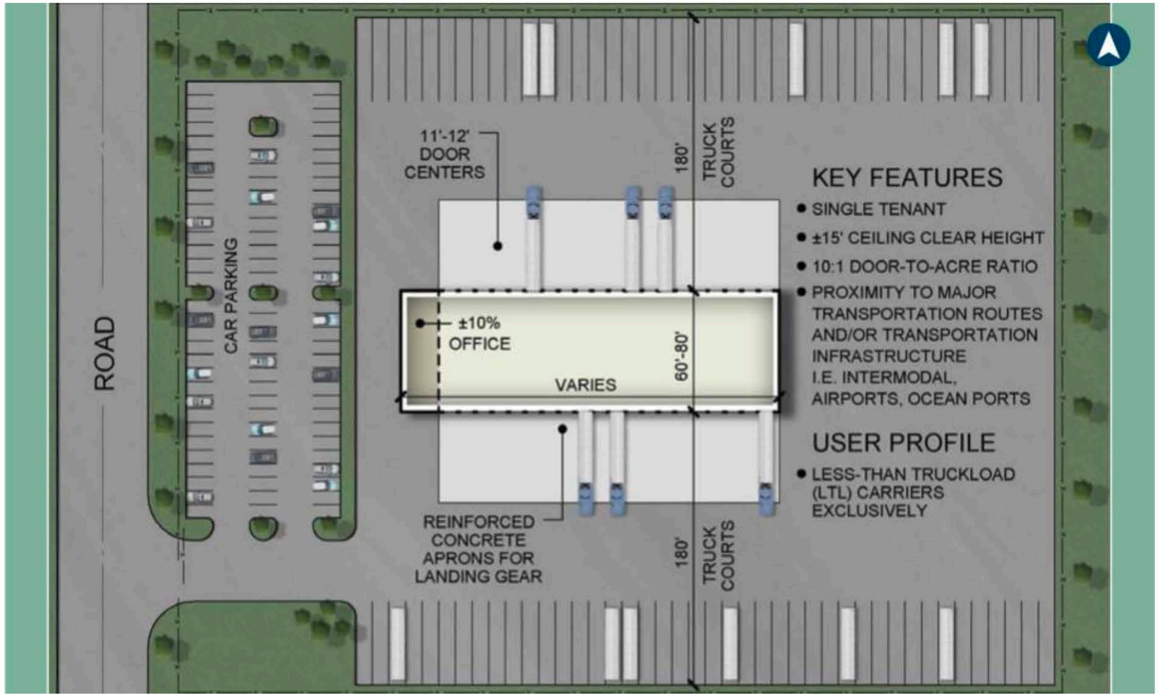
Market Challenge - IOS

Typical Site Plan: Cross Dock Motor Freight Terminal



Industrial Outdoor Storage – What is it? How do you value it?

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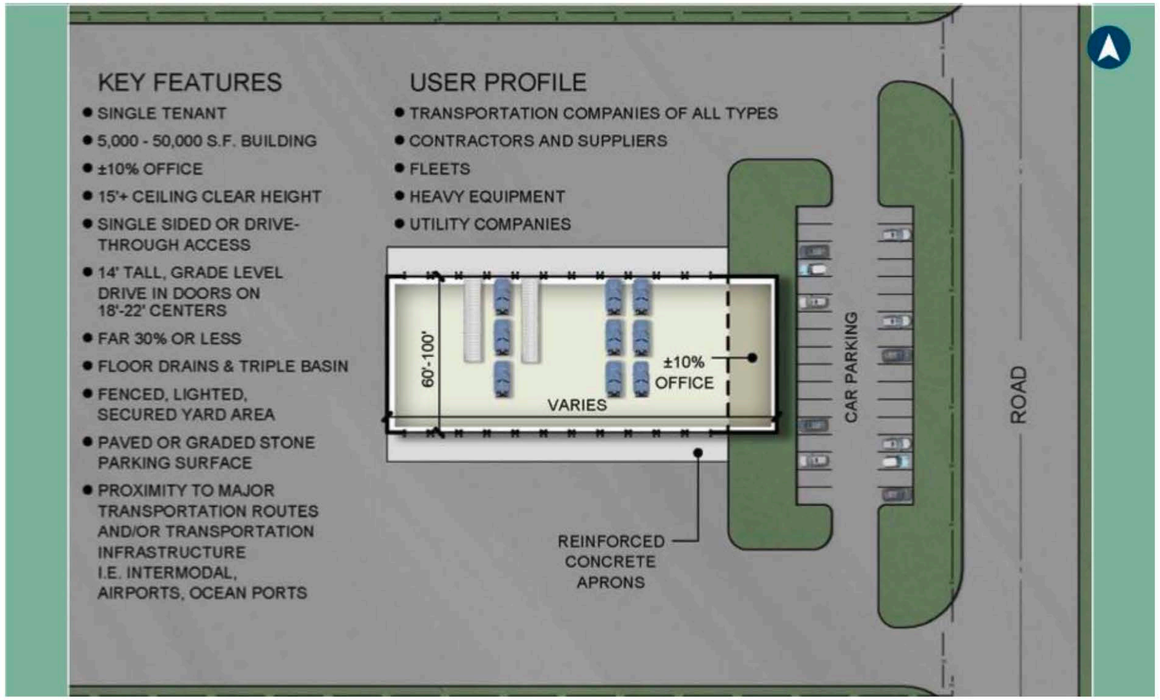
Market Challenge - IOS

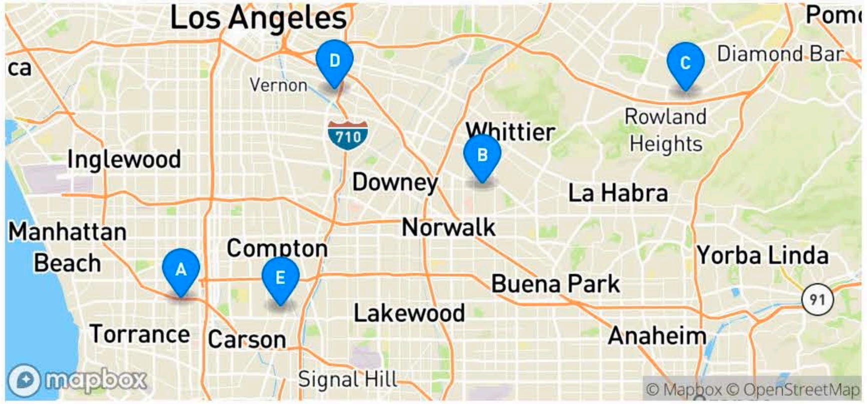
Typical Site Plan: Equipment Maintenance and Storage Facility



Industrial Outdoor Storage – What is it? How do you value it?

Los Angeles Industrial Market

CompStak Export - Los Angeles - Orange - Inland - 01/26/2023



CREATED ON	January 26, 2023 at 9:06 AM
PREPARED FOR	Appraisal Institute
PREPARED BY	Justin Smith JBSmith@leeirvine.com 9497903151

ADDRESS	TRANS. QTR.	TENANT	SIZE	FLOOR(S)	TRANS. TYPE	TERM	STARTING RENT	RENT SCHEDULE	FREE RENT	WORK VALUE
A 1540 West 190th Street	2022 - Q4	Nissin International	90,133 SF		Renewal	5y	$2.30 (Monthly)	4.25% per year	0m	$0.00
B 10715 Shoemaker Avenue	2022 - Q4	Food Castle	83,545 SF		New Lease	5y 2m	$1.85 (Monthly)	4.00% per year	0m	$1.80
C 18960 San Jose Avenue	2022 - Q4	Forever Link International	100,060 SF		New Lease	3y	$1.88 (Monthly)	4.50% per year	0m	$0.00
D 4444 East 26th Street	2022 - Q4	Golden West Trading	65,798 SF		New Lease	5y 1m	$1.70 (Monthly)	4.50% per year	1m	
E 2310 East Gladwick Street	2022 - Q4	Fasttrucking	65,672 SF		Renewal	3y 1m	$2.14 (Monthly)	3.50% per year	1m	$1.00

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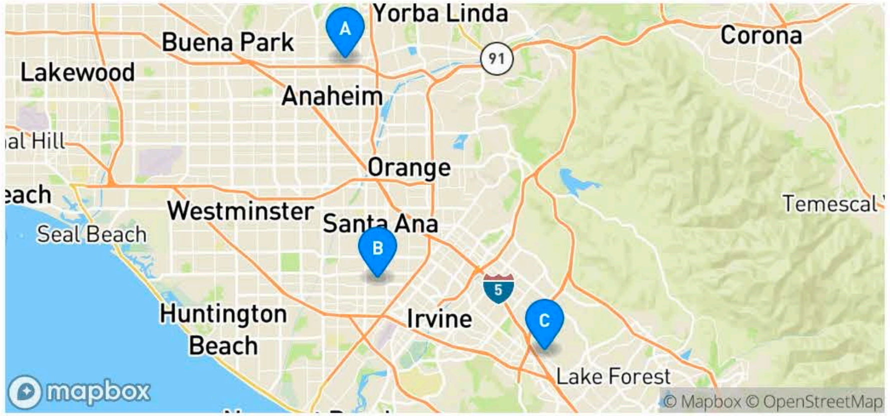
Orange County Leasing

CompStak Export - Los Angeles - Orange - Inland - 01/26/2023



CREATED ON	January 26, 2023 at 9:03 AM
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PREPARED BY	Justin Smith JBSmith@leeirvine.com 9497903151

ADDRESS	TRANS. QTR.	TENANT	SIZE	FLOOR(S)	TRANS. TYPE	TERM	STARTING RENT	RENT SCHEDULE	FREE RENT	WORK VALUE
A 1400 Manhattan Avenue	2022 - Q4	Berger Transfer & Storage	91,116 SF		New Lease	5y	$1.85 (Monthly)	4.00% per year	0m	
B 601 West Dyer Road	2022 - Q4	Shinoda Design Center	135,371 SF		Renewal	5y	$1.55 (Monthly)	4.00% per year	1m	$0.00
C 15365 Barranca Parkway	2022 - Q4	ATEN Technology	53,600 SF		Renewal	6y	$1.85 (Monthly)	4.25% per year	0m	

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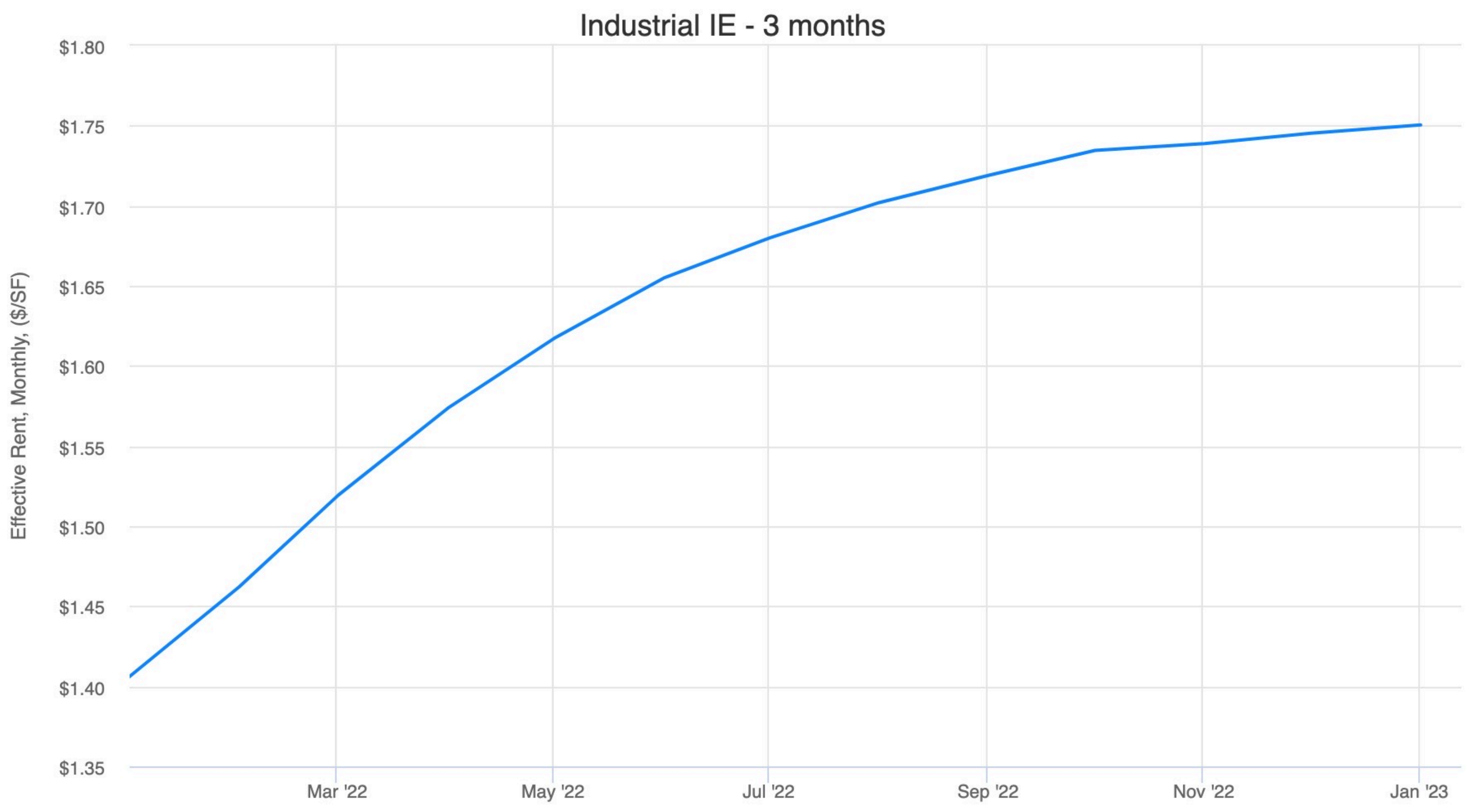
Inland Empire West Leasing



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Inland Empire West Leasing

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PREPARED FOR	Appraisal Institute
PREPARED BY	Justin Smith JBSmith@leeirvine.com 9497903151

ADDRESS	TRANS. QTR.	TENANT	SIZE	FLOOR(S)	TRANS. TYPE	TERM	STARTING RENT	RENT SCHEDULE	FREE RENT	WORK VALUE
A 1670 Champagne Avenue	2023 - Q1	Elite Comfort Solutions LLC/ Leggett & Platt	263,670 SF			5y 2m	$1.87 (Monthly)	4.50% per year	2m	$1.50
B 930 South Rockefeller Avenue	2022 - Q4	DPI Specialty Foods	166,228 SF		Renewal	4y	$1.65 (Monthly)	4.00% per year	1m	$0.00
C 9275 Buffalo Avenue	2022 - Q4	Total Transportation	145,737 SF		Renewal	5y	$1.57 (Monthly)	5.00% per year	1m	$0.00

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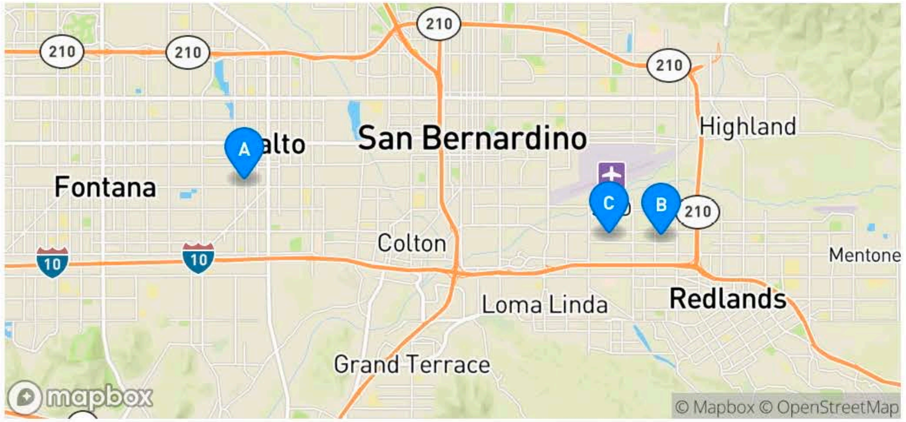
Inland Empire East Leasing

CompStak Export - Los Angeles - Orange - Inland - 01/26/2023



CREATED ON	January 26, 2023 at 8:59 AM
PREPARED FOR	Appraisal Institute
PREPARED BY	Justin Smith JBSmith@leeirvine.com 9497903151

ADDRESS	TRANS. QTR.	TENANT	SIZE	FLOOR(S)	TRANS. TYPE	TERM	STARTING RENT	RENT SCHEDULE	FREE RENT	WORK VALUE
A 548 West Merrill Avenue	2022 - Q4	Box Partners	258,808 SF		New Lease	5y 3m	$1.72 (Monthly)	4.00% per year	3m	$1.50
B 9889 Almond Avenue	2022 - Q4	ODW	253,528 SF		Renewal	5y	$1.48 (Monthly)	4.00% per year	0m	$0.12
C 2301 West San Bernardino Avenue	2022 - Q4	Spectrum Brands	983,986 SF		Renewal	5y 1m	$1.15 (Monthly)	4.25% per year	1m	$0.25

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Resources

COMPSTAK

Apple Podcasts Preview

57 episodes

Industrial Insights is a podcast that highlights the market dynamics, high level strategies, and in the trenches tactics for tenants and owners of industrial real estate. Each episode is designed to take hard fought wisdom from practitioners and break it down into insights that can drive better commercial real estate decision making. The host, Justin Smith, shares his experiences from 16 years in the business and brings in industry experts to discuss critical aspects of successful industrial projects.

Industrial Insights

Justin Smith

Business

★★★★★ 5.0 • 5 Ratings

Listen on Apple Podcasts ↗

JAN 20, 2023

Inside Rainmaker U with Tim O'Brien

Justin welcomes Tim O'Brien, Founder of Rainmaker U. Tim's specialty is on personal branding, productivity, business development and coaching professionals. Tim discusses the success of Rainmaker U and the importance of investing in your personal brand. Highlights Background on...

▶ PLAY 50 min

JAN 6, 2023

Cold Storage Development 2.0 with Matt Anderson

Justin welcomes Matt Anderson, Vice President of Development at Cold Summit Development. Matt delves into cold storage and what it takes to get entitlements and a project approved, but also what makes their project better than what's existing. Highlights Matt Anderson's background in...

▶ PLAY 30 min

NOV 30, 2022

Leading NAIOP SoCal Into 2023 with Timothy Jemal

Justin welcomes Timothy Jemal, CEO of NAIOP SoCal. Timothy discusses the important advocacy work NAIOP SoCal is leading and our duty to educate and advocate on behalf of our community's interest. He shares government regulations and issues that will be the focus of next year. Highlights...

▶ PLAY 44 min

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People to Follow

Jay Tanjuan • 1st
Director of Development, Southern California
4d •

CBRE Industrial & Logistics CBRE Research recently released their 4th Quarter 2022 industrial market reports for markets all over the country. I find it helpful and interesting to look at what's happening in other markets for perspective and compare it to what we are seeing in Southern California.

Some people that I have spoken to in our local market have expressed concern that vacancy in the Inland Empire increased to above 1% for the first time since 2nd Quarter 2021. This is a legitimate concern and something to watch but I wanted to see what vacancy looks like in other good industrial markets like Phoenix, Dallas and Houston. I also thought it would be interesting to see what the vacant square footage would be in our SoCal markets at 4% vacancy which would still be considered low vacancy. In fact, the Inland Empire market hasn't seen 4% vacancy since 4th Quarter 2016.

- The Inland Empire has an industrial base of 613M SF. Vacant SF totals 6.5M SF (1.1%). If somehow this market was at 4% vacancy, this would equal 24.5M SF of vacant space.

- LA has an industrial base of 1B SF. Vacant SF totals 9.1M SF (0.9%). If LA got to 4% vacancy that would be 40.6M SF of vacant space! There's only 6.9M SF under construction as well. Getting to 4% vacancy seems impossible.

- OC has a similar story. The industrial base is 259M SF. Vacant SF totals 1.7M SF (0.7%). If OC got to 4% that's 10.4M SF of vacant space with only 3M SF currently under construction.

- By comparison, Phoenix has 378M SF with 3% vacancy (11.4M SF vacant space) and 38M SF under construction, Houston has 590M SF with 3.8% vacancy (22.4M SF vacant space) and 33.5M SF under construction, and Dallas has 914M SF with 4.3% vacancy (39M SF vacant space) and 76.9M SF under construction.

I think Barbara Perrier with CBRE put it best when she said recently in a Spencer Levy podcast, "California is pricing like the rest of the country, which does not make sense. Their pricing it to debt. And I think Southern California's on sale right now. I really feel like that because it is pricing the same as … all these other inland (US markets). So it shouldn't be that way. But because of the interest rate movement, it is that way today."

James Breeze • 1st
Senior Director - Global Head of Industrial & Logistics Research at CBRE
2w •

U.S. industrial taking rent growth (average first year base rents) finished at a whopping 18.0%, a record for year-end. 76% of markets tracked by CBRE finished the year with y-o-y rent growth 10% or higher, and 49% were over 20%. The top markets for growth were in Southern California, New Jersey, and emerging population growth or inland logistic hub markets including Las Vegas, El Paso, Reno, Louisville, and Salt Lake City.

Top 25 Markets for Year-Over-Year Taking Rent Growth

Market	Year-Over-Year Growth %
Inland Empire	63.3%
Los Angeles	41.7%
Orange County	37.4%
Northern New Jersey	35.1%
Central New Jersey	31.5%
Philadelphia	29.1%
El Paso	28.8%
Las Vegas	28.2%
Ventura County	27.7%
Reno	27.6%
Atlanta	27.3%
East Bay	26.5%
Louisville	26.3%
Salt Lake City	26.1%
Columbus	26.0%
Detroit	25.7%
Baltimore	24.0%
Suburban Maryland	21.8%
Orlando	21.4%
Nashville	21.3%
Chicago	21.1%
Boston	20.7%
Portland	20.7%
Seattle	20.6%
Phoenix	20.2%

Note: Includes new leases and renewals 10,000 sq. ft. to 699,999 sq. ft. with a 12 month or longer lease term.
Sources: CBRE Research

Jason Miller • 1st
Supply chain professor helping industry professionals better use data
2d •

There is little doubt that November and December were rough months for the U.S. manufacturing sector, with monthly seasonally adjusted output declining 1.0% and 1.3%, respectively, based on my preferred measure of inc ...see more

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Thank you!


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