

» Vacancy Declines To Lowest Rate Ever

Key Takeaways

- > The vacancy rate fell 30 basis points to 1.6%, which is the lowest recorded vacancy rate ever recorded for the San Fernando Valley & Ventura County marketplace.
- > Net absorption was positive, totaling 274,900 square feet for the quarter.
- > Sales and leasing activity totaled 1,636,000 square feet, broken into eight sales (342,300 square feet) and 42 leases (1,293,700 square feet).
- > Asking rental rates increased \$0.02 per square foot (PSF) triple net (NNN) to end the quarter at \$0.73 PSF NNN. Rents remain at an all time high and have surpassed the previous peak of \$0.68 PSF NNN seen in 2007.

San Fernando Valley and Ventura County Industrial Market

The San Fernando Valley is the most populous region of Los Angeles and home to major motion picture, music recording and television production companies. Much of the industrial infrastructure is devoted to ancillary services for the entertainment industry and to serving the local population. The San Fernando Valley has recently seen an influx of value-add investors continuing to purchase properties in the region.

Market Indicators | Relative to prior period

	Q3 2018	Forecast
Vacancy	↓	→
Net Absorption	↑	↑
Construction	↑	↑
Rental Rate	↑	→

Summary Statistics | SFV & Ventura County, Q3 2018

Vacancy Rate	1.6%
Change from Q3 '18 (Basis Points)	-30 BPS
Net Absorption	274,900 SF
Construction Completions	0 SF

Asking Rents | SFV & Ventura County, Q3 2018

	SFV & Ventura County Industrial Market
Average Asking Rent	\$0.73 PSF NNN
Change from Q2 '18	\$0.02 PSF NNN
Y.O.Y. Change (%)	2.8%

Labor Force | Los Angeles County, Q3 2018

	Construction	Manufacturing	Transportation, Trade & Utilities
12-mo Employment Growth (%)	1.8%	0.4%	-0.2%
12-mo Actual Employment Change	+2,600	1,300	-1,600

Vacancy

- > Vacancy fell 30 basis points to 1.6%, which is the lowest rate on record.
- > Vacancy remains tightest in Ventura County at 1.0% and slightly higher in the San Fernando Valley at 1.8%.
- > **FORECAST:** Vacancy may rise in future quarters as new industrial space is delivered to the market. Conditions remain tight and tenants are finding it difficult to find space that meets their needs.

Absorption and Leasing Activity

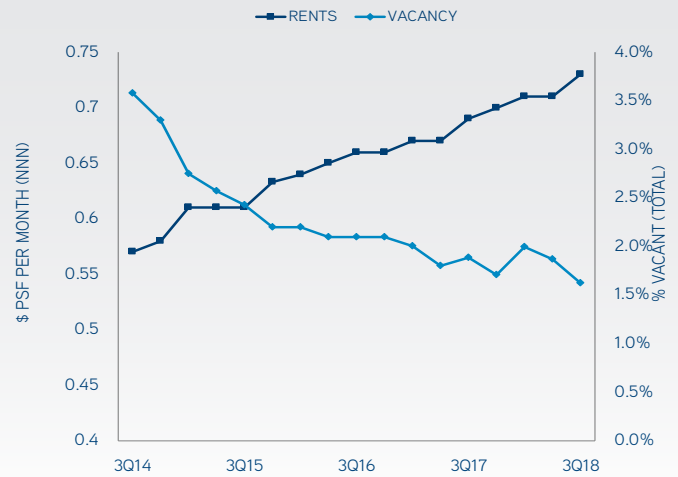
- > Industrial demand was positive 274,900 square feet as the region had higher than normal leasing activity.
- > Sales and leasing activity totaled 1,636,000 square feet this quarter. This was broken out into eight sales (342,300 square feet) and 42 leases (1,293,700 square feet).
- > **FORECAST:** Absorption will likely be positive in future quarters as new space comes to market and should be quickly leased or sold as industrial demand remains high.

Rental Rates

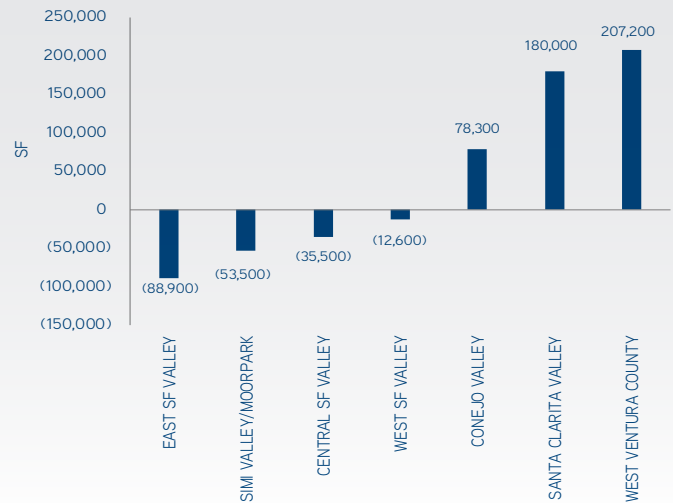
- > Average asking rents increased over the quarter to \$0.73 PSF NNN. Asking rents have surpassed their peak of \$0.68 PSF NNN, which was seen in late 2007.
- > Asking rents were highest in the Central San Fernando Valley at \$1.06 PSF NNN and lowest in West Ventura County at \$0.61 PSF NNN.
- > **FORECAST:** Rents have been increasing for the past six years and will likely continue to rise in future quarters, but at a slower pace than before. The vacancy rate has hit historic lows and quality industrial space remains hard to find.

The discrepancy between rents in Los Angeles and Ventura counties will likely increase in future quarters as asking rents are rising faster in Los Angeles County compared to Ventura County.

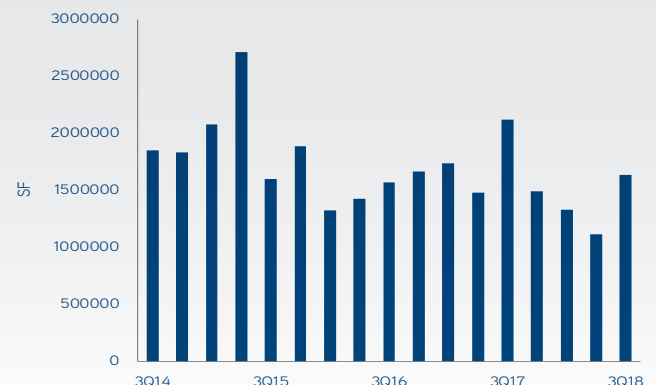
Historical Vacancy v. Rents | SFV & Ventura County, Q3 2018



Net Absorption by Submarket | SFV & Ventura County, Q3 2018



Historical Sales & Leasing Activity | SFV & Ventura County, Q3 2014 - 2018



Construction

- > There were no construction completions this quarter and several new projects have broke ground this quarter to move construction activity to 824,700 square feet.
- > **FORECAST:** Industrial demand remains high and infill industrial demand remains higher still. Future quarters will likely see greater construction activity as rents hit new highs and vacancy rates are at historic lows.

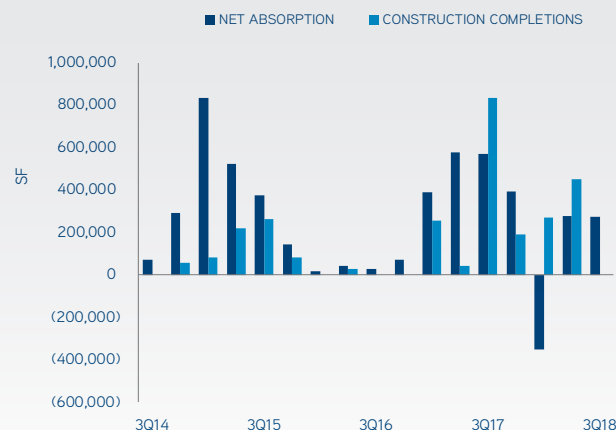
Investment Trends

- > This quarter, ProLogis completed its aquisition of DCT Industrial in an 8.4 billion dollar stock-for-stock transaction. Many of the desirable Class A properties were located in Southern California, driving average sales prices for the quarter to \$216 per square foot.
- > Rising sales prices led to further compression of cap rates to 5.0%. No other property type has seen such continued compression in cap rates, especially at a time when 10 year treasury rates have increased over the past year by 70 bps.
- > **FORECAST:** Investors remain attracted to the industrial sector due to continued shifts in consumer behavior and a growing economy. Southern California remains the premier industrial investment market due to low vacancy rates and continued rising rental rates.

Outlook

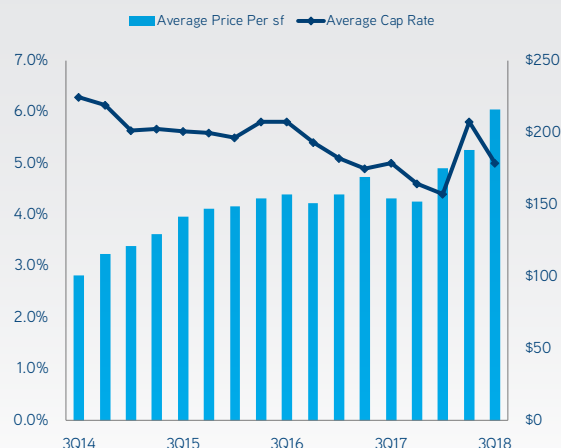
- > The San Fernando Valley remains in the middle of a building boom. Tight market conditions and rising rents are leading to a much needed increase in supply. As these newly completed buildings are leased up, we expect to see increased investor activity on these newly leased buildings.
- > Industrial users looking to find the ideal space to meet their needs will likely have to expand their industrial footprint by taking additional space in soon-to-be-constructed speculative buildings or in build-to-suit projects, as quality space remains hard to find in this market.
- > As industrial vacancy rates are at historic lows, industrial users seeking larger spaces are having to go further north into neighboring Kern County and particularly, the Tejon Ranch Commerce Center which has attracted increased attention as market conditions continue to tighten.

Historical Net Absorption & Construction Completions SFV & Ventura County, Q3 2014 - 2018

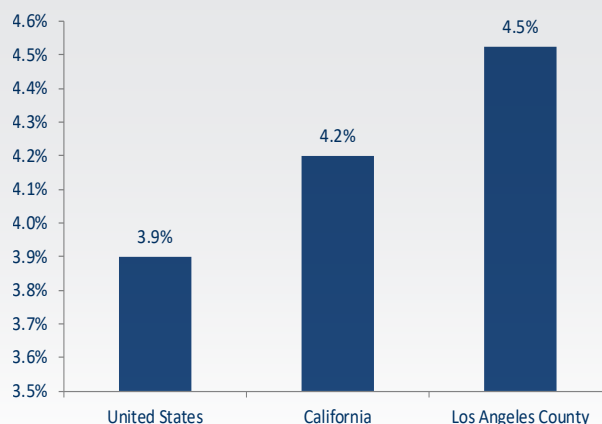


Investment Trends Chart

Los Angeles County | Q3 '14-'18



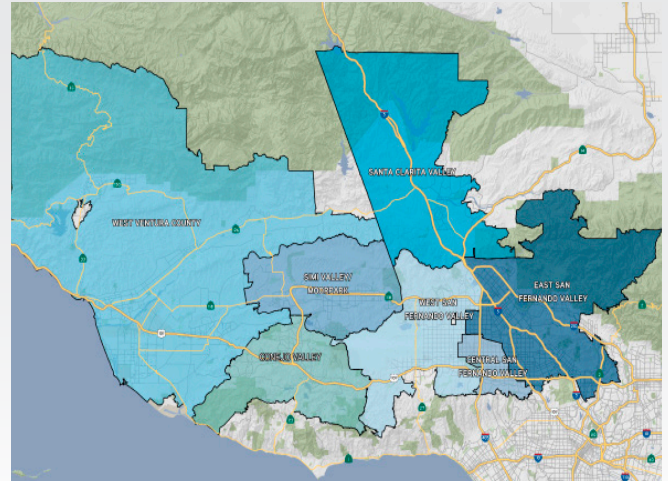
Unemployment Rate | Los Angeles County | August 2018



Market Description

The San Fernando Valley and Ventura County industrial market includes 170.7 million SF of standard industrial space, and represents 15 percent of the total industrial space in buildings 10,000 square feet and greater in the Los Angeles Basin. It is a moderately mature market, with 68 percent of its space built more than 20 years ago. The market is oriented toward small- to medium-sized manufacturers and distributors, with only 29 percent of its space contained in big box buildings (100,000+ SF).

Submarket Map



RECENT TRANSACTIONS & MAJOR DEVELOPMENTS

San Fernando Valley & Ventura County Industrial
Q3 2018

SALES ACTIVITY

PROPERTY ADDRESS	SIZE SF	SALE PRICE	PRICE PSF	BUYER	SELLER
4100 Vanowen, Burbank	302,900 SF	\$85 Million	\$281 PSF	BKM Capital Parnters	Penwood Select Industrial
18408 Oxnard, Tarzana	73,000 SF	\$18.5 Million	\$253 PSF	Alvarez & Marsal	Cenox Construction
6100 Condor, Moorpark	114,600 SF	\$13.8 Million	\$120 PSF	Westcore Properties	Marcus Adams Properties
29003 Avenue Sherman, Valencia	68,100 SF	\$9.5 Million	\$139 PSF	Rexford Industrial	Philip Cohanim

LEASING ACTIVITY

PROPERTY ADDRESS	LEASED SF	LEASE TYPE	BLDG TYPE	LESSEE	LESSOR
3301 Sturgis, Oxnard	89,800 SF	Direct - New	Distribution	Volkswagen Group of America	BLT Enterprises
1998 Surveyor, Simi Valley	56,300 SF	Direct - New	Light	P-Cove Enterprises	Rexford Industrial
2615 Conejo Spectrum, Thousand Oaks	39,500 SF	Direct - New	Light	Sideshow	Sares-Regis
2500 Conejo Spectrum, Thousand Oaks	38,700 SF	Direct - New	Light	Sage Publications	Sares-Regis

MAJOR DEVELOPMENTS

PROJECT	DEVELOPER	SIZE SF	SUBMARKET	STATUS	ESTIMATED COMPLETION
The Center at Needham Ranch	Trammell Crow Company	444,600 SF	Santa Clarita Valley	Under Construction	Q1 2019
27949 Hancock, Valencia	Keane Constructors, Inc.	100,000 SF	Santa Clarita Valley	Under Construction	Q4 2018

INDUSTRIAL OVERVIEW

San Fernando Valley & Ventura County Industrial Market
Q3 2018

EXISTING PROPERTIES		CONSTRUCTION		VACANCY		AVAILABILITY	ACTIVITY					ABSORPTION		RENTS		
Submarket/ Building Size	Bldgs	Total Inventory SF	Completions Current Qtr SF	Under Construction SF	Vacancy	Vacancy Prior Qtr	Availability	Sales Activity SF	Number of Sales	Lease Activity SF	Number of Leases	Total Gross Activity Current Qtr SF	Total Gross Activity YTD SF	Net Absorption Current Qtr SF	Net Absorption YTD SF	Weighted Avg Asking Lease Rates
WEST VENTURA COUNTY																
SUBTOTAL	1,144	41,900,900	0	121,300	1.3%	1.8%	5.4%	34,900	2	471,900	11	506,800	1,196,900	207,200	258,100	\$0.61
SIMI VALLEY/MOORPARK																
SUBTOTAL	308	11,295,900	0	56,300	0.5%	0.0%	4.7%	0	0	0	0	0	317,900	(53,500)	(41,700)	\$0.69
SANTA CLARITA VALLEY																
SUBTOTAL	436	19,065,100	0	552,100	6.0%	6.9%	7.5%	86,600	2	344,500	10	431,100	702,700	180,000	(234,600)	\$0.69
CONEJO VALLEY																
SUBTOTAL	249	8,028,400	0	0	1.9%	2.8%	4.7%	0	0	86,800	3	86,800	500,800	78,300	434,500	\$0.89
WEST SAN FERNANDO VALLEY																
SUBTOTAL	788	25,831,800	0	0	1.8%	1.7%	3.6%	182,000	2	160,400	7	342,400	627,300	(12,600)	(35,800)	\$0.86
CENTRAL SAN FERNANDO VALLEY																
SUBTOTAL	428	13,742,200	0	0	0.3%	0.0%	1.7%	22,900	1	44,400	1	67,300	195,300	(35,500)	28,600	\$1.06
EAST SAN FERNANDO VALLEY																
SUBTOTAL	1,607	50,816,600	0	94,900	0.7%	0.5%	2.0%	16,000	1	185,700	10	201,700	542,200	(88,900)	(206,600)	\$0.96
SAN FERNANDO VALLEY SUBTOTAL																
SUBTOTAL	3,267	109,620,800	0	94,900	1.8%	1.8%	3.1%	307,400	6	695,100	26	1,002,500	1,980,800	44,800	(540,200)	\$0.81
VENTURA COUNTY SUBTOTAL																
SUBTOTAL	1,671	60,134,900	0	121,300	1.0%	1.2%	5.0%	34,900	2	480,400	12	515,300	1,616,300	153,700	329,900	\$0.64
MARKET TOTAL																
10,000 - 19,999	2,395	33,835,700	0	0	0.6%	0.4%	2.0%	89,500	5	138,900	10	228,400	445,300	(80,500)	(58,900)	\$1.01
20,000 - 39,999	1,491	40,453,500	0	0	1.0%	0.7%	2.4%	35,500	1	362,800	13	398,300	1,071,100	(113,700)	(7,100)	\$0.95
40,000 - 69,999	595	30,030,300	0	245,300	1.0%	1.1%	3.6%	0	0	296,200	12	296,200	711,000	69,200	68,100	\$0.79
70,000 - 99,999	201	16,667,600	0	94,900	3.0%	3.4%	7.7%	70,800	1	251,700	4	322,500	694,300	59,900	126,500	\$0.76
100,000 - 249,999	242	33,586,500	0	484,500	3.5%	4.0%	5.3%	146,500	1	62,800	2	209,300	922,500	158,700	(77,500)	\$0.64
250,000 - 499,999	28	9,376,800	0	0	1.2%	1.2%	9.0%	0	0	0	0	0	57,500	0	0	\$0.59
500,000+	8	6,730,500	0	0	1.6%	4.3%	1.6%	0	0	181,300	1	181,300	181,300	181,300	151,300	N/A
TOTAL	4,960	170,680,900	0	824,700	1.6%	1.9%	4.0%	342,300	8	1,293,700	42	1,636,000	4,083,000	274,900	202,400	\$0.73

Definitions of key terms in this report

Total Rentable Square Feet:

Industrial space in buildings with 10,000 square feet or more of industrial space. Includes speculative as well as owner-occupied buildings. Excludes Research & Development (R&D) buildings (industrial buildings with at least 30% office build-out, 3/1000 parking ratio and a high level of finish). Excludes space that is under-construction or renovation.

Vacancy:

Space in existing buildings that is vacant and immediately available during the quarter for direct lease, for sublease or for sale, plus space that is vacant but not available for direct lease or sublease.

Availability:

All space that is currently being marketed for occupancy, including space which may currently be occupied or which may be under construction or renovation.

Net Absorption:

Net change in occupied square feet from one period to the next (includes the impact of change in vacant space available for sublease).

Gross Activity:

Square feet sold and leased for all known transactions completed during the quarter, excluding lease renewals and investment sale transactions.

Weighted Average Asking Rental Rates:

Weighted by square feet available for direct lease. Data is based on triple net rents, and excludes expenses such as taxes, insurance, maintenance, janitorial services and utilities. Reported on a monthly per-square-foot basis.

Construction Completions:

Total square feet added during the quarter via construction completions, including renovated space returned to market, less total square feet taken off-market due to demolitions or conversions.

Under Construction:

Includes buildings that are in some phase of construction, beginning with foundation work and ending with the issuance of a Certificate of Occupancy.

Technical Note

Colliers International is continuously refining its database. The data shown in the historical tables and graphics in this report have been adjusted to take into account these changes in the database.

This report has been prepared by Colliers International for general information only. Information contained herein has been obtained from sources deemed reliable and no representation is made as to the accuracy thereof. Colliers International does not guarantee, warrant or represent that the information contained in this document is correct. Any interested party should undertake their own inquiries as to the accuracy of the information. Colliers International excludes unequivocally all inferred or implied terms, conditions and warranties arising out of this document and excludes all liability for loss and damages arising there from.

This report and other research materials may be found on our website at www.colliers.com/greaterlosangeles.

413 offices in 69 countries on 6 continents

United States: 145	> \$2.7 billion in annual revenue
Canada: 28	> 2.0 billion square feet under management
Latin America: 23	
Asia Pacific: 79	> Over 15,400 professionals
EMEA: 131	

UNITED STATES:

SFV & Ventura County Office
 License No. 01908231
 16830 Ventura Suite J
 Encino, CA 91436

TEL: +1 818 905 5800
 FAX: +1 818 325 4000

THOMAS GALVIN

Research Analyst
 Research Services

JENNIFER REESE

Research Associate
 Research Services

