CBRE

Industrial Flight to Class B

GLA-OC-IE

Tenants become more budget-conscious in a market constantly shifting

August 2023

Class B/C leasing activity picked up over the past three quarters

169 Class B transactions were signed in Q2 2023, compared to just 72 Class A transactions in GLA-OC-IE. 106 Class B transactions were signed in Q2 2022.

Number of Lease Transactions by Class, 2022 – 2023 YTD

Note: data reflects new leases, renewals, direct, sublease transactions of 10,000 sq. ft. and greater.

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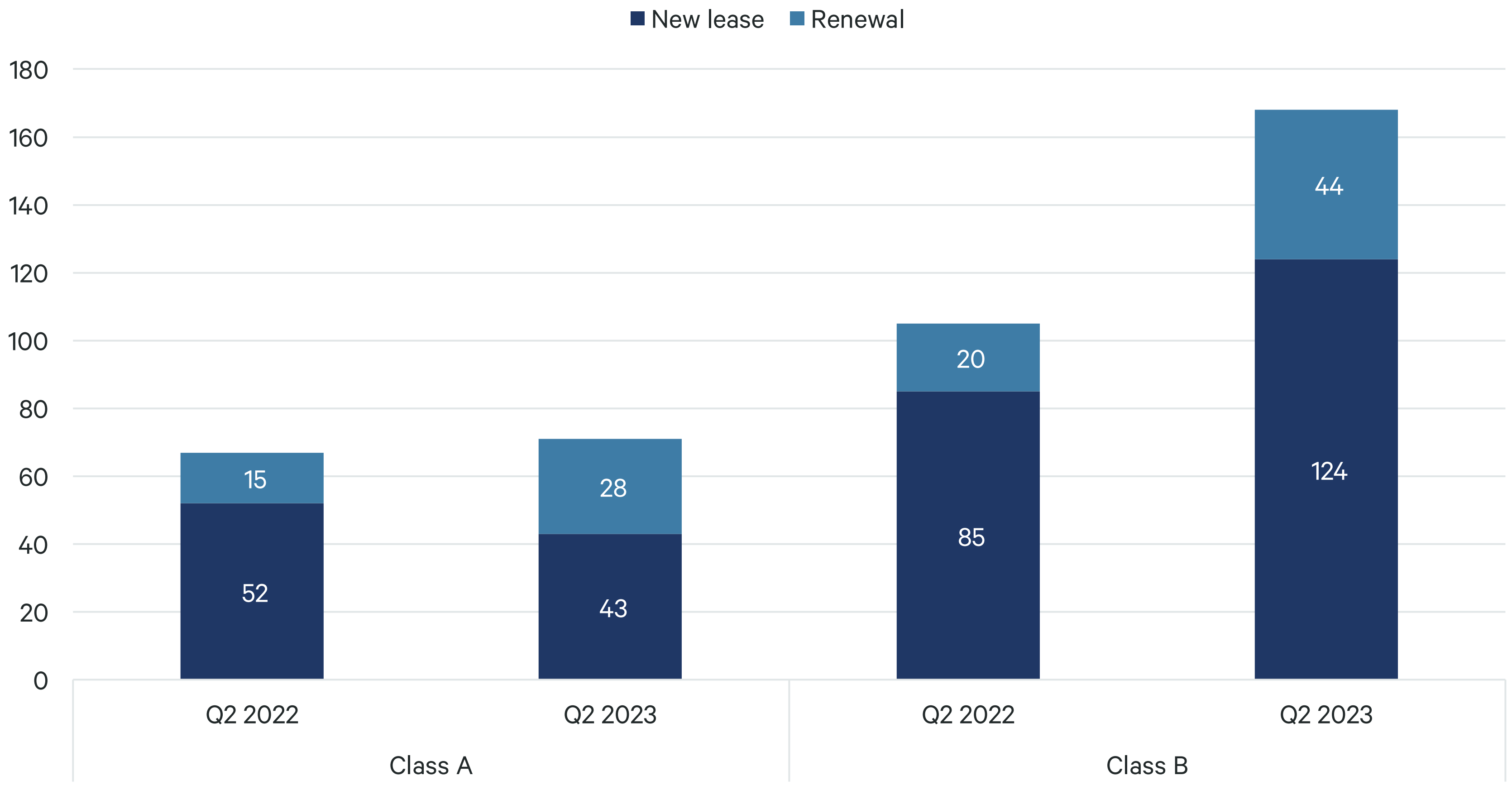
Renewals are on the rise in Class A and Class B space

Renewals made up 39.4% of transactions in Class A space compared to 22.4% one year ago.

In Class B space, renewals increased from 19.0% to 26.2% of transactions during that same period.

Number of Lease Transactions by Type and Class



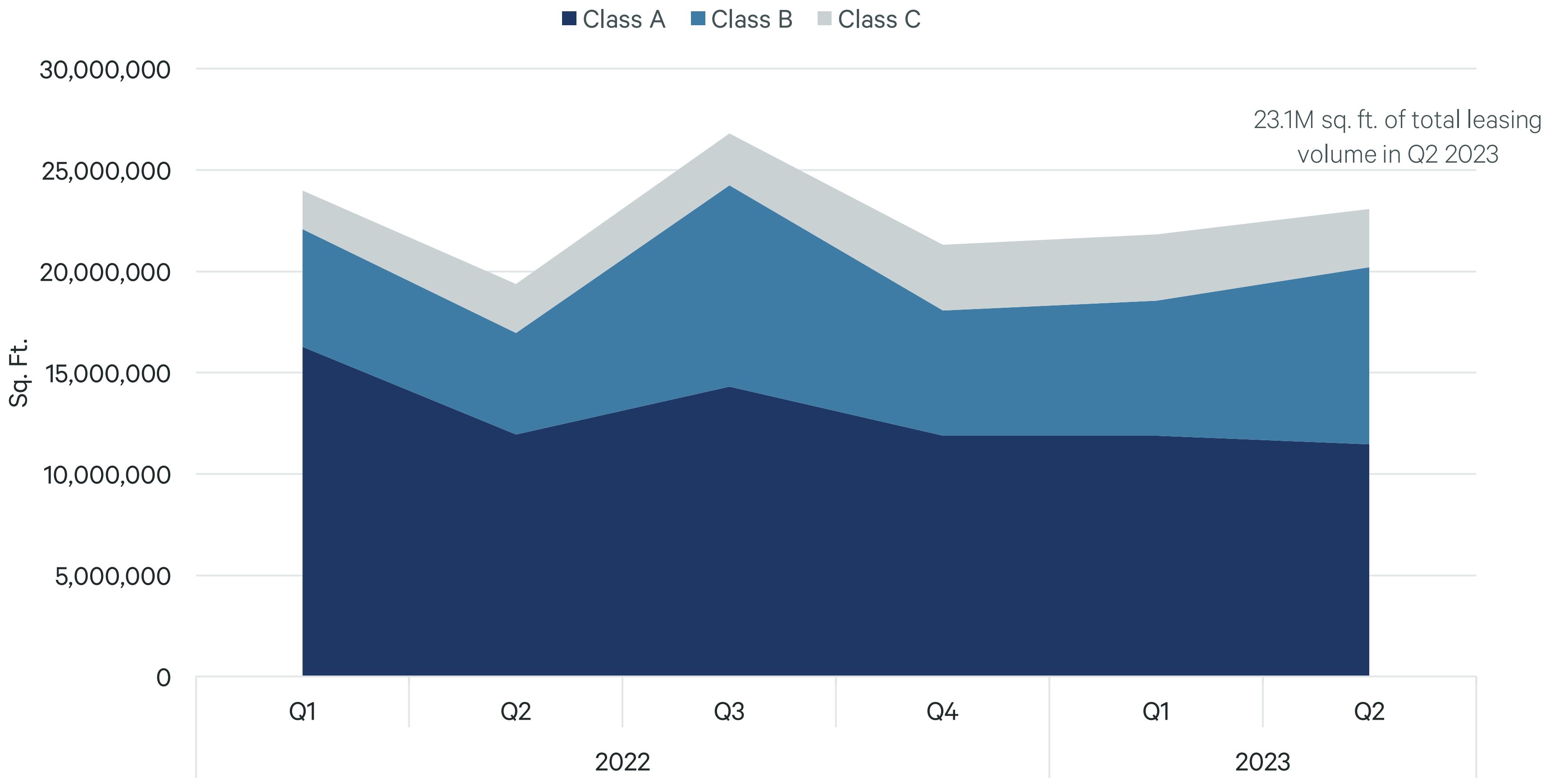
Note: data reflects new leases, renewals, direct, sublease transactions of 10,000 sq. ft. and greater.

Area Leased by Class, 2022 – 2023 YTD

Class B increased its share of total area leased in GLA-OC-IE in the first half of 2023

Class B transactions accounted for 25.8% of total leasing activity by sq. ft. in Q2 2022. This figure increased to 37.8% in Q2 2023.

During that same period, the share of total leasing activity from Class A transactions decreased from 61.7% to 49.7%.

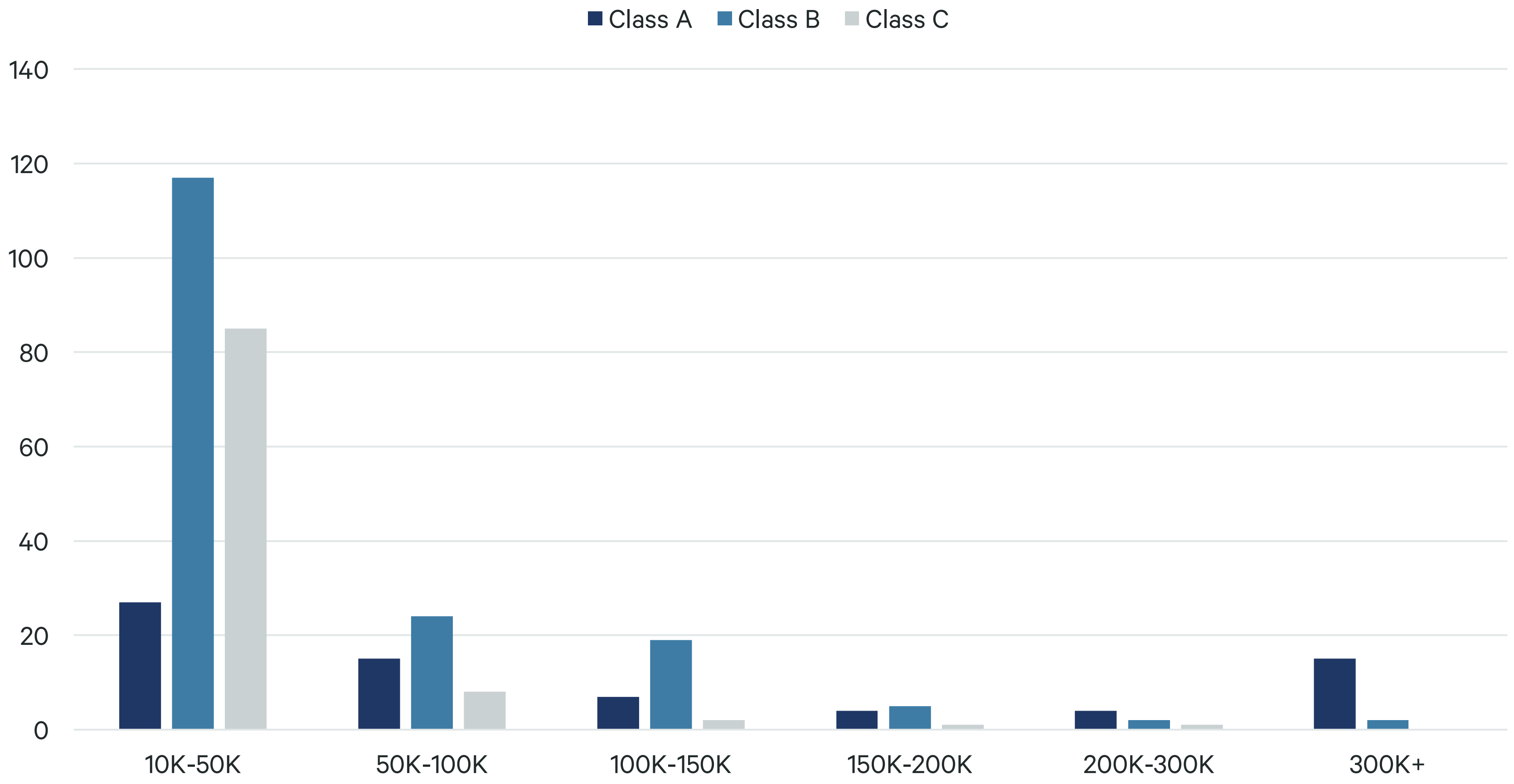


Note: data reflects new leases, renewals, direct, sublease transactions of 10,000 sq. ft. and greater.

Smaller deals outpaced larger deals in Q2 2023

Lease transactions of 100K sq. ft. and smaller accounted for 82% of the total number of transactions signed in Q2 2023, up from 79% one year ago.

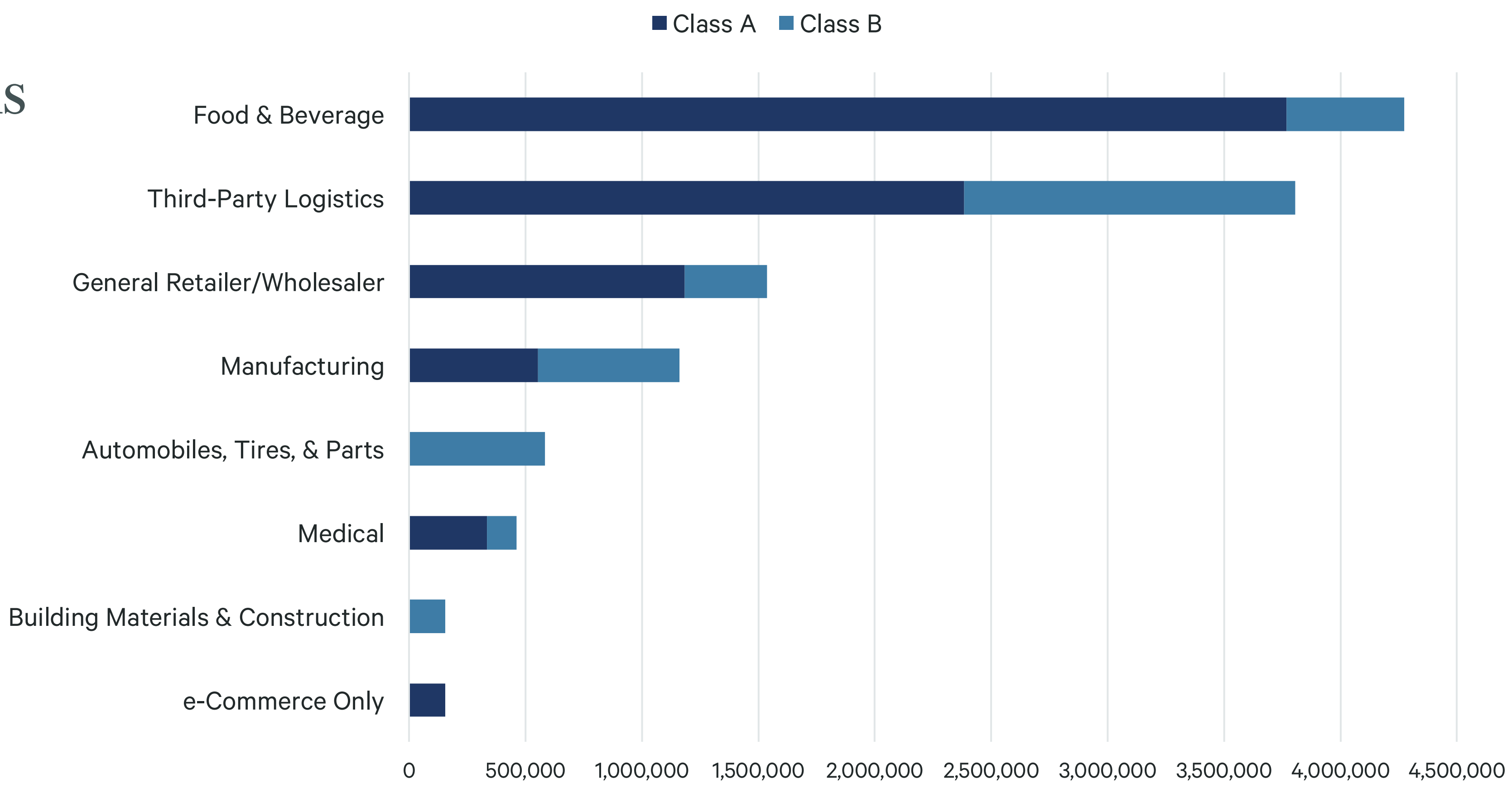
Number of Lease Transactions by Size and Class, Q2 2023



Note: 338 total leases signed in Q2 2023. Data reflects new leases, renewals, direct, sublease transactions of 10,000 sq. ft. and greater.

Area Leased by Industry and Class, YTD 2023

3PLs accounted for 38% of new lease transactions in Class B space in the first half of 2023



Note: analysis based on 46 new direct lease transactions signed in 2023 above 100,000 sq. ft.

Among 46 new direct leases above 100k sq. ft. signed in the first half of 2023, Food & Beverage led the way in area leased with over 4.0 million sq. ft. signed. Only 505K sq. ft. of that space was in Class B product.

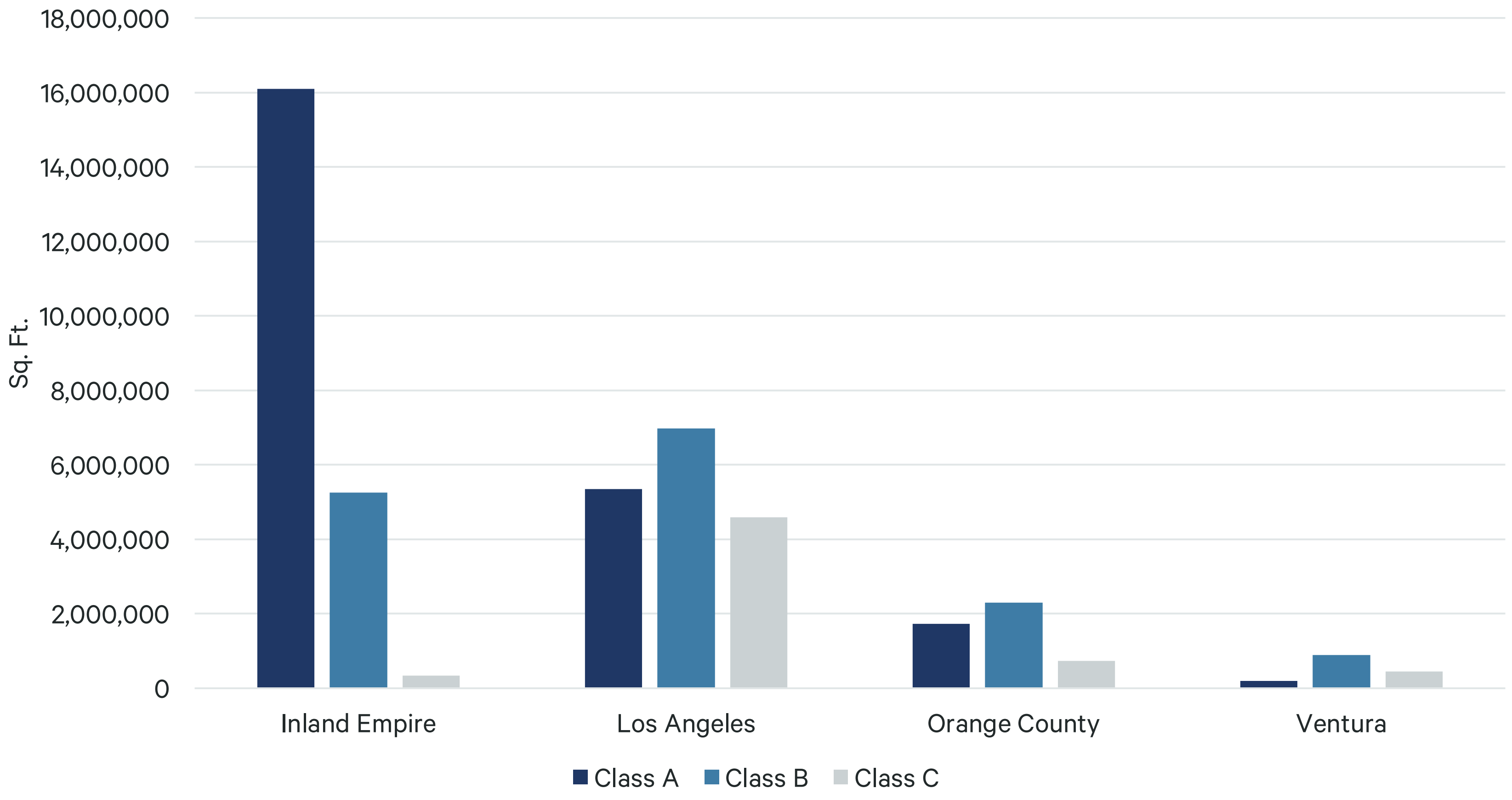
Third party logistics signed 3.8 million sq. ft., with 1.4 million sq. ft. of that signed in Class B space.

Newer product in Inland Empire drove Class A leasing, while Class B transactions in OC and GLA outnumbered Class A

16.1 million sq. ft. of Class A product was leased in the first half of 2023 in Inland Empire, while only 5.3 million sq. ft. of Class B was leased.

More Class B space was leased in both Greater Los Angeles (6.9 million sq. ft.) and Orange County (2.3 million sq. ft.).

Area Leased by Market, YTD 2023



Note: analysis based on 46 new direct lease transactions signed in 2023 above 100,000 sq. ft.

Sublease availability spiked over 200% year-over-year

Sublease availability has more than tripled from 4.26 million sq. ft. in Q2 2022 to 13.78 million in Q2 2023. The IE jumped 4.9 million sq. ft. year-over-year, while GLA climbed 3.2 million sq. ft. and OC increased 1.5 million sq. ft. in the same time frame.

The majority of the new sublease availability on market was in Class A space as tenants remove overestimates of product inventory needs.

Sublease Availability by Class, 2022 vs. 2023

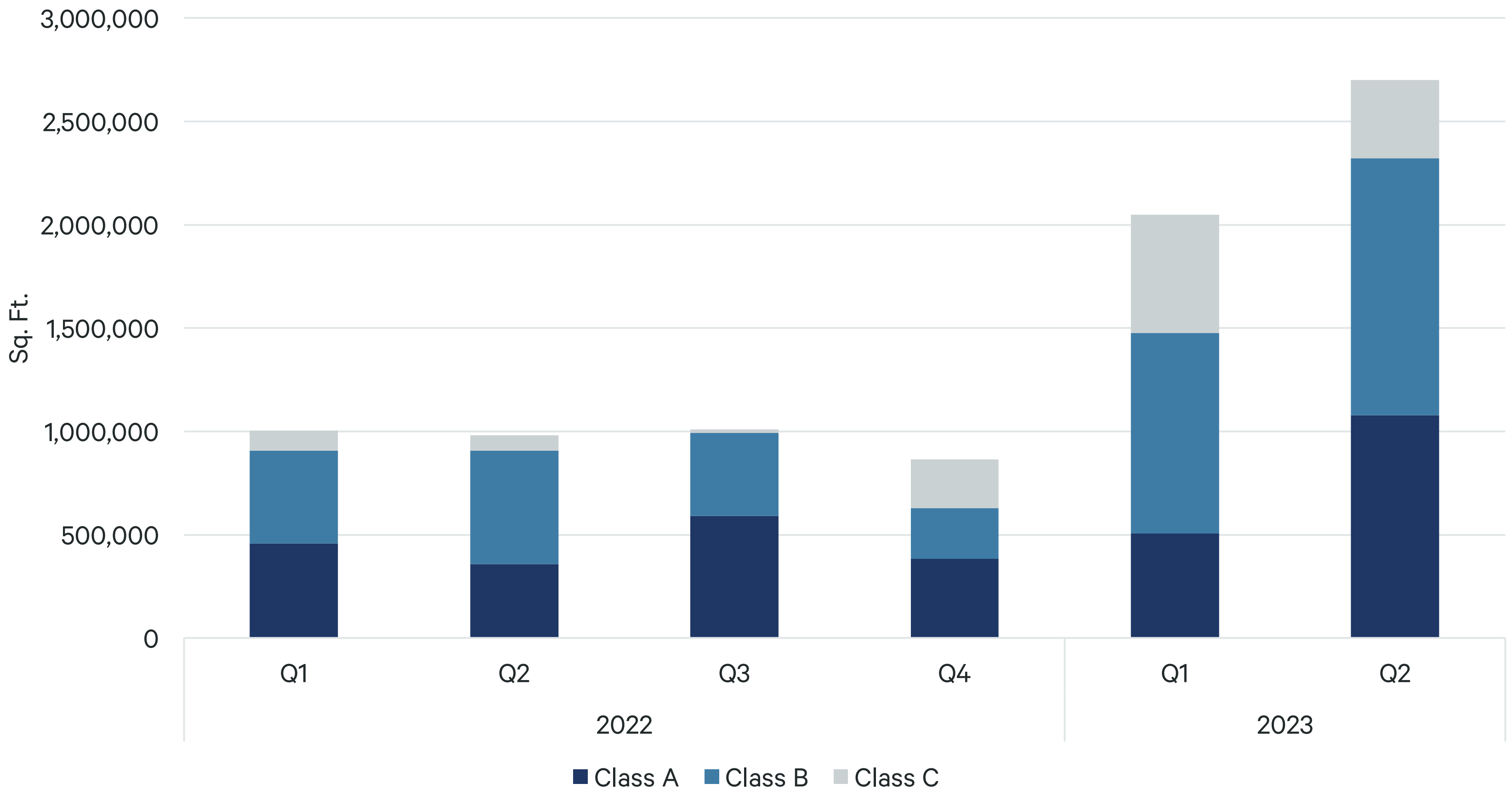
Note: analysis based on sublease availability in Q2 of each year.

Sublease activity ramps up in 2023

Sublease activity picked up in 2023 with 2.7 million sq. ft. signed in Q2 and 2.0 million signed in Q1. These figures are over double what they were in the first half of 2022.

Class B space accounted for 46% of sublease activity by sq. ft., while Class A accounted for 40% in Q2 2023. Class A accounted for just 25% of activity in the first quarter.

Amount Subleased by Class, 2022 – 2023 YTD



Note: analysis based on sublease lease transactions above 10,000 sq. ft.

Class B transactions had shorter lease terms than Class A across each market

Class A transactions averaged longer terms in all markets. The spread of terms between Class A and Class B transactions in Orange County was 2 months, 11 months in Los Angeles, and 13 months in the Inland Empire.

The spread in average effective rents between Class A and Class B was a stark $0.30 in GLA, $0.07 in OC, and $0.06 in the IE. Tenants are being more budget-conscious and are taking lower-quality space, for less rent, on shorter terms to allow for flexibility.

Terms and Effective Rents by Market and Class, 2023 Ytd

Region	# Direct Leases	Average Lease Term	Average Effective Rent (NNN)
Greater Los Angeles	163	64	$1.71
Class A	36	71	$1.94
Class B	79	60	$1.64
Class C	48	64	$1.56
Orange County	64	71	$1.76
Class A	11	74	$1.85
Class B	37	72	$1.78
Class C	16	67	$1.60
Inland Empire	103	60	$1.60
Class A	44	67	$1.63
Class B	56	54	$1.57
Class C	3	61	$1.33

Note: data reflects direct, NNN lease transactions signed in 2023 above 10,000 sq. ft.

Thank you

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