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Los Angeles:

Industrial Market Overview

2Q26

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Access the Expanded 2Q26 Los Angeles Industrial Market Overview

The expanded version of this report includes slides on:

- **Southern California's Ports, U.S. Retail Sales, Tariffs, and the Local Economy:** All shape industrial leasing market dynamics.
- **The State of Aerospace and Defense in the Region**
- **Leasing Conditions Within the Big-Box Segment**
- **Sales Activity:** Includes notable industrial sales, top buyers, and how industrial compares to other property segments.
- **Detailed Submarket Statistics**
- **Regulations**

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Extensive content across 44 slides—a detailed presentation packed with useful industrial information and in-depth analysis.

Los Angeles Industrial Market Observations

Economy

- Loaded import volumes at Southern California ports reached 4.1 million containers in the first five months of 2026, exceeding the same period in 2023–2025 but still trailing the 2021–2022 peak. U.S. retail sales remain healthy based on the latest Census Bureau data.
- Local industrial-related employment declined on a year-over-year basis.
- Diesel prices remain elevated and volatile amid the U.S.-Iran conflict, while businesses continue to pass tariff-related costs through to consumers. These pressures help explain why the U.S. consumer price index rose 4.1% year-over-year in May, the largest increase in three years.
- U.S. wage growth has lagged inflation since April. This could dampen future retail sales, especially if unemployment were to rise meaningfully.
- The Federal Reserve has signaled that further interest rate hikes remain on the table this year if inflation does not ease, even as it has held rates unchanged for now.

Leasing Market Fundamentals

- Second-quarter net absorption totaled 2.9 MSF, the strongest quarterly result since third-quarter 2021. South Bay occupancies by aerospace- and defense-related firms such as Valar Atomics, Divergent, and Neros, as well as big-box 3PL move-ins across the broader market, accounted for the exceptional quarterly performance.
- Market vacancy and availability respectively fell 20 basis points to 3.9% and 5.9% in the second quarter. Class A availability has tightened considerably from year-end 2025 to the present.
- Second-quarter leasing activity surged, largely propelled by Class A commitments.
- Class A contract rents are rising, with modern facilities commanding higher rates. Pricing is highest in the South Bay, notably along I-405.
- Class B rents could stabilize and eventually rise as some Class A users trade down.

Major Transactions

- Forty-five “big-box” (100,000+ SF) leases were signed this quarter, up sharply from 26 in the first quarter and 26 in second-quarter-2025.
- South Bay led all submarkets with 19 of the quarter’s 45 big-box leases, as large commitments from aerospace- and defense-related firms boosted the corridor’s momentum.
- Rising U.S. defense spending has generated more government contracts for aerospace and defense firms, with South Bay—home to a dense cluster of companies in satellite production and uncrewed systems—emerging as the region’s primary beneficiary. Producers typically depend on complex supplier networks, implying that adjacent industry clusters, including transportation-related firms, are also likely to see increased demand.
- In the quarter’s largest lease, Valar Atomics committed to 512,490 SF at Bridge Point South Bay in Torrance. The Class A facility was built in 2018.

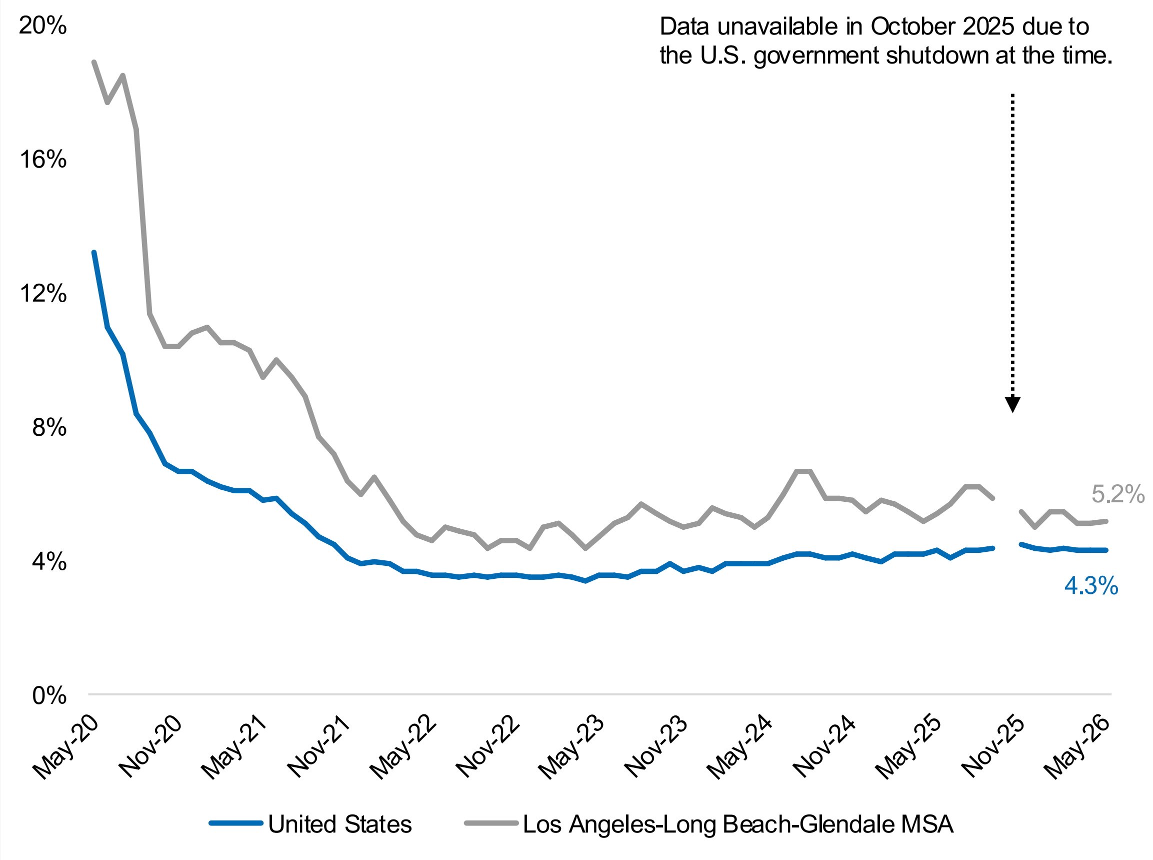
Outlook

- Available supply in the South Bay will tighten in the coming quarters. This will have a ripple effect on product demand across the broader market.
- Additional groundbreakings are likely over the next year as Class A availability continues to fall.
- Vacancy is prone to short-term fluctuations as new supply delivers. For instance, none of the 2.2 MSF in under-construction space that is scheduled to deliver next quarter has been leased.
- While current consumer spending remains healthy, a continued inflation-driven erosion of purchasing power will remain a meaningful risk to retail sales as the year progresses.
- Los Angeles is increasingly behaving like a two-speed industrial market, with aerospace and defense tenants elevating demand and pricing while many logistics and retail-related occupiers remain focused on cost control and operational efficiency.

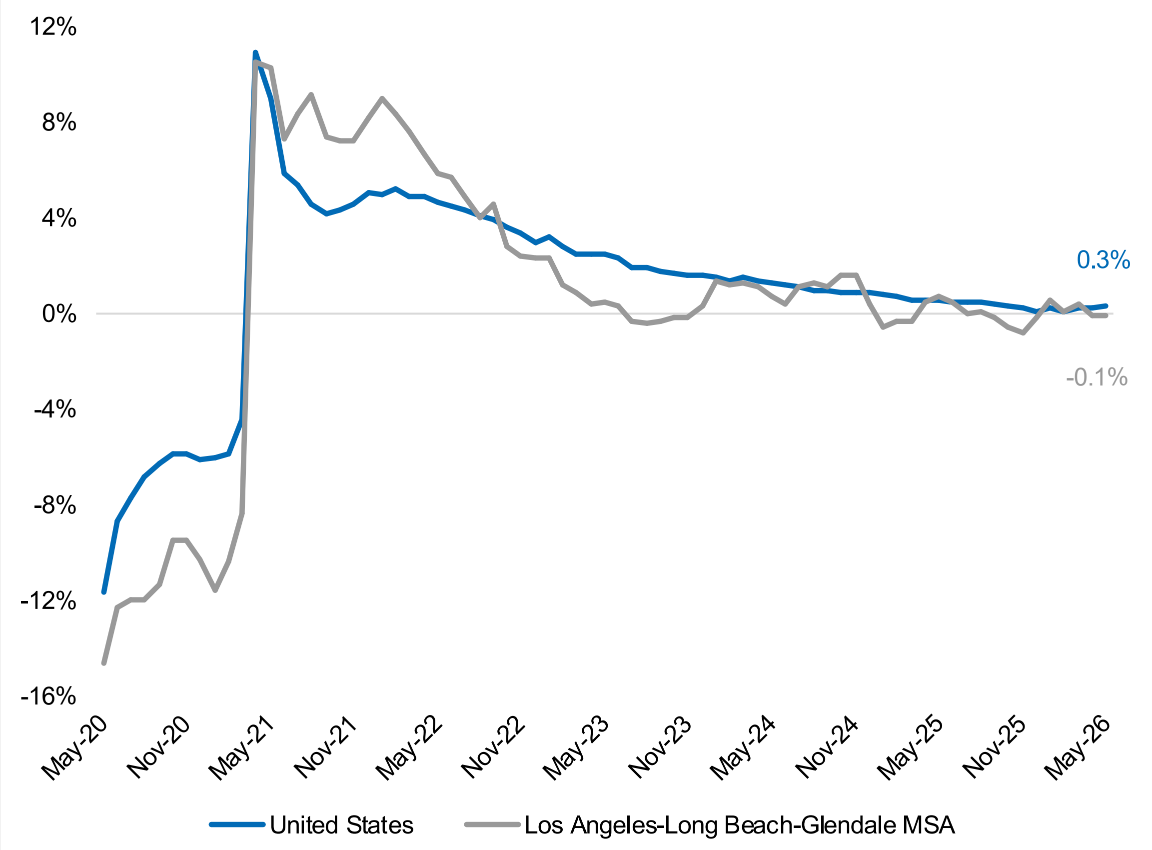
Local Unemployment Remains Tight; Employment Growth Near Zero

Local unemployment reached 5.2% in May, a 20-bps year-over-year decline. Local and national nonfarm payroll growth rates hovered close to zero by May 2026.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

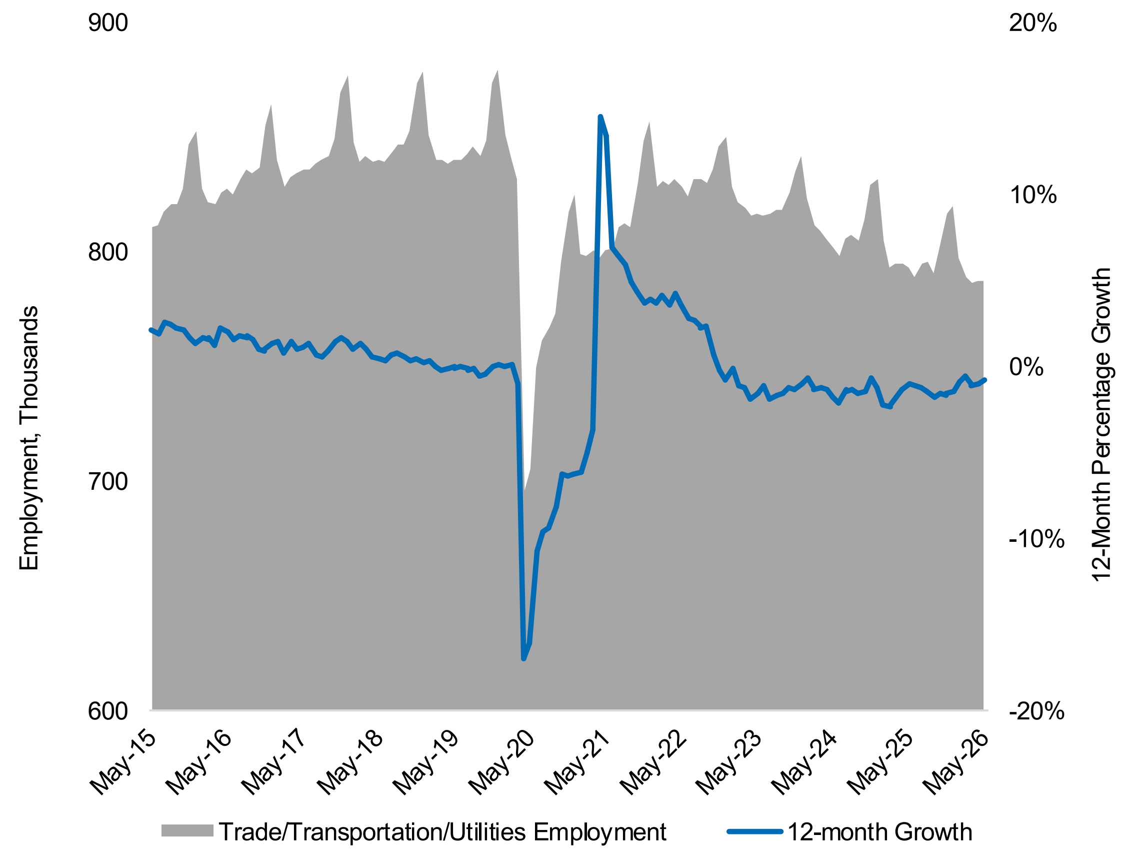


Source: U.S. Bureau of Labor Statistics, Los Angeles-Long Beach-Glendale MSA
Note: Local unemployment statistics for October were unavailable due to a federal government shutdown.

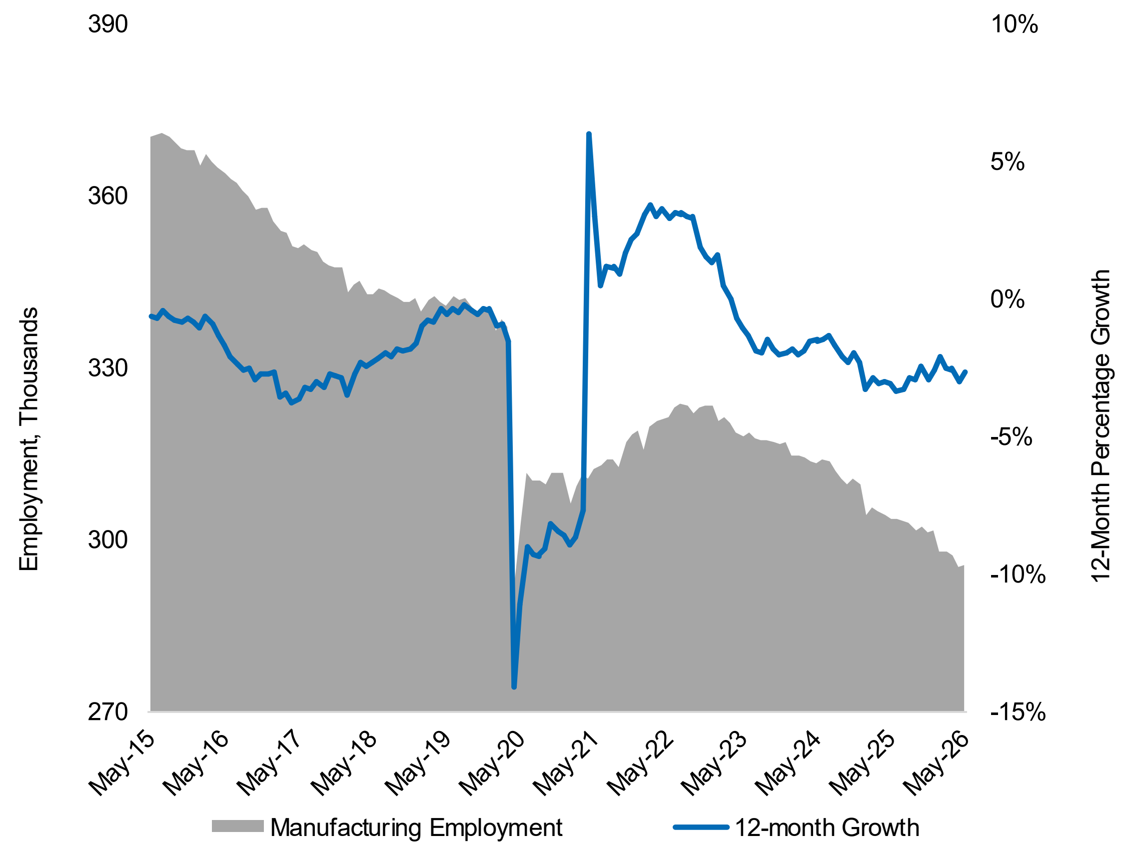
Industrial Employment Growth Negative; Sector Exposed to Trade Disruptions, Cost Hikes

Trade/transportation/utilities has edged lower since late-2022, while manufacturing continues to contract amid automation, high operating costs, and tariff-related input pressure.

Trade/Transportation/Utilities Employment and 12-Month Growth Rate



Manufacturing Employment and 12-Month Growth Rate

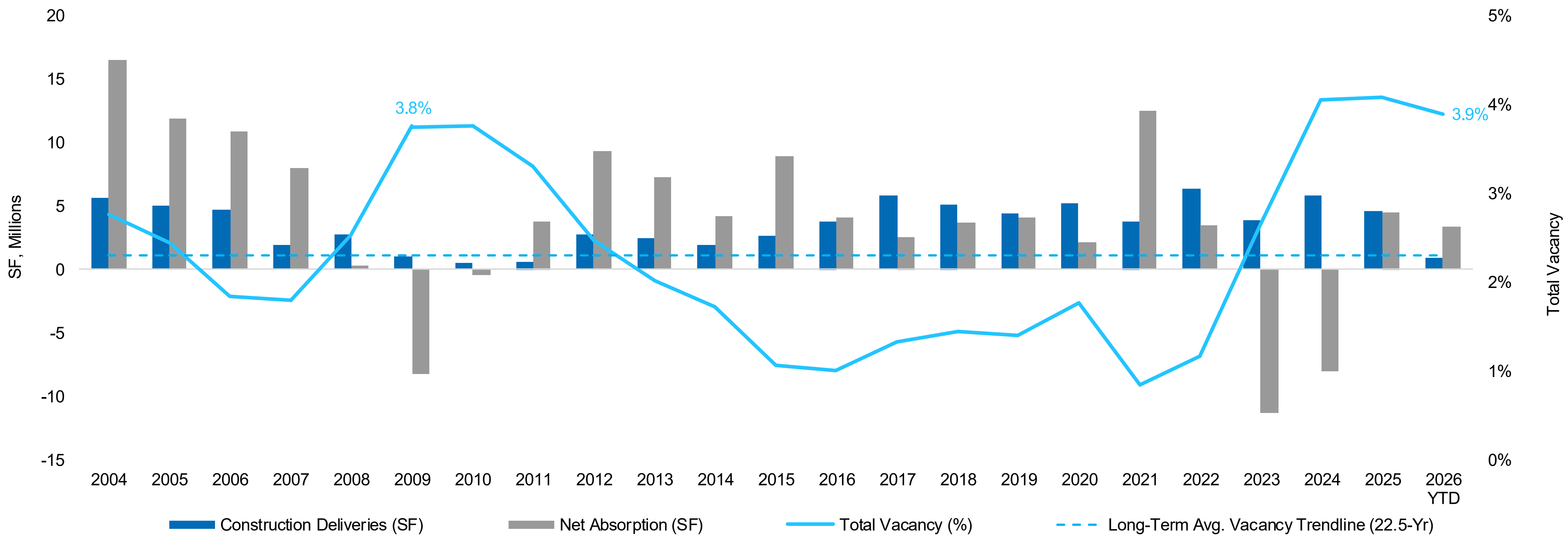


Source: U.S. Bureau of Labor Statistics, Los Angeles-Long Beach-Glendale

Market Records Strongest Quarterly Net Absorption Gains Since 3Q21; Vacancy Ebbs

Los Angeles recorded 2.9 MSF of net absorption in the second quarter, driven by South Bay move-ins from aerospace- and defense-related firms such as Valar Atomics (512,490 SF at Bridge Point South Bay in Torrance), Divergent (404,254 SF at Bridge Point Long Beach in Long Beach) and Neros (251,606 SF at Gateway Logistics Center in Torrance), along with a wave of big-box 3PL occupancies across the broader market. Vacancy fell 20 basis points to 3.9% as 692,358 SF of largely unleased construction deliveries were more than offset by these net gains in occupancy.

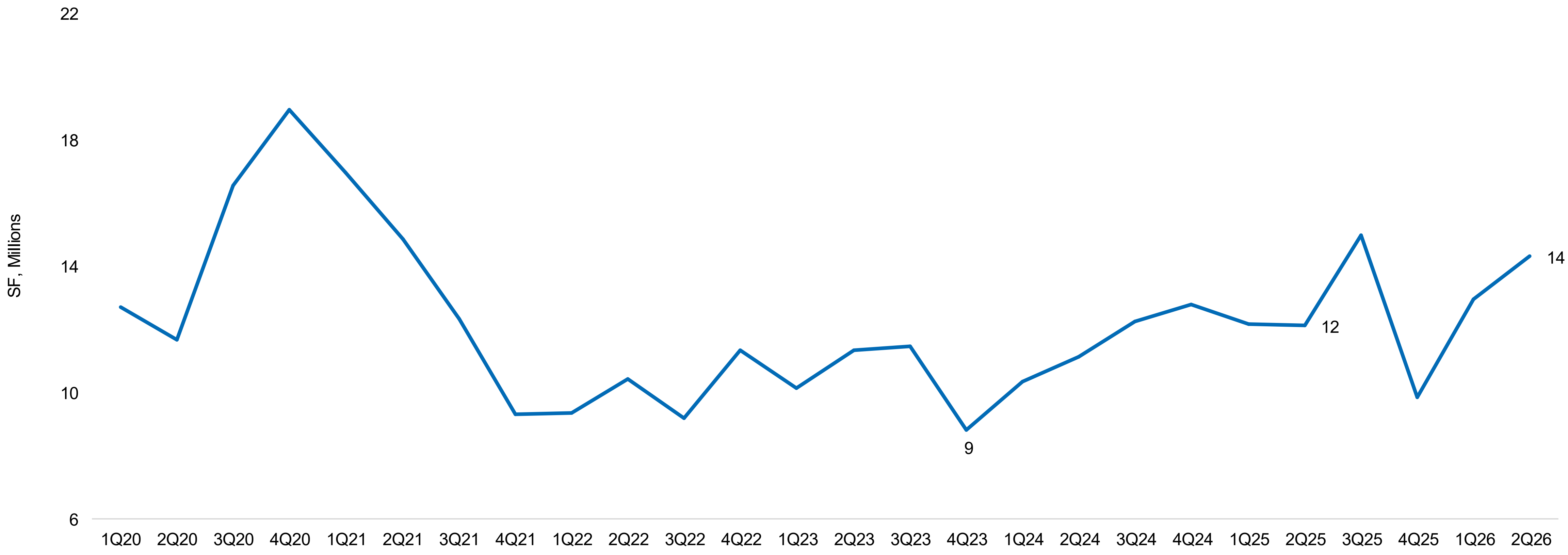
Historical Construction Deliveries, Net Absorption, and Vacancy



Leasing Activity Recovers in First Half of 2026 as Tenants Lock in Favorable Conditions

Second-quarter leasing volume marked the second consecutive period of strong growth. Favorable lease terms, healthy consumer spending, rising aerospace- and defense-related investment and Los Angeles' geographic advantages (proximity to major ports and a large consumer base) have supported space commitments in recent quarters. However, elevated inflation remains a risk to near-term leasing momentum, particularly if it continues to outpace wage growth.

Total Leasing Activity (SF): New Leases and Renewals

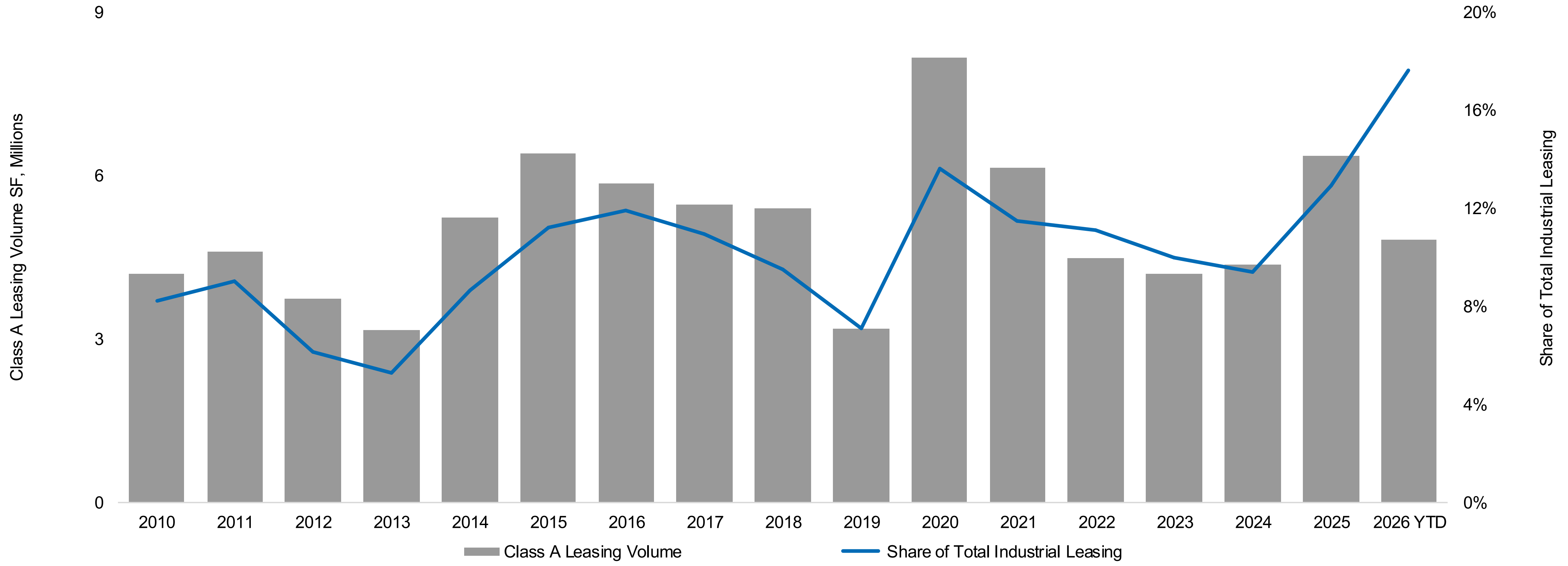


Source: Newmark Research, CoStar
Note: Total leasing activity includes direct leases, subleases, renewals and extensions.

YTD Class A Leasing Volume Remains Well Above Historical Average

Class A leasing activity accounted for 17.7% of total market leasing in the first half of 2026, considerably higher than the preceding 16-year average rate of 9.8%.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

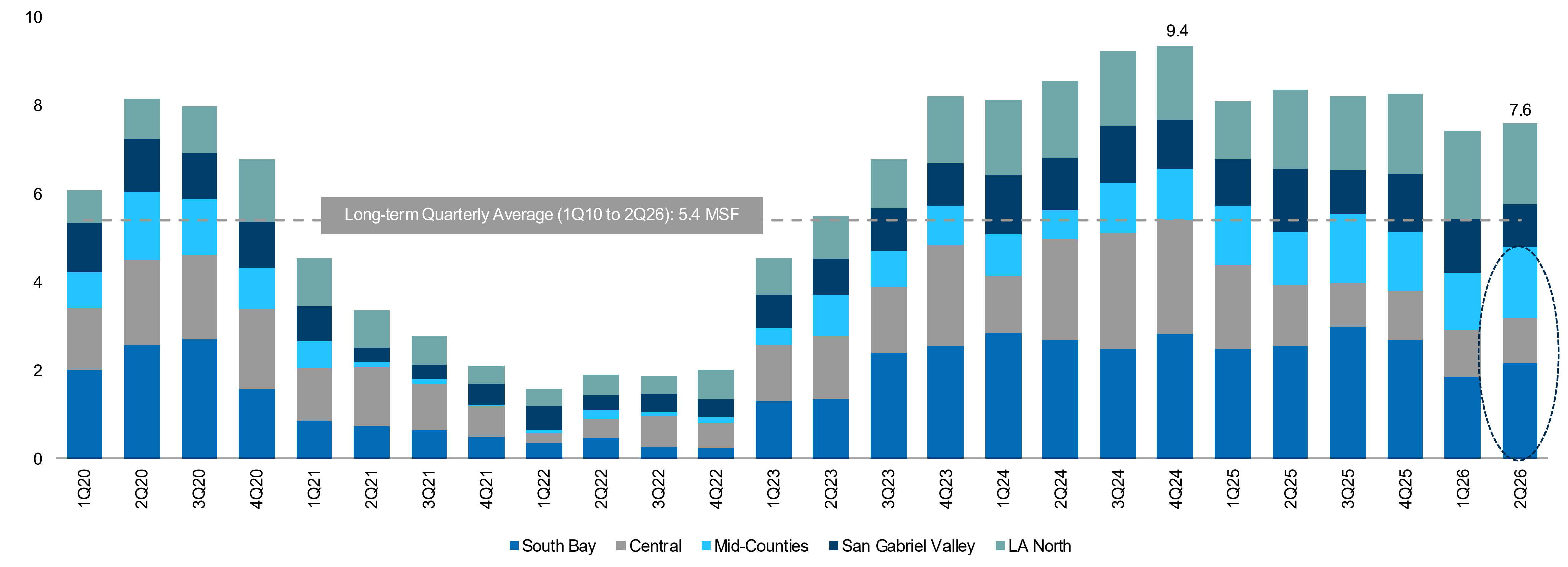


Source: Newmark Research, CoStar
Note: Class A is defined as 100,000+ SF warehouse/distribution facilities constructed since 2000 with a 30'+ minimum interior ceiling height.

Sublet Availability Inches Upward as Infill Submarkets Add Listings

Available sublease space increased a modest 2.4% quarter-over-quarter, as new listings from tenants such as Quick Pick Express LLC (168,398 SF at 23610 Banning Blvd, Building 180, in Carson) and Medify Air LLC (163,290 SF at 15928 Commerce Way in Cerritos) outweighed sublease commitments and withdrawals. Sixty-three percent of available sublease space is concentrated in the region's infill submarkets, which are disproportionately leased by 3PLs that are highly sensitive to both rent and fuel costs. Even so, total sublease availability remains below its late-2024 peak of 9.4 MSF.

Available Industrial Sublease Volume (MSF), Total and By Submarket

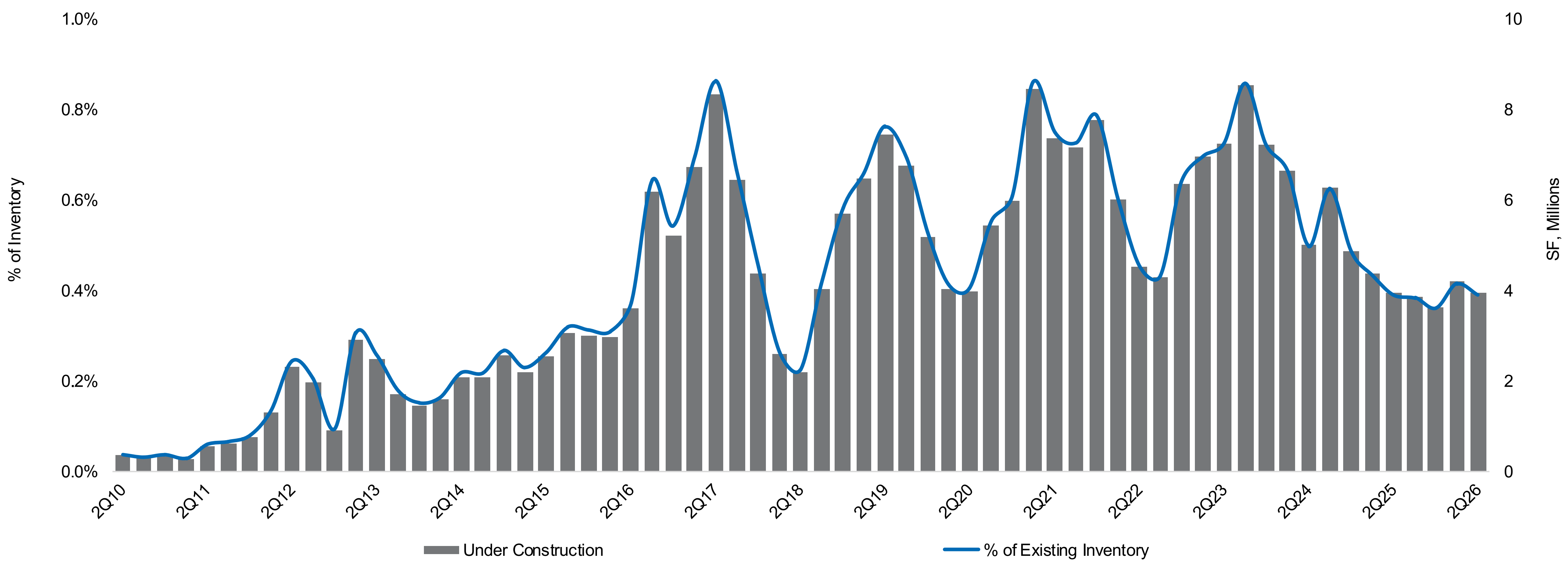


Source: Newmark Research

Decline in Construction Volume Resumes

The under-construction pipeline fell 5.9% quarter-over-quarter. Accelerating growth from aerospace and defense companies is expected to yield new industrial development in and around South Bay.

Industrial Under Construction and % of Existing Inventory



Source: Newmark Research

Notable 2Q26 Lease Transactions

Forty-five leases over 100,000 SF were signed this quarter, far above the 26 signed in the previous quarter and the 26 signed during the same period of 2025. Of this quarter's 100,000+ SF leases, 30 were direct leases, three were subleases, one was an expansion, and 11 were renewals/extensions.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Valar Atomics	20333-20335 S Normandie Ave	South Bay	Direct Lease	512,490
The El Segundo-based company, which develops advanced microreactors and works directly with the U.S. government, including the Air Force and Department of Energy, for defense-related power applications, moved into the vacant distribution facility in June. Lease term expires in 4Q36.				
Divergent	2400 E Artesia Blvd	South Bay	Direct Lease	404,254
The Torrance-based company, which provides additive manufacturing and digital production systems for missiles, autonomous aircraft, and other defense platforms, alongside some automotive work, moved into the vacant warehouse facility in June. Lease term expires in 2Q36.				
Confidential Tenant	4000 Union Pacific Ave	Central	Lease Expansion	374,000
The tenant completed the expansion in the second quarter. Newmark represented the landlord in the transaction. Lease term expires in 4Q28.				
Ducommun Inc	268 E Gardena Blvd	South Bay	Lease Renewal	307,222
The Costa Mesa-based aerospace and systems manufacturer has occupied the manufacturing facility since 1999.				
Pixior, LLC	7400 E Slauson Ave	Central	Direct Lease	283,621
The Commerce-based 3PL is anticipated to move into the vacant facility in the third quarter when it moves out of 205,312 SF at 6250-6270 S Boyle Ave in Vernon. Lease term expires in 3Q31.				

Source: Newmark Research

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