



# LOS ANGELES - LONG BEACH INDUSTRIAL MARKET REPORT

Q2

**MARKET REPORT Q2 2016**

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LOS ANGELES - LONG BEACH  
INDUSTRIAL MARKET REPORT

# INDUSTRIAL REAL ESTATE CONTINUES TO STAY HOT

## Q2 TRENDS AT A GLANCE



**Absorption**  
243,408 SF



**Average Rent**  
\$0.78 / SF



**Sales Transactions**  
\$101.34 Million



**Vacancy**  
0.7%



**Under Construction**  
1,805,559 SF



**Average Sales Price PSF**  
\$142.15 / SF

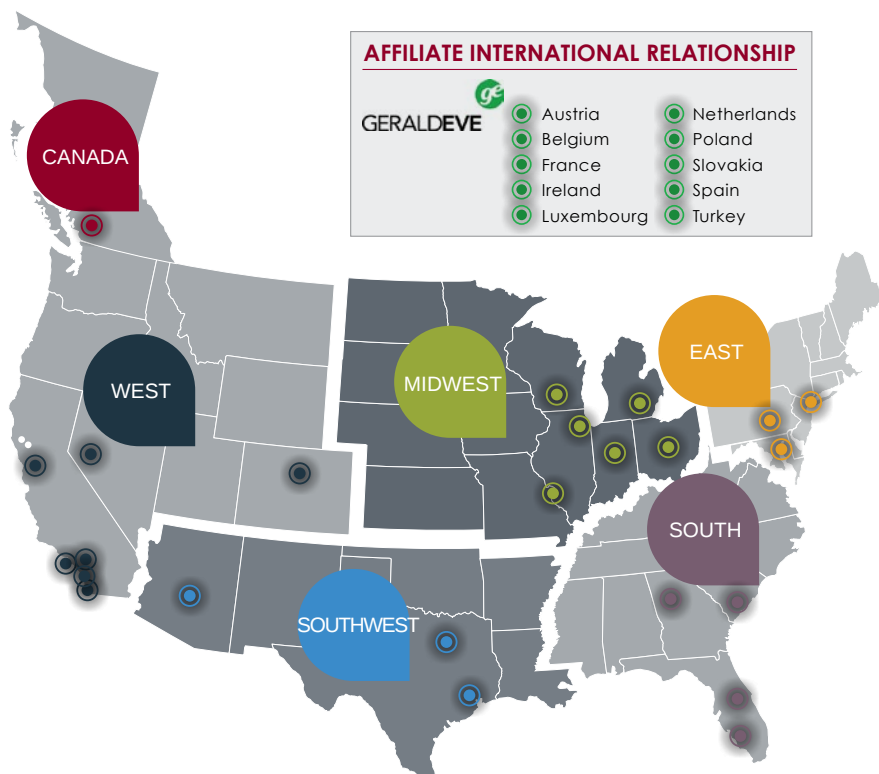
Source: CoStar Property® & AIR Commercial Real Estate Association

## ABOUT LEE & ASSOCIATES

At Lee & Associates® our reach is national but our expertise is local market implementation. This translates into seamless, consistent execution and value driven market-to-market services.

Our agents understand real estate and accountability. They provide an integrated approach to leasing, operational efficiencies, capital markets, property management, valuation, disposition, development, research and consulting.

We are creative strategists who provide value and custom solutions, enabling our clients to make profitable decisions.



## LOCAL EXPERTISE. NATIONAL REACH. WORLD CLASS



Second Quarter 2016 remained strong for the Los Angeles / Long Beach Industrial Real Estate Market. The vacancy rate continued its downward trend to a recent low 0.7%. The market's continual robust demand and limited supply has put upward pressure on lease rates and sale prices. The market is heavily slanted in favor of landlords and sellers, leaving Tenants and Buyers frustrated and forced to pay higher prices. Lee & Associates believes that this trend shall continue into the 3rd Quarter 2016, and level off in the 4th Quarter 2016, as we approach election season. Even with this high demand, we are taking note of extreme fluctuations in the price of oil, zero growth for the global economy, and the new megaships which are bringing down the price of shipping (especially exports). The trickledown effect is yet to be seen in our local markets that are well insulated with a diverse industry mix of transportation, warehouse, aerospace, entertainment, automotive, construction, services and more.

The direct industrial vacancy rate in the Los Angeles/ Long Beach marketplace decreased slightly from 0.9% in the 1st Quarter 2016 to 0.7% in the 2nd Quarter 2016. Average asking rents increased again in the 2nd Quarter to \$0.78 PSF, from \$0.76 PSF the previous quarter as the limited supply of available buildings drove up lease rates. The average sale price decreased slightly in the 2nd Quarter 2016 to \$142 PSF, which is likely attributed to the lack of Class A buildings available for purchase with high clear height, multiple truck high doors, ESFR sprinklers and LEED energy efficiency. Development activity in the Los Angeles/Long Beach region continued to gain momentum with 1,805,559 SF under construction. Despite a rise in construction levels, activity remained strong with over 30% of those projects pre-leased. Retailers are leasing warehouse space at a record pace due to companies expanding their e-commerce strategy. Companies are locating closer to heavily populated areas in effort to keep inventory near the consumers to meet the growing desire for quick deliveries. Investors continue to be attracted to

fully leased industrial investments and have been willing to pay record high prices to obtain them. According to CoStar Group, "Cap rates have been lower in 2016, averaging 5.29%, compared to the first three months of last year when they averaged 5.79%."

Many companies are taking advantage of the favorable SBA terms offered by the federal government and banks. Some of the benefits we have seen with the SBA 7 (A) programs have been the ability to finance up to 90% of total project costs (to include improvements/ construction), long fixed rate options 25/25, no balloon payment and third party costs that can be financed. Interest rates have fluctuated; however, we saw at one point the 5 year Treasury at 1.334% with a spread of 2.45%, thus giving the borrower a rate of 3.78%. We saw in the 2nd Quarter the S&P rise 4.7%, 10 year US Treasury yields fell 20 basis points, and major central banks entered into negative rate territory. The hunt for yield has many investors perplexed. The 'Brexit' has created many unknowns, as investors are migrating to safety in US Bonds. The Federal Reserve indicated a slower pace of rate hikes keeping in check the low inflation brought about by rising incomes. Commercial Real Estate continues to be a great hedge against inflation.

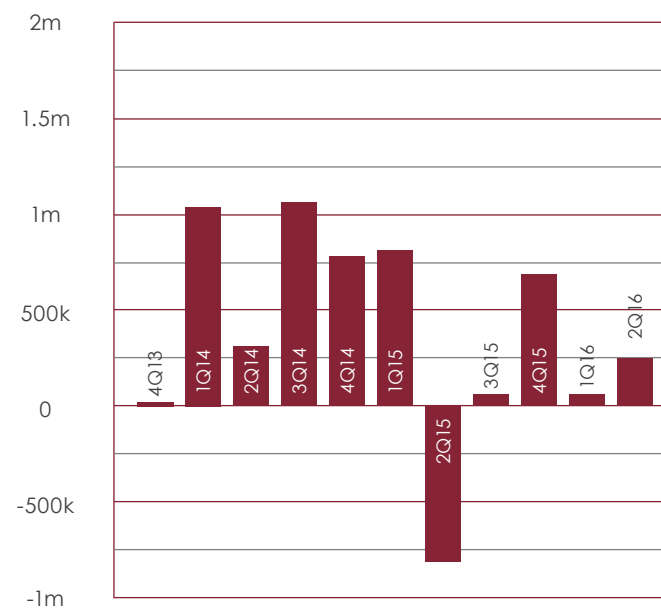
Lee & Associates sees several trends that are shaping up in the Industrial Sector for Los Angeles/Long Beach in the second half of 2016. We correctly predicted last quarter that the impact of cheap oil and its record descent have gravely hurt our local businesses which service the oil industry. These downsizing companies have at least helped contribute to our current supply of available properties. There is a correction taking place in the shipping, transportation, and warehousing industry and we believe that there will be more sublease product available after peak season. The health of other industries that service our local markets such as furniture, construction and medical has backfilled the space. Jerry Nickelsburg, a senior

economist with the UCLA Anderson Economic Forecast states, "The fundamentals of California and the US suggest the most likely evolution of the California economy is more of the same – slow, steady and unexceptional growth." Foreign investment will continue to grow in Industrial Real Estate since it offers low risk and higher return opportunity; especially with the fears drummed up from 'Brexit'. If this trend persists, we will continue to see sale prices increase. This will be a great opportunity for Property Owners to put their properties up for sale or lease to capture historic high

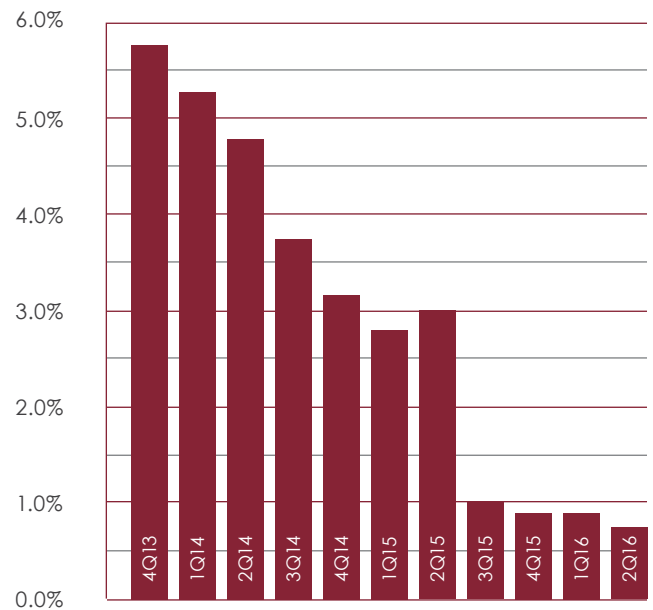
values. Interest rates are still historically low and these low rates will continue to encourage business owners to take advantage of the favorable market conditions. As seen last quarter, Industrial properties for lease or sale will be difficult to find, while newer facilities will be built to support fulfillment centers and the move towards electronic retailing. Despite the background noise globally, the local market signals are strong heading into 3Q 2016.

- Brandon Carrillo, Principal

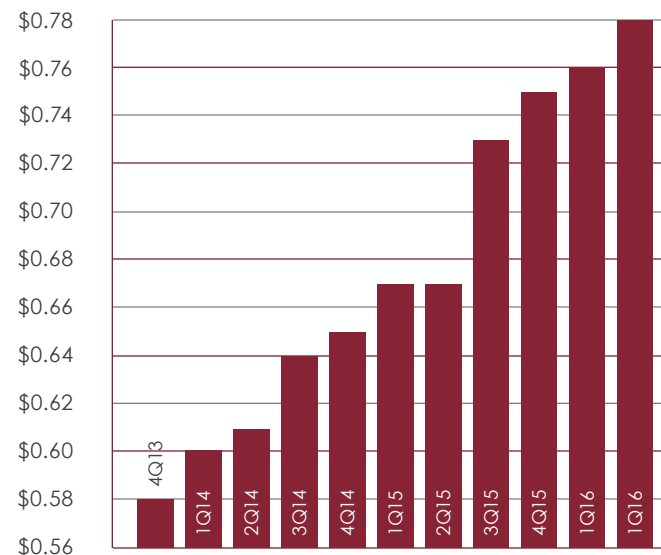
## NET ABSORPTION



## VACANCY



## AVERAGE ASKING RENT BY QUARTER



## ASKING PRICE PER SQ FT



Source: CoStar Property® & AIR Commercial Real Estate Association



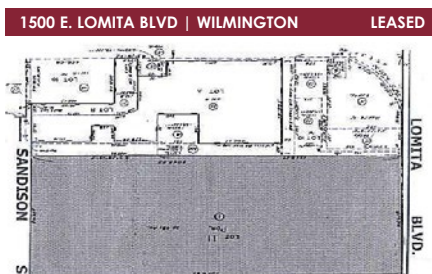


## Q2 2016 TOP LEASES

PROPERTY ADDRESS	CITY	TYPE	TENANT	SQUARE FEET	LEASE TYPE
1500 E. Lomita Blvd	Wilmington	Land	Yusen Logistics	744,876 SF	Direct
600-700 W. Artesia Blvd.	Compton	Warehouse	TJ Maxx	457,960 SF	Direct
1000 E.223rd Street	Carson	Warehouse	Toll Brothers	216,407 SF	Direct
18300 Central Avenue	Carson	Warehouse	MyDire-Long Beach aka Providence	183,473 SF	Direct
15913 S. Main Street	Gardena	Warehouse	Exquisite Apparel	114,061	Direct

## Q2 2016 TOP SALES

PROPERTY ADDRESS	CITY	REGION	TYPE	SQUARE FEET	SALES PRICE
12910 Mulberry Drive	Whittier	Southeast	Warehouse	153,080 SF	\$97.99 PSF
1250 W. Artesia Blvd.	Compton	South	Warehouse	72,239 SF	\$134.98 PSF
510 W. Carob St.	Compton	South	Warehouse	51,674 SF	\$111.27 PSF
555 W. Victoria St.	Compton	South	Warehouse	32,132 SF	\$122.93 PSF
2473 E. Rancho Del Amo Pl.	Rancho Dominguez	South	Warehouse	28,036 SF	\$143.92 PSF



## LOS ANGELES & LONG BEACH PORT ACTIVITY

The Southern California Ports continue to perform well and are up approximately 2.9% for the first half of 2016. However, the second quarter posted slightly lower total TEUs than last year. This was primarily due to a slow April in comparison to 2015, which was down by over 12.5% and contributed to the quarter's 2.3% decline. Even with this seemingly bad news, June's and July's containerized imports and exports were strong and tend to forecast desirable results for the upcoming 3rd quarter's Peak Season.

For Long Beach, April was down by over 22% primarily due to 2015's extraordinary high volumes from last year's Port congestion recovery. May volumes recovered to post a small gain of 0.84%; its 2nd biggest May in history. More importantly, inbound containers posted a gain of 5.5%. June's imports were also up and helped fuel the month to post a 3.4% gain. "This is an encouraging sign despite soft consumer demand, high inventory levels and an evolving maritime industry as shipping lines continue to consolidate vessel services," said CEO Jon Slangerup.

The Port of Los Angeles, experienced another positive quarter with a small gain of 1.1%. April was down slightly by 1.03%, but rebounded strongly in May when overall cargo volumes increased almost 11 percent. This marked the busiest May in the Port's 109-year history with imports increasing 15% while exports rose 6.3%. June was down approximately 6.3%, but it was primarily due to a 14% drop in empty containers. For the year, Los Angeles is up 5.9% and could record its highest TEU volume ever. "The strong growth both

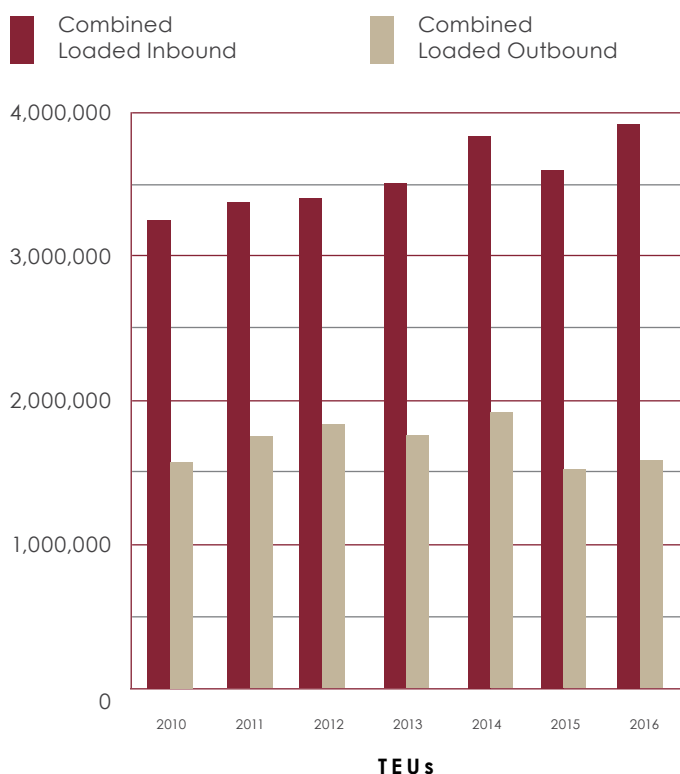
on the import and export side is encouraging as we continue to explore ways to improve supply chain efficiencies," said Executive Director Gene Seroka. "The unwavering efforts of our supply chain partners, including organized labor, has had a significant impact on our success."

The newly expanded Panama Canal finally welcomed its first vessel, Cosco's *Shipping Panama*, with capacity of 9,443 TEUs, through its locks on June 26th. The project took over nine years and \$5.4 billion with the new locks able to service 13,000 TEU ships versus the previous Panamax vessels that were approximately 5,000 TEUs. The East and Gulf ports have been nibbling away at the West Coast's market share, and their hope is the Panama Canal's added capacity will accelerate their momentum. Many consultants feel the canal's expansion will not have immediate impact, but could eventually fuel a gradual shift of U.S. containerized imports from Asia toward the East and Gulf coasts. In deciding on West versus East routings, cargo owners will consider many factors including shipping rates, transit times, port reliability, the costs of canal tolls in comparison with intermodal rail, distribution strategies and real estate costs. While competition for imported and exported goods escalates, Southern California Port's message remains consistent; LA – Long Beach provides world-class service through the fastest gateway to American consumer markets for trade from Asia.

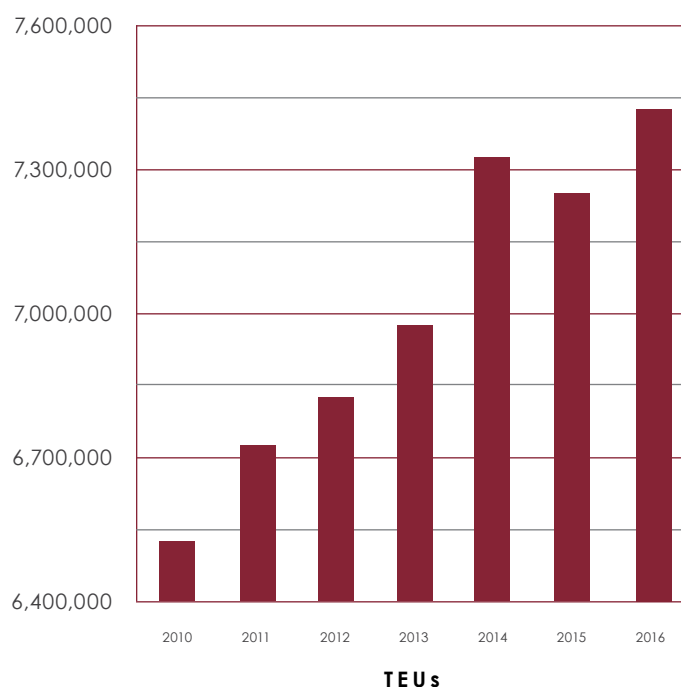
- David Bales, Principal

### YTD JUNE 2016

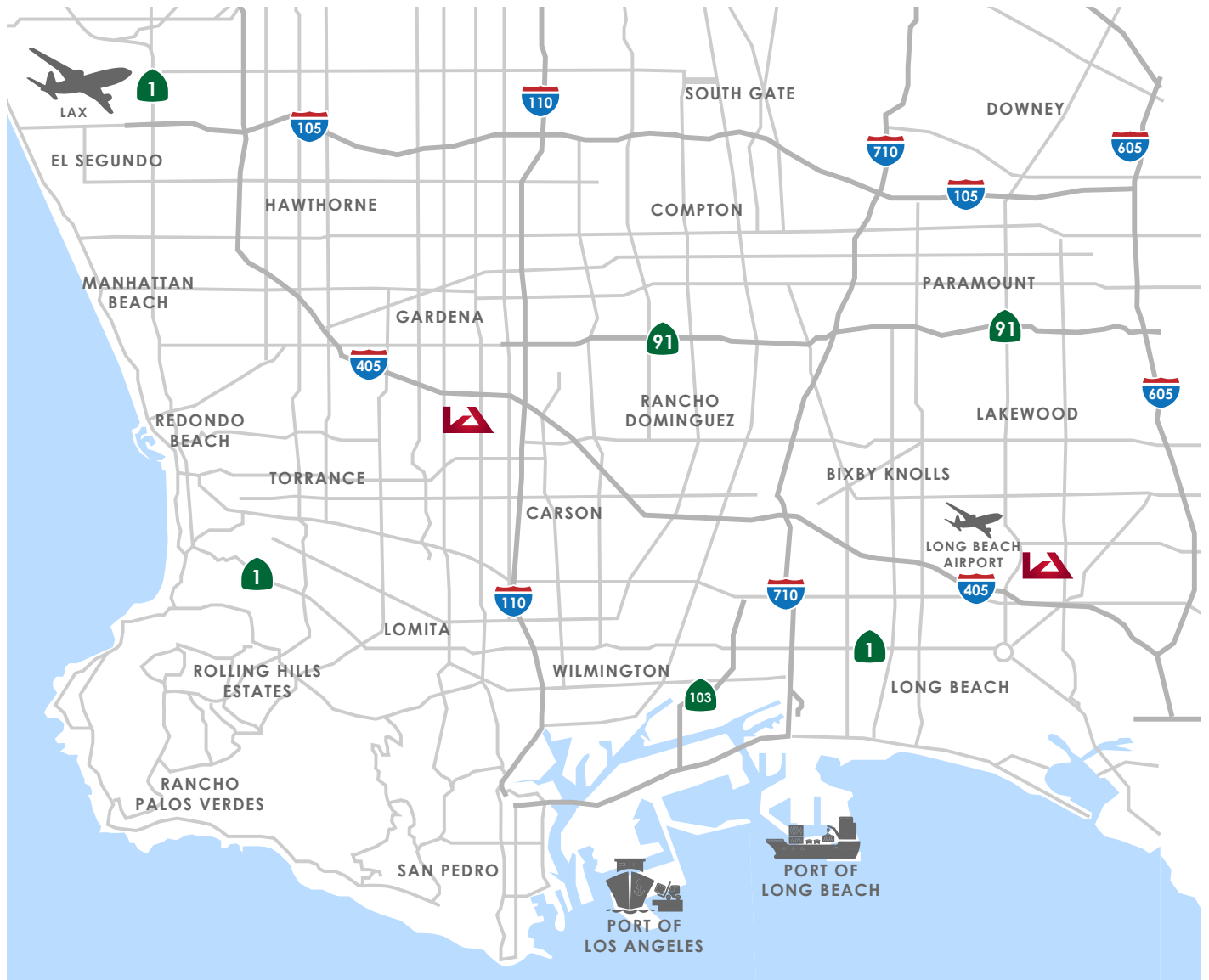
Source: [www.polb.com](http://www.polb.com) [www.portoflosangeles.org](http://www.portoflosangeles.org)



### Total Containers San Pedro Port Complex



# LOS ANGELES & LONG BEACH INDUSTRIAL MARKET MAP



## LOOK TO LEE & ASSOCIATES FOR SOLUTIONS

Contact a Lee & Associates Broker who can provide you with the most comprehensive market knowledge and expertise in the business. We specialize in:

### Build-to-Suit

- For Lease
- For Sale
- Facility Specification
- Bidding & Design Build Construction
- Expansion Planning

### Fair Market Value Analysis

- Valuation of Land
- Valuation of Buildings and Other Improvements

### Financial Analysis of Alternatives

- Comparing Alternative Proposals
- Purchase vs. Lease Analysis
- Existing Building Search

### Site Search

- Site Selection Criteria
- Development & Analysis

### Sale-Leaseback

- Institutional Investors
- Private Investors

### Disposition of Existing Buildings

- Locally & Nationally
- REO & Distressed-Asset Valuation & Sales

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### Contributed By:

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\*Third-Party Data Sources: CoStar Group, Inc., AIR Commercial Real Estate Association, UCLA Anderson Forecast, Port of Long Beach, Port of Los Angeles, and The Journal of Commerce.

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WORLD CLASS.**



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