



LOS ANGELES - LONG BEACH
INDUSTRIAL MARKET REPORT

Q4

MARKET REPORT Q4 2015

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INDUSTRIAL MARKET REPORT

2015 MOMENTUM TO CARRY INTO 2016

Q4 TRENDS AT A GLANCE



Absorption
682,639 SF



Average Rent
\$0.75 / SF



Sales Transactions
\$149.987 Million



Vacancy
0.9%



Under Construction
741,832 SF



Average Sales Price PSF
\$160.57 / SF

Source: CoStar Property® & AIR Commercial Real Estate Association

ABOUT LEE & ASSOCIATES

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2015 was a strong year for the South Bay / Long Beach Industrial Real Estate Market and this trend will extend through 1Q 2016. Lease rates will maintain their upward trend as the vacancy rate will remain hovering at a historic low near 1%. Land prices will continue to increase for development, especially since an NFL Football team will be returning to Los Angeles. The Rams will be moving to the City of Inglewood and will be building a stadium on the former Hollywood Park racetrack. In Downtown Long Beach and the greater South Bay, we are seeing older buildings being overhauled or demolished for new ones. Many of the remaining land sites in our market are either contaminated or in the process of remediation, leaving nowhere left to build. This year we saw the last C-17 leave the production line at Boeing's Long Beach facility and we saw the next generation of aerospace move in as Virgin Galactic relocated its headquarters to Douglas Park, at the Long Beach airport. With the announcement of Toyota and other companies leaving California and heading towards more business friendly states such as Texas, many thought more companies would follow. However, we saw the succeeding generation of companies establishing roots in California. The LA Basin has become home for trend setting companies such as SpaceX, Virgin Galactic and Faraday Futures. This demand for space has surpassed our available supply, causing prices to increase and developers to scramble to deliver space. Currently, the South Bay has 741,832 SF under construction for 4Q 2015.

The direct industrial vacancy rate in the Long Beach/ South Bay marketplace decreased slightly from 1.0% in the 3rd Quarter 2015 to 0.9% in the 4th Quarter 2015. The vacancy rate this time last year was 3.1%; which shows the drop in available space over the past year. Asking rents increased again in the 4th Quarter to \$0.75 PSF, from \$0.73 PSF the previous quarter, as the supply of available buildings diminished by year end. The average sale price increased in the 4th Quarter 2015 to \$137 PSF versus \$126 PSF in the 3rd Quarter 2015. According to CoStar Group, "Total year to date industrial building sales activity in 2015 is up compared to the previous year. In the first nine months of 2015, the market saw 338 industrial sales transactions with a total volume of \$2,206,303,066. The price per square foot has averaged \$129.32 this year. In the first nine months of 2014 the market posted 307 transactions

with a total volume of \$1,668,385,897. The price per square foot averaged \$103.46. Cap rates have been lower in 2015, averaging 5.89%, compared to the first nine months of last year when they averaged 6.33%."

The UCLA Anderson Forecast sees the national and California economies being healthy for the next couple of years. However, there is concern regarding the economic turmoil in China's economy and its possible effect on the Los Angeles' basin economy. According to William Yu, Economist for the UCLA Anderson Forecast, states:

"...China's economy, housing market, stock market and currency are all in trouble...The implication for Los Angeles is that China's turmoil might reduce the growth of Los Angeles' export and tourism [business], but Chinese investment in Los Angeles real estate will persist due to better and safer expected returns in the U.S. Los Angeles' housing market, despite becoming more expensive and unaffordable, is not in a bubble. Its housing prices are highly unlikely to bust this year or next."

This effect on exports has yet to be seen as the demand for industrial space continues into the 1Q 2016. We could see a trickle-down effect of China's economy take shape and form in our economy later in the year as we approach Peak Season at the Ports of Los Angeles and Long Beach.

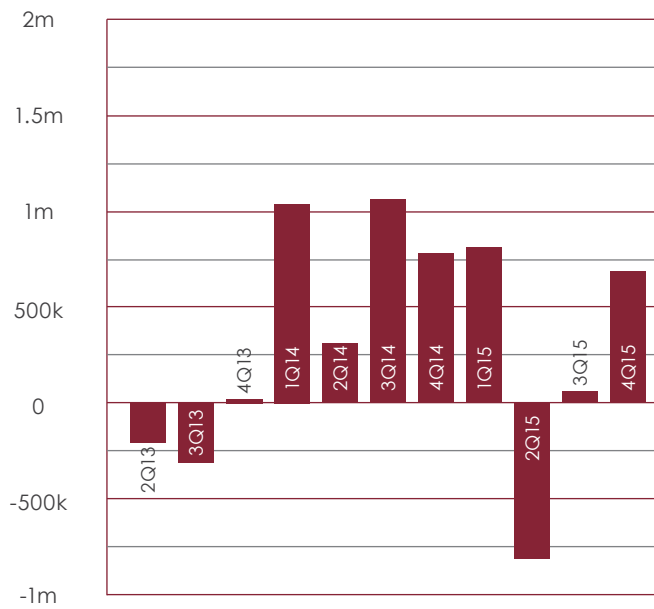
Lee & Associates sees several trends that will shape the Industrial Sector for Long Beach/ South Bay in 2016. The impact of cheap oil and its' record descent has gravely hurt our local businesses that service that industry. The Oil Industry was a heavy contributor to helping our local markets recover during the Recession of 2008 when Oil was above \$100 a barrel. However, if Oil continues to stay low and hover at or below \$30 a barrel, we will see more consolidation and lost jobs in that industry, which is an integral part of our local economy. We are also experiencing more large institutional landlords not taking their portfolio sales to market, as they solicit other institutional landlords internally for quicker deployment of capital and fulfillment for investor demand. This trend is concerning, as Tenants/User will be limited on their choice of landlords to work with in the Class A Industrial Market. Foreign investment will continue to grow in Industrial Real Estate since it offers low risk and higher return opportunity. 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 to capture historic sale values. Despite the Federal Reserve Board raising interest rates this quarter, 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. Ecommerce is reshaping the industrial real estate

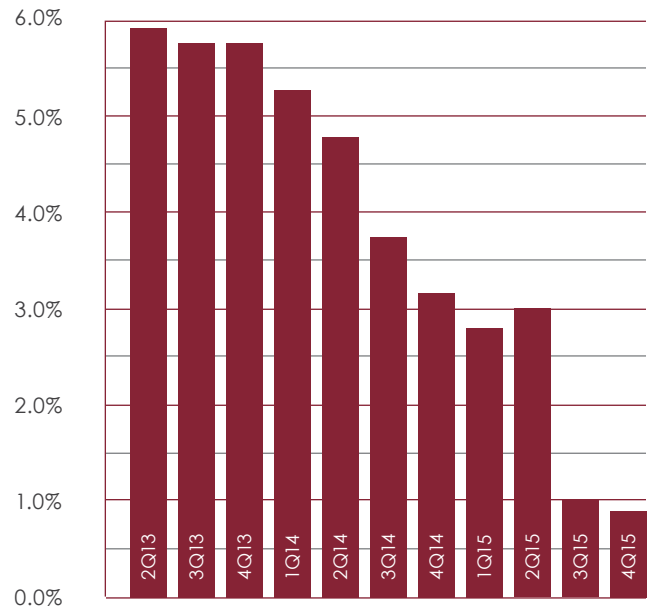
market. Strong demand for "Same Day Shipping" is guiding big companies to be located closer to urban epicenters. Air Freight demand will continue to be in demand for time sensitive goods. Shipping costs will remain competitive with ships continuing to grow in size / capacity with an ever more efficient supply chain. Despite the background noise globally, locally the market signals are strong heading into 1Q 2016. Contact your local Lee & Associate specialist for more information regarding your submarket.

-Brandon Carrillo, Principal

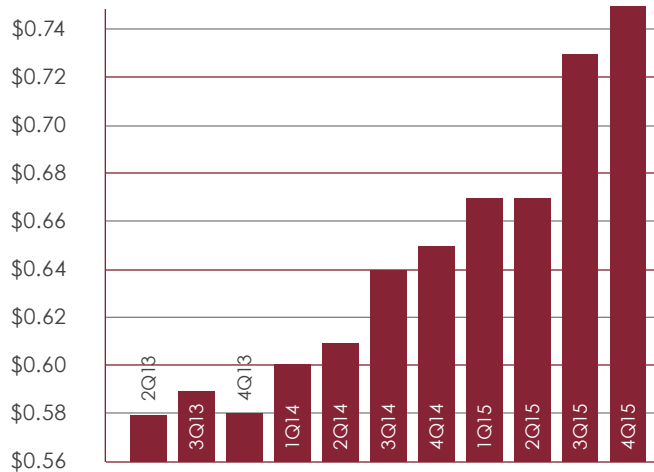
NET ABSORPTION



VACANCY



AVERAGE ASKING RENT BY QUARTER



ASKING PRICE PER SQ FT



Source: CoStar Property®

Q4 2015 INDUSTRIAL STATISTICS



Source: CoStar Property®

Q4 2015 TOP LEASES

PROPERTY ADDRESS	CITY	TYPE	TENANT	SQUARE FEET	LEASE TYPE
1420 Victoria St.	Carson	Warehouse	Metro Air Services Inc.	90,052 SF	Direct
1470 Beachy Pl.	Carson	Warehouse	Nova Ortho-Med Inc.	65,208 SF	Direct
2392 E. Artesia Blvd.	Long Beach	Warehouse	Makaha Industries Inc.	33,288 SF	Direct
1501 W. Wardlow Rd.	Long Beach	Warehouse	Sims Recycling Solutions	30,370 SF	Direct
2082 E. Gladwick St.	Rancho Dominguez	Warehouse	Disaster Restoration Professionals	15,194 SF	Direct

Q4 2015 TOP SALES

PROPERTY ADDRESS	CITY	REGION	TYPE	SQUARE FEET	SALES PRICE
6305 E. Alondra Blvd.	Paramount	South	Cold Storage	16,608	\$156.22 PSF
1175 Mahalo Pl.	Compton	South	Warehouse	7,245	\$138.72 PSF
17101 S. Central Ave. & 17121 S. Central Ave.	Carson	South	Multi-Tenant Portfolio	94,230 SF	\$129.58 PSF
1501 W. Wardlow Rd. & 1515-1525 W. Wardlow Rd.	Long Beach	South	Warehouse	70,302 SF	\$127.00 PSF
20500 Belshaw Ave.	Carson	South	11 Property Portfolio	420,151 SF	\$120.91 PSF

1420 VICTORIA ST. | CARSON

LEASED



1470 BEACHY PL. | CARSON

LEASED



2392 E. ARTESIA BLVD. | LONG BEACH

LEASED



6305 E. ALONDRA BLVD. | PARAMOUNT

SOLD



17101 & 17121 S. CENTRAL AVE. | CARSON

SOLD



1501 & 1515-1525 W WARDLOW RD | LONG BEACH

SOLD



LOS ANGELES & LONG BEACH PORT ACTIVITY

In 2015 the Southern California Ports' goal was to prepare for more frequent and larger ships while repairing their image WITHOUT experiencing further congestion. Remarkably, after starting the year with the West Coast Congestion Crisis, and being down 18% through February, 2015 experienced a combined increase of 1.26% (15,352,523 TEUs) - their biggest volume since 2007.

After their busiest quarter in their history, the Port of Long Beach finished the year with gains of 6.34%, 6.57% and 5.15% respectively for October, November and December. For the year, it represented a 5% gain overall (7,192,066 TEUs vs. 6,820,808 TEUs in 2014), with imports improving by 3.1% (3,625,263 TEUs). A strong dollar continues to favor imports and discourage exports, resulting in more empties being sent back overseas to be refilled with goods. This has caused exports to drop 4.9 % (1,525,560 TEUs) while shipping empty containers rose 20.2% (2,041,243 TEUs). This was the Port of Long Beach's first time handling over 7M TEUs since 2007, and was their 3rd largest year in their 104 year history.

While the Port of Los Angeles finished down 2.15%, they still had a total of 8,160,457 TEUs. The 4th quarter presented mixed results as October was down 1.55%, November was up by over 7% and December ended down again by 4.9%. In addition to the year's early congestion, another contributing factor to the lower volume comes from steamship lines moving between

the two ports. Many of the carriers operate in vessel-sharing alliances that had been calling Los Angeles the year before and shifted their ships to Long Beach during 2015.

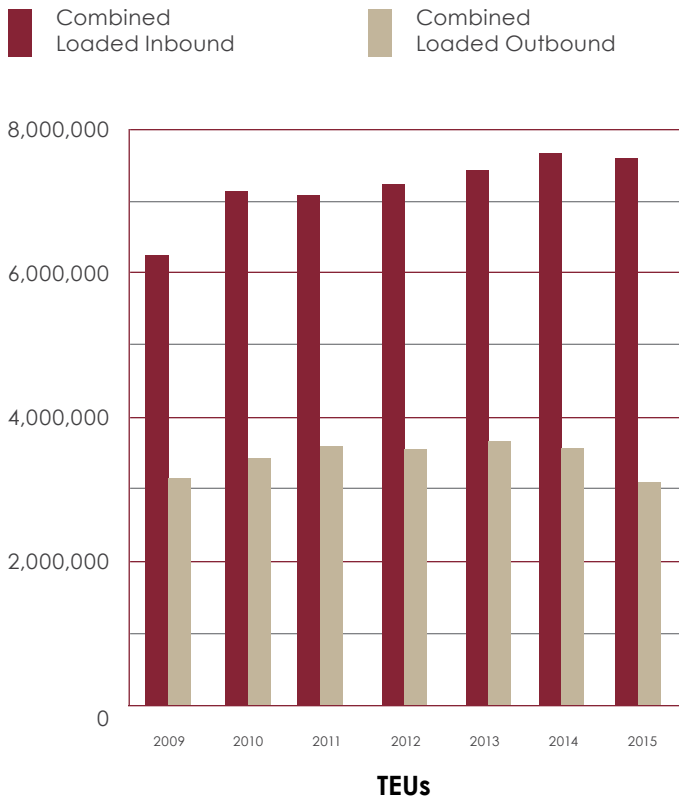
The biggest highlight for the Port of Los Angeles happened over the Christmas holidays with the successful docking of the largest vessel to ever call in North America, the CMA CGM Benjamin Franklin. Its carrying capacity is over 18,000 TEUs and will berth in Long Beach this February. It is just the beginning of what is expected to be a steady increase by vessels between 10,000 to 18,000 TEUs. Los Angeles and Long Beach for years have been preparing for larger ships and moving toward a hybrid model of a pro-active / landlord port. By investing billions in terminals and infrastructure, the Ports' goal is to work with port stakeholders and optimize their assets and incentivize its shippers as well as share information in an unprecedented manner to address potential congestion problems before they arise.

The Panama Canal's wider docks are expected to open late in the 2nd quarter, and could eventually allow ships up to 13,000 TEUs access to East Coast Ports; creating direct competition for So Cal's big ship business. The Ports of LA – Long Beach continue to work hard with the goal of keeping the cargo here by being reliable, economical, and efficient with the best infrastructure in North America.

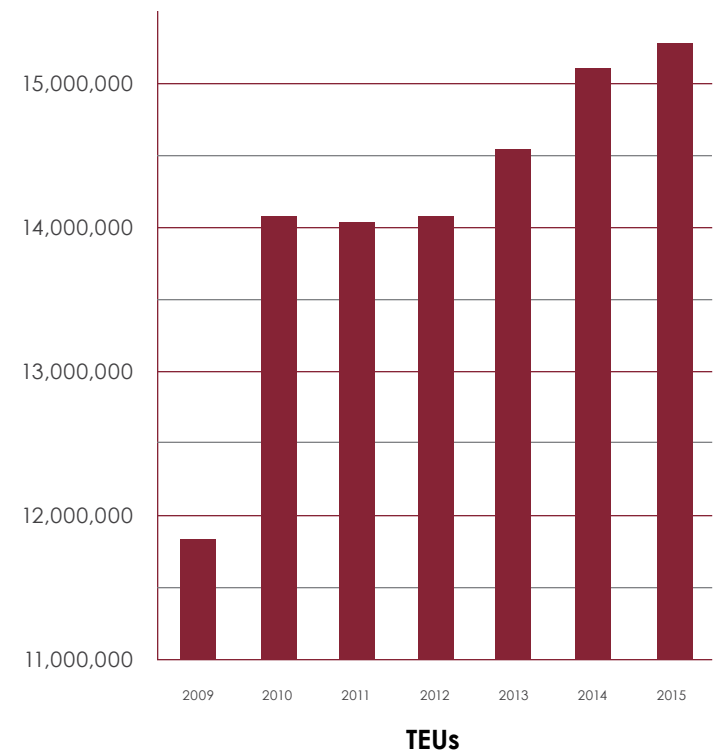
-David Bales, Principal & Dustin Byington, Associate

YTD DECEMBER 2015

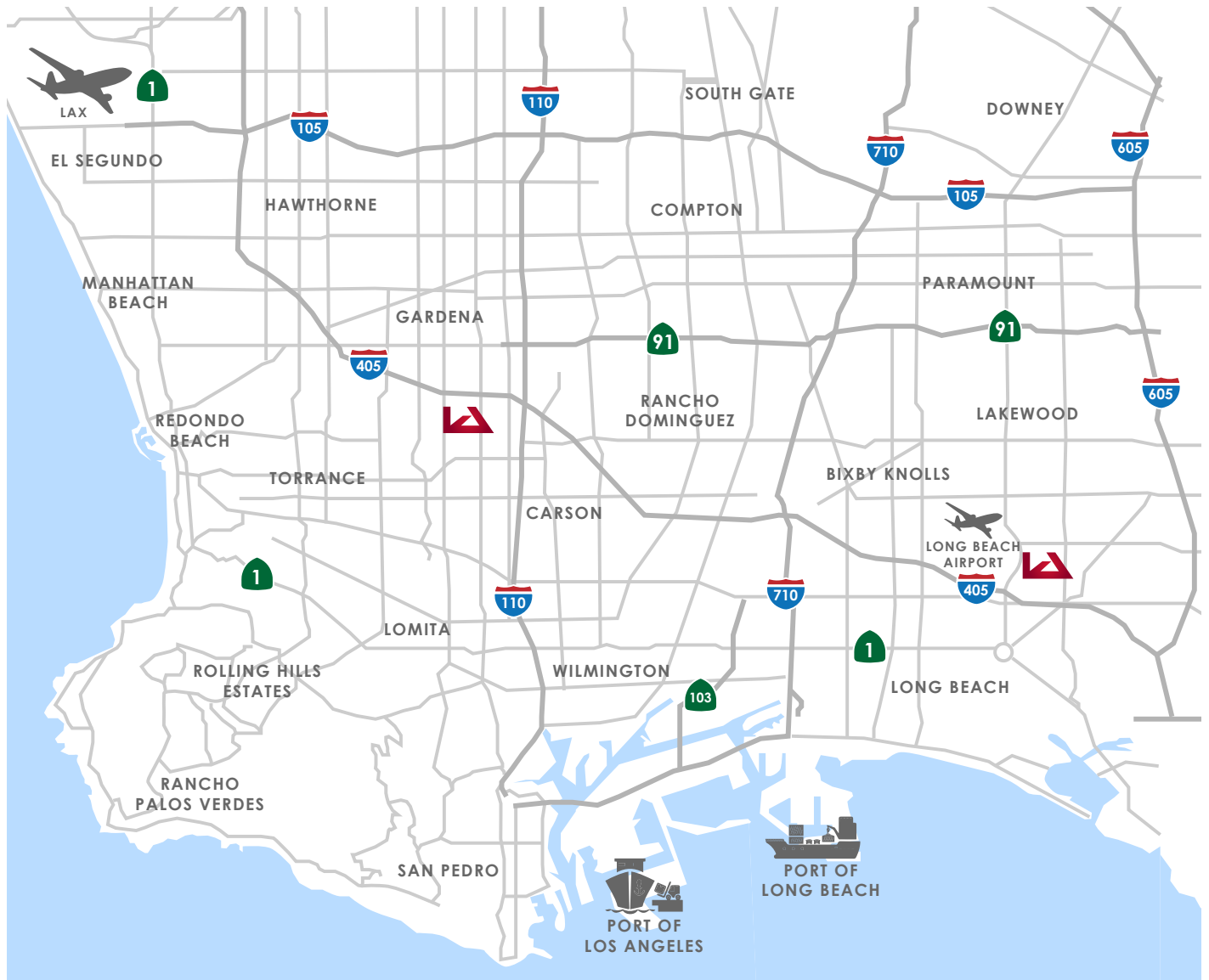
Source: www.polb.com www.portoflosangeles.org



Total Containers San Pedro Port Complex



LOS ANGELES & LONG BEACH INDUSTRIAL MARKET MAP



LOOK TO LEE & ASSOCIATES FOR SOLUTIONS

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- 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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*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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