Q1 TRENDS AT A GLANCE

- Absorption: 165,476 SF
- Average Rent: $0.76 / SF
- Sales Transactions: $82.62 Million
- Vacancy: 0.9%
- Under Construction: 1,867,256 SF
- Average Sales Price PSF: $152.50 / 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.

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LOCAL EXPERTISE. NATIONAL REACH. WORLD CLASS
Across the country the economy is continuing to march forward. Taking up the lion's share of economic growth is the Golden State of California. Accounting for almost 20% of the Nation’s incoming foreign investments and home to some of the world’s largest corporations. With 4 out of the top 10 investment market places in the U.S., California is THE preferred destination for foreign investors looking for a long term and stable place to park their money. In 2015 the state surpassed Brazil as the 7th largest economy in the world with a GDP of 2.42 trillion dollars. Taking these factors in to consideration, California is expected to outperform the rest of the nation in overall economic growth this year. More than 650,000 jobs are anticipated to be coming to the state in 2016 in construction, professional and technical services, and warehousing and transportation as related to foreign trade. With more jobs comes more growth, and with growth, companies are finding their existing facilities inadequate in keeping up with the demands of their increased business.

Warehouse and Flex vacancy, at the end of the first Quarter, continued to fall, the combined estimate is 1.1% in LA County. The South Bay submarket is lower at approximately 0.9% combined and even lower at 0.8% for South Bay Warehouse only. True to the nature of supply and demand the price per square foot in the South Bay Submarket has risen nearly 16% from last year’s $0.66 PSF to the $0.76 PSF we are seeing today. Due to these factors, tenants have to plan further ahead when searching out quality space in which to relocate or expand their existing businesses. In many instances companies are opting not to expand, and instead renew at the higher rental rates in order to maintain their most profitable lines of business while they adjust to this “new economy”. On the flipside, landlords have all the leverage and are being more picky about with whom they decide to enter into an agreement. Having so many tenants at the negotiating table, we are finding they are able to demand higher rates, better credit, and longer terms all while giving up fewer concessions. For better or for worse, it has been made abundantly clear over the last quarter that vacancy has been and will continue to be the main issue facing the Los Angeles Industrial Real Estate Market. Great for Landlords and troublesome for tenants, we are seeing that the lack of space has created a surplus of shoppers left to fight for what little inventory remains left on the shelves.

Continuing the trend, land prices have seen a substantial increase as well. With over 40% of the nation’s goods coming through our ports, we are currently witnessing a complete lack of viable land sites left in the South Bay approved for trucking and transportation related uses. This has presented itself to be problematic when determining a value for such product. However, with the recent lease of 21.5 acres at 1500 Lomita, a new precedent for quality trucking and transportation facilities has been set at almost $30,000,000 in total consideration, companies can now expect to see a rate between $0.25-$0.30 PSF gross for sizeable (10+Acres) land leases. Moving forward, it is doubtful companies will be able to continue the practice of tying up large swaths of land with long term leases at low prices.

The lack of sites has not only greatly affected Los Angeles and Long Beach Ports, but LAX is feeling the pinch as well. The extremely tight market is making places like Hawthorne and Inglewood seem more attractive to companies looking to be next to one of the world’s busiest airports. As a result Amazon has recently acquired 215,000 SF in Hawthorne for their additional warehousing and distribution operations. Not only has leasing witnessed a significant increase, but over-all sales have seen considerate rise in their price. With limited inventory being made available for sale in the South Bay Industrial Market, we are seeing both investors and users alike rushing to grab what viable sites they can. Properties that were previously ignored due
functional obsolescence, contamination, or zoning issues are now being reconsidered. As a result the average rates have gone from just over $120 PSF at this time last year to asking almost $160 PSF for industrial space today. There is currently just over 1,200,000 SF in the development pipeline, which isn’t much when taking into consideration the existing demand. It is most likely that the majority of this new space will be delivered with leases already in place with high credit tenants.

Looking forward, buyers and tenants will have to plan further ahead, and be ready to jump on the right opportunity as it comes along. Vacancies are expected to stay below the 1% mark this year, and will continue to plague buyers and tenants. As for owners, the deck is stacked in your favor. There is no longer a point in doing off market transactions when the market is so transparent, and properties are often receiving multiple offers. Having such high demand and little product, owners can expect to maximize their profits by going to market.

Written by Dustin W. Byington

Source: CoStar Property®
# Q1 2016 Industrial Statistics

## Q1 2016 Top Leases

<table>
<thead>
<tr>
<th>Property Address</th>
<th>City</th>
<th>Type</th>
<th>Tenant</th>
<th>Square Feet</th>
<th>Lease Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>1500 E. Lomita Blvd.</td>
<td>Wilmington</td>
<td>Land</td>
<td>California Multimodal / Cal-Cartage</td>
<td>931,748 SF</td>
<td>Direct</td>
</tr>
<tr>
<td>2230 E. Carson St.</td>
<td>Long Beach</td>
<td>Warehouse</td>
<td>Idea Nuova Inc.</td>
<td>198,292 SF</td>
<td>Direct</td>
</tr>
<tr>
<td>21950 Arnold Cener Rd</td>
<td>Carson</td>
<td>Warehouse</td>
<td>DG Logistics</td>
<td>185,629 SF</td>
<td>Direct</td>
</tr>
<tr>
<td>18221 S. Susana Rd., Ste. A &amp; B</td>
<td>Rancho Dominguez</td>
<td>Warehouse</td>
<td>Western Intermodal Transport</td>
<td>100,427 SF</td>
<td>Direct</td>
</tr>
<tr>
<td>1200 W. Walnut St.</td>
<td>Compton</td>
<td>Warehouse</td>
<td>Ablecargo</td>
<td>43,000 SF</td>
<td>Direct</td>
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## Q1 2016 Top Sales

<table>
<thead>
<tr>
<th>Property Address</th>
<th>City</th>
<th>Region</th>
<th>Type</th>
<th>Square Feet</th>
<th>Sales Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>705 E. D St.</td>
<td>Wilmington</td>
<td>South</td>
<td>Warehouse</td>
<td>50,000 SF</td>
<td>$217.00 PSF</td>
</tr>
<tr>
<td>19500 - 19506 Normandie Ave.</td>
<td>Torrance</td>
<td>South</td>
<td>Warehouse</td>
<td>20,000 SF</td>
<td>$165.00 PSF</td>
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<tr>
<td>690 W. Manville St.</td>
<td>Compton</td>
<td>South</td>
<td>Warehouse</td>
<td>55,048 SF</td>
<td>$136.34 PSF</td>
</tr>
<tr>
<td>1650 W. Rosecrans Ave.</td>
<td>Gardena</td>
<td>South</td>
<td>Multi-Tenant Warehouse</td>
<td>32,256 SF</td>
<td>$135.11 PSF</td>
</tr>
<tr>
<td>19603 Figueroa St.</td>
<td>Carson</td>
<td>South</td>
<td>Warehouse</td>
<td>15,120 SF</td>
<td>$125.66 PSF</td>
</tr>
</tbody>
</table>

Source: CoStar Property®
At the start of 2016, the Southern California Ports had confidence, productivity and demand blowing at their backs producing combined increase in containers over 9%. To quote Executive Director Gene Seroka, "The feedback we are receiving from cargo owners and exporters is that the Port is delivering on speed, efficiency, cost and service. Our terminal operators and supply chain partners are working with us to continuously improve and optimize operations."

The Port of Los Angeles had their biggest January and February in a 109 year history, leading to a record first quarter showing containers increasing by 11.3% with 2,030,982 TEUs. January was up over 33% (704,398 TEUs) and February was even better at almost a 42% increase (713,721 TEUs). Total March volumes decreased by 22.6% (612,863 TEUs) when compared to last year. This significant drop in container volume is attributed to last year’s surge after congestion issues were resolved.

The Port of Long Beach 1st quarter experienced a 6.1% increase and had their best start since their peak in 2007, as well as their strongest February. January 2015 surged 24.84 %, over (536,188 TEUs) and then posted an even stronger gain of 35.90% (561,412 TEUs) in February. The same March drop was experience by Long Beach, for the same reason as LA; and fell 26.2 % (464,855 TEUs). Long Beach’s CEO Jon Slangerup stated “Our value proposition, being the fastest and most cost-effective supply route from Asia to America’s consumer markets, continues to define Long Beach and Southern California as the multimodal gateway of choice for our shipping customers.”

Looking forward to the 2nd quarter, cost to deliver containers to the West Coast are still extremely competitive and viewed as low by industry standards. A 40 foot container costs are approximately $700-$800 and arrives in 12 days. Whereas the same container is over $1,600 going to NY-NJ and takes over twice as long with 25 days transit. Additionally, the two largest container vessels currently calling North America, the CMA CGM Benjamin Franklin and the Maersk Edmonton, are scheduled to return concurrently in late April; re-enforcing the mega-ship dominance of the Sothern California Ports.

While these volumes set the stage to what could be the Ports biggest year, there has been a setback to future capacity growth. In late March, A California Superior Court judge found the environmental impact report on the BNSF Railway’s near-dock intermodal rail yard to be inadequate, further delaying a project that has been more than 10 years in the making. Furthermore, more competition for the mega-ships later this year as the Panama Canal is 97% completed and is finally scheduled to open later this year after 8 years of construction. After the Canal opens, competing Gulf and East Coast Ports will be able to service larger ships that Southern California deep water ports have had an advantage on. These other Ports have plans to increase their market share, however, they would have to beat LA / Long Beach’s current value-add proposition for imported goods. This is something to monitor in the future.
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- Valuation of Buildings and Other Improvements

**Financial Analysis of Alternatives**
- Comparing Alternative Proposals
- Purchase vs. Lease Analysis
- Existing Building Search

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- Institutional Investors
- Private Investors

**Disposition of Existing Buildings**
- Locally & Nationally
- REO & Distressed-Asset Valuation & Sales

**Site Search**
- Site Selection Criteria
- Development & Analysis

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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.