



LOS ANGELES - LONG BEACH INDUSTRIAL MARKET REPORT


Q1


MARKET REPORT Q1 2019

LOS ANGELES - LONG BEACH
INDUSTRIAL MARKET REPORT


LACK OF OPTIONS, RISING RATES


Q1 TRENDS AT A GLANCE

 **Absorption**
(122,652) SF

 **Average Rent**
\$1.02 / SF

 **Sales Transactions**
\$153.96 Million

 **Vacancy**
1.5%

 **Under Construction**
1,048,875 SF

 **Average Sales Price**
\$179.92 / SF

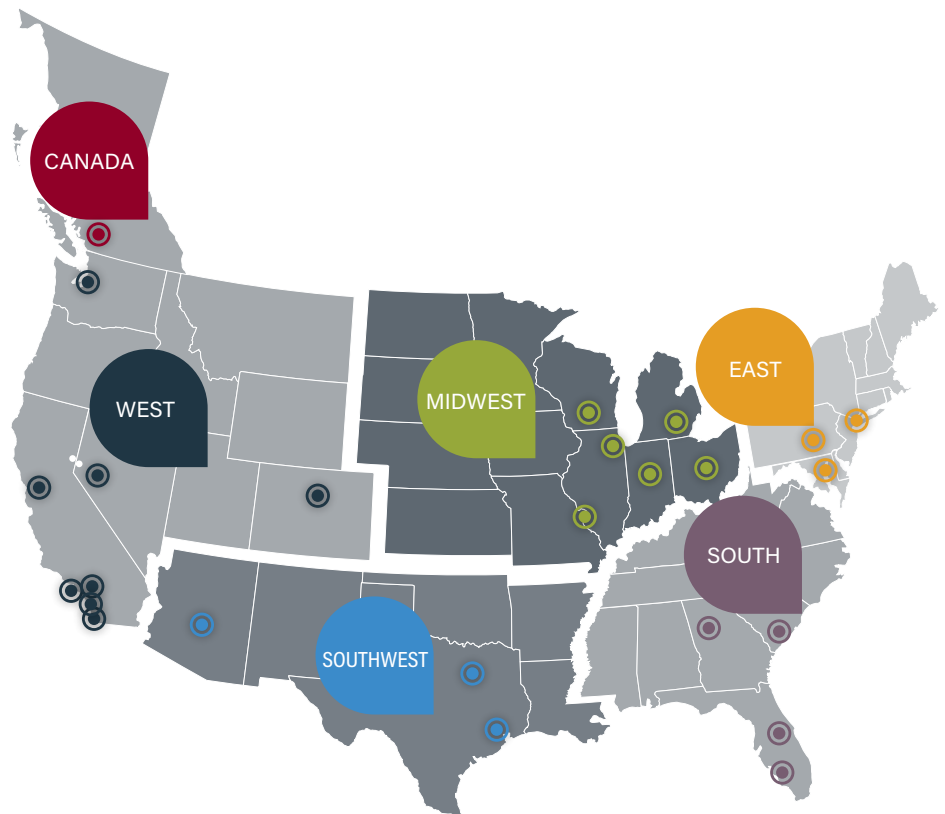
Source: CoStar Realty Information Inc. (As Of April 2, 2019)

ABOUT LEE & ASSOCIATES

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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.



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Lack of options for tenants and buyers impacted the number of deals made in the Los Angeles and Long Beach Industrial Real Estate market. Transactional sales volume dropped by about 20% compared to this time last year for industrial properties 15,000+ Square Feet. Class A Industrial leasing demand remained strong for the 1st Quarter 2019 as the Los Angeles / Long Beach Industrial Real Estate Market once again experienced higher rates. This trend should continue through 2Q 2019 and carry through year's end. On a global level several economic situations such as Brexit, a possible trade war with China, and future higher interest rates could trickle down and influence our local markets. China continues to impact our economy, especially since we have the global ports of Los Angeles and Long Beach in our backyard. The good news is that a trade war with China seems very unlikely given that both countries have so much to lose.

The direct industrial vacancy rate in the Los Angeles/ Long Beach marketplace rose slightly to 1.5% for the 1st Quarter 2019. The vacancy rate this time last year was 1%, which shows the extreme scarcity of space in the area. Asking rents increased again in the 1st Quarter 2019 to \$1.02 PSF, from \$1.00 PSF the previous quarter. Property owners continue to put upward pressure on lease rates because tenants are willing to pay the higher rates. The expectation gap between Tenants/Buyers and Landlord/Sellers has grown to a point that is unsustainable in the long term and likely has contributed to the decline of deal volume, year over year. The average sale price dropped in the 1st Quarter 2019 to \$180 PSF, down 4% from the previous quarter. In part this is due to the lack of Class A property available for purchase, as well as the difficulty in completing deals due to stricter environmental standards recently implemented in California. Net Absorption was negative with 122,652 SF added to the market, whereas last quarter 254,943 SF was added

to the market. Developers continue to take advantage of the current favorable market conditions as 1,048,875 SF was newly under construction this past quarter. Total sales volume was down to \$153.96 Million, compared to 4Q 2018 which was at \$186.06 Million.

Market data is showing that new construction rates can fetch as much as a 25% premium over older buildings approaching their functional obsolescence. For example, CenterPoint Properties is renovating the former JC Penny regional distribution center and repositioning the property as a 1,000,000+ SF "last-mile" logistics center. Prologis began construction on a 350,000 SF development in Vernon that will have access to 10.4 million consumers within the counties of Los Angeles and Orange. UPS is getting closer to securing a deal to take over the C17 Boeing facility adjacent to the Long Beach Airport, which could bring on investment of roughly \$300 Million in the 1.1 Million SF property and employing 2,500 workers. This would be another economic boost for the Long Beach Airport Area in addition to the success of the Douglas Park Development, recently completed by Sares Regis. The trend of E-commerce companies consuming all available industrial real estate product will continue. Amazon is close to their goal of having a warehouse facility within 20 miles of every major US Consumer, and their purchase of Whole Foods was a key piece of this goal.

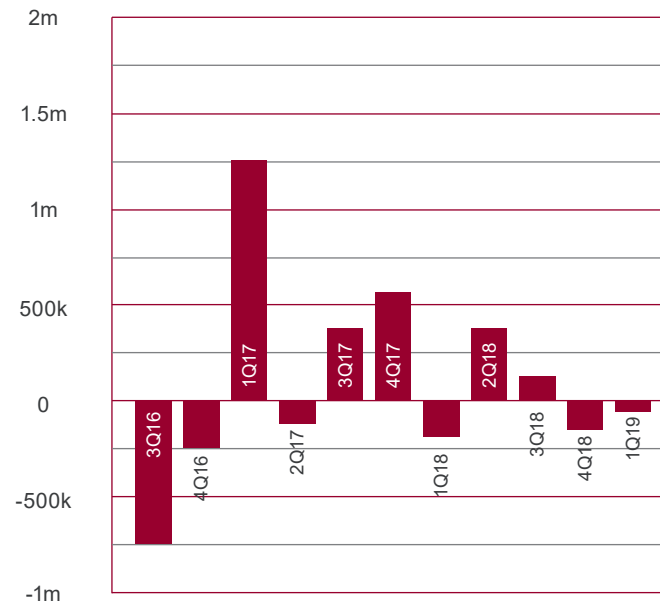
Economists for UCLA and Chapman believe the economy will cool down this year. Both forecasts predict higher interest rates, a cooling residential market, a correction in the stock market, and less hiring. It will take time for these factors to play out and affect to our local economy. In the meantime, the 2nd Quarter 2019 will be a great opportunity for Property Owners to sell their properties and attempt to capture historic sale 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 in last quarter, Industrial properties for lease or sale will be difficult to find. Newer facilities will be built to support fulfillment centers and the move towards electronic retailing. Despite the background noise globally, the market signals remain strong locally heading into 2Q 2019. Contact your Local Lee & Associates specialist

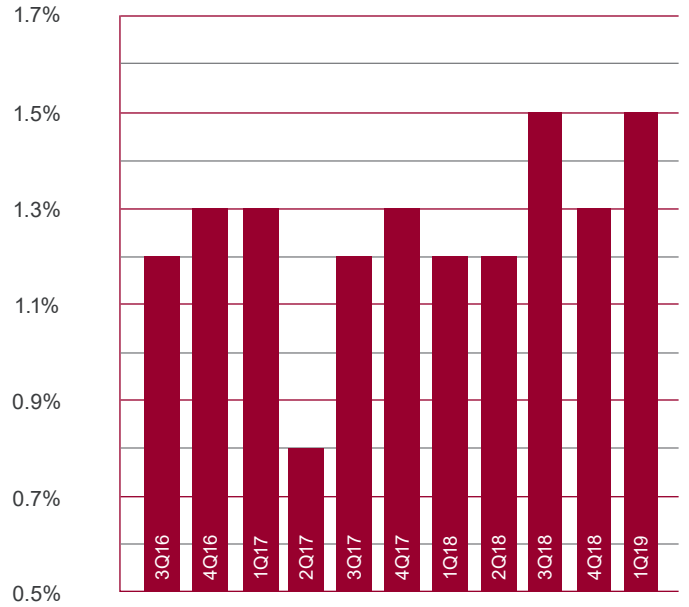
for more information regarding your submarket and guidance as to how to navigate through these new factors in 2019.

-Brandon Carrillo, Principal
Garrett Massaro, Principal
Bret Osterberg, Principal

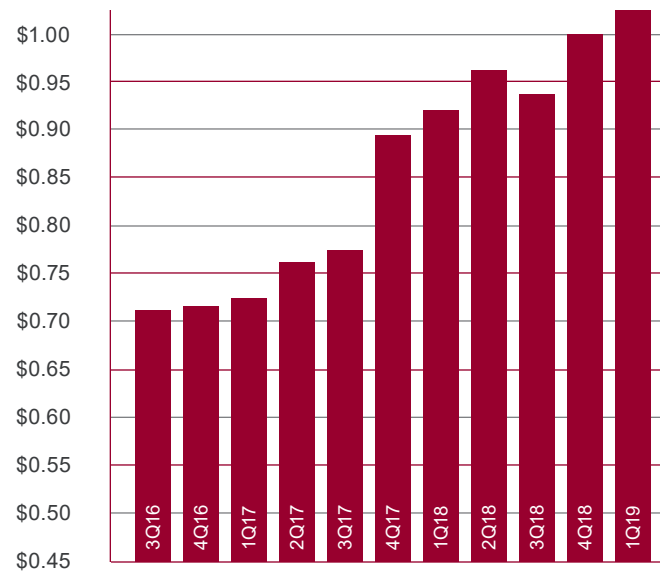
NET ABSORPTION



VACANCY



AVERAGE ASKING RENT BY QUARTER



ASKING PRICE PER SQ FT



Source: CoStar Realty Information Inc



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Q1 2019 TOP LEASES

PROPERTY ADDRESS	CITY	TYPE	LEASE RATE	SQUARE FEET	LEASE TYPE
303-335 W ARTESIA BLVD	COMPTON	DISTRIBUTION	\$0.78 / SF NNN	159,084 SF	DIRECT
2910-2960 PACIFIC COMMERCE DR.	RANCHO DOMINGUEZ	WAREHOUSE	\$0.92 / SF GRS	150,000 SF	SUBLEASE
19400 HARBORGATE WAY	TORRANCE	WAREHOUSE	\$0.89 / SF NNN	127,608 SF	DIRECT
3600 E BURTNETT ST, BLDG 3	LONG BEACH	WAREHOUSE	\$1.07 / SF NNN	105,004 SF	DIRECT
475 W MANVILLE ST	COMPTON	WAREHOUSE	\$0.77 / SF NET	98,013 SF	DIRECT

Q1 2019 TOP SALES

PROPERTY ADDRESS	CITY	TYPE	SALES PRICE	SQUARE FEET	REGION
22320 NORMANDIE AVE	TORRANCE	LAND	\$37.46 / SF	104,108 SF	SOUTH
1315 WATSON CENTER RD	CARSON	WAREHOUSE	\$188.89 / SF	90,000 SF	SOUTH
7300 SOMERSET BLVD + 7309-7345 ADAMS STREET	PARAMOUNT	INDUSTRIAL	\$132.43 / SF	89,630 SF	SOUTH
20210 NORMANDIE AVE	TORRANCE	INDUSTRIAL	\$211.24 / SF	78,820 SF	SOUTH
800 E 111TH PL	LOS ANGELES	INDUSTRIAL	\$117.21 / SF	58,868 SF	SOUTH

303-335 W ARTESIA BLVD

LEASED



2910-2960 PACIFIC COMMERCE DR

LEASED



19400 HARBORGATE WAY

LEASED



22320 NORMANDIE AVE

SOLD



1315 WATSON CENTER DR

SOLD



7300 SOMERSET BLVD - 7309 ADAMS ST

SOLD



LOS ANGELES & LONG BEACH PORT ACTIVITY

First Quarter 2019 continues to experience strong throughput with a total combined volume of just over 4.015 Million TEUs. Combined for all imports, exports and empties, this was an increase of +0.22% over last year's record cargo shipments. While this number was assisted by volumes that were impacted by tariff threats, it is interesting to note that inbound loads dropped roughly -2.79% year over year and is an indicator that future quarters may not keep pace with 2018.

The Port of Los Angeles' volume increased roughly +4.6% to just over 2.2M TEUs and represented a +0.5% increase in imports, -5.3% decrease in exports, and a +17% increase in empties. January was up by +5.41% (852,450 TEUs), Los Angeles' strongest January ever. February and March volumes are historically impacted by the Chinese New Year – February (-2.72%; 705,308 TEUs) and March (+12.65%; 650,977 TEUs) compared to last year. "Despite global trade uncertainties, we experienced strong first quarter growth," Port of Los Angeles Executive Director Gene Seroka mentioned. "Retailers are forecasting an uptick in summer consumer demand and we are ready for those boxes."

The Port of Long Beach's volume decreased roughly -4.65% to just over 1.8M TEUs, and represented a 6-.5% decline in imports, a -1.0% decrease in exports, and a +2.2% increase in empties moved, it is second busiest quarter in history. January stayed practically even with a +0.08% increase (657,286 TEUs), the busiest month this quarter. Like Los Angeles, Long Beach's

February and March volumes were impacted by the Chinese New Year, down -9.85% (596,617 TEUs) and down -3.91% (552,821 TEUs) respectively. Mario Cordero, Port of Long Beach Executive Director mentioned, "With warehouses full from shippers rushing to beat the looming threat of escalating tariffs, shipments have slowed somewhat. It's going to take some time for inventory to cycle to markets and for typical growth to resume."

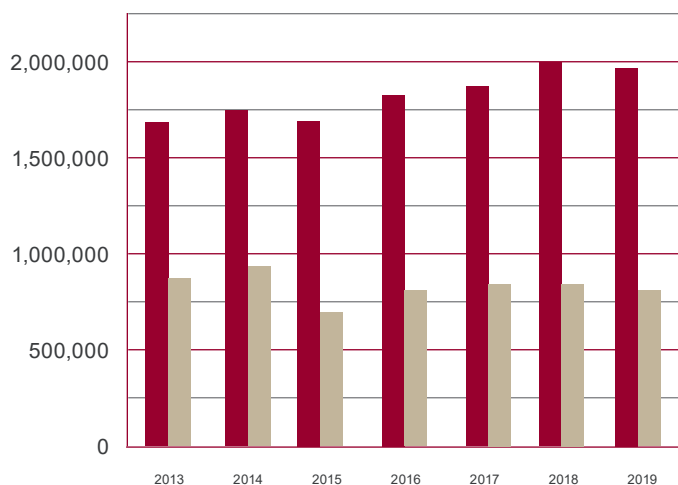
The US government extended the tariff hike deadline on February 25th, seemingly easing anxiety throughout supply chains for the time being but any deal between Washington and Beijing seems to be a "moving target." By most current estimates, the US – China tariff charges will impact roughly 15% of US Imports. As America's busiest Ports, Los Angeles and Long Beach's constant enemy continues to be congestion – increasing time and adding unnecessary costs. Port Stakeholders continue to work on solutions, mainly to address appropriate chassis allocation for sufficient reserves during high-demand periods as well as truck pick-up delays. Rising inventory volumes throughout first quarter have helped contribute to US GDP growth but has created backlogs for companies to burn through. We expect port volumes to stay consistent until holiday season goods begin to arrive in late 2nd quarter and early 3rd quarter 2019.

- David Bales, Principal
Ryan Endres, Principal

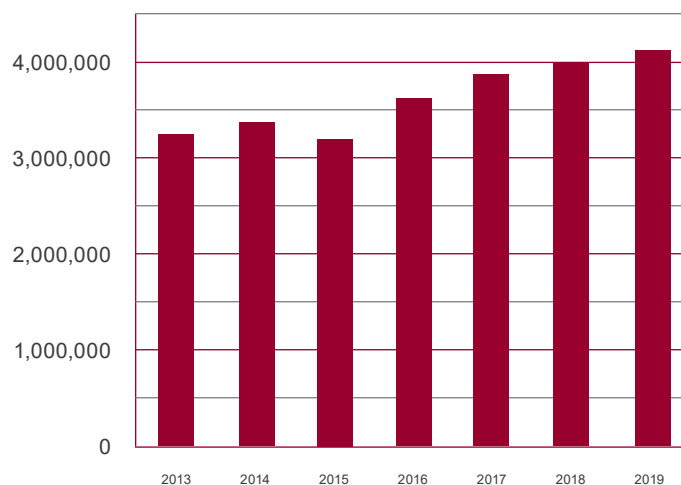
TEUs YTD MARCH 2019

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

■ Combined Loaded Inbound
 ■ Combined Loaded Outbound



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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*Third-Party Data Sources: CoStar Group, Inc., Port of Long Beach, Port of Los Angeles, Lee & Associates National Market Report, GlobeSt.com, NAIOP.Org, and The Wall Street Journal

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