LOS ANGELES - LONG BEACH
INDUSTRIAL MARKET REPORT

MARKET REPORT Q2 2019

LOS ANGELES - LONG BEACH
INDUSTRIAL MARKET REPORT
Absorption (445,393) SF
Vacancy 1.2%
Average Rent $1.08 / SF
Under Construction 1,242,254 SF
Sales Transactions $302.22 Million
Average Sales Price $227.67 / SF

Source: CoStar Realty Information Inc. (As Of July 8, 2019)

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The 2nd Quarter of 2019 remained strong for the Los Angeles / Long Beach Industrial Real Estate Market with the vacancy rate continuing a downward trajectory from the previous quarter, to 1.2%. Steady high demand and ongoing limited supply have put upward pressure on lease rates and sale prices. The market remains heavily in favor of landlords and sellers, leaving tenants and buyers frustrated in the marketplace with the “high prices”. All signs indicate that these trends will continue into the 3rd Quarter, 2019 and likely through the end of the year.

The direct industrial vacancy rate in the Los Angeles/ Long Beach marketplace decreased from 1.5% in the 1st Quarter 2019 to 1.2% in the 2nd Quarter 2019. Asking rents increased again in the 2nd Quarter to $1.08 PSF up from $1.02 PSF the previous quarter, as property owners have continued to push the market on higher lease rates. The strong demand for Class A product regularly becomes absorbed despite lease rates once again increasing 6% overall as compared to the same time last quarter. The vacancy rate this time last year was 1%, which despite the numerous construction projects in the pipeline and those delivered into the marketplace have not had an effect on the vacancy rate. The other concern for the Industrial Users has been various new City regulations. Cities have rezoned much needed industrial real estate as residential in an attempt to try and solve perceived housing issues. According to William Yu, Economist for the UCLA Anderson Forecast, “Housing market research suggests that limited supply to meet demand is one of the major causes of high home prices in coastal California. Despite its stronger economic recovery, California still has relatively limited housing supply because of its stringent regulations, such as CEQA (California Environmental Quality Act), as well as NIMBY (Not in My Back Yard) culture…” Cities have looked to industrially-zoned areas to rezone into mixed use projects that could be utilized for multi-family high-density developments most of which have retail components. This relatively high-priced influx of new housing development takes much needed supply from the industrial marketplace while not addressing the affordable housing conundrum, but mainly exasperates the problem of lack of options for industrial users.

The average sale price for industrial property increased in the 2nd Quarter 2019 to $227 PSF, which could be attributed to the sale of more Class A product. There were $302 Million of Sale Transactions completed in the 2nd Quarter Versus $154 Million in the 1st Quarter. Development activity in the Los Angeles/Long Beach region continued to show strength with 1,242,254 SF under construction. Despite the land scarcity marketwide, there are multiple development projects in the pipeline that are going through City entitlements such as the 93 Acre Boeing C-17 Site off of Cherry Ave in Long Beach that was recently sold to Goodman for redevelopment. This major site, as well as a few others, will contribute to the much needed Industrial Product.

The market strength from the 2nd Quarter should carry over to the 3rd Quarter of 2019 led largely by historically low interest rates, foreseeable future cheap money and e-commerce demand. Businesses will continue to get squeezed by historically high lease and sale rates that put pressure on their margins. The 3rd Quarter will be an important indicator for how businesses fair with the changing business climate in California and nationally. 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 Los Angeles / South Bay market remains very strong with more growth expected, heading into 3Q 2019. Please contact your local Lee & Associates market expert for more perspective on your submarket, real estate assets, and professional guidance to fully leverage your situation.

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

Source: CoStar Realty Information Inc
### Q2 2019 TOP LEASES

<table>
<thead>
<tr>
<th>PROPERTY ADDRESS</th>
<th>CITY</th>
<th>TYPE</th>
<th>LEASE RATE</th>
<th>SQUARE FEET</th>
<th>LEASE TYPE</th>
</tr>
</thead>
<tbody>
<tr>
<td>12910 MULBERRY DR</td>
<td>WHITTIER</td>
<td>WAREHOUSE</td>
<td>$0.47 /SF NET</td>
<td>153,080 SF</td>
<td>DIRECT</td>
</tr>
<tr>
<td>200 E ALONDRA BLVD</td>
<td>GARDENA</td>
<td>WAREHOUSE</td>
<td>$0.96 /SF NET</td>
<td>145,103 SF</td>
<td>DIRECT</td>
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<tr>
<td>19000 S ALAMEDA ST</td>
<td>RANCHO DOMINGUEZ</td>
<td>LAND</td>
<td>$0.48 /SF NET</td>
<td>203,425 SF</td>
<td>DIRECT</td>
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<tr>
<td>18420 SANTA FE AVE</td>
<td>RANCHO DOMINGUEZ</td>
<td>LAND</td>
<td>$0.44 / SF GRS</td>
<td>144,619 SF</td>
<td>DIRECT</td>
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<tr>
<td>6901 CHERRY AVE</td>
<td>LONG BEACH</td>
<td>LAND</td>
<td>$0.36 / SF NET</td>
<td>126,106 SF</td>
<td>DIRECT</td>
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### Q2 2019 TOP SALES

<table>
<thead>
<tr>
<th>PROPERTY ADDRESS</th>
<th>CITY</th>
<th>TYPE</th>
<th>SALES PRICE</th>
<th>SQUARE FEET</th>
<th>REGION</th>
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<tbody>
<tr>
<td>2910 E PACIFIC COMMERCE DR</td>
<td>RANCHO DOMINGUEZ</td>
<td>WAREHOUSE</td>
<td>$192.00 / SF</td>
<td>150,000 SF</td>
<td>SOUTH</td>
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<tr>
<td>20210 S NORMANDIE AVE</td>
<td>TORRANCE</td>
<td>WAREHOUSE</td>
<td>$213.00 / SF</td>
<td>77,064 SF</td>
<td>SOUTH</td>
</tr>
<tr>
<td>3259 WALNUT AVE</td>
<td>SIGNAL HILL</td>
<td>WAREHOUSE</td>
<td>$184.59 / SF</td>
<td>74,353 SF</td>
<td>SOUTH</td>
</tr>
<tr>
<td>9700-9742 WASHBURN RD</td>
<td>DOWNEY</td>
<td>WAREHOUSE</td>
<td>$136.86 / SF</td>
<td>42,144 SF</td>
<td>SOUTHEAST</td>
</tr>
<tr>
<td>1517 S ALAMEDA ST</td>
<td>COMPTON</td>
<td>MANUFACTURING</td>
<td>$98.47 / SF</td>
<td>41,129 SF</td>
<td>SOUTH</td>
</tr>
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Source: CoStar Realty Information Inc
Second Quarter of 2019 experienced the impact of tariff challenges and subtle fluctuations in the domestic economy, with imports and exports falling by 3.72% and 6.65% respectfully. Empty Containers did increase by 6.57%, thus total volume for the quarter slid by only 1.1%. Although the Ports of LA and Long Beach are experiencing greatly differing results, the San Pedro Port Complex mid-year report card continues to produce strong results with over 8.22 Million TEUs and only behind last year’s record by less than 0.5%. However, the effect of current and future tariffs is upsetting supply chains and inventory levels, creating a cloud of uncertainty over container traffic for the remainder of the year.

The Port of Los Angeles continues to post record numbers in the 2nd quarter with solid gains in each month. April grew by 4.38% (736,466 TEUs), May surged with 7.79% (828,661 TEUs) and June eclipsed last year by 5.76% (764,776 TEUs) as empties grew by almost 19%. During May and June TEU volumes were the busiest in the Port’s 112-year history. June also marked the end of their 2018-2019 fiscal year in which the Port moved just over 9.68 M TEUs, which bested their record mark by 5.7%. “With container exchange per vessel at record levels, we will continue to enhance and optimize our port complex in the coming months. Creating a universal truck reservation system, moving chassis off terminals and further refining the Port Optimizer™ are top priorities,” said Port of Los Angeles Executive Director, Gene Seroka.

The Port of Long Beach’s quarter was a much different story as it fell by 8.7%. While April posted a moderate gain of 1.57% (628,122 TEUs), volumes greatly suffered in May and June and ended down 16.55% (573,624 TEUs) and almost 10% (677,168 TEUs) respectively. All indicators were down those months with imports falling almost 20% in May and over 13% in June. Exports fell 15.3% in May with empties down 11.7% and 9.2% for May and June. So far for the year, Long Beach’s total volumes are down by approximately 6.76% as imports and exports have decreased by 8.96% and 9.96%. 2018 volumes were at all-time highs, therefore the second half of the year needs to finish strong in order for Long Beach to remain ranked as North America’s #2 Port.

As for developments at the Port of Los Angeles, it’s been over a 6-month battle over automation between the APM terminal and the Longshoreman’s labor union (ILWU). Tentatively, both sides seem to have a reached a solution with Gene Seroka, saying the tentative agreement will benefit labor, APM and the port. “If finalized, this would be a major step forward in securing the future of work at the port complex for years to come.” As for the bigger picture, trade war tensions continued between the U.S. and China as tariffs were raised in May from 10% to 25% on $200 B worth of goods that include furniture and automotive parts. The U.S. has threatened to raise tariffs on an additional $300 B worth of imports as China responded with tariffs on $60 B worth of U.S. goods earlier this year, greatly impacting U.S. agriculture exports. As tariffs appear likely to linger, companies are being confronted with decisions that carry far-reaching consequences.

- David Bales, Principal & Ryan Endres, Principal
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- Existing Building Search

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- Valuation of Buildings and Other Improvements

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- Site Selection Criteria
- Development & Analysis


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