VACANCY TIGHTER THAN REPORTED

Q3 TRENDS AT A GLANCE

Absorption
163,337 SF

Average Rent
$0.73 / SF

Sales Transactions
$60.14 Million

Vacancy
1.0%

Under Construction
1,171,800 SF

Average Sales Price PSF
$123.81 / 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.

NATIONWIDE LOCATIONS

LOCAL EXPERTISE. NATIONAL REACH. WORLD CLASS
The South Bay submarket continues to stay strong with the Ports leading the way for local industries. Vacancy is down, prices are up, and owners are getting rents at a level unseen since the height of the Real Estate bubble in 2007. It’s safe to say the economy has officially recovered.

In a strong market such as ours, owners now have the leverage when it comes to negotiations. With such low vacancy rates we are often times seeing multiple tenants go after the same property, allowing Owner’s to dictate price and be selective with whom they decide to lease to. The days of high concessions, tenant improvements, and free rent are quickly moving past us. Tenants now need to plan ahead, have strong financials, and be willing to put down hefty security deposits to even get a response to their offers.

With so little inventory available, we are seeing varying accounts on the actual vacancy status for industrial buildings in the LA market. Costar is currently reporting the vacancy for the South Bay to be 2.5%, while the AIR Commercial Real Estate Association is claiming the number to be as low as 1.2%. After reviewing the available product, we have determined that the true vacancy number (i.e. buildings that can be occupied immediately) to be closer to 1.0% if not slightly lower. Regardless, if one wanted to go out and occupy a space immediately the pickings will be very slim, and buyers/tenants will need to plan accordingly.

“There is currently a mad dash of users and investors vying to tie up what little is left of the usable space in an already very tight market. Consequently, there has been a rise in both lease and sales rates.”

Meantime, with less to choose from, Investors with 1031 exchanges are settling for lower returns. This has brought the average cap rate down to 5.86% from the 6.26% we saw at this time last year. Institutional buyers are now venturing into the low 4% range for the first time in years.

Nationwide the theme is the same: quality space is hard to come by. The national average for vacancy is down to 6.7%, a number unseen since 2001. Subsequently we’ve had a rise in rates across the country. With the traditional markets getting tighter we are witnessing emerging markets, such as Philadelphia, come forward. With existing infrastructure and almost 15 million square feet in construction it will be a welcome addition to a congested eastern seaboard. Recently our Lee offices across the country got together to discuss our respective territories and their rising trends. Across the board the consensus appears to be the same: vacancy seems much tighter than reported.

Within the next quarter, we will potentially see an additional 20 acres of land from the former Farmer’s Brother Coffee plant hit the market. Based on recent press reports they have moved their operations out of state and their Southern California plant is being made available. The Brickyard in Compton is back as well, albeit at a hefty increase from its previous purchased price. With the lack of usable space, the scramble to acquire viable land sites for either truck parking or the development of new and much needed warehouse space has begun. Developers and city municipalities will inevitably be at odds with truckers as raw land becomes just as valuable as existing warehouse space. Either way the competition will be tough.

Moving forward the outlook is positive. The inevitability of the Trans Pacific Partnership (TPP) will likely give to a rise to both exports and imports in what is already the nation’s busiest port. In addition, the rising possibility of not only one, but two NFL teams coming to the South Bay by the end of next year, will provide a boost in both tourism and local businesses. As the economy charges forth, we expect the South Bay Market to continue to hold its title as the strongest Industrial market in the country and finish out the year strong.

- Dustin Byington
AVERAGE ASKING RENT BY QUARTER

ASKING PRICE PER SQ FT

Source: CoStar Property®
## Q3 2015 Industrial Statistics

### Q3 2015 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>2250 E. Dominguez St.</td>
<td>Carson</td>
<td>Land</td>
<td>Yusen Logistics</td>
<td>338,274 SF</td>
<td>Direct</td>
</tr>
<tr>
<td>2000 E. Carson St.</td>
<td>Carson</td>
<td>Warehouse</td>
<td>Toll Global</td>
<td>293,800 SF</td>
<td>Direct</td>
</tr>
<tr>
<td>1710 E. Sepulveda Blvd.</td>
<td>Carson</td>
<td>Warehouse</td>
<td>Nova CFS</td>
<td>259,249 SF</td>
<td>Renewal</td>
</tr>
<tr>
<td>220 W. Manville St.</td>
<td>Compton</td>
<td>Warehouse</td>
<td>National Retail Transportation</td>
<td>176,656 SF</td>
<td>Sublease</td>
</tr>
<tr>
<td>20500 S. Alameda St.</td>
<td>Carson</td>
<td>Warehouse</td>
<td>The Triangle Group</td>
<td>147,390 SF</td>
<td>Direct</td>
</tr>
<tr>
<td>720 Watson Center Rd.</td>
<td>Carson</td>
<td>Warehouse</td>
<td>Caliko Transport Company Inc.</td>
<td>135,727 SF</td>
<td>Renewal</td>
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</tbody>
</table>

### Q3 2015 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>1707-1719 W. Compton Blvd.</td>
<td>Compton</td>
<td>South</td>
<td>Warehouse</td>
<td>161,976 SF</td>
<td>$70.06 PSF</td>
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<tr>
<td>200 E. Alondra Blvd.</td>
<td>Carson</td>
<td>South</td>
<td>Land</td>
<td>157,353 SF</td>
<td>$33.36 PSF</td>
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<tr>
<td>14600 Broadway Ave.</td>
<td>Gardena</td>
<td>South</td>
<td>Warehouse</td>
<td>36,880 SF</td>
<td>$112.53 PSF</td>
</tr>
<tr>
<td>14131-14133 S. Avalon Blvd.</td>
<td>Unincorporated LA</td>
<td>South</td>
<td>Investment</td>
<td>33,500 SF</td>
<td>5.75% Cap</td>
</tr>
<tr>
<td>2601 E. Del Amo Blvd.</td>
<td>Rancho Dominguez</td>
<td>South</td>
<td>Warehouse</td>
<td>25,768 SF</td>
<td>$90.29 PSF</td>
</tr>
</tbody>
</table>

Source: CoStar Property®
The Southern California ports have been playing catch up throughout 2015 due to the cargo diversion experienced for the first two months of 2015. There was an approximately 18% deficit in overall volume through the end of February (a loss of over 415,000 TEU). It’s quite remarkable that by the end of August, volumes were just over 1% higher than 2014 at over 10 million TEUs. This is the first time hitting this milestone through August since 2007.

The Port of Long Beach had the busiest quarter in its 104-year history with over 2 million TEUs. Long Beach grew 18.38% in July, 22.78% in August and a marginal 4.1% gain in September. This represented more than a 10.5% increase in both imports and exports than the previous year. Year-to-date, the Port of Long Beach is up 5.2% overall and up 11.5% since the labor dispute was resolved this past March.

Since cargo has been shifting within the San Pedro Basin, volumes at the Port of Los Angeles were mixed for the quarter and are down 2.9% for the year. The TEU count decreased 2.55% in July, but experienced a positive increase in August of 3.83%. Containers dropped again in September by 5.78%. This decline prompted Gene Seroka, the Port of Los Angeles Executive Director, to say, “While we fell short of last September’s exceptional volume of 775,000 TEUs (one of the Port’s largest), I’m encouraged by the productivity our terminals and supply chain partners have demonstrated over the past six months. We are experiencing a consistent pattern of larger ships and more efficient cargo conveyance at volumes that are market leading.”

Overall, shippers have been moving inventory earlier than previous years indicating an elongated Peak Season compared to the late surge that has been more common in recent years. This demonstrates a conscious effort by importers to try and avoid disruptions in the supply chain due to congestion. Looking forward, both Ports acknowledge being in the Mega Ship business presents its own set of logistical challenges. Lined up end to end, each 16,000 TEU vessel could create a row of containers over 60 miles long. Adding a truck that distance would be over 100 miles of containers lined up from the Port of Long Beach to the Mexican Border. Both Ports hope that the final quarter will be busy, but not congested. Demonstrating that Southern California is once again reliable, dependable and stable is critical as shippers will have alternatives when the Panama Canal’s wider docks will allow larger ships commencing in the 2nd quarter of 2016.

-David Bales