



**LOS ANGELES - LONG BEACH
INDUSTRIAL MARKET REPORT**


Q3


MARKET REPORT Q3 2019

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INDUSTRIAL MARKET REPORT


FUNDAMENTALS REMAIN

Q3 TRENDS AT A GLANCE

 **Absorption**
(302,257) SF

 **Average Rent**
\$1.09 / SF

 **Sales Transactions**
\$269.12 Million

 **Vacancy**
1.4%

 **Under Construction**
*2,013,297 SF

 **Average Sales Price**
\$208.01 / SF

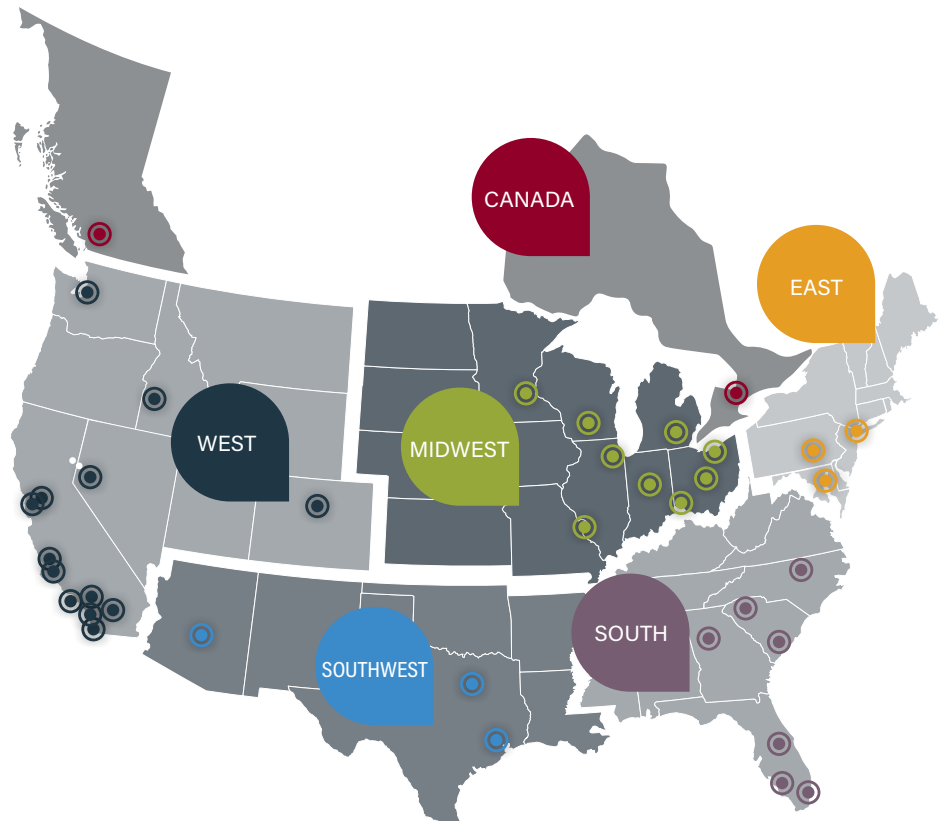
Source: CoStar Realty Information Inc.(As Of October 4, 2019) and *AIR CRE

ABOUT LEE & ASSOCIATES

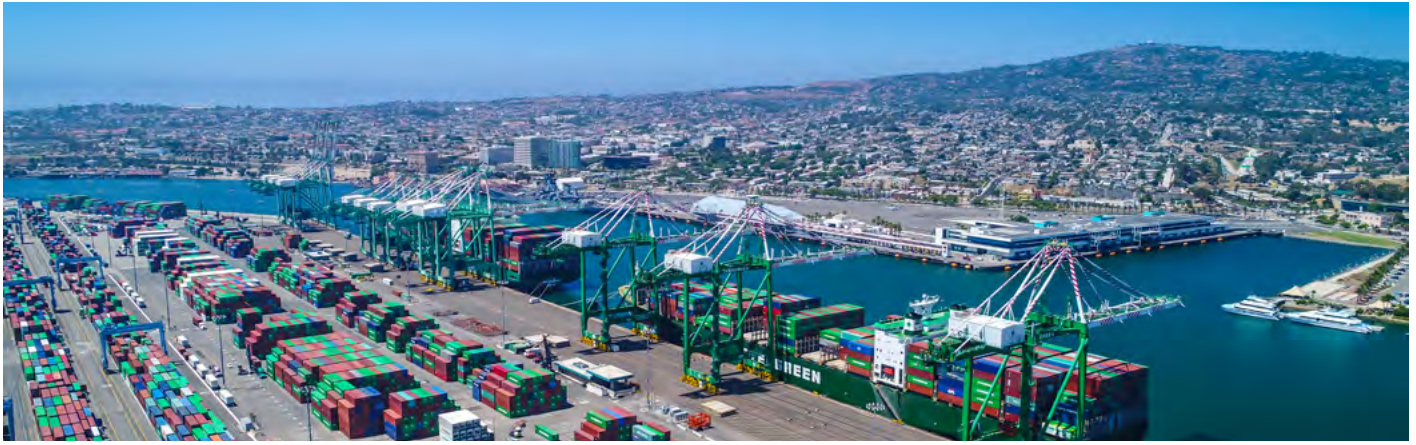
At Lee & Associates® our reach is national but our expertise is local market implementation. This translates into seamless, consistent execution and value driven market-to-market services.

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.



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Despite the national news trying to create panic that a recession is imminent due to an inverted yield curve or escalating trade wars, the Los Angeles/Long Beach Industrial Real Estate Market remains resilient. E-commerce continues to drive a large share of the demand for industrial real estate. According to UCLA Anderson Forecast senior economist David Shulman, "E-Commerce has accounted for 34% of the growth in the addressable market since 1999 and an astounding 47% of the growth in the five years ending in the fourth quarter of 2018...With strong demand for close-in industrial space, the US is seeing increased construction of multistory warehouses, the type that have typically been found only in Japan." A growing number of consumers continue to transition to purchasing goods online. This primary driver fuels the demand for Los Angeles/Long Beach Industrial Real Estate. Fundamentals remain overall for industrial real estate with positive absorption, low vacancy rates and higher asking rental rates.

The direct industrial vacancy rate in the Los Angeles / Long Beach marketplace increased slightly from 1.2% in the 2nd Quarter to 1.4% in the 3rd Quarter, as more product was delivered and absorbed in the marketplace. Asking rents increased again in the 3rd Quarter to \$1.09 PSF up from \$1.08 PSF the previous quarter. Rents have increased over 7% since the 1st Quarter of 2019. The vacancy rates this time last year was 1.5%, which despite the numerous construction projects in the pipeline and those delivered into the marketplace have not had an effect on the vacancy rate. Growth should persist with macro factors trickling down to our local economy. According to David Shulman, Economist for the UCLA Anderson Forecast, "...we anticipate a \$250 billion infrastructure program and a material increase in defense appropriations coming from increased global tensions, especially with respect to North Korea, which will make missile defense spending a top priority...Aside from defense, the sources of growth over the next two years will come from consumption, housing (in 2018)

and equipment spending... Inflation will increase modestly, running slightly above the 2% range." The combination of full employment and higher inflation will prompt the Fed to continue its tightening policy by raising interest rates in their continued pattern of 25 basis points per quarter.

The average sale price decreased in the 3rd Quarter 2019 to \$208 PSF. Sales volume has increased throughout the year from \$153.96 Million in the 1st Quarter to \$269 Million for the 3rd Quarter. Lack of land sites had an effect on development activity in the Los Angeles/Long Beach region with 849,602 SF under construction, down from the previous quarter of 1.24 Million SF. Costar reported, "The largest trade over the first three quarters of 2019 came when GPI Cos. Acquired Mattel's 192,000 SF design facility in El Segundo for \$84 million, or roughly \$440/SF, at a 4.6% cap rate. That's roughly 45% higher than the average per square foot price for LA flex properties, and represents nearly 90% price appreciation over the \$45 million that seller Angelo, Gordon & Company paid to acquire the asset in 2011. The facility, fully leased to Mattel on a NNN basis through 2024, was built in 1954 but received extensive updates valued at roughly \$10 million in recent years."

This minimal growth should persist into the 4th Quarter led largely by historically low interest rates, marijuana overlays and e-commerce demand. New multi-tenant residential projects should continue to be greatly discussed, as Governor Newsom is pushing cities to try and make affordable housing a priority in an attempt to combat homelessness. Small and medium-sized businesses will still get squeezed by historically high lease rates that put pressure on their margins. The insatiable appetite for product among users and investors seems to be leveling off. This trend likely will persist and we should continue to see sale prices increase, depending on the type of product. This will be a great opportunity for property owners to put their properties up for sale or lease to capture these historically high values. Interest rates are still lower than ever, and these rates

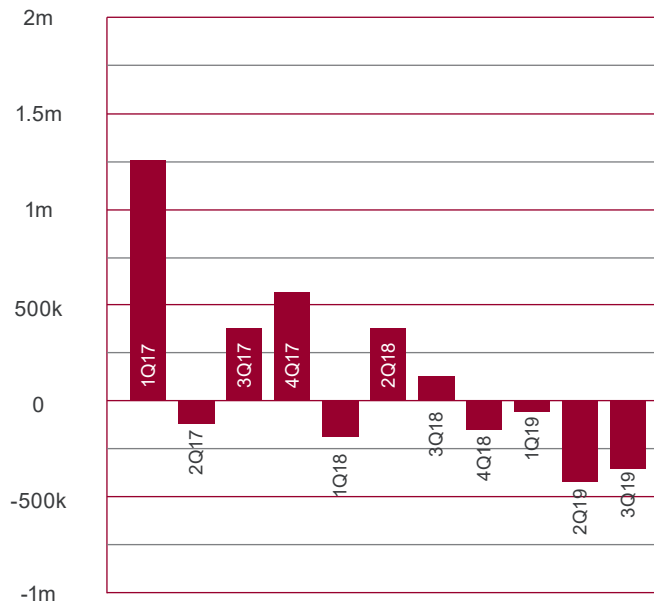
encourage business owners to take advantage of the favorable market conditions. As seen last quarter, Industrial properties for lease or sale will be difficult to find, while newer facilities will be built to support fulfillment centers and the move towards electronic retailing.

Despite the background noise globally and nationally, locally the market signals for Los Angeles/Long Beach Industrial

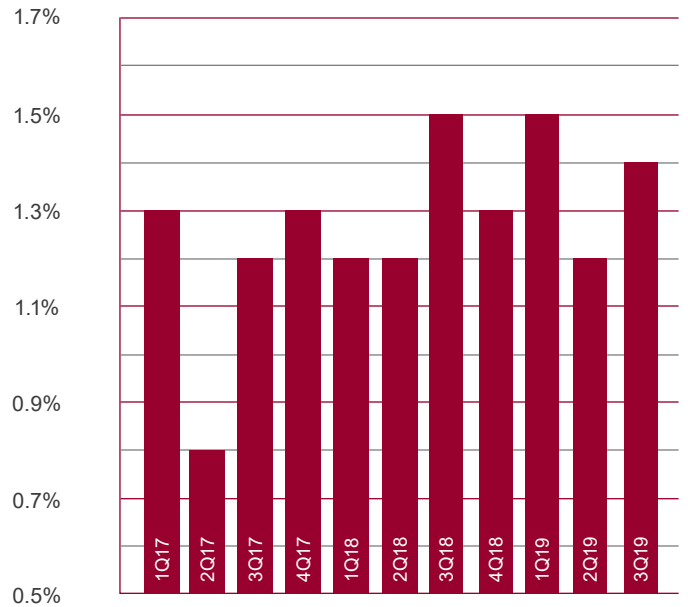
Real Estate product is fundamentally strong heading into 4Q 2019. Please contact your local Lee & Associates market expert for more perspective on your submarket and guidance to fully leverage your situation.

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

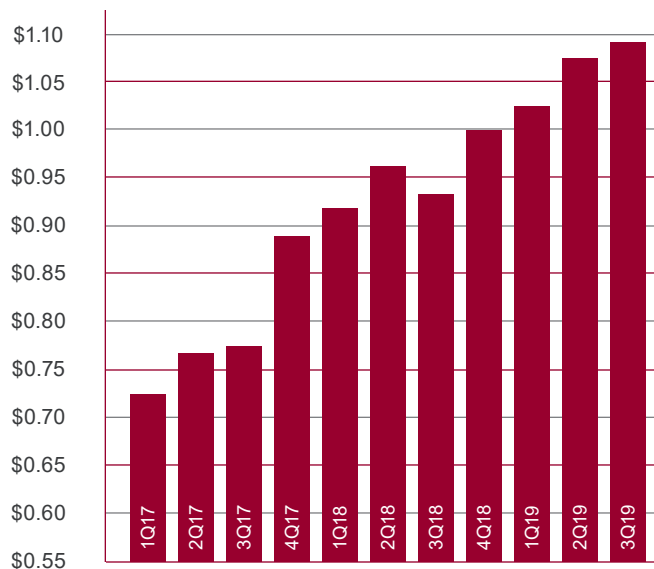
NET ABSORPTION



VACANCY



AVERAGE ASKING RENT BY QUARTER



ASKING PRICE PER SQ FT



Source: CoStar Realty Information Inc



Source: CoStar Realty Information Inc

Q3 2019 TOP LEASES

PROPERTY ADDRESS	CITY	TYPE	LEASE RATE	SQUARE FEET	LEASE TYPE
12100 RIVERA ROAD	WHITTIER	WAREHOUSE	\$0.72 / SF NNN	215,462 SF	DIRECT
9350 RAYO AVENUE, BLDG B	SOUTH GATE	WAREHOUSE	\$1.02 / SF GRS	213,232 SF	DIRECT
2300 REDONDO AVENUE	LONG BEACH	WAREHOUSE	\$1.03 / SF NNN	204,936 SF	DIRECT
13415 CARMENITA ROAD, BLDG 1	SANTA FE SPRINGS	WAREHOUSE	\$0.90 / SF NNN	200,068 SF	DIRECT
1700 E. Q STREET	WILMINGTON	LAND	\$0.43 / SF NNN	169,593 SF	DIRECT

Q3 2019 TOP SALES

PROPERTY ADDRESS	CITY	TYPE	SALES PRICE	SQUARE FEET	REGION
11811-11831 E. FLORENCE AVENUE	SANTA FE SPRINGS	WAREHOUSE	\$191.37 / SF	288,000 SF	SOUTHEAST
1161-1245 WATSON CENTER ROAD	CARSON	WAREHOUSE	\$193.41 / SF	203,280 SF	SOUTH
439 E. CARLIN AVENUE	COMPTON	LAND	\$65.17 / SF	151,153 SF	SOUTH
3150 E. ANA STREET	COMPTON	WAREHOUSE	\$177.41 / SF	105,970 SF	SOUTH
18221 S. SUSANA ROAD	RANCHO DOMINGUEZ	WAREHOUSE	\$202.90 / SF	100,543 SF	SOUTH



12100 RIVERA RD | WHITTIER

LEASED



9350 RAYO AVE | SOUTH GATE

LEASED



2300 REDONDO AVE | LONG BEACH

LEASED



11811-11831 E FLORENCE AVE | SFS

SOLD



1161-1245 WATSON CENTER RD | CARSON

SOLD



439 E CARLIN AVE | COMPTON

SOLD

LOS ANGELES & LONG BEACH PORT ACTIVITY

While the trade war continues to decrease both imports and exports with our largest trading partner, China, total combined container volume has only decreased by less than 0.2% behind 2018's record. Both Ports continue to advocate a complete settlement as the Port of Los Angeles' Executive Director Gene Seroka states, "We've seen declining exports for 11 consecutive months while our fastest growing segment is exporting empty containers back to Asia. It's likely we'll see softer volumes in the 4th quarter. We must have a negotiated settlement of the trade war as it is beginning to impact the more than 3 million jobs in the US that are tied to this port complex." US containerized exports to China for all grains has plunged by almost 40% with all US exports to China dropping by approximately 21.5% for the first half of the year. While new Asian trading partners has increased by 11.8% to offset some of China's purchases, a spokesperson for agricultural alliances simply stated "there is no replacement for 1.4 billion people."

Through the 3rd quarter total volumes at the Port of Long Beach are down by 5.7% as traffic continues to migrate to their sister port, Los Angeles. The shift has been attributed to an incentive program for cargo carriers that the Port of LA launched last year, but Long Beach has now approved their own program commencing in October. While the program is not expected to reverse the volume erosion this year, Long Beach feels the enticement for container volume will be balanced for 2020. For Long Beach's 3rd quarter, July fell by -9.68% (621,781 TEU);

August was also negative, but by only -2.29% (663,993 TEU), while September posted a small gain of +0.82% (706,956 TEU).

The Port of Los Angeles continues to post record numbers in the 3rd quarter and is up +4.7% for the year. July grew by approximately +5.8% (912,153 TEUs) and August surged with +9.4% (861,080 TEUs), while September fell slightly from last September's record by -2.7% (779,901 TEUs).

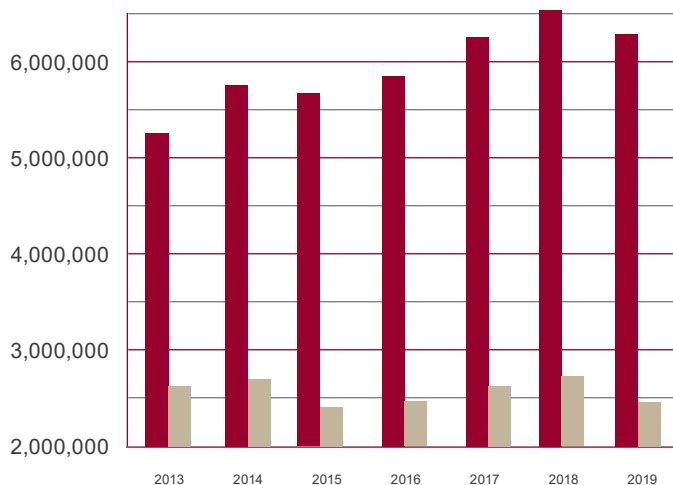
Part of the concern for a softer 4th quarter comes from the decline in shipping rates. For almost 10 months shipping spot rates have hovered around \$500 per forty foot unit, with quotes hitting \$519 for the first week of April. However, spot rates began to decrease recently and were at \$396 by the end of September – a decrease of over 30% in less than 6 months. The decrease in pricing power is a direct correlation between lower demand and fewer containers. It is interesting to note that the LA - Long Beach complex for Imports and Exports have decreased by over 3.6% primarily due to the tariff war; Exports have been hit the hardest with a decrease of almost 6.8%. What has masked the overall total container slump has been a steep increase of 8% in empty containers moved out of the US to be reused in the global supply chain as demand for loaded outbound containers has fallen.

- David Bales, Principal
Ryan Endres, Principal

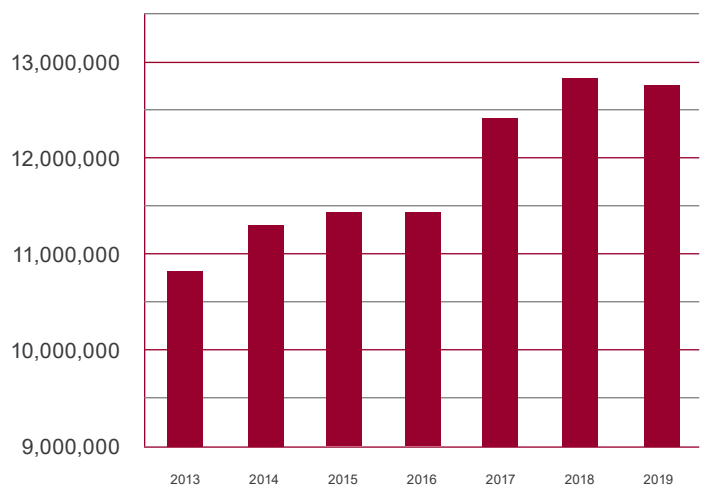
TEUs YTD SEPTEMBER 2019

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., AIR CRE, 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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