LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

LOS ANGELES - LONG BEACH
INDUSTRIAL MARKET REPORT

Q3

MARKET REPORT Q3 2021

LOS ANGELES - LONG BEACH
INDUSTRIAL MARKET REPORT

WILD RIDE

Q3 TRENDS AT A GLANCE

Absorption
1,855,785 SF

Average Rent
$1.19 / SF

Sales Transactions
$197.15 Million

Vacancy
0.7%

Under Construction
1,596,900 SF

Average Sales Price
$217.60 / SF

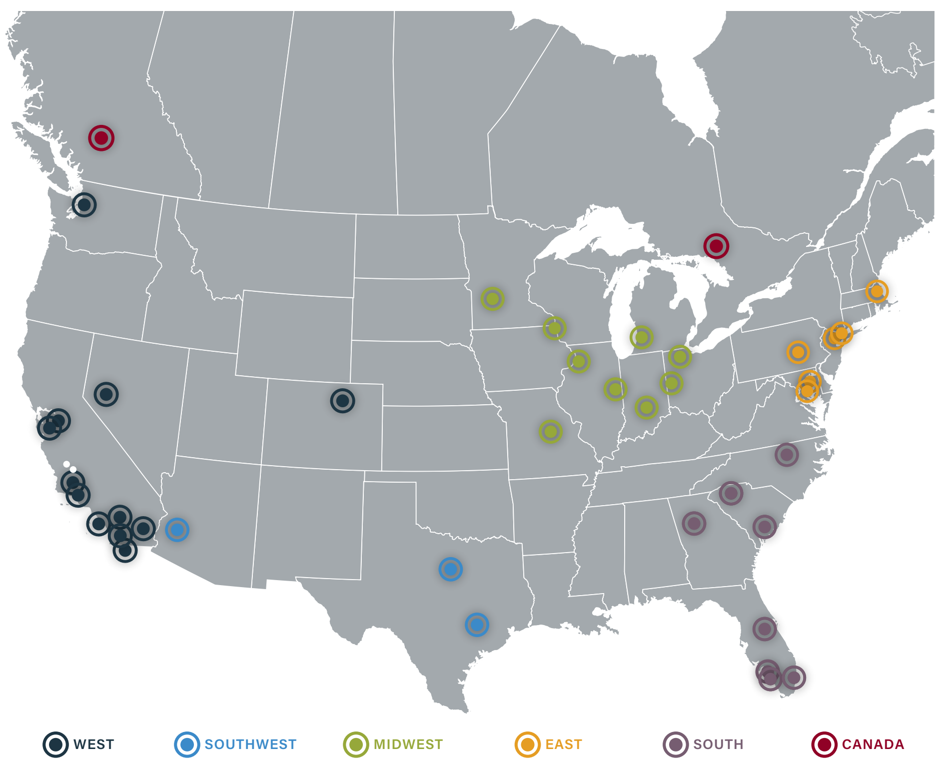
Source: CoStar Realty Information Inc.(As Of October 5, 2021)

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.



LOCAL EXPERTISE. **INTERNATIONAL** REACH. **WORLD** CLASS.

The South Bay Industrial market continues to exude robust performance in the 3rd quarter of 2021 as we are seeing record numbers all over the board, from sales prices to lease rates to low inventory numbers. With what feels like a record number of tenant/buyer requirements mixed with record low vacancy rates, the scramble to find suitable properties seems never-ending. The direct industrial vacancy rate in the Los Angeles / Long Beach marketplace shrunk from 1.1% to 0.7% last quarter. With fear for sounding like a broken record, we continue to see demand outpace new space deliveries. U.S. inflation is speeding up, with price increases spreading further through the economy. September's consumer-price index was up 5.4% year-on-year, unadjusted. ING chief international economist James Knightley was quoted in the Wall Street Journal stating,"Housing costs, low inventories and rising energy prices will keep inflation higher for longer."

Asking rents are up to $1.19 PSF on average based on Q3's transactions as we continue to see unprecedented growth in lease rates. In many cases, each new lease transaction is higher than the last and is differentiated by the following: Class A $1.40 - $1.60 PSF, Class B $1.20 - $1.52 PSF, Class C $0.95 - $1.15 PSF (per Month, NNN for 50,000 SF+). High dock door ratios and excess yard area drive premiums. Preleasing of any new buildings has declined with owners waiting until closer to actual delivery dates to commit to any new tenant given the rapidly rising lease rates. The average sale price was down to $217.60 PSF for Q3, a slight decrease from Q2 and sales transaction volume was down to $197.15 Million due mainly to older product trades. Institutional-grade investors with quick, cash purchase offers continue to beat out owner/occupier offers that typically have financing contingencies and extended escrow timelines. We are also seeing a continued interest from the 'capital markets' pursuing properties well below $10 Million price tags, historically not product of interest. With the limited number of land/development sites trading in the market, land prices for container parking sites have soared to above $150 PSF due to the major increase in leasing rates for this type of use. The 3rd Quarter experienced positive absorption of 1,855,785 SF, as drastically less space was delivered to the market than was leased/sold. The 3rd Quarter had 1,596,900 SF under construction out of roughly 240 Million SF of inventory.

Industrial real estate, particularly E-Commerce, fulfillment, and 3rd Party Logistics distribution related space, has established itself as a premier asset class in today's fast-moving economy. Although the cost of warehouse space has risen quickly within the last few months due to limited availability and high demand, skyrocketing transportation costs have been one of the largest contributors to the record pace of warehouse leasing, especially in urban 'in-fill' markets for shortened travel time and limited lengthy hauls of product. We have seen multiple acquisitions of non-industrial sites (office, retail, etc.) that can be redeveloped and repositioned for industrial redevelopment in years to come. Pressure for mergers and acquisitions continues to build up in the logistics sector.

The struggle to find space near the Ports of Los Angeles / Long Beach has led occupiers, especially many retailers, to secondary and tertiary markets that were otherwise not as favorable due to proximity. Airport-adjacent warehouses have also seen an increase in demand for any ability to utilize the often 'last-resort' air-freight shipment option. For manufacturers, it has grown increasingly costly to produce anywhere near the high-throughput port area facilities. We have seen and will continue to see sale-leasebacks for small and large companies looking to redeploy equity into their business and/or facilitate a future relocation, in many cases out of California all-together for less regulation, governmental oversight, and a more favorable tax environment.

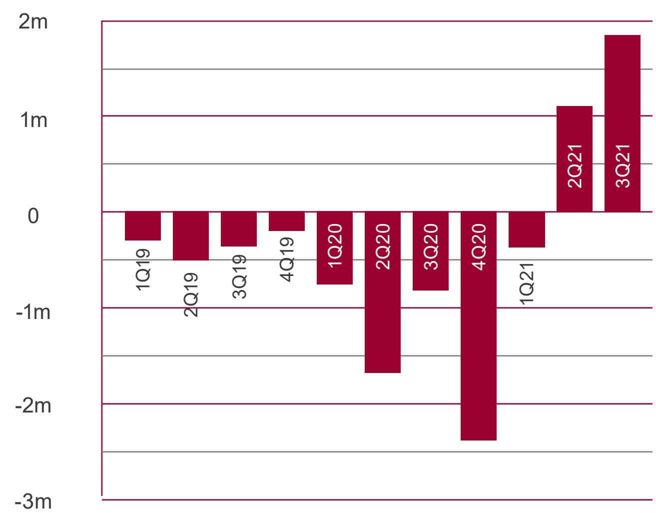
In August 4.3 Million people quit their jobs in the US in August according to the Labor Department, roughly 3% of the workforce. In an economy where jobs are plentiful and people to fill them are scarce, workers are finding themselves with much more leverage – including warehouse labor. This is a major headache for employers who must raise wages and offer more incentives or benefits to attract the right fit. It is likely nominal wage gains could be wiped out by inflation that has increased notably and "will likely remain elevated in coming months," according to Federal Reserve Board Chair Jerome Powell. The Biden administration has recently said it would not immediately remove the Trump administration's tariffs on Chinese goods and that he would hold Beijing accountable for trade commitments agreed to previously.

Turmoil in the shipping markets and global port congestion has been building up for years and is finally now getting the media attention it deserves. There is a laundry list of challenges that will not be solved overnight, with or without help from the White House. There are several challenges that all stakeholders in the global supply chain are being forced to deal with: fewer ocean carriers; strong steamship alliances; lack of labor availability; lack of truckers (both drayage and long-haul); blank sailings; chassis shortages; overseas dependency of imports; full warehouses; Covid-19 slowdowns; increased turn-times and dwell times; limited automation; rail congestion; lack of visibility and communication; different terminals with different rules and capabilities; hours of operation limitations; and degrading domestic infrastructure. Port congestion will remain deeply into 2022 until vessel schedule reliability climbs from its recent dip below 25% back to over 70% - more about this in our Port Update.

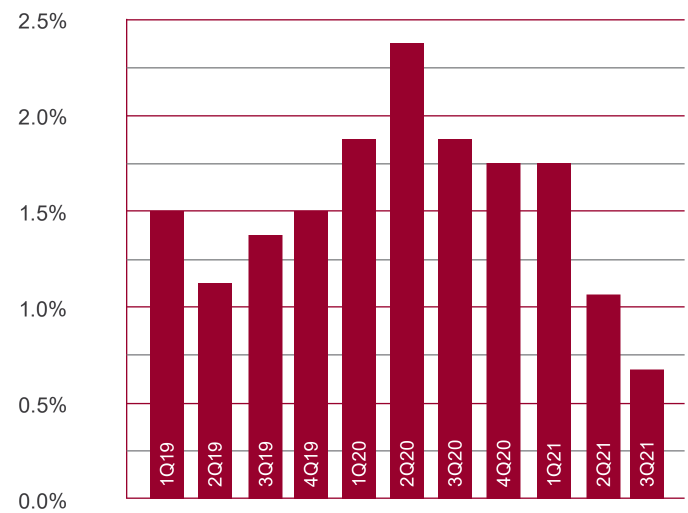
Despite the macro factors, local market conditions point to a continued increase in lease rates, purchase prices, and limited availability into the 4th Quarter. The continued low interest rate environment and SBA loan incentives are still advantageous for owner-occupiers. There is no better time than now to plan for your upcoming lease expiration, future relocation, expansion, downsize, and/or consolidation efforts for industrial space as it may take time to meet your goals. Contact your local Lee & Associates market expert for more information about what is happening in your submarket and guidance in navigating your specific situation. We are here to help and stress long-term relationships over a quick, potentially detrimental move today and can often provide perspective that could make or break decisions for your operation.

Andy Gage, Principal | Ryan Endres, Principal
Bret Osterberg, Principal

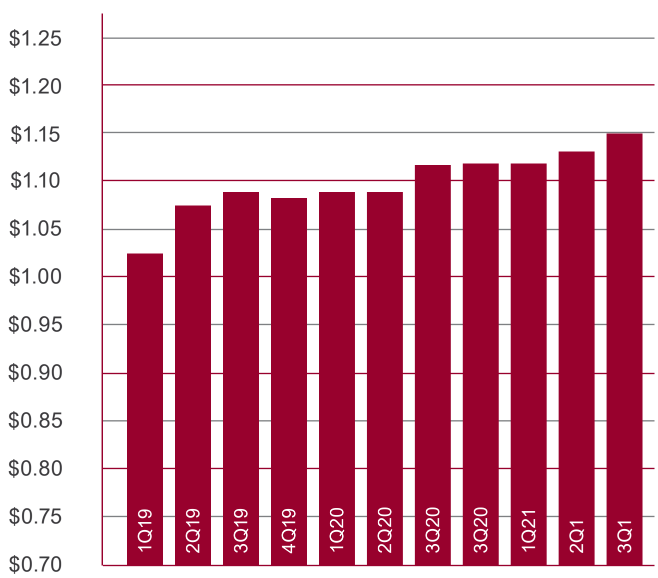
NET ABSORPTION



VACANCY



AVERAGE ASKING RENT BY QUARTER



ASKING PRICE PER SQ FT

Source: CoStar Realty Information Inc

Source: CoStar Realty Information Inc & AIR

Q3 2021 TOP LEASES BY SF

PROPERTY ADDRESS	CITY	TYPE	LEASE RATE	SQUARE FEET	LEASE TYPE
2400 E ARTESIA BLVD	LONG BEACH	WAREHOUSE	$1.41 / SF NNN	415,160 SF	DIRECT
19681 PACIFIC GATEWAY DR	TORRANCE	WAREHOUSE	$1.29 / SF NNN	251,606 SF	DIRECT
601 W. CAROB ST.	COMPTON	MANUFACTURING	$1.05 / SF NNN	234,600 SF	DIRECT
333 W. GARDENA BLVD	GARDENA	WAREHOUSE	$1.30 / SF NNN	145,840 SF	DIRECT
17800 S VERMONT AVE	GARDENA	LAND	$0.57 / SF NNN	339,768 SF	DIRECT

Q3 2021 TOP SALES BY SF

PROPERTY ADDRESS	CITY	TYPE	SALES PRICE	SQUARE FEET	REGION
1005 E ARTESIA BLVD	CARSON	DISTRIBUTION	$177.88 / SF	74,768 SF	SOUTH
2301 - 2321 E DEL AMO BLVD	COMPTON	WAREHOUSE	$201.13 / SF	45,494 SF	SOUTH
13025 CERISE AVE	HAWTHORNE	WAREHOUSE	$376.19 / SF	21,000 SF	SOUTH
2410 SIERRA DR	COMPTON	WAREHOUSE	$300.07 / SF	14,330 SF	SOUTH
1711 ALAMEDA ST	WILMINGTON	LAND	$66.96 / SF	1,045,440 SF	SOUTH

2400 E ARTESIA BLVD LEASED

19681 PACIFIC GATEWAY DR LEASED

601 W. CAROB ST. LEASED

1005 E ARTESIA BLVD SOLD

2301 - 2321 E DEL AMO BLVD SOLD

13025 CERISE AVE SOLD

LOS ANGELES & LONG BEACH PORT ACTIVITY

Presently, the Southern California Ports have lost the Congestion Battle as over 70+ ships are waiting to unload their goods. While overall volumes are over 25% higher than last year and on their way to a new annual TEU record, one cannot celebrate yet as the flaw in America's busiest Ports has been exposed. Solutions to a broken supply chain are complicated. Until it is corrected, the implications will be shortages of goods for Halloween, Christmas, and beyond. In addition, handicapped GDP and eminent inflation can be directly linked to the parking lot of vessels in the San Pedro Bay among all other entry Ports in the U.S..

One of the often overlooked ironies about the record Port volumes is the decreasing share of America's Exports. While total container counts are at historic numbers, it is only Imports and Empties that are contributing to these increased volumes. U.S. Exports are down over 10% from last year and almost 30% since 2018. This trade imbalance has quickly deteriorated. While some have hoped for manufacturing to return domestically, especially as shipping prices from Asia are 10 times higher than just a few years ago, America continues to be dependent upon goods manufactured overseas.

For the Port of Long Beach (POLB), July continued its monthly winning streak with 784,846 TEUs moved. While only a 4.22% increase – July 2020 was the turning point for Long Beach and America's economic recovery. August continued to 'keep calm and carry on' with 807,705 TEUs and a gain of 11.31%. In September the ships did not stop arriving and POLB's ability to process vessels could not keep up. Long Beach capacity surpassed over 90% with a high-rise of container stacks dominating their terminals as equipment shortages (like chassis) slowed their efficiencies. Long Beach processed only 748,473 TEUs and a drop of 5.92% as the cue of ships waiting to dock at either Port grew from 20 - 30 to averaging about 40 - 50 in September.

"We are having capacity issues due to the unprecedented number of containers waiting to move off the terminals, while warehouses have little to no room to accommodate this ongoing spike in cargo moving through our port,"said Mario Cordero, Executive Director of the Port of Long Beach. "This is not just about a record number of ships waiting off the coast. We are working with state, federal, local and industry partners to address issues with the entire supply chain that have finally caught up with us."

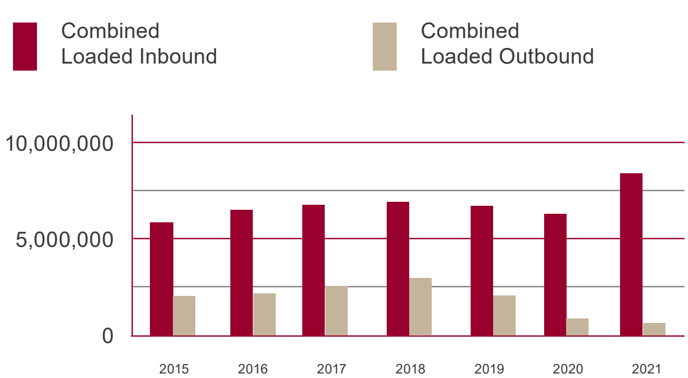
The Port of Los Angeles (POLA) July volumes continued a steady high volume of goods with 890,799 TEUs representing an increase of 4.02%. August processed even more goods with 954,377 TEUs but was slightly behind 2020 with a decrease of less than 1%. Given the same capacity and efficiency issues that Long Beach was facing, POLA handled essentially everything it could with their busiest September in its history with 903,865 TEUs, a small 2.29% increase. However, throughout September there were approximately 2 weeks of backlogged ships waiting on the water with numerous new vessels departing from Asia knowing there could be as much as an 11 day delay upon U.S. arrival.

Going into the 4th Quarter, the Ports of LA and Long Beach have been National news as 110 container ships either were parked at the docks or waiting in the San Pedro Bay. Even President Biden visited the Port complex and attempted to work with stakeholders to figure out a solution – unfortunately, there is not an easy one. The Ports have offered to work freight 24/7. However, with a shortage of labor and equipment along with Port inefficiencies it seems unlikely to make significant impact before year's end. The harsh reality is we know of a retailer whose Halloween goods will not arrive until the first week of November. The bigger picture is a lot of consumers are already buying gifts for Christmas and the inventories are rapidly being depleted. The grim truth is almost all goods leaving Asia after the beginning of September will not be in stores until January – Santa is not happy at all. Numerous groups are working together to handle more capacity, which should ultimately create a more efficient Port. Looking forward, the backlog of ships is predicted to continue throughout most of 2022. At the same time the ILWA contract with POLA and POLB is to be renewed making an already challenging time even more complicated.

David Bales, Principal | Ryan Endres, Principal

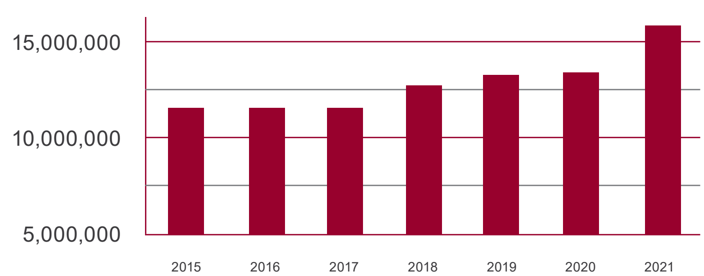
TEUs YTD OCTOBER 2021

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

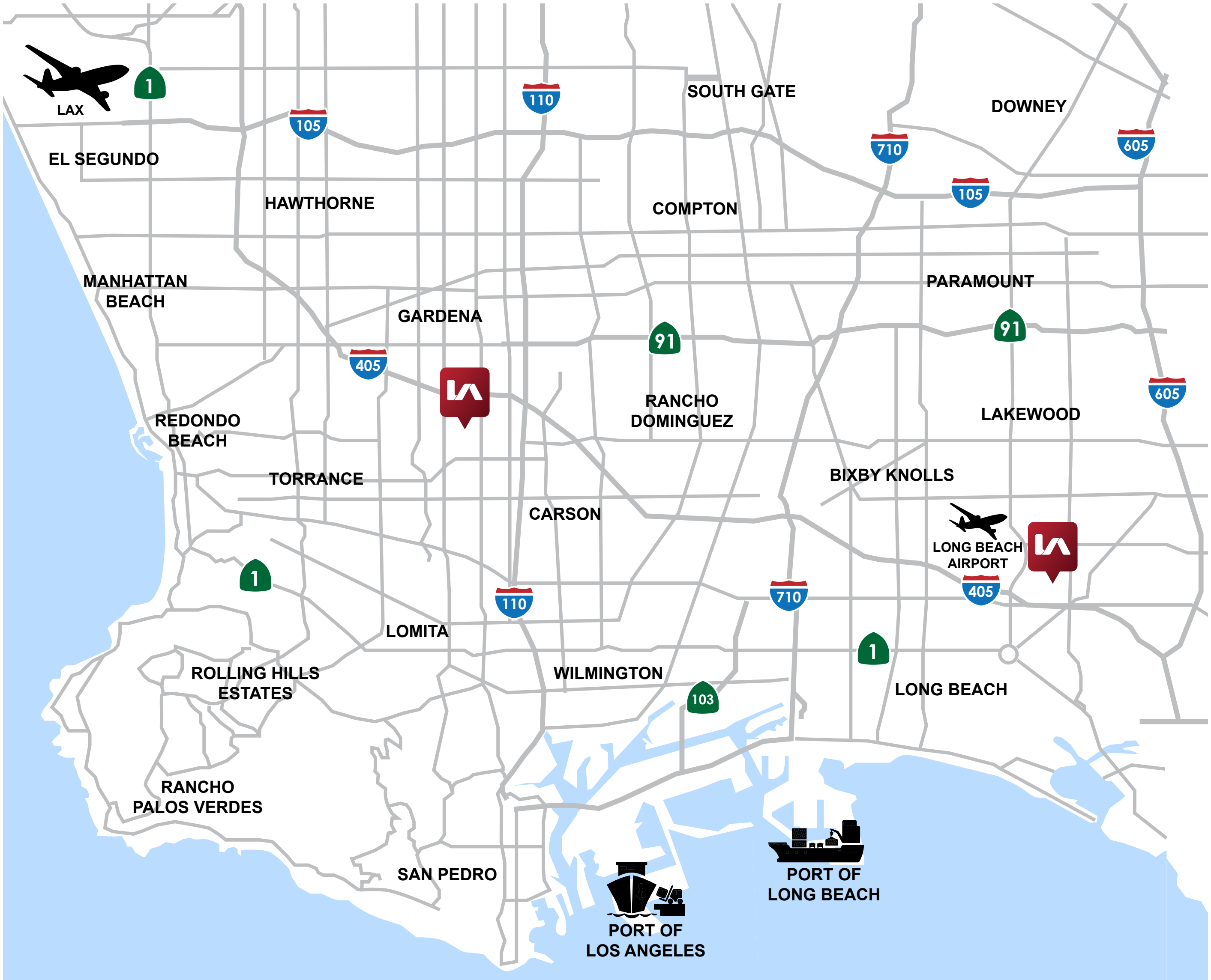


Total Containers San Pedro Port Complex

Loaded Totals and Empties Combined



LOS ANGELES & LONG BEACH INDUSTRIAL MARKET MAP



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- 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, The Wall Street Journal, PIERS, a JOC.com sister company within IHS Markit

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