

# LOS ANGELES - LONG BEACH INDUSTRIAL MARKET REPORT

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## 3Q 2022



## Tight Industrial Market in a Slowing Economy

After an unprecedented demand for durable goods in 2020 and 2021, the nationwide shopping spree has appeared to have ended or hopefully paused. US Retailers now have a glut of overstock to dispose. These goods are stored in warehouses throughout the US as vacancy levels are at historical lows – especially in Southern California. With this quick reversal, estimated U.S. container imports nationally were down approximately 11% in September and October is estimated to decline by 9.4% year-over-year (YoY). While September experienced this steep decrease, it is still above Pre-Pandemic levels. Real GDP, on a seasonally adjusted annual basis, is estimated to grow in the third quarter of 2022 by **2.8%**. This outlook is associated with persistent inflation and rising hawkishness by the Federal Reserve. 2022 Real GDP growth is presently estimated at **1.5%** YoY and 2023 growth will slow to 0% YoY.

**Note regarding asking rates:** Across the LA Basin, we are seeing landlords and owners putting property on the market without an asking rent or sales price. Due to this fact, there can be a large divergence between asking rates and the “strike price” or completed transaction (comp) rates on any deal. To give better perspective on what one can expect to pay within each submarket, we have included both average asking rates as well as average comp rates for each submarket.



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# SOUTHBAY SUBMARKET



## 3Q Trends At A Glance



**Absorption**  
432,753 SF



**NNN Rent Overall**  
\$1.75 / SF



**Sales Transactions**  
\$506.66 Million



**Vacancy**  
1.1%



**Under Construction**  
1,992,214 SF



**Average Sales Price**  
\$450.45 / SF

Source: Costar Realty Information Inc.





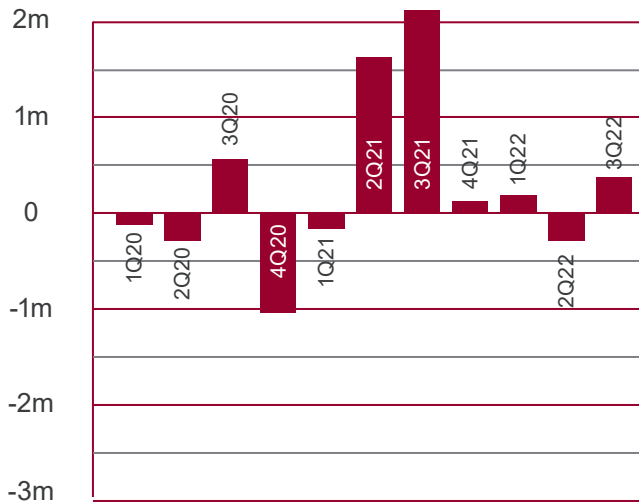
The South Bay industrial market had an outstanding performance in the third quarter of 2022. Vacancy, remained extremely tight at 1.1%. Net absorption for the quarter was over 430,000 square feet and asking prices now stand at \$1.75 PSF, increasing \$0.54 over the last 12 months. Comp rates, however, are near \$1.75 PSF on average. Proximity to the ports is crucial for logistics and e-commerce tenants and they are the ones most aggressively seeking out Class A buildings in the South Bay. One building totaling over 295,000 SF delivered this quarter, while 13 buildings totaling over 1.9 million square feet are still under construction. Several of these projects are expected to deliver within the next six months. Twenty-six buildings traded hands this quarter totaling over \$506 million, the second highest sales volume by dollars in the history of the submarket. Whether you use the average price per building square foot (PSF) or the median price per building square foot, both were the highest on record. Respectively, they were \$450.45 and \$388.62 PSF. Over the past half decade, institutional investors have had the advantage over owner-

users in terms of being able to buy buildings. We are seeing signs, however, that market conditions are turning in the favor of owner-users.

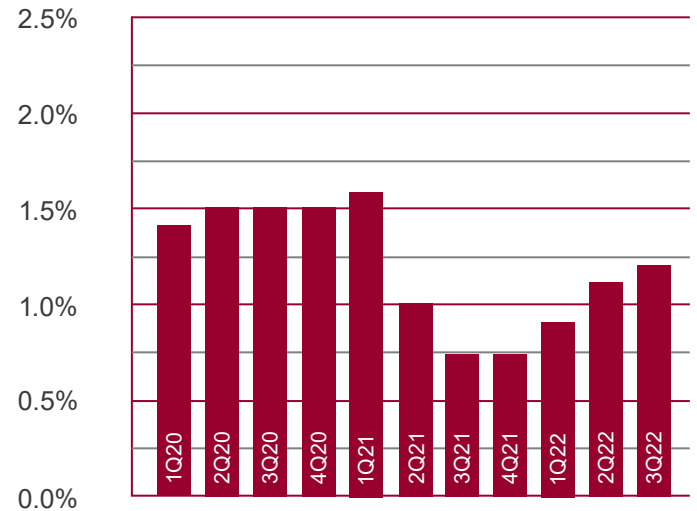
Given that the Fed is expected to continue its fight against inflation by raising interest rates, and most forecasters anticipate a mild recession in 2023, there are concerns that new speculative (spec) development projects are either going to decline or remain in abeyance. Even if these concerns come true, this will only further reduce the supply of vacant and available industrial space needed in the South Bay. We will have a clearer picture of where spec development is headed by the end of Q1 2023.

Concerns about spec development aside, we do not see any decline in demand for industrial or warehouse/distribution real estate. Instead, we foresee demand continuing to outpace supply and market conditions remaining extremely favorable for landlords and owners. Although their rate of increase might slow, rental rates and sale prices will remain extremely high in the South Bay.

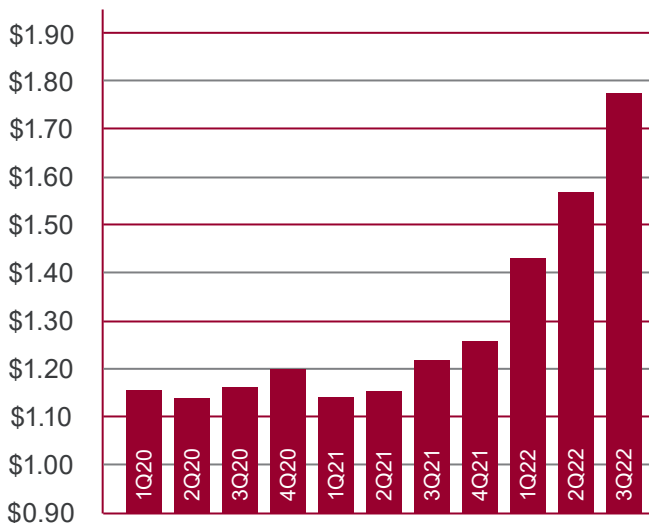
## NET ABSORPTION



## VACANCY



## AVERAGE ASKING RENT BY QUARTER



## ASKING PRICE PER SQ FT





Source: CoStar Realty Information Inc & AIR

## TOP LEASES FOR 3Q22

ADDRESS	CITY	TYPE	TENANT	SQUARE FEET
17022-38 S FIGUEROA ST	GARDENA	MANUFACTURING	COST PROPERTIES LTD	209,132 SF
1620 S WILMINGTON AVE	COMPTON	DISTRIBUTION	NRS	206,306 SF
23610 S BANNING BLVD	CARSON	DISTRIBUTION	QUIK PICK EXPRESS	168,398 SF
18291 S SANTA FE AVE	RANCHO DOMINGUEZ	WAREHOUSE	CH ROBINSON	141,000 SF

## TOP SALES FOR 3Q22

ADDRESS	CITY	TYPE	SALES PRICE	SQUARE FEET
645 N EUBANK AVE	WILMINGTON	LAND	\$347.00 / SF	499,633 SF
920 E PACIFIC COAST HWY	WILMINGTON	LAND	\$271.00 / SF	110,000 SF
3031-3033 GARDENIA AVE	LONG BEACH	WAREHOUSE	\$650.58 / SF	75,317 SF
16801-11 S CENTRAL AVE	CARSON	DISTRIBUTION	\$415.42 / SF	73,179 SF



# MID COUNTIES SUBMARKET



## 3Q Trends At A Glance



**Absorption**  
210,589 SF



**NNN Rent Overall**  
\$1.53 / SF



**Sales Transactions**  
\$489.18 Million



**Vacancy**  
0.6%



**Under Construction**  
165,265 SF



**Average Sales Price**  
\$308.04 / SF

Source: Costar Realty Information Inc.



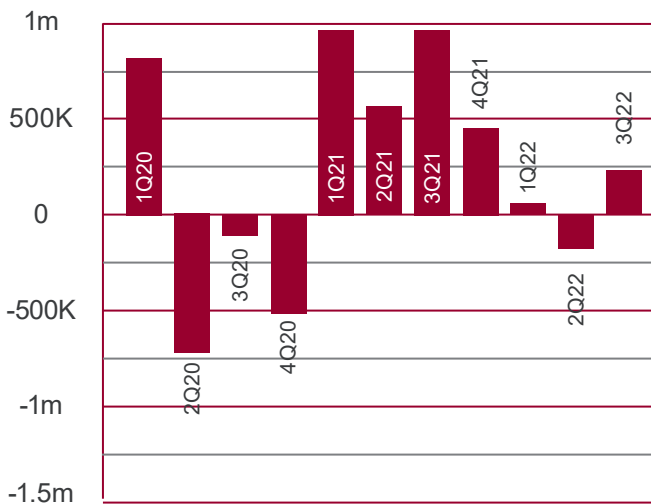


## 3Q 2022 Mid Counties Industrial Overview

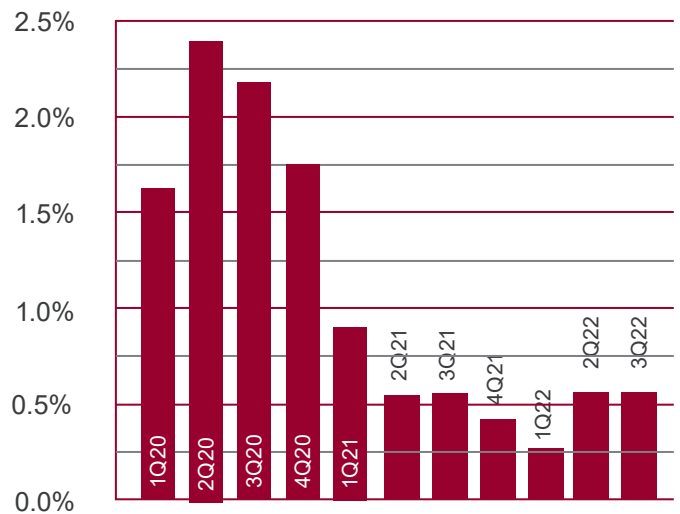
Mid-Counties continued to have the lowest vacancy rate of any major industrial submarket within Los Angeles at 0.6% or 653,000 square feet. To put that in perspective, the total amount of vacant square feet in Mid-Counties is (basically) equivalent to one building in the Inland Empire. No new buildings delivered in Q3, and a mere 165,000 SF was under construction at quarter's end. Santa Fe Springs has approximately 92,000 SF under construction, followed by Whittier with 28,000 SF. These numbers are inadequate to alleviate the lack of supply afflicting the submarket. It is not surprising, then, that only 840,000 SF was directly leased this quarter, less than the 949,000 leased in Q2. That is the seventh lowest amount leased in the history of the submarket. With very little development activity in the pipeline, Mid-Counties will continue to see tight market

conditions, as limited availability will put upward pressure on rental rates. Average asking rents increased to \$1.53 NNN PSF, a year over year increase of about 72% from Q3'21's rate of \$0.89 PSF. We are seeing average comp rates around \$1.53 PSF. Prepare renewing-tenants for sticker shock as rents have nearly tripled over the past 10 years. For reference, in Q3 2012, average asking rents were only \$0.48 NNN PSF. Building owners, however, can command a high price for their properties. The average price per building square foot was \$308.04 for the quarter, the third highest in the history of the submarket.

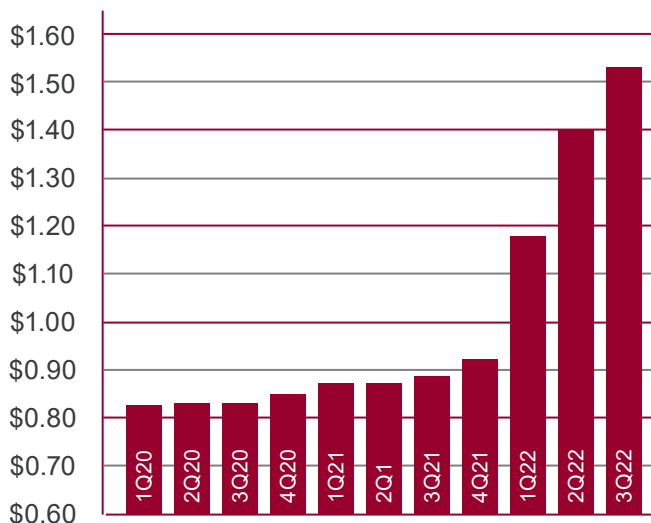
### NET ABSORPTION



### VACANCY



### AVERAGE ASKING RENT BY QUARTER



### ASKING PRICE PER SQ FT





Source: CoStar Realty Information Inc & AIR

## TOP LEASES FOR 3Q22

ADDRESS	CITY	TYPE	TENANT	SQUARE FEET
11600 LOS NIETOS RD	SANTA FE SPRINGS	WAREHOUSE	ORANGE COURIER	106,251 SF
17211 VALLEY VIEW AVE	CERRITOS	WAREHOUSE	FELIX LIGHTING CORPORATION	100,000 SF
14680-700 ALONDRA BL	LA MIRADA	WAREHOUSE	LA FIESTA	96,484 SF
13711 FREEWAY DR	SANTA FE SPRINGS	WAREHOUSE	BRAD RAMBO AND ASSOCIATES	87,529 SF

## TOP SALES FOR 3Q22

ADDRESS	CITY	TYPE	SALES PRICE	SQUARE FEET
16200-20 CARMENITA RD	CERRITOS	DISTRIBUTION	\$440.14 / SF	199,937 SF
12065 PIKE ST	SANTA FE SPRINGS	DISTRIBUTION	\$531.37 / SF	159,964 SF
12801 ANN ST.	SANTA FE SPRINGS	WAREHOUSE	\$423.84 / SF	106,230 SF
11935 BAKER PL	SANTA FE SPRINGS	WAREHOUSE	\$475.51 / SF	29,442 SF



# CENTRAL SUBMARKET



## 3Q Trends At A Glance



**Absorption**  
(885,523 SF)



**Average Rent**  
\$1.69 / SF



**Sales Transactions**  
\$595.74 Million



**Vacancy**  
2.1%



**Under Construction**  
460,770 SF



**Average Sales Price**  
\$286.48 / SF

Source: Costar Realty Information Inc.



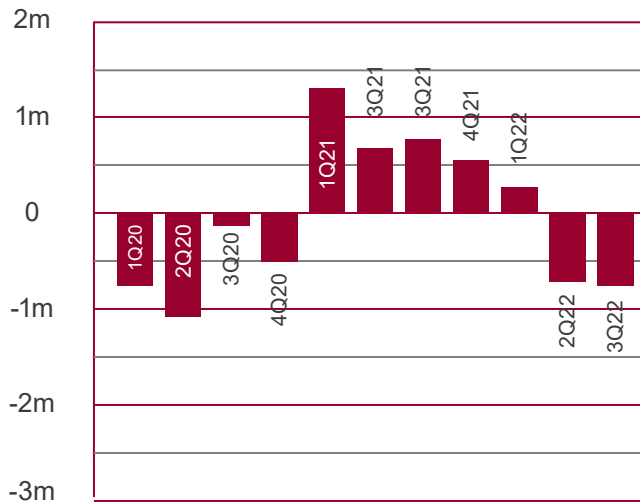


## 3Q 2022 Central Industrial Overview

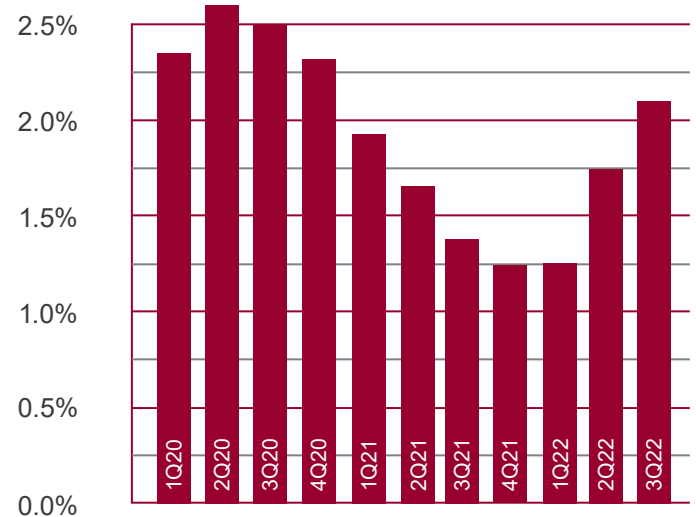
Vacancy for in Central LA ended the quarter at 2.1% . Even with that extremely low rate, compared to the other submarkets we cover within LA's industrial base, Central LA had the highest vacancy rate. For perspective, keep in mind that Los Angeles has had a vacancy rate below 3% for 42 straight quarters now. In other words, for over 10 years vacancy hasn't been above 3% in the Central market! Net absorption was negative for the quarter and the total amount leased was over 2.6 million square feet. The total number of lease transactions equaled 105; the quarterly historical average is 103. Four buildings totaling over 208,000 square feet delivered this quarter and five buildings totaling over 460,000 SF are under construction. Average asking rental rates are \$1.69 per square foot (PSF), a year over year increase of 23% from Q3'21's

\$1.37 PSF. Industrial demand is heavily concentrated in the Vernon and Commerce micromarkets, with food production and apparel manufacturing remaining the top industries. This quarter Commerce lead the way with the highest asking rate at \$1.68, which is due to the micromarket's large concentration of food manufacturing tenants. These spaces come at a premium and will continue to drive up asking rents.

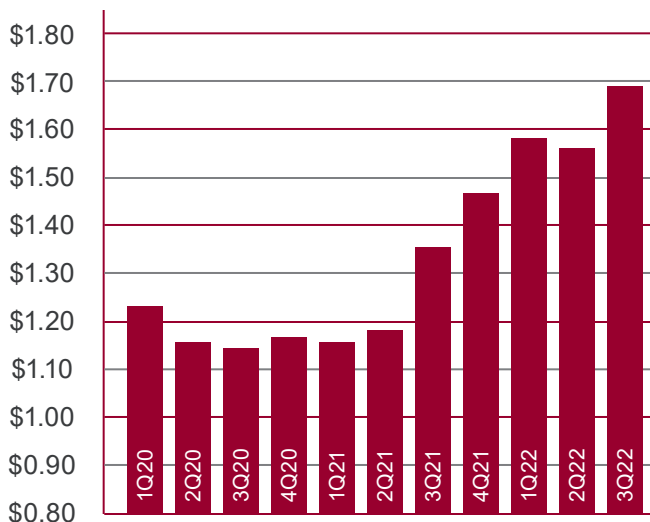
### NET ABSORPTION



### VACANCY



### AVERAGE ASKING RENT BY QUARTER



### ASKING PRICE PER SQ FT







Source: CoStar Realty Information Inc & AIR

## TOP LEASES FOR 3Q22

ADDRESS	CITY	TYPE	TENANT	SQUARE FEET
7255 ROSEMEAD BLVD	PICO RIVERA	WAREHOUSE	PACIFIC LOGISTICS LLC	202,629 SF
5950 S EASTERN AVE	COMMERCE	WAREHOUSE	DHE	168,352 SF
7379 TELEGRAPH RD	MONTEBELLO	DISTRIBUTION	2253 APPAREL	112,704 SF
6049 E SLAUSON AVE	COMMERCE	WAREHOUSE	ULTRA PRO	97,986 SF

## TOP SALES FOR 3Q22

ADDRESS	CITY	TYPE	SALES PRICE	SQUARE FEET
5801-5881 S 2ND ST	LOS ANGELES	MANUFACTURING	\$211.17 / SF	294,606 SF
8685 BOWERS AVE	SOUTH GATE	WAREHOUSE	\$218.83 / SF	196,500 SF
6000-6052 BANDINI BLVD	COMMERCE	WAREHOUSE	\$498.60 / SF	115,746 SF
13301 S MAIN ST	LOS ANGELES	WAREHOUSE	\$480.32 / SF	106,491 SF



# INLAND EMPIRE SUBMARKET



## 3Q Trends At A Glance



**Absorption**  
1,207,826 SF



**NNN Rent Overall**  
\$1.34 / SF



**Sales Transactions**  
\$1.52 Billion



**Vacancy**  
1.2%



**Under Construction**  
37,400,036 SF



**Average Sales Price**  
\$328.44 / SF

Source: Costar Realty Information Inc.

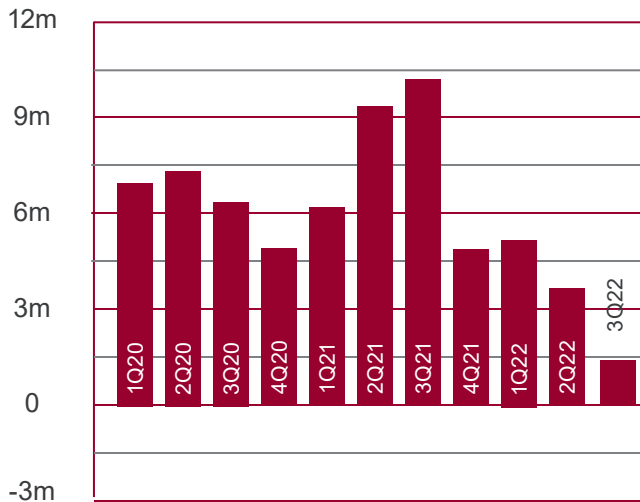


## 3Q 2022 Inland Empire Industrial Overview

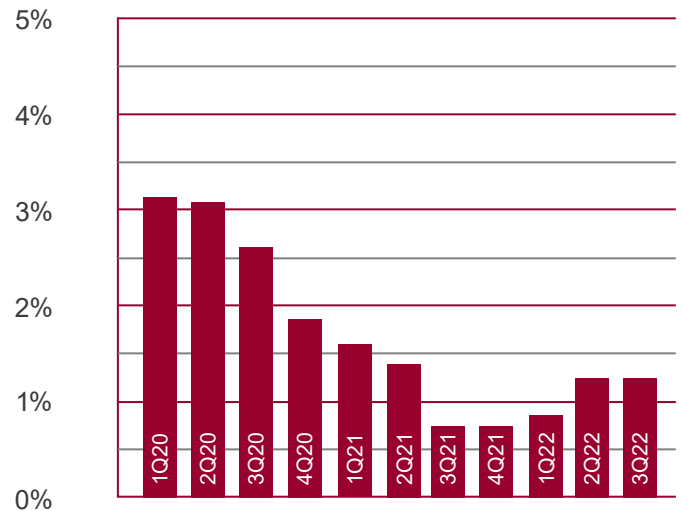
The Inland Empire continued its outstanding performance in Q3. Average asking rents continue their meteoric rise, jumping 57% year over year, from \$0.85 PSF in Q3'21 to \$1.34 PSF in Q3'22. The average comp rate for region as a whole is around \$1.40 PSF, while the IE West is even higher at \$1.65 PSF. Vacancy in the region remained the same as last quarter at 1.2%. Net absorption for the quarter totaled over 1.2 million square feet. The sector has grown exponentially since the start of the pandemic and will continue to attract institutional investment. The IE is still the only Southern California market with significant construction activity. As Q3 ended, more than 37 MSF of new space was under construction. For comparison, Los Angeles as a whole has just over 4.4 MSF in its development pipeline. Planned development rose to another all-time

high to just under 71 MSF in Q3, up from 66.2 MSF in Q2. The bulk of the planned projects are in the IE East where land for large scale projects is readily available and new developments face less regulatory hurdles. More than 80% of the planned space in the IE East will be for buildings larger than 500,000 SF.

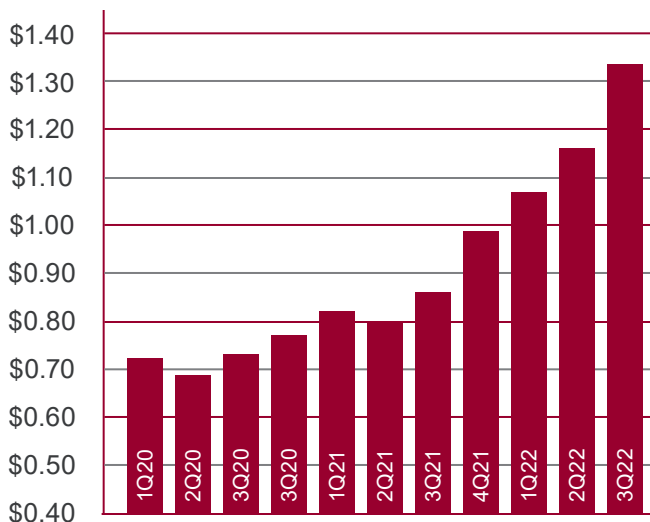
### NET ABSORPTION



### VACANCY



### AVERAGE ASKING RENT BY QUARTER



### ASKING PRICE PER SQ FT







Source: CoStar Realty Information Inc & AIR

### TOP LEASES FOR 3Q22

ADDRESS	CITY	TYPE	TENANT	SQUARE FEET
19115 HARVILL AVE	RIVERSIDE	DISTRIBUTION	HOME DEPOT	1,138,800 SF
2615 E 3RD ST	SAN BERNARDINO	WAREHOUSE	SHOPIFY	1,080,144 SF
2151 S VINTAGE AVE	ONTARIO	WAREHOUSE	TOYO TIRES	760,915 SF
2250 S SEQUOIA AVE	ONTARIO	WAREHOUSE	DISNEY	610,944 SF

### TOP SALES FOR 3Q22

ADDRESS	CITY	TYPE	SALES PRICE	SQUARE FEET
3900 INDIAN AVE	PERRIS	DISTRIBUTION	\$272.55 / SF	579,708 SF
6251 ARCHIBALD AVE	EASTVALE	DISTRIBUTION	\$458.24 / SF	501,649 SF
17783 INDIAN ST	MORENO VALLEY	DISTRIBUTION	\$287.40 / SF	436,350 SF
100 W WALNUT AVE	PERRIS	DISTRIBUTION	\$200.00 / SF	205,589 SF



Expect the industrial sector to end 2022 with strength. Rental rates will remain high as historically low vacancy levels will persist across the LA Basin. To secure the best deal possible, occupiers should plan to engage in discussions with landlords well ahead of any lease expirations or new requirements as well as have a willingness to move across the entire Southern California region. Landlords, on the other hand, will likely push rents upward without feeling the need to provide much in the way of tenant concessions. However, it is not uncommon for landlords to commit to slightly lower market lease rates for extremely credit worthy tenants.

Expect concerns about inflation and slowing economic growth to persist throughout the rest of year and into 2023. At the upcoming November FOMC meeting the Fed is expected to raise the fed funds rate by 75 basis points, and Fed's stated guidance is that it will continue to raise interest rates at each meeting until it sees clear signs of declining inflation. With core inflation at a 40 year high, the latest CPI report undermined any hope that the Fed is going to "pivot" away from rate increases. Accordingly, expect credit for loans, construction, equipment and otherwise, only to become more expensive as interest rates rise.

Current and pending economic developments complicate projections of consumer demand for warehoused products. Consumer spending remains stable and consumer sentiment experienced a slight uptick in the third quarter after reaching an all-time low in June. Despite the cautious optimism these metrics encourage, pessimism stemming from stock market losses, high inflation, continued rate hikes by the Fed, and the mild recession forecast by most economists to occur by mid-2023 might undermine discretionary spending in the coming months. The 2022 holiday season will be revealing in this regard.

That said, among all asset classes, whether in real estate or not, the industrial sector is well situated to weather any forthcoming economic headwinds. Demand for the product type remains strong and stable and will remain so for the foreseeable future.

- *LEE LB treats the vacancy-available rate as the vacancy rate.*
- *LEE LB uses treats the vacancy-available rate as the vacancy rate. Used Central\_Cotar\_Stats*

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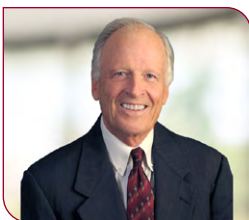
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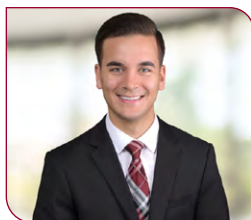
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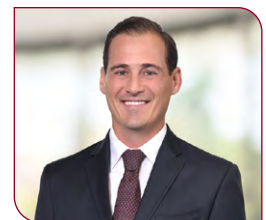
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