LEE & ASSOCIATES

COMMERCIAL REAL ESTATE SERVICES

LOS ANGELES - LONG BEACH
INDUSTRIAL MARKET REPORT

1Q 2023

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Resilient Economy and a CRE Market in Transition

Proving once again that the US economy is remarkably resilient, the positive economic news that started the new year continued at the end of Q1 in 2023. The economy grew by 2.6% in the fourth quarter of 2022, and it grew by 1.1% annualized in the first quarter of 2023. That means over the last year Real GDP has risen 1.6% . The unemployment rate now stands at 3.5% . To put this in perspective, in three short years after the first spike in unemployment caused by the COVID-19 pandemic, American prime-age employment rates have fully recovered and even exceeded 2020 levels. It marks one of the most rapid, comprehensive, and broad-based labor market recoveries in US history, with the unemployment rate dropping from nearly 15% in April 2020 to near-historic lows of 3.5% today. Across nearly every relevant age and demographic group, as many or more people are working today than in 2019. US inflation, moreover, continues to decline; year-on-year growth in the consumer price index has shrunk from a peak of 9.1% in June 2022 to just below 5% today.

Precisely because the economy is performing so well, most economists, forecasters, and business leaders are anticipating that the Fed will continue to raise rates throughout the year until it reaches its target inflation rate. For this reason, most forecasters still believe a mild recession is likely within the next twelve months. However, a significant minority are anticipating that the US economy will avoid a recession altogether. For example, in its latest forecast, the National Association of Realtors has the economy growing slowly every quarter throughout 2023 and projects the economy to grow by 1.1% for the whole year.

Regardless of one's stance on this issue, it is indisputable that the industrial market is in an excellent position to weather any headwind the economy might face. Total retail sales grew by 5.4% in Q1 compared to the same period a year ago , and as a percentage of total sales, e-commerce retail sales (the main driver of the industrial sector) now stand at 14.7% – 3.6 percentage points higher than where it stood at its peak prior to the pandemic in Q4 of 2019.

1. *The Economist: https://econ.st/3V5qfGm*
2. *BEA: https://bit.ly/41JhlRy*
3. *BEA: https://bit.ly/41JhlRy and Politano: https://bit.ly/3NqLrES*
4. *BLS and St. Louis Fed: https://bit.ly/3V3yeE3*
5. *Apricitas Economics: https://bit.ly/3oJEQeN and NYTimes: https://nyti.ms/3AuZ5zc*
6. *YCharts: https://bit.ly/3Nl9c14*
7. *NAR Forecast: https://bit.ly/3AqYa2G*
8. *Census Bureau: https://bit.ly/41U047S*
9. *St. Louis Fed: https://bit.ly/2r6CLZd*

SOUTHBAY SUBMARKET

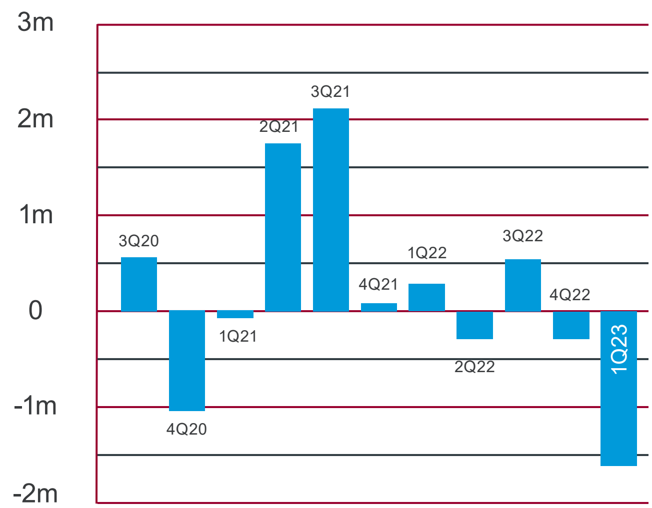
1Q Trends At A Glance

Absorption (2,165,402 SF)	**NNN Rent Overall** $1.56 / SF	**Sales Transactions** $72.074 Million
Vacancy 2.8%	**Under Construction** 1,020,654 SF	**Average Sales Price** $$339.94 / SF

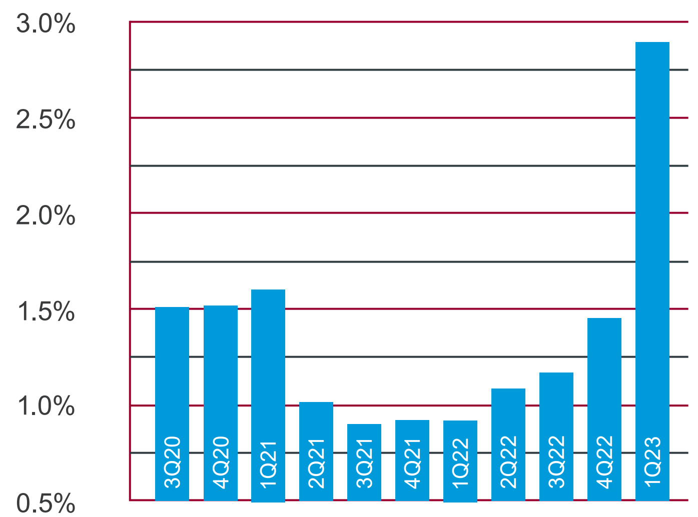
Source: Costar Realty Information Inc.

The South Bay industrial market performed well in the first quarter of 2023, even as it experienced changes not seen in a decade. Quarter over quarter, vacancy doubled from 1.4% to 2.8%. In other words, for the first time in ten years, vacancy reached nearly 3%. Vacancy increased partly because seven new buildings totaling over 934,000 square feet delivered to the market, and most of that space wasn't pre-leased. Moreover, not much leasing activity happened either in this or last quarter. Respectively, only 76 transactions, direct and sublease, totaling 1.3 million square feet (MSF) occurred this quarter and only 75 transactions totaling over 2.4 MSF happened last quarter. You have to go back all the way to Q4 of 2006 to see leasing activity numbers this low. In addition to that, not only is the number of transactions low right now, but the amount of space leased per transaction is also very low. For example, this quarter, only 17, 464 SQFT leased per transaction . Only eight other quarters have lower square-feet-leased-per-transaction on record.   All this might lead one to think that demand for industrial space is low, but in fact, it's quite the opposite. Although net absorption was negative for this quarter, tenant demand for space in the South Bay has never been higher. Transaction volume is low right now because rental rates are prohibitively high for most tenants. Asking prices now stand at $1.75 PSF, increasing $0.33 over the last 12 months. Comp rates, however, are near $2.25-2.35 PSF on average for Class A industrial space. Proximity to the ports is crucial for logistics and e-commerce tenants as they are the ones most aggressively seeking out Class A buildings in the South Bay. The highest leased comp this quarter was recorded by Arc Best Company as they leased over 146,000 SF from Sares Regis at a start rate of $2.30. Currently, no landlord wants to be the first one to lower rates. However, for the first time in a decade, they are under significant pressure to keep them where they are or to lower them. Over the next eighteen months, we do not expect rates to increase much further than where they currently stand; in fact, we anticipate prices to start equilibrating to a level more amenable to both landlords and tenants.

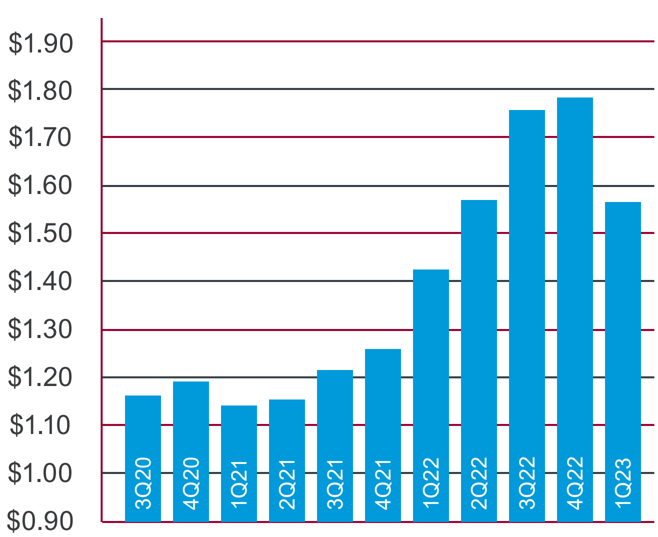
NET ABSORPTION



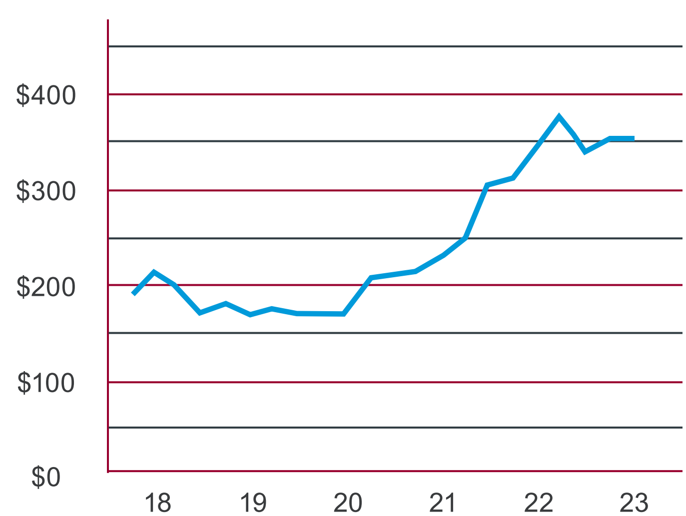
VACANCY



AVERAGE ASKING RENT BY QUARTER



ASKING PRICE PER SQ FT



TOP LEASES FOR 1Q23

ADDRESS	CITY	TYPE	TENANT	SQUARE FEET
20333 S NORMANDIE AVE	TORRANCE	WAREHOUSE	NATIONAL ROAD LOGISTICS/ PLATINUM CARGO	312,212 SF
2100 W 195TH ST, BLDG 3	TORRANCE	WAREHOUSE	ARCBEST	146,919 SF
966 E SANDHILL AVE	CARSON	DISTRIBUTION	ARKTURA LLC	129,247 SF
1431 W VIA PLATA ST	LONG BEACH	MANUFACTURING	PRO ACTIVE GROUP	112,121 SF

TOP SALES FOR 1Q23

ADDRESS	CITY	TYPE	SALES PRICE	SQUARE FEET
14805 S MAPLE AVE	GARDENA	MANUFACTURING	$439.22 / SF	51,000 SF
17899 & 17801 SUSANA RD	RANCHO DOM	WAREHOUSE	$366.17 / SF	42,204 SF
555 W 189TH ST	GARDENA	WAREHOUSE	$524.93 / SF	34,900 SF
5807 W 98TH ST	LOS ANGELES	WAREHOUSE	$340.67 / SF	27,593 SF

10. Lee LB treats the vacancy-available rate as the vacancy rate.
11. Calculation: 1,327,252 SQFT/76 transactions = 17,464 SQFT/Transaction
12. See SB Stats_SQFT Per Transaction Calculation File

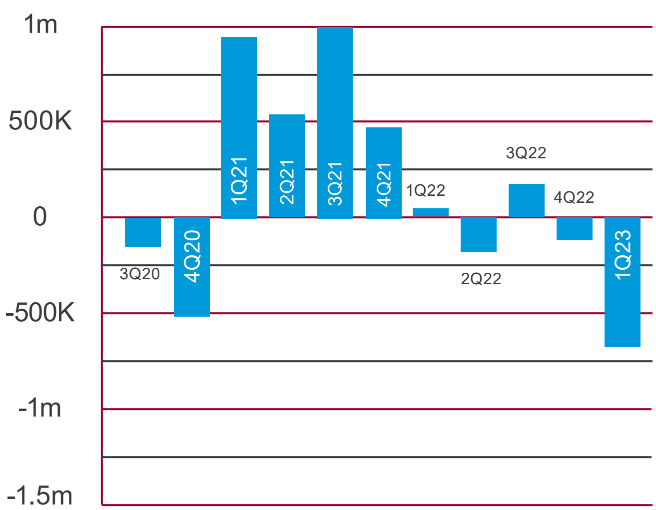
MID COUNTIES SUBMARKET

1Q Trends At A Glance		
Absorption (700,751 SF)	**NNN Rent Overall** $1.66 / SF	**Sales Transactions** $10.680 Million
Vacancy 1.5%	**Under Construction** 318,804 SF	**Average Sales Price** $298.54 / SF

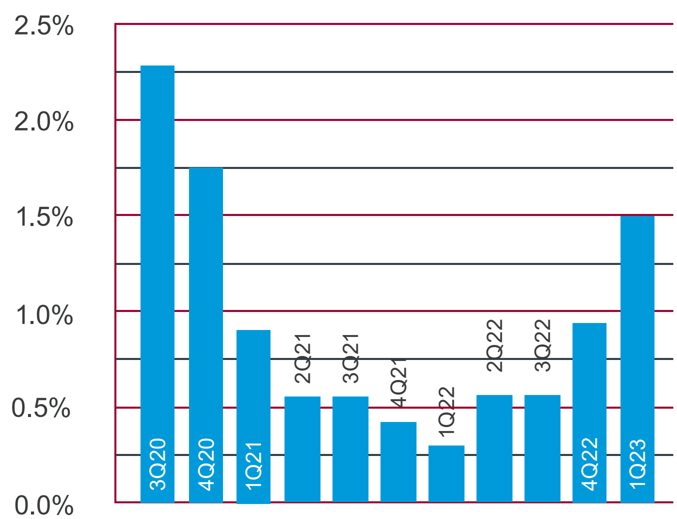
Source: Costar Realty Information Inc.

Mid-Counties continued to have the lowest vacancy rate of any major industrial submarket within Los Angeles at 1.5% or a little over 1.6 million square feet of vacant space. As small as that number is, it actually represents an increase in vacancy for the submarket. Vacant space increased by over 626,000 square feet from the last quarter. Two buildings totaling around 135,691 square feet delivered unleased in Q1. The remaining older space that came online remained unleased as well. It's not surprising that these spaces remained unleased because average asking rents increased to $1.66 NNN PSF, a year-over-year increase of about 29.5% from Q1 '22's rate of $1.17 PSF. We are seeing average comp rates of around $1.76 PSF. Prepare renewing tenants for sticker shock as rents have nearly tripled over the past 10 years. There are four buildings in the pipeline for construction. They total over 318,000 SF but that is not enough to overcome the tight market conditions facing the Mid-Counties. Because of these tight conditions, the buildings are remaining on the market for longer periods. Moreover, the financial credit of many prospective tenants in the market for buildings is not exceptionally strong, and in some cases quite weak. Landlords will thus have to be more patient in leasing these buildings, which could further extend the average time-on-market. Building owners, however, can command a high price for their properties. Only three buildings traded hands this quarter but the average price per building square foot was $298.54 – the fourth-highest price per building square foot on record.

NET ABSORPTION



VACANCY



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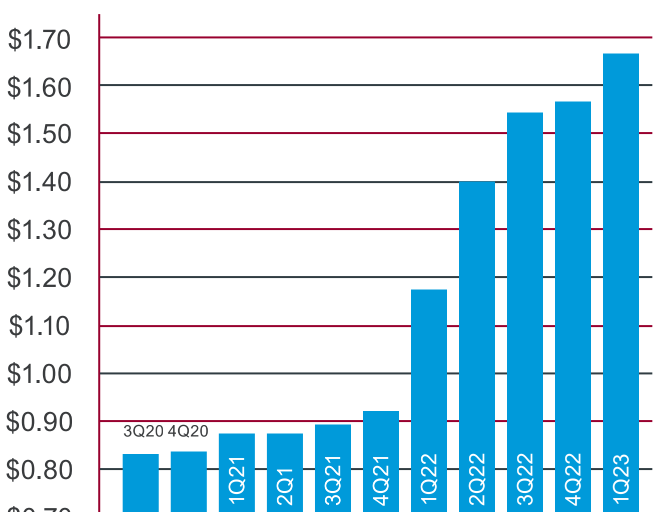


ASKING PRICE PER SQ FT

TOP LEASES FOR 1Q23

ADDRESS	CITY	TYPE	TENANT	SQUARE FEET
12521 LOS NIETOS RD	SANTA FE SPRINGS	MANUFACTURING	BEBELLA	92,771 SF
13815 STRUIKMAN RD	CERRITOS	MANUFACTURING	GURUNANDA	43,080 SF
9041 DICE RD	SANTA FE SPRINGS	WAREHOUSE	NIKE	15,348 SF
14423 MARQUARDT AVE	SANTA FE SPRINGS	MANUFACTURING	API	11,600 SF

TOP SALES FOR 1Q23

ADDRESS	CITY	TYPE	SALES PRICE	SQUARE FEET
14747 ARTESIA BLVD, BLDG 5	LA MIRADA	WAREHOUSE	$252.36 / SF	73,307 SF
17210 EDWARDS RD	CERRITOS	WAREHOUSE	$103.67 / SF	23,536 SF
11258 REGENTVIEW AVE	DOWNEY	MANUFACTURING	$258.50 / SF	14,700 SF
10317 WHITTIER BLVD	WHITTIER	LAND	$240.91 / SF	70,567 SF

13. *Bisnow: https://bit.ly/3L2kdBQ*
14. *Per Shopify's Forecast: https://bit.ly/3ldJ64n*

Expect the economy to grow throughout Q2. Even the economic forecasters who are anticipating a recession in 2023 are only expecting it to occur in Q3 and/or Q4 at the earliest. With all that said, among all asset classes, whether in real estate or not, the industrial sector is well situated to weather any forthcoming economic headwinds. E-commerce growth in 2023 is projected to be 5% higher than before the pandemic and will stabilize in the years following . Demand for the product type remains stable and will remain so for the foreseeable future. For the past decade, and especially during the pandemic boom, landlords and owners have been in a very dominant position and have felt free to increase prices and to do so at a quick pace. This is the first quarter where there are early indications that the balance of market power is changing. Vacancies are rising and the time-on-market for properties across the LA basin is also rising. Instead of growing, expect prices to remain at current levels and then start moderating over the course of the next eighteen months.

13. Bisnow: https://bit.ly/3L2kdBQ
14. Per Shopify's Forecast: https://bit.ly/3ldJ64n

Your Local Industrial Market Experts

Brandon Carrillo
Principal | DRE 01745362
Ph: 562-354-2510
bcarrillo@leelalb.com

Bret Osterberg
Principal | DRE 01364530
Ph: 310-965-1748
bosterberg@leelalb.com

Craig Poropat
Principal | DRE 00896729
Ph: 310-965-1777
cporopate@leelalb.com

Dennis Ingram
Sn Associate | DRE 00464251
Ph: 562-354-2520
dingram@leelalb.com

Don Smith
Principal | DRE 00787728
Ph: 310-965-1774
donsmith@leelalb.com

Dustin Byington
Associate | DRE 01838103
Ph: 310-965-1747
dbyington@leelalb.com

Dylan Espley- Jones
Principal | DRE 01885110
Ph: 562-354-2525
djones@leelalb.com

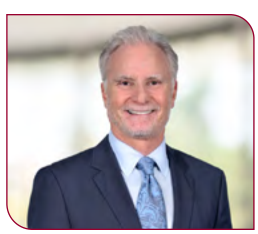
Garen Ramyan
Principal | DRE 01470057
Ph: 310-965-1757
gramyan@leelalb.com

Garrett Massaro
Principal | DRE 01771471
Ph: 562-354-2516
gmassaro@leelalb.com

Gavin Gill
Associate | DRE 01936303
Ph: 562-354-2529
gavingill@leelalb.com

Graham Gill
Sn. Associate | DRE 01903867
Ph: 562-354-2518
grahamgill@leelalb.com

Greg Gill
President | DRE 00370387
Ph: 562-354-2512
greggill@leelalb.com



Jesse A. Laikin
Principal | DRE 00781096
Ph: 310-965-1765
jlaikin@leelalb.com

Joseph Stanko
Principal | DRE 01986776
Ph: 310-965-1741
jstanko@leelalb.com

Max Robles
Associate | DRE 02057317
Ph: 562-354-2531
mrobles@leelalb.com

Your Local Industrial Market Experts

Michael Hernandez
Associate | DRE 02060706
Ph: 310-965-1749
mhernandez@leelalb.com

Robert Brown
Principal | DRE 01758391
Ph: 310-965-1769
rbrown@leelalb.com

Ron Mgrublian
Associate | DRE 01902882
Ph: 562-354-2537
rmgrublian@leelalb.com

Ryan Endres
Principal | DRE 01901652
Ph: 562-354-2527
rendres@leelalb.com

Say Jeon
Principal | DRE 01849450
Ph: 562-354-2514
sjeon@leelalb.com

Trauger Ralston
Principal | DRE 01731383
Ph: 310-965-1742
tralson@leelalb.com

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LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

1411 W. 190TH STREET, STE 450
GARDENA CA 90248
☎310-768-8800

5000 E. SPRING STREET, STE 600
LONG BEACH CA 9815
☎562-354-2500