

LOS ANGELES - LONG BEACH INDUSTRIAL MARKET REPORT

2Q 2022

SOUTHBAY SUBMARKET



2Q Trends At A Glance



Absorption
(381,814 SF)



NNN Rent Overall
\$1.57 / SF



Sales Transactions
\$346.95 Million



Vacancy
1.1%



Under Construction
2,415,220 SF



Average Sales Price
\$360.54 / SF

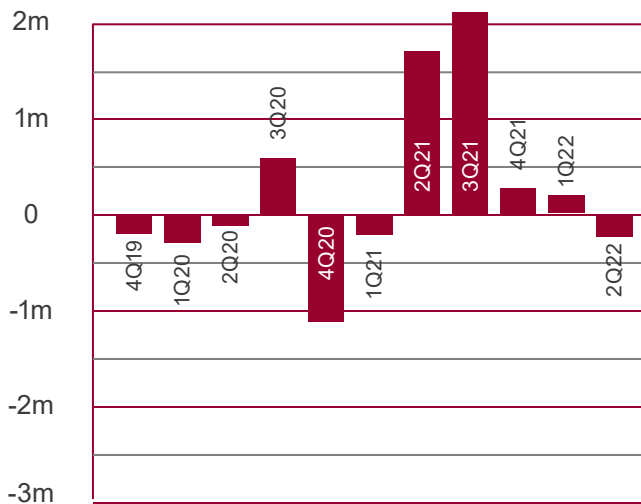
Source: Costar Realty Information Inc.



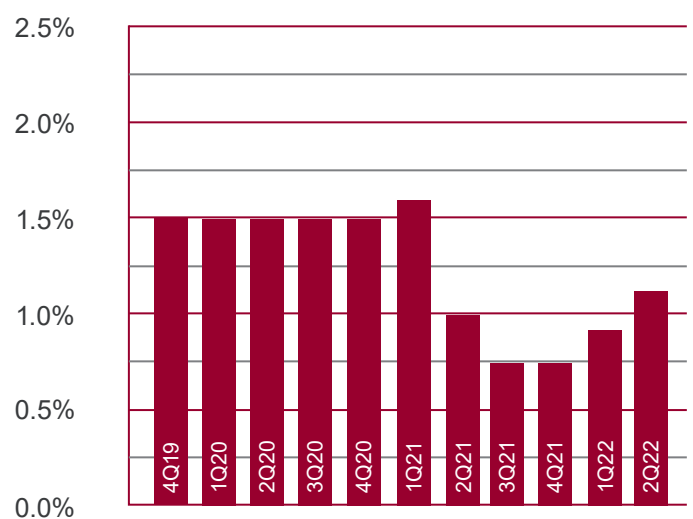
The South Bay industrial market closed out the quarter with a vacancy rate of 1.1%, a 10 basis point increase year over year. Settling at \$1.57 PSF, average asking rents have increased \$0.41 over the last 12 months. Comp rates, however, are near \$1.81 PSF. Proximity to the ports is crucial for logistics and e-commerce tenants and they are the ones most aggressively seeking out Class A buildings in the South Bay. Four buildings totaling over 414,000 SF delivered this quarter, while 13 buildings totaling over 2.4 million square feet are still under construction. Several of these projects are expected to deliver within the next six months. Negotiations between the longshoremen and port management is still ongoing. Although the deadline they set to reach a deal has passed, given the fragility of the current macroeconomic situation and pressure from the Supply Chain Council appointed by the President, neither party has left the negotiation table. Given the labor uncertainty at the

ports, firms that already have a foothold in the South Bay do not seem to be moving out of state. They are either staying put or expanding outside of the immediate port area and/or in other major port markets across the U.S. Moreover, institutional buyers still want to include South Bay properties within their portfolios. However, we are seeing re-trades or grumblings of re-trades over pricing and/or other terms within the last 30 days. The offering criteria has changed, what was acceptable a mere 30-45 days ago is no longer so. Because of concerns regarding rising interest rates, future borrowing power, and rates of return, some institutional buyers are pausing their purchases. However, large well capitalized firms such as Rexford view the “purchasing pause” by their competitors as a buying opportunity. Currently, the median price per building in the South Bay is trading at \$360.54, the highest on record.

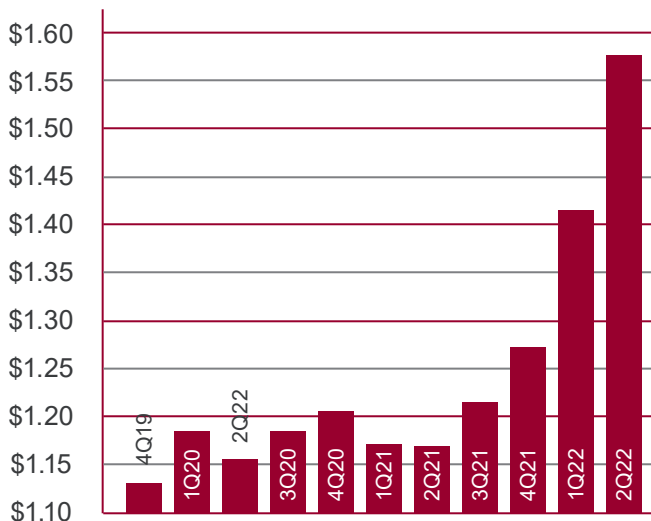
NET ABSORPTION



VACANCY



AVERAGE ASKING RENT BY QUARTER



ASKING PRICE PER SQ FT





Source: CoStar Realty Information Inc & AIR

TOP LEASES FOR 2Q22

ADDRESS	CITY	TYPE	TENANT	SQUARE FEET
20212 RANCHO WAY	RANCHO DOMINGUEZ	DISTRIBUTION	DONGWON LOEX U.S.A. INC.	103,170 SF
2730 E EL PRESIDIO ST	CARSON	WAREHOUSE	EVOLVE LOGISTICS	53,760 SF
1111 W. ARTESIA BLVD	COMPTON	WAREHOUSE	ACCELERATED GLOBAL SOLUTIONS, INC	47,948 SF
19431 S. SANTA FE AVE	COMPTON	LAND	FNS INC	128,502 SF

TOP SALES FOR 2Q22

ADDRESS	CITY	TYPE	SALES PRICE	SQUARE FEET
1010 SANDHILL AVE	CARSON	MANUFACTURING	\$539.53 / SF	85,259 SF
2751 EL PRESIDIO ST	CARSON	WAREHOUSE	\$400.86 / SF	40,600 SF
16961 S. CENTRAL AVE	CARSON	WAREHOUSE	\$371.97 / SF	33,000 SF
1910 DOMINGUEZ ST	CARSON	WAREHOUSE	\$406.85 / SF	30,785 SF

CENTRAL SUBMARKET



2Q Trends At A Glance



Absorption
(615,252 SF)



Average Rent
\$1.55 / SF



Sales Transactions
\$665.8 Million



Vacancy
1.3%



Under Construction
657,832 SF



Average Sales Price
\$396.71 / SF

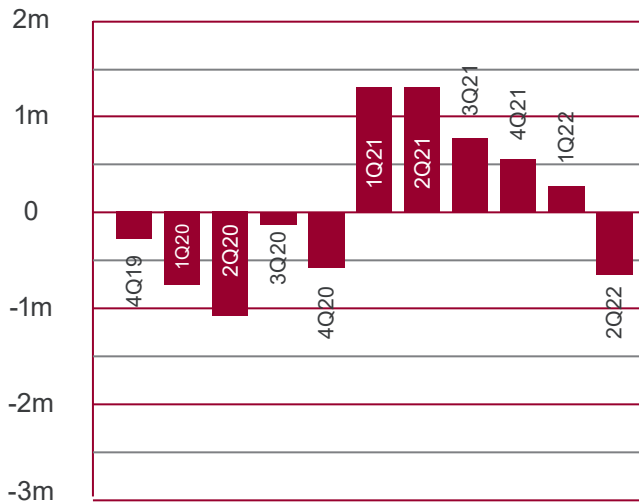
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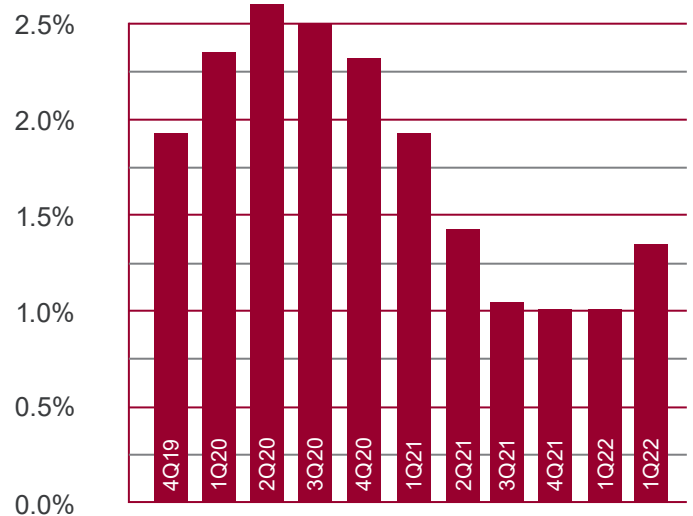
At midyear 2022, the vacancy for Central LA was 1.3%. Even with that extremely low rate, compared to the other submarkets within LA's industrial base, Central LA had the highest vacancy rate! For perspective, keep in mind that Los Angeles has had a vacancy rate below 3% for 41 straight quarters now. 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 1.6 million square feet. You have to go back to Q3 of 2004 to find a lower amount leased within a quarter. Over 657,000 square feet of industrial space is under construction, and over 114,000 delivered this quarter. Average asking rental rates are \$1.55 per square foot (PSF), a year over year

increase of 30% from Q2'21's \$1.19 PSF. This quarter a new peak in rents was reached when a newly constructed facility in the City of Commerce transacted at \$2.16 NNN PSF (granted there were tenant improvements and other concessions factored in to this rate). This transaction bolsters the point that modern facilities can command top dollar as available space to meet modern logistics needs are few and far between in Central LA. Similarly, studio space is in high demand throughout the region as companies like Showtime Networks have targeted industrial space for conversion.

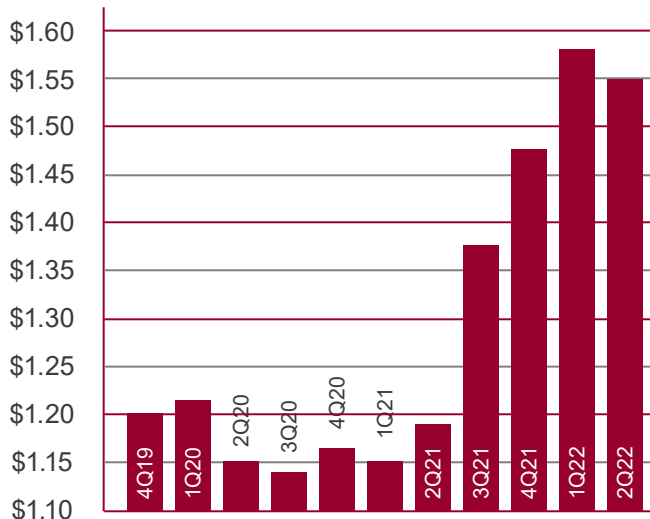
NET ABSORPTION



VACANCY



AVERAGE ASKING RENT BY QUARTER



ASKING PRICE PER SQ FT





Source: CoStar Realty Information Inc & AIR

TOP LEASES FOR 2Q22

ADDRESS	CITY	TYPE	TENANT	SQUARE FEET
4444 AYERS AVE	VERNON	WAREHOUSE	CURACAO	219,620 SF
5383 ALCOA AVE	VERNON	WAREHOUSE	ZUNI SPORTSWEAR INC.	155,646 SF
5200 SHEILA ST	COMMERCE	WAREHOUSE	FDH AEROSPACE	114,898 SF
8905 Rex Rd	PICO RIVERA	WAREHOUSE	VESTA	101,929 SF

TOP SALES FOR 2Q22

ADDRESS	CITY	TYPE	SALES PRICE	SQUARE FEET
2701-2711 & 2761 FRUITLAND AVE	VERNON	MANUFACTURING	\$167.88 / SF	268,049 SF
5729-5743 SMITHWAY ST	COMMERCE	FOOD PROC.	\$303.64 / SF	230,000 SF
4701 S SANTA FE AVE	VERNON	WAREHOUSE	\$157.59 / SF	224,640 SF
1205-1321 WHOLESALE ST	LOS ANGELES	COLD STORAGE	\$783.17 / SF	199,016 SF

MID COUNTIES SUBMARKET



2Q Trends At A Glance



Absorption
(235,878 SF)



NNN Rent Overall
\$1.40 / SF



Sales Transactions
\$217.8 Million



Vacancy
0.6%



Under Construction
165,265 SF



Average Sales Price
\$319.80 / SF

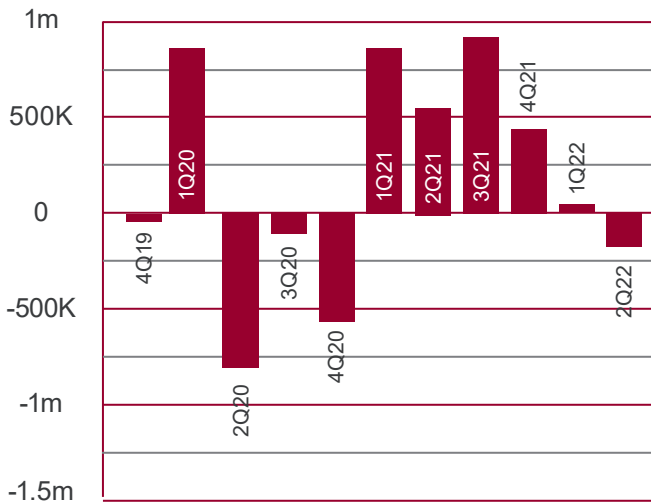
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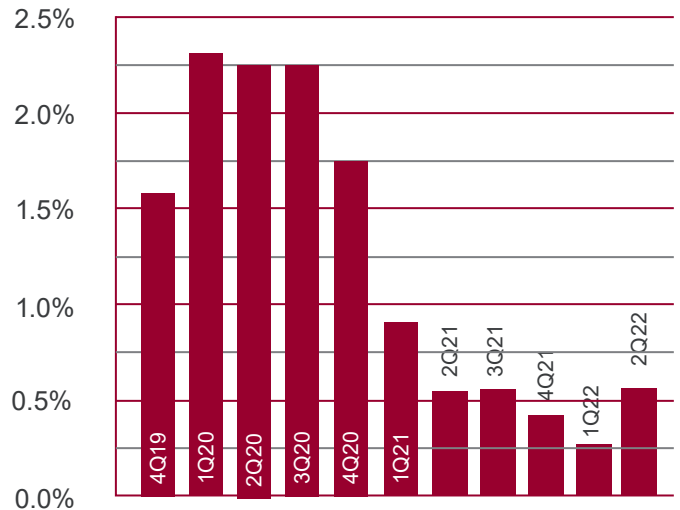
Mid-Counties continued to have the lowest vacancy rate of any major industrial submarket at 0.6%. A little over 150,000 SF of new product delivered in Q2, and a mere 165,000 SF is under construction at quarter's end. Santa Fe Springs has approximately 92,000 SF under construction, followed by Whittier with 28,000 SF. These numbers are inadequate to alleviate the lack of supply afflicting the submarket. It is not surprising, then, that only 806,271 SF was leased this quarter. 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 \$1.40 NNN PSF, a year over year increase of about 61% from Q2'21's rate of \$0.87 PSF. We are seeing average comp rates around \$1.76 PSF. Prepare renewing-tenants for sticker shock as rents have nearly tripled over the past 10 years. For reference, in Q2 2012, average asking rents were only \$0.48 NNN PSF.

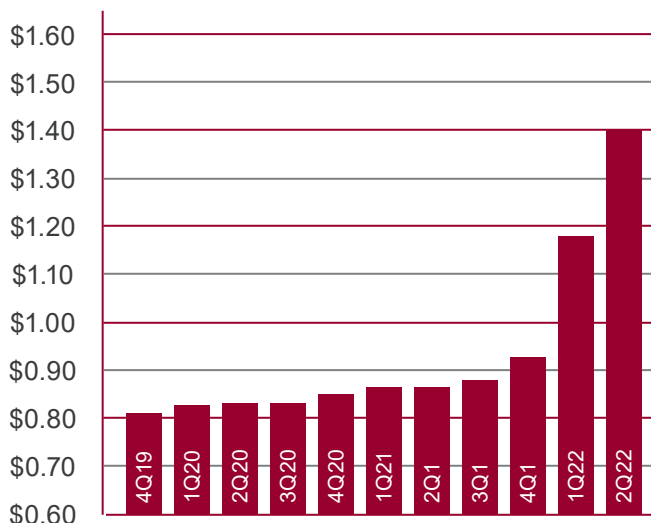
NET ABSORPTION



VACANCY



AVERAGE ASKING RENT BY QUARTER



ASKING PRICE PER SQ FT





Source: CoStar Realty Information Inc & AIR

TOP LEASES FOR 2Q22

ADDRESS	CITY	TYPE	TENANT	SQUARE FEET
13910-13950 CERRITOS CORPORATE DR, BLDGS 1 & 2	CERRITOS	WAREHOUSE	TRICORBRAUN	179,896 SF
14405 BEST AVE	NORWALK	WAREHOUSE	CPF LEGACY, LLC	105,802 SF
13943 MARYTON AVE	SANTA FE SPRINGS	WAREHOUSE	AXELHIRE, INC.	75,363 SF
13747 MIDWAY ST	CERRITOS	WAREHOUSE	CAPITOL DISTRIBUTION	51,170 SF

TOP SALES FOR 2Q22

ADDRESS	CITY	TYPE	SALES PRICE	SQUARE FEET
14001 S GARFIELD AVE	PARAMOUNT	MANUFACTURING	\$131.25 / SF	160,000 SF
13900 CARMENITA RD	SANTA FE SPRINGS	DISTRIBUTION	\$260.00 / SF	150,548 SF
12844 EXCELSIOR DR	NORWALK	FOOD PROCESS.	\$863.50 / SF	72,380 SF
13535 LARWIN CIR	SANTA FE SPRINGS	WAREHOUSE	\$276.73 / SF	56,011 SF

INLAND EMPIRE SUBMARKET



2Q Trends At A Glance



Absorption
3,613,606 SF



NNN Rent Overall
\$1.16 / SF



Sales Transactions
\$1.8 Billion



Vacancy
1.2%



Under Construction
34,656,275 SF



Average Sales Price
\$292.42 / SF

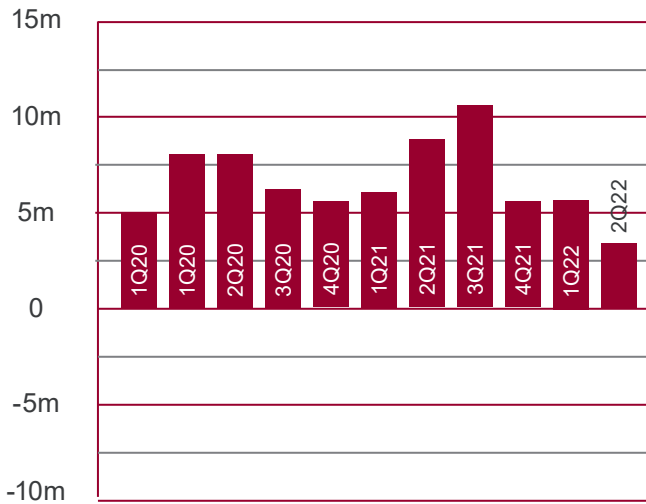
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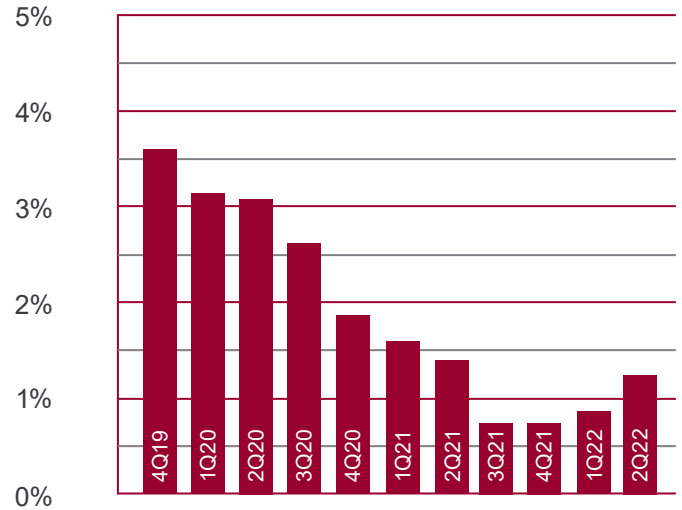
Using any metric -- vacancy, average asking rents, net absorption, square feet leased, and square feet under development – the Inland Empire continued its explosive growth and stellar performance in Q2. Average asking rents continue their meteoric rise, jumping 45% year over year, from \$0.80 PSF in Q2'21 to \$1.16 PSF in Q2'22. 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 dipped 10 basis points from this time last year ending the quarter at 1.2%. Net absorption for the quarter totaled over 3.6 million square feet. The sector has grown exponentially since the start of the pandemic and will continue to attract institutional investment. Expect cap rates

to compress further, vacancy to remain low, and rental rates to only increase. Due to all this growth, a handful of Inland Empire cities have enacted development moratoriums on future industrial product. Similarly, California Assembly Bill 2840, which, if passed, will require new warehouses with footprints of 100,000 square feet or larger in Riverside and San Bernardino Counties to be built at least 1,000 feet away from residential properties and schools. This will push new warehouse construction to more tertiary and far-flung markets of the Inland Empire, such as the High Desert.

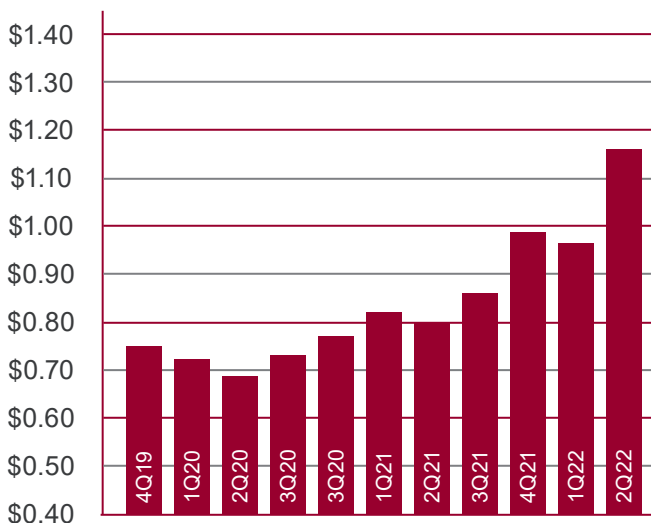
NET ABSORPTION



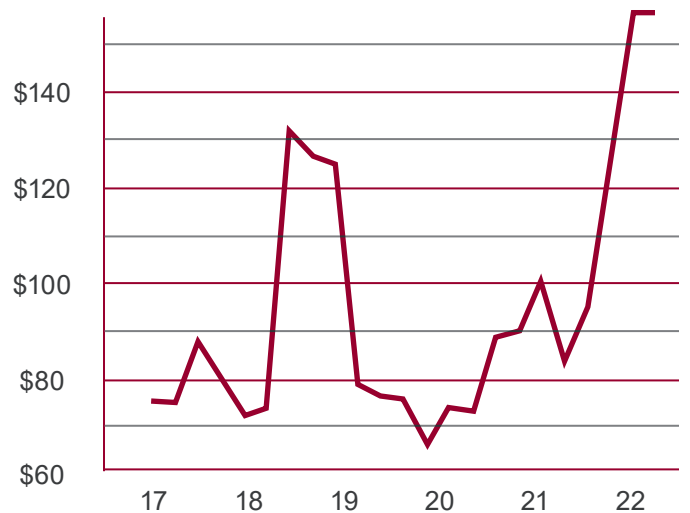
VACANCY



AVERAGE ASKING RENT BY QUARTER



ASKING PRICE PER SQ FT





Source: CoStar Realty Information Inc & AIR

TOP LEASES FOR 2Q22

ADDRESS	CITY	TYPE	TENANT	SQUARE FEET
36855 W FOURTH ST	BEAUMONT	WAREHOUSE	UNITED LEGWEAR & APPAREL CO.	1,777,708 SF
13423 SANTA ANA AVE	FONTANA	WAREHOUSE	WEBER LOGISTICS	835,100 SF
11310 CANTU GALLEANO RANCH RD	JURUPA VALLEY	WAREHOUSE	A-1 DELIVERY	683,200 SF
2255 W LUGONIA AVE	REDLANDS	WAREHOUSE	AUTOZONE	606,133 SF

TOP SALES FOR 2Q22

ADDRESS	CITY	TYPE	SALES PRICE	SQUARE FEET
630 NICHOLAS RD	BEAUMONT	LOGISTICS	\$218.33 / SF	600,000 SF
7776 TIPPECANOE AVE	SAN BERNARDINO	DISTRIBUTION	\$156.32 / SF	599,690 SF
927 E 9TH ST	SAN BERNARDINO	WAREHOUSE	\$171.37 / SF	415,405 SF
22705 NEWHOPE ST	MORENO VALLEY	LOGISTICS	\$162.58 / SF	366,698 SF



Looking forward, given the historically low vacancy levels across the LA Basin, expect rental rates to increase even more. To secure the best deal possible, occupiers should plan to engage in discussions with landlords well ahead of any lease expirations or new requirements. Landlords, on the other hand, will likely push rents upward without feeling the need to provide much in the way of tenant concessions.

In terms of the macroeconomy, expect concerns about inflation and slowing economic growth to persist throughout the rest of year and into 2023. At the upcoming FOMC meeting the Fed is expected to raise the fed funds rate by at least 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. Moreover, expect supply chain issues to persist throughout 2022. Although the problems at the ports have eased, they have not been resolved. The ports are not functioning as efficiently as they were prior to the pandemic.

Lastly, with regard to demand for warehouse space, expect it to endure for the foreseeable future. Although concerns

have been raised about potential oversupply of industrial space, we do not believe that these concerns portend declining demand for warehouse space. Even if all the speculative product were to hit the market immediately as vacant, the national vacancy rate would rise to 6.3% -- "a chip shot away from its historical average of 6%."

Similarly, the tendency of consumers to do a lot more of their shopping online has massively accelerated the growth of e-commerce. It is a fundamental, rather than temporary, shift in consumer behavior and will continue to drive the historic demand for warehouse space, especially for new product in infill locations. Although the share of e-commerce sales of total retail shopping has declined from its pandemic high during Q2 of 2020, it is still above pre-pandemic levels at 12.9% and is expected to only increase with each succeeding year. Even with the economic slowdown forecast in 2023, the fundamentals of the industrial sector are extremely strong, and its future continues to look bright.

- *LEE LALB treats the vacancy-available rate as the vacancy rate.*
- *Bisnow and Green Street Partners: <https://bit.ly/3Ph9pAL>*
- *Ibid*

- *Statista: <https://bit.ly/3Pe8DV4>*
- *Statista Forecast: <https://bit.ly/2J1QJDK>*
- *Fannie Mae: <https://bit.ly/3OpvUn> and <https://bit.ly/3EFqYGj>*

Your Local Industrial Market Experts



Andy Gage
Principal | DRE 02015991
310-965-1743 |
agage@leelalb.com



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



David Bales
Principal | DRE 01388502
Ph: 310-965-1740
dbales@leelalb.com



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



Demitre Petrov
Associate | DRE 02071423
Ph: 562-354-2535
dpetrov@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

Your Local Industrial Market Experts



Elliot Harkness
Associate | DRE 01785170
Ph: 310-965-1766
eharkness@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



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



Remington Moses
Principal | DRE 01938772
Ph: 310-965-1752
rmoses@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



Tyler Radcliffe
Associate | DRE 01758391
Ph: 310-965-1769
rbrown@leelalb.com

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LEE &
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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

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