

LOS ANGELES - LONG BEACH INDUSTRIAL MARKET REPORT

2Q 2023



“A Resilient Economy With An Industrial Market Shedding Excess Space”

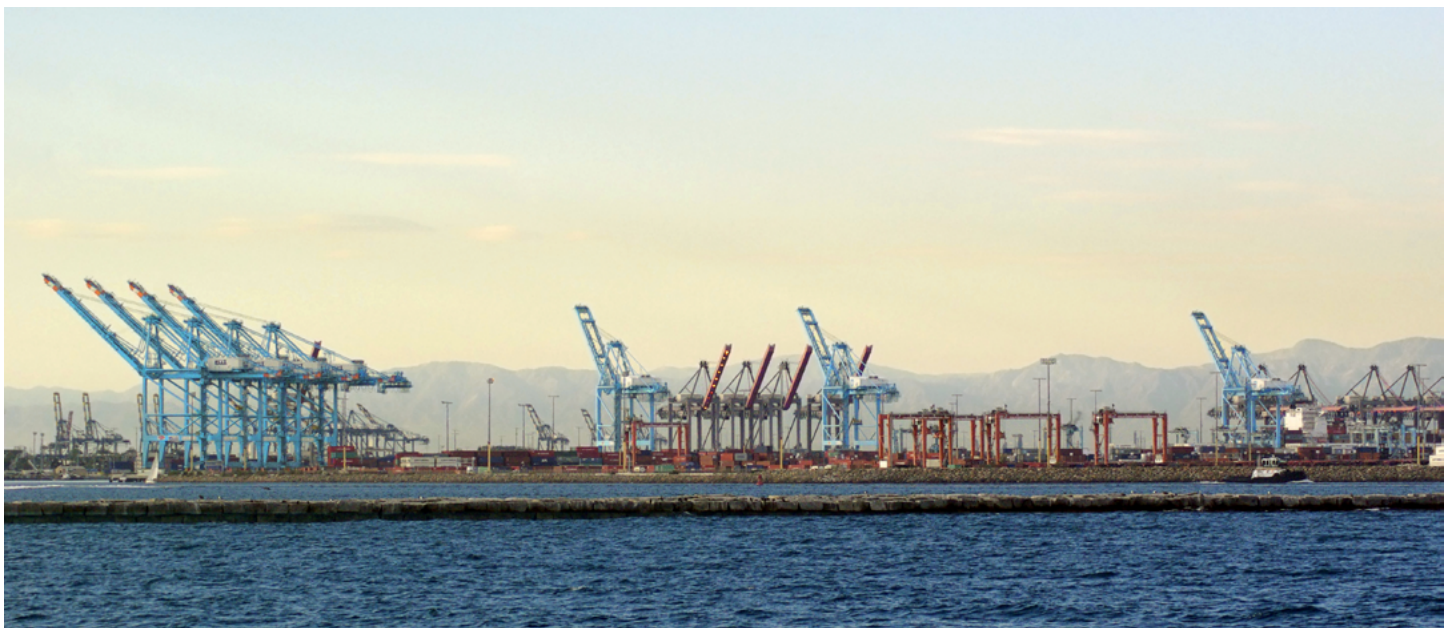
Every key metric typically used to measure the health of the economy is performing well right now. GDP grew by 2.0% in Q1, and it is estimated to grow by 2.3% in Q2 by the Atlanta Fed . In terms of employment, over the last year the U.S. added 3.8 million jobs and now has an unemployment rate of 3.6%. With regard to inflation, both headline and core inflation are trending downward. The Consumer Price Index (CPI) rose by 3% year-over-year in June and 0.2% for the month, below consensus estimates of 3.1% and 0.3%. This was the lowest rate of inflation since March 2021. And core inflation, which excludes food and energy prices, rose by 4.8% year-over-year and 0.2% for the month. The annual core inflation level was the lowest since October 2021, and its monthly gain was the smallest gain since August 2021.

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 and shallow 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 a favorable position to weather most headwinds the economy might face. Total retail sales grew by 1.6% in May 2023 compared to the same period a year ago , and as a percentage of total sales, e-commerce retail sales (one of the key drivers of the industrial sector) now stand at 15.1% – 3.9 percentage points higher than where it stood at its peak prior to the pandemic in Q4 of 2019. With this said, available space continues to increase and there has been a growing sentiment regarding a shift in negotiating power from Landlords to Tenants.

1. BEA: <https://www.bea.gov/data/gdp/gross-domestic-product>
2. Atlanta Fed: <https://tinyurl.com/2p93hp9k>
3. Apricitas Economics: <https://tinyurl.com/yc6ucc48>
4. WSJ: <https://tinyurl.com/46zs6e66>
5. NAR Forecast: <https://bit.ly/3AqYa2G>
6. Census Bureau: <https://bit.ly/41U047S>
7. St. Louis Fed: <https://bit.ly/2r6CLZd>

Note regarding asking rates: *Across the LA Basin, we are seeing landlords and owners putting spaces 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 a 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 where pertinent.*



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SOUTHBAY SUBMARKET



2Q Trends At A Glance



Absorption
(2,084,123 SF)



NNN Rent Overall
\$1.97 / SF



Sales Transactions
\$90.557 Million



Vacancy
3.6%



Under Construction
912,921 SF



Average Sales Price
\$267.82 / SF

Source: Costar Realty Information Inc.



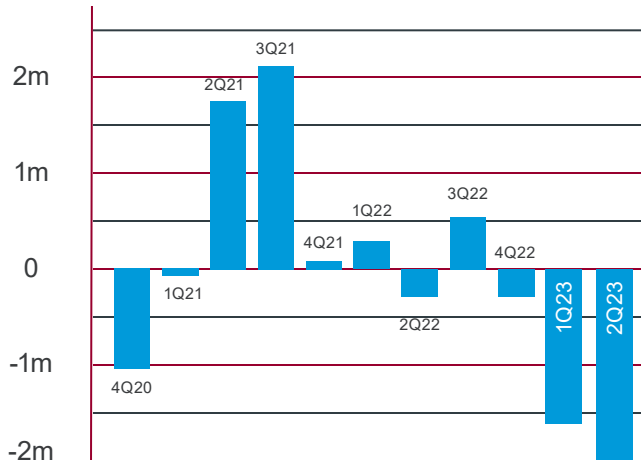
2Q 2023 Southbay Industrial Overview

For over a decade, the vacancy rate in the South Bay has been at or below 3%. However, this quarter, the vacancy rate reached 3.6%, with some metrics showing closer to 5%+ vacancy when factoring in the glut of sublease space. There is now over 7.3 million square feet (MSF) of vacant and available space on the market, compared to 1.1% vacancy or 2.1 MSF available in Q2 2022. Three trends have caused the vacancy rate to rise. First, since Q2 of last year, nine new buildings totaling over 1.3 MSF were added to the base, most not pre-leased. Second, there was minimal leasing activity year-to-date with total transaction quantities for Q2 comparable to Q4 2006. Third, industrial occupiers across the L.A. basin, not just the South Bay, have been shedding excess space acquired during the pandemic boom. As a result, net absorption for the quarter was negative and the amount of sublease space on the market increased from 54,661 SF to 653,379 SF, providing more properties for tenants to choose from, albeit still limited properties available for purchase. Transaction volume is relatively low mainly due to rental rates being prohibitively high for many tenants. Average asking rates now stand at \$1.97 NNN PSF, increasing by \$0.38 PSF over the last 12 months, mostly driven by the quality Class A

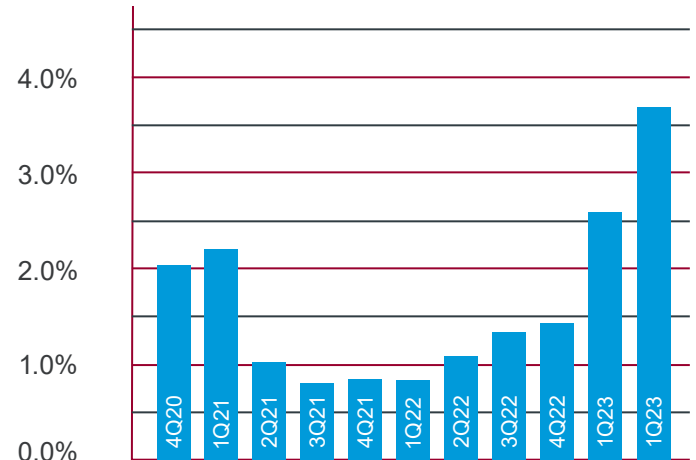
availabilities. There are multiple transactions in the \$2.20 - \$2.30 NNN PSF ballpark for functional, newer industrial space. The high-watermark lease transaction was done in the overweight corridor at 909 E Colon St in Wilmington: a 1970s, 223,000 SF refurbished building, with a \$2.17 NNN PSF start rate. Currently, no institutional landlord wants to be the first owner to lower lease rates. However, opposite of this time last year, landlords are now reaching out further in advance of tenant lease expirations to discuss renewals. As the “stack of offers” for available space dwindles, Landlords are being forced to negotiate more and, in some cases, come off their asking rate a bit.

Sales volume was also relatively slow, with only twelve buildings trading in Q2, totaling over \$90.5 M. Still, whether you use the average building price PSF, \$267.82, or the median building price PSF, \$321.43, both metrics were in the top 10 of “price-per-pound” on record. Currently, we have seen an increased level of owner-occupiers now able to pursue purchasing with less institutional investor competition. Although interest rates have created a more challenging borrowing environment and sellers have been reluctant to let go of 2021-2022 values, pricing will likely continue to be propped up by such owner-occupiers’ demand.

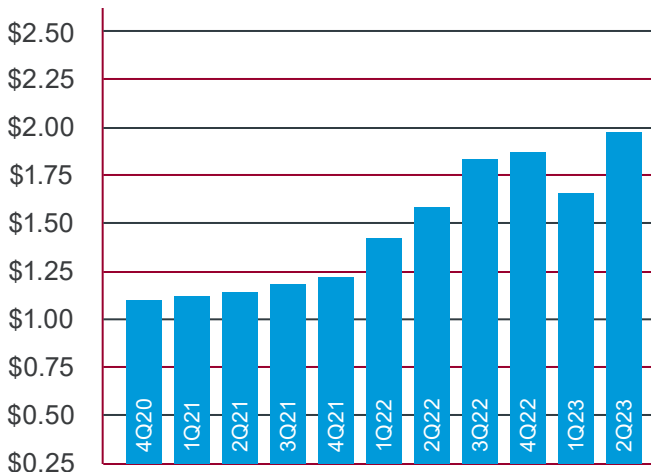
NET ABSORPTION



VACANCY



AVERAGE ASKING RENT BY QUARTER



ASKING PRICE PER SQ FT





Source: CoStar Realty Information Inc & AIR

TOP LEASES FOR 2Q23

ADDRESS	CITY	TYPE	TENANT	SQUARE FEET
909 E COLON ST	WILMINGTON	DISTRIBUTION	WEST LOGISTICS	223,865 SF
2500 S EDISON WAY	COMPTON	WAREHOUSE	AERONET WORLDWIDE LLC	120,578 SF
255 W MANVILLE ST	COMPTON	WAREHOUSE	PUNCH STUDIOS	108,387 SF
19200 S REYES AVE	COMPTON	MANUFACTURING	ASAP FREIGHT, LLC	99,001 SF

TOP SALES FOR 2Q23

ADDRESS	CITY	TYPE	SALES PRICE	SQUARE FEET
2824 E 208TH ST	CARSON	DISTRIBUTION	\$316.28 / SF	101,175 SF
1525 ROSECRANS AVE	GARDENA	SERVICE	\$24.08 / SF	78,914 SF
5580 CHERRY AVE	LONG BEACH	WAREHOUSE	\$333.33 / SF	26,100 SF
550 SPRING ST	LONG BEACH	LAND	\$94.53 / SF	266,587 SF

8. Bisnow: <https://bit.ly/3L2kdBQ>

9. NAR Forecast: <https://bit.ly/3AqYa2G>

10. JOC and Transfix Update: <https://tinyurl.com/m6czeks4>

MID COUNTIES SUBMARKET



2Q Trends At A Glance



Absorption
(680,229 SF)



NNN Rent Overall
\$1.66 / SF



Sales Transactions
\$17.325 Million



Vacancy
1.8%



Under Construction
318,804 SF



Average Sales Price
\$292.22 / SF

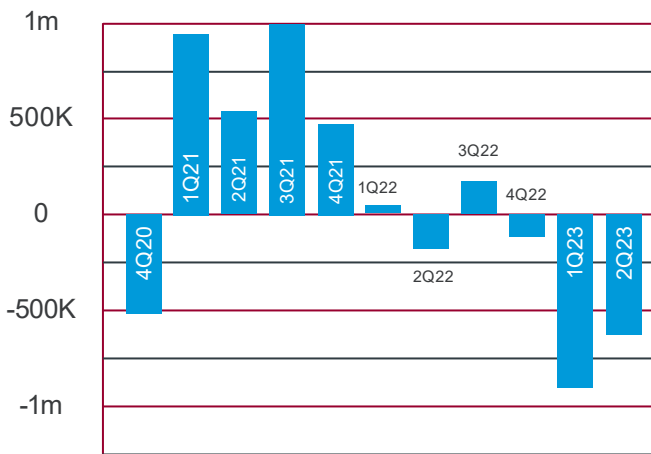
Source: Costar Realty Information Inc.



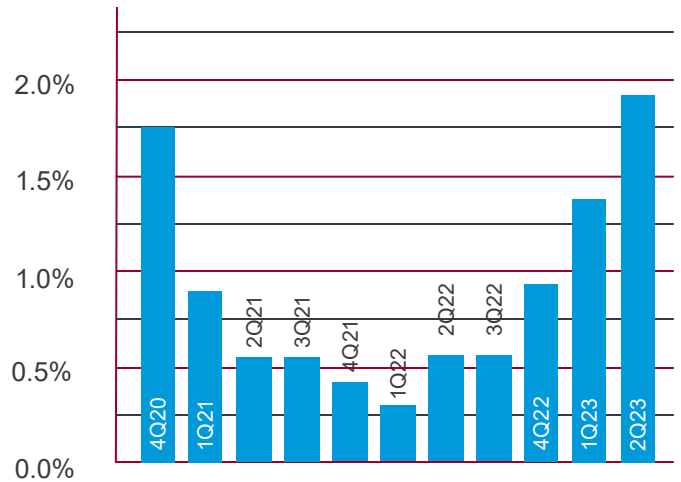
Mid-Counties continued to have the lowest vacancy rate of any major industrial submarket within Los Angeles at 1.8%. There is only about 2.0 million square feet of vacant-available space on the market. As small as that number is, it actually represents an increase in vacancy for the submarket. Since Q2 2022, vacant-available space increased by over 1.3 million square feet. No new buildings were delivered this quarter and the two buildings totaling around 135,691 square feet that came onto the market last quarter were unleased. Direct average asking rents increased to \$1.67 NNN PSF, a year-over-year increase of about 13.6% from Q2 '22's rate of \$1.47 PSF. There are four buildings in the construction pipeline, totaling over 318,000 SF – not enough to overcome the tight market conditions facing the Mid-Counties. Because of these tight conditions, landlords are able to continue pushing “market” rents and endure potential vacancy for longer periods than previous quarters. The financial strength of many prospective tenants in the market for buildings will continue to be a distinguishing factor in negotiating power. Landlords will have to be more patient in leasing their buildings

while Sellers still seem to be commanding premium values with activity. Only three buildings traded hands this quarter with an average price per building square foot of \$292.22 – the third-highest price per building square foot on record.

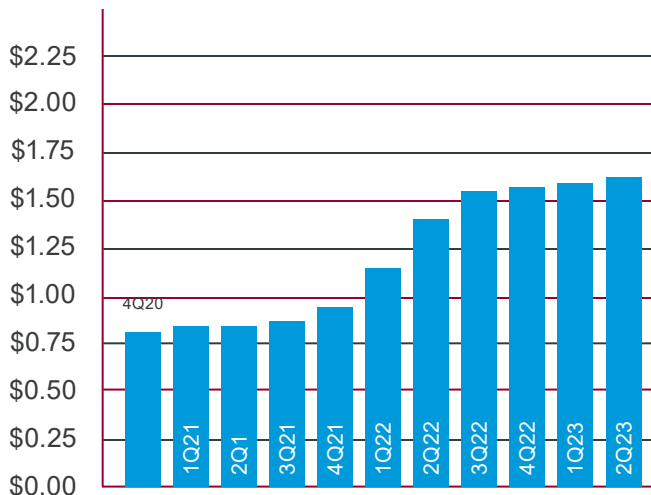
NET ABSORPTION



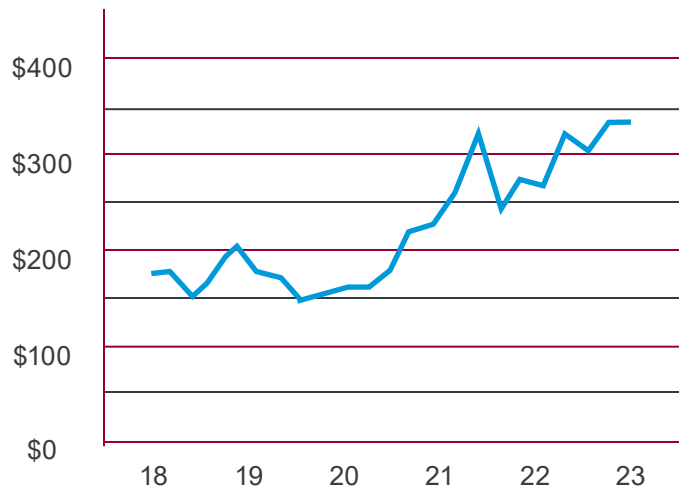
VACANCY



AVERAGE ASKING RENT BY QUARTER



ASKING PRICE PER SQ FT





Source: CoStar Realty Information Inc & AIR

TOP LEASES FOR 2Q23

ADDRESS	CITY	TYPE	TENANT	SQUARE FEET
12910 MULBERRY DR	WHITTIER	WAREHOUSE	HK LOGISTICS	153,080 SF
13215 CAMBRIDGE ST	SANTA FE SPRINGS	DISTRIBUTION	WEEE!	146,617 SF
14100 VINE PL	CERRITOS	WAREHOUSE	COSMIC EXPRESS	122,514 SF
10620 SPRINGDALE AVE	SANTA FE SPRINGS	WAREHOUSE	BAKER ELECTRIC, INC	38,373 SF

TOP SALES FOR 2Q23

ADDRESS	CITY	TYPE	SALES PRICE	SQUARE FEET
12250 COAST DR	WHITTIER	WAREHOUSE	\$289.62 / SF	20,717 SF
13047 LAKELAND RD	SANTA FE SPRINGS	WAREHOUSE	\$282.18 / SF	20,200 SF
13117 MEYER RD	SANTA FE SPRINGS	WAREHOUSE	\$306.19 / SF	18,371 SF
10010 PARAMOUNT BLVD	DOWNEY	LAND	\$137.13 / SF	39,379 SF

13. Bisnow: <https://bit.ly/3L2kdBQ>

14. Per Shopify's Forecast: <https://bit.ly/3ldJ64n>



Although demand for the industrial product type remains stable and will remain so for the foreseeable future, expect industrial occupiers to continue the process of “right-sizing.” As a result, anticipate vacancies to continue rising and the time-on-market for properties across the LA basin to rise as well. Moreover, instead of growing, expect prices to remain at current levels and then start moderating over the course of the next eighteen months.

While all the key indicators of the macroeconomy are positive – GDP is up, workers are at full employment, and both headline and core inflation are trending downward – expect the Fed to raise the federal funds rate by 25 basis

points at their July meeting to keep downward pressure on inflation. Although a significant minority of economists project the economy to grow slowly throughout all of 2023, forecasters with a bearish outlook anticipate that the economy will experience a mild and shallow recession at the earliest by Q3. Due to the hesitancy caused by such forecasts and the palpable slowdown in imports and logistics activity, capital markets in commercial real estate have been taking a wait-and-see posture. Expect activity in these markets to increase only in the first half of 2024, followed by improved leasing activity in the second half.

13. Bisnow: <https://bit.ly/3L2kdBQ>

14. Per Shopify's Forecast: <https://bit.ly/3ldJ64n>

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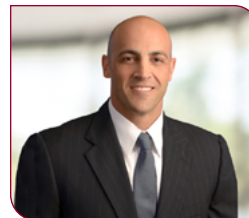
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