



**LOS ANGELES - LONG BEACH  
INDUSTRIAL MARKET REPORT**

**Q3**

**MARKET REPORT Q3 2020**

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INDUSTRIAL MARKET REPORT

# CELEBRATE THE WINS

## Q3 TRENDS AT A GLANCE



**Absorption**  
(94,428) SF



**Average Rent**  
\$1.11 / SF



**Sales Transactions**  
\$425.7 Million



**Vacancy**  
1.8%



**Under Construction**  
656,310 SF



**Average Sales Price**  
\$312.57 / SF

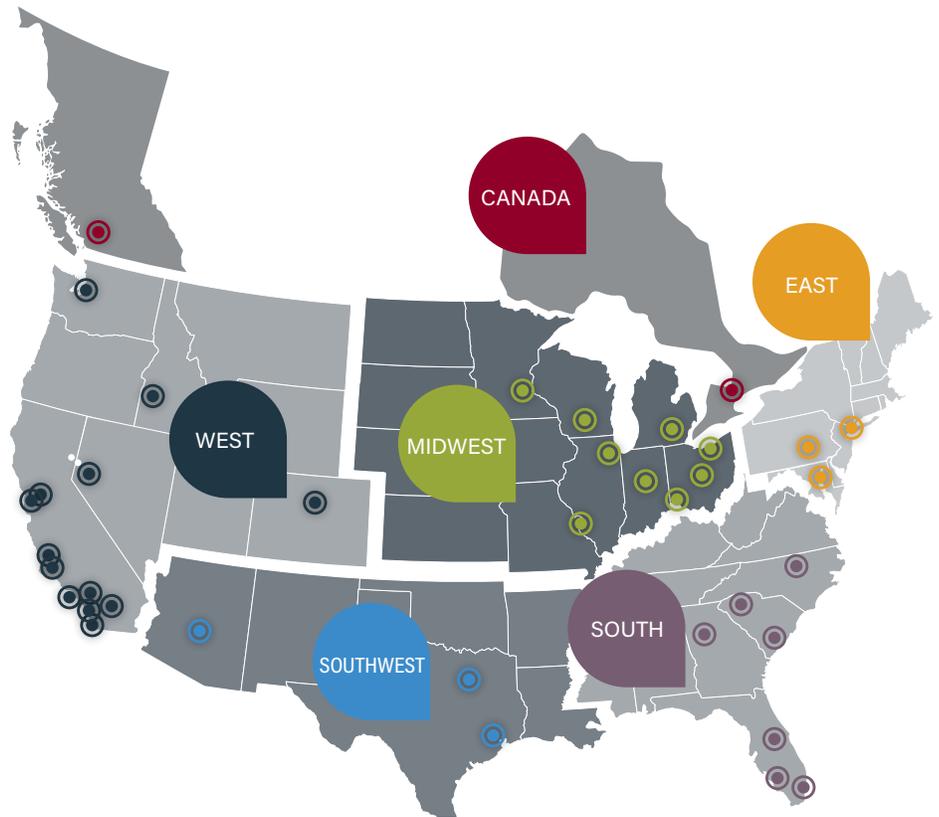
Source: CoStar Realty Information Inc.(As Of October 1, 2020)

## 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.



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While the US total GDP was down approximately -5% in the 1st quarter and -31.4% in the 2nd quarter (quoted in annual percentages), the Federal Reserve Bank of Atlanta is forecasting our economy is currently experiencing one of the most robust quarterly increases by rebounding at an estimated annualized rate of +35.2%. With the annual GDP down overall for the past 4 quarters, the 3rd quarter jump gives the US an opportunity to be positive for 2020. The national 3rd quarter adrenaline shot was also experienced in the Los Angeles/Long Beach Industrial Real Estate Markets. The two big stories are how the sales volume has more than doubled from the previous quarter, despite the background noise of the Pandemic and Election Season, as well as asking lease rates topping the historical charts with a surge of activity at the Ports as vacancy rates dropped.

Sales in the 3rd quarter exploded by almost tripling the previous quarter's total value with \$425.7 Million from the 2nd quarter's \$150.8 Million. There was also almost double the amount of transactions from only 13 in the 2nd quarter up to 20 in the 3rd quarter, which also increased the average sale price from \$244.57 / sq. ft. to \$312.57 / sq. ft. One major component here being that REITs, who took a pause in Q2, are now back and seem to be as motivated as ever to find infill locations. Over the last year we have been seeing a shift in portfolios of some of the major REITs, moving out of mainly Office product and transitioning their portfolio to include more Industrial product. The most notable sale was the key factor to this dramatic per square foot increase, the converted Costco facility with a stabilized lease in place to Amazon selling at a 4% cap. The 147,721 sq. ft. Torrance facility was also a low coverage site, but the given in place economics blasted through every Industrial sales record at a price of \$550 / sq. ft. for \$81 Million. According to CoStar Group, "Average market cap rates, presently 4.7% are well below the national average of 6.7%. Coming into the pandemic asset price growth was solid and running well above inflationary levels. Some investors will feel pressure to deploy capital in the near term, and to many, industrial looks like a safer bet."

Leasing activity has also returned to pre-COVID-19 levels in the 3rd Quarter as the direct and sublease industrial vacancy rate in the South Bay market decreased from 2.4% in the 2nd

Quarter to 1.8% in the 3rd Quarter as another 250,000 sq. ft. was added into a submarket of approximately 200,000,000 sq. ft. A more significant headline is the record lease rate high of \$1.11 / sq. ft. reported by CoStar for the South Bay market. Tenants pursued cheaper sublease product coming from companies that are having more difficulty working through the COVID-19 crisis. However, in a heavy logistics-dominated market, subleases are becoming scarce. Lee & Associates believes that the vacancy rate will continue to decline, and if so then rental rate increases should continue to grow by year's end and into 2021.

The Los Angeles-Long Beach Industrial Real Estate Market is full of diverse businesses. The South Bay region attracts investors, businesses, and educated talent from throughout the Nation. Professor Weidenmier of Chapman University notes in their forecast, "The economic recovery is starting in California. It appears that the California economy has turned the corner. This upward trend is likely to continue given medical advances and the introduction of a vaccine that will most likely stifle a second wave of COVID-19." The Wall Street Journal reported, "Most economists in September's survey said the outlook for a recovery in gross domestic product is notably faster than for jobs. More than half of the economists in this survey expected that in 2021, economic output will return to the seasonally and inflation-adjusted level of its prior peak in the final quarter of 2019 and the economists do not believe the US will be gaining back lost jobs until 2023."

Industrial properties for lease or sale will continually be difficult to procure, while the trend for newer facilities supporting e-commerce fulfillment centers will continue to be in high demand. Assistant Professor of Supply Chain Management at Colorado University, Zachary Rogers, stated "Companies that were struggling [before the Pandemic] continued to struggle, while businesses that were improving have gotten better more quickly. E-commerce is the epitome of this trend." The move to e-commerce is here to stay and the economy will continue to build the capacity to support it. E-commerce is growing almost exponentially in 2020 and could account for over 15% of total retail sales this year. To put this increase into perspective, 2019 e-commerce accounted for approximately 10.7%; 2018 was 9.9%

and 2017 accounted for approximately 9.1%. For the industrial marketplace, e-commerce facilities are designed to have less inventory capacity compared to traditional 3PL and distribution layouts as they require larger floor space than the supply chain for traditional retail. This pushes demand for an already low inventory market, as the same amount of retail goods now being sold and distributed via e-commerce will require more space. Requirements will continue throughout 2020, however questions remain for 2021 as the world takes this pandemic day by day.

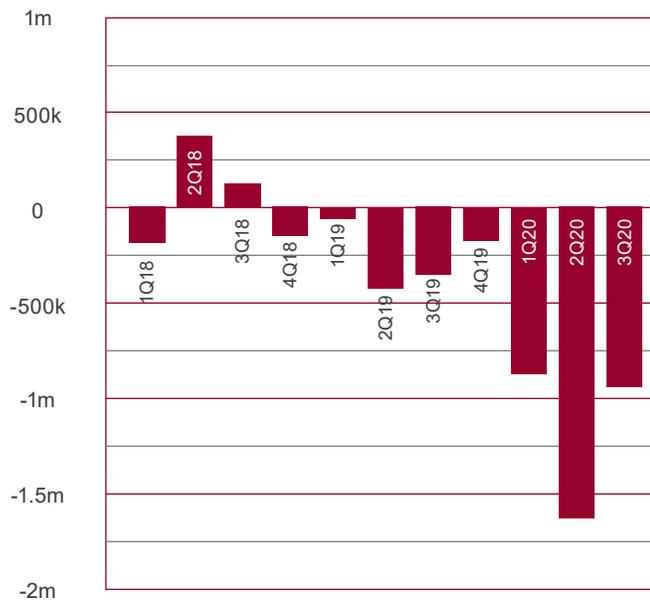
Our team believes any upcoming vacancy in any size range will

not remain on the market long. Industrial properties for sale will continue to be in strong demand, as low interest rates continue to be the driver for owner-user buyers in the market while REITs are transitioning their portfolios. Contact your local Lee & Associate specialist for more information regarding your submarket and help locating your next off market transaction.

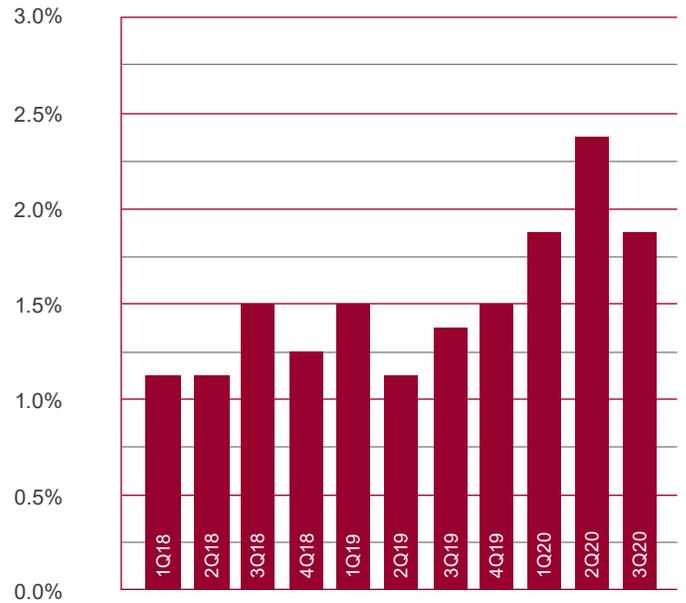
Stay healthy, safe and positive – we are all in this together.

- Andy Gage, Sr. Associate , David Bales, Principal, Brandon Carrillo, Principal, & Bret Osterberg, Principal

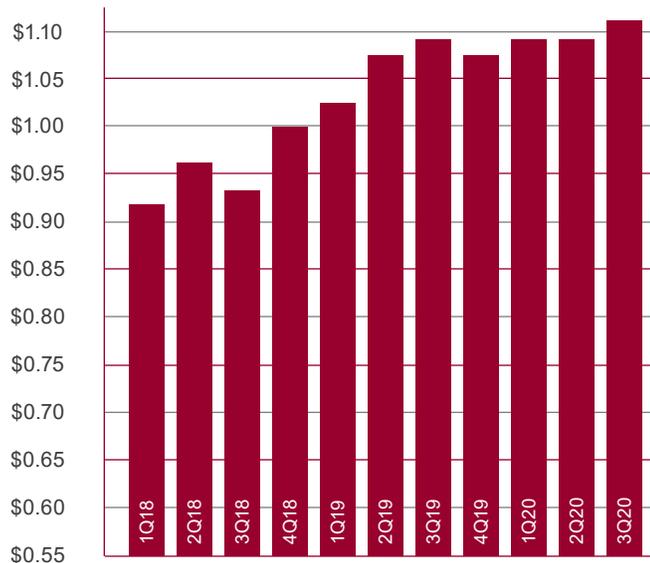
## NET ABSORPTION



## VACANCY



## AVERAGE ASKING RENT BY QUARTER



## ASKING PRICE PER SQ FT



Source: CoStar Realty Information Inc



Source: CoStar Realty Information Inc & AIR

### Q3 2020 TOP LEASES

PROPERTY ADDRESS	CITY	TYPE	LEASE RATE	SQUARE FEET	LEASE TYPE
100 W VICTORIA ST	LONG BEACH	WAREHOUSE	\$0.88 / SF	188,849 SF	NET
20500 S ALAMEDA ST	CARSON	WAREHOUSE	\$0.99 / SF	147,390 SF	NET
2711 E DOMINGUEZ ST	CARSON	WAREHOUSE	\$0.85 / SF	135,610 SF	GROSS
19067 S REYES AVE	RANCHO DOMINGUEZ	LAND	\$0.53 / SF	304,046 SF	NNN
425 QUAY AVE	WILMINGTON	LAND	\$0.49 / SF	279,919 SF	NNN

### Q3 2020 TOP SALES

PROPERTY ADDRESS	CITY	TYPE	SALES PRICE	SQUARE FEET	REGION
2751 SKYPARK DR	TORRANCE	DISTRIBUTION	\$548.33 / SF	147,721 SF	SOUTH
1451 W KNOX ST	LOS ANGELES	WAREHOUSE	\$301.23 / SF	146,830 SF	SOUTH
14702 S MAPLE AVE	GARDENA	WAREHOUSE	\$232.79 / SF	131,880 SF	SOUTH
15650-15700 S AVALON BLVD	UNINCORPORATED LA	WAREHOUSE	\$169.06 / SF	166,088 SF	SOUTH
1355 SEPULVEDA BLVD	TORRANCE	LAND	\$77.50 / SF	322,570 SF	SOUTH

100 W VICTORIA ST | LONG BEACH

LEASED



20500 S ALAMEDA ST | CARSON

LEASED



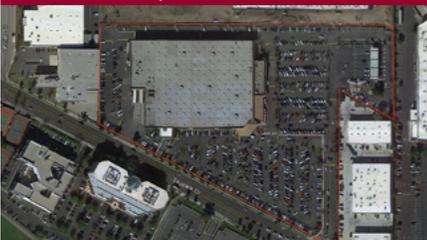
2711 E DOMINGUEZ ST | CARSON

LEASED



2751 SKYPARK DR | TORRANCE

SOLD



1451 W KNOX ST | LOS ANGELES

SOLD



14702 S MAPLE AVE | GARDENA

SOLD



## LOS ANGELES & LONG BEACH PORT ACTIVITY

With the first half of the year experiencing a decrease of -12.52%, the Southern California Ports made a positive and powerful statement by posting a record combined volume for the biggest quarters for both Ports with a combined total of 4,976,113 TEUs, besting last year's 3rd quarter by almost 10%. By arriving on the West Coast, retailers have flexibility in determining the ultimate destination of these goods during their ocean transit. In an effort to receive and distribute the goods as quickly as possible, e-commerce and 'brick-and-mortar' retailers continue to choose the Port of Los Angeles (POLA) and the Port of Long Beach (POLB) as the fastest gateway to market and replenish their depleted inventories.

The Port of Long Beach's 3rd Quarter volume increased 14% (2,274,272 TEUs) compared to the 3rd Quarter of 2019. It was their busiest quarter in history and was the first time they processed over 700,000+ TEUs for 3 consecutive months. In July, volumes increased by 21.12% (753,081 TEUs); followed by August's 9.28% increase (725,611 TEUs); and finished the quarter with the biggest month ever with 795,580 TEUs, up 12.54%. POLB is now just slightly ahead of their volume from last year as Imports and Empties are strong despite hundreds of billions of dollars in tariffs. However, these tariffs have affected US Exports as they remain low, down from a historically normal 3:1 Import to Export ratio; currently closer to a 5:1 ratio.

The Port of Los Angeles recovered well with the busiest quarter in their 114-year history posting an approximate 6% increase from 3rd Quarter 2019 (2,701,841 TEUs). July was down 6.11% (856,387 TEUs), but then goods started flowing heavily into LA with August being the first positive month of the year and

its biggest month ever with 961,831 TEUs, an 11.7% increase. In September, POLA received 97 ships with NO blank sailings making it the busiest September of record and an increased volume of 13.3% (883,623 TEUs). POLA Executive Director Gene Seroka stated, "Despite unresolved questions about our nation's health, economy and export strength, imports have improved significantly after a difficult Spring." While POLA is still approximately 9.1% behind last year in total TEUs, they plan to continue to close the gap and estimate finishing close to 2019 levels.

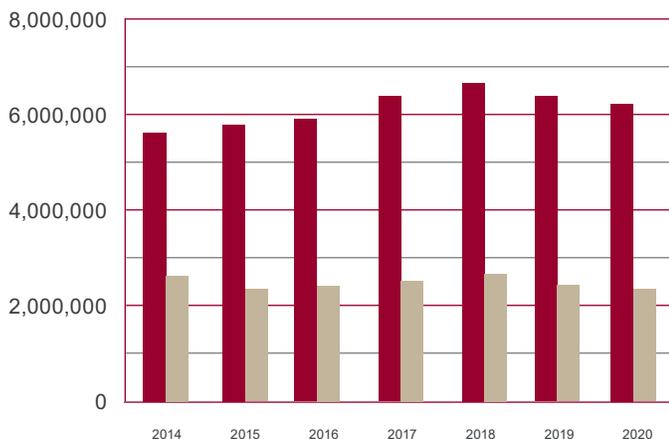
This year steamship lines have managed their capacity to maintain their profitability, and now have capitalized on these high volumes to add container vessels while increasing their shipping rates to record highs. The 4th Quarter is expected to continue the trend of heavy volumes favoring our Southern California Port complex. However, the LA / LB marine terminals are currently operating at or above capacity and creating bottlenecks – hurting everyone up and down the supply chain with delays and shortages of equipment. Industry experts believe these volume spikes will continue through Chinese New Year (February 12, 2021) as this heavy demand and short supply for recently popular goods (i.e. PPE, home furniture, fitness and computers) should continue. Looking forward – some would say we are already in 1st quarter of 2021. Big box home improvements have already begun to ship Spring 2021 merchandise early, concerned that vessel space will be unusually tight in January and February before factories in Asia close for the Lunar New Year.

- David Bales, Principal & Ryan Endres, Principal

## TEUs YTD SEPTEMBER 2020

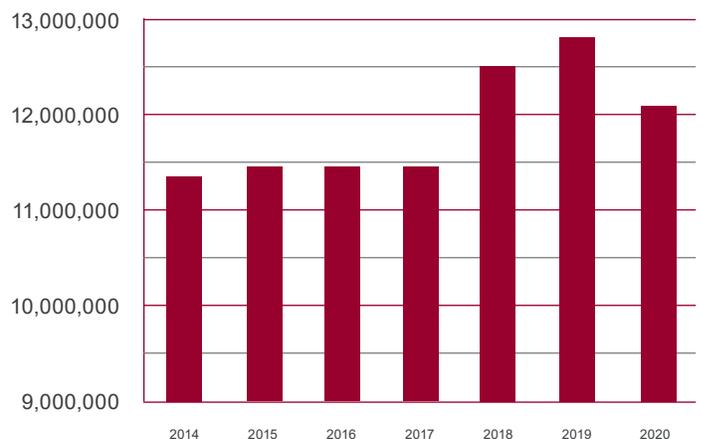
Source: [www.polb.com](http://www.polb.com) [www.portoflosangeles.org](http://www.portoflosangeles.org)

■ Combined Loaded Inbound
 ■ Combined Loaded Outbound



## Total Containers San Pedro Port Complex

Loaded Totals and Empties Combined



# LOS ANGELES & LONG BEACH INDUSTRIAL MARKET MAP



## LOOK TO LEE & ASSOCIATES FOR SOLUTIONS

Contact a Lee & Associates Broker who can provide you with the most comprehensive market knowledge and expertise in the business. We specialize in:

### Build-to-Suit

- For Lease
- 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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