

Real Estate Market Review

# Los Angeles Industrial

Slow like a tortoise goes the market for first quarter 2019. Humbly, Q1 2019 mimics the leasing activity of Q1 2018 as competition for higher quality and flex industrial buildings has stiffened. Rents are now the highest they have ever been for industrial buildings in the past 10 years. Year over year rent growth is 5%. Market sale price per s.f. has reached an all-time high at \$192 per foot. Cap rates are also the lowest the market has ever seen. In addition, this year is proving to be on fire with sales volume as Q1 2019 reached \$5.2B just shy of last quarter's \$5.3B. This quarter, smaller buildings asked higher price per s.f. The number of expansions in Q1 2019 has continued to motivate investors. Steady cash flow is another motivating factor and can be seen in the number of renewals the past three quarters.

Los Angeles has one of the lowest amounts of square feet under construction nationwide. It is no secret; raw land is hard to find so investors are focused on maximizing lease renewals or same building expansions.

Q1 showed the smallest deliveries per quarter in the past 10 years, as only 70,696 s.f. completed. The rest of the year will see an average of 1.2 million s.f. per quarter to deliver until 2020. Although the market will enjoy more supply, net absorption is forecasted to slow pace throughout the year into 2020. In fact, current forecast is in opposition to last years' trend of pre-leasing. To clarify, only 4.9% of square feet under construction was pre-leased during the quarter. This leaves 4,288,277 s.f. left to be absorbed which is showing signs of a stall.

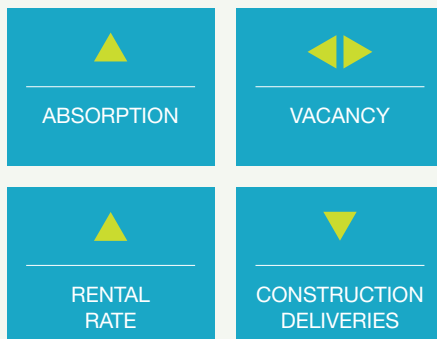
### Rents and Leasing

Los Angeles has seen a positive lease up in most submarkets. The Mid-Cities submarket, however, experienced the heaviest exodus of 1,056,471 square feet during the quarter. Considerably, LA submarkets are in line with record-low vacancies.

Rents started the year on average at \$1.01 per square foot, the highest this market has seen. Obviously, landlords are not afraid to keep pushing. However, attempting to command rents any higher will be met with heavy market pushback. Total leasing activity is historically healthy as 5.4 million square feet was leased during the quarter. However, pre-leasing activity

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### Market Forecast Trends



YEAR-TO-YEAR BASIS

### Notable Lease Transactions

**Article.com**  
18120 Bishop Ave., Carson, CA  
290,034 s.f.

**R+L Carriers**  
303-335 W. Artesia Blvd., Compton, CA  
238, 850 s.f.

**Potential Industries**  
909-915 Colon St., Wilmington, CA  
223, 865 s.f.

### Notable Sale Transactions

**Bridge Point Arts District, LLC**  
2445 E. 12th St., Los Angeles, CA  
205,044 s.f. | \$68,067,000

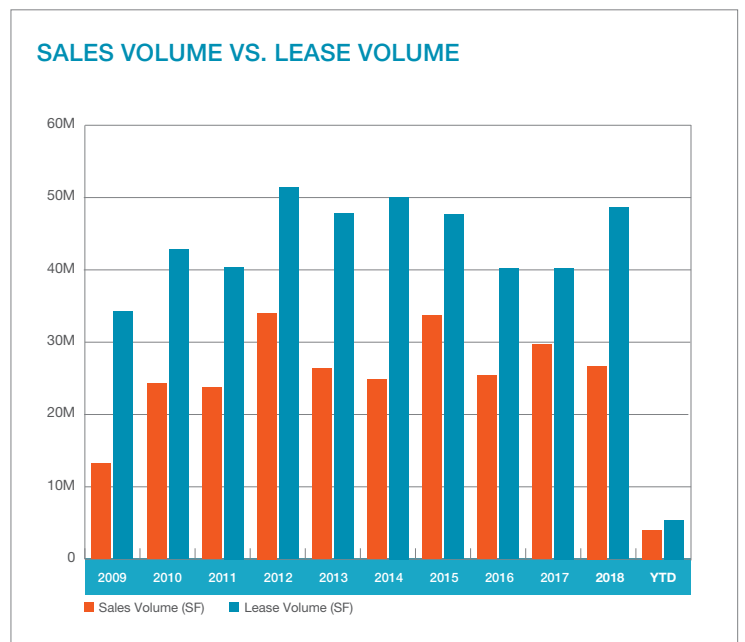
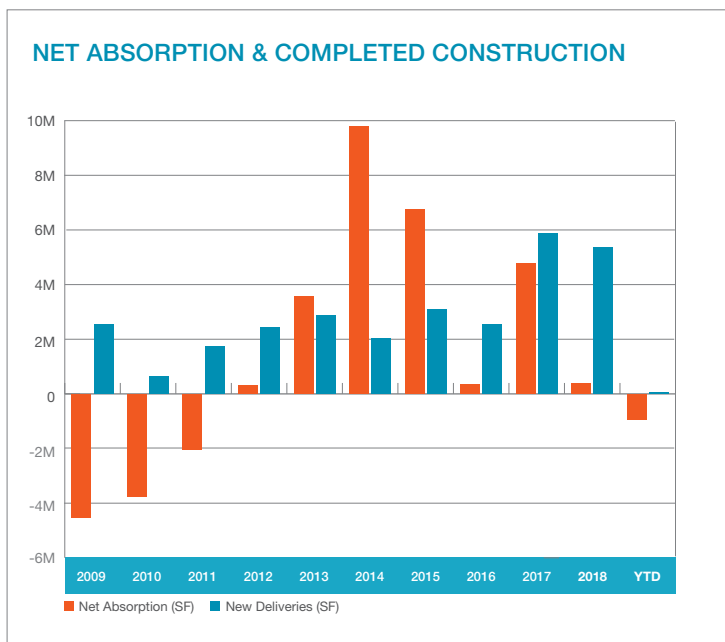
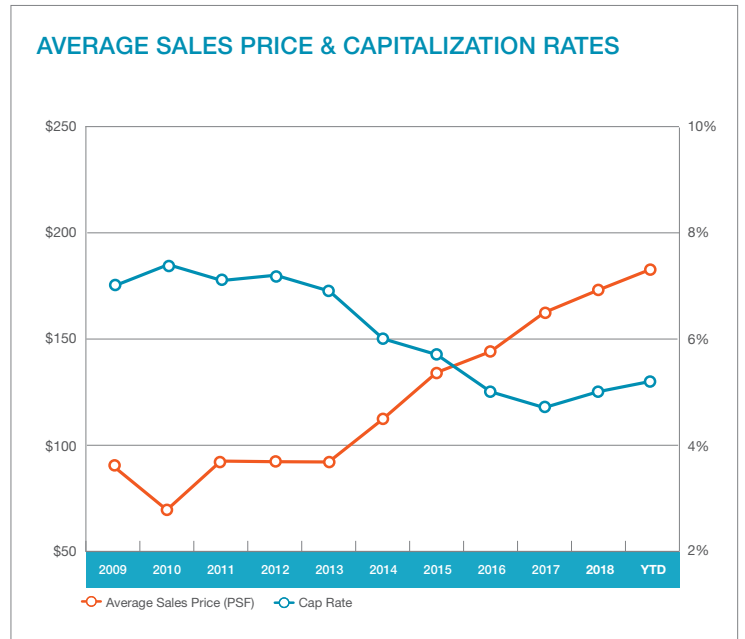
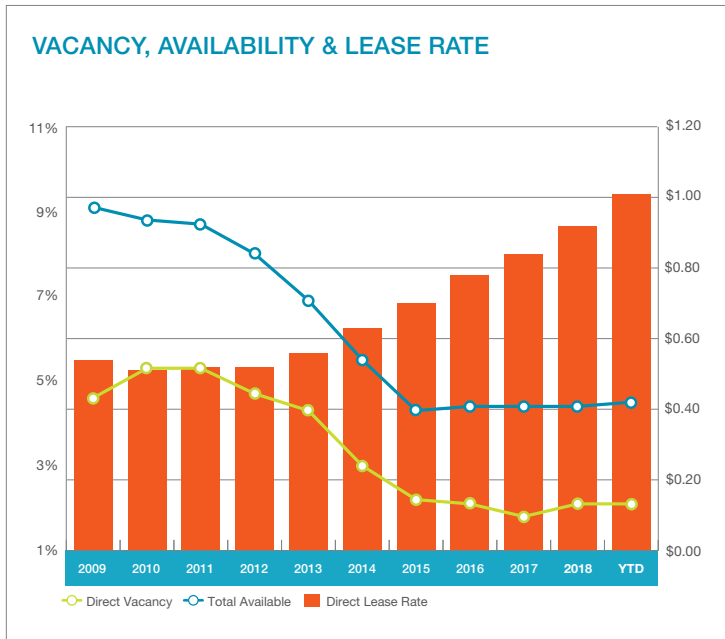
**The Blackstone Group LP**  
20210 Normandie Ave., Torrance, CA  
78,820 s.f. | \$16,650,000 | Investment

**Marvin LLC**  
13008 S. Western Ave. Gardena, CA  
46,566 s.f. | \$9,520,000

## Market Breakdown

	1Q2019	4Q2018	1Q2018	Annual % Change
Direct Vacancy Rate	2.1%	2.1%	2.0%	5.00%
Availability Rate	4.5%	4.4%	4.3%	4.65%
Asking Lease Rate	\$1.01	\$0.92	\$0.84	20.24%
Leased SF	5,397,604	10,378,517	13,041,034	-58.61%
Sold SF	4,042,617	8,622,997	5,159,660	-21.65%
Net Absorption	-943,304	1,606,817	207,824	N/A

## Los Angeles Industrial Charts



## Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Availability Rate	Q1 Net Direct Absorption	YTD Net Direct Absorption	Q1 Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
Bell/Bell Gardens/Maywood	7,434,983	0.3%	0.0%	0.3%	1.1%	(13,076)	76,416	43,123		\$0.80
Commerce	45,015,989	1.2%	0.1%	1.2%	3.4%	570,582	(829,618)	433,251		\$0.74
Huntington Park/Cudahy	4,793,018	2.9%	0.4%	3.3%	3.8%	6,687	(33,155)	65,654		\$0.67
Downtown LA	129,166,349	2.9%	0.2%	3.2%	5.8%	(448,661)	(796,832)	805,133		\$1.59
Montebello/Monterey Park	11,689,625	1.3%	0.0%	1.3%	3.0%	92,553	(158,937)	86,537		\$0.76
Pico Rivera	10,108,252	2.5%	0.0%	2.5%	4.5%	13,388	(86,345)	146,441		\$1.82
South Gate	10,298,104	0.7%	0.0%	0.7%	2.0%	36,114	(54,533)	49,719		\$1.03
Vernon	41,811,431	3.0%	0.7%	3.7%	5.0%	(151,312)	623,215	172,018		\$0.95
<b>Central</b>	<b>260,317,751</b>	<b>2.4%</b>	<b>0.3%</b>	<b>2.6%</b>	<b>4.7%</b>	<b>106,275</b>	<b>(1,259,789)</b>	<b>1,801,876</b>	<b>0</b>	<b>\$1.26</b>
Artesia/Cerritos	13,177,399	2.8%	0.3%	3.1%	7.9%	298,043	(150,480)	153,556		\$0.79
Bellflower/Downey	5,496,646	1.0%	0.0%	1.0%	1.3%	17,788	(33,151)	60,302		\$0.92
Buena Park/La Palma	15,048,199	11.4%	0.4%	11.8%	14.8%	(1,211,105)	109,682	208,160		\$0.82
La Mirada	12,980,164	0.5%	0.0%	0.5%	4.3%	178,499	362,299	34,566		\$0.80
Norwalk	2,912,756	0.9%	0.5%	1.3%	3.6%	11,808	(14,962)	29,871		\$1.04
Paramount	8,764,097	1.1%	0.0%	1.1%	1.8%	(50,546)	65,256	42,238		\$0.00
Santa Fe Springs	52,666,679	1.8%	0.0%	1.8%	3.7%	(61,042)	964,548	564,054		\$0.85
Whittier	3,813,038	6.7%	0.0%	6.7%	11.9%	(239,916)	(7,822)	4,074		\$0.74
<b>Mid-Cities</b>	<b>114,858,978</b>	<b>3.1%</b>	<b>0.1%</b>	<b>3.2%</b>	<b>5.7%</b>	<b>(1,056,471)</b>	<b>1,295,370</b>	<b>1,096,821</b>	<b>0</b>	<b>\$0.82</b>
Alhambra	2,231,472	1.6%	0.0%	1.6%	8.3%	5,028	(17,920)	26,215		\$0.95
Arcadia/Temple City	3,067,541	1.1%	0.0%	1.1%	2.1%	(12,106)	535,205	14,588		\$0.00
Azusa	5,814,855	1.7%	0.2%	1.9%	9.0%	(30,000)	40,580	111,092		\$0.80
Baldwin Park	4,576,659	2.2%	0.0%	2.2%	2.6%	(14,636)	(58,066)	36,937		\$1.78
City of Industry/DB/HH/RH	73,207,576	1.6%	0.6%	2.3%	3.0%	121,382	990,098	700,446		\$0.81
Covina/West Covina	3,084,884	2.4%	0.0%	2.4%	3.3%	24,813	(41,394)	36,377		\$0.85
Duarte	1,593,156	1.2%	0.0%	1.2%	0.9%	(8,345)	(9,817)	48,683		\$0.00
El Monte	6,942,909	2.5%	0.1%	2.6%	16.3%	(27,494)	(26,632)	45,629		\$0.99
Irwindale	11,180,806	2.0%	0.1%	2.1%	5.7%	13,901	567,388	83,120		\$0.86
La Puente	1,226,521	2.0%	0.0%	2.0%	2.0%	0	(33,002)	3,200		\$0.00
Glendora/La Verne/ San Dimas	6,686,562	0.9%	0.0%	0.9%	3.7%	(15,327)	55,611	19,256		\$0.85
Monrovia	3,172,552	0.5%	0.0%	0.5%	1.0%	4,254	(192,906)	10,655		\$0.85
Pomona/Claremont	20,210,777	1.0%	0.0%	1.0%	1.4%	(24,941)	6,730	150,393		\$0.66
Rosemead/San Gabriel	2,420,301	1.2%	0.1%	1.3%	1.6%	18,047	(25,270)	9,680		\$1.05
South El Monte	10,566,620	2.6%	0.0%	2.7%	3.3%	(1,939)	59,917	92,888		\$0.88
Walnut	4,684,881	1.6%	0.2%	1.7%	1.8%	(2,936)	(75,705)	7,593		\$0.52
<b>San Gabriel Valley</b>	<b>160,668,072</b>	<b>1.6%</b>	<b>0.3%</b>	<b>1.9%</b>	<b>3.8%</b>	<b>49,701</b>	<b>1,774,817</b>	<b>1,396,752</b>	<b>0</b>	<b>\$0.83</b>
Carson	34,730,842	1.0%	0.0%	1.0%	2.8%	17,618	(1,896)	406,226		\$0.93
Compton	20,700,020	1.1%	0.0%	1.1%	5.2%	145,452	54,312	319,947		\$0.82
El Segundo	8,911,623	1.4%	0.1%	1.5%	2.4%	(20,838)	168,520	12,123		\$1.85
Gardena	9,833,804	3.2%	0.3%	3.5%	5.4%	(51,741)	(226,002)	69,858		\$0.88
Harbor City	1,692,436	0.0%	0.1%	0.1%	3.2%	0	14,400	85,018		\$0.00
Hawthorne	7,935,889	0.9%	0.1%	1.0%	2.1%	(28,910)	(19,732)	0		\$1.05
Inglewood	4,827,044	3.1%	0.0%	3.1%	3.9%	(11,570)	(51,392)	11,327		\$1.28
Lakewood/Hawaiian Gardens	525,659	0.2%	0.0%	0.2%	0.2%	(1,200)	14,032	0		\$1.15
Lawndale	246,151	1.2%	0.0%	1.2%	3.1%	(1,200)	(1,700)	3,650		\$1.30
Long Beach/Terminal Island	20,651,088	2.5%	0.1%	2.7%	8.6%	(39,948)	20,494	55,945		\$1.52
Lynwood	4,421,373	0.2%	0.0%	0.2%	5.1%	18,456	223,543	0		\$1.41
Rancho Dominguez	14,700,810	2.6%	0.0%	2.6%	2.8%	(38,866)	(228,469)	71,868		\$0.91
Redondo/Hermosa Beach	1,885,536	0.1%	0.0%	0.1%	0.2%	(770)	5,817	1,030		\$1.62
San Pedro	2,754,278	0.5%	0.0%	0.5%	0.6%	(10,000)	6,259	2,689		\$0.91
Signal Hill	3,423,906	0.4%	0.0%	0.4%	2.9%	9,379	11,936	5,132		\$1.13
Torrance	14,760,588	1.2%	0.0%	1.2%	2.9%	(48,856)	784,238	35,752		\$0.98
Wilmington	3,746,610	0.3%	3.0%	3.2%	6.6%	20,185	62,684	21,590		\$2.21
<b>South Bay</b>	<b>155,747,657</b>	<b>1.6%</b>	<b>0.2%</b>	<b>1.8%</b>	<b>4.1%</b>	<b>-42,809</b>	<b>837,044</b>	<b>1,102,155</b>	<b>0</b>	<b>\$1.16</b>
<b>Los Angeles Total</b>	<b>691,592,458</b>	<b>2.1%</b>	<b>0.2%</b>	<b>2.4%</b>	<b>4.5%</b>	<b>-943,304</b>	<b>2,647,442</b>	<b>5,397,604</b>	<b>0</b>	<b>\$1.01</b>

flattened compared to historical trends in the past four years. In Los Angeles, properties remained vacant for 6 months before leasing. This is an odd uptick the market has not seen since Q1 2009. Abundant under construction supply and lower lease rates in the IE gives tenants a chance at being competitive. These perks make it easier to overlook expensive, and outdated product in Los Angeles. The lack of raw land is not enough to explain slow paced absorption. Los Angeles is now challenged to fill the limited supply being constructed. Radical improvements and consistent demolition projects are forecasted to continue for the next 5 years.

## The E-commerce Effect

The overall U.S economy is evolving. Consumers are making big changes in shopping trends. One driver of the evolution is E-commerce. Online buying is the new way to shop. Consumers can practically shop on any platform, even social media. This industry is growing rapidly. These tenants want attractive and affordable space. Pre-leasing trends of 2018 show tenants in Los Angeles were willing to wait several months until the market delivers. E-commerce tenants allocate a large portion of their revenue to marketing which is ultimately what leads them to profit. Although an aspect of their business is retail, they can compete with retailers since they do not need visibility, foot traffic, many employees or other retail amenities that would result in higher overhead. They are expecting minimal accommodations for consistent profits. Tenants of this nature are dominating the economy and if Los Angeles is to fill limited supply or provide investors with steady income, then understanding the business model is important.

These are businesses who make their money by selling online anywhere, anytime, sometimes fully automated. It is understandable these tenants are demanding because they are self-made businesses with low start-up costs. Many of these tenants started at home or co-working spaces. In fact, they do not operate like traditional industrial tenants, most do not build or design their own goods. The primary use of their industrial space is storage for imports and creative, flexible uses the market has not responded to. As

these businesses get closer to their local distributors and even the ports in Long Beach, their operating costs are reduced. To clarify, shorter shipping distances, lower wholesale prices, and access to imports quicker will continue to shift similar businesses into more affordable markets. Inland Empire remains the best option. The market is on fire, as absorption is trailing construction at unprecedented rates.

2018 has seen over 50% of industrial space occupied by ecommerce tenants. Of course, Amazon leads the way. It is estimated by 2020 that Amazon will occupy 1 s.f. per consumer across the nation. If Amazon's moves are any indicator of economic dominance, it may be time to identify non-traditional industrial tenants, complete conversions, rezone and creative ways to absorb income from this tenant base. After all, ecommerce is a retail operation that is forcing some of the biggest retailers to close, downsize, or relocate out of Los Angeles.

## Sales

171 transactions occurred during Q1 totaling over \$497 M in volume. Deals closed with an average price per building s.f. \$169.19 and average cap rate of 4.89. Year over year sales are at a 21.65% decline.

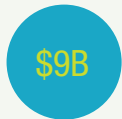
## Conclusion

Demand will increase as we expect net positive absorption throughout the rest of 2019. However, current supply will have to shape up cosmetically to keep up with the newer buildings delivering in the Inland Empire. Class B and Class C properties in LA are asking rents comparable to Class A properties. Unfortunately, these tenants are not desperate to lease in Los Angeles, it is simply another choice for them to get closer to suppliers, so they can get goods faster. The market has the overall appeal to attract many industrial tenants, but Los Angeles will have to take a few plays out of Inland Empire's book to win the most robust and lucrative lease ups.

Source: CoStar

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### COMMERCIAL BROKERAGE



ANNUAL  
TRANSACTION  
VOLUME



ANNUAL  
LEASING SF



ANNUAL  
SALES SF



# BROKERS

### PROPERTY MANAGEMENT

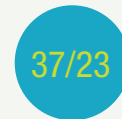


MANAGEMENT  
PORTFOLIO

### VALUATION ADVISORY



ASSIGNMENTS  
ANNUALLY



TOTAL #  
APPRAISERS/MAI'S

## Contact

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