# THIRD QUARTER 2019 MARKET REPORT GREATER LOS ANGELES INDUSTRIAL



MARKET OVERVIEW. Demand for industrial property in Los Angeles continues to show remarkable strength. Much of the interest continues to be driven by e-commerce and last-mile logistics as retailers seek better supply-chain efficiencies. This strong tenant demand has resulted in industrial vacancy rates hitting historic lows, hovering around 2% in the third quarter of this year. The Los Angeles market boasts a number of strategic advantages and as the demand for space continues to grow, expect the vacancy rate to drop even further, with any new supply to be quickly absorbed and lease rates to continue to climb.

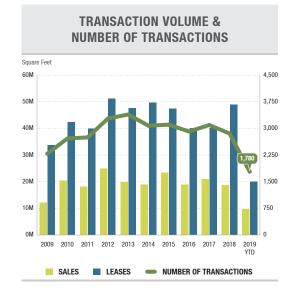
VACANCY. The demand for warehouse and distribution space shows no signs of diminishing. In addition to low unemployment, the economy is thriving with corporate tax cuts, low interest rates, and overall good financial health of the market's tenant base. The Los Angeles industrial market is as healthy as it has ever been, despite steep barriers to entry. As tenant demand remains consistent among a diverse pool of tenants, vacancy rates will remain low and rents will stay high. Vacancy in the Los Angeles region was 2.24% at the end of the third quarter, down 4 basis points compared with the prior quarter and 6 basis points compared with the previous year.

**AVAILABILITY.** Direct/sublease space being marketed in the third quarter came in at 4.52%, up from 4.22% from the third quarter of 2018. Due to the difficulty in developing new, modern buildings, much of the Los Angeles industrial inventory tends to be in properties that are smaller and older than might be considered normal for such a distribution market.

**LEASE RATES.** Rent growth in Los Angeles remains well above the historical average and is above the national rental rate average. However, the market is certainly a tight-infill market with few opportunities remaining to develop additional new space. The average asking lease rate is \$0.98 IG per square foot per month, a \$0.01 per square foot increase from last quarter and a \$0.06 per square foot increase from a year ago (6.52% annual increase). Recently, however, rent growth has slowed year-over-year, an indication that the cost of doing business has increased too much for some tenants. While averages are tough to rely on in L.A. given the disparity between Class A options and older, functionally obsolete properties, expect this trend of rent growth to continue.

**TRANSACTION ACTIVITY.** Demand is being driven by many factors, the largest being the change in how we purchase and consume goods (e-commerce). Industrial as an asset class is stealing market share from brick and mortar retail, as warehouses are becoming points of sale themselves. Los Angeles is one of the largest industrial markets in the nation, but even with more than 728 MSF of occupied space, available industrial space remains scarce, particularly buildings suitable for the logistics sector. Los Angeles' sale and leasing activity in the third quarter totaled 9.07 MSF, down from 11.2 MSF in the second quarter of 2019.





### Market Statistics

	Change Over Last Quarter	3Q 2019	20 2019	3Q 2018	% Change Over Last Year		
Vacancy Rate	DOWN	2.24%	2.28%	2.30%	(2.61%)		
Availability Rate	UP	4.52%	4.11%	4.22%	7.11%		
Average Asking Lease Rate	UP	\$0.98	\$0.97	\$0.92	6.52%		
Sale & Lease Transactions	DOWN	9,074,206	11,273,192	14,738,830	(38.43%)		
Gross Absorption	UP	7,204,284	6,491,294	9,649,238	(25.34%)		
Net Absorption	POSITIVE	693,320	911,634	1,401,564	N/A		

**OVERALL.** Los Angeles's labor market has been extremely tight since mid-2016 and the unemployment rate reached 4.4% in July 2019—creating challenges for many firms trying to expand. As we head into 2020, we are forecasting continued strength in the region. The Los Angeles industrial market continues its positive momentum, surpassing pre-recession highs in just about every metric (lease rates, sale prices & land values). We believe this trend will continue for the foreseeable future (6–12 months) given the continued growth of the e-commerce sector.

**LEASE RATES.** Rental rates are expected to increase at a moderate pace in the short run and rents in the "last mile" markets near critical population centers will experience the most aggressive growth. Tenant concessions like free rent, moving allowances and specific tenant improvements will remain minimal as the market stays tight and favors landlords. We expect 3–4% annualized growth in the coming year.

**VACANCY.** While hard to predict a drop in an already low 2.25% vacancy rate, we expect to see this figure dip below 2% by the end of first quarter 2020.

**CONSTRUCTION.** Industrial construction in Los Angeles remains limited. High construction costs and a scarcity of buildable land combine to restrict development. While opportunities are scarce given the lack of available land, submarkets like the San Gabriel Valley are quite active, with 15 buildings totaling just over 2.74 MSF currently underway. In total, more than 3.93 MSF is under construction in Los Angeles's industrial market, much of it catering to larger distributors (100,000 square feet and larger). In the pipeline, the largest project is a speculative two-building industrial center being developed by Goodman. The buildings, located in El Monte, will bring a combined 1.2 MSF to the market replacing a similar sized, but aged, distribution center formerly owned and occupied by Vons. In Vernon, Prologis is developing a two-building industrial park at 5215 South Boyle Avenue with a projected delivery date in late 2019. The two buildings will bring 346,000 square feet to market. In Carson, Pacific Industrial is developing a three-building industrial park totaling 421,692 square feet at 3200 E. Burnett Avenue, which has a projected November 2019 delivery date.

**ABSORPTION.** The trend of positive net absorption for LA's industrial market continues despite a drop in overall transaction volume due the lack of available product. Los Angeles added 693,320 square feet of positive absorption during the third quarter of 2019 for a total 516,060 square feet of positive absorption year to date, rebounding back from 1 MSF of negative absorption in the first quarter. Primary contributors to this trend include: Chef Warehouse (230,992 square feet), County of Los Angeles (215,462 square feet) and Traffic Tech (204,936 square feet).

# NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE Square Feet Square Feet Rat 15M 10M 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 YTD NEW DELIVERIES: New Construction Delivered to the Market NET ABSORPTION: Changes in the Amount of Occupied Space from One Quarter to the Next AVAILABILITY: Total Amount of Space that is Available whether Occupied, for Sublease, or Available at a Future Date

### Significant Transactions

Sales							
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller		
11811–11831 E. Florence/ 10510–10702 Hathaway Dr.	Santa Fe Springs	543,161	\$101,000,000	PS Business Parks	Westcore Properties		
5300 S Boyle Ave.	Vernon	305,350	\$76,000,000	Cape Ann Properties, LLC	Fruitland Owner, LLC		
1241–1245 Watson Center Rd.	Carson	203,280	\$39,315,843	Liberty Property, LP	Simon Levi Company Ltd.		
640-648 S. Santa Fe Ave.	Los Angeles	37,084	\$28,912,500	640 Santa Fe Owner, LLC	Continuum 640 Santa Fe, LLC		
611 Reyes Dr.	City of Industry	166,000	\$23,418,000	The Brookhollow Group	Lights of America, Inc.		
Leases							
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner		
1515 E. 15th St.	Los Angeles	245,000	Jul-2019	Omega Cinema Props, Inc.	Rexford		
12100 Rivera Rd.	Whittier	215,462	Jul-2019	County of Los Angeles	Exeter Property Group		
9350 Rayo Ave.	South Gate	213,232	Aug-2019	Amazon	East Firestone, LLC		
2300 Redondo Ave.	Long Beach	204,936	Jul-2019	Traffic Tech	Pacific Industrial, LLC		
13415 Carmenita Rd.	Santa Fe Springs	200,068	Aug-2019	County of Los Angeles	Golden Springs Development Co.		

	INVENTORY				VACANCY & LEASE RATES						ABSOF	RPTION	ABSORPTION				
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2019	Square Feet Available	Availability Rate 3Q2019	Average Asking Lease Rate	Net Absorption 3Q2019	Net Absorption 2019	Gross Absorption 3Q2019	Gross Absorption 2019				
Central																	
Bell/Bell Gardens/Maywood	193	7,509,241	0	0	16,190	0.22%	108,984	1.45%	\$1.10	44,347	14,772	72,241	140,668				
City of Commerce	732	45,080,335	41,590	0	771,520	1.71%	2,014,021	4.47%	\$0.80	197,418	504,008	171,248	1,386,881				
Huntington Park/Cudahy	194	4,777,611	0	0	117,799	2.47%	197,178	4.13%	\$0.96	10,194	108,949	32,746	165,347				
Downtown	5,145	129,268,818	202,580	393,439	4,258,141	3.29%	8,598,150	6.65%	\$1.04	(41,875)	(191,402)	1,798,683	4,368,198				
Montebello/Monterey Park	306	11,723,081	0	0	50,644	0.43%	242,928	2.07%	\$0.99	19,183	114,811	106,887	370,617				
Pico Rivera	202	10,382,065	0	0	396,418	3.82%	467,044	4.50%	\$0.79	(19,105)	54,916	37,974	254,674				
South Gate	225	10,287,003	0	0	163,811	1.59%	349,009	3.39%	\$0.95	5,200	(11,984)	368,049	518,682				
Vernon	775	41,544,030	463,541	82,412	1,154,485	2.78%	1,998,961	4.81%	\$0.82	(106,267)	(175,059)	368,951	1,213,161				
Total	7,772	260,572,184	707,711	475,851	6,929,008	2.66%	13,976,275	5.36%	\$0.93	109,095	419,011	2,956,779	8,418,228				
Mid Counties																	
Artesia/Cerritos	278	13,164,186	0	0	382,937	2.91%	457,891	3.48%	\$0.67	152,514	444,350	352,513	1,029,411				
Bellflower/Downey	195	5,539,507	0	0	114,597	2.07%	334,145	6.03%	\$0.83	(21,078)	129	31,438	106,420				
•	232		0	0													
Buena Park/La Palma		15,083,192			1,175,177	7.79%	1,654,953	10.97%	\$0.67	324,712	(630,706)	474,780	1,067,884				
La Mirada	183	12,976,445	0	0	461,920	3.56%	605,532	4.67%	\$0.92	(464,447)	(331,394)	64,174	401,679				
Norwalk	87	2,911,788	0	0	28,587	0.98%	28,587	0.98%	\$0.00	(228)	78,704	2,940	52,359				
Paramount	377	8,744,375	0	0	149,936	1.71%	356,381	4.08%	\$0.92	(6,337)	(114,234)	29,601	119,280				
Santa Fe Springs	1,347	52,683,817	17,338	801,144	859,022	1.63%	1,515,694	2.88%	\$0.99	108,431	215,182	815,544	1,744,929				
Whittier	161	3,872,607	0	0	60,571	1.56%	378,039	9.76%	\$0.94	180,509	116,337	14,927	57,005				
Total	2,860	114,975,917	17,338	801,144	3,232,747	2.81%	5,331,222	4.64%	\$0.99	274,076	(221,632)	1,785,917	4,578,967				
San Gabriel Valley																	
Alhambra	115	2,366,701	0	0	144,240	6.09%	110,545	4.67%	\$1.30	1,996	16,794	23,187	90,721				
Arcadia/Temple City	141	3,066,419	0	0	88,078	2.87%	79,019	2.58%	\$1.16		(14,630)	33,726	114,628				
. ,										(12,221)	,						
Azusa	230	5,938,147	458,581	8,000	78,442	1.32%	292,384	4.92%	\$0.87	(17,200)	173,165	36,222	398,746				
Baldwin Park	250	4,694,977	0	0	83,587	1.78%	111,180	2.37%	\$1.07	(33,731)	1,016	46,214	174,861				
City of Industry/DB/HH/RH	1,104	73,204,288	0	380,716	1,052,981	1.44%	1,845,851	2.52%	\$1.07	192,494	(193,427)	296,316	1,537,777				
Covina/West Covina	176	3,253,710	11,264	18,909	78,547	2.41%	74,567	2.29%	\$1.05	351	69,958	22,597	133,981				
Duarte	71	1,833,963	0	0	54,954	3.00%	57,268	3.12%	\$1.00	(26,506)	(43,677)	19,019	69,308				
El Monte	307	7,242,887	1,327,909	61,163	161,195	2.23%	401,967	5.55%	\$1.08	5,275	(65,829)	45,731	193,343				
Irwindale	260	11,138,470	75,807	2,263,694	147,468	1.32%	365,963	3.29%	\$0.00	139,628	167,648	100,961	232,559				
La Puente	90	1,972,211	0	12,650	42,216	2.14%	200,516	10.17%	\$1.00	8,120	(5,179)	8,120	18,709				
La Verne/San Dimas/Glendora	312	6,712,014	0	0	40,157	0.60%	298,596	4.45%	\$0.99	95,126	21,102	133,898	199,064				
Monrovia	200	3,200,774	0	0	10,588	0.33%	25,088	0.78%	\$1.50	14,538	16,067	25,450	67,633				
Pomona/Claremont	661	19,994,019	66,982	0	242,721	1.21%	611,135	3.06%	\$0.72	(13,765)	35,815	105,264	338,235				
Rosemead/San Gabriel	120	2,429,313	0	0	45,206	1.86%	68,881	2.84%	\$1.17	(5,652)	3,966	17,009	62,295				
South El Monte	784	10,588,986	0	0	295,678	2.79%	342,271	3.23%	\$0.94	5,644	(3,288)	96,626	329,965				
Walnut	195	6,578,693	0	0	261,956	3.98%	365,860	5.56%	\$1.11	(126,070)	(153,780)	77,373	147,372				
Total	5,016	164.215.572	1.940.543	2.745.132	2,828,014	1.72%	5,251,091	3.20%	\$1.00	228,027	25,721	1,087,713	4,109,197				
	3,016	104,215,572	1,940,043	2,740,132	2,020,014	1.7270	5,251,091	3.20%	φ1.00	220,021	23,721	1,007,713	4,109,197				
South Bay																	
Carson	495	35,037,713	0	70,300	861,827	2.46%	1,475,697	4.21%	\$1.04	(221,351)	(6,635)	53,895	347,567				
Compton	457	24,518,939	94,875	0	367,418	1.50%	1,509,848	6.16%	\$0.97	69,871	135,967	145,754	575,767				
El Segundo	171	8,870,041	0	0	120,004	1.35%	201,554	2.27%	\$1.60	15,611	19,078	69,218	175,210				
Gardena	1,171	28,249,221	112,000	6,765	542,853	1.92%	892,145	3.16%	\$1.02	74,641	71,233	440,541	1,212,999				
Harbor City	88	1,722,485	0	0	37,100	2.15%	69,513	4.04%	\$0.00	(20,700)	(37,100)	900	900				
Hawthorne	223	7,949,729	0	48,080	137,150	1.73%	255,790	3.22%	\$1.13	(49,710)	(65,815)	49,240	118,791				
Inglewood	234	4,833,045	0	0	100,136	2.07%	220,674	4.57%	\$1.54	30,210	76,771	48,268	175,576				
Lakewood/Hawaiian Gardens	24	555,659	0	0	5,199	0.94%	5,199	0.94%	\$1.05	(5,199)	(5,199)	0	0				
Lawndale	29	251,651	0	0	7,936	3.15%	6,136	2.44%	\$0.00		(5,256)	1,450	5,580				
										1,450							
Long Beach/Terminal Island	722	22,153,525	1,009,419	517,020	460,824	2.08%	1,102,460	4.98%	\$1.33	76,675	(10,599)	83,654	417,168				
Lynwood	98	4,437,059	0	0	20,400	0.46%	168,151	3.79%	\$0.90	(11,000)	6,956	32,528	53,884				
Rancho Dominguez	236	14,488,459	0	0	281,721	1.94%	625,603	4.32%	\$0.99	44,229	23,801	198,002	329,586				
Redondo & Hermosa Beach	40	2,022,636	0	0	3,965	0.20%	3,965	0.20%	\$0.00	(3,965)	(2,935)	0	2,830				
San Pedro	42	2,754,278	0	0	12,442	0.45%	25,598	0.93%	\$1.15	0	(16,084)	0	2,689				
Signal Hill	199	3,440,158	0	0	39,875	1.16%	68,189	1.98%	\$1.17	7,744	(12,695)	20,912	35,773				
Torrance	606	25,653,602	0	438,112	391,750	1.53%	1,686,461	6.57%	\$1.29	82,155	(121,829)	228,148	635,034				
Wilmington	145	3,759,486	55,000	0	13,270	0.35%	144,002	3.83%	\$1.06	(8,539)	243,301	1,365	63,231				
Total	4,980	190,697,686	1,271,294	1,080,277	3,403,870	1.78%	8,460,985	4.44%	\$1.10	82,122	292,960	1,373,875	4,152,585				
Los Angeles Total	20,628	730,461,359	3,936,886	5,102,404	16,393,639	2.24%	33,019,573	4.52%	\$0.98	693,320	516,060	7,204,284	21,258,977				
5,000-24,999	13,553	165,616,010	48,385		4,315,912	2.61%	7,006,873	4.23%	\$1.15	•		2,056,832	5,706,813				
				112,486						(91,595)	(581,351)						
25,000-49,999	3,548	123,086,808	335,290	468,565	3,105,296	2.52%	6,466,425	5.25%	\$1.01	37,905	(24,540)	1,308,674	3,883,383				
50,000-99,999	1,981	134,687,583	627,332	250,463	2,444,978	1.82%	6,538,926	4.85%	\$0.92	383,742	734,784	1,258,085	4,179,123				
100,000-249,999	1,240	183,426,976	1,690,436	2,011,591	4,075,353	2.22%	8,089,604	4.41%	\$0.85	44,493	(184,097)	1,967,363	5,135,661				
250,000-499,999	250	80,805,553	0	953,299	1,370,677	1.70%	3,251,903	4.02%	\$0.85	318,775	923,603	613,330	1,587,427				
500,000 plus	56	42,838,429	1,235,443	1,306,000	1,081,423	2.52%	1,665,842	3.89%	\$0.00	0	(352, 339)	0	766,570				

This survey consists of buildings greater than 5,000 square feet. Lease rates are on an industrial-gross basis.

# LA3Q19

# THIRD QUARTER 2019 MARKET REPORT GREATER LOS ANGELES INDUSTRIAL





# California Split Roll Tax — The First Real Challenge to Proposition 13

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As we have been reporting for the past several years, the Mid-Counties industrial market continues to move higher in terms of sale prices and asking lease rates. This is mainly due to high demand from growing businesses and a lack of construction of much needed inventory. Vacancy has bottomed out in the 3% range and much of what is available is older, less functional product.

Strong economic growth in Southern California should keep the market on its present course for the meantime, but there is a looming threat to property owners and occupiers that will be decided in 2020's General Election. Voters will be weighing in on the first real challenge to Proposition 13 in more than 40 years. Specifically the California Schools and Local Communities Funding Act, if passed, would effectively split the property tax roll and strip Proposition 13 protection for most commercial properties statewide.

Currently, the base levy for all real property in California is set at 1% of market value as determined by the sales price each time a property is sold. Annual tax increases are limited to 2% of the base levy or the rate of inflation, whichever is less. This protects property owners from steep tax hikes each year, especially in real estate up-cycles like the one we are experiencing now. It also protects the state from sharp property tax declines in a real estate down-cycle. On average, property tax revenues have climbed 7% per year since Proposition 13 passed back in 1978.

If this new proposition becomes law, all but the smallest commercial properties will be subject to reassessment to full market value every 3 years, which could double or triple the base levy for long term property owners. This would be detrimental to both landlords and tenants depending on the type of lease being used. In a gross lease, property taxes are included in the lease rate for the 'base' year, with increases passed along to the tenant in subsequent years. In a net lease, the tenant pays the entire property tax bill from day one. The new law would have a major impact on this traditional arrangement and is certain to put downward pressure on asking lease rates. Lower rates mean lower net operating income (NOI) and lower NOI would lower property values even if cap rates remained at their current levels. Owner/users could really get hit, as they have no one to pass the higher cost along to.

As we get closer to the election, this issue is expected to get a lot of media attention. Proponents claim the law, if passed, would raise up to \$11 billion per year in new tax revenue, every penny of which would come from the pockets of property and business owners.

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Product Type

### MFG./DIST.

Manufacturing/Distribution/Warehouse facilities with up to 29.9% office space.

### Submarkets

### **CENTRAL**

Bell/Bell Gardens/Maywood, City of Commerce, Huntington Park/Cudahy, Downtown, Montebello/Monterey Park, Pico Rivera, South Gate, Vernon

### MID COUNTIES

Artesia/Cerritos, Bellflower/Downey, Buena Park/La Palma, La Mirada, Norwalk, Paramount, Santa Fe Springs, Whittier

### SAN GABRIEL VALLEY

Alhambra, Arcadia/Temple City, Azusa, Baldwin Park, City of Industry/DB/ HH/RH, Covina/West Covina, Duarte, El Monte, Irwindale, La Puente, La Verne/San Dimas/Glendora, Monrovia, Pomona/Claremont, Rosemead/San Gabriel, South El Monte, Walnut

### **SOUTH BAY**

Carson, Compton, El Segundo, Gardena, Harbor City, Hawthorne, Inglewood, Lakewood/Hawaiian Gardens, Lawndale, Long Beach/Terminal Island, Lynwood, Rancho Dominguez, Redondo & Hermosa Beach, San Pedro, Signal Hill, Torrance, Wilmington

This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a industrial-gross basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.