

# MARKET REPORT

Industrial  
Los Angeles Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

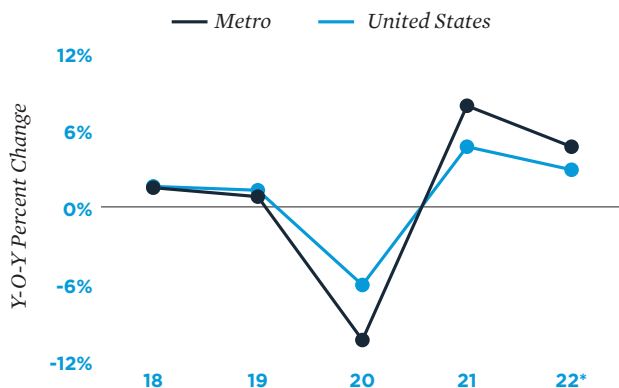
Midyear 2022

## Global Trade and Stock Upgrades Preserve Record-Low Vacancy in Los Angeles

Conditions compress in historically tight market. Industrial availability fell below 1.5 percent in each of Los Angeles County's five largest submarkets over the past year ended in March. This downward movement reduced overall vacancy to a record low, as together the quintet of locales account for more than three-fourths of the metro's total stock. An extended period of elevated import volumes at the ports of Los Angeles and Long Beach is bolstering industrial users' storage requirements. Twenty-foot equivalent units (TEUs) totals from April and May suggest this trend will continue over the near term, a boon for any available space proximate to the ports or major freeways. Furthermore, some suppliers and omnichannel retailers are increasing their safety stocks as a hedge against future supply chain disruptions, further heightening demand for local warehouse and distribution space.

Users and developers prioritize port markets and inland hubs. The South Bay and San Gabriel Valley are accounting for notable portions of countywide leasing velocity and construction. Spanning the past 12 months, a combined 6 million square feet was absorbed across the two submarkets. Concurrently, the duo accounted for nearly half of recent supply additions, with each submarket's 2022 delivery total expected to reach at least 1.5 million square feet. Moving forward, South Bay inventory should continue to grow, even if a decline in project starts is noted, as office-to-industrial conversions are becoming more frequent.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Industrial 2022 Outlook



**210,000  
JOBS**  
*will be created*

### EMPLOYMENT:

Retail trade, transportation and utilities jobs accounted for nearly 20 percent of the positions added through May. Expectations for positive hiring across most sectors during the remainder of this year supports a 4.7 percent rate of employment growth.



**4,760,000  
SQ. FT.**  
*will be completed*

### CONSTRUCTION:

Supply additions surpass the 4 million-square-foot threshold for a third consecutive year, increasing inventory by 0.6 percent on an annual basis. Warehouses account for approximately 70 percent of the space slated for 2022 delivery.



**10  
BASIS POINT**  
*increase in vacancy*

### VACANCY:

Availability remains extremely sparse this year, despite a minimal uptick in vacancy triggered by supply additions slightly outpacing demand. Still, the metro's year-end rate of 1.6 percent will tie the Inland Empire for the lowest availability in the nation.

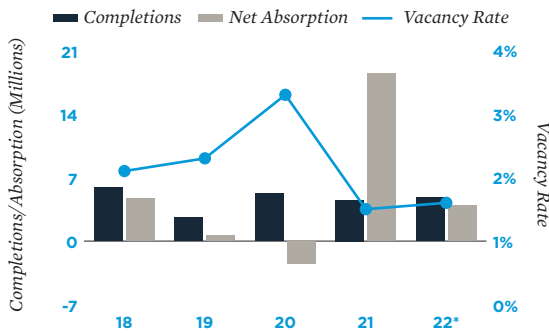


**13.2%  
INCREASE**  
*in asking rent*

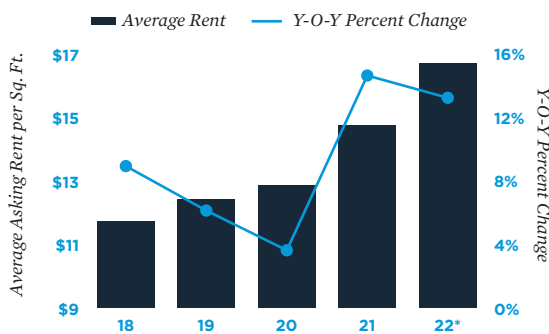
### RENT:

Sparse vacancy across major submarkets enables the average asking rent to climb by double digits for the fourth time in the past eight years. At \$16.70 per square foot, the county's mean marketed rate is on par with neighboring Orange County.

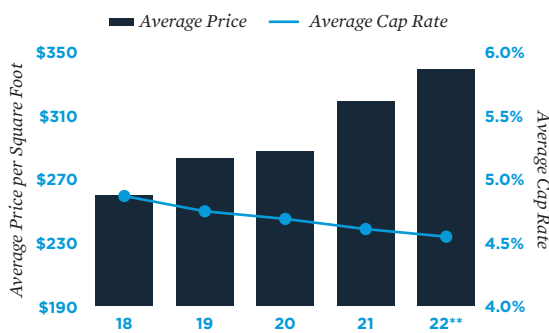
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

### 1Q 2022 - 12-Month Period



#### CONSTRUCTION

**5,409,000 sq. ft. completed**

- Supply additions during the four-quarter period ended in March grew inventory by 0.7 percent, with more than 1.2 million square feet delivered in both Lower San Gabriel Valley and South Bay.
- Metrowide, construction was underway on 3.4 million square feet of space as of mid-June, with an additional 9.4 million square feet proposed.



#### VACANCY

**130 basis point decrease in vacancy Y-O-Y**

- Industrial users absorbed 16.5 million square feet over the past year, lowering vacancy to 1.5 percent in March, the second-lowest rate nationally.
- Among locales with more than 100 million square feet of inventory, Mid-Cities recorded the most pronounced vacancy compression, as availability fell 220 basis points to a scant 0.7 percent.



#### RENT

**24.4% increase in the average asking rent Y-O-Y**

- The metro's mean marketed rate rose by more than \$3 per square foot during the recent yearlong period, reaching a record \$16.21 per square foot.
- Each of the four largest submarkets by stock noted rent gains exceeding 25 percent. Lower San Gabriel Valley claimed the greatest escalation. Here, the average asking rate rose 38 percent to \$17.67 per square foot.

### Investment Highlights

- Los Angeles noted the largest number of closings across primary U.S. markets over the yearlong period ended in March. During this span, local sales activity elevated by around 30 percent, highlighted by a more pronounced rise in \$10 million-plus trades. Heightened velocity in this price tranche signifies a rise in institutional purchasing, with these buyers exhibiting a preference for mid-sized warehouses and manufacturing facilities.
- Investors are active throughout the metro's largest submarkets, which includes suburban valleys, areas proximate to the ports and industrial-heavy zones south of Downtown Los Angeles. Vacancy is sparse throughout these locales, with swiftly moving asking rents and relatively minimal construction pipelines further bolstering property performance projections. Minimum first-year returns for warehouses and manufacturing properties can fall into the 3 percent range across these submarkets. However, a fair amount of high-4 to low-6 percent cap rates are obtainable.
- Smaller and midsize warehouses are trading for an average of roughly \$340 per square foot, on par with the metro's overall mean price point. In contrast, manufacturing facilities comprising less than 50,000 square feet are changing hands for approximately \$275 per square foot on average.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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