

# MARKET REPORT

## INDUSTRIAL

Los Angeles Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

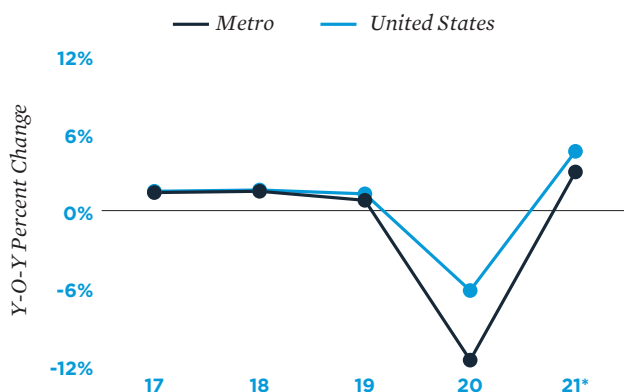
2Q/21

### Industrial Sector Poised for Strong Performance Following Rebound in Absorption

**Leasing activity exceeds pre-pandemic totals.** Supply chain upgrades and e-commerce growth over the past year fueled a level of industrial demand that enabled Los Angeles to maintain its title of nation's least vacant market. As the health crisis extended, leasing velocity strengthened, with industrial users committing to occupy an additional 3.7 million square feet during the first three months of 2021, the top quarter for absorption in six years. Recent demand has been greatest in Lower San Gabriel Valley, Commerce Area-Vernon and Mid-Cities, where vacancies are sub-3 percent. While most of the leases executed during the first quarter were for 10,000- to 50,000-square-foot spaces, a collection of sizable agreements were also inked by logistics firms and online retailers. Preliminary data for the second quarter indicates a robust level of demand will continue in the near term, supporting significant net absorption.

**Imports boost storage demand.** Home to the largest West Coast seaports, the county has received a jolt from international trade. Since last summer, the Ports of Long Beach and Los Angeles have consistently notched monthly record highs for TEU volumes, driven by import activity. The influx of goods from Asia has caused bottlenecks at shipping facilities, forcing carriers to wait offshore prior to unloading cargo. The flood of product has also tested ports' storage capacities, driving demand for nearby warehouse space. With additional bottlenecks probable and peak shipping season upcoming, port activity represents another tailwind supporting industrial demand.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

### Industrial 2021 Outlook



**120,000  
JOBS**

*will be created*

#### EMPLOYMENT:

Los Angeles County recaptures more than 20 percent of the 534,000 positions lost last year, translating to employment growth of 3 percent. Logistics-related hiring is expected to drive job creation in the retail trade, transportation and utilities sectors.



**4,400,000  
SQ. FT.**

*will be completed*

#### CONSTRUCTION:

The metro's industrial inventory expands by 0.5 percent in 2021 as delivery volume trails the prior five-year average by 400,000 square feet. As of May, 60 percent of the space slated for completion this year had lease commitments in place.



**40  
BASIS POINT**

*decrease in vacancy*

#### VACANCY:

E-commerce growth, record port volumes and safety stock upgrades will support industrial demand in 2021, lowering vacancy to 2.9 percent. Positive absorption this year will partially offset the 100-basis-point increase recorded in 2020.



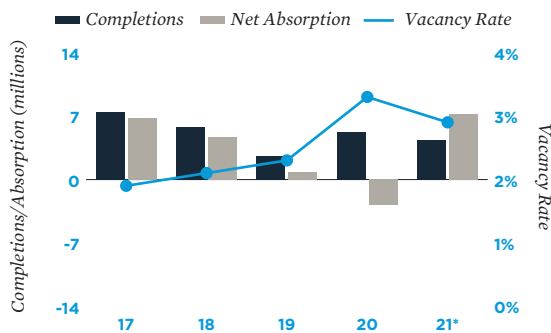
**4.8%  
INCREASE**

*in asking rent*

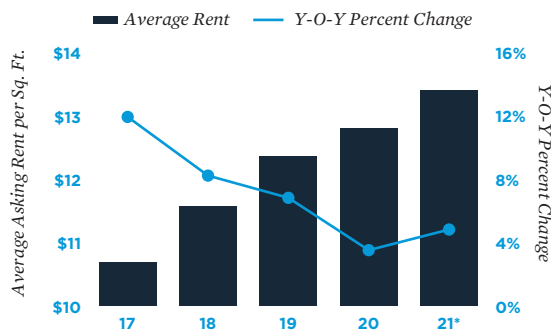
#### RENT:

Industrial demand will outpace new supply, translating to a strong year for absorption. This performance will allow the metro's average asking rent to reach \$13.40 per square foot and the annual rate of increase to surpass the 3.5 percent gain notched in 2020.

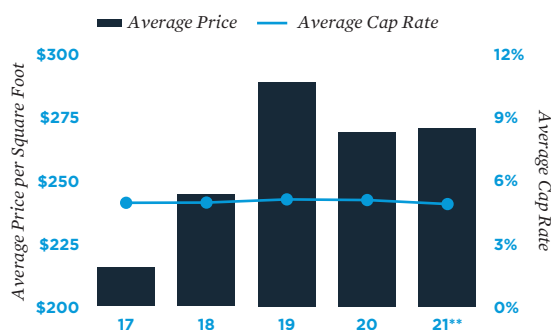
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 1Q  
Sources: CoStar Group, Inc.; Real Capital Analytics

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## 1Q21 – 12-Month Period

**CONSTRUCTION**  
**2,823,000 square feet completed**

- Supply additions increased the county's industrial inventory by 0.4 percent over the past year ended in March after nearly 4.9 million square feet was finalized during the prior 12-month span.
- As of May, construction was underway on 4.9 million square feet. Projects in Burbank and Irwindale account for 40 percent of this pipeline.

**VACANCY**  
**no change in vacancy Y-O-Y**

- Roughly 2.7 million square feet of space was absorbed over the past 12 months, holding vacancy at 2.8 percent in March.
- Of the four submarkets with inventories exceeding 100 million square feet, two recorded vacancy compression during the past year, highlighted by Lower San Gabriel Valley's 250-basis-point reduction.

**RENT**  
**4.2% increase in the average asking rent Y-O-Y**

- Positive absorption and sub-3 percent vacancy allowed the rate of rent growth to match the prior 12-month span, lifting the average marketed rate to \$12.96 per square foot at the end of the first quarter.
- Six submarkets registered gains that exceeded the metrowide rate of increase, led by Upper San Gabriel Valley's double-digit spike.

### Investment Highlights

- Following a lull in closings during the initial months of the health crisis, the number of transactions executed from October through March ranked as the strongest six-month span for sales activity since 2017. The recent increase in trades supported a 1 percent boost in deal flow over the past year ended in the first quarter of 2021.
- Sales velocity over the past 12 months was dominated by Class C properties in submarkets where pricing below \$250 per square foot is common. This activity lowered the metro's average price point 5 percent to \$270 per square foot. Despite the decline, the mean cap rate fell 20 basis points to a record low of 4.8 percent.
- Since the onset of the health crisis, trades involving sub-50,000-square-foot warehouses have accounted for more than 60 percent of total deal flow. Submarkets south of Downtown Los Angeles off Interstate 5 and the areas of South Bay and San Gabriel Valley have registered the most investor activity. In these locales, pricing above \$300 per square foot remains rare. Buyers willing to pay slightly higher prices for comparable assets are targeting buildings in San Fernando Valley.