MARKET REPORT

Marcus & Millichap

INDUSTRIAL

Los Angeles Metro Area

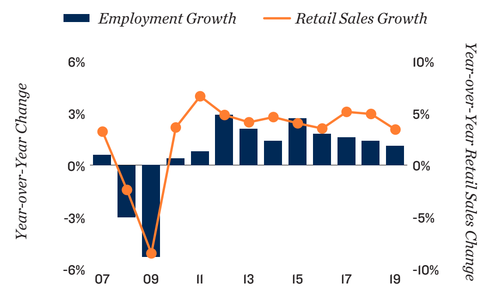
MARCH 2020

Sizable Populace Maintains Demand for Industrial Services; Speculative Deliveries Lift Vacancy

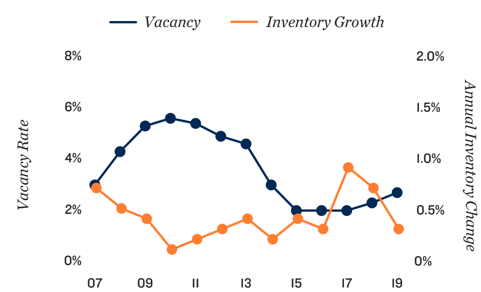
Metro well positioned to handle upcoming volatility. Mirroring market conditions prior to the Great Recession, Los Angeles County entered the COVID-19 driven downturn as the only top 50 metro with a sub-3 percent vacancy rate. While import volumes have already slowed at the Ports of Los Angeles and Long Beach, demand for industrial space should be sustained as the spread of the coronavirus alters daily life. With the metro's more than 10 million residents encouraged to stay home through May, more discretionary spending should go online, bolstering the need for logistics, distribution and last-mile delivery space. Additionally, local warehouse space should remain in demand, as the need for essential goods and services is elevated. Still, the volume of available space should reach its highest level since at least 2013. Prospective tenants that avoid leasing the influx of 200,000-square-foot properties scheduled for delivery this year will drive this uptick.

Buyers focus on proven industrial hubs during uncertain times. Tight vacancy and relatively limited development in the county's largest submarkets supported overall deal flow during the past year, with investors acquiring last-mile delivery outposts and manufacturing space. Moving forward, buyers confident in their ability to find high-quality tenants for vacant facilities after the downturn will continue to pursue listings. These investors are likely to target longstanding industrial hubs south of downtown Los Angeles, between Interstates 605 and 110, and in the South Bay. Here, lower entry costs and higher yields exist for aged properties that warrant tenant improvements. Risk-averse buyers may look to the San Gabriel Valley, attracted to the area's proximity to the Inland Empire and major transportation routes.

Employment vs. Retail Sales Trends



Vacancy and Inventory Trends



2020 Advantage

- Spanning the past three years unemployment held below 5.0 percent. During that stretch more than 180,000 jobs were added throughout the county, increasing the local worker base by 4.1 percent. Of these positions, nearly 80,000 were education or health services-related, a sector that should sustain headcounts during the downturn. Job losses will be most apparent in the service industry amid the closure of nonessential businesses.
- Since 2015, an average of 4.3 million square feet of industrial space was completed annually. While some projects currently underway may be delayed, delivery volume in 2020 should match this figure, as more than 2 million square feet was finalized during the first quarter.
- After holding below 2.0 percent throughout 2015 to 2017, vacancy rose 70 basis points over the past two years, entering 2020 at 2.6 percent. Moving forward, vacancy fluctuations will largely hinge on the length of the outbreak, the flow of imports to the metro's two ports and corporate confidence. With consumer spending on necessities likely maintained by stimulus packages, distribution hubs should remain filled during the duration of the transition.
- Following a five-year span in which the asking rent rose an average of nearly 10.0 percent annually, the market rate will moderate, coinciding with slowing absorption.

Pre-Recession 2007	Pre-Coronavirus 2019
Employment	
Rose Y-O-Y 0.6% to 4.3 million jobs *Unemployment 5.7%*	Rose Y-O-Y 1.1% to 4.6 million jobs *Unemployment 4.3%*
Construction	
5.1 million sq. ft. *0.7% of inventory*	2.6 million sq. ft. *0.3% of inventory*
Vacancy | Vacant Space	
2.9% | 21.9 million sq. ft.	2.6% | 20.9 million sq. ft.
Rent PSF | Market Revenue	
$8.14 psf | $5.9 billion	$12.42 psf | $9.6 billion

Employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of March 2020. Asking rent is based on the full-service marketed rental rate. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at $1,000,000 and greater unless otherwise noted. No representation, warranty or guaranty, express or implied may be made as to the accuracy or reliability of the information contained herein. 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; BLS; CoStar Group, Inc.; Real Capital Analytics

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