

Los Angeles Regional Industrial and Flex Topics & Trends – Q1 2021

Since June 2011, following the Great Recession, the US Industrial market displayed steadily rising prices through November 2020. As exhibited below, the RCA CPPI index has been increasing for the last 9 years with no current signs of slowing down. A big driver of this growth is the emergence of e-commerce, and proliferation of warehouses and logistics facilities.

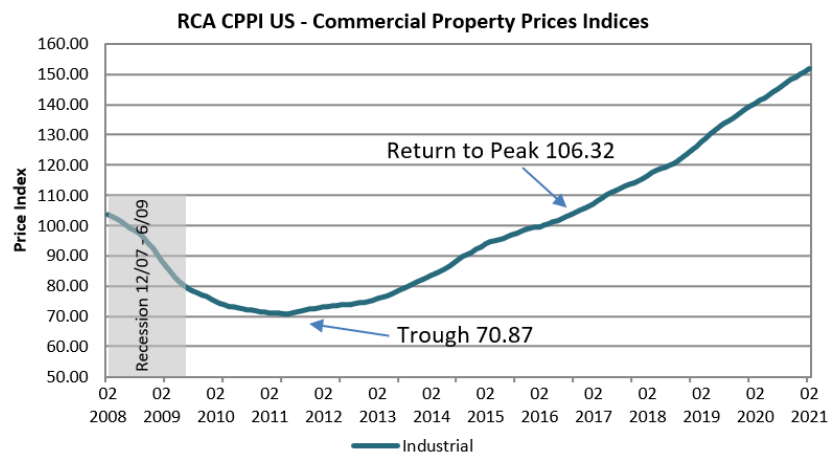
Regional Industrial and Flex Market

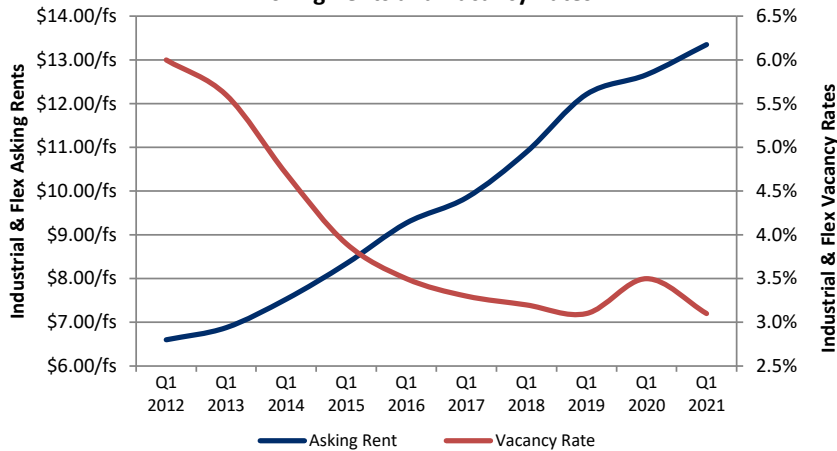
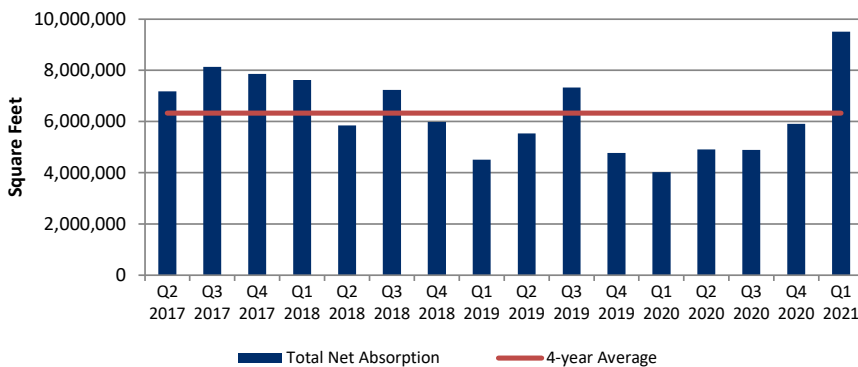
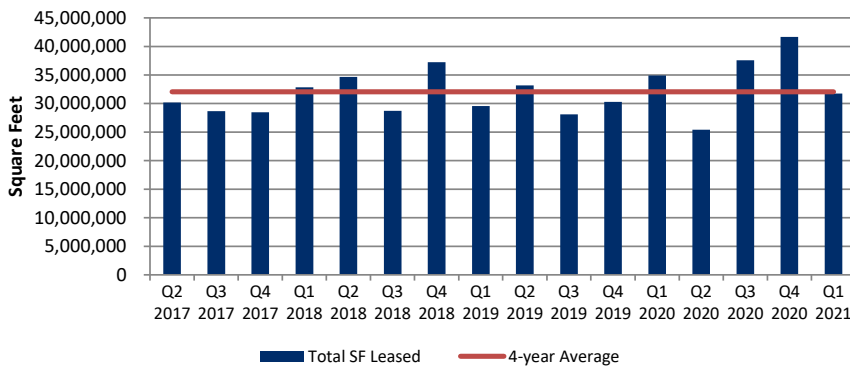
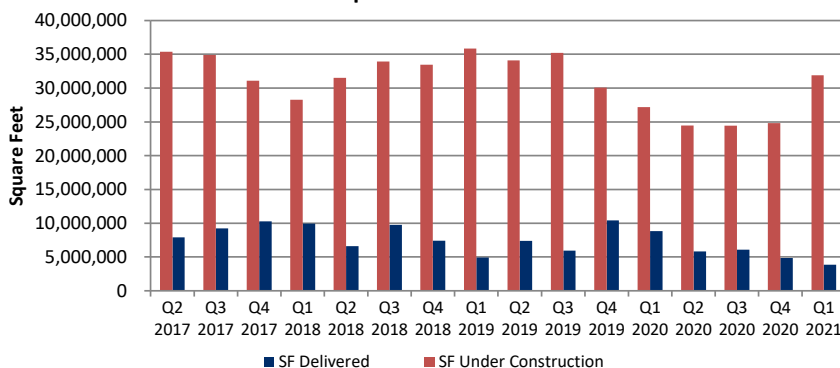
The Los Angeles region is a mature and active area. The industrial and flex market plays a pivotal role in the regional economy. Within the region, there are 64,422 buildings with a total of 1.99 billion square feet of space. This is a fundamentally sound and strong market, and one that has been prospering since the end of the Great Recession in 2009.

This report analyzes the trends in market fundamentals and investment sales in the Los Angeles-Long Beach Combined Statistical Area for the industrial and flex market.

FEATURE: COVID-19 and its Impact on the Market

In Mid-March 2020, the Global COVID-19 Pandemic brought much of the region to a halt, but since Q3 2020 through Q1 2021, the industrial and flex market has seen a significant bounce back in activity. For this segment of the market, there was already an increased focus on e-commerce and now with people shopping even more online to avoid going to the store, shipping and warehousing are booming. This trend is expected to continue through 2021.



Asking Rents and Vacancy Rates

Total Net Absorption

Total SF Leased

Space Additions


MARKET FUNDAMENTALS:

Average Asking Rents & Vacancy

Market fundamentals were healthy prior to the pandemic. The industrial and flex market is currently performing better than most property types, despite the slight impact to vacancy rates and transaction volume. Prior to Q1 2020, vacancy rates generally decreased, from 6.0% in Q1 2012 to 3.1% in Q1 2019. 2020 saw a slight bump in vacancy due to the COVID-19 Pandemic, however current Q1 2021 vacancy has dropped back to 2019 levels. Asking rents increased 102% over the last 10 years, from \$6.60 per square foot (Q1 2012) to \$13.35 per square foot (Q1 2021). It is a good sign that asking rents continued to rise even with the slight increase in vacancy in 2020.

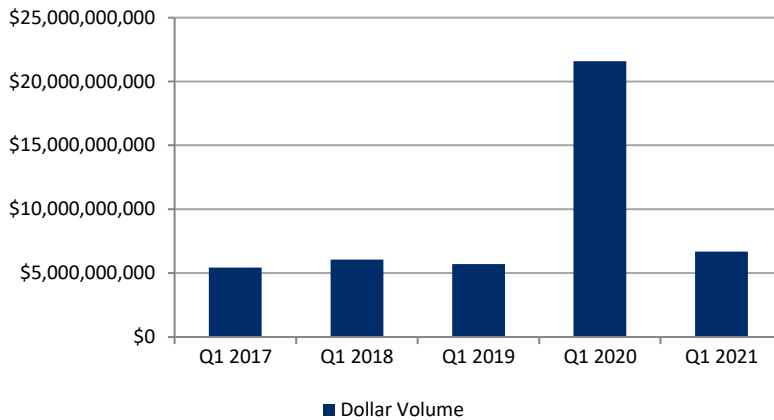
Net Absorption and Leasing Activity

Total net absorption stalled in Q3 2020 but the last two quarters showed significant increases with Q1 2021 total net absorption being the highest in the analysis period. Historically, demand has been strong in this market. Activity increased through Q4 2020, showing signs of returned optimism before dropping again in the most recent quarter. Leasing activity in Q1 2021 was lower than the activity seen one year prior.

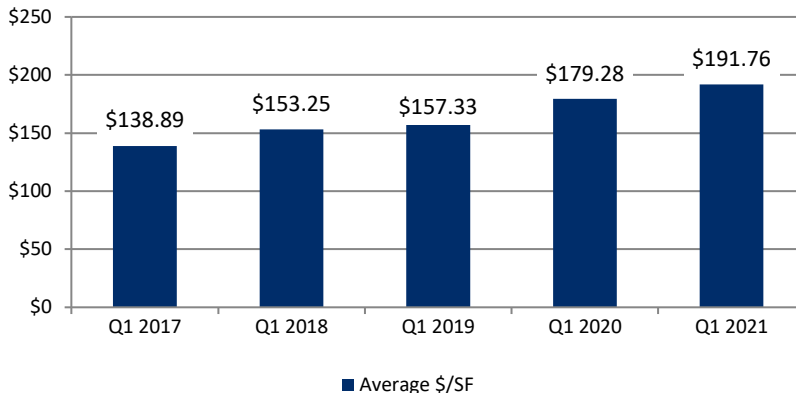
Space Addition Activity

The last several quarters show declining levels of space addition, although there is a relatively large amount of space under construction that is waiting to be delivered, indicating an active construction pipeline. With the high population and diverse economy in this region, warehouse and logistics facilities are being developed to meet increased demand for space related to e-commerce and last mile delivery. Industrial development is underway in most parts of the study area.

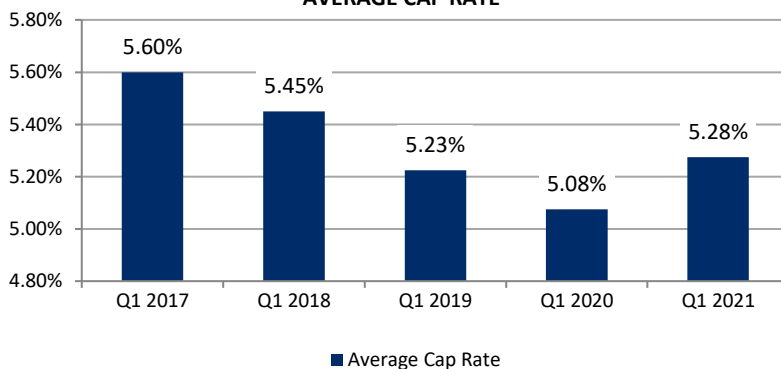
LOS ANGELES-LONG BEACH, CA INDUSTRIAL & FLEX BUILDING DOLLAR VOLUME



LOS ANGELES-LONG BEACH, CA INDUSTRIAL & FLEX BUILDING AVERAGE \$/SF



LOS ANGELES-LONG BEACH, CA INDUSTRIAL & FLEX BUILDING AVERAGE CAP RATE



SOURCE: CoStar, RCA, and Marshall & Stevens

SALES (5 YEAR TREND – YE Q1): Volume

Total dollar volume for investment sales of industrial and flex buildings in the Los Angeles region fluctuated in the last five years, with a significant spike from YE Q2-2019 to YE Q1 2020. Transaction volume in YE Q1 2021 was significantly lower compared to this peak figure. This is most likely attributed by the pandemic although volume was still higher than it was from 2016 through 2018. We note that this segment of the market appears to be performing better than other property segments.

Average Pricing Per SF

Average pricing per square foot increased 7% from YE Q1 2020 to YE Q1 2021. Pricing per square foot has continued to grow throughout the Covid-19 Pandemic although at a slower rate than the year prior (14%). This is likely due to a lack of supply and the slow pace of space additions on the market. Market participants will be watching this metric carefully as we head into 2021.

Capitalization Rates

The average cap rate for industrial and flex buildings in the Los Angeles region increased 20 basis points from YE Q1 2020 to YE Q1 2021, following a period when rates were steadily decreasing from 2016 to 2020. Looking ahead, we expect deal volume to continue to increase and price discovery to become more obvious.

Summary

Through Q1 2021, the regional Industrial and Flex market held strong fundamentals and investors remained active, which is a promising sign that this market is fundamentally sound.



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