

Los Angeles Regional Industrial and Flex Topics & Trends – Q2 2021

Since June 2011, following the Great Recession, the US Industrial market displayed steadily rising prices through June 2021. 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 64,517 buildings with over 2 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.

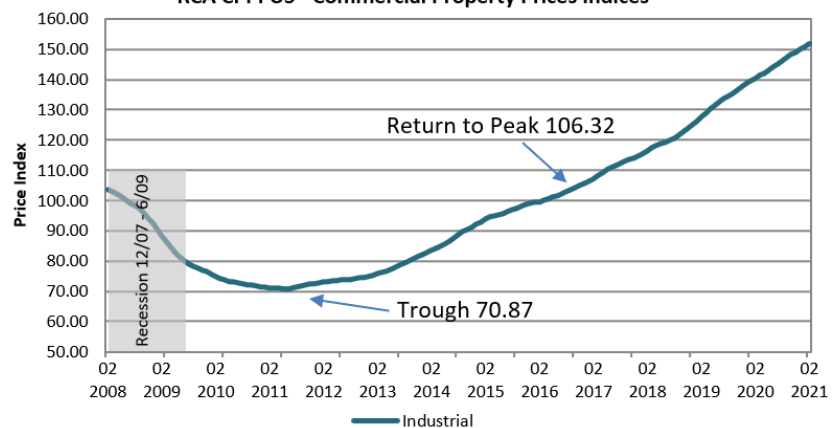
This report analyzes the trends in market fundamentals and investment sales in the Los Angeles-Long Beach Combined Statistical Area for the industrial and flex market.

FEATURE: COVID-19 and its Impact on the Market

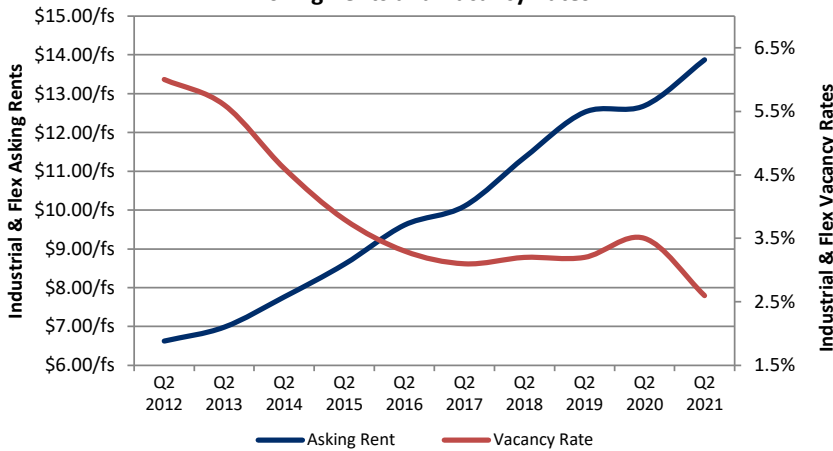
In Mid-March 2020, the Global COVID-19 Pandemic brought much of the region to a halt, but since Q3 2020 through Q2 2021, the industrial and flex market has seen a significant bounce back in activity. For this segment of the market, there was already an increased focus on e-commerce and now with people shopping even more online to avoid going to the store, shipping and warehousing are booming. This trend is expected to continue through the second half of 2021.



RCA CPPI US - Commercial Property Prices Indices



Asking Rents and Vacancy Rates



MARKET FUNDAMENTALS:

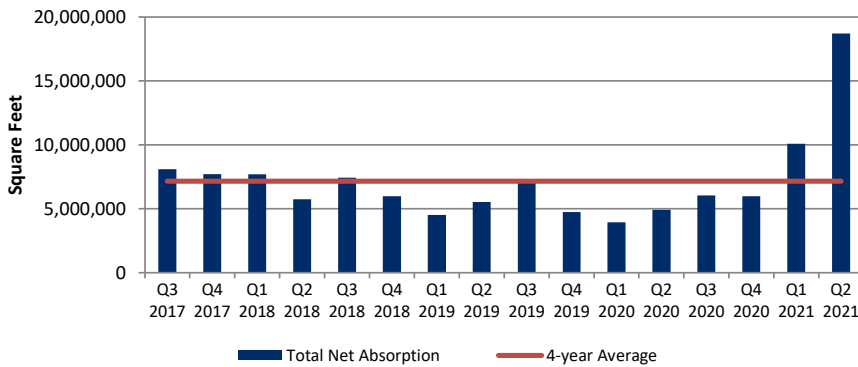
Average Asking Rents & Vacancy

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. 2020 saw a slight bump in vacancy due to the COVID-19 Pandemic, however current Q2 2021 vacancy has dropped to the lowest level of the analysis period, 2.6%. Asking rents increased 109% over the last 10 years, from \$6.62 per square foot (Q2 2012) to \$13.87 per square foot (Q2 2021).

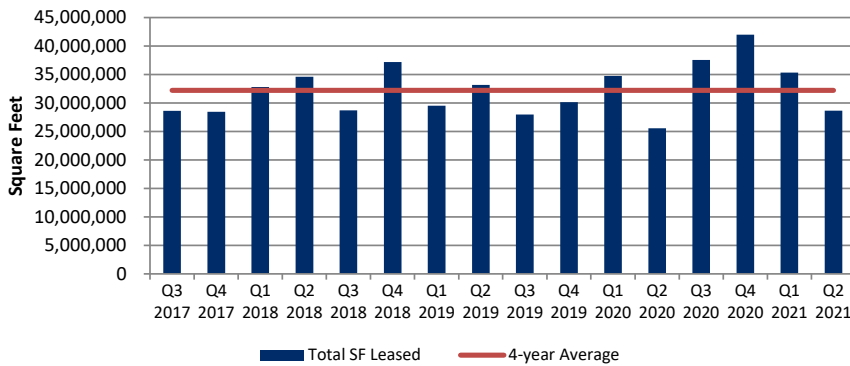
Net Absorption and Leasing Activity

Total net absorption stalled in Q4 2020 but the last two quarters showed significant increases with Q2 2021 total net absorption being the highest in the analysis period. Historically, demand has been strong in this market. Leasing activity increased through Q4 2020, showing signs of returned optimism before dropping over the past two quarters. This will be an important metric to watch as we enter the second half of 2021.

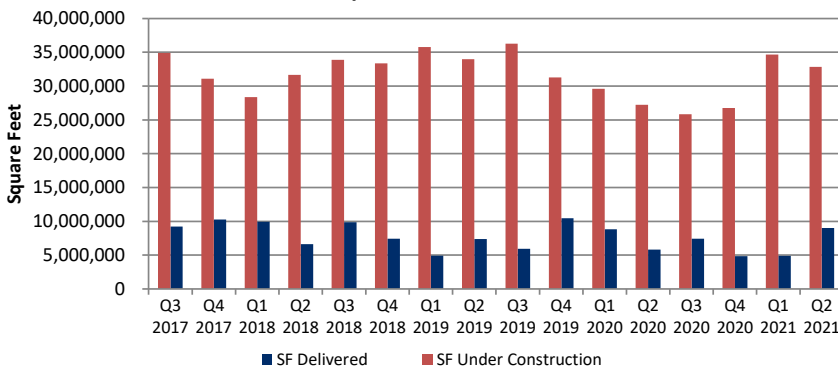
Total Net Absorption



Total SF Leased



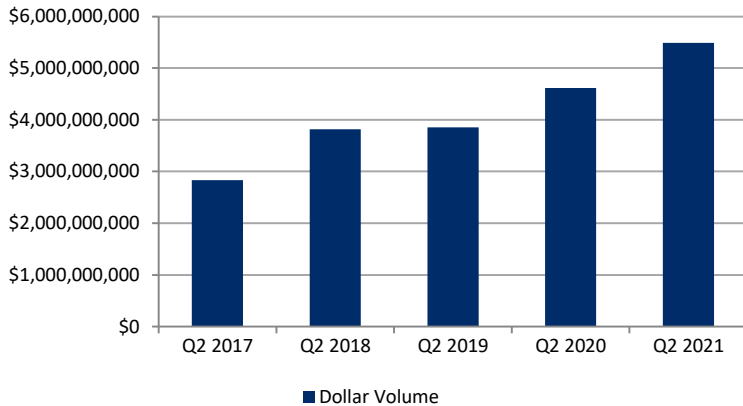
Space Additions



Space Addition Activity

Q2 2021 showed an increased level of space addition and 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.

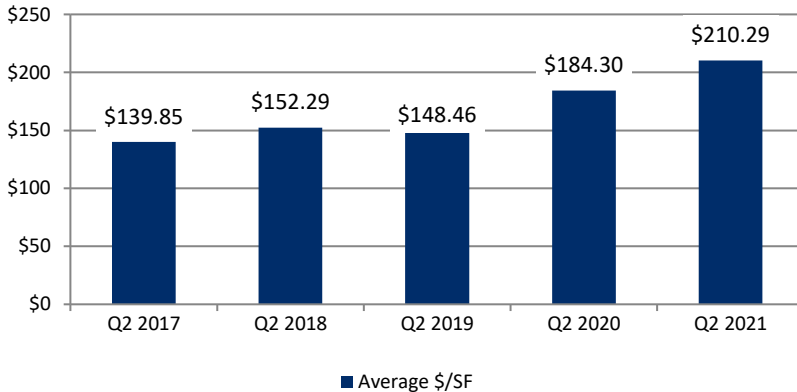
**LOS ANGELES-LONG BEACH, CA INDUSTRIAL & FLEX BUILDING
DOLLAR VOLUME**



SALES (5 YEAR TREND – YE Q2): Volume

Total dollar volume for investment sales of industrial and flex buildings in the Los Angeles region displayed a steady increase over the past 5 years. Transaction volume in FYE Q2 2021 is the highest level of the analysis period. We note that this segment of the market appears to be performing better than other property segments.

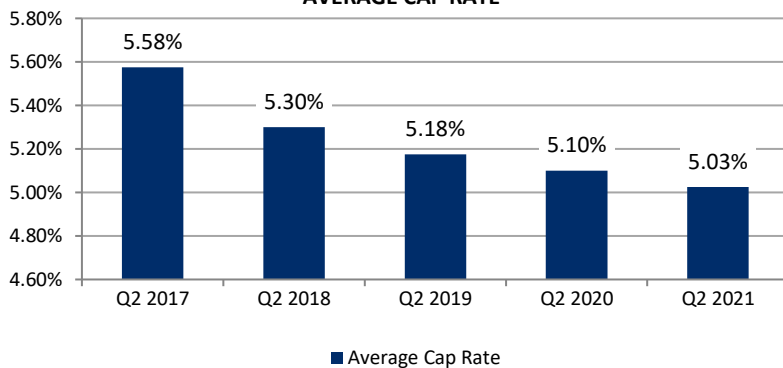
**LOS ANGELES-LONG BEACH, CA INDUSTRIAL & FLEX BUILDING
AVERAGE \$/SF**



Average Pricing Per SF

Average pricing per square foot increased 14% from FYE Q2 2020 to FYE Q2 2021. Pricing per square foot has continued to grow throughout the Covid-19 Pandemic. 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 the second half of 2021.

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



Capitalization Rates

The average cap rate for industrial and flex buildings in the Los Angeles region decreased 7 basis points from FYE Q2 2020 to FYE Q2 2021, following a trend as rates have been steadily decreasing since 2016. Looking ahead, we expect deal volume to continue to increase and price discovery to become more obvious.

Summary

Through Q2 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.

SOURCE: CoStar, RCA, and Marshall & Stevens



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