



INDUSTRIAL MARKET REPORT

LOS ANGELES, ORANGE COUNTY, INLAND EMPIRE

2024

Prepared By:

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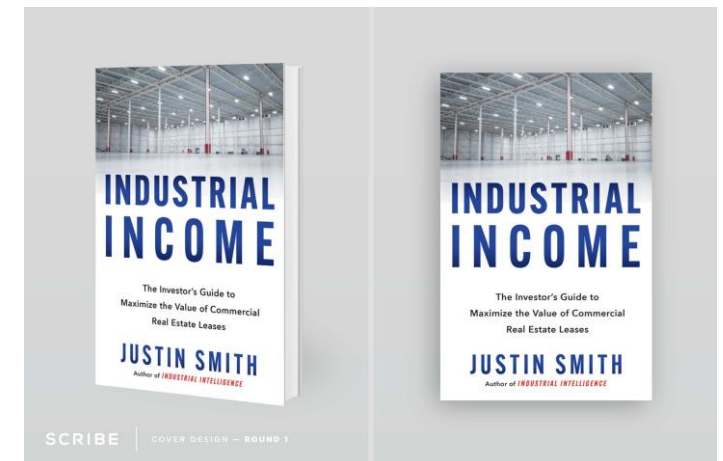
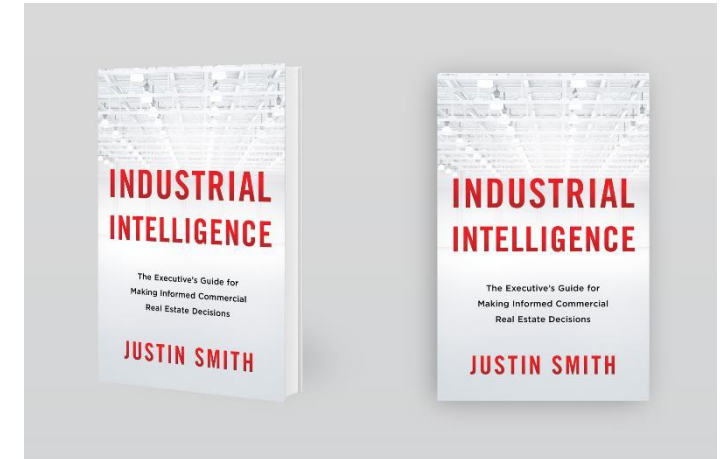
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Justin Smith - SVP

- a) 20 years with Lee & Associates, Irvine Office, #1 producer 2021 & 2022
- b) Primary focus is industrial in LA/OC/IE + Corporate Solutions (National Multi Market Tenant Rep)
- c) Education - UCI Econ, USC MBA, USC MRED
- d) Author – Industrial Intelligence & Industrial Income
- e) Investor – Own 30 units between SFR and industrial multi tenant



Chris Vassilian - Associate

- a) 2.5 years with Lee & Associates, Irvine Office having completed his internship, his Runnership and now in his first year as an associate.
- b) Primary focus is industrial/flex property in Orange County. Has experience in the IE.
- c) Experienced with tenants, landlords, buyers & sellers
- d) Education - UCI Econ, UCI Master's Finance

Know Your Audience

- Who saw last years presentation?
- How have appraisals changed within the last 12 months?
- What are your biggest challenges as an appraiser today?
 - Lack of transaction volume?
 - Change in forward projection of cap rates?
 - Valuing multi story industrial property?
 - Valuing IOS sites?
 - Have you done an appraisal in Mexico?

Prologis – 2023 Supply Chain Predictions

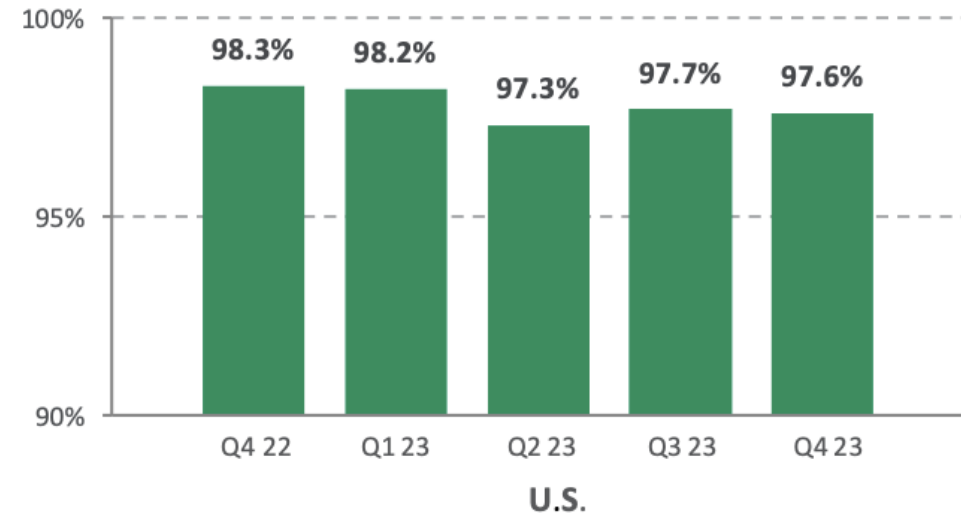
- Prediction #1** U.S. warehouse development starts will drop to a seven-year low, even as rent growth exceeds 10%.
- Prediction #2** California's barriers to development will permanently constrain logistics demand, allowing Texas to become the #1 state for net absorption.
- Prediction #3** Mexico demand will hit a new annual record as nearshoring drives expansion along the border.
- Prediction #4** India will rise from fourth to the third-most-active country for development starts, behind the U.S. and China.
- Prediction #5** Build-to-suit rents will reach new levels in the U.S. and EU as market rents are capitalized at higher rates, despite falling land and construction costs.
- Prediction #6** E-commerce leasing will bounce back to become the second-most-active year on record (after 2021).
- Prediction #7** Demand for sustainable warehouses will grow rapidly. Installed rooftop solar capacity will double, and EV truck charging capacity will exceed 10 megawatts.

Prologis – 2024 Earnings Call

Investment thesis - The supply cliff will converge with normalized demand later this year, delivering an environment conducive to strong market rent growth.

- The outlier on rent growth is Southern California which is the strongest market for cash flow growth given the continued market opportunity. This remains the largest difference from legacy lease rate to new market lease rate in the country.
- Annual market rent growth will average between 4% and 6% over the next three years, with 2024 being modestly positive and ramping thereafter.
- Prologis's global rents declined 90 basis points predominantly impacted by an estimated 7% decline in Southern California.
- The supply pipeline continues to dwindle with the majority of completions having been delivered without a replenishment of new projects in the pipeline.

PERIOD ENDING OCCUPANCY



Prologis – 2024 Earnings Call

Investment thesis - The supply cliff will converge with normalized demand later this year, delivering an environment conducive to strong market rent growth.

- There is still a high volume of new deliveries that need to be absorbed in the following quarters.
- Tenant utilization declined to 83% along with a decrease in the inventory to sales ratio. This isn't necessarily bad as retail sales over the fourth quarter and holiday season drove lower inventories, which will need to be replenished. Global instability will also lead to continued conservative inventory strategies.
- Sunbelt markets outperformed the coastal markets in 2023.
- Suez and Panama Canal issues and resolution of West Coast port labor negotiations translate to more movement of goods through the West.

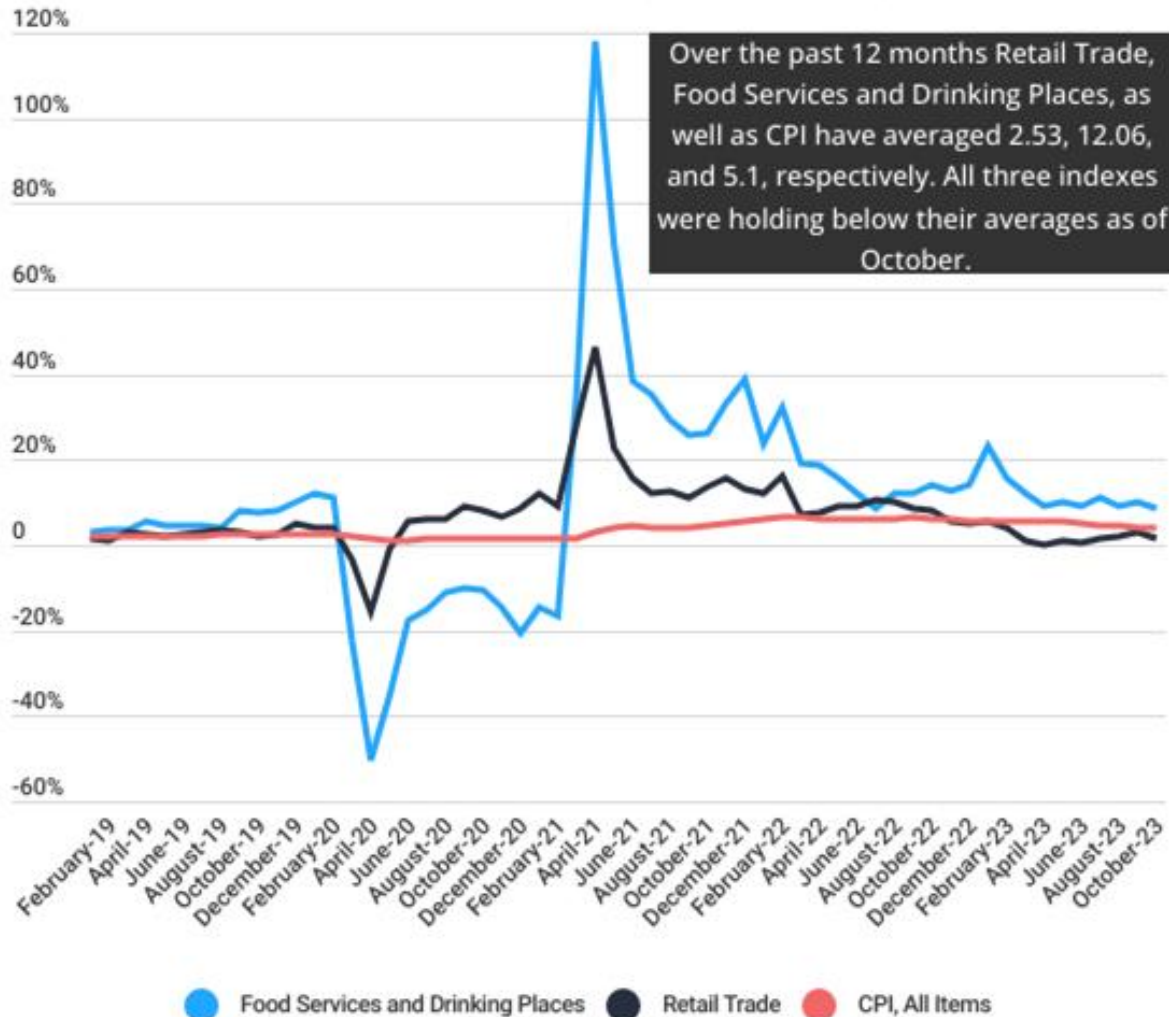
LEASE PROPOSALS

in millions of square feet

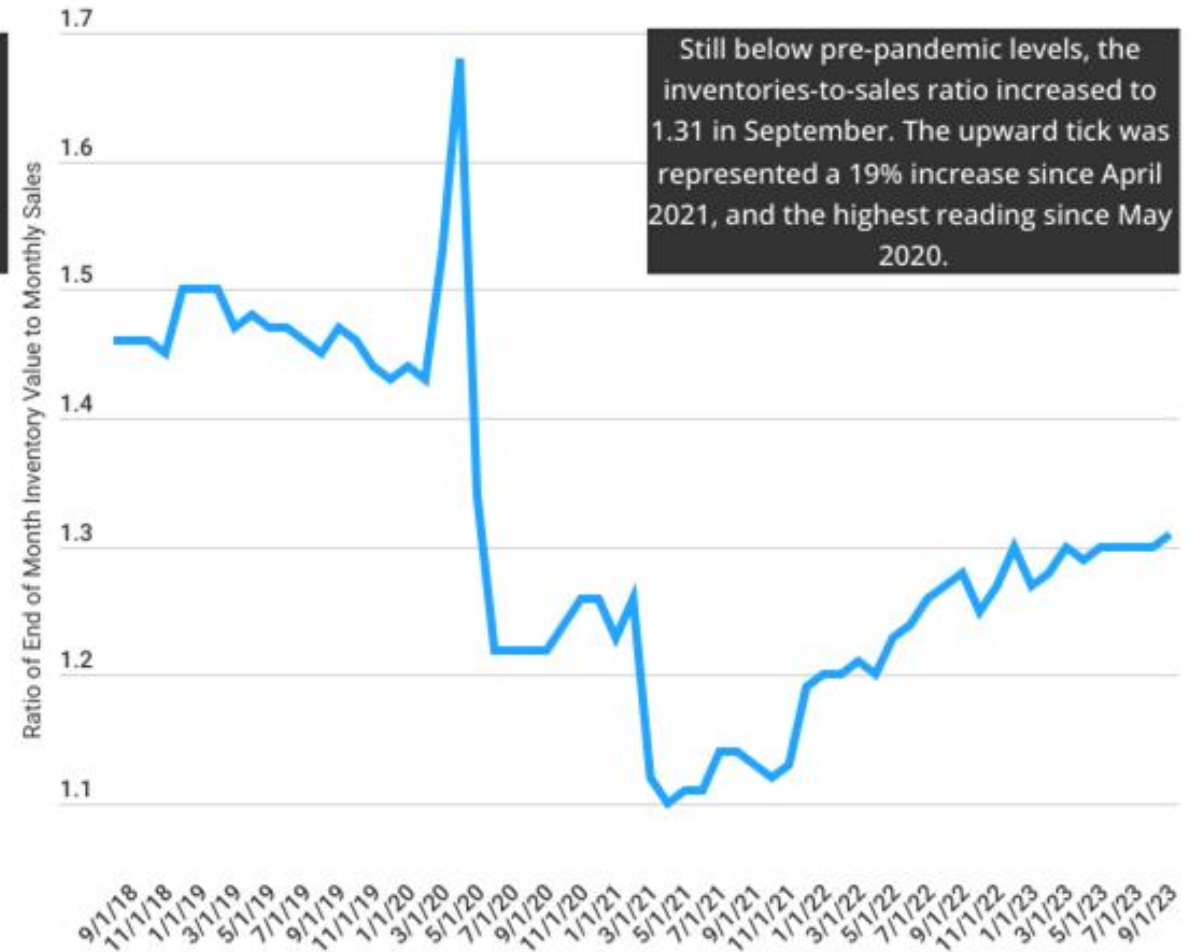


What's Up or Down with Consumer Spending and Retailer Expectations?

Percent Change from a Year Ago, Advance Retail Trade and Food Services Sales, U.S. vs. CPI, All Items



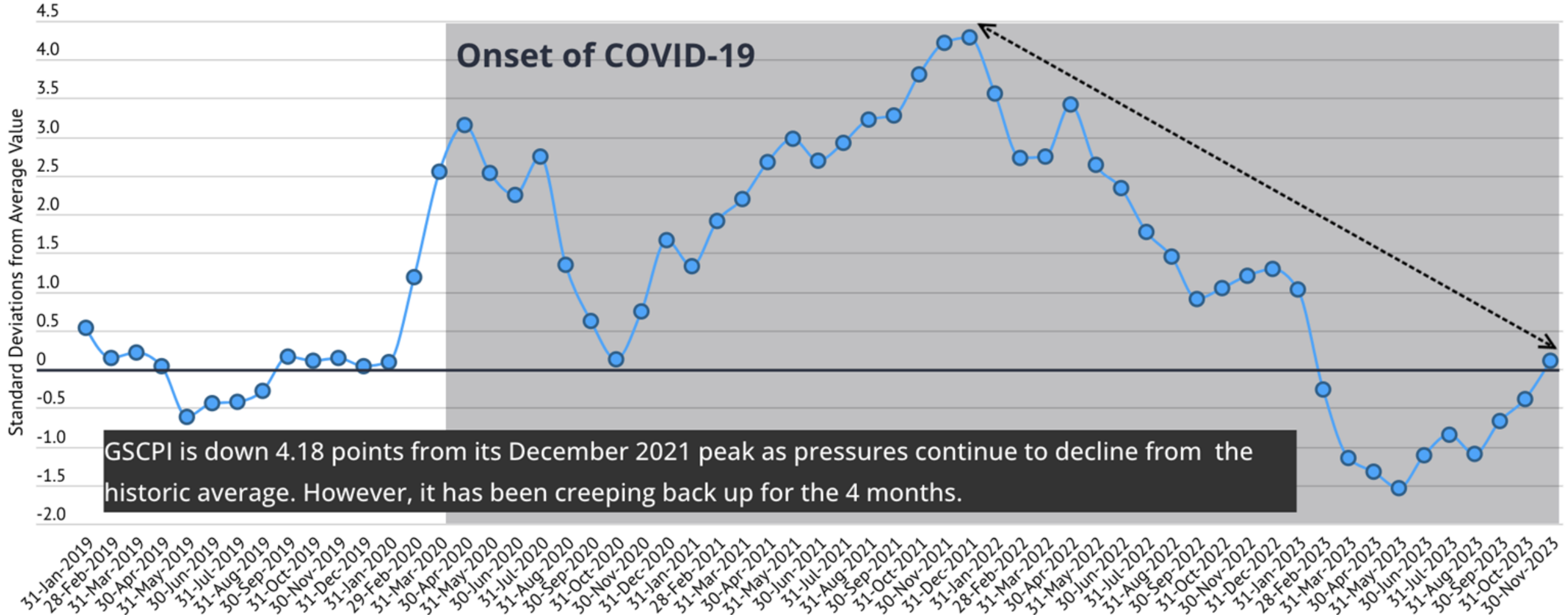
Retail Inventories to Sales Ratio



Source: FRED, accessed here <https://fred.stlouisfed.org/series/RSFSDP> and <https://fred.stlouisfed.org/series/RXFS>, seasonally adjusted, percent change from a year ago by month, CPI from bls.gov, seasonally adjusted | Retail: Inventories to Sales Ratio (RETAILIRSA), St. Louis Fed, <https://fred.stlouisfed.org/series/RETAILIRSA>

Supply Chain Issues Moderating

NY Federal Reserve Global Supply Chain Pressure Index



Source: Federal Reserve Bank of New York, Global Supply Chain Pressure Index, <https://www.newyorkfed.org/research/policy/gscpi>. Measures standard deviations from average value.

Coastal Port Volume Returning to Pre-Pandemic Levels

Total TEUs by Select Ports, 2022- October 2023

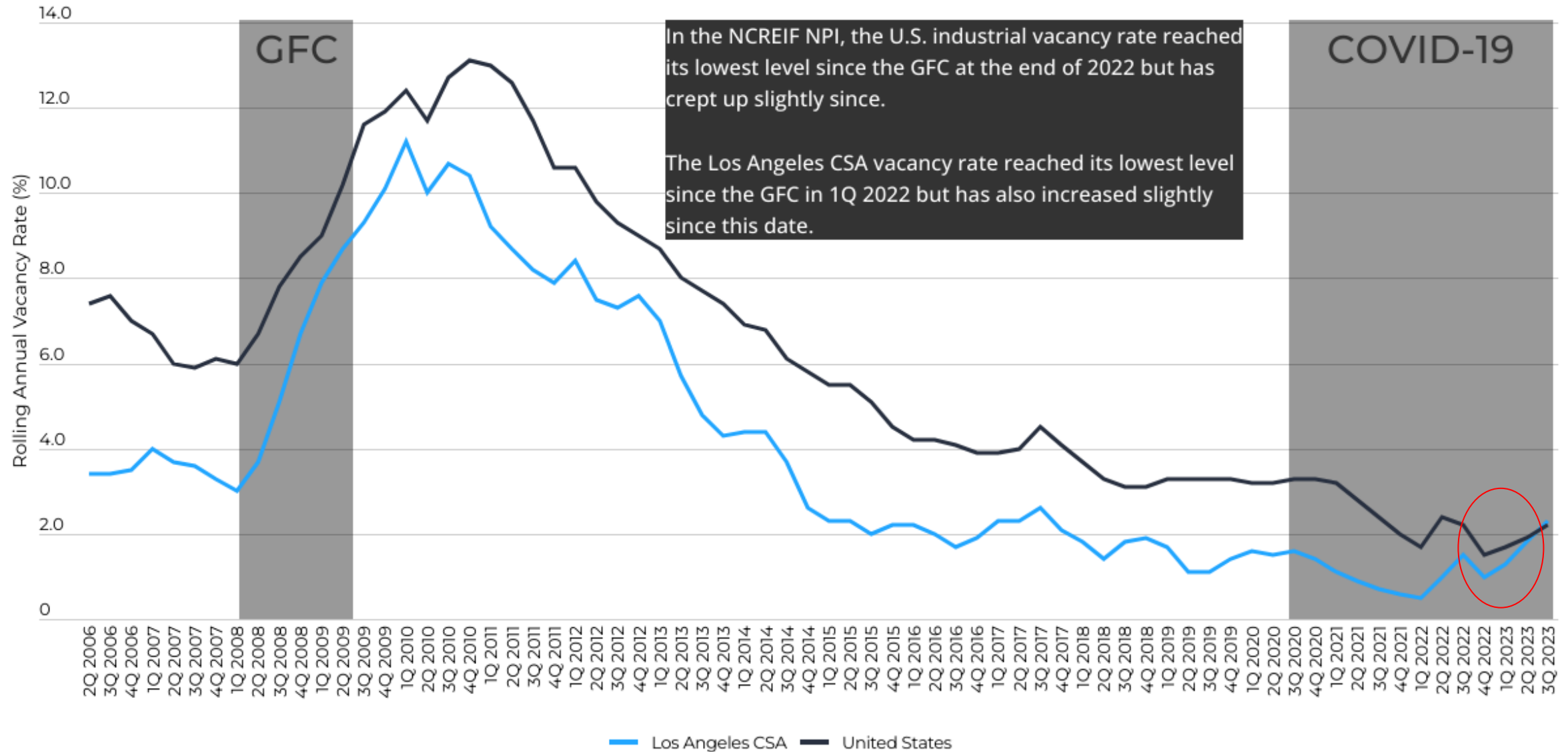
Total TEU at the Port of Long Beach reached milestone in September, outranking the other ports for the first time over the given period at 829,429 TEUs. The Port of Long Beach still holds this position as of October.



Source: Ports of Long Beach, Los Angeles, Houston, Savannah and the Port of New York and New Jersey.

Industrial Vacancy Rates Reached New Lows In 2022, But Increased Slightly In 2023

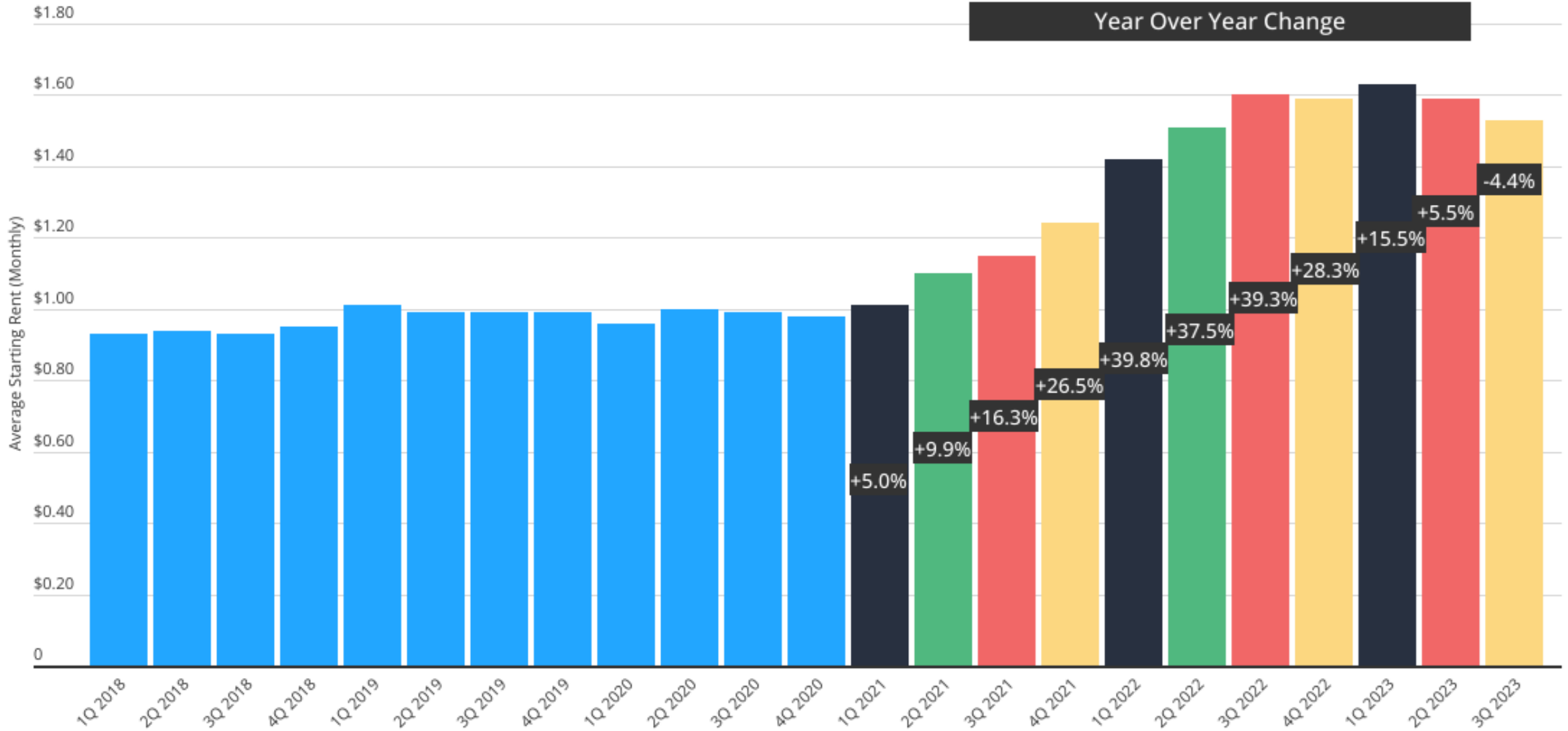
United States vs. Los Angeles CSA, Industrial NPI, Vacancy Rates



Source: NCREIF, NPI, Vacancy Rates

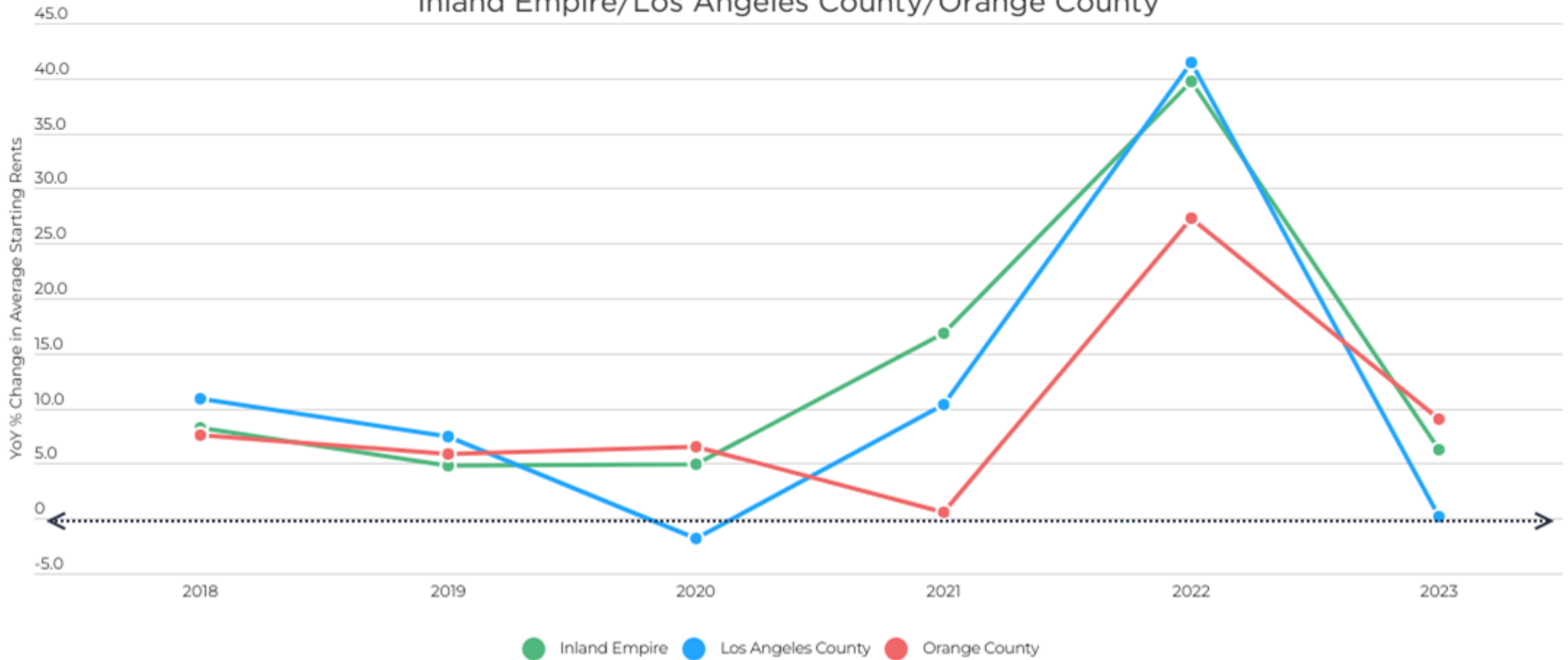
Year over Year Growth in Transaction Starting Rents is Slowing

Average Industrial Starting Rents, Inland Empire/LA County/Orange County



Year over Year Growth in Starting Rents is Slowing

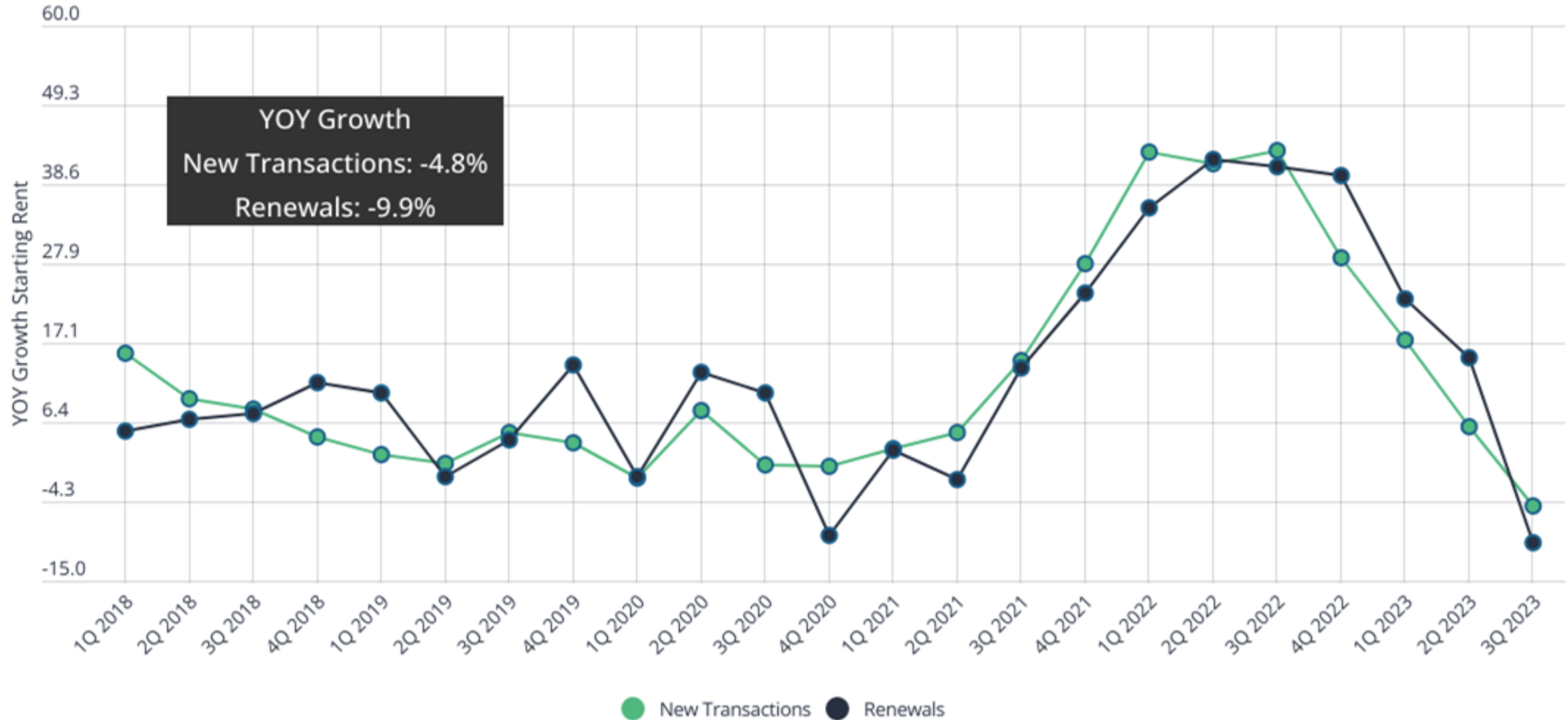
Year over Year Change, Average Industrial Starting Rents, Inland Empire/Los Angeles County/Orange County



Source: CompStak, transactions 10,000 SF+

Are renewing tenants pushing back against rent growth?

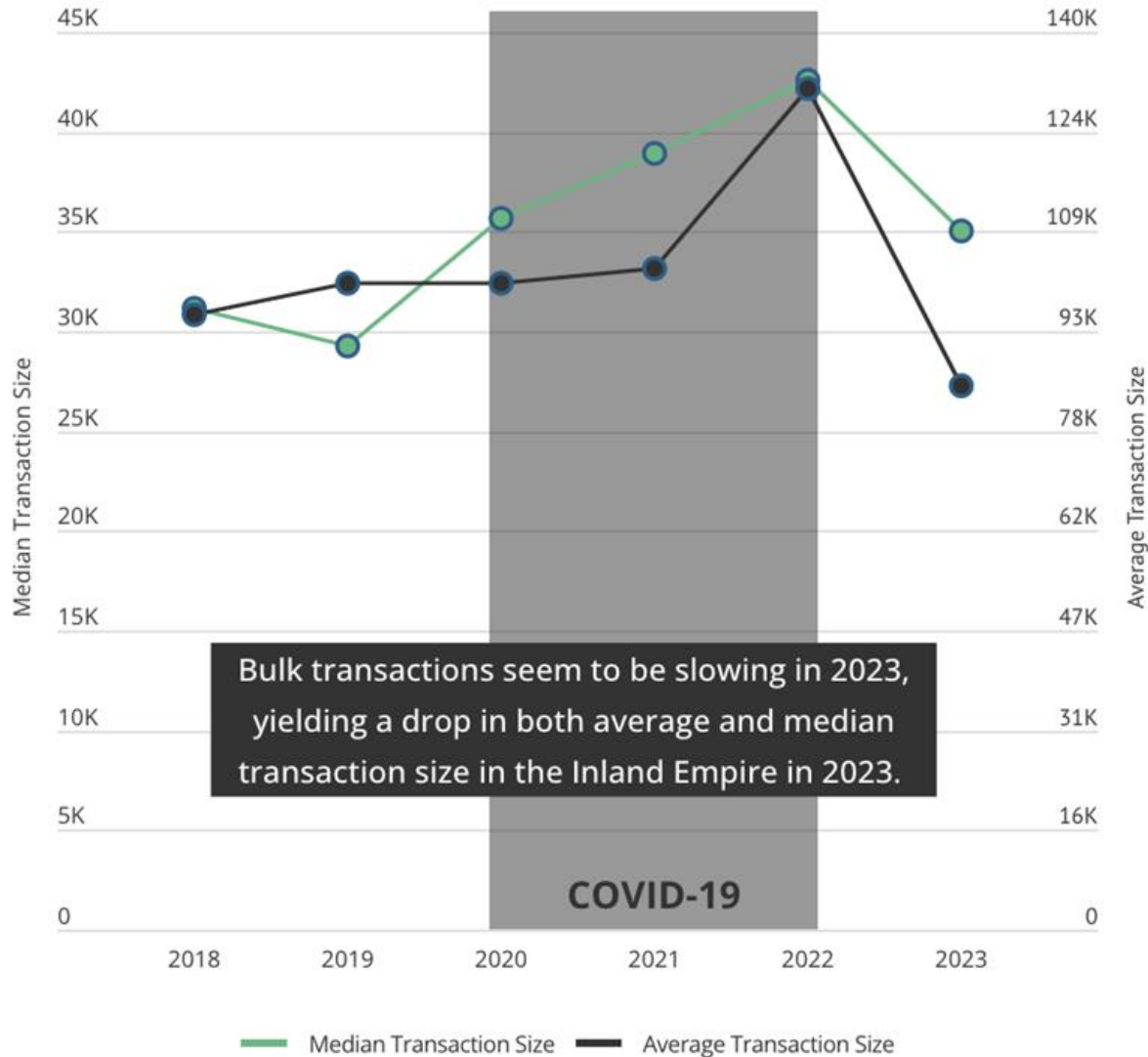
YOY Starting Rent Growth, Renewals vs. New Transactions



Source: CompStak, transactions above 10,000 SF. This data covers Inland Empire, Los Angeles County and Orange County.

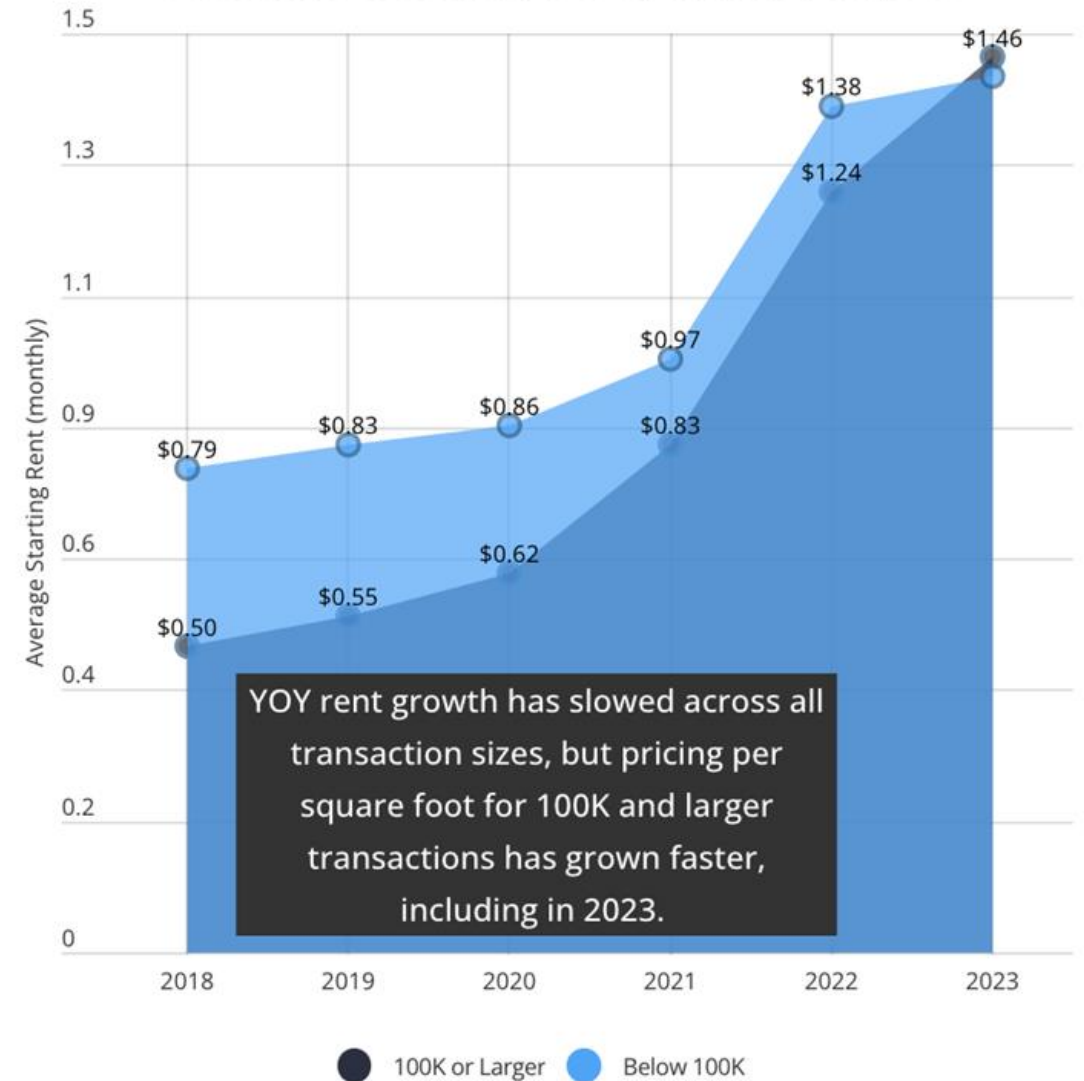
Slowing Growth in Transaction Size and in Premium Pricing for Large Transactions -

Transaction Size Trends, Inland Empire



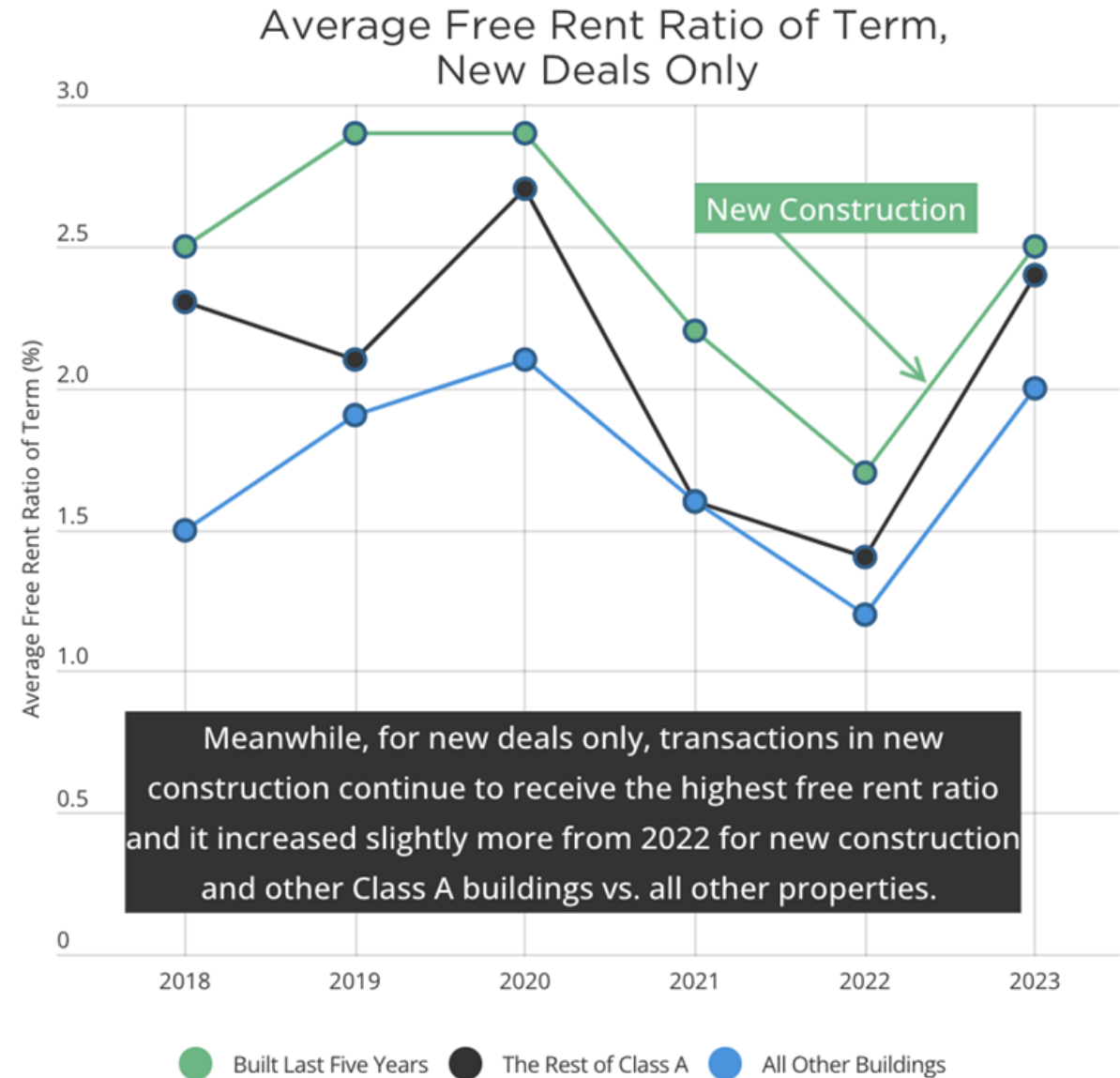
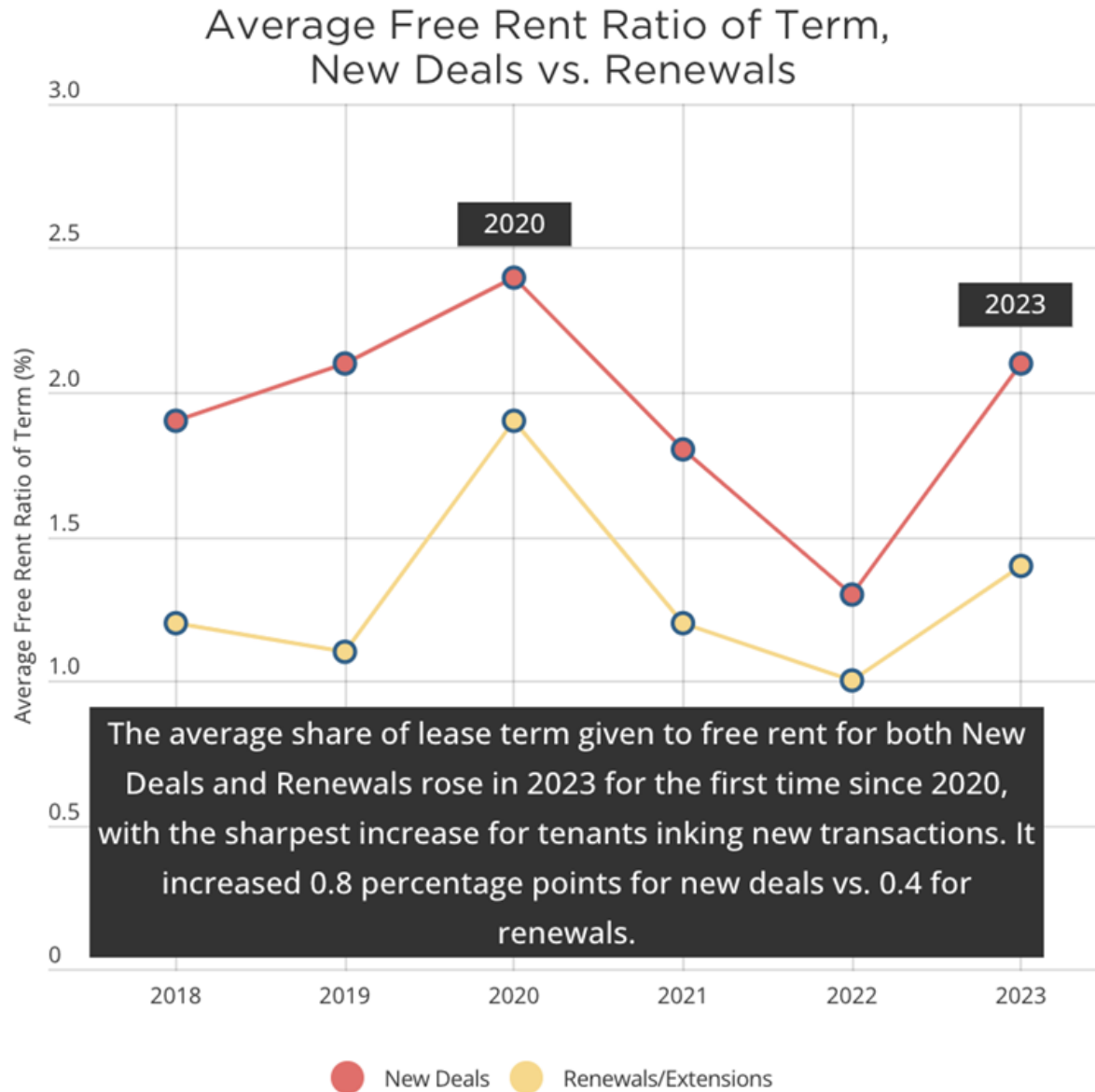
Source: CompStak, excludes renewals/extensions

Average Starting Rent, Inland Empire



Source: CompStak, excludes renewals/extensions

Concessions rising slightly - is this an indicator of a softening market?



Source: CompStak, average ratio for industrial transactions above 10,000 SF. Built last five years includes transactions that were inked within five years of the properties' built year

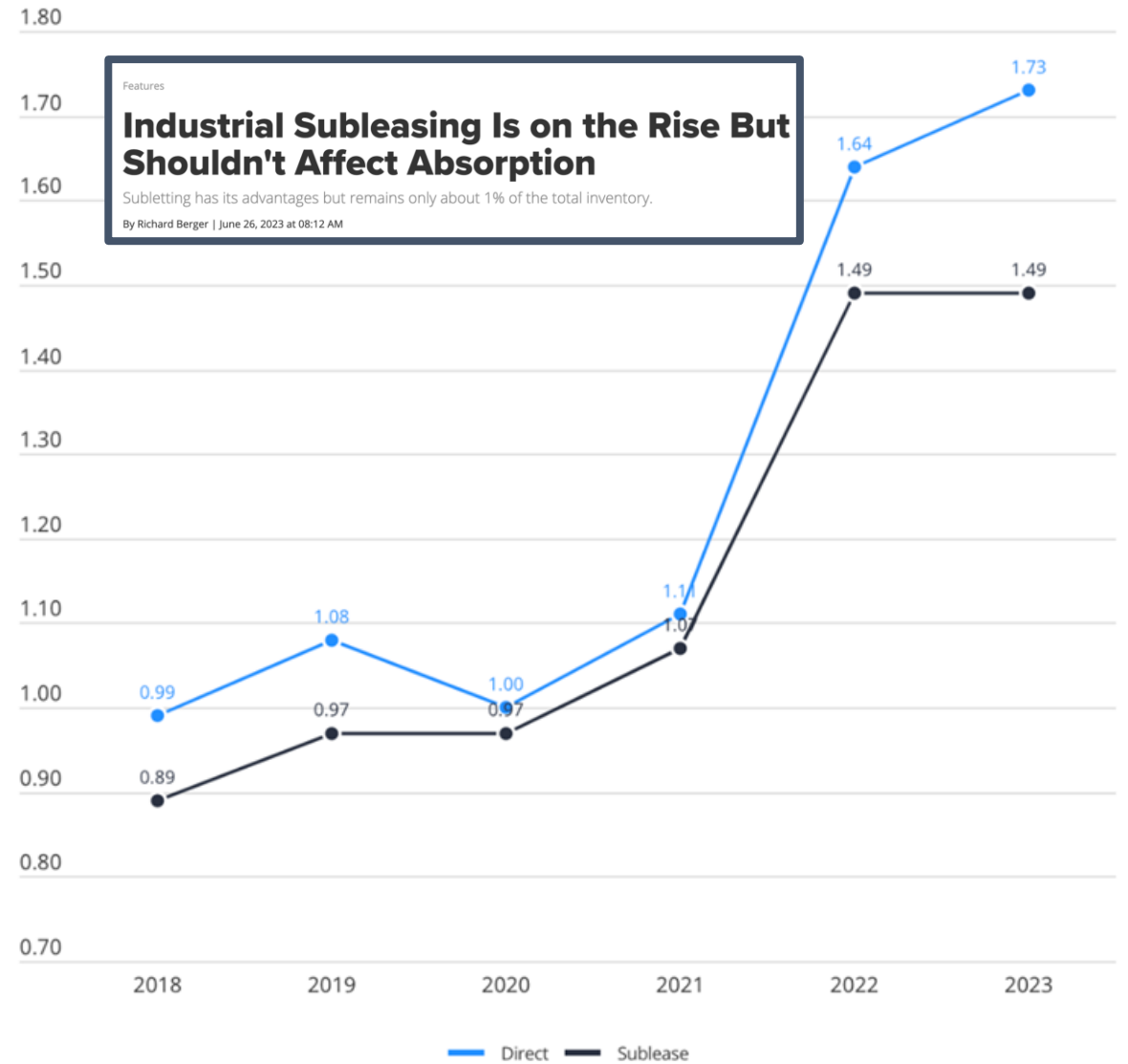
Rising Sublease Space - Warning Sign or Return to Normalcy?

Direct vs. Sublease Starting Rents

Inland Empire

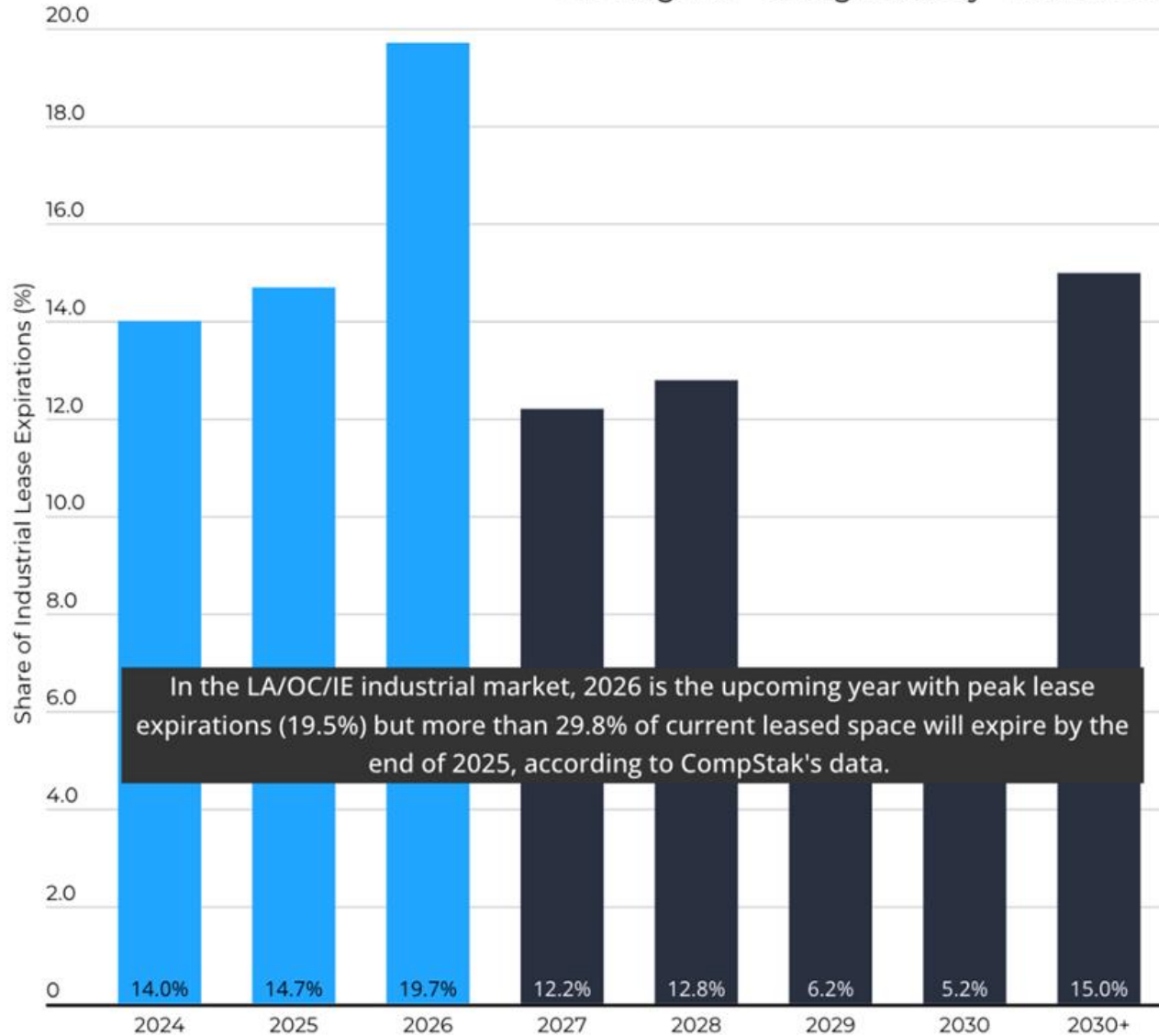


Los Angeles County



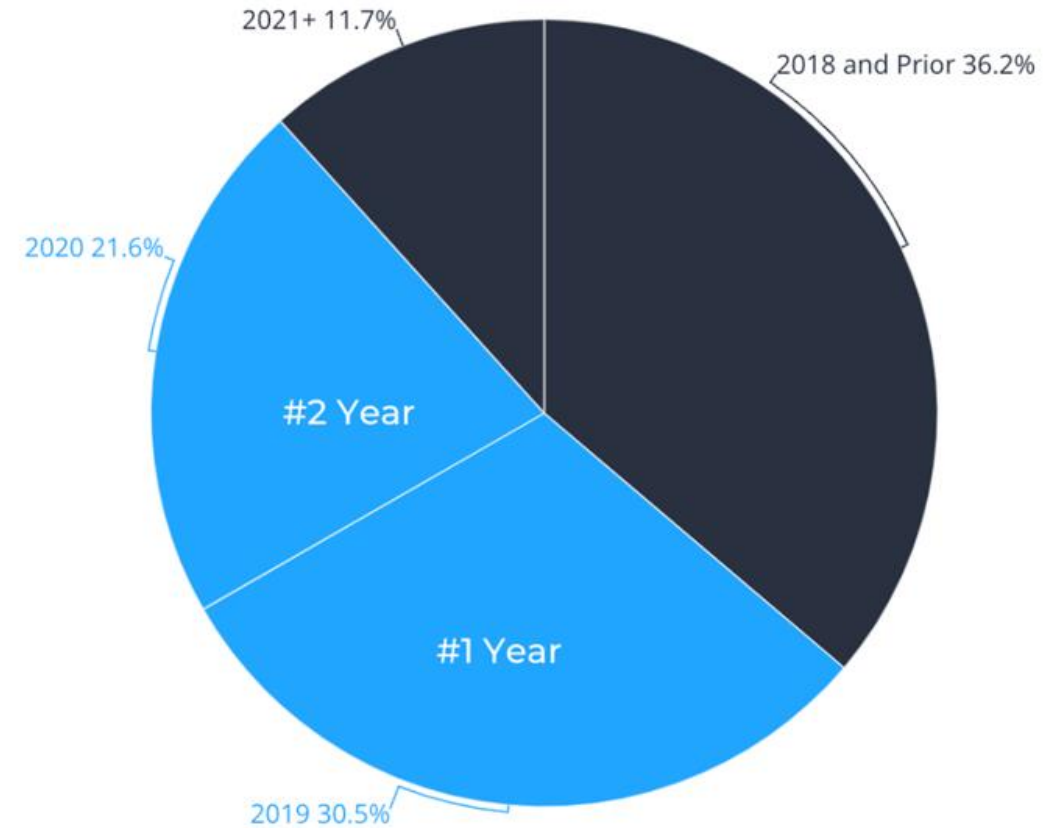
More Than 29% Of Current Leased Industrial Space In Los Angeles-OC-Inland Empire Expiring By End Of 2025

Los Angeles - Orange County - Inland Empire Industrial Lease Expirations



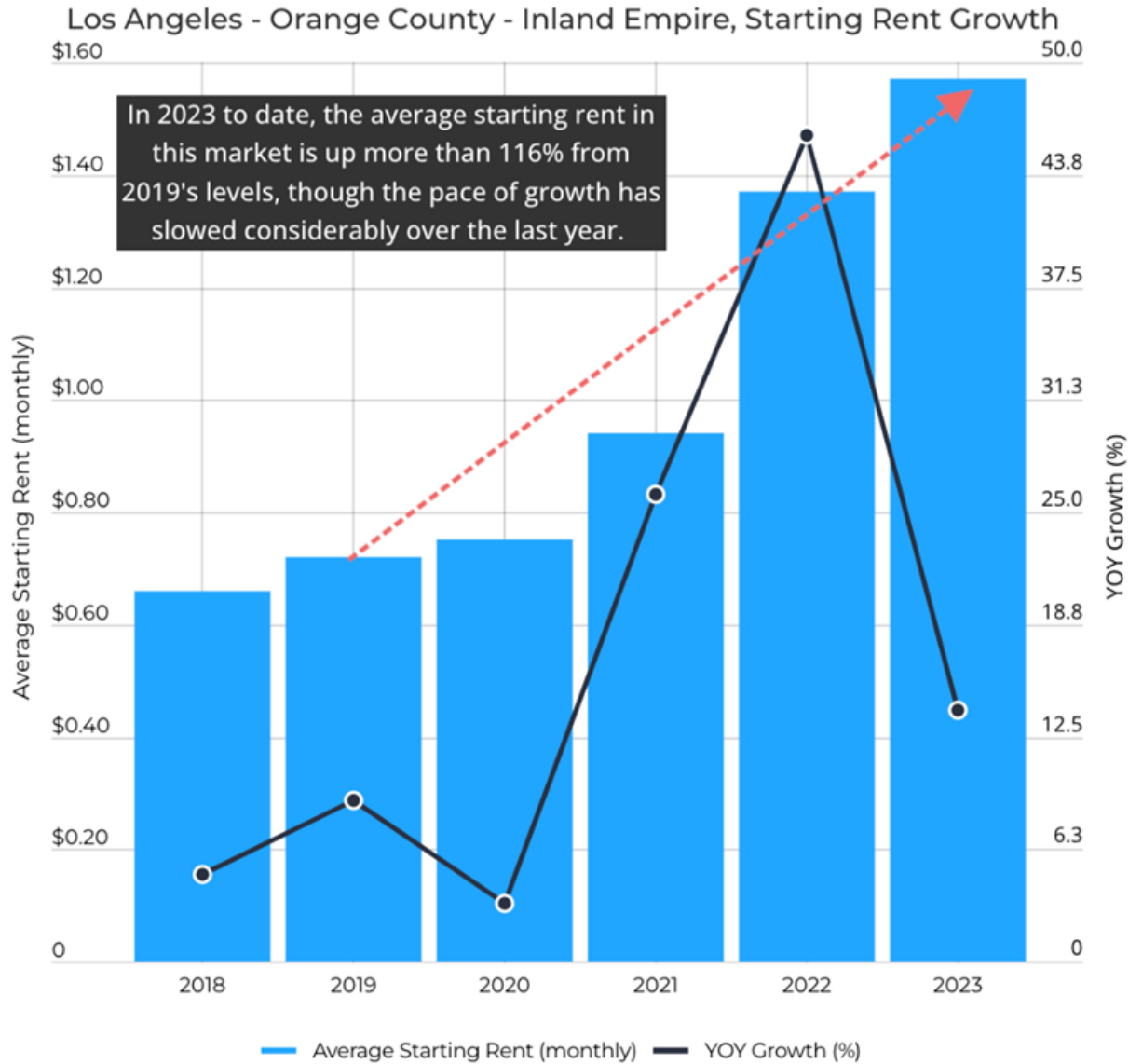
In the LA/OC/IE industrial market, 2026 is the upcoming year with peak lease expirations (19.5%) but more than 29.8% of current leased space will expire by the end of 2025, according to CompStak's data.

Of the leases expiring by the end of 2025, most leases were signed in 2019 (30.5%), followed by 2020 (21.6%).

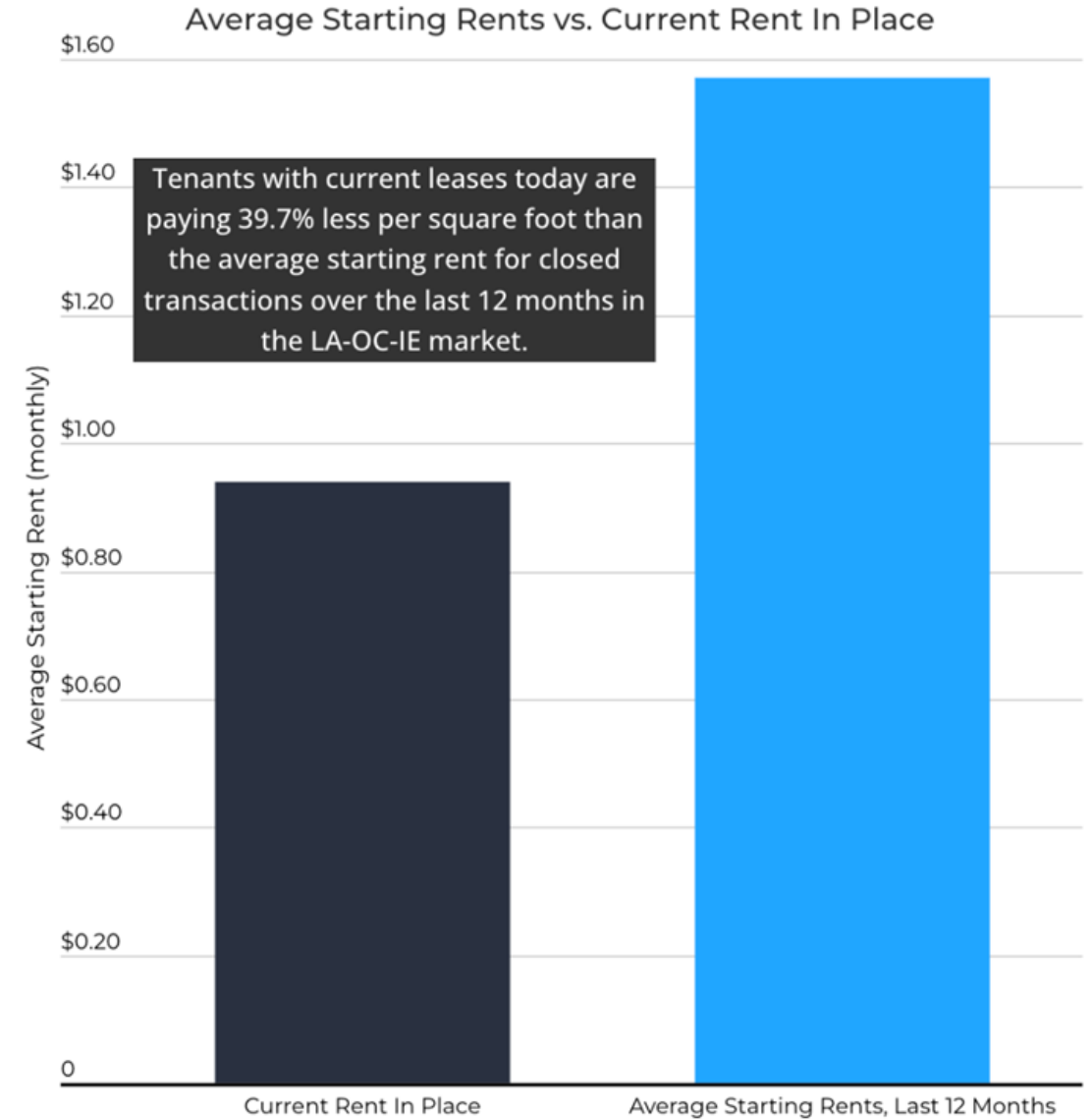


Source: CompStak, excludes subleases and leases below 10,000 square feet.

2019 Precedes Period Of Major Rent Growth Nationwide And In Los Angeles-Orange County-Inland Empire Market



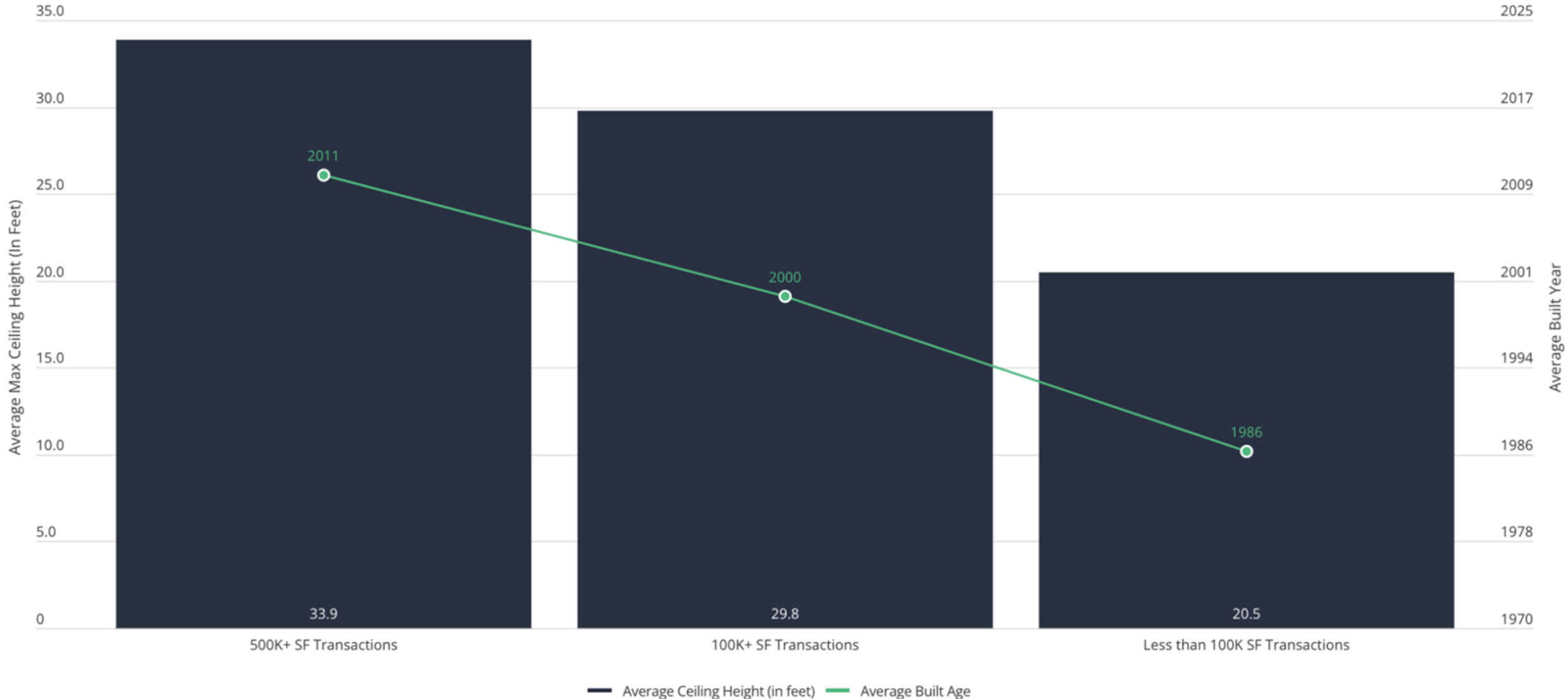
Source: CompStak, based on industrial lease comps. Includes transactions over 10,000 square feet and rents are weighted by transaction size.



Source: CompStak, based on industrial lease comps, rents are quoted monthly. Includes transactions over 10,000 square feet. Rents are weighted by transaction size.

Construction Starts Are Slowing - Is Functional Obsolescence a Concern in the Medium Term?

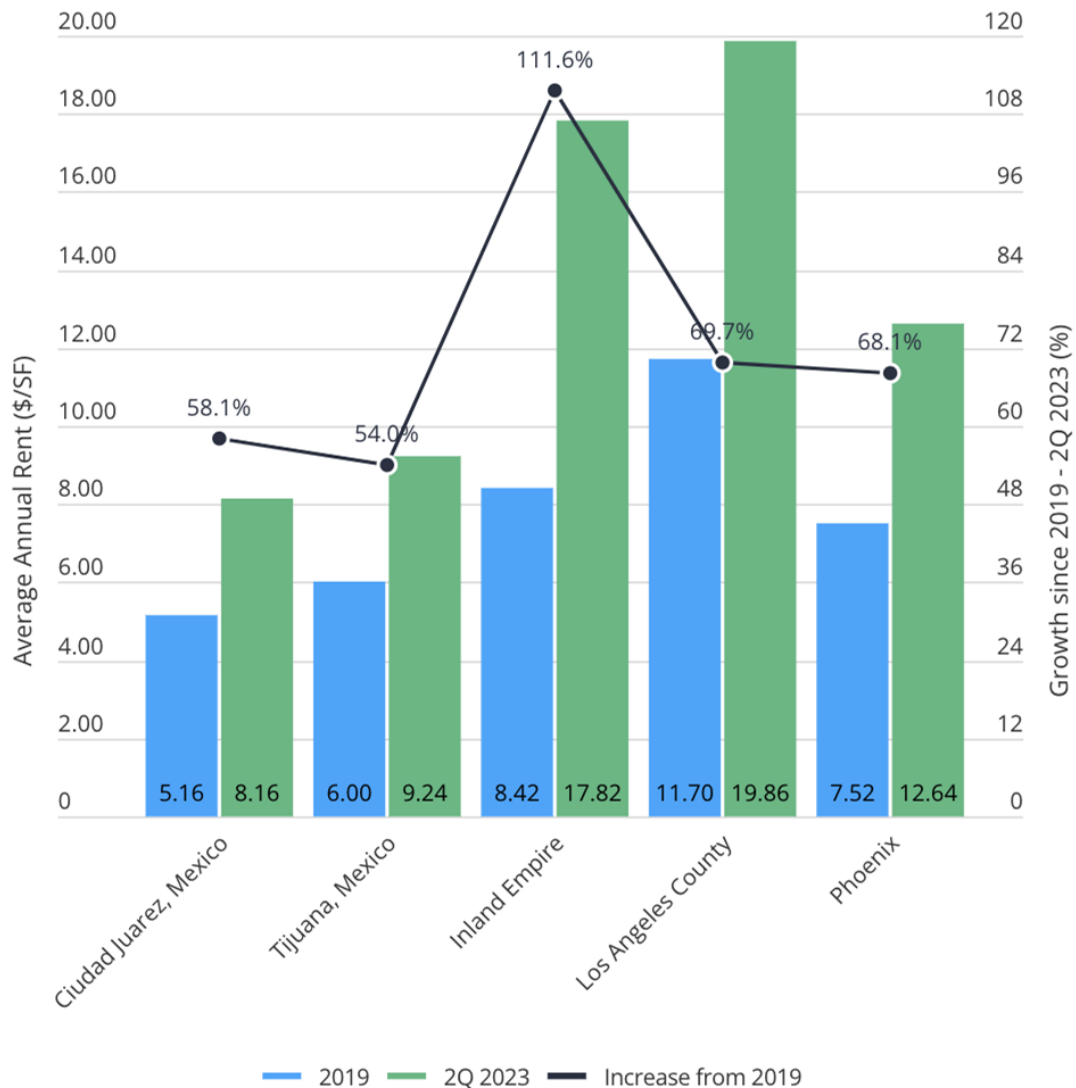
Los Angeles-OC-Inland Empire Market, Average Max Ceiling Height and Built Year by Industrial Transaction Size, Leases Completed 2020 to Present



Source: CompStak. Includes industrial transactions completed since 2020 and their associated buildings. Calculates the average maximum ceiling height where a range is provided in CompStak's data.

Nearshoring to Mexico - How much does this threaten future growth in the LA-OC-IE Industrial Market?

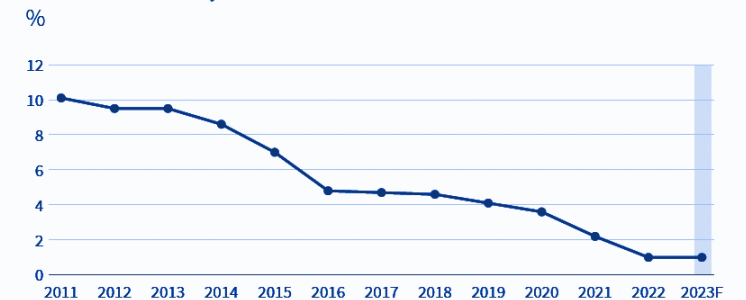
Average Rent Comparison



Source: LA County, Inland Empire, and Phoenix from CompStak. NAI Mexico: Juarez, Colliers International: Tijuana



VACANCY RATE, MEXICO 6 MAIN MARKETS



Source: Prologis Research, Solili, CBRE. Submarkets included are Mexico City, Monterrey, Ciudad Juárez, Guadalajara, Reynosa and Tijuana

Market Intel

2023 Market Talk:

- “It’s all about price discovery” -
- “There’s a disconnect between seller and buyer pricing expectations”
- “They want yesterday’s price in today’s market”
- “Seller’s with fixed rate debt don’t have to sell”
- “It’s finally more of a balanced market for landlord and tenant”
- “The days of 17 offers on an investment sale are over, now its more like 4 or 5”
- “It’s pencils down for institutional buyers right now”
- ”You have to be willing to buy at today’s rate, and wait out lower interest rates and mark to market to improve cash flow”
- “If you are waiting for pain in the industrial market, you are going to miss the boat”
- “Land pricing is down 10-30%”

Market Intel

2024 Market Talk:

- “The Inland Empire had its first negative net absorption quarter in 14 years!”
- “Orange County had the largest negative net absorption in 14 years.”
- “Can we make this 5 years term a 3 year term?”
- “I’m going to wait, the market is going down, I don’t have to do anything right now”
- “The landlords proposal is not fair. I can’t take that big of an increase. That’s crazy.”
- “Lease rates are down 10-20% with another 10% projected for this year before we hit bottom”
- “Land is down over 60% from peak values. Even at those values we have a hard time underwriting rents and exit cap rates. Plus capital partner yield requirements have increased and costs have not come down materially.”
- “Open houses are back. Brokers actually answer their phones now.”
- “The landlords/seller will consider all offers. Don’t be afraid to submit even if its low.”
- “Edison won’t even give all the power to the new property upfront. You have to apply for it and wait for it.”

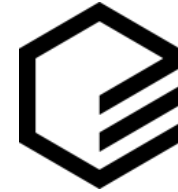
Trends in Southern California

Measure ULA - Homelessness & Housing Solutions Tax - Under the measure, sales of residential and commercial real property valued at over \$5 million but less than \$10 million would be subject to an additional tax at the rate of 4%, while sales of properties valued at \$10 million or more would be subject to an additional tax at the rate of 5.5%. Will this be repealed?

AB1000 is AB2840 2.0. Pulled from consideration and will not go to ballot. As a reminder: Prohibit the County of Riverside & San Bernardino from approving the development or expansion of any qualifying logistics use (+100,000 SF) within 1,000 ft of “sensitive receptors” (residence, school, daycare, health care, community center, place of worship, incarceration facility, public playground). It is expected to come back in another form later in the year or the following year. Developers are already underwriting 500-600’ restrictions to prepare themselves for a future compromise position.

Providing enough power to newly constructed properties is a real concern. You may have to wait 12 months for the power company to approve your application and provide the upgrade.

Resources



COMPSTAK



JANUARY 12 · 1 HR 3 MIN LEFT

Dr. Peter Linneman, Leading Economist, Professor Emeritus, Th...

[The Walker Webcast](#)

▶ Resume



Willy was once again joined by Dr. Peter Linneman for the Most Insightful Hour in CRE. Peter nailed his 2023 predictions – so what is he forecasting for the year ahead? Tune in for highlights from the latest [Linneman Letter](#) including Peter's outlook for 2024, the state of the economy, housing and auto supply, federal and consumer debt, property plays, and much more.

Watch or listen to the replay.

If you have any comments or questions, please reach out to your main Walker & Dunlop point of contact. We are all available to answer questions and provide assistance. Additionally, if you have topics you would like covered during one of our future webcasts, we would be happy to take your suggestions.

Information

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Updated Weekly

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Length
1h 3m



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"I would expect to see increased risk of congestion...in the Ports on the US West Coast...Everybody on the West Coast should start to prepare for that already." - **Lars Jensen**, CEO & Partner, **Vespucci Maritime** on **Flexport's** webinar – "Navigating the Suez Canal Fallout" on 12/20/23.

The ongoing military action at the Suez Canal and the severe drought at the Panama Canal have brought the **Port of Los Angeles** (POLA) and **Port of Long Beach** (POLB) to the forefront to save the day for the shipping world.

Could we see container ships lining up outside the POLA/POLB again like in 2021? Not likely but some experts like Lars Jensen aren't ruling it out completely.

"Let's say you get a very strong peak season prior to Chinese New Year of goods into the US ... then I would not rule out you will see the queues outside of LA and LB again."

Are the Ports of Los Angeles and Long Beach ready for any potential surge? Both Gene Seroka, executive director of POLA and Mario Cordero, chief executive of POLB believe so.

Seroka said the Port of Los Angeles is running at 75% of capacity and is at pre-COVID levels. "So not only do we have capacity to grow, but we've also got the bottlenecks and the backlogs worked out of the system. We took what we learned from the COVID surge and tried to apply it day in and day out."



Jason Miller · 1st

Supply chain professor helping industry professionals better use data
4h · 🌐

Perhaps no narrative regarding demand for freight transportation in 2024 is more incorrect than the 'restocking' argument (e.g., <https://lnkd.in/gbWQFQB6>). According to this theory, now that we have seen some sectors of retail trade, such as general merchandise bring inventories to sales ratios back to pre-COVID levels (<https://lnkd.in/gVcbsfPY>), there will be a surge of freight volumes because retailers will restock. Two charts below document why this won't happen. Thoughts:

- The top chart shows seasonal and inflation adjusted sales for general merchandise retailers (e.g., Walmart, Target, Costco, Macy's, etc.). Inflation adjusted sales have rebounded the past few months and are now back to where they were in the 2nd half of 2021. My expectation would be for a small increase in 2024 of 1-3% (in other words, a trend slightly less than before COVID-19).

- Bottom chart shows seasonal and inflation adjusted inventories for these retailers. Note how we saw an explosion of inventories starting in December 2021 that peaked in August 2022 before declining. Inflation adjusted inventories stayed relatively unchanged before dropping again starting in September 2023 before appearing to level off again.

- Now ask yourself; after 15 or some months of drawing down inflation adjusted inventories, why would these retailers suddenly decide to "restock" and increase inventories? As **Liz Young** of **The Wall Street Journal** reported (https://lnkd.in/gdf4qk_7), retailers aren't indicating they plan on building their inventories back up.

- As we think of freight volumes, even though inflation adjusted sales today are near H2 2021 levels, freight volumes for general merchandisers are less today than H2 2021 because we have been seeing inventories drawn down, as opposed to expanding as they were back then. This represents the inventory accelerator principle at work (<https://lnkd.in/drczR8EP>)

Implication: there is no restocking wave that will cause a surge of freight volumes over the coming months. Logistics providers, plan accordingly.



James Breeze · 1st

Vice President - Global Head of Industrial & Logistics Research at C...
6d · 🌐

A resurgent 4th quarter led Dallas - Ft. Worth to dominate bulk (100K+) leasing activity in 2023 at nearly 50 million sq. ft. While most markets posted year-over-year declines in lease volume, we did see higher bulk leasing in Los Angeles County, Louisville, Memphis, Savannah, and Kansas City.

Top 15 Markets for Bulk Leasing		
Market	Sq. Ft. Transacted	Marketshare %
Dallas - Fort Worth	48,255,999	9.4%
Chicago	36,839,866	7.2%
Inland Empire	35,759,590	7.0%
PA I-78/I-81 Corridor	30,976,600	6.0%
Atlanta	23,227,688	4.5%
Houston	22,445,626	4.4%
Los Angeles County	18,381,781	3.6%
Indianapolis	18,329,737	3.6%
Central New Jersey	16,722,577	3.3%
Columbus	13,724,735	2.7%
Savannah	13,520,223	2.6%
Phoenix	13,412,184	2.6%
Kansas City	13,300,224	2.6%
Louisville	12,599,247	2.5%
Memphis	12,203,901	2.4%

Thank you!



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