



AVISON
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Southern California industrial insight report

Q3 2021

AVANT
by AVISON YOUNG



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U.S. industrial drivers

SOUTHERN CALIFORNIA INDUSTRIAL
INSIGHT REPORT

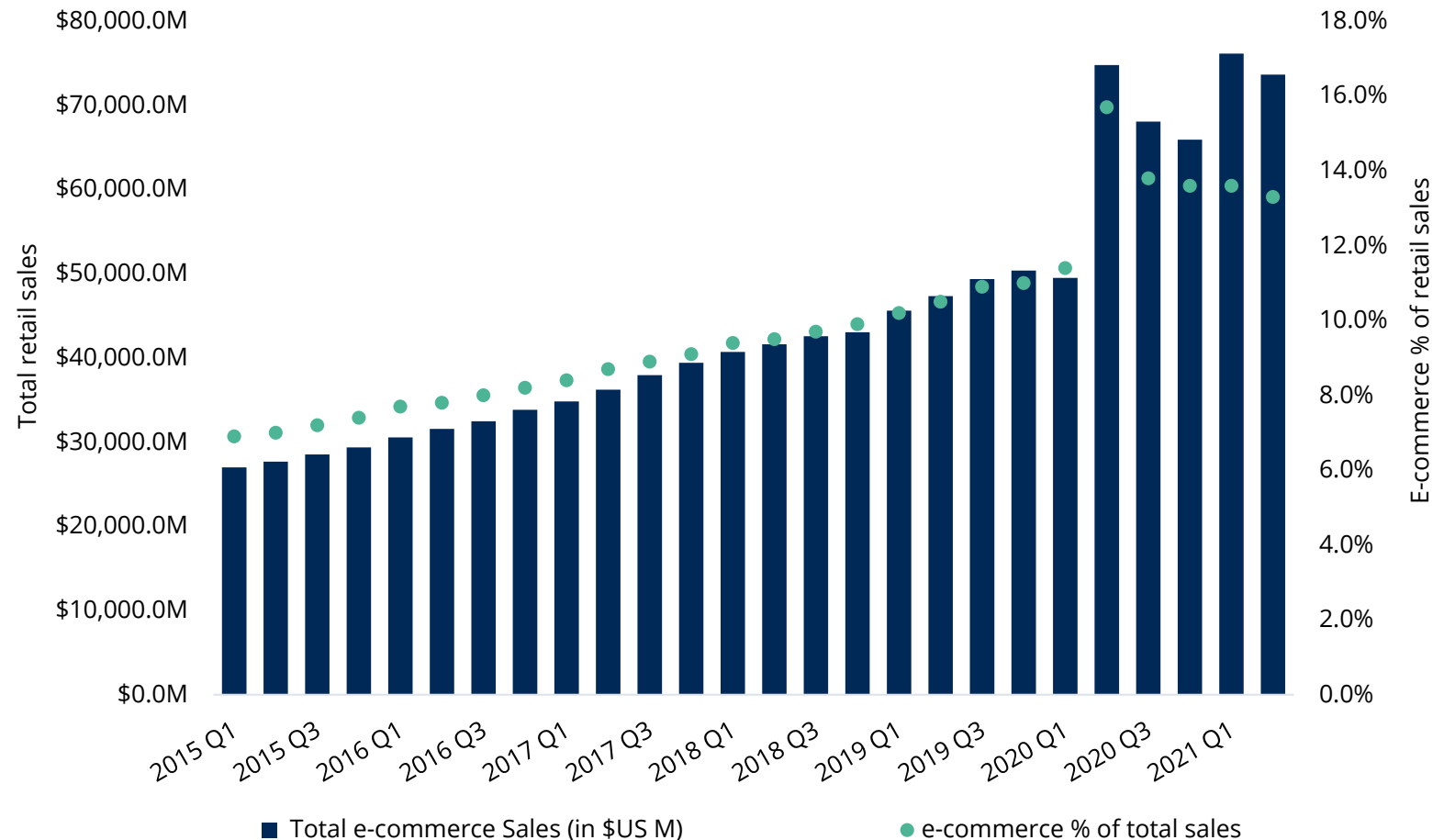
Q3 2021

U.S. total retail and e-commerce sales

13.3%

E-commerce share of overall retail sales in Q2 2021

Demand for e-commerce surged during the initial shock of lockdowns, driving industrial demand to record levels. As the economy begins to reopen, the rate of e-commerce growth is nearly double pre-COVID levels, suggesting accelerated e-commerce demand is sustainable.



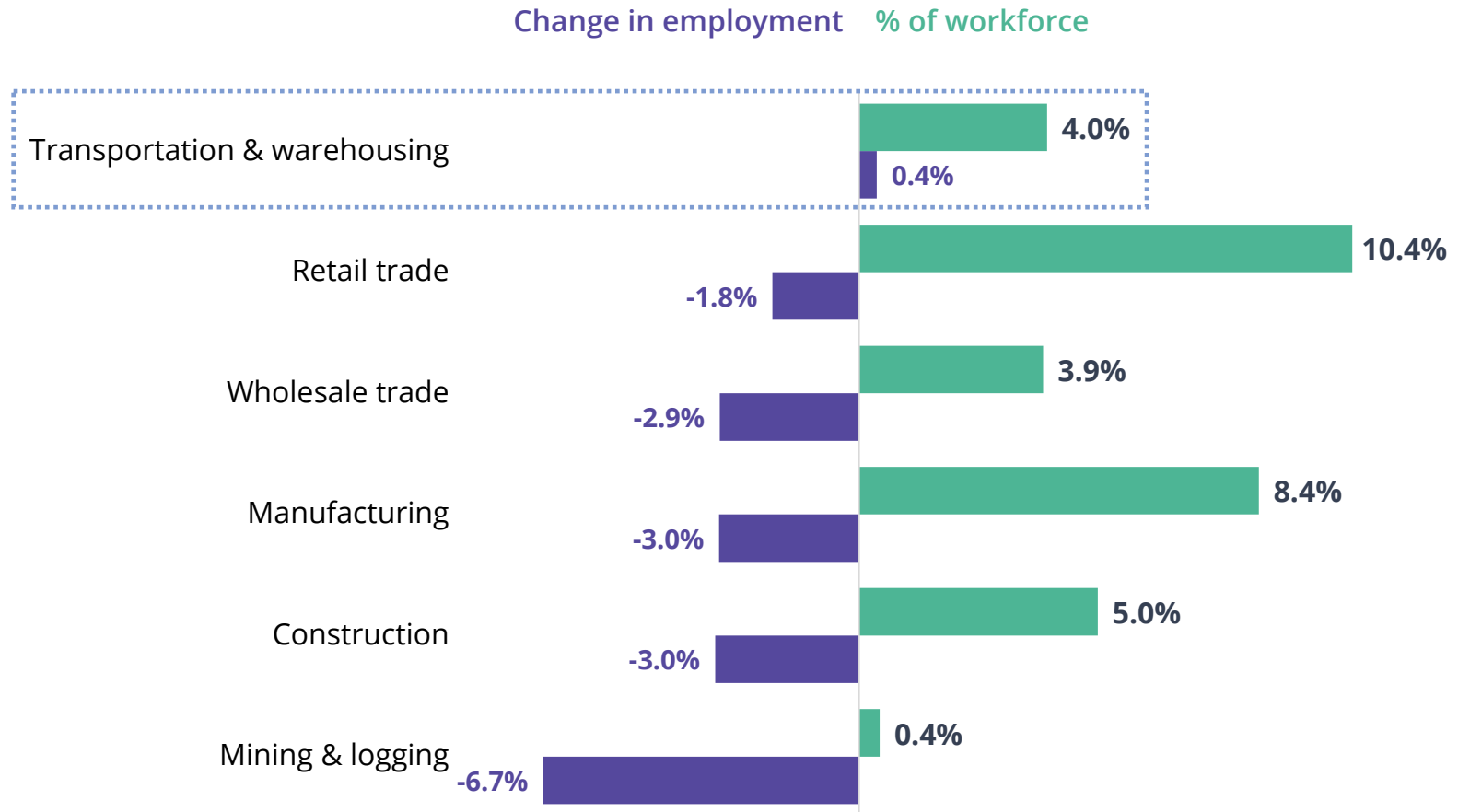
Source: Federal Reserve Bank of St. Louis
*Most recent update August 17, 2021

Industrial sector job gains and losses

+0.4%

Change in transportation and warehousing employment, February 2020 to July 2021

The transportation and warehousing employment sector has been resilient throughout the pandemic. Manufacturing, construction and wholesale trade comprise similar proportions of total U.S. employment but have contracted since February 2020.



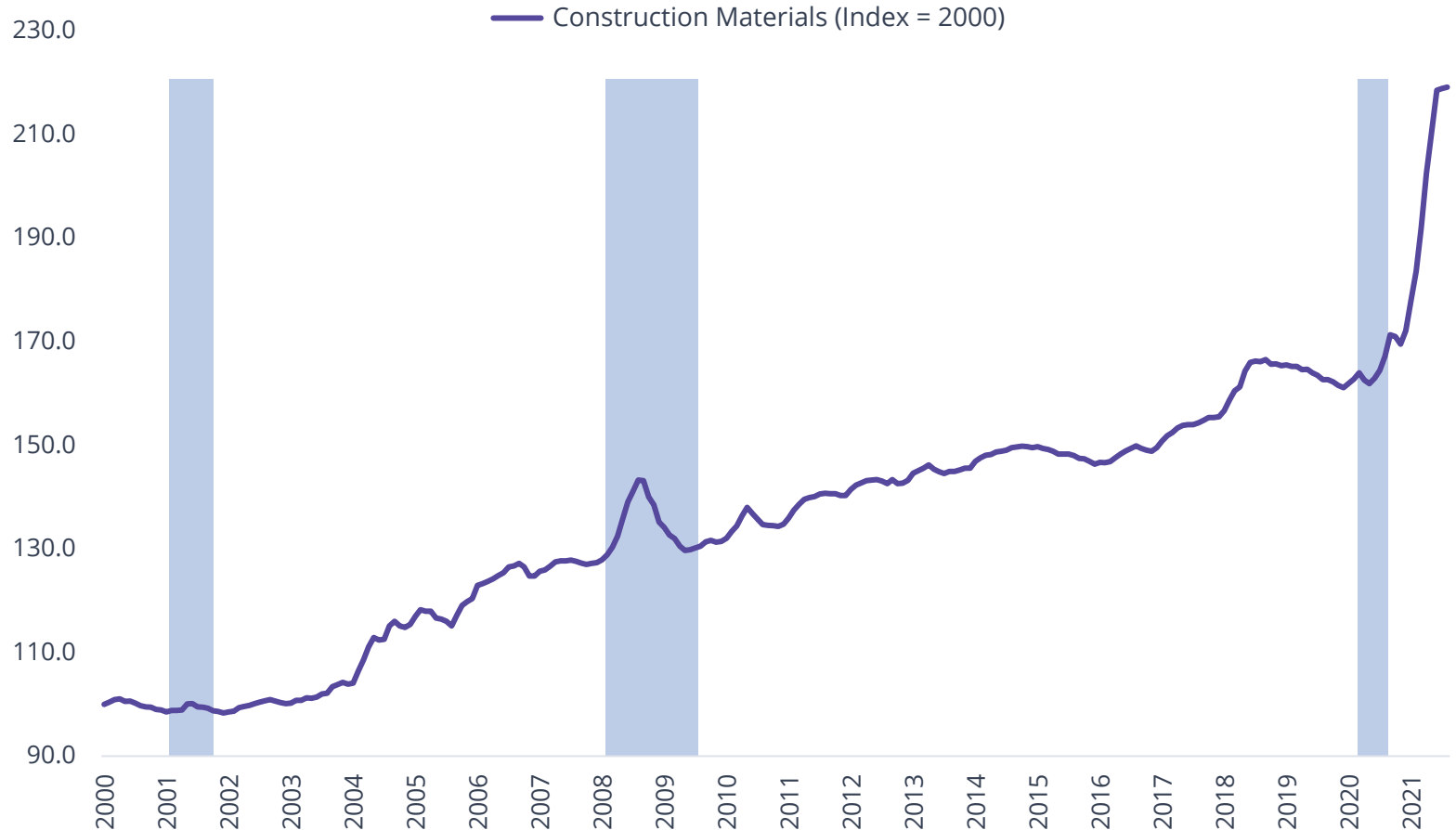
Note: Seasonally adjusted data.
Source: Bureau of Labor Statistics

Cost of construction materials

+35.3%

**Construction Material
Index cost from year-end
2020 to August 2021**

Construction material costs have surged to start 2021, applying upward pressure on industrial pro forma rents. However, recent activity in August and September suggest that pricing is poised to moderate to 2020 levels in the coming months.



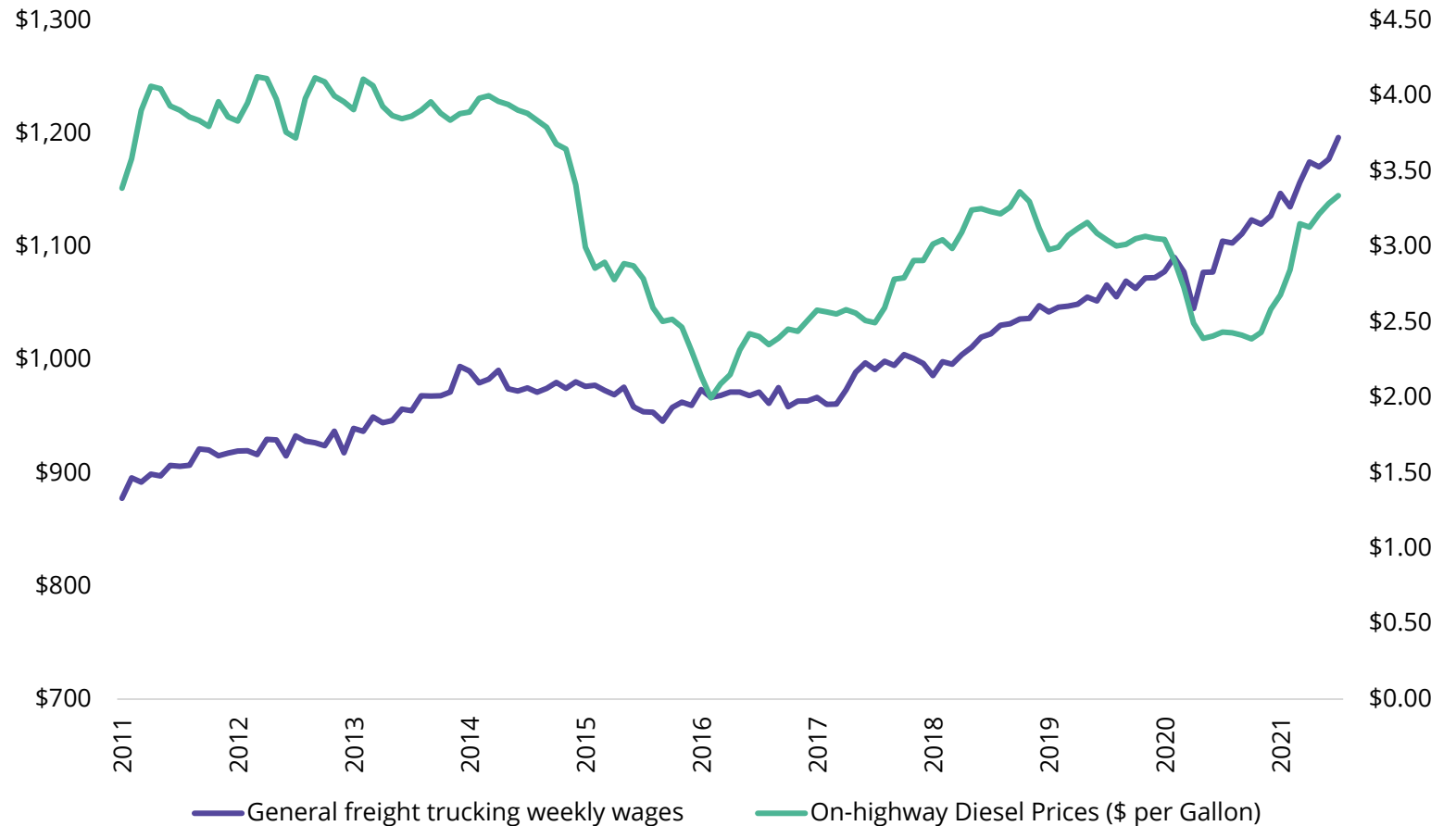
Source: Bureau of Labor Statistics

Fuel costs and freight trucking driver wages

+39.8%

**Diesel prices since
May 2020**

Rising diesel fuel prices and wage rates, for short- and long-haul trucking, are exacerbating pressures on shipping costs for companies that may have also faced international supply chain disruptions.



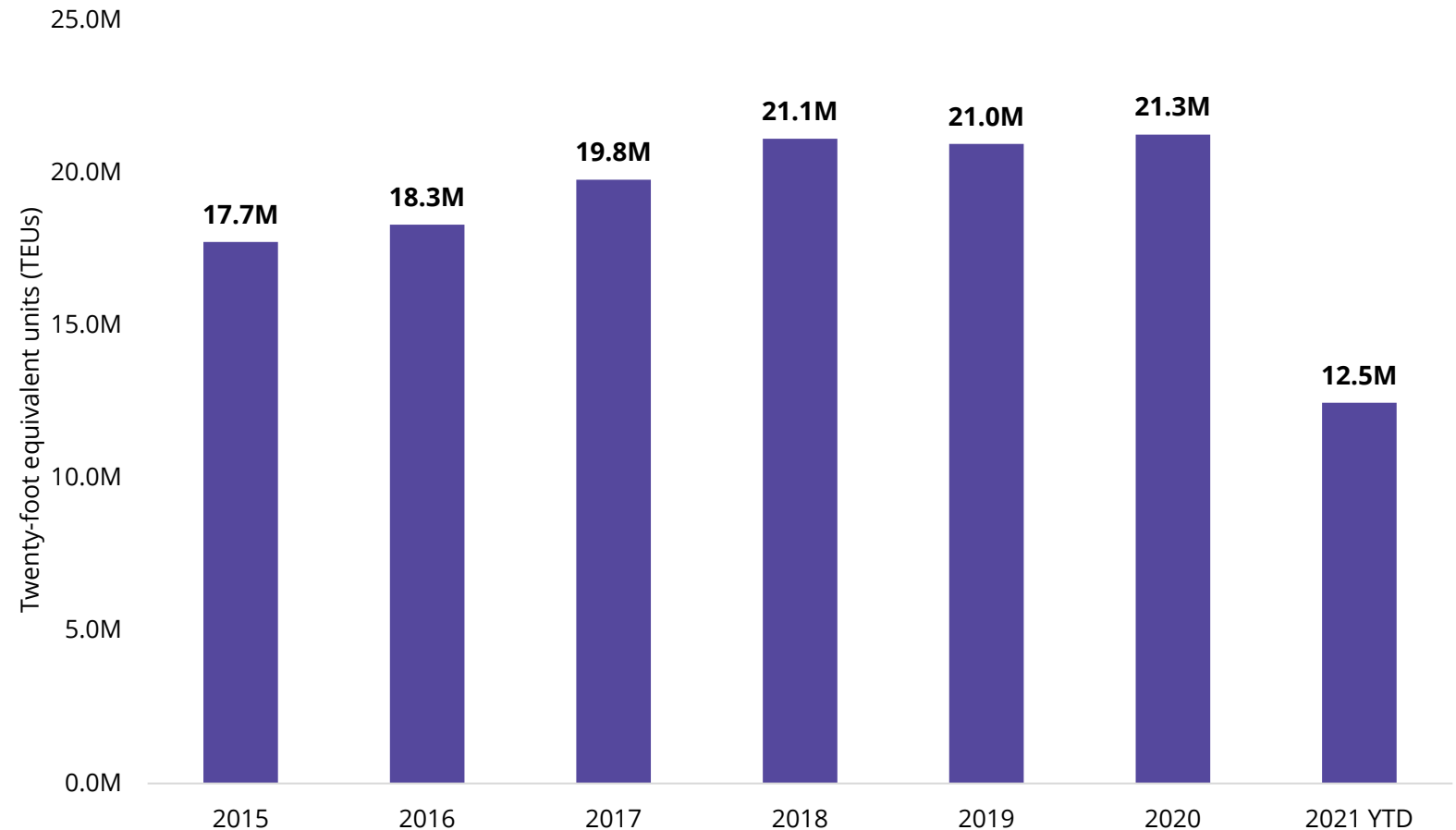
Source: Bureau of Labor Statistics, U.S. Energy Information Administration, AVANT by Avison Young

Loaded import container volumes

+24.0%

Change in cargo volumes,
H1 2020 vs. H1 2021

Through June, loaded imports at major U.S. seaports are up significantly over the same period last year. While activity in 2020 was impacted by the pandemic, freight flows this year have been marred by supply chain disruptions at ports.



Note: Includes Los Angeles, Long Beach, New York / New Jersey, Savannah, Virginia, Houston, Charleston, Oakland, Seattle / Tacoma, Miami, Baltimore, Jacksonville ports.
Source: individual port authority websites

Inland Empire market fundamentals

INLAND EMPIRE INDUSTRIAL INSIGHT REPORT
Q3 2021

Key industrial takeaways



Economic conditions

- The Inland Empire economy has added over 215,000 jobs since last year, driving unemployment to **7.6 percent**, levels last experienced in 2015.
- Steady job gains have occurred this year, especially in the critical areas for the local economy in transportation, warehousing & utilities sector which is up **3.9 percent** year-to-date.



Recovery rate

- A record **73 cargo ships** were waiting to enter the ports in September.
- Over the past 12 months, the ports had its **two highest-performing quarters** and top four individual months in the Port's 110-year history.



Industrial demand

- Port volume traffic is on pace to increase **15.2 percent** compared to last year.
- With a **1.8 percent** vacancy in Inland Empire, tenants in the market are unable to find space. Reports are there are five tenants for every available building.
- Net absorption through third quarter remains healthy and on pace to be a historic high. At **23 million sf** through the third quarter of the year, aggregate 2021 net absorption could outpace totals for the past decade.

Key industrial takeaways



Industrial supply

- During the third quarter, there were **62 properties** 100,000 to 250,000 sf totaling **9.7 msf** under construction, proposed, or under renovation the most active size range by number of projects.
- **24.0 percent** of all available large blocks of space are in the over 1 msf size range.
- The overall vacancy rate for the Inland Empire industrial market is at a record twenty-year low at **1.8 percent**, a decrease from 3.9 percent reported last year.



Pricing trends

- Industrial sales volume surged **45.3 percent** compared to the prior five-year average due to stronger fundamentals.
- The average rental rate for Inland Empire has increased by **4.5 percent** since the start of the pandemic.



Capital markets

- Inland Empire industrial investment activity surged to **\$6.4B since 2020** as investors are attracted to local fundamentals largely benefitting from historic logistics demand.
- Industrial pricing is translating to higher evaluations by investors as fundamentals remain strong. Inland Empire industrial assets, witnessed a **21.7 percent** higher per-square-foot rate from April 2020 to September 2021.



01.

Economic and demographic trends

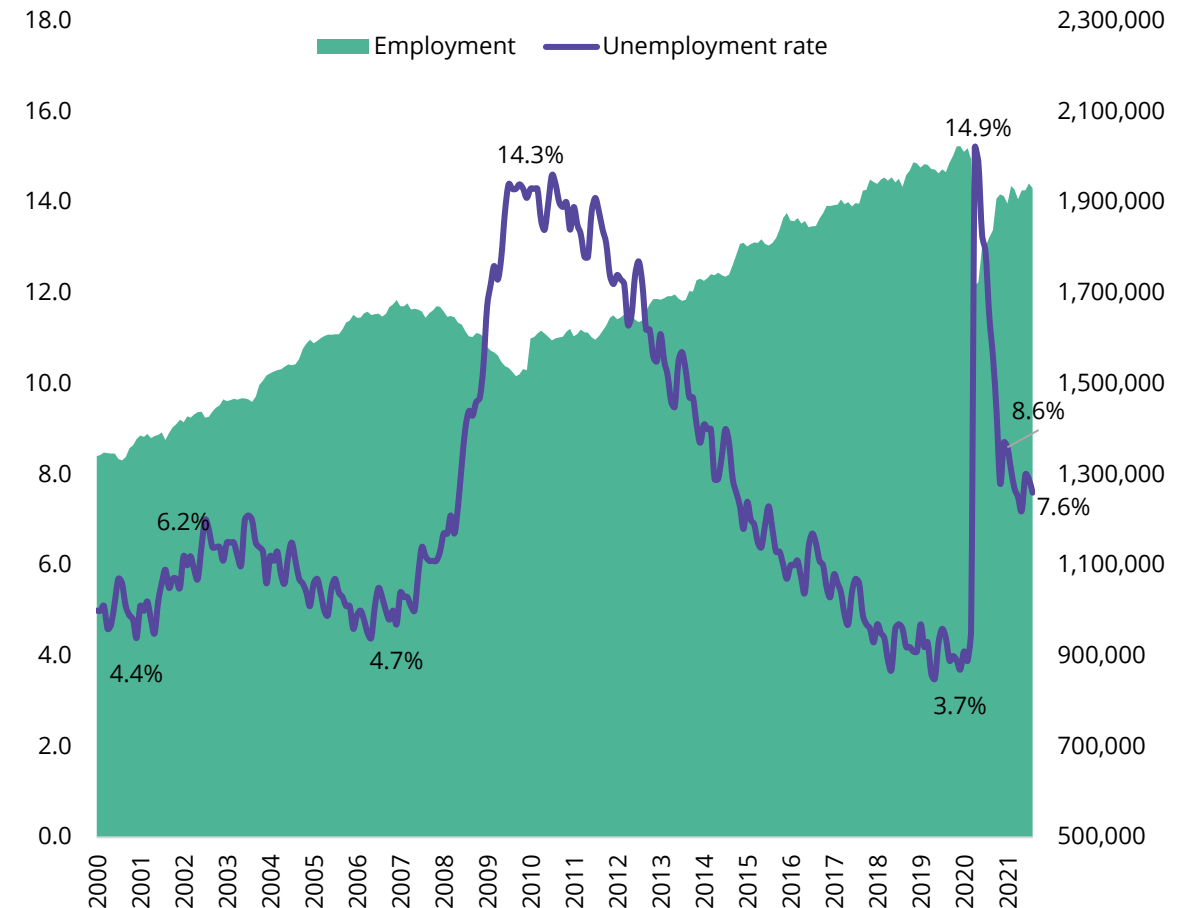
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Q3 2021

Unemployment rate is falling

7.6%

Inland Empire unemployment rate as of August 2021

Before the pandemic, unemployment was at historical lows. The economy has added back over 215,000 jobs since last year, up 11.1%, driving unemployment to levels last experienced in 2015.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Industrial job gains and losses

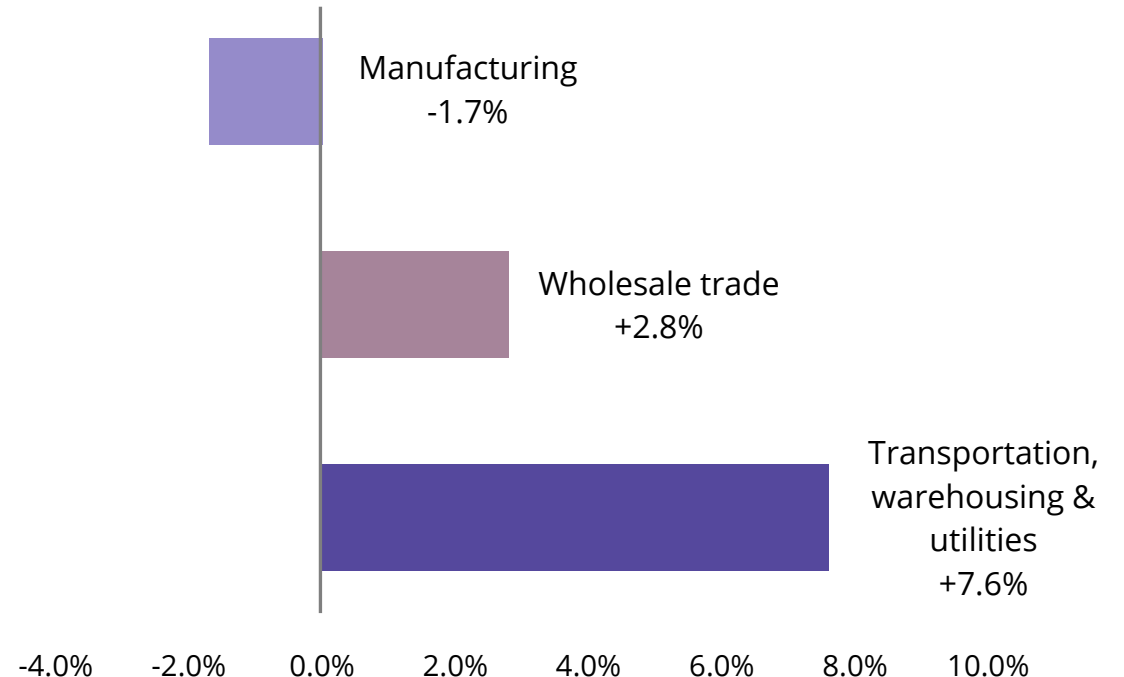
+8.7%

Change in industrial employment from July 2020 to July 2021

The Inland Empire has experienced job additions in the areas of transportation and logistics. These job gains have remained steady this year, with the transportation, warehousing & utilities sector up 3.9% year-to-date.

Total change in Inland Empire MSA* job gains/(losses)

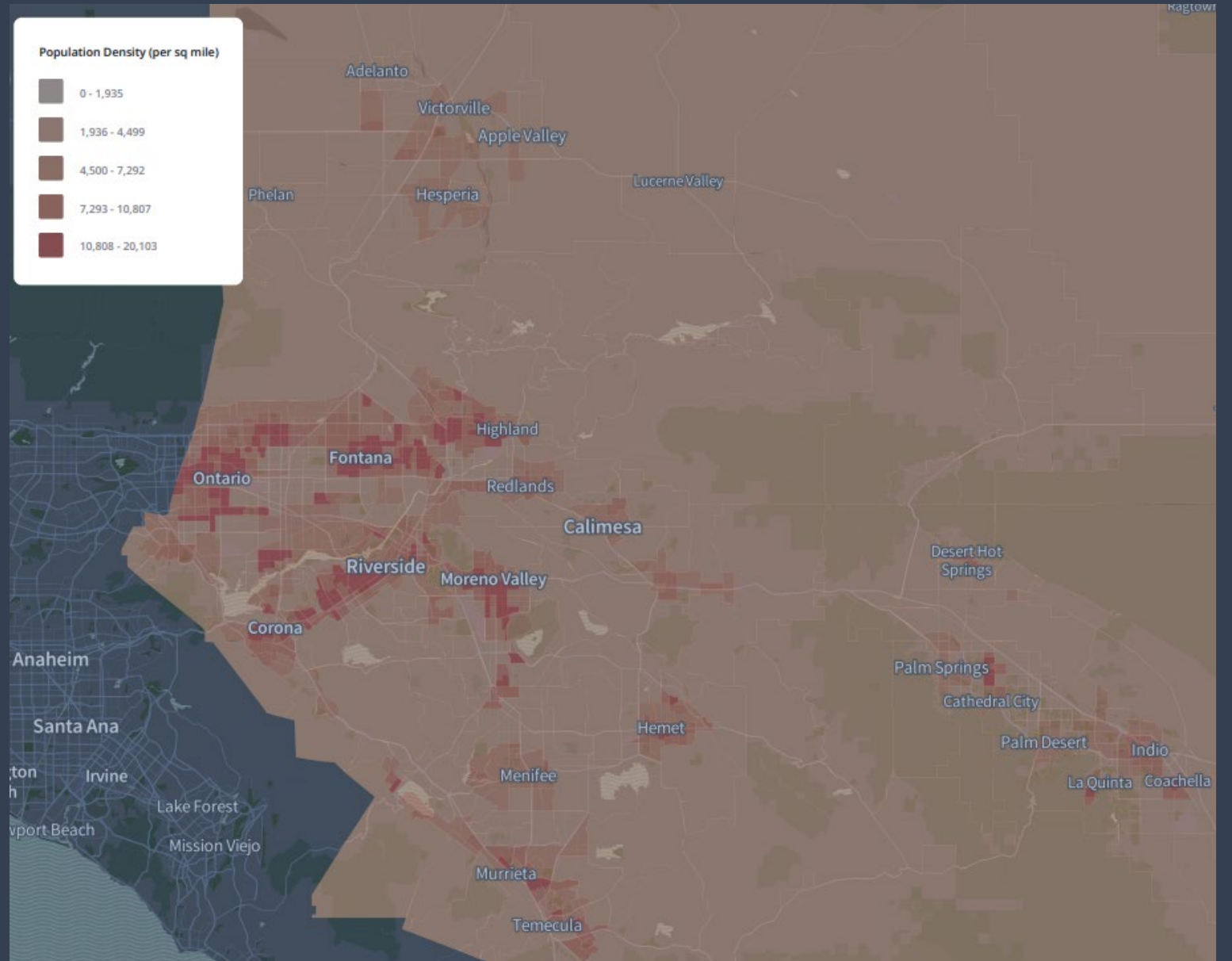
July 2020 to July 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Population Density Hubs

Source: AVANT by Avison Young, ESRI

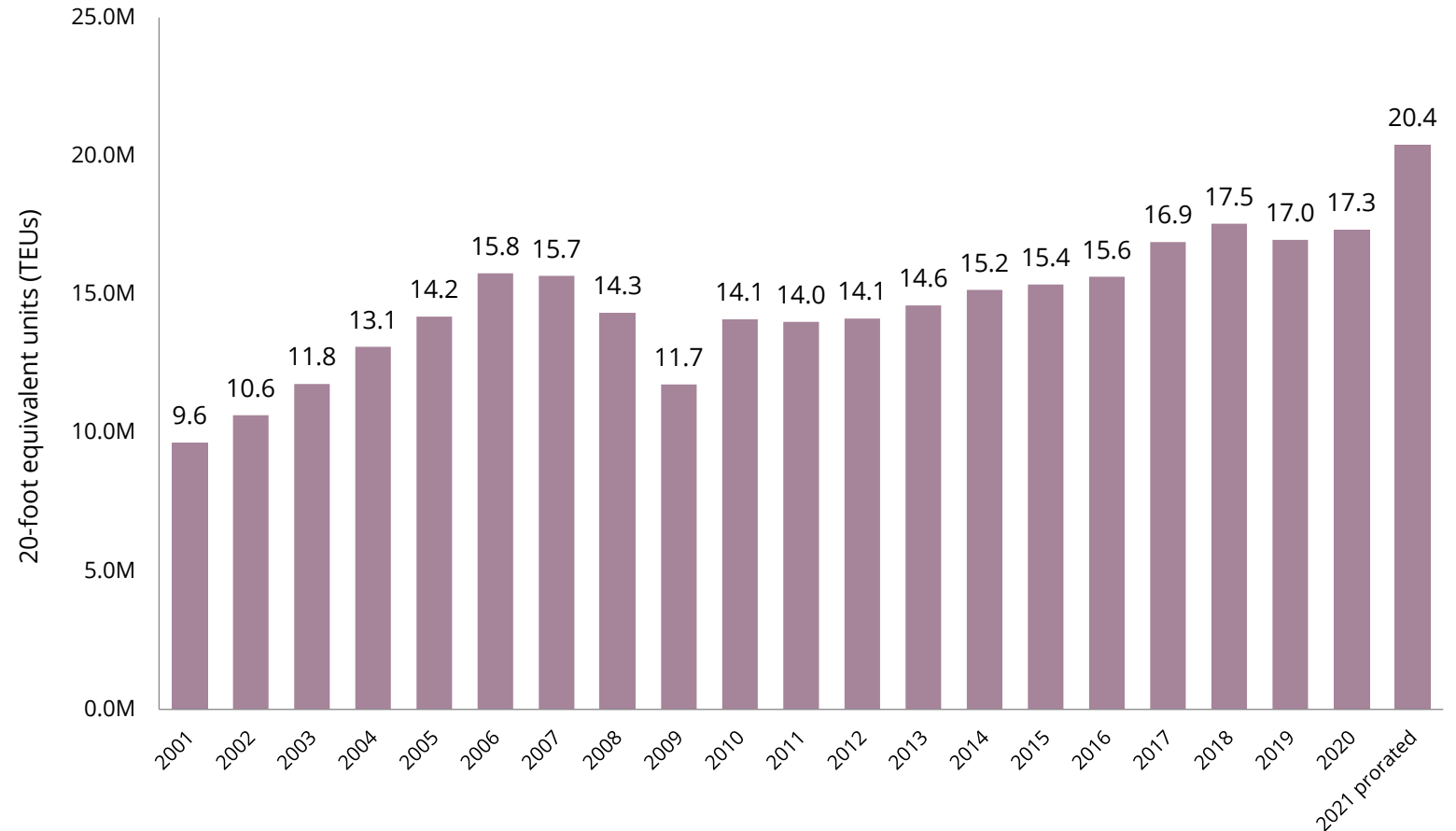


Ports of Los Angeles & Long Beach cargo volume

15.2%

Increase in cargo container traffic for 2021 prorated compared to 2020

Over the past 12 months, the ports had its two highest-performing quarters and top four individual months in the Port's 110-year history.



Source: Port of LA and Port of Long Beach

02.

Industrial occupier conditions

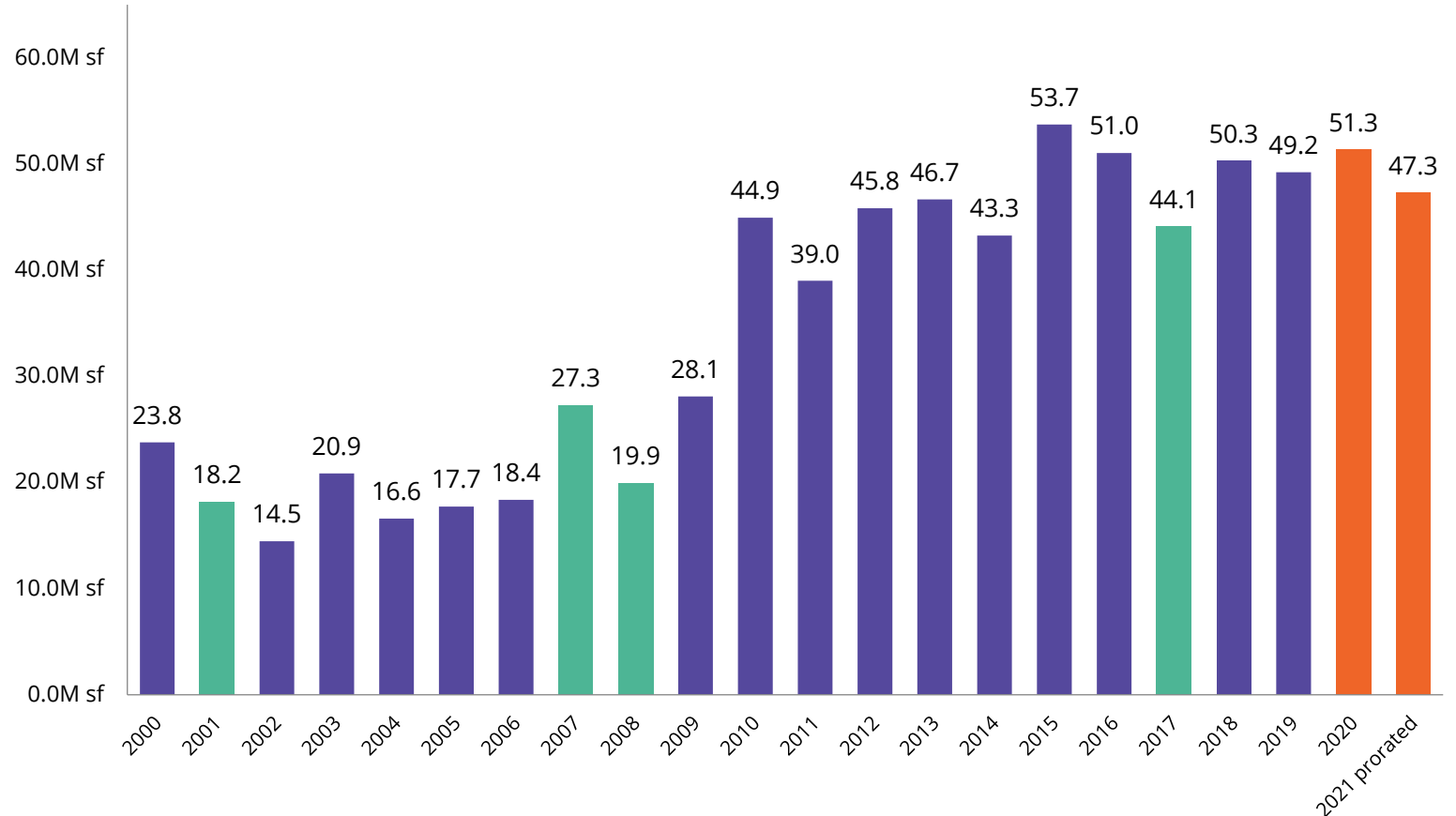
INLAND EMPIRE INDUSTRIAL INSIGHT REPORT
Q3 2021

Industrial leasing activity

+46.5%

**2020-prorated 2021 vs.
prior 20-year annual
average leasing activity**

Prorated 2021 leasing down compared to previous years not because of a lack of demand, but a lack of inventory. With 1.8% vacancy in Inland Empire, tenants in the market are unable to find space.



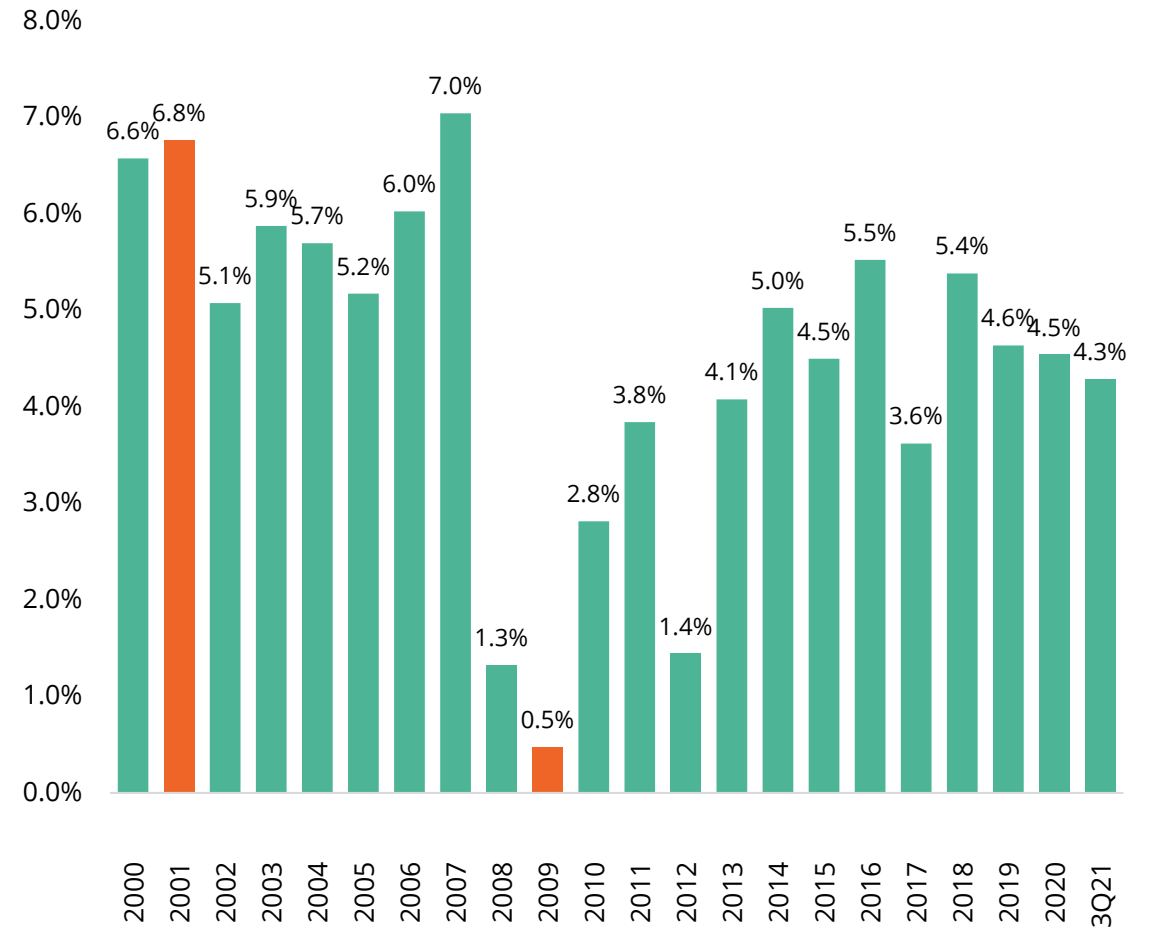
Source: CoStar

Industrial net absorption

8.8%

Net absorption as a percentage of inventory, 2020 through Q3 2021

Absorption through third quarter remains healthy and on pace to be a historic high. At 23 million sf through the third quarter of the year, aggregate 2021 net absorption could outpace totals for the past decade.



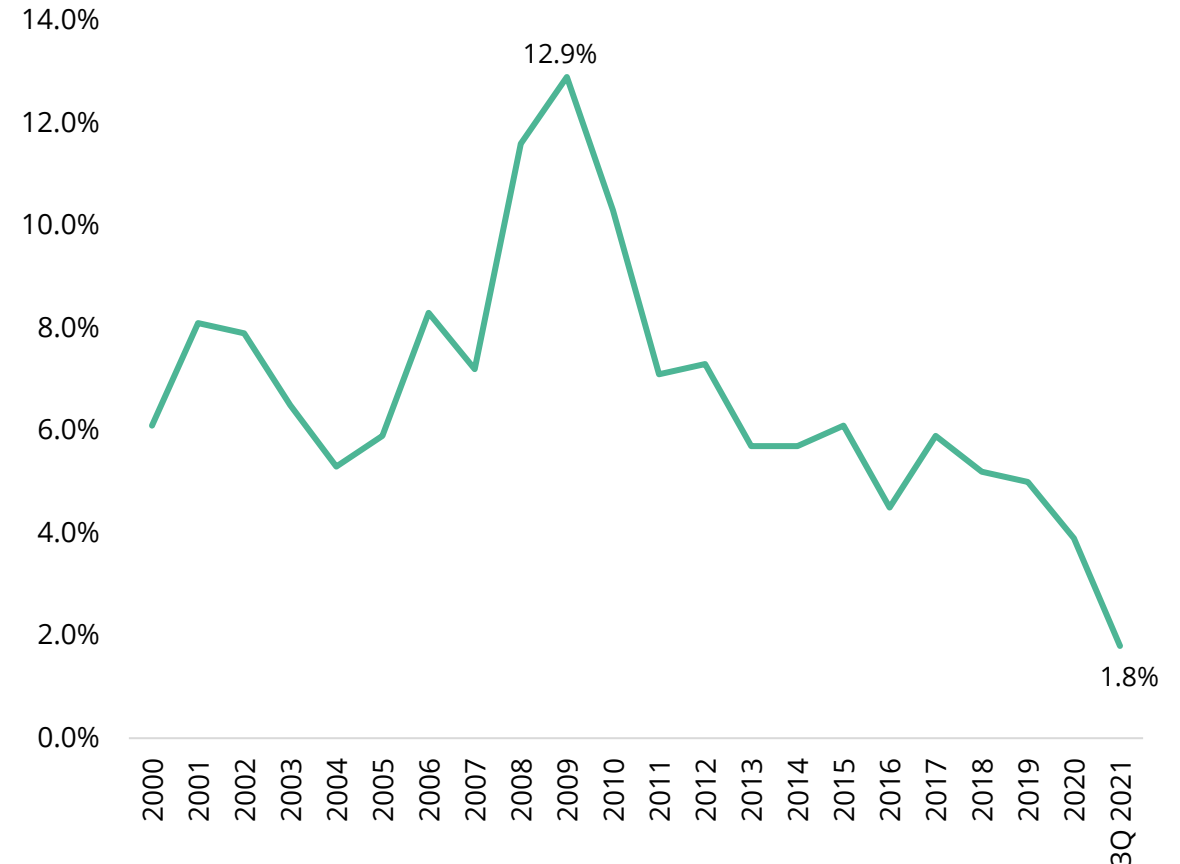
Note: Absorption is measured as the year-over-year change in occupied square feet.
Source: CoStar

Industrial vacancy rate

1.8%

20-year record low
vacancy as of Q3 2021

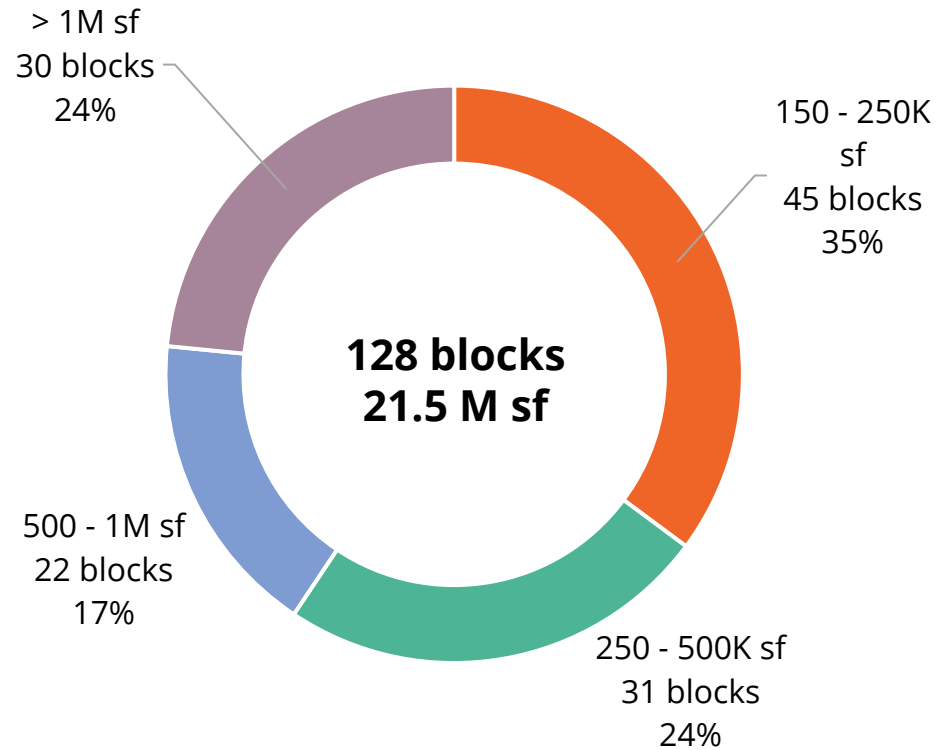
Q3 2021 vacancy is under two percent and could be even lower as demand is out pacing inventory. Rents have increased 6.8% from a year ago, further underscoring how industrial demand has outstripped supply in Inland Empire.



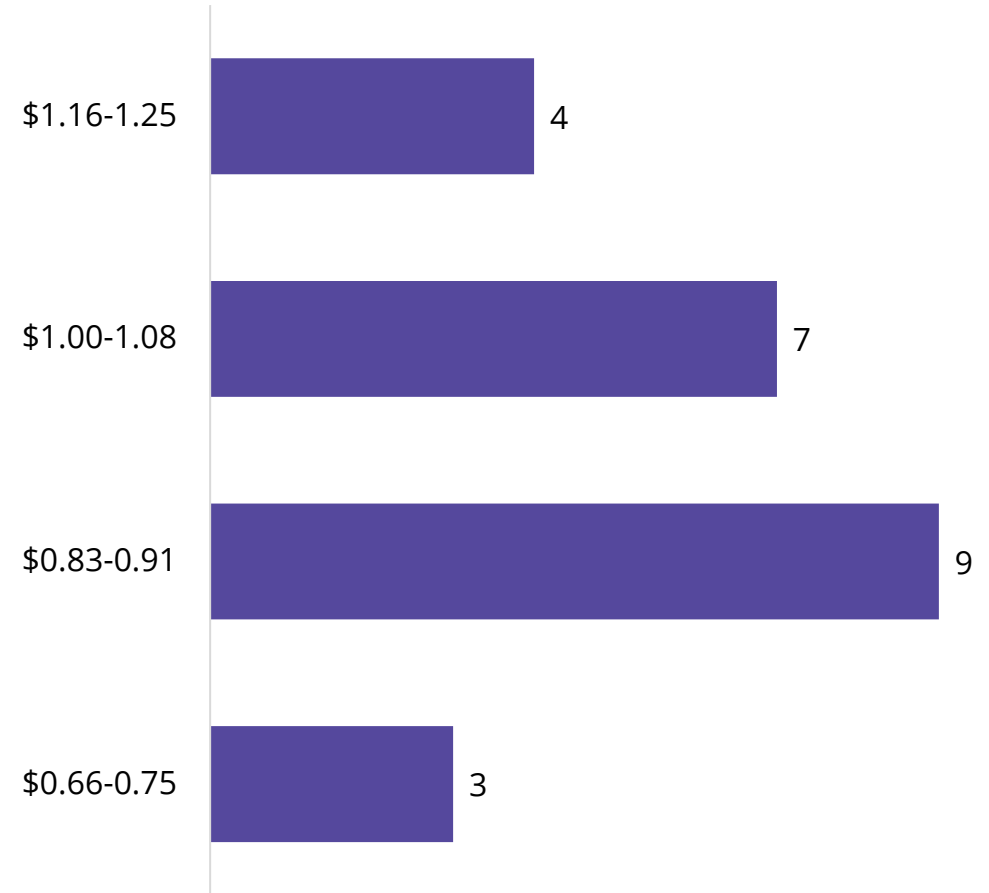
Source: CoStar

Industrial large-block availabilities

Space size ranges



Asking rent per square foot



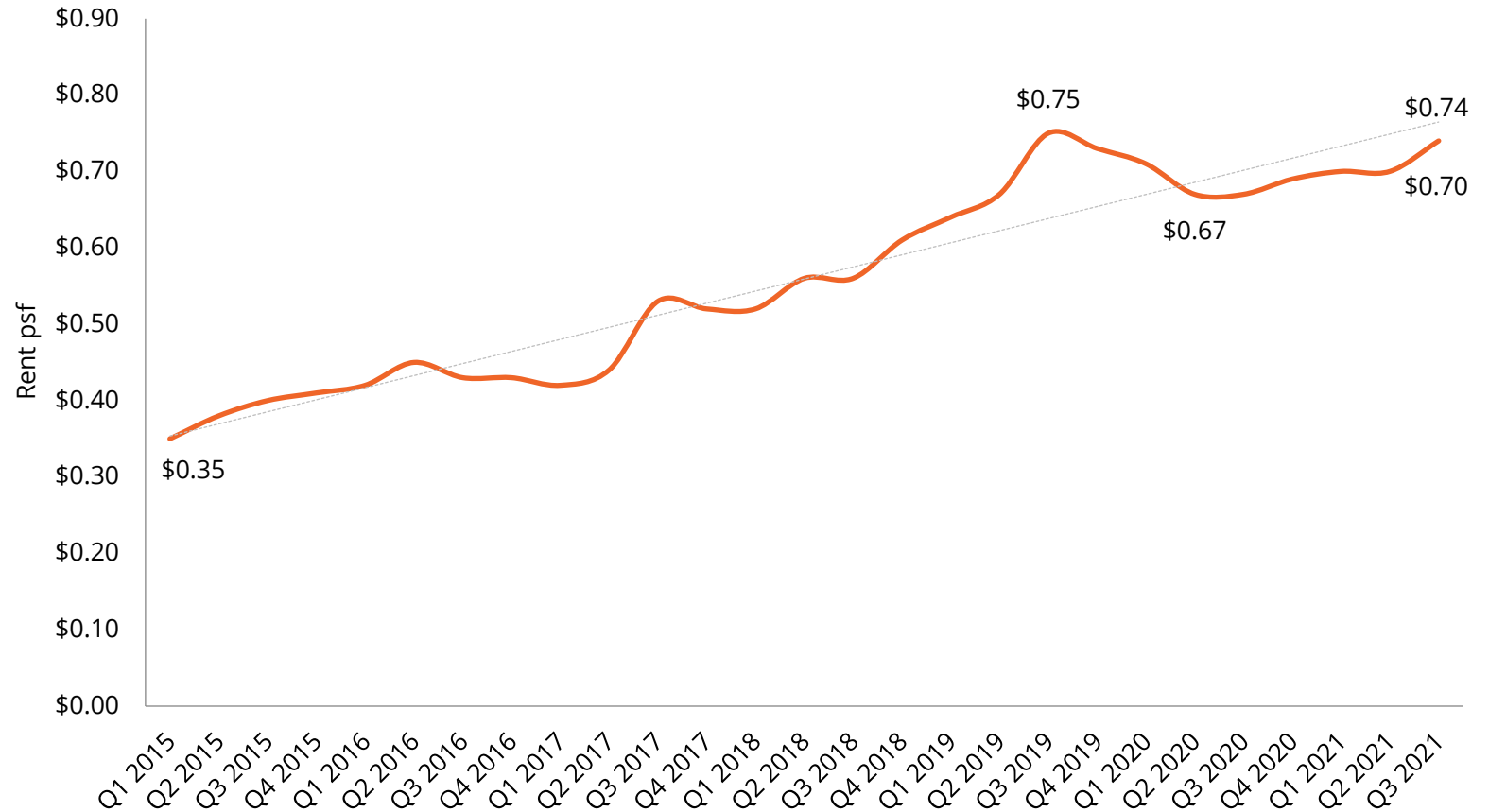
Source: Costar

Asking rents

+4.5%

Asking rents since the
onset of the pandemic

Asking rents have trended upward
since 2015, increasing by 5.4% year-
to-date.



Source: AVANT by Avison Young

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Big-box demand drives construction

191 properties

Proposed, under construction
or under renovation

100.2 msf

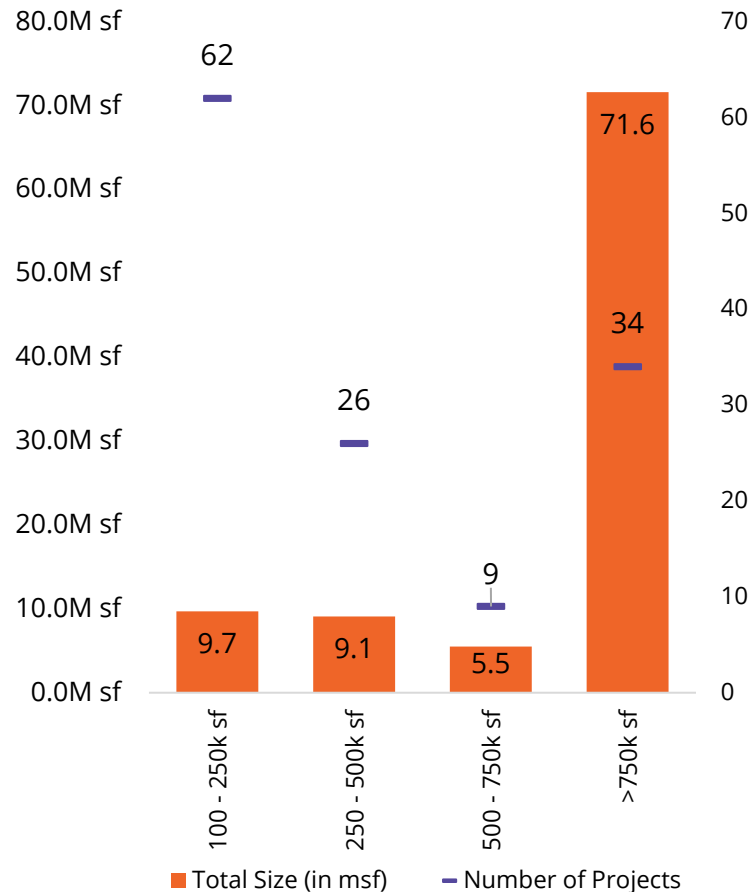
proposed or under
construction

18.3%

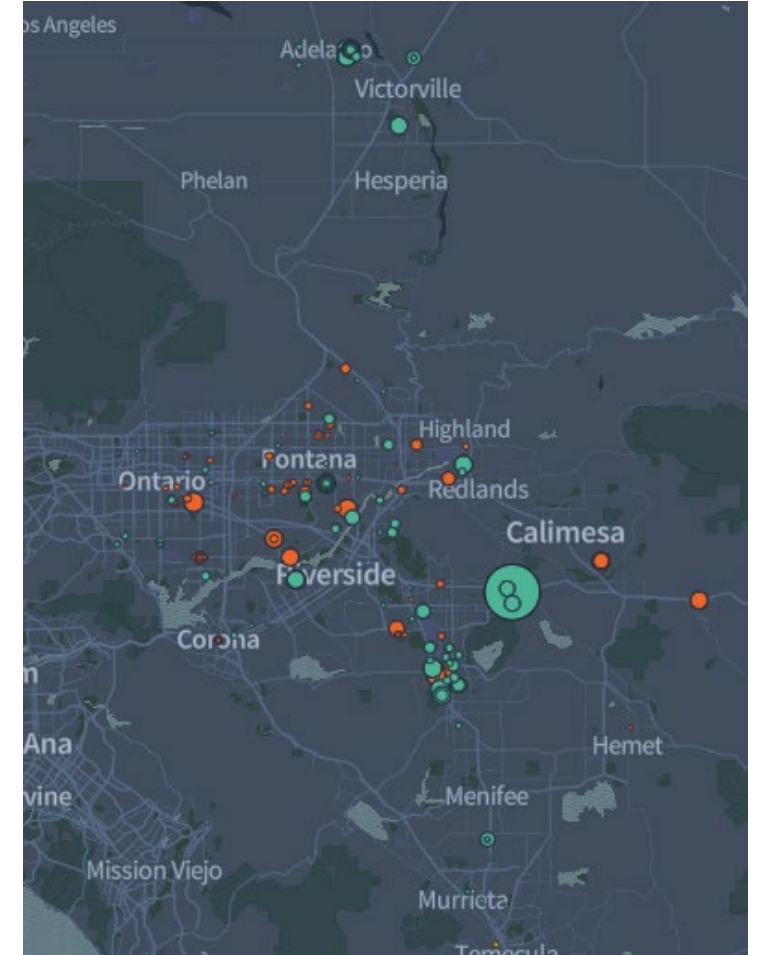
share of industrial
inventory

North Riverside

Submarket with most development



Source: AVANT by Avison Young



03.

Capital market conditions

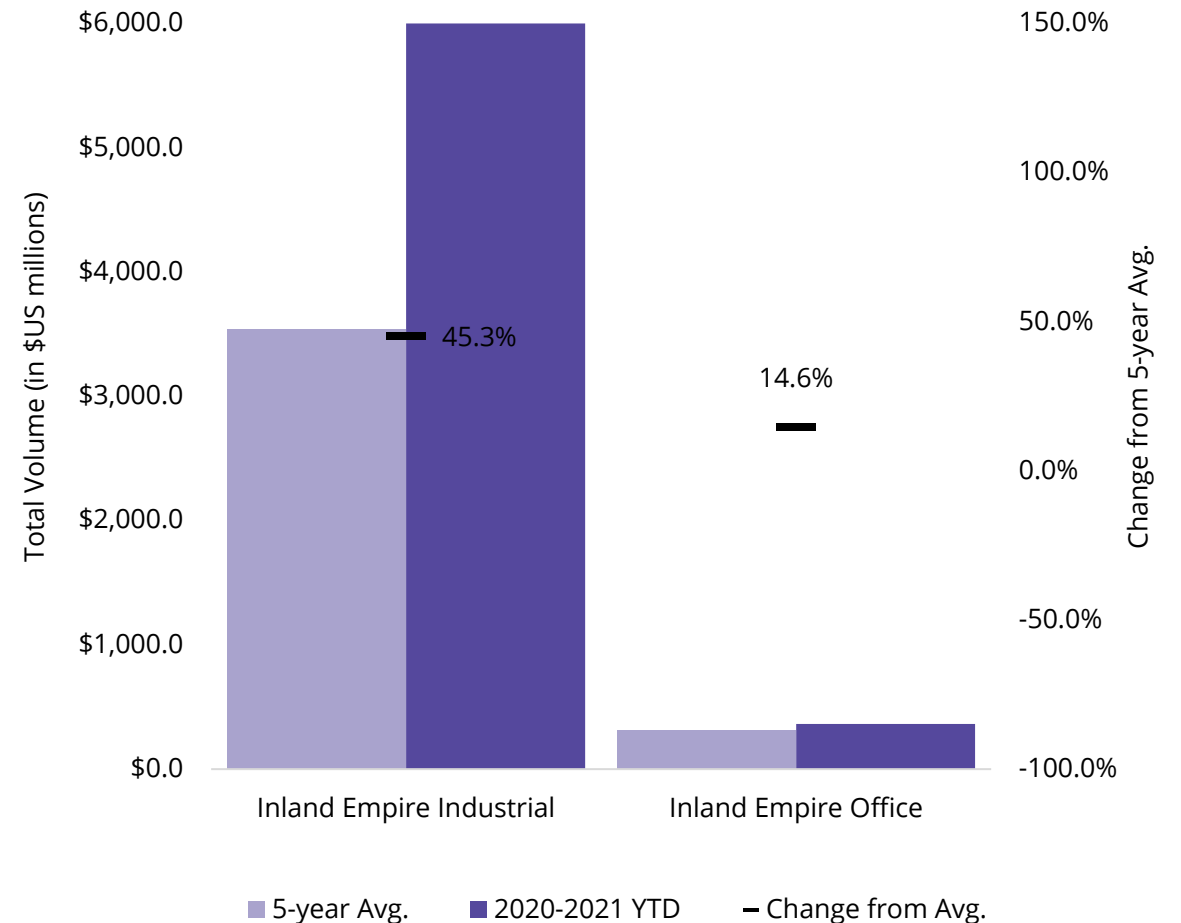
INLAND EMPIRE INDUSTRIAL INSIGHT REPORT
Q3 2021

Investment dollar volume

\$6.4B

Industrial dollar volume,
2020 to Q3 2021

Investor's predominantly target the Inland Empire for industrial. Industrial volumes surged 45.3% against the prior five-year average due to stronger fundamentals.



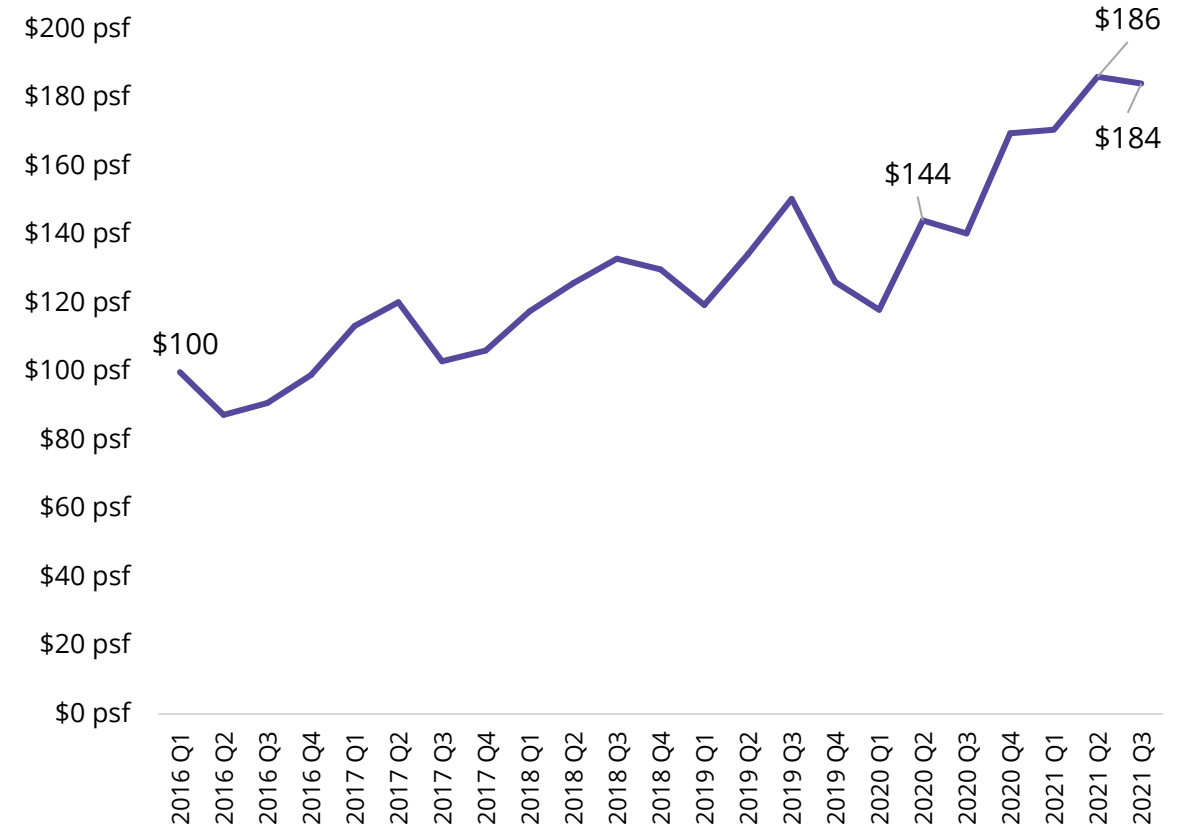
Source: AVANT by Avison Young
RCA, Costar

Industrial asset pricing

+21.7%

Inland Empire industrial pricing,
April 2020 to September 2021

Pricing for Inland Empire industrial assets has continued to rise since 2016, particularly during the pandemic, as an influx of investors seek exposure to properties that can accommodate the rise of e-commerce distribution.



Source: AVANT by Avison Young, RCA, CoStar

Looking forward



Here's what we can expect

- **No slow down in demand anytime soon.** The ports have broken monthly cargo records regularly since last summer. The Long Beach port is on pace to process more than 9m container units this year, exceeding last year's record of 8.1m units, the most in the port's 110-year history. Meanwhile, the Los Angeles port in June became the first western hemisphere port to process 10m container units in a 12-month period.
- **Increased demand seen by logistics tenants** in the Inland Empire including NFI Industries, UNIS Transportation, and GXO Logistics which leased over 2 million square feet combined third quarter. We see this as a continuing trend.
- **Chinese based furniture manufacturer**, Loctek, was responsible for the **largest Inland Empire industrial lease third quarter** in Perris leasing 1.2 million square feet. Not surprising the ergonomic furniture maker of sit-stand desks and adjustable workstations etc. takes the largest space at a time when work from home in the office sector is fundamentally changing the office occupier segment.
- **The presence of large high-credit tenants** such as Amazon, Walmart, and Target **will continue to attract institutional investors from across the globe.** This ability to underwrite increasing proformas through solid leasing fundamentals have driven investment interest to industrial.



Los Angeles market fundamentals

SOUTHERN CALIFORNIA INDUSTRIAL
INSIGHT REPORT

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Key industrial takeaways



Economic conditions

- Los Angeles unemployment is **8.8 percent** as of August 2021 compared to 11.1 percent at the beginning of the year. The economy has added back over 825,000 jobs since last year.
- The metro experienced an increase of **3.5 percent** in industrial employment from July 2020 to July 2021.
- Los Angeles has experienced job additions in the areas of transportation and logistics. These job gains have remained steady this year, with the transportation, warehousing & utilities sector up **2.4 percent** year-to-date.



Recovery rate

- A record **73 cargo ships** were waiting to enter the ports in September.
- Over the past 12 months, the ports had its **two highest-performing quarters** and top four individual months in the Port's 110-year history.



Industrial demand

- Port volume traffic is on pace to increase **15.2 percent** compared to last year.
- With a **1.5 percent** vacancy in Los Angeles, tenants in the market are unable to find space.
- Net absorption year-to-date is **10.5 million square feet**. Aggregate 2021 net absorption is already greater than any other year in the past two decades.

Key industrial takeaways



Industrial supply

- As e-commerce continues to expand throughout the market, developers are working to meet demand. During the second quarter, there were **33 properties** 100,000 to 250,000 sf totaling **4.5 msf** under construction, the most active size range by number of projects.
- **49 percent** of all available large blocks of space are in the 150,000 – 250,000 sf size range.
- For most industrial submarkets in Los Angeles vacancy is **under 1 percent**.



Pricing trends

- Industrial rents in Los Angeles are increasing at rates above the national average. Asking rents have risen **13.9 percent** since the onset of the pandemic.
- Rental rates have trended upward since 2018, increasing **7.4 percent** year-to-date.
- Healthy demand and tightening leasing fundamentals have driven rents more than **75.0 percent** since bottoming in late 2010, compared to 55 percent for the national industrial average.



Capital markets

- Sales activity during the pandemic has been robust as institutional investors focused on industrial over retail and office sectors. Los Angeles Industrial investment activity surged to **\$9.8B since 2020** as investors are attracted to the sector fundamentals largely benefited from the COVID environment. Investors continue capital deployment on industrial assets at a rate that is **50.3 percent** higher than the prior five-year average.
- It also translated into higher valuations for Los Angeles industrial assets, with a **5.2 percent** higher per-square-foot rate than a year ago when the pandemic started, to \$213 psf in the first half of 2021.

01.

Economic and demographic trends

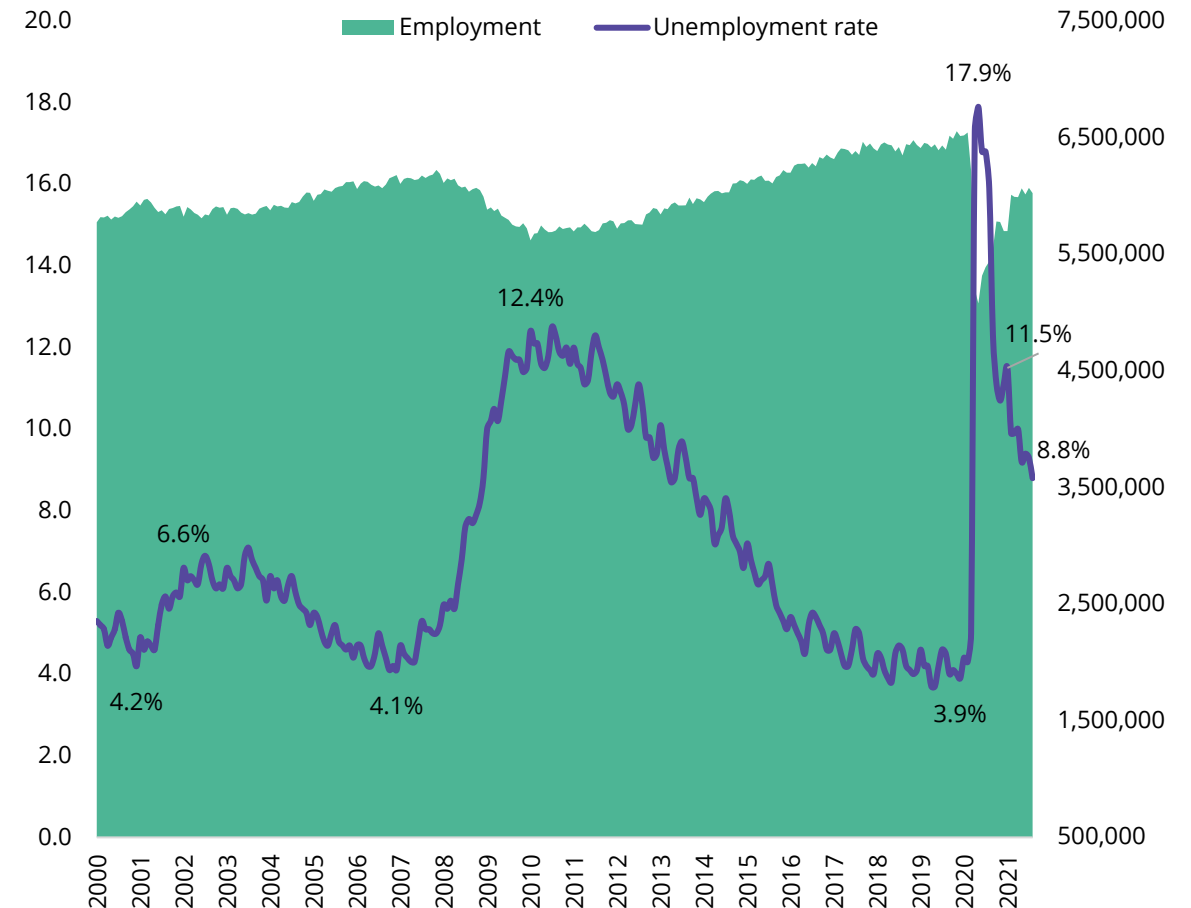
LOS ANGELES INDUSTRIAL INSIGHT REPORT
Q3 2021

Unemployment rate is falling

8.8%

Los Angeles unemployment rate as of August 2021, nearing levels last experienced in 2013

Before the pandemic, unemployment was at historical lows. The economy has added back over 825,000 jobs since last year, up 13.7%, unemployment has only recovered to 2014 levels.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Industrial job gains and losses

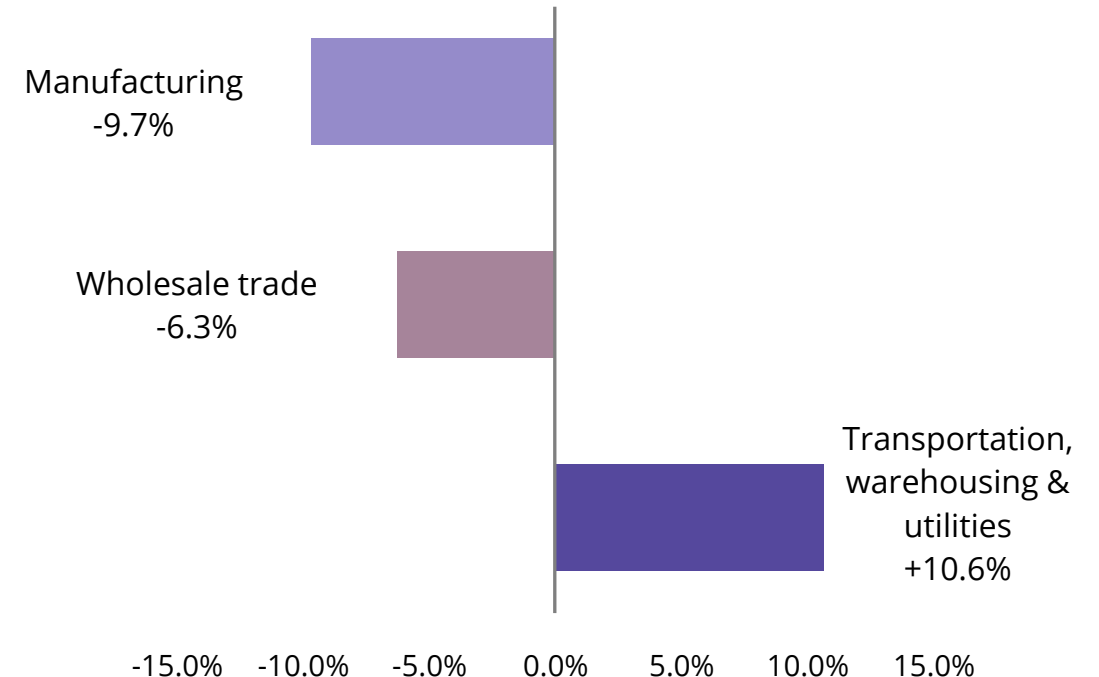
+3.5%

Change in industrial employment from July 2020 to July 2021

Los Angeles has experienced job additions in the areas of transportation and logistics. These job gains have remained steady this year, with the transportation, warehousing & utilities sector up 2.4% year-to-date.

Total change in Los Angeles MSA* job gains/(losses)

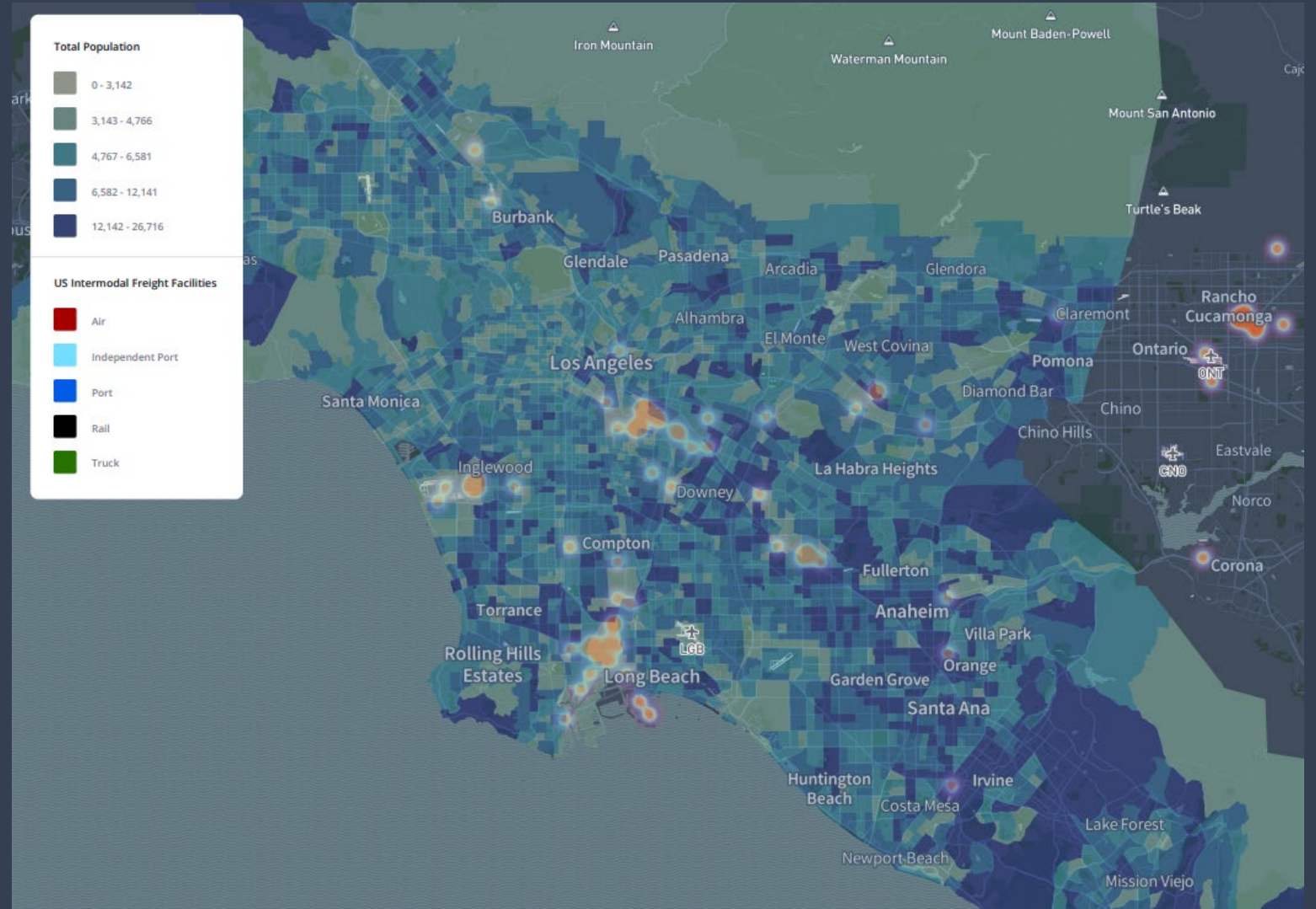
July 2020 to July 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Freight rail & intermodal facilities

Source: AVANT by Avison Young, ESRI
Large pockets of blue-collar workforce are found throughout Inland Empire largest Industrial submarkets

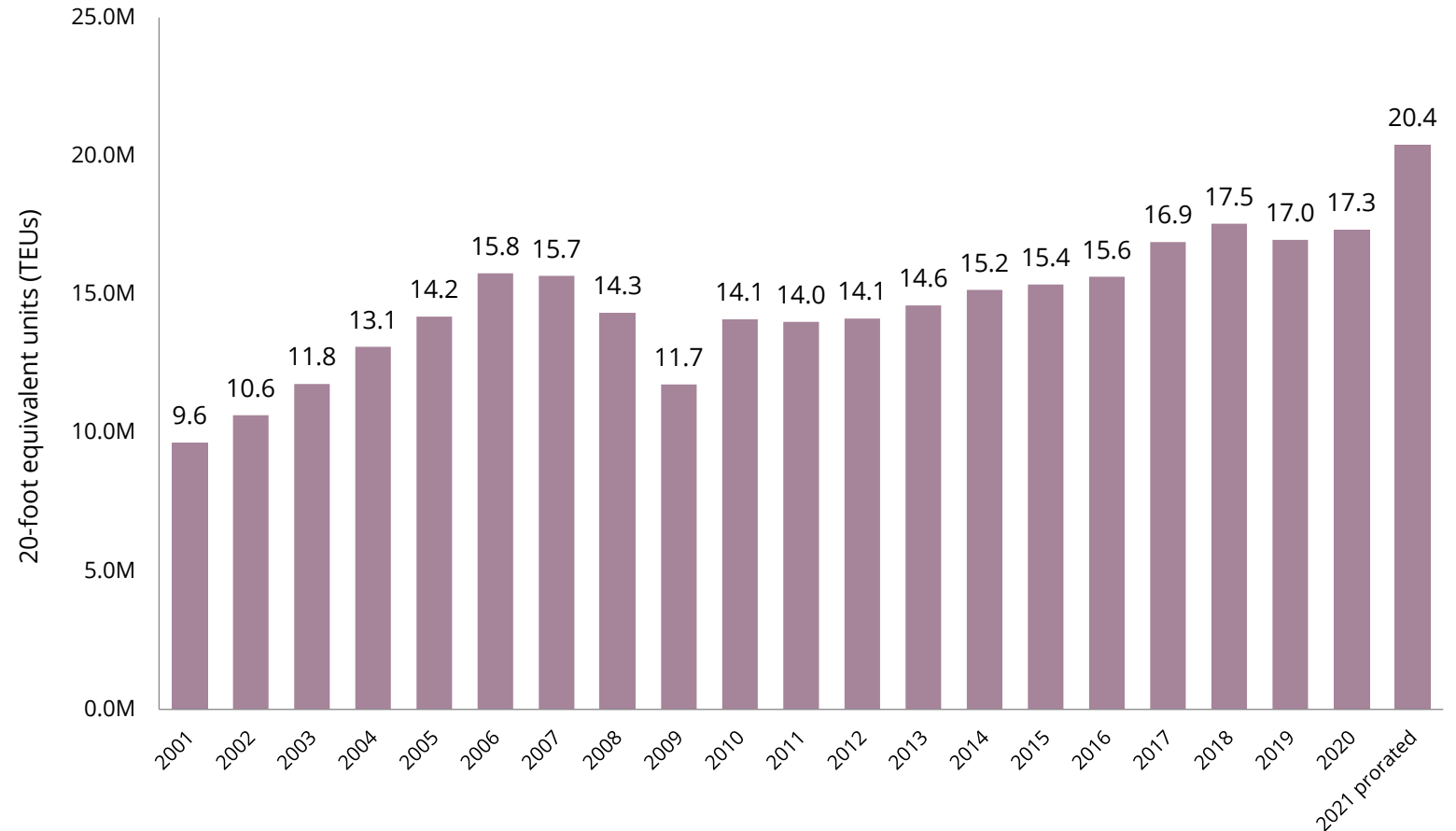


Ports of Los Angeles & Long Beach cargo volume

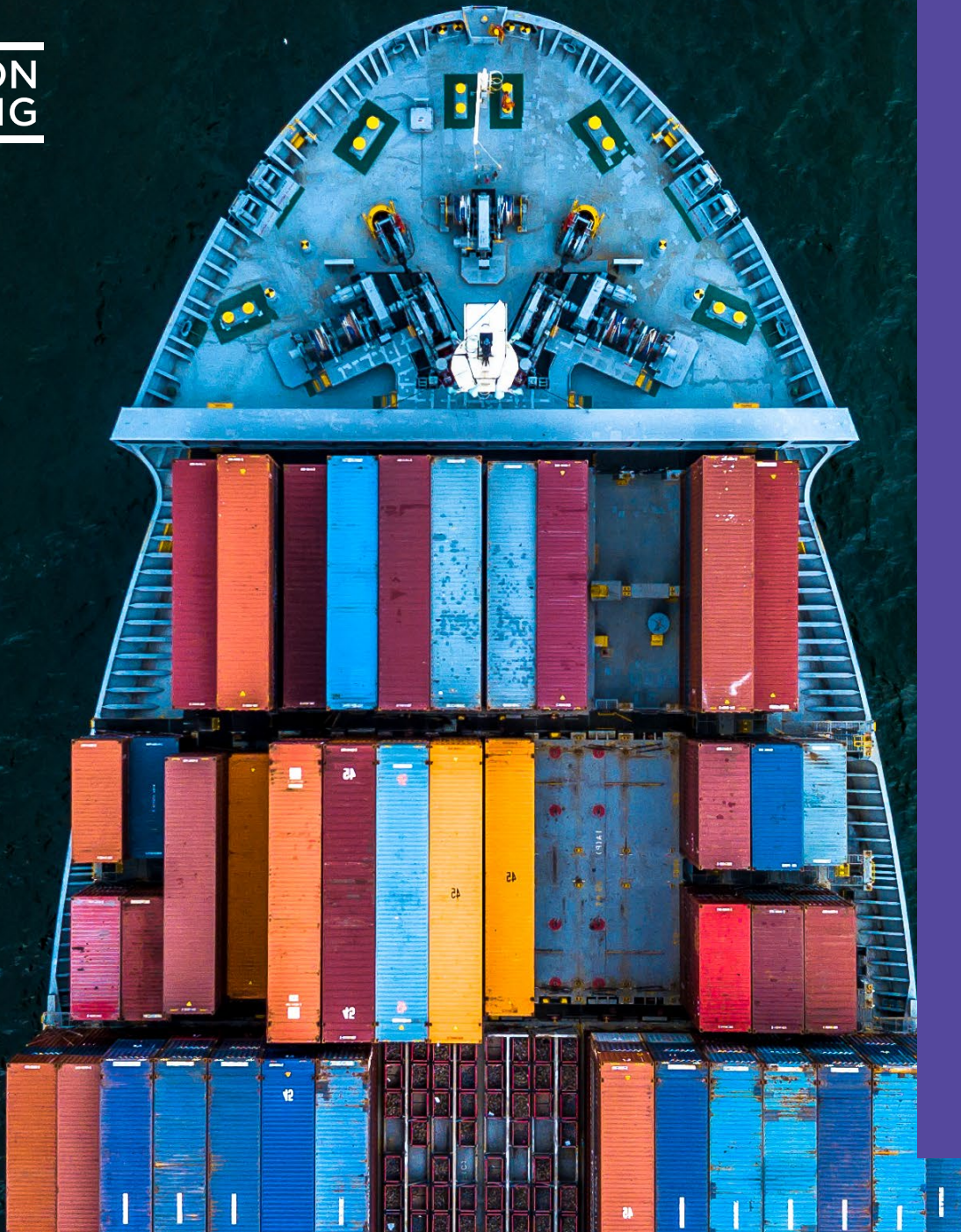
15.2%

Increase in cargo container traffic for 2021 prorated compared to 2020

Over the past 12 months, the ports had its two highest-performing quarters and top four individual months in the Port's 110-year history.



Source: Port of LA and Port of Long Beach



02.

Industrial occupier conditions

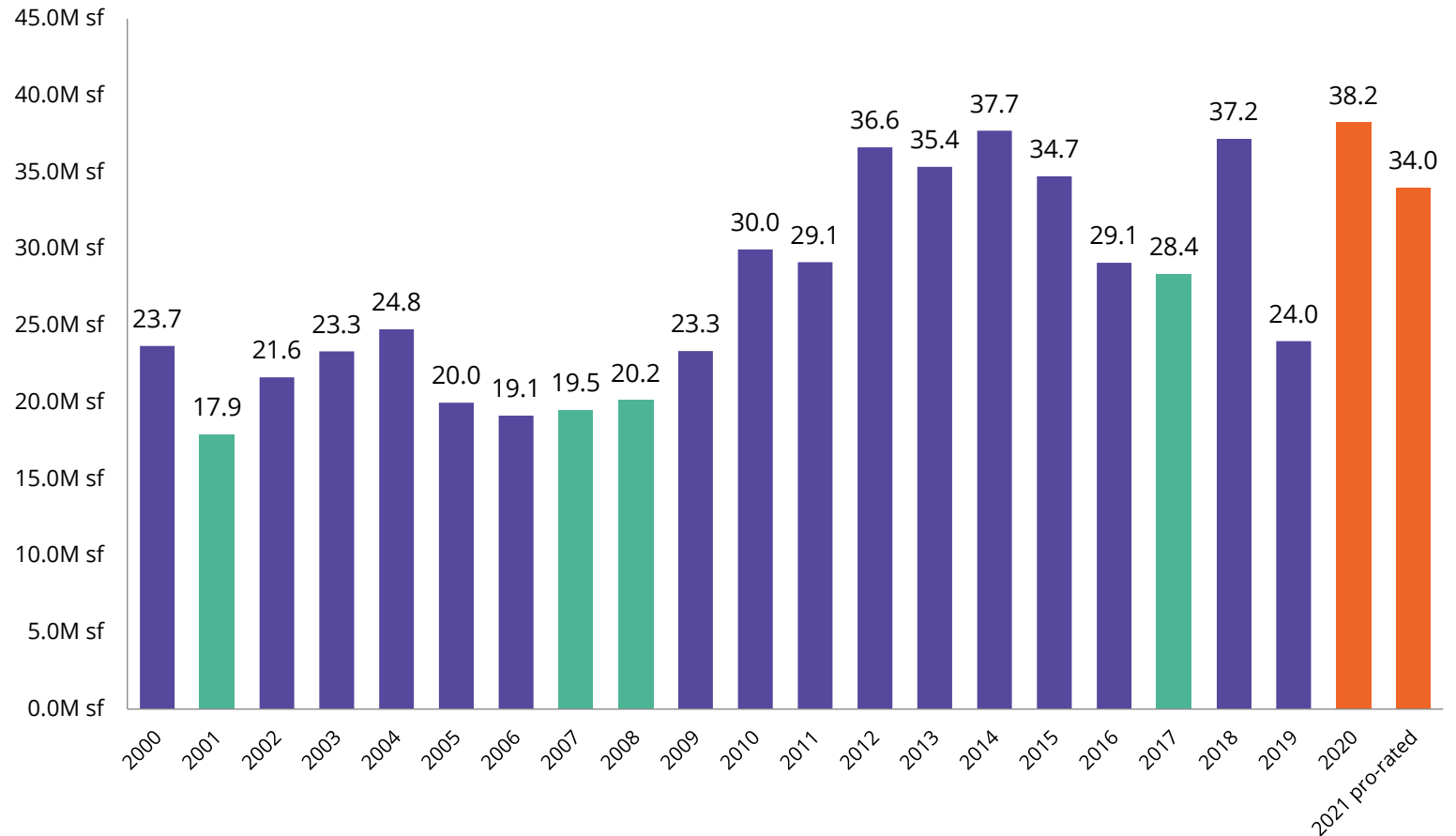
LOS ANGELES INDUSTRIAL INSIGHT REPORT
Q3 2021

Industrial leasing activity

+36.9%

2020-pro-rated 2021 vs. prior
20-year annual average
leasing activity

Prorated 2021 leasing is down compared to previous years not because of a lack of demand, but a lack of inventory. With 1.5% vacancy in Los Angeles, tenants in the market are unable to find space.



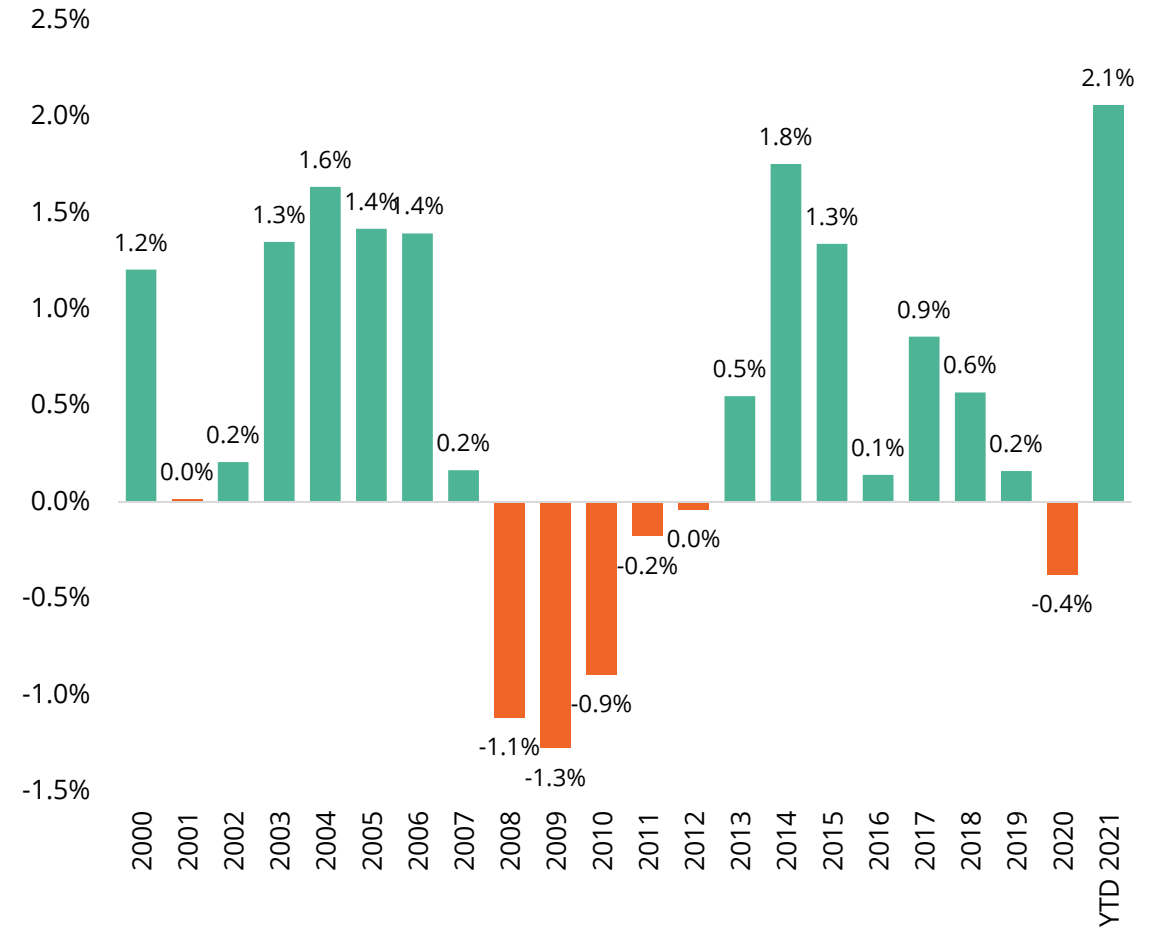
Source: CoStar

Industrial net absorption

1.7%

Net absorption as a percentage of inventory, 2020 through Q3 2021

Absorption year-to-date is 10.2 million sf. Aggregate 2021 net absorption is already greater than any other year in the past two decades.



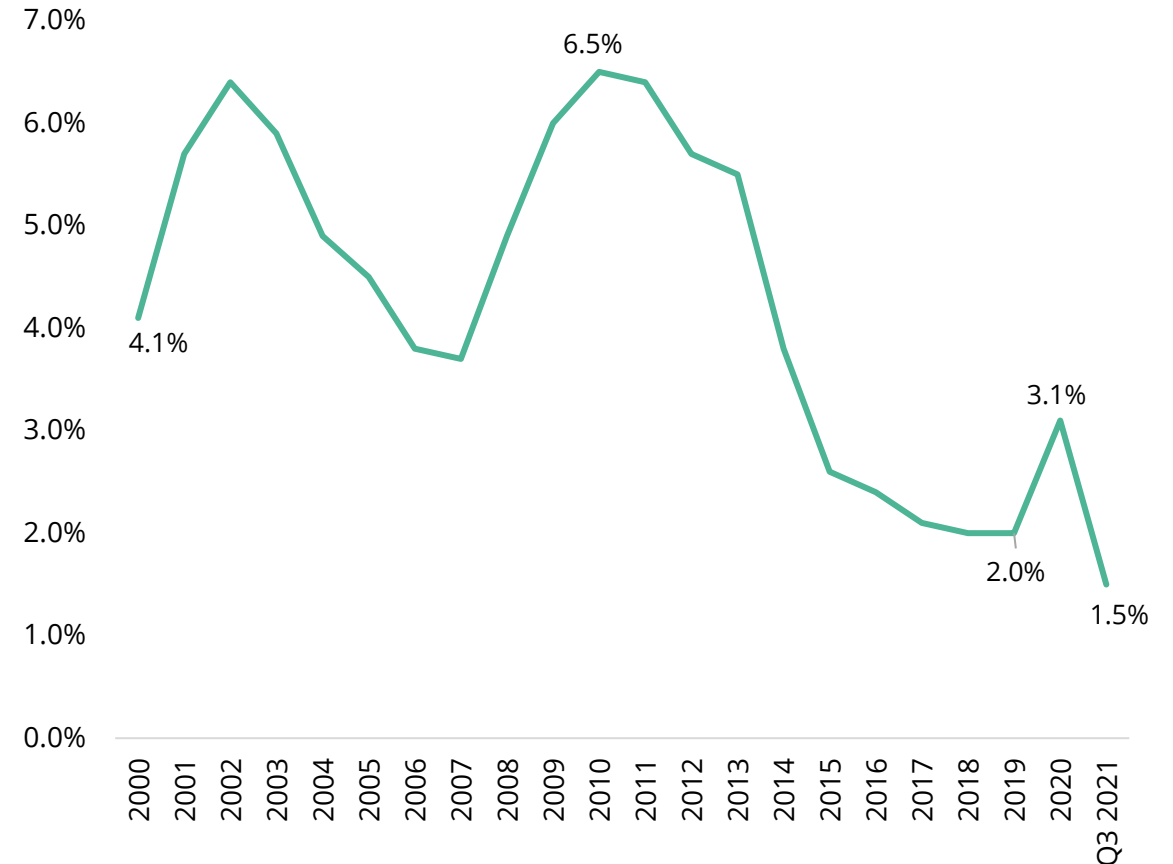
Note: Absorption is measured as the year-over-year change in occupied square feet.
Source: CoStar

Industrial vacancy rate

1.5%

20-year record low
vacancy as of Q3 2021

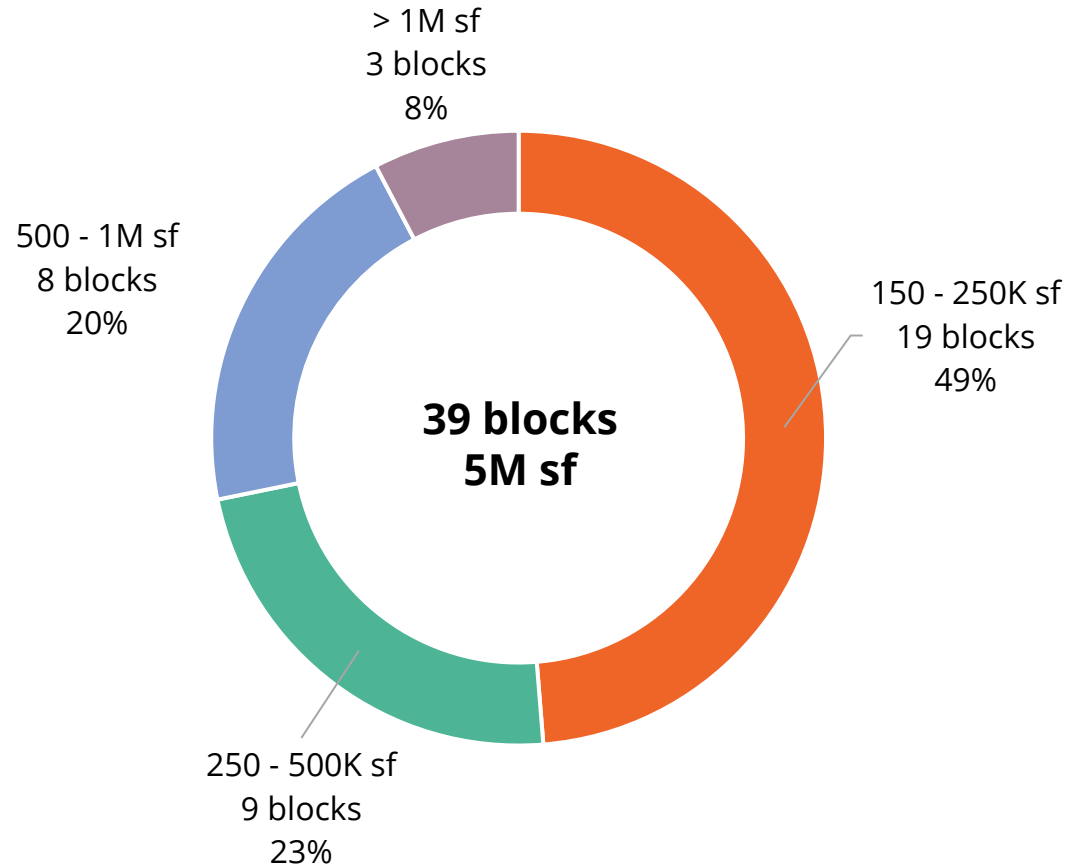
Q3 2021 vacancy is under two percent as demand is outpacing inventory.



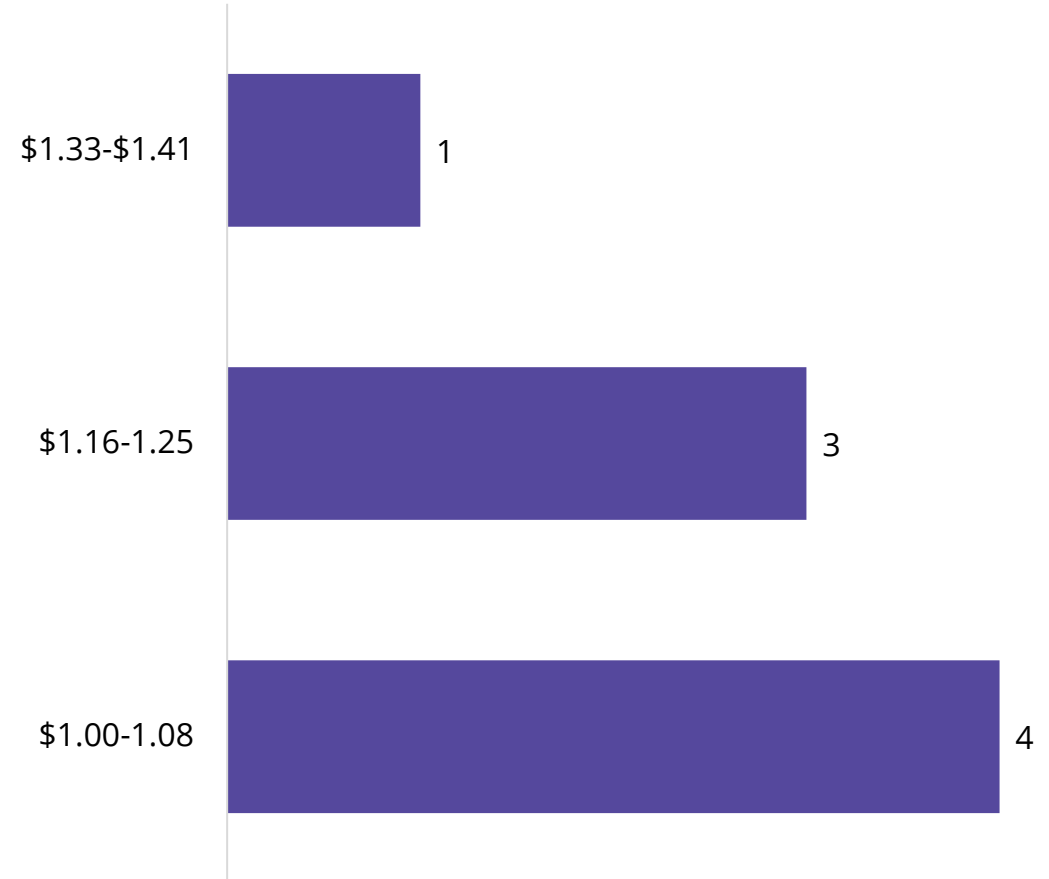
Source: CoStar

Industrial large-block availabilities

Space size ranges



Asking rent per square foot



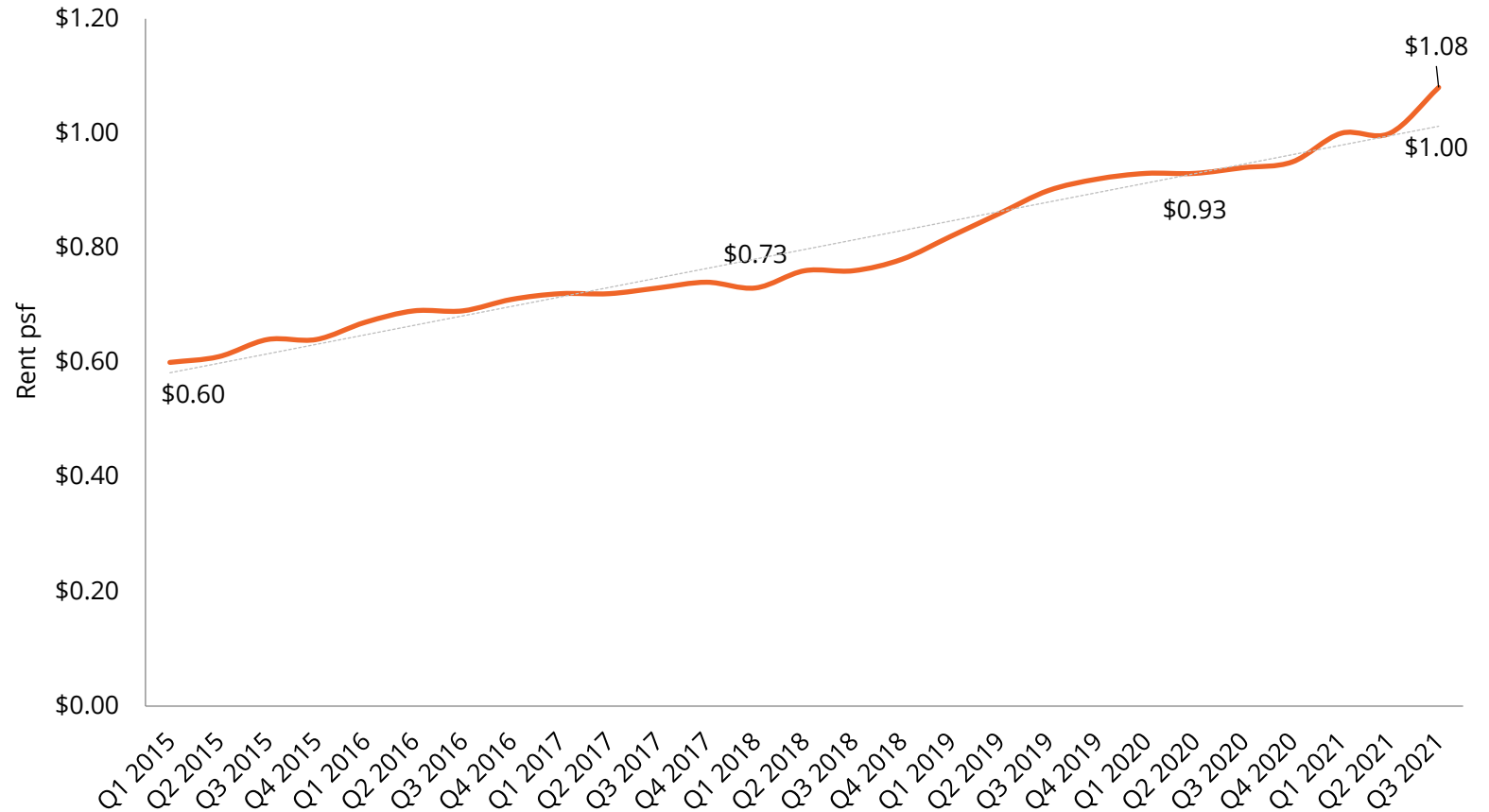
Source: AVANT by Avison Young, Costar

Asking rents

+13.9%

Asking rents since the
onset of the pandemic

Asking rents have trended upward
since 2018, increasing 7.4% year-to-
date.



Source: AVANT by Avison Young, Costar

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Big-box demand drives construction

71 properties

Proposed, under construction
or under renovation

14.6 msf

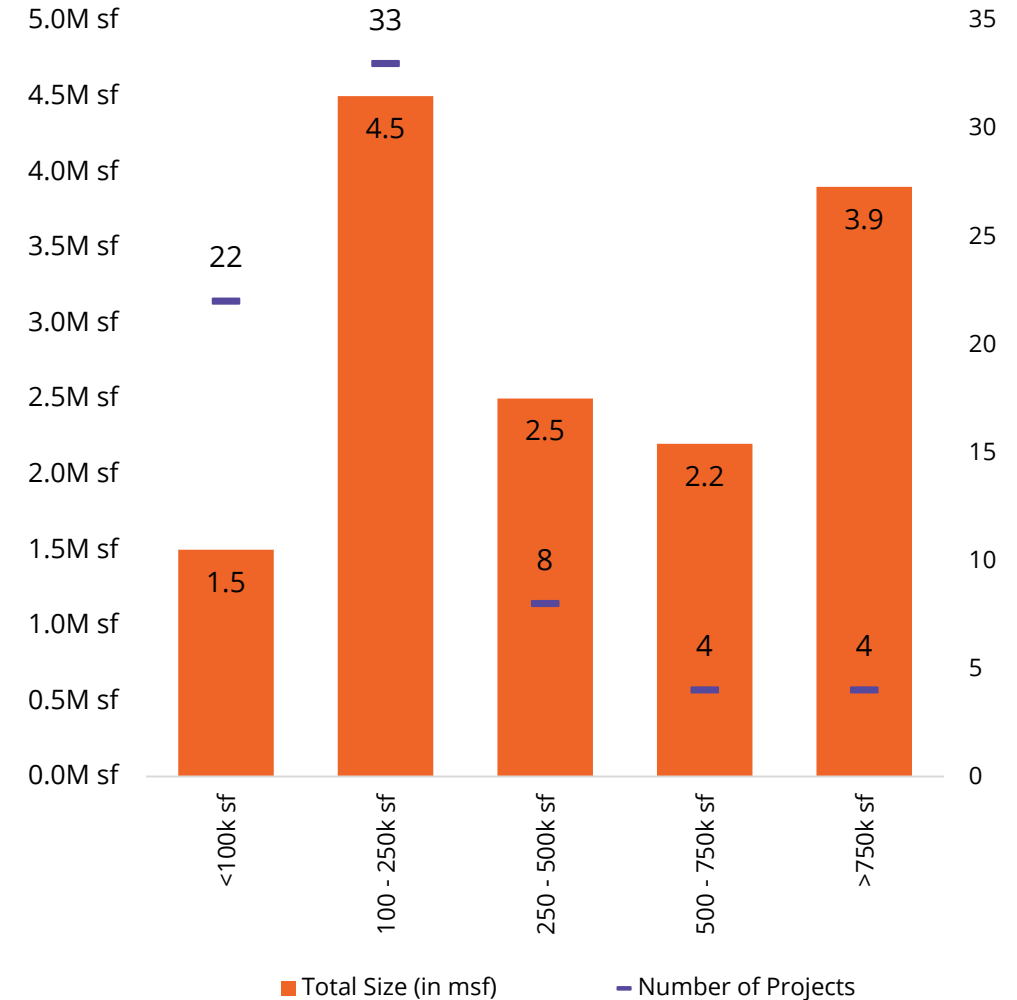
proposed or under
construction

2.8%

share of industrial
inventory

East Ventura County

Submarket with most
ground-broken projects at 5



Source: AVANT by Avison Young, Costar

03.

Capital market conditions

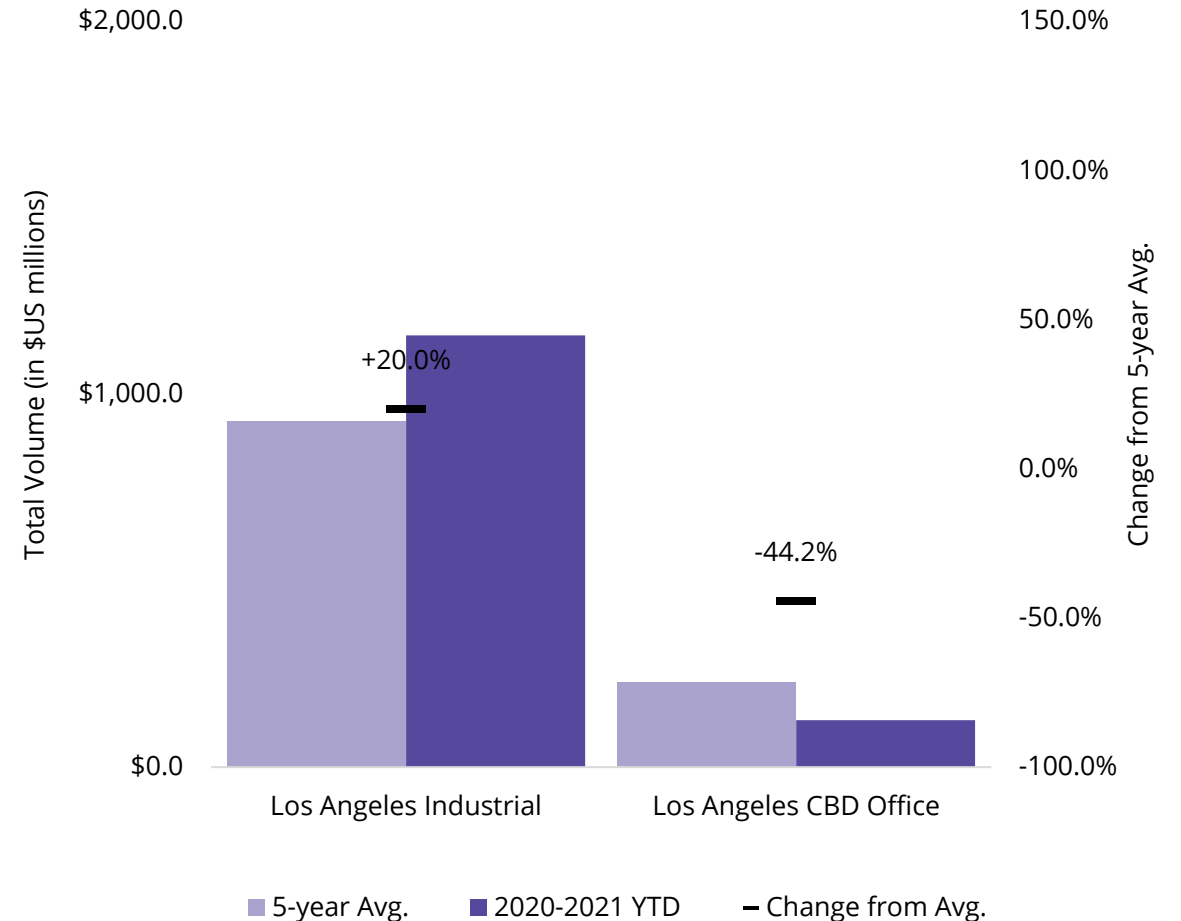
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Investment dollar volume

\$7.3B

**Industrial dollar volume,
2020 to Q3 2021**

Office sales activity has temporarily paused during the risk-pricing crisis, decreasing by an annualized rate of 44.2% in CBD, compared with the prior five-year average dollar volume. Industrial volumes surged +20% against the prior five-year average due to stronger fundamentals.



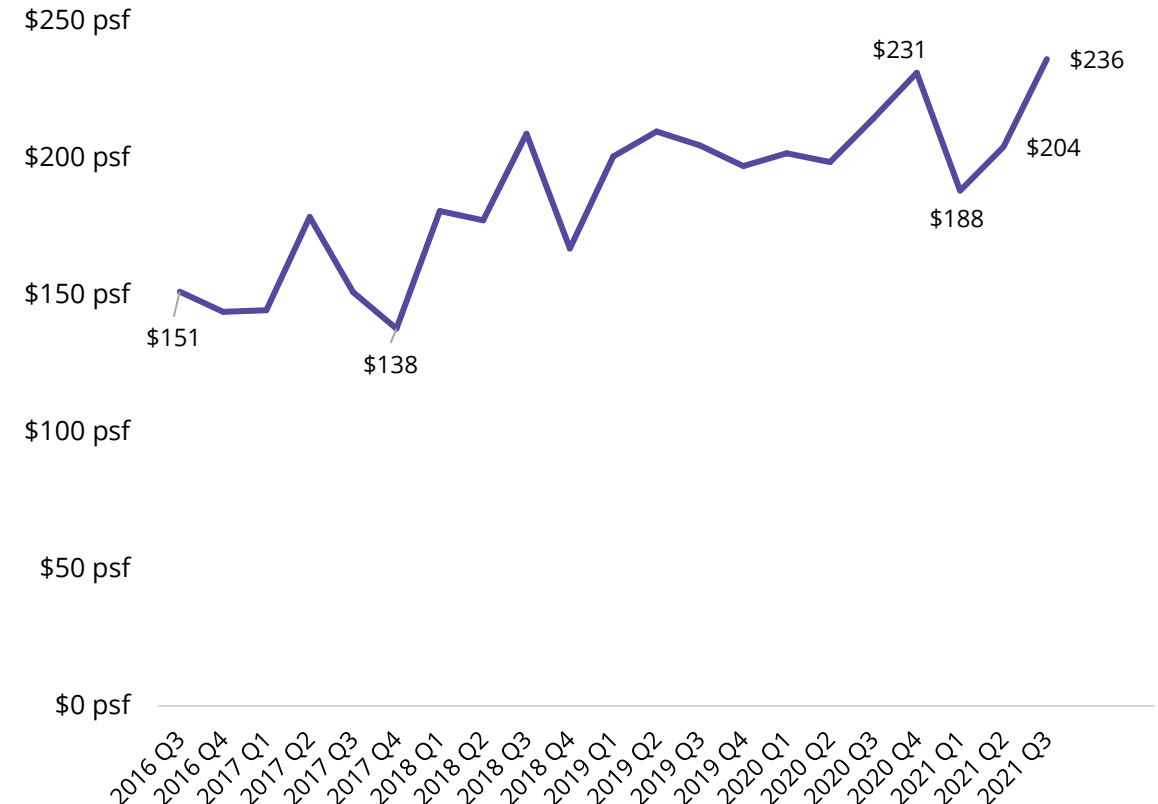
Source: AVANT by Avison Young, Costar
RCA

Industrial asset pricing

+18.9%

Los Angeles industrial pricing,
April 2020 to September 2021

Pricing for Los Angeles industrial assets has continued to elevate since 2016, particularly since the pandemic, as an influx of investors seek exposure to properties that can accommodate the rise of e-commerce distribution.



Source: AVANT by Avison Young, Costar
RCA

Looking forward



Here's what we can expect

- Industrial land is limited in Los Angeles, and cities are not modifying their general plans for more industrial development. Demand for industrial is so great investors in some instances are **buying office buildings for underlying industrial zoning**.
- A **lack of availability** is also of concern near and long term as most industrial submarkets in Los Angeles are under 1 percent vacancy. Building costs and challenges for building materials, city's being understaffed or not fully opened are all causing delays in the development and permitting process.
- A lack of supply has slowed deal activity. Reports are there are **10-20 proposals per property**.
- Solid leasing fundamentals have driven investment interest to industrial. Ecommerce penetration has only reinforced the need for new last-mile facilities near Los Angeles and Southern California consumers. **Development is constrained by a lack of developable land, and warehouse space is highly coveted due to an increase and backlog of cargo at the ports.** Local ports service 78% of the West Coast container volume and nearly a third of all imports to the United States.



Orange County market fundamentals

ORANGE COUNTY INDUSTRIAL INSIGHT REPORT
Q3 2021

Key industrial takeaways



Economic conditions

- Orange County unemployment is **6.0 percent** as of August 2021 compared to 7.3 percent at the beginning of the year.
- The economy has added back over **194,000 jobs** since last year.
- Orange County has experienced job gains in the transportation, warehousing & utilities sector up **10.6 percent** over the last twelve months.



Recovery rate

- A record **73 cargo ships** were waiting to enter the ports in September.
- Over the past 12 months, the ports had its **two highest-performing quarters** and top four individual months in the Port's 110-year history.



Industrial demand

- Port volume traffic is on pace to increase **15.2 percent** compared to last year.
- With a **2.8 percent** vacancy in Orange County, tenants in the market are unable to find space.
- Net absorption through third quarter remains healthy. At **1 million sf** through the third quarter of the year, aggregate 2021 net absorption is on a good pace to be equal to its annual historical average (1.5msf).

Key industrial takeaways



Industrial supply

- During the third quarter, there were **14 properties** 100,000 to 250,000 sf totaling **2.3 msf** under construction and proposed, the most active size range by number of projects.
- **53 percent** of all available large blocks of space are in the 150,000 – 250,000 sf size range.



Pricing trends

- Industrial sales volume surged **42.0 percent** compared to the prior five-year average due to stronger fundamentals.
- The average rental rate for Orange County has increased by **15.9 percent** since the start of the pandemic.



Capital markets

- Orange County industrial investment activity surged to **\$2.3B since 2020** as investors are attracted to local fundamentals largely benefitting from historic logistics demand.
- Industrial pricing is translating to higher evaluations by investors as fundamentals remain strong. Orange County industrial assets, witnessed a **8.9 percent** higher per-square-foot rate from April 2020 to September 2021.

Ocean Ave

01.

Economic and demographic trends

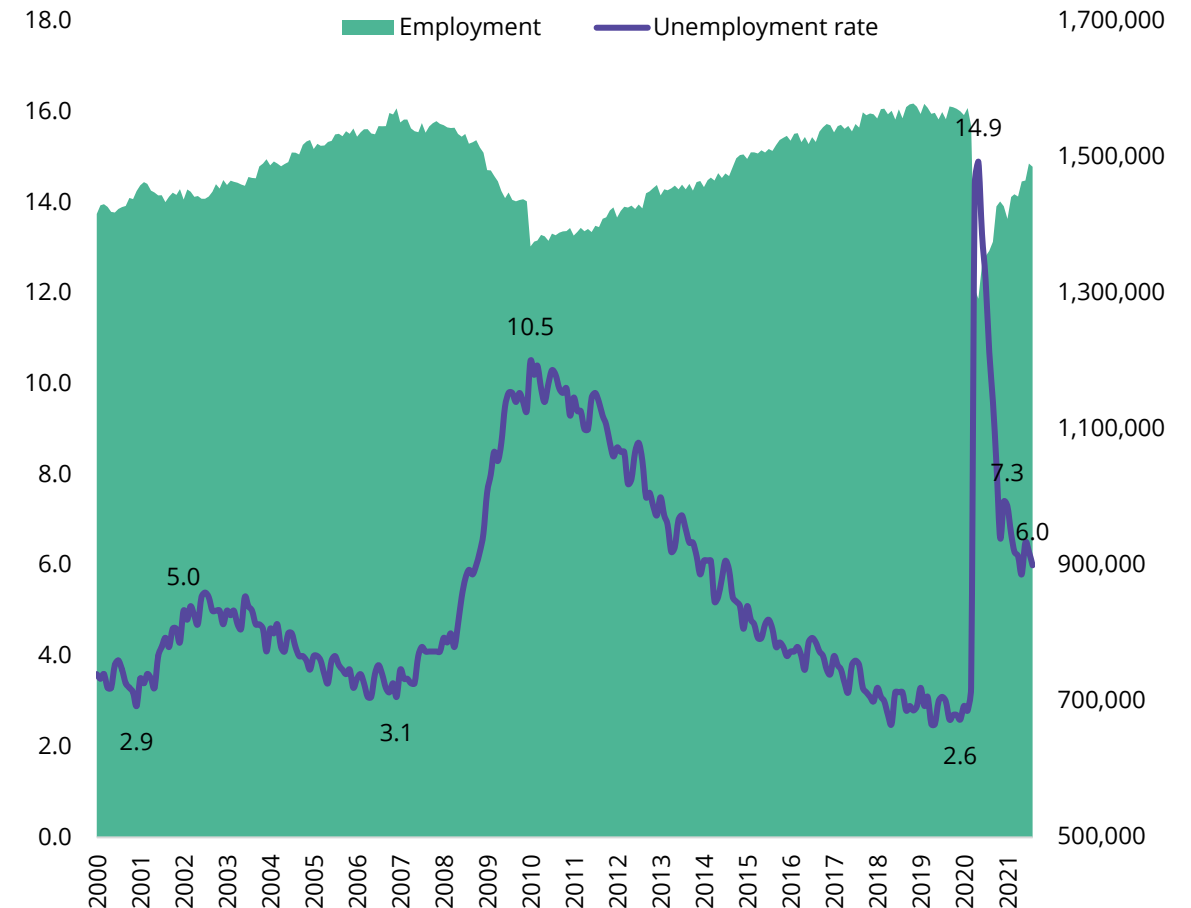
ORANGE COUNTY INDUSTRIAL INSIGHT REPORT
Q3 2021

Employment and unemployment rate

6.0%

Orange County unemployment rate as of August 2021

Before the pandemic, unemployment was at historical lows. The economy has added back over 194,000 jobs since last year, up 13.1%, driving unemployment to levels last experienced in 2015.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Industrial job gains and losses

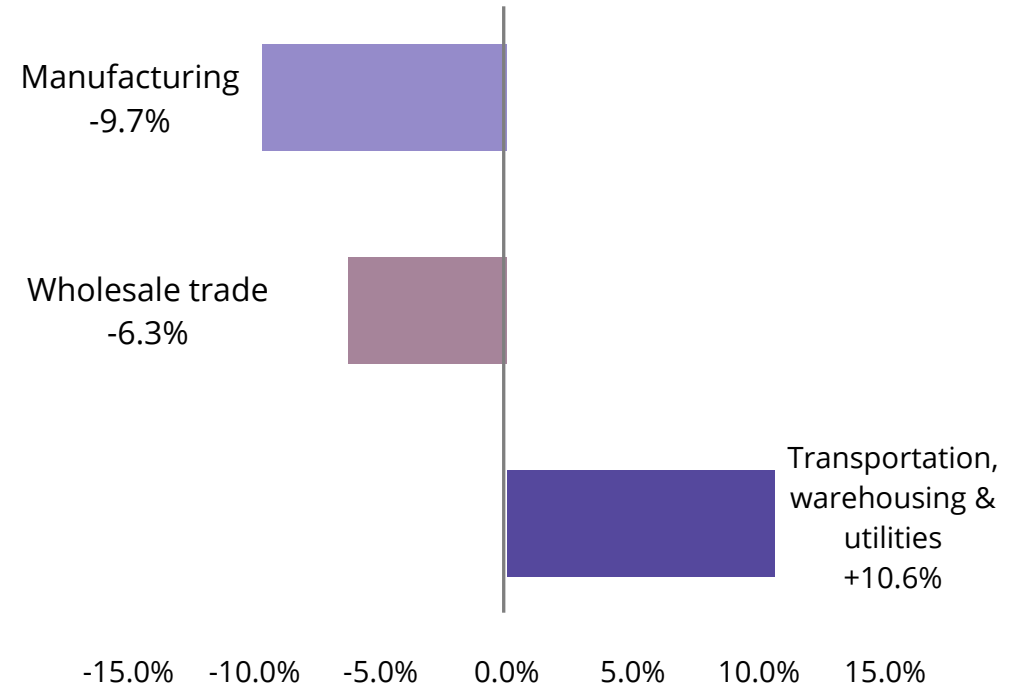
-5.4%

Change in industrial employment from July 2020 to July 2021

Orange County has experienced job gains in the transportation, warehousing & utilities sector up 10.6% over the last twelve months.

Total change in Orange County MSA* job gains/(losses)

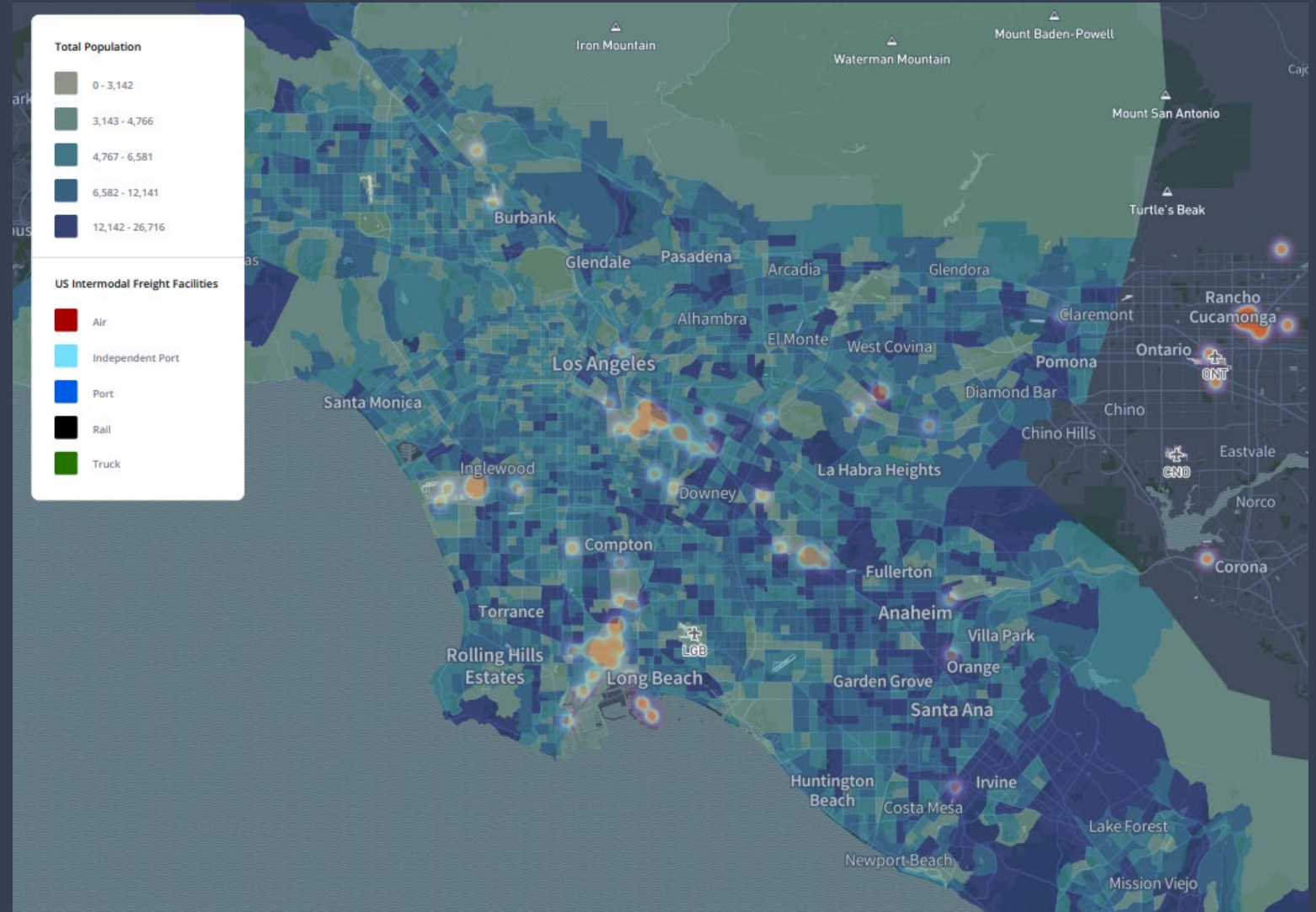
July 2020 to July 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Freight rail & intermodal facilities

Source: AVANT by Avison Young, ESRI
Large pockets of blue-collar workforce are found throughout Inland Empire largest Industrial submarkets

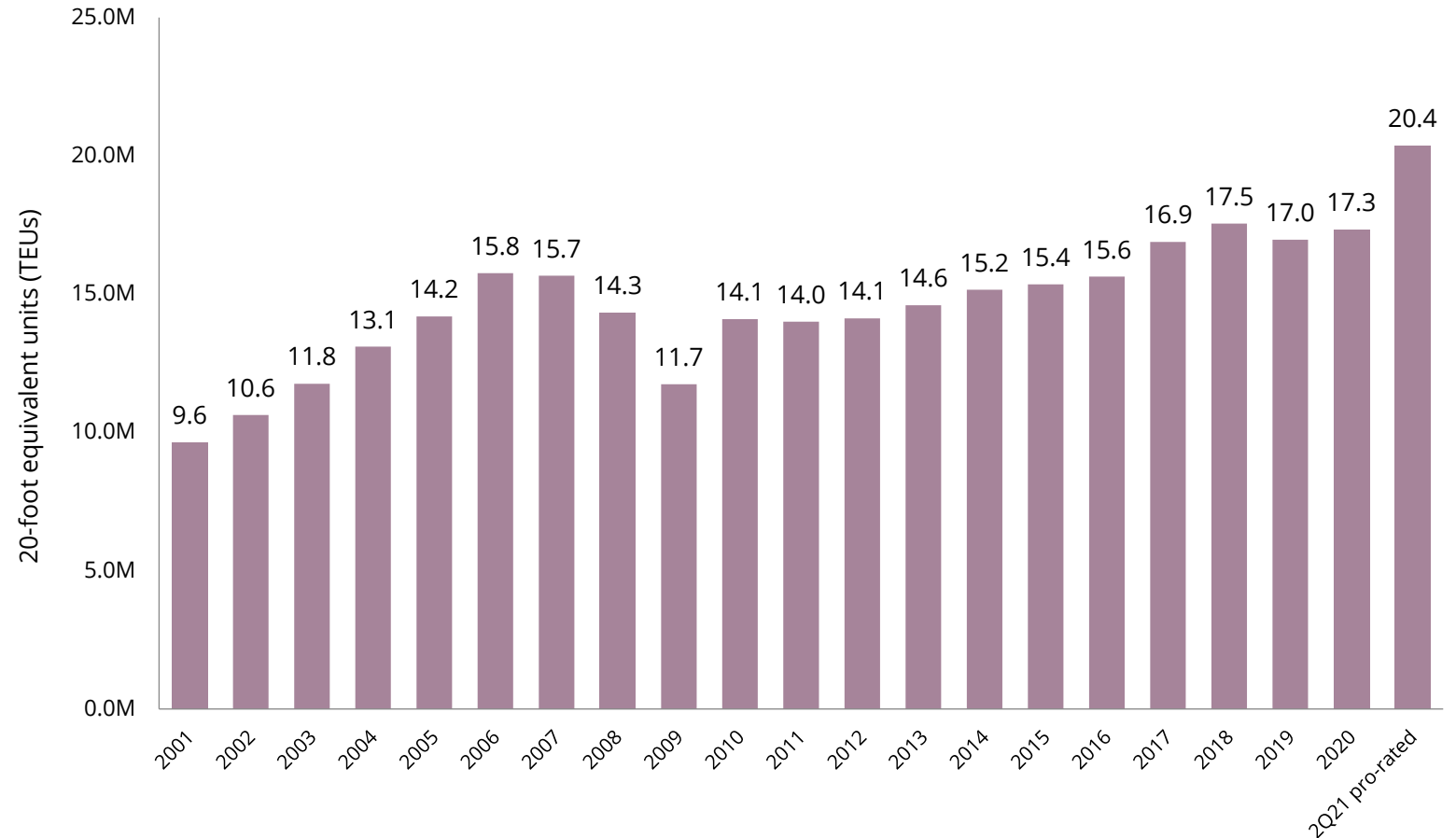


Ports of Los Angeles & Long Beach cargo volume

15.2%

Increase in cargo container traffic for 2021 prorated compared to 2020

Over the past 12 months, the ports had its two highest-performing quarters and top four individual months in the Port's 110-year history.



Source: Port of LA and Port of Long Beach



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Industrial occupier conditions

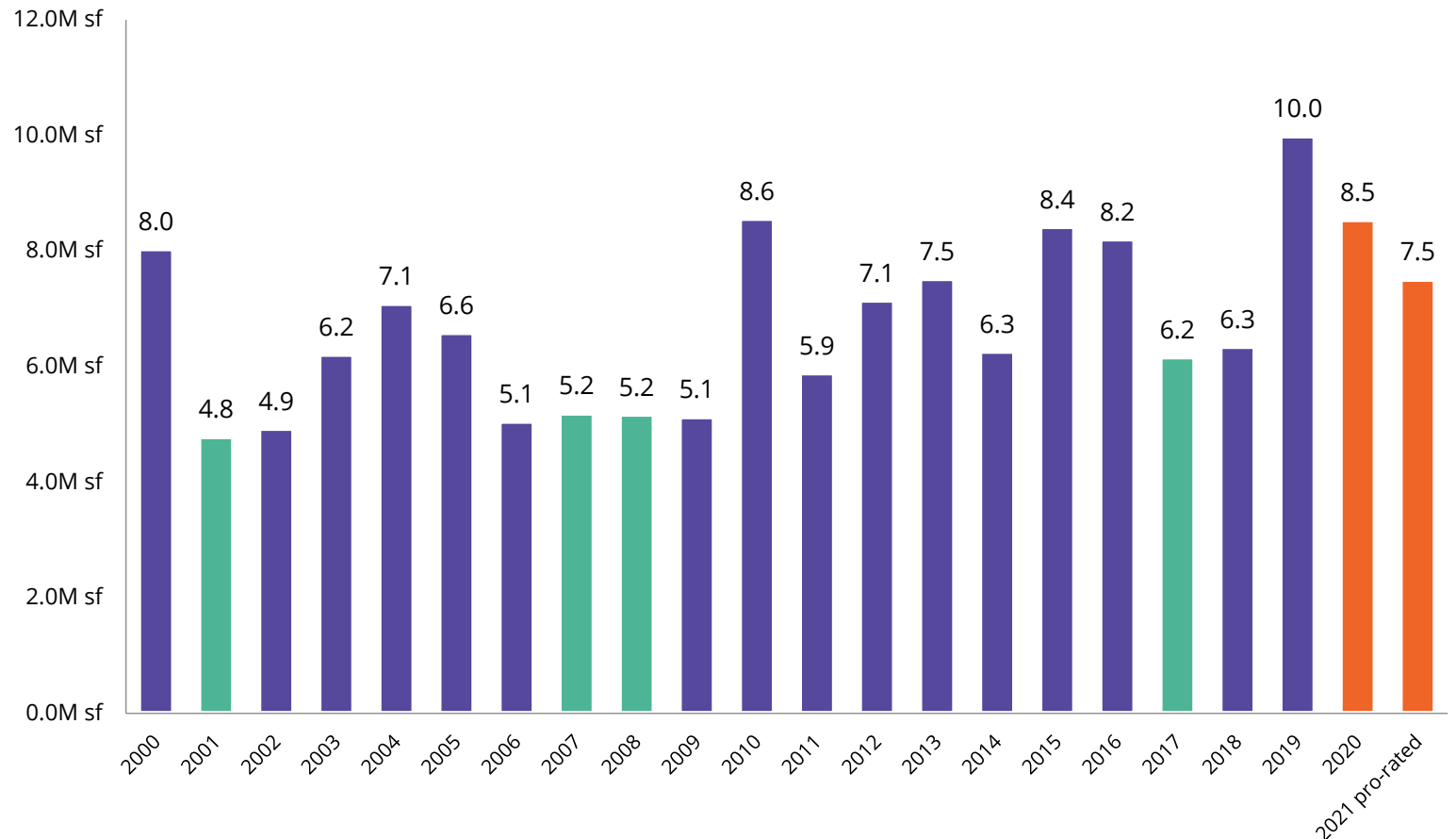
ORANGE COUNTY INDUSTRIAL INSIGHT REPORT
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Industrial leasing activity

+21.0%

2020-pro-rated 2021 vs. prior
20-year annual average
leasing activity

Prorated 2021 leasing is down compared to previous years not because of a lack of demand, but a lack of inventory. With 2.8% vacancy in Orange County, tenants in the market are unable to find space.



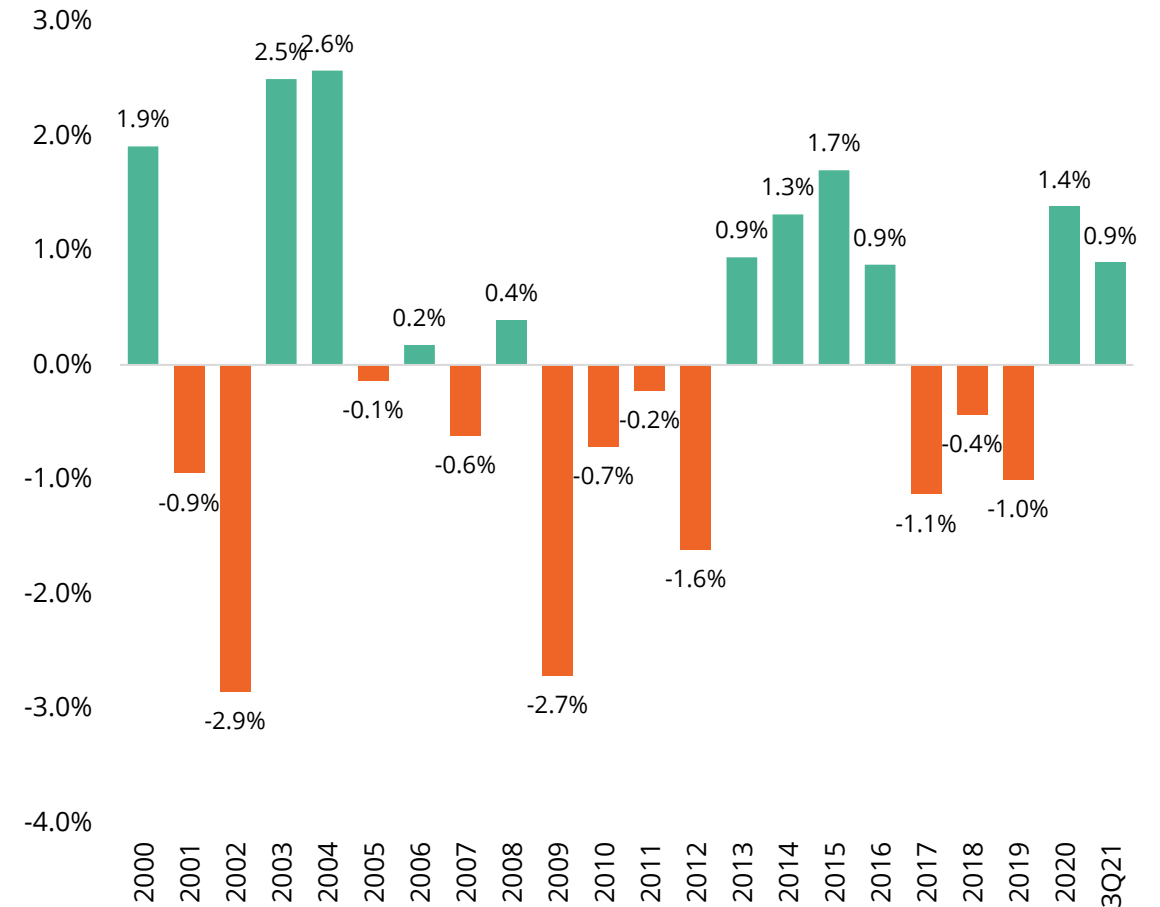
Source: CoStar

Industrial net absorption

2.3%

Net absorption as a percentage of inventory, 2020 through Q3 2021

Absorption through third quarter remains healthy and on pace to be a historic high. At 1 million sf through the third quarter of the year, aggregate 2021 net absorption is on a good pace to be equal to its annual historical average (1.5msf).



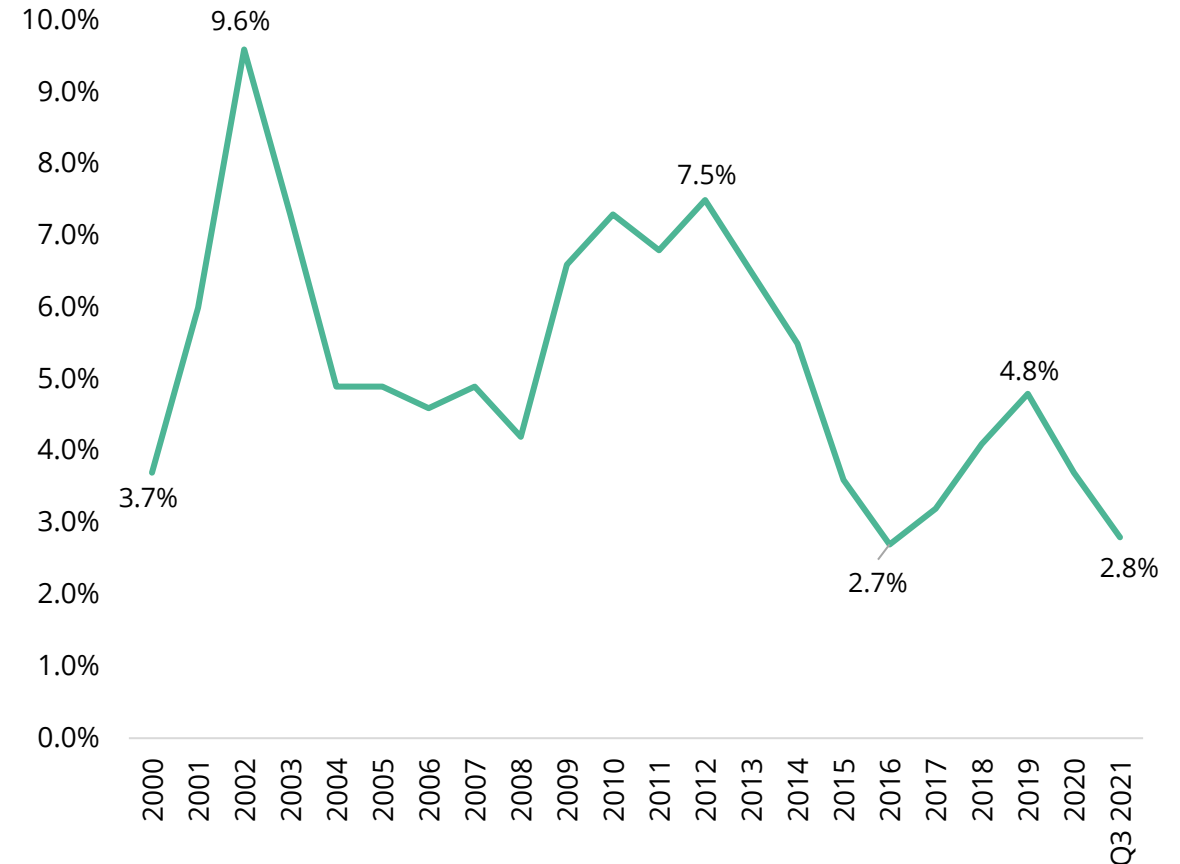
Note: Absorption is measured as the year-over-year change in occupied square feet.
Source: CoStar

Industrial vacancy rate

2.8%

**20-year record low
vacancy as of Q3 2021**

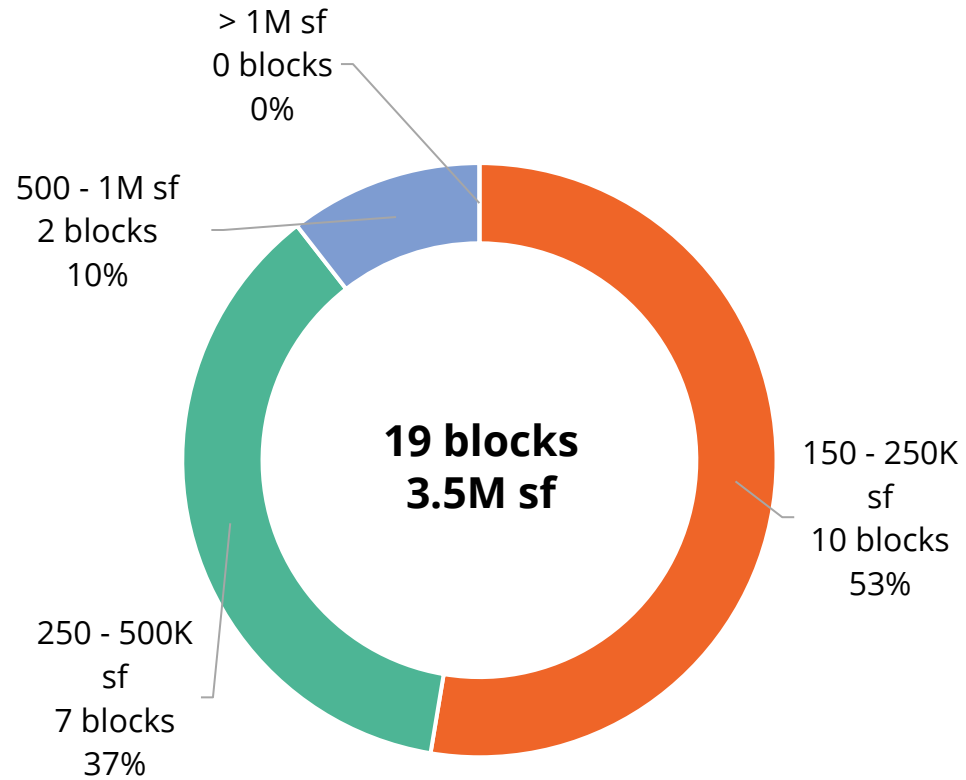
The Q3 2021 total vacancy rate reached a five-year low. Asking rents have increased 23% over that same time period, underscoring how industrial demand has outstripped supply in Orange County. Q3 2021 vacancy is under two percent as demand is out pacing inventory.



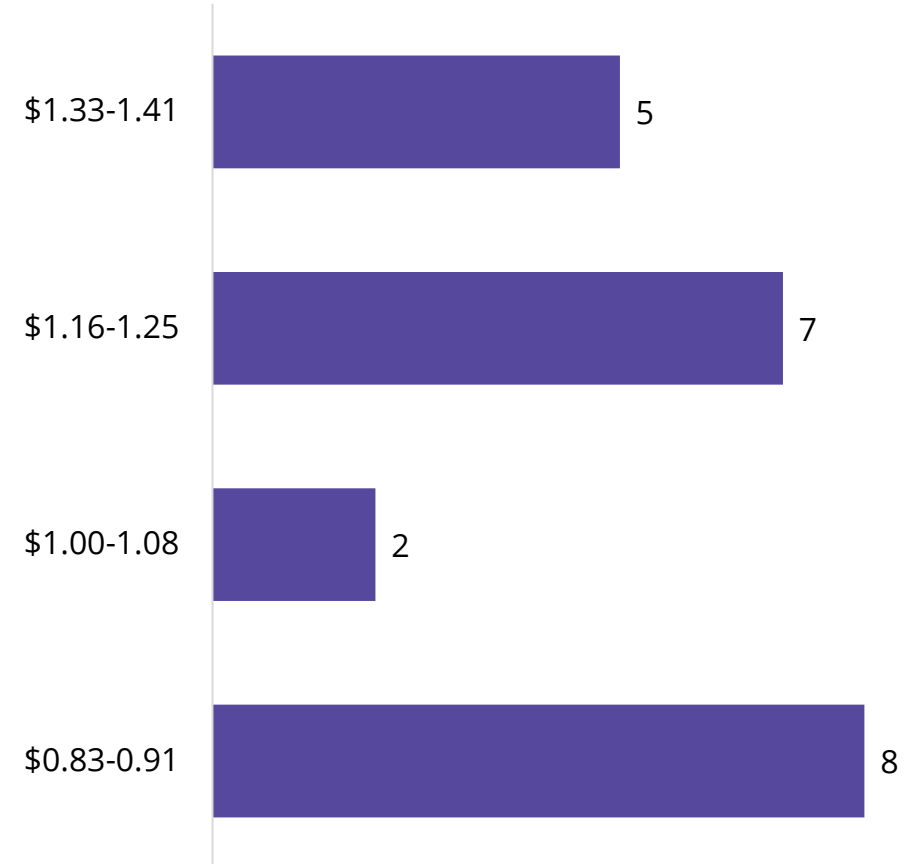
Source: CoStar

Industrial large-block availabilities

Space size ranges



Asking rent per square foot



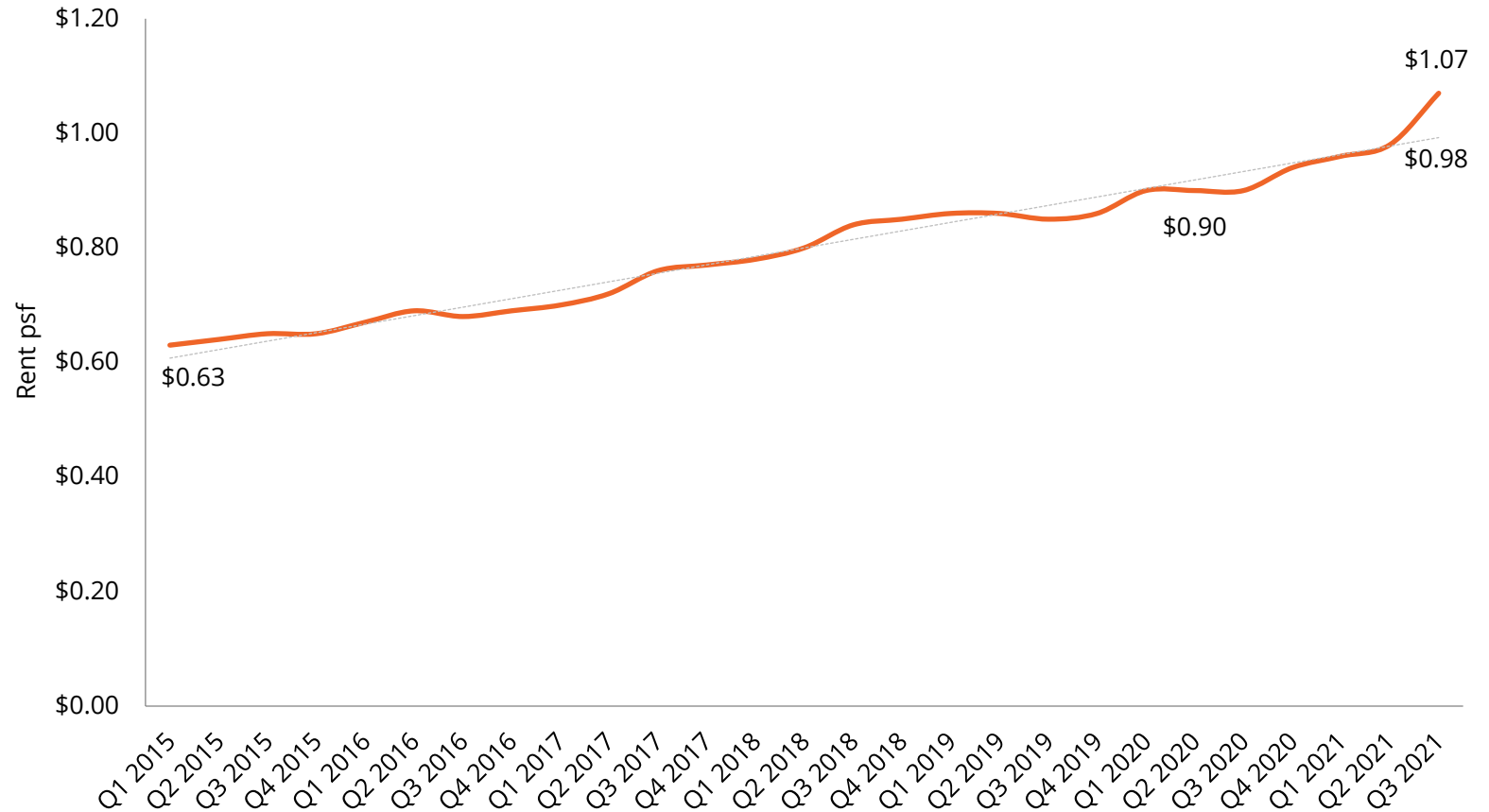
Source: AVANT by Avison Young, Costar

Asking rents

+15.9%

Asking rents since the onset of the pandemic

Asking rents have trended upward since 2019, increasing 21% year-to-date.



Source: AVANT by Avison Young

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Big-box demand drives construction

30 properties

Proposed, under construction
or under renovation

4.7 msf

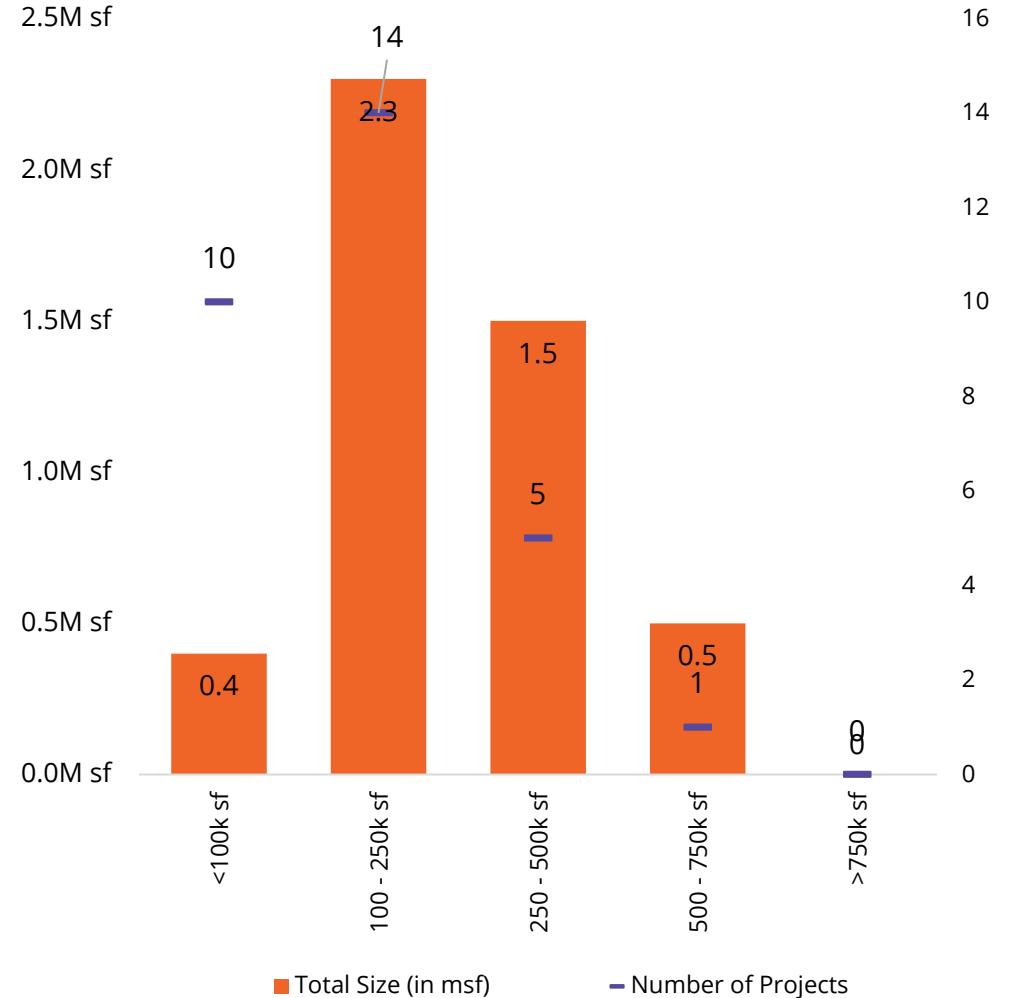
proposed or under
construction

2.8%

share of industrial
inventory

Fullerton

Submarket with most
ground-broken projects at 4



Source: AVANT by Avison Young, Costar

03.

Capital market conditions

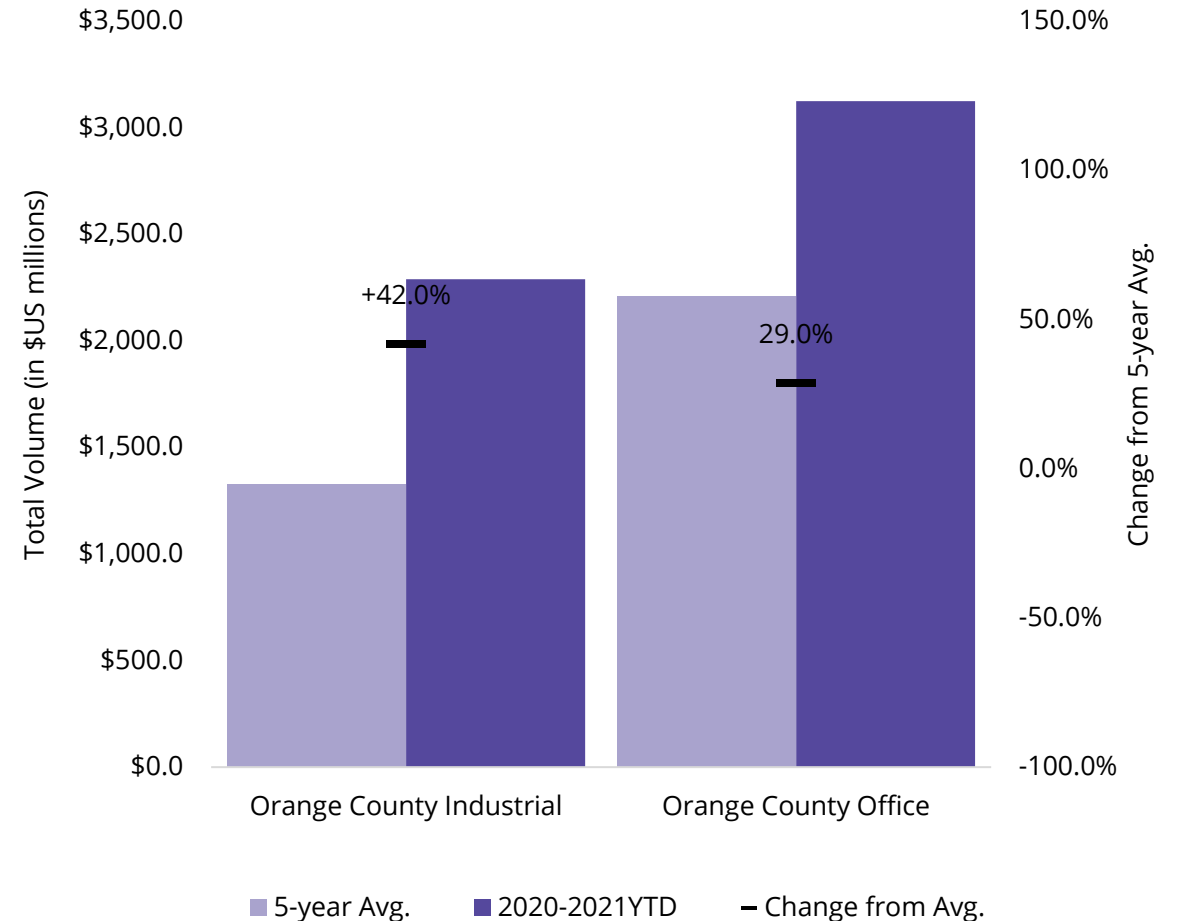
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Investment dollar volume

\$2.3B

Industrial dollar volume,
2020 to Q3 2021

Industrial volumes surged +42% against the prior five-year average and more than office sales during the same time period due to stronger fundamentals



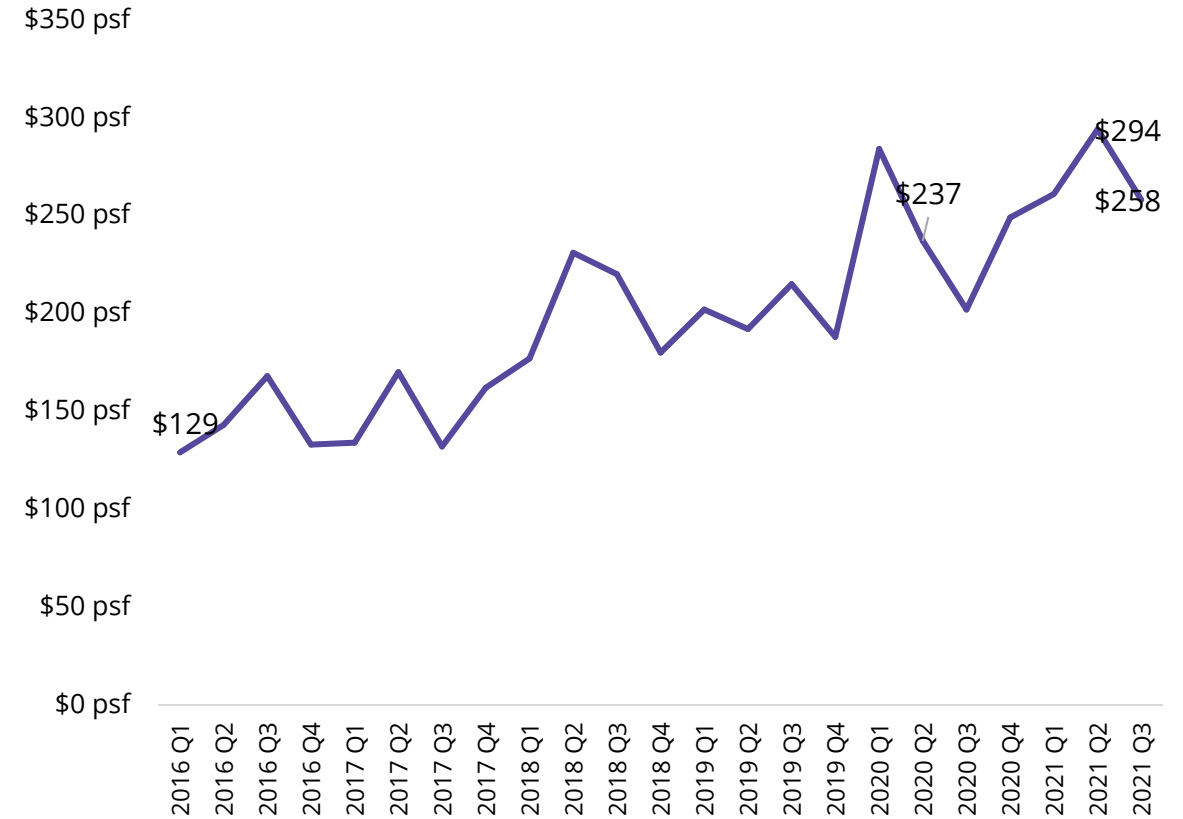
Source: AVANT by Avison Young
RCA, Costar

Industrial asset pricing

+8.9%

**Orange County industrial pricing,
April 2020 to September 2021**

Institutional investors continue to buy industrial assets in Orange County. Pricing is on an upward trend in 2021 thanks to institutional deals. The average market price per SF is \$258, compared to the three-year average of \$215.



Source: AVANT by Avison Young, Costar
RCA

Looking forward



Here's what we can expect

- **Speculative projects make up most of the new development.** One property making up most of the available space on the market is Goodman's 1.5 million-SF Goodman Logistics Center in Fullerton which broke ground at the former Kimberly Clark facility third quarter and is fully available for lease with a fall 2022 move-in. The property features clear heights ranging from 36 to 40 feet and over 1,000 parking spaces.
- **Industrial rents in Orange County are among the highest of all major markets in the country** well above neighboring Los Angeles and Inland Empire. Rent growth for logistics assets is the most robust and will continue, as ecommerce and third-party logistics firms seek space in this tight market.
- **Due to land being hard to come by, developers have resorted to buying old assets,** a trend we expect to see continue. Goodman paid \$128 million for Cypress Technology Center in September. The complex contains an office and industrial building and could be repositioned for an industrial park, as Goodman traditionally builds large last-mile centers. Seller DRA Advisors bought the pair of assets for \$73 million in 2016.



Get in touch



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A woman with dark curly hair, wearing a blue polo shirt and an orange safety vest, is smiling and looking towards the camera while holding a black smartphone. The background is a blurred industrial setting.

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SOUTHERN CALIFORNIA INDUSTRIAL
INSIGHT REPORT

Q3 2021