



## » Vacancy Falls Due to Rising Leasing Activity

### Key Takeaways

- › Vacancy decreased 20 basis points to 1.2% as several larger leases occurred this quarter.
- › New space totaling 147,100 square feet was brought to market this quarter, and 193,400 square feet is currently under construction and expected to be delivered in the next 12 months.
- › Net absorption recorded positive 473,700 square feet this quarter.
- › Industrial rents increased \$0.01 over the quarter to \$0.83 per square foot (PSF) triple net (NNN). Rents increased 5.1% over the last 12 months and are at their highest recorded point.
- › Sales and leasing activity totaled 2,197,800 square feet, which breaks down into five sales (123,000 square feet) and 38 leases (2,074,800 square feet).

### South Bay Industrial Market

The South Bay remains the premier market for distribution companies and cargo-centered sea-and-air industrial users. It is nearly fully developed, making land incredibly scarce. Tight market conditions and a lack of larger modern space continue to be deterrents that drive tenants to neighboring markets, primarily to the east.

#### Market Indicators | Relative to prior period

	Q2 2018	Forecast
Vacancy	↓	↓
Net Absorption	↑	↑
Construction	↓	↓
Rental Rate	↑	→

#### Summary Statistics | South Bay, Q2 2018

Vacancy Rate	1.2%
Change from Q1 '18 (Basis Points)	-20 BPS
Net Absorption	473,700 SF
Construction Completions	147,100 SF

#### Asking Rents | South Bay, Q2 2018

	South Bay Industrial Market
Average Asking Rent	\$0.83 PSF NNN
Change from Q2 '17	+\$0.04 PSF NNN

#### Labor Force | South Bay, Q2 2018

	Construction	Manufacturing	Transportation, Trade & Utilities
12-mo Employment Growth (%)	3.0%	0.6%	-0.6%
12-mo Actual Employment Change	+4,100	2,200	-5,400

## Vacancy

- > The vacancy rate fell 20 basis points to 1.2% and remains near historic lows.
- > Vacancy was tightest in the LAX/El Segundo/Hawthorne submarket at 0.7% and highest in the Torrance market at 2.5%.
- > **FORECAST:** Future quarters are likely to see flat vacancy rates as tight market conditions limit future declines.

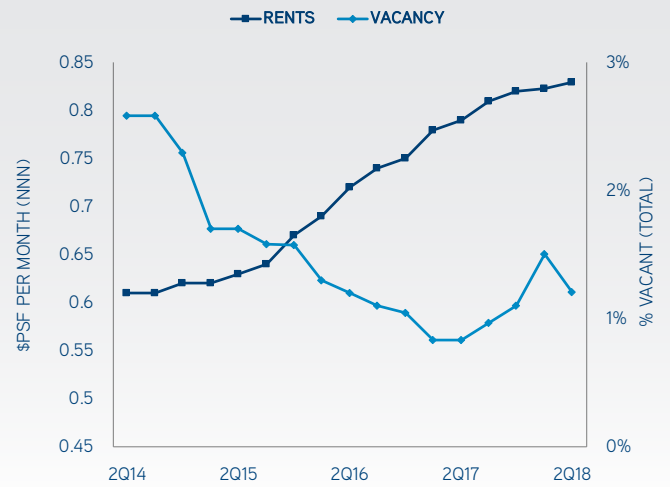
## Absorption and Leasing Activity

- > Industrial demand reported positive 473,700 square feet of net absorption this quarter due to several large leases.
- > Sales and leasing activity totaled 2,197,800 square feet this quarter. This was broken down into five sales (123,000 square feet) and 38 leases (2,074,800 square feet).
- > **FORECAST:** Absorption is likely to be positive in future quarters when newly constructed buildings are leased.

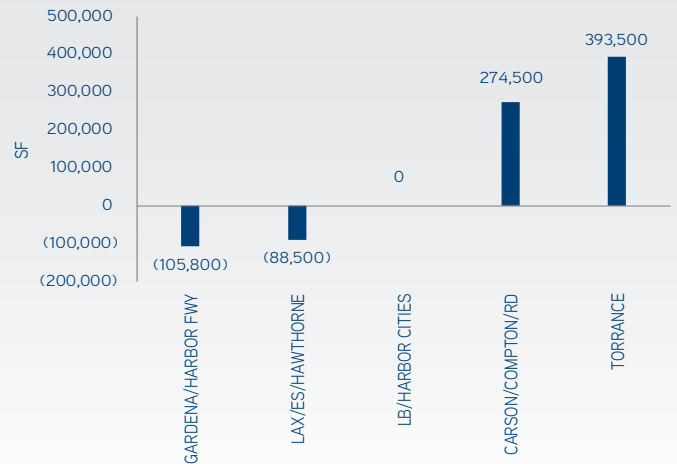
## Rental Rates

- > Average asking rents increased \$0.01 to \$0.83 PSF NNN. Asking rents reached their highest levels ever and are expected to rise in future quarters.
- > Even marginal space in the South Bay is getting multiple offers and tenants are having to expand their search criteria in order to find suitable space.
- > **FORECAST:** Rents will continue to rise in future quarters and tenants can expect to pay a premium for all types of industrial space. Tenants who signed leases five years ago can expect their rents to increase roughly 45% upon renewal.

Historical Vacancy v. Rents | South Bay | Q2 '14-'18



Net Absorption by Submarket | South Bay | Q2 '18



Historical Leasing Activity | South Bay | Q2 '14 - '18



## Construction

- > New supply this quarter totaled 147,100 square feet in a single new project.
- > Only 193,400 square feet of space remains under construction, an incredibly small amount for a 214.6 million-square-foot industrial market.
- > Development is exceedingly difficult in the South Bay, where raw land, if available, sells for a premium.
- > **FORECAST:** We are at the tail end of a construction boom, and only a single project remains under construction. Development will continue to be limited for build-to-suit projects or creative rehabilitation of underperforming space.

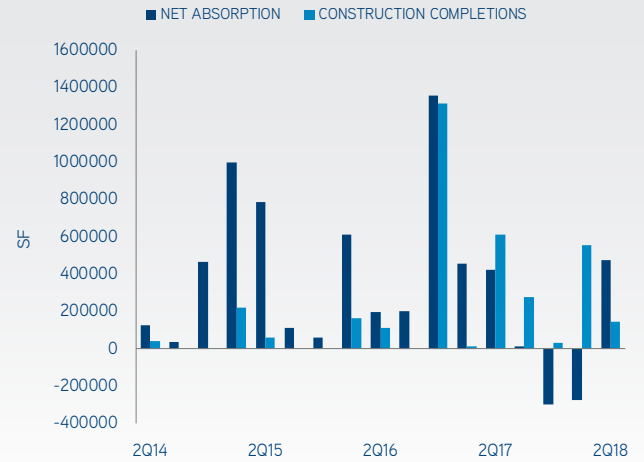
## Investment Trends

- > Capitalization rates increased 140 basis point this quarter, averaging 5.8% in the second quarter of 2018.
- > Average sale prices rose over the quarter to \$188 PSF.
- > **FORECAST:** Industrial real estate will remain in high demand, especially densely populated infill industrial sites.

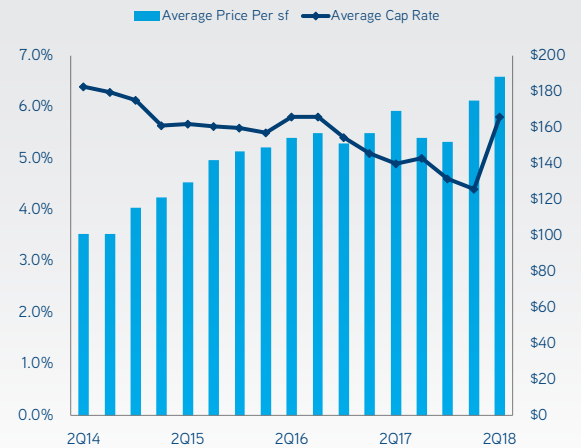
## Outlook

- > Tight market conditions are expected to persist in the South Bay industrial market for 2018. Rents are at their highest-ever levels, prompting many users to consider buying their properties. However, the available inventory is insufficient to meet demand.
- > Land is incredibly scarce and many industrial users are having to get creative or face paying a premium to secure land for truck, car or trailer storage.

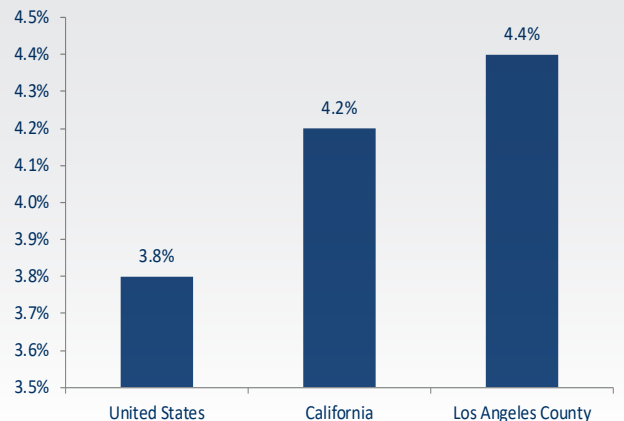
Historical Net Absorption & Construction Completions  
South Bay | Q2 '14-'18



Investment Trends Chart  
Los Angeles County | Q2 '14-'18



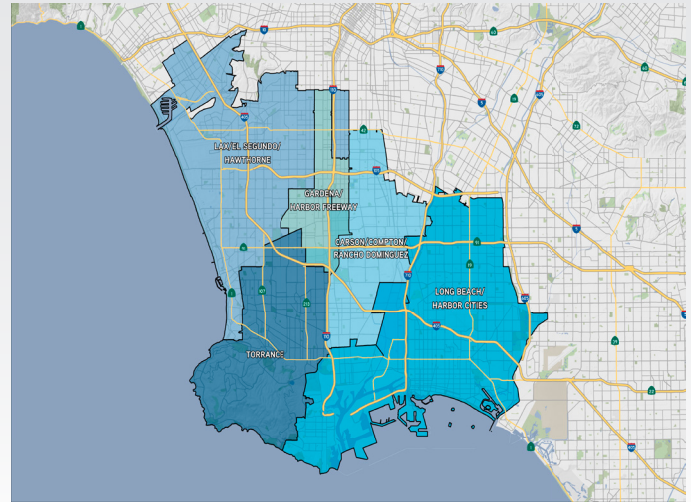
Unemployment Rate | Los Angeles County | May 2018



## Market Description

The South Bay industrial market includes 214.6 million square feet, representing 16 percent of the total space in the Los Angeles Basin for buildings 10,000 square feet and greater. The market has a high concentration of firms oriented toward international trade at the Ports of Los Angeles and Long Beach, as well as with LAX airport. The South Bay is a relatively mature market, with 63 percent of its space built prior to 1980. There is a good mix of product types, with nearly half of the space (45%) in big-box buildings (100,000 square feet) and the balance (55%) in small- and medium-sized buildings.

## Submarket Map



### RECENT TRANSACTIONS & MAJOR DEVELOPMENTS

South Bay Industrial Market  
Q2 2018

#### SALES ACTIVITY

PROPERTY ADDRESS	SIZE SF	SALE PRICE	PRICE PSF	BUYER	SELLER
20333 Normandie, Torrance	512,500 SF	\$103 Million	\$201 PSF	Morgan Stanley	Bridge Development
13217 Figueroa, Los Angeles	125,800 SF	\$21 Million	\$167 PSF	Centerpoint	Figueroa Industrial LLC
3100 Fujita, Torrance	91,500 SF	\$14 Million	\$153 PSF	Rexford Industrial	Calhoun Property Management
1650 El Segundo, Gardena	41,100 SF	\$9.6 Million	\$232 PSF	THML	Otlogi America, LLC

#### LEASING ACTIVITY

PROPERTY ADDRESS	LEASED SF	LEASE TYPE	BLDG TYPE	LESSEE	LESSOR
20333 Normandie, Torrance	512,500 SF	Direct - New	Distribution	Nordstrom E Commerce	Morgan Stanley
1540 Francisco, Torrance	206,100 SF	Direct - New	Distribution	Puma	Granite Francisco
19119 S Reyes, Rancho Dominguez	116,100 SF	Direct - New	Distribution	Maxim Tire	Crown Associates
19800 Van Ness, Torrance	101,200 SF	Renewal	Light	Conesys	TP RHE-ONE LLC

#### MAJOR DEVELOPMENTS

PROJECT	DEVELOPER	SIZE SF	SUBMARKET	STATUS	ESTIMATED COMPLETION
20333 Normandie, Torrance	Bridge Development	512,500 SF	Torrance	Completed	Q1 2018
200 Alondra, Gardena	Alere	147,100 SF	Carson / Compton / RD	Under Construction	Q2 2018

**INDUSTRIAL OVERVIEW**

South Bay Industrial Market  
Q2 2018

EXISTING PROPERTIES			CONSTRUCTION		VACANCY		AVAILABILITY	ACTIVITY					ABSORPTION		RENDS	
Submarket/ Building Size	Bldgs	Total Inventory SF	Completions Current Qtr SF	Under Construction SF	Vacancy	Vacancy Prior Qtr	Availability	Sales Activity SF	Number of Sales	Lease Activity SF	Number of Leases	Total Gross Activity Current Qtr SF	Total Gross Activity YTD SF	Net Absorption Current Qtr SF	Net Absorption YTD SF	Weighted Avg Asking Lease Rates
<b>LAX/ES/HAWTHORNE</b>																
10,000 - 19,999	383	5,250,700	0	0	0.0%	0.4%	1.0%	0	0	27,900	2	27,900	39,900	21,200	10,000	\$1.20
20,000 - 39,999	283	7,812,700	0	0	1.5%	0.9%	5.0%	0	0	0	0	-	99,800	(44,700)	(19,700)	\$1.11
40,000 - 69,999	92	4,764,300	0	0	2.6%	1.2%	6.0%	0	0	0	0	-	50,400	(65,000)	(71,800)	\$1.15
70,000 - 99,999	38	3,032,200	0	0	0.0%	0.0%	31%	0	0	0	0	-	-	-	-	\$1.10
100,000 - 249,999	35	5,431,600	0	0	0.0%	0.0%	0.0%	0	0	0	0	-	96,000	-	-	N/A
250,000 - 499,999	8	2,664,000	0	0	0.0%	0.0%	0.0%	0	0	0	0	-	-	-	-	N/A
500,000+	7	7,048,600	0	0	0.0%	0.0%	0.0%	0	0	0	0	-	-	-	-	N/A
<b>SUBTOTAL</b>	<b>846</b>	<b>36,004,100</b>	<b>0</b>	<b>0</b>	<b>0.7%</b>	<b>0.4%</b>	<b>2.3%</b>	<b>0</b>	<b>0</b>	<b>27,900</b>	<b>2</b>	<b>27,900</b>	<b>286,100</b>	<b>(88,500)</b>	<b>(81,500)</b>	<b>\$1.20</b>
<b>GARDENA/HARBOR FWY</b>																
10,000 - 19,999	511	7,115,900	0	0	0.6%	0.9%	1.5%	15,000	1	68,800	5	83,800	181,400	25,000	6,700	\$0.86
20,000 - 39,999	307	8,156,200	0	0	1.2%	0.9%	3.7%	21,500	1	86,100	4	107,600	147,900	(29,300)	(76,500)	\$0.84
40,000 - 69,999	155	7,708,500	0	0	0.8%	0.0%	2.4%	0	0	0	0	-	44,100	(63,500)	(19,400)	\$0.74
70,000 - 99,999	45	3,710,600	0	0	2.2%	3.3%	7.4%	41,100	1	0	0	41,100	41,100	-	(80,000)	\$0.89
100,000 - 249,999	37	5,068,000	147,100	0	3.6%	0.0%	6.3%	0	0	0	0	-	-	(38,000)	(38,000)	N/A
250,000 - 499,999	1	256,000	0	0	0.0%	0.0%	0.0%	0	0	0	0	-	-	-	-	N/A
500,000+	0	0	0	0	0.0%	0.0%	0.0%	0	0	0	0	-	-	-	-	N/A
<b>SUBTOTAL</b>	<b>1056</b>	<b>32,015,200</b>	<b>147,100</b>	<b>0</b>	<b>1.5%</b>	<b>0.8%</b>	<b>3.7%</b>	<b>77,600</b>	<b>3</b>	<b>154,900</b>	<b>9</b>	<b>232,500</b>	<b>414,500</b>	<b>(105,800)</b>	<b>(207,200)</b>	<b>\$0.85</b>
<b>TORRANCE</b>																
10,000 - 19,999	202	2,739,000	0	0	0.0%	0.0%	2.3%	0	0	10,800	1	10,800	26,800	-	-	\$0.89
20,000 - 39,999	173	4,854,800	0	0	2.3%	2.3%	2.9%	29,000	1	73,000	2	102,000	102,000	-	(28,400)	\$0.76
40,000 - 69,999	75	3,775,200	0	0	2.7%	1.3%	2.7%	0	0	0	0	-	-	(49,600)	(49,600)	\$0.84
70,000 - 99,999	35	2,860,500	0	0	2.4%	0.0%	2.4%	0	0	0	0	-	82,200	(69,400)	(69,400)	\$0.80
100,000 - 249,999	47	6,420,400	0	0	0.2%	0.2%	2.1%	0	0	229,600	2	229,600	229,600	-	-	\$0.86
250,000 - 499,999	14	4,883,300	0	0	8.0%	8.0%	8.0%	0	0	0	0	-	-	-	(130,800)	\$0.84
500,000+	4	2,426,700	0	0	0.0%	21.1%	0.0%	0	0	512,500	1	512,500	512,500	512,500	512,500	N/A
<b>SUBTOTAL</b>	<b>550</b>	<b>27,959,900</b>	<b>0</b>	<b>0</b>	<b>2.5%</b>	<b>3.9%</b>	<b>3.2%</b>	<b>29,000</b>	<b>1</b>	<b>825,900</b>	<b>6</b>	<b>854,900</b>	<b>953,100</b>	<b>393,500</b>	<b>234,300</b>	<b>\$0.86</b>
<b>CARSON/COMPTON/RD</b>																
10,000 - 19,999	256	3,585,200	0	0	0.0%	0.0%	2.4%	0	0	0	0	-	-	-	-	\$0.89
20,000 - 39,999	331	9,389,100	0	0	0.6%	0.6%	7.7%	0	0	51,000	2	51,000	126,200	-	(45,700)	\$0.78
40,000 - 69,999	249	13,131,400	0	0	0.9%	1.3%	3.5%	0	0	147,100	4	147,100	197,100	50,100	-	\$0.74
70,000 - 99,999	134	11,042,300	0	0	1.2%	1.2%	5.6%	0	0	0	0	-	87,300	-	(24,900)	\$0.73
100,000 - 249,999	231	35,033,400	0	0	1.0%	1.6%	2.9%	0	0	717,300	10	717,300	1,582,400	224,400	426,800	\$0.78
250,000 - 499,999	33	10,504,900	0	0	1.2%	1.2%	3.6%	0	0	0	0	-	-	-	(100,600)	\$0.72
500,000+	2	1,047,300	0	0	0.0%	0.0%	0.0%	0	0	0	0	-	-	-	-	N/A
<b>SUBTOTAL</b>	<b>1236</b>	<b>83,733,600</b>	<b>0</b>	<b>0</b>	<b>0.9%</b>	<b>1.3%</b>	<b>3.9%</b>	<b>0</b>	<b>0</b>	<b>915,400</b>	<b>16</b>	<b>915,400</b>	<b>1,993,000</b>	<b>274,500</b>	<b>255,600</b>	<b>\$0.76</b>
<b>LB/HARBOR CITIES</b>																
10,000 - 19,999	563	7,764,700	0	0	0.6%	0.6%	1.3%	16,400	1	36,800	2	53,200	53,200	-	-	\$0.85
20,000 - 39,999	315	8,294,600	0	0	0.5%	0.5%	2.8%	0	0	45,000	1	45,000	103,900	-	7,400	\$0.72
40,000 - 69,999	95	4,731,400	0	0	1.7%	1.7%	3.9%	0	0	23,900	1	23,900	67,700	-	(21,200)	\$0.74
70,000 - 99,999	28	2,287,300	0	0	2.0%	2.0%	3.9%	0	0	45,000	1	45,000	57,100	-	12,100	\$0.78
100,000 - 249,999	38	5,466,400	0	193,400	3.7%	3.7%	5.7%	0	0	0	0	-	-	-	-	N/A
250,000 - 499,999	8	2,460,400	0	0	0.0%	0.0%	0.0%	0	0	0	0	-	-	-	-	N/A
500,000+	5	3,905,800	0	0	0.0%	0.0%	0.0%	0	0	0	0	-	-	-	-	N/A
<b>SUBTOTAL</b>	<b>1052</b>	<b>34,910,600</b>	<b>0</b>	<b>193,400</b>	<b>1.2%</b>	<b>1.2%</b>	<b>2.6%</b>	<b>16,400</b>	<b>1</b>	<b>150,700</b>	<b>5</b>	<b>167,100</b>	<b>281,900</b>	<b>-</b>	<b>(1,700)</b>	<b>\$0.75</b>
<b>MARKET TOTAL</b>																
10,000 - 19,999	1915	26,455,500	0	0	0.3%	0.5%	1.5%	31,400	2	144,300	10	175,700	301,300	46,200	16,700	\$0.88
20,000 - 39,999	1409	38,507,400	0	0	1.1%	0.9%	4.6%	50,500	2	255,100	9	305,600	579,800	(74,000)	(162,900)	\$0.87
40,000 - 69,999	666	34,110,800	0	0	1.4%	1.0%	3.6%	0	0	171,000	5	171,000	359,300	(128,000)	(162,000)	\$0.82
70,000 - 99,999	280	22,932,900	0	0	1.4%	1.3%	5.0%	41,100	1	45,000	1	86,100	267,700	(69,400)	(162,200)	\$0.79
100,000 - 249,999	388	57,419,800	147,100	193,400	1.3%	1.4%	3.1%	0	0	946,900	12	946,900	1,908,000	186,400	388,800	\$0.79
250,000 - 499,999	64	20,768,600	0	0	2.5%	2.5%	3.7%	0	0	0	0	-	-	-	(231,400)	\$0.80
500,000+	18	14,428,400	0	0	0.0%	3.6%	0.0%	0	0	512,500	1	512,500	512,500	512,500	512,500	N/A
<b>TOTAL</b>	<b>4740</b>	<b>214,623,400</b>	<b>147,100</b>	<b>193,400</b>	<b>1.2%</b>	<b>1.4%</b>	<b>3.3%</b>	<b>123,000</b>	<b>5</b>	<b>2,074,800</b>	<b>38</b>	<b>2,197,800</b>	<b>3,928,600</b>	<b>473,700</b>	<b>199,500</b>	<b>\$0.83</b>

## Definitions of key terms in this report

### Total Rentable Square Feet:

Industrial space in buildings with 10,000 square feet or more of industrial space. Includes speculative as well as owner-occupied buildings. Excludes Research & Development (R&D) buildings (industrial buildings with at least 30% office build-out, 3/1000 parking ratio and a high level of finish). Excludes space that is under-construction or renovation.

### Vacancy:

Space in existing buildings that is vacant and immediately available during the quarter for direct lease, for sublease or for sale, plus space that is vacant but not available for direct lease or sublease.

### Availability:

All space that is currently being marketed for occupancy, including space which may currently be occupied or which may be under construction or renovation.

### Net Absorption:

Net change in occupied square feet from one period to the next (includes the impact of change in vacant space available for sublease).

### Gross Activity:

Square feet sold and leased for all known transactions completed during the quarter, excluding lease renewals and investment sale transactions.

### Weighted Average Asking Rental Rates:

Weighted by square feet available for direct lease. Data is based on triple net rents, and excludes expenses such as taxes, insurance, maintenance, janitorial services and utilities. Reported on a monthly per-square-foot basis.

### Construction Completions:

Total square feet added during the quarter via construction completions, including renovated space returned to market, less total square feet taken off-market due to demolitions or conversions.

### Under Construction:

Includes buildings that are in some phase of construction, beginning with foundation work and ending with the issuance of a Certificate of Occupancy.

### Technical Note

*Colliers International is continuously refining its database. The data shown in the historical tables and graphics in this report have been adjusted to take into account these changes in the database.*

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## 413 offices in 69 countries on 6 continents

United States: 145	> \$2.7 billion in annual revenue
Canada: 28	> 2.0 billion square feet under management
Latin America: 23	
Asia Pacific: 79	> Over 15,400 professionals
EMEA: 131	

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