

2020 North America Industrial Big Box

Review & Outlook

CBRE RESEARCH



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Los Angeles County



With a vacancy rate of less than 3% due to strong occupier demand from a broad base of industries, Los Angeles County remains very attractive to investors. The Greater LA market has many unique attributes, including deep water ports, a population of more than 20 million and terrific infrastructure. While Class A product has been the preference of investors, Class B assets are expected to see record-setting rental rates and sale price appreciation in 2021.”

– Kurt Strasmann, Executive Managing Director





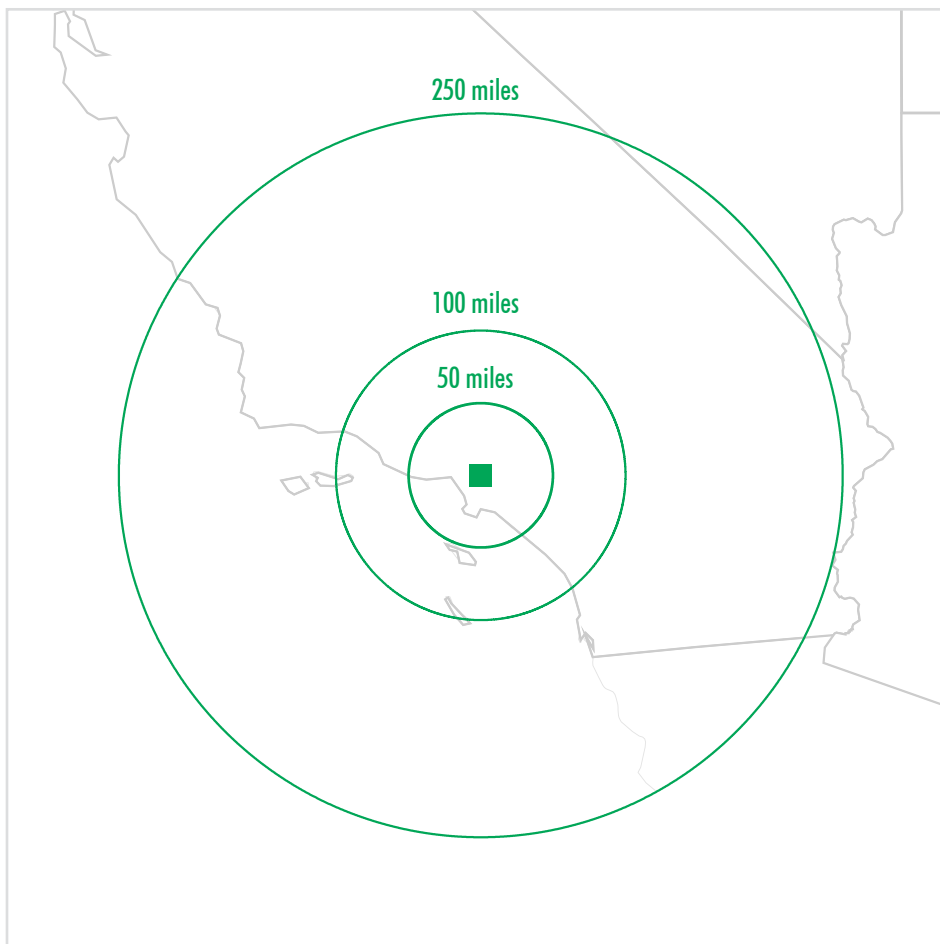
Los Angeles County

Demographics

More than 15 million people live within 50 miles of the market core—the third most in the U.S. and nearly 26% of whom are in the important 18-to-34 age demographic. Nearly 29 million people live within a 250-mile radius, with an expected growth rate of 3.1% over the next five years.

According to [CBRE Labor Analytics](#), Los Angeles County’s warehouse labor force of 230,000 is expected to grow by 7.1% by 2030. The region has a high cost of living and its average hourly wage is also one of the highest in the country at \$15.34—9% above the national average.

Figure 1: Los Angeles County Population Analysis



| Distance from Los Angeles County Market Core | 2020 Total Population | 5 Year Growth |
|--|-----------------------|---------------|
| 50 miles | 15,351,931 | 2.0% |
| 100 miles | 20,106,330 | 2.4% |
| 250 miles | 28,635,846 | 3.1% |

Source: CBRE Location Intelligence.

Figure 2: Los Angeles County Warehouse & Storage Labor Fundamentals



Source: CBRE Labor Analytics.

*Median Wage (1 year experience); Non-Supervisory Warehouse Workers (forklift, warehouse workers).

Location Incentives

Over the past five years, there have been 214 economic incentives deals totaling more than \$476 million at an average of \$22,507 per new job in the Los Angeles metropolitan area, according to Wavteq.

According to [CBRE's Location Incentives Group](#), among the top incentive programs offered in Los Angeles County is the California Competes Tax Credit, which is a discretionary income tax credit

awarded to businesses that locate to or expand in California. This program was extended through 2023 with \$180 million in tax credits available for allocation to businesses that make capital investments, create new jobs and offer strategic importance to the region. The credits are non-refundable and companies are can only apply during designated application periods three times each year.

Figure 3: Los Angeles County Top Incentive Programs

| Program | Description |
|---------------------------------------|--|
| Employment Training Panel | Job training grant |
| California Competes Tax Credit | Discretionary tax credit program |
| Manufacturing M&E Sales Tax Exemption | 100% exemption of State sales taxes on machinery and equipment for manufacturing and R&D |

Source: CBRE Location Incentives Group.

Note: The extent, if any, of state and local offerings depends on location and scope of the operation.

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Logistics Driver

Los Angeles County is home to the top two seaports in North America and one of the top five air cargo hubs in the country. Imports and exports flowing through the ports of [Los Angeles](#) and [Long Beach](#) directly feed big-box distribution centers in the region. COVID-19 restrictions lowered imports in 2020, but significant improvement in the second half of the year kept port-related demand strong.

[Los Angeles International \(LAX\)](#) is the fifth busiest air cargo airport in the U.S. The convenience and efficiency of LAX as a major distribution center for air cargo is supported by the ready availability of vital allied services, especially for Pacific Rim traders. The LA-area cargo trade also engages more than 800 freight forwarders and 360 customs house brokers, who expedite the region's air cargo delivery. U.S. banks with international operations have offices in Los Angeles, as do foreign banking institutions.

Capital Markets



Los Angeles County has one of the strongest and most diverse industrial markets in the U.S. There is limited available land for new development. Recent land sales in the infill Los Angeles area averaged \$100 per sq. ft. Cap rates are some of the lowest in the country at sub-4% for Class A product. The extremely low vacancy rate, combined with a dense population base, position the market for continued price appreciation and nationally low cap rates.”

– Barbara Emmons Perrier, Vice Chairman

Figure 4: Cap Rate Comparison

| | Class A | Class B |
|------|---------------|---------------|
| 2020 | 3.75% - 4.25% | 4.50% - 5.50% |
| 2019 | 3.75% - 4.25% | 4.75% - 5.50% |

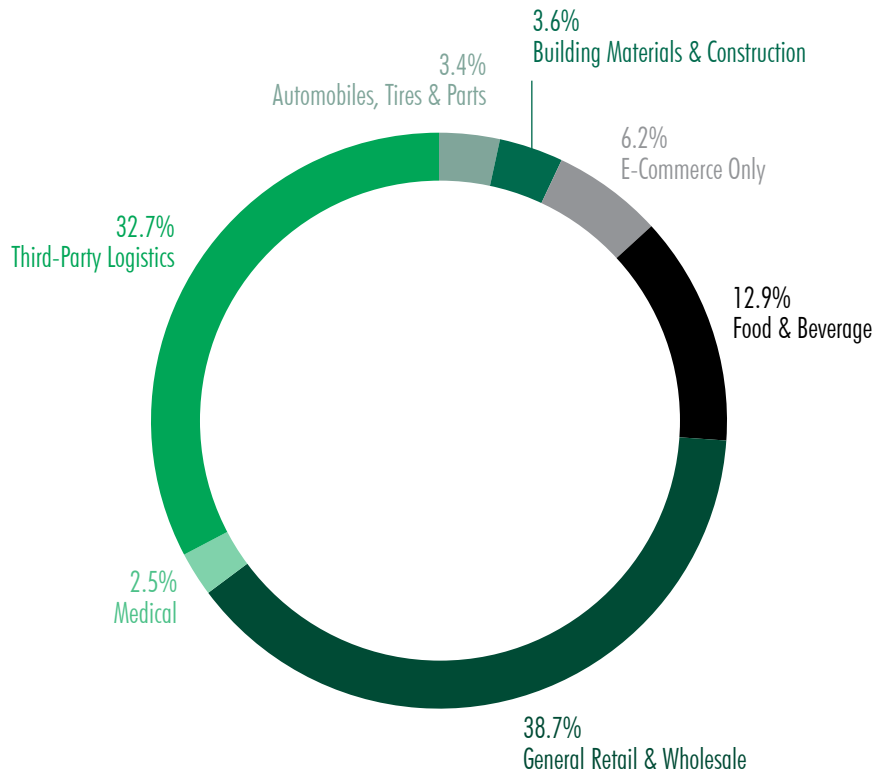
Source: CBRE Research.

Supply & Demand

Los Angeles County is one of the most mature big-box markets in North America, dominated by buildings built before 2000 and 71% of which are under 500,000 sq. ft. The region has one of the lowest direct vacancy rates in North America at 2.3%. The lack of available inventory, combined with a few large move-outs in early 2020, led to 215,000 sq. ft. of negative absorption last year. Despite this, 7.9 million sq. ft. transacted in 2020, most of it in space that never went vacant and did not create positive absorption.

Just 1.3 million sq. ft. of new construction was completed last year and only 862,000 sq. ft. is currently under construction, 73% of it preleased. Low vacancy rates and proximity to ports make Los Angeles County one of the most expensive rental markets. The average taking rent of \$10.08 per sq. ft. is the highest in the nation.

Figure 5: 2020 Occupier Transaction Market Share



Note: Includes transactions signed in 2020.
Source: CBRE Research.

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Figure 6: Transaction Volume



Note: Includes new leases, renewals, and user sales transactions 200,000 sq. ft. and above.
Source: CBRE Research.

Figure 7: Big Box Year-Over-Year Data Comparison

| 2020 | | | | | | |
|--------------------|-------------------------|-----------------------|---------------------|------------------------|--------------------------|-----------------------------------|
| | # of Existing Buildings | Existing Inventory SF | Direct Vacancy Rate | Overall Net Absorption | Construction Completions | First Year NNN Taking Rent psf/yr |
| 200,000-499,999 SF | 537 | 148,643,560 | 0.8% | (837,436) | 654,816 | \$10.08 |
| 500,000-749,999 SF | 48 | 28,022,540 | 2.0% | 655,007 | 663,100 | \$10.05 |
| 750,000+ SF | 30 | 35,096,206 | 8.9% | (32,898) | - | N/A |
| Total | 615 | 211,762,306 | 2.3% | (215,327) | 1,317,916 | \$10.08 |
| 2019 | | | | | | |
| | # of Existing Buildings | Existing Inventory SF | Direct Vacancy Rate | Overall Net Absorption | Construction Completions | First Year NNN Taking Rent psf/yr |
| 200,000-499,999 SF | 515 | 141,789,748 | 2.3% | 771,184 | 833,259 | \$10.17 |
| 500,000-749,999 SF | 42 | 24,979,624 | 0.0% | 312,546 | 572,240 | N/A |
| 750,000+ SF | 23 | 24,856,645 | 0.4% | 571,404 | - | N/A |
| Total | 580 | 191,626,017 | 1.7% | 1,655,134 | 1,405,499 | \$10.17 |

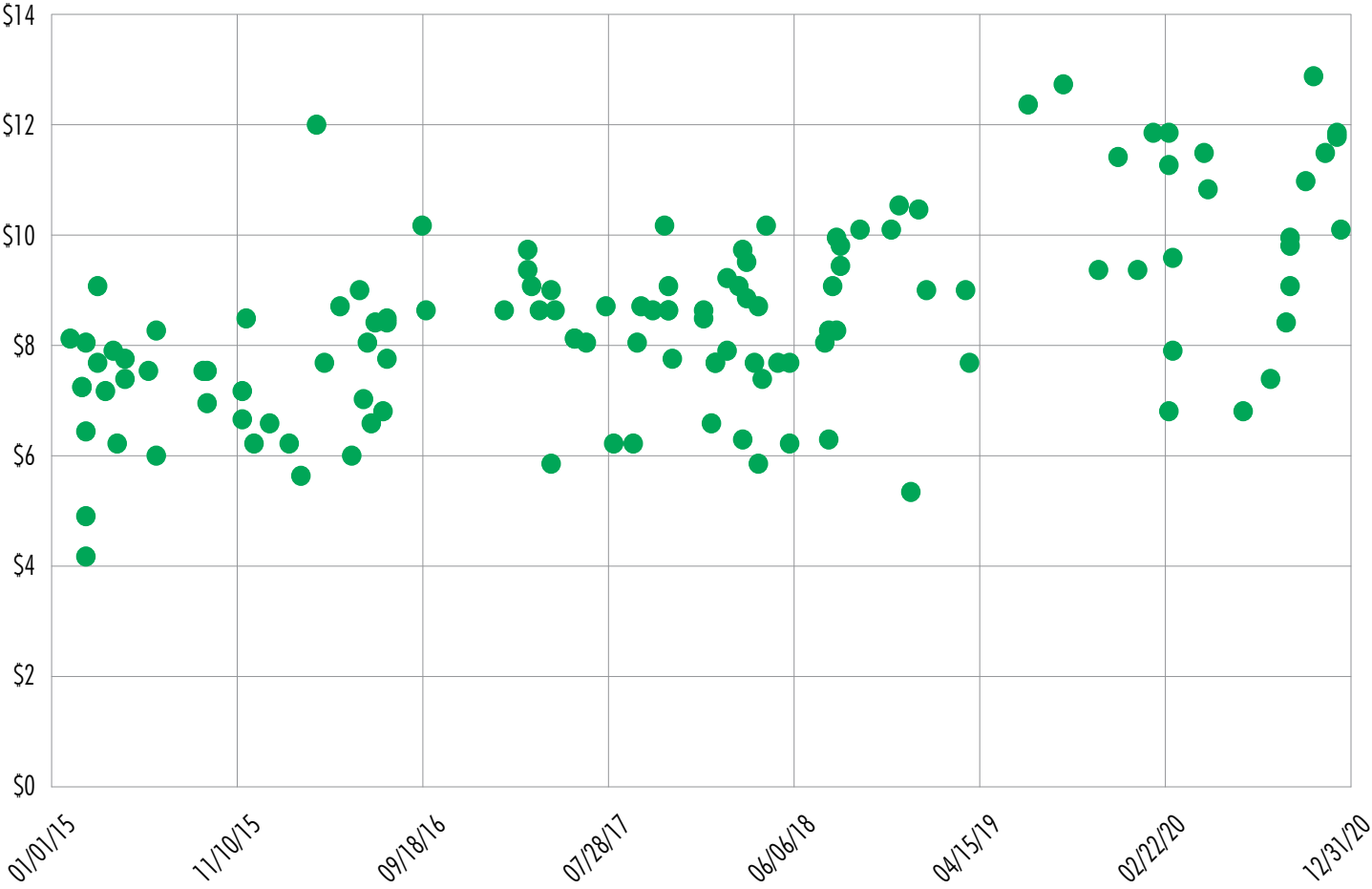
Source: CBRE Research.

Figure 8: Under Construction & Percentage Released

| | 2020 Under Construction Sq. Ft. | % Released |
|-------------------------|---------------------------------|------------|
| 200,000-499,999 sq. ft. | 234,330 | 0.0% |
| 500,000-749,999 sq. ft. | 627,480 | 100.0% |
| 750,000+ sq. ft. | - | N/A |
| Total | 861,810 | 72.8% |

Source: CBRE Research.

Figure 9: First Year Taking Rents (psf/yr)



Note: Includes first year taking rents for leases 200,000 sq. ft. and above.
Source: CBRE Research.

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