

## Economic Outlook 2008 Mid-Year Report **Industrial Market Activity Slows**

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**T**he Los Angeles South Bay industrial market, which includes the Long Beach submarket, remains the least volatile when compared with other property types in the area. With low vacancy rates steadied at three percent – although up slightly from the first quarter – a trend toward quality property could be on the horizon.

“You’re going to see a lot of investment activity [and] development pressure once the financial markets shake out,” says Michael Soto, regional analyst for Colliers International. “If I were a developer or investor right now, I’d be scouring the South Bay market, especially around Long Beach, for [properties] that are zoned industrial.”

Soto attributes the upcoming shift to record-high oil prices that have strained a once rapidly developing market. “The advantages you used to have in the Inland Empire are being negated by high-energy prices and high-transportation prices,” he adds.

According to Colliers’ second-quarter industrial report, companies transporting goods more than 40 miles in return for lower overhead are faced with skyrocketing fuel prices, which could cause traditional logistics, warehousing and manufacturing firms to relocate closer to the ports out of necessity. If this occurs, Colliers expects investors to seek obsolete industrial areas and industrial-zoned parcels to demolish and develop into higher-quality buildings.

“The further you move away from the ports toward the outlining areas of the Inland Empire – Redlands, Moreno Valley, Perris – it really gets pretty soft,” says Jim Flynn, president of The Carson Companies. “But the core markets still remain strong.”

“A high component of the buildings in the industrial sector are warehouse-oriented and they’re driven as much by consumer spending as anything else,” Flynn adds. “Those

logistics companies that handle the accounts for Wal-Mart, Costco and some of the low-cost providers are doing OK. Those that provide logistics for the high-end accounts are struggling a little bit, mainly because the consumers moved to where they can get the best buy and, as a result, there’s some stress and strain on the warehouse sector.”

According to Colliers’ report, rental rates remained flat, while the average sales price per square foot increased 4.8 percent since last year to \$117. Additionally, there is currently 1.4 million square feet under construction, while sales and leasing activity totaled 2.4 million square feet, which is down from 2.6 million last quarter. Carson/Compton/Rancho Dominguez remained the largest and most active submarket, with 1.2 million square feet of activity, followed by the Torrance submarket at 425,600 square feet.

“We’re starting to see some sublet activity out here, which means that the market’s slowing down. It’s a little soft right now,” says Don Smith, senior vice president of Lee & Associates South Bay office.

“I don’t really think it’s going to change much between now and the end of the year,” he adds. “And depending on who politically runs the train, it will probably take [a] different direction next year.”

Cushman & Wakefield Director Steve Bohannon agrees that a predominance of sublease space has traditionally softened the market because landlords have to compete with less expensive sublet rent rates.

“Transaction velocity will probably plateau in a less-fevered pitch than the previous quarters, and we will see some more concessions from landlords – free rent, broker incentives [or] reduction in rent – but nothing drastic on either front,” he explains. “We’re hopeful to just weather the storm on both the landlord and tenant side.”

The vacancy rate for the Long Beach/Harbor Cities submarket, however, increased from 3.7 percent last quarter to

5.2 percent (including sublease vacancies). It also posted the highest net absorption, with 566,800 square feet returning to the market. Meanwhile, rent rates averaged 66 cents per square foot, and sales prices averaged \$110 per square foot.

Watson Land Company recently completed construction on Legacy Building 220, a 100,000-square-foot facility leased by CCL Tube. The company is also in the planning and permitting stages for Legacy Building 219, which is adjacent to CCL. Watson serves as both a developer and owner/operator of master-planned industrial centers and focuses on long-term growth strategies.

“Our long-term outlook does not vary from quarter to quarter during any given year,” says Lance Ryan, Watson’s vice president of marketing and leasing. “With over four decades of industrial development in the South Bay, we remain bullish on the industrial market long-term based upon its immediate access to the port, rail and air transportation infrastructure, in addition to its location at the center of the Southern California economy.”

### **Second-Quarter Market Highlights**

Watson served as the landlord in three transactions in Carson, including a 178,600-square-foot distribution facility leased by Maersk Distribution Services Inc.; a 133,700-square-foot warehouse lease renewal with Schenker Inc.; and a 98,000-square-foot warehouse leased by BNX Shipping Inc.

Other notable transactions include a 213,500-square-foot distribution facility in Rancho Dominguez leased by DHL Express, as well as a 109,900-square-foot warehouse in Long Beach leased by Tenneco Inc. ■