



National Industrial Report

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Southern California's Space at a Premium

- Demand for industrial real estate is high across the country, particularly in Southern California. With the two busiest ports in the country and more than 20 million residents, the e-commerce upsurge has sent the already tight Southern California industrial market into overdrive.
- Three Southern California markets—Los Angeles, Orange County and the Inland Empire—all sit at or near the top of all national metrics for rent and occupancy. Growth of in-place rents was highest in Los Angeles and the Inland Empire in March (both 6.8% over the last 12 months), with Orange County not far behind at 5.2%. Orange County had a vacancy rate of 3.4%, with Los Angeles at 2.1% and the Inland Empire at 0.7%. The tight vacancy rates are leading to tenants paying a hefty premium for space when signing new leases in the region. On average, new leases cost \$3.78 more per foot than the market average in Orange County, \$3.04 more in Los Angeles and \$2.89 more in the Inland Empire.
- Investors are chasing assets in the region, which is driving up sale prices. Between 2019 and 2021, the average price per square foot of industrial buildings increased 60% in the Inland Empire (from \$121 per foot to \$194), 54% in Los Angeles (\$191 to \$295) and 53% in Orange County (\$195 to \$298).
- Although demand is hot in Southern California markets, there is a dearth of land available for new space to be built. Los Angeles has just 3.4 million square feet of new industrial space under construction (0.5% of stock) and Orange County has only 2.3 million square feet under construction (1.2% of stock). The Inland Empire has 28.4 million square feet under construction (4.8% of stock), but that will not be enough to meet demand for the entire region. Additionally, as developers in the Inland Empire rush to add space, a backlash is brewing among residents and environmental groups in the region. Transwestern recently withdrew a proposal to develop a development center on a 148-acre plot near Whitewater after concerns were raised over the proximity to a conservation area.
- With robust demand for space and not enough land to build the supply needed to keep up, both tenants and developers will look farther inland for opportunities. We expect spillover into nearby Phoenix, Las Vegas and the Central Valley. Phoenix, in particular, is already seeing this effect. It has one of the largest new-supply pipelines in the country, and much of that development is in the Peoria and Phoenix-West submarkets on the western edge of the city, which offers access to Interstate-10 and is a six-hour drive for truckers from the ports of Los Angeles and Long Beach.

