Yardi Matrix

# National Industrial Report

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# Southern California's Slowdown

- Southern California industrial markets have experienced softness for the first time in years during 2024. Cooling demand and a record level of new supply have combined to send vacancy rates upwards and slow rent growth. While the long-term fundamentals for the region remain strong, the cooldown is expected to remain for the near term.

- Yardi Matrix reports that in-place rent growth remains strong in the region, with rates increasing 12.4% over the past 12 months in the Inland Empire, 11.0% in Los Angeles and 8.7% in Orange County. Yet while in-place rents continue to move up, softness is visible in the average cost of a new lease, which has fallen $3.37 per square foot this year so far in the Inland Empire and $1.98 in Los Angeles, but just 46 cents in Orange County.

- The largest REIT in the industrial space is also seeing cracks emerge in the region. In its second quarter earnings call, Prologis described demand in Southern California as "sluggish" and predicted "soft conditions to persist over the next 12 months." Prologis noted its effective rents for the region have been falling, mostly due to expanding concessions.

- While the industrial markets in the region have cooled, the ports of Los Angeles and Long Beach just recorded two of their busiest months ever, signaling that the softness may be short lived. The Port of Los Angeles handled 940,000 20-foot equivalent units in July, an increase of 37% year-over-year and its busiest month since the all-time high reached in May 2021. The Port of Long Beach saw a similar surge, handling 882,000 TEUs in July, up 53% year-over-year. Some of the increased activity in these ports may be attributed to importers and retailers increasing inventories ahead of tariffs on Chinese-made goods and potential labor disputes.

- It is unlikely that the surge in container volumes will have an immediate impact on vacancy rates in the market. Logistics firms and importers learned lessons from the supply-chain chaos in 2021 and 2022, and most now operate with excess capacity in key markets like those in Southern California. Yet the region's long-term outlook remains strong and the supply boom has ended, with the Inland Empire's construction underway representing just 1.1% of stock, Los Angeles's 0.8% and Orange County's 0.4%. Southern California's normalization could have an adverse impact on three markets—Phoenix, Las Vegas and Salt Lake City—that were connected to the ports by rail and have been performing as a relief valve from the sky-high rent growth of the past few years.