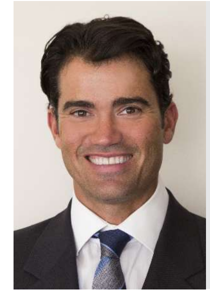
FAST-FASHION, GROCERIES LATEST BOOST TO LA'S INDUSTRIAL SECTOR



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Social and demographic developments — led by the growth in e-commerce — have transformed industrial real estate into a high-demand and high-growth sector. And it's possible the growth might just be in the beginning stages, especially here in Southern California.

Recent years have seen a boom in logistics facilities used to transport goods quickly to consumers. The first wave affected mostly surrounded products that didn't involve personal touch or have a limited shelf life, such as electronics and books.

However, as consumers become more comfortable with online shopping, and as the Millennial generation — which spends more time on personal devices — comprises a larger share of consumer sales, the range of products sold online will continue to grow. This is producing growth in online sales of items like fast fashion and perishable items like groceries, which require an increase in last-mile fulfillment centers.

The fashion world's traditional seasonal timeline is getting compressed by the speed of the Internet publicity grind. Fashion items that are worn or promoted by celebrities are instantly in demand, and fashion chains must respond within weeks, rather than months. Merchandisers try to avoid having clothing items in stores for long periods. The result is rapid movement of product in the fashion world, which requires warehouses that are near the ports and can quickly move products throughout the Los Angeles area. Facilities with 36-foot ceilings with multiple racks and thick floors to handle heavy weights are in demand.

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Groceries are another rapidly growing segment, especially for younger consumers who are less likely to own a car than their parents. That has increased demand for refrigerated warehouses that are situated in areas where food items can be delivered within an hour to customers.

In the Los Angeles area, these zones are infill areas that include Downtown Los Angeles, Vernon, Carson and Long Beach.

National industrial market fundamentals are robust, and Los Angeles is among the strongest markets in the country because of its proximity to ports and population. The vacancy rate in the Los Angeles industrial market is a miniscule 1 percent as of the third quarter of 2017, and absorption and rent growth have been positive for six years, according to Newmark Knight Frank (NKF).

With import volume at Southern California ports at record highs, more than half of the 13.4 million square feet of lease activity at warehouses built since 2010 is related to third-party logistics, logistics and distribution or retailers, NKF notes.

Nationally, the story is similar. The national vacancy rate of 5.2 percent as of the third quarter of 2017 is the lowest on record. Rents are up 10 percent year-over-year, also to record highs, per Colliers International. Through November 2017, industrial property values have soared 9.8 percent year-over-year, 29.5 percent over three years and 60.3 percent over five years, per Real Capital Analytics. Among commercial property types, only the apartment segment has grown more.