

WESTERN REAL ESTATE BUSINESS®

Connecting Real Estate in the West

DEMAND FOR INDUSTRIAL PRODUCT IN LA CONTINUES TO RISE



Barry Saywitz
President,
The Saywitz Company

The Los Angeles industrial market continues to lead the country with the lowest vacancy of any industrial market. The combination of the overall market's size and lack of inventory continues to put upward pressure on rents. Not only is there limited inventory, but a lack of quality product puts top economical facilities in high demand. The

inability to build new product readily, combined with increasing demand, changes the focus of the marketplace going forward. As rents for high-quality properties continue to rise, developers and land owners are looking for ways to redevelop existing product to take advantage of this need. A number of redevelopment projects have recently commenced construction, and many of those properties are already pre-leased prior to completion.

This increased demand also gives owners of older, less functional properties the ability to spend the necessary funds to upgrade their facilities with the anticipation of receiving higher rents and a return on their investment. The increase in demand from international commerce through the Port of Los Angeles, combined with growth in the manufacturing, aerospace and healthcare sectors, have all assisted in this overall increase in demand. The need for third-party logistics companies to acquire large chunks of space to accommodate their client's requirements also makes the availability of larger warehouses with higher ceilings a limited commodity. Those third-party logistics carriers have the ability to pass along increased rental rates to their clients as a cost of doing business, and the rental rate itself becomes less important as having a quality facility with a prime location that is strategically located.

If a property owner or landlord owns a quality industrial space, the asset will continue to appreciate and concerns over vacancy and downtime should dwindle. If a user of industrial space in the Los Angeles market is looking for new or alternative space in the near future, the advice would be to start early and be prepared to move forward quickly due to high demand.

As we move forward in closing out 2014 and looking ahead to 2015, we expect more of the same. Increased demand in the Los Angeles market will undoubtedly result in overflow demand in the Inland Empire and outer-lying submarkets. We have already seen decreased vacancies in those markets, and rents will continue to move upward there as well.