CONNECTING REAL ESTATE IN THE WEST

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INDUSTRIAL UPDATE

Activity abounds along the West's major transporation hubs.

Nellie Day

To connect with national and global marketplaces, the industrial sector must remain plugged into its region's vital transportation arteries. As the three industry experts below will demonstrate, this strategy not only brings with it long-term incentives, but convenience and cost savings as well.

LAND

Southwest's Big Box Industrial Activity Parallels Transportation Traffic
By Pat Feeney, senior vice president, CB Richard Ellis' Phoenix office

It's taken 3 years, but speculative construction in the Southwestern U.S. warehouse and distribution market is on the verge of making a comeback, thanks in large part to an upswing in consumer spending and renewed demand from large-scale users that want to store and process products near major transportation hubs.

Not surprisingly, the increase comes at a time when the West Coast ports, as well as the nation's highways and railroads, all report traffic increases – some even to the point of a near return to post-recession norms. At the Los Angeles Port, for example, shipping volume that had dipped to 6.7 million TEU (twenty-foot equivalent unit) containers in 2009 was back up to just shy of the port's 2008 level of 7.85 million containers by the end of 2010.

The increase in port traffic has had a direct effect on the Inland Empire's already tight warehouse and distribution market, where vacancy in the Western Inland Empire submarket is a mere 5.5 percent as of mid-2011.

Low inventory and a desirable location helped the submarket hold up relatively well during the recession, aside from a moderate drop in vacancy and a fairly precipitous plunge in rental rates during 2009. But with only one building larger than 500,000 square feet left in the product inventory, Inland Empire developers have finally felt the timing was right to pull the trigger on speculative construction.

SEE INDUSTRIAL, PAGE 28

AIR

Industrial Real Estate and Its Strong Airport Ties

By Barry Saywitz, president, Newport Beach, Calif.-based The Saywitz Company

Today, many generally perceive our economy and the real estate markets as a continual struggle. However, there are silver linings in various submarkets throughout the Western U.S. that appear to have weathered the storm, gotten onto a road of recovery, and provided greater opportunities for investors and landlords.

When it comes to the West, the industrial real estate markets, which are tied to distribution, trucking and shipping, are in far better shape than those that have no tie to industry, workforce or amenities.

A prime example is the industrial submarkets in Los Angeles County, which are in close proximity to LAX Airport and to the Port of Los Angeles. While Southern California is the most dynamic and largest real estate market in the West, it is also composed of numerous micro-submarkets. The industrial submarket surrounding LAX has a vacancy rate that is significantly less than that of the overall marketplace.

While many of the buildings in this submarket are older and less efficient, the lack of available real estate and the necessity for those companies to be near the airport make them extremely more desirable than those in other submarkets. This is especially true when you consider the airport submarket's ease of access, the current costs of labor, gas and transportation and the major congestion along most Southern California freeways.

This desirability extends just south of the airport to the South Bay's industrial submarket. In this region, industrial facilities located near the Port of Los Angeles are in high demand. Many businesses that are tied to the materials and goods that arrive through the port cannot afford to be located farther away from their drop point. The additional costs in mileage, as well as the expected time delays, make it much more difficult and expensive to operate farther away from the port. Additionally, many of the third-party logistics companies have been in growth mode as more and more corporations look to outsource these functions and cut costs. This has caused increased demand in that submarket, and has buoyed the rental rates.

The same concept holds true for a few of Southern California's other metro areas, such as Burbank, San Diego and Ontario – all of which have airports. The industrial submarkets within close proximity to these airports have lower vacancies and higher rental rates than those located farther away. Clearly, the concept of "location, location, location" adds significantly to a property's value. This has been proven true even during struggling real estate markets.

Aside from location, there are many other amenities inherent to airport hubs that provide additional incentives for tenants. Corporate executives visiting one of their Southern California-based facilities will typically desire amenities like hotels, restaurants, fitness centers, etc. The submarkets surrounding the airport areas tend to have a greater depth of options than its outlying areas.

Saywitz

This is true in other Western markets like Seattle, Phoenix and Las Vegas as well. With increased pressure to control operating costs and to provide efficiencies in delivery methods and operations, companies will look to facilities that allow them efficiencies and cost savings. It is for that reason that you see these specific submarkets in the major metro areas continue to hold their grounds even through these difficult times.