ALLEN MATKINS | UCLA ANDERSON FORECAST

COMMERCIAL REAL ESTATE SURVEY

Allen Matkins

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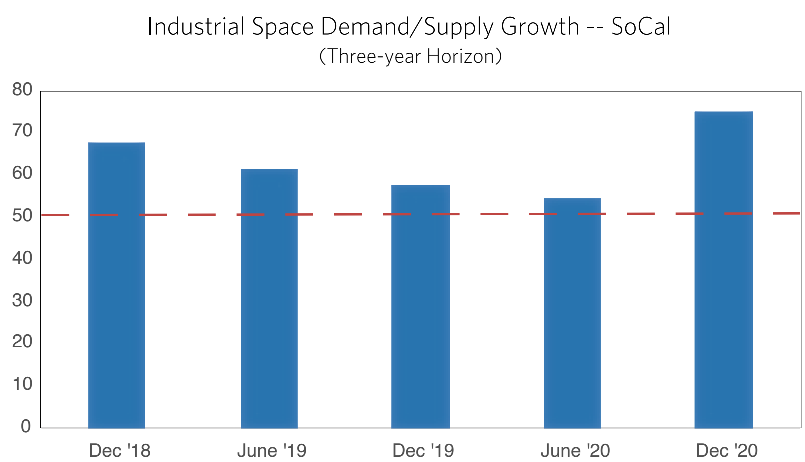
INDUSTRIAL SPACE MARKETS

Though the pandemic has dampened the market for office space, the opposite is true for industrial properties. Industrial markets over the past several years have seen consistently high occupancy rates and superior lease rate growth. Sentiment expressed in the June Survey dropped precipitously in all markets (Industrial Space Developer Sentiment Index Figure), and that is logical. We were in a deep recession and pessimism about the coming couple of years was the order of the day. However, vacancy rates remain extremely low. At the end of September, Los Angeles and Inland Empire vacancy rates were under 4 percent, and from Sacramento to the East Bay between 4 percent and 5 percent. As expected, industrial space sentiment has come roaring back, and it is now at levels of optimism about the coming three years that has not been seen for many years.

In both Northern and Southern California, the developer sentiment index rebounded to significantly over 50, the dividing line between optimism and pessimism. In each market surveyed, the expectation was for lease rate increases to exceed the rate of inflation and for the already low vacancy rates to be even lower by 2023. Behind this sentiment is a view by the panelists about online shopping induced demand for industrial space, and about the expected increase in the stock of that space. The figure below shows demand and supply question responses for Southern California over the past two and a half years. A value over 50 indicates that the panelists expect the demand for space to increase faster than the supply of available space.

The dramatic change in household buying habits during the pandemic is illustrated by the latest data on retail sales from the US Census Bureau. It reported that overall retail sales in the United States were down 1.1 percent from October to November. However, non-store retail was up by 29 percent. While some of the shift to online purchases will reverse when the pandemic is behind us, the experience of online shopping has most likely changed household purchasing permanently.

Although our panelists are very optimistic about the next three years, their current building plans are only marginally higher than their pre-pandemic plans. In both Northern and Southern California, approximately 30 percent of the panelists stated that the experience of the recession has caused them to consider increasing the amount of development they will undertake. Therefore, our expectation is for a new wave of warehouse building over the coming three years.



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Allen Matkins

1901 Avenue of the Stars
Suite 1800
Los Angeles, CA 90067
Phone: 310-788-2400
Fax: 310-788-2410

www.allenmatkins.com

UCLA Anderson Forecast

110 Westwood Plaza Gold Hall
Suite B305
Los Angeles, CA 90095
Phone: 310-825-1623
Fax: 310-206-9940

www.uclaforecast.com

For more information on this report, call 310-825-1623, email forecast@anderson.ucla.edu, or visit our website at www.uclaforecast.com.