Fall 2024 Final

Kyle T. Tran

University of Southern California

RED 435: Analyzing Real Estate Markets

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Executive Summary

Investment Overview

I am evaluating the acquisition of 12588 Florence Ave, a Class A industrial distribution facility located in Santa Fe Springs, California. The property represents an opportunity to acquire a well-positioned logistics asset in the highly supply-constrained Los Angeles industrial market.

Property Details

- **Building Size:** 403,635 SF
- **Land Area:** 16.36 acres (712,642 SF)
- **Year Built:** 2018
- **Clear Height:** 36 feet
- **Loading:** 52 exterior dock doors, 2 drive-in doors
- **Parking:** 149 spaces (0.37/1,000 SF ratio)
- **Construction:** Reinforced concrete
- **Property Class:** 5-Star Industrial Distribution (CoStar Property Report, December 2024)

Modern Class A Specifications

The property features institutional-quality construction completed in 2018 with state-of-the-art specifications including 36' clear heights, ESFR sprinklers, ample dock-high loading, and 185' truck court depths. The building achieved LEED certification from the U.S. Green Building Council.

Strategic Location

- Less than 2 miles from I-5 and I-605 intersection
- 18 miles from Ports of Los Angeles/Long Beach
- 20 miles from Los Angeles International Airport

  - 10 miles from BNSF intermodal yard

Strong Tenancy & Cash Flow

The property is 100% leased to Fashion Nova through December 31, 2027, providing stable in-place cash flow for the first three years of ownership. While the tenant is expected to vacate at lease expiration, the property's modern specifications and strategic location position it well for re-leasing.

Market Dynamics

Located in the Mid-Counties submarket of Los Angeles, the property benefits from:

- Limited new supply due to land constraints
- 6.0% submarket vacancy rate as of Q4 2024
- Historical rent growth averaging 4.7% annually over the past decade

Investment Parameters

- **Purchase Price:** $112,000,000 ($277.48/SF)
- **Estimated Year 1 NOI:** $5,444,027
- **Initial Cap Rate:** 4.9%
- **Hold Period:** 5 years
- **Target Exit Cap Rate:** 6.0%
- **Projected IRR:** 8.53%
- **Equity Multiple:** 1.36x

Investment Rationale

The acquisition presents an opportunity to own a high-quality logistics facility in one of the nation's most supply-constrained industrial markets. While near-term market fundamentals have softened with rising vacancy and declining rents, long-term growth drivers remain intact including:

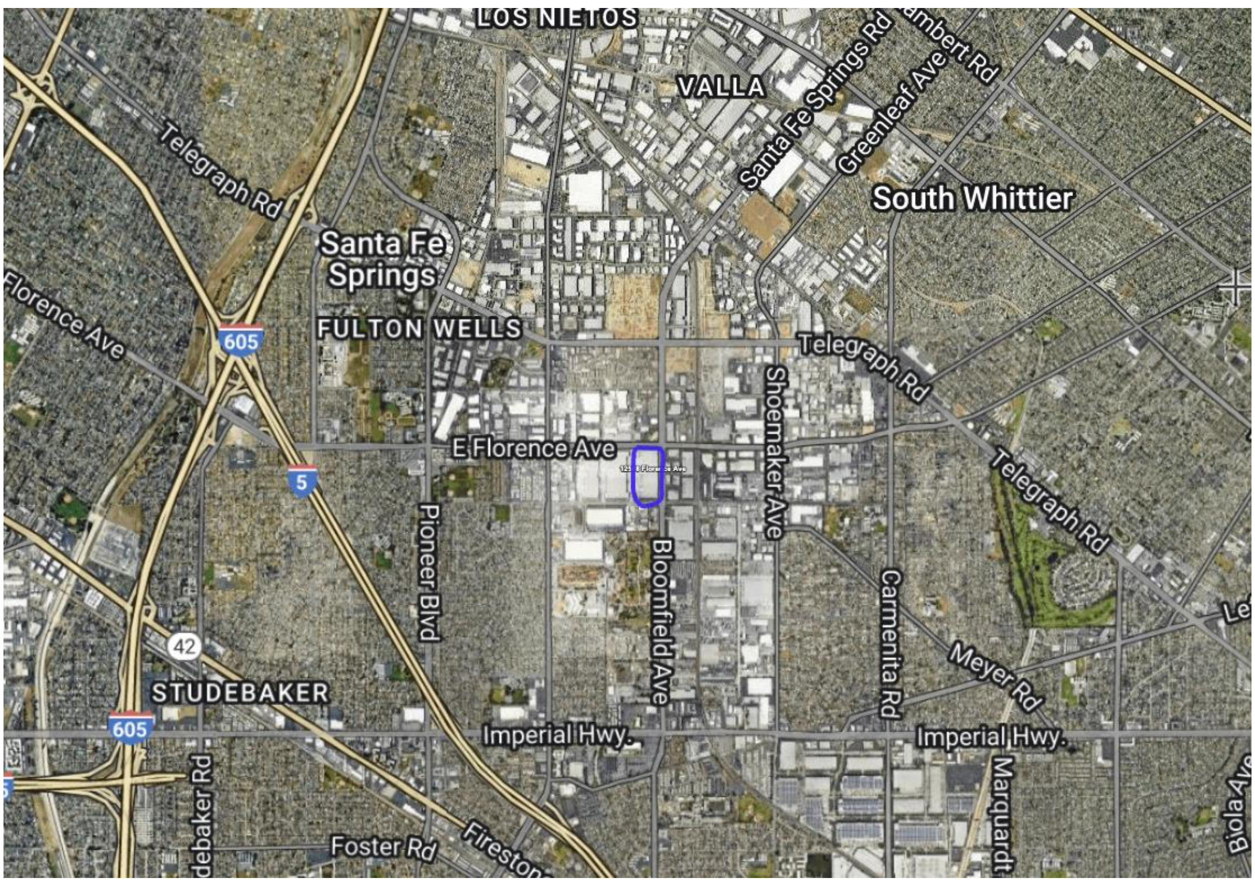
- Proximity to the ports of Los Angeles and Long Beach, which process 40% of U.S. imports
- Critical distribution hub location serving the Western U.S.
- High barriers to entry with limited developable land
- Strong historical rent growth track record Source: Green Street Industrial Market Snapshot, December 2024

Key Risks

- Tenant vacating at lease expiration requiring full building re-lease
- Rising market vacancy rates (3.8% in Q3 2024 vs. 1.7% in early 2022)
- Recent market rent declines (-17% from 2023 peak) Sources: CBRE Industrial Market Report Q3 2024, CoStar Market Report Q4 2024

Property Photos and Location Map

INDUSTRIAL CASE STUDY REPORT



Los Angeles Regional Economic Overview

The Los Angeles regional economy presents a complex picture of challenges and opportunities, characterized by strong fundamentals in key industrial-supporting sectors despite broader demographic headwinds.

Population and Employment Trends

Los Angeles County is experiencing a sustained period of population decline (California Department of Finance, 2024). The county's population has decreased from 10.01 million in 2020 to 9.78 million in 2024, representing a 2.3% decline (California Department of Finance, 2024). This trend is expected to continue, albeit at a moderating pace, with projections showing an average annual decline of 0.10% through 2030. This contrasts with California's overall projected growth rate of 0.24% annually.

Table 2.1: Los Angeles County Population Projections

		Estimates				Projections					
Geography	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
CALIFORNIA	39,541,722	39,246,702	39,146,273	39,109,070	39,119,734	39,155,670	39,243,572	39,340,965	39,451,269	39,568,558	39,694,960
LOS ANGELES	10,014,848	9,908,772	9,840,925	9,825,708	9,784,023	9,748,926	9,740,117	9,733,645	9,728,338	9,724,829	9,723,289
						Projections					
Growth Rate	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
CALIFORNIA		-0.75%	-0.26%	-0.10%	0.03%	0.09%	0.22%	0.25%	0.28%	0.30%	0.32%
LOS ANGELES		-1.06%	-0.68%	-0.15%	-0.42%	-0.36%	-0.09%	-0.07%	-0.05%	-0.04%	-0.02%

Data Source: California Department of Finance, September 2024

Despite population challenges, the employment market shows resilience. The current labor force of 5.04 million workers has grown 0.30% month-over-month, with total employment at 4.62 million growing at 1.30% (U.S. Bureau of Labor Statistics, 2024). The unemployment rate stands at 5.70%, above the national average but improving. Notably, the median household income of $87,260 demonstrates the region's high-income characteristics, with recent growth of 2.70% month-over-month.

Key Industries and Growth Sectors

Los Angeles maintains several competitive advantages in industries that drive industrial real estate demand. The Trade, Transportation, and Utilities sector, with a location quotient of 1.08, is projected to add 99,400 jobs between 2020-2030, representing 12.6% growth. This sector benefits from the region's role as a critical logistics hub, anchored by the Ports of Los Angeles and Long Beach which together process 40% of U.S. imports.

Table 2.2: Trade, Transportation & Utilities Employment Forecast

NAICS Code[1]	Industry Title	Base Year Employment Estimate 2020[2][3]	Projected Year Employment Estimate 2030	Numeric Change 2020-2030	Percentage Change 2020-2030
22,42-49	Trade, Transportation, and Utilities	788,000	887,400	99,400	12.6%

Data Source: Industry Employment Projections 2020-2030

This projected employment growth of 12.6% in logistics-related jobs directly supports future industrial space demand. Based on typical industrial space utilization ratios, this employment growth could generate demand for an additional 7-10 million square feet of industrial space over the decade. The sector benefits from the region's role as a critical logistics hub, anchored by the Ports of Los Angeles and Long Beach which together process 40% of U.S. imports.

Table 2.3: Key Employment Sectors

Industry	Location Quotient	Employment Share	Current Growth	5Y Growth Forecast
Information	2.21	93,000	4.71%	0.56%
Education & Hleath Services	1.29	960,000	3.49%	0.83%
Leisure & Hospitality	1.15	555,000	2.07%	0.94%
Trade, Transportation & Utilities	1.08	829,000	0.32%	0.32%
Manufacturing	0.83	314,000	-0.31%	0.35%

Data Source: bls.gov

Industrial space demand is particularly supported by three key industry clusters:

LOGISTICS AND DISTRIBUTION

The region's role as the primary import gateway for the Western United States drives substantial warehouse and distribution demand. Recent port statistics show container traffic rebounding 14-15% year-over-year, indicating strengthening trade activity.

MANUFACTURING

While the manufacturing sector shows a location quotient of 0.83, specialized subsectors including aerospace, fashion/apparel, and food processing maintain significant presence. These operations typically require modern industrial facilities with specific infrastructure requirements.

E-COMMERCE AND TECHNOLOGY

The high location quotient in Information (2.21) reflects the growing technology sector, which drives demand for both data center space and modern logistics facilities supporting e-commerce operations.

Economic Health Assessment

The Los Angeles economy reveals strong fundamentals despite facing some near-term headwinds. As a premier West Coast distribution hub, the region benefits from exceptional transportation infrastructure, including the Ports of Los Angeles and Long Beach which process 40% of US imports according to the *Green Street report*. This logistics advantage is complemented by a diverse economic base spanning entertainment, technology, manufacturing, and logistics sectors, helping insulate the market from industry-specific downturns.

The market's affluent consumer base, with a median household income of $87,260 (15% above the national average according to *Oxford Economics data*), provides strong support for retail and e-commerce activity driving warehouse demand. Additionally, the presence of top-tier educational institutions like USC, UCLA, and Cal Tech creates a skilled workforce pipeline, particularly beneficial for high-tech industrial users.

However, several challenges warrant consideration. Population trends show a 3.3% decline over the past five years according to census data, with approximately 340,000 fewer residents as rising costs drive outmigration. The market's unemployment rate stands elevated at 5.7% compared to the national rate of 4.2%, partly due to recent contractions in high-paying technology and entertainment sectors. The entertainment industry, which directly and indirectly accounts for about 20% of regional economic output according to the *CoStar* report, has been slow to recover from the 2023 labor disputes.

Despite these headwinds, severe constraints on new industrial development help maintain market fundamentals. The *GreenStreet* data highlights that less than 5% of Los Angeles' industrial inventory was built in the past decade, compared to 17% nationally. This supply constraint, combined with the market's irreplaceable location and infrastructure advantages, suggests the region's long-term economic position remains sound even as it works through near-term challenges.

Market Outlook

Despite demographic challenges, the outlook for Los Angeles industrial real estate remains favorable, supported by several key factors:

- The projected 12.6% growth in Trade, Transportation & Utilities employment through 2030 directly supports industrial space demand.
- Supply constraints remain severe, with less than 5% of industrial inventory built in the past decade and limited land availability for new development.
- The rebound in port activity (14-15% year-over-year growth) indicates strengthening trade flows, particularly benefiting logistics-oriented properties.

- High household incomes and a large consumer base continue to drive last-mile distribution requirements.

The combination of employment growth in key industrial-using sectors, severe supply constraints, and strategic infrastructure advantages creates favorable conditions for industrial property investment, even as the broader economy works through demographic and cost challenges. The region's fundamental role in U.S. trade infrastructure and logistics networks provides a long-term demand driver that helps insulate industrial properties from local demographic headwinds.

Los Angeles Industrial Market Overview

The Greater Los Angeles (GLA) industrial market, spanning approximately 954 million square feet, represents one of the nation's largest and most supply-constrained industrial markets. Despite recent softening in market fundamentals, the market maintains relatively healthy occupancy levels compared to other major markets.

Market Fundamentals

Table 3.1: Greater Los Angeles Industrial Market Statistics (Q3 2924)

Metric	Value	Y-O-Y Change
Total Inventory (SF)	953.5 M	
Total Buildings	21,150	
Vacancy Rate	3.80%	+140 bps
Availability Rate	5.70%	+140 bps
Net Absorption	-2.8 M	
YTD Net Absorption	-14.1	
Under Construction SF	6.2 M	-9.7M SF peak in Q2 2023
Average Asking Rent (NNN)	$1.49/SF	-11.30%
Gross Leasing Activity	11.9M	Highest Since Q3 2021
Sales Volume	$671M	-57%

Table 3.2: Key Submarket Statistics

Metric	Mid-Counties	Santa Fe Springs	Comparison
Total Inventory (SF)	102,950,125	53,412,533	52%
Total Buildings	2,126	1,116	52%
Vacancy Rate	5%	5%	102%
Availability Rate	7%	8%	109%
Net Absorption (SF)	-1,016,365	-485,728	48%
Under Construction (SF)	408,700	408,700	100%
Average Asking Rent (NNN)	$1.58	$1.68	106%
Total Gross Activity (SF)	1,324,274	709,368	54%
Gross Activity 100K+ (SF)	229,556	0	0%
100K+ Gross Activity Share	17%	0%	0%

Market Conditions and Trends

Occupancy and Absorption

The market has experienced seven consecutive quarters of negative net absorption through Q3 2024, leading to an increase in overall vacancy to 3.8%. While this represents a significant shift from the historic low of 1.7% in early 2022, it remains relatively low compared to other major markets. Total availability, including sublease space, has reached 5.7%.

Rental Rates

Asking rents in the market have declined by approximately 17% from 2023 peaks, marking the first downturn in over a decade (CoStar Group, 2024). This marks the first significant rental rate correction in over a decade. Landlords are also offering increased concessions, with some deals including 4-5 months of free rent on five-year lease terms.

Construction Activity

Development activity has moderated significantly, with 6.2M SF under construction, down from the cycle peak of 9.7M SF in Q2 2023. Limited land availability and high construction costs continue to constrain new supply, with less than 5% of the market's inventory built in the past decade.

Leasing Activity

Despite occupancy challenges, leasing activity showed signs of improvement in Q3 2024, reaching 11.9M SF - the highest level since Q3 2021. This uptick in activity suggests potential stabilization in market fundamentals heading into 2025.

Supply-Demand Balance Assessment

Table 3.3: Vacancy and Rent Trends

Los Angeles Industrial

Year	2017	2018	2019	2020	2021	2022	2023	2024
Vacancy Rate	2.2%	2.3%	2.4%	3.4%	1.9%	2.4%	4.2%	6.2%

Year	2017	2018	2019	2020	2021	2022	2023	2024
Asking Rent ($/SF)	$12.03	$12.92	$13.78	$14.78	$16.40	$18.19	$19.05	$17.97
Growth Rate		7.4%	6.7%	7.3%	11.0%	10.9%	4.7%	-5.7%
Average Growth Rate	6.0%							

Data Source: Costar Data

The Los Angeles industrial market has experienced fluctuating trends over the past eight years, as highlighted by this data. Vacancy rates have increased from 2.2% in 2017 to 6.2% in 2024, reflecting rising availability within the market, particularly following a low of 1.9% in 2021. Asking rents per square foot have shown significant growth overall, increasing from $12.03 in 2017 to a peak of $19.05 in 2023, before declining slightly to $17.97 in 2024. The average annual rent growth rate over the period is 6.0%, with notable spikes in 2021 and 2022 at 11.0% and 10.9%, respectively, likely driven by high demand and constrained supply. However, the rent decline of -5.7% in 2024 suggests market corrections amidst increasing vacancies, pointing to a potential shift in market dynamics. This data highlights a historically strong industrial market in Los Angeles, with recent signs of softening that merit close monitoring.

The Los Angeles industrial market is experiencing a period of rebalancing after unprecedented tight conditions in 2021-2022:

Supply Factors:

- New construction remains limited at 6.2M SF (0.65% of inventory)
- Development pipeline declining from peak levels
- Significant barriers to new construction persist
- Ongoing demolition of obsolete properties helps offset new supply

Demand Factors:

- Negative absorption trend (-2.8M SF YTD) indicating softening demand
- Port activity rebounding with container traffic up 14-15% year-over-year
- Leasing activity showing signs of recovery
- E-commerce and logistics sectors remain active in the market

Market Assessment

While the Los Angeles industrial market has softened from peak conditions, several factors suggest underlying market health:

Strengths:

- Vacancy remains relatively low at 3.8% despite recent increases
- Limited new supply pipeline
- Increasing leasing activity
- Strategic location and port infrastructure supporting long-term demand

Challenges:

- Seven consecutive quarters of negative absorption
- Declining rental rates (-11.3% year-over-year)
- Increasing sublease availability
- Some tenant rightsizing in logistics sector

The market appears to be working through a natural correction after unprecedented tight conditions in 2021-2022. While supply and demand are temporarily imbalanced, structural factors including limited new supply, strategic location advantages, and rebounding port activity suggest potential stabilization in 2025. The relatively low vacancy rate of 3.8% compared to other major markets indicates the correction has not fundamentally impaired market health.

Mid-Counties/Santa Fe Springs Submarket Overview

Submarket Fundamentals

The Mid-Counties submarket, which includes Santa Fe Springs, represents a critical industrial district within Greater Los Angeles, featuring approximately 103 million square feet of inventory (CBRE Research, 2024). Santa Fe Springs specifically contains 71.8 million square feet, making it one of the submarket's largest components.

Table 4.1: Mid-Counties Submarket Statistics (Q3 2024)

Metric	Value	Change
Total Inventory	103.0M SF	-
Vacancy Rate	5.2%	+210 bps YOY
Availability Rate	7.4%	-
Average Asking Rate (NNN)	$1.58/SF/mo	-16.8% YOY
YTD Net Absorption	-1,016,365 SF	-
Under Construction	408,700 SF	-

Data Source: CBRE Greater Los Angeles Industrial Market Report, Q3 2024

Table 4.2: Santa Fe Springs/La Miranda Submarket Trends

Metric	Current	Trend
Total Inventory	71.8M SF	Stable
Vacancy Rate	6.0%	Up from 0.8% in 2022
Direct Asking Rate	$16.21/SF/yr	-4.7% YOY
12-Month Net Absorption	-1.6M SF	Negative
Under Construction	588,050 SF	5 buildings

Data Source: CoStar Market Report, Q4 2024

Table 4.3: Vacancy and Rent Trends

Santa Fe Springs/La Miranda Industrial

Year	2017	2018	2019	2020	2021	2022	2023	2024
Vacancy Rate	1.6%	1.7%	2.4%	3.8%	1.4%	1.1%	3.6%	6.3%
Year	2017	2018	2019	2020	2021	2022	2023	2024
Asking Rent ($/SF)	$10.43	$11.24	$12.02	$12.95	$14.49	$16.20	$17.05	$16.08
Growth Rate		7.8%	6.9%	7.7%	11.9%	11.8%	5.2%	-5.7%
Average Growth Rate	**6.5%**							

Data Source: CoStar Data

Submarket Assessment

The Santa Fe Springs/La Mirada submarket demonstrates both significant strengths and emerging challenges in the current market environment. The submarket's strategic positioning between Los Angeles and Orange Counties, coupled with exceptional access to the I-5 and I-605 freeways, creates enduring locational advantages. Its proximity to the Ports of Los Angeles and Long Beach (18 miles) and access to BNSF intermodal facilities further enhances its appeal for logistics operations. The submarket's modern inventory base, characterized by generous 36-foot clear heights, positions it well above many competing submarkets in terms of building specifications.

However, the submarket has experienced notable deterioration in fundamental metrics since 2022. Vacancy rates have increased dramatically from a tight 0.8% in 2022 to 6.0% by the end of 2024, while rental rates have declined 16.8% year-over-year. This softening has been driven by several significant tenant move-outs, including Marathon Distribution Services vacating 195,000 SF, Daiso's departure from their 220,000 SF headquarters facility, and exits by GA Gertmenian (133,000 SF) and Shift (153,000 SF). The rising availability of sublease space, now at 1.7% of inventory, further indicates tenant contraction within the market.

The submarket faces increasing competitive pressures from newer developments in the Inland Empire, which can offer more modern specifications at competitive rates. This competition, combined with rising vacancy rates in surrounding submarkets, has placed downward pressure on rental rates. Nevertheless, the submarket's fundamental advantages - including its central location, limited land availability for new development, access to a skilled labor force, and superior transportation infrastructure - suggest resilience despite current market softness. These structural strengths should help position the submarket for recovery as market conditions stabilize.

Supply-Demand Balance

Supply Factors

- Current construction pipeline of 588,050 SF across 5 buildings
- Limited land for new development
- Aging inventory creating redevelopment opportunities
- New deliveries trending below historical averages

Demand Factors

- Negative net absorption exceeding 1.6M SF over past 12 months
- Leasing activity showing signs of improvement
- Port-related demand beginning to recover
- E-commerce and logistics tenants remain active

Market Outlook

The Mid-Counties/Santa Fe Springs submarket is experiencing a correction after exceptional performance in 2021-2022, but several factors suggest potential stabilization:

Positive Indicators:

- Limited new supply pipeline

- Strategic location advantages remain strong
- Improving port activity driving logistics demand
- Signs of increasing leasing activity

Concerns:

- Continued negative absorption
- Rising vacancy and availability rates
- Downward pressure on rents
- Tenant move-outs and rightsizing

While current market metrics show stress, the submarket's fundamental advantages of location, infrastructure, and supply constraints remain intact. The recent softening appears cyclical rather than structural, with potential for stabilization as port activity recovers and new supply remains limited.

The submarket's position as a critical "infill" location between Los Angeles and Orange Counties, combined with excellent transportation infrastructure and a lack of developable land, suggests long-term resilience despite current market challenges. The recent increase in vacancy, while significant, provides opportunities for tenants that were previously priced out of the market, potentially supporting absorption as market conditions normalize.

Property Summary

Property Overview

12588 Florence Avenue represents a Class A industrial distribution facility built in 2018. The LEED-certified property features modern specifications designed to accommodate large distribution users with significant container volume requirements.

Table 5.1 Property Details

Category	Specification
Building Size	397,560 SF
Year Built	January 2018
Land Area	16.36 acres (712,642 SF)
Floor Area Ratio	0.56
Clear Height	36 feet
Construction Type	Reinforced Concrete
Power	2,000a/277 - 480v Heavy
Certification	LEED Certified (2018)

Data Source: Property Summary Report, CoStar Property Data

Loading & Access Features

- 52 exterior dock-high doors
- 2 drive-in doors
- 185' truck court depth
- ESFR sprinkler system
- Superior site access and maneuverability

Parking & Site Features

- 149 surface parking spaces

- Parking ratio: 0.37/1,000 SF
- Secured fenced lot
- 24-hour access
- Generous truck maneuvering space

Current Occupancy

- Single-tenant building
- 100% leased to Fashion Nova through December 31, 2027

Property Analysis: Strengths

Modern Class A Specifications

- LEED certification demonstrating sustainability
- 36' clear height exceeding market standards
- ESFR sprinkler system for maximum flexibility
- Heavy power suitable for diverse industrial users

Strategic Location

- Less than 2 miles from I-5 and I-605 intersection
- 18 miles from Ports of Los Angeles/Long Beach
- 20 miles from Los Angeles International Airport
- 10 miles from BNSF intermodal yard
- Central position between Los Angeles and Orange County markets

Functional Design

- Abundant dock-high loading (52 doors)
- Generous 185' truck court depth

- Modern power systems supporting heavy industrial use
- Flexible layout suitable for distribution or warehouse users
- Efficient site circulation and access

Property Analysis: Challenges

Parking Constraints

- Limited parking ratio of 0.37/1,000 SF
- Only 149 spaces could restrict certain user types
- Below market standard for high employment uses
- May impact future leasing flexibility

Market Timing

- Current market showing signs of softening
- Overall market vacancy increasing to 6.1%
- Rental rates declining 17% from 2023 peaks
- Potential impact on future leasing assumptions

Location Considerations

- Car-dependent area (Walk Score: 31)
- Located in area with aging industrial stock
- Subject to California's stringent environmental regulations
- Limited public transportation access

Property Positioning

Despite certain challenges, the property represents an institutional-quality industrial asset with specifications that should maintain competitiveness through market cycles. The modern features, strategic location, and functional design position it well for distribution and logistics users, particularly those requiring port access and regional distribution capabilities.

The property's main constraint - limited parking - is partially offset by the efficient design and abundant loading positions. While current market conditions present near-term challenges, the property's core attributes align well with long-term industrial demand drivers in the Los Angeles market.

Property Location Analysis

Submarket Position

The subject property occupies a strategic position within the Santa Fe Springs/La Mirada submarket, part of the broader Mid-Counties region of Los Angeles. This established industrial district contains over 71.8 million square feet of inventory and has historically served as a critical link between Los Angeles and Orange County markets.

Market Context and Fit

The property represents one of the submarket's premier industrial facilities, demonstrated by several key metrics:

Table 6.1: Property Position vs. Submarket Standards

Property	Size (SF)	Year Built	Clear Height	Rating	Asking Rent	Notable Features
Subject Property	397,560	2018	36'	5-Star	-	LEED Certified, Superior Highway Access
Bridge Point Long Beach	415,312	2020	36'	5-Star	$18.10	Largest Floor Plate, Port Proximity
2101 W Flotilla St	326,517	2016	32'	4-Star	$25.80	Strong Last-Mile Location
13012 Molette St	322,406	2015	32'	4-Star	$16.68	Central Mid-Counties Position
17411 Valley Blvd	350,256	2017	32'	4-Star	$14.40	San Gabriel Valley Location

Source: Costar Data, December 2024

Competitive Position Analysis

Figure 7.1: Property Map

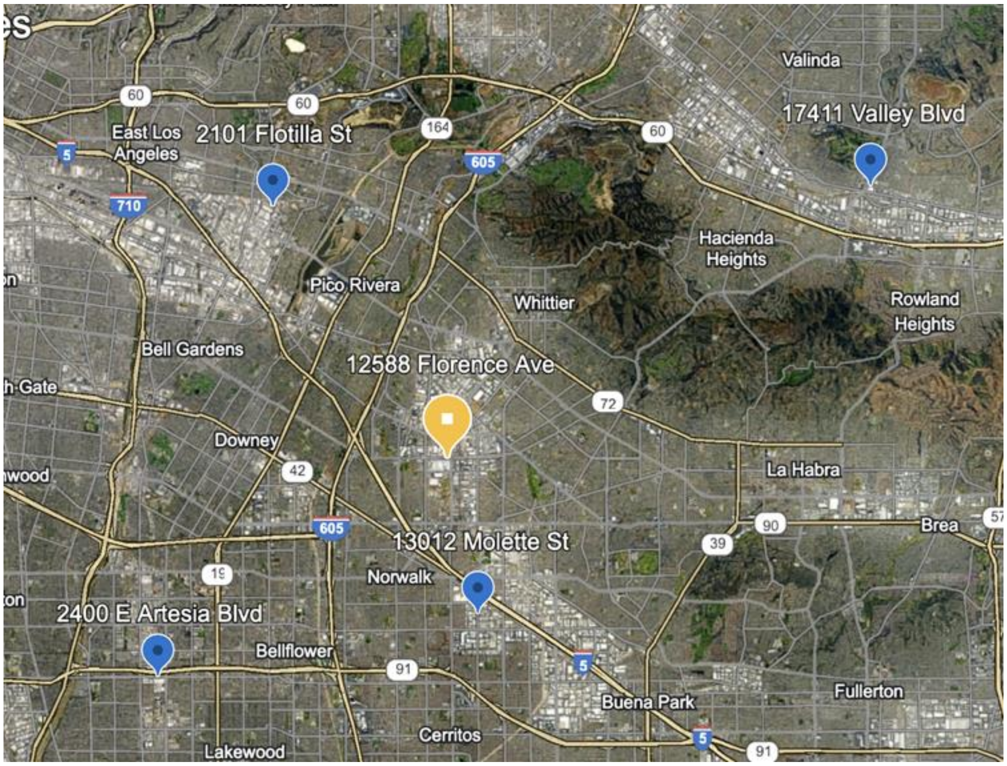


Table 7.2: Comp Set

Map #	Address	Sub-Market	Building Size (SF)	Year Built	Clear Height	Dock-High Doors	Drive-In Doors	k Court De	Power	inkler Syst	rking Spac	Size (Acr	Occupancy	ion Advan	Rating
1	12588 Florence Ave	Mid-Counties	397,560	2018	36'	52	2	185'	2000A / 277-480V	ESFR	149	10.36	ased to Fash	s of LA/Long	5-Star
2	2101 W Flotilla St	Montebello	326,517	2002	30'	66	2	167'	400A / 277-480V	ESFR	227	14.72	Available	ess to Comm	4-Star
3	2400 E Artesia Blvd	South Bay	415,312	2021	36'	53	2	185'	2000A / 277-480V	ESFR	453	17.23	Available	reeways, 13	5-Star
4	13012 Molette St	Mid-Counties	322,406	1987	30'	52	1	N/A	800-4000A / 240-480V	ESFR	306	12.69	Available	Springs, acc	4-Star
5	17411 Valley Blvd	San Gabriel Valley	350,256	1992	37'	32	2	267'	1000-3000A / 277-480V	ESFR	214	13.31	Available	60 Freeway v	4-Star

Data Source: CoStar

<u>Overview of Competitive Set</u>

The competitive analysis examines five institutional-quality distribution facilities in the Greater Los Angeles market, including the subject property at 12588 Florence Avenue. These properties represent the most directly comparable assets based on building size, specifications, and market position.

Physical Characteristics Comparison

Building Specifications

The subject property at 397,560 SF sits comfortably within the size range of the competitive set, which spans from 322,406 SF to 415,312 SF. Built in 2018, it represents newer vintage construction, with only 2400 E Artesia Blvd (built 2021) being more recently developed. The property's 36-foot clear height matches the market's highest standard, shared only with 2400 E Artesia Blvd, while other competitors range from 30-37 feet.

Loading and Power

The subject property features superior loading capabilities with 52 dock-high doors and 2 drive-in doors, providing one dock position per approximately 7,650 SF. This ratio positions it favorably against competitors, though 2101 W Flotilla St offers a slightly better ratio with 66 dock doors for its smaller footprint. The property's power infrastructure (2,000a/277-480v) is competitive with the set, though some properties like 17411 Valley Blvd offer higher amperage.

Truck Courts and Site Layout

The 185-foot truck court depth at the subject property is competitive within the set, though 2400 E Artesia Blvd and 17411 Valley Blvd offer slightly deeper courts at 267 feet. The property's 0.37/1,000 SF parking ratio, while adequate for industrial use, positions it at the lower end of the competitive set.

Competitive Positioning: Strengths

1. **Modern Vintage and Specifications**
    - One of only two properties built since 2018
    - Industry-leading 36-foot clear height
    - LEED certification providing operational efficiency advantages

2. **Strategic Location**
   - Superior access to both I-5 and I-605
   - Central position between Los Angeles and Orange County markets
   - Proximity to multiple intermodal facilities
3. **Institutional Quality**
   - 5-star rating shared only with 2400 E Artesia Blvd
   - Professional management by Goodman
   - Modern building systems and sustainable design features

Competitive Positioning: Challenges

1. **Competition from Newer Product**
   - 2400 E Artesia Blvd offers similar specifications with newer construction
   - Some competitors offer deeper truck courts
   - Limited parking ratio compared to newer developments
2. **Market Rate Pressure**
   - Competitive properties in Mid-Counties submarket offering rates in the $16-17/SF range
   - Premium pricing for 5-star product may face resistance in current market conditions

Market Position and Rent Conclusion

The subject property maintains a strong competitive position within this set. While 2400 E Artesia Blvd presents the most direct competition as the other 5-star facility, the subject property's central location and established market position provide distinct advantages. The remaining competitors, while similar in size, generally offer inferior clear heights and older vintage construction.

Current asking rents in the competitive set range from $14.40 to $25.80 PSF NNN, with a notable premium for properties in superior locations. Given the subject's physical characteristics, location advantages, and institutional ownership, it should command rents at the higher end of this range, though current market conditions may require some flexibility in rate and concession negotiations.

The property's modern specifications, sustainable design features, and strategic location should allow it to maintain its competitive position even as new supply enters the market, particularly given the limited development sites available in the Mid-Counties submarket.

Cash Flow Projection and Investment Returns

Current Lease Analysis

The property is currently leased to Fashion Nova through December 31, 2027, providing stable near-term cash flow with upside potential. The existing lease terms include a monthly rent of $1.20 PSF NNN with 4% annual escalations. This below-market rate creates an attractive mark-to-market opportunity upon lease expiration, though it results in a lower initial yield.

Operating Expense Structure

The operating budget reflects institutional-quality standards with total expenses of $3.85 PSF annually:

- Property taxes: $3.00 PSF
- Insurance: $0.30 PSF
- CAM: $0.35 PSF
- Property management: $0.20 PSF

  All expenses are projected to grow at 3% annually, aligned with market inflation expectations.

Re-Tenanting Assumptions

The analysis incorporates the following market-standard assumptions for re-leasing after Fashion Nova's departure:

- Market rent (Jan 2028): $1.64 PSF monthly
- Annual escalations: 3%
- Downtime: 6 months
- Free rent: 2 months
- Tenant improvements: $3.00 PSF
- Leasing commissions: 6.5%
- General vacancy: 5%

Cash Flow Summary

The 5-year projected net cash flows demonstrate the property's value creation potential:

Table 8.1: Net Cash Flow Summary

Year	Net Cash Flow
2025	$5,383,482
2026	$5,600,204
2027	$5,825,636
2028	($1,958,873)
2029	$7,617,155

The negative cash flow in Year 4 reflects the lease turnover period and associated costs, before stabilizing at higher market rents in Year 5.

Table 8.2: Cash Flow Pro Forma

Cash Flows	Year 1 1/1/2025	Year 2 1/1/2026	Year 3 1/1/2027	Year 4 1/1/2028	Year 5 1/1/2029	Year 6 1/1/2030	Year 7 1/1/2031	Year 8 1/1/2032	Year 9 1/1/2033	Year 10 1/1/2034
Revenue:										
Base Rental Income	$ 5,812,344	$ 6,044,838	$ 6,286,631	$ 3,971,768	$ 8,181,843	$ 8,427,298	$ 8,680,117	$ 8,940,521	$ 9,208,736	$ 9,484,998
Free Rent & Concessions				$ (661,961)						
Expense Reimbursements	$ 1,553,995	$ 1,600,615	$ 1,648,633	$ 1,698,092	$ 1,749,035	$ 1,801,506	$ 1,855,551	$ 1,911,218	$ 1,968,554	$ 2,027,611
Potential Gross Revenue	$ 7,366,339	$ 7,645,452	$ 7,935,264	$ 5,007,899	$ 9,930,878	$ 10,228,804	$ 10,535,668	$ 10,851,738	$ 11,177,290	$ 11,512,609
General Vacancy	$ (368,317)	$ (382,273)	$ (396,763)	$ (250,395)	$ (496,544)	$ (511,440)	$ (526,783)	$ (542,587)	$ (558,865)	$ (575,630)
Effective Gross Revenue	$ 6,998,022	$ 7,263,180	$ 7,538,501	$ 4,757,504	$ 9,434,334	$ 9,717,364	$ 10,008,885	$ 10,309,151	$ 10,618,426	$ 10,936,979
Operating Expenses:										
Insurance	$ (121,091)	$ (124,723)	$ (128,465)	$ (132,319)	$ (136,288)	$ (140,377)	$ (144,588)	$ (148,926)	$ (153,394)	$ (157,996)
Property Taxes	$ (1,210,905)	$ (1,247,232)	$ (1,284,649)	$ (1,323,189)	$ (1,362,884)	$ (1,403,771)	$ (1,445,884)	$ (1,489,260)	$ (1,533,938)	$ (1,579,956)
CAM	$ (141,272)	$ (145,510)	$ (149,876)	$ (154,372)	$ (159,003)	$ (163,773)	$ (168,686)	$ (173,747)	$ (178,959)	$ (184,328)
Property Management	$ (80,727)	$ (83,149)	$ (85,643)	$ (88,213)	$ (90,859)	$ (93,585)	$ (96,392)	$ (99,284)	$ (102,263)	$ (105,330)
Total OpEx	$ (1,553,995)	$ (1,600,615)	$ (1,648,633)	$ (1,698,092)	$ (1,749,035)	$ (1,801,506)	$ (1,855,551)	$ (1,911,218)	$ (1,968,554)	$ (2,027,611)
NOI	**$ 5,444,027**	**$ 5,662,565**	**$ 5,889,868**	**$ 3,059,412**	**$ 7,685,299**	**$ 7,915,858**	**$ 8,153,334**	**$ 8,397,934**	**$ 8,649,872**	**$ 8,909,368**
Capital Reserves	$ (60,545)	$ (62,362)	$ (64,232)	$ (66,159)	$ (68,144)	$ (70,189)	$ (72,294)	$ (74,463)	$ (76,697)	$ (78,998)
Leasing Commissions				$ (3,741,221)						
Tenant Improvements				$ (1,210,905)						
Cash Flow	**$ 5,383,482**	**$ 5,600,204**	**$ 5,825,636**	**$ (1,958,873)**	**$ 7,617,155**	**$ 7,845,669**	**$ 8,081,040**	**$ 8,323,471**	**$ 8,573,175**	**$ 8,830,370**
Purchase Price	$ (112,000,000)									
Acquisition Costs	$ (1,120,000)									
Sale Price					$ 131,930,967					
Selling Expense					$ (1,978,964)					
NCF	**$ (107,736,518)**	**$ 5,600,204**	**$ 5,825,636**	**$ (1,958,873)**	**$ 137,569,157**	**$ 7,845,669**	**$ 8,081,040**	**$ 8,323,471**	**$ 8,573,175**	**$ 8,830,370**

Investment Returns

Based on the projected cash flows and an exit cap rate of 6.00%, the investment is expected to generate:

- Initial cap rate: 4.9%
- IRR: 8.53%
- Equity multiple: 1.36x
- Total profit: $40.4 million
- Sale price (Year 5): $131.9 million
- Net Present Value: $2,005,819

The investment's initial cap rate of 4.9% indicates a modest immediate return, suggesting potential for future income growth. An internal rate of return (IRR) of 8.53% reflects a moderate annualized return over the holding period. An equity multiple of 1.36x implies that for every dollar invested, there's an expected total return of $1.36, combining both the initial investment and profit. The projected sale price of $131.9 million in Year 5, based on a 6.00% exit cap rate, contributes to a total anticipated profit of $40.4 million. A positive net present value (NPV) of $2,005,819 suggests the investment is expected to generate value above the required return, indicating profitability. Overall, these metrics point to a moderately profitable investment with steady growth prospects.

Sales Comparable Analysis

Table 8.1: Recent Notable Transactions

Property	Size (SF)	Sale Date	Price/SF	Cap Rate	Year Built
Currier Industrial Center	147,490	Jun 2024	$384	-	2024
5010 Azusa Canyon Rd	186,844	Feb 2024	$379	5.3%	2022
8901-8945 Canoga Ave	154,328	Apr 2024	$369	5.4%	1999
918 S Stimson Ave	282,377	Oct 2024	$212	-	1981

Data Source: Costar

The proposed purchase price of $112 million ($282/SF) appears well-supported by recent market transactions. Modern Class A properties are achieving $369-384 PSF, though these tend to be smaller facilities. The subject's pricing appropriately reflects:

- Premium building quality (2018 vintage)
- Larger building size (397,560 SF)
- Below-market in-place rent
- Strong location fundamentals
- Market cap rates of 5.3-5.4% for similar assets

The initial 4.9% cap rate is justified by the below-market lease and mark-to-market opportunity, with recent comparable sales supporting the overall pricing metrics.

Risk Analysis

Market Vacancy & Demand Risk

The Santa Fe Springs/La Mirada submarket faces significant occupancy challenges in the current environment. Vacancy rates have risen dramatically from under 1% in 2023 to 6.0% currently, with negative absorption of 1.6 million SF year-to-date. This trend is particularly pronounced in the logistics sector, where vacancy has reached 7.4% - notably higher than specialized industrial (3.4%) and flex space (3.6%). Large logistics facilities between 250,000-500,000 SF, like the subject property, have experienced the sharpest vacancy increases, approaching 8%.

To mitigate these occupancy risks, I recommend:

- Implementing an aggressive early marketing program beginning 18 months before lease expiration
- Maintaining flexibility to subdivide the space if market conditions warrant
- Establishing higher reserves for extended lease-up periods and increased concessions
- Leveraging the property's superior specifications to target credit tenants requiring modern facilities

Rental Rate Risk

Market rents have declined significantly, with asking rates in the submarket down 16% to $16.21/SF. Increased concessions have become prevalent, with 4-5 months of free rent common on five-year deals. Some properties report effective rents declining as much as 25% from peak levels. This rental rate pressure directly impacts both near-term cash flow and potential disposition value.

Mitigation strategy includes:

- Conservative underwriting assuming continued rent pressure through 2025
- Targeting longer lease terms (7-10 years) to lock in rates when releasing

- Building higher operational reserves to account for market-standard concession packages
- Marketing focused on the property's premium features to support higher rents

Capital Markets Risk

The investment sales market has seen meaningful shifts, with cap rates expanding over 100 basis points into the mid-5% range. Recent comparable sales in Santa Fe Springs demonstrate cap rates between 5.1-5.9%. Additionally, the new ULA transfer tax (4-5.5% on sales over $5M) creates friction for future disposition.

To address these capital markets risks, I propose:

- Securing longer-term fixed-rate debt while available
- Strategic timing of exit to align with projected market recovery in 2026-2027
- Conservative leverage to provide buffer against potential value declines
- Developing relationships with credit tenants as potential future buyers

Recommendation

Based on my detailed analysis, I recommend **passing** on the acquisition of 12588 Florence Avenue at $112,000,000 ($282/SF). While the property represents institutional-quality real estate, several key factors suggest the current pricing does not adequately compensate for market risks and the challenging leasing environment.

Key Factors:

Current Market Dynamics: The Greater Los Angeles industrial market is experiencing significant headwinds. According to CBRE's Q3 2024 report, the market has seen seven consecutive quarters of negative absorption, with vacancy increasing to 3.8%. More concerning for the submarket, Santa Fe Springs/La Mirada's vacancy has risen from less than 1% in 2023 to 6.0% currently. Market rents have declined approximately 17% from 2023 peaks, with effective rents down as much as 25% when accounting for increased concessions.

Financial Analysis Concerns: The projected returns fall short of providing adequate compensation for current risks:

- The projected 8.53% IRR only marginally exceeds the 8.00% target, providing minimal cushion for further market deterioration
- The 4.9% Year 1 cap rate sits well below the market average of 5.3% for industrial properties
- The exit cap rate assumption of 6.0% may prove optimistic given rising interest rates and expanded market vacancy

Leasing Risk: The property faces significant leasing exposure:

- The existing tenant vacates at the end of 2027, requiring a full building lease-up

- The projected $1.64/SF market rent assumption appears aggressive given current market conditions where Class A rents have fallen to the $1.50-$1.75 range
- New supply (588,050 SF under construction in the submarket) will provide direct competition during the projected lease-up period

Valuation: Recent market transactions suggest the pricing may be aggressive:

- Recent comparable sales in Santa Fe Springs traded at cap rates between 5.1-5.9%
- The Greenlaw Partners portfolio acquisition in August 2024 at $295/SF included similar vintage properties at a 5.1% cap rate (Real Capital Analytics, 2024).
- The proposed purchase price of $282/SF provides minimal discount to recent trades despite deteriorating market conditions

Mitigation Challenges: While the property's quality and location provide some defensive characteristics, they may not sufficiently mitigate current risks:

- Expanding vacancy in logistics facilities (6.7% market wide) suggests even well-located properties face leasing challenges
- Rising interest rates and inflation continue pressuring industrial valuations
- The ULA transfer tax adds additional cost burden on future disposition

While I acknowledge the property's strong physical attributes and strategic location, I believe current pricing does not adequately reflect market risks and leasing uncertainty. A more attractive basis closer to $250/SF would better align with market fundamentals and provide greater downside protection. At the current proposed pricing, I recommend passing on this opportunity and remaining patient for more attractive industrial investments as market conditions stabilize.

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