

Third Quarter Commercial Market Update

Industrial Market Update

The Greater Los Angeles industrial market has shown signs of slowing for the first time in years but not due to lack of demand which continues to be the highest in the country. Distribution and e-commerce companies accounted for the largest leases in the market. The vacancy rate has marginally increased to 2.3 percent. Average asking rents reached a peak of an average of \$1.01 per square foot. The challenges to the current market are minimal availability and decreased major port productivity. New construction continues to drive the market, taking up most of the active leasing, but will not be enough to reduce the pressure of this highly competitive market.

The San Gabriel Valley market maintains strong leasing activity with increased rents and decreased vacancy. Continuing to drop from last quarter, at 1.1%, vacancy has again reached an all-time low. An estimated 2.5 million square feet is currently under construction in the San Gabriel Valley and expected to be delivered to the market in the next eight to twelve months. Most of this construction is comprised of three buildings approximately 500K. The average lease rate is estimated at \$0.98 for flex space and \$0.86 for warehouse/industrial space.

Office Market Update

The greater Los Angeles office market continues to see vacancy rates decrease and lease rates increasing quarter over quarter. Tech, entertainment, media and co-working companies continue as the dominating force behind leasing activity.

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The average lease rate is \$3.31 per square foot and the vacancy rate is reported at 13.1 percent. In Quarter three just under one million square feet was delivered to the market and over 7 million square feet is under construction.

The San Gabriel Valley office market has also seen increased leasing activity which has tightened the supply. The vacancy rate is reported at 10.9 percent for the first quarter. The average asking rent for Class A buildings which are higher quality build-out and amenities increased to \$2.69 per square foot. The average asking rent for Class B buildings was reported at \$2.32 per square foot. New construction currently underway is estimated at about 93K square feet.

Source: CoStar Newsletter October 2019, The Real Deal and Los Angeles Business Journal

Current SBA 504 Effective Rate for
November 2019 3.74%

FDIC Outlook on Commercial Real Estate

The FDIC noted another strong quarter for the commercial real estate market fueled by heavy demand, low interest rates and continued business growth. Interest rates were cut twice in the third quarter making the cost to acquire capital much less. Currently banks hold more than 61% of all commercial real estate loans outstanding which is near a record high. However, there are suggestions from the FDIC to take precautions for a market shift and slower

Economic growth. It has been noted that underwriting on loans has become more aggressive signified by declines in underwritten cap rates and debt yields. The retail market has been more volatile than other markets with many companies facing store closures especially big-box retailers such as Forever 21, CVS, Etc. The industrial and multi-family markets remain strong with continued demand and strong sales and construction activity.

The FDIC is urging the markets and banks to be conservative and monitor the signs of the commercial market reaching its peak for this cycle. Insight from FDIC Chairman McWilliams states "Commercial real estate cycles tend to be local. While national factors like the business cycle and interest rates can weigh on commercial real estate across market geographies, regional trends can serve to moderate, or to exacerbate, the trends in local markets."

Source: CoStar Newsletter November 20, 2019

New Listing: Medical Office Building



First Time on the Market!

Medical office building with successful Rheumatology business for over 30 years. Possible to purchase business.

Four exam rooms with plumbing, reception, waiting area, doctor's office, 2 restrooms and lab.

2322 S Garfield Ave Monterey Park

Rear parking lot with alley access and direct entry to the 60 freeway.

Please contact me for more information.



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Linda specializes in commercial and industrial sales and leasing throughout the San Gabriel Valley. She has extensive knowledge in 1031 exchange transactions, investment opportunities, and market analysis. Feel free to contact Linda with any questions or requests for information.

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