PORT AUTHORITIES
Three of the West’s top port and logistics experts weigh in on what’s impacting California’s biggest export and import hubs — for better and for worse.

RAPID LOGISTICS GROWTH MEANS BIG CHANGES FOR INDUSTRIAL PRODUCT
By Pat Ward, Founder, MetroGroup Realty Finance in Newport Beach, Calif.

The industrial real estate sector and logistics tend to go hand in hand. As the logistics industry continues to grow and evolve, so does industrial real estate.

Research indicates that the global market value of the logistics industry has surpassed $4 trillion, which equates to 10 percent of the global GDP. In addition, it is predicted that the U.S. alone will have more than 1.1 million logistics job openings between 2015 and 2026.

The question is — how will this tremendous growth impact the industrial real estate sector?

Below are three primary impacts that are already underway in the U.S. industrial market:

Impact #1: Changes in Industrial Development
As the logistics sector grows, we will continue to see changes in the way industrial buildings are developed.

For example, the big box industrial buildings of the past typically ranged from 200,000 square feet to 300,000 square feet. Today’s industrial users are seeking buildings in the 1-million- to 1.5-million-square-foot range.

This significant increase in building size has created an opportunity for companies to consolidate their regional hubs and utilize fewer, larger, more sophisticated warehouses. Companies that formerly had 10 to 15 regional hubs now have the opportunity to consolidate into three or four hubs throughout the country.

Industrial buildings are also being developed with taller clear heights, enabling users to utilize more vertical space than ever before. Industrial warehouses were being developed with 24-foot clear heights several years ago. Today, they are being developed with 36-foot clear heights and taller.

Material handling innovations within industrial buildings are also improving and will continue to impact industrial development. For example, robotics and conveyor systems are becoming increasingly sophisticated, changing the way goods are handled within industrial buildings. The advent of these more sophisticated systems and products make the logistics sector more efficient and will continue to translate into changes in industrial product.

Overall, owners, developers and investors will continue to change the way industrial product is being developed to meet the growing demands of the logistics sector and ensure properties are attracting this significant group of leasing prospects.

Impact #2: Record-High Demand for Industrial Properties
The growth of the logistics industry has also significantly increased demand for industrial properties throughout the U.S. This has spurred incredibly low vacancy rates and driven up occupancy costs in many major markets.

As a result, developers are planning large distribution centers farther and farther away from population centers and regional centers and tertiary markets. The demand for industrial product in secondary and tertiary markets will continue to grow, especially as developers move outside of primary metros in search of lower land prices.

There is also a strong shift toward “inland ports” in cities like Chicago, Memphis and Kansas City, which provide an opportunity to receive products via rail from seaports.

Inland ports will continue to increase as land prices rise and industrial properties are developed farther away from population centers. Inland ports provide a more economical way to ship goods and relieve pressure from port areas.

Even though inland ports will continue to gain in popularity, large, deep-water port markets will also thrive. The West Coast will remain one of the most dynamic industrial markets in the country due to the significant volume of the seaports of Los Angeles and Long Beach.

Impact #3: Inadequate Supply to Support Demand
The record demand for industrial properties throughout the U.S. will continue to outpace the supply of industrial buildings and land available in prime metro and “inland port” areas.

About 130 million square feet of new industrial supply will hit the U.S. industrial market by the end of this year. Much of this new supply will be pre-leased, as a result of the significant demand for industrial product. Areas with severe inadequate supply or no room for development will see an increasing number of build-to-suit industrial options to accommodate tenant needs.

The vacancy rates for industrial product will continue to decline further, driving up rents, especially in supply constrained areas. Industrial users are keenly aware of occupancy costs as a percent of revenue, and as occupancy costs continue to rise, these users will find ways to utilize their facilities more wisely as they develop increasingly sophisticated strategies for efficiency.

We’ve seen tremendous changes in industrial real estate, thanks to the rapid growth of the logistics sector. Industrial buildings are being developed to better fit the needs of evolving logistics users as strong demand drives industrial product outside of prime population centers and a lack of adequate supply increases land and occupancy costs.

As e-commerce continues to expand and consumer confidence rises, the logistics sector will continue its substantial growth, and industrial real estate will evolve and grow alongside it.

PORTS OF LA, LONG BEACH SEE DOUBLE-DIGIT DROP IN EXPORTS
By J.C. Casillas, Director of Research and Public Relations, NAI Capital in Encino, Calif.

Total outbound loaded cargo volumes at the Ports of Los Angeles (POLA) and Long Beach (POLB) have seen a year-to-date, double-digit drop each month over the past seven months of 2015 when compared to the same period last year. The POLA and POLB are the largest ports in the nation, ranked first and second, respectively. When combined, they are the ninth largest port complex in the world, according to the World Shipping Council.

The two ports handle about 43 percent of the nation’s total import traffic and 27 percent of its total exports. The POLA and POLB are a key gateway for U.S. imports and exports to the Asia/Pacific region. As the busiest container ports in the U.S., monthly statistics on their container volumes provide an indicator of the U.S. international trade situation and potential impacts on the U.S. economy, including the demand for industrial space in Southern California. The statistics currently reflect a weak market for U.S. exports and waning imports. According to WorldCity & US Trade Numbers and U.S. Census Bureau data, through the first seven months of 2015, the POLA saw exports decrease 22.15 percent, while imports fell 6.78 percent. Exports decreased 18.43 percent and imports fell 18.57 percent at the POLB.

The export commodities that saw the largest declines were scrap iron and steel, which fell 40.27 percent compared to last year, while motor vehicle parts dropped 48.73 percent. Metal scrap has long been a major U.S. export, providing materials to be melted in foreign steel mills or made into new products. The strength of the dollar has made American scrap more expensive abroad, however, cutting demand. China, the U.S.’s largest trading partner, shocked global markets by devaluing its currency. A strong dollar and a slowing Chinese economy are hurting exports. The Los

Port of Los Angeles & Long Beach Yearly Cargo Volumes % Change 2015/2014

Outbound Loaded Cargo Volume (Exports)

<table>
<thead>
<tr>
<th>TEUs: 20-foot equivalent units or 20-foot-long cargo container</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source: NAI Capital Research Department, Port of L.A., Port of L.B</td>
</tr>
</tbody>
</table>

Outbound Loaded Cargo Volume (Exports)
The Port of San Diego is seeking redevelopment visions for this rare opportunity overlooking San Diego Bay.
Angeles region is not only the international trade gateway of America, but it is also a major manufacturing hub. A decline in the exports of manufactured goods affects manufacturing jobs. The State of California Employment Development Department reported LA County lost 1,300 manufacturing jobs between July 2014 and July 2015. Manufacturing is an important component of the region’s economic engine. The LA region holds the top spot in the U.S. for manufacturing employment. Employment figures show manufacturers in the LA region employed some 528,200 workers as of July 2015. Chicago took the No. 2 spot in manufacturing with 408,300 employed.

Southern California’s industrial market serves a large local market and also acts as a gateway into U.S. inland regions. The five-county LA Region (including Los Angeles, Orange, Ventura, San Bernardino and Riverside counties) is home to 18.5 million residents, second only to Washington/Philadelphia/New York/Boston Northeast as one of the most populous mega-regions in the country. The dollar value of imports versus exports highlights that the U.S. is a net importer, importing more than it exports. While cargo volumes have declined, the vacancy rate for industrial space in Southern California remains at a historic low because there is still a tremendous amount of demand. The dip in cargo volume has kept rents from spiking. Asking rents for industrial space have steadily increased from the trough in 2010. Warehouse rents have even surpassed the prior peak reached in 2007.

Warehouse space in LA County will remain in short supply for the foreseeable future. LA proper remains land-constrained, offering few development opportunities and a limited supply of modern industrial space. Users seeking a large, modern distribution facility in the region must consider the Inland Empire. With new construction headed farther inland, trucking is an essential component. There are few alternatives. Users must contend with congested local highways, fuel and drayage costs. Price or rent is a function of proximity to the ports and the supply of available space. High value products for local consumption pay the price to warehouse locally — competing for limited space. Lower value product moves inland or ships directly using on-dock rail, depending on the ultimate destination.

According to the Federal Motor Carrier Safety Administration, a driver may drive a total of 11 hours during the 14-hour period. The drayage industry equates this to a 400-mile effective radius for a truck driver. The ability to make several “turns” to and from the ports in a day is critical for the profitability of a trucking service. A minimum of four turns a day is the typical benchmark needed to cover operating costs at current rates. The center of the Inland Empire is about 75 miles from the ports. Service at the ports requires a special license and newer fuel-efficient engines due to air quality legislation. Freight movers must contend with delays at the ports, traffic congestion and other issues. The economics of providing freight services has created a shortage of drivers at the ports — all problems that must be dealt with to keep the West Coast a top export hub.

PORT OF SAN DIEGO SEEKING VISIONARY REDEVELOPMENT ALONG THE WATERFRONT

By Penny Maus, Program Manager, Port of San Diego

It is a rare occasion to reimagine one of the largest waterfront opportunities overlooking majestic San Diego Bay.

Yet that’s exactly what awaits developers looking to propose a visionary plan to the Port of San Diego that would involve the redevelopment of about 50 acres of prime land and water near San Diego’s Harbor Island. Nested on the north end of the bay, the development would include an innovative commercial and community space that has the potential to become an iconic location in the region.

As the stewards of San Diego Bay, the Port of San Diego has been entrusted with the development of one of our region’s most valuable assets — the waterfront real estate overlooking San Diego Bay. The port is currently issuing a formal solicitation for Statements of Interest, Qualification & Vision (SOIQV) for redevelopment of the 35 acres of land and 13 acres of water located between the Harbor Island yacht basin and the San Diego International Airport.

With built-in recognition and traffic, this prime coastal site offers nearby hotels, multiple restaurants, an events center, a marina and parks. The competitive selection process will allow the port to explore options for this impressive location, test the market and ultimately choose the best proposal that will maximize the potential of the site.

The parcel currently contains several rental car lots, with leases that will expire in 2018. Lockheed Martin and the Harbor Police Department also have structures in this area that can be moved or redeveloped. This allows for a larger area to be redeveloped at once, creating more possibilities for the right respondent to redevelop all 44 acres of land and water in any number of creative combinations.

There is also a contiguous nine-acre parcel currently designated for a future hotel just to the south that is under consideration for this project. The Board of Port Commissioners will hear a proposal in October to add this parcel to the total Harbor Island Redevelopment area in San Diego, bringing the total acreage to 57.

The port has not placed requirements for this stage of the proposals, as we are most interested in hearing what the market says is feasible in this area. However, we do know there is currently little to no retail and believe the site would support retail, as well as additional restaurant and hotel development. In addition, maritime-related industry is a key mission of the port (such as Blue economy or Blue Tech startups) and would be of primary consideration. Equally desirable would be the incorporation of water-dependent public agency use, including the US Navy or US Coast Guard. The port is also interested in consolidating the Harbor Police Department, which is currently housed on this site, as well as the Port Administration Building, which is currently housed off-site. This consolidation could offer efficiencies and allow for future redevelopment opportunities in other locations. Finally, a primary function of the port is to promote recreation and ensure public access to San Diego Bay. Public promenades, plazas and park space will be important components of any vision.

As both stewards of the bay and public servants, the Port of San Diego is committed to finding a balanced use for this area that brings the original vision of an active, vibrant waterfront to life while creating a thriving, water-dependent economy and an open and inviting public space.

The board of port commissioners will hear a proposal in October to add this parcel to the total harbor island redevelopment area in San Diego, bringing the total acreage to 57.