



INDUSTRIAL **MARKET INSIGHTS**

Macroeconomic Drivers Shaping SoCal Industrial

GDP, employment, retail, and e-commerce sales trends shaping demand

MACROECONOMIC TAKEAWAYS

Gross Domestic Product

U.S. economic growth slowed sharply in the fourth quarter of 2025, with real GDP increasing at an annual rate of 0.5%, down from 4.4% in the third quarter and marking a significant loss of momentum late in the year. According to the Bureau of Economic Analysis, the increase in output was driven by gains in consumer spending and investment, though these were partly offset by declines in government spending and exports, while a decrease in imports also supported headline growth. Real final sales to private domestic purchasers rose 1.8%, pointing to continued but softer underlying demand. Price pressures remained elevated, with the gross domestic product price index rising 3.7% in the quarter, while the PCE price index increased 2.9% and the core PCE index excluding food and energy rose 2.7%. BEA also noted that the partial federal government shutdown subtracted about 1.0 percentage point from fourth-quarter real GDP growth.

Employment

U.S. labor market conditions showed a mixed picture in March 2026, with a stronger-than-expected rebound masking persistent underlying softness. Total nonfarm payroll employment increased by 178,000, and the unemployment rate held at 4.3% percent. Job gains were concentrated in health care, construction, and transportation and warehousing, while federal government employment continued to decline, falling 355,000 since its October 2024 peak. Average hourly earnings rose 3.5% over the year, and the average workweek edged down to 34.2 hours. Both the labor force participation rate, at 61.9%, and the employment-population ratio, at 59.2%, changed little, while long-term unemployment held at 1.8 million, up 322,000 over the year, consistent with a labor market stabilizing on the surface but cooling underneath.

Retail & E-Commerce Sales

U.S. retail sales continued to grow into early 2026, reflecting steady consumer spending with e-commerce remaining a key driver. Total retail and food services sales reached \$738.4 billion in February 2026, up 0.6% month over month and up 3.7% year over year, while sales for the December 2025 through February 2026 period increased 3.1% from the same period a year ago. Within retail trade, nonstore retailers outperformed, posting 7.5% annual growth, well above the broader retail average. This strength aligns with e-commerce trends in the fourth quarter of 2025, when online sales rose 5.3% year over year – outpacing total retail sales growth of 2.7% – and accounted for 16.6% of total retail activity, reinforcing the continued shift toward online spending.

LOGISTICS RECALIBRATED

Even before the disruption to energy markets caused by the ongoing turmoil at the Strait of Hormuz started, power and energy consumption were already emerging as one of the most critical site selection factors in Southern California industrial real estate. The core challenge is structural: data center growth, electrification, and a new wave of power-intensive manufacturing users – including EV, battery, and semiconductor producers – are all hitting the grid simultaneously, pushing demand well beyond what existing infrastructure was built to handle.

Delivering meaningful power to a site often requires building or upgrading a substation, a process that can take 8 to 10 years when accounting for permits, engineering, and construction, creating real deal risk when power delivery timelines fail to align with tenant needs. Layered on top of these grid constraints is an accelerating wave of demand from defense and aerospace tenants, as DoD spending increases and AI-enabled defense systems drive durable occupancy needs across industrial and R&D space throughout the region.

Southern California is uniquely positioned to capture this demand, with roughly one-third of U.S. space tech companies and the deepest aerospace engineering talent pool in the country – but only if power infrastructure can keep pace.

OUTLOOK THROUGH YEAR-END

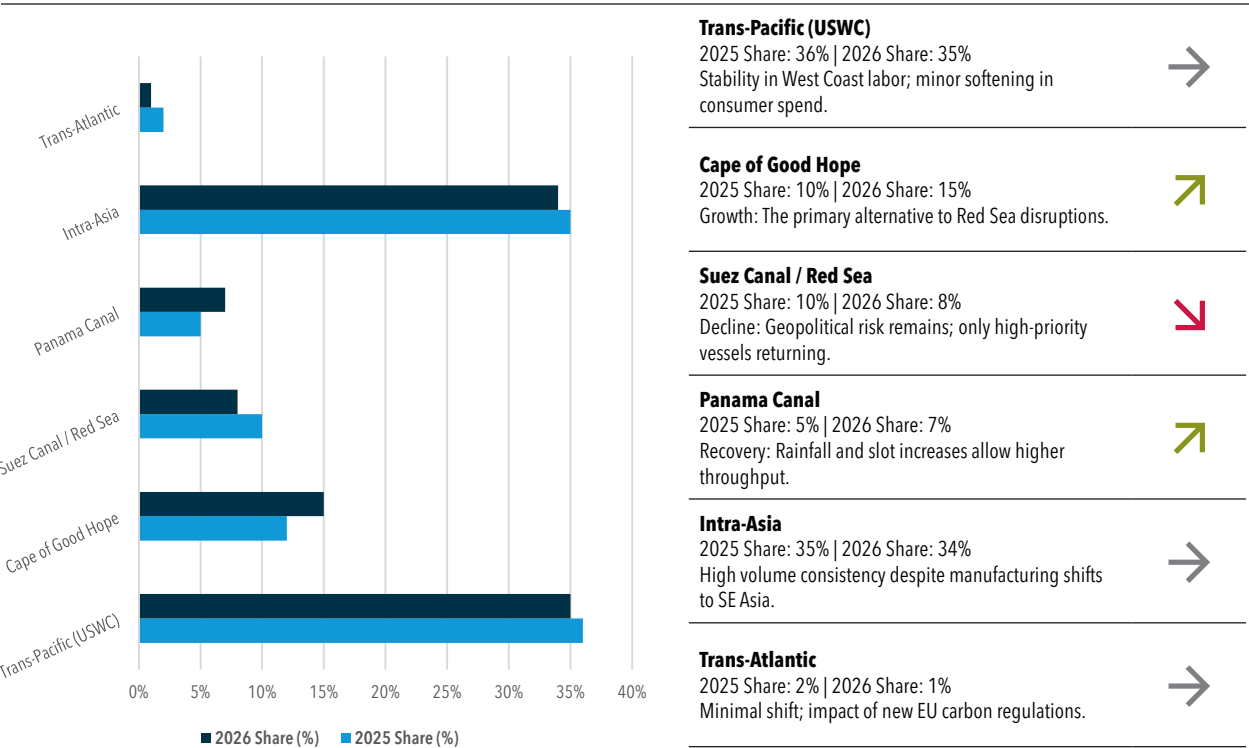
The U.S. economic outlook for 2026 reflects a mixed picture shaped by geopolitical uncertainty, labor market softness, and moderating consumer spending. Real GDP growth is projected to reach 3.0% year over year, with Q1 growth estimated at 3.7% annualized before easing to 3.3% in Q2, supported by recently enacted tax cuts. Inflation is expected to climb again in Q2 to 2.8% as higher oil prices from the Middle East conflict feed through to goods prices, complicating the Federal Reserve's mandate. As a result, only two 25-basis-point rate cuts are anticipated this year in June and September, though risks are rising that these may be delayed if inflation persists. Following February's decline, March rebounded with 178,000 jobs added and the unemployment rate edging down to 4.3%, with gains in health care, construction, and transportation, while federal employment continued to fall. Overall, 2026 is expected to be characterized by moderate growth, AI-powered business investment, softening consumer confidence, and elevated uncertainty.

Cargo Diversion Trends Reshape SoCal Logistics Flows

Shifts in Cargo Routing Begin to Emerge

Global Maritime Route Distribution

Year-Over-Year Share of Containerized Freight by Major Shipping Lane



The Shift to Rail: Why Drayage is Feeling the Squeeze

By The Numbers:

- 3.2 Days: Current average rail dwell time (a 4-year low).
- 38%: Estimated share of containers now leaving via on-dock rail.
- \$1.8B: Investment in the Pier B On-Dock Rail Support Facility to further boost capacity.

While the raw TEU counts for Q1 2026 show a moderate contraction (-4.6% in LA and -5.7% in Long Beach), the logistics ecosystem is experiencing a significant Internal Modal Shift.

The Data Check:

Historical averages typically saw ~30% of containers exiting the port via rail. As of early 2026, intermodal rail moves have surged to an estimated 35% - 38% of total container exits. This is driven by improved rail dwell times—now at a 4-year low of ~3.2 days—which incentivizes shippers to “hook” containers directly to inland ramps (Chicago, Dallas, Memphis) rather than utilizing local SoCal transloading.

Impact on Drayage:

This shift bypasses the local “short-haul” trucking market. Drayage providers are reporting higher operational friction because the remaining “truck-only” cargo is often more complex, subject to tighter terminal appointment windows, and more heavily penalized for delays. In short: The rail is taking the “easy” volume, leaving drayage providers to manage the high-volatility moves with fewer total opportunities.

SOCAL CONTAINER STATISTICS

Quarter	Port	Month	Loaded Inbound TEUs	Loaded Outbound TEUs	Total Loaded TEUs	Empty Inbound TEUs	Empty Outbound TEUs	Total Empty TEUs	Total TEUs 2026	Total TEUs 2025	YOY % Change by Month	YOY % Change by Quarter
Q1	LA	January	421,594	104,297	525,891	115	285,995	286,110	812,000	924,245	-12.14%	-4.60%
		February	433,812	116,633	550,446	17	273,861	273,878	824,323	801,398	2.86%	
		March	380,733	132,129	512,862	60	239,598	239,658	752,520	778,404	-3.33%	
Q1	Long Beach	January	409,818	99,478	509,296	16,273	322,197	338,470	847,766	952,733	-11.02%	-5.73%
		February	368,060	97,422	465,482	15,618	286,426	302,044	767,526	765,385	0.28%	
		March	374,412	104,554	478,966	14,794	281,176	295,970	774,936	817,457	-5.20%	

South Bay | 1Q26 Market Fundamentals

Vacancy, absorption, rents, and construction trends shaping the gateway submarket

KPI Highlights

Vacancy Rate (% Total)

 **6.3%**
Prev. Quarter: 6.1%

Net Absorption (SF)

 **(1,596,614)**
Prev. Quarter: 134,377

Deliveries (SF)

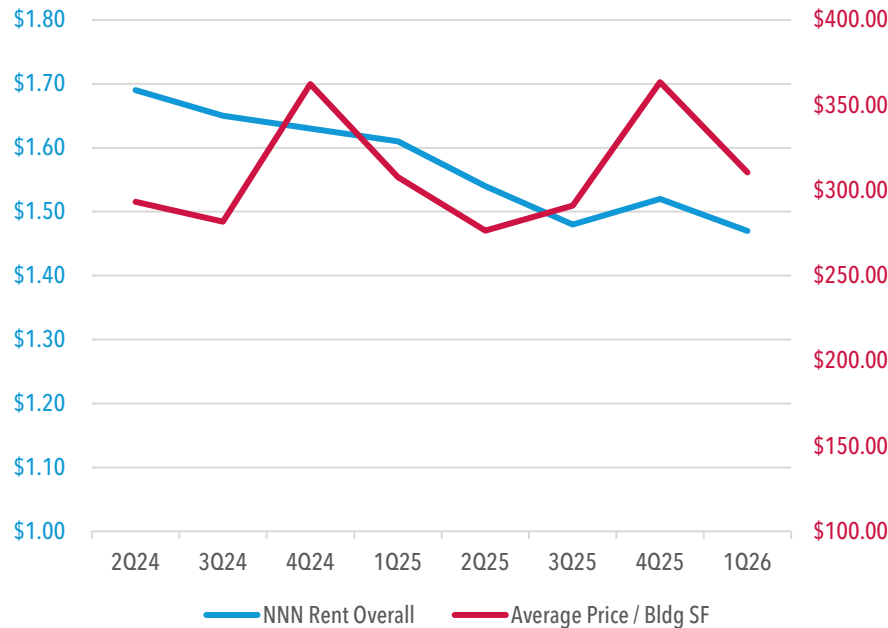
 **0**
Prev. Quarter: 60,558

Under Construction (SF)

 **641,548**
Prev. Quarter: 454,216

Trends Show Continued Rent Softening with Pricing Volatility

NNN lease rates declined further in Q1 2026 as vacancy pressures persist, while sale pricing remained uneven amid normalized transaction activity and cautious investor sentiment.



Market Trends

1

Industrial market conditions continued to soften in Q1 2026, with vacant-available space rising to 12.9 million square feet, or 6.3% of inventory, up from 6.1% in Q4 and 5.1% one year ago. Direct space remained the primary driver at 5.7%, while sublease availability increased to 0.7%, reflecting more secondary space returning to market. Overall, conditions point to a gradually loosening market, giving tenants greater leverage and flexibility.

2

Lease rates in the South Bay continued to decline in Q1 2026, with overall asking rents averaging \$1.47 NNN, down from \$1.52 in Q4 and \$1.61 one year ago. Direct rents fell to \$1.49, while sublease rates dropped more sharply to \$1.31, widening the spread as sublessors priced aggressively to compete. Overall rents are down roughly 9% year over year, as landlords adjust pricing and offer more concessions to attract tenants.

3

Industrial investment activity moderated in Q1 2026, with 12 sales totaling approximately \$263.7 million, down from elevated Q4 levels but in line with recent norms. Average pricing declined to \$311 per square foot, while cap rates held at 3.6%, indicating continued pricing discipline. Activity remains focused on well-located assets, with investors taking a more selective and cautious approach.

South Bay - Top Leases

Source: AIR CRE / CoStar / Internal Database

Address	Size (SF)	Tenant	Landlord	Lease Type	Industry
2401 E Wardlow Rd, Long Beach	504,810	Confidential	Goodman	Direct	E-commerce
1452 W Knox St, Torrance	442,550	Apex Logistics	Prologis	Direct	Third-Party Logistics
2400 E Artesia Blvd, Long Beach	415,312	Confidential	Bridge	Direct	3d Printing
19681 Pacific Gateway Dr, Torrance	251,606	Neros	Ares	Sublease	-
21750 S Arnold Center Rd, Carson	205,433	Varda Space Industries	Watson	Direct	Aerospace

South Bay - Top Sales

Source: AIR CRE / CoStar / Internal Database

Address	Size (SF)	Buyer	Seller	Price	Transaction Date
588 Crenshaw Blvd, Torrance	265,418	Crenshaw Star, LLC	Link Logistics Real Estate	\$123,000,000	1/9/2026
1855 W 139th St, Gardena	230,891	Palisade Group	Terreno Realty	\$44,000,000	3/19/2026
1800 S Anderson Ave, Compton	83,527	1800 Anderson Investment LLC	Aloha Freight Forwarders	\$28,181,000	2/17/2026
13040 Cerise Ave, Hawthorne	42,942	Dornin Investment Group	Vella Group	\$19,654,500	2/26/2026
17621-17623 Susana Rd, Rancho Dominguez	65,067	CB Logistics	IDI Logistics	\$14,640,500	1/8/2026



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