

# Long Beach

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### Goods Movement and Good Neighbors II



#### ■ Trade and Transportation

By Thomas O'Brien

In a February 2007 Perspective column titled *Goods Movement and Good Neighbors*, we addressed the land use conflicts between trade-related businesses and new business and residential development in Long Beach, particularly in the downtown area. At that time, the goods movement industry was in crisis mode. Growth in container volumes at our local ports meant more congestion on local roads and freeways and an increased demand for warehousing and distribution services. Industry stakeholders and elected officials across the State agreed on the need to identify funding for infrastructure improvements to accommodate growth, but there was little consensus on how this might be accomplished. Local residents fed up with the negative impacts of port, rail, trucking and warehousing operations demanded changes in the way that industry operates. They pursued these changes at the ballot box and in the courts.

At that time, vacancy rates for industrial properties were a very low 1.6% in Los Angeles County and 1.9% in the South Bay region, which includes Long Beach. Rental rates for industrial properties were increasing 10 percent annually.

Fast forward to 2009. The industry is once again in crisis mode, but this time because of a weak economy and a

decline in cargo volumes that have affected major trade gateways all over the world. Locally, this has meant fewer containers passing through our ports and less demand for distribution center and warehouse space. All of this is bad news for a local economy dependent on trade and transportation activity.

A recent Los Angeles Times article reported a doubling in industrial vacancy in the Inland Empire in 2008. Three years ago, there was enough cargo to occupy 20 million square feet of space. By the end of 2008, vacancy rates in Los Angeles County were 3.3 percent, a full percentage point higher than in 2007.

It's the same story closer to home. USC's Casden Real Estate Economics Forecast reports a 2.4 percent industrial vacancy rate for the South Bay for the third quarter of 2008, up from 1.8 percent in the same quarter of 2007. That's a 33 percent increase. Average rents were actually up over the same period, from 63 cents per square foot in the third quarter of 2007 to 67 cents in 2008, although the latter represents a decline from earlier in the year. Comparable figures for all of Los Angeles County were 61 cents per square foot in 2007 and 57 cents in 2008.

All of this is not surprising. Vacancies increased more in Los Angeles County than in the South Bay - and rents decreased more countywide - because we would expect the areas closest to the port to be the last to show departure from long term trends. Still, the numbers broadly reflect a general weakness in the market; and we can expect rents to come down even more in response to excess capacity.

As if this weren't bad enough, and as the LA Times article reported, new rental space is actually becoming available just when the market is softening and credit is

tightening. This is largely the result of long permitting and environmental review processes. The demand was there when these projects were first envisioned.

Our 2007 column suggested that there was a mismatch between the City's long range planning activities and the immediate needs of the goods movement industry to accommodate growth by increasing capacity. The concern was that without an infusion of funds, the region would become less competitive. Industry responded by aggressively supporting passage of Proposition 1B as a means of financing corridor wide improvements to facilitate trade.

What a difference two years makes. Today, runaway growth has been replaced by significant contraction. Though infrastructure investment is still the goal, bond revenues have been replaced by the stimulus package. And through all this, the region's competitiveness still remains a real concern. Ironically, many in industry - perhaps to the opposition of some in the community seeking more and better jobs - would probably welcome the capacity constraints of a year or so ago. Land use conflicts may make for bad neighbors, but they usually mean that business is good.

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