LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

Q1 2026

INDUSTRIAL
MARKET INSIGHTS

SOUTH BAY // MIDCOUNTIES // CENTRAL // INLAND EMPIRE

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

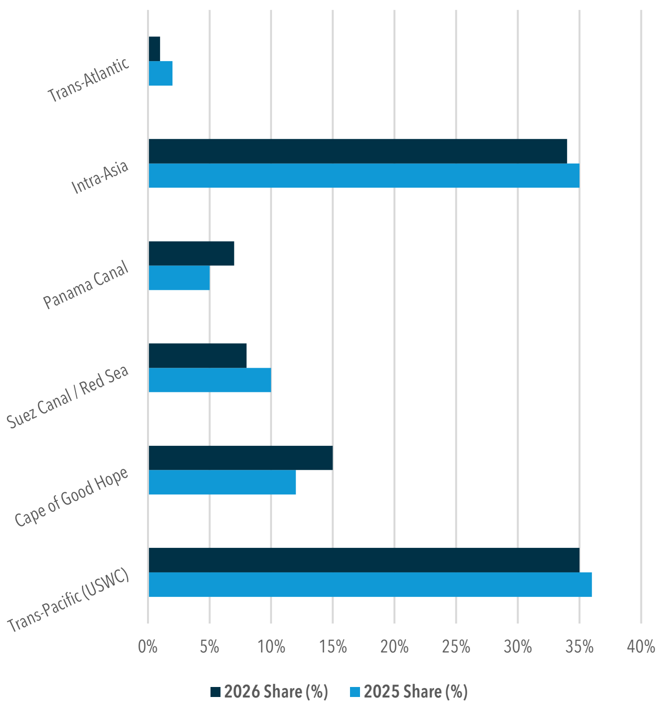
The U.S. economic outlook for 2026 reflects a mixed picture shaped by geopolitical uncertainty, labor market softness, and moderating consumer spending. Real GDP growth is projected to reach 3.0% year over year, with Q1 growth estimated at 3.7% annualized before easing to 3.3% in Q2, supported by recently 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



Trans-Pacific (USWC)
2025 Share: 36% | 2026 Share: 35%
Stability in West Coast labor; minor softening in consumer spend.

Cape of Good Hope
2025 Share: 10% | 2026 Share: 15%
Growth: The primary alternative to Red Sea disruptions.

Suez Canal / Red Sea
2025 Share: 10% | 2026 Share: 8%
Decline: Geopolitical risk remains; only high-priority vessels returning.

Panama Canal
2025 Share: 5% | 2026 Share: 7%
Recovery: Rainfall and slot increases allow higher throughput.

Intra-Asia
2025 Share: 35% | 2026 Share: 34%
High volume consistency despite manufacturing shifts to SE Asia.

Trans-Atlantic
2025 Share: 2% | 2026 Share: 1%
Minimal shift; impact of new EU carbon regulations.

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%

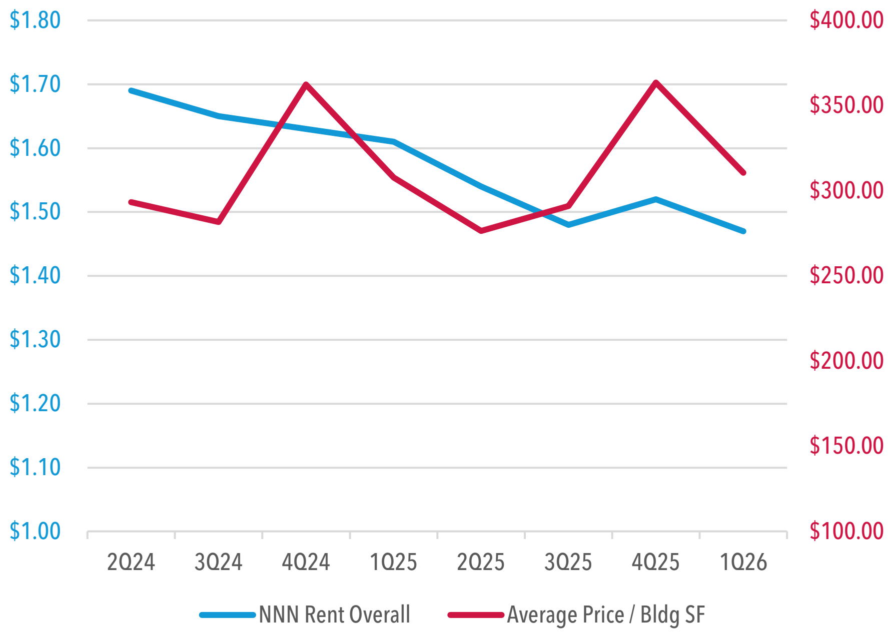
Net Absorption (SF)
(1,596,614)
Prev. Quarter: 134,377

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

Midcounties | 1Q26 Market Fundamentals

Vacancy, lease rates, and absorption patterns in the mid-corridor submarket

KPI Highlights

Vacancy Rate (% Total)
6.4%
Prev. Quarter: 6.6%

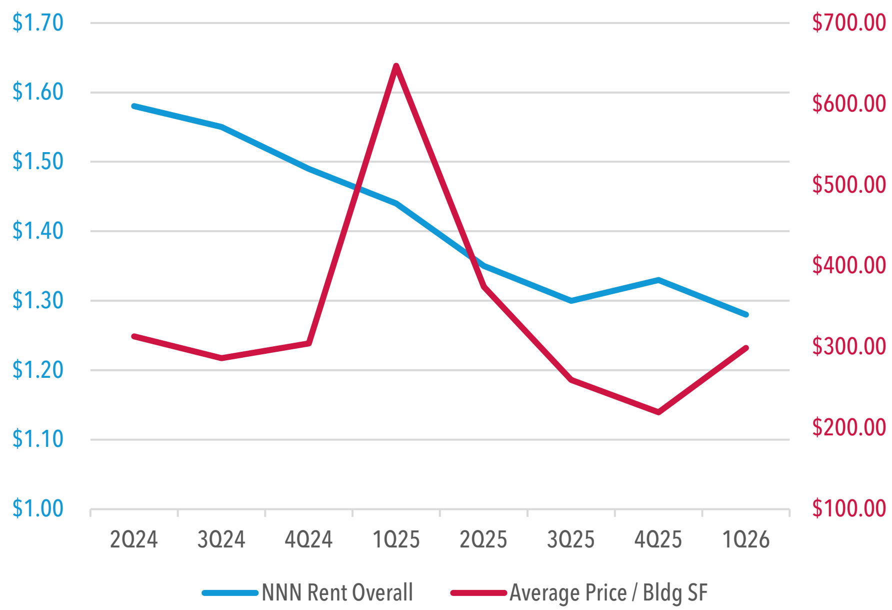
Net Absorption (SF)
318,986
Prev. Quarter: 374,688

Deliveries (SF)
0
Prev. Quarter: 493,874

Under Construction (SF)
223,243
Prev. Quarter: 38,187

Mid-counties Leasing Continues to Soften as Sales Activity Slows

NNN rents declined further in Q1 2026 despite stabilizing availability, while sale pricing held near recent norms amid sharply reduced transaction volume and cautious investor activity.



Market Trends

1 Industrial conditions in the Mid-Counties showed modest stabilization in Q1 2026, with availability declining to 6.4% from 6.6% in Q4 and 7.0% one year ago. Direct space held steady at 5.7%, while sublease availability remained at 0.7%, reflecting limited movement in secondary space. Overall, the market is beginning to level off, with tenants maintaining flexibility and negotiating leverage.

2 Lease rates continued to soften in Q1 2026, with average asking rents declining to $1.28 NNN, down from $1.33 in Q4 and $1.44 one year ago. Direct rents eased to $1.29, while sublease rates dipped to $1.09, maintaining a discount and applying downward pressure on pricing. Overall rents are down roughly 11% year over year, as landlords adjust rates in a more competitive environment.

3 Industrial investment activity slowed sharply in Q1 2026, with just four sales totaling approximately $45.2 million, down significantly from prior quarters. Average pricing held near $299 per square foot, indicating stable asset values despite reduced volume. Activity remains selective, with investors taking a cautious, wait-and-see approach.

Midcounties - Top Leases

Source: AIR CRE / CoStar / Internal Database

Address	Size (SF)	Tenant	Landlord	Lease Type	Industry
14555 Alondra Blvd, La Mirada	248,105	MEI Rigging & Crate LLC	Brookfield Properties	Renewal	Logistics & Distribution
14647 Northam St, La Mirada	140,236	CW Moving & Storage	Rexford Industrial	New Lease	Logistics & Distribution
8550 Chetle Ave, Whittier	116,327	H-Mart	Clarion Partners	New Lease	Logistics & Distribution
12728 Shoemaker Ave, Santa Fe Springs	83,843	La Fiesta Foods	The Orden Company	New Lease	Logistics & Distribution
11641 Pike St, Santa Fe Springs	75,000	Lux Flooring Inc	K & C Ventures LP	New Lease	Logistics & Distribution

Midcounties - Top Sales

Source: AIR CRE / CoStar / Internal Database

Address	Size (SF)	Buyer	Seller	Price	Transaction Date
14848 Northam St, La Mirada	96,916	Ottogi America, Inc	E Northam Partners LLC	$28,000,000	2/18/2026
17122 Marquardt Ave, Cerritos	21,735	17122 Marquardt LLC	TA Realty	$6,500,000	1/29/2026
12020 Bloomfield Ave, Santa Fe Springs	17,423	Zoju Venture LLC	Longpoint Realty Partners	$6,098,500	3/12/2026
7333 Adams St, Paramount	15,040	Big Tiger LLC	Adams Street Investment Holding LLC	$4,600,000	3/20/2026
13205 Lakeland Rd, Santa Fe Springs	5,085	S & S Property Holdings Usa LLC	Salvador Chavez	$1,800,000	3/4/2026

Central | 1Q26 Market Fundamentals

Leasing, sales, and vacancy dynamics in one of LA's densest industrial corridors

KPI Highlights

Vacancy Rate (% Total)
5.5%
Prev. Quarter: 5.6%

Net Absorption (SF)
213,664
Prev. Quarter: 1,358,917

Deliveries (SF)
133,017
Prev. Quarter: 0

Under Construction (SF)
556,076
Prev. Quarter: 486,333

Central Market Tightens as Rents Ease and Pricing Normalizes

Availability declined in Q1 2026 signaling gradual tightening, while NNN rents softened modestly and sale pricing adjusted amid reduced transaction volume and rising cap rates.

Market Trends

1. Vacancy and availability in the Central market improved in Q1 2026, with availability declining to 5.5% from 5.6% in Q4 and 6.3% one year ago. Direct space fell to 5.1%, while sublease availability held at 0.4%, reflecting limited movement in secondary space. Overall, the market is tightening gradually, with tenants still retaining flexibility.

2. Lease rates continued to ease in Q1 2026, with overall asking rents averaging $1.35 NNN, down from $1.40 in Q4 and $1.44 one year ago. Direct rents slipped to $1.35, while sublease rents rose to $1.36, briefly surpassing direct space and narrowing the spread. Overall rents remain below prior peaks, signaling a market nearing stabilization.

3. Industrial investment activity moderated in Q1 2026, with 13 sales totaling approximately $74.3 million, down from prior quarters. Average pricing came in at $223 per square foot, while cap rates increased to 6.3%, reflecting a repricing of risk. Activity remains selective, with investors adjusting expectations as the market normalizes.

Central - Top Leases

Source: AIR CRE / CoStar / Internal Database

Address	Size (SF)	Tenant	Landlord	Lease Type	Industry
2101 W Flotilla St, Montebello	326,517	SpeedX	DWS Group	Direct	Logistics / E-commerce
6108-6188 Peachtree St, Commerce	159,394	H&T Seafood, Inc.	American Int'l Industries	Direct	Food & Beverage
6501 Flotilla St, Commerce	157,715	Bar Logistics	Rbabs Investments LLC	Direct	Third-Party Logistics
4505 Bandini Blvd, Vernon	130,122	A 4 Moshay Inc	The Walter Companies	Direct	Wholesale & Manufacturing
2263 E Vernon Ave, Vernon	119,196	Universal Elite, Inc	Karney Management Company	Sublease	Logistics / Freight Forwarding

Central - Top Sales

Source: AIR CRE / CoStar / Internal Database

Address	Size (SF)	Buyer	Seller	Price	Transaction Date
7421 E Slauson Ave, Commerce	57,410	CALA Product	Kurv Industrial	$22,389,900	3/11/2026
7136-7140 E Slauson Ave, Commerce	60,000	Fenico Precision Castings	Sun Plastics	$17,970,000	1/7/2026
6900 S Alameda St, Huntington Park	77,800	Global Commercial Real Estate	Saturn Holdings LLC	$12,700,000	3/27/2026
7305 Paramount Blvd, Pico Rivera	18,962	CommonWealth Partners	Currier Road Development	$4,852,500	3/3/2026
11810 Center St, South Gate	45,681	Newcastle & Associates	B.H. 11810 Center Street, LLC	$4,000,000	1/20/2026

Inland Empire | 1Q26 Market Fundamentals

The nation's logistics hub – absorption, pipeline, and rent trends driving big-box demand

KPI Highlights

Vacancy Rate (% Total)
8.1%
Prev. Quarter: 8.1%

Net Absorption (SF)
1,625,113
Prev. Quarter: 3,220,251

Deliveries (SF)
1,619,283
Prev. Quarter: 2,350,699

Under Construction (SF)
6,108,705
Prev. Quarter: 6,008,030

Inland Empire Rents Continue to Decline as Pricing Recalibrates

NNN lease rates softened further in Q1 2026 amid elevated availability, while sale pricing declined sharply despite continued transaction activity and gradual cap rate expansion.

Market Trends

1 Vacancy and availability in the Inland Empire held steady in Q1 2026 at 8.1%, unchanged from Q4 but up from 7.0% one year ago. Direct space edged up to 7.0%, while sublease availability declined slightly to 1.1%, reflecting limited movement in secondary space. Overall, the market has plateaued at elevated levels, with tenants benefiting from increased flexibility.

2 Lease rates continued to soften in Q1 2026, with overall asking rents averaging $0.96 NNN, down from $0.99 in Q4 and $1.07 one year ago. Direct rents declined to $0.96, while sublease rates rose to $0.95, nearly closing the gap and highlighting a highly competitive leasing environment. Overall rents remain significantly below prior peaks, reinforcing tenant-favorable conditions.

3 Industrial investment activity remained active in Q1 2026, with 41 sales totaling approximately $697.3 million, down from Q4 but still elevated historically. Average pricing declined to $128 per square foot, while cap rates increased to 5.7%, reflecting ongoing yield adjustment. Activity remains strong but more selective as pricing continues to recalibrate.

Inland Empire - Top Leases

Source: AIR CRE / CoStar / Internal Database

Address	Size (SF)	Tenant	Landlord	Lease Type	Industry
10545 Production Ave, Fontana, CA 92337	1,101,400	Tireco	Rexford Industrial	Renewal	Logistics & Distribution
815 S Redlands Ave, Perris, CA 92570	1,020,657	Medline Industries	IDI Logistics	New Lease	Logistics & Distribution
11640 Harrell St, Jurupa Valley, CA 91752	886,055	Custom Goods	TIAA	Renewal	Logistics & Distribution
16850 Heacock St, Moreno Valley, CA 92551	756,340	Unis LLC	Clarion Partners	New Lease	Logistics & Distribution
5331 S Carpenter Ave, Ontario, CA 91762	589,012	US Elogistics Service Corp	La Caisse	New Lease	Logistics & Distribution

Inland Empire - Top Sales

Source: AIR CRE / CoStar / Internal Database

Address	Size (SF)	Buyer	Seller	Price	Transaction Date
20901 Krameria Ave, Riverside, CA 92518	1,002,189	Clarion Partners	LACERA	$145,050,000	1/5/2026
14600 Innovation Dr, Riverside, CA 92508	601,246	AEW Capital Management	Scuderia Development LLC	$70,388,000	2/27/2026
13880 Monte Vista Ave, Chino, CA 91710	409,930	MDH Partners	Nuveen	$105,000,000	1/16/2026
1001 Doubleday Ave, Ontario, CA 91761	394,538	AEW Capital Management	Scuderia Development LLC	$40,197,000	2/27/2026-
6260 Mango Ave, Fontana, CA 92336	113,930	Lotus Distribution Inc	Magellan Value Parnters	$30,191,450	2/4/2026

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