

IV. MARKET CONTEXT

The WIP receives demand among cold storage, truck parking, and various manufacturing owner-operators, as well as developer and broker representatives also looking for speculative development opportunities. The CRA prefers that new development be as valuable and job-intensive as possible given the site's context. New warehouse development requires massive floorplates that would require relocation of internal utilities in the WIP rendering such development impractical. Moreover, warehouse projects generate minimal tax increment and employment. These factors, in combination with the strength of demand for small-scale niche manufacturing, assembly, and cold storage in this area justify the development of a strategic plan that provides cost effective ways to accommodate this diverse set of users within the park, with a focus on manufacturing.

REGIONAL ECONOMIC TRENDS

SCALE OF THE LOS ANGELES MANUFACTURING SECTOR

Manufacturing will continue to play a major role in the in Los Angeles regional economy. Although manufacturing employment in the Los Angeles Region has been declining over the past decade (by 14 percent compared to a 6 percent decline in California), the EDD and other regional employment analysts expect a stabilization period followed by modest growth.

A sector of massive scale, Los Angeles is the second largest manufacturing employment center in the nation behind Chicago. The retention of manufacturing jobs in the Los Angeles region plays a pivotal socioeconomic role. Low-skilled workers can readily get jobs in small manufacturing firms and move up the income ladder with the help of on-the-job training. The manufacturing industry is crucial to the preservation of the region's working and middle-class populations. Maintaining these types of industries is particularly important for Los Angeles County, where large groups of immigrant populations arrive and are integrated into the local economy each year.

Los Angeles will sustain a world-class manufacturing sector because it has: 1) quick access to a multitude of inputs, associated with the scale and diversity of other manufacturing firms already located there; 2) stable and loyal workers, as evidenced by EPS interviews of major employers; and 3) the continuing convergence of technology and creativity that are characteristic of the Los Angeles region.

COMPOSITION OF THE LOS ANGELES MANUFACTURING SECTOR

Los Angeles County's manufacturing employment is predominantly concentrated in the apparel/textiles, transportation equipment, and instrument manufacturing sectors. The largest concentration of manufacturing jobs is in the South Bay. In the South Bay submarket, several industries show promise, as evaluated through examination of competitive share in the region, absolute/percentage growth, and sustained concentration relative to the region.

- **Lumber, Wood, and Furniture.** Although this is a relatively low-paying industry (\$26,400/year), EDD analysts believe it is poised to experience major growth in the next decade in the form of over 10,000 new jobs in Los Angeles County. In Los Angeles County, more than half (54%) of business establishments and about one third of employees (31%) in the wood products industry are in the millwork, plywood, and structural members group. Millwork production includes the manufacture of blinds, door trim, garage doors, staircases, and screens, among other millwork metal and plastic materials.
- **Food and Kindred Products.** A subset of the food processing industry, related to canned and cured seafood processing, perishables, and pasta production, is well represented in Los Angeles County. Worldwide demand for high-value agricultural products is expected to increase. California products such as canned fruits and vegetables, wines, and frozen foods are expected to experience the fastest growth. There may be opportunities for the growth of food processing employment in the Harbor Cities area, where location relative to the Ports is an important consideration, especially for frozen fish and other cold storage facilities. The success of Juanita's Foods in the WIP suggests that traditional food processing operations are also viable in this location. Juanita's elected to remain and expand in the WIP largely as a result of the quality of the local labor force, despite less expensive facilities available in the Inland Empire and Nevada.
- **Paper, Printing, and Publishing.** Paper, printing, and publishing is comprised of two sub-industries: the production of paper and allied products, as well as the printing and publishing of newspapers, commercial documents, and other documents. This higher-paying industry does not appear to be prevalent in the Wilmington Area. However, a potential source of demand for this industry would be in newsprint for the Los Angeles Times. Additionally, paper recycling, while not a manufacturing industry, would be an appropriate industry for the WIP given the City's Eco-Industrial development initiatives.
- **Apparel.** Los Angeles County's apparel manufacturing industry is centered in Commerce, Vernon, and Gardena including clusters of garment manufacturers and dye houses, as well as machine shops. However, there are examples of large operations located in other parts of the county including the WIP. For example,

American Soccer manufactures uniforms for the American Youth Soccer Organization (AYSO) that have a nationwide distribution. According to the owner, the firm seeks to expand in place in the WIP, and benefits from a large and stable local labor force. This appears to indicate the suitability of the WIP for future apparel manufacturing opportunities, perhaps in specific niches such as sporting goods and other operations not requiring location in the garment district.

Demand is expected to be strongest among smaller companies. Over two-thirds of the establishments in the County and the WIP house less than 20 employees. Using typical employment densities, this implies that the majority of manufacturing firms in L.A. County need facilities sized under 20,000 square feet.

PORT-RELATED DEMAND

In addition to demand for standard warehouse space, facility demand is strong for cold storage, logistics, and other port-related operations, discussed below.

Cold Storage

This is a specific subset of the warehouse/distribution market where the WIP has a distinct competitive advantage, due to its proximity to the Port and the resulting ability to maintain an unbroken cold chain. Cold storage operations are often used to flash freeze fish, other meats, and fruits and vegetables. Although not intensive in terms of employment, these operations are often affiliated with packaging and other value-added enterprises that are. Rents and assessed values are higher than standard warehouse operations, due to the need for added facilities, such as insulated areas and freezers, and required parcel sizes are smaller.

Logistics

Of the 390 business expansions that took place in Los Angeles County in 2001, the logistics industry comprised the second largest share with 24 expansions during this time period. Firms in the logistics industry are in the business of seeking out the easiest and fastest way to deliver product and move freight. Logistics businesses are located in office facilities and comprise employment by customs brokers, logistics experts, and freight foremen. The Long Beach Port area currently houses most of the area's logistics companies. The WIP offers a potential location for new or expanding logistics firms if office product is made available. This type of development is most likely to occur once other public and private investment is attracted to the site.

Other Port-Related Uses

Both ports employ support industries that maintain, repair, and upgrade existing port facilities. Typical support industries include: welders, surveyors, commercial divers, fabrication facilities, construction yards, heavy equipment repair, oil spill response equipment, and ship chandlery businesses that provide vessel supplies. The U.S. Customs Service operates off-terminal inspection facilities to unload and inspect suspect

cargos. Aside from the union labor issues discussed in previous sections of this report, these facilities could be located in the project area to take advantage of the project site's proximity to the ports. The CRA could also work with the Port of Los Angeles to identify potential businesses that could increase trade through the port. An example of this includes businesses similar to Potential Industries eco-business concept that recycles paper products and exports the material to foreign manufacturers.

REAL ESTATE MARKET TRENDS

NET ABSORPTION

While growth of new inventory in the Los Angeles Basin held steady during 2001 as recessionary trends magnified, net absorption⁴ decreased, but remained positive in the region as a whole in contrast to other industrial centers in the United States. Major trends include:

- Los Angeles County realized positive net absorption during 2001 of 2.6 million square feet, down from 29.4 million square feet in 2000 and 26.5 million square feet in 1999.
- Net absorption in the Inland Empire, while down 33 percent from 2000 levels, was 14.9 million square feet in 2001. As such, the Inland Empire accounted for 92 percent of the positive net absorption region-wide in 2001.
- Within Los Angeles County the San Gabriel Valley and the Carson / Rancho Dominguez sub-areas were the primary drivers of positive net absorption, although the South Bay region as a whole realized a negative 1.26 million square feet of net absorption.

PROJECTED INDUSTRIAL ACTIVITY

In the short term, industrial demand is expected to favor smaller spaces of 10,000 to 30,000 square feet in Los Angeles County and the South Bay. This is the result of two factors. First, companies are choosing to consolidate space as a cost-saving device as a reaction to the contracting economy. A second factor in the heightened demand for smaller buildings is the increasing number small to mid sized companies during the 1990s. This is particularly true in the case of for-sale buildings. Many small businesses are taking advantage of low interest rates by purchasing industrial buildings in the 10,000 to 30,000 square foot range.

⁴ Net absorption is a measure of the additional space leased or sold in a particular time period after accounting for space that was vacated. A positive net absorption figure indicates that more space was being occupied than vacated, while a negative net absorption figure indicates the opposite.

Demand for industrial facilities is outstripping the supply of space that can be developed, given the limited amount of land available for building in central and south Los Angeles County. Simultaneously, demand for port related transloading, storage facilities, and transportation support facilities will become more acute, due to increasing levels of goods moving in and out of Los Angeles County.

Demand Forecast

Two methods were used to identify the magnitude of future industrial demand in the region. First, the past real estate performance of the region was examined and extrapolated to the future. Second, employment forecasts by industry were converted into demand by building type. The results are discussed below:

1. During the 1999-2001 period, the industrial market in the five-county region absorbed an average of 42.9 million square feet of space per year, as shown in **Table 13** of the Market Analysis in *Volume II* of this report. Los Angeles County has accounted for 45 percent of this growth, with an average of 19.5 million square feet of net absorption over the period.
2. Employment projections converted into a building absorption forecast based on estimated employment densities among key sectors. As shown, this analysis suggests demand for more than 201 million square feet created by new employment growth over the next 10 years in Los Angeles County. This translates to an average annual absorption of about 20 million square feet per year, which corresponds well with historical net absorption figures of 19.5 million square feet. See **Table 15** of the Market Analysis in *Volume II* of this report.

Table 2
Wilmington Industrial Park Economic Adjustment Strategy
Forecast of Future Demand for Building Sqft for the South Bay

Item	Amount
Annualized Forecasted Demand for New Industrial Building Space - LA County	
Method 1 [1]	19,500,000
Method 2 [1]	20,620,000
Average of Methods 1 and 2	20,060,000
South Bay Share of LA County Net Absorption - (Ave. of 1999 to 2001)	20%
Projected Annualized Demand for Industrial Building Space	
South Bay (based on 20% capture rate)	4,090,000
South Bay (based on 10% capture rate)	2,010,000

"sqft_demand_sb"

[1] Method 1 is the average net absorption from 1999 to 2001. See **Table 13** in *Economic Adjustment Strategy: Wilmington Industrial Park, Volume II: Market Study*. Method 2 is based on translating future employment projections to demand for building space based on employees per sqft assumptions. See **Table 15** in *Economic Adjustment Strategy: Wilmington Industrial Park, Volume II: Market Study*.

Source: CA Employment Development Division, DAUM, Colliers Seeley, & EPS

Table 3
Wilmington Industrial Park Economic Adjustment Strategy
Buildout of WIP Based on Manufacturing Use

Item	Total Project	Phasing Strategy
WIP Total Acres	232	232
WIP Vacant / Underutilized Acres (estimated) [1]	96	64
Manufacturing FAR	0.45	0.45
Additional Manufacturing Building Sqft at Buildout - WIP	1,880,000	1,260,000
Annualized Additional Manufacturing Building Sqft - WIP (based on 10 yr buildout)	188,000	126,000
WIP's Future Capture Rate of South Bay Demand Required to Reach Buildout in 10 Years [2]	9%	6%
Additional Manufacturing Employees at Buildout [3]	2,500	1,700

"wip_manuf"

[1] Acreage estimate is net of anchor tenants and public right-of-way.

[2] Assuming South Bay captures 10% of LA County future industrial space demanded.

[3] Assumes 750 sqft per employee.

SOURCE: EPS

Taking the midrange of the absorption and employment-driven forecasts for the County suggests that the Los Angeles region can expect demand for roughly 20 million square feet of industrial space annually over 10 years. If the South Bay captures 20 percent of the County total, this would equate to 4 million square feet of demand annually; if the South Bay captures only 10 percent of the County total, 2 million square feet of space would be demanded annually within the submarket (**Table 2**).

The ability for the South Bay to meet this demand will be tested in the years ahead as available supply dwindles. For both manufacturing and Port-dependent firms, there are few options to this area for new development. In order to maintain and attract a healthy and diverse roster of businesses, the private sector and public agencies will need to work cooperatively and creatively to identify reuse and rehabilitation opportunities to add to the supply of industrial building development opportunities. The WIP is a prime opportunity to demonstrate this approach.

Estimated WIP Capture Rate and Absorption Estimate

Table 3 shows a scenario for WIP buildout, solving for the percentage of South Bay market capture needed to complete WIP buildout over a decade. As shown, the WIP would need to capture 11 percent of the South Bay submarket's growth to achieve a ten-year buildout within WIP areas targeted for the phasing strategy.

Assuming manufacturing uses at the WIP, 2,500 employees are anticipated at buildout, housed in 1.9 million square feet of space. Within areas designated under the phasing strategy, 1,700 manufacturing jobs are anticipated along with 1.3 million square feet of space.

Small industrial buildings available for sale, or divisible space with common walls within larger buildings available for sale, may be a successful product at the WIP. This confirms information from earlier market studies and articles. Carson Town Center provides a good example of where this is succeeding currently, though the large floorplate of these buildings would need to be reduced for application to the WIP.

In addition to assembly and manufacturing uses, there is a potential market for conversion and redevelopment of existing properties for light industrial "flex" space in the Study Area, if adequate infrastructure improvements are made and appropriate sites can be made available. This will require strategic investment in public infrastructure improvements, and the proper configuration of parcels to accommodate expected building prototypes. The development of such space would be a natural complement to other manufacturing and assembly uses, and would diversify local employment opportunities as well as increase the overall rate of absorption through additional market segmentation.

Overall, there is about six million square feet of planned development among significant projects in the South Bay submarket, excluding capacity at the WIP. Forecasted demand

exceeds 20 million square feet in the area over the next ten years, indicating that finding sites to meet demand will be an ongoing challenge in this submarket as well as Los Angeles County as a whole. Therefore, it appears that there is sufficient demand to enable the WIP to capture 10 percent of the new development potential associated with the South Bay submarket over the next decade, assuming the land can be made viable for key manufacturing, light industrial, and specialty warehousing operations.