

LA Property Market Attractive to Institutions

Potential gains of 8% on industrial property lease renewals

New York – July 7, 2016 - MSCI Inc. (NYSE: MSCI) has found that Los Angeles commercial real estate market had the highest concentration of institutional investors among American cities in the first quarter of 2016, as indicated in [Property Income Risk & Performance](#).

This report is part of MSCI's [Income & Risk Analysis tool \(IRIS\)](#), which provides a comprehensive examination of the rental property market, allowing investors to benchmark future risks to income and value. The study in this article focused on metropolitan Los Angeles and benchmarked it to the United States commercial property market.

According to the report, which focused on contracted rents, institutional investment in the Southern California market accounted for 15% of the total in the country; compared to 12% in the Bay Area, and 11% in New York. This is driven to some degree by the types of properties that make up the Los Angeles metro commercial real estate market.

In contrast to the rest of the United States, industrial and suburban office properties make up a significant portion of rental assets in the Los Angeles metro area, nearly two thirds, compared to just 43% nationwide.

The Los Angeles metro area is an attractive market for industrial properties because it serves as a major hub of imports from Asia. The modern capital-intensive facilities required for unloading and distribution have appealed to institutional investors who, over time, have accumulated large industrial holdings in the metropolitan area.

This IRIS report found further attractiveness in the Los Angeles industrial market as the sector offers property owners potential gains on lease renewals because Southern California leases were poised for average gains of 8% on lease renewals, which is better than the nationwide potential of less than 5%.

Spreads between Los Angeles and U.S. gains were also apparent across tenant industries, with narrower local gains among office tenants like banks and law firms but stronger potential for warehouse and storage tenants in the industrial sector.

Simon Fairchild, Executive Director, MSCI, commented: “Southern California is the gateway for imports from Asia. This cargo arrives on container ships ready to be unpacked for national distribution. The scale of this activity requires sophisticated state-of-the-art logistics facilities and distribution buildings. Institutional investors have favored these types of assets in recent years, and Los Angeles has a lot of them.

“Institutional investors also like supply-constrained markets which tend to put upward pressure on rents and prices over time. Because metropolitan LA is surrounded by mountains, water and military bases, the basin is mostly built out, leaving fewer places for greenfield construction.

Fairchild continued: “The report shows that one of the key strengths of the Los Angeles market is the depth and diversity of the industrial property sector. When you look at the credit scores for some of the tenant

industries, one sees that they vary from group to group. There is depth to the pool of potential industrial tenants, but also a wide scope for risky vs safe-choice tenants.”

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