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UpClose with Watson Land Co.'s Ryan

By Alyson Grala
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Lance Ryan is vice president of marketing and leasing for Watson Land Co., a Southern California developer that is among the largest developers of industrial centers in Los Angeles County and in the nation. Over the past 40 years, the Carson, CA-based company has master planned more than 1,000 acres of industrial and commercial property. In addition, it has developed approximately 12 million square feet of industrial, office and technology buildings, which it continues to own and manage. GlobeSt.com caught up with the executive to talk port traffic and the outlook for industrial in the year ahead.

GlobeSt.com: How did Watson get its start in industrial development?

Ryan: Watson Land Co.'s history extends more than 200 years back to the Rancho San Pedro, the first piece of land granted to a private citizen in Southern California. In 1784, King Carlos III of Spain granted the 75,000-acre tract of land to Spanish soldier Juan Jose Dominguez. When Dominguez' great grandniece, Maria Delores Dominguez, married lawyer James Alexander Watson in 1855, their marriage marked the birth of what is known today as Watson Land Co. The land owned by the company was used for agriculture and oil production until 1963. In response to Southern California's changing business environment, the company shifted its focus to real estate development with the initial goal of enhancing the value of its holdings through the creation of masterplanned centers for industrial buildings.

GlobeSt.com: What sort of impact did 2009 have on the industrial market in California?

Ryan: The story in 2009 was the great recession. The impact on industrial was seen first in the metrics at the ports of Los Angeles, CA and Long Beach, CA. We saw a dramatic decrease in terms of the total volume, but specifically in terms of imports. Los Angeles, CA and Long Beach, CA are import-dominate ports, which means about 70% of the total volume of containers are imports; about 30% are exports. So when we have a recession where retail is affected and products are not coming in at the same rate via offshore manufacturing in Asia, there is a huge decrease in imports that, by proxy, results in a decrease in demand for warehousing and distribution space both in and around the ports and also for Inland Empire locations that were serving the ports. In Charleston and Savannah, there is a more balanced total volume in terms of imports and exports-they are both around 50% of the volume. When the dollar is weak compared to other currencies, our goods are less expensive to foreign buyers so you see an uptick in exports, which offsets the overall lack of activity at other ports. But in Los Angeles, CA and Long Beach, CA where it's so import-dominate that offset isn't enough to keep an equilibrium.

GlobeSt.com: What about new construction?

Ryan: There isn't any. The spigot was completely shut off. In terms of the majority of spec construction going on, it was primarily in the industrial empire west and east. We're talking on the order of millions of square feet that were not just planned but also under construction and coming on line at the end of 2008 and 2009. So at the very same time that we were hitting this financial crisis, there was a flood of industrial product coming to the market. The impact was huge and it's going to take a few years-out in the industrial empire east, in particular-to work through that product. From the early 2000s through the end of 2007,

bigger block buildings were being developed and spec buildings grew from 400,000 square feet and 500,000 square feet up to one million square feet and above. These were much larger developments than we had seen historically. These product will take some time absorb.

GlobeSt.com: What is the outlook for 2010?

Ryan: There's some very promising and encouraging data coming in this year. There was a sharp increase in terms of overall import and export volume at the ports of Los Angeles, CA and Long Beach, CA in February. This is three consecutive months that we've seen growth year-over-year at these ports. The National Retail Federation is projecting there will be an increase in retail sales on the order of 10% to 14% in 2010. So they're projecting the consumer is coming back, which will increase sales at some significant levels. We are also finding that there are many multinational retailers that are positioning themselves to increase the amount of products they bring in through the ports here. As a result, we're projecting a significant increase in industrial demand in 2010. That likely means we will start to shore up the current vacancy. There's still a great deal of space available, but we will see some firming up of occupancy in the Southern California markets over the coming year and once that happens we'll see a firming up of concession and rental rates.

GlobeSt.com: What about investment opportunities? Will we see an uptick in activity?

Ryan: Last year was unbelievably bleak. The spigot was off for both construction and investments. Right now, there seems to be many investors on the sidelines looking for deals. But the idea that there would be distressed industrial real estate hasn't come to fruition yet. There are plenty of ready, willing and able buyers that are combing the market looking for those opportunities but they haven't surfaced yet. In some respects, the returns and cap rates on investments are lower than we would have projected for this type of market. And that's really due to the high demand for the product, although there haven't been a lot of transactions so it's difficult to peg what value is right now.

GlobeSt.com: We hear a lot about sustainable design for office and multifamily product. Do you think this is a trend that will pick up steam in the industrial market?

Ryan: Without a question-sustainability and green development are here to stay in industrial. The bottom line benefits to the customer, the environment and the owner are undeniable. About three to four years ago we made a voluntary decision to build all of our new spec buildings as green developments using LEED as a way to benchmark our progress. Our customers are reporting that they are cutting their utility bills in half. And this is only a few years into our program. But we're already receiving some reliable data that it's less expensive for our customers to operate their business in a sustainable building-for them it's an immediate, tangible benefit and it's measurable. The other benefits that come along are also pretty obvious-the environmental ones. We have buildings that are designed so that they produce fewer hot spots by reducing asphalt areas, use less energy on the inside and less water for the landscaping and don’t tax the sewer system by having on-site water retention. In terms of the construction itself, we're using recycled materials, managing our resources and trying to source building components locally to reduce emissions that way. The benefits are real but we're still in the early stages of educating owners and tenants about the environmental benefits but also the real monetary benefits.

GlobeSt.com: Any final thoughts on the market?

Ryan: The trend right now is that the retailers-and later on this year the developer-are coming out of their bunker mentality and poking their head above ground. We see the retailers, the multinationals, anticipating recovery now. We all need to watch the numbers to see if that plays out. There's a sense that we've overcome the fear of the unknown and that we've hit bottom on a number of fronts including the financial crisis. So we're going to see more stabilization this year.