



Inland Empire industrial market report

Q3 2023

**AVISON
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Inland Empire industrial market trends

9.8%

Total availabilities dip slightly

Total availabilities dipped in the third quarter, falling 10 basis points to 9.8%. There is still demand stemming from ecommerce and logistics occupiers that have kept availabilities flat. In fact, although sublet availabilities have been on the rise as of late, direct availabilities have come down. Direct availabilities in the third quarter have dropped 5.5% from 2Q 2023 to 48.4msf of available space.

1.7 msf

Net absorption moves back into positive territory

The third quarter of 2023 the Inland Empire industrial market rallied back into the green with over 1.7 msf of positive net absorption, up from the negative 1.4 msf from the prior quarter. A strong contributor to the positive absorption stemmed from IE West with a prominent occupier moving into 4.0 msf.

With new state-of-the-art construction projects reaching completion and elevated demand for big-box properties, rental rates have managed to stay at all-time highs, completing the third quarter at \$1.45/sf NNN.

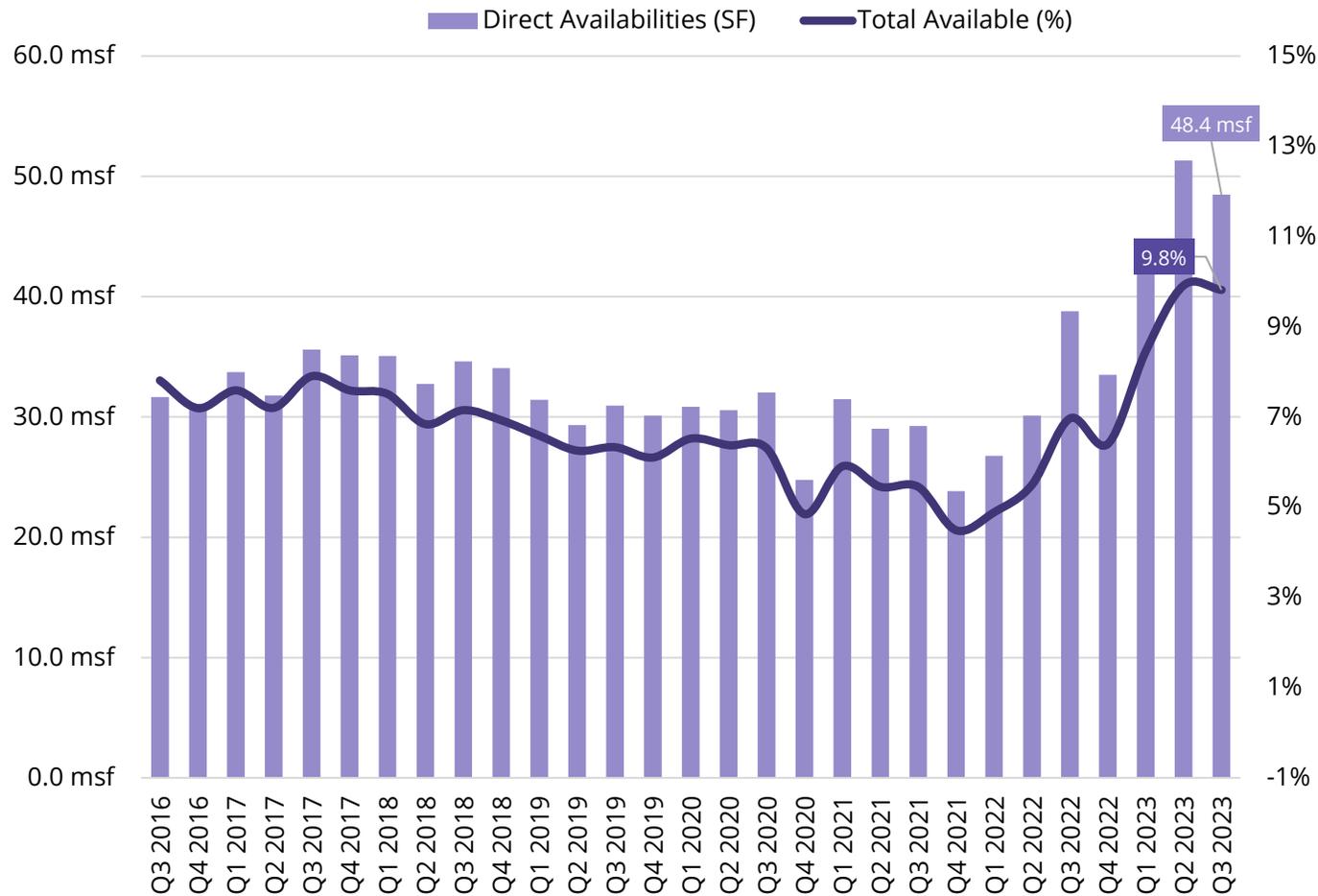
7.4 msf

Leasing continues to slow down

Leasing activity has been on the slowdown since the start of 2023. As rental rates remain at all-time highs, many occupiers have put a pause on expansion efforts until rates come down. Additionally, occupiers who have adopted a “just-in-case” model that began during the pandemic have been relinquishing any unused space as there is no longer a need for excess inventories.

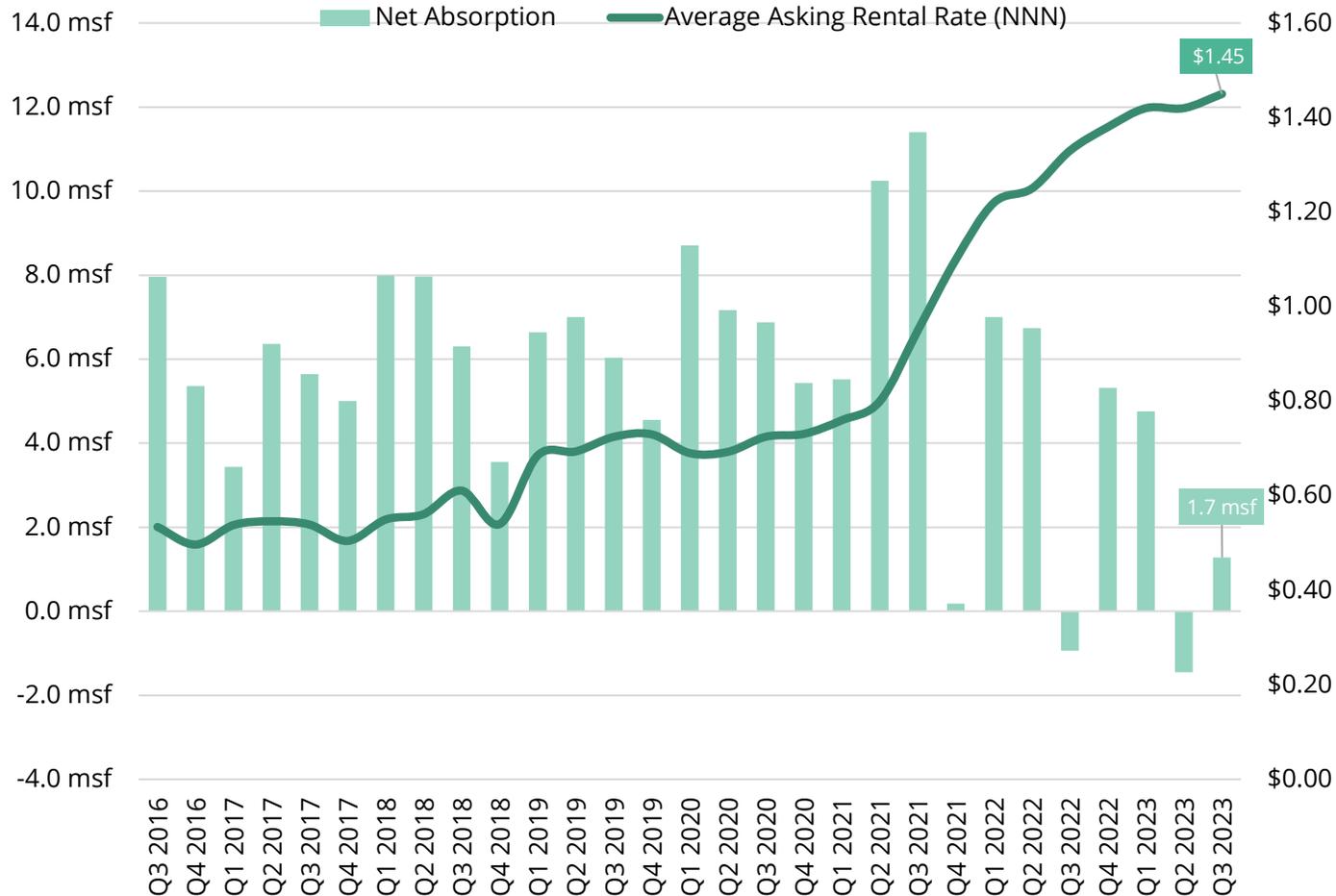
On the bright side, there is still demand coming from logistics occupiers throughout the Inland Empire, as the top three deals in the third quarter were from logistics companies.

Total availabilities remain firm



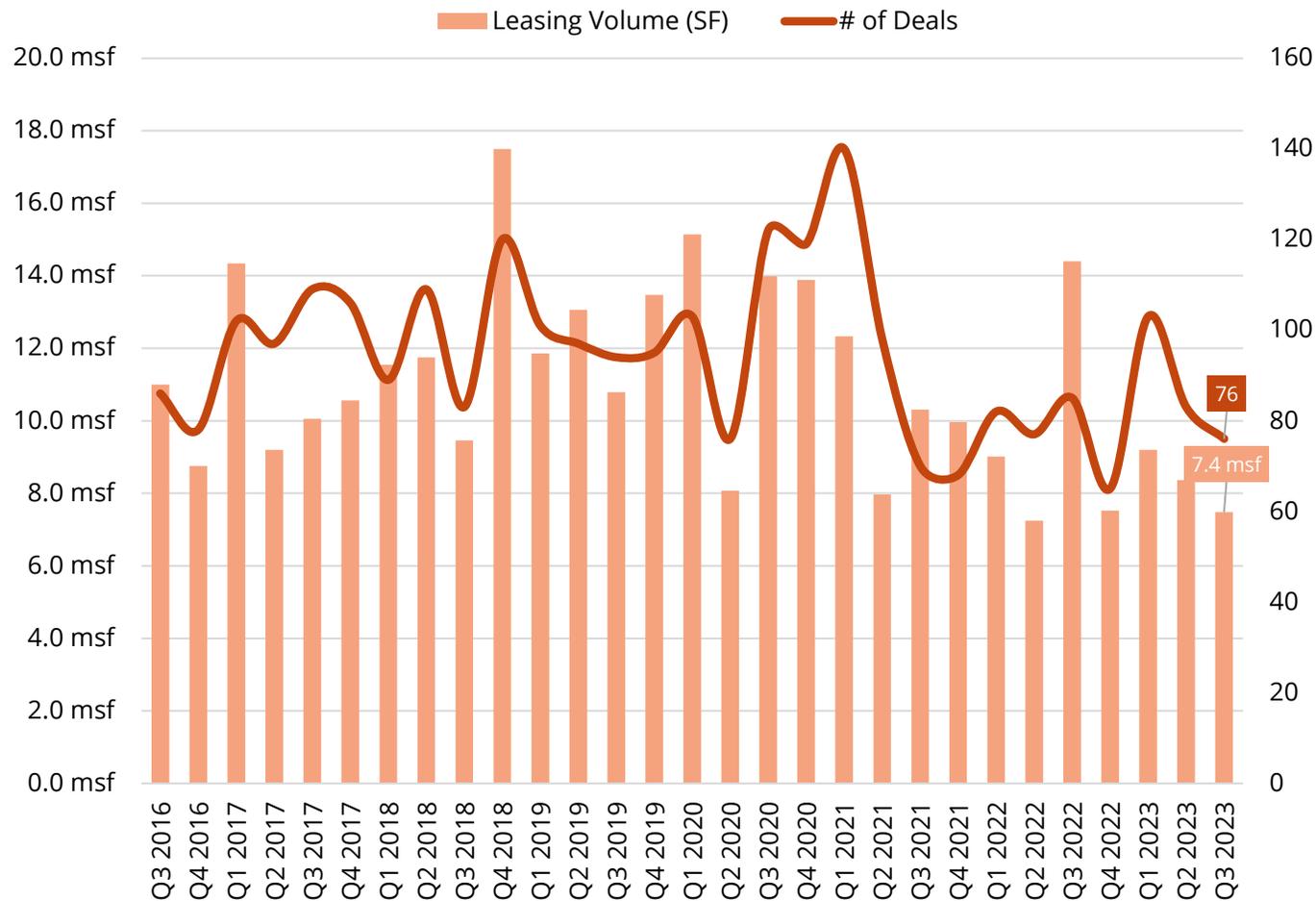
Total availabilities pulled back slightly to 9.8%, primarily due to the demand stemming from logistics companies.

Absorption picks up in the third quarter



Absorption ended the quarter back in positive territory, mainly attributed by a prominent occupier taking possession of a new state-of-the-art 4.0 msf facility.

Leasing activity cools down



Leasing activity throughout the Inland Empire continues to slow down. Many occupiers have halted expansion efforts as rental rates remain at high levels.

Inland Empire Industrial development pipeline

273 properties

97 under construction
176 proposed

151.6 million sf

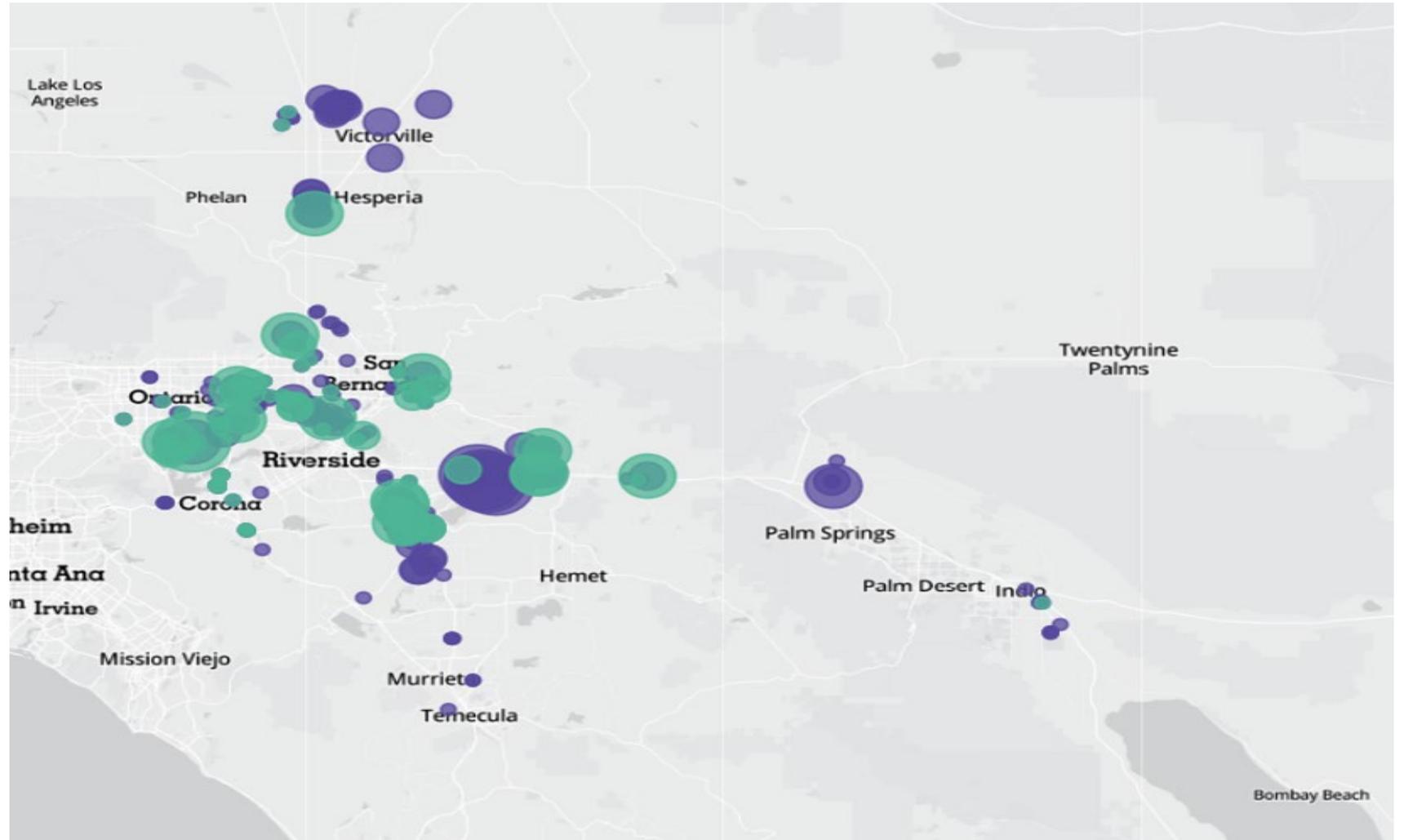
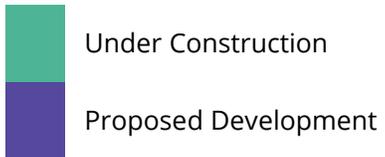
28.1 million sf under construction
123.5 million sf proposed

Major developments

36855 W Fourth - 1.8 million sf
(Pre-leased) – United Legwear

1363 Merrill Ave - 1.5 million sf

3413 Manitou Ct - 1.4 million sf
(Pre-leased) – Constellation Brands

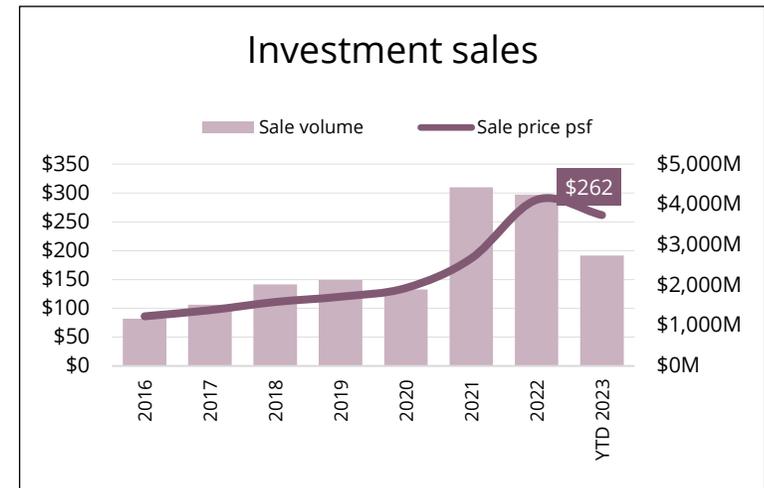
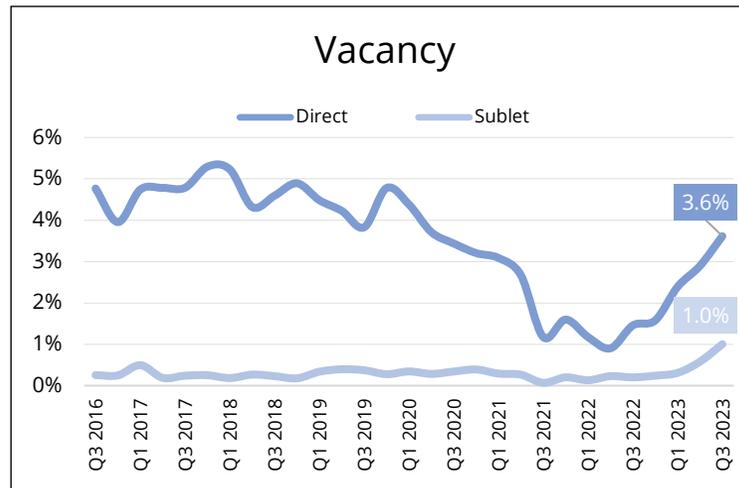
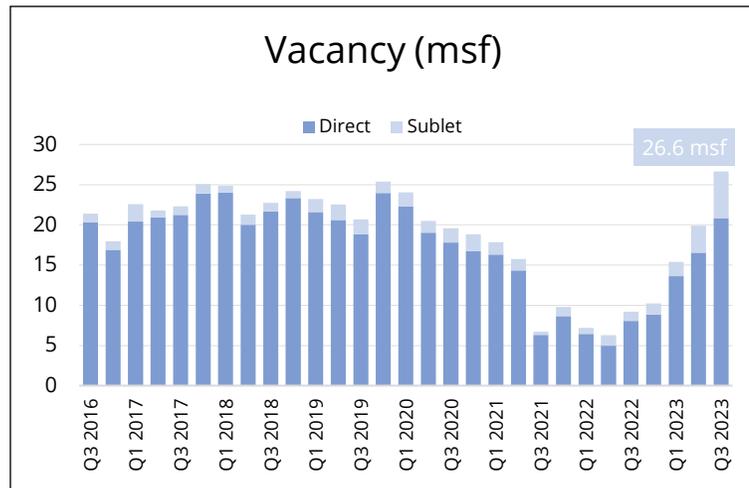
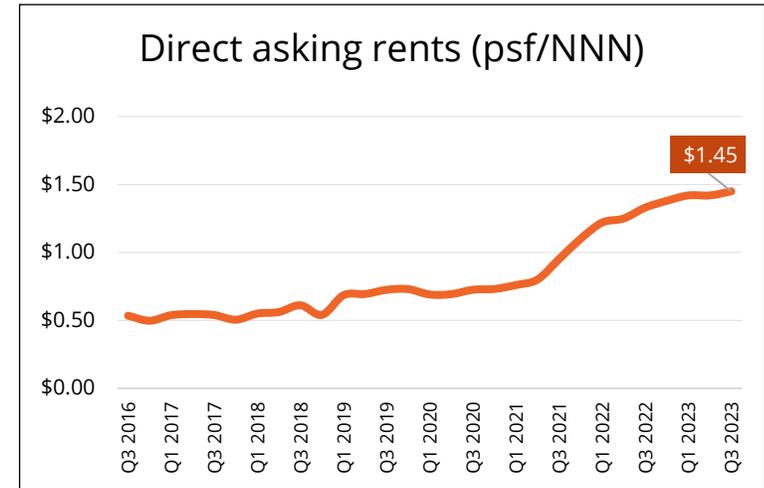
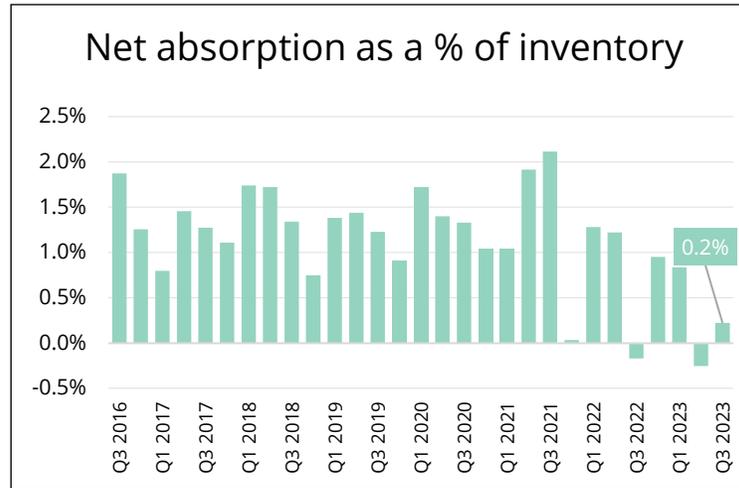
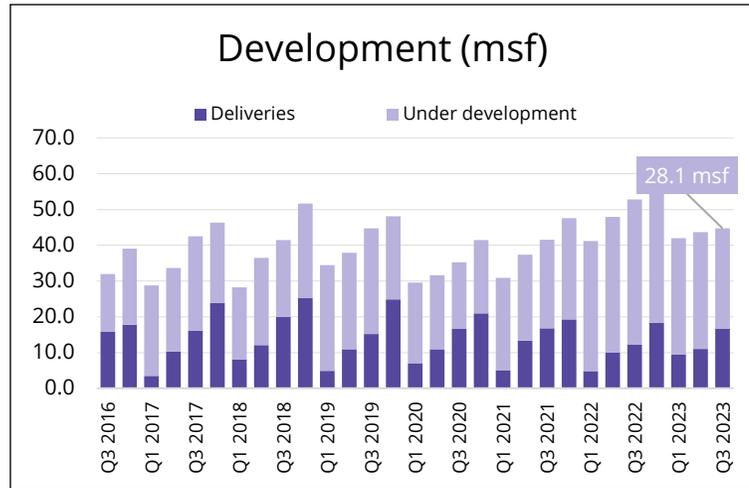


*Survey consists of industrial buildings greater than 50,000 sf.

Appendix



Inland Empire industrial market indicators



Inland Empire industrial market activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
CEVA Logistics	12415 6 th St	Rancho Cucamonga	September 2023	752,497	Direct	New
USElogistics	1420 N Tamarind ave	Rialto	July 2023	677,225	Direct	New
United Facilities	11618 Mulberry Ave	Fontana	August 2023	633,953	Direct	New

Recent sales activity

Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
NexPoint	41915 Business Park Dr	August 2023	450,568	\$190,000,000	\$421.69	Creative Manufacturing Properties
EQT Exeter	24712 6 th St	September 2023	179,000	\$49,500,000	\$276.54	Starpoint Properties
Wafra	14815 Hilton Dr	July 2023	76,809	\$28,430,000	\$370.14	Compass Danbe Real Estate

Top projects under development

Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
36855 W Fourth St	Beaumont/Hemet	December 2023	1,777,708	100%	USAA Real Estate
1363 Merrill Ave	Ontario	November 2023	1,488,000	0%	Prologis
3413 Manitou Ct	Riverside	December 2023	1,379,287	100%	Blackstone

Inland Empire industrial market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption (QTD)	Net absorption (YTD)	Annual direct asking rent psf NNN
IE West	307,710,687	10,183,092	15,868,820	4.0%	0.7%	4.7%	4,259,548	1,861,356	\$1.53
IE East	240,681,948	6,314,637	10,088,000	2.8%	1.5%	4.3%	(2,834,617)	2,937,707	\$1.41
IE North	18,000,155	119,700	1,663,912	5.8%	0%	5.8%	(266,364)	(722,671)	\$1.14
IE South	9,886,474	0	544,115	7.5%	1.1%	8.6%	570,738	545,324	\$1.10
Market total	576,279,264	16,617,429	28,164,847	3.6%	1.0%	4.6%	1,729,305	4,621,716	\$1.45

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption (QTD)	Net absorption (YTD)	Annual direct asking rent psf NNN
Class A	299,128,677	15,229,163	25,567,203	3.9%	0.9%	4.8%	2,860,735	8,398,497	\$1.54
Class B	241,610,138	1,388,266	2,597,644	3.2%	1.0%	4.2%	(1,019,897)	(3,640,987)	\$1.44
Class C	35,540,449	0	0	4.3%	1.6%	5.8%	(111,533)	(135,794)	\$1.26
Market total	576,279,264	16,617,429	28,164,847	3.6%	1.0%	4.6%	1,729,305	4,621,716	\$1.45

Industrial insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Industrial rents and concessions

- **Triple net rents:** tenant is responsible for paying rent, utilities, taxes, operating expenses and common area maintenance
- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as triple net (NNN)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as triple net (NNN)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an industrial suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Property subtypes

- **Distribution:** properties used primarily to ship good with higher proportions of dock doors and taller clear heights
- **General Warehouse:** properties used to store goods and materials
- **Manufacturing:** properties where goods are produced and assembled with heavier power and stronger floor loads for equipment

Capital markets

- **Investment volume:** industrial sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and information visit **avisonyoung.com**

Chris Cooper

Principal, Regional Managing Director
+1 213 935 7435
CA DRE #01260886
chris.cooper@avisonyoung.com

Cody Lerner

Principal
+ 1 951 267 2752
CA DRE #01994966
cody.lerner@avisonyoung.com

Luke Tatman

Associate
+ 1 951 267 2755
CA DRE #02217368
luke.tatman@avisonyoung.com

Monica Smith

Transaction Manager
+ 1 951 267 2752
CA DRE #02085869
monica.smith@avisonyoung.com

Erick Parulan

Senior Analyst, Market Intelligence
+ 1 949 757 1283
erick.parulan@avisonyoung.com

Taylor Stokes

Analyst, Market Intelligence
+ 1 310 339 2976
CA DRE #01987676
taylor.stokes@avisonyoung.com