



Inland Empire industrial market report

Q2 2023

**AVISON
YOUNG**

Inland Empire industrial market trends

8.7%

Total Availabilities nearly double since 2021

Due to substantial increases in the amount of vacant space returned to the market, particularly in the 100k-200k sf size range, the vacancy and availability rate spiked sharply this quarter. In fact, the amount of sublet space available to be leased is the highest on record since 2006.

-3.6m

Tenants pull back on expansion efforts

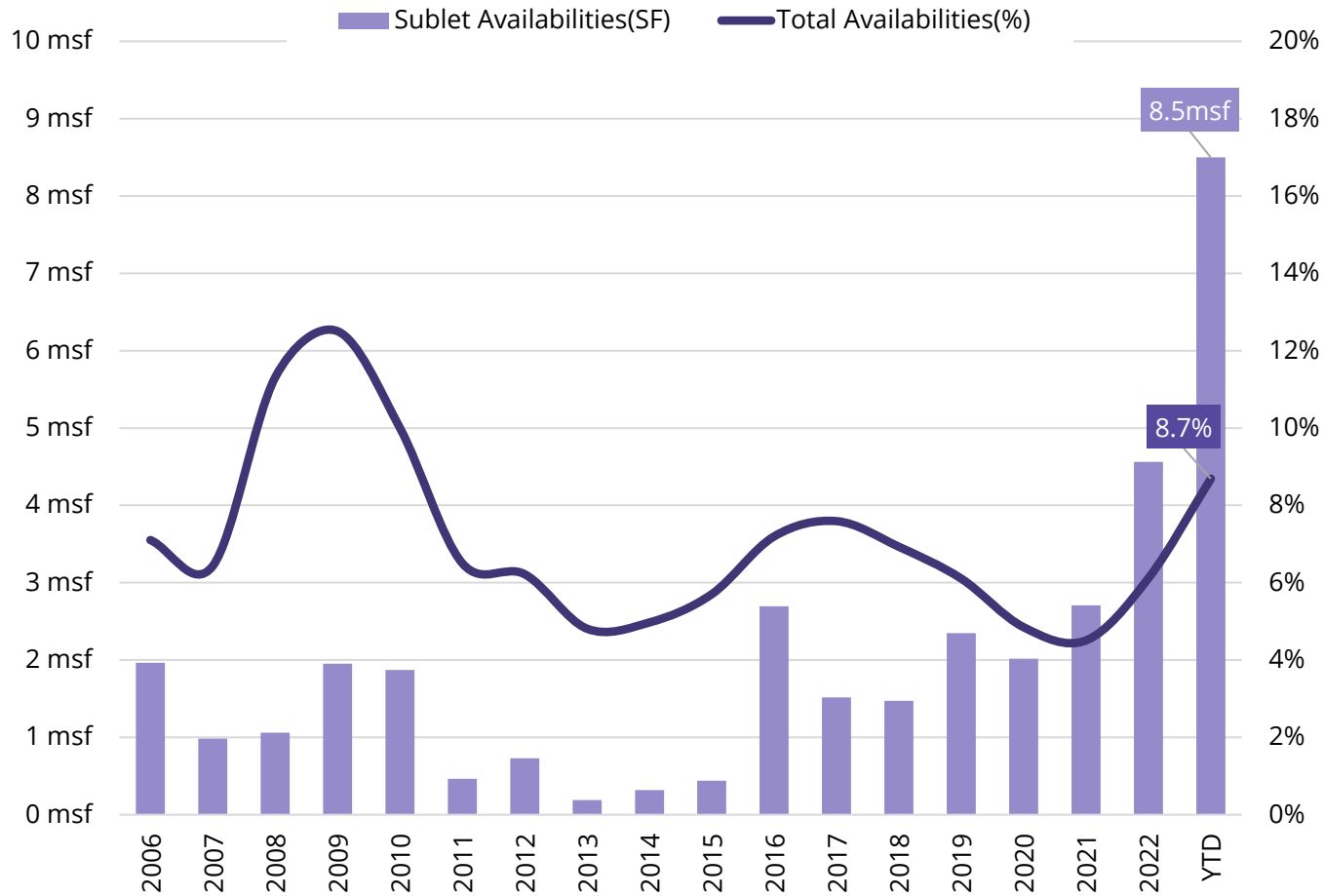
The Inland Empire experienced negative net absorption for the first time in over a decade as occupiers returned excess space garnered during the pandemic. Net absorption didn't exceed new supply for the sixth straight quarter. However, expect annual net absorption to be positive by Q4 as several large pre-leased projects are set to deliver by the end of 2023.

14.3 msf

Leasing falls behind

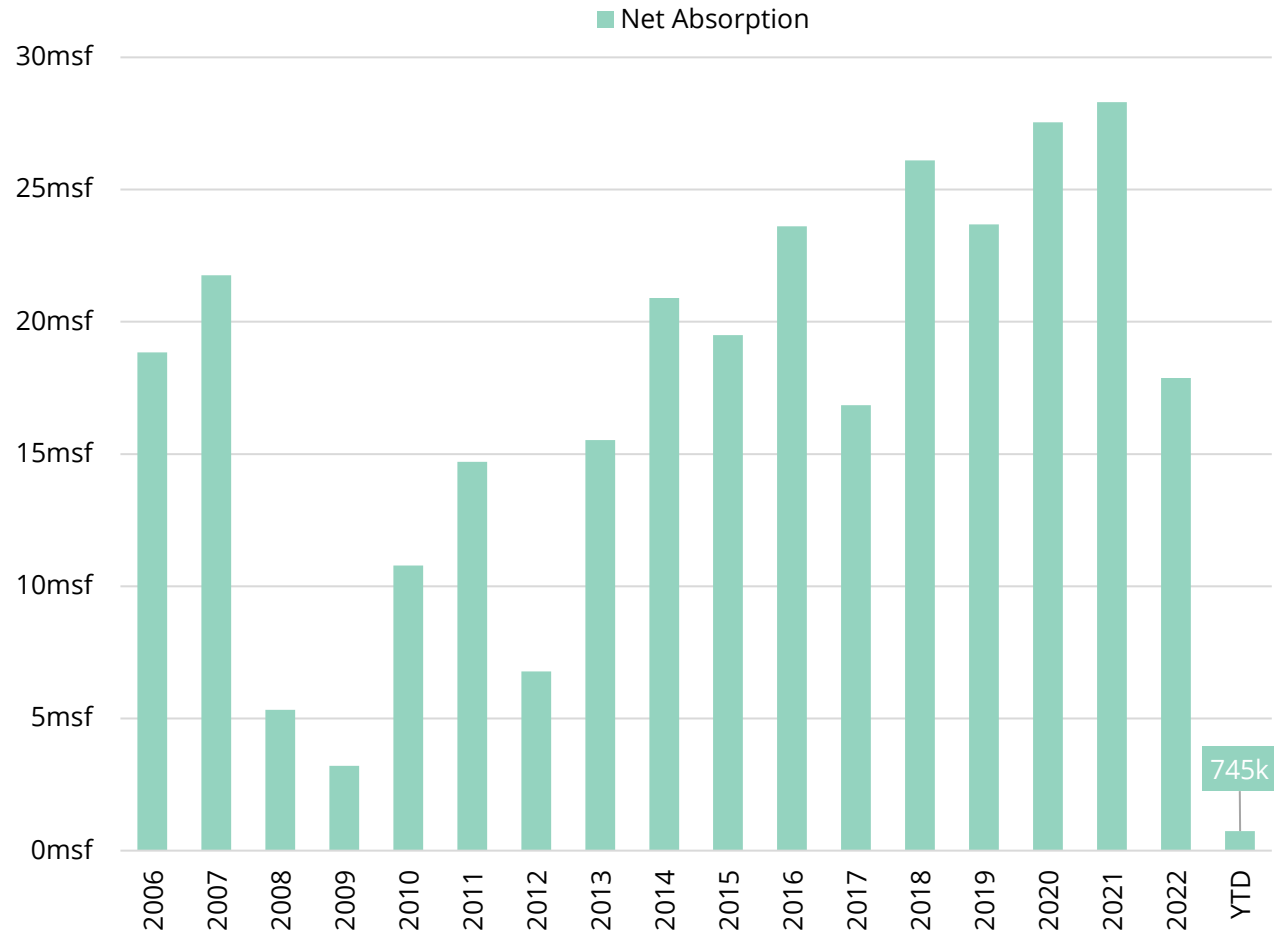
Leasing activity has been torpid year-to-date. Historically, the IE has averaged about 349 deals since 2006. Currently, the total number of leases total 149. For the first time in over 13 years, the IE big box market (buildings 100,000 SF and greater) recorded quarterly negative net absorption totaling 3.9 million sf.

Sublet availabilities reach new highs



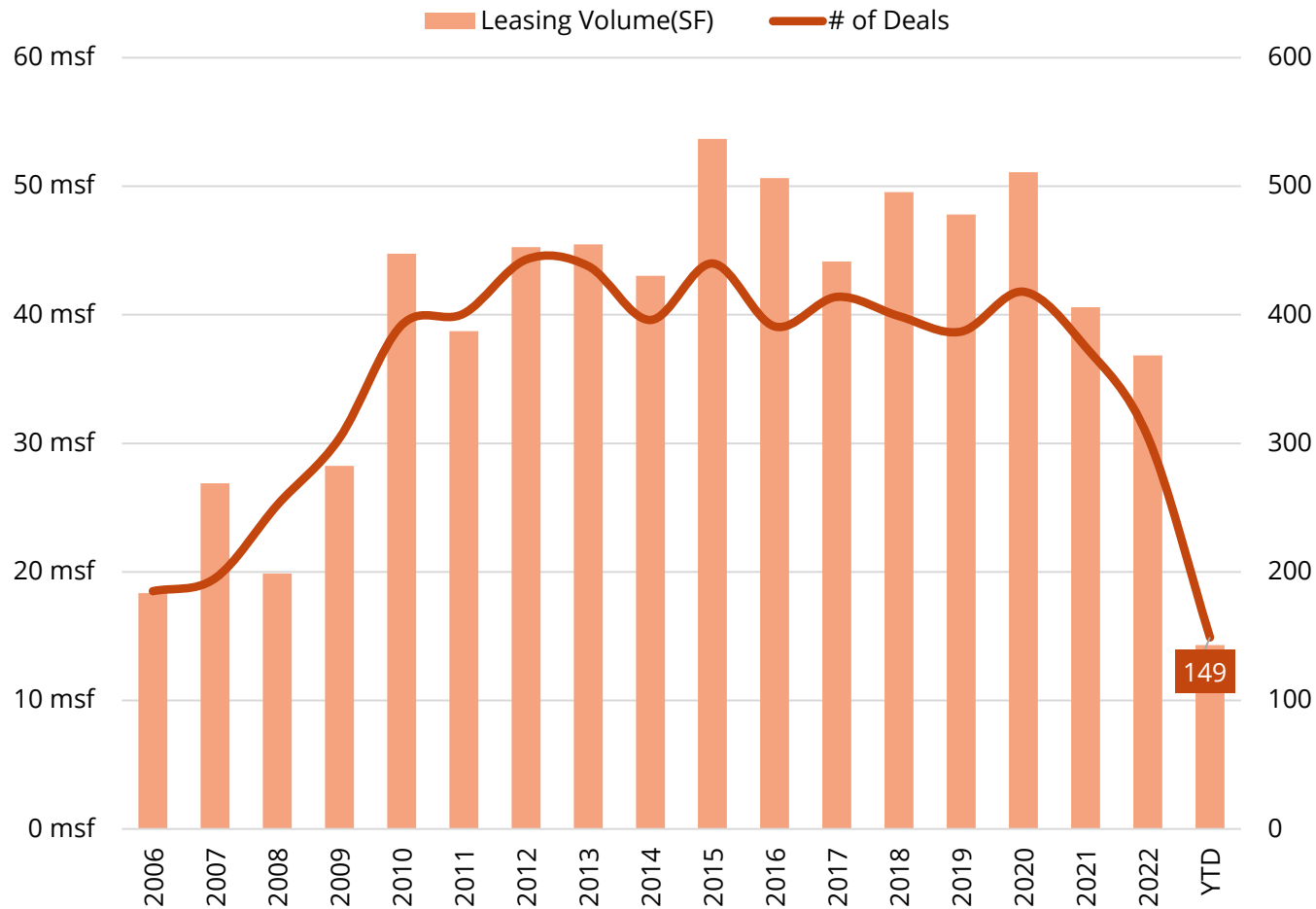
As industrial occupiers shed excess space acquired during the pandemic boom, the amount of sublet space available for lease is the highest on record in 17 years.

Inland Empire's rapid expansion cools



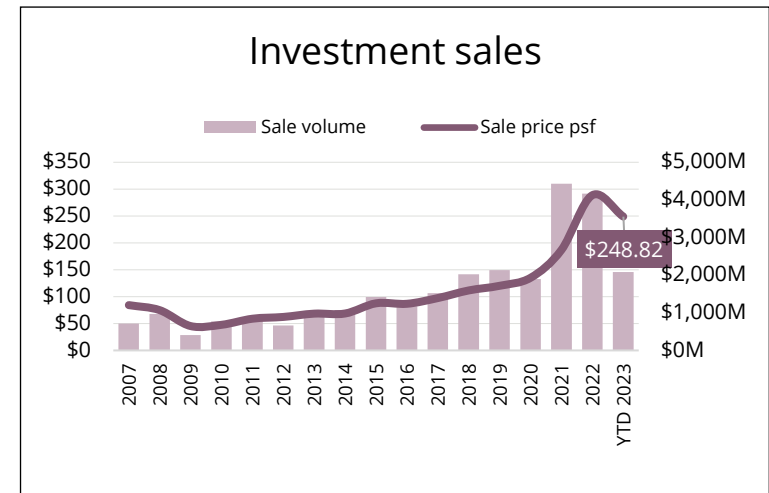
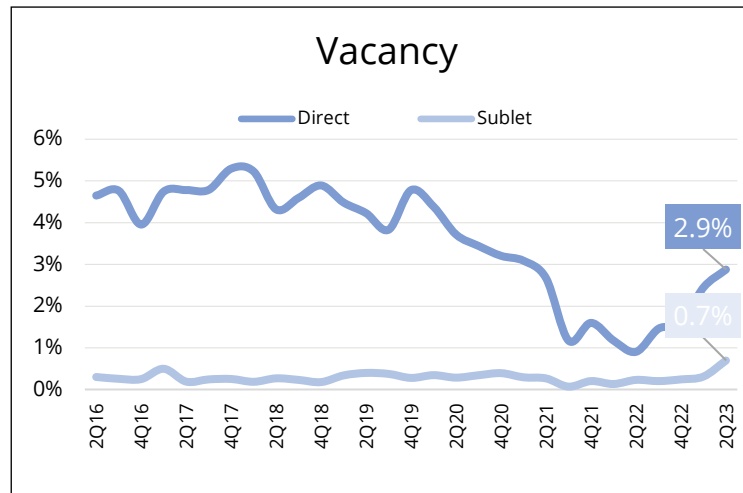
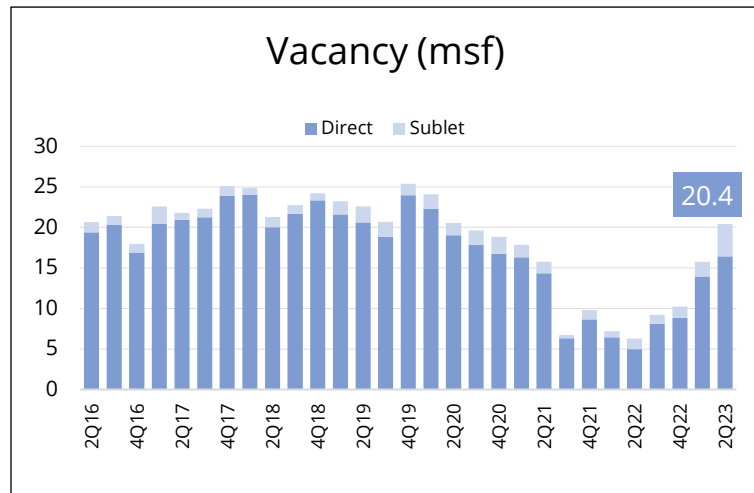
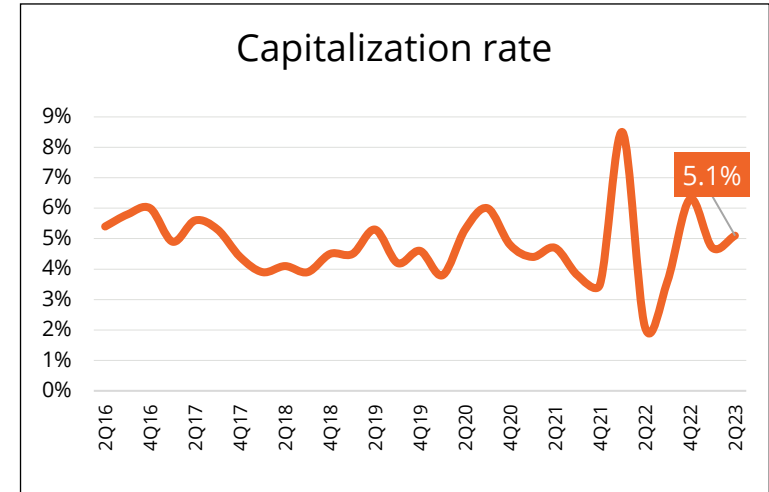
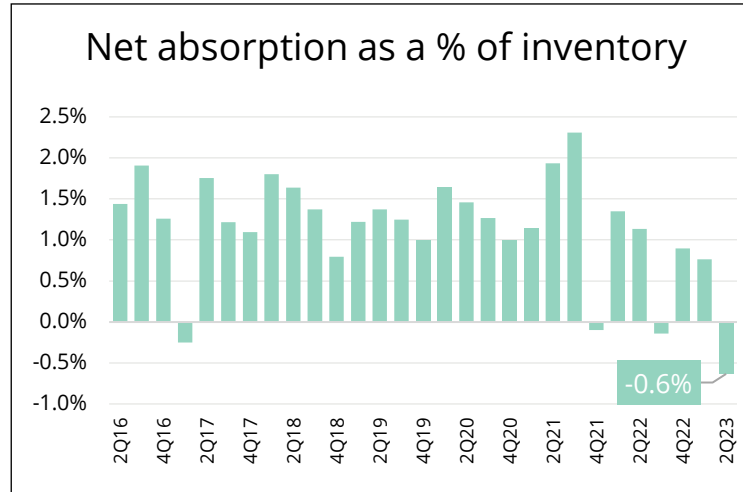
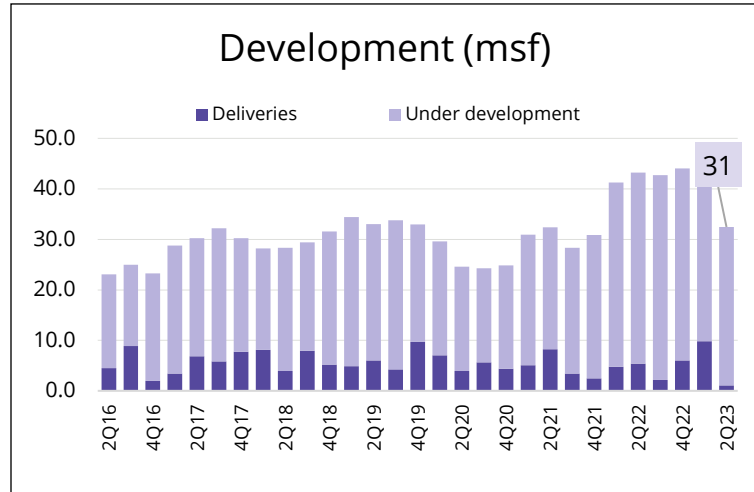
After Inland Empire's record setting expansion since the pandemic began, tenant expansions have dropped considerably in the second quarter.

Leasing activity continues to decline



Leasing activity is down and for the first time in living memory, landlords are feeling the pressure to reduce asking rental rates to secure deals with tenants.

Inland Empire industrial market indicators



Inland Empire industrial market activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Chaudhry	12430 Fourth St Rancho Cucamonga	IE West	May 2023	1,422,524	Direct	New
Maersk	11905 Landon Dr Jurupa Valley	IE West	June 2023	645,311	Direct	Renewal
CTDI	1543 Alder Ave Rialto	IE East	May 2023	426,302	Direct	Renewal

Recent sales activity

Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
GLP	4345 Parkhurst St, Jurupa Valley	April 2023	329,831	\$125,500,000	\$380.50	State Teachers Retirement System of Ohio
GLP	1501 Sherborn St, Corona (Ground Lease Purchase)	May 2023	205,074	\$123,587,253	\$602.65	Kearny Real Estate Company
Oaktree Capital Management, LP	531 E Central Ave, San Bernardino	April 2023	457,125	\$121,079,500	\$264.87	Real Estate Development Associates

Top projects under development

Address	Submarket	Delivery date	Building size sf	% Preleased	Owner
4707 S Baker Ave, Ontario	IE West	Q3 2023	4,055,890	100%	Prologis
36855 W Fourth St, Beaumont	IE East	Q3 2023	1,777,708	100%	USAA Real Estate
12430 Fourth St, Rancho Cucamonga	IE West	Q3 2023	1,422,524	100%	Bridge Point

Inland Empire industrial market stats

	Existing inventory sf	Deliveries sf(YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	QTD Net Absorption	YTD Net Absorption
IE West	302,393,861	517,708	19,566,421	3.7%	0.2%	3.9%	(2,184,163)	(2,243,807)
IE East	240,437,091	552,446	9,635,420	1.6%	1.3%	2.9%	(1,426,457)	2,992,625
IE South	9,886,474	0	544,115	8.7%	1.1%	9.7%	490,393	452,610
IE North	18,000,155	0	1,663,912	4.3%	0.0%	4.3%	(480,932)	(456,307)
Market Total	570,717,581	1,070,154	31,409,868	2.9%	0.7%	3.6%	(3,601,159)	745,121

	Existing inventory sf	Deliveries sf(YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	QTD Net Absorption	YTD Net Absorption
Warehouse / Distribution	567,740,818	1,070,154	31,409,868	2.9%	0.7%	3.6%	(4,059,980)	297,082
Flex	2,976,763	0	0	2.9%	0.0%	2.9%	458,821	448,039
Market Total	570,717,581	1,070,154	31,409,868	2.9%	0.7%	3.6%	(3,601,159)	745,121

	Existing inventory sf	Deliveries sf(YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	QTD Net Absorption	YTD Net Absorption
Class A	303,073,007	552,446	26,417,793	2.4%	0.9%	3.3%	(1,549,057)	3,218,243
Class B	227,061,390	517,708	4,992,075	3.3%	0.5%	3.8%	(2,196,380)	(2,273,080)
Class C	40,583,184	0	0	4.1%	0.0%	4.1%	144,278	(200,042)
Market Total	570,717,581	1,070,154	31,409,868	2.9%	0.7%	3.6%	(3,601,159)	745,121

Inland Empire Industrial development pipeline

265 properties

101 under construction
164 proposed

146.3 million sf

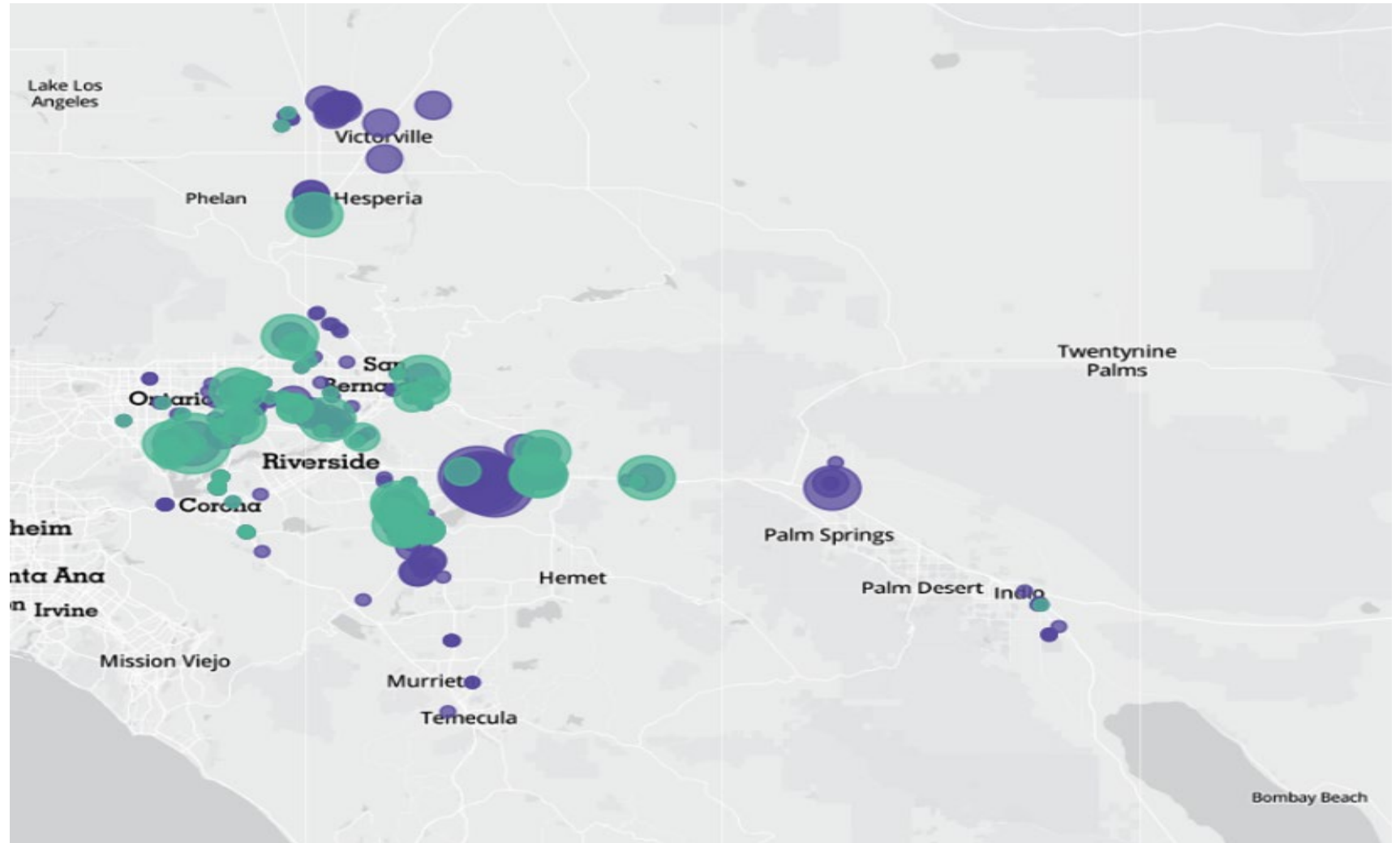
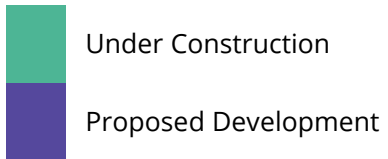
31.4 million sf under construction
114.9 million sf proposed

Major developments

4.1 million sf (Pre-leased)
Amazon

1.8 million sf (Pre-leased)
United Legwear & Apparel

1.4 million sf (Pre-leased)
Chaudhry



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

Loaded import and export container volumes

+70%

Cargo volume at the Port of Los Angeles has increased 70% since February 2023 with four months of consecutive gains.

In June 2023, the Port of Los Angeles moved 833,035 TEUs, its best performance since last July and just 5% less than last year's record, despite work stoppages caused by labor disputes. A tentative agreement was reached on June 14, 2023. Turnaround times have improved to 1 week as there has not been congestion for the past 4-5 months. It is estimated that the Port of Los Angeles will move 8.5 million TEU's by year end, down from last year's totals.



Port of Los Angeles, Port of Long Beach. Totals consist of loaded imports and exports

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**

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