

FIGURES | INLAND EMPIRE INDUSTRIAL | Q2 2023

# Industrial market showed signs of normalizing as recession fears loomed



Note: Arrows indicate change from previous quarter.

## Net absorption decreased quarter-over-quarter

- Net absorption turned negative in the second quarter by 597,027 sq. ft. in the Inland Empire (IE) Core. Net absorption remained positive in the IE East with 2,093,363 sq. ft. absorbed whereas, in the IE West, 2,690,390 sq. ft. was negatively absorbed. The IE North realized an additional 475,267 sq. ft. of negative absorption. Vacant deliveries, occupiers relocating, and increased sublease space contributed to the shift.

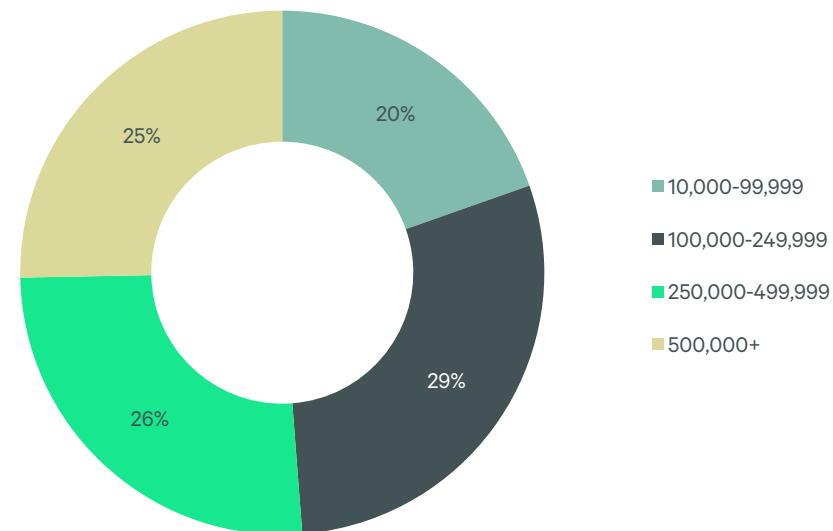
## Construction starts outpaced deliveries

- Across the IE East and IE West, 33.6 million sq. ft. were under construction in the second quarter. Over 4 million sq. ft. delivered from April to June while another 4.9 million in new construction sq. ft. broke ground in Riverside, Chino, and surrounding areas.

## Taking rates remained steady during the quarter

- Taking rents in the IE Core remained steady quarter-over-quarter at \$1.51 per sq. ft. In the IE East, rates were virtually unchanged from \$1.39 per sq. ft. in the first quarter to \$1.40 per sq. ft. in the second quarter. In the IE West, rates fell to \$1.60 per sq. ft. from their historic peak of \$1.62 per sq. ft. last quarter.

FIGURE 1: Available Space Distribution SF



Source: CBRE Research, Q2 2023

## Market Overview

The Inland Empire showed signs of normalizing in the second quarter as economic trepidation caused lenders, landlords, and occupiers to reevaluate long-term commitments. While vacancy and availability increased in the second quarter, increased gross activity and continued investment in development and construction showcased the opportunities in the industrial market. Taking lease rates remained steady while deal velocity slowed among some larger building size tranches. With the Los Angeles and Long Beach Ports combined handling 29% of all imports and exports in the United States and the I-10 Corridor acting as a natural gateway for transport into major markets further east, the Inland Empire continued to offer occupiers and owners opportunities despite economic uncertainty. Market fundamentals, including the proximity to metropolitan centers, access to the San Pedro Bay Port Complex, and the vast transportation infrastructure for shipping across the United States, remained key elements benefitting the IE.

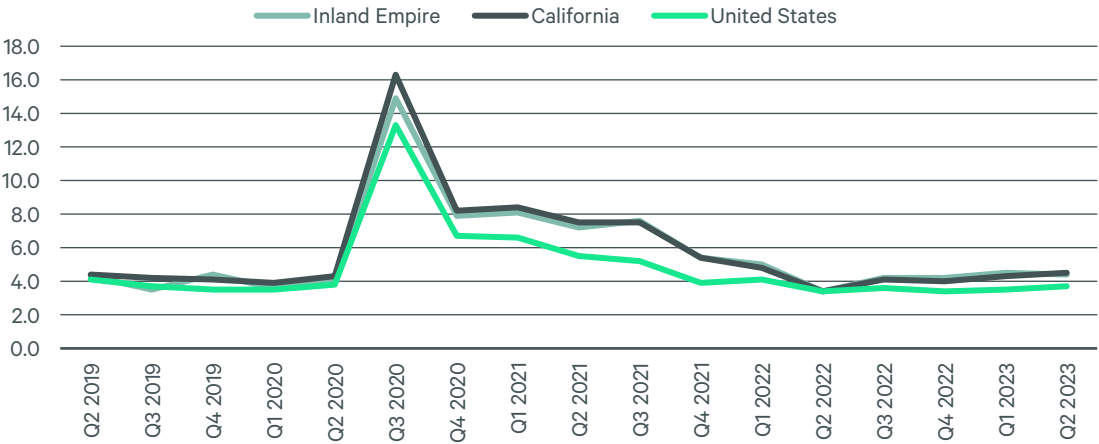
### UNEMPLOYMENT

Unemployment in the Inland Empire fell by 20 bps to 4.4% in May, from 4.6% in March. Both California and the United States realized increases in unemployment quarter-over-quarter with the U.S. unemployment figures increasing 30 bps from 3.4% to 3.7% and California unemployment rising 20 bps from 4.3% to 4.5% in May. The rise in unemployment in April and May in California and the United States signaled the success of the Federal Reserve’s strategy to combat inflation by softening the labor market and slowing monetary velocity with increased cost of debt capital.

### LEASE RATE ANALYSIS

Taking lease rates in the IE Core remained steady at their all-time highs of \$1.51 NNN per sq. ft. in the second quarter. In the IE East, taking rates increased by 0.7% quarter-over-quarter and 15% year-over-year to \$1.40 NNN per sq. ft. In the IE West, rates decreased by 1.2% quarter-over-quarter but realized 3% growth year-over-year. Overall, rates in the IE Core grew 6% year-over-year. In the IE North, minimal leasing activity caused the average taking rate to stand at \$1.05 NNN per sq. ft. Rent abatements increased in the second quarter with free rent and early occupancy adding value for occupiers while annual rent increases remained steady at 4.0% for most new leases.

FIGURE 2: Unemployment Rate (%)



Source: U.S. Bureau of Labor Statistics, Q2 2023

FIGURE 3: Average Taking Lease Rate (\$PSF/MO/NNN)



Source: CBRE Research, Q2 2023.

VACANCY & AVAILABILITY

Vacancy increased by 90 bps from 1.8% from the previous quarter to 2.7% in Q2 2023 in the Inland Empire Core. Availability increased 110 bps from 4.8% to 5.9% quarter-over-quarter as sublease availability and vacant and unleased deliveries added new space to the market. All size tranches increased in available space with 1 million sq. ft. buildings seeing the largest increase from the first quarter to the second quarter. Although the Inland Empire remained one of the tightest supply markets in the nation, the market began to rebound from effectively no availability in early 2022.

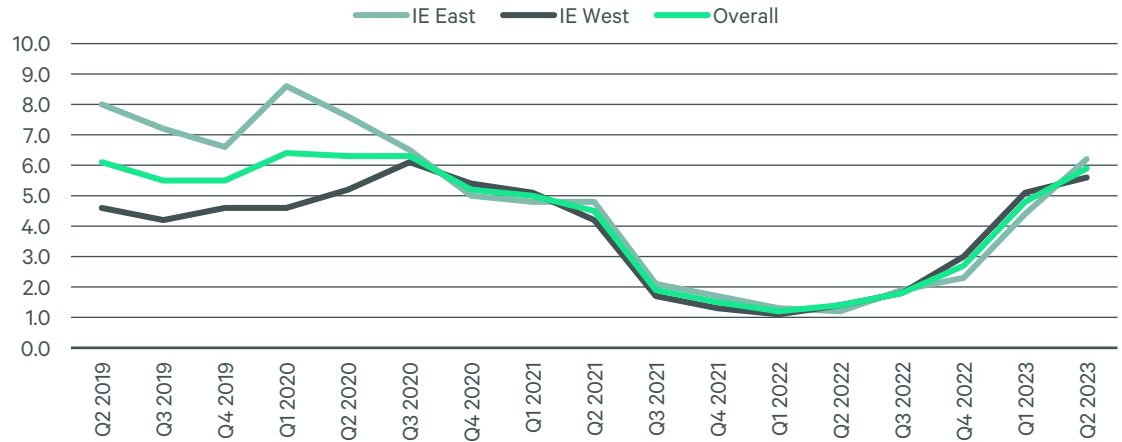
NET ABSORPTION & ACTIVITY

Net absorption was negative in the Inland Empire for the first quarter since Q4 2008. Between the IE East and IE West, 597,027 sq. ft. were negatively absorbed. In the IE North, an additional - 475,967 sq. ft. were negatively absorbed. Fontana saw significant negative absorption this quarter while both Riverside and Perris saw over 1 million sq. ft. in positive absorption, driven primarily by pre-leased deliveries. Despite the negative absorption, new leasing remained strongest in the IE West, with Rancho Cucamonga, Ontario, and Fontana all seeing over 1 million sq. ft. newly leased. In the IE East, Perris saw the strongest new leasing, with over 1 million sq. ft. transacted. Leases between 10,000 and 99,999 sq. ft. contributed the most to gross activity in the second quarter with nearly 2.6 million sq. ft. newly leased. 3PL and other warehousing and transportation services led activity and continued to compete for space across a tight Southern California industrial landscape.

DEVELOPMENT

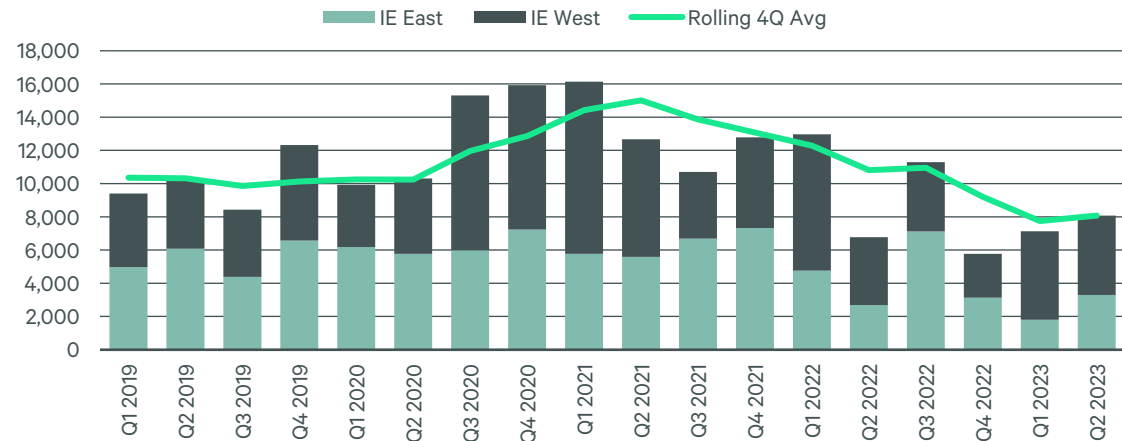
New construction starts outpace deliveries in the IE Core as developers found ample opportunities and projected demand to justify breaking ground. Development remained strongest in the IE West with 22.2 million sq. ft. under construction. In the IE East, 11.4 million sq. ft. was under construction at the end of the second quarter. Major pre-leased projects delivered in both the IE West and IE East while smaller logistics parks ranging from 10,000 sq. ft. to 500,000 sq. ft. broke ground in Chino and Riverside. In June, 37% of construction was preleased with logistics, food & beverage, and retail companies partnering with developers for built-to-suit projects across the Inland Empire.

FIGURE 4: Availability Rate (%)



Source: CBRE Research, Q2 2023.

FIGURE 5: Gross Activity (MSF)



Source: CBRE Research, Q2 2023.

MARKET OUTLOOK

The Inland Empire continued to show resilience despite the economic prediction of a mild recession later this year. While the IE has prospered through 2022 and early 2023, investors and occupiers have begun showing increased reticence to take long-term positions until the Federal Reserve’s rate hiking strategy reverses course. Tight credit conditions, strain on the housing market, and persistent inflation will continue to play a role in major markets. As inflation and interest rates decrease, it is predicted that borrowing will begin to increase, and leasing activity will drive growth in the industrial real estate market.

In the Inland Empire, CBRE’s Econometric Advisors are predicting lease rate growth between 5% and 12% year-over-year. Vacancy and availability are expected to rise marginally as construction projects continue to deliver and occupiers hold off on multiyear commitments. However, the uncertainty caused by the current economic conditions are not expected to have a long-term impact on the industrial market in the Inland Empire.

FIGURE 6: Market Statistics

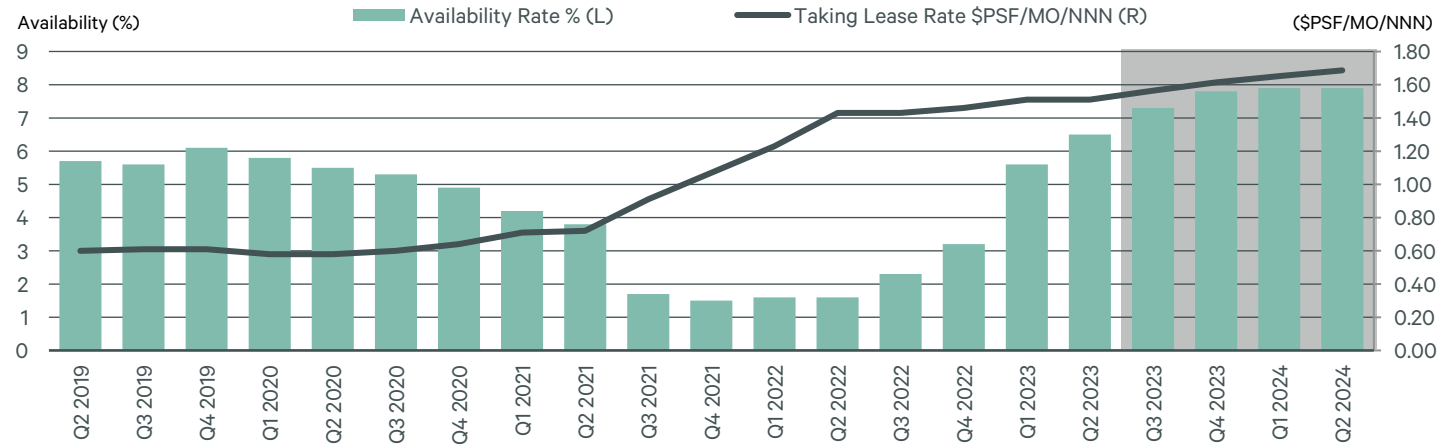
Submarket	Bldg. Sq. Ft.	Overall Vacancy (%)	Availability (%)	Q2 2023 Net Absorption (SF)	Q2 2023 Gross Activity (SF)	Under Construction (SF)	Construction Deliveries YTD (SF)	Avg. Taking Lease Rates (\$PSF/MO/NNN)
Inland Empire East	290,798,711	2.3	6.2	2,093,363	3,294,044	11,435,628	3,315,007	1.40
Inland Empire West	337,002,227	3.0	5.6	-2,690,390	4,784,085	22,237,126	10,054,422	1.60
<b>Inland Empire Core</b>	<b>627,800,938</b>	<b>2.7</b>	<b>5.9</b>	<b>-597,027</b>	<b>8,078,129</b>	<b>33,672,754</b>	<b>13,369,429</b>	<b>1.51</b>
Inland Empire North	20,949,862	4.6	5.3	-475,267	23,561	2,231,600	1,249,725	1.05
<b>Inland Empire TOTAL</b>	<b>648,750,800</b>	<b>2.7</b>	<b>5.9</b>	<b>-1,072,294</b>	<b>8,101,690</b>	<b>35,904,354</b>	<b>14,619,154</b>	<b>1.50</b>

FIGURE 7: Key Transactions

Occupier	Industry Sector	Location	Total Sq. Ft.
Smart & Final	Food/Beverage	Inland Empire West	1,422,524
DMSI*	Warehousing and Distribution	Inland Empire East	739,903
On Trac*	Warehousing and Distribution	Inland Empire West	591,020
CTDI*	Warehousing and Distribution	Inland Empire East	426,302
Schneider Electric*	Construction	Inland Empire West	420,000

\*Indicates Renewal; Source: CBRE Research, Q2 2023.

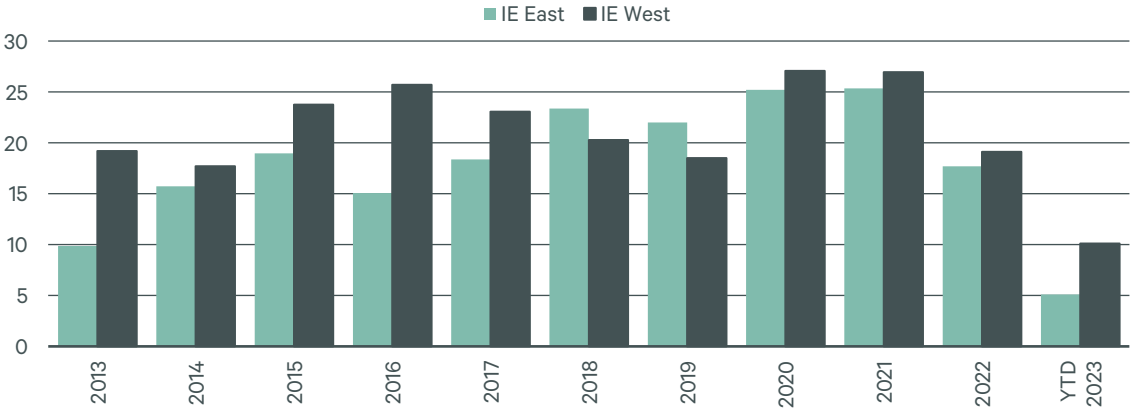
FIGURE 8: 12-Month Forecast



Source: CBRE Economic Advisors, Q2 2023.

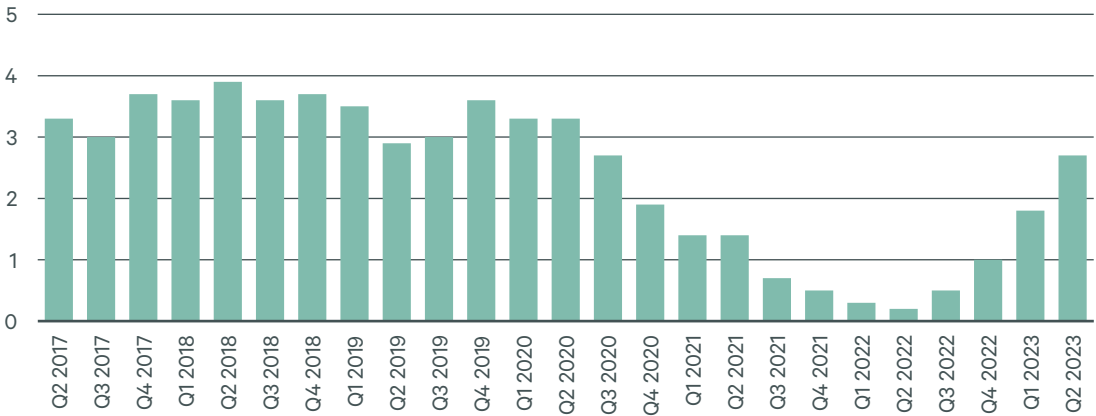
FIGURES INSERT | INLAND EMPIRE INDUSTRIAL | Q2 2023

FIGURE 1: Historical Gross Activity (MSF)



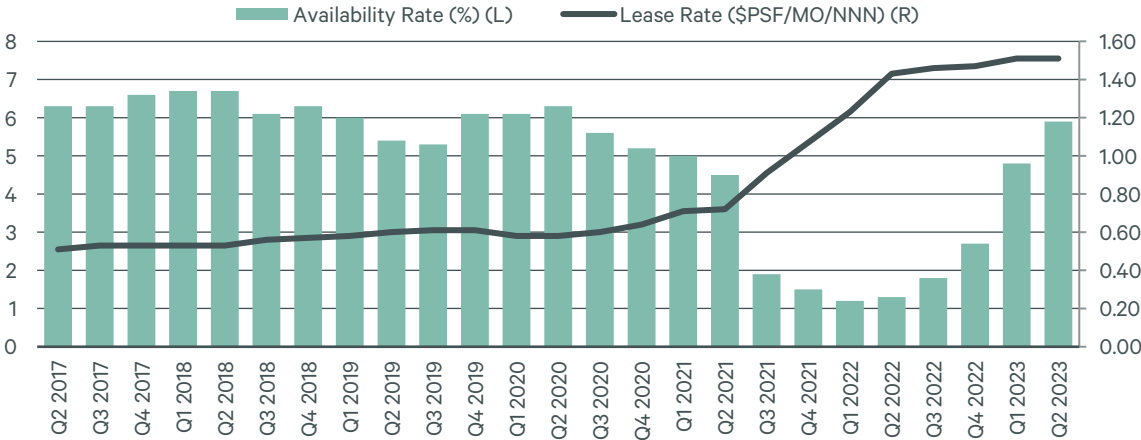
Source: CBRE Research, Q2 2023.

FIGURE 2: Overall Vacancy (%)



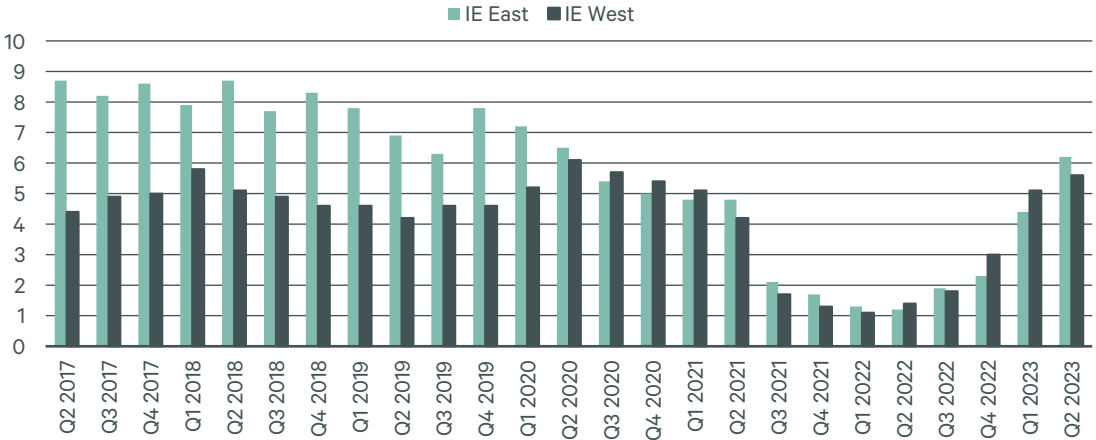
Source: CBRE Research, Q2 2023.

FIGURE 3: Historical Availability & Lease Rate



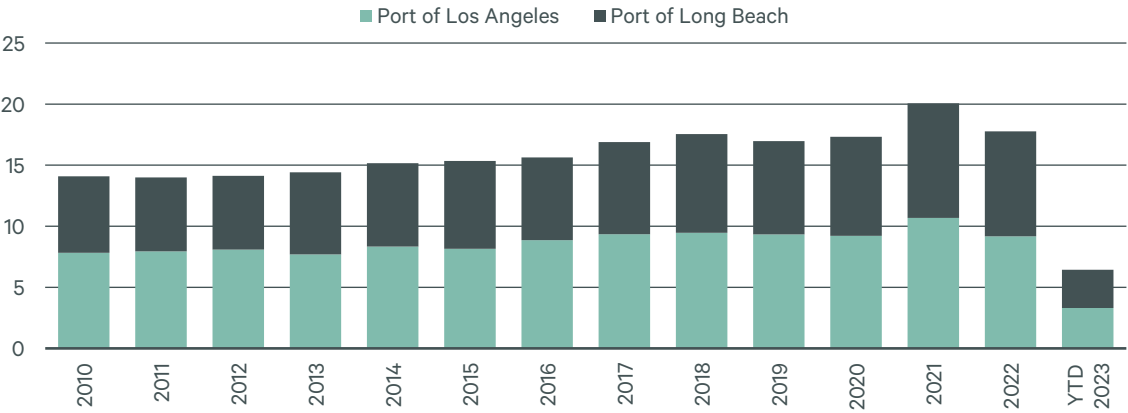
Source: CBRE Research, Q2 2023.

FIGURE 4: Historical Availability Rate (%)



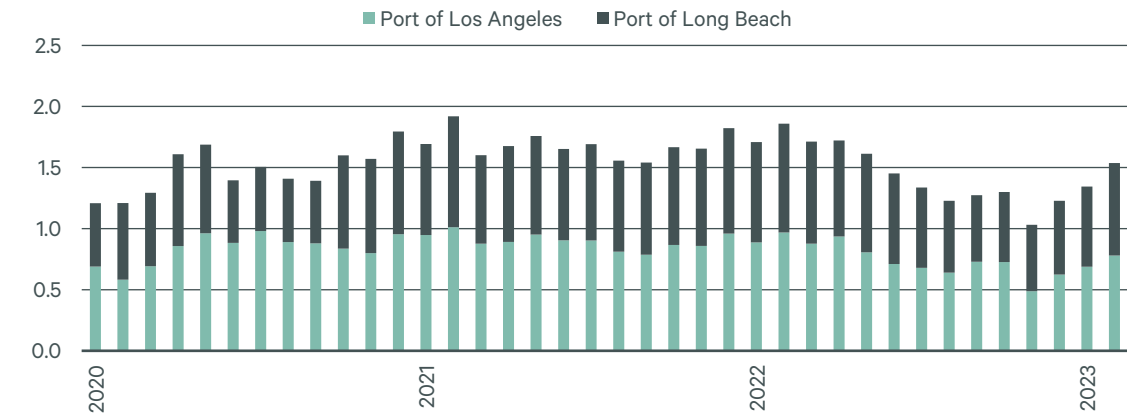
Source: CBRE Research, Q2 2023.

FIGURE 5: Annual TEU's (# of Containers)



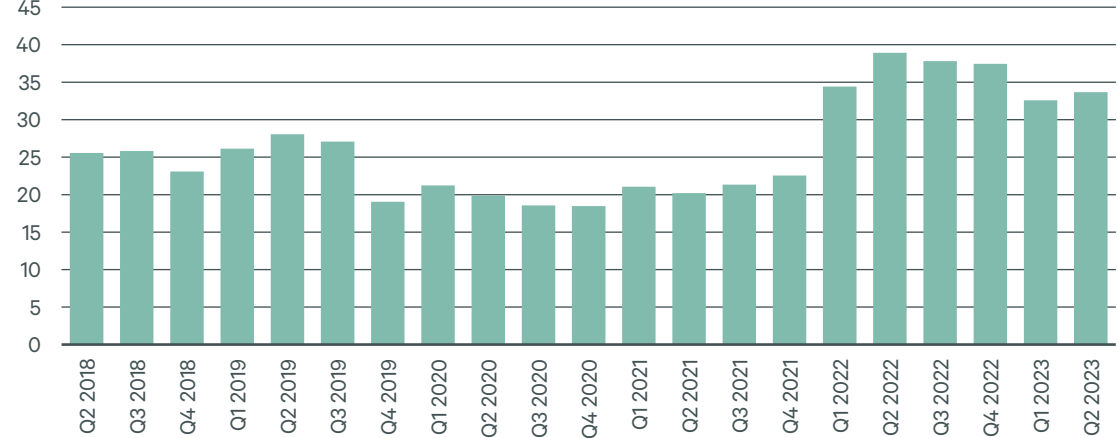
Source: POLB.com, PortofLosAngeles.Org, May 2023.

FIGURE 6: Monthly Total TEU Activity (# of Containers)



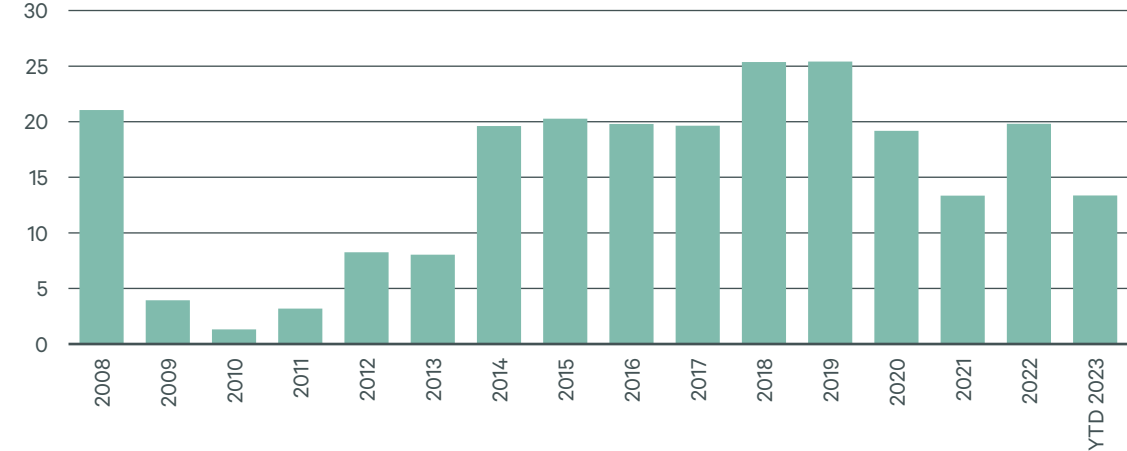
Source: CBRE Research, Q2 2023.

FIGURE 7: Under Construction (MSF)



Source: CBRE Research, Q2 2023.

FIGURE 8: Historical Completed Construction (MSF)



Source: CBRE Research, Q2 2023.

FIGURE 9: Industrial Market Statistics by City

CITY	BLDG. COUNT	BLDG SQFT	U/C BLDG COUNT	U/C BLDG SQFT	VACANT SQFT	VACANCY RATE	AVAIL SQFT	AVAIL RATE	NO. SALES	SQFT SOLD	NO. LEASES	SQFT LEASED	2ND QTR GROSS ACTIVITY	2023 YTD GROSS ACTIVITY	2ND QTR NET ABSORP	2023 YTD NET ABSORP	AVG TAKING LEASE
Banning/Beaumont	66	6,280,227	3	3,610,375	0	0.0	0	0.0	0	0	1	17,500	17,500	17,500	2,334	0	\$0.00
Colton	122	9,348,084	0	0	21,000	0.2	174,721	1.9	0	0	2	93,340	93,340	219,340	24,000	150,000	\$1.00
Corona/Norco	713	33,876,194	3	263,848	1,589,187	4.7	3,336,715	9.8	2	86,443	9	537,168	623,611	856,294	34,500	22,599	\$1.58
Moreno Valley	102	33,440,955	8	283,459	1,046,100	3.1	1,059,880	3.2	0	0	1	33,700	33,700	399,817	-434,330	-631,148	\$1.18
Perris	150	38,591,732	20	3,952,010	1,301,077	3.4	2,531,900	6.6	0	0	5	1,095,622	1,095,622	1,095,622	2,533,895	3,209,916	\$1.35
Redlands/Loma Linda	183	29,910,683	3	499,277	446,951	1.5	2,459,506	8.2	1	16,000	1	13,990	29,990	495,239	2,836	-12,573	\$1.18
Rialto	207	36,033,269	5	789,969	606,628	1.7	2,985,298	8.3	0	0	2	61,056	61,056	128,008	39,733	156,556	\$1.58
Riverside	781	58,396,377	9	1,165,253	957,928	1.6	2,182,775	3.7	4	693,786	9	492,689	1,186,475	1,398,356	94,468	-278,852	\$1.33
San Bernardino	405	44,921,190	5	871,437	586,697	1.3	3,325,676	7.4	1	32,300	4	120,450	152,750	486,935	-204,073	1,325,287	\$1.30
<b>Inland Empire East</b>	<b>2,729</b>	<b>290,798,711</b>	<b>56</b>	<b>11,435,628</b>	<b>6,555,568</b>	<b>2.3</b>	<b>18,056,471</b>	<b>6.2</b>	<b>8</b>	<b>828,529</b>	<b>34</b>	<b>2,465,515</b>	<b>3,294,044</b>	<b>5,097,111</b>	<b>2,093,363</b>	<b>3,941,785</b>	<b>\$1.40</b>
Chino/Chino Hills	645	55,638,522	8	1,744,787	1,452,811	2.6	2,815,814	5.1	0	0	11	568,469	568,469	837,338	-436,198	-534,514	\$1.63
Fontana (Bloomington)	618	79,949,290	14	4,204,163	4,597,335	5.8	6,757,366	8.5	0	0	9	1,061,859	1,061,859	2,400,675	-1,558,202	-2,104,303	\$1.62
Jurupa Valley/Eastvale	289	45,651,428	23	5,765,280	332,539	0.7	853,090	1.9	0	0	3	229,835	229,835	2,116,047	-1,469	260,542	\$1.65
Ontario	1,225	114,521,736	21	7,593,557	3,041,286	2.7	6,348,714	5.5	0	0	31	1,233,337	1,233,337	2,817,924	-411,978	-318,831	\$1.61
Rancho Cucamonga	601	41,241,251	5	2,929,339	657,409	1.6	2,136,546	5.2	0	0	7	1,690,585	1,690,585	1,943,022	-282,543	-161,521	\$1.47
<b>Inland Empire West</b>	<b>3,378</b>	<b>337,002,227</b>	<b>71</b>	<b>22,237,126</b>	<b>10,081,380</b>	<b>3.0</b>	<b>18,911,530</b>	<b>5.6</b>	<b>0</b>	<b>0</b>	<b>61</b>	<b>4,784,085</b>	<b>4,784,085</b>	<b>10,115,006</b>	<b>-2,690,390</b>	<b>-2,858,627</b>	<b>\$1.60</b>
<b>INLAND EMPIRE</b>	<b>6,107</b>	<b>627,800,938</b>	<b>127</b>	<b>33,672,754</b>	<b>16,636,948</b>	<b>2.7</b>	<b>36,968,001</b>	<b>5.9</b>	<b>8</b>	<b>828,529</b>	<b>95</b>	<b>7,249,600</b>	<b>8,078,129</b>	<b>15,212,117</b>	<b>-597,027</b>	<b>1,083,158</b>	<b>\$1.51</b>
Adelanto	98	3,989,948	0	0	380,750	9.5	380,750	9.5	0	0	0	0	0	53,925	29,925	29,925	\$0.00
Apple Valley	24	3,266,548	0	0	0	0.0	0	0.0	0	0	0	0	0	0	0	0	\$0.00
Barstow	15	571,828	0	0	0	0.0	0	0.0	0	0	0	0	0	0	0	0	\$0.00
Hesperia	67	3,117,539	2	2,231,600	17,535	0.6	167,535	5.4	1	23,561	0	0	23,561	1,027,561	0	0	\$0.00
Victorville	77	10,003,999	0	0	561,074	5.6	561,074	5.6	0	0	0	0	0	0	-505,192	-528,892	\$1.05
<b>Inland Empire North</b>	<b>281</b>	<b>20,949,862</b>	<b>2</b>	<b>2,231,600</b>	<b>959,359</b>	<b>4.6</b>	<b>1,109,359</b>	<b>5.3</b>	<b>1</b>	<b>23,561</b>	<b>0</b>	<b>0</b>	<b>23,561</b>	<b>1,081,486</b>	<b>-475,267</b>	<b>-498,967</b>	<b>\$1.05</b>
<b>INLAND EMPIRE + IEN</b>	<b>6,388</b>	<b>648,750,800</b>	<b>129</b>	<b>35,904,354</b>	<b>17,596,307</b>	<b>2.7</b>	<b>38,077,360</b>	<b>5.9</b>	<b>9</b>	<b>852,090</b>	<b>95</b>	<b>7,249,600</b>	<b>8,101,690</b>	<b>16,293,603</b>	<b>-1,072,294</b>	<b>584,191</b>	<b>\$1.50</b>

Source: CBRE Research, Q2 2023.

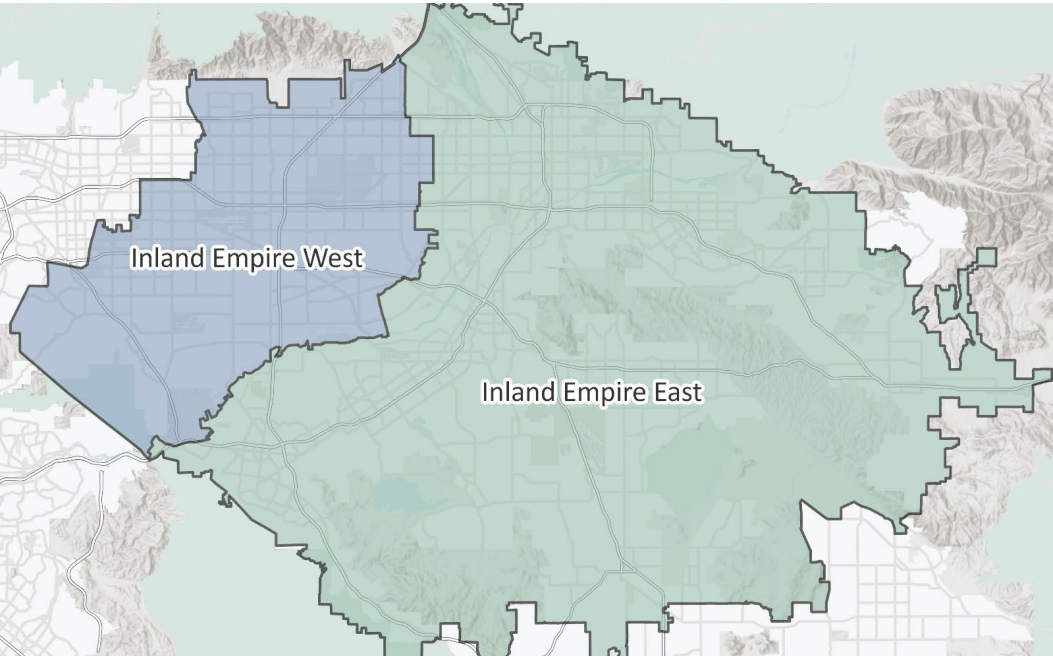
FIGURE 10: Industrial Market Statistics by Size\*

Bldg Size Range (SF)	BLDG. COUNT	BLDG SQFT	U/C BLDG. COUNT	U/C BLDG SQFT	VACANT SQFT	VACANCY RATE	AVAIL SQFT	AVAIL RATE	NO. SALES	SQFT SOLD	NO. LEASES	SQFT LEASED	2ND QTR TOTAL ACTIVITY	2023 YTD GROSS ACTIVITY	NEW TO MARKET	AVG TAKING RENT
10,000-19,999	937	12,918,805	5	85,394	40,102	0.3	203,427	1.6	2	31,584	9	135,872	167,456	297,810	0	\$1.30
20,000-29,999	412	9,804,396	4	102,974	165,374	1.7	220,174	2.2	2	43,800	4	94,036	137,836	262,889	26,342	\$1.45
30,000-39,999	230	7,845,009	1	36,750	48,459	0.6	134,179	1.7	1	32,300	5	172,691	204,991	310,437	0	\$1.35
40,000-49,999	169	7,480,298	8	369,621	289,101	3.9	456,032	6.1	0	0	5	229,730	229,730	314,763	41,266	\$1.28
50,000-59,999	131	7,031,783	2	106,360	343,417	4.9	409,090	5.8	1	53,896	1	53,500	107,396	107,396	0	\$0.00
60,000-69,999	74	4,745,462	3	195,318	325,097	6.9	345,667	7.3	0	0	0	0	0	67,400	0	\$0.00
70,000-79,999	83	6,172,458	1	71,415	299,195	4.8	672,330	10.9	1	70,859	1	72,700	143,559	217,559	0	\$1.40
80,000-89,999	50	4,178,167	2	163,272	88,967	2.1	257,107	6.2	0	0	1	86,365	86,365	86,365	88,967	\$1.40
90,000-99,999	41	3,883,856	1	90,726	99,948	2.6	426,767	11.0	0	0	1	93,268	93,268	93,268	0	\$1.40
100,000-249,999	310	47,106,728	14	2,239,585	2,275,644	4.8	4,077,530	8.7	0	0	4	497,031	497,031	1,346,695	331,573	\$1.43
250,000-499,999	140	50,602,648	11	3,815,819	1,775,505	3.5	4,337,794	8.6	0	0	3	1,030,322	1,030,322	1,396,439	0	\$1.32
500,000 AND GREATER	152	129,029,101	4	4,158,394	804,759	0.6	6,516,374	5.1	1	596,090	0	0	596,090	596,090	2,482,700	\$1.18
<b>Inland Empire East</b>	<b>2,729</b>	<b>290,798,711</b>	<b>56</b>	<b>11,435,628</b>	<b>6,555,568</b>	<b>2.3</b>	<b>18,056,471</b>	<b>6.2</b>	<b>8</b>	<b>828,529</b>	<b>34</b>	<b>2,465,515</b>	<b>3,294,044</b>	<b>5,097,111</b>	<b>2,970,848</b>	<b>\$1.40</b>
10,000-19,999	1,092	14,910,430	1	14,520	382,654	2.6	653,032	4.4	0	0	19	283,387	283,387	522,555	0	\$1.45
20,000-29,999	484	11,759,641	8	197,322	363,399	3.1	645,256	5.5	0	0	12	299,430	299,430	399,400	0	\$1.62
30,000-39,999	277	9,550,634	0	0	226,385	2.4	494,034	5.2	0	0	5	168,542	168,542	411,161	0	\$1.48
40,000-49,999	186	8,203,205	7	320,019	366,780	4.5	496,062	6.0	0	0	6	252,891	252,891	428,224	0	\$1.80
50,000-59,999	161	8,674,671	2	112,182	234,560	2.7	535,948	6.2	0	0	1	58,543	58,543	110,988	0	\$1.50
60,000-69,999	107	6,803,974	3	187,873	143,950	2.1	326,516	4.8	0	0	2	132,414	132,414	511,869	0	\$1.65
70,000-79,999	69	5,165,314	1	77,762	283,079	5.5	455,964	8.8	0	0	2	150,065	150,065	302,945	0	\$1.56
80,000-89,999	64	5,400,674	3	250,632	187,928	3.5	307,087	5.7	0	0	0	0	0	0	0	\$0.00
90,000-99,999	63	5,978,413	6	580,964	99,415	1.7	211,200	3.5	0	0	3	284,743	284,743	384,150	0	\$1.62
100,000-249,999	509	78,373,668	19	3,246,648	3,765,746	4.8	6,705,404	8.6	0	0	8	1,056,984	1,056,984	2,201,831	0	\$1.68
250,000-499,999	244	87,312,488	9	2,599,844	2,547,542	2.9	5,244,297	6.0	0	0	2	674,562	674,562	938,232	0	\$1.49
500,000 AND GREATER	122	94,869,115	12	14,649,360	1,479,942	1.6	2,836,730	3.0	0	0	1	1,422,524	1,422,524	3,903,651	1,099,629	\$1.52
<b>Inland Empire West</b>	<b>3,378</b>	<b>337,002,227</b>	<b>71</b>	<b>22,237,126</b>	<b>10,081,380</b>	<b>3.0</b>	<b>18,911,530</b>	<b>5.6</b>	<b>0</b>	<b>0</b>	<b>61</b>	<b>4,784,085</b>	<b>4,784,085</b>	<b>10,115,006</b>	<b>1,099,629</b>	<b>\$1.60</b>
<b>INLAND EMPIRE</b>	<b>6,107</b>	<b>627,800,938</b>	<b>127</b>	<b>33,672,754</b>	<b>16,636,948</b>	<b>2.7</b>	<b>36,968,001</b>	<b>5.9</b>	<b>8</b>	<b>828,529</b>	<b>95</b>	<b>7,249,600</b>	<b>8,078,129</b>	<b>15,212,117</b>	<b>4,070,477</b>	<b>\$1.51</b>

\*Does not include Inland Empire North. Source: CBRE Research, Q2 2023.



Market Area Overview



Definitions

**Available Sq. Ft.:** Space in a building, ready for occupancy within six months; can be occupied or vacant. **Availability Rate:** Total Available Sq. Ft. divided by the total Building Area. **Average Taking Lease Rate:** A calculated average that includes net and gross lease rates, weighted by their corresponding available square footage. **Building Area:** The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. **Gross Activity:** All user sales, pre-leased, and new lease transactions completed within a specified time period. Excludes investment sale transactions. **Gross Lease Rate:** Rent typically includes real property taxes, building insurance, and major maintenance. **Net Absorption:** The change in Occupied Sq. Ft. from one period to the next. **Net Lease Rate:** Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. **Occupied Sq. Ft.:** Building Area not considered vacant. **Vacancy Rate:** Total Vacant Sq. Ft. divided by the total Building Area. **Vacant Sq. Ft.:** Space that can be occupied within 30 days. **Average Taking Rent:** The first-year base rent (NNN), not including property taxes, insurance and maintenance. **Inland Empire Core:** Includes the Inland Empire West and Inland Empire East submarkets which make up the original Inland Empire market. **Inland Empire Total:** Includes Inland Empire West, Inland Empire East and Inland Empire North. Updated map to come.

Survey Criteria

Includes all industrial buildings 10,000 sq. ft. and greater in size in the Inland Empire. Buildings which have begun construction as evidenced by site excavation or foundation work.

Contacts

Rick Cozart

Senior Research Analyst  
+1 909 418 2187  
rick.cozartii@cbre.com

Bradford Ortland

Senior Field Research Manager  
+1 626 826 0270  
bradford.ortland@cbre.com

© Copyright 2023. All rights reserved. This report has been prepared in good faith, based on CBRE’s current anecdotal and evidence based views of the commercial real estate market. Although CBRE believes its views reflect market conditions on the date of this presentation, they are subject to significant uncertainties and contingencies, many of which are beyond CBRE’s control. In addition, many of CBRE’s views are opinion and/or projections based on CBRE’s subjective analyses of current market circumstances. Other firms may have different opinions, projections and analyses, and actual market conditions in the future may cause CBRE’s current views to later be incorrect. CBRE has no obligation to update its views herein if its opinions, projections, analyses or market circumstances later change.

Nothing in this report should be construed as an indicator of the future performance of CBRE’s securities or of the performance of any other company’s securities. You should not purchase or sell securities—of CBRE or any other company—based on the views herein. CBRE disclaims all liability for securities purchased or sold based on information herein, and by viewing this report, you waive all claims against CBRE as well as against CBRE’s affiliates, officers, directors, employees, agents, advisers and representatives arising out of the accuracy, completeness, adequacy or your use of the information herein.

