

FIGURES | INLAND EMPIRE INDUSTRIAL | Q3 2024

Market rebalances as increasing activity counteracts negative absorption

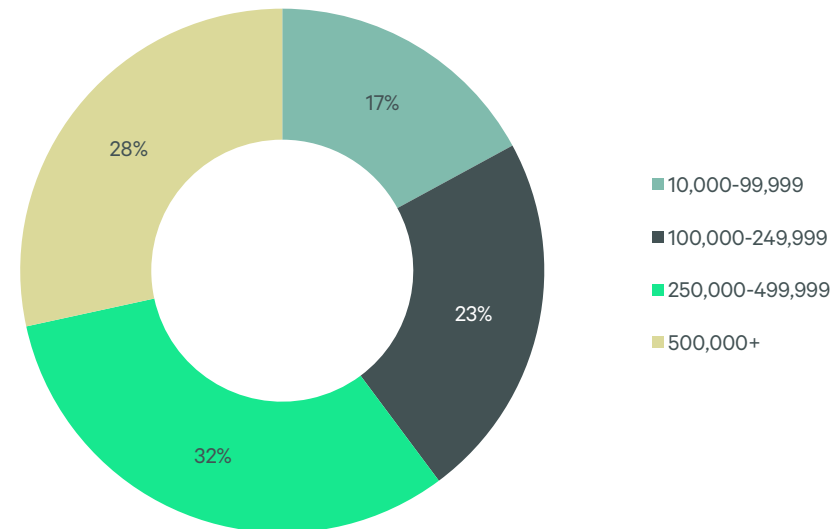


Note: Arrows indicate change from previous quarter.

Executive Summary

- Quarter-over-quarter, new leasing activity increased by 70% in the 250,000-499,999 sq. ft. building size range while new leasing was down 36% in the 100,000-249,999 sq. ft. building size range and down 5% in the 500,000 and above sq. ft. building size range.
- Negative net absorption in Q3 2024 was driven largely by spaces going vacant in the 500,000 and above size range as sizeable tenants shed space or consolidated across the market.
- Vacancy remained at 6.8% in the Inland Empire (IE) Core (IE East and IE West) quarter-over-quarter as increased leasing activity and decreased construction deliveries led to vacancy not increasing for the first time in eight quarters.
- Loaded imports at the San Pedro Bay port complex increased 22.5% year-to-date through August over 2023 levels.
- Taking lease rates fell by 6.3% to \$1.19 NNN per sq. ft. per month in Q3 2024 in the Inland Empire as landlords decreased asking rates to entice activity. The IE East fell 5.0% to \$1.14 NNN per sq. ft. per month and the IE West falling 6.2% to \$1.22 NNN per sq. ft. per month.

FIGURE 1: IE Core Available Space Distribution by Sq. Ft.



Source: CBRE Research, Q3 2024.

Market Overview

The Inland Empire industrial market rebalanced in Q3 2024 as leasing activity and vacancy became more evenly distributed between the individual size tranches. While the IE saw a significant increase in mega leasing above 500,000 sq. ft. in H1 2024, Q3 2024 saw a surge in leasing activity in two size segments it had not seen in some time, the 10,000-99,999 sq. ft. and the 250,000-499,999 size ranges. On average, vacancy fell by 0.2% in every size tranche below 500,000 sq. ft. Development fell to 11.6 million sq. ft. in the IE Core with deliveries outpacing new starts by 1.5 million sq. ft. in Q3 2024. Although net absorption turned negative in Q3 2024 with 234,000 sq. ft. being negatively absorbed in the IE Core, the IE West realized 781,000 sq. ft. of positive absorption while the IE East realized 1 million sq. ft. of negative absorption. Negative absorption in the IE Core was largely isolated to the 500,000 and above sq. ft. building size tranche as large occupiers vacated space across the market. While the big box space continued drive positive absorption through 2023 and H1 2024, buildings below 500,000 sq. ft. thrived in Q3 2024 and began to shift the market.

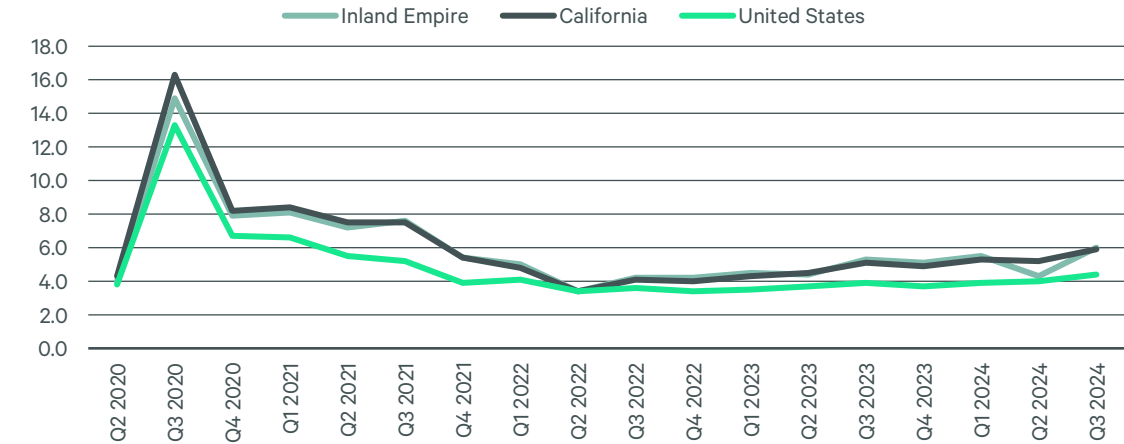
UNEMPLOYMENT

Unemployment in the Inland Empire increased month-over-month to 6.0% in August 2024 from 5.9% in July 2024. The California unemployment rate increased to 5.9% in August 2024, an increase of 10 bps month-over-month, while the United States unemployment rate decreased to 4.4% in August, a decrease of 10 bps month-over-month. In the Inland Empire, transportation, warehousing, and utilities gained 500 jobs month-over-month while construction lost 600 jobs in the same period.

LEASE RATE ANALYSIS

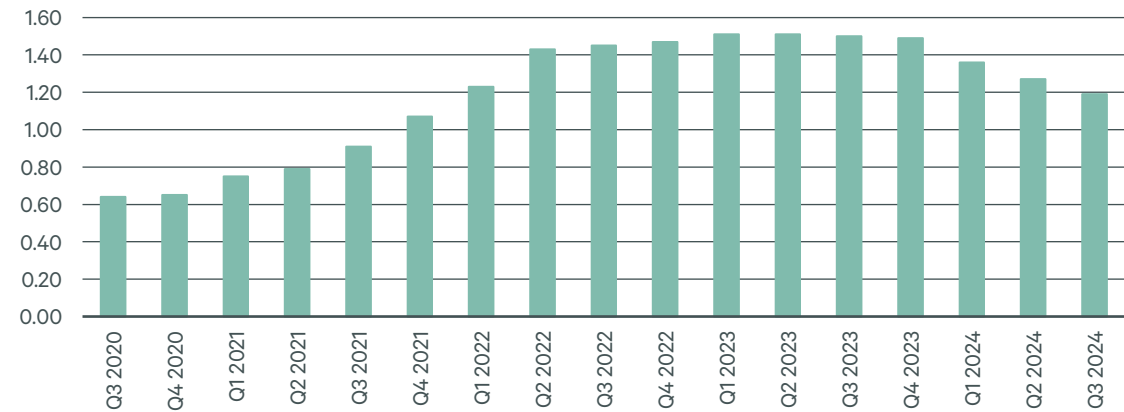
Taking rates fell by \$0.08 quarter-over-quarter to \$1.19 NNN per sq. ft. per month in Q3 2024. In the IE West, rates fell by \$0.08 to \$1.22 NNN per sq. ft. per month quarter-over-quarter. In the IE East, taking rates declined by \$0.06 to \$1.14 NNN per sq. ft. per month. Taking rents continued to decline for the fifth consecutive quarter from their all-time high of \$1.51 NNN per sq. ft. per month in Q2 2023. Economic uncertainty, accompanied by increasing vacancy and sublease space, put negative pressure on rents as landlords turned to lowering effective rents through increasing abatements and decreasing annual increases. Year-over-year, taking rents in the IE Core fell 21% as both tenants and landlords navigated the fluctuating industrial market.

FIGURE 2: Unemployment Rate (%)



Source: U.S. Bureau of Labor Statistics, Q3 2024.

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



Source: CBRE Research, Q3 2024.

VACANCY & AVAILABILITY

Vacancy remained the same in Q3 2024 at 6.8% in the IE Core, with the IE East rising 30 bps to 8.2% and the IE West falling 30 bps to 5.6%. Despite the vacancy rate staying the same quarter-over-quarter, vacancy rose by 0.5% in the 500,000 sq. ft. and above size range. Conversely, vacancy fell by 0.1% in the 10,000-99,999 sq. ft. size range, 0.4% in the 100,000-249,999 sq. ft. size range, and 0.3% in the 250,000-499,999 sq. ft. size range. The delivery of newly constructed industrial buildings were the largest driver of rising vacancy over the past eight quarters. With the recent decline in the supply pipeline in 2024, only 2.1 million sq. ft. of newly constructed buildings were delivered in Q3 2024, down from 5.3 million sq. ft. in Q2 2024. The IE market is expected to tighten as supply declines in the development pipeline and activity continues to improve through 2024.

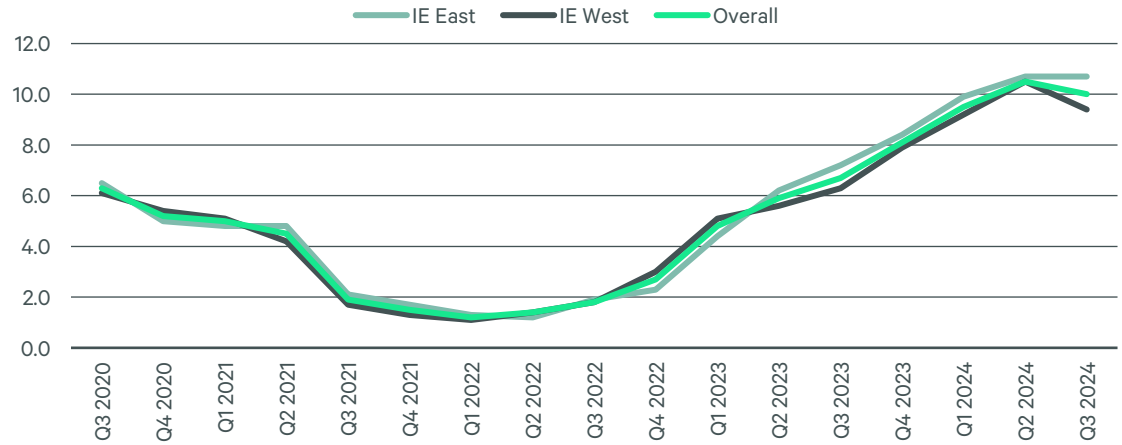
NET ABSORPTION & ACTIVITY

New leasing activity increased for the fourth consecutive quarter in the Inland Empire with 12.2 million sq. ft. leasing in Q3 2024, an increase of 410,000 sq. ft., or 3.5%, quarter-over-quarter. Leasing activity favored the IE West over the IE East, with 6.5 million sq. ft. and 5.6 million sq. ft. leasing in each submarket respectively. User sales increased quarter-over-quarter by 51% across the Inland Empire. Despite activity returning to pre-pandemic levels, net absorption turned negative in Q3 2024 as a few large occupiers vacated space in 500,000 and above sq. ft. buildings in the IE East and IE North. The IE Core recognized negative absorption of 234,000 sq. ft. with the IE East realizing 1 million sq. ft. of negative absorption while the IE West realized 781,000 of positive absorption. The IE North had 1 million sq. ft. of negative absorption in Q3 2024.

DEVELOPMENT

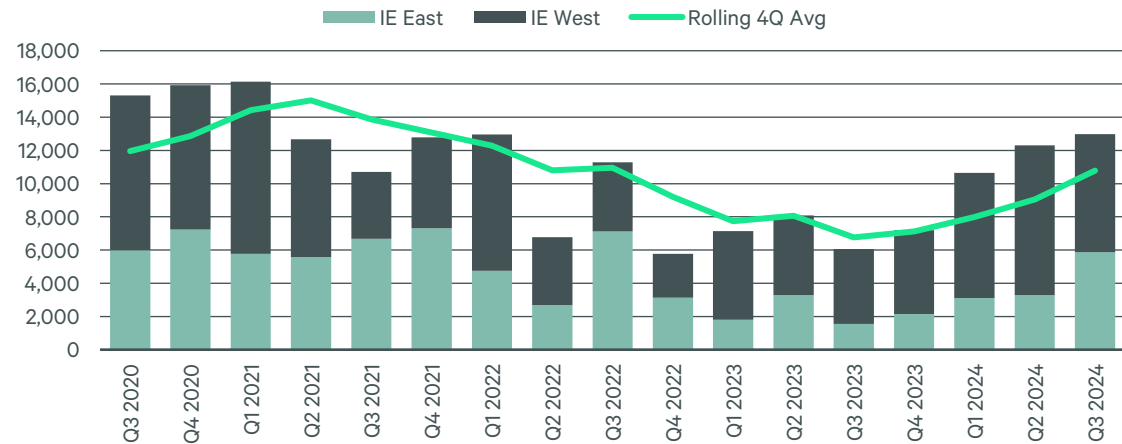
Construction fell to 11.6 million sq. ft. in Q3 2024 in the IE Core for the first time since Q2 2013. Only 1.3 million sq. ft. broke ground in Q3 2024 while 2.9 million sq. ft. delivered across the market. Buildings in the 500,000 and above sq. ft. size range continued to have the most space under construction with 4.6 million sq. ft. under development while projects in the 100,000 and above sq. ft. size range made up 91% of all construction in the IE Core. The pre-leased rate fell to 10.1% across the entire Inland Empire, with the only pre-leased building being the Southern California Logistics Center for 1.3 million sq. ft. in the IE North.

FIGURE 4: Availability Rate (%)



Source: CBRE Research, Q3 2024.

FIGURE 5: Gross Activity (MSF)



Source: CBRE Research, Q3 2024.

MARKET OUTLOOK

Soft landings are rare, but recent data suggest that this outcome for the economy is increasingly likely. Business investment is holding its own and consumer distress is confined to a few vulnerable segments. Discretionary spending, such as travel, is generally on a par with last year although many signs indicate the post-pandemic spending boom is over. The key threat to consumption is a rollover in the labor market although the recent bump in unemployment appears benign, mainly driven by an increase in participation. A reason for concern is the decline in the share of private industries that are creating jobs. On the other hand, companies are not shedding workers at a particularly high rate. The labor market has slowed, but it is not slumping.

While many are focused on November’s election the most consequential policy lever has already been pulled via the FOMC’s 50 bps September cut and signaling another 50 by year-end. This easing of financial conditions combined with continued economic growth should support modest hiring and consumption that precedes tighter commercial space market fundamentals. This backdrop will breathe fresh wind into real estate transactions markets and coincides with other signals that cap rates have peaked and may be starting to fall in some sectors.

The Inland Empire industrial market looks to be nearing a turning point as vacancy velocity shrinks quarter-over-quarter and new development will soon be unable to satiate demand. With the San Pedro Bay port complex continuing to gain market share in the United States and new leasing activity in the Inland Empire surpassing 10 million sq. ft. for the third consecutive quarter, the demand for industrial space and access to ports and population centers will maintain the Inland Empire as one of the premier industrial markets in the world.

FIGURE 6: Market Statistics

Submarket	Bldg. Sq. Ft.	Overall Vacancy (%)	Availability (%)	Q3 2024 Net Absorption (SF)	Q3 2024 Gross Activity (SF)	Under Construction (SF)	Construction Deliveries YTD (SF)	Avg. Taking Lease Rates (\$PSF/MO/NNN)
Inland Empire East	307,176,900	8.2	10.7	(1,014,428)	5,859,071	5,427,525	5,554,186	\$1.14
Inland Empire West	353,658,300	5.6	9.4	780,716	7,113,409	6,201,082	12,693,874	\$1.22
Inland Empire Core	660,835,200	6.8	10.0	(233,712)	12,972,480	11,628,607	18,248,060	\$1.19
Inland Empire North	23,583,978	9.3	15.3	(1,025,394)	0	1,296,000	30,000	\$0.93
Inland Empire Total	684,419,178	6.9	10.2	(1,259,106)	12,972,480	12,924,607	18,278,060	\$1.19

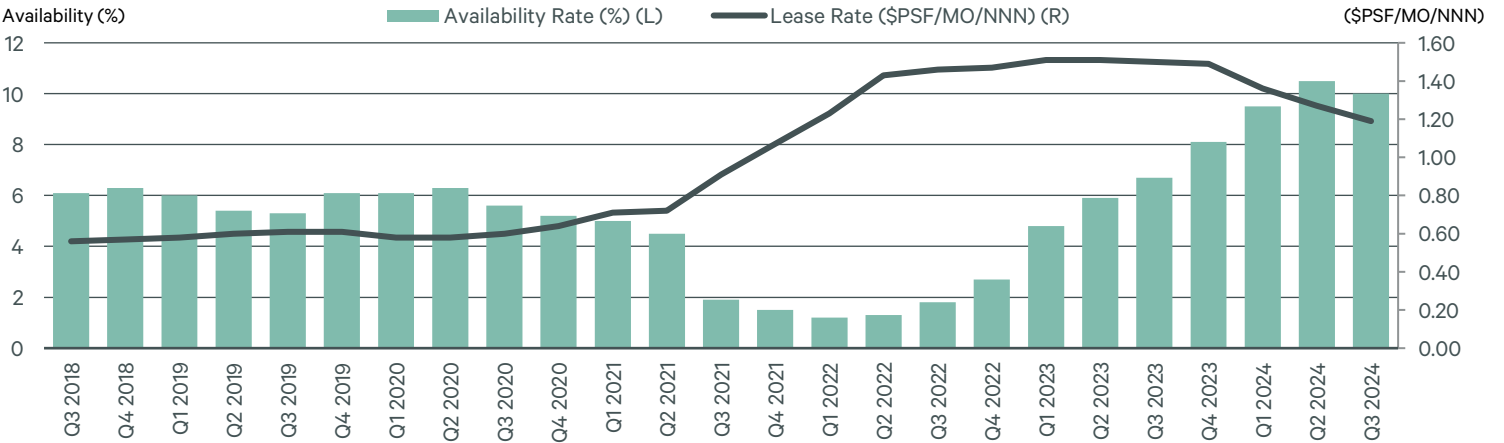
Source: CBRE Research, Q3 2024.

FIGURE 7: Key Transactions

Occupier	Industry Sector	Location	Total Sq. Ft.
Western Post	Logistics	Inland Empire East	927,696
Confidential*	Logistics	Inland Empire East	718,025
eFulfill	Logistics	Inland Empire East	651,815
Western Post*	Logistics	Inland Empire East	609,499
Lecangs	Logistics	Inland Empire East	503,592

*Indicates Renewal. Source: CBRE Research, Q3 2024.

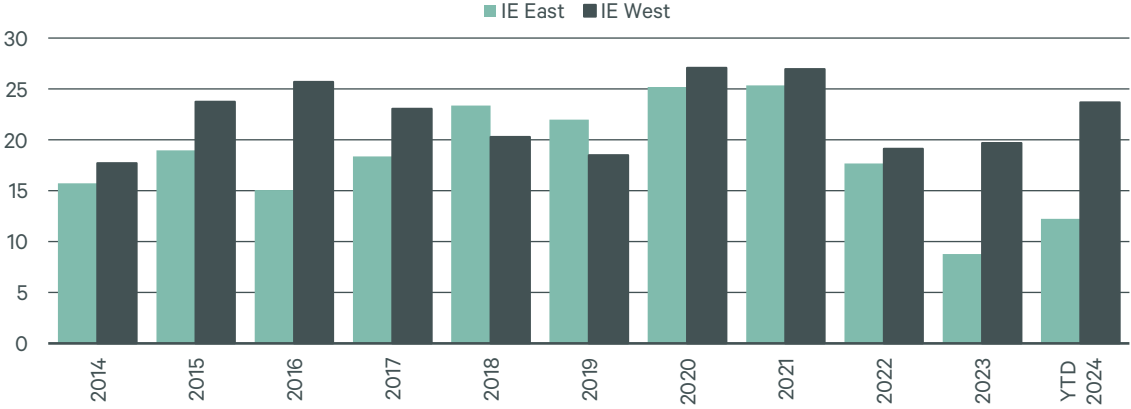
FIGURE 8: Availability and Taking Lease Rate



Source: CBRE Research, Q3 2024.

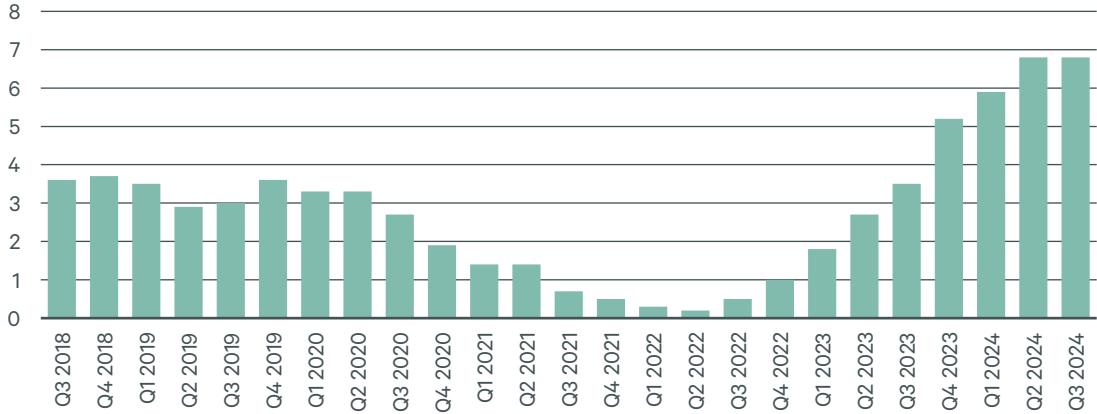
FIGURES INSERT | INLAND EMPIRE INDUSTRIAL | Q3 2024

FIGURE 1: Historical Gross Activity (MSF)



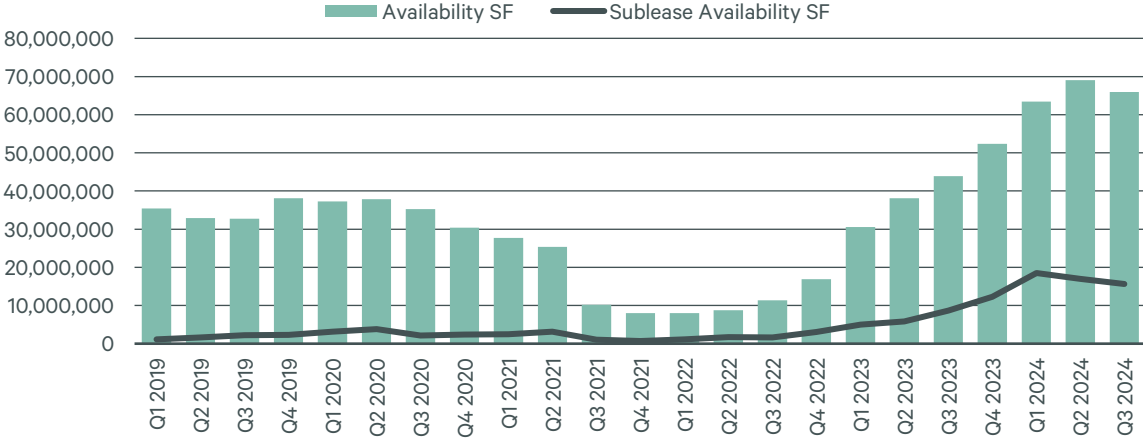
Source: CBRE Research, Q3 2024.

FIGURE 2: Overall Vacancy (%)



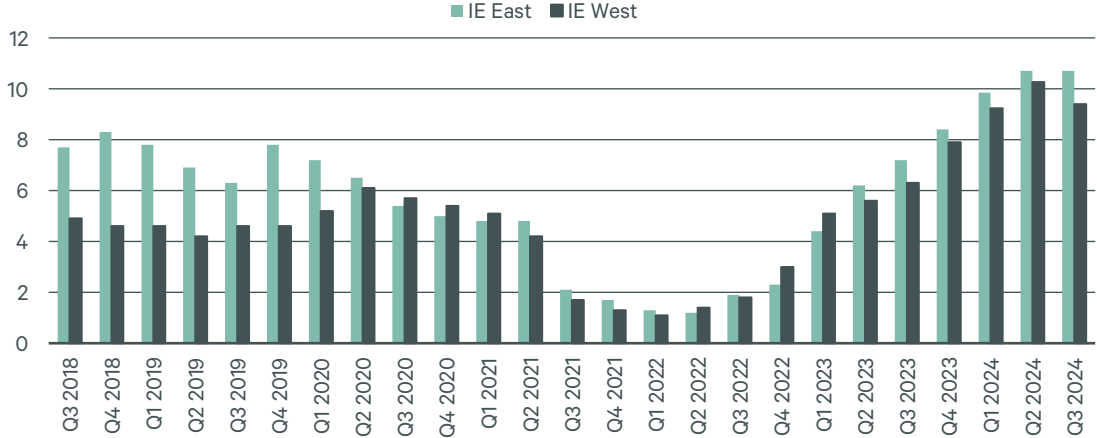
Source: CBRE Research, Q3 2024.

FIGURE 3: Historical Availability & Sublease Availability



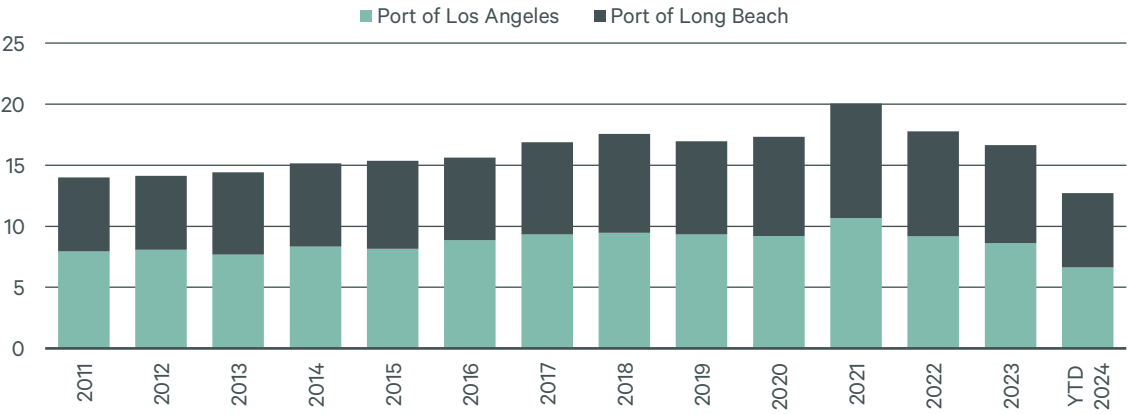
Source: CBRE Research, Q3 2024.

FIGURE 4: Historical Availability Rate (%)



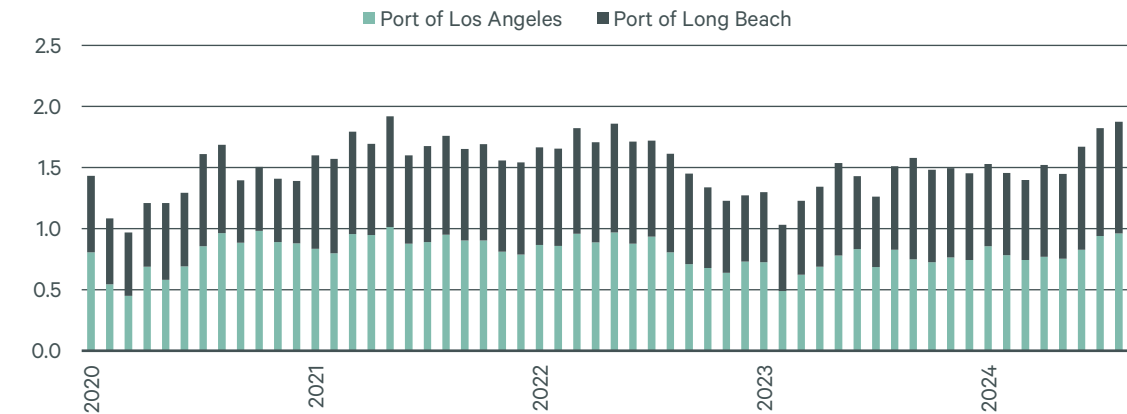
Source: CBRE Research, Q3 2024.

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



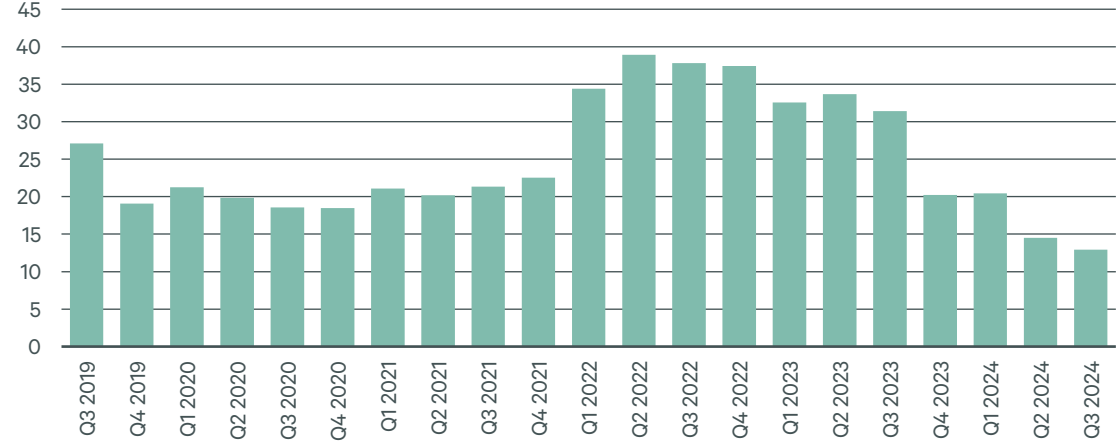
Sources: POLB.com, PortofLosAngeles.org, August 2024.

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



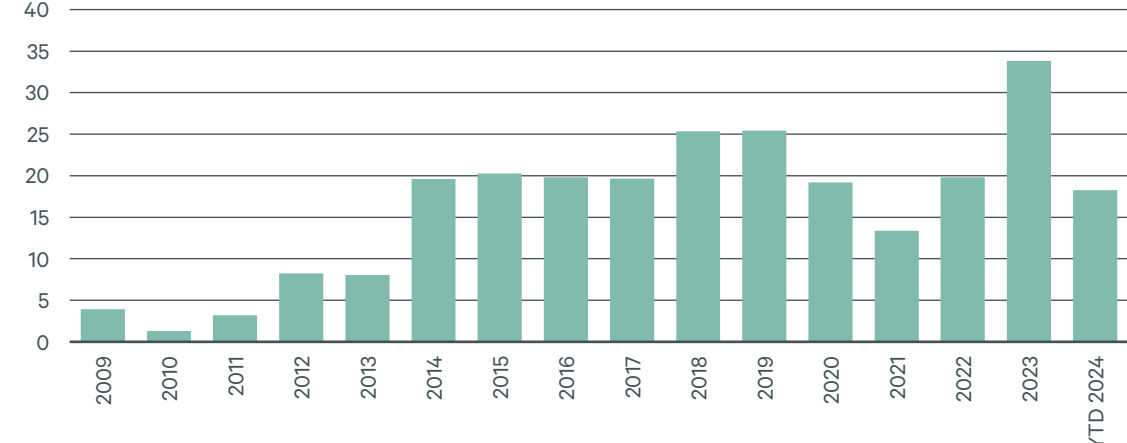
Source: POLB.com, PortofLosAngeles.org, August 2024.

FIGURE 7: Under Construction (MSF)



Source: CBRE Research, Q3 2024.

FIGURE 8: Historical Completed Construction (MSF)



Source: CBRE Research, Q3 2024.

FIGURE 9: Industrial Market Statistics by City

CITY	BLDG. COUNT	BLDG SQ. FT.	U/C BLDG COUNT	U/C BLDG SQ. FT.	VACANT SQ. FT.	VACANCY RATE	AVAIL SQ. FT.	AVAIL RATE	NO. SALES	SQFT SOLD	NO. LEASES	SQ. FT. LEASED	3RD QTR GROSS ACTIVITY	2024 GROSS ACTIVITY	3RD QTR NET ABSORP.	2024 NET ABSORP.	AVG TAKING LEASE RATE (NNN)
Banning/Beaumont	62	9,525,613	0	0	1,458,704	15.3	1,458,704	15.3	0	0	0	0	0	57,253	(1,000,000)	(942,747)	\$0.00
Colton	120	8,891,159	1	417,809	785,707	8.8	834,047	9.4	0	0	0	0	0	82,940	27,940	(537,034)	\$1.19
Corona/Norco	716	33,817,579	2	220,589	1,848,229	5.5	2,523,274	7.5	2	28,848	12	945,802	974,650	2,061,901	701,339	915,780	\$1.19
Moreno Valley	111	33,778,212	1	38,820	2,002,134	5.9	3,021,604	8.9	0	0	2	70,588	70,588	465,051	(303,740)	(753,938)	\$1.30
Perris	173	43,122,390	3	1,627,719	6,430,037	14.9	7,366,540	17.1	0	0	1	210,900	210,900	1,771,792	(1,765,630)	(2,123,343)	\$1.00
Redlands/Loma Linda	185	30,411,995	2	571,039	2,354,572	7.7	3,371,264	11.1	0	0	8	1,091,697	1,091,697	1,920,976	325,747	(333,184)	\$1.03
Rialto/Bloomington	247	43,206,732	4	752,784	3,088,523	7.1	3,164,629	7.3	0	0	8	2,228,885	2,228,885	2,959,957	1,165,305	(279,148)	\$1.15
Riverside	785	58,686,736	6	1,125,920	3,722,968	6.3	5,420,348	9.2	2	164,626	7	668,212	832,838	1,670,635	(423,055)	(725,135)	\$1.14
San Bernardino	410	45,736,484	2	672,845	3,622,708	7.9	5,561,628	12.2	0	0	3	449,513	449,513	1,261,250	257,666	(422,870)	\$1.04
Inland Empire East	2,809	307,176,900	21	5,427,525	25,313,582	8.2	32,722,038	10.7	4	193,474	41	5,665,597	5,859,071	12,251,755	(1,014,428)	(5,201,619)	\$1.14
Chino/Chino Hills	654	56,511,252	0	0	1,772,077	3.1	3,655,830	6.5	1	46,672	16	1,500,067	1,546,739	3,159,512	817,749	517,304	\$1.27
Fontana	598	78,260,246	4	2,175,047	4,330,933	5.5	6,095,159	7.8	3	402,304	10	2,015,465	2,417,769	6,879,800	638,558	3,690,737	\$1.12
Jurupa Valley/Eastvale	299	48,619,400	6	428,975	3,764,904	7.7	5,370,242	11.0	2	119,948	2	318,386	438,334	3,390,778	56,340	492,161	\$1.23
Ontario/Montclair/Upland	1,249	125,872,595	17	3,445,605	8,096,860	6.4	13,952,345	11.1	1	12,746	30	2,360,586	2,373,332	7,939,542	(239,288)	3,940,069	\$1.22
Rancho Cucamonga	608	44,394,807	1	151,455	1,912,014	4.3	4,152,671	9.4	0	0	9	337,235	337,235	2,300,179	(492,643)	102,115	\$1.23
Inland Empire West	3,408	353,658,300	28	6,201,082	19,876,788	5.6	33,226,247	9.4	7	581,670	67	6,531,739	7,113,409	23,669,811	780,716	8,742,386	\$1.22
INLAND EMPIRE CORE	6,217	660,835,200	49	11,628,607	45,190,370	6.8	65,948,285	10.0	11	775,144	108	12,197,336	12,972,480	35,921,566	(233,712)	3,540,767	\$1.19
Adelanto	102	4,379,348	0	0	444,250	10.1	512,413	11.7	0	0	0	0	0	0	0	0	\$0.00
Apple Valley	24	3,266,548	0	0	0	0.0	1,344,245	41.2	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	69	5,349,139	0	0	1,187,533	22.2	1,187,533	22.2	0	0	0	0	0	0	(1,004,400)	(1,154,400)	\$0.00
Victorville	78	10,017,115	1	1,296,000	549,886	5.5	562,285	5.6	0	0	0	0	0	0	(20,994)	(20,994)	\$0.00
Inland Empire North	288	23,583,978	1	1,296,000	2,181,669	9.3	3,606,476	15.3	0	0	0	0	0	0	(1,025,394)	(1,175,394)	\$0.93
INLAND EMPIRE + IEN	6,505	684,419,178	50	12,924,607	47,372,039	6.9	69,554,761	10.2	11	775,144	108	12,197,336	12,972,480	35,921,566	(1,259,106)	2,365,373	\$1.19

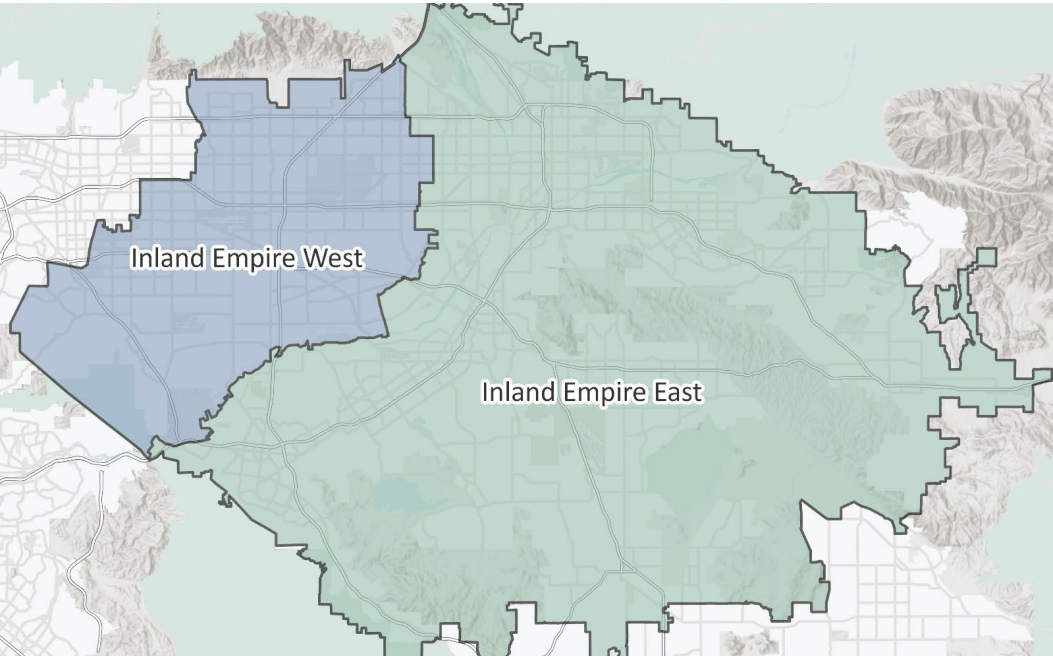
Source: CBRE Research, Q3 2024.

FIGURE 10: Industrial Market Statistics by Building Size Range*

BUILDING SIZE RANGE (SQ. FT.)	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	3RD QTR TOTAL ACTIVITY	2024 GROSS ACTIVITY	NEW TO MARKET	AVG TAKING RENT
10,000-19,999	948	13,096,815	0	0	237,921	1.8	412,075	3.1	2	28,848	11	141,599	170,447	371,194	90,581	\$1.24
20,000-29,999	418	9,971,861	0	0	337,002	3.4	513,251	5.1	0	0	3	58,538	58,538	369,754	46,394	\$1.06
30,000-39,999	232	7,898,499	2	77,820	353,109	4.5	410,074	5.2	1	36,626	0	0	36,626	132,045	81,640	\$0.00
40,000-49,999	180	7,987,655	0	0	775,929	9.7	996,133	12.5	0	0	4	139,841	139,841	469,460	111,742	\$1.30
50,000-59,999	134	7,194,235	0	0	714,136	9.9	816,967	11.4	0	0	1	57,427	57,427	153,859	53,231	\$1.42
60,000-69,999	80	5,132,021	2	123,619	339,809	6.6	465,579	9.1	0	0	1	64,800	64,800	189,711	0	\$0.89
70,000-79,999	80	5,949,504	0	0	477,699	8.0	594,697	10.0	0	0	2	107,714	107,714	257,456	0	\$1.09
80,000-89,999	54	4,503,560	0	0	360,395	8.0	650,447	14.4	0	0	3	131,012	131,012	170,126	0	\$1.07
90,000-99,999	44	4,171,651	2	196,848	369,281	8.9	468,841	11.2	0	0	1	99,948	99,948	99,948	0	\$1.14
100,000-249,999	326	49,750,128	4	684,496	5,525,888	11.1	6,341,213	12.7	1	128,000	6	995,055	1,123,055	3,001,003	371,548	\$1.13
250,000-499,999	152	54,772,595	10	3,494,518	8,774,986	16.0	11,876,396	21.7	0	0	5	1,561,570	1,561,570	3,210,326	2,019,813	\$0.99
500,000 and greater	161	136,748,376	1	850,224	7,047,427	5.2	9,176,365	6.7	0	0	4	2,308,093	2,308,093	3,826,873	2,743,568	\$1.07
INLAND EMPIRE EAST	2,809	307,176,900	21	5,427,525	25,313,582	8.2	32,722,038	10.7	4	193,474	41	5,665,597	5,859,071	12,251,755	5,518,517	\$1.14
10,000-19,999	1,071	14,665,035	1	14,520	344,056	2.3	660,371	4.5	1	12,746	9	119,281	132,027	458,578	194,577	\$1.31
20,000-29,999	490	11,922,170	0	0	583,137	4.9	840,618	7.1	1	25,948	8	184,416	210,364	507,923	245,780	\$1.26
30,000-39,999	280	9,661,771	7	252,163	353,350	3.7	754,450	7.8	1	39,500	5	147,488	186,988	577,230	137,083	\$1.26
40,000-49,999	194	8,572,534	3	129,923	604,559	7.1	921,712	10.8	1	46,672	4	143,585	190,257	568,131	260,344	\$1.12
50,000-59,999	162	8,731,566	3	175,641	240,287	2.8	396,413	4.5	0	0	1	52,240	52,240	235,464	90,907	\$1.22
60,000-69,999	107	6,797,309	1	64,040	286,428	4.2	536,877	7.9	0	0	3	185,740	185,740	437,429	217,981	\$1.20
70,000-79,999	67	5,018,802	0	0	0	0.0	110,977	2.2	0	0	3	167,296	167,296	286,754	16,690	\$1.24
80,000-89,999	68	5,744,574	0	0	457,044	8.0	875,734	15.2	0	0	2	103,564	103,564	254,932	203,679	\$1.23
90,000-99,999	72	6,843,309	0	0	837,159	12.2	837,159	12.2	1	94,000	3	229,121	323,121	658,504	113,012	\$1.25
100,000-249,999	518	80,060,782	5	809,382	6,272,507	7.8	8,645,544	10.8	2	362,804	18	1,464,878	1,827,682	6,892,777	1,459,155	\$1.22
250,000-499,999	250	88,554,256	3	932,880	5,028,776	5.7	9,084,970	10.3	0	0	7	2,164,733	2,164,733	4,599,507	2,398,733	\$1.19
500,000 and greater	129	107,086,192	5	3,822,533	4,869,485	4.5	9,561,422	8.9	0	0	4	1,569,397	1,569,397	8,192,582	598,775	\$1.08
INLAND EMPIRE WEST	3,408	353,658,300	28	6,201,082	19,876,788	5.6	33,226,247	9.4	7	581,670	67	6,531,739	7,113,409	23,669,811	5,936,716	\$1.22
INLAND EMPIRE CORE	6,217	660,835,200	49	11,628,607	45,190,370	6.8	65,948,285	10.0	11	775,144	108	12,197,336	12,972,480	35,921,566	11,455,233	\$1.19

*Does not include Inland Empire North. Source: CBRE Research, Q3 2024.

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. **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 and lease renewals. **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. **New to Market:** Available space added to the market during the specified quarter. **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 and Out of Submarket cities of Upland and Montclair. **Inland Empire Total:** Includes Inland Empire West, Inland Empire East and Inland Empire North (Hesperia, Barstow, Victorville, Apple Valley, and Adelanto). **Normalization** Due to a reclassification of the market and updating demolished buildings in prior quarters, the base, number and sq. ft. of buildings for previous quarters have been adjusted to match the current base. Availability and vacancy amounts for these buildings have also been adjusted in previous quarters.

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 Field Research Analyst
Inland Empire
rick.cozartii@cbre.com

Deepa Shah

Research Manager
Orange County, Inland Empire
deepa.shah@cbre.com