

FIGURES | INLAND EMPIRE INDUSTRIAL | Q1 2024

Mega-deals surge despite softening among some size tranches

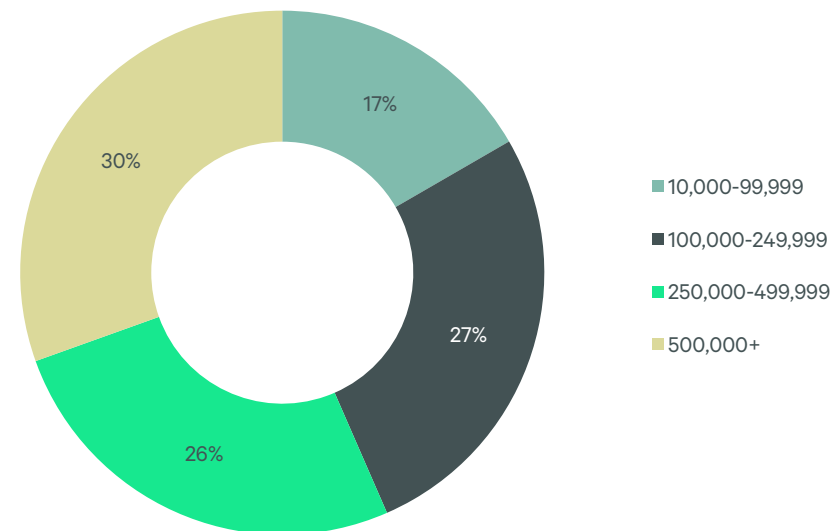


Note: Arrows indicate change from previous quarter.

Executive Summary

- Five deals 1 million sq. ft. and above were signed in Q1 2024. In 2023, only seven deals 1 million sq. ft. and above were signed for the entire year. The increase in mega-leasing was facilitated by the increased availability through new development and recent move-outs, with four of the five leases being new deals.
- Net absorption turned negative for the second time in the last 12 months as spaces stayed on market for longer due to softening demand. Negative net absorption was isolated to the Inland Empire (IE) East, while the IE West realized 2 million sq. ft. in positive net absorption.
- Lease rates fell quarter-over-quarter to \$1.36 NNN per sq. ft. per month in Q1 2024 from \$1.49 per sq. ft. per month in Q4 2023. Year-over-year, rates decreased \$0.15 from \$1.51 NNN per sq. ft. per month in Q1 2023.
- Sublease space increased quarter-over-quarter to 18.5 million sq. ft., with over 80% of sublease space located in 250,000 sq. ft. and above buildings.
- Space under construction remained largely static quarter-over-quarter as development starts kept pace with new deliveries. 17% of space under construction was pre-leased.

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



Source: CBRE Research, Q1 2024.

Market Overview

The Inland Empire industrial market experienced both a continuation of negative trends from 2023 and a divergence from the slowing activity and lackluster sales transactions that occurred the past year. Vacancy increased 70 basis points (bps) quarter-over-quarter to 5.9% while sublease space increased to over 18.5 million sq. ft. Similarly, net absorption turned negative for the second time in a year as the recent surge in new leasing activity could not overcome occupiers vacating spaces. However, activity increased in Q1 2024, with 10.2 million sq. ft. being newly leased and another 418,000 sq. ft. transacting in user sales across the IE. Rates slipped as landlords were poised to secure the next deal on the market. The 8% decrease in rents quarter-over-quarter to \$1.36 NNN per sq. ft. per month in Q1 2024 began the realignment of the IE as an affordable market when compared to others in Southern California. The development outlook remained largely static as new deliveries and new starts corresponded to little change in the square footage under construction. The dearth of new development coupled with rates declining set the expectation of improving fundamentals moving into the rest of 2024.

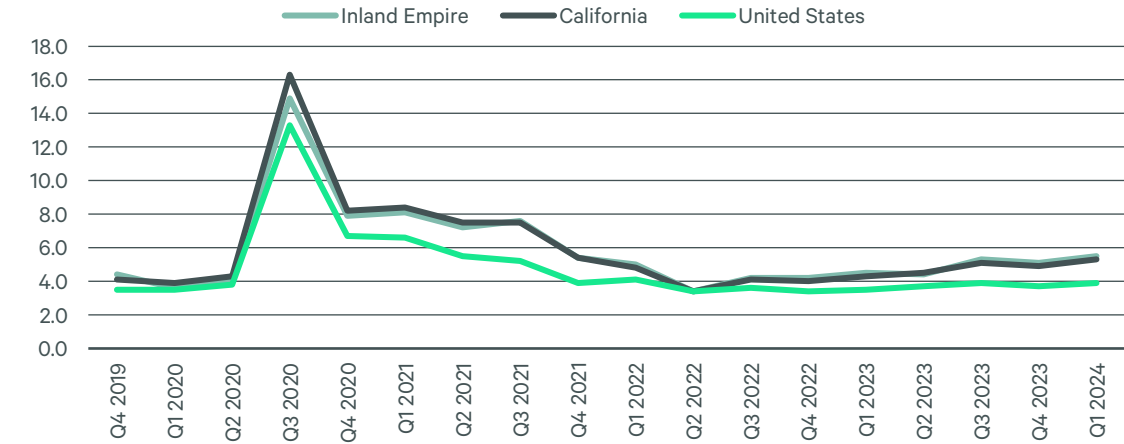
UNEMPLOYMENT

Unemployment in the Inland Empire increased to 5.5% in February 2024, up 110 bps from that of February 2023. The California unemployment rate increased to 5.3% in February, an increase of 10 bps month-over-month while the United States unemployment rate increased at 3.9% in February, an increase of 20 bps month-over-month. Transportation, utilities, and manufacturing jobs decreased by 5,100 from January 2024 to February 2024, while construction jobs increased by 200 bps in the same period.

LEASE RATE ANALYSIS

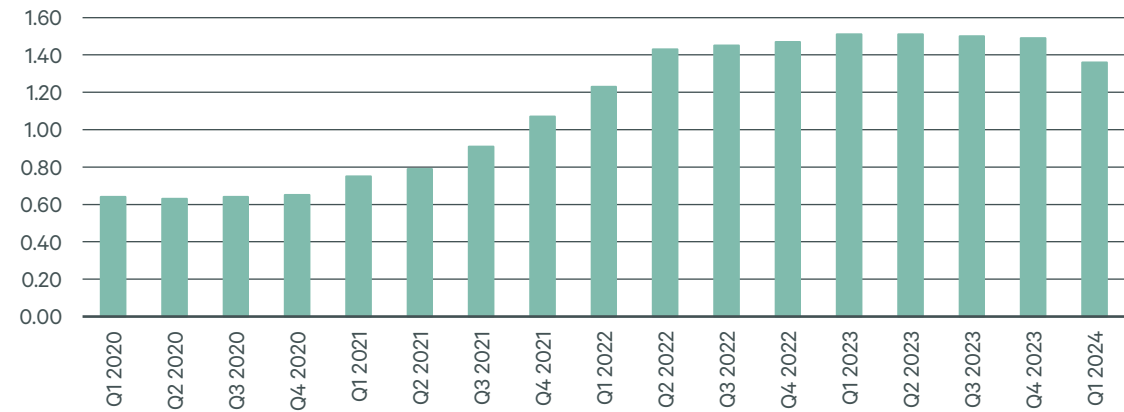
Taking lease rates in the IE Core fell by \$0.15 quarter-over-quarter to \$1.36 NNN per sq. ft. per month in Q1 2024. Lease rates in the IE West fell by \$0.07 quarter-over-quarter to \$1.44 NNN per sq. ft. per month, and lease rates in the IE East fell by \$0.27 quarter-over-quarter to \$1.20 NNN per sq. ft. per month. With increased competition among landlords to secure the next deal and the average age of leased spaces in the IE East falling from 2008 in Q4 2023 to 2003 in Q1 2024, taking rates returned to levels more in line with historical expectations. Free rent, early occupancy, and moving allowances increased in Q1 2024 to entice occupiers to commit to new spaces.

FIGURE 2: Unemployment Rate (%)



Source: U.S. Bureau of Labor Statistics, Q1 2024.

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



Source: CBRE Research, Q1 2024.

VACANCY & AVAILABILITY

The trend of rising vacancy since Q3 2022 continued in Q1 2024 as vacancy increased to 5.9%. Vacancy increased due to 3.8 million sq. ft. of new construction delivering vacant and available spaces’ time on market growing, leading to spaces being vacated by occupiers without a new tenant replacing them. Availability increased by 140 bps to 9.5% quarter-over-quarter. Within the 9.5% availability rate, 2.8% was sublease space with over 18.5 million sq. ft. of sublease space available in Q1 2024. The IE led all U.S. markets in available sublease space as the COVID-19 industrial surge left occupiers with more space than was necessary as the economy moved towards normalization.

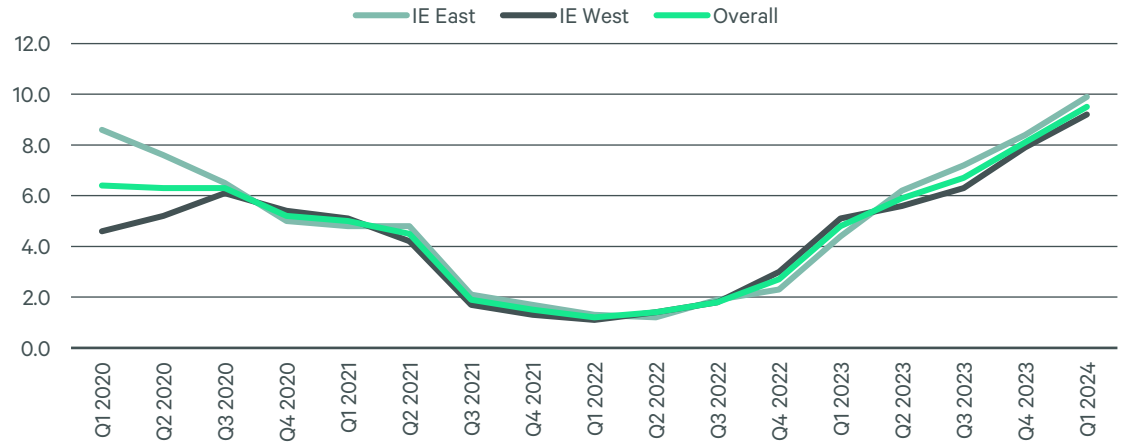
NET ABSORPTION & ACTIVITY

Net absorption turned negative for only the third time in 15 years with 3 million sq. ft. going vacant in the IE East and 2 million sq. ft. being newly absorbed in the IE West. The IE North realized 150,000 sq. ft. of negative net absorption. The positive net absorption in the IE West was driven by 1 million sq. ft. deals in Ontario and Fontana along with 960,000 of positive net absorption in Jurupa Valley and Chino from large and mid-sized new deals. In the IE East, new vacancies in Redlands, Rialto, and San Bernardino led to over 3 million sq. ft. of negative absorption in the submarket. Retail and distribution occupiers led the negative absorption, while e-commerce and 3PL’s drove positive absorption in Q1 2024.

DEVELOPMENT

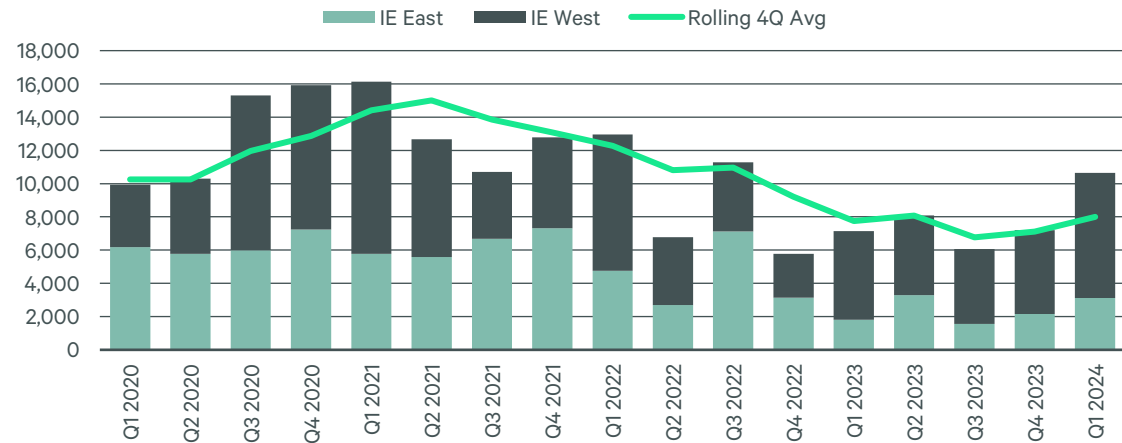
There was 20.4 million sq. ft. under construction at the end of Q1 2024, up 200,000 sq. ft. from Q4 2023. The IE saw 4.6 million sq. ft. delivering and 4.8 million sq. ft. of new projects breaking ground in the first quarter. The IE West ended Q1 2024 with 13 million sq. ft. under construction and the IE East ended the quarter with 7.4 million sq. ft. under construction. The average size of the projects in the IE West was 230,000 sq. ft. whereas the average size in the IE East was 164,000 sq. ft., signaling that developers were still able to find land in the IE West for large projects. Pre-leasing rates fell to 17% in Q1 2024 from 22% in Q4 2023 due to the pre-leased delivery of 8900 Merrill in Ontario at 1.2 million sq. ft. The dwindling development pipeline will likely not satiate future demand, especially in the 500,000 and above size range. If demand increases as expected in the second half of 2024, the lack of new development will drive down vacancy and supply.

FIGURE 4: Availability Rate (%)



Source: CBRE Research, Q1 2024.

FIGURE 5: Gross Activity (MSF)



Source: CBRE Research, Q1 2024.

MARKET OUTLOOK

Continued economic growth paired with the Fed signaling more accommodative policy all suggests the U.S. economy is heading toward a ‘soft landing’. GDP growth should be less than half 2023’s pace when growth topped 3%. Reasons for the slowdown include a more prudent consumer and much weaker hiring. This latter issue is most acute within interest rate sensitive sectors, such as tech start-ups and goods manufacturing. Notable exceptions include investment in EV and microchip production capacity.

More caution from businesses means a good chunk of recent hiring came from publicly funded sectors (e.g., education, healthcare, state & local governments). A key exception is leisure and hospitality, driven by continued demand for discretionary services. With many private firms on the sidelines, the job openings rate declined to 5.5% from its peak of 7.8% in 2022. This has also meant the pace of wage growth has cooled, but not enough to see inflation fall quickly to 2%. With unemployment remaining below 4% and high-capacity utilization, CPI is unlikely to return to target until 2025.

The Fed will likely make three, 25 basis point cuts this year. This outlook is putting downward pressure on longer-term rate expectations, providing some optimism for real estate capital markets, but the recovery will only begin after the first cut is actually delivered. Better than expected growth over the last 18 months has been helpful in holding real estate vacancy down, notably in the industrial, retail and multifamily sectors.

The Inland Empire remains one of the premier industrial markets in the United States. The proximity to the San Pedro Bay port complex, abundant labor, and consumer centers underline the strong IE fundamentals. As the larger economy heads towards normalization, the IE will continue to be the best option for large occupiers looking for space in Southern California.

FIGURE 6: Market Statistics

Submarket	Bldg. Sq. Ft.	Overall Vacancy (%)	Availability (%)	Q1 2024 Net Absorption (SF)	Q1 2024 Gross Activity (SF)	Under Construction (SF)	Construction Deliveries YTD (SF)	Avg. Taking Lease Rates (\$PSF/MO/NNN)
Inland Empire East	301,832,710	6.9	9.9	(3,040,948)	3,109,297	7,443,004	1,656,474	\$1.20
Inland Empire West	347,012,893	5.1	9.2	2,077,195	7,538,642	13,006,105	2,938,902	\$1.44
Inland Empire Core	648,845,603	5.9	9.5	(963,753)	10,647,939	20,449,109	4,595,376	\$1.36
Inland Empire North	23,553,978	7.0	7.1	(150,000)	0	0	0	\$0.93
Inland Empire Total	672,399,581	6.0	9.4	(1,113,753)	10,647,939	20,449,109	4,595,376	\$1.36

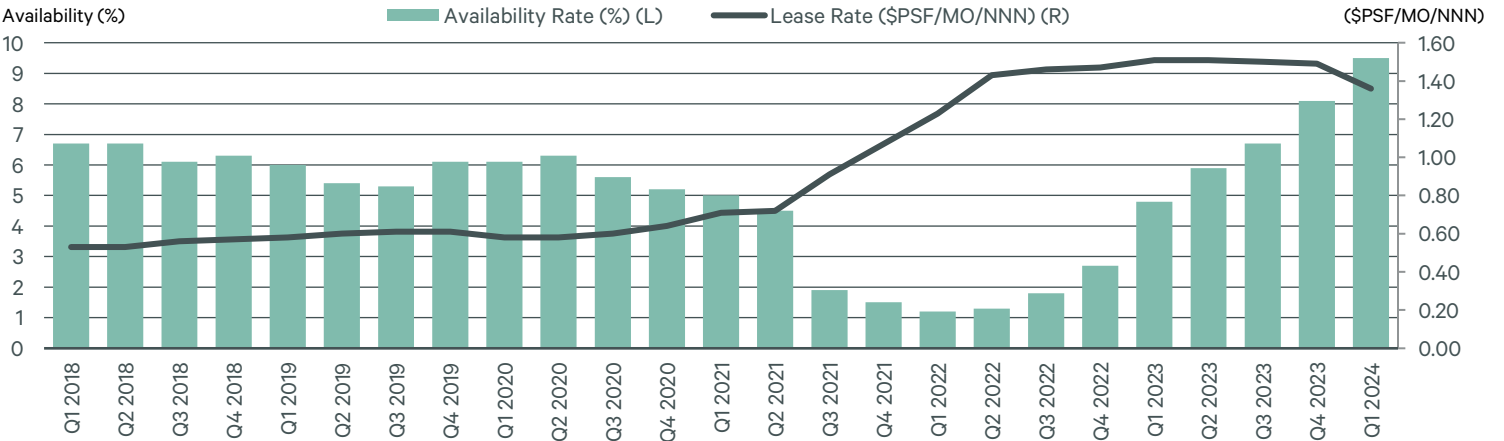
Source: CBRE Research, Q1 2024.

FIGURE 7: Key Transactions

Occupier	Industry Sector	Location	Total Sq. Ft.
Confidential*	Manufacturing	Inland Empire East	1,686,590
Confidential	E-commerce	Inland Empire West	1,025,132
Lowe's Home Improvement	Retail	Inland Empire East	1,018,178
Confidential	E-commerce	Inland Empire West	1,003,918
US Logistics	Logistics	Inland Empire West	1,003,567

*Indicates Renewal. Source: CBRE Research, Q1 2024.

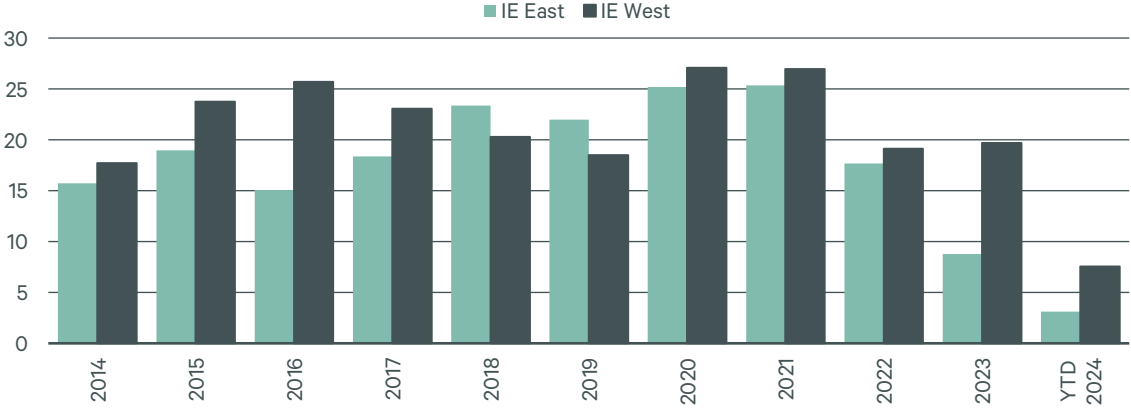
FIGURE 8: Availability and Taking Lease Rate



Source: CBRE Research, Q1 2024.

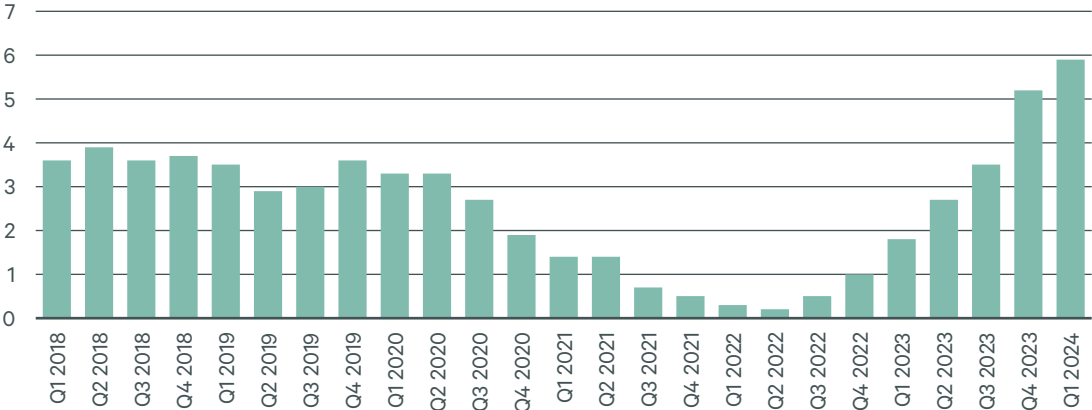
FIGURES INSERT | INLAND EMPIRE INDUSTRIAL | Q1 2024

FIGURE 1: Historical Gross Activity (MSF)



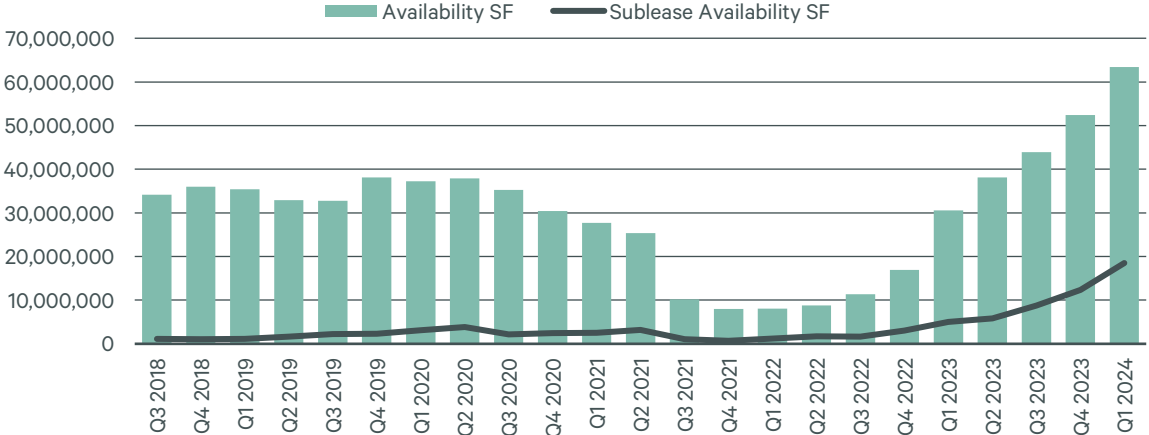
Source: CBRE Research, Q1 2024.

FIGURE 2: Overall Vacancy (%)



Source: CBRE Research, Q1 2024.

FIGURE 3: Historical Availability & Sublease Availability



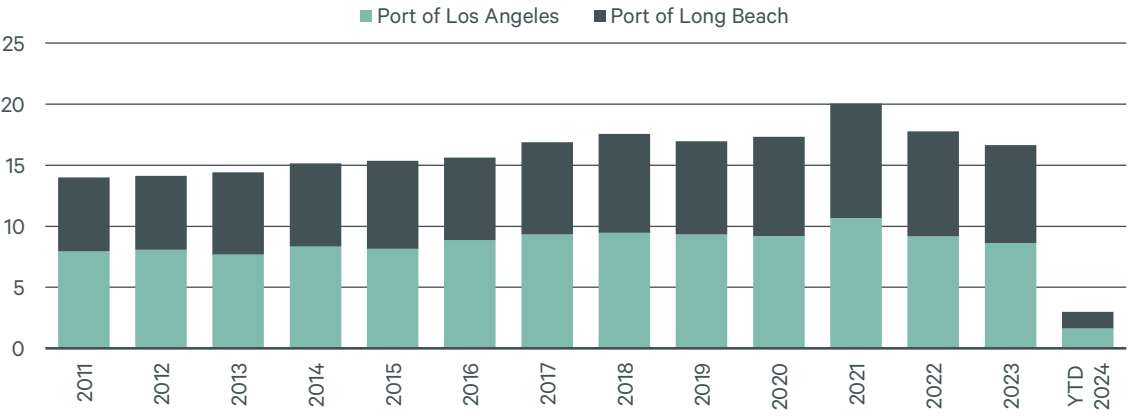
Source: CBRE Research, Q1 2024.

FIGURE 4: Historical Availability Rate (%)



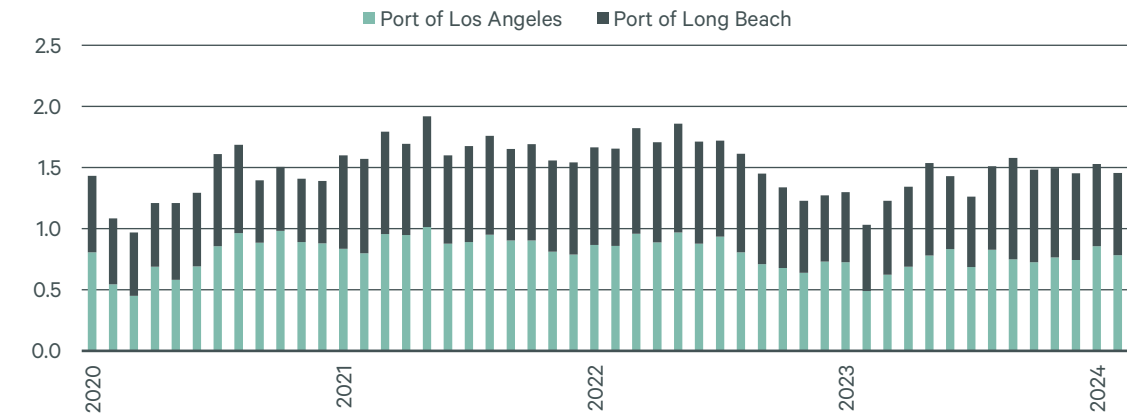
Source: CBRE Research, Q1 2024.

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



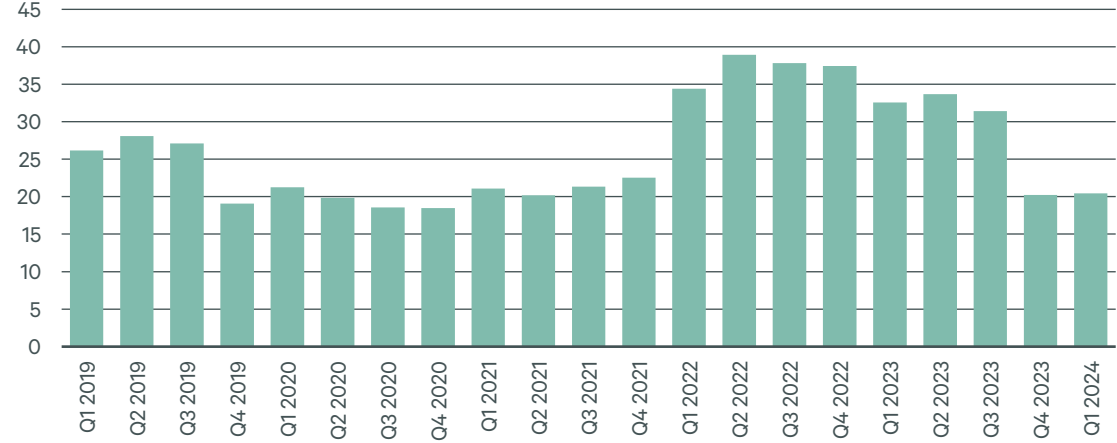
Sources: POLB.com, PortofLosAngeles.org, February 2024.

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



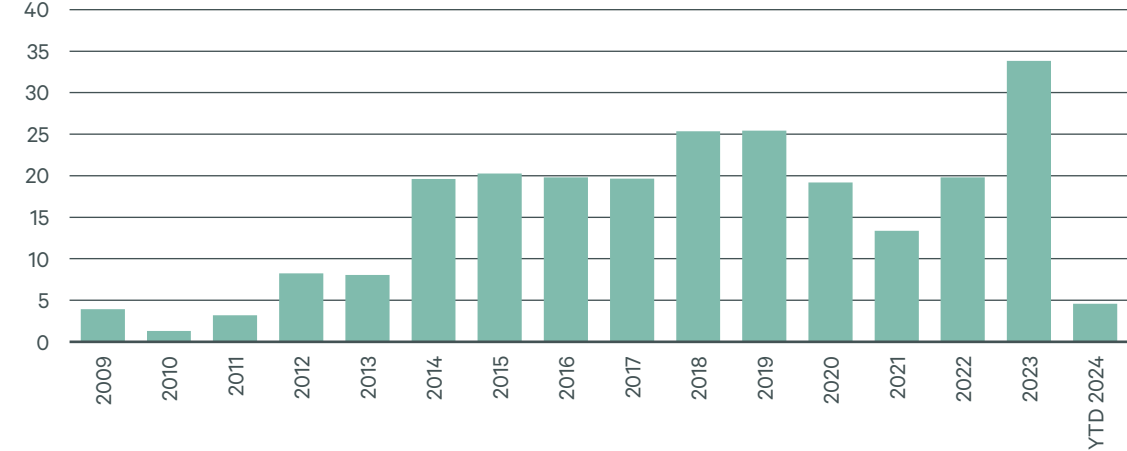
Source: CBRE Research, Q1 2024.

FIGURE 7: Under Construction (MSF)



Source: CBRE Research, Q1 2024.

FIGURE 8: Historical Completed Construction (MSF)



Source: CBRE Research, Q1 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	1ST QTR GROSS ACTIVITY	2024 GROSS ACTIVITY	1ST QTR NET ABSORP.	2024 NET ABSORP.	AVG TAKING LEASE RATE (NNN)
Banning/Beaumont	63	9,556,230	0	0	458,704	4.8	1,759,346	18.4	0	0	1	57,253	57,253	57,253	57,253	57,253	\$0.00
Colton	120	8,890,982	1	417,809	374,673	4.2	984,470	11.1	2	37,940	0	0	37,940	37,940	0	0	\$0.00
Corona/Norco	713	33,560,089	2	203,823	2,552,912	7.6	3,580,607	10.7	2	75,618	4	165,257	240,875	240,875	76,274	76,274	\$1.43
Moreno Valley	103	33,493,816	7	233,443	1,111,088	3.3	1,691,544	5.1	0	0	2	148,212	148,212	148,212	28,212	28,212	\$0.00
Perris	164	41,716,788	11	2,597,143	3,859,173	9.3	5,477,673	13.1	1	43,298	3	1,147,726	1,191,024	1,191,024	(314,587)	(314,587)	\$1.23
Redlands/Loma Linda	186	30,436,069	1	363,039	3,339,249	11.0	4,269,307	14.0	1	21,228	3	224,582	245,810	245,810	(1,058,289)	(1,058,289)	\$1.13
Rialto/Bloomington	239	40,790,737	8	1,649,660	2,764,719	6.8	4,016,826	9.8	0	0	1	25,680	25,680	25,680	(1,153,639)	(1,153,639)	\$0.95
Riverside	780	58,067,349	10	834,241	2,611,674	4.5	3,819,441	6.6	2	24,800	7	537,324	562,124	562,124	87,894	87,894	\$1.12
San Bernardino	408	45,320,650	5	1,143,846	3,705,343	8.2	4,138,256	9.1	1	46,775	3	553,604	600,379	600,379	(764,066)	(764,066)	\$1.16
Inland Empire East	2,776	301,832,710	45	7,443,004	20,777,535	6.9	29,737,470	9.9	9	249,659	24	2,859,638	3,109,297	3,109,297	(3,040,948)	(3,040,948)	\$1.20
Chino/Chino Hills	648	56,004,184	6	504,017	1,470,080	2.6	3,713,143	6.6	1	13,598	16	1,127,015	1,140,613	1,140,613	315,284	315,284	\$1.44
Fontana	592	75,985,924	16	5,882,448	3,609,975	4.8	6,661,238	8.8	2	29,179	3	1,032,307	1,061,486	1,061,486	987,029	987,029	\$1.38
Jurupa Valley/Eastvale	297	48,335,761	7	542,531	3,608,375	7.5	5,413,228	11.2	0	0	7	1,844,762	1,844,762	1,844,762	651,071	651,071	\$1.50
Ontario/Montclair/Upland	1,240	122,298,625	24	5,729,361	7,058,620	5.8	11,598,621	9.5	2	26,921	36	3,158,265	3,185,186	3,185,186	97,415	97,415	\$1.37
Rancho Cucamonga	606	44,388,399	4	347,748	1,956,420	4.4	4,634,736	10.4	1	98,685	5	207,910	306,595	306,595	26,396	26,396	\$1.41
Inland Empire West	3,383	347,012,893	57	13,006,105	17,703,470	5.1	32,020,966	9.2	6	168,383	67	7,370,259	7,538,642	7,538,642	2,077,195	2,077,195	\$1.44
INLAND EMPIRE CORE	6,159	648,845,603	102	20,449,109	38,481,005	5.9	61,758,436	9.5	15	418,042	91	10,229,897	10,647,939	10,647,939	(963,753)	(963,753)	\$1.36
Adelanto	101	4,349,348	0	0	445,500	10.2	464,750	10.7	0	0	0	0	0	0	0	0	\$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	69	5,349,139	0	0	683,133	12.8	683,133	12.8	0	0	0	0	0	0	(150,000)	(150,000)	\$0.00
Victorville	78	10,017,115	0	0	528,892	5.3	528,892	5.3	0	0	0	0	0	0	0	0	\$0.93
Inland Empire North	287	23,553,978	0	0	1,657,525	7.0	1,676,775	7.1	0	0	0	0	0	0	(150,000)	(150,000)	\$0.93
INLAND EMPIRE + IEN	6,446	672,399,581	102	20,449,109	40,138,530	6.0	63,435,211	9.4	15	418,042	91	10,229,897	10,647,939	10,647,939	(1,113,753)	(1,113,753)	\$1.36

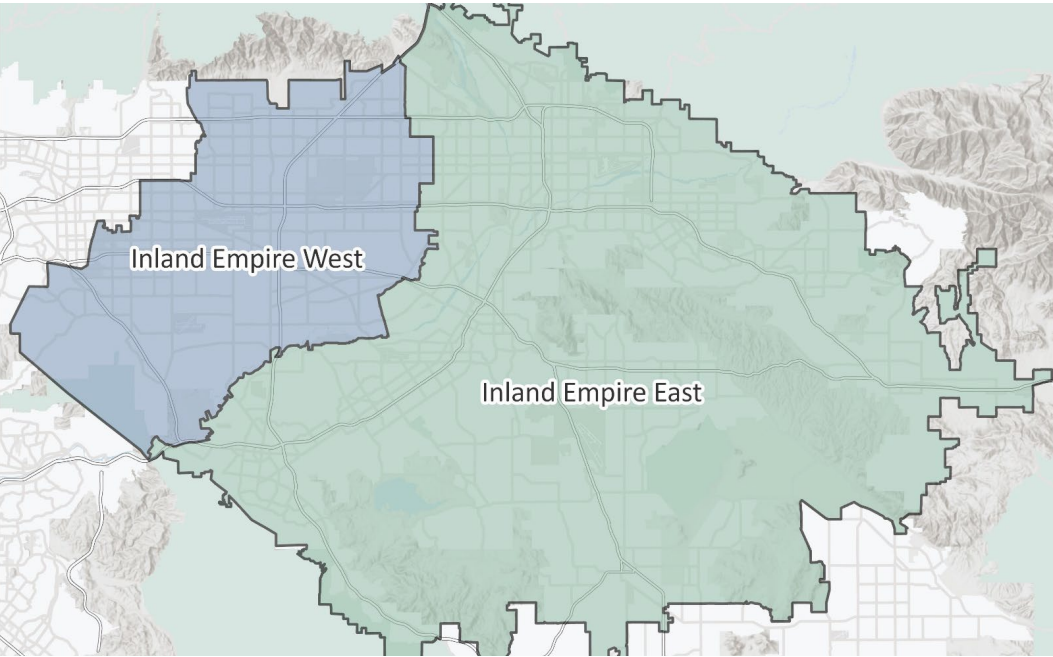
Source: CBRE Research, Q1 2024.

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	1ST QTR TOTAL ACTIVITY	2024 GROSS ACTIVITY	NEW TO MARKET	AVG TAKING RENT
10,000-19,999	948	13,096,450	2	28,724	202,118	1.5	424,173	3.2	3	36,500	3	40,651	77,151	77,151	148,945	\$1.10
20,000-29,999	411	9,799,162	5	124,012	240,855	2.5	532,391	5.4	3	73,225	0	0	73,225	73,225	155,657	\$0.00
30,000-39,999	232	7,899,290	2	75,534	187,252	2.4	395,962	5.0	0	0	2	57,960	57,960	57,960	180,323	\$1.10
40,000-49,999	175	7,768,214	5	222,191	551,231	7.1	769,877	9.9	3	139,934	5	123,685	263,619	263,619	110,400	\$1.26
50,000-59,999	132	7,088,788	2	106,360	522,964	7.4	599,404	8.5	0	0	2	69,762	69,762	69,762	57,427	\$0.00
60,000-69,999	78	5,005,026	3	187,945	257,697	5.1	384,281	7.7	0	0	2	124,911	124,911	124,911	126,584	\$1.50
70,000-79,999	80	5,950,089	1	71,415	582,270	9.8	772,364	13.0	0	0	0	0	0	0	0	\$0.00
80,000-89,999	51	4,258,794	3	244,766	214,803	5.0	505,027	11.9	0	0	1	39,114	39,114	39,114	157,647	\$0.00
90,000-99,999	43	4,074,581	3	296,618	354,032	8.7	354,032	8.7	0	0	0	0	0	0	0	\$0.00
100,000-249,999	320	48,802,802	6	926,491	5,713,146	11.7	7,411,117	15.2	0	0	5	480,113	480,113	480,113	633,451	\$1.12
250,000-499,999	149	53,800,373	11	3,760,705	5,522,006	10.3	9,173,191	17.1	0	0	3	905,264	905,264	905,264	2,555,026	\$1.20
500,000 and greater	157	134,289,141	2	1,398,243	6,429,161	4.8	8,415,651	6.3	0	0	1	1,018,178	1,018,178	1,018,178	1,229,900	\$0.00
INLAND EMPIRE EAST	2,776	301,832,710	45	7,443,004	20,777,535	6.9	29,737,470	9.9	9	249,659	24	2,859,638	3,109,297	3,109,297	5,355,360	\$1.20
10,000-19,999	1,072	14,672,932	2	32,552	291,125	2.0	481,817	3.3	5	69,698	12	159,748	229,446	229,446	146,616	\$1.35
20,000-29,999	490	11,925,975	3	69,998	670,769	5.6	1,011,077	8.5	0	0	5	109,838	109,838	109,838	300,802	\$1.58
30,000-39,999	280	9,654,600	6	213,908	300,281	3.1	715,127	7.4	0	0	6	212,583	212,583	212,583	335,569	\$1.60
40,000-49,999	190	8,386,657	5	230,281	358,390	4.3	685,747	8.2	0	0	4	158,171	158,171	158,171	311,011	\$1.39
50,000-59,999	160	8,619,160	5	294,007	143,105	1.7	382,077	4.4	0	0	5	117,820	117,820	117,820	89,036	\$1.35
60,000-69,999	107	6,798,922	2	126,659	327,453	4.8	552,503	8.1	0	0	4	163,770	163,770	163,770	52,632	\$1.30
70,000-79,999	67	5,018,802	0	0	270,064	5.4	408,504	8.1	0	0	0	0	0	0	138,440	\$0.00
80,000-89,999	65	5,489,582	3	254,182	407,688	7.4	491,238	8.9	0	0	2	27,699	27,699	27,699	59,336	\$1.40
90,000-99,999	68	6,458,890	3	290,794	700,268	10.8	819,297	12.7	1	98,685	1	12,741	111,426	111,426	99,425	\$0.00
100,000-249,999	512	78,784,058	12	2,057,527	6,340,098	8.0	9,141,261	11.6	0	0	22	2,386,309	2,386,309	2,386,309	2,567,473	\$1.40
250,000-499,999	245	87,425,571	9	2,551,010	4,098,219	4.7	6,924,087	7.9	0	0	3	988,963	988,963	988,963	1,823,381	\$1.25
500,000 and greater	127	103,777,744	7	6,885,187	3,796,010	3.7	10,408,231	10.0	0	0	3	3,032,617	3,032,617	3,032,617	4,139,713	\$1.32
INLAND EMPIRE WEST	3,383	347,012,893	57	13,006,105	17,703,470	5.1	32,020,966	9.2	6	168,383	67	7,370,259	7,538,642	7,538,642	10,063,434	\$1.44
INLAND EMPIRE CORE	6,159	648,845,603	102	20,449,109	38,481,005	5.9	61,758,436	9.5	15	418,042	91	10,229,897	10,647,939	10,647,939	15,418,794	\$1.36

*Does not include Inland Empire North. Source: CBRE Research, Q1 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).

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.

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