

FIGURES | INLAND EMPIRE INDUSTRIAL | Q3 2023

Activity cools as investors and occupiers gauge economic uncertainty



Note: Arrows indicate change from previous quarter.

Net absorption returned positive quarter-over-quarter

- Net absorption turned positive following the first negative quarter since Q4 2008. Positive absorption was driven primarily by pre-leased construction deliveries in the Inland Empire (IE) West.

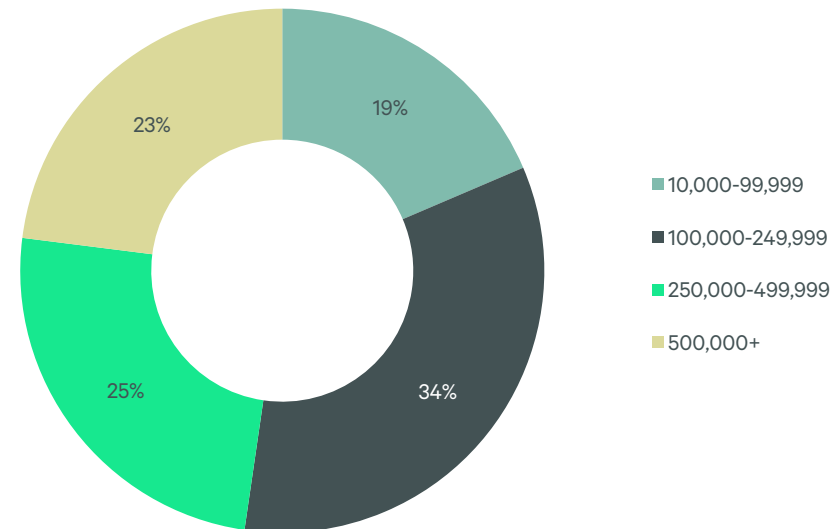
Development declined as major projects (300,000 sq. ft. and above) delivered

- Large projects in the IE West delivered over 6 million sq. ft. of new product into the market. New starts slowed as construction financing and economic uncertainty caused some developers to delay projects breaking ground.

Sublease space totaled over 8.7 million sq. ft.

- Available sublease space in existing properties grew to over 8.7 million sq. ft. as tenants gave up additional space signed during the pandemic. There was an additional 1.5 million sq. ft. of sublease space available in pre-committed under construction buildings, eclipsing the overall 6 million sq. ft. of available sublease space in Q2 2023. Sublease availability was concentrated in the 100,000 sq. ft. and above size tranches.

FIGURE 1: Available Space Distribution by Sq. Ft.



Source: CBRE Research, Q3 2023.

Market Overview

The Inland Empire (IE) continued to normalize in 2023 as landlords and occupiers alike navigated the increased availability and large spread on asking rates. Vacancy, availability, and development returned to pre-pandemic levels as the tightness of the market and the unsustainable rate growth of the last three years tapered. The woes surrounding negative absorption in Q2 2023 were short-lived as occupiers moved into pre-leased new deliveries in Q3 2023. A noticeable change in the market took place as occupiers diverted from a flight-to-quality to a flight-to-value. Occupiers returned to searching for value in Class B and sublease spaces that offered cheaper rates despite newer spaces being available. New leases on shorter terms were signed, with the average lease term for Q3 2023 averaging 49 months versus the average term in Q1 2023 at 56 months. Renewal activity increased to nearly 30% of all leasing activity as the inconvenience and moving costs associated with leasing new spaces kept many tenants in place. Despite moderate headwinds, the IE fundamentals continued to bring new users to the market as proximity to major metropolitan centers and ports justified occupier and investor interest.

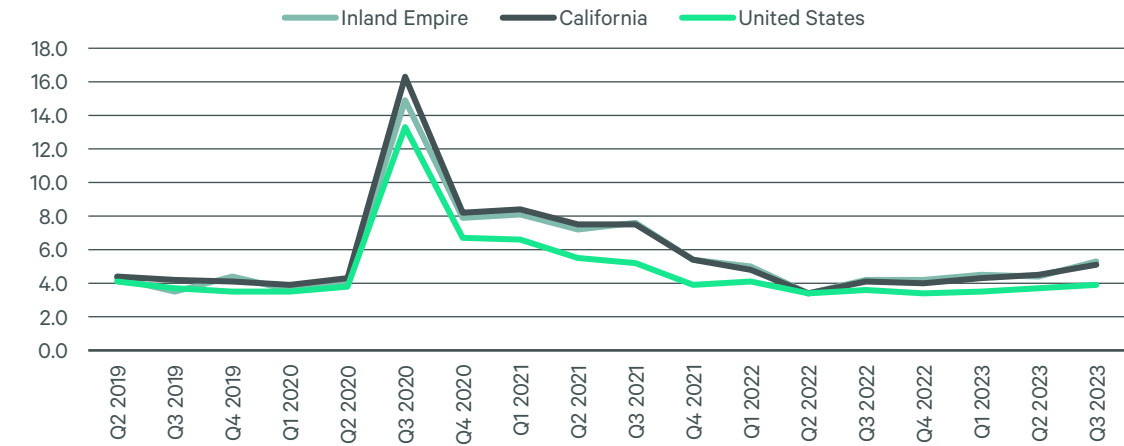
UNEMPLOYMENT

Unemployment in the Inland Empire increased by 100 bps to 5.3% in August 2023 from 4.3% in August 2022. The unemployment rate in California was 5.1% in August and 3.9% in the United States over the same period. As of August 2023, construction employment increased by 3,800 jobs while manufacturing employment decreased 2,400 jobs year-over-year. Unemployment increased steadily since May 2022, signaling the Fed’s success in cooling the economy to combat inflation.

LEASE RATE ANALYSIS

Taking lease rates in the IE Core fell by \$0.01 quarter-over-quarter to \$1.50 NNN per sq. ft. per month in Q3 2023. In the same time frame, IE East and IE West rates both fell \$0.06 to \$1.34 NNN and \$1.54 NNN, respectively, while rates in the IE North increased by \$0.08 to \$1.13 NNN. Higher leasing activity in the IE West bolstered the IE Core rate overall for the quarter. Year-over-year, the IE Core rate increased by \$0.04 from \$1.46 NNN in Q3 2022. Lease rates fell as direct space competed against sublease spaces that averaged \$0.32 cheaper (or 22% less) than direct lease asking rates.

FIGURE 2: Unemployment Rate (%)



Source: U.S. Bureau of Labor Statistics, Q3 2023.

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



Source: CBRE Research, Q3 2023.

VACANCY & AVAILABILITY

In the IE, vacancy increased by 80 bps to 3.5% in Q3 2023 from 2.7% in Q2 2023, and availability increased to 6.7% from 5.9% in Q2 2023. The rise in vacancy was driven in part by 701,000 sq. ft. of vacant deliveries. The increases in vacancy and availability showed a return to the pre-pandemic norm where vacancy rates hovered between 3% and 4% in 2018 and 2019. Vacancy in the larger size ranges (300,000 sq. ft. and above) made up roughly 45% of vacant space on the market as large occupiers gave back extra space for sublease and others vacated due to bankruptcy.

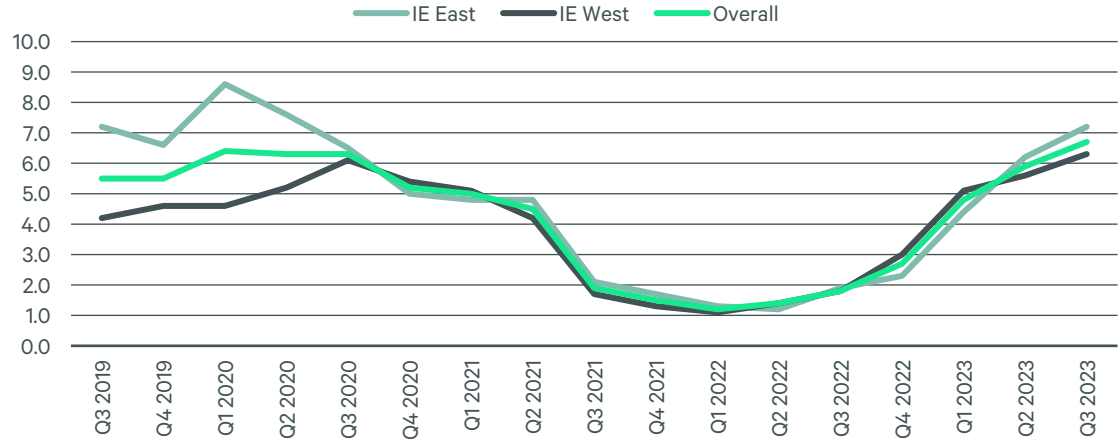
NET ABSORPTION & ACTIVITY

Net absorption remained positive in the IE Core with 2.19 million sq. ft. of space newly occupied. Additionally, 25,000 sq. ft. of space was positively absorbed in the IE North. YTD absorption remained positive at 2.83 million sq. ft. in the IE Core. The Prologis Merrill Commerce Center and Agua Mansa Commerce Park deliveries added 5.2 million sq. ft. of positive absorption in Q3 2023 as tenants occupied the pre-committed projects. Gross activity fell from 8.07 million sq. ft. in Q2 2023 to 6.05 million in new leasing and user sales. The 25% decline quarter-over-quarter in gross activity was a product of occupiers shifting to smaller spaces as economic uncertainty spurred caution ahead of optimism. User sales fell significantly quarter-over-quarter from 852,000 sq. ft. sold in Q2 2023 to 189,000 sq. ft. sold in Q3 2023. As the cost of capital remained high, industrial sales fell across the Inland Empire.

DEVELOPMENT

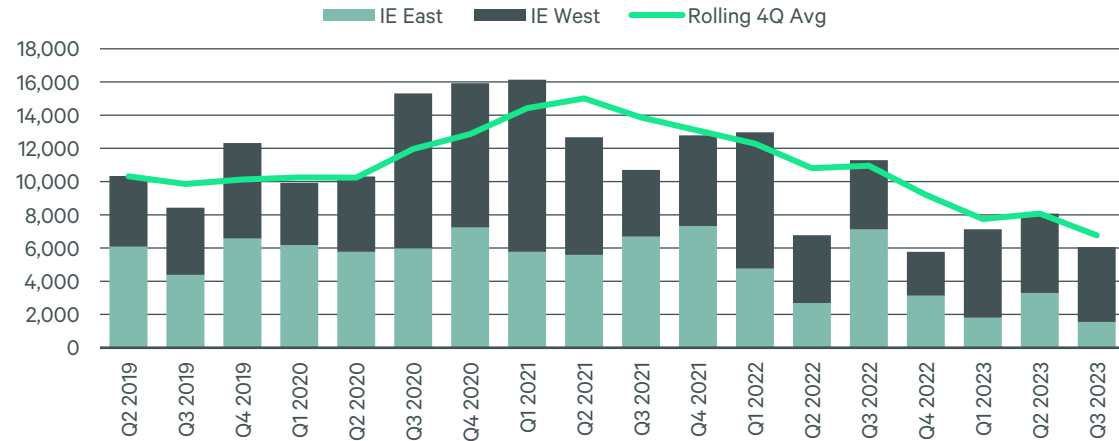
New development remained a highlight of the Inland Empire as large projects above 300,000 sq. ft. delivered across the market and new projects broke ground in every major size range. 6.6 million sq. ft. delivered with 5.9 million sq. ft. pre-leased. Ontario, Jurupa Valley, and Perris delivered new properties above 300,000 sq. ft. New starts in Q3 2023 equaled over 2 million sq. ft., mostly concentrated in the IE East. 31% of the 31.4 million sq. ft. under construction space was pre-leased. Construction in the IE Core fell below 30 million sq. ft. for the first time since Q4 2021 as construction costs and development financing led some developers to delay breaking ground on new projects.

FIGURE 4: Availability Rate (%)



Source: CBRE Research, Q3 2023.

FIGURE 5: Gross Activity (MSF)



Source: CBRE Research, Q3 2023.

MARKET OUTLOOK

The U.S. economy has defied expectations for a slowdown and has even exhibited some signs of acceleration despite sharp tightening of credit conditions and ongoing write-downs in the banking sector. This resilience is due to a number of factors: 1) the Chips and IRA Acts have stimulated the construction sector; 2) the Fed and the FDIC have provided prompt and effective support for the banks, and 3) consumers are in good shape from a balance sheet and income perspective. Nevertheless, headwinds are intensifying: such as higher oil prices, resumption of student loan payments, and a weakening global economy. These headwinds, not serious in themselves, will hit home at a time when the squeeze from elevated interest rates is at its maximum. The upshot for real estate is that the Fed is likely finished with its tightening cycle, allowing a clearer path for real estate capital markets to unfold. Although we expect economic growth to deteriorate, it is likely that valuations will stabilize during H1 2024.

In the Inland Empire industrial region, landlords and occupiers contest the state of the market. Local municipalities are debating the benefits and consequences of the developing industrial market, while the increase in sublease space and modest rate decline signal a retreat from the optimism seen during the pandemic. Slowing development will have consequential impacts in the Inland Empire as demand is expected to remain high and fewer new projects will tighten availability and push rates upward. In the short-term, the market is expected to cool from the large activity and rate spikes caused during the pandemic. More broadly, however, the Inland Empire remains one of the most desirable markets for industrial occupiers due to a robust working population and access to the largest and most active port complex in the United States.

FIGURE 6: Market Statistics

Submarket	Bldg. Sq. Ft.	Overall Vacancy (%)	Availability (%)	Q3 2023 Net Absorption (SF)	Q3 2023 Gross Activity (SF)	Under Construction (SF)	Construction Deliveries YTD (SF)	Avg. Taking Lease Rates (\$PSF/MO/NNN)
Inland Empire East	291,106,532	3.7	7.2	(2,358,107)	1,548,572	11,723,926	8,720,208	\$1.34
Inland Empire West	344,434,424	3.4	6.3	4,550,229	4,510,967	17,466,876	9,220,198	\$1.54
Inland Empire Core	635,540,956	3.5	6.7	2,192,122	6,059,539	29,190,802	17,940,406	\$1.50
Inland Empire North	21,322,378	4.2	5.1	25,000	54,646	2,231,600	169,417	\$1.14
Inland Empire Total	656,863,334	3.5	6.7	2,217,122	6,114,185	31,422,402	18,109,823	\$1.50

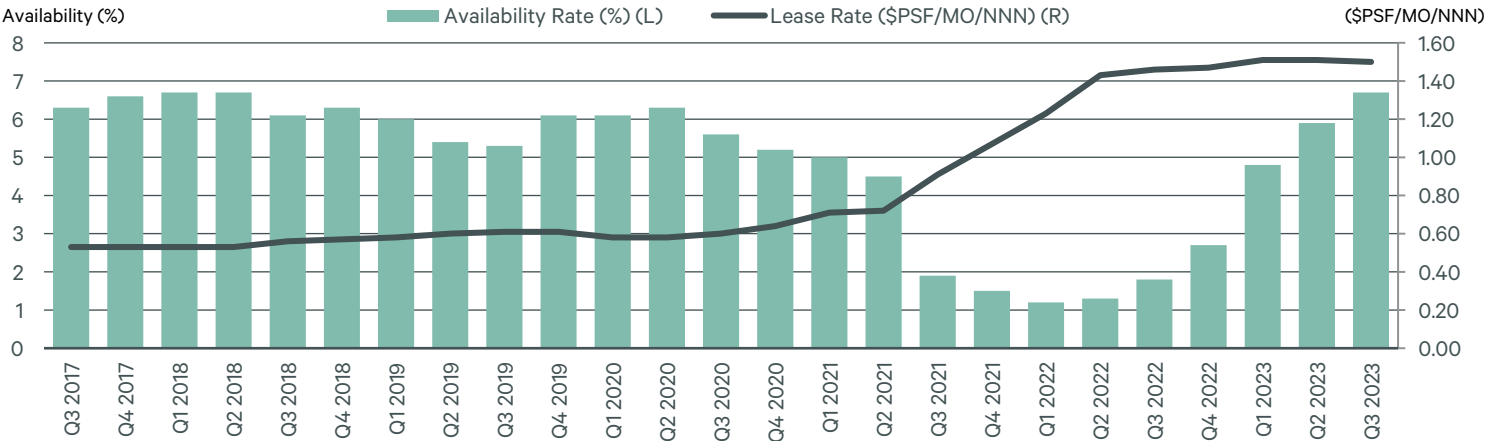
Source: CBRE Research, Q3 2023.

FIGURE 7: Key Transactions

Occupier	Industry Sector	Location	Total Sq. Ft.
CEVA Logistics	Logistics	Inland Empire West	745,595
US Elogistics	Logistics	Inland Empire East	677,225
Armstrong Logistics	Logistics	Inland Empire West	633,953
Ashley Furniture*	Retail	Inland Empire East	500,602
Niagra Bottling	Food & Beverage	Inland Empire West	303,857

*Indicates Renewal. Source: CBRE Research, Q3 2023.

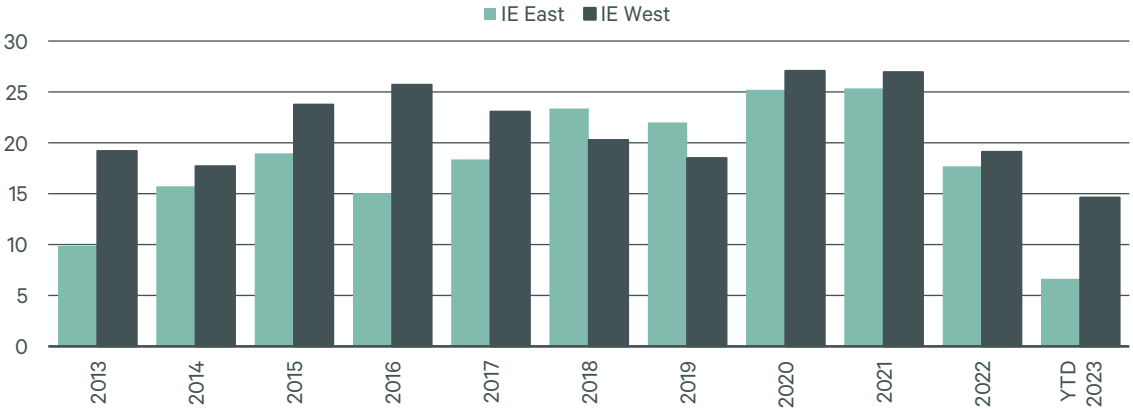
FIGURE 8: Availability and Taking Lease Rate



Source: CBRE Research, Q3 2023.

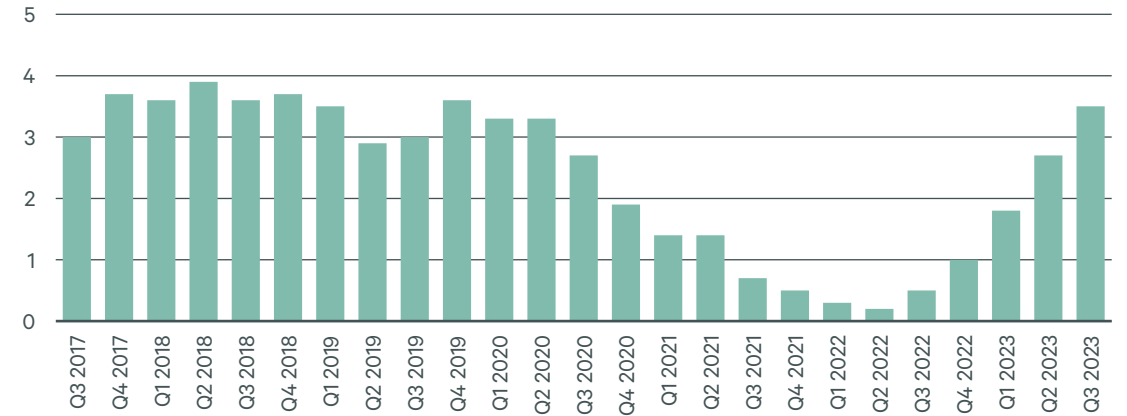
FIGURES INSERT | INLAND EMPIRE INDUSTRIAL | Q3 2023

FIGURE 1: Historical Gross Activity (MSF)



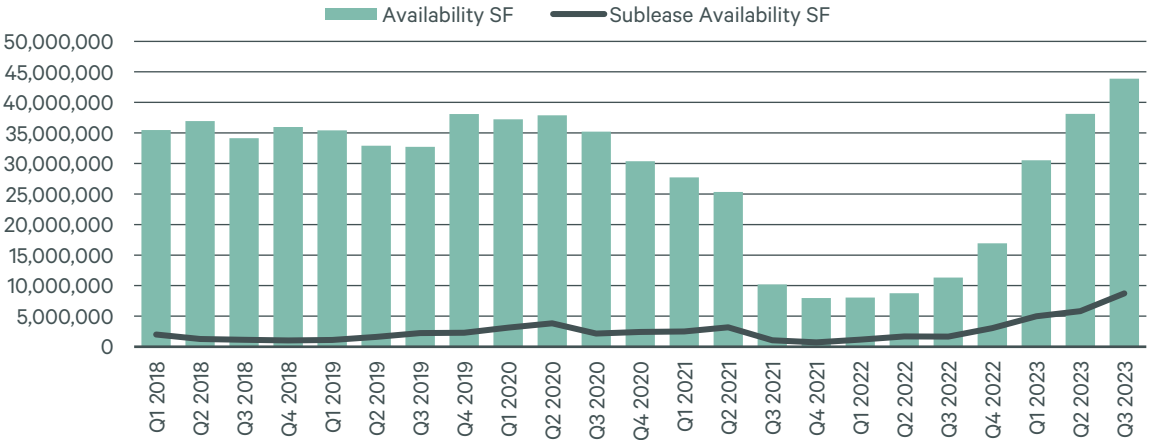
Source: CBRE Research, Q3 2023.

FIGURE 2: Overall Vacancy (%)



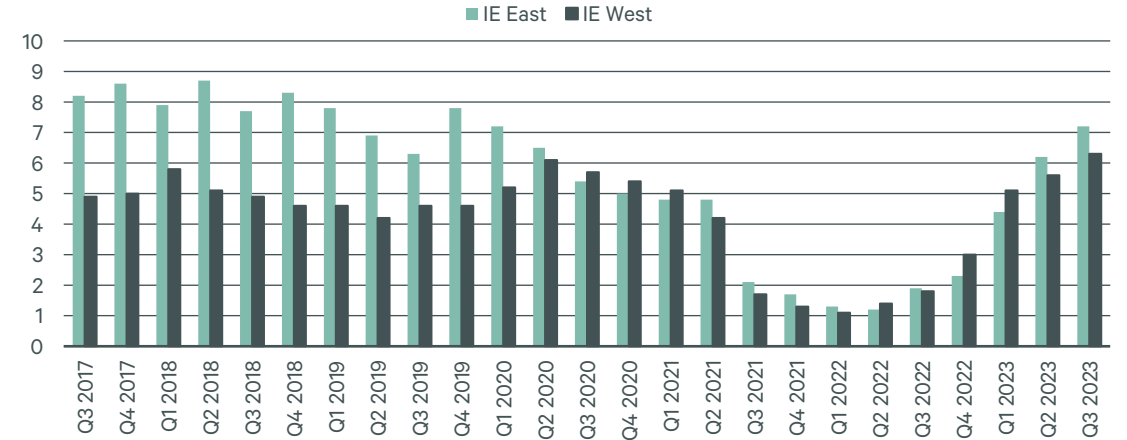
Source: CBRE Research, Q3 2023.

FIGURE 3: Historical Availability & Sublease Availability



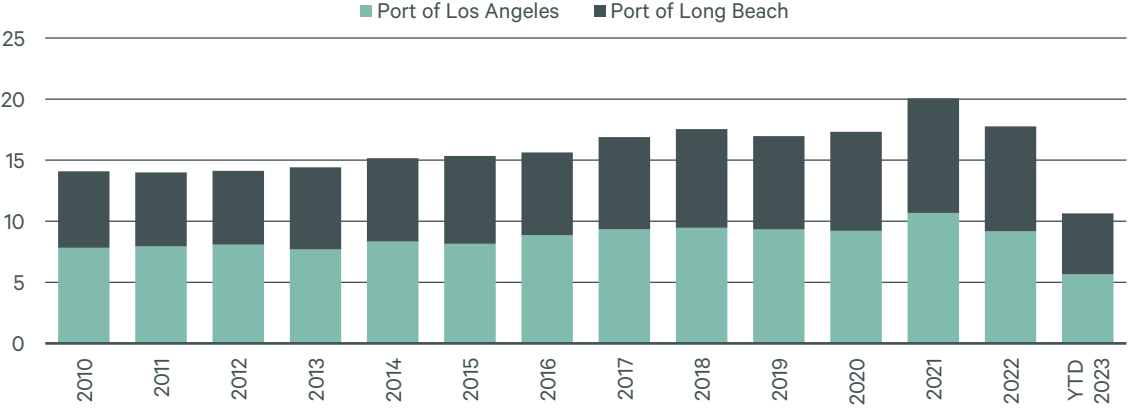
Source: CBRE Research, Q3 2023.

FIGURE 4: Historical Availability Rate (%)



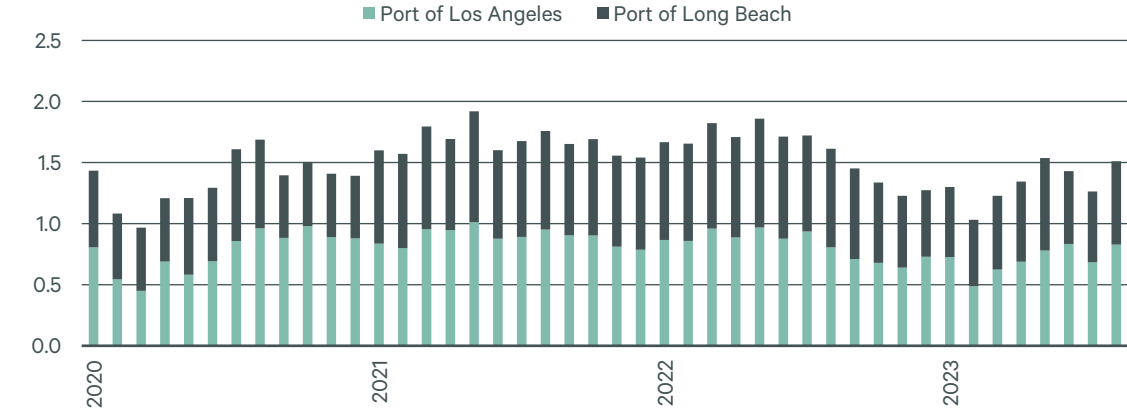
Source: CBRE Research, Q3 2023.

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



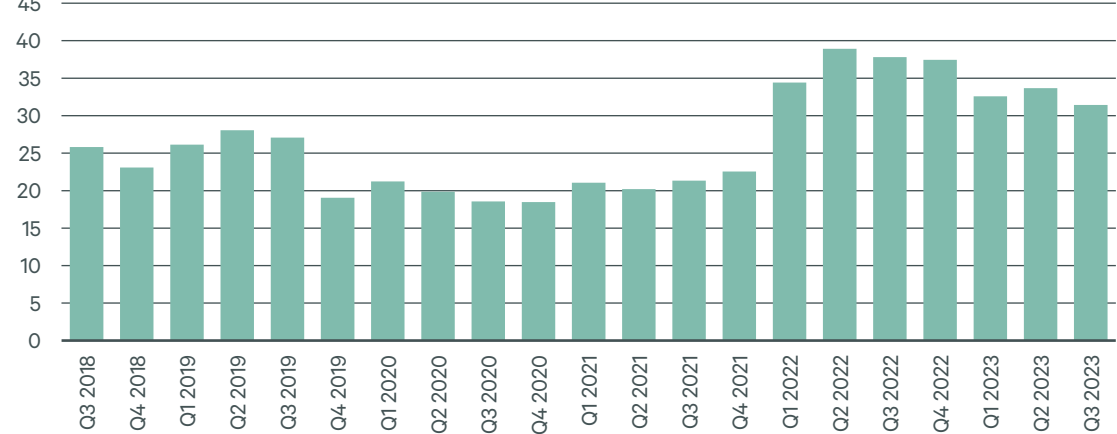
Sources: POLB.com, PortofLosAngeles.org, August 2023.

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



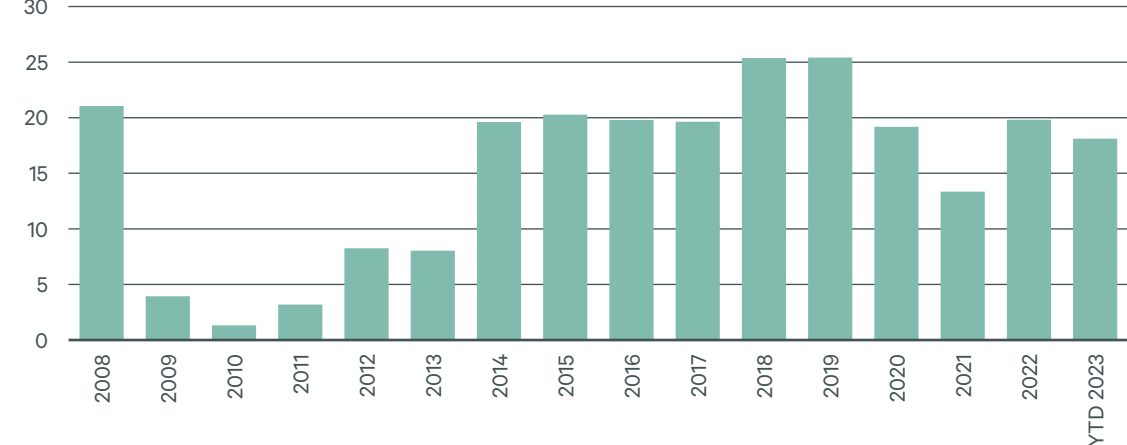
Source: CBRE Research, Q3 2023.

FIGURE 7: Under Construction (MSF)



Source: CBRE Research, Q3 2023.

FIGURE 8: Historical Completed Construction (MSF)



Source: CBRE Research, Q3 2023.

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	2023 YTD GROSS ACTIVITY	3RD QTR NET ABSORP.	2023 YTD NET ABSORP.	AVG TAKING LEASE RATE (NNN)
Banning/Beaumont	60	5,942,262	3	3,610,375	0	0.0	0	0.0	0	0	0	0	0	17,500	0	0	\$0.00
Colton	122	9,348,084	0	0	210,733	2.3	336,534	3.6	0	0	1	10,000	10,000	229,340	(10,500)	(39,733)	\$1.15
Corona/Norco	713	33,876,194	3	263,848	2,217,621	6.5	3,620,949	10.7	2	50,301	3	208,992	259,293	1,115,587	(104,872)	54,725	\$1.57
Moreno Valley	101	33,400,616	8	283,243	1,046,100	3.1	1,059,880	3.2	0	0	0	0	0	399,817	0	(631,148)	\$0.00
Perris	152	39,295,885	19	3,413,214	1,689,584	4.3	2,671,831	6.8	0	0	3	336,584	336,584	1,432,206	267,599	3,525,512	\$0.00
Redlands/Loma Linda	183	29,910,397	3	499,545	1,113,482	3.7	3,502,913	11.7	0	0	1	19,370	19,370	514,609	(666,531)	(679,104)	\$1.35
Rialto	207	36,033,269	7	1,328,038	1,237,075	3.4	2,803,373	7.8	0	0	3	820,516	820,516	948,524	46,777	(473,891)	\$1.05
Riverside	780	58,384,527	8	852,669	1,355,225	2.3	2,809,599	4.8	1	12,000	5	90,809	102,809	1,501,165	(612,753)	(676,149)	\$1.18
San Bernardino	405	44,915,298	8	1,472,994	1,804,291	4.0	4,144,532	9.2	0	0	0	0	0	486,935	(1,277,827)	69,655	\$0.00
Inland Empire East	2,723	291,106,532	59	11,723,926	10,674,111	3.7	20,949,611	7.2	3	62,301	16	1,486,271	1,548,572	6,645,683	(2,358,107)	1,149,867	\$1.34
Chino/Chino Hills	646	55,666,508	7	819,425	1,634,094	2.9	2,776,298	5.0	1	76,575	14	900,383	976,958	1,814,296	(59,861)	(687,286)	\$1.59
Fontana (Bloomington)	622	80,480,306	14	4,098,929	5,216,908	6.5	6,580,167	8.2	0	0	7	1,547,383	1,547,383	3,948,058	(28,839)	(2,185,956)	\$1.48
Jurupa Valley/Eastvale	289	46,817,537	22	4,578,497	369,394	0.8	1,285,607	2.7	0	0	4	152,045	152,045	2,268,092	1,150,095	1,407,796	\$1.50
Ontario	1,233	120,082,814	22	4,991,395	3,453,512	2.9	9,206,362	7.7	1	17,460	21	703,716	721,176	3,539,100	3,712,555	3,530,876	\$1.48
Rancho Cucamonga	602	41,387,259	6	2,978,630	876,385	2.1	1,955,842	4.7	1	14,585	10	1,098,820	1,113,405	3,056,427	(223,721)	(381,157)	\$1.62
Inland Empire West	3,392	344,434,424	71	17,466,876	11,550,293	3.4	21,804,276	6.3	3	108,620	56	4,402,347	4,510,967	14,625,973	4,550,229	1,684,273	\$1.54
INLAND EMPIRE	6,115	635,540,956	130	29,190,802	22,224,404	3.5	42,753,887	6.7	6	170,921	72	5,888,618	6,059,539	21,271,656	2,192,122	2,834,140	\$1.50
Adelanto	101	4,349,348	0	0	355,750	8.2	386,500	8.9	0	0	1	25,000	25,000	78,925	25,000	114,825	\$1.15
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	0	0	0	0	0	1,027,561	0	0	\$0.00
Victorville	78	10,017,115	0	0	528,892	5.3	528,892	5.3	1	18,400	1	11,246	29,646	29,646	0	(528,892)	\$1.12
Inland Empire North	285	21,322,378	2	2,231,600	902,177	4.2	1,082,927	5.1	1	18,400	2	36,246	54,646	1,136,132	25,000	(414,067)	\$1.14
INLAND EMPIRE + IEN	6,400	656,863,334	132	31,422,402	23,126,581	3.5	43,836,814	6.7	7	189,321	74	5,924,864	6,114,185	22,407,788	2,217,122	2,420,073	\$1.50

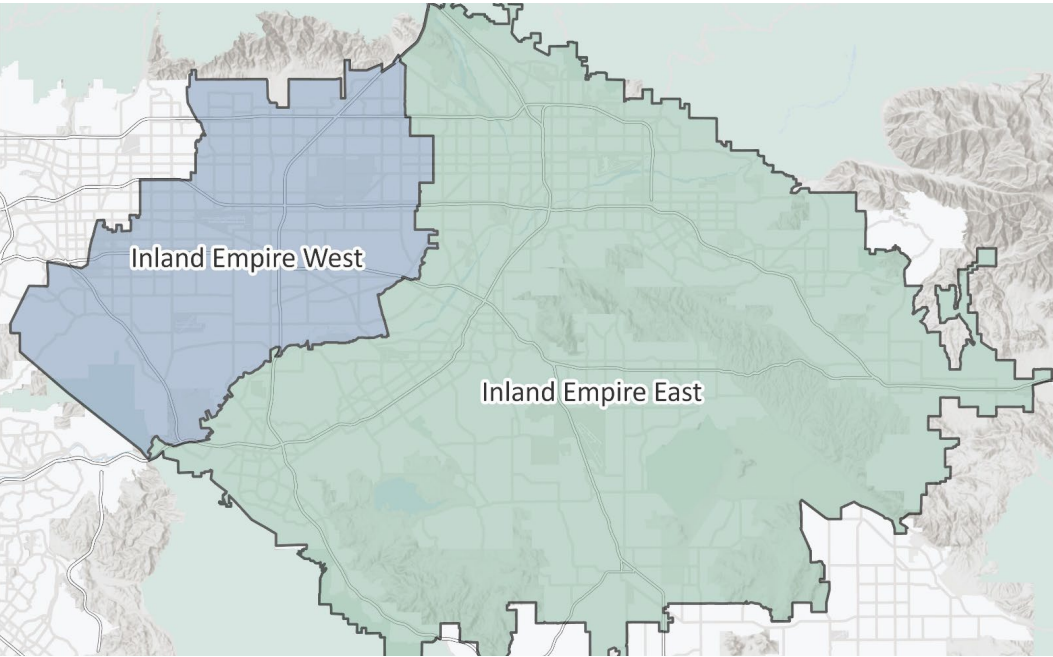
Source: CBRE Research, Q3 2023.

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	2023 YTD GROSS ACTIVITY	NEW TO MARKET	AVG TAKING RENT
10,000-19,999	937	12,920,005	4	67,464	61,014	0.5	200,453	1.6	2	29,955	5	77,970	107,925	405,735	77,732	\$1.20
20,000-29,999	409	9,736,081	5	124,012	195,067	2.0	369,755	3.8	0	0	2	42,209	42,209	305,098	127,075	\$1.22
30,000-39,999	229	7,804,117	1	36,534	48,459	0.6	130,706	1.7	1	32,346	1	38,292	70,638	381,075	40,178	\$0.00
40,000-49,999	169	7,481,909	9	415,280	348,962	4.7	605,162	8.1	0	0	3	137,871	137,871	452,634	209,858	\$1.74
50,000-59,999	129	6,929,633	3	158,829	337,907	4.9	374,912	5.4	0	0	0	0	0	107,396	20,405	\$0.00
60,000-69,999	73	4,685,462	3	187,020	257,697	5.5	340,547	7.3	0	0	1	66,585	66,585	133,985	62,280	\$0.00
70,000-79,999	83	6,172,458	1	71,415	361,743	5.9	894,771	14.5	0	0	0	0	0	217,559	338,733	\$0.00
80,000-89,999	50	4,178,167	2	163,272	138,770	3.3	428,061	10.2	0	0	0	0	0	86,365	182,380	\$0.00
90,000-99,999	41	3,883,856	1	90,726	168,614	4.3	357,844	9.2	0	0	1	93,736	93,736	187,004	189,230	\$1.40
100,000-249,999	309	46,979,278	16	2,616,595	3,409,728	7.3	5,512,570	11.7	0	0	2	352,384	352,384	1,699,079	1,535,683	\$1.13
250,000-499,999	142	51,306,465	10	3,634,385	1,910,437	3.7	5,569,398	10.9	0	0	0	0	0	1,396,439	1,784,025	\$0.00
500,000 and greater	152	129,029,101	4	4,158,394	3,435,713	2.7	6,165,432	4.8	0	0	1	677,224	677,224	1,273,314	29,900	\$1.43
INLAND EMPIRE EAST	2,723	291,106,532	59	11,723,926	10,674,111	3.7	20,949,611	7.2	3	62,301	16	1,486,271	1,548,572	6,645,683	4,597,479	\$1.34
10,000-19,999	1,093	14,918,091	2	31,436	330,848	2.2	616,083	4.1	2	32,045	15	201,502	233,547	756,102	175,992	\$1.50
20,000-29,999	485	11,786,066	8	204,312	407,339	3.5	639,445	5.4	0	0	10	232,056	232,056	631,456	166,965	\$1.47
30,000-39,999	277	9,552,201	0	0	291,904	3.1	565,834	5.9	0	0	6	209,544	209,544	620,705	143,791	\$1.55
40,000-49,999	186	8,203,205	9	415,571	246,048	3.0	366,745	4.5	0	0	5	222,886	222,886	651,110	120,697	\$1.43
50,000-59,999	161	8,672,225	2	111,948	132,947	1.5	410,718	4.7	0	0	4	217,321	217,321	328,309	217,554	\$1.63
60,000-69,999	107	6,803,974	3	187,873	156,003	2.3	467,945	6.9	0	0	3	191,616	191,616	703,485	198,153	\$1.57
70,000-79,999	70	5,241,970	5	412,579	283,079	5.4	427,979	8.2	1	76,575	2	152,913	229,488	532,433	72,849	\$1.60
80,000-89,999	64	5,407,989	0	0	326,107	6.0	488,923	9.0	0	0	0	0	0	0	186,031	\$0.00
90,000-99,999	65	6,165,970	6	589,614	287,202	4.7	463,013	7.5	0	0	2	190,289	190,289	574,439	32,345	\$0.00
100,000-249,999	514	79,061,187	16	2,911,536	4,529,138	5.7	8,751,074	11.1	0	0	5	835,548	835,548	3,037,379	2,656,553	\$1.51
250,000-499,999	245	87,685,771	10	2,881,189	2,978,206	3.4	5,063,606	5.8	0	0	2	569,124	569,124	1,507,356	852,597	\$1.65
500,000 and greater	125	100,935,775	10	9,720,818	1,581,472	1.6	3,542,911	3.5	0	0	2	1,379,548	1,379,548	5,283,199	1,486,413	\$1.54
INLAND EMPIRE WEST	3,392	344,434,424	71	17,466,876	11,550,293	3.4	21,804,276	6.3	3	108,620	56	4,402,347	4,510,967	14,625,973	6,309,940	\$1.54
INLAND EMPIRE CORE	6,115	635,540,956	130	29,190,802	22,224,404	3.5	42,753,887	6.7	6	170,921	72	5,888,618	6,059,539	21,271,656	10,907,419	\$1.50

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

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

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