

**OVERVIEW.** The Inland Empire industrial market continued charging forward in Q4 despite the challenges associated with the pandemic. The region is a major hub for e-commerce retailers, 3PL operators and almost everything associated with the logistics sector. In many ways the IE has been the beneficiary of the change in how consumers acquire products during the crisis. Online retailing is booming and institutional investors and developers continue to lead the way with massive acquisitions of both finished projects and land for ground-up development of state-of-the-art distribution facilities. All major indicators were in the green in Q4. Gross and net absorption were both up, vacancy fell sharply and average asking lease rates rose to a new high-water mark.

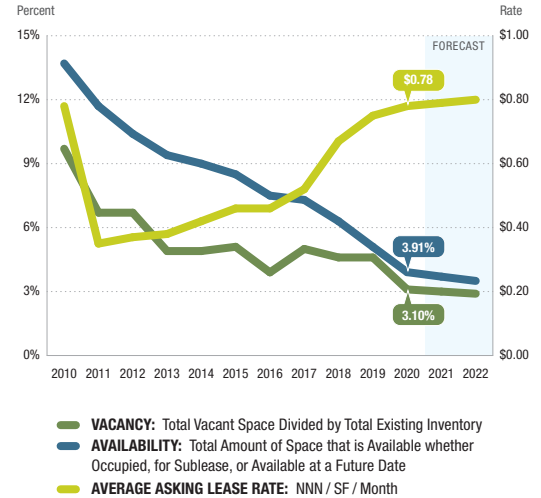
**VACANCY & AVAILABILITY.** Despite record amounts of new speculative development and a steady stream of new deliveries, the vacancy rate for the IE fell sharply in Q4 from 3.86% to 3.10%, which makes clear the nearly insatiable appetite the logistics and e-commerce sectors have for quality space. Ontario, the city with the largest inventory in the IE West (111 MSF), recorded another significant decline in vacancy during the period, falling 143 basis points to a scant 2.09%. In the IE East, Corona / Norco, with a base of 32.7 MSF, saw an even bigger drop in vacant space, falling from 4.71% to 2.54% in just three months.

**LEASE RATES & SALES PRICES.** The average asking lease rate in Q4 is up 2 cents to \$0.78. However, many new projects, which command the highest rates, are marketed without an asking rate. If they were, the average rate would be higher, as first-generation space has more clear height and the latest in fire suppression technology that allow for more efficient use of space. Average rates jumped by 5 cents in the IE East area in Q4, a reflection of the high volume of space leased in recently completed projects. The spread between asking rates in IE West vs IE East rose to 9 cents in Q4, mainly due to higher rates for smaller spaces in the IE West. The highest average rate, \$1.14, was quoted for spaces under 25,000 square feet in IE West versus just \$0.84 for that size range in the IE East submarket.

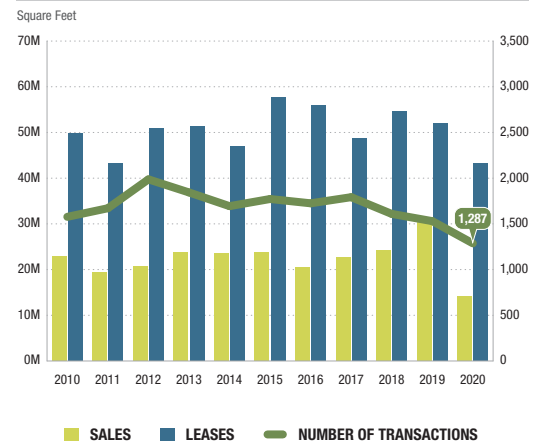
**TRANSACTION ACTIVITY.** Lease and sale transaction activity remained at a high level in Q4. Just over 14.1 MSF of space was transacted during the period. Of that total, 3.7 MSF was sold via 95 sales and 237 leases were inked for another 10.4 MSF. Those totals are down slightly compared with the previous quarter, but on par on a year-over-year basis. In the past three years, quarterly sale and lease activity has ranged from 11.1 million to nearly 26 MSF, making it one of the most active markets in the nation due to its status as the major distribution hub in the western US.

**ABSORPTION.** The IE East region was again well ahead in terms of positive net absorption compared with the IE West. The net gain in occupied space in the IE East was nearly 4.5 MSF, compared to just 551,000 square feet in the West. This is largely due to a higher concentration of new deliveries in that area, which is also a less expensive alternative than new product in the IE West region. Rialto and Moreno Valley were the biggest contributors, each adding

### VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



### Market Statistics

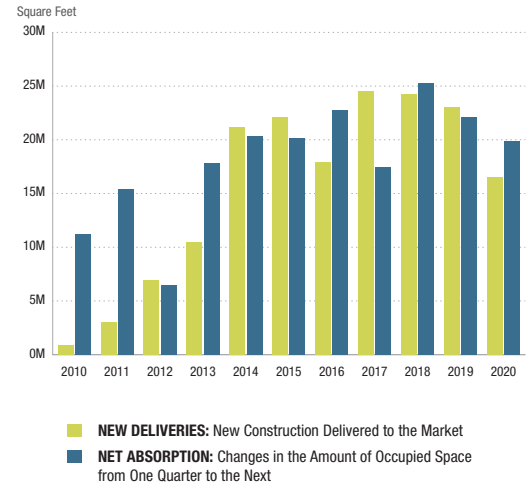
	Change Over Last Quarter	4Q 2020	3Q 2020	4Q 2019	% Change Over Last Year
Total Vacancy Rate	▼ DOWN	3.10%	3.86%	4.60%	(32.58%)
Availability Rate	▼ DOWN	3.91%	4.82%	5.30%	(26.15%)
Average Asking Lease Rate	▲ UP	\$0.78	\$0.75	\$0.75	4.00%
Sale & Lease Transactions	▼ DOWN	14,183,291	16,391,239	19,477,604	(27.18%)
Gross Absorption	▲ UP	13,300,748	9,549,283	9,190,207	44.73%
Net Absorption	▲ POSITIVE	5,014,739	2,639,540	4,949,393	N/A

more than 1.2 MSF to the total of occupied space in the final quarter. For the year, IE East was the biggest contributor to region-wide net absorption. Of the 19.8 million-square-foot net gain in the IE's occupied space, more than 17 MSF of that total was recorded in IE East.

**CONSTRUCTION.** The Inland Empire is the only major market in Southern California with significant construction activity. Orange, Los Angeles and San Diego Counties are now infill markets with few opportunities for ground-up development. The IE currently has more than 21 MSF of industrial space in the construction queue, the vast majority of which is state-of-the-art distribution space designed to meet the needs of the logistics sector. That is more than 20 times the amount of space under construction in Orange County. No wonder many Orange County companies in need of quality space have expanded their search parameters to include the Inland Empire. Another 60 MSF is in the planning stages, 88% of which is slated for buildings greater than 500,000 square feet in the IE East.

**EMPLOYMENT.** The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 7.9% in November 2020, down from a revised 8.7% in October 2020, and above the year-ago estimate of 3.7%. This compares with an unadjusted unemployment rate of 7.9% for California and 6.4% for the nation during the same period. Construction (up 1,900), manufacturing (up 800), and leisure and hospitality (up 100) all recorded month-over job gains and leading all industry sectors in month-over-month job gains was trade, transportation, and utilities (up 15,600).

## NEW DELIVERIES & NET ABSORPTION



## Forecast

With the wind at its back due to the prolific rise in demand for distribution facilities, the Inland Empire looks to continue its winning ways in 2021. The pandemic has the biggest players doubling down and taking even more space as they expand their business operations to meet consumer demand. The online retail phenomenon has been around for years, but the pandemic forced even the most reluctant consumers into the online shopping world. The inevitability of that was clear, but the pandemic accelerated the timeline and online consumer sales have skyrocketed. That trend will only become more dominant going forward and big distribution hubs like the Inland Empire will be the beneficiaries.

One possible hindrance to future commercial real estate expansion here is the prospect of higher taxes under the new administration in Washington DC. Our new president campaigned on a platform to raise taxes on personal and corporate income, taxing capital gains as ordinary income, eliminating 1031 exchanges, doing away with the step-up rule and lowering the threshold for estate taxes. Any one or combination of these possible changes could have a severe negative impact on owners and occupants of industrial real estate.

## Significant Transactions

### Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
13472 Marlay Ave.	Fontana	406,800	\$61,650,000	Eaton Vance Investment Managers	TechData Corporation
1601-1603 E. Steel Rd. – 2 Buildings	Colton	330,634	\$46,000,500	Brookfield Properties	Aquatic Adventures LLC
601 Rockefeller Ave.	Ontario	252,800	\$65,266,582	Truist	DPI Specialty Foods
7630-7580 Cherry Ave. – 2 Buildings	Fontana	203,451	\$34,275,000	Dermody Properties, Inc.	Safavieh, Inc.
736 W. Inland Center Dr.	San Bernardino	190,704	\$25,375,000	Innovative Industrial Properties, Inc.	Shiv Shakti Industries Inc.

### Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
5170 Archibald Ave.	Ontario	1,000,930	Dec-20	Restoration Hardware	Ivanhoe Cambridge, Inc.
11640 Harrell St.	Jurupa Valley	886,055	Nov-2020	Custom Goods, LLC	Nuveen Real Estate
1950 Palmetto Ave. – Sublease	Redlands	809,338	Dec-2020	Geodis Logistics	Prologis
2221 E. Remington Ave.	Ontario	700,280	Oct-2020	US eLogistics Services	Ivanhoe Cambridge, Inc.
3155 Universe Dr.	Mira Loma	606,925	Oct-2020	Act Fulfillment	Comref So Cal Industrial Sub A





## No Stopping the Inland Empire

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No one could have predicted this. At the beginning of the year, if someone told you that the economy would start the year at an all-time high, experience a once-in-a-century pandemic and end the year with the stock market back at all-time highs — you probably would not have believed it. But that is exactly what happened. Of course, it's all very clear now as hindsight is twenty-twenty (2020).

The pandemic accelerated many trends, one of which is the wider adoption of E-commerce. E-commerce had a strong Q3, with a 57% year-over-year increase in US online sales, and the sector now accounts for 19.3% of all retail sales (up from 15.5% in 2019). It is estimated that the pandemic accelerated this growth anywhere from four to six years. This trend should continue into the foreseeable future with no signs of slowing down.

Many of the lease transactions that occurred during the latter part of 2020 were deals that included some sort of E-commerce component, such as Amazon, Go Plus, JD.com and NewEgg, as well as logistics providers such as UPS & XPO Logistics.

Another trend we continue to see is a migration of users coming into the Inland Empire from neighboring Los Angeles and Orange Counties. Users are able to find higher quality facilities at relative bargains when compared with those areas. I am actively involved in two such owner-user sales where this is precisely the case. Both users are owners of older, antiquated facilities who are exchanging into brand-new buildings, currently under construction in the Inland Empire.

I do believe this trend will persist as availabilities continue to decline and it becomes increasingly difficult to find Class A product. The Inland Empire is one of the few locations where developers can find land to build the facilities that today's users are demanding.

How will this all end? No one really knows for sure. For the moment, though, there are few signs of weakness in the industrial real estate market and we are about to see wide-scale distribution of multiple coronavirus vaccines. It certainly feels like there is plenty of demand from both tenants and owner/users, which suggests we will see another banner year in 2021

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a triple-net basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.

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### Product Type

#### MFG./DIST.

Manufacturing / Distribution / Warehouse facilities with up to 29.9% office space.

### Submarkets

#### WEST

Chino / Chino Hills, Fontana, Mira Loma / Eastvale / Jurupa Valley, Montclair, Ontario, Rancho Cucamonga, Upland

#### EAST

Banning, Beaumont, Bloomington, Corona / Norco, Colton / Grand Terrace, Moreno Valley, Perris, Redlands / Loma Linda, Rialto, Riverside, San Bernardino / Highland

#### HIGH DESERT

Adelanto, Apple Valley, Barstow, Hesperia, Victorville

#### TEMECULA VALLEY

Hemet, Lake Elsinore, Menifee, Murrieta, San Jacinto, Temecula, Wildomar