

OVERVIEW. The Inland Empire is white hot and shows no sign of slowing down in the near future. Total inventory rose to 616.5 MSF after Q4 new deliveries, further solidifying the region's status as one of the nation's largest distribution hubs. The e-commerce boom rages on, but that is only part of the story. The entire industrial sector seems to be in growth mode with an insatiable appetite for quality first- and second-generation space. The pandemic actually gave the region a boost, as consumers were forced into adopting the online sales platform. In Q4, construction activity rose and the list of planned projects lengthened, especially in the IE East. Vacancy fell to a record low, despite the strong quarter for new deliveries. Space in all size ranges, whether for lease or sale, remained in short supply.

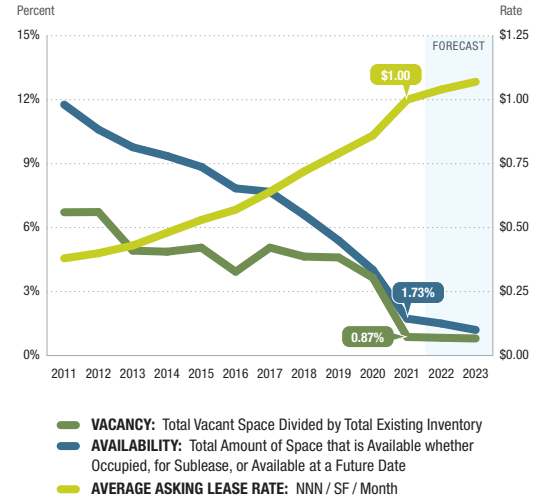
VACANCY & AVAILABILITY. The vacancy rate in the Inland Empire fell another 15 basis points to 0.87% in Q4, the third straight quarter under 1%. Year over year, vacancy has fallen by more than 76% despite a flood of new deliveries throughout the region. However, the IE-West submarket, with a current inventory of over 333 MSF, experienced a slight increase in vacancy to 1.08% in Q4, mainly due to the timing of new deliveries. The IE-East submarket fell 45 basis points to just 0.62%. The vacancy rate by size range tells another story. The rate is 0% for spaces greater than 250,000 SF in the IE East, while vacancy for buildings from 100,000 to 250,000 SF in the same area is 2.44%, still low, but reflective of the insatiable demand from the largest logistics users.

LEASE RATES. The increase in the average asking lease rate for the Inland Empire in Q4 was astonishing. It climbed \$0.11 to \$1.00 PSF in just three months. For the year, the rate rose by almost 29% fueled by relentless demand, especially for highly efficient, first-generation space. It is important to note that actual rates can be much higher because a substantial portion of the available inventory is being offered for lease without an asking rate. Those buildings tend to be of higher quality and lease at premium rates. It is now common to hear about leases being signed at initial lease rates of \$1.30 or more on a NNN basis. IE West rates tend to run higher, but IE East is seeing significant increases.

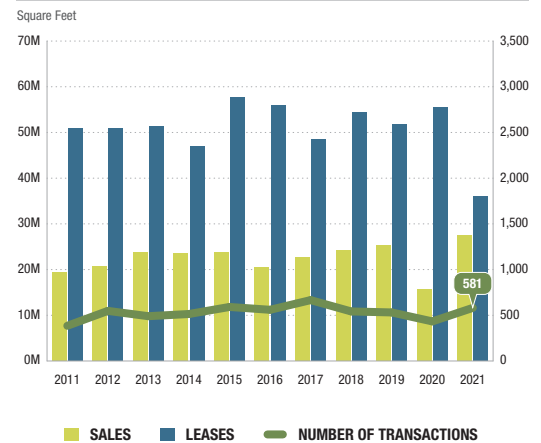
TRANSACTION ACTIVITY. Overall lease and sale transaction activity for Q4 was little changed from Q3 at 17.6 MSF. 142 lease transactions accounted for 11 MSF of that total, with 6.6 MSF sold in 96 separate transactions. In the past year, 70.8 MSF of space has either been leased or sold in the Inland Empire and the region carries tremendous momentum into the new year. The IE East saw the biggest lease of the quarter, a 1,203,000 SF lease from Duke Realty to Loctek, Inc. in Perris. The City of Victorville logged the biggest sale of Q4, a \$270 million sale of a 3.3 MSF project of 7 buildings from Prologis to Covington Group, Inc.

ABSORPTION. Inland Empire net absorption (the net difference in occupied space from one period to another) declined slightly in Q4 to just under 5.6 MSF. However, gross absorption, which measures total move-ins, more than doubled in the same period to 12.2 MSF. The

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



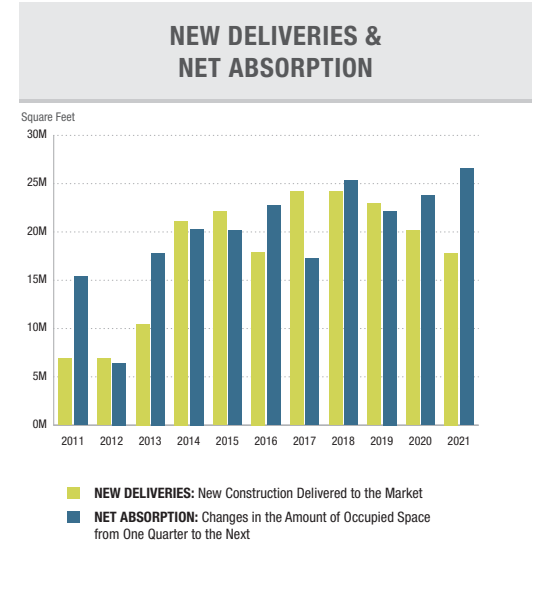
Market Statistics

	Change Over Last Quarter	4Q 2021	3Q 2021	4Q 2020	% Change Over Last Year
Total Vacancy Rate	▼ DOWN	0.87%	1.02%	3.65%	(76.15%)
Availability Rate	▼ DOWN	1.73%	2.08%	4.02%	(56.88%)
Average Asking Lease Rate	▲ UP	\$1.00	\$0.89	\$0.78	28.21%
Sale & Lease Transactions	▼ DOWN	17,613,269	18,179,414	20,396,197	(13.64%)
Gross Absorption	▲ UP	12,270,421	6,565,923	7,851,775	56.28%
Net Absorption	▲ POSITIVE	5,582,188	6,889,612	4,955,451	N/A

increase reflects the delivery of new inventory that is immediately occupied upon completion by users moving out of existing facilities. Over 56% of the absorption for the entire region was in spaces larger than 500,000 SF. For the full year, the IE recorded a 26.5 MSF gain in occupied space.

CONSTRUCTION. A steady flow of new projects has been underway in both major submarkets for many years. That trend accelerated in Q4. Over 22.7 MSF of space is in the construction queue throughout the region, almost evenly distributed between the East and West submarkets. That is up from 18.6 MSF in the previous quarter. The IE is still the only major market in Southern California with significant construction activity. Another 72.4 MSF is in the planning stages with almost 88% of that total attributed to the IE East submarket where large land sites are still available. Of significant note is the fact that almost 85% of the space to be built will be in buildings over 500,000 SF, predominantly in the IE East.

EMPLOYMENT. The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 5.4% in November 2021, down from a revised 6.3% in October 2021, and below the year-ago estimate of 7.8%. Trade, transportation, and utilities (up 12,600) recorded the largest payroll increase over the month, with transportation and warehousing (up 6,400) recording the bulk of the gains.



Forecast

The Inland Empire industrial market looks to stay on its current trajectory in 2022. Developers can't deliver new projects fast enough to meet what seems to be an insatiable appetite for space from the logistics sector. Vacancy fell under 1% in 2021 and will stay there for the foreseeable future. Companies are not just moving — they are expanding in a big way. That will keep net absorption firmly in positive territory and encourage developers to aggressively pursue new projects. Lease and sale activity will rise as long as construction of state-of-the-art distribution facilities continues at the current pace. Institutional buyers will continue their acquisition binge, attracted by the large deal size, strong rent growth and product type that meets the needs of the growing e-commerce and logistics sectors. Land and building costs will continue to rise, but developers will count on continued rent growth to cover those costs.

With the threat of tax hikes associated with the Build Back Better Act on shaky ground, inflation will be the major threat in 2022. The Fed has made clear it no longer sees the recent spike in inflation as transitory and is responding by ending its bond-buying program and considering several Fed Funds rate hikes during the year. That could slow down business growth, but demand for space is so far out in front of supply that the IE should fare well even if inflation persists.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
So. California Logistics Center – 7 Properties	Victorville	3,385,703	\$270,000,000	Covington Group, Inc.	Prologis, Inc.
22320-22340 Van Buren Blvd. – 2 Properties	Riverside	210,658	\$30,988,250	MDH Partners, LLC	MS Van Buren I LLC
1 Fleetwood Way	Corona	207,419	\$65,500,000	Cabot Properties, Inc.	Fleetwood Windows & Doors
19972 Patterson Ave.	Perris	199,932	\$38,800,000	The Blackstone Group Inc.	Mahesh Wadher
10808 6th St.	Rancho Cucamonga	175,291	\$48,811,000	Bridge Investment Group	Central National Investment

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
728 W. Rider St.	Perris	1,203,449	Oct-2021	Loctek, Inc.	Duke Realty
6120 Clinker Dr.	Jurupa Valley	1,025,132	Nov-2021	Bed, Bath, & Beyond	PGIM Real Estate
22305 Old Oleander Ave.	Perris	692,645	Dec-2021	Syncreon Technology USA LLC	Clarion Partners
2265 Cactus Ave.	Moreno Valley	685,000	Nov-2021	Weber Distribution LLC	Meridian Park LLC
16081 Fern Ave.	Chino	409,588	Oct-2021	Kehe Distributors	Watson Land Company

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2021	Square Feet Available	Availability Rate 4Q2021	Average Asking Lease Rate	Net Absorption 4Q2021	Net Absorption 2021	Gross Absorption 4Q2021	Gross Absorption 2021
West													
Chino / Chino Hills	907	54,218,169	1,624,350	35,339	240,224	0.44%	530,469	0.98%	\$1.04	196,669	1,964,148	1,410,021	3,372,738
Fontana	748	67,828,411	2,413,135	4,495,053	890,334	1.31%	1,648,810	2.43%	\$1.04	(57,174)	2,112,134	887,154	4,204,295
Mira Loma / Eastvale / Jurupa Valley	389	45,280,648	5,568,597	585,788	200,604	0.44%	365,341	0.81%	\$1.09	741,904	2,980,548	908,904	3,922,585
Montclair	202	3,962,704	84,384	0	12,462	0.31%	37,303	0.94%	\$0.69	(3,264)	154,228	58,177	406,819
Ontario	1,503	116,014,154	703,924	2,900,169	440,654	0.38%	1,446,820	1.25%	\$1.15	1,346,053	3,380,714	2,302,292	11,876,064
Rancho Cucamonga	747	41,816,796	258,707	852,599	1,760,714	4.21%	2,008,065	4.80%	\$0.99	430,038	1,184,660	636,901	3,429,013
Upland	254	3,889,454	72,205	176,950	60,952	1.57%	169,925	4.37%	\$0.00	(9,461)	(61,393)	60,104	169,008
5,000-24,999	2,745	33,118,237	339,932	358,207	339,918	1.03%	400,361	1.21%	\$1.17	58,494	164,578	520,033	1,880,843
25,000-49,999	731	25,591,197	616,208	355,216	249,781	0.98%	574,864	2.25%	\$1.00	192,630	565,714	302,898	1,856,261
50,000-99,999	464	32,318,258	1,033,063	759,282	299,740	0.93%	770,980	2.39%	\$1.03	117,989	1,207,919	455,552	3,042,889
100,000-249,999	465	71,082,329	2,860,560	2,036,692	967,661	1.36%	1,257,445	1.77%	\$0.00	445,411	2,987,299	2,126,985	8,681,622
250,000-499,999	228	80,892,595	2,161,631	1,649,317	317,844	0.39%	1,279,803	1.58%	\$0.00	566,412	2,762,296	1,503,656	5,543,106
500,000 plus	117	90,007,720	3,713,908	3,887,184	1,431,000	1.59%	1,923,280	2.14%	\$0.00	1,263,829	4,027,233	1,354,429	6,375,801
West Total	4,750	333,010,336	10,725,302	9,045,898	3,605,944	1.08%	6,206,733	1.86%	\$1.08	2,644,765	11,715,039	6,263,553	27,380,522
East													
Banning	47	940,537	1,000,000	96,000	6,500	0.69%	24,000	2.55%	\$1.95	11,000	(32,645)	63,600	100,953
Beaumont	45	5,617,079	0	5,292,028	7,398	0.13%	0	0.00%	\$0.90	(2,233)	(2,498)	2,233	7,133
Bloomington	113	9,864,376	0	47,809	15,634	0.16%	0	0.00%	\$0.00	174,780	1,410,518	516,015	1,539,475
Corona / Norco	987	33,170,154	820,454	201,521	155,193	0.47%	713,494	2.15%	\$0.97	39,738	1,042,565	396,495	2,110,024
Colton / Grand Terrace	185	11,196,797	0	456,445	184,560	1.65%	216,791	1.94%	\$0.98	143,520	661,171	681,626	968,676
Moreno Valley	100	31,523,450	1,044,602	41,659,880	0	0.00%	480,142	1.52%	\$0.82	685,000	1,373,511	0	1,458,630
Perris	224	33,446,920	4,918,773	9,653,125	374,913	1.12%	455,440	1.36%	\$0.00	1,658,654	2,758,176	1,826,428	3,052,080
Redlands / Loma Linda	236	29,232,717	1,387,552	460,537	374,919	1.28%	542,986	1.86%	\$0.00	(163,516)	746,429	712,472	3,809,666
Rialto	200	31,122,488	503,363	828,998	17,766	0.06%	80,867	0.26%	\$0.55	(9,466)	2,212,942	5,021	2,526,180
Riverside	1,108	54,457,751	695,848	4,311,461	433,079	0.80%	1,520,881	2.79%	\$0.80	366,161	2,540,906	618,572	4,292,504
San Bernardino / Highland	590	42,997,572	1,614,148	392,340	185,018	0.43%	440,638	1.02%	\$0.72	33,785	2,129,773	1,184,406	3,502,927
5,000-24,999	2,390	28,288,139	283,812	109,561	376,653	1.33%	544,636	1.93%	\$1.10	(30,455)	461,946	258,268	1,752,325
25,000-49,999	562	19,627,306	313,903	668,729	252,308	1.29%	448,833	2.29%	\$0.83	26,715	273,218	254,599	1,139,817
50,000-99,999	340	23,535,480	636,188	586,504	118,420	0.50%	570,979	2.43%	\$1.01	314,577	1,405,238	476,703	2,127,886
100,000-249,999	269	41,267,461	1,853,522	1,154,444	1,007,599	2.44%	1,244,827	3.02%	\$0.00	115,158	4,234,665	788,574	4,623,656
250,000-499,999	129	46,841,175	2,320,625	3,651,777	0	0.00%	1,664,718	3.55%	\$0.00	622,979	4,818,945	1,148,106	6,789,981
500,000 plus	145	124,010,280	6,576,690	57,229,129	0	0.00%	1,246	0.00%	\$0.00	1,888,449	3,646,836	3,080,618	6,934,583
East Total	3,835	283,569,841	11,984,740	63,400,144	1,754,980	0.62%	4,475,239	1.58%	\$0.89	2,937,423	14,840,848	6,006,868	23,368,248
Inland Empire Total	8,585	616,580,177	22,710,042	72,446,042	5,360,924	0.87%	10,681,972	1.73%	\$1.00	5,582,188	26,555,887	12,270,421	50,748,770
5,000-24,999	5,135	61,406,376	623,744	467,768	716,571	1.17%	944,997	1.54%	\$1.01	28,039	626,524	778,301	3,633,168
25,000-49,999	1,293	45,218,503	930,111	1,023,945	502,089	1.11%	1,023,697	2.26%	\$0.96	219,345	838,932	557,497	2,996,078
50,000-99,999	804	55,853,738	1,669,251	1,345,786	418,160	0.75%	1,341,959	2.40%	\$1.03	432,566	2,613,157	932,255	5,170,775
100,000-249,999	734	112,349,790	4,714,082	3,191,136	1,975,260	1.76%	2,502,272	2.23%	\$0.00	560,569	7,221,964	2,915,559	13,305,278
250,000-499,999	357	127,733,770	4,482,256	5,301,094	317,844	0.25%	2,944,521	2.31%	\$0.00	1,189,391	7,581,241	2,651,762	12,333,087
500,000 plus	262	214,018,000	10,290,598	61,116,313	1,431,000	0.67%	1,924,526	0.90%	\$0.00	3,152,278	7,674,069	4,435,047	13,310,384
Inland Empire Total	8,585	616,580,177	22,710,042	72,446,042	5,360,924	0.87%	10,681,972	1.73%	\$1.00	5,582,188	26,555,887	12,270,421	50,748,770
High Desert													
Adelanto	148	4,307,662	106,580	1,640,000	311,833	7.24%	395,079	9.17%	\$0.64	(54,750)	41,700	9,720	173,855
Apple Valley	75	3,865,612	0	0	7,218	0.19%	2,218	0.06%	\$0.00	8,459	24,440	20,279	59,919
Barstow	53	1,059,276	0	0	0	0.00%	4,000	0.38%	\$0.00	102,700	9,600	102,700	158,300
Hesperia	187	3,258,875	0	3,350,470	31,270	0.96%	28,230	0.87%	\$0.87	29,066	49,079	43,636	116,765
Victorville	131	9,304,739	0	9,859,700	403,225	4.33%	390,641	4.20%	\$0.42	11,110	29,790	29,020	88,044
High Desert Total	594	21,796,164	106,580	14,850,170	753,546	3.46%	820,168	3.76%	\$0.49	96,585	154,609	205,355	596,883
Temecula Valley													
Hemet	86	1,595,574	0	0	32,200	2.02%	60,400	3.79%	\$2.00	44,714	192,792	66,640	217,326
Lake Elsinore	178	2,595,390	91,242	20,000	2,945	0.11%	9,601	0.37%	\$0.96	2,246	(11,890)	4,996	165,401
Menifee	24	473,036	0	0	0	0.00%	68,417	14.46%	\$1.15	0	(715,000)	0	0
Murrieta	256	4,266,002	0	99,562	137,862	3.23%	151,880	3.56%	\$0.86	4,467	350,391	61,187	657,226
San Jacinto	65	1,070,701	0	0	37,971	3.55%	46,960	4.39%	\$0.00	0	2,229	0	10,500
Temecula	331	10,387,847	0	241,110	251,181	2.42%	1,193,903	11.49%	\$0.70	(16,587)	(13,468)	85,672	649,021
Wildomar	12	324,860	0	0	0	0.00%	6,770	2.08%	\$1.21	0	6,499	0	6,499
Temecula Valley Total	952	20,713,410	91,242	360,672	462,159	2.23%	1,537,931	7.42%	\$0.87	34,840	(188,447)	218,495	1,705,973

This survey consists of industrial buildings greater than 5,000 square feet. Lease rates are on a triple-net basis. Some buildings do not quote asking rental rates and therefore are reflected as \$0.00.



Depleted Inventories

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The Inland Empire industrial market has continued to benefit from the disruptions brought on by the pandemic. There is little to no inventory anywhere in Southern California and this is leading to significant rental increases across the entire market. Tenant demand, particularly from e-commerce and logistics users, is outpacing supply and has created an environment where tenants are getting into a competitive bidding war for the few buildings that are available.

This has led to a spike in lease rates and sale prices. The official numbers show an increase in the average asking lease rate of 28% (from Q4 2020 to Q4 2021), however, in many instances we have seen actual lease rates jump nearly 50% year over year. Landlords are often waiting until buildings are complete before engaging with tenants/buyers as they expect that lease rates and sale prices will continue to escalate. We are also seeing fewer landlord concessions (little to no free rent) as well as an increase in the annual rate escalations... the days of 3% annual escalations are now gone.

Interest from developers continues to be strong but many are having trouble finding sites due to lack of available land in all submarkets of the Inland Empire. Many are having to get creative in assembling land parcels to accommodate larger sites, or they are forced to head to cities further east to find suitable opportunities. Land pricing is at all-time highs, with land values in the West IE exceeding \$100 PSF and in the East IE pricing has now pushed past \$40 PSF. Developers are also running into construction delays, particularly due to delays in buildings materials (especially roof trusses) which has led to a further tightening of inventory.

We continue to see growth from the existing tenant base, new e-commerce requirements and 3PL activity. The Inland Empire also continues to be the beneficiary of expansion from tenants located in Los Angeles and Orange County as both of those markets also have little to no existing inventory. Los Angeles and Orange County generally have older product, so tenants that are looking for Class A buildings are left with the Inland Empire as their only option.

Overall fundamentals remain very strong. There are more tenants than available buildings and with vacancy below 1%, 2022 looks to be another strong year.

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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