

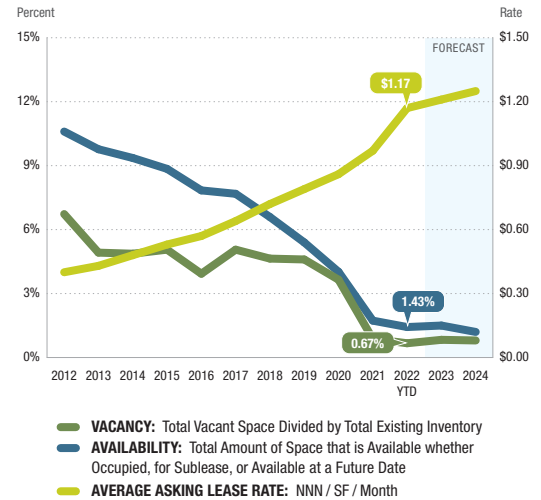
**OVERVIEW.** The Inland Empire industrial market has been booming for years, and Q1's performance clearly indicates explosive growth in the region is ongoing. Total inventory rose to 618.2 MSF after new deliveries, as one of the nation's largest distribution hubs continues to enjoy robust construction activity. The e-commerce sector continued its rapid expansion, moreover, the entire industrial sector stayed in growth mode during the period. The entire region surged during the pandemic, as consumers used primarily online sales for a wide range of goods. In Q1, construction activity moved higher, as did the list of planned projects. Vacancy fell to another record low despite new deliveries. Supply in all size ranges, whether for lease or sale, remained in short supply.

**VACANCY & AVAILABILITY.** The vacancy rate in the Inland Empire fell 20 basis points to 0.67% in Q1, the fourth straight quarter under 1%. Year-over-year, vacancy has fallen by over 75.5% despite a steady stream of new deliveries throughout the region. Notably, the IE-West submarket saw a sharp decline in Q1 to just 0.51% after new deliveries from the previous quarter were absorbed by expanding tenants. The IE-East submarket vacancy rate rose by 21 basis points to 0.85% due to a flurry of fresh deliveries that may be leased, but not yet occupied. The vacancy rate by size range is worth noting. For spaces greater than 250,000 SF in the IE East, vacancy remains at 0.0%, while vacancy for buildings from 100,000 to 250,000 SF in the same area is 1.6%. As we reported last quarter, this reflects the outsized demand from the largest logistics-sector users.

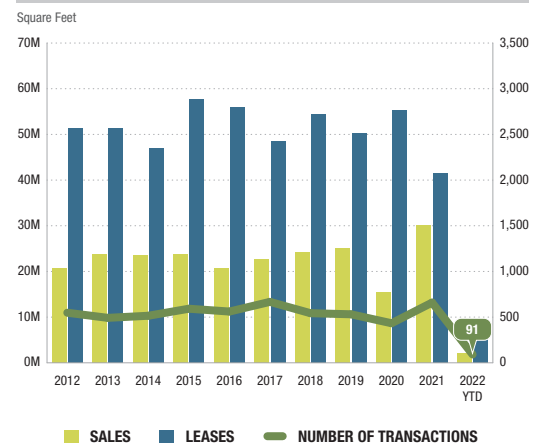
**LEASE RATES.** The increase in the average asking lease rate for the Inland Empire in Q1 rose a whopping 17%, up to \$1.17 from \$1.00 in just three months. Year-over-year, lease rates were up by almost 38% fueled by the insatiable demand for state-of-the-art, first-generation space. As we have been reporting, 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 the highest quality and lease at a premium to published asking rates. It is now common to hear about leases being signed at initial lease rates of \$1.40 or more on a NNN basis. IE West rates tend to run higher, but IE East is seeing significant increases as well.

**TRANSACTION ACTIVITY.** Overall lease and sale transaction activity for Q1 fell sharply to 10.1 MSF from 17.4 MSF. The decline has everything to do with short supply, as demand is still running hot. 151 lease transactions accounted for 8.1 MSF of that total, while sales fell to 2 MSF from 9.1 MSF in Q4 of 2021 in 82 separate transactions. In the past year, over 62 MSF of space has either been leased or sold in the Inland Empire and demand for both sale and lease space is still growing. The IE West saw the biggest lease of the quarter, a 4,055,000 SF lease from Prologis LP to Amazon in Ontario. The City of Riverside logged the biggest sale of Q1, a \$225 million sale of a 1,174,000 MSF project to IDS Real Estate Group by Prologis, LP.

### VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



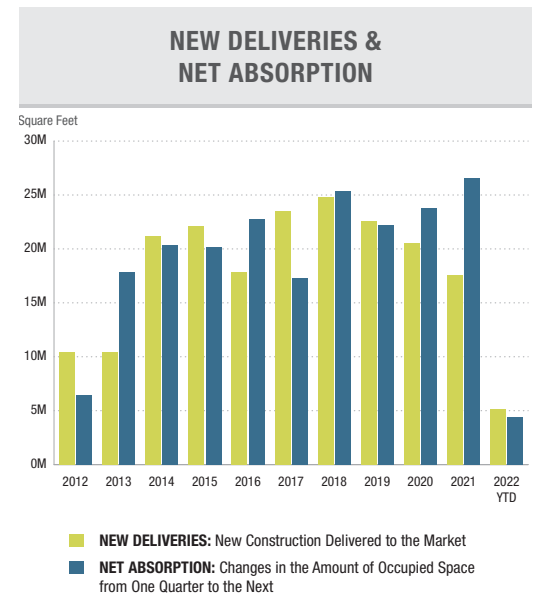
### Market Statistics

	Change Over Last Quarter	1Q 2022	4Q 2021	1Q 2021	% Change Over Last Year
Total Vacancy Rate	▼ DOWN	0.67%	0.87%	2.73%	(75.51%)
Availability Rate	▼ DOWN	1.43%	1.73%	3.41%	(57.98%)
Average Asking Lease Rate	▲ UP	\$1.17	\$1.00	\$0.85	37.65%
Sale & Lease Transactions	▼ DOWN	10,118,805	17,467,402	19,428,025	(47.92%)
Gross Absorption	▲ UP	8,503,209	6,006,868	11,834,455	(28.15%)
Net Absorption	▲ POSITIVE	4,439,510	5,582,188	5,050,829	N/A

**ABSORPTION.** Inland Empire net absorption (the net difference in occupied space from one period to another) fell for the second consecutive period, falling to 4,439,000 SF from 5,582,000 in the final quarter of 2021. Gross absorption moved up 8.5 MSF from 6 MSF. Currently, both gross and net absorption and are being hampered by the lack of available space. Thus, it would be even higher if construction activity, already at an all-time high, increased further.

**CONSTRUCTION.** The IE is the only Southern California market with significant construction activity, and the steady flow of new projects in both major submarkets continued in Q1. Projects under construction rose to an all-time high of 27,879,023 SF in Q1, up from 22,700,000 SF at the end of 2021. The IE East is dominating in terms of new projects. The region has over 18,579,251 SF underway, double that of the IE West region, mainly due to the greater availability of large land sites suitable for the construction of major distribution product that is in such high demand. Another 66 MSF is in the planning stages with just over 12% of that total attributed to the IE West, and almost 88% of the planned space in the IE East will be in buildings larger than 500,000 SF.

**EMPLOYMENT.** The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 5.0% in February 2022, down from a revised 5.7% in January 2022, and below the year-ago estimate of 8.7%. The unemployment rate was 4.9% in Riverside County, and 5.0% in San Bernardino County.



## Forecast

The expansion of the Inland Empire industrial market carried its momentum into the new year. Developers are moving as fast as they can, but still can't keep pace with demand. Sub-1% vacancy appears to be here to stay and that is hampering expansion plans across the spectrum of industrial users. That will limit net absorption but it should remain firmly in positive territory due to a steady stream of new deliveries. High demand will keep developers in hot competition for land, which will cause a further increase in land prices. 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. Expect rents to keep moving up in significant increments.

The wild card in 2022 is inflation, which is running at its highest level in 40 years. The Consumer Price Index (CPI) rose by 7.9% on a year-over-year basis in February of 2022. But rents and fuel prices, two key expense components for the logistics sector, are both running well above the overall CPI. In its effort to tame inflation, the Fed ended its bond buying binge in March and began a series of hikes to its benchmark Fed Funds rate, but most economists agree that inflation is here to stay in the short run.

## Significant Transactions

### Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
14800 Meridian	Riverside	1,174,800	\$225,000,000	IDS Real Estate Group	Prologis, Inc.
21362 Harvill Ave.	Perris	197,865	\$41,354,000	Black Creek Group	Core5 Industrial Partners
5401 E. Jurupa St.	Ontario	142,404	\$43,000,000	TA Realty	Bayside Properties
1020-1040 Iowa Ave.	Riverside	132,556	\$16,750,000	Ots Iowa, LLC	TDA Investment Group
100 E. Main St.	Ontario	105,455	\$11,750,000	APS Auto Parts Specialist, Inc.	Madison Partners

### Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
8900 Merrill Ave	Ontario	4,055,890	Mar-2022	Amazon	Prologis, LP
20201 Caroline Way	Riverside	782,209	Mar-2022	Youngs Market	Meridian Park, LLC
12215 Holly St.	Riverside	750,579	Jan-2022	FKA Distributing Company	Alere Property Group
23550 Placentia Ave.	Perris	682,700	Jan-2022	NFI	Black Creek Group
6251 Archibald Ave.	Eastvale	501,649	Feb-2022	Best Buy	Demody Properties, Inc.

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2022	Square Feet Available	Availability Rate 1Q2022	Average Asking Lease Rate	Net Absorption 1Q2022	Net Absorption 2022	Gross Absorption 1Q2022	Gross Absorption 2022
<b>West</b>													
Chino / Chino Hills	917	54,346,656	1,518,823	35,339	200,847	0.37%	517,111	0.95%	\$1.20	106,398	106,398	631,457	631,457
Fontana	751	68,443,349	2,440,696	4,360,938	806,408	1.18%	1,648,752	2.41%	\$1.25	561,510	561,510	944,422	944,422
Mira Loma / Eastvale / Jurupa Valley	391	45,528,653	0	0	12,360	0.03%	233,808	0.51%	\$1.09	247,722	247,722	283,718	283,718
Montclair	201	3,947,567	68,359	0	7,981	0.20%	6,555	0.17%	\$0.69	4,481	4,481	18,443	18,443
Ontario	1,506	116,294,588	5,098,396	2,345,159	363,315	0.31%	2,007,819	1.73%	\$1.13	1,441,680	1,441,680	2,038,155	2,038,155
Rancho Cucamonga	747	40,603,605	173,498	969,853	268,034	0.66%	634,583	1.56%	\$1.11	125,021	125,021	405,486	405,486
Upland	258	3,961,659	0	100,000	51,398	1.30%	200,516	5.06%	\$1.15	26,227	26,227	74,474	74,474
5,000-24,999	2,761	33,370,142	195,030	112,609	338,944	1.02%	468,110	1.40%	\$1.37	(11,123)	(11,123)	321,875	321,875
25,000-49,999	732	25,654,118	378,516	251,534	131,997	0.51%	446,286	1.74%	\$1.40	205,342	205,342	374,006	374,006
50,000-99,999	462	32,195,125	852,194	276,205	221,291	0.69%	712,181	2.21%	\$1.39	420,928	420,928	531,152	531,152
100,000-249,999	470	71,753,200	3,108,942	1,295,421	669,395	0.93%	1,209,946	1.69%	\$1.55	230,695	230,695	1,060,497	1,060,497
250,000-499,999	230	81,576,772	709,200	2,084,617	348,716	0.43%	1,805,926	2.21%	\$1.11	422,148	422,148	863,576	863,576
500,000 plus	116	88,576,720	4,055,890	3,790,903	0	0.00%	606,695	0.68%	\$0.00	1,245,049	1,245,049	1,245,049	1,245,049
<b>West Total</b>	<b>4,771</b>	<b>333,126,077</b>	<b>9,299,772</b>	<b>7,811,289</b>	<b>1,710,343</b>	<b>0.51%</b>	<b>5,249,144</b>	<b>1.58%</b>	<b>\$1.15</b>	<b>2,513,039</b>	<b>2,513,039</b>	<b>4,396,155</b>	<b>4,396,155</b>
<b>East</b>													
Banning	47	940,537	1,000,000	282,690	51,404	5.47%	51,430	5.47%	\$0.90	(3,509)	(3,509)	6,500	6,500
Beaumont	45	5,624,460	2,777,878	2,514,150	0	0.00%	0	0.00%	\$0.00	5,165	5,165	9,365	9,365
Bloomington	118	10,043,529	0	47,809	0	0.00%	38,749	0.39%	\$0.00	17,584	17,584	17,584	17,584
Corona / Norco	985	32,757,439	1,763,124	10,638	126,312	0.39%	615,329	1.88%	\$1.35	280,856	280,856	467,022	467,022
Colton / Grand Terrace	188	11,228,617	0	456,445	71,180	0.63%	104,949	0.93%	\$0.92	122,260	122,260	187,200	187,200
Moreno Valley	102	31,722,130	750,000	41,755,802	3,864	0.01%	316,668	1.00%	\$0.00	(3,864)	(3,864)	1,082,870	1,082,870
Perris	227	34,283,719	5,346,611	10,071,997	426,347	1.24%	177,368	0.52%	\$0.95	1,042,116	1,042,116	882,642	882,642
Redlands / Loma Linda	238	29,408,466	1,659,543	460,537	410,183	1.39%	973,748	3.31%	\$1.10	785,824	785,824	196,358	196,358
Rialto	198	30,979,681	674,828	1,192,094	26,070	0.08%	26,070	0.08%	\$0.00	150,616	150,616	328,758	328,758
Riverside	1,111	54,417,000	3,527,123	1,467,650	1,244,900	2.29%	983,395	1.81%	\$1.00	(550,712)	(550,712)	542,940	542,940
San Bernardino / Highland	592	43,723,327	1,080,144	401,960	63,368	0.14%	332,306	0.76%	\$0.89	80,135	80,135	385,815	385,815
5,000-24,999	2,401	28,427,866	271,502	141,679	318,512	1.12%	622,254	2.19%	\$1.22	81,744	81,744	256,458	256,458
25,000-49,999	562	19,612,560	450,577	611,373	141,532	0.72%	326,322	1.66%	\$1.06	113,009	113,009	166,578	166,578
50,000-99,999	339	23,454,704	908,732	694,176	198,971	0.85%	224,415	0.96%	\$0.93	287,821	287,821	759,572	759,572
100,000-249,999	272	41,638,330	1,774,026	1,256,997	665,901	1.60%	1,030,794	2.48%	\$0.88	748,157	748,157	1,508,194	1,508,194
250,000-499,999	130	47,054,875	2,852,019	4,449,187	612,712	1.30%	1,414,981	3.01%	\$1.09	565,198	565,198	731,252	731,252
500,000 plus	147	124,940,570	12,322,395	51,508,360	486,000	0.39%	1,246	0.00%	\$0.90	130,542	130,542	685,000	685,000
<b>East Total</b>	<b>3,851</b>	<b>285,128,905</b>	<b>18,579,251</b>	<b>58,661,772</b>	<b>2,423,628</b>	<b>0.85%</b>	<b>3,620,012</b>	<b>1.27%</b>	<b>\$1.04</b>	<b>1,926,471</b>	<b>1,926,471</b>	<b>4,107,054</b>	<b>4,107,054</b>
<b>Inland Empire Total</b>	<b>8,622</b>	<b>618,254,982</b>	<b>27,879,023</b>	<b>66,473,061</b>	<b>4,133,971</b>	<b>0.67%</b>	<b>8,869,156</b>	<b>1.43%</b>	<b>\$1.17</b>	<b>4,439,510</b>	<b>4,439,510</b>	<b>8,503,209</b>	<b>8,503,209</b>
5,000-24,999	5,162	61,798,008	466,532	254,288	657,456	1.06%	1,090,364	1.76%	\$1.43	70,621	70,621	578,333	578,333
25,000-49,999	1,294	45,266,678	829,093	862,907	273,529	0.60%	772,608	1.71%	\$1.40	318,351	318,351	540,584	540,584
50,000-99,999	801	55,649,829	1,760,926	970,381	420,262	0.76%	936,596	1.68%	\$1.26	708,749	708,749	1,290,724	1,290,724
100,000-249,999	742	113,391,530	4,882,968	2,552,418	1,335,296	1.18%	2,240,740	1.98%	\$1.07	978,852	978,852	2,568,691	2,568,691
250,000-499,999	360	128,631,647	3,561,219	6,533,804	961,428	0.75%	3,220,907	2.50%	\$1.10	987,346	987,346	1,584,828	1,584,828
500,000 plus	263	213,517,290	16,378,285	55,299,263	486,000	0.23%	607,941	0.28%	\$0.00	1,375,591	1,375,591	1,930,049	1,930,049
<b>Inland Empire Total</b>	<b>8,622</b>	<b>618,254,982</b>	<b>27,879,023</b>	<b>66,473,061</b>	<b>4,133,971</b>	<b>0.67%</b>	<b>8,869,156</b>	<b>1.43%</b>	<b>\$1.17</b>	<b>4,439,510</b>	<b>4,439,510</b>	<b>8,503,209</b>	<b>8,503,209</b>
<b>High Desert</b>													
Adelanto	149	4,360,087	106,580	1,640,000	338,258	7.76%	237,241	5.44%	\$0.64	32,500	32,500	44,500	44,500
Apple Valley	75	3,865,612	0	0	12,168	0.31%	28,020	0.72%	\$0.00	(5,950)	(5,950)	10,000	10,000
Barstow	53	1,059,276	0	0	7,000	0.66%	17,630	1.66%	\$0.90	(7,000)	(7,000)	0	0
Hesperia	188	4,312,838	0	3,405,820	10,426	0.24%	12,876	0.30%	\$0.87	21,804	21,804	30,430	30,430
Victorville	131	9,305,856	950,000	8,909,700	390,837	4.20%	387,437	4.16%	\$0.40	(2,292)	(2,292)	29,904	29,904
<b>High Desert Total</b>	<b>596</b>	<b>22,903,669</b>	<b>1,056,580</b>	<b>13,955,520</b>	<b>758,689</b>	<b>3.31%</b>	<b>683,204</b>	<b>2.98%</b>	<b>\$0.49</b>	<b>39,062</b>	<b>39,062</b>	<b>114,834</b>	<b>114,834</b>
<b>Temecula Valley</b>													
Hemet	87	1,602,979	0	0	39,400	2.46%	52,300	3.26%	\$1.25	(7,200)	(7,200)	15,300	15,300
Lake Elsinore	181	2,701,224	0	0	115,067	4.26%	89,817	3.33%	\$1.00	(20,880)	(20,880)	107,252	107,252
Menifee	24	532,517	0	0	0	0.00%	72,835	13.68%	\$1.15	0	0	16,000	16,000
Murrieta	257	4,387,643	107,824	77,720	137,233	3.13%	265,356	6.05%	\$0.85	108,109	108,109	132,168	132,168
San Jacinto	65	1,070,701	0	0	32,200	3.01%	41,189	3.85%	\$0.00	0	0	0	0
Temecula	332	10,456,839	193,580	47,530	254,543	2.43%	1,155,282	11.05%	\$0.66	(10,581)	(10,581)	76,966	76,966
Wildomar	12	324,860	0	0	17,872	5.50%	55,341	17.04%	\$0.95	(17,872)	(17,872)	2,292	2,292
<b>Temecula Valley Total</b>	<b>958</b>	<b>21,076,763</b>	<b>301,404</b>	<b>125,250</b>	<b>596,315</b>	<b>2.83%</b>	<b>1,732,120</b>	<b>8.22%</b>	<b>\$0.84</b>	<b>51,576</b>	<b>51,576</b>	<b>349,978</b>	<b>349,978</b>

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.



## Status Quo In The Inland Empire

by **Ryan Clayton**

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Entering 2022, the Inland Empire (IE) was sitting at 0.87% vacancy. For a market with approximately 616 MSF, this number is astonishing. However, the first quarter saw the rate drop even further — to 0.67%. With tenant demand through the roof, especially in the logistics and e-commerce sectors, this trend is expected to continue through Q2. Researchers anticipate this vacancy depletion along with rent increases to continue its trajectory throughout the remainder of 2022.

A few factors that are adding fuel to the fire in the market are e-commerce sales growth, adaption of just-in-case inventory models, and revitalized consumer spending. As the pandemic hit, consumers directed their spending from retail stores and travel towards online goods out of concern for safety from the virus. We saw this trend continue into 2021 as infections rose during the latter part of the year with the Omicron variant. Federal and state stimulus added to this increasing trend as well. The just-in-case supply chain model now has warehouses needing more product on hand to hedge against any supply chain disruptions. With this influx of product comes the necessity for more space to store goods. Lastly, the National Retail Federation forecasts online sales will grow in 2022 between 11% and 13% to a range of \$1.17 trillion to \$1.19 trillion. This increase in sales will increase tenants' demand for more space.

As lease rates continue to rise in the IE West and supply throughout the IE remains limited, we are now starting to see the delta between rates in the East and West closing. Once a haven for companies to acquire state-of-the-art product at a discounted rate, the East is now catching up with the West on a SF lease basis. What used to be a \$0.25 PSF gap between the East and West is now approximately \$0.10–\$0.15 PSF. Product development in the East continues to push eastward on interstate 10 and rates are rising as far out as Banning and Beaumont.

The Inland Empire continues to benefit from the expansion of tenants in the Los Angeles and Orange County markets. Both markets are experiencing little to no vacancy with rates now pushing \$2.00 PSF. With older inventory in both markets, tenants will look to obtain Class A product in the Inland Empire at a somewhat discounted rate, compared with the neighboring markets. As tenants continue to flood the Inland Empire from these markets, vacancy throughout the region will continue to decrease. Along with tenant demand from neighboring markets, developers are running into construction delays constricting vacancy even more as product is behind schedule for delivery.

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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