

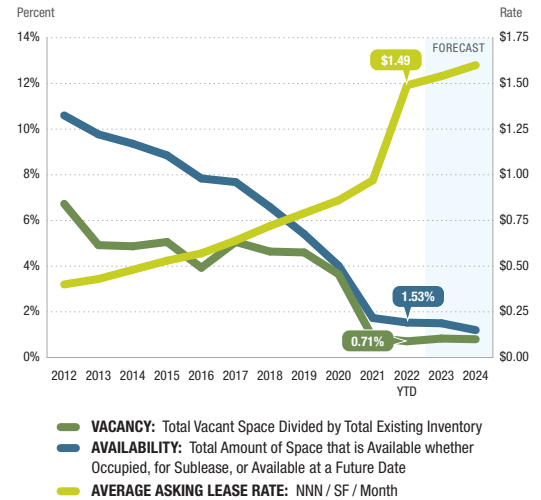
OVERVIEW. By the numbers, the Inland Empire industrial market is still steaming along at full speed. Q2 performance clearly indicates explosive growth in the region is ongoing. Total inventory rose to over 622 MSF after new deliveries, as the construction queue continues to fill. Average asking lease rates skyrocketed in Q2, net absorption stayed firmly in positive territory and move-ins doubled by square footage. Vacancy still hovers at an all-time low. Only transaction activity declined during the period, and while it is too early to tell for sure, we think that may point to a cooling off of market activity going forward. Institutional investor activity, which has been running hot for several years, is also showing signs of cooling off, as sky-high prices are giving pause to even the most aggressive buyers, especially as their cost of capital has increased.

VACANCY & AVAILABILITY. The vacancy rate in the Inland Empire moved up 4 basis points to 0.71% in Q2, the fifth straight quarter under 1%. Year over year, vacancy has fallen despite a steady stream of new deliveries in both major regional submarkets. The vacancy rate by size range is worth noting. For spaces greater than 500,000 SF in the IE East, vacancy remains at 0%, while vacancy for buildings in the same range in the IE-West is just 0.21%. Relief may be coming soon, though, as most of the new space under construction is in buildings in that size range.

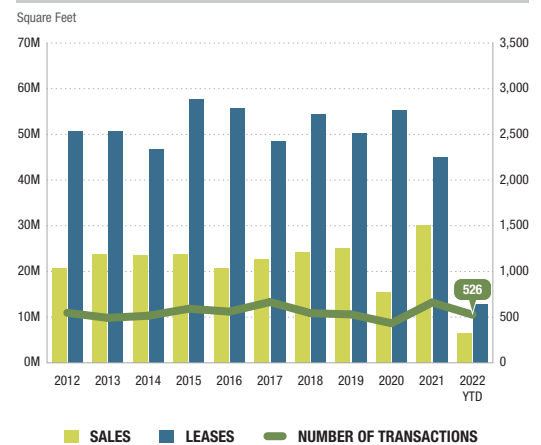
LEASE RATES. The average asking lease rate for the Inland Empire spiked again in Q2, rising another \$0.32 to \$1.49 after a \$0.17 gain in Q1. Year over year, lease rates are up by 75%, fueled by strong demand from logistics companies for state-of-the-art, first-generation space. As we have been reporting, actual rates can be much higher because a substantial portion of the available inventory is offered for lease without an asking price to encourage tenant competition. Those buildings tend to be newer and 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 \$1.80 or more on a NNN basis. IE West rates are still much higher, but IE East rents are moving up fast. In Q2, the average asking rate in the IE-West was \$1.65, up \$0.50 in just three months, while the IE-East average asking rate was \$1.22 in Q2, up \$0.17 in the same time period.

TRANSACTION ACTIVITY. Overall lease and sale transaction activity fell for the second straight period in Q2, ending the quarter at 7.8 MSF, compared to 11.4 MSF in Q1 and 16.2 MSF in Q4 of 2021. The decline is mostly due to short supply, but some requirements have been put on hold due to uncertainty over the direction of the economy. 154 lease transactions accounted for 4.3 MSF of the Q2 total, while 82 sales accounted for the balance. In the past year, 59 MSF of space has either been leased or sold in the Inland Empire. The IE East saw the biggest lease of the quarter, a 1,777,708 SF lease from USAA Real Estate to United Legwear & Apparel in Beaumont. The biggest sale of Q2 was also in Beaumont, a \$131M sale of a 600,000 SF building to Exeter 630 Nicholas LP from Ambest Real Estate LLC.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



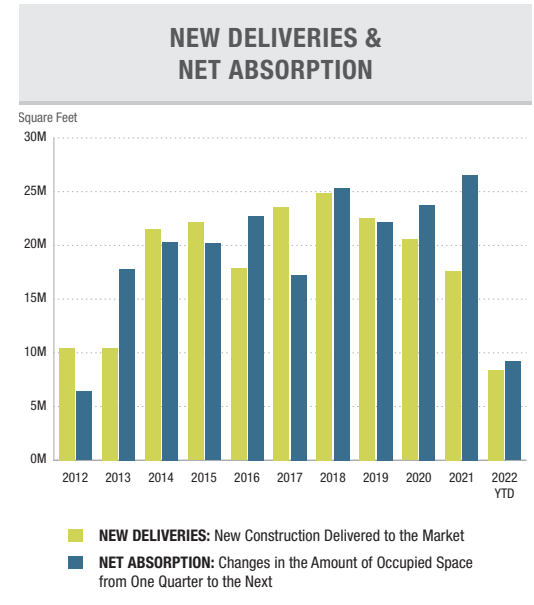
Market Statistics

	Change Over Last Quarter	2Q 2022	1Q 2022	2Q 2021	% Change Over Last Year
Total Vacancy Rate	▲ UP	0.71%	0.67%	2.90%	(75.47%)
Availability Rate	▲ UP	1.53%	1.43%	5.70%	(73.18%)
Average Asking Lease Rate	▲ UP	\$1.49	\$1.17	\$0.84	77.38%
Sale & Lease Transactions	▼ DOWN	7,809,854	11,414,321	16,195,031	(51.78%)
Gross Absorption	▲ UP	8,464,025	4,107,054	13,910,505	(39.15%)
Net Absorption	▲ POSITIVE	4,761,167	4,439,510	8,530,258	N/A

ABSORPTION. Inland Empire net absorption (the net difference in occupied space from one period to another) ticked slightly higher to 4,761,167 SF in Q2 from 4,439,510 in Q1. Gross absorption, which measures total move-ins, ended the quarter at 8.4 MSF, coming in just above the Q1 total. Currently, both gross and net absorption are being hampered by the lack of available space.

CONSTRUCTION. The IE is still the only Southern California market with significant construction activity, and in Q2 the amount of space in the development queue took another leap. As Q2 ended, 34.3 MSF of new space was underway, up from 27.9 MSF in Q1. Planned construction rose to another all-time high of 66.2 MSF in Q2, more than doubling the amount of space in the planning queue. New projects were primarily in Ontario, Fontana and Rancho Cucamonga. The IE East still dominates in terms of planned projects. That submarket has almost 60 MSF in planned space compared to just 6.7 MSF in the IE West. This is mainly due to the availability of major land sites that can accommodate the larger sized buildings that have been in such high demand. More than 86% of the planned space in the IE East will be in buildings over 500,000 SF.

EMPLOYMENT. The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 3.4% in May 2022, down from a revised 3.8% in April 2022, and below the year-ago estimate of 7.5%. The unemployment rate was 3.4% in Riverside County and 3.4% in San Bernardino County.



Forecast

The expansion of the Inland Empire industrial market over the past several years has been remarkable, but the last year in particular has been off the charts. For average asking rents to increase by over 75% year-over-year is astounding, unexpected and to some market experts, unsustainable. The insatiable demand for state-of-the-art warehouse space has been extraordinary, but there are anecdotal signs that things may be cooling down. Space is not always disappearing off the market in a matter of days, some requirements have been put on hold and there is more price resistance from tenants. Institutional investors are becoming more cautious, especially for more speculative deals that must be underwritten at rental rates projected years into the future. There is now a sense that things could slow down somewhat just as construction activity hit an all-time high in Q2. To be sure, there is still a lot of demand out there, but the pressure is on for businesses to find a way to cover higher operational costs brought on by the highest inflation we have seen in 40 years. The cost of everything is on the rise, and big logistics operators are hit especially hard by rising fuel costs and the cost of quality space, which are both running well ahead of the 8.6% year-over-year CPI Index.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
630 Nicholas Rd.	Beaumont	600,000	\$131,000,000	Exeter 630 Nicholas LP	Ambest Real Estate LLC
19319 Harvill Ave.	Perris	289,407	\$92,000,000	BlackRock Realty Advisors	Rockefeller Group
2830 Barrett Ave.	Perris	270,320	\$32,670,500	IDS Real Estate Group	Pacific Continental Modulars Enterprises LP
10855 Philadelphia St.	Jurupa Valley	210,615	\$100,685,000	CenterPoint Properties	York Capital Group
10380 Alder Ave.	Bloomington	174,780	\$83,400,000	BentallGreenOak	Stream Realty Partners, LP

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
36855 W Fourth St.	Beaumont	1,777,708	Jun-2022	United Legwear & Apparel	USAA Real Estate
5400 El Rivino Rd.	Jurupa Valley	1,186,950	May-2022	Target	PGIM Real Estate
2255 W Lugonia Ave.	Redlands	606,133	Apr-2022	Auto Zone	TIAA/Nuveen Real Estate
1901 California St.	Redlands	467,853	Jun-2022	Performance Team	Prologis
11625 Venture Dr.	Mira Loma	418,500	Apr-2022	Home Depot	Lincoln Property 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 2Q2022	Square Feet Available	Availability Rate 2Q2022	Average Asking Lease Rate	Net Absorption 2Q2022	Net Absorption 2022	Gross Absorption 202022	Gross Absorption 2022
West													
Chino / Chino Hills	923	54,626,906	1,296,809	25,000	179,434	0.33%	491,071	0.90%	\$1.65	132,763	239,161	416,533	1,047,990
Fontana	756	69,165,859	4,104,064	3,723,664	892,794	1.29%	1,742,719	2.52%	\$1.70	488,814	1,050,324	998,007	1,942,429
Mira Loma / Eastvale / Jurupa Valley	384	45,031,217	0	0	102,571	0.23%	251,606	0.56%	\$0.00	1,329,983	1,577,705	1,278,009	1,561,727
Montclair	202	3,974,287	27,378	0	18,941	0.48%	41,046	1.03%	\$0.00	25,438	29,919	45,649	64,092
Ontario	1,508	116,540,185	8,078,814	2,020,678	1,050,423	0.90%	2,375,996	2.04%	\$1.55	(363,059)	1,078,621	935,040	2,973,195
Rancho Cucamonga	750	40,781,502	2,330,251	818,153	256,405	0.63%	937,379	2.30%	\$1.62	273,330	398,351	525,989	931,475
Upland	257	3,941,659	0	100,000	110,439	2.80%	195,632	4.96%	\$1.10	(66,855)	(40,628)	48,813	123,287
5,000-24,999	2,760	33,361,221	157,123	102,270	473,876	1.42%	578,767	1.73%	\$1.72	(203,757)	(214,880)	290,699	612,574
25,000-49,999	736	25,749,883	263,827	251,534	255,383	0.99%	616,633	2.39%	\$1.25	83,409	288,751	282,988	656,994
50,000-99,999	468	32,602,612	1,169,455	273,750	523,956	1.61%	992,095	3.04%	\$1.69	(69,890)	351,038	781,634	1,312,786
100,000-249,999	470	71,826,981	3,501,064	946,254	620,677	0.86%	1,520,807	2.12%	\$1.66	1,249,970	1,480,665	1,305,451	2,365,948
250,000-499,999	229	81,398,444	2,243,519	1,323,032	547,835	0.67%	1,834,867	2.25%	\$1.46	333,898	756,046	971,204	1,834,780
500,000 plus	117	89,122,474	8,502,328	3,790,655	189,280	0.21%	492,280	0.55%	\$0.00	426,784	1,671,833	616,064	1,861,113
West Total	4,780	334,061,615	15,837,316	6,687,495	2,611,007	0.78%	6,035,449	1.81%	\$1.65	1,820,414	4,333,453	4,248,040	8,644,195
East													
Banning	47	940,537	1,186,690	96,000	41,395	4.40%	41,395	4.40%	\$0.90	4,991	1,482	12,518	19,018
Beaumont	46	5,632,460	2,777,878	2,665,450	0	0.00%	7,000	0.12%	\$0.00	0	5,165	0	9,365
Bloomington	118	10,047,860	47,809	0	73,272	0.73%	124,134	1.24%	\$0.00	(73,272)	(55,688)	0	17,584
Corona / Norco	989	33,013,645	1,863,222	1,767,598	288,768	0.87%	550,138	1.67%	\$1.52	112,750	403,606	192,794	659,816
Colton / Grand Terrace	184	11,260,235	0	456,445	41,605	0.37%	330,145	2.93%	\$0.92	7,175	129,435	18,670	205,870
Moreno Valley	101	31,721,041	1,003,000	41,502,802	3,014	0.01%	608,428	1.92%	\$0.00	30,906	27,042	161,730	1,244,600
Perris	228	35,261,293	5,944,536	9,791,429	226,247	0.64%	439,379	1.25%	\$0.00	253,234	1,295,350	312,434	1,195,076
Redlands / Loma Linda	239	30,024,871	1,058,256	38,740	556,351	1.85%	433,665	1.44%	\$1.15	751,686	1,537,510	926,171	1,122,529
Rialto	201	31,111,314	601,291	1,074,428	4,025	0.01%	8,575	0.03%	\$1.20	186,315	336,931	62,662	391,420
Riverside	1,123	55,341,487	2,721,298	1,726,238	498,794	0.90%	692,958	1.25%	\$1.21	1,634,077	1,083,365	2,081,856	2,624,796
San Bernardino / Highland	593	43,727,255	1,259,144	409,340	81,818	0.19%	241,323	0.55%	\$1.10	32,891	113,026	447,150	832,965
5,000-24,999	2,410	28,607,252	132,200	157,419	376,515	1.32%	774,777	2.71%	\$1.13	73,654	155,398	435,311	691,769
25,000-49,999	565	19,761,710	582,739	288,058	182,809	0.93%	410,715	2.08%	\$1.20	57,419	180,428	242,155	408,733
50,000-99,999	340	23,527,086	829,759	948,625	295,979	1.26%	399,631	1.70%	\$1.65	77,999	365,820	104,842	864,414
100,000-249,999	274	42,030,837	2,486,281	2,477,156	422,623	1.01%	1,304,534	3.10%	\$1.30	535,130	1,283,287	893,489	2,401,683
250,000-499,999	131	47,403,811	4,012,202	4,148,852	537,363	1.13%	586,237	1.24%	\$1.21	322,209	887,407	665,846	1,397,098
500,000 plus	149	126,751,302	10,419,943	51,508,360	0	0.00%	1,246	0.00%	\$1.07	1,874,342	2,004,884	1,874,342	2,559,342
East Total	3,869	288,081,998	18,463,124	59,528,470	1,815,289	0.63%	3,477,140	1.21%	\$1.22	2,940,753	4,877,224	4,215,985	8,323,039
Inland Empire Total	8,649	622,143,613	34,300,440	66,215,965	4,426,296	0.71%	9,512,589	1.53%	\$1.49	4,761,167	9,210,677	8,464,025	16,967,234
5,000-24,999	5,170	61,968,473	289,323	259,689	850,391	1.37%	1,353,544	2.18%	\$1.38	(130,103)	(59,482)	726,010	1,304,343
25,000-49,999	1,301	45,511,593	846,566	539,592	438,192	0.96%	1,027,348	2.26%	\$1.33	140,828	469,179	525,143	1,065,727
50,000-99,999	808	56,129,698	1,999,214	1,222,375	819,935	1.46%	1,391,726	2.48%	\$1.69	8,109	716,858	886,476	2,177,200
100,000-249,999	744	113,857,818	5,987,345	3,423,410	1,043,300	0.92%	2,825,341	2.48%	\$1.58	1,785,100	2,763,952	2,198,940	4,767,631
250,000-499,999	360	128,802,255	6,255,721	5,471,884	1,085,198	0.84%	2,421,104	1.88%	\$1.36	656,107	1,643,453	1,637,050	3,231,878
500,000 plus	266	215,873,776	18,922,271	55,299,015	189,280	0.09%	493,526	0.23%	\$0.00	2,301,126	3,676,717	2,490,406	4,420,455
Inland Empire Total	8,649	622,143,613	34,300,440	66,215,965	4,426,296	0.71%	9,512,589	1.53%	\$1.49	4,761,167	9,210,677	8,464,025	16,967,234
High Desert													
Adelanto	154	4,774,787	309,580	1,703,000	370,758	7.76%	275,741	5.77%	\$0.47	12,000	44,500	12,000	56,500
Apple Valley	75	3,865,612	0	1,290,800	5,622	0.15%	11,246	0.29%	\$0.00	1,546	(4,404)	4,546	14,546
Barstow	53	1,059,276	0	0	13,630	1.29%	11,000	1.04%	\$0.84	(6,630)	(13,630)	0	0
Hesperia	189	4,322,012	1,055,350	2,350,470	57,761	1.34%	136,901	3.17%	\$0.00	(13,884)	7,920	11,476	41,906
Victorville	133	10,424,947	32,182	12,321,000	386,937	3.71%	385,767	3.70%	\$0.40	998,800	996,508	1,003,470	1,033,374
High Desert Total	604	24,446,634	1,397,112	17,665,270	834,708	3.41%	820,655	3.36%	\$0.45	991,832	1,030,894	1,031,492	1,146,326
Temecula Valley													
Hemet	87	1,602,979	0	0	37,211	2.32%	21,011	1.31%	\$1.25	(20,311)	(27,511)	0	15,300
Lake Elsinore	181	2,700,224	0	0	22,788	0.84%	68,346	2.53%	\$1.02	(13,923)	(34,803)	19,874	127,126
Menifee	25	616,829	0	0	84,312	13.67%	157,147	25.48%	\$1.15	0	0	36,417	52,417
Murrieta	257	4,390,368	140,375	77,720	46,502	1.06%	40,490	0.92%	\$0.00	1,281	109,390	36,255	168,423
San Jacinto	65	1,070,701	0	0	32,200	3.01%	43,689	4.08%	\$0.00	0	0	0	0
Temecula	333	10,470,133	180,286	47,530	643,642	6.15%	984,915	9.41%	\$0.66	(286,660)	(297,241)	226,539	303,505
Wildomar	11	317,860	0	0	0	0.00%	0	0.00%	\$0.97	17,872	0	26,733	29,025
Temecula Valley Total	959	21,169,094	320,661	125,250	866,655	4.09%	1,315,598	6.21%	\$0.91	(301,741)	(250,165)	345,818	695,796

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.

Economic Risk Factors

by Ryan Moore and Christian Emerson



Ryan Moore

SENIOR VICE PRESIDENT / PARTNER
INLAND EMPIRE
909.545.8011
rmoore@voitco.com
Lic. #01821438



Christian Emerson

ASSOCIATE
INLAND EMPIRE
949.545.8018
cemerson@voitco.com
Lic. #02104669

History is a great teacher and there are few who would disagree with the fact that markets are cyclical, and this upcycle has taken us above the last market peak by orders of magnitude. Look at what's happened just in the last six months regarding sales prices and lease rates. What we do know is that the driving factors are hyper-demand from e-commerce sector tenants, owner/users looking to take advantage of low fixed-rate mortgage rates, and institutional buyers looking to invest in industrial property in a market with under 1% vacancy. With demand running so far ahead of supply, the pricing structure for leases and sales has been distorted.

Our national economy bounced back much faster than expected after a short pandemic-induced recession. E-commerce sector growth exploded during the pandemic lockdowns, which is largely responsible for the unprecedented demand for warehouse space in the Inland Empire. However, inflation is now running at its fastest pace in more than 40 years and the entire logistics industry is directly impacted by much higher fuel costs, rising rents, supply chain issues and higher wages caused by a worker shortage, among other things.

At some point, this will impact the demand for space, and that time will arrive soon, especially from overseas-based 3PL operators who have been a primary driver of warehouse demand in the past year. It is important to note that when market corrections begin, the psychology of the overall market can reverse in short order and send the trajectory of market metrics down quickly.

Additionally, the Fed has given a clear indication that it plans to continue to fight rising inflation with approximately four additional increases in its benchmark Fed Funds Rate which will likely see another 50 to 100 basis point increase in July. These rate hikes, coupled with the ending of the bond-buying program in April, has increased the cost of capital across the board, including SBA commercial property mortgage rates which have increased to over 5%.

Even if the Fed acts more aggressively, inflation is likely to be with us for some time and that will be a governor on the consumer demand that drives the purchase of goods and services. Discretionary spending is being diverted to essential purchases of food, energy, and housing.

Please Contact Us for Further Information

Tony Tran
Regional Director of Research
ttran@voitco.com

Anaheim, CA
714.978.7880

Carlsbad, CA
760.472.5620

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Los Angeles, CA
424.329.7500

San Diego, CA
858.453.0505

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.

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