

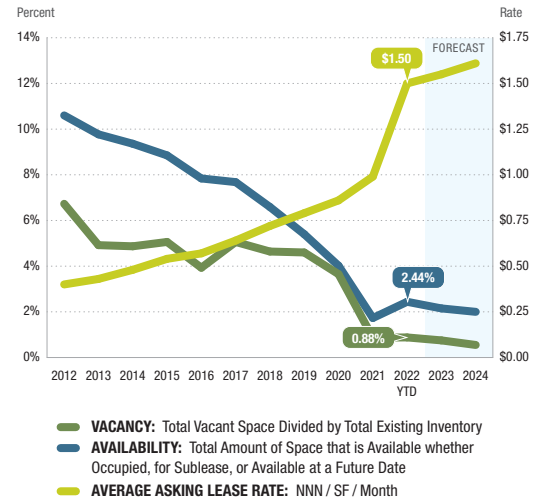
OVERVIEW. The Inland Empire industrial market sent a mixed message in Q3. Vacancy and availability rose, average asking rents flattened out, and gross absorption was up while net absorption fell. Total inventory rose to 626 MSF after new deliveries, while space under construction fell by almost 2 MSF. Transaction activity increased, but competition among tenants to secure space declined, a possible early indication that the hottest market in the country may be cooling off. Institutional investors, who have been very active over the past several years, are becoming more selective, and it is becoming more common for deals to be retraded during escrow, as investment pro formas have become increasingly burdened by the higher cost of capital. To be sure, the market remains prolific, but it may be coming off the high it has been on since the beginning of the e-commerce boom.

VACANCY & AVAILABILITY. The vacancy rate in the Inland Empire moved up again in Q3, increasing by 14 basis points after rising 4 basis points in Q2. Still, the vacancy rate has been under 1% for 4 consecutive quarters, settling at 0.88% by the end of Q3. Year over year, vacancy has fallen from above 2% despite the steady stream of new inventory deliveries throughout the region. As we reported last quarter, the vacancy rate by size range is worth noting. For spaces greater than 500,000 SF in the IE East, vacancy remains at 0% for the second consecutive quarter, while vacancy for buildings in the same range in the IE West also fell to 0% in Q3. Notably, most of the new space under construction continues to be buildings in that size range. The gap in total vacancy between IE West and IE East narrowed to just 8 basis points: 0.91% in the West and just 0.83% in the East.

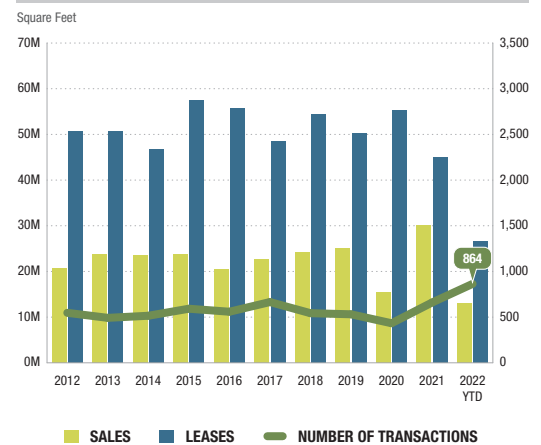
LEASE RATES. The average asking lease rate for the entire Inland Empire flattened in Q3, rising just a penny after a \$0.32 increase in Q2. Year over year lease rates are up by more than 68%, fueled by strong demand from logistics-oriented companies for state-of-the-art, first-generation space. As we 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. The overall average asking rate in the IE West was \$1.68, while the IE East average asking rate was \$1.32 in Q3.

TRANSACTION ACTIVITY. Inland Empire lease and sale transaction activity rose in Q3 after falling in the previous two periods. A total of 16.3 MSF of transactions were inked in Q3, up from 11.9 MSF in Q2, a good sign for the ongoing health of the market. 188 lease transactions accounted for 11.5 MSF of the Q3 total, while 90 sales accounted for the balance. In the past year, nearly 60 MSF of space has either been leased or sold in the Inland Empire. The biggest lease of the quarter was a 1,894,966 SF lease from Brookfield to SHEIN USA in Cherry Valley. The biggest sale in Q3 was a \$470M sale of a 1,057,000 SF building to Rexford Industrial by Dermody Properties.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

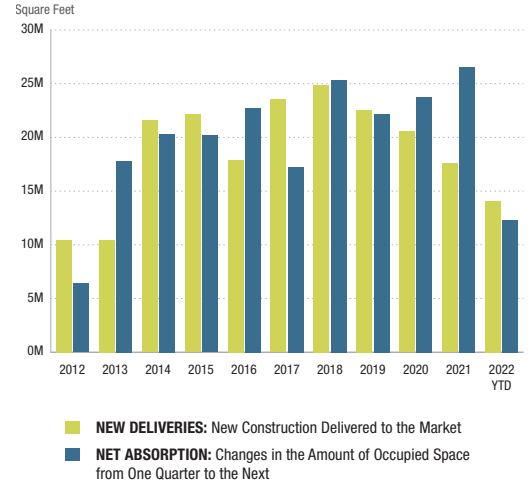
	Change Over Last Quarter	3Q 2022	2Q 2022	3Q 2021	% Change Over Last Year
Total Vacancy Rate	▲ UP	0.88%	0.74%	1.02%	(14.07%)
Availability Rate	▲ UP	2.44%	1.53%	2.08%	17.50%
Average Asking Lease Rate	▬ FLAT	\$1.50	\$1.49	\$0.89	68.54%
Sale & Lease Transactions	▲ UP	16,344,923	11,874,824	19,526,260	(16.29%)
Gross Absorption	▲ UP	6,813,980	4,107,054	13,910,505	(51.02%)
Net Absorption	▲ POSITIVE	3,108,942	4,761,167	6,889,612	N/A

ABSORPTION. Inland Empire net absorption (the net difference in occupied space from one period to another) fell to 3,108,942 in Q3 from 4,761,000 SF in Q2. Gross absorption, which measures total move-ins, ended the quarter at 6,813,980 SF, up substantially from Q2's total of 4,107,054 SF. Of note is the fact that gross and net absorption are posting such strong numbers in the face of a massive amount of ongoing new construction, the clearest indication of just how many businesses are either in expansion mode or relocating from other markets.

CONSTRUCTION. The IE is still the only Southern California market with significant construction activity. As Q3 ended, almost 32.4 MSF of new space was under construction, but that was down slightly from Q2's total of 34.3 MSF. By comparison, Orange County has just 2.4 MSF in the construction queue. Planned development rose to another all-time high of just under 71 MSF in Q3, up from 66.2 MSF in Q2. The bulk of the planned projects are in the IE East submarket where land for large scale projects is more readily available. More than 80% of the planned space in the IE East will be in buildings larger than 500,000 SF.

EMPLOYMENT. The unemployment rate in the Inland Empire was 4.2% in August 2022, up from a revised 4.0% in July 2022, and below the year-ago estimate of 7.5%. The unemployment rate was 4.3% in Riverside County, and 4.2% in San Bernardino County.

NEW DELIVERIES & NET ABSORPTION



Forecast

The expansion of the Inland Empire industrial market over the past several years has been nothing short of phenomenal. Average asking rents have increased by 63% over the last twelve months and net absorption remains firmly in positive territory despite a staggering flow of new deliveries. However, there are clear signs that things are cooling down. Space is taking months rather than days to lease up and some of the big players like Amazon are losing their appetite for further expansion. Institutional investors are becoming more cautious, especially for more speculative deals that must be underwritten at rental rates projected years into the future. Look for more deals to be retraded in escrow as the cost of capital increases further and inflation continues to eat into profitability. The cost of everything has gone up and big logistics operators have been hit especially hard by rising fuel costs, supply chain interruptions, wage increases and the high cost of quality warehouse space, which are all running well ahead of the 8.3% year-over-year CPI Index.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
14301-14935 Limonite Ave.	Eastvale	1,057,419	\$470,000,000	Rexford Industrial	Dermody Properties
3900 Indian Ave.	Perris	579,708	\$158,000,000	GLP Capital Partners	Clarion Partners
17783 Indian St.	Moreno Valley	436,350	\$125,407,500	RREEF	Kohlbert Kravis Roberts & Co.
18025 Slover Ave.	Bloomington	344,360	\$102,000,000	Third Avenue Investments LLC	Slover DC LLC
100 W. Walnut Ave.	Perris	205,830	\$41,166,000	2253 Apparel Inc.	SBC/DP Walnut, LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
36312-36324 Cherry Valley Blvd.	Cherry Valley	1,894,966	Sep-2022	SHEIN USA	Brookfield
2615 E. 3rd St.	San Bernardino	1,080,144	Jul-2022	Shopify	San Bernardino International Airport Authority
2151 S. Vintage Ave - Renewal	Ontario	766,235	Aug-2022	Toyo Tires	Duke Realty
2950 E. Jurupa Ave. - Renewal	Ontario	750,000	Aug-2022	U Line	Majestic Realty Corporation
3551 E. Francis St. - Renewal	Ontario	645,000	Jul-2022	Electrolux	Majestic Realty Corporation

INVENTORY

VACANCY & LEASE RATES

ABSORPTION

	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2022	Square Feet Available	Availability Rate 3Q2022	Average Asking Lease Rate	Net Absorption 3Q2022	Net Absorption 2022	Gross Absorption 3Q2022	Gross Absorption 2022
West													
Chino / Chino Hills	929	54,878,230	1,090,378	25,000	419,126	0.76%	1,358,532	2.48%	\$1.82	(98,589)	140,572	451,842	1,499,832
Fontana	763	69,882,184	3,460,265	5,753,036	529,416	0.76%	1,079,678	1.54%	\$1.80	1,256,171	2,306,495	1,551,448	3,493,877
Mira Loma / Eastvale / Jurupa Valley	388	45,479,493	0	0	426,076	0.94%	2,545,616	5.60%	\$1.83	285,777	1,863,482	379,055	1,940,782
Montclair	203	4,004,274	0	0	184,218	4.60%	314,199	7.85%	\$1.69	(137,899)	(107,980)	45,138	109,230
Ontario	1,511	116,943,804	6,380,089	3,849,855	1,153,582	0.99%	2,567,111	2.20%	\$1.61	(53,634)	1,024,987	1,812,833	4,786,028
Rancho Cucamonga	749	40,776,370	2,830,654	317,750	336,874	0.83%	1,074,007	2.63%	\$1.45	240,678	639,029	345,744	1,277,219
Upland	257	3,957,559	60,900	100,000	24,177	0.61%	172,808	4.37%	\$1.65	2,185	(38,443)	107,151	230,438
5,000-24,999	2,761	33,356,992	153,741	102,270	519,057	1.56%	835,677	2.51%	\$1.66	(2,470)	(217,350)	430,913	1,043,487
25,000-49,999	742	25,974,782	228,828	337,419	535,516	2.06%	815,015	3.14%	\$1.59	(152,013)	136,738	489,433	1,146,427
50,000-99,999	472	32,818,264	796,105	641,102	572,235	1.74%	1,409,866	4.30%	\$1.77	389,220	740,258	538,131	1,850,917
100,000-249,999	478	72,943,523	2,170,096	2,180,430	1,182,991	1.62%	2,630,927	3.61%	\$1.63	320,044	1,800,709	1,616,194	3,982,142
250,000-499,999	230	81,715,879	1,470,785	2,280,514	263,670	0.32%	1,192,666	1.46%	\$1.60	750,628	1,506,674	1,429,260	3,264,040
500,000 plus	117	89,112,474	9,002,731	4,503,906	0	0.00%	2,227,800	2.50%	\$1.66	189,280	1,861,113	189,280	2,050,393
West Total	4,800	335,921,914	13,822,286	10,045,641	3,073,469	0.91%	9,111,951	2.71%	\$1.68	1,494,689	5,828,142	4,693,211	13,337,406
East													
Banning	47	940,537	1,186,690	372,676	0	0.00%	41,395	4.40%	\$0.75	0	1,482	0	19,018
Beaumont	47	7,032,460	2,777,878	2,665,450	0	0.00%	0	0.00%	\$0.00	1,400,000	1,405,165	0	9,365
Bloomington	119	10,086,644	47,809	0	79,420	0.79%	105,333	1.04%	\$0.98	(6,148)	(61,836)	13,949	31,533
Corona / Norco	991	33,200,100	1,679,731	1,767,598	292,410	0.88%	764,883	2.30%	\$1.47	116,898	520,504	307,735	967,551
Colton / Grand Terrace	184	11,258,495	0	456,445	12,607	0.11%	342,664	3.04%	\$0.92	19,848	149,283	39,221	245,091
Moreno Valley	101	31,764,257	1,003,000	41,502,802	109,726	0.35%	687,868	2.17%	\$0.00	163,482	190,524	270,194	1,514,794
Perris	231	35,634,766	6,382,575	9,847,731	389,979	1.09%	796,891	2.24%	\$1.35	27,461	1,322,811	361,091	1,556,167
Redlands / Loma Linda	239	30,028,267	1,058,524	38,740	329,957	1.10%	808,623	2.69%	\$1.39	300,232	1,837,742	929,638	2,052,167
Rialto	200	31,100,702	601,292	1,524,428	283,574	0.91%	564,763	1.82%	\$1.22	(278,349)	58,582	5,375	396,795
Riverside	1,125	55,774,244	2,624,842	1,726,238	819,818	1.47%	1,516,863	2.72%	\$1.22	(92,087)	991,278	160,206	2,785,002
San Bernardino / Highland	593	43,751,920	1,281,339	1,030,964	99,802	0.23%	544,664	1.24%	\$1.51	(37,084)	75,942	33,360	866,325
5,000-24,999	2,412	28,656,350	136,161	181,419	344,604	1.20%	758,485	2.65%	\$1.31	(29,427)	125,971	329,311	1,021,080
25,000-49,999	565	19,783,709	633,294	334,058	144,862	0.73%	582,081	2.94%	\$1.34	(29,080)	151,348	165,583	574,316
50,000-99,999	341	23,606,420	829,759	948,625	301,728	1.28%	419,947	1.78%	\$1.44	96,328	462,148	132,475	996,889
100,000-249,999	277	42,553,633	1,967,058	3,029,268	399,715	0.94%	2,079,931	4.89%	\$1.33	221,259	1,504,546	427,563	2,829,246
250,000-499,999	132	47,820,978	3,964,820	4,899,040	1,226,384	2.56%	2,333,503	4.88%	\$1.25	(44,827)	842,580	1,065,837	2,462,935
500,000 plus	150	128,151,302	11,112,588	51,540,662	0	0.00%	0	0.00%	\$0.00	1,400,000	3,404,884	0	2,559,342
East Total	3,877	290,572,392	18,643,680	60,933,072	2,417,293	0.83%	6,173,947	2.12%	\$1.32	1,614,253	6,491,477	2,120,769	10,443,808
Inland Empire Total	8,677	626,494,306	32,465,966	70,978,713	5,490,762	0.88%	15,285,898	2.44%	\$1.50	3,108,942	12,319,619	6,813,980	23,781,214
5,000-24,999	5,173	62,013,342	289,902	283,689	863,661	1.39%	1,594,162	2.57%	\$1.49	(31,897)	(91,379)	760,224	2,064,567
25,000-49,999	1,307	45,758,491	862,122	671,477	680,378	1.49%	1,397,096	3.05%	\$1.62	(181,093)	288,086	655,016	1,720,743
50,000-99,999	813	56,424,684	1,625,864	1,589,727	873,963	1.55%	1,829,813	3.24%	\$1.46	485,548	1,202,406	670,606	2,847,806
100,000-249,999	755	115,497,156	4,137,154	5,209,698	1,582,706	1.37%	4,710,858	4.08%	\$1.60	541,303	3,305,255	2,043,757	6,811,388
250,000-499,999	362	129,536,857	5,435,605	7,179,554	1,490,054	1.15%	3,526,169	2.72%	\$1.37	705,801	2,349,254	2,495,097	5,726,975
500,000 plus	267	217,263,776	20,115,319	56,044,568	0	0.00%	2,227,800	1.03%	\$0.00	1,589,280	5,265,997	189,280	4,609,735
Inland Empire Total	8,677	626,494,306	32,465,966	70,978,713	5,490,762	0.88%	15,285,898	2.44%	\$1.50	3,108,942	12,319,619	6,813,980	23,781,214
High Desert													
Adelanto	156	4,904,678	289,580	323,000	272,925	5.56%	365,925	7.46%	\$1.62	179,583	224,083	271,508	328,008
Apple Valley	75	3,865,612	0	1,290,800	36,350	0.94%	57,792	1.50%	\$1.00	(30,728)	(35,132)	3,004	17,550
Barstow	53	1,059,276	0	0	3,500	0.33%	7,500	0.71%	\$1.10	10,130	(3,500)	13,630	13,630
Hesperia	190	5,375,456	1,227,600	5,941,814	55,501	1.03%	91,251	1.70%	\$0.84	(390)	7,530	46,310	88,216
Victorville	133	10,425,636	32,182	12,321,000	390,167	3.74%	387,467	3.72%	\$1.00	(5,000)	991,508	26,945	1,060,319
High Desert Total	607	25,630,658	1,549,362	19,876,614	758,443	2.96%	909,935	3.55%	\$1.00	153,595	1,184,489	361,397	1,507,723
Temecula Valley													
Hemet	87	1,602,929	0	0	18,500	1.15%	22,700	1.42%	\$1.25	18,711	(8,800)	30,711	46,011
Lake Elsinore	181	2,701,192	0	63,000	18,682	0.69%	153,935	5.70%	\$1.02	4,106	(30,697)	16,536	143,662
Menifee	25	621,605	0	0	84,312	13.56%	157,147	25.28%	\$1.15	0	0	1,300	53,717
Murrieta	257	4,399,359	140,375	77,720	58,535	1.33%	62,026	1.41%	\$1.20	(5,242)	104,148	52,589	221,012
San Jacinto	65	1,077,514	0	0	20,750	1.93%	20,750	1.93%	\$0.80	11,450	11,450	16,700	16,700
Temecula	333	10,476,419	190,781	224,888	806,503	7.70%	1,016,861	9.71%	\$0.87	(183,962)	(481,203)	412,236	715,741
Wildomar	11	317,860	0	0	0	0.00%	10,992	3.46%	\$0.90	0	0	28,608	57,633
Temecula Valley Total	959	21,196,878	331,156	365,608	1,007,282	4.75%	1,444,411	6.81%	\$0.98	(154,937)	(405,102)	558,680	1,254,476

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 Headwinds vs. Big Box Industrial Space

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The data points in the Inland Empire are sending mixed messages across the board. Vacancy rates are still at historic lows and lease rates are still climbing for state-of-the-art distribution space. On the other hand, inflation has reached a four-decade high, and the Fed is not showing any signs of a slowdown on their interest-rate-hike agenda. This can be frustrating for anyone with a vested interest in the Inland Empire. So, what is on the other side of this summer haze?

What's happening in real time is many sales transactions that were consummated during peak pricing in Q2 are being "repriced." Due to rising interest rates, several buyers were forced to reprice their escrows with reductions from 10–20%. The cost of capital is increasing for the institutional investors as well, which has led to a direct impact on what the buyers are able to pay for properties. The institutional investment groups, who own a majority of the industrial inventory here in the Inland Empire, place debt on their investments to increase their levered return, and the price per pound that developers and capital markets investors pay for these properties has an inverse relationship with interest rates. Therefore, the higher the Fed hikes rates, the lower the price needs to be for these transactions to "pencil."

The good news is that tenant demand for state-of-the-art "big box" distribution buildings is still sky high due to the continued growth of e-commerce and the 3PL operators who support the e-commerce and logistics supply chain. Leases are being inked from tenants like United Legwear & Apparel, who took down 1,777,708 SF from USAA Real Estate in Beaumont; Shopify, who pre-leased a 1,080,144 SF building that the San Manuel Band of Mission Indians built in San Bernardino; and Shein USA, who preleased two buildings totaling 1,832,667 SF in Cherry Valley. The amount of space being absorbed by tenants is one of the main reasons why the big institutions continue to take on risk to develop these buildings on a speculative basis, which means that ownership usually doesn't know who the tenant will be until the building gets closer to completion.

Ultimately, there has been a change in direction due to underlying factors in capital markets. However, it is evident that the Inland Empire is still considered one of the most desirable industrial markets in the country. We believe that strong tenant demand is going to continue and will help offset the impacts seen from the increase in interest rates.

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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.

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