

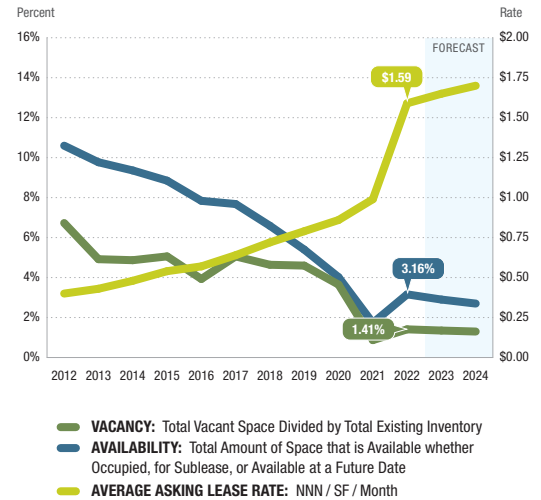
OVERVIEW. The Inland Empire industrial market sent a mixed message in 3Q, but in the final quarter the psychological shift in market sentiment showed up in the numbers. Vacancy, though still very low, jumped up. Lease and sale activity dropped sharply and net absorption fell. However, average asking lease rates continued their rise and total move-ins were up due to the delivery of pre-leased product. Total inventory rose to 629 MSF after new deliveries, while space under construction rose by over 500,000 SF. Competition among tenants to secure space declined again during the period, making clear the fact that the market has cooled off. Institutional investors have backed away from new deals, as more of them keep their powder dry on the sidelines until more is known about the breadth and depth of the current slowdown. Supply chain challenges lessened during the period, in part due to lower port activity at LA and Long Beach, as shippers are diverting more of the cargo to east coast ports to avoid congestion.

VACANCY & AVAILABILITY. The vacancy rate in the Inland Empire moved up for the third consecutive period, increasing by 53 basis points in 4Q, after a rise of 14 basis points in 3Q and a 4-basis-point rise in 2Q. The vacancy rate ended the year at 1.41%, up 39 basis points compared to the same time last year. Total vacant space rose to 8.8 MSF in 4Q from 5.5 MSF in 3Q. Interestingly, over 3.3 MSF of that total is in spaces from 100,000 to 250,000 SF, while there is no vacancy for spaces over 500,000 SF. However, over half the new space under construction continues to be in buildings larger than 500,000 SF.

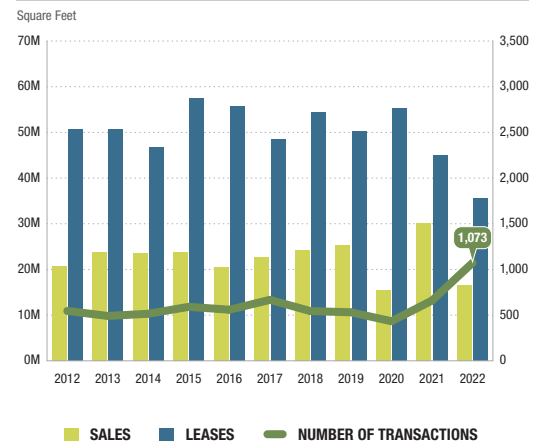
LEASE RATES. The average asking lease rate for the entire Inland Empire moved higher in 4Q, rising \$0.09 to a new record of \$1.59 after just a \$0.01 increase in 3Q. Year-over-year, lease rates are up by over 78% fueled by strong demand from logistics companies for state-of-the-art, first-generation space that leases at a premium to average asking rates. IE West asking rates are still running well ahead of the IE East even though the average asking rate was unchanged for the period at \$1.68. The IE East average asking rate moved up \$0.13 to end the year at \$1.45.

TRANSACTION ACTIVITY. Overall lease and sale transactions plunged in 4Q. A total of 8.3 MSF of transactions were inked during the final period, compared to over 18.4 MSF in 3Q. Lease transaction count fell to 118 in 4Q from 197 in 3Q. Sale velocity was also down for the quarter, falling to 74 from 97 in 3Q. This is the lowest level of activity in terms of transaction count and square footage in many years, and may be the clearest signal yet that the bull market has run its course in this cycle. The biggest lease of the quarter was a 1,309,754 SF lease from Nuveen to Hanes Brands, Inc. in Mira Loma. The biggest sale in 4Q was a \$220,000,000 sale of a 760,829 SF building to NFI Industries, Inc. by Sares-Regis Group.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



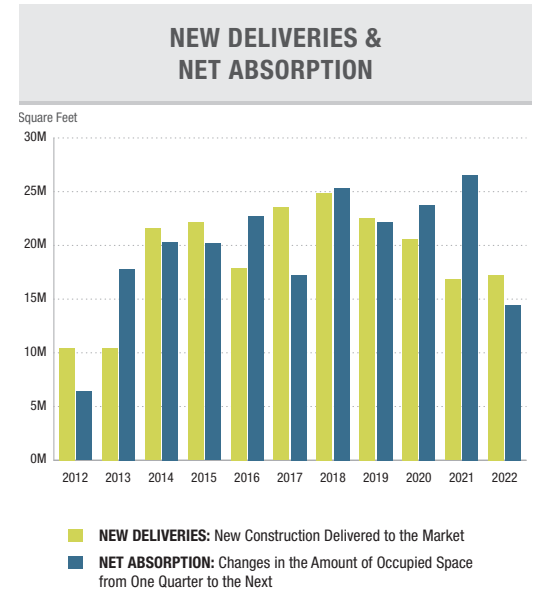
Market Statistics

	Change Over Last Quarter	4Q 2022	3Q 2022	4Q 2021	% Change Over Last Year
Total Vacancy Rate	▲ UP	1.41%	0.88%	1.02%	37.77%
Availability Rate	▲ UP	3.16%	2.44%	2.08%	52.12%
Average Asking Lease Rate	▲ UP	\$1.59	\$1.50	\$0.89	78.65%
Sale & Lease Transactions	▼ DOWN	8,331,180	18,472,989	20,063,806	(58.48%)
Gross Absorption	▲ UP	6,768,619	2,120,769	6,565,923	3.09%
Net Absorption	▲ POSITIVE	2,152,486	3,108,942	5,582,188	N/A

ABSORPTION. Inland Empire net absorption, the net difference in occupied space from one period to another, fell again in 4Q, though it remained in positive territory with a total gain of 2,152,486 SF, as compared to 3,108,942 SF in 3Q. Gross absorption, which measures total move-ins, ended the quarter at 6,768,619 SF, more than triple the 2,120,000 SF in 3Q. This is due mainly to the delivery of pre-leased buildings to the inventory base. Of note is the fact that net absorption numbers were on the decline all year, which indicates a slowdown in the rate of business expansion of e-commerce users and major retailers who lease the bulk of the space in the Inland Empire.

CONSTRUCTION. The IE is still the only Southern California market with significant construction activity. As 2022 ended, just over 33 MSF of new space was under construction, up by over 500,000 SF in 4Q. More than half of that total is in buildings larger than 500,000 SF, a range that has a vacancy rate of 0%. By comparison, Orange County has only 1.9 MSF in the construction queue. Planned development held steady at 70.7 MSF in 4Q. While space under construction is evenly distributed between both major submarkets, the bulk of the planned projects are in the IE-East where land for large scale projects is more readily available.

EMPLOYMENT. The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 4.2% in November 2022, up from a revised 4.0% in October 2022, and below the year-ago estimate of 5.4%. The unemployment rate was 4.2% in Riverside County, and 4.1 percent in San Bernardino County.



Forecast

The growth of the Inland Empire industrial market in this upcycle has been amazing. Average asking rents increased by over 78% in 2022 alone and net absorption remains firmly in positive territory despite the constant flow of new inventory deliveries. But the institutional acquisition frenzy and chronic shortage of available space is ending. Space is taking longer to lease up and there are fewer tenants pursuing each space. Even Amazon has called a halt on expansion, as it overestimated its need for space when consumers turned to it for basic items during the pandemic. Institutional investors are becoming more cautious by the day. Developers are losing their appetite for pricey land deals and owner/users are on the sidelines due to a doubling of mortgage interest rates in less than a year, along with rising operational costs that threaten profitability. We expect the IE industrial market to slow further in 2023, but activity will remain robust enough to avoid a major correction. E-commerce and big-box retail is here to stay and the inventory in the IE is designed around those users who will always need quality space near the Ports of Los Angeles and Long Beach.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
3100 Milliken Ave.	Mira Loma	760,829	\$220,000,000	NFI Industries, Inc.	Sares-Regis Group
13204 Philadelphia Ave.	Fontana	380,650	\$127,000,000	BentallGreenOak	MetLife
601 S. Rockefeller Ave.	Ontario	252,800	\$74,888,000	Bridge Investment Group	Truist Securities, Inc.
100 W. Walnut Ave.	Perris	205,589	\$59,275,000	Ares Management LLC	100 Walnut LLC
930 S. Rockefeller Ave.	Ontario	166,228	\$17,615,239	Bridge Investment Group	Truist Securities, Inc.

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
3700 Indian Ave. - Renewal	Perris	1,309,754	Oct-2022	Hanes Brands Inc.	Nuveen
2510-2580 W. Walnut Ave.- Renewal	Rialto	1,197,051	Oct-2022	Under Armour, Inc.	Prologis
2600 E. John St.	Banning	1,000,000	Oct-2022	Skechers USA, Inc.	Logistics Property Co.
350-3600 Dulles Dr. - Renewal	Mira Loma	814,186	Nov-2022	Nestle USA	CalPERS
3525 N. Mike Daley Dr. - Renewal	San Bernardino	801,581	Oct-2022	Michelin North America	Nuveen

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2022	Square Feet Available	Availability Rate 4Q2022	Average Asking Lease Rate	Net Absorption 4Q2022	Net Absorption 2022	Gross Absorption 4Q2022	Gross Absorption 2022
West													
Chino/Chino Hills	928	54,442,423	1,405,786	25,000	525,636	0.97%	1,235,154	2.27%	\$1.87	(92,597)	47,975	633,665	2,133,497
Fontana	762	70,027,497	3,861,305	6,294,664	1,169,740	1.67%	3,579,628	5.11%	\$1.80	(379,051)	1,927,444	159,245	3,653,122
Mira Loma/Eastvale/Jurupa Valley	393	45,665,806	0	0	1,059,785	2.32%	1,132,550	2.48%	\$1.71	(443,704)	1,419,778	1,220,434	3,161,216
Montclair	203	4,017,065	0	0	73,976	1.84%	345,868	8.61%	\$1.69	109,282	1,302	16,287	125,517
Ontario	1,513	116,991,002	7,818,364	3,737,972	1,635,454	1.40%	4,011,267	3.43%	\$1.60	(208,153)	816,834	737,024	5,523,052
Rancho Cucamonga	749	40,773,039	2,830,654	438,945	669,414	1.64%	1,346,330	3.30%	\$1.50	(265,925)	373,104	643,470	1,920,689
Upland	255	3,960,446	60,900	100,000	97,463	2.46%	147,280	3.72%	\$1.33	(26,555)	(64,998)	51,838	282,276
5,000-24,999	2,759	33,391,872	188,217	156,489	519,933	1.56%	989,036	2.96%	\$1.68	52,088	(165,262)	359,187	1,402,674
25,000-49,999	747	26,172,326	256,831	337,419	886,095	3.39%	1,193,957	4.56%	\$1.47	(224,404)	(87,666)	137,592	1,284,019
50,000-99,999	471	32,735,514	942,782	684,497	753,399	2.30%	1,745,352	5.33%	\$1.75	(52,744)	687,514	351,844	2,202,761
100,000-249,999	480	73,249,759	2,620,291	1,923,658	1,963,004	2.68%	3,699,634	5.05%	\$1.73	(367,186)	1,433,523	746,249	4,728,391
250,000-499,999	230	81,717,795	2,443,470	2,257,979	999,369	1.22%	3,179,525	3.89%	\$0.00	(604,789)	901,885	145,737	3,409,777
500,000 plus	116	88,610,012	9,525,418	5,236,539	109,668	0.12%	990,573	1.12%	\$0.00	(109,668)	1,751,445	1,721,354	3,771,747
West Total	4,803	335,877,278	15,977,009	10,596,581	5,231,468	1.56%	11,798,077	3.51%	\$1.68	(1,306,703)	4,521,439	3,461,963	16,799,369
East													
Banning	49	1,947,487	186,690	276,676	60,610	3.11%	163,605	8.40%	\$0.75	946,340	947,822	41,395	60,413
Beaumont	47	6,632,630	1,777,708	2,665,450	7,000	0.11%	7,000	0.11%	\$0.00	1,000,170	2,405,335	1,000,170	1,009,535
Bloomington	119	10,088,766	47,809	0	99,979	0.99%	128,492	1.27%	\$1.10	(20,559)	(82,395)	6,000	37,533
Corona/Norco	999	34,045,933	1,794,845	1,039,638	721,669	2.12%	1,299,507	3.82%	\$1.44	397,303	917,807	596,463	1,564,014
Colton/Grand Terrace	185	11,302,043	0	655,085	234,641	2.08%	656,399	5.81%	\$0.92	(223,494)	(74,211)	3,300	248,391
Moreno Valley	102	31,783,203	1,052,800	41,502,802	107,296	0.34%	636,457	2.00%	\$0.00	2,430	192,954	2,430	1,517,224
Perris	231	36,302,316	6,995,564	9,715,154	401,379	1.11%	436,004	1.20%	\$1.44	871,232	2,194,043	438,933	1,995,100
Redlands/Loma Linda	243	30,693,650	549,772	38,740	509,523	1.66%	685,815	2.23%	\$1.59	498,915	2,336,657	329,804	2,381,971
Rialto	203	31,230,135	318,210	1,647,328	435,204	1.39%	1,763,263	5.65%	\$1.24	(23,516)	35,066	279,449	676,244
Riverside	1,127	55,826,837	2,748,858	1,602,222	601,484	1.08%	1,479,894	2.65%	\$1.32	233,640	1,224,918	529,307	3,314,309
San Bernardino/Highland	593	43,813,591	1,586,956	1,030,964	435,856	0.99%	830,532	1.90%	\$1.51	(223,272)	(147,330)	79,405	945,730
5,000-24,999	2,417	28,746,528	154,176	116,489	399,499	1.39%	745,010	2.59%	\$1.38	(40,549)	85,422	333,267	1,354,347
25,000-49,999	568	19,923,207	660,384	162,060	435,264	2.18%	974,192	4.89%	\$1.38	(153,786)	(2,438)	145,105	719,421
50,000-99,999	346	23,987,910	744,719	883,803	579,408	2.42%	1,043,537	4.35%	\$1.39	45,599	507,747	240,069	1,236,958
100,000-249,999	281	43,195,833	2,350,660	2,886,963	1,398,517	3.24%	2,387,520	5.53%	\$0.00	(401,591)	1,102,955	397,273	3,226,519
250,000-499,999	134	48,378,942	4,036,855	4,584,040	801,953	1.66%	1,648,351	3.41%	\$0.00	1,326,646	2,169,226	1,190,772	3,653,707
500,000 plus	152	129,434,171	9,112,418	51,540,704	0	0.00%	1,288,358	1.00%	\$0.00	2,682,870	6,087,754	1,000,170	3,559,512
East Total	3,898	293,666,591	17,059,212	60,174,059	3,614,641	1.23%	8,086,968	2.75%	\$1.45	3,459,189	9,950,666	3,306,656	13,750,464
Inland Empire Total	8,701	629,543,869	33,036,221	70,770,640	8,846,109	1.41%	19,885,045	3.16%	\$1.59	2,152,486	14,472,105	6,768,619	30,549,833
5,000-24,999	5,176	62,138,400	342,393	272,978	919,432	1.48%	1,734,046	2.79%	\$1.57	11,539	(79,840)	692,454	2,757,021
25,000-49,999	1,315	46,095,533	917,215	499,479	1,321,359	2.87%	2,168,149	4.70%	\$1.71	(378,190)	(90,104)	282,697	2,003,440
50,000-99,999	817	56,723,424	1,687,501	1,568,300	1,332,807	2.35%	2,788,889	4.92%	\$1.75	(7,145)	1,195,261	591,913	3,439,719
100,000-249,999	761	116,445,592	4,970,951	4,810,621	3,361,521	2.89%	6,087,154	5.23%	\$1.65	(768,777)	2,536,478	1,143,522	7,954,910
250,000-499,999	364	130,096,737	6,480,325	6,842,019	1,801,322	1.38%	4,827,876	3.71%	\$0.00	721,857	3,071,111	1,336,509	7,063,484
500,000 plus	268	218,044,183	18,637,836	56,777,243	109,668	0.05%	2,278,931	1.05%	\$0.00	2,573,202	7,839,199	2,721,524	7,331,259
Inland Empire Total	8,701	629,543,869	33,036,221	70,770,640	8,846,109	1.41%	19,885,045	3.16%	\$1.59	2,152,486	14,472,105	6,768,619	30,549,833
High Desert													
Adelanto	159	4,994,855	382,680	450,000	440,825	8.83%	536,503	10.74%	\$1.38	(131,700)	92,383	0	328,008
Apple Valley	75	3,865,612	0	1,290,800	36,100	0.93%	39,724	1.03%	\$0.00	250	(34,882)	7,840	25,390
Barstow	54	1,161,976	0	0	85,000	7.32%	89,000	7.66%	\$1.10	(78,800)	(82,300)	6,200	19,830
Hesperia	190	5,372,456	1,227,600	5,941,814	62,778	1.17%	108,300	2.02%	\$0.00	(24,527)	(16,997)	36,589	124,805
Victorville	133	10,425,636	32,182	16,022,000	7,841	0.08%	28,841	0.28%	\$0.43	379,626	1,371,134	379,626	1,439,945
High Desert Total	611	25,820,535	1,642,462	23,704,614	632,544	2.45%	802,368	3.11%	\$0.85	144,849	1,329,338	430,255	1,937,978
Temecula Valley													
Hemet	88	1,607,929	0	0	6,500	0.40%	22,700	1.41%	\$1.25	12,000	3,200	12,000	58,011
Lake Elsinore	182	2,714,526	0	63,000	4,064	0.15%	166,066	6.12%	\$0.95	14,903	(15,794)	18,967	162,629
Menifee	25	621,605	0	0	92,730	14.92%	219,293	35.28%	\$1.21	(8,418)	(8,418)	30,584	84,301
Murrieta	256	4,387,857	253,464	224,681	32,670	0.74%	63,191	1.44%	\$1.20	21,465	125,613	27,248	248,260
San Jacinto	65	1,077,514	0	0	18,000	1.67%	18,000	1.67%	\$0.80	2,750	14,200	2,750	19,450
Temecula	333	10,539,115	207,973	224,888	640,390	6.08%	707,383	6.71%	\$0.82	212,187	(269,016)	425,719	1,141,460
Wildomar	11	317,860	0	0	7,328	2.31%	12,715	4.00%	\$0.91	(7,328)	(7,328)	7,328	64,961
Temecula Valley Total	960	21,266,406	461,437	512,569	801,682	3.77%	1,209,348	5.69%	\$0.96	247,559	(157,543)	524,596	1,779,072

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.



IE Remains a Highly Desirable Market

by **Ryan Lal, SIOR**

SENIOR VICE PRESIDENT / PARTNER, ONTARIO
909.545.8020 · rlal@voitco.com · Lic. #01854104

As we say farewell to 2022, it is safe to say that we have witnessed one of the most active cycles in the industrial real estate market throughout the US and specifically in the Inland Empire. This uptick in the IE industrial market started back in 4Q 2011 and remained incredibly steady all the way through most of 2022. Industrial real estate, which was one of the highest-yield asset classes during the pandemic, finally started cooling off in recent months. This comes as no surprise with rising interest rates and high inflation, both of which are drivers for the slowdown of acquisitions across the board.

Over the past two years, we have seen the vacancy rate in the IE industrial market fall to historic lows. This has been a direct result of the e-commerce boom and the high demand from local and national companies' desire to move to state-of-the-art distribution facilities in the Inland Empire. Vacancy rates for large boxes (300,000 SF and above) have remained near zero throughout the year due to product being extremely scarce. Due to the limited relocation options for tenants, landlords are positioned to demand higher lease rates. Roughly 6 MSF of existing warehouse space was renewed in the 4th quarter alone and at record-high rates.

On the other hand, the market for 100,000-200,000 SF buildings has recently become saturated with availability. The demand from users for this size range has suddenly become anemic. With newly available buildings flooding the market during lowering demand, landlords are concerned that the additional competition will lead to lower lease rates.

The Federal Reserve started raising interest rates in March of 2022 in an effort to curb inflation. Unfortunately, these steady increases through December and the anticipated hikes in January continue to impact the Inland Empire development market. During the 3Q and 4Q most well-known developers have all but "put down their pencils" due to these higher interest rates. The increased cost of capital for the development projects has had a direct impact of what they can justify paying for the land. Across the market, developers with properties under contract in the second half of 2022 are asking for discounts of 15%-30% so their deals remain fiscally sound. On the acquisition side, landowners who are accustomed to the high land values of the past three years are now being asked to take a discount (aka re-trade) on their land. With the uncertainty of 2023, fear of a pending global recession, inability to raise capital to fund projects, and property owners unwilling to take a discount, many development projects are being tabled.

At the close of 2022, even with the headwinds mentioned, the Inland Empire remains the most sought-after industrial market in the country. The market is still doing incredibly well with leasing activity strong in most size ranges, vacancy rates at an all-time low and all indicators pointing to an overall healthy market. 2023 will have its challenges but the IE Industrial market is resilient!

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.

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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