

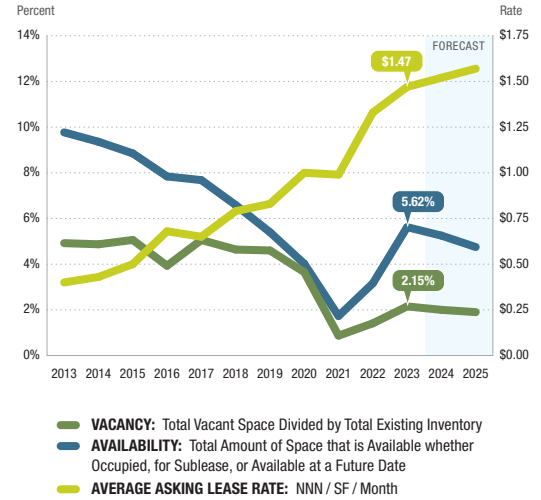
**OVERVIEW.** The shift in market sentiment we saw in the last half of 2022 showed up in the numbers for the first quarter of 2023. Vacancy spiked and lease and sale activity continued to fall. Even average asking lease rates saw a modest decline for the first time in recent memory. However, both gross and net absorption, which reflect previous active requirements, moved up in the period. Total inventory rose to 639 MSF on new deliveries, while space under construction rose by another 200,000 SF. Active requirements continued to decline, a further reflection of a market that is losing steam. Institutional investors remained cautious to start the year. Supply chain challenges eased again, as the ports of Los Angeles and Long Beach reported further declines in twenty-foot equivalent unit activity.

**VACANCY & AVAILABILITY.** The vacancy rate in the Inland Empire moved sharply higher in Q1, increasing by 74 basis points after a rise of 53 basis points in Q4 and a 14-basis-point rise in Q3. The vacancy rate ended the current period at 2.15%, up 113 basis points year-over-year. Total vacant space rose to over 13.7 MSF in Q1 from over 8.8 MSF in Q4. Most of the vacancy is concentrated in buildings between 100,000 and 250,000 SF, while the vacancy rate in buildings over 500,000 SF sits at just 0.51%. Fortunately, almost two thirds of the new space under construction is concentrated in buildings larger than 500,000 SF, which should protect the region from oversupply as new deliveries are made. In Q1, the gap between vacancy and availability (which counts available space that is still occupied) widened, which indicates an increase in space available for sublease.

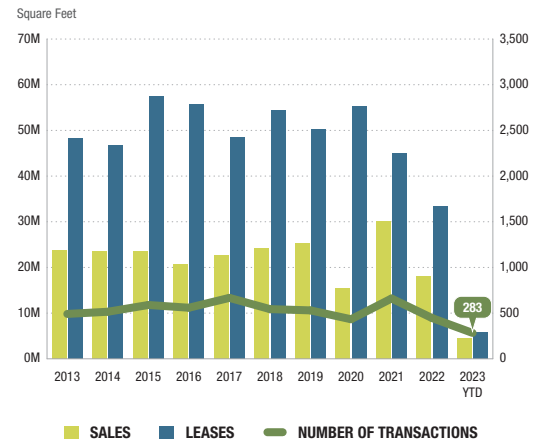
**LEASE RATES.** The average asking lease rate for the entire Inland Empire actually fell in Q1, something we have not seen for many years. Region-wide the average asking rate fell \$0.04 to \$1.47. Year over year, lease rates are up by more than 65%, mainly due to strong demand from logistics-oriented companies with an appetite for first-generation space that commands premium rates. IE West asking rates are still running \$0.30 per square foot higher than those in the IE East. IE West ended the period at \$1.57 compared with the IE East average of \$1.27. Most of the rate decline came in the smaller size ranges, where leasing activity has slowed the most.

**TRANSACTION ACTIVITY.** In the first quarter, overall lease and sale transactions increased to 10,243,402 SF, from 9,740,071 SF in Q4. Lease transaction count increased to 176 in Q1 from 153 in Q4, while sale transactions fell to 56 from 85 in Q4 of 2022. This marks the lowest level of sale activity in terms of transaction count since Q2 of 2020 during the initial pandemic lockdown. The decline is primarily due to significantly reduced activity from institutional buyers, who have accounted for the bulk of sale activity in recent years. The largest lease of the quarter was a 1,379,000 SF lease from Blackstone to Constellation Brands, Inc. in Jurupa Valley. The largest sale in Q1 involved a \$329,000,000 transaction for a 1,832,000 SF building acquired by Brookfield Asset Management, Inc.

### VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



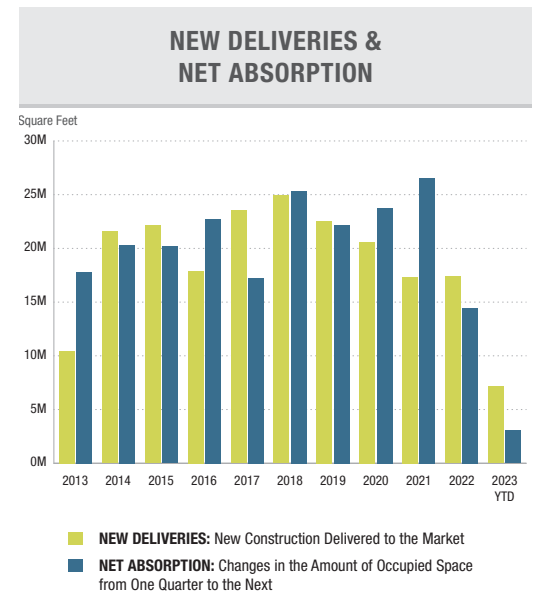
### Market Statistics

	Change Over Last Quarter	Q1 2023	Q4 2022	Q1 2022	% Change Over Last Year
Total Vacancy Rate	▲ UP	2.15%	1.41%	1.02%	110.32%
Availability Rate	▲ UP	5.62%	3.16%	2.08%	170.54%
Average Asking Lease Rate	▼ DOWN	\$1.47	\$1.51	\$0.89	65.17%
Sale & Lease Transactions	▲ UP	10,243,402	9,740,071	12,457,253	(17.77%)
Gross Absorption	▲ UP	9,432,464	3,306,656	6,006,868	57.03%
Net Absorption	▲ POSITIVE	3,063,631	2,152,486	4,439,510	N/A

**ABSORPTION.** Inland Empire net absorption (the net difference in occupied space from one period to another) rose to 3,063,631 SF in Q1 from 2,152,486 SF in Q4. Gross absorption (which measures total move-ins) ended the quarter at 9,432,464 SF, almost triple the 3,306,656 SF in Q4 2022. This is due mainly to the ongoing delivery of pre-leased, first-generation buildings. Net absorption on a year-over-year basis is down by almost 37%, further evidence of a slowdown in large e-commerce requirements throughout the region, which have been the main driver of market growth for the last decade.

**CONSTRUCTION.** Almost 33.3 MSF of new space was under construction as Q1 ended, up by just under 200,000 SF from Q4. 19.5 MSF of that total is in buildings larger than 500,000 SF, a range that has a vacancy rate of only 0.51%. Planned development fell by approximately 1.5 MSF to 69.2 MSF. The IE is the only Southern California market with significant ground-up development, which has been the case for many years. Of note in Q1 is the fact that the bulk of the construction activity has shifted to the IE West from IE East. Currently, two thirds of the space in the construction queue is in IE West. However, most of the space in the planning stages is in IE East where more land for development is available.

**EMPLOYMENT.** In February 2023, the Inland Empire's unemployment rate reached 4.5%, with both Riverside and San Bernardino Counties at the same rate, a slight increase from January's 4.4% but lower than the previous year's 4.7%. The most significant job losses occurred in trade, transportation, and utilities, decreasing by 4,600, with transportation and warehousing experiencing a decline of 3,400 jobs.



## Forecast

For more than a decade, ground-up development and sale/lease activity has flourished, driven by the e-commerce sector. However, the recent slowdown in e-commerce is balancing supply and demand, providing relief to tenants and buyers, especially for spaces between 100,000 SF and 250,000 SF. With vacancy rates above 4.5% in that range, lease rates are expected to decrease. Absorption should remain positive, but at a slower pace. Institutional buyers, cautious due to increased capital costs, will focus on existing facilities with strong credit tenants. Acquisitions of land and value-add projects will be less popular until the economy's direction becomes clear. Inflation remains a concern for e-commerce because it affects consumer sales growth, which accounts for over two-thirds of the nation's GDP. The Inland Empire region should maintain its overall good health, but building owners may face lower rents and longer lease-up times for available spaces in the coming quarters.

## Significant Transactions

### Sales

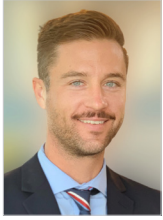
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
36312-36324 Cherry Valley Blvd.	Cherry Valley	1,832,667	\$329,000,000	Brookfield Asset Management, Inc.	I10 Logisitics Owner LLC
10545 Production Ave.	Fontana	1,101,840	\$365,000,000	Rexford Industrial	Tireco, Inc.
1800 S. Wineville Ave.	Ontario	446,624	\$125,000,000	Blackstone Inc.	JP Morgan Chase
6075 Lance Dr.	Riverside	361,346	\$120,000,000	BentallGreenOak (US) LP	Loctek
24773 Nandina Ave.	Moreno Valley	95,922	\$27,241,848	Dalfen Industrial	Molto Properties

### Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
3413 Manitou	Jurupa Valley	1,379,287	Feb-2023	Constellation Brands	Blackstone Inc.
10545 Production Ave.	Fontana	1,101,840	Jan-2023	Tireco	Rexford Industrial
657 Nance St.	Perris	864,000	Feb-2023	NFI	Industrial Property Trust, Inc.
17335 Glen Helen Pkwy. - Renewal	San Bernardino	606,344	Jan-2023	Nordstrom	Alere Property Group
23450 Brodiaea Ave. - Renewal	Moreno Valley	601,810	Feb-2023	Harbor Freight Tools	Prologis

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q1 2023	Square Feet Available	Availability Rate Q1 2023	Average Asking Lease Rate	Net Absorption Q1 2023	Net Absorption 2023	Gross Absorption Q1 2023	Gross Absorption 2023
<b>West</b>													
Chino / Chino Hills	940	55,617,614	766,635	35,000	1,241,064	2.23%	2,556,132	4.60%	\$1.86	11,668	11,668	324,981	324,981
Fontana	770	71,216,576	4,320,676	5,260,969	1,741,664	2.45%	7,292,985	10.24%	\$1.57	453,326	453,326	107,320	107,320
Mira Loma / Eastvale / Jurupa Valley	395	46,777,970	4,755,228	1,189,469	1,551,553	3.32%	2,577,078	5.51%	\$1.75	493,943	493,943	1,707,942	1,707,942
Montclair	205	4,043,218	0	0	116,197	2.87%	376,637	9.32%	\$1.50	(17,023)	(17,023)	31,153	31,153
Ontario	1,518	117,281,179	8,927,882	2,231,094	2,439,877	2.08%	5,106,256	4.35%	\$1.61	(514,956)	(514,956)	1,036,556	1,036,556
Rancho Cucamonga	747	40,757,003	2,946,354	423,245	765,898	1.88%	1,684,035	4.13%	\$1.02	(44,720)	(44,720)	272,167	272,167
Upland	254	3,969,387	60,900	100,000	39,048	0.98%	143,179	3.61%	\$1.31	49,874	49,874	101,859	101,859
5,000-24,999	2,766	33,529,371	139,684	333,137	705,261	2.10%	1,164,922	3.47%	\$1.54	(138,448)	(138,448)	371,240	371,240
25,000-49,999	753	26,372,831	288,071	480,281	1,238,240	4.70%	1,833,573	6.95%	\$1.72	(208,111)	(208,111)	378,187	378,187
50,000-99,999	474	33,036,861	1,070,477	658,190	940,082	2.85%	2,041,809	6.18%	\$1.64	(4,768)	(4,768)	506,131	506,131
100,000-249,999	485	73,950,034	2,891,588	1,874,325	3,293,223	4.45%	5,402,747	7.31%	\$0.00	(254,222)	(254,222)	628,216	628,216
250,000-499,999	233	82,635,684	3,254,767	1,626,929	583,695	0.71%	3,846,168	4.65%	\$0.00	1,037,661	1,037,661	673,072	673,072
500,000 plus	118	90,138,166	14,133,088	4,266,915	1,134,800	1.26%	5,447,083	6.04%	\$0.00	0	0	1,025,132	1,025,132
<b>West Total</b>	<b>4,829</b>	<b>339,662,947</b>	<b>21,777,675</b>	<b>9,239,777</b>	<b>7,895,301</b>	<b>2.32%</b>	<b>19,736,302</b>	<b>5.81%</b>	<b>\$1.57</b>	<b>432,112</b>	<b>432,112</b>	<b>3,581,978</b>	<b>3,581,978</b>
<b>East</b>													
Banning	49	1,951,080	0	463,366	111,037	5.69%	169,532	8.69%	\$0.84	(50,427)	(50,427)	0	0
Beaumont	47	6,632,630	3,610,375	2,665,450	0	0.00%	0	0.00%	\$0.00	7,000	7,000	7,000	7,000
Bloomington	122	10,163,613	0	0	95,478	0.94%	499,822	4.92%	\$1.25	(9,510)	(9,510)	70,420	70,420
Corona / Norco	1,007	34,854,102	203,823	999,638	1,541,891	4.42%	2,687,980	7.71%	\$1.54	(36,683)	(36,683)	342,173	342,173
Colton / Grand Terrace	186	11,308,653	0	666,950	361,221	3.19%	1,222,794	10.81%	\$1.02	(129,500)	(129,500)	31,476	31,476
Moreno Valley	109	32,132,325	799,800	41,406,880	923,819	2.88%	1,293,892	4.03%	\$1.20	(564,151)	(564,151)	106,468	106,468
Perris	239	39,042,542	2,759,832	9,697,326	759,952	1.95%	1,147,788	2.94%	\$1.25	2,215,599	2,215,599	3,716,221	3,716,221
Redlands / Loma Linda	243	30,699,059	588,512	0	291,913	0.95%	1,589,695	5.18%	\$1.34	258,837	258,837	135,126	135,126
Rialto	203	31,377,092	449,302	1,803,293	518,638	1.65%	1,880,813	5.99%	\$1.25	84,112	84,112	44,195	44,195
Riverside	1,128	57,052,986	2,057,963	1,362,062	588,737	1.03%	3,163,662	5.55%	\$1.42	(25,720)	(25,720)	272,931	272,931
San Bernardino / Highland	596	44,990,659	1,041,241	918,006	637,179	1.42%	2,552,759	5.67%	\$1.19	881,962	881,962	1,124,476	1,124,476
5,000-24,999	2,420	28,772,902	161,687	106,249	492,281	1.71%	1,054,398	3.66%	\$1.57	(121,328)	(121,328)	254,944	254,944
25,000-49,999	576	20,260,607	491,427	388,442	709,095	3.50%	1,189,892	5.87%	\$1.38	(32,551)	(32,551)	287,975	287,975
50,000-99,999	356	24,674,921	586,166	772,230	910,900	3.69%	1,607,315	6.51%	\$1.44	32,776	32,776	236,476	236,476
100,000-249,999	285	43,858,150	1,302,055	2,858,494	2,114,850	4.82%	4,027,853	9.18%	\$0.00	(301,606)	(301,606)	431,083	431,083
250,000-499,999	136	49,121,444	3,594,316	4,316,852	1,602,739	3.26%	5,639,518	11.48%	\$0.00	(540,061)	(540,061)	1,045,719	1,045,719
500,000 plus	156	133,516,717	5,375,197	51,540,704	0	0.00%	2,689,761	2.01%	\$0.00	3,594,289	3,594,289	3,594,289	3,594,289
<b>East Total</b>	<b>3,929</b>	<b>300,204,741</b>	<b>11,510,848</b>	<b>59,982,971</b>	<b>5,829,865</b>	<b>1.94%</b>	<b>16,208,737</b>	<b>5.40%</b>	<b>\$1.27</b>	<b>2,631,519</b>	<b>2,631,519</b>	<b>5,850,486</b>	<b>5,850,486</b>
<b>Inland Empire Total</b>	<b>8,758</b>	<b>639,867,688</b>	<b>33,288,523</b>	<b>69,222,748</b>	<b>13,725,166</b>	<b>2.15%</b>	<b>35,945,039</b>	<b>5.62%</b>	<b>\$1.47</b>	<b>3,063,631</b>	<b>3,063,631</b>	<b>9,432,464</b>	<b>9,432,464</b>
5,000-24,999	5,186	62,302,273	301,371	439,386	1,197,542	1.92%	2,219,320	3.56%	\$1.44	(259,776)	(259,776)	626,184	626,184
25,000-49,999	1,329	46,633,438	779,498	868,723	1,947,335	4.18%	3,023,465	6.48%	\$1.45	(240,662)	(240,662)	666,162	666,162
50,000-99,999	830	57,711,782	1,656,643	1,430,420	1,850,982	3.21%	3,649,124	6.32%	\$1.40	28,008	28,008	742,607	742,607
100,000-249,999	770	117,808,184	4,193,643	4,732,819	5,408,073	4.59%	9,430,600	8.01%	\$0.00	(555,828)	(555,828)	1,059,299	1,059,299
250,000-499,999	369	131,757,128	6,849,083	5,943,781	2,186,434	1.66%	9,485,686	7.20%	\$0.00	497,600	497,600	1,718,791	1,718,791
500,000 plus	274	223,654,883	19,508,285	55,807,619	1,134,800	0.51%	8,136,844	3.64%	\$0.00	3,594,289	3,594,289	4,619,421	4,619,421
<b>Inland Empire Total</b>	<b>8,758</b>	<b>639,867,688</b>	<b>33,288,523</b>	<b>69,222,748</b>	<b>13,725,166</b>	<b>2.15%</b>	<b>35,945,039</b>	<b>5.62%</b>	<b>\$1.47</b>	<b>3,063,631</b>	<b>3,063,631</b>	<b>9,432,464</b>	<b>9,432,464</b>
<b>High Desert</b>													
Adelanto	160	5,164,472	528,042	1,633,562	396,050	7.67%	976,103	18.90%	\$1.34	114,625	114,625	225,625	225,625
Apple Valley	76	3,891,531	0	1,290,800	71,880	1.85%	89,694	2.30%	\$0.00	(13,261)	(13,261)	30,419	30,419
Barstow	54	1,161,976	0	0	145,000	12.48%	156,000	13.43%	\$1.10	(60,000)	(60,000)	0	0
Hesperia	194	5,424,327	2,232,000	4,920,014	120,218	2.22%	167,018	3.08%	\$1.20	(61,218)	(61,218)	31,742	31,742
Victorville	133	10,425,620	199,532	13,755,000	7,835	0.08%	68,254	0.65%	\$0.45	0	0	5,000	5,000
<b>High Desert Total</b>	<b>617</b>	<b>26,067,926</b>	<b>2,959,574</b>	<b>21,599,376</b>	<b>740,983</b>	<b>2.84%</b>	<b>1,457,069</b>	<b>5.59%</b>	<b>\$0.97</b>	<b>(19,854)</b>	<b>(19,854)</b>	<b>292,786</b>	<b>292,786</b>
<b>Temecula Valley</b>													
Hemet	88	1,607,929	0	0	6,500	0.40%	45,500	2.83%	\$0.00	0	0	0	0
Lake Elsinore	183	2,730,816	0	63,000	46,420	1.70%	208,052	7.62%	\$1.10	(42,356)	(42,356)	26,478	26,478
Menifee	25	622,788	0	0	84,312	13.54%	120,730	19.39%	\$1.25	8,418	8,418	8,418	8,418
Murrieta	273	4,496,754	164,567	224,681	141,455	3.15%	185,617	4.13%	\$1.26	(5,194)	(5,194)	32,423	32,423
San Jacinto	66	1,086,019	0	0	27,280	2.51%	54,780	5.04%	\$0.80	(9,280)	(9,280)	2,500	2,500
Temecula	338	10,196,262	93,690	292,388	293,196	2.88%	297,790	2.92%	\$0.94	(67,856)	(67,856)	118,290	118,290
Wildomar	11	317,860	0	0	3,664	1.15%	0	0.00%	\$0.94	0	0	9,051	9,051
<b>Temecula Valley Total</b>	<b>984</b>	<b>21,058,428</b>	<b>258,257</b>	<b>580,069</b>	<b>602,827</b>	<b>2.86%</b>	<b>912,469</b>	<b>4.33%</b>	<b>\$1.04</b>	<b>(116,268)</b>	<b>(116,268)</b>	<b>197,160</b>	<b>197,160</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.



## Headwinds Continue

by **Jon Larson, SIOR**

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The Inland Empire industrial market is facing persistent headwinds. Stubborn inflation, continued interest rate hikes, news of layoffs at many Fortune 500 companies and now the fallout from regional bank failures have slowed, but not stalled market activity. Transaction volume is down from the high levels we experienced during the Covid-era boom in e-commerce. Increases in availability, vacancy, time-on-market and landlord concessions have returned after more than a decade of intense market growth. By market segment, here's what we see happening throughout the region:

**Industrial Outdoor Storage (IOS):** In this sector deals are still taking place in the \$0.50 NNN range whether it is a 2-acre or a 15-acre site. Two years ago the price was closer to \$0.30 NNN, but transaction volume was much higher. Tenants have adjusted to the new pricing and solid deals at high rates are still taking place, but there aren't as many transactions. The institutional owners have tried to hold to their higher rents to meet pro-forma objectives, but they are slowly resetting expectations to the advantage of prospective tenants who have a solid financial record.

**Owner/Users and Tenants:** There is consistent activity (inquiries, tours, etc.) from tenants and would-be owner/users, but the volume of transactions in the documentation stage is down. The owner/users and institutional buyers currently in circulation are looking for discounts, while many of the sellers who are still at the table want yesterday's pricing and are consequently chasing the market down. The story among this group is the same as the IOS category where deals are taking place at solid rents or purchase prices, but buyers are fewer and farther between. A bright spot, however, is that there are some exchange buyers who will still pay a premium price for quality real estate if they plan on holding for the long term.

**Developers and Institutional Players:** Developers looking for longer escrows to complete the entitlement process have become commonplace again after years of having to move quickly to become the successful bidder. Sellers of land are still getting used to this and the fact that their properties are worth roughly 30% less than they were in 2021 and 2022. The rising cost of capital and the overall market uncertainty are making it difficult to underwrite exit strategies. Institutional capital is still plentiful—multiple funds we dialogue with are actually getting new capital injections—but they have become much more cautious in their underwriting.

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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