

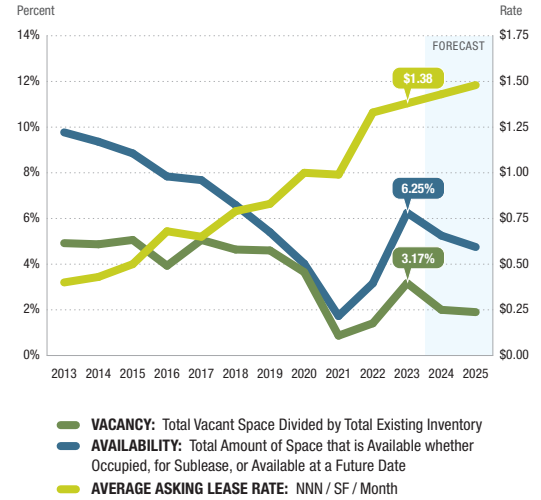
OVERVIEW. The Inland Empire industrial market experienced further softening in the second quarter, with a spike in vacancy rates and a decline in leasing activity. Following a slight decline in Q1, average asking lease rates remained flat. Gross absorption increased, but net absorption ended the period in negative territory. Total inventory reached 646 MSF due to a surge in new deliveries, while space under construction dropped significantly. Active requirements also decreased in Q2, indicating potential challenges ahead. Many institutional investors and developers have adopted a wait-and-see approach, perceiving the market as being in a transition phase. While a recent labor dispute disrupted port activity in Los Angeles and Long Beach, the flow of goods into both ports is now less restricted compared with the pandemic period.

VACANCY & AVAILABILITY. The Inland Empire vacancy rate in Q2 is a major highlight, surging by 102 basis points to reach 3.17%, its highest level in years. This spike followed a substantial 74-basis-point increase in Q1. Over the past year, the vacancy rate has soared by 210%, with further increases expected. Total vacant space now exceeds 20.4 MSF, up significantly from Q1's 13.7 MSF. Notably, buildings between 100,000 and 250,000 SF have the highest vacancy rate of 6.40% on an inventory base of over 118 MSF, and the rate continues to rise due to new deliveries. Buildings over 500,000 SF still maintain the lowest vacancy rate, but it has risen from 0.51% in Q1 to 0.79% in Q2. The availability rate, which includes occupied space offered for lease, climbed to 6.25% in Q2, driven by increased sublease space availability and reduced transaction velocity.

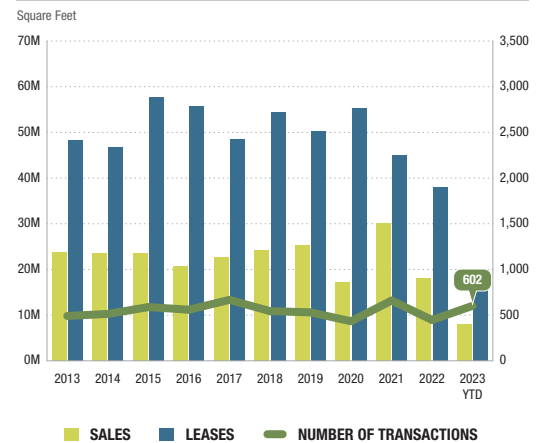
LEASE RATES. The average asking lease rate for industrial space in the Inland Empire declined in Q2, following a slight decline in Q1. The region-wide average asking rate now stands at \$1.38 per square foot. Year over year, lease rates have increased by more than 50%, mainly due to strong demand for first-generation space. The decline in asking lease rates is a sign that the market is maturing. IE West ended at \$1.46 per square foot, down from \$1.57 in Q1. This is still \$0.19 per square foot higher than IE East, which ended Q2 at \$1.27 per square foot. The IE East rate remained unchanged at \$1.27, as most larger spaces in that submarket are offered without an asking rate. Asking rates for spaces under 100,000 square feet fell, but this had minimal impact on overall rates, as the majority of the space in that area is in the upper size ranges.

TRANSACTION ACTIVITY. Overall lease and sale transactions fell to 10.4 MSF from 13.5 MSF in Q1. Lease transaction count fell to 206 in Q2 from 231 in Q1, but sale transactions rose to 85 from 80 in the first quarter. Year over year, overall sale and lease activity is down roughly 27%. This is primarily due to a pullback in institutional buyer activity and a decline in leasing demand from tenants who are recalibrating their space footprints in order to lower operating costs in a slowing economy. Moreover, many larger operators, including Amazon, now have excess space because they overestimated demand as the pandemic boom in consumer sales ended abruptly. The biggest lease of the quarter was a 1,422,524 SF lease from Bridge to Smart & Final in Rancho Cucamonga. The biggest sale in Q2 was a \$325M sale of a 727,700 SF building to GLP Capital Partners by Kearny Real Estate Company.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



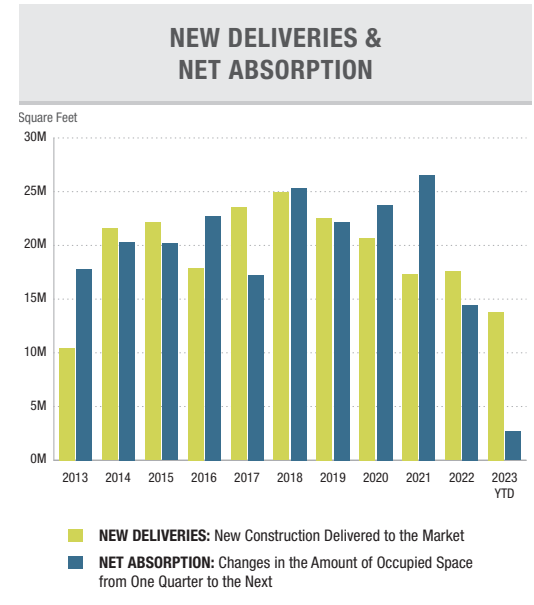
Market Statistics

	Change Over Last Quarter	Q2 2023	Q1 2023	Q2 2022	% Change Over Last Year
Total Vacancy Rate	▲ UP	3.17%	2.15%	1.02%	210.54%
Availability Rate	▲ UP	6.25%	5.62%	2.08%	200.92%
Average Asking Lease Rate	▼ DOWN	\$1.38	\$1.44	\$0.89	55.06%
Sale & Lease Transactions	▼ DOWN	10,397,826	13,553,674	14,339,481	(27.49%)
Gross Absorption	▲ UP	10,841,951	5,850,486	4,107,054	163.98%
Net Absorption	▼ NEGATIVE	(381,544)	3,063,631	4,761,167	N/A

ABSORPTION. Inland Empire net absorption (the net difference in occupied space from one period to another) moved into negative territory in Q2 with a net loss of 381,544 SF compared to a net increase of 3,063,631 SF in Q1. Last year in Q2, net absorption was a net positive 4,761,167 SF, which makes clear the slowdown in new lease activity. However, gross absorption (which measures total move-ins) increased to 10,397,000 SF in Q2, up from 5,850,486 SF in Q1. That big jump is mainly due to the timing of tenants moving into pre-leased new space that was delivered during the period. Their vacated space is reflected in the sharp increase in the vacancy rate for the quarter. Overall, absorption is under threat as even the biggest e-commerce operators continue to consolidate operations after over-expanding during the pandemic.

CONSTRUCTION. Construction activity slowed substantially in Q2, falling by 2.6 MSF to just under 30.3 MSF. This is the first substantial decline recorded in many years. Of that total, 17.2MSF is in buildings larger than 500,000 SF, the range with the lowest vacancy rate of just 1.07%. However, planned development fell precipitously in Q2, dropping to just 23.8 MSF from more than 69 MSF, the clearest evidence yet that the development community now has a bearish view of leasing activity going forward. That, and the sharp rise in the cost of debt, have moved them to the sidelines to wait out softening market conditions. That comes as welcome relief to landlords with existing vacant space that may not have the enhanced functionality of first-generation buildings.

EMPLOYMENT. The unemployment rate in the Riverside-San Bernardino-Ontario MSA increased to 4.4% in May 2023, up from 4.1% in April and 3.4% a year ago. The unemployment rate was 4.4% in Riverside County and 4.3% in San Bernardino County. Construction was the leading sector in job gains, adding 3,400 jobs. Specialty trade contractors led the way with 2,600 new jobs, followed by construction of buildings (500 jobs) and heavy and civil engineering construction (300 jobs).



Forecast

The Inland Empire market is in a state of transition. The recent slowdown in lease and sale activity, lease rates, property values and new development is expected to continue as economic conditions evolve. Discussions of a possible recession are lingering as the Federal Reserve's shift in monetary policy takes effect. Rents are easing, discouraging further development. The higher cost of capital and declining space demand have already prompted developers to delay projects. This will help landlords with existing vacant space. However, the distribution sector faces significant challenges, including more downsizing, an increase in sublease space, and the use of incentives to attract relocating tenants and retain existing ones.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
1501 Sherborn St.	Corona	727,700	\$325,000,000	GLP Capital Partners	Kearny Real Estate Company
14063 Brown St.	Riverside	596,090	\$78,000,000	High Tech Logistics, LLC	EQT Exeter
531 E. Central Ave.	San Bernardino	462,125	\$122,403,049	Oaktree Capital Management, LP	Central Commerce Center, LLC
4345 Parkhurst St.	Jurupa Valley	329,831	\$125,500,000	GLP Capital Partners	State Teacher Retirement System
3350 S. Enterprise Ave.	Bloomington	274,494	\$84,200,000	The Realty Associates Fund XII	Cooper Lighting LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
12430 Fourth St.	Rancho Cucamonga	1,422,524	May-2023	Smart & Final	Bridge
11905 Landon Dr. - Renewal	Mira Loma	645,311	Jun-2023	Maersk	Prologis
1543 Alder Ave. - Renewal	Rialto	426,302	May-2023	CTDI	Prologis
26525 Pioneer Ave.	Redlands	375,839	May-2023	GXO Logistics Supply Chain	Watson Land Company
18550 Orange St. - sublease	Bloomington	371,442	May-2023	Mayrock Inc.	Thrifty Oil Co.

	INVENTORY				VACANCY & LEASE RATES				ABSORPTION				
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q2 2023	Square Feet Available	Availability Rate Q2 2023	Average Asking Lease Rate	Net Absorption Q2 2023	Net Absorption 2023	Gross Absorption Q2 2023	Gross Absorption 2023
West													
Chino / Chino Hills	940	55,683,662	1,270,652	0	1,758,689	3.16%	2,935,349	5.27%	\$1.85	(392,071)	(380,403)	623,963	948,944
Fontana	773	71,779,823	3,757,220	4,145,669	5,192,966	7.23%	7,055,866	9.83%	\$1.02	(2,264,323)	(1,810,997)	1,088,816	1,196,136
Mira Loma / Eastvale / Jurupa Valley	395	46,777,970	4,779,528	887,874	604,997	1.29%	2,163,433	4.62%	\$0.00	(17,185)	476,758	152,355	1,860,297
Montclair	206	4,053,318	0	0	158,088	3.90%	329,256	8.12%	\$0.00	(42,231)	(59,254)	80,565	111,718
Ontario	1,519	118,228,305	7,948,566	870,390	3,360,141	2.84%	6,490,604	5.49%	\$1.63	408,577	(106,379)	2,399,692	3,436,248
Rancho Cucamonga	748	40,825,521	2,895,645	162,510	1,037,405	2.54%	1,719,491	4.21%	\$1.09	(362,471)	(407,191)	443,062	715,229
Upland	254	3,978,381	76,950	0	64,273	1.62%	152,236	3.83%	\$0.00	(14,832)	35,042	29,939	131,798
5,000-24,999	2,771	33,565,282	200,239	62,539	930,845	2.77%	1,379,868	4.11%	\$1.46	(83,876)	(222,324)	434,392	805,632
25,000-49,999	750	26,308,597	435,377	153,860	1,026,386	3.90%	1,511,495	5.75%	\$1.73	241,074	32,963	507,526	885,713
50,000-99,999	476	33,258,762	1,064,799	387,877	1,317,823	3.96%	2,109,576	6.34%	\$1.56	(12,844)	(17,612)	571,245	1,077,376
100,000-249,999	486	74,233,683	2,481,868	1,514,610	4,472,840	6.03%	6,565,051	8.84%	\$1.49	(1,024,192)	(1,278,414)	1,009,584	1,637,800
250,000-499,999	233	82,690,706	2,821,852	1,626,929	2,791,120	3.38%	4,957,780	6.00%	\$0.00	(1,376,450)	(338,789)	1,194,818	1,867,890
500,000 plus	119	91,269,950	13,724,426	2,320,628	1,637,545	1.79%	4,322,465	4.74%	\$0.00	(428,248)	(428,248)	1,100,827	2,125,959
West Total	4,835	341,326,980	20,728,561	6,066,443	12,176,559	3.57%	20,846,235	6.11%	\$1.46	(2,684,536)	(2,252,424)	4,818,392	8,400,370
East													
Banning	49	1,951,080	0	463,366	117,737	6.03%	176,232	9.03%	\$0.92	(6,700)	(57,127)	0	0
Beaumont	47	6,632,630	3,610,375	2,665,450	0	0.00%	0	0.00%	\$0.00	0	7,000	0	7,000
Bloomington	122	10,163,613	0	98,127	85,968	0.85%	197,068	1.94%	\$1.25	9,510	0	27,260	97,680
Corona / Norco	1,012	35,600,985	203,823	784,000	2,452,574	6.89%	3,204,559	9.00%	\$1.47	185,806	149,123	569,470	911,643
Colton / Grand Terrace	186	11,310,402	0	456,445	532,936	4.71%	1,170,699	10.35%	\$0.00	(247,462)	(376,962)	118,264	149,740
Moreno Valley	109	32,132,325	843,000	1,003,789	723,050	2.25%	847,500	2.64%	\$0.00	220,729	(343,422)	624,479	730,947
Perris	242	40,724,613	2,177,229	9,563,005	1,309,180	3.21%	2,541,787	6.24%	\$1.33	727,223	2,942,822	958,807	4,675,028
Redlands / Loma Linda	244	30,772,059	499,545	0	347,778	1.13%	2,129,072	6.92%	\$1.51	101,234	360,071	412,116	547,242
Rialto	207	31,441,285	643,969	1,074,428	521,244	1.66%	2,755,180	8.76%	\$1.71	18,731	102,843	100,405	144,600
Riverside	1,131	58,979,948	608,142	1,026,771	1,475,332	2.50%	2,777,936	4.71%	\$1.49	1,396,467	1,370,747	2,909,752	3,182,683
San Bernardino / Highland	599	45,431,357	1,043,087	649,088	732,151	1.61%	3,748,066	8.25%	\$0.00	(102,546)	779,416	303,006	1,427,482
5,000-24,999	2,426	28,834,849	137,350	102,847	590,394	2.05%	1,020,984	3.54%	\$1.56	4,925	(116,403)	427,042	681,986
25,000-49,999	576	20,234,551	588,790	224,313	781,921	3.86%	1,040,605	5.14%	\$1.15	61,305	28,754	523,134	811,109
50,000-99,999	359	24,879,310	709,142	462,255	1,123,354	4.52%	1,781,628	7.16%	\$1.14	95,534	128,310	429,318	665,794
100,000-249,999	290	44,611,823	1,506,707	1,995,955	3,135,624	7.03%	4,744,492	10.64%	\$1.15	(178,940)	(480,546)	593,119	1,024,202
250,000-499,999	139	50,369,635	3,111,984	3,208,171	1,861,854	3.70%	4,360,304	8.66%	\$0.00	520,168	(19,893)	1,652,756	2,698,475
500,000 plus	158	136,210,129	3,575,197	11,790,928	804,803	0.59%	6,600,086	4.85%	\$0.00	1,800,000	5,394,289	2,398,190	5,992,479
East Total	3,948	305,140,297	9,629,170	17,784,469	8,297,950	2.72%	19,548,099	6.41%	\$1.27	2,302,992	4,934,511	6,023,559	11,874,045
Inland Empire Total	8,783	646,467,277	30,357,731	23,850,912	20,474,509	3.17%	40,394,334	6.25%	\$1.38	(381,544)	2,682,087	10,841,951	20,274,415
5,000-24,999	5,197	62,400,131	337,589	165,386	1,521,239	2.44%	2,400,852	3.85%	\$1.44	(78,951)	(338,727)	861,434	1,487,618
25,000-49,999	1,326	46,543,148	1,024,167	378,173	1,808,307	3.89%	2,552,100	5.48%	\$1.45	302,379	61,717	1,030,660	1,696,822
50,000-99,999	835	58,138,072	1,773,941	850,132	2,441,177	4.20%	3,891,204	6.69%	\$1.40	82,690	110,698	1,000,563	1,743,170
100,000-249,999	776	118,845,506	3,988,575	3,510,565	7,608,464	6.40%	11,309,543	9.52%	\$1.29	(1,203,132)	(1,758,960)	1,602,703	2,662,002
250,000-499,999	372	133,060,341	5,933,836	4,835,100	4,652,974	3.50%	9,318,084	7.00%	\$0.00	(856,282)	(358,682)	2,847,574	4,566,365
500,000 plus	277	227,480,079	17,299,623	14,111,556	2,442,348	1.07%	10,922,551	4.80%	\$0.00	1,371,752	4,966,041	3,499,017	8,118,438
Inland Empire Total	8,783	646,467,277	30,357,731	23,850,912	20,474,509	3.17%	40,394,334	6.25%	\$1.38	(381,544)	2,682,087	10,841,951	20,274,415
High Desert													
Adelanto	163	5,204,452	538,042	2,045,386	417,250	8.02%	664,903	12.78%	\$1.57	(39,200)	75,425	77,050	302,675
Apple Valley	76	3,891,067	0	1,290,800	67,680	1.74%	84,694	2.18%	\$0.00	1,200	(12,061)	6,200	36,619
Barstow	54	1,161,976	0	0	97,972	8.43%	108,972	9.38%	\$0.00	47,028	(12,972)	47,028	47,028
Hesperia	195	5,493,397	2,232,000	5,648,144	213,058	3.88%	230,978	4.20%	\$1.25	(89,198)	(150,416)	28,876	60,618
Victorville	133	10,426,820	199,532	9,765,960	547,550	5.25%	602,649	5.78%	\$0.42	(539,715)	(539,715)	10,640	15,640
High Desert Total	621	26,177,712	2,969,574	18,750,290	1,343,510	5.13%	1,692,196	6.46%	\$1.15	(619,885)	(639,739)	169,794	462,580
Temecula Valley													
Hemet	88	1,607,929	0	0	27,610	1.72%	50,410	3.14%	\$1.00	(21,110)	(21,110)	0	0
Lake Elsinore	183	2,731,369	0	0	55,400	2.03%	198,091	7.25%	\$0.98	(8,980)	(51,336)	3,566	30,044
Menifee	25	607,987	0	0	84,312	13.87%	157,147	25.85%	\$1.25	0	8,418	26,800	35,218
Murrieta	273	4,496,754	105,982	173,653	94,798	2.11%	94,846	2.11%	\$1.26	53,657	48,463	102,981	135,404
San Jacinto	66	1,086,019	0	0	26,000	2.39%	27,250	2.51%	\$0.80	30	(9,250)	30	2,530
Temecula	342	10,242,826	0	230,991	202,222	1.97%	352,629	3.44%	\$1.01	137,075	69,219	209,175	327,465
Wildomar	11	317,860	0	0	0	0.00%	0	0.00%	\$1.02	3,664	3,664	3,664	12,715
Temecula Valley Total	988	21,090,744	105,982	404,644	490,342	2.32%	880,373	4.17%	\$1.04	164,336	48,068	346,216	543,376

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.



Sublease Space Soars as Inland Empire Industrial Market Slows

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The Inland Empire (IE) industrial market is feeling the downward pressure of a noticeable slowdown. The Fed raising rates earlier in the quarter (combined with what they have done over the past year) was not a positive indicator for the CRE market, and user demand for both sales and leasing is spotty at best. Developers had a huge appetite for developable land during the COVID-era boom, but now many buildings 10,000 square feet and above are just sitting with very little activity. The 100,000-200,000 square foot size range has been extremely overbuilt, with more coming online this summer and into the fall. With little to no user demand in this size range, institutional developers are starting to slowly cut rates.

Sublease space has been another hot topic around the Inland Empire. Multiple Class A warehouses north of 100,000 square feet have come back to the market with term left. This does not help, as sublessors are willing to get extremely aggressive on rates, which negatively impacts new direct deals. There is a huge disconnect in rates and concessions between subleases and new direct deals. The sublease availability is currently 0.66%.

If there is a silver lining, towards the end of the second quarter there was a slight uptick in user demand for outside storage. The bulk of available yards, both east and west, have been sitting as a direct result of slow demand at the LA and Long Beach ports. All have been sizeable yard deals, and rates have held at a market rate.

The development side of the business continues to move at a snail's pace. There are roughly 1,000 acres in the Inland Empire that are still controlled by private individuals that are developable down the road for future warehouses. What we are seeing is that there is still a huge disconnect between what the landowners want to sell for and what the developers are willing to pay. The days of a 30-60-day due diligence and a 30-day close are well past us, and we are now seeing deals being structured with long escrows so the developer can get the site entitled and permit-ready. That is definitely wishful thinking on their end, because the landowners who are left in the IE have become accustomed to what occurred over the last 36 months and many have zero intention of yielding 12-36 months of their time (being tied up).

In the past 30 days, the market has slightly perked up. There have been a few new lease transactions completed along with a handful of investment sales. With the LA and Long Beach Ports back up and running, I feel that consumers and users will be more confident to focus more on their industrial real estate needs in the IE.

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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