IE Q3 23

THIRD QUARTER 2023 MARKET REPORT

INLAND EMPIRE INDUSTRIAL

Voit REAL ESTATE SERVICES

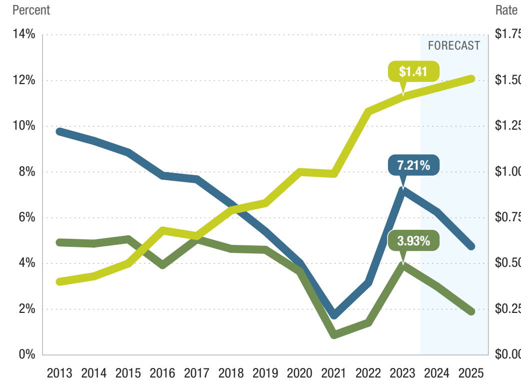
OVERVIEW. The Inland Empire industrial market slowdown continued in Q3. Vacancy spiked as lease and sale activity fell sharply. Gross absorption fell slightly, while net absorption managed to return to positive territory. Total inventory increased to more than 651 MSF on significant new deliveries, while space under construction inched higher. However, active requirements fell again during the period, further evidence of softening conditions. Institutional investors and developers remain on the brakes in terms of new acquisitions, and owner / user sales remain light due to sharply higher mortgage rates.

VACANCY & AVAILABILITY. The Inland Empire vacancy rate of 3.93% was up another 76 basis points in Q3 after a 102-basis-point spike in Q2. Year over year, vacancy has risen by almost 300% from just 1.02% in Q3 of last year. Total vacant space rose to 25.6 MSF during the period, up from just 20.4 MSF in Q2. Buildings between 100,000 and 250,000 SF still have the highest vacancy rate, which now stands at 7.99%, up from 6.40% in Q2. Buildings over 500,000 SF still maintain the lowest vacancy rate, but it has risen from 0.79% in Q2 to 1.63% in Q3. The availability rate, which includes occupied space offered for lease, climbed to 7.21% in Q3, driven by an ongoing surge in space offered for sublease combined with new deliveries. Year over year, the availability rate has more than tripled from 2.08%.

LEASE RATES. In Q3 the average asking lease rate for the entire Inland Empire actually managed to move higher, rising 3 cents to $1.41. But, year over year, lease rates have increased by more than 58% on strong demand for first-generation space that is now on the wane. IE West's asking rates are still running $0.24 per square foot higher than those in IE East. IE West ended Q3 at $1.53, up from $1.46 in Q2. The IE East rate was up two cents to $1.29, but most of the larger spaces are still being offered without an asking rate. Asking rates for spaces under 100,000 SF actually fell, but this had minimal impact on overall rates, as the majority of the space is in the upper size ranges.

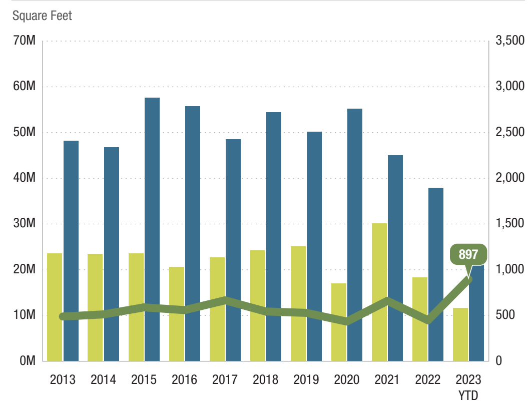
TRANSACTION ACTIVITY. Overall lease and sale transactions fell sharply in Q3 to just 6.4 MSF from 15.5 MSF in Q2. Lease transaction count fell to 190 in Q3 from 267 in Q2, but sale transactions fell to 44 from 94 in the second quarter. Year over year, total sale and lease activity is down by almost 58%. This is primarily due to a big slowdown in leasing demand and reluctance from institutional investors to acquire existing projects at premium prices as rent growth flattens. They must also pencil in longer lease-up times in their pro formas that reflect the rapid rise in vacancy. The biggest lease of the quarter was a 752,497 SF lease to CEVA Logistics in Rancho Cucamonga. The biggest sale in Q3 was the $109,076,480 sale of a 340,864 SF building to Point Gadea USA, Inc. by LBA Realty.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



VACANCY: Total Vacant Space Divided by Total Existing Inventory
AVAILABILITY: Total Amount of Space that is Available whether Occupied, for Sublease, or Available at a Future Date
AVERAGE ASKING LEASE RATE: NNN / SF / Month

TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



SALES LEASES NUMBER OF TRANSACTIONS

Market Statistics

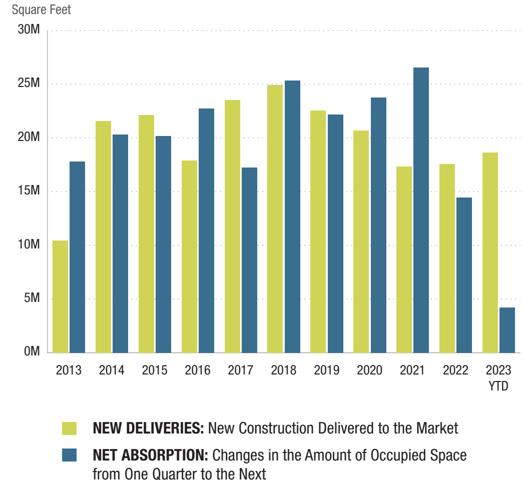
	Change Over Last Quarter	Q3 2023	Q2 2023	Q3 2022	% Change Over Last Year
Total Vacancy Rate	UP	3.93%	3.17%	1.02%	285.76%
Availability Rate	UP	7.21%	6.25%	2.08%	247.13%
Average Asking Lease Rate	UP	$1.41	$1.38	$0.89	58.43%
Sale & Lease Transactions	DOWN	6,339,320	15,483,643	15,078,227	(57.96%)
Gross Absorption	DOWN	5,685,567	6,023,559	2,120,769	168.09%
Net Absorption	POSITIVE	1,506,645	(381,544)	3,108,942	N/A

ABSORPTION. Inland Empire net absorption moved back into positive territory in Q3 with a gain of over 1.5 MSF compared with a decline of 381,544 SF in Q2. But, year over year, net absorption was 3.1 MSF, which is further evidence of the overall slowdown in leasing activity. Gross absorption (which measures total move-ins) fell to just below 5.7 MSF in Q3, down from 10.8 MSF in Q2. That number includes downsizing moves and moves into pre-leased new space that was delivered during the period, both of which contributed to the sharp rise in vacancy. As we reported last quarter, absorption remains under threat even as many e-commerce operators continue to consolidate operations after over-expanding during the pandemic.

CONSTRUCTION. Construction activity rose slightly in Q3 after falling by 2.6 MSF in Q2. The current queue of buildings under construction stands at 27.8 MSF. Of that total, 14.0 MSF is in buildings larger than 500,000 SF, the range with the lowest vacancy rate of just 1.63%. Planned development was unchanged at 23.8 MSF after a sharp drop from over 69 MSF in Q2. However, some planned projects will likely be delayed in response to higher capital costs and lighter leasing activity. That will take some of the pressure off landlords with existing available space and for tenants looking to sublease excess space.

EMPLOYMENT. In August 2023, the unemployment rate in Riverside-San Bernardino-Ontario rose to 5.3%, marking an increase from the revised rate of 4.9% in July 2023 and surpassing the 4.3% estimate from the previous year. Notably, the trade, transportation, and utilities sectors experienced the most significant decline, shedding 7,600 jobs over the year.

NEW DELIVERIES & NET ABSORPTION



Forecast

The Inland Empire market has slowed substantially in the past year. Transaction velocity is down across all size ranges and the slowdown has taken hold. The biggest concern is centered on spaces in the 100,000 to 250,000 square foot range, where availability is already above 12% and more space in that range is due to be delivered in the next several quarters. That could be a catalyst for a significant correction in lease rates, as landlords will have to offer more in concessions to attract a shrinking pool of active requirements. Higher property taxes on newly constructed buildings pose a further challenge as just the property taxes can exceed $0.40 per square foot per month. Mortgage rates are still rising for owner/users and that is putting pressure on sales prices, which have already peaked. The higher cost of capital will keep some institutions on the sidelines for the time being. Asking rents will remain high, but more landlord concessions such as free rent and tenant improvements will push effective rents lower for the next several quarters.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
1600 W. Agua Mansa Rd.	Colton	340,864	$109,076,480	Pointe Gadea USA, Inc.	LBA Realty
21500 Harvill Ave.	Perris	333,572	$112,300,000	MDH Partners	Blumenfeld Development
24712 6th St.	San Bernardino	179,000	$49,500,000	Exeter	Starpoint Properties, LLC
43195 Business Park Dr.	Temecula	160,561	$26,850,000	Brennan Investment Group	Furniture City
17618 Harvill Ave.	Perris	147,354	$25,100,000	MDH Partners	TA Realty

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
12415 Sixth St.	Rancho Cucamonga	752,497	Sep-2023	CEVA Logistics	Bridge Industrial
1420 N. Tamarind Ave.	Rialto	677,225	Jul-2023	US Elogistics	Keeco, LLC
11618 Mulberry Ave.	Fontana	633,953	Aug-2023	Armstrong Logistics	United Facilities
2185 Lugonia Ave. – Renewal	Redlands	500,602	Sep-2023	Ashley Furniture	Nuveen
13032 Slover Ave.	Fontana	303,857	Aug-2023	Niagara Water	Alere Property Group

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q3 2023	Square Feet Available	Availability Rate Q3 2023	Average Asking Lease Rate	Net Absorption Q3 2023	Net Absorption 2023	Gross Absorption Q3 2023	Gross Absorption 2023
West													
Chino / Chino Hills	943	55,795,573	1,270,652	0	2,245,750	4.02%	3,157,105	5.66%	$1.75	(210,979)	(591,382)	624,950	1,573,894
Fontana	777	71,897,296	3,757,220	4,145,669	4,360,689	6.07%	7,055,268	9.81%	$1.69	(1,025,928)	(2,836,925)	850,772	2,046,908
Mira Loma / Eastvale / Jurupa Valley	398	49,604,071	4,779,528	887,874	603,178	1.22%	1,540,881	3.11%	$1.69	1,186,555	1,663,313	116,740	1,977,037
Montclair	207	4,062,043	0	0	193,868	4.77%	309,037	7.61%	$1.50	(45,278)	(104,532)	0	111,718
Ontario	1,519	121,487,676	3,892,676	870,390	3,586,530	2.95%	8,626,338	7.10%	$1.60	4,022,149	3,915,770	1,419,667	4,855,915
Rancho Cucamonga	747	40,828,309	2,895,645	162,510	1,275,421	3.12%	2,813,226	6.89%	$1.07	(198,350)	(605,541)	325,793	1,041,022
Upland	256	4,045,893	76,950	0	269,794	6.67%	285,725	7.06%	$1.12	(209,704)	(174,662)	38,484	170,282
5,000-24,999	2,774	33,626,602	200,239	62,539	962,009	2.86%	1,357,400	4.04%	$1.58	36,706	(185,618)	634,281	1,439,913
25,000-49,999	755	26,483,954	435,377	153,860	1,172,224	4.43%	1,835,774	6.93%	$1.67	(42,122)	(9,159)	428,734	1,314,447
50,000-99,999	478	33,345,156	1,064,799	387,877	1,571,989	4.71%	2,342,138	7.02%	$1.44	(33,635)	(51,247)	542,011	1,619,387
100,000-249,999	487	74,342,352	2,481,868	1,514,610	5,185,263	6.97%	8,343,672	11.22%	$1.49	(651,624)	(1,930,038)	866,472	2,504,272
250,000-499,999	232	82,280,503	2,821,852	1,626,929	3,065,840	3.73%	6,354,920	7.72%	$1.67	(455,795)	(794,584)	82,500	1,950,390
500,000 plus	121	97,642,294	9,668,536	2,320,628	577,905	0.59%	3,553,676	3.64%	$0.00	4,664,935	4,236,687	822,408	2,948,367
West Total	4,847	347,720,861	16,672,671	6,066,443	12,535,230	3.60%	23,787,580	6.84%	$1.53	3,518,465	1,266,041	3,376,406	11,776,776
East													
Banning	49	1,951,080	0	463,366	66,582	3.41%	107,977	5.53%	$0.90	(6,098)	(63,225)	81,053	81,053
Beaumont	47	6,632,630	3,610,375	2,665,450	2,200	0.03%	2,200	0.03%	$0.00	(2,200)	4,800	0	7,000
Bloomington	124	10,209,280	0	98,127	211,538	2.07%	223,158	2.19%	$1.24	(105,000)	(105,000)	0	97,680
Corona / Norco	1,016	35,697,545	203,823	784,000	2,491,718	6.98%	3,421,457	9.58%	$1.51	(60,414)	88,709	449,675	1,361,318
Colton / Grand Terrace	187	11,328,930	0	456,445	554,222	4.89%	1,178,349	10.40%	$1.45	(15,375)	(392,337)	175,807	325,547
Moreno Valley	110	32,143,739	843,000	1,003,789	559,666	1.74%	909,551	2.83%	$1.12	(15,934)	(359,356)	97,022	827,969
Perris	242	40,376,266	2,881,332	9,563,005	1,774,177	4.39%	2,856,017	7.07%	$1.34	511,838	3,454,660	724,726	5,399,754
Redlands / Loma Linda	246	31,075,704	499,545	0	2,729,167	8.78%	4,368,937	14.06%	$1.34	(1,414,342)	(1,054,271)	40,851	588,093
Rialto	209	31,495,108	643,969	1,074,420	1,208,123	3.84%	2,511,306	7.97%	$1.65	73,516	176,359	54,608	199,208
Riverside	1,130	57,226,227	1,393,320	1,026,771	2,437,047	4.26%	3,098,321	5.41%	$1.41	(1,007,079)	363,668	336,167	3,518,850
San Bernardino / Highland	602	45,757,722	1,043,087	649,096	1,067,201	2.33%	4,502,527	9.84%	$1.37	29,268	808,684	349,252	1,776,734
5,000-24,999	2,428	28,907,642	137,350	102,847	570,101	1.97%	983,815	3.40%	$1.54	(21,882)	(138,285)	425,401	1,107,387
25,000-49,999	585	20,543,703	588,790	224,313	757,467	3.69%	1,505,377	7.33%	$1.23	(38,319)	(9,565)	316,511	1,127,620
50,000-99,999	362	25,140,589	709,142	462,255	1,534,238	6.10%	2,461,170	9.79%	$0.95	(222,504)	(94,194)	224,194	889,988
100,000-249,999	293	45,221,498	1,506,707	1,995,955	4,372,078	9.67%	5,931,356	13.12%	$1.15	(809,287)	(1,289,833)	428,799	1,453,001
250,000-499,999	137	49,670,670	3,816,087	3,208,171	2,656,083	5.35%	5,906,649	11.89%	$1.35	(590,657)	(610,550)	714,256	3,412,731
500,000 plus	157	134,410,129	4,360,375	11,790,928	3,211,674	2.39%	6,391,433	4.76%	$0.00	(329,171)	5,065,118	200,000	6,192,479
East Total	3,962	303,894,231	11,118,451	17,784,469	13,101,641	4.31%	23,179,800	7.63%	$1.29	(2,011,820)	2,922,691	2,309,161	14,183,206
Inland Empire Total	**8,809**	**651,615,092**	**27,791,122**	**23,850,912**	**25,636,871**	**3.93%**	**46,967,380**	**7.21%**	**$1.41**	**1,506,645**	**4,188,732**	**5,685,567**	**25,959,982**
5,000-24,999	5,202	62,534,244	337,589	165,386	1,532,110	2.45%	2,341,215	3.74%	$1.44	14,824	(323,903)	1,059,682	2,547,300
25,000-49,999	1,340	47,027,657	1,024,167	378,173	1,929,691	4.10%	3,341,151	7.10%	$1.45	(80,441)	(18,724)	745,245	2,442,067
50,000-99,999	840	58,485,745	1,773,941	850,132	3,106,227	5.31%	4,803,308	8.21%	$1.40	(256,139)	(145,441)	766,205	2,509,375
100,000-249,999	780	119,563,850	3,988,575	3,510,565	9,557,341	7.99%	14,275,028	11.94%	$1.29	(1,460,911)	(3,219,871)	1,295,271	3,957,273
250,000-499,999	369	131,951,173	6,637,939	4,835,100	5,721,923	4.34%	12,261,569	9.29%	$0.00	(1,046,452)	(1,405,134)	796,756	5,363,121
500,000 plus	278	232,052,423	14,028,911	14,111,556	3,789,579	1.63%	9,945,109	4.29%	$0.00	4,335,764	9,301,805	1,022,408	9,140,846
Inland Empire Total	**8,809**	**651,615,092**	**27,791,122**	**23,850,912**	**25,636,871**	**3.93%**	**46,967,380**	**7.21%**	**$1.41**	**1,506,645**	**4,188,732**	**5,685,567**	**25,959,982**
High Desert													
Adelanto	165	5,229,272	0	0	418,900	8.01%	746,424	14.27%	$1.41	118,050	193,475	156,250	458,925
Apple Valley	76	3,891,067	538,042	2,045,386	49,950	1.28%	71,964	1.85%	$0.00	12,730	669	16,680	53,299
Barstow	54	1,339,276	0	1,290,800	104,602	7.81%	216,602	16.17%	$0.00	(6,630)	(19,602)	0	47,028
Hesperia	195	5,493,397	2,232,000	5,648,144	272,336	4.96%	297,886	5.42%	$1.25	20,526	(129,890)	30,076	90,694
Victorville	135	10,464,999	199,532	9,765,960	601,366	5.75%	632,911	6.05%	$0.98	(53,816)	(593,531)	12,496	28,136
High Desert Total	625	26,418,011	2,969,574	18,750,290	1,447,154	5.48%	1,965,787	7.44%	$1.37	90,860	(548,879)	215,502	678,082
Temecula Valley													
Hemet	88	1,618,646	0	0	23,203	1.43%	46,003	2.84%	$1.00	4,407	(16,703)	15,124	15,124
Lake Elsinore	183	2,768,239	0	0	96,584	3.49%	224,631	8.11%	$0.93	(42,614)	(93,950)	52,950	82,994
Menifee	25	607,987	0	0	84,312	13.87%	157,147	25.85%	$1.25	0	8,418	0	35,218
Murrieta	274	4,502,443	105,982	173,653	156,385	3.47%	222,568	4.94%	$1.24	(77,113)	(28,650)	84,676	220,080
San Jacinto	66	1,108,019	0	0	8,230	0.74%	10,730	0.97%	$0.80	11,770	2,520	15,520	18,050
Temecula	343	10,280,919	0	230,991	532,041	5.18%	767,827	7.47%	$0.90	(352,473)	(283,254)	95,156	422,621
Wildomar	11	317,860	0	0	0	0.00%	0	0.00%	$1.02	(456,023)	(452,359)	263,426	276,141
Temecula Valley Total	990	21,204,113	105,982	404,644	900,755	4.25%	1,428,906	6.74%	$1.02	(912,046)	(863,978)	526,852	1,070,228

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 Q3 23

THIRD QUARTER 2023 MARKET REPORT
INLAND EMPIRE INDUSTRIAL

Voit
REAL ESTATE SERVICES

Navigating Uncertainty

by Ryan Moore and Harrison Wos

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In the latter half of 2023, the Inland Empire's industrial landscape has become a puzzle even seasoned market watchers struggle to piece together. On one hand, the realm of warehousing has witnessed its golden moments fade, while on the other, certain subsectors of the market remain hot. Digging deeper, the declining transaction volume, growing vacancy, and paused construction--indicators of a slowing market--are balanced by lease rates and property valuations substantially higher than pre-pandemic levels, a testament to the dynamism that was the hallmark of 2022.

A conspicuous marker of this change is the struggle for warehouses ranging from 50,000 to 250,000 square feet. Their vacancy rate tells a tale of contraction, with an astonishing 8.39% of these spaces unoccupied and a further 11.93% rendered available but not yet vacated. As 3PL and distribution companies tighten their belts and shed excess capacity, this surge in supply spells uncertainty.

Yet, it's not all gloom and doom. Properties smaller than 50,000 square feet have managed to tread water amidst this turbulence. Their comparatively healthier stats, especially when juxtaposed against their larger counterparts, point towards a market that's still in flux, rather than in decline. Lease rates, though showing signs of moderation, are still strikingly higher than the pre-pandemic era, showcasing the market's resilience.

Navigating this market requires a combination of adaptability and foresight. Landlords, sensing the winds of change, have traded complacency for proactivity, offering renewal incentives to tenants. Sellers, especially those in the sub-$10 million range, still manage to tap into the prevailing supply-demand imbalances, securing commendable prices. While the future might be shrouded in uncertainty, opportunities still abound for those willing to adapt.

The Inland Empire's industrial market in the second half of 2023 showcases a juxtaposition of declining vigor and enduring resilience. Larger warehouses face increased vacancies, prompting a reevaluation of market strategies. However, smaller properties under 50,000 square feet present a beacon of stability, with lease rates still considerably higher than pre-pandemic averages. The present scenario demands agility and foresight from property owners, urging them to seize existing opportunities within the prevailing uncertainties.

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

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