

**OVERVIEW.** As expected, the Inland Empire industrial market slowed further in the final period. Vacancy took another big jump up while lease and sale activity slipped again. However, gross absorption (which measures total move-ins) rose sharply, and net absorption remained in positive territory for the second consecutive period. Total inventory topped 660 MSF on significant new deliveries, while total space under construction fell. Active requirements continued to slide, which will impact net absorption going forward. Institutional investors and developers remain cautious in their evaluation of new acquisitions, and the owner / user sale market continued to suffer the impact of higher mortgage costs, though the interest rate on the widely used SBA 504 loan rate moved 41 basis points lower in December.

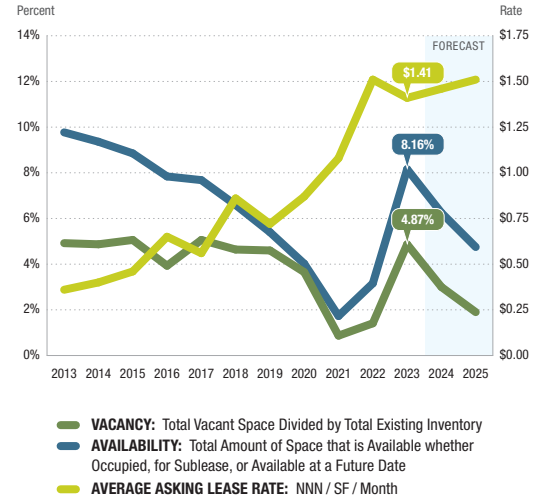
**VACANCY & AVAILABILITY.** The Inland Empire vacancy rate rose a whopping 94 basis points in Q4 after a 76-basis-point increase in Q3. Year-over-year, vacancy has more than doubled from just 1.41% in Q4 of last year. Total vacant space rose to 32.2 MSF in Q4 from 25.6 MSF in Q3. Buildings between 100,000 and 250,000 SF still have the highest vacancy rate, which now stands at 9.58%, up 159 basis points in just 3 months. Buildings over 500,000 SF still have the lowest vacancy rate, but it rose from 1.6% in Q3 to 2.4% in Q4. The availability rate, which includes occupied space offered for lease or sublease, climbed to 8.16% in Q4 from 7.21% due to a strong and steady flow of space offered for sublease. Just a year ago, the availability rate stood at a scant 3.16% alongside a vacancy rate of just 1.41%, a stark comparison that makes clear the significant slowdown in leasing activity throughout the year.

**LEASE RATES.** In Q4 the average asking lease rate for the entire Inland Empire was unchanged at \$1.41. But, year over year, average asking lease rates have fallen by \$0.10 per square foot. However, the asking rate metric can be misleading, as much of the highest-quality first-generation space is offered without a published asking price and these spaces tend to command a lease rate premium due to their superior amenities like higher ceiling clearance and state-of-the-art fire suppression systems. IE West's average asking rate is running \$0.29 per square foot higher than in IE East. IE West ended Q4 at \$1.58, up \$0.05 during the period. The IE East rate was unchanged at \$1.29, but larger spaces offered without an asking rate are more prevalent in that submarket. Rancho Cucamonga has the highest average asking rate in the entire Inland Empire at \$1.75.

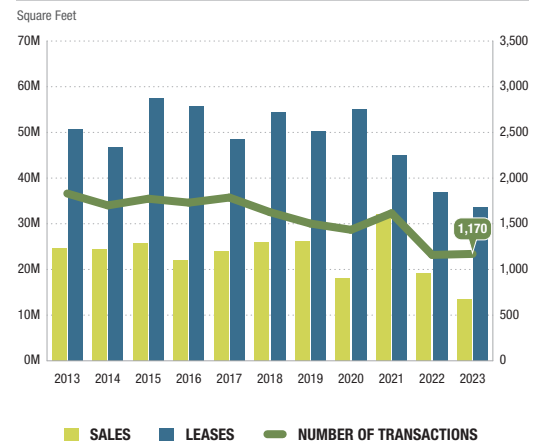
**TRANSACTION ACTIVITY.** Overall lease and sale transactions fell to 7.4 MSF from just under 8.5 MSF in Q3. Lease transaction count fell to 160 in Q4 from 203 in Q3. Sale transactions rose during the final period to 58 from 43 in Q3. Year over year, overall sale and lease activity is down by almost 36% due to a combination of the drop in leasing demand and a more risk-averse posture from institutional investors who must account for longer lease-up times and the threat of long-term sluggishness in rent growth. The biggest lease of the quarter was a 1,227,600 SF lease to Maersk in Hesperia from Westcore. The biggest sale in Q4 was the \$183,866,500 sale of a 799,522 SF building in Perris to Link Logistics from IDI Logistics.

**ABSORPTION.** Inland Empire net absorption remained in positive territory in Q4 with a gain of 1,320,786 SF compared with a gain of 1,506,645 SF in Q3. Net absorption is under pressure due to rising vacancy, longer lease-up times and lower transaction velocity. This time last year, positive net absorption topped 3.1 MSF throughout the region. Almost the entire net gain for the quarter is

### VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



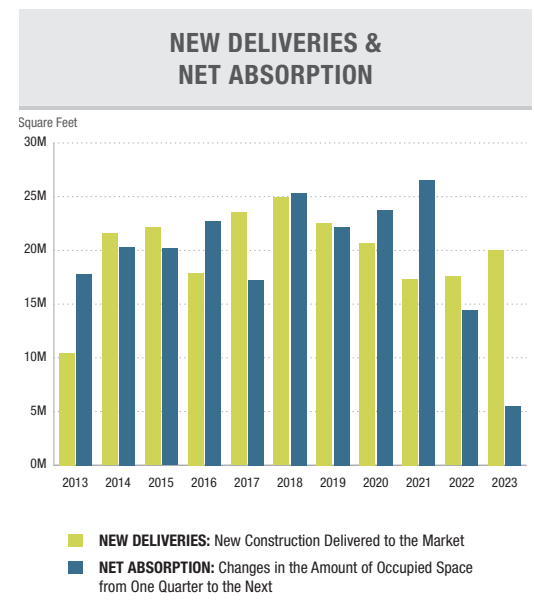
### Market Statistics

	Change Over Last Quarter	Q4 2023	Q3 2023	Q4 2022	% Change Over Last Year
Total Vacancy Rate	▲ UP	4.87%	3.93%	1.41%	246.82%
Availability Rate	▲ UP	8.16%	7.21%	3.16%	158.38%
Average Asking Lease Rate	▬ FLAT	\$1.41	\$1.41	\$1.51	(6.62%)
Sale & Lease Transactions	▼ DOWN	7,403,932	8,475,116	11,494,956	(35.59%)
Gross Absorption	▲ UP	12,391,901	5,685,567	3,306,656	274.76%
Net Absorption	▲ POSITIVE	1,320,786	1,506,645	2,152,486	N/A

due to several move-ins in spaces over 500,000 SF, as the only other net gain was in the 25,000 to 50,000 SF range. Gross absorption (which measures total move-ins) moved sharply higher in Q4 to 12.4 MSF from just under 5.7 MSF in Q3. However, Q4 of 2022 posted gross absorption of over 15 MSF. As we have been reporting all year, net absorption remains under significant threat as many e-commerce operators make moves to right-size their operations after overestimating revenue growth as the economy emerged from the pandemic.

**CONSTRUCTION.** Construction activity is finally on the decline after years of unprecedented growth. The current construction queue fell to 27.45 MSF in Q4 from 33.04 MSF in Q4 2022. This is due to a spate of completed projects during the final quarter and the delay of planned projects in response to the slowdown in leasing activity and institutional-level acquisitions. Of that total, 13.1 MSF is in buildings larger than 500,000 SF. Almost 11 MSF is in buildings from 100,000 to 500,000 SF, the range where vacancy is highest and moving up the fastest, which will present a significant leasing challenge in 2024 as those projects are completed. Planned development took a big jump in Q4, ending the period at 84 MSF. However, most of these projects are likely to stay in the planning phase until the slowdown in leasing activity shows a change in direction.

**EMPLOYMENT.** In December 2023, the unemployment rate in Riverside-San Bernardino-Ontario remained at 5.1%, unchanged from the revised rate of 5.1% in October 2023 and surpassing the 4.1% estimate from the previous year. Notably, transportation/warehousing and retail trade each added 5,600 jobs over the previous month. Construction declined the most, losing 1,800 jobs.



## Forecast

The Inland Empire market was on a tear for over a decade, but finally lost momentum in 2023. While major metrics for the region are still the envy of the other markets across the country, the market has lost ground in terms of leasing activity, new construction, user sales and institutional acquisitions and dispositions. Anecdotal evidence indicates a continuation of current conditions heading into 2024.

Vacancy will move higher as new projects in the construction queue are added to the base inventory, which is already operating under softening conditions. Transaction velocity is down across all size ranges, but, as we reported last period, the biggest concern is centered on spaces in the 100,000 to 250,000 SF range, where availability is already at 12.5% with a disproportionate share of the space under construction also in that size range. Lease-up times have become protracted and landlords are responding by offering substantial up-front incentives like free rent to keep coupon rates at or near current levels. We expect effective rates to fall, especially in that 100,000 to 250,000 SF range.

A bright spot heading into the new year is the recent reduction in mortgage interest rates, a direct result of a fall in the yield on the 10-Year Treasury Note, the primary benchmark for setting commercial property mortgage rates. In December the SBA lowered its rate on the popular 504 loan by 41 basis points to 6.59%. January is expected to bring another rate reduction with it, which could restart the flagging owner / user sale market.

## Significant Transactions

### Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
400 E. Ellis Ave.	Perris	799,522	\$183,866,500	Link Logistics	IDI Logistics
333360-33380 Zeiders Rd.	Manifee	157,147	\$36,095,000	STAG Industrial	Jupiter Holdings, LLC
8787 Caliente Rd.	Hesperia	150,000	\$12,000,000	Sinotec	Sage Hill Northwest, Inc.
304 9th St.	Redlands	67,203	\$12,300,000	Redlands Unified School District	Dalton Trucking, Inc.
484 Alcoa Cir.	Corona	67,150	\$20,250,000	Glanbia plc	Alcoa Corona LP

### Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
8140 Caliente Rd.	Hesperia	1,227,600	Nov-2023	Maersk	Westcore
26881 Palmetto – Renewal	Redlands	585,054	Nov-2023	Marc Fisher	Clarion Partners
26597 San Bernardino Ave. – Sublease	Redlands	557,213	Oct-2023	Yita LLC	Watson Land Company
13521 S. Santa Ana	Fontana	423,388	Oct-2023	GigaCloud	Link Logistics
10721 Jasmine St.	Fontana	410,006	Nov-2023	GigaCloud	Prologis, Inc.

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q4 2023	Square Feet Available	Availability Rate Q4 2023	Average Asking Lease Rate	Net Absorption Q4 2023	Net Absorption 2023	Gross Absorption Q4 2023	Gross Absorption 2023
<b>West</b>													
Chino / Chino Hills	946	56,072,670	1,244,633	935,362	1,725,607	3.08%	2,982,509	5.32%	\$1.60	583,808	(7,574)	1,388,912	2,962,806
Fontana	783	72,377,102	4,467,429	11,619,967	3,670,837	5.07%	6,397,930	8.84%	\$1.46	779,218	(2,057,707)	1,630,210	3,677,118
Mira Loma / Eastvale / Jurupa Valley	408	50,372,043	3,177,371	934,891	2,238,082	4.44%	3,320,989	6.59%	\$1.65	498,432	2,161,745	1,184,716	3,161,753
Montclair	207	4,062,043	0	0	143,322	3.53%	361,237	8.89%	\$1.50	(12,289)	(116,821)	175,310	287,028
Ontario	1,525	122,747,708	6,505,210	7,360,172	6,671,544	5.44%	11,028,446	8.98%	\$1.55	(1,450,186)	2,465,584	1,353,795	6,209,710
Rancho Cucamonga	749	43,128,230	761,687	1,042,258	1,512,924	3.51%	3,948,756	9.16%	\$1.75	2,057,191	1,451,650	2,978,129	4,019,151
Upland	255	3,995,105	76,623	100,000	177,290	4.44%	216,431	5.42%	\$1.15	7,934	(166,728)	118,819	289,101
5,000-24,999	2,782	33,727,303	150,471	310,088	1,156,788	3.43%	1,585,759	4.70%	\$1.72	(120,509)	(306,127)	537,058	1,976,971
25,000-49,999	762	26,700,589	460,343	375,781	1,168,228	4.38%	1,734,155	6.49%	\$1.60	169,189	160,030	788,331	2,102,778
50,000-99,999	481	33,501,199	1,048,887	929,793	1,877,578	5.60%	2,698,835	8.06%	\$1.43	(319,616)	(370,863)	741,188	2,360,575
100,000-249,999	491	74,953,559	2,627,697	1,967,255	6,545,787	8.73%	8,301,931	11.08%	\$1.49	39,850	(1,890,188)	2,648,367	5,152,639
250,000-499,999	232	82,330,541	3,008,384	2,902,727	2,965,747	3.60%	6,822,999	8.29%	\$0.00	641,044	(153,540)	990,758	2,941,148
500,000 plus	125	101,541,710	8,937,171	15,507,006	2,425,478	2.39%	7,112,619	7.00%	\$0.00	2,054,150	6,290,837	3,124,189	6,072,556
<b>West Total</b>	<b>4,873</b>	<b>352,754,901</b>	<b>16,232,953</b>	<b>21,992,650</b>	<b>16,139,606</b>	<b>4.58%</b>	<b>28,256,298</b>	<b>8.01%</b>	<b>\$1.58</b>	<b>2,464,108</b>	<b>3,730,149</b>	<b>8,829,891</b>	<b>20,606,667</b>
<b>East</b>													
Banning	49	1,951,080	0	1,890,411	114,213	5.85%	155,608	7.98%	\$0.91	(47,631)	(110,856)	9,622	90,675
Beaumont	47	6,632,630	3,610,375	2,597,450	0	0.00%	0	0.00%	\$0.00	2,200	7,000	2,200	9,200
Bloomington	125	10,524,410	179,621	0	106,538	1.01%	682,756	6.49%	\$1.25	125,000	20,000	125,000	222,680
Corona / Norco	1,015	35,696,036	203,823	1,102,307	2,568,314	7.19%	3,561,142	9.98%	\$1.45	(46,345)	42,364	238,758	1,600,076
Colton / Grand Terrace	189	11,355,852	0	1,068,657	737,683	6.50%	934,688	8.23%	\$0.64	(285,301)	(677,638)	98,576	424,123
Moreno Valley	111	32,980,589	289,909	41,942,105	583,784	1.77%	1,369,873	4.15%	\$1.25	(1,118)	(360,474)	778,919	1,606,888
Perris	245	41,080,595	3,448,570	10,021,137	2,515,427	6.12%	3,365,527	8.19%	\$1.33	(443,297)	3,011,363	484,026	5,883,780
Redlands / Loma Linda	246	31,337,334	38,740	454,080	3,173,560	10.13%	3,986,986	12.72%	\$1.32	527,272	(526,999)	739,200	1,327,293
Rialto	210	31,582,473	1,019,983	1,146,768	1,318,441	4.17%	3,193,780	10.11%	\$1.43	(66,546)	109,813	58,869	258,077
Riverside	1,131	58,304,047	1,106,240	1,143,888	3,031,477	5.20%	3,957,474	6.79%	\$1.28	(383,480)	(19,812)	846,079	4,364,929
San Bernardino / Highland	610	46,096,031	1,318,994	1,261,310	1,889,943	4.10%	4,424,794	9.60%	\$1.33	(524,076)	284,608	180,761	1,957,495
5,000-24,999	2,436	28,969,414	177,314	96,249	713,143	2.46%	1,164,477	4.02%	\$1.51	(106,105)	(244,390)	194,627	1,302,014
25,000-49,999	585	20,582,705	617,148	509,747	893,650	4.34%	1,437,133	6.98%	\$1.22	(14,723)	(24,288)	258,107	1,385,727
50,000-99,999	363	25,227,817	933,808	775,311	1,396,154	5.53%	2,455,011	9.73%	\$1.31	127,328	33,134	600,672	1,490,660
100,000-249,999	293	45,172,304	2,195,419	2,739,912	4,964,993	10.99%	6,648,874	14.72%	\$1.15	(449,940)	(1,739,773)	333,706	1,786,707
250,000-499,999	143	51,714,383	3,134,172	5,372,205	4,791,953	9.27%	7,743,201	14.97%	\$1.35	(1,232,671)	(1,843,221)	789,185	4,201,916
500,000 plus	158	135,874,454	4,158,394	53,134,689	3,279,487	2.41%	6,183,932	4.55%	\$0.00	532,789	5,597,907	1,385,713	7,578,192
<b>East Total</b>	<b>3,978</b>	<b>307,541,077</b>	<b>11,216,255</b>	<b>62,628,113</b>	<b>16,039,380</b>	<b>5.22%</b>	<b>25,632,628</b>	<b>8.33%</b>	<b>\$1.29</b>	<b>(1,143,322)</b>	<b>1,779,369</b>	<b>3,562,010</b>	<b>17,745,216</b>
<b>Inland Empire Total</b>	<b>8,851</b>	<b>660,295,978</b>	<b>27,449,208</b>	<b>84,620,763</b>	<b>32,178,986</b>	<b>4.87%</b>	<b>53,888,926</b>	<b>8.16%</b>	<b>\$1.41</b>	<b>1,320,786</b>	<b>5,509,518</b>	<b>12,391,901</b>	<b>38,351,883</b>
5,000-24,999	5,218	62,696,717	327,785	406,337	1,869,931	2.98%	2,750,236	4.39%	\$1.44	(226,614)	(550,517)	731,685	3,278,985
25,000-49,999	1,347	47,283,294	1,077,491	885,528	2,061,878	4.36%	3,171,288	6.71%	\$1.45	154,466	135,742	1,046,438	3,488,505
50,000-99,999	844	58,729,016	1,982,695	1,705,104	3,273,732	5.57%	5,153,846	8.78%	\$1.40	(192,288)	(337,729)	1,341,860	3,851,235
100,000-249,999	784	120,125,863	4,823,116	4,707,167	11,510,780	9.58%	14,950,805	12.45%	\$1.29	(410,090)	(3,629,961)	2,982,073	6,939,346
250,000-499,999	375	134,044,924	6,142,556	8,274,932	7,757,700	5.79%	14,566,200	10.87%	\$0.00	(591,627)	(1,996,761)	1,779,943	7,143,064
500,000 plus	283	237,416,164	13,095,565	68,641,695	5,704,965	2.40%	13,296,551	5.60%	\$0.00	2,586,939	11,888,744	4,509,902	13,650,748
<b>Inland Empire Total</b>	<b>8,851</b>	<b>660,295,978</b>	<b>27,449,208</b>	<b>84,620,763</b>	<b>32,178,986</b>	<b>4.87%</b>	<b>53,888,926</b>	<b>8.16%</b>	<b>\$1.41</b>	<b>1,320,786</b>	<b>5,509,518</b>	<b>12,391,901</b>	<b>38,351,883</b>
<b>High Desert</b>													
Adelanto	165	5,229,272	538,042	2,952,311	402,245	7.69%	422,245	8.07%	\$1.37	(29,595)	163,880	0	458,925
Apple Valley	76	3,891,067	0	2,548,160	49,000	1.26%	70,714	1.82%	\$0.00	950	1,619	5,950	59,249
Barstow	54	1,339,276	0	6,940,144	111,852	8.35%	223,852	16.71%	\$1.25	(34,650)	(54,252)	0	47,028
Hesperia	195	5,493,397	0	0	671,918	12.23%	675,564	12.30%	\$1.25	1,823,068	1,693,178	2,403,140	2,493,834
Victorville	135	10,464,999	137,350	13,683,523	574,680	5.49%	648,000	6.19%	\$0.98	15,440	(578,091)	20,640	48,776
<b>High Desert Total</b>	<b>625</b>	<b>26,418,011</b>	<b>675,392</b>	<b>26,124,138</b>	<b>1,809,695</b>	<b>6.85%</b>	<b>2,040,375</b>	<b>7.72%</b>	<b>\$1.32</b>	<b>1,775,213</b>	<b>1,226,334</b>	<b>2,429,730</b>	<b>3,107,812</b>
<b>Temecula Valley</b>													
Hemet	88	1,618,646	0	0	23,203	1.43%	46,003	2.84%	\$1.00	0	(16,703)	0	15,124
Lake Elsinore	183	2,768,239	0	149,500	108,954	3.94%	122,129	4.41%	\$1.00	3,760	(90,190)	47,563	130,557
Menifee	25	607,987	0	0	19,250	3.17%	55,667	9.16%	\$1.25	73,061	81,479	92,311	127,529
Murrieta	274	4,502,443	105,982	197,284	184,282	4.09%	210,009	4.66%	\$1.23	(39,509)	(68,159)	110,725	330,805
San Jacinto	66	1,108,019	0	0	5,730	0.52%	6,230	0.56%	\$0.80	2,500	5,020	4,500	22,550
Temecula	343	10,280,919	124,176	148,044	541,401	5.27%	864,291	8.41%	\$1.27	(16,430)	(299,684)	57,753	480,374
Wildomar	11	317,860	0	0	0	0.00%	0	0.00%	\$1.10	0	(452,359)	0	276,141
<b>Temecula Valley Total</b>	<b>990</b>	<b>21,204,113</b>	<b>230,158</b>	<b>494,828</b>	<b>882,820</b>	<b>4.16%</b>	<b>1,304,329</b>	<b>6.15%</b>	<b>\$1.17</b>	<b>23,382</b>	<b>(840,596)</b>	<b>312,852</b>	<b>1,383,080</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.

## Changing of the Tide

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As 2023 comes to a close, there are many factors we can look back on that give us a glimpse into what we may see coming to fruition in 2024. Through these last four quarters, we witnessed transaction volume decline to a five-year low, sublease supply grow exponentially, and the landlord's market shift to a competitive tenant's market. These factors made 2023 a challenging year. However, the Inland Empire is one of the world's most important industrial markets and its resilience can never be underestimated.

Transaction volume in the IE has slowed in Q4 2023 as compared to Q4 2022 by approximately one third. This can be attributed to an uncertainty in the market due to economic factors such as increased interest rates, an election year coming in 2024, and consumer spending starting to taper off. Market experts believe these factors will continue to keep transaction volume down through 2024 as well. Some decision-makers seem to be waiting for the election prior to making any moves with real estate.

Space available for sublease in the IE has almost doubled in the last two quarters. This is indicative of companies starting to feel economic pressures in the market. With the extremely high rental rates executed in most of these leases, sublessors will need to take a hit on the lease rate to get these spaces occupied. With the preponderance of direct-lease supply that needs to be absorbed, much of this sublease space will be last on the list of options for tenants looking to occupy space in the market.

Tenants seem to hold most of the cards coming into the start of 2024. With multiple options available in each size range, tenants are leveraging options against landlords to get the most competitive deals in the market with plenty of concessions. This is seen across all size ranges, with the exception of buildings 400,000 SF and up. Competitive sets in the smaller size ranges are plentiful, especially in the 75,000 to 250,000 SF range that saw huge absorption numbers in the early 2020's. This is no longer seen as the case, as there are currently 184 properties available (existing and under construction) throughout the Inland Empire. The tide has changed, and tenants hold the upper hand when it comes to negotiating power.

In conclusion, the market will be tested in 2024. Experts expect another slow year for transaction volume and lease-rate growth. With the election coming up in November, tenants and investors will be on the edge of their seats to see what happens with fiscal policies. The Federal Reserve has stated they plan on lowering rates three times and expect to cut their key policy rate to 4.6% by the end of 2024, down from the current range of 5.45% to 5.5%. With these rate drops, we may see some short-term relief in the sale markets.

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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