

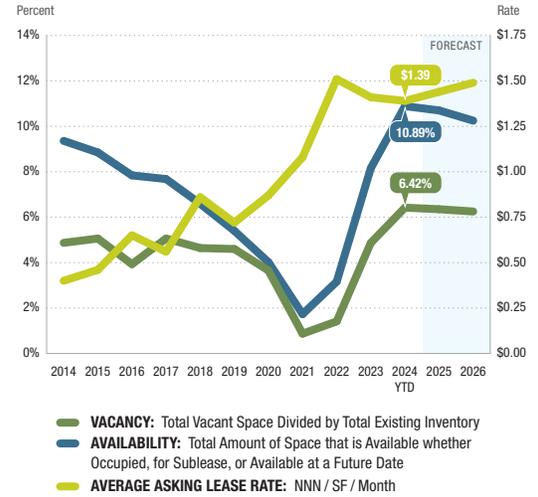
OVERVIEW. The Inland Empire industrial market stumbled again in the opening quarter. Vacancy made its biggest move up since the market low of late 2022, while lease and sale activity slipped. Gross absorption also declined, and net absorption turned negative after several consecutive quarters in the black. Total inventory topped 669 MSF on a slew of new deliveries, while total space under construction continued to fall. Active requirements in circulation are also on the wane, which is reflected in the negative absorption totals. The cost of capital made a slight move down early in the quarter but moved up again by the end of the period, keeping institutional investors and owner/user buyers on the sidelines in anticipation of Fed action to lower rates later in the year.

VACANCY & AVAILABILITY. The Inland Empire vacancy rate jumped by 155 basis points in Q1 on top of a 94-basis-point spike in Q4. Year over year, vacancy has risen by almost 200% from just 2.15% in Q1 of 2023. Total vacant space hit 42.9 MSF in Q1, up from 32.2 MSF in Q4. Vacancy remains highest in buildings between 100,000 and 250,000 SF at 10.37%, up from 9.58% in Q4. Even vacancy in buildings over 500,000 SF, which was less than 1% a year ago, hit 4.62% in Q1, a clear indication that the market slowdown runs across the board. The availability rate climbed into double digits for the first time in more than a decade, finishing the quarter at 10.89%. New deliveries combined with a sharp rise in sublease space are the main drivers of the increase. Availability has doubled year over year.

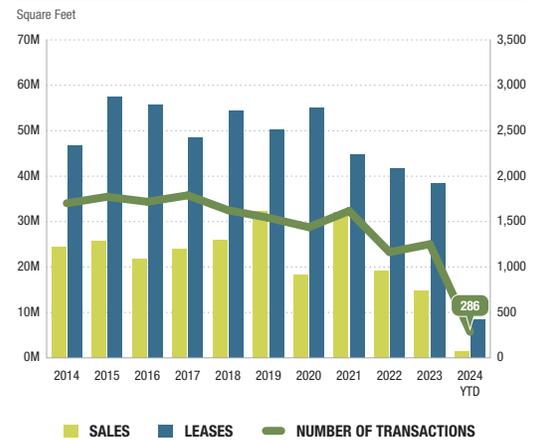
LEASE RATES. Average asking lease rates are finally on the decline after years of quarterly increases. For the entire region across all size ranges, the average asking rate fell 2 cents to \$1.39. Year over year, that same rate has fallen by \$0.05 per square foot. IE West's average asking rate is still running \$0.30 per square foot higher than in IE East, ending the period at \$1.53, down \$0.05. The IE East rate fell to \$1.23 from \$1.29 in the final quarter of 2023, though it is important to note that some new inventory, which tends to command a more premium price, is being offered without an asking rate. Rancho Cucamonga still has the highest average asking rate in the entire Inland Empire at \$1.71, while Banning has the lowest rate in the IE at \$0.91. Effective rates, which take into account concessions like free rent and tenant improvements, are falling faster than asking rates.

TRANSACTION ACTIVITY. Overall lease and sale transactions fell to just under 10 MSF in Q1 from almost 11 MSF in Q4 of last year. But lease transaction count increased to 244 in Q1 from 194 in Q4 with little change in the overall square footage transacted. This is indicative of the falloff in transactions in larger spaces. Sale transactions fell in Q1 to just 42 from 72 in Q4, in large part to stubbornly high mortgage interest rates that have thrown a wet blanket on buyer demand. The steep falloff in sales activity dates back to the second half of 2022 when the impact of the Fed's restrictive monetary policy first hit the commercial mortgage market. Overall sale and lease activity is off by more than 40% year over year.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



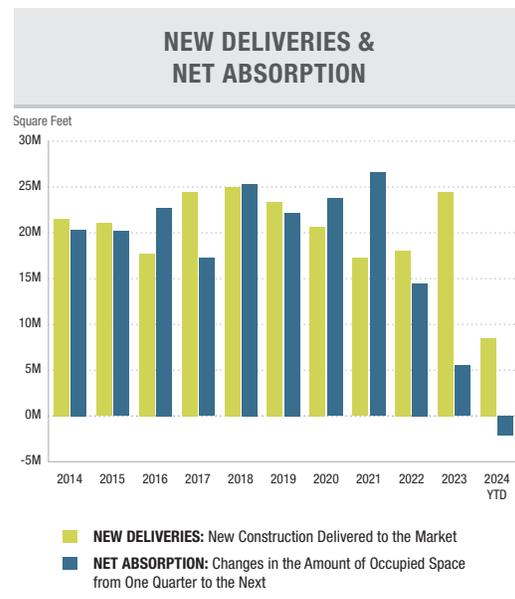
Market Statistics

	Change Over Last Quarter	Q1 2024	Q4 2023	Q1 2023	% Change Over Last Year
Total Vacancy Rate	▲ UP	6.42%	4.87%	2.15%	199.24%
Availability Rate	▲ UP	10.89%	8.16%	5.62%	93.90%
Average Asking Lease Rate	▼ DOWN	\$1.39	\$1.41	\$1.44	(3.47%)
Sale & Lease Transactions	▼ DOWN	9,972,257	10,953,620	16,739,755	(40.43%)
Gross Absorption	▼ DOWN	10,984,567	12,391,901	9,432,464	16.45%
Net Absorption	▼ NEGATIVE	(2,170,786)	1,320,786	3,063,631	N/A

ABSORPTION. Inland Empire net absorption shifted into negative territory in Q1 after several quarters in the black. The region suffered a decline in occupancy of 2,170,786 SF compared to a gain of 1,320,786 SF in Q4. Net absorption has been under intense pressure over the past several quarters as new inventory pours onto the market in the face of softer demand for space. This quarter of last year, positive net absorption topped 3 MSF throughout the region. In some cases this year, pre-leased space under construction is being offered for sublease never having been occupied. Gross absorption also moved lower in Q1, falling to 10.9 MSF from 12.4 MSF in Q4.

CONSTRUCTION. Thankfully, total square footage in the construction queue fell again in Q1, which should ease the upward pressure on vacancy going forward. However, there are still 24.5 MSF of new inventory under construction throughout the Inland Empire. More than 9 MSF was delivered in Q4 region-wide, which was a main contributor to the huge spike in vacancy for the period, as most of that space was delivered on a speculative basis. That is compared with 27.5 MSF in Q4 and the peak of 33.04 MSF in Q4 2022. IE West is still seeing the bulk of the construction activity heading into the new year. Over 17 MSF is in the pipeline compared to just over 7 MSF in IE East. Planned development activity swelled again in Q1, as developers wisely delay their new projects until the demand/supply picture improves.

EMPLOYMENT. The Riverside-San Bernardino-Ontario MSA had an unemployment rate of 5.5% in February 2024, unchanged from January but higher than 4.4% a year ago. Riverside County's rate was 5.6% and San Bernardino County's was 5.4%.



Forecast

The Inland Empire market will remain under immense pressure in the coming quarters. It is the only Southern California market with significant ongoing construction activity, and this fundamentally puts upward pressure on vacancy and downward pressure on average asking lease rates and sales prices. Lease and sale activity has fallen significantly, with little indication of near-term improvement. Consecutive quarters of negative net absorption are expected. After more than a decade of explosive growth, the IE market has cooled considerably in response to macroeconomic headwinds impacting the logistics industry. While still performing well compared to national standards for lease rates and sales prices, the market dynamic is shifting to favor buyers and tenants. This tenant-friendly environment will be especially pronounced for properties in the 100,000 to 250,000 SF range, which carry a disproportionate share of current vacancy.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
17500 N. Perris Blvd.	Moreno Valley	692,600	\$111,700,000	Persis Corporation	Walgreens
40610 County Center Dr.	Temecula	163,690	\$28,250,000	SENTRE, Inc.	RR Donnelley
8545 Pecan Ave.	Rancho Cucamonga	98,685	\$33,750,270	Pecan Ave, LLC	Xebec
6450 Sycamore Canyon Blvd.	Riverside	71,100	\$16,495,200	WPT Capital	RJ Property Management & Development
4695 N. Hallmark Pkwy.	San Bernardino	51,886	\$12,971,500	Linen Kids LLC	1710 Palmyrita, LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
3691 N. Perris Blvd. – Renewal	Perris	1,686,590	Mar-2024	Whirlpool	RREEF
853 QVC Way – Renewal	Ontario	1,061,735	Jan-2024	QVC	JP Morgan Asset Management
6120 Clinker	Jurupa Valley	1,025,132	Mar-2024	Amazon	PGIM Real Estate
4000 Hamner Ave	Ontario	1,003,918	Mar-2024	Amazon	Dermody
11281 Citrus Ave	Fontana	1,003,567	Feb-2024	Elogistek LLC & eFulfill Inc.	Alere Property Group LLC

	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 2024	Square Feet Available	Availability Rate Q1 2024	Average Asking Lease Rate	Net Absorption Q1 2024	Net Absorption 2024	Gross Absorption Q1 2024	Gross Absorption 2024
West													
Chino / Chino Hills	946	56,106,172	1,195,946	1,421,626	2,665,138	4.75%	3,944,444	7.03%	\$1.62	(940,742)	(940,742)	864,927	864,927
Fontana	784	73,222,631	5,632,699	9,447,579	4,368,265	5.97%	6,688,086	9.13%	\$1.52	484,830	484,830	1,457,696	1,457,696
Mira Loma / Eastvale / Jurupa Valley	409	50,809,611	3,604,113	759,250	3,958,436	7.79%	7,193,369	14.16%	\$1.22	(1,148,450)	(1,148,450)	1,324,309	1,324,309
Montclair	207	4,105,712	513,925	0	140,010	3.41%	390,459	9.51%	\$0.00	61,979	61,979	126,986	126,986
Ontario	1,528	124,433,980	5,852,047	9,599,472	7,867,318	6.32%	11,174,549	8.98%	\$1.42	2,788,341	2,788,341	3,991,160	3,991,160
Rancho Cucamonga	749	43,573,488	412,739	943,573	2,215,846	5.09%	4,706,622	10.80%	\$1.71	(111,739)	(111,739)	421,286	421,286
Upland	259	4,078,220	7,700	100,000	325,975	7.99%	403,700	9.90%	\$1.09	(65,268)	(65,268)	56,940	56,940
5,000-24,999	2,775	33,635,308	125,730	310,088	1,242,995	3.70%	1,505,639	4.48%	\$1.73	(98,401)	(98,401)	544,331	544,331
25,000-49,999	767	26,927,826	553,337	466,445	1,294,187	4.81%	2,236,720	8.31%	\$1.50	(60,495)	(60,495)	537,169	537,169
50,000-99,999	488	34,089,255	758,654	625,671	2,283,590	6.70%	2,941,674	8.63%	\$1.35	(105,532)	(105,532)	736,966	736,966
100,000-249,999	490	74,995,359	2,561,848	1,919,276	6,082,313	8.11%	9,397,090	12.53%	\$1.49	543,501	543,501	1,665,603	1,665,603
250,000-499,999	234	82,934,927	2,699,634	3,532,677	4,415,840	5.32%	8,013,402	9.66%	\$1.22	(985,048)	(985,048)	1,233,424	1,233,424
500,000 plus	128	103,747,139	10,519,966	15,417,343	6,222,063	6.00%	10,406,704	10.03%	\$0.00	1,774,926	1,774,926	3,525,811	3,525,811
West Total	4,882	356,329,814	17,219,169	22,271,500	21,540,988	6.05%	34,501,229	9.68%	\$1.53	1,068,951	1,068,951	8,243,304	8,243,304
East													
Banning	48	1,944,130	0	1,890,411	5,510	0.28%	1,046,905	53.85%	\$0.91	57,253	57,253	101,753	101,753
Beaumont	50	10,243,005	0	2,597,450	468,204	4.57%	460,954	4.50%	\$0.00	(468,204)	(468,204)	2,250	2,250
Bloomington	126	10,520,529	81,494	261,632	348,756	3.32%	640,986	6.09%	\$0.99	(242,218)	(242,218)	38,170	38,170
Corona / Norco	1,014	35,740,048	203,823	1,151,866	2,856,445	7.99%	4,180,913	11.70%	\$1.44	(164,269)	(164,269)	264,295	264,295
Colton / Grand Terrace	190	11,347,488	10,000	1,058,657	1,297,783	11.44%	1,412,198	12.45%	\$0.66	(204,095)	(204,095)	159,845	159,845
Moreno Valley	111	33,003,219	289,908	41,942,105	653,283	1.98%	1,998,506	6.06%	\$1.26	30,501	30,501	140,459	140,459
Perris	251	42,739,214	2,711,936	10,787,961	3,887,681	9.10%	7,351,134	17.20%	\$1.18	(279,601)	(279,601)	810,079	810,079
Redlands / Loma Linda	246	31,354,665	19,370	834,659	3,450,208	11.00%	4,512,366	14.39%	\$1.26	78,309	78,309	286,081	286,081
Rialto	210	31,431,079	1,240,884	1,496,484	2,781,298	8.85%	4,961,463	15.79%	\$1.44	(1,317,816)	(1,317,816)	68,244	68,244
Riverside	1,134	58,485,481	881,941	1,143,888	3,548,767	6.07%	5,585,832	9.55%	\$1.28	(554,516)	(554,516)	635,498	635,498
San Bernardino / Highland	610	46,295,996	1,884,592	597,510	2,130,367	4.60%	6,264,740	13.53%	\$1.23	(175,081)	(175,081)	234,589	234,589
5,000-24,999	2,437	28,969,361	167,869	100,499	803,727	2.77%	1,339,040	4.62%	\$1.47	(136,568)	(136,568)	334,373	334,373
25,000-49,999	585	20,577,238	587,822	650,394	978,280	4.75%	1,994,211	9.69%	\$1.27	(116,454)	(116,454)	280,092	280,092
50,000-99,999	364	25,254,252	715,800	974,009	1,874,396	7.42%	3,778,011	14.96%	\$1.20	(339,487)	(339,487)	423,626	423,626
100,000-249,999	299	45,892,535	1,606,484	3,043,491	6,449,042	14.05%	9,556,036	20.82%	\$1.15	(201,877)	(201,877)	545,693	545,693
250,000-499,999	142	51,421,065	3,697,954	5,892,527	6,237,682	12.13%	13,337,944	25.94%	\$0.96	(587,163)	(587,163)	357,957	357,957
500,000 plus	163	140,990,403	548,019	53,101,703	5,085,175	3.61%	8,410,755	5.97%	\$0.00	(1,858,188)	(1,858,188)	799,522	799,522
East Total	3,990	313,104,854	7,323,948	63,762,623	21,428,302	6.84%	38,415,997	12.27%	\$1.23	(3,239,737)	(3,239,737)	2,741,263	2,741,263
Inland Empire Total	8,872	669,434,668	24,543,117	86,034,123	42,969,290	6.42%	72,917,226	10.89%	\$1.39	(2,170,786)	(2,170,786)	10,984,567	10,984,567
5,000-24,999	5,212	62,604,669	293,599	410,587	2,046,722	3.27%	2,844,679	4.54%	\$1.44	(234,969)	(234,969)	878,704	878,704
25,000-49,999	1,352	47,505,064	1,141,159	1,116,839	2,272,467	4.78%	4,230,931	8.91%	\$1.45	(176,949)	(176,949)	817,261	817,261
50,000-99,999	852	59,343,507	1,474,454	1,599,680	4,157,986	7.01%	6,719,685	11.32%	\$1.40	(445,019)	(445,019)	1,160,592	1,160,592
100,000-249,999	789	120,887,894	4,168,332	4,962,767	12,531,355	10.37%	18,953,126	15.68%	\$1.29	341,624	341,624	2,211,296	2,211,296
250,000-499,999	376	134,355,992	6,397,588	9,425,204	10,653,522	7.93%	21,351,346	15.89%	\$0.00	(1,572,211)	(1,572,211)	1,591,381	1,591,381
500,000 plus	291	244,737,542	11,067,985	68,519,046	11,307,238	4.62%	18,817,459	7.69%	\$0.00	(83,262)	(83,262)	4,325,333	4,325,333
Inland Empire Total	8,872	669,434,668	24,543,117	86,034,123	42,969,290	6.42%	72,917,226	10.89%	\$1.39	(2,170,786)	(2,170,786)	10,984,567	10,984,567
High Desert													
Adelanto	169	5,318,804	467,462	3,352,311	292,868	5.51%	312,868	5.88%	\$1.62	132,957	132,957	156,950	156,950
Apple Valley	76	3,889,832	0	2,548,160	47,000	1.21%	29,324	0.75%	\$0.00	1,000	1,000	2,250	2,250
Barstow	53	1,307,883	0	0	119,427	9.13%	126,427	9.67%	\$1.00	(8,525)	(8,525)	0	0
Hesperia	198	6,798,611	0	6,940,144	793,719	11.67%	932,299	13.71%	\$0.97	(148,733)	(148,733)	18,615	18,615
Victorville	135	10,468,308	137,350	14,778,763	587,473	5.61%	643,040	6.14%	\$1.01	(12,793)	(12,793)	21,075	21,075
High Desert Total	631	27,783,438	604,812	27,619,378	1,840,487	6.62%	2,043,958	7.36%	\$1.29	(36,094)	(36,094)	198,890	198,890
Temecula Valley													
Hemet	88	1,618,646	0	0	23,203	1.43%	68,003	4.20%	\$1.00	0	0	0	0
Lake Elsinore	182	2,705,239	63,000	149,500	148,575	5.49%	115,225	4.26%	\$1.03	(78,531)	(78,531)	4,044	4,044
Menifee	26	615,986	0	0	19,433	3.15%	44,226	7.18%	\$1.25	(183)	(183)	0	0
Murrieta	275	4,543,790	56,716	183,653	207,378	4.56%	261,360	5.75%	\$1.22	938	938	34,739	34,739
San Jacinto	66	1,108,019	0	0	9,730	0.88%	9,730	0.88%	\$1.13	(6,000)	(6,000)	2,500	2,500
Temecula	347	10,308,546	94,582	148,044	527,334	5.12%	860,770	8.35%	\$1.26	31,364	31,364	91,062	91,062
Wildomar	12	331,720	0	259,650	3,664	1.10%	2,090	0.63%	\$0.00	(3,664)	(3,664)	0	0
Temecula Valley Total	996	21,231,946	214,298	740,847	939,317	4.42%	1,361,404	6.41%	\$1.22	(56,076)	(56,076)	132,345	132,345

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.



Inland Empire Industrial Market Recalibration

by **Brad Fox, SIOR**

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The first quarter of 2024 marks a significant transformation in the Inland Empire's industrial market, highlighted by a steep decline in transaction count, unveiling a market shift to favor tenants and buyers. This shift presents a golden moment for strategic market engagement, with price and lease rate reductions not seen in nearly a decade, and property owners motivated by these dynamics offering attractive rate cuts and incentives. Approximately 979 buildings or 1,188 spaces are now available with properties remaining on the market for an average of more than four months.

In response, property owners are extending unprecedented lease concessions, including free rent and tenant improvement incentives, aimed at reducing or stabilizing occupancy costs. This environment sets the stage for potential transformations in lease rates, especially for Class A warehouse space, which could approach lease rates north of \$2.00 per square foot within the next 3-4 years, indicating strategic advantages for engaging in leasing opportunities now. Despite this, purchasing remains an attractive option with 229 properties on the market, averaging \$269 per square foot, and ownerships more open to negotiations.

This period of recalibration, driven by economic uncertainties and a cautious stance from institutional investors and developers, signals a strategic shift towards sustainable growth and long-term gains. The steady employment rate within Riverside-San Bernardino Counties, especially in sectors such as transportation, warehousing, and retail trade, continues to drive demand for industrial property, underscoring the region's significance in the logistics and warehousing economy.

The market might see an increase in vacancy rates towards 7%, with new leasing volumes slightly down to 32 MSF in 2023, marking a 5% decline from the decade's average. The early part of 2024 has not witnessed a significant rise in leasing activity, with only 26% of the space currently under construction being pre-leased. This suggests that the introduction of approximately 20 MSF of new space available for sublease could push vacancy rates higher, even with a modest increase in demand.

Navigating into a transformative phase, the Inland Empire's industrial real estate landscape is at a pivotal juncture, bolstered by its strategic locale and solid infrastructure amidst economic flux. Now more than ever, industry visionaries must employ precise strategy and decisive action, adeptly capitalizing on the unfolding opportunities within this complex market. With its rich potential and dynamic environment, the Inland Empire stands firm as a fertile ground for those poised to engage with its nuances, promising substantial growth and investment prospects.

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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