

# Inland Empire

## Industrial Market Outlook Q1 2023

### MARKET OVERVIEW

The Inland Empire's industrial market continued to notice the increase in construction shaping up from the impact of demand caused by the pandemic and supply chain challenges that are now a distant memory. With the economy charging along at a different pace now, the supply of new warehouse and distribution space has caught up with demand. While the vacancy rate in Q1 2023 registered a low 2.8%, it is a full percentage point higher than the previous quarter and 160 bps above a year ago. Developers added 8.6M square feet of completed construction to the market in Q1 2023. With solid demand and rents rising, developers continued building new projects. More than 30.9M square feet of industrial space was under construction at the end of Q1 2023.

The average asking rent reached a new record high of \$1.25/SF triple net, up 15.7% from the prior quarter and 47.1% from the first quarter of 2022. The market's strength has been remarkable as rent logged a 291% increase from the depths of the Great Recession in 2009. The exponential growth in demand for e-commerce has kept development of industrial space going. The market leased 6.7M square feet in Q1 2023, up 5.6% from Q4 2022.

### TRENDS TO WATCH

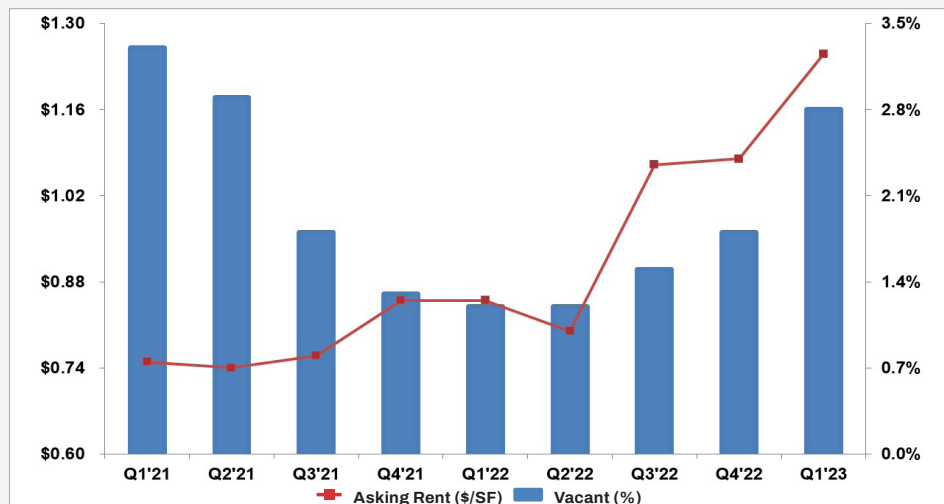
The leasing volume of industrial space outpaced completed construction for years as developers fought to keep pace with demand. This quarter, for the first time since the buildup during the "Great Recession" completed construction exceeded leasing volume; 8.6M square feet versus 6.7M square feet, respectfully. With completed construction totaling 28M square feet over the past five quarters and net absorption at 17.3M square feet over the same timeframe, construction finally caught up with demand in 2023.

Developers, which have a pulse on the market, have taken notice. Industrial space under construction began decelerating in Q1 2023, down 10.2% quarter over quarter and 5% year over year. Most noticeably in the East, which led the market in construction a year ago, construction dropped 22.2% quarter over quarter and 34.8% year over year to 10.8M square feet.

Strong rental rate growth encouraged development, driving sale prices and volume. In Q1 2023 the average sale price per square foot at \$309 hit a new record high, up 24.9% from a year ago.

Peak pricing and rising availability of space will shape the industrial market moving forward.

### Average Asking Rent and Vacancy Rate



### MARKET OUTLOOK

#### Asking Rental Rates



#### Sale Prices



#### Availability/Vacancy Rates



#### Landlord Concessions



#### Sales/Leasing Volume



#### New Construction



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### Market Statistics\*

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT (\$/SF NNN)	AVERAGE SALE PRICE (\$/SF)
East	268,337,595	10,750,553	7.3%	2.2%	3,431,351	3,431,351	823,528	823,528	\$1.08	\$350
High Desert	27,016,633	2,959,572	9.9%	2.7%	92,486	92,486	1,524,580	1,524,580	\$0.95	\$112
South	22,601,177	258,257	8.5%	5.8%	238,726	238,726	681,430	681,430	\$1.03	\$234
West	344,808,568	16,972,836	8.7%	3.1%	2,976,980	2,976,980	1,764,407	1,764,407	\$1.56	\$315
<b>Inland Empire</b>	<b>662,763,973</b>	<b>30,941,218</b>	<b>8.2%</b>	<b>2.8%</b>	<b>6,739,543</b>	<b>6,739,543</b>	<b>4,793,945</b>	<b>4,793,945</b>	<b>\$1.25</b>	<b>\$309</b>

### Leasing

The last five quarters underscore leasing volume trends. Leasing volume totaled 6,739,543 square feet in Q1 2023, while completed construction added to the market totaled 8,636,024 square feet. This quarter, for the first time since the buildup during the “Great Recession” completed construction exceeded leasing volume.

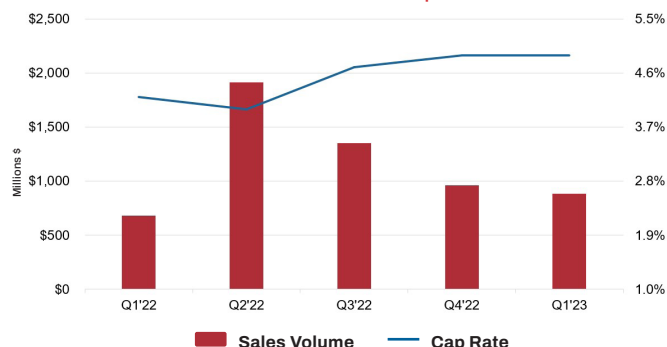
Leasing Volume vs. Completed Construction



### Sales

While total sales volume in Q1 2023 was strong the impact of rising interest rates was felt, ending the quarter 7.7% below Q4 2022 at approximately \$885.4M. The average cap rate on investment sales moved up 70 basis points from the first quarter of 2022 to 4.9%.

Sales Volume vs. Cap Rate



### Select Lease Transactions

ADDRESS	CITY	SUBMARKET	SIZE SF
3413 Manitou Ct	Jurupa Valley	East	1,379,287
10545 Production Ave - Bldg 5*	Fontana	West	1,101,840
657 Nance St	Perris	East	864,000
23120 Oleander Ave	Perris	East	418,000
17825 Indian St	Moreno Valley	East	366,117

### Select Sales Transactions

ADDRESS	CITY	SUBMARKET	SIZE SF
18880 Navajo Rd	Apple Valley	High Desert	1,344,244
10545 Production Ave - Bldg 5*	Fontana	West	1,101,840
1800 S Wineville Ave	Ontario	West	446,624
6075 Lance Dr	Riverside	East	361,346
33520 Zeiders Rd - Gateway at Menifee (Part of a Portfolio)	Menifee	South	229,934

\*Sale Leaseback

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### High Desert

Adelanto  
Apple Valley  
Barstow  
Helendale  
Hesperia  
Lucerne Valley  
Phelan  
Silver Lakes  
Victorville

### West IE

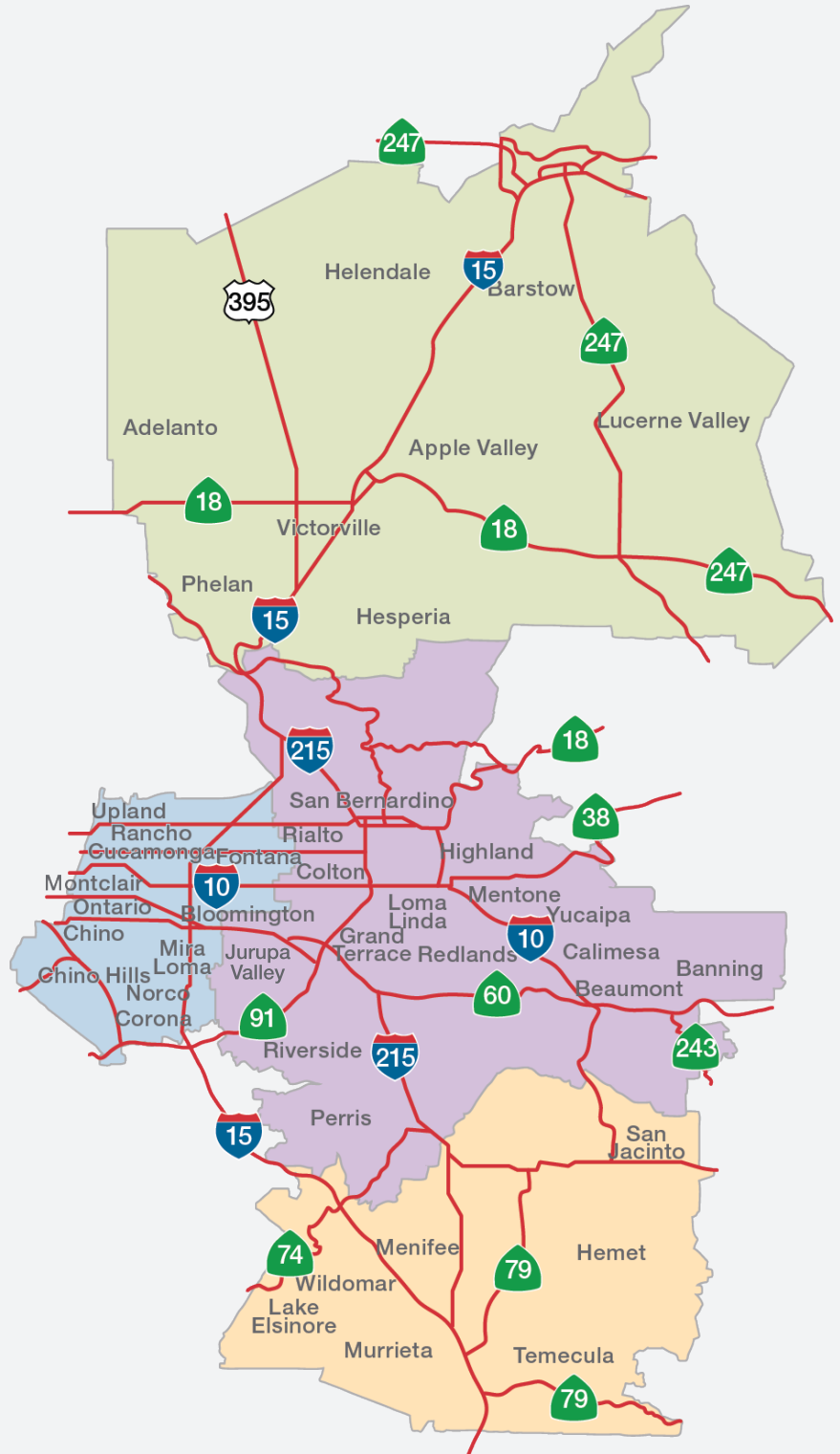
Chino Hills  
Chino  
Corona  
Eastvale  
Fontana  
Mira Loma  
Montclair  
Norco  
Ontario  
Rancho Cucamonga  
Upland

### East IE

Banning  
Beaumont  
Bloomington  
Calimesa  
Colton  
Grand Terrace  
Highland  
Jurupa Valley  
Loma Linda  
Mentone  
Moreno Valley  
Perris  
Redlands  
Rialto  
Riverside  
Rubidoux  
San Bernardino  
Yucaipa

### South IE

Hemet  
Lake Elsinore  
Menifee  
Murrieta  
San Jacinto  
Temecula  
Wildomar



### NAI Capital Commercial Southern California Office Locations

#### Headquarters

15821 Ventura Blvd., Ste. 320  
Los Angeles, CA 91436  
818.905.2400

#### Los Angeles County

##### Downtown LA

707 Wilshire Blvd., Ste. 5125  
Los Angeles, CA 90017  
213.632.7700

##### West Los Angeles

11835 Olympic Blvd., Ste. 700E  
Los Angeles, CA 90064  
310.440.8500

##### Torrance

970 W. 190th St., Ste. 100  
Torrance, CA 90502  
310.532.9080

##### Pasadena

225 S. Lake Ave., Ste. 1170  
Pasadena, CA 91101  
626.564.4800

##### Valencia

25060 Avenue Stanford., Ste. 165  
Valencia, CA 91355  
661.705.3550

##### Diamond Bar

21660 E. Copley Dr., Ste. 320  
Diamond Bar, CA 91765  
909.348.0600

#### Ventura County

##### Oxnard

300 Esplanade Dr., Ste. 470  
Oxnard, CA 93036  
805.278.1400

##### Westlake Village

2555 Townsgate Rd., Ste. 320  
Westlake Village, CA 91361  
805.446.2400

#### Inland Empire

##### Ontario

800 N. Haven Dr., Ste. 400  
Ontario, CA 91764  
909.945.2339

##### Victorville

13911 Park Ave., Ste. 206  
Victorville, CA 92392  
760.780.4200

#### Orange County

##### Irvine

1920 Main St., Ste. 100  
Irvine, CA 92614  
949.854.6600

#### Coachella Valley

##### Palm Desert

75-410 Gerald Ford Dr., Ste. 200  
Palm Desert, CA 92211  
760.346.1566