

Inland Empire

Industrial Market Outlook Q2 2024

MARKET OVERVIEW

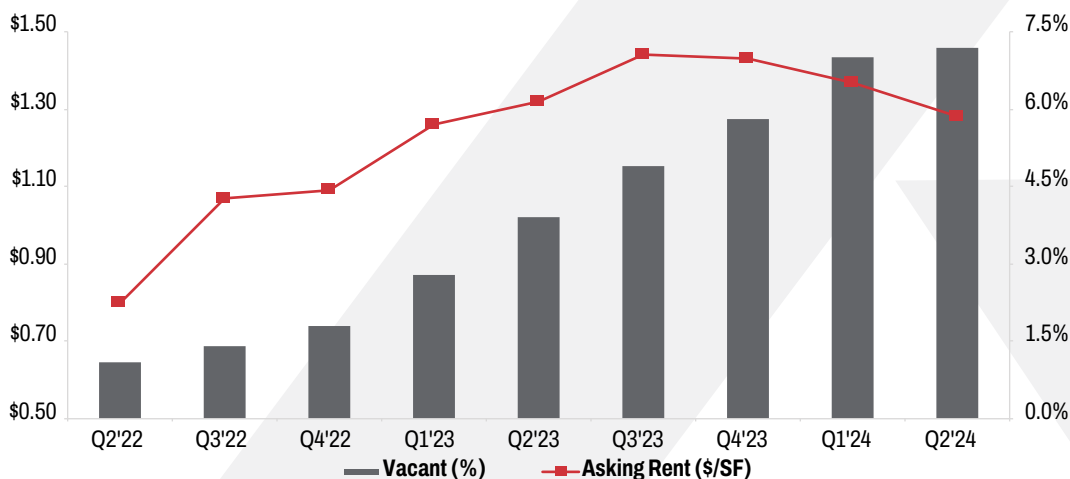
In Q2 2024, the industrial vacancy rate in the Inland Empire reached 7.2%, rising by 20 basis points quarter-over-quarter and increasing by 330 basis points year-over-year. Over the past two quarters, the Inland Empire added approximately 14.2 million square feet of completed construction to the market, while net absorption, though positive, only registered about 3.2 million square feet during the same timeframe. This indicates a shift in the industrial market's trajectory. While the rate of completed construction increased by 14.8% year-to-date compared to mid-year 2023, it marked a 9.0% decline quarter-over-quarter, signaling fewer construction starts as the pipeline for warehouse space begins to descend from the demand spurred by e-commerce's once urgent need for capacity. The amount of industrial space under construction decreased by 48.6% compared to last year and dropped 15.6% from the prior quarter. The once strong rent growth, the primary driver for new construction, has now begun a noticeable descent, with the average asking rent in Q2 dropping by 6.6% from the previous year to \$1.28/SF triple net, down 3.0% from Q1 2024.

In Q2, sales volume more than doubled from a slow Q1 of 2024. However, year-to-date compared to the first half of last year, volume was down 49.3%, totaling approximately 4.8 million square feet at the end of Q2 2024. The average sale price per square foot dipped 1.0% quarter-over-quarter to \$267, remaining 13.3% above last year's level. Leasing volume rose 21.1% quarter-over-quarter, closing the first half of 2024 with approximately 25.5 million square feet leased, up by 6.7% year-to-date.

TRENDS TO WATCH

Shrinking lease and sale velocity will present a challenge while providing the impetus for working out deals. The increase in warehousing options will drive the leasing market as companies seek flexible solutions to meet evolving demand. Excess sublease space will continue to seek backfill opportunities. The amount of vacant sublease space on the market increased by a modest 1.8% from Q1 2024, but it remains 214% higher than Q2 2023, totaling approximately 13.1 million square feet—a new all-time high. While cargo flow through the ports keeps pace, the abundance of industrial space offers numerous options for warehousing requirements. According to the latest figures from the Ports of Los Angeles and Long Beach, inbound loaded TEU cargo volumes—a significant driver of warehouse space demand in the Inland Empire—increased by 17% year-to-date as of May 2024. While the rate of growth is expected to slow, prices will continue to descend as interest rates remain elevated, affecting industrial building sales, though quality space still commands a premium. Sales dollar volume increased by 122% quarter-over-quarter, but the year-to-date total is down 42.8% from last year's figure. The median sale price per square foot at \$287, compared to the average, registered a higher year-over-year increase of 15.3% and a 14.7% quarter-over-quarter rise, reflecting the market's impact of fluctuating sales volume and prices. The combination of elevated interest rates and slowing demand will continue to exert downward pressure on pricing heading into the second half of the year, as opportunities are seized in the marketplace.

VACANCY RATE AND AVERAGE ASKING RENT



MARKET OUTLOOK

**Asking
Rental Rates**



**Sale
Prices**



**Availability
Vacancy Rates**



**Landlord
Concessions**



**Leasing/Sales
Volume**



**New
Construction**



J.C. Casillas
Managing Director
Research
jcasillas@naicapital.com
Direct: 818.933.2433

**NAI Capital Commercial
Research**
www.naicapital.com

Inland Empire

Industrial Market Outlook Q2 2024

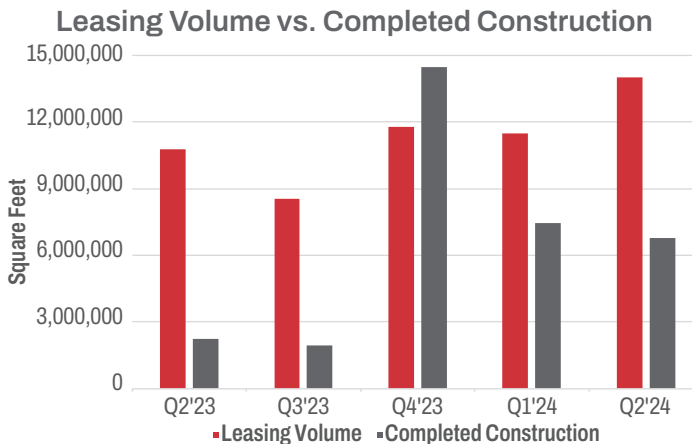
MARKET STATISTICS*

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	318,292,339	7,872,736	13.0%	8.7%	3,964,611	8,853,040	684,786	1,778,836	\$1.07	\$226
High Desert	30,421,635	147,350	5.7%	5.4%	187,349	270,990	37,277	67,107	\$1.29	\$168
South	22,910,820	1,005,099	9.3%	5.0%	223,384	477,598	127,741	174,664	\$0.88	\$241
West	360,703,057	11,948,494	12.0%	6.1%	9,623,147	15,895,211	2,360,565	2,764,897	\$1.40	\$281
Inland Empire	732,327,851	20,973,679	12.1%	7.2%	13,998,491	25,496,839	3,210,369	4,785,504	\$1.28	\$267

* RBA includes industrial buildings of all sizes. Rents reflect buildings of 10,000 square feet or greater.

LEASING TRENDS

The pace of leasing volume, averaging 11.3 million square feet quarterly, approached 14 million square feet this quarter. While completed construction decreased by 9.0% in Q2 compared to Q1 2024, it was over four times higher than at this time last year.



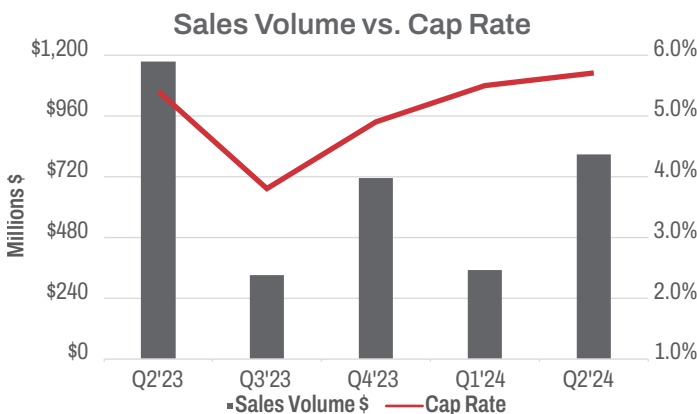
Select Lease Transactions

Address	City	Submarket	Square Feet
691 N Perris Blvd*	Perris	East	1,686,590
4121 Coyote Canyon	Fontana	West	1,171,788
4000 S Hamner Ave	Ontario	West	1,003,918
12400 Arrow Rt	Rancho Cucamonga	West	611,573
3510 E Francis Ave	Ontario	West	562,089

*Renewal

SALES TRENDS

In Q2 2024, sales volume saw a significant rebound from the previous quarter but remained 31.0% lower than Q2 2023. The average cap rate fluctuated by 20 bps from the prior quarter and by 30 bps year-over-year, averaging 5.7%.



Select Sales Transactions

Address	City	Submarket	Square Feet
13423-13473 Santa Ana Ave	Fontana	West	819,004
3351 E Philadelphia St & 4450 E Lowell St	Ontario	West	519,116
4982 Hallmark Pky	San Bernardino	East	340,080
16796 Boyle Ave	Fontana	West	172,219
210 Radio Rd	Corona	West	143,785