

Inland Empire

Industrial Market Outlook Q3 2023

MARKET OVERVIEW

The Inland Empire industrial market in the third quarter of 2023 is experiencing the effects of developers overbuilding warehouses to address supply chain challenges resulting from the pandemic shutdown. The once-booming economy and rising rents have significantly slowed from the previously high demand for warehouse space that had outpaced supply across the region. The average asking rent increased by just 3 cents from the previous quarter to \$1.34 triple net, although it remains up by 25.2% from the third quarter of 2022. This quarter, the vacancy rate reached a five-year high of 4.8%, representing a 110-basis point increase from the previous quarter and a 330-basis point increase from the third quarter of 2022. Looking back to this time last year, the market was exceptionally strong, with vacancy rates at record lows, and massive industrial space developments were rapidly breaking ground in response to surging e-commerce demand.

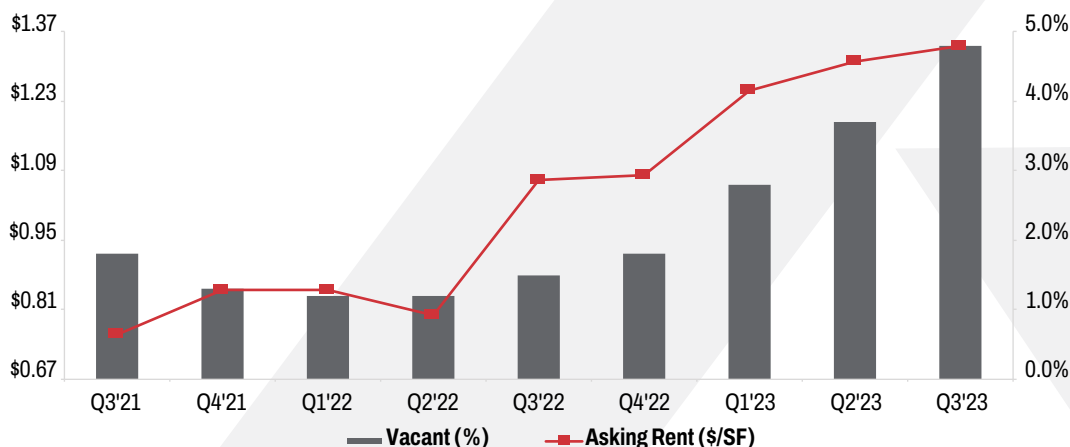
Developers are racing against the clock to finish warehouse and distribution space as the business cycle adjusts. Close to 35.2 million square feet of industrial space in various phases of completion remained under construction at the end of the third quarter. Since the third quarter of 2020, approximately 61.1 million square feet of industrial space have been completed. With completed construction totaling close to 12.6 million square feet and net absorption turning negative by 7.7 million square feet year-to-date, it is clear that the supply of new construction has caught up with demand this quarter.

TRENDS TO WATCH

In the East, developers were building extensively due to high demand for warehouse space. The need for vast land areas to build mega distribution centers to serve SoCal's rapidly growing logistics needs drove the growth of the East industrial submarket. However, construction in the East has slowed, with a 30.2% decrease from the previous year, despite a 5.5% increase in space under construction this quarter. The submarket has become saturated, with over 12.4M square feet of completed industrial space added since Q3 2022. The supply of new construction has now exceeded demand, resulting in 3.1M square feet of negative net absorption this quarter, as completed construction has totaled approximately 6.2M square feet year to date. According to the latest figures from the Ports of Los Angeles and Long Beach, combined TEU cargo volumes, a significant driver of warehouse space demand, declined by 23.1% year to date as of August.

Furthermore, companies are expected to continue shedding excess space, evident in the industrial market reaching an all-time high in available sublease space during the third quarter. This trend highlights the overextension of their space requirements. In the third quarter, approximately 3M square feet of additional sublease space became available, marking the largest quarter-over-quarter increase on record, surpassing the previous record set in the last quarter. Notably, 56% of the 11.7M square feet of total available sublease space is in the East Inland Empire. As demand decelerates and inflation and transportation costs remain elevated, well-located state-of-the-art warehouse distribution space in SoCal, closest to the Ports, will become increasingly attractive.

VACANCY RATE AND AVERAGE ASKING RENT



MARKET OUTLOOK

**Asking
Rental Rates**



**Sale
Prices**



**Availability
Vacancy Rates**



**Landlord
Concessions**



**Leasing/Sales
Volume**



**New
Construction**



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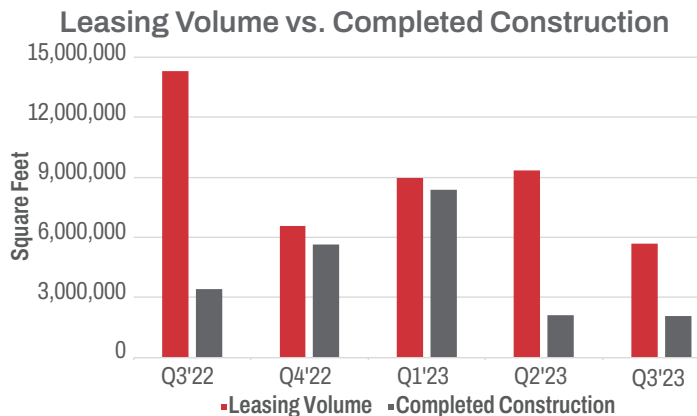
MARKET STATISTICS*

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	270,539,671	12,203,234	9.9%	4.4%	2,409,684	1,588,234	445,457	4,208,151	\$1.16	\$250
High Desert	27,339,083	2,907,390	13.2%	5.0%	35,796	79,552	49,672	2,379,662	\$1.29	\$128
South	22,802,137	715,832	10.1%	4.9%	177,070	388,475	231,092	567,320	\$0.99	\$194
West	348,037,848	19,301,438	10.8%	5.2%	5,344,929	3,644,054	539,206	3,083,869	\$1.48	\$315
Inland Empire	668,718,739	35,127,894	10.5%	4.8%	7,967,479	5,700,315	1,265,427	10,239,002	\$1.34	\$262

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

LEASING TRENDS

The shift in demand for speculative development is highlighting the deceleration in leasing volume through the third quarter of 2023, with completed construction following a similar trend. While the market still has demand for well-located, state-of-the-art warehouse distribution space, it has changed its trajectory.



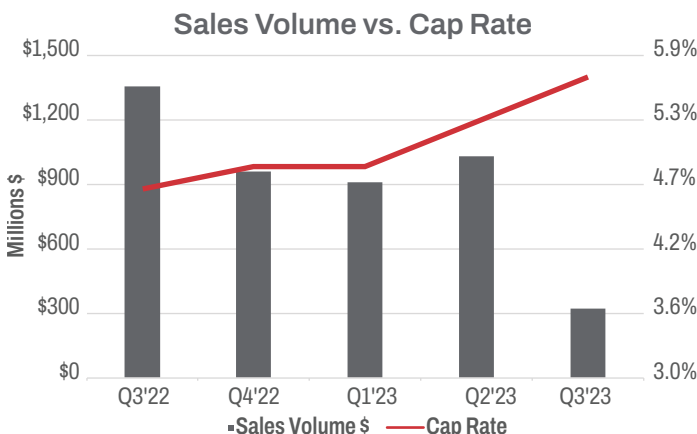
Select Lease Transactions

Address	City	Submarket	Square Feet
1420 N Tamarind Ave*	Rialto	East	677,224
11618 Mulberry Ave	Fontana	West	633,953
6911-6949 Bickmore Ave	Chino	West	265,267
290 W Markham St*	Perris	East	247,384
2521 E Francis St	Ontario	West	200,036

*Sublease

SALES TRENDS

In the third quarter of 2023, sales volume experienced a significant drop, plummeting 69% from the second quarter of 2023 to approximately \$321 million. The increase in interest rates pushed the average cap rate up by 100 basis points from last year to 5.7%, exerting upward pressure on cap rates.



Select Sales Transactions

Address	City	Submarket	Square Feet
24712 6th St	San Bernardino	East	179,000
43195 Business Park Dr*	Temecula	South	160,561
17618 Harvill Ave	Perris	East	147,354
14815 Hilton Dr	Fontana	West	76,809
5075 Edison Ave	Chino	West	76,575

*Sale Leaseback