

Inland Empire

Industrial Market Outlook Q4 2022

MARKET OVERVIEW

In the fourth quarter of 2022, the Inland Empire's industrial market began to see an improvement taking shape from the impact of sorting out supply chain challenges caused by the pandemic. As the economy roared, rent continued rising as the demand for warehouse space outstripped supply across the region. While the vacancy rate remained at an extremely low 1.9 percent, it is up 30 basis points from the previous quarter and 60 basis points from the fourth quarter of 2021. The average asking rent increased 32 cents from the prior year to \$1.17 per square foot triple net, up 37.6 percent from the fourth quarter of 2021. The market's strength was extraordinary over the past year, vacancy recorded a 10.2 percentage point spread from its 2009 all-time peak when vacancies exploded in the Great Recession. The exponential growth in demand for e-commerce due to COVID-19 resulted in the huge development of industrial space in the Inland Empire.

Soaring demand, for warehouse and distribution space, has kept developers active. Completed construction added close to 21 million square feet to the market from Q4 2021. In the fourth quarter of 2022, over 3.9 million square feet of industrial space was completed. With completed construction totaling more than 18.4 million square feet and net absorption at approximately 14.3 million square feet year to date, the supply of new construction has caught up with demand in 2022.

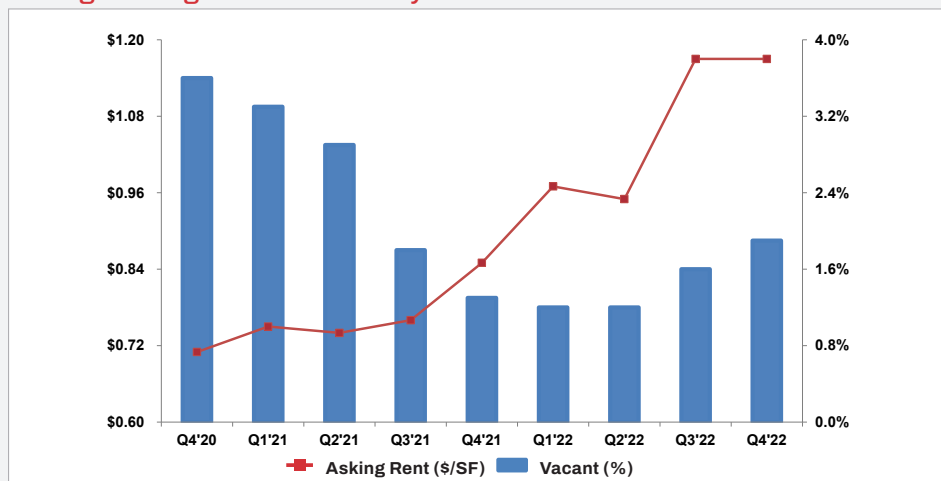
TRENDS TO WATCH

The Inland Empire's East industrial submarket grew out of the necessity for large swaths of land to build mega distribution centers to serve Southern California's fast-growing logistics needs. While developers continued building in the East Inland Empire as demand for warehouse and distribution space remained robust, space under construction decreased 13.8 percent quarter over quarter. The East was the only submarket to see a decline in construction this quarter as completed construction there added more than 8.2 million square feet year to date – the most square footage added to the Inland Empire in 2022. With net absorption of approximately 7.3 million square feet year to date, the supply of new construction appeared to catch up with demand in the East Inland Empire this year.

In the West Inland Empire, which has the largest amount of space under construction at 17.5 million square feet, construction increased 6.6 percent quarter over quarter – up 38.6 percent year over year. The West added 7.5 million square feet of completed construction and had 4.9 million square feet of net absorption year to date. The supply of new construction there too appeared to catch up with demand.

The increase in the supply of industrial space will provide opportunity for tenants that once had limited options. Rent while at an all-time high, will begin a lower rate of growth as higher interest rates, increasing borrowing costs, and a slowing economy impact real estate values heading into 2023.

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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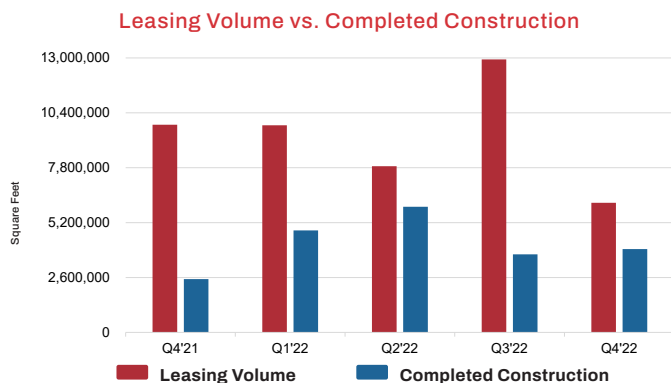
NAI Capital Commercial Research
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Market Statistics*

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	262,434,544	14,250,277	5.1%	1.6%	3,063,387	18,646,476	1,277,944	7,093,779	\$1.53	\$232
High Desert	26,734,523	1,642,462	9.3%	2.2%	46,244	815,919	165,902	3,771,134	\$0.86	\$72
South	22,897,207	916,671	13.0%	6.7%	264,067	1,229,657	332,360	781,244	\$1.06	\$147
West	341,375,654	17,521,817	7.1%	1.7%	2,767,088	16,057,548	2,312,662	8,224,906	\$1.62	\$303
Inland Empire	653,441,928	34,331,227	6.6%	1.9%	6,140,786	36,749,600	4,088,868	19,871,063	\$1.17	\$236

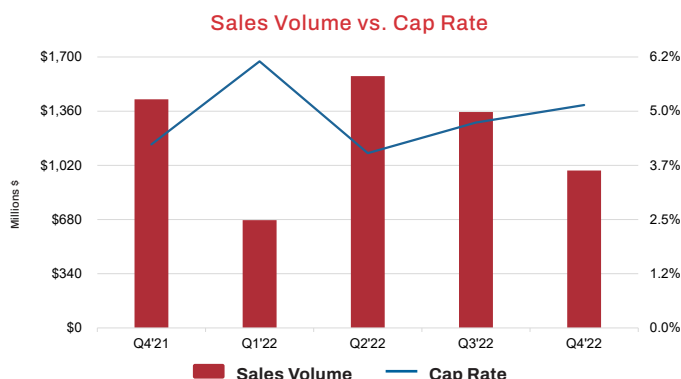
Leasing

The last five quarters underscore leasing volume trends. Leasing volume totaled 46,583,162 square feet year to date in Q4 2022, while completed construction added to the market totaled 20,951,849 square feet. Leasing volume remained well above the supply of completed construction in the Inland Empire.



Sales

While total sales volume in 2022 was strong the impact of rising interest rates was felt, closing the year 2.2 percent below 2021 at approximately \$4.7 billion. The average cap rate on investment sales moved up 90 basis points from the fourth quarter of 2021 to 5.1 percent.



Select Lease Transactions

ADDRESS	CITY	SUBMARKET	SIZE SF
36500-37356 Cherry Valley Blvd	Cherry Valley	East	1,017,845
2600 E John St	Banning	East	1,000,000
36500-37356 Cherry Valley Blvd	Cherry Valley	East	814,822
15835 San Antonio Ave	West	East	534,404
300 Palmyrita Ave	Riverside	East	374,000

Select Sales Transactions

ADDRESS	CITY	SUBMARKET	SIZE SF
3100 Milliken Ave	Mira Loma	East	760,829
17300 Silica Rd	Victorville	High Desert	579,708
251 E Rider St	Perris	East	355,031
601 Rockefeller Ave	Ontario	West	252,800
100 W Walnut Ave	Perris	East	205,589

Inland Empire

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High Desert

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

West IE

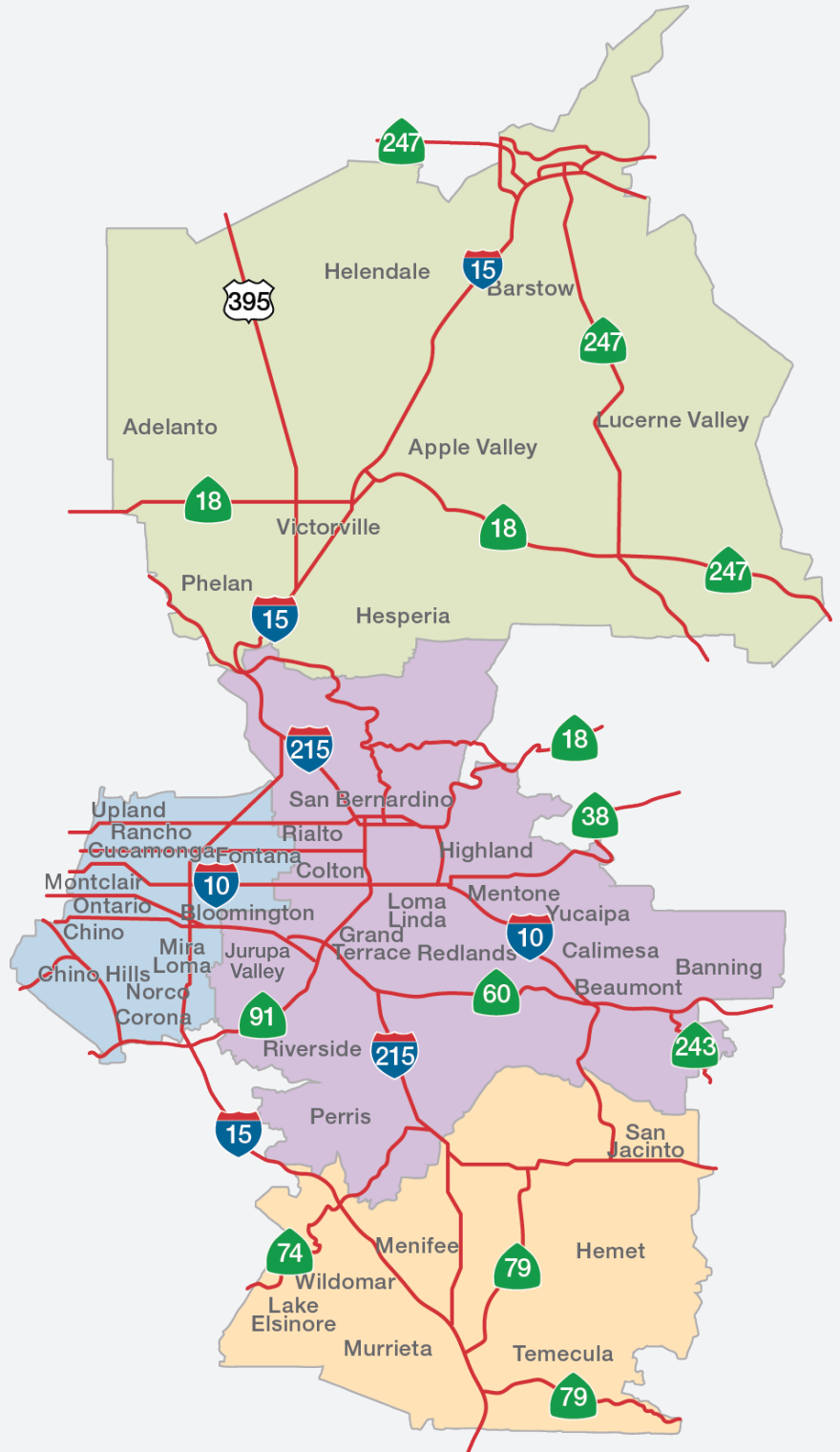
- Chino Hills
- Chino
- Corona
- Eastvale
- Fontana
- Mira Loma
- Montclair
- Norco
- Ontario
- Rancho Cucamonga
- Upland

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