

# Inland Empire

## Industrial Market Outlook Q2 2023

### MARKET OVERVIEW

The Inland Empire's industrial market is undergoing a shift as it moves away from the previously high demand for warehouse and distribution space. This shift has resulted in an increasing amount of vacant excess space entering the market for sublease. The market has experienced a surge in the rate of sublease space being marketed, witnessing an 86% increase compared to the previous quarter and a significant 279% increase compared to a year ago. As of midyear 2023, the total vacant sublease space amounts to 4.1 million square feet, which is 2.5 times higher than the level observed during the Great Recession in Q2 2009.

Leasing volume year to date has declined by 12.7% compared to the previous year, totaling 15.7 million square feet. Completed construction on a quarterly basis has seen a significant drop of 75.4%, resulting in a year-to-date decline of 4.3% compared to Q2 2022, with 10.4 million square feet added to the industrial market. As the demand undergoes a change in pace, the vacancy rate has risen by 2.5 percentage points from a year ago, reaching 3.7%, which represents a 90 basis point increase quarter over quarter.

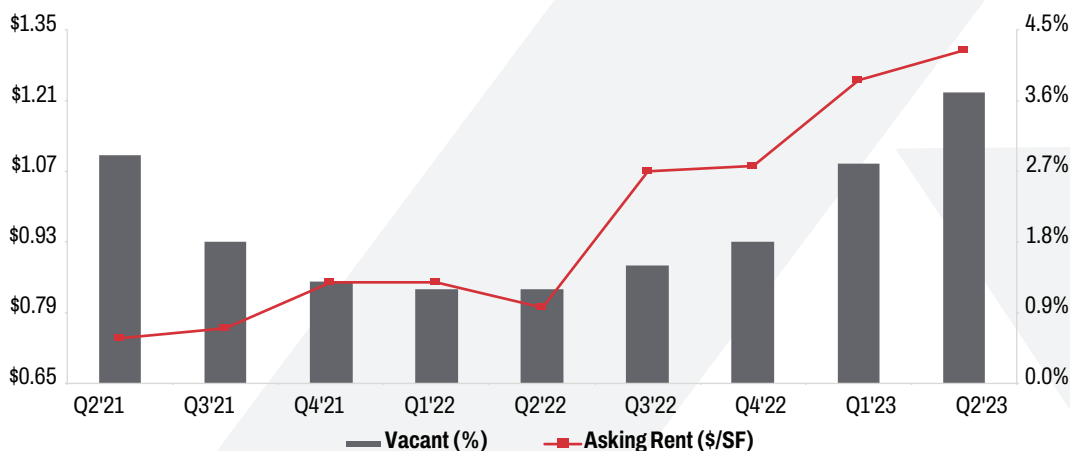
Rising rents have been the primary driving force behind new construction. The average asking rent has reached a new high of \$1.31 per square foot triple net, marking a 4.8% increase from the previous quarter and a substantial 63.8% increase from the second quarter of 2022. Since the depths of the pandemic shutdown in Q2 2020, the average rent has climbed by 87.1%. However, development has begun to change as industrial space under construction shows only a 1% increase compared to the previous quarter, while experiencing a year-over-year decline of 10.4%

### TRENDS TO WATCH

Companies that expanded their warehouse/distribution space during the pandemic to meet the surge in e-commerce have continued to reduce excess space. In Q2, the industrial market reached an all-time high in the amount of available space for sublease, indicating that companies exceeded their space requirements. This has resulted in an oversupply of space coming on the market. During the second quarter, approximately 1.9 million square feet of additional vacant sublease space was listed, representing the largest quarter-over-quarter increase on record. Additionally, 4.1 million square feet of vacant space was added to the market directly, including 2 million square feet of completed construction.

Despite lower economic growth on the horizon, the industrial market has shown resilience. However, companies are eager to dispose of unwanted space. The increase in available industrial space provides more options for tenants, but high prices and rising interest rates are expected to weaken sales of industrial buildings. Sales volume has declined by 19.4% quarter over quarter and is down 37% from a year ago, amounting to approximately \$1.6 billion year to date. The median sale price per square foot stands at \$261, reflecting an 11.3% increase quarter over quarter but a 2.1% decrease year over year. The combination of increasing interest rates, a slowing economy, and weakening demand is likely to have a dampening effect on pricing heading into the second half of the year.

### 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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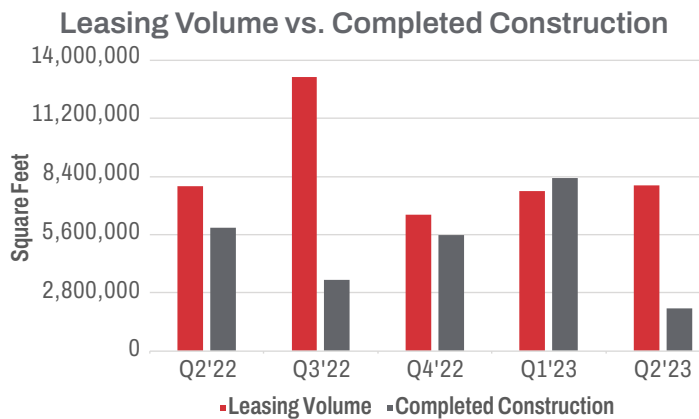
### MARKET STATISTICS\*

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	269,932,792	10,565,570	8.0%	3.1%	2,409,684	6,481,359	2,125,630	2,973,399	\$1.30	\$232
High Desert	27,129,656	2,907,390	14.3%	5.8%	35,796	139,682	852,510	2,329,990	\$1.04	\$86
South	22,686,453	650,097	11.0%	5.2%	177,070	457,004	144,730	282,045	\$1.01	\$193
West	345,865,118	17,766,885	9.4%	3.9%	5,344,929	8,605,688	499,820	2,367,641	\$1.52	\$319
<b>Inland Empire</b>	<b>665,614,019</b>	<b>31,889,942</b>	<b>9.1%</b>	<b>3.7%</b>	<b>7,967,479</b>	<b>15,683,733</b>	<b>3,622,690</b>	<b>7,953,075</b>	<b>\$1.31</b>	<b>\$208</b>

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

### LEASING TRENDS

The market's resilience in leasing volume is highlighted by the last five quarters. In Q2 2023, completed construction added a total of 10,391,939 square feet to the market. However, leasing volume surpassed that, totaling 15,683,733 square feet year to date.

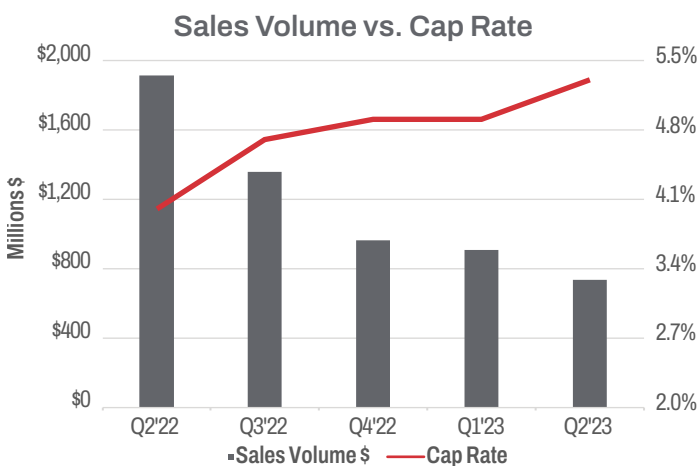


### Select Lease Transactions

Address	City	Submarket	Square Feet
12430 Fourth St	Rancho Cucamonga	West	1,422,524
11905 Landon Dr	Jurupa Valley	East	645,311
Harley Knox Blvd & Decker Rd	Perris	East	348,375
21500 Harvill Ave	Perris	East	333,572
11900 Cabernet Dr	Fontana	West	303,120

### SALES TRENDS

The last five quarters highlight the downward trend in sales volume as the impact of rising interest rates was felt. By midyear 2023, the sales volume ended approximately 37 percent below Q2 2022, amounting to approximately \$1.6 billion year to date. Additionally, the average cap rate on investment sales increased by 130 basis points from the second quarter of 2022, reaching 5.3 percent.



### Select Sales Transactions

Address	City	Submarket	Square Feet
17477 Nisqualli Rd	Victorville	High Desert	827,689
14063 Brown St - Building 1	Riverside	East	596,090
531 E Central Ave	San Bernardino	East	457,125
4345 Parkhurst St - Horizon Distribution Center	Jurupa Valley	East	418,000
3350 S Enterprise Ave	Bloomington	East	272,120