

## Industrial Q2 2022

YoY Chg 12-Mo. Forecast

**0.6%**  
Vacancy Rate

**4.7M**  
Net Absorption, SF

**\$1.28**  
Asking Rent, PSF

Overall, Net Asking Rent

ECONOMIC INDICATORS  
Q2 2022

YoY Chg 12-Mo. Forecast

**1.6M**  
Inland Empire  
Employment

**4.5%**  
Inland Empire  
Unemployment Rate

**3.6%**  
U.S.  
Unemployment Rate

Source: BLS

## ECONOMIC OVERVIEW: Inland Empire Employment Surpasses Pre-Pandemic Figures

The total nonfarm employment in Inland Empire (IE) grew by 83,700 or +5.4% year-over-year (YOY) between May 2021 through May 2022, with the logistics (+31,100) and the leisure and hospitality sectors (+21,300) leading annual job gains. During this time, the IE monthly unemployment rate decreased 410 basis points (bps) from 7.5% last year to 3.4% in May 2022.<sup>1</sup> All employment sectors are forecasted to grow at a combined rate of 5.4% (+85,320 jobs) in 2022, while office employment is forecasted to grow by 2.9% (+7,140 jobs). The annual unemployment rate is forecasted to decrease from 7.5% in 2021 to 4.7% in 2022 and 4.2% in 2023. IE's economy of \$194.8 billion as measured by 2021 gross regional product is forecasted to grow 3.6% in 2022 and 3.8% in 2023, above its 10-year average of 3.2%.<sup>2</sup>

## SUPPLY AND DEMAND: Activity Slows as Availability Remains Scarce

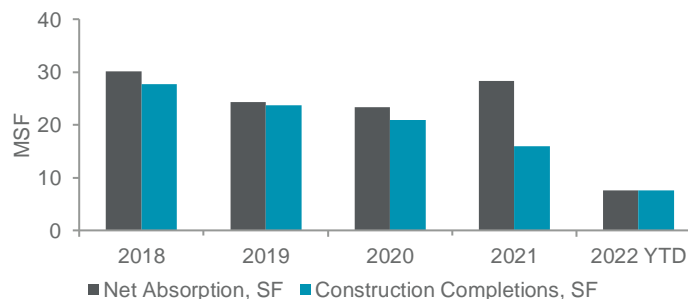
At mid-year 2022, the IE posted a vacancy rate of 0.6%, unchanged quarter-over-quarter (QOQ) and down 70 bps from the previous year, maintaining its position as the tightest market in Southern California. Total available space also remained low at 1.5% or 8.6 million square feet (msf), including 0.3% of sublease space. The vacancy rate in the Inland Empire West (IEW) dropped to 0.6% in Q2 2022, down just 10 bps from the previous year. The Inland Empire East (IEE) on the other hand, posted a razor-thin vacancy rate of 0.5%, down 150 bps YOY and a record-low for the submarket. The Inland Empire South (IES) recorded a vacancy rate of 0.9%, down 80 bps since last year.

With scarce existing availability left in the market, the IE experienced a slowdown in activity compared to past quarters despite warehouse & distribution (W/D) demand remaining high. Occupancy gains totaled 7.6 msf as of mid-year 2022, a night and day difference from the 17.0 msf of net absorption recorded as of mid-year 2021 when vacancy stood at 1.3%.

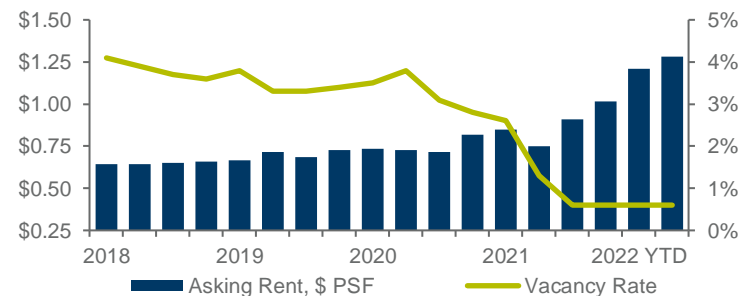
New leasing activity, excluding renewals, totaled 8.0 msf (96 deals) in Q2 2022 compared to 8.9 msf (119 deals) last quarter and 11.0 msf (222 deals) in Q2 2021. United Legwear signed the largest new lease of the quarter, a 1.8 msf building in Beaumont set to deliver in Q3 2023. Mid-year 2022 new leasing reached 16.9 msf (215 deals) compared to 22.7 msf (451 deals) as of mid-year 2021.

Despite the slowdown in leasing velocity, the IE still ranked 6<sup>th</sup> in the nation for the highest new leasing activity. Within the IE, the IEE led the region with 8.6 msf (51%) of new leasing, followed by IEW with 7.4 msf (44%) and IES with 811,014 sf (5%). Comparing submarkets, Ontario recorded the highest new leasing activity at 3.2 msf (19%), followed by Riverside with 3.0 msf (18%) and Redlands with 2.2 msf (13%). As for renewal activity, the IE recorded a total of 6.1 msf in renewals in Q2 2022 (+7.9% QOQ). On an annual basis, renewals totaled 11.8 msf through mid-year 2022, down 9.9% YOY.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY / ASKING RENT



### FUTURE INVENTORY: Record-High Construction Activity

Given the surge in demand in the last two years driven largely by 3PL companies and online retailers, W/D demand continues to outpace new supply in the IE. As of Q2 2022, there are 160 properties totaling 40.9 msf currently under construction, a new record high as the market surpasses under construction figures QOQ. The majority or 80% of inventory, totaling 32.9 msf across 155 buildings, is speculative with the remaining 20%, totaling 8.0 msf across five buildings, build-to-suit. Overall, buildings currently under construction average 255,519 sf. Despite the influx of new development, buildings have been slow to deliver as construction timelines have been prolonged, now averaging 18 months from construction start to delivery. That said, construction completions totaled 7.6 msf at mid-year 2022 with buildings averaging 118,213 sf in size. With limited existing availability and a slowdown in deliveries, construction completions are nearly tied to the year-to-date net absorption level.

Given the pressing demand for industrial product, the wave of new inventory will be quickly absorbed by prospective tenants, keeping vacancy rates low for the near term. For reference, of the 40.9 msf currently under construction, 15.5 msf, or 38% is already pre-leased and with many expected to lease upon completion or shortly after completion. Buildings 500,000 sf and larger that are under construction show the greatest demand in the market, with 56% of buildings in this size range already pre-committed.

### PRICING: Expect Rents to Keep Rising

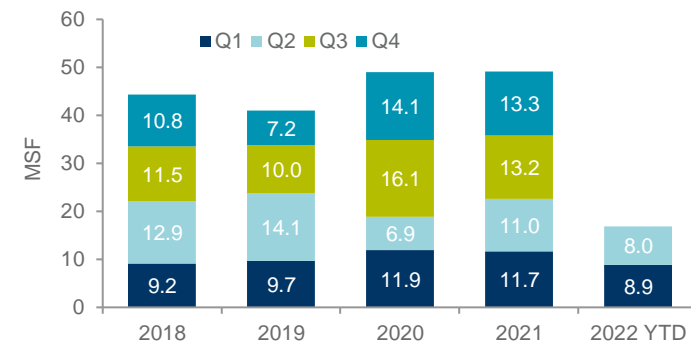
The IE has seen significant rent growth in the last year due in part to increasingly tight market conditions and rising inflation. The average asking rent in the IE reached \$1.28 per square foot (psf) per month on a triple net basis in Q2 2022, up 71.1% YOY. On a quarterly basis, however, rents grew at a slower pace, up 6.2% QOQ. Properties located in IEW command the highest average rent at \$1.37, up 57% YOY, compared to properties located in IEE, averaging \$1.10 psf and in IES, averaging \$0.97 psf.

In the last year, asking rents in the IE have narrowed the gap between rents in Orange County (\$1.51 psf) and Los Angeles (\$1.44 psf) markets. Given how fast the IE market is moving, asking rents have become increasingly more difficult to pinpoint as rates change on a day-to-day basis. While demand remains robust and newer product becomes available in the near term, rents are still expected to keep rising in the coming quarters, but at a slower rate before leveling off.

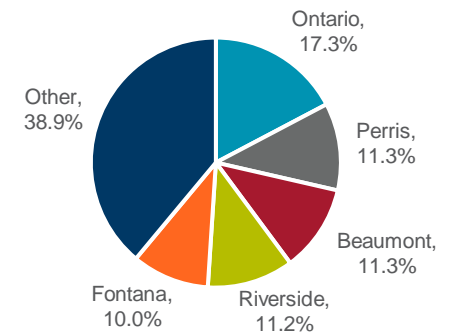
### OUTLOOK

- Demand remains strong among larger tenants looking to occupy buildings 500,000 sf and above. Meanwhile, tenants are thinning out for buildings 100,000 sf and below as rents and operating costs keep climbing, making it increasingly difficult for smaller tenants to maintain a presence in the IE.
- More tenants are willing to “wait and see” how the market goes in anticipation of a lingering recession. However, rents are not dropping any time soon and are expected to keep rising, albeit at a slower rate, before they begin to stabilize.
- U.S. retail sales are expected to remain strong through the second half of the year despite high inflation. Additionally, the Ports of LA and Long Beach are preparing for the early arrival of the 2022 peak season as retailers stock up on products for Fall followed by holiday merchandise. Given this amount of anticipated activity at the ports, the demand will continue to be strong in the IE for the foreseeable future.

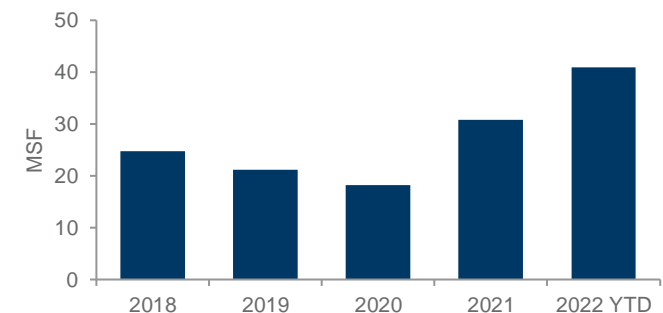
### NEW LEASING ACTIVITY



### UNDER CONSTRUCTION INVENTORY BY SUBMARKET



### UNDER CONSTRUCTION ACTIVITY



# MARKETBEAT

# INLAND EMPIRE



## Industrial Q2 2022

### MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD CONSTR COMPLETIONS (SF)	UNDER CNSTR (SF)	AVERAGE ASKING OVERALL RENT (ALL TYPES)*	AVERAGE ASKING OVERALL RENT (W/D)
IE East	245,585,966	25,200	1,313,659	0.5%	2,952,047	4,113,154	3,475,606	20,490,892	\$1.10	\$1.20
IE West	310,932,692	487,129	1,289,010	0.6%	1,268,248	2,881,806	3,206,746	18,160,668	\$1.37	\$1.36
IE South	34,603,687	0	303,033	0.9%	509,574	613,112	883,252	2,231,504	\$0.97	\$0.97
<b>IE TOTALS</b>	<b>591,122,345</b>	<b>512,329</b>	<b>2,905,702</b>	<b>0.6%</b>	<b>4,729,869</b>	<b>7,608,072</b>	<b>7,565,604</b>	<b>40,883,064</b>	<b>\$1.28</b>	<b>\$1.31</b>

\*Rental rates reflect weighted triple-net asking \$psf/month. \*\*Renewals not included in leasing statistics.

### KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
36855 W. 4th St.	Beaumont	United Legwear	1,777,708	New
2151 S. Vintage Ave.	Ontario	Toyo Tires	766,235	Renewal*
2900 E. Jurupa St.	Ontario	Ventura Foods	675,000	Renewal*
2255 W. Lugonia Ave.	Redlands	Confidential	606,133	New
9950 Calabash Ave.	Fontana	Dorel Juvenile Group, Inc.	528,440	Renewal*

### KEY SALES TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/ \$PSF
630 Nicholas Rd.	Beaumont	Ambest Real Estate   Exeter Property Group	600,000	\$131.0M / \$218
5555 E. Jurupa St.	Ontario	J W Mitchell Company   JP Morgan	459,431	\$180.0M / \$392
19319 Harvill Ave.	Perris	Rockefeller Group   BlackRock	289,407	\$92.0M / \$318
6300 Providence Way	Jurupa Valley/Eastvale	Parker House Furniture   KKR & Co. Inc.	271,140	\$136.5M / \$503
2830 Barrett Ave.	Perris	Evan Gruber   IDS Real Estate Group	270,320	\$32.7M / \$121

### KEY CONSTRUCTION COMPLETIONS 2022 YTD

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
20201 Caroline Way	Riverside	Republic National Distributing Co.	782,209	Lewis Companies/Waypoint Property Group
29050 Eucalyptus Ave.	Moreno Valley	Skechers	768,000	Highland Fairview Properties
2255 W. Lugonia Ave.	Redlands	N/A	606,133	Nuveen Real Estate
6251 Archibald Ave.	Jurupa Valley/Eastvale	Best Buy	501,649	Dermody Properties
11032 Cantu Galleano Ranch Rd.	Jurupa Valley/Eastvale	Petco	307,157	HJ & PE Investments

Sources: <sup>1</sup>[www.bls.gov](http://www.bls.gov) Riverside-San Bernardino-Ontario, CA MSA <sup>2</sup>Moody's Analytics 6/2022.



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