

YoY Chg 12-Mo. Forecast

1.9%

Vacancy Rate



1.5M

Net Absorption, SF



\$1.56

Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS Q1 2023

YoY Chg 12-Mo. Forecast

1.7M

Inland Empire Employment



4.2%

Inland Empire Unemployment Rate



3.5%

U.S. Unemployment Rate



Source: BLS

ECONOMIC OVERVIEW

Total nonfarm employment in the Inland Empire (IE) grew by 13,000 or +0.8% year-over-year (YOY) between February 2022 and February 2023 although the trade, transportation and utilities sector lost 12,300 jobs (-2.6% YOY). During this time, the IE monthly unemployment rate decreased from 4.7% last year to 4.5% and is currently 30 basis points (bps) above the quarterly average rate of 4.2%.¹ All employment sectors are projected to grow at a combined rate of 1.6% (+26,510 jobs) in 2023, while office employment is forecasted to grow by 0.7% (+1,660 jobs).²

From January to February 2023, the Port of Los Angeles and Long Beach accounted for a combined 1.1 million Twenty-Foot Equivalent Units (TEUs) of loaded imports. This represents an annual decrease of 30% partially due to the ongoing ILWU-PMA labor contract negotiations.³ As negotiations continue, fears of a strike by the ILWU persist leading many shippers to divert their cargo to ports along the Gulf and East Coasts. Additionally, the e-commerce share of total retail sales has declined from its peak of 16.4% recorded in Q2 2020 to 14.7% in Q4 2022. E-Commerce sales alone totaled \$262.0 billion, up 6.5% annually.⁴

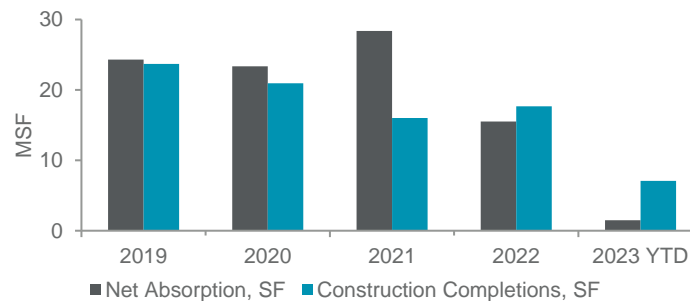
SUPPLY AND DEMAND

At the start of 2023, the IE industrial market recorded a rise in the overall vacancy rate following two consecutive years of warehouse demand largely driven by e-commerce. In Q1 2023, the IE posted a vacancy rate of 1.9%, a quarterly increase of 90 bps, and an annual increase of 130 bps. The jump in vacancy was caused by the rise in availabilities and accrual of newly constructed buildings that were delivered vacant. Including direct and sublease availabilities, the total availability rate increased 360 bps YOY to 4.9% in Q1 2023. Available sublease space alone rose 70 bps YOY to 0.9%.

The vacancy rate in the IEW climbed to 1.8% in Q1 2023, up 150 bps from one year ago. The Inland Empire East (IEE) posted a vacancy rate of 1.5%, up 50 bps YOY. The Inland Empire South (IES) yielded the most substantial increase with a vacancy rate of 4.7%, up 460 bps from last year due in part to the 806,456-sf worth of vacant new deliveries which is substantial for the submarket.

Through 2021 and 2022, the IE industrial market benefited from the surge in e-commerce demand as a response to the pandemic. Fast forward to 2023, the U.S. faces high-interest rates, high inflation, and decelerating consumer demand. Meanwhile, Southern California markets face shipping disruptions at the Ports of Los Angeles and Long Beach due to labor disputes as well as increased government regulation regarding trucking. New leasing activity eased in Q1 2023, totaling 7.5 msf (102 transactions), down 18.2% from last year and up 8.5% QOQ.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT



Despite the market's slowdown in Q1 quarterly leasing velocity compared to the previous seven years, the IE ranked second in the nation for new Q1 2023 leasing activity. The IEW led the region with 5.2 msf (70%) of new activity, followed by the IEE with 2.0 msf (26%) and IES with 272,891 sf (4%). Overall, the transportation, warehouse and utilities sector propelled new leasing activity accounting for 31% of total new activity followed by retail trade, including e-commerce, which made up 25% of total new activity.

FUTURE INVENTORY

Construction starts have slowed in recent months following the development boom in 2022. As of Q1 2023, there are 114 properties totaling 36.6 msf currently under construction. However, 18.2 msf, or 50% of buildings under construction are pre-leased as tenants often look to modern warehouses. Buildings 300,000 sf and larger that are under construction yielded the greatest demand in the market, with 49% of buildings in this size range pre-committed. Much of the development is in the IEW with 19.1 msf currently under construction and 16.6 msf in the IEE. In total, the 36.6 msf under construction represents 6% of IE's existing inventory. Approximately 83% of the construction pipeline, totaling 30.2 msf across 110 buildings, is speculative with another 6.4 msf of product under development on a build-to-suit basis. Construction completions are anticipated to total 34.7 msf by year-end 2023 as construction timelines have been prolonged due to longer lead times for materials and weather constraints, consequently delaying scheduled delivery dates. In Q1 2023, construction completions totaled 7.1 msf surpassing IE's overall net absorption of 1.5 msf.

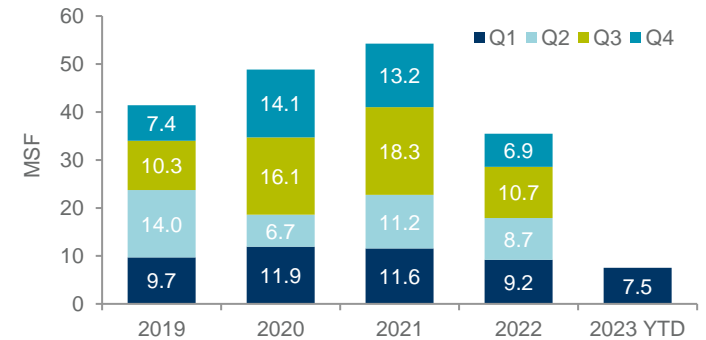
PRICING

The IE has registered significant rent growth over the last year due in part to tightening market conditions and rising inflation. The overall asking rent averaged \$1.56 per square foot (psf) per month on a triple net basis. Despite an annual increase of 29%, rent growth has moderated on a quarterly basis. Over the last year, asking rents in the IE have narrowed the gap between rents in Orange County (\$1.57 psf) and Los Angeles (\$1.71 psf) markets, leaving little relief in rents across Southern California. That said, the upward pressure on rents is expected to slow before leveling off as overall vacancy begins to rise further into 2023.

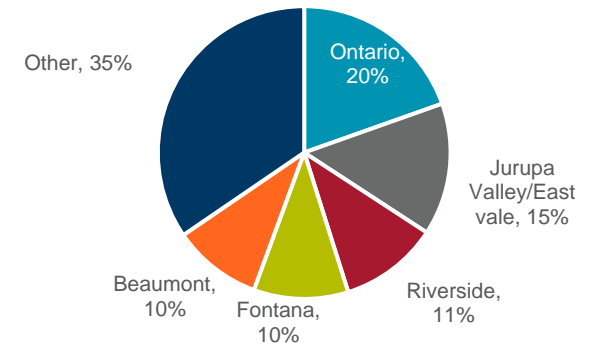
OUTLOOK

- The overall vacancy rate is expected to rise gradually in the coming quarters as current availabilities become vacant and the wave of under-construction projects deliver throughout 2023. The peak demand recorded in 2021 and 2022 was not sustainable long-term and activity in the IE industrial market is expected to normalize and return to pre-pandemic levels.
- Sublease available space has been trending upwards as more tenants are putting space back on the market following the surge in e-commerce demand and port congestion. However, the number of sublease availabilities remains too low to make a significant impact on the market.
- Under-construction figures are expected to slow given the few new construction projects slated to break ground in 2023 allowing for existing new development to be absorbed. Developable land is also becoming scarce in certain parts of the IE and local governments have implemented moratoriums on new industrial buildings potentially limiting new supply in the next few years.

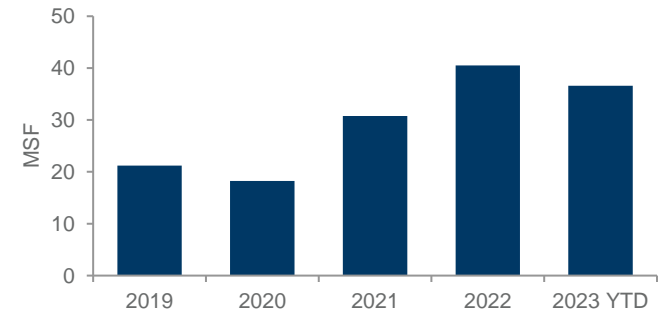
NEW LEASING ACTIVITY



UNDER CONSTRUCTION INVENTORY BY SUBMARKET



UNDER CONSTRUCTION ACTIVITY



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	253,231,914	248,185	3,601,141	1.5%	2,279,891	2,279,891	4,291,158	16,625,825	\$1.34	\$1.35
IE West	311,930,776	557,734	5,158,805	1.8%	-640,425	-640,425	1,894,770	19,080,658	\$1.69	\$1.70
IE South	35,063,378	108,000	1,525,809	4.7%	-144,014	-144,014	889,751	873,874	\$1.69	\$1.71
IE TOTALS	600,226,068	913,919	10,285,755	1.9%	1,495,452	1,495,452	7,075,679	36,580,357	\$1.56	\$1.58

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

W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
3413 Manitou Ct.	Jurupa Valley/Eastvale	Confidential	1,379,287	New
10545 Production Ave.	Fontana	Tireco Inc.	1,101,840	New
23450 Brodiaea Ave.	Moreno Valley	Harbor Freight Tools	610,810	Renewal*
17335 Glen Helen Pkwy.	San Bernardino	HauteLook	604,029	Renewal*
12210 Innovation Way	Victorville	Iron Mountain	471,389	New

KEY SALES TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/ \$PSF
10545 Production Ave.	Fontana	Tireco Inc. Rexford Industrial Realty	1,101,900	\$365.0M \$331
36324 Cherry Valley Blvd.	Beaumont	The Shopoff Group Brookfield Asset Management	1,017,845	\$182.7M \$180
36500 Cherry Valley Blvd.	Beaumont	The Shopoff Group Brookfield Asset Management	814,822	\$146.3M \$180
1800 S. Wineville Ave.	Ontario	JP Morgan Chase & Co Blackstone Inc.	446,624	\$125.0M \$280
6075 Lance Dr.	Riverside	Loctek Inc. BentallGreenOak	361,346	\$120.0M \$332

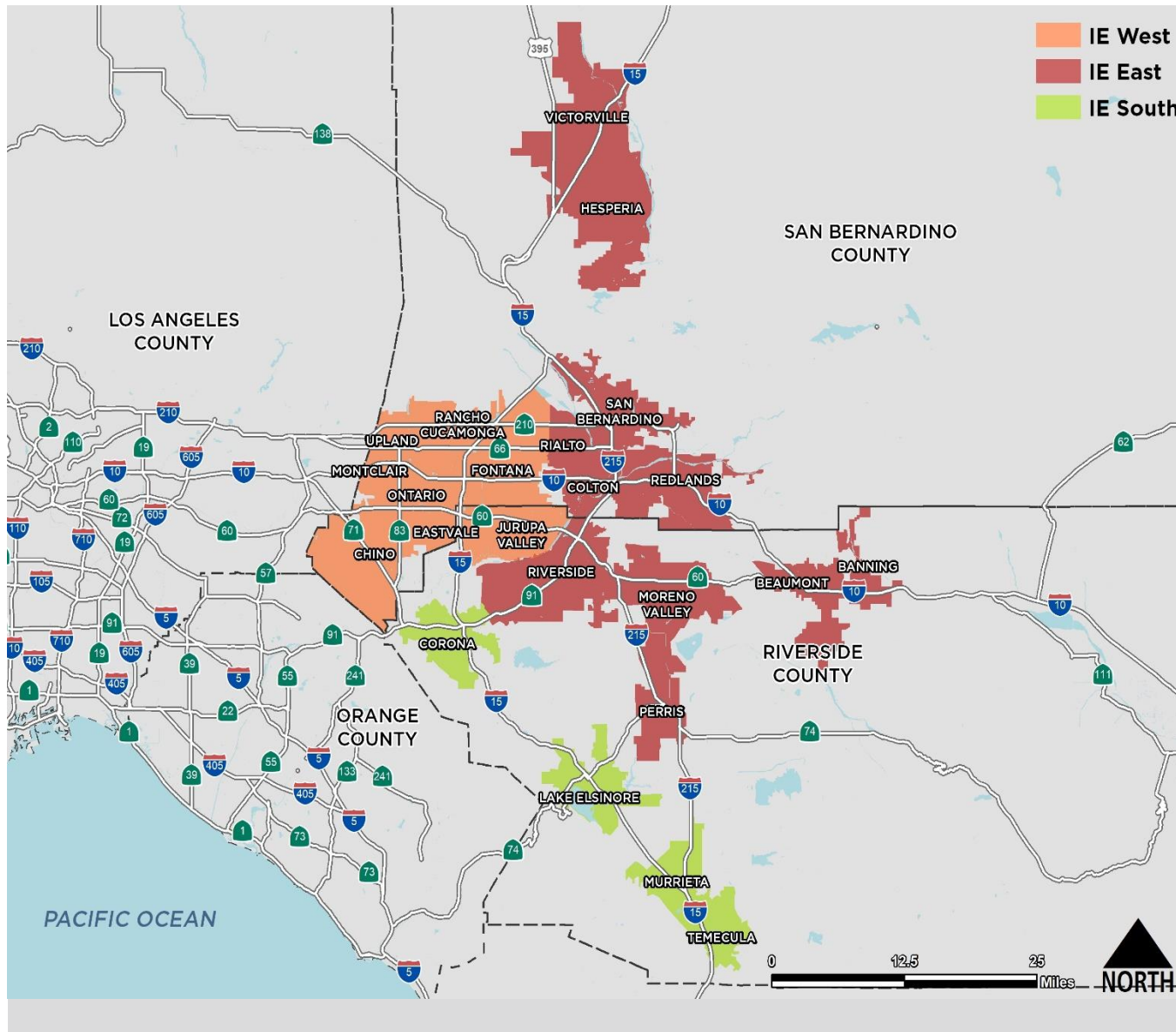
KEY CONSTRUCTION COMPLETIONS 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
19115 Harvill Ave.	Riverside	Home Depot U.S.A., Inc.	1,138,800	Clarion Partners
11895 Cedar St.	Hesperia	Modway Furniture	1,055,360	Exeter Property Group
450 E. Rider St.	Perris		804,759	IDI Logistics
531 E. Central Ave.	San Bernardino	Ecolab, Inc.	462,125	REDA
11119 Juniper Ave.	Fontana		436,424	Clarion/REDA

INLAND EMPIRE

Industrial Q1 2023

INDUSTRIAL SUBMARKETS



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