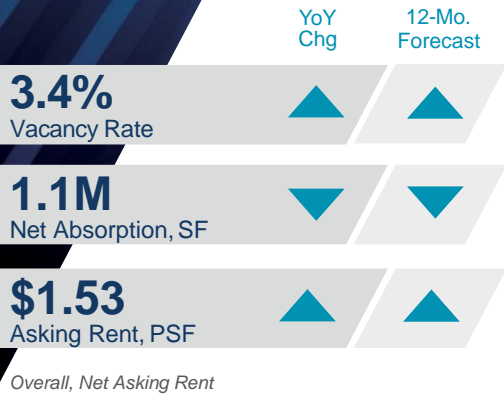
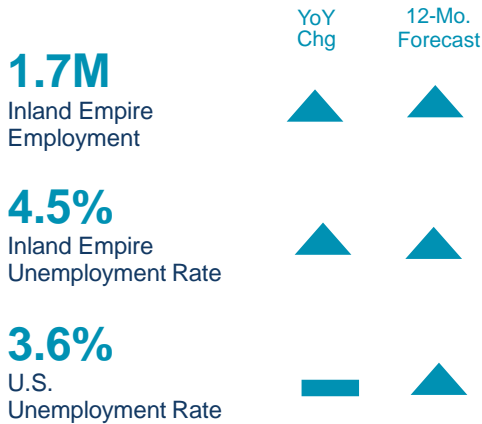


INLAND EMPIRE

Industrial Q2 2023



ECONOMIC INDICATORS Q2 2023



Source: BLS

ECONOMIC OVERVIEW

Total nonfarm employment in Inland Empire (IE) grew by 16,600 or +1.0% year-over-year (YOY) between May 2022 and May 2023, although the trade, transportation and utilities sector lost 5,800 jobs (-1.3% YOY). The manufacturing sector lost 3,800 jobs (-3.8% YOY). During this time, the IE monthly unemployment rate increased from 3.4% last year to 4.4% and is currently 10 basis points (bps) below Q2 2023's quarterly average rate of 4.5%.¹ All employment sectors are projected to grow at a combined rate of 2.6% in 2023 and 1.2% in 2024 compared to the five-year historical average of 2.7%. The unemployment rate is forecasted to increase from 4.2% in 2023 and 4.8% in 2024 compared to the five-year historical average of 6.1%.²

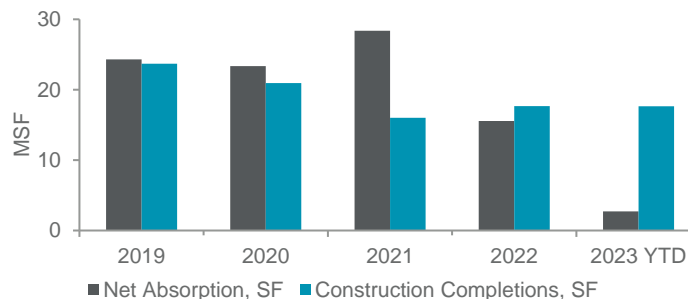
Through May 2023, the Port of Los Angeles and the Port of Long Beach accounted for 3.2 million Twenty-Foot Equivalent Units (TEUs) combined of loaded imports, a 27.2% drop YOY.³ Part of the decline in imports can be attributed to the ILWU-PMA labor contract negotiations. Once the tentative agreement is ratified, there may be a return of diverted TEU volume to the ports. Until then, uncertainty and the threat of stoppages will continue to loom over the San Pedro Ports.

SUPPLY AND DEMAND

In Q2 2023, the IE recorded a vacancy rate of 3.4%, a quarterly increase of 150 bps, and an annual rise of 290 bps. The increase in vacancy was caused by the rise in availabilities and the wave of newly constructed buildings that were delivered vacant which led to supply growth. Despite the increase, the vacancy rate remains below the historical 10-year average of 4.0%. Including direct and sublease availabilities, the total availability rate increased 480 bps YOY to 6.2% in Q2 2023. Available sublease space alone rose 100 bps YOY to 1.3%. Sublease space has been trending upwards as more tenants are putting space back on the market due in part to a decline in imports and economic uncertainty. Sublease availability stands at 7.8 million square feet (msf), representing 20.7% of the total available space.

The vacancy rate in the Inland Empire West (IEW) climbed to 3.8% in Q2 2023, up 330 bps from one year ago. The Inland Empire East (IEE) posted a vacancy rate of 2.3%, up 180 bps YOY. The Inland Empire South (IES) yielded the highest increase with a vacancy rate of 7.3%, up 640 bps YOY due to the 1.6 msf worth of vacant new deliveries which is substantial for the submarket. Imports at the Ports of Los Angeles and Long Beach have been declining sharply on an annual basis and impacting Southern California industrial markets. Coupled with weakened consumer spending, demand in the IE has tempered as new leasing activity totaled 15.0 msf (231 transactions) through Q2 2023, down 16.4% YOY. However, activity picked up slightly (+3.1% QOQ) in the second quarter. Despite the market's slowdown at mid-year 2023, the IE ranked third in the nation for new leasing activity after Dallas and Chicago.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT



Through the first half of 2023, the IEW led the region with 9.7 msf (64.5%) of new activity, followed by the IEE with 4.4 msf (29.4%) and IES with 906,429 sf (6.1%). The transportation, warehouse and utilities sector continues to propel new leasing activity for the market, accounting for 40.1% of total new activity. Retail trade, including e-commerce, accounted for the second largest industry which made up 29.5% of total new activity.

FUTURE INVENTORY

An influx of new supply is expected to deliver in the second half of 2023 following the development boom in 2022. While construction starts have slowed in recent months, total under-construction activity remains high with 115 properties totaling 31.2 msf under construction as of Q2 2023. However, 10.9 msf, or 34.9% of buildings under construction are pre-leased as tenants often look to modern warehouses. Much of the new development takes place in the IEW with 17.5 msf currently under construction and 13.6 msf in the IEE. In total, the 31.2 msf under construction represents 5.2% of IE's existing inventory.

Meanwhile, construction completions are anticipated to total 28.9 msf by year-end 2023. Last year, delivery dates were pushed out by several months due to material supply, labor and weather issues. Many of these issues have been resolved which led to the spike in deliveries in 2023. In Q2 2023, construction completions totaled 17.6 msf surpassing IE's overall net absorption of 2.7 msf.

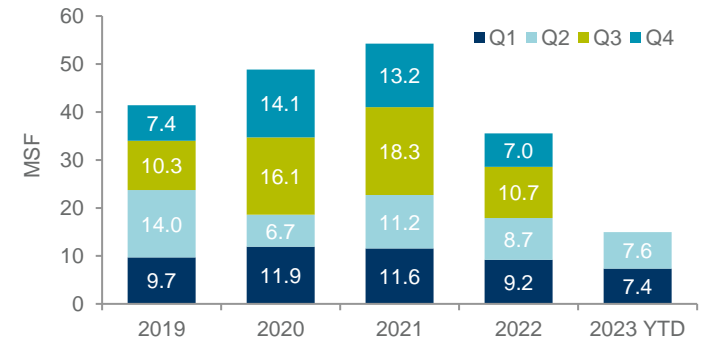
PRICING

The IE has registered significant rent growth over the last year due to tightening market conditions and rising inflation. The direct asking rent averaged \$1.57 per square foot (psf) per month on a triple net basis, up 18.9% YOY and unchanged QOQ. Meanwhile, sublease asking rents are far below, averaging \$1.16 psf; thus, bringing down the overall asking rent to \$1.53 psf. Despite the annual increase, rent growth is decelerating on an annual basis following 2022's record-breaking year. Over the last year, asking rents in the IE have narrowed the gap between rents in Orange County (\$1.71 psf) and Los Angeles (\$1.70 psf) markets, leaving little relief in rents across Southern California. That said, rent growth is expected to slow further as vacancy continues to rise into 2023.

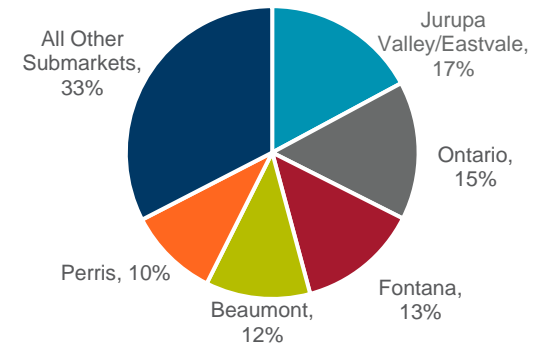
OUTLOOK

- The vacancy rate is expected to rise further in the second half of 2023 as the wave of under-construction projects are scheduled to deliver and more available space becomes vacant.
- Institutional owners dominate the market and have kept the rents high over the last few quarters. However, due to tempered demand, rents are anticipated to drop slightly to encourage new transactions.
- Leasing activity has softened since last year and many tenants are taking the "wait-and-see" approach by signing shorter lease terms or waiting until the end of their existing term to deflect decision-making in the current market. While demand exists, landlords and tenants are at a standoff regarding rental rates.
- Under-construction figures are expected to slow, given the few new construction projects slated to break ground in 2023 and 2024, allowing for existing new development to be absorbed. Developable land is also becoming scarce in certain parts of the IE thus limiting new supply in the next few years.

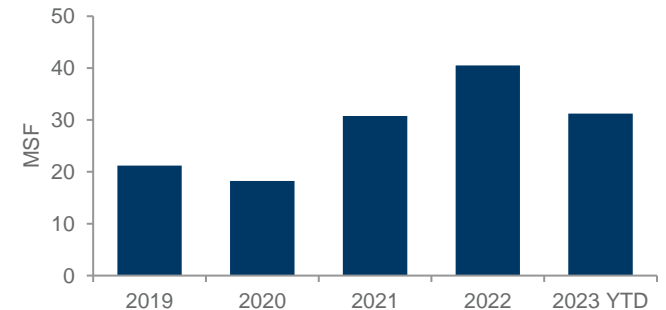
NEW LEASING ACTIVITY



UNDER CONSTRUCTION INVENTORY BY SUBMARKET



UNDER CONSTRUCTION ACTIVITY



Industrial Q2 2023

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	255,562,457	1,444,979	4,419,381	2.3%	2,121,640	4,434,252	13,576,625	8,484,709	\$1.27	\$1.28
IE West	314,831,974	1,574,975	10,492,409	3.8%	-881,304	-1,418,260	17,548,588	7,474,107	\$1.61	\$1.61
IE South	35,510,281	93,548	2,483,356	7.3%	-155,158	-299,388	85,937	1,677,472	\$1.66	\$1.68
IE TOTALS	605,904,712	3,113,502	17,395,146	3.4%	1,085,178	2,716,604	31,211,150	17,636,288	\$1.53	\$1.53

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

W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
12430 Fourth St.	Rancho Cucamonga	Smart & Final	1,422,524	New
24103 San Michele Rd.	Moreno Valley	DMSI Ross Stores	739,903	Renewal**
11905 Landon Dr.	Jurupa Valley/Eastvale	Maersk Warehousing	645,311	Renewal**
9774 Calabash Ave.	Fontana	OnTrac/Lasership	591,020	Renewal**
1543 N. Alder Ave.	Rialto	CTDI, Inc.	426,302	Renewal**

KEY SALES TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/ \$PSF
1501 Sherborn St. (5 Property Portfolio)	Corona	Kearny Real Estate GLP Capital Partners	731,192	\$324.4M \$444
14063 Brown St.	Riverside	EQT Exeter High Tech Logistics, LLC	596,090	\$78.0M \$131
531 E. Central Ave.	San Bernardino	REDA Oaktree Capital Management	457,125	\$121.1M \$265
4345 Parkhurst St.	Jurupa Valley/Eastvale	STRS Ohio GLP Capital Partners	329,831	\$125.5M \$381
3350 S. Enterprise Ave.	Rialto	TA Realty New York Life	274,494	\$84.2M \$307

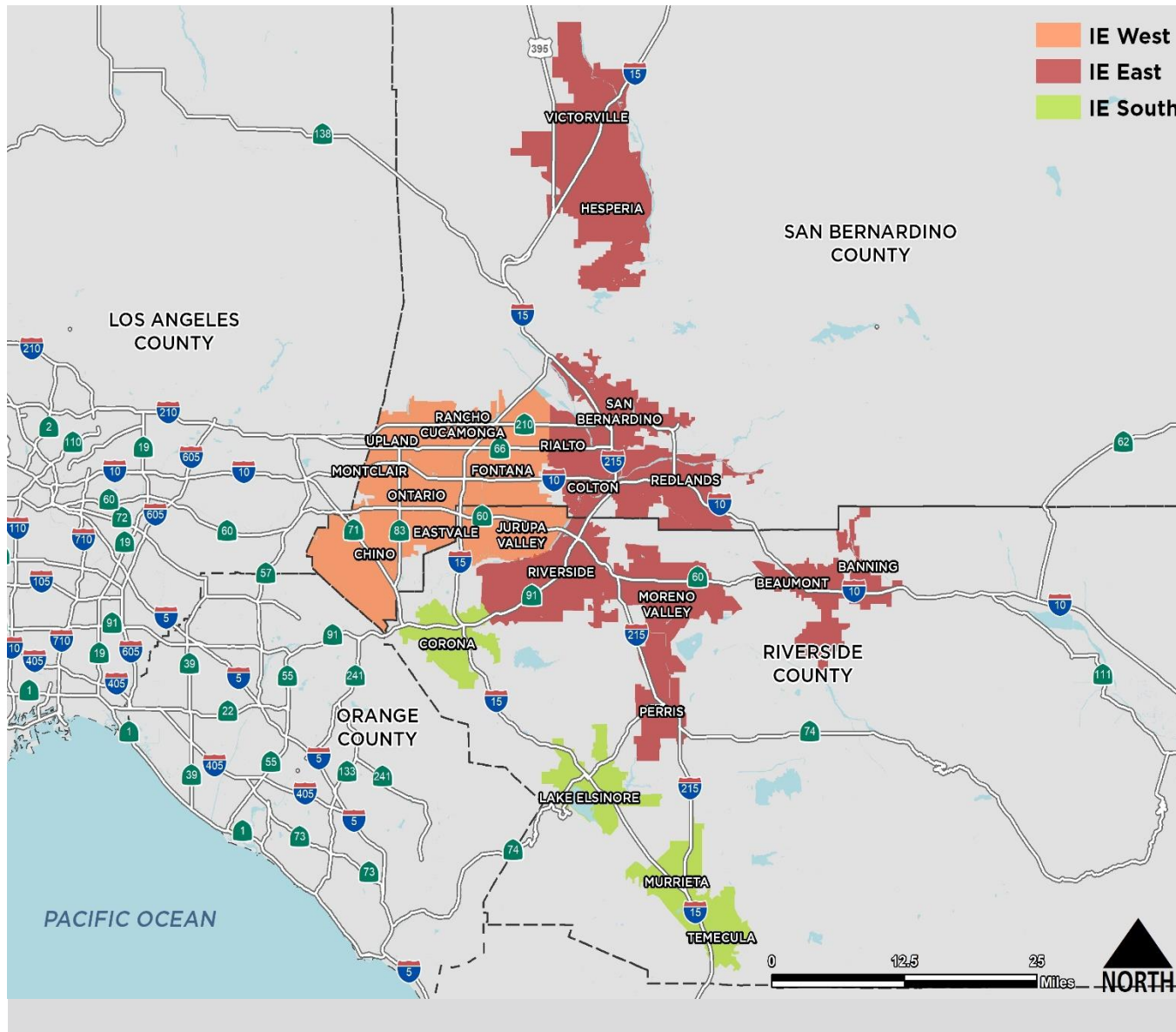
KEY CONSTRUCTION COMPLETIONS Q2 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
4707 Baker Ave.	Ontario	Amazon	4,055,890	Prologis
Eucalyptus Ave. & Euclid St.	Ontario	Home Depot	1,099,629	REDA/Clarion
Nandina & I-215 Fwy.	Riverside	Target	1,087,917	Hillwood
Nandina & I-215 Fwy.	Riverside	Target	1,002,601	Hillwood
23550 Placentia Ave.	Perris	National Distribution Centers, LLC	682,700	Ares Management Corporation

INLAND EMPIRE

Industrial Q2 2023

INDUSTRIAL SUBMARKETS



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