

Industrial Q3 2023

	YoY Chg	12-Mo. Forecast
4.3% Vacancy Rate	▲	▲
1.2M Net Absorption, SF	▼	▼
\$1.50 Asking Rent, PSF	▲	▲

Overall, Net Asking Rent

ECONOMIC INDICATORS Q3 2023

	YoY Chg	12-Mo. Forecast
1.7M Inland Empire Employment	▲	▲
4.5% Inland Empire Unemployment Rate	▲	▲
3.7% U.S. Unemployment Rate	▲	▲

Source: BLS

ECONOMIC OVERVIEW

Total nonfarm employment in Inland Empire (IE) grew by 17,900 or 1.1% year-over-year (YOY) between August 2022 and August 2023. Still, the trade, transportation and utilities sector lost 7,600 jobs (-1.7% YOY), and the manufacturing sector lost 2,400 jobs (-2.4% YOY). The monthly unemployment rate increased from 4.3% last year to 5.3% and is currently 80 basis points (bps) above the quarterly average of 4.5%.¹ All employment sectors are projected to grow at a combined rate of 3.1% in 2023 and 2.5% in 2024 compared to the 5-year historical average of 2.3%.²

Through August 2023, the Port of Los Angeles and the Port of Long Beach accounted for 5.3 million Twenty-Foot Equivalent Units (TEUs) combined of loaded imports, a 23.1% drop YOY.³ Advanced estimates of U.S. retail and food services sales for August 2023 were \$697.6 billion, up 0.6% from the previous month and up 2.5% YOY. E-commerce sales totaled \$277.6 billion, an increase of 2.1% quarter-over-quarter (QOQ) and 7.5% YOY, with the e-commerce share of total retail sales declining from its peak of 16.5% in Q2 2020 to 15.4% in Q2 2023.⁴ Consumer spending habits may shift downward as economic uncertainty impacts the broader region and nation.

SUPPLY AND DEMAND

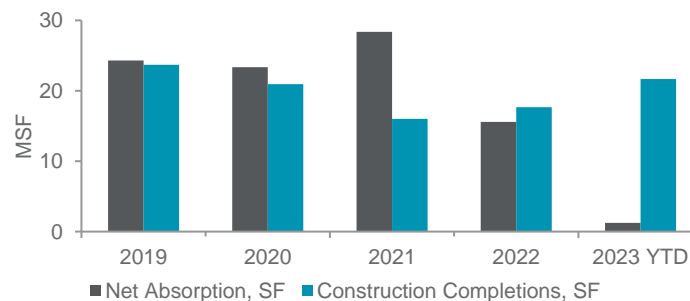
In Q3 2023, the IE recorded an overall vacancy rate of 4.3%, a quarterly increase of 100 bps, and an annual rise of 360 bps. Over the last two quarters, vacancies have risen rapidly due to softened tenant demand and heightened supply growth. Given the recent wave of availabilities, the vacancy rate is still projected to tick higher into 2024. To gauge potential vacancy rates, consider the availability rate, which shows the percentage of inventory available for lease. Including direct and sublease space, the total availability rate edged higher by 120 bps QOQ to 7.4% in Q3 2023, the highest rate since Q1 2014.

Meanwhile, available sublease space alone rose 30 bps QOQ to 1.6%. While still trending upward, sublease space is growing at a slower pace compared to last quarter. Sublease availability stands at 9.8 million square feet (msf), representing 21.8% of the total 45.0 msf of available space.

The vacancy rate in the Inland Empire West (IEW) climbed to 4.3% in Q3 2023, up 370 bps from one year ago. The Inland Empire East (IEE) posted a vacancy rate of 3.7%, up 300 bps YOY. The Inland Empire South (IES) yielded the highest increase with a vacancy rate of 7.9%, up 650 bps YOY due to the 1.5 msf worth of new vacant deliveries, which is substantial for the submarket.

Weak consumer spending and lower imports at the Ports of Los Angeles and Long Beach have negatively impacted Southern California industrial markets. Subsequently, demand in the IE has tempered as new leasing activity totaled 21.7 msf across 336 transactions through Q3 2023, down 24.1% YOY.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT



In Q3 2023, 13 new leases transacted over 100,000 sf compared to the 19 deals signed this time last year. Initially, smaller-sized tenants were grappling with being priced out of the market, but now tenants occupying sub-500,000 sf are being impacted by rising costs. As a result, tenants are pushing back on rents leading to dampened leasing activity, and instead, are putting space back on the market.

Despite the market's slowdown in Q3 2023, the IE ranked fourth in the nation for new leasing activity, following Dallas, Houston, and Chicago. The transportation, warehouse and utilities sector continues to propel new leasing activity for the market, accounting for 43.5% of total recent activity. Retail trade, including e-commerce, accounted for the second largest industry, making up 24.9% of total new activity.

FUTURE INVENTORY

Construction starts have slowed in recent months, yet total under-construction activity remains high with 124 properties totaling 32.0 msf under construction as of Q3 2023. However, 10.4 msf, or 32.3% of buildings under construction, are pre-leased as tenants often look to modern warehouses. Much of the new development occurs in the IEW with 18.6 msf currently under construction and 13.1 msf in the IEE. The 32.0 msf under construction represents 5.3% of IE's existing inventory.

Construction completions are anticipated to total 27.7 msf by year-end 2023, or, more likely, early 2024. Last year, delivery dates were pushed out by several months due to material supply, labor shortages, and weather constraints. Many of these issues have been resolved, resulting in a spike in deliveries in 2023. In Q3 2023, construction completions totaled 21.7 msf, easily surpassing IE's overall net absorption of 1.2 msf.

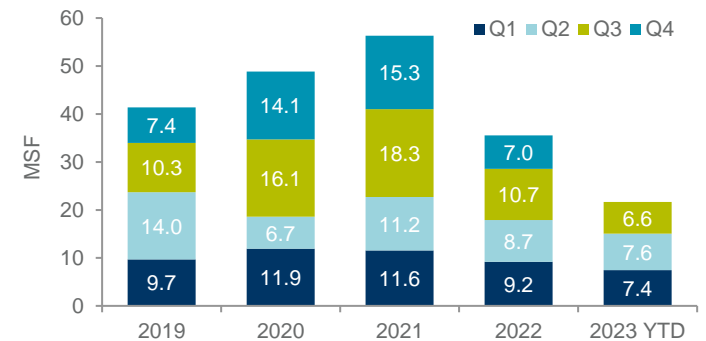
PRICING

Due to softening demand and rising vacancy, rent growth has decelerated annually following 2022's record-breaking year. The direct asking rent averaged \$1.54 per square foot (psf) per month on a triple net basis, up 9.2% YOY, yet down 2.5% QOQ. Sublease asking rents are priced well below the market, averaging \$1.14 psf; thus bringing down the overall asking rent to \$1.50 psf. Over the last year, asking rents in the IE have narrowed the gap between rents in Orange County (\$1.72 psf) and Los Angeles (\$1.70 psf) markets, leaving little relief in rents across Southern California.

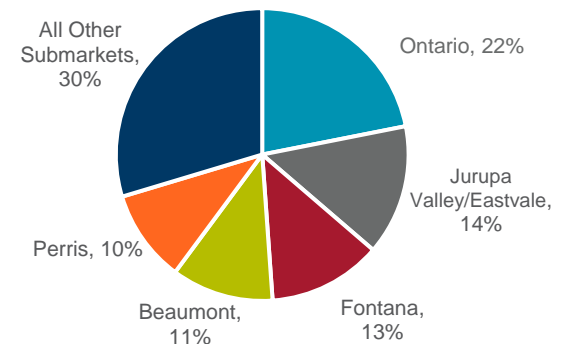
OUTLOOK

- The overall vacancy rate is expected to rise further next quarter and in 2024 given the amount of construction set to deliver and more availabilities becoming vacant. Concurrently, rent growth is projected to stagnate before dropping slightly.
- Despite the slowdown, tenant demand persists, but landlords and tenants are at a standoff over rental rates. However, due to the lack of activity, new pricing metrics have been challenging as prices vary broadly by building. Institutional owners dominate the market and have kept rents high over the last few quarters. Owners have recently dropped rents to boost building occupancy through short-term deals, anticipating an improved demand by 2025.

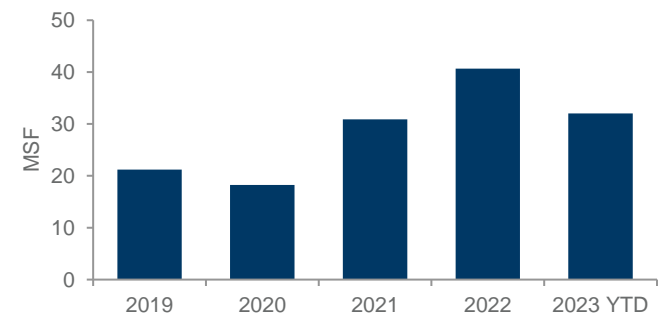
NEW LEASING ACTIVITY



UNDER CONSTRUCTION INVENTORY BY SUBMARKET



UNDER CONSTRUCTION ACTIVITY



Industrial Q3 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	256,877,683	1,834,796	7,588,158	3.7%	-2,070,842	2,366,823	10,003,531	13,084,928	\$1.31	\$1.32
IE West	317,073,028	219,464	13,540,779	4.3%	508,992	-608,491	9,976,735	18,641,676	\$1.59	\$1.61
IE South	35,510,281	256,746	2,534,204	7.9%	-249,961	-520,406	1,677,472	289,760	\$1.59	\$1.61
IE TOTALS	609,460,992	2,311,006	23,663,141	4.3%	-1,811,811	1,237,926	21,657,738	32,016,364	\$1.50	\$1.50

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

W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
12415 6th St.	Rancho Cucamonga	CEVA Logistics	752,497	New
1420 N. Tamarind Ave.	Rialto	US Elogistics	677,224	Sublease
2185 W. Lugonia Ave.	Redlands	Ashley Furniture	500,602	Renewal*
11618 Mulberry Ave.	Fontana	DNA Motors	476,375	New
3996 S. Riverside Ave.	Colton	SPL Group	399,654	Sublease

KEY SALES TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/ \$PSF
14701 Yorba Ave. (9 Property Portfolio)	Chino	BentallGreenOak Westcore	458,262	\$144.5M \$315
1350 Agua Mansa Rd.	Colton	LBA Realty Ponte Gadea USA, Inc.	340,864	\$109.0M \$320
21500 Harvill Ave.	Perris	Blumenfeld Development Group MDH Partners, LLC	333,572	\$112.3M \$337
24712 6th St.	San Bernardino	Starpoint Properties LLC EQT Exeter	179,000	\$49.5M \$277
43195 Business Park Dr.	Temecula	Furniture City Brennan Investment Group	160,561	\$26.9M \$167

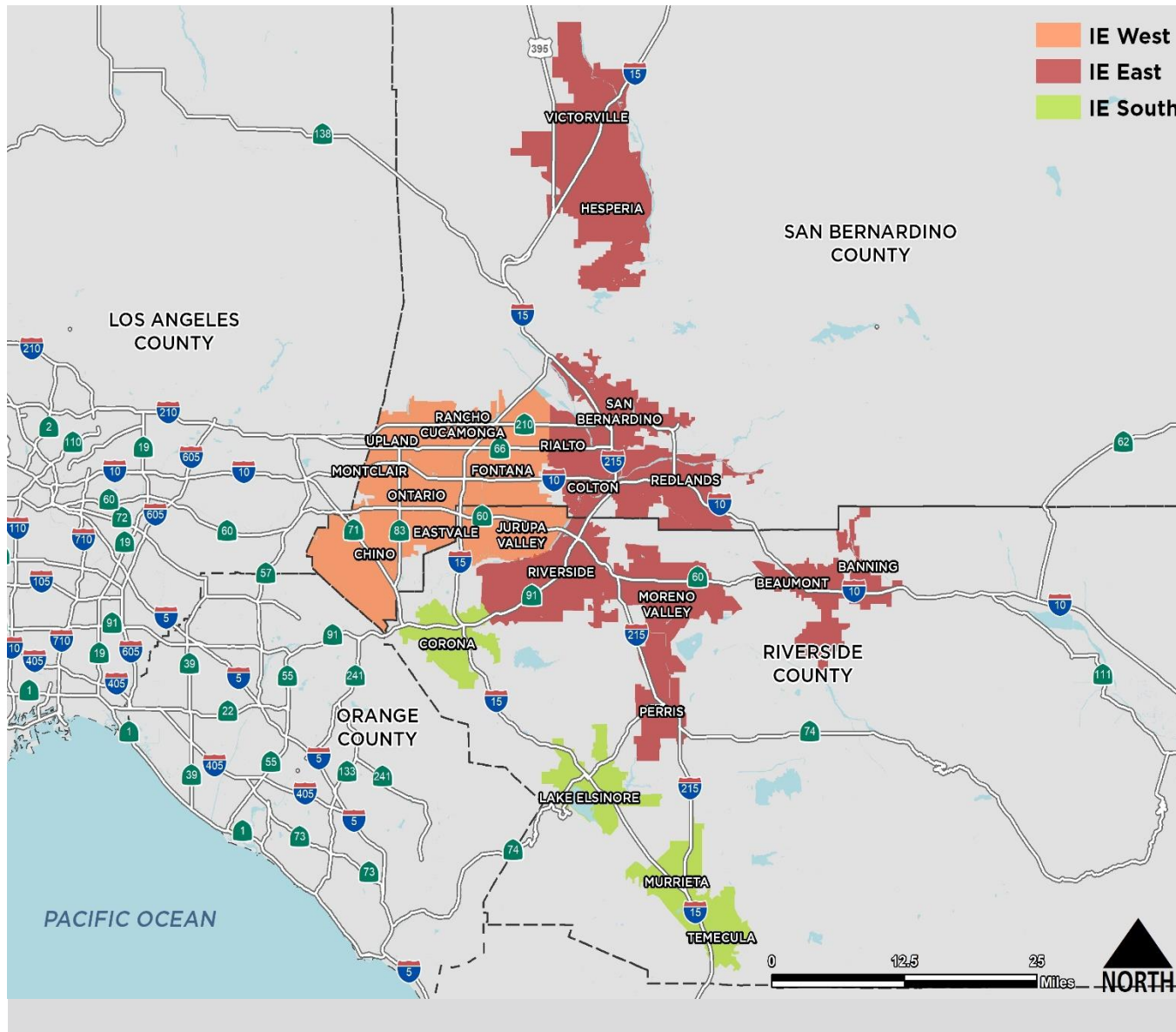
KEY CONSTRUCTION COMPLETIONS Q3 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
5400 El Rivino Rd.	Jurupa Valley/Eastvale	Target	1,186,950	CT Realty/Prudential Financial, Inc.
2615 E. 3rd St.	San Bernardino	Confidential	1,080,144	Trammell Crow Company
12415 6th St.	Rancho Cucamonga	CEVA Logistics	752,497	Bridge Development
22773 Oleander Ave.	Perris	Delta Children's Products	406,496	Majestic Realty Co.
16171 Slover Ave.	Fontana	N/A	193,077	Prologis

INLAND EMPIRE

Industrial Q3 2023

INDUSTRIAL SUBMARKETS



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