

Industrial Q4 2023

	YoY Chg	12-Mo. Forecast
5.4% Vacancy Rate	▲	▲
3.5M Net Absorption, SF	▼	▼
\$1.40 Asking Rent, PSF	▼	▲

Overall, Net Asking Rent

ECONOMIC INDICATORS Q4 2023

	YoY Chg	12-Mo. Forecast
1.7M Inland Empire Employment	▲	▲
4.9% Inland Empire Unemployment Rate	▲	▲
3.7% U.S. Unemployment Rate	▲	▲

Source: BLS

ECONOMIC OVERVIEW

Total nonfarm employment in Inland Empire (IE) grew by 30,000 or 1.8% year-over-year (YOY) between November 2022 and November 2023. The trade, transportation and utilities sector lost 2,700 jobs (-0.6% YOY), and the manufacturing sector lost 900 jobs (-0.9% YOY). The IE monthly unemployment rate increased from 4.1% last year to 5.1% and is currently 20 basis points (bps) above the 2023 quarterly average of 4.9%.¹ All employment sectors are projected to grow at a combined rate of 2.5% in 2024 and 2.0% in 2025 compared to the five-year historical average of 2.4%.²

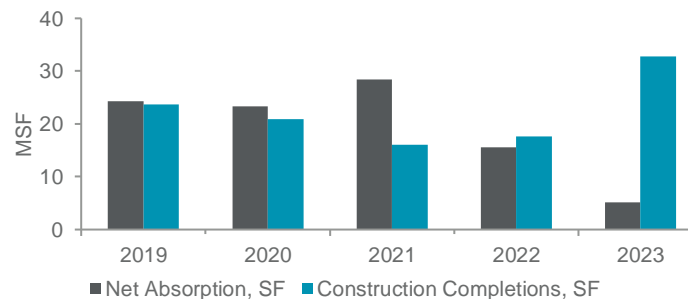
Through November 2023, the Port of Los Angeles and the Port of Long Beach handled 7.5 million Twenty-Foot Equivalent Units (TEUs) combined of loaded imports, a 13.7% drop YOY.³ Advanced estimates of U.S. retail and food services sales for November 2023 were \$705.7 billion, up 0.3% from the previous month and up 4.1% YOY. E-commerce sales totaled \$284.1 billion, an increase of 2.3% quarter-over-quarter (QOQ) and 7.6% YOY, with the e-commerce share of total retail sales declining from its peak of 16.5% in Q2 2020 to 15.6% in Q3 2023.⁴ Consumer spending habits may soften as economic uncertainty impacts the broader region and nation.

SUPPLY AND DEMAND

The IE reported a decline in demand alongside heightened supply in new deliveries and vacant availabilities. Rising costs and slower consumer spending caused retailers to reduce inventories, decreasing occupancy throughout the year. In Q4 2023, the IE recorded a vacancy rate of 5.4%, a quarterly increase of 120 bps, and an annual rise of 440 bps. This starkly contrasts with 2022 when the vacancy rate was far below the IE's five-year historical average of 2.5%. The vacancy rate is expected to rise further as a generous amount of speculative construction remains in the pipeline, and more space is returned to the market. 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 increased by 90 bps QOQ to 8.3% by year-end 2023. Meanwhile, available sublease space alone rose 60 bps QOQ to 2.2%. Sublease availability stands at 13.7 million square feet (msf), representing 26.7 % of the total 51.2 msf of available space. Notably, most of the sublease space (63.1%) is comprised of buildings 100,000 to 500,000 sf with sublessors predominately in the retail sector.

The vacancy rate in the Inland Empire West (IEW) climbed to 4.3% in Q4 2023, up 330 bps from one year ago. Despite the uptick in vacancy, the submarket maintained positive net absorption of 3.0 msf in 2023 due to multiple large move-ins in recently completed buildings. Likewise, the Inland Empire East (IEE) posted a vacancy rate of 6.2%, up 550 bps YOY, and occupancy growth of 2.9 msf in 2023. The Inland Empire South (IES) yielded the sharpest rise in vacancy, up 710 bps YOY, reaching 8.9%.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT



Occupancy losses for the year totaled 803,908 sf in the IES following four consecutive quarters of negative absorption. Weakened 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 30.3 msf across 427 transactions through 2023, down 14.8% YOY. Quarterly, however, the IE registered a 25.8% boost in leasing velocity from Q3 2023 and marked the highest-performing quarter at 8.5 msf for the year.

Despite the market's slowdown in 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 for the market, accounting for 46.9% of total recent activity. Retail trade, including e-commerce, accounted for the second largest industry, making up 22.6% of total new activity.

FUTURE INVENTORY

Construction starts were low at just 1.2 msf across eight properties in Q4 2023, yet total under-construction activity remains plentiful with 108 properties, totaling 23.3 msf. The buildings under construction will increase IE's inventory by 3.8% as they deliver throughout 2024 and early 2025. Construction completions totaled 32.8 msf in 2023, a record-high for the market and ranked third in the nation for the largest number of deliveries. Responding to strong demand during the pandemic, developers now face a surplus of completed projects amid softening demand. The pre-leasing velocity seen in the prior year has subsequently faded. As of Q4 2023, 20.6% of buildings under construction are pre-leased.

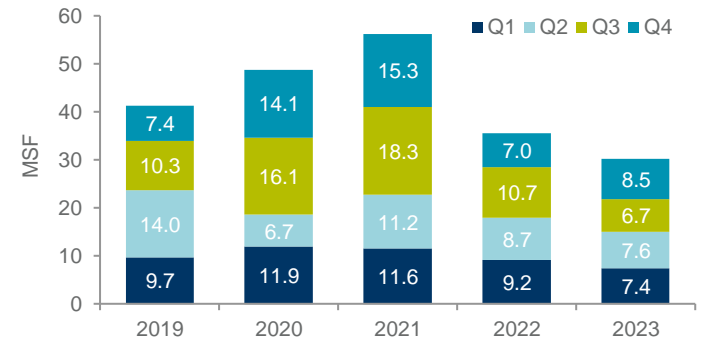
PRICING

Due to softening demand and rising vacancy, the IE posted negative rent growth following 2022's record-breaking year. The direct asking rent averaged \$1.46 per square foot (psf) per month on a triple net basis, down 7.4% YOY and 4.8% QOQ. Sublease asking rents are priced well below the market, averaging \$1.12 psf, thus dropping the overall asking rent to \$1.40 psf. Over the last year, asking rents in the IE have narrowed the gap between rents in Orange County (\$1.74 psf) and Los Angeles (\$1.58 psf) markets, leaving little relief in rents across Southern California.

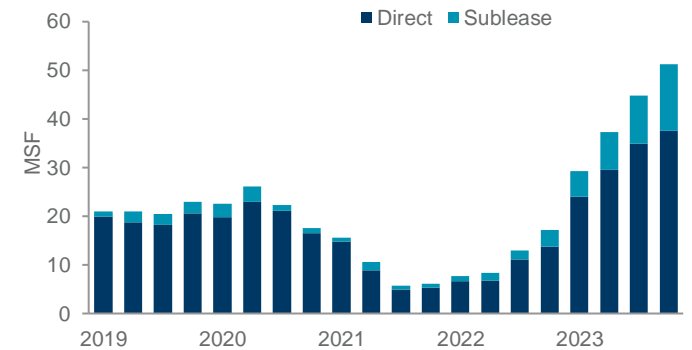
OUTLOOK

- The overall vacancy rate is expected to rise further in the new year given the amount of construction set to deliver and more availabilities becoming vacant. Concurrently, rent growth is projected to drop further before restabilizing. However, lower rents, prompted by these market conditions, are expected to stimulate new leasing activity.
- Given the IE's strong market fundamentals, the market is set for a gradual rebound in tenant demand. The decline in construction starts this year points to a substantial slowdown in construction completions, particularly in 2025, allowing for space to be absorbed and vacancy to tighten once again.

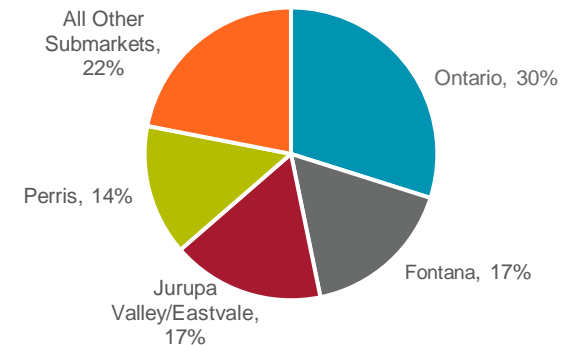
NEW LEASING ACTIVITY



DIRECT VS. SUBLEASE AVAILABLE SPACE



UNDER CONSTRUCTION INVENTORY BY SUBMARKET



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	263,568,883	4,894,486	11,471,054	6.2%	496,813	2,935,484	17,514,778	7,272,464	\$1.25	\$1.26
IE West	318,976,020	441,651	13,385,343	4.3%	3,321,510	2,955,088	13,620,946	15,752,557	\$1.55	\$1.56
IE South	34,338,284	369,140	2,705,312	9.0%	-332,875	-803,908	1,677,472	289,760	\$1.50	\$1.50
IE TOTALS	616,883,187	5,705,277	27,561,709	5.4%	3,485,448	5,086,664	32,813,196	23,314,781	\$1.40	\$1.41

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

W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
8140 Caliente Rd.	Hesperia	Maersk Logistics	1,227,600	New
26881 Palmetto Ave.	Redlands	Marc Fisher Footwear	585,064	New
26597 San Bernardino Ave.	Redlands	Yita Logistics, LLC	557,213	Sublease
13521 Santa Ana Ave.	Fontana	Gigacloud Technology Inc.	423,388	New
10721 Jasmine St.	Fontana	GigaCloud	410,006	New

KEY SALES TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/ \$PSF
40610 County Center Dr.	Temecula	RR Donnelly SENTRE	162,690	\$28.3M \$174
1425 Cooley Ct.	San Bernardino	SD Cooley Properties LLC MaxCare Products	50,624	\$11.0M \$217
484 Alcoa Cir.	Corona	Charles Zhang Glanbia PLC	67,150	\$20.3M \$302
23711 Rider St.	Perris	W.P. Carey Inc. JM Eagle	63,880	\$17.5M \$274
360 - 458 E. Rialto Ave.	San Bernardino	Birtcher Anderson & Davis EV Realty	52,641	\$9.2M \$175

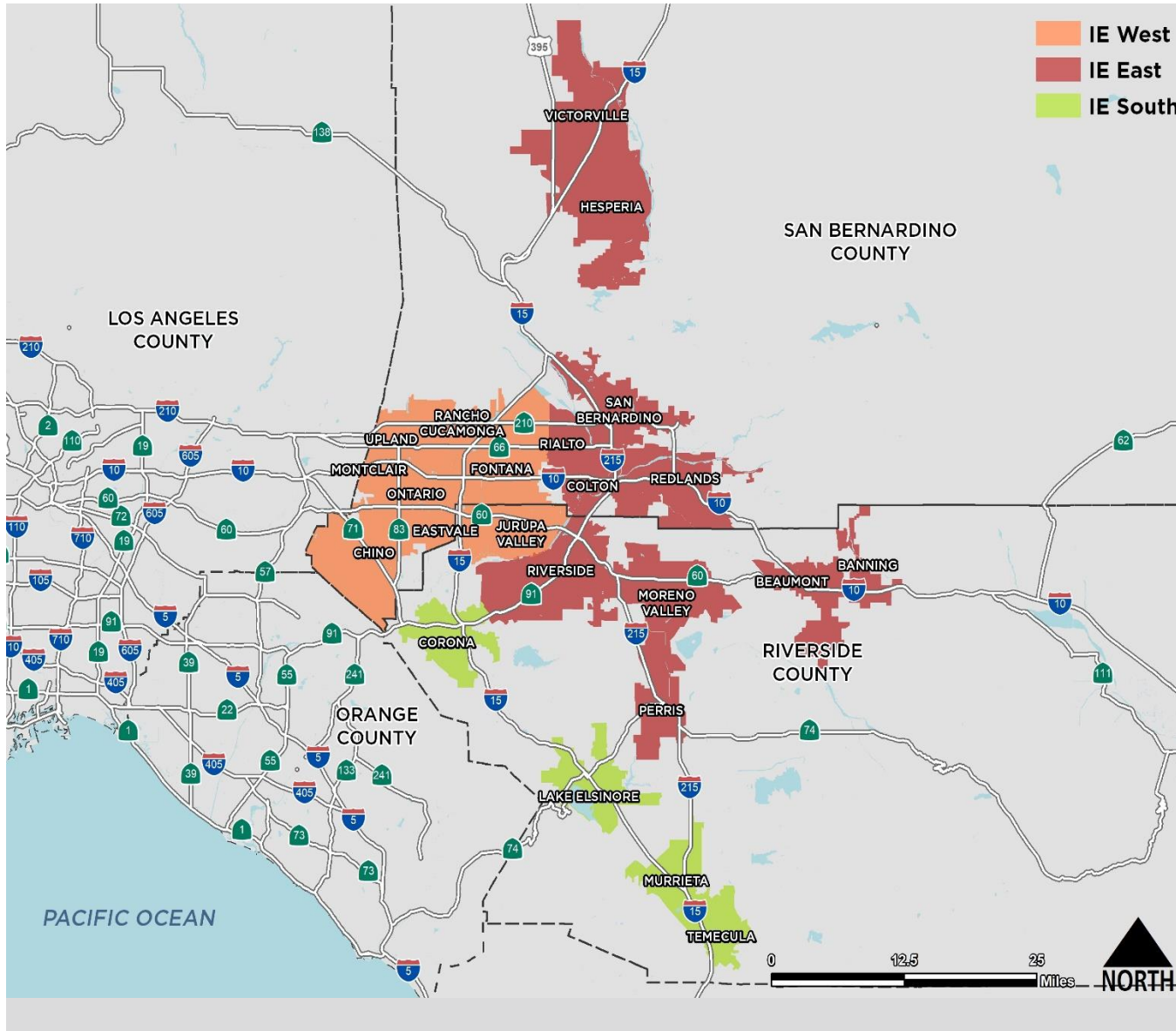
KEY CONSTRUCTION COMPLETIONS Q4 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
36855 W. 4th St.	Beaumont	United Legwear	1,777,708	McDonald Property Group/USAA
12430 Fourth St.	Rancho Cucamonga	Smart & Final	1,422,524	Bridge Development
8140 Caliente Rd.	Hesperia	Maersk Logistics	1,227,600	Westcore
36324 Cherry Valley Blvd.	Beaumont	Shein	1,017,845	Brookfield Properties
8130 Caliente Rd.	Hesperia	Freedom Logistics	1,004,400	Covington Group

INLAND EMPIRE

Industrial Q4 2023

INDUSTRIAL SUBMARKETS



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