

# Inland Empire Industrial Market

## Vacancy is in the Low 2s, a First for the Market

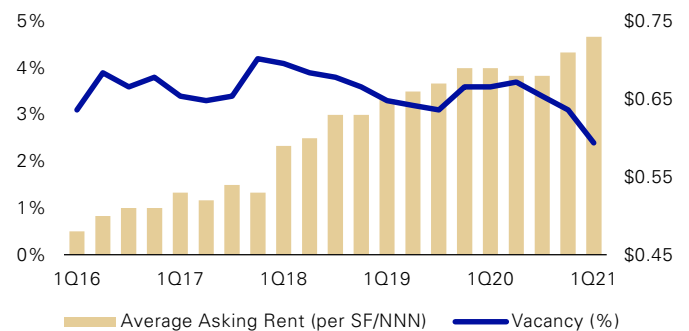
- Robust leasing activity from the last nine months of 2020 carried over into early 2021.
- Vacancy is at a record low, asking rent at a new high and developers are racing to break ground on new product.
- Construction activity was up 36.2% from year-end 2020.
- Quarterly net absorption was substantially higher than the 20-year average of 4.0 million square feet. Most of this quarter's activity came from the West.
- Walmart, Amazon, 4PX Worldwide Express, Elogistic, Comptree and Kenco Logistics all signed leases in excess of 400,000 square feet.
- U.S. consumer e-commerce sales in 2020 were up 32.3% from 2019. Expect more fulfillment centers.
- Loaded inbound volume at the ports in the first two months of 2021 was up 27.8% from the same period in 2020.
- Many U.S. distributors frontloaded imports before the start of Lunar New Year, a time when factories in China close for up to three weeks.
- Gridlock: Maersk cited average vessel wait times of seven to 15 days in Los Angeles-Long Beach by mid-March.

### The West is in Overdrive

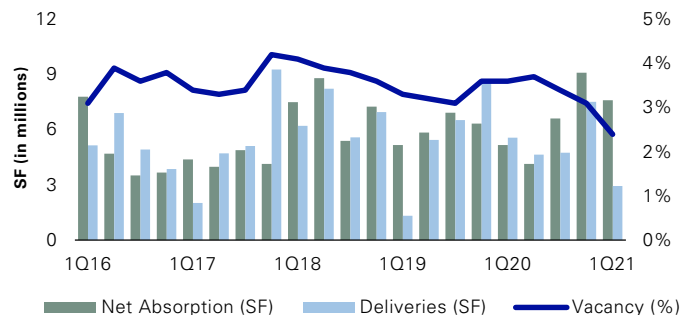
Historically, the eastern half of the market is where most tenants in Southern California consolidate or expand operations because of land availability. The tradeoff is higher transportation costs to and from the ports, where import volume is currently pronounced and congestion is severe. Drayage costs are on the rise, while the trucking industry is beyond constrained, sometimes leaving its customers in a bidding war to get products delivered.

### Market Analysis

#### VACANCY AND ASKING RENT



#### NET ABSORPTION, CONSTRUCTION DELIVERIES AND VACANCY



### Market Summary

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	643.3M	638.7M	621.9M	↑
Total Vacancy Rate	2.4%	3.1%	3.6%	→
Quarterly Net Absorption (SF)	7.6M	9.1M	5.2M	→
Average Asking Rent/SF/Month	\$0.73 NNN	\$0.71 NNN	\$0.69 NNN	↑
Deliveries (SF)	2.9M	7.5M	5.6M	→
Under Construction (SF)	21.3M	15.6M	20.1M	→

## RESEARCH Q1 2021

As a result, new product in the western half of the market is in much higher demand. Aside from its closer proximity to the ports, a distributor can serve the adjacent consumer population of Los Angeles and Orange County. Occupiers also have access to Ontario International Airport and Chino Airport, where UPS and FedEx, respectively, have operations. For ONT, air cargo in the first two months of 2021 was up 14.9% from the same period in 2020, as some distributors flew goods in to circumvent the ports.

Tenants have already leased 96.5% of the 10.0 million square feet of new construction delivered in the West over the last 12 months. Rents are swiftly rising, vacancy closed the quarter at 1.9% and no modern buildings are available in the 300,000 square feet and greater segment. Most land sites are spoken for as developers target infill opportunities.

Although red-hot conditions will persist for the foreseeable future, vacancy will likely increase when Kmart sheds 1.2 million square feet across two older facilities; the troubled

retailer consolidated operations in the High Desert in late 2019.

### Capital Markets Activity

Preliminary sales volume for the first three months of 2021 totaled nearly \$1.1 billion, up 19.4% from the same period in 2020. LBA Realty, Link Logistics and Heitman were the top three buyers, a reminder that institutional players continue to build scale in this Tier 1 market.

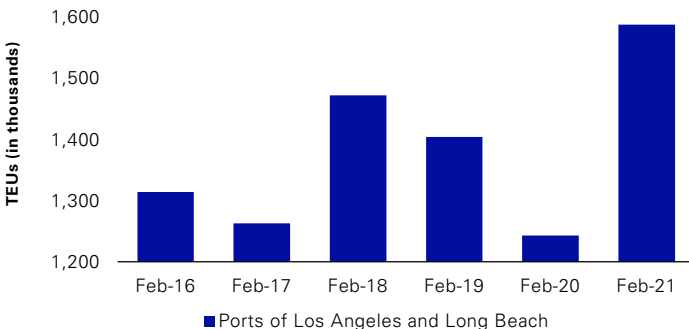
### Outlook

A third round of federal stimulus helped prop up consumer spending as labor markets across the nation recover amid rising vaccination counts. Throw in the swift growth of e-commerce sales, and the forecast for a big-box logistics corridor like the Inland Empire is highly bullish.

Although the market's core basin will perform in 2021, the western half stands to benefit the most on account of the previously cited fundamentals.

### YTD Import Volume

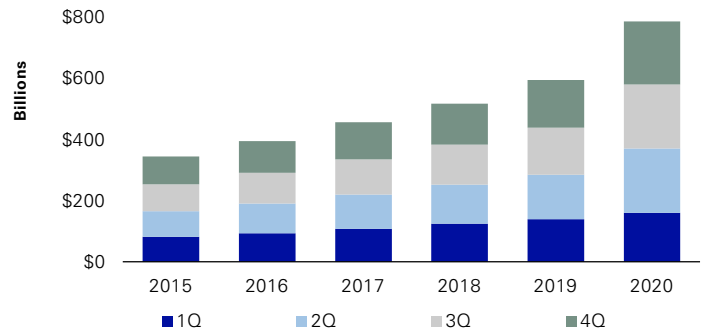
#### Loaded Inbound Cargo



Source: Port of Los Angeles, Port of Long Beach

### U.S. Consumer E-Commerce Sales Volume

#### By Year and Quarter



Source: US Census Bureau (consumer adjusted retail sales); based on the most current data available

### Lease Transactions

Tenant	Building	City	Lease Type	Square Feet
Walmart	13350 Valley Boulevard	Fontana	Renewal	757,765
Amazon	11100 Iberia Street	Jurupa Valley	New	517,903
4PX Worldwide Express	8369 Milliken Avenue	Rancho Cucamonga	New	441,970

### Sale Transactions

Buyer	Building(s)	City	Sale Price/SF	Square Feet
Haralambos Leasing Company	10965 Banana Avenue	Fontana	\$182	297,161
Principal Global Investors, Inc.	2335 W. Walnut Avenue	Rialto	\$180	186,874
Kwangwon USA, Inc.	19750 Orange Street	Bloomington	\$167	184,770

### Submarket Statistics

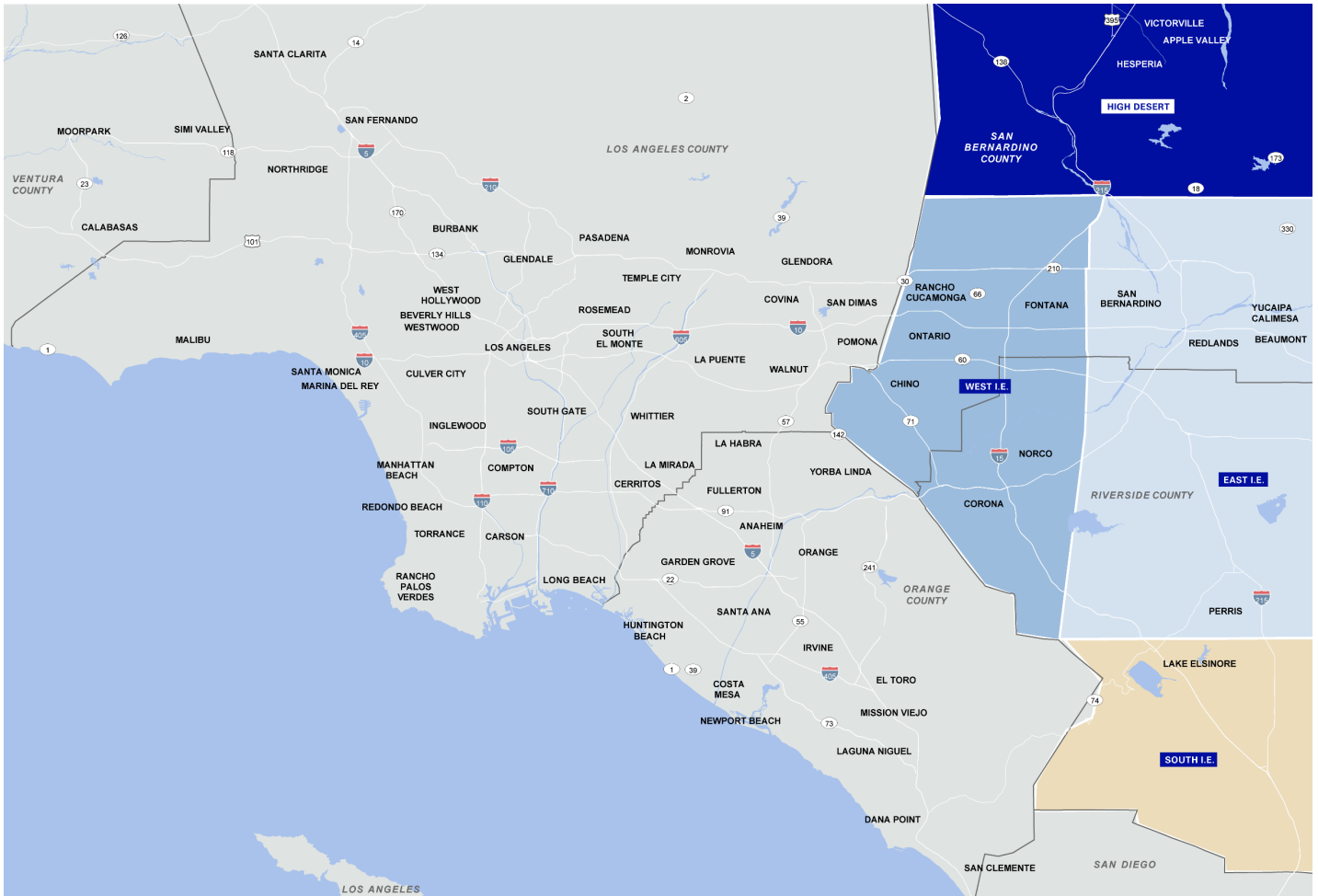
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Wh/Dist Asking Rent (Price/SF)	General Ind Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
East I.E.	243,656,253	11,768,105	3.4%	2,498,222	2,498,222	\$0.63	\$0.74	\$0.71
High Desert	14,183,066	23,580	3.2%	0	0	-	\$0.51	\$0.51
South I.E.	18,234,863	141,774	1.8%	-16,532	-16,532	\$0.68	\$0.82	\$0.71
West I.E.	367,212,009	9,364,478	1.7%	5,119,725	5,119,725	\$0.76	\$0.82	\$0.76
<b>Market</b>	<b>643,286,191</b>	<b>21,297,937</b>	<b>2.4%</b>	<b>7,601,415</b>	<b>7,601,415</b>	<b>\$0.73</b>	<b>\$0.73</b>	<b>\$0.73</b>

### Submarket Breakdowns

	Cities
East I.E.	Banning, Beaumont, Bloomington, Calimesa, Colton, Glen Avon, Grand Terrace, Highland, Loma Linda, Mentone, Moreno Valley, Perris, Rialto, Redlands, Riverside, Rubidoux, San Bernardino, Yucaipa
High Desert	Adelanto, Apple Valley, Barstow, Desert Knolls, Helendale, Hesperia, Lancaster, Lenwood, Lucerne Valley, Phelan, Silver Lakes, Victorville
South I.E.	Hemet, Lake Elsinore, Menifee, Murrieta, San Jacinto, Sun City, Temecula, Wildomar
West I.E.	Chino, Chino Hills, Corona, Eastvale, Fontana, Jurupa Valley, Mira Loma, Montclair, Norco, Ontario, Rancho Cucamonga, Upland

*Net absorption is the change in physically occupied space. A hypothetical vacant and available space could lease this quarter with the tenant set to take occupancy six months later; positive absorption is not recorded until this physical move-in occurs. The space will remain vacant, but not available, until occupancy.*

*The total asking rent is the weighted average across warehouse, manufacturing, flex, incubator and general industrial properties.*



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