

Inland Empire Industrial Market

Pricing Continues to Escalate; Inflation Looms

- Vacancy remains the tightest in the nation, at 0.6%.
- Uline, Weber Logistics, J.B Hudco, AWG and Calego International were among this quarter's top move-ins; all occupied new buildings.
- Amazon is under construction on three facilities, each over 1.0 million square feet, in Victorville, Beaumont and Ontario. The Ontario building will comprise 4.1 million square feet across five stories.
- A 1.4-million-square-foot warehouse in Rancho Cucamonga, once occupied by Kmart, was demolished. Two facilities, over 2.0 million square feet in all, will be built on the site.
- U.S. consumer e-commerce sales in 2021 were up 51.0% from 2019. Demand for fulfillment and last-mile space is high.
- Loaded inbound cargo volume at the ports totaled 10.1 million containers in 2021, the busiest year on record.
- Drayage costs are sharply up due to congestion and high volume at the ports since 2020. Compare \$966 to truck a container to Chino versus late 2019's average of \$662.
- Construction material costs are rich and are adding upward pressure on rents. Asphalt prices, for instance, were up 60.0% from December 2019 to February 2022.

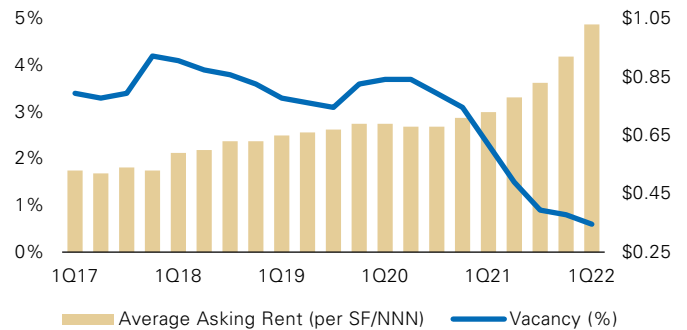
New Construction Propels Leasing Activity

Sixteen leases, excluding renewals, over 100,000 square feet were signed this quarter. Nine of the 16 were pre-leases and most were announced on the eve of a given building's delivery. This reinforces a few trends.

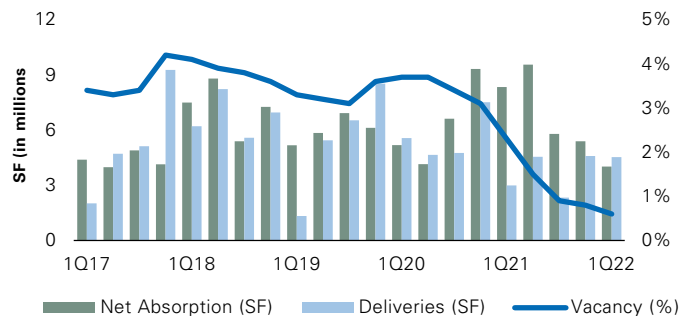
New supply is driving new leasing activity amid sub-1.0% vacancy as developers break ground on entitled sites to alleviate the current supply-demand imbalance. Developers are also trying to identify future land sites amid pushback from a growing list of cities hesitant to build industrial. This is leading to more construction in areas once deemed tertiary, such as Cherry Valley and Victorville.

Market Analysis

ASKING RENT AND VACANCY



NET ABSORPTION, CONSTRUCTION DELIVERIES AND VACANCY



Market Summary

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	660.2	656.6M	645.1M	↑
Total Vacancy Rate	0.6%	0.8%	2.3%	→
Quarterly Net Absorption (SF)	4.0M	5.4M	8.3M	→
Average Asking Rent/SF/Month	\$1.03 NNN	\$0.92 NNN	\$0.73 NNN	↑
Deliveries (SF)	4.5M	4.6M	3.0M	→
Under Construction (SF)	33.2M	24.9M	19.9M	→

RESEARCH Q1 2022

The delay in signing tenants for underway speculative space hints at timing and pricing. Construction materials are not always available when needed, while labor can be scarce. This affects construction timetables and makes a developer liable if they sign a tenant and are unable to deliver space on the agreed upon date in the lease agreement. The pricing aspect is best framed as a rhetorical question from a developer's standpoint: Why sign a tenant today when the average rent six months from now will be far higher due to rising construction costs and even tighter market conditions?

Contract Rents: Accelerated Growth

Swift rent growth persists and will not abate any time soon. The average weighted contract rent for warehouse leases between 100,000 and 500,000 square feet, with a minimum clearance height of 30', averaged \$1.226/SF this quarter, up 80.5% from the first quarter of 2021.

Prior to the pandemic, it was common practice to cite rent averages by year, which grew by 9.0% per year from 2015 to

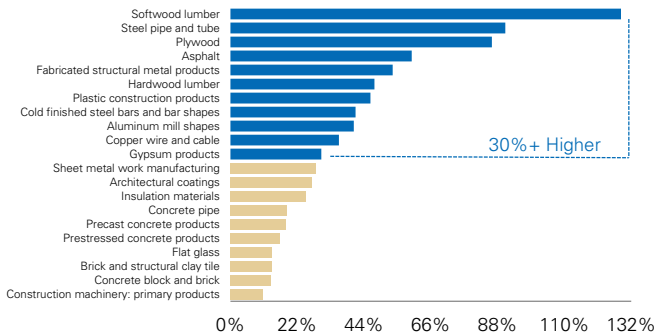
2019. Quarterly averages are the current preferred approach, but this may shift to monthly; rents are moving that fast.

Outlook

U.S. inflation was at a 40-year high in February, while consumer sentiment reached a decade-long low in March. To compound matters, China's zero-COVID policy led to the complete shutdown of at least five large factory cities in March, while domestic fuels costs sharply rose following Russia's invasion of Ukraine. These variables will elevate the cost of goods and increase the odds of a recession.

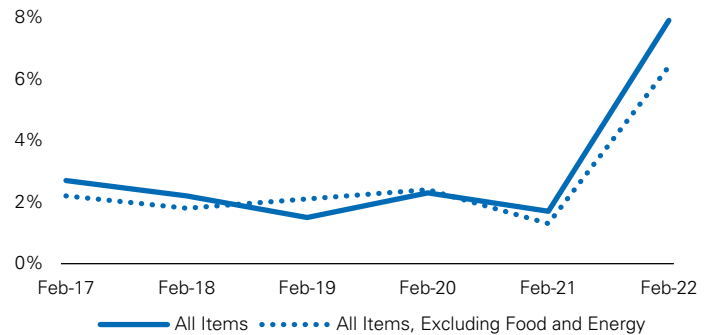
Local leasing market dynamics are not expected to change in 2022 due to pent-up tenant demand and how commercial real estate historically lags the economy. Yet, the outlook is cloudier from 2023 on. Whether the U.S. economy can withstand rising interest rates during a period of geopolitical turmoil and a lingering pandemic is a question without an immediate answer. For now, U.S. retail sales growth persists, albeit via flat gains, as February's 0.3% month-on-month increase reflects.

Construction Material Price Movement U.S. PRODUCER PRICE INDEX: DEC 2019 TO FEB 2022 % CHANGE



Source: U.S. Bureau of Labor Statistics (data not adjusted for seasonality)

Consumer Price Index (CPI-U) U.S. | 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics (data not adjusted for seasonality)

Lease Transactions

Tenant	Building	City	Lease Type	Square Feet
Home Depot	Ontario Ranch Business Park	Ontario	Pre-lease	1,099,629
Republic National Distributing Co.	22305 Oleander Avenue	Riverside	Pre-lease	782,209
NFI	23550 Placentia Avenue	Perris	Pre-lease	682,700

Sale Transactions

Buyer	Building(s)	City	Sale Price (PSF)	Square Feet
IDS Real Estate Group	14800 Meridian Parkway	Riverside	\$225,000,000 (\$192/SF)	1,174,8000
TA Realty	5401 E Jurupa Street	Ontario	\$43,000,000 (\$302/SF)	142,404
Black Creek Group	21362 Harvill Avenue	Perris	\$41,354,000 (\$209/SF)	197,865

Submarket Statistics

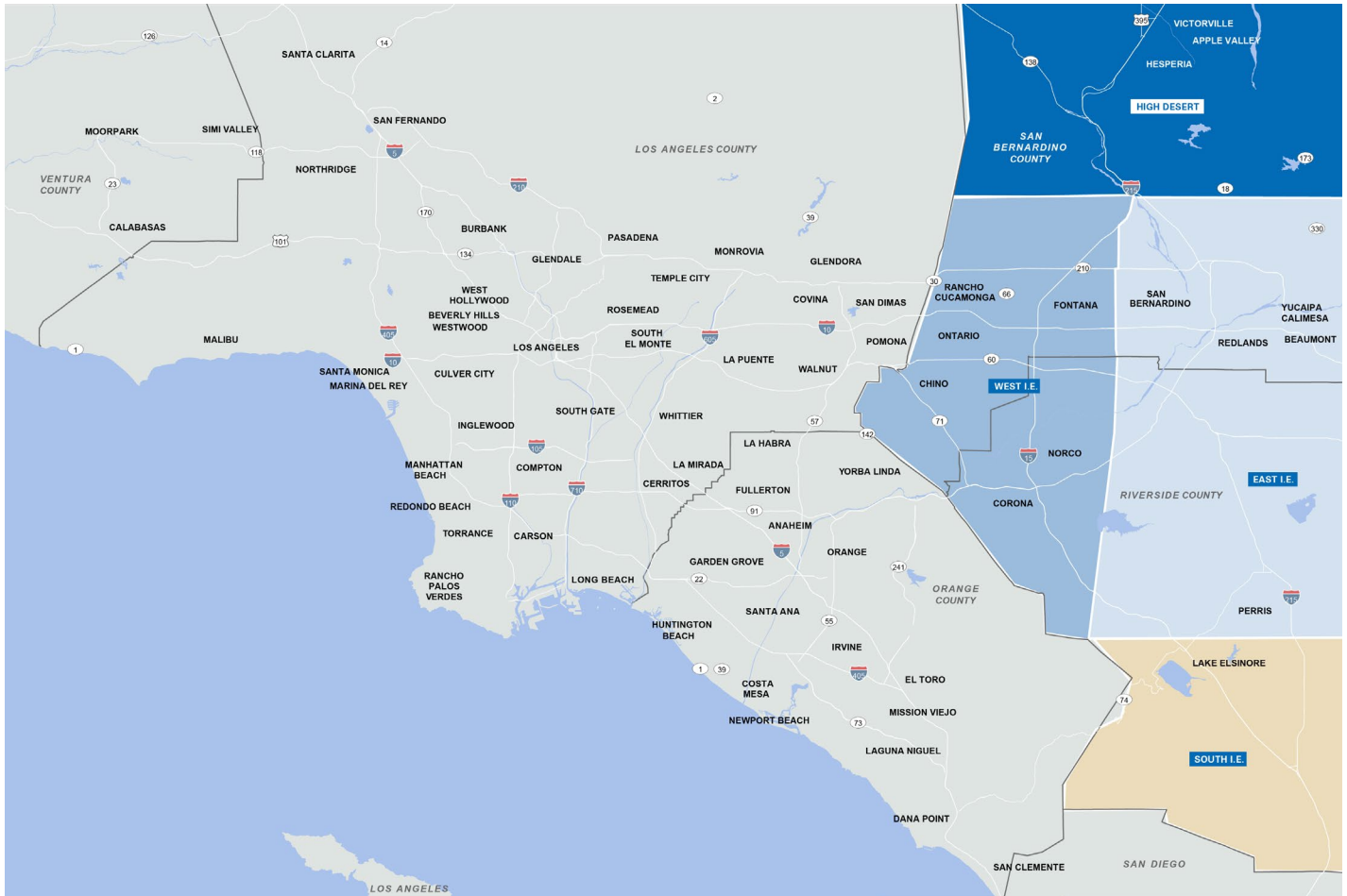
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Wh/Dist Asking Rent (Price/SF)	General Ind Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
East I.E.	254,168,719	15,894,336	0.5%	982,780	982,780	\$0.98	\$1.11	\$0.99
High Desert	14,406,111	1,923,852	2.7%	-3,620	-3,620	-	-	-
South I.E.	18,786,597	310,396	2.0%	42,003	42,003	\$0.90	\$0.91	\$0.91
West I.E.	372,811,903	15,034,009	0.5%	2,996,362	2,996,362	\$1.35	\$1.16	\$1.19
Inland Empire	660,173,330	33,162,593	0.6%	4,017,525	4,017,525	\$1.00	\$1.11	\$1.03

Submarket Breakdowns

	Cities
East I.E.	Banning, Beaumont, Bloomington, Calimesa, Cherry Valley, 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. Older, available buildings often cite asking rents, while newer facilities often withhold rent values. Based on this, today's asking rent averages are materially understated.



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