

# Inland Empire Industrial Market

## Vacancy Slips Below Los Angeles' Average

- Vacancy is now lower than Los Angeles' 1.2%.
- Vacancy averages 0.9% in the West and East I.E.
- Most tenants are agreeing to landlord terms when their leases are up for renewal; no negotiations.
- Desirable buildings that come to market attract multiple tenant offers that bid contract rents up.
- Loaded inbound port volume in the first eight months of 2021 was up 29.5% from the same period in 2020.
- Domestic distributors are trying to replenish inventories amid global supply chain disruptions, which continues to propel severe congestion at Los Angeles-Long Beach.
- A total of 73 container ships were anchored, awaiting entry into the twin ports on September 26.
- Although leasing activity remains diverse across industry segments, e-commerce, 3PLs and transportation-related companies are especially active.
- High demand from goods-movement industries is in line with the challenge all distributors face in today's climate: getting goods to their facilities as quickly as possible.

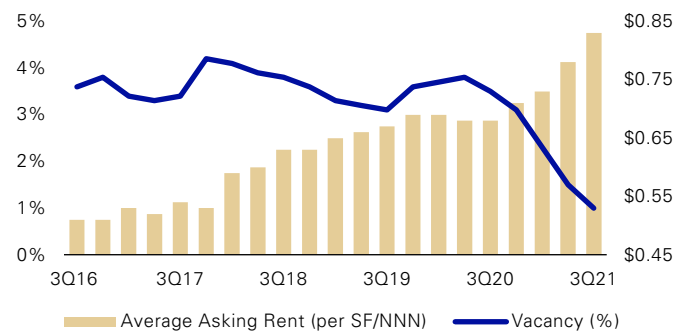
### Southern California's Lowest Vacancy Rate

The Inland Empire grew into a logistics corridor, starting in the mid-1980s, as distributors priced out of Los Angeles and Orange Counties explored space options to the east. This led to substantial development activity in the decades to follow. Even today, the Inland Empire consistently ranks as a top three U.S. market for industrial construction activity.

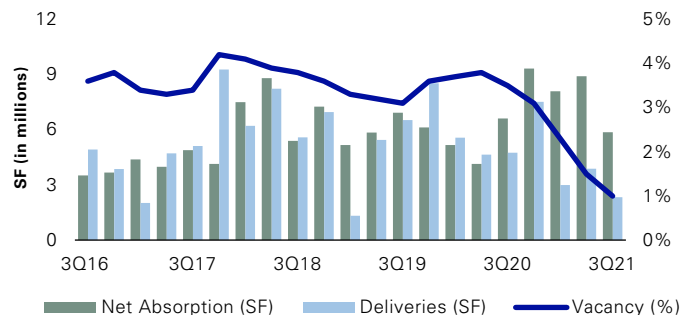
The fact that vacancy is lower than Los Angeles—a highly mature infill market with lower drayage costs to/from the

### 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)	651.3M	648.6M	631.4M	↑
Total Vacancy Rate	1.0%	1.5%	3.5%	→
Quarterly Net Absorption (SF)	5.9M	8.9M	6.6M	→
Average Asking Rent/SF/Month	\$0.83 NNN	\$0.78 NNN	\$0.68 NNN	↑
Deliveries (SF)	2.3M	3.9M	4.8M	→
Under Construction (SF)	24.7M	22.2M	18.4M	→

## RESEARCH Q3 2021

ports—is remarkable, especially when surveying how much new supply has been added in recent years.

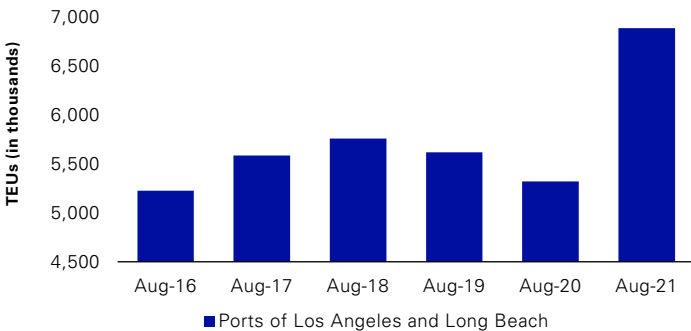
Since 2011, 166.0 million square feet has delivered in the Inland Empire compared to 35.7 million square feet in Los Angeles. The Inland Empire’s existing inventory pool grew by a resounding 52.5% over this period, while Los Angeles expanded by 7.3%.

Inland vacancy went from 8.9% to 1.0%, while Los Angeles saw a 3.3% to 1.2% trajectory from 2010 to the present, suggesting modern buildings were well received.

Global supply chain disruptions and rapid growth in consumer e-commerce sales over the last 18 months only accelerates this trend. Distributors are hoarding more as a tactic to mitigate against future disruptions in the global flow of goods, while increasing online sales leads to more fulfillment and last-mile centers. In other words, COVID-19 has only accelerated demand for industrial space.

### YTD Import Volume

#### Loaded Inbound Cargo



Source: Port of Los Angeles, Port of Long Beach

### Contract Rents Trend Ever Higher

Warehouse contract rents for direct leases and renewals over 100,000 square feet in spaces with a 30-foot and greater ceiling height had a weighted average of \$0.73/SF/month in the first nine months of 2021, up 28.9% from the same period in 2020.

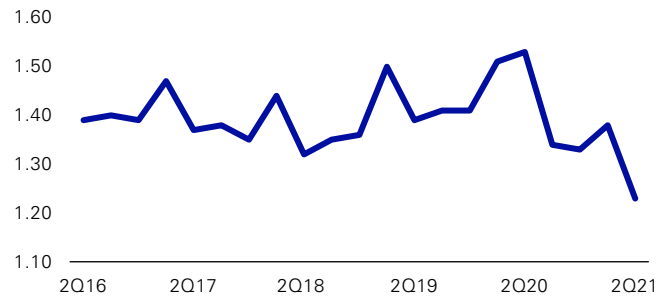
The run-up is swift when comparing recent quarterly averages. Namely, \$0.69/SF in the first-quarter of this year, \$0.74/SF in the second and \$0.81/SF for the third. As stated in last quarter’s report, current pricing is being set on a deal-by-deal basis; 1.0% vacancy will only accelerate rent growth.

### Outlook

Supply chain disruptions will persist until COVID-19 is less of a global health threat and disruptor to businesses. This will not happen until all major economies achieve widespread vaccination and have effective therapeutics to treat the infected. Local demand will not abate anytime soon. Like Los Angeles, the Inland Empire now faces a supply issue: modern space is scant, a boon for speculative developers.

### U.S. Total Business: Inventories to Sales Ratio

#### Quarterly Averages



Source: US Census Bureau (not seasonally adjusted); based on the most current data available

### Lease Transactions

Tenant	Building	City	Lease Type	Square Feet
DHL	9211 Kaiser Way	Fontana	Renewal	830,000
National Distribution Centers, LLC	3100 S. Milliken Avenue	Eastvale	New	760,829
UNIS Logistics	2677 E. Alessandro Boulevard	Moreno Valley	New	709,081

### Sale Transactions

Buyer	Building(s)	City	Sale Price (PSF)	Square Feet
Pacific Investment Management	1110 W. Merrill Avenue	Rialto	\$123,353,000 (\$112/SF)	1,106,124
Principal Real Estate Investors	865-998 S. Washington Avenue	San Bernardino	\$94,600,000 (\$165/SF)	574,984
Nuveen	2950 E. Philadelphia Street	Ontario	\$59,550,000 (\$252/SF)	236,691

### Submarket Statistics

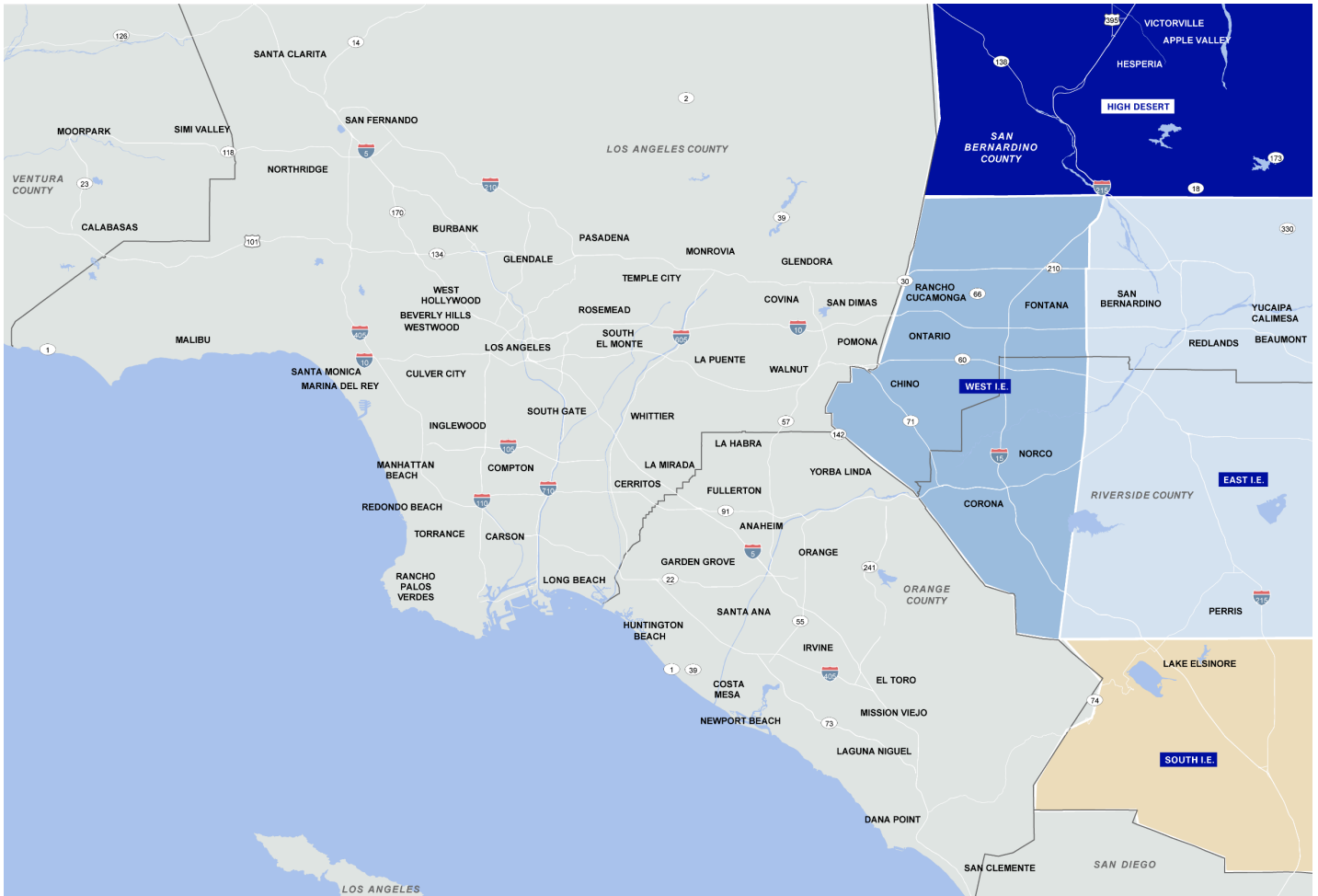
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Wh/Dist Asking Rent (Price/SF)	General Ind Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
East I.E.	248,604,526	13,974,685	0.9%	3,862,136	11,984,236	\$0.77	\$0.78	\$0.78
High Desert	14,249,066	843,544	2.8%	0	4,846	-	\$0.55	\$0.55
South I.E.	18,595,699	141,774	1.6%	375,959	334,614	\$0.71	\$0.87	\$0.74
West I.E.	369,809,987	9,741,580	0.9%	1,624,604	10,514,440	\$1.14	\$0.96	\$1.11
<b>Market</b>	<b>651,259,278</b>	<b>24,701,583</b>	<b>1.0%</b>	<b>5,862,699</b>	<b>22,838,136</b>	<b>\$0.85</b>	<b>\$0.80</b>	<b>\$0.83</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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