



Inland Empire Industrial Market

Lukewarm Absorption, Overall Fundamentals are Healthy

- Vacancy, the lowest in the country, was slightly up from the prior quarter.
- Few construction deliveries, coupled with a handful of move-outs, limited this quarter's net absorption total.
- Twelve direct leases over 300,000 square feet each were signed this quarter. Ten were pre-leases.
- Amazon, the region's largest employer, vacated and listed 133,200 square feet for sublease in Riverside.
- Norco's city council enacted a 45-day moratorium on industrial development; a timeline that can be extended.
- Loaded inbound cargo volume at the ports totaled nearly 6.9 million containers in the first eight months of 2022, down 0.5% from the same period in 2021.
- PMA-ILWU* contract negotiations continue. In September, the ILWU authorized security guards to strike.
- A few warehouse leases signed this quarter had starting rents that were north of \$2.00/SF per month on a triple-net basis; all were in new facilities.
- New construction leasing and subsequent occupancies will propel net absorption gains in the quarters ahead.

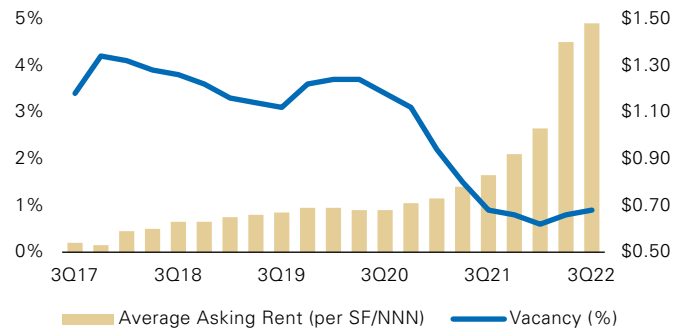
Tenants Up for Renewal Endure Sticker Shock

Start rents for Class A warehouse leases between 100,000 and 500,000 square feet averaged \$1.437/SF this quarter, up 204.8% from five years ago. The average term length was 81 months with two months free; comparable to five years prior when the average was 78 months with three months free.

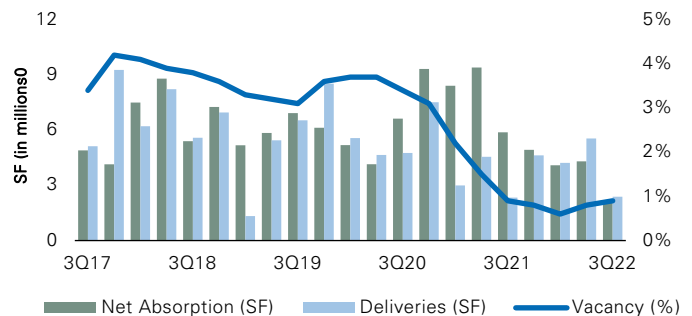
Costly rents are in addition to rising operating expenses and [the WAIRE program](#), which will begin to collect fees in 2023. This will only compel more tenants to consider lower-priced markets, such as Phoenix, Las Vegas or Reno. Higher drayage

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)	668.0M	665.5M	652.0M	↑
Total Vacancy Rate	0.9%	0.8%	0.9%	↑
Quarterly Net Absorption (SF)	2.1M	4.3M	5.9M	→
Average Asking Rent/SF/Month	\$1.48 NNN	\$1.40 NNN	\$0.83 NNN	→
Deliveries (SF)	2.4M	5.5M	2.3M	↑
Under Construction (SF)	41.7M	41.8M	26.0M	→

* ILWU is an acronym for International Longshore and Warehouse Union - essentially the dockworkers of U.S. West Coast ports. The PMA, or the Pacific Maritime Association, governs the ports.

costs and slower delivery times to Southern California’s consumer base are the trade-offs.

Outlook

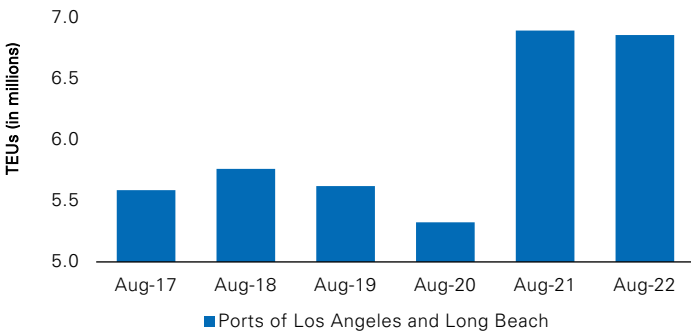
Inflation continues to outpace wage growth, while rising interest rates are increasing the cost of consumer credit. Some consumers are reducing discretionary spending and U.S. retail sales are flat. To compound matters, consumer sentiment remains low and nearly half of consumers fault inflation for eroding their living standards.

Although this is in contrast with near-record high import activity at Southern California’s ports, it is worth noting that many distributors built up their inventories in early summer to hedge against rebounding China traffic (after COVID factory closures) and potential labor disputes at U.S. West Coast ports. Now, major big-box retailers are overstocked and are curtailing overseas orders.

The upcoming holiday season will be interesting as it pertains to the trajectory of retail sales since nearly 20.0% of annual sales

YTD Import Volume

LOADED INBOUND CARGO



Source: Port of Los Angeles, Port of Long Beach

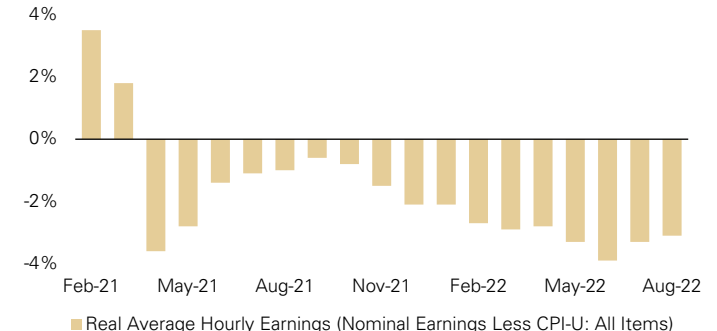
occur in November through December. A sizeable drop will crimp future import totals, and import volume historically shapes warehouse leasing activity.

Leasing dynamics are not expected to change through year-end due to pent-up tenant demand for modern space and how commercial real estate historically lags the economy. The outlook is cloudier from 2023 on as the Fed continues aggressive interest rate hikes to battle inflation. This could trigger a recession in a worst-case scenario.

Global supply chain disruptions, rising transport costs and swift e-commerce growth in recent years created a perfect storm for population-serving warehouse markets, of which the Inland Empire has arguably benefited the most from a national perspective. Sub-1.0% vacancy in one of the country’s top construction markets and unprecedented rent growth validate this. Yet, all storms pass; red-hot leasing dynamics will moderate when retail sales eventually cool.

Real Income

U.S. | 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics (earnings for all employees on private nonfarm payrolls; data adjusted for seasonality)

Lease Transactions

Tenant	Building	City	Lease Type	Square Feet
SHEIN USA	I-210 Logistics Center (2 bldgs.)	Cherry Valley	Pre-lease	1,827,582
Target	5400 El Rivino Road	Jurupa Valley	Pre-lease	1,186,950
Shopify	2615 E 3 rd Street	San Bernardino	Pre-lease	1,080,144

Sale Transactions

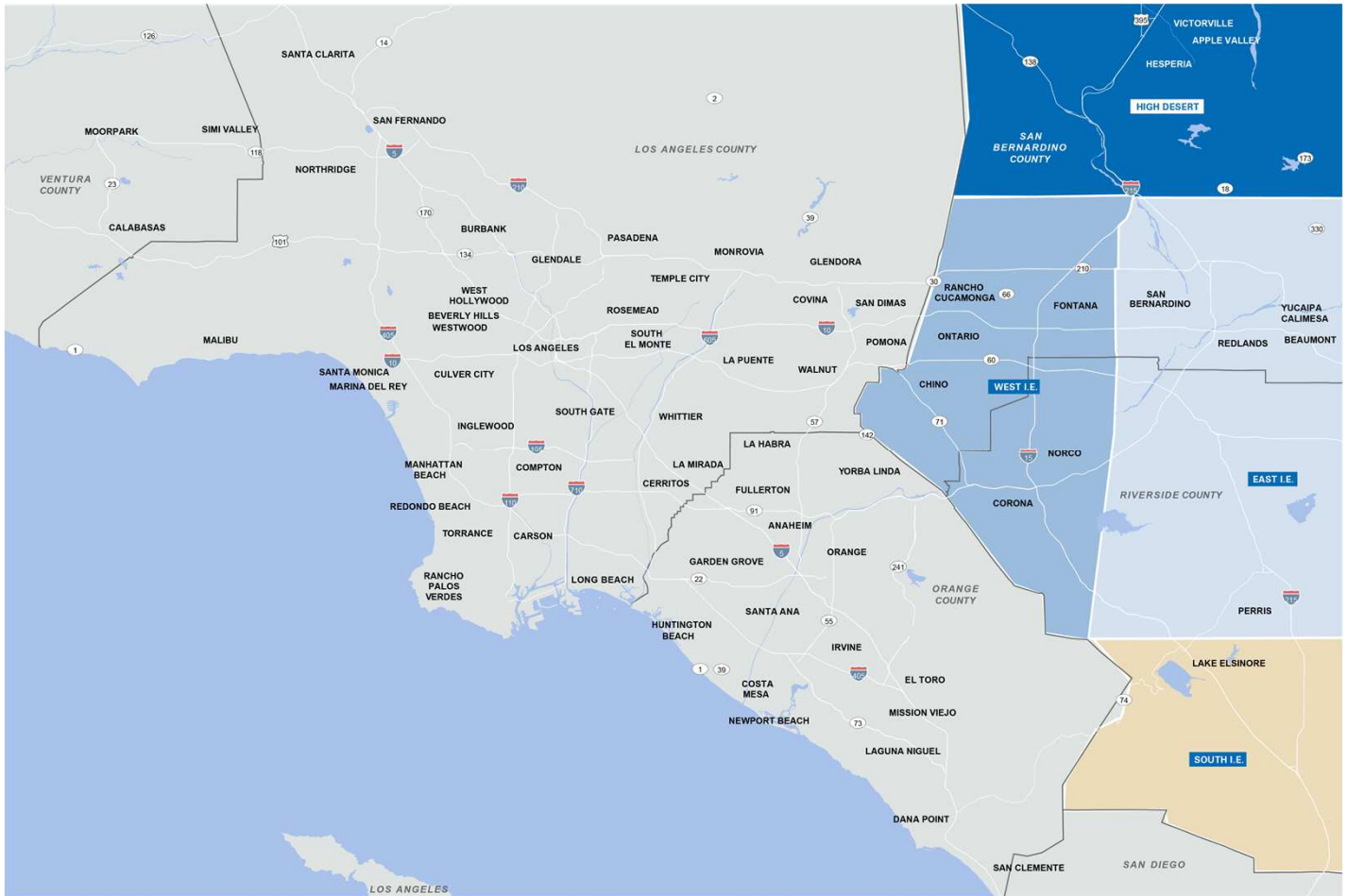
Buyer	Building(s)	City	Sale Price (PSF)	Square Feet
GLP Capital Partners	3900 Indian Avenue	Perris	\$158,000,000 (\$273/SF)	579,708
Zurich Alternative Asset Mgmt.	13508 Marlay Avenue	Fontana	\$58,510,000 (\$525/SF)	111,419
Ottogi America, Inc.	1933 E Locust Street	Ontario	\$56,000,000 (\$528/SF)	106,088

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.	257,704,480	16,424,310	0.9%	1,133,931	4,162,496	\$1.22	\$1.25	\$1.24
High Desert	15,406,111	2,363,670	2.7%	3,870	950,000	-	-	-
South I.E.	18,998,594	224,524	2.9%	-27,788	89,828	\$1.10	\$1.14	\$1.13
West I.E.	375,881,291	22,666,709	0.7%	1,016,039	5,336,438	\$1.68	\$1.60	\$1.66
Inland Empire	667,990,476	41,679,213	0.9%	2,126,052	10,538,762	\$1.59	\$1.32	\$1.48

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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