



Inland Empire Industrial Market

Leasing Activity Reminiscent of Pre-Pandemic Levels; Vacancy Rises

- Twelve direct leases over 100,000 square feet were signed this quarter, on par with the final quarter of 2019.
- Vacancy increased to 1.3% after construction deliveries exceeded net absorption gains this quarter.
- Amazon, Skechers, Syncreon Technology and NFI all occupied new facilities over 500,000 square feet, contributing to absorption gains in the East.
- Several move-outs in the West led to negative absorption.
- Available sublease space totals 4.4 million square feet, higher than the market’s 20-year average of 2.8 million square feet.
- Keeco Home, The Unical Group, Pharmapacks, Reckitt Benckiser, MCS Industries and Amazon are a sampling of companies with large block sublease offerings.
- Import volume at the ports will make for the second busiest year on record once December’s numbers are in.
- November U.S. retail sales fell 0.6% from the prior month for the biggest decline this year.
- Net absorption for the year was 16.1 million square feet while construction deliveries totaled 20.5 million square feet.
- A few construction projects were delayed after they were unable to secure power from Southern California Edison.

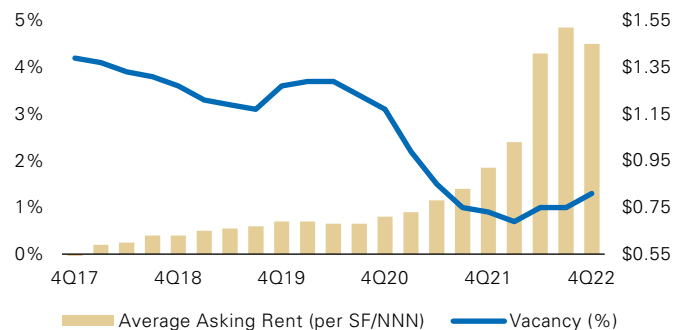
Quarterly Net Absorption Losses in the West

Vacancies in the 100,000- to 300,000-square-foot segment led to the West’s first quarterly net absorption loss in eight years, after General Motors, World Depot, RAK Logistics, Furtech, Luminance Brands, Infinity Trans (USA), Dorel, Uline, New Flyer of America and Allstars Corp shed space.

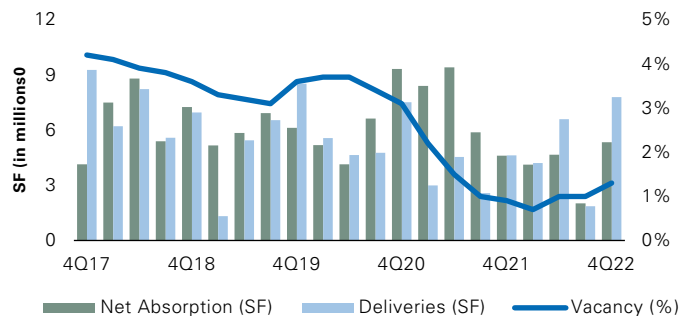
The backstory of each varies, ranging from consolidations to newer facilities, downsizes and an instance where a landlord evicted a tenant for late rent payment in order to list the former tenant’s space at a far-higher market rent.

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)	676.8M	669.0M	657.1M	↑
Total Vacancy Rate	1.3%	1.0%	0.9%	↑
Quarterly Net Absorption (SF)	5.3M	2.0M	4.6M	→
Average Asking Rent/SF/Month	\$1.45 NNN	\$1.52 NNN	\$0.92 NNN	→
Deliveries (SF)	7.8M	1.9M	4.6M	→
Under Construction (SF)	41.1M	44.5M	26.1M	↓

Current Construction and 2023

Although under-construction activity remains elevated with 41.1 million square feet, 44.5% is pre-leased. This will lead to big absorption gains as 1.0-million-square-foot facilities for Target, Home Depot, Shopify, Amazon and Shein deliver next year.

Facilities in excess of 500,000 square feet are expected to perform well since they cater to Fortune-ranked companies that are seeking the economies of scale a modern large-box facility offers, including, but not limited to, higher storage capacities and the ability to automate operations. Pre-leasing in this segment averages 60.3% across 25.6 million square feet.

Sub-500,000-square-foot buildings have more exposure, where 15.5 million square feet is underway and only 14.9% has been pre-leased to date. Assuming this figure does not increase, and more vacancies occur, then rent growth in this segment will cool at a faster clip than its larger counterpart.

Outlook

Although the Fed is making progress in taming inflation, it still

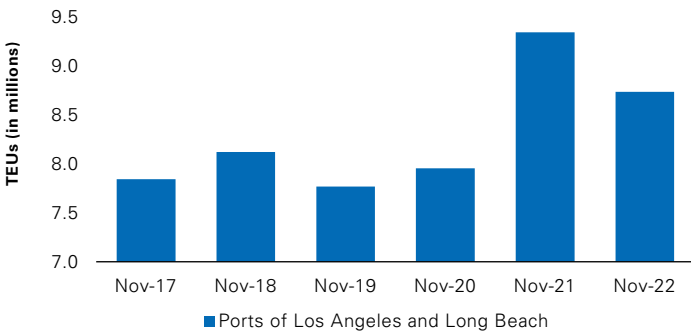
has much ground to cover via additional, though what will likely be less steep, interest rate hikes. Higher interest rates increase the cost of consumer debt; that, when paired with lingering concerns of an upcoming recession, will dampen retail spending outlooks. The average consumer is saving less to fund their purchases, with the U.S. savings rate at 2.3% in October, the lowest since July 2005. Warehouse demand will continue to moderate as it falls in line with healthy, pre-pandemic norms.

Landlords want to de-risk their under-construction projects and are willing to negotiate now with aspiring tenants instead of waiting closer to the eve of a building's completion. This is especially true in the 100,000- to 300,000-square-foot segment.

Fewer groundbreaking are anticipated next year due to rising construction costs, development pushback in select cities, decelerating rent growth and a growing wait-and-see sentiment as it pertains to what lies ahead for the U.S. economy. For capital markets, property sale values will continue to cool from all-time highs on account of rising interest rates.

YTD Import Volume

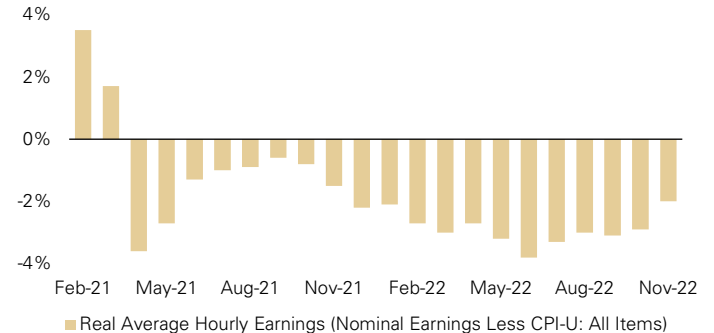
LOADED INBOUND CARGO



Source: Port of Los Angeles, Port of Long Beach

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
Hanesbrands Inc.	3700 Indian Avenue	Perris	Renewal	1,309,754
Under Armour	2510-2580 W Walnut Avenue	Rialto	Renewal	1,197,051
Skechers	2600 E John Street	Banning	Pre-lease	1,000,000

Sale Transactions

Buyer	Building(s)	City	Sale Price (PSF)	Square Feet
NFI Industries, Inc.	3100 Milliken Avenue	Mira Loma	\$220,000,000 (\$289/SF)	760,829
Bridge Investment Group	601 Rockefeller Avenue	Ontario	\$74,888,000 (\$296/SF)	252,800
Ares Management Corporation	100 W Walnut Avenue	Perris	\$59,275,000 (\$288/SF)	205,589

Submarket Statistics

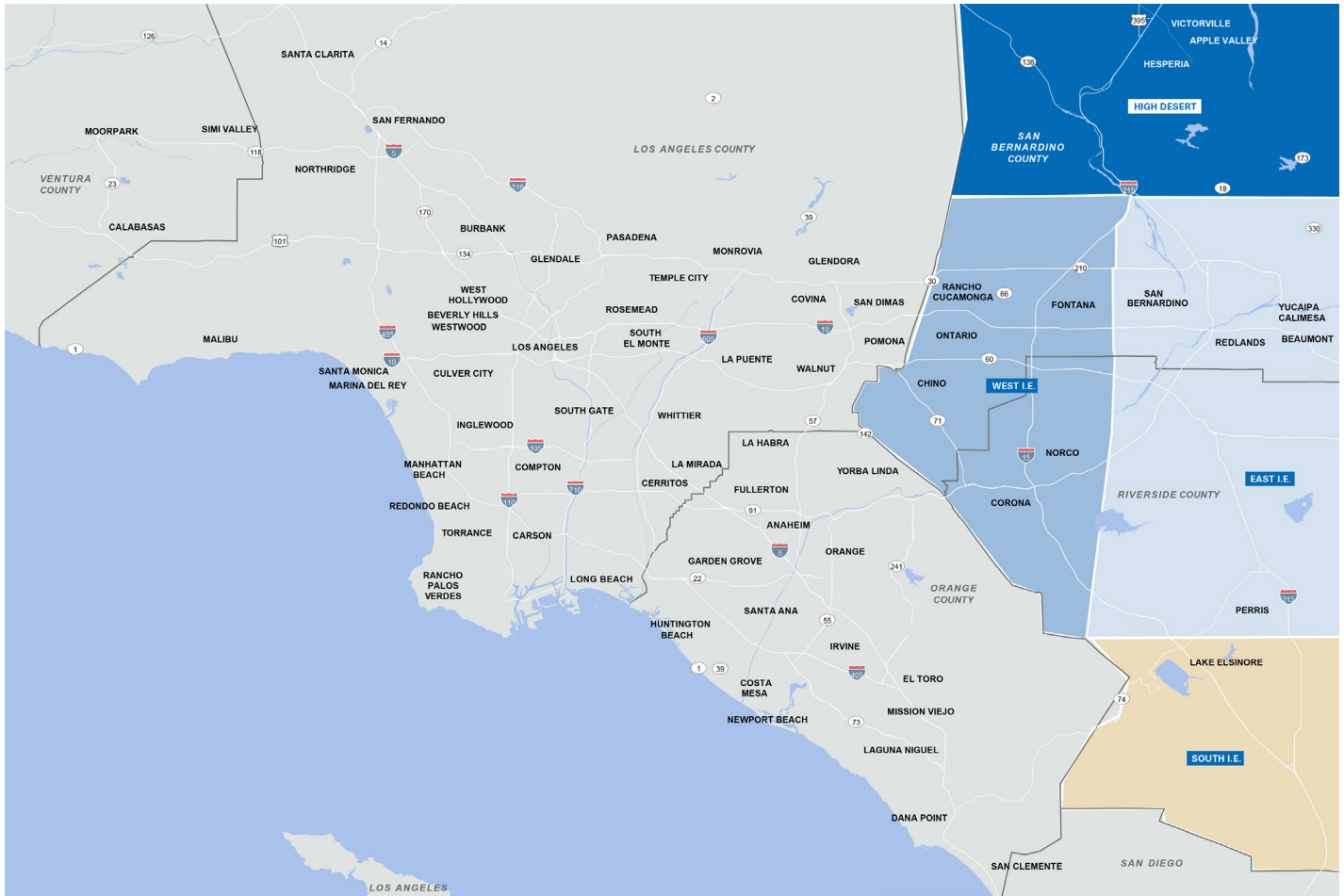
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Wh/Dist Asking Rent (Price/SF)	General Ind Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
East I.E.	262,362,920	17,058,633	1.2%	4,123,807	7,747,826	\$1.25	\$1.25	\$1.25
High Desert	17,781,169	1,283,362	1.6%	1,378,458	3,383,808	-	-	-
South I.E.	19,117,560	242,027	2.2%	202,731	332,873	\$1.05	\$1.15	\$1.14
West I.E.	377,532,005	22,483,347	1.4%	-371,060	4,684,049	\$1.65	\$1.54	\$1.63
Inland Empire	676,793,654	41,067,369	1.3%	5,333,936	16,148,556	\$1.60	\$1.28	\$1.45

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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