

A photograph of a modern industrial building with a grey facade and large blue roll-up doors. Yellow and black striped bollards are positioned in front of the doors. The building has large windows on the left side. The sky is blue with some clouds.

Inland Empire industrial market report

Q2 2024

**AVISON
YOUNG**

Inland Empire industrial market trends

18.5 msf

Sublet availabilities decline for the first time since Q3 2021

The Inland Empire industrial market improved in Q2 2024 as sublet availabilities decreased for the first time since Q3 2021, with over 2.4 MSF of sublet space leased, a 16.4% increase from the previous quarter. Led by logistic occupiers, there were 9 sublease deals above 100K SF in the second quarter.

Initially, sublet availabilities surged starting in 2021 as occupiers who expanded during the pandemic frenzy have lately made decisions to consolidate and shed any unused industrial space due to lower consumer demand. Consequently, sublease availabilities have increased by over 11.8 MSF since Q1 2023.

\$1.30/SF

Lease rates continue to decline

Average lease rates across Inland Empire experienced tremendous growth due to the pandemic-driven expansion period between 2021-2023. Demand for industrial space were at all-time highs, creating intense competition for available space and driving lease rates upward.

As of late, rents have decreased due to lower leasing volumes and occupiers becoming more selective on space requirements. As a result, average lease rates have dropped 17.2% since Q3 2023 to \$1.30/SF. To attract tenants, landlords have offered additional abatements as well as first-year teaser rates on some properties.

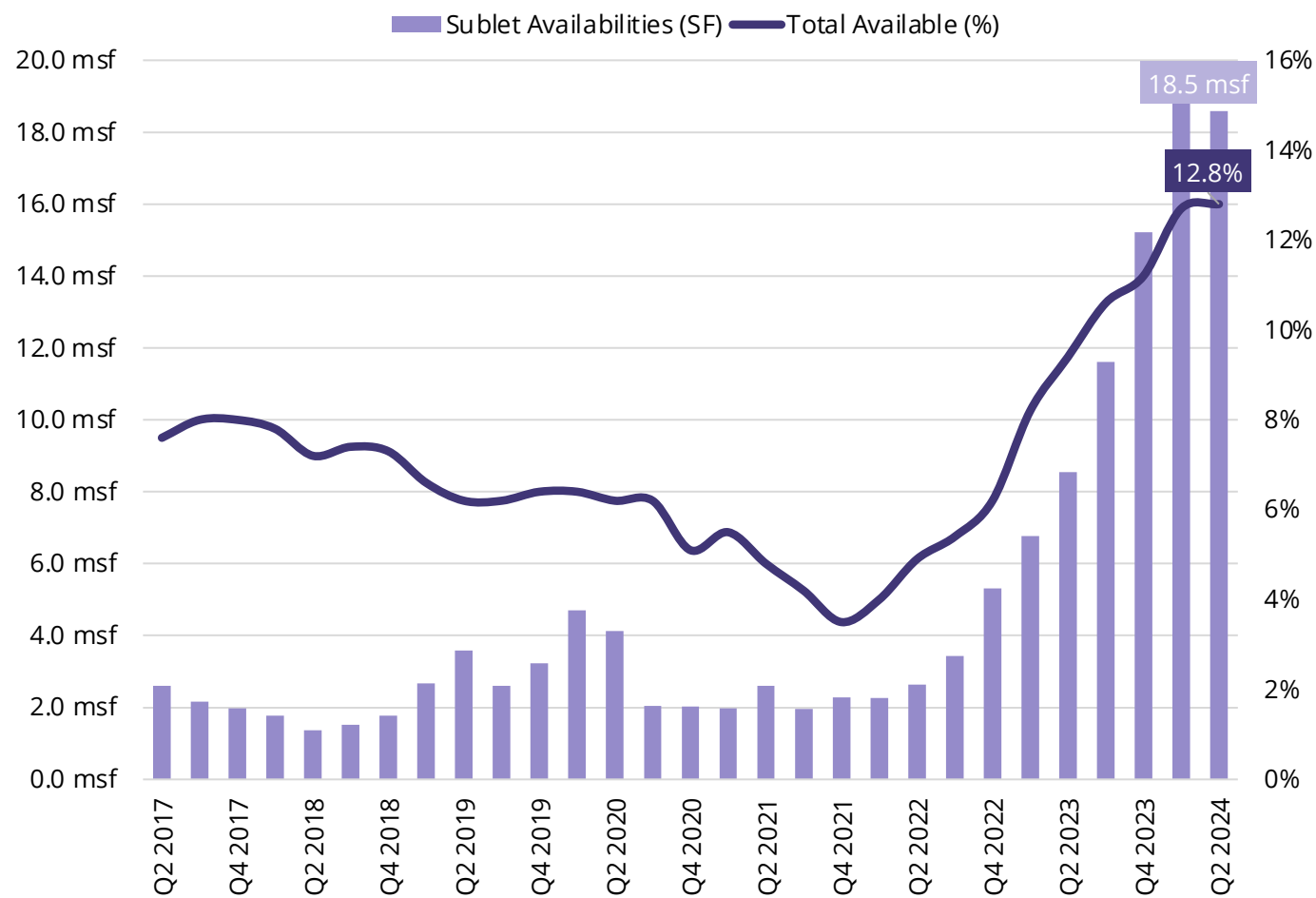
12.3 msf

Amazon continues expansion efforts

In Q2 2024, leasing activity in the Inland Empire increased by 28.1% from the prior quarter, with 12.3 MSF leased. Additionally, sublet space saw its best performance since Q3 2020, with 2.4 MSF leased. This growth can be linked to the steady increase in imports at the Los Angeles ports amid East Coast port negotiations as shippers explore alternatives to avoid any delays.

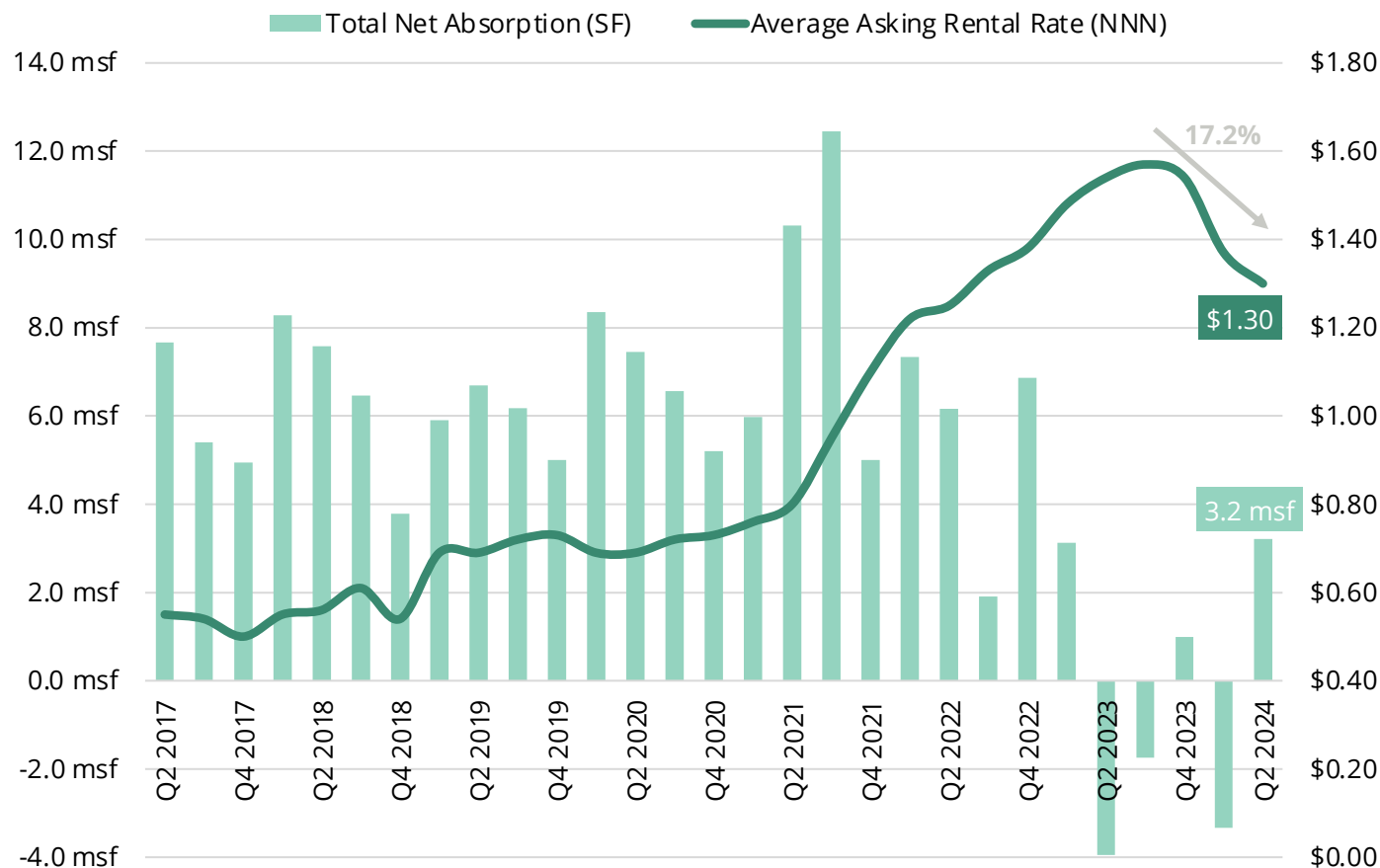
Although many occupiers have decided to take a conservative approach to their expansion efforts, Amazon has remained active with their 1.2 MSF lease in Fontana. This mark's Amazon's third deal over a million square feet within the first half of 2024.

Total Availabilities



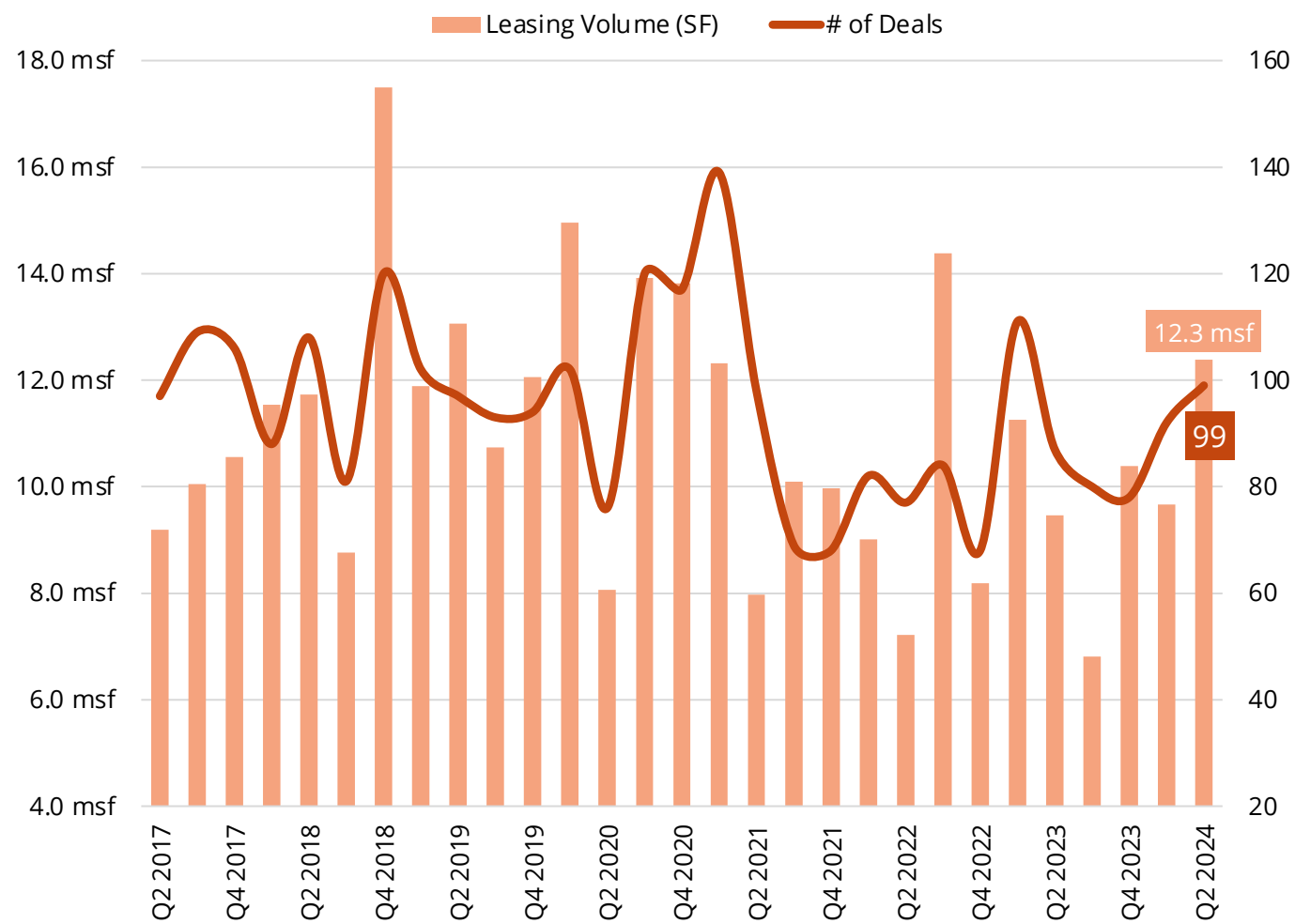
Q2 2024 sublet availabilities in the Inland Empire decreased for the first time to 18.5 MSF available.

Absorption



Absorption bounced back from the slow start with 3.2 MSF of positive net absorption in Q2 2024.

Leasing Activity

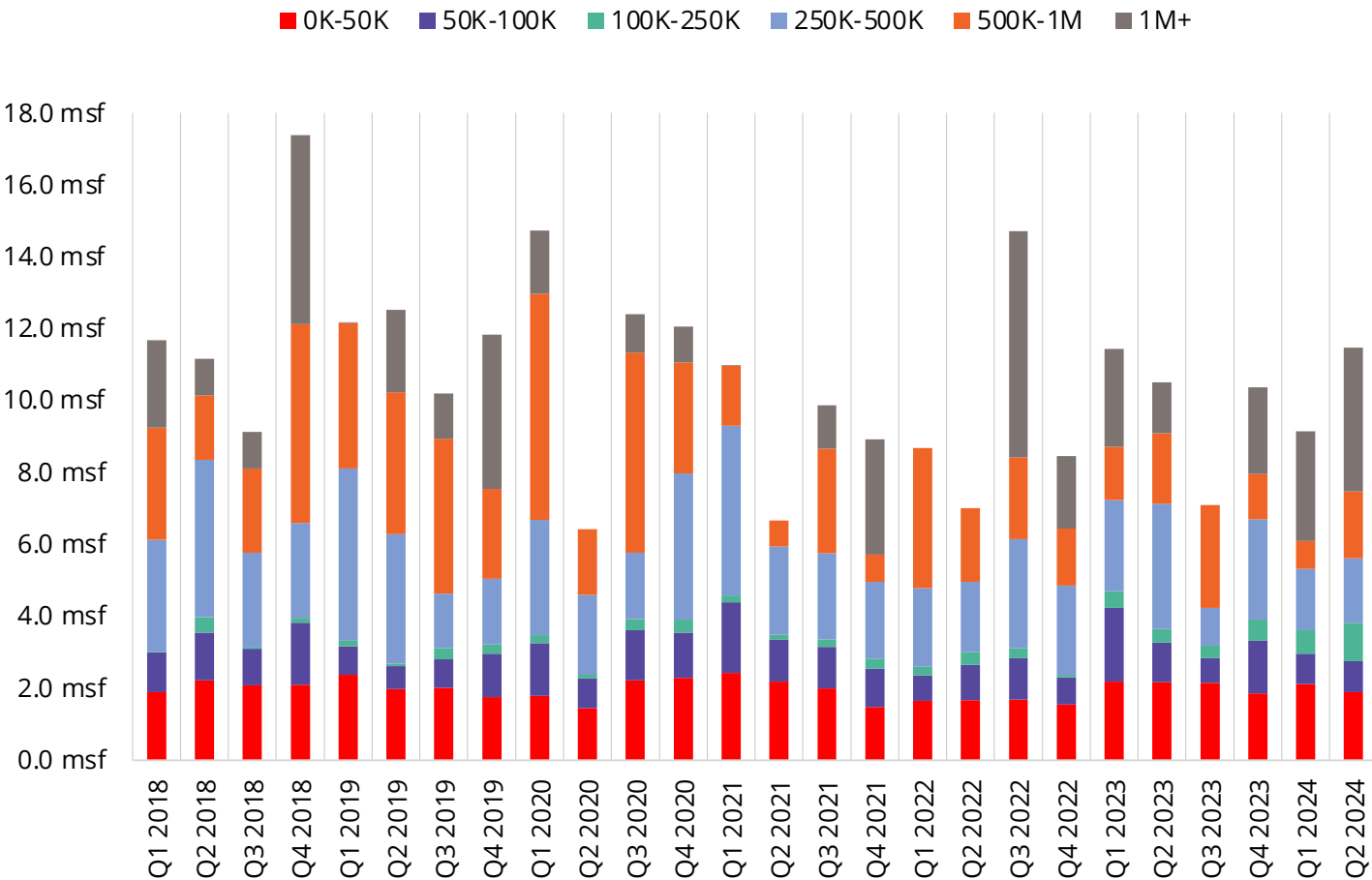


Leasing volume picked up in the second quarter, with a total volume of 12.3 MSF. Subleases reported its best quarter to date with over 2.4 MSF leased.

Appendix



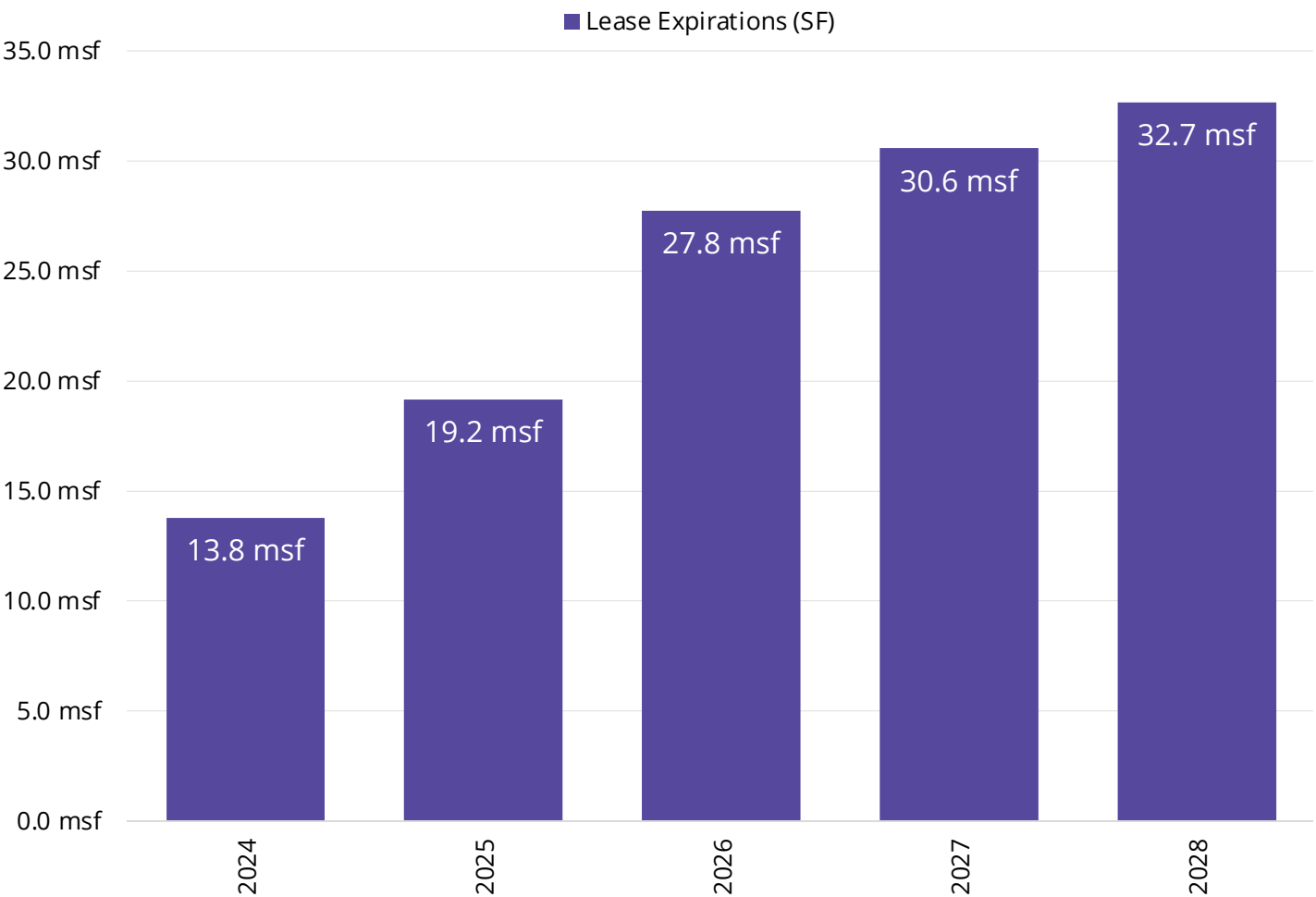
Demand for big-box buildings pick up



*Survey based on ALL industrial/flex buildings

Demand has been robust across various building sizes, particularly between 100K SF-250K SF and 500K SF-1MSF, up 63% and 140% from the prior quarter, respectively.

Lease Expirations



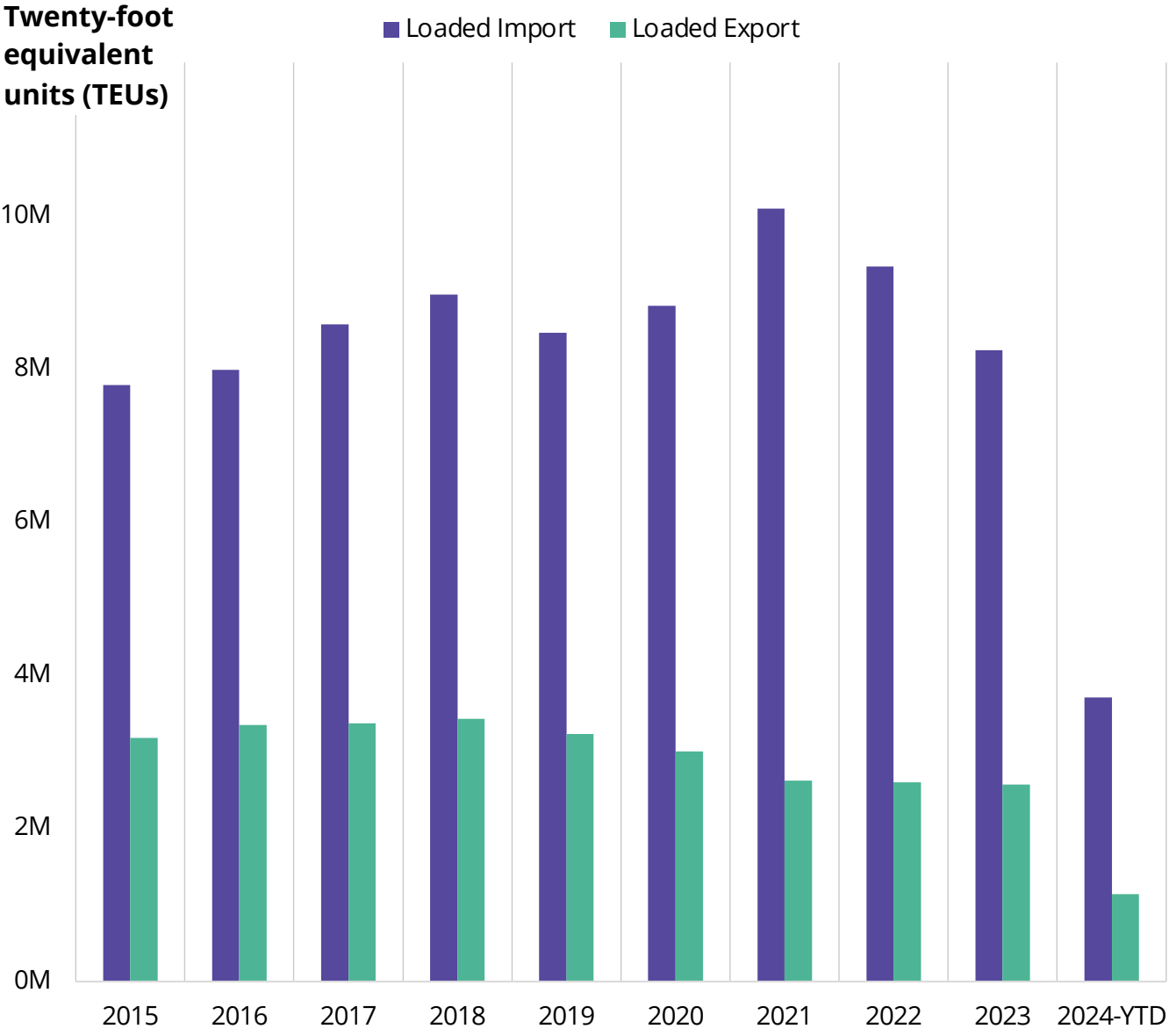
Leasing activities is expected to rise as occupiers evaluate their real estate options with 33.0 MSF of leases expected to expire by the end of 2025.

Loaded import and export container volumes

25%

When comparing the first four months of 2024 to the same time period last year, cargo volumes at the Los Angeles port are up nearly 25%.

Potential ILA strikes at East Coast ports, where the ILA is seeking wage increases in excess of 32%, could shift additional port imports to the West Coast as shippers may explore alternatives to avoid any delays in anticipation of a strike. Meanwhile, Southern California ports continue to show strong growth, with the Port of Los Angeles reporting its third-best best opening for the year in the port's history and the Port of Long Beach reporting it's eight consecutive month of Y-O-Y growth for imports.



Port of Los Angeles, Port of Long Beach. Totals consist of loaded imports and exports

Inland Empire Industrial development pipeline

257 properties

72 under construction
185 proposed

148.6 million sf

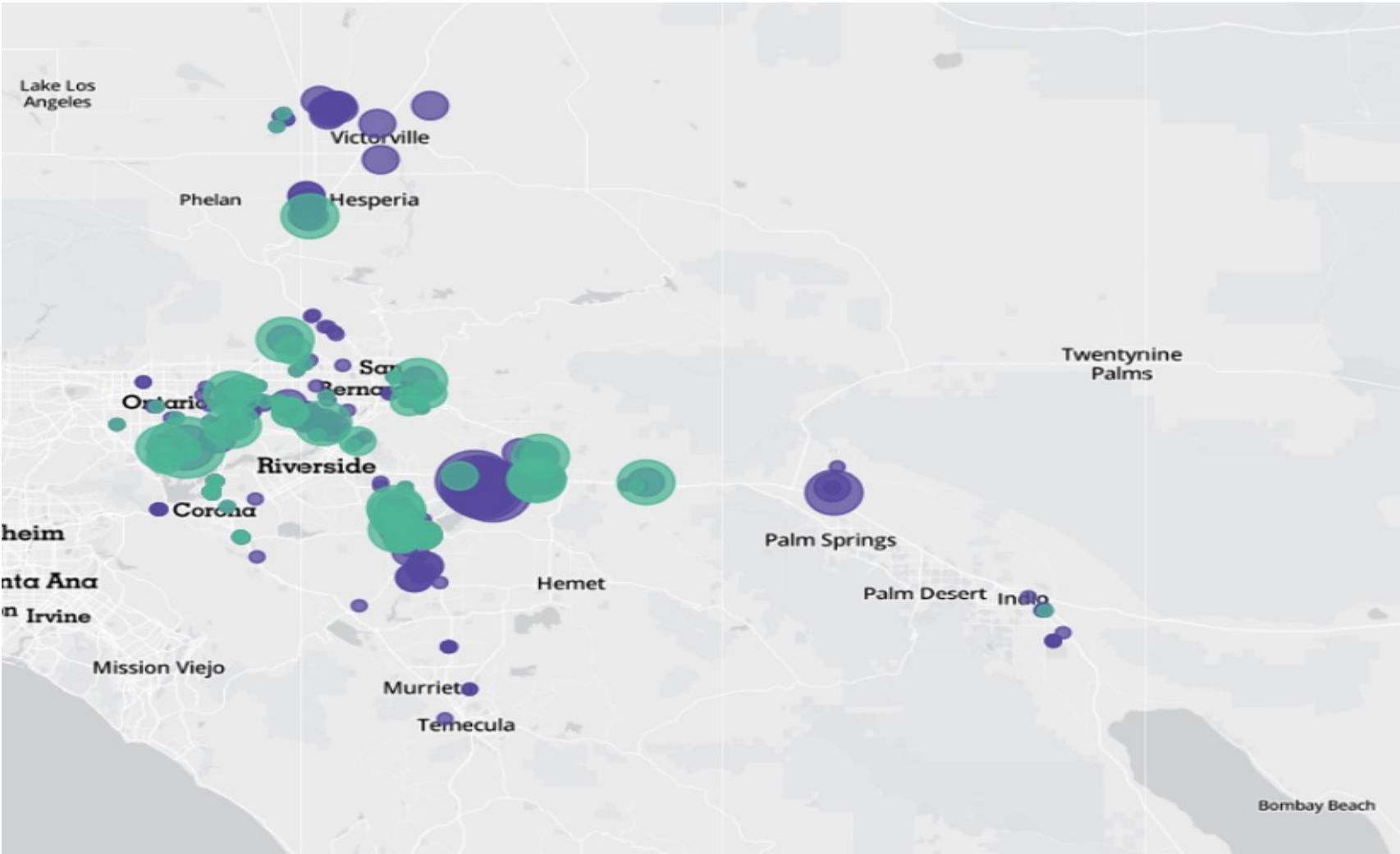
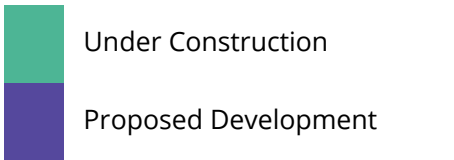
19.8 million sf under construction
128.7 million sf proposed

Major developments

1363 Merrill Ave – 1.5 million sf

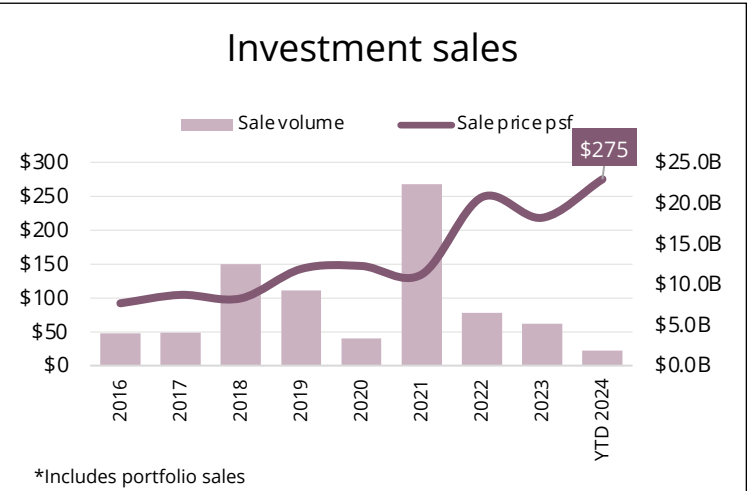
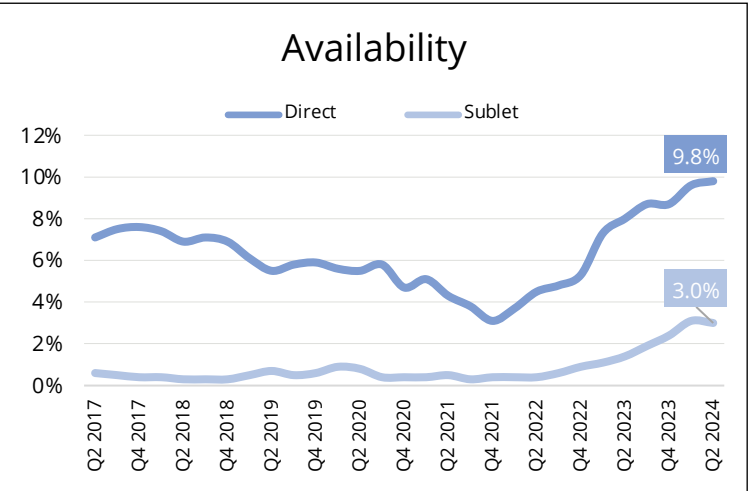
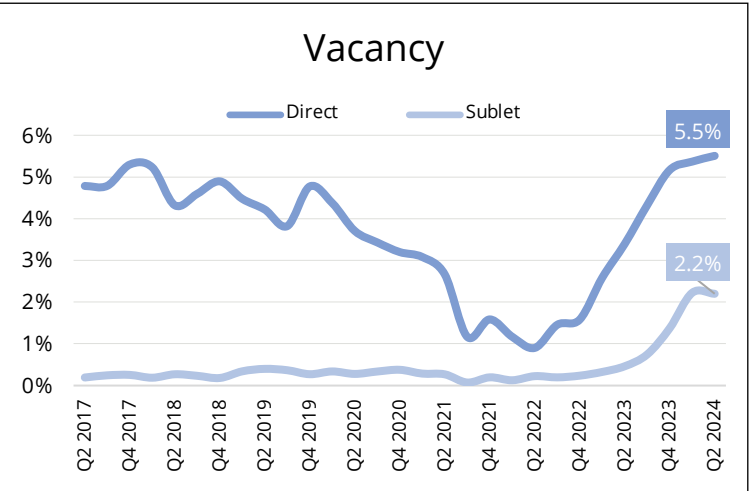
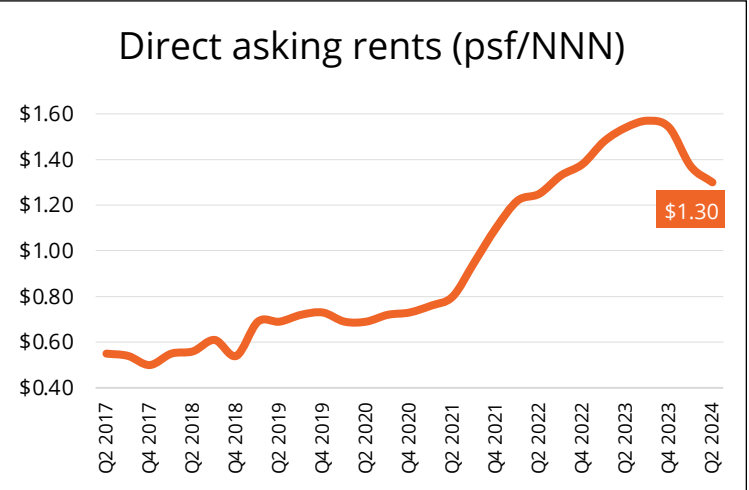
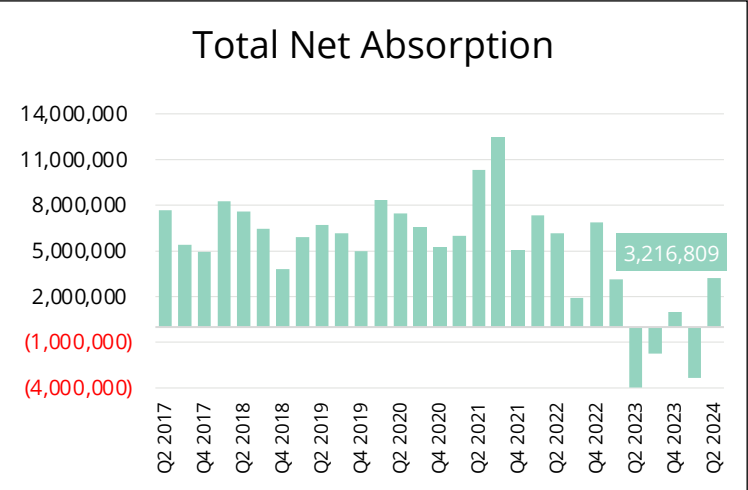
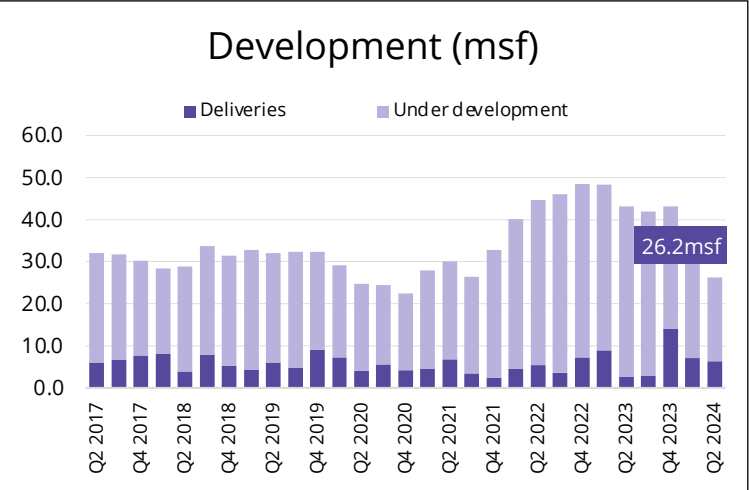
9253 Dreamland Dr - 1.3 million sf

4121 Coyote Canyon (Pre-leased) - 1.2 million sf



*Survey consists of industrial buildings greater than 50,000 sf.

Inland Empire industrial market indicators



*Includes portfolio sales

Inland Empire industrial market activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Amazon	4121 Coyote Canyon Rd., Fontana	IE West	Apr 2024	1,171,788	Direct	New
Campbell's Soup	16604 Slover Ave., Fontana	IE West	May 2024	690,967	Direct	New
B. Braun	12400 Arrow Route, Rancho Cucamonga	IE West	Jun 2024	611,573	Direct	New

Recent sales activity

Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
EQT Exeter	13423-13473 Santa Ana Ave., Fontana	Apr 2024	819,004	\$197,000,000	\$240	Manulife Investment
Stockbridge Capital Group	4450 E Lowell St., Ontario (2 Bldg portfolio)	May 2024	519,116	\$142,250,000	\$274	Principal Real Estate Investors
Dalfen Industrial	4982 Hallmark Pkwy., San Bernardino	Apr 2024	340,080	\$74,050,000	\$217	Bixby Land Company

Top projects under development

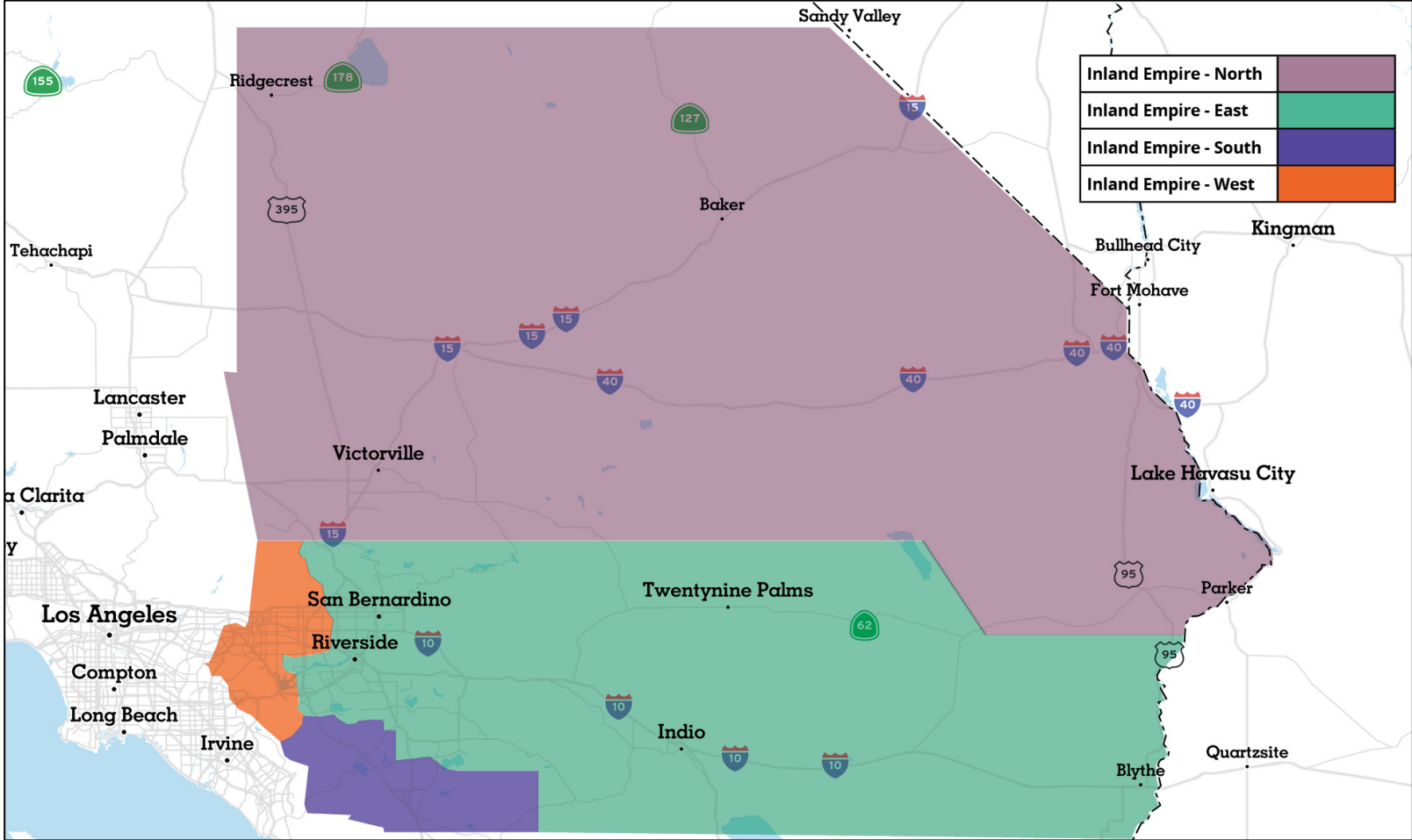
Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
1363 Merrill Ave., Ontario	IE West	Aug 2024	1,488,000	0%	Prologis
9253 Dreamland Dr., Fontana	IE West	Jan 2025	1,286,550	0%	Hillwood Development
4121 Coyote Canyon, Fontana	IE West	Jul 2024	1,171,788	100%	CapRock Partners

Inland Empire industrial market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (QTD)	Net absorption sf (YTD)	Direct asking rent psf NNN
IE West	316,905,351	6,224,894	10,683,771	4.8%	1.6%	6.4%	4,117,881	6,154,839	\$1.38
IE East	248,554,249	7,195,912	9,033,657	6.6%	2.3%	8.9%	(945,435)	(3,470,832)	\$1.21
IE North	20,226,409	0	137,350	3.8%	2.5%	6.3%	81,565	(42,630)	\$1.05
IE South	9,759,922	0	0	6.9%	1.1%	7.6%	(37,202)	2,832	\$1.12
Market total	595,682,823	13,420,806	19,854,778	5.5%	2.2%	7.7%	3,216,809	2,644,209	\$1.30

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (QTD)	Net absorption sf (YTD)	Direct asking rent psf NNN
Class A	317,669,383	12,776,194	17,200,879	6.8%	2.0%	8.8%	2,722,434	4,346,863	\$1.45
Class B	242,829,960	644,612	2,653,899	4.0%	1.8%	5.8%	770,237	(1,440,339)	\$1.32
Class C	35,183,480	0	0	4.2%	1.3%	5.5%	(275,862)	(262,315)	\$1.18
Market total	595,682,823	13,420,806	19,854,778	5.5%	2.2%	7.7%	3,216,809	2,644,209	\$1.30

Inland Empire submarket map



Industrial insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Industrial rents and concessions

- **Triple net rents:** tenant is responsible for paying rent, utilities, taxes, operating expenses and common area maintenance
- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as triple net (NNN)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as triple net (NNN)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an industrial suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Property subtypes

- **Distribution:** properties used primarily to ship goods with higher proportions of dock doors and taller clear heights
- **General Warehouse:** properties used to store goods and materials
- **Manufacturing:** properties where goods are produced and assembled with heavier power and stronger floor loads for equipment

Capital markets

- **Investment volume:** industrial sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and
information visit **avisonyoung.com**

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