IE Q2 24

SECOND QUARTER 2024 MARKET REPORT

INLAND EMPIRE INDUSTRIAL

Voit REAL ESTATE SERVICES

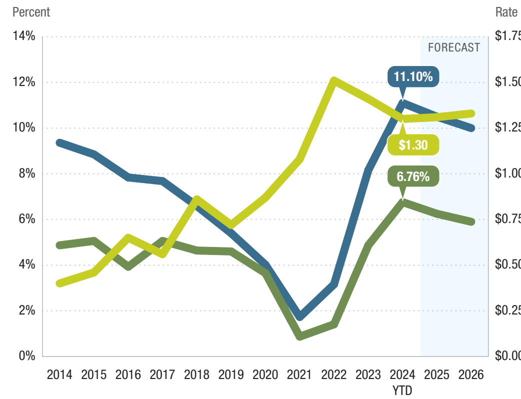
OVERVIEW. The Inland Empire industrial market slipped further in Q2, but there is some good news to report, as well. Net absorption made a big turnaround, going from negative in Q1 back into positive territory in Q2. Lease and sale activity also ticked higher as did gross absorption. Average asking rents fell and vacancy ticked higher. Total inventory was up by 10 MSF to 679 MSF on robust new deliveries, while total space under construction, thankfully, posted another substantive decline. Sale activity for both owner/users and institutional investors remained constricted by high interest rates, as the Fed failed to lower its benchmark Fed Funds Rate as many expected.

VACANCY & AVAILABILITY. The Inland Empire vacancy rate has been rising rapidly over the past year. This time last year the overall vacancy rate was just 3.17%, but stood at 6.76% as Q2 ended, up 34 points in the past three months. Total vacant space hit 45.9 MSF in Q2, up from 42.9 MSF in Q1. Vacancy was highest in the 250,000–500,000 SF range at 11.45%. Until this quarter, it was the 100,000–250,000 SF range that had the highest vacancy. In Q2, vacancy in that range fell to 9.1% from 10.47%. However, it spiked to 17.47% in the IE East market. The overall availability rate, which includes vacant space and occupied space offered for sale or lease, climbed to 11.1% in Q2. Of note is the fact that the spread between the vacancy and availability rates widened further, which is indicative of a rise in sublease space.

LEASE RATES. For the entire region across all size ranges, the average asking rate fell 9 cents to $1.30 in Q2. The recent decreases follow the most prolific increase in rents in IE history. Multiple years of double-digit rent growth was driven by the e-commerce and 3PL sectors leading up to and during the pandemic, but both sectors have pulled back since the impact of COVID-19 has subsided. The falloff in asking rents is welcomed by tenants with active requirements who finally have some negotiating power, not only for lower rates, but also for free rent and tenant improvements. IE West's average asking rate is running $0.33 per square foot higher than in IE East, ending the period at $1.49, down $0.04. The IE East rate fell to $1.16 from $1.23 in Q1. As we have warned before, the average asking rate metric can be misleading in the IE because much of the first-generation space that commands the highest rates is offered without an asking rate.

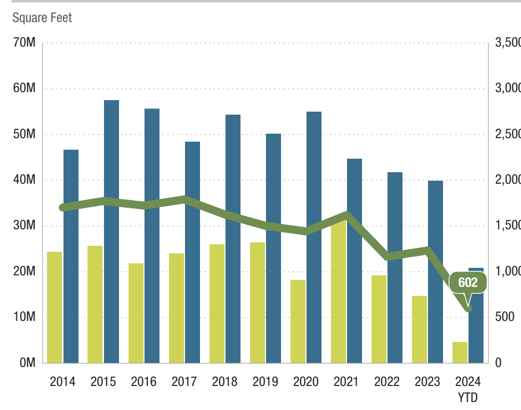
TRANSACTION ACTIVITY. Overall lease and sale transactions square footage made a nice gain in Q2, rising to 13,878,578 SF in the period, a gain of more than 2.0 MSF over Q1. Lease transaction count fell to 235 in Q2 from 264 in Q1. However, total square footage leased rose by over 660,000 SF. Sale transactions were much improved. Deal count was up by 7 to 55, and square footage sold rose to almost 13.9 MSF from 11.6 MSF in Q1. Several major institutional sales occurred during the period including a $197 million 819,004 SF project in Fontana sold to EQT Exeter by John Hancock Real Estate, along with a 519,116 SF sale in Ontario to Stockbridge Capital Group, LLC by Principal Real Estate Investors.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



VACANCY: Total Vacant Space Divided by Total Existing Inventory
AVAILABILITY: Total Amount of Space that is Available whether Occupied, for Sublease, or Available at a Future Date
AVERAGE ASKING LEASE RATE: NNN / SF / Month

TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



SALES LEASES NUMBER OF TRANSACTIONS

Market Statistics

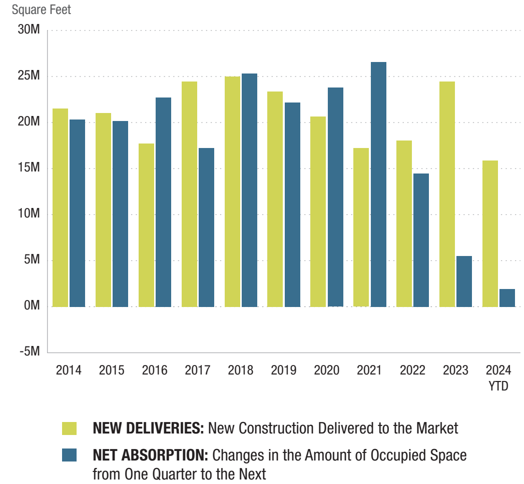
	Change Over Last Quarter		Q2 2024	Q1 2024	Q2 2023	% Change Over Last Year
Total Vacancy Rate	▲	UP	6.76%	6.42%	3.17%	113.29%
Availability Rate	▲	UP	11.10%	10.89%	6.25%	77.66%
Average Asking Lease Rate	▼	DOWN	$1.30	$1.39	$1.38	(5.80%)
Sale & Lease Transactions	▲	UP	13,878,578	11,649,111	16,473,333	(15.75%)
Gross Absorption	▲	UP	15,945,896	12,391,901	9,432,464	69.05%
Net Absorption	▲	POSITIVE	4,117,605	(2,170,786)	(381,544)	N/A

ABSORPTION. Net absorption is the biggest story in the IE for Q2. The region was back in positive territory again after several quarters of net losses in occupied space. The good news is that in Q2 net absorption recorded a positive 4,117,605 SF versus negative 2,170,786 SF in Q1. Ontario accounted for 3,337,896 SF of that total, mostly because of Home Depot taking occupancy of two newly delivered buildings it had preleased totaling 2,899,000 SF. That boosted net absorption to 5,132,408 SF in the IE West market for the quarter. However, the IE East market posted a net loss in occupied space of 1,014,803 SF, as 7 of the 11 cities in IE East posted slight to moderate losses.

CONSTRUCTION. Total square footage under construction declined again in Q2, dropping to just under 16 million from over 24 million in Q1. This decrease reflects developers' caution in launching new projects amid a surplus of first-generation space awaiting absorption. Previously, construction totals consistently ranged from 27 to 33 MSF. Most newly delivered space remains uncommitted, likely increasing vacancy rates. Construction focus has shifted, with IE East now accounting for only a third of the total, down from its previous dominance. Nearly half of the 10.3 MSF underway in IE West is in Fontana. As new construction slows, the planning queue has grown to a record 86 MSF, with 75% of that in IE East. Notably, Moreno Valley has over 41 MSF of planned space, though near-term development is unlikely.

EMPLOYMENT. The Riverside-San Bernardino-Ontario MSA saw unemployment decrease to 4.3% in May 2024, down from 4.8% in April but above the 4.1% of May 2023. Riverside County's unemployment stood at 4.4%, while San Bernardino County's was 4.3%. The industrial real estate sector faces challenges, with trade, transportation, and utilities losing 3,700 jobs over the year.

NEW DELIVERIES & NET ABSORPTION



Forecast

The Inland Empire market faces an ongoing overbuilding challenge that will continue for the foreseeable future. The current leasing activity is insufficient to absorb new deliveries, leading to lower rents, higher concessions, and increased time-on-market, particularly for buildings between 100,000 and 500,000 SF. Smaller spaces under 25,000 SF remain more resilient, with a vacancy rate below 4%. Inflation continues to threaten retail sales, a key driver of warehouse demand in the IE. Consumers are increasingly diverting spending to necessities as wages lag behind inflation. The depletion of pandemic-era savings, and credit card debt surpassing $1 trillion, further challenge retail sales growth. Despite these short-term hurdles, the IE's long-term prospects remain positive due to its proximity to North America's two busiest ports and its extensive inventory of modern, purpose-built distribution facilities. This strategic advantage positions the region for eventual market recovery and renewed growth in the industrial real estate sector.

Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
13423 Santa Ana Ave.	Fontana	819,004	$197,000,000	EQT Exeter	John Hancock Real Estate
4450 E. Howell St./ 3351 E. Philadelphia - 2 Bldgs.	Ontario	519,116	$142,250,000	Stockbridge Capital Group, LLC	Principal Real Estate Investors
4982 Hallmark Pkwy.	San Bernardino	340,000	$74,050,000	Dalfren Industrial	Bibxy Land Company
16796 Boyle Ave.	Fontana	172,219	$58,250,000	Bentall GreenOak	Transwestern Development
210 Radio Rd.	Corona	143,785	$46,971,782	Radio Road LLC*	Oakmont Industrial Group, LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
4121 Coyote Canyon Rd.	Fontana	1,171,788	Apr-2024	Amazon	Caprock Partners
10545 Production Ave. - Renewal	Fontana	1,101,840	Apr-2024	Tireco	Rexford Industrial
16604 Slover Ave.	Fontana	690,967	May-2024	Campbell's Soup	Panattoni / MetLife
12400 Arrow Rt.	Rancho Cucamonga	611,573	Jun-2024	B. Braum	Ares Industrial Real Estate Income
3510 E. Francis St.	Ontario	562,089	May-2024	Gigacloud Technologies, USA Inc.	Prologis

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q2 2024	Square Feet Available	Availability Rate Q2 2024	Average Asking Lease Rate	Net Absorption Q2 2024	Net Absorption 2024	Gross Absorption Q2 2024	Gross Absorption 2024
West													
Chino / Chino Hills	947	56,467,216	880,538	935,362	3,025,451	5.36%	4,308,852	7.63%	$1.53	100,478	(840,264)	839,948	1,704,875
Fontana	791	75,743,679	4,941,732	9,447,579	4,898,233	6.47%	7,641,420	10.09%	$1.47	1,217,827	1,702,657	1,651,008	3,108,704
Mira Loma / Eastvale / Jurupa Valley	412	52,954,182	1,974,822	759,250	4,072,254	7.69%	6,281,013	11.86%	$1.27	661,041	(487,409)	3,386,950	4,711,259
Montclair	208	4,164,242	513,925	0	204,106	4.90%	377,977	9.08%	$0.00	(64,096)	(2,117)	49,537	176,523
Ontario	1,528	127,348,747	1,524,266	10,085,736	7,223,205	5.67%	12,848,488	10.09%	$1.31	3,337,896	6,126,237	3,756,515	7,747,675
Rancho Cucamonga	746	43,492,898	453,802	902,510	2,338,547	5.38%	3,771,320	8.67%	$1.86	(79,465)	(191,204)	1,100,599	1,521,885
Upland	260	4,100,450	7,700	100,000	305,067	7.44%	320,664	7.82%	$1.03	(41,273)	(106,541)	186,890	243,830
5,000-24,999	2,776	33,723,488	166,793	269,025	1,330,064	3.94%	1,717,599	5.09%	$1.52	(81,810)	(180,211)	550,300	1,094,631
25,000-49,999	768	27,003,475	513,337	466,445	1,516,226	5.61%	2,438,159	9.03%	$1.43	(17,053)	(77,548)	572,453	1,109,622
50,000-99,999	488	34,144,758	758,654	625,671	2,019,311	5.91%	3,068,937	8.99%	$1.19	193,549	88,017	1,091,574	1,828,540
100,000-249,999	490	75,072,169	2,177,350	1,919,276	5,518,676	7.35%	8,553,339	11.39%	$1.49	1,029,798	1,573,299	2,916,512	4,582,115
250,000-499,999	237	83,980,366	2,133,857	3,532,677	6,460,569	7.69%	7,877,660	9.38%	$1.26	(750,831)	(1,735,879)	1,662,614	2,896,038
500,000 plus	133	110,347,158	4,546,794	15,417,343	5,222,017	4.73%	11,894,040	10.78%	$0.00	4,758,755	6,533,681	4,177,994	7,703,805
West Total	4,892	364,271,414	10,296,785	22,230,437	22,066,863	6.06%	35,549,734	9.76%	$1.49	5,132,408	6,201,359	10,971,447	19,214,751
East													
Banning	48	1,944,130	0	1,890,411	15,110	0.78%	1,056,505	54.34%	$0.81	0	57,253	0	101,753
Beaumont	50	10,243,097	0	2,597,450	460,954	4.50%	460,954	4.50%	$0.00	5,000	(463,204)	5,000	7,250
Bloomington	128	10,690,431	81,494	261,632	529,677	4.95%	1,573,333	14.72%	$0.00	(1,300)	(243,518)	0	38,170
Corona / Norco	1,017	35,715,316	203,823	1,151,866	2,419,638	6.77%	3,978,179	11.14%	$1.38	(60,397)	(224,666)	735,321	999,616
Colton / Grand Terrace	190	11,376,420	10,000	1,058,657	950,856	8.36%	1,091,321	9.59%	$0.88	317,315	113,220	543,840	703,685
Moreno Valley	120	33,076,273	289,908	41,942,105	1,241,129	3.75%	2,545,955	7.70%	$1.20	(570,474)	(539,973)	251,463	391,922
Perris	270	43,692,925	1,624,410	10,787,961	4,188,110	9.59%	6,616,585	15.14%	$1.12	(238,149)	(517,750)	1,234,926	2,045,005
Redlands / Loma Linda	249	31,374,132	19,370	834,659	3,160,074	10.07%	4,606,522	14.68%	$1.20	(73,612)	4,697	441,869	727,950
Rialto	216	31,365,983	1,240,884	1,496,484	3,344,633	10.66%	4,652,845	14.83%	$1.32	(533,281)	(1,851,097)	808,228	876,472
Riverside	1,145	58,622,900	881,941	1,143,888	4,076,227	6.95%	6,708,948	11.44%	$1.27	(154,166)	(708,682)	248,189	883,687
San Bernardino / Highland	621	46,813,394	1,278,787	597,510	3,427,302	7.32%	6,556,991	14.01%	$1.19	294,261	119,180	705,613	940,202
5,000-24,999	2,446	28,946,930	167,869	100,499	866,185	2.99%	1,341,979	4.64%	$1.38	(83,099)	(219,667)	312,451	646,824
25,000-49,999	602	20,856,815	587,822	650,394	1,185,937	5.69%	2,114,570	10.14%	$1.22	(176,872)	(293,326)	194,249	474,341
50,000-99,999	375	25,501,237	715,800	974,009	2,361,804	9.26%	3,777,162	14.81%	$1.16	(248,451)	(587,938)	286,786	710,412
100,000-249,999	310	45,848,080	1,399,354	3,043,491	5,484,886	11.96%	8,283,655	18.07%	$1.15	673,903	472,026	1,308,164	1,853,857
250,000-499,999	155	52,354,866	2,759,772	5,892,527	9,148,262	17.47%	14,645,101	27.97%	$1.24	(1,180,304)	(1,767,467)	2,151,592	2,509,549
500,000 plus	166	141,407,073	0	53,101,703	4,766,636	3.37%	9,685,671	6.85%	$0.00	20	(1,858,168)	721,207	1,520,729
East Total	4,054	314,915,001	5,630,617	63,762,623	23,813,710	7.56%	39,848,138	12.65%	$1.16	(1,014,803)	(4,254,540)	4,974,449	7,715,712
Inland Empire Total	**8,946**	**679,186,415**	**15,927,402**	**85,993,060**	**45,880,573**	**6.76%**	**75,397,872**	**11.10%**	**$1.30**	**4,117,605**	**1,946,819**	**15,945,896**	**26,930,463**
5,000-24,999	5,222	62,670,418	334,662	369,524	2,196,249	3.50%	3,059,578	4.88%	$1.44	(164,909)	(399,878)	862,751	1,741,455
25,000-49,999	1,370	47,860,290	1,101,159	1,116,839	2,702,163	5.65%	4,552,729	9.51%	$1.45	(193,925)	(370,874)	766,702	1,583,963
50,000-99,999	863	59,645,995	1,474,454	1,599,680	4,381,115	7.35%	6,846,099	11.48%	$1.40	(54,902)	(499,921)	1,378,360	2,538,952
100,000-249,999	800	120,920,249	3,576,704	4,962,767	11,003,562	9.10%	16,836,994	13.92%	$1.29	1,703,701	2,045,325	4,224,676	6,435,972
250,000-499,999	392	136,335,232	4,893,629	9,425,204	15,608,831	11.45%	22,522,761	16.52%	$0.00	(1,931,135)	(3,503,346)	3,814,206	5,405,587
500,000 plus	299	251,754,231	4,546,794	68,519,046	9,988,653	3.97%	21,579,711	8.57%	$0.00	4,758,775	4,675,513	4,899,201	9,224,534
Inland Empire Total	**8,946**	**679,186,415**	**15,927,402**	**85,993,060**	**45,880,573**	**6.76%**	**75,397,872**	**11.10%**	**$1.30**	**4,117,605**	**1,946,819**	**15,945,896**	**26,930,463**
High Desert													
Adelanto	173	6,685,565	467,462	3,352,311	23,335	0.35%	66,845	1.00%	$1.65	29,570	162,527	39,822	196,772
Apple Valley	75	3,889,345	0	2,548,160	163,256	4.20%	180,453	4.64%	$0.00	43,300	44,300	51,300	53,550
Barstow	53	1,290,183	0	0	32,976	2.56%	19,433	1.51%	$0.92	85,000	76,475	85,000	85,000
Hesperia	197	6,668,451	0	6,940,144	174,353	2.61%	239,287	3.59%	$0.96	0	(148,733)	0	18,615
Victorville	134	10,437,684	137,350	14,778,763	18,251	0.17%	20,751	0.20%	$1.30	180,850	168,057	214,774	235,849
High Desert Total	632	28,971,228	604,812	27,619,378	412,171	1.42%	526,769	1.82%	$1.30	338,720	302,626	390,896	589,786
Temecula Valley													
Hemet	88	1,618,646	0	0	23,335	1.44%	66,845	4.13%	$1.00	(132)	(132)	0	0
Lake Elsinore	183	2,728,884	63,000	149,500	163,256	5.98%	180,453	6.61%	$1.19	(10,931)	(89,462)	28,173	32,217
Menifee	26	615,986	0	0	32,976	5.35%	19,433	3.15%	$1.25	(13,543)	(13,726)	36,043	36,043
Murrieta	280	4,650,293	56,716	183,653	174,353	3.75%	239,287	5.15%	$1.20	63,726	64,664	91,304	126,043
San Jacinto	66	1,108,019	0	0	18,251	1.65%	20,751	1.87%	$1.05	(8,521)	(14,521)	1,250	3,750
Temecula	347	10,299,888	94,582	148,044	565,725	5.49%	813,298	7.90%	$1.27	775	32,139	166,390	257,452
Wildomar	13	346,720	0	0	0	0.00%	22,609	6.52%	$0.00	18,664	15,000	20,754	20,754
Temecula Valley Total	1,003	21,368,436	214,298	481,197	977,896	4.58%	1,362,676	6.38%	$1.22	50,038	(6,038)	343,914	476,259

This survey consists of industrial buildings greater than 5,000 square feet. Lease rates are on a triple-net basis. Some buildings do not quote asking rental rates and therefore are reflected as $0.00.

SECOND QUARTER 2024 MARKET REPORT

INLAND EMPIRE INDUSTRIAL

Voit REAL ESTATE SERVICES

Resurgence and Strategic Leasing Trends

by Juan Gutierrez and Ian Ozimec

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The Inland Empire industrial market could be turning a corner, as demand from distribution companies grows relative to the sluggish activity seen at the beginning of the year. We're observing tenants taking advantage of declining rents and favorable concessions that haven't been offered in years. In turn, leasing volume is up in Q2 in specific size ranges as more landlords are adopting "ready to make the next deal" mindset. This, coupled with, finally, a significant reduction in construction activity, could slow the recent rise in vacancy.

The increase in activity witnessed this past quarter in the larger size ranges of 100,000 SF or more is in part due to a resurgence in overseas logistics and distribution requirements. One piece of news that's incentivizing these tenants to move into space now is Donald Trump's promise to increase tariffs if he wins the presidential election this November. This is purported to encourage manufacturing here in the states, however, the proposed 10% across-the-board tariff could severely hurt importers, furthering the need for the distribution companies to get as much business done as possible today before supply chain costs move even higher

Building owners in the sub-50,000 SF size range are experiencing less vacancy than the "Big Box" industrial buildings. Tenants who transact in this size range are typically moving from a 25,000 SF building to a 35,000 SF building. Tenants with a smaller footprint can facilitate this transition more seamlessly due to the reduced financial outlay required, unlike larger tenants who must evaluate whether they can justify the huge capital expenditures required to open a major facility.

This increased demand is showing up in the Inland Empire West with a pullback from tenants looking in the Inland Empire East. Tenants today can strike an advantageous deal in cities such as Ontario and Fontana at lease rates that were seen four to six quarters ago in cities such as Riverside and Moreno Valley. This makes sense from an operations standpoint for distribution groups to ink deals like we're seeing today, considering the western portion of the market is much closer to the vital ports of Los Angeles and Long Beach.

Product Type

MFG./DIST.
Manufacturing / Distribution / Warehouse facilities with up to 29.9% office space.

Submarkets

WEST
Chino / Chino Hills, Fontana, Mira Loma / Eastvale / Jurupa Valley, Montclair, Ontario, Rancho Cucamonga, Upland

EAST
Banning, Beaumont, Bloomington, Corona / Norco, Colton / Grand Terrace, Moreno Valley, Perris, Redlands / Loma Linda, Rialto, Riverside, San Bernardino / Highland

HIGH DESERT
Adelanto, Apple Valley, Barstow, Hesperia, Victorville

TEMECULA VALLEY
Hemet, Lake Elsinore, Menifee, Murrieta, San Jacinto, Temecula, Wildomar

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