
1Q24

Inland Empire Industrial Market Overview

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Market Observations

Economy

- U.S. retail sales growth fell below the 20-year average by the end of 2023; local industrial leasing activity remained subdued through this period.
- Loaded import volume at Southern California’s ports totaled 1.5 million containers in the first two months of 2024, slightly higher than the same period in 2018.
- A probable strike by Gulf and East Coast dockworkers, drought-induced restrictions at the Panama Canal and continued ship attacks on the Red Sea suggest significant import traffic gains at Southern California’s ports in 2024.
- A rise in imports does not necessarily portend more demand for Inland Empire warehouse space. Goods that are “just passing through” to other U.S. markets have a negligible effect on local market dynamics.

Major Transactions

- 27 leases over 100,000 SF were signed this quarter, favorable compared to the same period in 2023 when 26 were signed.
- Amazon leased two 1.0 MSF facilities in the West, the e-tailer’s first Inland Empire leases since late 2021.
- Will Amazon’s rivals take notice and eventually take advantage of lower rents?
- Easton Manson acquired a 692,600-SF distribution facility in Moreno Valley from Walgreens in a sale-leaseback. The \$112M sale was the largest transaction for the quarter.

Leasing Market Fundamentals

- Leasing activity remains below the pre-pandemic average as elevated rents, a subdued retail sales outlook and high capital costs continue to crimp tenant demand.
- A cluster of tenant move-outs in the 200,000 SF+ size segment contributed to the largest quarterly net absorption loss in market history (-2.6 MSF). These, paired with vacant construction deliveries, pushed vacancy to an 11-year high.
- Available sublease space reached 19.6 MSF, a new peak.
- Class A start rents in the West decreased by 24.2% over the last four quarters. A sizeable drop, but not a severe one when considering rents grew by 142.4% from early 2021 to early 2023 .
- 10.7% of the 25.3 MSF under-construction pipeline has pre-leased. The 1.0 MSF+ segment is performing better than smaller thresholds.

Outlook

- Vacancy will continue to climb as tenant downsizes persist and not-leased under-construction product delivers. The sheer size of the market (718.9 MSF) will likely shield it from reaching a double-digit vacancy rate, though.
- Amazon, Elogistek LLC, Lowe’s and Maersk signed 1.0+ MSF leases over the past six months, signifying continued interest in mega-box facilities.
- The above will lead to future absorption gains that will help to offset tenant move-outs.
- Recent financing for new projects, including the under-construction Speedway Commerce Center in Fontana, demonstrates investors’ confidence in the market.

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 3. Sales Activity
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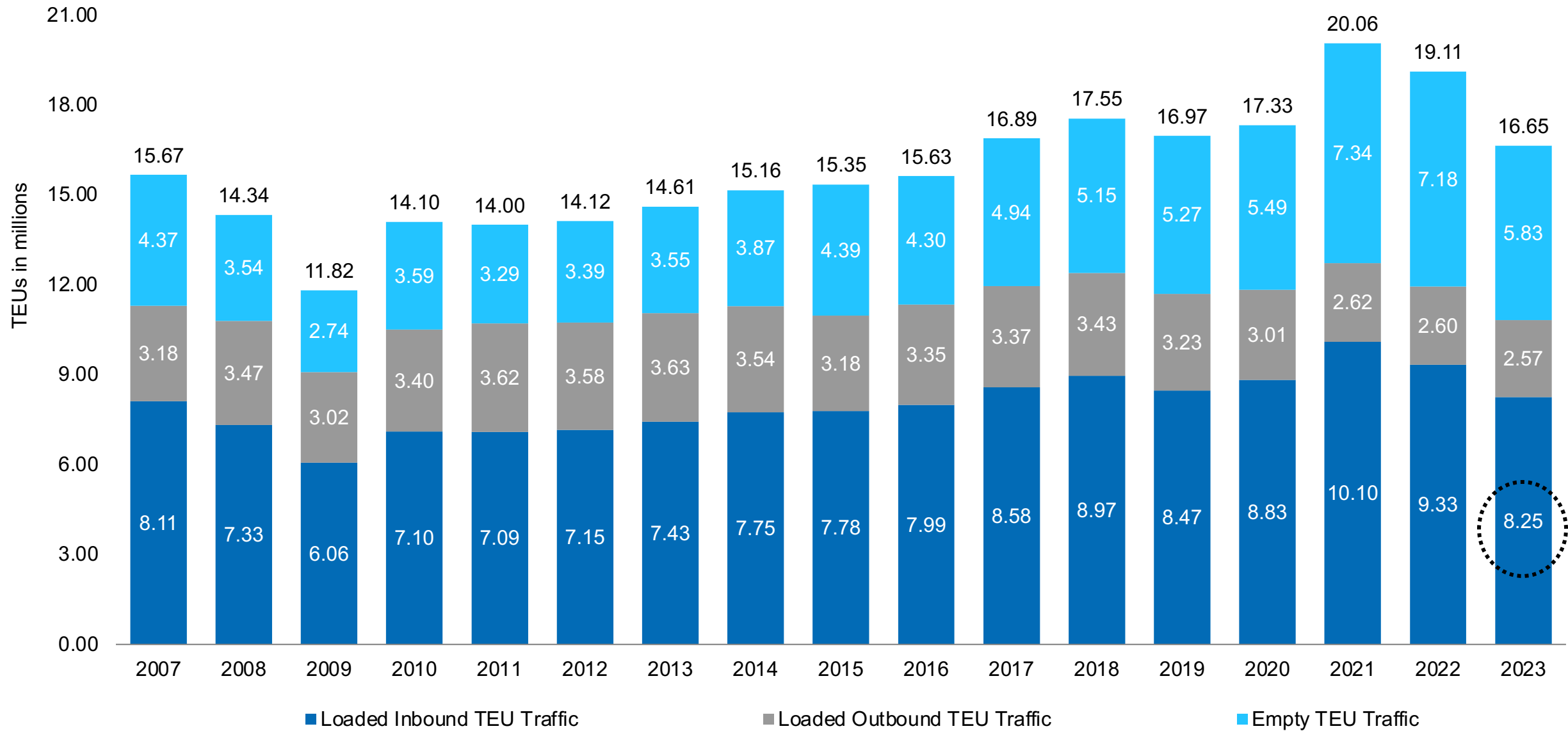
Economy



Southern California’s Ports: 2023 Was the Seventh Busiest Year on Record for Import Volume

This is still healthy from a historical perspective. A return to normal for import traffic is, in turn, moderating demand for warehouse space.

The Ports of Los Angeles and Long Beach: Combined TEU Volume | Loaded Imports, Loaded Exports and Empty Containers | By Year



Source: Newmark Research, The Port of Long Beach and Los Angeles
 Note: TEUs are a standard measure for the steel cargo containers commonly used interchangeably on ships, trucks and trains. A TEU or 20-foot equivalent unit is the industry measure used to tally cargo containers, whether the containers are 20-foot long, 40-foot long or some other size.

West Coast Dockworkers Signed a New Contract in 2023; Their Eastern Counterparts are Next Up...

The ILWU and PMA signed a new labor contract in September, restoring a sense of much-needed stability at U.S. West Coast seaports for the next six years. Longshoremen at East and Gulf Coast ports will soon negotiate their contract, which will expire in late 2024. Import volume will likely shift to other ports of entry (e.g., Los Angeles-Long Beach) until an agreement is reached.

West Coast Ports Agreement Reached...Finally!

- The International Longshore Warehouse Union (ILWU) represents dockworkers at 29 ports from Washington State to California. The Pacific Maritime Association (PMA) represents ocean carriers and terminal operators.
- The prior contract expired on July 1, 2022.
- The ILWU has a history of work disruptions in prior negotiation periods, ranging from strikes, to deliberate work slowdowns to under-staffing shifts.
- These disruptions have cost major retailers billions of dollars in the past.
- In March, for instance, the ILWU did not stagger shifts during meal periods.
- A tentative agreement was reached on June 15, 2023 for what became a new six-year contract. Longshore workers secured a 32% salary increase.
- Many Asian importers pushed inbound goods to East and Gulf Coast ports as talks dragged on. Some of this traffic is returning since stability is now less of a concern.



Source: Newmark Research, City of Los Angeles, The Real Deal

East and Gulf Coast Ports Are Up Next

- The International Longshoremen (ILA) represents dockworkers at 36 ports from Maine to Texas. The United States Maritime Alliance (USMA) represents ocean carriers and terminal operators.
- Their contract will expire on September 30, 2024.
- Harold Daggett, International President of the ILA, has warned that a strike is likely in 2024.
- Higher pay and job security as it pertains to automating port operations were primary issues for the ILA in 2018/the last negotiation period.



-4.6%

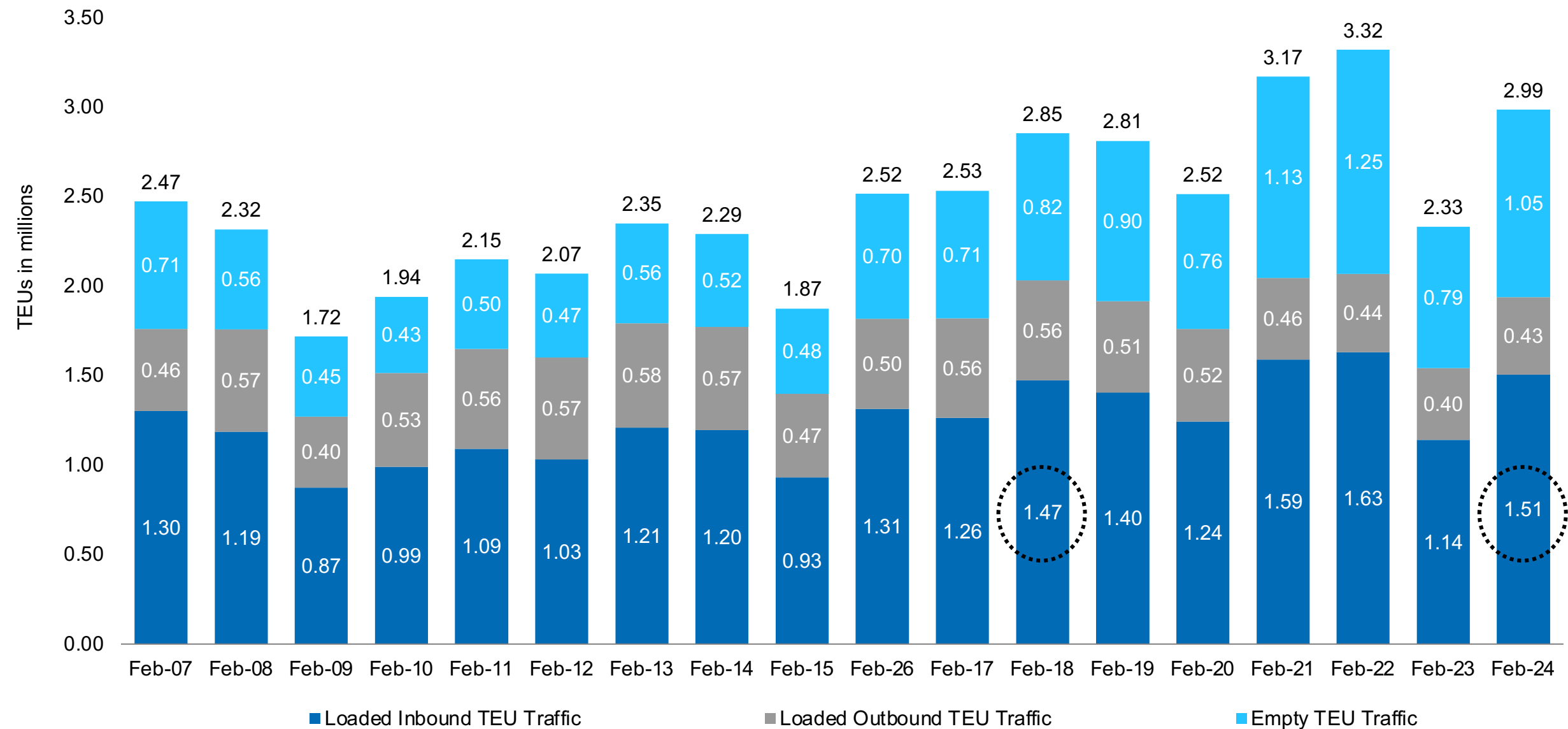
Import Traffic Has Jumped in Recent Months at Los Angeles-Long Beach

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Loaded Imports in the First Two Months of 2024 Were Higher Than the Same Period in 2018

Loaded inbound TEU traffic during the first two months of 2024 reached the third-highest level on record. Import activity is expected to remain healthy in the coming months.

The Ports of Los Angeles and Long Beach: Combined TEU Volume | Loaded Imports, Loaded Exports and Empty Containers | First Two Months of a Given Year



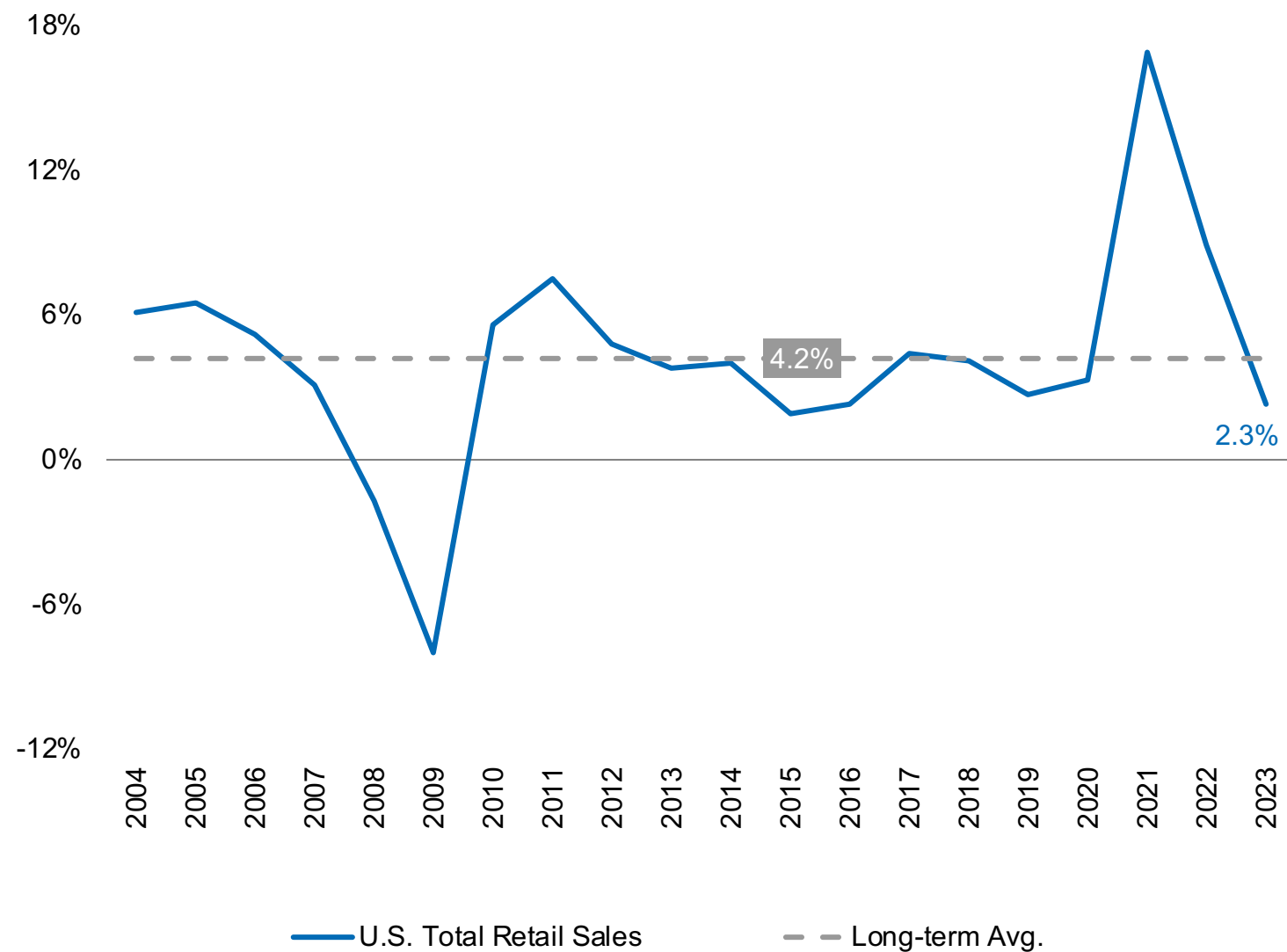
Source: Newmark Research, The Port of Long Beach and Los Angeles

Note: TEUs are a standard measure for the steel cargo containers commonly used interchangeably on ships, trucks and trains. A TEU or 20-foot equivalent unit is the industry measure used to tally cargo containers, whether the containers are 20-foot long, 40-foot long or some other size. The Lunar New Year started on February 10th this year, a time when factories in Asia shut down entirely. Since U.S. distributors tend to front-load imports beforehand, port volume in the first quarter of a given year is not reflective of how the year will unfold.

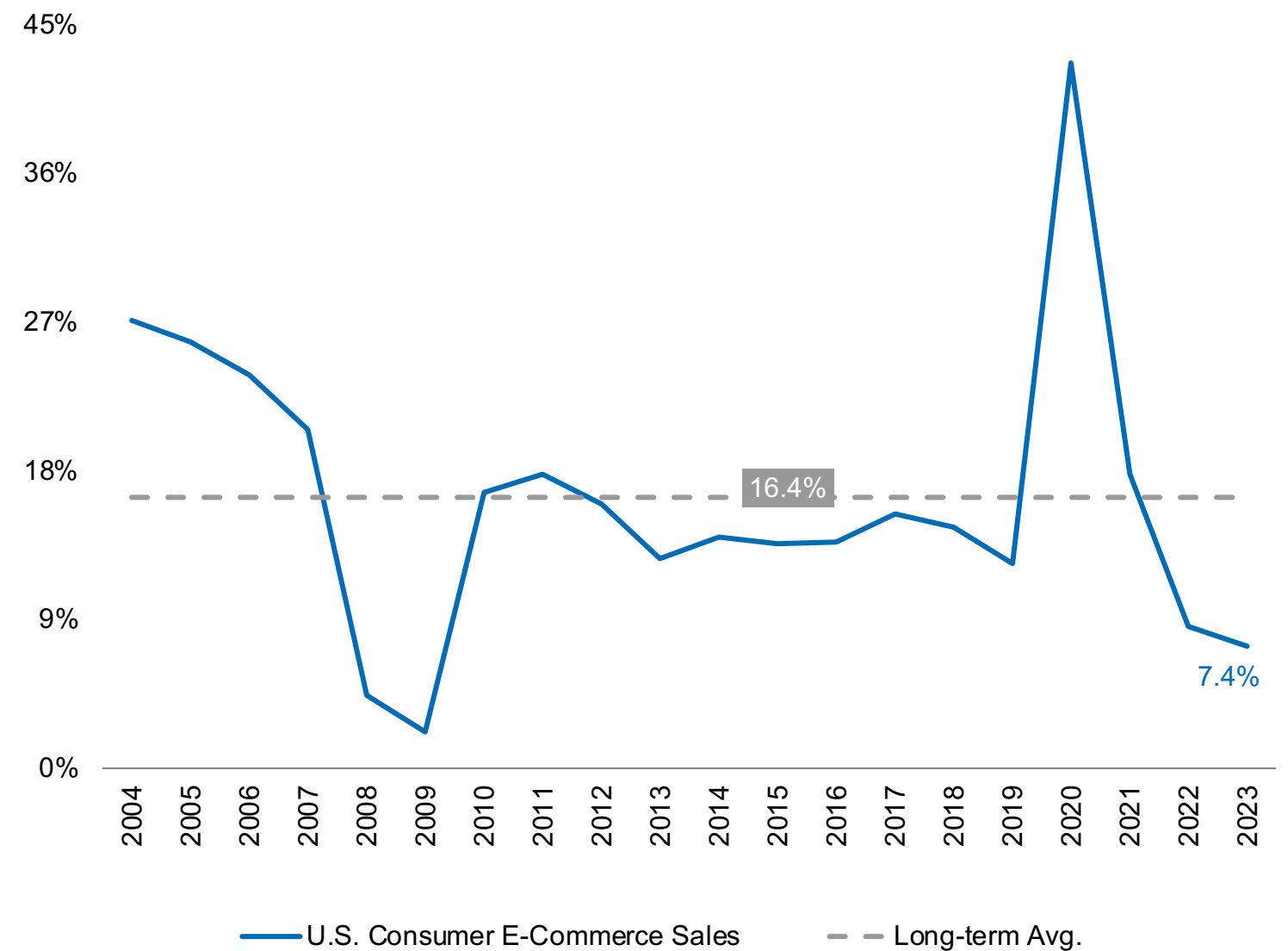
Retail Sales (an Indicator of Warehouse Demand) Continue to Moderate

Consumer e-commerce sales were up 7.4% from 2022 to 2023. Although e-commerce sales growth exceeded total retail sales (+2.3% over the same period), the decline from 2021 onward is noticeable as consumer spending slows.

U.S. Retail Sales Annual Growth



U.S. Consumer E-Commerce Sales Annual Growth



Source: US Census Bureau (consumer adjusted retail sales); most current data available

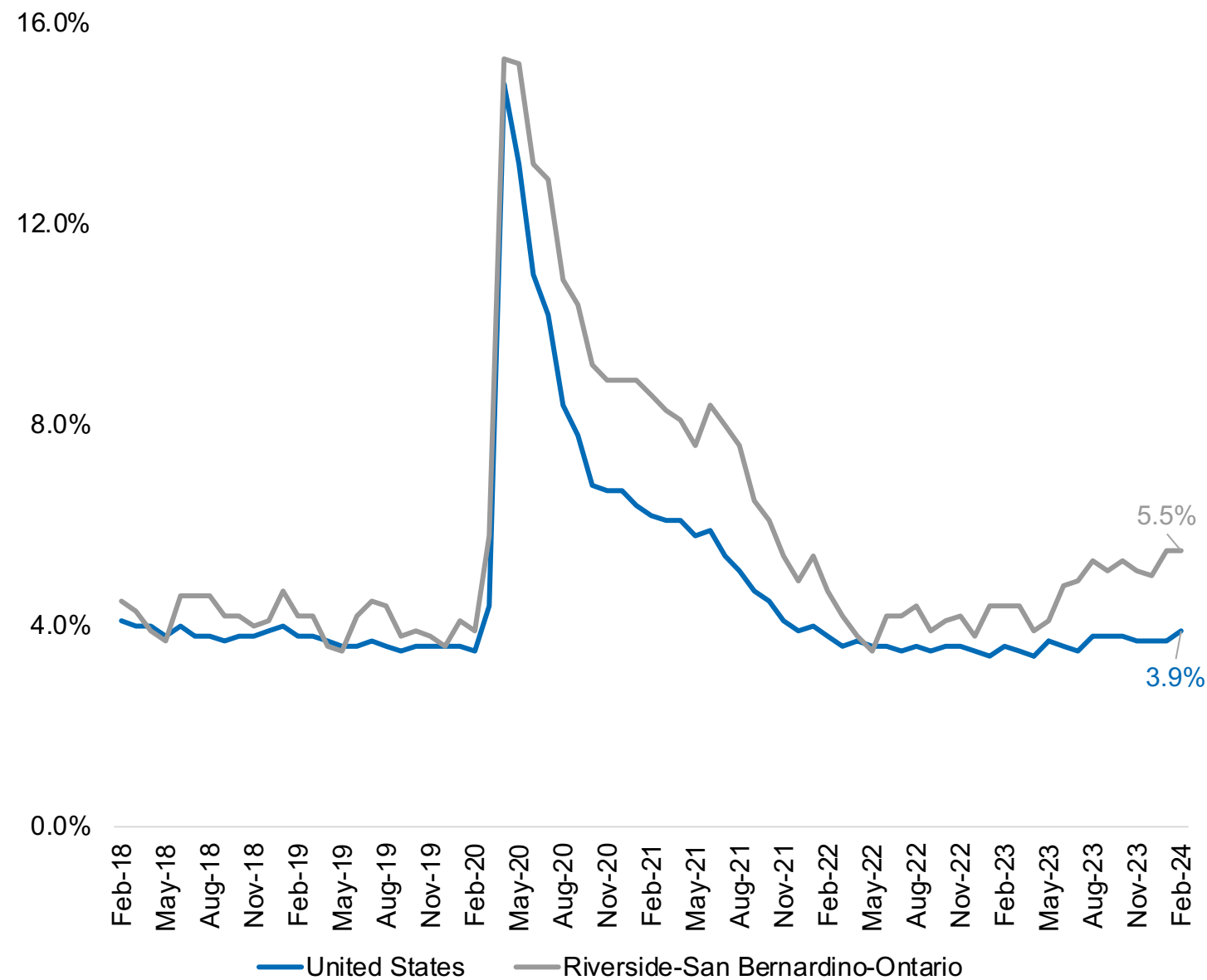
The Pandemic Accelerated E-Commerce Sales Growth and Adoption Rates

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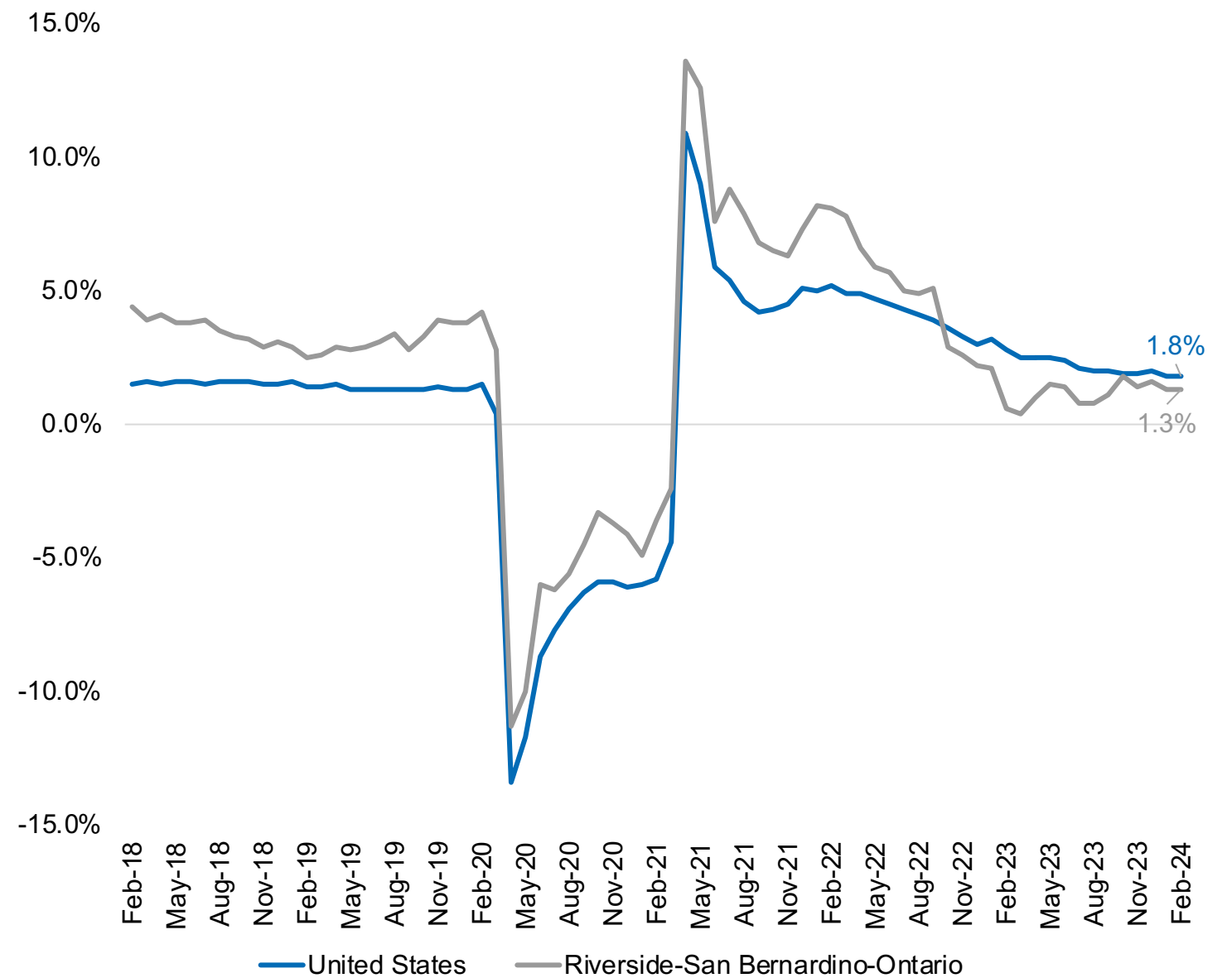
Local Unemployment Creeps Upward; Job Growth Likely to Remain Minimal in 2024

Local unemployment is higher than its pre-pandemic average. Job growth, which has hovered below its pre-pandemic average since the latter-half of 2022, is expected to remain minimal throughout 2024 in the face of stagnation across all nonfarm employment sectors.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

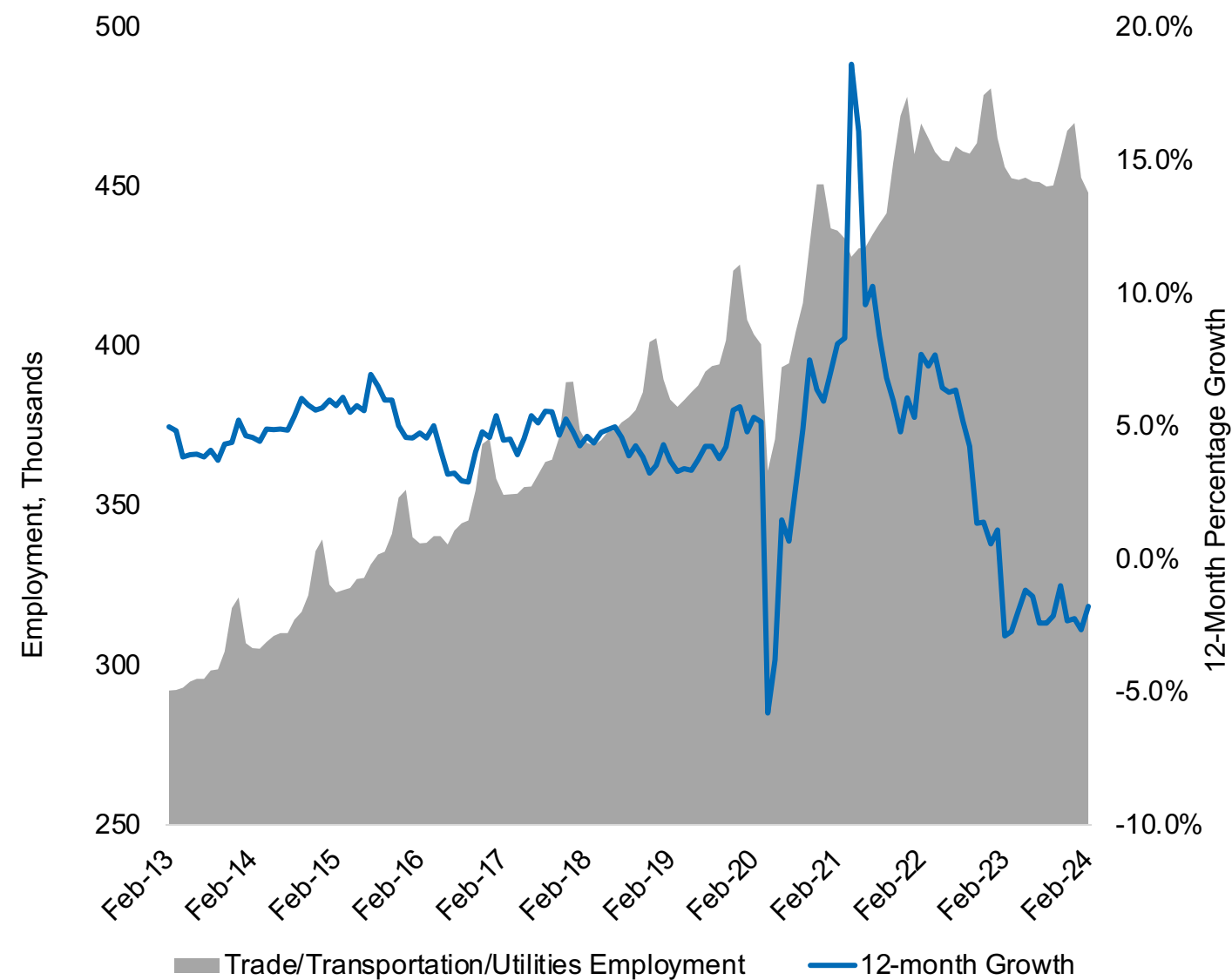


Source: U.S. Bureau of Labor Statistics, Riverside-San Bernardino-Ontario

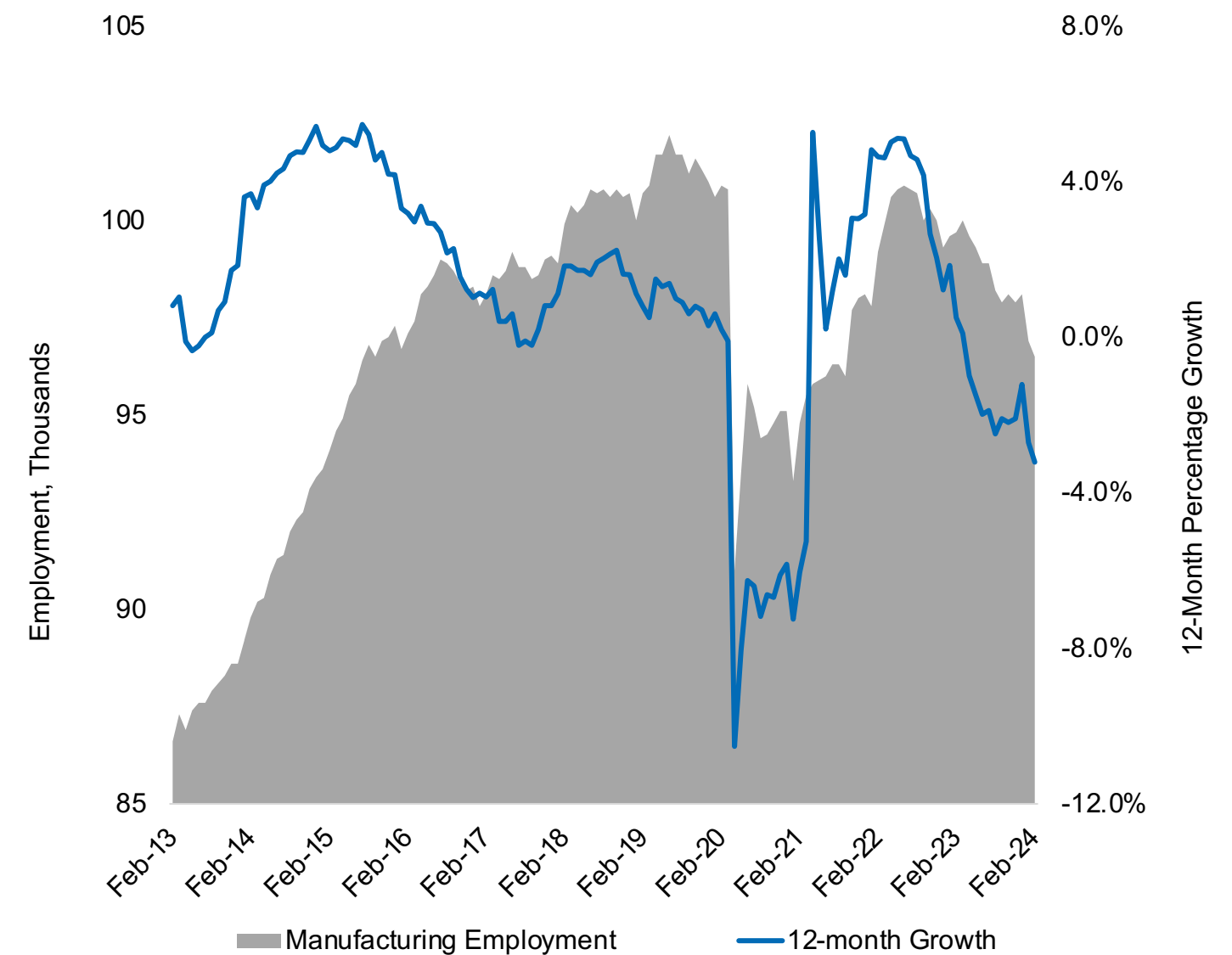
Industrial Employment Continues to Fall; Manufacturing Jobs Hit Hardest

Employment growth in the trade/transportation/utilities sector continued to linger slightly below zero in February as warehouse occupiers continued to shed warehouse space. Manufacturing employment growth remained locked in decline, after a year-over-year contracting of 3.2% in February. Manufacturers continue to struggle with elevated lending costs, declining demand and comparatively high costs of doing business in the state.

Trade/Transportation/Utilities Employment and 12-Month Growth Rate



Manufacturing Employment and 12-Month Growth Rate



Source: U.S. Bureau of Labor Statistics, Riverside-San Bernardino-Ontario

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Leasing Market Fundamentals



Unprecedented Rent Growth Occurred from Early 2021 through Early 2023

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New Lease Start Rents Have Steeper Declines than Renewals

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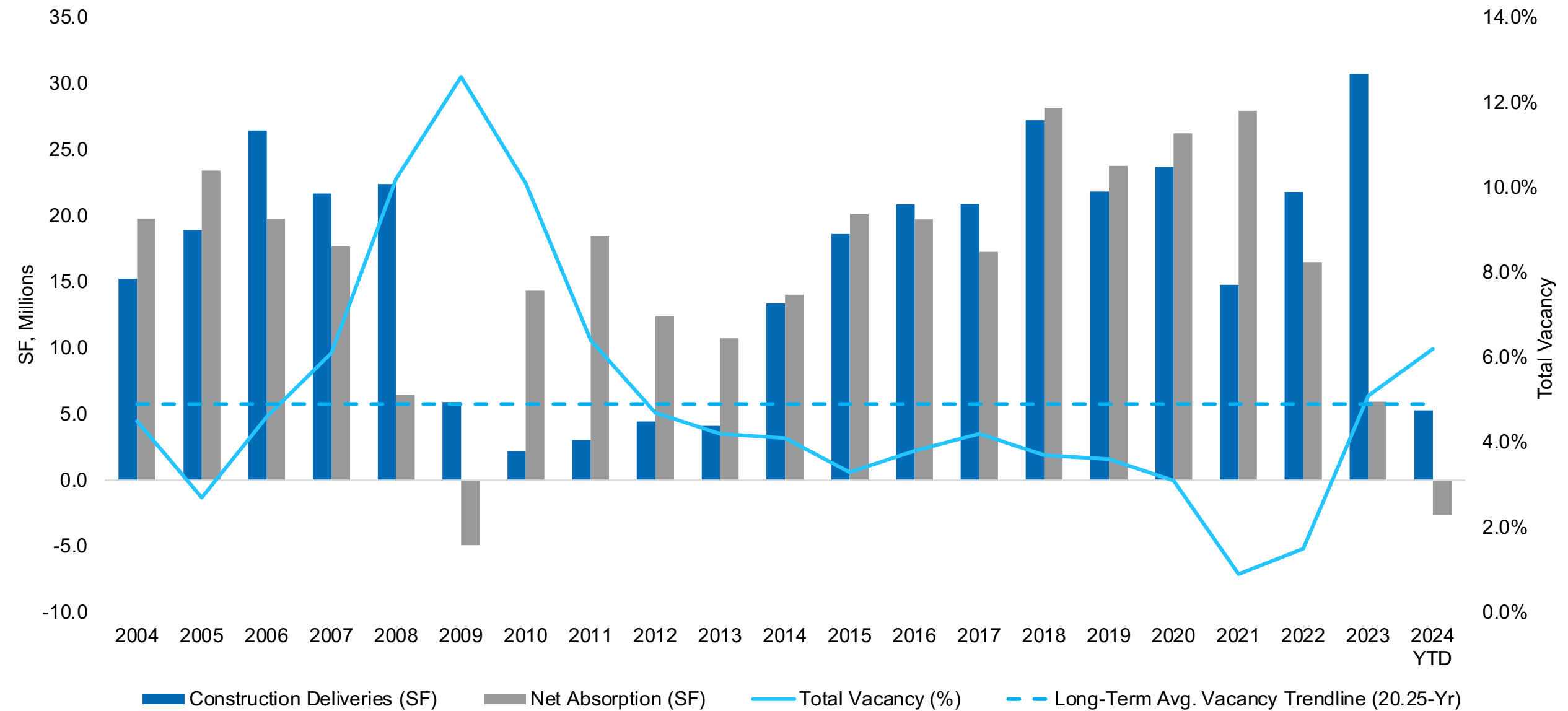
Term Lengths are Shorter than 2021-2022 and Remain Below Long-Term Average

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Worst Quarterly Net Absorption Loss on Record; Market Vacancy Highest Since 2011

Limited pre-leased move-ins along with large move-outs by tenants such as Distribution Alternatives (927,696 SF in Rialto), LG Electronics (830,750 SF in San Bernardino), Ecolabs (577,905 SF in Fontana) and Meiko America (557,500 SF in Eastvale) led to the worst quarterly net absorption loss in market history. Net occupancy losses for the quarter, along with the delivery of roughly 5.3 MSF in mostly-vacant new construction, pushed vacancy beyond its long-term average.

Historical Construction Deliveries, Net Absorption, and Vacancy

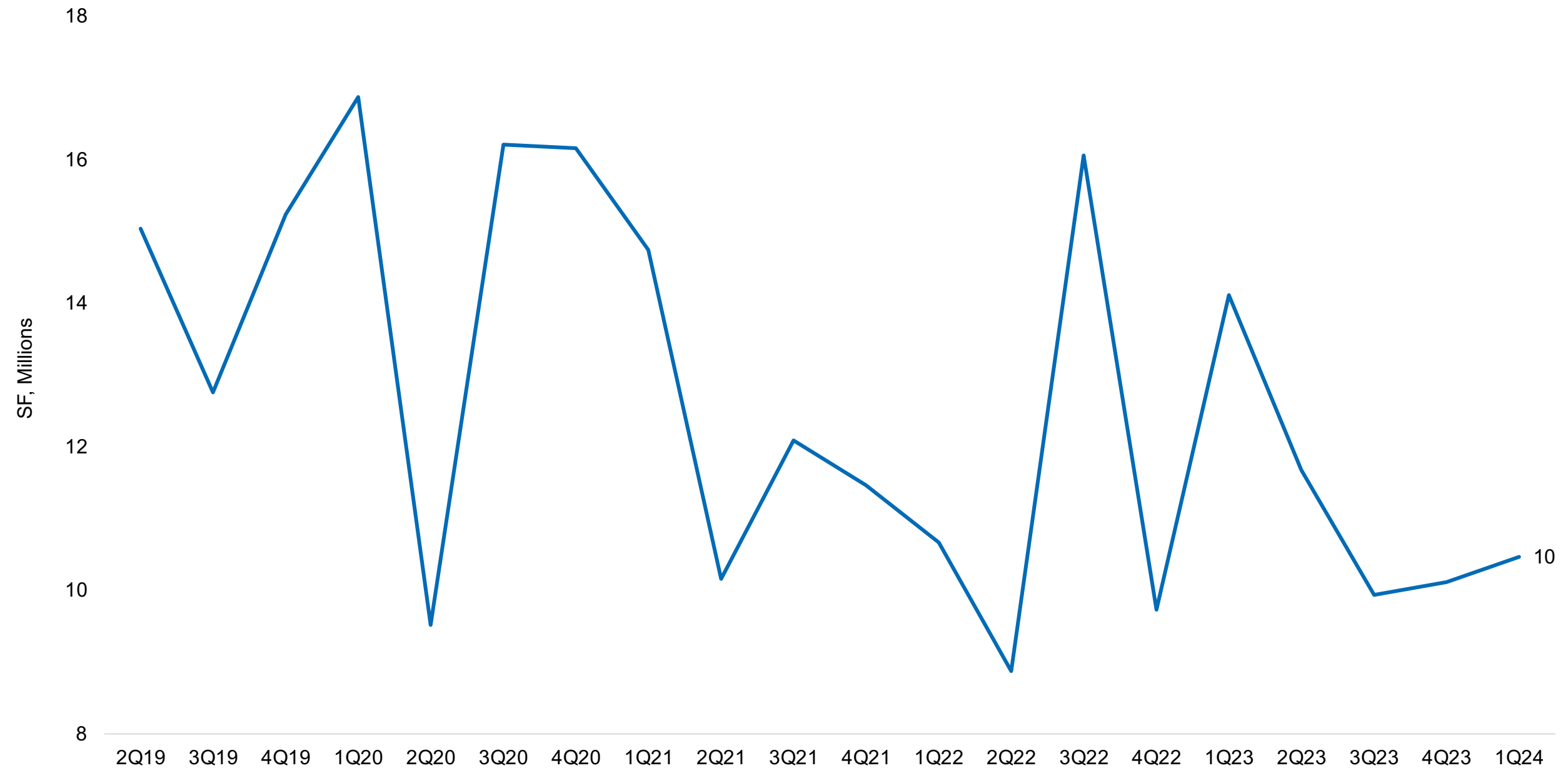


Source: Newmark Research

Quarterly Leasing Activity, Uneven Since Early 2019, Has Decelerated

The uneven factor is a function of how many mega-warehouse projects greater than 500,000 SF lease in a given quarter, coupled with macro economic conditions at the time (e.g., there was a great deal of uncertainty during the second quarter of 2020, the first full quarter after a national health emergency was declared). One trend is clear however: leasing activity is far-removed from the high points of 2022 and 2023.

Total Leasing Activity (SF)

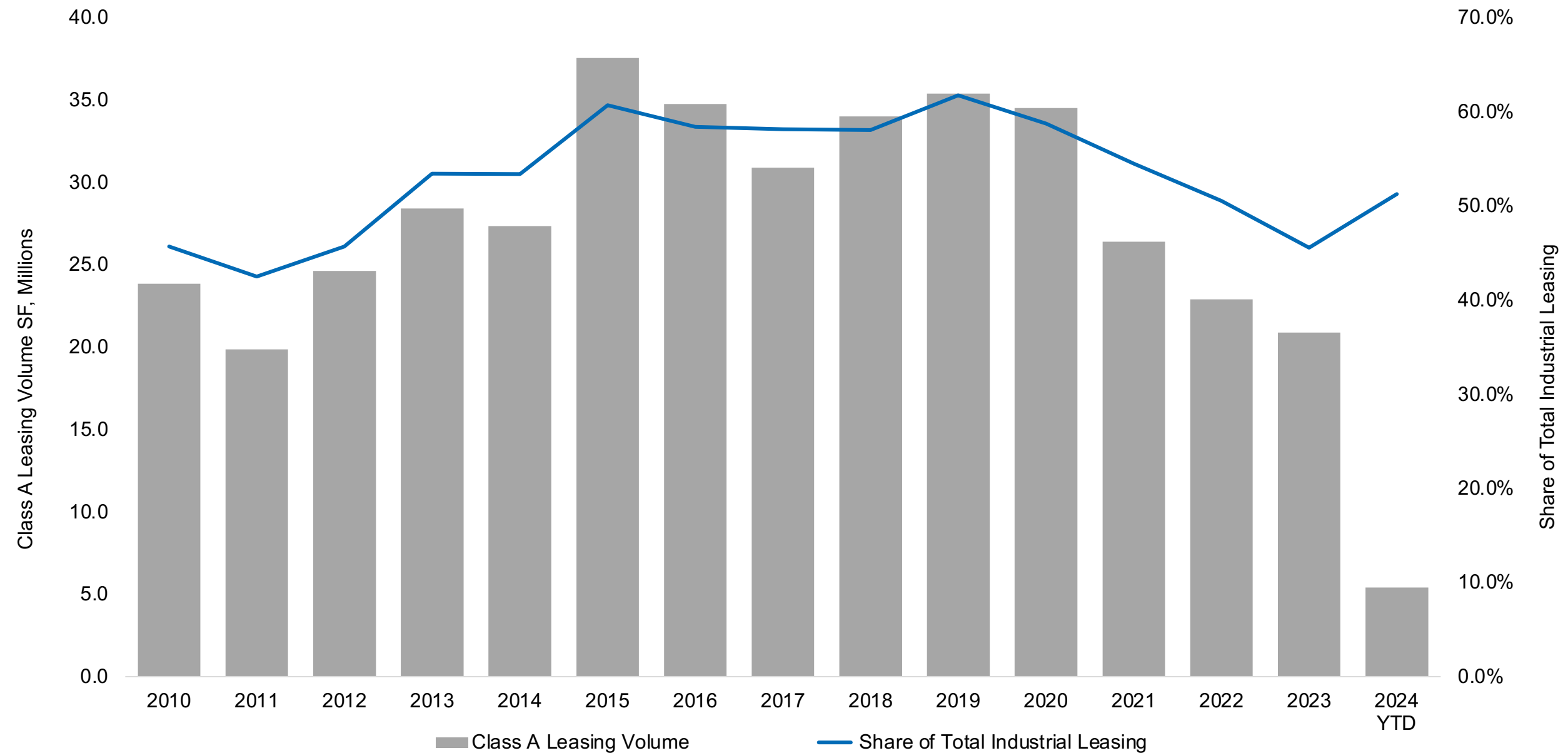


Source: Newmark Research, CoStar

Class A Warehouse Demand Recovering, Though Still Below Pre-Pandemic Average

Class A warehouse leasing accounted for 51.3% of total leasing activity in the first quarter of 2024, hovering just below the 14.25-year average of 53.2%. An increasing number of tenants may be willing to commit to top-shelf space, given the steady decline in rents over the past year.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



Source: Newmark Research, CoStar

Note: Class A is defined as 100,000+ SF warehouse/distribution facilities constructed since 2000 with a 30'+ minimum interior ceiling height.

29.3% of the Inland Empire's Available Space is for Sublease

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Total Sublease Availability Increases a Staggering 40.1% Over Previous Quarter

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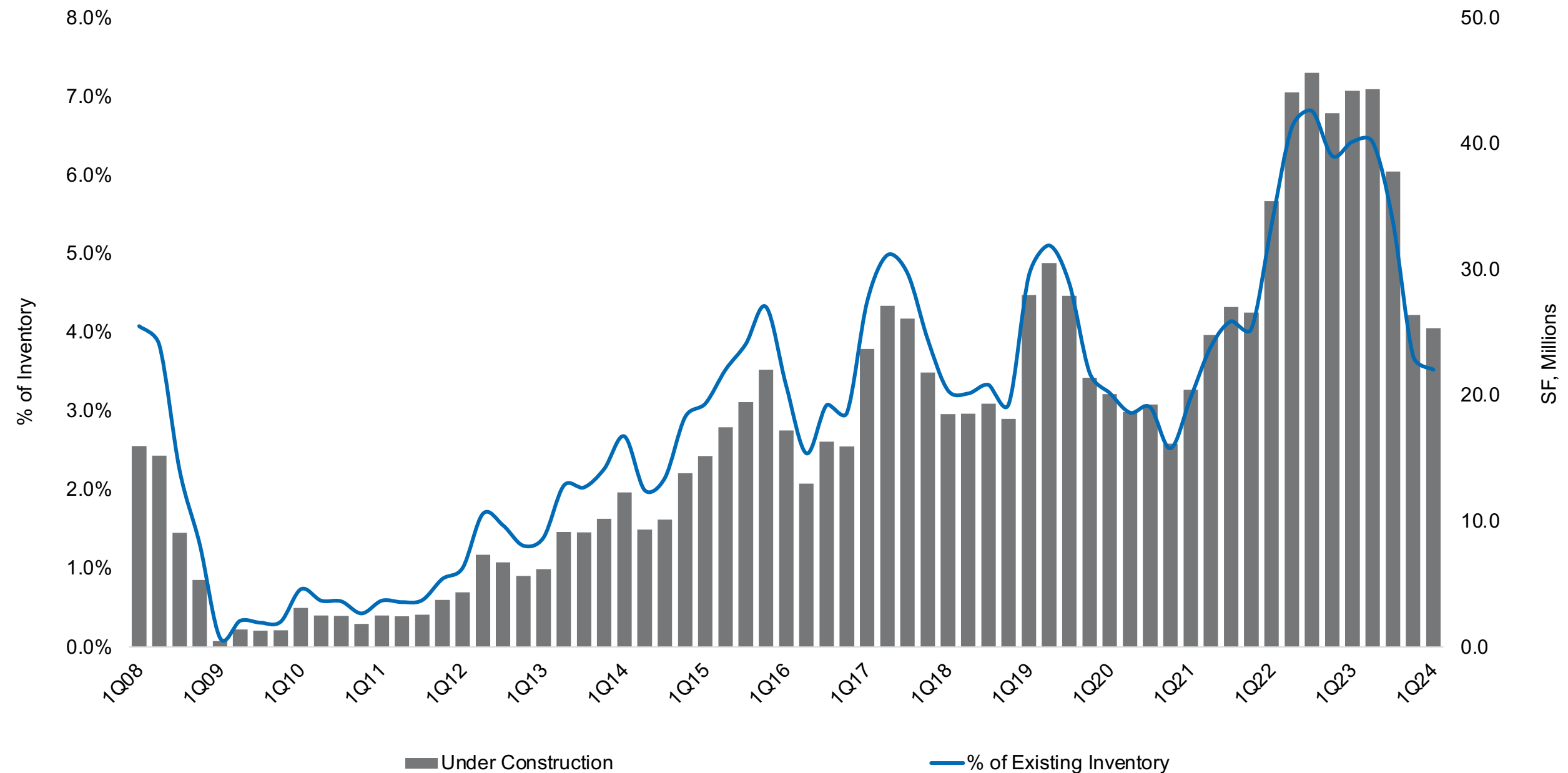
Vacancy Gap Will Likely Widen Between West and East I.E.

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Bulk of Under-Construction Space Remains Unleased; Pipeline Likely to Shrink

A mere 10.7% of all inventory in the construction pipeline has been pre-leased, while a miniscule 8.8% of the 14.5 MSF set to deliver in the second quarter of 2024 has committed tenants attached. Under-construction activity will likely fall closer towards the pre-pandemic average over the next several quarters, though groundbreakings associated with the Speedway Commerce Center project in Fontana will reduce the rate of decline.

Industrial Under Construction and % of Inventory



Source: Newmark Research

The 1 MSF+ Segment Leads in Pre-Leasing; Pre-Leasing Far Less in Smaller Thresholds

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Notable 1Q24 Lease Transactions

A total of 27 leases exceeding 100,000 SF were signed in the first quarter of the year, a figure roughly on par with the first quarter of 2023. Leasing activity within this size segment consisted of a healthy mix of direct leases, subleases and renewals. Amazon committed to two 1.0 MSF spaces; its first leases in the market since late 2021.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Amazon	6120 Clinker Dr	West-I.E.	Direct Lease	1,025,132
<i>The tech giant will occupy the entire facility formerly occupied by Bed, Bath and Beyond in the second quarter of the year. A 10-year commitment.</i>				
Amazon	4000 S Hamner Ave	West-I.E.	Pre-lease	1,003,918
<i>Will occupy the entire space when it delivers in the second quarter of the year.</i>				
eFulfill/Elogistek	11281 Citrus Ave	West-I.E.	Direct Lease	1,003,592
<i>Fontana-based logistics firm leased and moved into vacant space this quarter. An 88-month commitment.</i>				
SharkNinja	16300 Fern Ave	West-I.E.	Lease Renewal	779,052
<i>Tenant has leased entire building since 2019. This quarter's renewal is for 89 months.</i>				
Emser Tile	5300 Shea Center Dr	West-I.E.	Lease Renewal	432,313
<i>Tenant has leased entire building since 2005.</i>				

WAIRE: Program Summary and Implications for Industrial

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Regional Regulations to Rein in Emissions and Curb Warehouse Footprints Mount

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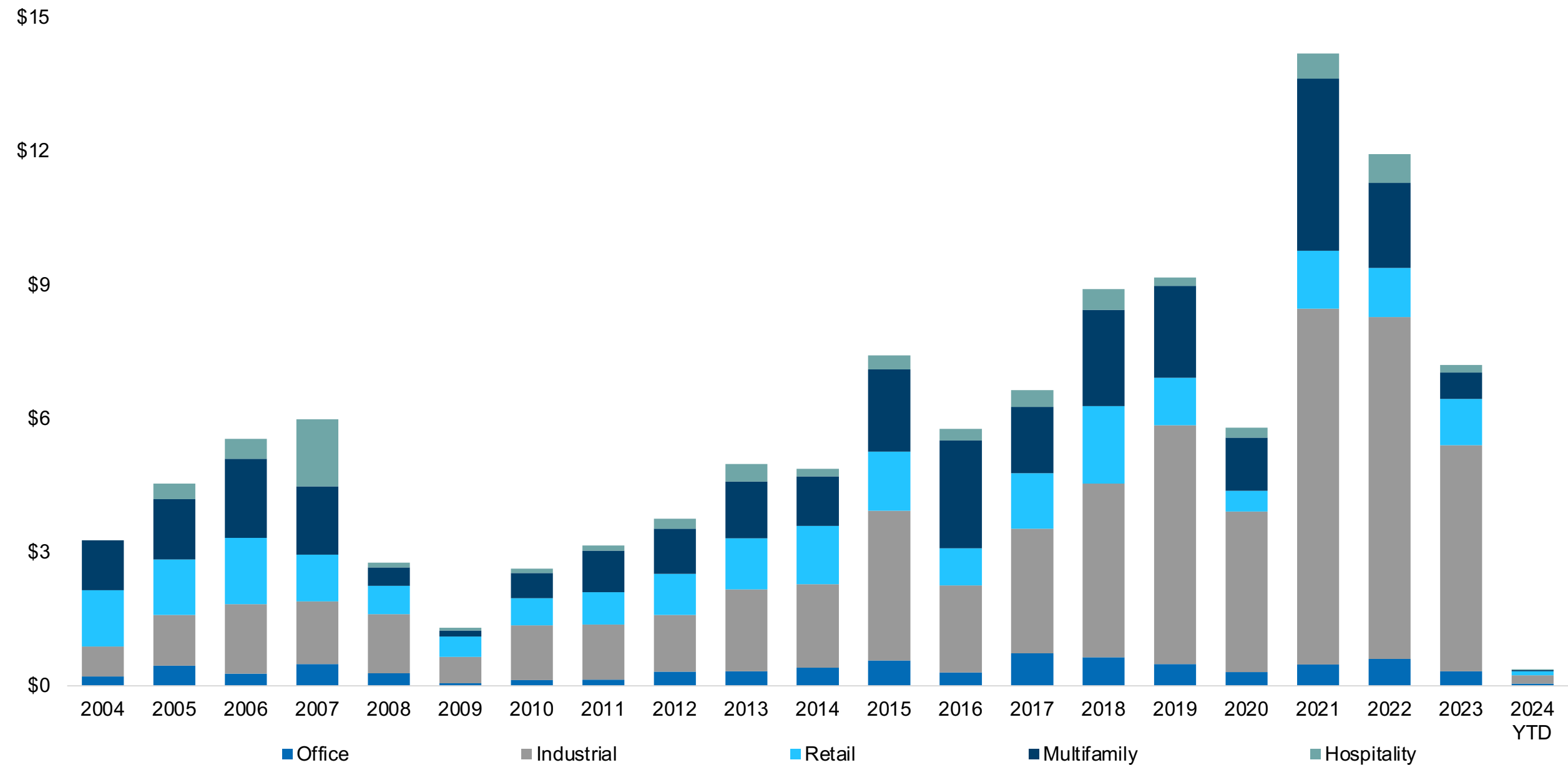
Sales Activity



Industrial Comprised an Unprecedented 70.4% of Total Sales Volume in 2023

70.4% vastly exceeds the 20-year average (2004 to 2023) of 43.1%. Heated rent growth in recent years favor the segment, with many investors targeting desirable buildings with credit tenants whose leases are up for renewal. What the tenant was paying (\$\$) is different than today's rent averages (\$\$\$\$).

Inland Empire: Sales Volume Across Commercial Property Segments (\$ in Billions)

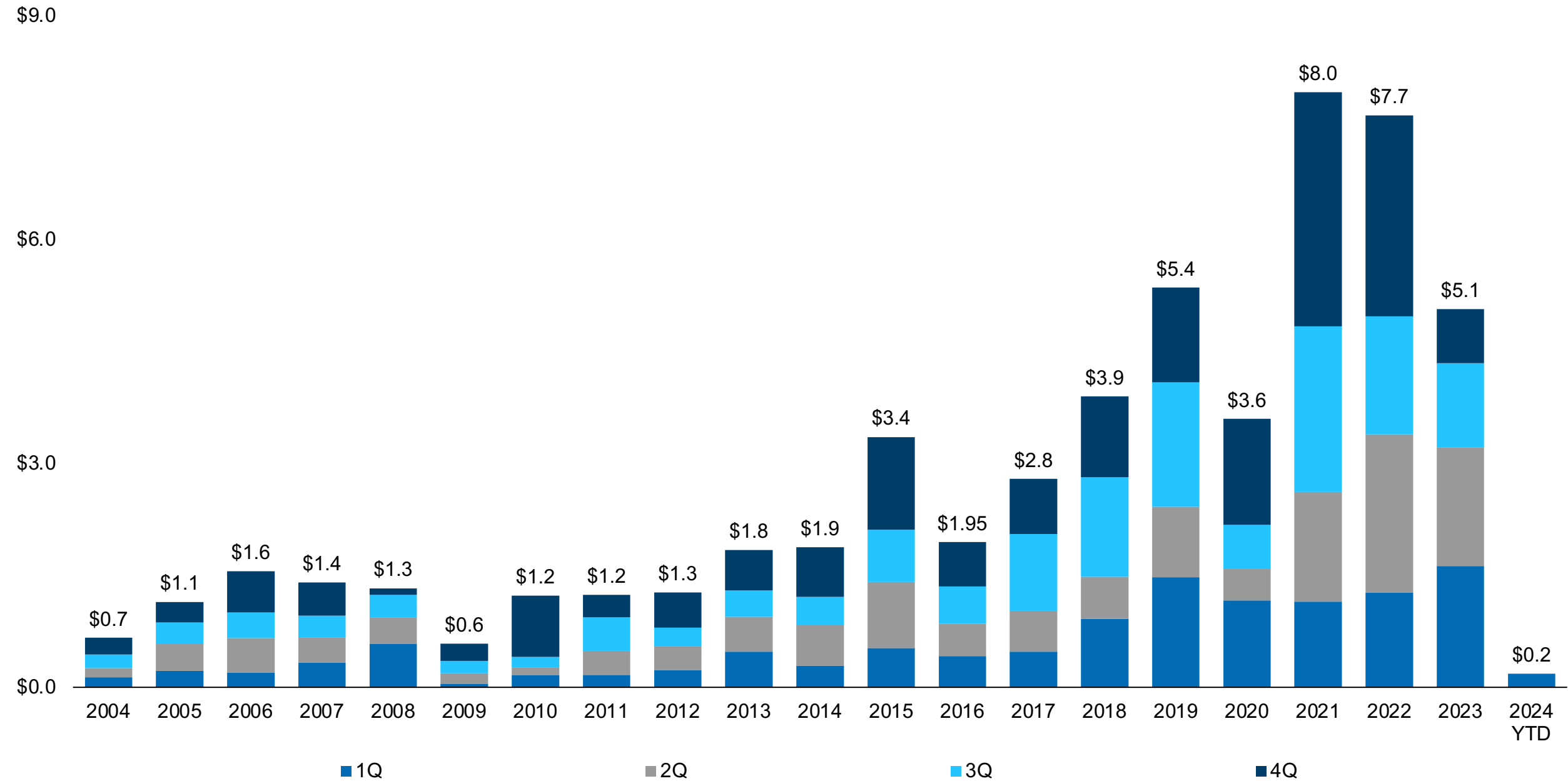


Source: MSCI Real Capital Analytics, Newmark Research
 Note: Preliminary data is cited for the first quarter of 2024

Industrial Sales Volume: Up Close

Industrial sales volume totaled \$184.9 million in the first quarter of 2024, down 88.6% from the same period in 2023. The higher cost of capital following multiple interest rate hikes is crimping momentum, in addition to cooling leasing fundamentals. Both will add downward pressure to pricing.

Inland Empire: Industrial Sales Volume (\$ in Billions) | By Quarter



Source: Newmark Research, MSCI Real Capital Analytics
 Note: Preliminary data is cited for the first quarter of 2024

Pricing Hovers Below 2022's Peak, While Cap Rates are Rising

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Share of Institutional Buyers Down Post-2021; All Other Investor Types Remain Active

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Appendix



Inland Empire Submarket Map and High-Level Statistics | 1Q24

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Inland Empire Statistics by Building Size Segment | 1Q24

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The World's Top 20 Containerized Cargo Seaports

Fifteen are in Asia, China leads all other countries with eight and Los Angeles-Long Beach and New York-New Jersey are the only U.S. complexes to make the list.

Rank	Seaport	2022 Volume (TEU, in millions)
1	Shanghai, China	47.3
2	Singapore	37.3
3	Ningbo-Zhoushan, China	33.4
4	Shenzhen, China	30.0
5	Qingdao, China	25.7
6	Guangzhou Harbor, China	24.9
7	Busan, South Korea	22.1
8	Tianjin, China	21.0
9	Los Angeles-Long Beach, U.S.A.	19.0
10	Hong Kong, S.A.R., China	16.7

Rank	Seaport	2022 Volume (TEUs, in millions)
11	Rotterdam, The Netherlands	14.5
12	Jebel Ali/Dubai, United Arab Emirates	14.0
13	Antwerp, Belgium	13.5
14	Port Klang, Malaysia	13.2
15	Xiamen, China	12.4
16	Tanjung Pelepas, Malaysia	10.5
17	New York-New Jersey, U.S.A.	9.5
18	Kaohsiung, Taiwan	9.5
19	Laem Chabang, Thailand	8.7
20	Hamburg, Germany	8.3

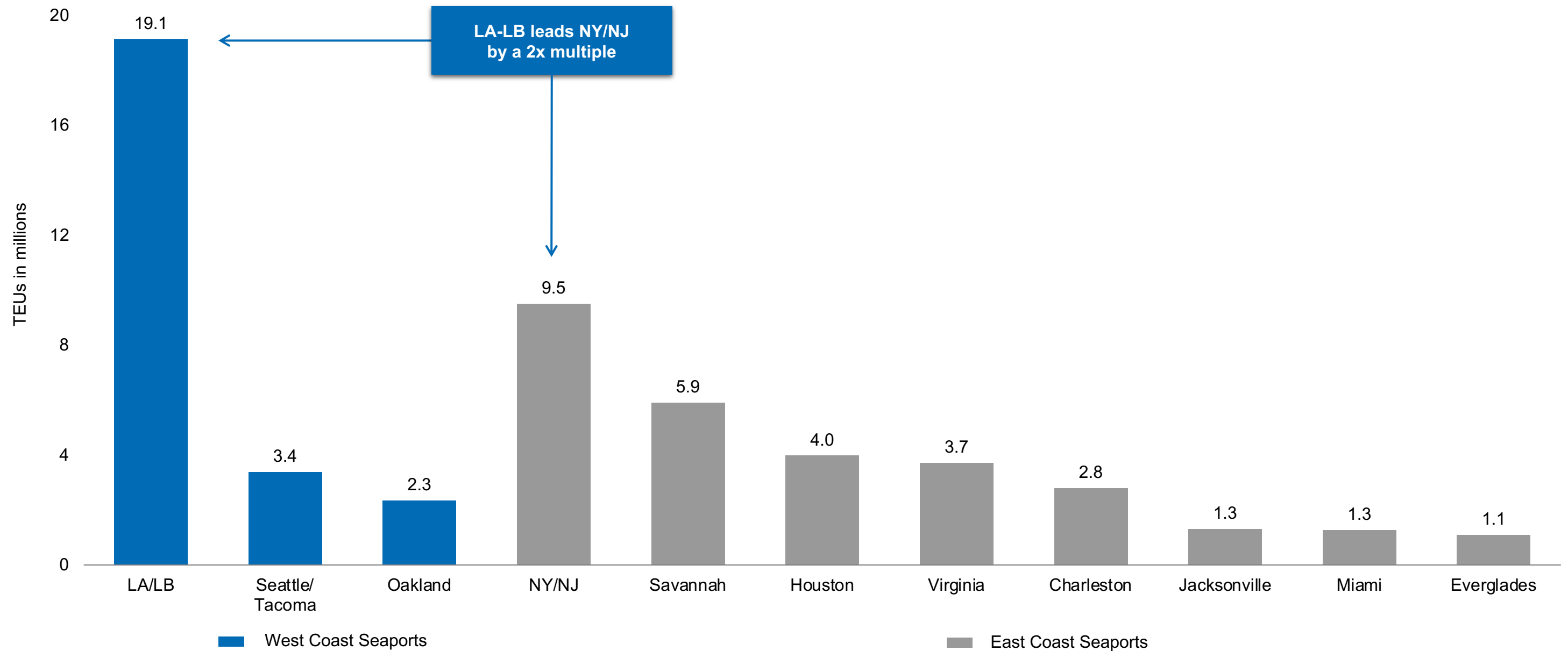
Source: Newmark Research, Alphaliner

Note: TEU totals includes loaded and empty containers. 2022 are the most current figures from the source (Alphaliner)

Los Angeles-Long Beach Is the Nation's Dominant Port System

Los Angeles-Long Beach can accommodate 18,000 TEU vessels, which are too wide to traverse the new Panama Canal. Additionally, both ports have Class 1 freight rail connectivity to the nation's major population centers.

Major U.S. Seaports: 2022 TEU Volume (All Containers: Loaded and Empty)



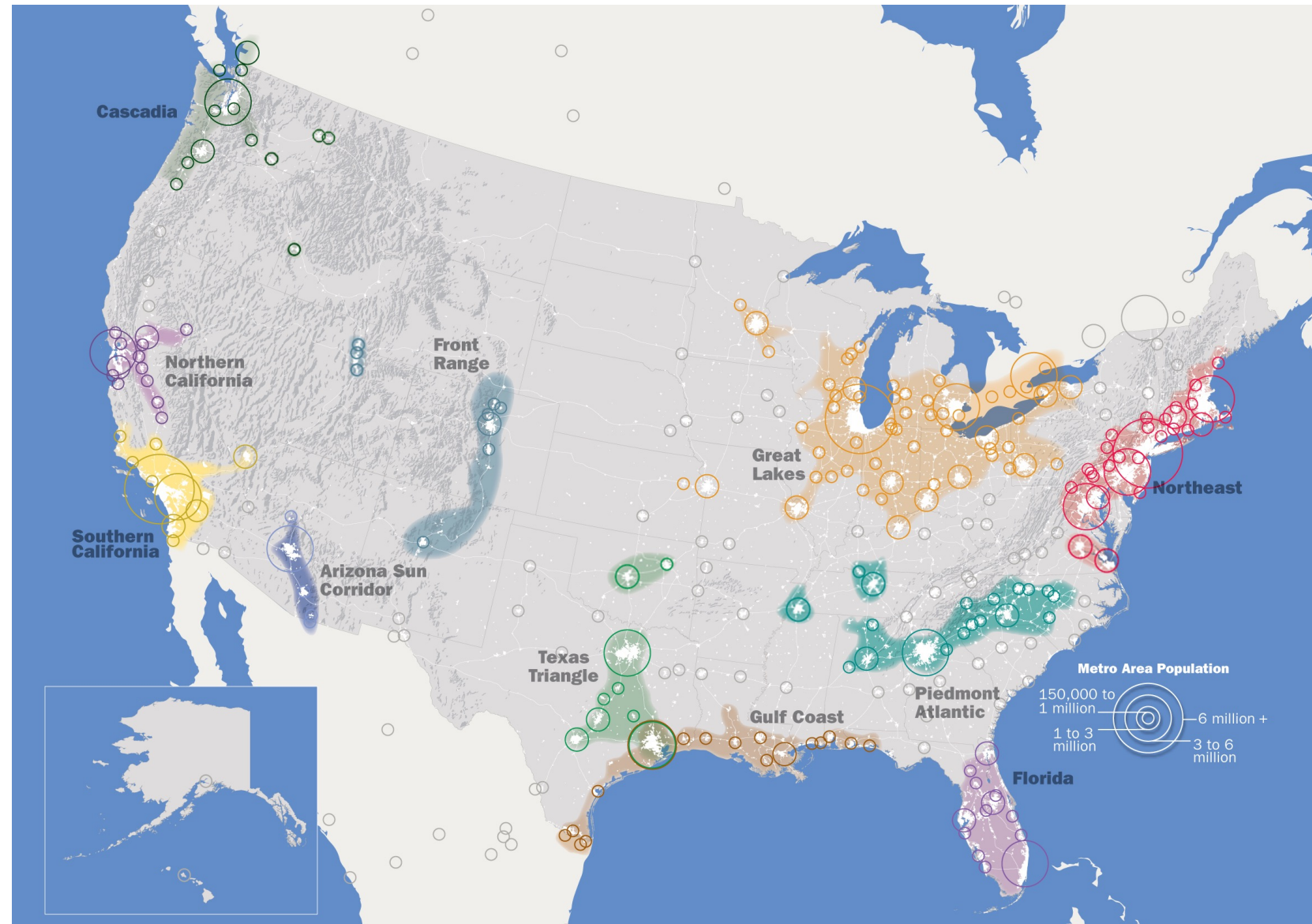
Source: Newmark Research, Individual Seaports

Why Los Angeles-Long Beach?

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Population of Megaregions: Past and Projected

Southern California benefits from its consumer base, ports and rail connectivity.



Megaregion	2010 Population	2025 Pop. Est.
Arizona Sun Corridor	5.7M	7.8M
Cascadia	8.4M	8.8M
Florida	17.3M	21.5M
Front Range	5.5M	7.0M
Great Lakes	55.6M	60.7M
Gulf Coast	13.4M	16.3M
Northeast	52.3M	58.4M
Northern California	14.0M	16.4M
Piedmont Atlantic	17.6M	21.7M
Greater Southern California	24.4M	29.0M
Texas Triangle	19.8M	24.8M

Source: U.S. Census Bureau

Transport Costs Are the Biggest Expenditure for Most Warehouse Occupiers

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Transport Costs per TEU Container

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Amazon Is the Inland Empire's Top Occupier and Employer

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