



# Inland Empire Industrial Market

## Net Absorption Ran Circles Around New Supply in 2021

- Vacancy, the tightest in the nation, is now 0.8%.
- Most tenants are agreeing to landlord terms when their leases are up for renewal; no negotiations.
- Annual net absorption exceeded construction deliveries by nearly twofold.
- Deliveries this year totaled 14.5 million square feet, far below the 5-year average of 21.3 million square feet. Raw material shortages are clearly having an affect.
- There have been instances of landlords sending back LOIs to interested tenants, asking them to fill in the rent value. The highest offer gets the space.
- Loaded inbound cargo volume at the ports in the first 11 months of 2021 was up 17.5% from the same period in 2020. Current volume is at a new high.
- Record growth: U.S. holiday retail sales were up 8.5% compared to last year. Online sales comprised 20.9% of 2021 retail sales.\*

### The Drivers of Today's Leasing Activity

Three factors are fueling record high demand for modern logistics space: 1) consumer spending; 2) e-commerce sales growth; and 3) adoption of just-in-case inventory models.

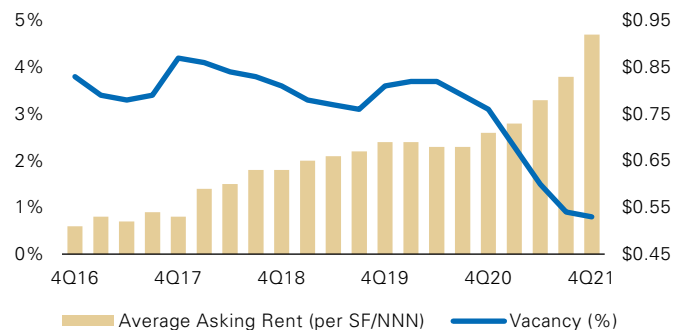
Consumers shifted their spending from services such as restaurants and hotels towards goods in 2020 due to lockdown rules and fear for their safety in the early days of the pandemic. This trend carried over into 2021, when considering a surge in Delta cases in the summer and the current rise of Omicron. Massive federal stimulus packages helped fuel retail sales.

E-commerce sales in the first nine months of 2021 were up 53.3% from the same period in 2019, while Prologis estimates every \$1.0 billion in online sales is supported by 220 million square feet of logistics space.

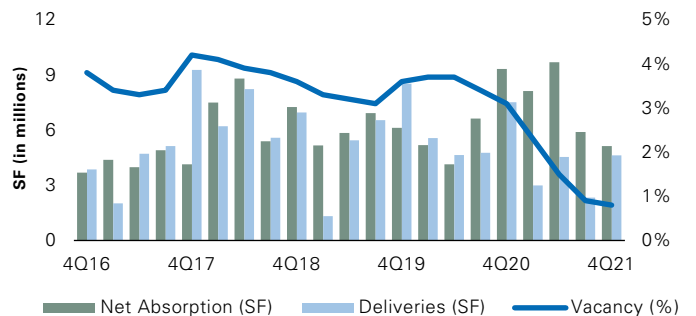
\* from the Mastercard SpendingPulse report. The holiday season is defined as November 1 to December 24.

### 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)	656.6M	651.7M	639.6M	↑
Total Vacancy Rate	0.8%	0.9%	3.1%	→
Quarterly Net Absorption (SF)	5.1M	5.9M	9.3M	→
Average Asking Rent/SF/Month	\$0.92 NNN	\$0.83 NNN	\$0.71 NNN	↑
Deliveries (SF)	4.6M	2.3M	7.5M	→
Under Construction (SF)	24.9M	24.7M	16.0M	→

## RESEARCH Q4 2021

For the just-in-case inventory model, most supply chains were historically attuned to efficiency rather than resiliency before COVID-19; a just-in-time approach, where goods were ordered as needed. Now, based on global supply chain disruptions, resiliency is the focus by having more product on hand.

A gateway, big-box market like the Inland Empire benefits from all factors. Strong consumer spending bolsters import volume at Southern California's ports, a large share of which will be warehoused in the Inland Empire. E-commerce sales growth only elevates demand for modern facilities with high clearance heights, wide column spacing and thick floors able to accommodate today's automated material handling equipment. A push by the nation's top retailers to stockpile more goods is causing local warehouse footprints to grow.

### The Appetite for Modern Space

Net absorption this year totaled 28.9 million square feet, a record high, and vastly exceeded construction deliveries, which reached 14.5 million square feet. When surveying this year's

construction deliveries in the 100,000-square-foot-and-greater segment, it took an average of 3.5 quarters from the date of groundbreaking for a given facility to be stabilized (75%+ leased). Quarters-to-stabilization averaged 4.5 and 4.2 in 2019 and 2020, respectively.

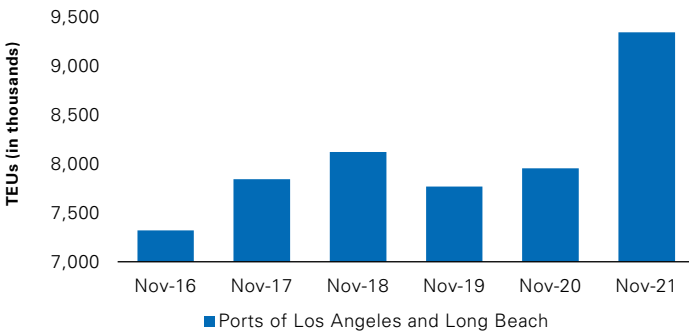
To secure modern space, companies will increasingly lease planned buildings and, in some cases, negotiate on buildings that are not even entitled yet. Developers with speculative projects underway, meanwhile, will entertain tenant offers on the eve of a building's delivery date. By waiting, developers can secure higher rents.

### Outlook

Tenants with leases coming due are in for sticker shock, since the average weighted contract rent for warehouse facilities 100,000 square feet and greater averaged \$0.884/SF by year-end, up 110% from the fourth quarter of 2016. Current pricing is essentially being set on a deal-by-deal basis. Swift rent growth will persist in 2022.

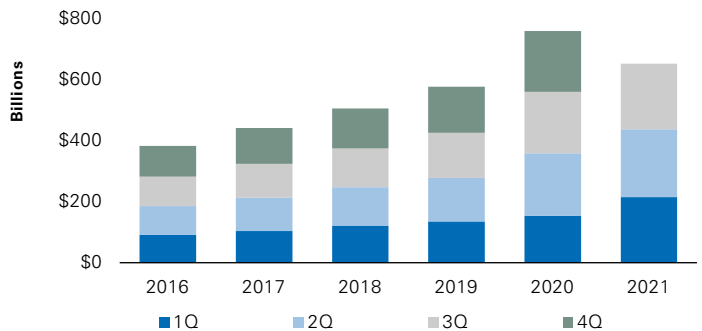
### YTD Import Volume

#### LOADED INBOUND CARGO



### U.S. Consumer E-Commerce Sales Volume

#### BY YEAR AND QUARTER



### Lease Transactions

Tenant	Building	City	Lease Type	Square Feet
Target	Veterans Industrial Park 215	Riverside	Build-to-suit	2,185,618
Loctek, Inc.	728 W. Rider Street	Perris	Pre-lease	1,203,449
Bed Bath & Beyond	6120 Clinker Drive	Jurupa Valley	Pre-lease	1,025,132

### Sale Transactions

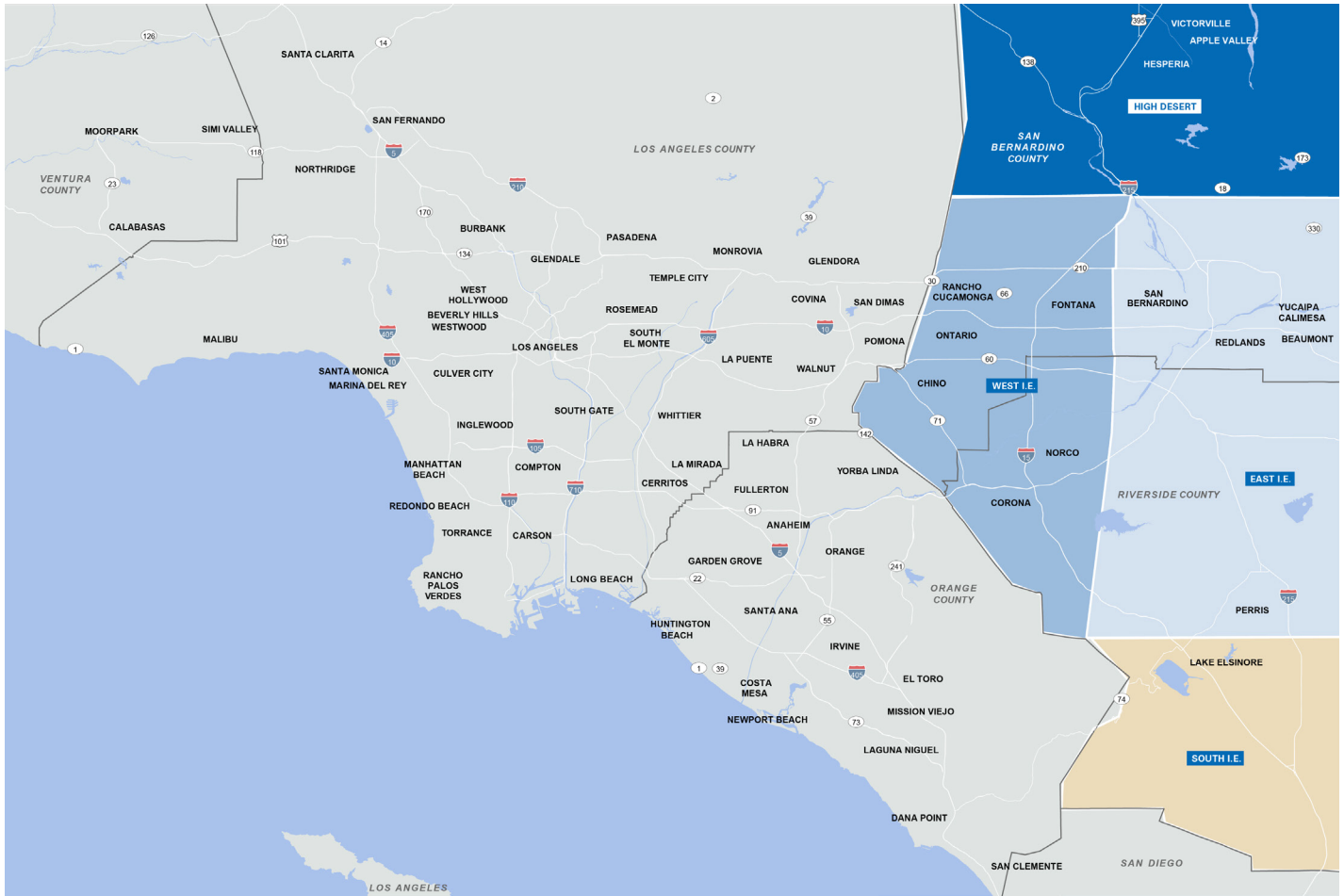
Buyer	Building(s)	City	Sale Price (PSF)	Square Feet
Covington Group, Inc. & H.I.G. Realty Partners	Southern California Logistics Center (7 bldgs.)	Victorville	\$270,000,000 (\$75/SF)	3,385,703
Rexford Industrial Realty Trust	13512 Marlay Avenue	Fontana	\$51,000,000 (\$256/SF)	199,363
Bridge Investment Group	10808 6 <sup>th</sup> Street	Rancho Cucamonga	\$48,811,000 (\$278/SF)	175,291

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.	252,660,210	13,762,065	0.6%	3,635,205	16,271,731	\$0.91	\$0.82	\$0.82
High Desert	14,279,816	843,544	2.7%	-34,750	-29,904	-	-	-
South I.E.	18,709,866	310,396	1.7%	61,507	417,074	\$0.70	\$1.10	\$0.72
West I.E.	370,915,263	9,988,660	0.8%	1,471,332	12,212,985	\$1.25	\$1.01	\$1.16
<b>Inland Empire</b>	<b>656,565,155</b>	<b>24,904,665</b>	<b>0.8%</b>	<b>5,133,294</b>	<b>28,871,886</b>	<b>\$0.94</b>	<b>\$0.91</b>	<b>\$0.92</b>

Submarket Breakdowns	
	Cities
East I.E.	Banning, Beaumont, Bloomington, Calimesa, 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.*



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