

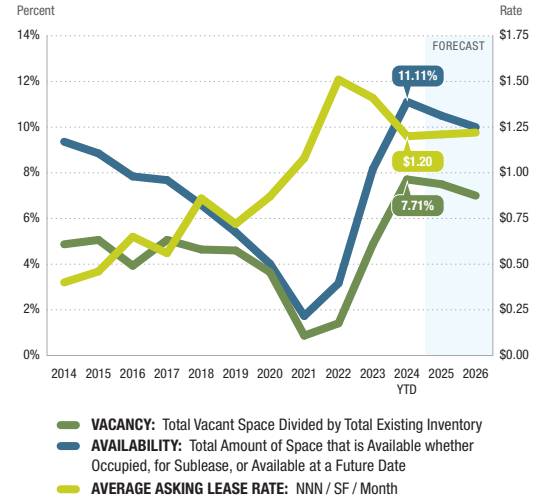
OVERVIEW. The Inland Empire industrial market showed signs of stability in Q3. Net absorption eased but remained in positive territory, which is encouraging news. Lease and sale activity for the period was lower than last quarter, but still substantially higher on a year-over-year basis. Average asking rents fell again and vacancy increased due mainly to new deliveries. Total inventory was up by 6 MSF to 685 MSF, while total space under construction fell sharply, as new projects were kept on the drawing board. Sale activity for both owner / users and institutional investors remained sluggish, but mortgage interest rates have been coming down all year, and further reductions are anticipated. The SBA 504 mortgage rate fell to just 5.76% in September.

VACANCY & AVAILABILITY. The Inland Empire vacancy rate has roughly doubled in the last year. This time last year, the overall vacancy rate was just 3.93%, but rose to 7.71% in Q3, up another 95 basis points over last quarter. Total vacant space hit 52.8 MSF in Q3, up from 45.9 MSF in Q2. Vacancy remained highest in the 250,000–500,000 SF range at 12.87%. However, vacancy in that range spiked to 17.88% in the IE East market on new speculative deliveries. Buildings under 25,000 SF posted the lowest vacancy rate of just 3.65%. The overall availability rate, which includes vacant space and occupied space offered for sale or lease, was unchanged at 11.11% in Q3, which indicates that the amount of space offered for sublease is moderating.

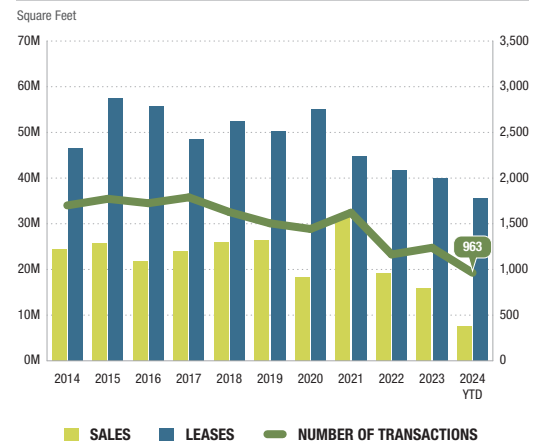
LEASE RATES. For the entire region across all size ranges, the average asking rate in Q3 fell ten cents to \$1.20, following a nine-cent decline in Q2. This is welcome news to tenants who suffered from years of double-digit rent increases during the e-commerce / 3PL boom that was supercharged by the pandemic. Tenants are now in a position to negotiate for substantial concessions like free rent and interior improvements from landlords facing rising vacancy, even for first-generation space. Consequently, effective rates have also declined throughout the year. IE West's average asking rate is running \$0.25 per square foot higher than in IE East, ending the period at \$1.31, down \$0.18. The IE East rate fell to \$1.06 from \$1.16 in Q2. Year over year, the average asking lease rate for the entire Inland Empire is down by 14.9%.

TRANSACTION ACTIVITY. Sale and lease activity declined to 13,297,092 SF, but that came on the heels of a particularly strong second quarter when over 17 MSF of deals were inked. Lease transaction count fell by one to 259. Total square footage leased fell to 10,984,697 from 13,565,715 SF in Q2. Sale transactions fell by three to 63. Total square footage sold decreased to 2,312,395 SF from 3,670,367 SF in Q2. The largest lease for the period was for 927,696 SF to Western Post by Prologis in Rialto. The largest sale was for a 236,129 SF building on Almeria Avenue in Fontana. The seller was Transwestern Development Company and the buyer was Cabot Properties, Inc.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



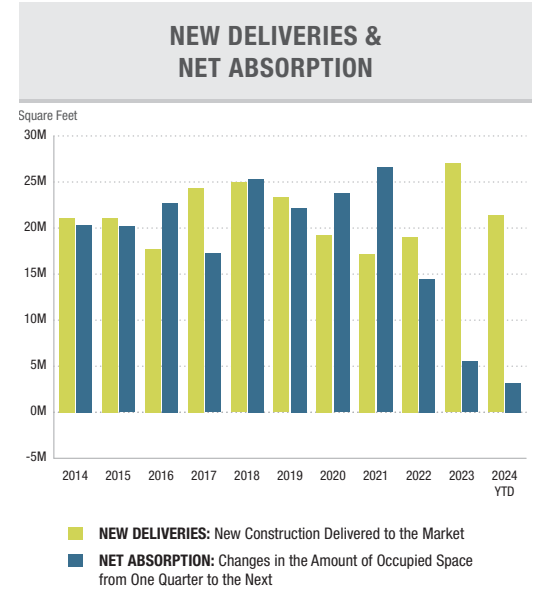
Market Statistics

	Change Over Last Quarter	Q3 2024	Q2 2024	Q3 2023	% Change Over Last Year
Total Vacancy Rate	▲ UP	7.71%	6.76%	3.93%	95.92%
Availability Rate	▬ FLAT	11.11%	11.10%	7.21%	54.13%
Average Asking Lease Rate	▼ DOWN	\$1.20	\$1.30	\$1.41	(14.89%)
Sale & Lease Transactions	▼ DOWN	13,297,092	17,236,082	9,299,343	42.99%
Gross Absorption	▼ DOWN	14,453,339	15,945,896	10,841,951	33.31%
Net Absorption	▲ POSITIVE	1,227,370	4,117,605	1,506,645	N/A

ABSORPTION. Overall net absorption stayed in positive territory again in Q3 with a net gain of 1,227,370 SF. However, all of it was generated in the IE West submarket that posted a gain of 1,913,309 SF. IE East suffered a net loss of 685,939 SF for the period. On a year-to-date basis the differences between the submarkets becomes more apparent. So far this year, the IE West has posted a gain in occupied space of 8,114,668 SF, while the IE East has recorded a net loss of 4,940,479 SF.

CONSTRUCTION. Total square footage under construction has been falling sharply in recent quarters. Until late last year, the Inland Empire consistently had 26 MSF or more of state-of-the-art distribution buildings under construction every quarter for several years running. Since then, the construction queue has been thinning quickly. Q3 ended with just 12,048,480 SF under construction as compared to 15,927,402 SF in Q2. This decline will likely continue as developers delay new projects until the excess of new inventory gets absorbed. Currently, there is a glut of new buildings from 100,000–500,000 SF in areas where vacancy is running in double digits. Tenants have a lot more to choose from and no longer have to operate under the competitive pressure they did before the market peaked in late 2022.

EMPLOYMENT. The Riverside-San Bernardino-Ontario MSA's unemployment rate rose to 6.0% in August 2024, up from July and last year. Despite this, the trade, transportation, and utilities sector added 1,100 jobs, showing some economic growth. The unemployment rate was 6.2% in Riverside County, and 5.7% in San Bernardino County.



Forecast

The Inland Empire market is still overbuilt and will likely see vacancy rise further into 2025, as current projects complete and are added to the speculative inventory. Higher vacancy means more tenant concessions and downward pressure on lease rates for distribution facilities throughout the region. Developers will keep new projects on hold until the current glut of space leases up and opportunities for rent growth return. As we reported last quarter, current leasing activity is insufficient to absorb new deliveries, especially for buildings between 100,000 and 500,000 SF. That will continue well into next year as projects under construction are completed. That said, the market for spaces and buildings under 25,000 SF will tighten even further, as vacancy in that size range is 50% lower than the overall vacancy rate for the IE. If mortgage interest rates keep moving lower, we could see a resurgence in owner/user activity for buildings under 25,000 SF that can be financed with SBA fixed-rate loan packages and down payments as low as 10%.

Significant Transactions

Sales

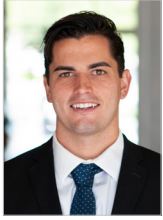
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
8300 Almeria Ave.	Fontana	236,129	\$76,800,000	Cabot Properties, Inc.	Transwestern Development Company
14339 Whittram Ave	Fontana	209,700	\$58,716,000	Warehouse Specialist	Whittram Avenue Industrial Onwers
7250 Cajon Blvd.	San Bernardino	183,030	\$168,300,000	Stockbridge Capital Group, LLC	Clairon Partners
1730 Eastridge Ave.	Riverside	128,000	\$30,980,000	F&S Fresh Food	Calavo Growers, Inc.
1660 Iowa Ave.	Riverside	110,071	\$21,250,000	West Coast Drywall & Paint	Crownsnest Properties LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1979 W. Renaissance Pkwy.	Rialto	927,696	Aug-2024	Western Post	Prologis
17820 Slover Ave. - Sublease	Bloomington	651,815	Aug-2024	eFulFill Inc.	Distribution Alternatiions
13277 San Bernardino Ave.	Fontana	577,905	Jul-2024	Western Post	Prologis
22000 Opportunity Way	Riverside	503,592	Sep-2024	Lecangs LLC	Invesco
13230 San Bernardino Ave.	Fontana	484,250	Jul-2024	HYTX USA #26	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 Q3 2024	Square Feet Available	Availability Rate Q3 2024	Average Asking Lease Rate	Net Absorption Q3 2024	Net Absorption 2024	Gross Absorption Q3 2024	Gross Absorption 2024
West													
Chino / Chino Hills	953	56,846,698	0	1,733,538	3,472,582	6.11%	3,399,323	5.98%	\$1.55	117,241	(723,023)	1,144,053	2,848,928
Fontana	800	76,705,840	2,133,047	9,072,952	5,213,379	6.80%	6,756,279	8.81%	\$1.49	2,123,102	3,825,759	2,660,729	5,769,433
Mira Loma / Eastvale / Jurupa Valley	417	53,771,464	254,731	651,766	4,835,042	8.99%	7,196,738	13.38%	\$1.27	1,263,045	775,636	985,600	5,696,859
Montclair	208	4,159,811	513,925	0	320,223	7.70%	433,614	10.42%	\$0.88	(67,260)	(69,377)	100,370	276,893
Ontario	1,535	128,940,042	3,040,857	7,877,998	9,266,236	7.19%	14,314,764	11.10%	\$1.19	(1,004,349)	5,121,888	3,026,345	10,774,020
Rancho Cucamonga	749	43,665,201	209,788	763,793	3,019,319	6.91%	4,316,155	9.88%	\$1.32	(479,376)	(670,580)	671,383	2,193,268
Upland	258	3,999,492	0	50,000	263,373	6.59%	282,815	7.07%	\$1.05	(39,094)	(145,635)	53,870	297,700
5,000-24,999	2,783	33,810,752	72,853	285,308	1,392,127	4.12%	1,740,912	5.15%	\$1.55	(159,600)	(339,811)	495,571	1,590,202
25,000-49,999	773	27,194,456	341,423	466,961	1,418,355	5.22%	2,534,432	9.32%	\$1.44	76,924	(624)	878,000	1,987,622
50,000-99,999	490	34,271,317	175,639	563,047	2,234,664	6.52%	2,994,329	8.74%	\$1.24	169,608	257,625	719,063	2,547,603
100,000-249,999	499	76,714,883	807,020	1,671,276	6,325,418	8.25%	7,999,294	10.43%	\$1.49	584,197	2,157,496	2,959,757	7,541,872
250,000-499,999	242	85,543,401	932,880	3,219,607	8,355,789	9.77%	10,765,994	12.59%	\$1.07	(85,165)	(1,821,044)	1,747,068	4,643,106
500,000 plus	133	110,553,739	3,822,533	13,943,848	6,663,801	6.03%	10,664,727	9.65%	\$0.00	1,327,345	7,861,026	1,842,891	9,546,696
West Total	4,920	368,088,548	6,152,348	20,150,047	26,390,154	7.17%	36,699,688	9.97%	\$1.31	1,913,309	8,114,668	8,642,350	27,857,101
East													
Banning	48	1,944,130	0	3,219,095	1,059,610	54.50%	1,101,005	56.63%	\$0.79	(1,044,500)	(987,247)	0	101,753
Beaumont	50	8,383,097	0	2,643,852	458,704	5.47%	464,954	5.55%	\$0.00	2,250	(460,954)	2,250	9,500
Bloomington	128	11,138,517	261,632	119,860	251,809	2.26%	662,566	5.95%	\$0.00	6,080	(237,438)	281,688	319,858
Corona / Norco	1,017	36,746,091	220,589	946,430	2,215,054	6.03%	3,089,849	8.41%	\$1.28	447,868	223,202	1,067,022	2,066,638
Colton / Grand Terrace	192	11,394,696	427,809	1,220,427	1,031,272	9.05%	1,498,626	13.15%	\$1.19	(25,296)	87,924	65,004	768,689
Moreno Valley	121	33,295,246	0	41,991,105	2,007,351	6.03%	3,067,076	9.21%	\$1.20	(472,800)	(1,012,773)	46,368	438,290
Perris	275	45,212,760	2,105,052	10,003,845	6,650,591	14.71%	7,536,391	16.67%	\$1.08	(1,358,712)	(1,876,462)	611,739	2,656,744
Redlands / Loma Linda	249	31,356,700	208,000	784,269	3,772,601	12.03%	4,902,199	15.63%	\$1.22	(61,603)	(56,906)	149,813	877,763
Rialto	218	31,705,676	884,911	1,496,484	1,667,538	5.26%	3,227,616	10.18%	\$1.29	1,487,247	(363,850)	1,710,984	2,587,456
Riverside	1,150	58,938,908	1,010,444	1,125,446	3,538,072	6.00%	6,658,473	11.30%	\$1.16	235,228	(473,454)	1,514,799	2,398,486
San Bernardino / Highland	624	47,053,288	777,695	892,203	3,777,579	8.03%	7,220,977	15.35%	\$0.87	98,299	217,479	361,322	1,301,524
5,000-24,999	2,446	29,021,609	10,000	130,464	901,270	3.11%	1,413,569	4.87%	\$1.23	(11,140)	(230,807)	454,266	1,101,090
25,000-49,999	604	21,082,292	39,000	755,762	1,604,739	7.61%	2,184,847	10.36%	\$1.17	(241,670)	(534,996)	358,120	832,461
50,000-99,999	379	25,543,539	322,110	873,803	2,156,128	8.44%	3,320,275	13.00%	\$1.15	244,022	(343,916)	672,752	1,383,164
100,000-249,999	317	46,696,851	881,000	2,738,488	6,092,456	13.05%	7,643,254	16.37%	\$1.15	173,178	645,204	1,450,892	3,304,749
250,000-499,999	158	52,963,131	3,623,365	5,666,340	9,470,759	17.88%	15,561,815	29.38%	\$0.97	(643,419)	(2,410,886)	1,114,968	3,624,517
500,000 plus	168	141,861,687	1,020,657	54,278,159	6,204,829	4.37%	9,305,972	6.56%	\$0.00	(206,910)	(2,065,078)	1,759,991	3,280,720
East Total	4,072	317,169,109	5,896,132	64,443,016	26,430,181	8.33%	39,429,732	12.43%	\$1.06	(685,939)	(4,940,479)	5,810,989	13,526,701
Inland Empire Total	8,992	685,257,657	12,048,480	84,593,063	52,820,335	7.71%	76,129,420	11.11%	\$1.20	1,227,370	3,174,189	14,453,339	41,383,802
5,000-24,999	5,229	62,832,361	82,853	415,772	2,293,397	3.65%	3,154,481	5.02%	\$1.55	(170,740)	(570,618)	949,837	2,691,292
25,000-49,999	1,377	48,276,748	380,423	1,222,723	3,023,094	6.26%	4,719,279	9.78%	\$1.44	(164,746)	(535,620)	1,236,120	2,820,083
50,000-99,999	869	59,814,856	497,749	1,436,850	4,390,792	7.34%	6,314,604	10.56%	\$1.24	413,630	(86,291)	1,391,815	3,930,767
100,000-249,999	816	123,411,734	1,688,020	4,409,764	12,417,874	10.06%	15,642,548	12.68%	\$1.29	757,375	2,802,700	4,410,649	10,846,621
250,000-499,999	400	138,506,532	4,556,245	8,885,947	17,826,548	12.87%	26,327,809	19.01%	\$1.07	(728,584)	(4,231,930)	2,862,036	8,267,623
500,000 plus	301	252,415,426	4,843,190	68,222,007	12,868,630	5.10%	19,970,699	7.91%	\$0.00	1,120,435	5,795,948	3,602,882	12,827,416
Inland Empire Total	8,992	685,257,657	12,048,480	84,593,063	52,820,335	7.71%	76,129,420	11.11%	\$1.20	1,227,370	3,174,189	14,453,339	41,383,802
High Desert													
Adelanto	181	6,792,629	0	4,655,693	428,482	6.31%	477,052	7.02%	\$1.59	(185,796)	(23,269)	30,904	227,676
Apple Valley	75	3,882,984	0	5,150,510	29,200	0.75%	1,391,793	35.84%	\$0.00	(23,500)	20,800	9,750	63,300
Barstow	54	1,305,128	0	0	33,027	2.53%	40,027	3.07%	\$0.92	0	76,475	0	85,000
Hesperia	197	6,668,731	0	6,940,144	1,276,836	19.15%	1,296,636	19.44%	\$0.97	(512,792)	(661,525)	522,318	540,933
Victorville	136	10,950,509	2,426,000	9,733,343	612,099	5.59%	675,951	6.17%	\$1.01	(47,202)	120,855	20,964	256,813
High Desert Total	643	29,599,981	2,426,000	26,479,690	2,379,644	8.04%	3,881,459	13.11%	\$1.21	(769,290)	(466,664)	583,936	1,173,722
Temecula Valley													
Hemet	89	1,651,646	0	0	70,045	4.24%	104,845	6.35%	\$1.00	(36,710)	(36,842)	1,290	1,290
Lake Elsinore	182	2,709,412	0	212,500	173,339	6.40%	228,927	8.45%	\$1.35	(6,333)	(95,795)	15,107	47,324
Menifee	29	1,160,102	0	0	0	0.00%	253,644	21.86%	\$1.25	8,183	(5,543)	8,183	44,226
Murrieta	278	4,638,368	544,115	203,653	128,657	2.77%	222,030	4.79%	\$1.22	35,985	100,649	55,742	181,785
San Jacinto	66	1,108,019	0	0	16,601	1.50%	19,101	1.72%	\$0.85	1,650	(12,871)	1,650	5,400
Temecula	349	10,333,842	71,862	76,338	583,170	5.64%	837,079	8.10%	\$1.32	21,037	53,176	126,764	384,216
Wildomar	12	331,720	0	291,908	7,609	2.29%	7,609	2.29%	\$0.00	(7,609)	7,391	0	20,754
Temecula Valley Total	1,005	21,933,109	615,977	784,399	979,421	4.47%	1,673,235	7.63%	\$1.29	16,203	10,165	208,736	684,995

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.



Recalibration Amid Uncertainty and Optimism

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The Inland Empire's industrial real estate market is experiencing a period of recalibration following a phase of uncertainty. Although there is still a discord, lease rate expectations between property owners and tenants are starting to find common ground, resulting in a slight uptick in completed leasing agreements. However, challenges persist, particularly with the substantial amount of sublease space available in larger properties. Sublet space has increased from 18.5 to 19.6 million square feet.

The Federal Reserve's recent rate reduction has injected optimism into the market. Nevertheless, many buyers and tenants remain cautious, opting to postpone major decisions until after the upcoming election. Yet another conflicting signal comes from the significant amount of sublease space which remains available, with new availabilities emerging weekly. The majority of this sublease space originates from larger properties, typically those exceeding 150,000 square feet, ranging from portions of larger warehouses to entire facilities. As the market absorbs this sublease inventory and the influx slows, it will signal a return to healthier market conditions.

Industrial properties smaller than 50,000 square feet continue to show relative strength, with lease rates slightly higher than those in the larger category. Smaller businesses are demonstrating resilience in the current market, while their larger counterparts are increasingly opting to sublease or reduce their space due to economic pressures.

As the Inland Empire navigates these complex market conditions, the interplay between cautious optimism, ongoing development, and evolving economic factors will likely shape the trajectory of the commercial real estate landscape in the coming months. The industrial market is experiencing significant shifts in 2024, with vacancy rates rising above 7% from a low of 0.9%. However, new leasing activity has surged, driven by rebounding imports and growing consumer spending.

While older buildings face occupancy challenges due to a lack of functionality and other factors, newer developments are attracting tenants. Asking rents have declined due to increased vacancy and discounted sublease space. Nevertheless, the market is showing resilience with a slightly renewed increase in leasing activity, particularly in the larger logistics facilities. Investors remain cautious yet interested, as cap rates have increased to the mid-5% range. The market's future outlook remains cautiously optimistic, with a potential for rent growth in 2025.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a triple-net basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.

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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