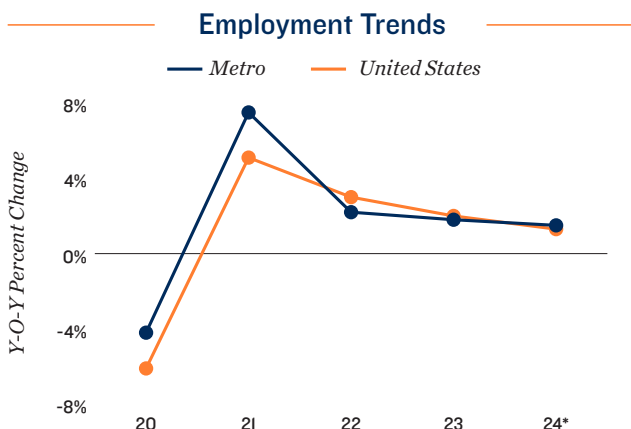


Inland Empire Adds the Second Most Space Among Major Markets, Demand Unable to Keep Up

Recent absorption provides some optimism. After reaching an 11-year high in 2023, vacancy in Riverside-San Bernardino increased another 150 basis points during the first half of 2024. Despite this elevation, positive net absorption was recorded over the first six months of this year, contrasting the same period in 2023. This suggests the rise in vacancy was largely the result of another wave of speculative supply additions, as 13.6 million square feet was added to inventory. A similar supply-demand dynamic will be apparent in the second half. Positive net absorption will be recorded, yet vacancy will rise as nearly 12 million square feet is added to stock — more than half of which was available for lease as of July. This will rank the Inland Empire among the nation's most vacant major markets.

Broad demand drivers on upward trajectories. Another wave of speculative properties will adversely impact local fundamentals in the near-term; however, healthy long-term demand is likely. The metro's vital role in the national supply chain supports this outlook, with warehouse and distribution center leasing underpinned by nearby port activity and consumers' online spending. During the first half, total container counts at the ports of Los Angeles and Long Beach — facilities whose goods are commonly stored locally — were each up roughly 15 percent when compared to the same period from last year. More broadly, U.S. consumer spending online was up 8.5 percent during the same interval, a boon for any hub market.



* Forecast
Sources: BLS; CoStar Group, Inc.

Industrial 2024 Outlook



25,000

JOB
will be created

EMPLOYMENT:

Transportation, warehousing and health-related hiring account for the bulk of this year's job creation. This translates to an overall employment growth rate of 1.5 percent, lifting the metro's headcount to a record mark.



25,350,000

SQ. FT.
will be completed

CONSTRUCTION:

The volume of space added across the Inland Empire exceeds the combined total for the three other major Southern California markets by more than 17 million square feet. As such, local inventory grows by 3.7 percent.



250

BASIS POINT
increase in vacancy

VACANCY:

A second straight year of significant vacancy increase is expected, raising the metro's rate to 8.4 percent. While this metric is 220 basis points above the long-term average, vacancy was higher during the 2008-2010 stretch.



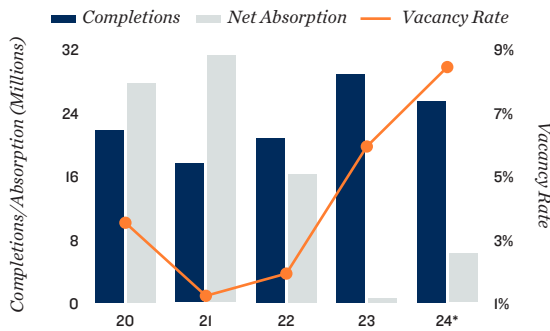
4.6%

DECREASE
in asking rent

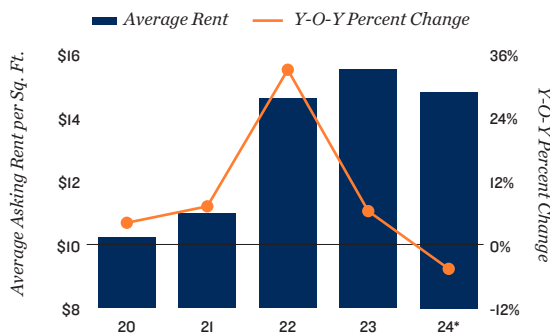
RENT:

Record vacant stock adversely impacts asking rents, with the mean market rate falling for the first time since 2010 to \$14.80 per square foot. Still, this average is 50 percent above the 2019 mark.

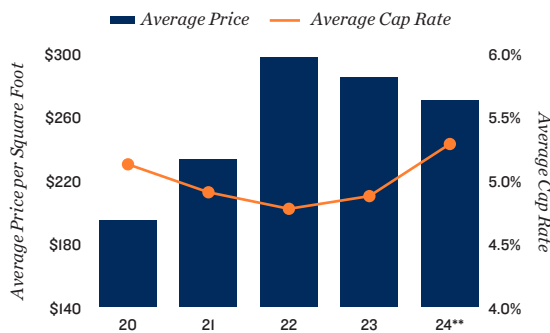
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

2Q 2024 - 12-Month Period

CONSTRUCTION

30,723,000 sq. ft. completed

- Developers increased the Inland Empire's inventory by 4.6 percent over the 12-month span ending in June, with projects completed during the first half of 2024 averaging 200,000 square feet in scope.
- An additional 16.5 million square feet was underway as of July. Distribution facilities account for three-fourths of this pipeline.

VACANCY

360 basis point increase in vacancy Y-O-Y

- The market's vacant stock doubled in size over the past four quarters, a dynamic that lifted vacancy to 7.4 percent in June. This metric represents the highest recording since the third quarter of 2012.
- While vacancy is 120 basis points above the metro's long-term average, tenants absorbed a net of 4.5 million square feet during the past 12 months.

RENT

9.0% decrease in the average asking rent Y-O-Y

- Amid rising vacancy, the average asking rent fell over the past 12 months to \$14.40 per square foot in June. This mean marketed rate is a \$3.60 to \$5.30 per square foot discount to other major Southern California markets.
- Containing Riverside County and San Bernardino proper, Inland Empire East — the metro's largest submarket by stock — noted a 7.5 percent drop.

Investment Highlights

- Sales activity is showing signs of improvement, as the number of transactions closed from April-June of 2024 surpassed totals from each of the prior three quarters. The count of sub-40,000-square-foot properties that traded indicates growing activity on the part of private buyers; however, institutional investors are also returning to the market. The number of 100,000-square-foot-plus properties that changed hands during the second quarter matched the combined tally from the previous nine months.
- Rapid price appreciation noted during the 2020-2022 span and recent vacancy escalation may be motivating some owners to capture proceeds via property sales. Of the warehouses that traded over the 12-month period ending in June, half had a hold time of less than four years. Should this trend continue, more opportunities could emerge for active investors.
- Deal flow is historically concentrated in areas near Ontario International Airport; however, south Riverside County is also garnering attention. Here, vacancy was sub-5 percent in June, with less than 1 million square feet slated for 2024 delivery. These dynamics and average pricing that is lower than the metro's \$270 per square foot mean, should elicit investment.