
3Q24

Inland Empire Industrial Market Overview

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Market Observations

Economy

- U.S. retail sales are decent but not great relative to their 20-year average. This has implications for industrial leasing activity.
- Gulf and East Coast dockworkers ended a 3-day strike after a tentative deal was reached with the United States Maritime Alliance. Gulf and East Coast distributors will continue to reroute cargo to other seaports until a new labor contract is signed.
- Loaded import volume at Southern California’s ports totaled 6.5 million containers in the first eight months of 2024, up 22.5% from the same period in 2023.
- A good portion of this cargo is being shipped eastward by rail to markets outside of the Southwest. Goods that are “just passing through” have a negligible impact on local market dynamics.

Major Transactions

- Thirty-eight leases over 100,000 SF were signed this quarter, significantly more than the 20 from the same period in 2023. Direct leases predominated.
- To the above: 30 of this quarter’s 38 big-box leases were signed in the West.
- Western Post inked the largest lease of the quarter when it committed to the 927,696-SF DCT Rialto Logistics Center in August.
- No leases exceeding 1.0 MSF were signed this quarter. Mega-box space commitments have historically insulated the market from future net occupancy losses.
- Sales volume is set to increase next year as the Fed pursues continued interest rate reductions and tenant demand recovers.

Leasing Market Fundamentals

- The West continued to outperform the East in leasing activity during the third quarter. Leasing remains most pronounced within the 100,000- to 499,999-SF segment, which boasts higher availability and steeper rent declines relative to other size thresholds.
- Current lease term lengths are higher than the historical average as tenants lock in today’s occupier-favorable conditions..
- The market posted close-to-zero net absorption gains this quarter amid largely due to move-outs by Home Depot (1.1 MSF) and Skechers (1.0 MSF). West IE boasted 2.1 MSF in net occupancy gains, while East IE sustained 1.4 MSF in losses.
- Sublet availability was roughly level with the previous quarter, as sublease signings were counterbalanced by new listings, including a 1.1 MSF offering by Home Depot.

Outlook

- Ongoing tenant departures and downsizings will boost market vacancy and depress net absorption figures for the remainder of the year, though at a slower pace relative to prior quarters. The East will be more vulnerable than the West.
- Leasing activity in East IE will pick up when West IE availability sufficiently contracts.
- Under Armour is set to vacate a 1.2 MSF distribution facility in Rialto by March 2026. The move will weigh down on the market’s absorption gains.
- 18.4 MSF is under construction and only 0.5% has pre-leased. Vacancy will rise.
- The recent passage of California Assembly Bill 98 that, in its current state, is complicated with plenty of ambiguity, will alter development activity throughout the greater market—from where it can occur down to building features.

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Local Ports, U.S. Retail Sales and New Regulation



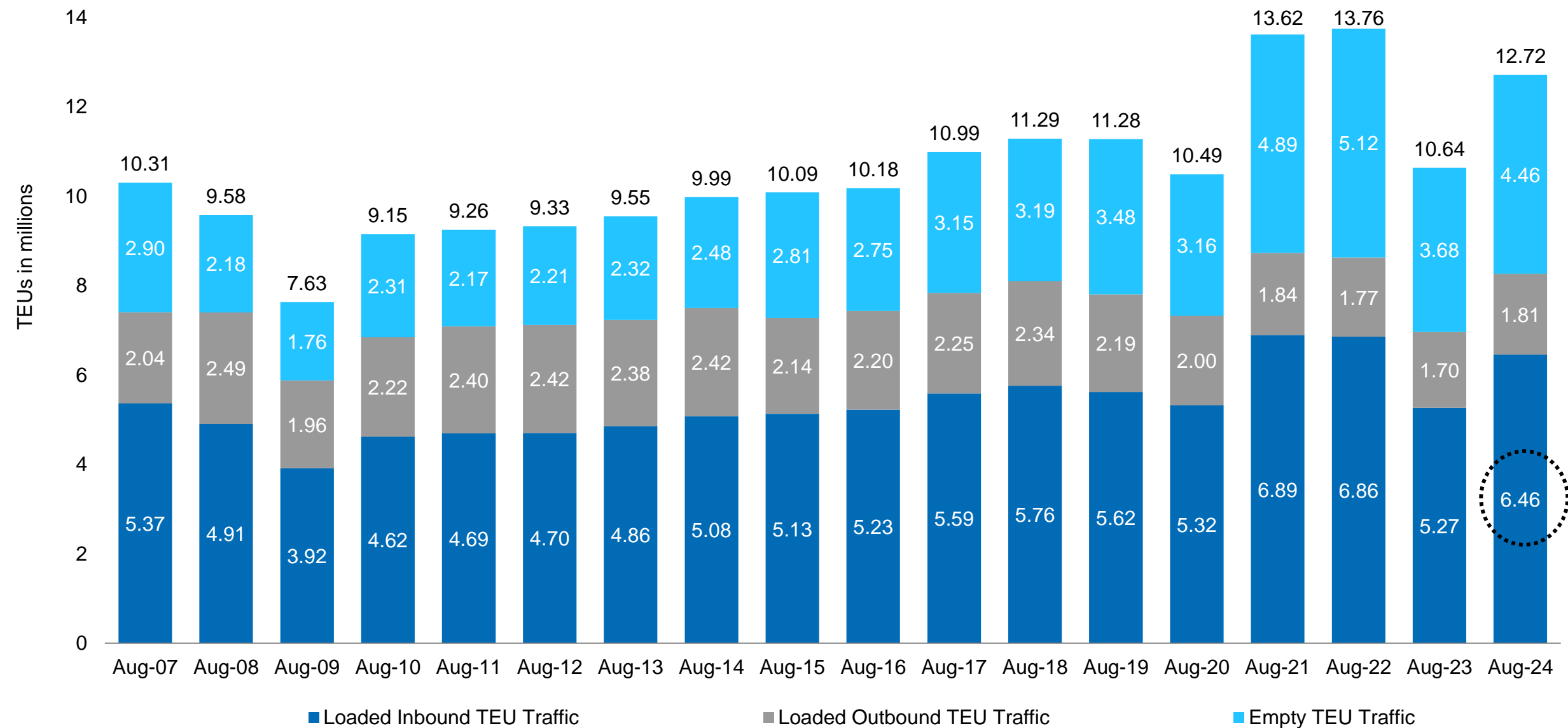
Ocean Container Spot Rates Were Up 178% from Mid-April to Mid-July 2024

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Loaded Imports in the First Eight Months of 2024 Third Busiest Compared to Same Period of Prior Years

The exceptional (but inflated and unsustainable) growth of 2021-2022 due to COVID-19-related stay-at-home measures, government stimulus, strong retail sales and domestic warehouse occupiers stockpiling goods to mitigate against global supply chain disruptions at the time may have passed, but Southern California's ports are now contending with an influx of imports due to labor issues at Gulf and East Coast ports.

The Ports of Los Angeles and Long Beach: Combined TEU Volume | Loaded Imports, Loaded Exports and Empty Containers | First Eight 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.

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 2023, restoring a sense of much-needed stability at U.S. West Coast seaports through late 2029. Longshoremen at Gulf and East Coast ports went on strike for three days in early October after their demands with the United Maritime Alliance were unmet. Now, both sides have a tentative deal in place. Import volume will continue to be rerouted to other North American ports (e.g., Los Angeles-Long Beach) until a master contract is finalized between the ILA and USMX.

West Coast Ports Agreement Reached; New Contract Good Through Mid-2028

- 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.
- 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.



East and Gulf Coast Ports Are Up Next

- The International Longshoremen's Association (ILA) represents dockworkers at 36 ports from Maine to Texas. The United States Maritime Alliance (USMX) represents ocean carriers and terminal operators.
- Their contract expired on September 30, 2024.
- Harold Daggett, International President of the ILA, initiated a strike on October 1, 2024 that ended two days later.
- A tentative deal with USMX is now in place, and both sides have until January 15, 2025 to finalize an agreement.
- Job protection from automation and higher pay (a 62% wage increase over six years) for longshore workers are part of the current deal.



Import Traffic Has Jumped Since Late 2023 at Los Angeles/Long Beach

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What Tends to Happen During a Coastal Port Strike

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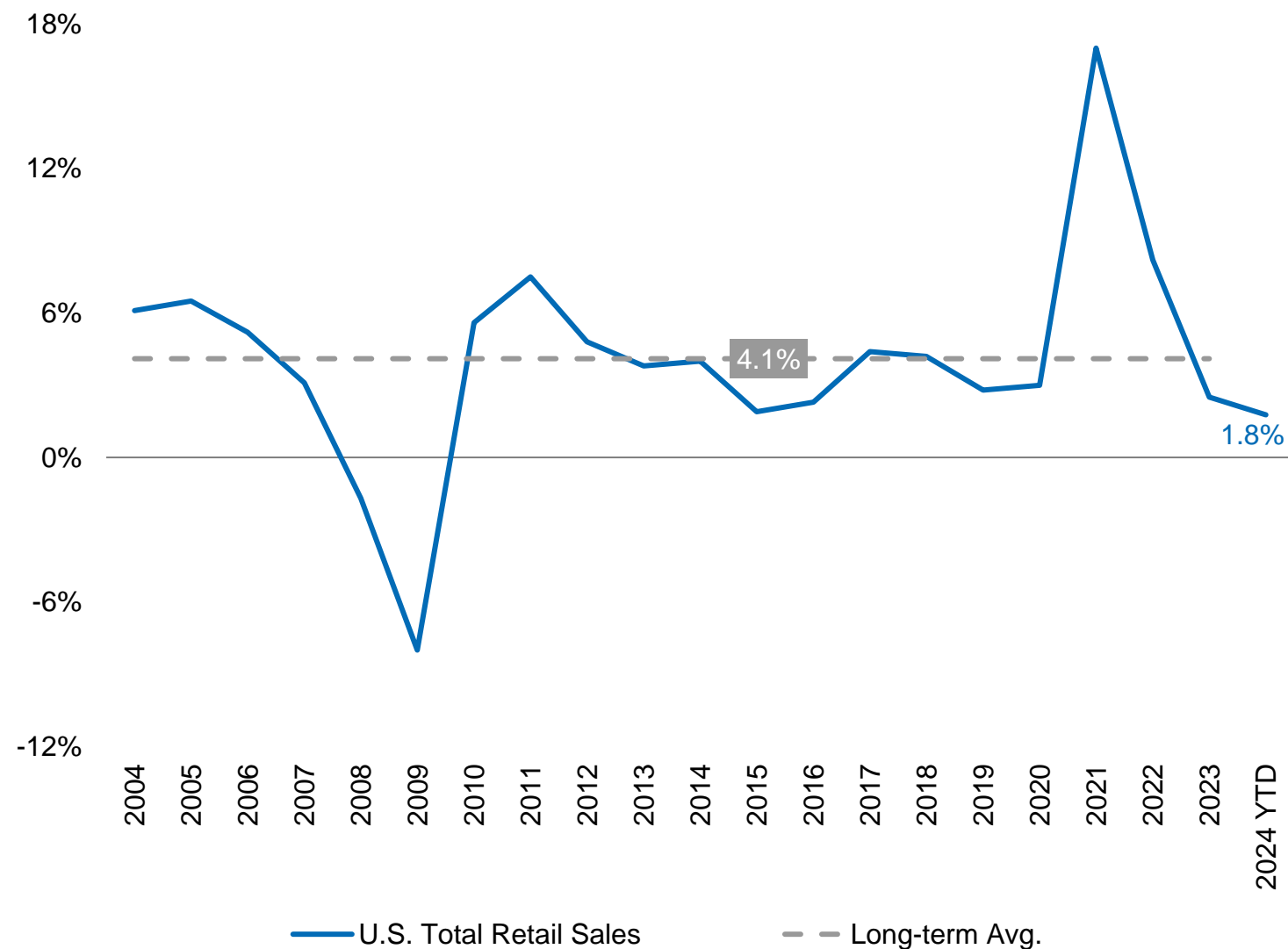
Truck Dwell Times are Lower Than Rail Dwell Times

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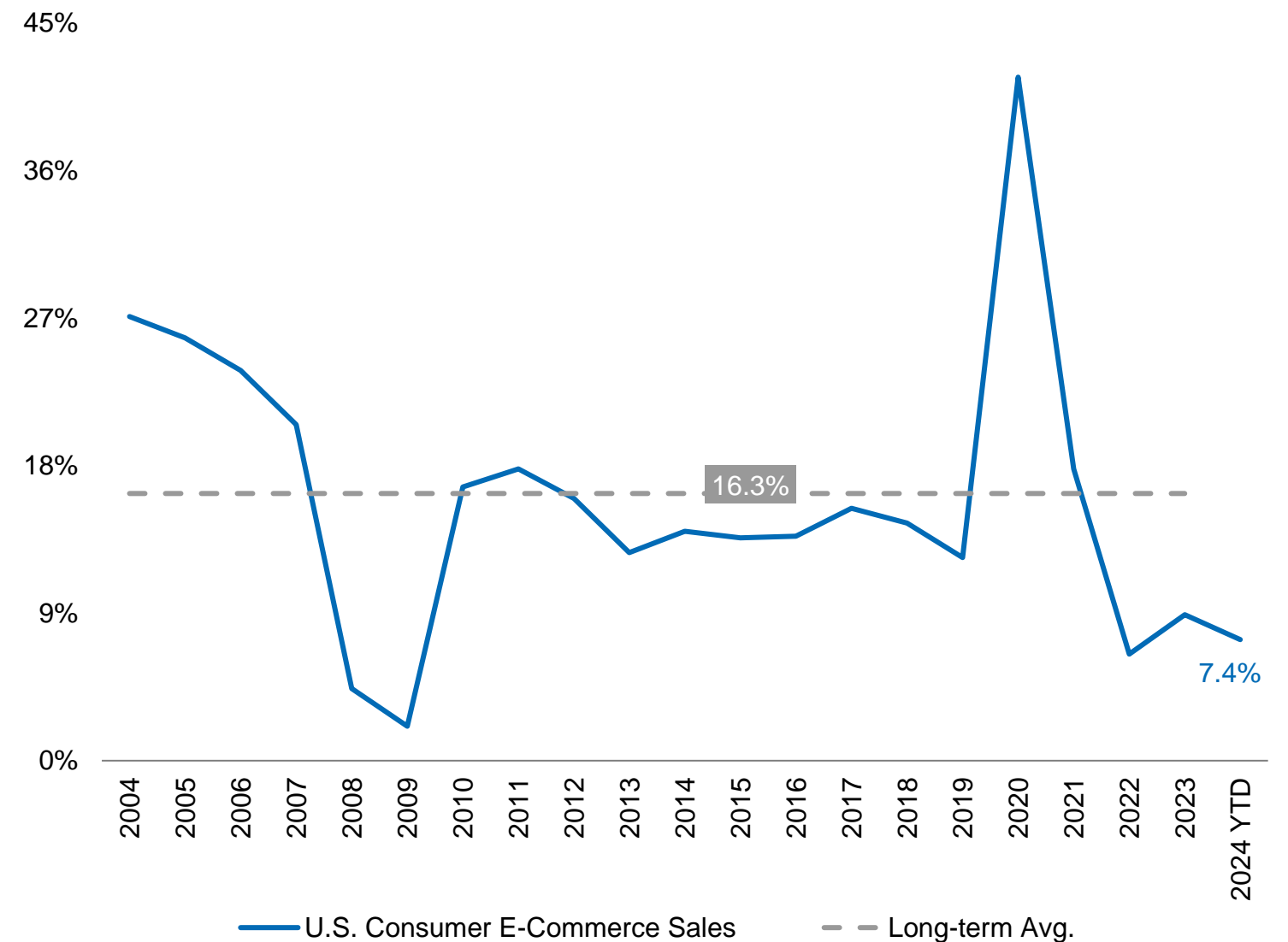
Retail Sales (an Indicator of Warehouse Demand) Continue to Moderate

Consumer e-commerce sales were up 7.4% in the first half of 2024 compared with the same period in 2023. Although e-commerce sales growth exceeded total retail sales (+1.8% over the same period), the decline from 2021 onward is noticeable as consumer spending registers slower gains.

U.S. Overall Retail Sales Annual Growth



U.S. Consumer E-Commerce Sales Annual Growth



Source: US Census Bureau (consumer adjusted retail sales); most current data available
 Note: 2024 YTD annual growth represents the change in sales from the first six months of 2023 to the same period in 2024.

The Pandemic Accelerated E-Commerce Sales Growth and Adoption Rates

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New California Bill Adds Regulations on Warehouse Development in the State

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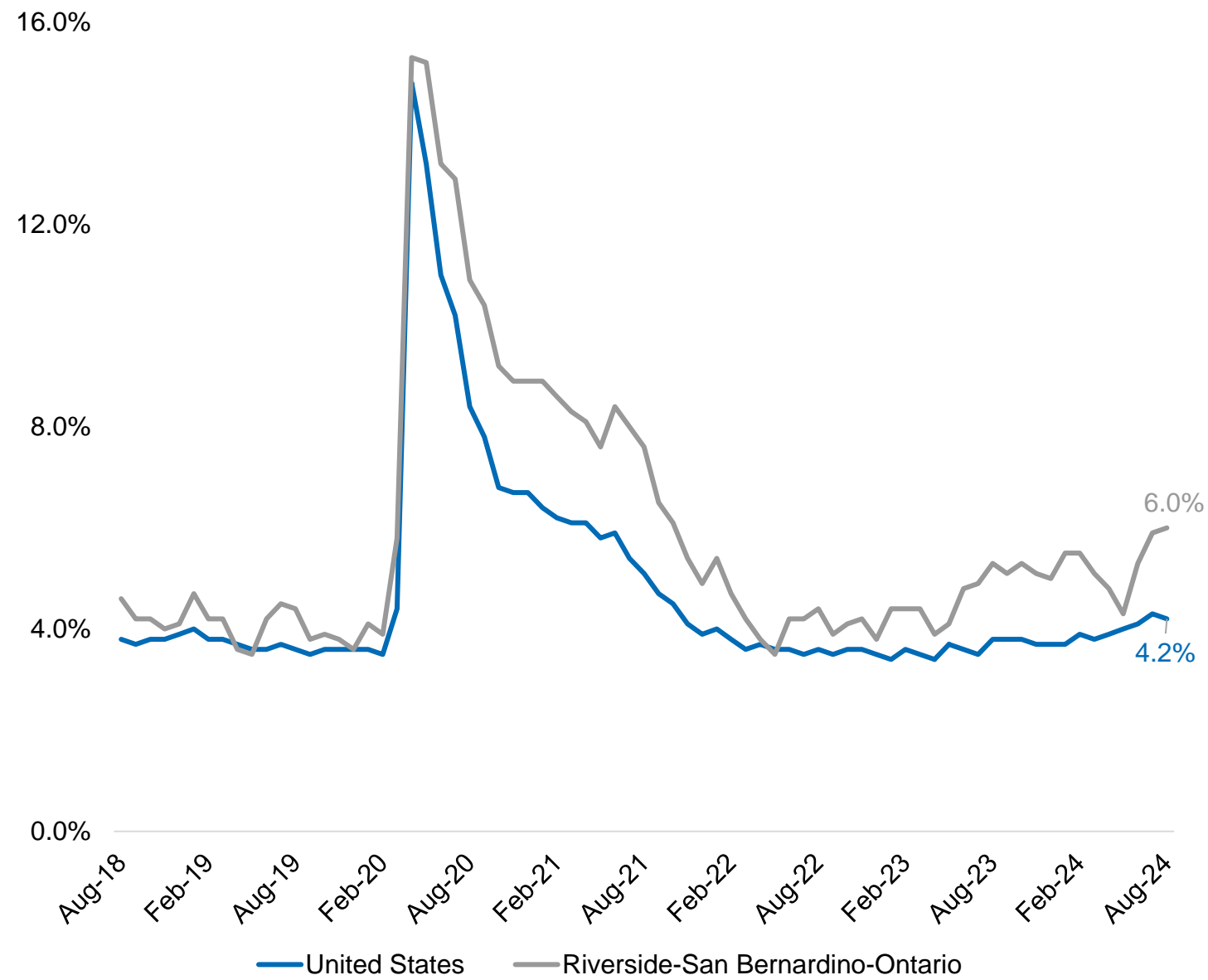
Local Employment



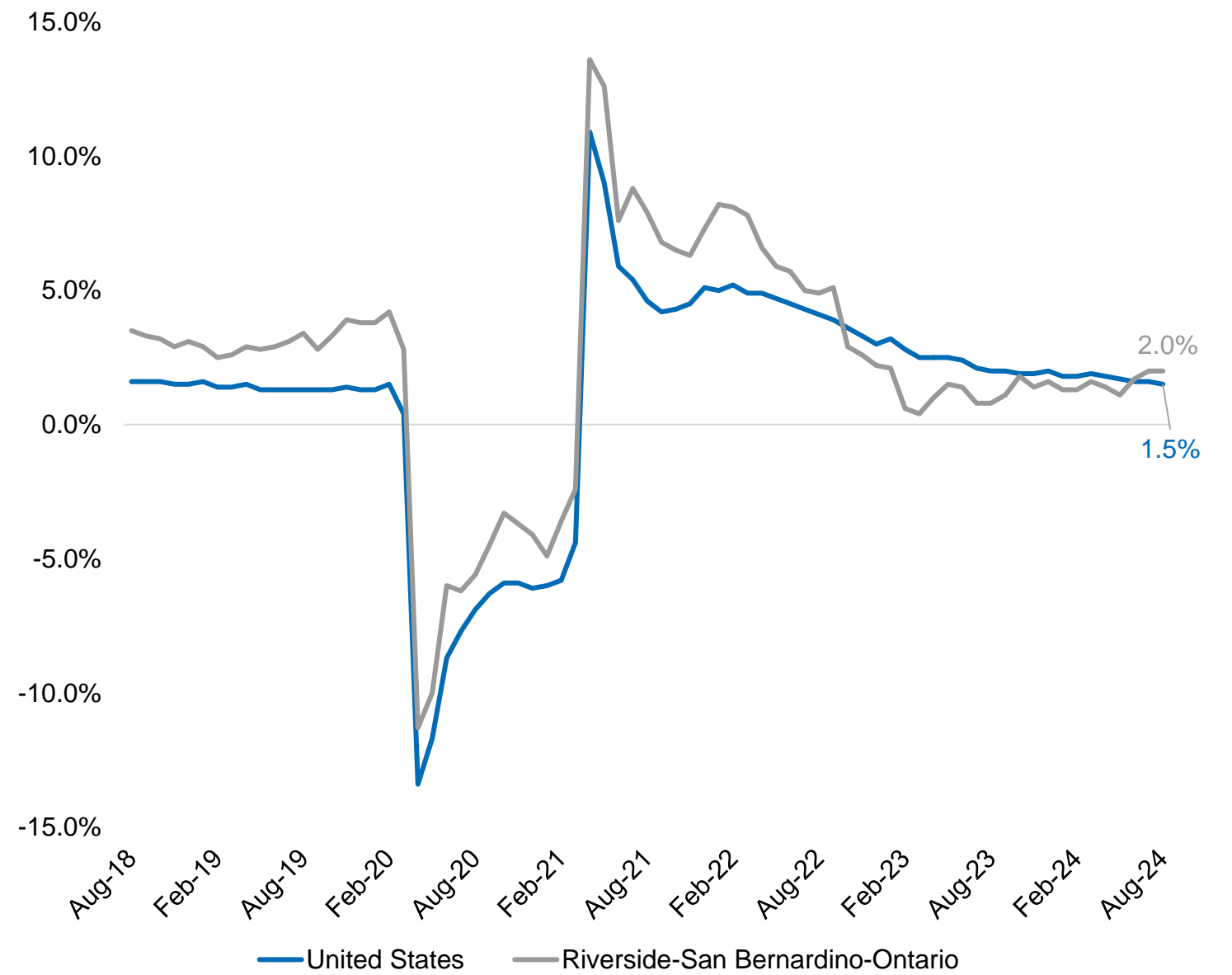
Unemployment Rate Grows While Civilian Labor Force Expands

Local unemployment surged to 6.0% in August despite marginal increases to the civilian labor force in recent months. Annual nonfarm employment growth (+2.0% in August) modestly exceeded the national average (+1.5%).

Unemployment Rate, Seasonally Adjusted



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

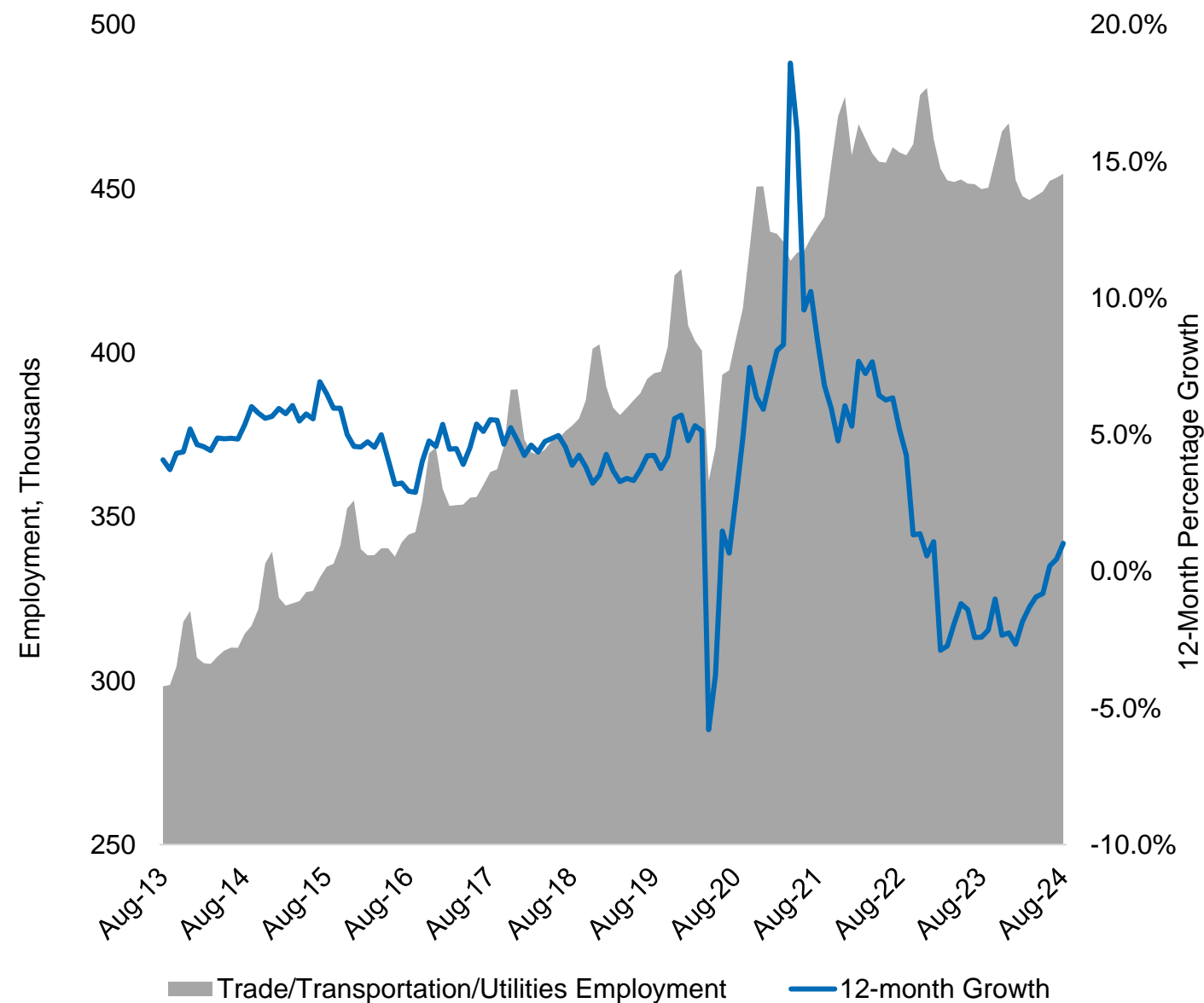


Source: U.S. Bureau of Labor Statistics, Riverside-San Bernardino-Ontario

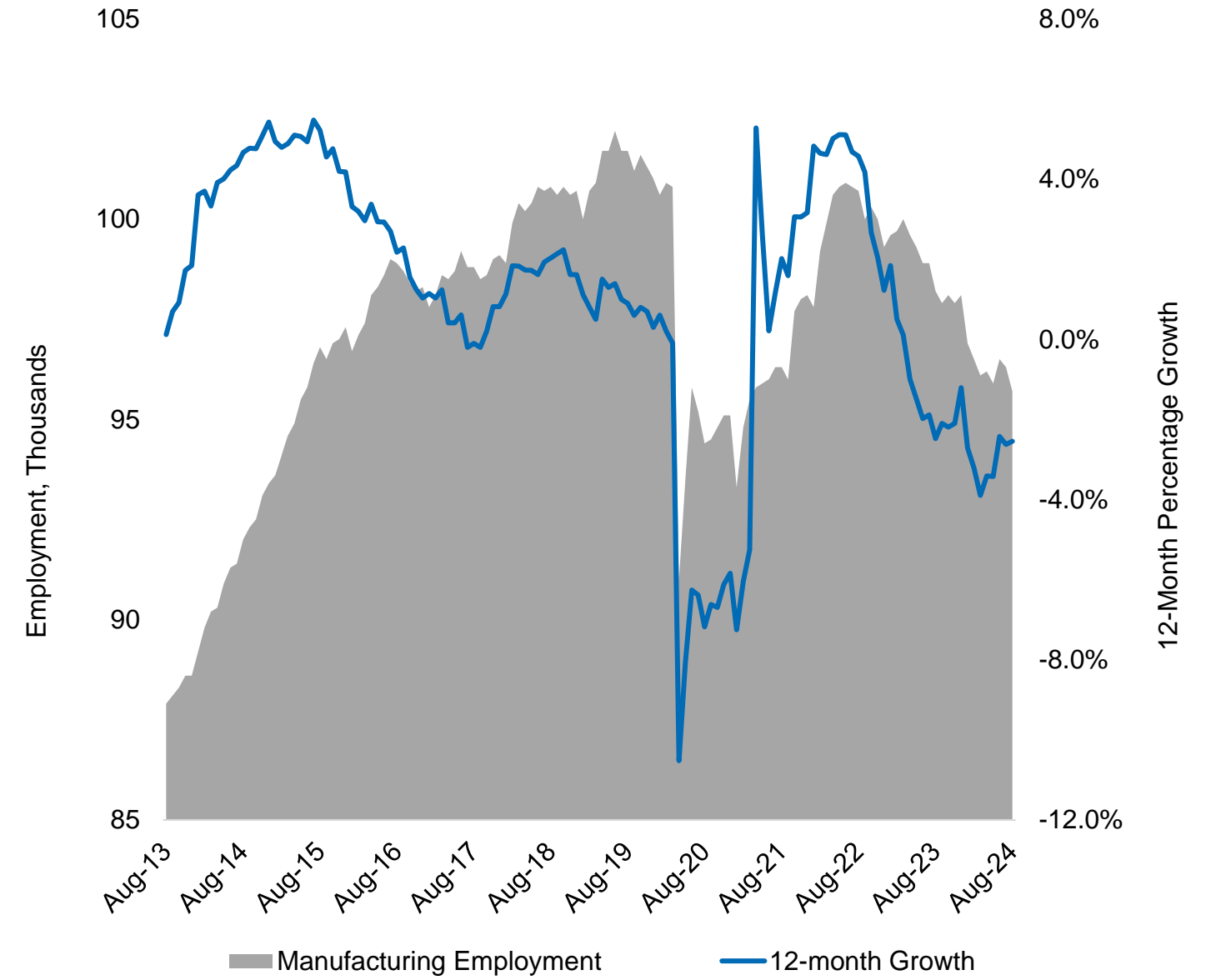
Industrial Employment Benefits from Preliminary Renewal of Tenant Demand

Trade/transportation/utilities employment is rebounding as leasing activity improves. Overall employment within the sector – which is additionally set to receive the traditional holiday season boost – will further rise as more tenants take advantage of increasingly favorable lease terms. Manufacturing employment remains challenged due to automation and 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: General Conditions



Contract Rents Continue to Adjust

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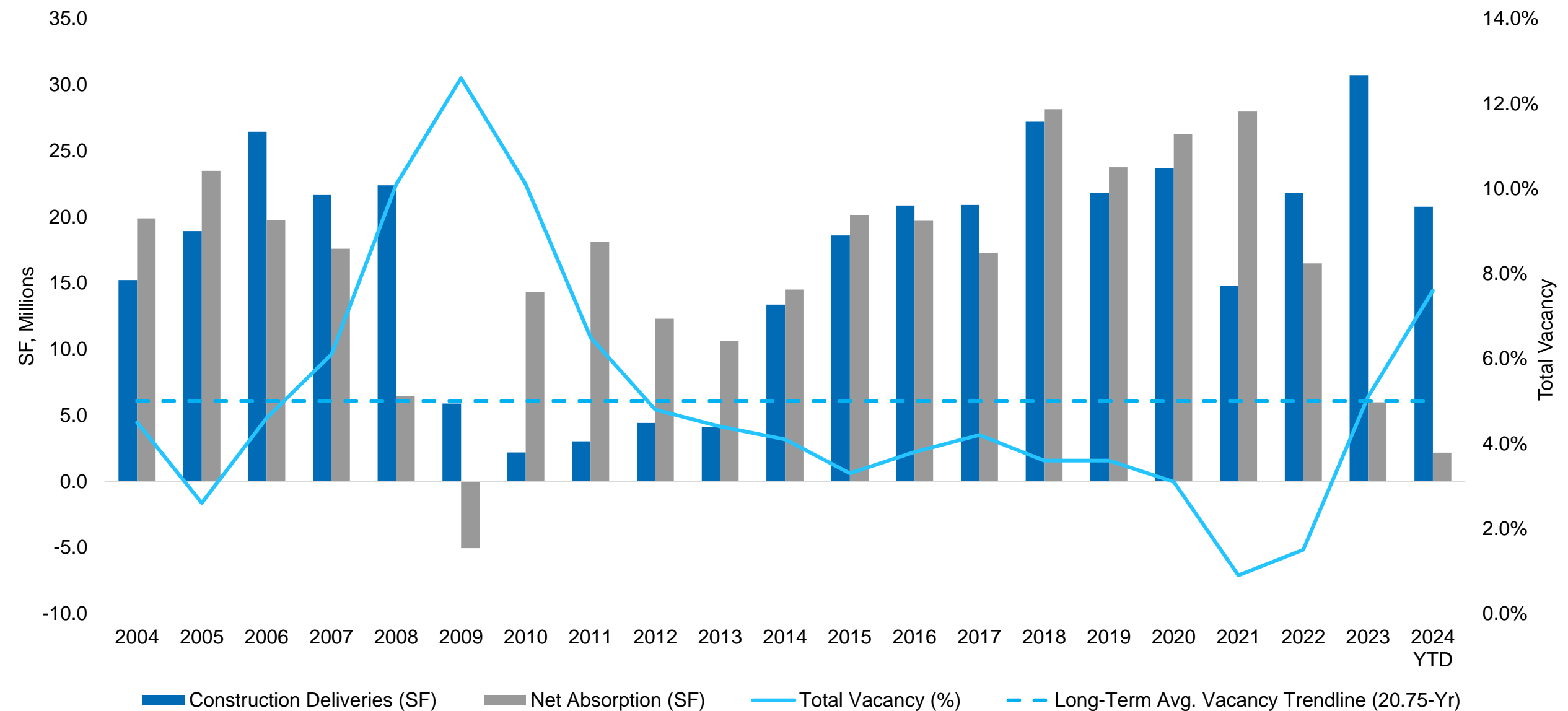
Term Lengths are Sharply Up After Declines in 2022-2023

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Quarterly Absorption Flat Amid Limited Mega-Box Move-Ins; Vacancy Trends Upward

Net absorption in the third quarter of 2024 totaled 145,620 SF. A lack of 1M+ SF move-ins – which shaped absorption trajectories in recent quarters – along with move-outs by Home Depot (1.1 MSF), Skechers (1.0 MSF), Newell Brands (838,302KSF) and Instabrand (400,850 SF) accounted for muted occupancy gains. Year-to-date absorption rests at 2.2 MSF following record losses in the first quarter (-2.9 MSF) and robust gains in the second (4.9 MSF).

Historical Construction Deliveries, Net Absorption, and Vacancy

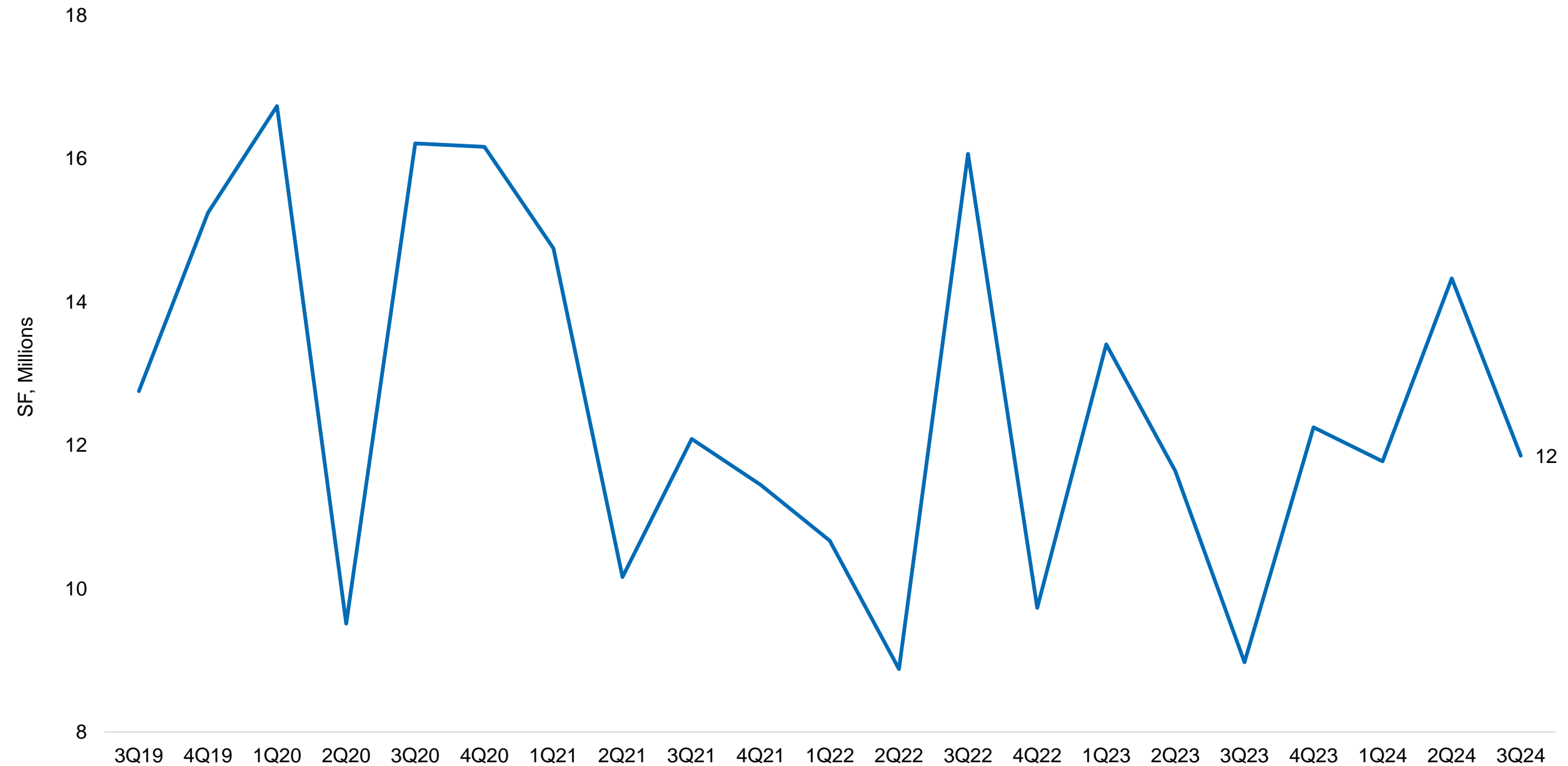


Source: Newmark Research

Quarterly Leasing Activity, Uneven Since Early 2019, Boosted By 100,000+ SF Signings

The uneven factor is a function of how many facilities 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).

Total Leasing Activity (SF): New Leases and Renewals

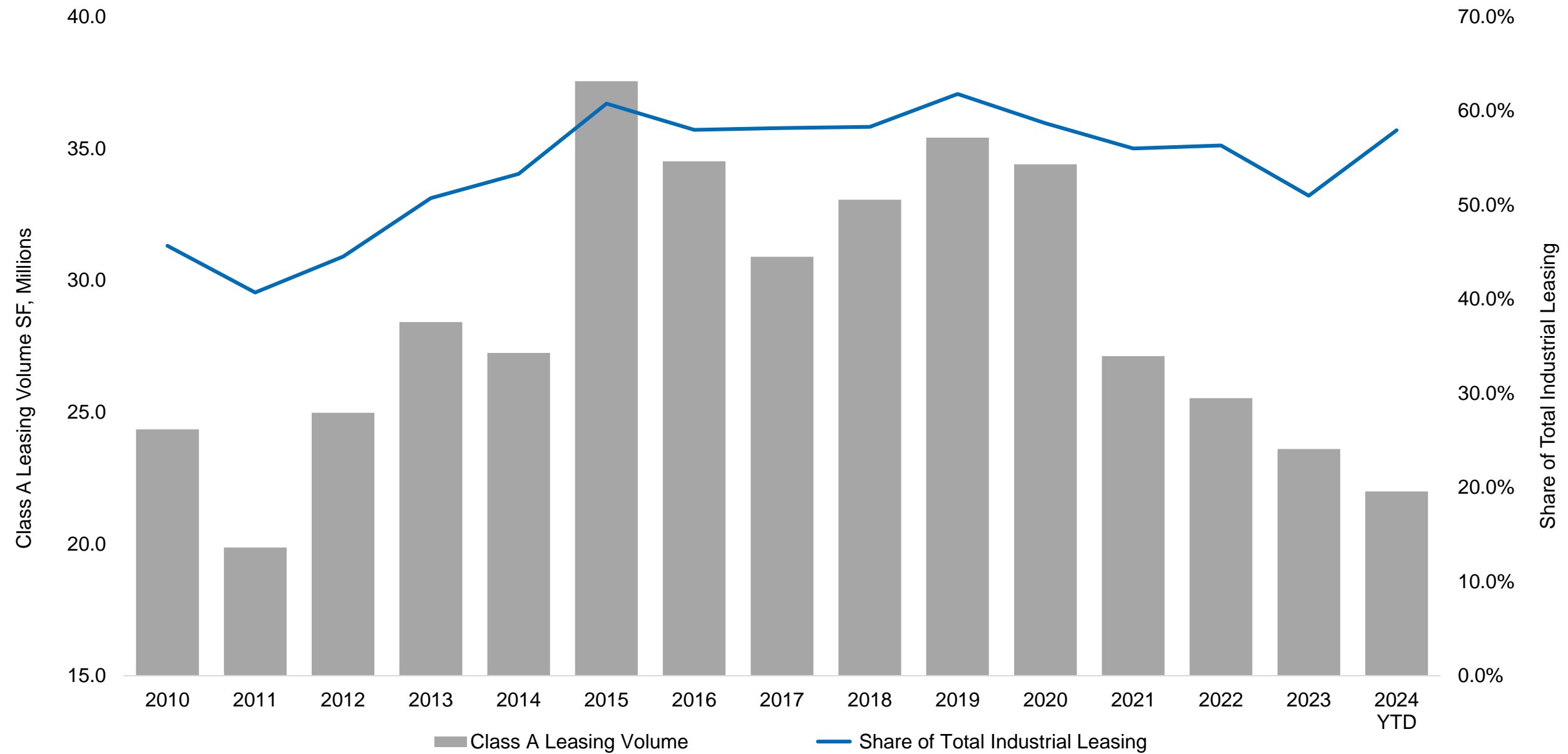


Source: Newmark Research, CoStar

Class A Warehouse Demand Surges as Tenants Increasingly Seek 100,000+ SF Product

Class A warehouse leasing accounted for 57.9% of total leasing activity in the first nine months of 2024, exceeding the 14.75-year average of 54.1%. Rents in most big-box size segments have steadily declined over the past year and this is strengthening the resolve of tenants that want top-shelf space.

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.

Sublet Availability Plateaus as New Listings Counterbalance Sublease Signings

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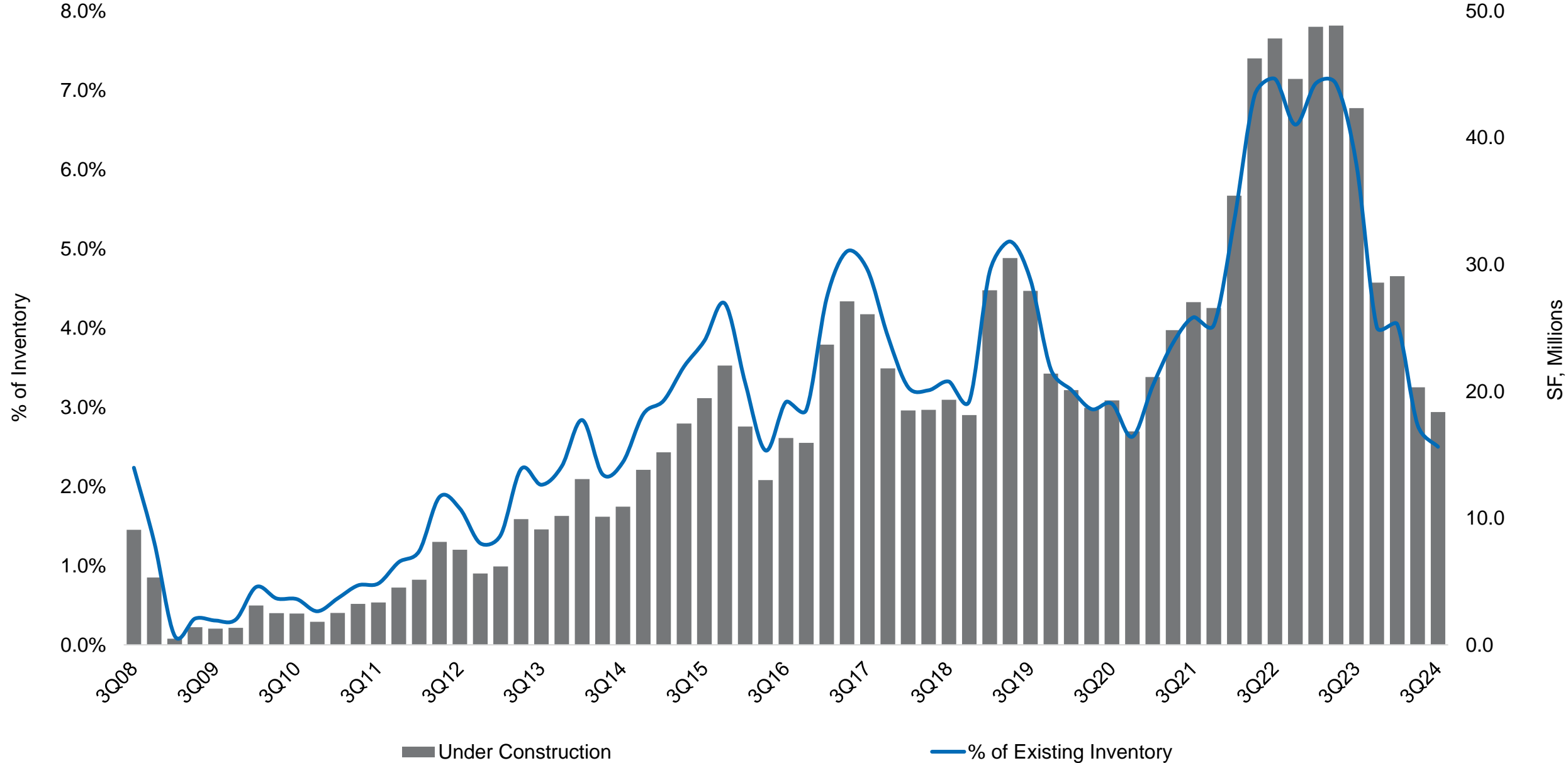
Total Sublease Space is Down, Thanks to Decreases in the West

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Virtually All Under-Construction Space Remains Unleased; Pipeline Contracts Further

A negligible 0.5% of all inventory in the construction pipeline has been pre-leased, while only 1.0% of the 9.0 MSF set to deliver in the fourth quarter of 2024 has committed tenants attached. Under-construction activity is on track to fall below the 2012-2019 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

Pre-Leasing Collapses; Tenants Pursuing Existing Product Options

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Notable 3Q24 Lease Transactions

Thirty-eight leases exceeding 100,000 SF were signed in the third quarter of 2024, notably higher than the 20 signed in the same period of 2023. Of this quarter's big-box leases, 19 were direct, nine were renewals and 10 were subleases. Thirty of this quarter's big-box leases were for properties based in West I.E.; the remaining eight occurred in East I.E.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Western Post	1979 W Renaissance Pkwy	East I.E.	Direct Lease	927,696
<i>The freight forwarder, which is expanding in the region, occupied the vacant property in the third quarter.</i>				
eFulfill, Inc.	17820 Slover Avenue	East I.E.	Sublease	651,815
<i>The 3PL provider, which is breaking into the market, occupied the property in August. Distribution Alternatives is the sublessor. Sublease term expires in 2Q26.</i>				
Western Post	13277 San Bernardino Ave	West I.E.	Direct Lease	577,905
<i>The freight forwarder, which is expanding in the region, occupied the vacant property in the third quarter. Lease term expires in 1Q35.</i>				
Lecangs, LLC	22000 Opportunity Way	East I.E.	Direct Lease	503,592
<i>The Perris-based 3PL occupied the vacant property in September. Lease term expires in 1Q30.</i>				
US ELogistics	8375 Sultana Ave	West I.E.	Direct Lease	475,026
<i>The logistics firm, which is expanding in the market, moved into the vacant property in September. Lease term expires in 1Q30.</i>				

WAIRE: Program Summary and Implications for Industrial

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Leasing: Size Segments and the Primary Submarkets



Availability is Tighter in the Smallest and Largest Size Segments

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Current Rent in the 1M+ SF Segment is Higher Compared to 2023

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West Tops East in Leasing Activity from 2023+; Some Size Segments are Especially Active

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Submarket Availability Rates Diverge as Leasing Activity Picks Up in the West

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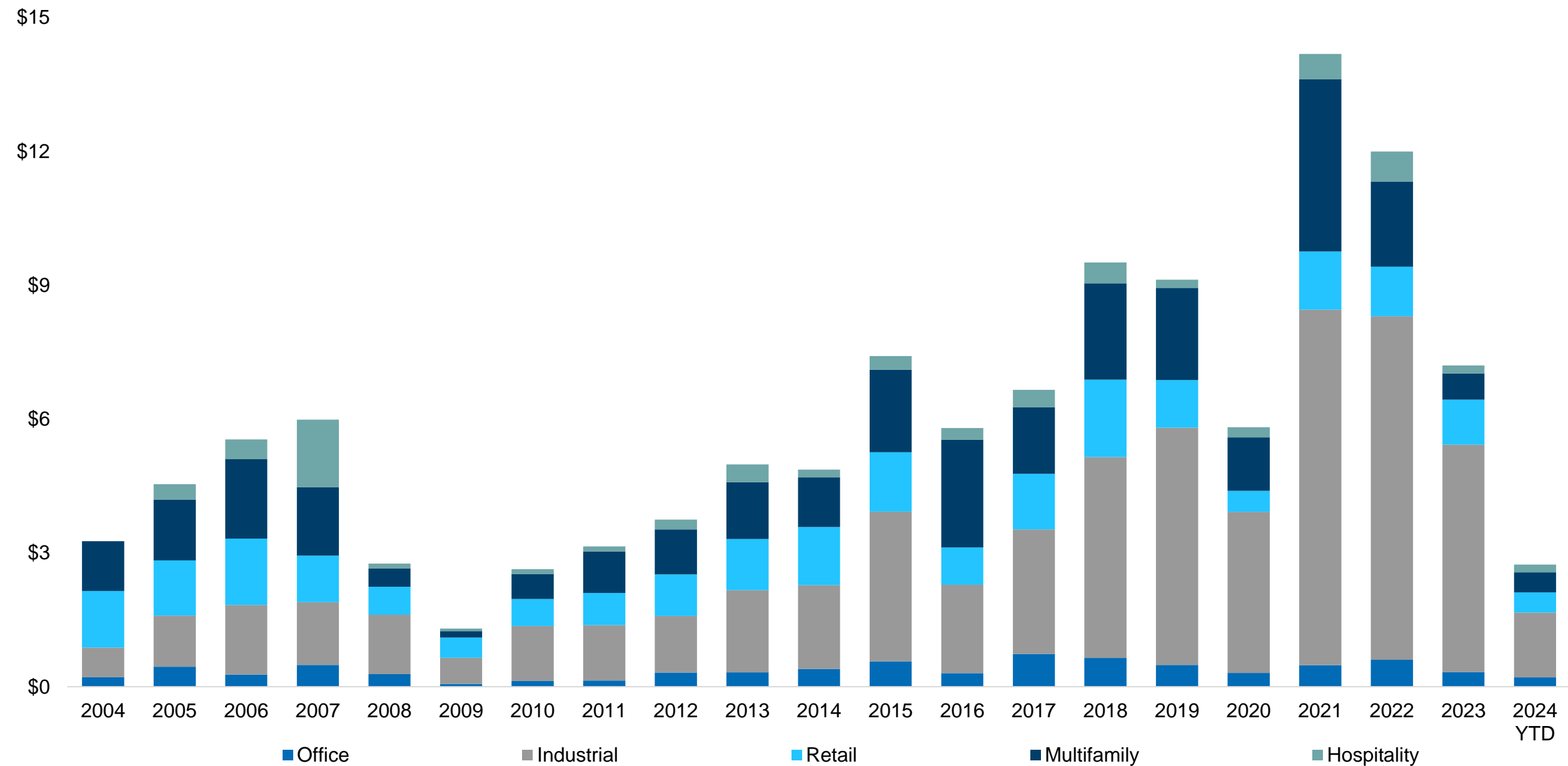
Sales Activity



Industrial Comprised 53.2% of Total Sales Volume in the First Nine Months of 2024

53.2% exceeds the 20.75-year average of 41.5%. Heated rent growth in recent years favors the segment, with many investors (institutional down to private buyers) targeting desirable buildings with credit tenants whose leases are up for renewal. Elevated lending costs and steady occupancy losses have cooled industrial sales activity in recent quarters, however.

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

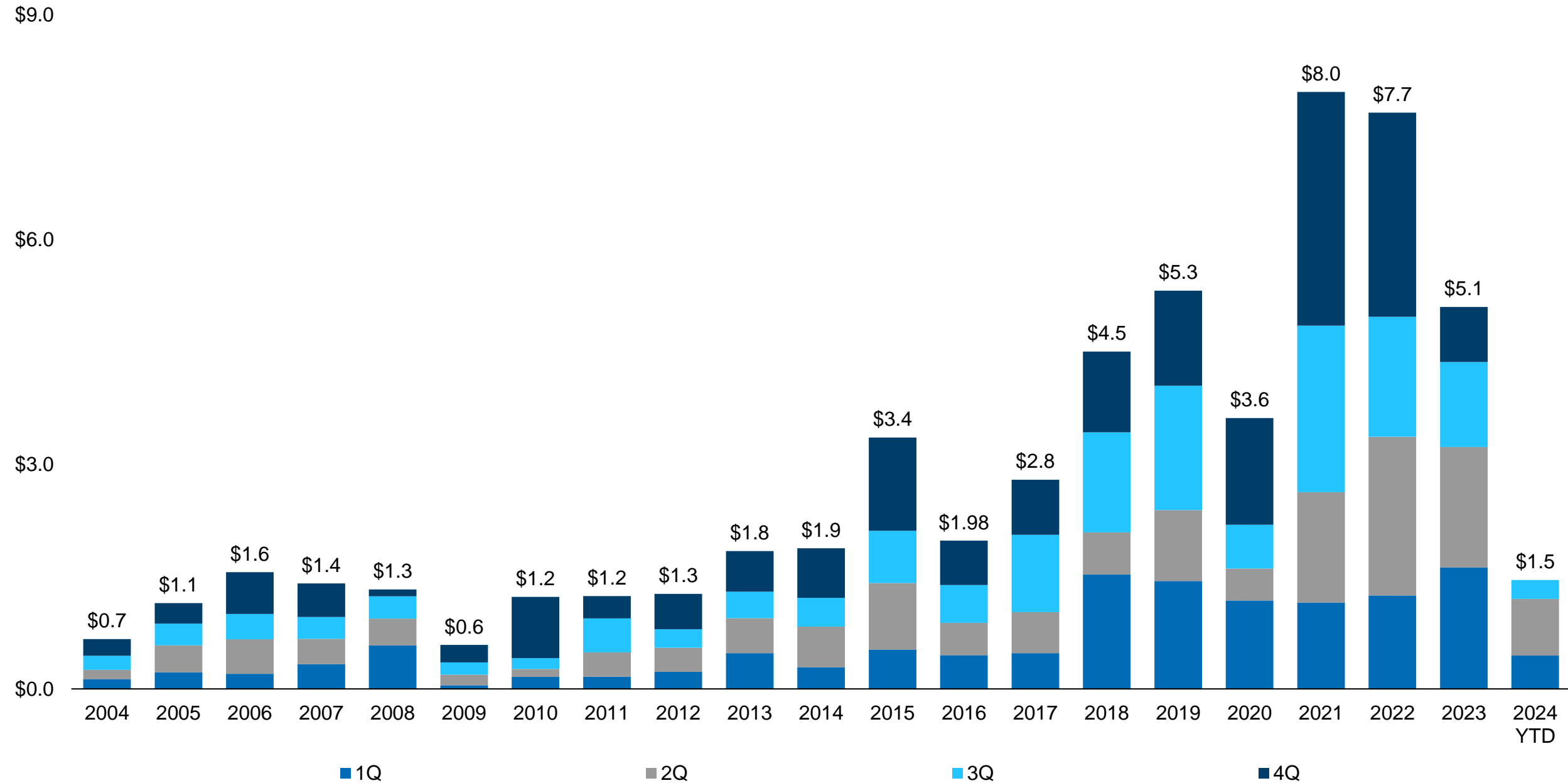


Source: MSCI Real Capital Analytics, Newmark Research
 Note: Preliminary data is cited for the third quarter of 2024

Industrial Sales Volume: Up Close

Industrial sales volume totaled \$252.6 million in the third quarter of 2024, down 77.7% from the same period in 2023. The higher cost of capital following multiple interest rate hikes is crimping momentum, in addition to adjusting leasing fundamentals, have imposed downward pressure on volume and pricing. Sale activity is anticipated to increase in 2025 as the Fed imposes successive interest rate cuts, following this quarter's half a percentage point reduction.

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



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

Pricing Hovers Below 2022's Peak; Cap Rates Increase

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Share of Institutional Buyers Bounces Back in 2024 Amid Slump in Sales Volume

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Appendix



Inland Empire Submarket Map and High-Level Statistics | 3Q24

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Inland Empire Statistics by Building Size Segment | 3Q24



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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 is the only U.S. complex to make the list.

Rank	Seaport	2023 Volume (TEU, in millions)
1	Shanghai, China	49.2
2	Singapore	39.0
3	Ningbo-Zhoushan, China	35.3
4	Qingdao, China	30.0
5	Shenzhen, China	29.9
6	Guangzhou Harbor, China	25.4
7	Busan, South Korea	22.8
8	Tianjin, China	22.2
9	Los Angeles-Long Beach, U.S.	16.6
10	Jebel Ali/Dubai, United Arab Emirates	14.5

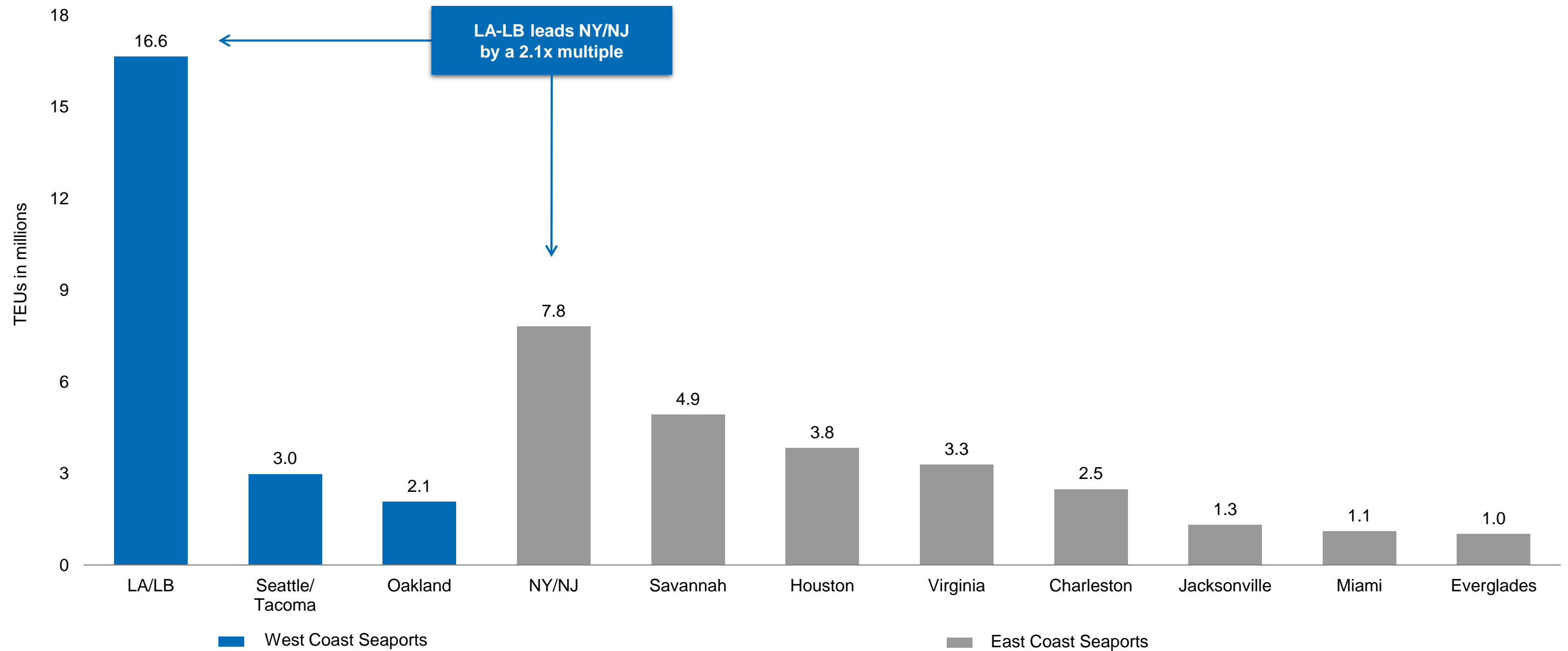
Rank	Seaport	2023 Volume (TEUs, in millions)
11	Hong Kong	14.3
12	Port Klang, Malaysia	14.1
13	Rotterdam, The Netherlands	13.4
14	Xiamen, China	12.6
15	Antwerp, Belgium	12.5
16	Tanjung Pelepas, Malaysia	10.5
17	Kaohsiung, Taiwan	8.8
18	Laem Chabang, Thailand	8.7
19	Tanger Med, Morocco	8.6
20	Beibu Gulf, China	8.0

Source: Newmark Research, upply
 Note: TEU totals includes loaded and empty containers

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: 2023 TEU Volume (All Containers: Loaded and Empty)



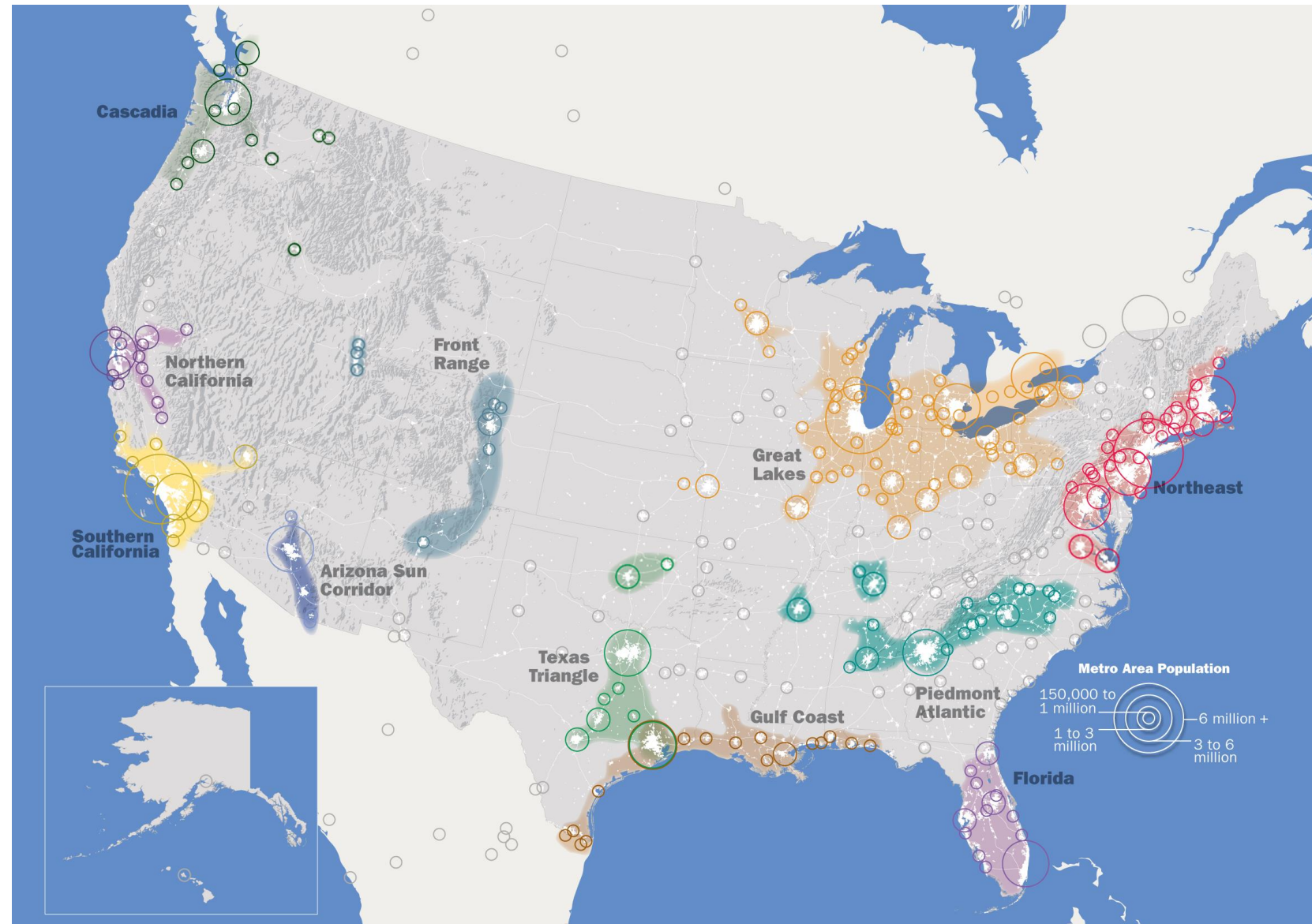
Source: Newmark Research, Individual Seaports

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 Increase the Further an Occupier is from the Ports

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An Inland Empire Location Offers Distributors Proximity to Densely Populated Areas

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Amazon Is the Inland Empire's Top Occupier and Employer

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