

4Q24

# Inland Empire Industrial Market Overview



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# Market Observations

## Economy

- U.S. retail sales annual growth is at a nine-year low, which has implications for industrial leasing and sales activity.
- Loaded import volume at Southern California’s ports totaled 9.2 million containers in the first 11 months of 2024, up 22.1% from the same period in 2023.
- A good portion of this cargo is being shipped eastward by rail to markets outside of Southern California. Goods that are “just passing through” have a negligible impact on local market dynamics.
- Gulf and East Coast ports will likely regain a portion of lost import volume as 2025 progresses when a new six-year contract between the International Longshoremen’s Association and the United States Maritime Alliance is finalized.

## Major Transactions

- Thirty leases over 100,000 SF were signed this quarter, down from the 33 signed during the same period in 2023. Direct leases predominated.
- Burlington Coat Factory signed two of the five largest leases of the quarter, renewing on 1.3 MSF across two adjacent properties in Redlands.
- No leases exceeding 1.0 MSF were signed in the second half of 2024. Mega-box space commitments have historically insulated the market from net occupancy losses.
- Amazon purchased 195 acres of land in Hesperia for \$161.9M in October. The company will begin construction of a 2.5 MSF warehouse facility on the site in 2025.
- 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 fourth quarter, though leasing volume markedly declined across both submarkets. 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 more-occupier-favorable conditions.
- Vacancy dropped to 7.0% after 10 quarters of successive increases. Limited quarterly construction deliveries and healthy net absorption gains (4.1 MSF) led to the decline.
- Sublet availability was up a mere 1.7% relative to the previous quarter, as sublease signings were counterbalanced by new listings, including a 1.0 MSF listing by SHEIN.

## Outlook

- While the number of 100,000+ SF move-outs has dropped in recent quarters, the fourth-quarter decline in leasing activity and a limited number of 1.0 MSF+ anticipated move-ins leave the market vulnerable to erratic net absorption shifts over the next several quarters. The East remains more vulnerable than the West.
- 17.7 MSF is under construction and only 14.9% has pre-leased. Vacancy will rise.
- The recent passage of California Assembly Bill 98 will likely spur additional 1.0 MSF+ construction projects in the High Desert, as developers will face fewer regulatory hurdles to mega-box construction in the sparsely populated region than elsewhere.
- The extent to which the proposed regime of additional tariffs will affect leasing activity – and leasing activity by cross-border firms in particular – will become clearer as 2025 progresses.

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



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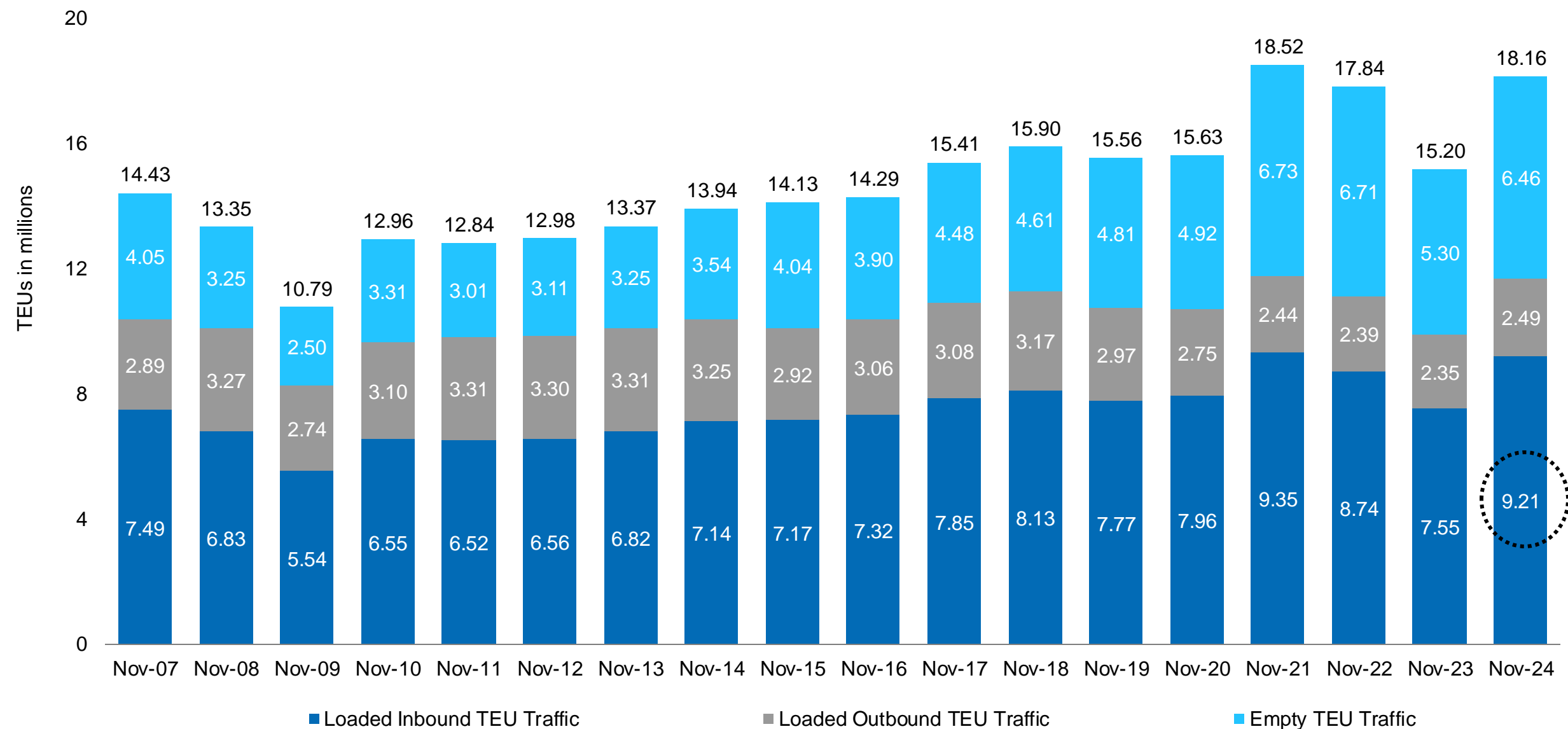
## Ocean Container Spot Rates Far Higher Than Two Years Ago

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# 2024 Will Be the Second Busiest Year on Record Once December's Numbers are In

The inflated growth of 2021-2022 (due to strong retail sales from stay-at-home measures, government stimulus and distributors stockpiling goods) has passed. Now, Southern California's ports are contending with an influx of imports due to labor contract negotiations with Gulf and East Coast dockworkers and the frontloading of cargo as a hedge against potential tariffs.

The Ports of Los Angeles and Long Beach: Combined TEU Volume | Loaded Imports, Loaded Exports and Empty Containers | First 11 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 2024 after their demands with the United Maritime Alliance were unmet. Now, both sides have a tentative agreement. 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 agreement with USMX for a new six-year master contract was reached on January 8, 2025. Port operations will continue as normal as the contract is ratified.
- Job protection from automation and higher pay (a 62% wage increase over six years) for longshore workers are part of the current deal.



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

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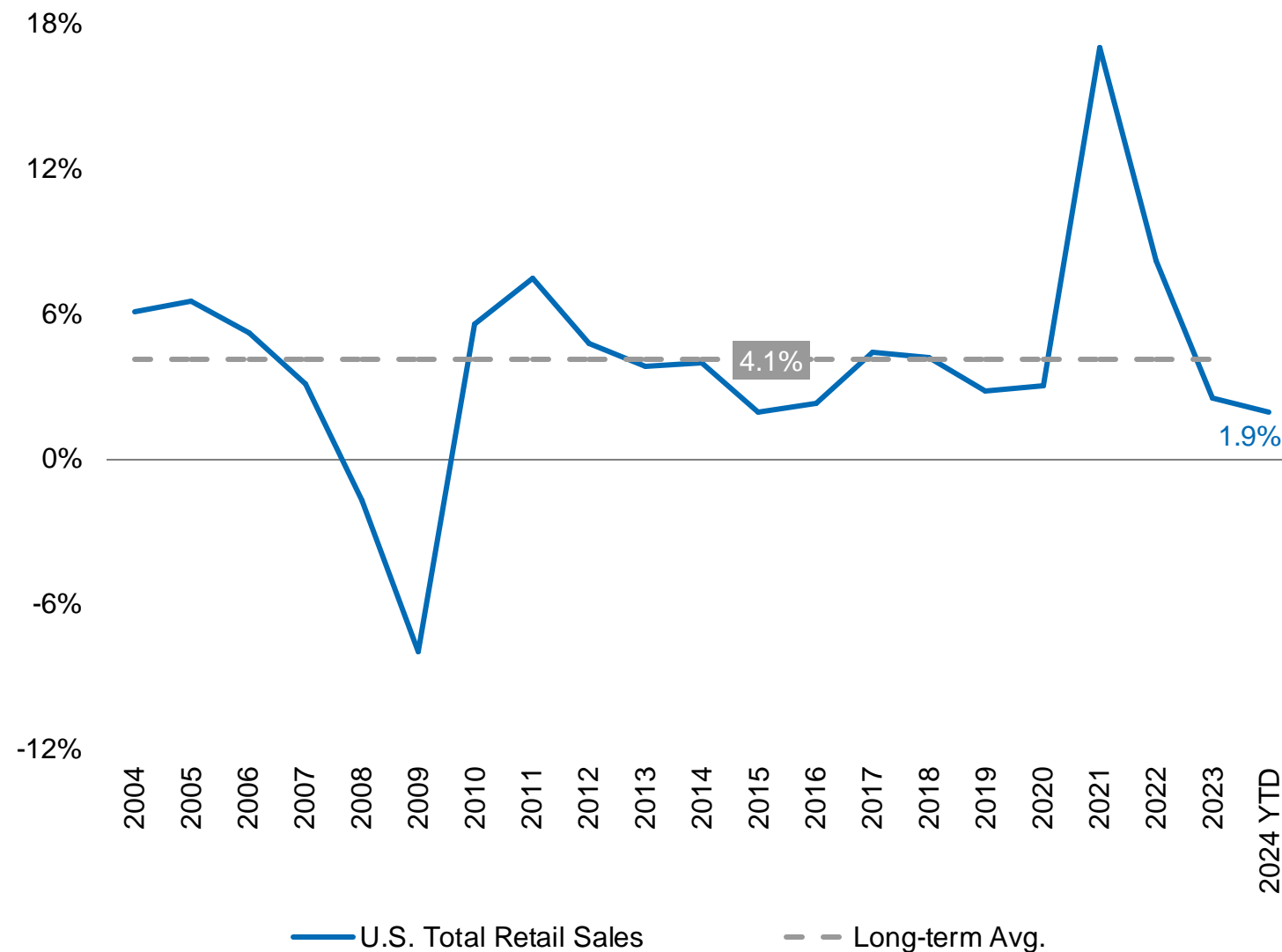
## Rail Dwell Times Remain High

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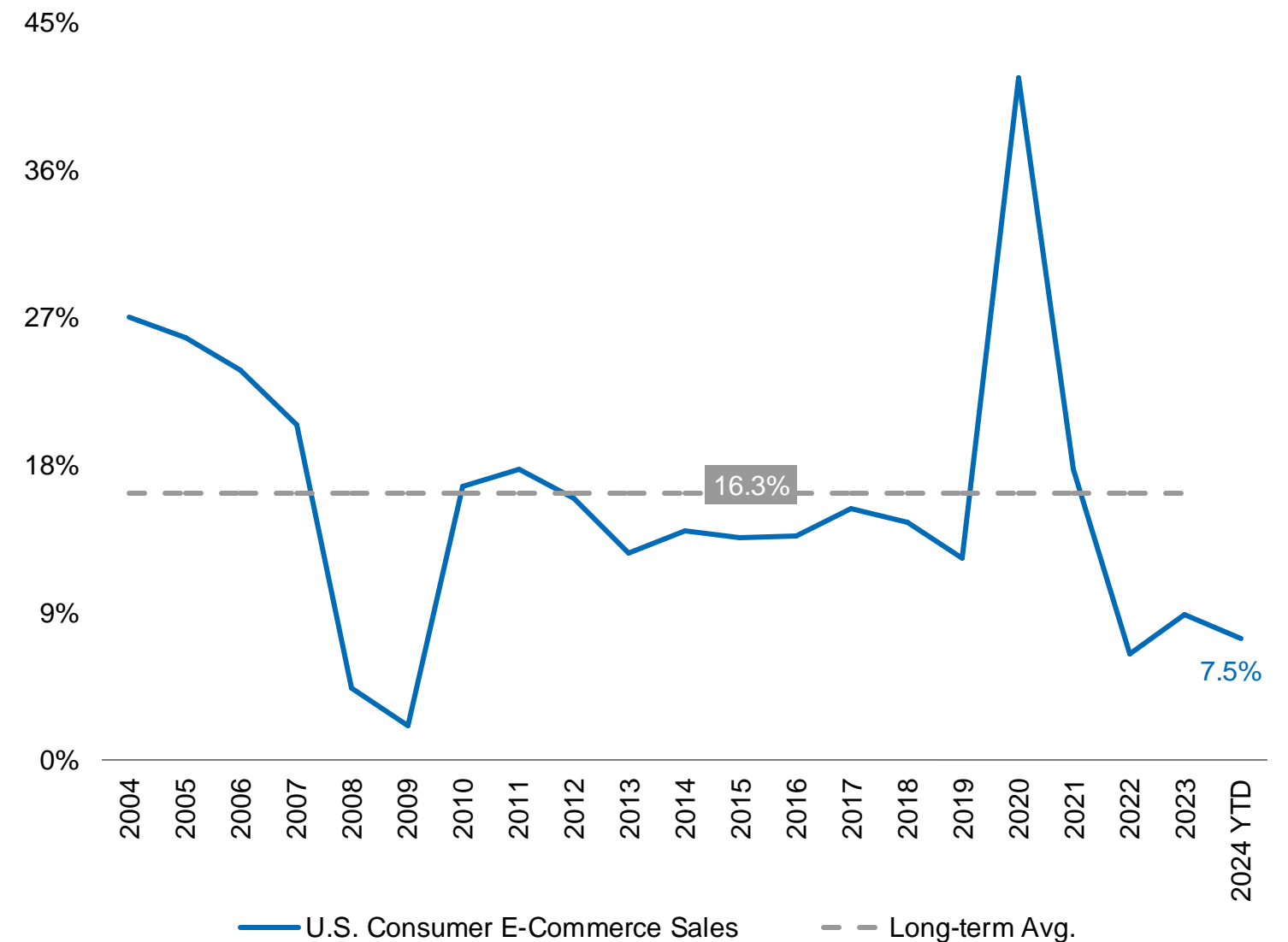
# Retail Sales (an Indicator of Warehouse Demand) Continue to Moderate

Consumer e-commerce sales were up 7.5% in the first nine months of 2024 compared with the same period in 2023. Although e-commerce sales growth exceeded total retail sales (+1.9% 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 nine months of 2023 to the same period in 2024.

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# 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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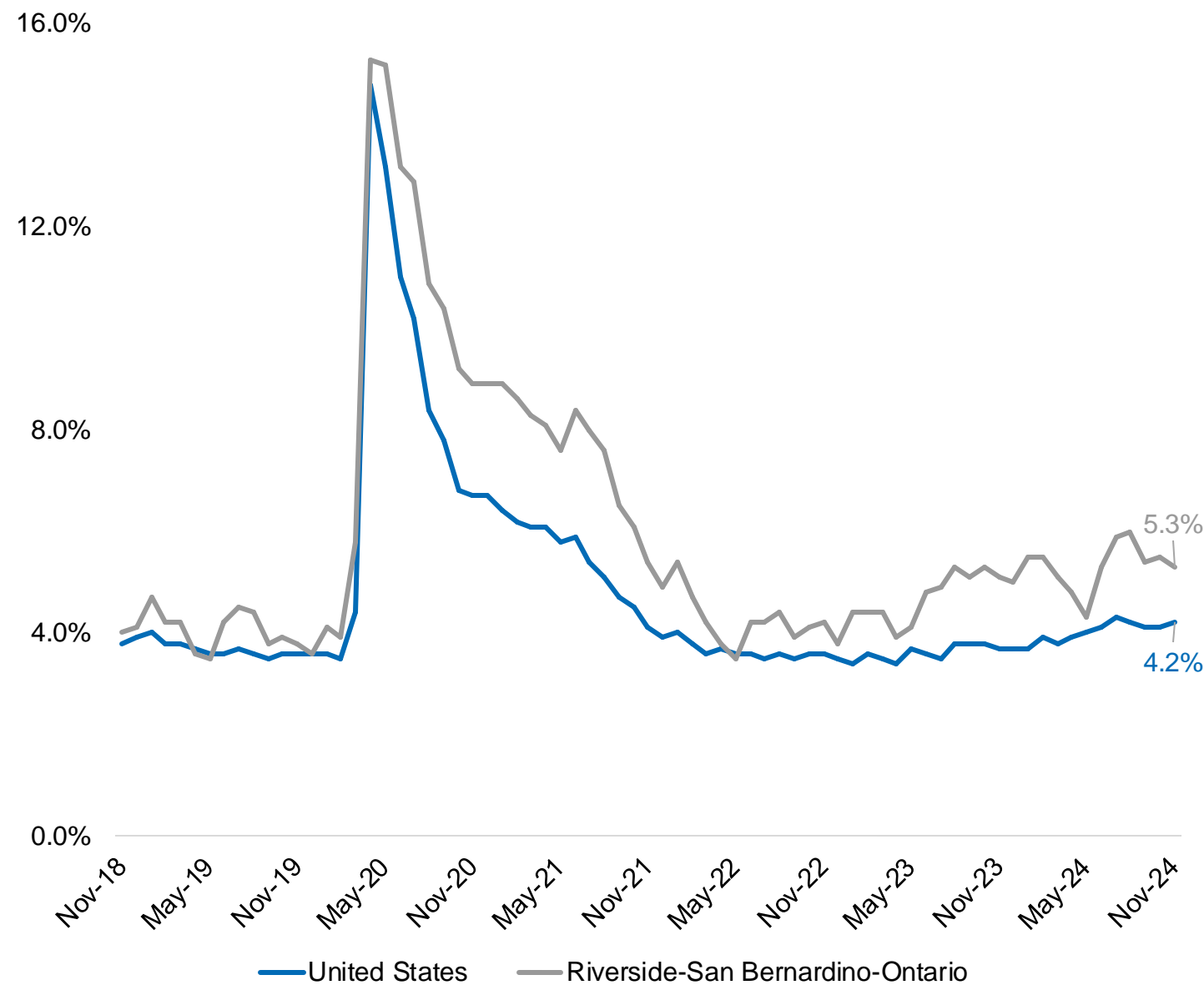
# Local Employment



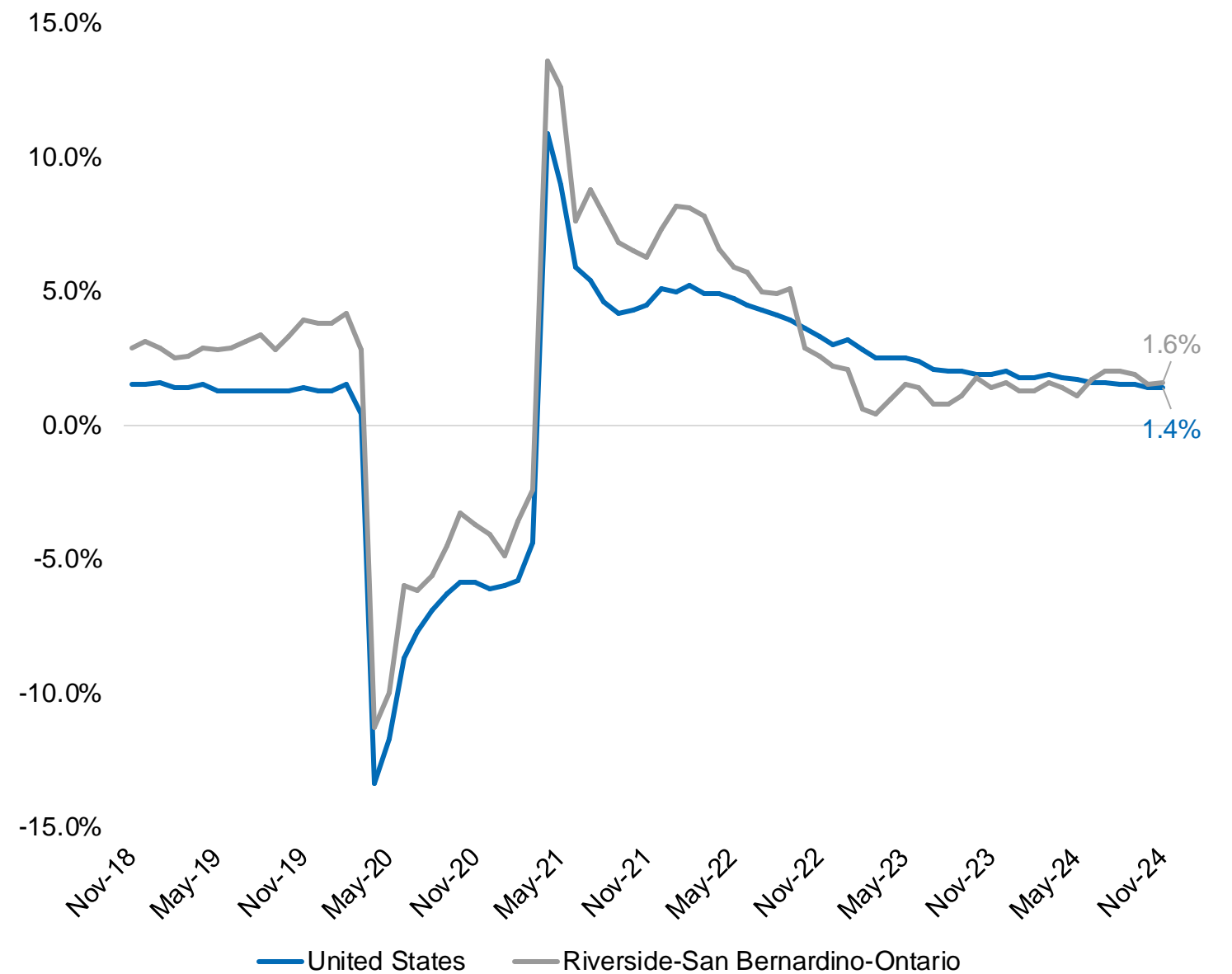
# Regional Unemployment Falls Slightly; IE Employment Growth Similar to Nation

Local unemployment fell to 5.3% in November. An uptick in government-based employment helped drive overall unemployment downward in recent months. Annual nonfarm employment growth (+1.6% in November) modestly exceeded the national average (+1.4%).

Unemployment Rate, Seasonally Adjusted



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

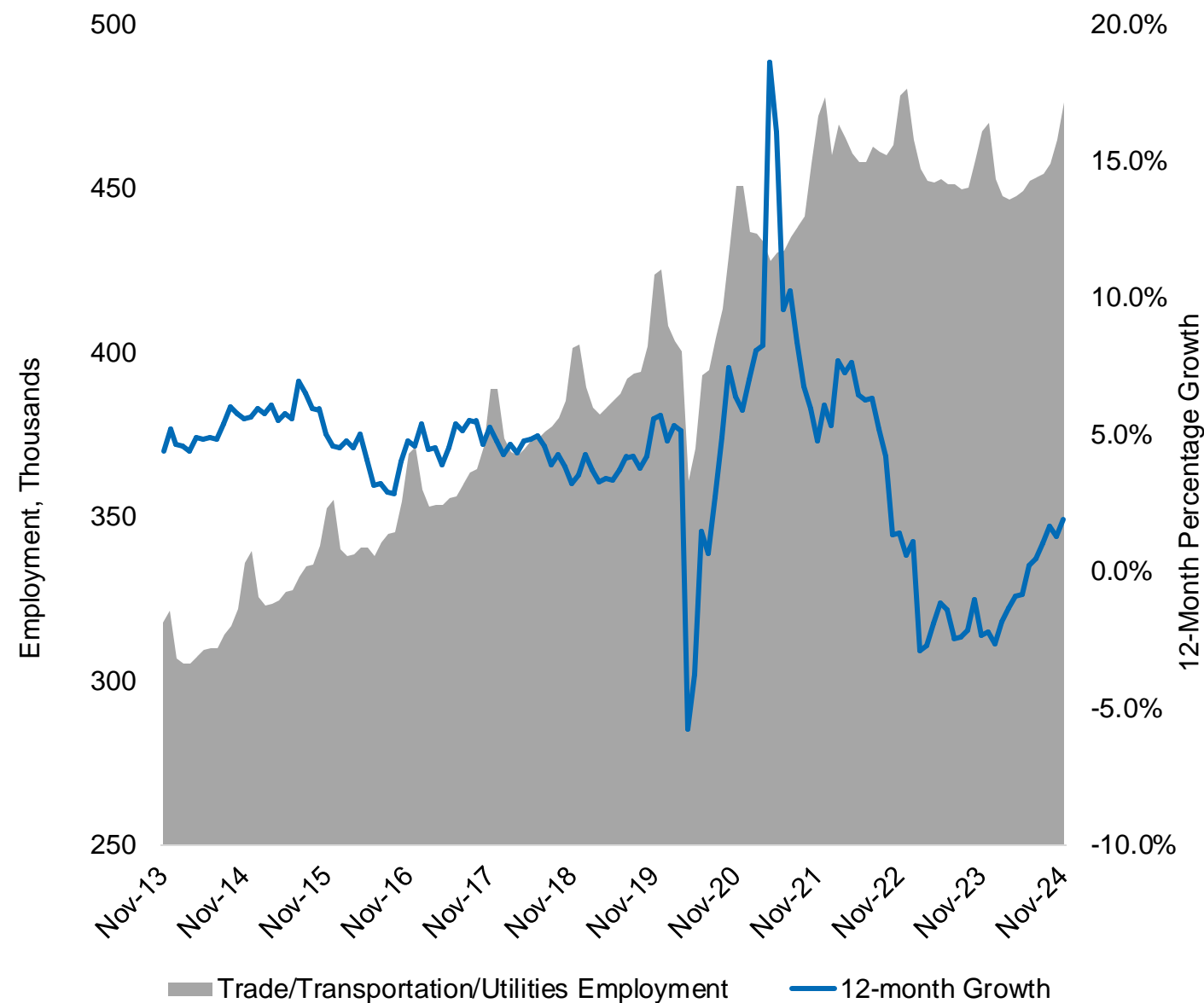


Source: U.S. Bureau of Labor Statistics, Riverside-San Bernardino-Ontario

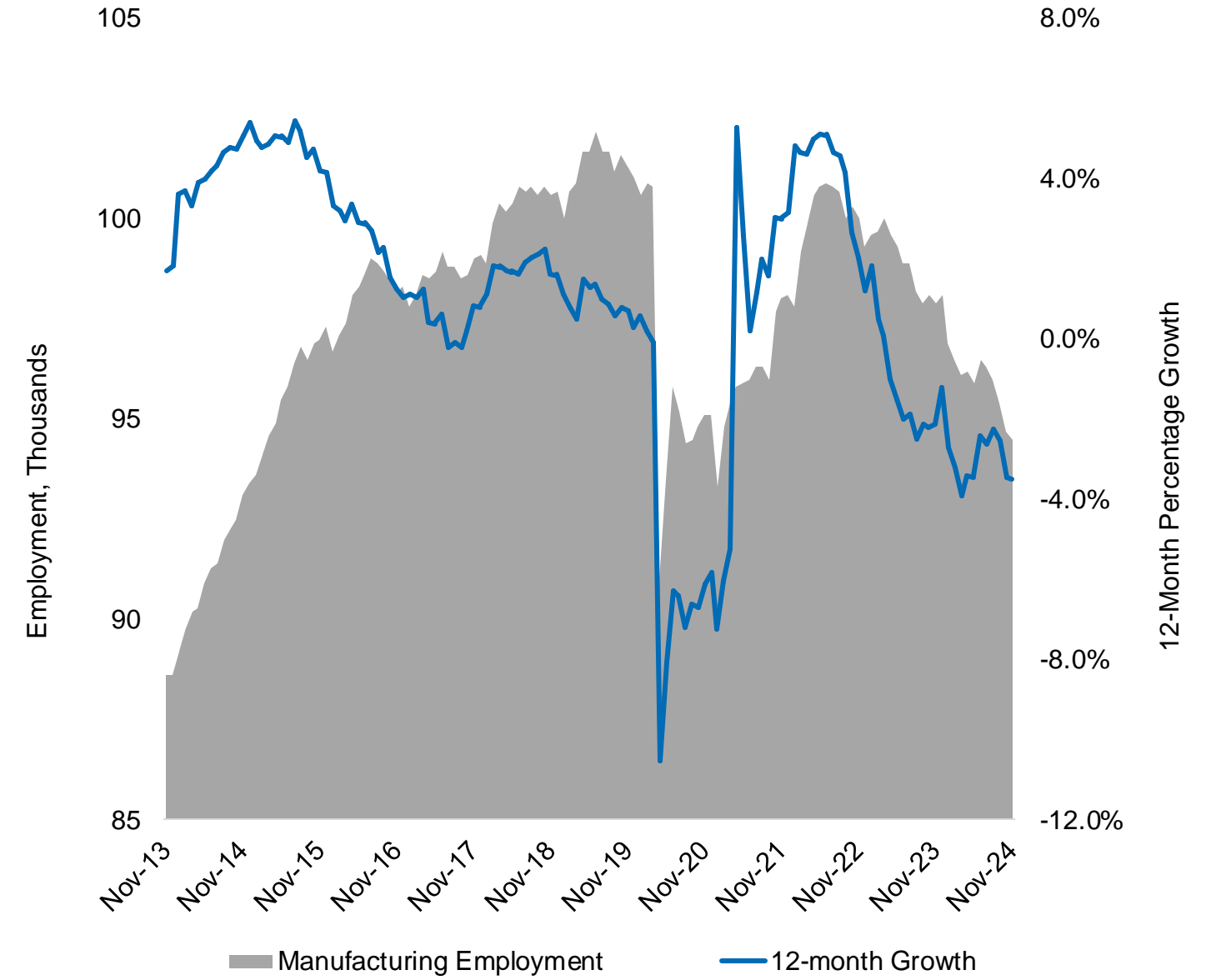
# Industrial Employment Growth Aided by Holiday Bump, New Warehouse Occupancies

Employment within the trade/transportation/utilities sector benefitted from seasonal demand as well as a rebound in tenant leasing activity through the first three quarters of 2024. 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





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## Contract Rents Continue to Adjust

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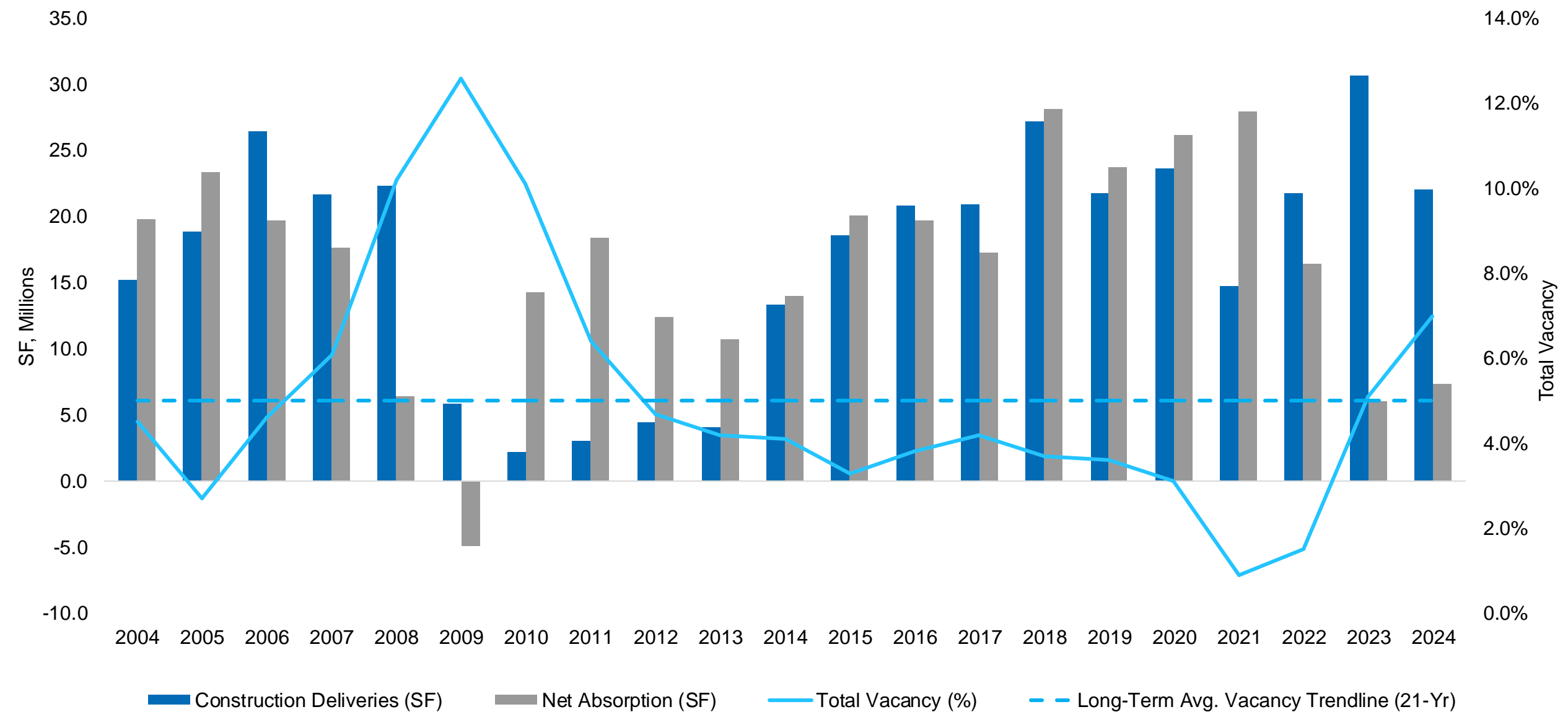
Term Lengths are Sharply Up After Declines in 2022-2023

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# Vacancy Falls for First Time Since 2022; Limited Construction Deliveries Aid Decline

Total vacancy fell to 7.0%, a 40bps decrease from the third quarter. Although vacancy was up year-over-year the climb was less steep when comparing 2022 to 2023. Fewer construction deliveries, along with slightly better net absorption, relative to 2023 are factors.

## Historical Construction Deliveries, Net Absorption, and Vacancy

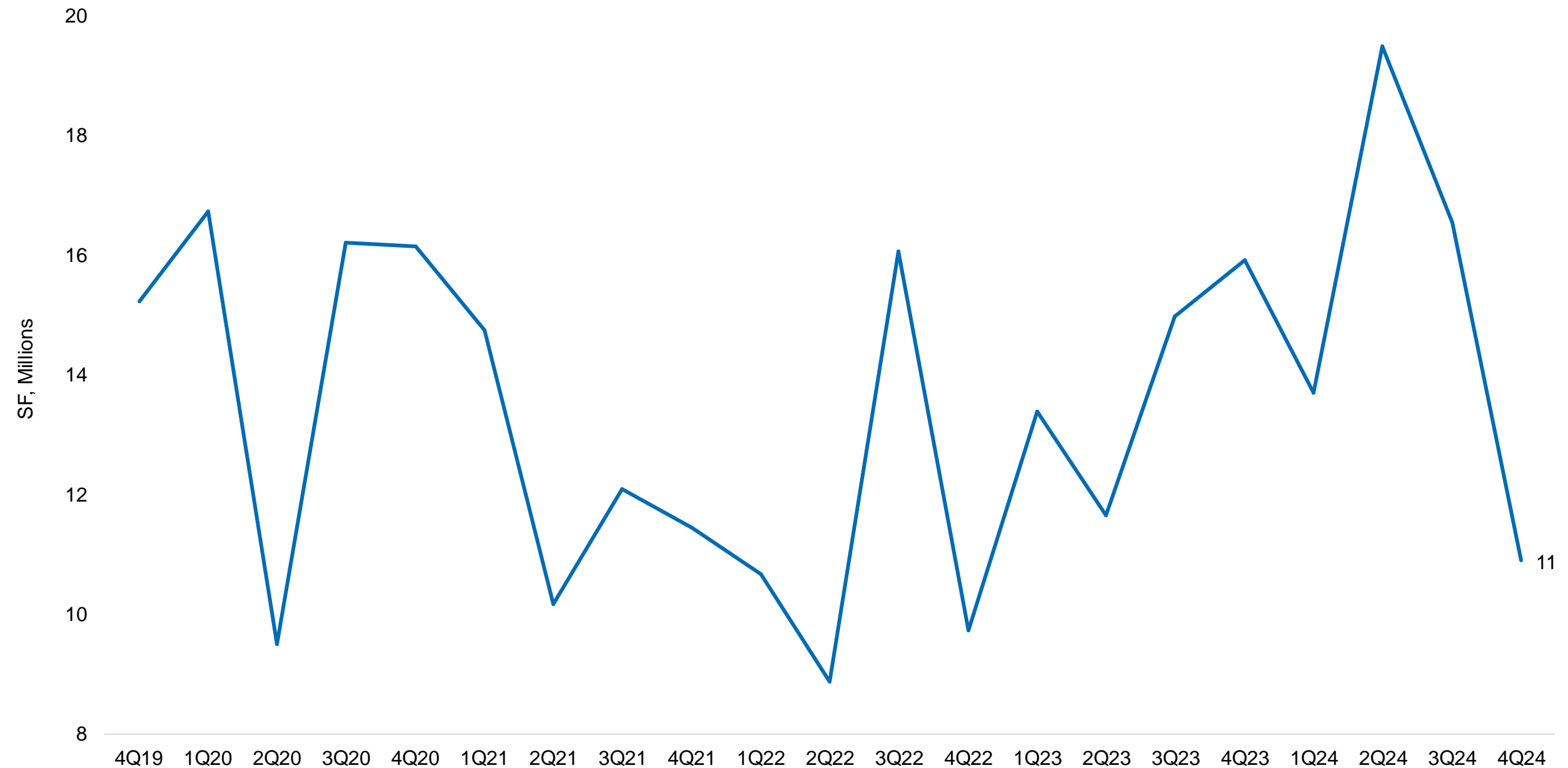


Source: Newmark Research

# Quarterly Leasing Activity, Uneven Since 2019, Slows Amid Limited Big-Box 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

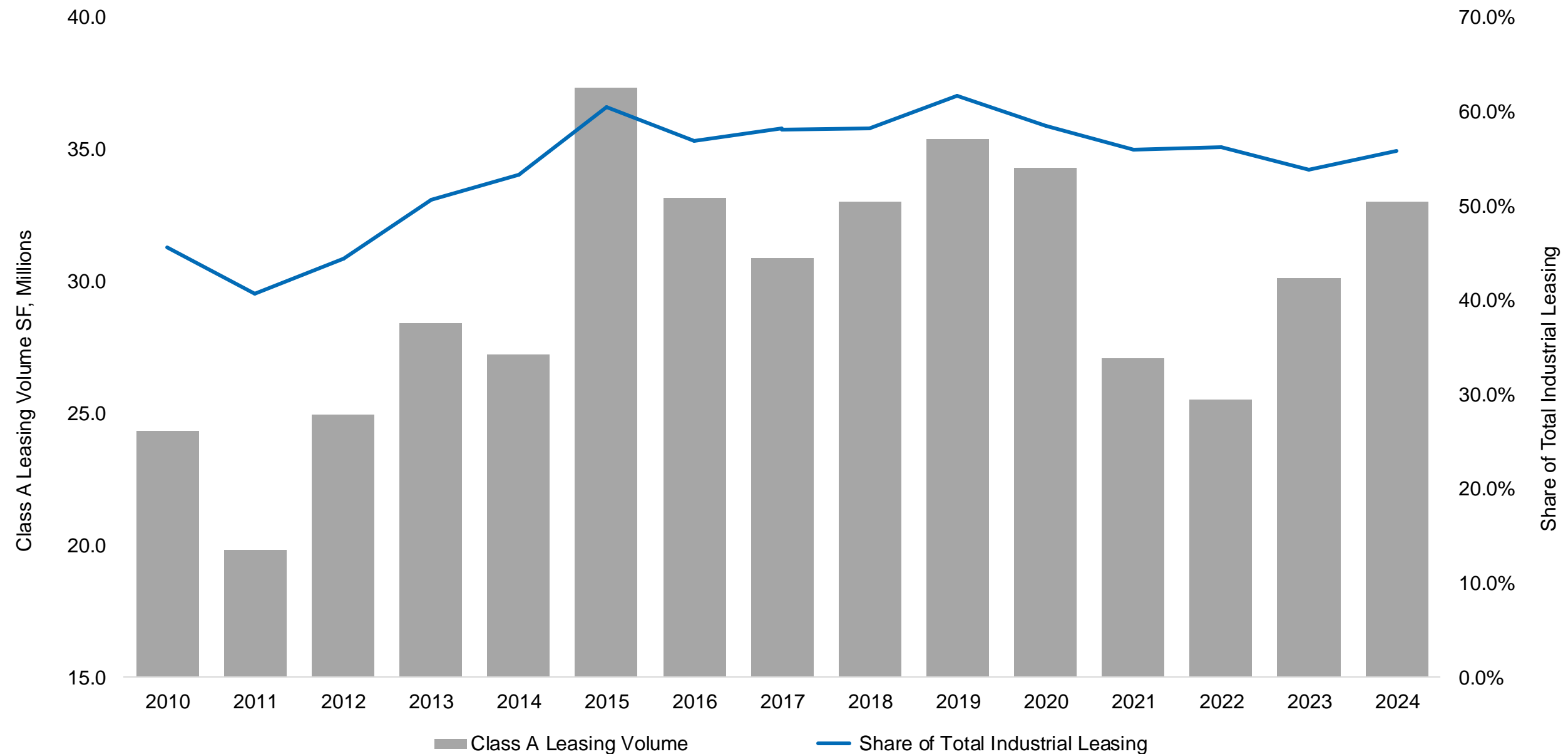


Source: Newmark Research, CoStar, AIR

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

Class A warehouse leasing accounted for 55.9% of total leasing activity in 2024, exceeding the 15-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.

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## Sublet Availability Plateaus as New Listings Counterbalance Sublease Signings

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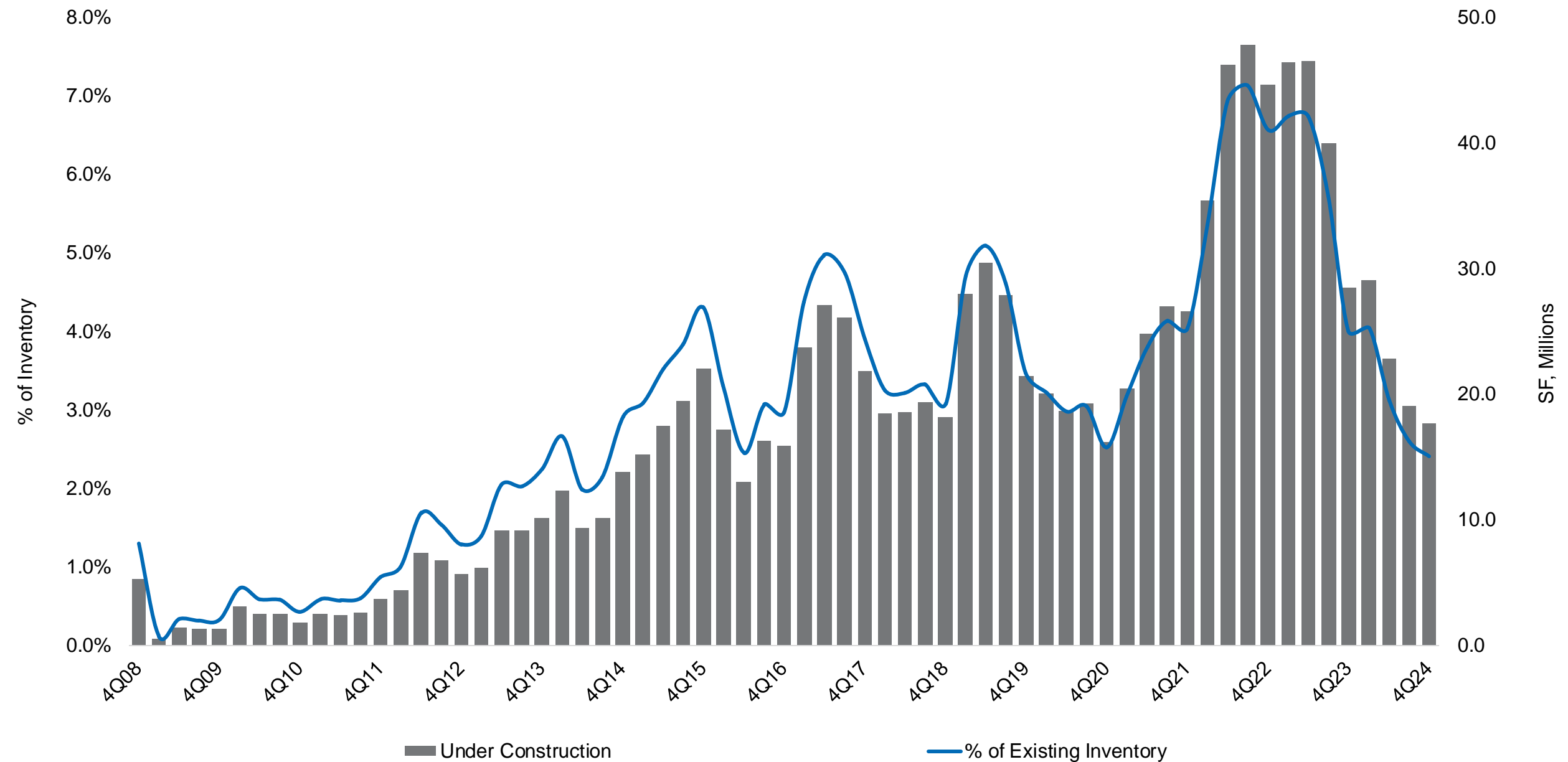
Sublease Space Declines by 15.0% in the West, Increases 11.4% in the East

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# Majority of Under-Construction Space Unleased; Pipeline Contracts Further

A mere 14.9% of all inventory in the construction pipeline has pre-leased, while 17.7% of the 6.3 MSF set to deliver in the first quarter of 2025 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 announced projects such as Amazon's 2.5 MSF Hesperia-based warehouse will help boost construction volume in 2025.

## Industrial Under Construction and % of Inventory



Source: Newmark Research



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## Under-Construction Leasing Buoyed by 1.0 MSF+ Transactions

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# Notable 4Q24 Lease Transactions

Thirty leases exceeding 100,000 SF were signed this quarter, down slightly from the 33 signed in the same period of 2023. Of this quarter's big-box leases, 19 were direct, six were renewals and five were subleases. Eighteen of this quarter's big-box leases were for properties based in the West, while the remaining 12 occurred in the East.

## Select Lease Transactions

| Tenant   | Building                 | Submarket | Type          | Square Feet |
|--|--------------------------|-----------|---------------|-------------|
| Burlington Coat Factory  | 27582 Pioneer Avenue     | East I.E. | Lease Renewal | 800,444     |
| <i>The department store retailer, which has occupied the property since 2013, renewed in November. Lease term expires in 1Q35.</i>   |                          |           |               |             |
| US eLogistics Service Corp   | 8900 Merrill Ave         | East I.E. | Sublease      | 600,000     |
| <i>The 3PL provider, which is expanding in the region, occupied the partially vacant property in October. Lululemon is the sublessor.</i>  |                          |           |               |             |
| White Horse Logistics, Inc.  | 3412 Manitou Ct          | West I.E. | Direct Lease  | 560,025     |
| <i>The 3PL provider, which has a 328 KSF lease on an Eastvale property set to expire in 3Q25, occupied the vacant property prior to the end of the year. Lease term expires in 1Q36.</i> |                          |           |               |             |
| Burlington Coat Factory  | 27573 River Bluff Avenue | East I.E. | Lease Renewal | 542,977     |
| <i>The department store retailer, which has occupied the property since 2016, renewed in November. Lease term expires in 1Q35</i>  |                          |           |               |             |
| Armstrong Logistics Inc.   | 5450 E Francis           | West I.E. | Direct Lease  | 480,000     |
| <i>The logistics firm, which is expanding in the market, moved into the vacant property prior to the end of the year. Lease term expires in 4Q29.</i>                                    |                          |           |               |             |

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## WAIRE: Program Summary and Implications for Industrial

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## Leasing: Size Segments and the Primary Submarkets



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



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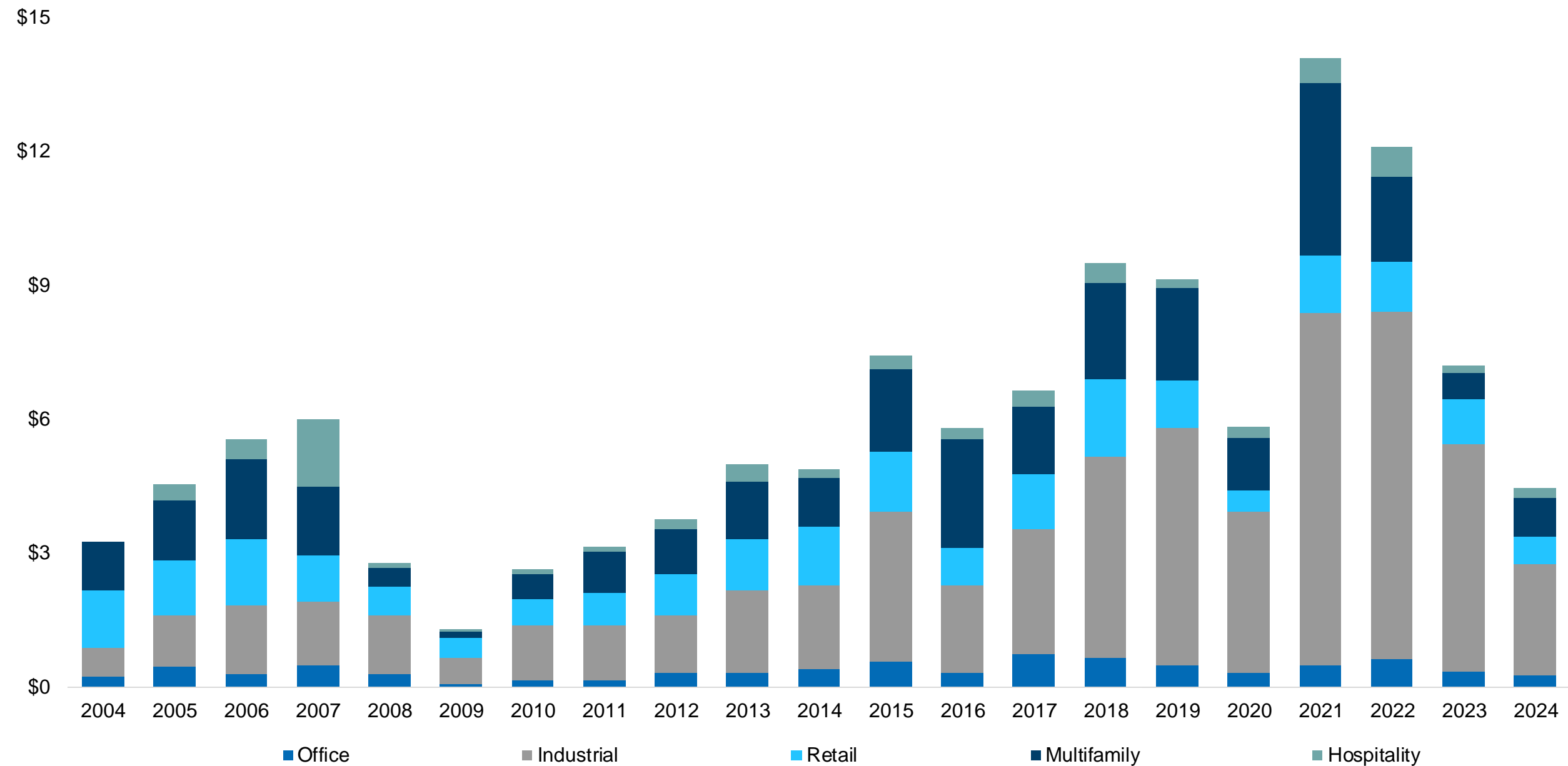
# Sales Activity



# Industrial Comprised 56.4% of Total Sales Volume in 2024

56.4% exceeds the 21-year average of 43.9%. 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)

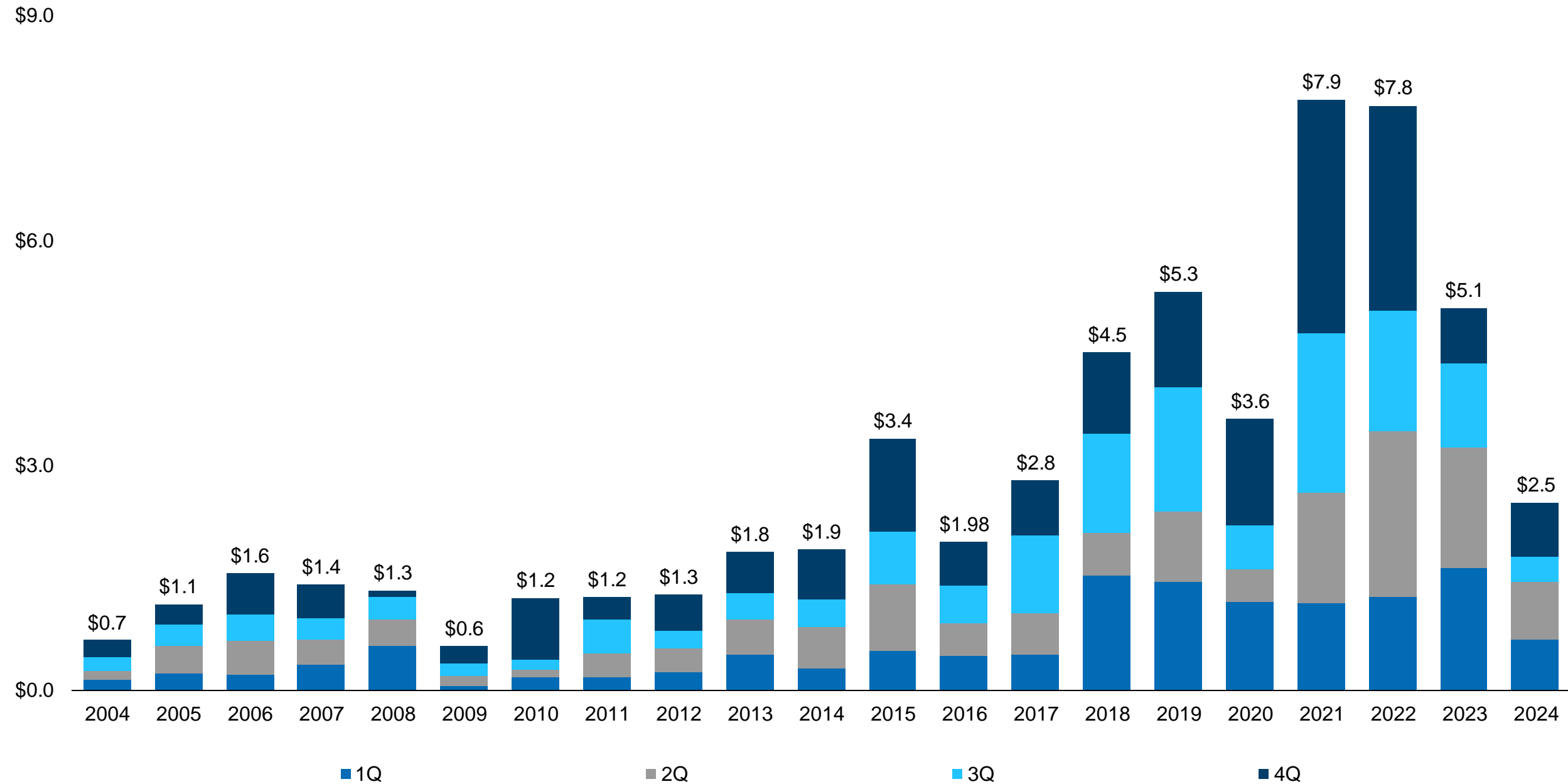


Source: MSCI Real Capital Analytics, Newmark Research  
 Note: Preliminary data is cited for the fourth quarter of 2024

# Industrial Sales Volume: Up Close

Industrial sales volume totaled \$730.6 million in the fourth quarter of 2024, effectively on par with the same period in 2023 and markedly lower than fourth-quarter volumes from 2018 through 2022. The higher cost of capital, along with adjusting leasing fundamentals, is crimping sales momentum and is imposing downward pressure on pricing. Additional interest rate cuts will help to fuel sales activity in 2025.

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



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

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## Pricing Hovers Below 2022's Peak; Cap Rates Increase

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# Select Institutional Acquisitions, Influx of Small-Scale Private Buyers Drive 2024 Sales

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# Appendix



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## Inland Empire Submarket Map and High-Level Statistics | 4Q24

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## Inland Empire Statistics by Building Size Segment | 4Q24

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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    | <b>Los Angeles-Long Beach, U.S.</b>   | <b>16.6</b>                    |
| 10   | Jebel Ali/Dubai, United Arab Emirates | 14.5                           |

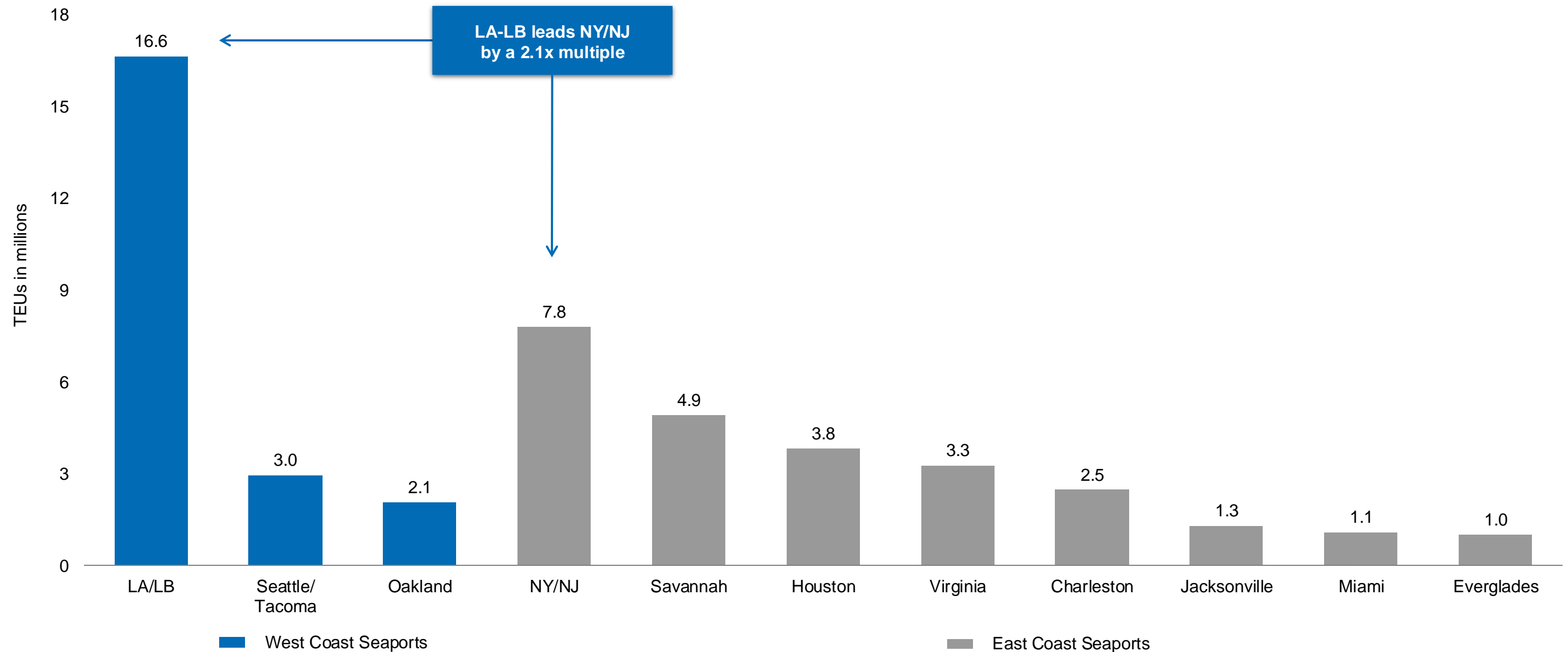
| Rank | Seaport                    | 2023 Volume (TEUs, in millions) |
|------|----------------------------|---------------------------------|
| 11   | Hong Kong                  | 14.3                            |
| 12   | Port Klang, Malaysia       | 14.1                            |
| 13   | Rotterdam, 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

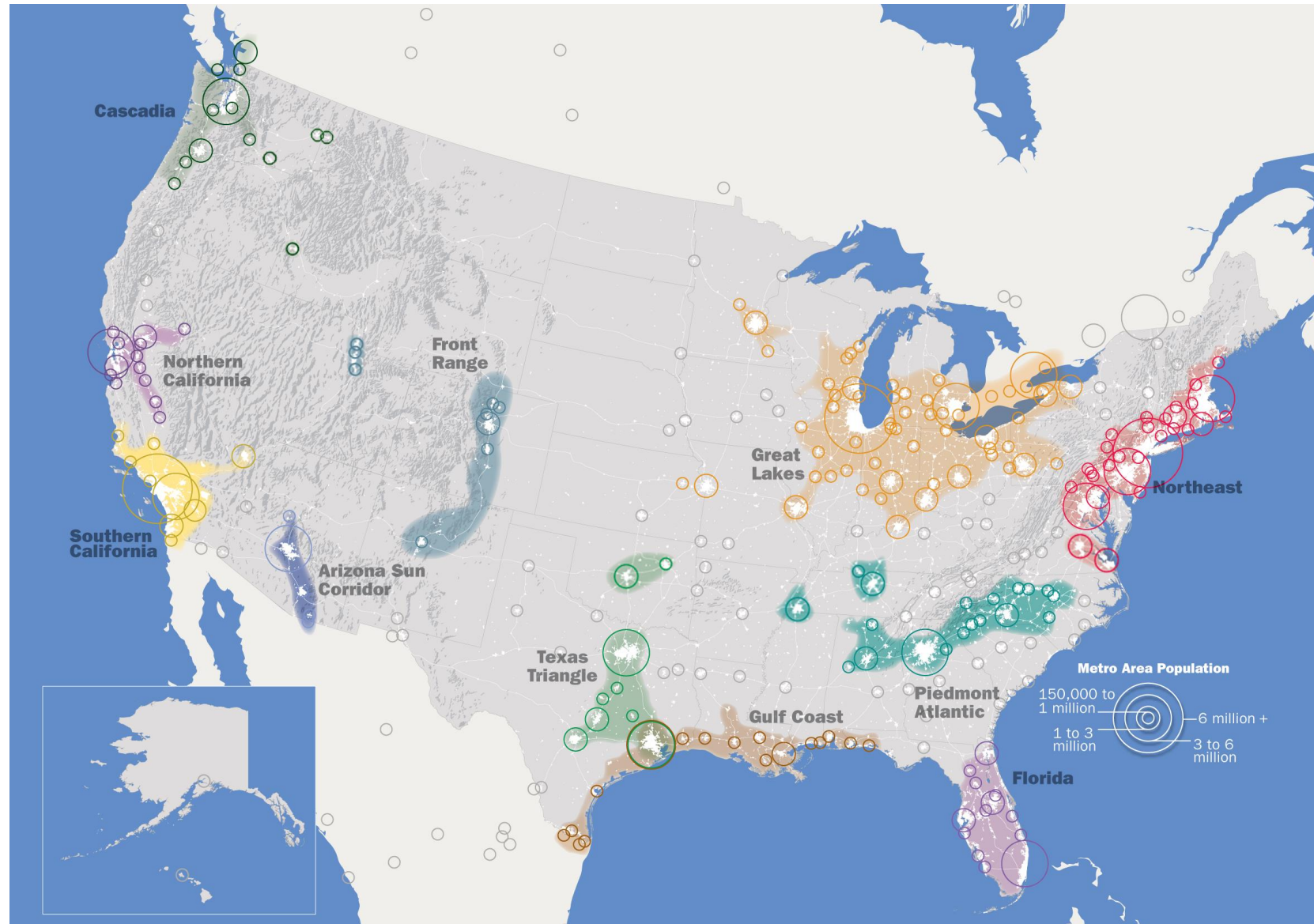
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## Why Los Angeles-Long Beach?

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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          |
| <b>Greater Southern California</b> | <b>24.4M</b>    | <b>29.0M</b>   |
| Texas Triangle                     | 19.8M           | 24.8M          |

Source: U.S. Census Bureau

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## 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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