
2Q24

Inland Empire Industrial Market Overview

NEWMARK

Market Observations

Economy

- U.S. retail sales are healthy but remain below their 20-year average. “Decent” but “not great” sales have implications for local industrial leasing activity.
- Loaded import volume at Southern California’s ports totaled 3.7 million containers in the first five months of 2024, up 17.0% from the same period in 2023.
- Ship attacks in the Red Sea, along with a potential strike by Gulf and East Coast dockworkers in the coming months, are causing more goods to be funneled in through western ports of entry, notably Los Angeles/Long Beach.
- Most of this rerouted 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.

Major Transactions

- Forty-four leases over 100,000 SF were signed this quarter, significantly more than the 32 from the same period in 2023.
- Amazon leased 3.2 MSF across three West I.E. facilities in the last six months, a sharp reversal from the company’s inactivity in the region from 2022-2023.
- Will Amazon’s top rivals take note and expand accordingly? Amazon is historically e-commerce’s trendsetter as it pertains to industrial space utilization.
- EQT Exeter purchased an 819,004-SF Class A distribution facility in Fontana from Manulife Investment Management in April. The \$197M trade, which is the largest sale of the year thus far, caused industrial sales volume to increase by 111.9% from the previous quarter.

Leasing Market Fundamentals

- The West is outperforming the East, based on recent leasing activity, net absorption gains and drops in sublet availability. Lower drayage costs relative to the eastern reaches of the market, proximity to the consumer populations of Los Angeles and Orange Counties and rent decreases are factors.
- West new leasing activity totaled 15.7 MSF in the first half of 2024, up 46.3% from the same period in 2023 as 100,000+ SF facilities garnered more interest. East new leasing activity was 4.7 MSF, down 11.4%.
- Large move-ins by Amazon and Home Depot in the West caused net absorption to finish in the black this quarter, with 3.3 MSF in gains.
- Available sublease space fell to 16.7 MSF, down 2.0 MSF from last quarter. Space coming to term, a notable delisting and leasing activity are behind this.

Outlook

- 17.4 MSF is under construction and only 7.3% has pre-leased; vacancy will rise.
- Ongoing tenant departures and downsizings will also 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.
- The West’s uptick in new leasing activity will lead to future net absorption, suggesting more-consistent absorption gains in the submarket are likely in 2025.
- Tenant-favorable conditions will lead to increased leasing activity (especially as rents decline) and longer-term lengths.
- How sublease fluctuates in the quarters ahead will be closely watched. Consistent decreases amid rising leasing activity historically portends a recovery.

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 3. Leasing Market Fundamentals: General Conditions
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 5. Sales Activity
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Economy: Southern California's Ports and U.S. Retail Sales



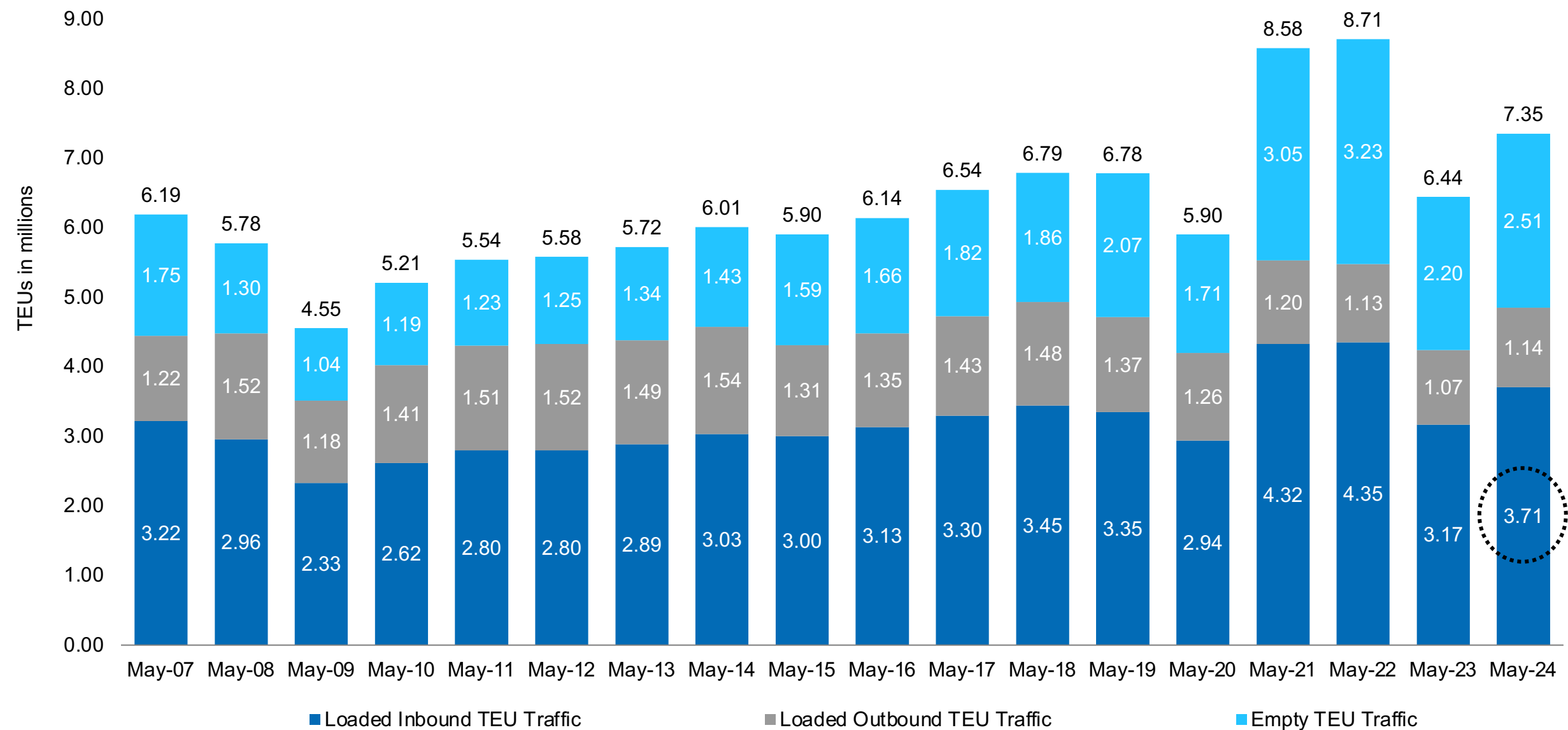
Ocean Container Spot Rates Were Up 136% from Mid-April to Late June 2024

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Loaded Imports in the First Five Months of 2024 Were Stronger Than the Same Periods in 2018 and 2019

2018 and 2019 ended up being healthy years before the exceptional (but inflated and unsustainable) growth of 2021-2022 due to COVID-19-related stay-at-home measures, government stimulus and domestic warehouse occupiers stockpiling goods to mitigate against global supply chain disruptions at the time.

The Ports of Los Angeles and Long Beach: Combined TEU Volume | Loaded Imports, Loaded Exports and Empty Containers | First Five 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 for the next six years. Longshoremen at East and Gulf Coast ports are currently negotiating their contract, which will expire at the end of September 2024. Import volume will shift to other ports of entry (e.g., Los Angeles-Long Beach) until an agreement is reached.

West Coast Ports Agreement Reached...Finally!

- 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.
- In March, for instance, the ILWU did not stagger shifts during meal periods.
- 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.



Source: Newmark Research, City of Los Angeles, The Real Deal

East and Gulf Coast Ports Are Up Next

- The International Longshoremen (ILA) represents dockworkers at 36 ports from Maine to Texas. The United States Maritime Alliance (USMX) represents ocean carriers and terminal operators.
- Their contract will expire on September 30, 2024.
- Harold Daggett, International President of the ILA, has warned that a strike is likely in 2024.
- Higher pay and job security as it pertains to automating port operations were primary issues for the ILA in 2018/the last negotiation period.



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

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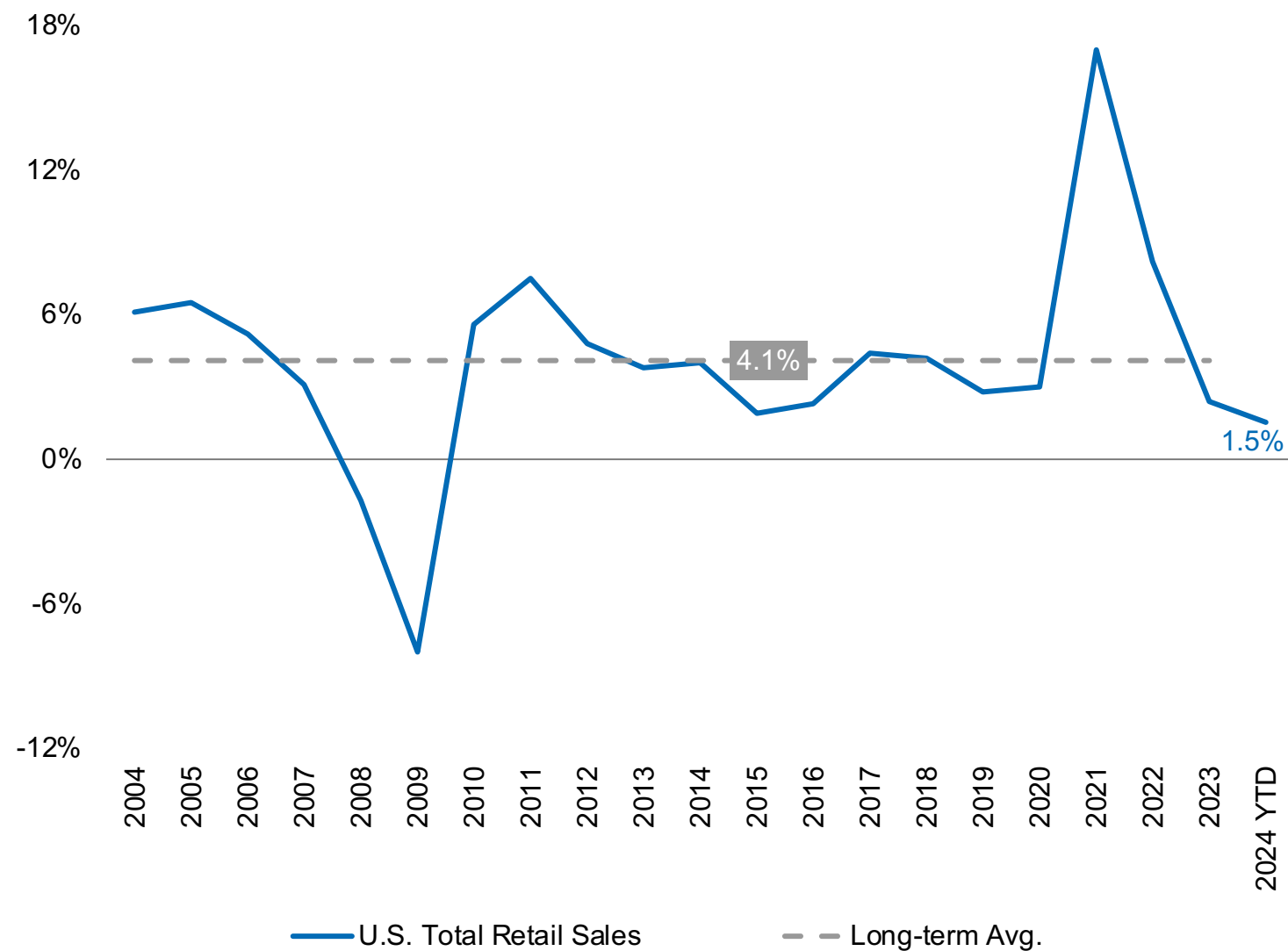
Truck Dwell Times are Lower Than Rail Dwell Times

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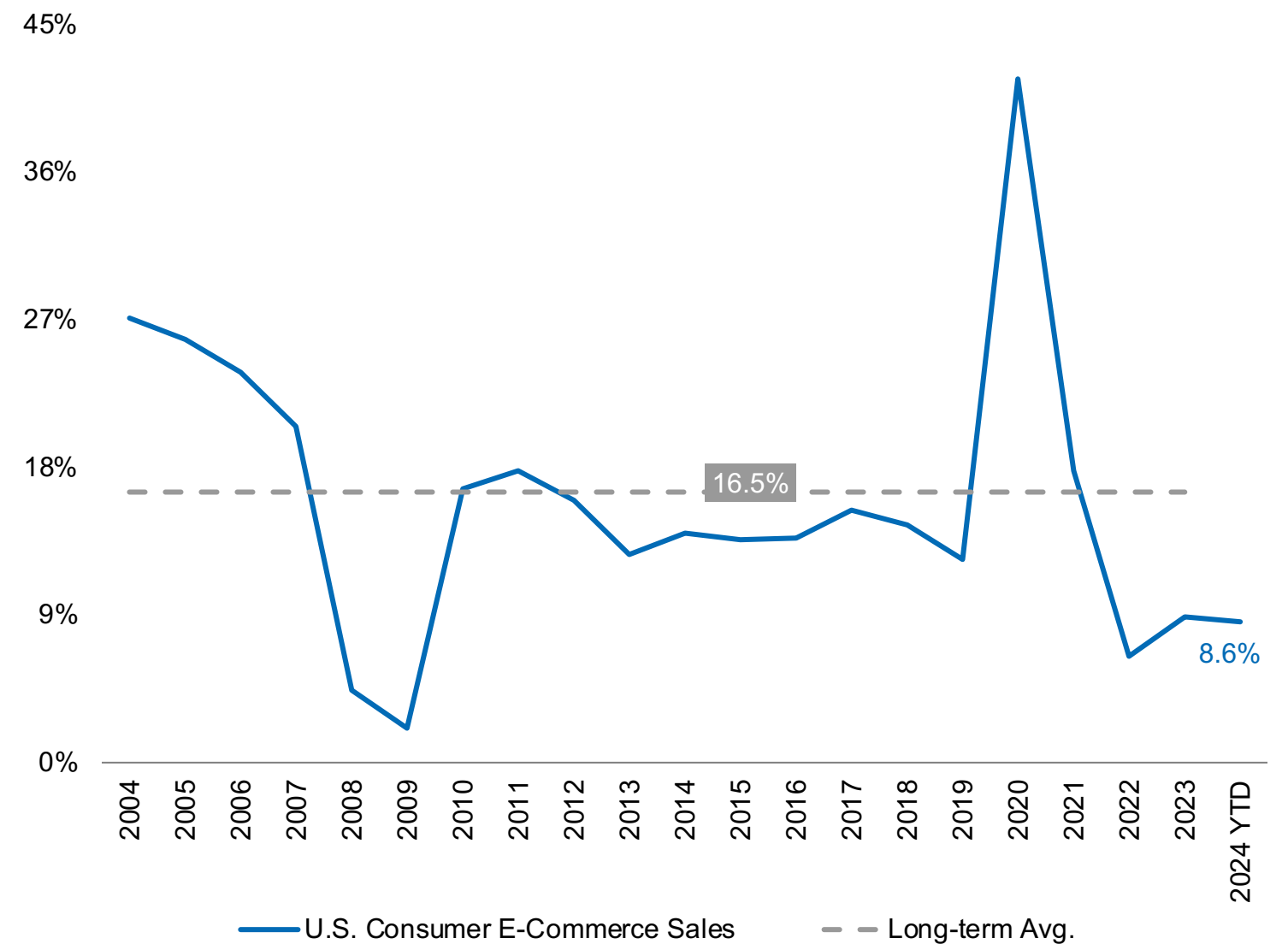
Retail Sales (an Indicator of Warehouse Demand) Continue to Moderate

Consumer e-commerce sales were up 8.6% in the first three months of 2024 compared with the same period in 2023. Although e-commerce sales growth exceeded total retail sales (+1.5% over the same period), the decline from 2021 onward is noticeable as consumer spending registers slower gains.

U.S. 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 sales in the first three months of 2023 vs. the same period in 2024.

The Pandemic Accelerated E-Commerce Sales Growth and Adoption Rates

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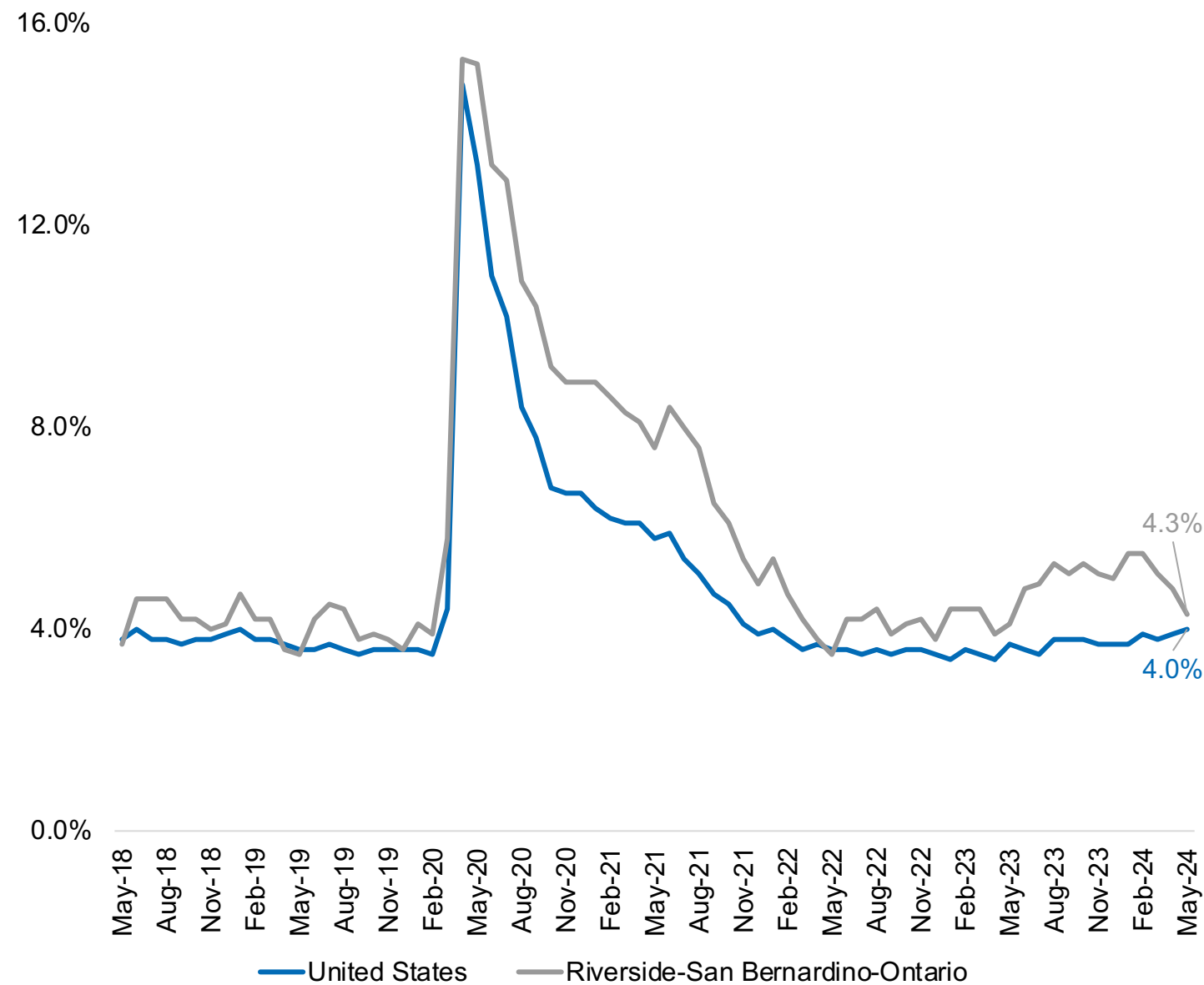
Economy: Local Labor Market



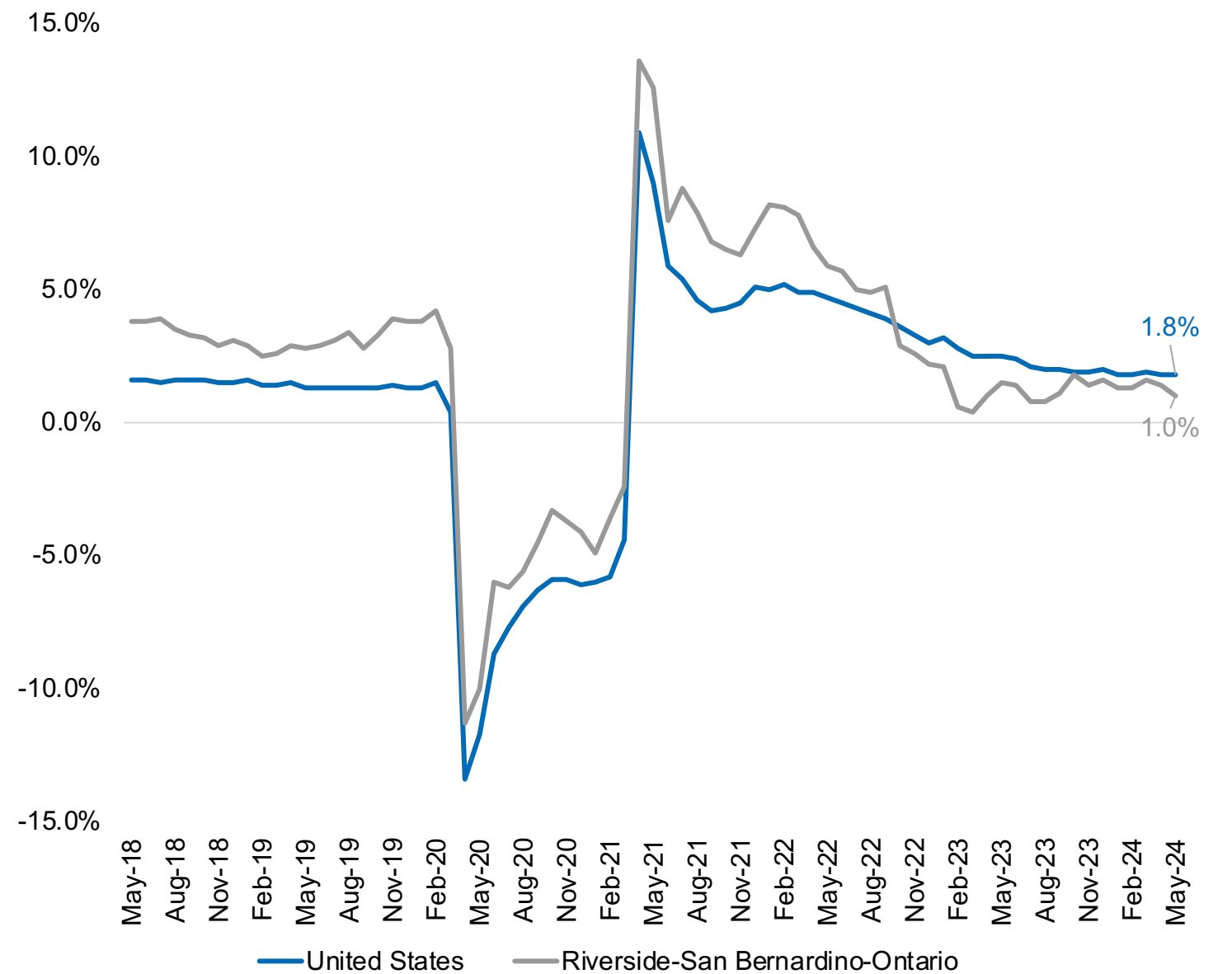
Local Unemployment Falls While Labor Force Shrinks

Local unemployment fell to a 13-month low of 4.3% in May after the civilian labor force shrank for the second consecutive month (e.g., 2.184 million people in March versus 2.150 million in May). Annual nonfarm employment growth (+1.0% in May), meanwhile, remains below the national average.

Unemployment Rate, Seasonally Adjusted



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

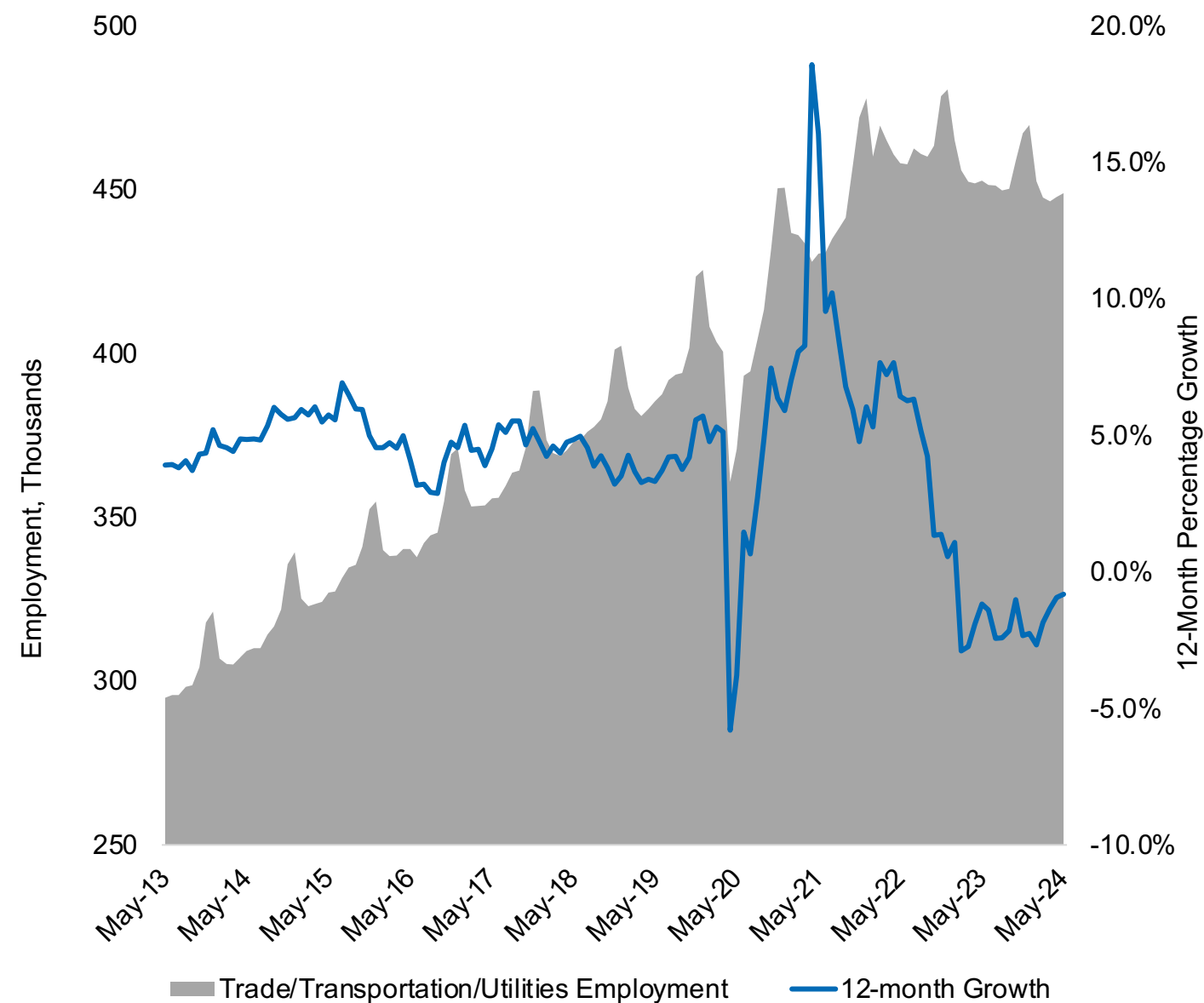


Source: U.S. Bureau of Labor Statistics, Riverside-San Bernardino-Ontario

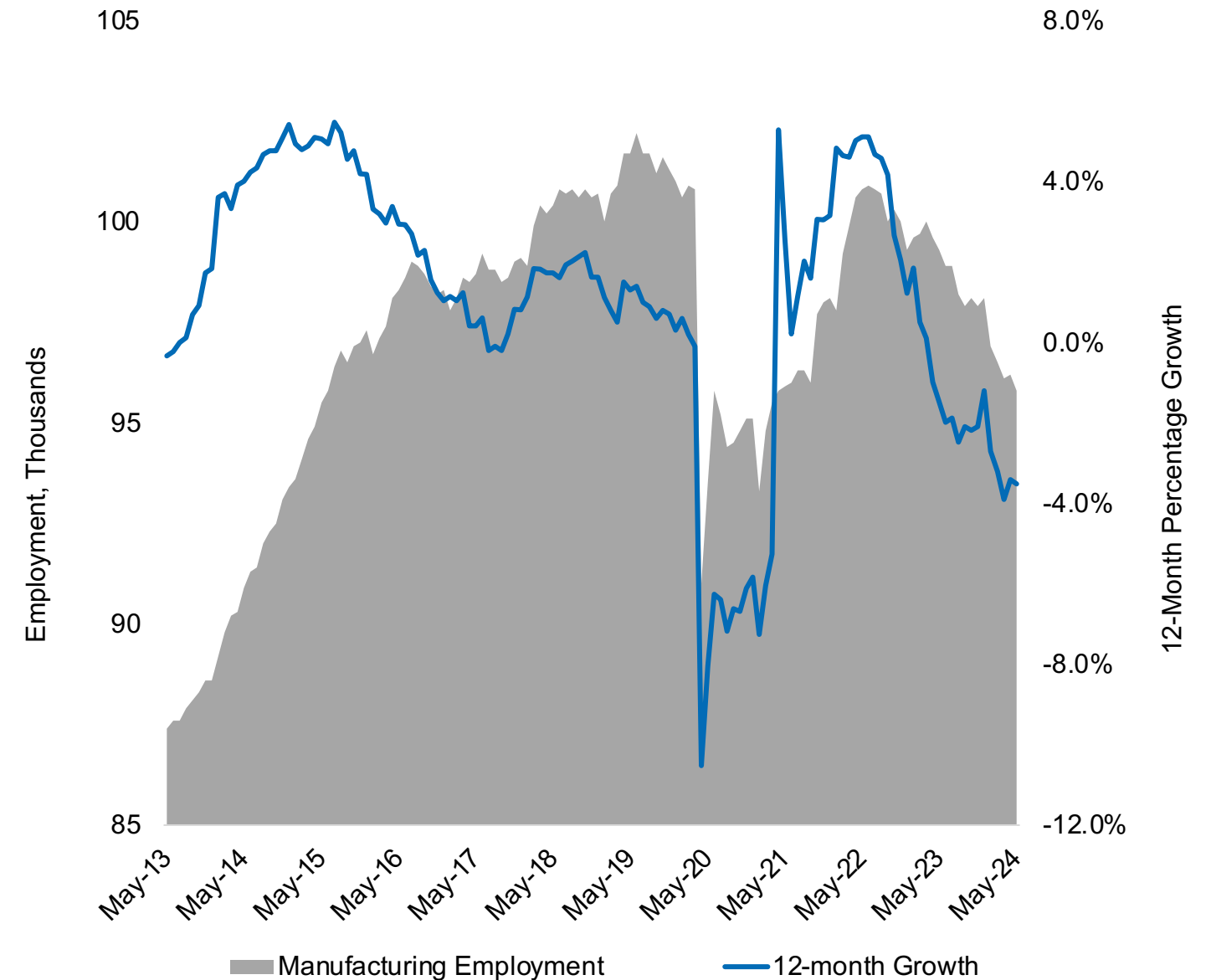
Overall Industrial Employment Growth Flattens; Will Benefit From Market Recovery

Employment growth in the trade/transportation/utilities sector, which hovered near zero in May, will benefit from renewed demand for warehouse product as prospective tenants take advantage of increasingly favorable leasing terms. Manufacturing employment stands to likewise improve, though comparatively high costs of doing business in the state will limit job gains.

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 Market Fundamentals: General Conditions



Unprecedented Rent Growth Occurred from Early 2021 through Early 2023

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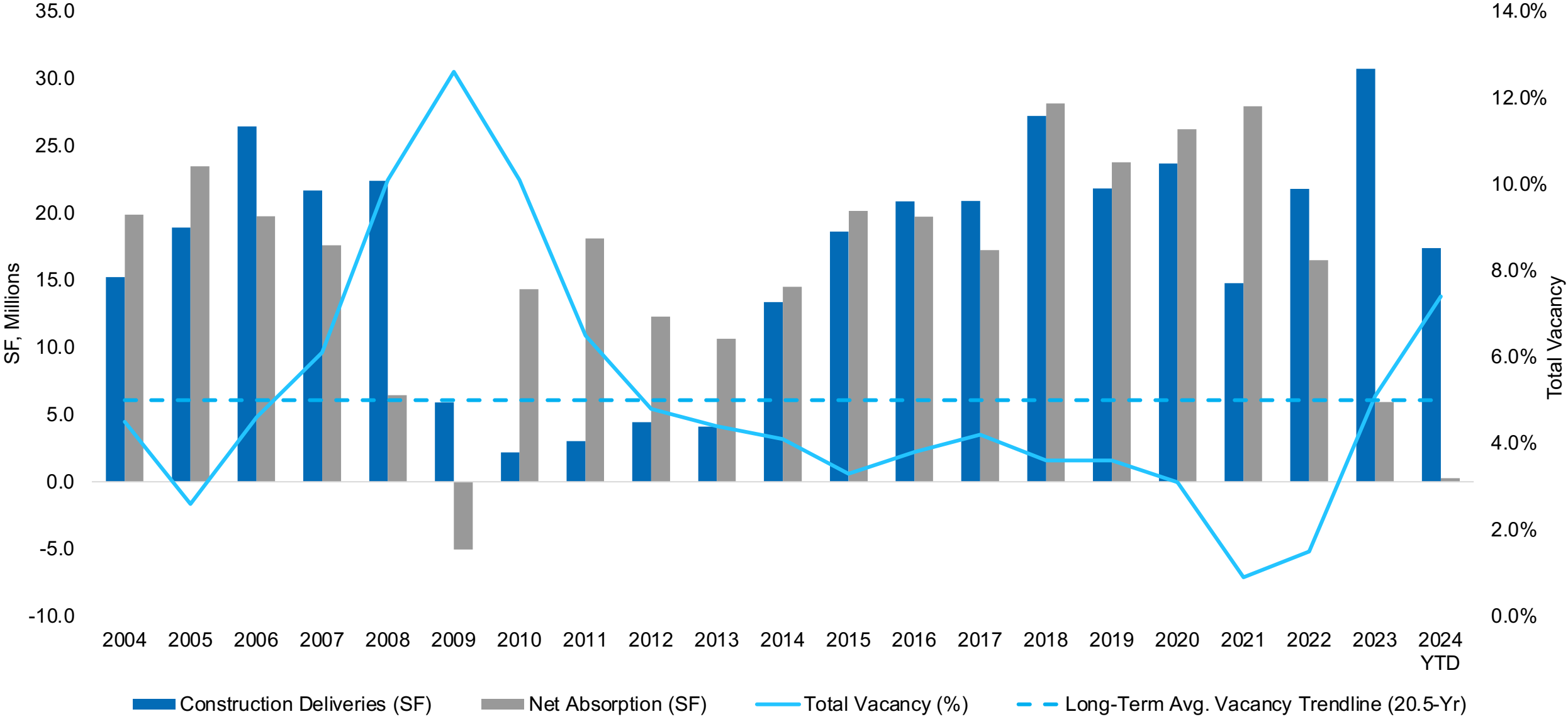
Average Weighted Lease Terms are Increasing After Declines in 2022-2023

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1M+ SF Move-Ins Drive 2Q Absorption; Vacancy Jumps as Construction Pipeline Empties

Net absorption in the second quarter of 2024 totaled 3.3 MSF after 1M+ SF move-ins from Amazon (three buildings) and Home Depot (two) offset space givebacks from Motivational Fulfillment (534,404 SF), DSV (484,250 SF) and Ingram Micro (468,862 SF). Net absorption on a year-to-date basis was close to zero, however, after a dismal first quarter.

Historical Construction Deliveries, Net Absorption, and Vacancy

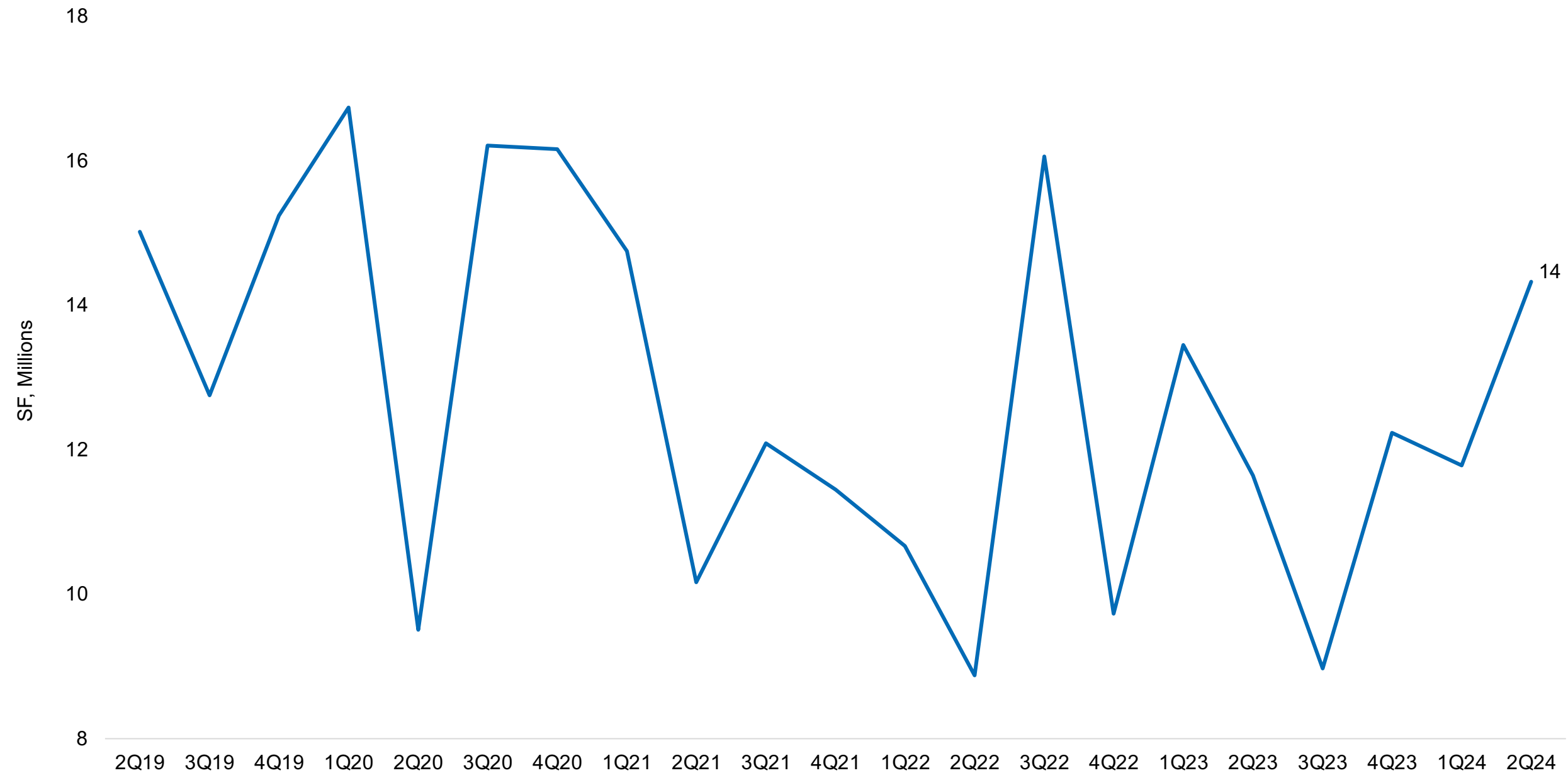


Source: Newmark Research

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

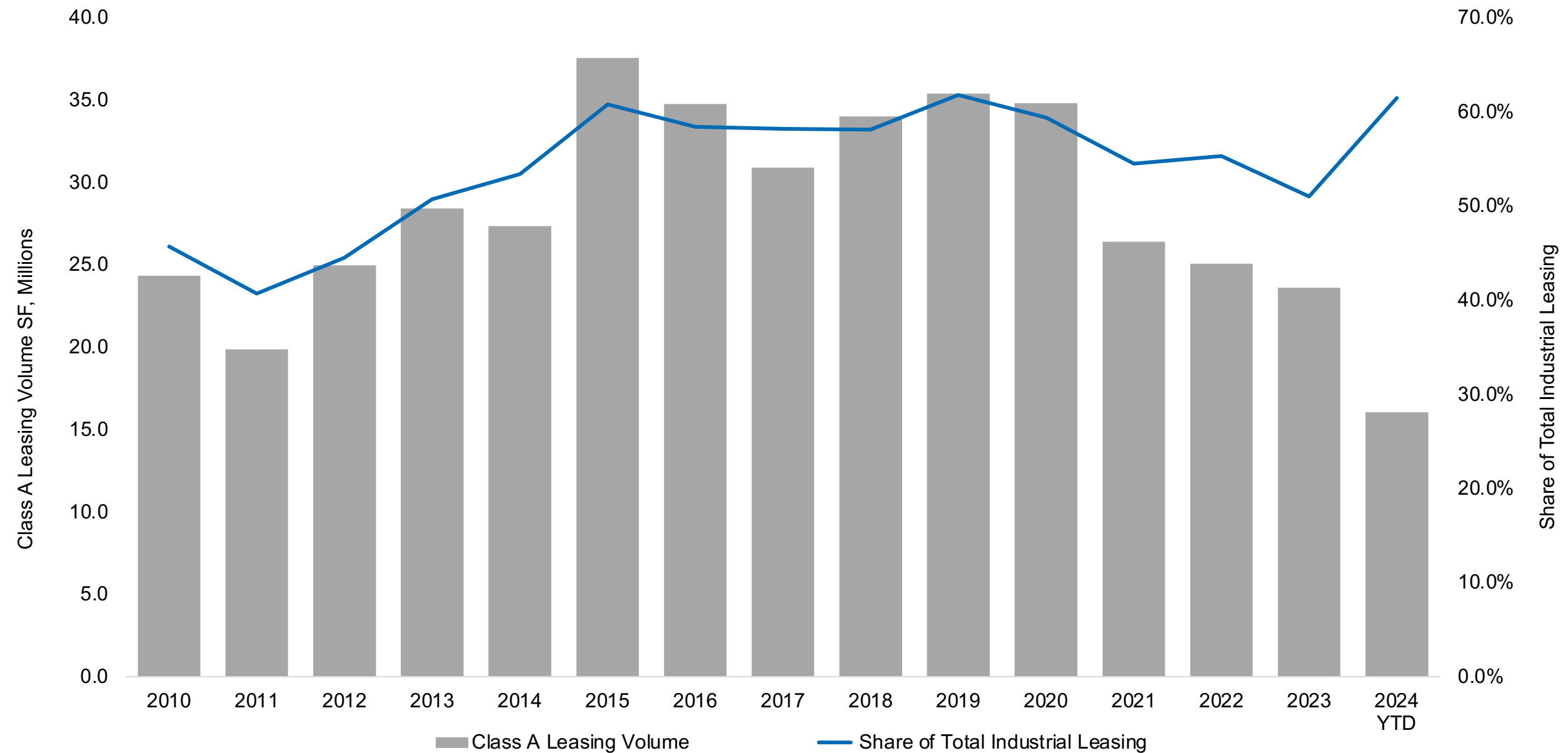


Source: Newmark Research, CoStar

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

Class A warehouse leasing accounted for 61.5% of total leasing activity in the first half of 2024, exceeding the 14.5-year average of 54.3%. 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 Falls After Eight Consecutive Quarters of Growth

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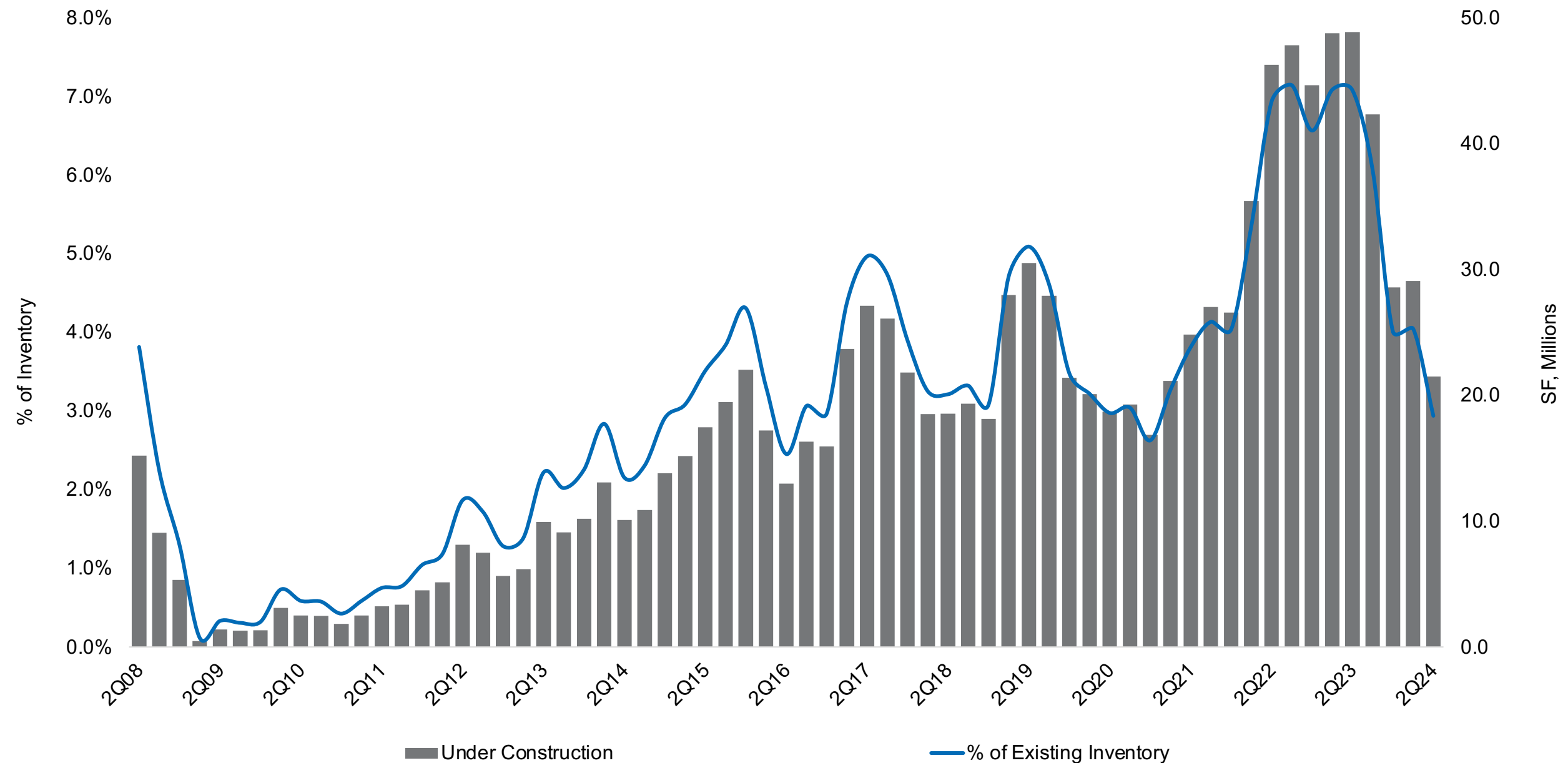
Sublet Availability Declines in West I.E., Where Leasing Activity Has Improved

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Bulk of Under-Construction Space Remains Unleased; Pipeline Contracts Further

A mere 7.3% of all inventory in the construction pipeline has been pre-leased, while only 23.8% of the 6.1 MSF set to deliver in the third 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

The 1M+ SF Segment Leads in Pre-Leasing; Pre-Leasing Far Less in Smaller Thresholds

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Notable 2Q24 Lease Transactions

Forty-four leases exceeding 100,000 SF were signed in the second quarter of 2024, notably higher than the 32 signed in the same period of 2023. Of this quarter's big-box leases, 23 were direct, 12 were renewals and nine were subleases. Thirty-two of the 44 leases were based in the West I.E.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Amazon	4121 Coyote Canyon Rd	West I.E.	Pre-lease	1,171,788
<i>The tech giant committed to a 10-year lease in April and occupied the entire facility when it delivered in June.</i>				
Tireco, Inc.	10545 Production Ave	West I.E.	Lease Renewal	1,101,840
<i>The Gardena-based distributor has leased the entire facility since January 2023, when it sold the property to Rexford in a sale-leaseback. A two-year commitment which commences in February 2025.</i>				
Campbell Soup	16604 Slover Ave	West I.E.	Direct Lease	690,967
<i>The food manufacturer will move into the recently-delivered facility in August. A five-year commencement.</i>				
B. Braun Medical Inc.	12400 Arrow Route	West I.E.	Direct Lease	611,573
<i>The medical product manufacturer is relocating from nearby Ontario. Tenant has early occupancy and will move in in July; 120-month lease term commences in January 2025.</i>				
GigaCloud	3510 E Francis Ave	West I.E.	Direct Lease	562,089
<i>The logistics firm committed to a 68-month-term. Occupancy is slated for September 2024.</i>				

WAIRE: Program Summary and Implications for Industrial

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Leasing Market Fundamentals: A Closer Look at Size Segments



1M+ SF Availability Remains Low, Comparatively Speaking

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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+; 100,000+ SF Segments are Especially Active

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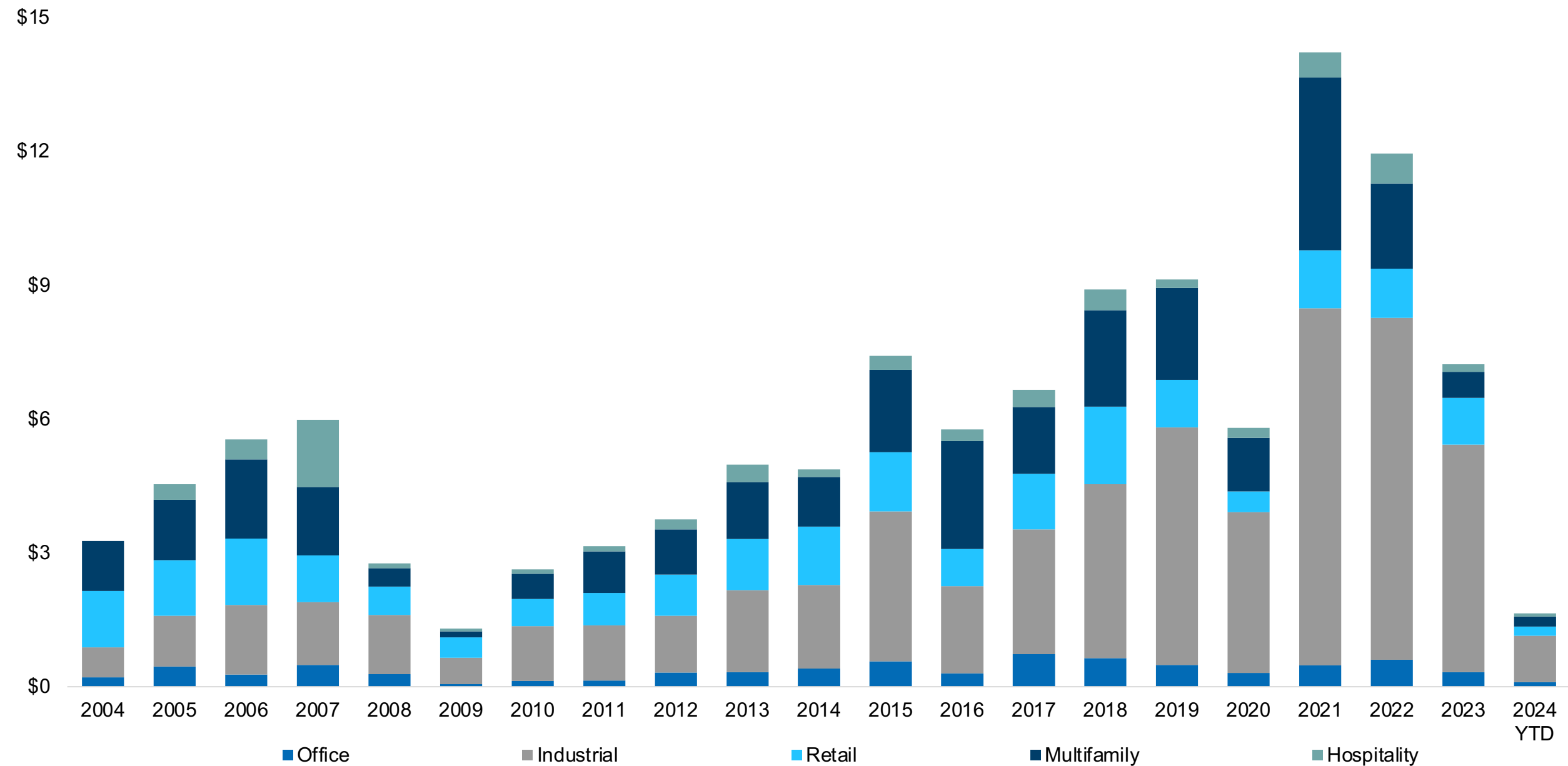
Sales Activity



Industrial Comprised 63.4% of Total Sales Volume in the First Half of 2024

63.4% vastly exceeds the 20.5-year (2004 to 1H24) average of 44.1%. Heated rent growth in recent years favors the segment, with many investors targeting desirable buildings with credit tenants whose leases are up for renewal. What the tenant was paying (\$\$) is different than today's rent averages (\$\$\$\$).

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

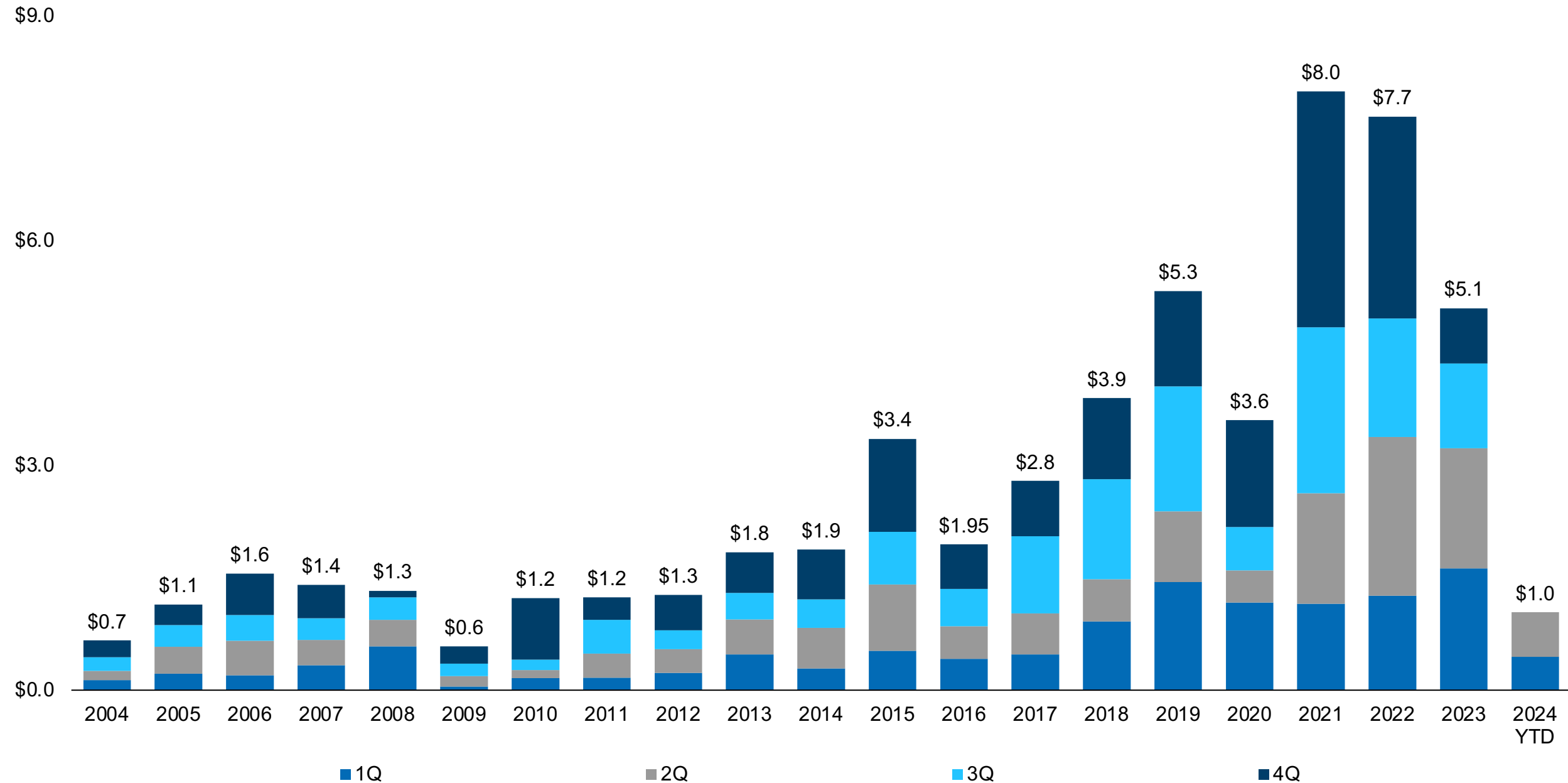


Source: MSCI Real Capital Analytics, Newmark Research
 Note: Preliminary data is cited for the second quarter of 2024

Industrial Sales Volume: Up Close

Industrial sales volume totaled \$598.3 million in the second quarter of 2024, down 62.8% 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.

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



Source: Newmark Research, MSCI Real Capital Analytics
 Note: Preliminary data is cited for the second 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 | 2Q24



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Inland Empire Statistics by Building Size Segment | 2Q24



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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

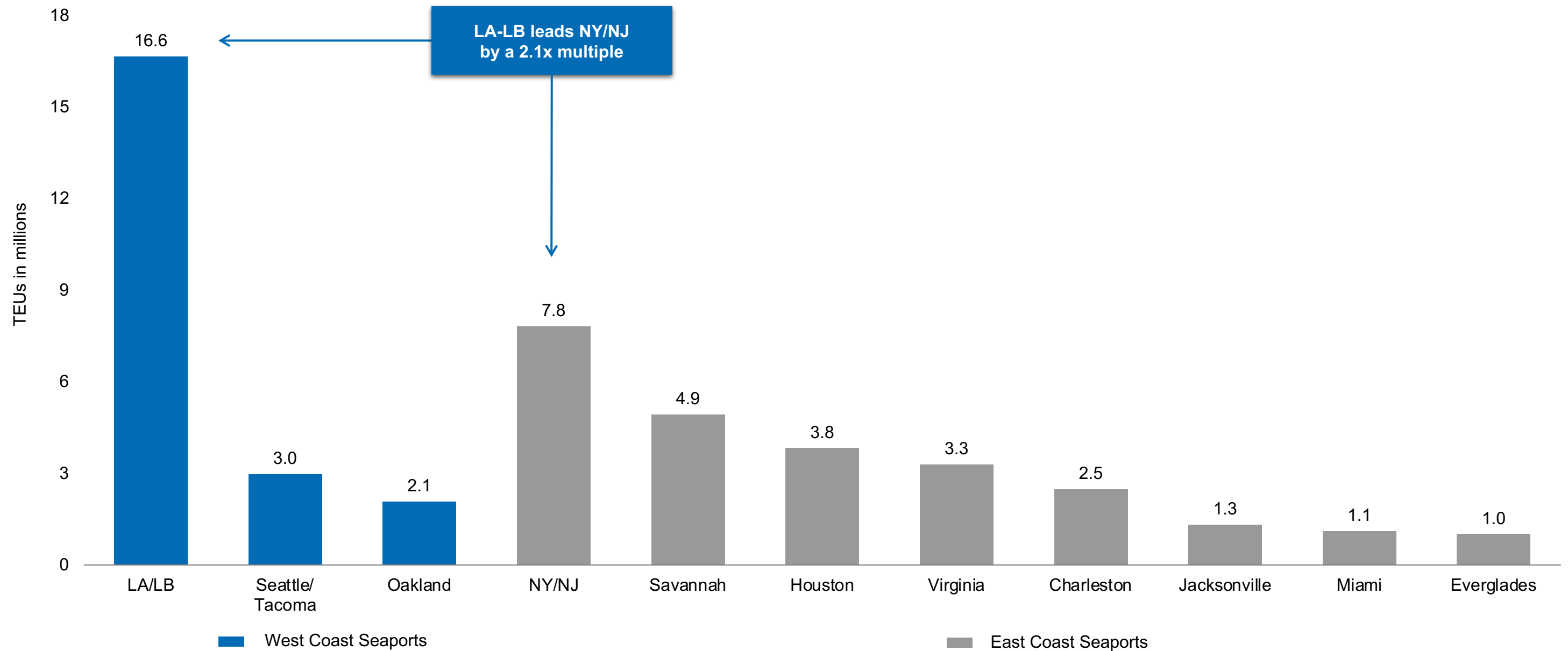
Rank	Seaport	2023 Volume (TEUs, in millions)
11	Hong Kong	14.3
12	Port Klang, Malaysia	14.1
13	Rotterdam, The Netherlands	13.4
14	Xiamen, China	12.6
15	Antwerp, Belgium	12.5
16	Tanjung Pelepas, Malaysia	10.5
17	Kaohsiung, Taiwan	8.8
18	Laem Chabang, Thailand	8.7
19	Tanger Med, Morocco	8.6
20	Beibu Gulf,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



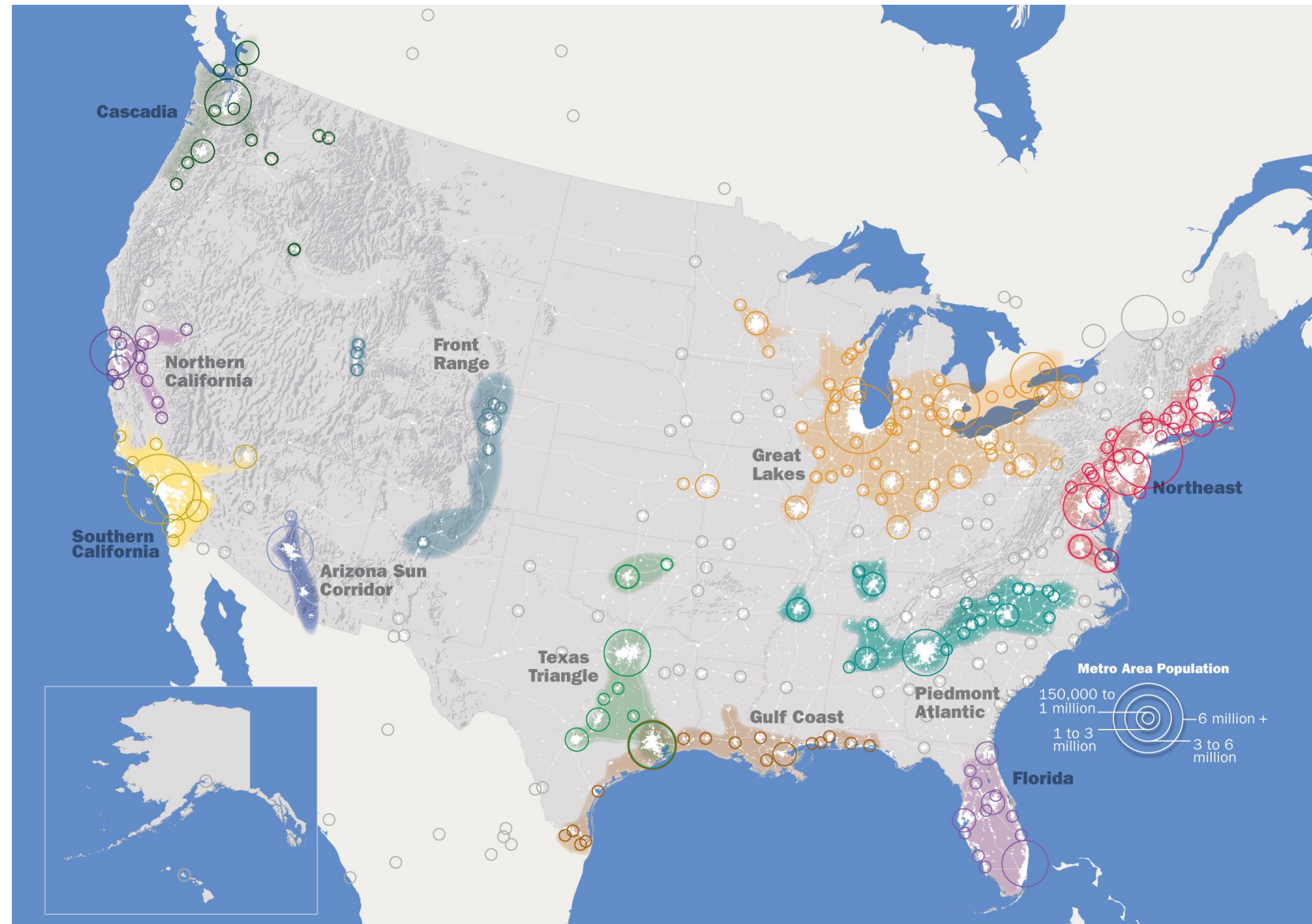
Source: Newmark Research, Individual Seaports

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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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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