

INVESTMENT FORECAST

Industrial
Riverside-San Bernardino

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2022

Extraordinary Demand Amid Unrelenting Stock Expansion Piques the Interest of More Outside Investors

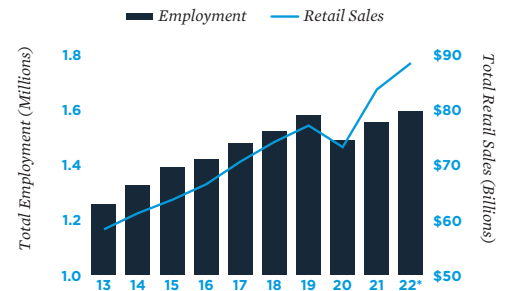
Hub market enters 2022 on strong footing, following record year for absorption. One of the nation's largest industrial metros by inventory, Riverside-San Bernardino is an epicenter for 100,000- to 200,000-square-foot-plus lease executions. Recently, ardent demand from logistics firms, suppliers and e-commerce companies for sizable spaces at regionally lower rents translated to the absorption of 29 million square feet last year, slashing vacancy below 2 percent. Mid and large-scale commitments have been most frequent near Ontario International Airport and in Riverside County along Interstate 215, activity that has intensified development in these areas. During 2022, developers are expected to finalize a total of 25 million square feet throughout the Inland Empire, roughly 60 percent of which was unaccounted for at the onset of the year. This wave of speculative space will outpace near-term demand; however, the metro still registers one of the largest annual absorption tallies nationally, with vacancy ending the year at a scarce 2 percent.

Fierce competition exists for larger assets and properties with upside. Home to a vast roster of national tenants and average pricing that trails adjacent metros, the Inland Empire attracts a diverse collective of buyers. Deal flow reflects this, as the number of \$20 million-plus transactions more than doubled last year, while \$1 million to \$10 million sales activity rose by 10 percent. The Airport Area is the preferred landing spot for institutional-sized warehouse and distribution center trades, with returns hovering in the 3 percent range. Buyers are also targeting warehouses with tenants at rents below market value. These assets provide future upside, as asking rates will be adjusted upward to align with the metro average when existing leases expire. Chances to acquire these properties are most frequent in South Riverside County, the Coachella Valley and San Bernardino.

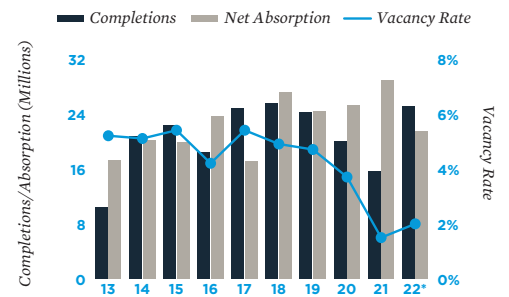
2022 Market Forecast

- Employment** ↑
 up 2.6% ↗ Driven by job creation in the retail trade, transportation and utilities sector, the Inland Empire adds 40,000 total positions.
- Construction** ↑
 25 million sq. ft. ↗ For the sixth time in the past nine years, market inventory grows by at least 4 percent. Deliveries in Riverside County account for two-thirds of the space completed in 2022.
- Vacancy** ↑
 up 50 bps ↗ An influx of new space places slight upward pressure on vacancy. Still, users absorb more than 20 million square feet for a fifth straight year, with availability ending 2022 at 2 percent.
- Rent** ↑
 up 5.4% ↗ Tight conditions allow the pace of rent growth to nearly match last year's 5.8 percent gain, elevating the mean marketed rate to \$11.40 per square foot.
- Investment** ↑
↗ Investor demand for San Bernardino-area warehouses may escalate, following the recent opening of a Union Pacific intermodal terminal in adjacent Colton and an expected increase in freight volumes at the local BNSF facility.

Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

Al Pontius

Senior Vice President
Director IPA Industrial
Tel: (415) 963-3000 | apontius@ipausa.com

Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. 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.