

2020 North America Industrial Big Box

Review & Outlook

CBRE RESEARCH



CBRE

Inland Empire



The Inland Empire is one of the largest big-box industrial markets in the U.S. The majority of its industrial base is Class A distribution space in a highly concentrated 30-mile radius area. The region adds between 10 million and 25 million sq. ft. of new space annually that is absorbed by Fortune 500 companies. The Inland Empire has excellent infrastructure with major freeways, three large airports and multi-modal/inter-modal railways.”

– Dan de la Paz, Executive Vice President





Inland Empire

Demographics

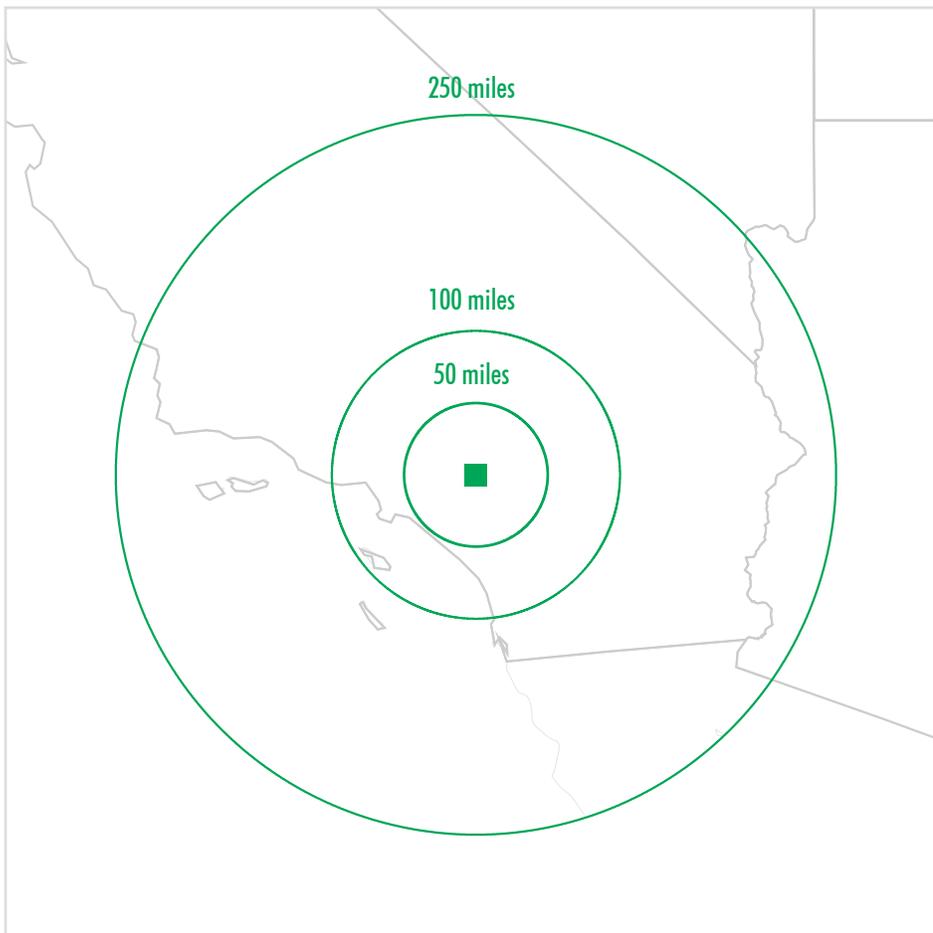
16.3 million people live within 50 miles of the Inland Empire (IE) core, the second highest industrial market population in the country, behind Northern/Central New Jersey. 26.3% is in the 18-to-34 age demographic, which ranks first in the nation.

Population is expected to grow 2.3% over the next five years. Close to 30 million people live within 250 miles of the market, generating a significant amount of industrial demand. The IE is second in North America behind Northern/Central New Jersey in total

households within a 50-mile radius of the market core (5.2 million).

The large population gives the Inland Empire one of the largest big-box industrial labor forces in the country. According to [CBRE Labor Analytics](#), more than 100,000 people are employed in the warehouse industry. This is expected to grow 25% by 2030. The average hourly wage for a non-supervisory warehouse worker is \$15.06. While this is 7% higher than the national average, it is the lowest hourly wage for a major industrial market in California.

Figure 1: Inland Empire Population Analysis



Distance from Inland Empire Core	2020 Total Population	5 Year Growth
50 miles	16,309,616	2.3%
100 miles	21,485,867	2.5%
250 miles	28,606,045	3.1%

Source: CBRE Location Intelligence.

Figure 2: MARKET Warehouse & Storage Labor Fundamentals



Source: CBRE Labor Analytics.

*Median Wage (1 year experience); Non-Supervisory Warehouse Workers (forklift, warehouse workers).

Location Incentives

Over the past five years, there have been 59 economic incentives deals totaling more than \$37 million at an average of \$7,883 per new job in the Inland Empire, according to Wavteq.

According to [CBRE's Location Incentives Group](#), among the top incentive programs offered is the California Competes Tax Credit, which is a discretionary income tax credit awarded to

businesses that locate or expand in California. This program was extended through 2023 with \$180 million in tax credits available for allocation to businesses that make capital investments, create new jobs and offer strategic importance to the region. The credits are non-refundable and companies can only apply during designated application periods held three times each year.

Figure 3: Inland Empire Top Incentive Programs

Program	Description
Employment Training Panel	Job training grant
California Competes Tax Credit	Discretionary tax credit program
Manufacturing M&E Sales Tax Exemption	100% exemption of State sales taxes on machinery and equipment for manufacturing and R&D

Source: CBRE Location Incentives Group.

Note: The extent, if any, of state and local offerings depends on location and scope of the operation.

Inland Empire

Logistics Driver

The market is close to the ports of [Los Angeles](#) and [Long Beach](#), the two largest in North America. The large amount of imports flowing into these ports directly feeds the region’s big-box distribution warehouses. COVID-19 restrictions led to fewer imports in the first half of 2020, but significant improvement the second half of the year kept port-related demand strong.

The market possesses logistics advantages from the air, ground and rail. [Ontario International](#) is quickly becoming one of the top cargo airports in the country. According Aviation Pros, air cargo volume into Ontario increased by 21% in 2020, the highest growth rate in the continental U.S. Ground transportation is a key to the market’s success. Interstates 10 and 15 pass through, giving the region direct access to the entire country. Rail also is an option, as both BNSF and Union Pacific service the market.

Capital Markets



2020 was another banner year for the IE, making it one of the nation’s top industrial markets. Fully entitled land remains difficult and time consuming to secure and trades at a premium as developers look to build more product. The boundaries of East IE continue to push out to Beaumont, Banning, Hesperia and Victorville as large land parcels become harder to find. Cap rates compressed throughout the year with some deals trading in the mid-3% range. The IE is poised for a very good 2021 as investor demand remains strong.”

– Darla Longo, Vice Chairman

Figure 4: Cap Rate Comparison

	Class A	Class B
2020	3.75% - 4.25%	4.50% - 5.50%
2019	3.75% - 4.25%	4.75% - 5.50%

Source: CBRE Research.

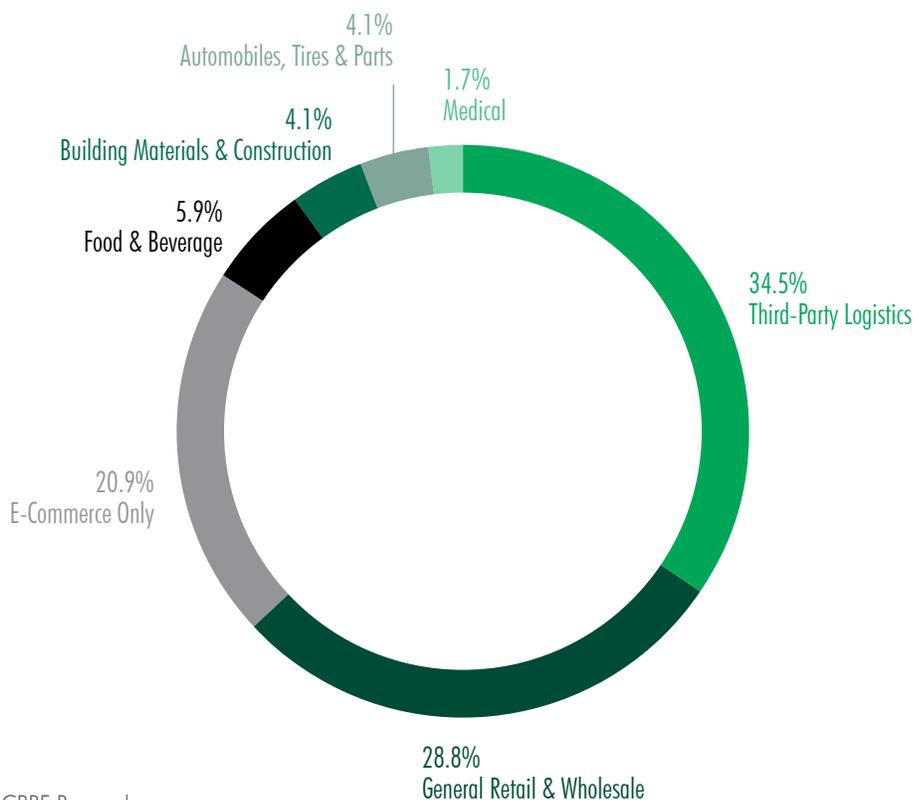
Supply & Demand

With 359 million sq. ft. of total supply, the Inland Empire is the fifth largest big-box industrial market in North America. 42.5 million sq. ft. was transacted in 2020, the most for any North American market. Demand was driven by 3PLs, which accounted for 34.5% of the total deals in 2020. Transaction activity increased by 21% year-over-year in 2020 and net absorption increased by 40% to 25.1 million sq. ft.

Despite robust demand, construction completions fell by 14% last year to 16.2 million sq. ft., as fewer

land sites were available. Less completions and more activity lowered the direct vacancy rate by 1.2 percentage points to only 3.1%. The market will further tighten in 2021 as only 11.2 million sq. ft is under construction, 25.5% of which is preleased. Robust fundamentals have led to an increase in taking rents. The average first-year taking rent in 2020 was \$6.56 per sq. ft., 6.8% higher than in 2019. As the market continues to tighten, look for vacancy rates to drop below 3% and rents to increase at a quicker pace.

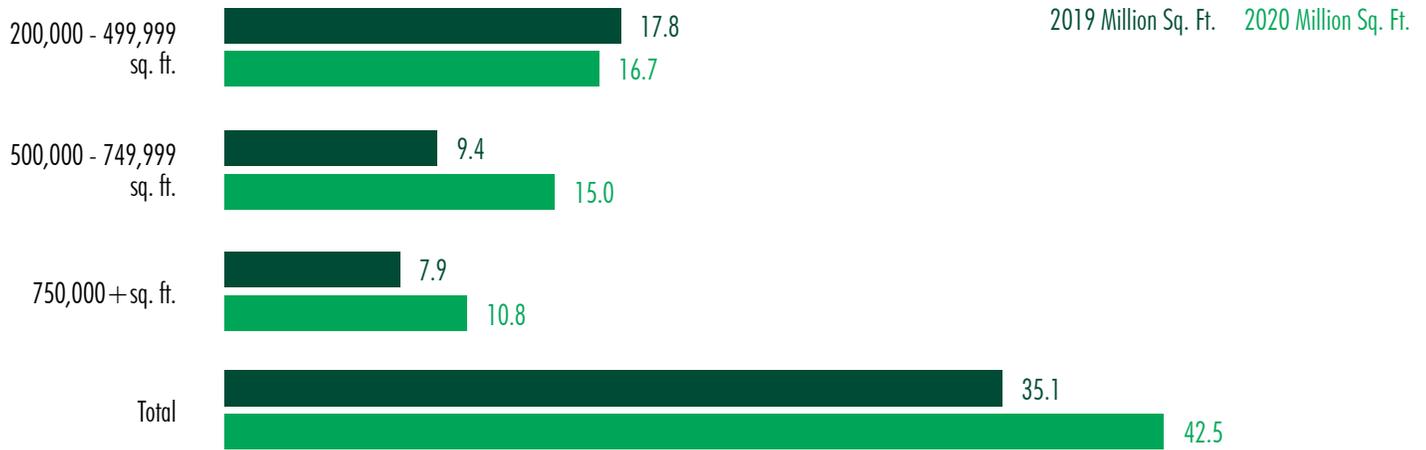
Figure 5: 2020 Occupier Transaction Market Share



Source: CBRE Research.

Inland Empire

Figure 6: Transaction Volume



Note: Includes new leases, renewals, and user sales transactions 200,000 sq. ft. and above.
Source: CBRE Research.

Figure 7: Big Box Year-Over-Year Data Comparison

2020						
	# of Existing Buildings	Existing Inventory SF	Direct Vacancy Rate	Overall Net Absorption	Construction Completions	First Year NNN Taking Rent psf/yr
200,000-499,999 SF	470	152,092,264	3.0%	10,144,912	5,406,302	\$6.94
500,000-749,999 SF	135	81,795,575	5.4%	7,672,730	6,561,143	\$6.52
750,000+ SF	119	125,553,925	1.8%	7,243,741	4,187,111	\$5.78
Total	724	359,441,764	3.1%	25,061,383	16,154,556	\$6.56
2019						
	# of Existing Buildings	Existing Inventory SF	Direct Vacancy Rate	Overall Net Absorption	Construction Completions	First Year NNN Taking Rent psf/yr
200,000-499,999 SF	476	153,124,398	4.6%	6,754,917	6,157,153	\$6.30
500,000-749,999 SF	131	79,541,362	4.6%	4,591,648	6,598,065	\$5.95
750,000+ SF	111	116,999,051	3.7%	6,441,377	5,975,952	\$5.52
Total	718	349,664,811	4.3%	17,787,942	18,731,170	\$6.14

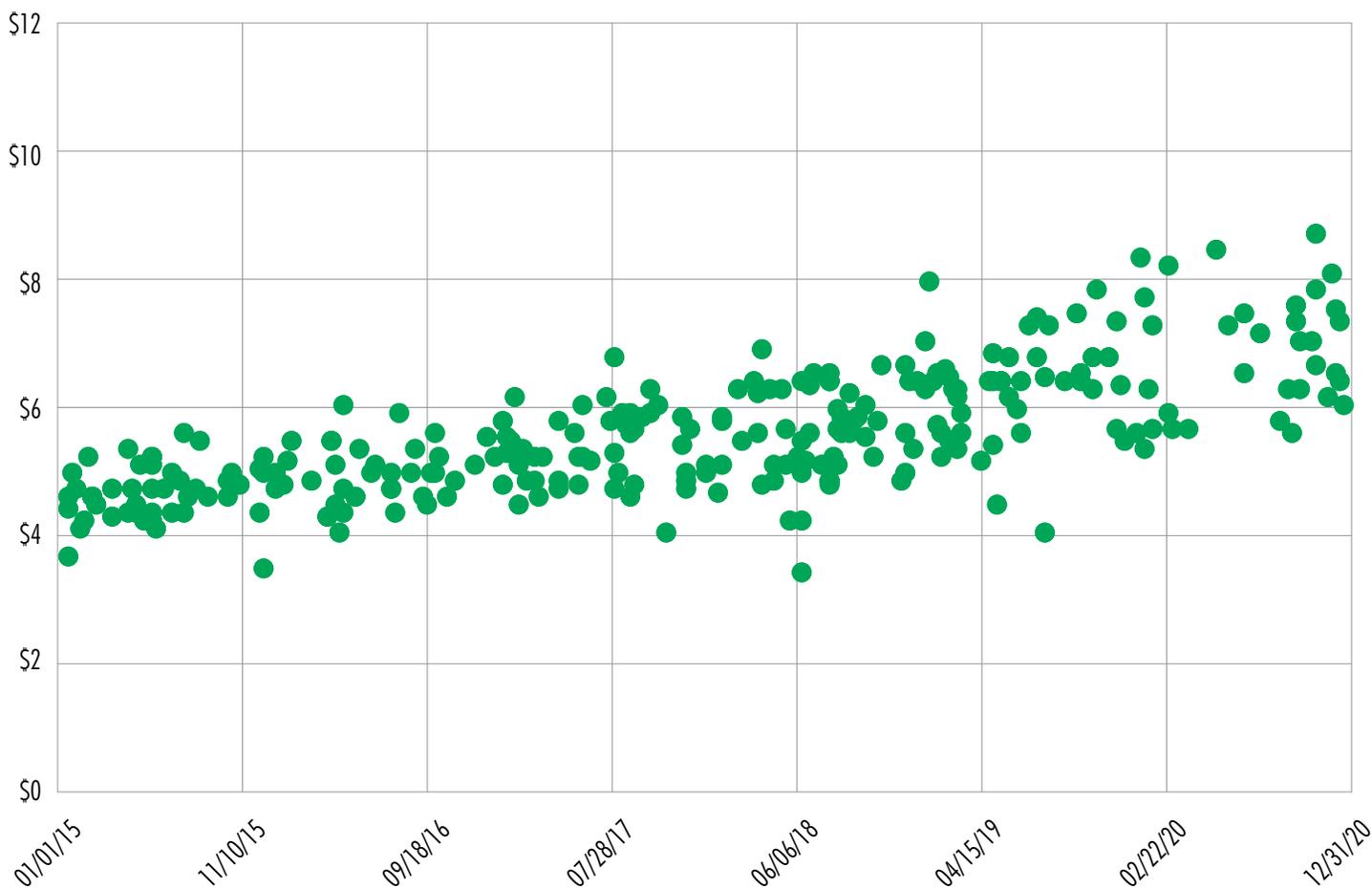
Source: CBRE Research.

Figure 8: Under Construction & Percentage Released

	2020 Under Construction Sq. Ft.	% Released
200,000-499,999 sq. ft.	4,372,348	0.0%
500,000-749,999 sq. ft.	1,300,310	47.3%
750,000+ sq. ft.	5,554,664	40.4%
Total	11,227,322	25.5%

Source: CBRE Research.

Figure 9: First Year Taking Rents (psf/yr)



Note: Includes first year taking rents for leases 200,000 sq. ft. and above.
Source: CBRE Research.

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