

Inland Empire Industrial

The Live Read

Where the market actually is right now, and the signals that call the next turn.

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- **22 years in Southern California industrial, Lee & Associates Irvine — 700+ transactions, \$600M+**
- ~80% of practice in the Inland Empire, LA, and Orange County industrial
- Author of Industrial Intelligence and Industrial Income; host of the Industrial Insights podcast (60+ episodes)
- SIOR · MBA · MRED · Master of Supply Chain Management
- Investor — owns 30 units; LP in 8 industrial deals

"Read across the reports, not inside one of them."

A practitioner's read, built from six brokerage reports, CoStar, and the real-time data in between.

I Make Calls. Here's the Report Card.

From my June 2025 IE talk: "Does it feel like the bottom? Not yet." Scored against the 12 months since.

✓ CALLED IT

"Not the bottom." Right. Vacancy climbed to ~8–9%, rents fell to –39% off peak, and Q1 brought the worst absorption quarter on record.

The vacancy dip was a tariff head-fake. I doubted the two-quarter improvement. It resumed climbing.

Supply keeps collapsing. Pipeline down to ~10M SF — the floor that is now forming.

Owner-users buy the reset. Walmart paid \$440/SF to buy back its own Riverside DC.

👎 PARTLY — AND I'LL OWN IT

"SoCal rebounds first." Actually lagged — Prologis now says SoCal trails the recovery by two to three quarters.

"3PL pullback coming." Half-right: consolidations drove the give-backs, but 3PLs are still ~50% of leasing.

Caps: "5.5% is hard to pass up." They drifted past it — IE now prints ~6%+.

The Two Biggest Landlords Agree

The world's largest industrial REIT and the SoCal infill pure-play, on the same quarter.

PROLOGIS — WORLD'S LARGEST INDUSTRIAL LANDLORD

"Southern California is improving, but will lag — moving through the bottoming process, tailing the market by two to three quarters."

First market-rent increase in 2.5 years. Record 64M SF leased in Q1. Occupancy 95.3%. Guidance raised; their Industrial Business Indicator sits firmly in growth territory.

REXFORD — THE SOCAL INFILL PURE-PLAY

Record 4.1M SF leased, +70% YoY. Interest in vacant space back to ~90%.

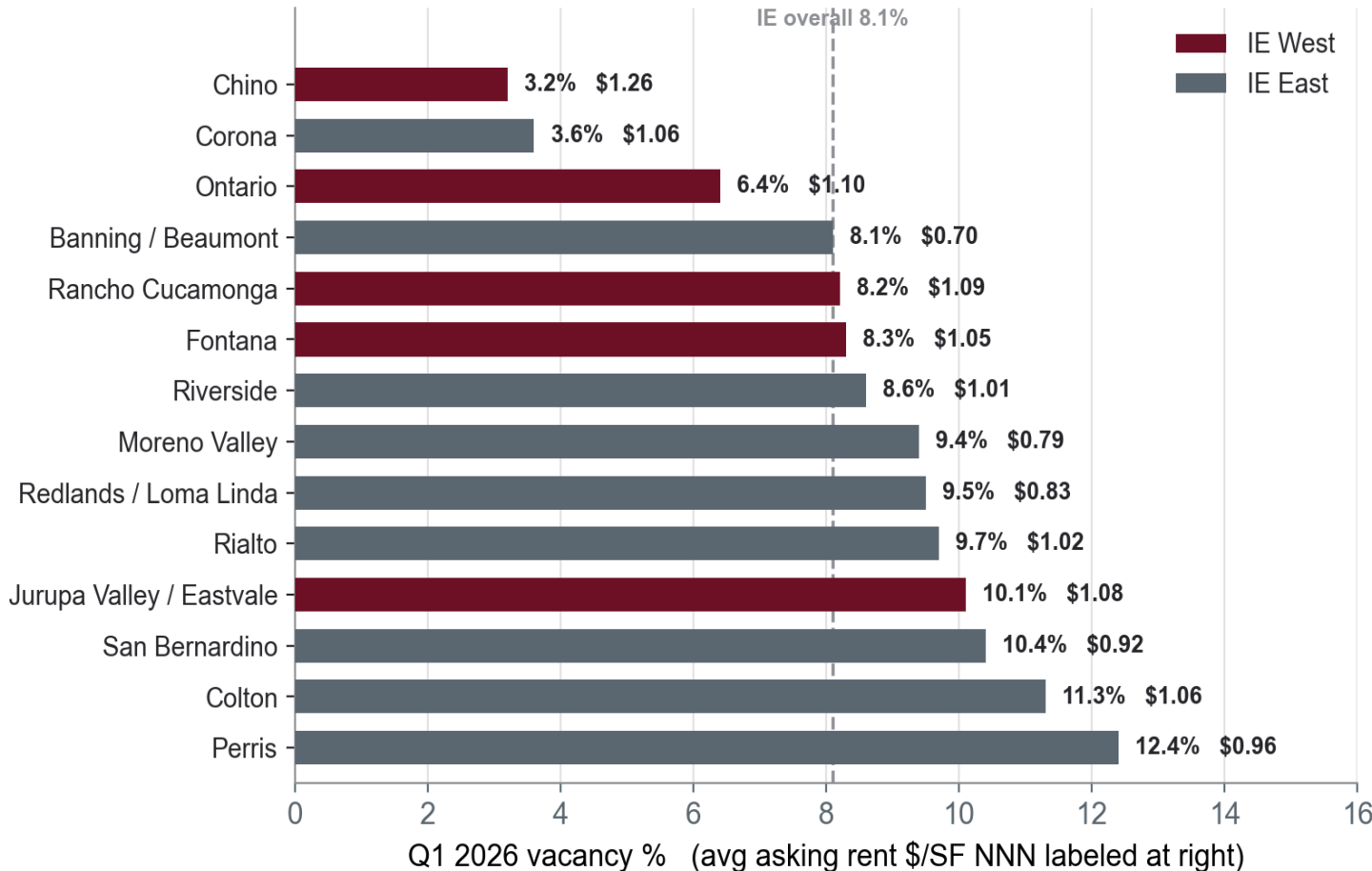
But infill SoCal market rents are -7% YoY, and renewals are printing negative cash spreads (Tireco -30%). 3PL activity picked up in IE West; +8% mark-to-market still embedded.

THE READ

Both say the same thing: bottoming, demand re-engaging — but SoCal lags the recovery and rents are still soft. That is the cycle position, from the two who see the most.

The IE Is Not One Market

Q1 2026 vacancy by submarket. Chino in the 3s, Perris in the 12s. The average hides everything.



READ THE GRADIENT

IE West is the firmer, improving half: 7.1% vacancy, \$1.09, rents holding.

IE East is the soft side: 9.3% / \$0.94, where the vacant boxes sit. Chino (3.2% / \$1.26) to Perris (12.4%) is one "market."

The West's negative Q1 absorption was a few one-off mega-box give-backs, not the trend.

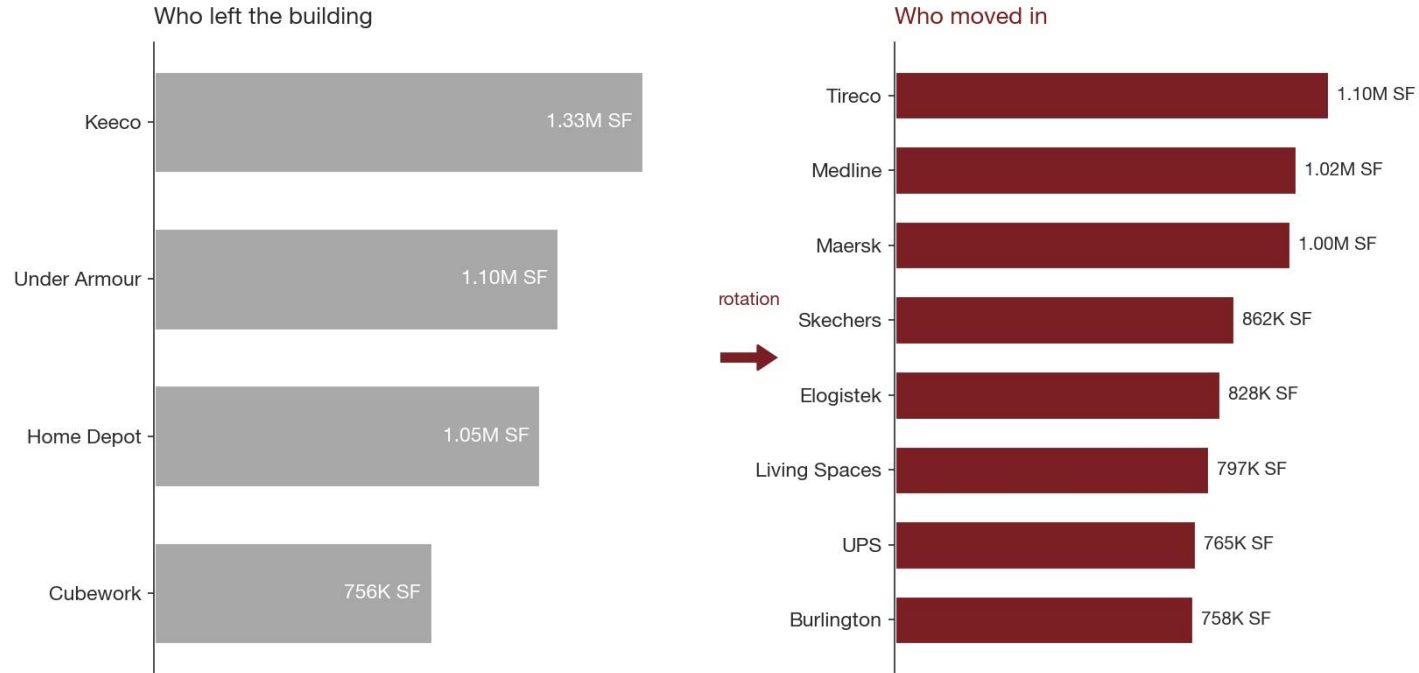
THE APPRAISER'S FRAME

The submarket is the market.

Never value off the IE-wide 8.1%. Chino and Moreno Valley are a full \$0.47 NNN apart on the same map.

Rotation, Not Collapse

Inland Empire Q1 2026: retailers and coworking gave back; 3PLs and manufacturers took the space



BIG-BOX REALITY CHECK — 1M+ SF MARKETED FOR LEASE

48 million-foot boxes are listed for lease — but only 17 are built and standing.

The other 31 are pipeline: 13 under construction and ~18 planned, mostly High-Desert dirt and the Moreno Valley World Logistics Center. The headline overstates what you can actually lease today.

Rents Reset Hard. Values Held.

THE WHOLE JOB THIS CYCLE

Asking -12 to -23%

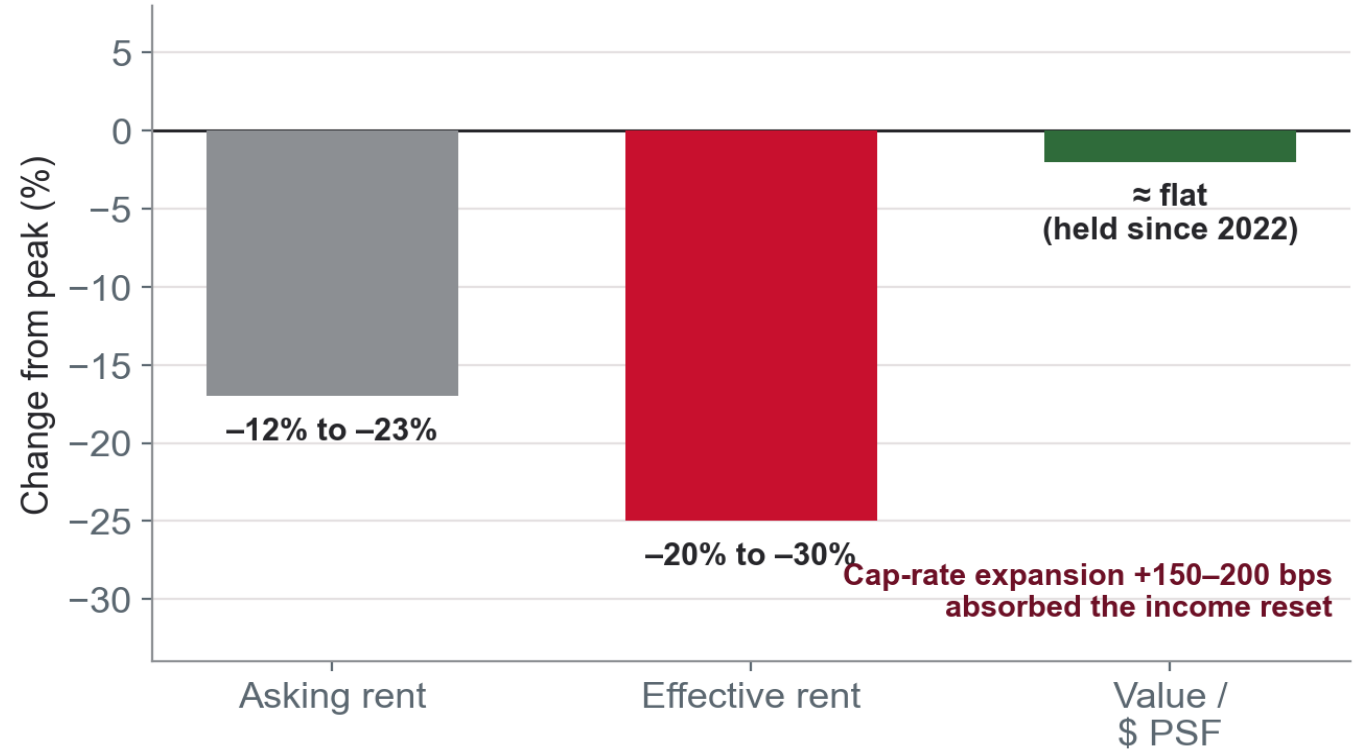
Effective -20 to -30%

Value / \$ PSF ≈ flat since 2022

MARK-TO-MARKET CUTS BOTH WAYS

A 2022 lease rolls DOWN (Tireco -30%). A 2018 lease rolls UP.

Lease vintage decides whether a renewal lifts or cuts value. Read the rent roll, not the headline.



Deriving Caps in Thin Volume

Volume down four straight years — lean on sale-leasebacks and the owner-user premium.

Asset / city	SF	Price	\$/SF	Cap / note
Walmart — Riverside (cold)	507,000	\$223M	\$440	Owner-user buyback
Kohl's box — San Bernardino	525,756	\$123M	\$234	5.8% pro forma
W.P. Carey (reference)	—	—	—	6.5% actual
Motive SLB (OC reference)	55,022	\$22.25M	\$404	6.2% cap

WHERE CAPS SIT NOW

~4.8% market / ~5.9% on trades (CoStar).

Institutional mid-5s to 6.5%; broker IE figures 6.7% (CBRE) to 7.5% (JLL).

+150–200 bps off the sub-4% 2021–22 trough — now roughly steady.

Owner-users pay a ~30%+ premium over investors.

FROM OUR OWN DATA — COSTAR 5/28 PULL (355 IE SALES, 5.9% MEDIAN CAP)

The \$/SF gradient is steep: San Bernardino ~\$215 and the High Desert ~\$135, vs Ontario ~\$297 and Corona/Eastvale ~\$328. In IE East, ~\$200–\$220 buys vacant product that has sat a year — and almost everything new for lease is quietly for sale too.

Land & IOS: Where the Data Runs Thin

Not opposites — outliers. Almost no one transacts here, so the comps are the hardest in the market to source.

LAND — REPRICING SLOWLY, NOT DEAD

Land is not dead, but it is repricing slowly and the bid-ask hasn't closed.

No clean published \$/acre exists for buildable IE land; the pipeline fell from ~33M SF (2022) to ~6M SF, so developers aren't buying dirt. Deals are sporadic and hard to comp.

Building pricing (~\$230–\$248/SF, ~15% off peak) is the better-anchored gauge.

IOS — FIRMER THAN WAREHOUSE, NOT ON FIRE

Scarce (AB 98 makes new yards hard to entitle) and institutions are circling, so caps sit a touch wide of warehouse (~6–7%).

But IE comps are thin and partly dated: Wintrust's San Bernardino recap (Dec 2025); Alterra's Jurupa yard (late 2024). Price it as its own asset class.

THE READ

Both are outliers because the deal flow is thin and the data is the hardest in the market to source — not because they're doing something dramatic. Underwrite them with wider ranges and more caveats, and say so out loud.

1555 Vintage, Ontario — Walker MFG



ONTARIO INTL AIRPORT
4.3 MILES

1555 S VINTAGE AVE
Ontario, CA

JUST LEASED | ±108,000 SF | TENANT REP

CLEAR HEIGHT	25'	ACRES	5.36 AC (233,482 SF)
DOCK HIGH POSITIONS (EXTERIOR)	14	YARD	FENCED
GRADE LEVEL DOORS (12'W X 14'H)	4	YEAR BUILT	1989



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THE DEAL

**±108,000 SF renewal — LEASED
(commenced 3/1/26).**

\$1.20/SF NNN · 64 months · 3.5% bumps

~2 months effective free rent (months 2–5 at 50%)

\$390,000 landlord allowance — paint, offices, restrooms, 13 dock levelers

Lee repped the tenant (took over mid-deal from CBRE).

WHY IT MATTERS TO VALUE

The headline rate is not the deal.

Effective rent is well under \$1.20 once you net ~2 months free and amortize \$390K of TI — a \$3.61/SF concession.

The landlord funded the building's deferred maintenance to keep the tenant. Read concessions, not asking.

13611 Santa Ana, Fontana — RiteScreen



THE DEAL

±50,065 SF — LEASED (commenced 3/1/26).

\$1.35/SF NNN (\$1.32 eff.) · 38 months · 3% bumps

2 months free; minimal TI

1995 build, M2 zoning, 2,000-amp 3-phase, fully fenced 175' concrete yard

Lee repped the owner (DeAngelo Properties).

WHY IT MATTERS TO VALUE

A shorter 38-month term is the tell.

In a soft market, mid-size tenants take flexibility, and owners trade term for occupancy.

Power and yard carried this one — a fenced, well-powered M2 box leases when a vanilla shell sits.

1400 Manhattan, Fullerton — \$1.18 Gross



THE SUBLEASE

±102,016 SF available for sublease
(Berger Transfer, a 15-year client).

Now asking \$1.18/SF GROSS.

North Orange County — minutes from
the OC/LA labor pool, off the 91 and 5.

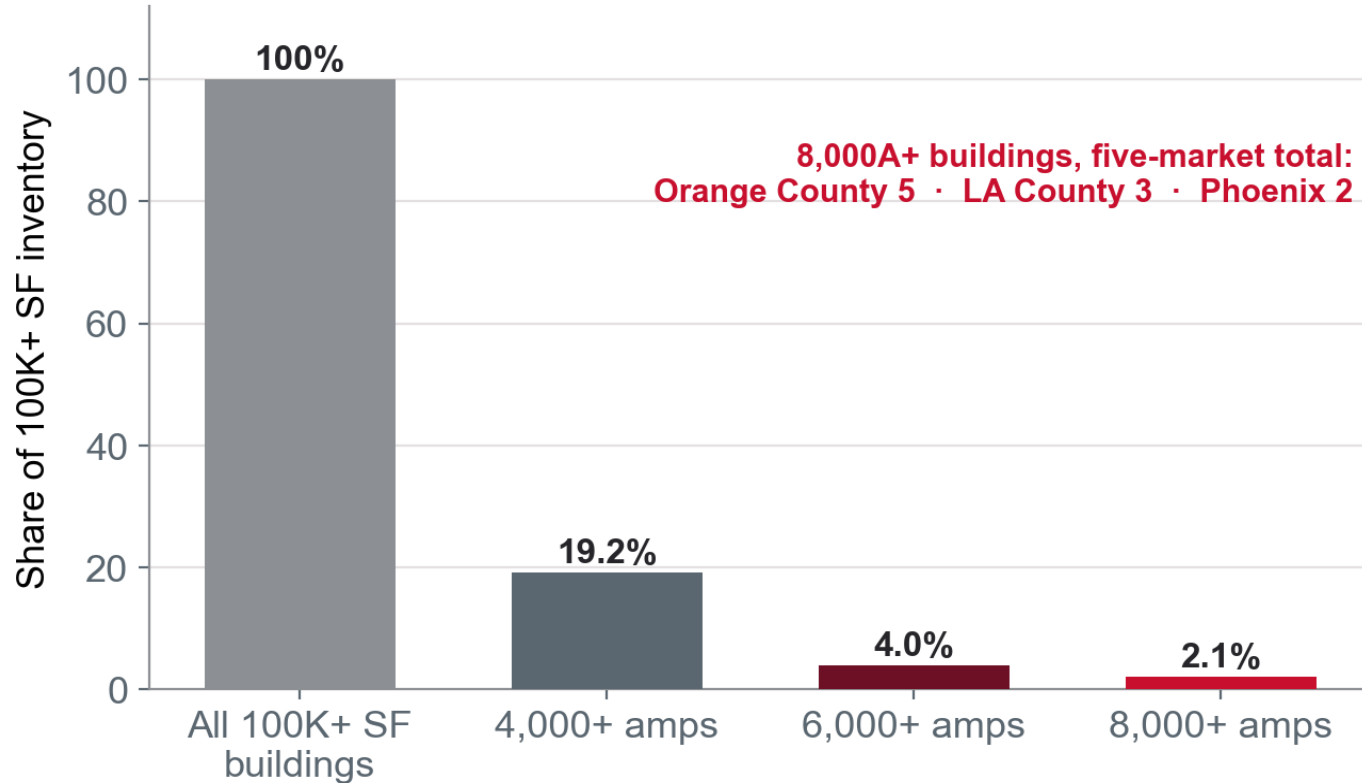
WHY IT MATTERS TO THE IE

\$1.18 gross in Fullerton competes head-
on with IE West.

Tenants who would have gone east for price
are staying in OC and LA on aggressive
sublease economics — and saving the drive
time.

**Coastal subleases are quietly leaking
demand from the IE. Watch sublease, not
just direct.**

Power Is the New Location



THE OBSOLESCENCE STORY

Only ~2% of 100K+ SF buildings have 8,000+ amps.

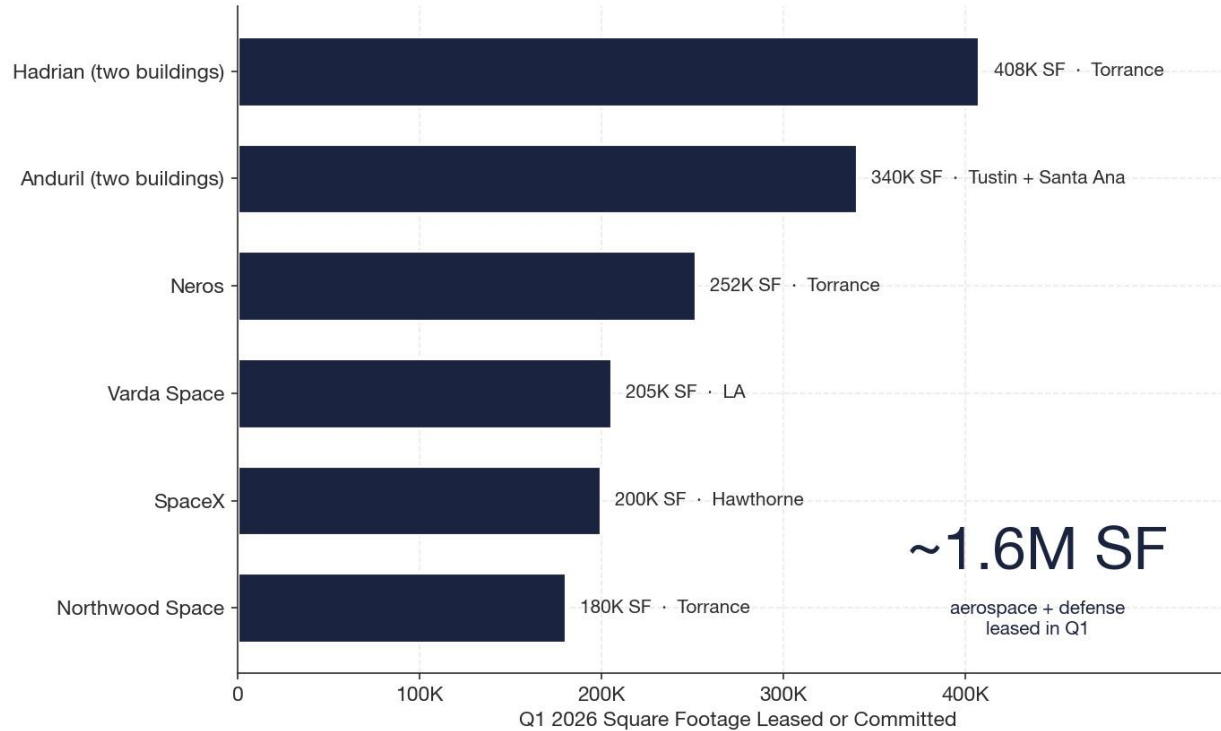
Heavy-power buildings are newer and taller. Power plus clear height together is the premium — and the supply is thin.

The grid's 5-year peak-demand forecast went 38 → 166 GW in two years; data centers are eating the capacity.

For the appraiser: a pre-2000 box without power or height is becoming functionally obsolete for modern use. That is an adjustment, not a vibe.

The Aerospace Cluster Is Forming

Q1 2026 aerospace and defense leasing in the LA South Bay and Orange County



THE IE'S ACTUAL SLICE

Manufacturing is ~5% of IE jobs, and falling. Logistics is 5x bigger. A high-value niche, not the market.

But it is real and concentrated: Victorville flight-test (GE, Boeing) plus Exquadrum, just bought by Mach for \$50M; March ARB's KC-46 beddown; Collins Aerospace nacelles in Riverside; NSWC Corona.

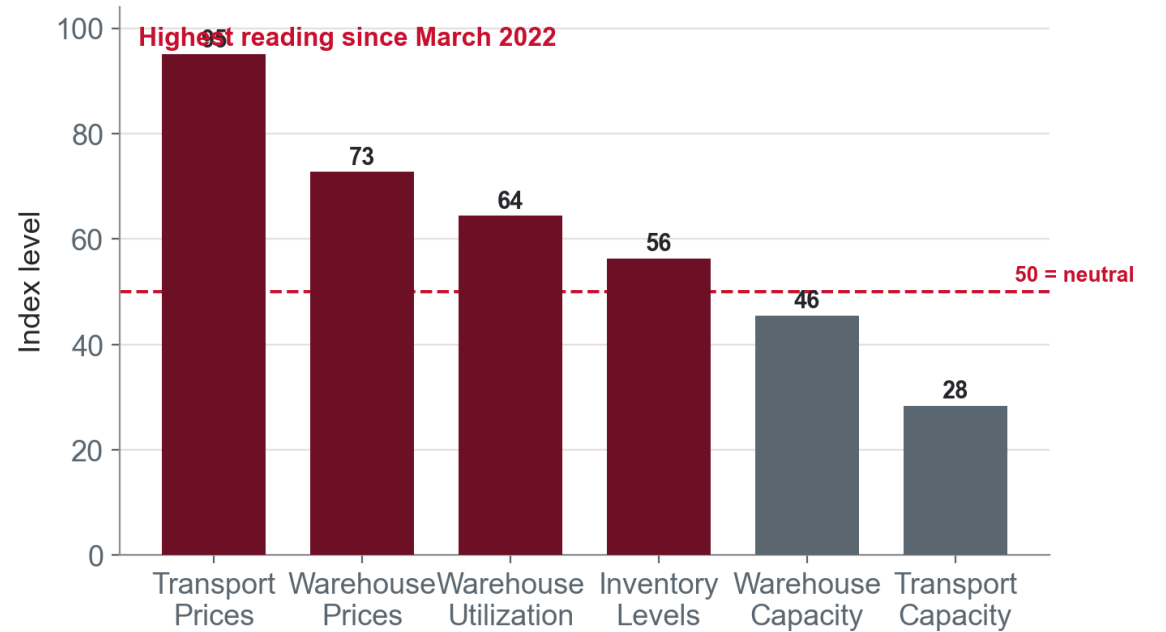
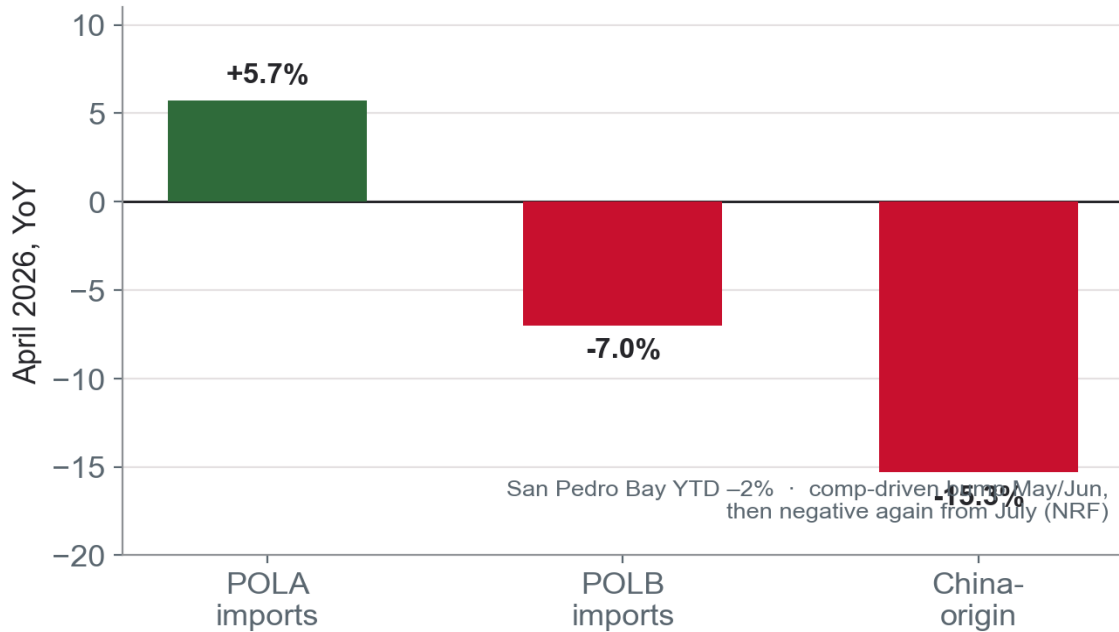
These are owner-user and government buildings: power, clear height, secure yards.

OBBBA now lets an owner-user 100%-expense the shell, so buying can beat leasing. Different product, different underwriting.

The point: *advanced manufacturing reshapes value through power, obsolescence, and the OBBBA write-off, wherever the factory sits.*

Q1 Is Closed. Here's the Live Read.

Q2 reports don't publish until July — the monthly data bridges the gap.



The pulse: soft volume (ports flat-to-down, China at new lows) but tightening capacity (LMI 69.9, highest since March 2022). Pricing turns up ahead of the jobs recovery. Q2 is bottoming, not yet recovering.

The Building Becomes the Machine

On our podcast we bet on when a humanoid walks an OC warehouse: Jay 2027, Sean 18 months — and China says Sean's closer.

ALREADY ON THE FLOOR — CHINA'S AT SCALE

Not pilots. UBTECH's Walker S2 runs 24/7 at Foxconn and SF Express. China ships ~62,500 humanoids in 2026, up 270%.

The US is months behind, not years: Figure finished its BMW pilot and is now in a Reno DC; Agility's Digit has moved 100,000+ totes at GXO; Tesla's Optimus line runs at Fremont.

WHY NOW: THE BRAINS GOT UNBLOCKED

Vision-language-action foundation models cracked generalization in 2024–25.

Figure's Helix, Google's Gemini Robotics, NVIDIA's Isaac GR00T. Show a robot a video and it does the task. The hardware was already 80% there.

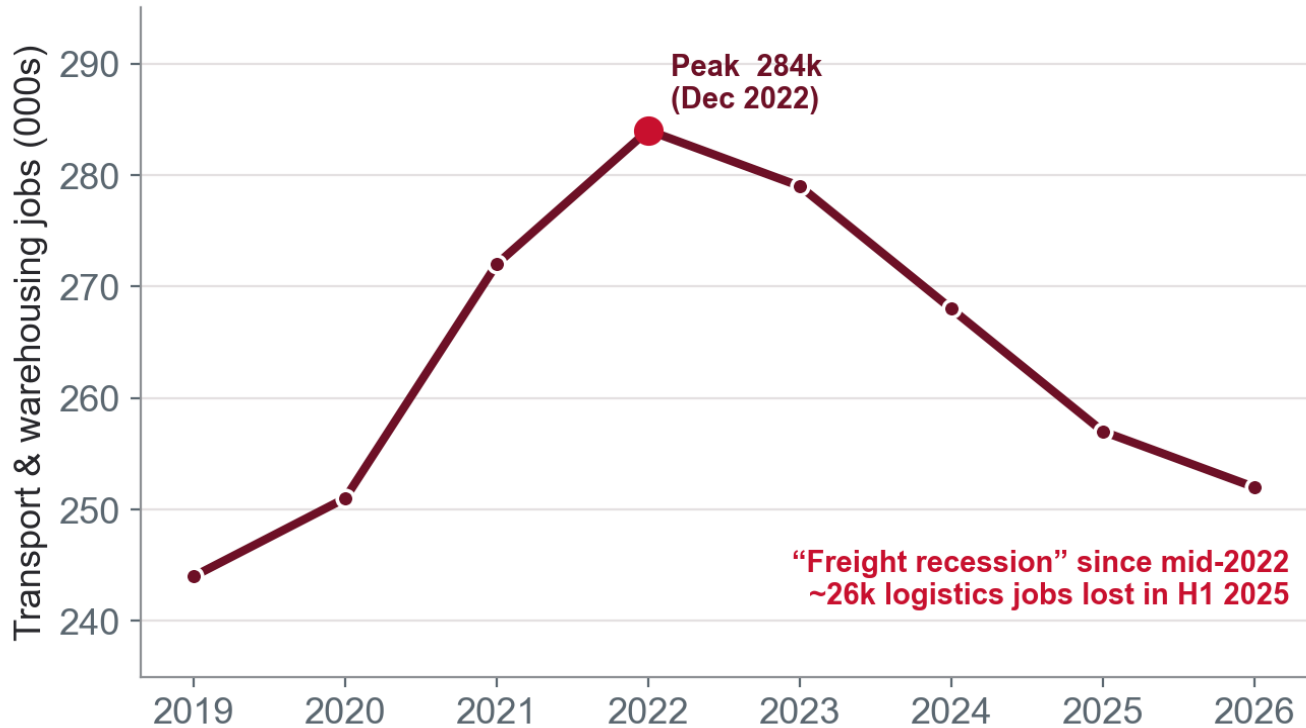
WHAT IT MEANS FOR YOUR BUILDINGS

The labor line moves to the power line — fleets charge, so power matters more.

Humanoids work in human-spec space (no 36' clear) — a quiet positive for older infill. But RaaS reportedly lands near minimum wage; below \$10/hr multi-shift, the labor math flips.

California makes it urgent: power ~2.8x national, AB 98, the ISR. Advanced-mfg tenants adopt first.

The Lagging Signals



4.45%

10-year Treasury — the cap-rate anchor

Fed funds 3.50–3.75%, ≤1 cut priced for 2026.

WHAT IT MEANS

Jobs confirm the cycle late — warehouse employment is still shedding.

And higher-for-longer rates mean no cap-rate relief is coming from the discount-rate side this year.

What It Means for Value

✓ **Use effective, not asking**

Underwrite taking rents net of free rent and TI — the 1555 Vintage deal is \$1.20 on paper, well under in effect.

✓ **Derive caps from SLBs**

Thin volume — lean on sale-leasebacks and the ~10-30% owner-user premium.

✓ **Know the OBBBA math**

Owner-users can expense the shell — buy-vs-lease shifted, re-rating owner-user comps.

✓ **Don't double-count the reset**

Cap-rate expansion and below-market leases already offset the rent decline.

✓ **Price power in the future**

A pre-2000 box without heavy power or clear height is functionally obsolete for modern manufacturing and can be more commodity based pricing.

✓ **Name the footprint**

IE West ≠ IE East ≠ High Desert. Quote the submarket and the source, every time.

Bottoming, not recovering.

Watch three signals into H2: the freight-index turn holding, the pipeline staying empty, and capital keeping its bid. Those call the next leg.

Thank you. Justin Smith, SIOR · Lee & Associates · Inland Empire / Orange County industrial