

E-COMMERCE & RETAIL DRIVING DEMAND. The Inland Empire continues to be one of the most active industrial markets in the nation during the second quarter, in terms of absorption and new construction. During this period of prolonged expansion and what is now being labeled a “super cycle,” the Inland Empire stands to benefit from its high concentration of large buildings (400,000 square feet plus) at affordable rents when compared with infill markets like Los Angeles and Orange County. With e-commerce now driving more than half of the industrial demand in this 500 million square foot market, investors and developers still see massive opportunities to provide real estate solutions to retailers and transportation/logistics firms based on the recent changes in consumer buying patterns. With e-commerce sales in the US expected to reach \$500 billion by 2018, the Inland Empire is well positioned given its proximity to the Ports of Los Angeles/Long Beach, its supply of larger, state of the art buildings and its expanding labor force. With more than 24 million square feet of new product under construction, roughly 63% of the nation’s total, many are starting to question if tenant demand will keep up with this level of new supply at this late point in the cycle. There are over 50 tenants in the market with requirements larger than 400,000 square feet, and with increased regulations and rising construction costs slowing future development, oversupply should not be an issue. Leading economists suggest that \$1 billion in e-commerce sales requires 1.25 million square feet of warehouse space. Demand is still strong and we remain bullish on the future of the industrial market.

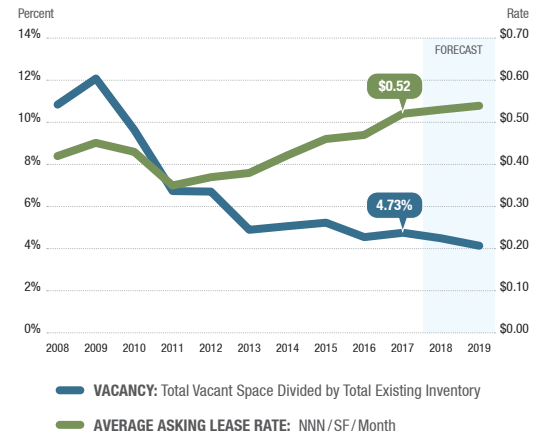
VACANCY. Tenant demand continues to outpace supply during the eighth year of this market’s recovery/expansion. With the delivery of over 6.3 million square feet of new construction this quarter we witnessed a modest uptick in the overall vacancy rate. Factoring in both the Inland Empire West and the Inland Empire East, a base of over 500 million square feet, the vacancy rate currently sits at 4.73% for the second quarter, up slightly from 4.52% in the first quarter 2017, but still hovering near historic lows.

LEASE RATES. Average asking lease rates are now at \$0.52 NNN for the second quarter of 2017, up an average of three cents (\$0.03) per square foot (8.33%) from the same quarter last year and two cents (\$0.02) per square foot over first quarter figures. Lease rates for Class A product continue to spike, surpassing previous market peaks, particularly in the Western Inland Empire in the more recently active size range of 100,000–300,000 square feet. During this window of time where market dynamics are changing so quickly, many landlords are not placing asking rates on their properties so averages tend to be skewed and don’t tell the entire story. Rent is also becoming less of a factor for e-commerce/retail related companies when compared with the investment they are making in elaborate material handling systems, their overall transportation costs and labor. Even as Inland Empire rents increase in future quarters, the region still provides a “relief valve” in terms of space availability while offering 20–30% rent savings for larger companies migrating from neighboring infill markets.

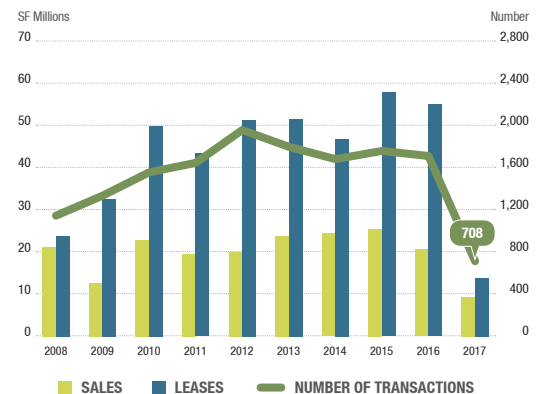
TRANSACTION ACTIVITY. Large blocks of Class A space continue to be in high demand by tenants and investors alike. Third party logistics and e-commerce/retail related uses were the most active sectors of the market in the second quarter. High ceiling clearance (36–40’), expanded truck courts and well designed office areas emerged as the most desirable features tenants are evaluating in the second quarter. Increased efficiency, improved function and access to labor are at the core of most real estate decisions at the moment. Inland Empire’s sale and leasing activity in the second quarter totaled 10.5 million square feet, down from 12.1 million square feet in the first quarter of 2017. Notable lease transactions for the second quarter include:

- TBC Corporation’s lease of 683,269 square feet at 2501 W. San Bernardino Avenue in Redlands
- JC Penney’s lease of 624,627 square feet at 5959 Palm Avenue in San Bernardino
- Radial’s lease of 441,675 square feet at 2225 Alder Avenue in Rialto
- Best Logistics Tech Inc.’s lease of 123,912 square feet at 5125 Schaefer Avenue in Chino

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	2Q 2017	1Q 2017	2Q 2016	% Change Over Last Year
Total Vacancy Rate	▲ UP	4.73%	4.52%	4.72%	0.21%
Availability Rate	▼ DOWN	5.92%	6.00%	7.78%	(23.91%)
Average Asking Lease Rate	▲ UP	\$0.52	\$0.50	\$0.48	8.33%
Sale & Lease Transactions	▼ DOWN	10,562,531	12,120,522	22,879,449	(53.83%)
Gross Absorption	▲ UP	11,401,862	7,845,490	9,738,809	17.08%
Net Absorption	▲ POSITIVE	4,328,690	3,055,467	5,566,076	N/A

LEASE RATES. The Inland Empire industrial market currently boasts the fastest rent growth in the nation. Anticipate asking rents to increase to an annualized average of 3% to reach a level of \$0.55 per square foot by the end of the fourth quarter of 2017.

VACANCY. Developers are projected to deliver more than 20 million square feet in 2017, based on an anticipated 5.0 million square feet of absorption per quarter. Although the overall vacancy rate will temporarily increase as new construction comes online, we anticipate demand to keep up with these new deliveries, keeping vacancy rates in the 4.1–4.5% range over the next three quarters.

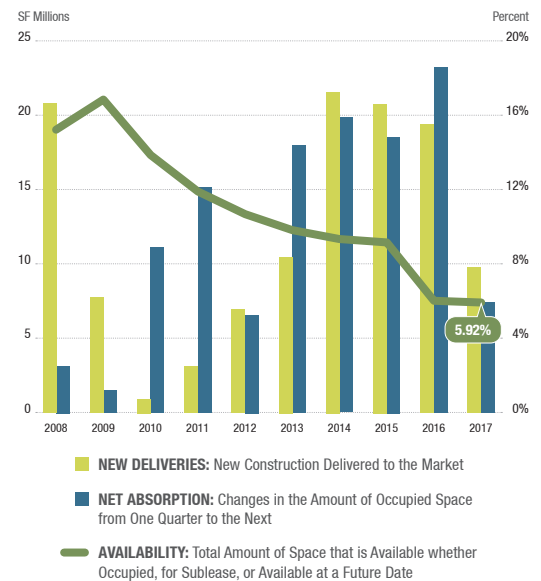
OVERALL. Based on the strategic advantages of the region and the simple fact that the Inland Empire continues to be one of the only alternatives for large blocks of functional space, we expect healthy fundamentals (increased demand and rent growth) through the balance of the year. While there could be some temporary softness in certain size ranges, research is showing that over 600 million square feet of new distribution space is going to be needed nationwide over the next decade to keep up with e-commerce demand, making this cycle particularly unique. The Inland Empire will continue to benefit from this trend as traditional retailers adapt to an “omni channel” network, requiring more warehouse space to stay competitive. Investors, both foreign and domestic, will continue to allocate more investment dollars to industrial assets in this market given its consistent performance and future stability when compared with other asset classes like retail, office, apartments and hospitality.

CONSTRUCTION. Industrial construction is on the rise, based on historically high demand and record absorption levels. Even with the hurdles of increasing construction costs (up 6% from 2016) and the increasing presence of public labor agreements, construction is at an all-time high in this region with 97 buildings under construction, totaling nearly 24.5 million square feet. The second quarter figures show that 27% of the new construction coming online is pre-leased. The largest development projects in the pipeline include a 1,137,000 square foot speculative building at 657 Nance Street in Perris, a 1,109,378 square foot speculative building at 17350 Perris Boulevard in Moreno Valley and a 767,410 square foot speculative building at 24100 Nandina Avenue in Perris.

AVAILABILITY. Direct / sublease space being marketed in the second quarter is now at 5.92%, down from 6.00% in the first quarter. We expect availability to continue to compress with a possible uptick in later quarters when new, speculative projects are delivered to the market.

ABSORPTION. Inland Empire’s industrial leasing activity and absorption on both a net and gross basis are near historic highs in a region which has added more new product to the market than any other region in the nation. Inland Empire recorded 4.3 million square feet of positive absorption during the second quarter for a total 7.3 million square feet of positive absorption year to date. Absorption and activity levels will improve as more new construction comes online as we move through 2017. Primary contributors to this trend in the second quarter include: Wayfair (1,224,874 square feet), Wolverine (720,000 square feet) and GPR Logistics (398,517 square feet).

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2030 S. Lynx Pl. – 16 Properties	Ontario	1,138,119	\$141,200,000	Rexford Industrial	American Realty Advisors
1686 W. Base Line Rd.	Rialto	758,940	\$67,262,000	Brookfield Property Group	I-210 Logistics Center II
9875 Archibald Ave.	Rancho Cucamonga	62,677	\$6,875,000	NSY Family Trust*	Rexford Industrial Realty, Inc.
1501 Railroad St.	Corona	22,068	\$3,298,000	RRS Corona, LLC*	459 Selkirk, LLC*
1751 Jenks Dr.	Corona	9,659	\$1,655,000	AK Holdings*	C & A Woody Enterprises*

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2225 Alder Ave.	Rialto	441,675	May-2017	Radial Logistics	Thrifty Oil Company*
1151 S. Mildred St.	Ontario	252,822	Apr-2017	Golden Touch Imports*	Alere Property Group, LLC
305 Sequoia Ave.	Ontario	80,000	Jun-2017	Elite Logistics*	O’Green Investment, LLC
1651 S. Calos Ave.	Ontario	74,509	May-2017	DHL Express	Cabot Properties*
1225 Spruce St.	Riverside	71,661	May-2017	Liquid Metal Motorsports*	Michael P & Daniel C Burke

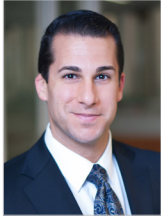
INVENTORY

VACANCY & LEASE RATES

ABSORPTION

	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2017	Square Feet Available	Availability Rate 2Q2017	Average Asking Lease Rate	Net Absorption 2Q2017	Net Absorption 2017	Gross Absorption 2Q2017	Gross Absorption 2017
West													
Chino / Chino Hills	888	46,314,384	2,562,353	646,721	762,347	1.65%	1,005,937	2.17%	\$0.70	172,840	56,034	664,869	950,260
Fontana	704	58,540,900	1,940,424	3,750,880	2,854,535	4.88%	3,136,920	5.36%	\$0.63	897,578	2,010,798	2,871,278	4,253,471
Mira Loma / Eastvale / Jurupa Valley	333	37,816,346	3,125,099	969,142	386,323	1.02%	1,262,706	3.34%	\$0.63	109,601	636,533	591,777	1,648,267
Montclair	196	3,389,957	0	198,508	58,595	1.73%	201,438	5.94%	\$0.52	151,420	154,325	193,814	266,452
Ontario	1,436	105,689,695	1,802,125	656,945	3,289,652	3.11%	3,936,972	3.73%	\$0.62	507,261	1,504,502	2,278,437	3,759,207
Rancho Cucamonga	713	38,706,093	0	1,717,380	1,474,954	3.81%	2,195,943	5.67%	\$0.55	109,567	120,872	491,869	914,720
Upland	250	3,903,280	88,338	109,182	132,214	3.39%	172,432	4.42%	\$0.80	(6,866)	(36,578)	31,219	61,488
5,000-24,999	2,703	32,502,802	781,298	334,641	617,011	1.90%	994,802	3.06%	\$0.78	25,184	154,280	441,544	995,034
25,000-49,999	684	23,889,764	972,403	1,166,105	726,673	3.04%	1,549,951	6.49%	\$0.64	145,454	492,259	562,814	1,280,441
50,000-99,999	417	29,084,186	1,103,785	752,357	650,254	2.24%	1,381,930	4.75%	\$0.61	368,267	29,168	572,747	732,668
100,000-249,999	413	62,856,504	1,065,687	1,233,875	2,471,056	3.93%	3,457,915	5.50%	\$0.55	564,860	1,428,845	2,064,649	3,311,833
250,000-499,999	208	74,245,554	1,164,498	766,219	2,703,602	3.64%	3,201,314	4.31%	\$0.46	100,024	178,422	805,693	2,041,522
500,000 plus	95	71,781,845	4,430,668	3,795,561	1,790,024	2.49%	1,326,436	1.85%	\$0.00	737,612	2,163,512	2,675,816	3,492,367
West Total	4,520	294,360,655	9,518,339	8,048,758	8,958,620	3.04%	11,912,348	4.05%	\$0.60	1,941,401	4,446,486	7,123,263	11,853,865
East													
Banning	48	972,227	0	786,984	103,988	10.70%	98,971	10.18%	\$0.55	(1,600)	(97,371)	13,200	19,816
Beaumont	43	3,817,154	0	3,125,648	6,500	0.17%	450,955	11.81%	\$0.29	1,489,240	1,482,740	1,489,240	1,489,240
Bloomington	89	4,509,170	0	184,770	78,544	1.74%	254,853	5.65%	\$0.40	3,300	105,960	3,300	109,260
Corona / Norco	949	31,189,655	300,486	650,189	1,554,585	4.98%	2,330,467	7.47%	\$0.55	(70,104)	34,534	367,459	639,698
Colton / Grand Terrace	164	8,782,053	758,381	1,215,619	317,863	3.62%	449,913	5.12%	\$0.59	4,913	141,198	61,350	218,835
Moreno Valley	79	21,196,636	1,711,188	3,016,277	1,057,098	4.99%	2,045,674	9.65%	\$0.37	(7,415)	9,896	3,057	22,225
Perris	185	20,855,175	2,077,060	6,941,329	1,362,807	6.53%	740,164	3.55%	\$0.44	1,371,368	1,503,150	1,409,318	1,632,061
Redlands / Loma Linda	222	26,639,375	699,300	564,340	4,108,802	15.42%	3,952,536	14.84%	\$1.26	(217,028)	6,444	362,890	1,401,636
Rialto	160	22,589,189	2,208,221	5,222,942	1,665,355	7.37%	1,470,058	6.51%	\$0.89	62,789	(1,834)	81,453	551,200
Riverside	1,014	43,811,710	3,183,758	4,281,302	2,221,545	5.07%	3,145,175	7.18%	\$0.48	103,393	99,510	448,680	1,167,675
San Bernardino / Highland	557	35,849,711	2,136,175	2,674,478	2,879,880	8.03%	3,619,687	10.10%	\$1.30	(351,567)	(346,556)	38,652	161,841
5,000-24,999	2,276	26,701,642	74,668	463,141	572,118	2.14%	914,337	3.42%	\$0.93	117,010	71,925	526,776	815,412
25,000-49,999	521	18,177,074	102,500	475,853	471,776	2.60%	1,014,561	5.58%	\$0.59	(24,147)	22,426	117,762	299,362
50,000-99,999	309	21,115,567	59,502	937,007	1,122,505	5.32%	1,449,764	6.87%	\$0.51	127,735	119,165	324,141	726,248
100,000-249,999	204	30,324,749	2,177,144	2,973,342	2,060,197	6.79%	2,880,545	9.50%	\$0.48	(256,268)	(124,341)	279,748	872,841
250,000-499,999	93	33,868,476	1,614,040	4,810,598	3,688,298	10.89%	6,138,757	18.13%	\$0.35	266,058	(23,625)	316,058	1,207,890
500,000 plus	107	90,024,547	9,046,715	19,003,937	7,442,073	8.27%	6,160,489	6.84%	\$0.29	2,156,901	2,872,121	2,714,114	3,491,734
East Total	3,510	220,212,055	13,074,569	28,663,878	15,356,967	6.97%	18,558,453	8.43%	\$0.41	2,387,289	2,937,671	4,278,599	7,413,487
Inland Empire Total	8,030	514,572,710	22,592,908	36,712,636	24,315,587	4.73%	30,470,801	5.92%	\$0.52	4,328,690	7,384,157	11,401,862	19,267,352
5,000-24,999	4,979	59,204,444	855,966	797,782	1,189,129	2.01%	1,909,139	3.22%	\$0.87	142,194	226,205	968,320	1,810,446
25,000-49,999	1,205	42,066,838	1,074,903	1,641,958	1,198,449	2.85%	2,564,512	6.10%	\$0.61	121,307	514,685	680,576	1,579,803
50,000-99,999	726	50,199,753	1,163,287	1,689,364	1,772,759	3.53%	2,831,694	5.64%	\$0.55	496,002	148,333	896,888	1,458,916
100,000-249,999	617	93,181,253	3,242,831	4,207,217	4,531,253	4.86%	6,338,460	6.80%	\$0.53	308,592	1,304,504	2,344,397	4,184,674
250,000-499,999	301	108,114,030	2,778,538	5,576,817	6,391,900	5.91%	9,340,071	8.64%	\$0.35	366,082	154,797	1,121,751	3,249,412
500,000 plus	202	161,806,392	13,477,383	22,799,498	9,232,097	5.71%	7,486,925	4.63%	\$0.29	2,894,513	5,035,633	5,389,930	6,984,101
Inland Empire Total	8,030	514,572,710	22,592,908	36,712,636	24,315,587	4.73%	30,470,801	5.92%	\$0.52	4,328,690	7,384,157	11,401,862	19,267,352
High Desert													
Adelanto	133	3,246,996	0	0	197,474	6.08%	321,825	9.91%	\$0.00	72,443	30,072	106,978	125,248
Apple Valley	75	2,496,388	0	1,847,530	48,567	1.95%	62,207	2.49%	\$0.71	(7,800)	(5,669)	7,700	16,531
Barstow	52	1,071,920	0	0	156,633	14.61%	189,281	17.66%	\$0.19	(7,051)	(13,708)	6,449	10,809
Hesperia	188	3,219,067	0	0	316,318	9.83%	372,863	11.58%	\$0.32	(2,553)	(237,593)	32,350	58,433
Victorville	129	7,407,008	370,023	11,911,123	543,709	7.34%	427,637	5.77%	\$0.62	(16,153)	224,406	17,972	269,761
High Desert Total	577	17,441,379	370,023	13,758,653	1,262,701	7.24%	1,373,813	7.88%	\$0.37	38,886	(2,492)	171,449	480,782
Temecula Valley													
Hemet	84	1,430,028	0	0	35,150	2.46%	55,050	3.85%	\$0.42	3,300	(1,255)	3,300	3,300
Lake Elsinore	161	2,420,890	74,800	178,755	160,080	6.61%	195,441	8.07%	\$0.67	66,337	119,410	102,772	206,449
Menifee	20	403,975	0	0	24,918	6.17%	50,166	12.42%	\$0.68	3,000	(7,215)	3,000	11,297
Murrieta	233	3,756,517	0	0	40,787	1.09%	116,526	3.10%	\$1.24	(3,259)	8,778	47,090	78,426
San Jacinto	60	1,033,710	0	0	21,600	2.09%	45,800	4.43%	\$0.58	19,800	19,100	19,800	27,500
Temecula	330	10,777,681	141,180	109,252	242,591	2.25%	432,235	4.01%	\$0.69	(54,657)	(35,202)	57,856	135,026
Wildomar	12	324,860	0	0	6,270	1.93%	0	0.00%	\$0.00	18,218	(1,791)	24,488	26,674
Temecula Valley Total	900	20,147,661	215,980	288,007	531,396	2.64%	895,218	4.44%	\$0.64	52,739	101,825	258,306	488,672

This survey consists of industrial buildings greater than 5,000 square feet. Lease rates are on a triple-net basis.



The Tables Have Turned... Don't Be Left Without a Seat

by **Chase MacLeod**

SENIOR VICE PRESIDENT / PARTNER, IRVINE

It seems like only yesterday that a successful lease negotiation for a tenant was judged by how many months of free rent were secured and how large a tenant improvement allowance could be extracted from a landlord whose building was one of a dozen sitting vacant for a year or more. The tables have turned, and quickly. Now, just getting to the best and final round and securing the deal is cause for celebration. Deals going for over the asking price, without any free rent and a landlord that says "take it as-is, or not at all" has become par for the course. Today, it has become less about "how good of a deal can you get me" and more about "can you get me the deal?"

Our team has negotiated hundreds of industrial transactions in 35 states around the country. And, the Inland Empire is by far the most aggressive market for a tenant or buyer to compete in.

The last sixteen years have shown us the ups and downs of what it means to negotiate deals in either a "tenant/buyer" market or a "landlord/seller" market. At the height of the recession and up until 24 months ago, tenants and buyers had the luxury of assessing their space needs 12 months in advance, weighing their options, touring multiple times and soliciting proposals from a long list of available buildings that had been listed six months or longer. Now, the tables have completely turned. It is officially a landlord/seller market.

This is especially true in the size range between 20,000–250,000 square feet. Typically, multiple offers are generated within days of a space being placed on the market, or even prior to a property coming to market. A bidding war ensues, the result of which is a deal over asking price, with little to no free rent. Some tenants are even willing to take spaces with absolutely no tenant improvement allowance, in an effort to be the "chosen deal." The situation is only intensifying, as Inland Empire tenants are now competing against users from the San Gabriel Valley, Orange County, Los Angeles and Corona who are accustomed to paying higher rent for lower quality buildings.

Our clients are constantly asking us: "I see countless signs on buildings everywhere I go. How could there be a shortage of quality space?" Don't be fooled. Vacancy in the Inland Empire West is below two percent (2.0%), and shrinking daily. Vacancy rates are at, or below one percent in markets like Orange County and San Gabriel Valley, and the Inland Empire is now the only alternative to tenants seeking quality expansion alternatives (200,000 square feet plus).

A couple tips for tenant success in this competitive market:

- When pursuing a new location, give yourself ample time as alternatives have become increasingly difficult to find. Many tenants and buyers you will be competing against are prepared to forgo free rent or early occupancy to secure the deal with little to no tenant improvements from the landlord. It is important to understand the environment you are in.
- Allow your offer to be presented in its best light. Yes, you need to provide at least two years of financials and tax returns with your first offer. Landlords tend to dismiss deals they cannot underwrite immediately.
- Be prepared to react quickly. Most tenants are submitting offers at or over asking price within days of the property hitting the market, in the hope that the LOI will quickly be accepted by the landlord, allowing them to go to leases immediately.
- Prepare yourself for a minimum five-year lease term. Landlords are driving this based on how competitive the market is.
- While it would be reasonable to assume that your current landlord would go out of their way to keep you at the end of your lease term, the reality is they most likely won't. The likelihood is that your current monthly rent is well below the current market rate. Landlords are approaching existing tenants nine months in advance of their lease expiration. Given how much rent has increased in the last twelve months, if a tenant seems unwilling to adjust their rent to "market" (which could be 25–40% higher than a deal signed five years ago), the landlord may think it's in their best interest to test the market for a new tenant. While you would think the landlord would rather forgo the risk of vacancy in return for a secured tenant, they are most likely willing to take that risk today.
- Triple net (NNN) leases are the new standard. Don't expect landlords to concede to an industrial gross or modified gross lease. In most cases the expense of taxes, insurance and maintenance are passed through to the tenant.
- The more information and transparency you can provide your broker the better. Budget considerations, seasonal hurdles, and M & A activity should be discussed up front so interests are aligned and your broker can properly perform and represent your interests.

Please Contact Us for Further Information

Tony Tran
Regional Director of Research
ttran@voitco.com

Anaheim, CA
714.978.7880

Carlsbad, CA
760.517.4000

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Los Angeles, CA
424.329.7500

San Diego, CA
858.453.0505

This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a triple-net basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.

Product Type

MFG./DIST.

Manufacturing / Distribution /
Warehouse facilities with up to
29.9% office space.

Submarkets

WEST

Chino / Chino Hills, Fontana,
Mira Loma / Eastvale / Jurupa
Valley, Montclair, Ontario,
Rancho Cucamonga, Upland

EAST

Banning, Beaumont,
Bloomington, Corona / Norco,
Colton / Grand Terrace, Moreno
Valley, Perris, Redlands /
Loma Linda, Rialto, Riverside,
San Bernardino / Highland

HIGH DESERT

Adelanto, Apple Valley, Barstow,
Hesperia, Victorville

TEMECULA VALLEY

Hemet, Lake Elsinore, Menifee,
Murrieta, San Jacinto,
Temecula, Wildomar