

MARKET OVERVIEW. Southern California has long been a popular site for big-name manufacturers and retailers. So popular, in fact, that Los Angeles and Orange Counties have some of the highest priced industrial property and are two of the tightest real estate markets in the country. The Inland Empire is not far behind these markets and commercial real estate tenants and purchasers are grabbing what they can, as near as they can to the Los Angeles / Long Beach ports. Market demand has continued to grow in the Inland Empire with increased tenant activity from small / mid-sized tenants and the rebirth of the 100,000 square foot tenant. Warehouse speculative construction will continue as retailers are gobbling up massive blocks of space. Market fundamentals will be tested when the bulk of this speculative construction starts to deliver in mid-2018.

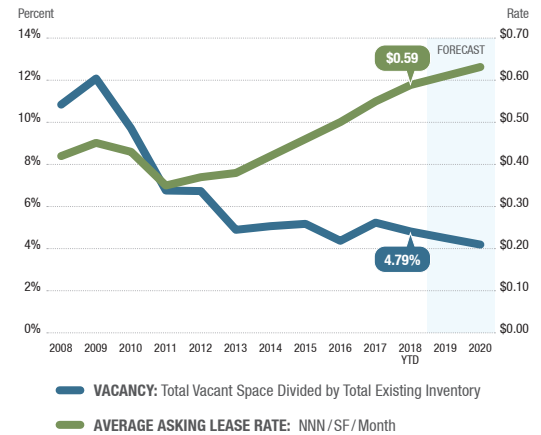
VACANCY. Inland Empire continues to have one of the hottest industrial markets in Southern California. Companies find the best combination of highly valued attributes including efficient infrastructure, lower lease rates, modern amenities and a highly skilled workforce. The vacancy rate decreased in the first quarter to 4.79%, down from the fourth quarter of 2017 rate of 5.24%, from a historical perspective, the first quarter vacancy rate was lower than the 5.08% average recorded since the beginning of the first quarter of 2007. The Inland Empire's West submarket boasts the lowest vacancy in the region at 3.16%. For perspective, the historic vacancy rate for the IE over the past 10 years is approximately 7.05%.

LEASE RATES. Rents in the Inland Empire market posted a year-over-year gain of nearly 15%, moving past the previous market peak established in 2007. This sharp increase has been a shock to both tenants and investors as the market is more accustomed to 3%–4% annual rental rate growth. Many landlords are electing not to publish asking lease rates on their properties during this window of time where market dynamics are changing so rapidly. Average asking lease rates are now at \$0.59 for the first quarter of 2018, up an average of eight cents per square foot (15.69%) from the same quarter last year and four cent per square foot over fourth quarter figures. Lease rates for Class A product continue to spike, particularly in the Western IE in the more recently active size range of 100,000–300,000 SF. Expect further rent increases of at least 3–5% on an annual basis.

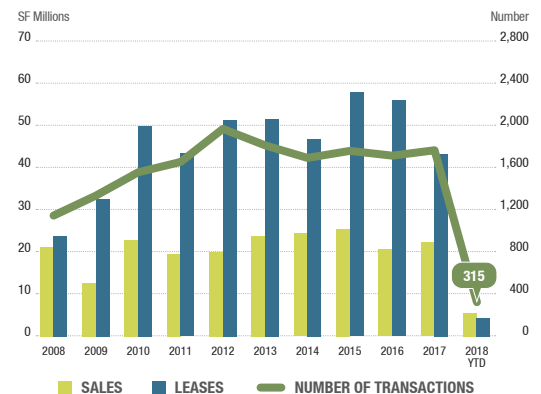
TRANSACTION ACTIVITY. Market demand has continued to grow in the Inland Empire with increased tenant activity from small / mid-sized tenants and the rebirth of the 100,000 square foot tenant. Third party logistics, food / beverage, medical, nutraceutical and e-commerce were the most active sectors of the market in the first quarter. High ceiling clearance (36'), expanded truck courts and well designed office areas emerged as the most desirable features tenants were evaluating in the first quarter. Increased efficiency and improved function are at the core of most real estate decisions at the moment. Inland Empire's sale and leasing activity in the first quarter totaled 9.5 million square feet, down from 16.8 million square feet in the fourth quarter of 2017.

AVAILABILITY. Direct / sublease space being marketed in the first quarter is now at 5.96%, down from 6.39% in the fourth quarter. We expect availability to continue to compress with a possible uptick in later quarters when new, speculative projects are delivered to the market.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	1Q 2018	4Q 2017	1Q 2017	% Change Over Last Year
Total Vacancy Rate	▼ DOWN	4.79%	5.24%	5.08%	(5.71%)
Availability Rate	▼ DOWN	5.96%	6.39%	7.42%	(19.68%)
Average Asking Lease Rate	▲ UP	\$0.59	\$0.55	\$0.51	15.69%
Sale & Lease Transactions	▼ DOWN	9,558,305	16,809,269	18,674,124	(48.82%)
Gross Absorption	▲ UP	12,472,043	10,547,324	8,190,362	52.28%
Net Absorption	▲ POSITIVE	6,067,516	4,878,594	1,217,587	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 4% to reach a level of \$0.61 per square foot by the end of 2018.

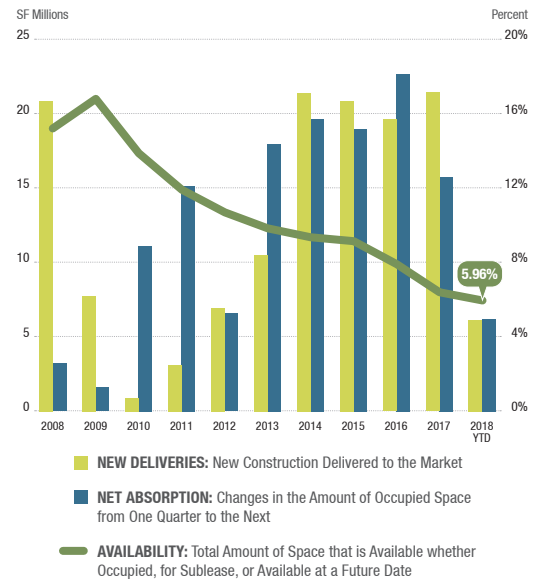
VACANCY. We are forecasting that vacancy will continue to trend downward in 2018 based on the continued growth of e-commerce as well as core industries like food & beverage, apparel, automotive and nutraceutical. Although the overall vacancy rate will temporarily increase as new construction comes online, we anticipate demand to keep up with these new deliveries, keeping vacancy rates in the 4.2%–4.5% range over the next three quarters.

OVERALL. The Inland Empire industrial market in 2018 will be characterized by increased capital flows / investor demand, strong tenant / user activity and continued increases in sale prices and lease rates. Many of our larger investor clients are saying that the economic expansion is continuing, but are cautiously managing new acquisitions. Buildings in the 200–500,000 square foot size range should be in high demand as many companies who have already made larger space commitments in recent years are now looking for local expansion options. Larger tenants in Orange County and Los Angeles with future expansion plans will also target the Inland Empire in 2018 to find larger blocks of quality spaces at lower costs.

CONSTRUCTION. With demand outpacing supply and rents continuing to rise, developers remain motivated to get speculative projects off the ground and delivered as soon as possible. Even with the hurdles of increasing construction costs (up 6% from 2016) and the presence of public labor agreements, construction is at an all-time high in this region with 98 buildings under construction, totaling nearly 17.6 million square feet. The largest development projects in the pipeline include a 1,388,210 square foot building at 24385 Nandina Avenue in Moreno Valley, a 1,109,378 square foot building at 17350 Perris Boulevard in Moreno Valley and a 1,039,898 square foot building at 4100 N. Webster Avenue in Perris.

ABSORPTION. Net absorption for the Inland Empire industrial market was 6.06 million square feet in the first quarter 2018. This trend of positive absorption has been in place for the past nine quarters, averaging over 5.15 million square feet of positive net absorption per quarter. Net absorption was also strong in Mira Loma, Eastvale and Jurupa Valley with 1.8 million square feet of positive net absorption that pushed the vacancy rate downward. In the first quarter, 47% of the market’s absorption was in buildings between 500,000 square feet and larger. Primary contributors to this trend in the first quarter include: Amazon (1,000,000 square feet), All Ways (886,052 square feet) and DCG Fulfillment (771,839 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
20801 Krameria Ave.	Riverside	1,000,000	\$93,500,000	United Parcel Services, Inc.	Lewis Commercial
1138 W. Rincon St.	Corona	374,760	\$38,000,000	Shea Properties	Dairy Farmers of America, Inc.
5005–5007 Ontario Mills Pkwy.	Ontario	145,596	\$19,218,672	KHW Investment	Orbis Interchange*
1915 W. Redlands Blvd.	Redlands	126,292	\$14,150,000	EBP Owner 1, LLC	AP-Redlands, LLC
5003 Ontario Mills Pkwy.	Ontario	48,770	\$7,364,270	Nyenhuis Family Investment	Orbis Interchange*

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
11640 Harrell St. – Sublease	Jurupa Valley	886,052	Jan-2018	All Ways	Restoration Hardware
1300 California St.	Redlands	771,839	Jan-2018	DSG Fulfillment	Black Creek Industrial
13032 Slover Ave.	Fontana	370,000	Mar-2018	Clutter.com	Alere
22705 Newhope St.	Moreno Valley	366,698	Jan-2018	Skechers	Westcore
5725 E. Jurupa St. – Renewal	Ontario	285,500	Feb-2018	Hill’s Pet Nutrition*	James Campbell Estate

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2018	Square Feet Available	Availability Rate 1Q2018	Average Asking Lease Rate	Net Absorption 1Q2018	Net Absorption 2018	Gross Absorption 1Q2018	Gross Absorption 2018
West													
Chino / Chino Hills	898	48,218,302	2,215,933	2,413,175	1,088,589	2.26%	2,150,773	4.46%	\$0.95	279,264	279,264	788,728	788,728
Fontana	712	61,160,862	510,108	2,212,373	3,412,405	5.58%	3,766,332	6.16%	\$0.50	221,413	221,413	1,076,439	1,076,439
Mira Loma / Eastvale / Jurupa Valley	349	40,691,703	1,523,964	1,783,552	410,707	1.01%	1,449,110	3.56%	\$0.79	1,831,428	1,831,428	1,901,289	1,901,289
Montclair	199	3,485,435	0	30,000	133,610	3.83%	185,064	5.31%	\$0.00	(26,168)	(26,168)	16,184	16,184
Ontario	1,456	107,007,084	418,208	333,625	2,857,087	2.67%	4,329,637	4.05%	\$0.72	251,078	251,078	1,540,031	1,540,031
Rancho Cucamonga	715	38,934,968	951,274	1,736,601	1,524,696	3.92%	2,409,637	6.19%	\$0.52	(93,065)	(93,065)	564,955	564,955
Upland	254	4,047,775	0	209,182	176,427	4.36%	190,492	4.71%	\$0.78	53,689	53,689	100,726	100,726
5,000-24,999	2,717	32,732,716	24,360	534,681	662,547	2.02%	975,761	2.98%	\$0.66	(98,105)	(98,105)	374,778	374,778
25,000-49,999	698	24,395,416	508,828	1,281,823	819,228	3.36%	1,372,676	5.63%	\$0.77	194,338	194,338	490,584	490,584
50,000-99,999	432	30,111,672	825,012	546,998	1,097,438	3.64%	1,699,385	5.64%	\$0.75	386,738	386,738	771,870	771,870
100,000-249,999	422	64,399,925	1,244,054	870,807	2,086,994	3.24%	3,097,029	4.81%	\$0.62	273,041	273,041	1,344,119	1,344,119
250,000-499,999	214	76,085,765	1,382,980	889,100	1,974,627	2.60%	3,710,079	4.88%	\$0.00	659,136	659,136	1,151,340	1,151,340
500,000 plus	100	75,820,635	1,634,253	4,595,099	2,962,687	3.91%	3,626,115	4.78%	\$0.00	1,102,491	1,102,491	1,855,661	1,855,661
West Total	4,583	303,546,129	5,619,487	8,718,508	9,603,521	3.16%	14,481,045	4.77%	\$0.72	2,517,639	2,517,639	5,988,352	5,988,352
East													
Banning	49	981,267	0	2,546,920	70,228	7.16%	70,228	7.16%	\$0.55	0	0	36	36
Beaumont	43	3,817,154	0	2,002,096	10,000	0.26%	10,000	0.26%	\$0.00	2,665	2,665	2,665	2,665
Bloomington	94	4,675,724	0	6,358,484	27,158	0.58%	198,715	4.25%	\$0.00	(23,658)	(23,658)	171,734	171,734
Corona / Norco	957	31,401,484	230,234	1,236,403	1,222,776	3.89%	1,620,823	5.16%	\$0.68	710,174	710,174	1,144,197	1,144,197
Colton / Grand Terrace	168	9,551,249	0	762,372	841,735	8.81%	982,850	10.29%	\$0.52	189,718	189,718	341,029	341,029
Moreno Valley	80	21,794,452	4,125,467	43,342,157	1,475,256	6.77%	1,724,073	7.91%	\$0.97	204,320	204,320	747,611	747,611
Perris	191	22,597,699	1,496,550	9,762,488	1,000,275	4.43%	921,448	4.08%	\$0.54	969,907	969,907	1,115,057	1,115,057
Redlands / Loma Linda	229	27,727,293	156,323	532,636	3,766,451	13.58%	3,681,693	13.28%	\$0.48	185,283	185,283	336,726	336,726
Rialto	166	25,414,849	1,285,538	1,086,123	993,350	3.91%	1,166,672	4.59%	\$0.68	1,076,582	1,076,582	1,316,027	1,316,027
Riverside	1,020	45,613,715	2,977,671	3,702,776	4,155,582	9.11%	4,607,031	10.10%	\$0.54	107,765	107,765	624,909	624,909
San Bernardino / Highland	570	37,060,863	1,777,156	2,896,577	2,400,643	6.48%	2,378,164	6.42%	\$0.39	127,121	127,121	683,700	683,700
5,000-24,999	2,295	26,983,870	294,399	310,813	887,708	3.29%	1,278,760	4.74%	\$0.73	(139,822)	(139,822)	415,935	415,935
25,000-49,999	533	18,638,839	190,377	666,000	531,561	2.85%	866,237	4.65%	\$0.62	28,436	28,436	417,441	417,441
50,000-99,999	313	21,400,570	403,131	1,335,404	424,946	1.99%	886,193	4.14%	\$0.56	166,865	166,865	364,978	364,978
100,000-249,999	215	32,322,062	1,155,912	3,589,081	2,955,905	9.15%	3,296,323	10.20%	\$0.44	453,367	453,367	1,302,671	1,302,671
250,000-499,999	95	34,600,024	3,163,980	4,735,272	3,369,696	9.74%	4,012,385	11.60%	\$0.00	1,290,684	1,290,684	2,232,319	2,232,319
500,000 plus	116	96,690,384	6,841,140	63,592,462	7,793,638	8.06%	7,021,799	7.26%	\$0.00	1,750,347	1,750,347	1,750,347	1,750,347
East Total	3,567	230,635,749	12,048,939	74,229,032	15,963,454	6.92%	17,361,697	7.53%	\$0.52	3,549,877	3,549,877	6,483,691	6,483,691
Inland Empire Total	8,150	534,181,878	17,668,426	82,947,540	25,566,975	4.79%	31,842,742	5.96%	\$0.59	6,067,516	6,067,516	12,472,043	12,472,043
5,000-24,999	5,012	59,716,586	318,759	845,494	1,550,255	2.60%	2,254,521	3.78%	\$0.70	(237,927)	(237,927)	790,713	790,713
25,000-49,999	1,231	43,034,255	699,205	1,947,823	1,350,789	3.14%	2,238,913	5.20%	\$0.73	222,774	222,774	908,025	908,025
50,000-99,999	745	51,512,242	1,228,143	1,882,402	1,522,384	2.96%	2,585,578	5.02%	\$0.57	553,603	553,603	1,136,848	1,136,848
100,000-249,999	637	96,721,987	2,399,966	4,459,888	5,042,899	5.21%	6,393,352	6.61%	\$0.48	726,408	726,408	2,646,790	2,646,790
250,000-499,999	309	110,685,789	4,546,960	5,624,372	5,344,323	4.83%	7,722,464	6.98%	\$0.00	1,949,820	1,949,820	3,383,659	3,383,659
500,000 plus	216	172,511,019	8,475,393	68,187,561	10,756,325	6.24%	10,647,914	6.17%	\$0.00	2,852,838	2,852,838	3,606,008	3,606,008
Inland Empire Total	8,150	534,181,878	17,668,426	82,947,540	25,566,975	4.79%	31,842,742	5.96%	\$0.59	6,067,516	6,067,516	12,472,043	12,472,043
High Desert													
Adelanto	138	3,366,224	629,935	532,000	333,537	9.91%	357,578	10.62%	\$0.00	94,457	94,457	94,457	94,457
Apple Valley	74	2,491,388	1,350,000	0	55,574	2.23%	55,574	2.23%	\$0.59	(1,200)	(1,200)	12,500	12,500
Barstow	52	1,076,708	0	0	324,687	30.16%	357,335	33.19%	\$0.22	(5,771)	(5,771)	425	425
Hesperia	189	3,210,731	0	107,980	291,708	9.09%	302,233	9.41%	\$0.00	38,246	38,246	58,646	58,646
Victorville	131	7,795,567	14,165	9,991,933	426,248	5.47%	453,364	5.82%	\$0.80	(17,320)	(17,320)	2,425	2,425
High Desert Total	584	17,940,618	1,994,100	10,631,913	1,431,754	7.98%	1,526,084	8.51%	\$0.82	108,412	108,412	168,453	168,453
Temecula Valley													
Hemet	84	1,458,253	0	0	21,452	1.47%	50,832	3.49%	\$0.88	10,800	10,800	10,800	10,800
Lake Elsinore	165	2,496,490	0	8,358	130,493	5.23%	107,082	4.29%	\$0.00	68,238	68,238	110,309	110,309
Menifee	20	404,015	72,835	109,306	30,803	7.62%	49,066	12.14%	\$0.00	(5,885)	(5,885)	5,885	5,885
Murrieta	232	3,738,237	124,727	67,988	70,197	1.88%	113,467	3.04%	\$0.00	4,699	4,699	64,400	64,400
San Jacinto	60	1,035,680	0	109,948	16,700	1.61%	33,880	3.27%	\$0.00	10,000	10,000	10,000	10,000
Temecula	331	10,621,869	141,180	129,211	289,221	2.72%	800,605	7.54%	\$0.75	56,841	56,841	227,161	227,161
Wildomar	12	324,860	0	0	6,771	2.08%	0	0.00%	\$0.00	(2,293)	(2,293)	13,542	13,542
Temecula Valley Total	904	20,079,404	338,742	424,811	565,637	2.82%	1,154,932	5.75%	\$0.75	142,400	142,400	442,097	442,097

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



The Inland Empire shows no sign of a slowdown

by **Juan Guterrez**

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The Inland Empire is showing no sign of a slowdown. Rents and sales prices are at all-time highs, cap rates are at all-time lows, there is a limited supply of available buildings and the market is now extremely land constrained. Over the past 12 months, we have seen a 15% increase in average lease rates and due to lack of availability, it is expected that we will experience similar growth in the next 12 months. Recent cap rates have been as low as below 4% in the Western Inland Empire and approximately 4.5% in the Eastern Inland Empire. Competition for quality assets among institutional investors is expected to continue which will keep downward pressure on cap rates.

We continue to see incredible demand from both corporate occupiers that lease larger distribution centers and the local owner/users who purchase smaller buildings for their own use. It is not uncommon for a listed building to have multiple offers, and many of the projects that are under construction are either leased or sold prior to completion.

The Inland Empire has also been the beneficiary of the “spillover” from the neighboring markets of Los Angeles and Orange County. Quite often users in LA and OC are unable to find buildings to suit their needs, and their only viable option is to relocate to the Inland Empire. We have seen this occur recently with CJ Foods who relocated from Orange County to Beaumont and purchased a 444,000 square foot building as well as with Solaris Paper who relocated from Santa Fe Springs and leased a 780,000 square foot building in Moreno Valley. These are only two examples of this spillover phenomenon and we expect this trend to continue.

Lastly, we are witnessing a tremendous amount of development, with nearly 17.7 million square feet of projects currently under construction. The majority of the space that is delivered gets absorbed almost immediately and developers are having a difficult time keeping up with user demand. This has caused a run up in land values, with premiums for sites that are fully entitled or “permit ready.” These fully entitled sites eliminate market risk and allow the developer to commence construction immediately. Land values in the West Inland Empire are now approaching \$30 per square foot for larger sites (15 acres+) and \$25 per square foot for the smaller sites. Market fundamentals are very strong and barring a political upheaval or a significant trade war, 2018 should be another banner year for the industrial market in the Inland Empire.

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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.

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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