

OVERVIEW. The Inland Empire's industrial market continues to grow as a result of expansion within the e-commerce industry, logistics supply-chain infrastructure, and the overall Southern California economy. The Inland Empire maintains healthy fundamentals. Notwithstanding the addition of more than 59 million square feet of new supply over the past two and a half years, strong demand continues to push the vacancy rate to a historical low. At the close of the third quarter, the Inland Empire industrial market displayed strong positive net absorption. Availability decreased to 4.67%, down from 6.65% in the third quarter of 2018, which is an all-time record low for the Inland Empire industrial market.

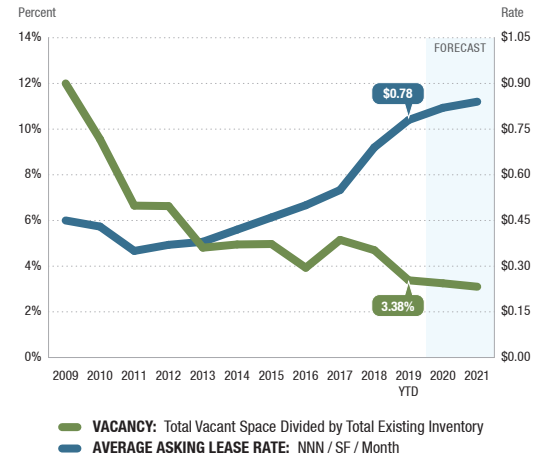
VACANCY. In addition to the impact of new product, the Inland Empire industrial market has seen several move-outs, causing the vacancy rate to rise in 2017, but robust absorption has allowed vacancies to normalize over the last two years. Direct/sublease space (unoccupied) finished the quarter at 3.38%, a 103-basis-point decrease from last year's 4.41%. This was the fourth consecutive quarter in which a new record low was reached. The vacancy rate for Inland Empire's industrial market is now significantly lower than the record posted in the last period of economic expansion, which was roughly 12% in 2009.

AVAILABILITY. Direct/sublease space being marketed in the third quarter came in at 4.67%, down from 6.65%, a year-over-year decrease of 29.77%, from the third quarter of 2018. We expect availability to continue to compress with a possible uptick in later quarters when new, speculative projects are delivered to the market.

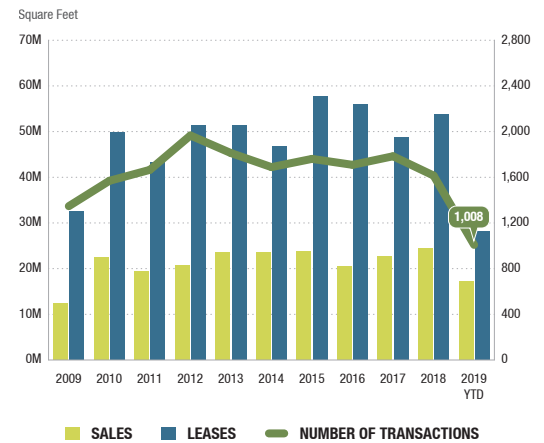
LEASE RATES. Rent growth in the Inland Empire remained on par with other regions of Southern California, although the IE is still significantly less expensive than Los Angeles County. The average asking lease rate for Inland Empire industrial space was \$0.78 per square foot by the end of the third quarter which was up 2.63% from the prior quarter and up 30% from the third quarter of 2018. This compares with \$0.93 per square foot in Orange County and \$0.98 per square foot in Los Angeles County. The Inland Empire has continued to be one of the nation's most in-demand industrial markets.

TRANSACTION ACTIVITY. The Inland Empire industrial market is one of the most active in the country, thanks to a bustling economy and close proximity to two of the largest ports on the west coast. Demand for logistics space has helped drive vacancies down to record lows. But with the supply influx ongoing, and more than half of under-construction space still available, vacancies will face a renewed challenge in the near term. The amount of available space continued to decline in the Inland Empire industrial market through the third quarter, despite 12 MSF of new deliveries since the first quarter of 2019. Sale and leasing activity checked in at 11.6 MSF for the third quarter of 2019, a decrease over the previous quarter total of 18.8 MSF.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	3Q 2019	2Q 2019	3Q 2018	% Change Over Last Year
Total Vacancy Rate	▼ DOWN	3.38%	4.39%	4.41%	(23.36%)
Availability Rate	▼ DOWN	4.67%	4.94%	6.65%	(29.77%)
Average Asking Lease Rate	▲ UP	\$0.78	\$0.76	\$0.60	30.00%
Sale & Lease Transactions	▼ DOWN	11,651,529	18,875,097	16,091,205	(27.59%)
Gross Absorption	▲ UP	9,261,341	9,028,793	12,935,787	(28.41%)
Net Absorption	▲ POSITIVE	4,950,432	5,902,112	7,030,988	N/A

OVERALL. The Inland Empire industrial market continued to display sound fundamentals closing out the quarter, supported by an almost 23% drop in the vacancy rate, a 30% increase in average asking lease rates and a quarter of positive absorption, compared with a year ago. The Inland Empire industrial market continues its positive momentum, surpassing pre-recession highs in just about every metric (lease rates, sale prices & land values). We believe this trend will continue for the foreseeable future (6–12 months) given the continued growth of the e-commerce sector and limited availability in the neighboring infill markets of Los Angeles and Orange County.

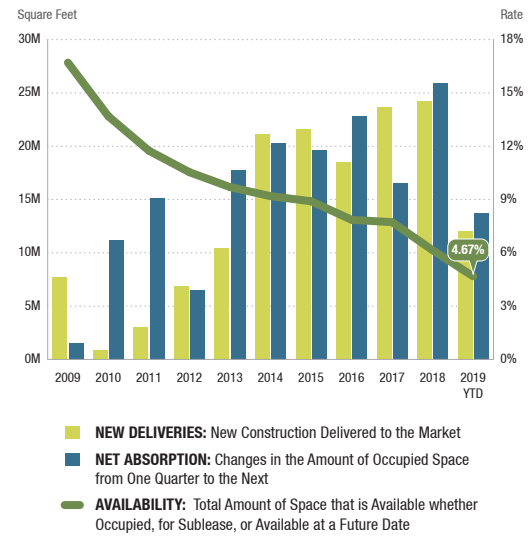
LEASE RATES. The economy is starting to get somewhat fragile, with the Chinese tariffs. Despite this, the 2020 outlook for U.S. industrial real estate remains positive as low vacancy rates and rising rents continue. As is the case in many markets across the country, industrial rent growth in the Inland Empire has performed better than all other major property types the past several quarters and is still climbing. Anticipate asking rents to increase to an annualized average of 3% to reach a level of \$0.80 per square foot by the end of the second quarter of 2020.

VACANCY. The Inland Empire market remains healthy. While the magnitude of new supply contains the potential to impede rent growth, demand for logistics space is consistently strong here, and we anticipate demand to keep up with the new deliveries, keeping vacancy rates in the 3.0–4.0% range over the next three quarters.

CONSTRUCTION. Developers continue to deliver product at a record pace to keep up with demand. During the third quarter, there were 120 buildings under construction totaling nearly 28.8 MSF. Notable projects include 1010 W. 4th Street in Beaumont, totaling 2,560,000 square feet (Amazon); and 3520 S. Cactus Avenue in Bloomington, totaling 1,264,102 square feet (XPO Logistics Supply Chain, Inc.). The large amount of speculative development in the pipeline poses some risk to future market fundamentals if a good portion of those buildings deliver without any prospective tenants. However, the aforementioned leases have helped keep the availability rate of projects under construction below 61% across the market.

ABSORPTION. Continued recovery in the economy and the need for last-mile delivery options are leading many companies to expand their existing footprints. Many of the larger transactions that occurred during the third quarter were with companies already located in the Inland Empire and in need of additional space. The Inland Empire has boasted positive net absorption throughout the region for ten consecutive quarters and totaled over 56.8 MSF. Vacancy across the region's warehouse, distribution and manufacturing buildings hit a near historic low in the third quarter of 2019 and net absorption posted 4,950,432 square feet. Primary contributors to this trend included: VF Outdoor LLC (1,206,967 square feet), Newgistics (677,383 square feet) and Apollo (596,090 square feet).

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
490 Columbia Ave.	Riverside	1,009,092	\$123,750,000	ASB Real Estate	Washington Capital
6275 Lance Dr.	Riverside	1,012,995	\$94,200,000	The Carlyle Group / Dedeaux Properties	Hillwood
W. Cactus Ave.	Riverside	620,000	\$78,120,000	Nissan	Lewis/Waypoint
4350–4420 Serrano Dr.	Jurupa Valley	332,725	\$56,230,525	Greencycle US Property, LLC	Caprock Partners
800 Iowa	Riverside	309,535	\$33,516,000	C2H2, Ltd	Caprock Partners

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
5051 Carpenter Ave.	Ontario	1,206,967	Jul-2019	VF Outdoor, LLC	Prologis
6275 Lance Ave.	Riverside	1,012,995	Sept-2019	Cardinal Health	The Carlyle Group / Dedeaux Properties
6207 Cajon Blvd.	San Bernardino	830,750	Aug-2019	LG Electronics	Westcore Properties
11260 Cedar Ave.	Bloomington	677,383	Aug-2019	Newgistics	Crow Holdings
14063 Brown St.	Riverside	596,090	Jul-2019	Apollo	Exeter

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2019	Square Feet Available	Availability Rate 3Q2019	Average Asking Lease Rate	Net Absorption 3Q2019	Net Absorption 2019	Gross Absorption 3Q2019	Gross Absorption 2019
West													
Chino / Chino Hills	915	52,309,261	1,540,608	313,363	452,994	0.87%	723,987	1.38%	\$1.05	171,113	1,417,336	551,891	2,453,005
Fontana	728	63,081,893	3,252,294	442,850	1,461,728	2.32%	2,399,903	3.80%	\$0.69	1,304,912	1,680,722	1,214,822	1,973,648
Mira Loma / Eastvale / Jurupa Valley	366	42,600,220	406,069	0	1,199,537	2.82%	1,217,298	2.86%	\$0.69	(355,181)	(144,352)	841,747	1,613,027
Montclair	198	3,498,966	0	0	147,514	4.22%	232,417	6.64%	\$0.65	(26,324)	(130,603)	74,418	231,689
Ontario	1,473	107,793,416	4,220,520	1,858,562	1,704,303	1.58%	3,096,053	2.87%	\$0.74	400,587	1,316,141	1,554,743	4,182,098
Rancho Cucamonga	732	40,867,750	69,438	1,419,684	2,240,132	5.48%	2,751,765	6.73%	\$0.86	(102,906)	1,256,046	1,124,259	2,750,017
Upland	253	4,002,972	0	172,205	111,237	2.78%	128,118	3.20%	\$0.00	(35,578)	(11,713)	47,746	156,600
5,000-24,999	2,738	32,981,955	93,129	252,488	840,208	2.55%	1,153,088	3.50%	\$1.16	(68,264)	(264,733)	408,179	1,109,455
25,000-49,999	721	25,249,437	346,653	390,600	721,946	2.86%	1,317,688	5.22%	\$0.86	122,816	869,955	674,641	1,912,617
50,000-99,999	443	30,817,072	616,214	284,013	930,332	3.02%	1,571,477	5.10%	\$0.75	58,195	434,651	589,421	1,627,571
100,000-249,999	437	66,640,179	978,462	1,184,901	2,716,154	4.08%	3,986,931	5.98%	\$0.65	804,784	1,531,319	1,780,488	3,927,324
250,000-499,999	222	78,801,613	1,326,307	268,714	1,187,756	1.51%	1,599,308	2.03%	\$0.00	406,872	1,381,282	747,506	2,471,726
500,000 plus	104	79,664,222	6,128,164	1,825,948	921,049	1.16%	921,049	1.16%	\$0.00	32,220	1,431,103	1,209,391	2,311,391
West Total	4,665	314,154,478	9,488,929	4,206,664	7,317,445	2.33%	10,549,541	3.36%	\$0.81	1,356,623	5,383,577	5,409,626	13,360,084
East													
Banning	49	975,004	0	0	54,401	5.58%	141,735	14.54%	\$0.75	(123,760)	(73,992)	0	55,400
Beaumont	43	3,817,154	2,560,000	725,000	0	0.00%	0	0.00%	\$0.00	0	0	2,233	4,349
Bloomington	100	5,637,795	2,542,556	4,362,174	862,153	15.29%	862,153	15.29%	\$0.81	17,597	22,497	17,597	22,497
Corona / Norco	970	31,531,063	1,199,028	151,114	629,127	2.00%	1,497,707	4.75%	\$0.71	143,981	465,914	450,624	1,234,428
Colton / Grand Terrace	173	10,235,225	229,970	427,903	733,723	7.17%	806,053	7.88%	\$0.81	(58,119)	(65,285)	22,661	462,319
Moreno Valley	87	27,975,500	861,561	44,098,993	1,138,631	4.07%	1,176,238	4.20%	\$1.20	1,126,524	1,952,414	418,081	1,888,735
Perris	197	26,619,521	3,591,609	7,609,728	1,885,115	7.08%	1,939,112	7.28%	\$0.65	1,854,182	2,700,358	700,949	1,482,865
Redlands / Loma Linda	231	28,169,490	153,994	406,136	229,868	0.82%	796,249	2.83%	\$0.00	299,691	102,434	754,248	1,936,088
Rialto	180	27,877,551	2,300,335	1,842,465	1,719,356	6.17%	2,892,262	10.37%	\$0.92	51,704	635,233	159,342	2,289,639
Riverside	1,060	49,164,852	3,701,656	2,159,690	2,998,611	6.10%	3,442,944	7.00%	\$0.60	418,206	1,474,208	861,477	3,074,489
San Bernardino / Highland	577	39,426,199	1,364,303	2,186,576	1,529,586	3.88%	2,325,737	5.90%	\$0.00	(136,197)	1,155,815	464,503	2,148,791
5,000-24,999	2,341	27,669,547	167,088	438,114	726,530	2.63%	1,094,741	3.96%	\$0.70	92,737	294,909	510,975	1,430,753
25,000-49,999	545	18,987,793	338,664	678,854	444,198	2.34%	962,613	5.07%	\$0.68	52,579	237,150	304,055	742,316
50,000-99,999	318	21,756,350	993,849	814,248	829,964	3.81%	1,039,234	4.78%	\$0.81	(329,714)	(205,665)	65,831	808,071
100,000-249,999	226	34,109,588	2,548,540	4,006,935	1,647,226	4.83%	3,382,353	9.92%	\$1.02	397,240	1,028,515	489,897	1,943,048
250,000-499,999	108	39,635,454	4,721,501	3,941,382	3,069,337	7.74%	3,618,837	9.13%	\$0.00	74,386	2,650,922	2,120,157	4,336,660
500,000 plus	129	109,270,622	9,735,370	54,090,246	5,063,316	4.63%	5,782,412	5.29%	\$0.00	3,306,581	4,363,765	360,800	5,338,752
East Total	3,667	251,429,354	18,505,012	63,969,779	11,780,571	4.69%	15,880,190	6.32%	\$0.69	3,593,809	8,369,596	3,851,715	14,599,600
Inland Empire Total	8,332	565,583,832	27,993,941	68,176,443	19,098,016	3.38%	26,429,731	4.67%	\$0.78	4,950,432	13,753,173	9,261,341	27,959,684
5,000-24,999	5,079	60,651,502	260,217	690,602	1,566,738	2.58%	2,247,829	3.71%	\$0.87	24,473	30,176	919,154	2,540,208
25,000-49,999	1,266	44,237,230	685,317	1,069,454	1,166,144	2.64%	2,280,301	5.15%	\$0.77	175,395	1,107,105	978,696	2,654,933
50,000-99,999	761	52,573,422	1,610,063	1,098,261	1,760,296	3.35%	2,610,711	4.97%	\$0.79	(271,519)	228,986	655,252	2,435,642
100,000-249,999	663	100,749,767	3,527,002	5,191,836	4,363,380	4.33%	7,369,284	7.31%	\$0.60	1,202,024	2,559,834	2,270,385	5,870,372
250,000-499,999	330	118,437,067	6,047,808	4,210,096	4,257,093	3.59%	5,218,145	4.41%	\$0.47	481,258	4,032,204	2,867,663	6,808,386
500,000 plus	233	188,934,844	15,863,534	55,916,194	5,984,365	3.17%	6,703,461	3.55%	\$0.00	3,338,801	5,794,868	1,570,191	7,650,143
Inland Empire Total	8,332	565,583,832	27,993,941	68,176,443	19,098,016	3.38%	26,429,731	4.67%	\$0.78	4,950,432	13,753,173	9,261,341	27,959,684
High Desert													
Adelanto	145	4,180,611	23,580	268,000	504,073	12.06%	768,031	18.37%	\$1.42	44,850	47,570	105,775	125,965
Apple Valley	75	3,846,501	0	0	13,392	0.35%	59,714	1.55%	\$0.00	1,353,700	1,377,400	1,355,200	1,397,900
Barstow	53	1,054,795	0	0	115,971	10.99%	10,000	0.95%	\$0.22	5,063	11,363	5,063	11,363
Hesperia	188	3,194,854	0	0	67,257	2.11%	84,457	2.64%	\$0.51	(18,434)	87,891	20,538	192,558
Victorville	133	8,299,939	0	9,991,933	469,010	5.65%	547,905	6.60%	\$1.00	75,709	172,021	135,750	255,672
High Desert Total	594	20,576,700	23,580	10,259,933	1,169,703	5.68%	1,470,107	7.14%	\$1.36	1,460,888	1,696,245	1,622,326	1,983,458
Temecula Valley													
Hemet	84	1,422,736	15,385	0	58,922	4.14%	91,584	6.44%	\$0.66	(691)	(27,297)	1,125	9,932
Lake Elsinore	169	2,541,175	70,705	109,110	66,618	2.62%	76,893	3.03%	\$0.76	(21,038)	(7,145)	19,429	89,676
Menifee	24	546,568	0	0	46,788	8.56%	55,299	10.12%	\$0.75	(44,676)	(17,040)	2,112	35,632
Murrieta	255	3,894,865	0	155,550	61,476	1.58%	131,691	3.38%	\$0.00	(5,968)	88,785	23,259	251,506
San Jacinto	62	1,045,680	51,752	20,000	50,125	4.79%	50,125	4.79%	\$0.00	(8,000)	(19,525)	0	0
Temecula	334	10,695,741	0	0	348,672	3.26%	802,364	7.50%	\$0.66	(97,151)	(256,568)	67,154	378,921
Wildomar	12	324,860	0	0	5,831	1.79%	0	0.00%	\$0.79	(5,831)	14,369	0	23,864
Temecula Valley Total	940	20,471,625	137,842	284,660	638,432	3.12%	1,207,956	5.90%	\$0.69	(183,355)	(224,421)	113,079	789,531

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



The Value of Brokers in the Digital Age

by **John Viscountry**

ASSOCIATE, INLAND EMPIRE

909.545.8002 · jviscountry@voitco.com · Lic. #02028915

With so many free resources available, small- to mid-sized real estate consumers may question the utility of a broker. Some may consider working directly with the listing broker. Although a case can be made to work directly, most real estate occupiers misunderstand the value of representation. Here are the key reasons a broker can help, even in the digital age.

Tenant & Buyer Representation

Listing brokers typically have strong relationships with their owners. A good listing broker can work a project for decades and will have a personal relationship with the client. In addition, the listing broker has a fiduciary responsibility to the landlord. A tenant or buyer broker will work to get their client the best deal possible and make sure they understand every element of the transaction. This creates clear representation for each side of the transaction and eliminates any bias.

Worthwhile Landlord Representation

Landlords can view paying commission fees as a way to lower risk. When a broker is hired, landlords increase their chance of securing a higher quality tenant. Most brokers can run credit checks, talk to previous landlords, tour facilities, analyze tenant financials and interview executives from the prospective tenant. They know real players versus “window shoppers.”

Knowledge Versus Information

There's no question consumers have access to information. With several outlets providing information on listings and comps, the information gap is narrowing. However, market knowledge and experience are the ingredients that cannot be found on these websites. Will the landlord give a TI allowance? Will they negotiate? Do they occupy a neighboring building? What kind of credit do they require? Rather than inquiring on several properties, a knowledgeable broker will point consumers towards feasible opportunities.

Objective Advice

“I have a broker but send me what you have.” Although brokers may appreciate the gesture, an issue is created. Instead of one broker presenting the market objectively, five are now blasting a consumer with every opportunity on the market. Each building is better than the last and a better deal can be made. Will this strategy land the client the best deal? It is better to have one broker who can objectively show you a full and detailed picture of the market.

Exceptions

Off market deals are a rare and highly sought-after commodity. If a listing broker brings a client a direct deal, an exception to the norm could be recommended to allow for the broker to represent both sides. Assuming an existing relationship, consumers should be able to trust the broker is a market expert who will honor their fiduciary duty in the dual representation.

A trustworthy broker will make the process easier, timely and more advantageous. They know what it takes to get a deal done. A broker will save consumers time and money, help avoid immediate and future pitfalls, and become a long-term consultant. Local brokers know their competitors, contractors, vendors, governmental entities and landlords. Brokers want future repeat clients and their reputation are at stake, so expect top service.

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.

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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