



MARKET CHANGE

Compared to the Previous Quarter:

Vacancy



UP

Net Absorption



POSITIVE

Lease Rates



UP

Transactions



DOWN

Deliveries



UP

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HIGHLIGHTS

- **Encouraging Numbers** - The Inland Empire industrial market continued to improve in the second quarter of 2014, posting 5.60% vacancy rate. Both vacancy and availability displayed drops compared to the previous year, and asking lease rates continued to increase. Net absorption posted over 1.6 million square feet of positive absorption during the second quarter, marking the seventh consecutive quarter of positive absorption, for a total of 25.4 million square feet.
- **Construction** - There was 16.2 million square feet under construction in the Inland Empire at the end of the second quarter of 2014, most of which was for buildings over 500,000 square feet. 4.7 million square feet was delivered in the second quarter of 2014, which caused a bump in vacancy, and 65 million square feet remains planned for future development.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 5.60%, an increase of 66 basis points from the previous quarter, due to some large speculative projects that were delivered in the second quarter, but a 3.78% drop compared to the same quarter last year. The Inland Empire's West submarket had the overall lowest vacancy rate, finishing the second quarter at 5.24%.
- **Availability** - Direct/sublease space being marketed was 7.48% at the end of the quarter, up 14 basis points from the previous quarter, but a 13.92% decrease from 2013's second quarter rate. We expect availability to continue its descent in coming quarters.
- **Lease Rates** - The average asking triple-net lease rate was \$.44 in the second quarter of the year, an increase of one cent from the previous quarter and seven cents higher than 2013's second quarter rate. We anticipate lease rates continuing to rise in the foreseeable future.
- **Absorption** - The Inland Empire industrial market posted over 1.6 million square feet of positive absorption in the second quarter, giving the market a total of 25.4 million square feet of positive absorption for the past seven quarters. Over the last four years, the market averaged just over 3.1 million square feet of positive absorption per quarter.
- **Transaction Activity** - Leasing activity checked in at just over 6.6 million square feet for the second quarter of 2014, a decrease from the previous quarter's 7.7 million, likely partly attributable to limited inventory in some size ranges. Sales activity was down from the previous quarter, coming in at just above 3.4 million square feet compared to 6.2 million square feet sold in the second quarter of 2013. This statistic can have some lag time in being reported, so look for second quarter figures to end up somewhat higher. Details of the largest transactions can be found on the back page of this report.
- **Employment** - The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 8.0% in May 2014, down from a revised 8.3% in April 2014 and below the year-ago estimate of 9.7%. This compares with an unadjusted unemployment rate of 7.1% for California and 6.1% for the nation during the same period. The unemployment rate was 8.0% for Riverside County and 8.0% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA showed a net gain of 29,300 payroll jobs from May 2013 to May 2014. The largest gains were 8,200 jobs in trade, transportation, & utilities and 6,400 jobs in leisure and hospitality.
- **Overall** - We are seeing a continued annual decrease in the amount of available and vacant space in the market, which is contributing to increases in asking lease rates. Net occupancy continues to be positive, and with new inventory being added each quarter we anticipate some upward pressure on vacancy. We expect to see moderate increases in leasing and sales activity in the coming year, as job creation continues to occur. As unemployment rates drop and consumer confidence stabilizes, the industrial market will continue to improve and accelerate.

FORECAST

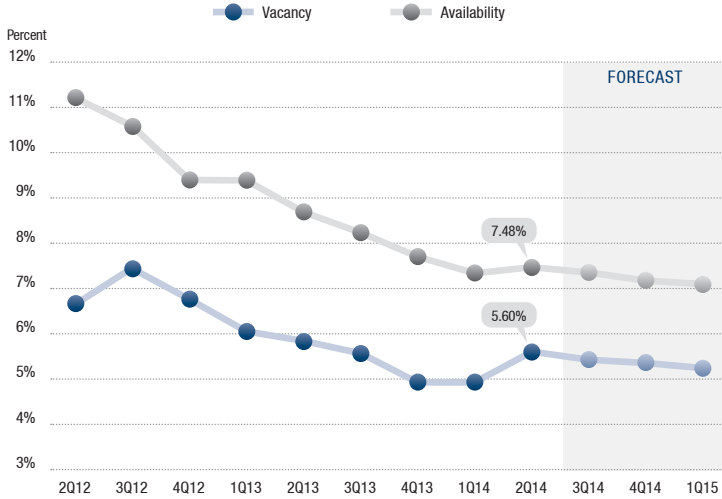
- **Employment** - We anticipate job growth of around 1.5%, or 25,700 jobs, in the Inland Empire area over the year. Look for leisure, hospitality, transportation, logistics, distribution and construction to lead the way for employment gains in the coming years.
- **Lease Rates** - Expect average asking lease rates to increase by another 7%–10% by 2015.
- **Vacancy** - We anticipate vacancy rates continuing to descend in coming quarters, dropping by 35 basis points, to around 5.25%, by the end of the first quarter of 2015.

OVERVIEW

	2Q14	1Q14	2Q13	% of Change vs. 2Q13
Vacancy Rate below 100K SF	3.24%	3.64%	4.56%	(28.95%)
Vacancy Rate above 100K SF	6.79%	5.58%	6.44%	5.43%
Vacancy Rate	5.60%	4.94%	5.82%	(3.78%)
Availability Rate	7.48%	7.34%	8.69%	(13.92%)
Average Asking Lease Rate	\$0.44	\$0.43	\$0.37	18.92%
Sale & Lease Transactions	10,035,180	13,262,797	18,130,430	(44.65%)
Gross Absorption	7,546,849	6,943,362	6,536,996	15.45%
Net Absorption	1,622,880	1,684,556	2,540,472	N/A

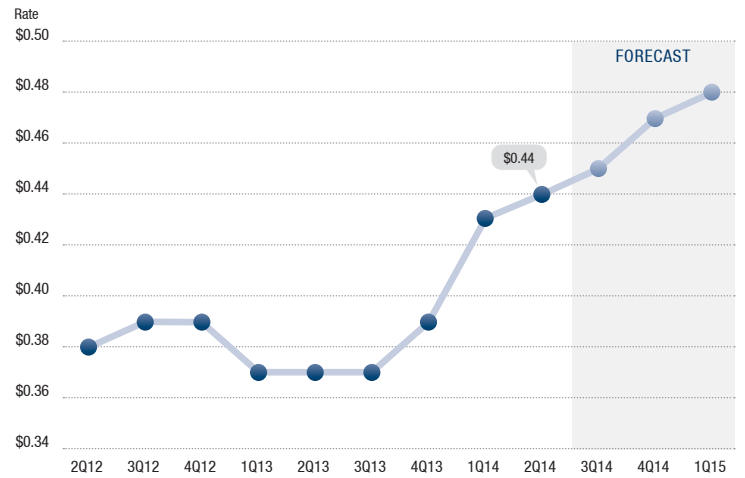
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



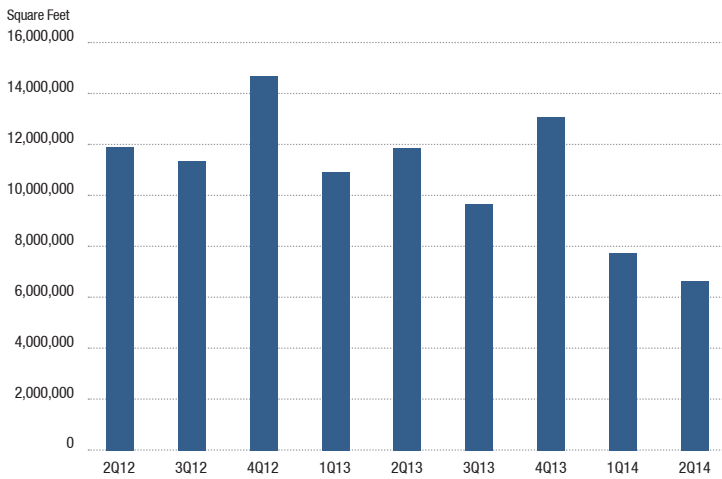
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



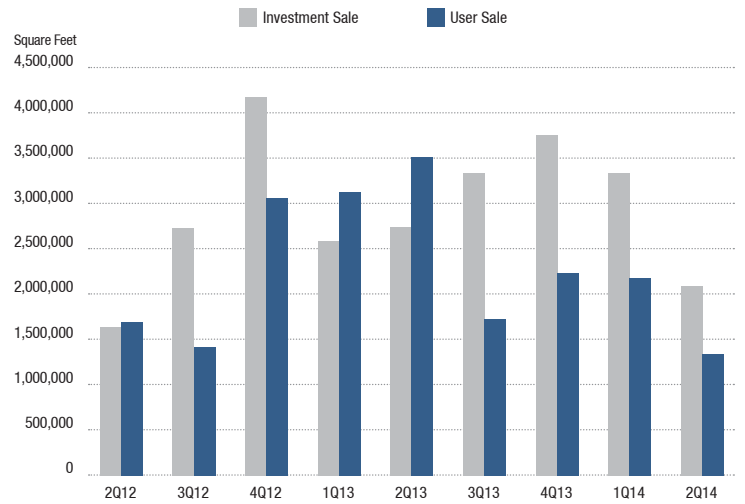
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



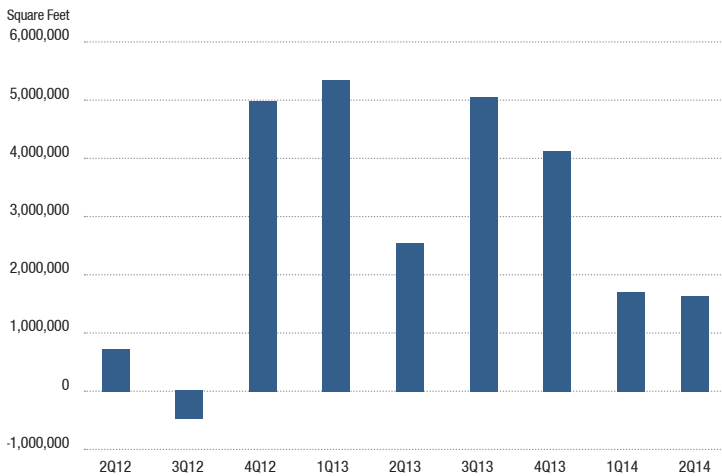
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



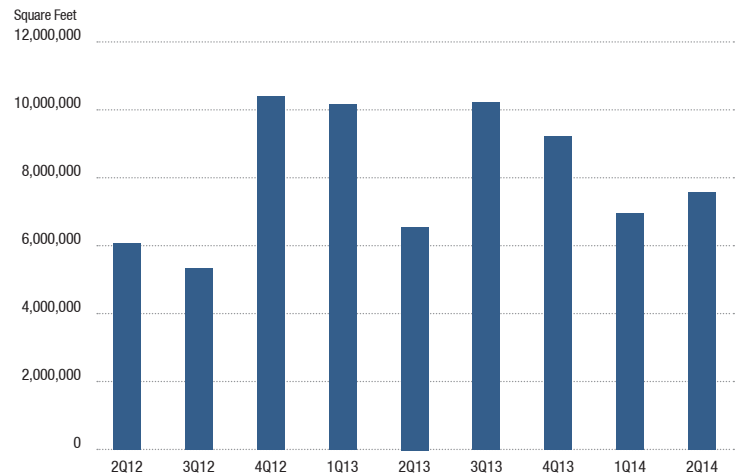
NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



GROSS ABSORPTION

TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2014	Square Feet Available	Availability Rate 2Q2014	Average Asking Lease Rate	Net Absorption 2Q2014	Net Absorption 2014	Gross Absorption 202014	Gross Absorption 2014
West													
Chino/Chino Hills	867	42,977,683	1,500,642	3,317,495	5,592,277	13.01%	4,451,299	10.36%	\$0.46	540,160	(250,453)	1,222,250	1,661,711
Fontana	680	51,382,873	744,032	10,721,688	1,798,794	3.50%	4,069,095	7.92%	\$0.48	62,802	737,388	674,322	1,572,433
Mira Loma	187	24,481,542	200,700	295,903	243,565	0.99%	544,188	2.22%	\$0.00	188,254	706,321	555,420	1,351,187
Montclair	192	3,197,778	0	137,464	56,659	1.77%	174,989	5.47%	\$0.00	106,387	114,498	114,458	146,755
Ontario	1,404	98,247,014	2,503,544	601,197	3,868,579	3.94%	5,717,872	5.82%	\$0.45	319,367	1,151,259	1,481,760	3,173,779
Rancho Cucamonga	712	36,381,025	1,689,305	3,207,473	1,836,967	5.05%	2,545,956	7.00%	\$0.60	(609,024)	(756,866)	537,087	1,436,493
Upland	254	4,009,475	0	159,182	263,525	6.57%	427,835	10.67%	\$0.75	21,311	47,377	104,727	161,062
5,000-24,999	2,626	31,686,341	0	346,310	842,714	2.66%	1,670,492	5.27%	\$1.17	199,013	133,474	544,588	968,760
25,000-49,999	645	22,442,684	0	369,164	648,487	2.89%	1,423,595	6.34%	\$0.59	237,385	150,995	589,422	848,344
50,000-99,999	390	27,182,784	162,193	757,268	1,174,041	4.32%	2,180,785	8.02%	\$0.42	520,311	470,201	1,084,926	1,792,822
100,000-249,999	370	56,053,456	861,031	2,112,791	2,190,650	3.91%	4,152,290	7.41%	\$0.43	163,706	898,329	1,259,887	2,762,680
250,000-499,999	191	67,722,336	427,047	1,674,934	5,413,921	7.99%	7,071,488	10.44%	\$0.34	(491,158)	96,525	1,211,201	3,130,814
500,000 plus	74	55,589,789	5,187,952	13,179,935	3,390,553	6.10%	1,432,584	2.58%	\$0.00	0	0	0	0
West Total	4,296	260,677,390	6,638,223	18,440,402	13,660,366	5.24%	17,931,234	6.88%	\$0.48	629,257	1,749,524	4,690,024	9,503,420
East													
Banning	48	1,002,032	0	2,743,932	29,709	2.96%	42,029	4.19%	\$0.00	25,090	25,090	30,032	30,032
Beaumont	41	2,315,289	0	3,954,604	580,913	25.09%	580,913	25.09%	\$0.00	0	0	0	0
Bloomington	82	3,281,322	610,120	2,572,950	388,241	11.83%	141,179	4.30%	\$0.00	109,552	107,152	109,552	131,762
Corona/Norco	945	29,561,629	554,180	250,292	864,719	2.93%	2,083,108	7.05%	\$0.56	141,867	219,600	314,393	608,185
Colton/Grand Terrace	162	7,609,191	654,477	1,250,454	302,983	3.98%	618,280	8.13%	\$0.35	(70,335)	(73,995)	32,600	59,380
Moreno Valley	67	13,092,630	4,164,783	8,066,381	1,363,620	10.42%	1,499,374	11.45%	\$0.75	(4,637)	(5,314)	26,103	29,179
Perris	173	13,145,859	2,779,845	13,071,388	532,049	4.05%	779,826	5.93%	\$0.32	133,715	514,245	352,036	749,155
Redlands/Loma Linda	209	19,557,445	0	4,491,023	1,698,074	8.68%	1,649,673	8.44%	\$0.36	1,177,885	1,104,905	1,191,803	1,255,510
Rialto	153	15,655,038	0	4,820,455	905,359	5.78%	1,074,674	6.86%	\$0.36	37,085	46,320	54,300	283,087
Riverside	1,100	45,643,820	0	2,893,862	2,841,836	6.23%	4,285,797	9.39%	\$0.36	(186,543)	18,467	648,618	1,643,148
San Bernardino/Highland	543	31,079,050	830,750	2,488,659	1,598,771	5.14%	2,409,353	7.75%	\$0.37	(370,056)	(401,467)	97,388	197,353
5,000-24,999	2,339	27,465,760	33,317	484,021	1,040,579	3.79%	1,938,194	7.06%	\$0.60	49,058	(52,771)	439,661	784,025
25,000-49,999	534	18,677,878	0	712,732	458,397	2.45%	1,065,522	5.70%	\$0.52	72,528	213,593	245,388	469,108
50,000-99,999	310	21,128,989	77,660	687,687	631,226	2.99%	1,737,505	8.22%	\$0.32	48,243	53,194	245,084	523,776
100,000-249,999	198	29,276,042	448,200	2,820,898	1,244,754	4.25%	2,427,702	8.29%	\$0.46	143,010	309,760	531,742	898,192
250,000-499,999	72	25,892,347	640,334	7,221,614	3,959,629	15.29%	3,817,170	14.74%	\$0.28	(119,660)	230,783	594,506	1,511,246
500,000 plus	70	59,502,289	8,394,644	34,677,048	3,771,689	6.34%	4,178,113	7.02%	\$0.00	800,444	800,444	800,444	800,444
East Total	3,523	181,943,305	9,594,155	46,604,000	11,106,274	6.10%	15,164,206	8.33%	\$0.42	993,623	1,555,003	2,856,825	4,986,791
Inland Empire Total	7,819	442,620,695	16,232,378	65,044,402	24,766,640	5.60%	33,095,440	7.48%	\$0.44	1,622,880	3,304,527	7,546,849	14,490,211
High Desert													
Adelanto	132	3,112,375	0	17,401,463	96,204	3.09%	369,946	11.89%	\$0.00	(15,000)	(52,164)	9,000	16,000
Apple Valley	70	2,496,292	0	1,847,530	71,720	2.87%	68,170	2.73%	\$0.53	23,284	10,800	26,981	39,731
Barstow	51	1,164,968	0	0	98,614	8.46%	136,942	11.76%	\$0.38	58,106	61,021	64,106	67,606
Hesperia	185	3,146,816	0	0	546,636	17.37%	600,202	19.07%	\$0.25	95,058	113,616	177,035	208,793
Victorville	121	6,911,237	0	12,563,600	180,099	2.61%	241,396	3.49%	\$0.69	43,482	12,547	49,772	84,039
High Desert Total	559	16,831,688	0	31,812,593	993,273	5.90%	1,416,656	8.42%	\$0.31	204,930	145,820	326,894	416,169
Temecula Valley													
Hemet	84	1,467,312	0	0	96,118	6.55%	191,764	13.07%	\$0.00	0	62,670	0	62,670
Lake Elsinore	155	2,260,219	0	140,874	120,622	5.34%	159,071	7.04%	\$0.69	(2,882)	(17,167)	23,499	89,058
Murrieta	225	3,669,829	0	0	129,127	3.52%	232,412	6.33%	\$0.65	9,724	20,832	28,799	57,335
San Jacinto	57	1,006,136	0	109,948	62,300	6.19%	73,738	7.33%	\$0.52	2,000	5,775	7,500	11,275
Temecula	335	10,466,106	0	50,000	488,299	4.67%	759,066	7.25%	\$0.00	16,184	263,795	55,849	367,369
Wildomar	10	343,043	0	0	18,025	5.25%	18,025	5.25%	\$0.00	4,240	15,964	22,265	33,989
Temecula Valley Total	866	19,212,645	0	300,822	914,491	4.76%	1,434,076	7.46%	\$0.41	29,266	351,869	137,912	621,696

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

MAJOR TRANSACTIONS

Sales Transactions

Property Address	City	Square Feet	Sale Price Per SF	Buyer	Seller
701 S. Arrowhead Ave.	San Bernardino	592,710	\$58.04	Alere Property Group, LLC	Lewis Operating Corporation
2350 Fleetwood Dr.	Riverside	270,570	\$42.50	Industrial Developments International, LLC	Hackman Capital Partners
181 S. Larch Ave.	Rialto	247,226	\$80.70	Industrial Income Trust	Thackeray Partners
16875 Heacock St. *	Moreno Valley	225,450	\$44.24	First Industrial, LP	CT Realty Partners
9448 8th St.	Rancho Cucamonga	161,555	\$90.99	ZBES 145708, LLC	Bryan Pelle Trust/Megatruck
2400 E. Francis	Ontario	108,703	\$77.27	Vintage Word Property, LLC	Jewish Community Foundation/ David Hager

Lease Transactions

Property Address	City	Square Feet	Transaction Date	Tenant	Owner
16300 Fern Ave.	Chino	779,052	Jun-14	Euro-Pro	Invesco
16388 Fern Ave.	Chino	658,756	Jun-14	Yokohama	Invesco
22750 Cactus	Moreno Valley	522,772	Jun-14	Federal Mogul	Liberty Property Trust
5125 Ontario Mills Pkwy.	Ontario	520,161	May-14	Owens & Minor	Industrial Income Trust, Inc.
13479 Valley Blvd. – Renewal	Fontana	410,840	Apr-14	LeapFrog Enterprises, Inc.	Campbell Hawaii Investors, LLC
5200 E. Airport Dr. – Renewal	Ontario	404,500	Apr-14	New Breed, Inc.	TIAA-CREF
3375 S. Enterprise	Rialto	370,335	Apr-14	FTDI	Oltmans

* Building on Ground Lease

PRODUCT TYPE

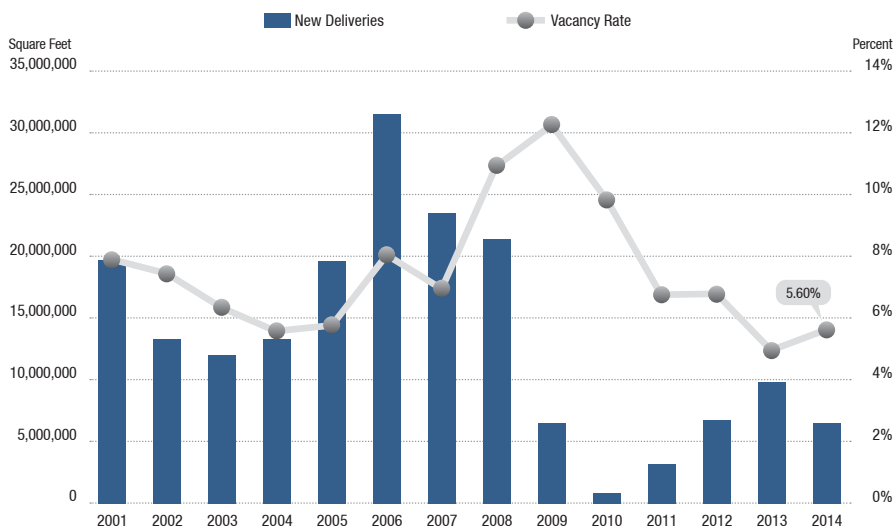
MFG./DIST.

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

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