



REAL ESTATE SERVICES

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Industrial Market Report

Compared to 2012:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

Deliveries

UP

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Market Highlights

- **Mixed Signals** – Overall, the Inland Empire industrial market displayed signs of stabilization and growth during 2013. Both vacancy and availability dropped by over 20% since 2012. The year also posted significant positive net absorption, averaging 3.9 million square feet a quarter. In the fourth quarter of 2013, average asking lease rates rose two cents after remaining flat for two quarters, indicating stabilization. However, leasing activity remained low throughout 2013 compared to previous years, likely attributable to a lack of supply, particularly in some size ranges. Though these are generally positive indications, stability and job growth will need to be sustained in coming quarters for the Inland Empire industrial to flourish.
- **Construction** – There was 15.4 million square feet under construction in the Inland Empire at the end of the fourth quarter of 2013, most of which was for buildings over 500,000 square feet. 9.1 million square feet was delivered in 2013, with 60.7 million square feet remaining planned at the end of the year.
- **Vacancy** – Direct/sublease space (unoccupied) finished the quarter at 5.16%, a decrease of 74 basis points from the previous quarter and a 20.00% drop compared to the end of 2012. The Inland Empire’s West submarket had the overall lowest vacancy rate finishing 2013, at 4.42%. We are forecasting that vacancy will continue to trend downward in 2014.
- **Availability** – Direct/sublease space being marketed was 8.15% at the end of the year, down 41 basis points from the previous quarter and a nearly 27% decrease from 2012’s fourth quarter rate. We expect availability to continue its descent in coming quarters.
- **Lease Rates** – The average asking triple-net lease rate was \$.39 in the final quarter of the year, an increase of two cents from the previous quarter but the same as 2012’s fourth quarter rate. We anticipate lease rates continuing to rise in 2014.
- **Absorption** – The Inland Empire industrial market posted almost 5 million square feet of positive absorption in the fourth quarter, giving the market a total of 15.4 million

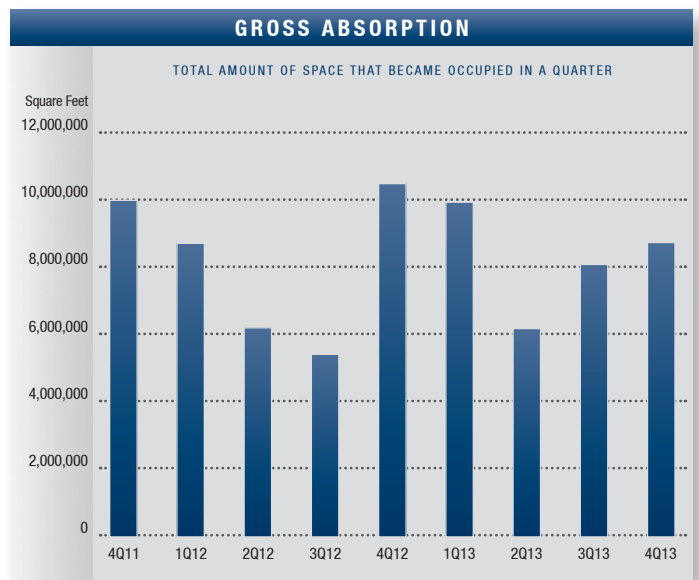
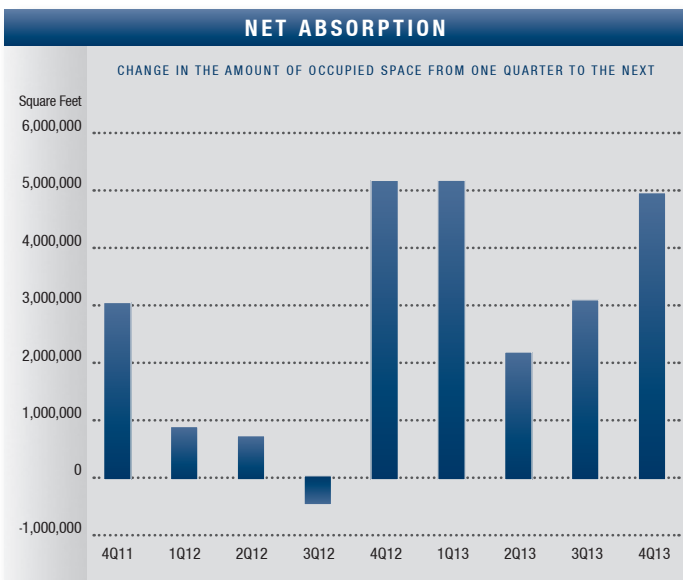
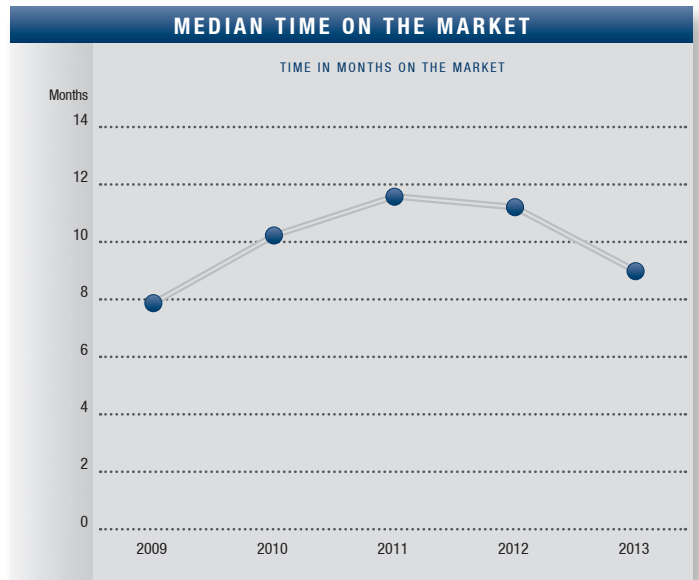
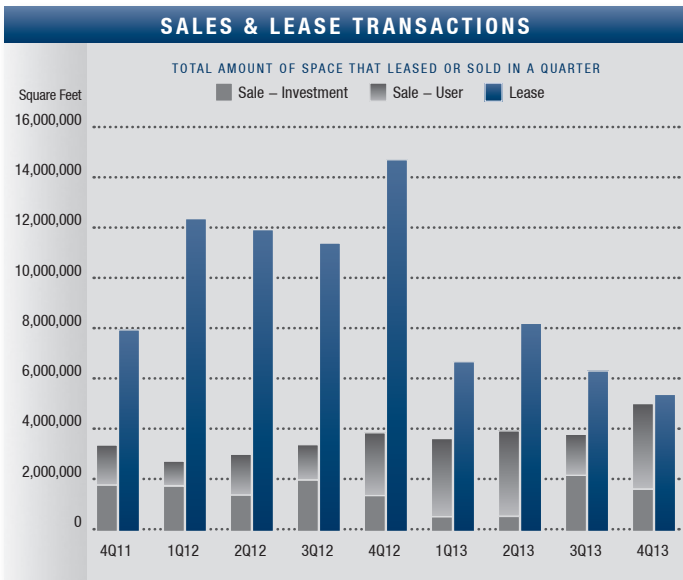
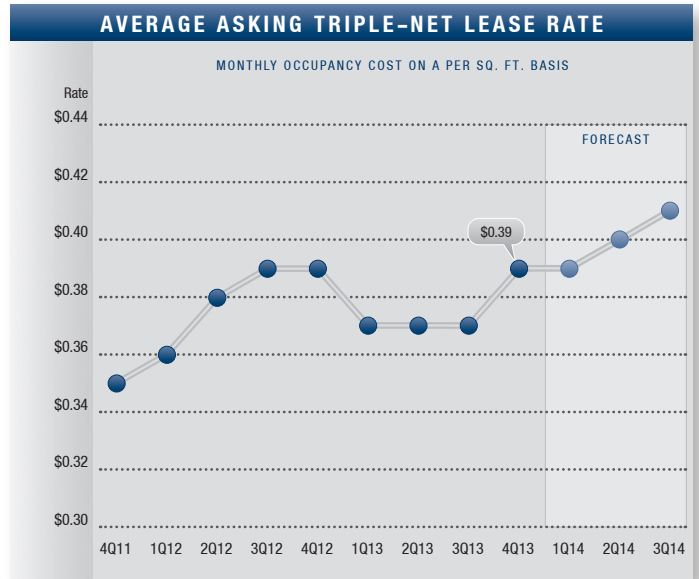
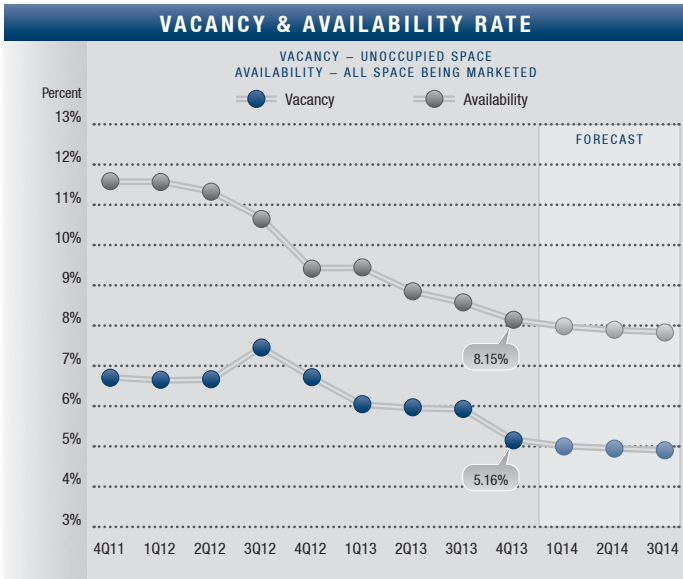
square feet of positive absorption for 2013. Over the last four years, the market averaged just over 3 million square feet of positive absorption per quarter.

- **Transaction Activity** – Leasing activity checked in at just over 5.3 million square feet for the fourth quarter of 2013, a decrease from the previous quarter’s 6.2 million, likely partly attributable to limited inventory in some size ranges. Sales activity was up some from the previous quarter, coming in at just under 5 million square feet compared to 3.7 million square feet sold in the third quarter. 2013 totaled 16.1 million square feet of sales transactions compared to 2012’s total of 12.7 million square feet. 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 9.4% in November 2013, down from a revised 9.8% in October 2013 and below the year-ago estimate of 11.2%. This compares with an unadjusted unemployment rate of 8.3% for California and 6.6% for the nation during the same period. The unemployment rate was 9.6% for Riverside County and 9.1% in San Bernardino County. According to the State of California Employment Development Department, the Riverside–San Bernardino–Ontario MSA showed a net gain of 10,500 payroll jobs from November 2012 to November 2013. The largest gains were 8,200 jobs in trade, transportation & utilities and 8,100 jobs in leisure & hospitality. The most significant job losses were in professional and business services, down 4,900 jobs.
- **Overall** – We are seeing a continued decrease in the amount of available and vacant space in the market, which is contributing to stability and increases in asking lease rates. Net occupancy continues to be positive, and with limited new inventory to apply upward pressure on vacancy, the market should continue to improve. 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 recover and accelerate.

INDUSTRIAL MARKET OVERVIEW

	2013	2012	2011	% of Change vs. 2012
Vacancy Rate below 100K SF	3.49%	5.27%	6.38%	(33.78%)
Vacancy Rate above 100K SF	6.00%	7.45%	6.84%	(19.46%)
Vacancy Rate	5.16%	6.45%	9.54%	(20.00%)
Availability Rate	8.15%	11.13%	13.86%	(26.77%)
Average Asking Lease Rate	\$0.39	\$0.39	\$0.35	0.00%
Sale & Lease Transactions	42,475,213	62,815,468	54,641,063	(32.38%)
Gross Absorption	32,745,474	30,510,198	39,096,035	7.33%
Net Absorption	15,356,888	6,222,754	15,937,931	N/A

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	INVENTORY			VACANCY & LEASE RATES					ABSORPTION				
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2013	Square Feet Available	Availability Rate 4Q2013	Average Asking Lease Rate	Net Absorption 4Q2013	Net Absorption 2013	Gross Absorption 4Q2013	Gross Absorption 2013
West													
Chino/Chino Hills	856	39,430,061	3,488,546	1,826,532	1,893,994	4.80%	3,542,023	8.98%	\$0.44	709,888	1,421,448	892,352	3,249,064
Fontana	678	50,755,024	640,923	9,995,077	2,306,537	4.54%	3,712,714	7.31%	\$0.58	731,282	1,333,701	825,078	3,112,475
Mira Loma	187	24,449,700	0	361,203	1,629,356	6.66%	1,221,339	5.00%	\$0.38	(141,963)	(86,127)	498,176	877,570
Montclair	188	3,080,425	98,508	11,776	60,649	1.97%	319,669	10.38%	\$0.00	42,812	77,704	79,173	215,960
Ontario	1,395	97,479,160	2,469,440	1,701,627	4,317,743	4.43%	6,552,224	6.72%	\$0.39	1,541,389	4,271,730	2,803,370	9,760,151
Rancho Cucamonga	715	36,262,033	229,063	2,208,033	789,446	2.18%	3,035,244	8.37%	\$0.29	(33,850)	1,212,930	330,505	2,217,007
Upland	253	3,946,709	35,110	159,182	281,852	7.14%	470,550	11.92%	\$0.83	(2,340)	(19,696)	52,531	178,187
5,000–24,999	2,609	31,606,239	0	335,988	940,212	2.97%	1,724,237	5.46%	\$0.57	162,563	547,108	674,683	2,226,551
25,000–49,999	644	22,430,852	35,110	228,101	690,376	3.08%	1,336,123	5.96%	\$0.50	236,725	349,779	407,775	1,271,838
50,000–99,999	395	27,739,861	377,177	684,203	1,235,777	4.45%	2,146,126	7.74%	\$0.48	120,805	674,120	322,744	1,745,418
100,000–249,999	367	55,558,631	1,024,871	1,431,250	2,990,736	5.38%	5,469,465	9.84%	\$0.38	656,971	1,905,461	1,588,881	6,290,206
250,000–499,999	187	66,070,746	1,646,126	1,877,766	4,494,063	6.80%	7,249,399	10.97%	\$0.34	2,078,406	2,826,934	2,487,102	5,365,401
500,000 plus	70	51,996,783	3,878,306	11,706,122	928,413	1.79%	928,413	1.79%	\$0.00	(408,252)	1,908,288	0	2,711,000
West Total	4,272	255,403,112	6,961,590	16,263,430	11,279,577	4.42%	18,853,763	7.38%	\$0.45	2,847,218	8,211,690	5,481,185	19,610,414
East													
Banning	48	1,002,032	786,984	3,784,092	54,799	5.47%	67,119	6.70%	\$0.38	10,000	5,648	10,000	87,203
Beaumont	40	2,308,687	0	6,454,604	580,913	25.16%	586,913	25.42%	\$0.00	600,000	54,391	600,000	676,365
Bloomington	82	2,718,548	1,261,935	2,471,800	140,252	5.16%	633,600	23.31%	\$0.00	45,124	27,917	46,084	100,208
Corona/Norco	950	29,707,451	525,860	720,860	1,123,202	3.78%	1,701,637	5.73%	\$0.48	176,459	347,986	377,438	1,969,441
Colton/Grand Terrace	159	6,729,909	0	2,357,344	231,488	3.44%	397,273	5.90%	\$0.00	(5,160)	(12,199)	241,756	372,016
Moreno Valley	67	13,092,630	1,810,290	6,099,608	1,536,533	11.74%	2,289,857	17.49%	\$0.75	(33,074)	225,832	1,220	279,205
Perris	172	12,805,817	579,708	12,829,191	858,600	6.70%	1,302,853	10.17%	\$0.29	680,030	1,767,629	724,447	1,843,018
Redlands/Loma Linda	209	19,230,092	375,839	2,104,498	2,427,540	12.62%	1,893,728	9.85%	\$0.32	93,349	(229,008)	549,906	930,864
Rialto	152	16,370,779	718,025	3,354,456	951,828	5.81%	1,591,746	9.72%	\$0.36	46,768	590,162	66,528	903,559
Riverside	1,089	44,977,009	975,389	2,042,394	2,411,196	5.36%	4,261,858	9.48%	\$0.34	480,312	2,137,263	552,445	3,222,567
San Bernardino/Highland	542	30,489,363	1,423,460	2,184,969	862,024	2.83%	1,862,996	6.11%	\$0.39	13,163	2,229,577	62,879	2,750,614
5,000–24,999	2,334	27,392,109	0	516,383	1,044,410	3.81%	1,880,772	6.87%	\$0.56	173,646	521,063	405,574	1,873,617
25,000–49,999	532	18,647,434	0	686,722	675,033	3.62%	1,225,872	6.57%	\$0.46	214,745	480,583	318,823	1,232,876
50,000–99,999	309	21,043,825	77,660	647,087	666,020	3.16%	1,723,884	8.19%	\$0.39	(21,787)	299,068	65,043	876,612
100,000–249,999	198	29,310,906	448,200	2,748,539	1,711,282	5.84%	3,022,383	10.31%	\$0.31	336,568	1,163,867	627,585	2,631,284
250,000–499,999	70	25,177,044	768,456	8,362,368	3,533,114	14.03%	5,059,401	20.10%	\$0.31	125,890	905,944	537,769	2,745,998
500,000 plus	67	57,860,999	7,163,174	31,442,717	3,548,516	6.13%	3,677,268	6.36%	\$0.00	1,277,909	3,774,673	1,277,909	3,774,673
East Total	3,510	179,432,317	8,457,490	44,403,816	11,178,375	6.23%	16,589,580	9.25%	\$0.35	2,106,971	7,145,198	3,232,703	13,135,060
Inland Empire Total	7,782	434,835,429	15,419,080	60,667,246	22,457,952	5.16%	35,443,343	8.15%	\$0.39	4,954,189	15,356,888	8,713,888	32,745,474
5,000–24,999	4,943	58,998,348	0	852,371	1,984,622	3.36%	3,605,009	6.11%	\$0.57	336,209	1,068,171	1,080,257	4,100,168
25,000–49,999	1,176	41,078,286	35,110	914,823	1,365,409	3.32%	2,561,995	6.24%	\$0.48	451,470	830,362	726,598	2,504,714
50,000–99,999	704	48,783,686	454,837	1,331,290	1,901,797	3.90%	3,870,010	7.93%	\$0.44	99,018	973,188	387,787	2,622,030
100,000–249,999	565	84,869,537	1,473,071	4,179,789	4,702,018	5.54%	8,491,848	10.01%	\$0.34	993,539	3,069,328	2,216,466	8,921,490
250,000–499,999	257	91,247,790	2,414,582	10,240,134	8,027,177	8.80%	12,308,800	13.49%	\$0.31	2,204,296	3,732,878	3,024,871	8,111,399
500,000 plus	137	109,857,782	11,041,480	43,148,839	4,476,929	4.08%	4,605,681	4.19%	\$0.00	869,657	5,682,961	1,277,909	6,485,673
Inland Empire Total	7,782	434,835,429	15,419,080	60,667,246	22,457,952	5.16%	35,443,343	8.15%	\$0.39	4,954,189	15,356,888	8,713,888	32,745,474
High Desert													
Adelanto	132	3,093,875	0	17,401,463	44,040	1.42%	314,842	10.18%	\$0.00	(2,790)	26,100	12,250	58,790
Apple Valley	69	2,475,157	0	1,847,530	82,520	3.33%	86,807	3.51%	\$0.53	10,550	83,893	24,800	163,157
Barstow	51	1,164,320	0	0	177,885	15.28%	215,565	18.51%	\$0.38	101,358	69,264	107,988	133,110
Hesperia	185	3,150,910	0	0	735,752	23.35%	764,166	24.25%	\$0.24	4,550	(447,426)	29,636	101,779
Victorville	121	6,914,161	0	12,563,600	195,398	2.83%	272,624	3.94%	\$0.42	21,165	137,990	64,015	324,540
High Desert Total	558	16,798,423	0	31,812,593	1,235,595	7.36%	1,654,004	9.85%	\$0.28	134,833	(130,179)	238,689	781,376
Temecula Valley													
Hemet	83	1,458,812	0	0	158,788	10.88%	207,388	14.22%	\$0.00	10,800	(28,524)	1,200	44,037
Lake Elsinore	154	2,250,599	0	140,874	103,455	4.60%	191,304	8.50%	\$0.00	(11,992)	83,719	78,166	260,349
Murrieta	225	3,669,736	0	0	151,959	4.14%	217,811	5.94%	\$0.68	65,962	110,547	114,652	394,960
San Jacinto	57	1,006,136	0	109,948	68,075	6.77%	75,575	7.51%	\$0.52	(3,800)	(12,975)	0	12,425
Temecula	337	10,469,659	0	50,000	686,354	6.56%	1,007,727	9.63%	\$0.36	51,009	190,963	101,736	535,067
Wildomar	10	343,043	0	0	33,989	9.91%	33,989	9.91%	\$0.00	(3,494)	16,501	4,115	36,737
Temecula Valley Total	866	19,197,985	0	300,822	1,202,620	6.26%	1,733,794	9.03%	\$0.37	108,485	360,231	299,869	1,283,575

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

RECENT TRANSACTIONS

Sales Transactions

Property Address	City	Square Feet	Sale Price Per SF	Buyer	Seller
3994 S. Riverside Ave. – 2 Properties	Rialto	1,396,495	\$77.87	TIAA-CREF	CBRE Strategic Partners, U.S.
7776 E. Tippecanoe – 2 Properties	San Bernardino	1,025,324	\$66.81	Bentall Kennedy	KTR Empire II, LLC
3525 N. Mike Daley Dr.	San Bernardino	801,581	\$89.82	TIAA-CREF	Clarion Partners
4378 N. Perris Blvd.	Perris	698,274	\$62.51	Ross Dress for Less	TA Associates Realty
1651 Interchange Dr. – 3 Properties	San Bernardino	667,024	\$60.57	TA Associates Realty	Behringer Harvard Opportunity/CT Realty
875 Michigan Ct. – 4 Properties	San Bernardino	641,285	\$71.00	Prologis	Operating Engineers

Lease Transactions

Property Address	City	Square Feet	Transaction Date	Tenant	Owner
24208 San Michele Rd.	Moreno Valley	1,254,620	Oct-13	Amazon.com	Trammell Crow
13052 Jurupa – Renewal	Fontana	827,560	Mar-13	Jarden Consumer Solutions	Principal Life Insurance
3450 Dulles – Renewal	Mira Loma	822,000	Aug-13	Nestle	MetLife
27582 Pioneer Ave.	Redlands	800,444	Nov-13	Burlington Coat Factory	ProLogis
22775 Oleander Ave.	Riverside	677,909	Jun-13	DSC Logistics	Trammell Crow
1900 S. Rochester Ave.	Ontario	506,436	Feb-13	Mobis Parts America, LLC	Clarion Partners

Product Type

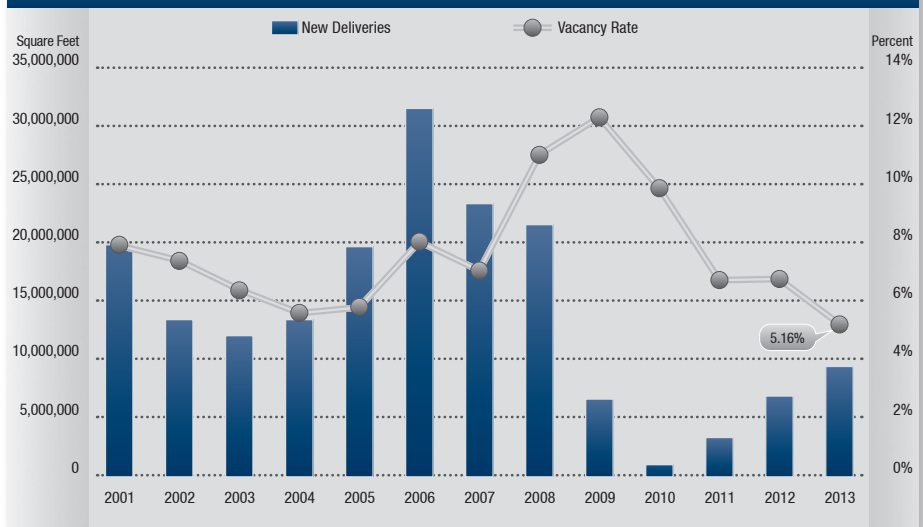
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