



MARKET CHANGE

Compared to 2013:

Vacancy



Net Absorption



Lease Rates



Transactions



Deliveries



HIGHLIGHTS

- **Encouraging Numbers** - The Inland Empire industrial market continued to improve and displayed signs of growth during 2014. Availability displayed a drop compared to the previous year, and asking lease rates continued to increase on an annual basis. Net absorption posted over 16.7 million square feet of positive absorption and 19.7 million square feet was added to the inventory during 2014.
- **Construction** - There was 13.9 million square feet under construction in the Inland Empire at the end of the year for 2014, most of which was for buildings over 500,000 square feet. Over 19.7 million square feet of new space was delivered in 2014, which caused a bump in vacancy, and over 50 million square feet remains planned for future development.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 5.43%, a decrease of only 15 basis points from the previous quarter, due to some large speculative projects that were delivered during the fourth quarter, and a 8.82% increase compared to the same quarter last year. The Inland Empire's West submarket had the overall lowest vacancy rate, finishing the fourth quarter at 5.10%.
- **Availability** - Direct/sublease space being marketed was 7.11% at the end of the quarter, down 82 basis points from the previous quarter, and a 7.78% decrease from 2013's fourth quarter rate. We expect availability to continue its descent in coming quarters.
- **Lease Rates** - The average asking triple-net lease rate was \$.43 for the fourth quarter of 2014, unchanged from the previous quarter and up four cents from the same quarter last year. We anticipate lease rates continuing to rise in the foreseeable future. The record high rate of \$.46 was established in the first quarter of 2008.
- **Absorption** - The Inland Empire industrial market posted over 5.4 million square feet of positive absorption in the last quarter of 2014, giving the market a total of 16.7 million square feet of positive absorption for the year. Over the last four years, the market averaged almost 3.5 million square

feet of positive absorption per quarter for a total of 56 million square feet.

- **Transaction Activity** - Leasing activity checked in at just under 5 million square feet for the fourth quarter of 2014, a decrease from the previous quarter's 6.4 million, likely partly attributable to limited inventory in some size ranges. Sales activity was also down from the previous quarter, coming in at 5.3 million square feet compared to 6.35 million square feet sold in the third quarter of 2014. This statistic can have some lag time in being reported, so look for fourth quarter figures to end up somewhat higher in future report. 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 November 2014, down from a revised 8.1% in October 2014 and below the year-ago estimate of 9.3%. This compares with an unadjusted unemployment rate of 7.1% for California and 5.5% for the nation during the same period. The unemployment rate was 8.2% for Riverside County and 7.7% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA showed a net gain of 27,500 payroll jobs from November 2013 to November 2014. The largest gains were 9,300 jobs in professional and business services and 9,100 jobs in trade, transportation, & utilities.
- **Overall** - A lack of product available for lease and sale in some size ranges (particularly anything below 100,000 square feet) is causing an increase in prices and a drop in transaction volume. Net occupancy continues to be positive, and with new inventory being added each quarter we anticipate the possibility of upward pressure on vacancy in the short run. 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% to 10% over the next four quarters.
- **Vacancy** - We anticipate vacancy rates to descend in coming quarters, dropping by 25 basis points, to around 5.15% by the end of the third quarter of 2015.

OVERVIEW

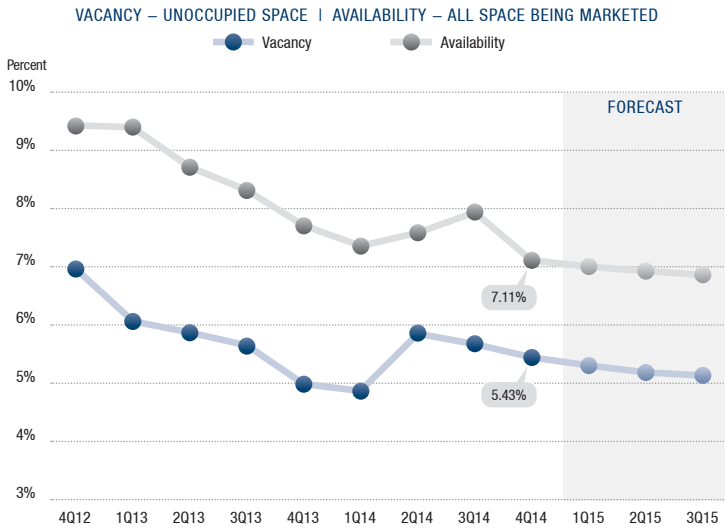
	2014	2013	2012	% of Change vs. 2013
Vacancy Rate below 100K SF	3.05%	3.55%	5.32%	(14.08%)
Vacancy Rate above 100K SF	6.55%	5.71%	7.51%	14.71%
Total Vacancy Rate	5.43%	4.99%	6.79%	8.82%
Availability Rate	7.11%	7.71%	9.41%	(7.78%)
Average Asking Lease Rate	\$0.43	\$0.39	\$0.39	10.26%
Sale & Lease Transactions	55,166,517	73,239,292	67,311,697	(24.68%)
Gross Absorption	39,727,358	36,164,603	30,456,187	9.85%
Net Absorption	16,700,563	16,987,774	6,236,936	N/A

To view available properties or electronic versions of current or past market reports, please visit:

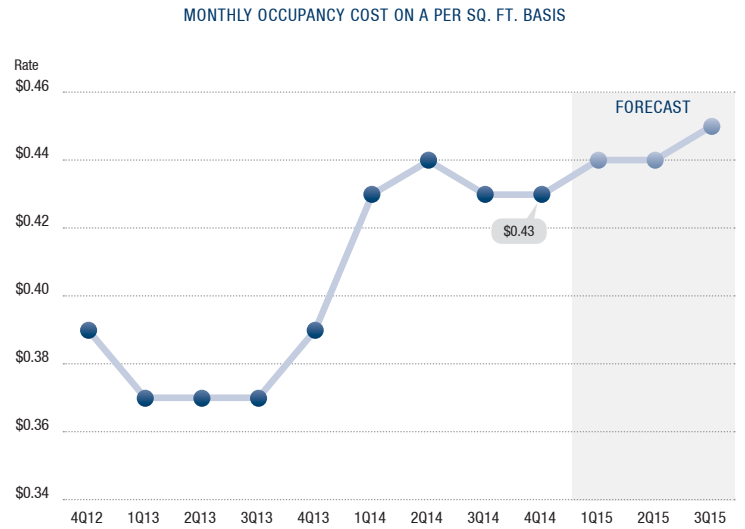
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VACANCY & AVAILABILITY RATE

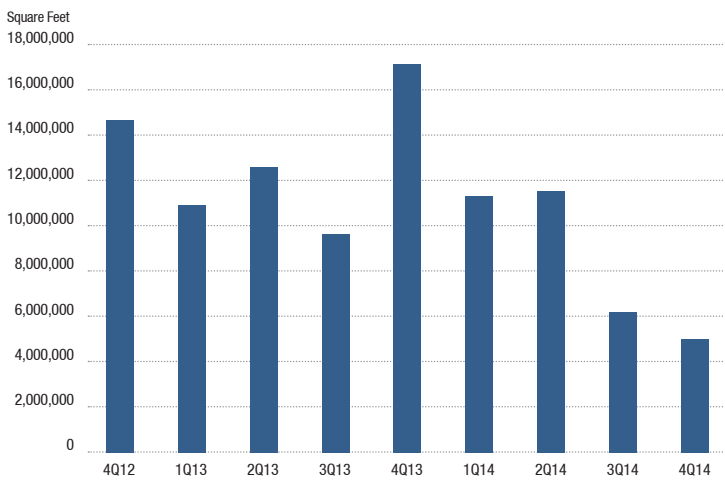


AVERAGE ASKING TRIPLE-NET LEASE RATE



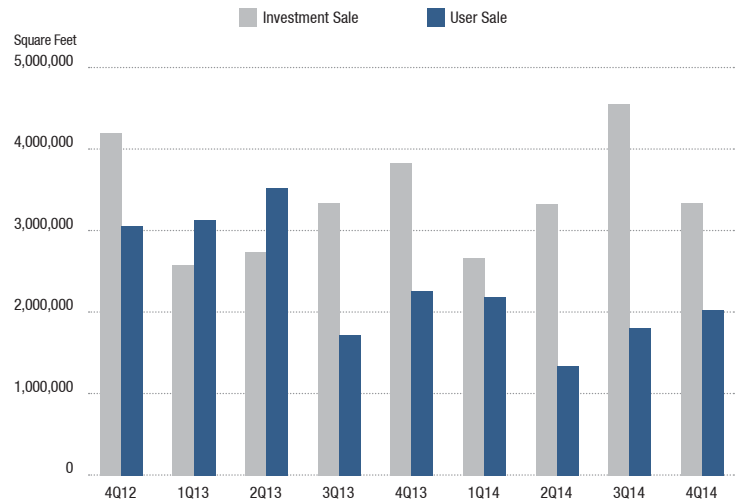
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



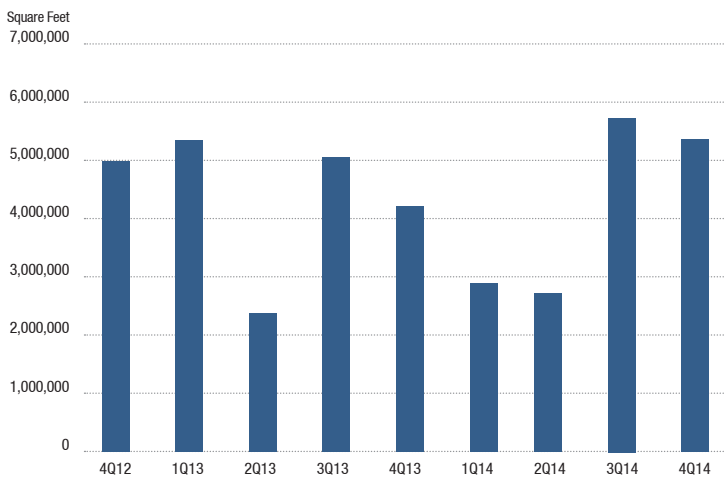
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



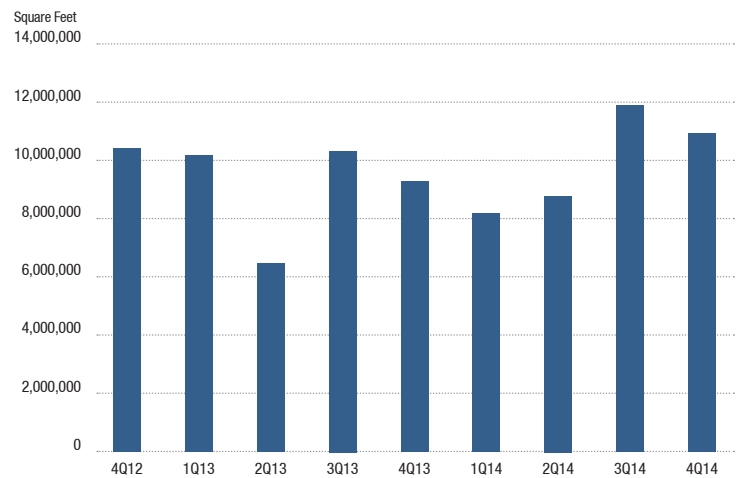
NET ABSORPTION

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 4Q2014	Square Feet Available	Availability Rate 4Q2014	Average Asking Lease Rate	Net Absorption 4Q2014	Net Absorption 2014	Gross Absorption 4Q2014	Gross Absorption 2014
West													
Chino/Chino Hills	867	43,043,267	2,045,340	1,711,500	2,820,443	6.55%	3,307,094	7.68%	\$0.45	776,783	2,578,447	1,003,818	5,437,843
Fontana	678	51,361,144	2,055,212	8,839,822	2,319,564	4.52%	2,807,406	5.47%	\$0.47	(114,721)	216,618	662,943	2,495,966
Mira Loma	189	24,698,651	0	533,281	551,416	2.23%	1,021,154	4.13%	\$0.00	(77,217)	600,570	278,567	1,780,725
Montclair	192	3,198,140	129,928	107,769	79,418	2.48%	290,668	9.09%	\$0.00	(10,435)	91,739	11,383	187,791
Ontario	1,411	100,499,039	500,383	886,832	6,294,476	6.26%	7,081,154	7.05%	\$0.46	(411,699)	1,266,116	1,467,683	6,224,533
Rancho Cucamonga	702	36,263,329	1,747,006	1,619,889	1,111,215	3.06%	1,709,315	4.71%	\$0.60	171,684	(106,820)	472,858	2,813,866
Upland	252	4,003,240	0	159,182	227,771	5.69%	390,022	9.74%	\$0.77	12,452	83,131	34,500	269,989
5,000-24,999	2,612	31,542,075	44,026	206,246	799,914	2.54%	1,470,620	4.66%	\$1.29	12,296	145,154	372,500	1,801,092
25,000-49,999	645	22,426,577	37,530	524,674	801,551	3.57%	1,145,631	5.11%	\$0.56	(51,176)	(2,069)	266,287	1,200,884
50,000-99,999	393	27,439,961	119,530	832,391	774,905	2.82%	1,842,659	6.72%	\$0.40	196,637	983,959	507,978	2,906,882
100,000-249,999	374	56,814,552	129,928	2,370,416	3,403,964	5.99%	4,406,594	7.76%	\$0.42	(480,284)	482,514	1,083,228	5,119,878
250,000-499,999	191	67,837,690	1,126,703	1,938,078	4,255,058	6.27%	5,300,811	7.81%	\$0.34	530,779	1,682,435	1,043,003	6,224,008
500,000 plus	76	57,005,955	5,020,152	7,986,470	3,368,911	5.91%	2,440,498	4.28%	\$0.00	138,595	1,437,808	658,756	1,957,969
West Total	4,291	263,066,810	6,477,869	13,858,275	13,404,303	5.10%	16,606,813	6.31%	\$0.47	346,847	4,729,801	3,931,752	19,210,713
East													
Banning	48	1,002,507	0	2,743,936	61,467	6.13%	159,787	15.94%	\$0.00	(35,100)	(6,668)	0	33,374
Beaumont	41	2,316,289	0	3,954,604	580,913	25.08%	580,913	25.08%	\$0.00	0	0	0	0
Bloomington	83	3,891,442	0	2,572,950	126,406	3.25%	184,410	4.74%	\$0.24	3,000	1,084,107	633,679	1,763,659
Corona/Norco	944	30,103,462	515,602	708,322	1,254,232	4.17%	2,257,363	7.50%	\$0.61	60,200	352,201	379,388	1,294,224
Colton/Grand Terrace	162	8,253,472	0	1,250,594	435,863	5.28%	466,790	5.66%	\$0.43	511,675	459,806	746,565	871,921
Moreno Valley	72	17,231,344	366,698	5,579,930	1,494,976	8.68%	1,262,420	7.33%	\$0.81	1,998,932	4,002,044	2,000,107	5,830,618
Perris	176	14,912,738	2,924,789	7,457,951	1,027,713	6.89%	1,280,349	8.59%	\$0.35	405,922	1,799,161	418,457	2,078,005
Redlands/Loma Linda	211	20,686,568	1,192,656	4,257,156	937,513	4.53%	2,274,947	11.00%	\$0.00	903,563	3,002,562	928,985	3,321,569
Rialto	154	16,466,812	1,965,792	5,156,352	720,412	4.37%	1,162,035	7.06%	\$0.36	183,396	963,092	226,177	1,356,715
Riverside	1,101	45,446,728	0	3,635,530	2,234,624	4.92%	2,323,938	5.11%	\$0.38	944,087	626,752	1,590,997	3,603,754
San Bernardino/Highland	549	31,929,432	485,910	2,002,749	2,450,249	7.67%	3,829,677	11.99%	\$0.43	51,198	(312,295)	82,884	362,806
5,000-24,999	2,337	27,407,311	14,160	469,861	968,199	3.53%	1,684,037	6.14%	\$0.72	102,692	38,764	407,045	1,540,244
25,000-49,999	536	18,713,086	0	716,660	551,398	2.95%	988,990	5.29%	\$0.55	(165,966)	121,865	131,490	780,369
50,000-99,999	311	21,249,480	153,933	768,440	761,325	3.58%	1,495,741	7.04%	\$0.28	86,423	755	334,015	1,051,219
100,000-249,999	202	29,894,672	531,634	3,446,982	1,291,286	4.32%	2,739,314	9.16%	\$0.42	683,898	934,728	1,104,743	2,282,461
250,000-499,999	74	26,592,373	1,517,508	5,548,007	3,050,003	11.47%	2,802,788	10.54%	\$0.33	392,617	2,123,091	392,617	3,613,127
500,000 plus	81	68,383,872	5,234,212	28,370,124	4,702,157	6.88%	6,071,759	8.88%	\$0.00	3,927,209	8,751,559	4,637,329	11,249,225
East Total	3,541	192,240,794	7,451,447	39,320,074	11,324,368	5.89%	15,782,629	8.21%	\$0.41	5,026,873	11,970,762	7,007,239	20,516,645
Inland Empire Total	7,832	455,307,604	13,929,316	53,178,349	24,728,671	5.43%	32,389,442	7.11%	\$0.43	5,373,720	16,700,563	10,938,991	39,727,358
High Desert													
Adelanto	133	3,095,368	0	17,401,463	188,346	6.08%	399,273	12.90%	\$0.00	(51,242)	(143,206)	1,100	17,300
Apple Valley	71	2,480,292	0	1,847,530	79,420	3.20%	80,870	3.26%	\$0.53	(2,600)	3,100	12,900	106,631
Barstow	50	1,242,614	0	0	184,295	14.83%	222,623	17.92%	\$0.40	84,836	(24,660)	105,134	178,909
Hesperia	183	3,149,141	0	2,163,510	583,170	18.52%	664,496	21.10%	\$0.25	(28,250)	77,882	0	220,253
Victorville	121	6,911,237	0	11,513,600	206,583	2.99%	276,640	4.00%	\$0.71	(31,067)	(13,937)	7,145	98,317
High Desert Total	558	16,878,652	0	32,926,103	1,241,814	7.36%	1,643,902	9.74%	\$0.31	(28,323)	(100,821)	126,279	621,410
Temecula Valley													
Hemet	83	1,462,312	0	0	98,593	6.74%	187,239	12.80%	\$0.00	0	60,195	0	62,670
Lake Elsinore	156	2,320,889	0	182,177	69,461	2.99%	126,870	5.47%	\$0.70	35,141	33,994	45,141	164,185
Menifee	14	229,968	0	0	9,918	4.31%	9,918	4.31%	\$0.00	33,683	0	33,683	33,683
Murrieta	227	3,727,731	0	0	70,703	1.90%	149,546	4.01%	\$0.66	27,000	83,756	43,792	152,507
San Jacinto	57	1,006,136	0	109,948	62,300	6.19%	77,838	7.74%	\$0.52	0	5,775	0	11,275
Temecula	333	10,440,930	0	50,000	483,026	4.63%	660,840	6.33%	\$0.43	16,120	269,068	108,865	557,307
Wildomar	10	343,043	0	0	7,609	2.22%	14,380	4.19%	\$0.00	10,416	26,380	10,416	44,405
Temecula Valley Total	880	19,531,009	0	342,125	801,610	4.10%	1,226,631	6.28%	\$0.44	122,360	479,168	241,897	1,026,032

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
6207 Cajon Blvd.	San Bernardino	830,750	\$66.78	Industrial Income Trust	Hillwood
1710 W. Baseline Rd.	Rialto	718,025	\$94.00	TIAA-CREF Investment Management	TA Associates / Panattoni
14900 Innovation Dr. – Temp Controlled Bldg.	Riverside	682,800	\$112.32	KTR Capital Partners, LP	FIG, LLC
5085 Schaefer Ave.– 2 Properties	Chino	636,130	\$82.84	Reep–Ind. Chino CA, LLC	LBA Realty
14600 Innovation Dr.	Riverside	600,000	\$72.50	Peng Cheng Aluminum	Newcastle
630 Nicholas Rd.	Beaumont	600,000	\$50.00	Ambest Real Estate, LLC	CT Realty Investors

Lease Transactions

Property Address	City	Square Feet	Transaction Date	Tenant	Owner
27852 Pioneer Ave.	Redlands	800,444	Jan-14	Burlington Coat Factory	Prologis
16300 Fern Ave.	Chino	779,052	Jun-14	Euro-Pro	Invesco
24300 Nandina Ave.	Moreno Valley	769,320	Jun-14	Amazon	IDS / CalSTRS
1710 W. Baseline Rd.	Rialto	718,025	Mar-14	OHL	TA Associates / Panattoni
2125 San Bernardino Ave.	Redlands	704,115	Sep-14	Amazon	Clarion Partners
1420 N. Tamarind Ave.	Rialto	677,225	Nov-14	Keeco, LLC	Prologis
16388 Fern Ave.	Chino	658,756	Jun-14	Yokohama Tire Corporation	Invesco

PRODUCT TYPE

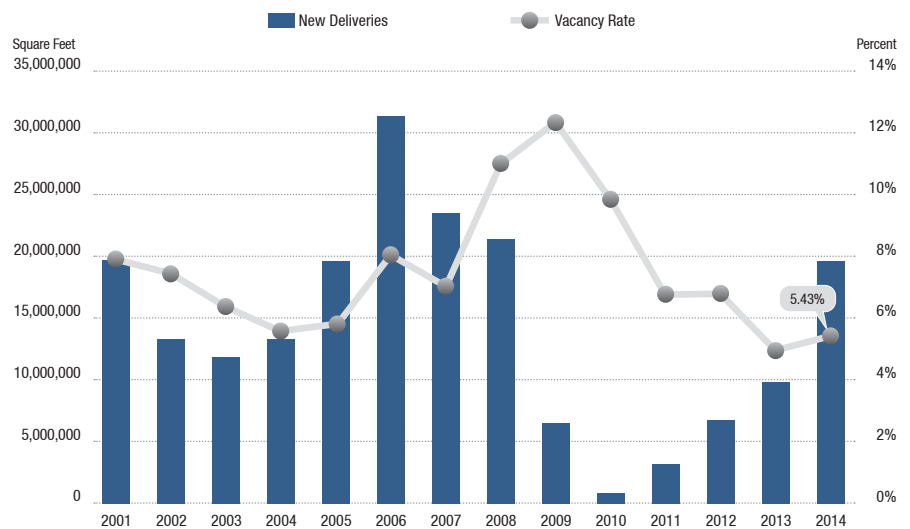
MFG./DIST.

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

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ANNUAL NEW DELIVERIES VS. VACANCY RATE



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