

NEW HEIGHTS FOR IE INDUSTRIAL. The Inland Empire continues to lead the nation in terms of industrial activity, absorption and new construction with e-commerce as its primary market influence, responsible for 40% of all new transactions. Although this market is defined by “big box” industrial and its steady flow of 1 million square foot transactions, we noticed an increase in activity in smaller buildings as well (below 100,000 square feet) in the first quarter. Lease rates and sale prices have spiked in this size range and the increase in transaction volume has dropped the vacancy rate to below 3% for the quarter. Tenants and users from more expensive, infill markets like San Gabriel Valley and Orange County are now considering the Inland Empire as a viable and less expensive alternative while larger companies, already established in this market, are absorbing smaller blocks of space to accommodate their expansion needs. Market experts remain bullish on the Inland Empire’s fundamentals as Fortune 500 companies, and local operators, continue to absorb high quality, functional buildings to meet the quickly evolving and urgent delivery requirements of today’s consumer.

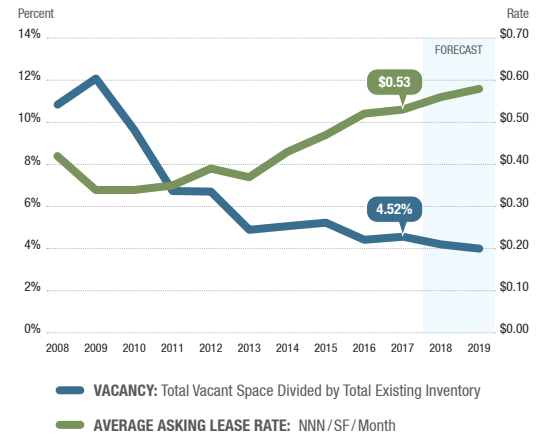
VACANCY. While tenant demand is still outpacing supply during the eighth year of this market’s recovery/expansion, the delivery of over 2.99 million square feet of new construction this quarter resulted in a modest uptick in the overall vacancy rate. Factoring in both the IE West and the IE East, a base of over 500 million square feet, the vacancy rate currently sits at 4.52% for the first quarter, up slightly from 4.42% in the fourth quarter of 2016.

LEASE RATES. Rents in the Inland Empire market posted a year-over-year gain of nearly 13%, 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% to 4% annual rental rate growth. Many landlords are electing not to publish “asking lease rates” on their buildings during this window of time where market dynamics are changing so rapidly. Average asking lease rates are now at \$0.53 for the first quarter of 2017, up an average of six cents per square foot (12.77%) from the same quarter last year and one 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 square feet. Expect further rent increases of at least 4–6% on an annual basis.

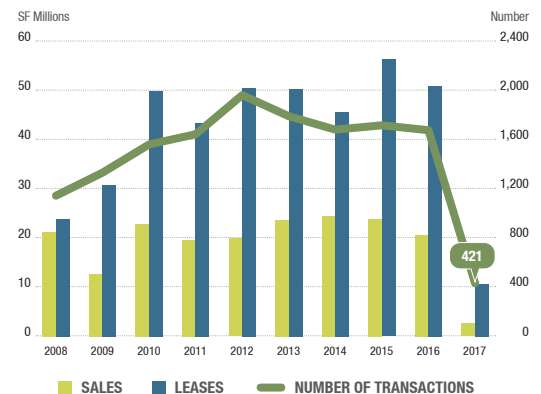
TRANSACTION ACTIVITY. Large blocks of Class A space continue to be in high demand by tenants and investors alike. Third party logistics, food/beverage, medical, nutraceutical and e-commerce were the most active sectors of the market in the first quarter. High ceiling clearance (36’), expanded truck courts and well-designed office areas emerged as the most desirable features tenants are 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 13.0 million square feet, up from 11.7 million square feet in the fourth quarter of 2016. Notable lease transactions for the first quarter include:

- Amazon lease of 1,007,705 square feet at 4890 Hamner Avenue in Eastvale.
- Lifetime Brands lease of 736,476 square feet at 1221 Alder Avenue in Rialto.
- Essendant Co. lease of 599,113 square feet at 4555 Redlands Avenue in Perris.
- Arvato Bertelsmann lease of 553,136 square feet at 2053 Jay Street in Ontario.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	1Q 2017	4Q 2016	1Q 2016	% Change Over Last Year
Vacancy Rate below 100K SF	■ FLAT	2.76%	2.76%	2.56%	7.81%
Vacancy Rate above 100K SF	▲ UP	6.10%	5.12%	6.02%	1.33%
Total Vacancy Rate	▲ UP	4.52%	4.42%	4.96%	-8.87%
Availability Rate	▼ DOWN	6.00%	6.57%	8.21%	-26.92%
Average Asking Lease Rate	▲ UP	\$0.53	\$0.52	\$0.47	12.77%
Sale & Lease Transactions	▲ UP	13,025,299	11,722,855	21,341,265	-38.97%
Gross Absorption	▼ DOWN	8,273,141	10,838,950	12,027,239	-31.21%
Net Absorption	▲ POSITIVE	3,245,910	4,725,931	3,720,405	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 \$0.55 per square foot by the end of the fourth quarter of 2017.

VACANCY. Developers are projected to deliver more than 20 million square feet in 2017, based on an anticipated 5 million square feet of absorption per quarter. 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 4.0–4.5% range over the next three quarters.

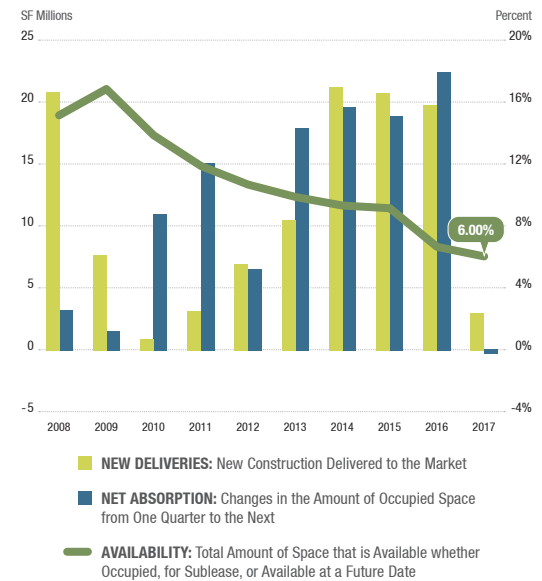
OVERALL. In 2017 the IE will remain one of the top performing markets in the Southern California region. This is the ninth consecutive quarter of positive absorption as the market displays solid momentum. Leasing velocity is expected to increase during the next three quarters of the year. “Reverse logistics” associated with product returns for the emerging e-commerce sector will continue to be a driver as retailers absorb more warehouse space.

CONSTRUCTION. With demand outpacing supply and rents continuing to rise, developers remain motivated to get speculative projects out of 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 106 buildings under construction, totaling nearly 23.9 million square feet. The largest development projects in the pipeline include a 412,000 square foot speculative building at 6720 Kimball Avenue in Chino, a 1,003,567 square foot speculative building at 11281 Citrus Avenue in Fontana and a 1,244,874 square foot build to suit at 3300 Indian Avenue in Perris (pre-leased to Wayfair).

AVAILABILITY. Direct/sublease space being marketed in the first quarter is now at 6.00%, down from 6.57% in the fourth quarter of 2016. We expect availability to continue to compress with a possible uptick in later quarters when new, speculative projects are delivered to the market.

ABSORPTION. Demand remains consistent across all size ranges and sectors. In the first quarter, 45% of the market’s absorption was in buildings between 250,000–500,000 square feet. Net absorption for the Inland Empire industrial market in total was 3.24 million square feet in the first quarter, down from 4.7 million square feet in the fourth quarter of 2016, more in line with the 3.7 million square feet a year ago. This trend of positive absorption has been in place for the past nine quarters, averaging over 5.24 million square feet of positive net absorption per quarter. Primary contributors to this trend in the first quarter include: B Braun (604,170 square feet), Home Depot (480,000 square feet) and DCG Fulfillment (423,460 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
7145 Arlington Ave.	Riverside	131,450	\$17,850,000	Central Green, Co.	Ap-Arlington II, LLC
1630 Dan Kipper Dr. – 3 Properties	Riverside	152,591	\$15,800,000	Industrial Property Trust	CT Realty
3900 Hamner Ave.	Eastvale	168,346	\$14,300,000	TA Realty	Edward Fleming
1651 S. Carlos Ave.	Ontario	147,484	\$14,150,000	Cabot *	Morgan & Sampson, Inc.
7350 San Gorgonio Dr.	Riverside	121,390	\$12,500,000	Tarifiq Properties	Caspian Properties, Inc.

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1221 N. Alder Ave.	Rialto	736,476	Feb-2017	Lifetime Brands	Panattoni Development
1151 S. Mildred St.	Ontario	604,178	Feb-2017	B. Braun	Alere Property Group, LLC
1000 S. Etiwanda Ave.	Ontario	302,080	Feb-2017	Nellson Nutraceutical, LLC *	IDI Gazeley *
9000 Rochester Ave.	Rancho Cucamonga	71,170	Mar-2017	Curtinland	Exeter Property Group *
11591 Etiwanda Ave.	Fontana	63,791	Mar-2017	Ta Family Furniture	2000 Gold, LP *

INVENTORY

VACANCY & LEASE RATES

ABSORPTION

	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2017	Square Feet Available	Availability Rate 1Q2017	Average Asking Lease Rate	Net Absorption 1Q2017	Net Absorption 2017	Gross Absorption 1Q2017	Gross Absorption 2017
West													
Chino / Chino Hills	885	45,958,289	3,381,766	78,654	678,938	1.48%	1,373,149	2.99%	\$0.69	(183,001)	(183,001)	285,391	285,391
Fontana	698	57,892,902	2,644,397	4,414,819	4,145,592	7.16%	5,093,668	8.80%	\$0.68	561,210	561,210	1,805,653	1,805,653
Mira Loma / Eastvale / Jurupa Valley	328	37,717,952	3,189,911	0	488,432	1.29%	408,794	1.08%	\$0.70	493,129	493,129	703,129	703,129
Montclair	196	3,410,001	0	0	182,014	5.34%	387,599	11.37%	\$0.00	30,906	30,906	59,139	59,139
Ontario	1,432	105,512,482	802,699	828,123	3,703,300	3.51%	3,904,808	3.70%	\$0.61	821,268	821,268	1,395,698	1,395,698
Rancho Cucamonga	712	38,659,386	45,783	600,959	1,569,309	4.06%	1,946,596	5.04%	\$0.54	265,591	265,591	679,126	679,126
Upland	250	3,903,280	88,338	0	125,348	3.21%	164,404	4.21%	\$0.76	(17,854)	(17,854)	42,127	42,127
5,000-24,999	2,697	32,404,653	112,597	71,182	578,905	1.79%	1,069,536	3.30%	\$0.86	130,340	130,340	528,007	528,007
25,000-49,999	679	23,676,719	783,375	426,146	608,717	2.57%	1,466,769	6.19%	\$0.65	360,805	360,805	717,627	717,627
50,000-99,999	415	29,004,527	898,054	424,807	799,189	2.76%	1,310,000	4.52%	\$0.68	(284,085)	(284,085)	98,691	98,691
100,000-249,999	407	61,940,993	1,743,597	970,053	2,602,838	4.20%	3,077,844	4.97%	\$0.55	295,883	295,883	1,247,184	1,247,184
250,000-499,999	208	74,245,555	1,164,498	766,219	3,285,029	4.42%	4,220,009	5.68%	\$0.00	1,258,987	1,258,987	1,562,203	1,562,203
500,000 plus	95	71,781,845	5,450,773	3,264,148	3,018,255	4.20%	2,134,860	2.97%	\$0.00	209,319	209,319	816,551	816,551
West Total	4,501	293,054,292	10,152,894	5,922,555	10,892,933	3.72%	13,279,018	4.53%	\$0.59	1,971,249	1,971,249	4,970,263	4,970,263
East													
Banning	48	967,407	0	786,984	102,388	10.58%	102,388	10.58%	\$0.61	(95,771)	(95,771)	6,616	6,616
Beaumont	42	2,327,914	0	2,544,848	0	0.00%	444,455	19.09%	\$0.31	0	0	0	0
Bloomington	89	4,507,522	0	184,770	81,844	1.82%	265,083	5.88%	\$0.00	102,660	102,660	105,960	105,960
Corona / Norco	946	30,724,205	574,552	241,539	1,354,946	4.41%	1,678,883	5.46%	\$0.54	639,890	639,890	476,029	476,029
Colton / Grand Terrace	162	8,565,241	179,238	1,751,881	143,543	1.68%	275,703	3.22%	\$0.59	131,485	131,485	152,685	152,685
Moreno Valley	78	20,793,519	2,112,123	2,806,067	648,748	3.12%	1,626,071	7.82%	\$0.36	17,311	17,311	19,168	19,168
Perris	182	19,417,868	2,971,284	6,278,128	703,620	3.62%	755,180	3.89%	\$0.42	131,782	131,782	222,743	222,743
Redlands / Loma Linda	221	26,629,086	1,089,423	526,611	3,522,647	13.23%	4,361,154	16.38%	\$0.59	592,599	592,599	1,038,746	1,038,746
Rialto	160	22,589,189	2,007,376	3,335,117	1,743,494	7.72%	2,130,156	9.43%	\$0.95	(69,623)	(69,623)	464,747	464,747
Riverside	1,008	43,288,823	3,749,336	4,796,574	1,711,983	3.95%	2,689,862	6.21%	\$0.54	(22,883)	(22,883)	692,995	692,995
San Bernardino / Highland	557	35,227,542	1,109,738	1,756,572	2,072,326	5.88%	2,864,683	8.13%	\$0.65	(152,789)	(152,789)	123,189	123,189
5,000-24,999	2,274	26,652,537	43,229	229,058	681,105	2.56%	1,004,464	3.77%	\$0.87	(68,988)	(68,988)	262,450	262,450
25,000-49,999	520	18,144,255	254,572	331,946	477,298	2.63%	1,029,332	5.67%	\$0.57	35,104	35,104	176,800	176,800
50,000-99,999	305	20,790,639	646,924	1,014,556	881,615	4.24%	1,110,018	5.34%	\$0.53	154,158	154,158	418,315	418,315
100,000-249,999	199	29,594,052	1,699,360	1,696,536	1,512,538	5.11%	2,536,900	8.57%	\$0.49	174,980	174,980	775,861	775,861
250,000-499,999	91	33,171,027	1,680,201	5,294,473	2,934,263	8.85%	5,356,971	16.15%	\$0.32	201,787	201,787	891,832	891,832
500,000 plus	104	86,685,806	9,468,784	16,442,522	5,598,720	6.46%	6,155,933	7.10%	\$0.00	777,620	777,620	777,620	777,620
East Total	3,493	215,038,316	13,793,070	25,009,091	12,085,539	5.62%	17,193,618	8.00%	\$0.48	1,274,661	1,274,661	3,302,878	3,302,878
Inland Empire Total	7,994	508,092,608	23,945,964	30,931,646	22,978,472	4.52%	30,472,636	6.00%	\$0.53	3,245,910	3,245,910	8,273,141	8,273,141
5,000-24,999	4,971	59,057,190	155,826	300,240	1,260,010	2.13%	2,074,000	3.51%	\$0.74	61,352	61,352	790,457	790,457
25,000-49,999	1,199	41,820,974	1,037,947	758,092	1,086,015	2.60%	2,496,101	5.97%	\$0.58	395,909	395,909	894,427	894,427
50,000-99,999	720	49,795,166	1,544,978	1,439,363	1,680,804	3.38%	2,420,018	4.86%	\$0.54	(129,927)	(129,927)	517,006	517,006
100,000-249,999	606	91,535,045	3,442,957	2,666,589	4,115,376	4.50%	5,614,744	6.13%	\$0.54	470,863	470,863	2,023,045	2,023,045
250,000-499,999	299	107,416,582	2,844,699	6,060,692	6,219,292	5.79%	9,576,980	8.92%	\$0.34	1,460,774	1,460,774	2,454,035	2,454,035
500,000 plus	199	158,467,651	14,919,557	19,706,670	8,616,975	5.44%	8,290,793	5.23%	\$0.00	986,939	986,939	1,594,171	1,594,171
Inland Empire Total	7,994	508,092,608	23,945,964	30,931,646	22,978,472	4.52%	30,472,636	6.00%	\$0.53	3,245,910	3,245,910	8,273,141	8,273,141
High Desert													
Adelanto	134	3,157,861	0	0	270,217	8.56%	518,925	16.43%	\$0.65	(60,641)	(60,641)	0	0
Apple Valley	75	2,505,490	0	1,847,530	40,827	1.63%	39,327	1.57%	\$0.77	2,071	2,071	8,771	8,771
Barstow	52	1,037,057	0	0	159,782	15.41%	157,782	15.21%	\$0.00	(16,857)	(16,857)	4,360	4,360
Hesperia	186	3,199,072	0	0	303,895	9.50%	289,395	9.05%	\$0.00	(235,165)	(235,165)	25,958	25,958
Victorville	3,199	7,402,743	0	12,062,610	527,556	7.13%	1,557,184	21.04%	\$0.66	240,559	240,559	251,789	251,789
High Desert Total	72	17,302,223	0	13,910,140	1,302,277	7.53%	2,562,613	14.81%	\$0.72	(70,033)	(70,033)	290,878	290,878
Temecula Valley													
Hemet	85	1,434,217	0	0	28,050	1.96%	33,895	2.36%	\$0.00	5,845	5,845	9,145	9,145
Lake Elsinore	161	2,424,975	74,800	0	237,153	9.78%	305,433	12.60%	\$0.00	46,229	46,229	91,439	91,439
Menifee	19	363,975	0	0	24,918	6.85%	49,066	13.48%	\$0.00	7,632	7,632	24,744	24,744
Murrieta	232	3,750,318	0	0	37,528	1.00%	114,003	3.04%	\$0.89	12,037	12,037	31,336	31,336
San Jacinto	60	1,033,710	0	0	40,200	3.89%	56,900	5.50%	\$0.75	500	500	7,700	7,700
Temecula	331	10,743,761	0	279,777	192,813	1.79%	356,405	3.32%	\$0.69	22,638	22,638	77,170	77,170
Wildomar	12	324,860	0	0	24,488	7.54%	24,488	7.54%	\$0.00	(20,009)	(20,009)	2,186	2,186
Temecula Valley Total	900	20,075,816	74,800	279,777	585,150	2.91%	940,190	4.68%	\$0.69	74,872	74,872	243,720	243,720

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



Leasing & Demand for Small Buildings Now Gaining Momentum

by **Ryan Miller**

VICE PRESIDENT, INLAND EMPIRE

The Inland Empire Industrial market is off to another strong start in 2017. The perfect storm of institutional capital, trade buyers, developers, foreign investors and local user demand has continued to propel this market past previous record highs in terms of lease rates and sale prices.

While “big box” (200,000 square feet and larger) is still the predominant driver in this market, as e-commerce continues to influence both demand and building design, there seems to be a new sector that is gaining momentum—leasing in small buildings. Lease rates are finally starting to pop in buildings under 100,000 square feet, a sector that has been slower to recover in this cycle when compared with the sharp increases seen in larger, Class A buildings.

Strong demand from tenants migrating east from nearby San Gabriel Valley, or from parts of Orange County, in search of rent relief, has caused lease rates for the smaller buildings to climb dramatically in a very short period of time. The average lease rate for buildings in the 10,000–100,000 square foot range in the first quarter of 2016 was \$0.54 NNN compared to \$0.61 NNN today, a 13% increase. These are average rates for all building classes and it is important to note that for the newer, state-of-the-art buildings, the percentage increase is even higher. This recent spike has caused serious “sticker shock” among small businesses looking to renew leases that were originally signed in 2011–2012 when rates were 25–35% lower. Tenants are forced to become more efficient with their real estate, with some opting to lease less space, but with higher ceiling clearance. Despite the recent spike in lease rates, most of the new small building projects now under construction are being offered primarily for sale. Tenants looking to expand or relocate will be faced with a limited number of quality options, putting further upward pressure on lease rates and increasing the timeframe associated with relocation.

Overall, there continues to be a “flight to quality” in all size ranges of buildings. Tenants are becoming more sophisticated and are willing to pay a premium for higher ceiling clearance, expanded truck courts, energy efficient lighting, modern fire suppression systems, and more functional office layouts. Whether the cube height is being utilized for more racking/pallet positions or for specialized mezzanine related to an e-commerce function, the emphasis in this small building market is on efficiency and improved functionality, and we anticipate this trend to continue.

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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