

**OVERVIEW.** The Inland Empire's industrial market has grown tremendously due to the booming e-commerce industry, implementation in 3PL, the nation's supply-chain infrastructure, and the overall Southern California economy. Transportation and warehouse jobs have grown by 46.8% in the Inland Empire over the past 5 years, and the growth of e-commerce, coupled with better wages, should propel this trend through at least 2019. Low vacancies have persisted for the past five years, as prominent logistics and retail tenants are committed to the market. Industrial absorption in the Inland Empire is the third highest in the country, extending a trend that has lasted more than 3 years. This, coupled with exceptional economic and industry growth, will position the Inland Empire well into the future.

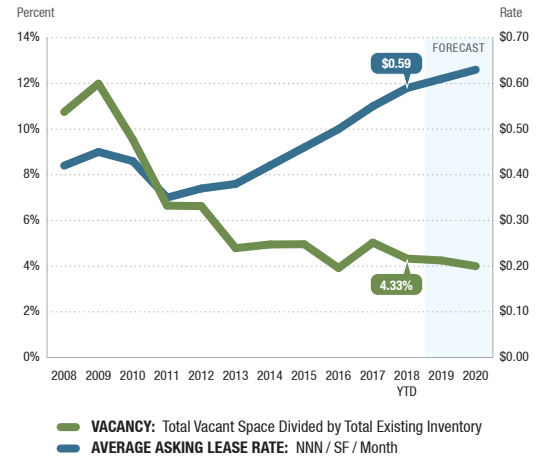
**VACANCY.** One constant in the Inland Empire has been the steady growth in the retail and logistics industries. The vacancy rate has fallen to 4.33%, down 6 basis points from the first quarter and 6.07% from 3Q 2017. The Inland Empire West vacancy rate is even considerably lower, at 2.81%. Inland Empire's relatively inexpensive land, proximity to the twin ports in LA, and a massive consumer base throughout Southern California have made it the leading location for tenants to expand.

**AVAILABILITY.** Direct/sublease space being marketed in 3Q is now at 5.10%, down from 30.33%. We expect availability to continue to compress with a possible uptick in later quarters when new, speculative projects are delivered to the market.

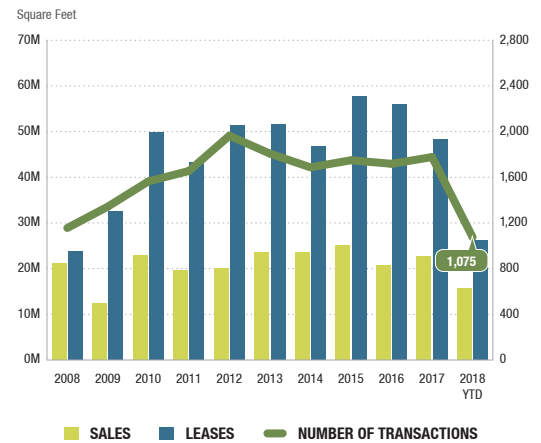
**LEASE RATES.** Strong demand for logistics and e-commerce properties resulted in strong growth in rental rates in 3Q. As demand continues to grow for available space in the Inland Empire, landlords will have leverage regarding asking rates. The current third quarter average asking rent sits at \$0.59 per square foot, up from \$0.53 per square foot last year. Asking rates are currently at an all-time high, helping justify the large amount of construction occurring. Expect further rent increases in the 3–5% range on an annual basis.

**TRANSACTION ACTIVITY.** Not only do many of the Inland Empire's largest tenants provide stability over the long run, but also a number of large leases have been signed over the past 3 months, demonstrating the strong demand that the market has seen lately. The amount of available space continued to decline in the Inland Empire industrial market, despite 15.1 MSF of new deliveries since 1Q 2018. Sale and lease activity checked in at 9.8 MSF for 3Q, a decrease over the same quarter of last year's total of 16.0 MSF. The most significant lease transaction was signed by Nordstrom, Inc., taking just over 1.0 MSF at the newly constructed Columbia Business Park, in the Riverside submarket.

### VACANCY vs. AVERAGE ASKING LEASE RATE



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



### Market Statistics

	Change Over Last Quarter	3Q 2018	2Q 2018	3Q 2017	% Change Over Last Year
Total Vacancy Rate	▼ DOWN	4.33%	4.39%	4.61%	(6.07%)
Availability Rate	▼ DOWN	5.10%	5.31%	7.32%	(30.33%)
Average Asking Lease Rate	▲ UP	\$0.59	\$0.58	\$0.53	11.32%
Sale & Lease Transactions	▼ DOWN	9,899,169	16,010,604	18,054,382	(45.17%)
Gross Absorption	▼ DOWN	9,569,443	10,951,979	12,325,095	(22.36%)
Net Absorption	▲ POSITIVE	4,918,796	6,590,259	5,206,819	N/A

**OVERALL.** The Inland Empire’s industrial base has played an important role in the growth of import volume, due to the market’s role in the supply chain and its ability to serve multiple markets. The Inland Empire maintains healthy fundamentals across the board. A factor worth noting, for the long term, is that much of the Inland Empire’s growth over the past two decades can be tied to increased international trade flows, specifically goods entering from the ports of Los Angeles and Long Beach. Uncertainty over the direction of the nation’s trade policy with China is a concern for the local industrial market. In addition, implementation of additional tariffs on imports could reduce trade flows and demand for warehouses and distribution centers.

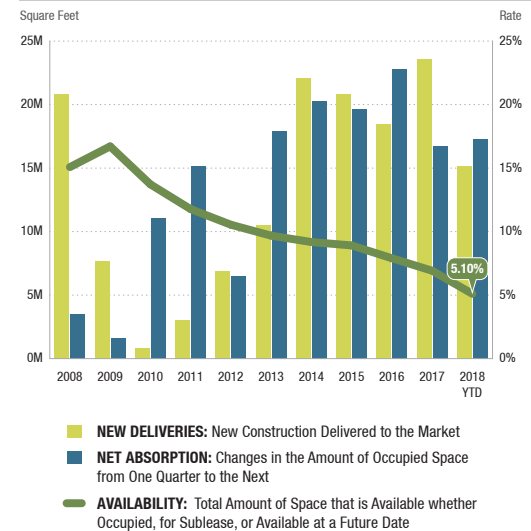
**LEASE RATES.** Anticipate asking rents to increase to an annualized average of 4% to reach a level of \$0.61 per square foot by the end of the third quarter of 2019.

**VACANCY.** Looking beyond the end of this year, vacancy will still be low. There’s a demand for projects under 50,000 square feet, especially between 25,000 and 50,000 square feet, but there isn’t much of that size range coming online right now, which is adding pressure to the market. Although the overall vacancy rate will temporarily increase as new projects currently under construction come online, we anticipate demand to keep up with these new deliveries, keeping vacancy rates in the 4–5% range over the next three quarters.

**CONSTRUCTION.** The strong demand for warehouse and distribution centers in the Inland Empire, despite rising construction costs and healthy rental rates, is justifying the continued development of industrial properties. At the end of 3Q, there were 89 buildings under construction totaling nearly 22.08 MSF. Notable projects underway include First Nandina Logistic Center, a 1,387,899 square foot project (First Industrial); Optimus Logistics Center in Perris, a two-building industrial park totaling 1.4 MSF (Morrison Gayle P. Trust); and the Ontario Ranch Logistics Center in Ontario, a 1,180,908 square foot project (Ontario Land Venture, LLC).

**ABSORPTION.** As the U.S. sees ongoing economic expansion and businesses act to meet the rising demand for consumer goods, demand for industrial space is on the upswing. Strong leasing, combined with large move-ins in the Inland Empire industrial market, remain strong throughout 2018. The Inland Empire boasts positive net absorption in the whole region, for six consecutive quarters that totaled over 35 MSF. Net absorption posted 4,918,796 square feet in the 3Q 2018. Primary contributors to this trend in the third quarter include: Amazon (1,007,705 square feet), UPS (1,003,567 square feet) and Solaris Paper, Inc. (862,035 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
1110 W. Merrill Ave.	Rialto	1,195,219	\$92,000,000	SM Logistics Rialto, LLC	Toy R Us
6207 Cajon Blvd.	San Bernardino	830,750	\$87,228,750	DHL Express	Westcore Properties
22000 Opportunity Way	Riverside	503,592	\$52,370,000	Invesco	Sun Life Assurance Co. of Canada
2705 Lexington Way	San Bernardino	154,451	\$18,225,218	CG Roxanne, LLC	PSIP Shaw Lexington, LLC*
360 S. Lilac Ave.	Rialto	130,599	\$11,425,000	Westcore Properties	Legacy Ranch*

### Leases

\* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
490 Columbia Ave.	Riverside	1,009,092	Jul-2018	Nordstrom, Inc.	Operating Engineers
24103 San Michele Rd.	Moreno Valley	739,903	Aug-2018	DMSI	Principal/ CalSTRS
NEC Oleander & Jurupa Ave.	Fontana	600,000	Sep-2018	Amazon	Goodman
13032 Slover Ave.	Fontana	367,700	Sep-2018	DSV	Alere Property Group
24385 Nandina Ave.	Moreno Valley	340,000	Sep-2018	Pass & Seymour	Duke Realty

## INVENTORY

## VACANCY &amp; LEASE RATES

## ABSORPTION

	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2018	Square Feet Available	Availability Rate 3Q2018	Average Asking Lease Rate	Net Absorption 3Q2018	Net Absorption 2018	Gross Absorption 3Q2018	Gross Absorption 2018
<b>West</b>													
Chino / Chino Hills	901	48,602,475	3,695,998	1,002,135	1,073,533	2.21%	2,093,135	4.31%	\$0.97	89,841	1,015,341	413,335	2,744,094
Fontana	716	62,050,708	1,094,604	1,920,466	1,766,237	2.85%	2,438,424	3.93%	\$0.61	1,284,383	2,730,281	2,006,380	4,394,594
Mira Loma / Eastvale / Jurupa Valley	358	42,194,953	37,626	0	1,991,146	4.72%	1,848,194	4.38%	\$0.69	867,314	2,452,343	782,226	2,950,489
Montclair	201	3,504,847	53,942	30,000	39,172	1.12%	275,070	7.85%	\$0.70	20,658	69,230	33,717	155,756
Ontario	1,468	107,750,696	1,267,250	1,864,403	2,376,071	2.21%	3,231,831	3.00%	\$0.79	430,342	1,185,355	1,118,372	4,606,849
Rancho Cucamonga	717	38,948,923	1,735,292	1,391,945	1,235,811	3.17%	1,912,232	4.91%	\$0.48	(27,144)	156,020	263,926	1,800,108
Upland	254	4,010,290	0	281,387	136,897	3.41%	172,410	4.30%	\$0.76	(45,827)	57,627	43,485	219,367
5,000-24,999	2,722	32,725,489	13,161	265,874	527,926	1.61%	954,617	2.92%	\$1.09	34,867	22,220	419,534	1,271,318
25,000-49,999	709	24,781,726	234,166	756,847	938,475	3.79%	1,348,915	5.44%	\$0.83	168,517	495,558	430,714	1,607,729
50,000-99,999	441	30,641,239	452,335	506,416	1,237,603	4.04%	1,586,526	5.18%	\$0.76	(3,789)	764,530	647,512	2,305,617
100,000-249,999	424	64,686,919	1,367,801	1,197,379	2,215,640	3.43%	3,186,456	4.93%	\$0.59	242,156	520,329	891,802	3,591,594
250,000-499,999	218	77,565,401	1,382,616	309,500	2,358,254	3.04%	2,953,813	3.81%	\$0.00	1,497,345	2,541,533	1,215,957	3,644,351
500,000 plus	101	76,662,118	4,434,633	3,454,320	1,340,969	1.75%	1,940,969	2.53%	\$0.00	680,471	3,322,027	1,055,922	4,450,648
<b>West Total</b>	<b>4,615</b>	<b>307,062,892</b>	<b>7,884,712</b>	<b>6,490,336</b>	<b>8,618,867</b>	<b>2.81%</b>	<b>11,971,296</b>	<b>3.90%</b>	<b>\$0.66</b>	<b>2,619,567</b>	<b>7,666,197</b>	<b>4,661,441</b>	<b>16,871,257</b>
<b>East</b>													
Banning	49	975,767	0	2,546,920	42,920	4.40%	84,420	8.65%	\$0.68	0	27,344	0	27,344
Beaumont	43	3,817,154	0	2,002,096	2,283	0.06%	2,283	0.06%	\$0.31	(2,283)	10,382	0	12,665
Bloomington	94	4,602,326	556,212	6,975,993	49,172	1.07%	33,100	0.72%	\$0.00	15,948	69,337	115,129	300,251
Corona / Norco	959	30,973,437	464,189	622,328	851,479	2.75%	1,268,265	4.09%	\$0.76	61,960	964,353	361,346	1,765,215
Colton / Grand Terrace	168	10,002,669	808,500	427,903	559,309	5.59%	647,659	6.47%	\$0.54	294,391	507,549	328,621	733,350
Moreno Valley	80	24,380,230	2,859,768	43,269,554	2,545,602	10.44%	1,915,699	7.86%	\$0.98	173,837	983,255	173,837	1,532,041
Perris	192	23,054,351	5,013,654	6,549,027	1,278,887	5.55%	1,386,144	6.01%	\$0.68	774	1,147,593	6,818	1,361,775
Redlands / Loma Linda	230	28,038,162	0	686,630	1,562,171	5.57%	1,725,944	6.16%	\$0.66	1,224,979	2,602,657	1,979,113	3,518,774
Rialto	168	26,098,725	1,214,059	2,540,006	1,483,412	5.68%	2,163,774	8.29%	\$0.70	(45,560)	1,101,792	27,487	1,872,629
Riverside	1,037	46,922,754	2,208,737	3,294,661	3,819,317	8.14%	3,190,082	6.80%	\$0.52	85,317	1,370,984	1,350,144	2,597,214
San Bernardino / Highland	575	38,459,664	1,077,312	2,061,059	2,734,989	7.11%	3,400,277	8.84%	\$0.49	489,866	1,506,431	565,507	1,836,850
5,000-24,999	2,309	27,200,918	237,895	518,909	943,302	3.47%	1,233,539	4.53%	\$0.71	94,391	(35,729)	486,075	1,316,525
25,000-49,999	539	18,800,552	226,891	794,360	646,338	3.44%	883,753	4.70%	\$0.87	(40,801)	53,277	239,536	853,394
50,000-99,999	310	21,174,588	329,281	1,354,117	445,897	2.11%	1,050,355	4.96%	\$0.60	17,289	520,321	310,132	1,106,939
100,000-249,999	218	32,505,048	1,509,207	3,138,214	1,823,108	5.61%	2,061,573	6.34%	\$0.55	675,955	2,234,745	934,048	3,384,241
250,000-499,999	99	36,243,919	4,632,374	4,858,152	3,596,444	9.92%	3,832,220	10.57%	\$0.31	886,785	2,707,831	836,322	3,649,498
500,000 plus	120	101,400,214	7,266,783	60,312,425	7,474,452	7.37%	6,756,207	6.66%	\$0.00	665,610	4,811,232	2,101,889	5,247,511
<b>East Total</b>	<b>3,595</b>	<b>237,325,239</b>	<b>14,202,431</b>	<b>70,976,177</b>	<b>14,929,541</b>	<b>6.29%</b>	<b>15,817,647</b>	<b>6.66%</b>	<b>\$0.56</b>	<b>2,299,229</b>	<b>10,291,677</b>	<b>4,908,002</b>	<b>15,558,108</b>
<b>Inland Empire Total</b>	<b>8,210</b>	<b>544,388,131</b>	<b>22,087,143</b>	<b>77,466,513</b>	<b>23,548,408</b>	<b>4.33%</b>	<b>27,788,943</b>	<b>5.10%</b>	<b>\$0.59</b>	<b>4,918,796</b>	<b>17,957,874</b>	<b>9,569,443</b>	<b>32,429,365</b>
5,000-24,999	5,031	59,926,407	251,056	784,783	1,471,228	2.46%	2,188,156	3.65%	\$0.84	129,258	(13,509)	905,609	2,587,843
25,000-49,999	1,248	43,582,278	461,057	1,551,207	1,584,813	3.64%	2,232,668	5.12%	\$0.78	127,716	548,835	670,250	2,461,123
50,000-99,999	751	51,815,827	781,616	1,860,533	1,683,500	3.25%	2,636,881	5.09%	\$0.62	13,500	1,284,851	957,644	3,412,556
100,000-249,999	642	97,191,967	2,877,008	4,335,593	4,038,748	4.16%	5,248,029	5.40%	\$0.55	918,111	2,755,074	1,825,850	6,975,835
250,000-499,999	317	113,809,320	6,014,990	5,167,652	5,954,698	5.23%	6,786,033	5.96%	\$0.31	2,384,130	5,249,364	2,052,279	7,293,849
500,000 plus	221	178,062,332	11,701,416	63,766,745	8,815,421	4.95%	8,697,176	4.88%	\$0.00	1,346,081	8,133,259	3,157,811	9,698,159
<b>Inland Empire Total</b>	<b>8,210</b>	<b>544,388,131</b>	<b>22,087,143</b>	<b>77,466,513</b>	<b>23,548,408</b>	<b>4.33%</b>	<b>27,788,943</b>	<b>5.10%</b>	<b>\$0.59</b>	<b>4,918,796</b>	<b>17,957,874</b>	<b>9,569,443</b>	<b>32,429,365</b>
<b>High Desert</b>													
Adelanto	144	3,959,015	0	532,000	424,688	10.73%	637,518	16.10%	\$1.84	(108,679)	513,231	0	682,910
Apple Valley	74	2,490,453	1,350,000	0	48,574	1.95%	60,524	2.43%	\$0.00	(9,550)	5,800	16,700	61,200
Barstow	53	1,054,035	0	0	312,119	29.61%	132,271	12.55%	\$0.22	18,868	6,797	18,868	19,293
Hesperia	189	3,193,723	0	107,980	42,924	1.34%	311,028	9.74%	\$0.90	258,636	287,030	274,944	349,696
Victorville	131	7,795,567	76,410	9,991,933	117,110	1.50%	171,159	2.20%	\$0.97	325,589	291,818	357,000	366,759
<b>High Desert Total</b>	<b>591</b>	<b>18,492,793</b>	<b>1,426,410</b>	<b>10,631,913</b>	<b>945,415</b>	<b>5.11%</b>	<b>1,312,500</b>	<b>7.10%</b>	<b>\$0.96</b>	<b>484,864</b>	<b>1,104,676</b>	<b>667,512</b>	<b>1,479,858</b>
<b>Temecula Valley</b>													
Hemet	83	1,429,314	0	0	16,300	1.14%	36,700	2.57%	\$0.88	19,764	15,952	19,764	20,502
Lake Elsinore	165	2,495,450	0	79,096	10,335	0.41%	36,187	1.45%	\$0.00	(2,353)	188,396	7,009	239,196
Menifee	20	404,015	0	0	24,148	5.98%	34,066	8.43%	\$0.00	15,000	770	15,000	30,803
Murrieta	233	3,746,634	234,977	27,988	60,172	1.61%	119,519	3.19%	\$0.00	7,862	14,724	36,475	145,765
San Jacinto	60	1,035,680	0	0	23,400	2.26%	40,580	3.92%	\$0.80	7,500	3,300	7,500	20,250
Temecula	331	10,759,656	109,538	20,000	213,896	1.99%	756,317	7.03%	\$0.72	(15,422)	274,908	56,322	498,926
Wildomar	12	324,860	0	0	24,364	7.50%	13,110	4.04%	\$0.75	(20,249)	(19,886)	0	13,542
<b>Temecula Valley Total</b>	<b>904</b>	<b>20,195,609</b>	<b>344,515</b>	<b>127,084</b>	<b>372,615</b>	<b>1.85%</b>	<b>1,036,479</b>	<b>5.13%</b>	<b>\$0.73</b>	<b>12,102</b>	<b>478,164</b>	<b>142,070</b>	<b>968,984</b>

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



## Market Dynamics and Future Trends

by **Andy Shirk**

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The Inland Empire is the focal point in Southern California for e-commerce, distribution and warehousing tenants, and this attracts developers specializing in large industrial projects.

Having an excellent supply of highly skilled labor, coupled with a strong economy, railroads, intermodal yards, and extensive freeway networks, the Inland Empire continues to be a target market for firms, from both the Los Angeles and Orange county markets, needing high-quality, industrial building (expansion) space.

Compared to the Los Angeles and the Orange County industrial markets, the Inland Empire still boasts rental rates and sale prices that are 20% to 35% less in price. Additionally, the IE has land values that can be as much as 50% to 70% lower. New buildings have state-of-the-art construction features including 36' clearance, 7"-8" floor slabs, LEED Certifications, 180'+ truck courts, extra car parking, and 1 Dock per 7,500 square feet of space. This makes the newer buildings highly desirable for efficient product purchase, and near same-day shipping to keep up with commerce trends.

Inland Empire cities are embracing the large industrial, e-commerce building concepts for point-of-sale transactions. With the complete transaction, from sale to delivery, happening right from the warehouse, cities can now collect tax revenue from these tenant operations.

### What is Happening?

New Construction of buildings ranging from 12,000 square feet to 100,000 square feet is finally occurring in markets from Jurupa Valley to Riverside. Pent-up demand is high and new buildings are being purchased at historically high prices, and often before completion. In fact, many Sellers are now asking as high as \$175.00 per square foot when just 2 years ago prices were considered high at \$115 per square foot. With the prices moving up monthly, you'd be hard pressed to find many owners even willing to quote sales and lease rates.

E-commerce and third-party logistics users are consuming large buildings (100,000 square feet and larger) as fast as the developers can build them. Because of this, land has been purchased at record levels, and prices for sites larger than 10 acres are going from \$24 to \$30 per square foot. Because rents are increasing, and the construction cost per square foot for these large buildings is much less than for smaller buildings, developers are going all in on the Inland Empire.

### Investors vs. Owner/Users:

Typically, investors don't compete with owner/user buyers for properties. However, this trend is changing in the IE. With a large supply of capital chasing very few investment deals, many investors are now targeting newer, high-quality buildings for purchase, and re-leasing them at these record high rental rates. Sale comps show investors are buying vacant industrial upwards of \$153 per square foot. The lease rates at \$0.63 NNN per square foot can pencil out a reasonable capitalization rate of return at 4.75% to 5%.

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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