

**2017'S DYNAMIC MARKET CONDITIONS CARRY OPTIMISM INTO 2018.** As we enter the ninth year of economic recovery and expansion, the second longest in US history, the Inland Empire industrial market continues to thrive and is widely recognized as the most dynamic industrial market in the country. Driven primarily by e-commerce and third-party logistics users, demand continues to outpace supply as the region absorbed over 20 million square feet in 2017. Lease rates have accelerated past previous highs, up 10% on average over the fourth quarter of 2016. With average asking lease rates now at \$0.55 per square foot, developers are racing to build "Class A" warehouses to meet the needs of today's more sophisticated tenants. Even with land values and construction costs spiking in recent quarters, the Inland Empire leads the nation in speculative construction with more than 20 million square feet under construction in the first quarter of 2018.

Gains in occupancy are expected to outperform spec construction, making this cycle more "durable" than our previous period of expansion 2004–2007 as oversupply is not a major concern. The IE continues to benefit from its proximity to Los Angeles and Orange County as industrial tenants in these markets struggle to locate larger, modern buildings and are flocking east to find suitable alternatives at lower rents. The Ports of LA/Long Beach are key influencers in the IE and it should be noted that 2017 marked the Port of LA's biggest year in its 110-year history (9.3 million TEU), up 6% from 2016 volume. Transportation experts expect this trend to continue into 2018 based on higher employment, strong retail sales (e-commerce) and a boost in consumer confidence.

The Inland Empire continues to be a key market for investment capital (foreign and domestic) on the industrial side given its high concentration of newer, functional buildings as well as Fortune 500 tenants. Competition has never been more ferocious, driving prices up and cap rates down. With the new tax changes providing favorable treatment to real estate investors and corporations alike, expect demand and capital investment to increase in the coming quarters.

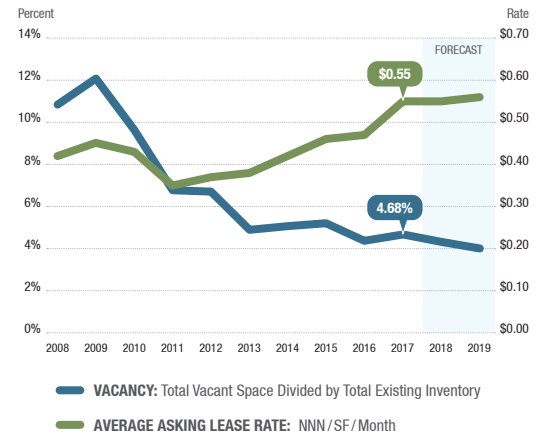
**VACANCY.** Overall vacancy tightened in the fourth quarter of 2017 finishing the year at 4.68%, a decrease of 20 basis points from the previous quarter and a slight increase when compared to the end of 2016 (4.4%). The Inland Empire's West submarket boasts the lowest vacancy in the region rate at 2.70%. For perspective, the historic vacancy rate for the IE over the past 10 years is approximately 6.9%. We are forecasting that vacancy will continue to trend downward in 2018 based on the continued growth of e-commerce as well as core industries like food & beverage, apparel, automotive and nutraceutical.

**LEASE RATES.** Average asking lease rates are now at \$0.55 NNN for the fourth quarter of 2017, up an average of five cents per square foot (10%) from the same quarter last year and two cents per square foot over third quarter figures. Average rents are up over 23% since 2010. Even with new supply coming online, expect lease rates to continue their climb as pent-up demand from retailers and the transportation/logistics sector remains at peak levels.

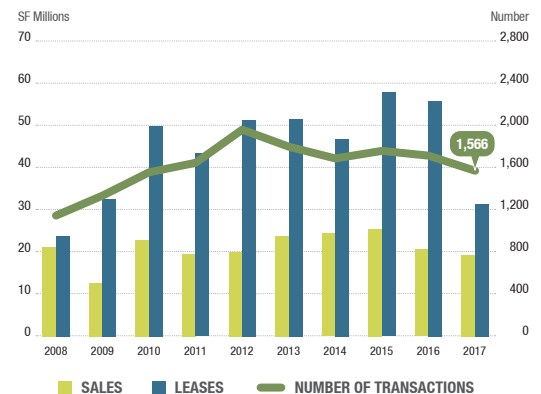
**TRANSACTION ACTIVITY.** Increased efficiency, improved function and access to labor are at the core of most real estate decisions at the moment. Leasing activity checked in at nearly 31.3 million square feet for 2017, a decrease over the previous year's total of 55.9 million square feet. Sales activity also showed a slight decrease, posting 19.1 million square feet of activity compared to the 20.5 million square feet we saw in 2016. Large blocks of Class A space continue to be in high demand by tenants and investors alike. Notable lease transactions for the fourth quarter include:

- Walmart's lease of 1,022,670 SF at 6720 Kimball Avenue in Chino
- Solaris Paper's lease of 862,025 at the NEC of Eucalyptus Avenue & 60 Freeway in Moreno Valley
- Best Buy's lease of 573,899 SF at 2104 E. Jay Street in Ontario

### VACANCY vs. AVERAGE ASKING LEASE RATE



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



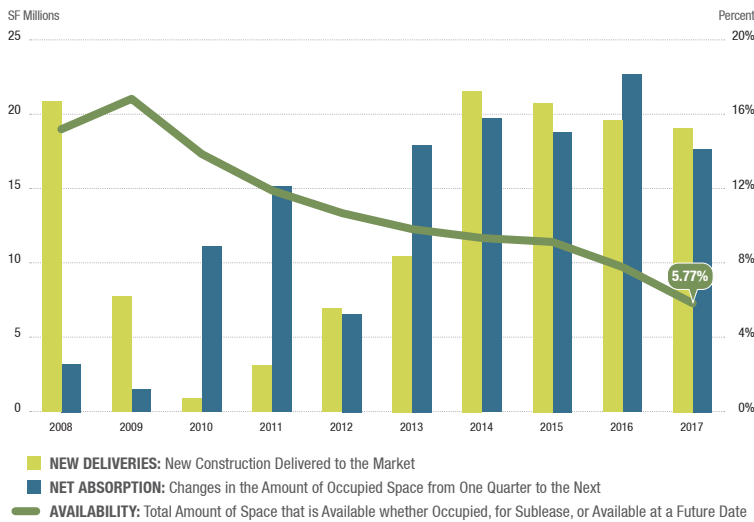
## Market Statistics

	Change Over Last Quarter	4Q 2017	3Q 2017	4Q 2016	% Change Over Last Year
Total Vacancy Rate	▼ DOWN	4.68%	4.88%	4.40%	6.36%
Availability Rate	▼ DOWN	5.77%	6.40%	7.74%	(25.45%)
Average Asking Lease Rate	▲ UP	\$0.55	\$0.53	\$0.50	10.00%
Sale & Lease Transactions	▼ DOWN	9,070,604	12,556,512	13,773,729	(34.15%)
Gross Absorption	▼ DOWN	9,681,741	12,082,490	11,528,765	(16.02%)
Net Absorption	▲ POSITIVE	4,878,594	4,862,968	5,275,504	N/A

**CONSTRUCTION.** The Inland Empire added a total of 19.0 million square feet of new industrial space in 2017. The record year for new development was 2014, when 21.5 million square feet of new space was added, and vacancy rates were approximately 5.03%. Total square footage under construction checked in at 20.1 million square feet at the end of 2017 bringing the industrial base up to 558 million square feet. The most noteworthy developments under construction in the fourth quarter of 2017 are the 1.3 million square foot project at 24385 Nandina Avenue in Moreno Valley, Modular Logistics Center's 1.1 million square foot project at 17350 Perris Boulevard in Moreno Valley, and a 1 million square foot spec project (Optimus Logistics Center) in Perris.

**ABSORPTION.** Net absorption for the county posted a positive 4.8 million square feet for the fourth quarter of 2017, giving the industrial market a total of 17.6 million square feet of positive absorption for the year. This trend of positive absorption has been in place for the past nine quarters, averaging over 5.06 million square feet of positive net absorption per quarter.

## NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Forecast

**LEASE RATES.** Average lease rates in the Inland Empire are at historic highs, yet still offer a 30–35% discount when compared with neighboring infill markets like Los Angeles and Orange County. Anticipate asking rents to increase by an annualized average of 3% to reach a level of \$0.57 per square foot by the end of the fourth quarter of 2018.

**VACANCY.** While annual deliveries have grown every year since 2010, demand continues to outpace supply and lease rates have followed suit. Although the overall vacancy rate will temporarily increase as new construction comes online, we anticipate demand keeping up with these new deliveries, keeping vacancy rates in the 4.25% to 5% range over the next three quarters.

**OVERALL.** The IE industrial market in 2018 will be characterized by increased capital flows/investor demand, strong tenant/user activity and continued increases in sale prices and lease rates. Many of our larger investor clients are saying that the “game is being extended,” but are cautiously managing new acquisitions. Rents have surged over the past five to seven years, and some investors feel we may be close to a ceiling for rents. While we remain optimistic, there are a few “headwinds” such as the shortage of qualified labor in skilled trades. This is becoming a major issue for new development, driving pricing up and extending timelines.

Buildings in the 300–400,000 square foot size range should be in high demand as many companies who have already made larger space commitments in recent years are now looking for local expansion options. Larger tenants in Orange County and LA with future expansion plans will also target the Inland Empire in 2018 to find larger blocks of quality spaces at lower costs. While drayage and transportation costs are still a huge factor, the IE offers the only suitable “relief valve” in this competitive market. Consumer sentiment in the market is positive, aided by record highs in the stock market and the new tax laws put in place to encourage both investment and job growth.

## Significant Transactions

### Sales

\* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
927 E. 9th St. & 7776 Tippecanoe	San Bernardino	1,025,324	\$95,600,000	Westcore Properties	Bentall Kennedy
20801 Krameria Ave.	Riverside	1,000,000	\$80,100,000	Gateway Empire, LLC	Meridan Park Building A, LLC
290 W. Markham St.	Perris	474,235	\$52,165,850	Heitman	PRG Investment & Management
1900 Burgundy Pl.	Ontario	397,125	\$42,000,000	Saturn Intelligence (CA) Ltd.	Property Reserve, Inc.
415 Nicholas Rd.	Beaumont	444,445	\$32,000,000	CJ America, Inc.*	Valley View Center, LLC

### Leases

\* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
6720 Kimball Ave.	Chino	1,022,670	Dec-2017	Walmart	Majestic Realty
NEC Eucalyptus Ave. & 60 Fwy., Bldg #2	Moreno Valley	862,035	Dec-2017	Solaris Paper, Inc.	Prologis
10886 S. Citrus Ave.	Fontana	424,427	Dec-2017	Electrolux Home Products	Clarion Partners
1950 S. Vintage Ave.	Ontario	130,562	Oct-2017	Communications Test Design	The Honest Company *
3790 De Forest Cir.	Jurupa Valley	108,000	Oct-2017	The Complete Logistics Co.	The Honest Company *

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2017	Square Feet Available	Availability Rate 4Q2017	Average Asking Lease Rate	Net Absorption 4Q2017	Net Absorption 2017	Gross Absorption 4Q2017	Gross Absorption 2017
<b>West</b>													
Chino / Chino Hills	895	48,100,798	2,228,547	931,781	874,549	1.82%	2,140,792	4.45%	\$0.00	685,045	1,731,966	1,286,762	3,743,013
Fontana	709	61,489,047	575,857	1,506,066	3,109,159	5.06%	3,696,611	6.01%	\$0.00	1,200,758	3,830,737	622,656	7,193,485
Mira Loma / Eastvale / Jurupa Valley	337	38,191,262	2,406,253	1,695,552	1,173,571	3.07%	1,080,317	2.83%	\$0.65	450,252	320,751	453,966	1,208,304
Montclair	196	3,407,739	16,900	30,000	96,674	2.84%	202,278	5.94%	\$0.00	(70,531)	116,246	21,092	349,469
Ontario	1,445	106,219,349	799,639	358,778	1,282,259	1.21%	2,851,974	2.68%	\$0.66	1,444,910	3,819,696	2,412,963	8,297,258
Rancho Cucamonga	714	38,717,419	318,230	2,348,174	1,284,155	3.32%	1,756,205	4.54%	\$0.51	262,784	311,671	810,546	2,613,330
Upland	253	4,036,175	0	209,182	288,779	7.15%	271,742	6.73%	\$0.76	11,272	(104,805)	134,255	257,543
5,000-24,999	2,705	32,537,189	72,448	516,641	563,594	1.73%	896,094	2.75%	\$1.05	60,206	244,007	555,841	2,077,004
25,000-49,999	694	24,270,980	617,490	1,282,306	1,091,158	4.50%	1,328,421	5.47%	\$0.67	66,916	511,969	748,997	2,624,046
50,000-99,999	423	29,522,198	1,130,942	459,308	912,934	3.09%	1,211,255	4.10%	\$0.66	52,002	91,148	668,364	2,373,754
100,000-249,999	418	63,727,309	1,843,773	867,790	1,709,155	2.68%	2,831,935	4.44%	\$0.58	1,158,316	2,638,666	1,573,330	6,379,939
250,000-499,999	209	74,693,365	650,388	968,320	1,284,670	1.72%	1,831,409	2.45%	\$0.00	2,472,301	2,231,644	1,942,886	4,817,280
500,000 plus	100	75,410,748	2,030,385	2,985,168	2,547,635	3.38%	3,900,805	5.17%	\$0.00	174,749	4,308,828	252,822	5,390,379
<b>West Total</b>	<b>4,549</b>	<b>300,161,789</b>	<b>6,345,426</b>	<b>7,079,533</b>	<b>8,109,146</b>	<b>2.70%</b>	<b>11,999,919</b>	<b>4.00%</b>	<b>\$0.65</b>	<b>3,984,490</b>	<b>10,026,262</b>	<b>5,742,240</b>	<b>23,662,402</b>
<b>East</b>													
Banning	49	984,827	0	2,546,920	111,659	11.34%	80,264	8.15%	\$0.66	(34,220)	(104,342)	41,395	102,968
Beaumont	43	3,817,154	0	2,002,096	12,665	0.33%	454,455	11.91%	\$0.31	(12,665)	1,476,575	2,283	1,498,023
Bloomington	94	4,674,677	0	5,735,358	3,500	0.07%	347,068	7.42%	\$0.00	9,100	156,560	9,100	165,360
Corona / Norco	953	31,438,325	216,109	1,236,403	2,198,324	6.99%	2,256,083	7.18%	\$0.66	(352,671)	454,392	278,098	2,057,016
Colton / Grand Terrace	167	9,541,849	0	463,287	896,537	9.40%	853,434	8.94%	\$0.00	177,965	315,705	217,830	458,290
Moreno Valley	80	21,796,540	3,673,530	45,144,261	1,679,576	7.71%	2,088,612	9.58%	\$1.06	351,185	355,345	3,200	38,221
Perris	187	21,888,225	2,249,780	11,499,103	117,673	0.54%	185,101	0.85%	\$0.58	138,624	3,007,259	796,563	2,948,659
Redlands / Loma Linda	229	27,716,100	156,323	532,636	4,547,968	16.41%	4,487,279	16.19%	\$0.48	(344,486)	628,103	1,319,091	3,518,865
Rialto	160	22,640,214	1,700,782	1,066,123	1,257,154	5.55%	1,092,700	4.83%	\$0.65	157,247	463,411	237,741	1,314,504
Riverside	1,017	44,078,513	4,188,509	4,344,608	3,081,782	6.99%	3,596,498	8.16%	\$0.48	355,986	143,557	801,424	2,420,796
San Bernardino / Highland	565	36,687,221	1,612,727	1,126,637	2,598,137	7.08%	2,879,059	7.85%	\$0.42	448,039	730,204	232,776	2,036,556
5,000-24,999	2,281	26,786,689	129,255	474,210	691,503	2.58%	1,149,068	4.29%	\$0.67	(119,022)	(1,525)	299,177	1,440,085
25,000-49,999	533	18,648,873	59,870	801,321	574,645	3.08%	923,662	4.95%	\$0.64	71,845	189,349	292,593	975,671
50,000-99,999	311	21,278,971	303,377	1,327,611	863,257	4.06%	1,151,712	5.41%	\$0.55	283,929	715,795	491,025	1,926,993
100,000-249,999	214	31,915,508	1,085,216	3,194,974	2,928,385	9.18%	3,434,644	10.76%	\$0.43	213,855	694,628	727,402	2,272,418
250,000-499,999	95	34,599,024	2,507,245	5,126,349	5,540,944	16.01%	5,945,218	17.18%	\$0.31	(288,253)	(125,264)	589,048	2,457,836
500,000 plus	110	92,034,580	9,712,797	64,772,967	5,906,241	6.42%	5,716,249	6.21%	\$0.00	731,750	6,153,786	1,540,256	7,486,255
<b>East Total</b>	<b>3,544</b>	<b>225,263,645</b>	<b>13,797,760</b>	<b>75,697,432</b>	<b>16,504,975</b>	<b>7.33%</b>	<b>18,320,553</b>	<b>8.13%</b>	<b>\$0.46</b>	<b>894,104</b>	<b>7,626,769</b>	<b>3,939,501</b>	<b>16,559,258</b>
<b>Inland Empire Total</b>	<b>8,093</b>	<b>525,425,434</b>	<b>20,143,186</b>	<b>82,776,965</b>	<b>24,614,121</b>	<b>4.68%</b>	<b>30,320,472</b>	<b>5.77%</b>	<b>\$0.55</b>	<b>4,878,594</b>	<b>17,653,031</b>	<b>9,681,741</b>	<b>40,221,660</b>
5,000-24,999	4,986	59,323,878	201,703	990,851	1,255,097	2.12%	2,045,162	3.45%	\$0.82	(58,816)	242,482	855,018	3,517,089
25,000-49,999	1,227	42,919,853	677,360	2,083,627	1,665,803	3.88%	2,252,083	5.25%	\$0.67	138,761	701,318	1,041,590	3,599,717
50,000-99,999	734	50,801,169	1,434,319	1,786,919	1,776,191	3.50%	2,362,967	4.65%	\$0.57	335,931	806,943	1,159,389	4,300,747
100,000-249,999	632	95,642,817	2,928,989	4,062,764	4,637,540	4.85%	6,266,579	6.55%	\$0.49	1,372,171	3,333,294	2,300,732	8,652,357
250,000-499,999	304	109,292,389	3,157,633	6,094,669	6,825,614	6.25%	7,776,627	7.12%	\$0.31	2,184,048	2,106,380	2,531,934	7,275,116
500,000 plus	210	167,445,328	11,743,182	67,758,135	8,453,876	5.05%	9,617,054	5.74%	\$0.00	906,499	10,462,614	1,793,078	12,876,634
<b>Inland Empire Total</b>	<b>8,093</b>	<b>525,425,434</b>	<b>20,143,186</b>	<b>82,776,965</b>	<b>24,614,121</b>	<b>4.68%</b>	<b>30,320,472</b>	<b>5.77%</b>	<b>\$0.55</b>	<b>4,878,594</b>	<b>17,653,031</b>	<b>9,681,741</b>	<b>40,221,660</b>
<b>High Desert</b>													
Adelanto	137	3,291,401	657,925	1,131,925	406,612	12.35%	488,487	14.84%	\$2.67	(26,946)	(165,366)	82,214	306,188
Apple Valley	75	2,496,388	0	1,847,530	53,209	2.13%	54,709	2.19%	\$0.00	(15,142)	(10,311)	3,250	34,781
Barstow	52	1,076,708	0	0	325,966	30.27%	358,614	33.31%	\$0.22	(31,491)	(183,041)	13,500	24,505
Hesperia	188	3,202,756	0	2,271,490	328,954	10.27%	348,893	10.89%	\$0.90	(2,029)	(261,140)	40,540	134,135
Victorville	130	7,777,031	0	9,991,933	408,928	5.26%	418,128	5.38%	\$0.80	133,437	729,210	147,672	796,734
<b>High Desert Total</b>	<b>582</b>	<b>17,844,284</b>	<b>657,925</b>	<b>15,242,878</b>	<b>1,523,669</b>	<b>8.54%</b>	<b>1,668,831</b>	<b>9.35%</b>	<b>\$0.57</b>	<b>57,829</b>	<b>109,352</b>	<b>287,176</b>	<b>1,296,343</b>
<b>Temecula Valley</b>													
Hemet	84	1,458,065	0	0	21,052	1.44%	34,952	2.40%	\$0.00	11,138	12,843	11,138	20,688
Lake Elsinore	165	2,495,980	28,453	36,811	192,791	7.72%	205,285	8.22%	\$0.00	(15,517)	161,499	19,866	349,298
Menifee	20	404,015	72,835	182,141	24,914	6.17%	83,951	20.78%	\$0.00	1,100	(7,215)	1,100	12,397
Murrieta	233	3,746,904	50,799	180,763	74,896	2.00%	102,608	2.74%	\$0.00	(10,478)	(25,331)	26,056	148,287
San Jacinto	60	1,035,680	0	109,948	26,700	2.58%	48,880	4.72%	\$0.00	18,172	14,000	28,772	56,272
Temecula	330	10,553,155	141,180	270,718	390,625	3.70%	519,155	4.92%	\$0.76	(141,770)	(183,236)	39,323	217,130
Wildomar	12	324,860	0	0	19,134	5.89%	11,249	3.46%	\$0.85	(4,478)	(14,655)	14,656	47,600
<b>Temecula Valley Total</b>	<b>904</b>	<b>20,018,659</b>	<b>293,267</b>	<b>780,381</b>	<b>750,112</b>	<b>3.75%</b>	<b>1,006,080</b>	<b>5.03%</b>	<b>\$0.77</b>	<b>(141,833)</b>	<b>(42,095)</b>	<b>140,911</b>	<b>851,672</b>

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



## Prices and Quality are the Catalysts for Migration from LA and OC to the Inland Empire

**by Sean Sullivan**  
ASSOCIATE, INLAND EMPIRE

It's no secret, even to those only loosely associated with the market, that Southern California real estate has risen far past pre-recession highs and is showing no significant signs of slowing. Values across the board, whether it be in land or buildings, have never been higher. Strong gross and net absorption, low vacancy rates, low cap rates, rising lease rates — every metric used to gauge the performance of the market is near its all-time high. When we see significant year-over-year growth, for as long as we have currently been experiencing (since 2010), it usually signifies some sort of plateau. However, as has been the case for the last five years, experts are projecting continued growth for the coming year all across the Southern California industrial market.

Rising prices are a boon for landlords, but for tenants and users in need of a larger and more efficient space, it means embarking on a search that has never been more difficult. With vacancy rates as low as they have ever been, and lease rates sometimes 35% higher in the Los Angeles and Orange County Markets, users are more frequently looking at the Inland Empire as a beacon of hope for affordable pricing and newer construction. This trend is not new, but is becoming even more common as not only individual users, but also large companies like Solaris Paper and CJ Foods, exit their current markets (LA and OC) and head east.

The Inland Empire is and will continue to be uniquely qualified for accommodation of this move eastward. There is ample land still available, especially in the eastern portion of the market that allows for state-of-the-art product in all size ranges. There is product available to satisfy the demand of the “big box” e-commerce users, as well as the individual user looking to occupy a smaller building. With more than 20 million square feet of construction set to deliver in 2018, users can look at pockets in both the western and eastern portions of the Inland Empire for a brand new, relatively cost effective building, something no other market in Southern California is equipped to do.

In summary, as a result of rising lease rates and purchase prices, we can expect users to continue to flock to the Inland Empire. Whether the need is for a cheaper relocation or an expansion upon an existing operation, the market east of Los Angeles and Orange County presents itself as a viable alternative.

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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.

### 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