

OVERVIEW. The Inland Empire industrial real estate sector has been flourishing for years with strong fundamentals and low vacancy rates. The industrial market has grown as a result of expansion in the nation's e-commerce industry, the nation's supply-chain infrastructure, and the Southern California economy. The Inland Empire maintains healthy fundamentals, even as they are constantly challenged by an ongoing development boom. Approximately 22 million square feet of industrial product were delivered in 2018 — hardly an anomaly for a market that has doubled its inventory since 1999. Demand for Inland Empire space shows no sign of abating.

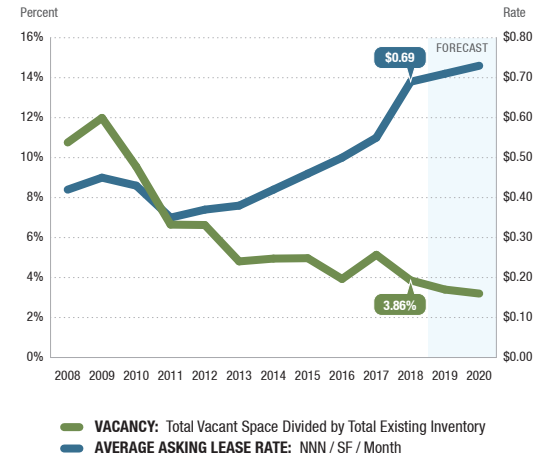
VACANCY. Vacancy in the Inland Empire has been fairly stable since first quarter of 2016, in part because of the preponderance of large tenants in the market. The relatively low cost of doing business and a large pool of labor are driving demand for space in the Inland Empire. The vacancy rate fell to 3.86% at year-end, down 62 basis points from the third quarter and 14.41% from the fourth quarter of 2017. Inland Empire's relatively inexpensive land, proximity to the twin ports in L.A., and a massive consumer base throughout Southern California has made it the leading location for tenants to expand.

AVAILABILITY. Direct/sublease space being marketed in the fourth quarter is now at 5.34%, down 31.01% from the fourth quarter of 2017. We expect availability to continue to compress with a possible uptick in later quarters when new, speculative projects are delivered to the market.

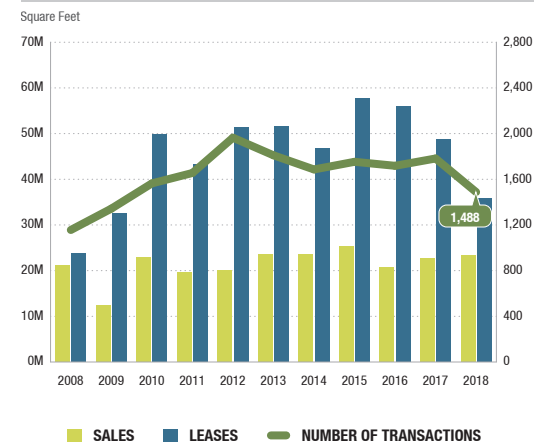
LEASE RATES. Rents in all industrial property types have grown this cycle. Rent growth is now at the national average, and this trend should continue in the near term. With more properties making their way through the pipeline, rent growth could slow somewhat because of supply-driven vacancies. The current fourth quarter average asking rent sits at \$0.69 per square foot, up 25.45% from \$0.55 per square foot last year. Asking rates are currently at an all-time high, helping justify the large amount of active construction.

TRANSACTION ACTIVITY. The amount of available space continued to decline in the Inland Empire industrial market, despite 22.7 million square feet of new deliveries since first quarter of 2018. Sale and lease activity checked in at 12.7 million square feet for the fourth quarter, a decrease over the same quarter of last year's total of 18.0 million square feet.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	4Q 2018	3Q 2018	4Q 2017	% Change Over Last Year
Total Vacancy Rate	▼ DOWN	3.86%	4.48%	4.51%	(14.41%)
Availability Rate	▼ DOWN	5.34%	5.87%	7.74%	(31.01%)
Average Asking Lease Rate	▲ UP	\$0.69	\$0.60	\$0.55	25.45%
Sale & Lease Transactions	▼ DOWN	12,774,842	13,321,912	18,054,382	(29.24%)
Gross Absorption	▼ DOWN	9,316,114	12,910,501	12,294,759	(24.23%)
Net Absorption	▲ POSITIVE	7,638,234	6,936,112	5,473,976	N/A

OVERALL. Industrial rents are on track to surpass the peak of last cycle by 50% at the end of 2019, and rents will continue to grow at an annual rate approaching 3% moving through the year. Vacancy remains well below the historical average but has eased somewhat from the historically tight conditions that prevailed several years ago. All signs point to continued growth for the Inland Empire industrial market as the local economy continues to diversify. A concern over the long term, however, 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.

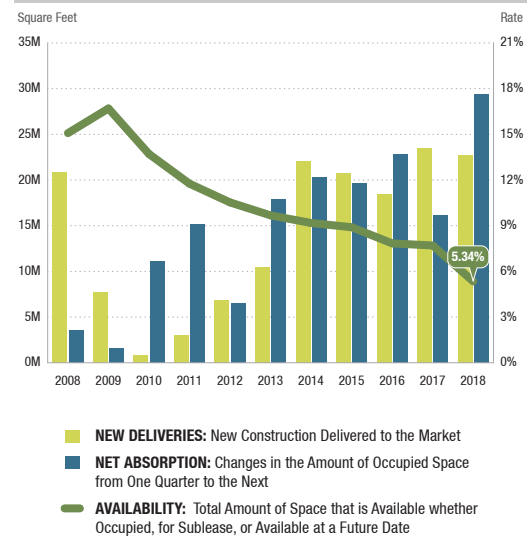
LEASE RATES. As is the case in many markets across the country, industrial rent growth in the Inland Empire has performed better than all other major property types the past several quarters. Anticipate asking rents to increase to an annualized average of 3% to reach a level of \$0.71 per square foot by the end of the fourth quarter of 2019.

VACANCY. Demand has remained steady throughout the cycle and the vacancy rate continues to reach new lows. Although 2018 saw a strong level of absorption and long-term tenants provide stability in the Inland Empire, the market's fundamentals will be tested later in 2019 when a large wave of speculative construction starts to deliver. The overall vacancy rate will temporarily increase as these new projects come online, but we expect demand to keep up with these new deliveries, with the vacancy rate stabilizing back to the 4% to 5% range.

CONSTRUCTION. Industrial development continues to thrive in the Inland Empire. The majority of the industrial development is in warehouse space. As consumers are demanding more goods, warehousing is needed for the storage and distribution of those goods. The strong demand for warehouse and distribution centers in the Inland Empire, notwithstanding rising construction costs, is justifying the continued development of industrial properties. At the end of the fourth quarter, there were 131 buildings under construction totaling nearly 25.8 million square feet. Notable projects underway include Majestic Freeway Business Center in Riverside, a six-building industrial park totaling 1.43 million square feet (Majestic); Rialto Fulfillment Center Bldg. 1, a 1,264,102 square foot project (Panattoni); 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. The Inland Empire boasts positive net absorption across all submarkets and has for seven consecutive quarters that totaled over 46 MSF. Net absorption posted 7,638,234 square feet in the fourth quarter of 2018. Primary contributors to this result in the fourth quarter include: Lowe's (1,387,899 square feet), Nordstrom, Inc. (1,009,092 square feet) and DMSI (739,903 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
4000 E. Mission Blvd.	Ontario	923,083	\$75,306,000	Bridgestone Americas, Inc.	Sumitomo Corporation America
1651 Interchange Dr.	San Bernardino	667,024	\$73,000,000	Cabot Properties, Inc.	TA Realty
9050 Hermosa Ave.	Rancho Cucamonga	468,682	\$68,950,000	RREEF CPIF 9050 Hermosa, LLC	TH Real Estate
5080 Hallmark Parkway	San Bernardino	197,100	\$18,000,000	Gramercy Property Trust*	PSIP Shaw Hallmark-Lexington, LLC*
1467-1468 Davril Cir.	Corona	130,474	\$19,600,000	Morningstar Davril, LP*	TH Real Estate*

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
24385 Nandina Ave.	Moreno Valley	1,387,899	Dec-2018	Lowe's	Duke Realty
1010-1030 W. 4th St.	Beaumont	1,277,096	Oct-2018	Amazon	USAA/McDonald
8595 Milliken Ave.	Rancho Cucamonga	72,846	Oct-2018	MasonHub	Rancho Cucamonga II*
8595 Milliken Ave.	Rancho Cucamonga	70,100	Oct-2018	Tirenetwork Group Inc.	Rancho Cucamonga II*
5005 Ontario Mills Pky.	Ontario	63,436	Oct-2018	American Camel Intl Invest Enterprise	KHW Investment LLC*

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2018	Square Feet Available	Availability Rate 4Q2018	Average Asking Lease Rate	Net Absorption 4Q2018	Net Absorption 2018	Gross Absorption 4Q2018	Gross Absorption 2018
West													
Chino / Chino Hills	914	51,340,266	1,426,766	1,002,804	1,239,501	2.41%	1,244,324	2.42%	\$1.15	548,635	3,934,148	883,560	5,432,416
Fontana	719	62,291,357	2,245,437	1,146,338	1,608,418	2.58%	3,403,017	5.46%	\$1.18	638,163	3,137,661	788,810	4,872,178
Mira Loma / Eastvale / Jurupa Valley	357	42,129,085	505,596	1,585,784	1,091,205	2.59%	1,854,867	4.40%	\$0.66	812,427	2,978,762	758,561	3,726,437
Montclair	200	3,467,347	53,942	139,000	158,097	4.56%	245,510	7.08%	\$0.49	(112,610)	(49,695)	28,553	184,309
Ontario	1,467	107,736,001	2,710,132	1,805,498	2,364,956	2.20%	3,669,359	3.41%	\$0.73	100,799	1,353,460	809,262	5,633,129
Rancho Cucamonga	717	38,970,304	1,632,466	1,368,270	1,271,328	3.26%	1,915,262	4.91%	\$0.94	219,047	338,251	480,321	2,357,052
Upland	254	4,010,586	0	281,387	154,228	3.85%	109,672	2.73%	\$0.76	40,454	99,316	84,242	315,165
5,000-24,999	2,727	32,793,377	12,865	507,910	569,159	1.74%	1,122,175	3.42%	\$0.98	(111,976)	21,817	296,401	1,668,575
25,000-49,999	711	24,887,652	302,661	1,075,821	1,288,708	5.18%	1,655,394	6.65%	\$0.78	(146,049)	277,816	303,913	1,958,803
50,000-99,999	441	30,641,052	358,278	708,664	654,001	2.13%	791,856	2.58%	\$0.74	360,104	1,409,142	502,580	2,896,235
100,000-249,999	428	65,296,342	1,486,622	1,215,289	2,287,118	3.50%	3,877,962	5.94%	\$0.59	876,024	1,425,294	941,603	4,807,327
250,000-499,999	219	77,930,251	644,296	917,791	1,635,478	2.10%	2,808,285	3.60%	\$0.47	1,015,642	4,014,107	1,035,642	4,937,398
500,000 plus	102	78,396,272	5,769,617	2,903,606	1,453,269	1.85%	2,186,339	2.79%	\$0.00	253,170	4,643,727	753,170	6,252,348
West Total	4,628	309,944,946	8,574,339	7,329,081	7,887,733	2.54%	12,442,011	4.01%	\$0.68	2,246,915	11,791,903	3,833,309	22,520,686
East													
Banning	49	976,504	0	1,506,760	55,400	5.67%	55,400	5.67%	\$1.95	(22,480)	14,864	41,500	78,844
Beaumont	43	3,817,154	0	2,002,096	0	0.00%	0	0.00%	\$0.00	2,283	12,665	2,283	14,948
Bloomington	93	4,580,516	3,003,603	4,633,335	1,963	0.04%	1,963	0.04%	\$0.00	45,609	116,546	47,572	349,423
Corona / Norco	964	31,393,062	808,500	657,873	1,035,684	3.30%	1,486,773	4.74%	\$0.76	47,354	927,008	364,537	2,454,072
Colton / Grand Terrace	168	10,002,669	115,507	1,367,948	516,008	5.16%	686,422	6.86%	\$0.52	196,406	550,850	224,740	789,095
Moreno Valley	84	27,083,646	935,585	43,267,154	2,160,597	7.98%	2,273,302	8.39%	\$1.16	3,088,421	4,071,676	2,267,066	3,799,107
Perris	194	24,498,916	5,254,411	5,661,578	2,405,603	9.82%	2,425,603	9.90%	\$1.03	(647,216)	1,467,425	73,679	2,475,352
Redlands / Loma Linda	230	28,049,339	190,086	496,544	902,647	3.22%	1,211,402	4.32%	\$0.58	475,306	2,972,498	591,644	3,884,071
Rialto	171	26,346,919	1,259,636	1,937,741	1,676,254	6.36%	2,570,941	9.76%	\$0.00	22,052	1,237,539	46,360	2,684,229
Riverside	1,040	47,017,931	2,533,149	2,913,809	2,537,502	5.40%	2,876,707	6.12%	\$0.59	1,313,833	3,706,389	856,991	4,460,923
San Bernardino / Highland	579	39,072,463	1,425,055	2,191,279	2,154,721	5.51%	3,466,956	8.87%	\$0.52	869,751	2,515,691	966,433	3,017,443
5,000-24,999	2,312	27,271,389	308,206	418,322	724,731	2.66%	1,174,826	4.31%	\$0.74	197,770	201,402	552,087	1,871,960
25,000-49,999	542	18,927,572	181,827	814,108	625,934	3.31%	661,788	3.50%	\$0.86	171,308	171,852	402,953	1,265,697
50,000-99,999	314	21,497,073	498,841	1,207,937	552,197	2.57%	754,791	3.51%	\$0.79	59,634	572,278	392,977	1,549,116
100,000-249,999	222	33,193,768	1,654,059	4,108,697	1,933,501	5.82%	2,861,696	8.62%	\$0.59	400,602	2,885,280	627,313	4,021,559
250,000-499,999	102	37,431,168	3,364,150	4,484,382	3,842,346	10.27%	4,803,948	12.83%	\$0.00	840,522	3,037,295	755,279	4,437,294
500,000 plus	123	104,518,149	9,518,449	55,602,671	5,767,670	5.52%	6,798,420	6.50%	\$0.00	3,721,483	10,725,044	2,752,196	10,861,881
East Total	3,615	242,839,119	15,525,532	66,636,117	13,446,379	5.54%	17,055,469	7.02%	\$0.72	5,391,319	17,593,151	5,482,805	24,007,507
Inland Empire Total	8,243	552,784,065	24,099,871	73,965,198	21,334,112	3.86%	29,497,480	5.34%	\$0.69	7,638,234	29,385,054	9,316,114	46,528,193
5,000-24,999	5,039	60,064,766	321,071	926,232	1,293,890	2.15%	2,297,001	3.82%	\$0.81	85,794	223,219	848,488	3,540,535
25,000-49,999	1,253	43,815,224	484,488	1,889,929	1,914,642	4.37%	2,317,182	5.29%	\$0.82	25,259	449,668	706,866	3,224,500
50,000-99,999	755	52,138,125	857,119	1,916,601	1,206,198	2.31%	1,546,647	2.97%	\$0.78	419,738	1,981,420	895,557	4,445,351
100,000-249,999	650	98,490,110	3,140,681	5,323,986	4,220,619	4.29%	6,739,658	6.84%	\$0.59	1,276,626	4,310,574	1,568,916	8,828,886
250,000-499,999	321	115,361,419	4,008,446	5,402,173	5,477,824	4.75%	7,612,233	6.60%	\$0.31	1,856,164	7,051,402	1,790,921	9,374,692
500,000 plus	225	182,914,421	15,288,066	58,506,277	7,220,939	3.95%	8,984,759	4.91%	\$0.00	3,974,653	15,368,771	3,505,366	17,114,229
Inland Empire Total	8,243	552,784,065	24,099,871	73,965,198	21,334,112	3.86%	29,497,480	5.34%	\$0.69	7,638,234	29,385,054	9,316,114	46,528,193
High Desert													
Adelanto	143	4,120,490	0	525,580	531,918	12.91%	675,536	16.39%	\$1.76	(107,230)	406,001	110,070	792,980
Apple Valley	74	2,490,886	1,350,000	0	49,042	1.97%	54,992	2.21%	\$0.00	5,782	11,582	13,415	74,615
Barstow	53	1,054,035	0	0	122,271	11.60%	131,034	12.43%	\$0.22	178,785	191,582	183,848	209,141
Hesperia	189	3,196,932	0	107,980	160,348	5.02%	193,908	6.07%	\$0.90	(115,184)	172,806	35,446	385,142
Victorville	132	7,810,516	62,245	9,991,933	452,240	5.79%	518,240	6.64%	\$0.43	17,753	(29,147)	33,475	50,891
High Desert Total	591	18,672,859	1,412,245	10,625,493	1,315,819	7.05%	1,573,710	8.43%	\$0.72	(20,094)	752,824	376,254	1,512,769
Temecula Valley													
Hemet	83	1,429,314	23,400	0	23,300	1.63%	57,513	4.02%	\$0.88	3,400	8,952	10,400	20,502
Lake Elsinore	165	2,495,450	70,738	117,468	69,695	2.79%	105,055	4.21%	\$0.00	(35,960)	129,036	3,875	244,389
Menifee	21	476,850	172,227	41,619	24,148	5.06%	27,719	5.81%	\$0.75	72,835	73,605	72,835	103,638
Murrieta	234	3,785,634	0	0	61,840	1.63%	69,104	1.83%	\$0.00	44,442	61,321	86,210	232,851
San Jacinto	60	1,035,680	0	0	14,200	1.37%	31,380	3.03%	\$0.00	9,200	12,500	9,200	29,450
Temecula	335	10,850,385	53,586	20,000	309,666	2.85%	574,971	5.30%	\$0.73	(141,737)	239,049	100,418	709,172
Wildomar	12	324,860	0	0	20,200	6.22%	7,090	2.18%	\$0.78	4,164	(15,722)	31,061	44,603
Temecula Valley Total	910	20,398,173	319,951	179,087	523,049	2.56%	872,832	4.28%	\$0.75	(43,656)	508,741	313,999	1,384,605

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



Consumers Question Strong Fundamentals

by **John Viscounty**

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As we ring in the New Year, market fundamentals for the greater IE remain positive. Vacancy rates ticked down to 3.86% as average asking lease rates rose to the high \$0.60s NNN. Landlord concessions remain minimal as tenant demand continues to prevail. However, consumer sentiment is showing signs of hesitation in today's market. From geopolitics to US Fed announcements to stock market volatility, most can agree that the days of unwavering stability are behind us. Moreover, as interest rates increase, we will eventually see cap rates increase, diminishing asset value.

Buyers and Tenants

For buyers and tenants with immediate requirements, the market remains extremely tight. Although discussion of a downturn is present, market fundamentals are still holding strong. Buyers and tenants must act aggressively and be comfortable pursuing multiple options. For private investors in no rush, time may be on your side. Cap rates should continue to increase creating incentive for patience.

Institutional buyers, with a fixed term hold and exit fund, may also have reason to hesitate. With little indication of an immediate end to the interest rate increase period, institutions may face difficulty penciling an exit strategy. That on top of lease rate uncertainty makes for a tough justification to pay top dollar. Look for institutions to act less aggressively in an increasing interest rate environment.

Sellers and Landlords

For sellers and landlords, reviewing your strategy and weighing all options is highly advised. Renewing tenants early or selling in 2019 may end up being worthwhile depending on your flexibility with an exit timeline. For owners, cap rates look to be heading upward cutting directly into the value of your asset. Cap rates currently hover around 5%. Values fall as cap rates increase.

Developers

Development remains hot as big box distribution space continues to be absorbed by logistics and distribution companies. Amazon's construction of a 70' clear height warehouse in Moreno Valley speaks measures to overall market conditions for developers. They occupy roughly 16 million square feet in the IE alone. Tenant demand, especially for modern distribution space, will keep developers excited about the future. As land and construction costs increase, look for developers to closely monitor lease rate forecasts.

Summary

Overall, market fundamentals remain positive. Buyers and tenants simply outnumber the amount of options currently available. Look for 2019 to be an indicator of which direction the market will follow. As geopolitics and the economy get tested, be mindful of the position of your real estate.

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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