

OVERVIEW. The new Inland Empire Business Activity Index shows the region's economy continuing to advance despite ongoing trade disputes that many feared would act as a drag on the logistics industry. According to the new Index, business activity in the Inland Empire increased at an annualized rate of 2.2% in 2018. The Inland Empire's industrial market has vastly grown as a result of expansions 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 it is constantly challenged by an ongoing development boom. While leasing has yielded strong levels of absorption in recent years and long-term tenants provide stability in the area, the market's fundamentals will be tested later in 2019 when a large wave of speculative construction starts to deliver.

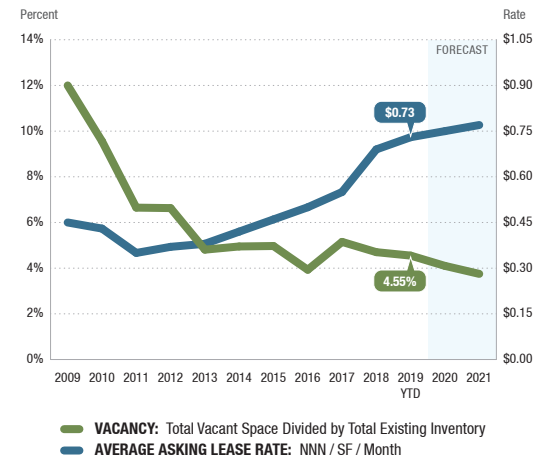
VACANCY. The industrial sector continues to impress as the economic expansion has been especially robust in the sectors that affect demand for industrial space. The ongoing strength in the industrial market is expected to continue as conditions remain encouraging for further growth. Vacancies in the Inland Empire have been stable since the first quarter of 2016, partly because a few large tenants from industries including logistics, warehouse distribution and construction services provide stability. Lower costs of doing business and a large pool of labor are the driving factors for businesses in the Inland Empire. The vacancy rate fell to 4.55% in the first quarter, down 15 basis points from the fourth quarter of 2018 and 8.27% from the first quarter of 2018. The 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 first quarter of 2019 is now at 5.24%, down from 5.80%, a year-over-year decrease of 29.85%, from the first quarter of 2018. We expect availability to continue to compress with a possible uptick in later quarters when new, speculative projects are delivered to the market.

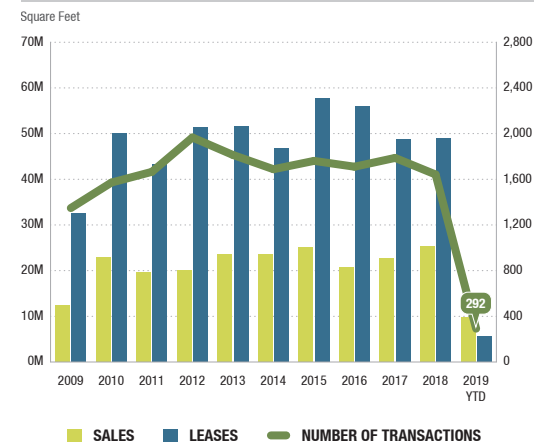
LEASE RATES. The Inland Empire has continued to be one of the nation's most in-demand industrial markets. After rents bottomed out in 2011 at \$0.35 per square foot, we have seen a steady annual growth each year. In the first quarter of 2019, the average asking rent reached \$0.73 per square foot, up 5.8% from the prior quarter and up 23.7% from the first quarter of 2018. This is more than double the asking rent in 2011. Asking rates are currently at an all-time high, helping justify the large amount of construction underway. But rent growth is anticipated to begin slowing with the delivery of new supply and fall below the 10-year average of 5.67% by the end of 2020.

TRANSACTION ACTIVITY. Over the last two years, there were 17 lease deals in the Inland Empire for large industrial spaces, defined as more than 750,000 square feet. The average size of those deals was 962,644 square feet. While many of the Inland Empire's largest tenants provide stability over the long run, a handful of large leases signed over the past 3 months demonstrates the current strong demand in the market. The amount of available space continued to decline in the Inland Empire industrial market through the first quarter, despite 27.6 MSF of new deliveries since the first quarter of 2018. Sale and lease activity checked in at 15.2 MSF for the first quarter of 2019, a decrease over the same quarter of last year's total of 20.0 MSF.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	1Q 2019	4Q 2018	1Q 2018	% Change Over Last Year
Total Vacancy Rate	▼ DOWN	4.55%	4.70%	4.96%	(8.27%)
Availability Rate	▼ DOWN	5.24%	5.80%	7.47%	(29.85%)
Average Asking Lease Rate	▲ UP	\$0.73	\$0.69	\$0.59	23.73%
Sale & Lease Transactions	▼ DOWN	15,260,085	20,935,815	19,198,518	(20.51%)
Gross Absorption	▼ DOWN	5,367,785	8,917,280	12,979,373	(58.64%)
Net Absorption	▲ POSITIVE	2,428,930	3,025,941	8,217,946	N/A

OVERALL. The outlook for the Inland Empire economy in 2019 continues to be robust. We expect continued job growth in most sectors and expect the unemployment rate to hold steady near its record low. The region's pressing challenge at this time is to increase its housing inventory to ensure there is an adequate supply of homes for the workers needed to support growth in the coming years. Rent growth is projected to return to the region's historic average over the next two years of 5%. Though rent growth is slowing, bringing with it fears of a big tumble, the current conditions signal stability rather than a crash.

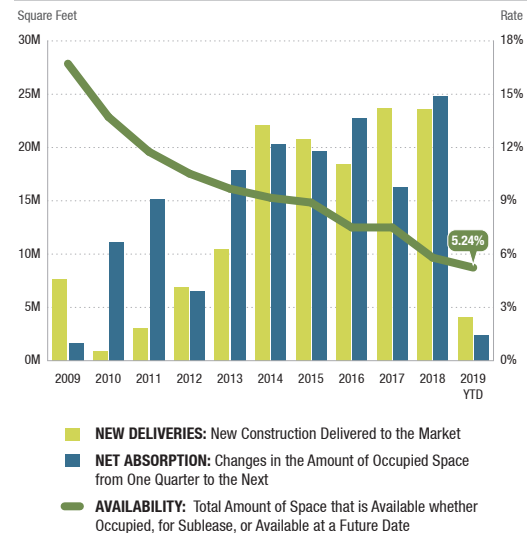
LEASE RATES. The Inland Empire led the U.S. in industrial warehouse leasing activity for another year. As is the case in many markets across the country, industrial rent growth in the Inland Empire has performed better than all other major property types the past several quarters and is still climbing. Anticipate asking rents to increase to an annualized average of 3% to reach a level of \$0.77 per square foot by the end of the fourth quarter of 2019.

VACANCY. The Fed is signaling it is done with the rate hikes for the rest of 2019 and is taking a cautious tone with the rates as it monitors the rate of inflation and other global economic conditions and developments. With job growth continuing to increase and the unemployment rate steady at 3.7%, a 50-year low, industrial real estate demand continues to soar to new heights, and we anticipate demand to keep up with the new deliveries, keeping vacancy rates in the 3.5–4.5% range over the next three quarters.

CONSTRUCTION. A cause for concern is the preponderance of speculative construction underway, which has grown from 76% availability rate since the first quarter of 2018 to more than 85%, measured by the amount of space under construction that is also available for lease/sale. At the end of the first quarter, there were 98 buildings under construction totaling nearly 25.2 million square feet. Notable projects 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. Net absorption has maintained a healthy pace the past few years, holding vacancies relatively steady, even in the face of a sizable increase in speculative construction. Logistics space dominates the market, accounting for nearly 80% of all supply. That segment is only expected to increase as major tenants continue to ink deals for modern warehouses. The Inland Empire boasts positive net absorption in the whole region, for nine consecutive quarters that totaled over 47.3 MSF. Vacancy across the region's warehouse, distribution, and manufacturing buildings hit a near historic low in the first quarter of 2019 and net absorption posted 2,428,930 square feet. Primary contributors to this trend include: Caleres' (605,735 square feet), iHerb.com (400,935 square feet) and US Elogistics Services Corporation (385,000 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
4150 Patterson Ave.	Perris	406,650	\$43,520,000	KKR	Rockefeller Group
4982 Hallmark Pkwy.	San Bernardino	340,080	\$33,328,000	Bixby Land Company	Penwood Real Estate
1898 Marigold Ave.	Redland	289,683	\$31,286,000	Liberty Property Trust	Kensington Redlands No 1, LLC
3350 S. Enterprise Ave.	Bloomington	271,494	\$30,075,000	TA Realty	Cooper Industries
1450 Alder Ave.	Rialto	120,756	\$15,939,792	1450 Alder Avenue LLC*	Danbe Partners*

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
S.E. Oleander & Jurupa Ave.	Fontana	1,068,372	Jan-2019	Amazon	Goodman
14800 Innovation Dr.	Riverside	682,800	Jan-2019	UNFI	Prologis
12400 Arrow Route	Rancho Cucamonga	611,573	Mar-2019	Steelcase	Black Creek Group
22000 Opportunity Way	Riverside	503,592	Mar-2019	Capital Logistics & Warehousing	Invesco
11555 Arrow Route	Rancho Cucamonga	418,265	Feb-2019	Faro Services, Inc.	BARINGS*

INVENTORY

VACANCY & LEASE RATES

ABSORPTION

	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2019	Square Feet Available	Availability Rate 1Q2019	Average Asking Lease Rate	Net Absorption 1Q2019	Net Absorption 2019	Gross Absorption 1Q2019	Gross Absorption 2019
West													
Chino / Chino Hills	914	51,648,761	1,111,470	1,002,804	982,472	1.90%	1,223,655	2.37%	\$0.60	1,013,398	1,013,398	1,429,888	1,429,888
Fontana	720	62,404,885	3,060,261	724,575	2,780,439	4.46%	3,311,691	5.31%	\$0.53	(1,076,365)	(1,076,365)	460,913	460,913
Mira Loma / Eastvale / Jurupa Valley	359	42,141,636	392,629	71,864	996,500	2.36%	1,373,829	3.26%	\$0.57	109,030	109,030	543,562	543,562
Montclair	199	3,451,453	0	0	39,986	1.16%	219,185	6.35%	\$0.75	14,541	14,541	121,937	121,937
Ontario	1,466	107,888,831	2,704,597	3,624,520	2,904,282	2.69%	3,854,456	3.57%	\$0.61	366,309	366,309	1,060,593	1,060,593
Rancho Cucamonga	725	39,767,722	928,093	1,339,400	2,276,037	5.72%	2,234,468	5.62%	\$0.58	330,945	330,945	627,458	627,458
Upland	254	4,010,586	0	281,387	71,717	1.79%	191,338	4.77%	\$0.67	23,491	23,491	57,414	57,414
5,000-24,999	2,731	32,869,680	28,744	219,631	655,650	1.99%	1,246,653	3.79%	\$1.06	(81,094)	(81,094)	357,790	357,790
25,000-49,999	715	25,062,843	269,793	687,820	1,198,164	4.78%	1,568,499	6.26%	\$0.80	242,322	242,322	554,807	554,807
50,000-99,999	440	30,652,389	302,511	906,469	599,445	1.96%	973,556	3.18%	\$0.00	567,778	567,778	650,209	650,209
100,000-249,999	427	65,203,594	1,422,548	1,207,747	2,693,982	4.13%	3,551,643	5.45%	\$0.61	347,952	347,952	1,097,715	1,097,715
250,000-499,999	221	78,517,502	1,015,410	627,005	2,528,674	3.22%	2,097,155	2.67%	\$0.58	(584,933)	(584,933)	1,039,244	1,039,244
500,000 plus	103	79,007,866	5,158,044	3,395,878	2,375,518	3.01%	2,971,116	3.76%	\$0.55	289,324	289,324	602,000	602,000
West Total	4,637	311,313,874	8,197,050	7,044,550	10,051,433	3.23%	12,408,622	3.99%	\$0.84	781,349	781,349	4,301,765	4,301,765
East													
Banning	49	975,004	0	1,194,045	55,400	5.68%	62,900	6.45%	\$0.00	0	0	0	0
Beaumont	43	3,817,154	272,260	1,729,836	2,116	0.06%	0	0.00%	\$0.00	(2,116)	(2,116)	0	0
Bloomington	97	5,376,594	2,727,326	4,232,229	679,346	12.64%	767,075	14.27%	\$0.00	4,900	4,900	4,900	4,900
Corona / Norco	967	31,400,748	1,174,089	217,150	1,176,744	3.75%	1,402,644	4.47%	\$0.70	106,050	106,050	464,484	464,484
Colton / Grand Terrace	171	10,413,133	0	657,873	646,948	6.21%	732,024	7.03%	\$0.74	221,624	221,624	419,958	419,958
Moreno Valley	88	28,015,839	0	43,267,154	2,457,122	8.77%	2,567,627	9.16%	\$0.00	633,762	633,762	987,525	987,525
Perris	196	25,163,366	4,590,764	6,008,102	2,999,786	11.92%	2,321,071	9.22%	\$0.64	70,267	70,267	81,304	81,304
Redlands / Loma Linda	231	28,069,339	344,080	342,550	1,079,669	3.85%	631,230	2.25%	\$0.55	(375,122)	(375,122)	931,331	931,331
Rialto	175	26,503,051	3,132,568	2,255,976	1,349,876	5.09%	2,274,997	8.58%	\$0.00	596,466	596,466	473,820	473,820
Riverside	1,055	47,229,787	3,756,984	2,370,308	2,233,788	4.73%	2,022,775	4.28%	\$0.64	67,532	67,532	1,314,764	1,314,764
San Bernardino / Highland	581	39,421,635	1,032,072	2,197,311	2,638,893	6.69%	4,036,121	10.24%	\$0.61	324,218	324,218	689,699	689,699
5,000-24,999	2,335	27,540,923	82,226	490,279	799,017	2.90%	1,195,705	4.34%	\$0.77	103,553	103,553	398,214	398,214
25,000-49,999	545	18,992,116	220,506	932,384	451,667	2.38%	867,315	4.57%	\$0.72	106,700	106,700	258,975	258,975
50,000-99,999	318	21,742,577	788,998	944,907	595,434	2.74%	839,392	3.86%	\$0.86	(10,972)	(10,972)	448,777	448,777
100,000-249,999	225	33,779,033	1,788,930	3,889,456	2,198,220	6.51%	2,884,854	8.54%	\$0.67	494,349	494,349	902,316	902,316
250,000-499,999	105	38,478,774	4,380,507	4,370,718	4,373,602	11.37%	3,963,092	10.30%	\$0.00	953,951	953,951	893,735	893,735
500,000 plus	125	105,852,227	9,768,976	53,844,790	6,901,748	6.52%	7,068,106	6.68%	\$0.00	0	0	2,465,768	2,465,768
East Total	3,653	246,385,650	17,030,143	64,472,534	15,319,688	6.22%	16,818,464	6.83%	\$0.66	1,647,581	1,647,581	5,367,785	5,367,785
Inland Empire Total	8,290	557,699,524	25,227,193	71,517,084	25,371,121	4.55%	29,227,086	5.24%	\$0.73	2,428,930	2,428,930	9,669,550	9,669,550
High Desert													
5,000-24,999	5,066	60,410,603	110,970	709,910	1,454,667	2.41%	2,442,358	4.04%	\$0.89	22,459	22,459	756,004	756,004
25,000-49,999	1,260	44,054,959	490,299	1,620,204	1,649,831	3.74%	2,435,814	5.53%	\$0.82	349,022	349,022	813,782	813,782
50,000-99,999	758	52,394,966	1,091,509	1,851,376	1,194,879	2.28%	1,812,948	3.46%	\$0.76	556,806	556,806	1,098,986	1,098,986
100,000-249,999	652	98,982,627	3,211,478	5,097,203	4,892,202	4.94%	6,436,497	6.50%	\$0.69	842,301	842,301	2,000,031	2,000,031
250,000-499,999	326	116,996,276	5,395,917	4,997,723	6,902,276	5.90%	6,060,247	5.18%	\$0.66	369,018	369,018	1,932,979	1,932,979
500,000 plus	228	184,860,093	14,927,020	57,240,668	9,277,266	5.02%	10,039,222	5.43%	\$0.68	289,324	289,324	3,067,768	3,067,768
Inland Empire Total	8,290	557,699,524	25,227,193	71,517,084	25,371,121	4.55%	29,227,086	5.24%	\$0.73	2,428,930	2,428,930	9,669,550	9,669,550
High Desert													
Adelanto	143	4,119,545	0	411,580	536,688	13.03%	687,556	16.69%	\$1.41	(4,770)	(4,770)	0	0
Apple Valley	74	2,496,501	1,350,000	0	40,592	1.63%	90,342	3.62%	\$0.00	2,200	2,200	20,200	20,200
Barstow	53	1,054,795	0	0	121,034	11.47%	140,234	13.29%	\$0.22	6,300	6,300	6,300	6,300
Hesperia	189	3,200,453	0	107,980	48,197	1.51%	93,997	2.94%	\$0.90	108,951	108,951	146,510	146,510
Victorville	134	7,829,933	0	9,991,933	460,700	5.88%	512,630	6.55%	\$0.43	53,785	53,785	77,395	77,395
High Desert Total	593	18,701,227	1,350,000	10,511,493	1,207,211	6.46%	1,524,759	8.15%	\$0.64	166,466	166,466	250,405	250,405
Temecula Valley													
Hemet	83	1,428,914	15,400	0	57,906	4.05%	67,906	4.75%	\$0.66	(26,606)	(26,606)	8,007	8,007
Lake Elsinore	165	2,495,067	70,738	109,110	70,376	2.82%	67,442	2.70%	\$0.81	(8,826)	(8,826)	9,626	9,626
Menifee	22	488,850	47,500	154,516	1,660	0.34%	5,683	1.16%	\$0.75	28,088	28,088	29,748	29,748
Murrieta	254	3,913,743	47,500	154,516	83,181	2.13%	121,458	3.10%	\$1.50	94,121	94,121	162,118	162,118
San Jacinto	60	1,035,680	0	0	14,200	1.37%	24,200	2.34%	\$0.00	0	0	0	0
Temecula	335	10,826,774	53,586	20,000	349,460	3.23%	413,871	3.82%	\$0.75	(39,794)	(39,794)	156,906	156,906
Wildomar	12	324,860	0	0	3,664	1.13%	3,664	1.13%	\$0.78	16,536	16,536	20,200	20,200
Temecula Valley Total	931	20,513,888	234,724	438,142	580,447	2.83%	704,224	3.43%	\$0.75	63,519	63,519	386,605	386,605

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



No Cracks in the Armor

by **Adam Geiger**

SENIOR ASSOCIATE, INLAND EMPIRE

909.545.8003 · ageiger@voitco.com · Lic. #0201044

The Inland Empire industrial market continues its trajectory into 2019, making it one of the longest bull runs due to a number of factors. The confluence of historically low vacancy rates in every industrial sub-market (along with shrinking industrial bases due to land re-use), increasing demand fueled by e-commerce, rising population growth, increased imports and the need for functional space, has extended the length of this cycle beyond the traditional norm.

Speculative development and absorption remain in equilibrium, with the equivalent of ± 20 million square feet of new development projects under way in 2019 and the expectation that the absorption will be commensurate. Additionally, rental increases are still occurring, offsetting the increase in both land and construction costs. The typical “big box” tenants are growing internally, as evidenced by Amazon, iHerb, and Steelcase, which are tenants currently located in the Inland Empire that need more space. And companies relocating to the Inland Empire from other SoCal industrial markets either to reduce occupancy costs, get a more efficient facility, or because there is simply no inventory to fulfill their needs locally, are being forced to move east. Mid-cap occupiers are also moving to the Inland Empire for the same reasons, predominantly for cost savings but also because of availability. And lastly, smaller family-owned, local, regional or national firms looking for a regional hub, have tasked developers with building small free-standing industrial buildings, both for sale and lease, that also offer state-of-the-art features, while at a substantial cost savings over other submarkets. Demand for the smallest buildings is now pushing rental rates and sales prices up faster than the bigger building peer group, and justifying the \$40/SF land threshold in the western Inland Empire and \$20–\$25/SF land threshold in the eastern Inland Empire (improved and entitled land). 2019 will continue to “prove out” the developer push into Beaumont, Banning, South Perris, and perhaps the high desert markets of Victorville, Hesperia and Adelanto, along with a push to develop in the unincorporated areas of San Bernardino county.

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

Please Contact Us for Further Information

Tony Tran
Regional Director of Research
ttran@voitco.com

Anaheim, CA
714.978.7880

Carlsbad, CA
760.517.4000

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Los Angeles, CA
424.329.7500

San Diego, CA
858.453.0505

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.