

OVERVIEW. The Inland Empire industrial market remains in a very comfortable position heading into the second half of 2019. At 3.89%, the second quarter vacancy rate is at an all-time low. By the end of the second quarter, tenants in the region signed 10 of the largest 20 industrial leases in the Southern California region, totaling 8.5 million square feet. That number was almost double the second busiest market in Southern California, Los Angeles. The main driver of the growth in this market continues to be e-commerce and the focus on the last mile in e-commerce delivery, with logistics companies focusing on moving product closer to consumers. Meanwhile, expansions by tenants such as XPO Logistics, Kimberly Clark, and Forever 21, have kept absorption and leasing at healthy levels. It may be difficult for vacancies to fall much further from their current levels. However, as long as the U.S. economy continues to steer clear of a recession or a large geo-political event, vacancies in the Inland Empire will likely remain near record lows and rent growth will stay well above its 10-year average of 6% through the balance of 2019.

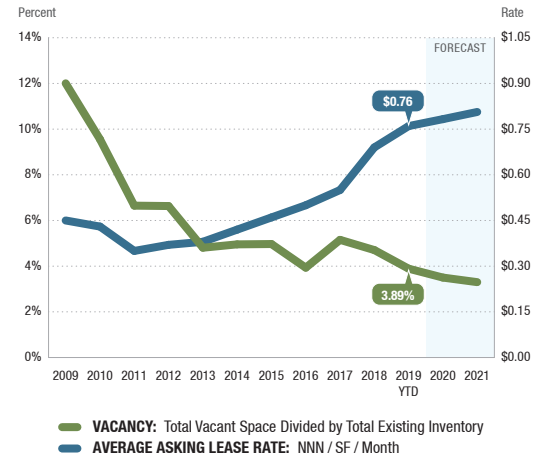
VACANCY. The ongoing strength in the industrial market is expected to continue as conditions remain encouraging for further growth. Vacancies in the Inland Empire have been stable since the first quarter of 2016, partly because a few large tenants from industries including logistics, warehouse distribution and construction services provide stability. Lower costs of doing business and a large pool of labor are driving factors for businesses in the Inland Empire. The vacancy rate fell to 3.89% in the second quarter, down 91 basis points from the first quarter of 2019 and 9.53% from the second 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 second quarter came in at 4.63%, down from 6.50%, a year-over-year decrease of 28.77%, from the second 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.

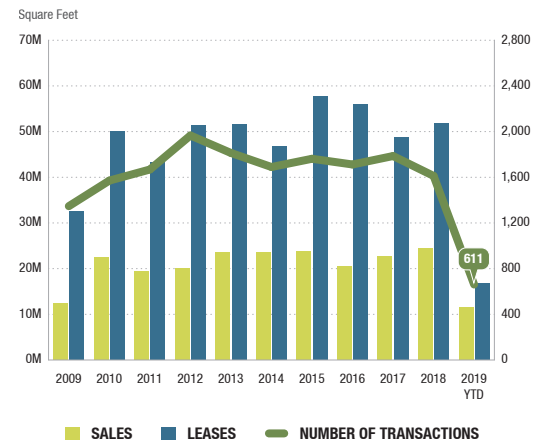
LEASE RATES. Rent growth in the Inland Empire remained on par with other regions of Southern California although IE rates remain significantly cheaper than those in Los Angeles County. The average asking lease rate for Inland Empire industrial space was \$0.76 per square foot by the end of the second quarter which was up 1.33% from the prior quarter and up 31.03% from the second quarter of 2018. Compare this with the \$0.94 per square foot in Orange County and \$0.97 per square foot in Los Angeles County, and you see why 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.

TRANSACTION ACTIVITY. The Inland Empire industrial market is one of the most active in the country, thanks to a bustling economy and close proximity to two of the largest ports on the west coast. Demand for logistics space has helped drive vacancies down to near record lows. But with the supply influx ongoing, and more than half of under-construction space still available, vacancies will face a renewed challenge in the near term. The amount of available space continued to decline in the Inland Empire industrial market through the second quarter, despite 32 MSF of new deliveries since the first quarter of 2018. Sale and leasing activity checked in at 14.7 MSF for the second quarter of 2019, an increase over the previous quarter total of 13.4 MSF.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	2Q 2019	1Q 2019	2Q 2018	% Change Over Last Year
Total Vacancy Rate	▼ DOWN	3.89%	4.80%	4.30%	(9.53%)
Availability Rate	▼ DOWN	4.63%	5.27%	6.50%	(28.77%)
Average Asking Lease Rate	▲ UP	\$0.76	\$0.75	\$0.58	31.03%
Sale & Lease Transactions	▲ UP	14,797,435	13,428,866	18,952,610	(21.92%)
Gross Absorption	▼ DOWN	9,028,793	9,669,550	11,285,882	(20.00%)
Net Absorption	▲ POSITIVE	5,771,069	2,598,537	6,617,108	N/A

OVERALL. The industrial property sector in the Inland Empire continues to post strong performance metrics. Demand for space remains solid among a fairly diverse tenant base as new leases continue to keep up with the large increase in supply recently added to the market. Traditional industrial occupiers, including wholesalers, logistics firms and trades tied to residential construction, remain healthy. The industrial market has experienced a record-setting run, registering some of the strongest leasing tallies and tightest market conditions on record. The Inland Empire is expected to create the second-most square footage of new supply in the country behind Dallas. The industrial market is expected to hold strong throughout the remainder of 2019 with low availability and high rent prices.

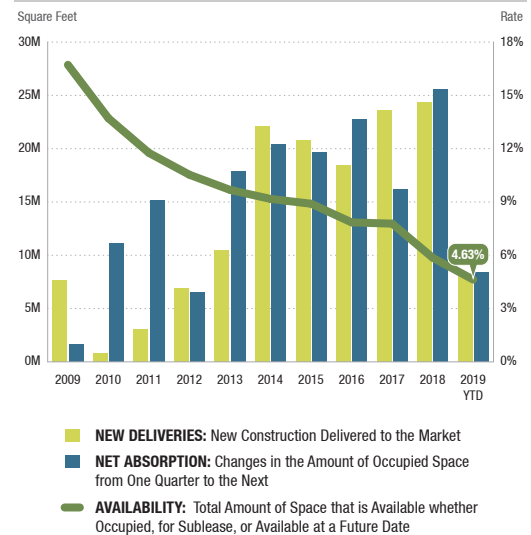
LEASE RATES. The Inland Empire led the U.S. in industrial warehouse leasing activity for another year. As is the case in many markets across the country, industrial rent growth in the Inland Empire has performed better than all other major property types the past several quarters and is still climbing. Anticipate asking rents to increase by an annualized average of 3% to reach a level of \$0.78 per square foot by the end of the first quarter of 2020.

VACANCY. With job growth continuing to climb 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 3–4% range over the next three quarters.

CONSTRUCTION. Healthy fundamentals and rent growth were the drivers of the recent supply trend in the Inland Empire. External factors, including growth in online shopping and an increased effort to improve efficiency with last mile distribution, have also made the Inland Empire a popular location for industrial tenants and developers. More than 32 MSF of industrial space has been delivered in 2018–2019 thus far, and roughly another 9 MSF are projected to deliver in the next 6 months. While the last three years may mark the peak, the pace of development is not new territory for the Inland Empire, as inventory in this market has doubled in the past 20 years. At the end of the second quarter, there were 105 buildings under construction totaling nearly 24.1 MSF. Notable projects include Colony Commerce Center in Ontario, a 9-building industrial park totaling 1.7 MSF (Ivanhoe Cambridge); Goodman Industrial Park Fontana, a 2-building industrial park totaling 1,576,374 square feet (Goodman); and the Magnon Business Park in Riverside, a 2-building project totaling 1,374,341 square foot (Ontario Land Venture, LLC).

ABSORPTION. Large industrial tenants are taking up huge blocks of space in the Inland Empire as market conditions remain steady during this golden era of growth in California. The Inland Empire industrial market is experiencing significant gains in industrial space absorption as end users seek a haven from higher costs and limited real estate options in Los Angeles and Orange County. The Inland Empire has boasted positive net absorption throughout the region for nine consecutive quarters that totaled over 50 MSF. Vacancy across the region’s warehouse, distribution, and manufacturing buildings hit a near historic low in the second quarter of 2019 and net absorption posted 5,771,069 square feet. Primary contributors to this trend include: Steelcase (611,573 square feet), XPO Logistics (553,592 square feet) and Capital Logistics & Warehousing (503,592 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
5565–5885 Sierra Ave.	Fontana	1,498,059	\$213,550,000	Northwestern Mutual Life Ins.	Pacific Industrial, LLC
6227 Cajon Blvd.	San Bernardino	806,322	\$97,750,000	Exeter Property Group	Waterstone Properties Group
3100 Milliken Ave.	Mira Loma	759,260	\$87,500,000	Sares-Regis	J W Mitchell Company, LLC
W. Cactus & Meridian Pkwy.	Riverside	620,000	\$78,120,000	Nissan	Lewis/Waypoint
17783 Indian St.	Moreno Valley	436,350	\$47,582,500	Kohlberg Kravis Roberts & Co.	Sares-Regis

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
3520 S. Cactus Ave.	Bloomington	1,264,102	May-2019	XPO Logistics Supply Chain, Inc.	Prudential Real Estate Investors
4815 S. Hellman Ave.	Ontario	1,180,908	Jun-2019	Kimberly Clark	Clarion
17350 Perris Blvd.	Moreno Valley	1,109,378	May-2019	DMSI	Alere Property Group, LLC
16300 Fern Ave.	Chino	779,052	Apr-2019	SharkNinja Operating, LLC	Invesco
4323 Indian Ave.	Perris	656,695	May-2019	Forever 21	Duke Realty, 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 2Q2019	Square Feet Available	Availability Rate 2Q2019	Average Asking Lease Rate	Net Absorption 2Q2019	Net Absorption 2019	Gross Absorption 2Q2019	Gross Absorption 2019
West													
Chino / Chino Hills	915	52,309,312	693,856	814,683	753,880	1.44%	1,354,481	2.59%	\$0.92	272,044	1,324,723	471,226	1,901,114
Fontana	723	62,538,440	3,017,027	743,326	1,217,374	1.95%	3,302,611	5.28%	\$0.85	1,397,607	321,242	297,913	758,826
Mira Loma / Eastvale / Jurupa Valley	365	42,711,164	115,222	0	1,639,499	3.84%	1,239,352	2.90%	\$0.68	101,799	210,829	227,718	771,280
Montclair	197	3,484,966	309,052	0	172,465	4.95%	246,793	7.08%	\$0.88	(118,820)	(104,279)	35,334	157,271
Ontario	1,469	107,852,248	4,280,175	1,992,735	2,184,099	2.03%	2,987,948	2.77%	\$0.74	400,857	821,880	1,566,762	2,627,355
Rancho Cucamonga	730	40,422,235	357,870	1,154,887	1,900,121	4.70%	1,737,986	4.30%	\$0.73	981,959	1,312,904	998,300	1,625,758
Upland	254	4,014,369	0	172,205	79,263	1.97%	196,289	4.89%	\$0.94	374	23,865	51,440	108,854
5,000-24,999	2,732	32,915,584	100,356	180,744	784,558	2.38%	1,255,945	3.82%	\$0.93	(115,375)	(196,469)	343,486	701,276
25,000-49,999	720	25,222,556	301,811	459,257	1,008,701	4.00%	1,476,845	5.86%	\$0.76	463,512	657,670	683,169	1,237,976
50,000-99,999	442	30,776,065	583,302	461,978	889,879	2.89%	1,103,334	3.59%	\$0.63	(202,356)	404,703	387,941	1,038,150
100,000-249,999	434	66,276,089	1,210,084	762,904	3,237,416	4.88%	3,539,470	5.34%	\$0.61	275,705	726,535	1,049,121	2,146,836
250,000-499,999	221	78,529,579	1,015,410	627,005	760,188	0.97%	2,009,492	2.56%	\$0.54	1,504,775	919,842	684,976	1,724,220
500,000 plus	104	79,612,861	5,562,239	2,385,948	1,265,959	1.59%	1,680,374	2.11%	\$0.52	1,109,559	1,398,883	500,000	1,102,000
West Total	4,653	313,332,734	8,773,202	4,877,836	7,946,701	2.54%	11,065,460	3.53%	\$0.77	3,035,820	3,911,164	3,648,693	7,950,458
East													
Banning	49	975,004	0	0	5,632	0.58%	94,169	9.66%	\$0.85	49,768	49,768	55,400	55,400
Beaumont	43	3,817,154	0	1,729,836	0	0.00%	0	0.00%	\$0.00	2,116	0	2,116	2,116
Bloomington	98	5,394,594	2,727,326	4,362,174	679,346	12.59%	741,931	13.75%	\$0.68	0	4,900	0	4,900
Corona / Norco	968	31,441,672	1,220,035	151,114	1,118,668	3.56%	1,656,353	5.27%	\$0.82	2,613	321,933	319,320	783,804
Colton / Grand Terrace	172	10,424,783	0	657,873	674,414	6.47%	745,754	7.15%	\$0.61	(26,866)	(7,166)	19,700	439,658
Moreno Valley	88	28,015,839	98,395	42,888,254	2,263,894	8.08%	1,252,363	4.47%	\$0.63	192,128	825,890	483,129	1,470,654
Perris	199	26,683,459	2,912,726	8,549,201	3,143,970	11.78%	3,141,515	11.77%	\$0.76	775,909	846,176	700,612	781,916
Redlands / Loma Linda	232	28,076,330	153,994	406,136	906,591	3.23%	629,146	2.24%	\$0.59	141,552	(233,570)	250,509	1,181,840
Rialto	178	27,855,208	1,802,013	2,255,976	1,751,410	6.29%	2,512,540	9.02%	\$0.60	(1,591)	583,529	1,656,477	2,130,297
Riverside	1,054	47,121,842	3,897,540	2,938,833	1,684,240	3.57%	1,844,737	3.91%	\$0.61	837,224	980,368	898,248	2,213,012
San Bernardino / Highland	580	39,457,576	1,032,072	2,197,311	1,683,237	4.27%	2,382,939	6.04%	\$0.62	762,396	1,086,614	994,589	1,684,288
5,000-24,999	2,340	27,624,958	120,417	332,286	713,441	2.58%	1,105,179	4.00%	\$0.78	98,619	202,172	521,564	919,778
25,000-49,999	545	19,004,714	239,062	751,244	434,334	2.29%	875,387	4.61%	\$0.66	41,558	148,258	179,286	438,261
50,000-99,999	318	21,742,577	965,602	866,698	429,257	1.97%	861,687	3.96%	\$0.64	135,021	124,049	293,463	742,240
100,000-249,999	224	33,682,520	1,676,044	4,261,599	2,350,896	6.98%	2,822,498	8.38%	\$0.49	(14,320)	555,641	550,835	1,453,151
250,000-499,999	106	38,954,329	3,632,692	4,370,718	3,226,572	8.28%	3,406,572	8.75%	\$0.47	1,417,187	2,371,138	1,322,768	2,216,503
500,000 plus	128	108,254,363	7,210,284	55,554,163	6,756,902	6.24%	5,930,124	5.48%	\$0.46	1,057,184	1,057,184	2,512,184	4,977,952
East Total	3,661	249,263,461	13,844,101	66,136,708	13,911,402	5.58%	15,001,447	6.02%	\$0.69	2,735,249	4,458,442	5,380,100	10,747,885
Inland Empire Total	8,314	562,596,195	22,617,303	71,014,544	21,858,103	3.89%	26,066,907	4.63%	\$0.76	5,771,069	8,369,606	9,028,793	18,698,343
5,000-24,999	5,072	60,540,542	220,773	513,030	1,497,999	2.47%	2,361,124	3.90%	\$0.78	(16,756)	5,703	865,050	1,621,054
25,000-49,999	1,265	44,227,270	540,873	1,210,501	1,443,035	3.26%	2,352,232	5.32%	\$0.68	505,070	805,928	862,455	1,676,237
50,000-99,999	760	52,518,642	1,548,904	1,328,676	1,319,136	2.51%	1,965,021	3.74%	\$0.63	(67,335)	528,752	681,404	1,780,390
100,000-249,999	658	99,958,609	2,886,128	5,024,503	5,588,312	5.59%	6,361,968	6.36%	\$0.55	261,385	1,282,176	1,599,956	3,599,987
250,000-499,999	327	117,483,908	4,648,102	4,997,723	3,986,760	3.39%	5,416,064	4.61%	\$0.49	2,921,962	3,290,980	2,007,744	3,940,723
500,000 plus	232	187,867,224	12,772,523	57,940,111	8,022,861	4.27%	7,610,498	4.05%	\$0.49	2,166,743	2,456,067	3,012,184	6,079,952
Inland Empire Total	8,314	562,596,195	22,617,303	71,014,544	21,858,103	3.89%	26,066,907	4.63%	\$0.76	5,771,069	8,369,606	9,028,793	18,698,343
High Desert													
Adelanto	144	4,140,611	23,500	388,000	542,098	13.09%	701,129	16.93%	\$1.25	7,490	2,720	20,190	20,190
Apple Valley	74	2,496,501	1,350,000	0	19,092	0.76%	62,142	2.49%	\$0.00	21,500	23,700	22,500	42,700
Barstow	53	1,054,795	0	0	121,034	11.47%	140,234	13.29%	\$0.22	0	6,300	0	6,300
Hesperia	189	3,201,597	0	0	50,823	1.59%	98,275	3.07%	\$0.90	(2,626)	106,325	25,510	172,020
Victorville	134	7,829,933	0	9,991,933	418,173	5.34%	484,173	6.18%	\$0.87	42,527	96,312	42,527	119,922
High Desert Total	594	18,723,437	1,373,500	10,379,933	1,151,220	6.15%	1,485,953	7.94%	\$0.83	68,891	235,357	110,727	361,132
Temecula Valley													
Hemet	82	1,410,074	0	0	57,906	4.11%	67,106	4.76%	\$0.65	0	(26,606)	800	8,807
Lake Elsinore	167	2,514,212	70,705	109,110	49,439	1.97%	54,648	2.17%	\$0.81	22,719	13,893	60,621	70,247
Menifee	22	488,850	0	0	2,112	0.43%	4,023	0.82%	\$0.75	(452)	27,636	3,772	33,520
Murrieta	253	3,868,875	47,500	154,516	76,257	1.97%	96,590	2.50%	\$0.00	632	94,753	66,129	228,247
San Jacinto	61	1,040,680	0	0	25,725	2.47%	25,725	2.47%	\$0.00	(11,525)	(11,525)	0	0
Temecula	335	10,702,890	51,532	20,000	348,095	3.25%	827,659	7.73%	\$0.75	(119,623)	(159,417)	154,861	311,767
Wildomar	12	324,860	0	0	0	0.00%	5,831	1.79%	\$0.78	3,664	20,200	3,664	23,864
Temecula Valley Total	932	20,350,441	169,737	283,626	559,534	2.75%	1,081,582	5.31%	\$0.74	(104,585)	(41,066)	289,847	676,452

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



Property Tax Proposals Concerning to Owners and Tenants in 2020

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This quarter's key market metrics indicate a continuation of the market conditions we have been reporting on for the last few years: low vacancy, rising rents, higher sales prices and a chronic shortage of superior quality buildings. So, those looking to buy or lease space in 2019 should give themselves extra time to secure buildings that will meet their operational needs.

While we expect little to change in the near term, there are some issues looming on the property tax front that may drive the cost of ownership and leasing even higher in the years ahead. The first is The California Schools and Local Community Funding initiative that has been approved for a vote in the 2020 General Election. The proposition, if it passes, would split the tax roll, stripping commercial properties of the Proposition 13 protection that has been the law since 1978.

Currently, the law sets the base levy at 1% of acquisition price with annual increases not to exceed 2% of that amount. The proposed law would subject commercial properties to annual reassessment to full market, resetting the base levy to 1% of the reassessed value. This could have a massive impact on property owners who bought their properties well under today's market pricing and subjects all property owners to potentially unpredictable tax hikes in the future. This would increase the risk associated with owning commercial property, which would most certainly affect sales prices and lease rates.

The other concern goes by the name SCA-5, a proposed State Constitutional Amendment that cleared the California State Senate just months ago and has now been handed off to the State Assembly for approval. If approved, the proposed amendment would be on the 2020 General Election ballot, needing a simple majority of the state's voters to pass. What would it do? It would reduce the threshold to pass parcel taxes on real property to fund school districts and community college districts from two-thirds to 55% of those voting.

In combination, these proposals represent significant interests to California property owners and their tenants who are already operating in one of the highest taxed and regulated states in the nation. Now is the time for all real estate participants to get informed and potentially adjust strategies going forward.

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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