

OVERVIEW. The Inland Empire's industrial market continues to flourish, driven by the rapid expansion of the nation's supply chain infrastructure and e-commerce sector. The rapid pace of construction has the Inland Empire in third place in terms of annual space deliveries behind Dallas-Fort Worth and Chicago. To date, prominent distribution users like Amazon have helped demand keep pace with such high levels of new deliveries, and for the past several years, leasing activity has been strong across the board. Big retailers, 3PL operators and a variety of e-commerce users have been major contributors to record levels of net absorption and market stability. However, when the large surge of new inventory under construction is soon completed, Inland Empire property owners may see the playing field start to level out for the first time since the recovery began more than 10 years ago. For the moment, investors remain bullish on the market, having spent nearly \$7 billion on IE industrial properties in the past 3 years. Institutional investors, known for their appetite for big deals, may target these new developments as a place to deploy even more capital.

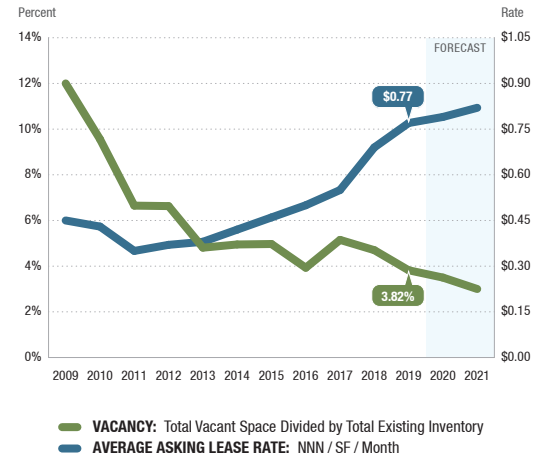
VACANCY. A handful of large leases executed recently demonstrates the high demand that the Inland Empire continues to enjoy. The tenant base continues to grow across industry types, providing diversification to the market, but distribution users are responsible for the bulk of leasing activity. Direct/sublease space (unoccupied) finished the quarter at 3.82%, a 24-basis-point decrease from last year's 4.06%. This was the ninth consecutive quarter in which a new record low was reached. The vacancy rate for Inland Empire's industrial market is now significantly lower than the record posted at the peak of the last economic up-cycle.

AVAILABILITY. Direct/sublease space being marketed in the fourth quarter came in at 4.89%, down from 6.53%, a year-over-year decrease of 25%. We expect availability to continue to compress with a possible uptick in the last half of 2020 when the bulk of the space currently under construction is delivered.

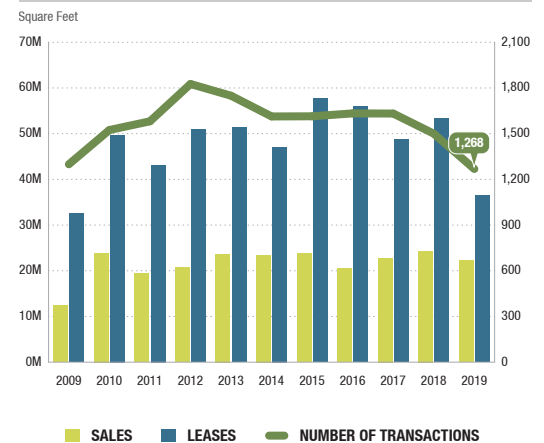
LEASE RATES. Rent growth in the Inland Empire remained on par with other regions of Southern California, although the IE is still significantly less expensive than Los Angeles County. The average asking lease rate for Inland Empire industrial space was \$0.77 per square foot in the fourth quarter, a 13.2% increase from last year's rate of \$0.68. This compares with \$0.97 per square foot in Orange County and \$0.99 per square foot in Los Angeles County. The Inland Empire has continued to be one of the nation's most in-demand industrial markets.

TRANSACTION ACTIVITY. Demand in the submarket has been robust since 2015 and vacancies remain low despite the heavy amount of deliveries. Many of the largest leases directly involve new developments, such as VF Outdoor's recent 1,197,339 square foot lease at the West Ontario Logistics Center, delivering in March 2020. Alternatively, some leases are indirectly tied to construction, such as Walmart's lease in October 2019 for a 565,598 square foot distribution center in Eastvale that was previously occupied by Ferguson. The amount of available space continues to decline despite 20 MSF of new deliveries since the first quarter of 2019. Sale and leasing activity checked in at 4.56 MSF in the final quarter, a decrease over the previous quarter's 8.76 MSF total.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	4Q 2019	3Q 2019	4Q 2018	% Change Over Last Year
Total Vacancy Rate	▼ DOWN	3.82%	4.06%	4.56%	(16.23%)
Availability Rate	▼ DOWN	4.89%	4.94%	6.53%	(25.11%)
Average Asking Lease Rate	▼ DOWN	\$0.77	\$0.79	\$0.68	13.24%
Sale & Lease Transactions	▼ DOWN	11,217,307	13,263,697	23,494,390	(52.26%)
Gross Absorption	▲ UP	10,047,337	9,261,341	9,101,573	10.39%
Net Absorption	▲ POSITIVE	2,807,142	6,242,973	4,022,622	N/A

OVERALL. The Inland Empire industrial market should continue to benefit from current economic conditions, as growth in the e-commerce and logistics sectors is expected to remain a primary economic driver. Rents should rise by another 3% in the coming year, even though we may see a slowdown in net absorption and a temporary uptick in vacancy later in the year, especially in submarkets with high levels of new deliveries. While the overall rise in rents is largely influenced by first generation space, upward pressure on renewal rates is ongoing, especially in the submarkets with the lowest vacancy rates. Class A distribution space will generate the highest rent premiums as we see ownership capitalizing on record demand from the e-commerce and third-party logistics sectors that face the complex challenges of same-day delivery expectations.

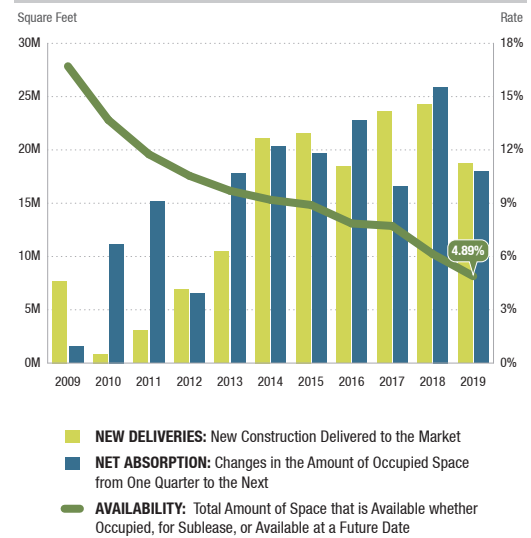
LEASE RATES. Overall average asking rents are expected to rise by another 3% in the coming year, although rent growth could vary by submarket due to higher levels of competition among landlords delivering new space later in the year. Renewal lease rates in the lowest-vacancy submarkets may see rent growth above the average. Class A warehousing will continue to generate the highest rent premiums.

VACANCY. The Inland Empire market remains healthy. While the magnitude of new supply poses a challenge in terms of vacancy, demand for logistics space is consistently strong, and we believe it will remain at a level that will keep the overall vacancy rate in the 3.5–4.0% range over the next three quarters.

CONSTRUCTION. Construction continues to grow at an elevated pace. The growth in e-commerce and an increased effort to improve efficiency at the last mile of distribution have helped make the Inland Empire a popular location for industrial tenants and developers. Approximately 26 MSF of industrial space was delivered in 2017 and again in 2018, and that annual pace is projected to continue through 2020. This pace of development is nothing new to the Inland Empire, as inventory here has doubled in the past 20 years. During the fourth quarter, there were 108 buildings under construction totaling nearly 23.2 MSF. Notable projects include 1010 W. 4th Street in Beaumont, totaling 2,560,000 square feet (Amazon); and 5051 Carpenter Avenue in Ontario, totaling 1,197,339 square feet (VF Outdoor LLC). The large amount of speculative development in the pipeline poses some risk to future market fundamentals if a good portion of those buildings deliver without preleasing activity.

ABSORPTION. While leasing has generated high levels of absorption in recent years and long-term tenants provide market stability, market fundamentals will be tested when a large wave of speculative construction delivers later in the year. The Inland Empire has experienced positive net absorption throughout the region for nine consecutive quarters, totaling over 49.1 MSF. Positive net absorption hit 2,807,142 square feet in the final quarter of 2019. Primary contributors to this trend included: Burlington (889,445 square feet), Amazon (615,971 square feet) and Walmart (565,598 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
11260 Cedar Ave.	Bloomington	677,383	\$100,500,000	ASB Real Estate Investments	Crow Holding Industrial
SWC Valley Blvd. & Catawba Ave.	Fontana	376,910	\$58,044,500	Black Creek Group	Clarion Partners
8925 Santa Anita Ave.	Rancho Cucamonga	329,000	\$56,789,000	Black Creek Group	The Carlyle Group
9007–9087 Arrow Route	Rancho Cucamonga	138,081	\$21,500,000	Teamrise International, Inc.	Focus Rancho Cucamonga, LLC*
720–780 S. Milliken Ave.	Ontario	133,400	\$17,450,000	TA Realty, LLC*	Grayburn Properties, Inc.*

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1494 S. Waterman Ave.	San Bernardino	1,032,072	Nov-2019	Amazon	Hilwood Development Company
4375 N. Perris St.	Perris	1,008,646	Nov-2019	Amazon	Duke Realty Corporation
2455 S. Willow Ave.	Rialto	525,110	Nov-2019	Gilbert West / GPR	Ivanhoe Cambridge, Inc.
16270 Jurupa Ave.	Fontana	355,457	Oct-2019	UPS	Alere Property Group
10621 8th St.	Rancho Cucamonga	344,840	Oct-2019	Pixior	AEW

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2019	Square Feet Available	Availability Rate 4Q2019	Average Asking Lease Rate	Net Absorption 4Q2019	Net Absorption 2019	Gross Absorption 4Q2019	Gross Absorption 2019
West													
Chino / Chino Hills	915	52,301,678	1,540,608	89,252	234,524	0.45%	738,086	1.41%	\$1.05	97,059	1,669,395	382,532	2,835,537
Fontana	730	64,092,027	1,735,392	829,334	2,000,134	3.12%	2,633,888	4.11%	\$0.69	427,991	2,158,243	1,839,023	3,812,671
Mira Loma / Eastvale / Jurupa Valley	370	43,176,584	97,017	0	354,636	0.82%	1,373,424	3.18%	\$0.71	607,402	463,050	442,595	2,055,622
Montclair	199	3,522,334	309,052	0	210,486	5.98%	293,299	8.33%	\$0.62	(20,639)	(151,242)	15,720	247,409
Ontario	1,472	109,674,851	5,421,359	2,126,110	1,603,641	1.46%	3,695,200	3.37%	\$0.64	200,624	1,538,505	1,742,225	5,924,323
Rancho Cucamonga	732	40,695,094	187,013	464,097	1,986,192	4.88%	2,368,481	5.82%	\$0.86	379,216	1,635,262	956,165	3,706,182
Upland	252	3,992,862	56,000	172,205	80,841	2.02%	105,904	2.65%	\$0.00	13,562	1,849	49,460	206,060
5,000-24,999	2,742	33,029,706	93,129	205,421	729,039	2.21%	1,092,128	3.31%	\$1.02	141,072	(123,661)	561,336	1,670,791
25,000-49,999	717	25,114,288	402,653	390,600	716,951	2.85%	1,258,536	5.01%	\$0.84	(119,605)	799,880	308,360	2,220,977
50,000-99,999	444	30,850,814	547,809	604,695	894,398	2.90%	1,376,546	4.46%	\$0.65	341,085	797,476	729,912	2,357,483
100,000-249,999	439	66,954,651	1,096,322	1,424,082	2,600,725	3.88%	4,136,358	6.18%	\$0.65	310,951	1,997,270	1,154,951	5,082,275
250,000-499,999	222	78,833,844	949,397	0	1,114,926	1.41%	2,574,848	3.27%	\$0.00	264,558	1,645,840	1,490,943	3,962,669
500,000 plus	106	82,672,127	6,257,131	1,056,200	414,415	0.50%	769,866	0.93%	\$0.00	767,154	2,198,257	1,182,218	3,493,609
West Total	4,670	317,455,430	9,346,441	3,680,998	6,470,454	2.04%	11,208,282	3.53%	\$0.80	1,705,215	7,315,062	5,427,720	18,787,804
East													
Banning	49	975,004	2,560,000	0	88,374	9.06%	98,208	10.07%	\$0.73	6,330	(67,662)	18,764	74,164
Beaumont	43	3,813,654	0	0	10,500	0.28%	10,500	0.28%	\$0.85	(10,500)	(10,500)	0	4,349
Bloomington	104	7,868,078	772,548	4,362,174	1,963,178	24.95%	707,995	9.00%	\$0.00	676,583	699,080	44,600	67,097
Corona / Norco	975	32,727,699	229,970	267,763	2,074,763	6.34%	2,666,392	8.15%	\$0.71	(111,439)	354,475	485,790	1,720,218
Colton / Grand Terrace	175	10,440,994	86,666	151,114	712,959	6.83%	1,010,971	9.68%	\$0.71	20,764	(44,521)	36,984	499,303
Moreno Valley	88	28,315,510	1,019,250	42,656,480	1,003,334	3.54%	1,167,730	4.12%	\$1.20	41,297	1,993,711	1,214,368	3,103,103
Perris	207	27,484,735	3,796,770	5,732,975	2,910,186	10.59%	2,341,230	8.52%	\$0.65	318,063	3,018,421	242,158	1,725,023
Redlands / Loma Linda	233	28,359,586	154,946	190,086	192,901	0.68%	1,478,035	5.21%	\$0.00	205,085	307,519	68,937	2,005,025
Rialto	182	28,129,474	2,518,081	535,164	2,359,319	8.39%	2,811,049	9.99%	\$0.95	(578,176)	447,578	618,983	2,908,622
Riverside	1,070	50,780,183	2,307,760	5,323,028	2,381,341	4.69%	2,138,726	4.21%	\$0.63	1,240,625	2,714,833	1,504,697	4,579,186
San Bernardino / Highland	581	40,878,638	442,790	1,188,778	1,909,048	4.67%	2,600,171	6.36%	\$1.32	(706,705)	1,279,860	384,336	2,533,127
5,000-24,999	2,351	27,812,813	212,517	413,676	882,195	3.17%	1,193,766	4.29%	\$0.71	(152,112)	142,797	248,376	1,679,129
25,000-49,999	548	19,121,417	328,002	458,318	340,504	1.78%	889,513	4.65%	\$0.69	197,703	434,853	248,007	990,323
50,000-99,999	324	22,168,559	764,213	857,423	1,094,236	4.94%	1,390,766	6.27%	\$0.80	233,959	28,294	235,237	1,043,308
100,000-249,999	237	35,918,263	2,271,238	2,444,983	2,106,109	5.86%	4,241,669	11.81%	\$0.79	549,860	1,578,375	937,881	2,880,929
250,000-499,999	114	41,790,801	3,468,303	2,763,114	4,151,051	9.93%	4,719,249	11.29%	\$0.68	155,980	3,197,423	951,738	5,288,398
500,000 plus	133	112,961,702	6,844,508	53,470,048	7,031,808	6.22%	4,596,044	4.07%	\$0.00	116,537	5,311,052	1,998,378	7,337,130
East Total	3,707	259,773,555	13,888,781	60,407,562	15,605,903	6.01%	17,031,007	6.56%	\$0.76	1,101,927	10,692,794	4,619,617	19,219,217
Inland Empire Total	8,377	577,228,985	23,235,222	64,088,560	22,076,357	3.82%	28,239,289	4.89%	\$0.77	2,807,142	18,007,856	10,047,337	38,007,021
5,000-24,999	5,093	60,842,519	305,646	619,097	1,611,234	2.65%	2,285,894	3.76%	\$0.82	(11,040)	19,136	809,712	3,349,920
25,000-49,999	1,265	44,235,705	730,655	848,918	1,057,455	2.39%	2,148,049	4.86%	\$0.77	78,098	1,234,733	556,367	3,211,300
50,000-99,999	768	53,019,373	1,312,022	1,462,118	1,988,634	3.75%	2,767,312	5.22%	\$0.72	575,044	825,770	965,149	3,400,791
100,000-249,999	676	102,872,914	3,367,560	3,869,065	4,706,834	4.58%	8,378,027	8.14%	\$0.77	860,811	3,575,645	2,092,832	7,963,204
250,000-499,999	336	120,624,645	4,417,700	2,763,114	5,265,977	4.37%	7,294,097	6.05%	\$0.69	420,538	4,843,263	2,442,681	9,251,067
500,000 plus	239	195,633,829	13,101,639	54,526,248	7,446,223	3.81%	5,365,910	2.74%	\$0.00	883,691	7,509,309	3,180,596	10,830,739
Inland Empire Total	8,377	577,228,985	23,235,222	64,088,560	22,076,357	3.82%	28,239,289	4.89%	\$0.77	2,807,142	18,007,856	10,047,337	38,007,021
High Desert													
Adelanto	147	4,211,098	23,580	268,000	623,213	14.80%	728,031	17.29%	\$1.66	(100,540)	(52,970)	38,350	164,315
Apple Valley	75	3,846,701	0	0	19,264	0.50%	20,264	0.53%	\$0.00	(2,600)	1,374,800	0	1,397,900
Barstow	53	1,057,549	0	0	14,680	1.39%	18,680	1.77%	\$0.00	101,291	112,654	109,971	121,334
Hesperia	189	3,254,054	0	0	53,861	1.66%	73,311	2.25%	\$0.00	11,396	99,287	18,896	211,454
Victorville	131	8,243,963	0	9,991,933	468,444	5.68%	503,089	6.10%	\$0.95	566	172,587	12,004	267,676
High Desert Total	595	20,613,365	23,580	10,259,933	1,179,462	5.72%	1,343,375	6.52%	\$1.53	10,113	1,706,358	179,221	2,162,679
Temecula Valley													
Hemet	86	1,578,121	0	0	27,694	1.75%	200,356	12.70%	\$0.89	24,213	(3,084)	24,213	34,145
Lake Elsinore	175	2,611,583	0	105,693	65,367	2.50%	119,941	4.59%	\$0.76	86,296	79,151	89,391	179,067
Menifee	25	513,036	0	0	46,600	9.08%	46,600	9.08%	\$0.60	(6,600)	(23,640)	0	35,632
Murrieta	254	3,879,095	0	155,550	127,974	3.30%	220,008	5.67%	\$0.00	8,502	97,287	30,206	281,712
San Jacinto	65	1,060,680	0	0	50,125	4.73%	65,125	6.14%	\$0.00	0	(19,525)	0	0
Temecula	333	10,571,050	51,752	196,788	517,646	4.90%	965,643	9.13%	\$0.65	(137,823)	(394,391)	108,931	487,852
Wildomar	12	324,860	0	0	6,367	1.96%	6,367	1.96%	\$0.75	(536)	13,833	108,931	132,795
Temecula Valley Total	950	20,538,425	51,752	458,031	841,773	4.10%	1,624,040	7.91%	\$0.66	(25,948)	(250,369)	361,672	1,151,203

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



4Q Market Outlook

by **Jon Larson**

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“Is the market ready for a correction?”

“Will lease rate and sales price growth continue?”

“Who is going to be the next President?”

“Will the standoff with China over trade be resolved favorably?”

These and other important questions have created uncertainty in the minds of business decision makers. That uncertainty has led to hesitancy in the marketplace, slowing transaction velocity and increasing marketing time for available properties, especially those offered for lease only. However, despite the global and domestic turmoil reflected in the daily news cycle, there are plenty of positive indicators that portend another strong year for the Inland Empire industrial market. Consider the following:

- The Federal Reserve has made clear its intention to keep interest rates low for the foreseeable future, which helps alleviate buyer reticence to acquire industrial property at today’s record price point.
- The unemployment rate is below 4%, down from 10% ten years ago, and wage growth is running ahead of the inflation rate.
- The vacancy rate in the Inland Empire remains under 4% despite record amounts of new construction, making clear the strength of ongoing demand.
- Major developers will deliver another 23 MSF of space in 2020 to meet ongoing demand.
- Congress has approved the U.S.-Mexico-Canada (USMCA) trade agreement which should increase U.S. demand for manufacturing and logistics space.
- The latest trade talks between the U.S. and China resulted in the easing of a new round of import tariffs and a reduction of existing tariffs enacted in September.

Cautious optimism seems to be the consensus among economic pundits and we at Voit concur. The US economic expansion, which began back in 2009, has fueled what is now the longest commercial real estate up-cycle in our nation’s history. No one knows for sure how much longer it will continue, but barring an economic “black swan” event, we expect 2020 to be another year of steady growth for the Inland Empire industrial property market.

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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