

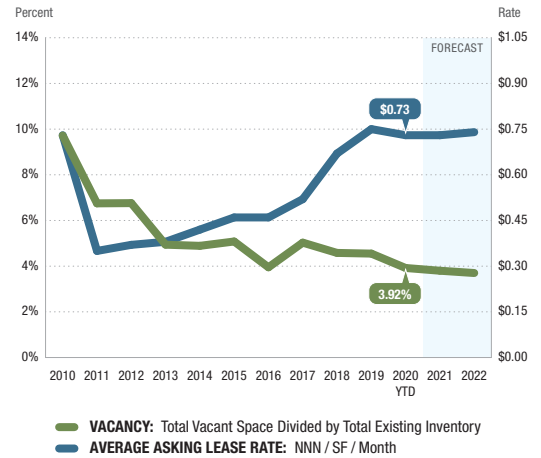
OVERVIEW. The Inland Empire market outperformed all major Southern California industrial markets in the second quarter. Despite the economic shutdown, the region's vacancy rate, average asking lease rate and gross absorption level all held steady. Net absorption was firmly in positive territory thanks to a strong showing from the IE-East submarket. Other than a slowdown in leasing activity, there was little from a statistical perspective to indicate a setback for a market that has been experiencing explosive growth for several years. The IE has grown into one of the biggest distribution hubs in the nation and is well represented by all the major e-commerce operators like Amazon and Wayfair, retailers including Target and Walmart, and prominent 3PL firms like XPO Logistics. The area may have actually received a boost in the second quarter from the pandemic crisis, as even those consumers yet to embrace online retail purchases were forced into adopting the platform to comply with Governor Newsom's shelter-in-place orders. Moreover, online sellers across the board were designated as essential, making it easier to remain open and fully operational throughout the quarter.

VACANCY. The overall vacancy rate rose just 7 basis points in the second quarter to end the period at 3.92%, but IE East and West moved substantially in opposite directions. IE East vacancy dropped sharply, shedding 202 basis points to just 4.27% due to strong net absorption from large tenants that moved into recently delivered buildings in the upper size ranges. Nine of the eleven cities in the IE East posted vacancy declines, with the biggest drops coming from Perris, Rialto and Beaumont. IE West experienced a vacancy rise in all seven cities within the submarket, which boosted the vacancy rate by 200 basis points to finish the quarter at 3.62%. The City of Ontario saw the biggest increase, mainly due to 1.2 MSF of unleased speculative deliveries and Pier 1's vacating a 991,000-square-foot building related to the company's bankruptcy, which was likely to happen regardless of COVID-19.

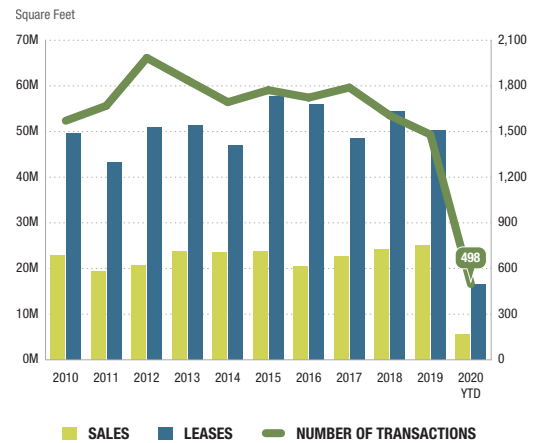
LEASE RATES. The average asking lease rate was unchanged in the second quarter at \$0.73 after posting a modest decline in the opening quarter. Year over year that rate rose by just \$0.01, an indication that new deliveries are running in sync with demand for space regionally. Of note is the fact that some new offerings are being marketed without an asking price and are not included in the average rate calculations. IE East and IE West asking rates are within \$0.02 for the second consecutive period, and as expected, the highest average rates are quoted for spaces less than 25,000 square feet. While many experts believed the market would see a decline in lease rates due to the pandemic, this has not happened. However, there was a slight uptick in upfront concessions in terms of free rent and tenant improvement allowances which impact effective lease rates for closed transactions. Some landlords have also shown a willingness to accept shorter lease terms, especially in the smaller size ranges, as a means of securing commitments from tenants who remain wary of their long-term potential for revenue growth.

TRANSACTION ACTIVITY. A significant reduction in the inking of new deals is the only statistical sign that the pandemic has impacted the IE industrial market. Lease and sale activity fell to 6,533,000 square feet from more than 15,200,000 square feet in the first quarter. We believe the big decline was caused by two factors: the postponement of some major transactions in the pipeline and the increased difficulty in the property search process, both a result of the governor's lockdown orders. However, inquiries and showings picked up their pace in June once restrictions were eased. Investment activity may also hinge on the debt side of the equation, as some lenders have tightened up on their underwriting, while others have hit the pause button on new financings.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



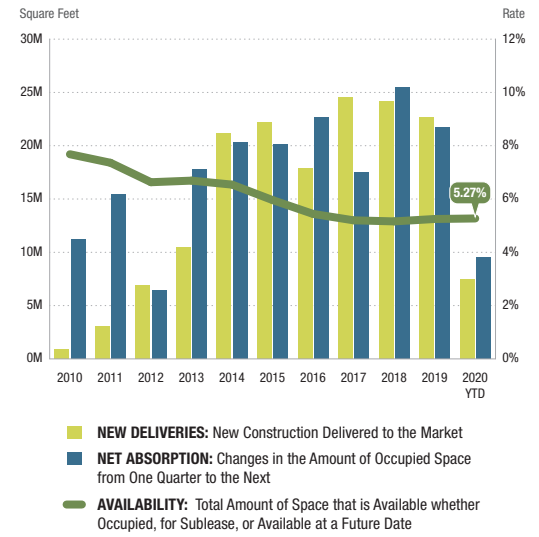
Market Statistics

	Change Over Last Quarter	2Q 2020	1Q 2020	2Q 2019	% Change Over Last Year
Total Vacancy Rate	▲ UP	3.92%	3.85%	4.25%	(7.76%)
Availability Rate	▲ UP	5.27%	5.07%	5.44%	(3.27%)
Average Asking Lease Rate	▬ FLAT	\$0.73	\$0.73	\$0.72	1.39%
Sale & Lease Transactions	▼ DOWN	6,533,717	15,251,749	21,744,586	(69.95%)
Gross Absorption	▲ UP	11,148,894	11,003,947	9,135,902	22.03%
Net Absorption	▲ POSITIVE	4,498,091	5,037,121	6,850,061	N/A

CONSTRUCTION ACTIVITY. The IE has long been one of the nation’s hotbeds of activity when it comes to new deliveries. The region supports massive e-commerce and 3PL sectors who have demonstrated a nearly insatiable demand for state-of-the-art distribution facilities with high clearance, good truck access and the latest in fire suppression technology. Just under 3,000,000 square feet of new deliveries were made in the second quarter, and almost 20 MSF remained in the construction pipeline. Driven by the availability and price of land, IE East is seeing most of the current construction activity with almost 11.2 MSF. Perris leads all IE East cities with 3.37 MSF underway. Only Ontario in IE West has more space in the construction queue with its total of 4.66 MSF. Developers are still focused on building bigger buildings to meet anticipated demand. Currently, more than half the total space under construction is in buildings over 500,000 square feet. That trend is likely to continue given the fact that 57 million of the 67 MSF of space in the planning stages fall into that size range.

ABSORPTION. Net absorption region-wide fell by just over 500,000 square feet in the second quarter to end the period at 4.5 MSF. The metric measures the net gain or loss in occupied space from one period to another. The fact that it remained firmly in positive territory despite the economic shock of the pandemic is testimony to the overall strength of the Inland Empire industrial market. The IE East submarket did all the heavy lifting in the second quarter, posting a net gain of 6.2 MSF. Almost 4.5 MSF of that total were recorded in spaces over 500,000 square feet, the range most active in terms of new construction. The 1,012,000-square-foot Cardinal Health deal in Riverside was the biggest move-in for the quarter, followed closely by XPO Logistics’ 912,000-square-foot facility in Perris. In contrast, the IE West region fell into negative territory in the second quarter, posting a net loss in occupied space of 1.7 MSF after its first quarter net gain of 1.6 MSF. However, a closer look at the numbers for IE West reveals that more than half of the net loss for the current quarter is the result of Pier 1’s closing their 991,000-square-foot building in Ontario. That company had been in bankruptcy prior to the onset of the pandemic.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Forecast

If current performance is any indication, the near-term health of the Inland Empire market looks promising. In the face of a massive shock to the entire US economy that began in the middle of the first quarter, the region has displayed remarkable resilience. Current inquiries from tenants and owner-users point to a broad base of industrial space occupiers who remain optimistic about the level of business activity going forward. The IE is well positioned for continuing success given its standing as one of the biggest e-commerce hubs in the country. The shift to online retail sales has accelerated and even those previously reluctant to engage the platform are now embracing it out of necessity.

Not all industrial sectors are faring well, however. Those servicing the hospitality, entertainment and restaurant industries have been hit hard and until the worst of the pandemic is behind us, they will be negatively impacted. That could translate into reduced lease and sale activity, lower absorption and a flattening of rent growth. However, a disproportionate share of the IE space is leased by bigger, well-capitalized companies and acquired by institutional investors, a combination that we believe bodes well for future market performance.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
825 Central Ave. & 890 E. Mill St.	San Bernardino	1,545,075	\$195,000,500	Brookfield Investment Management, Inc.	Kohl's Corporation
42301 Zevo Dr.	Temecula	228,912	\$29,050,000	AEW Capital Management	Whitaker Investment Corporation
1560 E. 6th St.	Corona	210,345	\$37,000,000	EverWest Real Estate Investor, LLC	Amrapur Overseas, Inc.
21937 Knabe Rd.	Corona	139,800	\$22,787,400	Downey Wholesale, Inc.	Brothers International Dessert, Inc.
3120 Mission Blvd.	Ontario	121,836	\$12,895,500	Dermody Properties, Inc.	Safariland LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
4501 Patterson Ave.	Perris	800,218	May-2020	Amazon	Duke Realty Corporation
11101 Etiwanda Ave. - Renewal	Fontana	611,968	Jun-2020	Allied West Paper	LaSalle Investment Management
13133 Innovation Way - Renewal	Victorville	505,192	Jun-2020	United Furniture Industries CA	Stirling Capital Investments
27223 Pioneer Ave. - renewal	Redlands	497,714	Jun-2020	Continental Tire North	Prologis
2163 S. Riverside Ave.	Colton	447,190	May-2020	XPO Logistics	Black Creek Group

INVENTORY

VACANCY & LEASE RATES

ABSORPTION

	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2020	Square Feet Available	Availability Rate 2Q2020	Average Asking Lease Rate	Net Absorption 2Q2020	Net Absorption 2020	Gross Absorption 2Q2020	Gross Absorption 2020
West													
Chino / Chino Hills	904	52,718,087	1,063,553	433,205	794,985	1.51%	1,113,729	2.11%	\$1.14	(181,131)	42,196	220,867	1,017,261
Fontana	734	64,618,447	2,195,536	1,558,840	1,880,266	2.91%	1,679,782	2.60%	\$1.14	134,548	710,023	514,545	1,900,549
Mira Loma / Eastvale / Jurupa Valley	375	43,590,519	0	0	1,543,340	3.54%	2,585,294	5.93%	\$0.71	114,811	(21,043)	1,015,295	1,063,186
Montclair	200	3,750,245	164,757	0	367,577	9.80%	379,887	10.13%	\$0.74	(12,917)	(20,494)	9,955	53,259
Ontario	1,470	109,172,131	4,657,890	925,896	5,142,245	4.71%	7,838,497	7.18%	\$0.69	(1,692,048)	(1,495,841)	714,707	2,049,294
Rancho Cucamonga	732	40,693,803	252,935	233,051	1,690,842	4.16%	2,425,549	5.96%	\$0.85	(50,288)	751,727	928,169	2,345,893
Upland	252	3,956,268	56,024	264,480	109,644	2.77%	171,262	4.33%	\$1.15	(26,376)	(72,400)	51,810	86,812
5,000-24,999	2,731	32,972,003	78,189	213,537	975,610	2.96%	1,563,911	4.74%	\$1.14	(115,547)	(130,791)	294,283	668,800
25,000-49,999	716	25,091,429	344,298	512,817	968,102	3.86%	1,163,937	4.64%	\$0.78	(221,665)	(102,179)	286,482	670,379
50,000-99,999	447	31,106,097	827,396	623,187	1,252,200	4.03%	1,697,021	5.46%	\$0.72	(99,679)	26,246	633,912	1,313,190
100,000-249,999	440	67,083,782	1,726,300	1,159,891	2,816,167	4.20%	4,278,243	6.38%	\$0.69	(139,122)	287,498	1,452,345	3,101,780
250,000-499,999	225	79,934,948	888,267	906,040	2,598,587	3.25%	3,615,043	4.52%	\$0.62	(711,886)	(797,639)	222,728	936,546
500,000 plus	108	82,311,241	4,526,245	0	2,918,233	3.55%	3,875,845	4.71%	\$0.00	(425,502)	611,033	565,598	1,825,559
West Total	4,667	318,499,500	8,390,695	3,415,472	11,528,899	3.62%	16,194,000	5.08%	\$0.74	(1,713,401)	(105,832)	3,455,348	8,516,254
East													
Banning	49	975,004	0	0	69,112	7.09%	83,985	8.61%	\$0.80	19,262	19,262	19,298	32,062
Beaumont	45	6,379,904	0	2,867,210	15,400	0.24%	15,400	0.24%	\$0.70	999,936	999,936	1,004,836	1,004,836
Bloomington	105	8,279,267	1,431,111	3,249,742	1,109,692	13.40%	1,134,797	13.71%	\$0.00	0	1,254,592	0	1,264,102
Corona / Norco	977	32,613,212	126,002	68,458	1,814,173	5.56%	2,177,535	6.68%	\$0.70	538,589	406,463	914,919	1,258,325
Colton / Grand Terrace	177	10,502,363	471,155	267,763	938,168	8.93%	991,938	9.44%	\$0.71	(40,781)	(132,283)	32,465	80,385
Moreno Valley	88	28,315,510	982,300	43,354,689	779,099	2.75%	876,105	3.09%	\$0.69	56,484	387,391	163,156	500,896
Perris	208	28,127,998	3,374,980	7,567,567	1,287,889	4.58%	1,319,059	4.69%	\$0.95	1,685,629	2,244,168	1,701,077	2,381,385
Redlands / Loma Linda	232	27,753,145	154,946	1,269,322	468,628	1.69%	1,384,667	4.99%	\$0.66	84,592	368,875	217,706	625,959
Rialto	191	29,563,641	1,104,435	460,698	2,459,557	8.32%	2,333,154	7.89%	\$0.00	1,122,983	1,476,371	1,145,160	1,959,993
Riverside	1,072	51,694,604	1,636,587	3,943,818	1,604,179	3.10%	2,627,499	5.08%	\$0.66	889,544	680,529	1,523,005	2,433,137
San Bernardino / Highland	575	40,603,672	1,886,815	697,461	773,268	1.90%	1,579,381	3.89%	\$0.83	855,254	1,935,740	971,924	2,095,507
5,000-24,999	2,355	27,860,856	466,670	226,081	941,240	3.38%	1,339,562	4.81%	\$0.71	(80,783)	(91,282)	340,026	689,269
25,000-49,999	549	19,145,937	200,348	386,424	483,654	2.53%	877,009	4.58%	\$0.67	(29,734)	9,382	109,416	430,679
50,000-99,999	325	22,275,556	727,887	630,271	920,884	4.13%	1,485,161	6.67%	\$0.74	243,221	414,534	539,031	850,611
100,000-249,999	238	36,222,661	3,339,647	1,897,135	2,901,141	8.01%	3,687,901	10.18%	\$0.75	318,346	153,956	805,229	1,429,587
250,000-499,999	116	42,615,887	3,300,524	3,578,956	4,379,677	10.28%	4,217,950	9.90%	\$0.69	875,481	811,256	1,014,883	1,797,805
500,000 plus	136	116,687,423	3,133,255	57,027,861	1,692,569	1.45%	2,915,937	2.50%	\$0.00	4,884,961	8,343,198	4,884,961	8,438,636
East Total	3,719	264,808,320	11,168,331	63,746,728	11,319,165	4.27%	14,523,520	5.48%	\$0.72	6,211,492	9,641,044	7,693,546	13,636,587
Inland Empire Total	8,386	583,307,820	19,559,026	67,162,200	22,848,064	3.92%	30,717,520	5.27%	\$0.73	4,498,091	9,535,212	11,148,894	22,152,841
5,000-24,999	5,086	60,832,859	544,859	439,618	1,916,850	3.15%	2,903,473	4.77%	\$0.80	(196,330)	(222,073)	634,309	1,358,069
25,000-49,999	1,265	44,237,366	544,646	899,241	1,451,756	3.28%	2,040,946	4.61%	\$0.70	(251,399)	(92,797)	395,898	1,101,058
50,000-99,999	772	53,381,653	1,555,283	1,253,458	2,173,084	4.07%	3,182,182	5.96%	\$0.73	143,542	440,780	1,172,943	2,163,801
100,000-249,999	678	103,306,443	5,065,947	3,057,026	5,717,308	5.53%	7,966,144	7.71%	\$0.76	179,224	441,454	2,257,574	4,531,367
250,000-499,999	341	122,550,835	4,188,791	4,484,996	6,978,264	5.69%	7,832,993	6.39%	\$0.69	163,595	13,617	1,237,611	2,734,351
500,000 plus	244	198,998,664	7,659,500	57,027,861	4,610,802	2.32%	6,791,782	3.41%	\$0.00	4,459,459	8,954,231	5,450,559	10,264,195
Inland Empire Total	8,386	583,307,820	19,559,026	67,162,200	22,848,064	3.92%	30,717,520	5.27%	\$0.73	4,498,091	9,535,212	11,148,894	22,152,841
High Desert													
Adelanto	147	4,250,598	23,580	268,000	566,918	13.34%	636,736	14.98%	\$1.33	32,605	32,605	32,605	32,605
Apple Valley	75	3,847,809	0	0	25,802	0.67%	27,702	0.72%	\$0.00	(8,000)	(6,538)	0	0
Barstow	53	1,062,910	0	0	21,680	2.04%	25,680	2.42%	\$0.00	0	(7,000)	0	0
Hesperia	188	3,257,314	0	0	37,283	1.14%	75,983	2.33%	\$0.94	(1,348)	17,098	17,557	47,913
Victorville	130	8,236,463	0	10,859,700	435,869	5.29%	492,073	5.97%	\$0.76	28,232	39,770	28,707	58,707
High Desert Total	593	20,655,094	23,580	11,127,700	1,087,552	5.27%	1,258,174	6.09%	\$1.25	51,489	75,935	78,869	139,225
Temecula Valley													
Hemet	86	1,578,121	0	0	146,478	9.28%	172,478	10.93%	\$0.50	(124,615)	(118,838)	15,385	21,162
Lake Elsinore	176	2,619,183	0	110,635	56,518	2.16%	142,875	5.45%	\$0.77	8,443	7,889	53,485	83,770
Menifee	25	513,036	0	0	0	0.00%	4,500	0.88%	\$0.60	46,600	46,600	46,600	46,600
Murrieta	254	3,870,040	0	127,562	118,786	3.07%	235,151	6.08%	\$0.00	(63,647)	(1,937)	23,355	112,214
San Jacinto	65	1,074,064	0	0	22,200	2.07%	22,200	2.07%	\$0.00	2,500	30,425	2,500	30,425
Temecula	333	10,571,505	0	196,788	431,363	4.08%	834,258	7.89%	\$0.68	(30,059)	(51,044)	35,658	135,304
Wildomar	12	324,860	0	0	4,478	1.38%	4,478	1.38%	\$0.79	6,367	1,889	6,367	6,367
Temecula Valley Total	951	20,550,809	0	434,985	779,823	3.79%	1,415,940	6.89%	\$0.68	(154,411)	(85,016)	183,350	435,842

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



Activity Activity Activity

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Since the restrictions associated with the COVID-19 shutdown began to abate mid-quarter, there has been a resurgence in activity in all size ranges. Tenants are using the economic crisis as leverage in their lease negotiations, and some landlords have responded by being a little more generous with up front incentives. However, they are less inclined to lower their asking rates, choosing instead to hold that line and offer slightly more free rent or a larger tenant improvement package to bridge the bid/ask gap. It may be taking slightly more time to secure tenants, but the institutional landlords, who own a disproportionate share of the large warehouse buildings throughout the Inland Empire, will wait it out to secure strong credit and hit their target lease rates.

The buying pool is not as robust as it was six to twelve months ago, but a significant number of users with expansion needs are still actively seeking buying opportunities. The current availability of for-sale product is very slim, making it difficult for them to secure facilities that meet their operational needs. Also, the Inland Empire continues to be a less expensive alternative to the San Gabriel Valley, Orange County and Los Angeles markets, which puts extra pressure on the already thin supply.

A “flight to quality” generally follows a perceived pull-back in the market, but there is little indication that a significant increase in the availability of the most functional space is occurring, as it did in the Great Recession of 2009 – 2011. Without a surge in vacant space, development activity is likely to continue, especially in the upper size ranges where demand, primarily from the e-commerce and 3PL sectors, is strongest. However, underwriting of all ground-up development projects is becoming more difficult, as lenders are becoming more cautious regarding optimistic predictions of needed rent growth down the line.

Even though the general economy has suffered a significant shock, the long term outlook for the Inland Empire industrial market remains bright, as internal expansion is combined with activity from operators in surrounding markets.

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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