

OVERVIEW. The Inland Empire market outperformed all major Southern California industrial markets again in the third quarter. Despite the economic shutdown, the region's vacancy rate fell, average asking lease rates remained steady, and both gross and net absorption rose sharply. Net absorption was firmly in positive territory after another strong performance from the IE-East submarket. Leasing activity also got a boost, further easing fears of a near-term market correction in lease rates and sales prices. E-commerce users continued to drive market activity in 3Q, but overall business activity picked up as essential employers called their employees back in response to an improving economic outlook. As one of the nation's largest logistics hubs, the IE has seen prolific construction activity over the past several years to meet the demand from large retailers, online sellers and 3PL operators. Construction remained near record levels during 3Q, though some ground-up projects were temporarily delayed, as developers and their lenders exercised caution during the early stages of the pandemic response.

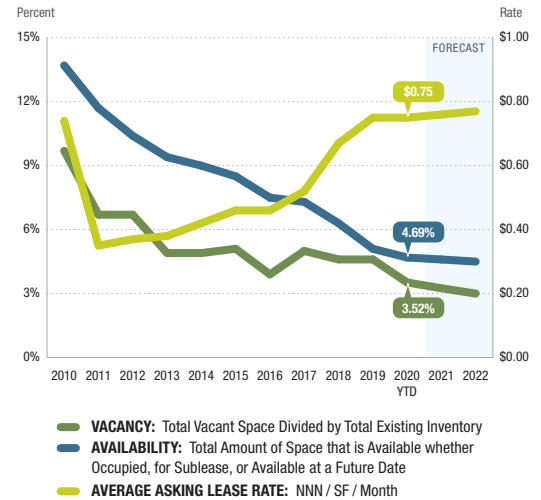
VACANCY & AVAILABILITY. The overall vacancy rate fell by 38 basis points in 3Q to end the period at 3.52%, but the biggest drop came from the IE East submarket, falling 61 basis points as new speculative projects became occupied. After suffering an increase in vacancy in 2Q, IE West saw a 22-basis-point decline after a strong gross absorption performance. Ontario, the largest city in the IE West, experienced the largest vacancy decline, 119 basis points, after an increase in 2Q. Fontana also saw a 78-basis-point decline in the third quarter. The availability rate, which includes properties being offered for sale or lease but still occupied, increased in 3Q, adding 139 basis points overall. These are all great numbers during a normal market, let alone during a pandemic shutdown, which is further evidence of good health throughout the region.

LEASE RATES. The overall average asking lease rate for the IE actually increased by \$0.03 to \$0.75 in 3Q. However, as previously reported, some new offerings are being marketed without an asking price and are not included in the average rate calculations. If that were not the case, the average rate would likely be even higher, as first generation space commands a rate premium. IE East and IE West asking rates maintained a \$0.02 spread again in the third period, at \$0.73 and \$0.75, respectively. The highest average rate, \$0.81, was quoted for buildings from 50,000 to 100,000 square feet. While rates have held up during the pandemic, there has been a slight increase in up-front concessions in terms of free rent and tenant improvement allowances, which impact effective lease rates for closed transactions. Also, some landlords have been willing to accept shorter lease terms to secure new tenants.

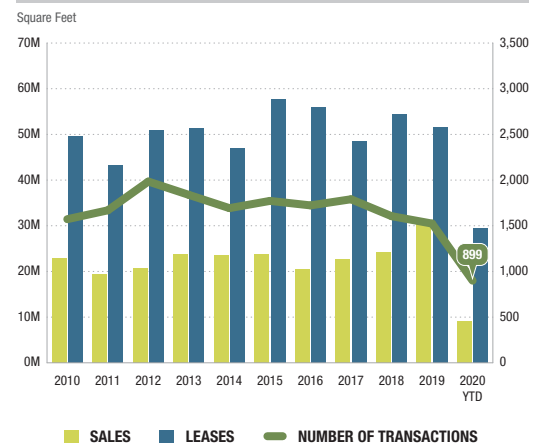
TRANSACTION ACTIVITY. Lease and sale activity bounced back in 3Q, to 13.4 MSF, after falling to 6.5 MSF in 2Q. However, the third quarter tally was still below the 15.2 MSF total in 1Q. The current increase may be due to newly activated requirements that had been postponed in the early stages of the pandemic. Delays in the search process have abated and more companies are returning to somewhat normal operations. So, the increase in activity during the third period was not unexpected. Three of the five largest deals signed in 3Q, totaling 2.1 MSF, were recorded in the IE West.

ABSORPTION. Net absorption overall remained steady in 3Q, but there was a significant rebalancing across submarkets. The IE West was back in positive territory, 63,000 SF, after posting a 1.7 MSF net loss in occupied space in 2Q. The net absorption 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 most of the heavy lifting in 3Q, posting a net gain of nearly 4.4 MSF, mainly due

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

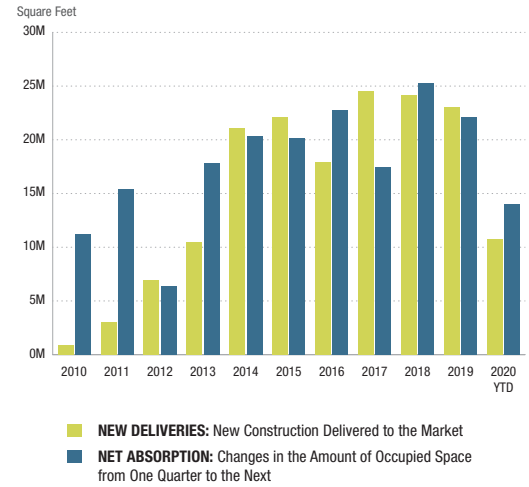
	Change Over Last Quarter	3Q 2020	2Q 2020	3Q 2019	% Change Over Last Year
Total Vacancy Rate	▼ DOWN	3.52%	3.90%	3.90%	(9.85%)
Availability Rate	▲ UP	4.69%	3.30%	2.80%	67.49%
Average Asking Lease Rate	▲ UP	\$0.75	\$0.72	\$0.78	(3.85%)
Sale & Lease Transactions	▲ UP	13,417,138	9,384,038	23,446,656	(42.78%)
Gross Absorption	▲ UP	13,300,748	10,352,571	9,535,781	39.48%
Net Absorption	▲ POSITIVE	4,460,841	5,795,717	5,258,475	N/A

to the occupancy of some recently completed projects. In terms of gross absorption, IE West really picked up the pace by posting more than 8.6 MSF of move-ins for the period, compared with just 3.4 MSF back in 2Q. IE East added another 4.7 MSF to the total, a substantial increase on a year-over-year basis, further indication of the overall health of the region.

CONSTRUCTION. New construction in the IE dwarfs that of any other Southern California market. The region supports massive e-commerce and 3PL sectors that 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. Twenty-nine new buildings totaling just under 2 MSF were delivered in 3Q, and 18.3 MSF remained in the construction pipeline, down slightly since the end of 2Q. After several large deliveries in the IE East in 2Q, construction activity is now evenly balanced with its IE West counterpart. Developers remain focused on bigger buildings to meet anticipated demand. Currently, more than half the total space under construction is in buildings over 500,000 SF. That trend is likely to continue given the fact that 57 M of the 64 MSF of space in the planning stages fall into that size range. However, there are ground-up development projects underway offering buildings as small as 30,000 SF.

EMPLOYMENT. The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 11.0% in August 2020, down from a revised 13.4% in July 2020, and above the year-ago estimate of 4.4%. This compares with an unadjusted unemployment rate of 11.6% for California and 8.5% for the nation during the same period. The unemployment rate was 11.2% in Riverside County, and 10.8% in San Bernardino County.

NEW DELIVERIES & NET ABSORPTION



Forecast

The good health of the Inland Empire market does not seem to be in question. In the face of a massive economic shock, the region has displayed remarkable resilience. New requirements from tenants and owner-users continue to point to a broad base of industrial space occupiers who remain optimistic about the future. 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 e-commerce has accelerated and even those previously reluctant to adopt the platform are now embracing it out of necessity.

There are signs of a broad recovery as inquiries for space from the manufacturing and service sectors appear to be on the rise. Landlords are reporting strong rent collection performance and the market has not seen a large increase in sublease inventory as some had feared. A significant chunk of the inventory in the Inland Empire is owned by well capitalized institutions and occupied by larger, industry-leading businesses, which will help the market maintain its momentum in the coming quarters. Once uncertainty over the election and pandemic fade, the market could get another boost and reach new performance levels, as the e-commerce sector will continue to gain ground on traditional retailing. The wild card is Proposition 15, the split-roll initiative on the November ballot that would strip the 42-year-old protections of Proposition 13 from commercial properties. If passed, it would drive up operating costs for tenants who pay all or a significant portion of the property taxes along with their rent. The increased risk of real estate ownership could put upward pressure on cap rates, lowering property values across the board.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
251 E Rider St.	Perris	354,810	\$31,932,900	WPT REIT	IDI Logistics
4600 E Wall St & 981 S Wanamaker Ave. (2 Building Portfolio)	Ontario	268,865	\$45,563,000	Morgan Stanley	Bridge Development Partners
1901 W Center St.	Colton	232,578	\$29,704,000	Avalon Apparel Group LLC	Hillwood
150 E. Radio Road & 1331 E. 6th St. (2 Building Portfolio)	Corona	222,831	\$33,201,819	Exeter Property Group	SeneGence Inc
1810 S Vineyard Ave & 1822 E Francis St.	Ontario	152,267	\$22,588,000	Penwood Real Estate Investment Mgmt	OW Lee Co., Inc.

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
9180 Alabama St.	Redlands	1,079,236	Sep-2020	Go Plus	Duke Realty
3000 E. Philadelphia St.	Ontario	991,110	Aug-2020	Marshall/TJ Maxx	Sares-Regis Group
10299 6th St. - Renewal	Rancho Cucamonga	830,485	Sep-2020	Kumho Tire	Nuveen Real Estate
3350 Redlands Ave.	Perris	643,263	Aug-2020	Skechers USA Inc.	IDI Logistics
11599 Arrow Rt.	Rancho Cucamonga	331,872	Jul-2020	Comptree Inc.	Barings Real Estate*

INVENTORY

VACANCY & LEASE RATES

ABSORPTION

	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2020	Square Feet Available	Availability Rate 3Q2020	Average Asking Lease Rate	Net Absorption 3Q2020	Net Absorption 2020	Gross Absorption 3Q2020	Gross Absorption 2020
West													
Chino / Chino Hills	906	53,067,562	782,726	870,432	941,841	1.77%	1,117,863	2.11%	\$0.68	(53,942)	(11,746)	1,051,849	2,356,484
Fontana	734	64,637,236	2,824,790	2,158,282	1,378,491	2.13%	1,776,835	2.75%	\$1.14	517,872	1,227,895	1,092,282	3,053,400
Mira Loma / Eastvale / Jurupa Valley	374	43,290,478	0	0	1,958,082	4.52%	2,409,286	5.57%	\$0.69	(409,707)	(430,750)	1,096,327	2,159,513
Montclair	200	3,800,517	148,893	0	214,777	5.65%	285,986	7.52%	\$0.74	211,040	190,546	193,056	359,327
Ontario	1,471	110,892,370	4,884,841	937,099	3,904,161	3.52%	5,561,520	5.02%	\$0.76	753,694	(742,147)	3,649,598	7,001,953
Rancho Cucamonga	733	40,782,045	423,997	927,204	2,349,593	5.76%	2,960,591	7.26%	\$0.86	(919,737)	(168,010)	1,501,803	3,848,121
Upland	254	4,014,687	0	264,480	146,004	3.64%	197,209	4.91%	\$0.95	(36,360)	(108,760)	19,136	105,948
5,000-24,999	2,730	32,944,534	77,733	255,587	877,597	2.66%	1,231,635	3.74%	\$1.12	129,719	(1,072)	626,045	1,307,644
25,000-49,999	718	25,138,465	304,419	512,817	740,788	2.95%	998,693	3.97%	\$0.78	134,770	32,591	592,887	1,264,466
50,000-99,999	448	31,151,161	766,631	684,210	1,201,246	3.86%	1,608,907	5.16%	\$0.74	(91,966)	(65,720)	781,191	2,206,193
100,000-249,999	442	67,357,636	2,791,791	1,921,896	2,034,130	3.02%	3,133,771	4.65%	\$0.67	315,845	603,343	2,512,833	5,675,182
250,000-499,999	225	79,966,446	607,428	1,282,244	1,500,131	1.88%	2,055,671	2.57%	\$0.00	835,770	38,131	2,078,655	3,412,354
500,000 plus	109	83,926,653	4,517,245	500,743	4,539,057	5.41%	5,280,613	6.29%	\$0.00	(1,261,278)	(650,245)	2,012,440	5,018,907
West Total	4,672	320,484,895	9,065,247	5,157,497	10,892,949	3.40%	14,309,290	4.46%	\$0.75	62,860	(42,972)	8,604,051	18,884,746
East													
Banning	48	945,004	0	0	13,645	1.44%	60,412	6.39%	\$1.41	3,164	22,426	48,332	80,394
Beaumont	45	6,379,904	0	2,867,210	15,400	0.24%	25,900	0.41%	\$0.85	0	999,936	2,283	1,007,119
Bloomington	105	8,609,709	1,059,669	3,424,522	699,076	8.12%	893,875	10.38%	\$0.00	782,058	2,036,650	380,952	1,645,054
Corona / Norco	980	32,747,226	86,666	1,053,899	1,542,686	4.71%	2,211,407	6.75%	\$0.72	288,672	695,135	588,103	1,846,428
Colton / Grand Terrace	178	10,678,411	471,079	267,763	1,153,818	10.81%	488,923	4.58%	\$0.80	(46,402)	(178,685)	86,749	172,079
Moreno Valley	88	28,315,510	982,300	43,354,689	133,048	0.47%	238,658	0.84%	\$0.81	1,259,685	1,647,076	36,471	537,367
Perris	210	29,538,712	2,220,349	7,580,766	767,553	2.60%	841,236	2.85%	\$0.95	883,275	3,127,443	1,930,159	4,314,255
Redlands / Loma Linda	232	27,753,145	154,946	1,269,322	512,241	1.85%	2,425,130	8.74%	\$0.43	(31,562)	337,313	17,680	762,121
Rialto	191	29,563,641	1,119,693	460,698	1,810,345	6.12%	1,812,183	6.13%	\$0.60	1,263,752	2,740,123	837,885	2,797,878
Riverside	1,088	52,862,686	651,324	3,943,800	2,408,495	4.56%	3,268,479	6.18%	\$0.77	707	681,236	470,624	2,869,285
San Bernardino / Highland	575	40,564,793	2,503,171	481,301	738,558	1.82%	1,020,499	2.52%	\$0.99	(5,368)	1,930,372	297,459	2,427,152
5,000-24,999	2,370	28,032,988	316,863	278,764	931,879	3.32%	1,334,343	4.76%	\$0.81	120,122	28,840	481,079	1,210,037
25,000-49,999	549	19,067,501	221,682	546,339	391,090	2.05%	853,539	4.48%	\$0.73	65,098	74,480	231,167	626,023
50,000-99,999	323	22,136,240	800,960	803,524	687,805	3.11%	1,080,129	4.88%	\$0.79	183,223	597,757	281,082	1,135,193
100,000-249,999	242	36,885,820	3,304,357	2,202,455	2,383,928	6.46%	3,305,778	8.96%	\$0.75	536,120	690,076	874,384	2,422,453
250,000-499,999	118	43,384,174	3,189,807	3,832,658	3,635,269	8.38%	3,992,866	9.20%	\$0.69	855,876	1,667,132	1,177,076	2,974,881
500,000 plus	138	118,452,018	1,415,528	57,040,230	1,764,894	1.49%	2,720,047	2.30%	\$0.00	2,637,542	10,980,740	1,651,909	10,090,545
East Total	3,740	267,958,741	9,249,197	64,703,970	9,794,865	3.66%	13,286,702	4.96%	\$0.73	4,397,981	14,039,025	4,696,697	18,459,132
Inland Empire Total	8,412	588,443,636	18,314,444	69,861,467	20,687,814	3.52%	27,595,992	4.69%	\$0.75	4,460,841	13,996,053	13,300,748	37,343,878
5,000-24,999	5,100	60,977,522	394,596	534,351	1,809,476	2.97%	2,565,978	4.21%	\$0.84	249,841	27,768	1,107,124	2,517,681
25,000-49,999	1,267	44,205,966	526,101	1,059,156	1,131,878	2.56%	1,852,232	4.19%	\$0.78	199,868	107,071	824,054	1,890,489
50,000-99,999	771	53,287,401	1,567,591	1,487,734	1,889,051	3.55%	2,689,036	5.05%	\$0.81	91,257	532,037	1,062,273	3,341,386
100,000-249,999	684	104,243,456	6,096,148	4,124,351	4,418,058	4.24%	6,439,549	6.18%	\$0.76	851,965	1,293,419	3,387,217	8,097,635
250,000-499,999	343	123,350,620	3,797,235	5,114,902	5,135,400	4.16%	6,048,537	4.90%	\$0.00	1,691,646	1,705,263	3,255,731	6,387,235
500,000 plus	247	202,378,671	5,932,773	57,540,973	6,303,951	3.11%	8,000,660	3.95%	\$0.00	1,376,264	10,330,495	3,664,349	15,109,452
Inland Empire Total	8,412	588,443,636	18,314,444	69,861,467	20,687,814	3.52%	27,595,992	4.69%	\$0.75	4,460,841	13,996,053	13,300,748	37,343,878
High Desert													
Adelanto	147	4,250,598	23,580	268,000	425,958	10.02%	578,026	13.60%	\$1.33	131,510	164,115	131,510	212,305
Apple Valley	75	3,847,809	0	0	28,820	0.75%	27,838	0.72%	\$0.00	(3,018)	(9,556)	10,272	23,164
Barstow	53	1,062,910	0	0	0	0.00%	11,000	1.03%	\$0.00	7,000	0	7,000	21,680
Hesperia	188	3,259,220	0	0	47,195	1.45%	50,343	1.54%	\$0.94	(9,932)	7,166	13,352	61,265
Victorville	129	8,218,463	0	10,859,700	406,031	4.94%	448,440	5.46%	\$0.76	28,763	68,533	42,278	101,790
High Desert Total	592	20,639,000	23,580	11,127,700	908,004	4.40%	1,115,647	5.41%	\$1.25	154,323	230,258	204,412	420,204
Temecula Valley													
Hemet	86	1,549,371	0	0	169,228	10.92%	195,628	12.63%	\$0.50	(22,750)	(141,588)	0	21,162
Lake Elsinore	176	2,619,183	0	110,635	34,119	1.30%	124,263	4.74%	\$0.77	(3,475)	4,414	25,115	110,895
Menifee	25	513,036	0	0	2,297	0.45%	4,500	0.88%	\$0.60	(2,297)	44,303	2,297	48,897
Murrieta	254	3,870,040	28,000	99,562	127,100	3.28%	253,200	6.54%	\$0.00	(6,514)	(8,451)	38,456	150,670
San Jacinto	65	1,074,064	0	0	40,200	3.74%	47,700	4.44%	\$0.00	(18,000)	12,425	0	30,425
Temecula	333	10,572,918	0	196,788	479,413	4.53%	882,003	8.34%	\$0.68	(50,516)	(101,560)	159,730	310,073
Wildomar	12	324,860	0	0	4,478	1.38%	4,478	1.38%	\$0.79	0	1,889	0	6,367
Temecula Valley Total	951	20,523,472	28,000	406,985	856,835	4.17%	1,511,772	7.37%	\$0.68	(103,552)	(188,568)	225,598	678,489

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



Industrial Real Estate & The Expansion of E-Commerce

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Two things that continue to go hand in hand, even in this pre-vaccine world we live in, are the e-commerce industry and industrial property owners. A majority of the companies which occupy industrial buildings in the Inland Empire have been working tirelessly to uphold the supply chain that is so vital to the health of our economy. Freight forwarders, third-party logistics operators and major e-commerce retailers like Amazon are seeing an unprecedented level of demand, which correlates to a significant increase in the need for industrial space.

I see the Inland Empire continuing to be a focal point for e-commerce companies as the pandemic has created sustained growth for this industry, in stark contrast to the setbacks we've seen in the entertainment, hospitality, retail, airline and any other business sectors deemed to be "non-essential". The Inland Empire is home to more than 580 buildings that have more than 250,000 SF of rentable area, and e-commerce companies are eager to secure these buildings due to the spike in demand created by the stay-at-home order that began back in March. The Inland Empire market offers lower rents than the markets closer to the coast, which attracts e-commerce companies looking to offset high costs associated with the need for skilled truck drivers, equipment maintenance and fuel for trips to the ports of Los Angeles and other distribution hubs.

Economists and real estate experts call it "The Amazon-Effect," and that could not be a more accurate description. Mr. Bezos and company have revolutionized the retail experience and Amazon continues to dominate online retailing with its ease of use and promise of same or next-day delivery. The company now has twenty fulfillment centers running 24/7 in the Inland Empire, while brick-and-mortar stores continue to struggle under social distancing guidelines and the loss of customers due to the growing acceptance of online shopping. If ever there was a perfect example of "creative destruction," it's Amazon.

To accommodate the rising demand for quality distribution facilities, Class A industrial buildings are being built with higher ceilings (30 to 36 feet or more) and high-tech fire sprinkler systems, which allow tenants to gain efficiency through the use of state-of-the-art racking systems. Larger truck courts, another key feature in Class A buildings, help tenants handle a higher volume of trucks and trailers at one time.

The e-commerce industry will continue to stimulate the economy by boosting consumer spending, creating jobs and fueling demand for industrial space. Developers will respond by continuing to build projects that will support further growth and efficiency for e-commerce users. That bodes well for the Inland Empire region, one of the nation's largest distribution hubs.

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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