FOURTH QUARTER 2020 MARKET REPORT INLAND EMPIRE INDUSTRIAL



OVERVIEW. The Inland Empire industrial market continued charging forward in Q4 despite the challenges associated with the pandemic. The region is a major hub for e-commerce retailers, 3PL operators and almost everything associated with the logistics sector. In many ways the IE has been the beneficiary of the change in how consumers acquire products during the crisis. Online retailing is booming and institutional investors and developers continue to lead the way with massive acquisitions of both finished projects and land for ground-up development of state-of-the-art distribution facilities. All major indicators were in the green in Q4. Gross and net absorption were both up, vacancy fell sharply and average asking lease rates rose to a new high-water mark.

VACANCY & AVAILABILITY. Despite record amounts of new speculative development and a steady stream of new deliveries, the vacancy rate for the IE fell sharply in Q4 from 3.86% to 3.10%, which makes clear the nearly insatiable appetite the logistics and e-commerce sectors have for quality space. Ontario, the city with the largest inventory in the IE West (111 MSF), recorded another significant decline in vacancy during the period, falling 143 basis points to a scant 2.09%. In the IE East, Corona/Norco, with a base of 32.7 MSF, saw an even bigger drop in vacant space, falling from 4.71% to 2.54% in just three months.

LEASE RATES & SALES PRICES. The average asking lease rate in Q4 is up 2 cents to \$0.78. However, many new projects, which command the highest rates, are marketed without an asking rate. If they were, the average rate would be higher, as first-generation space has more clear height and the latest in fire suppression technology that allow for more efficient use of space. Average rates jumped by 5 cents in the IE East area in Q4, a reflection of the high volume of space leased in recently completed projects. The spread between asking rates in IE West vs IE East rose to 9 cents in Q4, mainly due to higher rates for smaller spaces in the IE West. The highest average rate, \$1.14, was quoted for spaces under 25,000 square feet in IE West versus just \$0.84 for that size range in the IE East submarket.

TRANSACTION ACTIVITY. Lease and sale transaction activity remained at a high level in Q4. Just over 14.1 MSF of space was transacted during the period. Of that total, 3.7 MSF was sold via 95 sales and 237 leases were inked for another 10.4 MSF. Those totals are down slightly compared with the previous quarter, but on par on a year-over-year basis. In the past three years, quarterly sale and lease activity has ranged from 11.1 million to nearly 26 MSF, making it one of the most active markets in the nation due to its status as the major distribution hub in the western US.

ABSORPTION. The IE East region was again well ahead in terms of positive net absorption compared with the IE West. The net gain in occupied space in the IE East was nearly 4.5 MSF, compared to just 551,000 square feet in the West. This is largely due to a higher concentration of new deliveries in that area, which is also a less expensive alternative than new product in the IE West region. Rialto and Moreno Valley were the biggest contributors, each adding



 VACANCY: Total Vacant Space Divided by Total Existing Inventory
 AVAILABILITY: Total Amount of Space that is Available whether Occupied, for Sublease, or Available at a Future Date
 AVERAGE ASKING LEASE RATE: NNN / SF / Month

TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



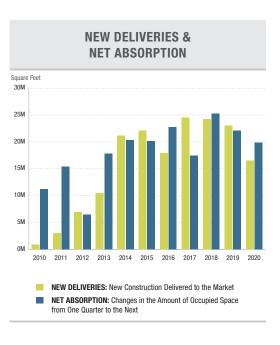
Market Statistics

	Change Over Last Quarter		4Q 2020	3Q 2020	4Q 2019	% Change Over Last Year	
Total Vacancy Rate	DOW	/N	3.10%	3.86%	4.60%	(32.58%)	
Availability Rate	DOW	/N	3.91%	4.82%	5.30%	(26.15%)	
Average Asking Lease Rate	UP		\$0.78	\$0.75	\$0.75	4.00%	
Sale & Lease Transactions	DOW	/N	14,183,291	16,391,239	19,477,604	(27.18%)	
Gross Absorption	UP		13,300,748	9,549,283	9,190,207	44.73%	
Net Absorption	POSI	ITIVE	5,014,739	2,639,540	4,949,393	N/A	

more than 1.2 MSF to the total of occupied space in the final quarter. For the year, IE East was the biggest contributor to region-wide net absorption. Of the 19.8 million-square-foot net gain in the IE's occupied space, more than 17 MSF of that total was recorded in IE East.

CONSTRUCTION. The Inland Empire is the only major market in Southern California with significant construction activity. Orange, Los Angeles and San Diego Counties are now infill markets with few opportunities for ground-up development. The IE currently has more than 21 MSF of industrial space in the construction queue, the vast majority of which is state-of-the-art distribution space designed to meet the needs of the logistics sector. That is more than 20 times the amount of space under construction in Orange County. No wonder many Orange County companies in need of quality space have expanded their search parameters to include the Inland Empire. Another 60 MSF is in the planning stages, 88% of which is slated for buildings greater than 500,000 square feet in the IE East.

EMPLOYMENT. The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 7.9% in November 2020, down from a revised 8.7% in October 2020, and above the year-ago estimate of 3.7%. This compares with an unadjusted unemployment rate of 7.9% for California and 6.4% for the nation during the same period. Construction (up 1,900), manufacturing (up 800), and leisure and hospitality (up 100) all recorded month-over job gains and leading all industry sectors in month-over-month job gains was trade, transportation, and utilities (up 15,600).



Forecast

With the wind at its back due to the prolific rise in demand for distribution facilities, the Inland Empire looks to continue its winning ways in 2021. The pandemic has the biggest players doubling down and taking even more space as they expand their business operations to meet consumer demand. The online retail phenomenon has been around for years, but the pandemic forced even the most reluctant consumers into the online shopping world. The inevitability of that was clear, but the pandemic accelerated the timeline and online consumer sales have skyrocketed. That trend will only become more dominant going forward and big distribution hubs like the Inland Empire will be the beneficiaries.

One possible hindrance to future commercial real estate expansion here is the prospect of higher taxes under the new administration in Washington DC. Our new president campaigned on a platform to raise taxes on personal and corporate income, taxing capital gains as ordinary income, eliminating 1031 exchanges, doing away with the step-up rule and lowering the threshold for estate taxes. Any one or combination of these possible changes could have a severe negative impact on owners and occupants of industrial real estate.

Significant Transactions

S							
Sales							
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller		
13472 Marlay Ave.	Fontana	406,800	\$61,650,000	Eaton Vance Investment Managers	TechData Corporation		
1601-1603 E. Steel Rd. – 2 Buildings	Colton	330,634	\$46,000,500	Brookfield Properties	Aquatic Adventures LLC		
601 Rockefeller Ave.	Ontario	252,800	\$65,266,582	Truist	DPI Specialty Foods		
7630-7580 Cherry Ave. – 2 Buildings	Fontana	203,451	\$34,275,000	Dermody Properties, Inc.	Safavieh, Inc.		
736 W. Inland Center Dr.	San Bernardino	190,704	\$25,375,000	Innovative Industrial Properties, Inc.	Shiv Shakti Industries Inc.		
Leases							
Property Address	Submarket	Square Feet	Transaction Date	Tenant	0wner		
5170 Archibald Ave.	Ontario	1,000,930	Dec-20	Restoration Hardware	Ivanhoe Cambridge, Inc.		
11640 Harrell St.	Jurupa Valley	886,055	Nov-2020	Custom Goods, LLC	Nuveen Real Estate		
1950 Palmetto Ave. – Sublease	Redlands	809,338	Dec-2020	Geodis Logistics	Prologis		
2221 E. Remington Ave.	Ontario	700,280	Oct-2020	US eLogistics Services	Ivanhoe Cambridge, Inc.		
3155 Universe Dr.	Mira Loma	606,925	Oct-2020	Act Fulfillment	Comref So Cal Industrial Sub A		

	INVENTORY				VAC	VACANCY & LEASE RATES					ABSOR	PTION	
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2020	Square Feet Available	Availability Rate 4Q2020	Average Asking Lease Rate	Net Absorption 4Q2020	Net Absorption 2020	Gross Absorption 4Q2020	Gross Absorption 2020
West													
Chino / Chino Hills	907	53,630,224	251,906	1,053,675	923,104	1.72%	915,841	1.71%	\$0.68	321,558	566,145	1,051,849	2,565,999
Fontana	737	65,225,052	3,714,470	1,122,231	1,936,951	2.97%	2,750,355	4.22%	\$0.90	517,872	880,923	1,092,282	3,554,491
Mira Loma/Eastvale/Jurupa Valley	387	44,832,030	0	0	1,609,458	3.59%	1,326,793	2.96%	\$1.01	(409,707)	532,139	1,096,327	3,399,301
Montclair	201	3,893,410	56,000	0	179,249	4.60%	173,163	4.45%	\$0.69	211,040	248,008	193,056	460,411
Ontario	1,475	111,102,255	5,401,163	973,637	2,326,822	2.09%	4,983,859	4.49%	\$0.76	867,092	79,359	3,649,598	8,135,737
Rancho Cucamonga	735	41,125,709	482,917	1,225,276	2,078,889	5.05%	3,001,527	7.30%	\$0.86	(919,737)	281,852	1,501,803	4,375,026
Upland	253	3,914,687	0	264,480	63,051	1.61%	113,259	2.89%	\$0.90	(36,360)	(71,497)	19,136	224,226
5,000-24,999	2,732	32,966,432	184,334	195,575	604,796	1.83%	974,382	2.96%	\$1.14	129,719	148,515	626,045	1,834,387
25,000-49,999	725	25,379,420	403,165	411,411	749,765	2.95%	912,568	3.60%	\$0.81	134,770	134,528	592,887	1,778,967
50,000-99,999	452	31,419,154	700,988	1,087,978	1,370,525	4.36%	1,499,839	4.77%	\$0.76	(39,496)	116,148	781,191	2,788,366
100,000-249,999	449	68,586,389	3,153,181	2,067,388	2,002,239	2.92%	3,347,958	4.88%	\$0.68	429,243	909,772	2,512,833	6,785,328
250,000-499,999	226	80,273,282	1,513,468	376,204	676,485	0.84%	3,033,853	3.78%	\$0.00	1,158,800	851,931	2,078,655	3,903,124
500,000 plus	111	85,098,690	3,951,320	500,743	3,713,714	4.36%	3,496,197	4.11%	\$0.00	(1,261,278)	356,035	2,012,440	5,625,019
West Total	4,695	323,723,367	9,906,456	4,639,299	9,117,524	2.82%	13,264,797	4.10%	\$0.87	551,758	2,516,929	8,604,051	22,715,191
East													
Banning	48	945,004	0	0	19,750	2.09%	90,750	9.60%	\$0.00	3,164	38,329	48,332	108,547
Beaumont	45	6,379,904	0	4,863,360	15,400	0.24%	15,400	0.24%	\$0.00	0	999,936	2,283	1,007,119
Bloomington	104	8,609,709	1,059,669	174,780	1,091,782	12.68%	585,876	6.80%	\$0.00	782,058	2,045,050	380,952	1,653,454
Corona/Norco	984	32,747,226	562,600	491,299	833,166	2.54%	1,414,418	4.32%	\$0.73	288,672	1,490,724	588,103	2,922,508
Colton / Grand Terrace	179	10,678,411	471,247	267,763	303,344	2.84%	313,710	2.94%	\$0.80	(46,402)	431,884	86,749	738,248
Moreno Valley	89	28,578,622	947,364	43,132,830	386,797	1.35%	363,265	1.27%	\$0.81	1,259,685	1,498,807	36,471	1,105,905
Perris	216	31,438,357	1,221,345	8,470,436	613,847	1.95%	1,062,352	3.38%	\$0.95	883,275	3,960,734	1,930,159	5,314,842
Redlands/Loma Linda	232	27,816,671	1,376,169	369,486	1,514,885	5.45%	1,437,944	5.17%	\$0.37	(31,562)	86,921	17,680	915,572
Rialto	194	29,842,551	895,451	647,887	1,461,722	4.90%	1,012,144	3.39%	\$0.55	1,263,752	3,462,227	837,885	3,482,496
Riverside	1,091	53,733,528	2,775,037	1,758,182	2,586,611	4.81%	2,821,764	5.25%	\$0.73	65,707	1,220,737	470,624	3,649,125
San Bernardino/Highland	576	40,601,887	2,503,171	490,047	511,934	1.26%	907,877	2.24%	\$0.87	(5,368)	2,088,974	297,459	2,499,455
5,000-24,999	2,369	28,037,358	249,687	268,020	841,064	3.00%	1,105,635	3.94%	\$0.84	120,122	130,847	481,079	1,621,624
25,000-49,999	553	19,235,580	267,867	538,011	342,757	1.78%	826,142	4.29%	\$0.75	65,098	67,325	231,167	744,473
50,000-99,999	327	22,436,668	1,081,134	635,928	854,196	3.81%	946,809	4.22%	\$0.73	183,223	868,647	281,082	1,466,056
100,000-249,999	249	37,967,370	3,200,875	1,580,390	2,064,184	5.44%	2,805,236	7.39%	\$0.75	601,120	2,248,501	874,384	3,898,325
250.000-499.999	120	44,064,634	3,132,326	3,698,643	2,779,300	6.31%	2,312,905	5.25%	\$0.73	855,876	2,385,000	1,177,076	5,576,248
500,000 plus	140	119,630,260	3,880,164	53,945,078	2,457,737	2.05%	2,028,773	1.70%	\$0.00	2,637,542	11,624,003	1,651,909	10,090,545
East Total	3,758	271,371,870	11,812,053	60.666.070	9,339,238	3.44%	10,025,500	3.69%	\$0.78	4,462,981	17,324,323	4,696,697	23,397,271
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Inland Empire Total	8,453	595,095,237	21,718,509	65,305,369	18,456,762	3.10%	23,290,297	3.91%	\$0.78	5,014,739	19,841,252	13,300,748	46,112,462
5,000-24,999	5,101	61,003,790	434,021	463,595	1,445,860	2.37%	2,080,017	3.41%	\$0.92	249,841	279,362	1,107,124	3,456,011
25,000-49,999	1,278	44,615,000	671,032	949,422	1,092,522	2.45%	1,738,710	3.90%	\$0.74	199,868	201,853	824,054	2,523,440
50,000-99,999	779	53,855,822	1,782,122	1,723,906	2,224,721	4.13%	2,446,648	4.54%	\$0.71	143,727	984,795	1,062,273	4,254,422
100,000-249,999	698	106,553,759	6,354,056	3,647,778	4,066,423	3.82%	6,153,194	5.77%	\$0.69	1,030,363	3,158,273	3,387,217	10,683,653
250,000-499,999	346	124,337,916	4,645,794	4,074,847	3,455,785	2.78%	5,346,758	4.30%	\$0.00	2,014,676	3,236,931	3,255,731	9,479,372
500,000 plus	251	204,728,950	7,831,484	54,445,821	6,171,451	3.01%	5,524,970	2.70%	\$0.00	1,376,264	11,980,038	3,664,349	15,715,564
Inland Empire Total	8,453	595,095,237	21,718,509	65,305,369	18,456,762	3.10%	23,290,297	3.91%	\$0.78	5,014,739	19,841,252	13,300,748	46,112,462
High Desert													
Adelanto	147	4,250,598	23,580	240,000	362,208	8.52%	633,976	14.91%	\$1.33	131,510	208,615	131,510	256,805
Apple Valley	75	3,847,809	0	0	35,158	0.91%	35,158	0.91%	\$0.00	(3,018)	(16,876)	10,272	32,944
Barstow	53	1,062,910	0	0	16,230	1.53%	20,230	1.90%	\$0.00	7,000	(16,230)	7,000	21,680
Hesperia	189	3,268,820	0	1,000,000	74,299	2.27%	80,699	2.47%	\$0.94	(9,932)	(26,790)	13,352	69,809
Victorville	130	8,247,749	0	10,859,700	439,686	5.33%	474,881	5.76%	\$0.76	28,763	27,271	42,278	112,256
High Desert Total	594	20,677,886	23,580	12,099,700	927,581	4.49%	1,244,944	6.02%	\$1.25	154,323	175,990	204,412	493,494
-	001	20,011,000	20,000	12,000,700	02.,00.		.,2,0	0.0270	Ψ20	101,020	,,,,,	201,112	100,101
Temecula Valley	00	1 5/0 974	0	0	164 070	10 650/	101 000	11 600/	¢0 50	(22 750)	(152 500)	0	21 160
Hemet	176	1,549,371	0	110.635	164,978	10.65%	181,083	11.69%	\$0.50	(22,750)	(153,588)	0	21,162
Lake Elsinore	176	2,619,183	0	110,635	22,555	0.86%	103,408	3.95%	\$0.77	(3,475)	10,614	25,115	126,786
Menifee	25	513,036	0 000	0	0 01 007	0.00%	0	0.00%	\$0.60	(2,297)	44,303	2,297	48,897
Murrieta	254	3,870,040	28,000	99,562	81,867	2.12%	118,997	3.07%	\$0.00	(6,514)	14,088	38,456	212,591
San Jacinto	65	1,074,064	0	0	45,200	4.21%	40,200	3.74%	\$0.00	(18,000)	12,425	0	32,925
Temecula	333	10,572,918	0	196,788	384,835	3.64%	907,331	8.58%	\$0.68	(50,516)	(84,972)	159,730	450,021
Wildomar	12	324,860	0	0	0	0.00%	0	0.00%	\$0.79	0	6,367	0	10,845
Temecula Valley Total	951	20,523,472	28,000	406,985	699,435	3.41%	1,351,019	6.58%	\$0.68	(103,552)	(150,763)	225,598	903,227

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

IE4Q20

FOURTH QUARTER 2020 MARKET REPORT INLAND EMPIRE INDUSTRIAL





No Stopping the Inland Empire

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No one could have predicted this. At the beginning of the year, if someone told you that the economy would start the year at an all-time high, experience a once-in-acentury pandemic and end the year with the stock market back at all-time highs — you probably would not have believed it. But that is exactly what happened. Of course, it's all very clear now as hindsight is twenty-twenty (2020).

The pandemic accelerated many trends, one of which is the wider adoption of E-commerce. E-commerce had a strong Q3, with a 57% year-over-year increase in US online sales, and the sector now accounts for 19.3% of all retail sales (up from 15.5% in 2019). It is estimated that the pandemic accelerated this growth anywhere from four to six years. This trend should continue into the foreseeable future with no signs of slowing down.

Many of the lease transactions that occurred during the latter part of 2020 were deals that included some sort of E-commerce component, such as Amazon, Go Plus, JD.com and NewEgg, as well as logistics providers such as UPS & XPO Logistics.

Another trend we continue to see is a migration of users coming into the Inland Empire from neighboring Los Angeles and Orange Counties. Users are able to find higher quality facilities at relative bargains when compared with those areas. I am actively involved in two such owner-user sales where this is precisely the case. Both users are owners of older, antiquated facilities who are exchanging into brand-new buildings, currently under construction in the Inland Empire.

I do believe this trend will persist as availabilities continue to decline and it becomes increasingly difficult to find Class A product. The Inland Empire is one of the few locations where developers can find land to build the facilities that today's users are demanding.

How will this all end? No one really knows for sure. For the moment, though, there are few signs of weakness in the industrial real estate market and we are about to see wide-scale distribution of multiple coronavirus vaccines. It certainly feels like there is plenty of demand from both tenants and owner/users, which suggests we will see another banner year in 2021

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

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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.