

OVERVIEW. The Inland Empire industrial market continued its amazing bull run in the first quarter of 2021. The pandemic crisis has given the entire region a boost, fueled by e-commerce users, 3PL and any use associated with the logistics sector. The region is one of the biggest distribution hubs in the country and now boasts an existing inventory of nearly 600 MSF. Online retailing is growing in leaps and bounds and institutional investors and developers remain on their acquisition binge in anticipation of further growth within the region's ever-expanding distribution base. Tight supply in the Los Angeles and Orange County markets is adding to demand in the IE, as users from those areas look to the IE to fulfill their need for state-of-art distribution facilities. Major market metrics all point to the continued health of the industrial market. Net absorption was up, vacancy fell sharply and average asking lease rates rose to a record high.

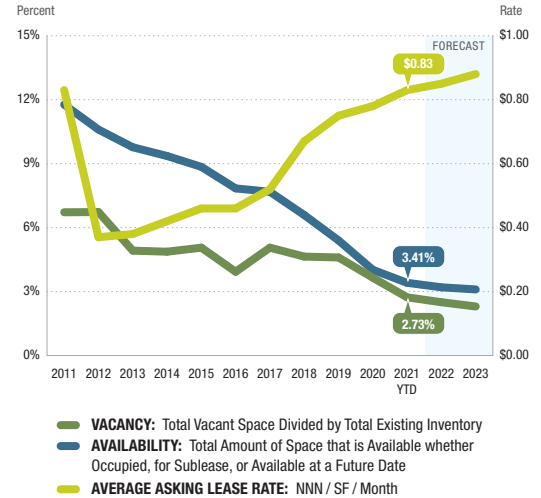
VACANCY & AVAILABILITY. Despite a flood of new speculative deliveries, the vacancy rate in the IE fell another 92 basis points in Q1 to just 2.73%, further evidence of the logistic sector's insatiable appetite for quality space. The IE-West submarket saw its vacancy rate decline by 51 basis points to just 2.33%. IE-East saw a more modest decline of 23 basis points to 3.21%. In select cities, things look even tighter. The Chino/Chino Hills area, with a base inventory of more than 53 MSF, ended Q1 with a vacancy rate of only 0.56%. Similarly, just 1.50% of Mira Loma/Eastvale/Jurupa Valley's 44-MSF base was vacant as the period ended. Thankfully, construction activity is running at full tilt, which helps keep the vacancy rate from reaching even more dangerously low levels. Looking at vacancy by size range, the rate is highest in buildings between 50,000 and 100,000 SF and lowest in buildings under 25,000 SF. In the 253 buildings over 500,000 SF, only 2.82% of that inventory is vacant, with a good portion of that concentrated in recently completed speculative projects.

LEASE RATES & SALES PRICES. The average asking lease rate in Q1 was up another 5 cents to \$0.83. However, as previously reported, many new projects, which command the highest rates, are marketed without an asking rate. If they posted their rates, the average rate would be higher, as first-generation space with more clear height and the latest in fire suppression technology leases at a premium to the average rate. Average rates jumped by 5 cents in the IE East area in Q4, also reflecting the high volume of space leased in recently completed projects. The spread between asking rates in IE West vs IE East narrowed to just \$.06 in Q1. The highest average rate, \$1.19, was quoted for spaces under 25,000 SF in IE West versus \$.90 for that size range in the IE East submarket.

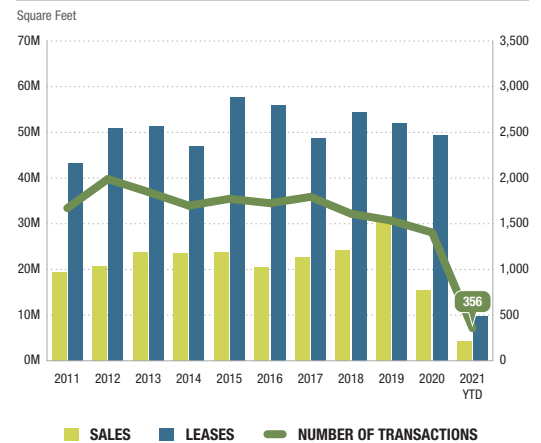
TRANSACTION ACTIVITY. Overall lease and sale transaction activity moderated in Q1 after a robust final quarter of 2020. More than 14 MSF of space was transacted during the period. Of that total, 100 buildings were sold totaling 4.3 MSF and 9.7 MSF of space was leased in 256 transactions. In the past year, more than 52 MSF has either been leased or sold in the Inland Empire, putting the region in the top tier of distribution hubs like Dallas/Fort Worth, Philadelphia, Chicago and Atlanta. The largest sale transactions in Q1 included the \$125M sale of 743,000 SF in Colton to Heitman LLC from Black Creek Group and the \$84M sale of 341,000 SF to Blackstone from LBA, also in Colton.

ABSORPTION. The IE West region took the lead in terms of positive net absorption after being outperformed by the IE East for the past several quarters. The net gain in occupied space in the IE West topped 3.2 MSF in Q1, compared with 1.75 MSF in IE East. In Q4 of last year, net absorption was just 551,000 SF in the IE West and almost 4.5 MSF in the IE East. This was largely due to a higher concentration

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



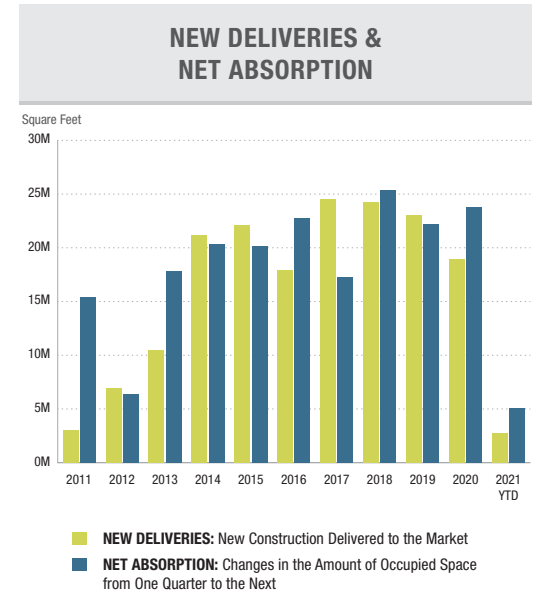
Market Statistics

	Change Over Last Quarter	1Q 2021	4Q 2020	1Q 2020	% Change Over Last Year
Total Vacancy Rate	▼ DOWN	2.73%	3.65%	4.39%	(37.84%)
Availability Rate	▼ DOWN	3.41%	4.02%	5.56%	(38.58%)
Average Asking Lease Rate	▲ UP	\$0.83	\$0.78	\$0.73	13.70%
Sale & Lease Transactions	▼ DOWN	14,058,494	18,066,165	16,530,208	(14.95%)
Gross Absorption	▲ UP	11,834,455	7,460,241	10,227,010	15.72%
Net Absorption	▲ POSITIVE	5,050,829	3,498,061	7,059,809	N/A

of new deliveries in IE East, which has proven to be a less expensive alternative than new product in the IE West region. However, the price gap is closing, as big box distribution companies are willing to locate throughout the entire region to secure efficient space. The Miraloma/Eastvale/Jurupa Valley submarket posted the biggest net gain in occupied space in IE West, while Beaumont and Banning combined for a gain of 5.3 MSF to lead the way in IE East. Net absorption follows construction activity given that most major projects are near full lease-up within a few months of completion and absorption is recorded upon occupancy.

CONSTRUCTION. The Inland Empire is still 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 20 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. By comparison, the Los Angeles market has just 1.6 MSF underway, and Orange County's construction pipeline is just 351,000 SF. This is the primary reason why Los Angeles and Orange County companies are looking to the Inland Empire to expand their facilities. The IE has another 71 MSF in the planning stages, over 80% of which is in buildings larger than 500,000 SF.

EMPLOYMENT. The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 8.1% in February 2021, down from a revised 8.6% in January 2021, and above the year-ago estimate of 3.9%. The unemployment rate was 8.0% in Riverside County, and 8.1% in San Bernardino County. Industry sectors reduced year-over-year payroll levels, including manufacturing (down 9,100), professional and business services (down 8,900), construction (down 500), and mining and logging (down 100). The sole industry sector to advance employment levels over the year was trade, transportation, and utilities (up 20,300).



Forecast

The Inland Empire industrial market has the momentum of a freight train running downhill. There seems to be no stopping it. Construction of state-of-the-art distribution facilities is expected to continue throughout the year, and that will attract growing companies to take large blocks of space to accommodate their prolific growth. E-commerce is here to stay and the IE industrial market will continue to be a primary beneficiary of that trend. Lease rates and sales prices are expected to move higher, in part due to demand, but also due to higher land costs for ground-up development. The pandemic has played right into the hands of Amazon, other big e-retailers and the rest of the logistics industry.

One possible hindrance to future commercial real estate expansion here is the prospect of higher taxes under the new federal administration. 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 a combination of these possible changes could have a severe negative impact on owners and occupants of industrial real estate. It's too soon to know which tax proposals will be promoted in upcoming legislation and in what order, but everyone should be keeping a close eye on Washington and plan accordingly.

Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2163 Riverside & 2036-2053 Miguel Bustamante	Colton	743,381	\$125,000,000	Heitman LLC	Black Creek Group
1600 W. Agua Mansa Rd.	Colton	340,864	\$84,587,685	Blackstone Real Estate Income	LBA Realty
15816 Santa Ana Ave.	Fontana	310,550	\$69,757,990	Blackstone Real Estate Income	LBA Realty
10965 Banana Ave. *	Fontana	297,161	\$54,000,000	Haralambos	Rockefeller Group *
1115-1135 Research Dr.	Redlands	285,456	\$40,600,000	Penwood Real Estate Investments	Stockbridge Capital Group, LLC

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
8369 Milliken Ave. *	Rancho Cucamonga	441,970	Feb-2021	4PX Express USA *	Prologis
1670 Etiwanda Ave.	Ontario	400,012	Feb-2021	Comptree	JP Morgan/Sares-Regis Group
1301 Harley Knox Blvd.	Perris	397,351	Mar-2021	Kenco Logistics	AEW Capital Management
3177 Space Center Ct.	Jurupa Valley	309,000	Jan-2021	Frito Lay	The Blackstone Group
23850 Brodiaea Ave. *	Moreno Valley	256,795	Mar-2021	Nautilus	Alere Property 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 1Q2021	Square Feet Available	Availability Rate 1Q2021	Average Asking Lease Rate	Net Absorption 1Q2021	Net Absorption 2021	Gross Absorption 1Q2021	Gross Absorption 2021
West													
Chino / Chino Hills	906	53,596,939	524,190	914,918	300,841	0.56%	1,139,944	2.13%	\$0.00	886,126	886,126	1,006,282	1,006,282
Fontana	741	66,062,127	3,173,390	4,657,228	668,459	1.01%	1,659,801	2.51%	\$0.71	1,026,728	1,026,728	894,466	894,466
Mira Loma / Eastvale / Jurupa Valley	388	44,881,084	5,519,375	1,056,861	671,411	1.50%	1,432,561	3.19%	\$0.83	1,428,280	1,428,280	1,692,293	1,692,293
Montclair	201	3,893,410	140,384	0	186,437	4.79%	135,463	3.48%	\$0.69	47,874	47,874	103,613	103,613
Ontario	1,488	113,081,158	3,792,927	734,442	3,672,900	3.25%	4,230,388	3.74%	\$0.81	(92,376)	(92,376)	2,964,529	2,964,529
Rancho Cucamonga	736	41,142,506	482,917	1,365,276	2,026,900	4.93%	2,477,293	6.02%	\$0.86	18,656	18,656	1,425,975	1,425,975
Upland	253	3,916,503	72,205	192,275	81,497	2.08%	214,032	5.46%	\$0.90	(23,131)	(23,131)	35,389	35,389
5,000-24,999	2,738	33,020,553	265,626	424,514	635,155	1.92%	1,021,850	3.09%	\$1.19	(65,158)	(65,158)	339,382	339,382
25,000-49,999	726	25,407,091	644,928	603,362	658,910	2.59%	776,745	3.06%	\$0.71	150,316	150,316	530,258	530,258
50,000-99,999	456	31,733,508	717,461	1,019,928	1,066,655	3.36%	1,200,349	3.78%	\$0.77	486,093	486,093	955,488	955,488
100,000-249,999	453	69,198,028	3,921,135	2,074,464	1,405,556	2.03%	2,769,433	4.00%	\$0.85	1,313,764	1,313,764	2,164,534	2,164,534
250,000-499,999	228	80,917,069	1,169,705	2,011,177	778,916	0.96%	1,294,533	1.60%	\$0.00	756,171	756,171	1,261,159	1,261,159
500,000 plus	112	86,297,478	6,986,533	2,787,555	3,062,743	3.55%	4,226,572	4.90%	\$0.00	650,971	650,971	2,871,726	2,871,726
West Total	4,713	326,573,727	13,705,388	8,921,000	7,607,935	2.33%	11,289,482	3.46%	\$0.88	3,292,157	3,292,157	8,122,547	8,122,547
East													
Banning	47	943,537	0	96,000	79,748	8.45%	130,748	13.86%	\$1.43	(19,998)	(19,998)	0	0
Beaumont	45	6,386,319	0	4,863,360	15,400	0.24%	15,400	0.24%	\$0.85	0	0	0	0
Bloomington	107	9,569,591	174,780	0	748,966	7.83%	745,466	7.79%	\$0.00	502,406	502,406	274,494	274,494
Corona / Norco	984	32,926,809	971,921	82,874	584,419	1.77%	1,281,309	3.89%	\$0.75	530,588	530,588	362,632	362,632
Colton / Grand Terrace	180	10,703,443	471,247	692,572	320,350	2.99%	299,218	2.80%	\$0.80	32,794	32,794	72,134	72,134
Moreno Valley	92	28,884,773	1,628,752	42,410,880	360,758	1.25%	467,228	1.62%	\$0.77	327,753	327,753	825,716	825,716
Perris	217	31,554,649	4,103,591	7,687,078	722,867	2.29%	681,428	2.16%	\$0.00	980	980	111,200	111,200
Redlands / Loma Linda	232	27,816,662	2,167,542	179,400	2,242,318	8.06%	1,474,140	5.30%	\$0.69	(653,441)	(653,441)	240,776	240,776
Rialto	196	30,129,425	852,449	494,541	1,299,474	4.31%	375,415	1.25%	\$0.55	366,365	366,365	593,997	593,997
Riverside	1,098	53,856,806	621,448	4,695,566	1,898,342	3.52%	2,751,305	5.11%	\$0.79	657,826	657,826	983,306	983,306
San Bernardino / Highland	576	40,605,145	1,840,345	1,197,140	500,167	1.23%	970,126	2.39%	\$1.19	13,399	13,399	247,653	247,653
5,000-24,999	2,378	28,180,055	225,547	199,975	764,342	2.71%	1,066,364	3.78%	\$0.90	102,540	102,540	461,172	461,172
25,000-49,999	552	19,209,264	370,297	414,909	415,572	2.16%	735,361	3.83%	\$0.75	29,720	29,720	162,462	162,462
50,000-99,999	329	22,598,520	1,314,276	551,154	615,426	2.72%	1,069,871	4.73%	\$0.87	381,902	381,902	550,405	550,405
100,000-249,999	253	38,591,786	3,414,689	1,435,841	1,731,544	4.49%	2,596,338	6.73%	\$0.81	991,795	991,795	1,031,203	1,031,203
250,000-499,999	121	44,426,863	2,800,294	3,934,309	2,484,756	5.59%	2,314,172	5.21%	\$0.69	556,147	556,147	919,094	919,094
500,000 plus	141	120,370,671	4,706,972	55,863,223	2,761,169	2.29%	1,409,677	1.17%	\$0.00	(303,432)	(303,432)	587,572	587,572
East Total	3,774	273,377,159	12,832,075	62,399,411	8,772,809	3.21%	9,191,783	3.36%	\$0.82	1,758,672	1,758,672	3,711,908	3,711,908
Inland Empire Total	8,487	599,950,886	26,537,463	71,320,411	16,380,744	2.73%	20,481,265	3.41%	\$0.83	5,050,829	5,050,829	11,834,455	11,834,455
5,000-24,999	5,116	61,200,608	491,173	624,489	1,399,497	2.29%	2,088,214	3.41%	\$0.96	37,382	37,382	800,554	800,554
25,000-49,999	1,278	44,616,355	1,015,225	1,018,271	1,074,482	2.41%	1,512,106	3.39%	\$0.85	180,036	180,036	692,720	692,720
50,000-99,999	785	54,332,028	2,031,737	1,571,082	1,682,081	3.10%	2,270,220	4.18%	\$0.78	867,995	867,995	1,505,893	1,505,893
100,000-249,999	706	107,789,814	7,335,824	3,510,305	3,137,100	2.91%	5,365,771	4.98%	\$0.74	2,305,559	2,305,559	3,195,737	3,195,737
250,000-499,999	349	125,343,932	3,969,999	5,945,486	3,263,672	2.60%	3,608,705	2.88%	\$0.67	1,312,318	1,312,318	2,180,253	2,180,253
500,000 plus	253	206,668,149	11,693,505	58,650,778	5,823,912	2.82%	5,636,249	2.73%	\$0.00	347,539	347,539	3,459,298	3,459,298
Inland Empire Total	8,487	599,950,886	26,537,463	71,320,411	16,380,744	2.73%	20,481,265	3.41%	\$0.83	5,050,829	5,050,829	11,834,455	11,834,455
High Desert													
Adelanto	147	4,250,162	0	263,580	271,583	6.39%	563,276	13.25%	\$1.33	96,625	96,625	149,635	149,635
Apple Valley	75	3,862,209	0	0	25,658	0.66%	25,658	0.66%	\$0.00	9,500	9,500	9,500	9,500
Barstow	53	1,061,710	0	0	9,600	0.90%	118,734	11.18%	\$0.00	0	0	0	0
Hesperia	189	3,271,820	0	3,232,000	65,239	1.99%	65,239	1.99%	\$0.94	9,760	9,760	19,780	19,780
Victorville	130	8,247,749	0	10,859,700	424,686	5.15%	450,881	5.47%	\$0.76	15,000	15,000	15,000	15,000
High Desert Total	594	20,693,650	0	14,355,280	796,766	3.85%	1,223,788	5.91%	\$1.25	130,885	130,885	193,915	193,915
Temecula Valley													
Hemet	86	1,549,728	0	0	160,216	10.34%	178,652	11.53%	\$0.50	4,762	4,762	6,262	6,262
Lake Elsinore	176	2,619,110	91,242	20,000	56,740	2.17%	48,163	1.84%	\$0.77	(34,185)	(34,185)	28,049	28,049
Menifee	25	1,188,036	0	0	715,000	60.18%	715,000	60.18%	\$0.60	(715,000)	(715,000)	0	0
Murrieta	256	3,911,549	0	99,562	89,401	2.29%	268,650	6.87%	\$0.00	27,856	27,856	93,337	93,337
San Jacinto	65	1,070,606	0	0	40,200	3.75%	40,200	3.75%	\$0.00	2,500	2,500	2,500	2,500
Temecula	333	10,572,788	0	196,788	471,594	4.46%	566,498	5.36%	\$0.68	(120,932)	(120,932)	245,997	245,997
Wildomar	12	324,860	0	0	0	0.00%	0	0.00%	\$0.79	0	0	0	0
Temecula Valley Total	953	21,236,677	91,242	316,350	1,533,151	7.22%	1,817,163	8.56%	\$0.68	(834,999)	(834,999)	376,145	376,145

This survey consists of industrial buildings greater than 5,000 square feet. Lease rates are on a triple-net basis. Some buildings do not quote asking rental rates and therefore are reflected as \$0.00.

E-commerce Boom Fuels Big Bets on Industrial Real Estate

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“Amazon has surpassed Walmart as the No. 1 apparel retailer in the US thanks in large part to the pandemic fueled e-commerce boom” – Jeff Bezos.

With vacancy at an all-time low and planned construction at an all-time high going into the pandemic crisis, the Inland Empire industrial real estate market activity has barely skipped a beat in the last year. When the Covid-19 crisis first hit, the market experienced a sudden drop in activity, but that turned around quickly due to the resulting spike in e-commerce activity. Even those consumers who had yet to adopt the e-commerce model were forced to rely on it to fulfill their basic needs. Now, the online sales boom is growing so fast that industrial developers are struggling to keep up with demand. The extra boost in leasing activity has also sent lease rates and land prices higher, effectively closing the price gap between the Inland Empire and the Los Angeles and Orange County markets.

Supply constraint in Los Angeles and Orange counties is forcing more tenants to migrate to the Inland Empire. By doing so, they end up getting more for less, as even the highest quality industrial space in the Inland Empire can still be secured at a lower cost. That has reduced the impact of higher drayage fees, which has long been a disincentive to move away from the port areas.

The continuous growth of e-commerce-based companies like Amazon, UPS, XPO Logistics and other third-party providers has attracted institutional investors, who now own a much larger share of the industrial inventory, especially the so-called “big box” distribution buildings. Institutional developers and capital markets investors are placing big bets on the Inland Empire, as they believe the wave of migration will keep prices moving higher over the long term.

Average land prices have increased from \$38 per square foot just prior to the pandemic to more than \$55 per square foot in the first quarter of 2021. That means developers will have to push even harder for higher rents, and based on current conditions, they will probably obtain them.

The Inland Empire has lately been coined “the darling of real estate” by institutional investors, and it’s easy to see why.

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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