

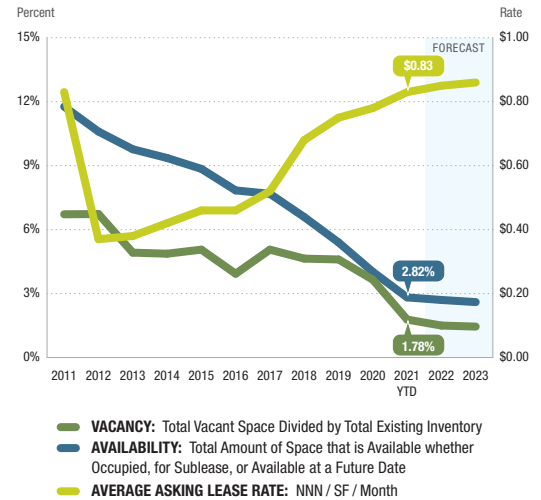
OVERVIEW. The Inland Empire industrial market remained on fire in 2Q. As one of the nation's largest distribution hubs with almost 609 MSF of inventory, the region had already been expanding rapidly before the pandemic. Then, the worldwide crisis actually gave the region a huge boost thanks to e-commerce users and 3PL operators specifically, and any use associated with the logistics sector, in general. All that growth has lifted the rest of the market, as well, as manufacturers and general industrial users have benefitted from the increase in capital flooding the region. Good quality space in all size ranges and configurations is running short on supply while demand continues to strengthen.

VACANCY & AVAILABILITY. For the first time ever, the vacancy rate in the IE fell below 2%, falling 95 basis points in 2Q to just 1.78%. This number is even lower than Orange County, which has been suffering with tight supply for the past several years. The IE-West submarket, which boasts a current inventory of over 329 MSF, saw its vacancy rate decline to a miniscule 1.47% by the end of 2Q, down from 2.33% in just three months. The IE-East submarket fell even more, shedding 107 basis points to only 2.14%. City by city, things look even tighter. Three of the IE West's seven cities now have a vacancy rate less than 1%. The shortage of space runs across all size ranges in both submarkets but is especially low in spaces over 250,000 SF, a range in high demand from the e-commerce sector.

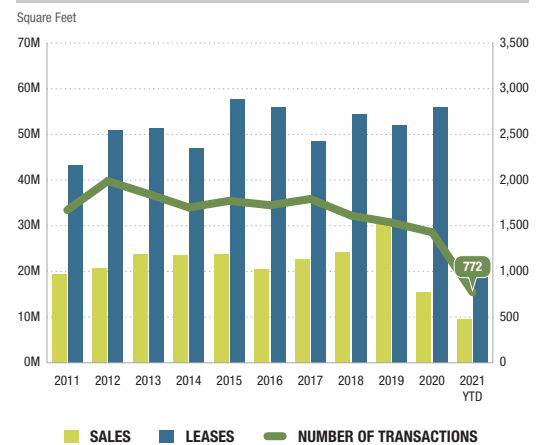
LEASE RATES. The average asking lease rate in 2Q held steady at \$0.83 on a net basis, but that number does not tell the true story about lease rates in the IE. A substantial portion of the available inventory is being offered for lease without an asking rate, and those buildings tend to be newer and of higher quality and functionality. With demand so high for those properties, landlords can create competition among multiple prospective tenants who will bid prices up well above previous comparable transactions. So, actual lease rates have spiked sharply, especially in the past two quarters. For high quality first- and second-generation distribution space over 200,000 SF, prices are being bid into the low 90-cent range on a net basis. For buildings under 200,000 SF, some buildings are leasing at rates of \$1.00 per square foot or even higher.

TRANSACTION ACTIVITY. Overall lease and sale transaction activity declined in 2Q mainly due to a lack of available inventory for lease or sale. Just 9.4 MSF of deals went under contract in 2Q, down from almost 19 MSF in 1Q. Of that total, 84 buildings were sold totaling 3.4 MSF and just over 6 MSF of space was leased in 249 transactions. In the past year, over 60 MSF has either been leased or sold in the Inland Empire, keeping the region in the top tier of the nation's distribution hubs. The IE East saw the two biggest deals of the quarter. The first was a sale of a \$231 million, 1.4 MSF project in Colton by Teachers Insurance & Annuity Trust to The Blackstone Group, Inc. The other was a 639,500 SF lease from Prologis to Amazon in Redlands. Ontario recorded the largest lease in the IE West, a 484,000 SF lease from Transwestern to Home Depot.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



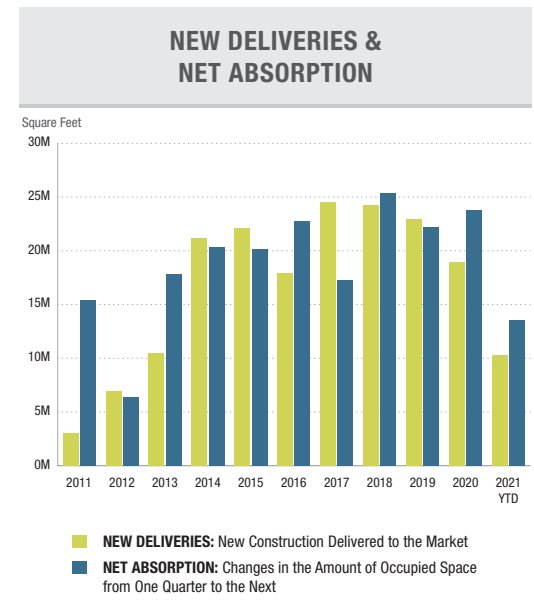
Market Statistics

	Change Over Last Quarter	2Q 2021	1Q 2021	2Q 2020	% Change Over Last Year
Total Vacancy Rate	▼ DOWN	1.78%	2.73%	3.74%	(52.47%)
Availability Rate	▼ DOWN	2.82%	3.41%	5.41%	(47.86%)
Average Asking Lease Rate	▬ FLAT	\$0.83	\$0.83	\$0.72	15.28%
Sale & Lease Transactions	▼ DOWN	9,395,931	18,745,975	12,299,480	(23.61%)
Gross Absorption	▲ UP	13,910,505	11,834,455	10,360,871	34.26%
Net Absorption	▲ POSITIVE	8,530,258	5,050,829	7,835,659	N/A

ABSORPTION. Ontario led the way in terms of positive net absorption in 2Q with a net gain in occupied space of over 1.6 MSF, followed by Rialto at just over 1.1 MSF. All but three cities throughout the region posted positive absorption for the quarter, bringing the total net gain to almost five MSF, on par with 1Q's total. Net absorption has been greatest in the cities with the most construction activity, as most major projects are leasing up to full occupancy within a few months of completion and absorption is recorded upon occupancy.

CONSTRUCTION. The Inland Empire is still going through the construction boom it has been experiencing for the past several years. It remains the only major market in Southern California with significant construction activity. The IE currently has just over 19 MSF of industrial space under construction, almost all of which is state-of-the-art distribution space designed for the logistics sector. The IE East accounts for over two-thirds of that total, as the availability and cost of land is more favorable for ground-up development. Currently, Perris and Moreno Valley are seeing the most construction activity, with 4.4 MSF and 2.3 MSF, respectively. In the IE West, Fontana and Ontario have the most new space in the construction queue, at 5.2 MSF combined.

EMPLOYMENT. The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 7.2% in May 2021, down from a revised 7.5% in April 2021, and below the year-ago estimate of 14.9%. Employment gains were recorded in construction (up 1,600), manufacturing (up 1,300), and trade, transportation, and utilities (up 700).



Forecast

The Inland Empire industrial market should continue to see robust growth through the second half of 2021. Lease and sale activity will rise, and the construction of state-of-the-art distribution facilities should remain at current levels for the balance of year. E-commerce has already changed the world and the pandemic has given it an extra boost, as even those who resisted embracing the concept were forced to do so. It is here to stay, and the IE industrial market is in a perfect position to grow right along with it. Lease rates and sales prices have nowhere to go but up due to low vacancy, low mortgage rates and rising land and construction costs.

However, of growing concern to those in the commercial real estate industry is the current administration's plans for several tax hikes that could directly impact property. If passed, the American Families Plan, a massive stimulus proposal coming from the White House, would tax capital gains as ordinary income, limit 1031 exchanges to the first \$500,000 of gain and levy capital gains taxes at death, which would effectively eliminate the step-up rule, a widely used estate planning strategy. Any one of these changes could severely impact property values. It is still too soon to know what will pass or how it will look if it does, but it is worth watching if you own or wish to own commercial property.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
3994-3996 S. Riverside Ave.	Colton	1,396,495	\$231,200,000	The Blackstone Group Inc.	Teachers Insurance & Annuity Assoc of America
1250 Research Dr.	Redlands	118,481	\$18,374,999	Exeter Property Group	Garner Holt Productions, Inc.
28381 Vincent Moraga Dr.	Temecula	108,927	\$16,000,000	Westcore Properties	Linh Mong O'Steen
9180 Center Ave.	Rancho Cucamonga	102,516	\$24,470,000	Black Creek Group	S & N Woomer II LLC
1400-1410 E. Holt Blvd.	Ontario	91,744	\$16,850,000	EverWest Real Estate Investors, LLC	United Trust Realty Corporation

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
3655 E. Philadelphia St.	Ontario	741,458	Jun-2021	Noble House Home Furnishings*	CF Capital, LLC
1895 Marigold Ave.	Redlands	699,350	Apr-2021	Amazon	Prologis
13230 San Bernardino Ave.	Fontana	484,250	May-2021	DSV Solutions	Prologis
5101 E. Philadelphia St.	Ontario	452,952	Jun-2021	Home Depot Distribution Center	Transwestern
2220 Almond Ave	Redlands	411,879	May-2021	Aosom, Inc.	Clarion Partners

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2021	Square Feet Available	Availability Rate 2Q2021	Average Asking Lease Rate	Net Absorption 2Q2021	Net Absorption 2021	Gross Absorption 2Q2021	Gross Absorption 2021
West													
Chino / Chino Hills	908	53,682,353	1,075,311	836,722	242,150	0.45%	859,197	1.60%	\$0.72	179,953	1,066,079	407,344	1,413,626
Fontana	746	67,105,973	2,586,497	4,341,522	564,684	0.84%	1,395,337	2.08%	\$1.04	445,516	1,331,667	1,253,214	2,147,680
Mira Loma / Eastvale / Jurupa Valley	389	45,285,629	0	0	435,715	0.96%	1,548,031	3.42%	\$1.03	576,808	1,737,832	772,619	2,464,912
Montclair	201	3,905,404	140,384	0	91,250	2.34%	52,866	1.35%	\$0.69	24,445	3,199,422	156,356	259,969
Ontario	1,498	114,544,583	2,342,761	2,306,632	1,659,326	1.45%	2,751,940	2.40%	\$0.82	1,650,202	1,739,500	3,432,381	6,396,910
Rancho Cucamonga	738	41,269,566	725,437	356,030	1,759,912	4.26%	2,208,125	5.35%	\$1.20	688,245	84,641	767,562	2,193,537
Upland	254	3,923,168	72,205	176,950	109,614	2.79%	177,247	4.52%	\$0.23	(27,168)	1,630,145	37,480	72,869
5,000-24,999	2,748	33,117,917	320,252	197,020	572,203	1.73%	738,022	2.23%	\$1.03	51,758	(13,400)	572,144	911,526
25,000-49,999	727	25,465,276	481,313	415,122	512,251	2.01%	822,519	3.23%	\$0.99	34,369	184,685	589,766	1,120,024
50,000-99,999	458	31,866,767	673,826	741,563	772,783	2.43%	812,247	2.55%	\$0.87	105,968	592,061	883,583	1,839,071
100,000-249,999	458	70,058,357	2,813,115	1,503,718	1,294,322	1.85%	2,445,726	3.49%	\$0.85	387,360	1,701,124	2,289,123	4,453,657
250,000-499,999	228	80,884,046	906,040	1,774,525	280,092	0.35%	1,579,400	1.95%	\$0.00	1,439,713	2,195,884	342,694	1,603,853
500,000 plus	115	88,324,313	1,748,049	3,385,908	1,431,000	1.62%	2,594,829	2.94%	\$0.00	1,518,833	2,169,804	2,149,646	5,021,372
West Total	4,734	329,716,676	6,942,595	8,017,856	4,862,651	1.47%	8,992,743	2.73%	\$0.88	3,538,001	6,830,158	6,826,956	14,949,503
East													
Banning	47	943,537	1,000,000	715,959	55,395	5.87%	93,395	9.90%	\$1.95	24,353	4,355	30,853	30,853
Beaumont	45	6,386,319	0	4,863,360	10,065	0.16%	10,065	0.16%	\$0.00	(5,165)	(5,165)	0	0
Bloomington	108	9,669,590	174,780	0	401,106	4.15%	0	0.00%	\$0.00	347,860	850,266	347,860	622,354
Corona / Norco	984	32,938,236	917,972	281,193	695,473	2.11%	774,884	2.35%	\$0.76	(144,387)	386,201	606,336	968,968
Colton / Grand Terrace	182	10,946,061	229,894	456,445	111,690	1.02%	159,374	1.46%	\$0.80	451,513	484,307	113,858	185,992
Moreno Valley	96	30,322,654	2,289,334	41,662,880	102,463	0.34%	517,682	1.71%	\$0.82	258,295	586,048	414,541	1,240,257
Perris	220	31,719,965	4,407,595	10,558,839	162,200	0.51%	246,472	0.78%	\$0.00	948,542	949,522	677,607	788,807
Redlands / Loma Linda	233	28,960,996	1,017,474	179,400	1,338,447	4.62%	1,150,600	3.97%	\$0.00	927,393	273,952	2,171,073	2,411,849
Rialto	199	30,614,802	639,328	499,684	468,755	1.53%	469,595	1.53%	\$0.58	1,154,898	1,521,263	529,622	1,123,619
Riverside	1,101	54,026,150	1,403,657	3,963,566	1,299,676	2.41%	2,456,078	4.55%	\$0.81	340,234	998,060	1,026,497	2,009,803
San Bernardino / Highland	589	42,612,909	536,604	1,197,140	1,321,032	3.10%	2,295,722	5.39%	\$0.71	688,721	702,120	1,165,302	1,412,955
5,000-24,999	2,384	28,238,652	225,672	234,209	553,714	1.96%	739,274	2.62%	\$0.91	68,391	170,931	452,098	913,270
25,000-49,999	556	19,394,345	345,504	361,109	288,324	1.49%	794,149	4.09%	\$0.84	156,456	186,176	455,497	617,959
50,000-99,999	334	23,014,633	1,080,819	651,154	406,323	1.77%	635,161	2.76%	\$0.94	467,002	848,904	609,285	1,159,690
100,000-249,999	262	40,034,297	2,280,633	1,389,742	2,037,788	5.09%	2,434,985	6.08%	\$0.69	834,725	1,826,520	753,695	1,784,898
250,000-499,999	125	45,677,622	2,523,265	3,631,105	1,271,722	2.78%	1,488,708	3.26%	\$0.69	2,112,945	2,669,092	2,799,062	3,718,156
500,000 plus	143	122,781,670	6,160,745	58,111,147	1,408,431	1.15%	2,081,590	1.70%	\$0.00	1,352,738	1,049,306	2,013,912	2,601,484
East Total	3,804	279,141,219	12,616,638	64,378,466	5,966,302	2.14%	8,173,867	2.93%	\$0.80	4,992,257	6,750,929	7,083,549	10,795,457
Inland Empire Total	8,538	608,857,895	19,559,233	72,396,322	10,828,953	1.78%	17,166,610	2.82%	\$0.83	8,530,258	13,581,087	13,910,505	25,744,960
5,000-24,999	5,132	61,356,569	545,924	431,229	1,125,917	1.84%	1,477,296	2.41%	\$0.97	120,149	157,531	1,024,242	1,824,796
25,000-49,999	1,283	44,859,621	826,817	776,231	800,575	1.78%	1,616,668	3.60%	\$0.88	190,825	370,861	1,045,263	1,737,983
50,000-99,999	792	54,881,400	1,754,645	1,392,717	1,179,106	2.15%	1,447,408	2.64%	\$0.87	572,970	1,440,965	1,492,868	2,998,761
100,000-249,999	720	110,092,654	5,093,748	2,893,460	3,332,110	3.03%	4,880,711	4.43%	\$0.81	1,222,085	3,527,644	3,042,818	6,238,555
250,000-499,999	353	126,561,668	3,429,305	5,405,630	1,551,814	1.23%	3,068,108	2.42%	\$0.71	3,552,658	4,864,976	3,141,756	5,322,009
500,000 plus	258	211,105,983	7,908,794	61,497,055	2,839,431	1.35%	4,676,419	2.22%	\$0.00	2,871,571	3,219,110	4,163,558	7,622,856
Inland Empire Total	8,538	608,857,895	19,559,233	72,396,322	10,828,953	1.78%	17,166,610	2.82%	\$0.83	8,530,258	13,581,087	13,910,505	25,744,960
High Desert													
Adelanto	148	4,300,662	0	263,580	271,583	6.31%	529,704	12.32%	\$0.64	0	96,625	6,000	155,635
Apple Valley	75	3,882,209	0	0	6,418	0.17%	2,918	0.08%	\$0.00	19,240	28,740	27,240	36,740
Barstow	53	1,059,276	0	0	112,300	10.60%	128,700	12.15%	\$0.90	(102,700)	(102,700)	24,000	24,000
Hesperia	188	3,265,220	0	3,372,340	38,466	1.18%	27,706	0.85%	\$0.85	17,173	26,933	50,139	69,919
Victorville	130	8,247,749	0	10,859,700	411,994	5.00%	429,639	5.21%	\$0.42	4,621	19,621	25,550	40,550
High Desert Total	594	20,755,116	0	14,495,620	840,761	4.05%	1,118,667	5.39%	\$0.51	(61,666)	69,219	132,929	326,844
Temecula Valley													
Hemet	86	1,549,728	0	0	1,808	0.12%	26,444	1.71%	\$0.00	142,208	146,970	143,316	6,262
Lake Elsinore	178	2,595,390	91,242	20,000	93,660	3.61%	57,040	2.20%	\$0.79	(22,066)	(56,251)	67,593	28,049
Menifee	25	1,188,038	0	0	715,000	60.18%	787,835	66.31%	\$0.95	0	(715,000)	0	0
Murrieta	256	3,916,183	360,022	99,562	114,903	2.93%	243,494	6.22%	\$0.86	(38,929)	(11,073)	47,083	93,337
San Jacinto	65	1,070,606	0	0	48,471	4.53%	48,471	4.53%	\$0.00	(8,271)	(5,771)	0	2,500
Temecula	331	10,435,655	0	229,788	393,956	3.78%	520,125	4.98%	\$0.69	5,834	(115,098)	111,765	245,997
Wildomar	12	324,860	0	0	0	0.00%	4,119	1.27%	\$1.14	0	0	0	0
Temecula Valley Total	953	21,080,460	451,264	349,350	1,367,798	6.49%	1,687,528	8.01%	\$0.72	78,776	(756,223)	369,757	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.



It Is All About Strategy for Industrial Tenants

by **Sean Sullivan**

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As we enter post-pandemic life and the economy continues to gain momentum, the Inland Empire remains the driving force of the Southern California industrial market. All the meaningful metrics lead us further down the path we've already been heading. Vacancy remains at or near all-time lows, lease rates and sale prices continue to climb (at a record pace), construction supply cannot keep up with demand, and so on. While there is a clear and significant upward trend, as is the case with most things, this trend can be both good and bad, depending on your vantage point. Landlords will have their pick of the proverbial litter, while tenants face the most competitive market in history.

The significant power shift in favor of the landlords leaves business owners throughout this market with the almost impossible challenge of having to find quality space from which to operate their business. The question then becomes "How do tenants get the space they need?"

First off, plan ahead. Once it is determined that a new space is the most economical solution for a tenant, they will need to start the process sooner than they would have when they signed their last lease. During the four years leading up to 2021, lease rates of Inland Empire west buildings of 100k+ SF increased, year over year, at a rate of 12%. In the first six months of 2021, we have seen those same rates jump 25%. Tenants who acted with the necessary expediency came out ahead of those who waited for "the right deal."

Prudent tenants in the market previously started looking for space six to nine months in advance. Business owners, in the current market, should start this process a year in advance of their targeted move. Additionally, they should be prepared to pounce on any space that makes sense for their operation, regardless of whether the timing lines up with their current lease expiration. And all necessary financial information should be compiled to expediate the process as much as possible.

Secondly, be realistic and be flexible. As mentioned, lease rates have continued to rise to historic levels and there is no sign of things slowing down. Simply put, there is not enough supply to come close to meeting the demand. Vacant spaces hit the market and have multiple offers within a week. A tenant must educate themselves on pricing so that the sticker shock of rising lease rates does not slow the process of finding adequate space. "Getting a good deal," has been replaced by "getting any deal." Furthermore, a tenant, within reason, should expand their geographic parameters to include parts of the market that, in the past, may have not been the most desirable for one reason or another. There are still savings to be had in the Inland Empire east, relative to some of the higher priced subsectors, and casting a wider net for your search may have both short- and long-term benefits.

Supply constraints have made it increasingly difficult for tenants. However, with the right strategy and wise counsel, there are still opportunities to be successful in the hunt for new space.

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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