

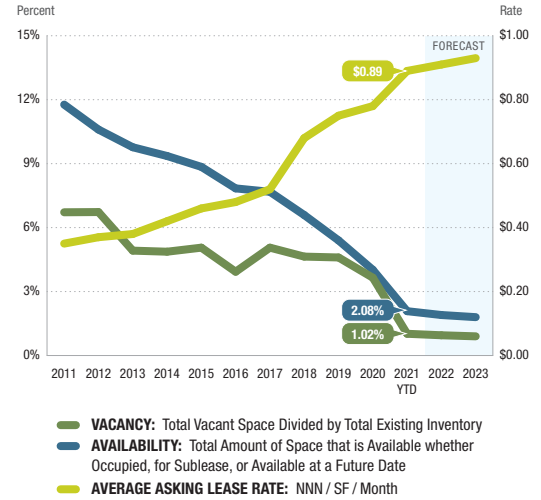
OVERVIEW. The Inland Empire industrial market continued its bull run in 3Q. As one of the nation's largest distribution hubs, total inventory swelled to 611.4 MSF after new deliveries. The region had already been expanding rapidly before the pandemic, but that pace increased during the crisis as any use related to e-commerce got a big boost from heavy reliance on online purchasing. As the saying goes, a rising tide lifts all boats, so manufacturers and general industrial users are also doing well enough to expand operations and hire new employees. Good quality space in all size ranges and configurations has been running in short supply for years, and that problem worsened in 3Q.

VACANCY & AVAILABILITY. Last quarter we reported that the vacancy rate in the IE fell below 2% for the first time, ending that period at 1.78%. In 3Q, it fell another 76 basis points to a record low of just 1.02%, firm evidence of the imbalance of supply and demand. The IE-West submarket, with a current inventory of over 331 MSF, saw a decline in vacancy to 0.98% in 3Q, down 49 basis points. The IE-East submarket fell 107 basis points to a scant 1.07%, mainly due to new product being delivered and occupied soon thereafter. City by city, things remain tight. Currently, five of the IE West's seven cities have a vacancy rate under 1%. The inventory shortage runs across all size ranges in both submarkets but continues to run thinnest in buildings between 250,000 and 500,000 SF.

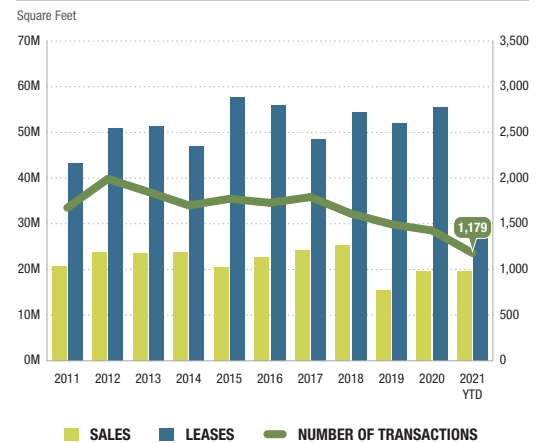
LEASE RATES. The average asking lease rate rose sharply in 3Q, which was no surprise given the imbalance of supply and demand. The average NNN rate rose by \$0.06 to \$0.89 in the period, but as we have been reporting, that doesn't reflect actual rates because a substantial portion of the available inventory is being offered for lease without an asking rate, and those buildings tend to be of higher quality and functionality. With demand such as it is, landlords are forcing competitive bidding from multiple prospective tenants. So, actual lease rates are much higher than reported, and we saw another sharp spike in 3Q. For high quality first- and second-generation distribution space, actual rates are heading north of \$1.30 PSF for buildings that were leasing for less than \$1.00 at the beginning of this year. The increases have shocked tenants, but they are still signing leases out of a desperate need for quality space.

TRANSACTION ACTIVITY. Overall lease and sale transaction activity was steady in 3Q at 15.7 MSF, beating 2Q's total by just under 200,000 SF. Lease transactions accounted for 9.2 MSF of that total, with 6.5 MSF going to sale transactions. In terms of transactions, 193 leases were signed, while another 121 sales went under contract during the period. In the past four quarters, almost 71 MSF has either been leased or sold in the Inland Empire, further evidence of its standing as one of nation's most active distribution hubs. The IE West saw the biggest lease of the quarter, an 830,000 SF lease from Prologis to DHL. The IE East logged the biggest sale of 3Q, a \$123.3 million sale of a 1.1 MSF building in Rialto from SM Logistics Rialto LLC to Rialto Merrill Holdings LLC.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



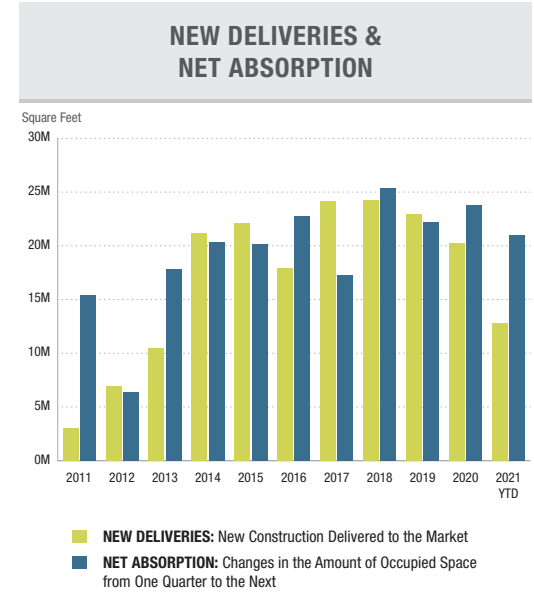
Market Statistics

	Change Over Last Quarter	3Q 2021	2Q 2021	3Q 2020	% Change Over Last Year
Total Vacancy Rate	▼ DOWN	1.02%	2.90%	3.84%	(73.41%)
Availability Rate	▼ DOWN	2.08%	5.70%	5.13%	(59.52%)
Average Asking Lease Rate	▲ UP	\$0.89	\$0.83	\$0.75	18.67%
Sale & Lease Transactions	▲ UP	15,769,119	15,478,648	20,050,132	(21.35%)
Gross Absorption	▼ DOWN	12,733,389	13,910,505	9,542,737	33.44%
Net Absorption	▲ POSITIVE	6,889,612	8,530,258	3,921,773	N/A

ABSORPTION. Fontana edged Ontario for the most positive net absorption in the IE West for 3Q, at 697,000 SF. Riverside led the IE East with a strong 1.7 MSF increase in occupied space. This is significant in that Riverside has a diverse base of buildings in the smaller size ranges rather than large distribution facilities that see the bulk of the demand throughout the IE. All but two cities throughout the region posted a gain in occupied space to end the period at just under 6.9 MSF, boosting the year-to-date total to just under 21 MSF.

CONSTRUCTION. The construction boom continues in IE, as a steady flow of new projects is underway in both major submarkets. The IE is still the only major market in Southern California with significant construction activity. Currently, 18.6 MSF of industrial space is in the queue, almost all of which is state-of-the-art distribution space targeted at e-commerce related uses. The IE East accounts for 12.7 MSF of that total, with the balance in the IE West. This is roughly the same ratio as we have seen for the past several years, as the availability and cost of land is more favorable for ground-up development in IE East.

EMPLOYMENT. The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 7.6% in August 2021, down from a revised 7.9% in July 2021, and below the year-ago estimate of 11.5%. Trade, transportation, and utilities (up 1,500) registered a payroll increase over the month.



Forecast

The Inland Empire industrial market should continue to break pricing records for both sale and lease product for the next several quarters. Despite robust construction activity, vacancy will continue to decline. Lease and sale activity will rise as long as construction of state-of-the-art distribution facilities remains at current levels. Without a steady supply of new inventory, users would be stuck renewing leases in buildings that no longer suit their needs, which may force some of them to expand their operations into other markets. Institutional ownership will rise further, as they have the capital and the desire to acquire major projects that often exceed \$100 million per transaction. They are also cash buyers and are therefore less sensitive to a rise in interest rates that may occur if the Fed decides that the current spike in inflation is not transitory. There will be upward pressure on lease rates, as the cost of land and construction has risen sharply over the past several years. Developers will be counting on higher rents to make their projects pencil at a profit.

The threat of tax hikes associated with the American Build Back Better Plan currently being debated in Washington still looms. If passed, the massive stimulus proposal would raise capital gains tax rates, severely limit the 20% QBI deduction for pass-through entities, lower the estate tax threshold and raise corporate income taxes that were just lowered in 2017. It is still too soon to know if the plan will pass or how it will look if it does, but all current and would-be property owners are advised to follow the issue closely.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
1110 W. Merrill Ave.	Rialto	1,106,124	\$123,353,000	Rialto Merrill Holdings LLC	SM Logistics Rialto LLC
865-998 S. Washington Ave.	San Bernardino	574,984	\$94,600,000	Principal Global Investors, Inc.	Crow Holdings
21500 Harvill Ave.	Perris	333,572	\$57,500,000	Blumenfeld Development Group	Rockefeller Group
500 S. Dupont Ave.	Ontario	276,000	\$58,500,000	Rexford Industrial Realty, Inc.	Armorcast Product Co.
2380 W. Baseline Ave.	Rialto	255,152	\$44,240,000	Principal Global Investors, Inc.	Crow Holdings

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
9211 Kaiser Way - Renewal	Fontana	830,000	Aug-2021	DHL	Prologis
3100 Milliken Ave.	Mira Loma	760,829	Sept-2021	NFI Industries	JP Morgan/SRG
2677 Alessandro Blvd.	Riverside	709,081	Aug-2021	Unis, LLC	PGIM / Crow Holdings
26635 Pioneer Ave.	Redlands	616,542	Jul-2021	Performance Team	Watson Land Company
4130 Indian Ave.	Perris	430,152	Sept-2021	Confidential Tenant	IDI Logistics*

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2021	Square Feet Available	Availability Rate 3Q2021	Average Asking Lease Rate	Net Absorption 3Q2021	Net Absorption 2021	Gross Absorption 3Q2021	Gross Absorption 2021
West													
Chino / Chino Hills	907	54,152,945	1,099,790	309,243	263,254	0.49%	659,577	1.22%	\$0.72	198,400	1,767,479	549,091	1,962,717
Fontana	749	67,782,475	1,906,586	4,132,973	611,713	0.90%	1,952,817	2.88%	\$1.18	697,064	2,198,022	1,169,461	3,317,141
Mira Loma / Eastvale / Jurupa Valley	389	45,276,433	0	0	71,074	0.16%	320,432	0.71%	\$1.09	233,556	2,599,851	548,769	3,013,681
Montclair	202	3,961,404	84,384	0	3,500	0.09%	9,124	0.23%	\$0.69	85,173	3,956,345	88,673	348,642
Ontario	1,501	114,715,059	2,264,590	2,506,923	508,775	0.44%	2,031,208	1.77%	\$1.10	476,835	1,808,101	3,176,862	9,573,772
Rancho Cucamonga	742	41,540,249	489,555	356,030	1,694,881	4.08%	1,808,530	4.35%	\$1.03	47,721	178,556	598,575	2,792,112
Upland	255	3,891,438	72,205	176,950	85,421	2.20%	125,778	3.23%	\$0.88	(1,633)	2,192,153	36,035	108,904
5,000-24,999	2,748	33,102,199	333,293	207,359	353,629	1.07%	486,924	1.47%	\$1.19	119,484	106,084	449,284	1,360,810
25,000-49,999	728	25,474,318	463,079	374,143	305,632	1.20%	509,747	2.00%	\$1.00	188,399	373,084	433,339	1,553,363
50,000-99,999	462	32,157,173	625,268	680,540	345,936	1.08%	652,865	2.03%	\$1.09	497,869	1,089,930	748,266	2,587,337
100,000-249,999	463	70,875,603	2,421,197	1,434,852	694,777	0.98%	1,735,362	2.45%	\$0.86	840,764	2,541,888	2,100,980	6,554,637
250,000-499,999	228	80,883,397	829,224	1,399,317	107,644	0.13%	1,788,568	2.21%	\$0.00	0	2,195,884	2,435,597	4,039,450
500,000 plus	116	88,827,313	1,245,049	3,385,908	1,431,000	1.61%	1,734,000	1.95%	\$0.00	90,600	2,763,404	0	5,021,372
West Total	4,745	331,320,003	5,917,110	7,482,119	3,238,618	0.98%	6,907,466	2.08%	\$0.96	1,737,116	9,070,274	6,167,466	21,116,969
East													
Banning	47	943,537	1,000,000	715,959	103,395	10.96%	19,100	2.02%	\$0.00	(48,000)	(43,645)	6,500	37,353
Beaumont	45	5,617,079	0	4,774,028	5,165	0.09%	5,165	0.09%	\$0.00	4,900	(265)	4,900	4,900
Bloomington	109	9,679,596	174,780	0	15,634	0.16%	25,743	0.27%	\$0.00	385,472	1,235,738	401,106	1,023,460
Corona / Norco	985	33,039,848	872,730	273,757	192,696	0.58%	375,085	1.14%	\$0.76	616,626	1,002,827	744,561	1,713,529
Colton / Grand Terrace	185	11,197,195	0	456,445	328,080	2.93%	353,874	3.16%	\$0.98	33,344	517,651	101,058	287,050
Moreno Valley	98	30,659,807	1,729,602	41,884,739	0	0.00%	423,108	1.38%	\$0.82	102,463	688,511	218,373	1,458,630
Perris	222	32,081,372	5,651,035	10,457,884	496,546	1.55%	791,113	2.47%	\$0.80	150,000	1,099,522	436,845	1,225,652
Redlands / Loma Linda	235	29,198,220	980,895	878,856	907,415	3.11%	1,144,346	3.92%	\$0.05	635,993	909,945	685,345	3,097,194
Rialto	200	30,874,760	368,917	844,256	12,650	0.04%	323,648	1.05%	\$0.58	701,145	2,222,408	1,397,540	2,521,159
Riverside	1,105	54,428,637	295,809	4,667,694	695,763	1.28%	1,721,788	3.16%	\$0.86	1,176,685	2,174,745	1,664,129	3,673,932
San Bernardino / Highland	588	42,604,052	1,622,748	778,715	242,174	0.57%	609,946	1.43%	\$0.72	1,393,868	2,095,988	905,566	2,318,521
5,000-24,999	2,385	28,282,011	273,724	159,629	293,654	1.04%	536,246	1.90%	\$0.95	321,470	492,401	580,787	1,494,057
25,000-49,999	559	19,509,548	360,088	524,114	324,477	1.66%	579,905	2.97%	\$0.87	60,327	246,503	267,259	885,218
50,000-99,999	338	23,406,466	642,279	708,740	479,343	2.05%	653,111	2.79%	\$0.72	241,757	1,090,661	491,493	1,651,183
100,000-249,999	267	40,892,027	1,781,339	1,490,360	913,287	2.23%	1,791,756	4.38%	\$0.69	2,292,987	4,119,507	2,050,184	3,835,082
250,000-499,999	127	46,222,181	1,978,706	4,713,643	289,407	0.63%	1,531,302	3.31%	\$0.00	1,526,874	4,195,966	1,923,719	5,641,875
500,000 plus	143	122,011,870	7,660,380	58,135,847	699,350	0.57%	700,596	0.57%	\$0.00	709,081	1,758,387	1,252,481	3,853,965
East Total	3,819	280,324,103	12,696,516	65,732,333	2,999,518	1.07%	5,792,916	2.07%	\$0.82	5,152,496	11,903,425	6,565,923	17,361,380
Inland Empire Total	8,564	611,644,106	18,613,626	73,214,452	6,238,136	1.02%	12,700,382	2.08%	\$0.89	6,889,612	20,973,699	12,733,389	38,478,349
5,000-24,999	5,133	61,384,210	607,017	366,988	647,283	1.05%	1,023,170	1.67%	\$1.01	440,954	598,485	1,030,071	2,854,867
25,000-49,999	1,287	44,983,866	823,167	898,257	630,109	1.40%	1,089,652	2.42%	\$0.93	248,726	619,587	700,598	2,438,581
50,000-99,999	800	55,563,639	1,267,547	1,389,280	825,279	1.49%	1,305,976	2.35%	\$1.00	739,626	2,180,591	1,239,759	4,238,520
100,000-249,999	730	111,767,630	4,202,536	2,925,212	1,608,064	1.44%	3,527,118	3.16%	\$0.80	3,133,751	6,661,395	4,151,164	10,389,719
250,000-499,999	355	127,105,578	2,807,930	6,112,960	397,051	0.31%	3,319,870	2.61%	\$0.00	1,526,874	6,391,850	4,359,316	9,681,325
500,000 plus	259	210,839,183	8,905,429	61,521,755	2,130,350	1.01%	2,434,596	1.15%	\$0.00	799,681	4,521,791	1,252,481	8,875,337
Inland Empire Total	8,564	611,644,106	18,613,626	73,214,452	6,238,136	1.02%	12,700,382	2.08%	\$0.89	6,889,612	20,973,699	12,733,389	38,478,349
High Desert													
Adelanto	148	4,300,662	0	263,580	265,583	6.18%	431,429	10.03%	\$0.64	(175)	96,450	8,500	164,135
Apple Valley	75	3,865,534	0	3,350,470	15,677	0.41%	30,177	0.78%	\$0.00	(12,759)	15,981	2,900	39,640
Barstow	53	1,059,276	0	0	102,700	9.70%	106,700	10.07%	\$0.87	9,600	(93,100)	31,600	55,600
Hesperia	188	3,266,870	0	0	35,586	1.09%	35,586	1.09%	\$0.85	(6,920)	20,013	3,210	73,129
Victorville	130	8,252,749	0	10,859,700	414,335	5.02%	433,186	5.25%	\$0.41	(941)	18,680	18,474	59,024
High Desert Total	594	20,745,091	0	14,473,750	833,881	4.02%	1,037,078	5.00%	\$0.49	(11,195)	58,024	64,684	391,528
Temecula Valley													
Hemet	85	1,535,105	66,640	0	16,900	1.10%	33,900	2.21%	\$0.00	1,108	148,078	1,108	150,686
Lake Elsinore	178	2,595,390	91,242	20,000	14,420	0.56%	19,336	0.75%	\$0.79	42,115	(14,136)	64,763	160,405
Menifee	24	473,036	0	0	0	0.00%	72,835	15.40%	\$0.00	0	(715,000)	0	0
Murrieta	257	4,275,788	0	99,562	72,963	1.71%	180,365	4.22%	\$0.86	356,997	345,924	455,619	596,039
San Jacinto	65	1,070,701	0	0	37,971	3.55%	46,960	4.39%	\$0.00	8,000	2,229	8,000	10,500
Temecula	333	10,553,934	0	241,110	233,426	2.21%	566,471	5.37%	\$0.69	118,217	3,119	205,587	563,349
Wildomar	12	324,860	0	0	0	0.00%	10,885	3.35%	\$1.12	6,499	6,499	6,499	6,499
Temecula Valley Total	954	20,828,814	157,882	360,672	375,680	1.80%	930,752	4.47%	\$0.73	532,936	(223,287)	741,576	1,487,478

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.



Rocket Fuel

by **John Viscounty**

SENIOR ASSOCIATE

909.545.8002 · jviscounty@voitco.com · Lic. #02028915

The Inland Empire industrial market continued full speed ahead this quarter. Lease and sale figures increased dramatically across the board as the dust from the pandemic's uncertainty settled. Inventory shrank to record lows, while buyers and tenants struggled to fulfill requirements, leaving leverage in the hands of the landlords. Developers charged full speed ahead providing new supply, but demand outpaced all efforts.

The market surpassed expectations, and even rationale, for most. We credit the run to several factors:

Competition: Competition turbo-charged the market. Buyers and tenants alike lost on deals and were conditioned to act aggressively. Inflated pricing fears were attenuated by the 12-year appreciation streak. Tenants and buyers attempted to lock in rates before it became even worse. Buyers in escrow on quality assets could expect their building to be worth more by the time the deal closed. This had many buyers, especially investors, hungry for more.

Development Allure: As developers gobbled up industrial land, an interesting predicament surfaced. Those advertising their space for sale or for lease with a price when construction began may have left money on the table. Rather than locking themselves in, developers and landlords have recently waited until they were closer to completing construction or having a vacant space before advertising a formal price. Tenants and buyers aggressively offered on development opportunities, but often heard crickets from the other side. As buildings were listed at "TBD," rates consistently marched forward.

Cost of Capital: The cost of capital remained low, allowing owner-users and investors to justify paying top dollar. As the Fed contemplated raising interest rates, the threat incentivized buyers to lock in low rates while they still could. One caveat to this theory was investor financing. Banks commonly advertised low rates for owner-users, but standards for investors appeared more stringent. This may be contributed to owner-users having more skin in the game, from a lender's perspective. An investor only has the property to lose if they default, while an owner-user has their entire business on the line, which may have provided lenders reassurance. Investors may have discovered lower LTV offerings than expected.

Port Congestion: As many beachgoers have witnessed, port congestion only worsened. Per the Marine Exchange of Southern California, the number of ships waiting outside of Los Angeles and Long Beach ports reached 73 as of September 19, 2021. From labor shortages to an increased demand for consumer goods, the ports have struggled to operate efficiently since the inception of the pandemic. This congestion only added to the desperation for warehouse space in the Inland Empire. Businesses elected to increase inventory in order to avoid delays from deliveries, which further increased demand for space.

Please Contact Us for Further Information

Tony Tran
Regional Director of Research
ttran@voitco.com

Anaheim, CA
714.978.7880

Carlsbad, CA
760.472.5620

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Los Angeles, CA
424.329.7500

San Diego, CA
858.453.0505

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