

Inland Empire Industrial

Market Summary

	Q1 2016	FORECAST
Absorption	↑	↑
Vacancy	↑	↓
Rental Rate	↑	↑
New Construction	↑	↑

Notable Lease Transactions

Amazon
555 E Orange Show Road, San Bernardino
1,103,000 s.f.

Ascena Retail Group
7295 San Geronio Drive, Riverside
583,000 s.f.

Bradshaw International
9415 Kaiser Way, Fontana
545,000 s.f.

The Inland Empire industrial market continued to improve in the first quarter of 2016. As pricing increases, vacancy remains at historically low levels, and the amount of available space has decreased over 29% in the past year. A lack of product available for lease or sale in some size ranges (particularly anything below 100,000 square feet) is causing an increase in prices and a drop in transaction volume. Net occupancy remains positive; however, with new inventory being added each quarter we anticipate the possibility of upward pressure on vacancy in the short run. We expect to see moderate increases in leasing and sales activity in the coming year, as job creation expands. Moving into 2016, positive absorption persist, occupancy costs will increase, and with a decent amount of new construction in the pipeline, we foresee 2016 being another year of growth all around.

Transaction Activity

	SF Sold	SF Leased
1Q14	4,950,408	13,129,318
2Q14	4,784,213	14,709,797
3Q14	6,501,990	8,993,445
4Q14	6,721,969	10,021,901
1Q15	3,465,117	14,468,013
2Q15	4,751,712	18,187,798
3Q15	8,177,562	10,401,101
4Q15	5,597,894	11,396,577
1Q16	4,469,005	7,850,994

Net absorption, a measure of market strength, was positive 2.3 million square feet in the first quarter of 2016, marking 14 straight quarters of positive absorption for a total of 66.2 million square feet. The East submarket added 4.5 million square feet of occupied space, which accounted for all of the positive absorption in the Inland Empire this quarter. During the quarter 2.75 million square feet of new product was delivered, nearly matching the amount of positive absorption.

Due to limited supply, leasing activity was down in the first quarter, with 7.85 million square feet that came off the market representing the slowest three months since the second quarter of 2013. Currently there is 17.2 million square feet under construction, most of which is over 500,000 square feet in size. As this new inventory comes to market we should see a rise in leasing activity.

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The Inland Empire industrial market vacancy rate ticked up a bit from the record low rate of 4.9% last quarter to 5.0% during the first quarter. This equates to 24.8 million square feet of vacant industrial space, up from the 24.3 million square feet that was vacant a year ago, which is amazing considering that 23.7 million square feet of space was delivered during that same year.

The average asking rental rate in the first quarter was \$0.46 per square foot on a triple net basis per month. These asking rates are up 2.2% from the fourth quarter and 7.0% year-over-year. Peak lease rates were established in the third quarter of 2007, when they were \$0.51 per square foot. In a trend that first emerged in 2013, many industrial spaces are entering the market unpriced, with landlords letting the market set the going rate. The numbers can thus be swayed drastically by a few low or high price tags. Nonetheless, the asking rate for high quality industrial space in the Inland Empire will increase.

The Inland Empire industrial investment market remains relatively stable, with the driving factor being simply that there is not much high quality industrial product left in the Inland Empire, which explains the high construction levels.

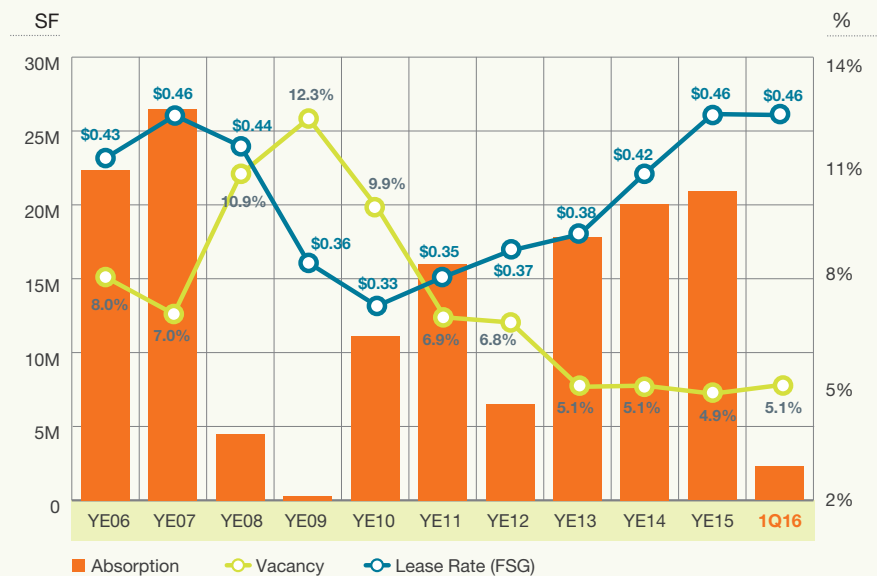
In conclusion, the Inland Empire industrial market has almost doubled in size since 2000, growing from 250 million square feet to 500 million today, with 17.2 million square feet currently under construction. This market is improving as pricing continues to increase, while vacancy and availabilities remain at historically low levels.

Data Source: CoStar

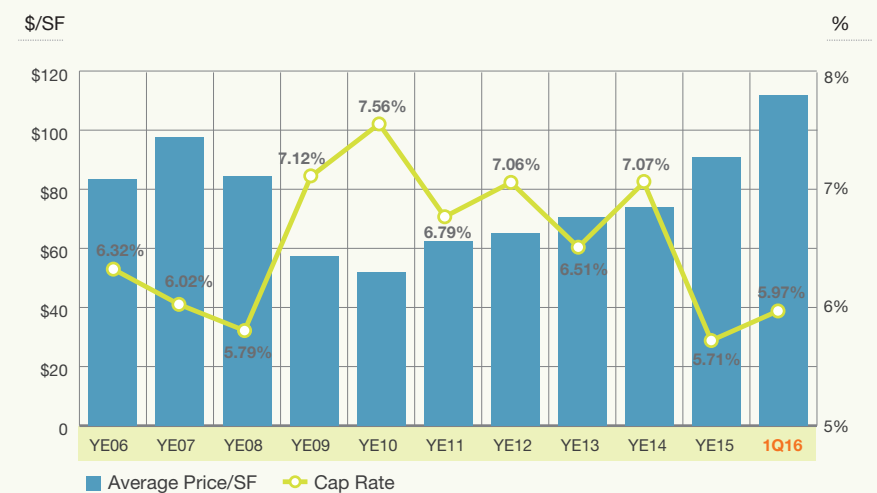
Market Breakdown

	Current Qtr	Previous Qtr	Year Ago	Annual % Change
Vacancy Rate	5.1%	4.9%	5.1%	0.00%
Availability Rate	6.5%	6.5%	9.2%	-29.35%
Asking Lease Rate	\$0.46	\$0.45	\$0.43	6.98%
Lease Transactions	7,850,994	11,396,577	14,468,013	-45.74%
Sale Transactions	4,469,005	5,597,894	3,465,117	28.97%
Net Absorption	2,298,029	6,799,509	1,804,961	N/A

Net Absorption, Vacancy & Lease Rates



Average Sales Price / Cap Rates



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1st Quarter 2016 Inland Empire Industrial Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Available Rate	QTR Direct Net Absorption	YTD Direct Net Absorption	SF Under Construction	YTD Construction Completions	QTR Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
Chino	46,018,369	3.0%	0.0%	3.0%	2.3%	(989,821)	(989,821)	61,300	0	2,017,608	2,017,608	\$0.75
Chino Hills	109,314	1.5%	0.0%	1.5%	1.5%	(1,600)	(1,600)	0	0	0	0	\$0.00
Fontana	53,993,185	6.4%	0.3%	6.7%	5.6%	(483,147)	(483,147)	3,479,449	0	1,161,227	1,161,227	\$0.49
Montclair	3,392,176	5.7%	0.0%	5.7%	9.5%	(151,070)	(151,070)	0	0	14,260	14,260	\$0.59
Ontario	100,998,195	2.0%	0.1%	2.1%	4.2%	255,462	255,462	3,788,672	134,680	1,030,625	1,030,625	\$0.54
Rancho Cucamonga	38,341,280	3.8%	0.1%	3.9%	4.9%	(758,858)	(758,858)	273,380	135,183	557,818	557,818	\$0.49
Upland	3,984,337	4.1%	0.0%	4.1%	6.3%	(10,206)	(10,206)	0	0	24,880	24,880	\$0.77
West	246,836,856	3.5%	0.1%	3.6%	4.3%	(2,139,240)	(2,139,240)	7,602,801	269,863	4,806,418	4,806,418	\$0.53
Banning	1,002,507	5.5%	0.0%	5.5%	5.5%	0	0	0	0	0	0	\$0.00
Beaumont	2,327,914	19.4%	0.0%	19.4%	19.3%	11,625	11,625	0	11,625	2,116	2,116	\$0.31
Bloomington	4,384,121	4.0%	0.4%	4.4%	2.0%	(18,063)	(18,063)	0	0	0	0	\$0.39
Colton	8,129,350	1.1%	0.1%	1.2%	2.6%	(6,440)	(6,440)	808,500	0	47,529	47,529	\$0.00
Corona	29,289,909	6.3%	0.0%	6.3%	7.6%	(305,857)	(305,857)	579,392	250,472	491,586	491,586	\$0.50
Grand Terrace	423,743	2.4%	0.0%	2.4%	15.8%	38,454	38,454	0	0	10,202	10,202	\$0.00
Highland	165,689	0.0%	0.0%	0.0%	0.7%	0	0	0	0	0	0	\$0.00
Loma Linda	131,941	5.2%	0.0%	5.2%	5.2%	0	0	0	0	0	0	\$0.00
Mira Loma	24,349,786	0.6%	1.0%	1.6%	3.6%	(30,999)	(30,999)	1,221,304	0	150,786	150,786	\$0.53
Moreno Valley	19,172,659	2.7%	0.8%	3.5%	7.1%	431,170	431,170	1,568,231	0	126,700	126,700	\$0.72
Norco	1,216,215	0.0%	0.0%	0.0%	4.2%	1,803	1,803	0	0	5,647	5,647	\$0.00
Perris	17,562,299	0.5%	0.0%	0.5%	1.4%	1,888,270	1,888,270	1,787,113	1,133,382	0	0	\$0.29
Redlands	24,433,356	17.3%	0.0%	17.3%	23.5%	(66,746)	(66,746)	1,855,596	593,563	377,696	377,696	\$0.54
Rialto	19,325,475	4.6%	0.0%	4.6%	9.9%	2,857,164	2,857,164	930,764	258,857	604,886	604,886	\$0.28
Riverside	46,919,539	4.0%	0.0%	4.0%	4.7%	(75,222)	(75,222)	635,847	230,672	919,982	919,982	\$0.48
San Bernardino	34,610,086	12.8%	0.0%	12.8%	15.8%	(245,130)	(245,130)	0	0	240,522	240,522	\$0.33
East	233,444,589	6.3%	0.2%	6.5%	8.5%	4,480,029	4,480,029	9,386,747	2,478,571	2,977,652	2,977,652	\$0.43
Hemet	1,401,262	0.9%	0.0%	0.9%	7.6%	(2,560)	(2,560)	0	0	800	800	\$0.42
Lake Elsinore	2,286,669	3.4%	0.0%	3.4%	6.2%	(36,575)	(36,575)	247,566	0	10,652	10,652	\$0.85
Menifee	422,956	10.4%	0.0%	10.4%	12.1%	(4,409)	(4,409)	0	0	18,251	18,251	\$1.03
Murrieta	3,715,694	2.6%	0.0%	2.6%	7.2%	(9,624)	(9,624)	0	0	12,879	12,879	\$0.72
San Jacinto	1,032,103	4.7%	0.0%	4.7%	6.2%	12,660	12,660	0	0	0	0	\$0.65
Temecula	10,378,369	2.9%	0.0%	2.9%	3.0%	7,986	7,986	0	0	16,733	16,733	\$0.48
Wildomar	349,043	0.9%	0.9%	1.8%	4.9%	(10,238)	(10,238)	0	0	7,609	7,609	\$0.00
South	19,586,096	3.1%	0.0%	3.1%	4.9%	(42,760)	(42,760)	247,566	0	66,924	66,924	\$0.48
5,000 - 24,999	67,285,624	2.6%	0.0%	2.6%	2.6%	(223,509)	(223,509)	88,523	24,239	637,298	637,298	\$0.85
25,000 - 49,999	44,516,996	2.6%	0.0%	2.6%	2.6%	82,755	82,755	394,989	305,516	388,007	388,007	\$0.51
50,000 - 99,000	52,257,951	2.8%	0.1%	2.9%	3.0%	(349,539)	(349,539)	462,960	104,316	658,516	658,516	\$0.49
100,000 - 249,999	90,346,802	3.9%	0.0%	3.9%	3.9%	232,066	232,066	1,708,117	328,561	1,353,561	1,353,561	\$0.46
250,000 - 499,999	101,969,549	5.7%	0.5%	6.2%	6.7%	(856,189)	(856,189)	3,581,585	258,857	3,414,534	3,414,534	\$0.36
500,000 - 999,999	101,805,093	8.2%	0.0%	8.2%	8.2%	2,279,063	2,279,063	7,814,745	593,563	1,399,078	1,399,078	\$0.48
1,000,000 Plus	41,685,526	5.1%	0.0%	5.1%	5.1%	1,133,382	1,133,382	3,186,195	1,133,382	0	0	\$0.00
Inland Empire Total	499,867,541	5.0%	0.1%	5.1%	6.5%	2,298,029	2,298,029	17,237,114	2,748,434	7,850,994	7,850,994	\$0.46