

Inland Empire Industrial

Market Summary

	Q2 2016	FORECAST
Absorption	↑	↑
Vacancy	↓	↓
Rental Rate	↑	↑
New Construction	↑	↑

Notable Industrial Leases

Noble House Home Furnishings
3655 E. Philadelphia Street, Ontario
741,458 s.f.

Undisclosed
701 S. Arrowhead Avenue, San Bernardino
592,710 s.f.

UPS
15801 Meridian Parkway, Riverside
486,000 s.f.

Notable Construction Projects

Renaissance Rialto
Rialto
1,170,880 s.f. | Delivering 9/2016

March Business Center
Moreno Valley
1,103,003 s.f. | Delivering 9/2016

Citrus Commerce Center
Fontana
1,038,499 s.f. | Delivering 2/2017

DCT Jurupa Logistics Center
Fontana
967,200 s.f. | Delivering 9/2016

The Inland Empire industrial market continued to improve in the second quarter of 2016, as pricing continues to increase. Vacancy remains at historically low levels, and the amount of available space has decreased by over 20% in the past year. The lack of product available for lease and sale in some size ranges (particularly below 100,000 s.f.) is driving prices upward and limiting transaction volume. Net occupancy remains positive, but with new inventory being added each quarter there is a possibility of upward pressure on vacancy in the short run. Moderate increases in leasing and sales activity are expected in the coming year, as job creation stays strong. Moving into the second half of 2016, positive absorption should continue, occupancy costs will continue to increase, and with ample new construction in the pipeline, we foresee 2016 being another year of growth.

Net absorption, a measure of market strength, was positive 5.5 million s.f. in the second quarter of 2016, marking 15 straight quarters of positive absorption for a total of 70.7 million s.f. The East submarket added almost eight million s.f. of occupied space this quarter, which accounted for all of the positive absorption in the Inland Empire over the last three months. During the quarter, 6.5 million s.f. of new product was delivered, giving the market a total of 9.2 million s.f. of new construction for the year.

Leasing activity was down in the second quarter due to limited supply, with the 5.6 million s.f. that came off the market representing the slowest three months since the second quarter of 2013. Currently there is 12.1 million s.f. under construction, most of which is in projects over 500,000 s.f. As this new inventory comes to market there should be a rise in leasing activity.

The Inland Empire industrial market vacancy rate ticked down from 5.0% last quarter to 4.9% during the second quarter, which equates to 24.8 million s.f. of vacant industrial space. This is up only slightly from the 22.4 million s.f. that was vacant a year ago, which is amazing considering 28.4 million s.f. of space was delivered during that time period.

The average asking rental rate in the second quarter jumped to \$0.49/ s.f. on a triple net basis per month. These asking rates are up \$0.03 from last quarter and 11.36% year-over-

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Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Availability Rate	SF Under Construction	2Q Direct Net Absorption	YTD Direct Net Absorption	2Q Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate
Chino	46,065,977	3.2%	3.2%	2.1%	0	(90,147)	(1,079,968)	222,948	2,340,517	\$0.90
Chino Hills	109,314	0.0%	0.0%	0.0%	95,120	1,600	0	1,600	1,600	\$0.00
Fontana	55,066,773	6.3%	6.4%	8.7%	4,075,653	1,129,731	663,084	674,830	2,827,642	\$0.53
Montclair	3,392,176	1.8%	1.8%	9.3%	0	132,792	(18,278)	21,159	35,419	\$0.53
Ontario	101,686,628	2.5%	2.7%	3.8%	2,121,372	428,510	647,055	1,768,961	3,386,751	\$0.55
Rancho Cucamonga	38,486,253	2.6%	2.9%	5.6%	208,046	527,785	(222,610)	313,445	997,255	\$0.50
Upland	3,959,087	3.1%	3.4%	6.9%	0	770	(18,908)	19,596	60,212	\$0.71
West	248,766,208	3.5%	3.6%	4.3%	6,500,191	2,131,041	(29,625)	3,022,539	9,649,396	\$0.54
Banning	1,002,507	3.9%	3.9%	4.9%	0	0	16,242	0	0	\$0.00
Beaumont	2,327,914	19.3%	19.3%	19.3%	0	2,116	13,741	2,116	4,232	\$0.31
Bloomington	4,386,364	0.3%	0.7%	0.7%	0	163,384	145,321	8,175	8,175	\$0.39
Colton	8,135,950	1.1%	1.5%	3.3%	0	(24,525)	(30,565)	19,380	66,909	\$0.00
Corona	29,377,264	6.1%	6.1%	7.5%	222,072	236,687	(25,870)	502,887	1,002,943	\$0.51
Grand Terrace	423,743	1.8%	1.8%	15.8%	0	2,572	41,026	2,624	12,826	\$0.00
Highland	165,689	0.0%	0.0%	0.7%	0	0	0	0	1,200	\$0.00
Loma Linda	131,941	5.2%	5.2%	8.6%	0	0	0	0	0	\$0.00
Mira Loma	24,420,730	0.9%	1.9%	4.5%	174,642	(67,189)	(98,188)	33,349	231,717	\$0.53
Moreno Valley	19,490,011	3.4%	4.2%	6.6%	1,290,988	125,600	556,770	0	287,495	\$0.71
Norco	1,216,215	0.2%	0.2%	3.2%	0	(2,000)	(197)	11,604	17,251	\$0.00
Perris	17,562,299	0.5%	0.5%	1.1%	1,756,920	3,209	1,891,479	5,300	5,300	\$0.57
Redlands	24,949,105	12.8%	15.6%	16.4%	1,529,085	836,121	769,375	173,187	1,114,834	\$0.51
Rialto	22,396,295	9.2%	9.2%	14.6%	300,564	1,905,309	4,762,473	10,800	617,506	\$0.28
Riverside	47,541,551	5.9%	6.7%	5.6%	138,180	(86,158)	(175,479)	925,641	1,896,873	\$0.50
San Bernardino	34,603,792	11.8%	11.8%	9.5%	0	328,412	88,044	776,172	2,466,661	\$0.30
East	238,131,370	6.3%	6.5%	8.5%	5,412,451	3,423,538	7,954,172	2,471,235	7,733,922	\$0.46
Hemet	1,401,262	0.9%	0.9%	7.6%	0	(2,560)	(2,560)	800	800	\$0.42
Lake Elsinore	2,286,669	3.4%	3.4%	6.2%	152,063	(36,575)	(36,575)	10,652	10,652	\$0.85
Menifee	422,956	10.4%	10.4%	12.1%	0	(4,409)	(4,409)	18,251	18,251	\$0.65
Murrieta	3,715,694	2.6%	2.6%	7.2%	6,800	(9,624)	(9,624)	12,879	12,879	\$0.00
San Jacinto	1,032,103	4.7%	4.7%	6.2%	0	12,660	12,660	0	0	\$0.63
Temecula	10,378,369	2.9%	2.9%	3.0%	30,000	7,986	7,986	16,733	16,733	\$0.48
Wildomar	349,043	0.9%	1.8%	4.9%	0	(10,238)	(10,238)	7,609	7,609	\$0.00
South	19,586,096	3.1%	3.1%	4.9%	188,863	(42,760)	(42,760)	66,924	66,924	\$0.58
5,000 - 24,999	67,417,885	2.4%	2.5%	3.7%	138,407	173,570	(38,809)	631,259	1,436,602	\$0.82
25,000 - 49,999	44,554,403	2.8%	3.0%	5.2%	387,005	(138,786)	(37,982)	440,990	911,284	\$0.55
50,000 - 99,000	52,034,484	3.2%	3.3%	4.9%	479,574	(45,346)	(394,885)	463,556	1,208,613	\$0.53
100,000 - 249,999	91,149,182	3.5%	3.9%	6.1%	1,704,315	290,699	522,765	928,058	2,586,824	\$0.48
250,000 - 499,999	103,496,294	5.0%	5.8%	7.7%	2,245,298	2,299,031	1,442,842	1,815,905	6,111,257	\$0.34
500,000 - 999,999	104,990,812	10.3%	10.8%	10.3%	3,943,669	861,267	3,140,330	1,280,930	4,093,023	\$0.48
1,000,000 Plus	42,840,614	2.6%	2.6%	2.6%	3,203,237	2,071,384	3,247,526	0	1,102,639	\$0.00
Inland Empire Total	506,483,674	4.9%	5.3%	6.4%	12,101,505	5,511,819	7,881,787	5,560,698	17,450,242	\$0.49

year. Peak lease rates in the last cycle were established in the third quarter of 2007 at \$0.46/s.f. 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 above 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 should continue to increase.

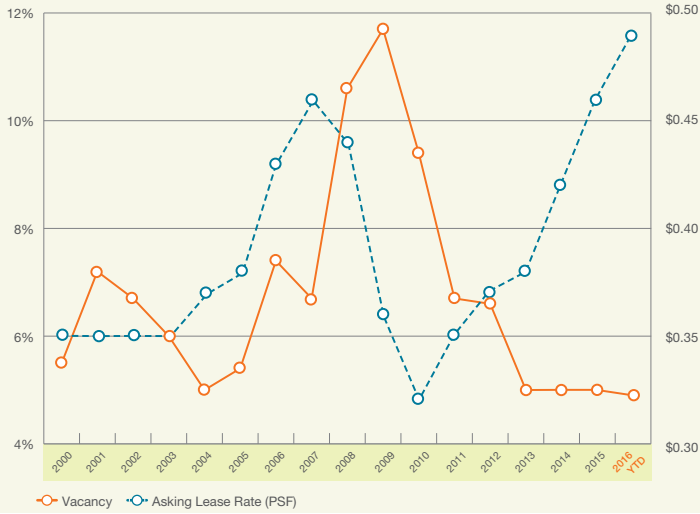
The Inland Empire industrial investment market remains relatively stable, mostly because much of the high quality industrial product that sellers were looking to move has sold, leaving little high-quality

industrial product available for sale. This explains the current high construction levels. It is a great time to be a landlord or seller.

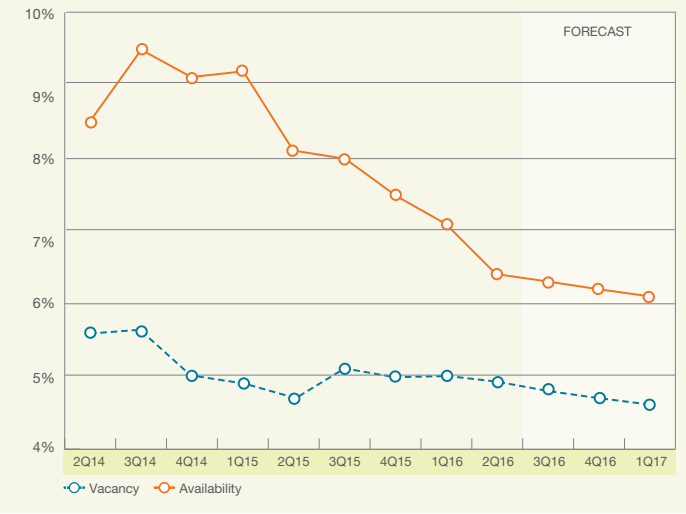
In conclusion, the Inland Empire industrial market has almost doubled in size since 2000, growing from 265 million s.f. to 505.5 million, with 12.1 million s.f. currently under construction. The market is becoming increasingly robust, as pricing continues to trend upward, while vacancy and availabilities remain at historically low levels.

Data Source: CoStar

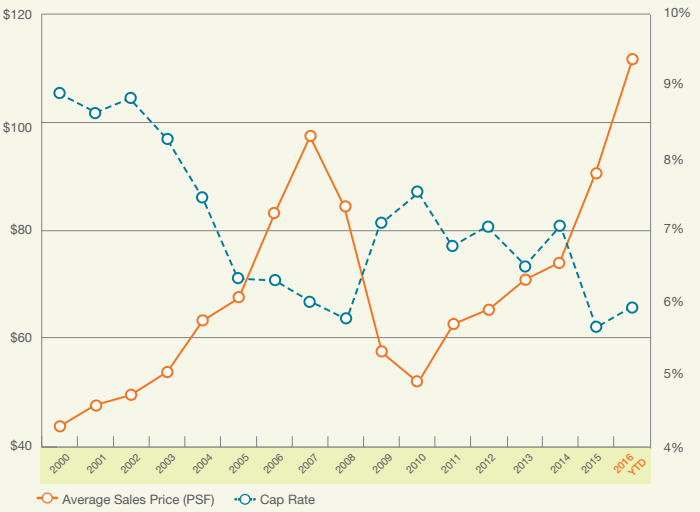
VACANCY VS ASKING LEASE RATE



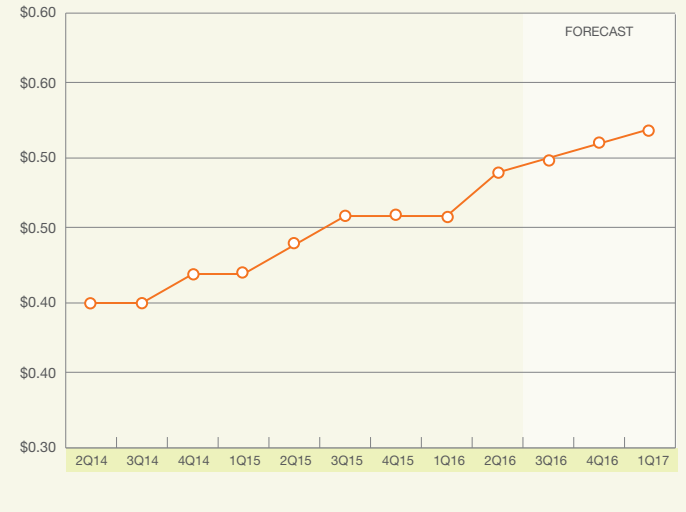
VACANCY VS AVAILABILITY



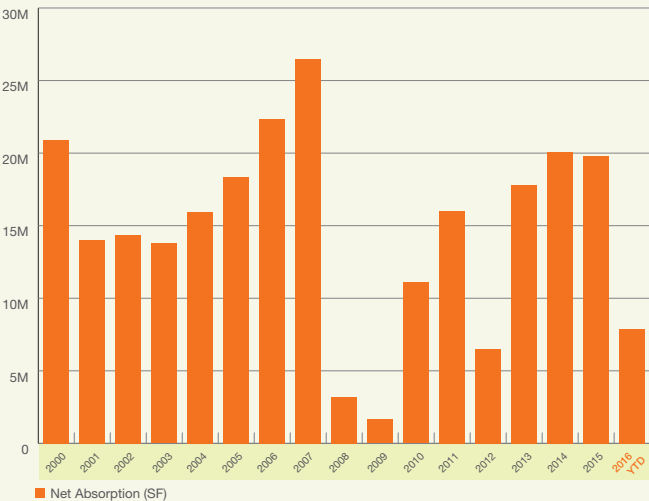
AVERAGE SALES PRICE & CAPITALIZATION RATES



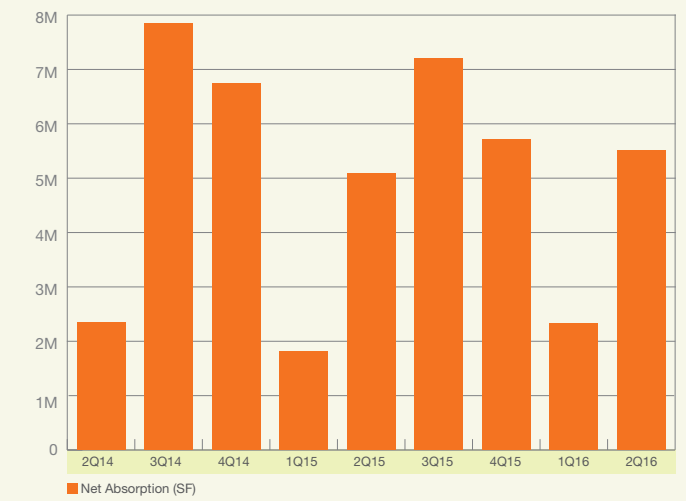
ASKING LEASE RATE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



Offices

Seattle
206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

Olympia
360.705.2800

Portland
503.221.9900

San Francisco
415.229.8888

Redwood Shores
650.769.3600

Silicon Valley
408.970.9400

Sacramento
916.751.3600

San Diego
858.509.1200

Orange County
949.557.5000

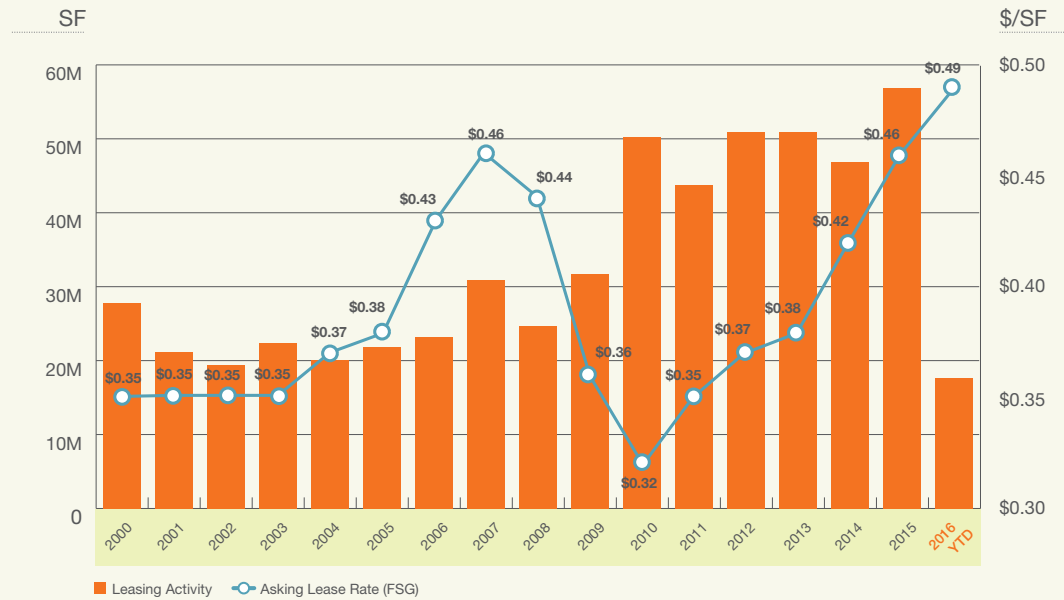
Phoenix
602.513.5200

Reno
775.301.1300

Market Breakdown

	2Q 2016	1Q 2016	2Q 2015	Annual % Change
Vacancy Rate	4.9%	5.0%	4.7%	4.26%
Availability Rate	6.4%	7.1%	8.1%	-20.99%
Asking Lease Rate	\$0.49	\$0.46	\$0.44	11.36%
Leased SF	5,613,936	11,998,757	18,191,677	-69.14%
Sold SF	3,008,917	4,604,153	4,753,742	-36.70%
Net Absorption	5,511,819	2,327,208	5,091,720	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES

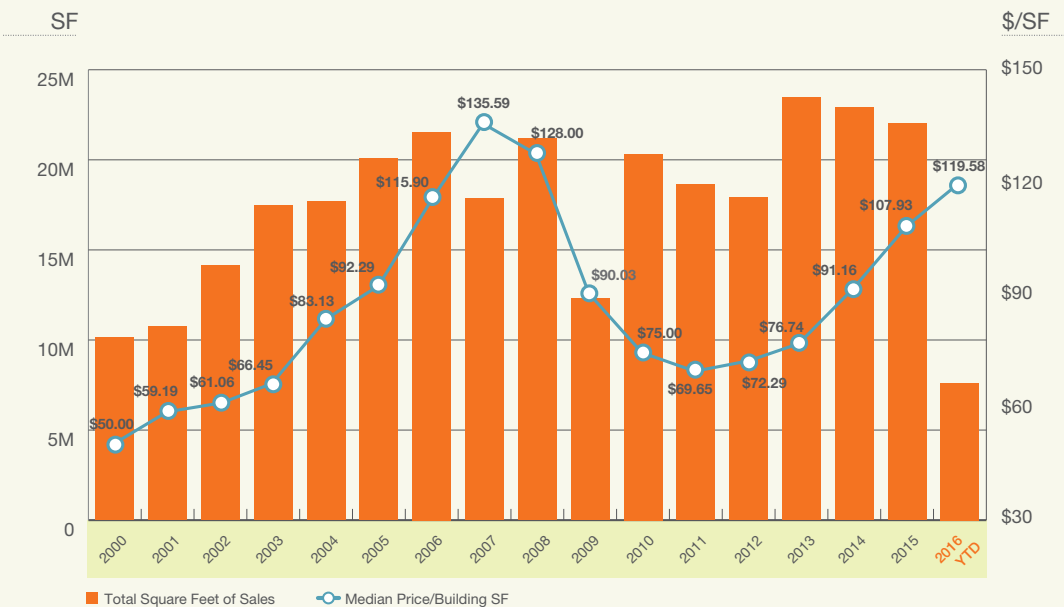


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