

Inland Empire Industrial

Market Summary

| | Q3 2016 | FORECAST |
|------------------|---------|----------|
| Absorption | ↑ | ↑ |
| Vacancy | ↑ | ↓ |
| Rental Rate | ↑ | ↑ |
| New Construction | ↑ | ↑ |

Notable Industrial Leases

Floor & Decor
24101 Iris Avenue, Moreno Valley
1,103,003 s.f.

Wolverine Worldwide, Inc.
1020 Prosperity Way, Beaumont
720,000 s.f.

Walmart
11188 S Citrus Avenue, Fontana
639,473 s.f.

Notable Construction Projects

Crossroads Logistics Center
Beaumont
1,489,240 s.f. | Delivering 1/2017

Duke Perris Logistics Center
Perris
1,244,874 s.f. | Delivering 4/2017

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

Knox Logistics Center II
Perris
767,410 s.f. | Delivering 9/2017

The Inland Empire industrial market continued to improve in the third quarter of 2016, as pricing continued to increase. Vacancy remains at historically low levels, and the amount of available space has decreased by 18.8% in the past year. The lack of product available for lease and sale in some size ranges (particularly below 100,000 square feet) is driving prices upward and limiting transaction volume. Net occupancy remains positive, and with new inventory being added each quarter there is a possibility of upward pressure on vacancy but only in the short run. We expect moderate increases in leasing and sales activity in the coming year, as job creation stays strong. Moving into the fourth quarter 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 6.3 million square feet in the third quarter of 2016, marking 16 straight quarters of positive absorption for a total of 76.7 million square feet. The East submarket added almost 4 million square feet of occupied space this quarter, which accounted for the lion's share of the positive absorption in the Inland Empire over the last three months. During the quarter, 6.6 million square feet of new product was delivered, giving the market a total of 16.2 million square feet of new construction for the year.

Leasing activity was down in the third quarter due to limited supply, with the 4.2 million square feet that came off the market representing the slowest three months since the second quarter of 2013. Currently there's 14.5 million square feet under construction, most of which is over 500,000 square feet. As this new inventory comes to market we should see a rise in leasing activity.

The Inland Empire industrial market vacancy rate ticked up from 5.1% last quarter to 5.4% during the third quarter, which equates to 27.8 million square feet of vacant industrial space. This is up from the 25.2 million square feet that was vacant a year ago, which is amazing considering that 31 million square feet of space was delivered during that time period.

The average asking rental rate in the third quarter jumped to \$0.51 per square foot on a triple net basis per month. These asking rates are up \$0.02 from last quarter and 10.9% 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 | 3Q Direct Net Absorption | YTD Direct Net Absorption | 3Q Leasing Activity | YTD Leasing Activity | Average Direct Rental Rate |
|----------------------------|--------------------|---------------------|--------------------|-------------------------|-----------------------|--------------------------|---------------------------|---------------------|----------------------|----------------------------|
| Chino | 45,814,743 | 1.3% | 1.4% | 2.3% | 1,357,580 | 826,114 | (232,954) | 92,461 | 2,693,530 | \$0.86 |
| Chino Hills | 109,314 | 0.0% | 0.0% | 0.0% | 128,957 | 0 | 0 | 0 | 1,600 | \$0.00 |
| Fontana | 56,749,671 | 7.7% | 7.7% | 9.8% | 3,359,512 | 737,205 | 1,424,679 | 235,729 | 5,573,962 | \$0.53 |
| Montclair | 3,418,678 | 1.9% | 1.9% | 10.2% | 0 | (1,934) | (20,711) | 30,505 | 73,924 | \$0.53 |
| Ontario | 102,994,398 | 2.1% | 2.8% | 3.6% | 909,007 | 1,057,678 | 1,949,552 | 567,393 | 4,477,071 | \$0.55 |
| Rancho Cucamonga | 38,534,468 | 4.4% | 4.7% | 5.5% | 135,848 | (297,704) | (788,901) | 456,782 | 1,709,528 | \$0.53 |
| Upland | 3,963,581 | 3.2% | 3.5% | 6.8% | 88,338 | (16,443) | (25,351) | 11,379 | 123,909 | \$0.71 |
| West | 251,584,853 | 3.5% | 3.6% | 4.3% | 5,979,242 | 2,304,916 | 2,306,314 | 1,394,249 | 14,653,524 | \$0.54 |
| Banning | 967,407 | 0.7% | 0.7% | 4.5% | 0 | (2,683) | 13,559 | 0 | 9,834 | \$0.00 |
| Beaumont | 2,327,914 | 19.1% | 19.1% | 19.1% | 1,489,240 | 1,950 | 17,807 | 0 | 4,232 | \$0.31 |
| Bloomington | 4,507,522 | 3.8% | 4.2% | 4.4% | 0 | (99,022) | (10,745) | 15,763 | 23,938 | \$0.40 |
| Colton | 8,122,037 | 1.0% | 1.4% | 2.8% | 238,833 | 4,380 | (20,985) | 10,940 | 87,849 | \$0.00 |
| Corona | 29,423,229 | 6.2% | 6.2% | 8.3% | 441,527 | (24,803) | (56,907) | 81,881 | 1,148,321 | \$0.53 |
| Grand Terrace | 411,673 | 2.9% | 2.9% | 17.3% | 0 | (4,101) | 36,922 | 1,416 | 14,242 | \$0.00 |
| Highland | 242,313 | 0.0% | 0.0% | 37.4% | 0 | 10,500 | 15,600 | 0 | 1,200 | \$0.00 |
| Loma Linda | 131,941 | 0.0% | 0.0% | 3.4% | 0 | 6,862 | 6,862 | 6,862 | 6,862 | \$0.00 |
| Mira Loma | 24,264,412 | 0.6% | 2.5% | 3.7% | 0 | (116,371) | (214,559) | 26,791 | 689,054 | \$0.56 |
| Moreno Valley | 20,780,999 | 8.5% | 9.3% | 6.1% | 400,935 | 187,719 | 744,489 | 1,104,206 | 2,682,689 | \$0.74 |
| Norco | 1,216,215 | 1.0% | 1.0% | 4.3% | 0 | (9,568) | (9,765) | 2,071 | 19,322 | \$0.00 |
| Perris | 17,807,463 | 0.6% | 0.6% | 1.2% | 3,527,894 | 393,445 | 2,284,924 | 22,707 | 28,007 | \$0.64 |
| Redlands | 26,481,612 | 13.7% | 13.7% | 20.5% | 0 | 1,800,727 | 2,576,902 | 205,834 | 1,320,668 | \$0.51 |
| Rialto | 22,624,278 | 10.5% | 12.9% | 15.5% | 176,000 | 624,415 | 4,211,008 | 48,612 | 833,938 | \$0.00 |
| Riverside | 47,484,566 | 3.9% | 4.3% | 6.4% | 1,044,870 | 584,728 | 928,678 | 723,605 | 2,686,756 | \$0.57 |
| San Bernardino | 35,001,383 | 10.2% | 10.3% | 10.5% | 990,588 | 628,047 | 1,019,956 | 427,329 | 3,199,080 | \$0.33 |
| East | 241,794,964 | 6.3% | 6.5% | 8.5% | 8,309,887 | 3,986,225 | 11,543,746 | 2,678,017 | 12,755,992 | \$0.49 |
| Hemet | 1,429,515 | 1.7% | 1.7% | 7.2% | 0 | 1,760 | 3,400 | 0 | 12,210 | \$0.42 |
| Lake Elsinore | 2,258,724 | 7.6% | 7.6% | 10.4% | 161,857 | (23,091) | (130,177) | 20,028 | 72,608 | \$0.73 |
| Menifee | 415,093 | 11.5% | 11.5% | 17.3% | 0 | (12,621) | (7,896) | 6,232 | 26,780 | \$0.65 |
| Murrieta | 3,775,683 | 1.2% | 1.2% | 5.5% | 0 | 21,983 | 44,092 | 34,521 | 97,151 | \$0.00 |
| San Jacinto | 1,015,215 | 2.9% | 2.9% | 5.0% | 0 | 2,500 | 19,500 | 8,000 | 14,500 | \$0.63 |
| Temecula | 10,707,802 | 2.1% | 2.1% | 3.2% | 30,000 | 58,167 | 90,130 | 52,940 | 165,191 | \$0.68 |
| Wildomar | 318,420 | 1.3% | 1.3% | 0.0% | 0 | 2,885 | 17,205 | 11,115 | 35,673 | \$0.00 |
| South | 19,920,452 | 2.7% | 2.7% | 5.0% | 191,857 | 51,583 | 36,254 | 132,836 | 424,113 | \$0.62 |
| 5,000 - 24,999 | 67,463,536 | 2.5% | 2.6% | 3.7% | 212,022 | (83,876) | (32,412) | 645,510 | 2,327,464 | \$0.76 |
| 25,000 - 49,999 | 44,595,811 | 3.0% | 3.3% | 5.1% | 808,394 | (102,708) | (207,618) | 342,510 | 1,516,413 | \$0.58 |
| 50,000 - 99,000 | 51,886,428 | 2.9% | 3.3% | 6.3% | 775,560 | (5,063) | (365,269) | 139,860 | 1,586,195 | \$0.54 |
| 100,000 - 249,999 | 91,533,527 | 3.6% | 4.1% | 6.4% | 2,189,549 | 40,015 | 1,073,764 | 1,018,154 | 4,241,285 | \$0.50 |
| 250,000 - 499,999 | 105,272,447 | 6.0% | 6.7% | 9.1% | 2,798,429 | 568,457 | 2,204,907 | 956,065 | 8,114,600 | \$0.35 |
| 500,000 - 999,999 | 107,753,076 | 9.5% | 10.2% | 10.8% | 3,924,419 | 2,590,645 | 5,730,975 | 1,359,473 | 8,098,500 | \$0.48 |
| 1,000,000 Plus | 44,795,444 | 2.5% | 2.5% | 1.3% | 3,772,613 | 3,335,254 | 5,481,967 | 1,103,003 | 3,308,645 | \$0.00 |
| Inland Empire Total | 513,300,269 | 5.0% | 5.4% | 6.9% | 14,480,986 | 6,342,724 | 13,886,314 | 4,205,102 | 27,833,629 | \$0.51 |

year. Peak lease rates in the last cycle were established in the third quarter of 2007 at \$0.46 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 above can thus be swayed drastically by a few low or high price tags. Nonetheless, the asking rate for high quality industrial space in Inland Empire should continue to increase.

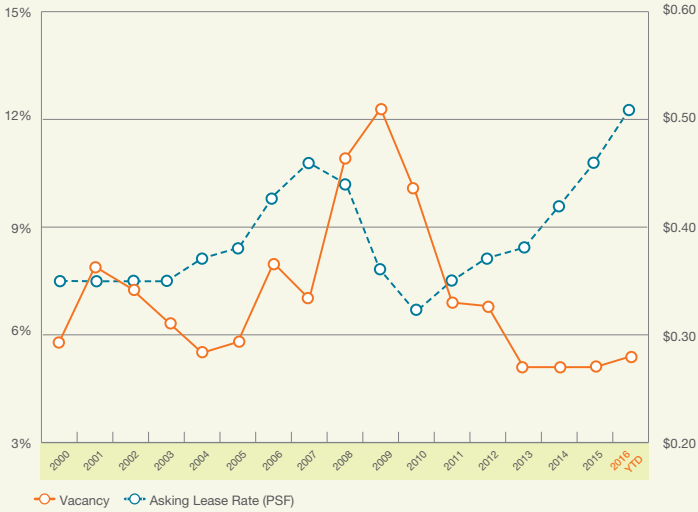
The Inland Empire industrial investment market remains relatively stable, mostly because much of the high quality industrial product that sellers were looking to move has sold and there isn't much high

quality industrial product available for sale, which explains the high construction levels. It's a great time to be a landlord or seller.

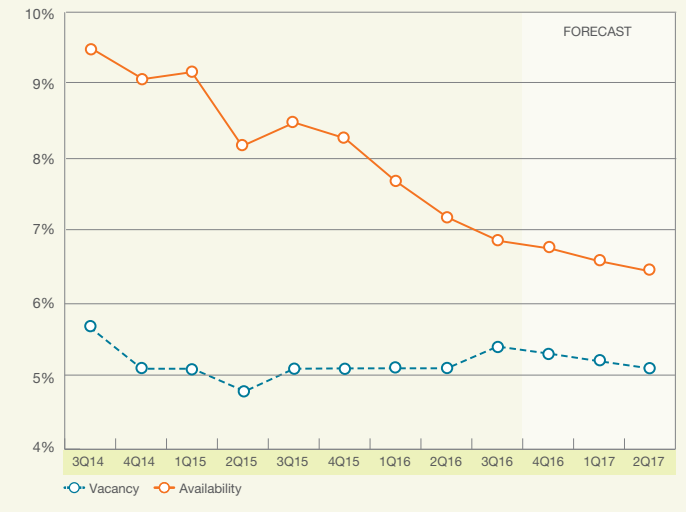
In conclusion, the Inland Empire industrial market has almost doubled in size since 2000, growing from 265 million square feet to 513.3 million today with 14.5 million square feet currently under construction. The market is becoming increasingly robust, as pricing continues to trend upward, while vacancy and availabilities remain at historically low levels.

Data Source: CoStar

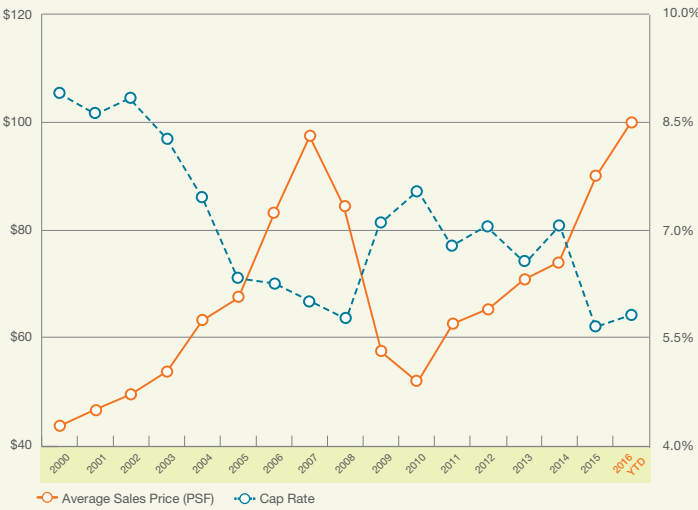
VACANCY VS ASKING LEASE RATE



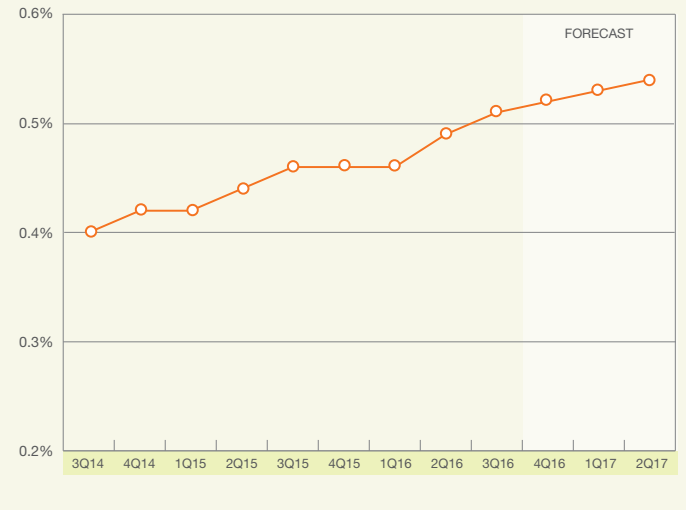
VACANCY VS AVAILABILITY



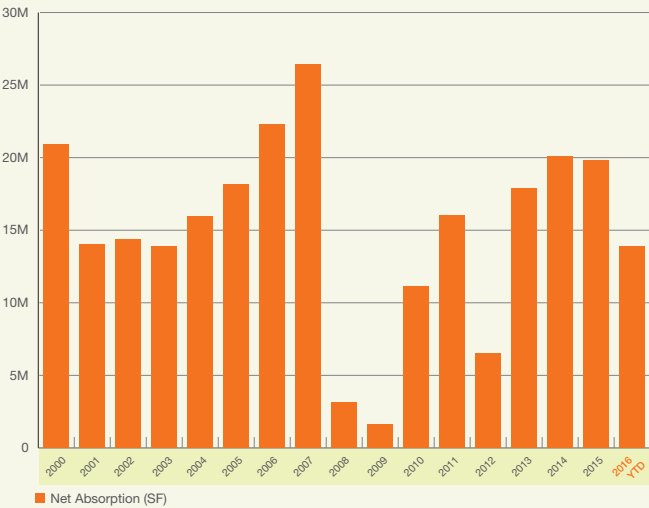
AVERAGE SALES PRICE & CAPITALIZATION RATES



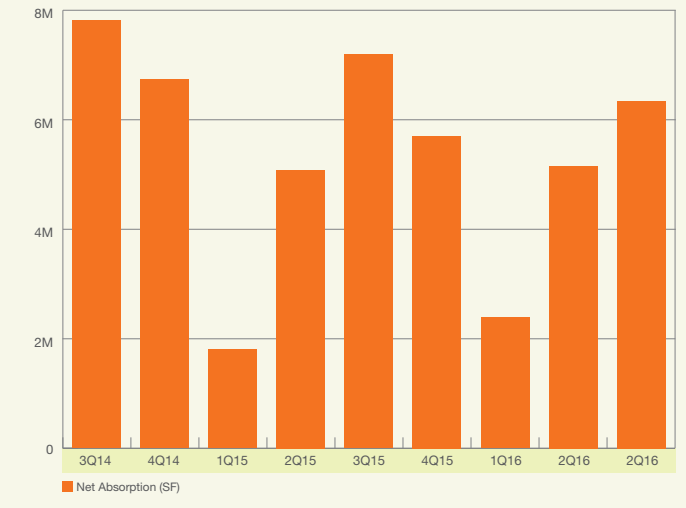
ASKING LEASE RATE



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
916.970.9700

Roseville
916.751.3600

Orange County
949.557.5000

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

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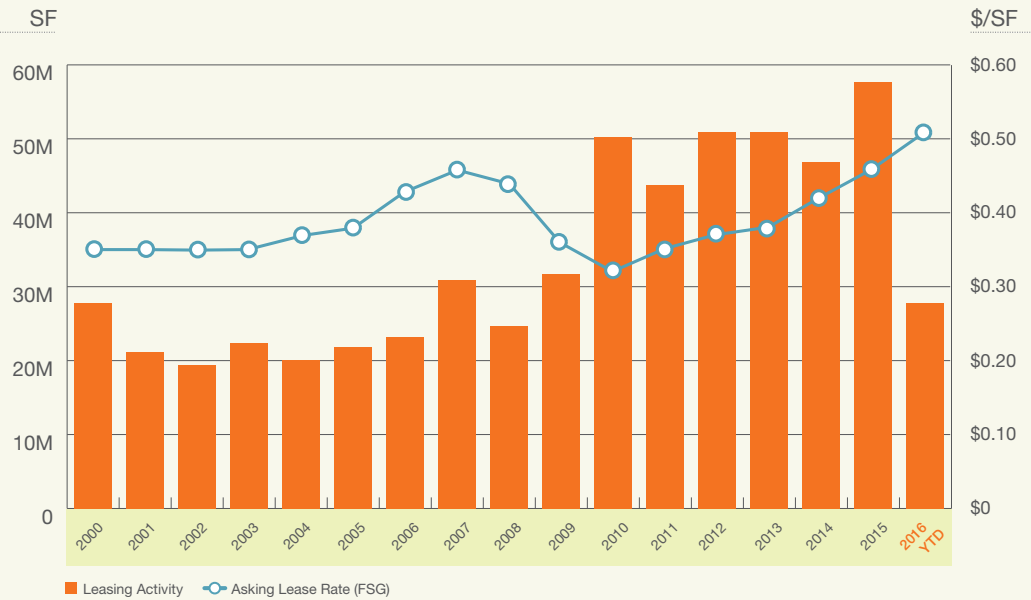
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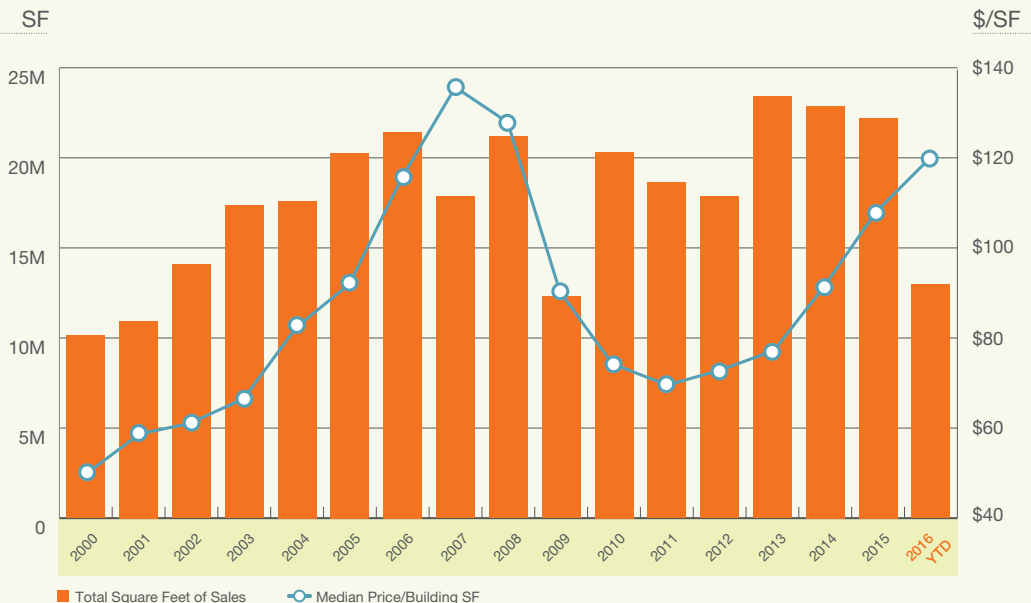
Market Breakdown

| | 3Q 2016 | 2Q 2016 | 3Q 2015 | Annual % Change |
|-------------------|-----------|------------|------------|-----------------|
| Vacancy Rate | 5.4% | 5.1% | 5.1% | 5.9% |
| Availability Rate | 6.9% | 7.2% | 8.5% | -18.8% |
| Asking Lease Rate | \$0.51 | \$0.49 | \$0.46 | 10.9% |
| Leased SF | 4,205,102 | 10,229,156 | 10,520,765 | -60.00% |
| Sold SF | 3,565,478 | 4,838,484 | 8,170,974 | -56.40% |
| Net Absorption | 6,342,724 | 5,154,083 | 7,190,339 | N/A |

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES



HISTORICAL SALES SF & MEDIAN SALE PRICE



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