

Inland Empire Industrial

Market Summary

	Q4 2016	FORECAST
Absorption	↑	↑
Vacancy	↓	↓
Rental Rate	↑	↑
New Construction	↑	↑

Notable Industrial Leases

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

Amazon Fulfillment Center
555 E Orange Show Road
1,102,639 s.f.

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

Notable Construction Projects

Crossroads Logistics Center
Beaumont
1,489,240 s.f. | Delivering 4/2017

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

Meridian Business Park
Riverside
1,000,000 s.f. | Delivering 12/2017

The Inland Empire industrial market continued to improve in 2016, as pricing continued to increase. Vacancy remains at historically low levels, and the amount of available space has decreased by 21.59% 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. Moderate increases in leasing and sales activity are expected in the coming year, as job creation stays strong. Moving into 2017, positive absorption should continue, occupancy costs will continue to increase, and with ample new construction in the pipeline, it is likely to be another year of growth.

Net absorption, a measure of market strength, was positive 20.4 million square feet in 2016, marking 17 straight quarters of positive absorption for a total of 80.8 million square feet. The East submarket added over 15.3 million square feet of occupied space in 2016, which accounted for the lion's share of the positive absorption in the Inland Empire over the year. During the fourth quarter 1.2 million square feet of new product was delivered, giving the market a total of 17.9 million square feet of new construction for the year.

Leasing activity was down in the fourth quarter due to limited supply, with the 4.7 million square feet that came off the market representing the slowest three months since the second quarter of 2013. Currently there's 19.4 million square feet under construction, most of which is over 500,000 square feet. As this new inventory comes to market, so should a rise in leasing activity.

The Inland Empire industrial market vacancy rate ticked down from 5.4% in 2015 to 4.6% during 2016, which equates to 22.3 million square feet of vacant industrial space. This is down from the 25 million square feet that was vacant a year ago, which is amazing considering 17.9 million square feet of space was delivered during that time period.

The average asking rental rate in the fourth quarter jumped to \$0.53 per square foot on a triple net basis per month. These asking rates are up \$0.02 from last quarter and up 15.2%

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Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Availability Rate	SF Under Construction	4Q Direct Net Absorption	YTD Direct Net Absorption	4Q Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate
Chino	45,957,310	1.1%	1.1%	4.0%	1,606,040	125,286	394,992	313,304	3,226,671	\$0.58
Chino Hills	109,314	0.0%	0.0%	0.0%	260,286	0	0	0	1,600	\$0.00
Fontana	57,457,332	6.3%	6.3%	8.5%	3,414,183	880,934	2,941,449	1,345,917	8,464,759	\$0.57
Montclair	3,409,278	6.3%	6.3%	15.7%	0	(146,694)	(175,855)	4,500	79,979	\$0.52
Ontario	103,211,163	1.5%	2.2%	3.5%	3,081,244	545,655	2,528,488	839,862	6,886,924	\$0.60
Rancho Cucamonga	38,669,014	4.3%	4.7%	5.7%	90,065	191,943	(696,668)	91,439	3,017,566	\$0.54
Upland	3,980,847	3.1%	3.4%	6.4%	88,338	2,189	(21,072)	15,956	147,493	\$0.82
West	252,794,258	3.0%	3.4%	5.3%	8,540,156	1,599,313	4,971,334	2,610,978	21,824,992	\$0.57
Banning	967,407	0.7%	0.7%	11.9%	0	0	13,559	5,016	14,850	\$0.92
Beaumont	2,327,914	19.1%	19.1%	19.1%	1,489,240	0	17,807	1,500	5,732	\$0.31
Bloomington	4,398,773	3.8%	4.2%	8.0%	0	(40)	(10,785)	920	24,858	\$0.40
Colton	8,153,568	2.8%	3.2%	2.8%	179,233	(97,394)	(111,739)	79,937	182,786	\$0.00
Corona	29,420,590	5.6%	5.7%	6.2%	602,420	165,933	118,518	467,641	1,695,073	\$0.53
Grand Terrace	411,673	3.9%	3.9%	17.7%	0	(4,200)	32,722	2,760	17,002	\$0.00
Highland	162,313	1.3%	1.3%	1.3%	0	(2,050)	(2,050)	0	1,200	\$0.00
Loma Linda	24,264,412	0.6%	2.5%	3.7%	0	(116,371)	(214,556)	26,791	689,054	\$0.56
Mira Loma	313,765	0.0%	0.0%	3.0%	0	0	0	0	9,522	\$0.00
Moreno Valley	20,781,431	3.2%	3.2%	7.1%	400,935	1,099,310	2,004,594	4,879	2,689,998	\$0.80
Norco	1,216,215	1.1%	1.1%	4.3%	0	(1,455)	(11,220)	0	19,322	\$0.00
Perris	18,431,857	3.7%	3.7%	4.3%	4,278,436	24,651	2,309,575	21,100	62,407	\$0.86
Redlands	26,496,345	15.5%	15.5%	21.2%	247,800	523,238	2,087,374	20,553	2,529,971	\$0.59
Rialto	22,588,589	7.4%	7.4%	11.7%	176,000	700,186	5,451,594	429,122	2,431,095	\$0.55
Riverside	43,152,474	3.1%	3.7%	6.7%	2,008,294	53,335	965,778	118,598	2,674,581	\$0.55
San Bernardino	35,002,615	5.4%	5.5%	8.1%	1,262,366	1,070,613	2,683,279	838,345	4,853,387	\$0.34
East	238,089,941	6.3%	6.5%	8.5%	10,644,724	3,415,756	15,334,450	2,017,162	17,900,838	\$0.51
Hemet	1,434,672	2.4%	2.4%	5.2%	0	(9,145)	5,745	0	12,210	\$0.42
Lake Elsinore	2,258,724	5.6%	5.6%	10.9%	164,755	44,320	(85,857)	26,819	99,427	\$0.74
Menifee	415,093	11.1%	11.1%	16.4%	0	1,457	(6,439)	6,733	33,513	\$0.00
Murrieta	3,775,266	1.4%	1.4%	2.5%	0	(6,582)	37,510	13,687	136,261	\$1.35
San Jacinto	1,015,210	3.7%	3.7%	8.8%	0	(7,900)	11,600	0	20,900	\$0.63
Temecula	10,724,334	2.1%	2.1%	3.0%	0	7,575	97,705	43,352	227,143	\$0.66
Wildomar	318,420	1.4%	1.4%	1.4%	0	(364)	16,841	0	35,673	\$0.00
South	19,941,719	2.6%	2.6%	4.5%	164,755	29,361	77,105	90,591	565,127	\$0.64
5,000 - 24,999	66,812,821	2.2%	2.3%	3.8%	230,144	150,960	98,089	394,062	2,947,373	\$0.80
25,000 - 49,999	44,631,152	2.8%	3.1%	5.5%	991,126	114,399	(98,271)	290,432	2,787,599	\$0.60
50,000 - 99,000	51,820,900	2.8%	2.9%	5.5%	1,202,651	260,653	(19,898)	315,154	2,334,963	\$0.58
100,000 - 249,999	91,059,668	3.4%	3.9%	7.4%	3,790,090	648,851	1,337,674	622,206	5,972,410	\$0.50
250,000 - 499,999	105,707,185	5.8%	6.3%	9.7%	2,349,899	1,625,421	3,736,271	557,024	10,473,206	\$0.35
500,000 - 999,999	105,998,748	8.3%	8.5%	10.1%	6,013,112	1,141,143	8,744,054	2,539,853	11,902,600	\$0.00
1,000,000 Plus	44,795,444	0.0%	0.0%	0.0%	4,772,613	1,103,003	6,584,970	0	3,872,806	\$0.00
Inland Empire Total	510,825,918	4.3%	4.6%	6.9%	19,349,635	5,044,430	20,382,889	4,718,731	40,290,957	\$0.53

year-over-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 the Inland Empire should continue to increase.

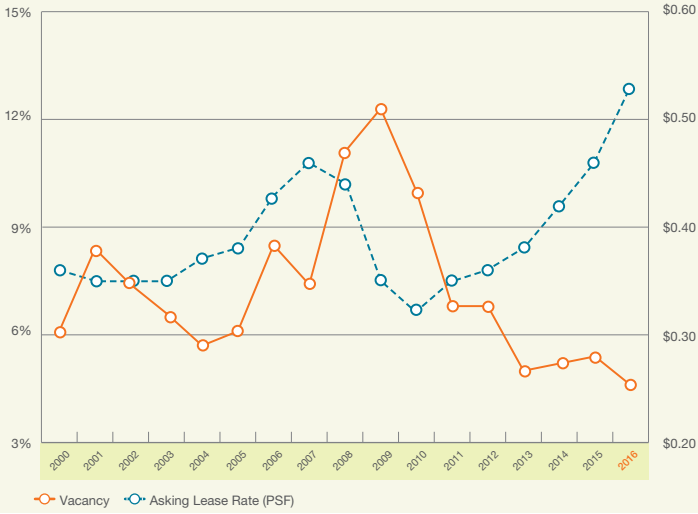
The Inland Empire industrial investment market remains relatively stable, mostly because much of the high-quality industrial product sellers were looking to move has sold and there isn't much high-

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

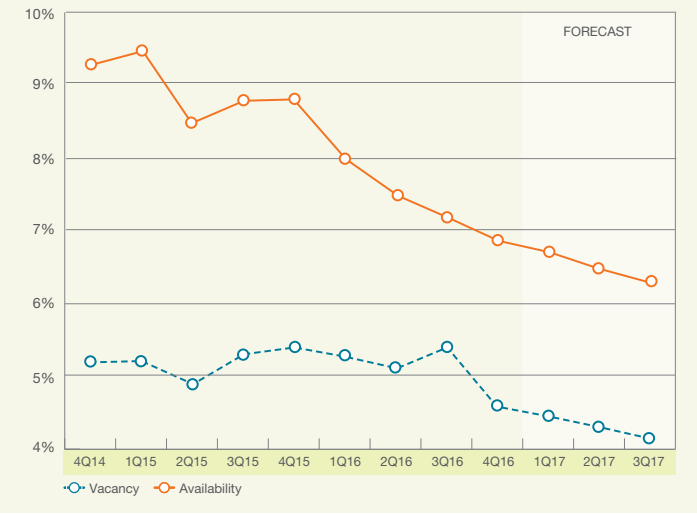
In conclusion, the Inland Empire industrial market has almost doubled in size since 2000, growing from 265 million square feet to 510.8 million today with 19.4 million square feet currently under construction. The market is becoming increasingly robust, as pricing continues to trend upward, while vacancy and availabilities remain at historically low levels.

Data Source: CoStar

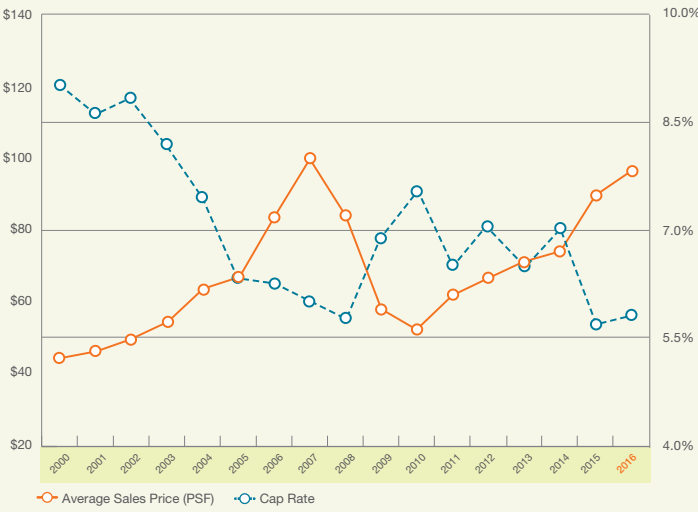
VACANCY VS ASKING LEASE RATE



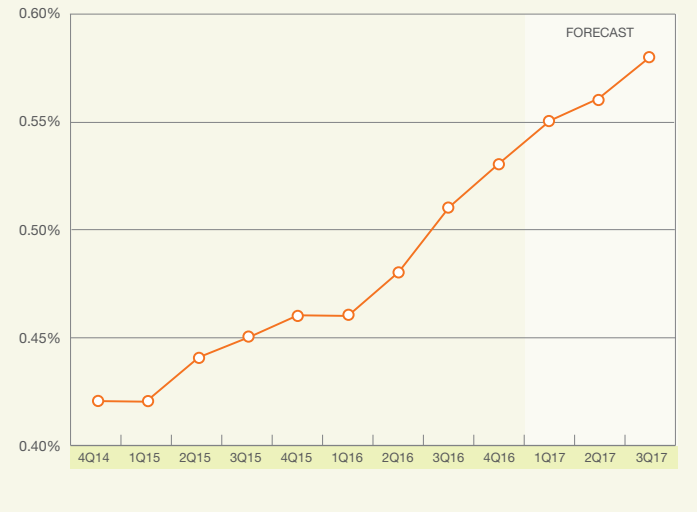
VACANCY VS AVAILABILITY



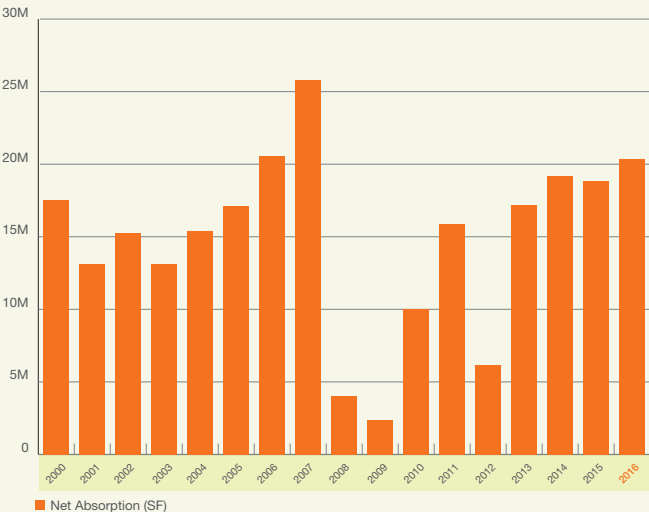
AVERAGE SALES PRICE & CAPITALIZATION RATES



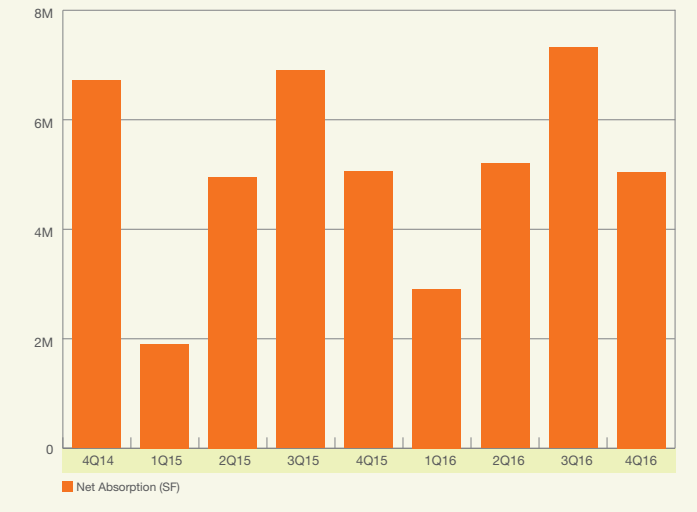
ASKING LEASE RATE



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

Inland Empire
916.751.3600

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

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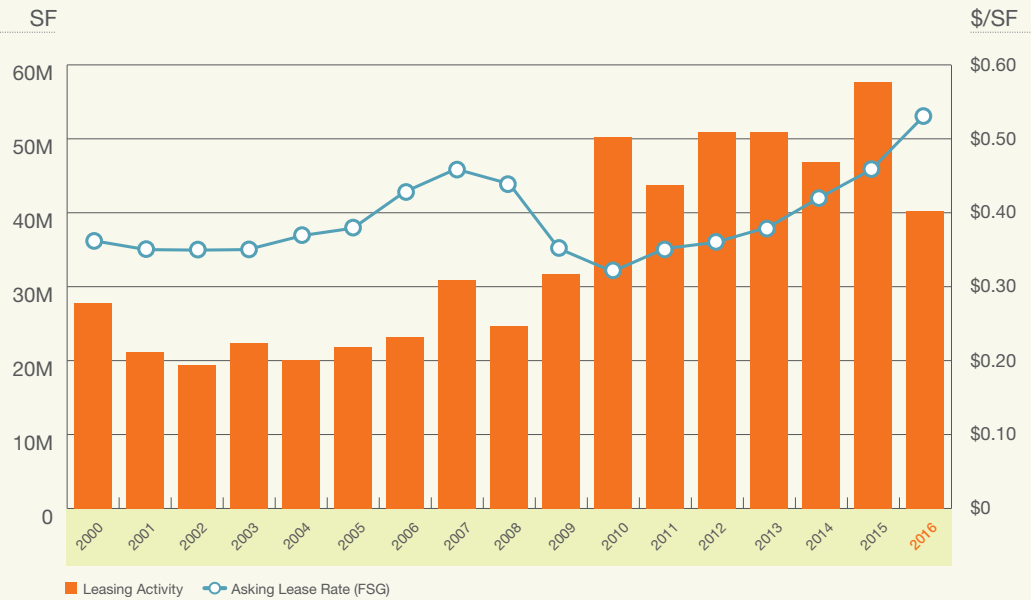
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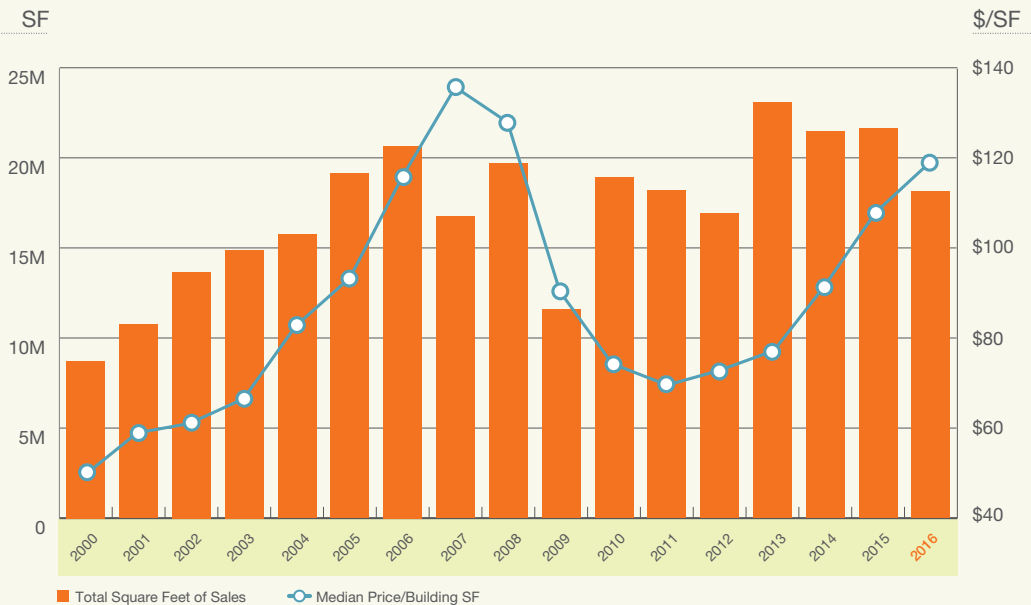
Market Breakdown

	2016	2015	2014	Annual % Change
Vacancy Rate	4.60%	5.40%	5.20%	-14.80%
Availability Rate	6.90%	8.80%	9.30%	-21.59%
Asking Lease Rate	\$0.53	\$0.46	\$0.42	15.22%
Leased SF	40,290,957	56,562,010	45,713,775	-28.77%
Sold SF	18,112,697	21,647,126	21,463,704	-16.33%
Net Absorption	20,382,889	18,945,008	19,325,650	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES



HISTORICAL SALES SF & MEDIAN SALE PRICE



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