

Inland Empire Industrial

Market Summary

	Q1 2017	FORECAST
Absorption	↑	↑
Vacancy	↓	↓
Rental Rate	↑	↑
New Construction	↑	↑

Notable Industrial Leases

Amazon
4950 Goodman Way, Eastvale
1,007,705 s.f.

Amazon
27517 Pioneer Avenue, Redlands
777,620 s.f.

Lifetime Brands, Inc
1221 N Adler Avenue, Rialto
702,668 s.f.

Notable Construction Projects

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

Majestic Chino Gateway
Chino
1,412,000 s.f. | Delivering 12/2017

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

Perris Distribution Center
Perris
1,137,000 s.f. | Delivering 5/2017

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

The Inland Empire industrial market continued to improve in Q1 2017, as asking lease rates continued to increase. Vacancy and availability rates remain at historically low levels, even as massive amounts of new inventory continues to be added to the base. 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. Throughout 2017, positive absorption should continue, occupancy costs will continue to increase, and with ample new construction in the pipeline, we foresee 2017 being another year of growth.

Net absorption, a measure of market strength, was positive 3.11 million square feet in Q1, marking 18 straight quarters of positive absorption for a total of over 88.6 million square feet. Accounting for the majority of the positive absorption in the Inland Empire, the East submarket added over 2.22 million square feet of occupied space in the quarter.

Leasing activity, compared to this time last year, decreased in the first quarter due to limited supply, with the 6.5 million square feet that came off the market representing the slowest three months since the third quarter of 2013. Currently there's 26.9 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 down from 5.1% in Q1 2016 to 4.4% during Q1 2017, which equates to 24.3 million square feet of vacant industrial space. This is down from the 25.0 million square feet that was vacant a year ago, which is amazing considering that 23.2 million square feet of space was delivered during that time period.

The average asking rental rate in the first quarter jumped to \$0.54 per square foot on a triple net basis per month. These asking rates are up \$0.01 from last quarter and up \$0.08 or 17.4% year-over-year. Peak lease rates in the last cycle were established in the third quarter

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Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Availability Rate	SF Under Construction	1Q Direct Net Absorption	YTD Direct Net Absorption	1Q Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate
Chino/Chino Hills	45,958,289	1.9%	1.9%	4.0%	3,649,920	(201,601)	(201,601)	431,588	431,588	\$0.70
Fontana	57,873,752	5.2%	5.2%	8.5%	2,928,411	553,051	553,051	1,445,221	1,445,221	\$0.61
Montclair	3,410,001	6.1%	6.1%	15.7%	0	2,905	2,905	61,205	61,205	\$0.53
Ontario	105,511,973	3.8%	4.5%	3.5%	952,081	234,292	234,292	2,295,092	2,295,092	\$0.59
Rancho Cucamonga	38,659,386	3.1%	3.5%	5.7%	90,047	257,598	257,598	284,861	284,861	\$0.55
Upland	3,903,280	4.0%	4.0%	6.4%	88,338	(29,712)	(29,712)	9,780	9,780	\$0.81
West	255,316,681	3.7%	4.3%	4.5%	7,708,797	816,533	816,533	4,527,747	4,527,747	\$0.53
Banning	967,407	10.6%	10.6%	11.9%	0	(95,771)	(95,771)	0	0	\$0.55
Beaumont	2,327,914	0.3%	0.3%	19.4%	1,489,240	720,000	720,000	0	0	\$0.31
Bloomington	4,507,522	1.4%	1.8%	8.0%	0	102,660	102,660	0	0	\$0.40
Colton	8,153,568	1.4%	1.8%	2.8%	194,233	117,549	117,549	6,300	6,300	\$0.78
Corona	29,500,610	2.5%	2.6%	3.4%	1,097,125	571,329	571,329	324,771	324,771	\$0.55
Eastvale	7,398,705	0.0%	0.0%	0.0%	3,001,735	0	0	0	0	\$0.56
Grand Terrace	411,673	0.0%	0.0%	14.5%	0	15,936	15,936	8,376	8,376	\$0.00
Highland	165,689	9.0%	9.0%	9.0%	0	(12,800)	(12,800)	0	0	\$0.00
Jurupa Valley	29,221,958	1.2%	3.5%	1.6%	0	424,651	424,651	359,161	359,161	\$0.63
Loma Linda	131,941	0.0%	0.0%	12.3%	0	0	0	26,791	26,791	\$0.00
Mira Loma	1,097,289	6.5%	6.5%	7.4%	0	(71,658)	(71,658)	0	0	\$0.00
Moreno Valley	20,793,519	3.1%	3.1%	7.8%	2,112,123	17,311	17,311	0	0	\$0.38
Norco	1,216,095	2.0%	2.0%	3.8%	0	(11,848)	(11,848)	16,198	16,198	\$0.00
Perris	19,417,868	6.7%	6.7%	7.0%	3,908,502	131,782	131,782	9,715	9,715	\$0.44
Redlands	26,497,145	14.4%	14.7%	17.5%	1,076,725	307,181	307,181	179,227	179,227	\$0.59
Rialto	22,994,176	7.4%	7.5%	9.2%	1,270,000	27,864	27,864	468,379	468,379	\$0.61
Riverside	43,288,823	3.4%	4.0%	6.2%	3,394,491	(15,092)	(15,092)	445,987	445,987	\$0.53
San Bernardino	35,061,853	5.8%	5.8%	8.1%	1,581,355	(4,974)	(4,974)	15,389	15,389	\$0.46
East	253,153,755	4.2%	4.6%	5.8%	19,125,529	2,224,120	2,224,120	1,860,294	1,860,294	\$0.50
Hemet	1,435,472	2.7%	2.7%	2.4%	0	(4,555)	(4,555)	3,300	3,300	\$0.42
Lake Elsinore	2,421,083	9.4%	9.4%	12.2%	74,800	56,073	56,073	66,362	66,362	\$0.71
Menifee	363,975	6.8%	6.8%	13.5%	0	7,632	7,632	5,885	5,885	\$0.68
Murrieta	3,750,318	0.9%	1.0%	3.3%	0	13,978	13,978	24,191	24,191	\$1.24
San Jacinto	1,033,710	4.0%	4.0%	5.6%	0	(700)	(700)	0	0	\$0.63
Temecula	10,743,761	1.8%	1.8%	3.3%	0	19,455	19,455	37,073	37,073	\$0.69
Wildomar	324,860	7.5%	7.5%	0.7%	0	(20,009)	(20,009)	24,381	24,381	\$0.00
South	20,073,179	2.6%	2.6%	4.2%	74,800	71,874	71,874	161,192	161,192	\$0.65
5,000 - 24,999	67,609,942	2.0%	2.1%	3.6%	265,505	121,010	121,010	458,700	458,700	\$0.89
25,000 - 49,999	45,124,767	2.6%	2.7%	5.9%	1,270,040	376,715	376,715	330,786	330,786	\$0.60
50,000 - 99,000	52,124,057	2.9%	3.3%	4.6%	1,729,212	179,129	179,129	512,267	512,267	\$0.56
100,000 - 249,999	94,065,643	4.3%	4.9%	6.0%	3,920,592	(26,830)	(26,830)	1,526,355	1,526,355	\$0.50
250,000 - 499,999	109,438,696	5.5%	6.2%	8.8%	3,154,818	541,680	541,680	1,412,143	1,412,143	\$0.33
500,000 - 999,999	114,351,874	7.1%	8.0%	6.4%	5,067,825	1,920,823	1,920,823	2,308,982	2,308,982	\$0.00
1,000,000 Plus	45,828,636	0.0%	0.0%	0.0%	11,501,134	0	0	0	0	\$0.00
Inland Empire Total	528,543,615	4.3%	4.4%	6.0%	26,909,126	3,112,527	3,112,527	6,549,233	6,549,233	\$0.54

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.

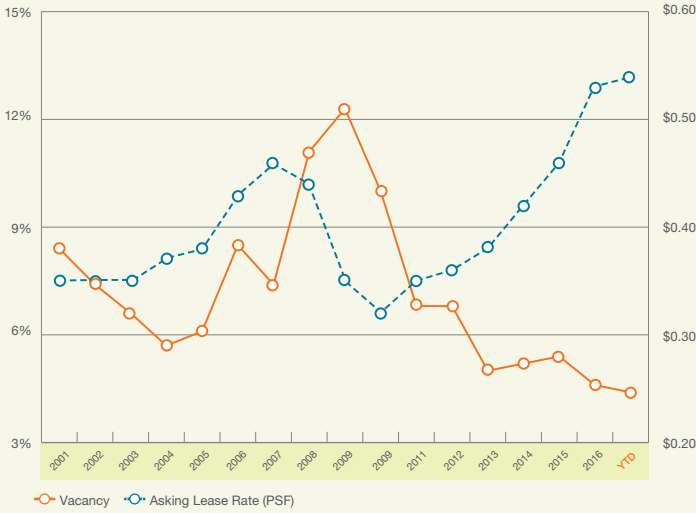
The Inland Empire industrial investment market remains relatively stable, mostly because much of the high quality industrial product that sellers were looking to move has sold and there isn't much high quality industrial product available for sale, which explains the high construction levels. It's a 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 528 million today with 26.9 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.

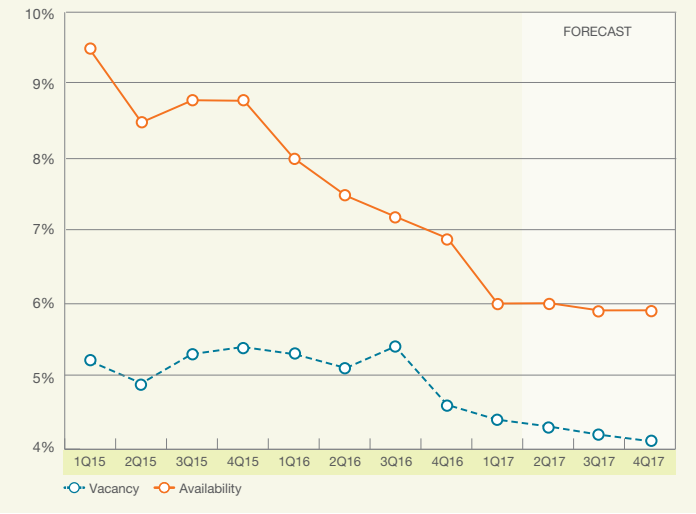
Data Source: CoStar

¹ This is direct net absorption

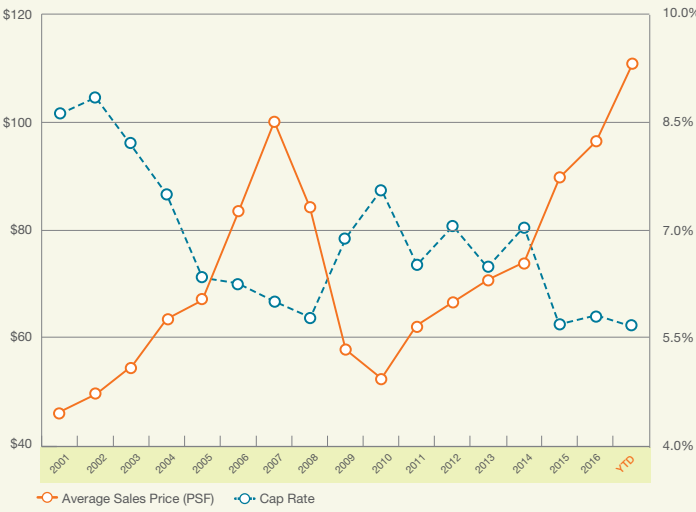
VACANCY VS ASKING LEASE RATE



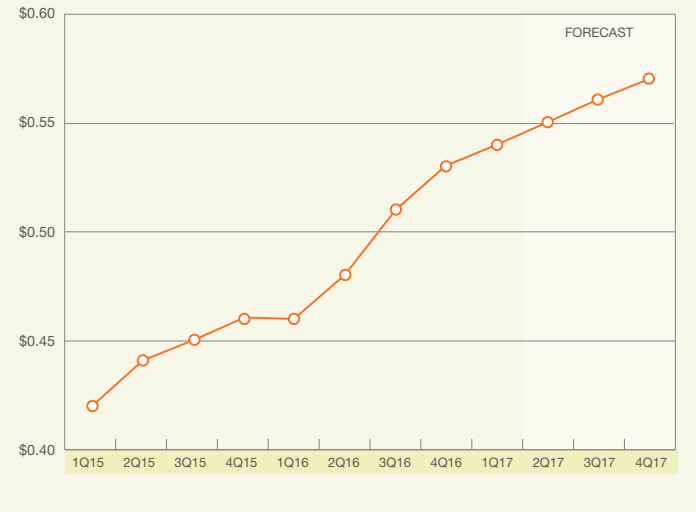
VACANCY VS AVAILABILITY



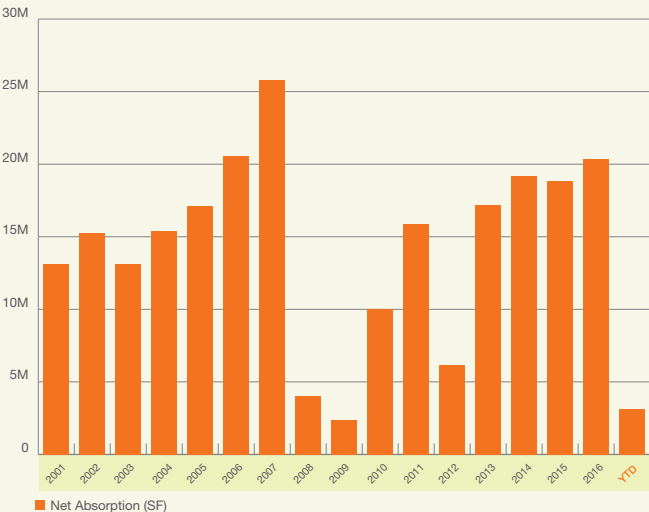
AVERAGE SALES PRICE & CAPITALIZATION RATES



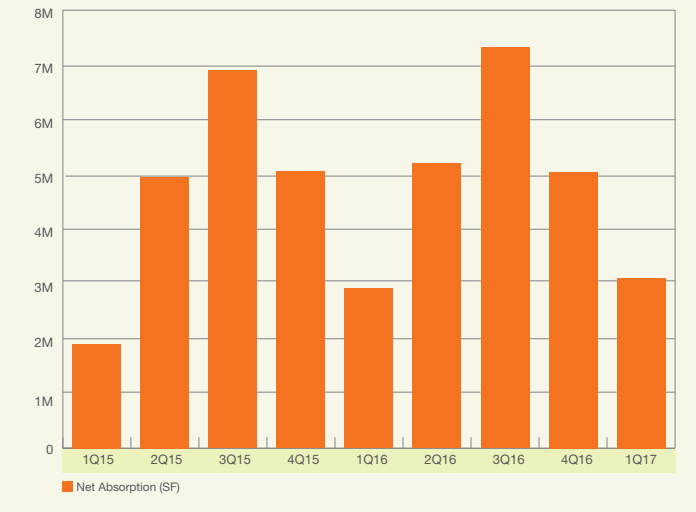
ASKING LEASE RATE



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

Los Angeles
213.880.5250

Long Beach
562.472.0071

Commerce
323.727.1144

Orange County
949.557.5000

Inland Empire
909.764.6500

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

Contact

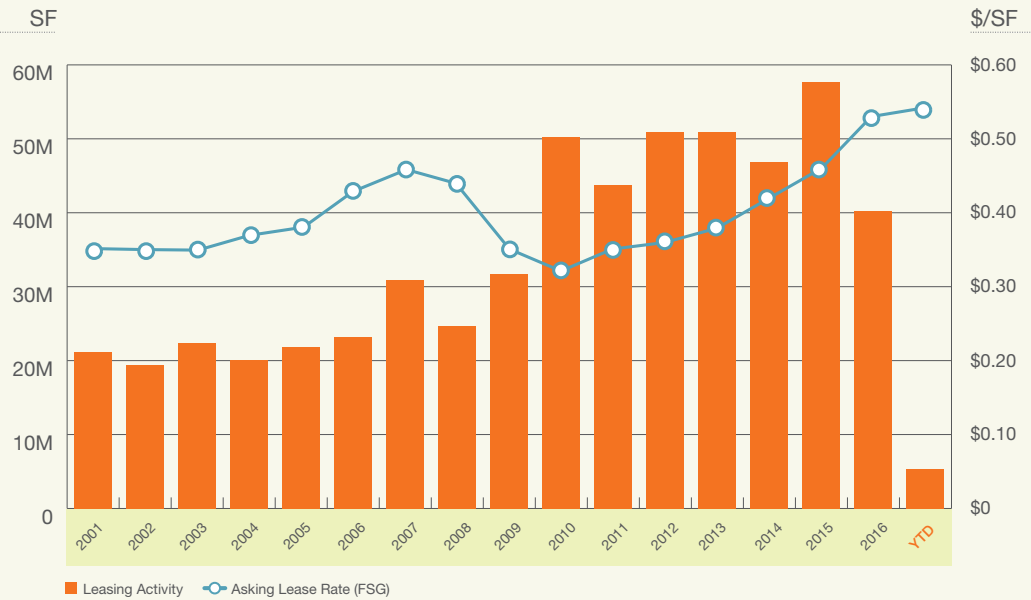
Mark Read
Executive VP, Brokerage
Southwest
858.509.1200
mread@kiddermathews.com

Designated Broker
Mark Read | LIC #00572743

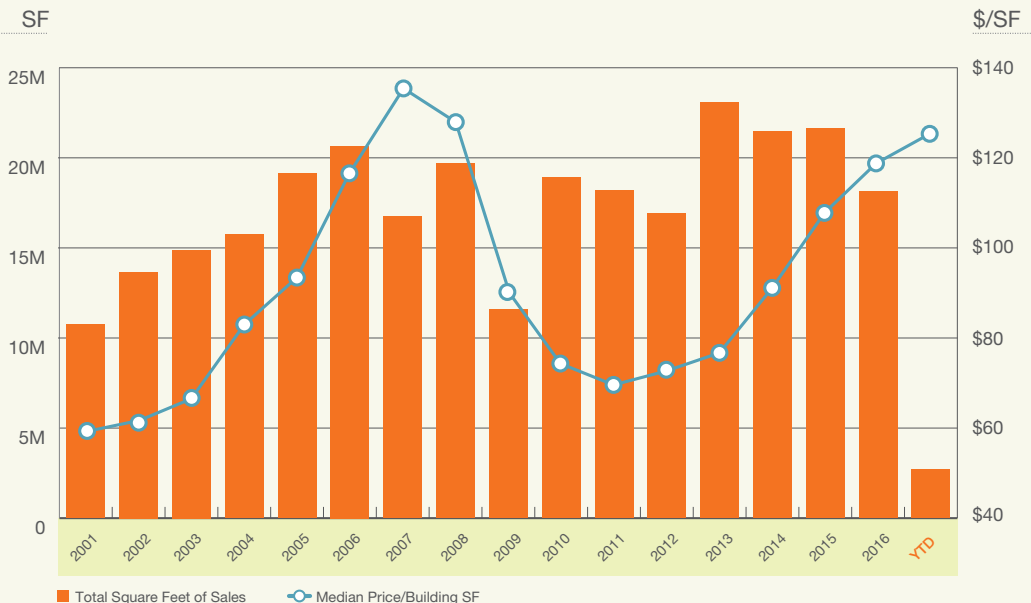
Market Breakdown

	1Q 2017	4Q 2016	1Q 2016	Annual % Change
Vacancy Rate	4.4%	4.6%	5.1%	-13.73%
Availability Rate	6.0%	6.9%	6.5%	-7.69%
Asking Lease Rate	\$0.54	\$0.53	\$0.46	17.39%
Leased SF	6,549,233	4,718,731	7,850,994	-16.58%
Sold SF	2,707,600	3,195,902	4,469,005	-39.41%
Net Absorption	3,112,527	5,044,430	2,298,029	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES



HISTORICAL SALES SF & MEDIAN SALE PRICE



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