

Inland Empire Industrial

Market Summary

| | Q2 2017 | FORECAST |
|------------------|---------|----------|
| Absorption | ↑ | ↑ |
| Vacancy | ↑ | ↑ |
| Rental Rate | ↔ | ↑ |
| New Construction | ↑ | ↑ |

Notable Industrial Leases

TBC Corp
2501 San Bernardino Ave, Redlands
683,269 s.f.

JC Penney
5959 Palm Ave, San Bernardino
624,627 s.f.

Amazon
W. Renaissance Pkwy & Locust Ave, Rialto
614,848 s.f.

Notable Construction Projects

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

Citrus Commerce Center
Fontana
1,359,024 s.f. | Delivering 6/2017

Watson Industrial Park
Chino
1,168,080 s.f. | Delivering 7/2017

Columbia Business Park
Riverside
1,003,367 s.f. | Delivering 12/2017

The Inland Empire industrial market continued to improve in Q2 2017, as asking lease rates remained stable. 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 there is strong demand in the market, so any upward pressure on vacancy from the new inventory being added is unlikely to last beyond 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 7.3 million square feet¹ in Q2. The West submarket added over 4.38 million square feet of occupied space in the quarter, accounting for the majority of the positive absorption in the Inland Empire.

Leasing activity, compared to this time last year, decreased in the second quarter due to limited supply, with 4.6 million square feet coming off the market. Currently, there is 31.3 million square feet under construction, including 22 new developments 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 4.4% in Q1 2017 to 4.7% during Q2 2017, which equates to 24.9 million square feet of vacant industrial space. This is up from the 21.9 million square feet that was vacant a year ago, which is largely due to the new construction developments coming to market.

The average asking rental rate in the second quarter stayed level at \$0.48 per square foot on a triple net basis per month. These asking rates have stayed consistent for the last three quarters. 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.

¹ This is direct net absorption

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Area Review

Submarket Statistics

| Submarket | Total Inventory | Direct Vacancy Rate | Total Vacancy Rate | Total Availability Rate | 2Q Direct Net Absorption | YTD Direct Net Absorption | SF Under Construction | 2Q Leasing Activity | YTD Leasing Activity | Average Direct Rental Rate |
|----------------------------|--------------------|---------------------|--------------------|-------------------------|--------------------------|---------------------------|-----------------------|---------------------|----------------------|----------------------------|
| Chino/Chino Hills | 46,314,384 | 1.7% | 1.7% | 2.2% | 262,180 | 45,012 | 4,930,957 | 436,079 | 1,038,117 | \$0.69 |
| Fontana | 58,540,900 | 4.0% | 4.9% | 5.4% | 2,294,575 | 1,400,891 | 5,005,256 | 866,749 | 3,225,076 | \$0.63 |
| Montclair | 3,389,957 | 1.7% | 1.7% | 5.9% | 151,420 | 154,325 | 0 | 39,596 | 102,141 | \$0.52 |
| Ontario | 105,689,695 | 3.0% | 3.1% | 3.7% | 1,571,285 | 1,311,442 | 1,390,305 | 1,206,774 | 3,684,235 | \$0.62 |
| Rancho Cucamonga | 38,706,093 | 3.7% | 3.8% | 5.7% | 109,567 | 120,872 | 0 | 387,429 | 799,094 | \$0.52 |
| Upland | 3,903,280 | 3.4% | 3.4% | 4.4% | (6,866) | (36,578) | 88,338 | 19,521 | 39,750 | \$0.80 |
| West | 256,544,309 | 3.1% | 3.3% | 4.2% | 4,382,161 | 2,995,964 | 11,414,856 | 2,956,148 | 8,888,413 | \$0.58 |
| Banning | 972,227 | 10.7% | 10.7% | 10.2% | (1,600) | (97,371) | 89,763 | 8,217 | 18,217 | \$0.55 |
| Beaumont | 3,817,154 | 0.2% | 0.2% | 11.8% | 1,489,240 | 1,482,740 | | 0 | 0 | \$0.29 |
| Bloomington | 4,509,170 | 1.3% | 1.7% | 5.7% | 3,300 | 105,960 | | 0 | 0 | \$0.40 |
| Colton | 8,370,380 | 3.4% | 3.8% | 4.7% | 4,913 | 125,262 | 743,381 | 8,440 | 39,650 | \$0.59 |
| Corona | 29,932,204 | 5.1% | 5.1% | 7.7% | 105,021 | 221,507 | 205,745 | 203,227 | 730,438 | \$0.55 |
| Eastvale | 7,530,538 | 0.5% | 0.5% | 5.7% | 101,800 | 101,800 | 3,486,756 | 37,305 | 54,560 | \$0.56 |
| Grand Terrace | 411,673 | 0.0% | 0.0% | 14.5% | 0 | 15,936 | | 0 | 8,376 | \$0.00 |
| Highland | 165,689 | 9.0% | 9.0% | 9.7% | 0 | (12,800) | | 0 | 0 | \$0.00 |
| Jurupa Valley | 29,188,467 | 1.2% | 1.2% | 2.8% | 318,604 | 641,974 | 156,318 | 102,627 | 549,321 | \$0.63 |
| Loma Linda | 142,350 | 8.1% | 8.1% | 17.3% | (11,506) | (11,506) | 0 | 3,036 | 3,036 | \$0.00 |
| Mira Loma | 1,097,341 | 0.9% | 0.9% | 0.9% | (9,522) | (8,522) | | 0 | 0 | \$0.00 |
| Moreno Valley | 21,196,636 | 5.0% | 5.0% | 9.7% | (7,415) | 9,896 | 2,451,091 | 1,200 | 1,200 | \$0.37 |
| Norco | 1,257,451 | 1.6% | 1.6% | 2.7% | 5,291 | (6,557) | 27,713 | 13,568 | 29,766 | \$0.00 |
| Perris | 20,855,175 | 6.5% | 6.5% | 3.5% | 1,371,368 | 1,503,150 | 2,183,062 | 599,113 | 663,628 | \$0.44 |
| Redlands | 26,497,025 | 15.2% | 15.5% | 14.8% | (227,611) | (4,139) | 1,233,048 | 203,459 | 864,570 | \$1.26 |
| Rialto | 22,589,189 | 7.3% | 7.4% | 6.5% | 62,789 | (1,834) | 2,788,827 | 48,541 | 958,595 | \$0.89 |
| Riverside | 43,811,710 | 4.8% | 5.1% | 7.2% | 103,393 | 99,510 | 4,507,059 | 274,882 | 799,338 | \$0.48 |
| San Bernardino | 35,684,022 | 8.0% | 8.0% | 10.1% | (413,967) | (333,756) | 1,586,370 | 31,565 | 46,954 | \$1.30 |
| East | 258,028,401 | 6.0% | 6.1% | 7.7% | 2,894,098 | 3,831,250 | 19,459,133 | 1,535,180 | 4,767,649 | \$0.42 |
| Hemet | 1,430,028 | 2.5% | 2.5% | 3.8% | 3,300 | (1,255) | 0 | 0 | 3,300 | \$0.42 |
| Lake Elsinore | 2,420,890 | 6.6% | 6.6% | 8.1% | 66,337 | 119,410 | 125,574 | 36,773 | 127,672 | \$0.67 |
| Menifee | 403,975 | 6.2% | 6.2% | 12.4% | 3,000 | (7,215) | | 0 | 5,885 | \$0.68 |
| Murrieta | 3,756,517 | 1.0% | 1.1% | 3.1% | (3,259) | 8,778 | 41,248 | 27,083 | 54,130 | \$0.00 |
| San Jacinto | 1,033,710 | 2.1% | 2.1% | 4.4% | 19,800 | 19,100 | | 0 | 8,400 | \$0.58 |
| Temecula | 10,777,681 | 2.3% | 2.3% | 4.0% | (56,526) | (37,071) | 223,200 | 39,551 | 85,344 | \$0.69 |
| Wildomar | 324,860 | 8.8% | 8.8% | 0.0% | (3,977) | (23,986) | | 8,563 | 32,944 | \$0.00 |
| South | 20,147,661 | 2.7% | 2.8% | 4.4% | 28,675 | 77,761 | 390,022 | 111,970 | 317,675 | \$0.64 |
| 5,000 - 24,999 | 67,783,515 | 1.9% | 2.1% | 3.3% | 143,484 | 249,537 | 335,533 | 564,976 | 1,298,766 | \$0.83 |
| 25,000 - 49,999 | 45,391,061 | 2.8% | 2.9% | 6.0% | 140,728 | 568,989 | 1,193,791 | 508,478 | 947,864 | \$0.63 |
| 50,000 - 99,000 | 52,528,273 | 3.3% | 3.7% | 5.7% | 408,455 | 40,777 | 1,738,088 | 456,190 | 1,293,976 | \$0.56 |
| 100,000 - 249,999 | 95,767,114 | 4.7% | 4.9% | 6.9% | 1,136,271 | 1,074,135 | 4,476,437 | 812,013 | 2,838,016 | \$0.53 |
| 250,000 - 499,999 | 109,731,157 | 5.7% | 5.8% | 8.5% | 810,751 | 599,466 | 4,474,626 | 663,912 | 2,832,314 | \$0.35 |
| 500,000 - 999,999 | 114,976,501 | 7.6% | 8.0% | 6.5% | 1,951,131 | 1,657,957 | 7,962,527 | 1,597,729 | 4,762,801 | \$0.00 |
| 1,000,000 Plus | 48,542,750 | 0.0% | 0.0% | 0.0% | 2,714,114 | 2,714,114 | 11,083,009 | 0 | 0 | \$0.29 |
| Inland Empire Total | 534,720,371 | 4.5% | 4.7% | 5.9% | 7,304,934 | 6,904,975 | 31,264,011 | 4,603,298 | 13,973,737 | \$0.48 |

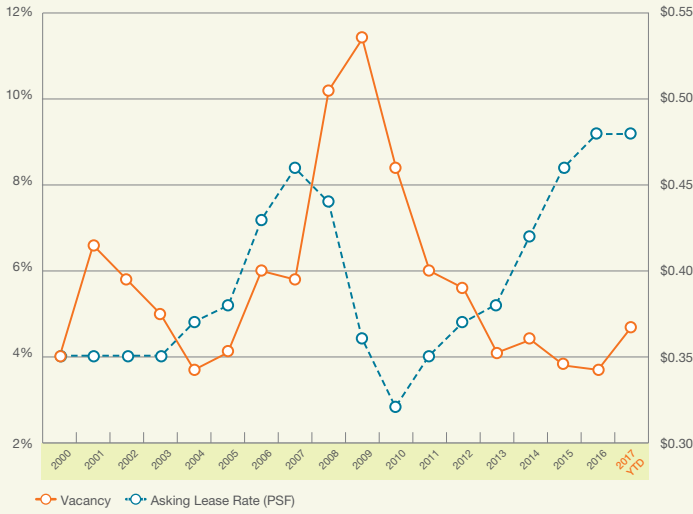
The numbers above can thus be swayed drastically by a few low or high price tags. Nonetheless, the asking rate for high quality industrial space in Inland Empire should continue to increase.

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.

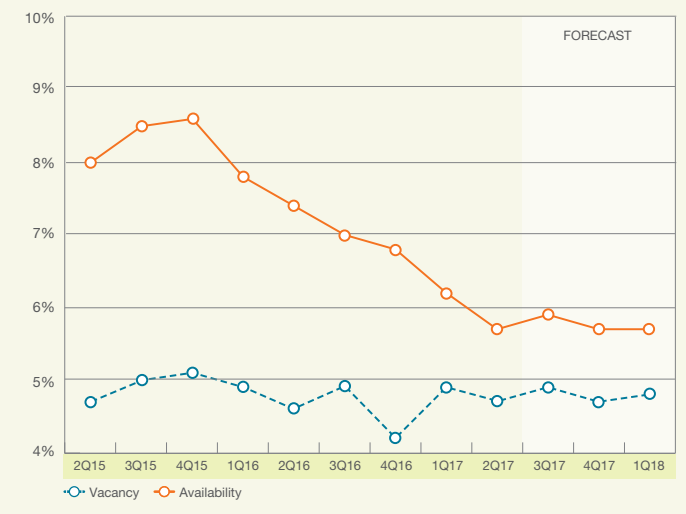
In conclusion, the Inland Empire industrial market has almost doubled in size since 2000, growing from 270 million square feet to 534 million square feet today with 31.2 million square feet currently under construction. The market is becoming increasingly robust, as pricing continues to trend upward, while vacancy and availabilities remain at historically low levels.

Data Source: CoStar

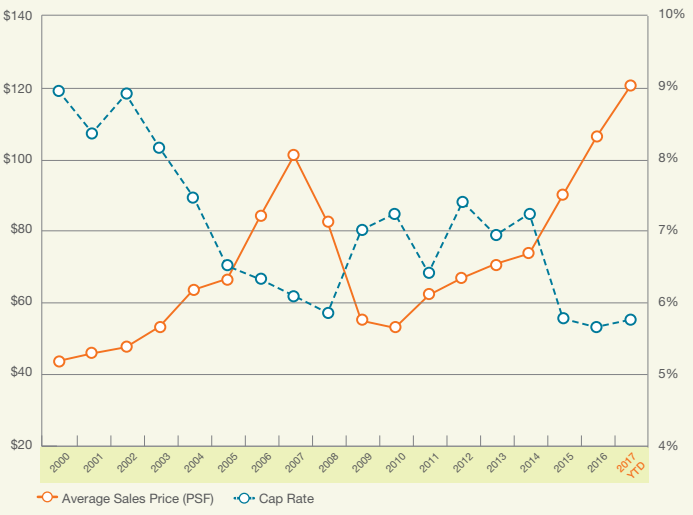
VACANCY VS ASKING LEASE RATE



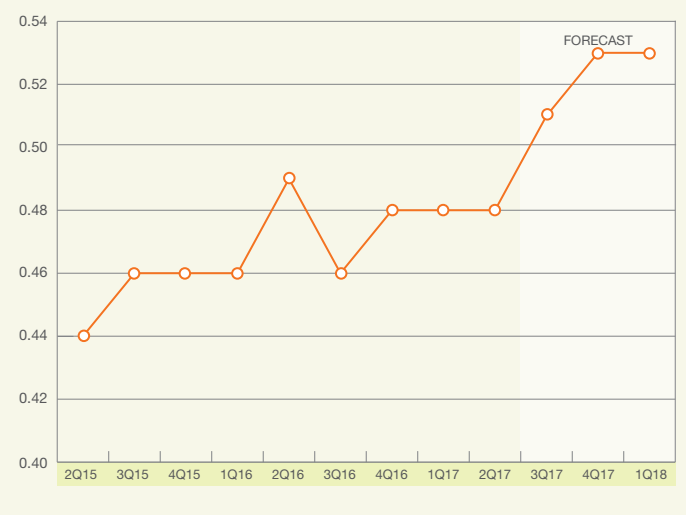
VACANCY VS AVAILABILITY



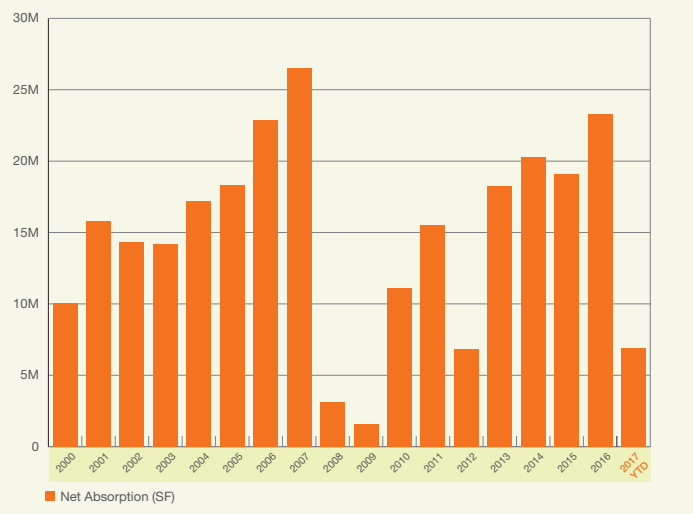
AVERAGE SALE PRICE & CAPITALIZATION RATES



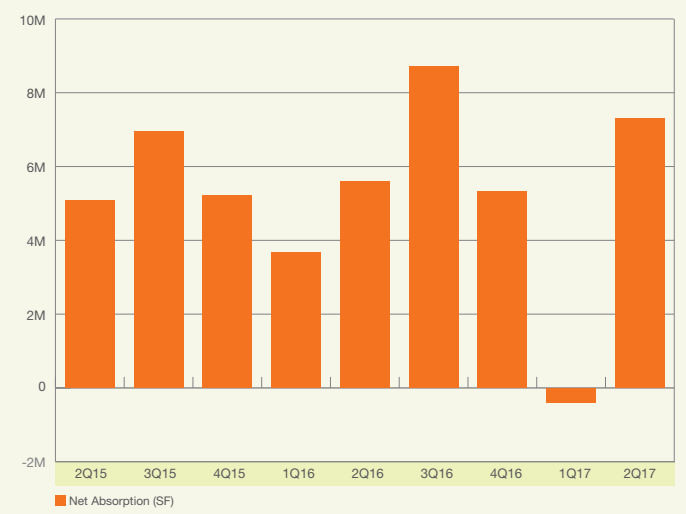
AVERAGE ASKING LEASE RATE



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

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602.513.5200

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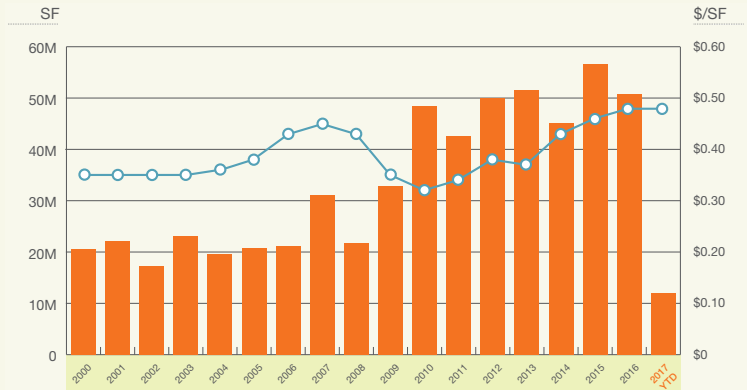
Designated Broker
Mark Read | LIC #00572743

Market Breakdown

| | 2Q17 | 1Q17 | 2Q16 | Annual % Change |
|-------------------|-----------|-----------|-----------|-----------------|
| Vacancy Rate | 4.7% | 4.4% | 4.6% | 2.17% |
| Availability Rate | 5.9% | 6.0% | 6.4% | -7.81% |
| Asking Lease Rate | \$0.48 | \$0.48 | \$0.49 | -2.04% |
| Leased SF | 4,603,298 | 6,549,233 | 5,613,936 | -18.00% |
| Sold SF | 3,960,858 | 3,168,857 | 3,008,917 | 31.64% |
| Net Absorption | 7,304,934 | 3,112,527 | 5,511,819 | N/A |

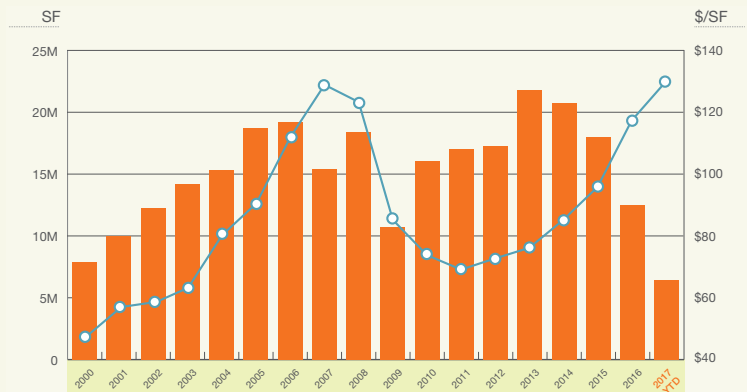
HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES*

■ Leasing Activity
○ Asking Lease Rate



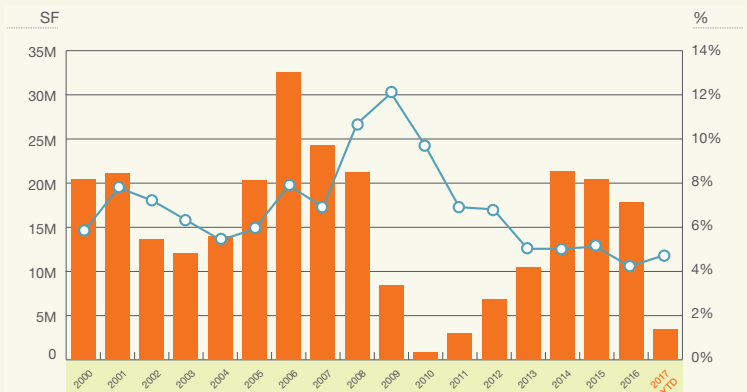
HISTORICAL SALES SF & MEDIAN SALE PRICE

■ Total SF of Sales
○ Median Price/Building SF



HISTORICAL NEW CONSTRUCTION & VACANCY RATE

■ New Construction
○ Vacancy



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