

Real Estate Market Review

# Inland Empire Industrial

The Inland Empire industrial market continued its improvement in Q3 2017, as asking lease rates continued their upward trend. Vacancy and availability rates remain steady, even as substantial amounts of new inventory continue to be added to the base. Net absorption remains positive which indicates a strong demand in the market. Imports through the Port of Long Beach continue to record high shipment quantities, contributing to the high demand in industrial space. As a result, upward pressure on vacancy and availability in the short run remains unlikely, in spite of new inventory being added in the coming quarters. We expect moderate increases in leasing and sales activities for the remainder of 2017, as the demand for industrial space remains robust. We foresee the Inland Empire industrial market to continue its growth as new construction becomes available, occupancy costs continue its upward trend, and positive absorption remains strong.

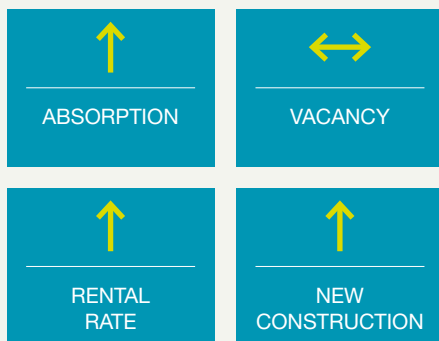
Net absorption, a measure of market strength, was positive at 5.0 million s.f. in Q3. West County added over 3.5 million s.f. of occupied space in the quarter, accounting for the majority of the positive absorption in the Inland Empire.

Leasing activity decreased for a second straight quarter with 4.4 million s.f. coming off the market. Currently, there is 21.8 million s.f. under construction, with East County contributing over 17.7 million s.f. in the coming quarters. As new inventory comes into the market we should see an increase in leasing activity.

The Inland Empire industrial market vacancy rate remained firm at 4.8% in Q3, resulting in 25.4 million s.f. of vacant industrial space. With demand consistently applying pressure, regardless of new construction developments being introduced into the market, we foresee vacancy to remain steady at its low numbers.

The average asking rental rate this quarter increased to \$0.54/s.f. on a triple net basis per month. Asking rates have stayed consistent for the last three quarters, steadily increasing as new high quality products become available. The lack of product available for lease in some size

### Market Forecast Trends



### Notable Lease Transactions

**Meridian Business Park**  
20901 Krameria Avenue, Riverside  
1,000,000 s.f. leased

**Perris Distribution Center**  
657 Nance Street, Perris  
864,000 s.f. leased

**JC Penney**  
5959 Palm Avenue, San Bernardino  
624,627 s.f. leased

### Notable Construction Projects

**17350 Perris Boulevard**  
Moreno Valley  
1,109,378 s.f. | Delivering 02/2018

**Monster Energy**  
Rialto  
1,094,000 s.f. | Delivering 02/2018

**Majestic Chino Gateway Building 1**  
Chino  
1,022,680 s.f. | Delivering 12/2017

**Columbia Business Park**  
Riverside  
1,009,092 s.f. | Delivering 12/2017

# Area Review

## Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q3 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Rental Rate
Chino/Chino Hills	47,906,453	2.5%	2.5%	4.0%	1,185,021	1,239,055	120,026	2,586,297	\$0.64
Fontana	60,170,009	5.0%	5.0%	6.4%	1,851,692	2,863,549	592,011	4,384,033	\$0.66
Montclair	3,404,147	0.8%	0.8%	5.6%	31,690	187,015	15,130	118,271	\$1.00
Ontario	106,041,348	2.8%	3.0%	3.6%	449,153	1,788,226	958,375	5,441,966	\$0.63
Rancho Cucamonga	38,715,425	3.7%	4.0%	4.8%	109,709	48,887	374,882	1,366,170	\$0.52
Upland	4,030,210	7.4%	7.4%	6.6%	(46,499)	(116,077)	87,741	150,891	\$0.80
<b>West</b>	<b>260,267,592</b>	<b>3.4%</b>	<b>3.6%</b>	<b>4.6%</b>	<b>3,580,766</b>	<b>6,010,655</b>	<b>2,148,165</b>	<b>14,047,628</b>	<b>\$0.59</b>
Banning	984,827	7.9%	7.9%	8.2%	27,249	(70,122)	42,995	62,812	\$0.58
Beaumont	3,817,154	0.0%	0.0%	11.7%	0	1,489,240	0	0	\$0.31
Bloomington	4,673,601	0.1%	0.1%	5.6%	97,644	203,204	0	0	\$0.68
Colton	8,343,846	3.5%	3.8%	4.3%	(10,720)	124,104	5,225	62,875	\$0.61
Corona	30,198,517	5.9%	5.9%	7.8%	(228,138)	168,543	72,121	1,052,366	\$0.55
Eastvale	7,750,274	8.0%	8.0%	3.2%	(404,252)	(265,772)	0	430,566	\$0.00
Grand Terrace	423,568	0.0%	0.0%	16.9%	1,900	17,836	0	8,376	\$0.67
Highland	165,689	0.5%	0.5%	0.5%	14,000	1,200	1,200	1,200	\$0.00
Jurupa Valley	29,187,095	2.4%	3.8%	4.0%	(324,195)	(117,880)	351,510	1,055,489	\$0.00
Loma Linda	142,350	1.3%	1.3%	10.5%	9,670	(1,836)	9,670	12,706	\$0.00
Mira Loma	1,097,341	0.9%	0.9%	0.9%	0	(8,522)	0	0	\$0.00
Moreno Valley	21,194,730	5.0%	5.0%	8.7%	(5,736)	4,160	2,737	5,333	\$0.37
Norco	1,257,451	0.6%	0.6%	2.1%	12,295	5,738	10,118	42,682	\$0.00
Perris	20,862,075	4.1%	4.1%	1.2%	501,485	2,004,635	24,800	1,162,663	\$0.44
Redlands	26,497,025	12.4%	12.9%	16.7%	670,067	688,477	54,025	1,552,097	\$1.26
Rialto	22,579,170	5.2%	6.3%	5.8%	250,954	249,120	427,119	1,385,714	\$0.89
Riverside	43,904,146	7.1%	7.4%	7.0%	(365,930)	(263,488)	314,445	1,288,682	\$0.49
San Bernardino	36,180,367	5.2%	5.5%	6.9%	1,261,353	990,315	926,188	1,820,672	\$1.30
<b>East</b>	<b>259,259,226</b>	<b>5.7%</b>	<b>6.1%</b>	<b>7.1%</b>	<b>1,507,646</b>	<b>5,218,952</b>	<b>2,242,153</b>	<b>9,944,233</b>	<b>\$0.49</b>
Hemet	1,458,065	5.3%	5.3%	5.5%	(42,040)	(43,295)	0	3,300	\$0.00
Lake Elsinore	2,421,045	4.2%	4.2%	5.2%	53,746	177,016	38,017	168,749	\$0.67
Menifee	403,975	6.2%	6.4%	19.6%	(1,100)	(8,315)	0	5,885	\$0.68
Murrieta	3,745,867	1.8%	1.8%	3.3%	(26,473)	(17,695)	24,772	79,796	\$0.00
San Jacinto	1,034,157	4.3%	4.3%	6.4%	(23,272)	(4,172)	0	8,400	\$0.75
Temecula	10,783,374	2.3%	2.3%	5.3%	(9,170)	(44,872)	20,994	111,926	\$0.69
Wildomar	324,860	4.5%	4.5%	0.0%	(8,386)	(10,177)	14,656	47,600	\$0.80
<b>South</b>	<b>20,171,343</b>	<b>2.9%</b>	<b>2.9%</b>	<b>5.2%</b>	<b>(56,695)</b>	<b>48,490</b>	<b>98,439</b>	<b>425,656</b>	<b>\$0.69</b>
5,000 - 24,999	67,789,119	2.0%	2.1%	3.6%	1,843	294,589	575,312	2,172,161	\$0.90
25,000 - 49,999	45,859,758	3.3%	3.6%	5.7%	91,758	538,260	460,362	1,882,908	\$0.63
50,000 - 99,999	52,938,458	3.2%	3.5%	4.8%	131,544	393,455	827,348	2,569,822	\$0.58
100,000 - 249,999	97,054,423	5.3%	5.6%	6.9%	447,082	1,516,988	970,063	4,800,597	\$0.51
250,000 - 499,999	110,176,378	6.4%	7.1%	7.9%	(528,095)	(336,721)	467,614	4,928,047	\$0.35
500,000 - 999,999	116,333,705	5.7%	5.7%	6.4%	4,887,585	6,157,412	1,188,058	8,063,982	\$0.00
1,000,000 Plus	49,546,320	2.0%	2.0%	2.0%	0	2,714,114	0	0	\$0.00
<b>Total</b>	<b>539,698,161</b>	<b>4.5%</b>	<b>4.8%</b>	<b>5.8%</b>	<b>5,031,717</b>	<b>11,278,097</b>	<b>4,488,757</b>	<b>24,417,517</b>	<b>\$0.54</b>

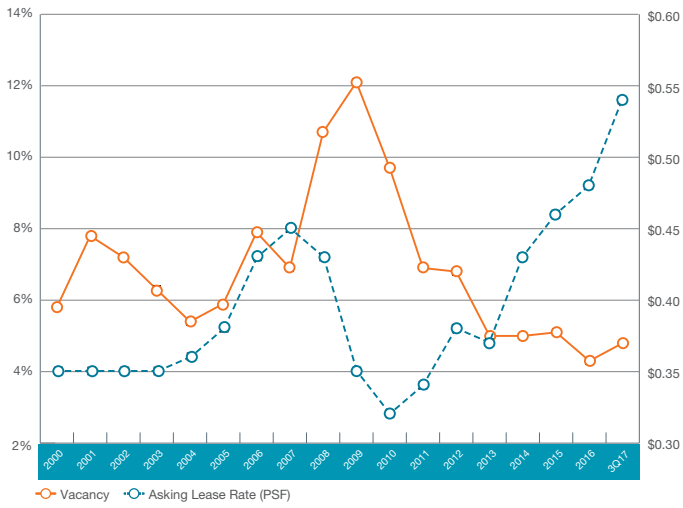
ranges (particularly below 25,000 s.f.) is providing an asking rate of \$0.90/s.f. on a triple net basis per month. In a trend that first emerged in 2013, many industrial spaces are entering the market unpriced, with landlords letting the market set the going rate. With the availability of products becoming less obtainable, we anticipate the asking rate for high quality industrial space in Inland Empire to continue to increase.

The Inland Empire industrial investment market remains relatively stable, with cap rates over 5.5% and an average price per s.f. of \$100. Sellers will look to move their high quality industrial product as

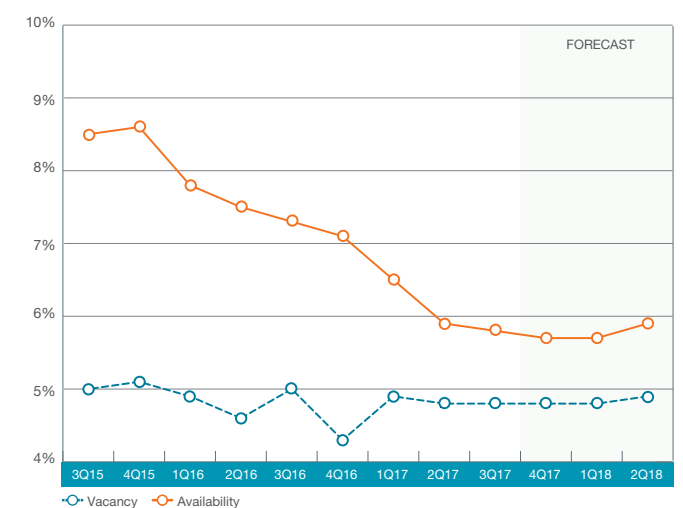
construction levels continue to increase in the market. 2017 is a great time to be a landlord or seller as the demand for premium product remains consistent.

In conclusion, the Inland Empire industrial market continues to grow in Q3 with over 539 million s.f. of total inventory. Thus far, this is an increase of over 14.4 million s.f. since the end of 2016, with over 21.8 million s.f. currently under construction. The Inland Empire industrial market will continue to improve as vacancy and availabilities continue their low levels, causing constant upward pressure on pricing.

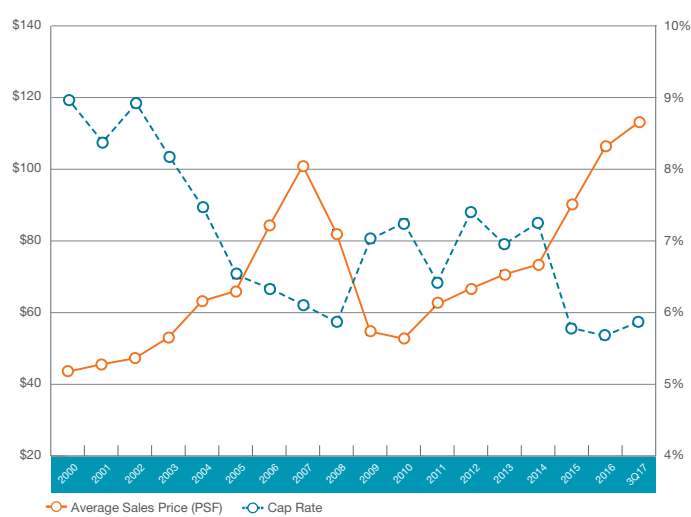
### VACANCY VS ASKING LEASE RATE



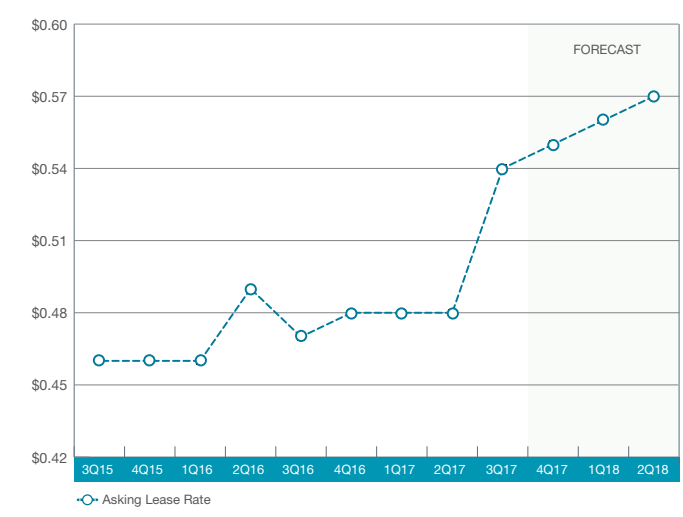
### VACANCY VS AVAILABILITY



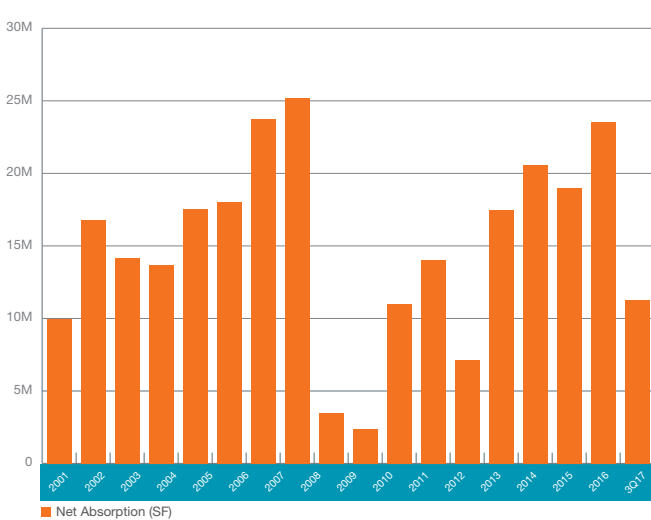
### AVERAGE SALES PRICE & CAPITALIZATION RATES



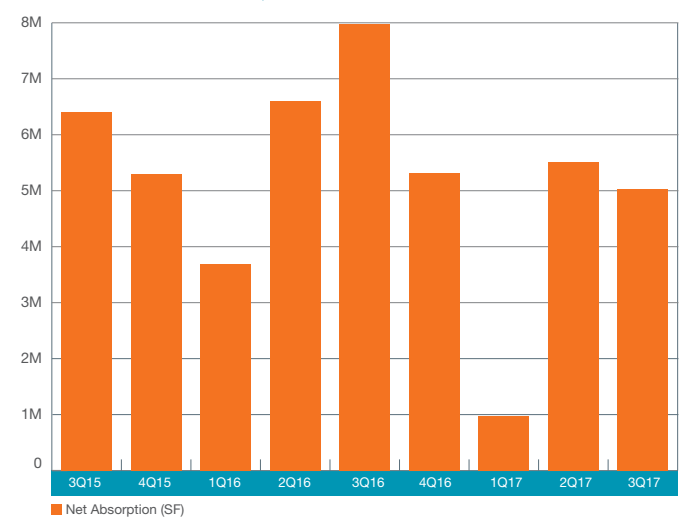
### ASKING LEASE RATE



### NET ABSORPTION - HISTORICAL



### NET ABSORPTION - QUARTERLY



## Market Breakdown

### 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

Commerce  
323.727.1144

Long Beach  
562.472.0071

Orange County  
949.557.5000

Inland Empire  
909.764.6500

San Diego  
858.509.1200

Carlsbad  
760.430.1000

Reno  
775.301.1300

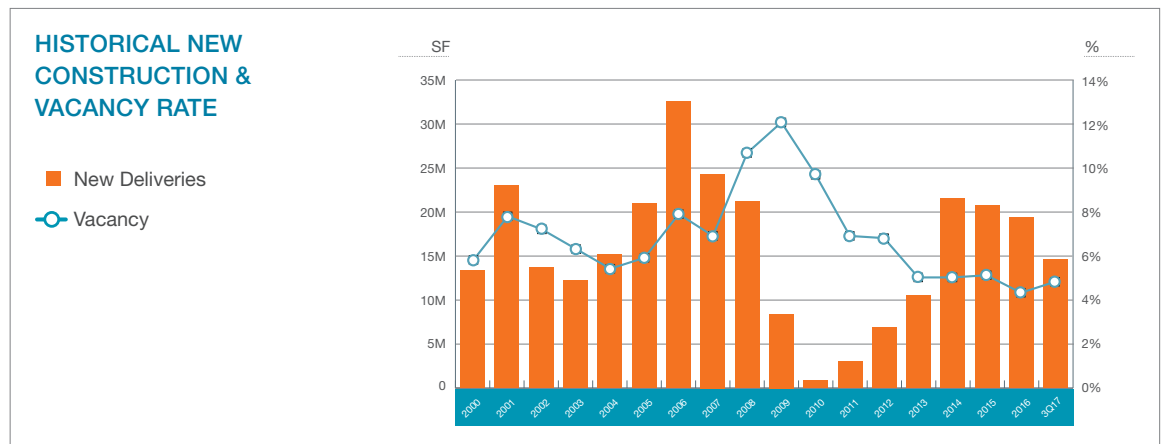
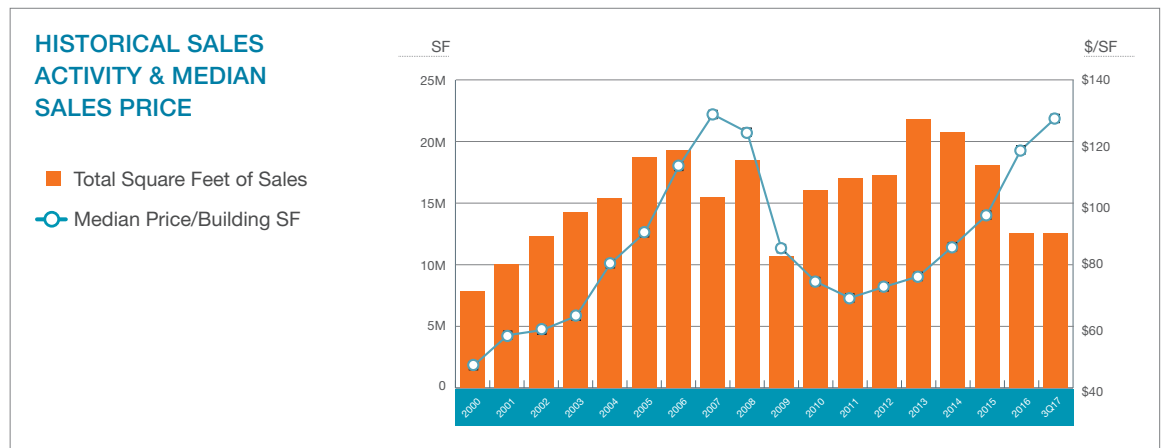
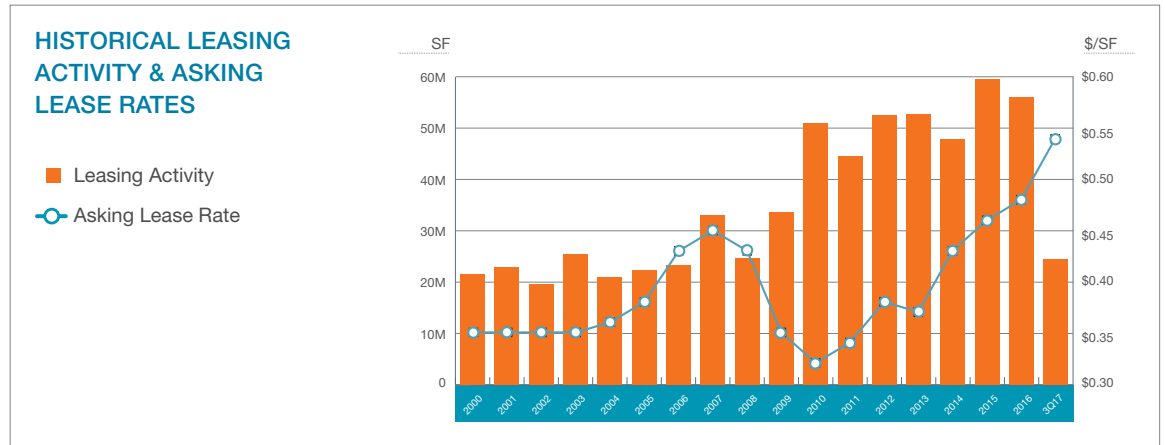
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	Q3 2017	Q2 2017	Q3 2016	Annual % Change
Vacancy Rate	4.80%	4.80%	5.00%	-4.00%
Availability Rate	5.80%	5.90%	7.30%	-20.54%
Asking Lease Rate	\$0.54	\$0.48	\$0.47	14.89%
Leased SF	4,488,757	6,572,561	11,955,876	-62.45%
Sold SF	4,523,081	5,578,540	3,696,866	22.34%
Net Absorption	5,031,717	5,518,593	7,978,026	N/A



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