

Real Estate Market Review

# Inland Empire Industrial

The Inland Empire fortified its status as the most robust, dynamic, and premier industrial market in the country at the end of 2017. Asking lease rates continued their upward trajectory, rising nearly 13% year over year, and even as substantial amounts of new inventory continue to be added to the base, vacancy and availability are on par with absorption. Unlike in prior cycles, new construction supply is in equilibrium with strong occupier demand. Spurred by the rise of e-commerce, and with the ports of Long Beach and Los Angeles reporting record high import shipment quantities, demand is at extremely high levels for industrial space. In fact, net absorption has been positive for all but two quarters since Q2 of 2009. As a result, upward pressure on vacancy and availability in the near to medium term remains highly unlikely. We expect steady to moderate increases in leasing and sales activity for 2018, as the demand for industrial space remains robust and undiminished. We foresee the Inland Empire industrial market continuing its growth as new construction becomes available, occupancy costs continue their upward trend, and net absorption remaining both positive and strong.

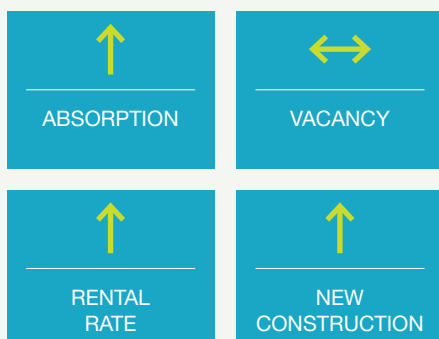
Net absorption, a measure of market strength, was positive at 1.8 million square feet in Q4 and over 13.7 million s.f. in 2017. Unlike in past quarters, East County surpassed West County by accounting for the majority of the positive absorption in the Inland Empire, adding over 1.0 million s.f. of occupied space in the quarter and 6.9 million s.f. for the year.

Compared to both previous quarters and past years, leasing activity decreased in Q4 and 2017 overall, with over 4.6 million s.f. and 32.6

million s.f. coming off the market, respectively. However, currently, there is over 20 million s.f. under construction, with East County scheduled to see 16.2 million s.f. of new industrial stock in the coming quarters. As new inventory comes to the market to accommodate large users, we anticipate an increase in leasing activity.

The Inland Empire industrial market vacancy rate held steady at 5.2% at the end of 2017, reflecting 28.3 million s.f. of vacant industrial space. Despite new construction developments being introduced

### Market Forecast Trends



### Notable Lease Transactions

- Walmart.com**  
Majestic Chino Gateway, Chino  
1,412,000 s.f. leased

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- Nestle**  
3450 Dulles Drive, Jurupa Valley  
814,186 s.f. leased

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- Solaris Paper**  
Prologis Park Eucalyptus, Moreno Valley  
624,627 s.f. leased

### Notable Construction Projects

- 17350 Perris Boulevard**  
Moreno Valley  
1,109,378 s.f. | Delivering 2/2018

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- Monster Energy**  
Rialto  
1,094,000 s.f. | Delivering 2/2018

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- 4100 N. Webster Avenue**  
Perris  
1,039,898 s.f. | Delivering 2/2018

# Area Review

## Submarket Statistics

Submarket	Total Inventory	SF Under Construction	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q4 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Rental Rate
Chino/Chino Hills	48,046,804	2,215,933	3.6%	3.6%	4.6%	1,145	855,962	1,004,276	4,316,422	\$0.65
Fontana	61,534,047	472,514	6.6%	6.6%	7.1%	251,473	3,101,265	479,867	5,213,404	\$0.66
Montclair	3,407,739	16,900	2.9%	2.9%	6.0%	(72,899)	113,878	17,213	137,363	\$1.00
Ontario	106,234,015	725,088	2.6%	2.6%	3.9%	155,737	1,821,979	891,626	6,913,523	\$0.65
Rancho Cucamonga	38,717,419	318,230	2.7%	3.2%	4.1%	409,091	500,097	505,333	2,193,723	\$0.54
Upland	4,036,175	0	6.2%	6.2%	6.6%	49,191	(66,886)	56,688	229,685	\$0.76
<b>West</b>	<b>261,976,199</b>	<b>3,748,665</b>	<b>3.8%</b>	<b>3.9%</b>	<b>4.9%</b>	<b>793,738</b>	<b>6,326,295</b>	<b>2,955,003</b>	<b>19,004,120</b>	<b>\$0.62</b>
Banning	984,827	0	7.1%	7.1%	8.2%	7,175	(62,947)	0	62,812	\$0.66
Beaumont	3,817,154	0	0.3%	0.3%	11.9%	(12,665)	1,476,575	4,948	4,948	\$0.31
Bloomington	4,674,677	0	2.5%	2.5%	4.9%	(103,509)	25,951	120,125	120,125	\$0.40
Colton	9,135,838	0	10.9%	11.2%	8.7%	55,209	170,113	210,653	568,457	\$0.61
Corona	30,180,874	220,177	6.6%	6.7%	7.3%	(223,374)	(91,227)	348,620	1,339,599	\$0.58
Eastvale	8,021,648	2,856,691	2.2%	2.2%	2.0%	715,350	449,591	89,952	520,518	\$0.00
Grand Terrace	406,011	0	0.0%	0.0%	14.5%	0	17,836	11,895	20,271	\$0.67
Highland	165,689	0	0.5%	0.5%	0.5%	0	1,200	0	1,200	\$0.00
Jurupa Valley	29,343,413	0	1.1%	2.8%	2.7%	21,826	480,110	4,640	1,045,780	\$0.65
Loma Linda	142,350	0	0.0%	0.0%	9.3%	1,836	0	0	14,542	\$0.00
Mira Loma	1,097,341	0	0.0%	0.0%	0.0%	9,522	1,000	9,522	9,522	\$0.00
Moreno Valley	21,796,540	2,299,577	7.7%	7.7%	9.6%	(14,932)	(10,772)	11,088	385,738	\$0.38
Norco	1,257,451	27,713	0.5%	0.5%	0.5%	543	6,281	10,359	53,041	\$0.00
Perris	21,888,225	2,249,780	5.6%	5.6%	1.2%	(181,380)	1,823,255	247,467	1,557,484	\$0.45
Redlands	27,573,750	156,323	14.2%	14.5%	16.2%	159,024	1,262,959	76,936	2,059,881	\$0.56
Rialto	22,640,214	3,196,038	4.6%	5.6%	4.8%	131,160	674,392	3,680	1,389,394	\$0.71
Riverside	44,070,999	2,960,513	6.4%	6.5%	7.8%	470,154	133,450	189,615	1,637,544	\$0.46
San Bernardino	36,605,835	1,931,716	6.0%	6.3%	7.9%	5,735	1,094,550	25,482	1,782,299	\$0.43
<b>East</b>	<b>263,802,836</b>	<b>15,898,528</b>	<b>5.7%</b>	<b>6.1%</b>	<b>7.1%</b>	<b>1,041,674</b>	<b>7,452,317</b>	<b>1,364,982</b>	<b>12,573,155</b>	<b>\$0.49</b>
Hemet	1,458,065	0	1.5%	1.5%	2.4%	10,338	12,043	48,400	51,700	\$0.88
Lake Elsinore	2,421,180	103,253	4.9%	4.9%	4.9%	(15,517)	161,499	54,963	223,712	\$0.67
Menifee	404,015	72,835	6.2%	6.2%	20.8%	1,100	(7,215)	0	6,985	\$0.68
Murrieta	3,746,904	50,799	2.0%	2.0%	2.7%	(10,478)	(25,331)	59,926	191,450	\$0.00
San Jacinto	1,035,680	0	2.6%	2.6%	4.7%	18,172	14,000	5,000	13,400	\$0.75
Temecula	10,557,077	141,180	3.2%	3.2%	6.6%	(96,752)	(135,218)	149,038	284,341	\$0.69
Wildomar	324,860	0	1.4%	1.4%	3.5%	10,178	0	0	47,600	\$0.82
<b>South</b>	<b>19,947,781</b>	<b>368,067</b>	<b>2.9%</b>	<b>2.9%</b>	<b>5.2%</b>	<b>(82,959)</b>	<b>19,778</b>	<b>317,327</b>	<b>819,188</b>	<b>\$0.69</b>
5,000 - 24,999	67,877,057	465,012	2.1%	2.1%	3.4%	(20,877)	276,997	632,124	2,982,215	\$0.80
25,000 - 49,999	46,306,790	676,092	3.5%	3.7%	5.4%	115,199	769,025	675,202	2,940,025	\$0.66
50,000 - 99,999	53,043,912	1,386,688	3.3%	3.7%	5.0%	89,602	744,522	620,580	3,569,651	\$0.59
100,000 - 249,999	98,445,984	3,468,408	5.0%	5.4%	6.6%	765,181	2,687,475	1,563,816	7,657,157	\$0.50
250,000 - 499,999	110,894,886	3,555,831	6.4%	7.0%	8.0%	1,248,446	839,222	611,200	6,979,852	\$0.35
500,000 - 999,999	119,611,867	3,180,476	7.7%	7.7%	6.4%	(443,198)	5,767,036	534,390	8,598,372	\$0.00
1,000,000 Plus	49,546,320	7,282,753	2.0%	2.0%	2.0%	0	2,714,114	0	0	\$0.00
<b>Total</b>	<b>545,726,816</b>	<b>20,015,260</b>	<b>5.0%</b>	<b>5.2%</b>	<b>6.1%</b>	<b>1,754,353</b>	<b>13,798,391</b>	<b>4,637,312</b>	<b>32,727,272</b>	<b>\$0.53</b>

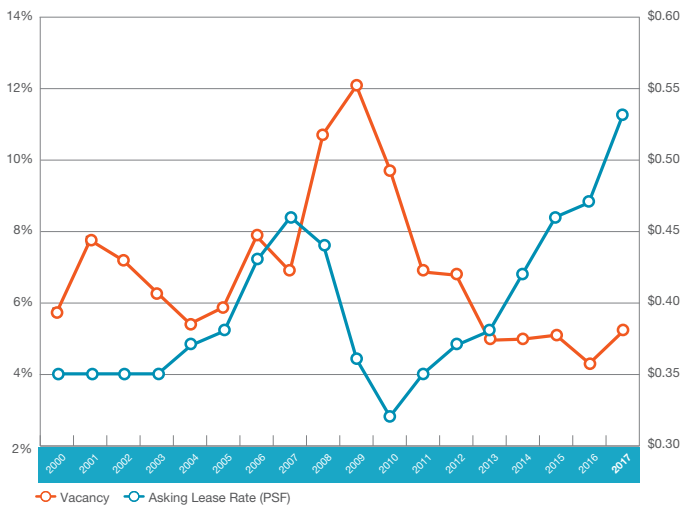
to the market, pressure from occupier demand has tempered any dramatic swings in vacancy levels.

The average asking rental rate at the end of 2017 increased to \$0.53 per square foot on a triple net basis per month, a 12.7% climb year over year from \$0.47. Asking rates have risen steadily throughout the year as new high quality inventory became available. The lack of product available for lease in some size ranges (particularly below 25,000 square feet) is boosting asking rates to \$0.80 per square foot on a triple net basis per month for those spaces. 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. We forecast that the asking rate for Class A industrial space in the Inland Empire will continue to increase for the next 18-24 months.

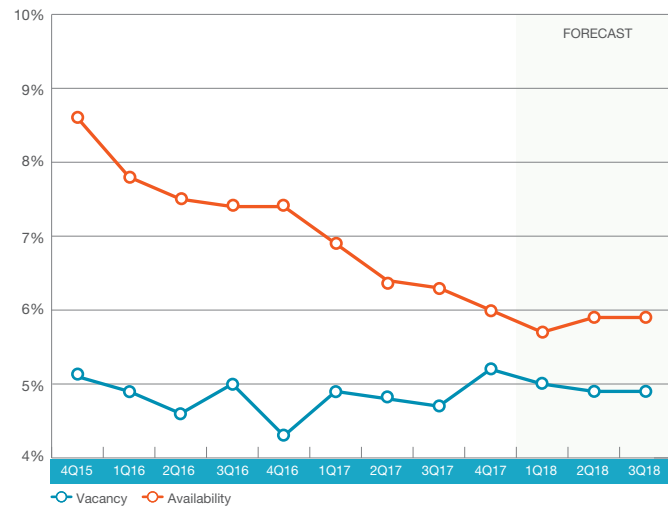
The Inland Empire industrial investment market remains relatively stable, with cap rates in the 5% range and an average price per square foot of \$108. 2017 was a great time to be a landlord or seller, as the demand for premium product was fierce. Given these prevailing conditions, it is imperative for tenants to plan carefully and allow themselves adequate time to either negotiate competitive lease renewals or find new space commensurate with their needs.

2017 was an extremely strong year for the Inland Empire, and its status as the premier industrial market in the country remains intact for the foreseeable future. The level of transaction activity, ample new construction, and the rise in prices are not a function of irrational exuberance, but rather a byproduct of the sound fundamentals of the market that appears poised to continue growing for the foreseeable future.

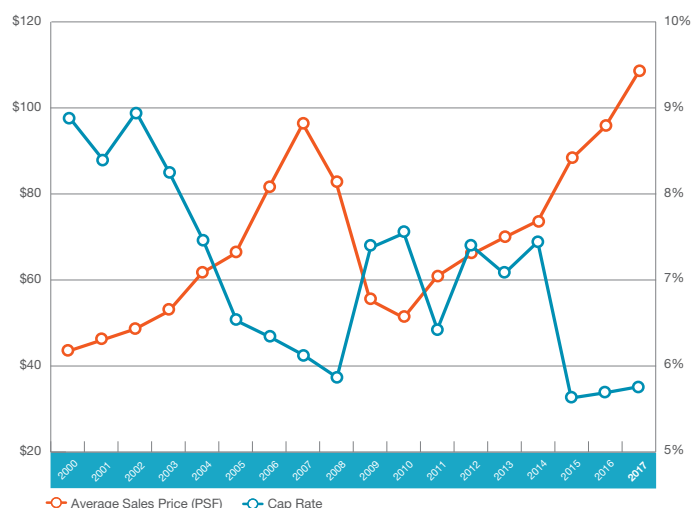
### VACANCY VS ASKING LEASE RATE



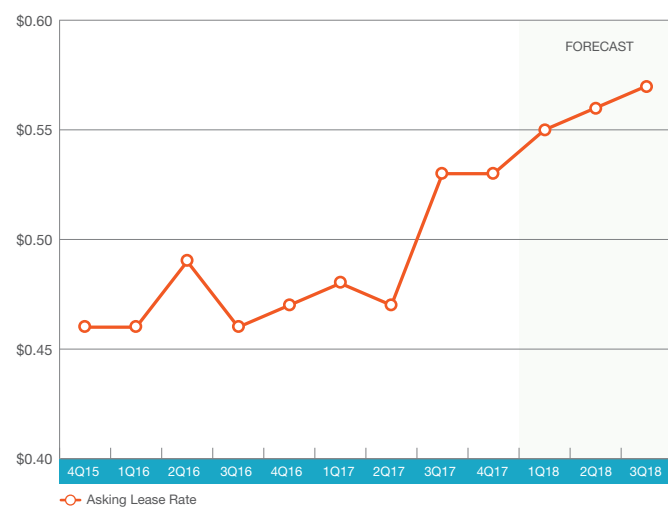
### VACANCY VS AVAILABILITY



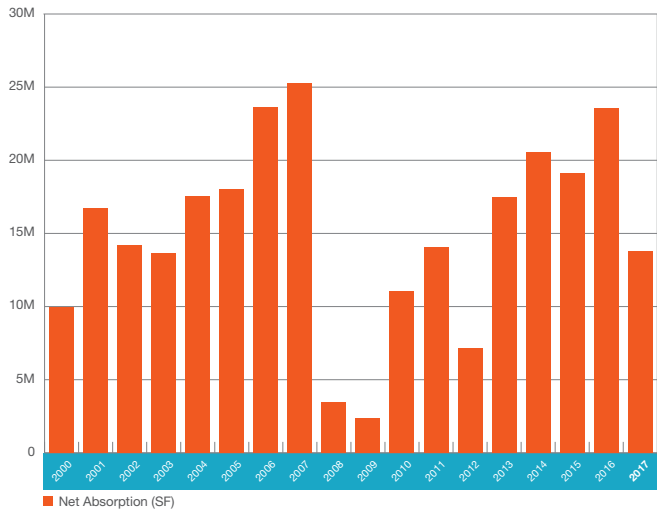
### AVERAGE SALES PRICE & CAPITALIZATION RATES



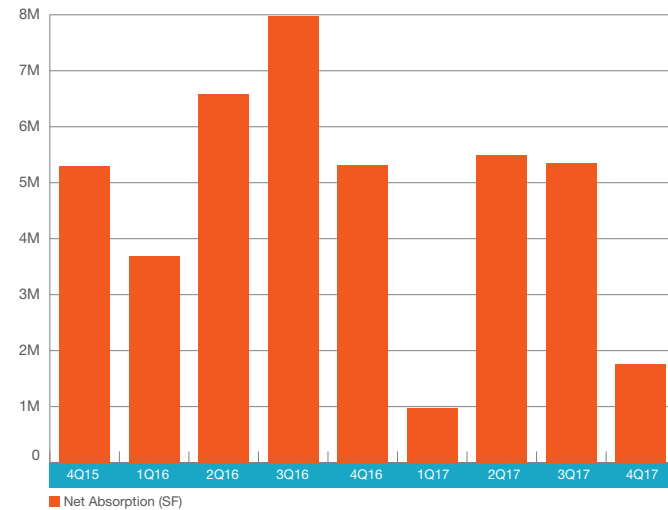
### ASKING LEASE RATE



### 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

**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

**Phoenix**  
602.513.5200

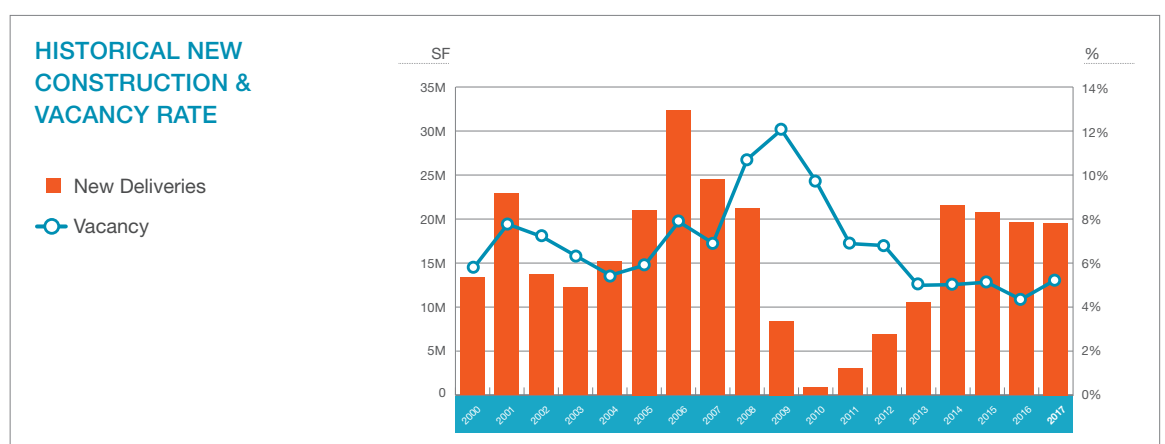
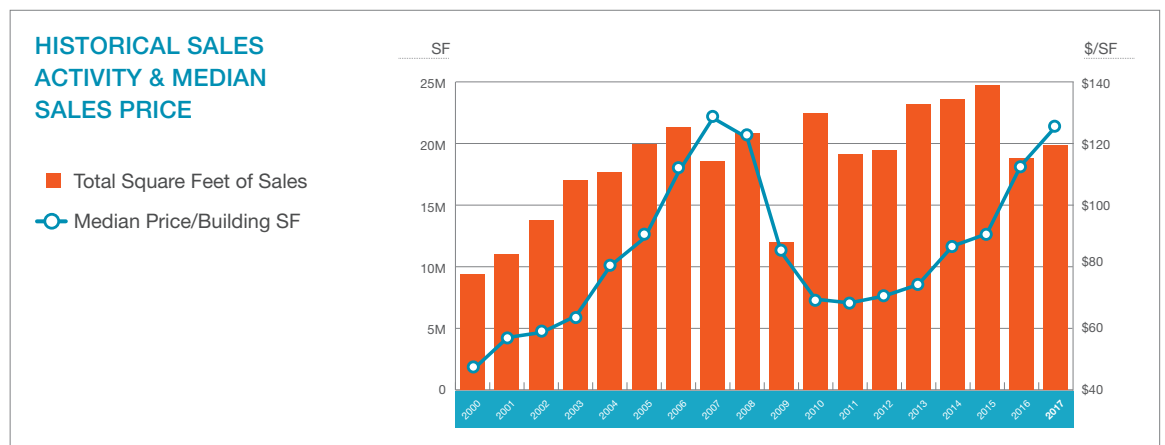
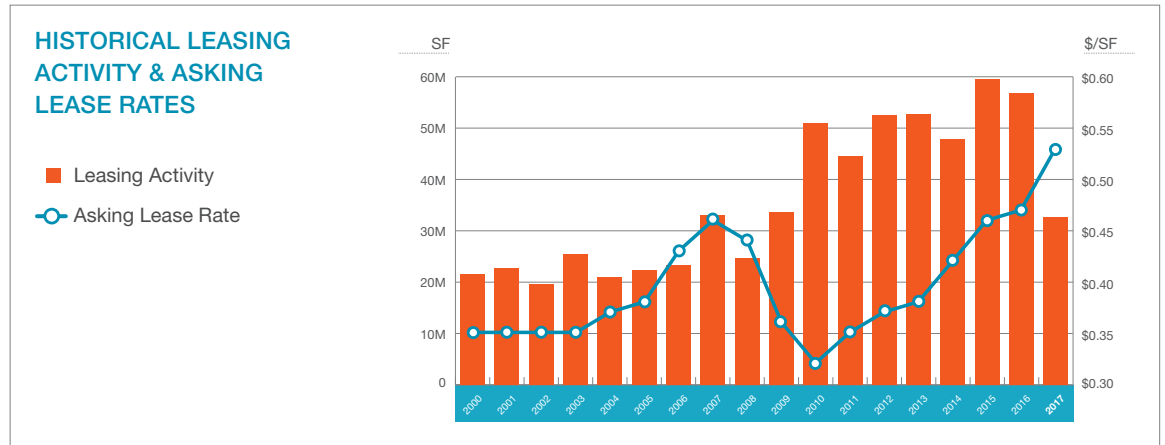
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**Market Breakdown**

	2017	2016	2015	Annual % Change
Vacancy Rate	5.20%	4.31%	5.10%	20.65%
Availability Rate	6.10%	7.59%	8.92%	-19.60%
Asking Lease Rate	\$0.53	\$0.47	\$0.46	12.76%
Leased SF	32,607,147	56,699,137	59,425,092	-42.49%
Sold SF	19,820,329	18,759,429	24,691,970	5.65%
Net Absorption	13,798,391	23,573,032	19,090,499	N/A



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