

Real Estate Market Review

Inland Empire Industrial

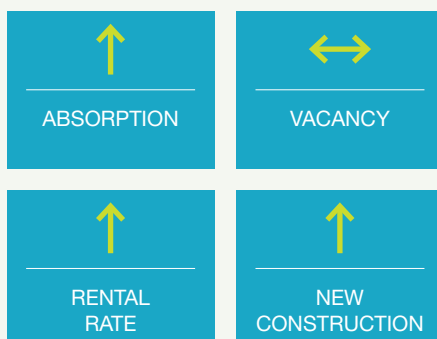
Setting the stage for gains later in the year, the Inland Empire's performance in the first quarter of 2018 only further bolstered its reputation as the preeminent industrial market in the country. While vacancies marketwide edged up slightly, year-over-year, the rise was due to the delivery of speculative developments rather than the egress of tenants departing the area. In fact, with net absorption measuring in excess of 5.7 million s.f. for the quarter, spurred by the unrelenting expansion of e-commerce and record high import shipments, occupier demand for industrial space in the Inland Empire, especially for functionally superior distribution space, has never been stronger. Asking lease rates continued their upward trend, increasing more than ten percent from this time last year. With 19.8 million s.f. under construction at quarter's end, and cap rates on investment sales in the range of 5.3%, both developers and investors remain confident about the near and mid-term prospects of the Inland Empire.

Perhaps a surprise to some, the Inland Empire is now one of the leading economies in California. Eclipsing other regions of Southern California with its stellar employment growth rate, the Inland Empire's economy is slated to expand throughout the rest of 2018. With job growth concentrated in the retail and services sector, particularly the logistics industry, the Inland Empire witnessed a 1.3% year-over-year drop in its unemployment rate in the first quarter, one of the largest in the state. Historically, the Inland Empire's unemployment rate has always been significantly higher than either L.A. county's or California's. But years of employment growth has effectively narrowed the gap, changing the region into one of California's most vital economies. Consequently, the Inland Empire's current 4.4%

unemployment rate is now in line with both the state (4.3%) and L.A. County (4.5%).

Although deal volume as measured by the total number of direct lease transactions (240) and the total amount of square feet leased (4.2 million s.f.) was lower this quarter than their respective two year historical averages, a very strong net absorption of 5.7 million s.f. belied any concerns of waning occupier demand. In fact, net absorption exceeded its historical average by more than 700,000 s.f. Accounting for nearly eighty percent of the positive absorption, East County added over 4.5 million s.f. of occupied space in the quarter.

Market Forecast Trends



Notable Lease Transactions

UPS
20801 Krameria Ave, Riverside
1,000,000 s.f. leased

Allways
11640 Harrel St, Mira Loma
886,052 s.f. leased

DCG Fulfillment
1300 California St, Redlands
771,839 s.f. leased

Notable Sale Transactions

UPS
20801 Krameria Ave, Riverside
1,000,000 s.f. | \$93.5M or \$93.50/s.f.

Shea Properties Management Company
1138 W. Rincon St, Corona
374,760 s.f. | \$38M or \$101.40/s.f.

Alere Property Group, LLC
9712 Alabama St, Redlands
313,470 s.f. | \$34.9M or \$111.41/s.f.

Area Review

Submarket Statistics

Submarket	Total Inventory	SF Under Construction	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q1 Direct Net Absorption	YTD Direct Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Rental Rate
Chino/Chino Hills	48,229,368	2,215,933	3.1%	0.1%	3.2%	3.1%	281,133	281,133	316,835	316,835	\$0.67
Fontana	61,751,099	665,105	6.4%	0.0%	6.4%	4.5%	263,800	263,800	347,221	347,221	\$0.66
Montclair	3,485,615	0	4.1%	0.0%	4.1%	6.0%	(34,637)	(34,637)	15,697	15,697	\$1.00
Ontario	106,999,884	418,208	2.5%	0.5%	3.0%	5.4%	436,131	436,131	718,784	718,784	\$0.69
Rancho Cucamonga	38,910,187	950,783	3.3%	0.5%	3.8%	6.8%	(42,347)	(42,347)	265,811	265,811	\$0.54
Upland	4,047,775	0	4.3%	0.0%	4.3%	4.7%	54,082	54,082	64,588	64,588	\$0.76
West	263,423,928	4,250,029	3.7%	0.3%	4.0%	5.0%	958,162	958,162	1,728,936	1,728,936	\$0.64
Banning	1,028,267	0	6.8%	0.0%	6.8%	6.8%	36	36	0	0	\$0.59
Beaumont	3,817,154	0	0.3%	0.0%	0.3%	0.3%	2,665	2,665	0	0	\$0.31
Bloomington	4,683,908	0	1.6%	0.0%	1.6%	4.2%	41,601	41,601	5,136	5,136	\$0.40
Colton	9,145,238	808,500	9.3%	0.3%	9.6%	10.1%	193,698	193,698	18,440	18,440	\$0.53
Corona	30,144,033	365,577	3.9%	0.1%	4.0%	5.2%	718,345	718,345	475,081	475,081	\$0.59
Eastvale	9,997,418	537,049	8.3%	0.0%	8.3%	7.8%	1,229,372	1,229,372	92,964	92,964	\$0.00
Grand Terrace	406,011	0	0.7%	0.0%	0.7%	15.2%	(2,760)	(2,760)	0	0	\$0.67
Highland	200,641	0	17.8%	0.0%	17.8%	17.8%	(29,752)	(29,752)	0	0	\$0.00
Jurupa Valley	29,326,996	41,785	0.9%	0.4%	1.3%	2.3%	78,000	78,000	66,138	66,138	\$0.62
Loma Linda	162,635	0	1.1%	0.0%	1.1%	18.4%	1,164	1,164	0	0	\$0.00
Mira Loma	1,356,461	250,000	0.0%	0.0%	0.0%	0.0%	3,100	3,100	0	0	\$0.00
Moreno Valley	21,794,452	4,310,547	6.8%	0.0%	6.8%	7.9%	204,320	204,320	4,810	4,810	\$0.38
Norco	1,265,606	0	1.3%	0.0%	1.3%	3.9%	(10,256)	(10,256)	7,084	7,084	\$0.00
Perris	22,597,699	3,465,598	4.5%	0.0%	4.5%	4.1%	962,009	962,009	204,240	204,240	\$0.46
Redlands	27,564,658	0	13.5%	0.2%	13.7%	13.3%	197,103	197,103	268,473	268,473	\$0.56
Rialto	25,441,627	1,084,693	4.1%	0.0%	4.1%	4.5%	902,679	902,679	20,254	20,254	\$0.68
Riverside	45,613,715	3,078,645	8.9%	0.1%	9.0%	10.2%	191,219	191,219	369,708	369,708	\$0.47
San Bernardino	36,868,222	1,304,311	6.9%	0.3%	7.2%	6.4%	(120,957)	(120,957)	782,161	782,161	\$0.40
East	271,414,741	15,246,705	6.3%	0.1%	6.4%	6.9%	4,561,586	4,561,586	2,314,489	2,314,489	\$0.47
Hemet	1,458,253	0	2.2%	0.0%	2.2%	3.5%	400	400	0	0	\$0.88
Lake Elsinore	2,496,490	0	4.8%	0.0%	4.8%	4.1%	79,550	79,550	63,823	63,823	\$0.67
Menifee	404,015	72,835	6.2%	0.0%	6.2%	12.1%	0	0	5,885	5,885	\$0.68
Murrieta	3,738,237	124,727	1.8%	0.0%	1.8%	3.2%	9,159	9,159	48,376	48,376	\$0.00
San Jacinto	1,035,680	0	1.6%	0.0%	1.6%	3.3%	10,000	10,000	0	0	\$0.75
Temecula	10,621,479	141,180	1.7%	0.0%	1.7%	7.6%	163,223	163,223	47,021	47,021	\$0.71
Wildomar	324,860	0	0.0%	0.0%	0.0%	0.0%	4,478	4,478	13,542	13,542	\$0.82
South	20,079,014	338,742	2.2%	0.0%	2.2%	5.2%	266,810	266,810	178,647	178,647	\$0.71
5,000 - 24,999	68,299,900	443,486	2.4%	0.1%	2.5%	3.9%	(67,159)	(67,159)	628,340	628,340	\$0.80
25,000 - 49,999	46,406,297	507,686	2.9%	0.1%	3.0%	5.2%	376,316	376,316	424,427	424,427	\$0.77
50,000 - 99,999	53,797,315	1,178,616	3.4%	0.6%	4.0%	5.3%	407,237	407,237	497,505	497,505	\$0.59
100,000 - 249,999	99,548,551	2,430,020	5.2%	0.5%	5.7%	7.0%	665,618	665,618	1,270,441	1,270,441	\$0.51
250,000 - 499,999	112,017,146	4,418,955	5.3%	0.2%	5.5%	6.9%	1,524,930	1,524,930	1,210,528	1,210,528	\$0.35
500,000 - 999,999	122,191,357	4,296,547	7.6%	0.0%	7.6%	7.1%	1,871,911	1,871,911	0	0	\$0.00
1,000,000 Plus	52,657,117	6,560,166	3.8%	0.0%	3.8%	3.8%	1,007,705	1,007,705	0	0	\$0.00
Total	554,917,683	19,835,476	4.9%	0.2%	5.1%	6.0%	5,786,558	5,786,558	4,031,241	4,031,241	\$0.53

Currently, there is over 19.8 million s.f. of industrial space under construction, with East County contributing over 15.5 million s.f. In first quarter, seven buildings completed construction in East County, with 32 new buildings slated to be delivered in the second quarter of 2018. Development of new industrial buildings will continue on projects already in the pipeline over the next year; however, that is expected to slow down after these projects are completed.

Despite the massive amount of new construction, vacancy and availability are not rising precipitously. Unlike prior cycles, supply of new space is in equilibrium with strong occupier demand. As a result, although vacancy rose by 35 basis points year-over-year, both vacancy and availability rates have respectively stabilized to 5% and 6%.

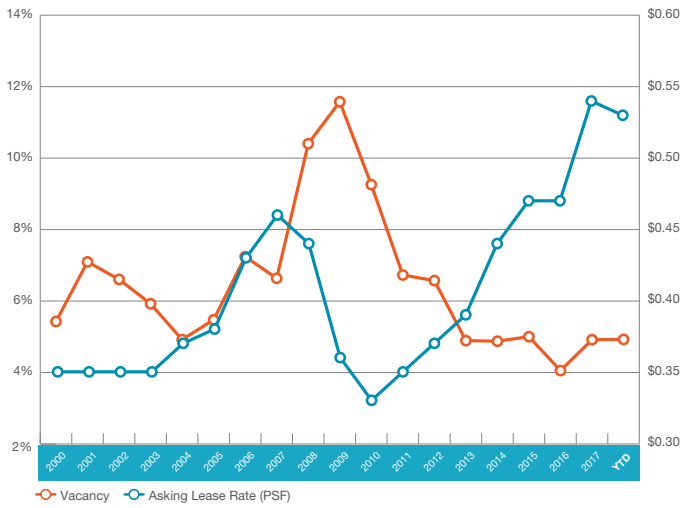
The average asking rental rate at the end of the first quarter increased to \$0.53/s.f. on a triple net basis per month. By comparison, this time last year average asking rates were \$0.48. Asking rates have risen steadily as new high quality inventory became available. In fact, since

the first quarter of 2017, asking rents have risen by 10.4%. The lack of product available for lease in some size ranges (particularly below 25,000 s.f.) is boosting asking rates to \$0.80/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. It is forecasted that the asking rate for Class A industrial space in the Inland Empire will continue to increase for the next eighteen to twenty-four months.

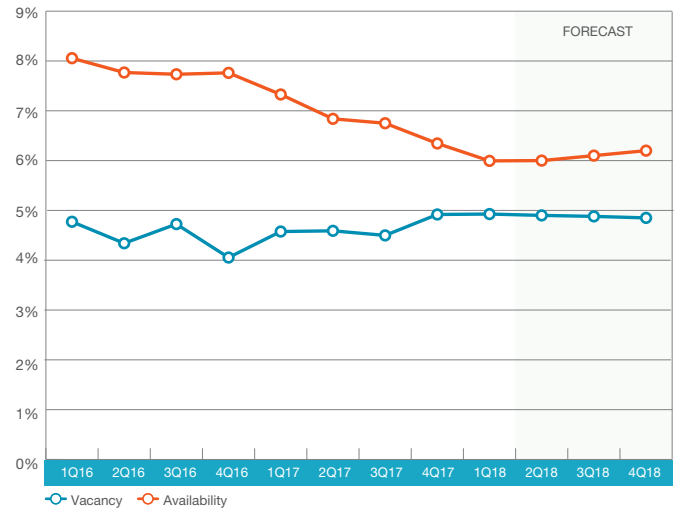
Similar to the trends across the LA Basin, the Inland Empire Industrial investment market is white hot. Year-over-year, sales transactional volume has more than doubled. Buildings currently trade, on average, at \$120/s.f. at cap rates hovering around 5.3%. Merely three years ago in the first quarter of 2015, buildings were selling at \$88/s.f., that is a 36% increase. Given that demand for premium product is fierce, it is imperative for buyers and tenants to plan carefully and allow themselves adequate time to either negotiate competitive lease renewals, or find new space commensurate with their needs.

Data Source: CoStar, Center for Economic Forecasting and Development

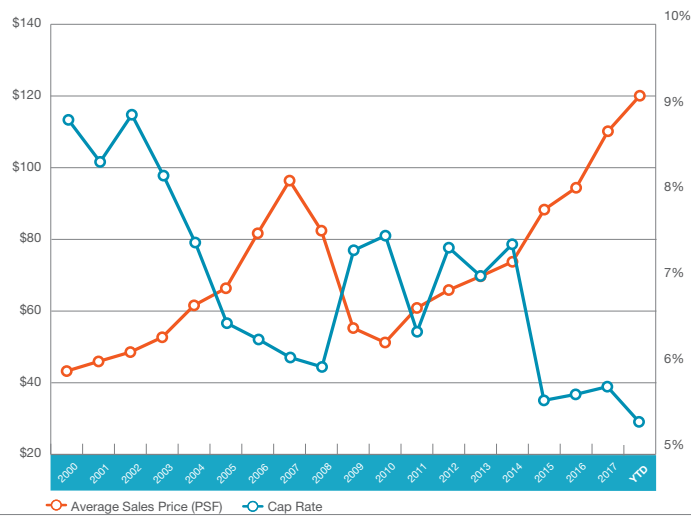
VACANCY VS ASKING LEASE RATE



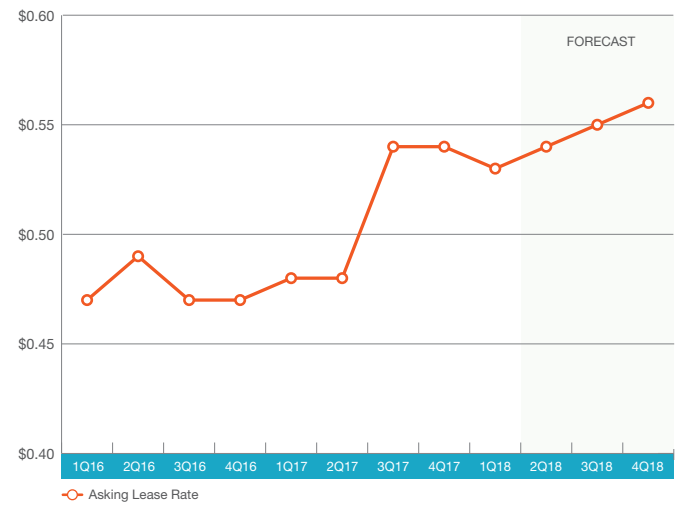
VACANCY VS AVAILABILITY



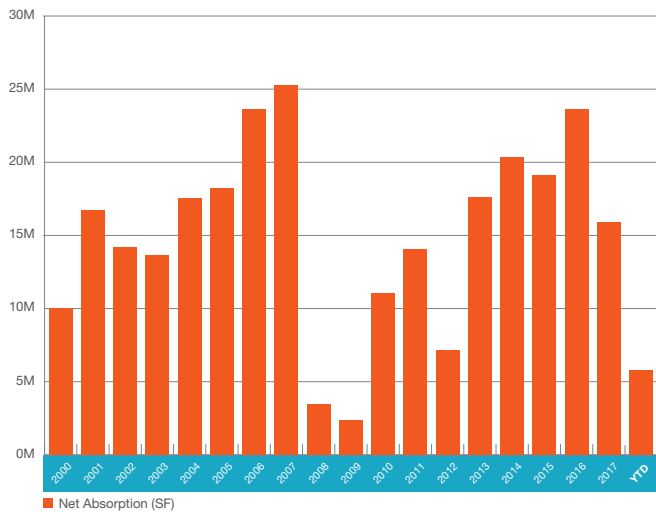
AVERAGE SALES PRICE & CAPITALIZATION RATES



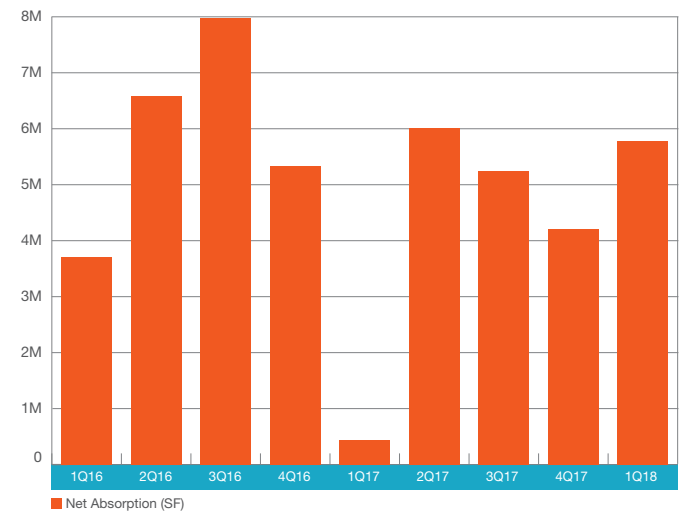
ASKING LEASE RATE



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

El Segundo
310.807.0880

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

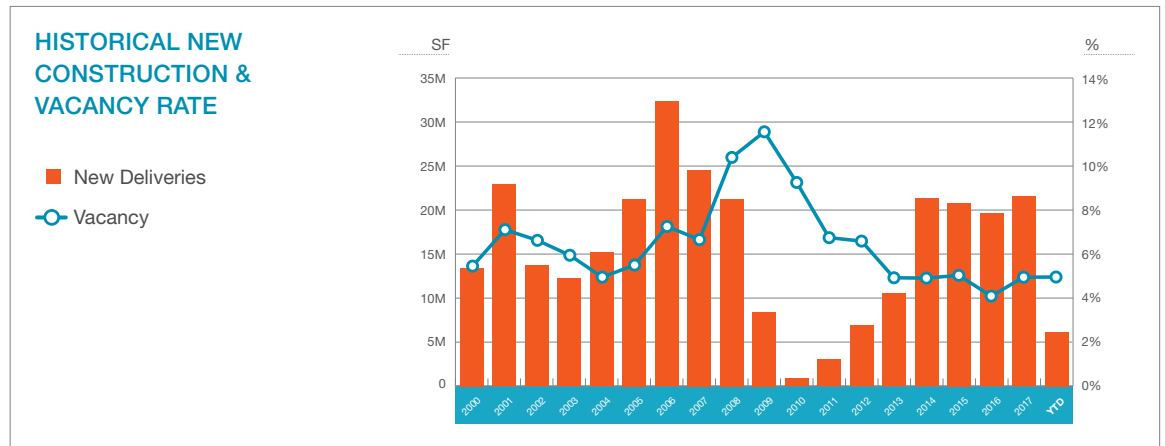
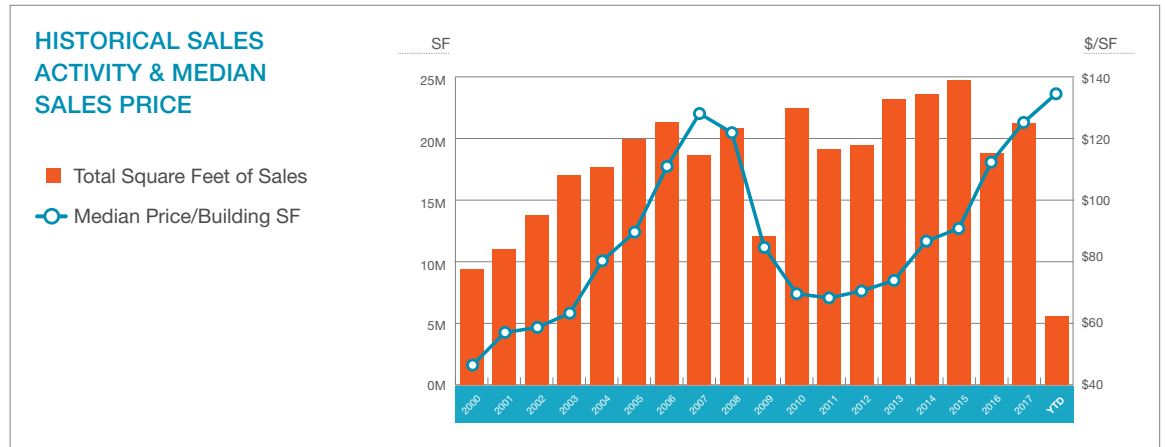
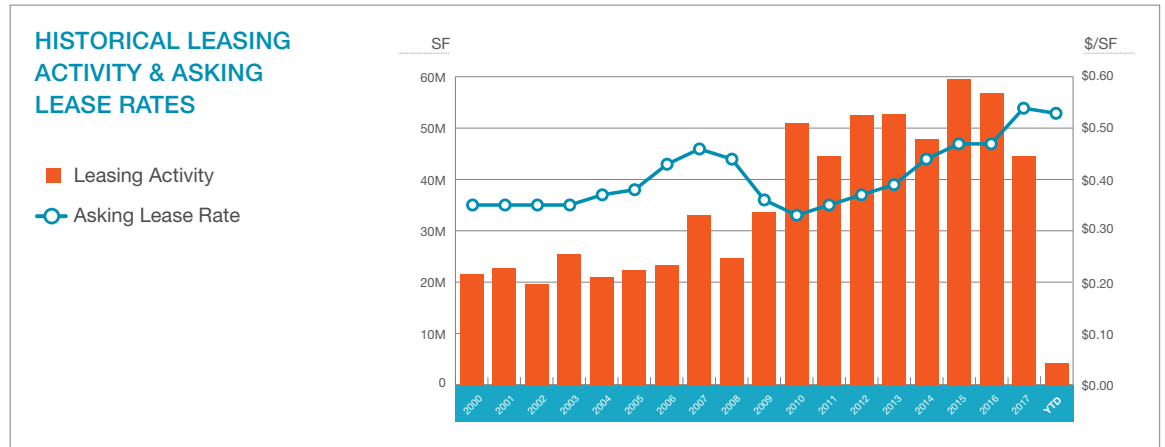
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Market Breakdown

	1Q18	4Q17	1Q17	Annual % Change
Vacancy Rate	4.93%	4.92%	4.58%	7.64%
Availability Rate	5.99%	6.34%	7.33%	-18.28%
Asking Lease Rate	\$0.53	\$0.54	\$0.48	10.42%
Leased SF	4,031,241	9,474,998	16,028,316	-74.85%
Sold SF	5,551,464	7,755,593	2,683,193	106.90%
Net Absorption	5,786,558	4,209,415	432,591	N/A



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