

Real Estate Market Review

# Inland Empire Industrial

In the second quarter, the Inland Empire industrial market reported positive net absorption for the 36th consecutive quarter. While nearly 10.3 million square feet of industrial space has been completed and delivered to the market year to date, an additional 22 million square feet of industrial space remains under construction. Despite this high level of development activity, it is on par with occupier demand.

Consequently, there are very few concerns about overdevelopment. Notwithstanding the potential ill effects of the recently commenced trade wars, with the U.S. economy continuing to grow and the U.S. consumer continuing to spend, expect very little to no slowdown in the Inland Empire industrial market for the foreseeable future.

**Economic Summary**

Perhaps a surprise to some, the Inland Empire is now one of the leading economies in California. The overall U.S. economy has been undergoing a major long-term structural shift in how goods and services are purchased and consumed. The Inland Empire has been the beneficiary of this dramatic change. Eclipsing other regions of Southern California with its stellar employment growth rate, the IE's economy is slated to expand throughout 2018.

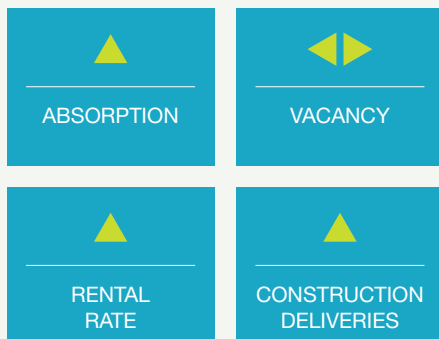
With job growth concentrated in the retail and services sector, particularly the logistics industry, the Inland Empire witnessed a 1.3% year-over-year drop in its unemployment rate in Q2—one of the largest in the state. Historically, the Inland Empire's unemployment rate has always been significantly 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. In fact, the IE's current 3.7% unemployment rate is now below that of both the state (4.2%) and L.A. County (4.2%).

**Market Summary**

By any measure, whether land prices, lease rates, sale prices, vacancy rates, capital market investment, or leasing activity, the conclusion simply cannot be denied: The fundamentals of the

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**Market Forecast Trends**



YEAR-TO-YEAR BASIS

**Notable Lease Transactions**

**Walmart**  
6720 Kimball Avenue, Chino  
1,022,680 s.f.

**Kellogg Sales Company**  
1686 West Baseline Road, Rialto  
758,940 s.f.

**CJ Logistics**  
10825 Production Avenue  
753,200 s.f.

**Notable Sale Transactions**

**Trader Joe's Co.**  
343 S Lena Road, San Bernardino  
476,632 s.f. | \$44.8M or \$94.00/s.f.

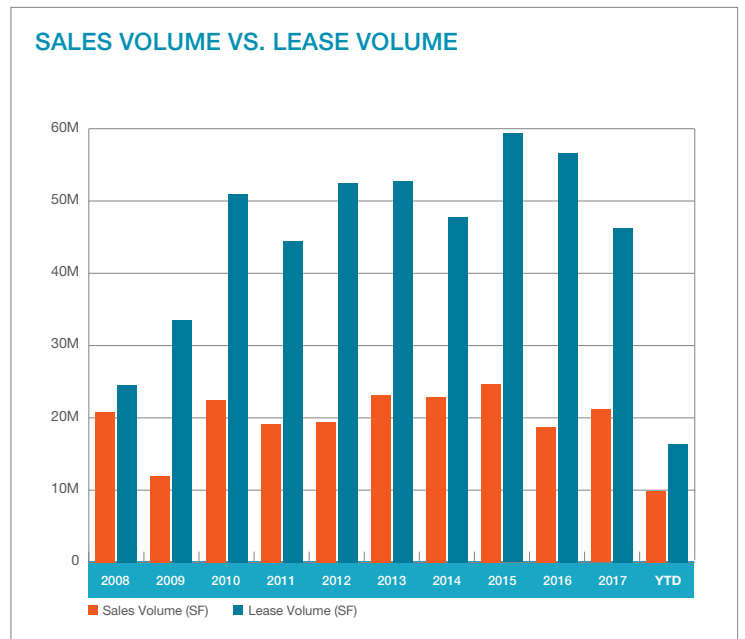
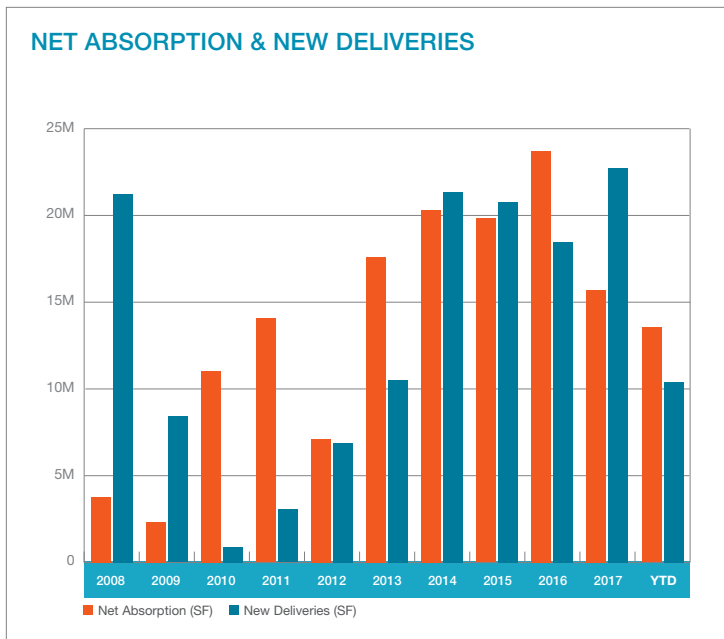
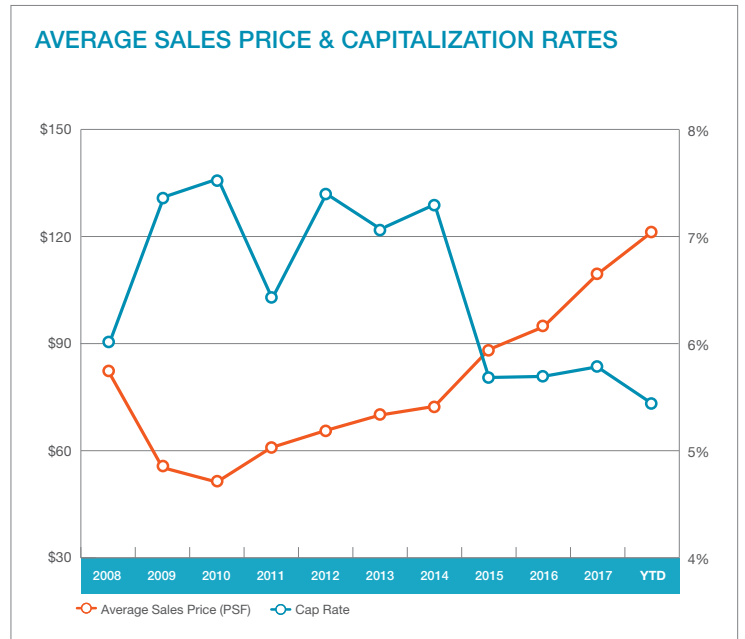
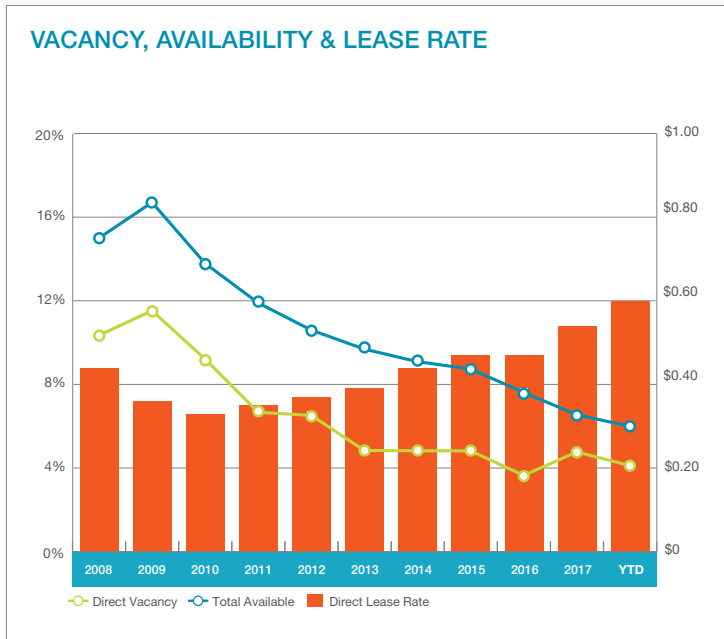
**General Motors Company**  
9150 Hermosa Avenue, Rancho Cucamonga  
407,074 s.f. | \$36.8M or \$90.52/s.f.

**Black Creek Group**  
701 Malaga Place, Ontario  
246,757 s.f. | \$30.7M or \$124.70/s.f.

## Market Breakdown

	2Q 2018	1Q 2018	2Q 2017	Annual % Change
Direct Vacancy Rate	4.10%	4.83%	4.31%	-4.87%
Availability Rate	6.00%	6.20%	6.80%	-11.76%
Asking Lease Rate	\$0.60	\$0.53	\$0.48	25.00%
Leased SF	9,171,570	7,214,677	9,802,785	-6.44%
Sold SF	4,290,381	5,591,712	5,118,558	-16.18%
Net Absorption	7,618,999	6,003,788	5,965,659	N/A

## Inland Empire Industrial Charts



## Submarket Statistics

Submarket	Total Inventory	SF Under Construction	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	2Q Direct Net Absorption	YTD Direct Net Absorption	2Q Leasing Activity	YTD Leasing Activity	Avg NNN Rental Rate
Chino / Chino Hills	48,229,368	4,032,019	3.1%	3.2%	3.2%	834,483	1,357,444	799,660	1,134,995	\$0.67
Fontana	61,751,099	668,227	4.5%	4.5%	3.8%	1,204,070	1,445,898	2,094,569	2,452,646	\$0.66
Montclair	3,485,615	0	4.1%	4.1%	2.8%	83,209	48,572	28,828	44,525	\$3.09
Ontario	106,999,884	191,777	2.5%	3.0%	3.4%	692,460	1,128,591	1,754,185	2,681,521	\$0.69
Rancho Cucamonga	38,910,187	878,944	3.3%	3.8%	7.1%	468,110	387,763	783,346	1,107,781	\$0.54
Upland	4,047,775	0	4.3%	4.3%	3.6%	49,372	103,454	66,627	131,215	\$0.76
<b>West</b>	<b>263,423,928</b>	<b>5,770,967</b>	<b>2.5%</b>	<b>2.9%</b>	<b>3.8%</b>	<b>3,331,704</b>	<b>4,471,722</b>	<b>5,527,215</b>	<b>7,552,683</b>	<b>\$0.66</b>
Banning	1,028,267	0	6.8%	6.8%	5.3%	27,308	27,344	15,108	27,308	\$0.66
Beaumont	3,817,154	0	0.3%	0.3%	0.3%	10,000	12,665	0	0	\$0.31
Bloomington	4,683,908	556,212	1.6%	1.6%	3.5%	10,988	52,589	7,452	12,588	\$0.40
Colton	9,145,238	808,500	9.3%	9.6%	9.6%	20,220	213,918	13,730	32,170	\$0.55
Corona	30,144,033	491,664	3.9%	4.0%	5.1%	467,392	954,743	275,846	926,592	\$0.64
Eastvale	9,997,418	450,438	8.3%	8.3%	7.0%	225,148	1,454,520	0	92,964	\$0.00
Grand Terrace	406,011	0	0.7%	0.7%	9.6%	0	(2,760)	2,760	2,760	\$0.67
Highland	200,641	0	17.8%	17.8%	17.8%	850	(28,902)	850	850	\$0.00
Jurupa Valley	29,326,996	462,352	0.9%	1.3%	2.3%	(509,893)	(431,893)	218,905	285,043	\$0.67
Loma Linda	162,635	0	1.1%	1.1%	13.5%	0	1,164	14,880	14,880	\$0.00
Mira Loma	1,356,461	287,626	0.0%	0.0%	0.0%	0	3,100	0	0	\$0.00
Moreno Valley	21,794,452	3,355,646	6.8%	6.8%	8.9%	1,305,098	1,509,418	6,090	613,803	\$0.96
Norco	1,265,606	0	1.3%	1.3%	3.9%	(2,859)	22,753	1,759	2,843	\$0.00
Perris	22,597,699	3,750,095	4.5%	4.5%	6.0%	185,164	1,146,819	5,504	229,244	\$0.68
Redlands	27,564,658	0	13.5%	13.7%	12.5%	1,087,018	1,284,121	1,036,521	2,587,982	\$0.48
Rialto	25,441,627	1,334,815	4.1%	4.1%	4.5%	465,146	1,362,673	835,401	855,655	\$0.68
Riverside	45,613,715	2,930,502	8.9%	9.0%	10.2%	321,030	511,749	570,077	1,045,670	\$0.50
San Bernardino	36,868,222	1,863,196	6.9%	7.2%	6.4%	479,378	835,253	524,024	1,782,817	\$0.63
<b>East</b>	<b>271,414,741</b>	<b>16,291,046</b>	<b>5.9%</b>	<b>6.0%</b>	<b>6.1%</b>	<b>4,091,988</b>	<b>8,929,274</b>	<b>3,528,907</b>	<b>8,513,169</b>	<b>\$0.55</b>
Hemet	1,458,253	0	2.2%	2.2%	3.5%	(4,212)	(3,812)	338	338	\$0.88
Lake Elsinore	2,496,490	0	4.8%	4.8%	1.3%	111,199	190,749	32,737	96,560	\$0.67
Menifee	404,015	72,835	6.2%	6.2%	12.1%	(14,230)	(14,230)	0	5,885	\$0.68
Murrieta	3,738,237	234,977	1.8%	1.8%	3.2%	(2,297)	6,862	33,559	83,435	\$0.00
San Jacinto	1,035,680	0	1.6%	1.6%	4.9%	(14,200)	(4,200)	7,750	7,750	\$0.75
Temecula	10,621,479	109,211	1.7%	1.7%	7.6%	121,578	286,303	40,767	106,588	\$0.70
Wildomar	324,860	0	0.0%	0.0%	11.5%	(4,115)	363	0	13,542	\$0.79
<b>South</b>	<b>20,079,014</b>	<b>417,023</b>	<b>1.9%</b>	<b>1.9%</b>	<b>5.2%</b>	<b>193,723</b>	<b>462,035</b>	<b>115,151</b>	<b>314,098</b>	<b>\$0.71</b>
5,000 - 24,999	68,344,533	481,132	2.4%	2.5%	3.9%	65,833	(55,461)	735,407	1,475,950	\$0.78
25,000 - 49,999	46,847,950	701,134	3.4%	3.5%	5.2%	110,577	552,730	480,519	1,063,596	\$0.77
50,000 - 99,999	53,923,245	912,015	2.8%	3.3%	5.3%	785,771	1,194,610	911,167	1,675,300	\$0.62
100,000 - 249,999	99,488,229	2,965,604	4.0%	4.5%	7.0%	1,539,967	2,316,360	1,599,572	3,025,272	\$0.55
250,000 - 499,999	113,001,972	6,574,292	4.7%	5.0%	6.9%	1,504,137	3,127,370	2,327,938	4,154,911	\$0.31
500,000 - 999,999	122,203,405	5,394,071	5.5%	5.5%	7.1%	2,609,144	4,475,903	2,113,397	3,987,648	\$0.00
1,000,000 Plus	53,766,495	5,450,788	3.9%	3.9%	3.8%	1,003,570	2,011,275	1,003,570	1,003,570	\$0.00
<b>Inland Empire Total</b>	<b>557,575,829</b>	<b>22,479,036</b>	<b>4.1%</b>	<b>4.3%</b>	<b>6.0%</b>	<b>7,618,999</b>	<b>13,622,787</b>	<b>9,171,570</b>	<b>16,386,247</b>	<b>\$0.60</b>

IE's industrial market have never been stronger, and the sector is performing at the highest levels. There has never been a better time to be either a landlord or institutional owner in the IE. Tenants and occupiers, however, must prepare themselves for rental rates and sale prices not seen in the history of the market. Otherwise they must be prepared to be dazed and awed by sticker shock.

The average asking rental rate at the end of Q2 increased to \$0.60 per square foot (psf) on a triple net basis per month. By comparison, this time last year average asking rates were \$0.48 NNN. That is a 25% percent increase in one year. 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 triple net. And, 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 eighteen to twenty-four months.

Currently, there is over 22.4 million square feet of Industrial space under construction, with East County contributing over 16.7 million square feet. Although East County has been the home of most of the new development, expect to see increased interest in new construction in the IE West, particularly Chino, as new tracts of once agricultural land have become available for development. The political climate in the IE has up to now been very receptive to new industrial development. However, recently there have been

serious legislative efforts afoot to impose costs on both developers and landlords to pay for new infrastructure improvements and pollution-control-offsets to address environmental concerns voiced by the constituents of Riverside and San Bernardino County. The ramifications of these legislative efforts have yet to be determined.

Despite the massive amount of new construction, vacancy and availability are not rising. Unlike prior cycles, supply of new space is in equilibrium with strong occupier demand. As a result, both vacancy and availability rates have respectively stabilized to 4 and 6 percent.

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 \$121 per square foot with cap rates hovering around 5.4%. Merely three years ago, buildings were selling at \$88 per square foot – 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.

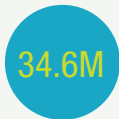
Source: CoStar, Center for Economic Forecasting and Development

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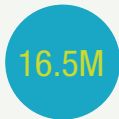
#### COMMERCIAL BROKERAGE



ANNUAL  
TRANSACTION  
VOLUME



ANNUAL  
LEASING SF



ANNUAL  
SALES SF



# BROKERS

#### PROPERTY MANAGEMENT

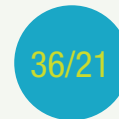


MANAGEMENT  
PORTFOLIO

#### VALUATION ADVISORY



ASSIGNMENTS  
ANNUALLY



TOTAL #  
APPRAISERS/MAI'S

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