

Inland Empire Industrial

The Inland Empire’s reputation as the premier industrial market in the country remained intact and unchallenged as net absorption reported positive for the 37th consecutive quarter. While nearly 18.3 million square feet of industrial space has been completed and delivered to the market year to date, an additional 21 million square feet of industrial space remains under construction. Despite this high level of development activity, net absorption 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 US economy continuing to grow, unemployment rates at historic lows, and the US consumer continuing to spend, expect very little to no slowdown in the Inland Empire industrial market for the foreseeable future.

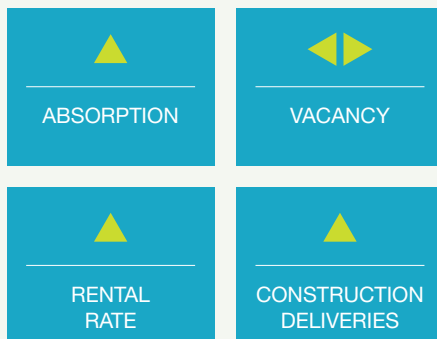
Economic Summary

Perhaps a surprise to some, the Inland Empire is now one of the leading economies in California. The overall US 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 Q3—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 have effectively narrowed the gap, changing the region into one of California’s most vital economies. In fact, the IE’s current 4.6% unemployment rate is now below L.A. County’s (5.1%), and a mere 30 basis above the state’s (4.3%).

→ Continued, page 4

Market Forecast Trends



YEAR-TO-YEAR BASIS

Notable Lease Transactions

Hanes Brands Inc.
3700 Indian Ave., Perris
1,309,710 s.f.

Nordstrom Inc.
490 Columbia Ave., Riverside
1,009,092 s.f.

Ross Stores (DMSI)
24103 San Michele Rd., Moreno Valley
739,903 s.f.

Notable Sale Transactions

DHL Supply Chain (Excel, Inc)
6207 Cajon Blvd., San Bernardino
830,750 s.f. | \$87.2M or \$105.00/s.f.

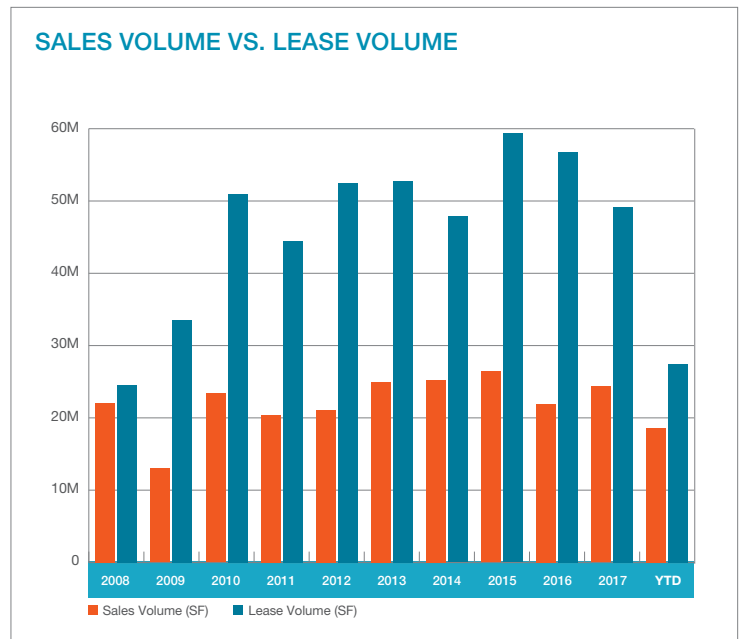
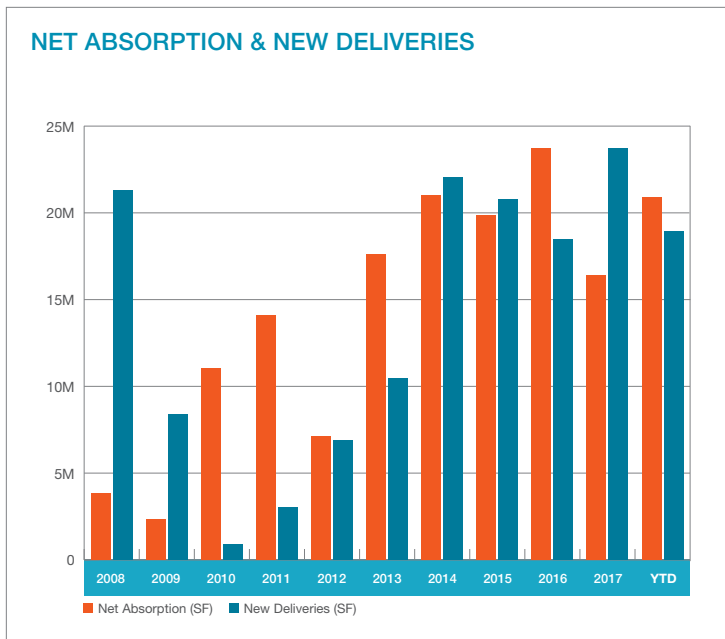
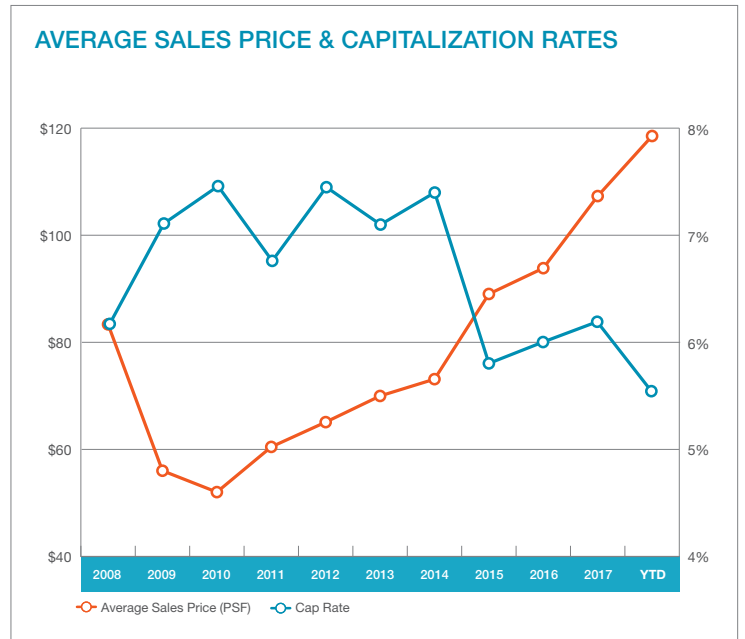
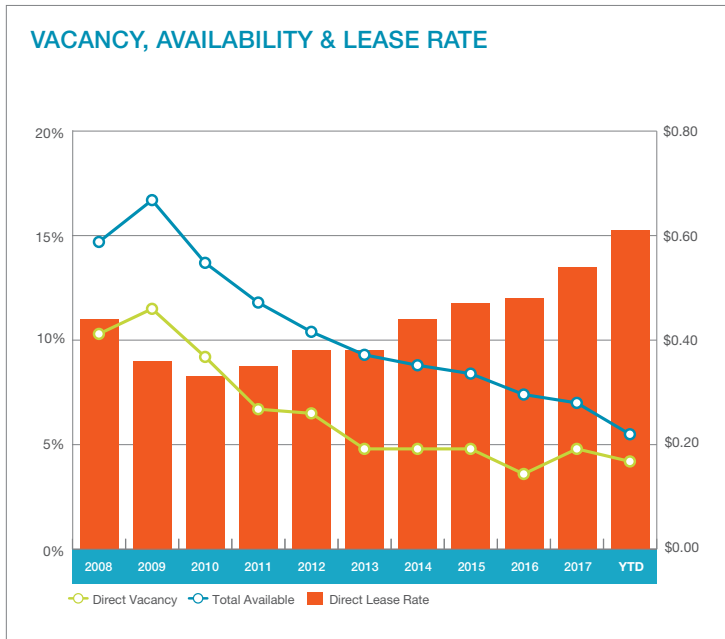
Invesco
22000 Opportunity Way, Riverside
503,592 s.f. | \$52.3M or \$103.99/s.f.

LaSalle Investment Management, Inc.
4450 Wineville Ave., Jurupa Valley
216,300 s.f. | \$32.6M or \$150.95/s.f.

Market Breakdown

	3Q 2018	2Q 2018	3Q 2017	Annual % Change
Direct Vacancy Rate	4.2%	4.0%	4.2%	0.00%
Availability Rate	5.5%	5.6%	7.6%	-27.63%
Asking Lease Rate	\$0.61	\$0.59	\$0.54	12.96%
Leased SF	6,570,321	10,634,882	11,786,548	-44.26%
Sold SF	6,663,048	5,799,349	6,888,066	-3.27%
Net Absorption	6,269,845	6,831,047	5,635,705	N/A

Inland Empire Industrial Charts



Submarket Statistics

Submarket	Total Inventory	SF Under Construction	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Available Rate	3Q Direct Net Absorption	YTD Direct Net Absorption	3Q Leasing Activity	YTD Leasing Activity	Avg NNN Rental Rate
Chino / Chino Hills	50,593,532	2,116,261	2.2%	0.6%	2.8%	6.6%	1,842,813	2,655,759	164,548	3,096,623	\$0.97
Fontana	62,278,714	1,197,557	2.3%	0.0%	2.3%	6.1%	1,061,523	2,513,121	602,162	3,843,876	\$0.59
Montclair	3,504,847	53,942	4.3%	0.0%	4.3%	8.5%	14,343	(43,309)	4,860	49,385	\$0.70
Ontario	107,757,209	1,299,750	1.8%	0.4%	2.2%	4.2%	384,063	1,242,166	1,137,258	3,941,187	\$0.70
Rancho Cucamonga	38,949,180	1,735,292	2.8%	0.7%	3.5%	9.0%	(64,008)	35,279	418,962	1,554,999	\$0.48
Upland	4,010,586	0	3.2%	0.0%	3.2%	3.8%	(44,592)	66,362	46,598	177,813	\$0.76
West	267,094,068	6,402,802	2.2%	0.4%	2.6%	4.1%	3,194,142	6,469,378	2,374,388	12,663,883	\$0.63
Banning	975,767	0	3.4%	0.0%	3.4%	8.8%	10,000	37,344	0	27,308	\$0.68
Beaumont	3,817,154	0	0.1%	0.0%	0.1%	0.1%	(2,283)	10,382	0	0	\$0.31
Bloomington	4,602,326	1,233,595	0.0%	0.0%	0.0%	21.7%	17,548	118,509	48,492	173,689	\$0.40
Colton	9,596,658	808,500	7.0%	0.3%	7.3%	5.5%	139,906	365,824	209,225	255,095	\$0.53
Corona	29,688,109	297,668	3.1%	0.0%	3.1%	5.5%	45,374	532,079	114,256	1,040,848	\$0.75
Eastvale	11,118,668	0	10.6%	0.0%	10.6%	11.9%	501,075	2,001,393	422,193	515,157	\$0.00
Grand Terrace	406,011	0	0.3%	0.0%	0.3%	16.0%	1,380	(1,380)	0	2,760	\$0.67
Highland	200,641	0	17.4%	0.0%	17.4%	17.4%	0	(28,902)	0	850	\$0.00
Jurupa Valley	29,346,311	462,219	2.5%	0.0%	2.5%	4.3%	80,231	161,842	0	302,312	\$0.69
Loma Linda	162,785	0	1.1%	0.0%	1.1%	9.2%	0	1,164	0	14,880	\$0.00
Mira Loma	1,729,983	37,626	21.6%	0.0%	21.6%	23.3%	0	3,100	0	0	\$0.00
Moreno Valley	24,816,580	2,423,418	12.0%	0.0%	12.0%	17.0%	173,837	983,255	742,940	1,356,743	\$0.98
Norco	1,285,129	0	0.6%	0.0%	0.6%	1.3%	(13,259)	27,167	17,673	26,516	\$0.00
Perris	24,094,249	4,213,706	5.6%	0.0%	5.6%	20.0%	967,822	2,114,641	10,975	240,219	\$0.68
Redlands	27,875,377	0	5.2%	0.1%	5.3%	6.1%	1,056,178	2,393,979	503,891	3,468,712	\$0.58
Rialto	26,228,137	1,231,259	6.0%	0.0%	6.0%	12.8%	(447,262)	1,123,252	23,395	880,802	\$0.68
Riverside	46,922,554	2,562,492	7.8%	0.5%	8.3%	11.6%	89,189	2,269,253	1,291,689	3,376,882	\$0.53
San Bernardino	38,334,183	737,232	8.8%	0.0%	8.8%	10.4%	373,550	910,139	665,364	2,646,405	\$0.52
East	281,200,622	14,007,715	6.5%	0.1%	6.6%	6.8%	2,993,286	13,023,041	4,050,093	14,329,178	\$0.57
Hemet	1,429,314	8,000	1.9%	0.0%	1.9%	2.6%	9,364	5,552	0	338	\$0.88
Lake Elsinore	2,495,450	70,738	1.4%	0.0%	1.4%	5.2%	(25,753)	164,996	8,127	104,687	\$0.67
Menifee	404,015	72,835	6.0%	0.0%	6.0%	14.8%	15,000	770	15,000	20,885	\$0.75
Murrieta	3,746,634	266,310	1.7%	0.0%	1.7%	4.8%	10,017	12,581	29,588	113,023	\$0.00
San Jacinto	1,035,680	0	2.3%	0.0%	2.3%	3.9%	7,500	3,300	0	7,750	\$0.00
Temecula	10,815,649	53,586	1.6%	0.0%	1.6%	6.8%	86,538	373,489	68,761	175,349	\$0.74
Wildomar	324,860	0	7.5%	0.0%	7.5%	4.0%	(20,249)	(19,886)	24,364	37,906	\$0.79
South	20,251,602	471,469	1.8%	0.0%	1.8%	4.9%	82,417	540,802	145,840	459,938	\$0.71
5,000 - 24,999	68,528,442	528,804	2.2%	0.0%	2.2%	3.9%	241,495	216,208	687,302	2,214,319	\$0.84
25,000 - 49,999	47,118,036	658,802	4.1%	0.0%	4.1%	5.2%	22,616	470,431	741,467	1,982,181	\$0.78
50,000 - 99,999	54,217,891	997,532	3.1%	0.4%	3.5%	5.8%	236,719	1,259,378	406,209	2,262,893	\$0.66
100,000 - 249,999	100,506,746	3,228,807	4.2%	0.7%	4.9%	7.1%	710,344	2,569,090	1,138,657	4,980,374	\$0.57
250,000 - 499,999	115,926,079	5,151,820	5.2%	0.2%	5.4%	6.5%	1,624,162	5,127,177	932,330	6,376,388	\$0.35
500,000 - 999,999	121,282,542	7,747,414	4.5%	0.0%	4.5%	5.6%	2,175,830	5,120,983	2,336,968	6,324,616	\$0.00
1,000,000 Plus	60,966,556	2,568,807	5.4%	0.1%	5.5%	4.1%	1,258,679	5,269,954	1,009,092	4,446,662	\$0.00
Inland Empire Total	568,546,292	20,881,986	4.2%	0.2%	4.4%	5.5%	6,269,845	20,033,221	6,570,321	27,452,999	\$0.61

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 gainsaid: The fundamentals of the 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 industrial broker 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, prepare to be dumbstruck by sticker shock.

The average asking rental rate at the end of Q3 increased to \$0.61 per square foot (psf) on a triple net basis per month. By comparison, this time last year average asking rates were \$0.54. That is a 13% 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 \$0.84 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 20.8 million square feet of industrial space under construction, with East County contributing over 14 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 milieu in the IE has heretofore been very receptive to new industrial development. Recently, however, 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 denizens 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 direct vacancy and total availability rates have respectively stabilized to 4.2% and 5.5%.

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 \$118 per square foot at cap rates hovering around 5.5%. Merely three years ago, buildings were selling at \$89 per square foot – that is a 33% 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.

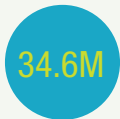
Source: CoStar, Center for Economic Forecasting and Development

Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with more than 700 real estate professionals and staff in 21 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, property management, consulting, project and construction management, and debt equity finance services for all property types.

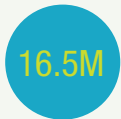
COMMERCIAL BROKERAGE



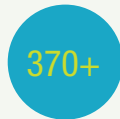
ANNUAL
TRANSACTION
VOLUME



ANNUAL
LEASING SF



ANNUAL
SALES SF



BROKERS

PROPERTY MANAGEMENT

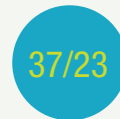


MANAGEMENT
PORTFOLIO

VALUATION ADVISORY



ASSIGNMENTS
ANNUALLY



TOTAL #
APPRAISERS/MAI'S

Contact

Jerry Holdner
Director of Research
949.557.5050
jholdner@kiddermathews.com

Robert Thornburgh, SIOR, CCIM
Executive VP, Brokerage
909.764.6500
robertt@kiddermathews.com
LIC #01324961

Designated Broker
Robert Thornburgh | LIC # 01324961

kiddermathews.com



This information supplied herein is from sources we deem reliable. It is provided without any representation, warranty or guarantee, expressed or implied as to its accuracy. Prospective Buyer or Tenant should conduct an independent investigation and verification of all matters deemed to be material, including, but not limited to, statements of income and expenses. CONSULT YOUR ATTORNEY, ACCOUNTANT, OR OTHER PROFESSIONAL ADVISOR.