

Inland Empire

Industrial Market Outlook 1Q 2017

MARKET OVERVIEW

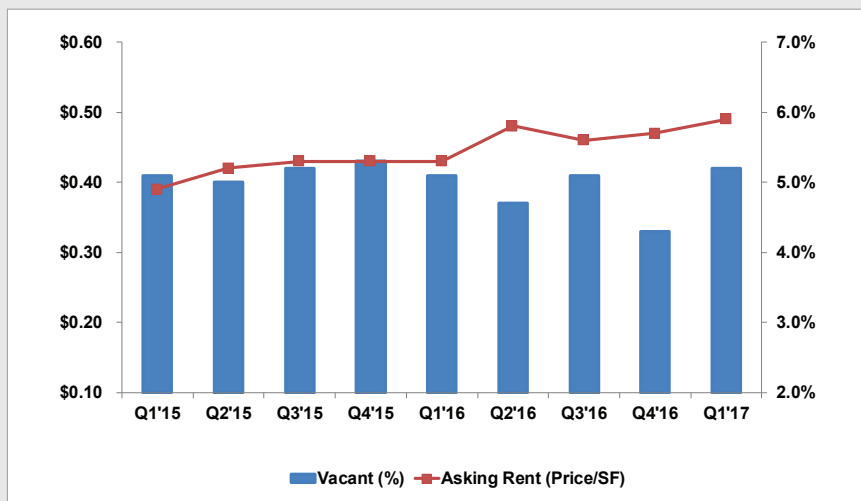
The Inland Empire industrial market experienced increased rent growth and an uptick in vacancy in the first quarter of 2017. The vacancy rate registered 5.2%, up 90 basis points over the quarter and 10 basis points since last year. The increase in the vacancy rate is attributed to the 3.3 million square feet delivered to the market this quarter. Total space under construction in the market is almost 27 million square feet, making it the largest construction volume in the pipeline since 2006. This surge in development is coming as rents continue to rise, growing 14.0% from last year. This quarter saw the Inland Empire reach the highest rents on record. Demand for warehouse/distribution space is closely tied to the success of e-commerce and activity at the ports of Los Angeles and Long Beach. This quarter, Amazon was very active in the region, leasing one million square feet at Goodman Commerce Center in Eastvale, on top of 164,000 square feet leased in Los Angeles. Year to date cargo volume at the ports is up 1.0%, which is significant since volume usually slows down due to the Chinese Lunar New Year. January 2017 set records, making it the Port of Los Angeles' busiest month ever with an increase of 17.4% in total volume over January 2016.

TRENDS TO WATCH

The Inland Empire will remain the premier market for industrial development in Southern California in 2017. The region is the only possibility for large industrial buildings that would not have room in Los Angeles or Orange County. Of the 126 projects currently under construction, 8 are larger than 500,000 square feet and 10 are larger than one million square feet. The vacancy rate is expected to rise in the coming quarters as a wave of new construction hits the market. Additional speculative construction in the coming years could slow as the market catches its breath. Even so, with the economy growing and consumer spending increasing, the industrial space will remain in demand.

Average Asking Rent and Vacancy Rate

All Unit Sizes



Source: NAI Capital Research, CoStar

MARKET OUTLOOK

Asking Rental Rates



Sale Prices



Availability/Vacancy Rates



Landlord Concessions



Sales/Leasing Volume



New Construction



NAI Capital Research
www.naicapital.com

Market Statistics

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	1Q17 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	1Q17 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/PSF NNN	AVERAGE SALE PRICE \$/PSF
High Desert	18,267,315	42,695	14.2%	7.1%	58,675	58,675	80,139	80,139	\$0.95	\$69
West	295,933,801	11,807,657	8.3%	4.5%	6,007,648	6,007,648	1,139,559	1,139,559	\$0.57	\$117
East	187,179,243	15,026,669	14.3%	6.3%	1,190,923	1,190,923	1,026,736	1,026,736	\$0.38	\$110
South	20,861,475	74,800	4.9%	2.9%	170,145	170,145	350,731	350,731	\$0.65	\$126
Total	522,241,834	26,951,821	10.5%	5.2%	7,427,391	7,427,391	2,597,165	2,597,165	\$0.49	\$114

RBA includes industrial buildings of all sizes. Rents reflect buildings of at least 10,000 square feet.

Leasing

Leasing volume in the first quarter totaled 7.4 million square feet, which is 53.8% below the total this time in 2016. Rents increased to \$0.49/SF this quarter, up 14.0% from a year ago and up 8.9% from the previous peak in 2007. Rising rents encourage new construction, which is at 27 million square feet with 23% preleased. Amazon continued expanding its warehouse/distribution footprint this quarter with the leasing of 1,007,705 square feet at Goodman Commerce Center in Eastvale. Amazon will occupy the newly constructed class A warehouse/distribution building in 2018. In another transaction, JL Furnishings, a manufacturer of custom seating and tables for the hospitality industry, took down 103,014 square feet in Chino at \$0.54/SF.

Sales

Almost 2.6 million square feet were sold in 142 buildings in the Inland Empire this past quarter. The average size of buildings being sold declined from 29,328 square feet last year at this time, to 18,069 square feet this year, indicating an increase in demand for smaller industrial buildings. The average price per square foot sold in the first quarter was \$114. This quarter, TA Realty purchased the 168,346 square foot class B manufacturing building at 3900 Hamner Ave located in Eastvale for \$85/SF. This was an investment sale with a cap rate of 4.0%. Equity fund Cabot Properties purchased the 147,484 square foot warehouse/distribution building in Ontario for \$96/SF.

Significant Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/PSF*	SQUARE FEET
Amazon	4950 Goodman Way	West	Withheld	1,007,705
Disney	2285 S Ponderosa Ave	West	\$0.50 IG	326,453
JL Furnishings, LLC	15780 El Prado Rd	West	\$0.54	103,014
Viking Range LLC	14680 Monte Vista Ave	West	\$0.52	100,000
Minimum & Maximum, Inc	1775 S Business Parkway	West	\$0.55	61,230

*All rents are NNN unless otherwise noted

Significant Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/PSF	SQUARE FEET
TA Realty	3900 Hamner Ave	West	\$85	168,346
Cabot Properties, Inc	1651 S Carlos Ave	West	\$96	147,484
Central Green Company	7145 Arlington Ave	East	\$136	131,263
Edible Arrangements International, LLC	7350 Sam Gorgonio Dr	East	\$103	121,390
Atlanta Food International	1600 E Steel Rd	East	\$125	59,600

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Commercial Real Estate Services, Worldwide.

- **High Desert**

- Adelanto
- Apple Valley
- Barstow
- Helendale
- Hesperia
- Lucerne Valley
- Phelan
- Silver Lakes
- Victorville

- **West IE**

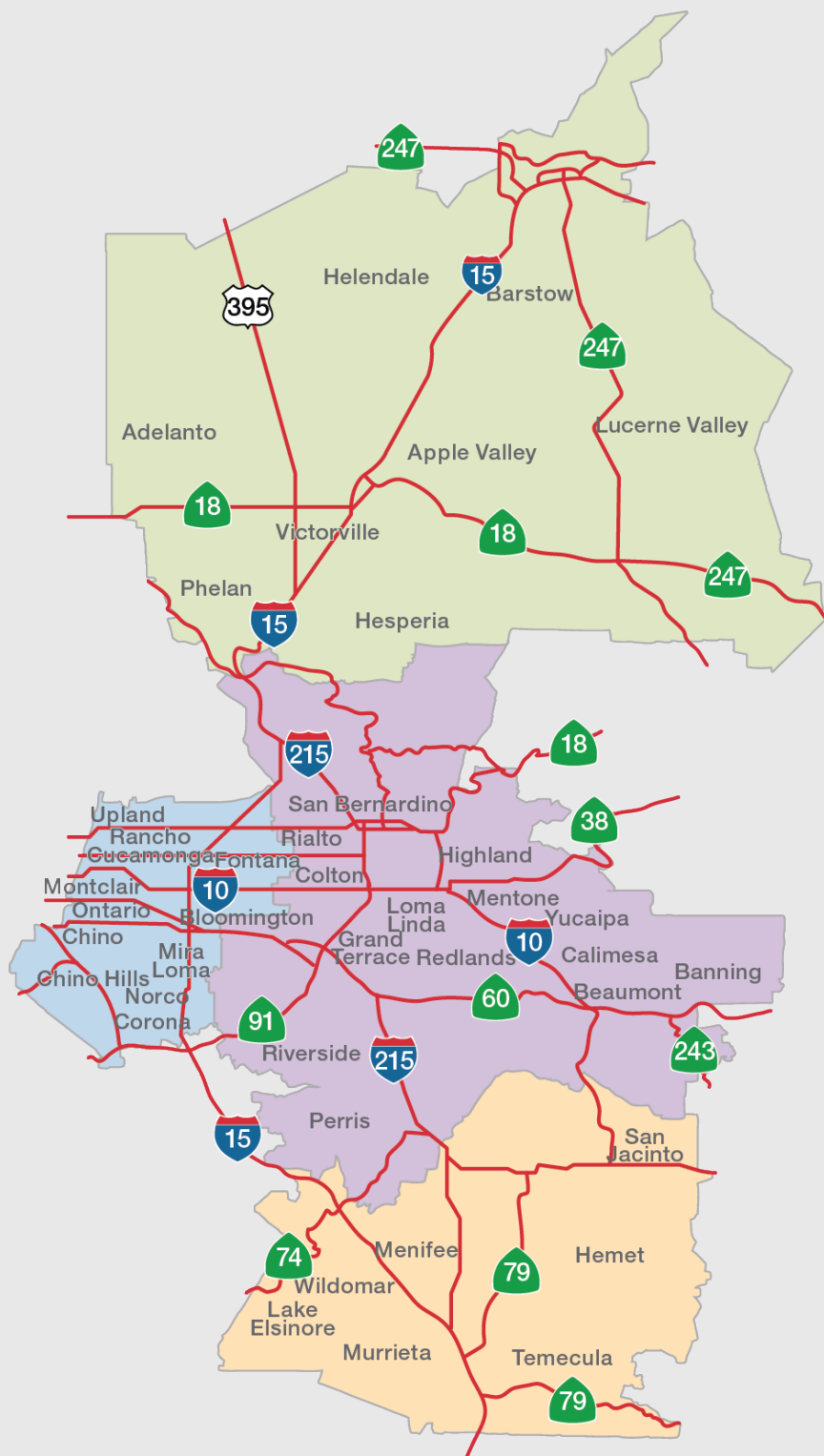
- Chino Hills
- Chino
- Corona
- Eastvale
- Fontana
- Mira Loma
- Montclair
- Norco
- Ontario
- Rancho Cucamonga
- Upland

- **East IE**

- Banning
- Beaumont
- Bloomington
- Calimesa
- Colton
- Grand Terrace
- Highland
- Loma Linda
- Mentone
- Moreno Valley
- Perris
- Redlands
- Rialto
- Riverside
- Rubidoux
- San Bernardino
- Yucaipa

- **South IE**

- Hemet
- Lake Elsinore
- Menifee
- Murrieta
- San Jacinto
- Temecula
- Wildomar



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Commercial Real Estate Services, Worldwide.

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Inland Empire

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