

Inland Empire

Industrial Market Outlook 2Q 2017

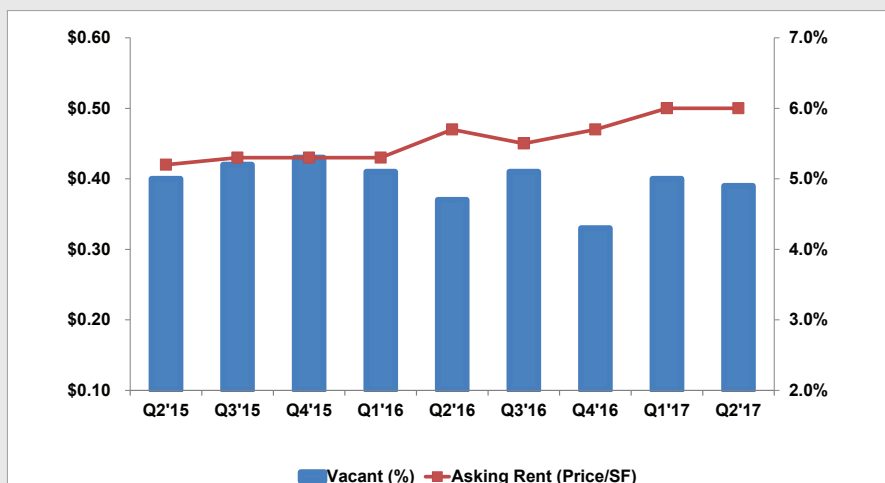
MARKET OVERVIEW

The Inland Empire industrial market sustained its strong demand in the second quarter of 2017. The vacancy rate registered 4.9%, down 10 basis points from the prior quarter and up 20 basis points from this time last year. The slight decline in vacancy speaks to the strength of demand for industrial space in the Inland Empire, as nearly 6.8 million square feet were delivered to the market this quarter, which is twice the amount delivered the previous quarter. In addition, there are 23 million square feet in the construction pipeline. Rising rents are propelling construction; average asking rents are steady from last quarter at \$0.50/SF and up 6.4% from a year ago. Demand is driven by a strong economy as well as cargo volume from the ports of Los Angeles and Long Beach. In the first five months of 2017, more than 6.5 million TEUs have filtered through the two ports. This June, the Port of Los Angeles became the first port in the Western Hemisphere to handle nine million TEUs over a 12 month period. Combined import volume for 2017 year to date is up 5.3% from this time last year. Consumer demand for imported goods is driving the increased cargo volume and is expected to continue to push demand for warehouse distribution space.

TRENDS TO WATCH

The Inland Empire is expected to see a continuation of the factors that propelled it to become the premier industrial market in Southern California. Users flock to the region after being pushed out of Los Angeles or Orange County for lack of available expansion space. The Inland Empire is the last Southern California market with the ability to accommodate expansive projects. The current construction volume of 23 million square feet includes 19.7 million square feet that are being built on a speculative basis, or about 83%. The largest project under construction is a 1.1 million square foot distribution building in Moreno Valley that can accommodate a single tenant. While there is certainly strong demand for industrial space in the Inland Empire, a vast supply of newly delivered industrial space that remains unleased could cause construction starts to take a pause as the new space is absorbed in the market.

Average Asking Rent and Vacancy Rate



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 (%)	2Q17 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	2Q17 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/PSF NNN	AVERAGE SALE PRICE \$/PSF
East	191,439,462	12,829,511	13.6%	7.2%	1,232,700	3,959,096	1,622,373	2,348,196	\$0.38	\$95
High Desert	18,712,488	12,700	7.2%	6.7%	1,359,060	1,428,428	1,974,505	2,113,219	\$0.53	\$108
South	20,935,608	215,980	5.4%	2.6%	123,512	333,810	345,789	667,713	\$0.64	\$95
West	297,740,289	9,976,490	7.0%	3.5%	4,097,467	11,793,914	4,502,379	5,862,056	\$0.57	\$120
Total	528,827,847	23,034,681	9.3%	4.9%	6,812,739	17,515,248	8,445,046	10,991,184	\$0.50	\$114

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

Leasing

Leasing volume was down this quarter due to a lack of available space. Leasing volume totaled 6.8 million square feet in the second quarter for a total of 17.5 million square feet leased in the first half of 2017. At the midpoint of the year, lease volume is 48.0% below the total this time in 2016. This does not signal that demand has cooled, as the \$0.50/SF asking rent is now 10% above the prior peak reached in 2007. In the second quarter, Essendant, a national wholesale distributor, leased a newly built 599,000 square foot warehouse in Perris.

Sales

The Inland Empire saw a surge of industrial sales in the second quarter. More than 8.4 million square feet were sold in the Inland Empire in 196 transactions this past quarter and nearly 11 million square feet have been sold year to date. This is an increase of 45.8% over the total sale volume for the first half of 2016. The average price per square foot sold was \$114, steady over the quarter and up 30.2% from a year ago at this time. The average size of buildings being sold increased substantially from 17,633 square feet last quarter to 43,087 square feet this quarter. In one of the largest transactions, Rexford Industrial purchased the class A Safari Business Center located in Ontario. The 1.1 million square foot warehouse project sold as an investment for \$124/SF and was 97% occupied by 75 tenants at the time of sale. TA Realty purchased two industrial buildings in Corona totaling 205,750 square feet for \$125/SF.

Significant Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/PSF*	SQUARE FEET
Essendant	4555 Redlands Ave	East	Withheld	599,113
iLad Inc.	13230 San Bernardino Ave	West	Withheld	388,130
APL Logistics	9774 Calabash Ave	West	Withheld	167,472
NRI Logistics	15101 Santa Ana Ave	West	\$0.47	91,524
Ryder Logistics	490 Nevada St	East	\$0.49	59,950

*All rents are NNN unless otherwise noted

Significant Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/PSF	SQUARE FEET
Rexford Industrial Realty Inc.	2030-2071 S Lynx Pl	West	\$124	1,138,119
TA Realty	2380 Railroad St	West	\$125	205,750
Crowsnest Properties, LLC	1600-1880 Iowa Ave	East	\$85	203,939
Vogel Properties Inc	278 Markham St	East	\$116	120,171
EDM Recycling, Inc.	13975 Monte Vista Ave	West	\$130	100,362

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● **High Desert**

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

● **West IE**

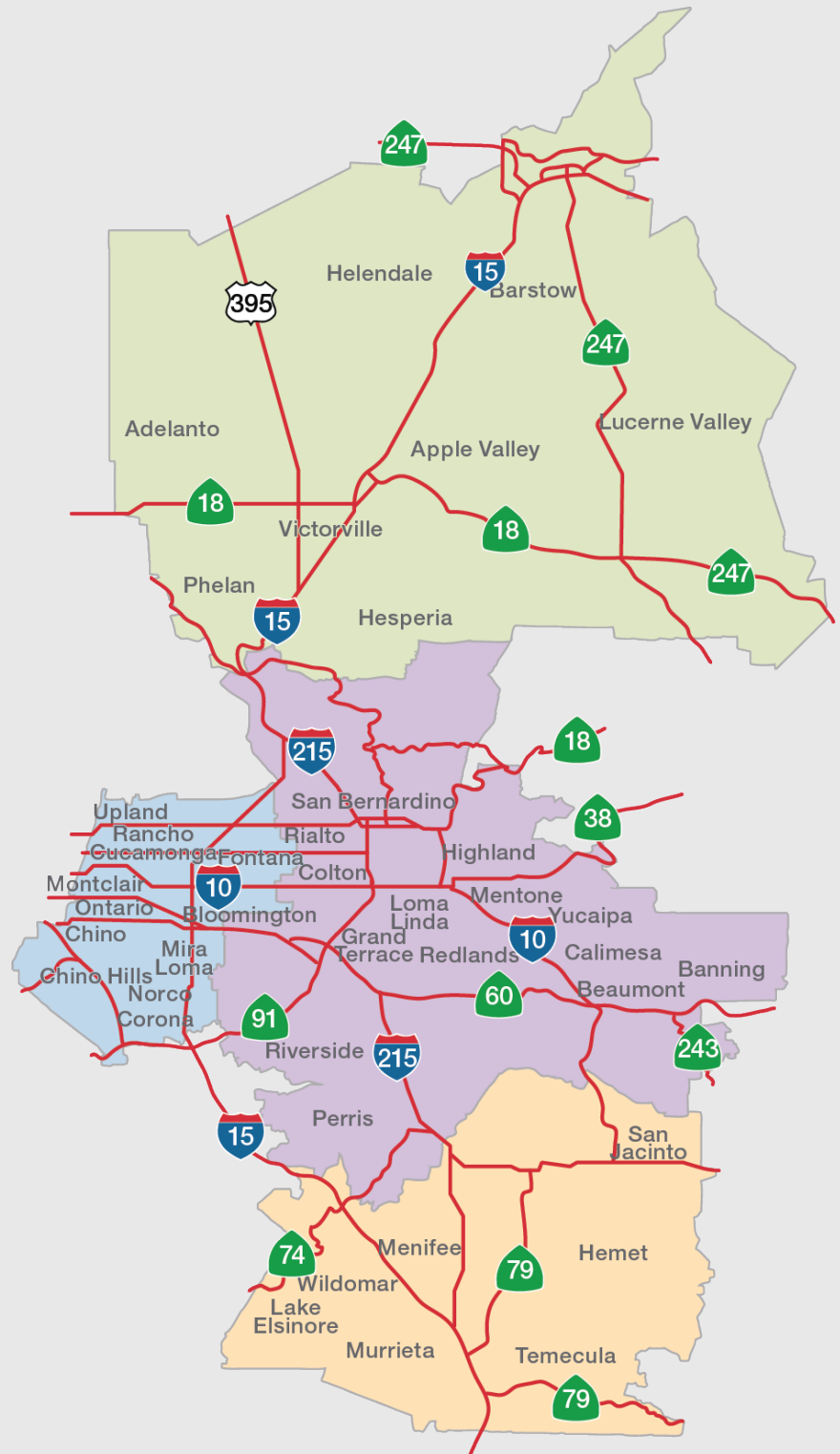
- Chino Hills
- Chino
- Corona
- Eastvale
- Fontana
- Mira Loma
- Montclair
- Norco
- Ontario
- Rancho Cucamonga
- Upland

● **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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