

Inland Empire

Third Quarter 2018

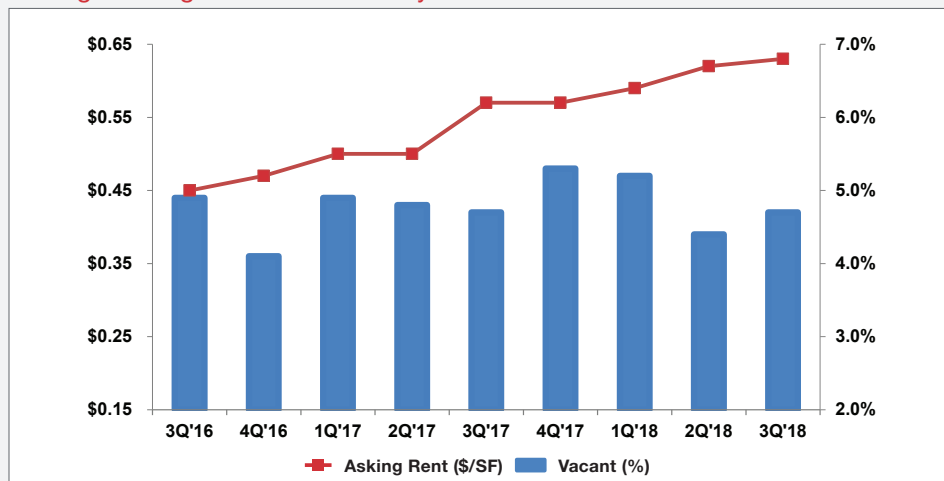
MARKET OVERVIEW

The Inland Empire remains one of the nation's hottest industrial markets. In 3Q 2018, once again, the average asking rent is the highest on record at \$0.63/SF, up 10.5% over last year. This is on top of a 24% year over year increase last quarter. While rental rate increases appear to be slowing, one thing is clear- the Inland Empire's industrial market is on fire. Strong demand is evident in the low vacancy rate, which held steady at 4.7% this quarter despite 8.1M SF of completed construction added. The largest project completed this quarter was Building 1 at Majestic Chino Gateway, a 1.4M SF warehouse/distribution facility. The behemoth warehouse was fully leased to Walmart in a deal signed in March 2018. In 2018, 19.4M SF was added to the inventory. With nearly 28.8M SF of leasing and 16.6M SF in sales volume in 2018, new construction can hardly keep pace. Strong consumer spending driven by a surging U.S. economy and the lowest unemployment rate in decades is stimulating demand for warehouse/distribution space in the Inland Empire. E-commerce continues to drive demand with imported goods at the ports of Los Angeles and Long Beach up 3.1% from 2017. Combined imports totaled more than 5.7M TEUs as of August 2018.

TRENDS TO WATCH

For companies seeking mega warehouse/distribution facilities in Southern California, the Inland Empire offers plenty of available industrial space not found in the Los Angeles and Orange County markets- but the price differential between the markets continues to decline. With rising rents, tenants no longer move to the Inland Empire for cheap space. The primary draw for tenants now is the availability of space for expansion or opportunities including built-to-suits. Strong cargo volume posted at the ports is driving demand for warehouse/distribution space cueing developers to remain bullish on the market. Nearly 81% of the 22M SF under construction remains available at the end of the quarter. The market will continue to absorb new construction; in 3Q 2018, 56% of the 8.1M SF of completed construction was taken. The Inland Empire should not struggle to find tenants for new construction, particularly as neighboring markets remain land constrained.

Average Asking Rent* and Vacancy Rate



*Rents reflects building of 10,000 SF or greater.

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 (%)	3Q18 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	3Q18 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/SF NNN	AVERAGE SALE PRICE \$/SF
East	210,528,560	13,210,202	12.4%	7.1%	3,513,575	12,716,290	3,693,727	8,566,852	\$0.51	\$107
High Desert	19,415,586	1,426,410	7.3%	6.8%	110,129	394,784	409,384	587,904	\$0.82	\$32
South	21,040,769	471,469	5.8%	1.7%	195,180	558,979	461,204	1,450,961	\$0.74	\$108
West	312,509,477	6,872,117	3.1%	3.1%	3,585,726	15,121,931	1,278,311	6,000,164	\$0.68	\$142
Inland Empire	563,494,392	21,980,198	8.9%	4.7%	7,404,610	28,791,984	5,842,626	16,605,881	\$0.63	\$109

Leasing

Lease volume lessened slightly as the market caught its breath in 3Q 2018. More than 7.4M SF were leased for a total of nearly 28.8M SF leased in 2018. This is about 25% lower than the volume through the first three quarters of 2017. Despite the dip in lease volume, the average asking rent increased 10.5% from last year to \$0.63/SF. This was, yet again, the highest level on record and surpassed the prior peak in 2007 by \$0.17/SF, or 37.0%. The East and West submarkets dominated the leasing activity this quarter, accounting for 96% of total lease volume. In one of the largest transactions this quarter, Nordstrom leased a 1,009,092 SF distribution building in Riverside that was built in January 2018. DMSI, a light staffing and 3PL provider, leased 739,903 SF of warehouse/distribution space at 24103 San Michele Rd in Moreno Valley.

Sales

Sale volume remained strong in 3Q 2018, supporting the strong demand for industrial space in the Inland Empire. Owner-users and investors increased their purchases, representing a transaction volume in excess of \$1.6B on 16.6M SF over the past three quarters. In 2018, volume is up 30.7% by square footage from this time last year. More than 5.8M SF sold in 3Q 2018 at an average of \$109/SF. Cap rates averaged 6.00%, about even from the prior year. In one of the quarter's largest sales, DHL Supply Chain purchased an 831,000 SF distribution building located at Cajon Distribution Center in San Bernardino for \$105/SF. The property was leased to LG Electronics at the time of sale, but DHL intends to occupy over time. One of the largest investment sales was Invesco's purchase of a 504,000 SF distribution center in Riverside. It was built in 1Q 2018 and sold for \$104/SF.

Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/SF**	SQUARE FEET
Nordstrom, Inc.	490 Columbia Ave	East	Withheld	1,009,092
DMSI	24103 San Michele Rd	East	Withheld	739,903
Dorel Industries, Inc.	5400 Shea Center Dr	West	\$0.53 IG	623,630
Communications Test Design, Inc.	1543 Alder Ave	East	Withheld	426,302
Global Logistical Connections, Inc.	9724 Alabama St	East	Withheld	156,323

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Excel, Inc. (DHL Supply Chain)	6207 Cajon Blvd	East	\$105	830,750
Invesco	22000 Opportunity Way	East	\$104	503,592
Top Property Group LLC	17300 Silica Rd	High Desert	\$28	357,000
CG Roxane, LLC	2705 Lexington Way	East	\$118	154,451
Westcore Properties	360 S Lilac Ave	East	\$87	130,599

Lee Chang Group

Inland Empire | Featured Properties



COMMERCIAL REAL ESTATE SERVICES, WORLDWIDE

www.LeeChangGroup.com



ADDRESS 6800 Valley View St
CITY Buena Park, CA
BUILDING SF 1,104,665
LOADING 152 DH | 1 GL
CLEAR HEIGHT Up to 30' minimum
FOR LEASE TBD



ADDRESS 3072 Inland Empire Blvd
CITY Ontario
BUILDING SF 26,250
LOADING 1 GL | 2 DH
CLEAR HEIGHT 24'
FOR LEASE \$.82 PSF



ADDRESS 4290 Brickell St
CITY Ontario, CA
BUILDING SF 99,733
FOR SALE \$13,862,887.00
NOTES Two unit property
62K SF available for occupancy or lease
Owner/User or Investment Property



ADDRESS 580 3rd St
CITY Lake Elsinore
BUILDING SF 17,290
FOR SALE \$2,900,000.00
NOTES 12 unit industrial investment
100% occupied
5.32% cap rate



ADDRESS 1190 Harley Knox Blvd
CITY Perris
BUILDING SF 81,304
LOADING 27 GL | 4 DH
CLEAR HEIGHT 20'
FOR LEASE \$.55 PSF NNN
NOTES Situated on 9 Acres; Fenced Yard



ADDRESS 301 Doubleday Ave
CITY Ontario
BUILDING SF 17,072
LOADING 1 GL | 1 DH
CLEAR HEIGHT 20'
FOR LEASE \$.84 PSF



ADDRESS 1201-1451 Research Park Dr
CITY Riverside, CA
BUILDING SF 45,669
FOR SALE \$10,600,000.00
NOTES 3 building leased investment
100% occupied
6.33% cap rate



ADDRESS 627-685 S Manchester Ave
CITY Anaheim
BUILDING SF 16,355
FOR SALE \$3,302,000.00
NOTES 7 unit office park investment
100% occupied
5.2% cap rate



ADDRESS 7627 Cherry Ave
CITY Fontana, CA
BUILDING SF 37,360
FOR SALE \$8,255,000.00
NOTES GSA lease until 2028
7% cap rate



ADDRESS 4319 Santa Ana St
CITY Ontario
BUILDING SF 15,232
LOADING 3 GL | 2 DH
CLEAR HEIGHT 22'
FOR LEASE \$.85 PSF



ADDRESS 170-190 N Arrowhead Ave
CITY Rialto, CA
BUILDING SF 30,938
FOR SALE \$4,176,000.00
NOTES 16 unit industrial investment
100% occupied with upside rent potential
Excess land included in sale



ADDRESS 317 W Tullock St
CITY Rialto
BUILDING SF 13,255
LOADING 1 GL
CLEAR HEIGHT 22'
FOR SALE \$1,975,000.00
NOTES Fenced yard



ADDRESS 10860 6th St
CITY Rancho Cucamonga
BUILDING SF 26,506
LOADING 1 GL | 2 DH
CLEAR HEIGHT 24'
FOR LEASE \$2,080,000.00
NOTES High Image HQ Building with Excess Office



ADDRESS 1180 Francis St; Bldg F
CITY Ontario
BUILDING SF 9,433
LOADING 1 GL
CLEAR HEIGHT 22'
FOR SALE \$2,028,095.00