

# Inland Empire

## Industrial Market Outlook 3Q 2018

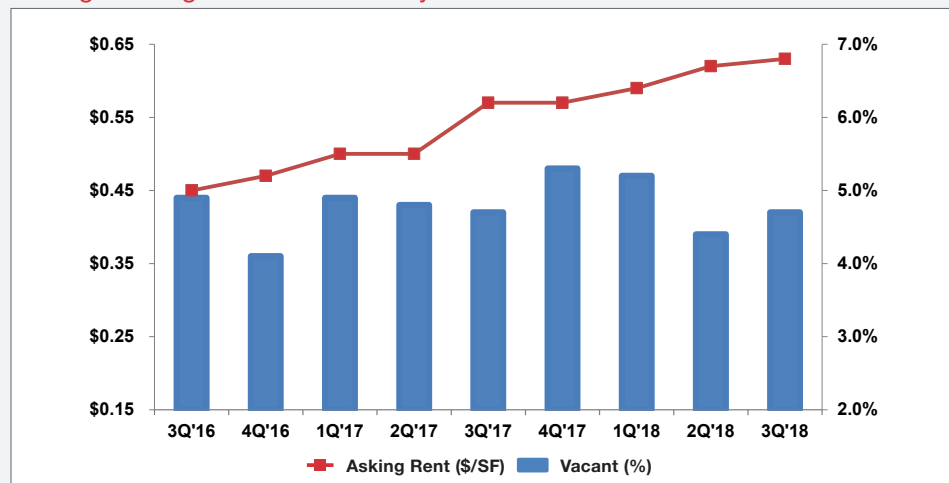
### MARKET OVERVIEW

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



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### 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
<b>Inland Empire</b>	<b>563,494,392</b>	<b>21,980,198</b>	<b>8.9%</b>	<b>4.7%</b>	<b>7,404,610</b>	<b>28,791,984</b>	<b>5,842,626</b>	<b>16,605,881</b>	<b>\$0.63</b>	<b>\$109</b>

### 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

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### High Desert

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

### West IE

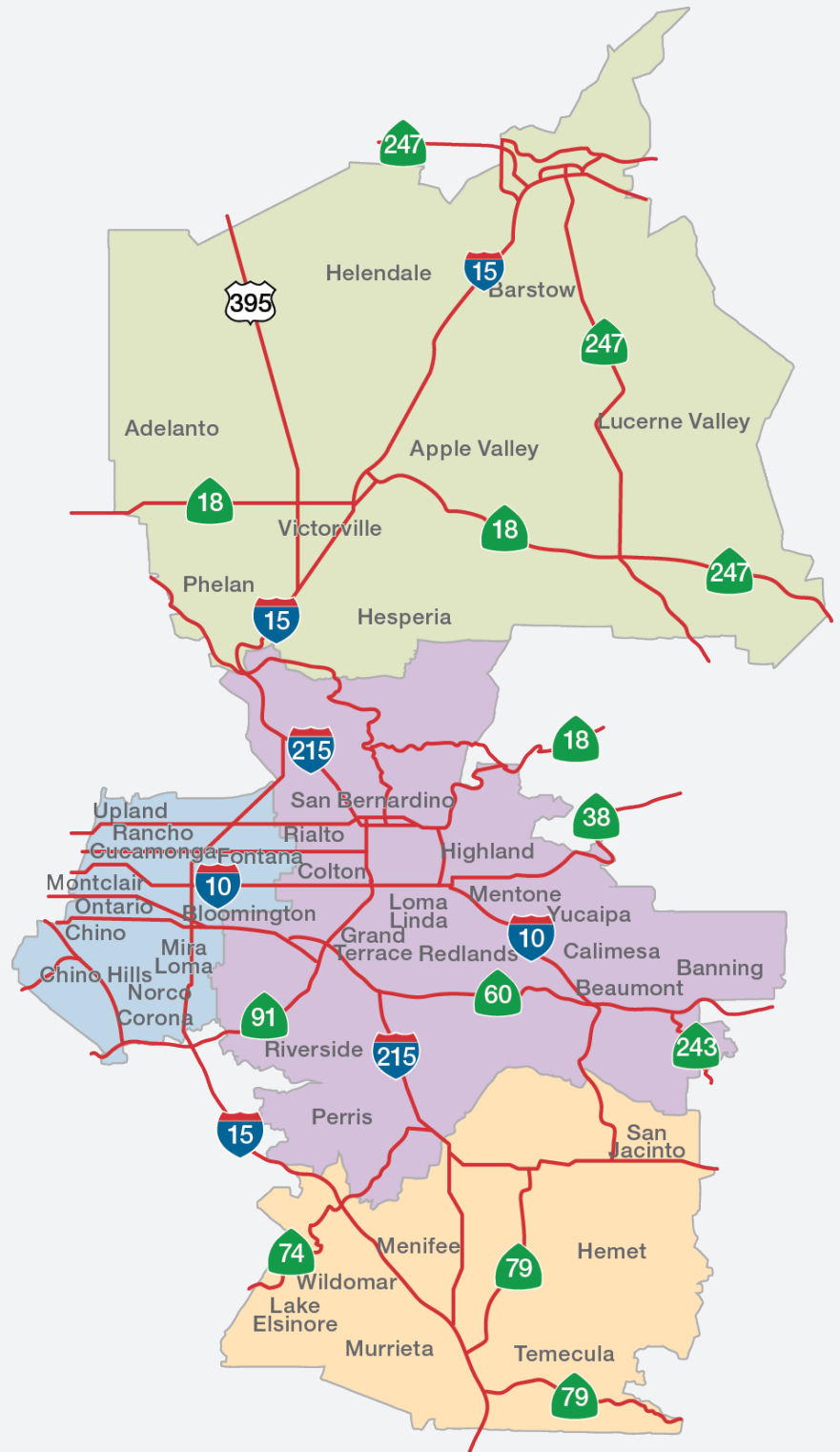
Chino Hills  
Chino  
Corona  
Eastvale  
Fontana  
Mira Loma  
Montclair  
Norco  
Ontario  
Rancho Cucamonga  
Upland

### 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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### Property Management

120<sup>1/2</sup> South El Camino Real, Ste. 210  
San Clemente, CA 92674  
949.874.0415

### Los Angeles County

#### Downtown LA

601 S. Figueroa St., Ste 3825  
Los Angeles, CA 90017  
213.632.7700

#### West Los Angeles

11835 Olympic Blvd., Ste. 700E  
Los Angeles, CA 90064  
310.440.8500

#### Torrance

970 W. 190th St. Dr., Ste. 100  
Torrance, CA 90502  
310.532.9080

#### Pasadena

225 S. Lake Ave., Ste. 1170  
Pasadena, CA 91101  
626.564.4800

#### Valencia

27451 Tourney Rd., Ste. 200  
Valencia, CA 91355  
661.705.3550

#### Diamond Bar

21660 E. Copley Dr., Ste. 320  
Diamond Bar, CA 91765  
909.348.0600

### Ventura County

#### Oxnard

300 Esplanade Dr., Ste. 1660  
Oxnard, CA 93036  
805.278.1400

#### Westlake Village

2555 Townsgate Rd., Ste. 320  
Westlake Village, CA 91361  
805.446.2400

### Inland Empire

#### Ontario

800 N. Haven Dr., Ste. 400  
Ontario, CA 91764  
909.945.2339

#### Temecula

27720 Jefferson Ave., Ste. 330  
Temecula, CA 92590  
951.491.7590

#### Victorville

13911 Park Avenue, Ste. 206  
Victorville, CA 92392  
760.780.4200

### Orange County

#### Irvine

1920 Main St., Ste. 100  
Irvine, CA 92614  
949.854.6600

### Coachella Valley

#### Palm Desert

75-410 Gerald Ford Dr., Ste. 200  
Palm Desert, CA 92211  
760.346.1566