



**INLAND EMPIRE  
2Q17 INDUSTRIAL MARKET**

**CONSTRUCTION ACTIVITY  
HITS ANOTHER HIGH**

- Construction activity is not slowing down. Thirty-one million square feet is under way, a 131% increase from one year ago.
- New construction is diverse across size segments. There are 132 buildings currently underway, which includes 73 under 100,000 square feet; 37 between 100,000 and 499,999 square feet; and 22 over 500,000 square feet.
- Diverse construction activity hints at diverse tenant demand. All tenant profiles are active in the marketplace.
- Vacancy has been under 5.0% for 17 consecutive quarters, while the average asking rent is hovering near a record high.
- Net absorption in the second quarter totaled 4.1 million square feet, as notable move-outs from M. Block & Sons (557,213 square feet) and Hino Motors Manufacturing USA (230,484 square feet) were levied against big move-ins from JC Penney (624,627 square feet) and Essendant Co. (599,113 square feet).
- Net absorption was positive for the 31st-straight quarter. The bulk of this quarter's activity came from new construction occupancies.

**Net Absorption and New Construction Near Equilibrium**

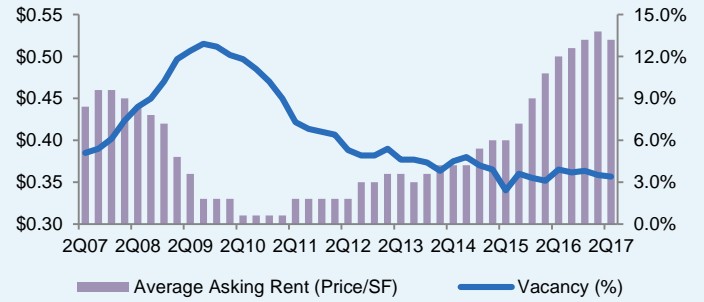
Net absorption and new development were nearly balanced over the past 24 months, with 35.4 million square feet in net occupancy gains versus 40.7 million square feet in new construction deliveries. This has favored a controlled/flat vacancy rate, which has hovered in the mid-3% range and has led to sustained rent growth.

Vacancies in Los Angeles (0.9%) and Orange County (1.9%) are tight; infill building is the only option for ground-up development, and tenants often enter bidding wars over whatever new space comes online in these markets. All of these factors benefit the Inland Empire, which has first-generation space available at competitive rental rates for tenants looking to expand or consolidate.

Modern warehouse facilities, with their higher clearance heights, wider column spacing and deeper truck courts, can make operations more efficient for tenants trying to maximize their space efficiencies. Aside from higher transport costs to and from Southern California's seaports, the Inland Empire benefits from its large block product, which gives tenants the economies of scale option of bringing multiple operations under one roof. The market is essentially Southern California's last stop to be within a two-hour drive of 20.2 million consumers, and its low vacancy rate (despite record-high development) validates its core fundamentals.

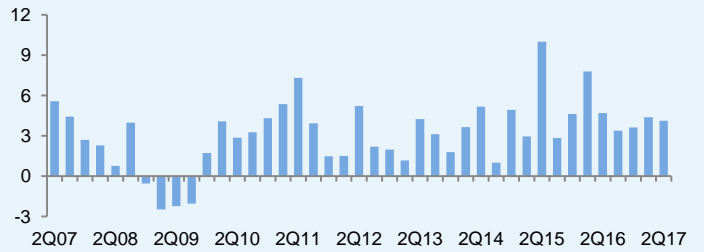
**Market Analysis**

**Asking Rent and Vacancy**



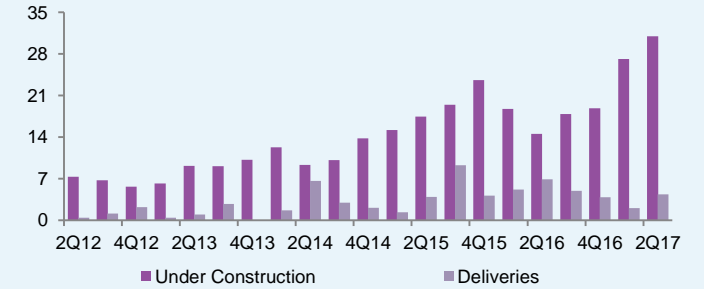
**Net Absorption**

Square Feet, Millions



**Construction and Deliveries**

Square Feet, Millions



**Market Summary**

	Current Quarter	Prior Quarter	Year Ago	12 Month Forecast
Total Inventory (SF)	543M	539M	528M	↑
Vacancy Rate (%)	3.4%	3.5%	3.9%	↔
Quarterly Net Absorption (SF)	4.1M	4.4M	4.7M	↔
Average Asking Rent (\$/SF)	\$0.52	\$0.53	\$0.50	↑
Under Construction (SF)	31.0M	27.1M	14.5M	↔
Deliveries (SF)	4.4M	2.0M	6.9M	↑



**INLAND EMPIRE  
2Q17 INDUSTRIAL MARKET**

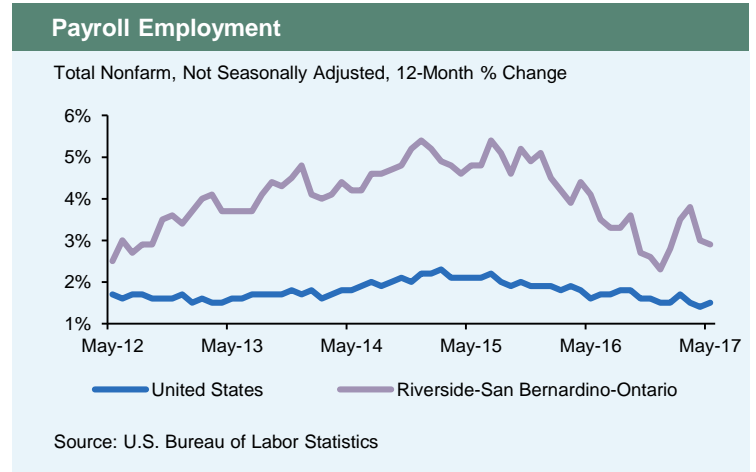
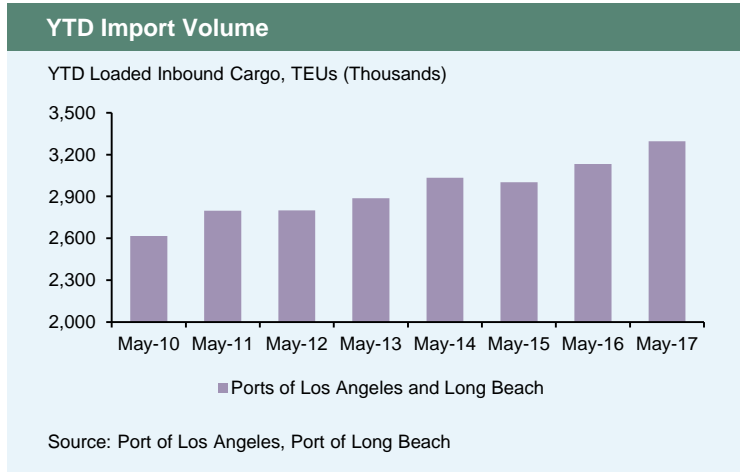
**Outlook**

Loaded inbound cargo through the ports of Los Angeles and Long Beach was up 5.3% in the first five months of 2017, compared with the same period one year ago. More goods flowing into Southern California ultimately favors demand for the basin’s warehouse space. The Inland Empire will remain the beneficiary, basket market of larger tenant requirements in the region.

Although net occupancy gains nearly match new construction deliveries, this balance could be temporarily offset in the second half of the year when six facilities over 1.0 million square feet deliver. Although two have tenants in place (Amazon and Monster Energy), the other four could

prompt vacancy increases in the West and East submarkets if they are not leased prior to delivery.

The average asking rent of the second quarter of 2017 stood at \$0.52/SF, up 3.7% from one year ago, and topped last cycle’s high (reached in late 2007) by 13.0%. Although additional rent growth will occur this year, it will likely be more subdued than in previous years, due to new construction deliveries and the potential time gap of new supply finding tenants.



**Lease Transactions**

Tenant	Building	Submarket	Type	Square Feet
JCPenney	5959 Palm Ave	San Bernardino, East I.E.	Direct	624,627
GPR Logistics	2203 Jay St	Ontario, West I.E.	Direct	398,517
iLAD Inc	13230 San Bernardino Ave	Fontana, West I.E.	Direct	388,130
List Logistics	3800 Philadelphia St	Ontario, West I.E.	Direct	248,738
NRI Logistics	15101 Santa Ana Ave	Fontana, West I.E.	Direct	189,160

**Select Sales Transactions**

Building	Submarket	Sale Price	Price/SF	Square Feet
13975 Monte Vista Ave (Owner/User)	Chino, West I.E.	\$13,047,500	\$130	100,362
15181 Fairfield Ranch Rd (Owner/User)	Chino Hills, West I.E.	\$12,500,000	\$131	95,095
4050 E Greystone Dr (Investment)	Ontario, West I.E.	\$8,550,000	\$137	62,470
11751 Pacific Ave (Investment)	Fontana, West I.E.	\$8,000,000	\$98	81,713
4648 Troy Ct (Owner/User)	Jurupa Valley, West I.E.	\$5,415,000	\$118	45,888


**INLAND EMPIRE  
2Q17 INDUSTRIAL MARKET**
**Submarket Statistics**

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	WH/Dist Asking Rent (Price/SF)	General Ind Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
East I.E.	188,042,629	16,359,565	6.7%	2,167,760	4,151,729	\$0.43	\$0.55	\$0.45
High Desert	10,765,586	120,000	2.6%	-17,500	10,000	-	\$0.43	\$0.43
South I.E.	16,780,138	215,980	1.3%	43,808	124,425	\$0.64	\$0.63	\$0.64
West I.E.	327,414,804	14,287,831	1.6%	1,929,819	4,209,093	\$0.60	\$0.60	\$0.60
<b>Inland Empire</b>	<b>543,003,157</b>	<b>30,983,376</b>	<b>3.4%</b>	<b>4,123,887</b>	<b>8,495,247</b>	<b>\$0.50</b>	<b>\$0.58</b>	<b>\$0.52</b>

**Inland Empire Submarket Break Down**

Submarket	Cities
East I.E.	Banning, Beaumont, Bloomington, Calimesa, Colton, Glen Avon, Grand Terrace, Highland, Loma Linda, Mentone, Moreno Valley, Perris, Rialto, Redlands, Riverside, Rubidoux, San Bernardino, Yucaipa
High Desert	Adelanto, Apple Valley, Barstow, Desert Knolls, Helendale, Hesperia, Lancaster, Lenwood, Lucerne Valley, Phelan, Silver Lakes, Victorville
South I.E.	Hemet, Lake Elsinore, Menifee, Murrieta, San Jacinto, Sun City, Temecula, Wildomar
West I.E.	Chino, Corona, Eastvale, Fontana, Jurupa Valley, Mira Loma, Montclair, Norco, Ontario, Rancho Cucamonga, Upland



### Inland Empire

3281 E Guasti Road  
Suite 600  
Ontario, CA 91761  
909.605.1100

Corporate CA RE #: 01355491

### Dain Fedora

Director of Research  
213.596.2245  
dain.fedora@ngkf.com

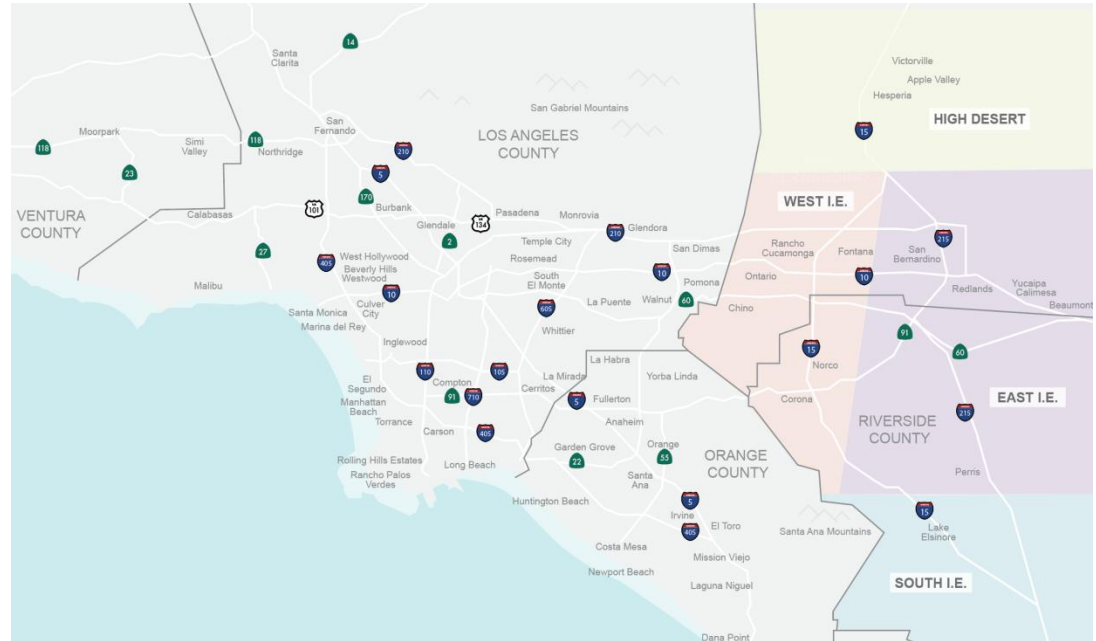
### Kevin Watson

Senior Research Analyst  
213.596.2213  
kevin.watson@ngkf.com

### Claudia Morales

Database Coordinator  
909.605.1100  
cmorales@ngkf.com

### Inland Empire Industrial Submarkets



**Newmark Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents.**

Newmark Knight Frank Research Reports are also available at [www.ngkf.com/research](http://www.ngkf.com/research)

All information contained in this publication is derived from sources that are deemed to be reliable. However, Newmark Knight Frank (NKF) has not verified any such information, and the same constitutes the statements and representations only of the source thereof, and not of NKF. Any recipient of this publication should independently verify such information and all other information that may be material to any decision that recipient may make in response to this publication, and should consult with professionals of the recipient's choice with regard to all aspects of that decision, including its legal, financial, and tax aspects and implications.

Any recipient of this publication may not, without the prior written approval of NKF, distribute, disseminate, publish, transmit, copy, broadcast, upload, download, or in any other way reproduce this publication or any of the information it contains.



Please recycle,  
whenever possible

**Sustainably**  
Newmark Knight Frank