

# MARKET TRENDS | INLAND EMPIRE INDUSTRIAL

4TH QUARTER  
2019

▼ ABSORPTION | ▲ VACANCY | ▲ RENTAL RATE | ▼ CONSTRUCTION DELIVERIES

2019 was another excellent year for the Inland Empire industrial market. Tenant movement market-wide reported positive for the 29th consecutive quarter as Inland Empire remains one of the most sought-after industrial markets in the country. Additionally, close proximity to the ports, increasing population density, and a steady amount of construction have made it appealing for many companies to be located here. Moreover, steady demand fundamentals contributed by the rise of ecommerce and Amazon's frenetic expansion to perfect their last-mile delivery service, have further propelled rental rates past post-recession highs. There have been no indications of a slow-down in development as developers continue to search for potential warehouse locations in order to satisfy tenant demand.

Nearly 20.3 million square feet was completed year-to-date with an additional 25.1 million square feet under construction. Big box warehouses (500,000 square feet and above) account for more than 56% of the construction pipeline, as companies continue to expand their warehouse footprints and perfect their logistics channels. As supply and demand remain in lock-step, expect the Inland Empire industrial market to remain healthy in 2020.

Despite the heavy inflow of new supply entering the market, direct vacancies have not surpassed 4.0% in the past four years. Direct vacancies nominally increased by 20 basis points (bps) from a year prior to conclude at 3.9%. Direct vacancy levels in IE West continue to be lowest, concluding at 2.1%.

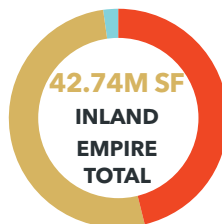
Conversely, IE East experienced an increase of 50 basis points (bps) from the start of the year to end at 6.3%. This increase can be directly correlated to the development of over 15.3 million square feet of industrial space. Spaces below 50,000 square feet continue to remain tight with vacancies below 3.0%. Expect some alleviation to occur within this size range as over 1.3 million square feet is currently under construction. Steady industrial demand and inventory constraints will continue to apply downward pressures on vacancies in the Inland Empire. Net absorption, a measure of market strength, ended the year on a high note with 20,718,132 square feet of direct positive absorption. A strong contributor to the demand has primarily been due to the shift on how Americans consume goods. Nationally, ecommerce sales have accounted for 11.2% of total retail sales as of November 2019 and are expected to increase to 12.5% in 2020. Anticipate demand fundamentals to remain robust moving forward as occupiers look to expand their warehouse/distribution channels to meet the rising demand of ecommerce sales.

## SUBMARKET LEASING ACTIVITY 4Q 2019

4.39M SF  
WEST

5.07M SF  
EAST

87.56K SF  
SOUTH



## SUBMARKET LEASING ACTIVITY 2019

19.78M SF  
WEST

22.1M SF  
EAST

849.4K SF  
SOUTH

## 2019 MARKET HIGHLIGHTS

**DIRECT VACANCY RATES** concluded the year at 3.9%

**RENTAL RATES** remain to post record-highs, concluding 4Q at \$0.75/sf on a triple net basis

**AVG. SALES PRICE** for 2019 was \$131.84/sf with cap rates at 5.2%

**25.1M SF** of industrial space is currently under construction

Leasing activity experienced a cooling off in 2019 with 1,059 transactions and a total volume of 42,743,482 square feet. This is down 24.9% from a year prior when the market reported 1,306 transactions and a deal volume of over 56.9 million square feet. The decrease in leasing activity may be attributed to a slowdown of port traffic during the year due to the increased tariffs, coupled with limited supply market-wide. Additionally, many tenants/occupiers have begun to reassess their current real estate strategies as they look towards running operations more efficiently. This has caused an increase in demand for newer state-of-the-art facilities which may still be under construction, causing companies to delay their leasing efforts. Although leasing activities may have softened, the constant demand for newer space has pushed direct rental rates past post-recession highs, concluding the year at \$0.75 per square foot on a triple net basis.

Like the trends across the LA Basin, the Inland Empire Industrial investment market remains strong. At the end of 2019 over 20.1 million square feet traded hands equating to over \$2.5 billion in deal volume, the highest the market has ever experienced. Currently, buildings are trading at \$131.84 per square foot with cap rates settling at 5.2%. Given that demand for premium product remains fierce and buildings are selling at record high prices, many private investors have proceeded to sell their real estate assets. Year to date, the sales activity of sellers in the market have mainly been private investors, accounting for over 46.5%. Conversely, institutions have been the main buyers in the Inland Empire accounting for 59.7% of acquisition activity, more than tripling the year prior when they were at 18.2%.

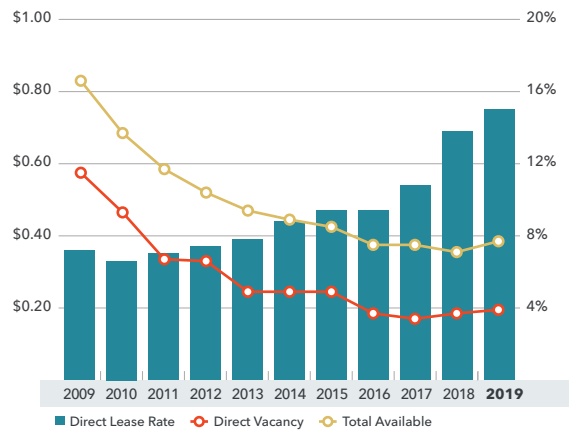
E-commerce and 3PL related firms will remain strong drivers in leasing activity moving into 2020 as they continue to improve their delivery capabilities. Furthermore, developers will also see land value continue its upward swing as it has more than doubled the past 2 years. Presently, the cost for industrial land in IE East is at \$15-\$25 per square foot with IE West at \$25-\$40 per square foot, respectively. Expect the constant rise in demand for cold-storage facilities to continue as investors purchased over \$1.9 billion nation-wide in just three quarters. This is up from the \$1.77 billion that was reported for the entire year of 2018. Overall, with healthy demand fundamentals in place, we can anticipate another strong year of growth for the Inland Empire industrial sector.

CoStar, GlobeSt, RCA, WSJ

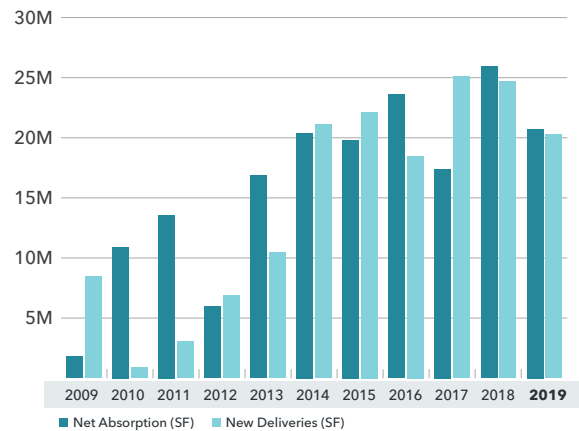
## Market Breakdown

	2019	2018	2017	Annual % Change
Direct Vacancy Rate	3.9%	3.7%	3.4%	5.41%
Total Availability Rate	7.7%	7.1%	7.5%	8.45%
Direct Asking Lease Rate	\$0.75	\$0.69	\$0.54	8.70%
Total Lease Transactions	42,743,482	56,928,252	49,662,936	-24.92%
Sale Transactions	20,055,768	19,815,228	19,511,897	1.21%
Direct Net Absorption	20,718,132	25,918,712	17,400,434	N/A

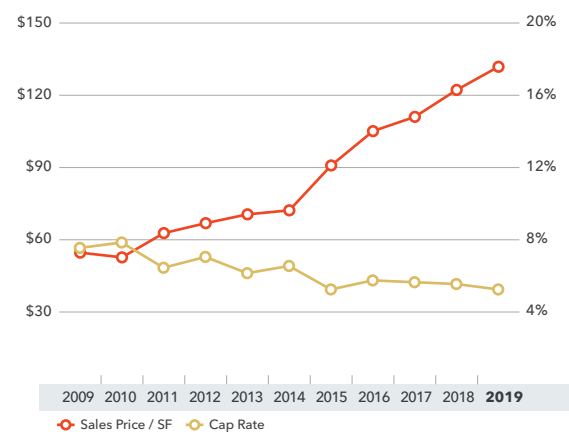
### LEASE RATE, VACANCY & AVAILABILITY



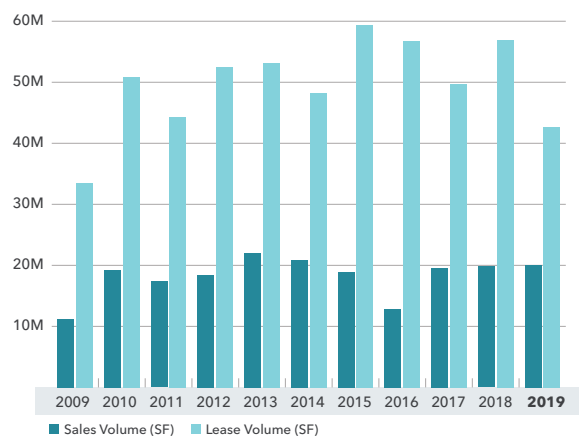
### NET ABSORPTION & NEW DELIVERIES



### AVERAGE SALE PRICE & CAP RATES

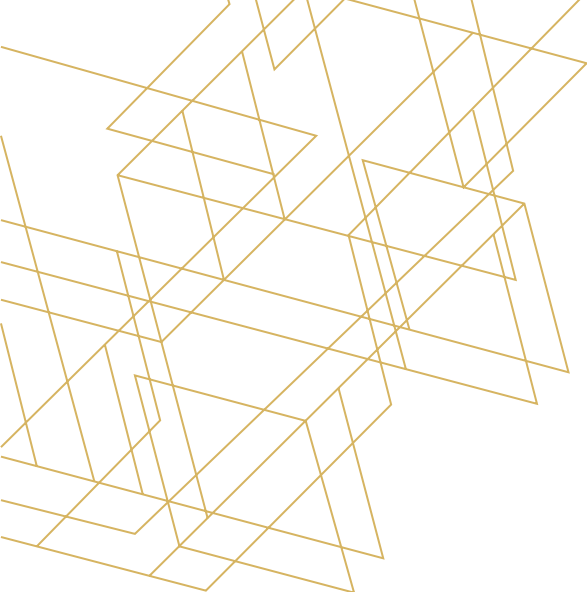


### SALES VOLUME VS. LEASE VOLUME



## INLAND EMPIRE SUBMARKET STATISTICS

Submarket	Bldg. Count	Total Inventory	SF Under Construction	Direct Vac. Rate	Sublet Vac. Rate	Total Vac. Rate	Total Avail. Rate	QTR Direct Absorption	QTR Net Absorption	2019 Direct Absorption	2019 Net Absorption	QTR Total Leasing Activity	2019 Total Leasing Activity	Avg. Direct Rental Rate (NNN)
Chino/Chino Hills	915	52,301,678	1,540,608	1.0%	0.1%	1.1%	3.2%	22,506	1,363,000	463,963	3,136,590	\$1.07		
Fontana	731	64,158,774	1,735,392	3.4%	0.5%	3.8%	6.3%	862,389	1,027,496	373,649	4,639,270	\$0.64		
Jurupa Valley	302	30,256,851	1,255,270	0.8%	0.0%	0.8%	6.3%	(8,817)	559,112	24,109	802,707	\$0.69		
Mira Loma	15	1,528,619	97,017	2.2%	0.0%	2.2%	8.8%	0	139,125	0	0	\$0.00		
Montclair	199	3,522,334	309,052	5.7%	0.1%	5.7%	15.7%	(9,315)	13,207	38,532	148,805	\$0.75		
Ontario	1,472	108,298,837	5,442,459	1.4%	0.2%	1.6%	5.9%	303,990	1,429,604	1,986,840	7,257,082	\$0.80		
Rancho Cucamonga	732	40,695,094	187,013	4.3%	1.3%	5.6%	6.5%	13,532	1,336,320	1,476,833	3,681,389	\$0.84		
Upland	252	3,992,862	56,000	2.1%	0.0%	2.1%	2.7%	10,884	(5,415)	30,406	131,317	\$0.73		
<b>West</b>	<b>4,618</b>	<b>304,755,049</b>	<b>10,622,811</b>	<b>2.1%</b>	<b>0.3%</b>	<b>2.4%</b>	<b>5.7%</b>	<b>1,195,169</b>	<b>5,862,449</b>	<b>4,394,332</b>	<b>19,797,160</b>	<b>\$0.81</b>		
Banning	49	975,004	0	10.1%	0.0%	10.1%	9.8%	(4,100)	(87,904)	24,028	31,528	\$0.84		
Beaumont	43	3,813,654	2,560,000	0.6%	0.0%	0.6%	16.1%	(21,165)	(21,165)	0	4,349	\$0.70		
Bloomington	104	7,868,078	772,548	25.0%	0.0%	25.0%	12.8%	714,583	725,146	0	2,328,541	\$0.67		
Colton	163	10,023,983	229,970	6.3%	0.5%	6.9%	11.9%	3,204	222,613	17,680	113,014	\$0.71		
Corona	899	31,053,714	105,440	4.9%	0.1%	5.0%	7.0%	(156,124)	473,714	482,746	1,389,750	\$0.77		
Eastvale	53	11,391,114	609,615	5.7%	0.0%	5.7%	8.4%	358,065	165,089	616,219	1,018,348	\$0.62		
Grand Terrace	12	417,011	0	4.8%	0.0%	4.8%	5.9%	(1,380)	(19,940)	0	4,176	\$0.70		
Highland	15	212,387	121,294	0.0%	0.0%	0.0%	36.4%	0	1,000	0	2,345	\$0.00		
Loma Linda	13	142,193	0	0.0%	0.0%	0.0%	8.2%	0	1,836	0	1,836	\$0.00		
Moreno Valley	88	28,315,510	1,019,250	3.8%	0.3%	4.1%	7.5%	987,519	2,910,307	10,990	1,820,790	\$0.62		
Norco	76	1,677,000	0	25.6%	0.6%	26.2%	26.4%	(5,476)	(3,920)	7,501	11,635	\$0.00		
Perris	207	27,484,735	3,716,243	10.9%	0.0%	10.9%	16.2%	238,666	2,298,295	1,010,557	3,312,482	\$0.65		
Redlands	220	28,217,393	154,946	1.3%	0.0%	1.3%	5.7%	13,384	549,861	315,155	1,864,407	\$0.61		
Rialto	182	28,129,474	2,518,081	8.6%	0.3%	8.9%	17.4%	(36,496)	1,272,595	332,311	2,034,630	\$0.65		
Riverside	1,070	50,780,183	2,307,760	4.5%	0.1%	4.6%	6.8%	1,099,191	4,736,014	1,216,543	4,471,529	\$0.63		
San Bernardino	565	40,654,651	321,496	6.4%	0.3%	6.7%	7.2%	258,465	1,780,797	1,036,434	3,687,565	\$0.63		
<b>East</b>	<b>3,759</b>	<b>271,156,084</b>	<b>14,436,643</b>	<b>6.3%</b>	<b>0.2%</b>	<b>6.4%</b>	<b>9.9%</b>	<b>3,448,336</b>	<b>15,004,338</b>	<b>5,070,164</b>	<b>22,096,925</b>	<b>\$0.76</b>		
Hemet	86	1,578,121	0	1.8%	0.0%	1.8%	12.7%	24,267	19,545	0	13,925	\$0.66		
Lake Elsinore	175	2,611,583	0	2.5%	0.0%	2.5%	4.2%	85,246	70,397	8,987	99,390	\$0.76		
Menifee	25	513,036	0	9.1%	0.0%	9.1%	9.1%	(6,600)	(41,000)	0	4,000	\$0.75		
Murrieta	255	3,891,295	0	3.2%	0.1%	3.3%	5.7%	8,502	43,626	18,814	123,202	\$0.00		
San Jacinto	65	1,060,680	0	4.7%	0.0%	4.7%	6.1%	0	(35,925)	0	0	\$0.00		
Temecula	333	10,552,432	51,752	4.9%	0.0%	4.9%	8.5%	(145,103)	(214,131)	59,758	564,385	\$0.76		
Wildomar	12	324,860	0	2.0%	0.0%	2.0%	2.0%	(536)	8,833	0	44,495	\$0.79		
<b>South</b>	<b>951</b>	<b>20,532,007</b>	<b>51,752</b>	<b>4.1%</b>	<b>0.0%</b>	<b>4.1%</b>	<b>7.5%</b>	<b>(34,224)</b>	<b>(148,655)</b>	<b>87,559</b>	<b>849,397</b>	<b>\$0.70</b>		
5,000 - 24,999	5,875	69,729,707	345,520	2.5%	0.2%	2.6%	4.5%	153,188	173,371	601,630	2,818,933	\$0.88		
25,000 - 49,999	1,370	47,846,785	977,423	2.4%	0.2%	2.7%	6.6%	50,469	1,061,831	379,662	2,635,430	\$0.78		
50,000 - 99,999	804	55,413,757	1,501,363	4.0%	0.3%	4.3%	7.8%	160,013	244,954	913,079	2,710,290	\$0.74		
100,000 - 249,999	700	106,369,978	3,367,560	4.5%	0.7%	5.2%	11.2%	230,232	3,135,462	1,916,137	8,334,863	\$0.68		
250,000 - 499,999	338	121,527,225	4,693,686	4.3%	0.2%	4.5%	8.9%	1,681,462	5,601,871	924,897	9,069,984	\$0.58		
500,000 - 999,999	189	128,218,541	7,268,831	3.7%	0.1%	3.8%	7.7%	1,224,539	8,382,173	565,598	9,366,542	\$0.54		
1,000,000 Plus	52	67,337,147	6,956,823	6.6%	0.0%	6.6%	4.2%	1,109,378	2,118,470	4,251,052	7,807,440	\$0.48		
<b>Inland Empire Total</b>	<b>9,328</b>	<b>596,443,140</b>	<b>25,111,206</b>	<b>3.9%</b>	<b>0.2%</b>	<b>4.1%</b>	<b>7.7%</b>	<b>4,609,281</b>	<b>20,718,132</b>	<b>9,552,055</b>	<b>42,743,482</b>	<b>\$0.75</b>		



## Notable Sale Transactions

**BRIDGE DEVELOPMENT PARTNERS** 12434 4th St., Rancho Cucamonga (Sale/Leaseback)  
1,423,000 s.f. | \$119.1M or \$134.30/s.f.

**ASB REAL ESTATE INVESTMENTS** 490 Columbia Ave., Riverside  
1,009,092 s.f. | \$123.8M or \$122.64/s.f.

**NORTHWESTERN MUTUAL LIFE INS. CO.** 5885 Sierra Ave., Fontana  
752,664 s.f. | \$107.1M or \$142.24/s.f.

## Notable Lease Transactions

**BIG LOTS** 12434 4th St., Rancho Cucamonga (Sale/Leaseback)  
1,423,000 s.f.

**XPO LOGISTICS** 3520 S. Cactus Ave., Bloomington (New Development)  
1,264,102 s.f.

**VF CORPORATION** 5051 Carpenter Ave., Ontario (Under Construction)  
1,197,339 s.f.



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### COMMERCIAL BROKERAGE

<b>20M</b>	<b>ANNUAL SALES SF</b>	<b>440+</b>	<b>NO. OF BROKERS</b>
<b>\$9.6B</b>	<b>ANNUAL TRANSACTION VOLUME</b>	<b>40M</b>	<b>ANNUAL LEASING SF</b>

### VALUATION ADVISORY

<b>1,600+</b>	<b>APPRAISALS ANNUALLY</b>	<b>39/24</b>	<b>TOTAL NO. APPRAISERS/MAI'S</b>
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### PROPERTY MANAGEMENT

<b>70M+</b>	<b>MANAGEMENT PORTFOLIO SF</b>
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