

OVERVIEW. Through most of 2020's opening quarter, Inland Empire industrial market performance was tracking as it has been for the past several years. Demand for quality distribution space offered for lease, especially in 'big box' warehouses, was strong, as was interest from owner/users, motivated by low mortgage rates, to acquire small- to medium-sized buildings. The entire Inland Empire, driven largely by the e-commerce sector, 3PL operators and the distribution networks of the major retailers, continues to see unprecedented levels of new construction to meet what has, thus far, appeared to be insatiable demand. The entire region has seen lease rates and sales prices rise to record levels, though lease rate growth has slowed in the past two quarters. The final month of the quarter was altogether different, as the entire business community reeled from government mandates designed to slow the effects of the COVID-19 virus. While market metrics do not yet reflect the impact of those efforts, they are certain to do so going forward. Anecdotal evidence indicates that many transactions, lease and sale, are being delayed until the situation becomes less opaque. The reaction is to be expected given the suddenness of the economic shock.

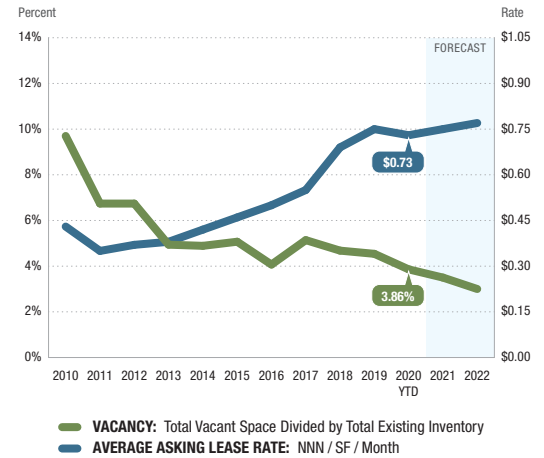
VACANCY. The vacancy rate for the entire Inland Empire rose just 4 basis points to 3.86% in the first quarter, despite a consistent flow of new deliveries. That speaks to the underlying health of demand before the virus scare heated up. IE West vacancy actually ended the first quarter at just 1.83%, a 21-basis-point decline in only 3 months. By contrast, IE East vacancy drifted 28 basis points higher in the same period, in part due to the fact that the majority of new deliveries are occurring there. In general, markets with high levels of construction like the IE are more prone to significant shifts in vacancy because the base inventory is growing rapidly. So, significant variances quarter-to-quarter are to be expected.

AVAILABILITY. Direct/sublease space being marketed in the fourth quarter came in at 5.08%, down from 6.03%, a year-over-year decrease of 95 basis points. We expect availability to continue to compress with a possible uptick in the last half of 2020 when the bulk of the space currently under construction is delivered.

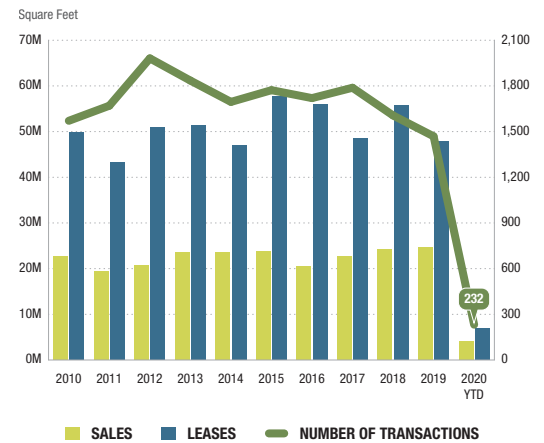
LEASE RATES. Rent growth has been robust throughout the IE for several years, but average asking lease rates are still under those of areas of Los Angeles closer to the Ports of Long Beach and Los Angeles. The first quarter saw a drop of \$0.02, mainly due to the absorption of large blocks of the priciest first generation space. Much of what remains available for lease is older, sometimes less functional space that leases at a discount to the state-of-the-art new product. Tenants are willing to pay a premium for the higher ceiling clearance and superior fire suppression equipment associated with first generation space. Of note is the fact that new, more expensive product is often offered without an asking price, and those buildings are not included in overall average asking rate metrics.

TRANSACTION ACTIVITY. The region's sale and lease activity came in at just over 11 MSF, slightly lower than the 11.2 MSF total recorded in the fourth quarter of 2019. Consistently high levels of activity are indicative of the growth of tenants in the supply chain, in general, and the e-commerce sector specifically. New developments are attracting the bulk of leasing activity and tenants have shown a willingness to pay a premium for the most functional space. It is important to note that first quarter transaction activity does not reflect any disruptions to the transaction pipeline related to the COVID-19 virus. That impact should be reflected in the second and third quarter numbers and they could be significant.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



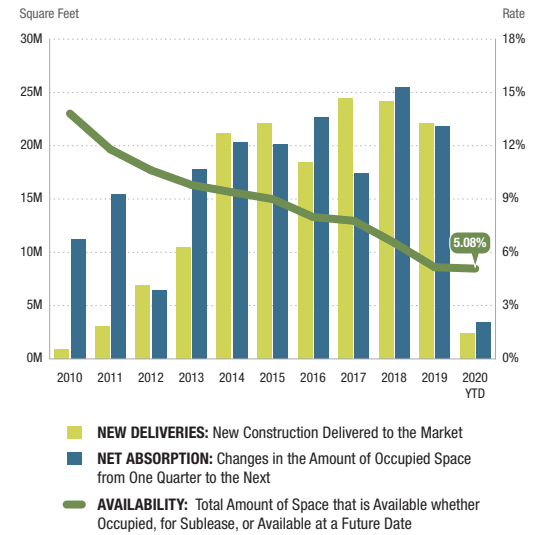
Market Statistics

	Change Over Last Quarter	1Q 2020	4Q 2019	1Q 2019	% Change Over Last Year
Total Vacancy Rate	▲ UP	3.86%	3.82%	4.48%	(13.84%)
Availability Rate	▲ UP	5.08%	4.89%	6.03%	(15.75%)
Average Asking Lease Rate	▼ DOWN	\$0.73	\$0.75	\$0.72	1.39%
Sale & Lease Transactions	▼ DOWN	11,060,359	11,217,307	18,323,299	(39.64%)
Gross Absorption	▲ UP	11,003,947	10,047,337	10,352,560	6.29%
Net Absorption	▲ POSITIVE	3,429,552	2,807,142	5,033,971	N/A

CONSTRUCTION. The delivery of state-of-the-art distribution buildings has been the big story in the IE for years now, and it remains so today. Anyone big in the supply chain world wants and needs to be in the IE. That has kept institutional and regional developers busy, as they have been able to achieve rent growth that has justified the investment of billions of dollars each year. When the first quarter ended, more than 20 MSF of high-clear distribution space was under construction, some of it preleased, but the bulk of it being built on spec, which says a lot about how bullish investors are about the future of the IE. In the second quarter, another 7.3 MSF is scheduled for delivery, followed by 9.2 MSF in the third quarter and then another 7.3 MSF in the final quarter of 2020. Given current circumstances, we expect new construction starts to slow in the near term as market players pause to assess the situation.

NET ABSORPTION. The net gain in occupied space jumped sharply higher in the first quarter to 5,037,121 square feet vs 2,807,142 in the final quarter of 2019. Several large transactions in the IE East submarket were the big contributors, including the new 1.2 MSF facility for XPO Logistics on Cactus Avenue in Bloomington, and the latest 1+ MSF fulfillment center for Amazon on Waterman Avenue in San Bernardino. Gilbert West/GPR added another 525,110 square feet of net occupancy to the IE West submarket with its new location on Willow Ave in Rialto. Net absorption, along with rent growth, is closely watched by institutional investors as they contemplate changes to their leasing strategies and the deployment of additional capital in the region. Their response to the recent economic shock will be the key driver of market metrics going forward, as a disproportionate amount of the IE's 580 MSF of industrial space is institutionally owned.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Forecast

The suddenness of the economic shock that came in March is unprecedented, and as of this writing 41 US states are under a shelter-in-place order, including California. To say that won't have an impact on industrial real estate, at least in the short term, would be overly optimistic. While no one knows what the breadth and depth of the current economic crisis will be, the fact that the Black Swan event turned out to be a health crisis, rather than the bursting of an economic bubble, leads us to believe that the recovery will begin in earnest as soon as the medical community gets control of the virus, as it inevitably will. If that comes sooner rather than later, the demand shock may be short-lived enough not to cause a long-term change in market direction. In the meantime, those sectors that are less affected by the downturn will have more choice in terms of quality space and tenants may gain some modicum of leverage in lease negotiations.

What influence the crisis has on sales prices and lease rates is unknown at this time and it could be months before the market has enough history to determine future market pricing. For the moment, those developers who can hit the pause button on their projects and land acquisitions are likely to do so. Many existing tenants will be looking for short-term rent relief from their landlords and it will be important for both parties to work together to find a way through this crisis of undetermined length.

The good news for the Inland Empire market is that it is one of the largest and most successful distribution hubs in the world. It is in proximity to two major ports that account for up to 40% of the goods that come into the US, and it has a base inventory that has been purposefully built for supply chain users. Bottom line, everyone is in it together and that should be kept in mind by all as we move forward.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
5600 E. Airport Dr.	Ontario	1,613,290	\$215,000,000	CenterPoint Properties	Winthrop Financial Associates
945 Sunnyside Ave.	San Bernardino	143,327	\$31,500,000	CBRE Global Investors	Hillwood Development Corp.
10628 Central Ave.	Montclair	98,188	\$17,968,404	G & S Group, LLC	CFG R&I Corp.
807 Palmyrita Ave.	Riverside	97,546	\$10,500,000	A. C. Industrial Properties	Trademark Plastics Inc.
1400-1410 E. Holt Blvd.	Ontario	91,744	\$9,400,000	United Trust Realty Corporation	1410 East Holt, LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
4810 S. Hellman Ave.	Ontario	1,245,049	Mar-2020	Uline	Clarion Partners
1110 W. Merrill Ave.	Rialto	1,106,124	Mar-2020	All Ways Logistics	Square Mile Capital
4413 Patterson Ave.	Perris	912,338	Feb-2020	XPO Logistics	AEW Capital Management
5750 Francis St. - Renewal	Ontario	800,526	Jan-2020	Samsung	Alere Property Group
22722 Harley Knox Blvd.	Riverside	753,230	Jan-2020	Sam's Club/Walmart	Clarion/Trammell Crow

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2020	Square Feet Available	Availability Rate 1Q2020	Average Asking Lease Rate	Net Absorption 1Q2020	Net Absorption 2020	Gross Absorption 1Q2020	Gross Absorption 2020
West													
Chino / Chino Hills	905	52,713,152	1,034,873	83,680	560,914	1.06%	1,387,961	2.63%	\$1.00	223,327	223,327	796,394	796,394
Fontana	731	64,159,675	1,940,281	990,362	1,335,894	2.08%	1,869,371	2.91%	\$0.70	575,475	575,475	1,386,004	1,386,004
Mira Loma / Eastvale / Jurupa Valley	374	43,256,993	0	0	588,855	1.36%	2,607,474	6.03%	\$0.74	(135,854)	(135,854)	47,891	47,891
Montclair	198	3,513,057	401,945	0	208,936	5.95%	266,362	7.58%	\$0.69	(7,577)	(7,577)	43,304	43,304
Ontario	1,469	108,257,113	5,811,079	1,897,807	1,722,401	1.59%	3,921,850	3.62%	\$0.70	196,207	196,207	1,334,587	1,334,587
Rancho Cucamonga	733	40,738,990	145,445	343,493	1,243,822	3.05%	2,176,757	5.34%	\$0.83	802,015	802,015	1,417,724	1,417,724
Upland	251	3,984,126	56,024	172,205	129,543	3.25%	121,420	3.05%	\$0.00	(46,024)	(46,024)	35,002	35,002
5,000-24,999	2,729	32,933,741	67,789	180,449	783,946	2.38%	1,293,636	3.93%	\$1.08	(15,244)	(15,244)	374,517	374,517
25,000-49,999	719	25,173,273	359,614	392,814	601,145	2.39%	1,089,867	4.33%	\$0.77	119,486	119,486	383,897	383,897
50,000-99,999	445	30,931,432	1,407,768	1,106,820	821,827	2.66%	1,585,963	5.13%	\$0.76	125,925	125,925	679,278	679,278
100,000-249,999	440	67,183,872	853,683	454,103	1,836,650	2.73%	3,983,434	5.93%	\$0.68	426,620	426,620	1,649,435	1,649,435
250,000-499,999	222	79,013,926	949,397	297,161	1,108,956	1.40%	2,791,399	3.53%	\$0.00	(85,753)	(85,753)	713,818	713,818
500,000 plus	106	81,386,862	5,751,396	1,056,200	637,841	0.78%	1,606,896	1.97%	\$0.00	1,036,535	1,036,535	1,259,961	1,259,961
West Total	4,661	316,623,106	9,389,647	3,487,547	5,790,365	1.83%	12,351,195	3.90%	\$0.72	1,607,569	1,607,569	5,060,906	5,060,906
East													
Banning	49	975,004	0	0	98,804	10.13%	100,739	10.33%	\$0.73	0	0	12,764	12,764
Beaumont	44	6,373,654	0	2,867,210	1,015,336	15.93%	1,015,336	15.93%	\$0.85	0	0	0	0
Bloomington	104	7,867,596	1,116,908	4,362,174	708,586	9.01%	742,610	9.44%	\$0.00	1,254,592	1,254,592	1,264,102	1,264,102
Corona / Norco	977	32,667,301	133,208	68,458	2,134,333	6.53%	2,791,420	8.54%	\$0.70	(132,126)	(132,126)	343,406	343,406
Colton / Grand Terrace	176	10,453,608	471,155	267,763	894,194	8.55%	966,074	9.24%	\$0.80	(91,502)	(91,502)	47,920	47,920
Moreno Valley	88	28,315,510	1,019,250	43,318,739	835,583	2.95%	1,368,955	4.83%	\$1.20	330,907	330,907	337,740	337,740
Perris	208	28,127,998	3,264,980	5,745,975	3,074,307	10.93%	1,389,301	4.94%	\$0.95	558,539	558,539	680,308	680,308
Redlands / Loma Linda	233	28,359,676	154,946	1,269,086	417,831	1.47%	1,479,349	5.22%	\$0.65	284,283	284,283	408,253	408,253
Rialto	189	29,313,274	1,359,002	535,164	3,277,053	11.18%	2,887,433	9.85%	\$0.95	353,388	353,388	814,833	814,833
Riverside	1,071	50,776,628	2,244,204	5,459,787	2,496,376	4.92%	2,308,044	4.55%	\$0.62	(209,015)	(209,015)	910,132	910,132
San Bernardino / Highland	578	40,694,487	1,017,774	1,284,769	1,652,843	4.06%	2,099,936	5.16%	\$0.83	1,080,486	1,080,486	1,123,583	1,123,583
5,000-24,999	2,356	27,902,528	275,059	425,020	902,187	3.23%	1,387,601	4.97%	\$0.71	(10,499)	(10,499)	349,243	349,243
25,000-49,999	549	19,131,304	237,298	300,818	399,640	2.09%	949,997	4.97%	\$0.68	39,116	39,116	321,263	321,263
50,000-99,999	326	22,346,244	3,071,407	2,347,804	1,072,529	4.80%	1,611,139	7.21%	\$0.74	171,313	171,313	311,580	311,580
100,000-249,999	235	35,652,009	680,195	854,736	2,950,224	8.28%	3,981,751	11.17%	\$0.74	(164,390)	(164,390)	624,358	624,358
250,000-499,999	115	42,202,131	3,401,333	3,149,489	4,703,136	11.14%	4,096,374	9.71%	\$0.69	(64,225)	(64,225)	782,922	782,922
500,000 plus	136	116,690,520	3,116,135	58,101,258	6,577,530	5.64%	5,122,335	4.39%	\$0.00	3,458,237	3,458,237	3,553,675	3,553,675
East Total	3,717	263,924,736	10,781,427	65,179,125	16,605,246	6.29%	17,149,197	6.50%	\$0.73	3,429,552	3,429,552	5,943,041	5,943,041
Inland Empire Total	8,378	580,547,842	20,171,074	68,666,672	22,395,611	3.86%	29,500,392	5.08%	\$0.73	5,037,121	5,037,121	11,003,947	11,003,947
5,000-24,999	5,093	60,842,519	305,646	619,097	1,611,234	2.65%	2,285,894	3.76%	\$0.82	(11,040)	19,136	809,712	3,349,920
25,000-49,999	1,265	44,235,705	730,655	848,918	1,057,455	2.39%	2,148,049	4.86%	\$0.77	78,098	1,234,733	556,367	3,211,300
50,000-99,999	768	53,019,373	1,312,022	1,462,118	1,988,634	3.75%	2,767,312	5.22%	\$0.72	575,044	825,770	965,149	3,400,791
100,000-249,999	676	102,872,914	3,367,560	3,869,065	4,706,834	4.58%	8,378,027	8.14%	\$0.77	860,811	3,575,645	2,092,832	7,963,204
250,000-499,999	336	120,624,645	4,417,700	2,763,114	5,265,977	4.37%	7,294,097	6.05%	\$0.69	420,538	4,843,263	2,442,681	9,251,067
500,000 plus	239	195,633,829	13,101,639	54,526,248	7,446,223	3.81%	5,365,910	2.74%	\$0.00	883,691	7,509,309	3,180,596	10,830,739
Inland Empire Total	8,378	580,547,842	20,171,074	68,666,672	22,395,611	3.86%	29,500,392	5.08%	\$0.73	5,037,121	5,037,121	11,003,947	11,003,947
High Desert													
Adelanto	146	4,206,098	23,580	268,000	603,213	14.34%	673,031	16.00%	\$1.38	0	0	0	0
Apple Valley	75	3,846,701	0	0	17,802	0.46%	17,802	0.46%	\$0.00	1,462	1,462	12,892	12,892
Barstow	53	1,062,910	0	0	21,680	2.04%	25,680	2.42%	\$0.00	(7,000)	(7,000)	0	0
Hesperia	188	3,257,314	0	0	32,915	1.01%	82,060	2.52%	\$0.76	18,446	18,446	30,356	30,356
Victorville	131	8,243,963	0	10,904,367	456,906	5.54%	500,101	6.07%	\$0.76	11,538	11,538	30,000	30,000
High Desert Total	593	20,616,986	23,580	11,172,367	1,132,516	5.49%	1,298,674	6.30%	\$1.29	24,446	24,446	73,248	73,248
Temecula Valley													
Hemet	86	1,578,121	0	0	21,863	1.39%	172,478	10.93%	\$0.00	5,777	5,777	5,777	5,777
Lake Elsinore	175	2,611,583	0	110,635	66,971	2.56%	64,397	2.47%	\$0.00	(554)	(554)	30,285	30,285
Menifee	25	513,036	0	0	46,600	9.08%	51,100	9.96%	\$0.60	0	0	0	0
Murrieta	255	3,891,385	0	155,550	59,264	1.52%	195,064	5.01%	\$0.00	61,710	61,710	88,859	88,859
San Jacinto	64	1,045,680	0	0	22,200	2.12%	37,200	3.56%	\$0.00	27,925	27,925	27,925	27,925
Temecula	334	10,606,916	0	196,788	413,231	3.90%	789,309	7.44%	\$0.68	(20,985)	(20,985)	99,646	99,646
Wildomar	12	324,860	0	0	10,845	3.34%	4,478	1.38%	\$0.85	(4,478)	(4,478)	0	0
Temecula Valley Total	951	20,571,581	0	462,973	640,974	3.12%	1,314,026	6.39%	\$0.67	69,395	69,395	252,492	252,492

This survey consists of industrial buildings greater than 5,000 square feet. Lease rates are on a triple-net basis.



Q1 2020 Inland Empire Market Perspective

by **Brad Fox**

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For the first two months of the first quarter, the Inland Empire industrial market was moving steadily in the direction it has been for the past several years—strong demand, low vacancy and healthy levels of construction to meet the growth needs of users in the supply chain. Then came the month of March and everything changed. The response to the COVID-19 virus spread has drastically changed the way we live and do business. In a matter of days we have seen a complete shift from growth mode to damage control. As of this writing, the prospects for a return to normalcy have uncertain timing. With the shift in decision making to a defensive posture, market metrics are sure to be impacted beginning with the second quarter.

While it's too early to forecast accurately, the effect on the Inland Empire market may not be as dramatic as elsewhere. The crisis will put even more emphasis on the e-commerce sector. More online deliveries could stimulate even further demand for big box distribution buildings, trailer/truck yards and last-mile delivery locations. Unfortunately, other sectors may not fare as well and that means we could see more industrial vacancy in the near term. That may come as a relief to many business owners who have been left with a dwindling supply of quality product to choose from. For years, property owners have maintained a significant negotiating advantage over would-be tenants and buyers. The current shock to the market is likely to level the playing field for the near term, as the overall economy struggles to ramp back up.

Owner/user buyers will have the wind at their backs in terms of mortgage interest rates. With the disruption in the equity and bond markets, the yield on benchmark 10-year US treasury has fallen to record lows. SBA 504 loans are now being offered at a fixed rate of 2.876% for 25 years, which substantially lowers occupancy cost, the key driver in owner/user deals.

What is not known is what will happen to pricing as we work our way through this crisis. If it is resolved quickly, the impact could be nominal, but the more it drags on the greater the threat of a significant correction. Non-institutional owners may flinch at the prospect of protracted vacancy, especially smaller private investors who depend heavily on rental income to fund retirement. We may also see more inventory offered for sale as those smaller investors look to reduce risk. But, at this point, it's just too early to tell.

For the moment, it is important for all of us to use good judgment, follow current protocols and focus on being proactive in terms of our plans to restart our operations and minimize the impact of this unprecedented interruption in economic activity. None of us can control what the markets and governments will do in the coming days or weeks, but we must control how we respond to our circumstances and how we position ourselves and our businesses for the future. All of us at Voit stand ready to assist you in that effort. We are here to help.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a triple-net basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.

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Product Type

MFG./DIST.

Manufacturing/Distribution/Warehouse facilities with up to 29.9% office space.

Submarkets

WEST

Chino/Chino Hills, Fontana, Mira Loma/
Eastvale/Jurupa Valley, Montclair, Ontario,
Rancho Cucamonga, Upland

EAST

Banning, Beaumont, Bloomington,
Corona/Norco, Colton/Grand Terrace,
Moreno Valley, Perris, Redlands/Loma Linda,
Rialto, Riverside, San Bernardino/Highland

HIGH DESERT

Adelanto, Apple Valley, Barstow, Hesperia,
Victorville

TEMECULA VALLEY

Hemet, Lake Elsinore, Menifee,
Murrieta, San Jacinto, Temecula, Wildomar