

# Inland Empire

## Industrial Market Outlook 2Q 2019

### MARKET OVERVIEW

In 2Q 2019, the Inland Empire's industrial market sustained strong momentum in terms of low vacancy, abundant new construction and strong growth in the average asking rent. The \$0.76/SF average asking rent set a new record, up 8.6% over 1Q 2019 and 22.6% year over year. The vacancy rate remained low, increasing 10 basis points over 2Q 2018 to 4.5%. Construction continued at a brisk pace with 24.7 million square feet underway. Year to date deliveries have been well-received; of the 4.1 million square feet completed, nearly 55% had leased up.

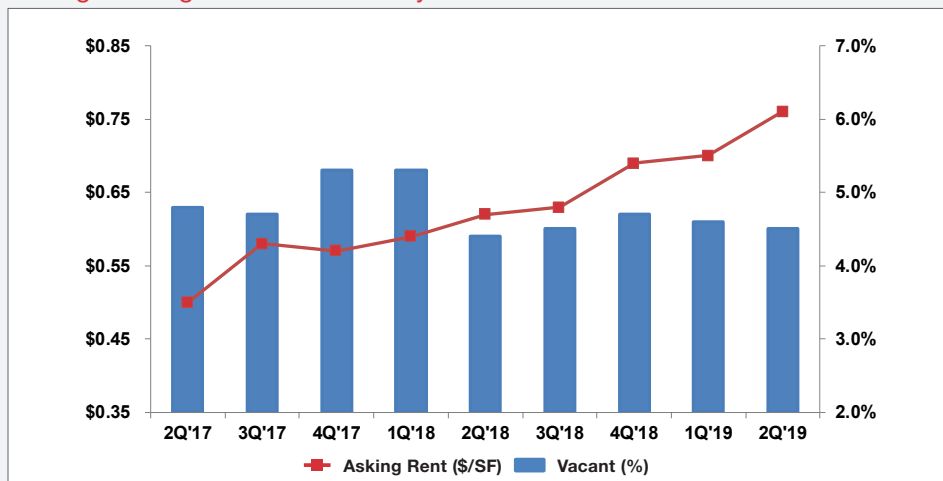
A strong economy is fueling the success of the Inland Empire's industrial market. The ongoing economic expansion reached its 121st month in July, becoming the longest in U.S. history. Ecommerce drives demand for modern, efficient industrial space, especially among large retailers and 3PLs. Ecommerce accounts for just 12% of all U.S. retail sales but is poised to grow to \$24 trillion globally by 2025, indicating sustained demand for warehouse/distribution space in the Inland Empire.

### TRENDS TO WATCH

The rise of ecommerce and ensuing demand has fundamentally changed what defines the typical warehouse in the Inland Empire. Prerecession (2000 to 2007), the average industrial building under construction was 72,700 square feet. Now, from 2008 to 2019, the average has grown 255% to 258,066 square feet. State-of-the-art construction features high clearance, energy efficiency, large yards to maximize truck turning radius and plenty of docks for the fast movement of goods as standard. More than two-thirds of the buildings under construction have a minimum of 30-foot clear height. Watson Logistics Center in Apple Valley, the largest building under construction at 1.3 million square feet, features 36-foot clear height and LEED energy certification. These features proved ideal to Big Lots, which is looking to increase its ecommerce sales. The retailer preleased the entire building prior to expected completion in 3Q 2019.

Looking ahead, demand is expected to remain steady for new construction. As long as land remains available for new construction developers will continue to build large-scale industrial buildings in the Inland Empire.

### Average Asking Rent\* and Vacancy Rate



### 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 (%)	2Q19 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	2Q19 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/SF NNN	AVERAGE SALE PRICE \$/SF
East	220,730,518	12,719,820	11.4%	6.5%	4,957,016	9,118,492	1,996,228	8,398,340	\$0.72	\$121
High Desert	19,637,124	1,373,580	6.9%	5.7%	180,879	262,374	419,125	934,908	\$1.13	\$44
South	21,176,340	205,137	6.2%	2.2%	152,956	421,863	809,405	993,769	\$0.75	\$95
West	316,799,409	10,390,797	7.1%	3.2%	3,867,446	8,496,729	3,257,837	6,397,663	\$0.74	\$140
<b>Inland Empire</b>	<b>578,343,391</b>	<b>24,689,334</b>	<b>8.7%</b>	<b>4.5%</b>	<b>9,158,297</b>	<b>18,299,458</b>	<b>6,482,595</b>	<b>16,724,680</b>	<b>\$0.76</b>	<b>\$123</b>

### Leasing

Leasing volume totaled more than 9.1 million square feet in 2Q 2019, down 35.4% over the prior year. Year to date, the 18.3 million square foot lease volume is down 33.2% from one year ago. The slowdown in leasing volume comes as tenants evaluate their space needs in the face of record high asking rent and plentiful options as new product is delivered to the market.

Ecommerce and 3PLs took center stage by taking several large leases this quarter. Warehousing and 3PL service provider DMSI leased a 1.1 million square foot distribution building in Moreno Valley that was built in April 2018. Kenco, another large 3PL provider, leased a 579,708 square foot distribution building in Perris. Multinational ecommerce company Radial, Inc. signed for a 475,555 square foot distribution building in Rialto in April, the same month it completed.

### Sales

Sales volume picked up after getting off to a slow start the prior quarter. In 2Q 2019, sale volume totaled nearly 6.5 million square feet, \$774 million by dollar volume. In the first half of the year, more than 16.7 million square feet sold totaling nearly \$1.8 billion.

The Inland Empire remained one of the nation's strongest industrial investment markets. The average sale price was \$123/SF, while cap rates on investment sales averaged 5.6%. Year to date, investment sales over \$2 million totaled 14.0 million square feet, up 134.8% from this time last year. This quarter, Northwestern Mutual Life Insurance Company purchased Sierra Pacific Center, a two-building, nearly 1.5 million square foot warehouse center in Fontana for \$213.5 million. The buildings were fully leased to LG Electronics and FedEx and the cap rate was 3.7%.

### Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/SF**	SQUARE FEET
DMSI	17350 Perris Blvd	East	Withheld	1,109,378
Kenco Logistics Services	3900 Indian Ave	East	Withheld	579,708
Radial, Inc.	2602 N Locust Ave	East	Withheld	475,555
Lean Supply Solutions America, Inc.	520 E Orange Show Rd	East	\$0.45	318,989
Smart Warehouse	11275 Banana Ave	West	\$0.56	227,954

### Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Northwestern Mutual Life Insurance Company	5565-5885 Sierra Ave	West	\$143	1,498,058
Exeter Property Group	6227 Cajon Blvd	East	\$121	806,322
Sares-Regis Group	3100 Milliken Ave	West	\$115	759,260
Nissan North America Inc.	W Cactus Ave @ Meridian Business Park	East	\$127	620,000
Kohlberg Kravis Roberts & CO. L.P.	17783 Indian St	East	\$109	436,350

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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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#### Los Angeles County

##### Downtown LA

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##### West Los Angeles

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##### Pasadena

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

##### Valencia

25060 Avenue Stanford., Ste. 165  
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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 Ave., 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  
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