

Inland Empire

Industrial Market Outlook Q2 2020

MARKET OVERVIEW

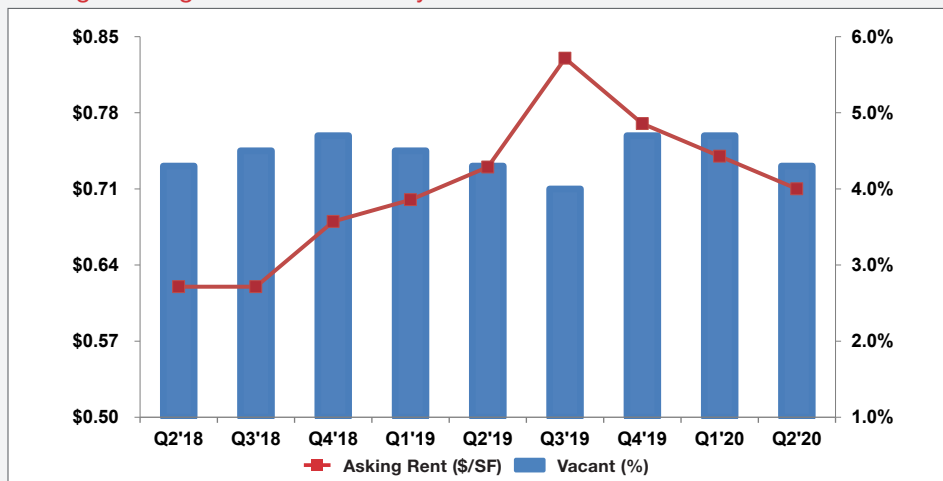
After spending the entire second quarter of 2020 under a COVID-19 shutdown, the Inland Empire's industrial market was left with fewer transactions, a dip in the average asking rent and lower vacancy. Leasing volume declined 57.7% over the previous quarter, down 56.7% from 2Q 2019 to over 6.4M SF. Over the same periods, sales volume fell 66% and 58.9%, respectively, to just over 3.1M SF sold this quarter. Tenants and landlords are working out lease renewals, rent abatement or deferments. Sales and leasing volume year to date is 77.2% of what it was for all of 2009 at the depth of the last recession – suggesting that even if the shutdown continues into the second half of the year, 2020 transaction volume could outperform the last recession. The Paycheck Protection Program, which provides small businesses with funds to pay up to 8 weeks of payroll costs including benefits, interest on mortgages, rent, and utilities, appears to be working to maintain occupancy. Vacancy declined 40 bps from the prior quarter to 4.3% due to brisk preleasing of completed construction. The average asking rent declined slightly, down three cents from Q1 2020 to \$0.71/SF. Space under construction was down 30.6% from its peak of 29.8M SF in Q1 2019 to nearly 20.7M SF.

TRENDS TO WATCH

Landlords and tenants will continue reevaluate their real estate strategies. Despite the impact to transaction volume in the industrial market by the shutdown, the dip in vacancy shows market dynamics working in a positive direction. To get a pulse of where the industrial market could be headed, NAI Capital conducted a COVID-19 Impact Survey of its industrial market professionals.

The majority of industrial brokers (60%) believe rents and sale prices will remain unchanged while vacancy will continue to rise. As the market adjusts, about 80% of industrial brokers expect leasing and sales volume to decrease further. It is interesting to note that all industrial brokers surveyed indicated landlords will offer tenants more concessions, continuing the current trend of re-negotiating leases, offering rent abatement, or deferring repayment. Heading into the second half of the year, as more lease and sale transactions occur, price expectations will take shape.

Average Asking Rent* and Vacancy Rate



MARKET OUTLOOK

Asking Rental Rates



Sale Prices



Availability/Vacancy Rates



Landlord Concessions



Sales/Leasing Volume



New Construction



NAI Capital Research
www.naicapital.com

Market Statistics*

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	Q2 2020 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	Q2 2020 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/SF NNN	AVERAGE SALE PRICE \$/SF
East	234,651,541	11,781,670	8.3%	4.1%	3,353,155	10,425,419	1,766,311	8,343,459	\$0.74	\$122
High Desert	21,547,351	23,580	5.9%	5.1%	33,966	693,119	17,360	143,104	\$0.63	\$35
South	21,346,070	0	6.8%	3.6%	310,531	549,873	392,872	567,947	\$0.67	\$141
West	324,038,333	8,865,811	7.0%	4.4%	2,736,264	9,966,345	925,485	3,177,203	\$0.73	\$156
Inland Empire	601,583,295	20,671,061	7.5%	4.3%	6,433,916	21,634,756	3,102,028	12,231,713	\$0.71	\$134

Leasing

The average asking rent seems to have peaked at \$0.83/SF in Q3 2019. In Q2 2020, the asking rent declined to \$0.71/SF— down 14.5% from peak pricing. Leasing transaction volume declined with the rent, totaling just 6.4M SF in Q2, down 57.7% from the prior quarter and 56.7% year over year. This is the lowest transaction volume seen since 2011 in the depths of the last recession, indicating that tenants are taking a step back from taking down new space or expanding.

Distribution centers for ecommerce and logistics tenants remained in high demand. Amazon has surged due to the increase in online shopping and preleased an 800,218 square foot distribution center in Perris. Duke Realty Corporation is developing the property, delivering in Q3 2020.

Sales

Sales volume slowed significantly to just over 3.1M SF in Q2 2020, down 66% from the prior quarter and 58.9% lower than Q2 2019. Dollar volume totaled nearly \$414.5M, the lowest since 2016. Even so, pricing held steady at one of the highest levels on record (\$134/SF) and cap rates on investment sales averaged 5.4%, up 10 bps year over year.

Investors and are actively seeking out opportunities in the market. AEW Capital Management and Stos Partners acquired a 228,215 SF distribution building in Temecula in an off-market deal for \$127/SF. EverWest Real Estate Investors purchased a 210,345 SF class A warehouse in Corona for \$176/SF at a 4.5% cap rate from Amrapur Overseas, Inc. The seller reported no intention to sell before receiving an irresistible offer and plans to lease the property back for seven years.

Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	SQUARE FEET
Amazon	4501 Patterson Ave.	East	800,218
XPO Logistics	2163 S. Riverside Ave.	East	447,190
Toolots, Inc.	17783 N. Indian St.	East	436,350
Fungyun, Inc.	9687 Transportation Way	West	414,415
California Distribution	4651 E. Brickell St.	West	237,302

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
AEW Capital Management & Stos Partners	42301 Zevo Dr.	South	\$127	228,912
EverWest Real Estate Investors, LLC	1560 E. 6th St.	West	\$176	210,345
Downey Wholesale Inc.	21937 Knabe Rd.	West	\$163	139,800
Westcore Properties	27731 Diaz Rd.	South	\$165	65,625
Private Investors	28410 Vincent Moraga Dr.	South	\$161	64,678

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● **High Desert**

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

● **West IE**

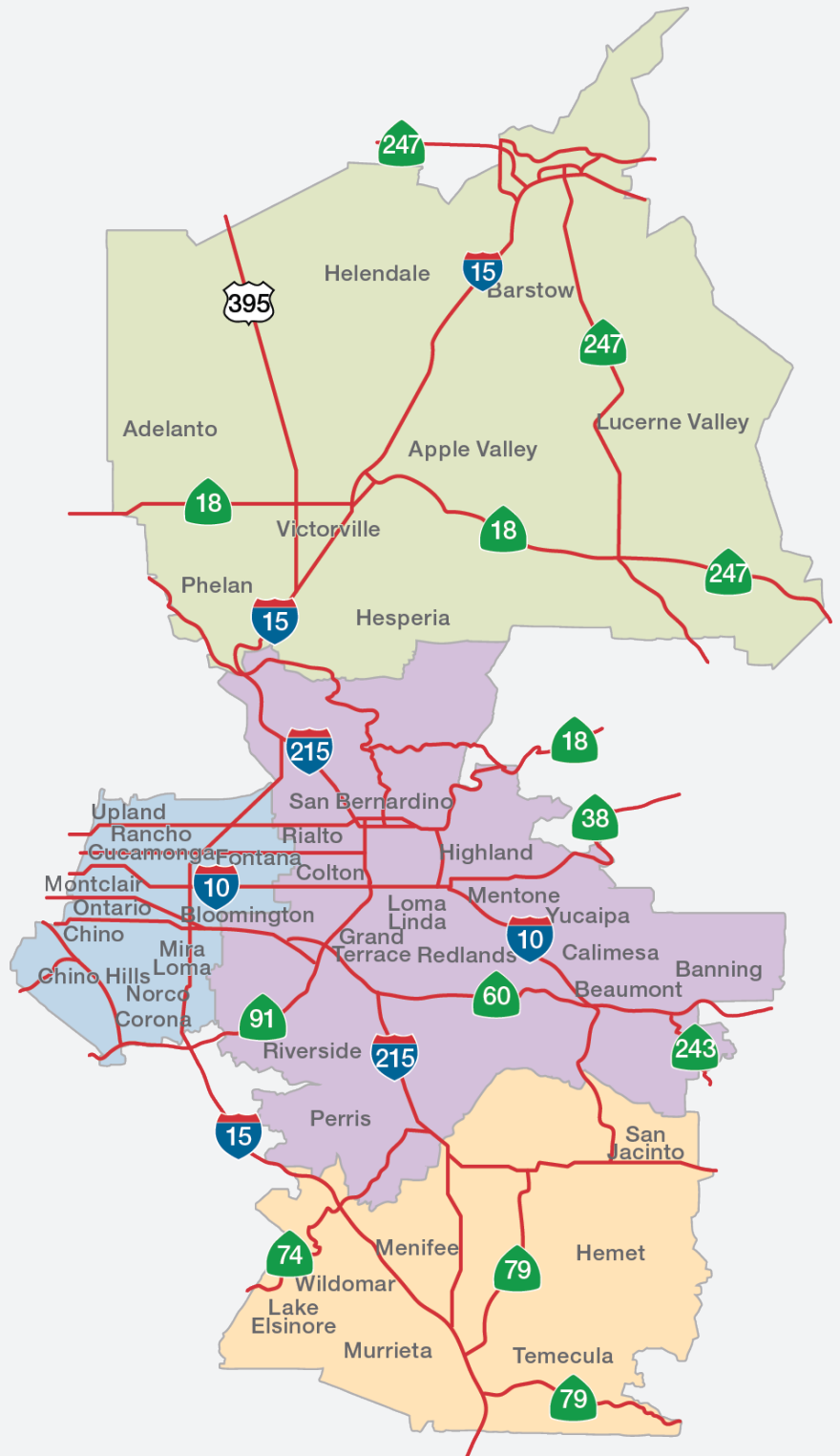
- Chino Hills
- Chino
- Corona
- Eastvale
- Fontana
- Mira Loma
- Montclair
- Norco
- Ontario
- Rancho Cucamonga
- Upland

● **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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Valencia, CA 91355
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Inland Empire

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