Inland Empire
Industrial Market Outlook 3Q 2016

MARKET OVERVIEW

The Inland Empire continues to add new supply of space to the industrial base. The vacancy rate as of the third quarter of 2016 registered 5.2%, up 40 basis points from the prior quarter, and up 10 basis points over last year. The increase in the vacancy rate is attributed to new projects delivered to the market. Completed new construction this quarter was approximately 10.9 million square feet in 23 buildings. This is the largest delivery of new space in a single quarter on record. Total space under construction in the market surpassed 15.6 million square feet, which is well above the five year average of 13 million square feet per quarter. This surge in development is coming as the economy strengthens. Demand is coming from tenants, investors and owner-users looking for industrial space from supply constrained Los Angeles and Orange County. Cargo volume from the ports of Los Angeles and Long Beach indicate year to date inbound loaded TEUs were up 6.8% over last year, in August. Average asking rents closed the quarter at $0.47/SF, up 6.8% from last year.

TRENDS TO WATCH

The Inland Empire industrial market is bringing much needed industrial space online. The vacancy rate is expected to continue to rise through the remainder of the year as these large scale deliveries hit the market. The new industrial product will be well received and benefit the Southern California region alleviating pent-up demand. With port activity projected to increase, demand will remain in place. With much of the current and future construction focused on large scale distribution centers, the vacancy for buildings under 100,000 square feet is a lower 2.9% and asking rents on average command a higher $0.60/SF, indicating a strong demand from smaller users as well.

Average Asking Rent and Vacancy Rate
All Unit Sizes

Source: NAI Capital Research, CoStar, REIS
Market Statistics

<table>
<thead>
<tr>
<th>SUBMARKET</th>
<th>EXISTING TOTAL RBA (SF)</th>
<th>UNDER CONSTRUCTION (SF)</th>
<th>TOTAL AVAILABLE (%)</th>
<th>TOTAL VACANCY (%)</th>
<th>3Q16 LEASING VOLUME (SF)</th>
<th>YTD LEASING VOLUME (SF)</th>
<th>3Q16 SALES VOLUME (SF)</th>
<th>YTD SALES VOLUME (SF)</th>
<th>AVERAGE ASKING RENT $/PSF NNN</th>
<th>AVERAGE SALE PRICE $/PSF</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Desert</td>
<td>18,211,436</td>
<td>444,740</td>
<td>13.9%</td>
<td>7.7%</td>
<td>249,320</td>
<td>485,362</td>
<td>218,024</td>
<td>1,112,931</td>
<td>$0.39</td>
<td>$59</td>
</tr>
<tr>
<td>West</td>
<td>316,491,409</td>
<td>7,161,629</td>
<td>7.3%</td>
<td>3.8%</td>
<td>2,163,410</td>
<td>19,633,550</td>
<td>1,428,148</td>
<td>4,873,540</td>
<td>$0.54</td>
<td>$111</td>
</tr>
<tr>
<td>East</td>
<td>189,449,510</td>
<td>7,868,360</td>
<td>11.7%</td>
<td>7.6%</td>
<td>3,965,234</td>
<td>12,387,560</td>
<td>1,143,272</td>
<td>4,088,068</td>
<td>$0.41</td>
<td>$88</td>
</tr>
<tr>
<td>South</td>
<td>20,725,601</td>
<td>191,857</td>
<td>5.7%</td>
<td>2.9%</td>
<td>150,566</td>
<td>459,011</td>
<td>103,063</td>
<td>383,329</td>
<td>$0.63</td>
<td>$120</td>
</tr>
<tr>
<td>Total</td>
<td>544,877,956</td>
<td>15,666,586</td>
<td>9.0%</td>
<td>5.2%</td>
<td>6,528,530</td>
<td>32,965,483</td>
<td>2,892,507</td>
<td>10,457,868</td>
<td>$0.47</td>
<td>$99</td>
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</tbody>
</table>

RBA includes all industrial buildings. Rents reflect buildings of at least 10,000 square feet.

Leasing

Overall, leasing activity has declined due to the rapid growth of the Inland Empire’s industrial market. Leasing volume for the first three quarters of the year totaled 32,965,483 square feet, which is 25% below the total for the first three quarters of 2015. While industrial product remains in high demand, the massive construction projects that have been undertaken in the region are beginning to fill demand. About 22% of current construction has been preleased and 61% of this year’s deliveries have been absorbed into the market. Wolverine Distribution, Inc. leased 780,000 square feet of warehouse/distribution space in Beaumont. Gale Pacific, USA, Inc. leased 73,320 square feet of warehouse space in Rancho Cucamonga.

Sales

Total sale volume was down 29.3% over the prior quarter, and 45.7% over the prior year. Nearly 2.9 million square feet were sold in the Inland Empire this past quarter, and over 10.4 million square feet year to date. The average size of buildings being sold declined from 49,275 square feet last year at this time, to 33,247 square feet this year. The number of transactions also decreased from 108 buildings to 87 buildings over the same period. This quarter, Industrial Property Trust purchased a 582,772 square foot warehouse/distribution building in Riverside for $85/SF. States Logistics Services purchased a 434,170 square foot Class A warehouse/distribution building in Fontana for $96/SF that is expected to deliver in November.

Significant Lease Transactions

<table>
<thead>
<tr>
<th>TENANT</th>
<th>BUILDING ADDRESS</th>
<th>SUBMARKET</th>
<th>ASKING RATE/ SF*</th>
<th>SQUARE FEET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wolverine Distribution, Inc.</td>
<td>1020 Prosperity Way</td>
<td>East</td>
<td>$0.29</td>
<td>780,000</td>
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<tr>
<td>Gale Pacific, USA, Inc.</td>
<td>9180 Center Ave</td>
<td>West</td>
<td>$0.49</td>
<td>73,320</td>
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<tr>
<td>Provide Commerce</td>
<td>8784-8796 Rochester Ave</td>
<td>West</td>
<td>$0.53</td>
<td>58,164</td>
</tr>
<tr>
<td>Home EC</td>
<td>796 S Allen St</td>
<td>East</td>
<td>$0.57</td>
<td>20,649</td>
</tr>
<tr>
<td>Trarms</td>
<td>13626 Monte Vista Ave</td>
<td>West</td>
<td>$0.79</td>
<td>14,080</td>
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*All rents are NNN unless otherwise noted

Significant Sales Transactions

<table>
<thead>
<tr>
<th>BUYER</th>
<th>ADDRESS</th>
<th>SUBMARKET</th>
<th>SALE PRICE/SF</th>
<th>SQUARE FEET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Property Trust</td>
<td>7295 San Gorgonio Dr</td>
<td>East</td>
<td>$85</td>
<td>582,772</td>
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<tr>
<td>States Logistics Services, Inc.</td>
<td>11260 Elm Ave</td>
<td>West</td>
<td>$96</td>
<td>434,170</td>
</tr>
<tr>
<td>Sofantex</td>
<td>17450 Silica Rd</td>
<td>High Desert</td>
<td>$31</td>
<td>122,000</td>
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<tr>
<td>Decor-Ware, Inc.</td>
<td>10220 4th St</td>
<td>West</td>
<td>$124</td>
<td>116,480</td>
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<tr>
<td>Bestpack Packaging Systems</td>
<td>1425 S Campus Ave</td>
<td>East</td>
<td>$88</td>
<td>115,501</td>
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</table>
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