MARKET OVERVIEW

The Inland Empire remained one of the most active and desirable industrial markets at the end of 2017. Gains in asking rent normalized in the fourth quarter after an unusually steep rise in the third quarter. At the end of the year rents averaged $0.57/SF, steady over the prior quarter and up 21.3% from this time in 2016. The vacancy rate ticked up to 5.4% as a result of new construction deliveries, which totaled in excess of 4.6 million square feet. Demand for industrial space is spurring construction in the region. At the conclusion of the fourth quarter more than 20.7 million square feet were under construction, with approximately 31% of the construction preleased. Demand for industrial space is driven by a strong economy as well as cargo volume from the ports of Los Angeles and Long Beach, which handle roughly 40% of the nation’s cargo imports. Through November 2017, more than 15.4 million TEUs have filtered through the two ports. There has been no slowdown since the enlargement of the Panama Canal, which some feared would result in the diversion of Asian goods from Los Angeles ports to the East Coast. Instead, combined import volume is up 7.2% from this time last year. Consumer demand for imported goods is supporting cargo volume increases and will continue driving demand for distribution space in the Inland Empire.

TRENDS TO WATCH

The Inland Empire industrial market shows no signs of slowing down. E-commerce set new records during the holiday shopping season, with e-commerce traffic increasing 111% on Black Friday in 2017 compared to 2016, according to Verizon’s Holiday Retail Index. These trends further entrench demand for warehouses and distribution centers. As the last remaining Southern California market with the capacity to construct massive distribution centers, the Inland Empire’s industrial market continued to attract interest from logistics companies including NFI and Warehouse Technology, Inc. as well as large retailer Walmart. While there was no increase this quarter, rents sustained the double digit increase seen last quarter, indicating unrelenting demand that is expected to continue into 2018.

Average Asking Rent and Vacancy Rate

Source: NAI Capital Research, CoStar
Leasing

Leasing volume totaled 6.7 million square feet in the fourth quarter for a total of 38.8 million square feet leased in total for 2017. Lease volume is down 19.9% from last quarter and 29.6% from last year. Despite the decline, industrial demand in the Inland Empire remains robust, particularly as the growth of e-commerce demands distribution space. The $0.57/SF asking rent is the highest level on record and is $0.12/SF higher than the peak from 2007-2008. One factor sustaining increased rental rates is the delivery of state-of-the-art warehouse buildings that make the Inland Empire the premier industrial market in Southern California. Retail giant Walmart will be the first to occupy a newly constructed 1,022,680 square foot warehouse/distribution building in Chino. The building is scheduled to deliver in early 2018 and Walmart has an expected move-in date of April 2018.

Sales

The Inland Empire saw an uptick in industrial sales toward the end of the year. More than 6.7 million square feet were sold in the fourth quarter for a total of 19.3 million square feet sold for the year. This is an increase of 36.8% over the total sale volume in 2016. The average price per square foot sold was $116, up 5.3% from a year ago at this time. The average size of buildings sold increased substantially from 17,752 square feet last year at this time to 41,062 square feet this quarter. Cap rates increased 71 basis points to 6.22% over the same period. In one significant sale transaction this quarter, Investment manager Invesco Advisers, Inc. purchased a 1,000,000 square foot distribution building under construction in Riverside that is expected to deliver early 2018.
Inland Empire
Industrial Market Outlook 4Q 2017

**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