MARKET OVERVIEW
The Inland Empire remains the nation’s premier industrial market. The average asking rent continued to break records in 2Q 2018, increasing 5.1% over 1Q 2018 and 24.0% over 2Q 2017 to $0.62/SF. The vacancy rate remained low at 4.5%, down 90 basis points from 1Q 2018 and 30 basis points from 2Q 2017. Completed construction slowed to 4.2M SF, approximately 1.5 to 2.0M SF less on a quarterly basis over the past two years. But while completions slowed, construction persisted at a brisk pace. More than 23.5M SF remained under construction at the end of 2Q 2018. The strength of the economy continued to drive demand for industrial space, as demonstrated by strong cargo volume from the ports of Los Angeles and Long Beach, which handle roughly 32% of the nation’s total cargo imports. In the first five months of 2018, nearly 6.8M TEUs moved through the ports in total, up 3.7% over the same time last year. Over the same time, combined imports at the two ports totaled more than 3.4M TEUs, up 4.5% from 2017. Consumer demand for imported goods remained high as highlighted by cargo volume increases. Consumer demand sustained demand for distribution space in the Inland Empire, particularly among those involved in the e-commerce sector.

TRENDS TO WATCH
The strong demand of the current cycle has sent construction to some of the highest levels on record, with a significant portion being built on a speculative basis. Eighty-one percent of the current construction pipeline is scheduled for delivery by the end of 2018, yet 69.5% remains available. The 19.1M SF expected to complete by the end of the year could spike the vacancy rate and slow construction starts as the market works to absorb the new product. Additionally, economists are watching trade relations with China. Approximately 50% of the cargo volume moving through the San Pedro Bay ports is exported and imported by China. Tariffs on Chinese goods could produce a surge of cargo volume in the short term, but officials estimate that tariffs could impact 15% of shipments long term. Despite the uncertainty surrounding international trade, the strength of e-commerce will sustain demand for logistics space in the Inland Empire.

Average Asking Rent* and Vacancy Rate

*Rents reflect buildings of 10,000 SF or greater.

Source: NAI Capital Research, CoStar
Leasing

Demand continued at a brisk pace in 2Q 2018, as leasing volume totaled more than 10.1M SF. Nearly 20.4M SF were leased in the first half of 2018, down 24% from the same time last year. Despite the dip in lease volume, the average asking rent continued to rise. Rents surpassed $0.60/SF for the first time, reaching $0.62/SF at the end of the quarter. This was the highest level on record and surpassed the prior peak in 2007 by $0.16/SF, or 35%. Once again, companies in the shipping, logistics and warehousing sectors were some of the most active in the Inland Empire region in 2Q 2018. UPS signed a lease for 11281 Citrus Ave in Fontana, a 1,003,570 SF, class A distribution building built in 2017. Kuehne & Nagel, an international global transport and logistics company, leased an entire 601,287 SF warehouse in Redlands at an asking rate of $0.41/SF.

Sales

Owner-users and investors increased their purchases in the first half of 2018, representing a transaction volume in excess of $1.1B on 10.1M SF, up 28% by square footage from the first half of 2017. Demand put upward pressure on sale prices, which rose 8.2% over the year to $126/SF. The average cap rate hovered at 5.27%, which was the lowest cap rate seen since 2007. In one significant sale, grocery chain Trader Joe’s purchased a newly constructed 476,632 SF distribution building located in the AllianceCalifornia project in San Bernardino for $94/SF in 2Q 2018. One of the largest investment sales was Black Creek Group’s purchase of a 246,757 SF distribution center in Ontario. The building sold for $125/SF at a low 3.98% cap rate.
Inland Empire
Industrial Market Outlook 2Q 2018

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
Inland Empire
Industrial Market Outlook 2Q 2018

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