

Inland Empire Industrial, Q2 2015

Robust tenant demand fuels industrial market through first half of the year

▼ Direct Vacancy Rate
3.6%

▲ Net Absorption
6.6 Million SF

▲ Construction
19.8 Million SF

▲ Lease Rate
\$0.40 NNN

*Arrows indicate change from previous quarter

GROSS ACTIVITY AT RECORD PACE

The Inland Empire Industrial market generated over 10.9 million sq. ft. of gross activity in Q2 2015 bringing year-to-date total to 20.8 million sq. ft. The Inland Empire West has generated over 12.9 million sq. ft. in gross activity, while the Inland Empire East has generated over 7.8 million sq. ft. Such strong activity has not been seen since the year 2000, when annual gross activity totaled over 36.1 million sq. ft. At its current pace, the Inland Empire is on pace to match or exceed those levels reached in the year 2000.

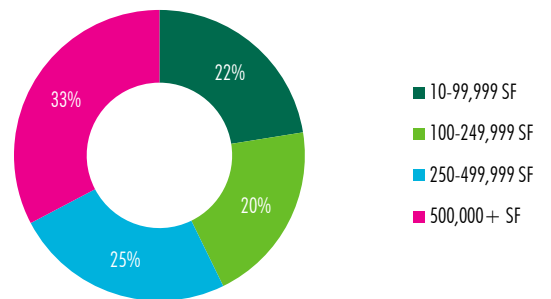
VACANCY CONTINUES TO FALL, DUE TO STRONG DEMAND

The Inland Empire industrial market finished Q2 2015 posting a vacancy rate of 3.6%, down 50 basis points (bps) since Q1 2015. The fall in vacancy, despite the amount of newly delivered supply to the market, can be attributed to continued strong tenant demand keeping pace with available supply. For example, in Q2 2015 over 5.0 million sq. ft. of new supply was delivered to the market, of which, 3.4 million sq. ft. was pre-leased or leased upon completion.

UNDER CONSTRUCTION ACTIVITY REMAINS STRONG

At the end of Q2 2015, there were 53 buildings under construction totaling 19.8 million sq. ft. In the Inland Empire East, under construction stood at 14.3 million sq. ft., while in the Inland Empire West the total under construction was 5.5 million sq. ft. at the end of Q2 2015. Under construction activity has increased by 153% since the beginning of 2013 when under construction activity totaled 7.8 million sq. ft. Over the last four quarters, the average amount of space under construction is 16.3 million sq. ft. Furthermore, CBRE Econometric Advisors (CBRE EA) forecasts that development activity will continue to increase throughout 2015 and well into 2016.

Figure 1: Vacant Space Distribution



Source: CBRE Research, Q2 2015.

The Inland Empire industrial market experienced robust growth throughout the first half of the year, as tenant demand for product less than 500,000 sq. ft. has continued to propel the market. The continued surge in demand can be primarily attributed to tenants feeling more confident about leasing space in the region as, the economy continues on a solid footing. The industrial market has been experiencing an increase in demand and activity in all size ranges. With a tightening market, landlords have continued to grow their asking rates. As a result, there is a greater sense of urgency, from a tenant's perspective, to get deals executed. The emerging presence of several big box e-commerce fulfillment centers has resulted in more activity in the smaller size ranged buildings, in an effort to support the larger fulfillment centers. Overall, the market was very strong with gross activity levels soaring to 10.9 million sq. ft. in Q2 2015.

UNEMPLOYMENT

The unemployment rate in the Inland Empire stands at 6.4% as of May, up slightly from 6.2% recorded in April. In the same time span, the Inland Empire added over 3,400 jobs, bringing the region's total non-farm employment to 1,348,000. Year-over-year, the Inland Empire has added 51,800 jobs, a 4.0% increase over the previous year, with the professional and business services, and trade, transportation and utilities job sectors combining to net 26,500 jobs. Industrial employment for distribution and manufacturing stands at 122,500 and 91,900 workers, respectively. According to CBRE EA, over the last 12 months, distribution employment has grown by 9.1%, while manufacturing has increased by 2.1%. CBRE EA predicts that overall employment in the Inland Empire will grow by 1.7% over the next two years.

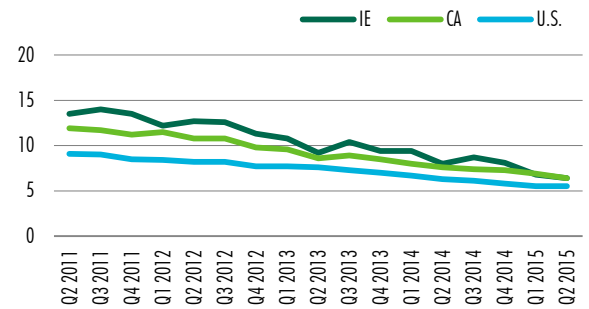
LEASE RATE ANALYSIS

The overall average asking lease rate ended Q2 2015 at \$0.41 per sq. ft. in the Inland Empire, up two cents since Q1 2015. Asking lease rates in the Inland Empire West finished Q2 2015 at \$0.44 per sq. ft., up two cents since Q1 2015, while the Inland Empire East recorded an average asking lease rate of \$0.40 per sq. ft., up two cents since Q1 2015. Lease rates have been ticking up for product less than 100,000 sq. ft. as available product has become scarce due to the lack of new supply and continued strong demand. For product ranging between 100,000 – 500,000 sq. ft., rates have continued to increase with newly constructed state-of-the-art buildings commanding a premium rental rate. For product 500,000 sq. ft. and greater, rates have remained flat, primarily due to stagnant rental growth for product ranging between 700,000-850,000 sq. ft., as tenant demand has been lower than expected. Overall, rent growth is expected to continue through the second half of the year.

VACANCY & AVAILABILITY

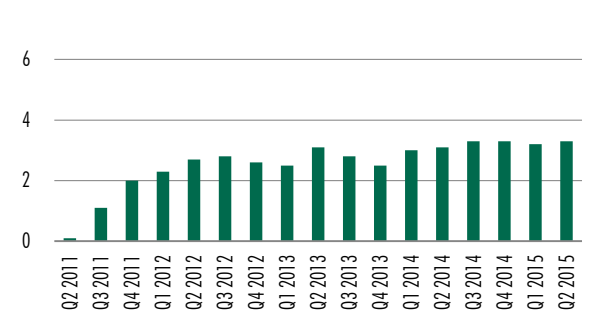
The overall vacancy rate in the Inland Empire finished Q2 2015 at 3.6%, down 50 bps since Q1 2015. The Inland Empire West posted a vacancy rate of 2.5%, down 50 bps since Q1 2015, while the Inland Empire East posted a vacancy of 5.3%, down 40 bps from Q1 2015. The drop in vacancy can be contributed to strong leasing and user sales

Figure 2: Unemployment (%)



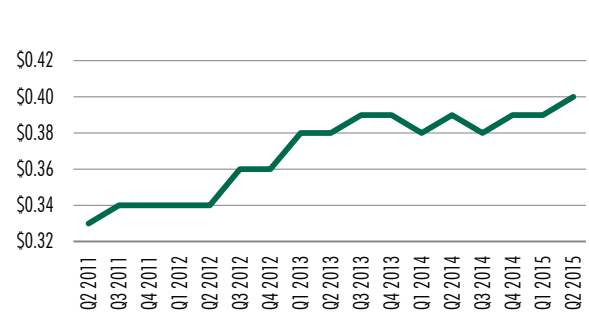
Source: U.S. Bureau of Labor Statistics, Q2 2015.

Figure 3: Year-Over-Year Job Growth (%)



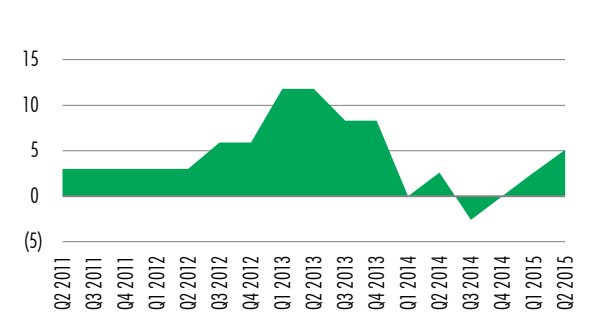
Source: U.S. Bureau of Labor Statistics, Q2 2015.

Figure 4: Asking Lease Rate (\$PSF/MO/NNN)



Source: CBRE Research, Q2 2015.

Figure 5: Year-Over-Year Rent Growth (%)



Source: CBRE Research, Q2 2015.

activity in the Inland Empire East and West, generating over 4.1 million sq. ft. and 6.7 million sq. ft. of gross activity, respectively. The availability rate in the Inland Empire ended Q2 2015 at 6.9%, down 50 bps since Q1 2015. Although, vacancy and availability have dropped throughout the first half of the year, it is expected that both will slightly fluctuate as demand levels and new supply delivered to the market play a careful balancing act through the second half of the year. CBRE EA predicts that by year's end, the availability rate will increase 4.9%, due to the amount of new deliveries scheduled to hit the market.

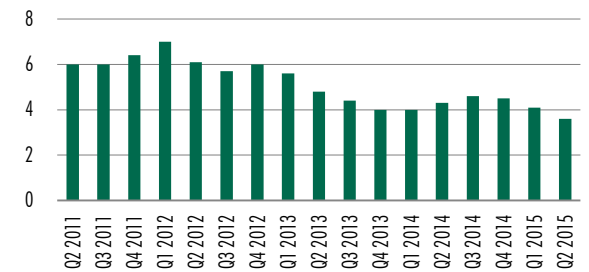
GROSS ACTIVITY & NET ABSORPTION

The Inland Empire industrial market generated 10.9 million sq. ft. of gross activity during Q2 2015, representing an increase of 9.6% from Q1 2015. In Q2 2015, the Inland Empire generated 6.5 million sq. ft. of positive net absorption, increasing the amount generated in Q1 2015 by 44%. The consumer goods industry continued to dominate leasing activity due to the importation and distribution of goods throughout the Inland Empire region. Tenants involved in the production or distribution of home goods, electronics, and end-to-end supply chain solutions have been active during Q2 2015. For example, Georgia Pacific leased over 1.6 million sq. ft. in Rancho Cucamonga. In addition, M Block & Sons, Inc, the leading provider of end-to-end supply chain solutions, leased 517,346 sq. ft. in Redlands.

DEVELOPMENT

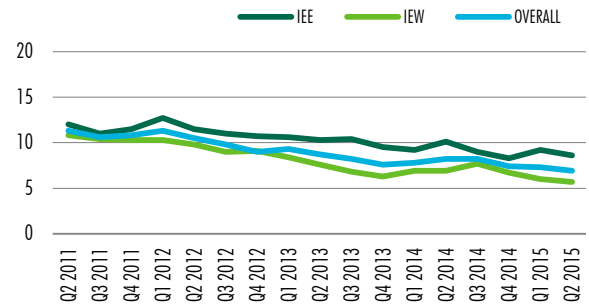
There were 53 buildings under construction totaling over 19.8 million sq. ft. in the Inland Empire at the end of Q2 2015, of which, 4.2 million sq. ft. has been pre-leased. A majority of the current under construction activity is concentrated in the Inland Empire East, totaling 14.3 million sq. ft. In Q2 2015, over 5.0 million sq. ft. of completed new construction was delivered to the market, with 3.4 million sq. ft. pre-leased or leased upon completion. A large majority of this new supply was in the Inland Empire West, accounting for over 4.5 million sq. ft., while the Inland Empire East delivered nearly 500,000 sq. ft. of new supply. CBRE EA predicts by year-end 2015, new supply will average 17.74 million sq. ft.

Figure 6: Overall Vacancy (%)



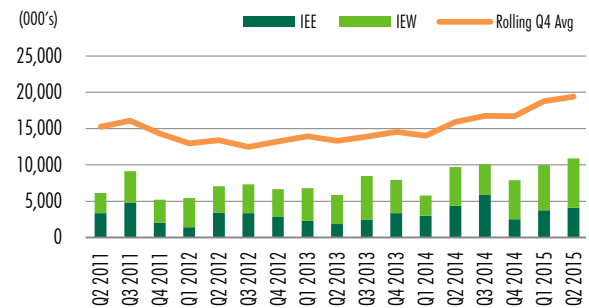
Source: CBRE Research, Q2 2015.

Figure 7: Availability Rate (%)



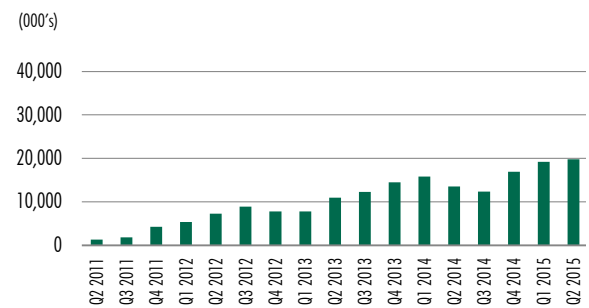
Source: CBRE Research, Q2 2015.

Figure 8: Gross Activity (SF)



Source: CBRE Research, Q2 2015.

Figure 9: Under Construction (SF)



Source: CBRE Research, Q2 2015.

Figure 10: Market Statistics

Submarket	Market Rentable Area (SF)	Vacancy Rate (%)	Availability Rate (%)	Q2 2015 Net Absorption (SF)	Q2 2015 Gross Activity (SF)	Under Construction (SF)	Construction Deliveries (SF)	Net Avg. Asking Lease Rate (\$/SF/Mo)
Inland Empire East	183,101,736	5.3	8.6	1,136,541	4,116,296	14,308,936	486,415	0.40
Inland Empire West	265,323,817	2.5	5.7	5,417,715	6,790,686	5,511,388	4,651,756	0.44
Inland Empire Totals	448,425,553	3.6	6.9	6,554,256	10,906,982	19,820,324	5,138,171	0.41

Source: CBRE Research, Q2 2015.

Figure 11: Key Transactions

Occupier	Transaction Type	Location	Total Sq. Ft.
Georgia Pacific	Consumer Goods	Inland Empire West	1,034,282
*Kimberly Clark	Consumer Goods	Inland Empire East	699,350
*Wal-Mart	Retail	Inland Empire West	650,451
UMA Enterprise	Wholesale Trade	Inland Empire West	600,140
Georgia Pacific	Consumer Goods	Inland Empire West	555,664

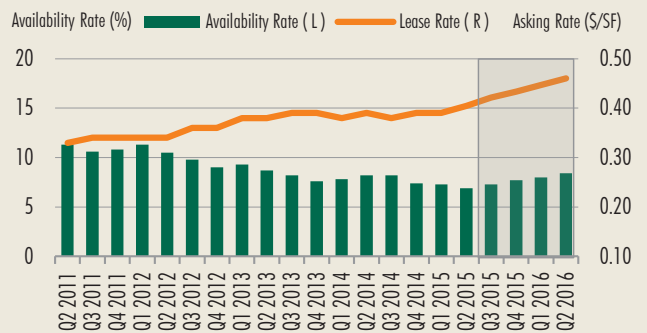
*Indicates Renewal

Source: CBRE Research, Q2 2015.

Figure 12: Market Outlook

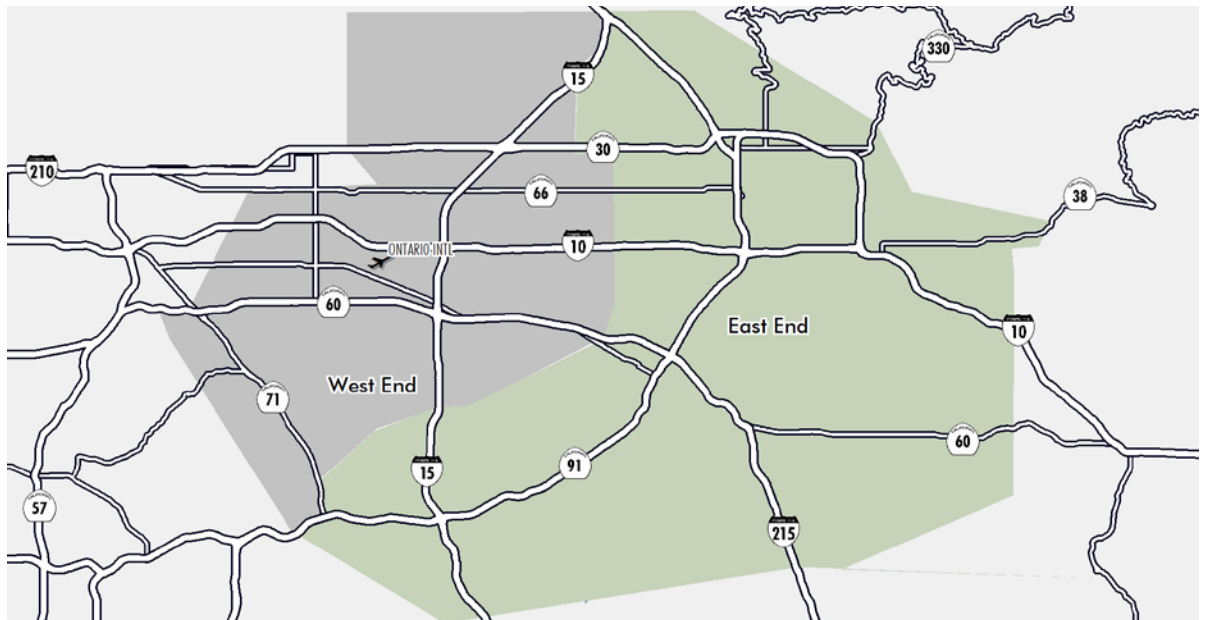
The Inland Empire is one of the strongest and most sought after industrial markets in the nation. As a result, tenant demand and activity have been strong and the outlook for the market continues to be positive. New development activity will continue to be robust and with the amount of new supply expected to be delivered to the market, we anticipate the demand to continue to keep up with supply. With the continued compression of cap rates, we will also continue to see property values increase overall. There continues to be a tremendous amount of capital seeking investment opportunities in the Inland Empire industrial market. According to CBRE EA, the average asking lease rate is forecasted to increase 12.2% by mid-2016, pushing it to \$0.46 per sq. ft., making it the highest recorded asking rate the Inland Empire industrial market has experienced.

12-Month Forecast



Source: CBRE Econometric Advisors, Q2 2015.

INVENTORY AT A GLANCE



DEFINITIONS

Average Asking Lease Rate Rate determined by multiplying the asking net lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary. **Net Leases** Includes all lease types whereby the tenant pays an agreed rent plus most, or all, of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses. **Net Absorption** The change in occupied sq. ft. from one period to the next. **Building Area** Total floor area of the building, typically taken at the “drip line” of the building **Occupied Sq. Ft.** Building area not considered vacant. **Available Sq. Ft.** Available Building Area which is either physically vacant or occupied. **Availability Rate** Available sq. ft. divided by the Net Rentable Area. **Vacant Sq. Ft.** Existing Building Area which is physically vacant or immediately available. **Vacancy Rate** Vacant Building sq. ft. divided by the Net Rentable Area. **Normalization** Due to a reclassification of the market, the base, number and sq. ft. of buildings of previous quarters have been adjusted to match the current base. Availability and Vacancy figures for those buildings have been adjusted in previous quarters.

SURVEY CRITERIA

Includes all competitive industrial buildings 10,000 sq. ft. and greater in size. Under construction buildings which have begun construction as evidenced by site excavation or foundation work.

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