



# INLAND EMPIRE MARKET REPORT



## Industrial Demand Soars; 3.7 Million SF Of Positive Absorption

### MARKET OVERVIEW

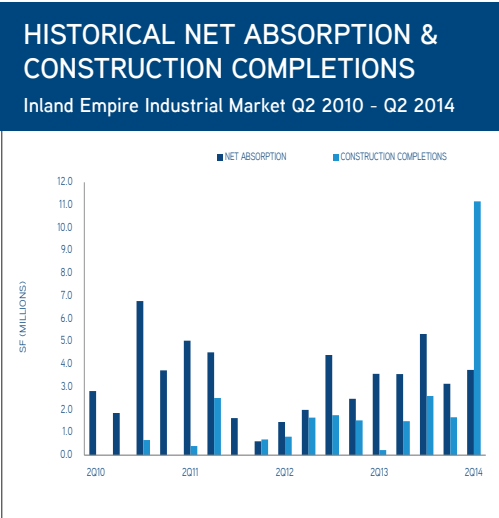
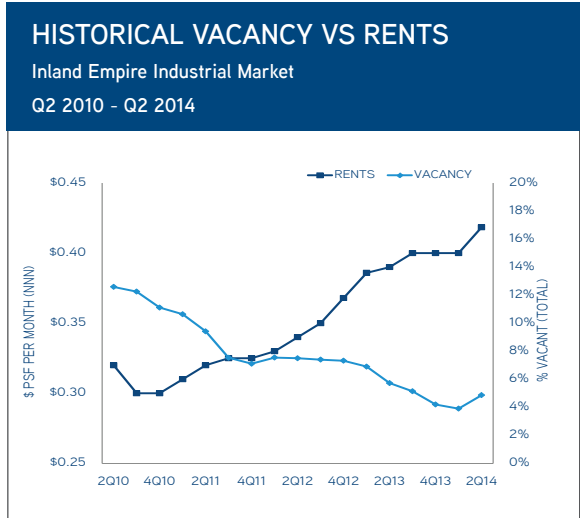
Twenty five projects finished completion this quarter totalling 11.1 million SF, 4.7 million SF of this amount was leased prior to construction completion. There remains 13.7 million SF under construction, of which 4.3 million SF is already leased. Industrial construction usually takes 12 to 18 months or longer to complete.

Sales and leasing activity this quarter was 11.6 million SF broken down into 98 leases for 10.8 million SF and 16 sales for 791,900 SF. Year to date sales and leasing activity is 17.5 million SF, which is on par for the level of activity seen in the first half of 2012.

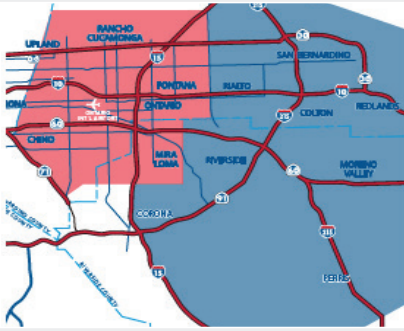
Average asking rental rates have increased \$0.02 to \$0.42 PSF NNN, however a significant portion of the larger projects that are brought to market have undisclosed asking lease rates making it harder to determine accurate asking rental rate information. Tenant concessions, such as free rent and tenant improvements, have gone down as economic conditions have improved. With tight vacancy rates and dwindling construction activity, rents are expected to rise as conditions favor the landlord.

MARKET INDICATORS - Q2 2014		
VACANCY	↑	4.9%
AVAILABILITY	↑	7.2%
NET ABSORPTION	↑	3.7 MILLION SF
CONSTRUCTION	↓	13.7 MILLION SF
RENTAL RATE	↑	\$0.42 PSF NNN
UNEMPLOYMENT	↓	8.0%

MARKET TRENDS - Q2 2014	
»	Net absorption at 3.7 million SF for the quarter, at 6.9 million SF for the year
»	Construction activity falls to 13.7 million SF as 11.1 million SF is added to the base this quarter, much of it pre-leased
»	Weighted average asking rental rate rises \$0.02 to \$0.42 PSF



<sup>1</sup>Colliers International continuously refines its database. As a result, data reflected in this report may not be consistent with data reported in previous quarters.



### INLAND EMPIRE DEMOGRAPHICS

- » POPULATION:  
4,414,500 (2014 Estimate)  
4,648,900 (2019 Projection)  
5.3% (Growth 2014-2019)
- » HOUSEHOLD INCOME:  
\$67,400 (Average)  
\$51,400 (Median)
- » JOB GROWTH:  
1.8% (past 12 months)
- » UNEMPLOYMENT RATE:  
8.0% (as of May 2014)

### VACANCY

The total vacancy rate rose 120 basis points to 4.9 percent from the 3.7 percent reported in the previous quarter. This is due to vacant construction completions and not a lack of industrial demand. This quarter 11.6 million SF was added to the base, which potentially could have raised the vacancy rate by 2.6 percent were it not for the fact that 40% of the space brought to the market was pre-leased.

There remains 13.7 million SF currently under construction.

Vacancy remains tight for the largest size segment, buildings over 500,000 SF which currently stands at 5.2 percent. While this size segment makes up less than a third of the base for the Inland Empire; it accounts for roughly 50 percent of the net absorption, and is the size segment most sought after for large multinational tenants.

### NET ABSORPTION

In Q2 2014, the market recorded positive net absorption of 3,749,400 square feet, the 19th consecutive quarter of positive net absorption gains. Year-to-date net absorption is 6,891,400 SF.

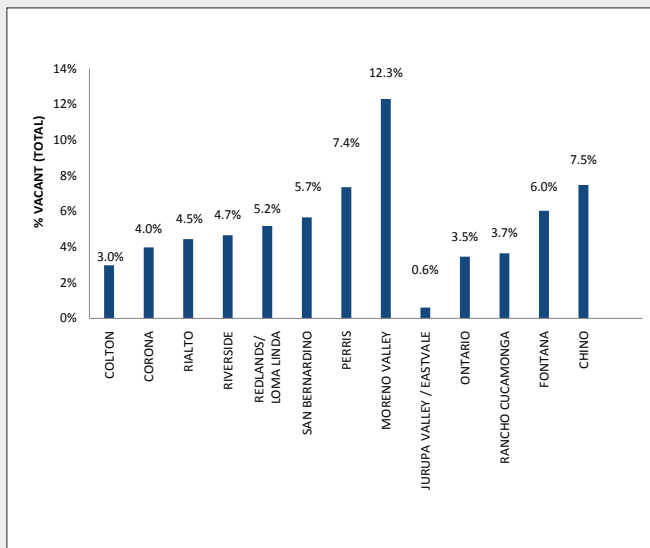
The recent construction of newer and larger buildings, should lead to greater positive net absorption in future quarters as these buildings are leased or sold.

### UNEMPLOYMENT

The unemployment rate for the Inland Empire was 8.0 percent as of May 2014, and experienced job growth of 1.8 percent over the last 12 months. Trade, transportation and utilities added the largest year-over-year again, adding 8,200 jobs. Construction employment increased by 3,100 jobs over this same time period.

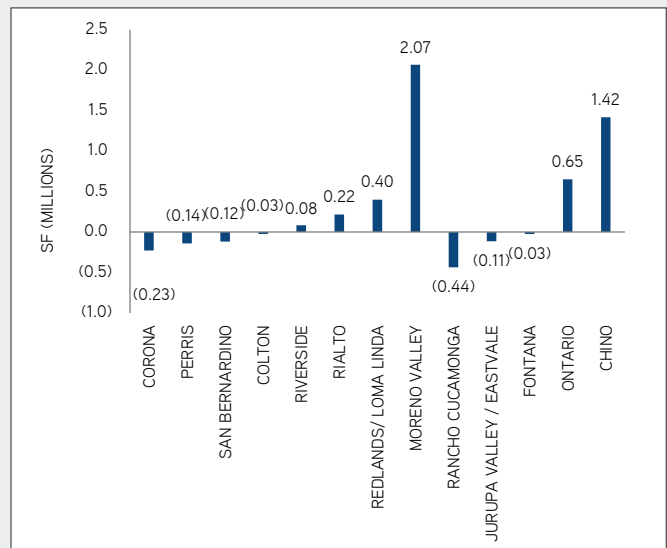
### VACANCY BY SUBMARKET

Inland Empire Industrial Market  
Q2 2014



### NET ABSORPTION BY SUBMARKET

Inland Empire Industrial Market  
Q2 2014



<sup>2</sup>Source: California Employment Development Department, February 2014.

INDUSTRIAL OVERVIEW

Inland Empire Industrial Market  
Q2 2014

EXISTING PROPERTIES		CONSTRUCTION			VACANCY		AVAILABILITY	ACTIVITY					ABSORPTION		RENTS	
Submarket/ Building Size	Bldgs	Total Inventory SF	Completions Current Qtr SF	Under Construction SF	Vacancy	Vacancy Prior Qtr	Availability	Sales Activity SF	Number of Sales	Lease Activity SF	Number of Leases	Total Gross Activity Current Qtr SF	Total Gross Activity YTD SF	Net Absorption Current Qtr SF	Net Absorption YTD SF	Weighted Avg Asking Lease Rates
<b>INLAND EMPIRE WEST</b>																
CHINO	665	43,291,300	2,487,000	1,262,800	7.5%	5.0%	10.8%	87,500	1	2,702,200	17	2,789,700	3,790,700	1,418,900	2,244,700	\$0.41
FONTANA	508	50,368,400	1,250,600	0	6.0%	3.5%	8.1%	131,800	2	733,100	3	864,900	1,286,800	-25,300	-20,900	\$0.35
JURUPA VALLEY / ESTVALE	186	31,052,800	0	581,964	0.6%	0.2%	1.8%	47,100	2	67,400	2	114,500	395,700	-114,300	-114,300	\$0.44
ONTARIO	1,038	95,587,700	1,962,600	900,900	3.5%	3.1%	5.4%	35,800	1	2,315,900	28	2,351,700	3,137,900	650,700	690,700	\$0.45
RANCHO CUCAMONGA	666	38,407,500	655,023	2,275,300	3.7%	2.5%	6.6%	261,800	2	654,900	20	916,700	1,668,300	-436,200	270,400	\$0.40
<b>INLAND EMPIRE WEST</b>																
TOTAL	3,063	258,707,700	6,355,300	5,021,000	4.3%	3.1%	6.6%	563,900	8	6,473,500	70	7,037,400	10,279,200	1,493,800	3,070,500	\$0.41
<b>INLAND EMPIRE EAST</b>																
COLTON	106	6,720,600	0	420,000	3.0%	2.6%	7.9%	41,000	2	13,700	1	54,700	108,000	-25,300	-25,300	\$0.45
CORONA	611	25,942,700	201,300	246,900	4.0%	2.3%	6.0%	54,800	3	155,600	6	210,400	311,500	-227,900	-194,300	\$0.52
MORENO VALLEY	65	16,545,900	2,470,500	1,756,100	12.3%	12.0%	12.4%	0	0	2,437,600	3	2,437,600	2,451,400	2,066,100	2,079,900	\$0.38
PERRIS	128	15,326,000	579,700	1,352,400	7.4%	2.7%	7.8%	0	0	0	0	0	300,700	-139,900	24,900	\$0.39
<b>REDLANDS / LOMA</b>																
LINDA	135	18,842,000	375,800	325,000	5.2%	7.3%	8.3%	0	0	850,500	4	850,500	1,190,000	400,100	312,200	\$0.44
RIALTO	152	18,871,100	0	1,426,600	4.5%	5.6%	6.2%	16,000	1	392,400	3	408,400	1,468,400	216,600	1,263,300	\$0.47
RIVERSIDE	745	41,359,800	582,800	0	4.7%	3.5%	9.0%	116,200	2	479,400	11	595,600	927,300	83,300	203,700	\$0.43
SAN BERNARDINO	383	31,214,500	592,700	1,640,300	5.7%	3.4%	7.1%	0	0	0	0	0	534,500	-117,100	157,000	\$0.40
<b>INLAND EMPIRE EAST</b>																
TOTAL	2,325	174,822,600	4,802,900	7,167,300	5.7%	4.6%	8.0%	228,000	8	4,329,200	28	4,557,200	7,291,800	2,255,900	3,821,400	\$0.44
<b>INLAND EMPIRE WEST</b>																
10,000 - 19,999	1,113	15,201,700	0	0	1.1%	0.6%	3.1%	13,800	1	132,800	10	146,600	327,100	-74,100	-1,200	\$0.55
20,000 - 39,999	716	19,850,000	0	0	1.2%	0.7%	4.4%	69,000	2	161,100	8	230,100	502,100	-91,700	-35,200	\$0.50
40,000 - 69,999	398	20,695,300	0	62,800	1.6%	1.6%	5.0%	51,600	1	334,900	11	386,500	692,300	-9,300	159,100	\$0.49
70,000 - 99,999	168	13,979,400	189,500	0	5.8%	4.5%	8.0%	267,000	3	675,000	15	942,000	1,170,100	5,200	126,400	\$0.40
100,000 - 249,999	383	58,043,000	794,800	430,800	5.0%	2.9%	7.4%	162,500	1	1,005,100	17	1,167,600	2,730,200	-517,700	456,900	\$0.40
250,000 - 499,999	198	69,803,400	1,629,500	381,300	7.6%	5.3%	11.0%	0	0	1,596,500	5	1,596,500	2,289,300	-386,700	-203,700	\$0.34
500,000 +	87	61,134,800	3,741,500	4,146,100	2.3%	2.3%	2.5%	0	0	2,568,100	4	2,568,100	2,568,100	2,568,100	2,568,100	\$0.32
<b>INLAND EMPIRE WEST</b>																
TOTAL	3,063	258,707,600	6,355,300	5,021,000	4.3%	3.1%	6.6%	563,900	8	6,473,500	70	7,037,400	10,279,200	1,493,800	3,070,400	\$0.41
<b>INLAND EMPIRE EAST</b>																
10,000 - 19,999	942	12,937,500	0	0	1.4%	0.4%	4.6%	56,700	4	81,900	7	138,600	287,900	-126,300	-90,700	\$0.54
20,000 - 39,999	577	15,892,300	0	0	3.1%	2.1%	6.2%	55,100	2	117,700	5	172,800	481,600	-147,900	-105,500	\$0.57
40,000 - 69,999	333	17,029,700	0	0	2.4%	2.6%	6.6%	41,500	1	172,700	4	214,200	430,500	22,800	132,200	\$0.50
70,000 - 99,999	126	10,356,100	0	0	5.5%	5.0%	8.0%	74,700	1	22,000	1	96,700	186,800	-46,300	-46,300	\$0.39
100,000 - 249,999	190	27,961,800	201,300	246,900	5.6%	4.3%	7.7%	0	0	339,300	5	339,300	684,200	-161,700	3,100	\$0.39
250,000 - 499,999	76	25,076,400	730,600	2,014,300	5.9%	8.4%	12.0%	0	0	1,512,900	4	1,512,900	2,420,000	632,200	1,127,400	\$0.39
500,000 +	83	65,568,800	3,870,900	6,463,500	8.0%	5.2%	8.1%	0	0	2,082,800	2	2,082,800	2,800,800	2,082,800	2,800,800	\$0.34
<b>INLAND EMPIRE EAST</b>																
TOTAL	2,327	174,822,600	4,802,800	8,724,700	5.7%	4.6%	8.0%	228,000	8	4,329,300	28	4,557,300	7,291,800	2,255,600	3,821,000	\$0.44
<b>INLAND EMPIRE TOTAL</b>																
10,000 - 19,999	2,055	28,139,200	0	0	1.2%	0.5%	3.8%	70,500	5	214,700	17	285,200	615,000	-200,400	-91,900	\$0.55
20,000 - 39,999	1,293	35,742,300	0	0	2.0%	1.4%	5.2%	124,100	4	278,800	13	402,900	983,700	-239,600	-140,700	\$0.53
40,000 - 69,999	731	37,725,000	0	62,800	2.0%	2.0%	5.7%	93,100	2	507,600	15	600,700	1,122,800	13,500	291,300	\$0.49
70,000 - 99,999	294	24,335,500	189,500	0	5.6%	4.7%	8.0%	341,700	4	697,000	16	1,038,700	1,356,900	-41,100	80,100	\$0.40
100,000 - 249,999	573	86,004,800	996,100	677,700	5.2%	3.4%	7.5%	162,500	1	1,344,400	22	1,506,900	3,414,400	-679,400	460,000	\$0.39
250,000 - 499,999	274	94,879,800	2,360,100	2,395,600	7.2%	6.1%	11.3%	0	0	3,109,400	9	3,109,400	4,709,300	2,455,000	923,700	\$0.36
500,000 +	170	126,703,600	7,612,400	10,609,600	5.2%	3.8%	5.4%	0	0	4,650,900	6	4,650,900	5,368,900	4,650,900	5,368,900	\$0.33
<b>INLAND EMPIRE TOTAL</b>																
TOTAL	5,390	433,530,200	11,158,100	13,745,700	4.9%	3.7%	7.2%	791,900	16	10,802,800	98	11,594,700	17,571,000	3,749,400	6,891,400	\$0.42



» 13,745,700 SF of new space set to be available within the next 18 months

» Upward pressure remains on asking rental rates as industrial demand remains positive

### CONSTRUCTION

In Q2 2014, there was 11,158,200 square feet of newly completed space added to the base. This is the largest amount of construction in a single quarter ever for the Inland Empire.

There was a total of twenty five projects that finished construction this quarter, the largest of which is a 1,560,000 square foot building leased to Procter & Gamble in Moreno Valley.

### ACTIVITY

Net absorption was positive 3,749,400 square feet for the quarter and 6,891,400 SF year to date. Gross absorption (a combination of leasing and sales activity) this quarter was 11,594,700 square feet with the majority being in spaces 100,000 SF and greater (9,267,200 SF).

The largest lease of the quarter was a 1,560,000 SF built to suit for Procter & Gamble in Moreno Valley. Other deals include Euro-Pro taking 779,100 SF of pre-leased space in Chino and Yokohama Tire pre-leasing 658,800 SF of space also in Chino.

Tenants are having to take buildings prior to construction completion as there is a lack of larger buildings on the market that meet their needs.

### RENTAL RATES

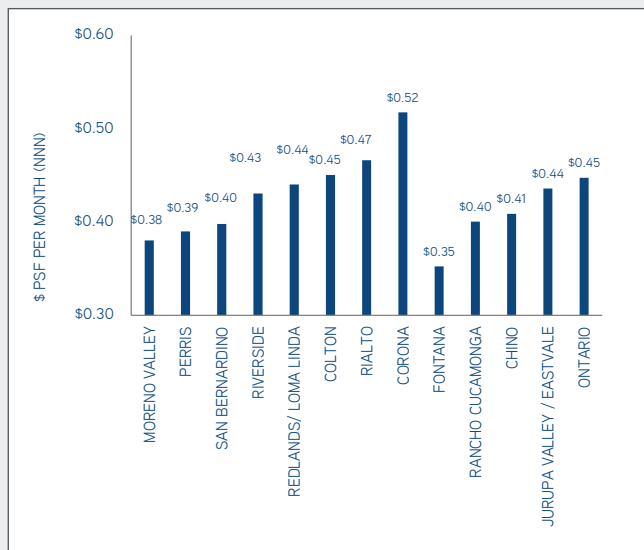
The weighted average asking rental rate increased 5% or \$0.02 PSF NNN this quarter to \$0.42 PSF NNN. Rising industrial demand has put upward pressure on asking rents, and average asking rents have been increasing for the last 12 quarters.

The growing lack of available product, especially for the largest buildings, is helping to propel rates upward.

We expect future quarters to see further movement upwards in asking rents, especially as newer and more modern space is added to the market, which will be in high demand.

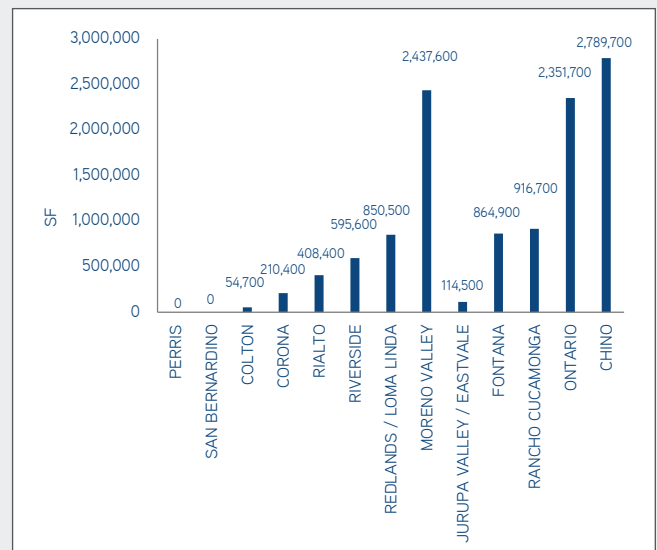
### WEIGHTED AVERAGE ASKING LEASE RATES

Inland Empire Industrial Market  
Q2 2014



### TOTAL GROSS ACTIVITY BY SUBMARKET

Inland Empire Industrial Market  
Q2 2014



**OUTLOOK**

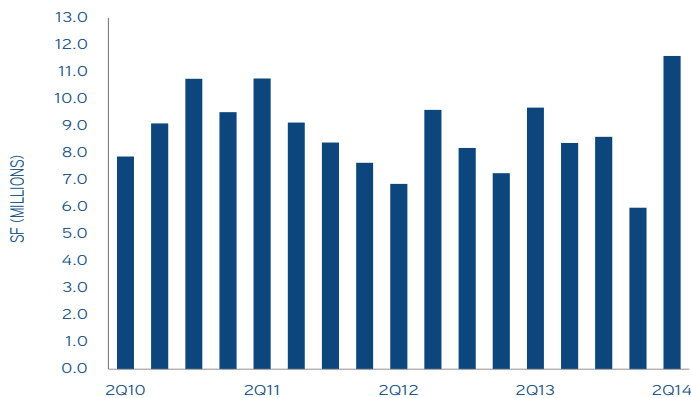
Industrial demand in the Inland Empire is closely linked to international trade and most of the demand comes from large, multi-national companies who are upgrading their industrial space to more efficient and modern buildings. Such space is scarce, even in the Inland Empire, and companies that are unable to find such spaces are willing to take the time and the effort to build them. Currently there is 13,745,700 square feet of space under construction with approximately 4.3 million square feet of it pre-leased. With such a great discrepancy between supply and demand, construction activity is expected to continue for the immediate future.

**MARKET DESCRIPTION**

The Inland Empire is comprised of 433.5 million square feet and represents 27 percent of the total industrial space in the Los Angeles Basin for buildings 10,000 square feet and greater. Considered the premier big-box market in Southern California, approximately 71 percent of the space in this market is contained in buildings 100,000 square feet and greater. The vast majority (88%) of its space was built in the past 20 years. The Inland Empire continues to attract large distributors, warehouse, E-commerce companies and logistics firms seeking to consolidate their operations into large, state-of-the-art facilities.

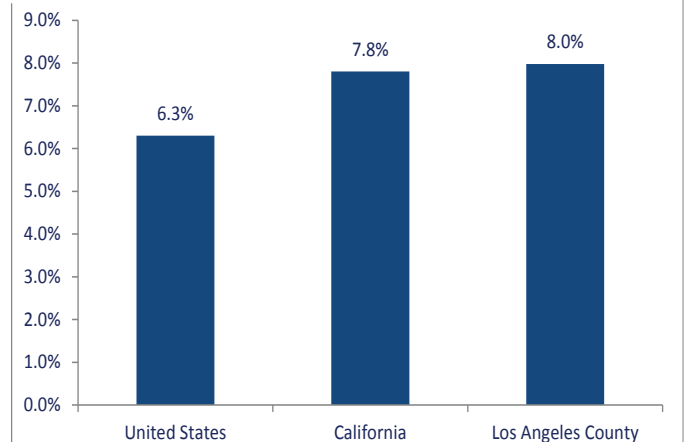
**HISTORICAL GROSS ACTIVITY**

Inland Empire Industrial Market  
Q2 2010 - Q2 2014



**UNEMPLOYMENT RATE**

United States, California & Inland Empire  
May 2014



**RECENT TRANSACTIONS & MAJOR DEVELOPMENTS**

Inland Empire Industrial Market  
Q2 2014

**SALES ACTIVITY**

PROPERTY ADDRESS	SIZE SF	SALE PRICE	PRICE PSF	BUYER	SELLER
9449 8th, Rancho Cucamonga	161,600 SF	\$14.7 Million	\$91 PSF	David Liu Trust	KC Pelle Trust
2400 E Francis, Ontario	108,700 SF	\$8.4 Million	\$77 PSF	Vintage World Property	Pacific West Management
11093 Beech, Fontana	80,100 SF	\$4.5 Million	\$56 PSF	Viking	Alabama Metal Corporation
2235 Francis, Ontario	35,800 SF	\$4 Million	\$112 PSF	C&M Management, LLC	NHVA1-XX, LLC

**LEASING ACTIVITY**

PROPERTY ADDRESS	LEASED SF	LEASE TYPE	BLDG TYPE	LESSEE	LESSOR
16300 Fern, Chino	779,100 SF	Direct - New	Distribution	Euro-Pro	Invesco
16388 Fern, Chino	658,800 SF	Direct - New	Distribution	Yokohama Tire	Invesco
22750 Cactus, Moreno Valley	522,800 SF	Direct - New	Distribution	Federal Mogul	Liberty Property Trust
13479 Valley, Fontana	410,800 SF	Renewal	Distribution	Leapfrog Enterprise	James Cambell Company

**MAJOR DEVELOPMENTS**

PROJECT	DEVELOPER	SIZE SF	SUBMARKET	STATUS	ESTIMATED COMPLETION
16325 Indian, Moreno Valley	Panattoni Development	1,560,000 SF	Moreno Valley	Completed	Q2 2014
16300 Fern, Chino	Invesco	779,100 SF	Chino	Completed	Q2 2014
16388 Fern, Chino	Invesco	658,800 SF	Chino	Completed	Q2 2014
18012 Slover, Fontana	DCT Industrial	610,100 SF	Fontana	Completed	Q2 2014

DEFINITIONS OF KEY TERMS USED IN THIS REPORT

**Total Rentable Square Feet:**

Industrial space in buildings with 10,000 square feet or more of industrial space. Includes speculative as well as owner-occupied buildings. Excludes Research & Development (R&D) buildings (industrial buildings with at least 30 percent office build-out, 3/1000 parking ratio and a high level of finish). Excludes space that is under-construction or renovation.

**Direct Vacancy:**

Space in existing buildings that are vacant and immediately available during the quarter for direct lease or for sale, plus space that is vacant but not available for direct lease or sublease (for example, that is being held for a future commitment).

**Total Vacancy:**

Space in existing buildings that are vacant and immediately available during the quarter for direct lease, for sublease or for sale, plus space that is vacant but not available for direct lease or sublease.

**Total Available:**

All space that is being currently marketed for occupancy, includes space which may be currently occupied or which may be under construction or renovation.

**Net Absorption:**

Net change in occupied square feet from one period to the next (includes the impact of change in vacant space available for sublease).

**Sales and Leasing Activity:**

Square feet sold or leased for all known transactions completed during the quarter. Excludes lease renewals. Excludes investment sale transactions.

**Weighted Average Asking Rental Rates:**

Weighted by square feet available for direct lease. Data is based on Triple Net rents, and excludes expenses such as taxes, insurance, maintenance, janitorial service and utilities. Reported on a monthly, per SF basis.

**SF Added (Net):**

Total square feet added during the quarter via construction completions, including renovated space returned to market, less total square feet taken off-market due to demolitions or conversions.

**Under-Construction/Renovation:**

Includes buildings that are in some phase of construction, beginning with foundation work and ending with the issuance of a Certificate of Occupancy. Also includes buildings that are under going substantial renovation.

*Technical Note*

*Colliers International is continuously refining its database. The data shown in the historical tables and graphics in this report have been adjusted to take into account these changes in the database.*

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- » \$2.1 billion in annual revenue
- » 1.46 billion square feet under management
- » Over 15,800 professionals

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