

Los Angeles
Orange County
Ventura
Inland Empire
Phoenix

Q3 | 2019

Market Report

Inland Empire Industrial

West



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MARKET ACTIVITY

KEY TAKE AWAYS

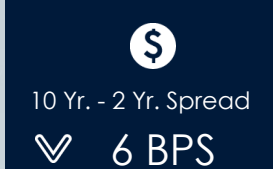
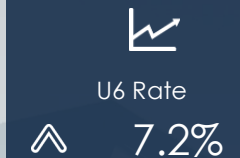
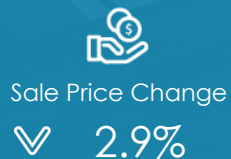
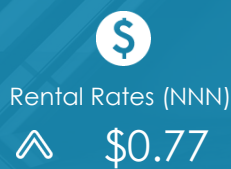
ECONOMIC OUTLOOK

MARKET

- **Vacancy Rate:** Decreased by 30 BPS from Q2.
- **Net Absorption:** Weaker in Q3 compared to Q2.
- **Gross Absorption:** Increased from Q2 to above 5.5M.
- **Industrial Supply:** YTD in 2019, over 5.1M SF has been delivered to the IE West market. Construction activity increased in Q3 to nearly 12M SF, representing 3.5% of inventory. This market continues to grow & fulfil the large demand.

ECONOMIC OUTLOOK

- **Interest Rates:** The yield curve remained inverted in Q3. In Q3, the 10-2 Spread inverted as well for the 1st time since 2007. The Fed cut rates twice in Q3, both by 25 BPS. An additional rate cut could transpire in Q4, if economy weakens.
- **Trade:** The trade dispute with China continues with no end in sight. Talks between the two most powerful economies are set to resume in Oct.
- **Stock Market:** The Dow and S&P posted minimal gains of 1.2% in Q3. NASDAQ finished negative.
- **Oil:** Crude Oil was down 6.7% in Q3.



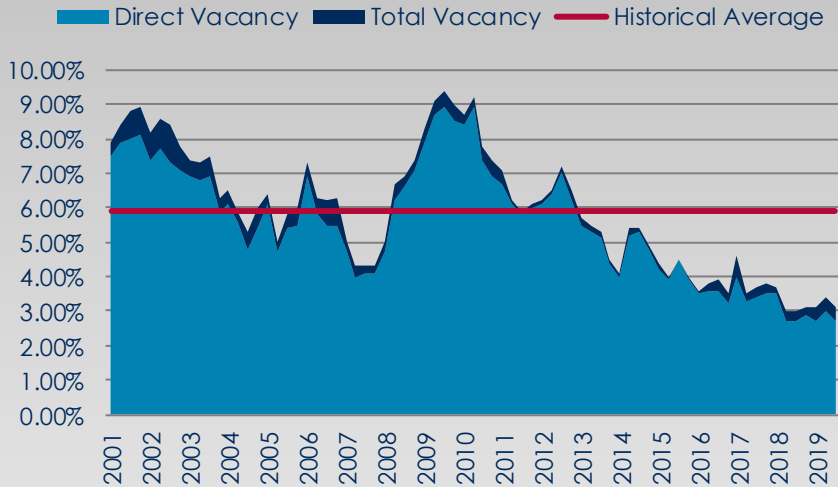
EXPERIENCE IN A CHANGING MARKET

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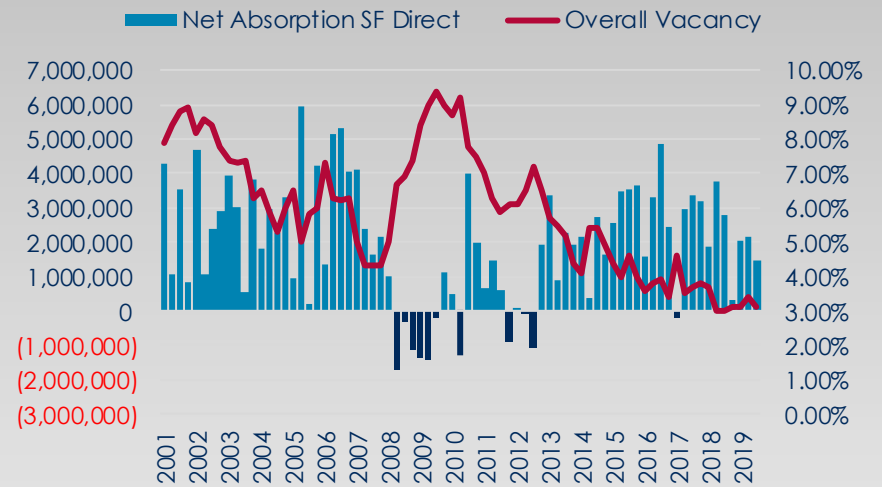


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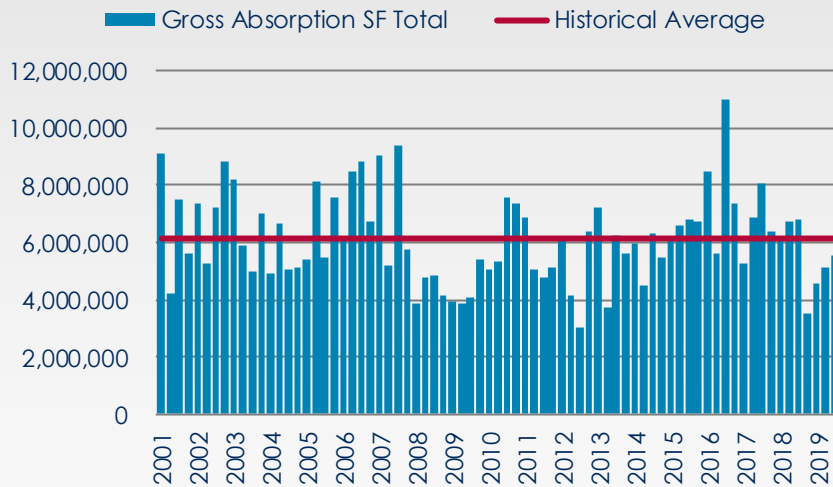
OVERALL VACANCY FELL BY 30 BPS TO 3.1%



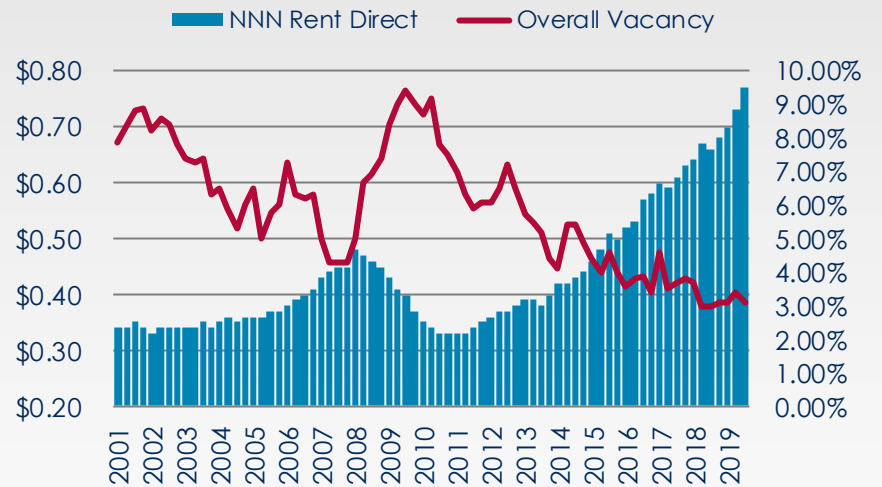
NET ABSORPTION SLIGHTLY LOWER THAN Q2 BUT REMAINS ABOVE 1M SF



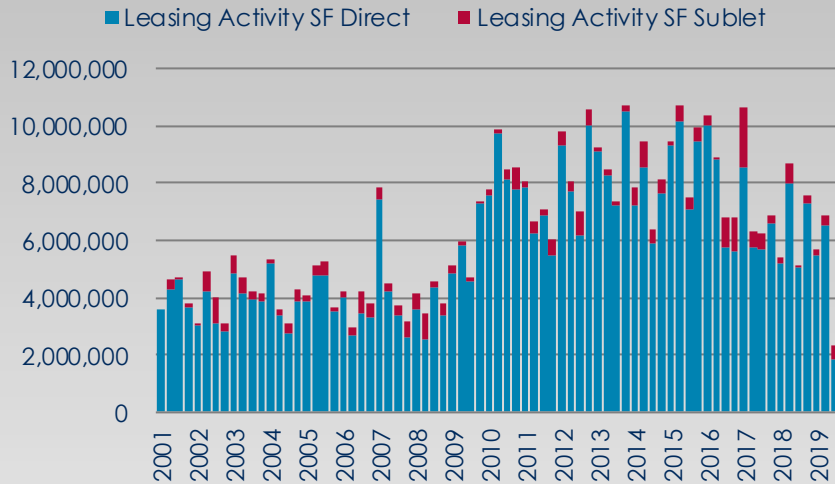
GROSS ABSORPTION INCREASED FOR THE 3RD STRAIGHT QUARTER TO OVER 5.5M SF



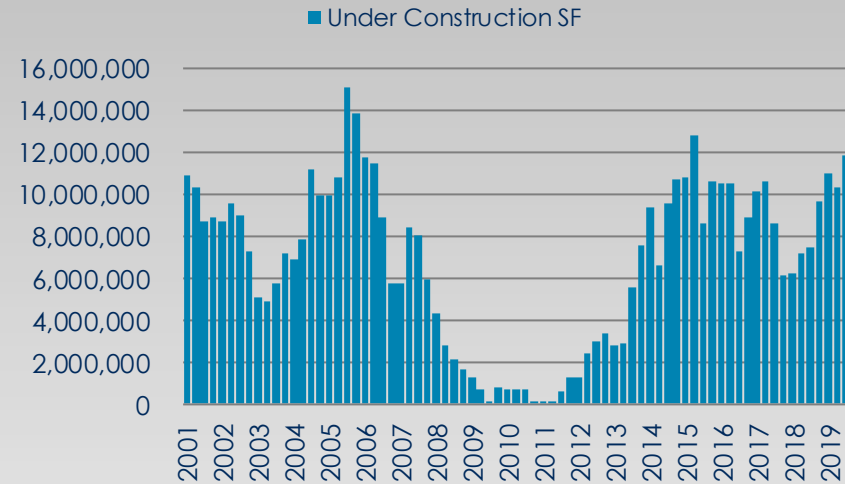
ASKING RENTS CONTINUE TO PUSH ALL TIME HIGHS



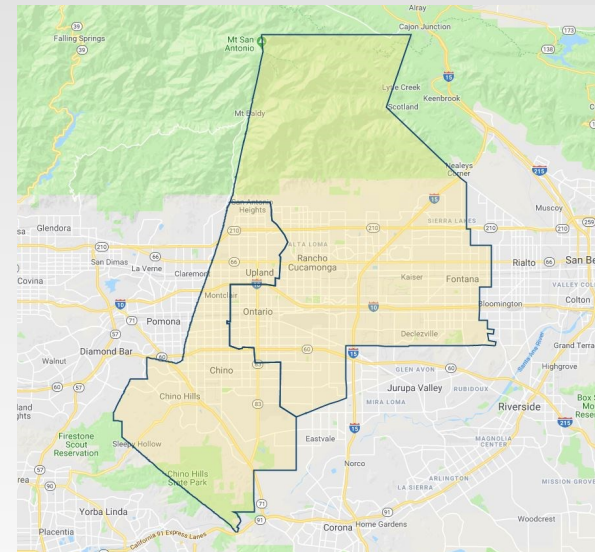
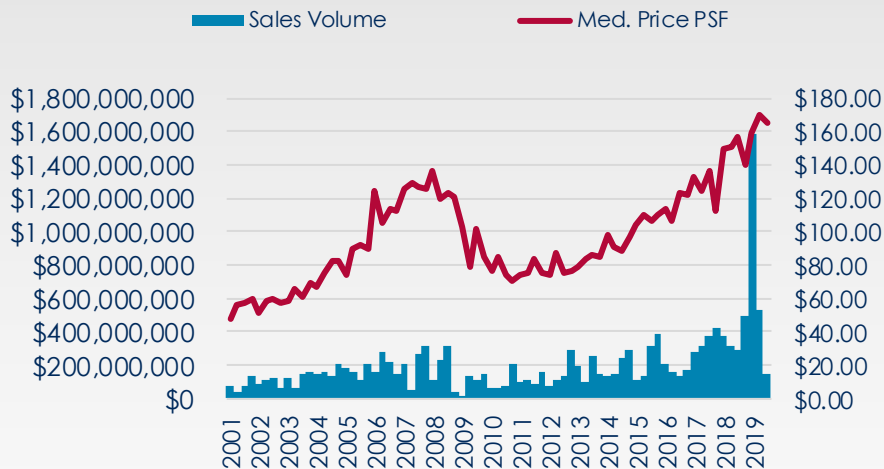
LEASING ACTIVITY PLUMMETED TO LOWEST LEVEL SINCE 2001



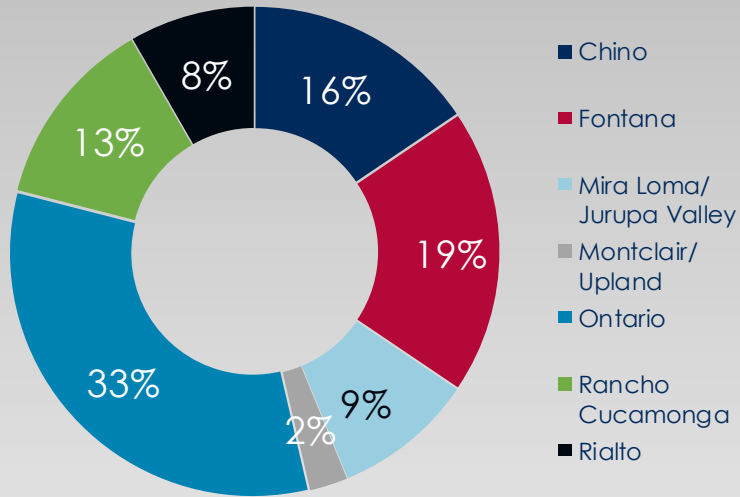
CONSTRUCTION ACTIVITY CONTINUES TO BE ROBUST. NEARLY 12M SF UNDER CONSTRUCTION



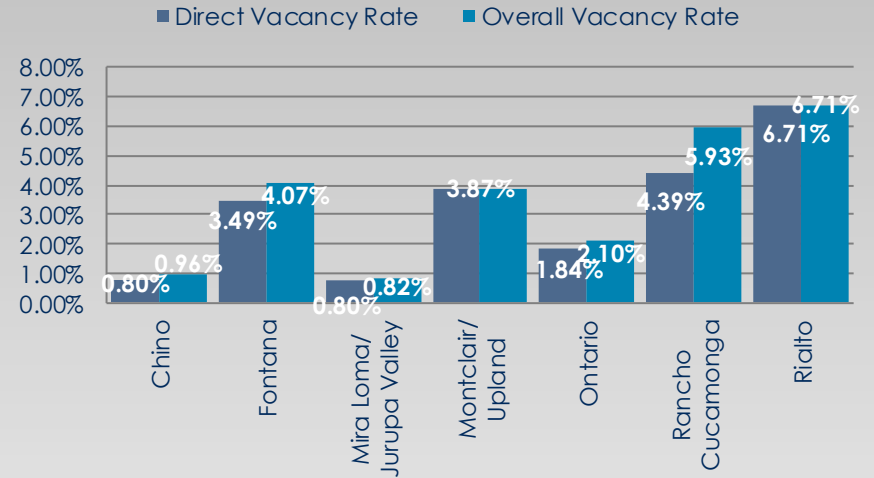
SALES PRICES DOWN SLIGHTLY WITH A MEDIAN PSF OF \$165.00



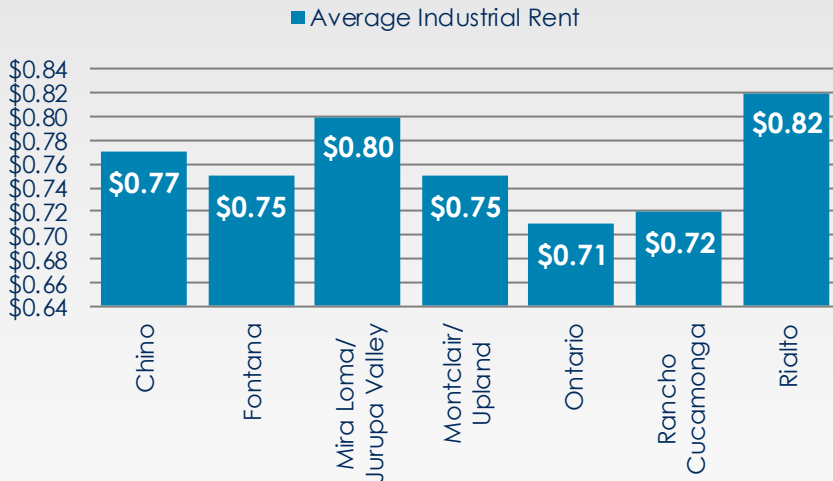
SQUARE FOOT BREAKDOWN- 335,511,441 SF MARKET SIZE



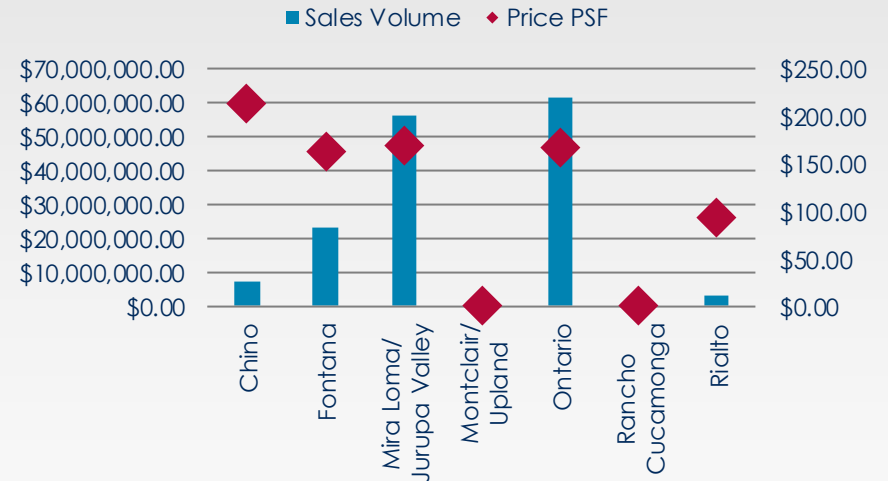
VACANCY BREAKDOWN



AVERAGE RENT PSF



VOLUME BREAKDOWN



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Market Report

Inland Empire Industrial

East



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MARKET ACTIVITY

KEY TAKE AWAYS

ECONOMIC OUTLOOK

<p>Direct Vacancy ↓ 5.1%</p>	<p>Net Absorption ↓ 2,648,726 SF</p>
<p>Overall Vacancy ↓ 5.5%</p>	<p>Gross Absorption ↓ 3,901,216 SF</p>
<p>Under Construction ↑ 10,907,099 SF</p>	<p>Rental Rates (NNN) ↑ \$0.75</p>
<p>Sale Price Change ↓ 3.9%</p>	<p>Deal Volume ↑ 25.9%</p>

MARKET

- **Vacancy Rate:** Decreased 40 BPS from Q2 to 5.5%.
- **Net Absorption:** Down in Q3 from strong Q2. Represents 1.22% of inventory.
- **Gross Absorption:** Fell in Q3 to just under 4M SF.
- **Asking Rents:** Pushed to record highs again in Q3.
- **Industrial Supply:** The IE East market continues historic expansion. In Q3, roughly 2M SF was delivered. Bringing the YTD total to over 6.7million square feet. Nearly 11 million square feet is under construction, equating to 5% of the total inventory.

ECONOMIC OUTLOOK

- **Interest Rates:** The yield curve remained inverted in Q3. In Q3, the 10-2 Spread inverted as well for the 1st time since 2007. The Fed cut rates twice in Q3, both by 25 BPS. An additional rate cut could transpire in Q4, if economy weakens.
- **Trade:** The trade dispute with China continues with no end in sight. Talks between the two most powerful economies are set to resume in Oct.
- **Stock Market:** The Dow and S&P posted minimal gains of 1.2% in Q3. NASDAQ finished negative.
- **Oil:** Crude Oil was down 6.7% in Q3.

<p>U.S. Employment ↑ 3.7%</p>	<p>U6 Rate ↑ 7.2%</p>
<p>Interest Rate ↓ 3.6% <small>(30 year fixed)</small></p>	<p>Changing GDP ↑ 2.1%</p>
<p>Port Traffic Y/Y Δ ↓ 1.1%</p>	<p>NYSE Performance ↑ 0.9%</p>
<p>Inflation Change ↓ 1.7%</p>	<p>10 Yr. - 2 Yr. Spread ↓ 6 BPS</p>

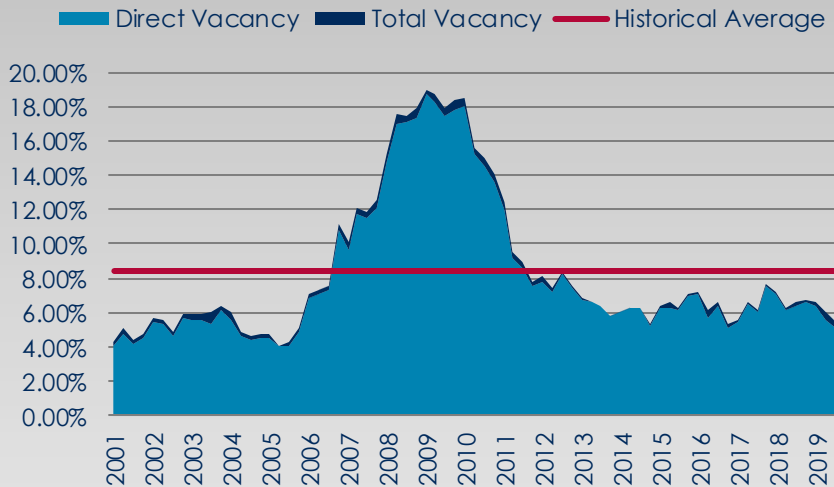
EXPERIENCE IN A CHANGING MARKET

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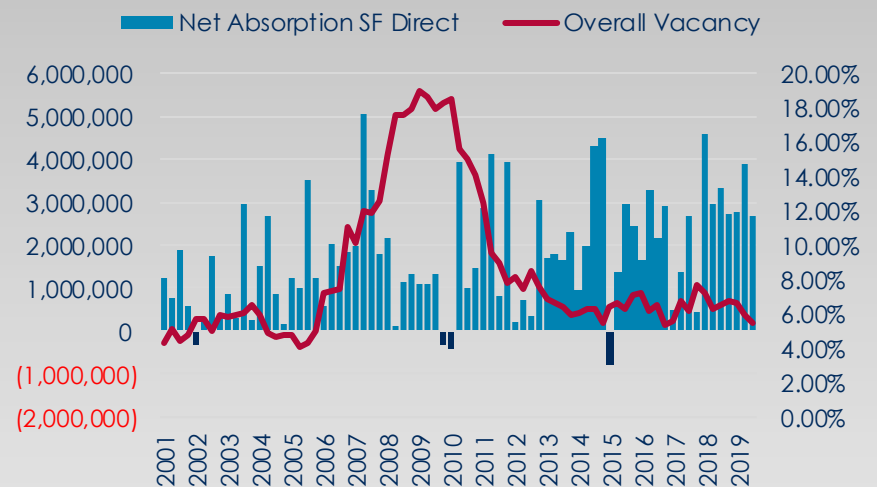


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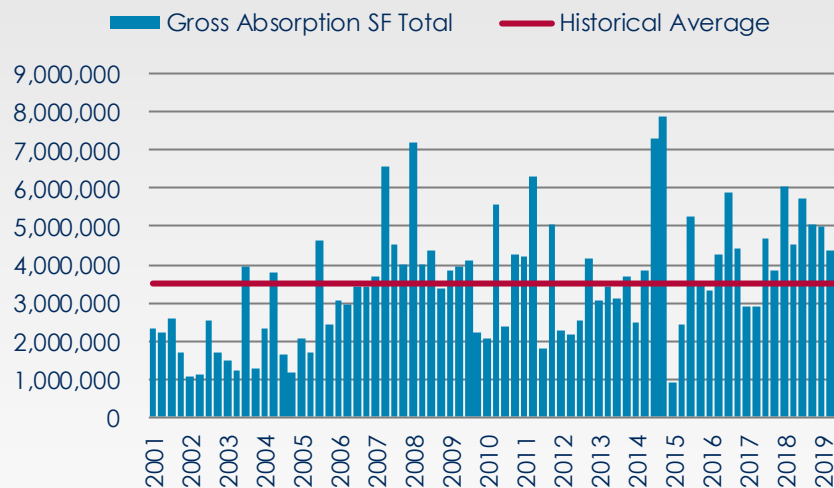
OVERALL VACANCY DECREASED BY 40 BPS FROM Q2 TO 5.5%



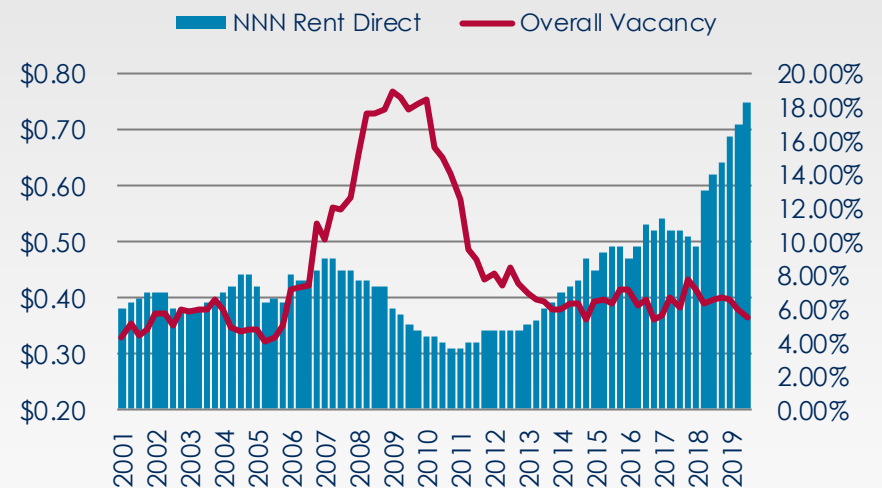
NET ABSORPTION DOWN FROM STRONG Q2



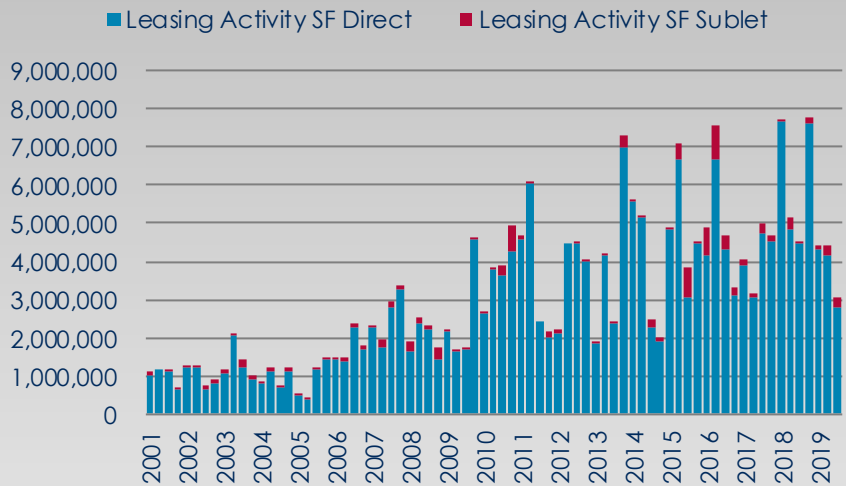
GROSS ABSORPTION DOWN FOR THE 4TH STRAIGHT QUARTER. ABOVE HISTORIC AVG.



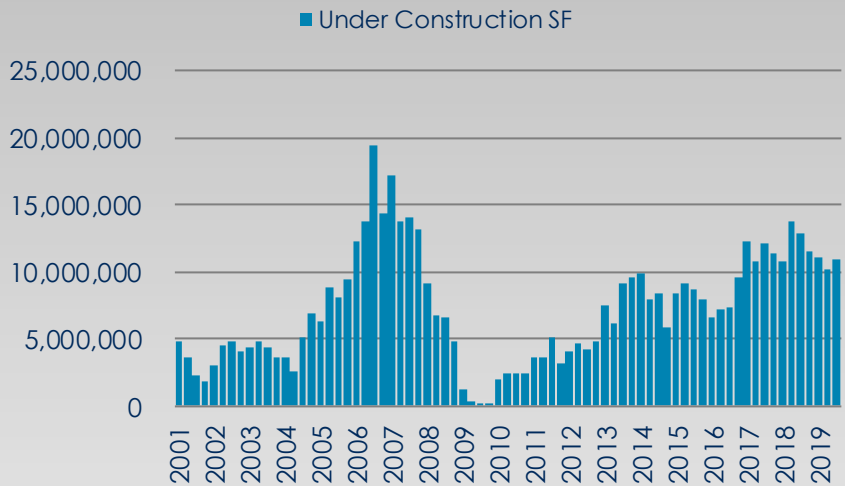
ASKING RENTS PUSH RECORD HIGHS EVEN HIGHER



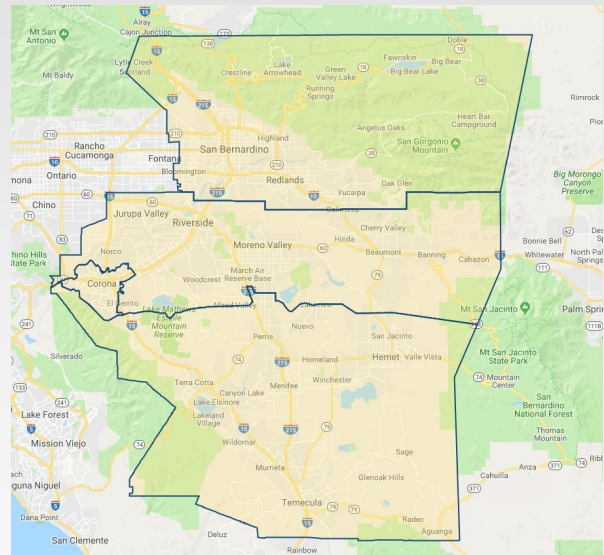
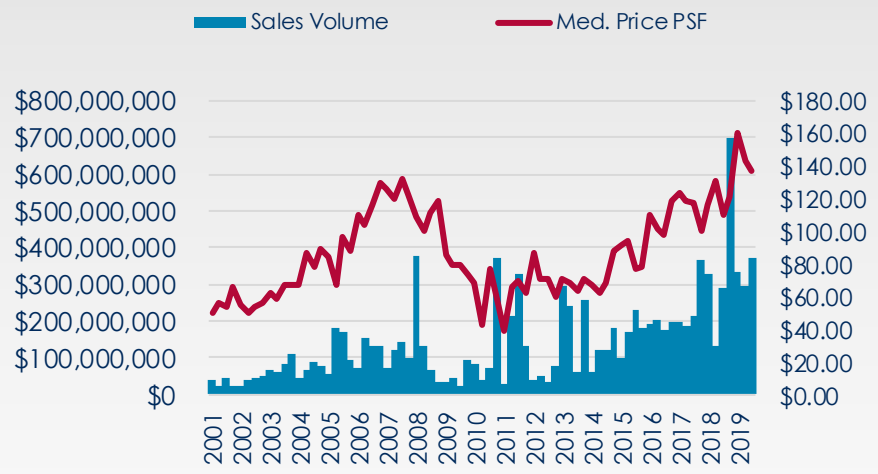
LEASING ACTIVITY FELL BY OVER 1M SF FROM Q2



CONSTRUCTION ACTIVITY OVER 1.9M SF DELIVERED IN Q3. UC ABOVE 10.9M

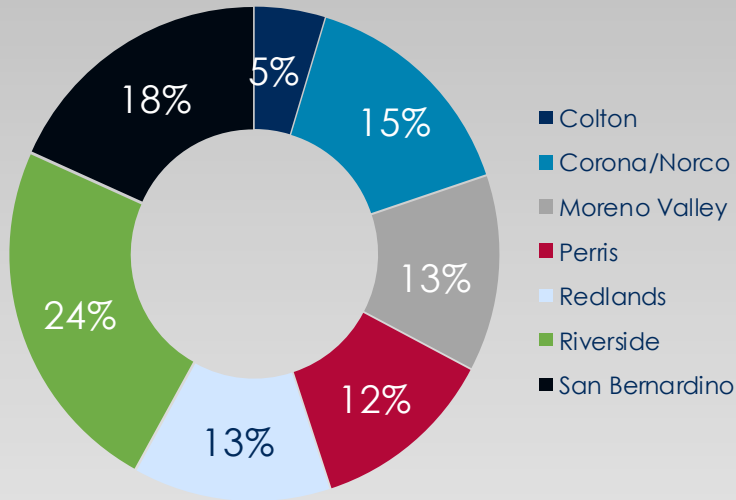


SALES MEDIAN PRICING FELL SLIGHTLY TO \$137.41 PSF. VOLUME UP 25.9%

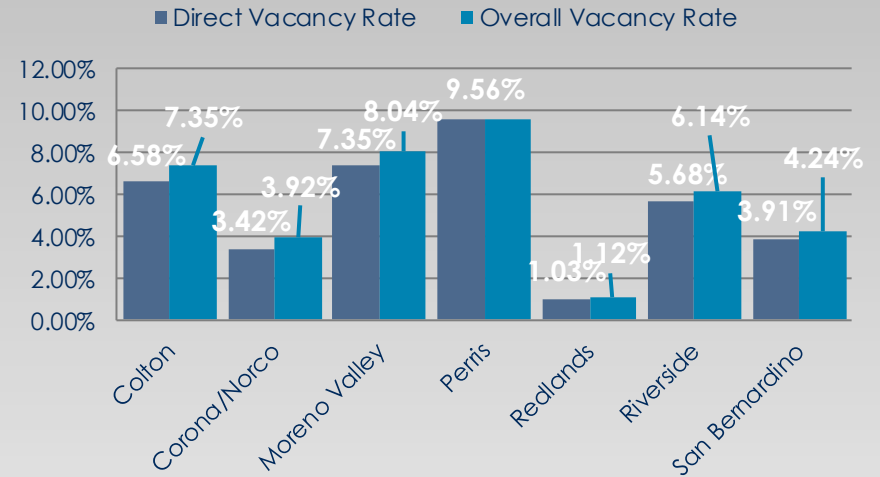


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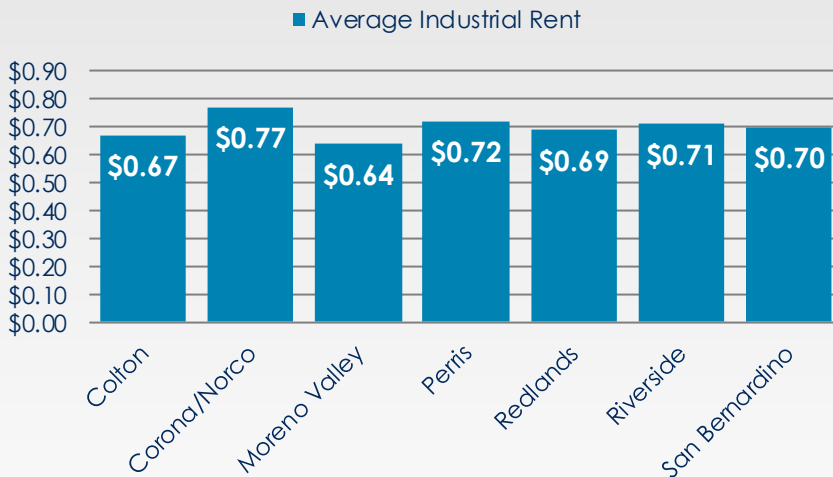
SQUARE FOOT BREAKDOWN- 217,842,293 SF MARKET SIZE



VACANCY BREAKDOWN



AVERAGE RENT PSF



VOLUME BREAKDOWN



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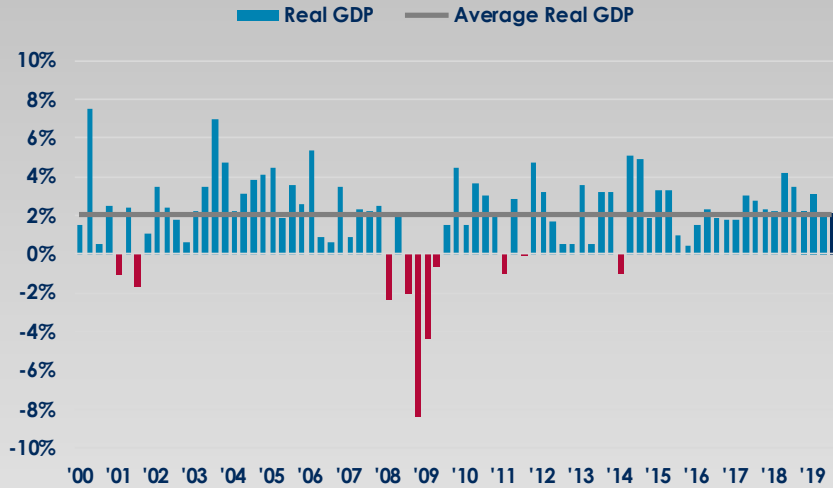
Economic Overview



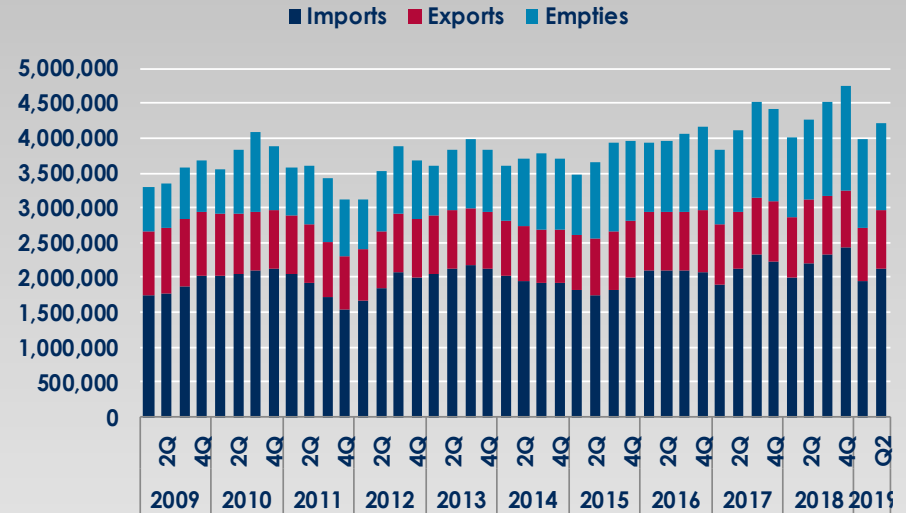
Q3 2019

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GDP IN Q2 FINISHED AT 2.0%. Q3 ESTIMATE IS 2.1%

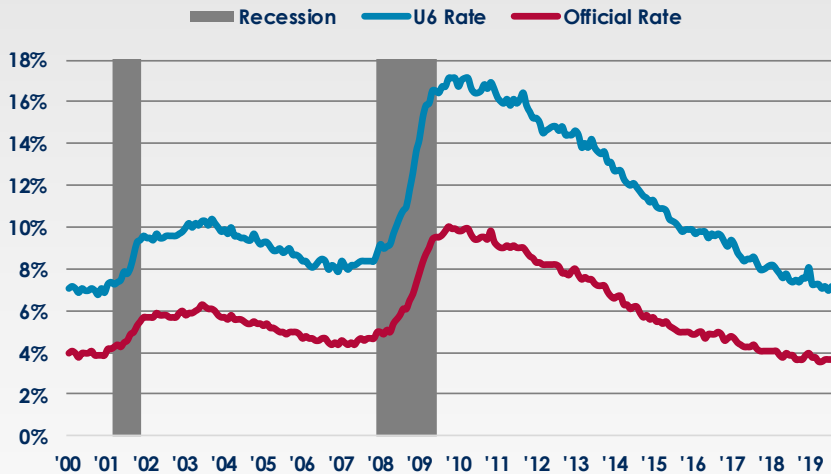


PORT ACTIVITY INCREASED IN Q2 BY 5.6% FROM Q1

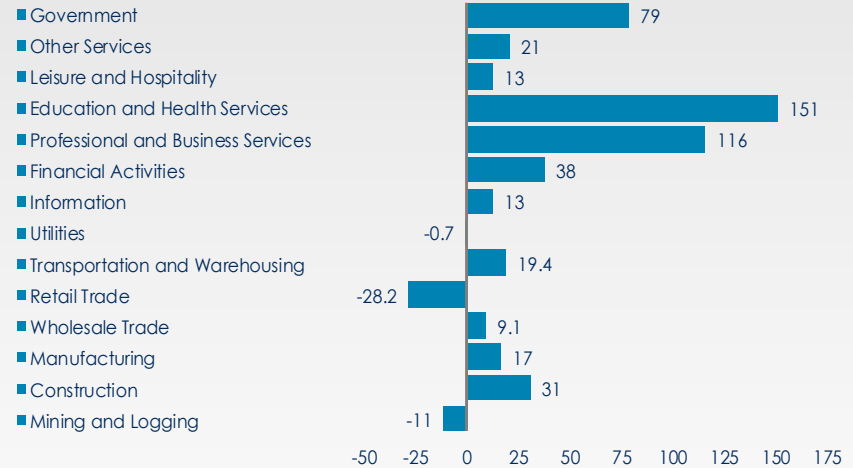


*2.1% for 3Q19 based on Fed Reserve Bank of Atlanta "GDP Now" Forecast

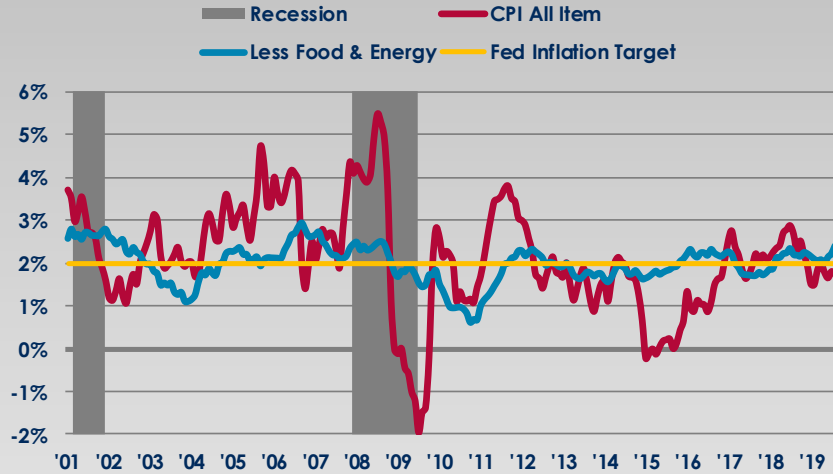
20 BPS INCREASE IN U6 RATE SHOWS PEOPLE ARE COMING BACK TO WORK



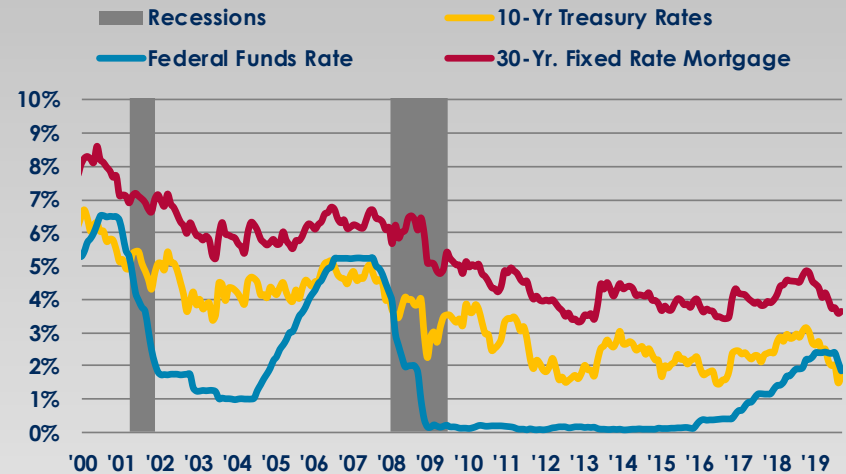
MOST INDUSTRY SECTORS CONTINUE TO SEE GROWTH



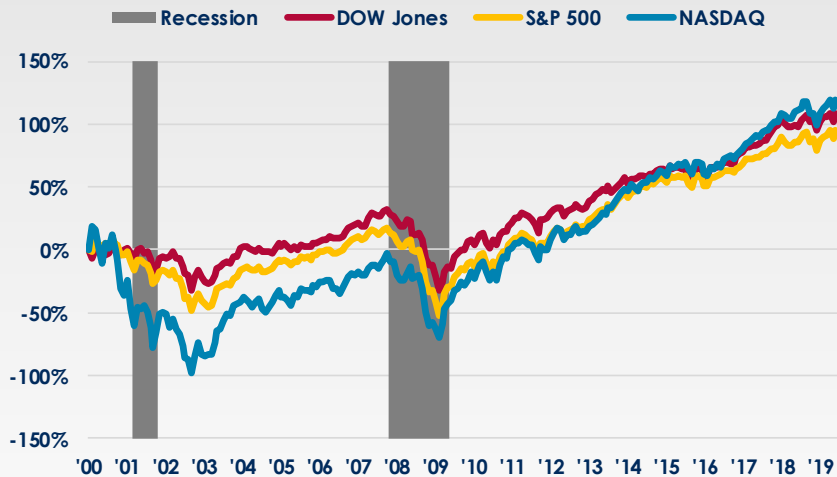
CPI JUST BELOW 2% TARGET



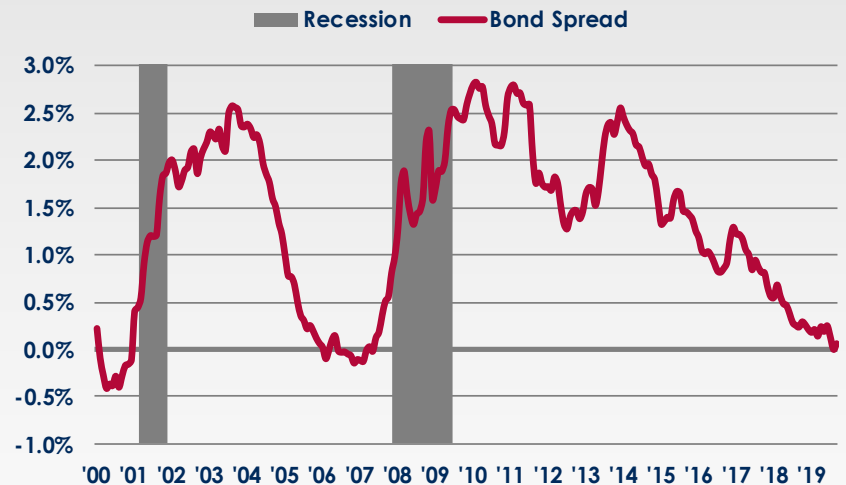
THE YIELD CURVE REMAINS INVERTED



VOLATILE Q3 FOR INDEXES. DOW & S&P UP 1.2%. NASDAQ DOWN



10-2 YEAR BOND SPREAD INVERTED IN Q3



METHODOLOGY & TERMINOLOGY

Methodology

Industrial and flex (R & D) buildings that are 5,000 square feet and greater.

Direct Vacant SF

Space that is vacant and ready for occupancy by a user. The space is being offered for lease or sale directly from the landlord.

Total Vacant W/ Sublet SF

Space that is vacant and ready for occupancy by a user. The space is being offered for lease or sale by the landlord or for sublease by the current tenant.

Direct Vacancy Rate

Total vacant direct space (vacant space for lease or sale from the landlord or owner) divided by the total rentable square footage for existing buildings only.

Vacancy W/ Sublet Rate

Total vacant direct space and sublease space divided by the total rentable square footage for existing buildings only.

Gross Absorption

The total change in occupied space over a given period of time, counting space that is occupied but not space that is vacated by tenants. Gross absorption differs from leasing activity, which is the sum of all space leased over a certain period of time.

Net Absorption

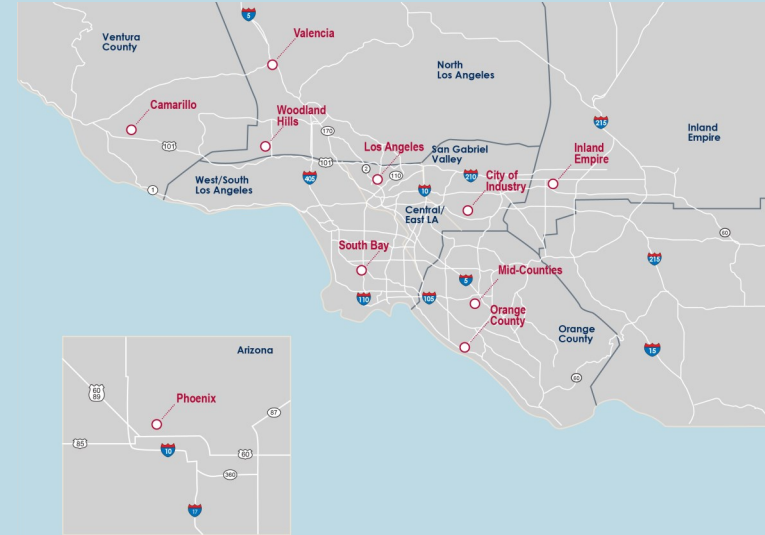
The net change in occupied space over a given period of time, calculated by summing all the positive changes in occupancy (move ins) and subtracting all the negative changes in occupancy (move outs).

Under Construction

Planned buildings for which construction has started but have not yet been granted a Certificate of Occupancy. Planned buildings are not included.

Completed in 2019

New buildings with original construction completed in the year 2019 and granted a Certificate of Occupancy. Renovated buildings are not included.



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