



INLAND EMPIRE

EXECUTIVE SUMMARY

- Industrial construction is set to deliver more than 25 msf of new inventory in 2020, adding to an existing 575 msf of industrial space in Inland Empire.
- Increased multifamily property growth is driven by flourishing employment opportunities, and out-migration from nearby coastal counties due to skyrocketing housing prices.
- Solar, wind, and thermal energy, along with battery energy storage, are burgeoning industries across the vast geographic landscape of Inland Empire, as the market makes massive strides with California's trail-blazing renewable energy goals that continue to lead the way for the rest of the nation.
- New energy technologies, autonomous transportation, robotics and heightened retail services expectations drive efficiencies and profits, keeping investors and developers interested.

Inland Empire is a vital logistics hub which supports warehousing and distribution requirements of the entire Southern California region, and thrives with its close proximity to the nation's busiest container ports at the Ports of Los Angeles and Long Beach. Most major retail fulfillment centers require a presence in this market that consists of the counties of Riverside and San Bernardino. Record high rental rates, and consistent year-over-year low vacancy, is a trend that is expected to continue throughout 2020, in spite of the perpetual addition of new inventory to the market. Robust employment gains are driven largely by government, utilities, transportation and warehousing; in addition, hospitality, healthcare and education are rapidly expanding as a direct result of tremendous population growth.

Industrial construction in Inland Empire has paved the course for a projected delivery of more than 25 million square feet (msf) of new inventory in the coming year, adding to the market's existing 575 msf of industrial space. As deliveries approach pre-recession highs, the nationally trending need for warehousing and logistics solutions ensures this market is not presenting a risk for oversupply. Vacancy continues to decline as the appetite for new inventory sustains consistent demand, bringing vacancy rates down to near record levels, approaching 4.3% as the first quarter of 2020 begins. The rapid pace of growth in rental rates, post-recession, has driven pricing to nearly double that of pre-recession highs. While rents are expected to climb further north of \$8.76 psf NNN in the coming year, the growth rate

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

| | OFFICE | RETAIL | INDUSTRIAL |
|---------------------|--------|--------|------------|
| Rental Growth | ↑ | ↑ | ↑↑ |
| Vacant Space | ↑ | ↓ | ↑ |
| Construction Levels | ↑↑↑ | ↑ | ↑ |
| Leasing Volume | ↓ | ↓ | ↓ |
| Investment Volume | ↓ | ↑↑ | ↑↑↑ |

While Inland Empire is dominated by its industrial platform, multifamily property growth follows closely behind. Population growth is also driving a surge in retail demand, and healthcare demands are driving new office construction.

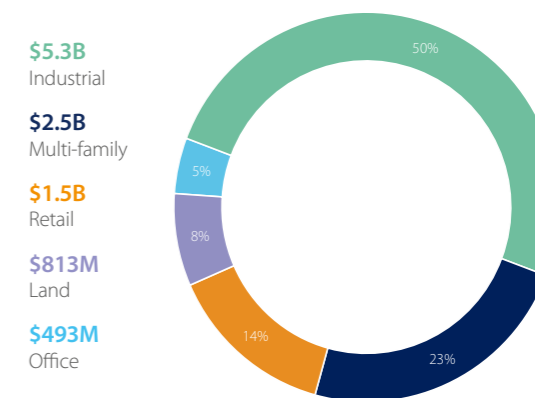
may experience moderate deceleration as expectations for returns become less frenzied and more normalized as part of the market's long-term economic stability.

Inland Empire CRE is responding to market demands within the tides of national and global trends, positioning the market with greater capacity for resilience. While the market is dominated by its industrial platform, multifamily property growth follows closely behind as employment opportunities flourish and migration from neighboring over-priced coastal counties increases. As the two property sectors begin to overlap in geographic proximity, local governments are increasingly pressured to institute buffer zones to protect communities from noise pollution and the worst recorded air quality in the state. Scrutiny of new logistics and freight facilities through the lens of the California Environmental Quality Act (CEQA) will continue to be at the forefront of regulatory discussions in 2020; however, economic benefits for the region that come with the expansion of major corporations is expected to take precedence in this area for the foreseeable future.

Concurrently, solar, wind, and thermal energy, along with battery energy storage, are burgeoning industries across the vast geographic landscape of Inland Empire, as the market makes massive strides with California's trail-blazing renewable energy goals that continue to lead the way for the rest of the nation. Solar energy and emissions technology jobs are leading the way in one of the fastest growing employment markets in the country. Population growth and a 3.7% unemployment rate are also driving a surge in the retail and healthcare sectors. The majority of office construction expected to deliver in 2020 will go to health services occupiers.

Looming concerns over trade wars are not expected to stall local CRE transactions in the near-term during 2020. A longer-term impact may be registered if consumer spending slows and employment declines in the rest of the nation; however, Inland Empire's growing diversity in sector exposure should increase its adaptability as the national economy runs through its next cycle. And, until that occurs, Inland Empire is expected to be invigorated through 2020 as new energy technologies, autonomous transportation, robotics and heightened retail services expectations drive efficiencies and profits that will keep investors and developers interested.

TOTAL 2019 SALES VOLUME



Source: Real Capital Analytics