

Los Angeles
Orange County
Ventura
Inland Empire
Phoenix

Q4 | 2019

Market Report

Inland Empire Industrial



West

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MARKET ACTIVITY

KEY TAKE AWAYS

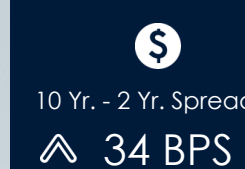
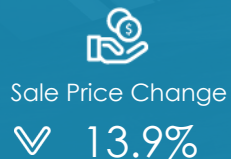
ECONOMIC OUTLOOK

MARKET

- **Vacancy Rate:** Decreased by 10 BPS from Q2.
- **Net Absorption:** Weakest quarter of 2019.
- **Gross Absorption:** Increased from Q3 to above 6M.
- **Industrial Supply:** In 2019, over 6.5M SF has been delivered to the IE West market. Construction activity increased in Q4 to over 13M SF, representing 3.9% of inventory. This market continues to grow & fulfil the large demand.

ECONOMIC OUTLOOK

- **Interest Rates:** The yield curve normalized in Q4. The Fed signaled no change in rates are coming in 2020.
- **Trade:** Congress is expected to pass the USMCA trade deal in early 2020. The trade war with China looks to be coming to an end as Phase 1 of the deal is to be signed in mid-January.
- **Stock Market:** The DOW, S&P 500, & NASDAQ had significant returns in 2019. The DOW saw gains of 22.3%, S&P 500 gained 28.9%, NASDAQ finished at 35.2%. The market is expected to continue its rise in 2020.



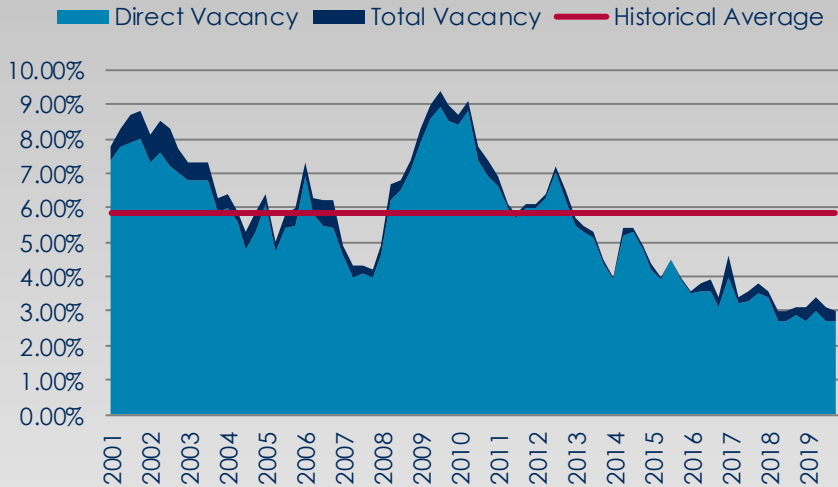
EXPERIENCE IN A CHANGING MARKET

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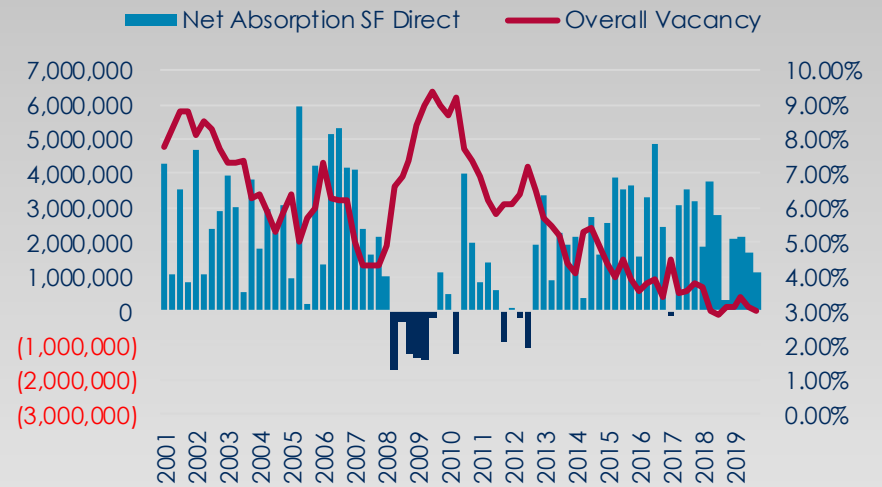


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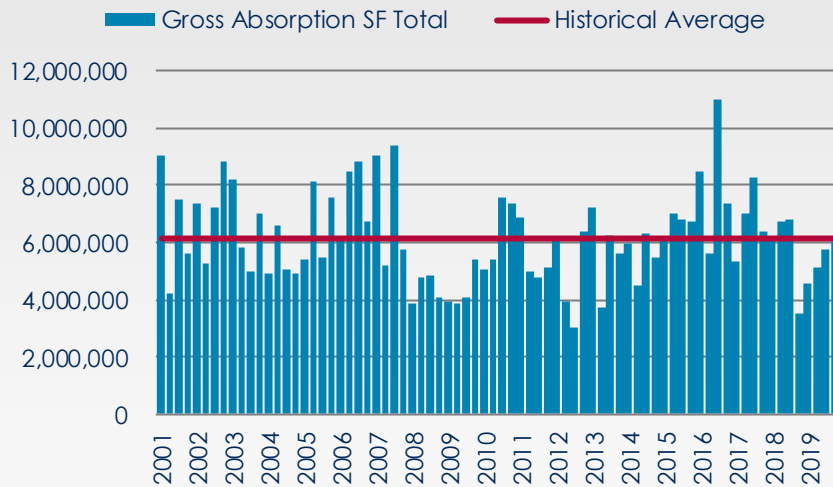
OVERALL VACANCY FELL BY 10 BPS TO 3.0%



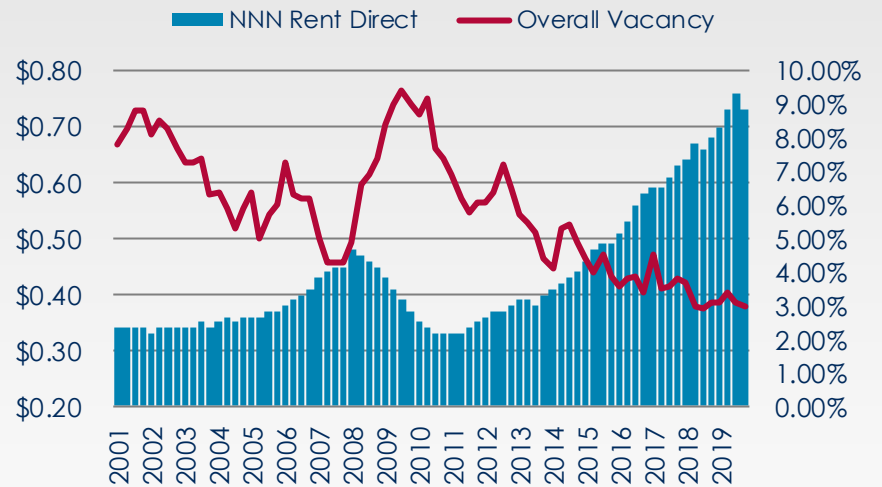
NET ABSORPTION LOWEST QUARTER IN 2019 BUT STILL STRONG AT OVER 1M SF



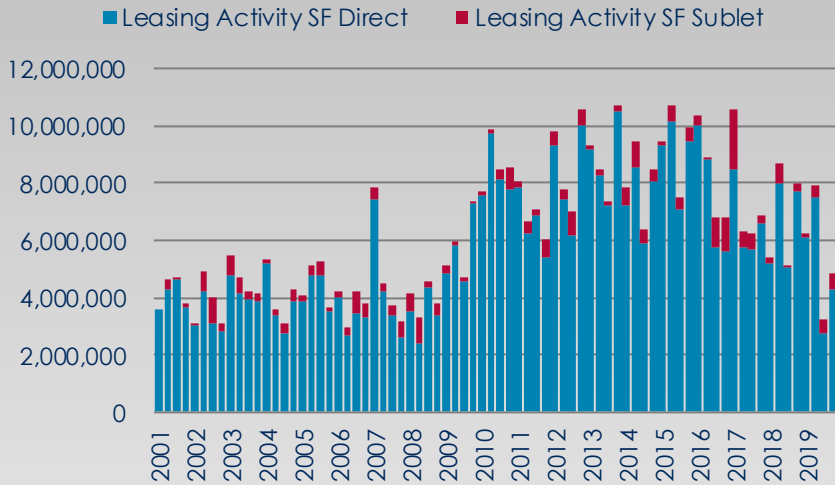
GROSS ABSORPTION INCREASED FOR THE 4TH STRAIGHT QUARTER TO OVER 6M SF



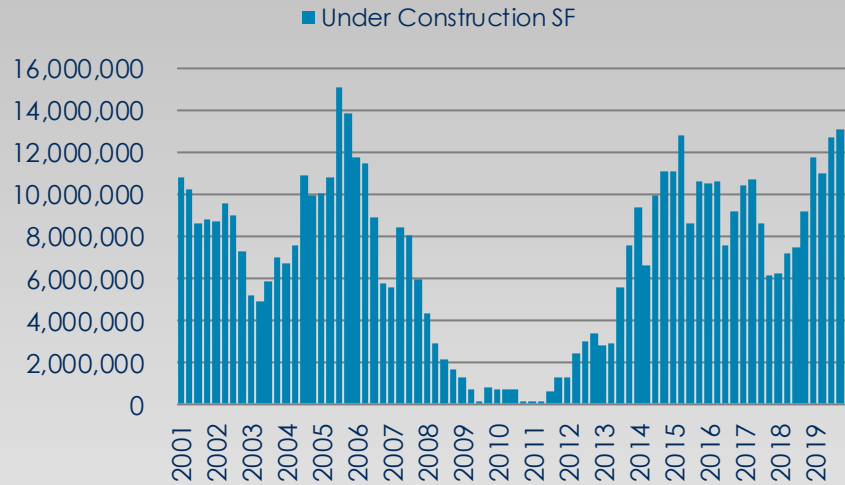
ASKING RENTS FELL BY \$0.02 PSF FROM Q3



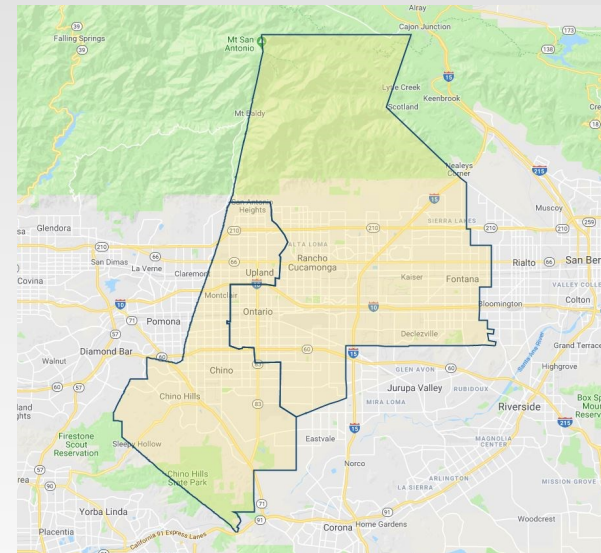
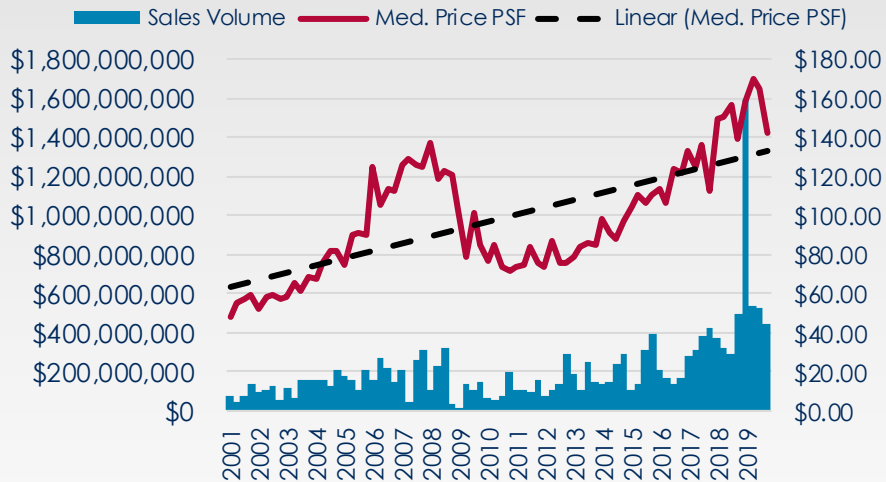
LEASING ACTIVITY
INCREASED FROM DOWN Q3 TO OVER 4.8M SF



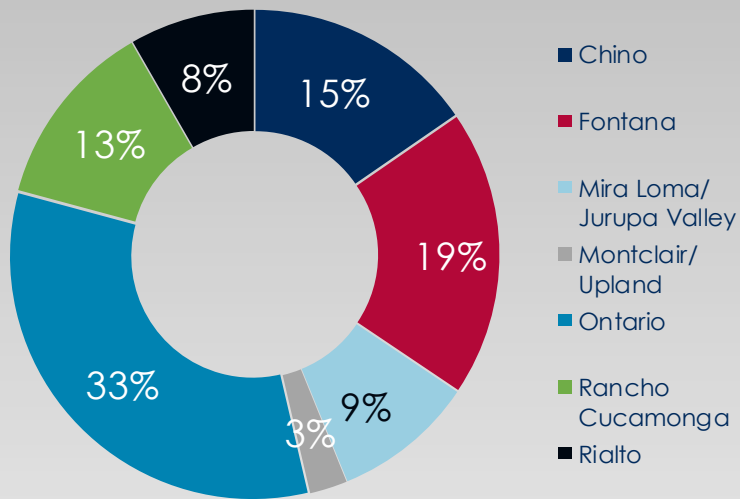
CONSTRUCTION ACTIVITY
OVER 13M SF CURRENTLY UNDER CONSTRUCTION



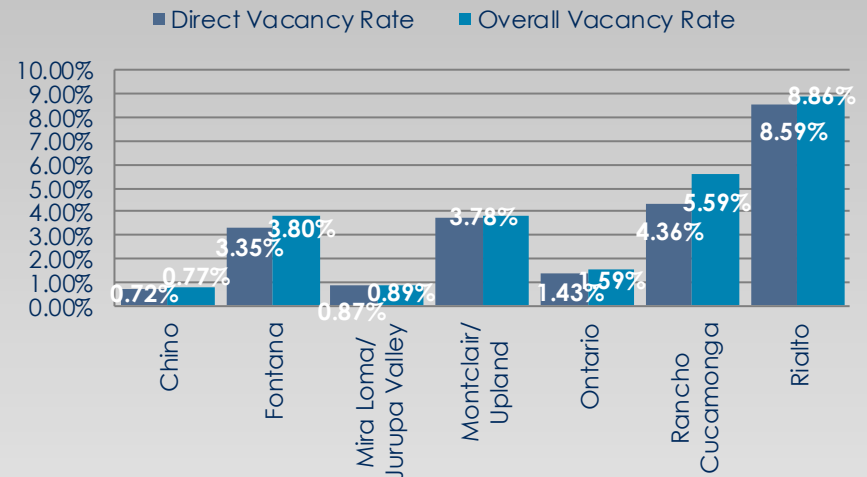
SALES
PRICES DOWN FROM Q3 WITH A MEDIAN PSF OF \$142.00



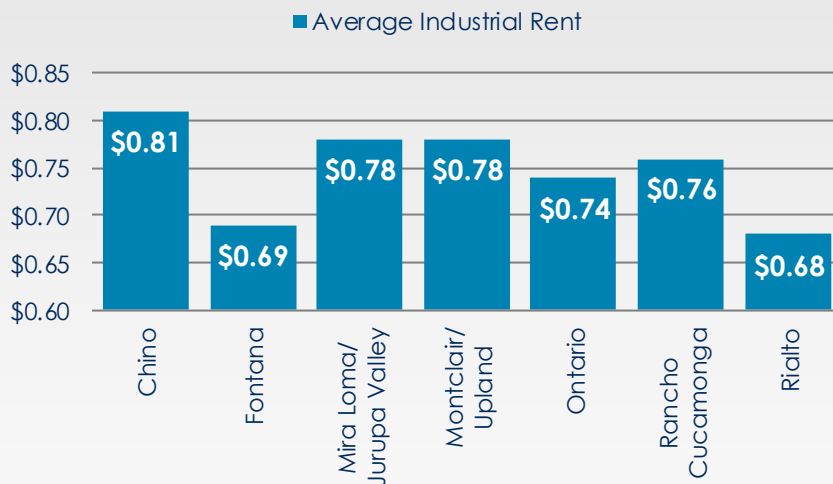
SQUARE FOOT BREAKDOWN- 338,904,395 SF MARKET SIZE



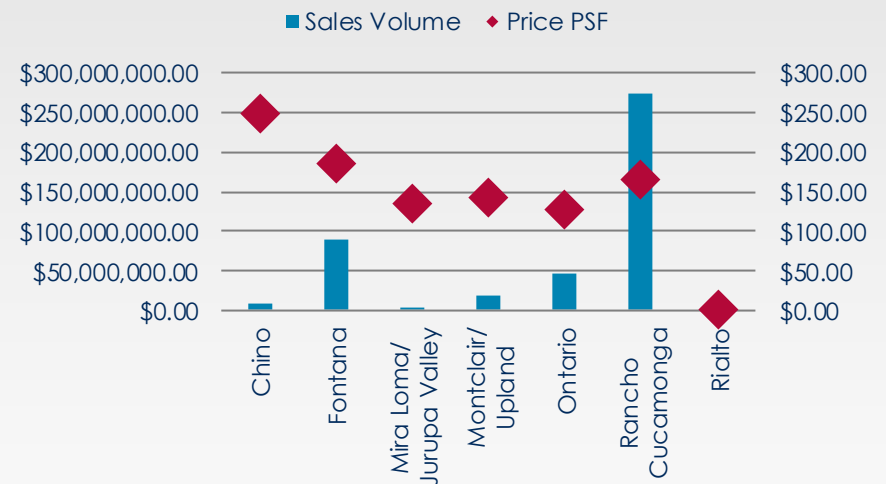
VACANCY BREAKDOWN



AVERAGE RENT PSF



VOLUME BREAKDOWN



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Market Report

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East



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MARKET ACTIVITY

KEY TAKE AWAYS

ECONOMIC OUTLOOK

<p>Direct Vacancy ▲ 5.5%</p>	<p>Net Absorption ▼ 2,805,899 SF</p>
<p>Overall Vacancy ▲ 5.6%</p>	<p>Gross Absorption ▼ 4,010,186 SF</p>
<p>Under Construction ▼ 7,855,105 SF</p>	<p>Rental Rates (NNN) ▲ \$0.77</p>
<p>Sale Price Change ▲ 16.2%</p>	<p>Deal Volume ▼ 86.3%</p>

MARKET

- **Vacancy Rate:** Increased 40 BPS from Q3 to 5.6%.
- **Net Absorption:** Q4 was the worst performing quarter in 2019. Represents 1.26% of inventory.
- **Gross Absorption:** Fell in Q4 to just over 4M SF.
- **Asking Rents:** Pushed to record highs again in Q4.
- **Industrial Supply:** The IE East market continues historic expansion. In Q4, roughly 4.1M SF was delivered. Bringing the YTD total to over 11.4 million square feet. Nearly 8 million square feet is under construction, equating to 3.6% of the total inventory.

ECONOMIC OUTLOOK

- **Interest Rates:** The yield curve normalized in Q4. The Fed signaled no change in rates are coming in 2020.
- **Trade:** Congress is expected to pass the USMCA trade deal in early 2020. The trade war with China looks to be coming to an end as Phase 1 of the deal is to be signed in mid-January.
- **Stock Market:** The DOW, S&P 500, & NASDAQ had significant returns in 2019. The DOW saw gains of 22.3%, S&P 500 gained 28.9%, NASDAQ finished at 35.2%. The market is expected to continue its rise in 2020.

<p>U.S. Employment ▼ 3.5%</p>	<p>U6 Rate ▼ 6.9%</p>
<p>Interest Rate ▲ 3.7% <small>(30 year fixed)</small></p>	<p>Changing GDP ▲ 2.3%</p>
<p>Port Traffic Y/Y Δ ▲ 0.3%</p>	<p>NYSE Performance ▲ 7.5%</p>
<p>Inflation Change ▲ 2.0%</p>	<p>10 Yr. - 2 Yr. Spread ▲ 34 BPS</p>

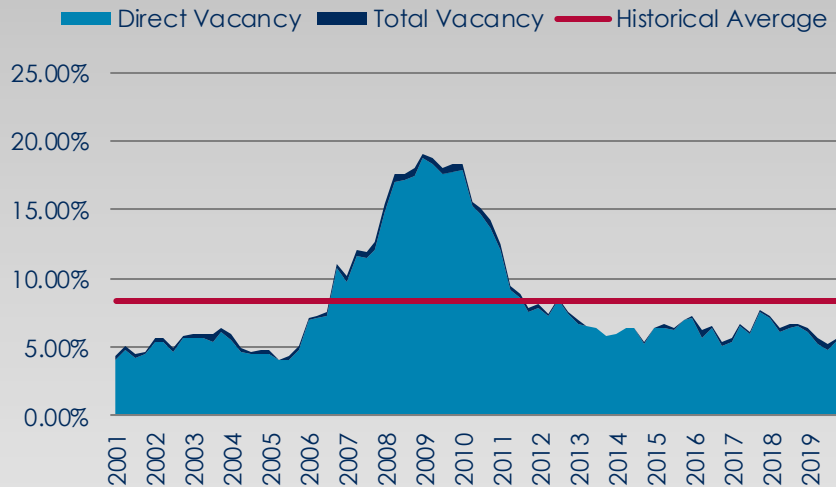
EXPERIENCE IN A CHANGING MARKET

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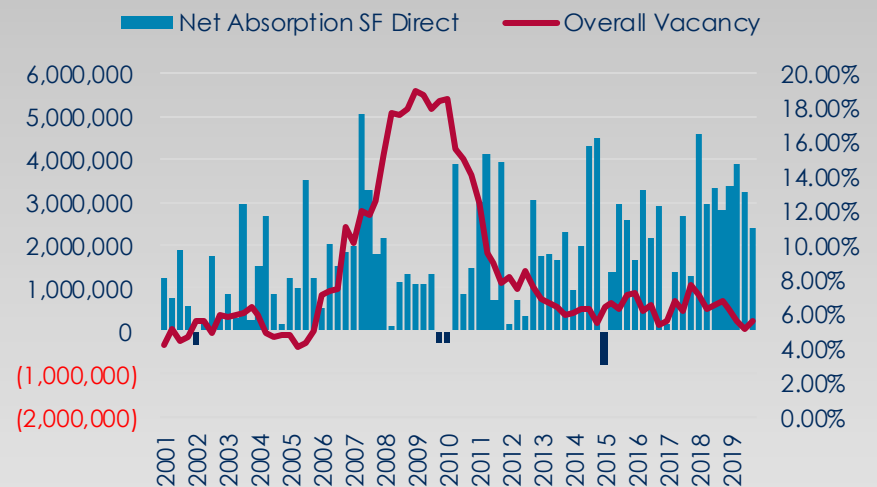


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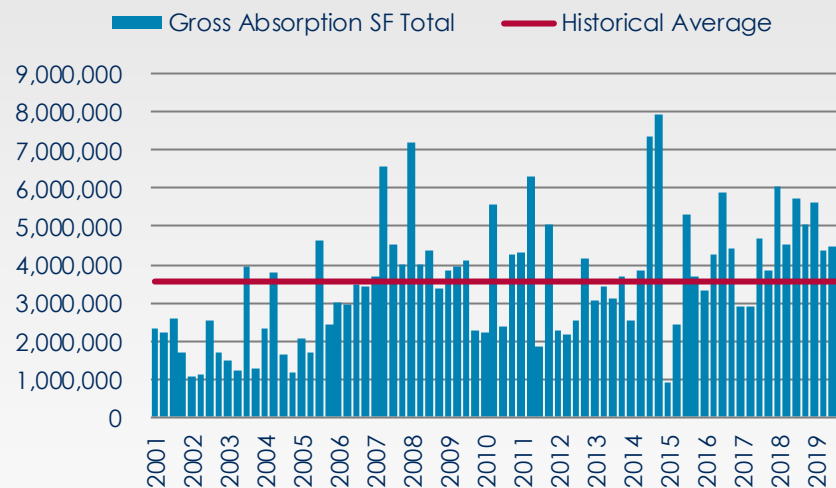
OVERALL VACANCY
INCREASED BY 50 BPS FROM Q2 TO 5.6%



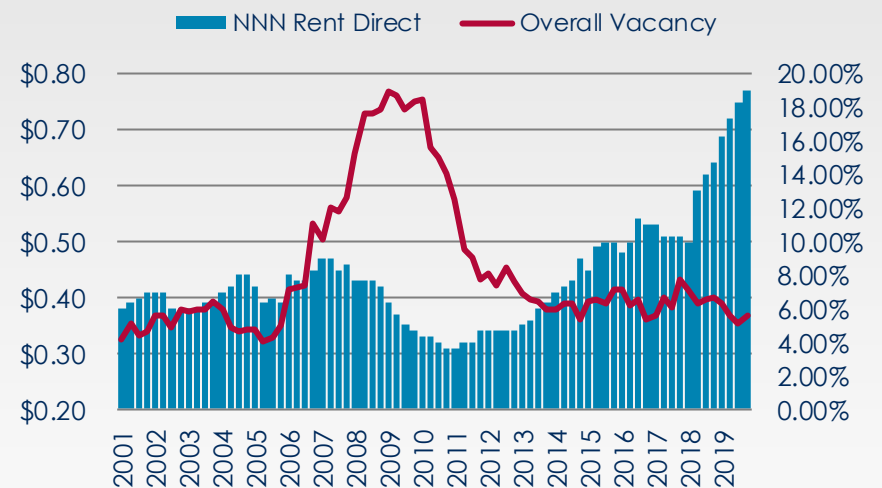
NET ABSORPTION
ONLY QUARTER BELOW 3M SF IN 2019



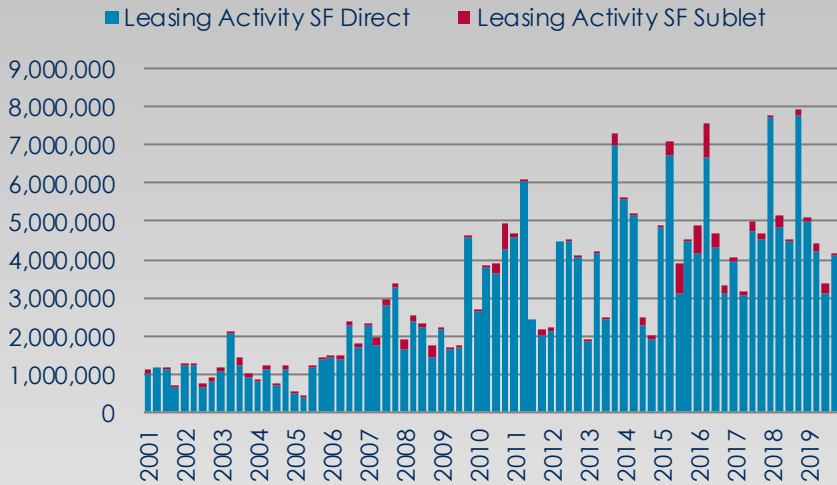
GROSS ABSORPTION
DOWN IN Q4 TO JUST OVER 4M SF



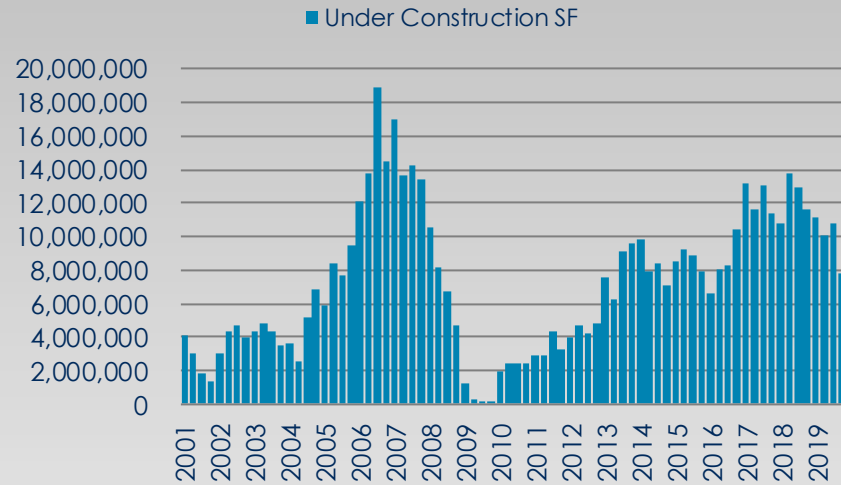
ASKING RENTS
PUSH RECORD HIGHS EVEN HIGHER



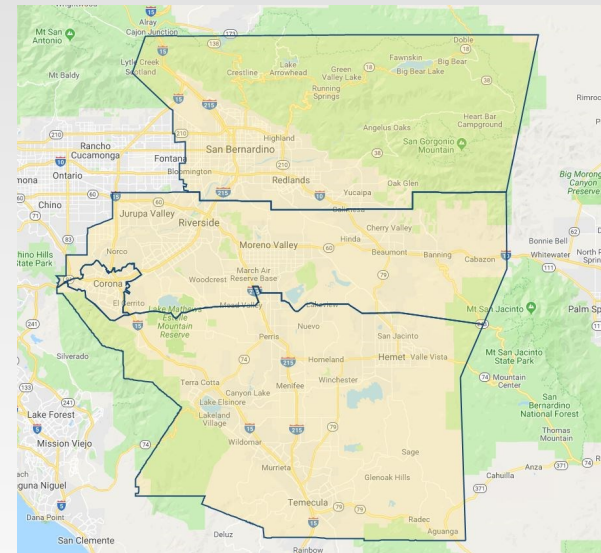
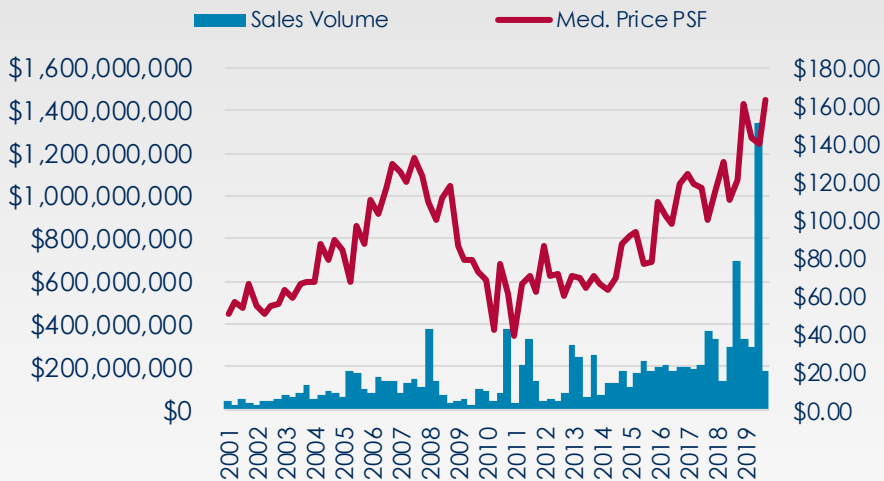
LEASING ACTIVITY PICKED UP IN Q4 TO OVER 4.1M SF



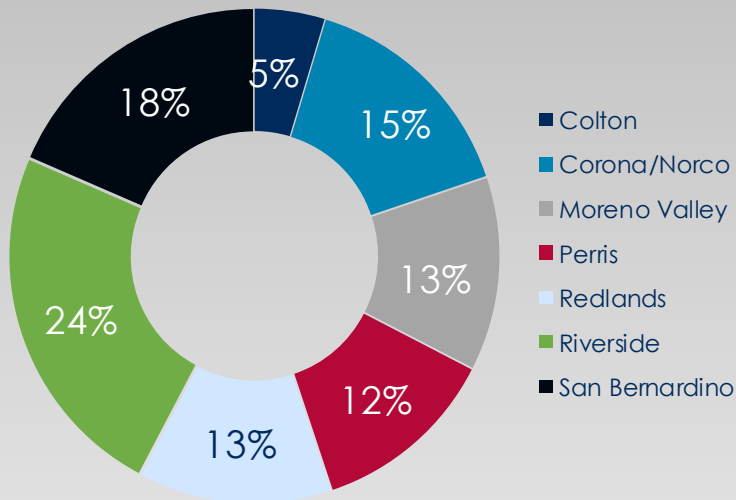
CONSTRUCTION ACTIVITY OVER 4M SF DELIVERED IN Q4. UC ABOVE 7.8M



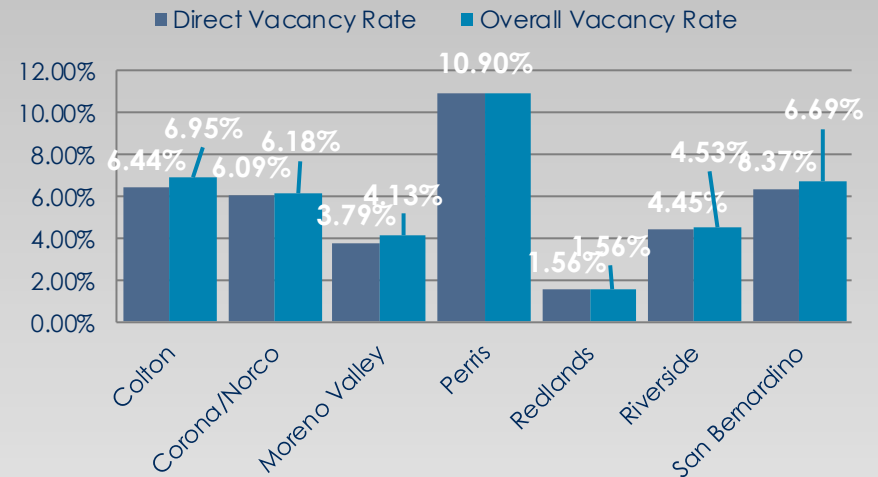
SALES MEDIAN PRICING INCREASED TO \$162.75 PSF



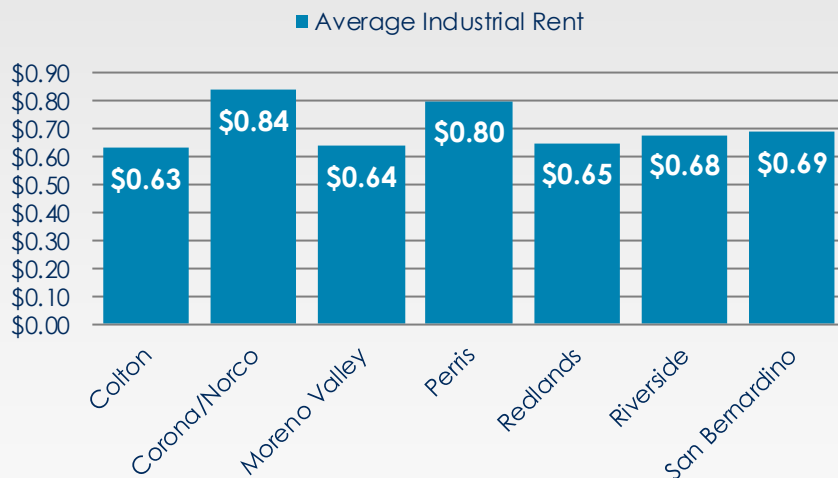
SQUARE FOOT BREAKDOWN- 223,176,865 SF MARKET SIZE



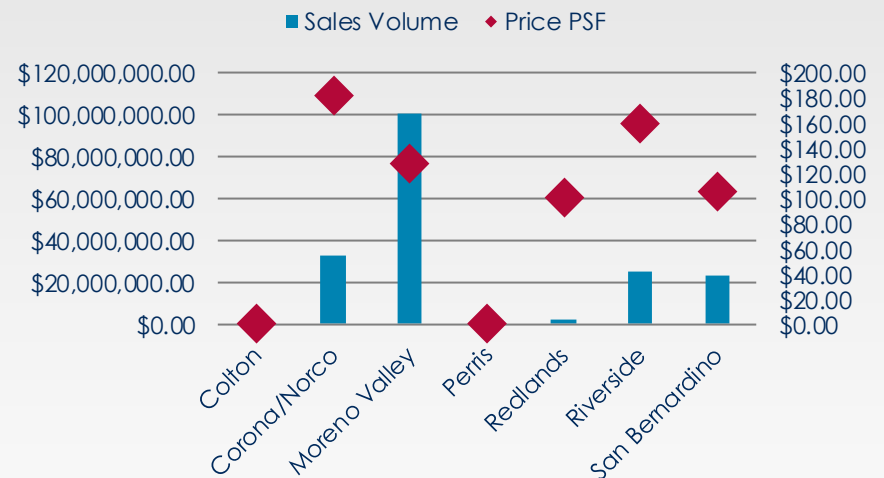
VACANCY BREAKDOWN



AVERAGE RENT PSF



VOLUME BREAKDOWN



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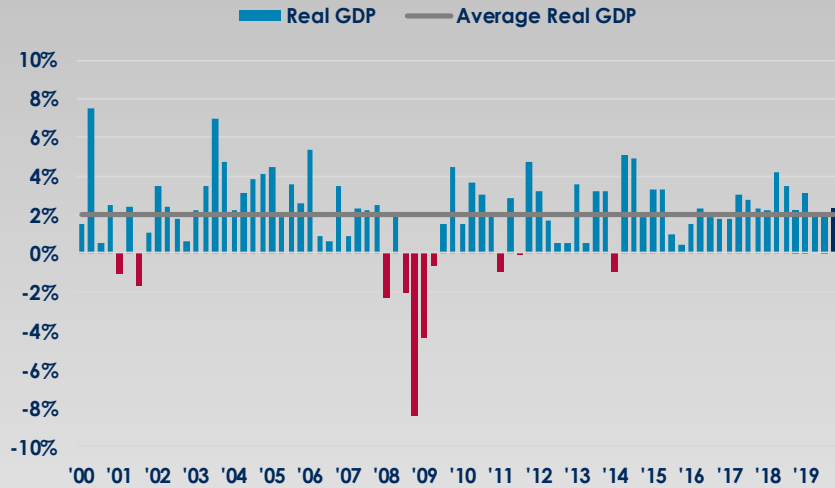
Economic Overview



Q4 2019

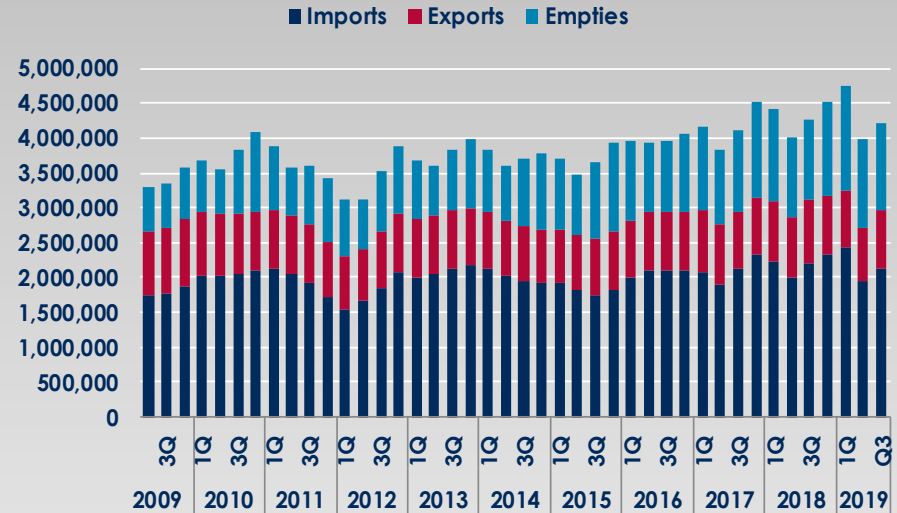
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GDP IN Q3 FINISHED AT 2.1%. Q4 ESTIMATE IS 2.3%

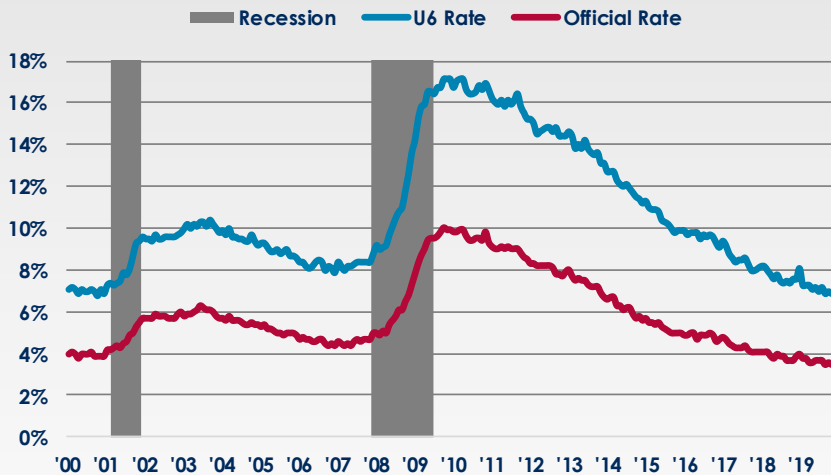


*2.3% for 4Q19 based on Fed Reserve Bank of Atlanta "GDP Now" Forecast

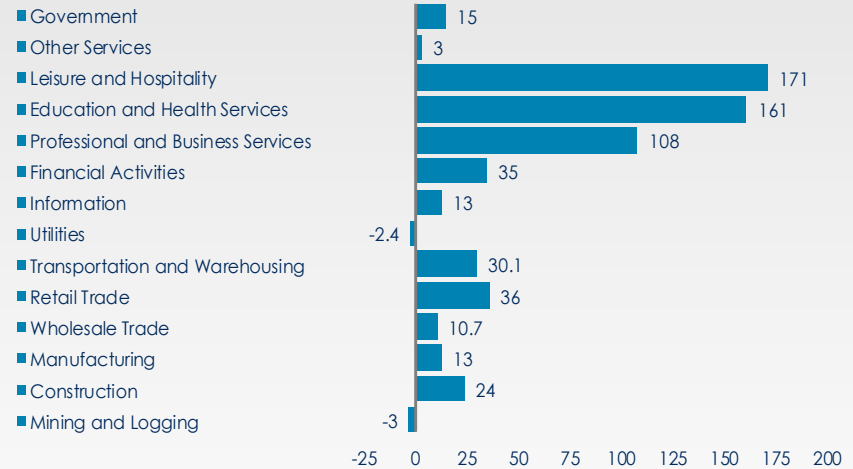
PORT ACTIVITY INCREASED IN Q3 BY 8.0% FROM Q2



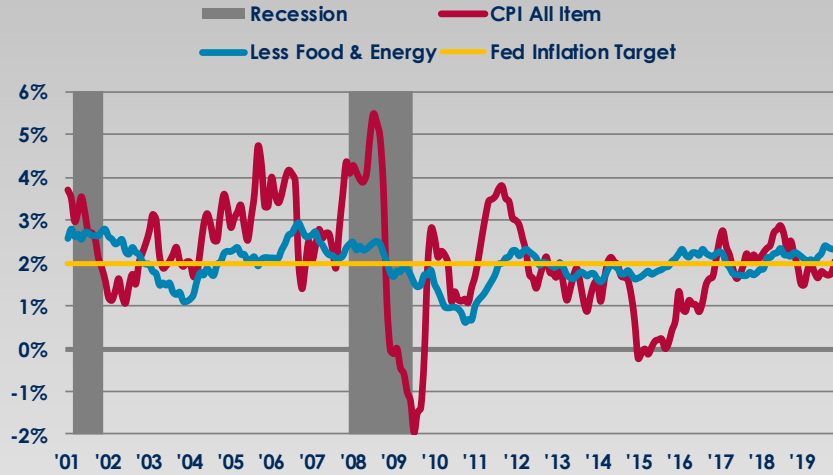
20 BPS INCREASE IN U6 RATE SHOWS PEOPLE ARE COMING BACK TO WORK



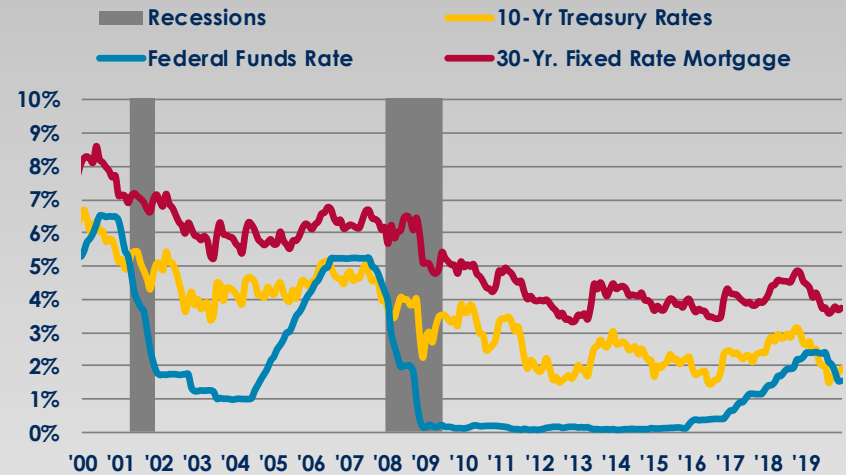
MOST INDUSTRY SECTORS CONTINUE TO SEE GROWTH



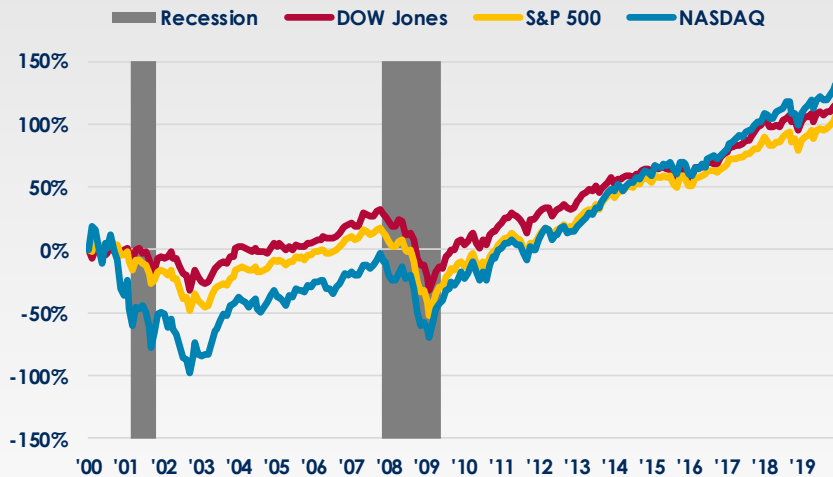
CPI JUST ABOVE 2% TARGET AT 2.05%



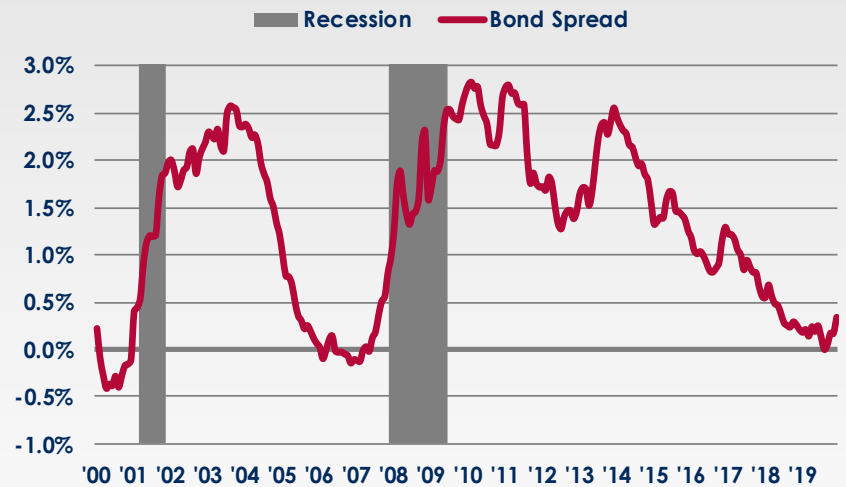
THE YIELD CURVE NORMALIZED IN Q4



ALL INDEXES SAW POSITIVE RETURNS IN Q4 AND FOR 2019



10-2 YEAR BOND SPREAD TURNED POSITIVE IN Q4



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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