

Go East Young Man? Go East.

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The Inland Empire - The Land of Opportunity. The Inland Empire is the new frontier for Real Estate opportunities in Southern California. It is located approximately 36 miles east of Downtown Los Angeles....Ugh! - So Boring..... Instead of introducing my article on the Inland Empire Industrial market with a bunch of stats and current market trends, I thought I would share with you a real life story that happened to me the other day.

Being the "Comp Guy" here at Curtis Rosenthal, I am constantly reviewing mounds of sales data of various property types throughout California. Office, Retail, Multi-Family, Industrial, Vacant Land, and the occasional sale of a \$300 PSF Dot.Com converted Industrial building? Well, I have not run into one of those sales in a while.

One day in the office, I was in the middle of going through a stack of sales of Industrial Buildings sold in the Los Angeles Southbay, specifically, the Compton/Carson Industrial market. While perusing the data, I happen to notice a sale that involved a name I had recognized from the past. I scratched my head and had to think about it. Think Bob think..... Then it came to me. The guy who bought the building turned out to be an old friend from my high school. "Wow - I have not talked to Amir in over 20 years!" What a Player!!! He was a good friend in high school; we had just lost touch with each other during college. His contact information was listed on the data sheet, so I had his phone number to get in touch with him. But then I paused for a bit.

OK? Do I call Amir and catch up with him, or do I blow it off and move on with the day? Hhhhmm. Should I call? What should I do? Will the Lakers win a Championship this year with the new squad? What am I going to do for lunch today? Can't do the Chinese thing today; had it last night. Aaaaaaaah - Call Him. So I did.

We connected right off the bat on the telephone. It was like old times; I was very glad I called my friend. We made plans to meet for lunch the next week to see each other in person. Again - It was great to see an old friend from the past. We talked about the fun we had in high school and what we have been doing with our lives since then. "Have you heard of the World Wide Web? Yes, I almost invented it. I just got a little sidetracked with Real Estate Appraisal." Amir had not forgotten about my dry attempts at Comedy.

At the end of lunch, I raised the topic of his industrial buildings and how things were going. "Great. I am so glad I invested in this market.....But, I am losing a 20,000 sf tenant in one of my buildings. With rates where they have been, the tenant made a great deal to purchase a nice new tilt up in Ontario." I then said to myself "Ontario eh? Hhhhhhhhm?" I had just started writing this article, so I was pretty fresh on what was going on in the Inland Empire. We discussed why his tenant was moving out to Ontario when all of a sudden it hit me - the title for my article. Taking a spin on the old saying "Go West Young Man", it is really time to say "Go East Young Man?"

There are plenty of reasons why my friend lost his tenant; The Inland Empire Real Estate Market has been on fire. Increasing population trends and employment growth over the past few years, in addition to an abundance of real estate opportunities makes the Inland Empire a great place to relocate an Industrial user. Let's first take a look at the larger picture on the Economy.

While national and international economic weakness has slowed down gains in local employment, the Inland Empire 's economy continues to expand and remains a top performer in the nation. Employment growth amounted to 24,100 jobs in 2002 and is forecast to reach 17,000 jobs in 2003. Much of the slowdown is attributable to the sagging trade and transportation sectors, as well as a decrease in construction jobs. Employment growth is forecast to accelerate in 2004, to 35,000 new positions, with service and retail trade jobs leading the charge. These resident-dependent sectors will continue growing at a swift pace to accommodate the rapidly expanding population. Residents from neighboring coastal markets are flocking to the region, resulting in net migration hitting 106,000 in 2002, with forecasts for 101,000 in 2003. Overall, the population grew by 125,000 in 2002 and is expected to expand by another 110,000 this year, to a total of 3.7 million residents. "Go East Young Man!"

The Inland Empire remains the second most affordable housing market in California, but rising prices are pushing buyers out of the picture. As of the Second Quarter 2003, the median price for an existing single-family home in the region hit \$207,540, which represents a 25.2 percent increase over \$165,710 a year earlier. The California Association of Realtors reports Sales volume was up 11.4 percent. Home prices will continue to climb as long as there is a demand from buyers coming in from Los Angeles County and discover affordable housing in places like La Verne, San Dimas, Upland and Claremont. Though, the Inland Empire's inventory of available homes remains extremely tight, thus resulting in increasing home prices.

The High Desert remains California's most affordable housing market, although that region's median price rose 20.8 percent in April to \$148,470. Sales showed a 9.1 percent increase.

This is a no brainer - If you are going to relocate your business, you might as well look into some housing for yourself. What do you think? Now you can buy a bigger newer home in the area and not have to deal with the log-jam traffic on the 91 or 10 Freeway. Have you seen prices on the Westside lately? - - - "Go East Young Man!!"

Alright - Now to the facts and figures about the Industrial Market. The Inland Empire Industrial marketplace covers approximately 485 square miles and consists of 3,828 buildings totaling over 271 million square feet. The Inland Empire continues to be one of the fastest growing markets in the US. This growth is attributable toward boasting one of the most sophisticated transportation infrastructures in the country, vast amounts of available land for future growth, and new buildings at a lower asking rent than other Southern California markets.

As reported by Colliers Seeley, Sales and Leasing activity has slowed down during the 1st Q 2003. At the same time, net absorption of Industrial space had increased Activity during the quarter totaled 4.5 million SF, down from 5.0 million SF in the 4th Q 2002 and down from the 5.2 million SF quarterly average for 2002. Ontario reported the strongest numbers at 2.4 million SF or 11.9% of the base, and in Fontana at 944,400 SF or 11.6%. Activity in Mira Loma was moderate, at 413,700 SF, equal to 6.4% of the base, where Rancho Cucamonga reported lower levels at 159,600 SF or 2.1% of the base.

Although construction activity has slowed relative to the pace witnessed in 2000 and 2001, a large amount of space (3.4 million SF) still remains under-construction. Over the next twelve months, approximately 6.7 million SF will enter the market. This will expand the base by an additional 3.4%, a level that can be absorbed if the economy improves. Current construction activity is dispersed among Chino (1.3 million SF), Ontario (790,900 SF), Rancho Cucamonga (760,900 SF) and Fontana (600,100 SF). No space is under-construction in Mira Loma, where a building moratorium has been placed until various policy issues have been addressed.

Big box developers have now focused their attention to the Eastern Inland Empire as large land sites are becoming scarce in the Ontario Area. San Bernardino, Redlands, Riverside, Moreno Valley and Perris offer large, big box development sites at very attractive sale prices.

The total vacancy rate (including sublet space) decreased slightly during the quarter to 8.9%, down from 9.0% last quarter. However, it is still higher than 8.2% a year ago. The increase in vacancy rates over the past twelve months has been a result of new construction (7.9 million SF) that has outstripped growth in demand for new space (5.4 million SF). Sublet space is being rapidly absorbed. Currently, 1.9 million SF of vacant sublet space is on the market, or 10.9% of all vacant space. This is down sharply from 2.8 million SF in the 4th Q 2002, and is approaching the norm for the area (10.0% of all vacant space being space available for sublease). Vacancy rates are lowest in Chino (6.6%). They are highest in Rancho Cucamonga (12.4%). There is softness in the mid-size building segment (20,000 to 70,000 SF), with vacancy of 14%. Vacancy rates in the big-box segment are moderate at 7.7%.

After climbing in 2001 and early 2002, the weighted average asking rental rate has plateaued, at \$0.35 PSF per month (NNN). Asking rental rates for big-box space are highest in Chino (\$0.33 PSF per month NNN). In other submarkets, they range from \$0.30 to \$0.31 PSF. These are the lowest rental rates in the Los Angeles Basin; substantially lower (up to 50%) than for comparable product in Los Angeles, Orange and San Diego Counties. Sales prices increased moderately in 1999 and 2000, and have since inched upward. They now average \$52 PSF. Land prices for improved land are running \$5 to \$6 PSF.

Colliers Seeley Industrial Market Report, Inland Empire Second Qtr 2003

In conclusion, experts forecast a positive future for the Inland Empire industrial market. Large users will continue to be attracted to the Inland Empire given the regions large supply of modern, available space; comparatively low rents and property prices; excellent access to the rapidly growing Los Angeles Basin in the form of rail, air and highway infrastructure; and finally the large labor pool as a result of the affordable housing. Lastly, the region also benefits from the tight industrial market conditions in the adjacent Los Angeles, Orange and San Diego Counties. I do believe our guy has gone east.

And more importantly, you should never discount the value of a relationship with an old friend, no matter how long it has been since you seen that person. It is so easy these days with emails at your finger tips, or simply picking up the telephone. I was very happy to see my friend Amir after all of these years. He is a good friend who I intend to keep in touch with for a very long time. Even though a great deal of time had past by, we were able to pick a dialogue like it was our Senior year in High School. "Dude - Do you remember the field trip we took to the Cadaver Lab with our Biology class? Gnarly!"