

INLAND EMPIRE: Vacancy Rate Climbs to Double of Year Ago

When developers sketched out plans to build big-box industrial facilities during the Inland Empire's red-hot market a few years ago, most surely considered the possibility that things might slow down. But few could have imagined just how much.

Only 31 percent of the nearly 22 million square feet of industrial space completed in the region last year has been absorbed, according to Grubb & Ellis Co. Vacancies rose yet again during the year's final quarter, up more than a point to 9.9 percent and more than double the rate of a year earlier.

Industrial Market At a Glance

Inventory: 423 million square feet

Under Construction: 8 million square feet

Asking Rents: 41 cents

Multiple factors are in play, said Tim O'Rourke, executive vice president at Jones Lang LaSalle.

"You have a number of companies that have gone completely bankrupt and vacated buildings," O'Rourke said. "You also have

companies that may be subleasing half their building because their sales are down."

O'Rourke pointed to Ashley Furniture, a retailer that's now trying to sublease half or even all of the 683,000-square-foot Redlands distribution center it rented in 2006.

Submarkets further from the Ontario (15) Freeway — such as Colton-Rialto, which saw its vacancy rate climb eight points to 26.7 percent — have taken the hardest hits, while historically tighter western submarkets have been riding out the storm virtually unscathed. Montclair-Upland, a submarket with no new product, kept its vacancies around 1 percent last quarter.

Asking rents only fell two cents to 41 cents over the last year, but landlords are making concessions — from free rent to tenant improvement packages — in order to get deals done.

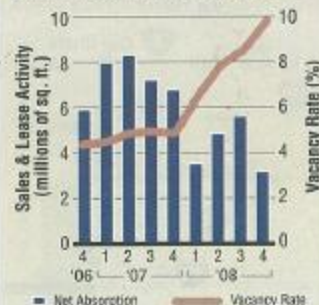
— *Lizbeth Scordo*



Ontario: Kraft Foods Global leased for three years at 3971 E. Airport Drive.



Inland Empire Industrial Market



MAIN EVENTS

► Flag manufacturer Flags Importer Inc. picked up a 30,288-square-foot industrial building at 1700 S. Milliken Ave. in Ontario for \$3.85 million. ProLogis, the giant Denver-based warehouse developer and manager, sold the manufacturing facility, located in the ProLogis Park Ontario Airport.

► In another ProLogis deal, Kraft Foods Global Inc. took an exercised lease option for 445,200 square feet of industrial space at 3971 E. Airport Drive in Ontario for three years. Landlord ProLogis leased the space at a startling rent of 42 cents per square foot.

► UTI Integrated Logistics signed a long-term lease to take 484,250 square feet at 13230 San Bernardino Ave. in Fontana, also from ProLogis. The tenant will be leaving facilities it occupies in Ontario and Mira Loma to combine into this single Fontana location. Financial terms were not disclosed.

► AAQ Investment Inc. purchased a 26,133-square-foot building in Ontario for \$3.1 million from Master Development Corp. The building is part of the Vineyard Commerce Center.

► Packaging film manufacturer AEP Industries signed an 88-month lease to take nearly 144,000 square feet of industrial space in Chino in a deal worth approximately \$7 million. Developer Watson Land Co. owns the facility, which is part of the Watson Commerce Center.

► Jam maker Smucker's inked a five-year lease to take nearly 600,000 square feet of distribution space in San Bernardino. Alere Property Group owns the 844,150-square-foot facility located at 5690 Industrial Parkway. The total consideration of the lease is \$10.5 million.