

# Inland Empire

## Office Market Outlook 3Q 2018

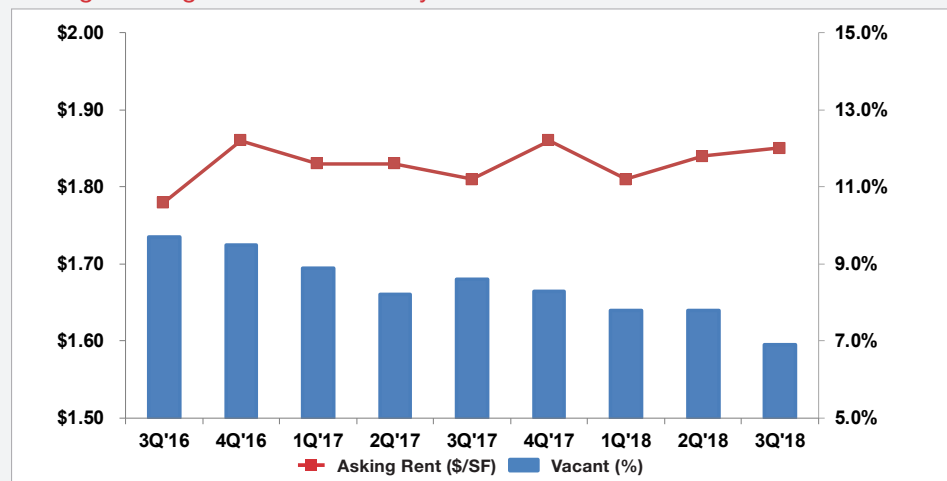
### MARKET OVERVIEW

Like much of Southern California, the Inland Empire office market continued to witness sustained occupancy and rent growth in 3Q 2018. The vacancy rate for the Inland Empire office market has fallen by 90 basis points over the quarter and 170 basis points over the year to 6.9%. This is the lowest vacancy rate on record and remains over 10 percentage points below the prior peak vacancy rate in 3Q 2009, which saw vacancy reach 17.3%. This indicates that the Inland Empire has fully recovered from the Recession. Because the Inland Empire office market was hit especially hard during the 2008 recession, developers have been more cautious with new projects. This has led to limited growth in the supply of new office space. Between 2010 to 2018, only 2.0M SF of office space was delivered, while between 2000 and 2010, over 18.5M SF were delivered. Occupancy growth has been led by tenants that largely serve the local population, such as office medical tenants, rather than the technology companies driving growth in Orange County and Los Angeles. As a result, occupancy growth has been slow but steady and largely dictated by employment growth. Between August 2017 to August 2018, the unemployment rate for the Inland Empire dropped from 5.6% to 4.5%, with employment in the office occupying sectors growing by 3.3% and adding 13,600 new jobs.

### TRENDS TO WATCH

The outlook for the Inland Empire remains positive, as occupancy is expected to remain strong, with asking rents growing at a steady pace. There are over 500,000 SF under construction across nine projects, with 36% available at the end of the quarter. Much of the available space comes from a single project, The Rincon, a 91,500 SF office project under construction in Chino Hills. This project is being built on spec and will deliver in 1Q 2019, and as of the end of 3Q 2018 it remains 100% available. The largest project under construction is the Riverside University Hospital System Medical Center Campus at 200,000 SF. Asking rents are expected to continue to rise, which may encourage new construction starts as confidence in the market continues to increase. Growth is expected to remain strongest around the cities of Ontario, Riverside, and San Bernardino, where demand for office space remains the highest.

Average Asking Rent\* and Vacancy Rate



### MARKET OUTLOOK

#### Asking Rental Rates



#### Sale Prices



#### Availability/Vacancy Rates



#### Landlord Concessions



#### Sales/Leasing Volume



#### New Construction



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### Market Statistics\*

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	3Q18 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	3Q18 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/SF FSG	AVERAGE SALE PRICE \$/SF
Airport	13,396,740	79,200	9.2%	6.5%	140,643	450,204	267,710	772,469	\$2.06	\$168
High Desert	5,413,134	0	7.7%	6.0%	35,900	92,918	108,703	179,176	\$1.41	\$157
Riverside	17,319,978	296,867	9.3%	6.2%	112,883	654,416	176,384	530,793	\$1.88	\$172
San Bernardino	14,745,128	0	12.2%	9.0%	65,604	284,734	130,464	359,833	\$1.61	\$111
South	7,751,887	0	8.5%	6.7%	92,761	332,125	237,885	886,183	\$2.13	\$82
West	4,194,163	147,500	9.2%	5.5%	76,006	156,469	174,699	603,883	\$1.87	\$245
<b>Inland Empire</b>	<b>62,821,030</b>	<b>523,567</b>	<b>9.7%</b>	<b>6.9%</b>	<b>523,797</b>	<b>1,970,866</b>	<b>1,095,845</b>	<b>3,332,337</b>	<b>\$1.85</b>	<b>\$156</b>

### Leasing

Leasing activity fell to 523,797 SF, which represented a 38.9% drop over the quarter and a 35.8% over last year at this time. Due to tight market conditions, this is likely the result of a shortage of available space. A shift in demand for office space lead to a shift in asking rent. Rental growth has been strongest in the South Submarket, around Murrieta and Temecula, where asking rents grew by 9.8% over 3Q 2017, to \$2.13/SF. The High Desert saw asking rents drop 16.1% over 3Q 2017 to \$1.41/SF, steady over the prior quarter. In one transaction this quarter, 37,247 SF was leased at 20 W 7th St. in Upland for \$1.55/SF NNN. This building is now fully leased. In another major transaction, 31,492 SF was leased at the Fairway Business Center in Ranch Cucamonga for \$2.15/SF FSG. This building is now 90.2% occupied.

### Sales

Sales activity fell to 1,095,845 SF, which represents a 16.8% decrease over the prior quarter, but steady over 3Q 2017. This decline is the result of increasing sale prices and a lack of available product for sale. Investment activity was strongest in the South and Airport submarkets, where asking rents and occupancy continued to improve. Cap rates averaged 7.52%, up 149 basis points over 3Q 2017. In one of the largest transactions this quarter, Kingsbarn Realty Capital purchased two office buildings part of Tri-City Corporate Centre in San Bernardino. The two buildings totaled 148,456 SF and sold for \$2.85M or \$192/SF. The buildings at 473 E Carnegie Ln and 650 E Hospitality Ln were part of a four-building portfolio sale totaling \$57.3M, with escrow expected to close on the other two buildings in the fourth quarter.

### Select Lease Transactions

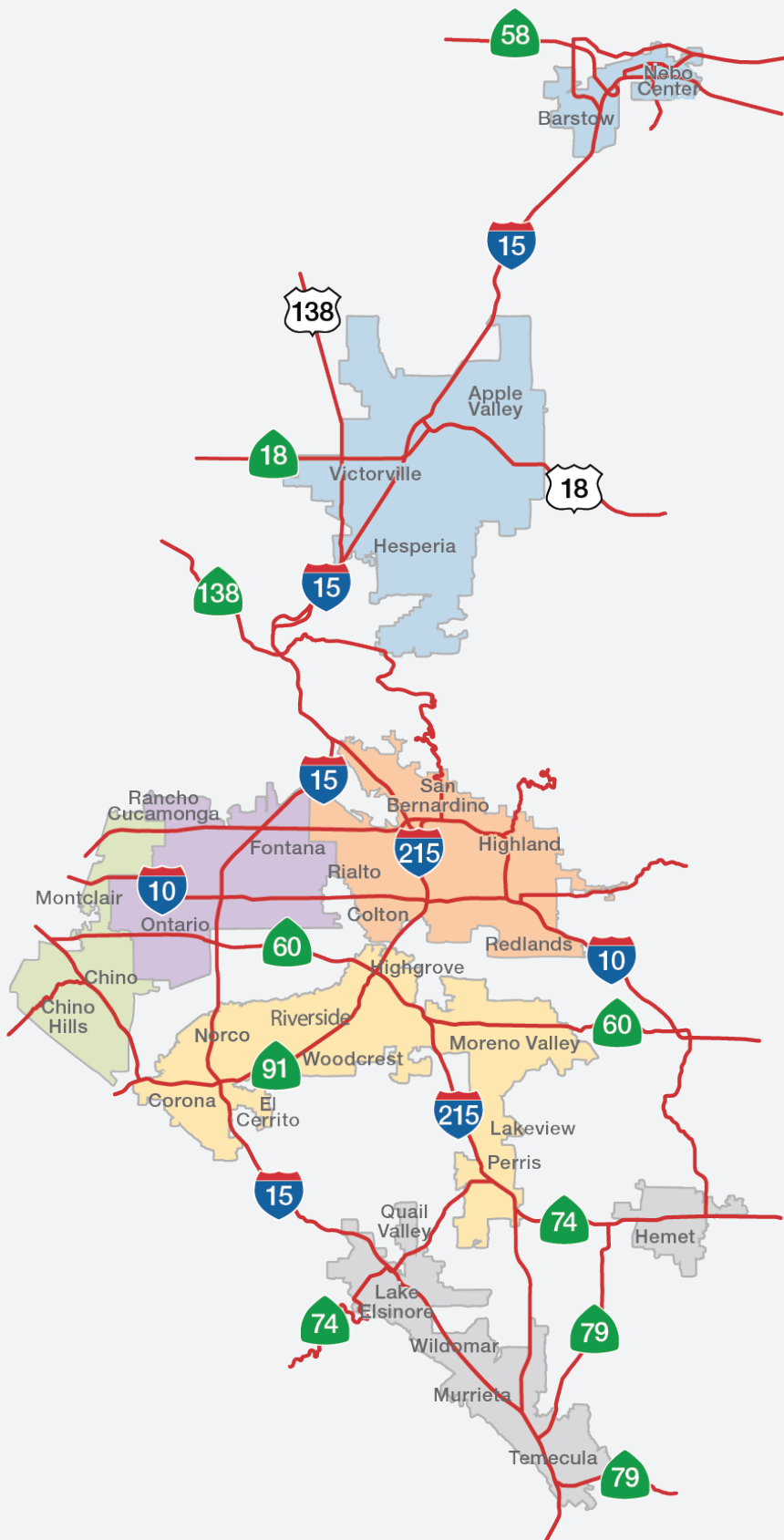
ADDRESS	SUBMARKET	ASKING RENT/ SF**	SQUARE FEET
20 W 7th St	West	\$1.55 NNN	37,247
9445 Fairway View Pl	Airport	\$2.15	31,492
4730 Ontario Mills Pky	Airport	\$1.95 MG	10,223
10535 Foothill Blvd	Airport	\$1.95	8,644
401 W 4th St	San Bernardino	\$1.11 NNN	6,500

### Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Kingsbarn Realty Capital	473 E Carnegie Ln & 650 E Hospitality Ln	San Bernardino	\$192	148,456
ANDA Realty Capital	3602 Inland Empire Blvd	Airport	\$175	78,735
Archibald Properties, LP	9568-9674 Archibald Ave	Airport	\$180	76,897
The Koll Company	2280 Wardlow Cir	Riverside	\$166	62,071
Jefferson Plaza Center LLC	27715 Jefferson Ave	South	\$98	49,983

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## Office Market Outlook 3Q 2018



- High Desert**
  - Apple Valley
  - Barstow
  - Hesperia
  - Victorville
- West**
  - Chino
  - Chino Hills
  - Montclair
  - Upland
- Airport**
  - Fontana
  - Ontario
  - Rancho Cucamonga
- San Bernardino**
  - Colton
  - Highland
  - Loma Linda
  - Redlands
  - Rialto
  - San Bernardino
- Riverside**
  - Corona
  - Moreno Valley
  - Norco
  - Perris
  - Riverside
- South**
  - Hemet
  - Lake Elsinore
  - Murrieta
  - Temecula
  - Wildomar

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### NAI Capital Southern California Office Locations

#### Headquarters

16001 Ventura Blvd., Ste. 200  
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818.905.2400

#### Property Management

120<sup>1/2</sup> South El Camino Real, Ste. 210  
San Clemente, CA 92674  
949.874.0415

#### Los Angeles County

##### Downtown LA

601 S. Figueroa St., Ste 3825  
Los Angeles, CA 90017  
213.632.7700

##### West Los Angeles

11835 Olympic Blvd., Ste. 700E  
Los Angeles, CA 90064  
310.440.8500

##### Torrance

970 W. 190th St. Dr., Ste. 100  
Torrance, CA 90502  
310.532.9080

##### Pasadena

225 S. Lake Ave., Ste. 1170  
Pasadena, CA 91101  
626.564.4800

##### Valencia

27451 Tournay Rd., Ste. 200  
Valencia, CA 91355  
661.705.3550

##### Diamond Bar

21660 E. Copley Dr., Ste. 320  
Diamond Bar, CA 91765  
909.348.0600

#### Ventura County

##### Oxnard

300 Esplanade Dr., Ste. 1660  
Oxnard, CA 93036  
805.278.1400

##### Westlake Village

2555 Townsgate Rd., Ste. 320  
Westlake Village, CA 91361  
805.446.2400

#### Inland Empire

##### Ontario

800 N. Haven Dr., Ste. 400  
Ontario, CA 91764  
909.945.2339

##### Temecula

27720 Jefferson Ave., Ste. 330  
Temecula, CA 92590  
951.491.7590

##### Victorville

13911 Park Avenue, Ste. 206  
Victorville, CA 92392  
760.780.4200

#### Orange County

##### Irvine

1920 Main St., Ste. 100  
Irvine, CA 92614  
949.854.6600

#### Coachella Valley

##### Palm Desert

75-410 Gerald Ford Dr., Ste. 200  
Palm Desert, CA 92211  
760.346.1566