

# Inland Empire

## Office Market Outlook 1Q 2018

### MARKET OVERVIEW

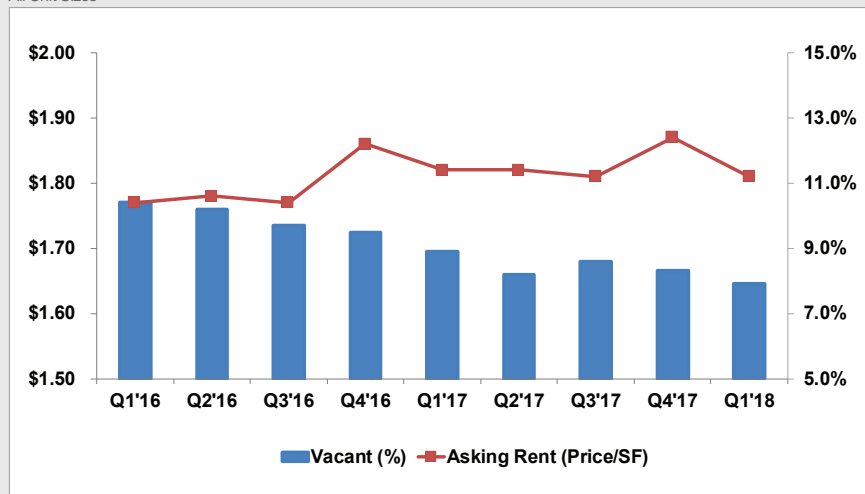
The Inland Empire office market continued the trend of positive momentum with little excitement after getting off to a slow start in 2018. The Inland Empire enjoyed one of the lowest vacancy rates since 2007. The vacancy rate registered at 7.9% despite over 100,000 SF of new deliveries. This represented a 40-basis point drop over the quarter and a decline of over 100 basis points over 1Q 2017. The average asking rent was \$1.81/SF, down 3.2% from 4Q 2017 and down 0.6% from last year at this time. The healthcare industry drove most of the new growth in the office sector. Office medical space comprised more than half of the projects under construction at the end of the first quarter. Construction consisted of nine projects totaling 201,671 SF, the largest of which was Rady Children's Medical Plaza at 60,000 SF. Demand heightened as the Education & Health Services sector saw 4.0% employment growth between February 2017 and February 2018. This accounted for 8,700 of the 14,800 new jobs in the office occupying sectors. Over the same time, total employment grew by 55,600 jobs and the Inland Empire's overall unemployment rate dropped from 5.6% to 4.4%.

### TRENDS TO WATCH

Despite the year's slow start, the Inland Empire office market is moving in a positive direction. The Inland Empire may experience additional growth from Orange County tenants escaping tight market conditions and substantially higher rents. Due to brisk demand, landlords no longer offer generous concessions to entice tenants. The Education & Health Services sector will continue to drive major demand for office space in 2018. Developers are responding to the market demand as office medical space encompasses a large portion of all new construction. Virtually every project in the Inland Empire's construction pipeline is scheduled for delivery in the first half of 2018. The vacancy rate will likely increase slightly as the market absorbs new product. Roughly 36.0% of the construction pipeline remained available at the end of the quarter.

Average Asking Rent and Vacancy Rate

All Unit Sizes



Source: NAI Capital Research, CoStar

### 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 (%)	1Q18 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	1Q18 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/PSF FSG	AVERAGE SALE PRICE \$/PSF
Airport	13,426,398	0	9.8%	7.9%	91,017	91,017	568,878	568,878	\$2.03	\$197
High Desert	5,407,144	0	7.5%	6.7%	25,773	25,773	65,912	65,912	\$1.56	\$127
Riverside	17,295,192	48,544	9.1%	7.1%	180,544	180,544	103,114	103,114	\$1.86	\$233
San Bernardino	14,767,306	17,500	13.6%	10.4%	102,571	102,571	56,192	56,192	\$1.55	\$133
South	7,701,457	104,127	9.5%	6.8%	110,612	110,612	461,907	461,907	\$2.05	\$174
West	4,247,192	31,500	9.5%	6.7%	28,530	28,530	70,172	70,172	\$1.80	-
<b>Total</b>	<b>62,844,689</b>	<b>201,671</b>	<b>10.2%</b>	<b>7.9%</b>	<b>539,047</b>	<b>539,047</b>	<b>1,326,175</b>	<b>1,326,175</b>	<b>\$1.81</b>	<b>\$173</b>

RBA includes office buildings of all sizes and classes. Rents reflect buildings of at least 20,000 square feet.

### Leasing

Leasing activity slowed in the first quarter in response to tightening market conditions. Lease volume totaled 539,047 SF, down 44.2% over the prior quarter and 26.9% below 1Q 2017. Despite an overall decline in leasing activity, new occupancy growth remained positive as the vacancy rate fell considerably over the year. Rents also demonstrated a slow response to tightening market conditions in the Inland Empire. The average asking rental rate dipped to \$1.81/SF, down \$0.07/SF from 4Q 2017 and down \$0.01/SF from last year at this time. Tenants tended to take down small blocks of space this quarter. The average lease deal involved just 1,773 SF of space, which is 26.6% smaller than deals executed in 1Q 2017. In one lease transaction, Energy Inspectors leased 6,778 SF of office space at 1260 Corona Pointe Court in Riverside. The lease involved an asking rate of \$2.20/ SF NNN and a four-year term.

### Sales

In contrast to leasing activity, sale activity saw an increase in the first quarter and reached the second highest sale volume on record. Sale volume totaled more than 1.3 million SF across 77 transactions in the first quarter. This represented a 30.1% increase over the prior quarter and a 13.6% increase over last year. The average sale price reached \$173/SF, which represented a 16.4% increase over 4Q 2017 and a 4.3% increase over this time last year. Cap rates averaged 7.14%, which held steady over the quarter and increased 30 basis points over the year, indicating that investor confidence in the market drove sales activity. In one investment sale this quarter, Hale Properties LLC purchased the 35,150 SF Frontier Center in Rancho Cucamonga. The building located at 8600 Utica Avenue sold for \$96/SF.

### Significant Lease Transactions

ADDRESS	ADDRESS	SUBMARKET	ASKING RENT \$/PSF*	SQUARE FEET
Withheld	3100-3190 Chicago Ave	Riverside	Withheld	24,000
Energy Inspectors	1260 Corona Pointe Ct	Riverside	\$2.20 NNN	6,778
Quadrated Affinity Corp.	735 E Carnegie Dr	San Bernardino	\$1.90	6,612
Ferreira Construction	10350- 10390 Commerce Center Dr	Airport	\$2.00	6,024
Axene Health Partners	41923 2nd St	South	\$2.75 MG	4,719

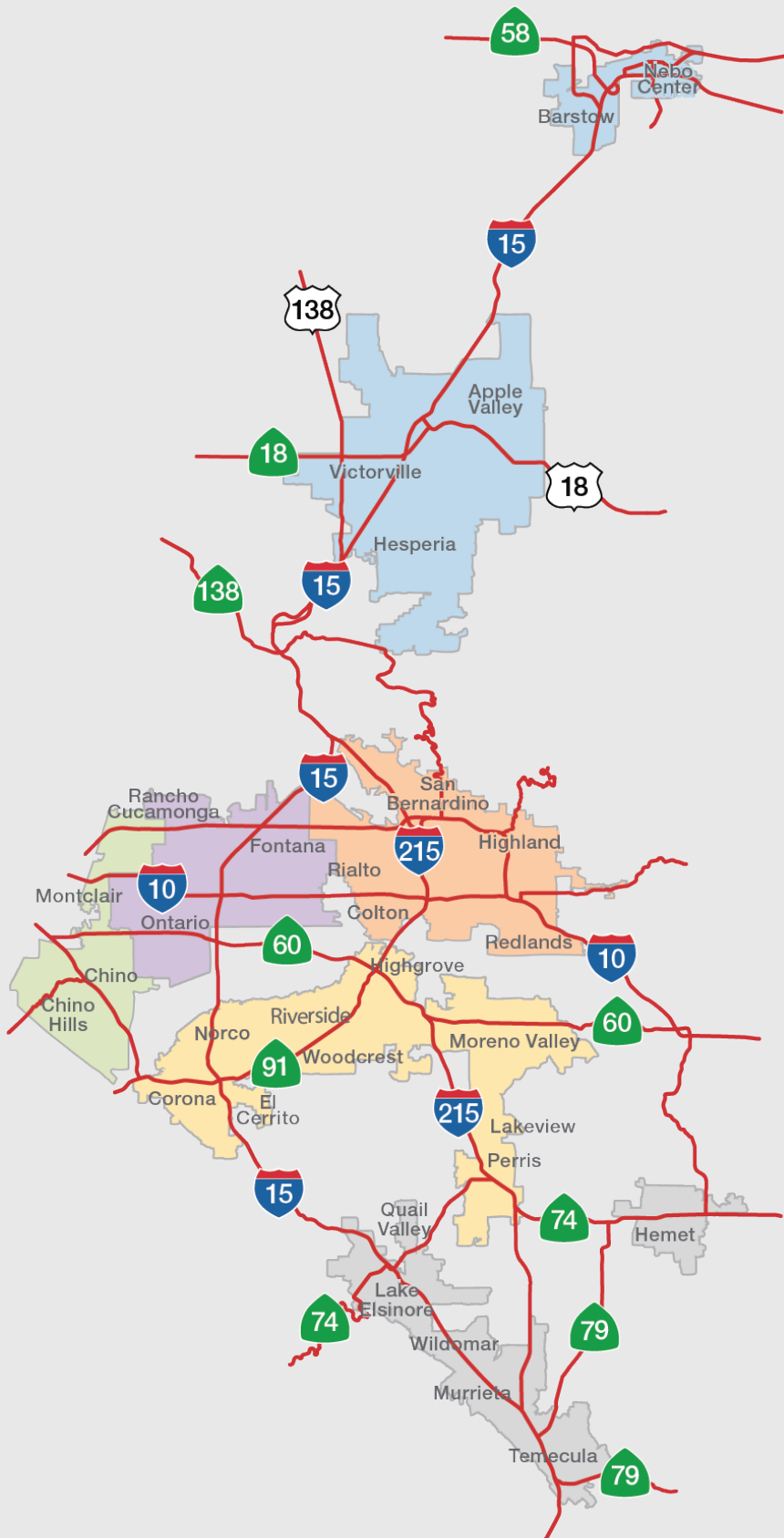
\*All rents are FSG unless otherwise stated

### Significant Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/PSF	SQUARE FEET
Hale Properties LLC/ Laurel Professional Building LLC	8300 Utica Ave	Airport	\$94	35,150
Haven Buidling Inc.	8855 Haven Ave	Airport	\$267	25,631
Uri Zighelboim/ Todd & Daleet Spector	2131 Elks Dr	San Bernardino	\$129	15,159
Vail Ranch Self Storage, Inc.	25186 Hancock Ave	South	\$226	13,722
Fadel Samaan/ Adrian-Stevel Felix Gonzalez	8689 Sierra Ave	Airport	\$112	9,005

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- **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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Los Angeles, CA 90017  
(213) 632-7700

##### Diamond Bar

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Diamond Bar, CA 91765  
(909) 348-0600

##### Pasadena

225 S. Lake Ave., Ste. 1170  
Pasadena, CA 91101  
(626) 564-4800

##### Torrance

970 W. 190th St. Dr., Ste. 100  
Torrance, CA 90502  
(310) 532-9080

##### Valencia

27451 Tourney Rd., Ste. 200  
Valencia, CA 91355  
(661) 705-3550

##### West Los Angeles

11835 Olympic Blvd., Ste. 700E  
Los Angeles, CA 90064  
(310) 440-8500

#### 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

##### Simi Valley

2655 First St., Ste. 250  
Simi Valley, CA 93065  
(805) 522-7132

#### Orange County

##### Irvine

1920 Main St., Ste. 100  
Irvine, CA 92614  
(949) 854-6600

##### San Clemente

120 1/2 South El Camino Real,  
Ste. 210  
San Clemente, CA 92674  
(949) 874-0415

#### 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

#### Coachella Valley

##### Palm Desert

75-410 Gerald Ford Dr., Ste. 200  
Palm Desert, CA 92211  
(760) 346-1566