

Inland Empire

Office Market Outlook Q2 2020

MARKET OVERVIEW

While leasing volume was subdued after spending an entire quarter under the COVID-19 shutdown, the Inland Empire office market saw upticks in the vacancy rate and the average asking rent. Leasing volume declined 16.2% from the prior quarter and 52.8% from Q2 2019 to 393K SF – the lowest level since Q4 2007. Leasing volume in the first half of 2020 amounted to 38.3% of the total for 2009 in the depths of the Financial Crisis, suggesting that if the shutdown remains in place for the rest of 2020, annual leasing volume may end up well below the last recession. Sales volume also fell 16.5% from Q1 2020 to the lowest quarterly amount since Q3 2012.

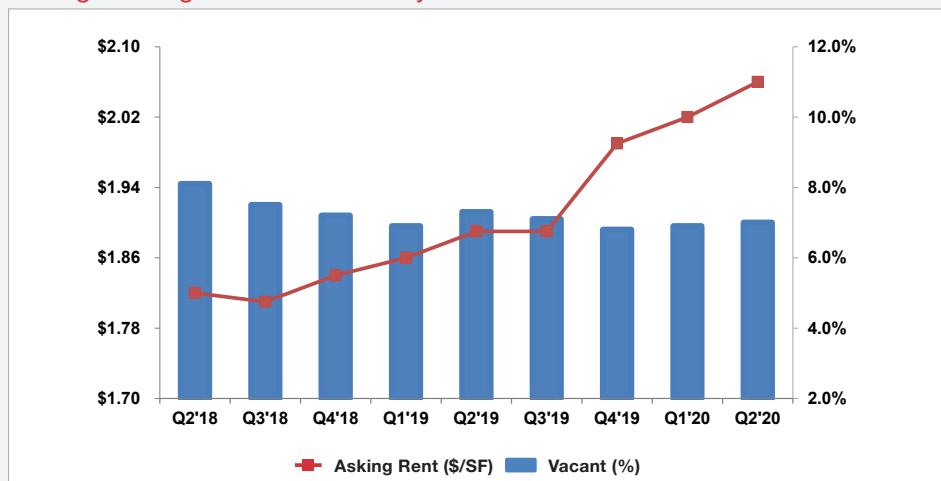
The Paycheck Protection Program, which provides businesses with funds for up to eight weeks of payroll costs including benefits, interest on mortgages, rent and utilities, appears to be working to maintain existing tenant occupancy in the office market. Vacancy only increased 10 bps from Q1 2020 to 7.0%. The average asking rent reflected landlords' optimism, up \$0.04/SF and \$0.17/SF over the same time to \$2.06/SF. Reduced construction is helping to maintain low vacancy. Over past five years new office space added averaged 61,406 SF per quarter. Between 2005 to 2009 the average was 698,916 SF as vacancy hit 16.6% in 2009.

TRENDS TO WATCH

Employment in the Inland Empire showed signs of recovery from the COVID-19 shutdown in May and June. The Inland Empire's unemployment rate dipped to 14.3% in June compared to neighboring LA County's 19.4% and California's 15.1% rate. The region added 41,300 net jobs from May to June with 4,700 net jobs gained in office-occupying sectors. Professional & Business Services and Education & Health lead the gains, up 4,600 jobs combined.

NAI Capital conducted a COVID-19 Impact Survey of its office market professionals to get a pulse of where the market could be headed. Most office brokers (68%) believe office rent and sales prices will decrease into the second half of the year. All office brokers surveyed anticipate a decline in leasing volume while 79% expect vacancy to rise and sales transactions to decline. As tenants shed excess space, decisions to buy or lease will be postponed for a few months into Q3 or yearend.

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 (%)	Q2 2020 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	Q2 2020 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT (\$/SF FSG)	AVERAGE SALE PRICE (\$/SF)
Airport	13,489,488	0	7.8%	6.3%	117,652	250,392	14,161	54,604	\$2.26	\$303
High Desert	5,415,120	0	5.8%	4.7%	17,640	38,642	14,363	56,728	\$1.41	\$135
Riverside	18,646,600	262,602	10.3%	7.4%	154,568	256,794	85,575	218,072	\$2.20	\$194
San Bernardino	14,877,171	18,000	9.5%	8.7%	26,941	133,669	113,974	220,432	\$1.77	\$166
South	7,490,298	8,000	8.5%	6.5%	58,686	126,208	70,359	135,264	\$2.23	\$137
West	4,150,031	31,726	7.6%	5.4%	17,533	56,569	37,729	53,698	\$1.97	\$236
Inland Empire	64,068,708	320,328	9.0%	7.0%	393,020	862,274	336,161	738,798	\$2.06	\$179

Leasing

Total market leasing volume year-to-date declined 44.8% compared to the same period in 2019 to 862K SF. Quarterly subleasing activity remained consistent at nearly 13K SF while available sublease space inched down 3.6% below Q1 2020 to 287K SF. This reversed the recent trend of rising available sublease space seen since Q2 2019, meaning that tenants were placing space on the market for sublease prior to the pandemic.

The Riverside market posted a quarterly gain in leasing activity, up 51.2% over Q1 2020, yet down 22.1% from the prior year. Credit.org signed on for 15K SF at The Grove Business Park in the City of Riverside for an asking rate of \$1.95/SF FSG. This deal pushed the property to 88% leased at the close of the quarter.

Sales

Year-to-date, total market sales volume was 31.3% below the first half of 2019 at 739K SF. The average sales price registered \$179/SF in Q2. Investment sales of \$2M+ recorded a 40 bps dip in the average cap rate from Q1 to 6.4%.

Investors shifted to safety strategies by acquiring assets with stable tenants. For example, The Krausz Companies, Inc. purchased a 50K SF building in San Bernardino as an NNN investment for \$13.45M or \$269/SF at a 6.6% cap rate. The County of San Bernardino occupies the property with 10+ years left on its lease. Centurion Fuchigami International Inc. bought the 15K SF Moreno Valley Professional Center Bldg. 5 as an NNN investment for \$7M or \$479/SF at a 6.3% cap rate. The medical office building was fully leased to DeVita & Nephrology Associates Medical Group.

Select Lease Transactions

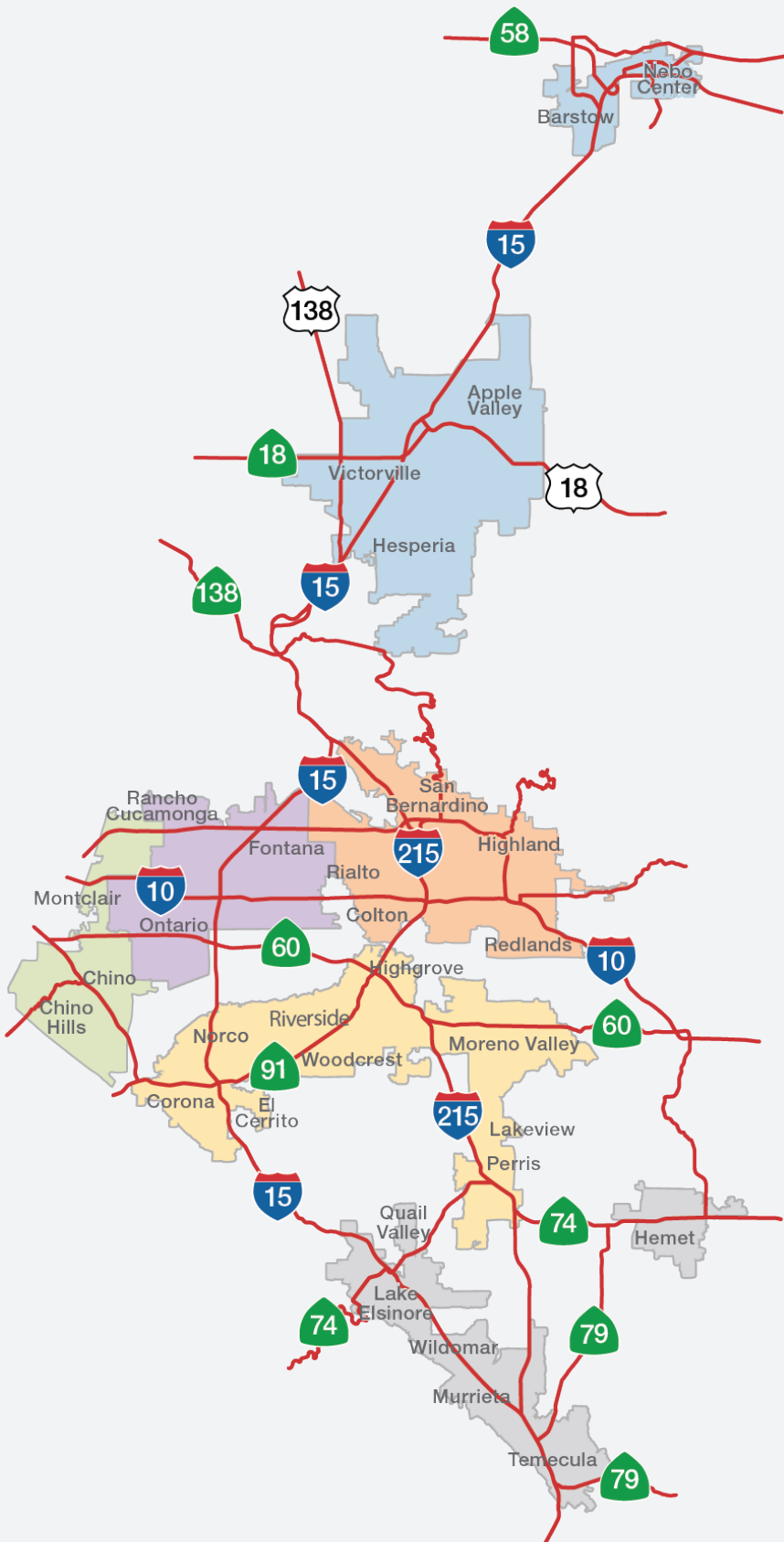
TENANT	ADDRESS	SUBMARKET	ASKING RATE \$/SF**	SQUARE FEET
TBD	10760 4th St.	Airport	\$2.50	17,661
credit.org	1450 Iowa Ave.	Riverside	\$1.95	14,936
TBD	11870 Pierce St.	Riverside	\$2.45	12,829
Square Heart	17057 Foothill Blvd.	Fontana	\$1.95 NNN	10,010
TBD	3536 Concours	Ontario	\$2.25	7,674

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
The Krausz Companies, Inc.	265 E. 4th St.	San Bernardino	\$269	50,082
Pacific Western Bank	330 N. D St.	San Bernardino	\$63	49,300
Ridgegate Sun, LLC	1 Ridgegate	South	\$147	35,258
MCS Tower Plaza LLC	27393 - 27403 Ynez Rd.	South	\$127	35,101
Centurion Fuchigami International Inc.	22555 Alessandro Blvd.	Riverside	\$479	14,616

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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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949.874.0415

Los Angeles County

Downtown LA

707 Wilshire Blvd., Ste. 5125
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., Ste. 100
Torrance, CA 90502
310.532.9080

Pasadena

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

Valencia

25060 Avenue Stanford, Ste. 165
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 Ave., 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

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