



Inland Empire Office Market Report

Fundamentals Level Out as the Worst Seems to Have Passed

- The average asking rent dipped slightly to \$1.91/SF but remains higher than the year-ago average of \$1.90/SF and near the market's all-time high.
- Total vacancy ticked down 20 basis points to 11.2%. Vacancy remains elevated compared to the five-year average of 10.4% but is expected to decline as office demand increases as part of an economic recovery.
- Absorption posted a modest gain of 48,377 square feet to start the year on a positive trend. The Airport submarket, which usually attracts the most businesses in the region, posted losses of 40,278 square feet for the quarter, but was offset by gains in other submarkets.
- Sublet space declined to 221,251 square feet, a 45,263-square-foot reduction from the previous quarter. The Inland Empire has not experienced the glut of sublease space that other markets have seen during the pandemic due to the preponderance of healthcare and government users, who rarely sublet space.
- Construction activity remains very low and no new projects delivered this quarter. Only two projects, totaling 51,321 square feet, are currently under construction.

Office Sector Relies on Medical Tenants

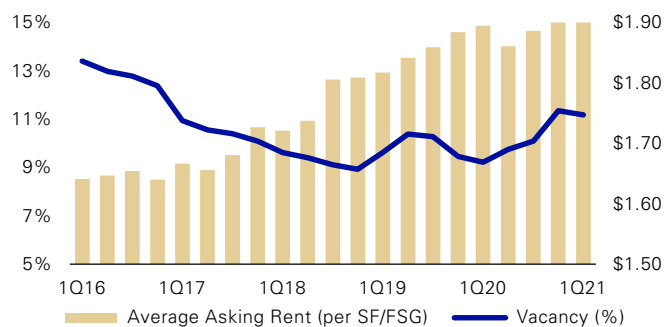
Demand for medical office remains strong and demand from government agencies has been relatively stable, although looming local government budget shortfalls represent a potential challenge for the future. The Inland Empire has not seen a large increase in vacancy like other markets due to its historical reliance on these locally focused sectors.

Capital Markets and Airport Traffic Updates

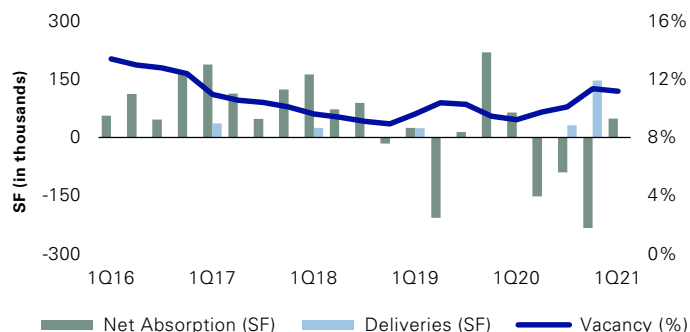
Capital markets activity remains low, with only \$50.1 million of trade volume during the quarter, down 19.9% from the

Market Analysis

VACANCY AND ASKING RENT



NET ABSORPTION, CONSTRUCTION DELIVERIES AND VACANCY



Market Summary

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	28.5M	28.5M	28.3M	→
Total Vacancy Rate	11.2%	11.4%	9.2%	→
Quarterly Net Absorption (SF)	48,377	-233,086	64,216	↑
Average Asking Rent/SF/Month	\$1.91 FSG	\$1.92 FSG	\$1.90 FSG	→
Deliveries (SF)	0	146,785	0	↑
Under Construction (SF)	51,321	30,521	235,828	→

year-ago quarter's already lackluster total of \$62.0 million. The few acquisitions that occurred were from local private investors or owner-users as institutional investors have focused their attention on primary markets during the downturn.

Passenger totals at Ontario International Airport were down 64.0% in 2020, while air cargo shipments increased by 17.0%, reflecting the shifting priorities and economics of business during the pandemic. The Airport submarket has traditionally been seen as the region's CBD, but demand has waned as business closures have dragged on.

Outlook

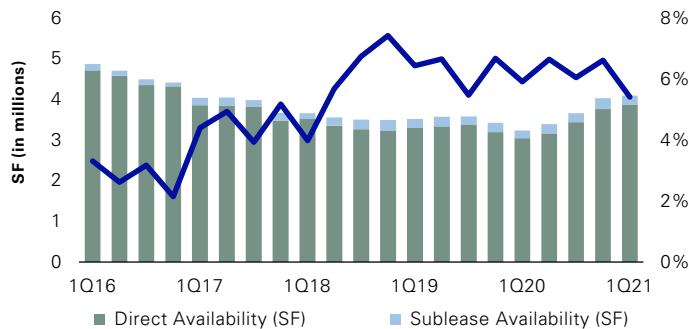
The unemployment rate was 8.1% in February, down from last May's peak of 15.1%. Compared to one year ago, the Inland Empire has shed 91,000 jobs, but only 15,000 of them were in office-using industries. E-commerce was one of the few industries to grow during the pandemic, with sales up 32.3% during 2020, and the dominant presence of logistics in the Inland Empire will help fuel other components of the region's

economy as recovery gets underway.

The Inland Empire remains a popular residential destination, and the metro experienced a net influx of new residents in 2020, despite oft-banded misconceptions about a "California exodus," as the median price of a single-family home in the region increased to an all-time high of \$470,000 in February. Construction skewed towards single-family construction during the pandemic, while the overall number of new housing units remained nearly unchanged: 86.8% of new housing permits in 2020 were for single-family dwellings, compared to 76.4% in 2019 and 78.3% in 2018. This demographic growth fuels demand for office space for the government agencies and healthcare providers needed to service a growing population. The region also stands to benefit from companies that are shifting towards a hub-and-spoke model, where more affordable office space and housing can attract smaller satellite offices of large corporations.

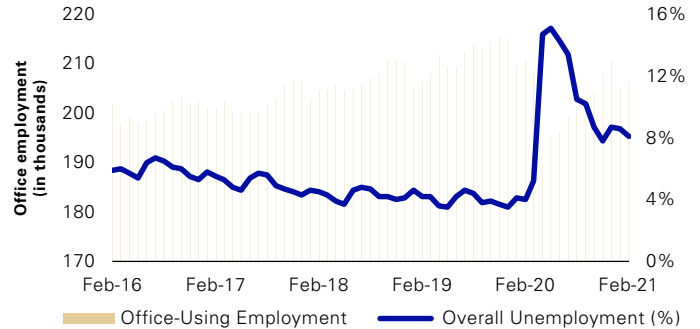
Sublease vs. Direct Availability (SF)

AND SUBLEASE AS A % OF OVERALL AVAILABLE SF



Office-Using Employment

RIVERSIDE-SAN BERNARDINO-ONTARIO



Source: U.S. Bureau of Labor Statistics (Preliminary data, not seasonally adjusted). Includes information, financial activities and professional and business services jobs.

Lease Transactions

Tenant	Building	City	Lease Type	Square Feet
Wells Fargo	1250 Corona Pointe Court	Corona	Renewal	11,406
Unilab Corp.	308 W. 6th Street	Corona	New	3,141
ReMax One	25050 Madison Avenue	Murrieta	New	3,000

Sale Transactions

Buyer	Building(s)	City	Sale Price/SF	Square Feet
Kamran Shahabi	800 Ferrari Lane	Ontario	\$228	19,780
Chen Lin	5153 Holt Boulevard	Montclair	\$305	12,453
Ling Xiao Li	2151 S. Haven Avenue	Ontario	\$224	13,426

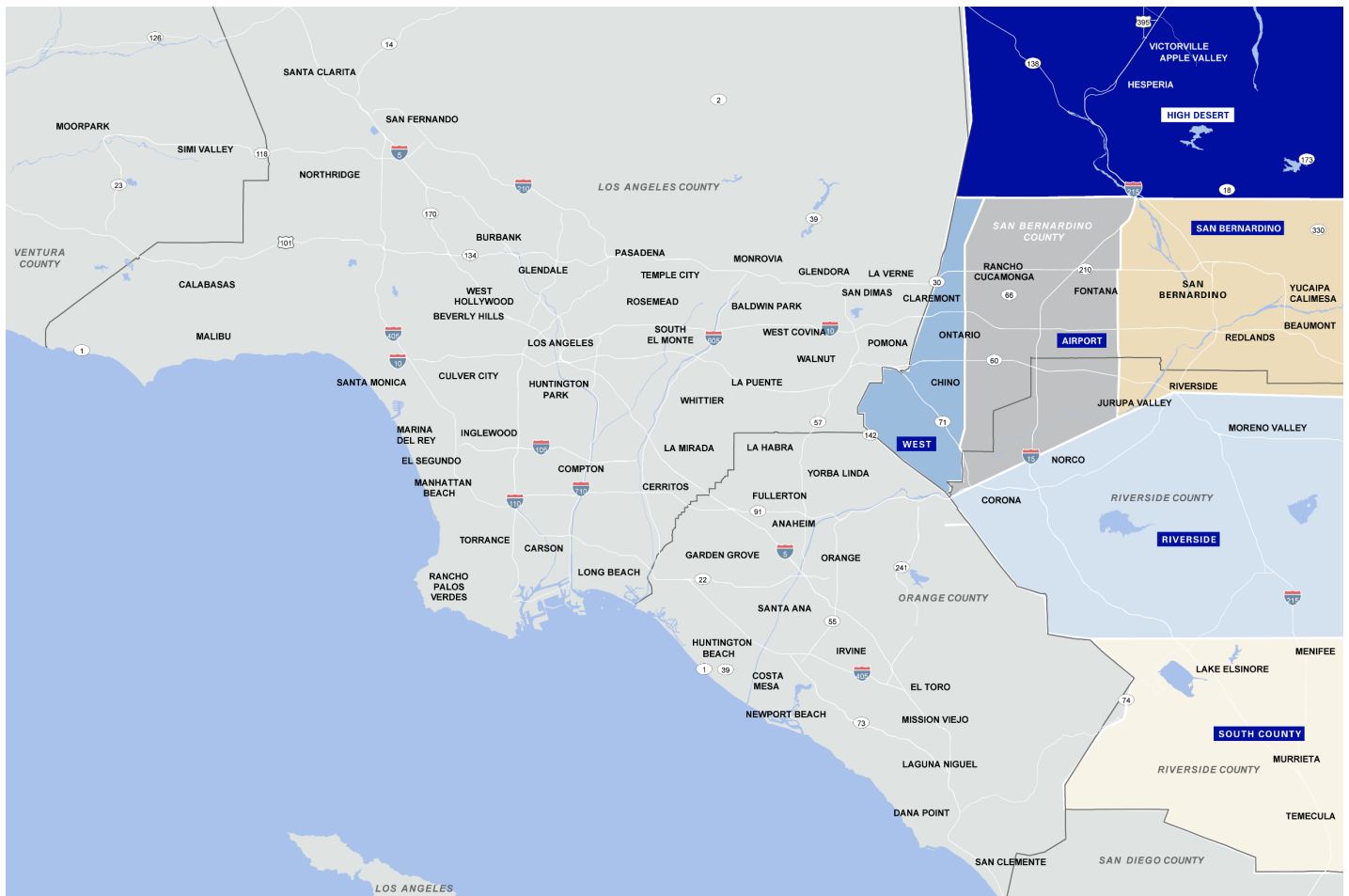
Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Airport	7,841,291	30,521	8.9%	-40,278	-40,278	\$2.47	\$2.02	\$2.17
High Desert	855,536	0	6.6%	-1,787	-1,787	\$1.87	\$1.31	\$1.30
Riverside	9,035,161	0	13.5%	26,955	26,955	\$2.38	\$1.77	\$1.97
San Bernardino	6,114,267	0	13.2%	-9,895	-9,895	\$2.08	\$1.55	\$1.69
South County	2,972,826	20,800	8.1%	36,481	36,481	\$2.13	\$1.56	\$1.68
West	1,682,677	0	9.8%	36,901	36,901	\$2.43	\$1.90	\$1.85
Market	28,501,758	51,321	11.2%	48,377	48,377	\$2.32	\$1.76	\$1.91

Submarket Breakdowns

	Cities
Airport	Fontana, Mira Loma, Ontario, Rancho Cucamonga
High Desert	Victorville
Riverside	Corona, Moreno Valley, Norco, Perris, Riverside
San Bernardino	Colton, Loma Linda, Redlands, Rialto, San Bernardino
South County	Hemet, Lake Elsinore, Murrieta, Temecula, Wildomar
West	Chino, Chino Hills, Montclair, Upland

Under construction totals include ground-up construction only; under renovation and/or converted product is excluded. The same applies to construction deliveries.
 Net absorption is the change in physically occupied space. A hypothetical vacant and available space could lease this quarter with the tenant set to take occupancy six months later; positive absorption is not recorded until this physical move-in occurs. The space will remain vacant, but not available, until occupancy.



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