



Inland Empire Office Market Report

Rents Climb as Office Activity Remains Stable

- The average asking rent reached a new all-time high of \$2.04/SF, up 6.8% over the past year.
- The vacancy rate ticked up 10 basis points to 11.2% and is 20 basis points below the year-ago quarter's rate of 11.4%.
- Absorption was mostly flat for the quarter, with 7,044 square feet in net occupancy gains.
- Sublease availability increased slightly over the past year but remains modest at 1.2%.
- Three new projects totaling 63,202 square feet delivered, leaving one 18,000-square-foot project under construction. Developers in the Inland Empire continue to show restraint, and what limited construction there is has primarily focused on medical office and build-to-suit projects.
- Ontario International Airport's monthly passenger totals have reached 98.5% of pre-pandemic travel. The decrease is entirely due to reduced international travel, as monthly domestic passenger totals have exceeded pre-pandemic levels. Air cargo monthly tonnage is up 18.7% compared to two years ago, before the pandemic, emphasizing how the Inland Empire's logistics industry has grown.

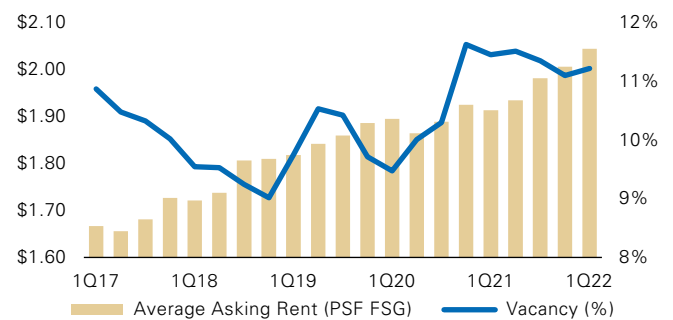
Market Fundamentals Continue Positive Trend

Sales activity has progressively recovered since the start of 2021, totaling \$789.7 million in sales volume over the past 12 months, compared to \$512.5 million in the trailing 12 months ending in the first quarter of 2021. This 12-month total also exceeds 2019's annual total of \$715.0 million. Family trusts made the largest office acquisitions in the quarter, keeping with the Inland Empire's appeal to local investors.

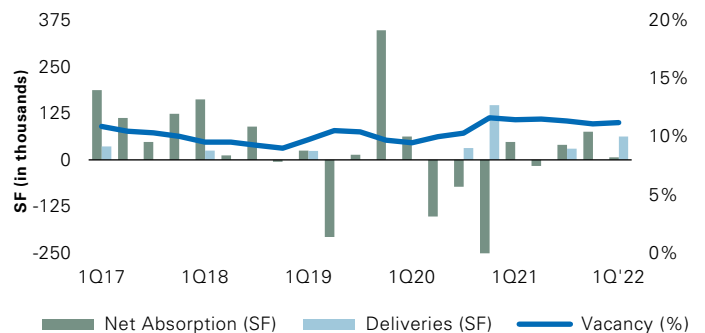
The Inland Empire benefits from its relative affordability compared to neighboring markets. Despite growing at an average annual rate of 4.2% over the past five years, office rents in the Inland Empire remain 27.0% lower than Orange County and

Market Analysis

ASKING RENT AND VACANCY



NET ABSORPTION, CONSTRUCTION DELIVERIES AND VACANCY



Market Summary

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	28.2M	28.2M	28.2M	→
Total Vacancy Rate	11.2%	11.1%	11.4%	↓
Quarterly Net Absorption (SF)	7K	75K	48K	↑
Average Asking Rent/SF/Month	\$2.04 FSG	\$2.01 FSG	\$1.91 FSG	↑
Deliveries (SF)	63K	0	0	↓
Under Construction (SF)	18K	81K	112K	→

RESEARCH Q1 2022

44.4% lower than Los Angeles. More affordable housing is also an important benefit for the market, fueling population growth and office space demand for occupiers in housing, construction and related industries. The median price for a single-family home in the Inland Empire is 28.8% less than Los Angeles and 56.3% less than Orange County, even though home prices have increased by 17.2% over the past year.

Population growth has been the single biggest economic driver for the Inland Empire, creating demand for medical offices, government agencies and other local services. The metropolitan area recorded the fifth largest population increase in the nation last year, adding more than 47,000 people in the 12 months ending July 2021. Much of this growth came at the expense of the neighboring Los Angeles metropolitan area, which lost more than 175,000 residents over the same period.

Outlook

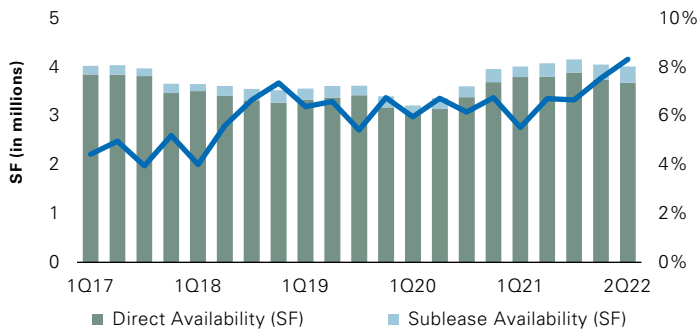
The Inland Empire's unemployment rate was 5.0% in February,

down 370 basis points over the past year, although it is still 110 basis points higher than February 2020. Total nonfarm and office-using jobs are now both above their pre-pandemic peaks, but the unemployment rate remains slightly higher than pre-pandemic levels due to the impressive population growth over the past two years. Since February 2020, the Inland Empire has added 33,100 jobs, but the size of the labor force has grown even faster, adding 58,800 potential workers in that same time.

The Inland Empire is insulated from many of the economic factors that negatively impacted other Southern California office markets, but at the same time the small size of the market and minimal new development limits its potential for growth. The market should experience slow but steady leasing activity and continued rent growth, unless larger economic factors such as inflation and global conflict put a damper on overall economic activity.

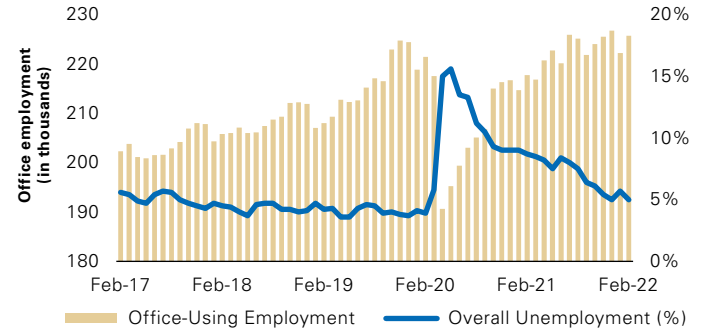
Sublease vs. Direct Availability (SF)

AND SUBLEASE AS A % OF OVERALL AVAILABLE SF



Office-Using Employment

RIVERSIDE-SAN BERNARDINO-ONTARIO MSA



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
ADP	9445 Fairway View Place	Rancho Cucamonga	Extension	17,867
TailoredSpace	13920 City Center Drive	Chino Hills	Direct	14,222
Exclusive Lifestyles	10601 Church Street	Rancho Cucamonga	Direct	10,384

Sale Transactions

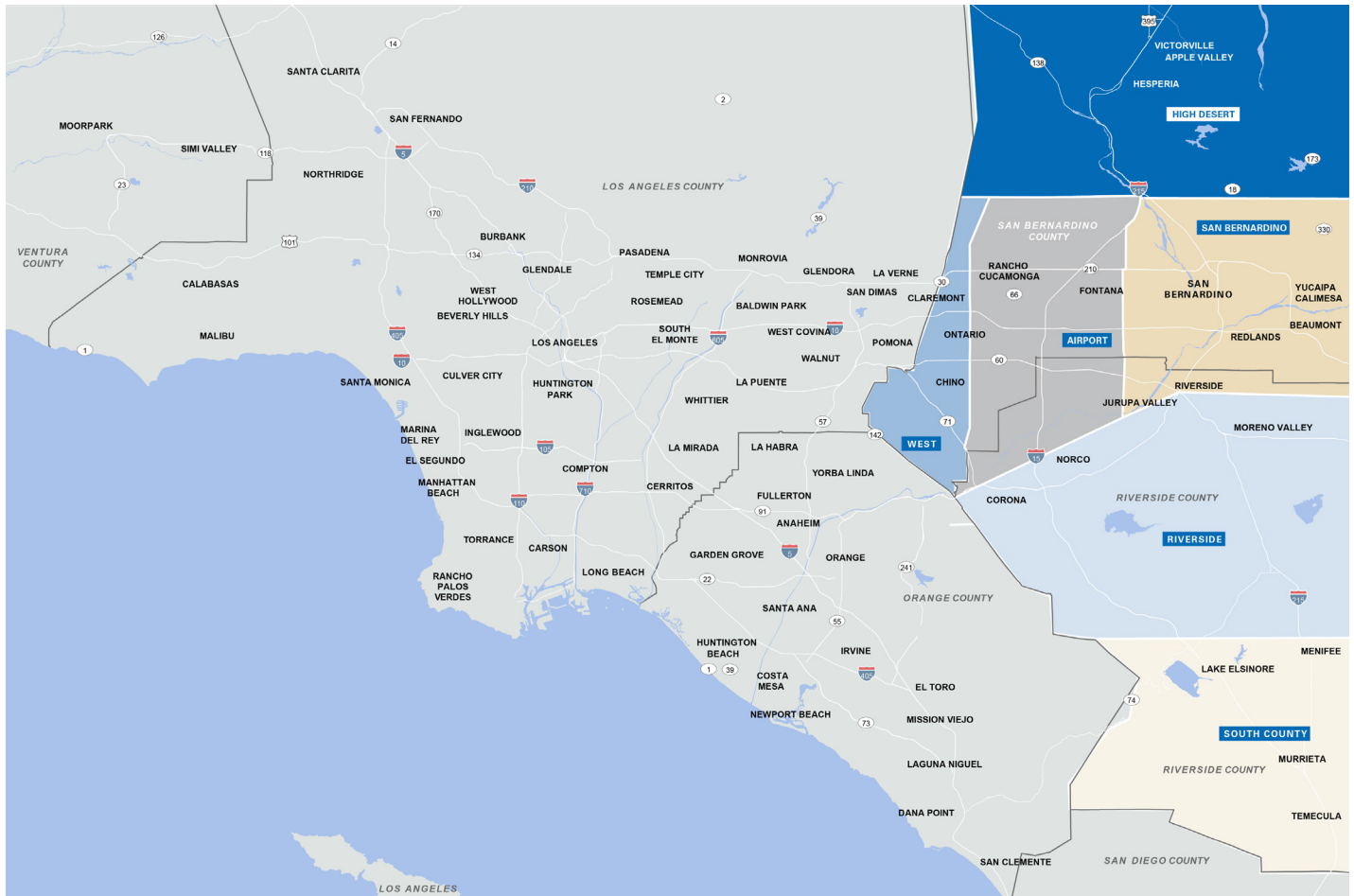
Buyer	Building	City	Sale Price (PSF)	Square Feet
Azam Abdollahi	Turner Riverwalk	Riverside	\$20,340,000 (\$252/SF)	80,822
Atlas 999 LLC	2280 Market Street	Riverside	\$13,088,000 (\$200/SF)	65,380
Vismaad LLC	1020 E Washington Street	Colton	\$12,000,000 (\$397/SF)	30,255

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	7,799,153	0	10.4%	-27,033	-27,033	\$2.50	\$2.06	\$2.25
High Desert	843,188	0	4.4%	4,855	4,855	\$1.87	\$1.80	\$1.81
Riverside	8,924,098	18,000	12.5%	17,646	17,646	\$2.67	\$1.93	\$2.18
San Bernardino	6,056,483	0	13.6%	10,022	10,022	\$2.11	\$1.56	\$1.73
South County	2,940,012	0	7.6%	20,212	20,212	\$2.19	\$1.72	\$1.79
West	1,682,677	0	9.1%	-18,658	-18,658	\$2.53	\$1.98	\$2.00
Market	28,245,611	18,000	11.2%	7,044	7,044	\$2.45	\$1.86	\$2.04

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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