



# Inland Empire Office Market Report

## Economic Momentum Starts to Build as Economy Reopens

- The average asking rent climbed to \$1.93/SF, the highest level on record, up 3.9% over the past four quarters. Rent growth has slowed, however, and asking rents are projected to decline as landlords grapple with increased vacancy that has been building since last year.
- Vacancy increased to 11.2%, 10 basis points higher than last quarter and slightly below the recent peak of 11.3% at the end of 2020, during the height of the pandemic.
- South County is the best-performing submarket with 7.5% vacancy, while San Bernardino and Riverside have the highest vacancy rates of 13.2% and 13.6%, respectively.
- Net absorption was essentially flat this quarter with 17,947 square feet in losses.
- Sublease availability represents only 1.0% of inventory.
- Construction activity remains low at 77,721 square feet, unchanged from last quarter. New developments continue to focus mostly on medical office, which remains in high demand due to the region's population growth.

### Multiple Indicators Approaching Normal

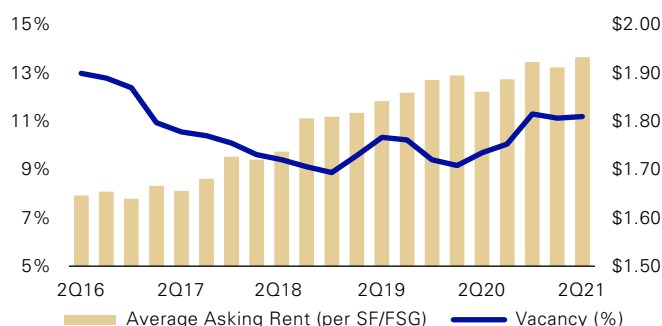
Local vacancy's increase is less steep compared to Los Angeles and Orange County, since the Inland Empire is insulated by virtue of its small market size, lack of new supply, and occupiers that service the local population. The region also does not have a large share of tech or startup companies, which lead neighboring markets in sublet availability.

Sales volume for the quarter was \$106.5 million, the highest quarterly total since the end of 2019. Private investors continue to make up most buyers in the region, including local and national groups familiar with this niche market.

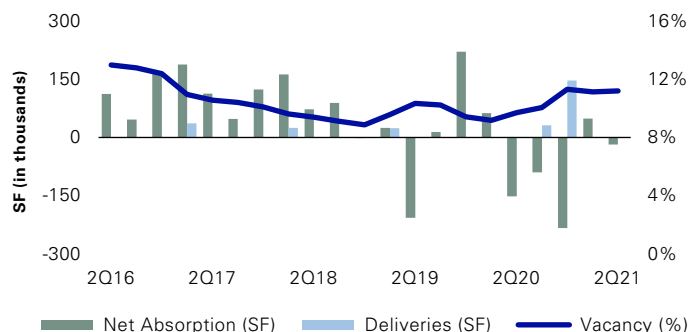
Financial and healthcare firms signed the largest leases of the

### 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%           | 11.1%         | 9.7%       | ↓                 |
| Quarterly Net Absorption (SF) | -17,947         | 48,377        | -151,504   | ↑                 |
| Average Asking Rent/SF/Month  | \$1.93 FSG      | \$1.91 FSG    | \$1.86 FSG | →                 |
| Deliveries (SF)               | 0               | 0             | 0          | ↑                 |
| Under Construction (SF)       | 77,721          | 77,721        | 235,623    | →                 |

quarter. Accounting firm Genske, Mulder & Company renewed its 15,643-square-foot space in Ontario. In San Bernardino, credit score coaching firm Top Flight Assistance leased 10,000 square feet at the Enterprise Building and SAC Health System expanded its existing office space in the Hospitality Executive Center by 7,857 square feet, bringing its total footprint in the building to 17,865 square feet.

Passenger counts at Ontario International Airport grew to 366,937 in May 2021, up 77.2% from 24 months ago; a sign business travel may be picking up. May's passenger count also represents a year-over-year increase of more than 400% from May 2020, when the region was impacted by emergency orders closing or restricting businesses.

### Outlook

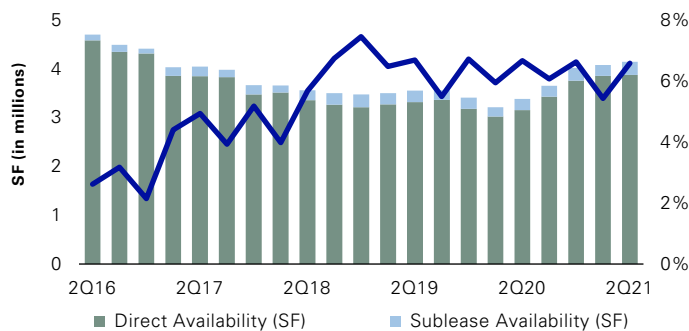
The Inland Empire's unemployment rate was 7.2% in May, better than the state's average of 7.5% but trailing the national average of 5.5%. The region has recovered 155,700 jobs since April 2020 when layoffs peaked, but May's total remains 63,500

jobs lower than February 2020—just before the pandemic began to affect the labor market. Office-using employment is back to 95.0% of February 2020 levels, recovering faster than other Southern California markets thanks to occupiers essential to the region's still-growing population. The Inland Empire's population grew by 10% from 2010 to 2020, adding 425,000 new residents and 120,000 households. Home prices rose 12.0% annually during the pandemic and apartment rents were up 10.7% due to an influx of new residents, particularly people moving from Los Angeles County and remote workers seeking less-expensive housing.

The nascent recovery will help lift the Inland Empire's office market as hiring resumes and companies resume leasing new space. The region has experienced some growing pains as the economy begins to restart, but these issues are expected to be short-lived and the region is poised for a robust economic recovery in 2021.

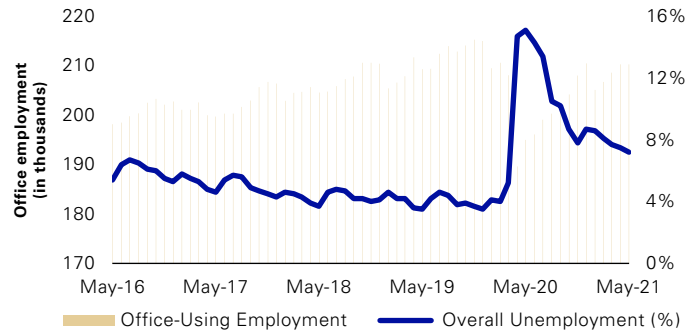
### Sublease vs. Direct Availability (SF)

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                | Market Area    | Lease Type | Square Feet |
|--------------------------|-------------------------|----------------|------------|-------------|
| Genske, Mulder & Company | 4150 Concoors Street    | Ontario        | Renewal    | 15,643      |
| Top Flight Assistance    | 320 N. E Street         | San Bernardino | New        | 10,000      |
| SAC Health System        | 275 W. Hospitality Lane | San Bernardino | Expansion  | 7,857       |

### Sale Transactions

| Buyer               | Building(s)               | Market Area | Sale Price (PSF)        | Square Feet |
|---------------------|---------------------------|-------------|-------------------------|-------------|
| Krupalu Investments | 36450 Inland Valley Drive | Wildomar    | \$18,000,000 (\$317/SF) | 56,801      |
| Davenport Partners  | 1101 California Avenue    | Corona      | \$6,950,000 (\$177/SF)  | 39,362      |
| Martin Fontes       | 6377 Riverside Avenue     | Riverside   | \$3,770,000 (\$145/SF)  | 26,000      |

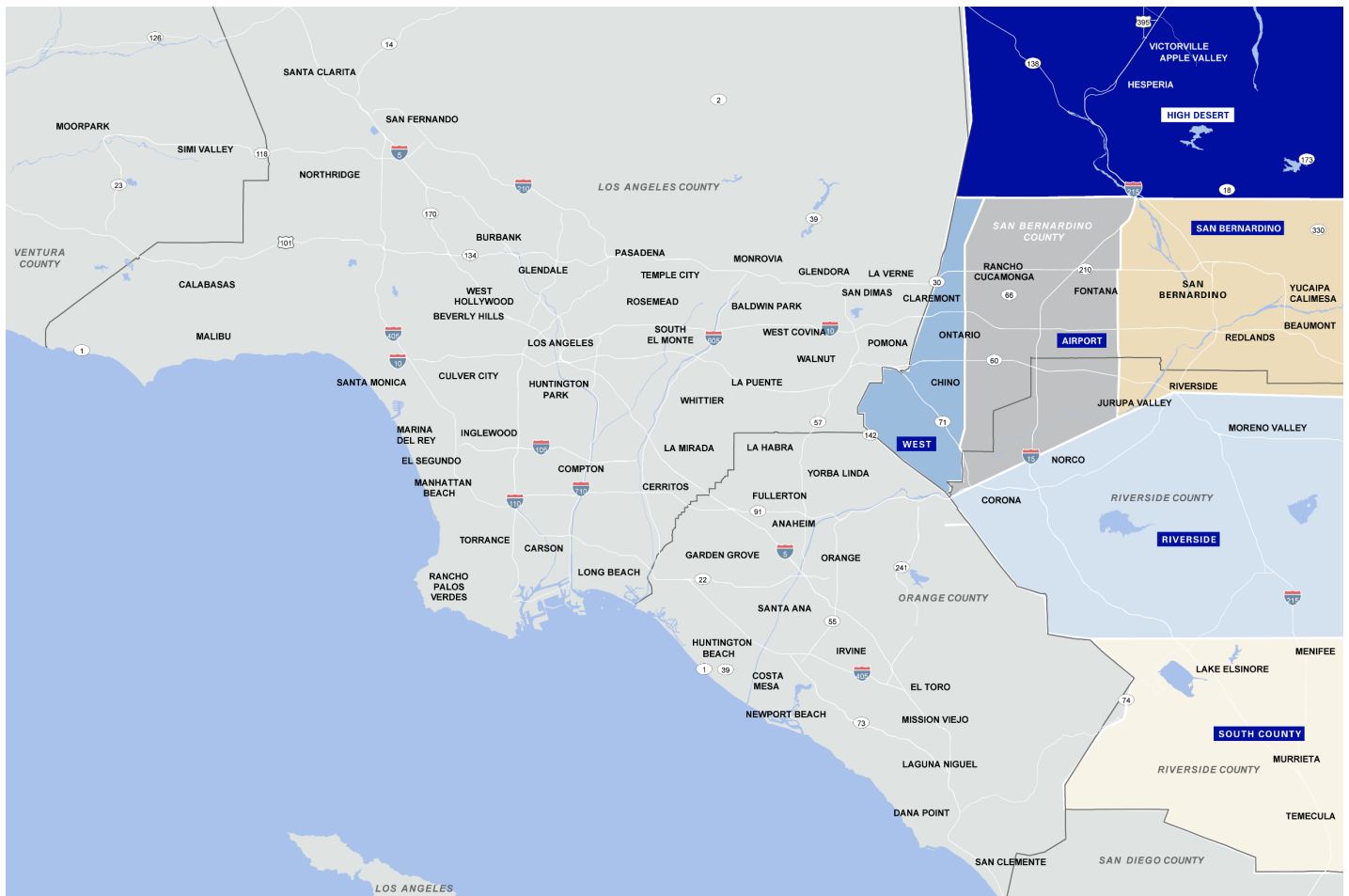
## Submarket Statistics

|                | 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                  | 9.0%               | -12,171                 | -52,449                 | \$2.50                         | \$2.03                         | \$2.19                       |
| High Desert    | 843,188              | 0                       | 8.8%               | -17,647                 | -19,434                 | \$1.87                         | \$1.36                         | \$1.38                       |
| Riverside      | 9,035,161            | 26,400                  | 13.6%              | -9,629                  | 17,326                  | \$2.40                         | \$1.83                         | \$2.01                       |
| San Bernardino | 6,114,267            | 0                       | 13.2%              | 786                     | -9,109                  | \$2.10                         | \$1.52                         | \$1.69                       |
| South County   | 2,972,339            | 20,800                  | 7.5%               | 13,653                  | 50,134                  | \$2.10                         | \$1.62                         | \$1.72                       |
| West           | 1,682,677            | 0                       | 9.3%               | 7,061                   | 43,962                  | \$2.48                         | \$1.91                         | \$1.88                       |
| <b>Market</b>  | <b>28,488,923</b>    | <b>77,721</b>           | <b>11.2%</b>       | <b>-17,947</b>          | <b>30,430</b>           | <b>\$2.33</b>                  | <b>\$1.78</b>                  | <b>\$1.93</b>                |

## 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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