



Inland Empire Office Market Report

Recovery Progress Helps the Year End on a Positive Note

- The average asking rent grew to an all-time high of \$2.00/SF, up 4.2% over the past year.
- Vacancy fell 30 basis points to 11.0%, the lowest rate since the start of the pandemic.
- Net absorption was positive this quarter, with 91,055 square feet in gains. Net absorption for the year was positive 162,892 square feet, an improvement from 2020's net losses of 397,453 square feet.
- Sublease availability remained low at only 283,725 square feet, which represents 1.0% of the market's overall availability.
- Construction activity remains historically light, with only four projects under construction, totaling 81,202 square feet. No new projects delivered this quarter.

Slow and Steady Activity Continues

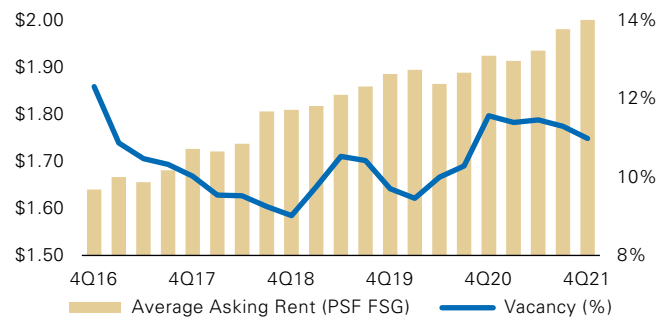
The Inland Empire has been largely insulated from many of the challenges caused by the pandemic in larger office markets, although other sectors in the region were hit particularly hard initially. Smaller office floorplates meant the market was not subject to spikes in vacancies or sublease availability tied to any large tenants. Demand for office space has been modest but consistent over the year, slowly chipping away at vacancy since it peaked at the end of 2020.

Smaller leases for office and administrative space by manufacturing and distribution companies made up most of the leasing activity during the quarter. Healthcare users and government agencies have also continued to contribute to demand for space.

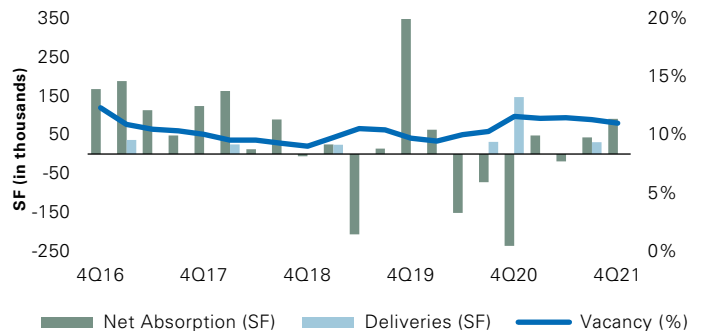
Monthly passenger counts at Ontario International Airport in November 2021 reached 94.8% of the volume experienced in November 2019, signaling the depth of business activity that has returned to the area.

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	11.0%	11.3%	11.6%	↓
Quarterly Net Absorption (SF)	91K	43K	-236K	↑
Average Asking Rent/SF/Month	\$2.00 FSG	\$1.98 FSG	\$1.92 FSG	→
Deliveries (SF)	0	31K	147K	→
Under Construction (SF)	81K	81K	47K	→

RESEARCH Q4 2021

Sales volume totaled \$371.1 million for the year, 16.6% higher than 2020's total but still lower than the 10-year average of \$433.7 million. Private investors made up 85.5% of the buyer pool in 2021, compared to only 11.5% of institutional buyers, the highest percentage of private buyers in 10 years as ownership in the area remains predominately locally based.

Outlook

The Inland Empire's unemployment rate was 5.4% in November, down 90 basis points from the previous month and a major improvement from the peak of 15.2% reached in April of 2020. Unemployment remains elevated compared with the 3.9% rate in February 2020 before the onset of the pandemic, although current total nonfarm employment is only down by 9,700. Office-using employment has 7,700 fewer jobs compared to February 2020; however, educational and health services jobs, which serve the Inland Empire's growing population and have an outsized impact on the market's relatively small office market, increased

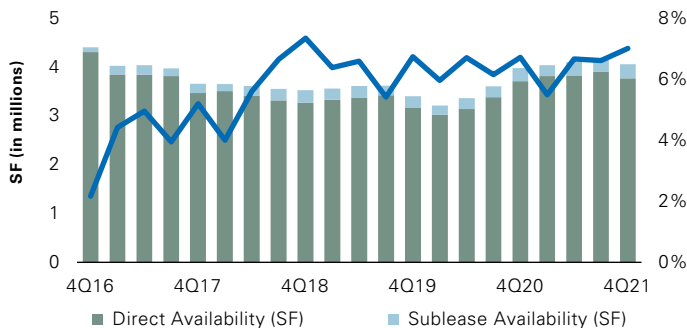
by 3,500 jobs during this time.

Some of the largest economic headwinds facing the nation now actually play to the Inland Empire's strengths. Employers have had difficulty recruiting and retaining workers in part due to a higher percentage of older workers opting for early retirement, but the Inland Empire has a larger percentage of younger millennials than both the state and national average, blunting the total number of workers leaving the workforce. The massive logistics industry in the region has also seen a boost due to the unprecedented volume of goods flowing into the Ports of Los Angeles and Long Beach, with positive effects for the region's economy despite the problems this bottleneck of goods has created further down the supply chain.

Improving economic conditions and population growth should continue to propel the office market back to pre-pandemic levels, and the dearth of new construction will keep upward pressure on rents if the recovery maintains momentum.

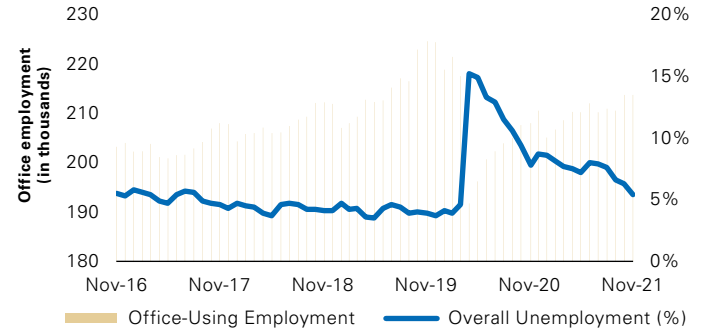
Sublease vs. Direct Availability (SF)

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
Logistics Co.	9680 Haven Avenue	Rancho Cucamonga	New	5,578
SWEG	141 N. Arrowhead Avenue	San Bernardino	New	5,400
Turfco	800 S. Milliken Avenue	Ontario	New	5,354

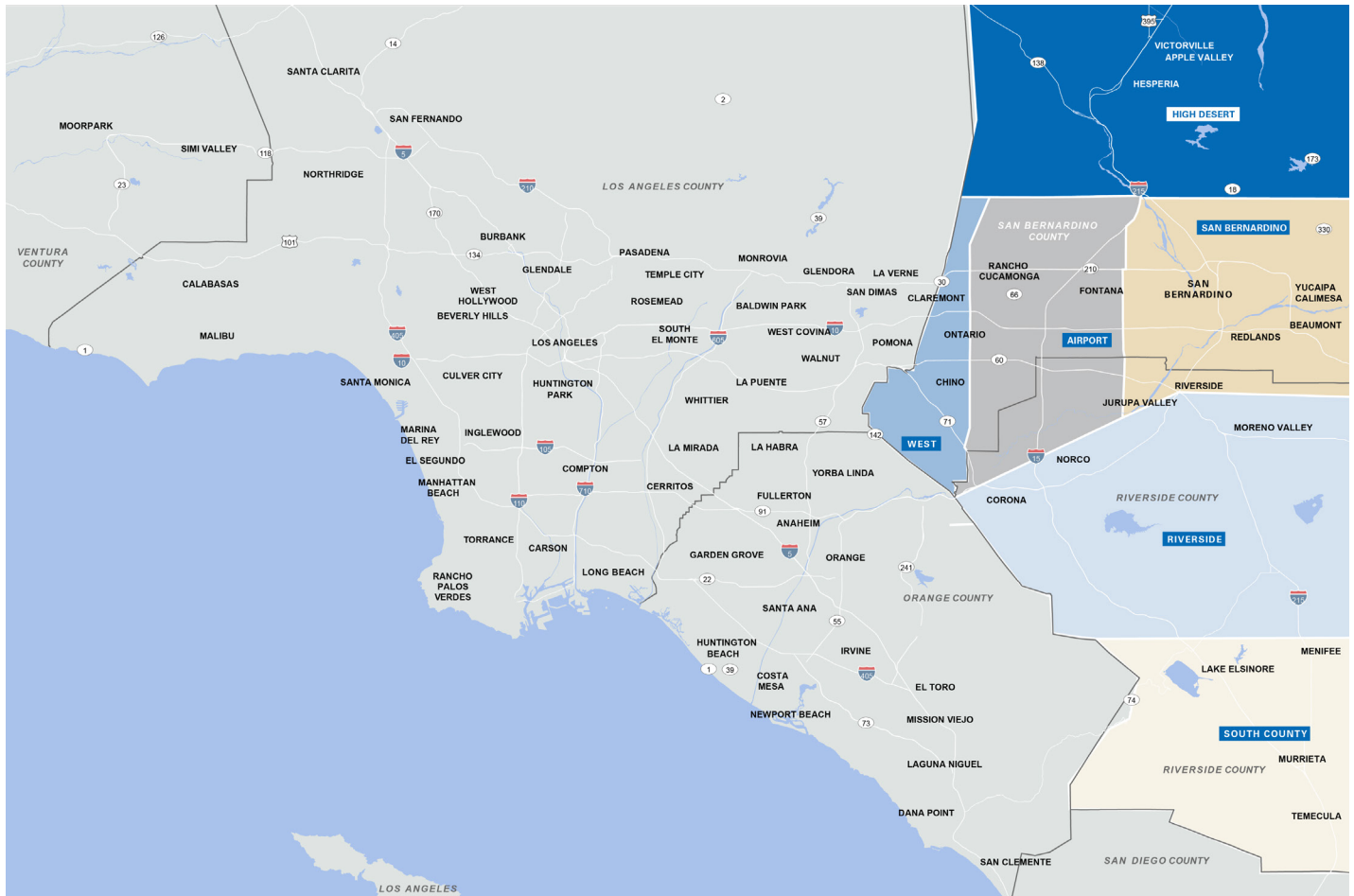
Sale Transactions

Buyer	Building	City	Sale Price (PSF)	Square Feet
Omni Dimension LLC	295 E. Caroline Street	San Bernardino	\$10,025,000 (\$150/SF)	66,737
TriStar Realty Group	25455 Medical Center Drive	Murrieta	\$9,000,000 (\$487/SF)	18,480
Davenport Partners	1200 California Street	Redlands	\$8,565,000 (\$171/SF)	50,000

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	7,816,439	0	9.6%	-6,562	-8,402	\$2.51	\$2.07	\$2.23
High Desert	843,188	0	4.9%	19,367	12,917	\$1.87	\$1.70	\$1.70
Riverside	8,881,930	44,400	12.5%	4,007	77,482	\$2.67	\$1.89	\$2.15
San Bernardino	6,060,638	0	13.8%	52,701	-34,201	\$2.08	\$1.52	\$1.69
South County	2,903,210	36,802	7.7%	-4,341	47,862	\$2.15	\$1.63	\$1.70
West	1,682,677	0	8.0%	25,883	67,234	\$2.66	\$1.96	\$2.01
Market	28,188,082	81,202	11.0%	91,055	162,892	\$2.45	\$1.82	\$2.00

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.



For more information:

Dain Fedora
 Director of Research
 dain.fedora@nmrk.com

Brent Don
 Senior Research Analyst
 brent.don@nmrk.com

Inland Empire Office
 3281 E Guasti Road, Suite 600
 Ontario, CA 91761
 t 909-605-1100

nmrk.com

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