

Inland Empire Office Market Report

An Uneven End to an Uneven Year

- Asking rent climbed to a new all-time high of \$2.10/SF, up 4.9% over the past year as office demand remained steady and rents chased the even higher rate of inflation.
- Vacancy fell to 10.1%, the lowest rate since the beginning of 2020. Vacancies have slowly but steadily declined as existing projects have leased up in the absence of significant new developments.
- Quarterly net absorption was positive with 61,897 square feet, bringing the year-end total to 381,619 square feet.
- Sublease availability, which has traditionally been relatively low in contrast to other Southern California markets, sank to 0.9%, the lowest rate since the beginning of 2021.
- The absence of tech firms in the region accounts for low sublet availability.
- Construction activity remains modest, with 105,000 square feet underway and one new delivery of 18,000 square feet.
- Sales volume was more robust than usual, totaling \$187.8 million, the highest quarterly sales total since 2019. Annual sales volume was \$612.8 million, the highest yearly total in the last 10 years.

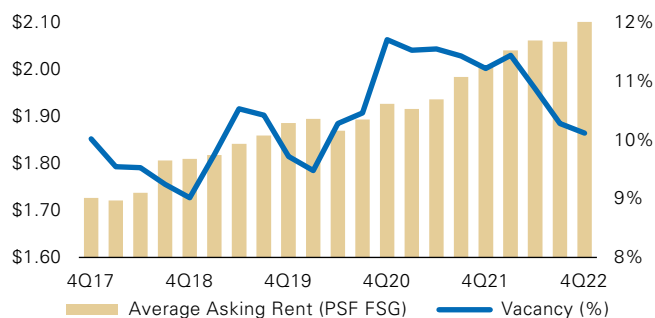
Office Sales Rise While Home Sales Fall

The Inland Empire was largely insulated from the collapse of office sales other markets experienced as interest rates steadily climbed, owing to the historically limited number of trades in the area and the fact that private investors who favor the region are more likely to use 1031 exchanges or cash to fund acquisitions.

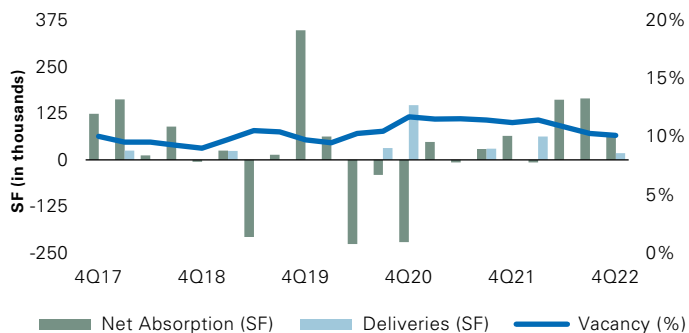
Home sales, on the other hand, fell 50.6% year-over-year in October 2022, the steepest decline of any region in California. If interest rates remain elevated for an extended time, the high cost of a new mortgage could severely impact the region's population growth, which is the number-one driver of demand in the relatively small office market.

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)	28.1M	28.2M	28.1M	→
Total Vacancy Rate	10.1%	10.3%	11.2%	→
Quarterly Net Absorption (SF)	62K	165K	65K	→
Average Asking Rent/SF/Month	\$2.10 FSG	\$2.06 FSG	\$2.01 FSG	→
Deliveries (SF)	18K	0	0	↑
Under Construction (SF)	105K	123K	156K	→

Signs of Normalcy Return

In November, the Bureau of Labor Statistics reported that the annual rate of inflation had fallen to 7.1%, the fifth consecutive month of decreases, fueling optimism that prices were coming under control and purchasing power was on the rise. Ontario International Airport had served 5.3 million passengers in 2022 as of November, exceeding the pre-pandemic count of 5.1 million year-to-date passengers in November 2019. The airport recently completed a new parking lot with an additional 1,337 spaces to accommodate increasing demand.

Employment and Economic Outlook

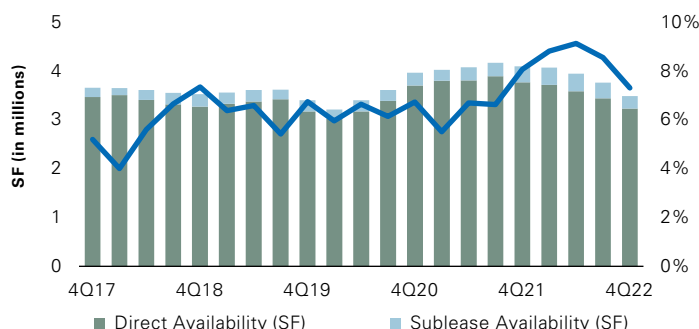
The Inland Empire's unemployment rate was 4.2% in November, an improvement of 120 basis points over the year. November set numerous new employment peaks for the market: the largest labor force, the highest number of total nonfarm jobs and the highest number of office-using jobs on record. Since last year, the region has added 74,400 nonfarm jobs, 14,700 of which were in office-using sectors.

Despite these new high-water marks, the historically strong job market is unlikely to translate into significant new office development any time soon. Construction activity will remain low due to the high price of building materials, labor, debt and the fact that the Inland Empire is not a popular target market for speculative developments.

The Inland Empire is poised for slow but steady office demand, insulated from many of the challenges facing larger office markets. The region is not dominated by companies who could make a large pivot to employees working from home, as office tenants in the region are primarily focused on serving residents and local businesses, which require a local office presence. Inflation and high interest rates represent the largest macroeconomic challenge facing the region, which dampens population growth and office demand.

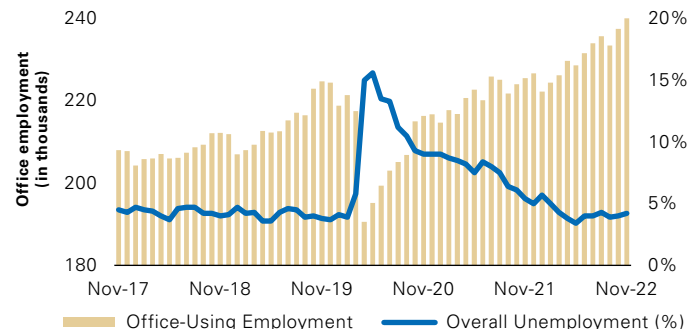
Sublease vs. Direct Availability (SF)

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
The Mortgage Law Firm	27368 Via Industria	Temecula	Sublease	15,908
Sarver Wireless	10251 Trademark Street	Rancho Cucamonga	New	5,100
Anaco	311 Corporate Terrace	Riverside	New	3,064

Sale Transactions

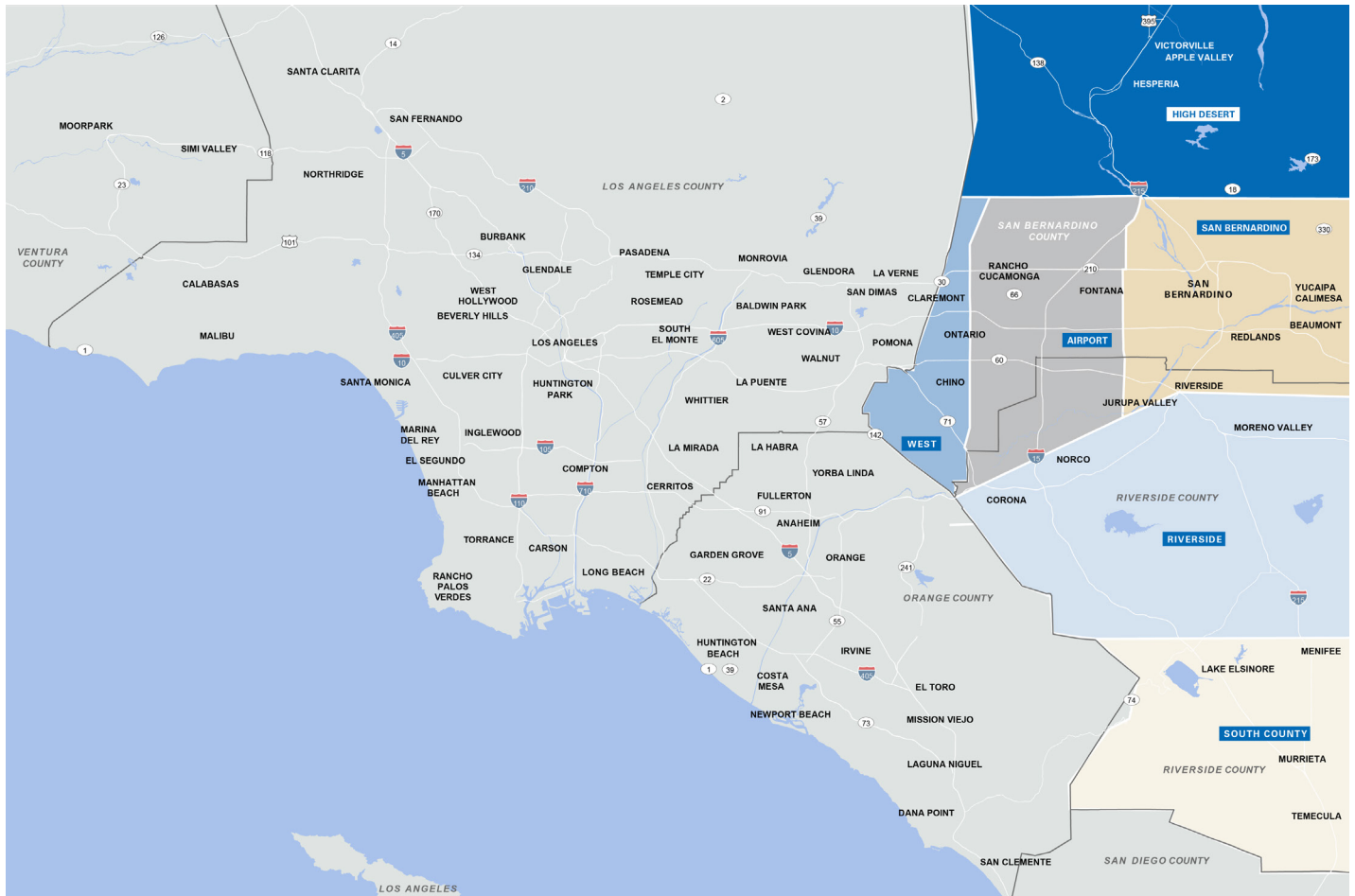
Buyer	Building	City	Sale Price (PSF)	Square Feet
Topline	621-685 E Carnegie Dr	San Bernardino	\$34,175,000 (\$192/SF)	177,905
CR Operating Company	38975 & 38977 Sky Canyon Dr	Murrieta	\$19,200,000 (\$239/SF)	80,200
National Community Renaissance	9692 Haven Ave	Rancho Cucamonga	\$18,250,000 (\$243/SF)	75,000

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	7,808,350	0	10.5%	24,567	13,520	\$2.53	\$2.16	\$2.28
High Desert	851,854	0	2.9%	21	16,707	\$1.87	\$1.97	\$1.92
Riverside	8,886,351	75,000	11.3%	-223	145,788	\$2.59	\$1.96	\$2.21
San Bernardino	6,009,549	30,000	11.4%	43,229	157,762	\$2.12	\$1.56	\$1.75
South County	2,942,363	0	6.2%	8,476	78,335	\$2.19	\$1.73	\$1.84
West	1,680,203	0	7.9%	-14,173	-30,493	\$2.57	\$2.07	\$2.09
Market	28,178,670	105,000	10.1%	61,897	381,619	\$2.45	\$1.94	\$2.10

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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