

Inland Empire

Office Market Outlook 1Q 2017

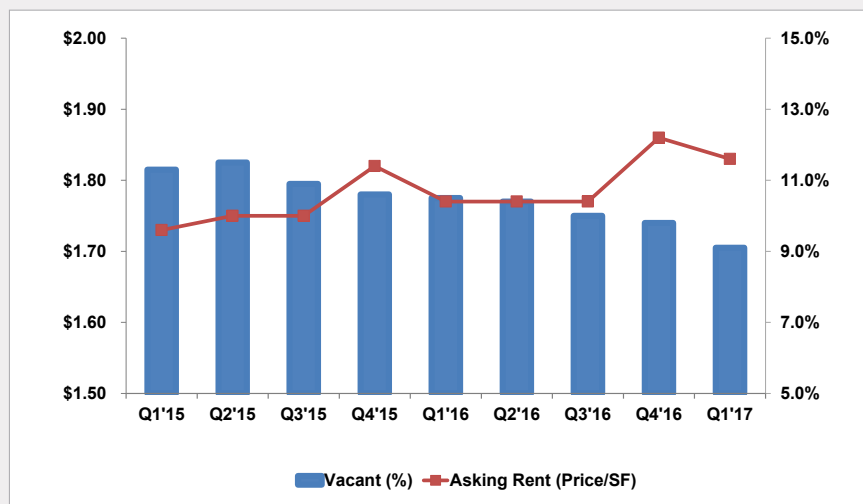
MARKET OVERVIEW

The Inland Empire saw rising rents and declining vacancy in the first quarter of 2017. The vacancy rate closed the quarter at 9.1%, down 70 basis points from last quarter and 140 basis points below this time last year to reach the lowest level since 2007. Demonstrating continued growth, average asking rents increased 3.4% over last year. Three projects are under construction totaling 59,080 square feet, most of which is medical space. The largest property under construction, 31775 De Portola Road, is being developed by Pacific Media Properties to be occupied by RadNet, a national radiology provider. The medical industry continues to be a primary driver of demand for office space, with the Education & Health Services sector growing 3.8% from last year and adding 8,060 new jobs, according to the California Employment Development Department. Overall, nonfarm employment in the Inland Empire has grown by 3.8% from March 2016 to March 2017. The Inland Empire office market's robust market fundamentals and employment growth in key industries are driving demand in 2017.

TRENDS TO WATCH

The space under construction in the Inland Empire is expected to deliver this year 95% occupied. With most construction spoken for, the vacancy rate will be minimally affected by these new deliveries. Vacancy rates are expected to continue to decline, and average asking rates to increase. Heading into 2017, population and job growth will be the main drivers to help projects get off the ground. In Lake Elsinore, Alberhill Village is one of the largest mixed-use developments approved in the city's history. The City Council voted to approve a plan that would include 1.5 million square feet of office space, 8,024 homes and apartments, retail centers, a four-year university, and several schools on 1,400 acres on the city's northwest side.

Average Asking Rent and Vacancy Rate



Source: NAI Capital Research, CoStar

MARKET OUTLOOK

Asking Rental Rates



Sale Prices



Availability/Vacancy Rates



Landlord Concessions



Sales/Leasing Volume



New Construction



NAI Capital Research
www.naicapital.com

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Market Statistics

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	1Q17 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	1Q17 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/PSF FSG	AVERAGE SALE PRICE \$/PSF
Airport	13,155,464	0	10.1%	8.3%	104,426	104,426	551,412	551,412	\$1.92	\$186
High Desert	5,611,362	0	6.5%	5.0%	18,716	18,716	54,189	54,189	\$1.60	\$66
Riverside	17,005,811	39,080	11.6%	9.6%	180,617	180,617	161,340	161,340	\$1.99	\$171
San Bernardino	14,619,520	0	15.2%	11.5%	67,753	67,753	109,406	109,406	\$1.58	\$83
South	7,601,217	20,000	15.5%	8.7%	74,779	74,779	166,021	166,021	\$1.83	\$134
West	4,095,614	0	10.8%	8.1%	54,715	54,715	75,650	75,650	\$1.88	\$132
Total	62,088,988	59,080	12.1%	9.1%	501,006	501,006	1,118,018	1,118,018	\$1.83	\$141

RBA includes office buildings of all sizes and classes. Rents reflect buildings of at least 20,000 square feet.

Leasing

Total leasing activity closed the quarter at just over 500,000 square feet, down 41% over this time last year due to dwindling supply. Leasing activity this quarter averaged at 2,150 square feet per deal, which was similar to prior quarters, indicating sustained demand for smaller office space. Vacancy rates have dropped to single digits and remain at the lowest level since 2007, while average rents have increased by 3.4% to \$1.83/SF over this time last year. This quarter, the City of San Bernardino leased 13,840 square feet of office space in San Bernardino at an asking rate of \$2.00/SF. Air Services, a private helicopter ambulance firm, leased 13,705 square feet of medical office space in Ontario, at an asking rate of \$1.80/SF.

Sales

Total sales volume ended the quarter with over 1.1 million square feet of office space, double last quarter's total and up 189% over this time last year. This substantial increase in sales activity has been driven by low demand and is concentrated near the western submarket. Average sale prices increased 4.1% from \$135/SF to \$141/SF this quarter. Similarly, cap rates have fallen by 90 basis points over the year to 6.3%, which combined with rising sales activity and occupancy rates indicates that the Inland Empire is viewed as a solid market to invest. Barton Plaza, a 77,500 square foot office building in Rancho Cucamonga housing tenants such as the County of San Bernardino, Century 21 Realty and Re/Max Commercial, sold to a private investor for \$172/SF.

Significant Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/PSF*	SQUARE FEET
City of San Bernardino	290 N D St	Airport	\$2.00	13,840
Mercy Air Services	621 E Gausti Rd	Airport	\$1.80	13,705
People's Discount Mortgage	11023 Eucalyptus St	Airport	\$1.35	9,600
Arrowhead Orthopaedics	1801 Orange Tree Ln	South	\$1.85	9,799
Fitness	12241 Industrial Blvd	High Desert	\$1.00	5,200

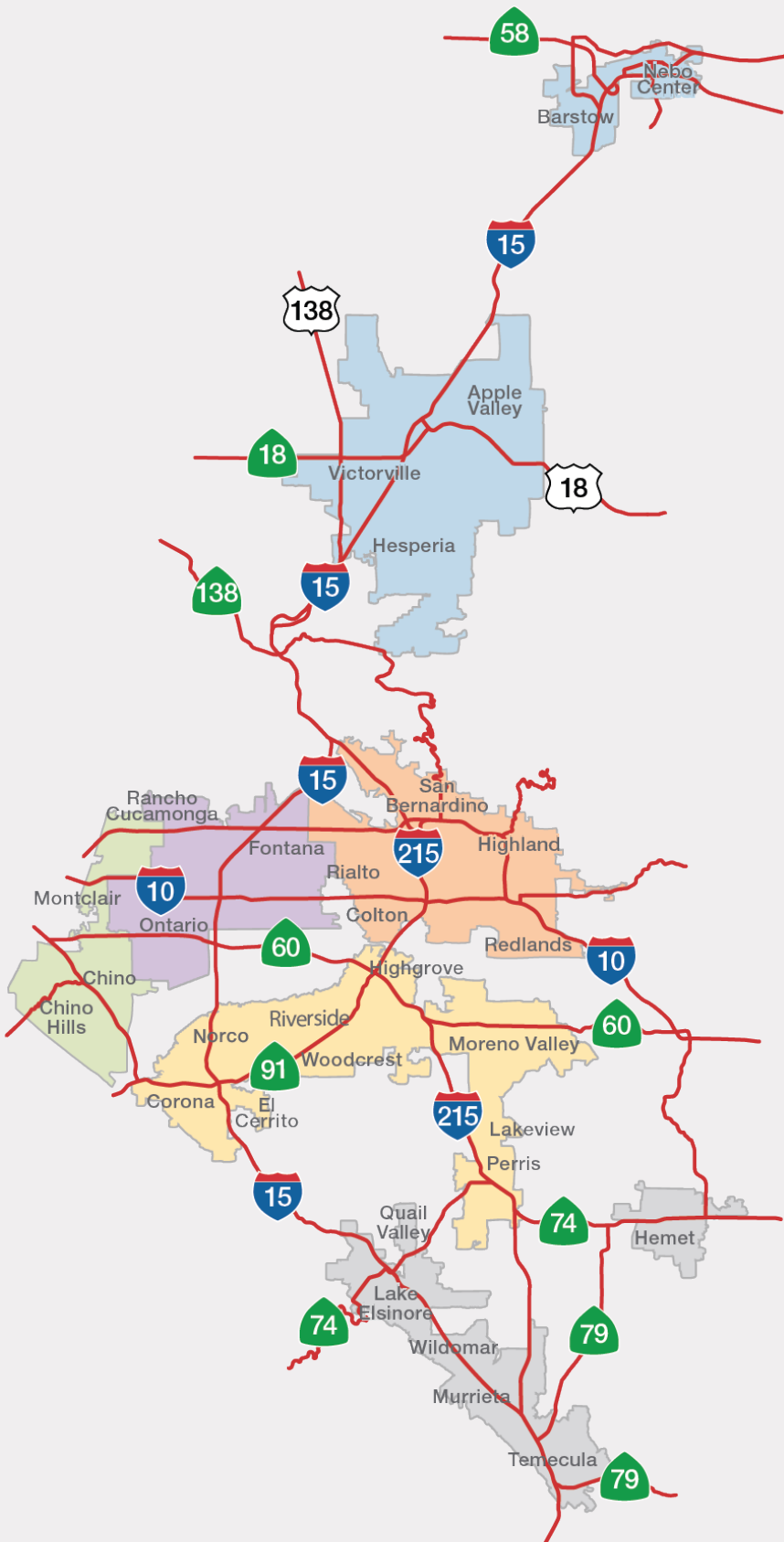
*All rents are FSG unless otherwise stated

Significant Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/PSF	SQUARE FEET
Yaqiang Gao	10535 Foothill Blvd	Airport	\$172	77,488
Samir Batniji	1500 Iowa Ave	Riverside	\$180	49,202
InQbrands, Inc.	1801 E Holt Blvd	Airport	\$125	33,402
Adminsure, Inc.	3380 Shelby St	Airport	\$152	30,499
Roan Paul Earle & Charmaine Earle	12199 Industrial Blvd	High Desert	\$94	17,018

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- **High Desert**
 - Apple Valley
 - Barstow
 - Hesperia
 - Victorville
- **West**
 - Chino
 - Chino Hills
 - Montclair
 - Upland
- **Airport**
 - Fontana
 - Ontario
 - Rancho Cucamonga
- **San Bernardino**
 - Colton
 - Highland
 - Loma Linda
 - Redlands
 - Rialto
 - San Bernardino
- **Riverside**
 - Corona
 - Moreno Valley
 - Norco
 - Perris
 - Riverside
- **South**
 - Hemet
 - Lake Elsinore
 - Murrieta
 - Temecula
 - Wildomar

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Pasadena, CA 91101
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Valencia, CA 91355
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Ventura County

Oxnard
300 Esplanade Dr., Ste. 1660
Oxnard, CA 93036
(805) 278-1400

Westlake Village
2555 Townsgate Rd., Ste. 320
Westlake Village, CA 91361
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Simi Valley
2655 First St., Ste. 250
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Orange County

Irvine
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San Clemente
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Inland Empire

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Coachella Valley

Palm Desert
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