

Appraisal Institute – Office Market Overview

Mid Year 2017



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2017 Office Trends

- 2016 was a rebound year for IE office 740,000 sf of positive absorption
- All signs indicate we are still in an upward market; slow and steady; projected to continue through 2018
- Overall market vacancy is currently 12%; down from 14.6% in January 2016 and 15.6% in January 2015
- 2017 started off slowly, with only 97,000 of absorption in the first quarter
- Class A and B lease rates are up 6-13% but....
- Class A sale comps are still below \$200 psf as investors look for higher returns
- Entrepreneurial capital still eyeing the Inland Empire for value-add opportunities
- Lending Market is still tight, which has slowed investment sale

- Large blocks of available space >20,000 square feet remain in high demand and short supply
- 22 properties over 20K, 6 properties over 30K
- New office development is just starting to happen as economics start to justify construction
- Developers need to achieve lease rates at approximately \$2.35 FSG/ \$1.50 NNN before they can build; we are just about there

Definitions

- Class A
 - 3 stories or greater
 - Museum quality finishes
 - Highest rates in the market

- Class B
 - Older Class A buildings
 - Less than 3 stories
 - No major functional obsolescence



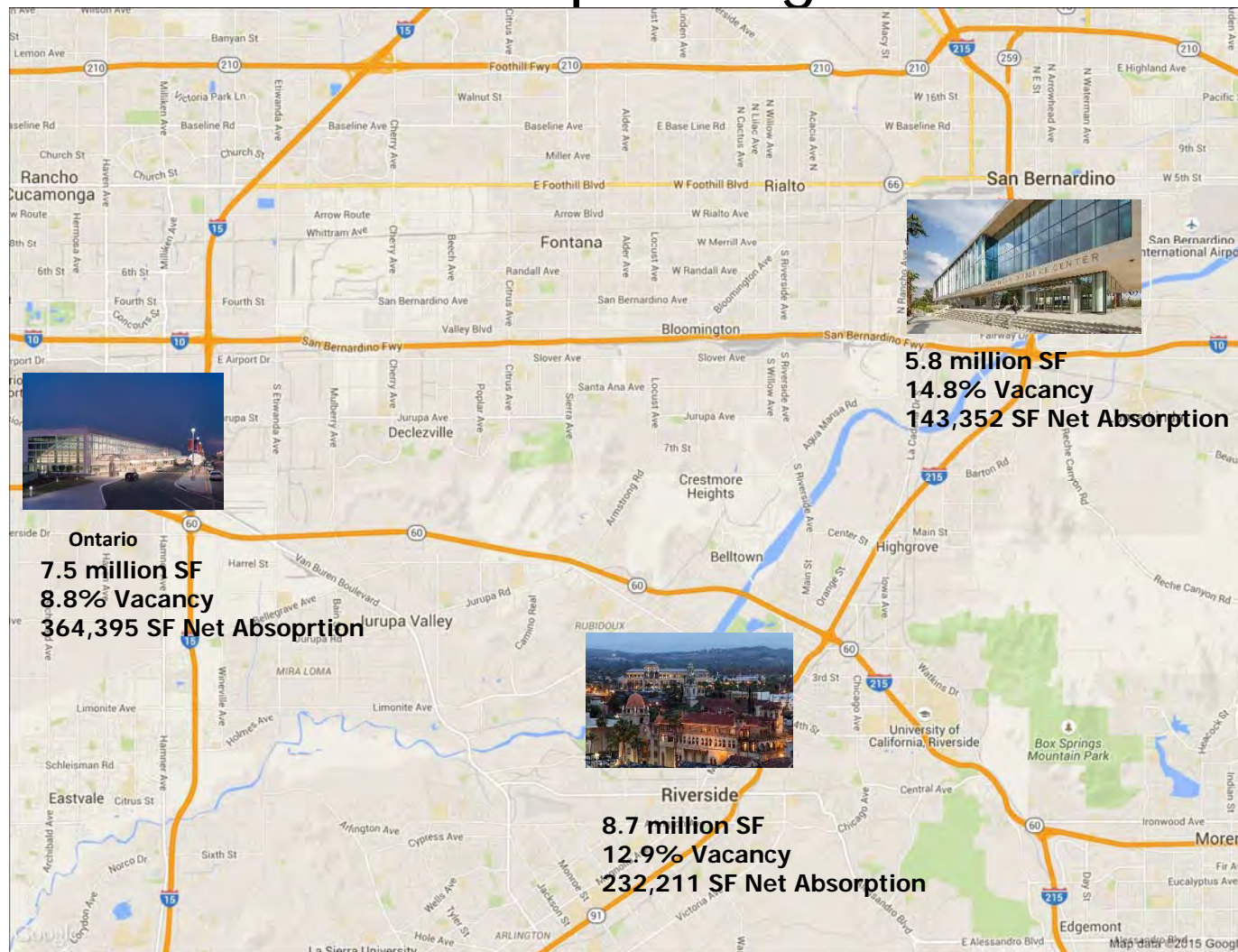
Definitions - Continued

- Class C
 - Older Class B buildings
 - Single-story or wood frame and stucco garden style
 - Office space in multi-tenant

- Small Buildings for Sale
 - New freestanding or condo units
 - Usually tracked as Class C space



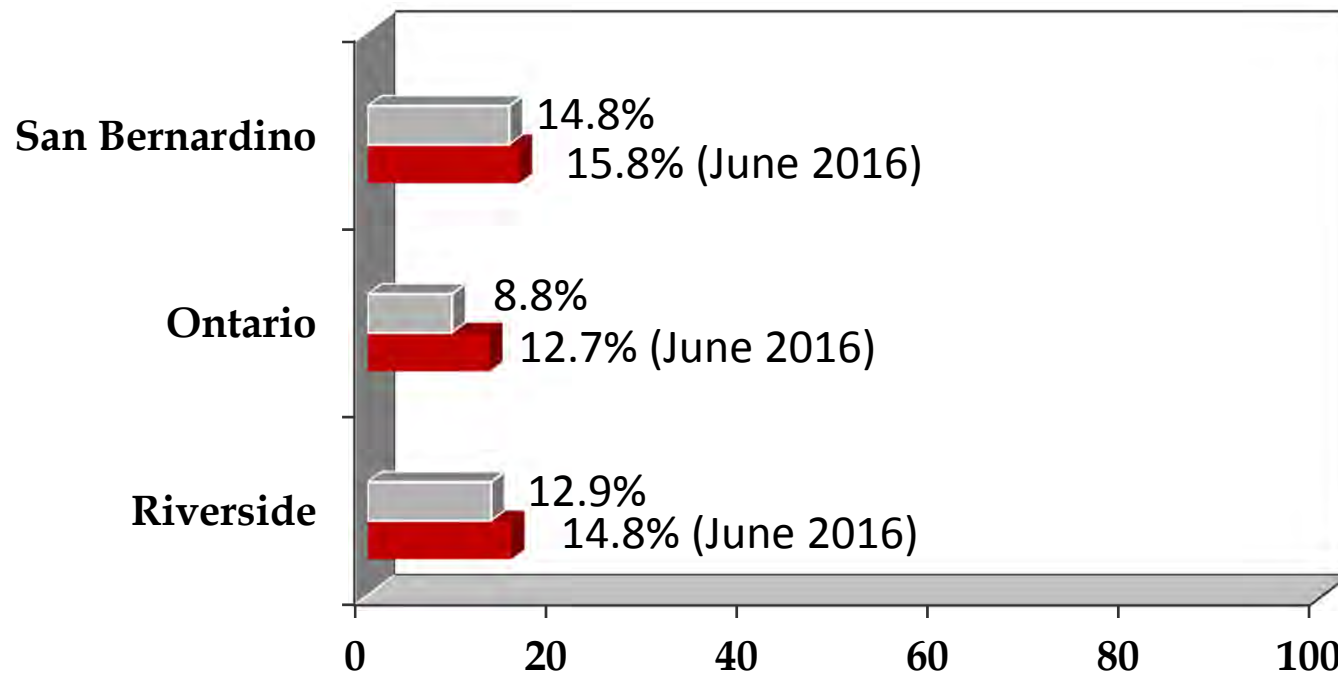
Inland Empire Region



22,204,498 Total Square Feet

12% Vacant

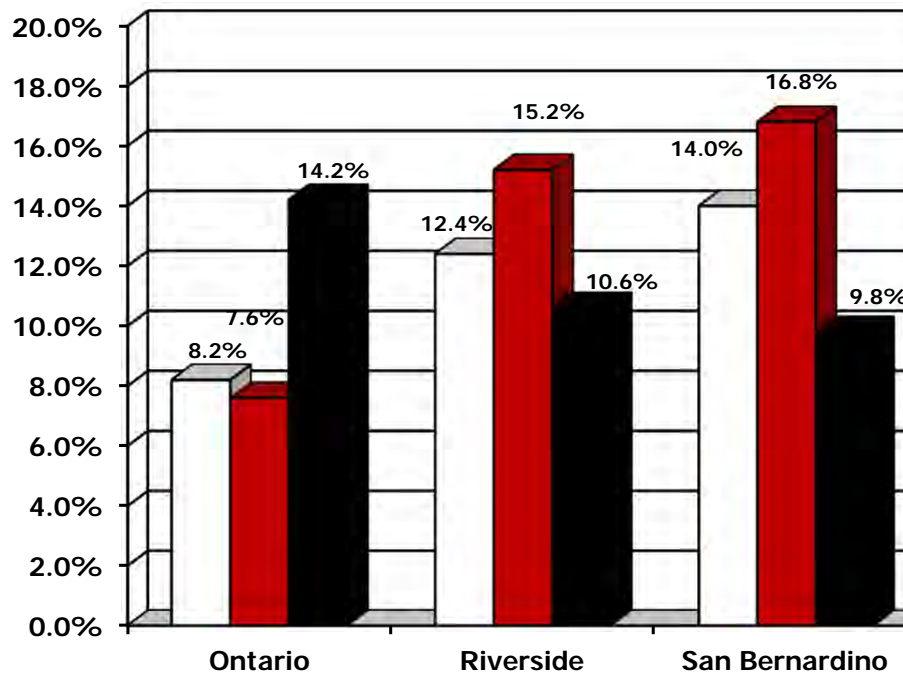
Vacancy by Region



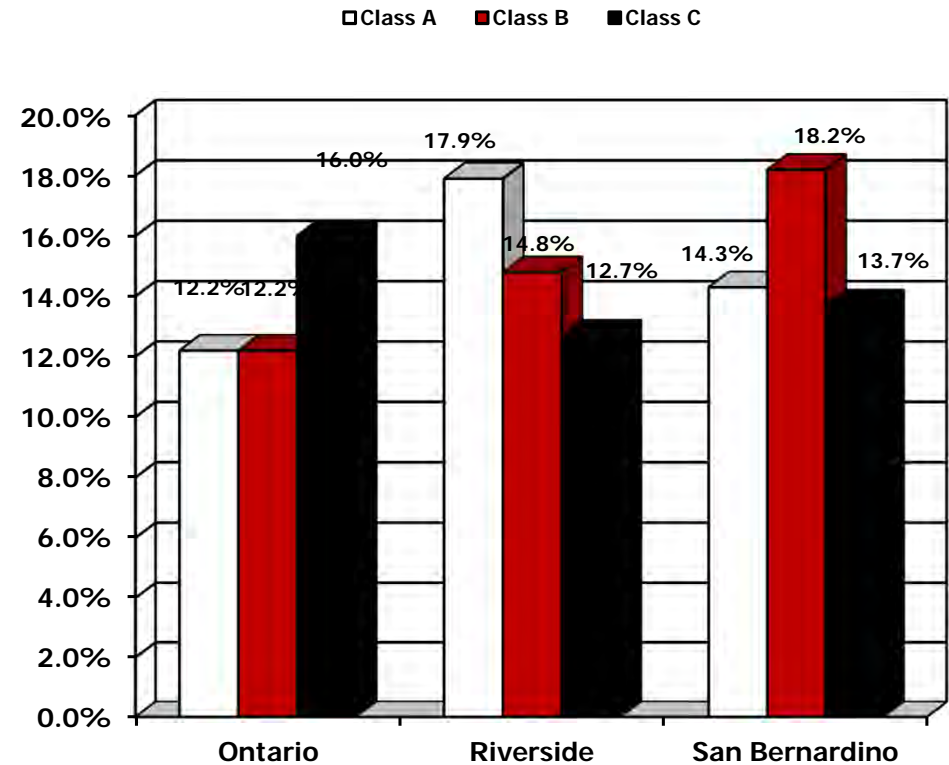
Current Regional Vacancy – 12%
Vacancy June 2016 – 14.6%

Vacancy Rate by Major Market

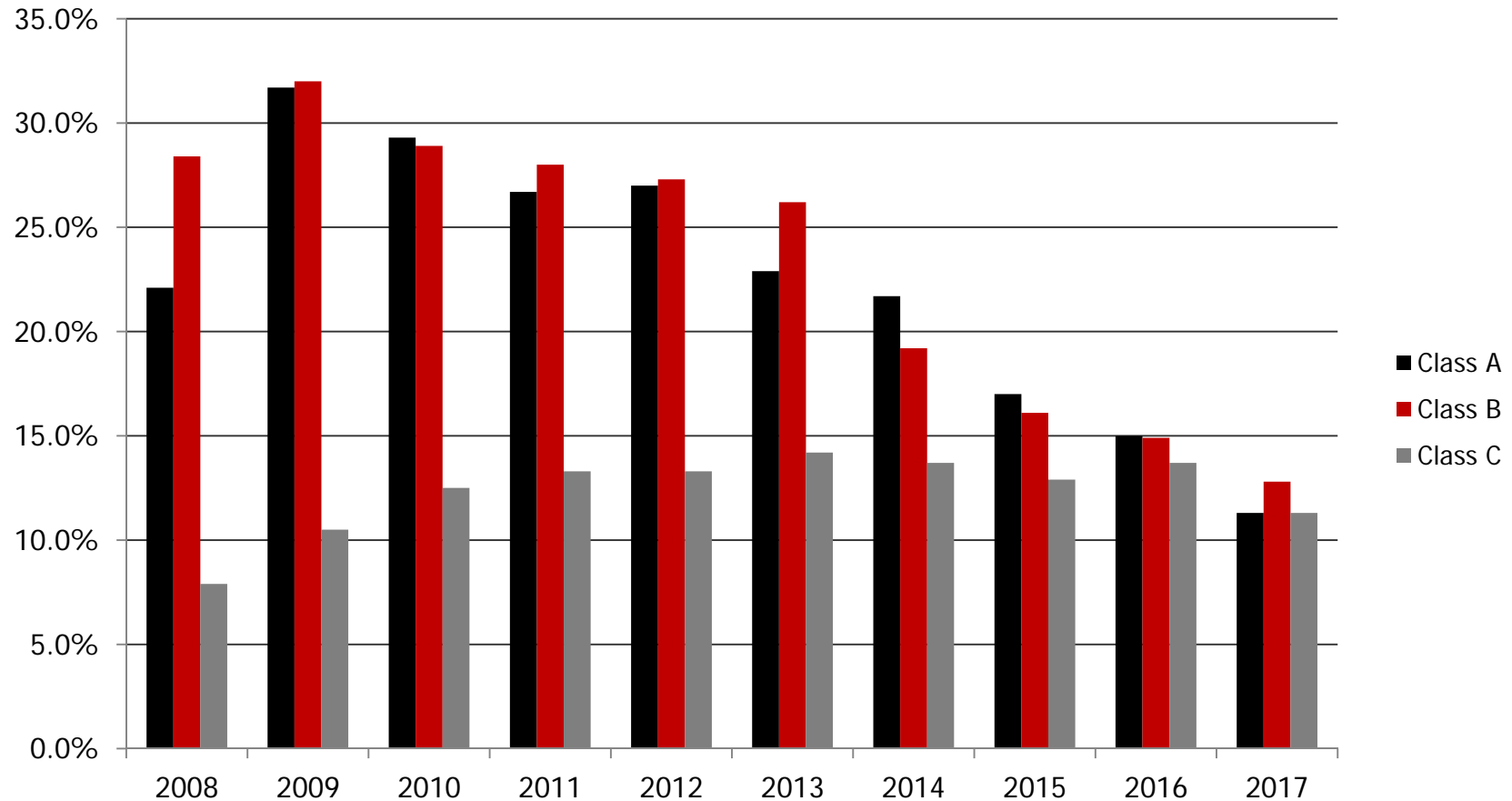
June 2017



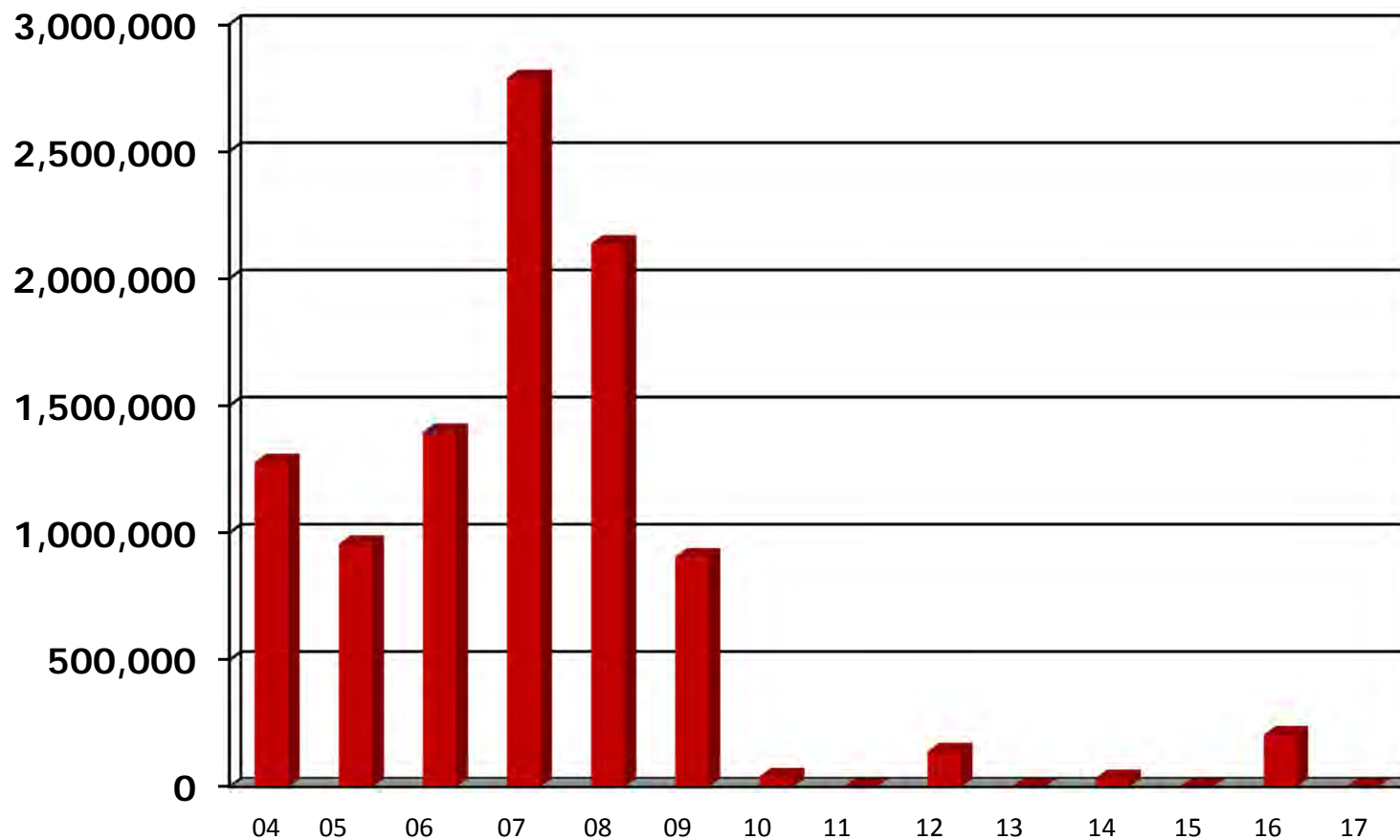
June 2016



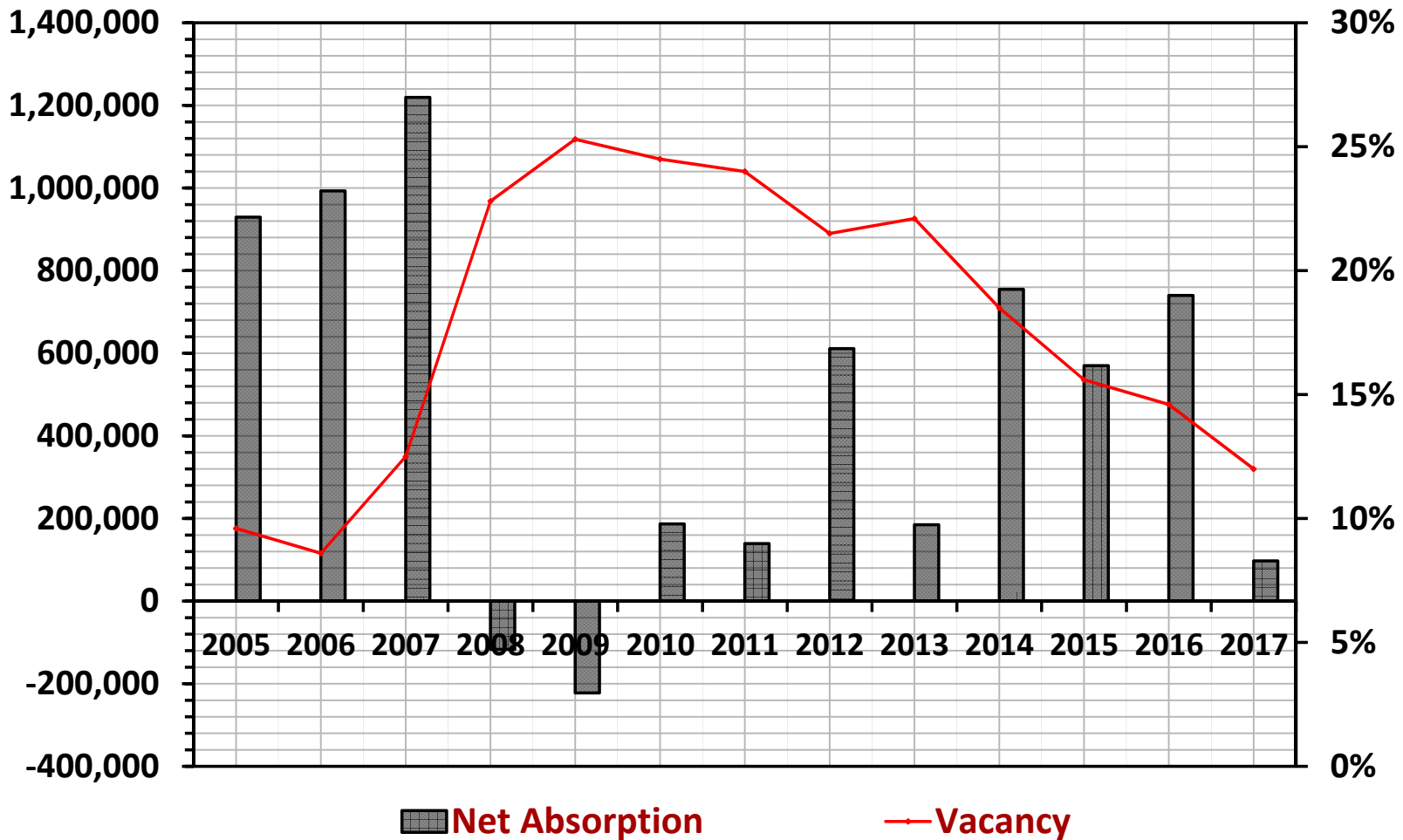
Vacancy Rate by Class



Office Construction (Completed Since 2004)



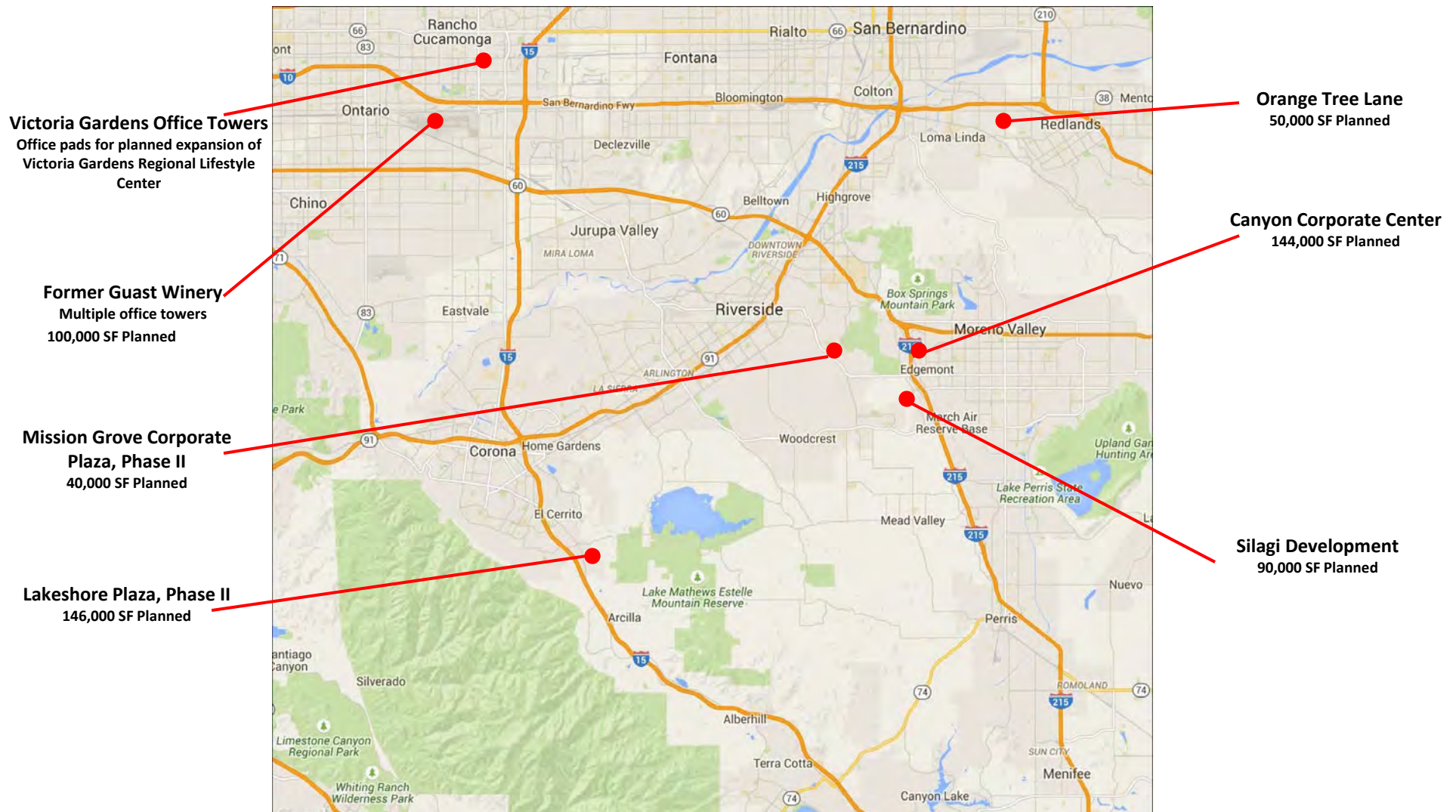
Vacancy and Absorption Trend Analysis



Average Asking Lease Rates

Riverside	Increase Since 2016	All Time High
Class A \$2.50 - \$3.25 FSG	7.5%	\$3.10
Class B \$1.85 - \$2.10 FSG	9.4%	\$1.95
Class C \$1.45 – \$1.55 FSG	9.0%	\$1.55
Ontario/Rancho Cucamonga		
Class A \$2.25 - \$2.50 FSG	13%	\$2.25
Class B \$1.85 - \$2.15 FSG	8.1%	\$1.95
Class C \$1.35 – \$1.60 FSG	7.3%	\$1.60
San Bernardino		
Class A \$1.95 - \$2.25 FSG	6.3%	\$2.10
Class B \$1.65 - \$1.85 FSG	flat	\$1.80
Class C \$1.25 – \$1.45 FSG	flat	\$1.50

New/Planned Product



Large Lease Comps

TENANT	BUILDING	SF	LEASE TERM	LEASE RATE	TIs
MedAmerica Billing Services	Ontario Corporate Center	40,192	120	\$1.80 FSG	\$40.00
Port View Prepitory	Jurupa Business Ctr	25,368	120	\$1.75 FSG	\$30.00
FBI	DT Riverside	24,519	180	\$2.40 FSG	\$0.00
LuLaRoe	Lakeshore Plaza	19,761	88	\$2.15 FSG	\$20.00
IRC	The Grove	18,258	60	\$1.85 FSG	\$0.00
Engility Corporate	Brier Corporate Ctr	13,606	60	\$2.00 FSG	n/a
Kleinfelder	Market St Corp Ctr	12,725	66	\$2.15 FSG	\$15.00
UC Riverside School of Medicine	Citrus Tower	11,477	120	\$3.10 FSG	\$50.00

Sale Comps

Towers at Riverwalk



4204 & 4210 Riverwalk Parkway, Riverside

- Two (2) Class A Office Buildings – Fully Leased
- 193,646 total SF
- \$197 PSF
- Sold April 2017
- Investor Purchase;

Empire Towers I-IV



3633 Inland Empire Blvd.; 4141 Inland Empire Blvd.;
4200 Concourses; and 3800 Concourses in Ontario

- Four (4) Class A Office Buildings – Fully Leased
- 400,886 total SF
- \$195 PSF
- Sold February 2017
- Investor Purchase; MGR Syndication

Sale Comps

Corona Summit Corporate Center



2455 Anselmo Drive, Corona

- Class A Office Building – vacant; some shell
- 72,040 total SF
- \$175 PSF
- Sold November 2016
- User Purchase; Hansen Beverage (Monster Energy)

Mission Square



3750 University Avenue, Riverside

- Class A Office Building – 50% vacant
- 127,533 total SF
- \$297 PSF
- Sold October 2016
- User Purchase; City of Riverside Public Utilities

Sale Comps

Vintner's Grove



8686 Haven Avenue, Rancho Cucamonga

- Class A Office Building
- 56,305 total SF
- \$222 PSF
- Sold September 2016
- User Purchase; Arrowhead Credit Union
















Empire Lakes Corporate Center



9500 Cleveland, Rancho Cucamonga

- Older Class A Office Building
- 241,292 total SF
- \$183 PSF
- Sold August 2016
- User Purchase; Inland Empire Health Plan

Inland Empire Office Market – Report Card

	2015	2016	2017
Landlords			
Tenants			
Sellers			
Buyers			
Developers			

Forecast 2017 – Where are we going?

- Office activity slows as available space drops below 10%
- Trump effect? Could be good, Could be bad
- Larger blocks of space are in short supply which should lead to build to suits
- Lease rates will increase 10% across the board
- Concessions continue to drop as market tightens
- Class A Property values should eclipse \$200 psf or higher as opportunities diminish and higher lease rates factor into rent rolls
- Value add opportunities are still available
- Low interest rates will continue to push leveraged returns
- Mike Trout will still win the AL MVP award but the Angels wont make the playoffs...again...☹

QUESTIONS?

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