

Appraisal Institute – Office Market Overview

Mid Year 2019



David G. Mudge, CCIM, SIOR

Senior Vice President

Lee & Associates Commercial Real Estate Service, Inc. - Riverside



Dave Mudge
Senior Vice President
office | 951.276.3611
cell | 951.660.0922
fax | 951.276.3650
dmudge@lee-associates.com



Lindsay Mingee
Associate
License ID# 01920658
office | 951.276.3622
cell | 714.317.3606
lmingee@lee-associates.com



Reid Sisson
Associate
License ID# 01981528
office | 951.276.3620
cell | 951.990.1047
rsisson@lee-associates.com

Appraiser Tips

- We Brokers want to work with you, your as important to us as we are to you.
- We're all really busy in this part of the market cycle so we don't have time to chat
- Most of us get a high volume of calls and deal calls, prospecting and our spouses get first priority Appraisers and Loopnet calls fall to last.
- If you don't get us on your first call don't give up.
- Sadly we have to join the millennials an use email or texting as a primary form of communication...but it works.
- Always make sure you send your comps from your study to the people that cooperated with you.

Highlights of the last 12 months

- Market Vacancy rates drop below 10% for the first time since 2006.
- 2018 was a moderate year for IE office 400,352 sf of positive absorption. Just up slightly from 2017 387,000.
- Quality office suites continue to be in the highest demand, older projects less desirable.
- Class A, B, and C all saw positive absorption but C has done it by lowering rates.
- All signs indicate we are still in an upward market; slow and steady; projected to continue through 2020
- Large office user building purchases continue with Schools First acquisition of Riverwalk Towers
- New office construction has finally returned with the improving market as rates creep over \$3.00 psf Full Service

- Class A sale comps have eclipsed \$240 psf. Up from \$2.20 This is not due to Cap rate suppression, its due to increased lease rates
- Entrepreneurial capital still eyeing the Inland Empire for value-add opportunities
- Developers are still hesitant to get in the game.
- 22 properties over 20K, 6 properties over 30K
- New office development is just starting to happen as economics start to justify construction Plus \$3.00 psf lease rates

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



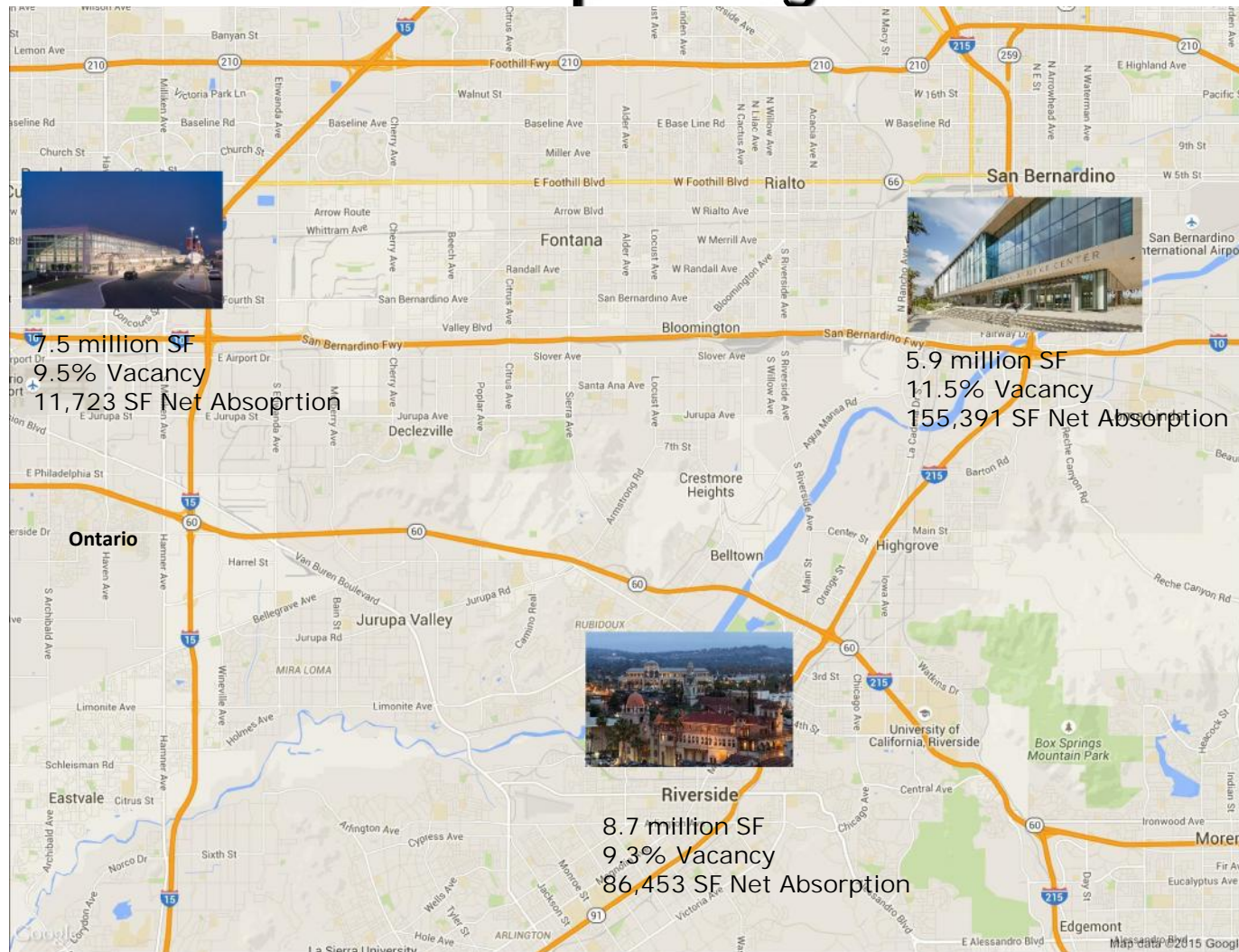
Definitions - Continued

- 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



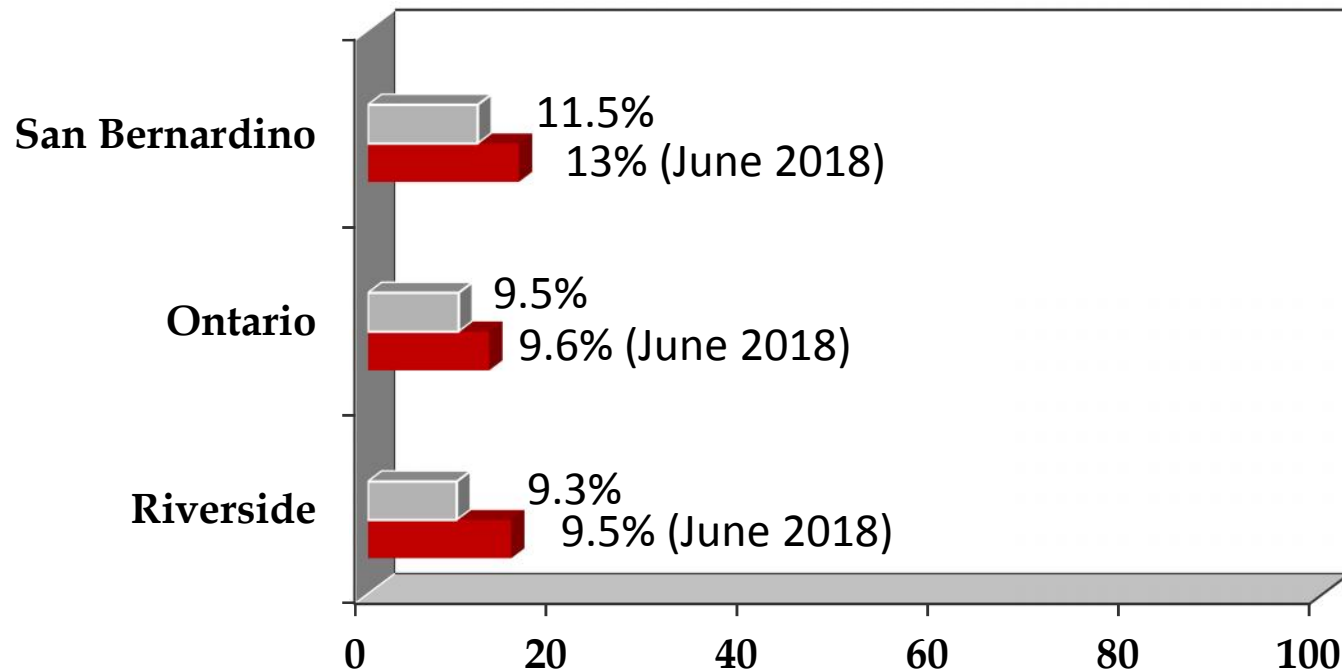
Inland Empire Region



22,117,680 Total Square Feet

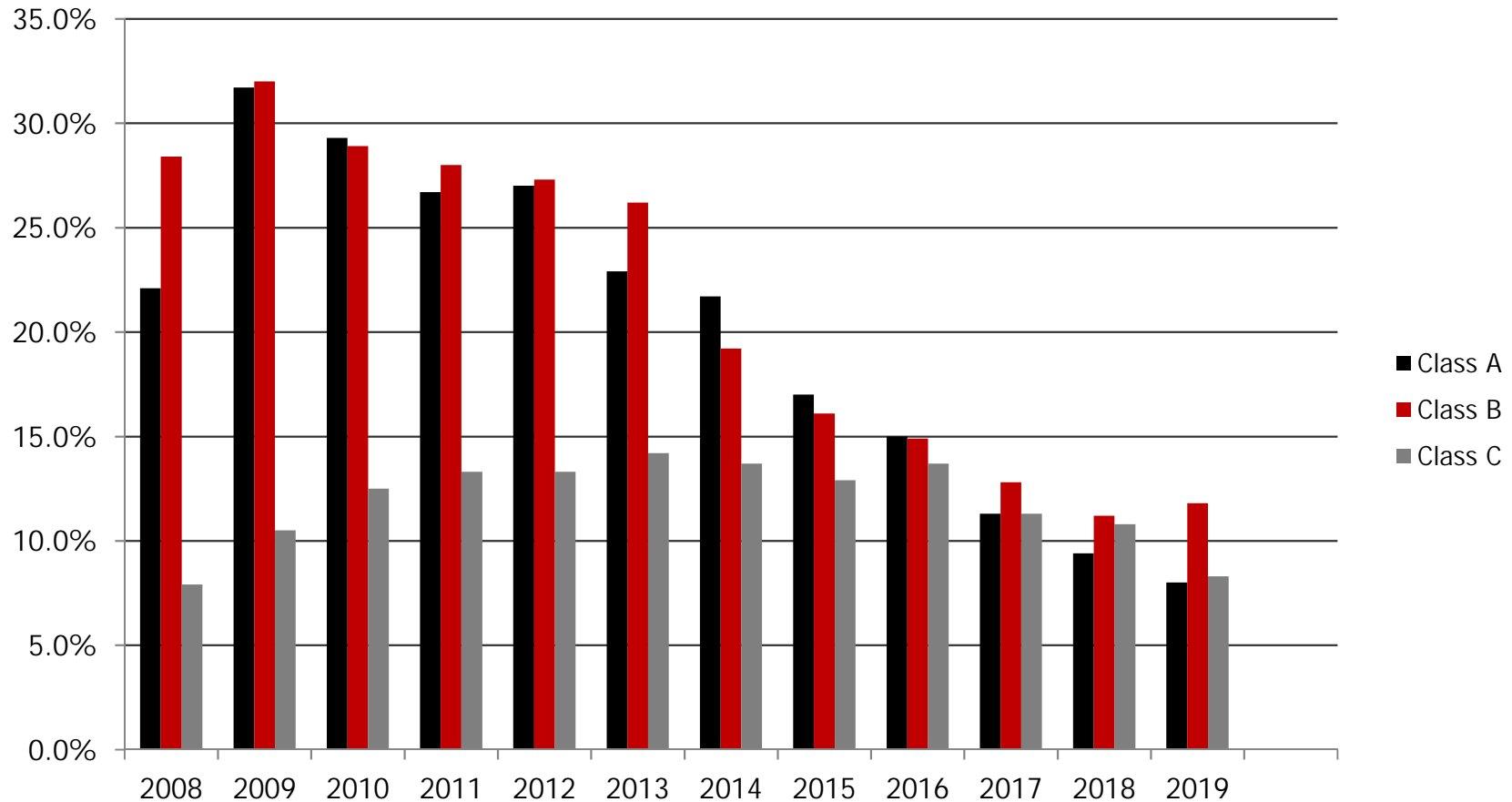
9.96% Vacant

Vacancy by Region



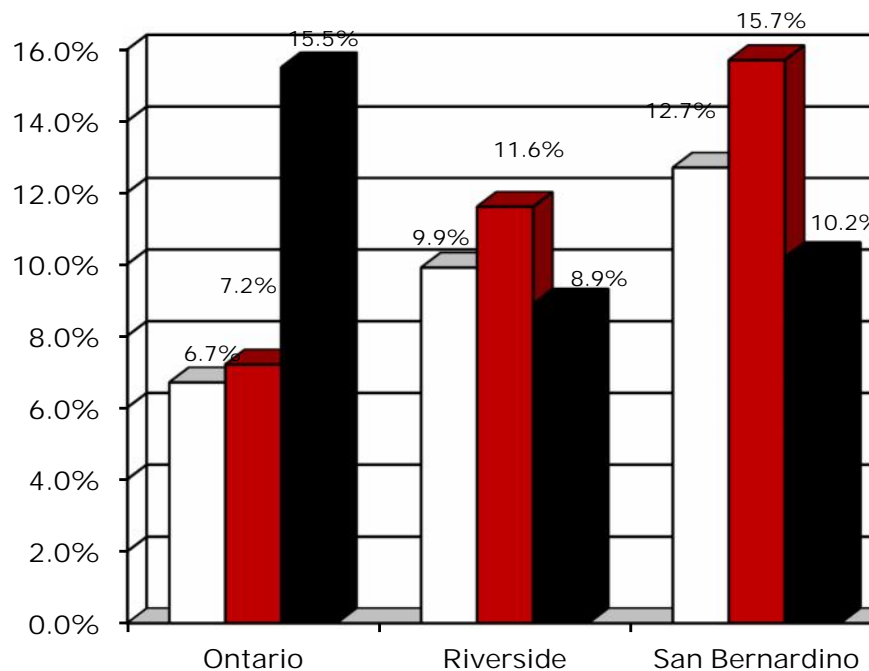
Current Regional Vacancy – 9.96%
Vacancy June 2018 – 10.3%

Vacancy Rate by Class

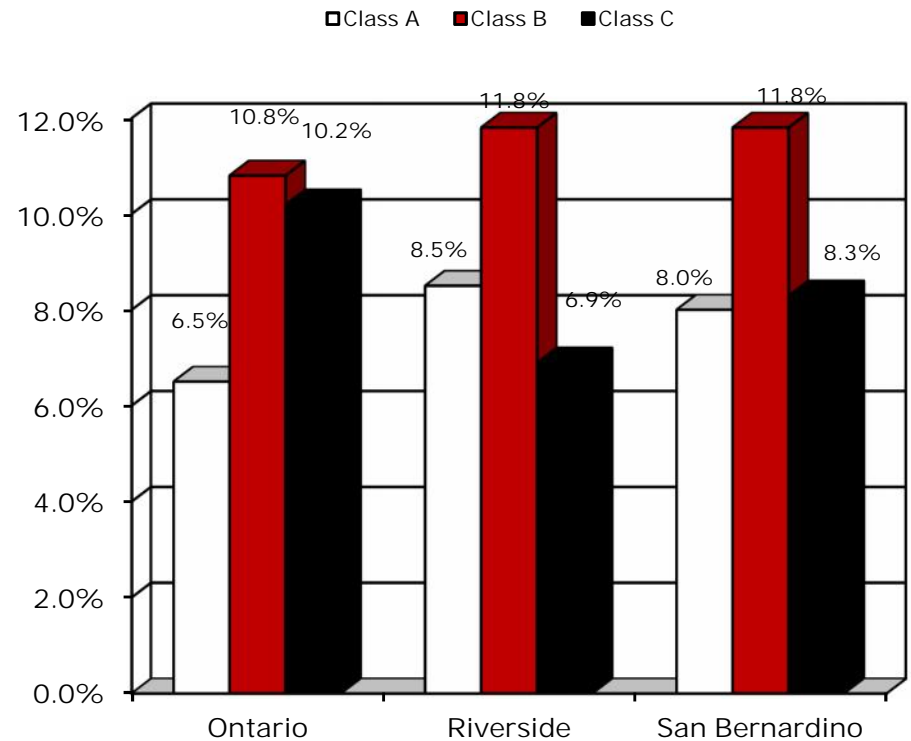


Vacancy Rate by Major Market and Building Class

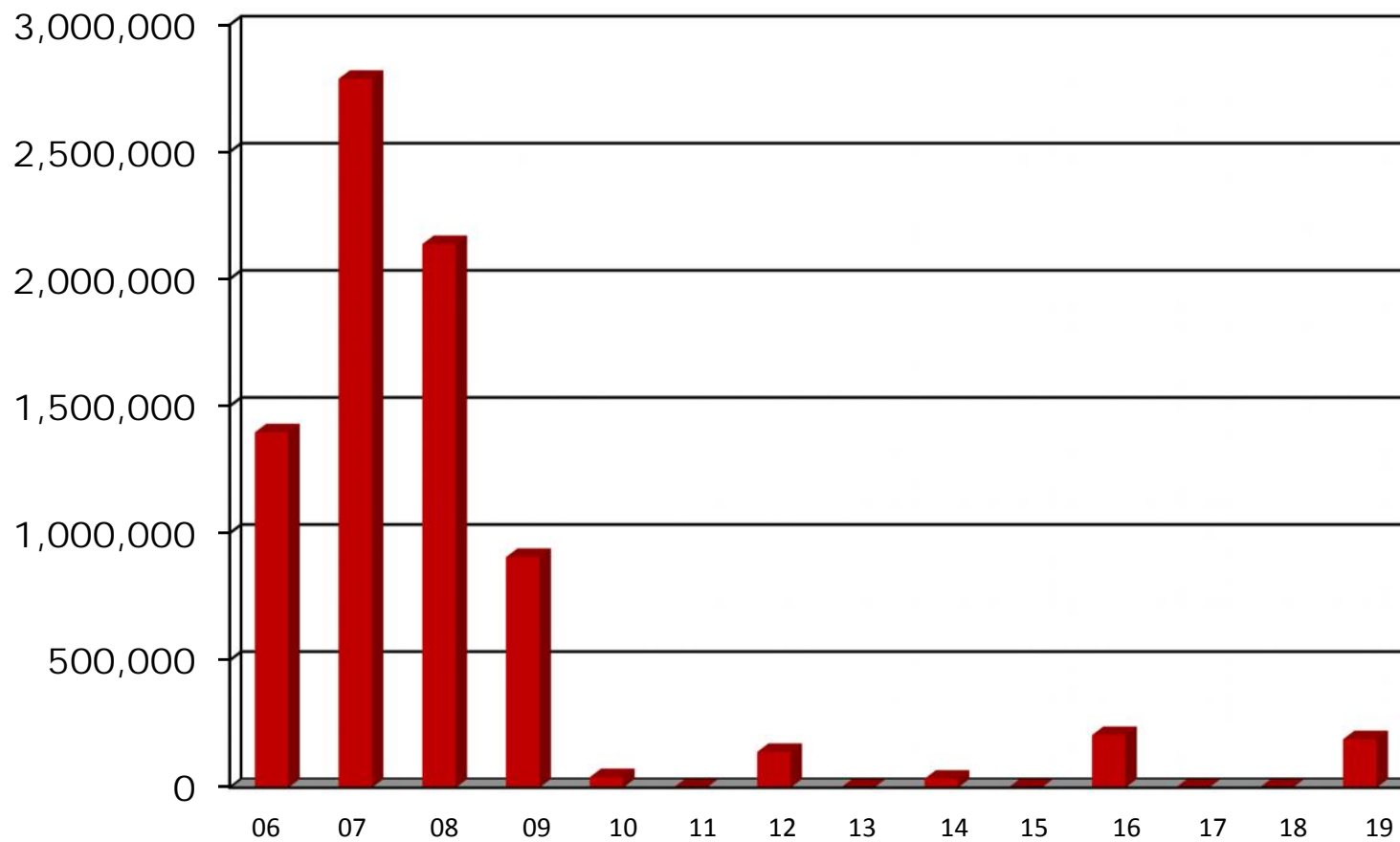
June 2018



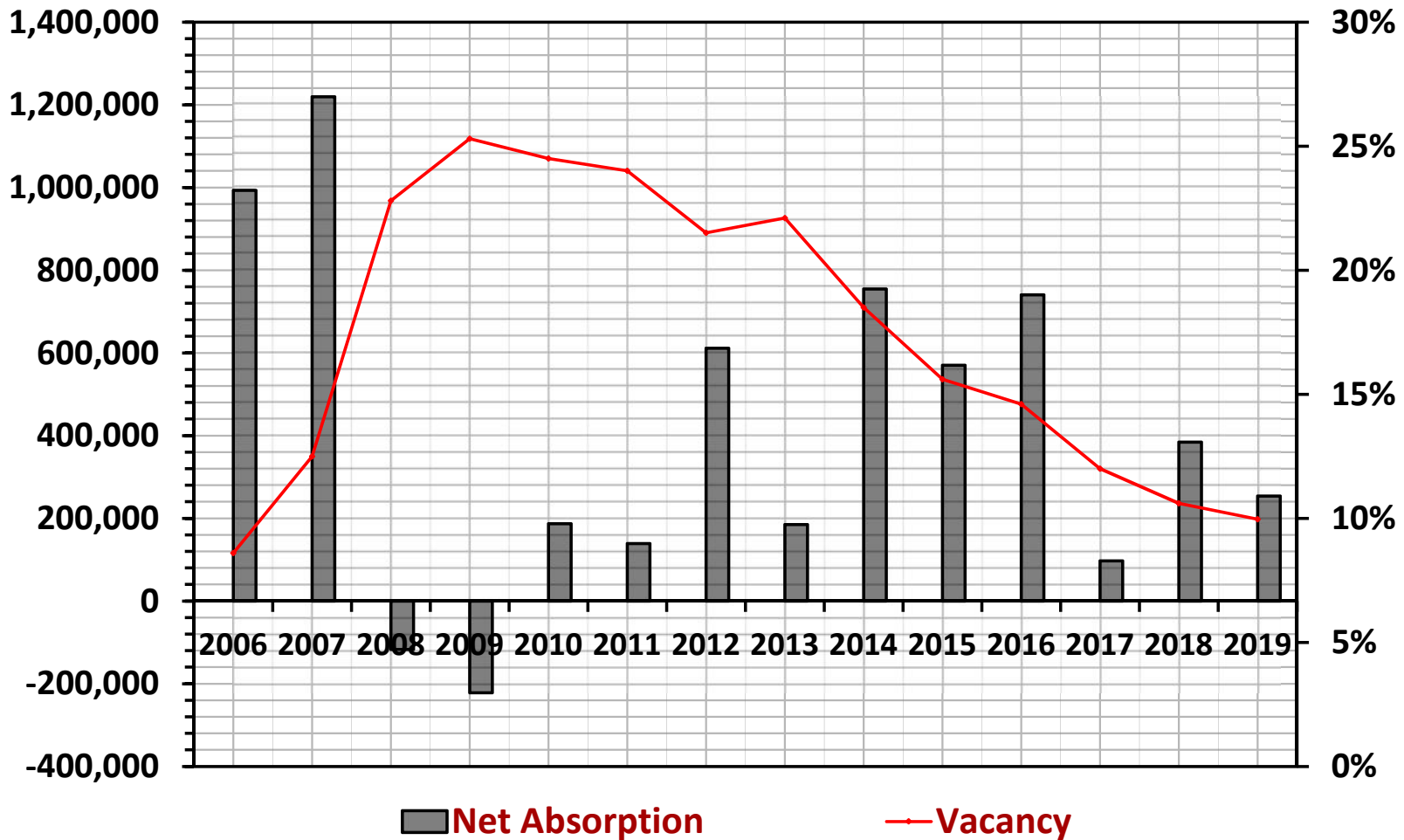
June 2019



Office Construction (Completed Since 2006)



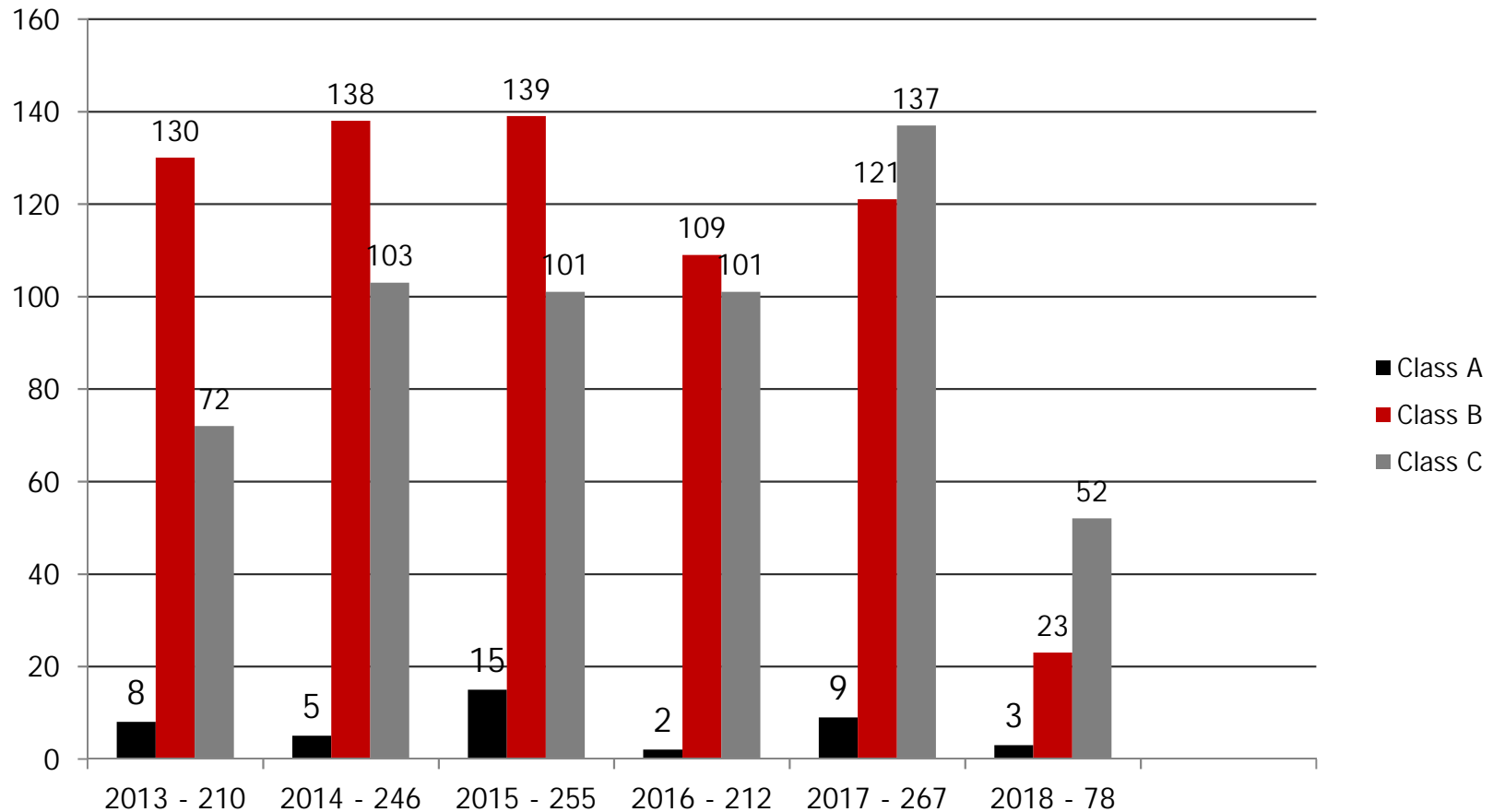
Vacancy and Absorption Trend Analysis



Average Asking Lease Rates

Riverside	Increase 2017	2018	All Time High
Class A \$2.60 - \$3.50 FSG	Flat	+16%	\$3.50
Class B \$1.65 - \$2.20 FSG	+5%	-11%	\$2.25
Class C \$1.35 – \$1.55 FSG	Flat	-7%	\$1.75
Ontario/Rancho Cucamonga			
Class A \$2.25 - \$2.45 FSG	Flat	-2%	\$2.50
Class B \$1.65 - \$2.10 FSG	+10%	-11%	\$2.10
Class C \$1.55 – \$1.60 FSG	Flat	+7%	\$1.60
San Bernardino			
Class A \$2.05 - \$2.25 FSG	+6%	+5%	\$2.25
Class B \$1.45 - \$2.05 FSG	Flat	+3%	\$2.05
Class C \$1.00 – \$1.25 FSG	Flat	-20%	\$1.50

Building Sales by Class



IE Office Product Under Construction? A Case Study



Large Lease Comps

TENANT	BUILDING	SF	LEASE TERM	LEASE RATE	TIs
Southern California Edison Company	Empire Lakes Corporate Center	91,000	38	\$2.00 FSG	N/A
San Manuel Band of Mission Indians	Tri-City Corporate Center	29,929	64	\$1.85 FSG	N/A
Cemex Construction Materials Pacific, LLC	Jurupa Business Center II	28,836	124	\$1.80 MGR	N/A
Farmers Insurance Exchange	Transpark Office Center	18,743	84	\$2.15 FSG	N/A
Fidelity National Title Company	Riverside Gateway	16,817	64	\$2.30 FSG	\$15.00
LLUH Behavior Medical	Park Plaza	15,000	144	\$1.80 NNN	\$75.00
Merill Lynch, Pierce, Fenner & Smith	Riverside Gateway	11,994	64	\$2.30 FSG	\$10.00
University of La Verne	Lakeview Center	11,371	63	\$2.11 FSG	N/A
Parsons Services Company, Inc.	Waterside Center	10,907	60	\$2.25 FSG	\$10.00
Kyocera	Citrus Tower	9,558	124	\$3.25 FSG	\$50.00

Sale Comps

One & Two Parkside; North River Place



550 & 560 Hospitality Ln; & 658 E Brier Dr, San Bernardino

- Portfolio Acquisition of three (3) Class A Buildings totaling 224,494 RBA
- Sold for \$40,000,000 (\$178/SF) in December 2018
- Buyer was San Bernardino Community College District who will occupy approx. 30,000 square feet
- The properties were 80-88% leased, resulting in a 6.68 CAP on the acquisition

Lakeside Tower, One Hospitality, Brier Corporate Centre & Three Parkside



650, 784 & 862 Hospitality Ln; & 473 Carnegie Ln, San Bernardino

- Portfolio Acquisition of four (4) Tri-City Office Buildings totaling 285,643 RBA
- Sold for \$57,300,000 (\$200/SF) in September 2018
- Buyer was Kingsbarn Realty Capital, a private equity, real estate investment fund
- The properties were 86-100% leased, resulting in a 6.48 CAP on the acquisition

Sale Comps

Northpointe



1003 E Brier Dr, San Bernardino

- Part of a nationwide Portfolio Acquisition of fourteen (14) Office Buildings; the subject property is 280,173 RBA
- Sold for \$14,173,522 (\$202/SF) in July 2018
- Buyer was TPG Capital, a private equity firm with investments in airlines, technology, medicine, beauty, rideshare, etc.
- The property was 92.1% leased, resulting in a 7.67 CAP on the acquisition

Market Street Corporate Center & Riverside Gateway



2190, 2280, 2300 Market St; & 3480, 3550 Vine St, Riverside

- A Portfolio Acquisition of five (5) Office Buildings totaling 233,711 RBA
- Sold for \$44,250,000 (\$198/SF) in October 2018
- Buyer was Dornin Investment Group, a private investor based in Southern California
- The properties were 80-100% leased, resulting in a 7 CAP on the acquisition

Sale Comps

Center Tower Riverside



3880 Lemon St, Riverside

- A five-story Office Building in Downtown Riverside totaling 73,645 RBA
- Sold for \$20,530,500 (\$278/SF) in November 2018
- Buyer was DeAnza Land and Leisure Corp, a private investor based in Southern California who was in a 1031 Exchange
- The property was 94% leased, resulting in a 6 CAP on the acquisition

One Piemonte



901 Via Piemonte, Ontario

- A five-story Office Building totaling 122,602 RBA
- Sold for \$29,500,000 (\$241/SF) in June 2018
- Buyer was Greenlaw Partners, a private real estate owner and developer based in Southern California who was in a 1031 Exchange
- The property was 100% leased, resulting in a 6.4 CAP on the acquisition

Sale Comps
















Empire Towers V



3990 Concours, Ontario

- A five-story Office Building totaling 124,529 RBA
- Sold for \$29,879,000 (\$240/SF) in June 2018
- Buyer was MGR, a private real estate owner and investor in the Inland Empire
- The property was 100% leased, resulting in a 6.35 CAP on the acquisition

Inland Empire Office Market – Report Card

	2017	2018	2019
Landlords			
Tenants			
Sellers			
Buyers			
Developers			

Forecast 2018 – How did I do?

- Office activity continues to slow as available space drops below 10% and there is a lack of large block spaces available in the market
- Trump effect? Other than crazy tweets and possible nuclear war nothing really affecting the IE Office Market
- Larger blocks of space are in short supply which should lead to build to suits
- Lease rates will continue to increase across the board
- Concessions such as broker bonuses, showing bonuses, more TI's pop up on smaller deals as Owners try and push their occupancies above market.
- Class A Property values should eclipse \$250 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 have an impact on small buildings - SBA
- I'm a Dodger fan now...

Forecast 2019 – what's ahead?

- Office market continues to tighten as strong economy and tenant expansion pushed vacancy rate lower.
- Trump effect? Opportunity zones will stir activity in depressed areas in the market.
- Two buildings currently under construction. Another two projects will announce in the next 12 months.
- Lease rates will continue to increase across the board
- Class A Property values should eclipse \$250 psf as higher lease rates factor into rent rolls
- Value add opportunities are still available
- Low interest rates will continue to have an impact on small building activity and pricing - SBA
- Will the Angels ever surround Mike Trout with a championship roster?? Go Dodgers !!

QUESTIONS?

David G. Mudge, CCIM, SIOR

dmudge@leeriverside.com

951-276-3611