

# Appraisal Institute – Office Market Overview

## Mid Year 2015



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## 2015 Office Trends

- Fourth year of positive absorption and decreased vacancy; clearly we are “out of the woods”
- All signs indicate we are in an upward market; slow and steady; projected to continue through 2018
- 570,000 square feet of absorption in 2014 -Overall market vacancy is currently 15.6%; down from 18.5% in January 2014
- Class A and B lease rates are up \$0.05-0.15 per square foot -Property values continue to increase as lease rates climb
- Interest rates remain historically low
- Entrepreneurial and institutional capital still eyeing the Inland Empire for value-add opportunities
- Investors still seeking higher cap rates than being offered in the tightening market

- Increased velocity in lease and sale transactions from small users -starting to see competing offers on spaces <5,000 square feet
- Large blocks of available space >20,000 square feet remain in high demand and short supply
- New office development is still at a halt as construction costs (reproduction costs). Economics still do not justify construction
- Developers need to achieve lease rates at approximately \$2.35 FSG/ \$1.50 NNN before they can build; we are getting close!
- Lease rates are currently at \$2.00 in markets closest to LA, Orange, and San Diego counties

## 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



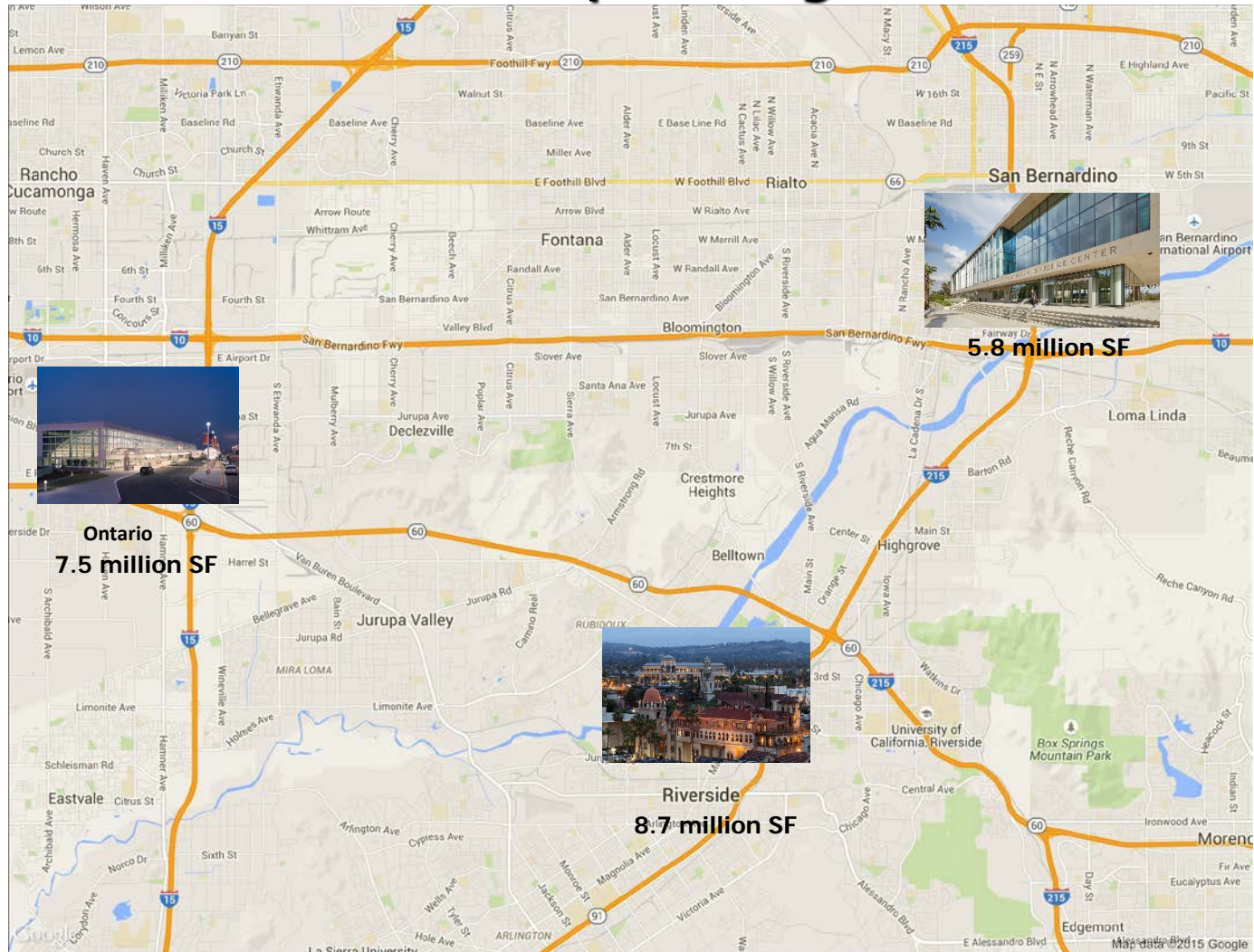
## Definitions - Continued

- 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





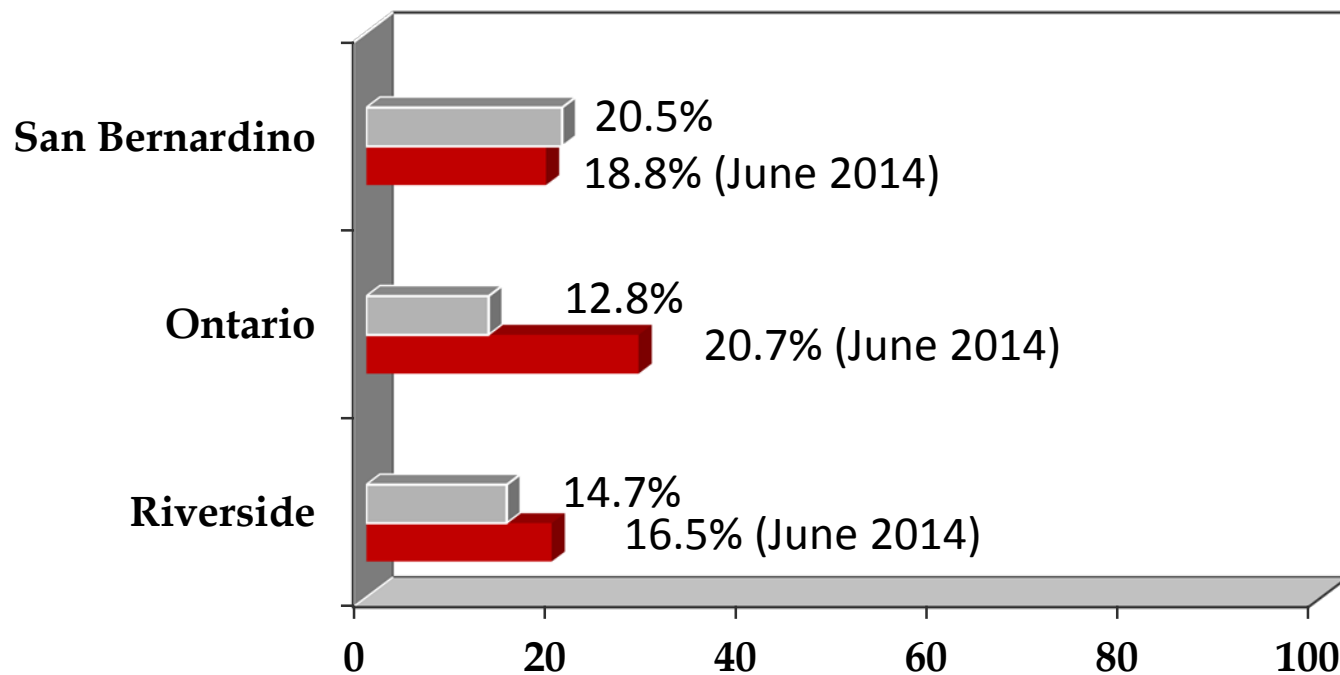
# Inland Empire Region



**21,944,794 Total Square Feet**

**15.6% Vacant**

## Vacancy by Region



**Regional Vacancy – 15.6%**  
**Vacancy June 2014 – 18.5%**

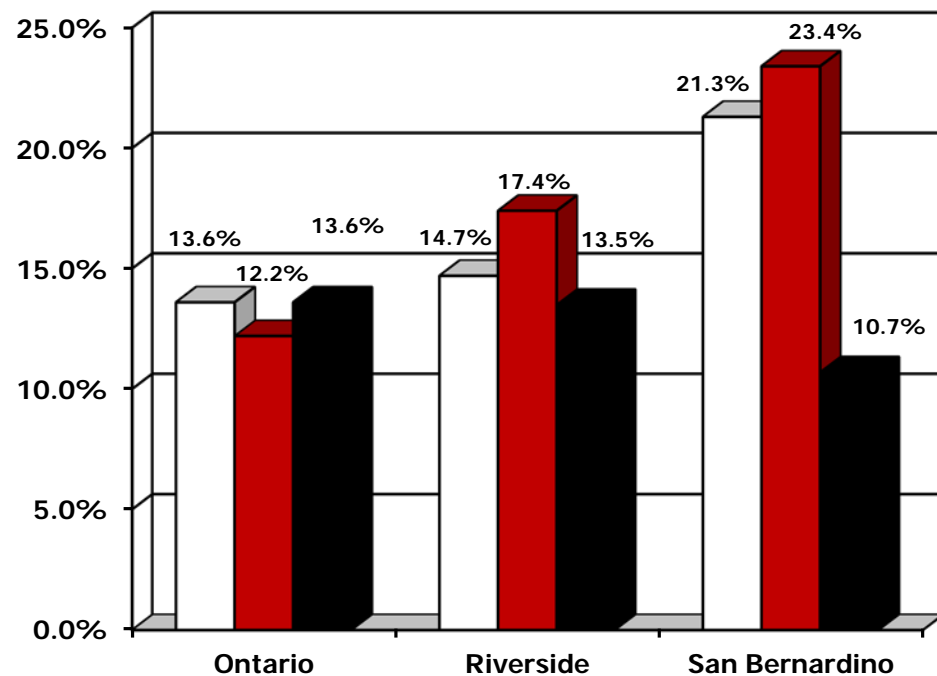
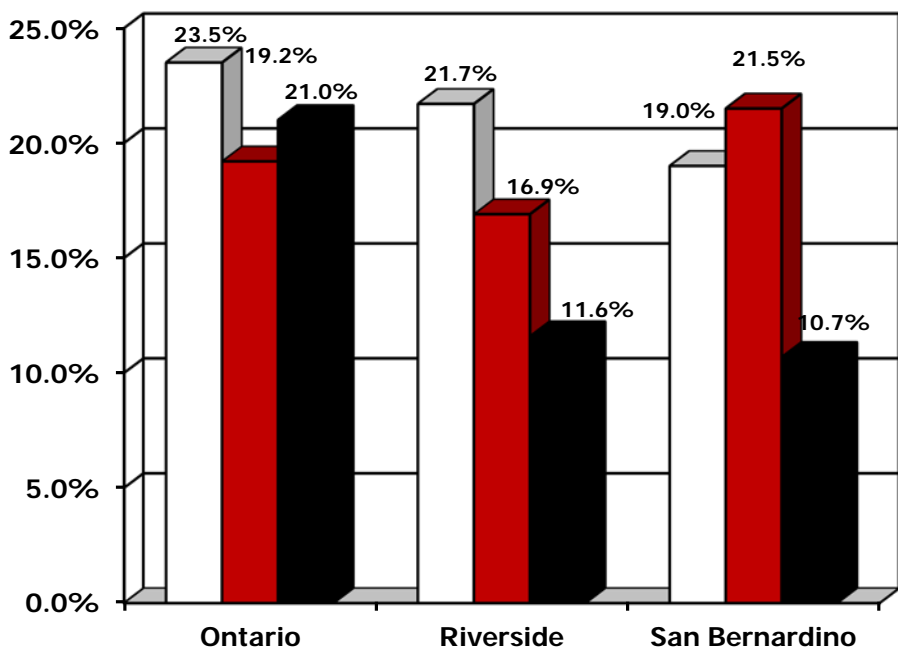


# Vacancy Rate by Major Market

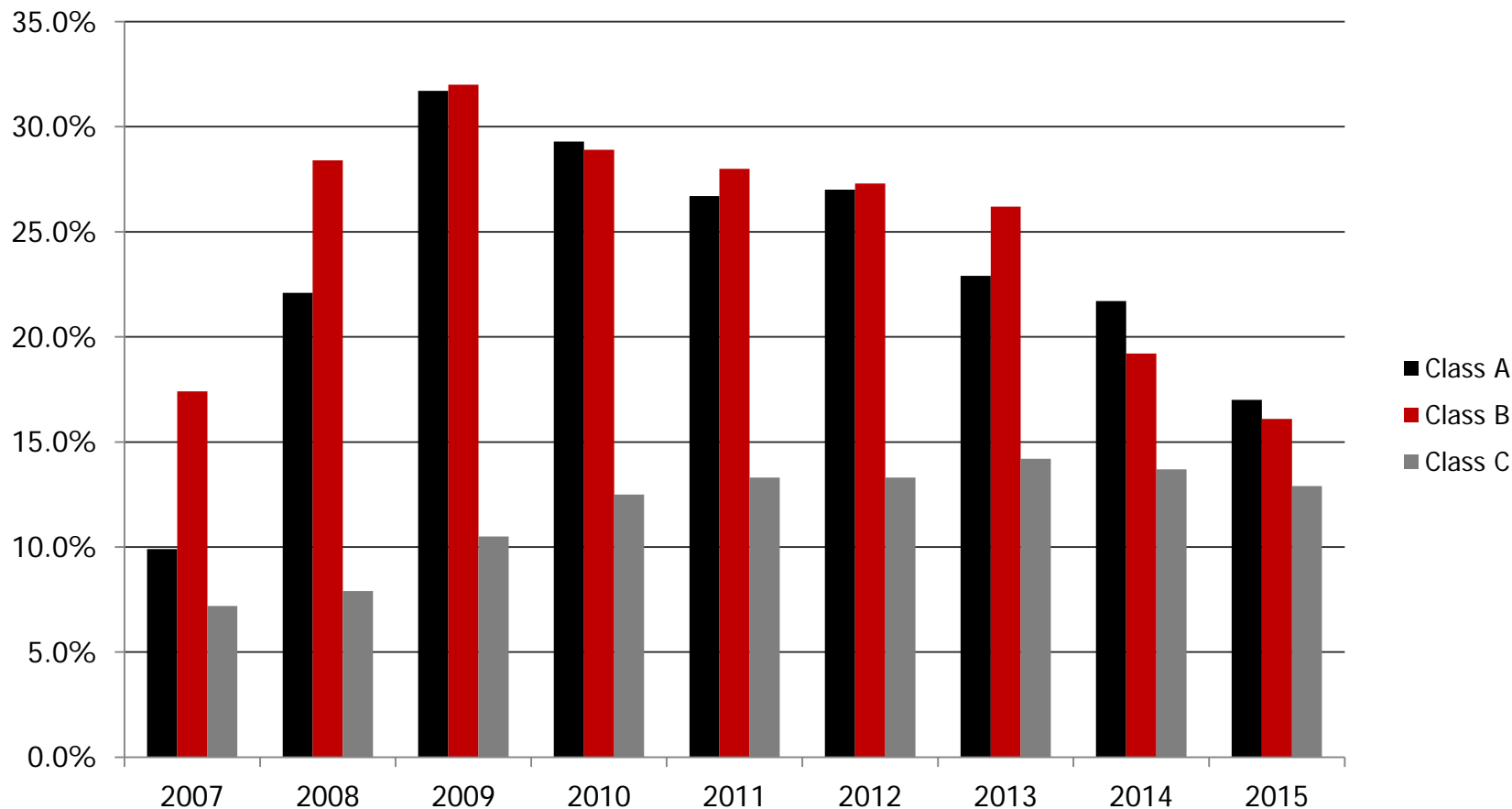
June 2014

June 2015

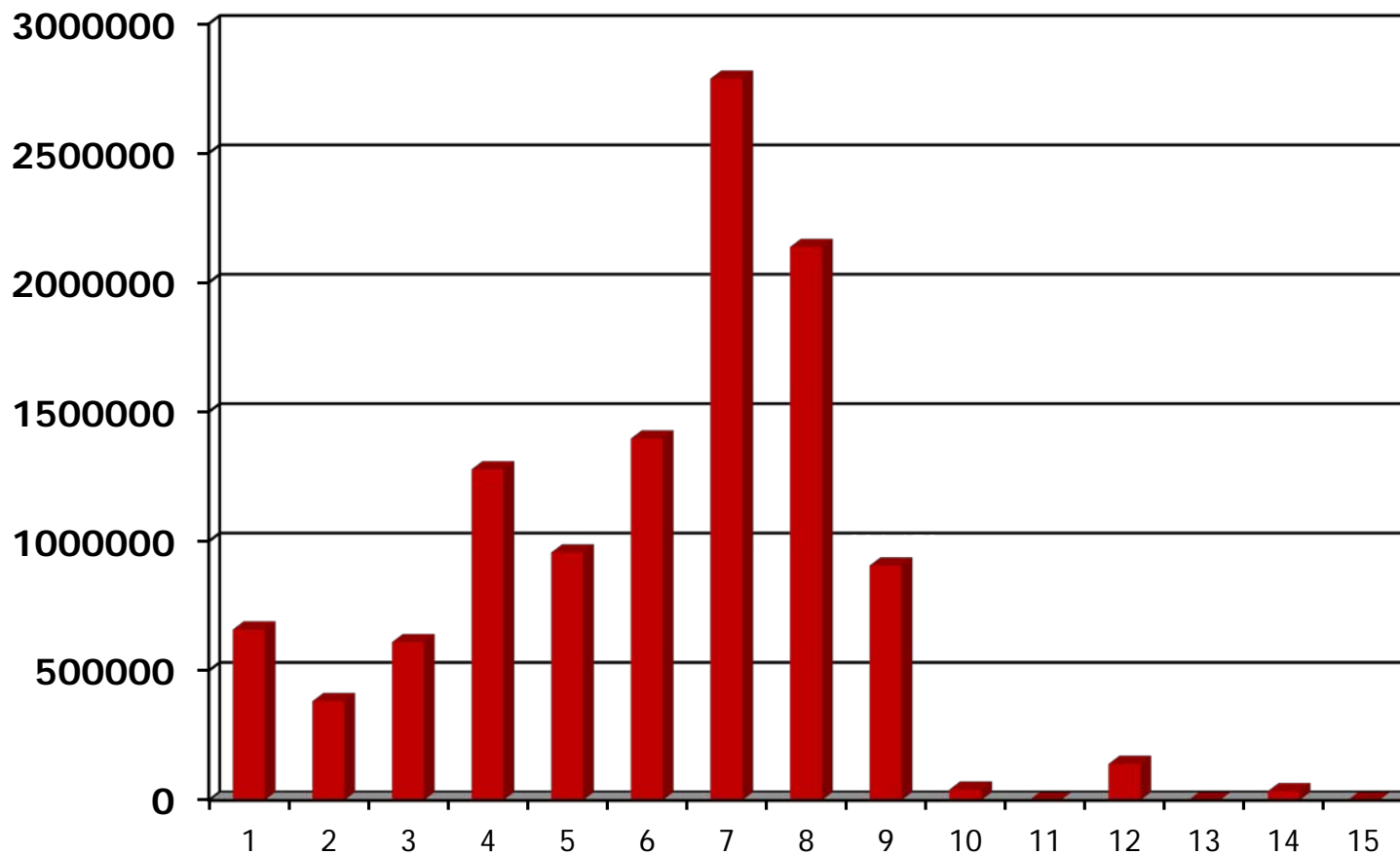
□ Class A   ■ Class B   ■ Class C



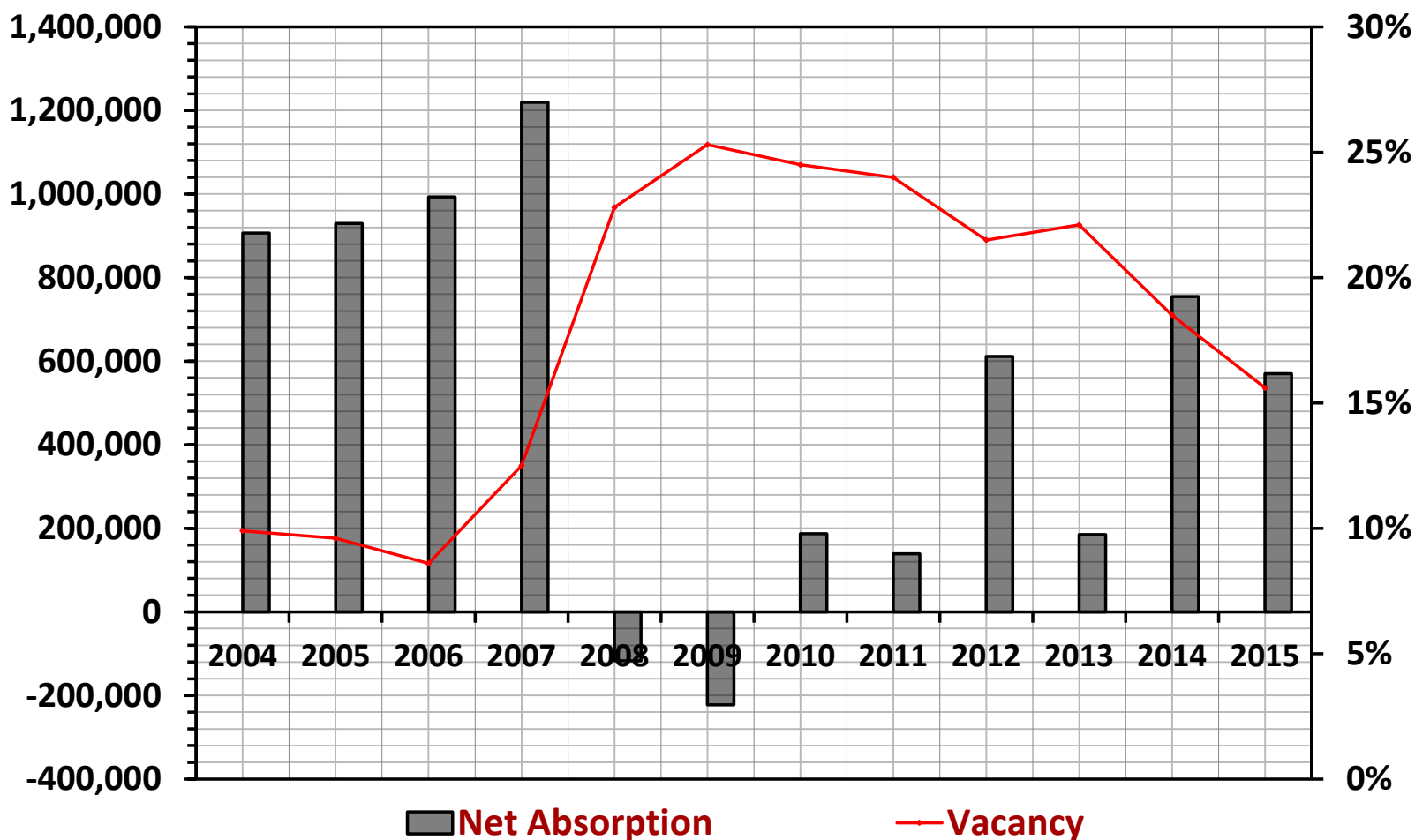
## Vacancy Rate by Class



## Office Construction (Completed Since 2001)



## Vacancy and Absorption Trend Analysis



## Average Asking Lease Rates

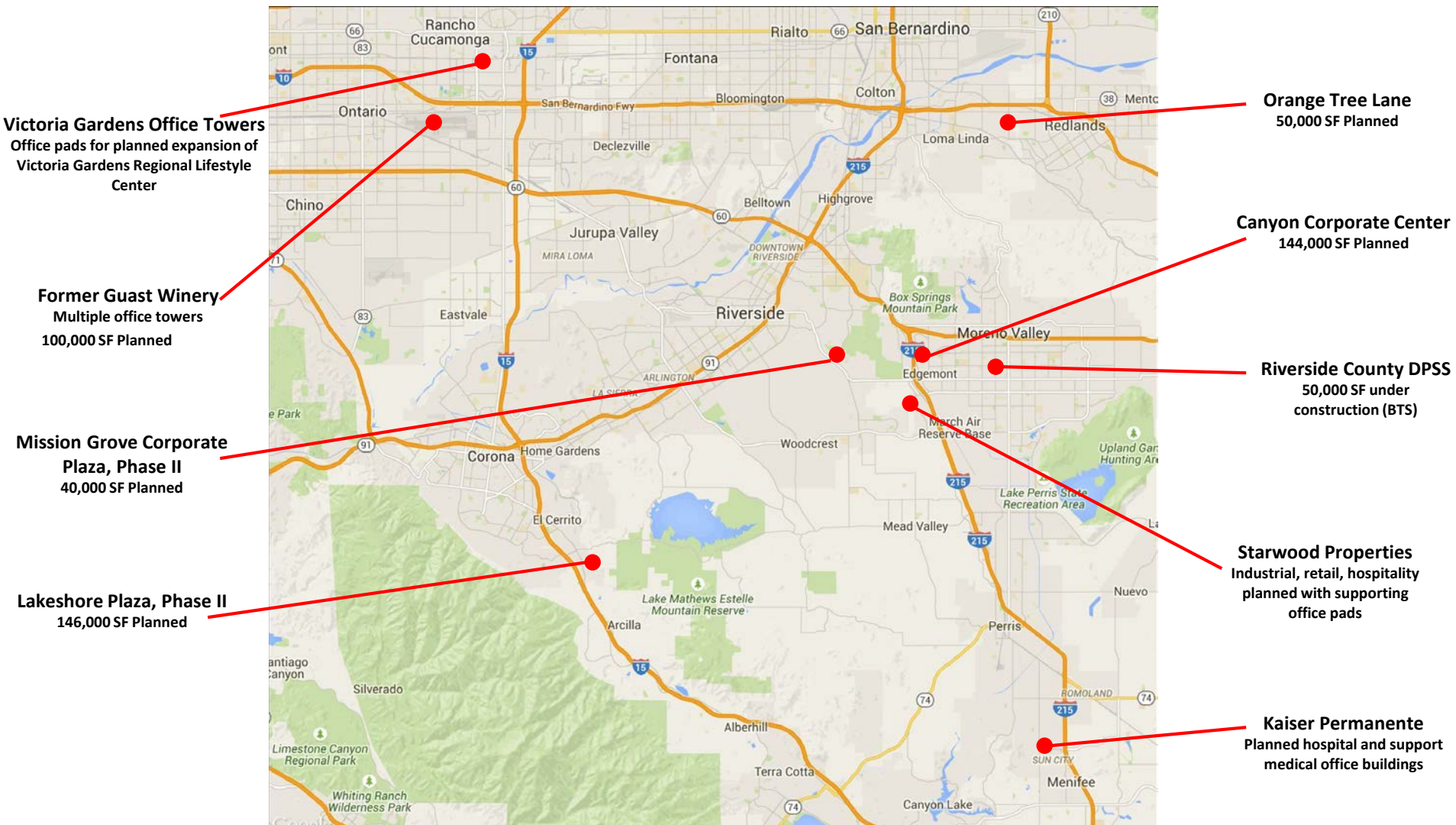
Riverside	Increase Since 2011	All Time High
<b>Class A</b> \$2.05 - \$3.10 FSG	11%	\$3.10*
<b>Class B</b> \$1.65 - \$1.95 FSG	10%	\$1.95*
<b>Class C</b> \$1.25 – \$1.50 FSG	25%	\$1.55
Ontario/Rancho Cucamonga		
<b>Class A</b> \$1.95 - \$2.25 FSG	11%	\$2.25*
<b>Class B</b> \$1.65 - \$1.95 FSG	12%	\$1.95*
<b>Class C</b> \$1.25 – \$1.50 FSG	38%	\$1.60
San Bernardino		
<b>Class A</b> \$1.70 - \$2.00 FSG	10%	\$2.00*
<b>Class B</b> \$1.45 - \$1.65 FSG	26%	\$1.80
<b>Class C</b> \$1.05 – \$1.30 FSG	50%	\$1.50

\*New All-Time High



# New/Planned Product

## Welcome Back the Build-to-Suit



## Large Lease Comps

TENANT	BUILDING	SF	LEASE TERM	LEASE RATE	TIs
Southern California Edison	Empire Lakes Corporate Center	91,000	60	\$1.75 FSG	Renewal
Fidelity National Title Insurance Company	3237 E. Guasti Road	53,222	60	\$1.80 FSG	\$20.00
HUB International Insurance Services	Citrus Tower	24,890	120	\$2.70 FSG	\$50.00
Parsons Services Company, Inc.	Atrium at Empire Lakes	15,969	N/A	\$1.80 FSG	Renewal
RX Transaction and Coding, LLC	3500 Porsche Way	15,063	60	\$1.55 FSG	\$6.00
Wells Fargo Bank	Corona Pointe	13,695	60	\$1.90 FSG	\$8.00
Kaiser Foundation Health Plan, Inc.	325 W. Hospitality Lane	12,868	60	\$1.40 FSG	Renewal
Stewart Title	11870 Pierce Street	10,337	64	\$1.75 FSG	\$15.00

## Sale Comps

### ONTARIO AIRPORT TOWERS



2855 East Guasti Road, Ontario

- 147,000 SF
- Built 2008
- \$275 PSF; 7% CAP; 95% Leased
- Sold February 2015
- Investor Purchase; Silver Way RE Partners and REPE Capital (NYC)

### WATERSIDE TOWER, BUILDING A



3210 Guasti Road, Ontario

- 140,000 SF
- Built 2008
- \$180 PSF Shell
- Sold November 2014
- User Purchase; Golden Gate Baptist Theological Seminary

## Sale Comps

### WATERSIDE TOWER, BUILDINGS B & C



3110 AND 3200 E. Guasti Road, Ontario

- Two (2) buildings totaling 160,500 SF
- Built in 2005/2007
- \$192 PSF; 95% Leased
- Sold April 2015
- Investor Purchase; Regional Investor; Buchanon Street Partners

### EMPIRE TOWERS V



3990 Concourses, Ontario

- 124,500 SF
- Built in 2007
- \$180 PSF; 5.7% CAP; 85% Leased
- Sold August 2014
- Investor Purchase; TA Realty (Boston)

## Sale Comps

### ONTARIO GATEWAY II



2143 Convention Center Way, Ontario

- 51,500 SF
- Built 1986
- \$126 PSF
- User Purchase; Prime Healthcare Services (Dr. Prem Reddy)

### TRI-CITY CORPORATE CENTER



Hospitality/Carnegie/Vanderbilt, San Bernardino Seventeen (17) properties totaling 1,064,000 SF

- Built 1988 - 2002
- \$105 PSF\*
- Sold March 2015
- Investor Purchase; National Investor – Hines (San Francisco)

**\*Steal of the Century**



## Sale Comps

### 3880 LEMON STREET



3880 Lemon Street, Riverside

- 73,000 SF
- Built 1987
- \$181 PSF; 6% CAP (Proforma); 72% Leased
- Sold March 2015
- Investor Purchase; Regional Investor; C/P Investments

### 2085 RUSTIN AVENUE



2085 Rustin Avenue, Riverside

- 163,000 SF
- Built 1983/Renovated 2015
- \$104 PSF Shell
- Sold February 2015
- User Purchase; County of Riverside

## Sale Comps

### TYLER PLAZA



10370 Hemet Street, Riverside

- 48,000 SF
- Built 1985
- \$160 PSF
- Sold October 2014
- User Purchase; California Baptist University

### MISSION LAKE CENTER



3600 Lime Street, Riverside

- 88,624 SF
- Built 1982
- \$111 PSF
- Sold May 2015
- Foreclosure; Lakeland West Capital Bank (Texas)

## Sale Comps

### 11801 PIERCE STREET



#### 11801 Pierce Street, Riverside

- 41,400 SF
- Built 2007
- \$173 PSF; 10.3% CAP
- Investor Purchase; National Investor; Continental Property Group (MN)
- \* Short term leases on 50% of the building

### CORONA CORPORATE PLAZA II



#### 255 Rincon Street, Corona

- 58,800 SF
- Built 2001
- \$148 PSF; 6.25% CAP
- Sold November 2014
- Investor Purchase; Regional Investor; Providence Capital (San Diego)
- \* Buyer purchased adjacent "sister" building at 355 Rincon Street for \$121 PSF; 5.5% CAP in March 2014

## Sale Comps
















### 201 REDLANDS AVENUE



201 Redlands Avenue, Perris

- 50,000 SF
- Built 2014 (BTS for County of Riverside)
- \$242 PSF; 7.5% CAP
- Sold January 2015
- Investor Purchase; Regional Investor; Alchalel Real Estate Investments (San Diego)

## Inland Empire Office Market – Report Card

	2012	2013	2014
Landlords			
Tenants			
Sellers			
Buyers			
Developers	 graphics factory	 graphics factory	 graphics factory



## Forecast 2015 – Where are we going?

- Office activity continues to increase as we add jobs
- Absorption nears historic highs
- Larger blocks of space are in short supply
- Lease rates will increase 10% across the board
- Concessions continue to drop as market tightens
- Property values continue their climb as opportunities diminish and lease rates rise. (Nearing \$200+ PSF)
- Value add opportunities are still available
- Institutional capital continues to evaluate and acquire property.

# QUESTIONS?

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