

# Appraisal Institute – Office Market Overview

## Mid Year 2018



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## 2018 Office Trends

- 2017 was a slow year for IE office 383,966 sf of positive absorption. 50% off from 2017
- Large blocks of space are in short supply. 18 spaces over 20,000 square feet. 5 spaces over 30,000 square feet.
- All signs indicate we are still in an upward market; slow and steady; projected to continue through 2020
- Overall market vacancy is currently 10.6%; down from 12% in January 2017 and 14.6% in January 2016
- 2018 has started off slowly, with only 35,000 of absorption in the first quarter
- Class A and B lease rates are up 8-10%
- Class A sale comps have eclipsed \$200 psf
- 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 Most of supply of vacant space in 2<sup>nd</sup> generation
- New office development will be around \$2.00 NNN lease rates with a \$55-\$60 Tenant Improvement

## 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



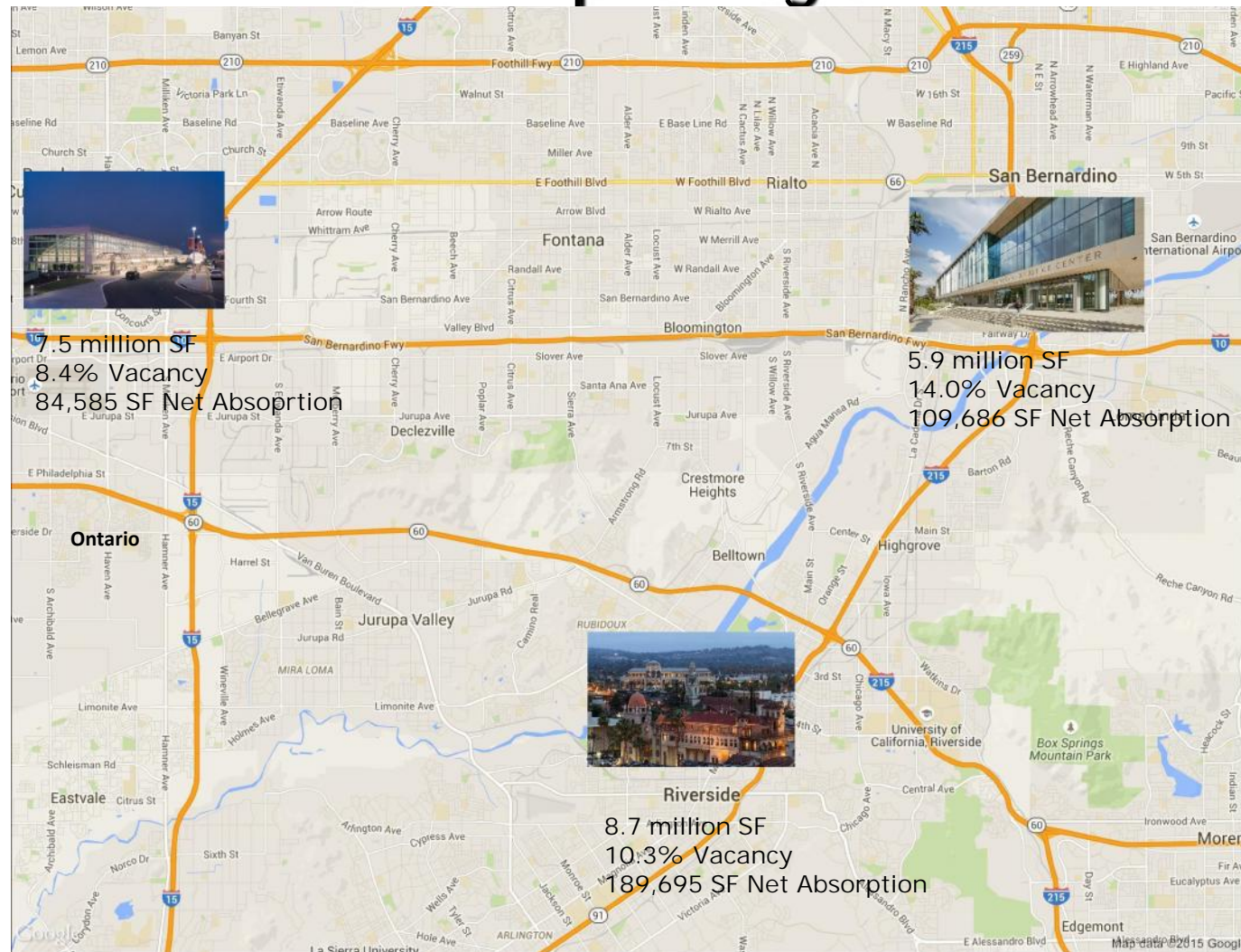
## Definitions - Continued

- 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





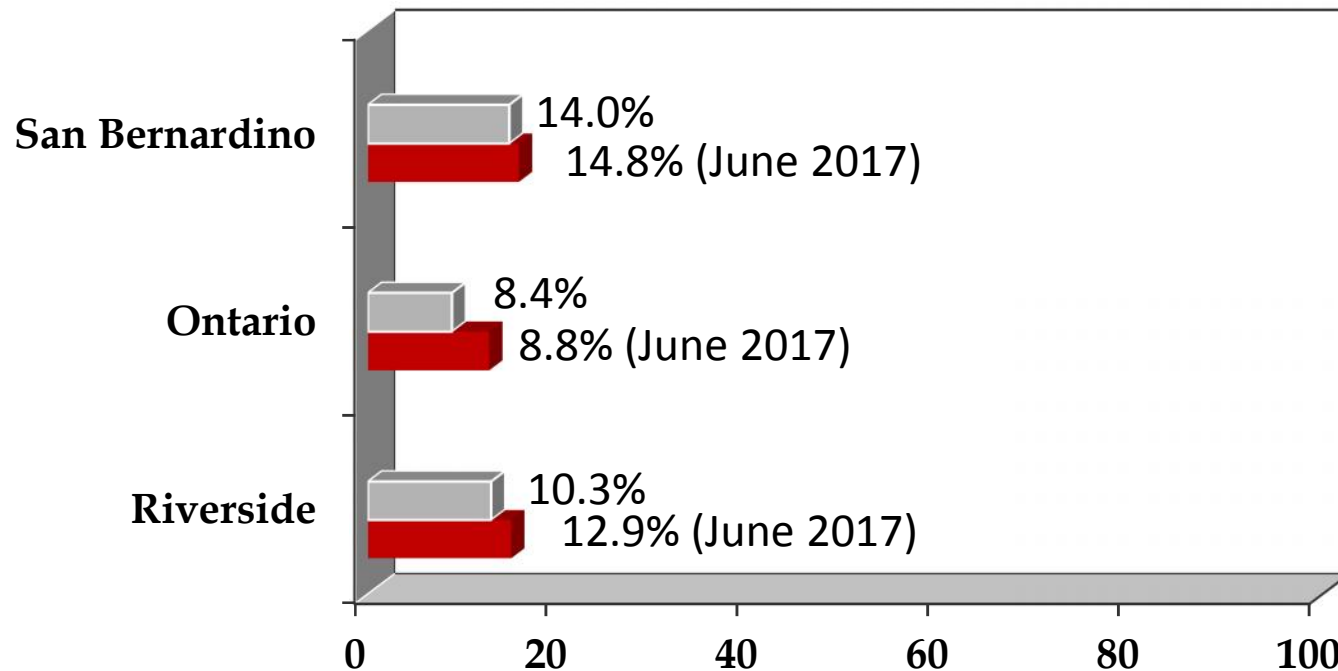
# Inland Empire Region



**22,204,498 Total Square Feet**

**10.6% Vacant**

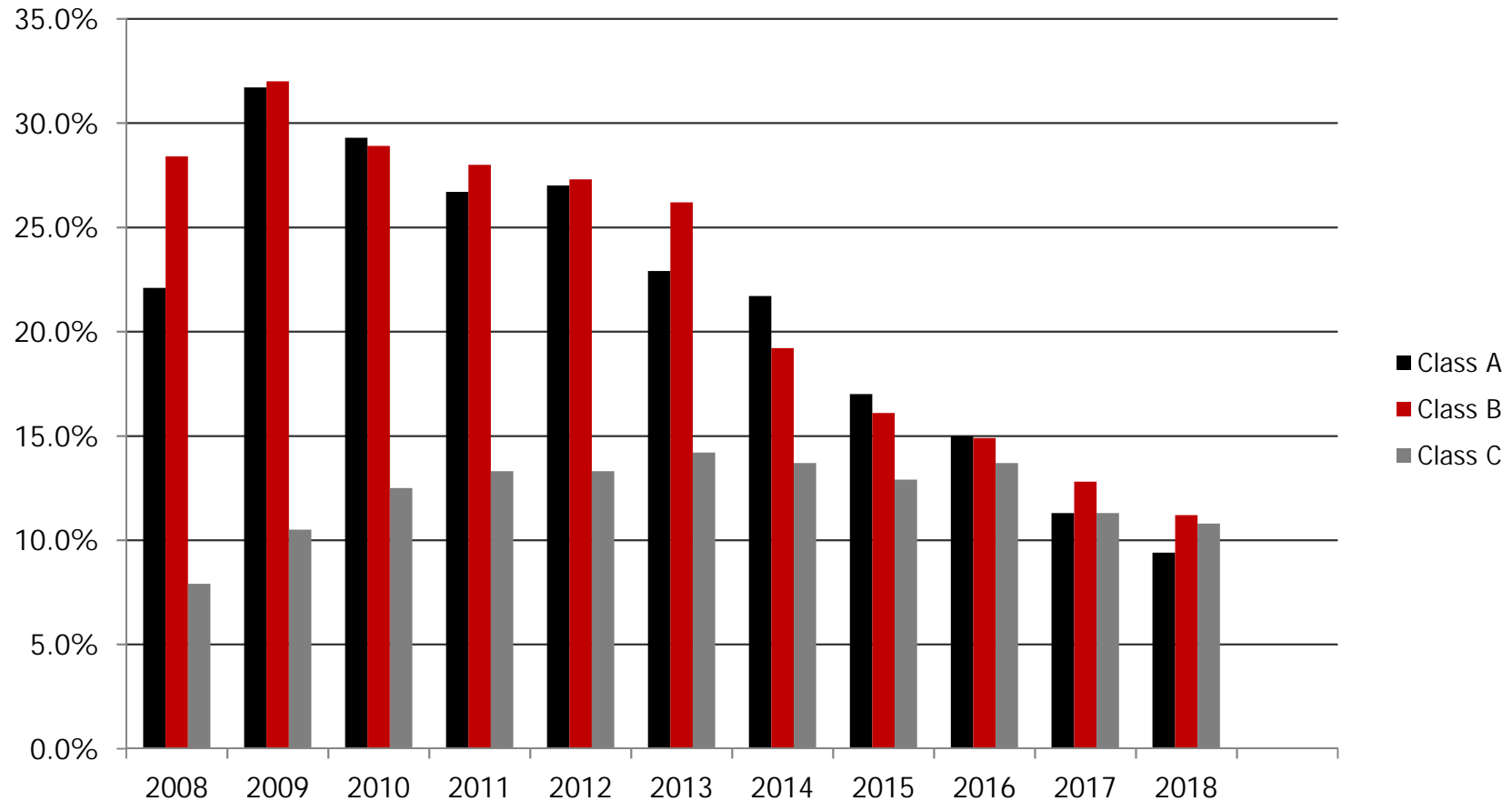
## Vacancy by Region



**Current Regional Vacancy – 10.6%**  
**Vacancy June 2017 – 12%**

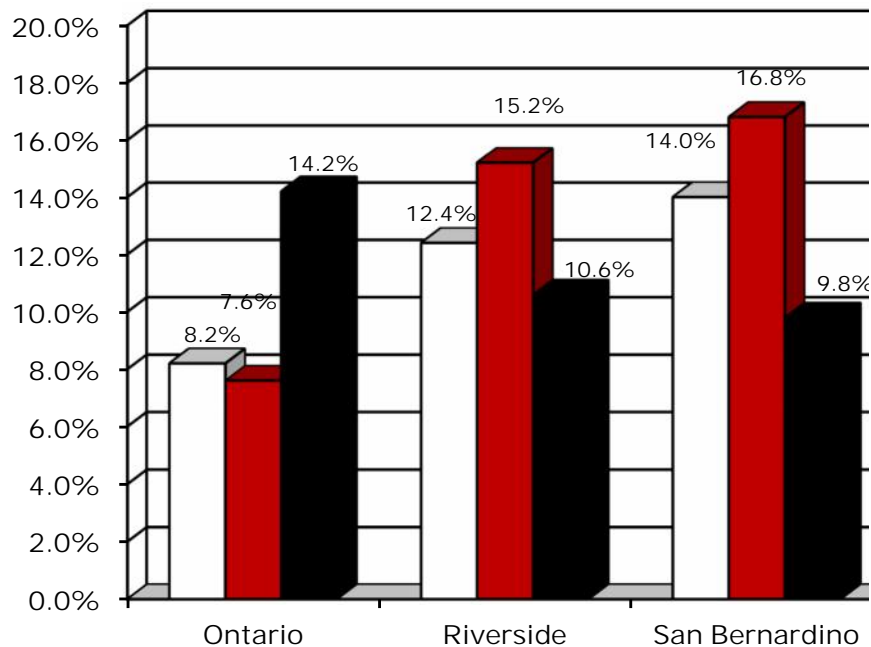


## Vacancy Rate by Class

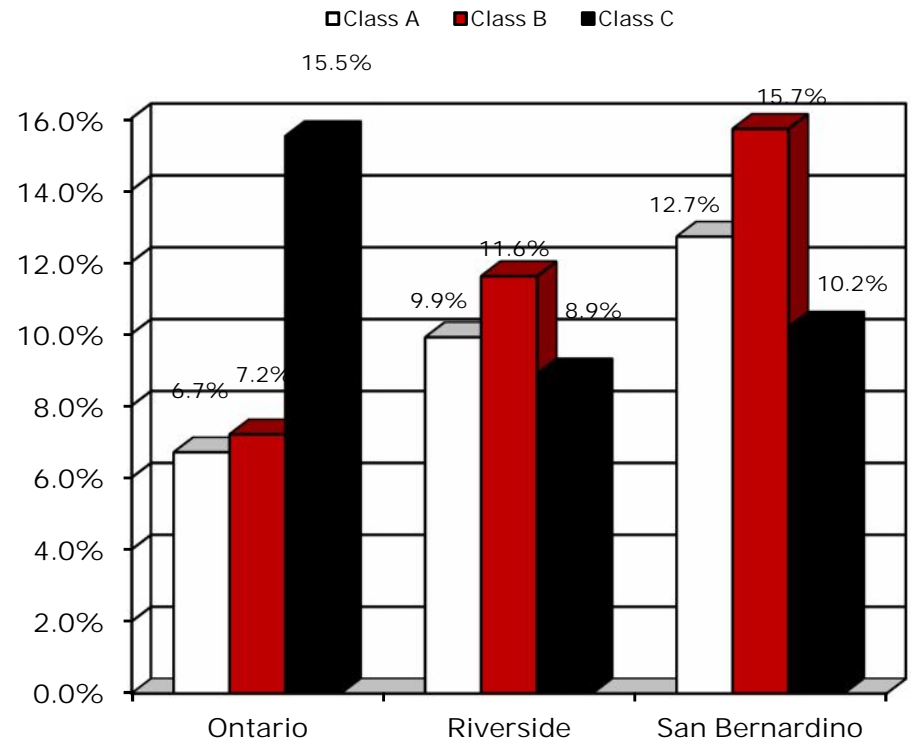


## Vacancy Rate by Major Market and Building Class

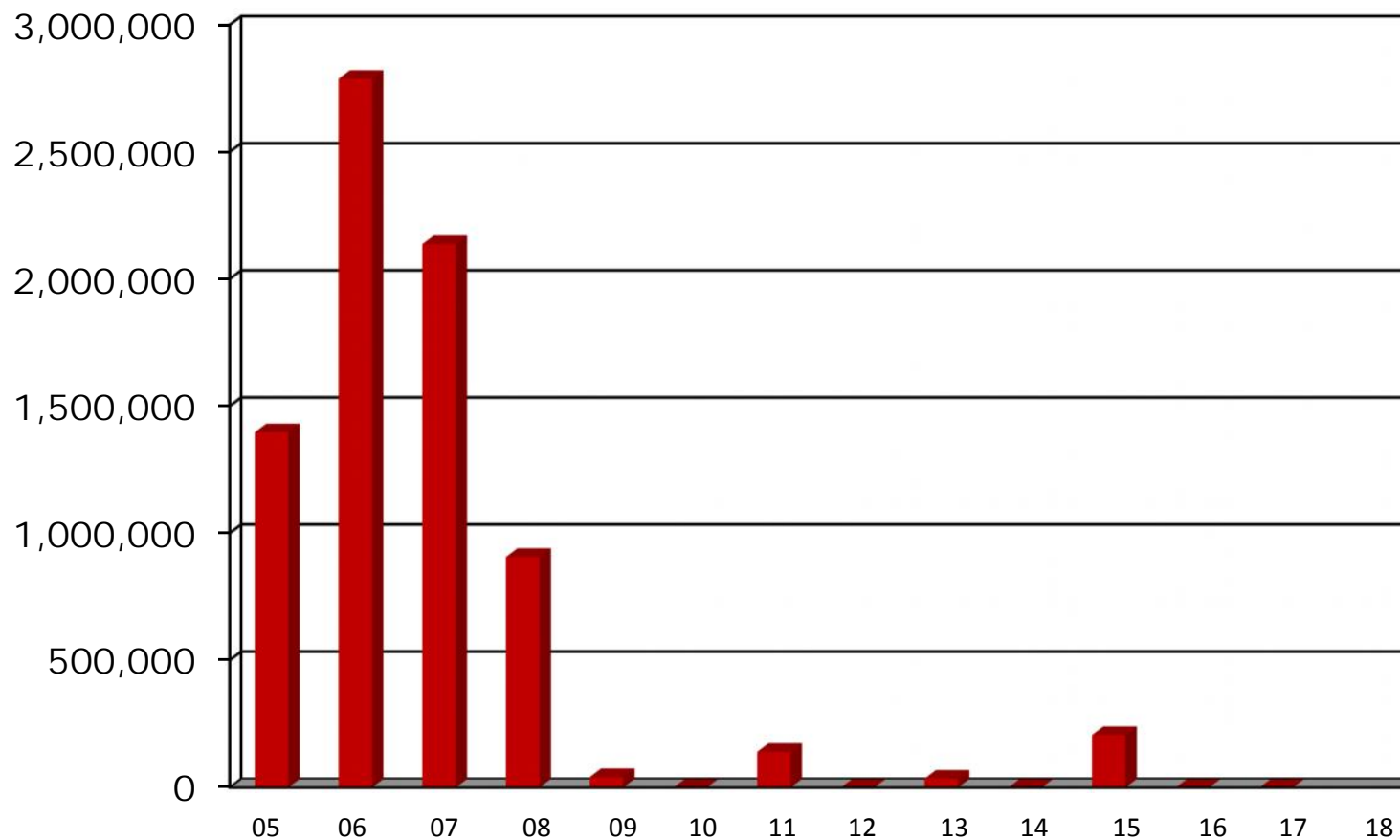
June 2017



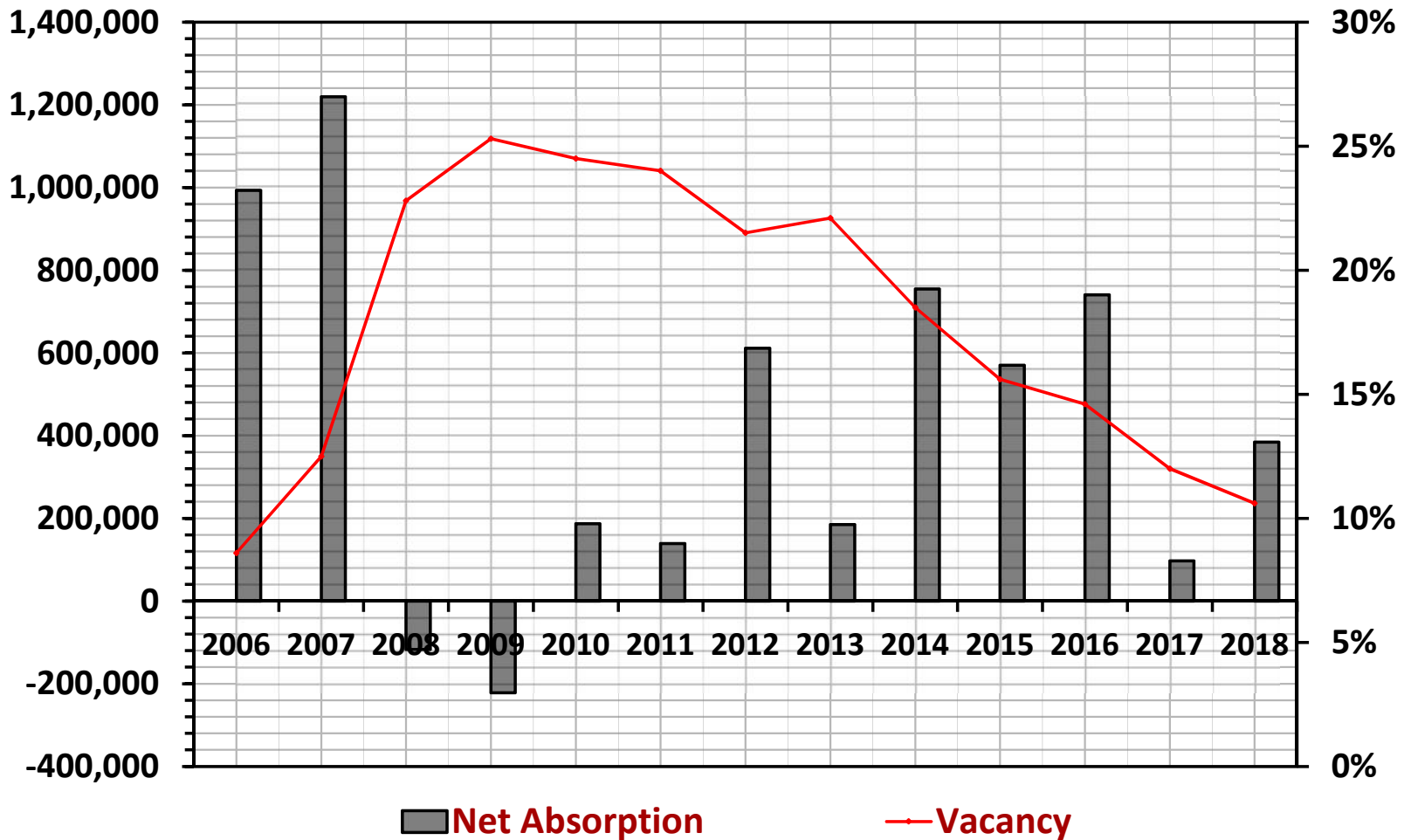
June 2018



## Office Construction (Completed Since 2005)



## Vacancy and Absorption Trend Analysis

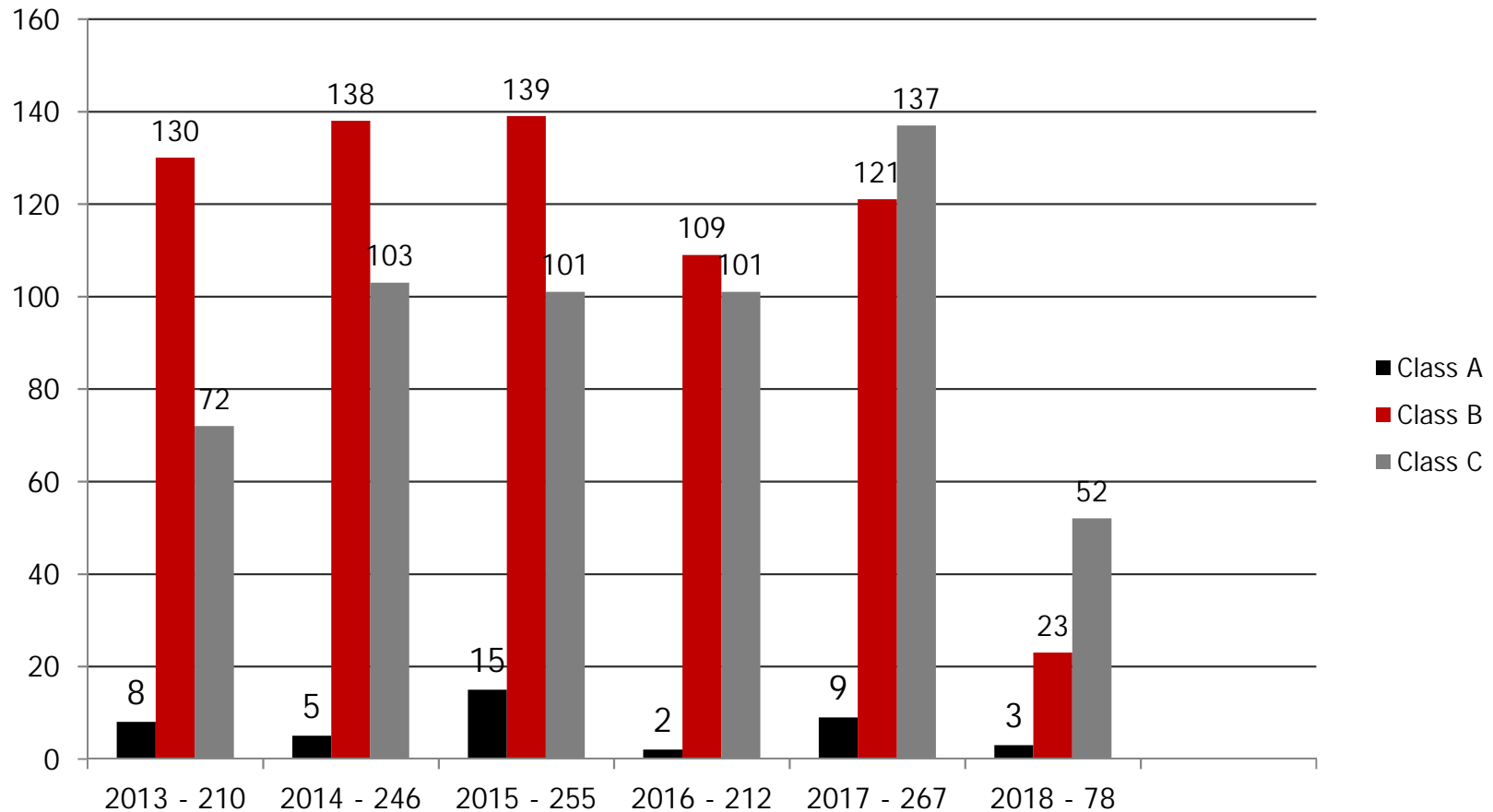


## Average Asking Lease Rates

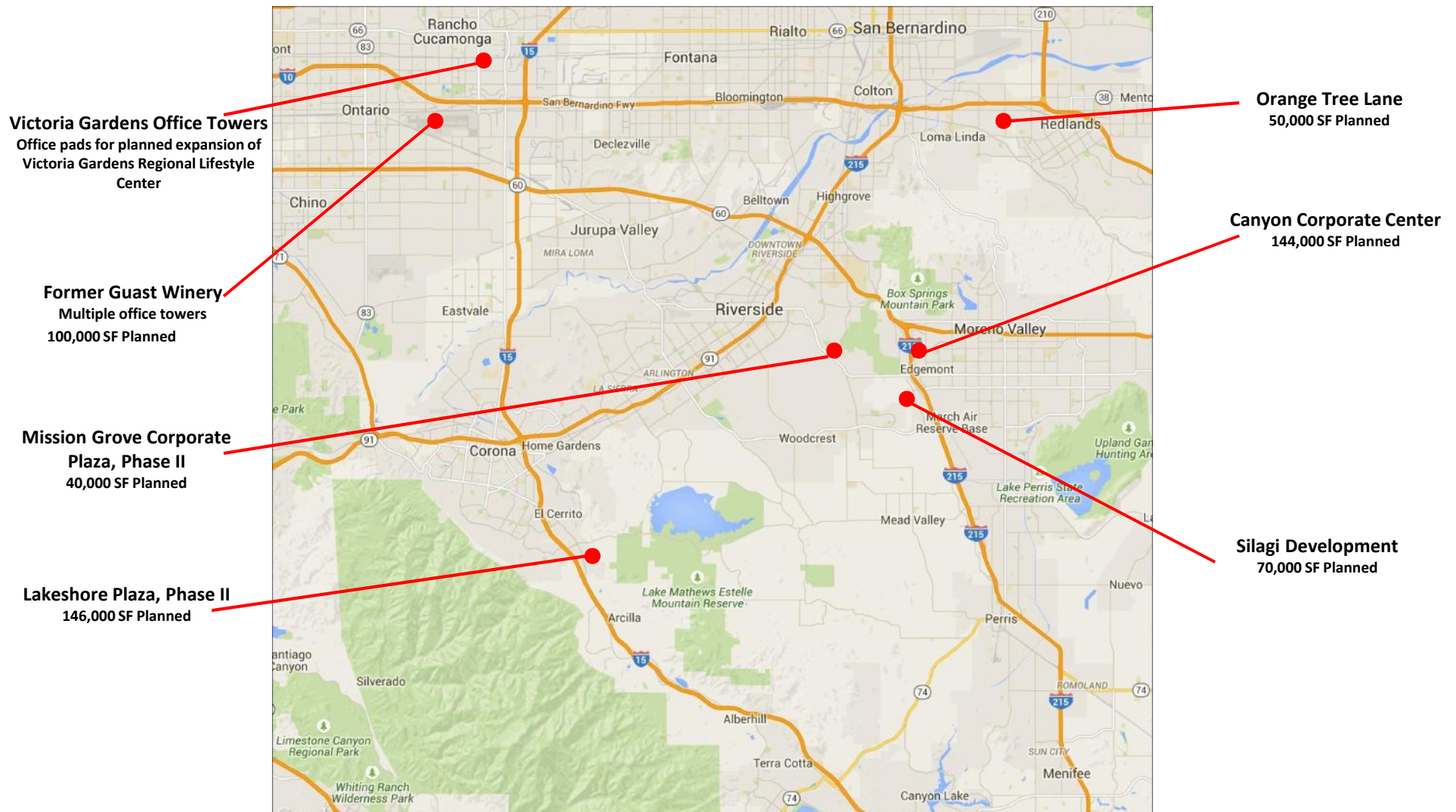
Riverside	Increase 2016	2017	All Time High
Class A \$2.25 - \$3.40 FSG	7.5%	Flat	\$3.40
Class B \$1.85 - \$2.20 FSG	9.4%	5.0%	\$2.25
Class C \$1.45 – \$1.55 FSG	9.0%		\$1.75
Ontario/Rancho Cucamonga			
Class A \$2.25 - \$2.50 FSG	13%		\$2.25
Class B \$1.85 - \$2.45 FSG	8.1%	10%	\$1.95
Class C \$1.35 – \$1.60 FSG	7.3%		\$1.60
San Bernardino			
Class A \$1.95 - \$2.25 FSG	6.3%	6%	\$2.10
Class B \$1.65 - \$1.95 FSG	flat		\$1.80
Class C \$1.25 – \$1.45 FSG	flat		\$1.50



## Building Sales by Class



## New/Planned Product



## Large Lease Comps

TENANT	BUILDING	SF	LEASE TERM	LEASE RATE	TIs
County of Riverside	Market Street Corporate	43,278	60	\$2.25 FSG	\$10.00
University of Phoenix	University Plaza	35,769	60	\$2.15 FSG	N/A
Gresham Savage	TriCity Corporate Center	29,001	36	\$2.10 FSG	\$0.00
Robertson Cement	Main Street Plaza	21,233	60	\$1.60 FSG	N/A
LuLa Roe	Lakeshore Plaza	19,761	60	\$2.25 FSG	N/A
Rapid Response	400 S. Main	18,837	84	\$1.57 MGR	N/A
Varner & Brandt	Mission Square	13,936	66	\$2.57 FSG	N/A
South Pacific Financial	Lakeside Towers	11,477	60	\$1.95 FSG	\$15.00

## Sale Comps

### Towers at Riverwalk



4204 Riverwalk Parkway, Riverside

- Class A Office Buildings – Fully Leased
- 96,914 total SF
- \$25,388,500 \$261.97 PSF
- Sold May 2018
- UserPurchase
- Sold April 2017 for \$197 PSF

### 10681 Foothill Blvd



10681 Foothill Blvd

- Class A Office Buildings – Fully Leased
- 76,680 total SF
- \$15,150,000 \$197.57 PSF
- Sold March 2018
- Investor Purchase

## Sale Comps

### Spruce Financial



#### 1650 Spruce

- Class A Office Building – 40.7% Occupied
- 58,312 total SF
- \$7,580,000 \$130 PSF
- Sold February 2018
- Investor Purchase

### Rock Jersey Professional Center



#### 8855 Haven Ave Building 2

- Class B Office Building
- 25,631 total SF
- \$6,850,000 \$267.25 PSF
- Sold January 2018
- User Purchase; Haven Building, Inc.



## Sale Comps

### Silver Oak Business Park



19318 Jesse Lane, Riverside

- Class B Office Building
- 17,263 total SF
- 3,150,000 \$182 PSF
- Sold September 2016
- User Purchase \*5,100 sf Cold Shell
















### Empire Office Center



3595 Inland Empire Blvd. – Building 4

- Class B Office Building
- 11,744 total SF
- \$257.82 PSF
- Sold March 2018
- User Purchase

## Inland Empire Office Market – Report Card

	2016	2017	2018
Landlords			
Tenants			
Sellers			
Buyers			
Developers			

## Forecast 2017 – How did I do??

- 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...☹

## Forecast 2018 – what's ahead?

- Kinda more of the same

## Forecast 2018 – what's ahead?

- 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 bonuse, 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...



# QUESTIONS?

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