

# Appraisal Institute – Office Market Overview

## Mid-Year 2021



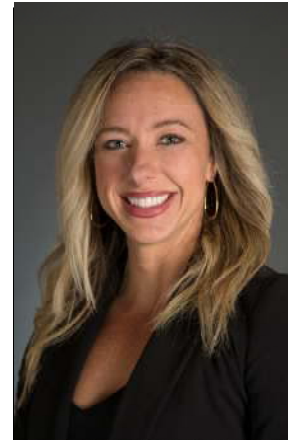
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## 2020 (Covid) Office Trends

- No surprise; 2020 was a slow year for IE office
- 101,910 SF of negative absorption, but factor-in 146,785 SF of new office construction that came to market in Corona in 1Q2020...
- = approx. 44,875 SF of absorption compared to 392,470 SF of positive absorption in 2019... so essentially market leasing activity was reduced by 90% (again, no surprise)
- Approximately 46,000 square feet of office space for sublease came to market (an increase of approx. 9.7% of the market in 2019 to 15.9% of the market today)
- Overall market vacancy is currently 10.35%; which is up from 9.11% in 2019, but very near the 9.94% market vacancy in 2018
- So, the office market isn't "tanking" in any way ... but most definitely "stalled"
- Lease rates remain steady; but Landlord concessions increased with free rent
- We are continuing to see office sale prices climb

## 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



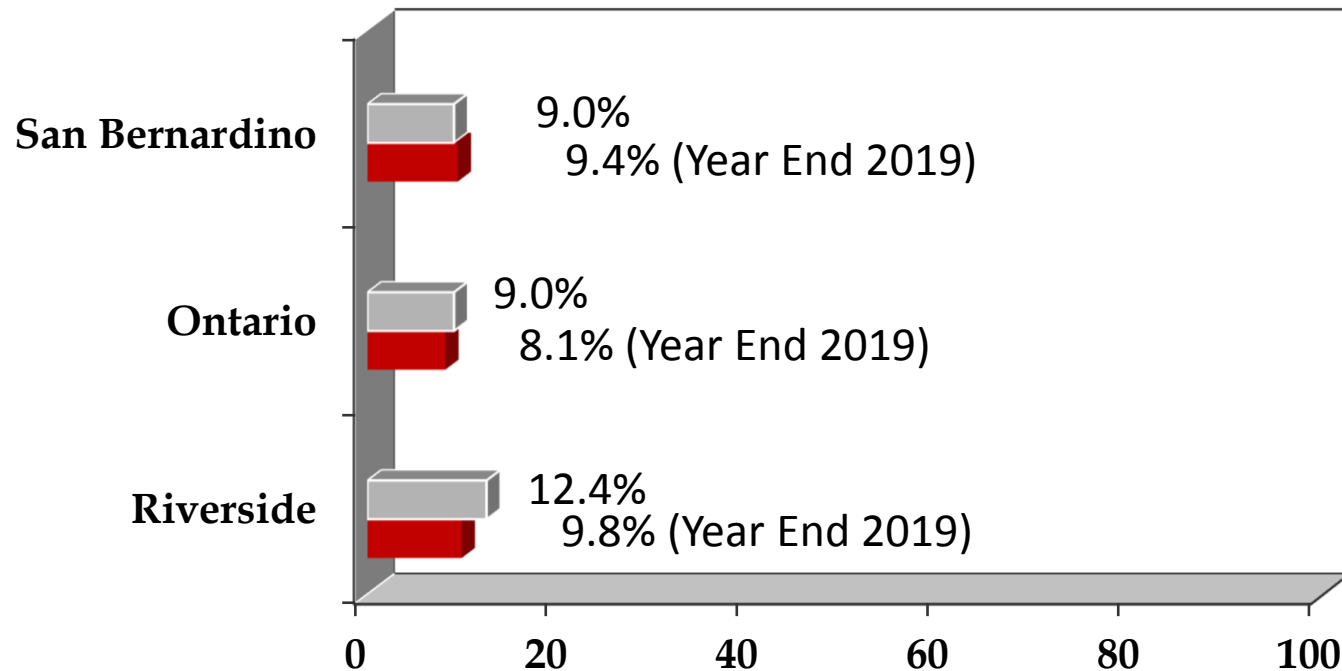
## Definitions - Continued

- Class C
  - Older Class B buildings
  - Single-story or wood frame and stucco garden style
  - Office space in multi-tenant
  
- Small Buildings for Sale
  - Newer freestanding or condo units
  - Usually tracked as Class C space



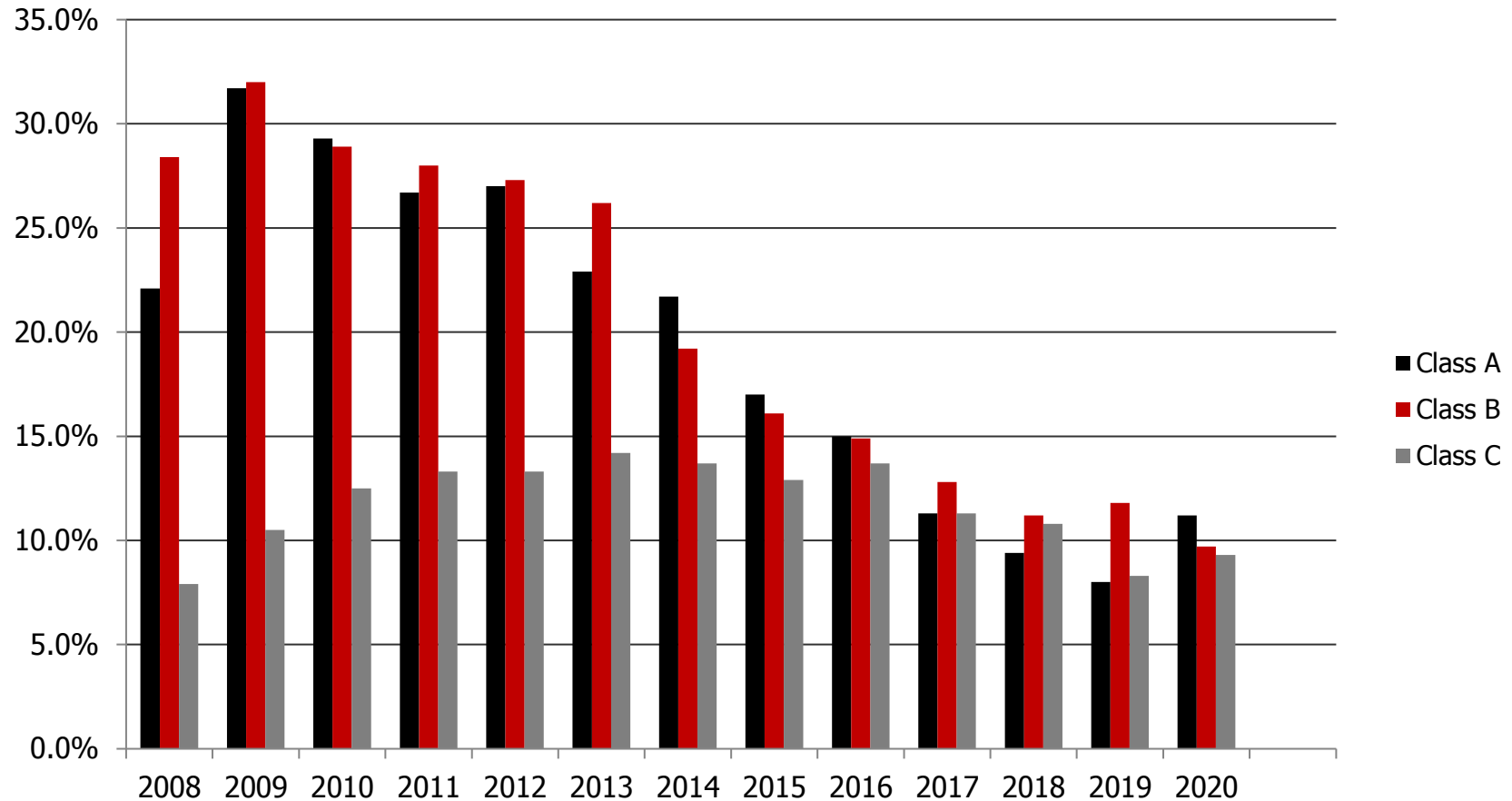
## 10.35% Vacant

## Vacancy by Region



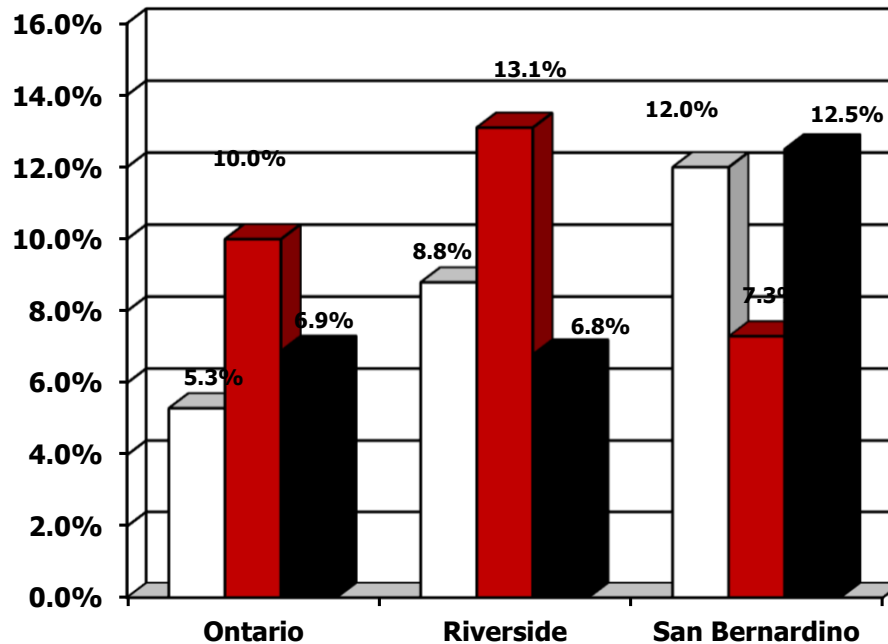
Current Regional Vacancy – 10.35%  
Vacancy Year End 2019 – 9.11%

## Vacancy Rate by Class

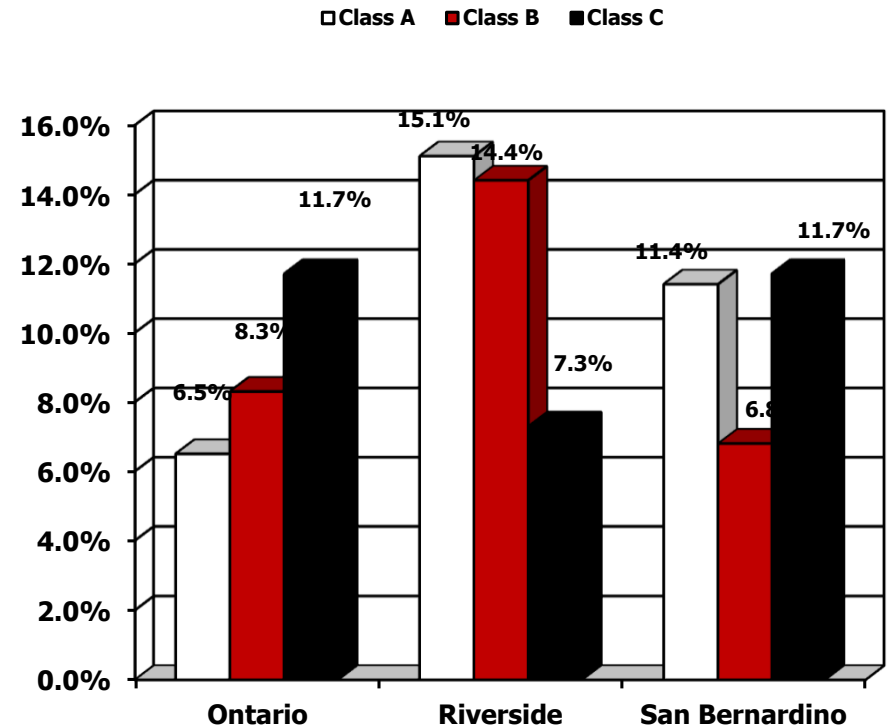


# Vacancy Rate by Major Market and Building Class

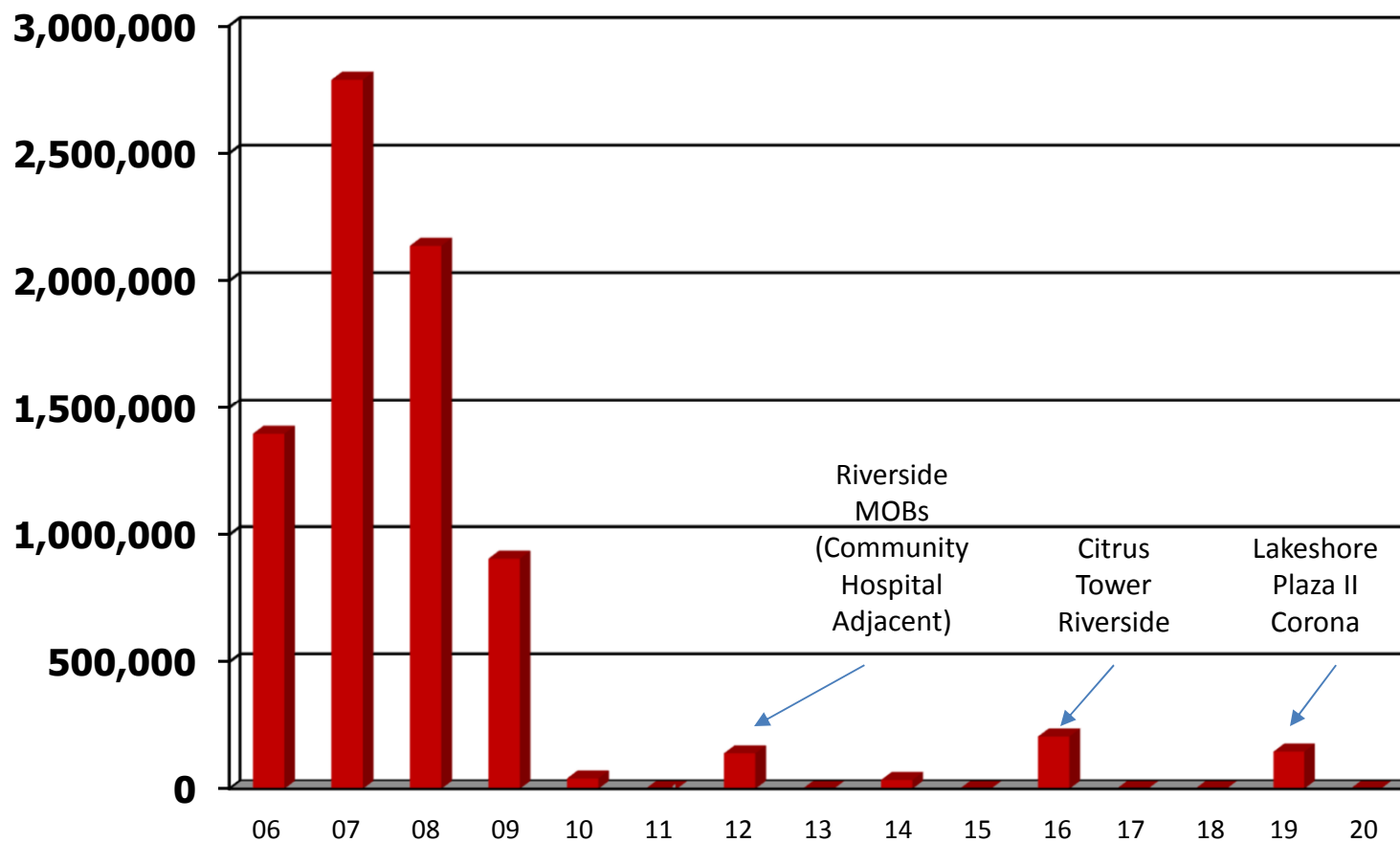
## Year End 2019



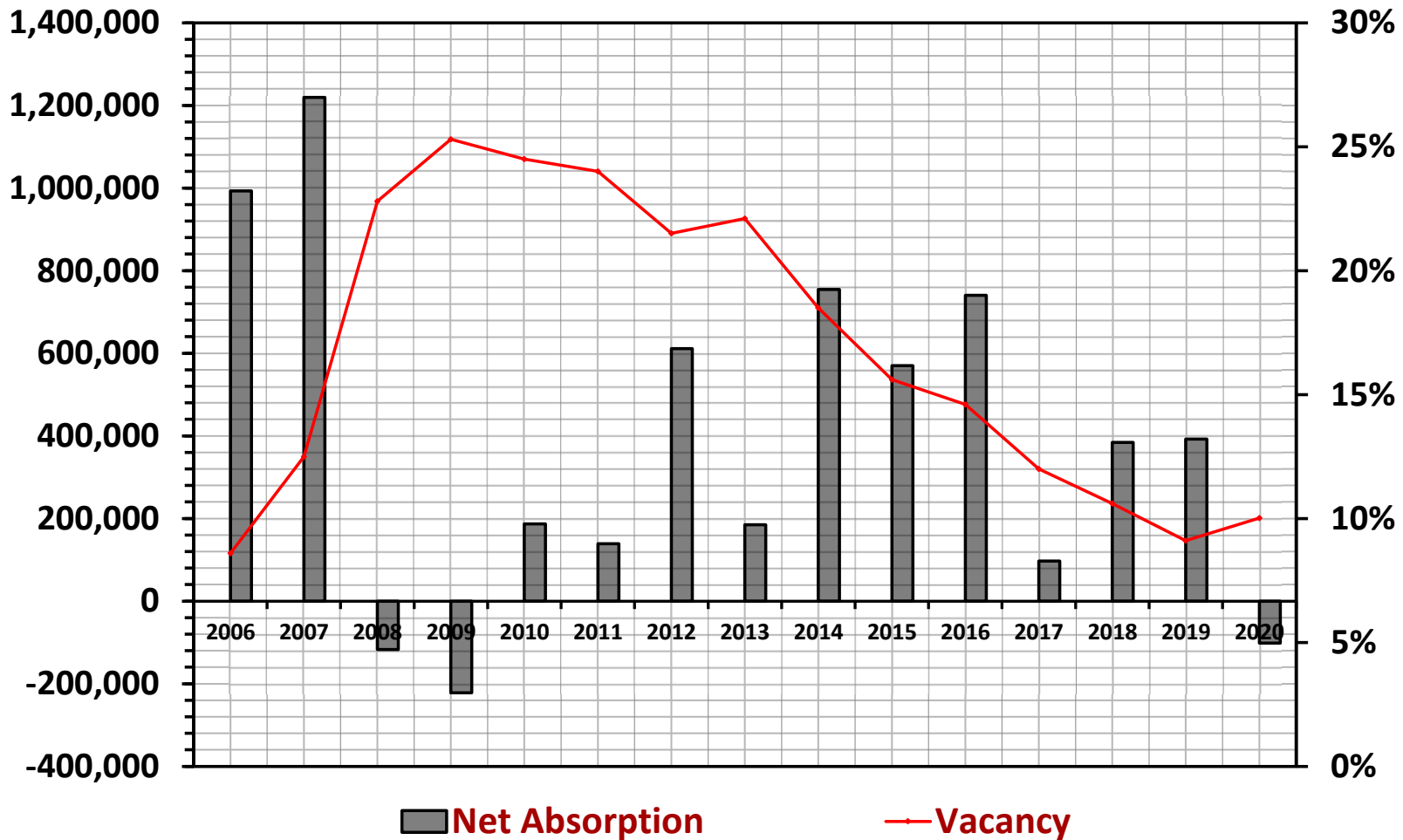
## Year End 2020



## Office Construction (Completed Since 2006)



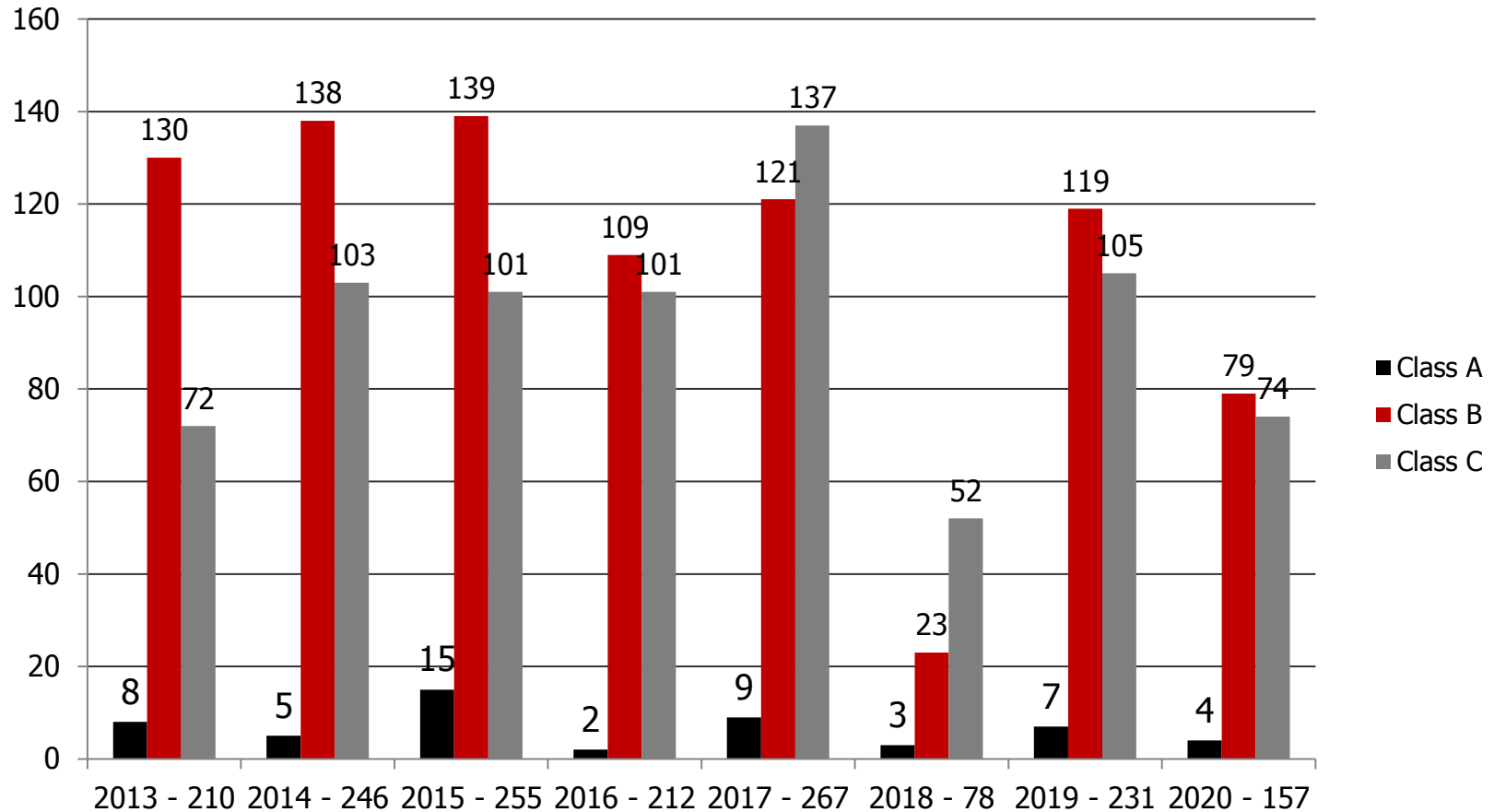
## Vacancy and Absorption Trend Analysis



## Average Asking Lease Rates

Riverside	2021 (today)	2020/2019
<b>Class A</b>	\$2.75 - \$3.25 FSG	\$2.25 - \$3.40 FSG
<b>Class B</b>	\$1.95 - \$2.45 FSG	\$1.85 - \$2.20 FSG
<b>Class C</b>	\$1.35 - \$1.50 FSG	\$1.45 - \$1.55 FSG
Corona	2021 (today)	2020/2019
<b>Class A</b>	\$2.35 FSG	\$2.35 - \$2.50 FSG
<b>Class B</b>	\$2.25 FSG	\$2.20 - \$2.25 FSG
<b>Class C</b>	\$2.00 - \$2.15 FSG	\$2.00 - \$2.15 FSG
Ontario/Rancho Cucamonga	2021 (today)	2020/2019
<b>Class A</b>	\$2.50 - \$2.65 FSG	\$2.25 - \$2.50 FSG
<b>Class B</b>	\$2.15 - \$2.25 FSG	\$2.15 - \$2.25 FSG
<b>Class C</b>	\$1.85 - \$2.00 FSG	\$1.35 - \$1.60 FSG
San Bernardino/Redlands	2021 (today)	2020/2019
<b>Class A</b>	\$2.20 - \$2.50 FSG	\$1.95 - \$2.25 FSG
<b>Class B</b>	\$1.85 - \$2.05 FSG	\$1.65 - \$1.85 FSG
<b>Class C</b>	\$1.65 - \$1.75 FSG	\$1.25 - \$1.45 FSG

## Building Sales by Class



## Large Lease Comps

TENANT	SITUATION	SF	TERM	RATE	WHEN
UVP Management, LLC	New Lease in Rancho Class C	11,558	63	\$1.55 MGR	Pre-Covid
Inland Counties Legal Services, Inc.	Renewal in Ontario Class B	15,063	62	\$1.75 FSG	Pre-Covid
County of Riverside	Renewal in Riverside Class B	24,830	60	\$1.47 MGR	Pre-Covid
Springboard Nonprofit Consumer Credit Management, Inc.	New Lease in Riverside Class B	14,936	63	\$1.95 FSG	Pre-Covid
Kaiser Foundation Health Plan, Inc.	New Lease in Riverside Class B	12,829	86	\$2.40 FSG	Pre-Covid
New Life Foster Family Agency	New Lease in Riverside Class C	12,000	32	\$1.25 MGR	Pre-Covid
Shutterfly LifeTouch	New Lease in Ontario Class B	16,162	66	\$1.40 MGR	June 2020
Concentra Health Services, Inc.	New Lease in Riverside Class C	10,200	120	\$1.00 MGR	July 2020
SAC Healthcare	New Lease in San Bernardino Class B	10,008	60	\$1.29 FSG	Aug 2020
Inland Regional Center	Renewal in Riverside Class B	24,659	101	\$1.98 FSG	Oct 2020
Tailored Space	New Lease in Corona Class A	13,642	120	\$3.15 FSG	Oct 2020
Circle K Corporation	Renewal in Corona Class B	13,449	120	\$2.08 FSG	Feb 2021

**Tip: Add \$0.30 to compare MGR to FSG**

**Tip: Look for Free Rent outside of Firm Term**

## Sale Comps

### County of San Bernardino



4<sup>th</sup> Street, San Bernardino

- Sold for \$13,450,000.00 (\$268.56/psf)
- Investor Purchase – Private Equity
- NNN-Leased Single Government Tenant w/ 10-year Lease Term
- At a Market Cap Rate of 6.64%
- Off-Market Transactions

### Business Center Drive



25814 & 25834 Business Center Drive, Redlands

- Sold for \$6,150,000.00 (\$282.78/psf)
- Investor Purchase – Private Equity
- Leased to the VA

## Sale Comps

### The Grove Business Park



1420 & 1450 Iowa Ave, Riverside

- Sold for \$15,000,000.00 (\$146.21/psf)
- Investor Purchase – Private Equity
- Value-Add Potential / High Vacancy & Deferred Maintenance
- Leases In-Place but Seller lacked capital for TIs committed
- Off-Market Transaction
- Buyer Assumed Responsibility for outstanding TIs & Brokerage Commissions committed to by Seller

### Latham Medical Plaza



4361 Latham St, Riverside

- Sold for \$7,850,000.00 (\$251.59/psf)
- Investor Purchase - Private Equity
- 68% Leased to various medical tenants including Davita Dialysis as Anchor Tenant
- At a Market Cap Rate of 7.19%

## Sale Comps

### County of San Bernardino



2740 N Little Mountain Dr, San Bernardino

- Sold for \$14,500,000.00 (\$380.08/psf)
- Investor Purchase – Private Equity
- Net-Lease Single Government Tenant (Transitional Assistance Dept)
- Brand-New Construction
- 10-year Lease Term
- 6% Cap Rate
- Off-Market Transaction

### Market Street Corporate Center



2300 Market St, Riverside

- Sold for \$17,325,000.00 (\$271.72/psf)
- Exchange Buyer – Private Equity
- 100% Leased
- Stabilized Suburban Office Investment in CBD
- At a Market Cap Rate of 6.71%

## Sale Comps

### Party Plus



1801 Orange Tree Ln, Redlands

- Sold for \$5,896,579 (\$196.55/psf)
- User Acquisition – Medical Lab
- 50% Leased; Approx 65% Improved
- Freeway Visible w/ Limited Parking (acceptable for User)
- Solid SBA Deal – Occupy 51% and enjoy rental income from remaining 49%
- Purchased with 15% Down
















### Park Plaza



1776, 1782 & 1790 Park Ave, Redlands

- Sold for \$18,250,000.00 (\$328.75/psf)
- Investor Acquisition by a California DST (based in Nevada)
- 100% Leased to LLU/LLUMC (Quasi-Medical)
- Buyer rapidly acquiring assets in California to offer as 1031 Exchange Vehicles
- 5.8% Cap Rate

## Inland Empire Office Market – Report Card

	2019	2020	2021
Landlords			
Tenants			
Sellers			
Buyers			
Developers			

## With Covid “Almost” Behind Us (June 15!) ... Where Are We & Where Are We Going?

- The Good News: Covid did not Crush the Inland Empire Office Market (Only 0.3% change in vacancy rate)
- Inland Empire Office Investment Sales are continuing to trade at a healthy/steady rate at Cap Rates in the mid-to-high 6’s
- Investor capital is shifting between asset classes – retail and hotel owners are looking at office assets; office owners are looking at multifamily; everybody wants in on industrial, but can they realistically compete/acquire?
- Entrepreneurial capital will need to reset targets. They have cash to place (pent-up demand) but where and what to place it in? Compare investment alternatives – how does Inland Empire CRE stack-up
- Sellers looking to take advantage of 1031 Exchange opportunities before they evaporate

## With Covid “Almost” Behind Us (June 15!) ... Where Are We & Where Are We Going?

- Sellers looking to take advantage of untapped equity to enhance overall cash returns
- As such, Investors are now faced with complex decisions – Cash-Out on Equity at what tax consequence? Hold and “ride the wave” upward for how long? When/Where/How/& How Long will I be able to 1031 Exchange? (It’s a great time to hire a savvy commercial real estate broker-advisor who is a local market expert)
- Inland Empire Office User Sales will increase in price and velocity, subject to availability of inventory
- No new office construction and limited supply of product will also aid office lease rates in remaining steady
- Office Users are faced with complex decisions – Lease vs Buy at what cost? Downsize or Expand at what cost? (It’s a great time to hire a savvy commercial real estate broker-advisor who is a local market expert)

## With Covid “Almost” Behind Us (June 15!) ... Where Are We & Where Are We Going?

- How does the Inland Empire Office Market benefit from trends accelerated by Covid – “flight to suburbs”; hybrid work models for office professionals; “open office” concepts; growing job numbers and employment income in the “blue collar” sector, etc.
- The Inland Empire has always been a market of speculative construction to capture business and increase jobs as humans seek affordable housing paired with a high-quality of life #iloveie
- So Keep Calm & Appraise On
- Oh, and Go Dodgers

# QUESTIONS?

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