

APPRAISAL INSTITUTE – OFFICE MARKET OVERVIEW

Mid Year 2023



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Appraisers & Brokers

Let's be honest.....WE NEED EACH OTHER.....!!!!

Listen to us because we really do listen to you

Values are very important to us because we like some of you are investors too!!

Establish relationships with key brokers in key markets

Don't give up on us!!! Email us!! Text Us!!

We really want to help you because selfishly it helps us!!

Share your information as we do with you!!

2022/23 OFFICE TRENDS

- As Far as the IE Office Market. Don't believe the media headlines predicting a fundamental change in the way we use office space.
- Overall Vacancy rate for Office in the IE is **8.85%**. One of the lowest rates in my 35 years of office brokerage.
- There is ZERO office product under construction.
- Most Tenants have decided to come back to the office full time. However, the office market is still in flux. While many companies have expanded there have been a few have embraced the remote work/flex schedules, and several have downsized space.
- 2022 saw 367k sf of office space absorption. Most of that was in Ontario and San Bernardino. Riverside only accounted for 13k.
- This was the first year of positive office space absorption since 2019.
- Large blocks of space are in moderate supply. 19 spaces over 20,000 square feet. 9 spaces over 30,000 square feet. Government and healthcare seemed to be the logical groups to absorb large blocks of space.
- All signs indicate the office market will be slow and steady for 2023

- Why is the IE Office Market health outpacing the rest of the large metro markets?
- We are not over exposed to any particular industry (other than Government) or tremendously large blocks of space.
- 46% of our office spaces are 2,500 sf or less. 31% are 2,500-5,000 sf
- Covid Stimulus directed toward small businesses gave many a windfall that will help them weather the recession
- Perception of the large back office and tech markets hurting values everywhere for office investment
- Banks are for the most part out of the office lending business.
- Users continue to buy their own office buildings to control occupancy costs and use as a source of retirement funding.
- User purchases of office buildings due to attractive SBA financing – 10% down
- Sales volume down due mostly to lack of financing and limited product available
- Currently 3 class A buildings for sale, 59 Class B, and 50 Class C
- The lack of building and inflation bodes well for existing office building owners to look at raising 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



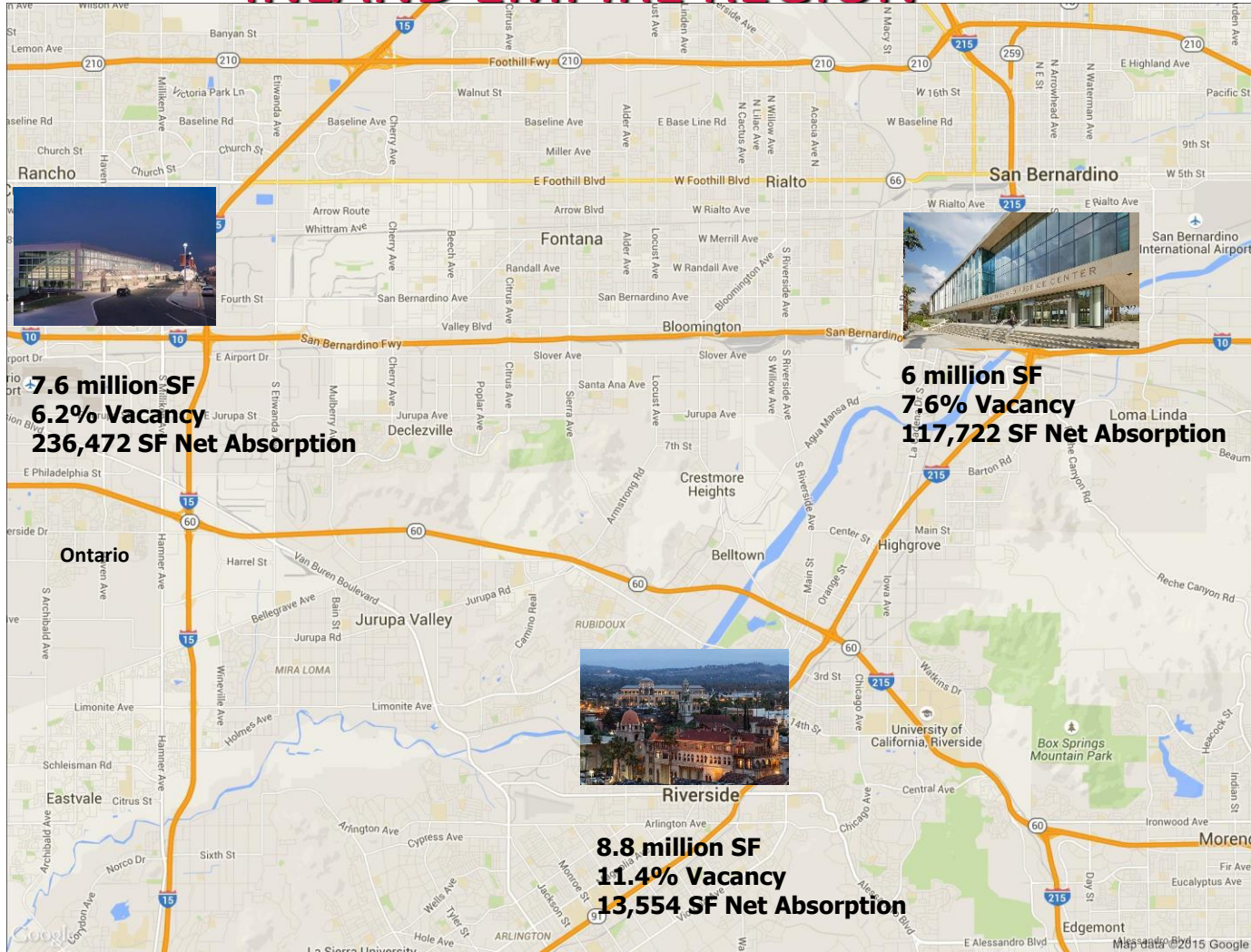
DEFINITIONS - CONTINUED

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

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



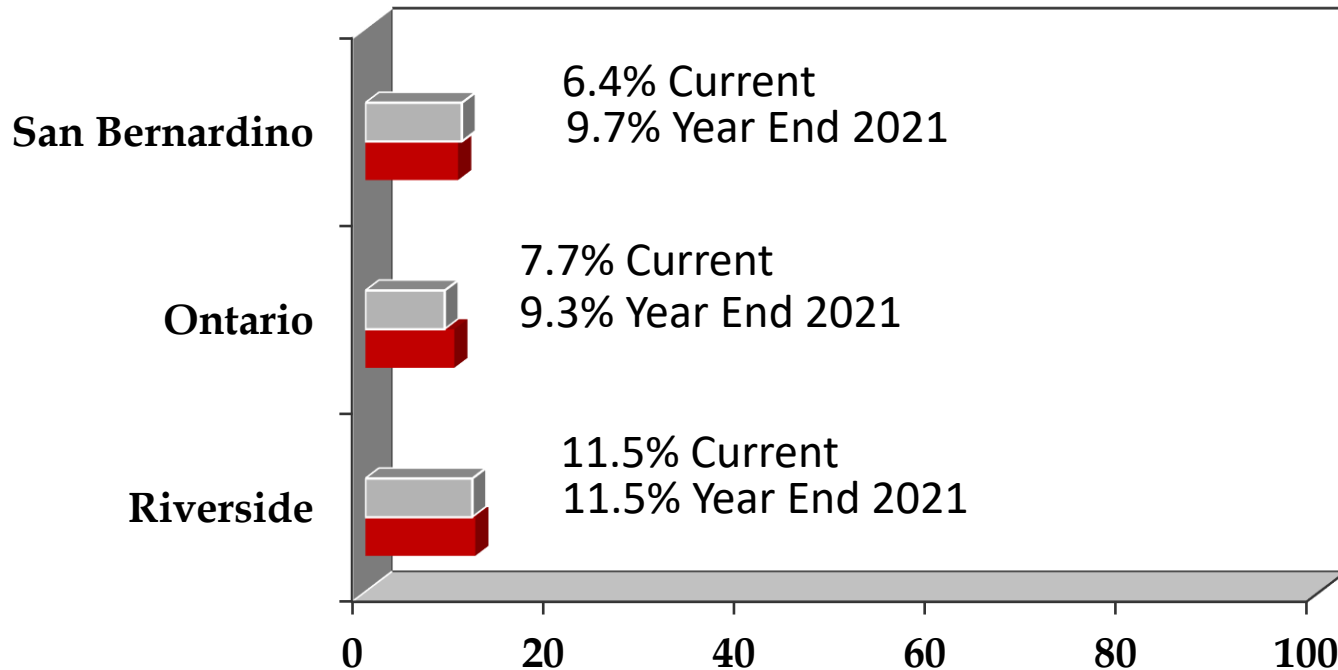
INLAND EMPIRE REGION



22,539,766 Total Square Feet

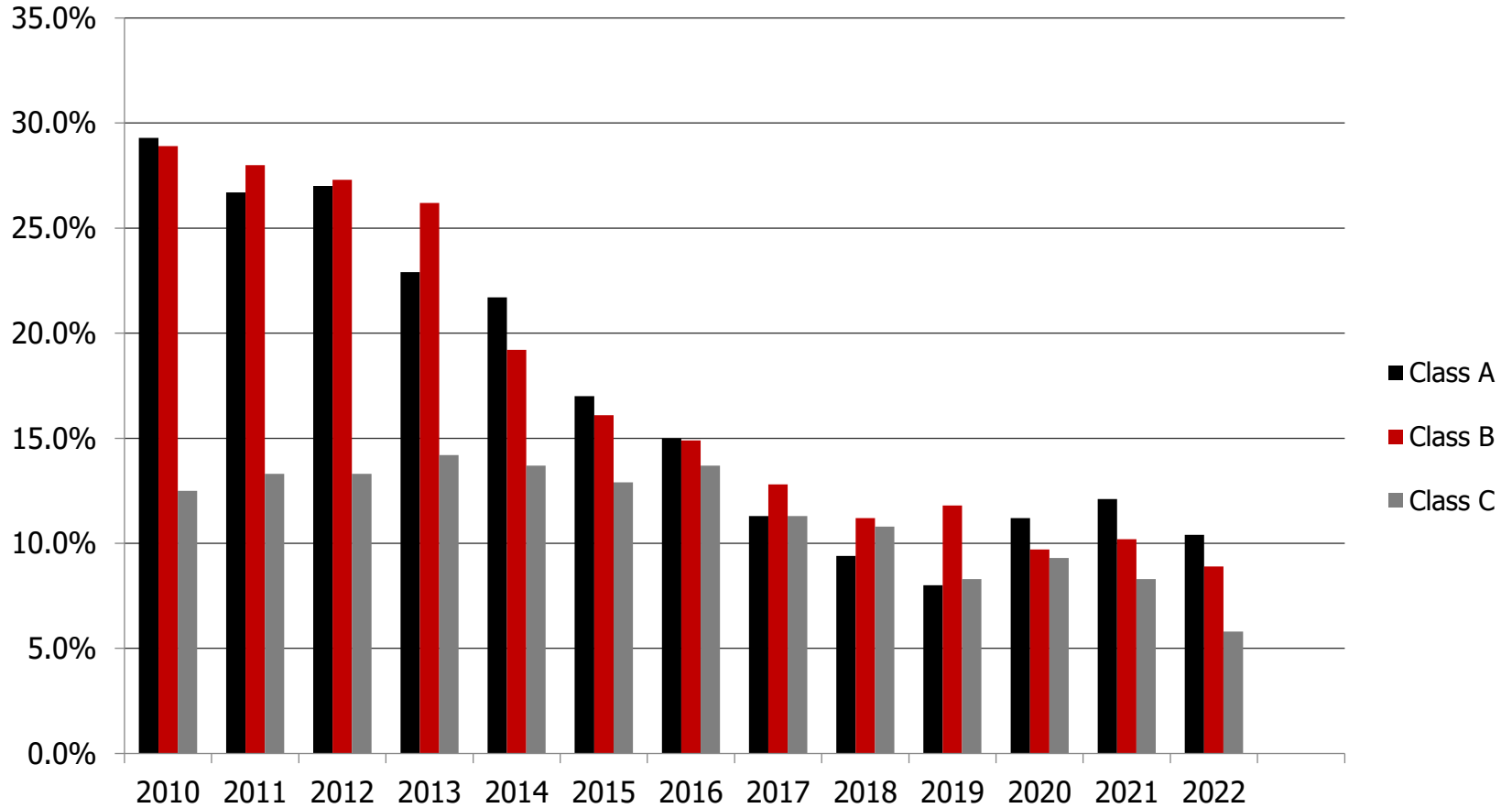
8.85 % Vacant

VACANCY BY REGION

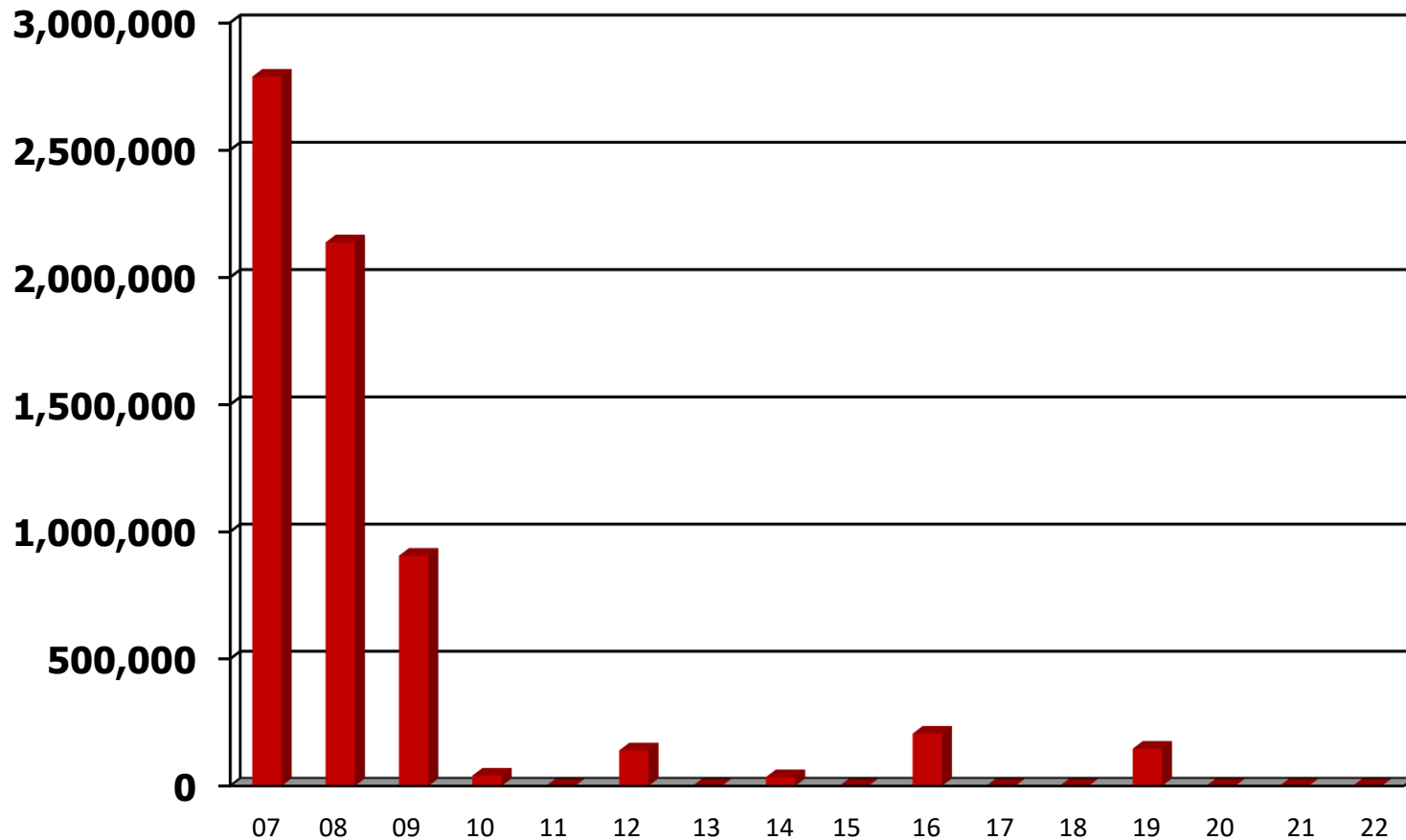


Mid Year 2023 Current Regional Vacancy - 8.85%

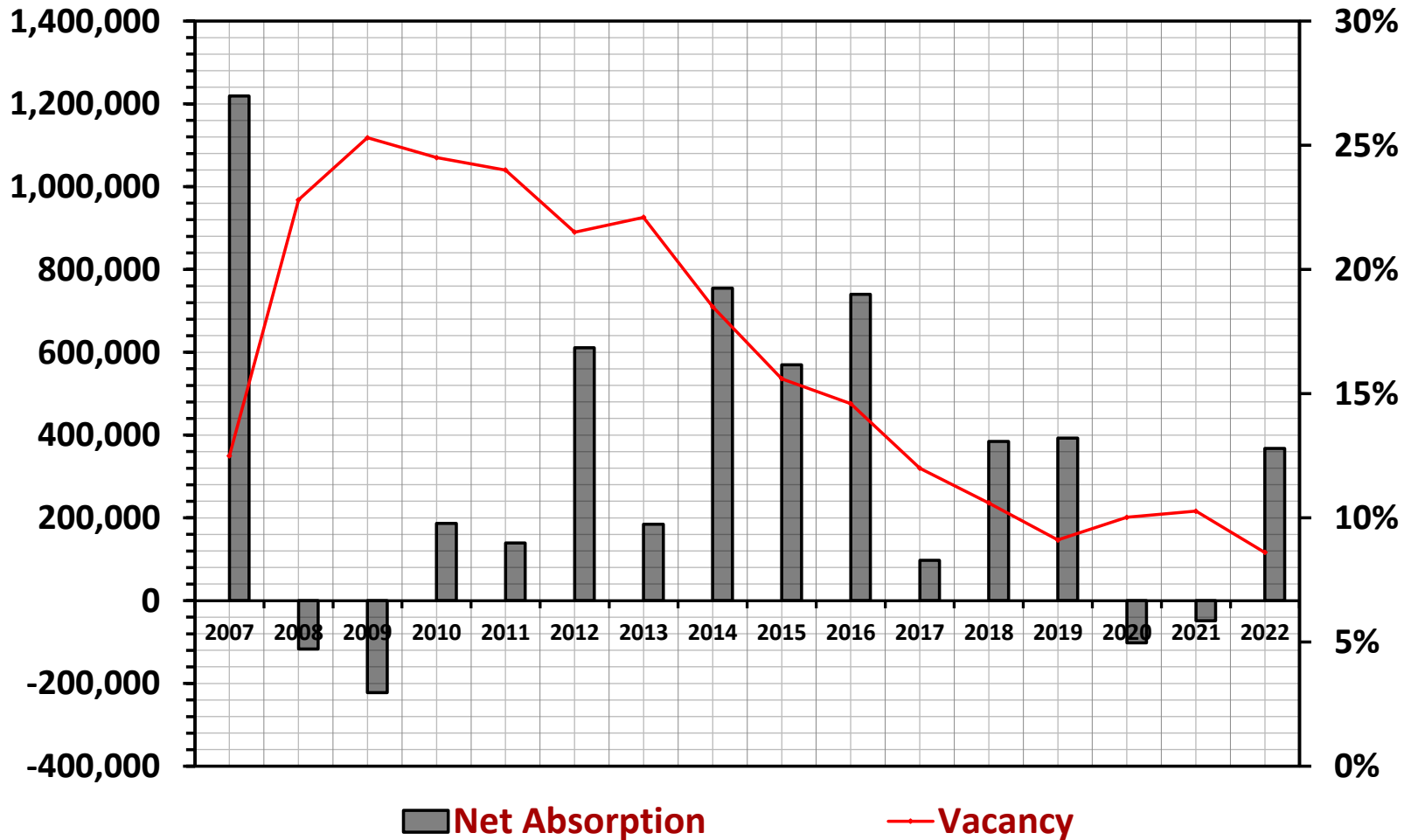
VACANCY RATE BY CLASS



OFFICE CONSTRUCTION (COMPLETED SINCE 2006)



VACANCY AND ABSORPTION TREND ANALYSIS



AVERAGE ASKING LEASE RATES

Riverside

Class A \$2.25 - \$3.50 FSG

Class B \$1.25 - \$2.25 FSG

Class C \$1.45 - \$1.55 FSG

Ontario/Rancho Cucamonga

Class A \$1.95 - \$2.85 FSG

Class B \$1.85 - \$2.45 FSG

Class C \$1.35 - \$1.60 FSG

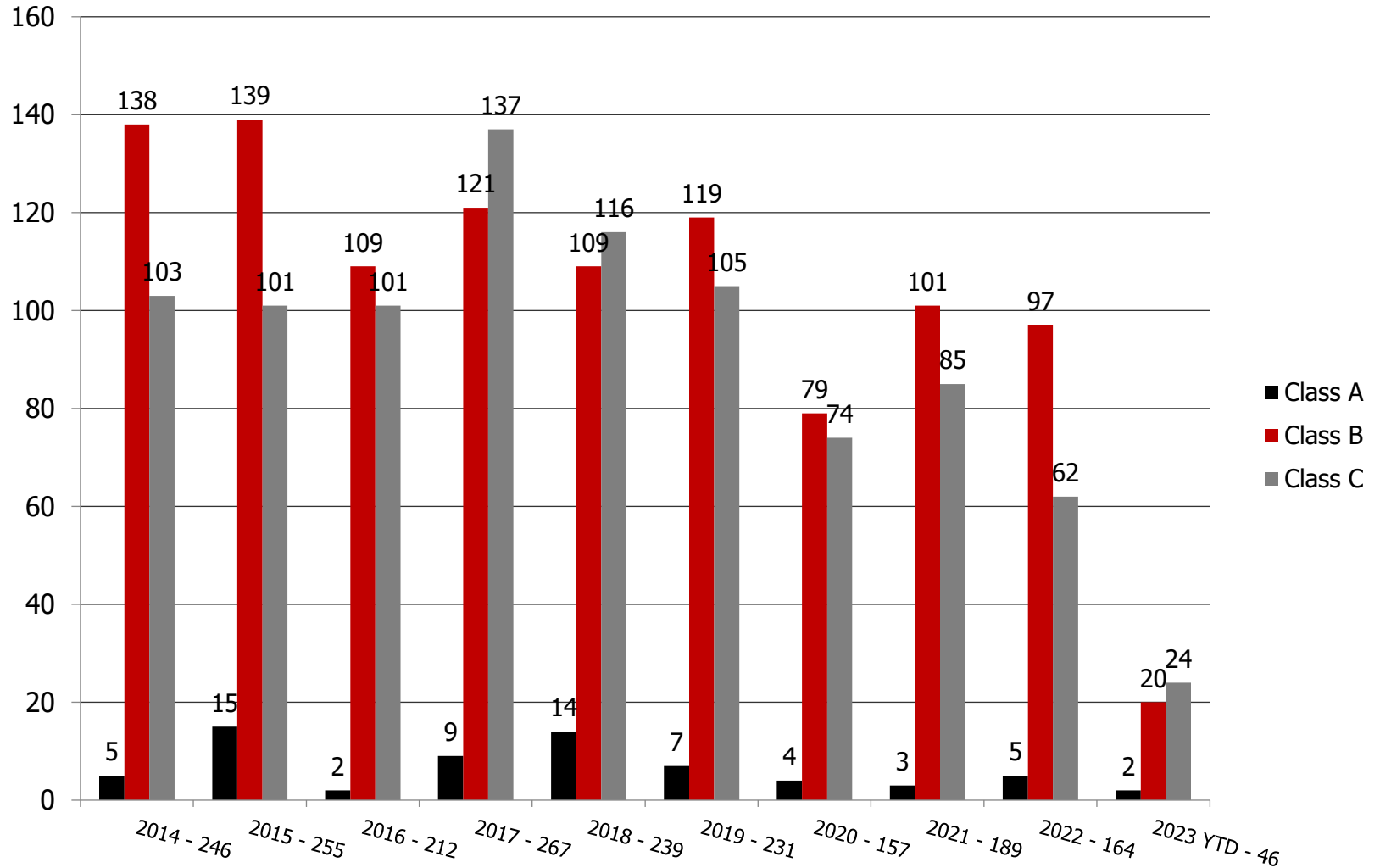
San Bernardino

Class A \$2.10 - \$2.25 FSG

Class B \$1.65 - \$1.95 FSG

Class C \$1.25 - \$1.45 FSG

BUILDING SALES BY CLASS



LARGE LEASE COMPS

TENANT	BUILDING	SF	LEASE TERM	LEASE RATE	TIs
Chicago Title Company	Tri-City Corporate Centre	10,840	65	\$2.25 FSG	\$0.00
County of Riverside	Turner Riverwalk Phase III	18,227	84	\$2.35 MGR	\$15.00
Teichert Energy & Utilities Group, Inc.	Concours Corporate Center	12,989	64	\$2.35 FSG	\$0.00
County of San Bernardino	Corporate Business Center	94,121	120	\$2.15 MGR	\$0.00
County of San Bernardino	Tri-City Corporate Centre	28,889	120	\$2.50 FSG	\$10.00
Welbehealth Inland Empire Pace, LLC	Canyon Springs Medical	24,999	181	\$3.25 FSG	\$150.00
Orbis Educational Services	Empire Corporate Plaza	20,923	126	\$2.25 MGR	\$60.00
Kimley-Horn and Associates	Raincross Tower	20,024	84	\$2.75 FSG	\$70.00
Fennemore Craig P.C.	Tri-City Corporate Centre	15,279	63	\$2.20 FSG	\$0.00
Employment Development Department	Tri-City Corporate Centre	14,971	120	\$3.34 FSG	\$0.00
Sedgwick, LLP	Rockefeller Group Professional Center	12,559	60	\$2.26 GRS	\$0.00
Maxim Healthcare Services, Inc.	Tri-City Corporate Centre	10,324	63	\$2.18 FSG	\$0.00

SALES COMP

11000 EUCALYPTUS AVENUE



11000 Eucalyptus St, Rancho Cucamonga, CA 91730

- Sale Price: **\$22,000,000**
- Price/SF: **\$173.23**
- 100% Leased Investment
- Buyer: San Antonio Regional Hospital
- Seller: Mercury Insurance

ACCO II



1819 S Excise Ave, Ontario, CA 91761

- Sale Price: **\$15,000,000**
- Price/SF: **\$367.49**
- 100% Leased
- Owner/User
- Buyer: Vida Divina Worldwide, Inc.
- Seller: SH Investment Group, LLC

SALES COMP

SOCIAL SECURITY ADMINISTRATION BUILDING



605 N Arrowhead Ave, San Bernardino, CA 92401

- Sale Price: **\$11,760,000**
- Price/SF: **\$262.97**
- 100% Leased Investment
- Buyer: TEP San Bernardino, LLC
- Seller: HPI Group

NORTHPOINTE



1003 E Brier Dr, San Bernardino, CA 92408

- Sale Price: **\$35,250,000**
- Price/SF: **\$125.82**
- Owner/User
- Buyer: SAC Health System
- Seller: TPG Global, LLC

SALES COMP

ONTARIO AIRPOORT TOWERS



2855 E Guasti Rd, Ontario, CA 91761

- Sale Price: **\$38,500,000**
- Price/SF: **\$260.61**
- Cap Rate: **6.89%**
- Buyer: MGR Real Estate
- Seller: SW Ontario Owner, LLC

HAVEN PARK



9692 Haven Ave, Rancho Cucamonga, CA 91730

- Sale Price: **\$18,250,000**
- Price/SF: **\$243.33**
- Owner/User
- Buyer: National Community Renaissance of California
- Seller: Co-Op Financial Services

SALES COMP

ONE & TWO CARNEGIE PLAZA – INVESTMENT PORTFOLIO SALE



621,625, & 685 E Carnegie Dr, San Bernardino, CA 92408

- Sale Price: **\$34,175,000**
- Price/SF: **\$192.10**
- Cap Rate: **7.30%**
- Buyer: Topline
- Seller: Harbor Associates

CORONA WESTGATE CENTER



2280 Wardlow Cir, Corona, CA 92880

- Sale Price: **\$15,200,000**
- Price/SF: **\$244.26**
- Cap Rate: **7.23%**
- Investment
- Buyer: Westgate Corona, LLC
- Seller: The Koll Company

SALES COMP

CORONA OFFICE SPECTRUM



1181 California Ave, Corona, CA 92881

- Sale Price: **\$15,100,000**
- Price/SF: **\$179.06**
- Investment
- Buyer: Rexco Development
- Seller: Wilson Income Properties

MGR CENTER – INVESTMENT PORTFOLIO SALE



9227 & 9267 Haven Ave, Rancho Cucamonga, CA 91730

- Sale Price: **\$17,770,000**
- Price/SF: **\$226.94**
- Buyer: Reyes Holdings, LLC
- Seller: MGR Real Estate

INLAND EMPIRE OFFICE MARKET – REPORT CARD

2021

2022

2023

Landlords



Tenants



Sellers



Buyers



Developers

FORECAST 2023 – WHAT’S AHEAD?

- IE Office activity will remain slow and steady. Vacancy factor to continue to slowly drop.
- No new construction short of build to suits
- IE Office rates to slowly rise in certain pockets Westside Markets/SB/Redlands
- Rising costs due to inflation and high interest rates and the perception of the end of the office building will stall any thoughts of office development
- Recession? Covid Stimulus will help many office users weather any downturn
- Inflation, cost of TI's, higher interest, will translate into higher lease rates
- Tenants will be required to contribute to Tenant Improvements if they want custom space
- IE office market will continue to outperform the larger metro markets do to tenant mix and tenant size

QUESTIONS?

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