

## Market Analysis

Third Quarter 2017

### Contacts

#### Jeff Adler

Vice President & General  
Manager of Yardi Matrix  
Jeff.Adler@Yardi.com  
(800) 866-1124 x2403

#### Jack Kern

Director of Research and Publications  
Jack.Kern@Yardi.com  
(800) 866-1124 x2444

#### Chris Nebenzahl

Senior Analyst  
Chris.Nebenzahl@Yardi.com  
(800) 866-1124 2200

#### Veronica Grecu

Senior Real Estate Market Analyst  
Veronica.Grecu@Yardi.com  
(306) 955-1855 7583

### Author

#### Razvan Cimpean

Associate Editor  
Razvan-I.Cimpean@Yardi.com

Aggregated and anonymized expense and lease expiration data is available to Yardi Matrix subscribers. Please contact us for details!

For more information please contact:

#### Ron Brock, Jr.

Industry Principal, Matrix  
JR.Brock@Yardi.com  
(480) 663-1149 x2404

To Subscribe:

#### Hollie Zepke

Audience Development Specialist  
Hollie.Zepke@Yardi.com  
(800) 866-1124 x5389

## The Road to Recovery



The Inland Empire's economy is strong, fueled by port activity and a bustling housing market, but that doesn't translate into significant growth for the office sector. Although office-using jobs have grown by about 17% during the last decade, they account for only a small share (14%) of total employment. As a result, lease rates and development are increasing at moderate levels.

Job growth is led by port-related activities. The construction-related and trade, transportation and utilities sectors have added 22,300 jobs year-to-date through June, representing 53% of total new employment. With foreign trade nearing an all-time high and very little vacancy in the metro's industrial segment, the local economy should remain healthy.

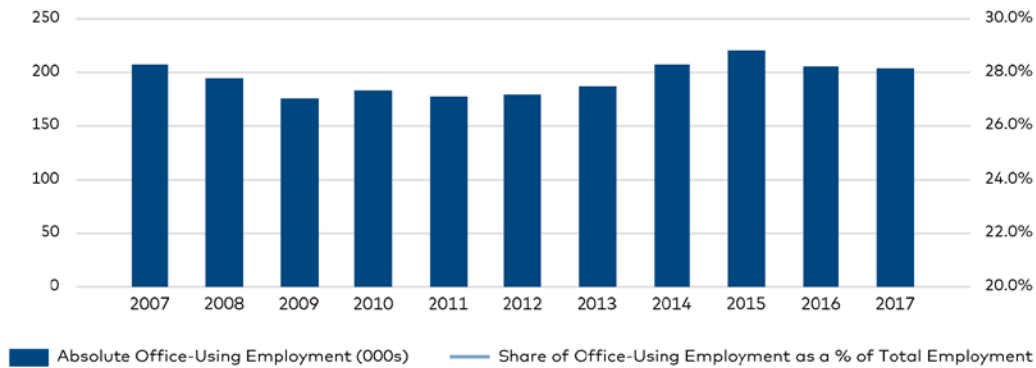
Office leasing activity was solid in all submarkets, with **nearly 1.5 million** square feet leased across the metro year-to-date through August. The average lease rate for Class A assets was \$27.15 per square foot and for Class B buildings was \$24.34 per square foot.

Roughly **200,000 square feet** of space is scheduled to come online by the end of the year, with an additional 152,000 square feet slated for completion in 2018. Benefiting from the presence of large universities, Riverside and San Bernardino are expected to continue their growth in the coming years, attracting talent more easily. Investor demand has also steadily improved, leading to more than \$200 million in office asset trades in the 12 months ending in August. More than 75% of the volume was concentrated in Riverside and Ontario-Chino, the submarkets with the highest average price per square foot.

## Economic Snapshot

- The Inland Empire had about **203,000 office-using jobs** as of June, down 1.4% from the end of 2016. Office-using employment has been cooling in recent years, dropping to 14.1% of total employment, the lowest since 2007. That's significantly below the 21.8% national share.

### Office-Using Employment



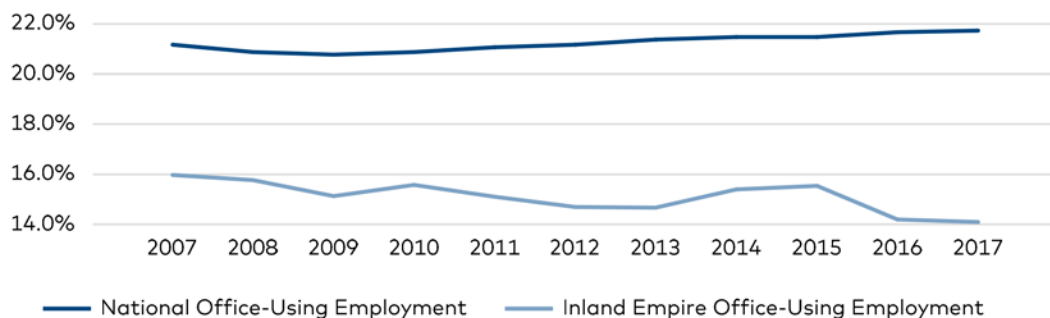
Source: Bureau of Labor Statistics (BLS). Data as of June 2017

### Inland Empire Employment Growth by Sector as of July 2017 (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
15	Mining, Logging and Construction	111	7.8%	15,900	16.8%
40	Trade, Transportation and Utilities	349	24.6%	6,400	1.9%
70	Leisure and Hospitality	164	11.5%	5,800	3.7%
65	Education and Health Services	217	15.3%	4,800	2.3%
90	Government	228	16.1%	4,200	1.9%
60	Professional and Business Services	146	10.3%	1,700	1.2%
30	Manufacturing	101	7.1%	1,000	1%
55	Financial Activities	46	3.2%	1,000	2.2%
80	Other Services	46	3.2%	1,000	2.2%
50	Information	12	0.8%	-100	-0.8%

Sources: YardiMatrix, Bureau of Labor Statistics

### Office-Using Employment as a % of Total Employment

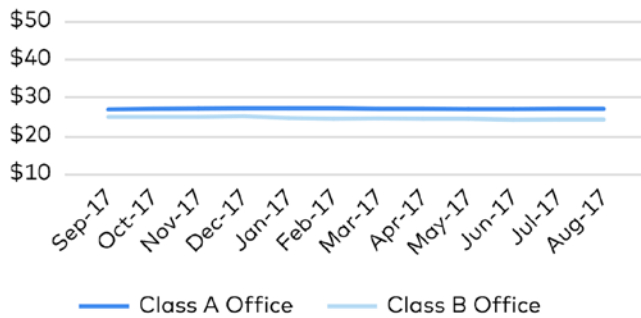


Source: Bureau of Labor Statistics (BLS). Data as of June 2017

## Leasing Trends

- Average leases for Class A properties **rose 0.6% year-over-year** through August, reaching \$27.15 per square foot. Meanwhile, leases in Class B office buildings dropped by 2.8% to an average of \$24.34 per square foot.
- **Southwest Riverside County** is the Inland Empire's most expensive submarket, with the average office lease rate reaching \$27.76 per square foot in August. The submarket is followed by Ontario–Chino (\$27.24) and Riverside (\$27.13). Additionally, with more than 400,000 square feet of new leases signed year-to-date through August, Riverside saw the highest lease volume in the metro.
- Rancho Cucamonga (\$18.62) and Fontana (\$20.26) have the lowest lease rates. Prime Source Mortgage and Collins Collins Muir + Stewart leased 10,086 square feet combined at Cambra Realty's City Centre at 10681 E. Foothill Blvd. in Rancho Cucamonga.
- **The Riverside County Department of Child Support Services** signed the biggest lease in the metro for the 12 months ending in August. The child-care agency leased 105,316 square feet at Saban Capital Group's Hunter Park Plaza, located at 2014 Iowa Ave. in Riverside.

### Lease Rate Growth (\$ Per Square Foot)



Source: Yardi Matrix. Data as of August 2017

### Lease Rates by Submarket

Top Submarkets	Avg. Lease Rate as of Aug 2017
Southwest Riverside County	\$27.76
Ontario–Chino	\$27.24
Riverside	\$27.13
Corona	\$25.74
Moreno Valley	\$24.21

Source: Yardi Matrix. Data as of August 2017

### Top 10 Leases Signed (Last 12 Months)

Address	Square Feet Leased	Tenant
2041 Iowa Ave.	105,316	The Riverside County Department of Child Support Services
1627 E. Holt Blvd.	85,534	San Bernardino County
3750 Grand Ave.	50,000	Chino Grand Medical Offices
15315 Fairfield Ranch Road, #100	24,185	State of California Disability Insurance Office
451 E. Vanderbilt Way, #200	20,531	WSP
1500 Iowa Ave., #100	18,258	Inland Regional Center
1989 Atlanta Ave.	18,000	Inter-Coast International Training
29970 Technology Drive, #210 A	15,081	Del Sesto & Sterrett
337 N. Vineyard Ave., 4th Floor	14,500	Allied Offices
1325 Spruce St., #500	14,500	National University

Source: Yardi Matrix. Data as of August 2017

## Listings and Vacancy

- A little more than **2 million square feet** of office space was listed in the Inland Empire in August, almost evenly split between Class A and Class B properties. The average asking price for Class A assets was \$27.08 per square foot, while average Class B office space was listed at \$18.81 per square foot.
- Overall vacancy was **15.5% in August**. Demand is solid for Class B office properties that were completed in the metro's established submarkets before the recession.
- Tenants also opted for office spaces located in the market's urban areas that have lower asking prices. The vacancy rate is 12.2% for properties in both urban primary and secondary markets.
- More than 61.3% of office inventory is located in suburban areas, which were 13.8% vacant as of August. The vacancy rate for secondary suburban submarkets is 16.9%.
- The Inland Empire's established suburban submarkets have the highest vacancy rates. San Bernardino's 17.1% vacancy rate was lower only than Riverside's 21.3% vacancy rate. The available space in these two submarkets accounts for more than 55% of the entire office space available in the metro.
- **Rancho Cucamonga**, a mostly urban submarket, recorded an overall vacancy rate of 8.4% as of August. Ontario–Chino lags, posting a vacancy rate of 16.3%. While most of the available office space in Rancho Cucamonga is in Class B properties, in Ontario–Chino nearly 60% of available space is in Class A assets.

### Available Properties

Top Submarkets	Square Feet Available	Properties Available
San Bernardino	763,977	33
Riverside	518,416	22
Ontario–Chino	440,571	21
Rancho Cucamonga	139,110	11
Southwest Riverside County	121,330	12
<b>Total Market</b>	<b>2,049,291</b>	<b>112</b>

Source: Yardi Matrix. Data as of August 2017

### Vacancy by Location Class

Location Class	Vacancy Rate
Urban–Primary	12.2%
Urban–Secondary	12.2%
Suburban–Primary	13.9%
Suburban–Secondary	17.1%

Source: Yardi Matrix. Data as of August 2017

Note: Vacancy including sublease.

### Vacancy by Submarket

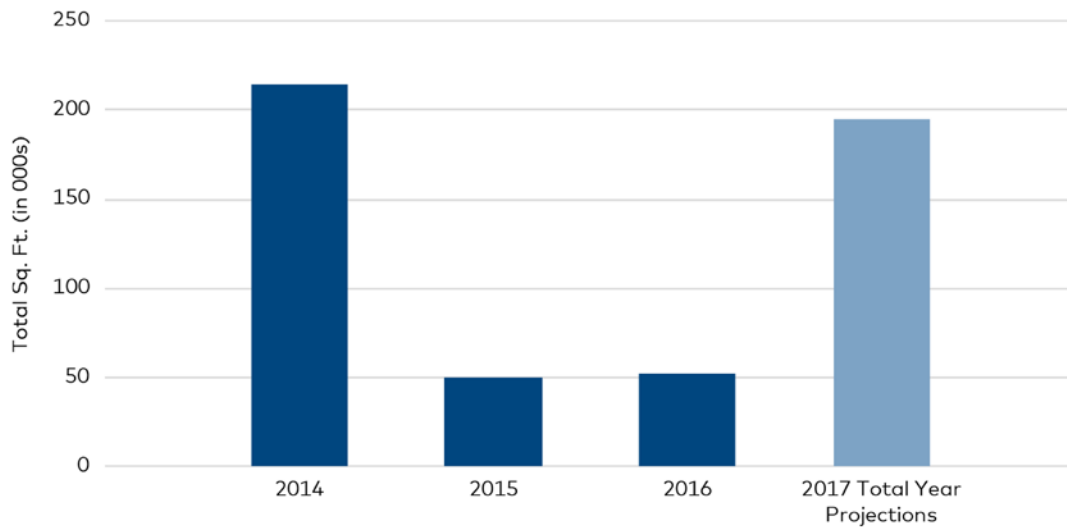
Top Submarkets	Vacancy Rate
Rancho Cucamonga	8.4%
Southwest Riverside County	11.7%
Corona	12.2%
Palm Desert–Palm Springs	16.0%
Ontario–Chino	16.3%

Source: Yardi Matrix. Data as of August 2017

## Supply

- Office development is slow in the Inland Empire. We expect **195,000 square feet** of space to come online in 2017, barely 1% of total inventory and almost double the combined amount completed in 2015 and 2016. This year's additions to supply will be close to reaching the 2014 cycle high, when 215,982 square feet of office space was added to the market.
- Four projects totaling more than 360,000 square feet of office space are in development across the metro, with an additional 1.4 million square feet in the planning and permitting stages. The market's office pipeline suggests an increase in construction activity in the coming years.
- Boasting the biggest office inventory in the metro and sitting at the intersection of two interstates, **San Bernardino** remains the most attractive submarket for real estate investors. However, a fast-paced housing rent growth is expected to slow down interest in the coming years, as people will look for more affordable submarkets. Loma Linda University is developing a 152,000-square-foot Shared Services Building that is scheduled for completion in the first quarter of 2018.

### Office Completions (Square Feet)



Source: Yardi Matrix. Data as of August 2017

### Construction Activity (Total Square Feet)

Top Submarkets	Square Feet Under Construction
San Bernardino	152,000
Southwest Riverside County	145,556
Riverside	65,281
<b>Total Market</b>	<b>362,837</b>

Source: Yardi Matrix. Data as of August 2017

### Construction Activity (% of Inventory)

Top Submarkets	Square Feet Under Construction
Southwest Riverside County	8.9%
San Bernardino	3.7%
Riverside	2.2%
<b>Total Market</b>	<b>2.1%</b>

Source: Yardi Matrix. Data as of August 2017

## Transactions

- More than 940,000 square feet of office space totaling **\$216.8 million** changed hands in the metro in the 12 months ending in August.
- Riverside** led all submarkets in transaction volume and was second to Ontario–Chino in total square feet traded over the past four quarters. This is the most expensive Inland Empire submarket, with an average asking price of \$322.04 per square foot, 61.7% higher than in Ontario–Chino (\$198.81 per square foot). More than 240,000 square feet of office space traded in Riverside for \$85.3 million. Meanwhile, in Ontario–Chino, more than 450,000 square feet changed hands for only \$87.4 million.
- Since 2014, transaction volume for properties built during the 2000s reached **\$384.2 million**. Office assets completed in the 1980s saw \$230.8 million in sales during that same interval.
- The largest deal closed in the metro in the past four quarters was **MGR Real Estate's** purchase of Empire Towers, a 398,178-square-foot property located in Ontario–Chino that sold for \$78.5 million. In Riverside, CrossHarbor Capital Partners acquired the 193,648-square-foot Towers at Riverwalk for nearly \$76.5 million.

### Average Price (Per Square Foot)

Top Submarkets	Avg. Price Per Square Foot
Riverside	\$322.04
Ontario–Chino	\$183.25
Corona	\$171.58
Rancho Cucamonga	\$170.02
San Bernardino	\$167.42

Source: Yardi Matrix. Data as of August 2017

### Transaction Volume

Top Submarkets	Total Transaction (square feet)	Total Transaction Volume (000s)
Ontario–Chino	471,965	\$87,400
Riverside	243,776	\$85,300
Rancho Cucamonga	139,008	\$25,900
San Bernardino	86,606	\$14,500
Corona	73,200	\$12,560
<b>Total Market</b>	<b>1,014,555</b>	<b>\$225,660</b>

Source: Yardi Matrix. Data as of August 2017

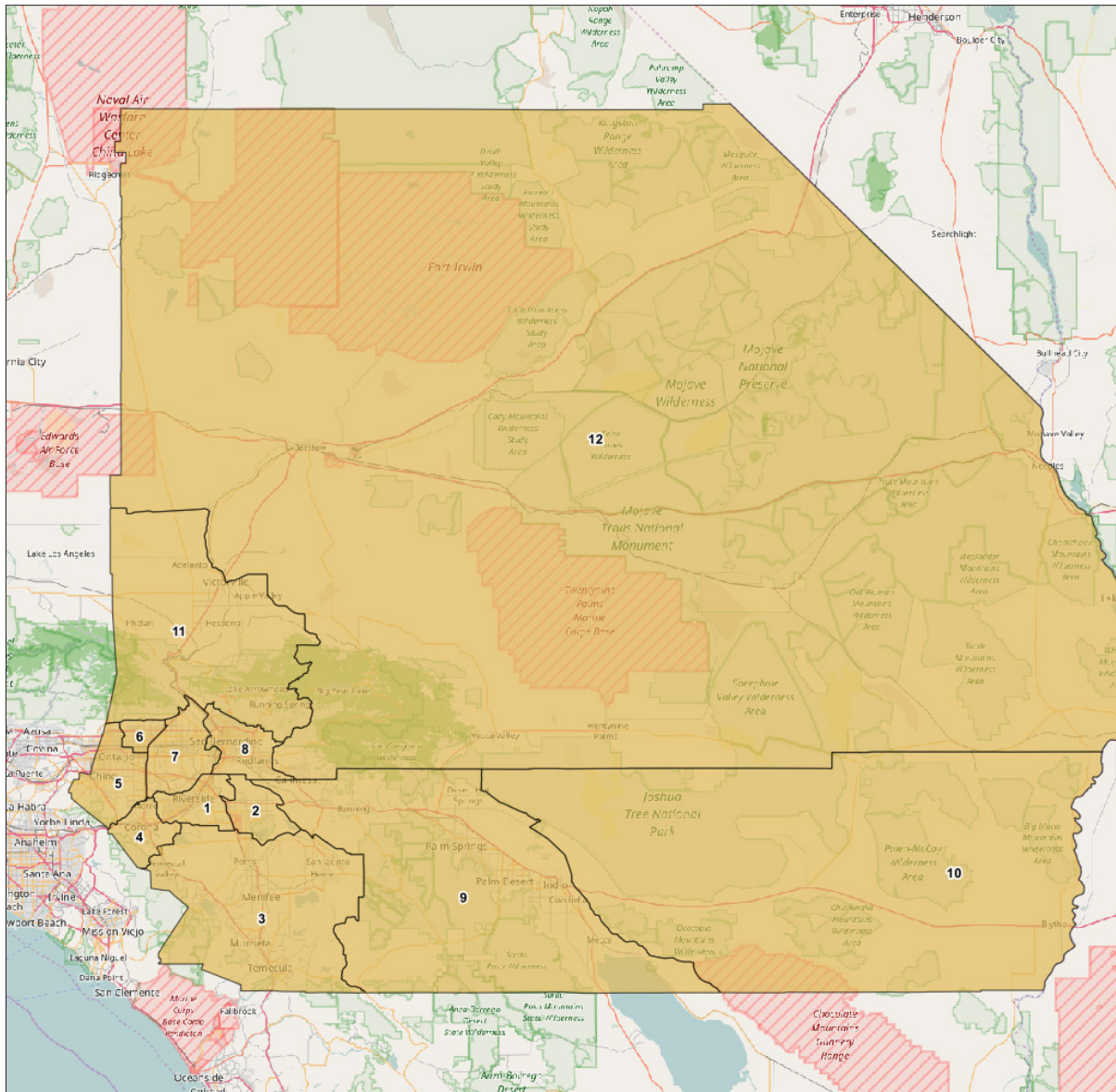
### Transaction Volume

Top Buyers	Total Transaction (square feet)	Total Transaction Volume (000s)
MGR Real Estate	398,187	\$78,500
CrossHarbor Capital Partners	193,648	\$76,450
Charter School Capital	86,606	\$14,500
Yaqiang Gao	78,522	\$13,350
Monster Beverage	73,200	\$12,560
Arrowhead Credit Union	60,486	\$12,550
Frontier Communities	73,778	\$8,900
SB Hillside Properties	50,128	\$8,850

Source: Yardi Matrix. Data as of August 2017



## Inland Empire Submarkets



Area #	Submarket
1	Riverside
2	Moreno Valley
3	Southwest Riverside County
4	Corona
5	Ontario—Chino
6	Rancho Cucamonga

Area #	Submarket
7	Fontana
8	San Bernardino
9	Palm Desert—Palm Springs
10	Outlying Riverside County
11	Victorville—SW San Bernardino County
12	Outlying San Bernardino County

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