

# INLAND EMPIRE

Office Q1 2023

	YoY Chg	12-Mo. Forecast
<b>8.8%</b> Vacancy Rate	▲	▲
<b>-68.9K</b> Net Absorption, SF	▼	▼
<b>\$2.26</b> Asking Rent, PSF	▲	▼

*Overall, All Property Classes*

## ECONOMIC INDICATORS Q1 2023

	YoY Chg	12-Mo. Forecast
<b>1.7M</b> Inland Empire Employment	▲	▲
<b>4.2%</b> Inland Empire Unemployment Rate	▼	▲
<b>3.5%</b> U.S. Unemployment Rate	▼	▲

Source: BLS

## ECONOMIC OVERVIEW

The total nonfarm employment in Inland Empire (IE) grew by 13,000 or +0.8% year-over-year (YOY) between February 2022 and February 2023, with the government adding 6,600 jobs (+2.7% YOY) and professional and business services adding 3,700 jobs (+2.1% YOY). During this time, the IE monthly unemployment rate decreased from 4.7% last year to 4.5% and is currently 30 basis points (bps) above the quarterly average rate of 4.2%.<sup>1</sup> All employment sectors are forecasted to grow at a combined rate of 1.6% (+26,510 jobs) in 2023, while office employment is forecasted to grow by 0.7% (+1,660 jobs).<sup>2</sup>

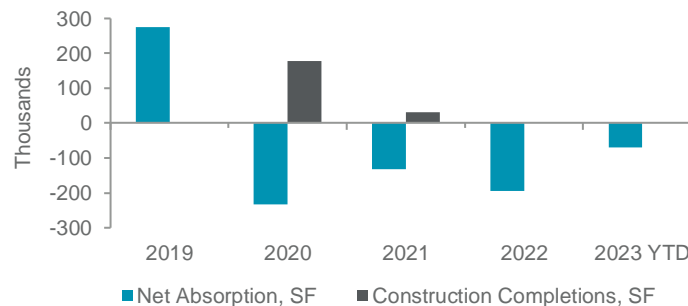
## SUPPLY AND DEMAND

The IE closed Q1 2023 with an overall vacancy rate of 8.8%, an increase of 30 bps quarter-over-quarter (QOQ), and 100 bps YOY. Sublease vacancy increased 20 bps YOY to 0.5%, while direct vacancy increased 70 bps YOY to 8.3%. Despite the increase in vacancies, the IE office market has maintained the lowest overall vacancy rate across Southern California. Office tenants in the IE still vacated 68,906 square feet (sf) across all classes in Q1 2023, with the most space returned to Ontario, totaling 24,518 sf. The highest occupancy gains were recorded in the San Bernardino submarket (+85,093 sf) due largely to SAC Health Systems purchasing 280,173 sf as an owner/user. This large move-in resulted in positive absorption in the Inland Empire East (IEE) at 82,247 sf whereas the Inland Empire West (IEW) and Inland Empire South (IES) reported negative absorption. Leasing activity tempered slightly in Q1 2023 at 282,910 sf across 135 deals, excluding renewals, compared to 303,417 sf (130 deals) in Q1 2022 as more tenants are choosing to downsize operations. For instance, the average new deal in Q1 2023 was 2,096 sf in size. San Bernardino was the most active submarket, accounting for 23% of new deals, followed by Riverside (21%) and Ontario (14%). The same three submarkets combined accounted for 58% of new leasing activity in Q1 2023 with 164,082 sf combined signed. The IE's office market is largely driven by the local population and much of the leasing activity is done by local businesses and government agencies. Furthermore, new construction has remained stagnant in the last few years as construction costs have risen, and office buildings are often delivered partially to fully vacant making it difficult to justify new development. However, the lack of new office construction has benefited the IE market by not oversupplying and further raising vacancies. Notably, the only new development in the IE office market has been medical buildings which are often fully leased prior to delivery.

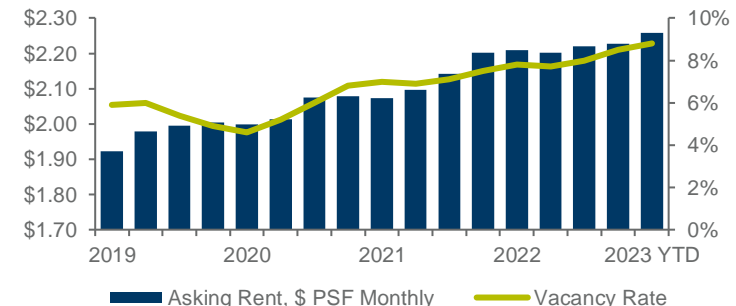
## PRICING

The overall average asking rent increased 1.4% QOQ and 2.3% YOY to \$2.26 per square foot (psf) on a monthly full-service basis. Additionally, the average asking rent for Class A buildings remained stagnant YOY at \$2.58 psf. Asking rents between the IEW and IEE have diverged in recent years, with asking rents in the IEW averaging \$2.27 psf (+2.7% YOY) and in the IEE averaging \$2.12 psf (8.2% YOY). Meanwhile, the IES maintains the highest asking rent in the IE, posting \$2.47 psf, down by 0.4% YOY.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY / ASKING RENT



## MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Ontario	3,572,736	39,163	406,234	12.5%	-24,518	-24,518	38,688	0	\$2.34	\$2.53
Rancho Cucamonga	2,947,932	6,336	190,746	6.7%	-47,509	-47,509	18,609	0	\$2.19	\$2.45
Fontana	104,235	0	0	0.0%	0	0	0	0	N/A	N/A
Chino/Chino Hills	569,866	6,300	19,453	4.5%	-7,832	-7,832	4,502	0	\$2.41	\$2.57
Upland	782,829	4,372	53,591	7.4%	-273	-273	13,699	0	\$1.95	N/A
<b>IE WEST</b>	<b>7,977,598</b>	<b>56,171</b>	<b>670,024</b>	<b>9.1%</b>	<b>-80,132</b>	<b>-80,132</b>	<b>75,498</b>	<b>0</b>	<b>\$2.27</b>	<b>\$2.51</b>
Riverside	4,331,840	6,495	335,595	7.9%	2,336	2,336	60,437	0	\$2.29	\$2.63
San Bernardino	3,453,065	23,352	301,300	9.4%	85,093	85,093	64,957	0	\$1.94	\$2.14
Colton	275,082	0	71,191	25.9%	4,591	4,591	4,901	0	\$1.22	N/A
Redlands/Loma Linda	1,116,995	1,959	29,334	2.8%	-9,773	-9,773	13,435	0	\$2.14	\$2.13
<b>IE EAST</b>	<b>9,176,982</b>	<b>31,806</b>	<b>737,420</b>	<b>8.4%</b>	<b>82,247</b>	<b>82,247</b>	<b>143,730</b>	<b>0</b>	<b>\$2.12</b>	<b>\$2.53</b>
Corona	1,952,771	8,805	273,880	14.5%	-58,336	-58,336	25,055	0	\$2.62	\$2.79
Temecula	1,317,175	13,098	43,294	4.3%	-19,757	-19,757	27,675	0	\$1.56	\$2.20
Murrieta	550,583	0	19,008	3.5%	7,072	7,072	10,952	0	\$2.06	\$2.10
Lake Elsinore	122,527	0	0	0.0%	0	0	0	0	N/A	N/A
<b>IE SOUTH</b>	<b>3,943,056</b>	<b>21,903</b>	<b>336,182</b>	<b>9.1%</b>	<b>-71,021</b>	<b>-71,021</b>	<b>63,682</b>	<b>0</b>	<b>\$2.47</b>	<b>\$2.72</b>
<b>IE TOTALS</b>	<b>21,097,636</b>	<b>109,880</b>	<b>1,743,626</b>	<b>8.8%</b>	<b>-68,906</b>	<b>-68,906</b>	<b>282,910</b>	<b>0</b>	<b>\$2.26</b>	<b>\$2.58</b>

\*Rental rates reflect full service asking, psf monthly. \*\*Renewals not included in leasing statistics.

## KEY LEASE TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
658 E. Brier Dr.	San Bernardino	Undisclosed	16,642	New
1980 Orange Tree Ln.	Redlands/Loma Linda	Undisclosed	12,305	New
1 Better World Cir.	Temecula	Saxe Doernberger & Vita, P.C.	10,877	New
268 N. Lincoln Ave.	Corona	Undisclosed	8,658	New
2855 E. Guasti Rd.	Ontario	Best Best & Krieger LLP	8,000	Renewal**

## KEY SALES TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
1003 E. Brier Dr.	San Bernardino	TPG Global LLC   SAC Health System	280,173	\$35.3M   \$126



