

INLAND EMPIRE

Office Q2 2023

	YoY Chg	12-Mo. Forecast
9.0% Vacancy Rate	▲	▲
-63.5K Net Absorption, SF	▼	▼
\$2.23 Asking Rent, PSF	▲	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2023

	YoY Chg	12-Mo. Forecast
1.7M Inland Empire Employment	▲	▲
4.5% Inland Empire Unemployment Rate	▲	▲
3.6% U.S. Unemployment Rate	▬	▲

Source: BLS

ECONOMIC OVERVIEW

Total nonfarm employment in Inland Empire (IE) grew by 16,600 or +1.0% year-over-year (YOY) between May 2022 and May 2023, with the private education and health services sector accounting for the most significant gains or 12,400 jobs added (+4.7% YOY), followed by professional and business services adding 3,400 jobs (+1.9% YOY). During this time, the IE monthly unemployment rate increased from 3.4% last year to 4.4% and is currently 10 basis points (bps) below the quarterly average rate of 4.5%.¹ All employment sectors are projected to grow at a combined rate of 2.6% in 2023 and 1.2% in 2024 compared to the 5-year historical average of 2.7%. The unemployment rate is forecasted to increase from 4.2% in 2023 and 4.8% in 2024.²

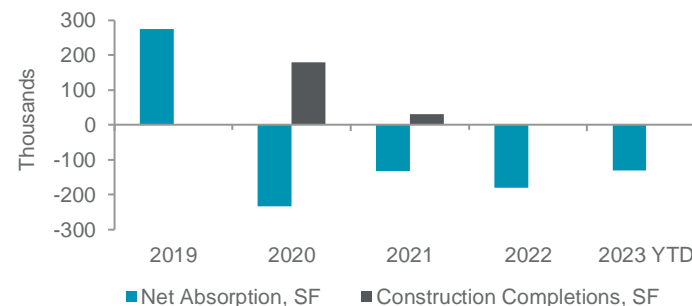
SUPPLY AND DEMAND

At mid-year 2023, the IE recorded an overall vacancy rate of 9.0%, an increase of 30 bps quarter-over-quarter (QOQ) and 140 bps YOY. Direct vacancy increased 130 bps YOY to 8.6%, while sublease vacancy remained unchanged. Despite the increase in vacancies, IE has maintained strong market fundamentals due to accommodating a more local population. Therefore, the impact of work-from-home and hybrid work schedules has been less. As a result, the IE posted the lowest overall vacancy rate in Southern California. In Q2 2023, tenants still vacated 63,503 square feet (sf) across all classes, bringing year-to-date occupancy losses to 131,000 sf. Among the submarkets, tenants returned the most space, totaling 28,064 sf, to Riverside. The Corona submarket recorded the highest occupancy gains with 34,175 sf, driven by the two largest deals of the quarter. However, the Inland Empire East (IEE) led the market with occupancy gains at 60,258 sf whereas the Inland Empire West (IEW) and Inland Empire South (IES) reported occupancy losses. Leasing activity slowed slightly in Q2 2023 at 240,195 sf across 113 deals, excluding renewals, compared to 281,889 sf (137 deals) in Q1 2023 and 386,745 sf (165 deals) in Q2 2022 as more tenants are choosing to downsize operations. For instance, the average new deal in Q2 2023 was 2,126 sf in size. Corona was the most active submarket, accounting for 26% of new deals, followed by Rancho Cucamonga (18%) and Ontario (17%). New construction has remained stagnant in recent years as office buildings are often delivered partially to fully vacant, making it challenging to justify new development. However, the lack of new office construction has prevented oversupplying and further increase in vacancies. The only new development in the IE office market has been medical buildings, which are typically fully leased before delivery.

PRICING

Asking rents recorded a slight drop after three consecutive quarters of growth. The overall average asking rent declined 1.3% QOQ but increased 1.4% YOY to \$2.23 per square foot (psf) on a monthly full-service basis. Similarly, the average asking rent for Class A buildings decreased 0.6% YOY at \$2.55 psf. The average asking rent in the IEW was \$2.29 psf (+2.1% YOY), and in the IEE it was \$2.10 psf (7.2% YOY). The IES maintained the highest average asking rent at \$2.39 psf (-7.1% 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	8,525	450,228	12.8%	-27,951	-52,051	78,870	0	\$2.37	\$2.57
Rancho Cucamonga	3,074,932	144	206,645	6.7%	-9,707	-57,216	62,432	0	\$2.19	\$2.43
Fontana	104,235	0	6,526	6.3%	-6,526	-6,526	0	0	\$1.60	N/A
Chino/Chino Hills	569,866	8,500	24,690	5.8%	-7,437	-15,269	5,494	0	\$2.50	\$2.68
Upland	782,829	2,956	69,414	9.2%	-14,407	-14,680	27,218	0	\$2.02	N/A
IE WEST	8,104,598	20,125	757,503	9.6%	-66,028	-145,742	174,014	0	\$2.29	\$2.55
Riverside	4,331,840	6,495	362,826	8.5%	-28,064	-24,895	97,233	0	\$2.22	\$2.57
San Bernardino	3,453,065	23,352	305,428	9.5%	-4,647	80,463	81,618	0	\$1.99	\$2.16
Colton	275,082	0	73,584	26.7%	144	2,198	7,425	0	\$1.20	N/A
Redlands/Loma Linda	1,116,995	1,959	17,069	1.7%	12,265	2,492	22,290	0	\$2.00	\$2.13
IE EAST	9,176,982	31,806	758,907	8.6%	-20,302	60,258	208,566	0	\$2.10	\$2.46
Corona	1,952,771	8,805	236,608	12.6%	34,175	-21,064	87,650	0	\$2.56	\$2.73
Temecula	1,317,175	13,098	48,069	4.6%	-4,775	-24,532	33,095	0	\$1.52	\$2.29
Murrieta	550,583	0	25,581	4.6%	-6,573	499	18,759	0	\$2.07	\$2.03
Lake Elsinore	122,527	0	0	0.0%	0	0	0	0	N/A	N/A
IE SOUTH	3,943,056	21,903	310,258	8.4%	22,827	-45,097	139,504	0	\$2.39	\$2.66
IE TOTALS	21,224,636	73,834	1,826,668	9.0%	-63,503	-130,581	522,084	0	\$2.23	\$2.55

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

KEY LEASE TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
4140 Temescal Canyon Rd.	Corona	Confidential	21,058	New
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25405 Hancock Ave.	Murrieta	Golden Triangle Surgicenter	10,233	Renewal**
3602 Inland Empire Blvd.	Ontario	State of California - Department of General Services	8,683	Renewal**
2855 E. Guasti Rd.	Ontario	Best Best & Krieger LLP	7,500	Renewal**

KEY SALES TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
11000 Eucalyptus St.	Rancho Cucamonga	Mercury Insurance San Antonio Regional Hospital	127,000	\$22.0M \$173

