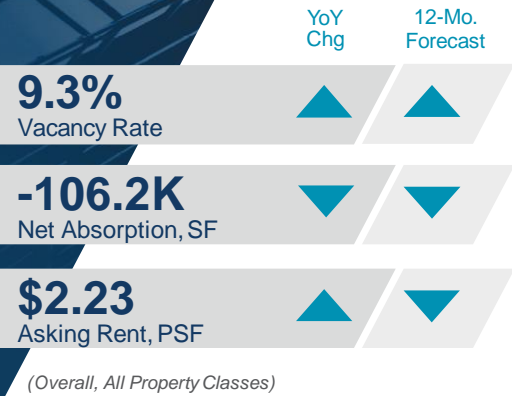
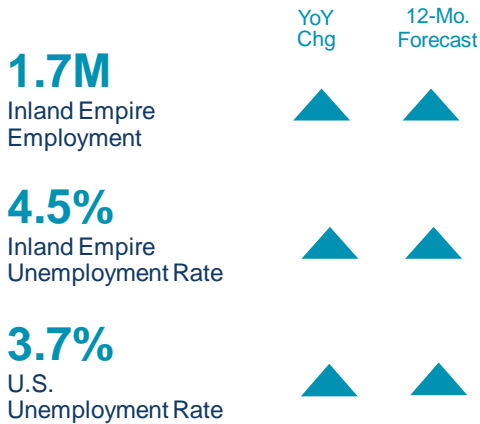


# INLAND EMPIRE

Office Q3 2023



## ECONOMIC INDICATORS Q3 2023



Source: BLS

## ECONOMIC OVERVIEW

Total nonfarm employment in Inland Empire (IE) grew by 17,900 or 1.1% year-over-year (YOY) between August 2022 and August 2023, with the private education and health services sector accounting for the most significant gains or 12,300 jobs added (+4.6% YOY), followed by the government sector adding 7,800 jobs (+3.2% YOY). The IE monthly unemployment rate increased from 4.3% last year to 5.3% and is currently 80 basis points (bps) above the quarterly average of 4.5%.<sup>1</sup> All employment sectors are projected to grow at a combined rate of 3.1% in 2023 and 2.5% in 2024 compared to the 5-year historical average of 2.3%.<sup>2</sup>

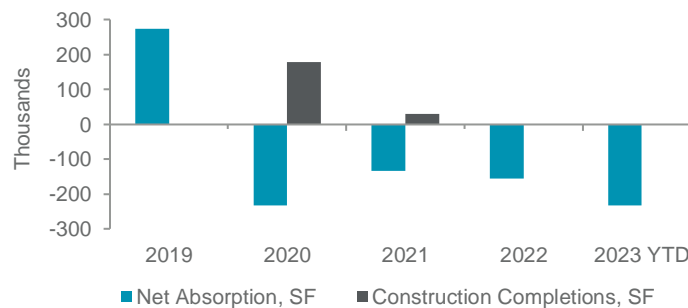
## SUPPLY AND DEMAND

In Q3 2023, the IE recorded an overall vacancy rate of 9.3%, marking a 50 bps rise quarter-over-quarter (QOQ) and 140 bps YOY. Direct vacancy increased 140 bps YOY to 9.0%, while sublease vacancy remained unchanged at 0.3%. Despite the uptick in vacancy, the IE office market has upheld robust market fundamentals by catering to its primarily local population. Consequently, remote work and hybrid schedules have had minimal influence compared to neighboring markets. As a result, the IE maintains the lowest overall vacancy rate in Southern California. Yet, in Q3 2023, tenants still vacated 106,201 square feet (sf) across all classes, marking the fifth consecutive quarter of occupancy losses. Year-to-date, tenants have returned 233,362 sf to the market, most of it (176,986 sf) to the Inland Empire West (IEW), followed by the Inland Empire South at 90,592 sf. Meanwhile, the Inland Empire East recorded occupancy gains of 34,216 sf. New leasing activity trickled downwards in Q3 2023, totaling 223,000 sf across 91 deals, excluding renewals, compared to 238,556 sf (111 deals) in Q2 2023 and 403,291 sf (141 deals) in Q3 2022. Corona was the most active submarket, accounting for 25% of new deals, followed by Ontario (19%) and Riverside (13%). Smaller-sized tenants have predominately driven leasing demand and larger deals are infrequent for the market. For instance, so far in 2023, the average new deal has been 2,201 sf. 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 construction has effectively prevented an oversupply and subsequent increase in vacancy, posing minimal risk to strong market fundamentals. Notably, the only new development in the IE office market has been medical buildings, typically fully leased before or shortly after delivery.

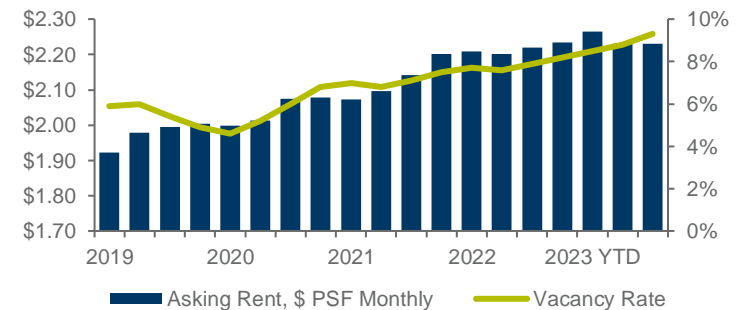
## PRICING

The overall average asking rent remained steady QOQ and increased by 0.5% YOY, averaging \$2.23 per square foot (psf) on a monthly full-service basis. However, the average asking rent for Class A buildings decreased -2.8% YOY to \$2.54 psf. The average asking rent in the IEW was \$2.29 psf (-0.3% YOY); in the IEE it was \$2.08 (+2.2%). The IES maintained the highest average asking rent at \$2.42 psf (- 5.0% 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	6,643	460,137	13.1%	-9,004	-60,078	125,135	0	\$2.36	\$2.57
Rancho Cucamonga	3,074,932	6,239	206,070	6.9%	-3,343	-62,736	83,009	0	\$2.19	\$2.43
Fontana	104,235	0	9,460	9.1%	-2,934	-9,460	0	0	\$1.78	N/A
Chino/Chino Hills	569,866	8,500	25,631	6.0%	-941	-16,210	8,399	0	\$2.48	\$2.68
Upland	782,829	2,956	83,236	11.0%	-13,822	-28,502	42,803	0	\$2.04	N/A
<b>IE WEST</b>	<b>8,104,598</b>	<b>24,338</b>	<b>784,534</b>	<b>10.0%</b>	<b>-30,044</b>	<b>-176,986</b>	<b>259,346</b>	<b>0</b>	<b>\$2.29</b>	<b>\$2.55</b>
Riverside	4,331,840	3,965	358,285	8.4%	1,199	-17,824	131,914	0	\$2.20	\$2.60
San Bernardino	3,453,065	7,965	324,452	9.6%	-20,637	59,826	97,946	0	\$1.97	\$2.15
Colton	275,082	0	79,248	28.8%	-3,381	-3,466	6,176	0	\$1.22	N/A
Redlands/Loma Linda	1,116,995	1,959	23,113	2.2%	-7,843	-4,320	27,837	0	\$2.02	\$2.11
<b>IE EAST</b>	<b>9,176,982</b>	<b>13,889</b>	<b>785,098</b>	<b>8.7%</b>	<b>-30,662</b>	<b>34,216</b>	<b>263,873</b>	<b>0</b>	<b>\$2.08</b>	<b>\$2.48</b>
Corona	1,952,771	18,900	288,630	15.7%	-63,272	-84,336	142,933	0	\$2.50	\$2.66
Temecula	1,317,175	13,098	25,833	3.0%	17,806	-6,726	56,905	0	\$1.87	\$2.36
Murrieta	550,583	0	25,610	4.7%	-29	470	23,977	0	\$1.99	\$1.90
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>31,998</b>	<b>340,073</b>	<b>9.4%</b>	<b>-45,495</b>	<b>-90,592</b>	<b>223,815</b>	<b>0</b>	<b>\$2.42</b>	<b>\$2.60</b>
<b>IE TOTALS</b>	<b>21,224,636</b>	<b>70,225</b>	<b>1,909,705</b>	<b>9.3%</b>	<b>-106,201</b>	<b>-233,362</b>	<b>747,034</b>	<b>0</b>	<b>\$2.23</b>	<b>\$2.54</b>

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

## KEY LEASE TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
2115 Compton Ave.	Corona	Undisclosed	44,800	New
43300-43320 Business Park Dr.	Temecula	Aumt Institute	12,202	New
1425 W. Foothill Blvd.	Upland	Resource Computer Solutions	6,957	New
1455 S. Auto Center Dr.	Ontario	Undisclosed	6,174	New
625 E. Carnegie Dr.	San Bernardino	Undisclosed	6,106	New

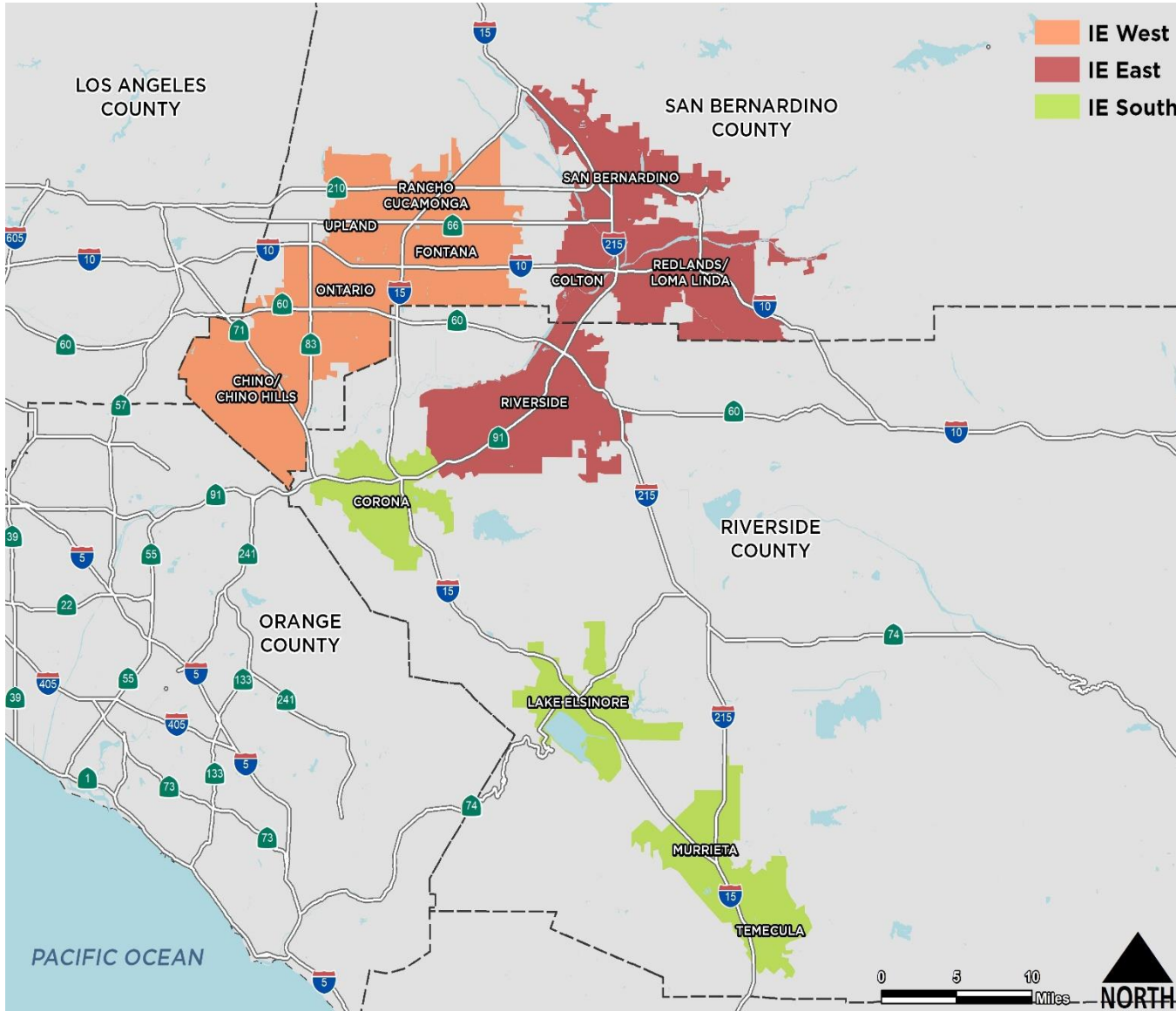
## KEY SALES TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
3610 Fourteenth St.	Riverside	Marshall Family Living Trust   Riverside County Office of Education	25,865	\$64.5M   \$249

# INLAND EMPIRE

Office Q3 2023

## OFFICE SUBMARKETS



### KAREN ADAME

Senior Research Analyst

Tel: +1 909 942 4656

[karen.adame@cushwake.com](mailto:karen.adame@cushwake.com)

### JOLANTA CAMPION

Senior Research Director, Southern California

Tel: +1 858 625 5235

[jolanta.campion@cushwake.com](mailto:jolanta.campion@cushwake.com)

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