

# INVESTMENT FORECAST

Office  
Riverside-San Bernardino

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

2022

## California's Tightest Market Lacks Development; Medical Office Demand Widens Subsector's Buyer Pool

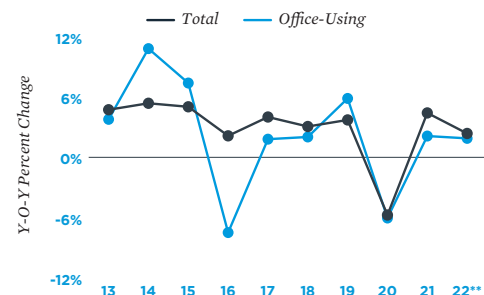
**Growth of other commercial sectors a boon for vacant office stock.** Riverside-San Bernardino's office sector enters 2022 with a vacancy rate more than 500 basis points below all other major California markets. Home to a comparably smaller inventory of space than these locales, the metro recorded positive Class B/C absorption in each quarter last year, a testament to existing demand for smaller and midsize footprints at regionally discounted rents. As the Inland Empire's industrial sector continues its rapid expansion this year, available offices are poised to attract companies that have historically used portions of warehouses for administrative operations. Additionally, a recently strong rate of household formation driven by metro-to-metro migration from Los Angeles County is elevating demand prospects for health services. In response, a percentage of medical office tenants may seek additional space this year. These organizations and traditional office-using firms will exclusively comb through the metro's existing stock for accommodating options as the region lacks speculative deliveries in 2022.

**Limited office availability lifts Inland Empire's status among regional buyers.** Private investor demand for smaller Class B properties in Riverside-San Bernardino recovered substantially last year as buyers reacted to recent leasing velocity. Traditional mid-tier office buildings with renovation potential are trading most frequently in the Coachella Valley, the city of Riverside, and areas proximate to Ontario International Airport. Across these areas, returns in the high-5 to low-7 percent range are available for 1970s- to 1990s-built properties. Medical office assets of this tier are also in demand throughout the Inland Empire. NOI growth prospects for these buildings are favorable as vacancy in the subsector sits at more than a 10-year low, with the pace of rent growth exceeding the metro average. Buyer interest is most robust for 2000s-vintage medical assets, most of which are trading above the metro's average price point of roughly \$250 per square foot.

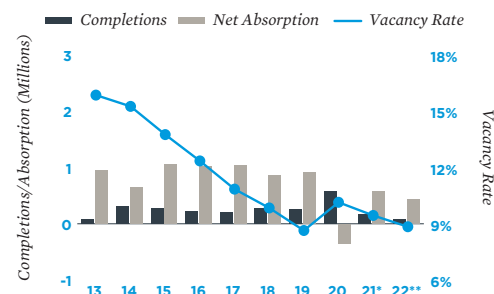
## 2022 Market Forecast

- Employment** up 2.4%  
 The metro's worker count reaches a pre-pandemic mark as employers add 37,000 jobs, including 4,000 office-using positions.
- Construction** 75,000 sq. ft.  
 Deliveries in the Inland Empire remain extremely sparse, with a medical office building in the city of Riverside accounting for most of the space finalized.
- Vacancy** down 60 bps  
 The metro remains California's tightest office market by a wide margin as a second straight year of positive net absorption lowers vacancy to 8.9 percent.
- Rent** up 2.0%  
 A reduction in the local vacant stock supports a sustainable pace of rent growth that elevates the Inland Empire's average marketed rate up to a record \$22.95 per square foot.
- Investment**  
 Steady rent growth and availability nearly 100 basis points below its prior five-year average draw more regional investors to area listings while exaggerated vacancy persists in Los Angeles.

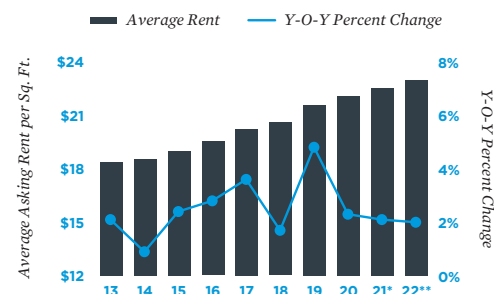
### Employment Trends



### Supply and Demand



### Rent Trends



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.