INVESTMENT FORECAST

Office

Riverside-San Bernardino Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

2025

The Lowest Vacancy in the Nation Draws Investment, but No Sign of Increased Construction

The office market continues to tighten in Inland Empire. In addition to being a mecca for logistics and distribution companies, the metro also has a growing concentration of advanced manufacturing companies. These industries, alongside expanding medical facilities and government services, drive demand for flex space and traditional offices. The Inland Empire has had sub-10 percent office vacancy since 2018 and is expected to see further tightening in 2025. Net absorption has doubled or tripled completions since 2010 with few exceptions; however, the construction pipeline has yet to accelerate even as vacancy approaches 8 percent, creating a leasing environment likely to favor property owners through 2025. Completions are expected to raise inventory by just 0.1 percent this year, with most already pre-leased as of early 2025, potentially supporting properties with upcoming renewals. Expanding businesses in the region stand to benefit from robust net in-migration, which hit an 18-year high in 2024. This should help encourage the first net increase in office-using employment since 2021.

Transaction velocity jumped over 60 percent last year, driven by Class B/C assets. Entering 2025 at 7.4 percent vacancy, these assets comprise 100 percent of the construction pipeline and over 90 percent of both signed leases and sales transactions from 2024, which yielded an average cap rate close to 7 percent. While no single investment strategy dominates, some investors seek value-add opportunities in assets without full tenant rosters or purchase with plans to occupy vacant space themselves. Underpinned by a growing ecosystem of institutions like the Loma Linda Medical Centers and University, medical office accounted for nearly half of 2024 sales. Demand for medical space will likely keep rising with population growth and hospital expansions around the metro.

2025 MARKET FORECAST

+1.4% — **EMPLOYMENT:** Total employment will rise by 24,000 jobs in 2025, while typically office-centric fields will yield 600 new positions after three years of consecutive reductions.

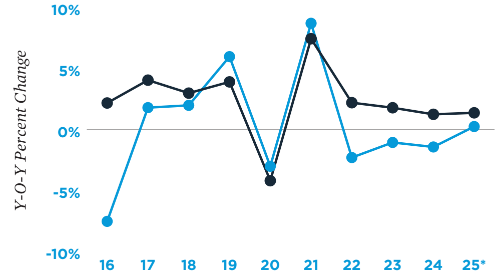
62,000 *sq. ft.* — **CONSTRUCTION:** In line with recent trends, completions are slated to slow in 2025, with roughly 60,000 square feet expected to deliver this year — more than 70 percent of which is pre-leased as of January.

-20 bps — **VACANCY:** Assisted by diminishing supply-side pressure, vacancy is expected to fall below 8 percent for the first time since at least 2007. The metric will close out the year at 7.9 percent.

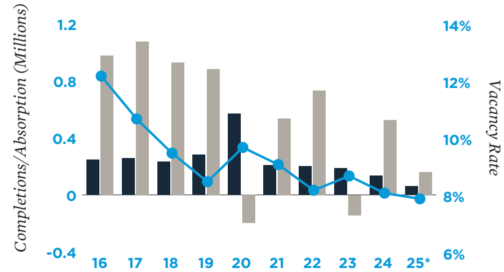
-0.8% — **RENT:** Despite declining vacancy, the predominance of Class B/C space among available floor plans will draw the mean marketed rate down slightly to $23.26 this year.

INVESTMENT: *Many medical offices with long-term tenants yield cap rates between 6 percent and 8 percent. Alternatively, even city centers still have high-vacancy and deferred-maintenance assets that may offer reduced pricing.*

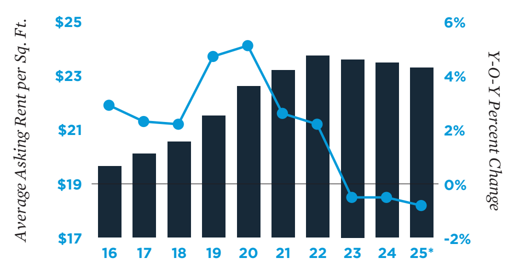
Employment Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

Inland Empire Office:

Mario J. Alvarez, Jr.

Regional Manager

3281 East Guasti Road, Suite 800

Ontario, CA 91761

Tel: (909) 456-3400 | mario.alvarez@marcusmillichap.com

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 2024. 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 guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.