

INVESTMENT FORECAST

OFFICE

Riverside-San Bernardino Metro Area

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2020

Health and E-Commerce Expansions Support Office Demand; Buyers Target Central and Outlying Locations

Vacancy tight as expanding firms align with limited construction. A growing base of older residents and a strong rate of household formation have increased demand for health services in the Inland Empire over the past four years, influencing medical providers and insurers to bolster their local office presence. At the same time, firms that support the region's e-commerce and logistics industries also expanded, aiding overall leasing velocity. The resulting decline in metro vacancy was accompanied by limited office construction, highlighted by minimal speculative development. This year, three projects, two of which are build-to-suit, account for most of the space finalized. The lack of newly built, available floor plans coupled with the creation of 5,000 traditional office positions support steady demand for space in 2020, holding vacancy below 10 percent for a third consecutive year.

Distribution of deal flow signals widespread investor demand. Repositioning mid- and lower-tier properties in Riverside-San Bernardino via tenant improvements is an attractive investment option for Southern California-based buyers. The metro's extended span of limited development and cycle-low vacancy maintain investor competition for these older office spaces, heightening property values. Buyers seeking midsize and larger buildings priced below the Southern California average pursue listings in San Bernardino and adjacent western cities. Farther west, locales off Interstate 10 and Highway 60, near Ontario International Airport, attract investors seeking proximity to logistics hubs. Cities in Coachella Valley and outlying portions of San Bernardino County also generate robust buyer interest, as these areas boast a stock of smaller listings available for \$1 million to \$3 million. Throughout the region, minimum returns will hold in the low-6 percent range this year, with maximum yields reaching the 9 percent band.

2020 Market Forecast

- Employment**  Organizations add 34,300 positions in 2020, equating to a rate of employment growth comparable to the prior two years.

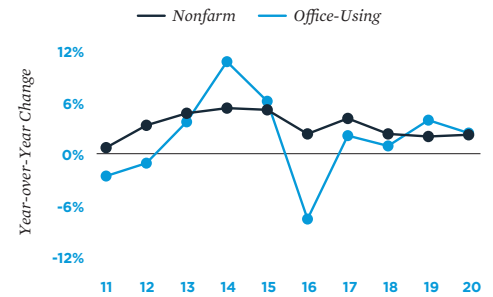
up 2.2%
- Construction**  Delivery volume rises by nearly 400,000 square feet on a year-over-year basis, with a pair of medical office projects accounting for 60 percent of the space finalized in 2020.

609,000 sq. ft.
- Vacancy**  Metro vacancy inches up to 9.1 percent this year on absorption of nearly 500,000 square feet. The nominal increase follows a 10-year span of vacancy compression.

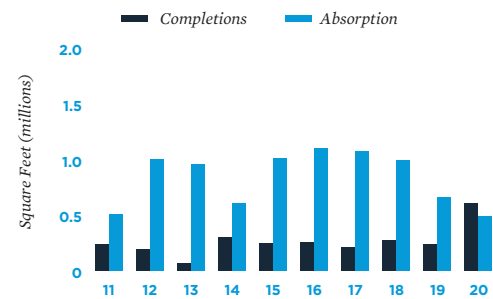
up 10 bps
- Rent**  The asking rent climbs to \$23.31 per square foot in 2020 as the pace of rate growth exceeds the prior five-year average.

up 3.5%
- Investment**  Home to an inventory of Class B assets and an expanding local populace, Temecula and other southern cities in Riverside County lure buyers seeking medical and traditional office buildings at regionally average pricing.

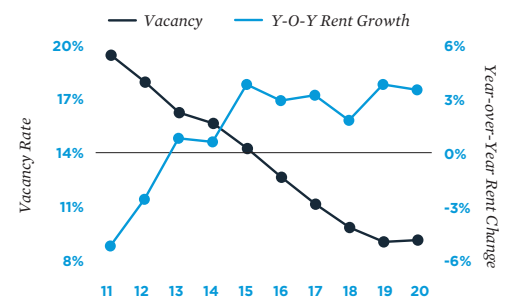
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

Alan Pontius

Senior Vice President | Director
Office and Industrial Properties Division
(415) 963-3000
apontius@ipausa.com

Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. 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 office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.