

APPRAISAL INSTITUTE – OFFICE MARKET OVERVIEW YEAR END 2021



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Appraisers & Brokers

Lets be honest.....WE NEED EACH OTHER.....!!!!

Listen to us because we really do listen to you

Values are very important to us because we as some of you are investors too!!

Establish relationships with key brokers in key markets

Don't give up on us!!! Email us!! Text Us!!

We Really want to help you because selfishly it helps us!!

Share your information as we do with you!!

2021/22 OFFICE TRENDS

- Covid hangover still in effect.
- Tenants are still trying to figure it out what the best direction is for them. Remote work/flex schedules/downsize space?
- 2021 was another slow year for office space absorption finishing at a small negative amount of 48k.
- This was the second negative year of absorption after 10 straight years of positive absorption.
- 2022 has picked up slightly to positive 81K for Q1 of 2022.
- Large blocks of space are in moderate supply. 25 spaces over 20,000 square feet. 10 spaces over 30,000 square feet. Government and healthcare seemed to be the logical groups to absorb large blocks of space.
- All signs indicate the office market will be slow and steady for 2022
- Overall market vacancy is currently 10.02%; up from 9.11% in year end 2019 and 9.94% in year end 2018

- Office multi tenant sales comps still very active
- User purchases of large buildings due to attractive SBA financing – 10% down
- Small building prices have eclipsed \$400 psf for well located and highly improved properties
- Entrepreneurial capital still eyeing the Inland Empire for discounted pricing and value-add opportunities
- Developers are still hesitant to get in the game, especially with the inflation of construction costs and the unpredictability of tenant behavior.
- This bodes well for existing office building owners.

DEFINITIONS

- Class A
 - 3 stories or greater
 - Museum quality finishes
 - Highest rates in the market

- Class B
 - Older Class A buildings
 - Less than 3 stories
 - No major functional obsolescence



DEFINITIONS - CONTINUED

- Class C
 - Older Class B buildings
 - Single-story or wood frame and stucco garden style
 - Office space in multi-tenant

- Small Buildings for Sale
 - New freestanding or condo units
 - Usually tracked as Class C space



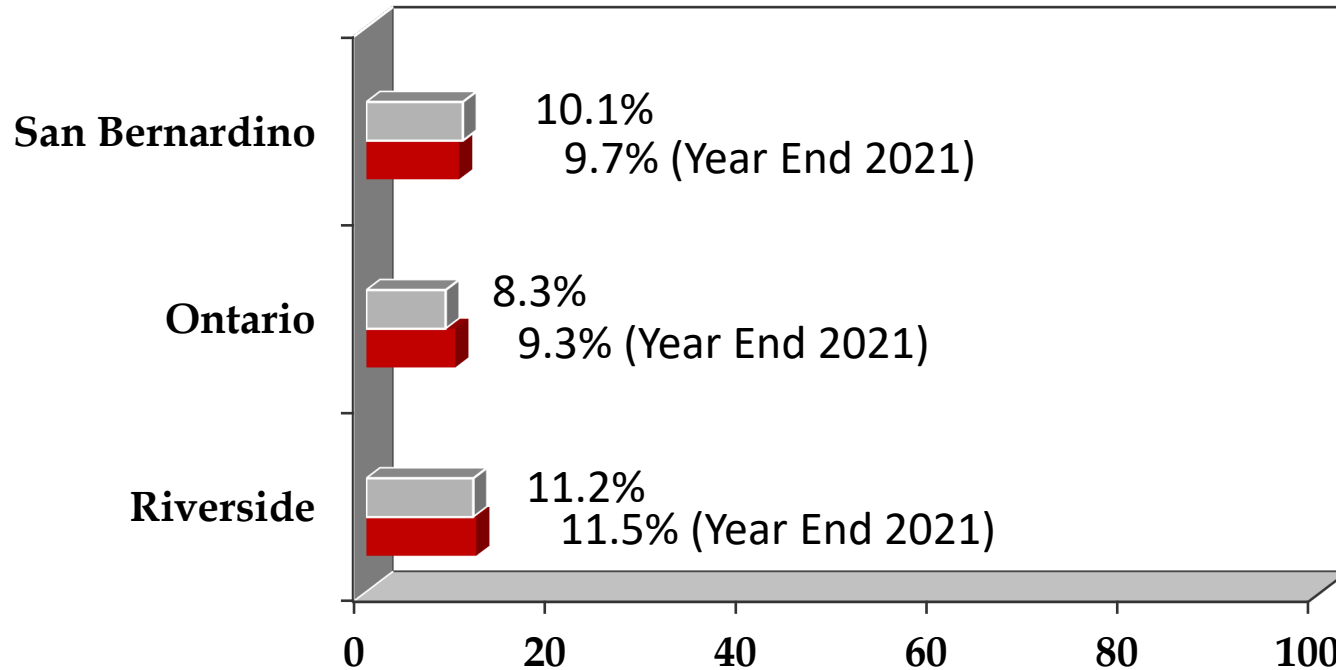
INLAND EMPIRE REGION



22,450,110 Total Square Feet

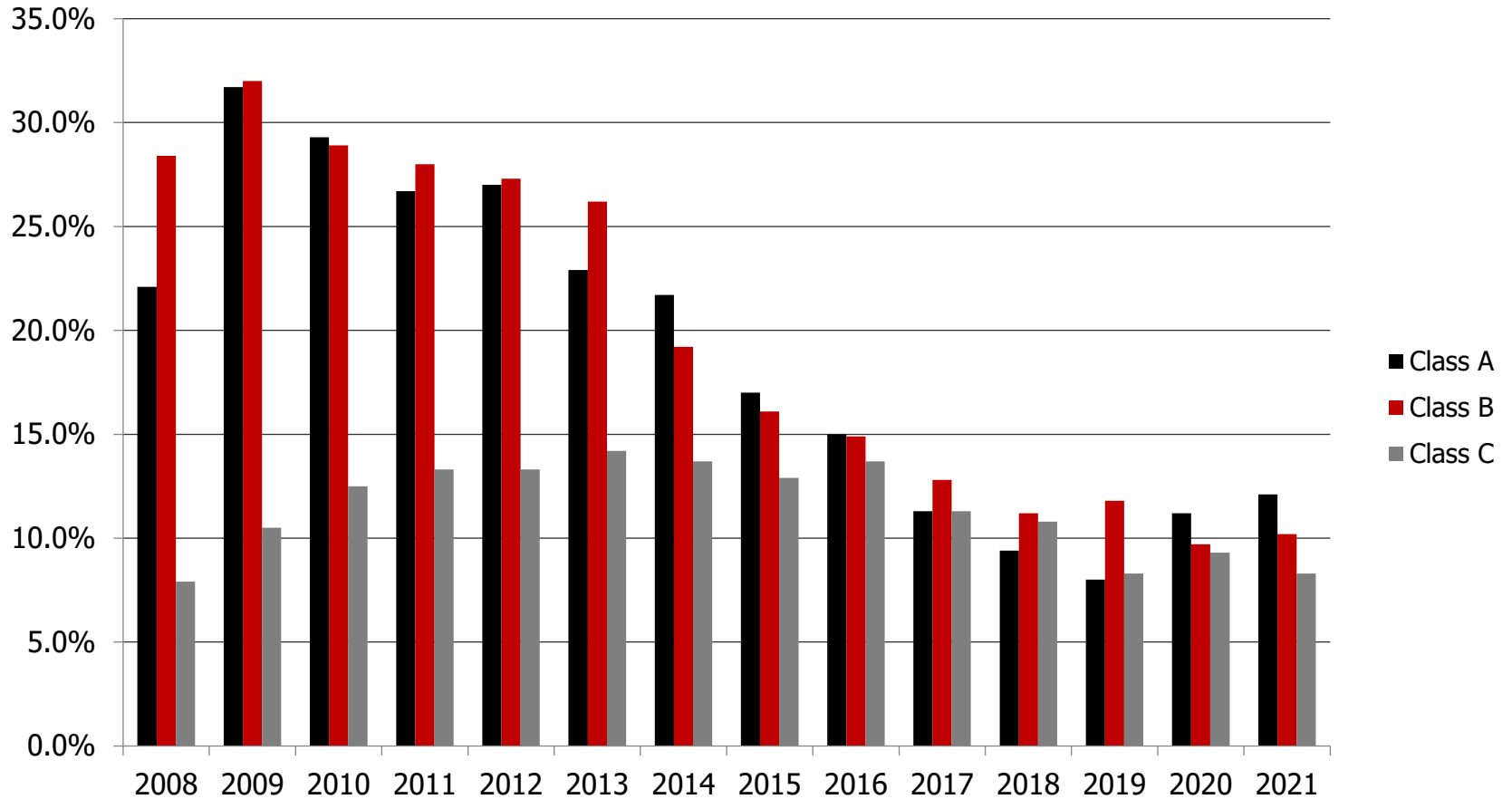
10.27% Vacant

VACANCY BY REGION



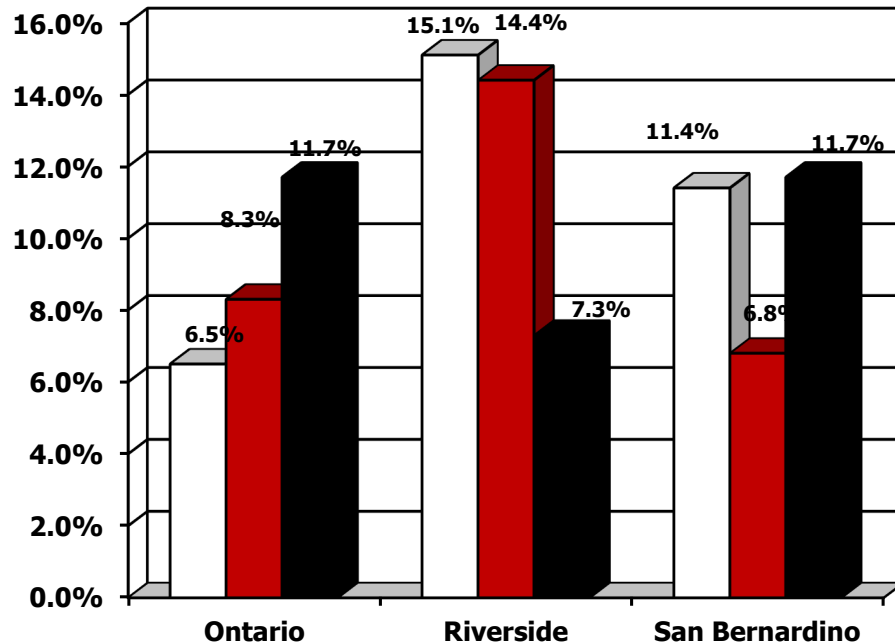
Mid Year 2022 Current Regional Vacancy - 9.92%
Vacancy Year End 2021 - 10.27%

VACANCY RATE BY CLASS

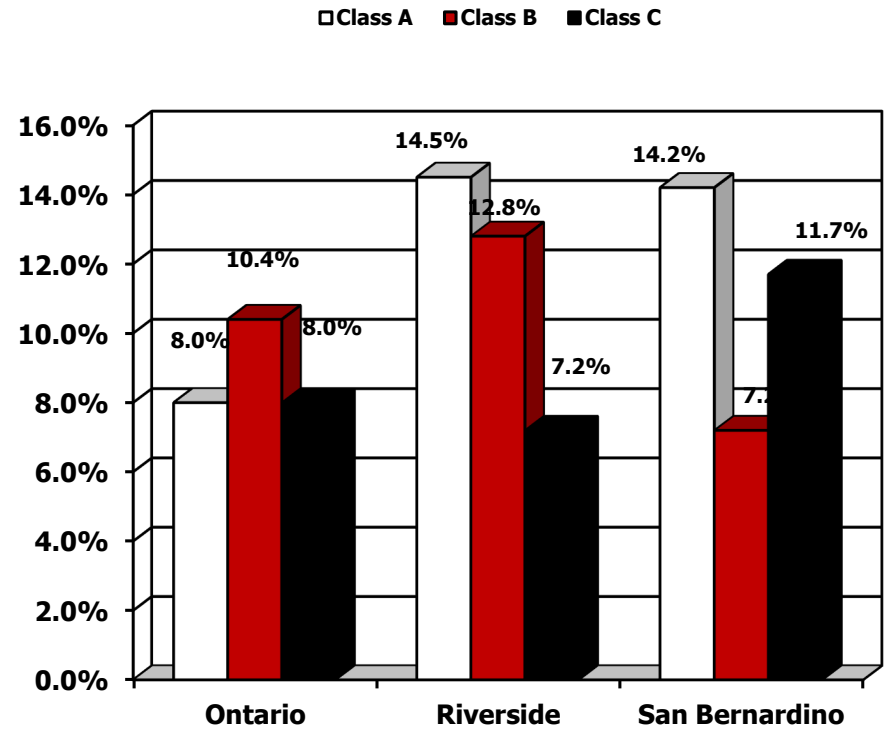


VACANCY RATE BY MAJOR MARKET AND BUILDING CLASS

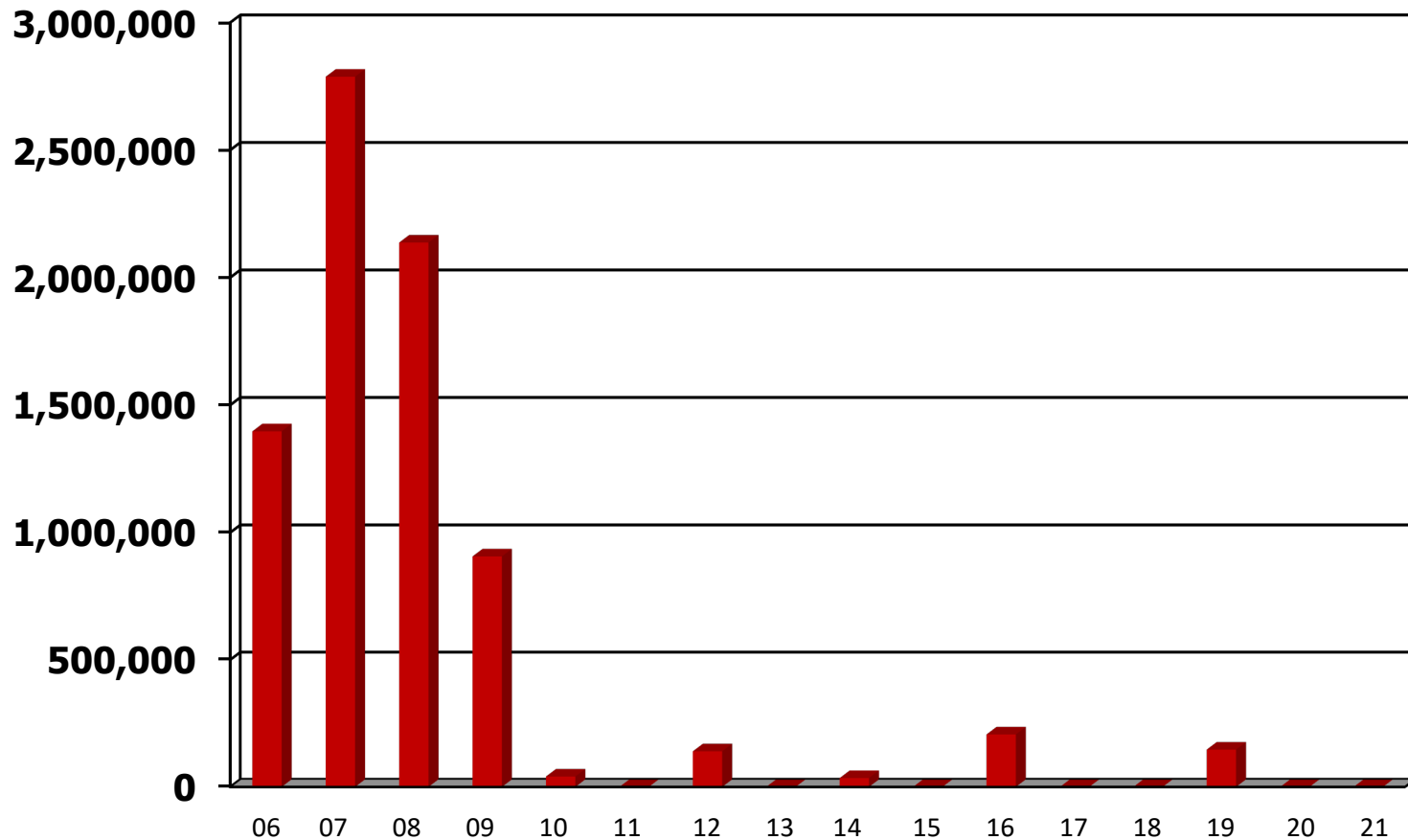
YEAR END 2020



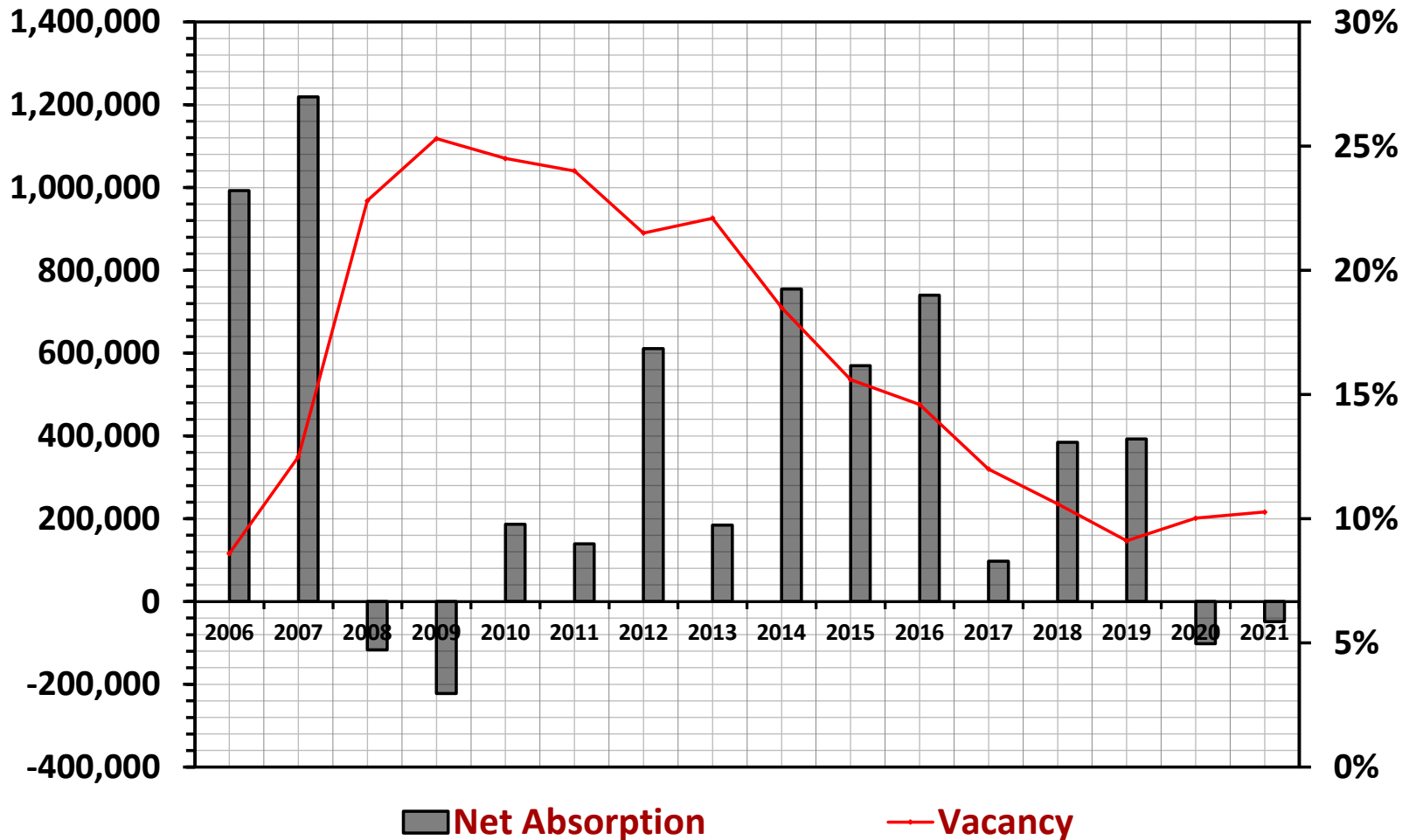
YEAR END 2021



OFFICE CONSTRUCTION (COMPLETED SINCE 2006)



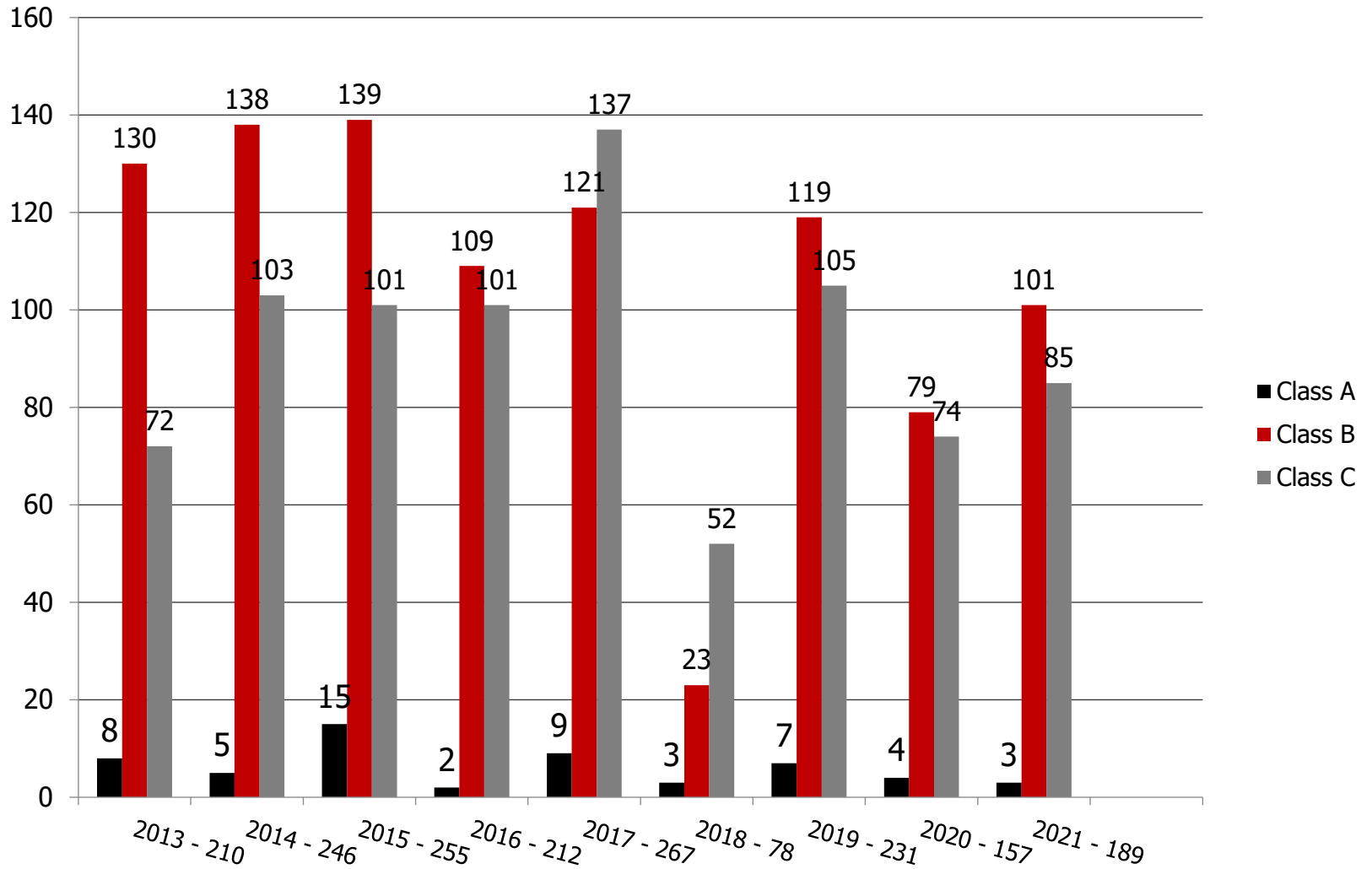
VACANCY AND ABSORPTION TREND ANALYSIS



AVERAGE ASKING LEASE RATES

	Riverside	Increase 2016	2017	All Time High
Class A	\$2.25 - \$3.40 FSG	7.5%	Flat	\$3.40
Class B	\$1.85 - \$2.20 FSG	9.4%	5.0%	\$2.25
Class C	\$1.45 - \$1.55 FSG	9.0%		\$1.75
Ontario/Rancho Cucamonga				
Class A	\$2.25 - \$2.50 FSG	13%		\$2.25
Class B	\$1.85 - \$2.45 FSG	8.1%	10%	\$1.95
Class C	\$1.35 - \$1.60 FSG	7.3%		\$1.60
San Bernardino				
Class A	\$1.95 - \$2.25 FSG	6.3%	6%	\$2.10
Class B	\$1.65 - \$1.95 FSG	flat		\$1.80
Class C	\$1.25 - \$1.45 FSG	flat		\$1.50

BUILDING SALES BY CLASS



LARGE LEASE COMPS

TENANT	BUILDING	SF	LEASE TERM	LEASE RATE	TIs
UVP Management, LLC	Stone Haven Business Park	11,558	63	\$1.55 MGR	\$0.00
Inland Counties Legal Services, Inc.	One Corporate Plaza	15,063	62	\$1.75 FSG	\$6.00
County of Riverside	Iowa Corporate Center	24,830	60	\$1.47 MGR	\$0.00
Springboard Nonprofit Consumer Credit Management, Inc.	The Grove Business Park	14,936	63	\$1.95 FSG	\$0.00
Kaiser Foundation Health Plan, Inc.	Turner Riverwalk Phase III	12,829	86	\$2.40 FSG	\$25.00
New Life Foster Family Agency	La Sierra Professional Center	12,000	32	\$1.25 MGR	\$0.00
Shutterfly LifeTouch	1500 S Auto Center Dr.	16,162	66	\$1.40 MGR	\$0.00
Concentra Health Services, Inc.	Horizons Business Park	10,200	120	\$1.00 MGR	\$0.00
SAC Healthcare	Hospitality Executive Center	10,008	60	\$1.29 FSG	\$0.00
Inland Regional Center	The Grove Business Park	24,659	101	\$1.98 FSG	\$0.00
Tailored Space	Lakeshore Plaza	13,642	120	\$3.15 FSG	\$0.00
Circle K Corporation	Corona Corporate Center	13,449	120	\$2.08 FSG	\$12.00

SALES COMP

CHINO CORPORATE CENTER



14726 Ramona Ave, Chino, CA 91710

- Sale Price: **\$15,100,000**
- Price/SF: **\$257.80**
- **100% Leased**
- **Purchased by user for future use**

10769 HOLE AVENUE



10769 Hole Ave, Riverside, CA 92505

- Sale Price: **\$7,500,000**
- Price/SF: **\$131.12**
- Cash Purchase
- Value add

SALES COMP

2115 COMPTON AVE



2115 Compton Ave, Corona, CA 92881

- Sale Price: **\$9,100,000**
- Price/SF: **\$203.13**
- Cap Rate: **6.45%**

THE HOSPITALITY LANE PROFESSIONAL CENTER



412 W Hospitality Ln, San Bernardino, CA 92415

- Sale Price: **\$12,800,000**
- Price/SF: **\$252.42**
- Cap Rate: **5.90%**

SALES COMP

2280 MARKET ST



2280 Market St, Riverside, CA 92501

- Sale Price: **\$13,076,000**
- Price/SF: **\$200.00**

11870 PIERCE ST



11870 Pierce St, Riverside, CA 92505

- Sale Price: **\$12,800,000**
- Price/SF: **\$251.36**
- Cap Rate: **6.16%**

SALES COMP

SECURE CHOICE PLAZA



1650 Spruce St, Riverside, CA 92507

- Sale Price: **\$8,300,000**
- Price/SF: **\$142.34**
- Pro Forma Cap: **6.50%**

ONTARIO CORPORATE CENTER



430 N Vineyard Ave, Ontario, CA 91764

- Sale Price: **\$21,300,000**
- Price/SF: **\$211.89**

SALES COMP

3660 PARK SIERRA DR



3660 Park Sierra Dr, Riverside, CA 92505

- Sale Price: **\$12,100,000**
- Price/SF: **\$329.67**
- Cap Rate: **6.20%**

3685 MAIN ST



3685 Main St, Riverside, CA 92501

- Sale Price: **\$6,135,000**
- Price/SF: **\$210.65**
- Cap Rate: **6.31%**

SALES COMP

ELEVEN-O-ONE CALIFORNIA AVE



1101 California Ave, Corona, CA 92881

- Sale Price: **\$6,950,000**
- Price/SF: **\$176.57**
- Cap Rate: **7.33%**

MARKET STREET CORPORATE CENTER I



2300 Market St, Riverside, CA 92501

- Sale Price: **\$1,325,000**
- Price/SF: **\$271.72**
- Cap Rate: **6.72%**

INLAND EMPIRE OFFICE MARKET – REPORT CARD

2020

2021

2022

Landlords



Tenants



Sellers



Buyers



Developers



FORECAST 2021 – HOW DID I DO?

- Office activity slows as available space drops below 10% **Nope Covid and its fallout on the economy has had a larger effect than anticipated. Vacancy remained above 10%**
- Trump effect? Could be good, Could be bad. **In retrospect we had a strong economy all things being equal. Interest rates were at an all time low.**
- Larger blocks of space are in short supply which should lead to build to suits **Nope – See number 1 above**
- Lease rates will increase 10% across the board. **Correct in certain pockets on the west end that have low vacancies and desirability.**
- Concessions such as broker bonuses, showing bonuses, more TI's pop up on smaller deals as Owners try and push their occupancies above market. – **Correct in properties and areas with higher vacancies. I.E. 12,500 deal in empty building in Riverside giving \$85 in TI's over a 10 year term.**

FORECAST 2021 – HOW DID I DO?

- Class A Property values should eclipse \$200 psf or higher as opportunities diminish and higher lease rates factor into rent rolls – **Getting there**
- Value add opportunities are still available - **Correct**
- Low interest rates will continue to push leveraged returns. **Correct for last year but not longer.**

FORECAST 2022 – WHAT’S AHEAD?

- Office activity will remain slow and steady with slight positive absorption as available space drops below 10%
- Rising costs due to inflation and high interest rates will stall any thoughts of office development
- Recession? Looming but will it affect the IE market in general?
- Investment will seek safety first, then higher returns
- Lease rates will continue to increase in certain markets – West end markets are out performing markets to the east both in lease rates and sales prices.
- Concessions will rise in slower markets as certain owners position for occupancy
- Class A Property values should increase especially in the West Markets as opportunities diminish and higher lease rates factor into rent rolls
- Value add opportunities are still available through repositioning of use/updating dated properties etc
- Small businesses will still evaluate owning versus leasing- SBA is flush with cash to do loans. With pricing currently over \$400 psf on the westside will this be the first type of office product to be developed?

FORECAST 2022/23

- Biden effect? With inflation and a recession looming what effects will current policy have on the office market?
- Pay attention to lease rates, they are the leading indicator of values followed by interest rates.
- Low interest rates will continue to have an impact on small buildings – SBA – Nope – interest rates have risen but so far haven't stopped small building sales

QUESTIONS?

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