



THE COUNTY OF SAN BERNARDINO

MARKET UPDATE
DECEMBER 2020



SAN BERNARDINO
COUNTY

CBRE



OFFICE MARKET



OFFICE MARKET | OVERVIEW

Inland Empire Market Overview

Employment in the Inland Empire (IE) has started to rebound, recovering some of the jobs lost due to the pandemic. Still, the office market fundamentals have yet to begin the transition. As of August, the national labor market recovered nearly half the jobs it lost in February and April—representing a much faster recovery than previous recessions—as many firms brought back furloughed workers. Net absorption in the Inland Empire office market, however, was negative for the second consecutive quarter, driven by move-outs and downsizes by tenants in the education and financial services industries. Class A space accounted for 44% of Q3 2020 net move-out activity.

Overall leasing activity was light in the IE due to softening demand in the wake of the COVID-19 pandemic. Net absorption was negative 145,015 sq. ft. for Q3 2020, the sharpest decrease since Q3 2018 when there was negative 106,239 sq. ft. net absorption. Year-to-date absorption figures turned negative for the first time, ending Q3 2020 at negative 47,417 sq. ft. IE West was the main contributor for occupancy losses—particularly in the cities of Chino (-31,139 sq. ft.), Ontario (-38,785 sq. ft.), Rancho Cucamonga (-32,398), and Upland (16,704 sq. ft.). Platt Colleges vacated nearly 45,000 sq. ft. and South Pacific Financial vacated 13,232 sq. ft. in Ontario and were the major contributors to the negative absorption.



OFFICE MARKET

Market Trends

INLAND EMPIRE

2020 YTD MARKET VITALS

Vacancy Rate	9.9%
Net Absorption	(145,015)
Avg. Asking Lease Rate	\$2.11

SAN BERNARDINO COUNTY

2020 YTD MARKET VITALS

Vacancy Rate	9.1%
Net Absorption	(131,567)
Avg. Asking Lease Rate	\$1.91

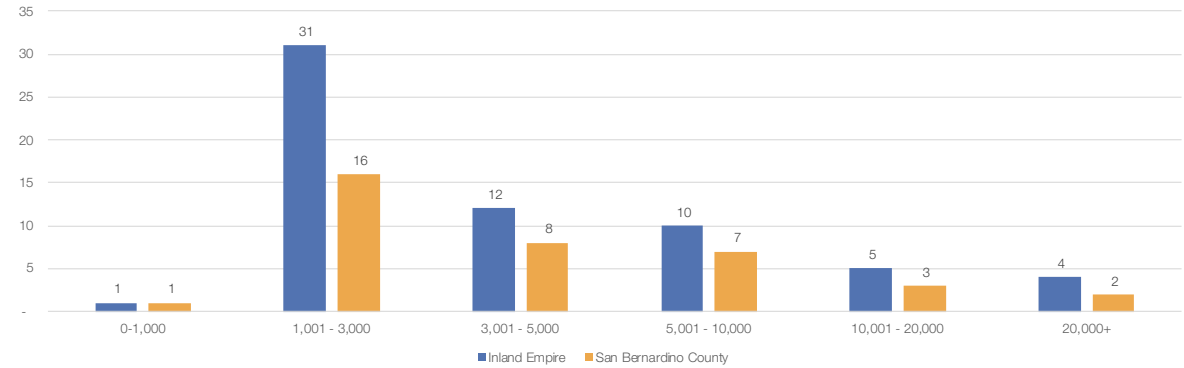
NOTABLE COMPS

Sign Date	Tenant Name	Tenant Type	City	Leased SF	Listing Broker	Procuring Broker
7/15/20	ARS Technical Services, Inc.	Business Services	Rancho Cucamonga	81,464	CBRE	Direct
9/4/20	Morongo Tribal TANF Program	Government	San Bernardino	20,481	CBRE	Direct
3/31/20	Concentra Health Services	Health Care	Rancho Cucamonga	17,661	CBRE	Direct
7/28/20	San Bernardino County	Government	San Bernardino	16,642	CBRE	Direct
3/10/20	Dept. of Veteran Affairs	Government	Redlands	11,028	CBRE	Direct
3/24/20	San Bernardino County	Government	San Bernardino	10,142	CBRE	Direct
1/31/20	Fidelity National Title Company	Financial	San Bernardino	8,986	CBRE	Horizon Pacific RE

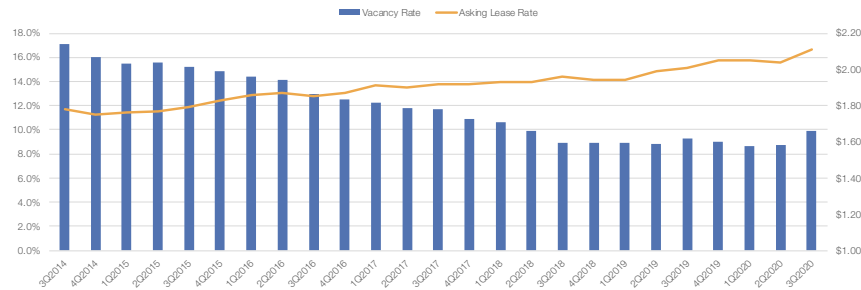
OFFICE MARKET

Market Trends

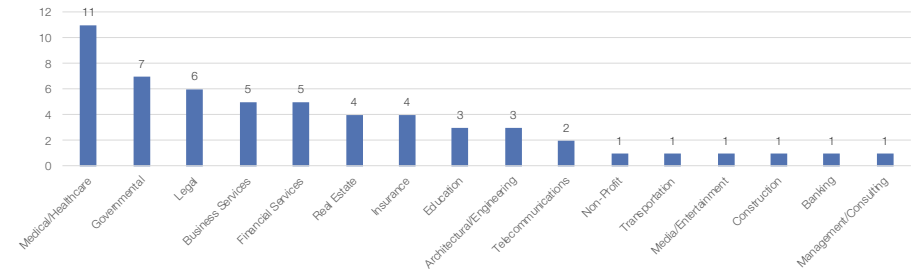
ACTIVE SIZE CATEGORIES



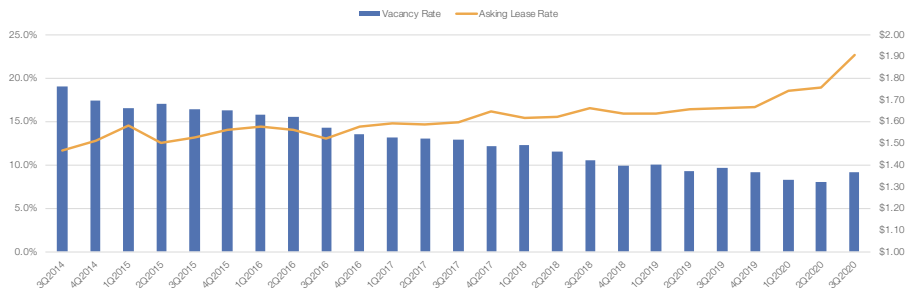
INLAND EMPIRE - VACANCY RATE VS ASKING LEASE RATE



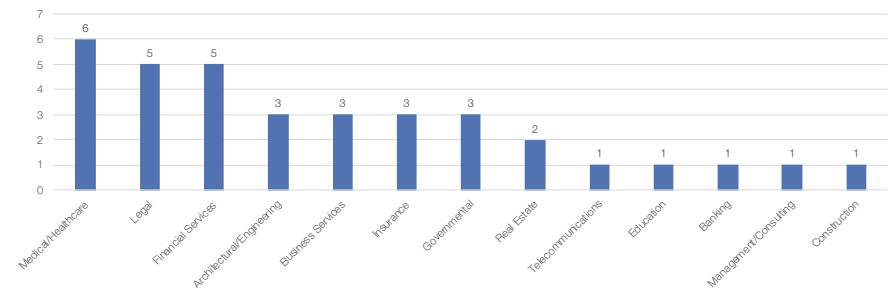
INLAND EMPIRE - ACTIVE TENANT CATEGORIES



SAN BERNARDINO COUNTY - VACANCY RATE VS ASKING LEASE RATE



SAN BERNARDINO COUNTY - ACTIVE TENANT CATEGORIES



OFFICE MARKET | SWOT ANALYSIS

STRENGTHS

- » Labor market
- » Stabilizing lease rates
- » Diversity of tenants
- » Investment interest

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WEAKNESSES

- » Construction costs
- » Re-tenanting of Class A
- » Tenant desired lease term
- » Increasing vacancy

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OPPORTUNITIES

- » User purchase
- » Medical office
- » Retail centers
- » Ontario International Airport
- » Investor “value add” opportunities

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THREATS

- » Slower population growth
- » Rising construction costs
- » Prolonged pandemic

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OFFICE MARKET

Market Trends

Forecast

- » Rental rates are expected to grow approximately 1.7% in 2021 and 2.7% by 2022
- » Over 250,000 sq. ft. is expected to be absorbed by the end of 2022.
- » The vacancy rate is expected to remain below 10.0% through 2023.
- » No new construction anticipated in 2021.

INLAND EMPIRE

TOP 5 SUBMARKETS

City	Net Absorption
San Bernardino	61,622
Upland	44,192
Moreno Valley	13,613
Colton	2,274
Loma Linda	712

INLAND EMPIRE

BOTTOM 5 SUBMARKETS

City	Net Absorption
Corona	(69,697)
Riverside	(24,772)
Chino/Chino Hills	(27,350)
Norco	(17,434)
Rancho Cucamonga	(16,420)

SAN BERNARDINO COUNTY

TOP 4 SUBMARKETS

City	Net Absorption
San Bernardino	61,622
Upland	44,192
Commercenter/Tri-City	33,468
Downtown San Bernardino	31,711



RETAIL MARKET



RETAIL MARKET | OVERVIEW

Inland Empire Market Overview

Restrictions imposed by the government due to the pandemic caused sales for brick and mortar retail to decline. However, retail sales volume is expected to increase during the holiday season mostly fueled by e-commerce. Online retail sales grew by 14% from 2018 to 2019 to \$730.2 billion and are expected to surge by 40% to \$741.2 billion by the end of the year according to the National Retail Federation. Interestingly, about 25% of jobs in California are supported by the retail industry, and the IE is responsible for 2.1% of the nations' retail sales. The future of IE's retail market is expected to survive the economic turmoil because of the forecasted e-commerce and retail sales growth, which is expected to steadily increase over the next five years.

The region's vacancy grew by 40 bps quarter over quarter to 9.7%. Vacancies in the High Desert, Low Desert and the East End such as Save A Lot Supermarket (18,600 sq. ft.) in Yucaipa, Orchard Supply Hardware (32,893 sq. ft.) in Hesperia, and In-Shape Gym (31,736 sq. ft.) in Cathedral City contributed to the increase. Despite increased retail availability, the unexpected spike in average asking rents was primarily attributed to the availability of premier properties commanding premium prices.



RETAIL MARKET

Market Trends

INLAND EMPIRE

2020 YTD MARKET VITALS

Vacancy Rate	9.7%
Net Absorption	(368,146)
Avg. Asking Lease Rate	\$2.05

SAN BERNARDINO COUNTY

2020 YTD MARKET VITALS

Vacancy Rate	7.5%
Net Absorption	(172,102)
Avg. Asking Lease Rate	\$1.56

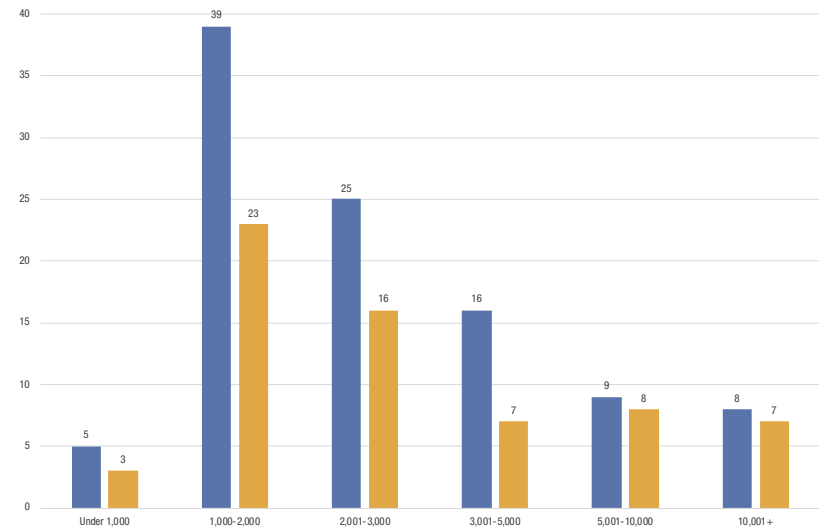
NOTABLE COMPS

Sign Date	Tenant Name	Tenant Type	City	Leased SF	Listing Broker	Procuring Broker
Dec-20	DC Furniture Company		Victorville	18200	Progressive Real Estate Partners - Paul Su	IDS Real Estate Group - Paul Ohlmann
Nov-20	Spirit Halloween	Misc Retail Stores	Montclair	11340	Progressive Real Estate Partners - Roxanne Klein, Brad Umansky	Progressive Real Estate Partners - Roxanne Klein, Brad Umansky
Oct-20	Hernandez Floors & Carpet	Hardware	San Bernardino	10,991	Longview Realty Inc. - Jimmy Nguyen	NA
Oct-20	T.B. Home. Inc.		Ontario	9000	H & S Properties, Inc. - Lisa Terry	NA
Sep-20	Leslie's Pool Supplies		Hesperia	7090	Strategic Development Advisors - Ielen Sarkisian	NA
Aug-20	Boys & Girls Club Headstart		San Bernardino	6996	Coldwell Banker Town and Country - Diane Higuchi	Coldwell Banker Town and Country - Diane Higuchi
Oct-20	UFC Gym		Ontario	6504	Millenia Commercial Real Estate - Eric J. Ramirez	KW Commercial - Mike Hazan
Jun-20	SBC Pool		Victorville	6407	City Commercial Properties - Jay Park	NA
Apr-20	Galang Pho		Ontario	4025	Lee & Associates Commercial Real Estate Services - Brian Bielatowicz	NA

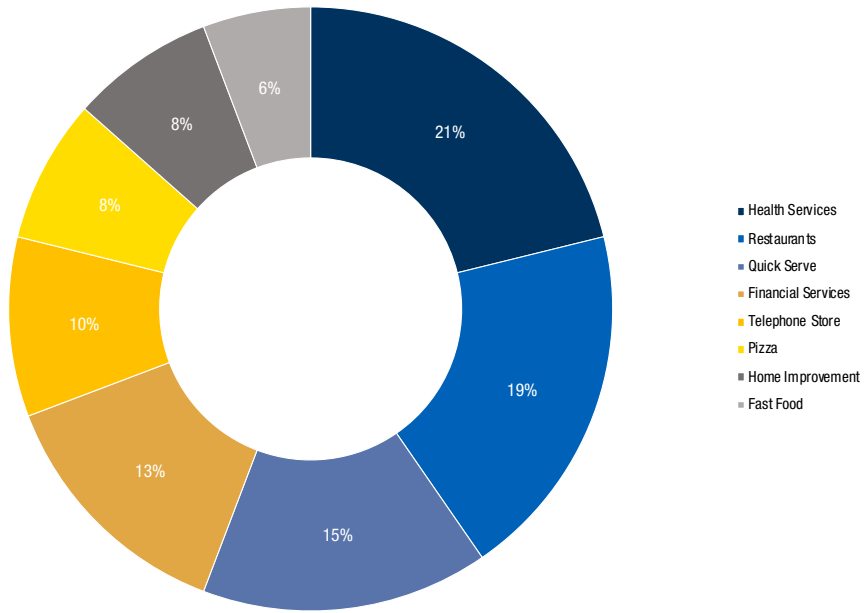
RETAIL MARKET

Market Trends

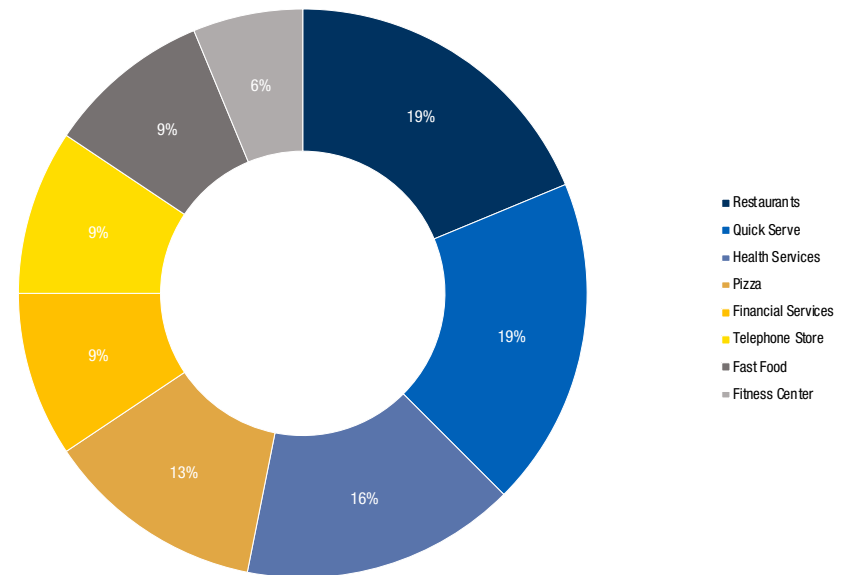
ACTIVE SIZE CATEGORIES



INLAND EMPIRE - ACTIVE TENANT INDUSTRIES



SAN BERNARDINO COUNTY - ACTIVE TENANT INDUSTRIES



RETAIL MARKET | SWOT ANALYSIS

STRENGTHS

- » Grocer Sector
- » Drive Thru Restaurants
- » Future Developments

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WEAKNESSES

- » Service Sector
- » Sit Down Restaurants
- » Indoor Malls
- » Power Center with multiple Big Box Retailers

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OPPORTUNITIES

- » Residential Housing Market is booming
- » New Development
- » Repositioning/ Redevelopment of Properties
- » Omni-channel
- » Built up Demand due to Pandemic

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THREATS

- » Political Regulations
- » Ecommerce
- » Covid-19 and Future Pandemics

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RETAIL MARKET

Market Trends

Forecast

- » Rental rates are forecasted to decline by an annual average of 3.5% over the next five years.
- » Net absorption is forecasted to average negative 900,000 sq. ft. per year over the next three years.
- » Over the next two years there is expected to be nearly 600,000 sq. ft. in new completions.

INLAND EMPIRE

TOP 3 SUBMARKETS

City	Net Absorption
High Desert	139,404
So. Riverside County	(53,753)
Low Desert	(65,250)

INLAND EMPIRE

BOTTOM 2 SUBMARKETS

City	Net Absorption
West End	(249,246)
East End	(139,301)

SAN BERNARDINO COUNTY

TOP 3 SUBMARKETS

City	Net Absorption
High Desert	139,404
East End	(139,301)
West End	(249,246)



MULTIFAMILY MARKET



MULTIFAMILY | OVERVIEW

Inland Empire Market Overview

A steady increase in deliveries caused vacancies to trend upward prior to the pandemic, but net absorption came in strong in 20Q2 and 20Q3. The statewide housing shortage and lack of affordability generally in coastal markets help drive renter demand, and both Los Angeles and Orange County have experienced softening as a result of the pandemic.

Strong job growth and a steadily improving economy also helped drive demand to the market through February 2020, and more recent job losses have yet to materialize to negative absorption—perhaps because of the state’s eviction moratorium for renters affected directly or indirectly by the coronavirus. Job growth has been concentrated in the health care/education and logistics sectors for most of this cycle. The logistics sector has a positive outlook despite the pandemic because consumers continue to shift towards online shopping. Due in part to the metro’s aging population, health care employment had been persistently expanding.

As a sign of the strong demand for the market, the few recent deliveries have enjoyed solid lease-up. For example, one of the latest deliveries is the Arte Apartments in Rancho Cucamonga, a 182-unit mid-rise community that completed delivery in August 2019. The community reached 85% occupancy in October 2020. In September 2019, MBK Rental Living delivered Mitchell Place in Murrieta, a 230-unit community which reached 90% occupancy in June 2020.

The Inland Empire remains an attractive destination for migration from coastal markets due to its affordable housing options. However, despite rising home prices and rents in L.A., Orange County, and San Diego, migration has been relatively muted compared to the last cycle—especially in San Bernardino County.

Inland Empire is considered an affordable market for renters relative to its coastal neighbors in L.A., Orange County, and San Diego. Like much of the nation, rent gains started to vanish in mid-March, when the pandemic began to impact residents and businesses. Yet rents have started to grow again, as measured in the daily asking rent series. In all, rents are now -0.1% higher than they were a year ago.

Source: Costar, Q3 2020



MULTIFAMILY MARKET

Market Trends

INLAND EMPIRE

2020 YTD MARKET VITALS

Inventory Units	165,428
Vacancy Rate	3.7
Avg. Asking Monthly Rent	\$1,577
Avg. Sale Price Per Unit	\$211,962

SAN BERNARDINO COUNTY

2020 YTD MARKET VITALS

Inventory Units	145,810
Vacancy Rate	3.1
Avg. Asking Monthly Rent	\$1,475
Avg. Sale Price Per Unit	\$184,969

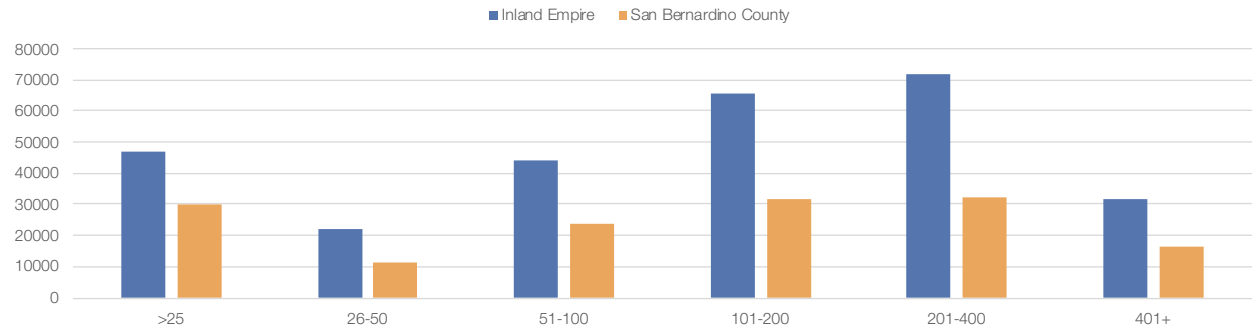
NOTABLE COMPS

Sale Date	Property Name	City	Units	Sale price
10/13/20	The Crossings of Chino Hills	Chino Hills	346	\$130,000,000
09/28/20	Highlands at Grand Terrace	Grand Terrace	556	\$125,000,000
03/18/20	Arte Apartments	Rancho Cucamonga	182	\$68,000,000
03/17/20	The Heights	Grand Terrace	228	\$45,500,000
02/04/20	Del Flora Apartments	Redlands	152	\$37,240,000
03/26/20	Village Green	San Bernardino	184	\$20,600,000
05/05/20	University Palms	Loma Linda	24	\$6,300,000
07/14/20	North Port Apartments	Victorville	60	\$6,100,000
09/08/20	Mt. Sierra Apartments	San Bernardino	34	\$4,310,000
01/22/20	Cedarwood Apartments	San Bernardino	36	\$3,995,000

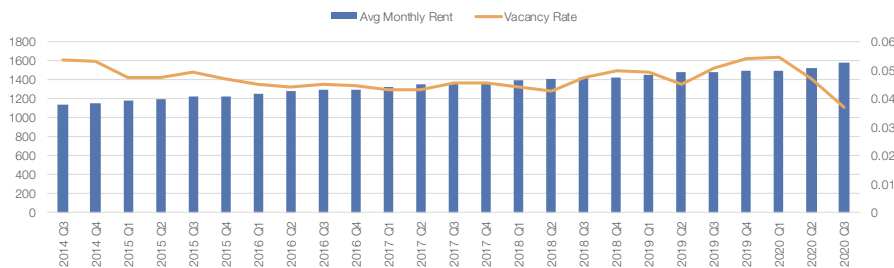
MULTIFAMILY MARKET

Market Trends

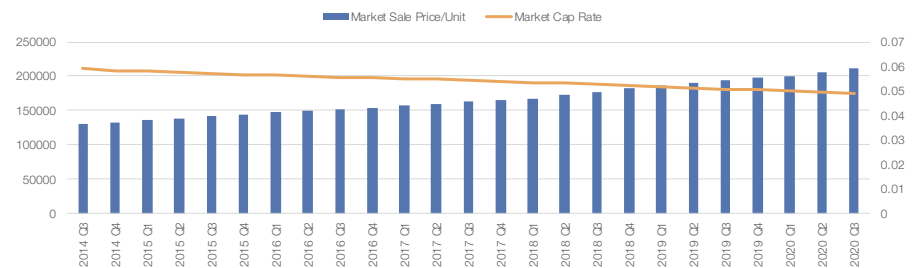
UNIT BREAKDOWN



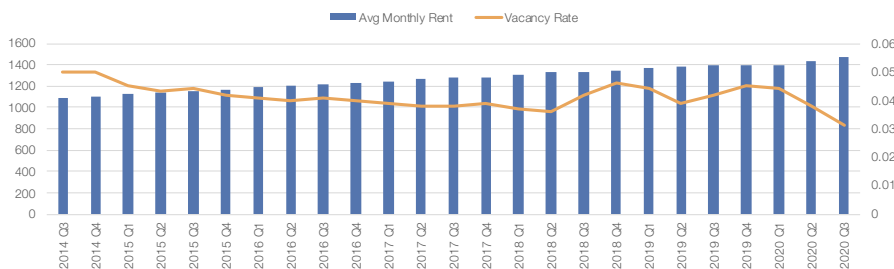
INLAND EMPIRE - VACANCY RATE VS ASKING LEASE RATE



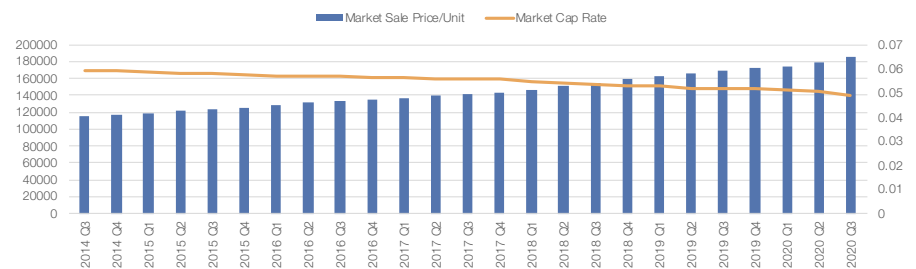
INLAND EMPIRE - AVERAGE PRICE PER UNIT VS. CAP RATE



SAN BERNARDINO COUNTY - VACANCY RATE VS ASKING LEASE RATE



SAN BERNARDINO COUNTY - AVERAGE PRICE PER UNIT VS. CAP RATE



MULTIFAMILY | SWOT ANALYSIS

STRENGTHS

- » Rent vacancies decrease in the Inland Empire to 3.7% as the rent growth continues to rise 6.2% higher than it was last year.

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WEAKNESSES

- » Strong core areas of Inland Empire are doing well but the fear of increasing unemployment can hit the outlying areas hard.

W

OPPORTUNITIES

- » Inland Empire has huge opportunity to outperform costal neighbors such as Los Angeles, Orange County and San Diego. Investments are expected to increase by 33% from 2020. Additionally, net absorption is forecasted to average 151 Units over the next two years. 764 units in 2021 and 1,066 units in 2022.

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THREATS

- » Due to COVID-19 related lifestyle and work from home adjustments, renters are interested more in homeownership as they desire more space and greater access to personal outdoor space.

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MULTIFAMILY MARKET

Market Trends

Forecast

- » Over the next two years, rent growth will average 3.7% per year (2.8% in 2021 and 4.5% in 2022).
- » Rentable completions will average 554 units per year (380 units in 2021 and 727 units in 2022).
- » Net absorption is forecasted to average 151 units per year over the next two years (-764 units in 2021 and 1,066 units in 2022).
- » Population is expected to increase 1.1% by 2022.

Source: CBRE Econometric Advisors, Q3 2020.

INLAND EMPIRE

TOP SUBMARKET BY 12-MONTH SALES VOLUME

City	# of Units Sold	12-Month Sale Volume
Riverside	712	\$186,564,540
Grand Terrace	784	\$170,500,000
Chino	346	\$130,000,000
San Marcos	459	\$115,000,000
Corona	433	\$98,320,000
Alta Loma	290	\$85,200,000
Murrieta	230	\$78,300,000
Ontario	607	\$76,618,800
San Bernardino	699	\$70,614,000
Rancho Cucamonga	188	\$69,610,000

SAN BERNARDINO COUNTY

TOP SUBMARKET BY 12-MONTH SALES VOLUME

City	# of Units Sold	12-Month Sale Volume
Grand Terrace	784	\$170,500,000
Chino	346	\$130,000,000
Alta Loma	290	\$85,200,000
Ontario	607	\$76,618,800
San Bernardino	699	\$70,614,000
Rancho Cucamonga	188	\$69,610,000
Redlands	181	\$40,101,000
Victorville	198	\$21,400,000
Yucaipa	84	\$15,000,000
Apple Valley	141	\$14,018,500



INDUSTRIAL MARKET



INDUSTRIAL | OVERVIEW

Inland Empire Market Overview

While the COVID-19 virus continues to negatively impact many commercial real estate asset classes, it has provided an added boost to industrial real estate in a previously very active Inland Empire industrial market. The acceleration of online sales (ecommerce) and the need for increased inventories as a result of COVID-19 impacts to the supply chain, has resulted in historically strong growth throughout 2020 and forecasted to continue into the foreseeable future. Notwithstanding the difficulty in entitling industrial real estate in California, new construction remains robust with demand nearly outpacing supply today. The need for companies to adapt their supply chains quickly to new omnichannel realities as a result of COVID-19 has driven industrial land prices rapidly higher, and pushed development, especially for very large distribution centers, into outlying areas not considered just 2-3 years ago.



INDUSTRIAL MARKET

Market Trends

Vacancy Rate

	2014	2015	2016	2017	2018	2019	2020
IE West	3.7%	1.7%	2.1%	1.8%	1.9%	2.1%	2.5%
IE East	5.6%	5.5%	6.5%	6.1%	6.0%	6.0%	2.9%
Inland Empire Total	4.5%	3.3%	4.0%	3.7%	3.7%	3.9%	2.7%

Avg. Asking Lease Rate

	2014	2015	2016	2017	2018	2019	2020
IE West	\$0.48	\$0.48	\$0.57	\$0.59	\$0.59	\$0.63	\$0.62
IE East	\$0.30	\$0.31	\$0.31	\$0.50	\$0.52	\$0.59	\$0.57
Inland Empire Total	\$0.40	\$0.39	\$0.42	\$0.53	\$0.57	\$0.61	\$0.60

Gross Activity

	2014	2015	2016	2017	2018	2019	2020
IE West	17,699,974	23,747,934	25,694,864	23,065,460	20,278,250	18,497,377	17,599,752
IE East	15,725,406	18,965,124	15,072,751	18,363,076	23,375,064	22,990,682	17,933,788
Inland Empire Total	33,425,380	42,713,058	40,767,615	41,428,536	43,653,314	41,488,059	35,533,540

Under Construction

	2014	2015	2016	2017	2018	2019	2020
IE West	6,196,721	8,451,648	9,755,574	7,078,170	6,700,126	9,861,208	8,073,627
IE East	10,749,483	12,226,856	11,424,269	15,899,114	16,375,666	9,198,638	10,491,662
Inland Empire Total	16,946,204	20,678,504	21,179,843	22,977,284	23,075,792	19,059,846	18,565,289

INDUSTRIAL | SWOT ANALYSIS

STRENGTHS

- » Top industrial market in the U.S.
- » Primary beneficiary of industrial growth due to COVID-19 impact
- » Low vacancy and strong demand

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WEAKNESSES

- » Highly regulated development environment
- » Lack of user sale product
- » Lack of developable parcels in the IE West

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OPPORTUNITIES

- » New industrial growth in the outlying areas
- » Historically low interest rate
- » For sale product

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THREATS

- » Increased entitlement regulations
- » Further COVID-19 lockdowns
- » Local and regional rejection of industrial warehousing

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INDUSTRIAL MARKET

Market Trends

Forecast

- » Accelerated warehouse demand
- » Strong rent growth
- » Higher land values

LAND VALUES

IE East Big Box	\$35 PSF
IE West Big Box	\$55 PSF
IE East Small Box	\$15 PSF
IE West: Small Box	\$35 PSF

NOTABLE ACTIVITY

Tenant Name	City	Leased SF	Status
Kimberly Clark	Ontario	1,180,908	Complete
VF Outdoor	Ontario	1,197,339	Complete
Amazon	San Bernardino	1,032,072	Under Construction
Go Plus	Redlands	1,079,236	Under Construction
Modway Furniture	Hesperia	1,055,360	Under Construction

CAPITALIZATION RATES

Class A	3.5% - 4.0%
Class B	4.5% - 5.25%
Class C	5.5% - 6.0%

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