

Inland Empire (Riverside/San Bernardino), California



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Metropolitan Area Economic Overview

POPULATION

Total Est. 2007 4,162,999

Population Growth
Index – 2012 2.84

Income Index 0.87

Affordability Index 0.87

Education Index 0.92

Age Index 0.87

EMPLOYMENT

Total Est. 2007 1,271,220

Office Index 0.97

Health Services Index 0.88

Government Index 0.79

Retail Services Index 1.18

Wholesale Index 1.20

The "Inland Empire" encompasses the western-most portions of Riverside and San Bernardino Counties in Southern California, and is one of the nation's most active and dynamic real estate markets. Over the past decade, the area has added 939,000 residents, a 31% increase, and 475,000 jobs, a 56% increase. In 2007 alone, job growth increased 3.6%, adding 46,000 new jobs. While its future growth rate is projected to slow from this heady pace, the area will still remain one of the fastest growing metropolitan areas in the nation.

This strong growth in population and employment has fueled growth in demand for all categories of real estate. For the industrial market, demand has also been stimulated by migration of firms unable to find space that meets their needs in the adjacent very tight Los Angeles, Orange County and San Diego markets. Net absorption in 2007 totaled an exceptional 20 million square feet, with much of the activity shifting to Inland Empire East, where a construction boom is taking place. Currently, there is 23 million square feet under-construction. Big-box distribution, in particular facilities of at least 500,000 square feet, remains a key portion of the market. Vacancy rates in Inland Empire West are tight, in the 3% range. In Inland Empire East, however, they are near 10% due to the construction boom taking place. Sales-price growth appears to have slowed to a healthy moderate-ascension pattern.

The Inland Empire office market had over 1 million square feet of new product come online in 3Q of 2007, with over 58% of that figure being absorbed before construction was complete. Due to the continuing development of new product, office vacancy rates increased to approximately 11% in the 3Q of 2007, which was up from approximately 7.5% in 2006. Because mortgage companies are continuing to downsize and there is significant development underway, the vacancy rate is projected to rise.

Retail and service-related retail remain exceptionally strong, supported by the sheer magnitude of the growth in population. Anchor/national tenant demand is very strong, and most existing tenants are also looking to expand. Ground-up development is barely keeping pace with this demand.

The Inland Empire's residential market is currently undergoing a crisis, stimulated by the end of a speculative boom (median prices grew 260% from 1997 to 2007), the tightening of excessively permissive financing criteria and an oversupply of inventory. Riverside and San Bernardino Counties now have the third-highest foreclosures-per-household rate in the county, behind Las Vegas and Detroit. This obviously will have a negative impact on the housing and residential-land markets in the short-term. However, with the area still growing by approximately 30,000 households per year, the correction is not expected to be long-lived.

Inland Empire (Riverside/San Bernardino) At A Glance

(Rent/Square foot/Year)

DOWNTOWN OFFICE

	Low	High	Effective Avg.	Vacancy
New Construction (AAA)	\$ 23.50	\$ 25.80	\$ 24.00	9.0%
Class A (Prime)	\$ 19.20	\$ 20.40	\$ 20.00	11.0%
Class B (Secondary)	\$ 16.20	\$ 18.00	\$ 17.00	11.0%

SUBURBAN OFFICE

New Construction (AAA)	\$ 23.40	\$ 25.80	\$ 24.00	9.0%
Class A (Prime)	\$ 19.20	\$ 20.40	\$ 20.00	11.0%
Class B (Secondary)	\$ 16.20	\$ 18.00	\$ 17.00	12.0%

INDUSTRIAL

Bulk Warehouse	\$ 5.30	\$ 5.88	\$ 5.59	4.5%
Manufacturing	\$ 5.20	\$ 5.70	\$ 5.45	4.0%
High Tech/R&D	\$ 6.00	\$ 6.50	\$ 6.25	5.0%

RETAIL

Downtown	\$ 42.00	\$ 54.00	\$ 48.00	N/A
Neighborhood Service Centers	\$ 30.00	\$ 42.00	\$ 36.00	N/A
Community Power Center	\$ 36.00	\$ 48.00	\$ 42.00	N/A
Regional Malls	N/A	N/A	N/A	N/A

DEVELOPMENT LAND

	Low	High
Office in CBD (per buildable SF)	\$ 25	\$ 30
Land in Office Parks (per acre)	N/A	N/A
Land in Industrial Parks (per acre)	\$ 522,720	\$ 784,080
Office/Industrial Land - Non-park (per acre)	N/A	N/A
Retail/Commercial Land (per acre)	\$ 871,200	\$ 1,306,800
Residential (per acre)	N/A	N/A