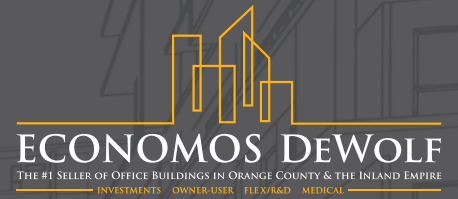


FOR SALE



686 E Mill Street, San Bernardino, CA 92415
Owner-User Opportunity with Rare Excess Parking

Property Video at economosdewolf.com



TABLE OF CONTENTS

- **Property.** This section opens with a description of the offering, followed by its details and its compelling highlights, and information about the County lease. **Pages 3-5**
- **Images.** Here you'll find an aerial map, attractive building photographs, and the functional interior floor plans. **Pages 6-9**
- **Financials.** Providing solid support to purchase and occupy this property, the financials consist of a purchase-vs-lease analysis, loan illustration, the potential tax benefits of depreciation, and a replacement cost analysis. **Pages 10-14**
- **Market.** This section opens with key sale comps followed by a custom market report for the surrounding area. **Pages 15-19**

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686
E MILL STREET



THE OFFERING

This offering consists of 686 E Mill St totaling $\pm 33,773$ sf. It is currently $\pm 88\%$ occupied by a tenant who will be vacating on or before July 31, 2018.

Available separately as its own offering is 606 & 606B E Mill St totaling $\pm 36,664$ sf. It is being offered at a 6.0% cap rate with a projected cash-on-cash ratio over 8% in year two. Please call for separate sale package.

The two offerings are on separate parcels with in-common parking.

TOTAL PARCEL

606 & 606B E Mill St – This Offering	± 2.870 acres
686 E Mill St – Separate Offering	± 2.815 acres
Total Parcel Size	± 5.685 acres

606B E Mill Street

606 E Mill Street

APN: 0136-391-14

686 E Mill Street

APN: 0136-391-21

E MILL STREET

DETAILS



Sale price \$5,035,000 (±\$149 per square foot)

Address 686 E Mill Street
San Bernardino, CA 92415

Asset Size ±33,773 square feet

Property Description 686 E Mill Street is a 1967-built, two-story office or medical building on ±2.815 acres. This building has an elevator, sprinklers throughout, and currently is occupied by two tenants:

Department of Aging & Adult Services (County tenant) occupies ±29,759 square feet. They pay \$56,347 per month and expire July 31, 2018. They will be vacating their space.

Public Authority occupies ±3,534, pays \$5,690 per month and expires June 30, 2019.

There is also a small vacancy of ±219 sf and common area that can be captured by a new owner of ±261 sf.

Available Space ±88% of the building (±29,759 square feet) will be available on or before August 1, 2018.

Location The building is centrally located near both the I-10 and I-215 Freeways, and is just west of the San Bernardino International Airport.

Parking ±5.5 spaces per 1,000 square feet

HIGHLIGHTS

686 E Mill Street, ±33,773 square feet

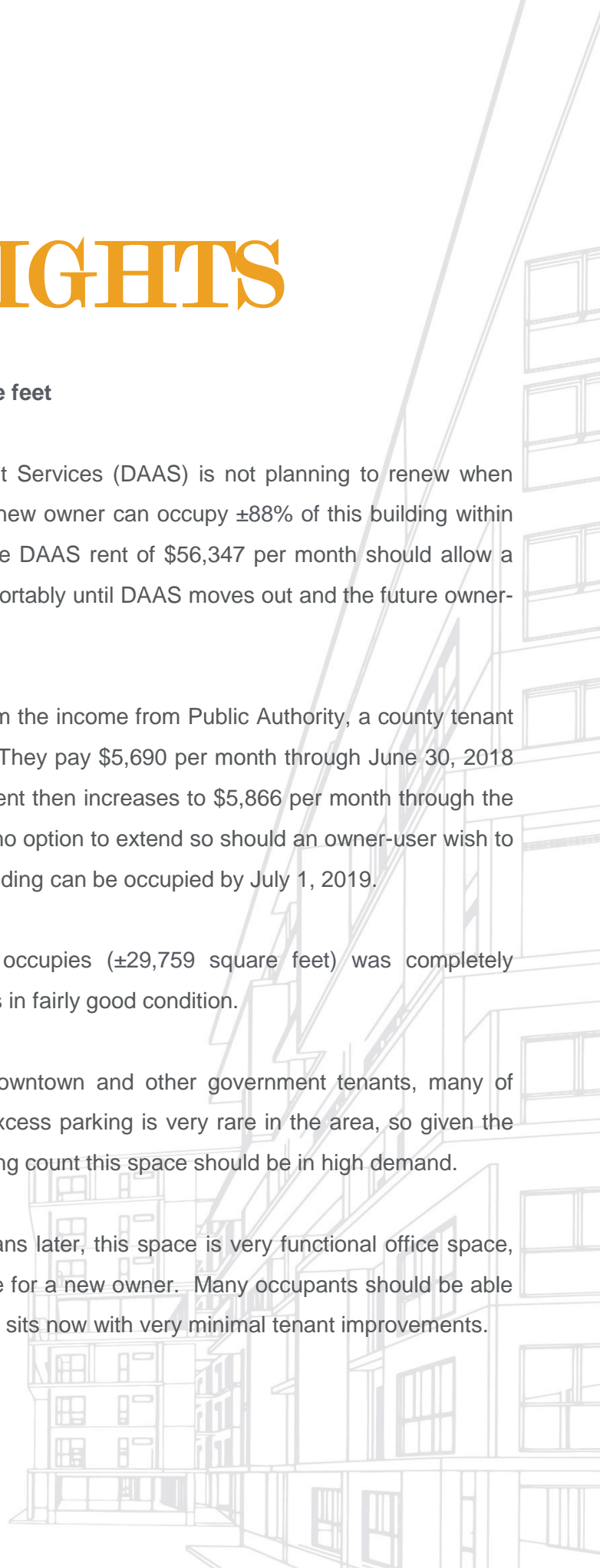
The Department of Aging & Adult Services (DAAS) is not planning to renew when they expire in July of 2018, so a new owner can occupy ±88% of this building within just a few months of closing. The DAAS rent of \$56,347 per month should allow a new buyer to carry the asset comfortably until DAAS moves out and the future owner-user moves in.

A new owner can benefit also from the income from Public Authority, a county tenant in-place through June 30, 2019. They pay \$5,690 per month through June 30, 2018 for ±3,534 square feet and their rent then increases to \$5,866 per month through the end of the term. This tenant has no option to extend so should an owner-user wish to take over this space the entire building can be occupied by July 1, 2019.

The suite that DAAS currently occupies (±29,759 square feet) was completely renovated in 2008, so the space is in fairly good condition.

This asset is located close to downtown and other government tenants, many of which require excess parking. Excess parking is very rare in the area, so given the quality of this space and the parking count this space should be in high demand.

As can be seen from the floor plans later, this space is very functional office space, much of which should be reusable for a new owner. Many occupants should be able to effectively utilize the space as it sits now with very minimal tenant improvements.



AERIAL MAP



Images



PHOTOGRAPHS



Images

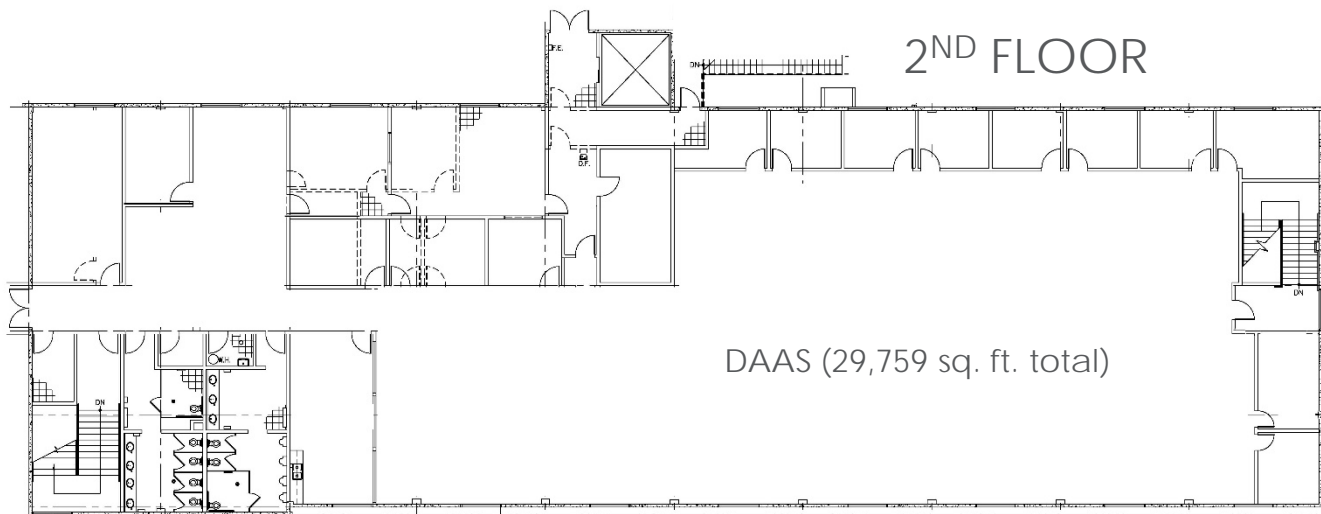
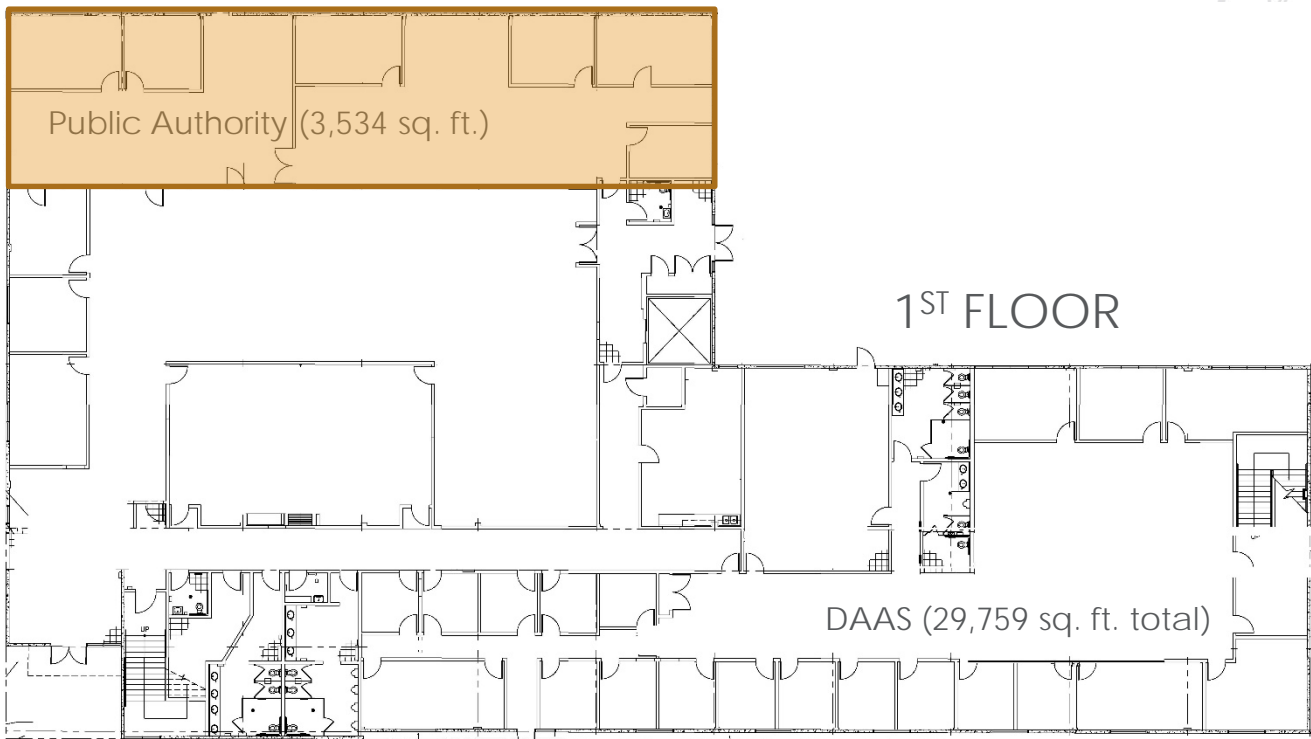


PHOTOGRAPHS



FLOORPLANS

686 E MILL ST



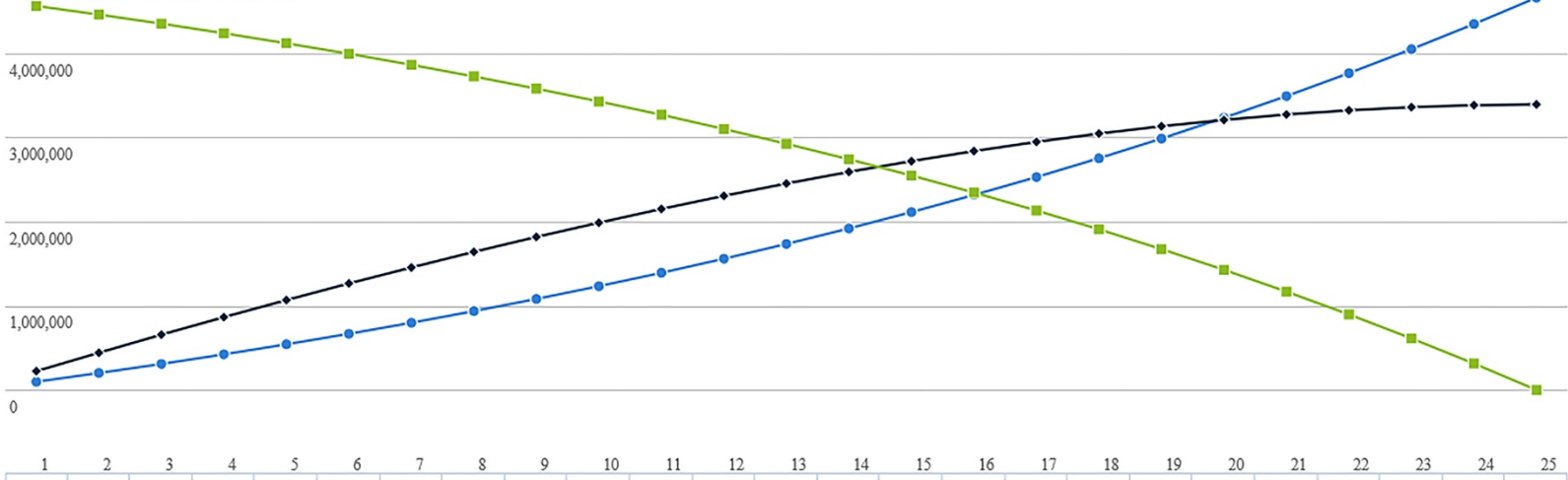


OWNER-USER OPPORTUNITY

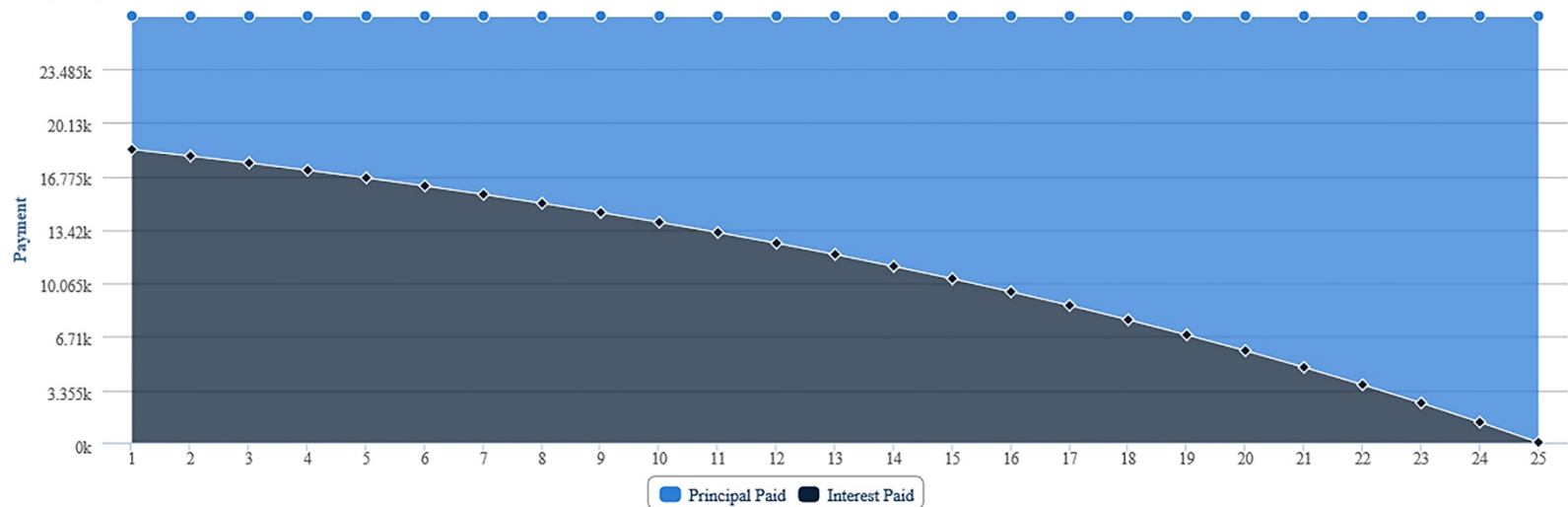
In the analysis on the following page, we assume that a user secures a 25-year, fully-amortized SBA 7a loan option with a 10% down payment and financed loan fees.

As the percentage of principal accumulation increases year-over-year, it becomes increasingly favorable to purchase instead of lease. Following are charts depicting the principal payments paid over 25 years, ending in a loan balance of zero when the building is owned free-and-clear:

Loan Amortization Chart
 -●- Principal -◆- Interest -■- Balance



Principal Payment Chart



PURCHASE VS. LEASE ANALYSIS

An owner-user purchases and occupies 686 E Mill Street for \$149/sf with an initial investment of \$15/sf (10% down payment).

Estimated Monthly Costs

Typical Operating Expenses:

\$0.64/SF

Mortgage Payment:

\$0.79/SF

Amount of Principal in Year One Mortgage Payment:

(\$0.30/SF)

Ownership Cost in Year One after Principal Reduction:

\$1.13/sf

Compare to Estimated Starting Lease Rate:

\$1.65/sf

The advantage of owning over leasing increases every year. Assuming lease rates increase by 3% annually and operating expenses increase by 2.5% annually, below is a ten-year comparative analysis of purchasing vs. leasing (per square foot):

	Lease	Own	Annual Savings	Cumulative Savings	
Year 1	\$1.65	\$1.13	\$6.18	\$6.18	
Year 2	\$1.70	\$1.13	\$6.83	\$13.01	
Year 3	\$1.75	\$1.13	\$7.48	\$20.49	Return of Initial Investment
Year 4	\$1.80	\$1.12	\$8.15	\$28.64	
Year 5	\$1.86	\$1.12	\$8.83	\$37.47	
Year 6	\$1.91	\$1.12	\$9.53	\$47.00	
Year 7	\$1.97	\$1.12	\$10.24	\$57.24	
Year 8	\$2.03	\$1.12	\$10.97	\$68.21	
Year 9	\$2.09	\$1.11	\$11.71	\$79.92	
Year 10	\$2.15	\$1.11	\$12.47	\$92.39	Own vs. Lease Savings After 10 Years



LOAN ILLUSTRATION

**WELLS
FARGO**
Dave Friedman & Valerie Ioriatti

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Prepared For:

ECONOMOS DEWOLF
Geoff DeWolf - 949.576.2751
Steve Economos - 949.576.2750
SBA Preferred Lender | 686 E Mill Street, San Bernardino

Purchase Price	\$5,035,000
	SBA 7a LOAN PROGRAM
	25 Year Fixed
Down Payment	\$503,500
Combined LTV%	90%
Loan Amount	\$4,531,500
Financed Fee	\$128,561
Rate (%)	4.85%
Amortization	25
Term (Years)	25
Total Monthly Payment	\$26,837

Tenant Improvement Financing available up to \$350,000 with no permits.

Gift Letters available for the entire down payment/or partial.

45 Day Rate Locks.

45 Day Closings.



TAX BENEFITS OF DEPRECIATION

DEPRECIATION IS NOT INCLUDED IN THE COST OF OCCUPANCY SHOWN EARLIER; THIS IS AN ADDITIONAL POSSIBLE BENEFIT

Assume a business owner or trust personally purchases 686 E Mill Street and leases it to his/her business at a market rate (allowable under the SBA program). Cash flow and taxable income of the business are not affected. However, this owner's personal financial situation would benefit from depreciation of the building. In terms of this scenario, depreciation is the spreading of cost over the useful life of an asset.

The Internal Revenue Service allows for a tax deduction of commercial property improvements depreciation based on a 39-year life. Simply stated, a portion of the cost of the building (excluding land) reduces taxable income, and thus tax liability, for a period of up to 39 years.

In this scenario, we assume the following facts:

Purchase Price:	\$5,035,000
Building Size:	33,773 Square Feet (\$149/sf)
Percentage of Building to Land:	45% / 55%
Owner's personal income tax bracket:	33%

The amount subject to depreciation, in this example, is 45% of \$5,035,000, or \$2,265,750. Spread over the IRS' mandated 39 years, the deduction per year is approximately \$58,000. **At a tax rate of 33%, the tax savings due to depreciation is \$19,000 per year of ownership.**

If you are considering this on a monthly per-square-foot basis consistent with the example on the previous page, this tax savings equates to an additional ownership benefit of \$0.07/sf per month.

As time progresses, the cost basis of the building is being reduced by depreciation accumulated since purchase. Should the owner decide to sell, the depreciation is recaptured and taxed, but it is at a standard 25% as opposed to the 33% ordinary income rate used when the deduction was realized. This yields an overall tax benefit during the building ownership period, especially if the building is kept and passed down to future generations.

It is important to note that this example may differ from your situation. Please consult with your tax advisor.





REPLACEMENT COST ANALYSIS

Building square footage of 686 E Mill Street	33,773	
	Total	Per Building Square Foot
Shell and core cost	\$5,572,545	\$165
Soft cost (taxes, insurance, development fee, etc.)	\$2,026,380	\$60
Tenant improvements	\$2,026,380	\$60
Site work (est. 186 parking stalls @ average of \$3,000 per stall)	\$558,000	\$17
Estimated land cost (per building sq.ft.)	\$1,182,055	\$35
Total Replacement Cost	\$11,365,360	\$337
Compare to Asking Price	\$5,035,000	\$149



SALE COMPS

Property	Sale Date	Size	Price P.S.F.	Market Insight
 <p>894 Hardt Street San Bernardino</p>	Jun 2017	17,600 SF	<u>\$3,470,052</u> \$197	<p>Sold with a reported occupancy of 71.3% at the time of sale.</p> <p>686 E Mill Street, at \$149/sf, is a solid value.</p>
 <p>406 E Vanderbilt Way San Bernardino</p>	Oct 2016	10,569 SF	<u>\$1,600,000</u> \$151	<p>This asset sold to an attorney, and received private financing which may have held the price point lower than it otherwise might have transacted.</p>



OFFICE MARKET SUMMARY

SOURCE: COSTAR 2017

Market Summary

606 E Mill St

EAST SAN BERNARDINO SUBMARKET TRENDS

East San Bernardino sits at the foot of the San Bernardino mountains with access to the Inland Empire/Orange County line of the Metrolink commuter rail. The bulk of properties over 50,000 SF are clustered inside the Foothill, Riverside, and San Bernardino freeway loop. Government agencies are highly concentrated here, and major tenants include the Social

Security Administration and County of San Bernardino. Loma Linda University's 150,000 SF medical office building is the submarket's largest completion for this cycle, and no significant projects are in the pipeline. Vacancies are below the submarket's historical average, yet rents are still about 15% short of their peak.

INLAND EMPIRE MARKET SUMMARY

The Inland Empire has long been an overflow office market, the low-cost alternative for tenants priced out of Orange County and LA. As a result, its rebound is tied to the office markets in those metros. Orange County has had a remarkable turnaround this cycle, leading to some of the highest rent growth on the West Coast. This is a good indicator that tenants may consider moving across markets. Meanwhile, LA's full recovery in this cycle may have finally begun to push a few tenants toward the Inland Empire.

Unsurprisingly, trade is the most important economic sector for the health of this metro's economy. What is surprising is how much office-sector growth has picked up the slack in recent times. Vacancies topped 16% at the depths of the recession, but have since compressed by more than 700 basis points. Still, office employment here looks better than office demand, because many of the newly employed workers who live here typically commute out of the metro.



Market



OFFICE MARKET SUMMARY

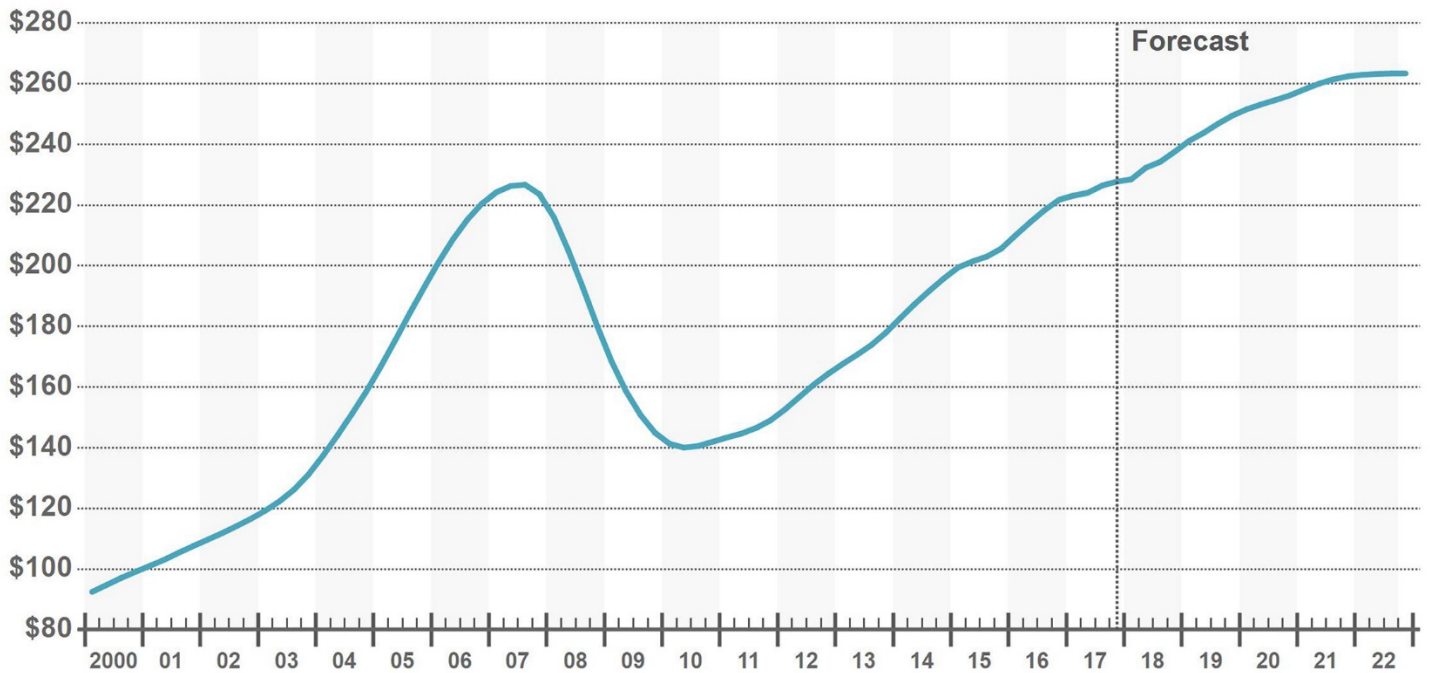
SOURCE: COSTAR 2017

Sales Pricing

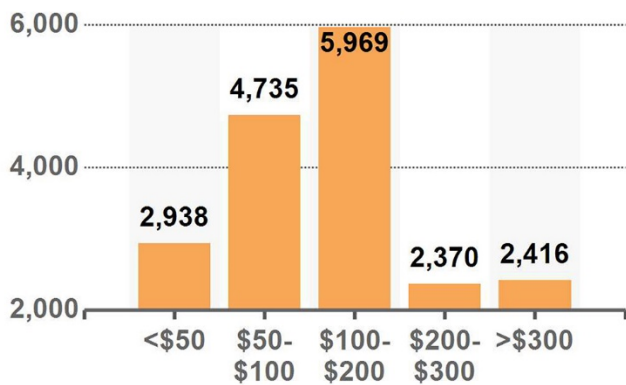
606 E Mill St

PRICE PER SF INDEX

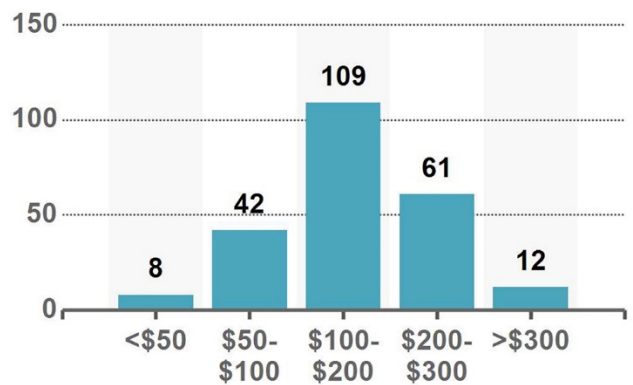
Inland Empire Office



UNITED STATES OFFICE PRICE PER SF IN PAST YEAR



INLAND EMPIRE OFFICE PRICE PER SF IN PAST YEAR



Market



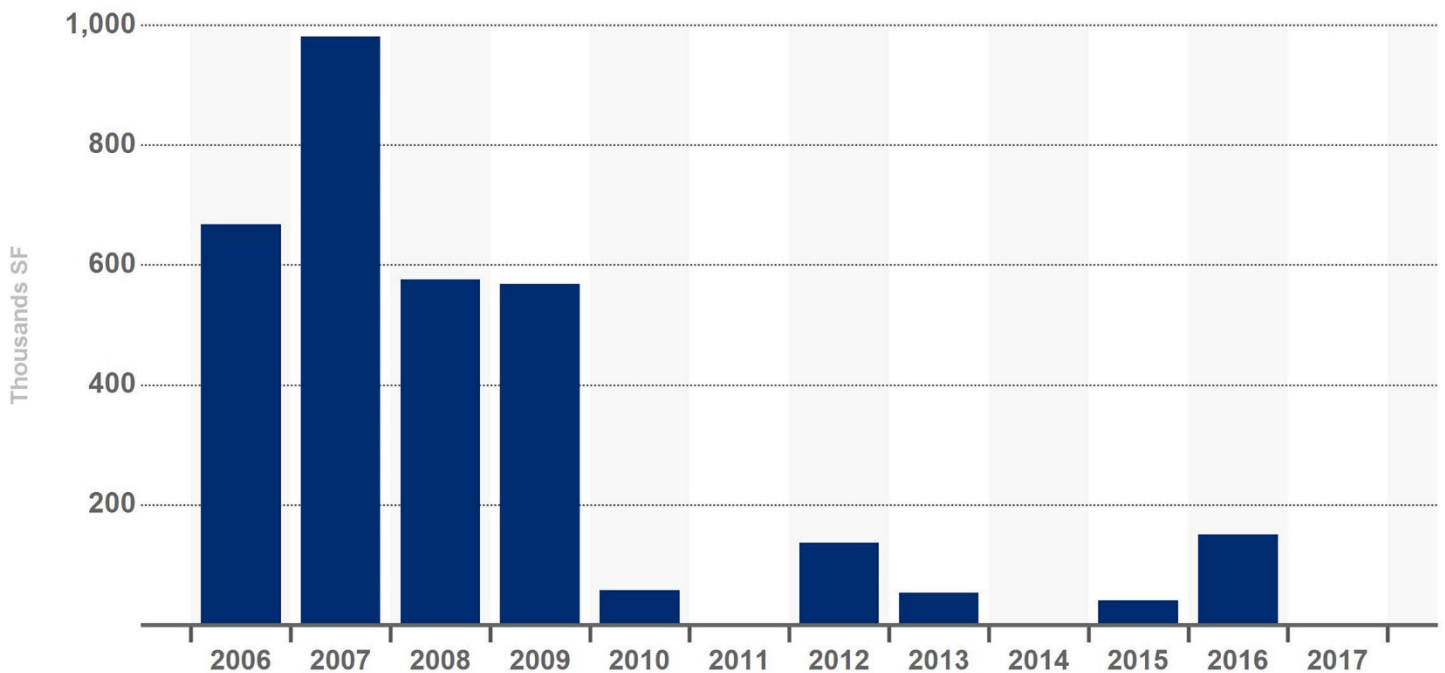
OFFICE MARKET SUMMARY

SOURCE: COSTAR 2017

10 Mile Radius Construction Activity

606 E Mill St

DELIVERIES IN SQUARE FEET



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Market



OFFICE MARKET SUMMARY

SOURCE: COSTAR 2017

Lease Comps Summary

606 E Mill St

Deals

5

Gross Asking Rent Per SF

\$22.54

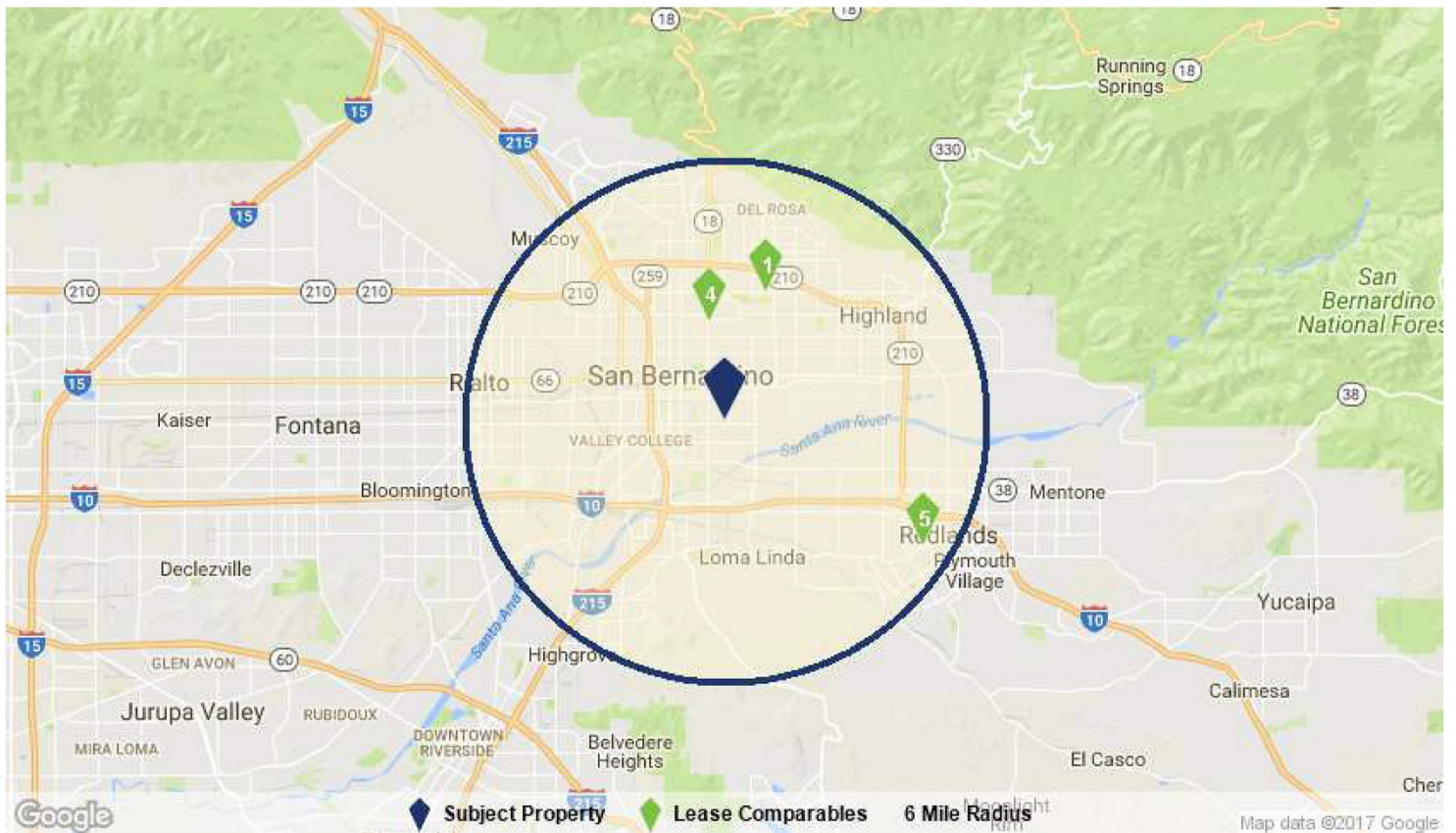
Gross Starting Rent Per SF

\$22.48

Avg. Months On Market

20

LEASE COMPARABLES





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