

MARKET CHANGE

Compared to Previous Quarter:

Vacancy



UP

Net Absorption



NEGATIVE

Lease Rates



UP

Transactions



DOWN

Deliveries



FLAT

To view available properties or electronic versions of current or past market reports, please visit:

www.voitco.com

Prepared by:

Jerry J. Holdner, Jr.
Vice President of Market Research
e-mail: jholdner@voitco.com

Rinku Mathew
Market Research Analyst
e-mail: rmathew@voitco.com
VOIT Real Estate Services

HIGHLIGHTS

- **Encouraging Numbers** - The Inland Empire office market continued improving during the second quarter of 2015. Both vacancy and availability displayed drops compared to the second quarter of the previous year, even as net absorption was negative for the quarter. While these are all positive indications, job growth will need to continue in coming quarters for the Inland Empire office market to further improve.
- **Construction** - There was 17,000 square feet under construction in the Inland Empire at the end of the second quarter of 2015, which was located in Corona. Nothing new was delivered during the quarter and only 168,000 square feet of new product was delivered in 2014. The slowdown in construction has and will ease the upward pressure on vacancy and the downward pressure on lease rates.
- **Vacancy** - Direct/sublease space (unoccupied) finished the second quarter of 2015 at 13.15%, an increase of 46 basis points when compared to the previous quarter, and a 7.98% drop compared to the same quarter last year.
- **Availability** - Direct/sublease space being marketed was 16.64% at the end of the quarter, up from 2015's first quarter rate of 16.60% and a 5% decline from the 17.52% we saw in the second quarter of 2014.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot was \$1.77 in the second quarter of 2015, up two cents from the same quarter last year. We are forecasting that the rate will rise during 2015. The record high rate of \$2.10 was established in the third quarter of 2008. Class A rates for the market averaged \$2.08 FSG. Geographically, the highest rates were found in the East County submarket, where they averaged \$1.78 FSG.
- **Absorption** - The Inland Empire office market posted 183,570 square feet of negative net absorption for the second quarter

of 2015. From the second quarter of 2011 to the present, the office market has posted just over 2.3 million square feet of positive absorption.

- **Transaction Activity** - Leasing activity checked in at just over 455,000 square feet in the second quarter of the year, a decrease from 2014's second quarter total of 566,988 square feet. Sales activity showed an increase in the second quarter of 2015, posting 512,194 square feet of activity compared to 2014's second quarter total of 357,198 square feet. Details of the largest transactions can be found on the back page of this report.
- **Employment** - The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 6.4% in May 2015, up from a revised 6.2% in January 2015 and below the year-ago estimate of 7.8%. This compares with an unadjusted unemployment rate of 6.2% for California and 5.3% for the nation during the same period. The unemployment rate was 6.4% for Riverside County and 6.3% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA showed a net gain of 51,800 payroll jobs from May 2014 to May 2015. The professional and business services sector posted the greatest increase in employment over the year, adding 15,900 jobs.
- **Overall** - We are seeing a decrease in the amount of vacant and available space being added to the market. Absorption is positive, and with few new deliveries to put upward pressure on vacancy, the market should continue to improve. While these are positive indicators, cautious optimism still prevails, as job creation will need to continue in order to drive the demand needed to sustain growth in the Inland Empire office market.

FORECAST

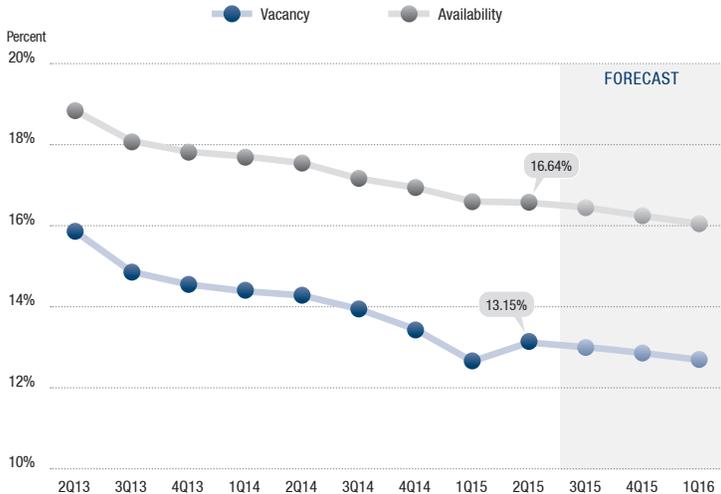
- **Employment** - We anticipate job growth of around 2.4%, or 30,200 jobs, in the Inland Empire area over the year. Look for leisure, hospitality, transportation, logistics, distribution and construction to lead the way for employment gains in the coming years.
- **Lease Rates** - Expect average asking lease rates to increase by another 1% to 2% over the next four quarters.
- **Vacancy** - We anticipate vacancy rates continuing to descend in coming quarters, dropping by 45 basis points, to around 12.7%, by the end of the first quarter of 2016.

OVERVIEW

	2Q15	1Q15	2Q14	% of Change vs. 2Q14
Total Vacancy Rate	13.15%	12.69%	14.29%	(7.98%)
Availability Rate	16.64%	16.60%	17.52%	(5.02%)
Average Asking Lease Rate	\$1.77	\$1.75	\$1.75	1.14%
Sale & Lease Transactions	967,275	3,791,293	642,243	50.61%
Gross Absorption	369,780	596,304	505,367	(26.83%)
Net Absorption	(183,570)	290,754	135,562	N/A

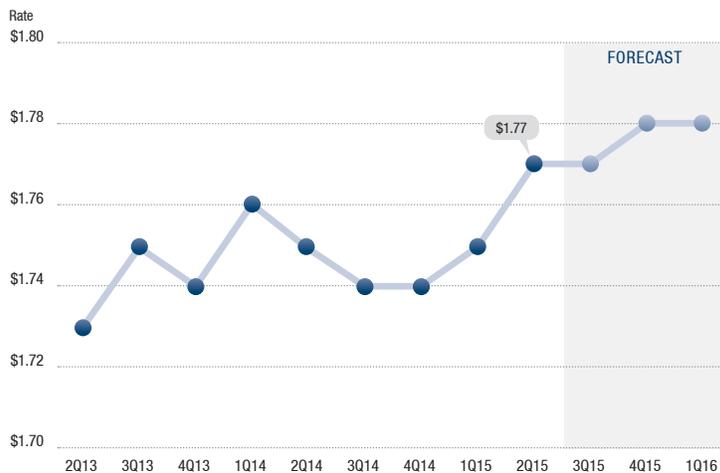
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



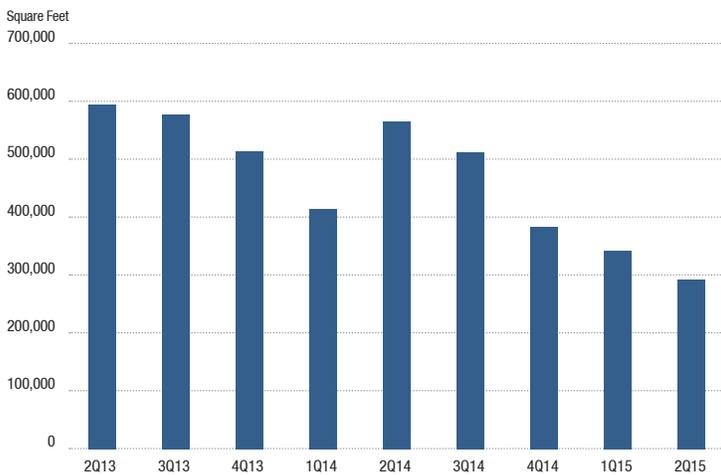
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



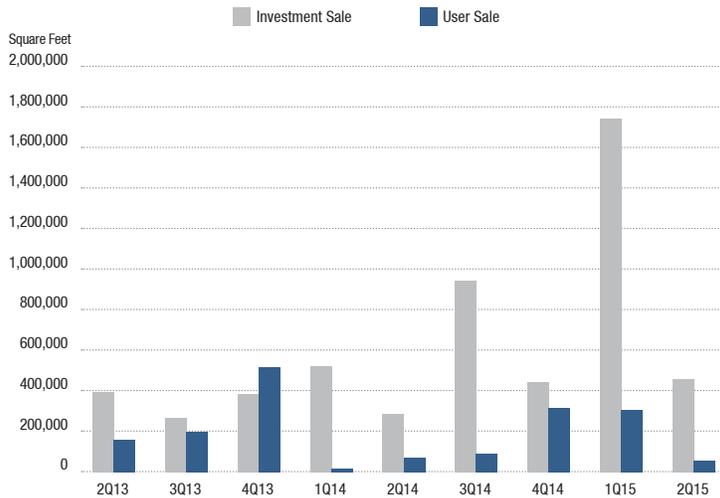
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



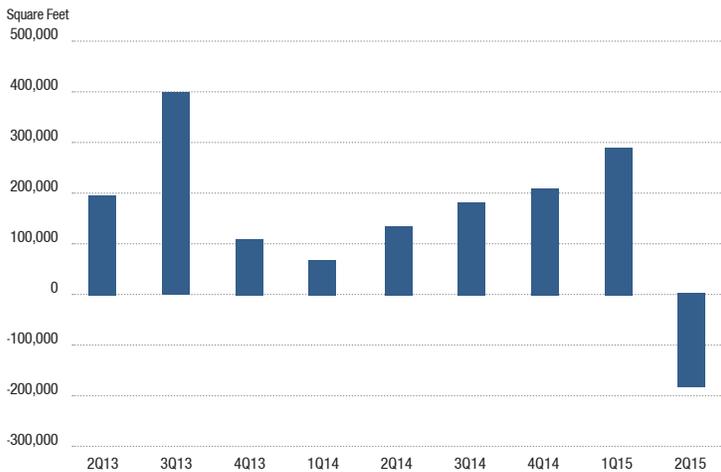
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



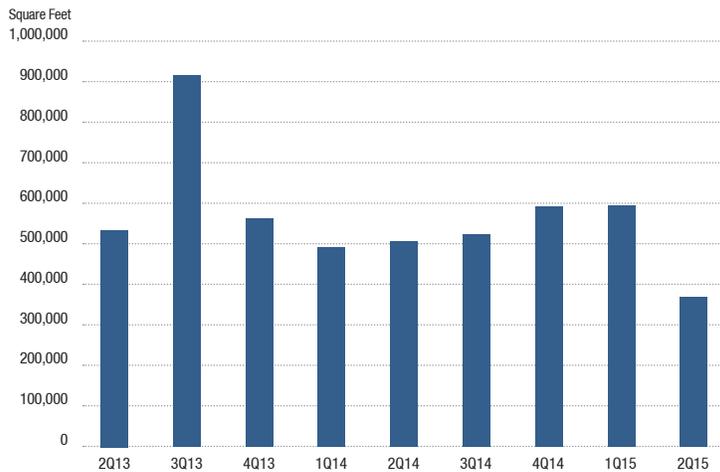
NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



GROSS ABSORPTION

TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2015	Square Feet Available	Availability Rate 2Q2015	Average Asking Lease Rate	Net Absorption 2Q2015	Net Absorption 2015	Gross Absorption 2Q2015	Gross Absorption 2015
West													
Chino/Chino Hills	37	1,166,442	0	142,181	117,779	10.10%	130,580	11.19%	\$2.18	(11,723)	(19,742)	7,099	10,625
Fontana	35	2,365,370	0	58,500	110,755	4.68%	117,405	4.96%	\$0.97	0	2,275	0	5,124
Montclair	13	244,250	0	0	23,887	9.78%	38,079	15.59%	\$0.98	1,189	(8,166)	2,900	5,466
Ontario	110	4,330,551	0	1,436,740	663,273	15.32%	842,247	19.45%	\$1.79	(4,062)	30,972	57,122	133,283
Rancho Cucamonga	142	4,409,417	0	100,000	593,475	13.46%	715,561	16.23%	\$1.78	(124,153)	(55,482)	94,332	231,966
Upland	71	1,552,820	0	0	232,911	15.00%	261,142	16.82%	\$1.43	(3,889)	(6,443)	20,950	35,755
Class A	27	2,358,662	0	1,255,451	390,503	16.56%	399,914	16.96%	\$1.97	(120,604)	(100,750)	44,584	77,564
Class B	283	9,770,035	0	481,970	1,070,447	10.96%	1,391,975	14.25%	\$1.67	(22,338)	43,254	132,001	332,032
Class C	98	1,940,153	0	0	281,130	14.49%	313,125	16.14%	\$1.22	304	910	5,818	12,623
West Total	408	14,068,850	0	1,737,421	1,742,080	12.38%	2,105,014	14.96%	\$1.74	(142,638)	(56,586)	182,403	422,219
East													
Banning	5	90,461	0	175,774	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Beaumont	4	168,918	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Corona/Norco	95	3,160,615	17,000	263,325	483,336	15.29%	587,585	18.59%	\$1.82	(5,733)	(3,526)	45,426	78,544
Colton/Grand Terrace	48	1,048,204	0	32,600	225,074	21.47%	338,567	32.30%	\$0.94	(16,977)	(1,972)	12,920	36,295
Moreno Valley	37	943,603	0	115,219	27,241	2.89%	45,797	4.85%	\$0.00	0	0	1,646	1,646
Perris	9	215,508	0	15,000	0	0.00%	3,462	1.61%	\$0.00	0	1,609	0	1,609
Redlands/Loma Linda	89	2,311,336	0	0	325,975	14.10%	376,876	16.31%	\$1.66	15,216	19,823	33,421	52,935
Rialto	10	284,332	0	0	47,445	16.69%	47,445	16.69%	\$1.40	(822)	(822)	0	0
Riverside	306	9,295,236	0	649,081	1,107,999	11.92%	1,557,449	16.76%	\$2.08	11,485	69,374	74,731	210,840
San Bernardino/Highland	206	7,822,397	0	0	1,222,599	15.63%	1,497,132	19.14%	\$1.59	(44,101)	79,284	19,233	161,996
Class A	41	4,381,472	0	312,333	586,600	13.39%	750,402	17.13%	\$2.14	(19,744)	24,889	14,994	77,979
Class B	506	14,852,652	17,000	938,666	2,111,461	14.22%	2,749,912	18.51%	\$1.59	7,486	177,013	133,446	398,000
Class C	262	6,106,486	0	0	741,608	12.14%	953,999	15.62%	\$1.19	(28,674)	(38,132)	38,937	67,886
East Total	809	25,340,610	17,000	1,250,999	3,439,669	13.57%	4,454,313	17.58%	\$1.78	(40,932)	163,770	187,377	543,865
Inland Empire Total	1,217	39,409,460	17,000	2,988,420	5,181,749	13.15%	6,559,327	16.64%	\$1.77	(183,570)	107,184	369,780	966,084
Inland Empire													
Class A	68	6,740,134	0	1,567,784	977,103	14.50%	1,150,316	17.07%	\$2.08	(140,348)	(75,861)	59,578	155,543
Class B	789	24,622,687	17,000	1,420,636	3,181,908	12.92%	4,141,887	16.82%	\$1.62	(14,852)	220,267	265,447	730,032
Class C	360	8,046,639	0	0	1,022,738	12.71%	1,267,124	15.75%	\$1.21	(28,370)	(37,222)	44,755	80,509
Inland Empire Total	1,217	39,409,460	17,000	2,988,420	5,181,749	13.15%	6,559,327	16.64%	\$1.77	(183,570)	107,184	369,780	966,084
High Desert													
Adelanto	3	65,531	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Apple Valley	32	605,824	0	54,060	27,705	4.57%	30,552	5.04%	\$0.00	296	296	4,045	4,045
Barstow	13	210,048	0	0	35,384	16.85%	45,931	21.87%	\$0.00	0	15	0	1,010
Hesperia	23	520,793	0	76,516	3,386	0.65%	3,386	0.65%	\$0.00	2,500	979	2,500	4,379
Victorville	85	1,703,701	0	68,000	167,488	9.83%	201,332	11.82%	\$2.01	(4,772)	(12,403)	9,442	21,402
High Desert Total	156	3,105,897	0	198,576	233,963	7.53%	281,201	9.05%	\$2.01	(1,976)	(11,113)	15,987	30,836
Temecula Valley													
Hemet	44	847,066	0	12,000	86,011	10.15%	106,836	12.61%	\$0.00	10,520	17,586	10,520	20,151
Lake Elsinore	12	274,642	0	0	45,336	16.51%	72,001	26.22%	\$0.95	0	0	0	0
Menifee	9	317,837	0	133,000	5,410	1.70%	5,410	1.70%	\$1.65	(2,416)	(766)	1,300	2,950
Murrieta	52	1,532,993	0	370,074	178,019	11.61%	208,364	13.59%	\$2.40	7,314	3,242	14,866	29,387
San Jacinto	4	94,954	0	0	2,827	2.98%	2,827	2.98%	\$0.00	0	0	0	0
Temecula	114	2,941,456	29,602	81,835	404,627	13.76%	462,207	15.71%	\$1.43	24,050	50,092	62,694	119,119
Wildomar	7	272,783	0	102,000	31,762	11.64%	38,279	14.03%	\$0.00	0	2,202	0	7,624
Temecula Valley Total	242	6,281,731	29,602	698,909	753,992	12.00%	895,924	14.26%	\$1.43	39,468	72,356	89,380	179,231

This survey consists of office properties 10,000 square feet and larger in size, representing both single tenant and multi-tenant buildings. Lease rates are on a full-service gross basis.

MAJOR TRANSACTIONS

Sales Transactions

Property Address	City	Class	Square Feet	Sale Price	Buyer	Seller
3110 Guasti Rd. – 2 Properties	Ontario	A	160,589	\$192.42	BSP Sentia Guasti, LLC	Walton/Greenlaw Ontario Office B, LLC
10769 Hole Ave.	Riverside	C	57,198	\$135.49	PI Properties No 92, LLC	BH Properties, LLC
10801 Foothill St.	Rancho Cucamonga	B	14,258	\$318.64	Roger Rosen	PV Rancho, LLC
4120 Concours St.	Ontario	B	11,401	\$280.68	CSB Partners, LP	GYL Holdings, LLC
1175 Arrow Hwy.	Upland	B	15,559	\$157.47	Susan Biegel	San Antonio Health Center, LLC

Lease Transactions

Property Address	City	Class	Square Feet	Transaction Date	Tenant	Owner
8855 Haven	Rancho Cucamonga	B	25,631	Apr-2015	Undisclosed	Chronoblu Investments, LLC
290 N. D St.	San Bernardino	B	12,393	May-2015	County of San Bernardino	Vanir Tower Building, Inc.
3633 Inland Empire Blvd.	Ontario	A	10,276	May-2015	Undisclosed	GRE Empire Towers
1955 Chicago	Riverside	B	8,194	May-2015	Undisclosed	Chicago Gateway
3536 Concours	Ontario	A	7,808	Apr-2015	Undisclosed	3536 Concours, LLC

PRODUCT TYPE

CLASS A

Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

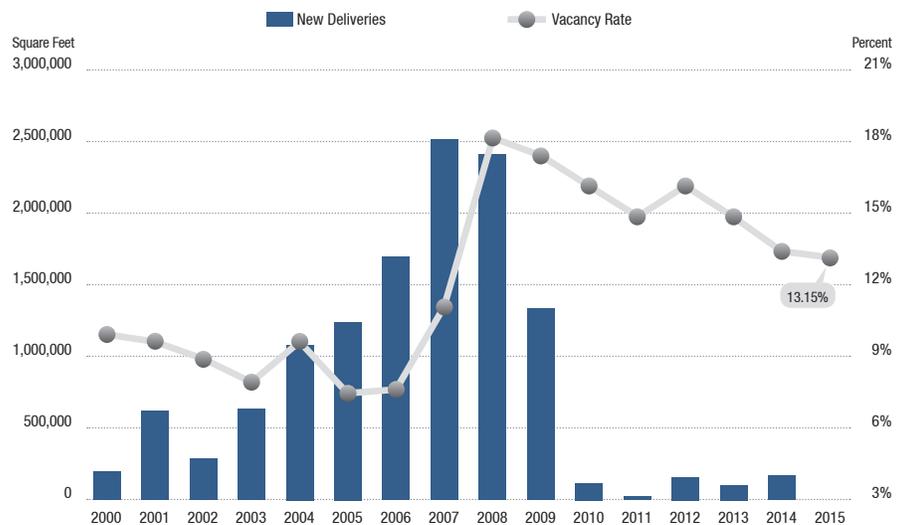
CLASS B

Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

CLASS C

Buildings competing for tenants requiring functional space at rents below the area average.

ANNUAL NEW DELIVERIES VS. VACANCY RATE



Please Contact Us for Further Information

101 Shipyard Way, Newport Beach, CA 92663 949.644.8648 Lic.#01333376 www.voitco.com



Anaheim, CA
714.978.7880

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Las Vegas, NV
702.734.4500

Los Angeles, CA
424.329.7500

Newport Beach, CA
949.644.8648

Phoenix, AZ
602.952.8648

Reno, NV
775.771.9955

Sacramento, CA
916.772.8648

San Diego, CA
858.453.0505

San Jose, CA
408.885.9110

Real People.
Real Solutions.®

This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.

©2015 Voit Real Estate Services, Inc. Real People. Real Solutions.® is a registered trademark of Voit Real Estate Services.