

## Office Market Report

Compared to the Previous Quarter:

Vacancy



Net Absorption

NEGATIVE



Lease Rates

DOWN



Transactions

DOWN



Construction

DOWN



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### Market Highlights

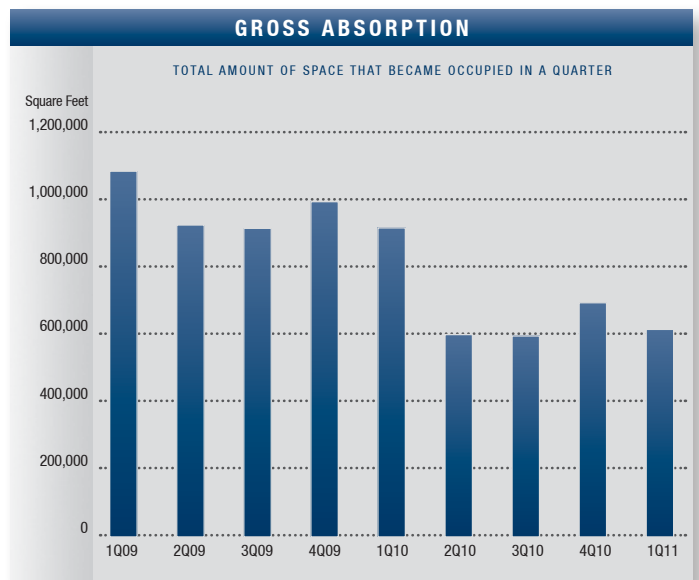
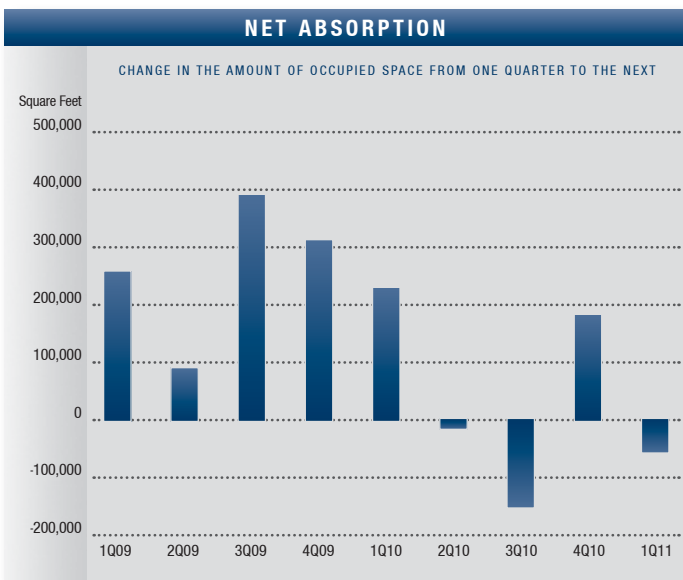
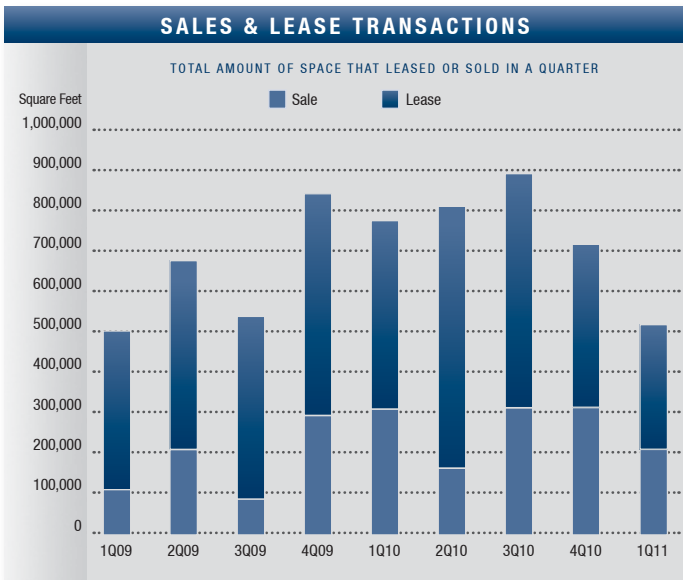
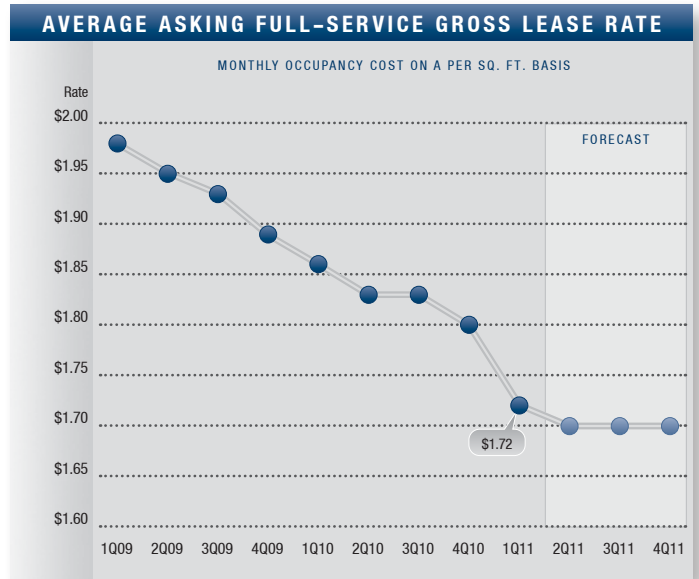
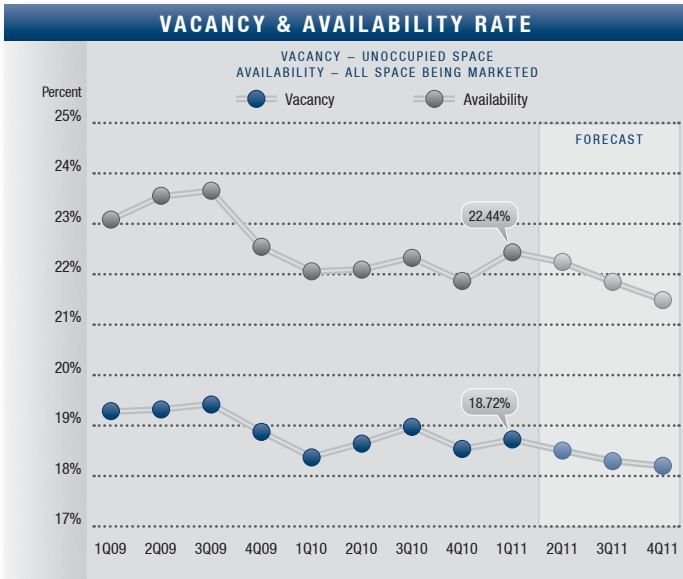
- **Are we there yet?** - The Inland Empire office market conveyed more promise of stabilization in the first quarter of 2011. Both vacancy and availability leveled out, and net absorption posted only a very small negative number. With regard to sales transactions, the ask-bid gap narrowed, as evidenced by the continued drop in asking prices and increased interest from users and investors. While these are positive indications, stability and job growth will need to be sustained in coming quarters to be considered recovery.
- **Construction** - At the end of the first quarter of 2011, total space under construction checked in at 232,471 square feet. 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 quarter at 18.72%, an increase compared to the previous quarter's rate of 18.56% and an increase from 2010's rate of 18.38%.
- **Availability** - Direct/sublease space being marketed was 22.44% in the first quarter of 2011, up from 2010's fourth quarter rate of 21.88% and a 1.68% increase from the 22.07% we saw in the first quarter of 2010.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Inland Empire office market was \$1.72 in the first quarter, which is eight cents lower than the fourth quarter of 2010's rate and a 7.53% decrease compared to 2010's first quarter rate of \$1.86. The record high rate of \$2.10 was established in the first quarter of 2008. Class A rates for the county averaged \$1.97 FSG. The highest rates were found in the West County submarket, where they averaged \$1.89 FSG.
- **Absorption** - The Inland Empire office market posted 59,126 square feet of negative net absorption in the first quarter of 2011; from the third quarter of 2009 to the first quarter of 2011, the office market averaged approximately 125,000 square feet of positive absorption per quarter.
- **Transaction Activity** - Leasing activity checked in at just over 300,000 square feet in the first quarter of 2011,

a decrease from 2010's first quarter total of 470,000 square feet. Sales activity also showed a decrease, posting 208,213 square feet of activity in 2011 compared to 2010's 302,221 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 13.9% in February 2011, down from a revised 14.2% in January 2010 and below the year-ago estimate of 14.6%. This compares with an unadjusted unemployment rate of 12.3% for California and 9.5% for the nation during the same period. The unemployment rate was 14.1% for Riverside County and 13.7% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA lost 3,800 payroll jobs from February 2010 to February 2011. The largest declines were 6,100 jobs in government and 3,600 in construction. However, education and health services recorded the greatest year-over-year gain, adding 3,200 jobs. The LAEDC is forecasting that no jobs will be added or lost in the Inland Empire in 2011.
- **Overall** - In the first quarter, we saw only a slight increase in the amount of available space being added to the market. Absorption posted a very small negative number, and with few new deliveries to apply upward pressure on vacancy, the market should continue to stabilize. We foresee an increase in investment activity in the coming quarters as lenders continue to dispose of distressed assets. Lease rates are expected to remain soft for the near future, and concessions in the forms of free rent, reduced parking fees, relocation funds and tenant improvement allowances should continue to increase to incentivize tenants to act immediately. We should also see an increase in leasing activity as many short-term deals come up for renewal and as job creation continues. If unemployment continues to drop and consumer confidence stabilizes, the office market will regain equilibrium.

### OFFICE MARKET OVERVIEW

	1Q2011	4Q2010	1Q2010	% Change vs. 1Q2010
Vacancy Rate	18.72%	18.56%	18.38%	1.85%
Availability Rate	22.44%	21.88%	22.07%	1.68%
Average Asking Lease Rate	\$1.72	\$1.80	\$1.86	(7.53%)
Sale & Lease Transactions	517,517	713,361	773,717	(33.11%)
Gross Absorption	605,897	647,952	922,710	(34.34%)
Net Absorption	(59,126)	180,603	229,131	N/A



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2011	Square Feet Available	Availability Rate 1Q2011	Average Asking Lease Rate	Net Absorption 1Q2011	Net Absorption 2011	Gross Absorption 1Q2011	Gross Absorption 2011
<b>North County</b>													
Fontana	37	1,071,932	0	71,312	120,044	11.20%	132,344	12.35%	\$0.00	(1,400)	(1,400)	0	0
Montclair	13	271,310	0	0	20,861	7.69%	39,778	14.66%	\$1.60	(6,792)	(6,792)	0	0
Ontario	107	4,202,455	91,338	1,809,454	1,044,866	24.86%	1,239,487	29.49%	\$1.90	60,194	60,194	140,174	140,174
Rancho Cucamonga	146	4,487,324	0	188,500	996,220	22.20%	1,254,122	27.95%	\$1.63	(2,703)	(2,703)	80,936	80,936
Upland	64	1,394,116	0	0	204,436	14.66%	335,269	24.05%	\$1.39	(54,676)	(54,676)	18,893	18,893
<b>North County Total</b>	<b>367</b>	<b>11,427,137</b>	<b>91,338</b>	<b>2,069,266</b>	<b>2,386,427</b>	<b>20.88%</b>	<b>3,001,000</b>	<b>26.26%</b>	<b>\$1.76</b>	<b>(5,377)</b>	<b>(5,377)</b>	<b>240,003</b>	<b>240,003</b>
<b>West County</b>													
Chino Hills	18	465,120	0	311,124	168,489	36.22%	170,336	36.62%	\$2.23	21,038	21,038	21,056	21,056
Chino	17	532,222	0	13,957	34,679	6.52%	59,930	11.26%	\$0.00	2,757	2,757	2,757	2,757
Corona	79	2,660,201	0	299,026	849,871	31.95%	1,043,136	39.21%	\$1.76	9,925	9,925	84,390	84,390
Norco	13	330,763	0	24,440	55,549	16.79%	57,607	17.42%	\$0.00	3,476	3,476	3,476	3,476
<b>West County Total</b>	<b>127</b>	<b>3,988,306</b>	<b>0</b>	<b>648,547</b>	<b>1,108,588</b>	<b>27.80%</b>	<b>1,331,009</b>	<b>33.37%</b>	<b>\$1.89</b>	<b>37,196</b>	<b>37,196</b>	<b>111,679</b>	<b>111,679</b>
<b>East County</b>													
Banning	4	140,943	0	195,363	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Beaumont	2	60,918	0	0	1,250	2.05%	1,250	2.05%	\$0.00	0	0	0	0
Bloomington	1	382,841	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Colton	44	991,838	0	0	160,423	16.17%	247,540	24.96%	\$1.23	(29,183)	(29,183)	3,058	3,058
Grand Terrace	4	69,278	0	0	10,466	15.11%	10,466	15.11%	\$1.35	(437)	(437)	38	38
Highland	3	92,422	0	33,000	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Loma Linda	24	583,185	0	0	30,511	5.23%	42,359	7.26%	\$0.00	1,916	1,916	1,916	1,916
Moreno Valley	36	1,080,317	0	209,760	46,976	4.35%	78,970	7.31%	\$0.00	1,590	1,590	1,590	1,590
Perris	10	207,088	0	0	3,679	1.78%	3,679	1.78%	\$0.00	(1,571)	(1,571)	0	0
Redlands	59	2,021,296	0	500,634	348,156	17.22%	368,928	18.25%	\$1.68	(16,632)	(16,632)	27,160	27,160
Rialto	7	127,503	0	0	38,396	30.11%	38,396	30.11%	\$1.58	(10,018)	(10,018)	0	0
Riverside	300	9,313,886	141,133	716,664	1,601,444	17.19%	1,788,402	19.20%	\$1.86	6,236	6,236	111,727	111,727
Rubidoux	1	52,090	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
San Bernardino	204	7,562,499	0	12,234	1,319,082	17.44%	1,650,332	21.82%	\$1.52	(44,500)	(44,500)	38,664	38,664
San Jacinto	5	146,867	0	0	37,490	25.53%	37,490	25.53%	\$0.00	0	0	0	0
Yacapa	5	81,316	0	0	21,588	26.55%	21,588	26.55%	\$0.00	0	0	0	0
<b>East County Total</b>	<b>709</b>	<b>22,914,287</b>	<b>141,133</b>	<b>1,667,655</b>	<b>3,619,461</b>	<b>15.80%</b>	<b>4,289,400</b>	<b>18.72%</b>	<b>\$1.63</b>	<b>(92,599)</b>	<b>(92,599)</b>	<b>184,153</b>	<b>184,153</b>
<b>South County</b>													
Canyon Lake	1	28,000	0	0	0	0.00%	0	0.00%	\$0.00	1,342	1,342	1,342	1,342
Hemet	44	814,632	0	87,807	79,080	9.71%	80,294	9.86%	\$0.00	(3,615)	(3,615)	0	0
Lake Elsinore	12	275,697	0	0	72,583	26.33%	76,502	27.75%	\$0.00	7,141	7,141	7,757	7,757
Menifee	4	151,518	0	166,527	33,078	21.83%	33,078	21.83%	\$0.00	(1,273)	(1,273)	0	0
Murrieta	51	1,455,661	0	234,924	319,536	21.95%	366,179	25.16%	\$1.70	20,358	20,358	30,620	30,620
Sun City	4	91,428	0	0	6,139	6.71%	10,833	11.85%	\$0.00	0	0	0	0
Temecula	98	2,431,472	0	84,672	552,441	22.72%	608,705	25.03%	\$1.58	(26,911)	(26,911)	25,731	25,731
Wildomar	8	280,454	0	44,000	34,395	12.26%	46,395	16.54%	\$0.00	4,612	4,612	4,612	4,612
<b>South County Total</b>	<b>222</b>	<b>5,528,862</b>	<b>0</b>	<b>617,930</b>	<b>1,097,252</b>	<b>19.85%</b>	<b>1,221,986</b>	<b>22.10%</b>	<b>\$1.61</b>	<b>1,654</b>	<b>1,654</b>	<b>70,062</b>	<b>70,062</b>
<b>Inland Empire Total</b>	<b>1,425</b>	<b>43,858,592</b>	<b>232,471</b>	<b>5,003,398</b>	<b>8,211,728</b>	<b>18.72%</b>	<b>9,843,395</b>	<b>22.44%</b>	<b>\$1.72</b>	<b>(59,126)</b>	<b>(59,126)</b>	<b>605,897</b>	<b>605,897</b>
<b>North County</b>													
Class A	31	2,751,487	38,000	1,661,726	905,731	32.92%	982,002	35.69%	\$2.00	94,780	94,780	144,472	144,472
Class B	265	7,203,281	53,338	407,540	1,261,734	17.52%	1,777,706	24.68%	\$1.55	(122,233)	(122,233)	64,394	64,394
Class C	71	1,472,369	0	0	218,962	14.87%	241,292	16.39%	\$1.09	22,076	22,076	31,137	31,137
<b>West County</b>													
Class A	14	816,803	0	447,992	266,204	32.59%	280,414	34.33%	\$1.98	25,833	25,833	26,295	26,295
Class B	91	2,717,827	0	200,555	784,687	28.87%	956,990	35.21%	\$1.81	19,542	19,542	78,245	78,245
Class C	22	453,676	0	0	57,697	12.72%	93,605	20.63%	\$1.08	(8,179)	(8,179)	7,139	7,139
<b>East County</b>													
Class A	36	3,536,844	141,133	525,268	719,524	20.34%	768,852	21.74%	\$1.90	(6,417)	(6,417)	16,052	16,052
Class B	472	13,944,242	0	1,142,387	2,363,268	16.95%	2,825,169	20.26%	\$1.61	(64,901)	(64,901)	127,896	127,896
Class C	201	5,433,201	0	0	536,669	9.88%	695,379	12.80%	\$1.11	(21,281)	(21,281)	40,205	40,205
<b>South County</b>													
Class A	19	934,723	0	248,018	265,371	28.39%	286,056	30.60%	\$1.69	819	819	15,365	15,365
Class B	172	4,042,683	0	369,912	751,223	18.58%	833,356	20.61%	\$1.58	(2,313)	(2,313)	47,581	47,581
Class C	31	551,456	0	0	80,658	14.63%	102,574	18.60%	\$0.00	3,148	3,148	7,116	7,116
<b>Inland Empire</b>													
Class A	100	8,039,857	179,133	2,883,004	2,156,830	26.83%	2,317,324	28.82%	\$1.97	115,015	115,015	202,184	202,184
Class B	1,000	27,908,033	53,338	2,120,394	5,160,912	18.49%	6,393,221	22.91%	\$1.61	(169,905)	(169,905)	318,116	318,116
Class C	325	7,910,702	0	0	893,986	11.30%	1,132,850	14.32%	\$1.10	(4,236)	(4,236)	85,597	85,597
<b>Total</b>	<b>1,425</b>	<b>43,858,592</b>	<b>232,471</b>	<b>5,003,398</b>	<b>8,211,728</b>	<b>18.72%</b>	<b>9,843,395</b>	<b>22.44%</b>	<b>\$1.72</b>	<b>(59,126)</b>	<b>(59,126)</b>	<b>605,897</b>	<b>605,897</b>

This survey consists of 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.

RECENT TRANSACTIONS

Sales Transactions

Property Address	City	Class	Square Feet	Price Per SF	Buyer	Seller
225 W. Hospitality Ln. – 2 Properties	San Bernardino	B	119,743	\$55.00	Hospitality Executive Center, LLC	225 W. Hospitality Lane Holding, LLC
9421 Haven Ave.	Rancho Cucamonga	B	20,660	\$110.00	R M K Financial Corp.	Wells Fargo Bank N.A.
3095 Devonshire Ave.	Hemet	B	14,741	\$319.52	Deomo, LLC	Sanderson/Devonshire, LLC
14758 Pipeline Ave.	Chino	B	11,585	\$207.16	Pipeline 14758, LLC	WF Pipeline, LLC

Lease Transactions

Property Address	City	Class	Square Feet	Transaction Date	Tenant	Owner
10801 6th St.	Rancho Cucamonga	B	15,969	Jan-11	N/A	Argus Realty Investors, LP
255 E. Rincon St.	Corona	B	13,110	Jan-11	Circle K	Armstrong-Butcher Properties, LLC
451 E. Vanderbilt Way	San Bernardino	A	11,841	Feb-11	N/A	Glenborough, LLC
501-511 Princeland Ct.	Corona	A	10,061	Feb-11	Walgreens	Glenborough, LLC
1533 E. Holt Blvd.	Ontario	C	10,000	Feb-11	Universal Healthcare	Sreenivasa R & Hemalatha Nakka
3536 Concours	Ontario	A	9,529	Jan-11	N/A	City National Bank

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.

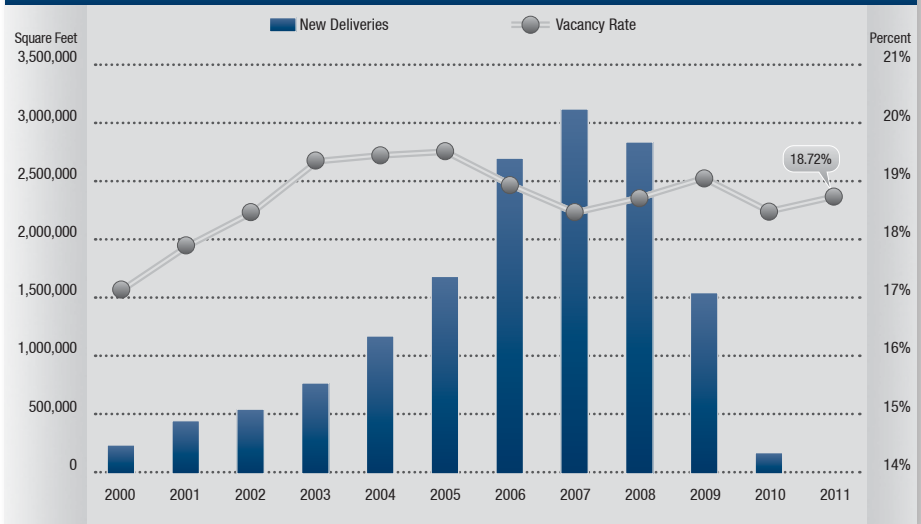
CLASS B

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.

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