

Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

Deliveries

FLAT

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Market Highlights

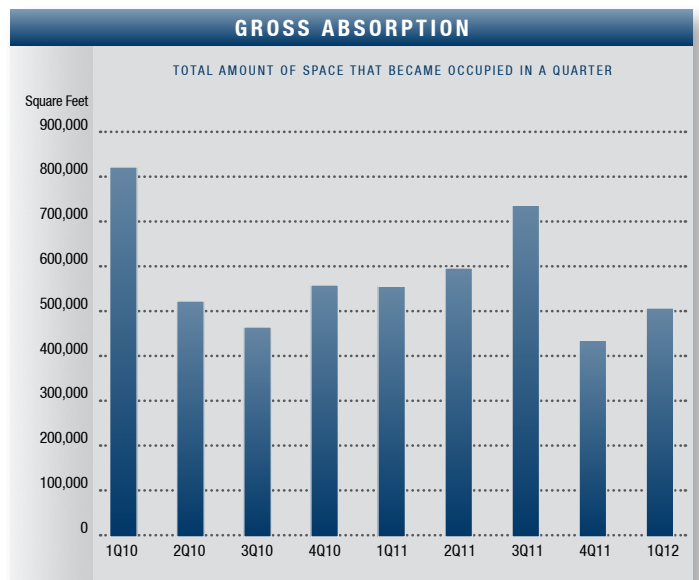
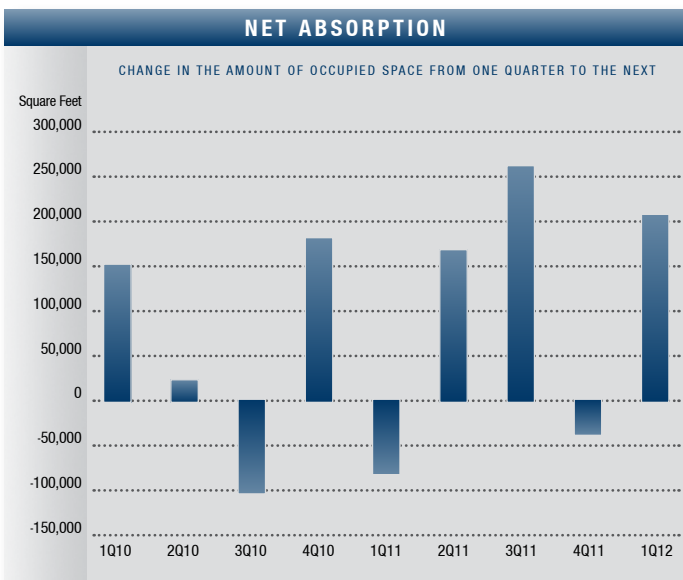
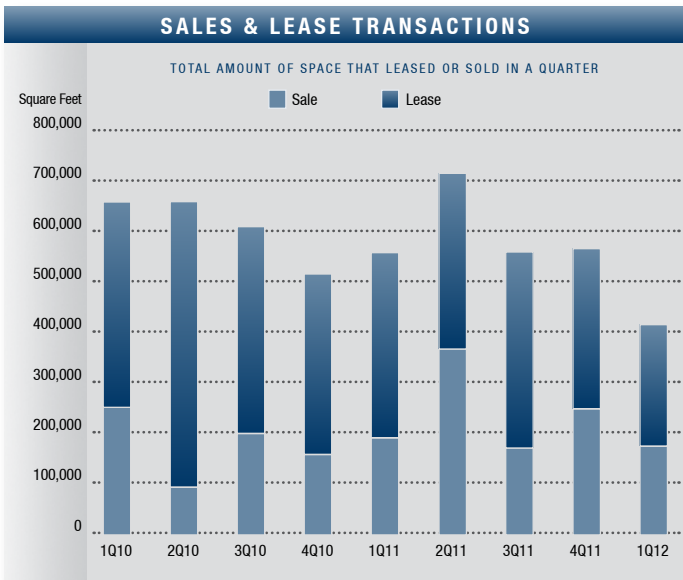
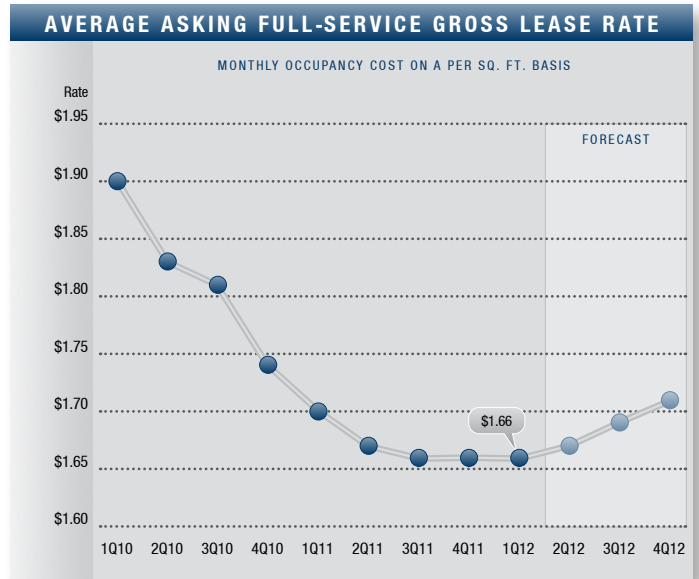
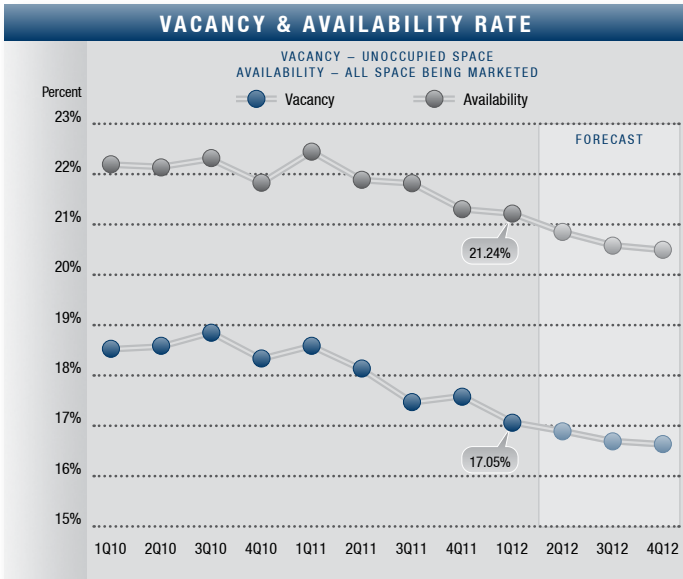
- Encouraging Numbers** - The Inland Empire office market conveyed more promise of stabilization at the close of the first quarter of 2012. Both vacancy and availability continued to decrease, and net absorption posted over 200,000 square feet of positive activity. Asking lease rates remained the same for the third consecutive quarter, suggesting that they may have finally reached bottom. 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 quarter, total space under construction checked in at 141,133 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 17.05%, a decrease compared to the previous quarter's rate of 17.58% and the prior year's rate of 18.60%.
- Availability** - Direct/sublease space being marketed was 21.24% for the first quarter of 2012, down from the 2011 fourth quarter's rate of 21.32% and a 123-basis-point decrease from the 22.47% we saw in the first quarter of 2011.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Inland Empire office market was \$1.66 in the first quarter, which is the same as the figures of the third and fourth quarters of 2011 and a 2.35% decrease compared to 2011's first quarter rate of \$1.70, hopefully indicating a bottom in declining lease rates. The record high rate of \$2.10 was established in the first quarter of 2008. Class A rates for the county averaged \$1.92 FSG. The highest rates were found in the West County submarket, where they averaged \$1.68 FSG.
- Absorption** - The Inland Empire office market posted just over 200,000 square feet of positive net absorption for the first quarter of 2012; from the beginning of 2009

to the end of the first quarter of 2012, the office market averaged approximately 116,000 square feet of positive absorption per quarter.

- Transaction Activity** - Leasing activity checked in at just over 240,000 square feet this quarter, a decrease from 2011's first quarter total of 368,000 square feet. Sales activity also showed a slight decrease in this quarter, posting 171,000 square feet of activity compared to 2011's first quarter's 183,000 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 12.5% in February 2012, up from a revised 12.4% in January 2012 and below the year-ago estimate of 13.8%. This compares with an unadjusted unemployment rate of 11.4% for California and 8.7% for the nation during the same period. The unemployment rate was 12.6% for Riverside County and 12.3% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA gained 14,900 payroll jobs from February 2011 to February 2012. The largest gains were 8,800 jobs in professional and business services and 4,300 jobs in leisure and hospitality. However, government lost 5,400 jobs. The LAEDC is forecasting that 15,300 new jobs will be added in the Inland Empire in 2012.
- Overall** - We are seeing a decrease in the amount of available space being added to the market. Absorption is trending upward, and with few new deliveries to put more 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 firm up in the near future, and concessions have begun to stabilize. We should 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

	1Q12	4Q11	1Q11	% of Change vs. 1Q2011
Total Vacancy Rate	17.05%	17.58%	18.60%	(8.33%)
Availability Rate	21.24%	21.32%	22.47%	(5.47%)
Average Asking Lease Rate	\$1.66	\$1.66	\$1.70	(2.35%)
Sale & Lease Transactions	412,558	561,457	551,413	(25.18%)
Gross Absorption	501,166	435,191	551,907	(9.19%)
Net Absorption	208,035	(38,034)	(81,338)	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 1Q2012	Square Feet Available	Availability Rate 1Q2012	Average Asking Lease Rate	Net Absorption 1Q2012	Net Absorption 2012	Gross Absorption 1Q2012	Gross Absorption 2012
West													
Chino/Chino Hills	36	1,280,477	0	142,181	185,969	14.52%	207,013	16.17%	\$2.39	16,092	16,092	17,892	17,892
Fontana	38	1,044,888	0	40,000	133,819	12.81%	152,469	14.59%	\$1.20	(8,946)	(8,946)	2,021	2,021
Montclair	13	271,310	0	0	22,741	8.38%	36,741	13.54%	\$1.60	6,016	6,016	6,016	6,016
Ontario	108	4,204,291	0	2,092,551	1,094,721	26.04%	1,332,084	31.68%	\$1.70	(20,349)	(20,349)	27,298	27,298
Rancho Cucamonga	142	4,347,727	0	127,930	818,202	18.82%	1,128,975	25.97%	\$1.63	(6,172)	(6,172)	44,171	44,171
Upland	65	1,443,582	0	0	212,985	14.75%	336,902	23.34%	\$1.22	3,572	3,572	6,851	6,851
Class A	25	2,266,044	0	1,815,807	638,395	28.17%	680,527	30.03%	\$1.96	(17,580)	(17,580)	12,626	12,626
Class B	279	8,427,223	0	586,855	1,594,535	18.92%	2,235,863	26.53%	\$1.58	18,053	18,053	84,330	84,330
Class C	98	1,899,008	0	0	235,507	12.40%	277,794	14.63%	\$0.93	(10,260)	(10,260)	7,293	7,293
West Total	402	12,592,275	0	2,402,662	2,468,437	19.60%	3,194,184	25.37%	\$1.68	(9,787)	(9,787)	104,249	104,249
East													
Banning	4	140,943	0	170,318	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Beaumont	4	162,918	0	0	0	0.00%	1,450	0.89%	\$0.00	0	0	0	0
Bloomington	0	0	0	0	0	#DIV/0!	0	#DIV/0!	\$0.00	0	0	0	0
Corona/Norco	91	2,995,506	0	109,025	851,588	28.43%	958,587	32.00%	\$1.45	10,322	10,322	44,675	44,675
Colton/Grand Terrace	47	1,044,585	0	20,000	155,255	14.86%	193,530	18.53%	\$1.31	10,178	10,178	13,175	13,175
Moreno Valley	36	1,128,753	0	218,423	40,748	3.61%	51,495	4.56%	\$0.00	(1,424)	(1,424)	5,996	5,996
Perris	10	207,088	0	0	5,288	2.55%	5,288	2.55%	\$0.00	0	0	0	0
Redlands/Loma Linda	88	2,692,363	0	0	359,039	13.34%	414,296	15.39%	\$1.55	27,872	27,872	37,327	37,327
Rialto	9	248,529	0	0	38,324	15.42%	50,624	20.37%	\$1.58	(7,000)	(7,000)	0	0
Riverside	307	9,602,714	141,133	563,000	1,413,188	14.72%	1,716,200	17.87%	\$1.87	53,954	53,954	119,401	119,401
San Bernardino/Highland	211	7,853,846	0	12,234	1,259,880	16.04%	1,627,557	20.72%	\$1.46	123,920	123,920	176,343	176,343
Class A	37	3,962,354	141,133	63,965	748,002	18.88%	820,611	20.71%	\$1.86	46,299	46,229	80,426	80,426
Class B	498	15,431,335	0	1,029,035	2,701,714	17.51%	3,300,954	21.39%	\$1.59	139,961	139,961	237,222	237,222
Class C	271	6,683,556	0	0	673,594	10.08%	897,462	13.43%	\$1.12	31,562	31,562	79,269	79,269
East Total	806	26,077,245	141,133	1,093,000	4,123,310	15.81%	5,019,027	19.25%	\$1.61	217,822	217,822	396,917	396,917
Inland Empire Total	1,208	38,669,520	141,133	3,495,662	6,591,747	17.05%	8,213,211	21.24%	\$1.66	208,035	208,035	501,166	501,166
Inland Empire													
Class A	62	6,228,398	141,133	1,879,772	1,386,397	22.26%	1,501,138	24.10%	\$1.92	28,719	28,719	93,052	93,052
Class B	778	23,858,558	0	1,615,890	4,296,249	18.01%	5,536,817	23.21%	\$1.58	158,014	158,014	321,552	321,552
Class C	368	8,582,564	0	0	909,101	10.59%	1,175,256	13.69%	\$1.05	21,302	21,302	86,562	86,562
Inland Empire Total	1,208	38,669,520	141,133	3,495,662	6,591,747	17.05%	8,213,211	21.24%	\$1.66	208,035	208,035	501,166	501,166
High Desert													
Adelanto	3	65,531	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Apple Valley	31	556,679	0	14,000	30,148	5.42%	40,024	7.19%	\$1.25	(3,884)	(3,884)	2,300	2,300
Barstow	13	223,977	0	1,000	31,061	13.87%	47,061	21.01%	\$0.00	0	0	0	0
Hesperia	27	571,159	0	174,316	16,429	2.88%	45,792	8.02%	\$2.00	(2,897)	(2,897)	343	343
Victorville	87	1,633,605	0	292,000	147,371	9.02%	196,642	12.04%	\$1.79	(23,323)	(23,323)	17,053	17,053
High Desert Total	161	3,050,951	0	481,316	225,009	7.38%	329,519	10.80%	\$1.74	(30,104)	(30,104)	19,696	19,696
Temecula Valley													
Hemet	43	814,022	0	87,807	80,556	9.90%	92,453	11.36%	\$0.00	5,382	5,382	10,240	10,240
Lake Elsinore	12	272,399	0	0	59,073	21.69%	68,637	25.20%	\$0.00	2,300	2,300	2,300	2,300
Murrieta	51	1,523,748	0	417,891	298,679	19.60%	312,225	20.49%	\$1.35	49,748	49,748	73,997	73,997
San Jacinto	5	150,227	0	0	38,574	25.68%	38,574	25.68%	\$0.00	0	0	0	0
Temecula	109	2,811,274	0	88,315	472,481	16.81%	570,949	20.31%	\$1.40	41,278	41,278	85,122	85,122
Wildomar	7	270,830	0	44,000	40,662	15.01%	40,662	15.01%	\$0.00	1,619	1,619	2,763	2,763
Temecula Valley Total	227	5,842,500	0	638,013	1,007,925	17.25%	1,123,500	19.23%	\$1.38	100,327	100,327	174,422	174,422

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	Sale Price PSF	Buyer	Seller
3210 E. Guasti Rd. – 3 Properties	Ontario	A	305,177	\$111.41	Walton Street Capital, LLC	Gramercy Capital Corporation
9421 Haven Ave.	Rancho Cucamonga	B	20,660	\$115	National Community Renaissance	Christopher Lizarde
3601 University Ave.	Riverside	B	16,313	\$114.94	Spriggs Family Trust	Mcguire Bros Enterprised, Inc.
1835 W. Redlands Blvd.	Redlands	B	11,784	\$101.83	Cheryl Chicaul–Sanchez	Silagi Development & Mgmt, Inc.
9421 Haven Ave.	Rancho Cucamonga	B	20,660	\$101.65	Christopher Lizarde	R M K Financial Corporation

Lease Transactions

Property Address	City	Class	Square Feet	Transaction Date	Tenant	Owner
25455 Medical Center Dr.	Murrieta	B	18,480	Jan-12	N/A	Continental E. Funding IV, LLC
3281 E. Guasti Rd.	Ontario	A	12,391	Feb-12	N/A	RREEF America, LLC
699 N. Arrowhead Ave.	San Bernardino	C	11,700	Jan-12	N/A	MER Enterprises

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.

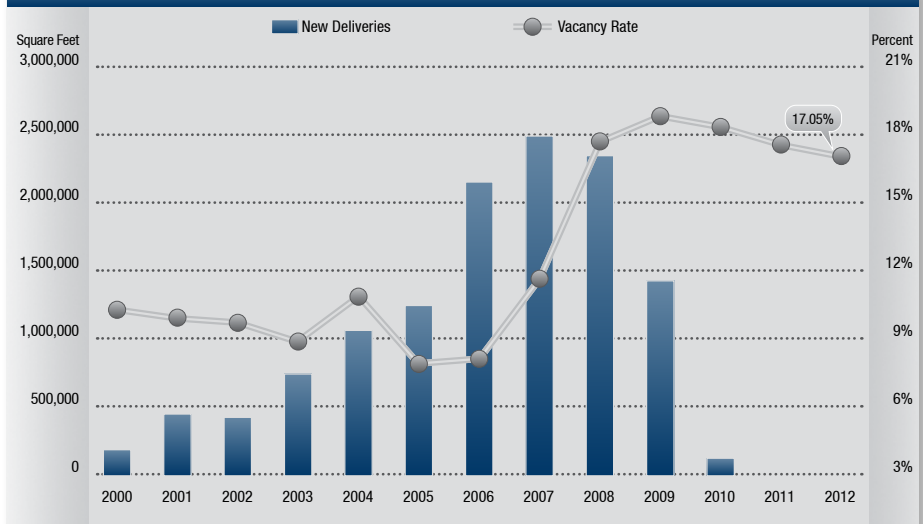
CLASS B

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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