

Office Market Report

Compared to the Previous Quarter:

Vacancy



UP

Net Absorption

NEGATIVE



Lease Rates



UP

Transactions



DOWN

Deliveries



UP

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Market Highlights

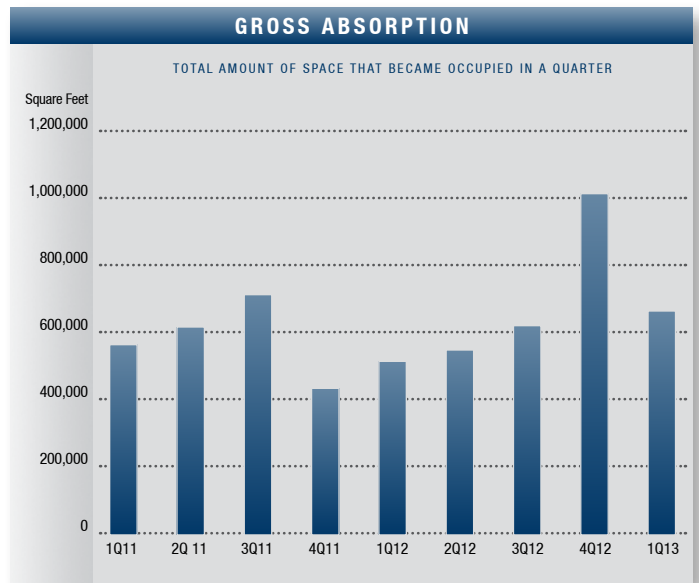
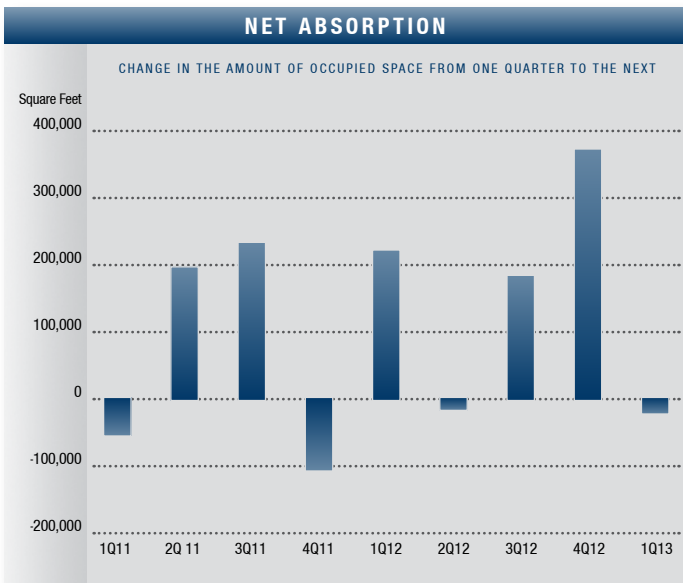
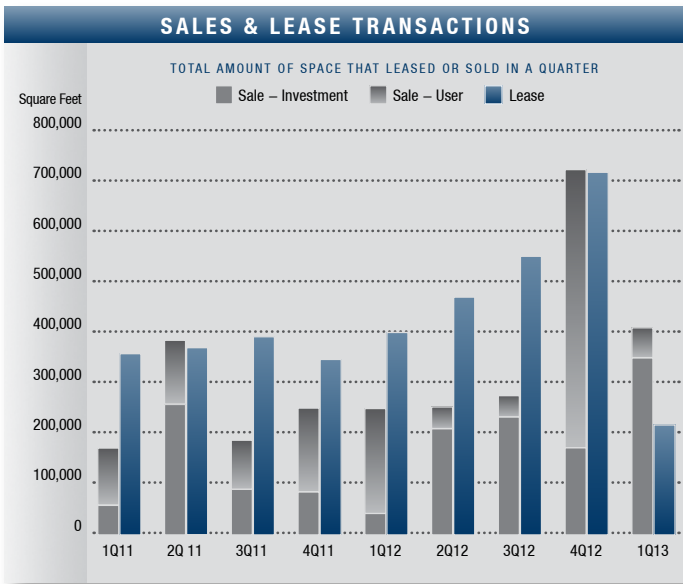
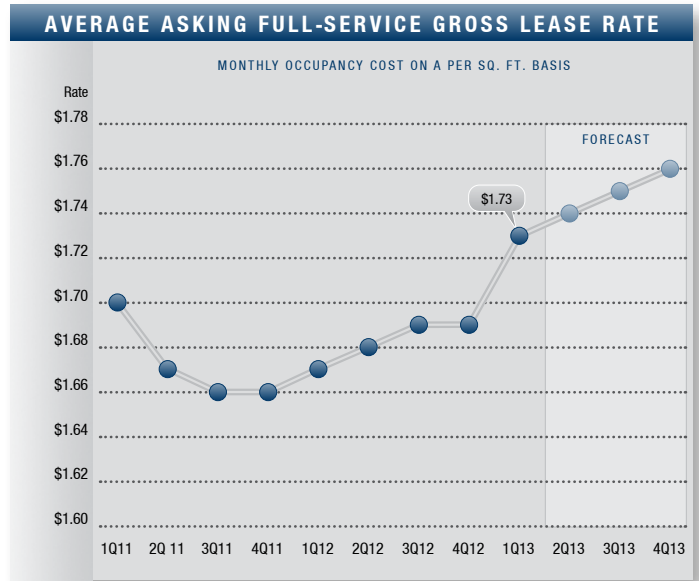
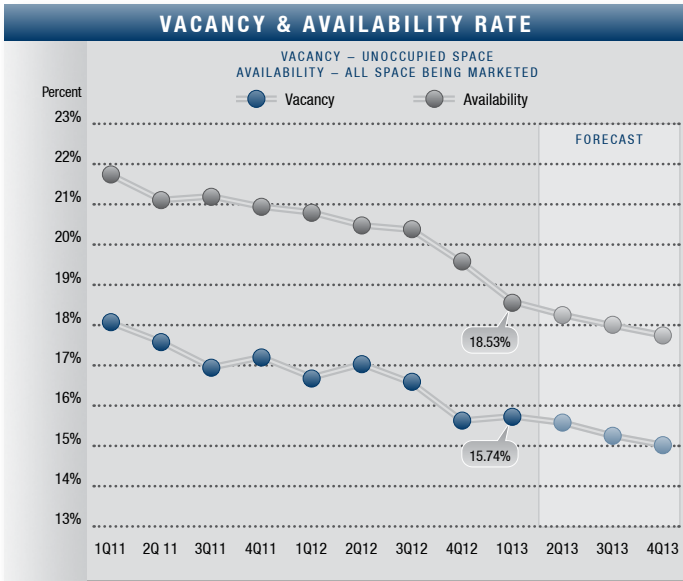
- Encouraging Numbers** - The Inland Empire office market conveyed more promise of stabilization at the close of the first quarter of 2013. Vacancy stabilized, and availability continued to improve. Net absorption posted a small negative number of 20,000 square feet for the first quarter of 2013. Asking lease rates increased by a substantial four cents from the previous quarter. While these are positive indications, stability and job growth will need to continue in the coming quarters for the Inland Empire office market to sustain a recovery.
- Construction** - At the end of the quarter, total space under construction checked in at 126,898 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 year at 15.74%, a slight increase when compared to the previous quarter's rate of 15.64% but a decrease to the prior year's rate of 16.67%.
- Availability** - Direct/sublease space being marketed was 18.53% in the first quarter of 2013, down from 2012's fourth quarter rate of 19.58% and a 223-basis-point decrease from the 20.76% we saw in the first quarter of 2012.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Inland Empire office market was \$1.73 at the end of the first quarter of 2013, a four-cent increase from the previous quarter and six cents higher than 2012's first quarter rate. We are forecasting that the rate will continue to rise in 2013 by around 1.5%. The record high rate of \$2.10 was established in the first quarter of 2008. Class A rates for the county averaged \$2.08 FSG. The highest rates were found in the East County submarket, where they averaged \$1.73 FSG.
- Absorption** - The Inland Empire office market posted 20,749 square feet of negative net absorption for the first

quarter of 2013; from the beginning of the third quarter 2009 to the end of the first quarter of 2012, the office market averaged approximately 125,000 square feet of positive absorption per quarter.

- Transaction Activity** - Leasing activity checked in at just over 210,000 square feet in the first quarter of 2013, a decrease from 2012's first quarter total of almost 400,000 square feet. Sales activity showed an increase in the first quarter of 2013, posting over 400,000 square feet of activity compared to 2012's first quarter total of 245,000 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 10.8% in February 2013, down from a revised 11.5% in January 2013 and below the year-ago estimate of 12.6%. This compares with an unadjusted unemployment rate of 9.7% for California and 8.1% for the nation during the same period. The unemployment rate was 10.9% for Riverside County and 10.7% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA gained 27,500 payroll jobs from February 2012 to February 2013. The largest gains were 10,100 jobs in leisure and hospitality and 8,000 jobs in trade, transportation, and utilities. The only sector to lose any jobs was government, down 2,800 jobs.
- Overall** - We are seeing a decrease in the amount of available space being added to the market. Absorption is positive, and with few new deliveries to put more upward pressure on vacancy, the market should continue to stabilize. Lease rates are expected to continue increasing in 2013. 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

	1Q13	4Q12	1Q12	% of Change vs. 1Q12
Vacancy Rate	15.74%	15.64%	16.67%	(5.58%)
Availability Rate	18.53%	19.58%	20.76%	(10.74%)
Average Asking Lease Rate	\$1.73	\$1.69	\$1.67	3.59%
Sale & Lease Transactions	614,426	1,436,371	642,651	(4.39%)
Gross Absorption	658,611	1,006,238	504,116	30.65%
Net Absorption	(20,749)	372,421	220,183	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 1Q2013	Square Feet Available	Availability Rate 1Q2013	Average Asking Lease Rate	Net Absorption 1Q2013	Net Absorption 2012	Gross Absorption 1Q2013	Gross Absorption 2012
West													
Chino/Chino Hills	37	1,162,052	0	155,909	154,317	13.28%	173,345	14.92%	\$2.05	(12,003)	61,372	10,647	83,426
Fontana	38	2,389,860	0	48,467	123,645	5.17%	140,577	5.88%	\$1.13	(200)	2,699	0	32,934
Montclair	13	267,563	0	0	24,977	9.33%	24,977	9.33%	\$0.00	(5,236)	9,016	755	15,509
Ontario	110	4,274,737	98,898	1,445,918	981,882	22.97%	1,162,529	27.20%	\$1.80	(14,386)	86,297	78,282	330,540
Rancho Cucamonga	140	4,325,484	0	127,930	851,916	19.70%	822,393	19.01%	\$1.64	(136,838)	105,032	63,864	511,069
Upland	66	1,471,147	0	0	208,773	14.19%	268,691	18.26%	\$1.42	(6,935)	17,121	79,200	64,348
Class A	25	2,264,902	0	1,255,451	553,995	24.46%	580,715	25.64%	\$1.96	27,104	34,737	58,836	166,842
Class B	280	9,679,953	98,898	522,773	1,581,181	16.33%	1,753,562	18.12%	\$1.64	(207,716)	246,026	162,475	791,561
Class C	99	1,945,988	0	0	210,334	10.81%	258,235	13.27%	\$1.10	5,014	774	11,437	79,423
West Total	404	13,890,843	98,898	1,778,224	2,345,510	16.89%	2,592,512	18.66%	\$1.72	(175,598)	281,537	232,748	1,037,826
East													
Banning	5	156,766	25,000	145,318	0	0.00%	0	0.00%	\$0.00	0	15,823	0	15,823
Beaumont	3	77,918	0	8,938	0	0.00%	0	0.00%	\$0.00	0	0	0	900
Corona/Norco	92	3,040,795	3,000	286,507	816,522	26.85%	755,215	24.84%	\$1.82	(64,530)	103,084	67,126	412,364
Colton/Grand Terrace	49	1,071,641	0	20,000	156,583	14.61%	258,995	24.17%	\$1.01	41,768	(24,668)	66,255	48,554
Moreno Valley	39	1,078,643	0	197,607	45,349	4.20%	75,488	7.00%	\$0.00	(2,956)	(2,069)	1,444	20,428
Perris	9	197,088	0	0	3,717	1.89%	6,017	3.05%	\$0.00	0	0	0	1,571
Redlands/Loma Linda	89	2,346,555	0	106,618	341,017	14.53%	404,493	17.24%	\$1.21	2,371	30,253	28,597	135,674
Rialto	10	284,708	0	0	39,361	13.83%	54,471	19.13%	\$1.40	(2,000)	(6,037)	0	963
Riverside	307	9,527,864	0	616,910	1,294,516	13.59%	1,535,136	16.11%	\$2.06	97,962	228,009	154,073	626,251
San Bernardino/Highland	204	7,745,995	0	12,234	1,162,268	15.00%	1,622,501	20.95%	\$1.53	82,234	167,743	108,368	353,565
Class A	37	3,933,736	0	329,820	603,732	15.35%	639,569	16.26%	\$2.20	31,002	294,099	63,468	458,099
Class B	501	14,961,896	28,000	1,064,312	2,591,356	17.32%	3,142,085	21.00%	\$1.65	72,330	221,534	265,178	913,112
Class C	269	6,632,341	0	0	664,245	10.02%	930,662	14.03%	\$1.06	51,517	(3,495)	97,217	244,882
East Total	807	25,527,973	28,000	1,394,132	3,859,333	15.12%	4,712,316	18.46%	\$1.73	154,849	512,138	425,863	1,616,093
Inland Empire Total	1,211	39,418,816	126,898	3,172,356	6,204,843	15.74%	7,304,828	18.53%	\$1.73	(20,749)	793,675	658,611	2,653,919
Inland Empire													
Class A	62	6,198,638	0	1,585,271	1,157,727	18.68%	1,220,284	19.69%	\$2.08	58,106	328,836	122,304	624,941
Class B	781	24,641,849	126,898	1,587,085	4,172,537	16.93%	4,895,647	19.87%	\$1.65	(135,386)	467,560	427,653	1,704,673
Class C	368	8,578,329	0	0	874,579	10.20%	1,188,897	13.86%	\$1.08	56,531	(2,721)	108,654	324,305
Inland Empire Total	1,211	39,418,816	126,898	3,172,356	6,204,843	15.74%	7,304,828	18.53%	\$1.73	(20,749)	793,675	658,611	2,653,919
High Desert													
Adelanto	3	65,531	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Apple Valley	29	502,296	0	45,388	23,201	4.62%	35,833	7.13%	\$0.00	5,895	(2,832)	7,795	7,835
Barstow	13	208,404	0	0	33,636	16.14%	36,636	17.58%	\$0.00	(15,785)	13,210	0	14,610
Hesperia	25	524,574	0	76,516	14,270	2.72%	25,177	4.80%	\$0.00	0	(738)	2,000	16,258
Victorville	84	1,597,203	0	243,000	119,742	7.50%	132,792	8.31%	\$1.92	(5,506)	1,239	9,744	96,161
High Desert Total	154	2,898,008	0	364,904	190,849	6.59%	230,438	7.95%	\$1.92	(15,396)	10,879	19,539	134,864
Temecula Valley													
Hemet	43	827,593	0	24,511	74,455	9.00%	118,902	14.37%	\$0.00	1,624	11,759	5,632	33,867
Lake Elsinore	12	272,399	5,764	0	73,078	26.83%	64,354	23.62%	\$0.00	(6,847)	(4,858)	900	9,983
Murrieta	51	1,519,850	0	616,891	252,214	16.59%	271,065	17.83%	\$2.03	19,865	102,565	37,671	159,122
San Jacinto	5	150,277	0	0	41,528	27.63%	41,528	27.63%	\$0.00	0	(3,561)	0	0
Temecula	109	2,714,623	370,735	71,441	390,954	14.40%	478,590	17.63%	\$1.31	1,514	76,938	51,037	283,107
Wildomar	7	270,830	0	44,000	41,802	15.43%	41,802	15.43%	\$0.00	0	479	0	10,679
Temecula Valley Total	227	5,755,572	376,499	756,843	874,031	15.19%	1,016,241	17.66%	\$1.34	16,156	183,322	95,240	496,758

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	Buyer	Seller
870 N. Mountain Ave. – Properties	Upland	B	149,251	\$12,000,000	Sunny Hills-Palladium	Midland Loan Services, Inc.
2085 Rustin Ave.	Riverside	B	147,194	\$9,500,000	BH Properties, LLC	Century Park Partners, LLC
3237 E. Guasti Rd. – 2 Properties	Ontario	A	106,345	\$13,800,000	BH Management, Inc.	The Muller Company
735 E. Carnegie Dr.	San Bernardino	B	85,846	\$8,000,000	M & Y Management	Rancon Real Estate
27349 Jefferson Ave.	Temecula	C	35,260	\$3,186,500	Richard B & Michael T Beck	Frank G. Schaefer Investments

Lease Transactions

Property Address	City	Class	Square Feet	Transaction Date	Tenant	Owner
1175 W. Foothill Blvd.	Rialto	B	36,179	Jan-13	County of San Bernardino	F & R County Building, LLC
1790 Park Ave.	Redlands	B	12,000	Jan-13	N/A	Garcia Robert Trust
237 River Rd.	Corona	C	9,000	Jan-13	First Step Independent Living	Howard CA Props Corona, LLC
79430 Highway 111	La Quinta	C	7,700	Feb-13	N/A	Plaza Medical Management
2930 E. Inland Empire	Ontario	B	7,433	Mar-13	N/A	The Abbey Company
71687 Highway 111	Rancho Mirage	B	6,800	Jan-13	N/A	Desert Palm Management Group
3880 Lemon St.	Riverside	A	6,090	Jan-13	N/A	Nomel Venture, LP

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.

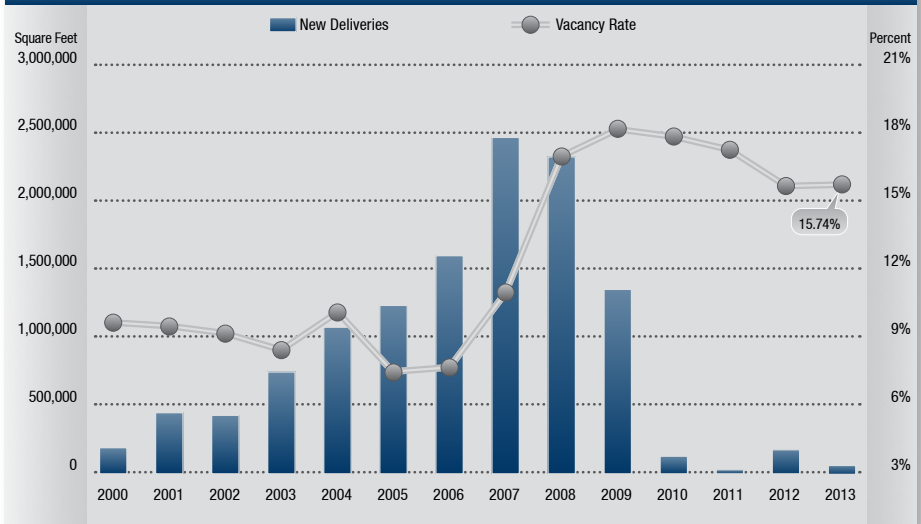
CLASS B

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



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