



MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

FLAT



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HIGHLIGHTS

- **Encouraging Numbers** - The Inland Empire office market continued improving in the first quarter of 2014. Both vacancy and availability displayed significant drops compared to the previous year, and asking lease rates continued to increase. Net absorption posted over 130,000 square feet of positive absorption during the first 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 only 113,285 square feet under construction in the Inland Empire at the end of the first quarter of 2014, most of which was located in Ontario and Banning. Only 100,032 square feet of new product was delivered in 2013. The slowdown in construction has eased and will ease the upward pressure on vacancy and the downward pressure on lease rates.
- **Vacancy** - Direct/sublease space (unoccupied) finished the year at 13.71%, a decrease of 35 basis points when compared to the previous quarter and a 13.17% drop compared to the same quarter last year.
- **Availability** - Direct/sublease space being marketed was 17.06% in the first quarter of 2014, down from 2013's fourth quarter rate of 17.41% and a 149-basis-point decrease from the 18.55% we saw in the first quarter in 2013.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot was \$1.76 in the first quarter of 2014, a three-cent increase from 2013's first quarter rate and up two cents from the previous quarter. We are forecasting that the rate will continue to rise in 2014. The record high rate of \$2.10 was established in the second quarter of 2008. Class A rates for the market averaged \$2.12 FSG. Geographically, the highest rates were found in the East County submarket, where they averaged \$1.77 FSG.
- **Absorption** - The Inland Empire office market posted 130,794 square feet of positive net absorption for the first quarter of

2014; from the second quarter 2011 to the end of the first quarter of 2014, the office market has posted just under 2 million square feet of positive absorption.

- **Transaction Activity** - Leasing activity checked in at just under 285,000 square feet in the first quarter of the year, a decrease from 2013's fourth quarter total of 445,000 square feet. Sales activity showed a decrease as well in the first quarter of 2014, posting just over 525,000 square feet of activity compared to 2013's fourth quarter total of 940,000 square feet. This statistic can have some lag time in being reported, so look for first quarter figures to end up somewhat higher. 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 9.4% in February 2014, down from a revised 9.5% in January 2014 and below the year-ago estimate of 10.8%. This compares with an unadjusted unemployment rate of 8.5% for California and 7.0% for the nation during the same period. The unemployment rate was 9.5% for Riverside County and 9.3% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA showed a net gain of 36,800 payroll jobs from February 2013 to February 2014. The largest gains were 9,500 jobs in trade, transportation & utilities and 8,700 jobs in educational and health services.
- **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 more upward pressure on vacancy, the market should continue to stabilize. 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

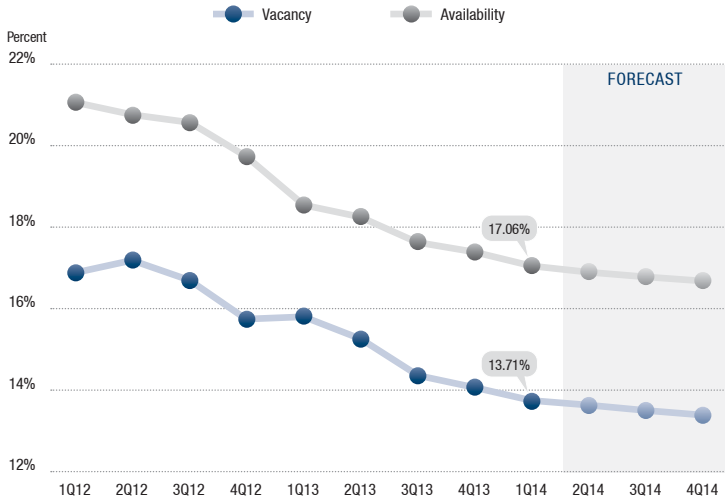
- **Employment** - We anticipate job growth of around 1.5%, or 25,700 jobs, in the Inland Empire area over the year. Look for leisure, hospitality, transportation, logistics, distribution and construction to lead the way for employment gains in the coming years.
- **Lease Rates** - Expect average asking lease rates to increase by another 1%–2% by 2015.
- **Vacancy** - We anticipate vacancy rates continuing to descend in coming quarters, dropping by 70 basis points, to around 13.4%, by 2015.

OVERVIEW

	1Q14	4Q13	1Q13	% of Change vs. 1Q13
Vacancy Rate	13.71%	14.06%	15.79%	(13.17%)
Availability Rate	17.06%	17.41%	18.55%	(8.03%)
Average Asking Lease Rate	\$1.76	\$1.74	\$1.73	1.73%
Sale & Lease Transactions	809,788	1,389,592	1,201,442	(32.60%)
Gross Absorption	489,046	556,058	664,134	(26.36%)
Net Absorption	130,794	112,405	(1,488)	N/A

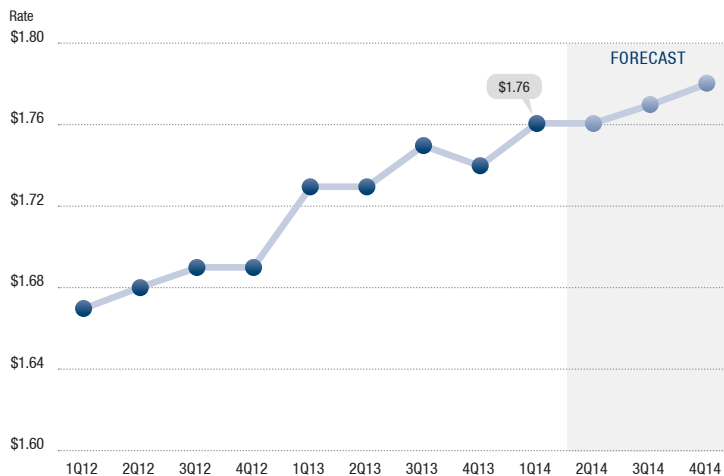
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



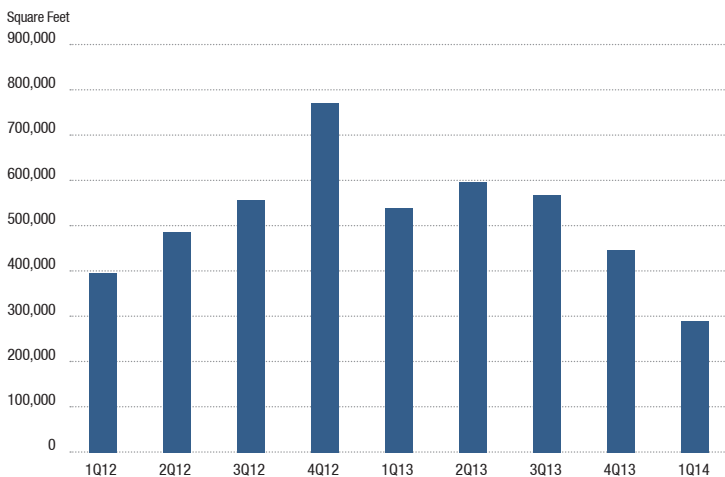
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



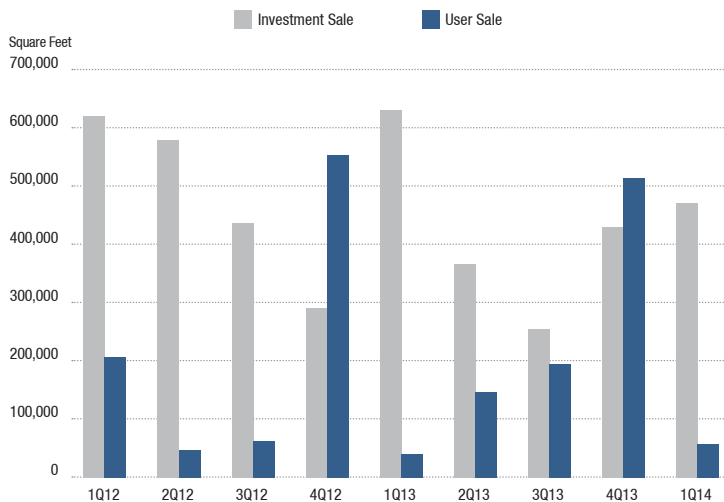
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



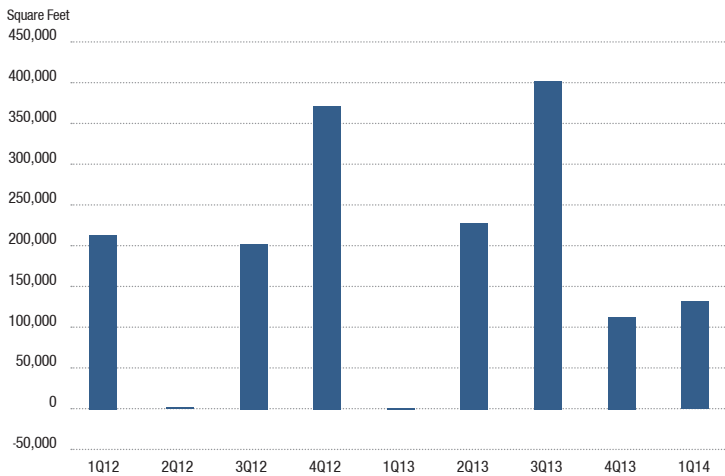
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



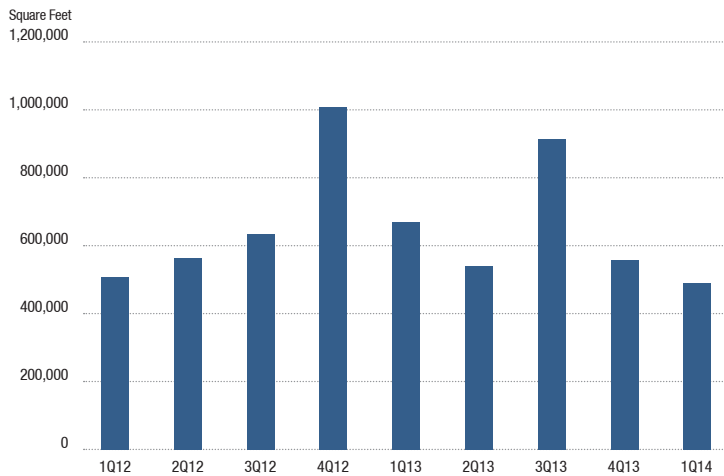
NET ABSORPTION

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 1Q2014	Square Feet Available	Availability Rate 1Q2014	Average Asking Lease Rate	Net Absorption 1Q2014	Net Absorption 2013	Gross Absorption 1Q2014	Gross Absorption 2013
West													
Chino/Chino Hills	38	1,179,652	0	155,909	145,097	12.30%	149,849	12.70%	\$2.07	(1,957)	4,106	19,205	53,977
Fontana	37	2,391,347	0	55,867	86,341	3.61%	111,678	4.67%	\$0.97	0	27,530	0	50,242
Montclair	12	224,763	0	0	21,919	9.75%	29,362	13.06%	\$0.00	(375)	(403)	2,883	4,591
Ontario	110	4,293,899	58,000	1,445,918	863,881	20.12%	1,003,911	23.38%	\$1.81	75,726	96,247	127,976	406,373
Rancho Cucamonga	137	4,231,087	0	127,930	569,453	13.46%	679,117	16.05%	\$1.69	(17,914)	164,927	48,497	485,214
Upland	67	1,487,005	0	0	201,018	13.52%	245,514	16.51%	\$1.42	(342)	2,291	7,449	137,155
Class A	25	2,272,829	58,000	1,255,451	441,171	19.41%	453,734	19.96%	\$2.00	22,148	106,199	62,975	206,399
Class B	277	9,591,751	0	530,173	1,278,412	13.33%	1,548,431	16.14%	\$1.63	32,216	144,287	134,082	830,276
Class C	99	1,943,173	0	0	168,126	8.65%	217,266	11.18%	\$0.99	774	44,212	8,953	100,877
West Total	401	13,807,753	58,000	1,785,624	1,887,709	13.67%	2,219,431	16.07%	\$1.73	55,138	294,698	206,010	1,137,552
East													
Banning	5	90,461	52,285	118,033	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Beaumont	4	168,918	0	8,938	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Corona/Norco	92	3,121,017	3,000	341,992	492,676	15.79%	636,426	20.39%	\$1.88	(1,345)	260,677	51,493	526,966
Colton/Grand Terrace	49	1,070,157	0	20,000	187,036	17.48%	240,945	22.51%	\$1.04	13,251	(1,936)	15,743	116,713
Moreno Valley	37	946,011	0	174,607	15,446	1.63%	32,164	3.40%	\$0.00	5,895	7,361	6,600	26,064
Perris	8	166,701	0	0	2,771	1.66%	7,071	4.24%	\$0.00	0	946	0	946
Redlands/Loma Linda	87	2,277,345	0	8,800	330,709	14.52%	390,357	17.14%	\$1.65	(10,094)	24,073	18,724	126,526
Rialto	10	284,708	0	0	39,103	13.73%	46,603	16.37%	\$1.40	500	(2,242)	500	1,068
Riverside	306	9,365,633	0	638,910	1,190,197	12.71%	1,620,520	17.30%	\$2.05	39,073	139,500	128,300	421,809
San Bernardino/Highland	203	7,691,477	0	9,000	1,199,869	15.60%	1,457,291	18.95%	\$1.57	28,376	9,751	61,676	307,267
Class A	39	4,153,430	27,285	226,717	649,664	15.64%	675,644	16.27%	\$2.20	(4,766)	138,636	15,647	371,501
Class B	502	14,917,411	28,000	1,093,563	2,171,949	14.56%	2,954,358	19.80%	\$1.61	70,446	234,354	213,481	896,054
Class C	260	6,111,587	0	0	636,194	10.41%	801,375	13.11%	\$1.15	9,976	65,140	53,908	259,804
East Total	801	25,182,428	55,285	1,320,280	3,457,807	13.73%	4,431,377	17.60%	\$1.77	75,656	438,130	283,036	1,527,359
Inland Empire Total	1,202	38,990,181	113,285	3,105,904	5,345,516	13.71%	6,650,808	17.06%	\$1.76	130,794	732,828	489,046	2,664,911
Inland Empire													
Class A	64	6,426,259	85,285	1,482,168	1,090,835	16.97%	1,129,378	17.57%	\$2.12	17,382	244,835	78,622	577,900
Class B	779	24,509,162	28,000	1,623,736	3,450,361	14.08%	4,502,789	18.37%	\$1.62	102,662	378,641	347,563	1,726,330
Class C	359	8,054,760	0	0	804,320	9.99%	1,018,641	12.65%	\$1.09	10,750	109,352	62,861	360,681
Inland Empire Total	1,202	38,990,181	113,285	3,105,904	5,345,516	13.71%	6,650,808	17.06%	\$1.76	130,794	732,828	489,046	2,664,911
High Desert													
Adelanto	3	65,531	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Apple Valley	34	627,856	0	42,060	24,136	3.84%	34,565	5.51%	\$0.00	2,927	6,233	7,127	28,157
Barstow	13	210,048	0	0	35,399	16.85%	39,399	18.76%	\$0.00	0	(17,548)	0	3,136
Hesperia	24	533,568	0	76,516	9,427	1.77%	13,559	2.54%	\$0.00	3,553	1,290	4,491	7,017
Victorville	86	1,679,388	0	83,000	109,735	6.53%	173,041	10.30%	\$1.85	12,700	16,370	21,859	63,118
High Desert Total	160	3,116,391	0	201,576	178,697	5.73%	260,564	8.36%	\$1.85	19,180	6,345	33,477	101,428
Temecula Valley													
Hemet	44	840,104	0	12,000	96,079	11.44%	140,228	16.69%	\$0.00	(8,925)	1,436	2,023	9,675
Lake Elsinore	12	272,399	0	0	47,292	17.36%	49,120	18.03%	\$0.00	3,393	15,546	4,243	26,278
Murrieta	52	1,530,752	0	630,169	208,250	13.60%	240,191	15.69%	\$2.42	30,728	44,861	58,472	123,056
San Jacinto	4	96,241	0	0	41,528	43.15%	41,528	43.15%	\$0.00	0	0	0	0
Temecula	113	2,894,096	0	175,656	455,312	15.73%	482,051	16.66%	\$1.41	37,653	(5,536)	91,580	179,899
Wildomar	7	270,830	0	44,000	34,153	12.61%	40,670	15.02%	\$0.00	2,358	5,291	2,358	6,435
Temecula Valley Total	232	5,904,422	0	861,825	882,614	14.95%	993,788	16.83%	\$1.67	65,207	61,598	158,676	345,343

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
28544 Old Town Front St.	Temecula	B	29,502	\$259.30	Fair Oaks Valley, LLC	Old Town Center, LLC
303 E. Vanderbilt Way	San Bernardino	A	69,088	\$104.94	Vanderbilt Partners, LLC	Inland Empire Health Plan
38670 Sky Canyon Rd.	Murrieta	A	39,140	\$75.00	Appian-SR Murrieta, LLC	JJP Silverhawk, LP
1585 S. D St.	San Bernardino	C	19,413	\$117.19	Robertson-Medeiros 2008 Trust	Weinstein Family General
5050 San Bernardino	Montclair	B	15,612	Undisclosed	Prime A. Investments, LLC	Burlington National Insurance Company

Lease Transactions

Property Address	City	Class	Square Feet	Transaction Date	Tenant	Owner
6296 River Crest Dr. – Renewal	Riverside	B	17,724	Mar-14	Riverside County Office Aging	River Crest, LLC
15335 Fairfield Ranch Rd.	Chino Hills	A	17,324	Jan-14	Undisclosed	Chino Hills Corporate Park
1980 Orange Tree Ln.	Redlands	B	15,276	Jan-14	Undisclosed	Lindsey Financial Group
3210 E. Guasti Rd.	Ontario	A	11,161	Jan-14	Undisclosed	Greenlaw Partners
1449 W. Redlands Blvd.	Redlands	C	10,835	Jan-14	Undisclosed	Soo Y. Lee Trust

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.

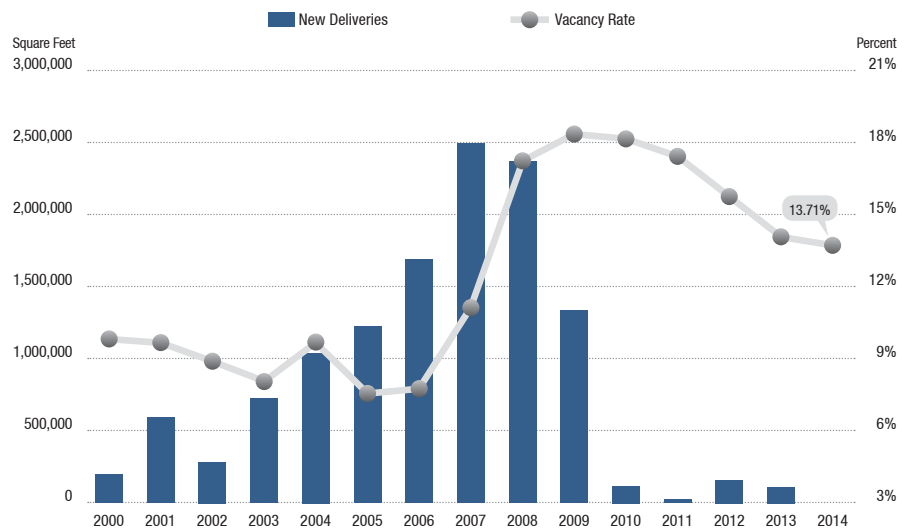
CLASS B

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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